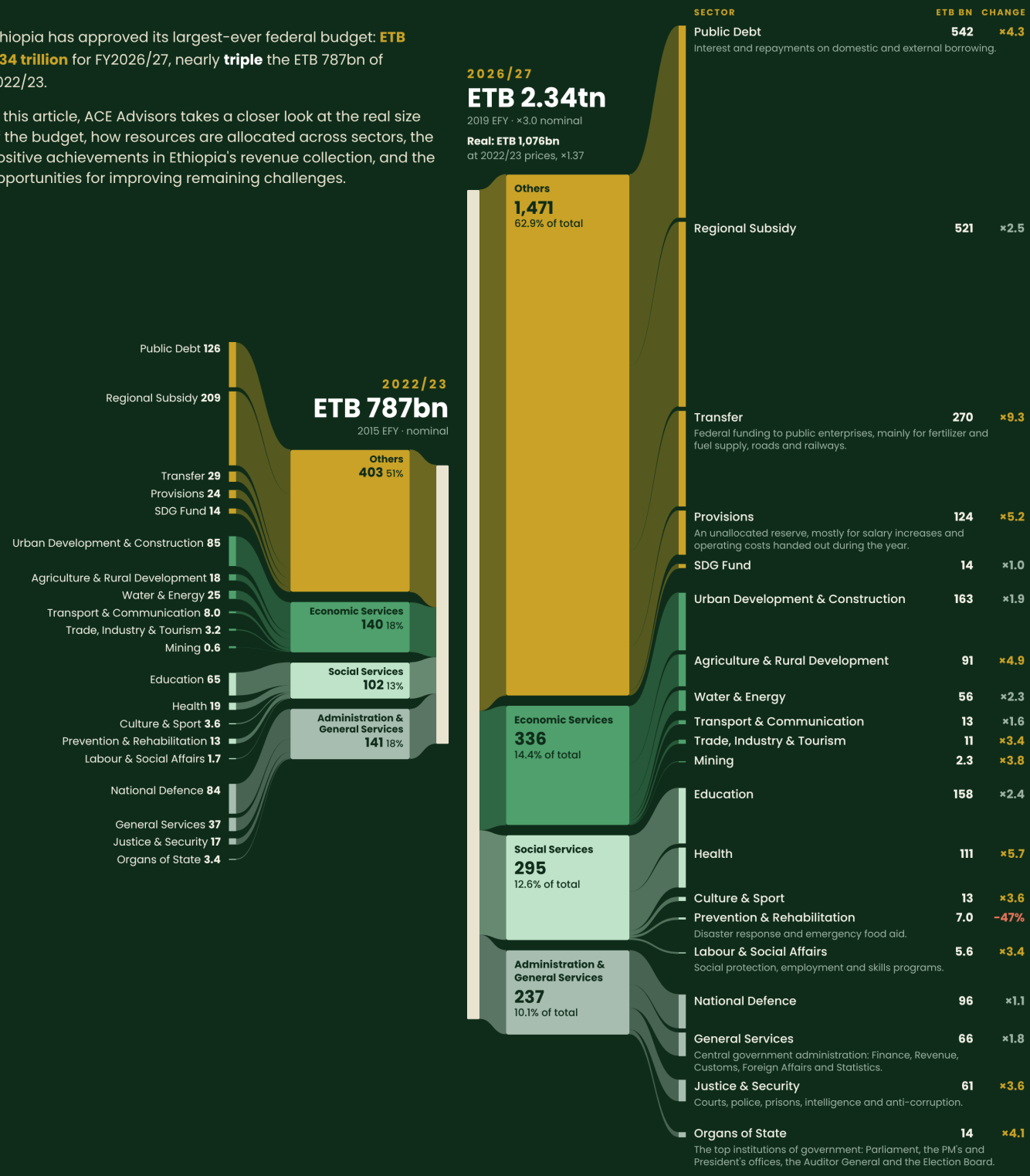
ACE ADVISORS

Ethiopia's FY 2026/27 Budget

Bigger on paper, tighter in reality

Ethiopia has approved its largest-ever federal budget: **ETB 2.34 trillion** for FY2026/27, nearly **triple** the ETB 787bn of 2022/23.

In this article, ACE Advisors takes a closer look at the real size of the budget, how resources are allocated across sectors, the positive achievements in Ethiopia's revenue collection, and the opportunities for improving remaining challenges.



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Ethiopia's federal budget has nearly tripled in five years, reaching **a record ETB 2.34 trillion** in **FY2026/27**, compared with **ETB 787 billion** in **FY2022/23**. Yet after adjusting for inflation, its purchasing power has increased by approximately **37% over the period.** The difference highlights a central challenge in Ethiopia's fiscal transition. Higher nominal allocations do not automatically translate into an equivalent increase in the government's capacity to finance development.

The approved federal budget has not followed a continuous upward or downward trend. In constant FY2022/23 prices, the approved budget allocation declined from ETB 787 billion in FY2022/23 to ETB 579 billion in FY2024/25 before increasing to approximately ETB 991 billion in FY2025/26 and ETB 1.08 trillion in FY2026/27. The latest approved allocation represents real growth of approximately 9% in FY2026/27, compared with nominal growth of around 21%.[1]

These real values are calculated by adjusting each year's nominal allocation using a price index, with FY2022/23 set at 100. The index reaches 217.4 in FY2026/27, reflecting the cumulative rise in prices, based on the annual inflation rates published by the Ethiopian Statistics Service. The latest budget therefore represents a genuine recovery in domestic purchasing power, although its real increase is considerably smaller than its nominal expansion.

The distinction matters because the size of the budget alone does not show how much flexibility the government has to finance new priorities. That depends on available revenue, obligations carried forward from previous years, and how resources are distributed across sectors.

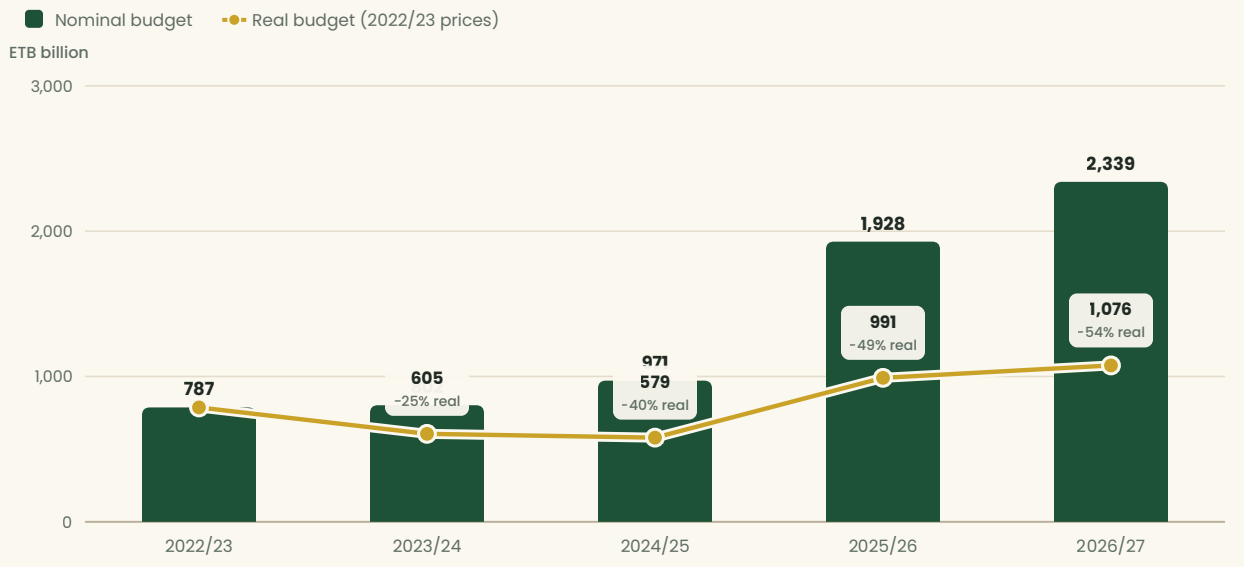


Figure 1: *Nominal vs real budget over the five years (real in 2022/23 prices)*

1. 2022/23-2026/27 Budget Year GoE Federal Budget Proclamation ,National Bank of Ethiopia Annual report 2024/25

More revenue, but not necessarily more fiscal space

Domestic revenue has become the principal source of the budget's expansion. It increased from ETB 439 billion in FY2022/23 to ETB 1.61 trillion in FY2026/27, a nominal rise of 267%. Applying the same price index suggests that domestic revenue **increased by ~69% in real terms** over the period. This indicates that revenue mobilization has grown beyond the effect of rising prices.[2]

The composition of that revenue matters as much as its growth. Taxes account for more than 90% of domestic revenue in the five-year period. Within tax revenue, foreign trade taxes and duties rose from 43% to 53% of the total. Income, profit, and capital-gains taxes also increased substantially in nominal terms, from ETB 125 billion to ETB 427 billion, but remained below 30% of tax revenue in FY2026/27.[2] Even so, the tax-to-GDP ratio remains around 7–8%, below the cited Sub-Saharan African median of more than 13%.[3]

This pattern creates a fiscal trade-off. Stronger tax collection increases the resources available to the government, but a revenue structure in which foreign trade taxes account for more than half of tax receipts remains exposed to changes in import flows and foreign exchange availability. Sustaining domestic revenue growth while broadening the tax base would help reduce reliance on a single source of tax receipts and provide a more stable foundation for financing public services.

Borrowing and external financing continue to fill the gap between domestic revenue and the budget's financing requirements. The FY2026/27 budget includes ETB 329 billion in domestic borrowing, ETB 205 billion in external assistance and ETB 194 billion in external loans. External financing also varies across the five-year period, with a sharp increase reported in FY2025/26 followed by a lower share in FY2026/27. The increase in external loans means that part of the financing available today also creates obligations for future budgets.[2]This exposure is compounded by a severe contraction in global Official Development Assistance (ODA). Global net ODA fell by 23%, the steepest drop on record, with grants contracting nearly three times faster than loans (-29.1% vs. -10.3%) and aid to Sub-Saharan Africa declining by 26.3%. For Ethiopia, roughly 80% of ODA originates from just three development partners, and 49% of the external financing portfolio is now loan-financed, marking the highest level in a decade. With the OECD forecasting no ODA recovery before 2028, Ethiopia faces a narrow 24- to 36-month window to adapt to this shifting aid landscape and transition away from external grant reliance.[4]

2. 2022/23-2026/27 Budget Year GoE Federal Budget Proclamation
3. Ethiopia's tax-to-GDP ratio: benchmark estimation and performance analysis - MoF
4. OECD Preliminary ODA 2025, DCD(2026)8; MoF EFY 2025/26 Budget; GCA Policy Brief (June 2026)

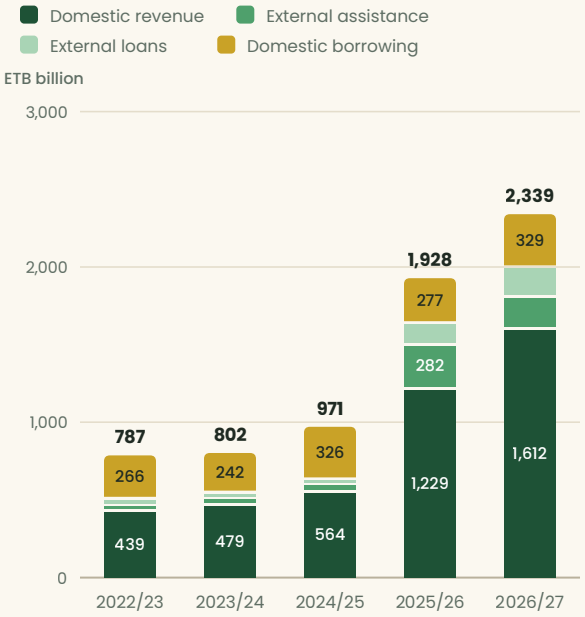


Figure 2: *Financial share breakdown*

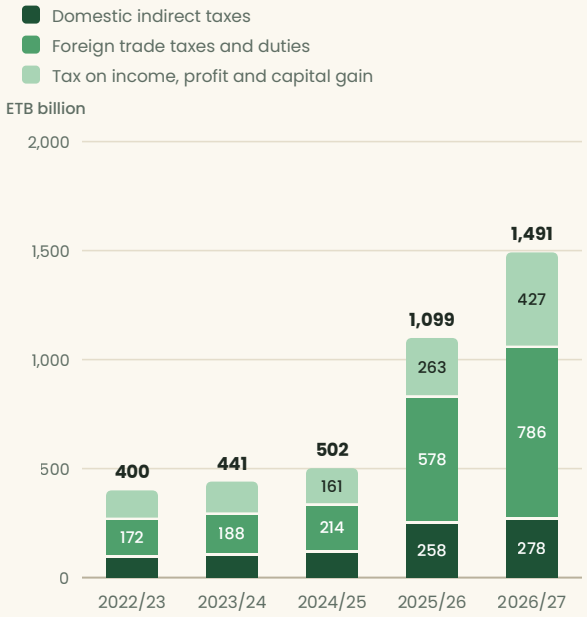


Figure 3: *Tax revenue composition by source*

Debt is increasingly determining how much of the budget is available

Expenditure trends show how the composition of spending affects the government's room to make new budgetary choices. Recurrent expenditure increased from **ETB 345 billion** in FY2022/23 to **ETB 1.24 trillion** in FY2026/27, a nominal rise of 258%. Capital allocations also increased, reaching ETB 568 billion in FY2026/27, but the gap between recurrent and capital expenditure widened to ETB 668 billion. Although both have increased in nominal terms, the faster growth of recurrent expenditure has made the balance between maintaining public services and financing new investment an increasingly important fiscal consideration.

The FY2026/27 budget allocates ETB 542.1 billion to debt service, equivalent to 23.2% of total budgeted expenditure, which adds to this pressure. This is more than four times the ETB 126 billion allocated in FY2022/23, and its inflation-adjusted value has roughly doubled over the five-year period. The allocation also exceeds the ETB 534.6 billion provided for regional transfer and is nearly five times the ETB 110.6 billion allocated to health. These comparisons illustrate the scale of competing demands on public resources, even though debt repayments cannot simply be redirected to other priorities without accounting for existing obligations.

The implications extend beyond debt itself. As more resources are committed to existing obligations, the government has less flexibility to respond to emerging needs without additional revenue or changes elsewhere in the budget. Capital spending has continued to grow, but sustaining that growth alongside essential public services and regional transfers will depend on how effectively Ethiopia mobilizes domestic revenue and manages its competing expenditure commitments.[2]

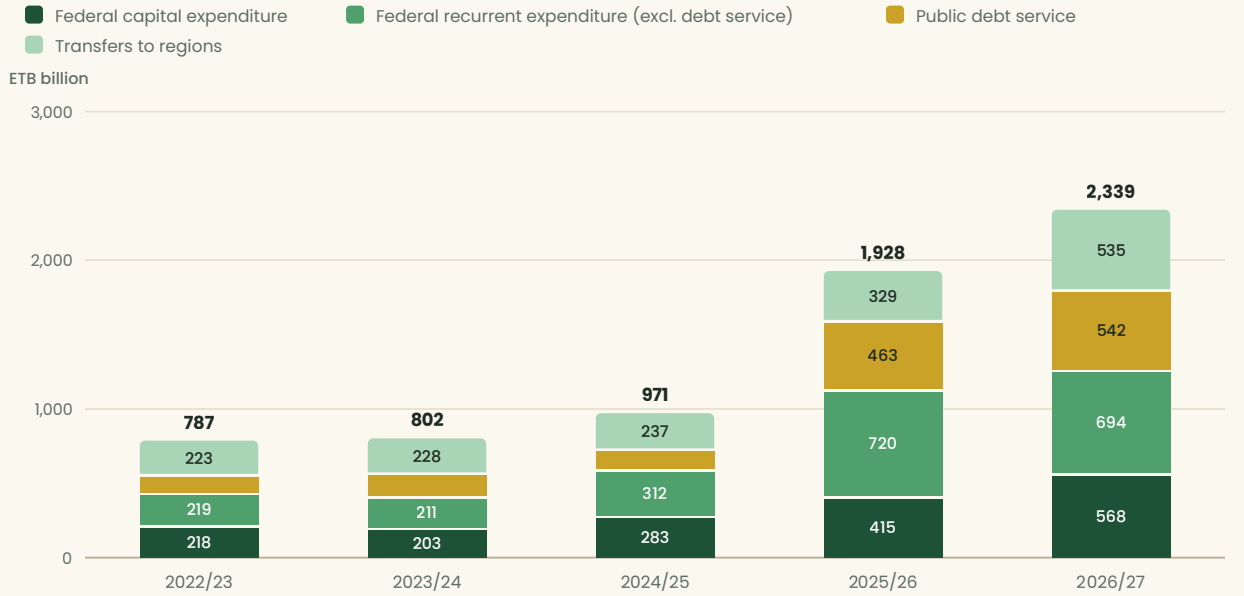


Figure 4: *Composition of the federal budget by economic nature, FY2022/23–2026/27 (ETB billion)*

Health and agriculture within national development priorities

Health and agriculture illustrate how these fiscal choices translate into sectoral priorities. In FY2026/27, health receives ETB 110.6 billion, or 4.7% of the federal budget. This is the highest share in the five-year series, and the sector's allocation has increased by approximately 164% in real terms since FY2022/23. However, the allocation remains below the 15% benchmark associated with the Abuja Declaration. These figures reflect federal allocations only and do not include spending by regional governments, which also play a significant role in financing health services.

Financing also remains a concern as external financing accounts for a reported 41% of the health allocation. The maternal and child health program receives ETB 51.7 billion, approximately 47% of the total health allocation, and 46.4% of the program's allocation is externally financed. The sector's increased allocation therefore coincides with continued exposure to changes in external funding, particularly within a major program.

Agriculture has also gained ground, with a FY2026/27 allocation of ETB 91.4 billion, or 3.9% of the federal budget, and its real value has increased by approximately 128% since FY2022/23. This is the highest share in the five-year series, but it remains below the 10% benchmark associated with the Maputo commitment. Reaching that benchmark would require an additional ETB 143 billion. As with health, these figures cover the federal budget and exclude regional government spending on agriculture.

Other sectors have experienced a different trajectory. Over the same five-year period, the real value of transport allocations declined by 28%, while urban development declined by 12%. These contrasting trends show that the overall expansion of the federal budget has not translated into uniform growth across development priorities. The central question is therefore not only how

much the budget has increased, but how resources are distributed between essential services, infrastructure and productive sectors, and whether those allocations are sufficient to support Ethiopia's wider development objectives.[2]

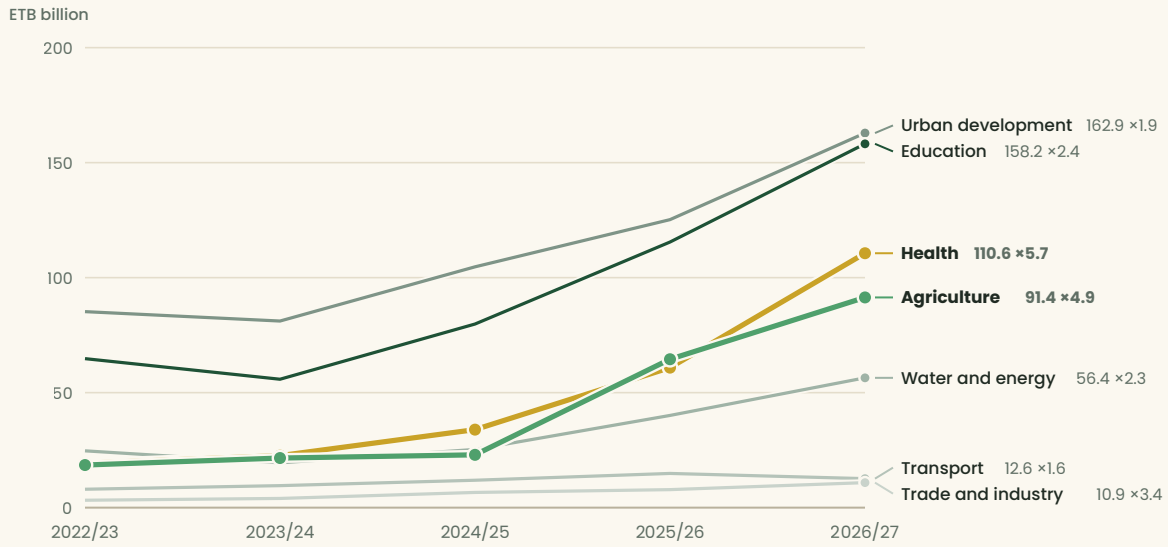


Figure 5: *Government Budget Allocation by Key Sector, 2022/23–2026/27 (in Billion Birr)*

The hidden pressure on subnational development

The same gap between nominal allocations and real purchasing power affects funding intended to support regional development. The SDG Fund has remained at ETB 14 billion in each year of the five-year period. As prices have risen, its real value has fallen by approximately 54%, while its share of the federal budget has declined from 1.8% to 0.6%. Its nominal allocation has been maintained, but the resources it can finance have diminished.

Regional transfers show a similar decline followed by a strong recovery. Nominal transfers increased from ETB 223.4 billion in FY2022/23 to ETB 534.6 billion in FY2026/27. In real terms, they fell to ETB 141.1 billion in FY2024/25 before recovering to ETB 245.9 billion in FY2026/27, representing a real increase of approximately 10% over five years.[2]

Beyond the size of transfers, the way they are distributed matters. The last published regional allocation formula covered FY2017/18 to FY2019/20. Since then, Ethiopia's regional structure has changed, including the formation of three regions from the former SNNP region. These regions are not separately represented in the earlier formula and continue to share the allocation associated with the former region. This raises questions about whether the allocation framework adequately reflects the current regional structure and the differing responsibilities and needs of regional governments.

The distribution of the latest increase also offers limited differentiation between regions. All regions received the same 65.4% nominal increase in FY2026/27, leaving their relative shares unchanged from the previous year. Meanwhile, per capita transfers vary by more than threefold. These differences do not automatically indicate unfairness, as regional requirements also depend on population, poverty, service delivery costs, revenue capacity and expenditure responsibilities. However, they reinforce the importance of a transparent and regularly updated formula that accounts for these factors.

Together, the SDG Fund and regional transfers reveal two connected challenges. Funding intended to support development must retain its purchasing power, while the mechanisms used to distribute resources must keep pace with changing regional structures, needs and fiscal capacity.

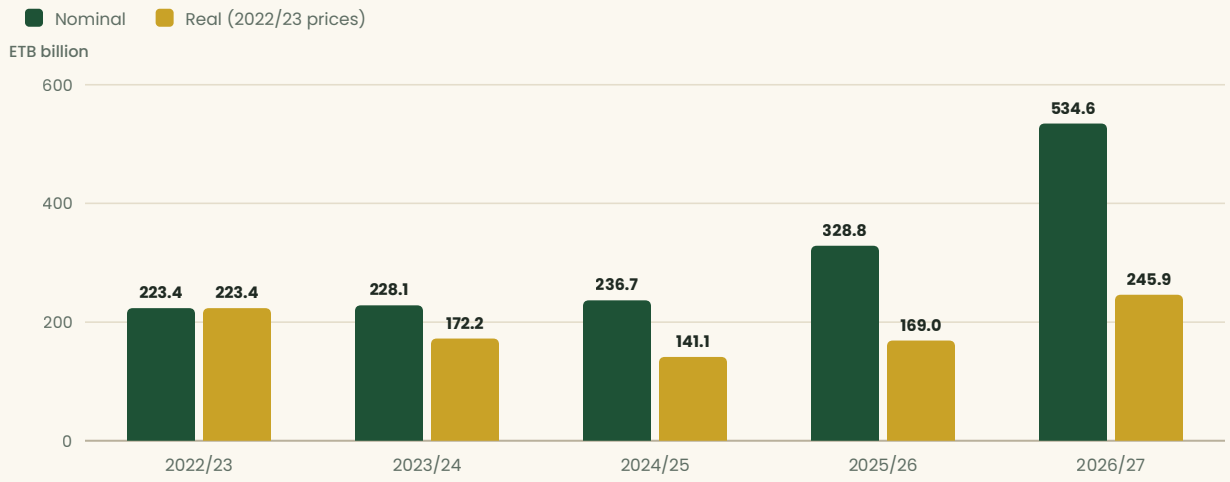


Figure 6: *Total Transfers, ETB Bn, nominal and real, 2022/23 to 2026/27*

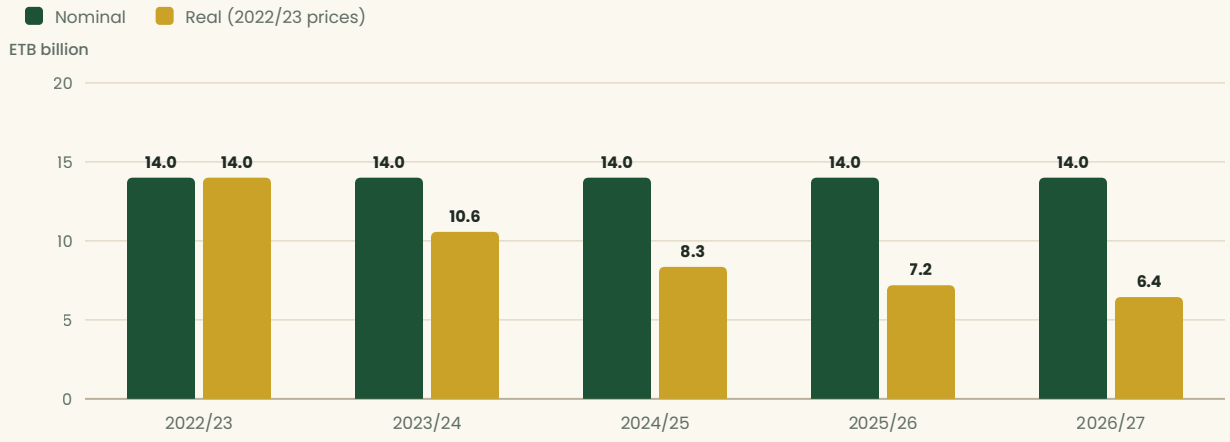


Figure 7: *SDG fund, nominal and real, 2022/23 to 2026/27, ETB Bn*

Bigger on paper, tighter in reality

Ethiopia's FY2026/27 budget is larger than it was five years ago, including after adjusting for inflation. The fiscal trajectory is more complex than a simple story of declining purchasing power. The real budget has recovered, domestic revenue has grown in real terms, and selected sectors have gained ground. At the same time, debt service has increased substantially, the revenue base remains narrow, and the real value of some development funding instruments has declined.

Three priorities emerge from these trends.

First, revenue quality matters as much as revenue growth. Broadening the tax base and strengthening sustainable revenue mobilization would help reduce dependence on foreign trade taxes and volatile financing sources. Assessing revenue growth in real terms and understanding its underlying drivers are essential to determining whether the government's fiscal capacity is improving sustainably.

Second, expenditure choices must preserve fiscal flexibility. Rising debt service places greater pressure on the budget, while recurrent spending continues to finance essential public services. Monitoring these commitments alongside capital allocations can help the government protect productive investment and maintain service delivery as financing conditions change.

Third, allocation credibility matters. Sectoral spending should be assessed in real terms, while regional transfers require transparent and needs-based allocation mechanisms. Better comparable data and an allocation that reflects the new regions created from the former SNNP region would strengthen the relationship between funding decisions and development needs.

The headline growth of Ethiopia's budget is substantial, but its implications depend on how that growth is financed and distributed. The central fiscal challenge is to turn higher allocations into sustainable purchasing power, preserve room for productive investment, and ensure that resources reach the sectors and regions where they can support long-term development.