Government Revenue, Expenditure and Fiscal Deficits in Ethiopia: An asymmetric Cointegration Approach

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Abstract

This paper is an attempt to verify the nexus between growing public expenditure and revenue of Ethiopia using long period data from starting from 1975 to 2016. The specific objectives of the study would include; verifying the long run relationship between public expenditure and revenue, to assess the impact of the fiscal deficits on economic growth. To this end an asymmetric cointegration test based on NARDL has been used and Toda-Yamomoto test has been employed to verify the causality. The findings suggest long run cointegration between expenditure and revenue; and causality test confirming fiscal synchronization hypothesis for Ethiopia. The results show a long run and short run asymmetric relationship between real total government expenditure and real total revenue. With regard to fiscal deficit, the NARDL co-integration results reveal that, when there is positive shock in fiscal deficit, it leads to positive change in GDP and when there is negative shock it reduces GDP. Moreover, there is bi-directional causality running between GDP, Human Capital and labor force but there is a unidirectional causality running from Fiscal deficit to economic growth. In view of these findings some policy measures, improving tax revenues and minimizing fiscal deficits have been suggested.

Key Words: Government expenditure, Revenue, Fiscal deficits, asymmetric ARDL model,