

FEDERAL GOVERNMENT FINANCE

7.1 General

The overall fiscal deficit of the general government stood at 9.5 percent of GDP, in 2004/05 as the ratio expenditure to GDP increased to 25.5 percent compared to a decline in the ratio of revenue to GDP to 16 percent. The primary deficit, measured as deficit excluding interest payments and capital revenue like privatization proceeds and income property sales, and which shows the fiscal stance of the

government, also widened to 3.9 percent of GDP from (1.8 percent of GDP) last year. With change in the ratio of domestic debt to GDP which remained at 34.8 percent in FY2004/05. The fact that there was a widened primary deficit does not, however, lead us to conclude that we have lost fiscal sustainability at 3.9 percent of GDP expenditure. Moreover, domestic debt is not regarded as a burden because the principal is out.

Table VII.1 : Measuring Fiscal Sustainability (In %)

| Fiscal Year | PD/GDP | IP/RR | DDebt/GDP | R(Debt) | R(GDP) | Exp/GDP | Rev/GDP | R (OR) |
|----------------|--------|-------|-----------|---------|--------|---------|---------|--------|
| 1991/92 | (4.50) | 13.1 | 40.6 | 15.7 | 8.3 | 15.9 | 11.3 | -19.5 |
| 1992/93 | (2.10) | 18.2 | 40.3 | 27.3 | 28.3 | 17.6 | 10.9 | 46.7 |
| 1993/94 | (1.80) | 24.3 | 41.5 | 9.3 | 6.2 | 25 | 13.9 | 23.4 |
| 1994/95 | 1.70 | 14.2 | 34.4 | -0.6 | 19.6 | 24.7 | 17.4 | 50.1 |
| 1995/96 | 3.20 | 13.2 | 31.5 | 2.4 | 12 | 26.9 | 18.4 | 17.8 |
| 1996/97 | 4.10 | 11.7 | 29.8 | 3.4 | 9.3 | 24.2 | 19.0 | 8.1 |
| 1997/98 | -1.5 | 9.9 | 24.7 | 7.9 | 8.1 | 20.7 | 15.4 | 2.8 |
| 1998/99 | -4.0 | 10.1 | 25.6 | 11.9 | 7.8 | 24.7 | 16.0 | 8.3 |
| 1999/00 | -6.4 | 11.8 | 32.4 | 41.2 | 11.5 | 26.1 | 14.4 | 8.3 |
| 2000/01 | -2.2 | 10.6 | 34.1 | 7.9 | 2.7 | 23.4 | 15.1 | 7.1 |
| 2001/02 | -10.7 | 9.7 | 39.2 | 7.5 | -6.6 | 32.6 | 16.5 | 2.3 |
| 2002/03 | -5.2 | 10.9 | 38.7 | 7.2 | 8.7 | 29.9 | 16.2 | 7.1 |
| 2003/04 | -1.8 | 7.8 | 34.8 | 10.6 | 22.9 | 24.3 | 16.5 | 24.8 |
| 2004/05 | -3.9 | 6.5 | 34.8 | 14.4 | 14.4 | 25.5 | 16.0 | 11.1 |

Source: Staff compilations *Definitions PD = Primary Deficit IP/RR= Share of interest payments in Recurrent revenue DDebt/GDP=Ratio of Domestic Debt to GDP R (Debt) = Growth rate of Domestic Debt R (GDP) = Growth rate of GDP at current market price Exp/GDP=Ratio of General Government Expenditure to GDP Rev/GDP= Ratio of General Government Revenue to GDP R (OR) = Growth rate of ordinary Revenue*

Note: starting from 1997/98 the figure was based upon revised GDP data

7.2 Revenue

General government revenue, including grants, registered about 11 percent increase on a year basis to Birr 19.9 billion.

In terms of GDP ratio however, general government revenue was slightly lower (16 percent of GDP) compared to 16.5 percent GDP in 2003/04.

Constituting more than 79 percent of the total domestic revenue the 2004/05 tax revenue collection increased by 12.5 percent on yearly basis to Birr 15.5 billion (12.7. percent of GDP). This was due to the respective 14.5 percent and 11.5 percent increase in both direct and indirect tax revenue. The share of direct tax revenue in total yearly tax revenue was 32 percent while that of indirect taxes 68 percent.

Revenue from non taxes also increased 6.4 percent over last fiscal year to Birr 3.2 billion as sales of goods and service surged by 132.2 percent and charges and fees by 92 percent, offsetting the recorded declines in revenues from of government investment income (by 11.5 percent), and ‘others’ (by 52.9 percent).

Overall, the total revenue collection in FY2004/05 represented 84 percent of the total budget for the year. Looked in terms of components, revenue from indirect taxes recorded above budget performance rate (106.6 percent) while revenue target for direct taxes and non taxes was met by 71 and 67.9 percent only.

Table VII.2 : Summary of General Government Revenue by Component

(In Millions of Birr)

| Particulars | 2003/04 | 2004/05 | | Percentage Change | Performance Rate |
|------------------------------------|---------------|---------------|---------------|-------------------|------------------|
| | [A] | [B] | [C] | [C/A] | [C/B] |
| | Pre. Act | Revised | Pre. Act | | |
| | | Budget | | | |
| Total Revenue and Grants | 17,918 | 23,750 | 19,873 | 10.9 | 83.7 |
| Total Revenue 1) | 13,917 | 18,083 | 15,466 | 11.1 | 85.5 |
| Tax Revenue | 10,906 | 13,365 | 12,265 | 12.5 | 91.8 |
| 1 Direct Tax Revenue | 3,431 | 5,543 | 3,930 | 14.5 | 70.9 |
| <i>1.1 Income and Profit Taxes</i> | 3,131 | 4,479 | 3,569 | 14 | 79.7 |
| <i>Personal</i> | 948 | 1022 | 1132 | 19.4 | 110.8 |

| | | | | | |
|--|--------------|--------------|--------------|-------------|--------------|
| <i>Business</i> | 1,303 | 2,571 | 1,714 | 31.5 | 66.7 |
| <i>Others 2)</i> | 880 | 887 | 723 | -17.8 | 81.5 |
| <i>1.2 Rural Land Use Fee</i> | 114 | 161 | 140 | 22.8 | 87 |
| <i>1.3 Urban Land Use Fee</i> | 186 | 903 | 221 | 18.8 | 24.5 |
| 2. Indirect Taxes | 7,476 | 7,822 | 8,335 | 11.5 | 106.6 |
| <i>2.1 Domestic Taxes</i> | 2,200 | 2,796 | 2,589 | 17.7 | 92.6 |
| <i>2.2 Foreign Trade Taxes</i> | 5,276 | 5,026 | 5,746 | 8.9 | 114.3 |
| <i>Import</i> | 5,276 | 5,026 | 5,746 | 8.9 | 114.3 |
| <i>Export</i> | 0 | 0 | 0 | | |
| 3. Non-Tax Revenue | 3,010 | 4,718 | 3,202 | 6.4 | 67.9 |
| <i>3.1 Charges and Fees</i> | 321 | 667 | 616 | 91.9 | 92.4 |
| <i>3.2 Govt. Invt. Income</i> | 1,250 | 1745 | 1,106 | -11.5 | 63.4 |
| <i>3.3 Reimb. And Property Sales</i> | 185 | 884 | 193 | 4.3 | 21.8 |
| <i>3.4 Sales of Goods & Services</i> | 376 | 987 | 873 | 132.2 | 88.4 |
| <i>3.5 Others 3)</i> | 879 | 435 | 414 | -52.9 | 95.2 |
| 4 Grants | 4,002 | 5,666 | 4,407 | 10.1 | 77.8 |

Source: Ministry of Finance and Economic Development *1/ it does not include privatization proceeds*

2/ others include rental income tax, withholding income tax on imports, interest income tax, capital gains tax, agricultural income and other income 3/ other extraordinary, miscellaneous and pension contribution.

7.3 Expenditure

Birr 24.6 billion was spent on different general government activities in FY2004/05. This was 20 percent higher than that of the previous year owing to the increase of both recurrent and capital expenditures.

Recurrent expenditure reached Birr 13 billion and showed 9 percent increase over the last fiscal year. Yet, its share from the total expenditure stood at 53 percent compared to 58 percent and its performance rate was 90 percent of the annual budget.

In a similar vein, capital expenditure reached Birr 11.46 billion, 37.3 percent increase vis-à-vis 2003/04. The performance rate was 85 percent.

In another development, the amount of expenditure on special programs went down by 17.6 percent to Birr 224 million and its performance rate at 29 percent rate was quite low.

7.4 Deficit Financing

On account of a significant (20.1 percent) increase in government's budgetary expenditure over and above the increase in revenue & grants (10.9 percent), the review year fiscal balance recorded Birr 4.7 billion deficit (including grants).

A significant portion (about 74 percent) of the deficit was financed from domestic borrowing, followed by external and non bank borrowing. The 2004/05 total borrowing from domestic banking system was Birr 3156 million. No net repayment was effected in FY2004/05.

Table VII.4 Summary of General Government Finance

(In Millions of Birr)

| Particulars | 2003/04 | 2004/05 | | Percentage Change | Performance Rate |
|--------------------------------|------------------|-------------------|-----------------|-------------------|------------------|
| | [A] | [B] | [C] | | |
| | Pre. Act | Revised Budget | Pre. Act | C/A | C/B |
| Revenue and Grants | 17,918.00 | 23,750.0 | 19,873.0 | 10.9 | 83.7 |
| <i>Revenue</i> | 13,917.00 | 18,083.0 | 15,466.0 | 11.1 | 85.5 |
| <i>Grants</i> | 4,002.00 | 5,666.0 | 4,407.0 | 10.1 | 77.8 |
| Total Expenditure | 20,504.00 | 28,712.0 | 24,617.0 | 20.1 | 85.7 |
| <i>Current Expenditure</i> | 11,961.00 | 14,531.0 | 13,036.0 | 9.0 | 89.7 |
| <i>Capital Expenditure</i> | 8,271.00 | 13,414.0 | 11,357.0 | 37.3 | 84.7 |
| <i>Special Programs</i> | 272 | 767 | 224 | -17.6 | 29.2 |
| Overall Surplus/Deficit | | | | | |
| (Including Grants) | -2,586.0 | -4,963.0 | -4,743.0 | 83.4 | 95.6 |
| (Excluding Grants) | -6,587.0 | -10,629.0 | -9,150.0 | 38.9 | 86.1 |
| Total Financing | 2,586.0 | 4,963.0 | 4,743.0 | 83.4 | 95.6 |
| Net External Borrowings | 2,399.0 | 3,444.0 | 2,384.0 | -0.6 | 69.2 |
| <i>Gross Borrowing</i> | 2,555.0 | 3,535.0 | 2,507.0 | -1.9 | 70.9 |

| | | | | | |
|--------------------------------|----------------|----------------|----------------|-------------|--------------|
| <i>Special Programs</i> | 441 | 767 | 273 | -38.1 | 35.6 |
| <i>Amortization Paid</i> | 833 | 804 | 851 | 2.2 | 105.8 |
| <i>HIPC Relief</i> | 678 | 713 | 728 | 7.4 | 102.1 |
| Net Domestic Borrowings | 2,147.0 | 1,509.0 | 3,492.0 | 62.6 | 231.4 |
| <i>Banking System</i> | 2,155.0 | 1,509.0 | 3,156.0 | 46.5 | 209.1 |
| <i>Non-Bank Sources</i> | -8 | 0 | 336 | | |
| Privatization Receipts | 11 | 10 | 10 | -9.1 | 100.0 |
| Others and Residuals | -1972 | 0 | -1,143.0 | -42.0 | |

Source: Ministry of Finance and Economic Development