

VII. GENERAL GOVERNMENT FINANCE

7.1 General

During 2005/06, fiscal deficit of the general government (excluding grants) stood at 8.5 percent of GDP slightly lower than 9.4 percent in 2004/05 fiscal year

The primary deficit, which shows fiscal stance of the government and measured as deficit excluding interest payments and capital revenue like privatization

proceeds and income property sales also widened to 5.5 percent of GDP from 3.9 percent of GDP last year. There was also a slight increase in the ratio of domestic debt to GDP from 34.2 percent to 35 percent. According to IMF's definition fiscal sustainability refers to fiscal deficit to GDP ratio of around 3 percent.

Table 7.1: Measuring Fiscal Sustainability (in percent)

Fiscal Year	PD/GDP	IP/RR	Debt/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	1.7	14.2	34.4	-0.6	19.6	24.7	17.4	50.1
1995/96	3.2	13.2	31.5	2.4	12	26.9	18.4	17.8
1996/97	4.1	11.7	29.8	3.4	9.3	24.2	19	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	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	(6.0)	9.7	39.0	7.5	-3.4	27.8	16.4	2.3
2002/03	(5.2)	10.9	38.5	7.2	8.6	29.8	16.2	7.1
2003/04	(1.8)	7.8	35.9	10.6	18.7	25.1	17.0	24.8
2004/05	(3.7)	6.5	34.2	14.4	20.4	25.2	15.8	12.0
2005/06	(4.3)	5.4	35.0	20.2	17.5	25.4	16.9	25.3

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 and Grants

General government revenue, including grants, increased by 15.5 percent to Birr 23.2 billion. Revenue-GDP ratio also improved to 16.9 percent compared to 15.9 percent a year earlier.

About 72.5 percent of the total domestic revenue was generated from taxes, which surged by 14 percent in the review year to Birr 14.1 billion. The observed increase in tax revenue was attributed to improved tax collection both from direct taxes (13.5 percent) and indirect taxes (14.5 percent). The respective contribution of direct and indirect taxes to total tax revenue was 22.8 and 49.6 percent.

Totaling Birr 5.4 billion, non-tax revenue recorded a significant increase of 68.6 percent over the previous year due to higher government investment income and reimbursement and property sales, which outweighed the decline in

sales of goods and services, and charges and fees.

Meanwhile, during the review year Birr 3.7 billion CPF grants was secured which was 18.2 percent lower than the preceding fiscal year owing to replacement of direct budget support by the Protection of Basic Services.

All in all, the performance in total revenue collection including grants in the 2005/06 fiscal year was about 80 percent of the total budget.

Table 7.2: Summary of General Government Revenue by Component

(In Millions of Birr)

Particulars	Year			Percentage Change	Performance Rate
	2004/05	2005/06			
	[A]	[B]	[C]		
	Pre. Act	Revised Budget	Pre. Act		
Total Revenue and Grants	20147	29047	23261	15.46	80.08
Total Revenue 1/	15582	21818	19529	25.33	89.51
1. Tax Revenue	12398	15509	14159	14.20	91.30
1.1 Direct Tax Revenue	3930	4977	4461	13.51	89.63
<i>1.1.1 Income and Profit Taxes</i>	3569	4159	3819	7.00	91.82
<i>Personal</i>	1132	1337	1414	24.91	105.76
<i>Business</i>	1714	2042	1741	1.58	85.26
<i>Others 2/</i>	723	780	665	-8.02	85.26
<i>1.1.2 Rural Land Use Fee</i>	140	135	124	-11.43	91.85
<i>1.1.3 Urban Land Use Fee</i>	221	683	517	133.94	75.70
1.2. Indirect Taxes	8467	10532	9698	14.54	92.08
<i>1.2.1 Domestic Taxes</i>	2721	3645	3111	14.33	85.35
<i>1.2.2 Foreign Trade Taxes</i>	5746	6887	6587	14.64	95.64
<i>Import</i>	5746	6887	6587	14.64	95.64
<i>Export</i>		0	0		
2. Non-Tax Revenue	3184	6308	5371	68.69	85.15
<i>2.1 Charges and Fees</i>	616	333	379	-38.47	113.81
<i>2.2 Govt. Invt. Income 3/</i>	1106	3418	3136	183.54	91.75
<i>2.3 Reimb. and Property Sales</i>	193	710	310	60.62	43.66
<i>2.4 Sales of Goods & Services</i>	856	477	433	-49.42	90.78
<i>2.5 Others 4/</i>	414	1370	1113	168.84	81.24
3. Grants	4565	7229	3732	-18.25	51.63

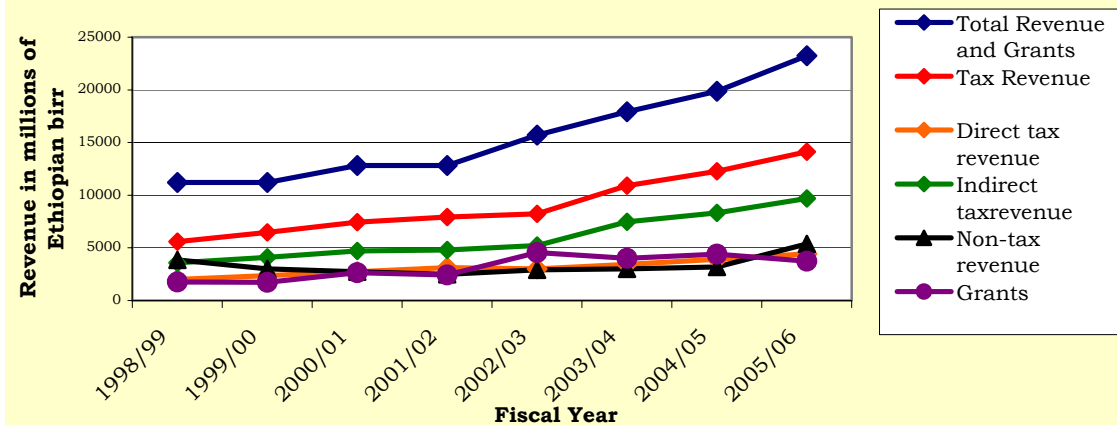
Source: Ministry of Finance and Economic Development

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 tax and other incomes

3/ Other extraordinary, miscellaneous and pension contribution.

Fig. 7.1 Trend of General Government Revenue by Component



7.2 Expenditure

A total of Birr 29.3 billion was spent on different government activities, which was 18.2 percent higher than the level in 2004/05 due to both increased recurrent and capital expenditures.

Recurrent expenditure reached Birr 15.2 billion, showing 15 percent increase over the last fiscal year. Its share in total expenditure stood at 52 percent and its performance rate at 94 percent of the annual budget.

Capital expenditure at Birr 14 billion depicted 23.8 percent increase vis-à-vis 2004/05. The performance rate of capital expenditure was 74 percent.

On the other hand, the amount of expenditure on special programs went down by 77 percent to Birr 50 million, in the review year presumably due to gradually phasing out of social rehabilitation and reconstruction projects which began in 2000/01.

Table 7.3: Summary of General Government Expenditure

(In Millions of Birr)

Particulars	Year			Percentage Change	Performance Rate
	2004/05	2005/06			
	[A]	[B]	[C]		
	Pre. Act	Revised Budget	Pre. Act		
Total Expenditure	24803	35098	29325	18.23	83.55
1. Current Expenditure	13235	16182	15234	15.10	94.14
<i>General Services</i>	5816	6055	6522	12.14	107.71
<i>Economic Services</i>	1516	2166	2009	32.52	92.75
<i>Social Services</i>	3839	4687	4996	30.14	106.59
<i>Interest and Charges</i>	1011	1385	1054	4.25	76.10
<i>External Assistance</i> ^{1/}	721	586	586	-18.72	100.00
<i>Social Safety Net</i>	0	0	0		
<i>Others (miscellaneous)</i>	325	1304	67	-79.38	5.14
2. Capital Expenditure	11343.4	18915.7	14042	23.79	74.23
Economic Development	7655.5	13103.4	10425.6	36.18	79.56
Social Development	3290.5	5131.4	3099.3	-5.81	60.40
General Development	397.5	680.9	516.9	30.04	75.91
3. Special programs	224	0	50	-77.68	

Source: Ministry of Finance and Economic Development

Note: 1/ Includes mapping, science and technology, public buildings, etc

2/ Estimate data not available

Fig. 7.2: Trends in General Government Expenditure by Component

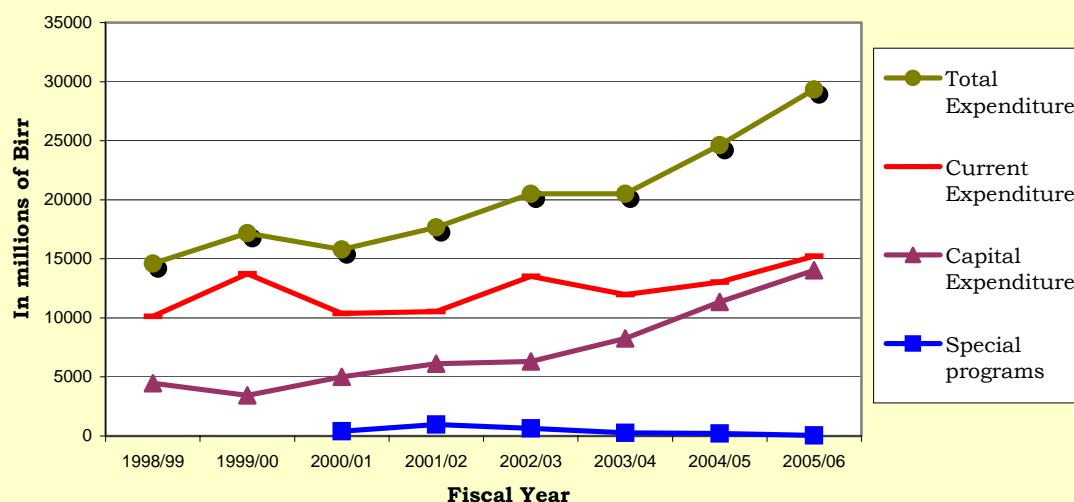
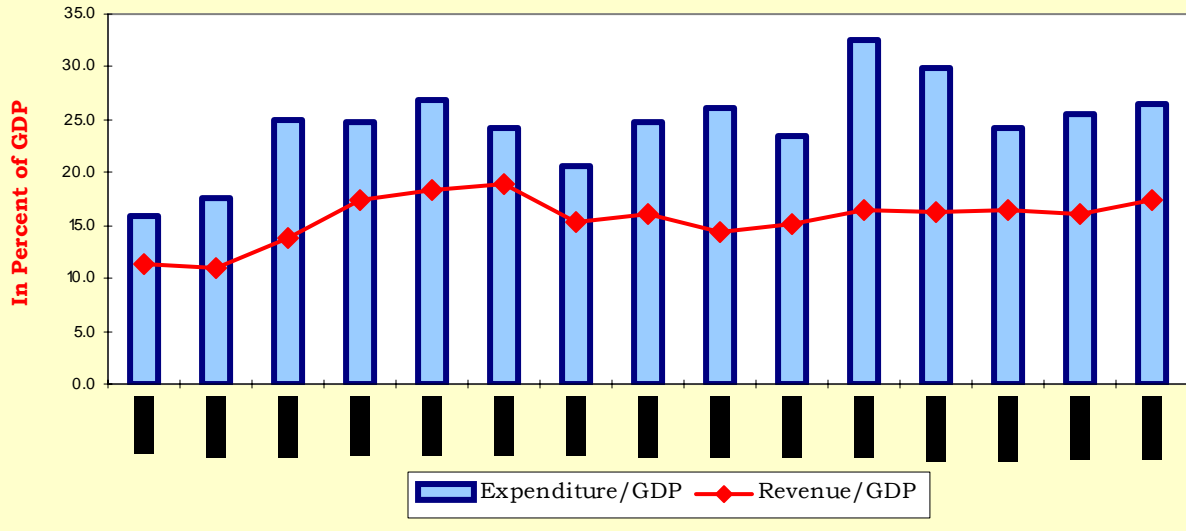


Fig. 7.3 Trends in General Government Expenditure and Revenue (% of GDP)



7.4 Deficit Financing

Owing to the increase in government budgetary expenditure by 18.2 percent, which outweighed the 15.3 percent rise in revenue & grants, the review year witnessed a fiscal deficit (including grants) of Birr 6.1 billion (5.3 percent of GDP). A significant portion (about 45 percent) of the deficit was financed from

domestic borrowing followed by external borrowing (24.8 percent). The 2005/06 total borrowing from domestic banking system was Birr 2876 million and Birr 141 million repayment was effected during the same period.

Table 7.4 Summary of General Government Finance

(In Millions of Birr)

Particulars	Year			Percentage Change	Performance Rate
	2004/05	2005/06			
	[A]	[B]	[C]		
	Pre. Act	Revised Budget	Pre. Act		
Revenue and Grants	20147	29047	23261	15.39	80.08
Revenue	15582	21818	19529	25.24	89.51
Grants	4565	7229	3732	-18.25	51.63
Total Expenditure	24802	35098	29324	18.23	83.55
Current Expenditure	13235	16182	15234	15.10	94.14
Capital Expenditure	11343	18916	14040	23.78	74.22
Special Programs	224	0	50	-77.68	
Overall Surplus/ Deficit					
(Including Grants)	-4655	-6051	-6063	30.56	100.20
(Excluding Grants)	-9220	-13280	-9795	6.36	73.76
Total Financing	4655	6051	6063	30.56	100.20
Net External Borrowings	2384	2050	1512	-36.58	73.76
Gross Borrowing	2507	2015	1520	-39.37	75.43
O/w Special Programs	273	0	459	68.13	
Amortization Paid	851	980	934	9.75	95.31
HIPC Relief	728	1015	926	27.20	91.23
Net Domestic Borrowings	3492	4001	2735	-21.68	68.36
Banking System	3156	4001	2876	-8.87	71.88
Non-Banking Systems	336	0	-141	-141.96	
Privatization Receipts	10	0	0	-100.00	
Others and Residuals	-1230	0	1815	-247.56	

Source: Ministry of Finance and Economic Development