

VII. GENERAL GOVERNMENT FINANCE

7.1 General

Overall fiscal deficit of the general government (excluding grants) was Birr 17.1 billion or 7 percent of GDP in 2007/08 compared to 8.0 percent in 2006/07.

Total revenue (excluding grants) reached Birr 29.8 billion whose ratio to GDP declined from 12.7 to 12.1 percent during the same period. The primary

deficit, which shows fiscal stance of the government and measured as a deficit excluding interest payments and capital revenue like privatization proceeds and income property sales, narrowed to 2.1 percent of GDP from 3.0 percent last year. The ratio of domestic debt to GDP, which has been declining for the last three consecutive years, dropped further to 15.6 percent of GDP.

Table 7.1: Measuring Fiscal Sustainability (In %)

Fiscal Year	PD/GDP	IP/RR	Ddebt/GDP	R(Debt)	R(GDP)	Exp/GDP	Rev/GDP	R(OR)
1996/97	4.1	11.7	29.8	3.4		24.2	19	8.1
1997/98	-1.5	9.9	24.7	7.9	-3.9	20.7	15.4	2.8
1998/99	-4.0	10.1	15.4	11.9	5.9	24.7	16.0	8.3
1999/00	-6.4	11.8	25.4	61.1	13.4	26.1	14.4	8.3
2000/01	-2.2	10.6	21.4	-7.1	2.1	23.4	15.1	7.1
2001/02	-10.7	9.7	23.2	8.2	-2.2	32.6	16.5	2.3
2002/03	-5.2	10.9	25.6	10.7	10.3	27.9	15.2	7.1
2003/04	-1.8	7.8	26.6	22.6	18.0	23.7	16.1	24.8
2004/05	-3.9	6.5	22.2	2.3	22.9	19.3	14.6	12
2005/06	-5.5	5.4	20.1	12.2	23.7	22.3	14.8	25.1
2006/07	-3.0	5.5	17.6	13.5	29.8	20.8	12.7	11.6
2007/08	-2.1	3.8	15.6	27.1	42.9	19.1	12.1	36.7

Source: NBE Staff computation

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 on revised GDP data

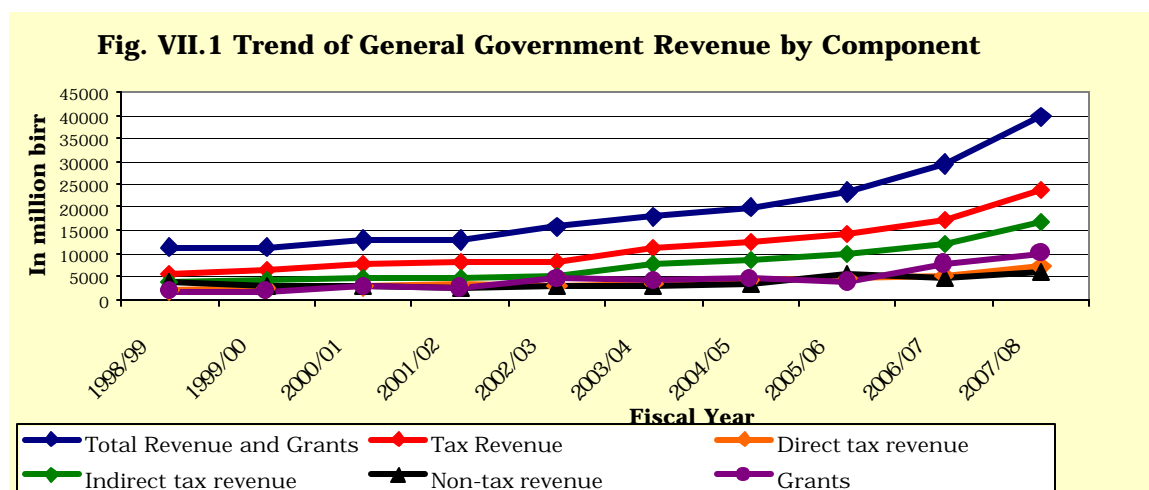
7.2 Revenue and Grants

General government revenue, including grants, registered a 35.1 percent increase on annual basis to reach Birr 39.7 billion in the review year. In terms of GDP, general government revenue slightly dropped to 12.1 percent compared to 12.7 percent in 2006/07.

About 79.8 percent of the total domestic revenue was generated from tax sources which surged by 37.2 percent in the review year to Birr 23.8 billion. The increase in tax revenue was attributed to higher collection of taxes both from direct (35.8 percent) and indirect (37.7 percent) sources. The share of direct and

indirect taxes in tax revenue was 29.5 and 70.5 percent in 2007/08 compared to 29.8 and 70.2 percent in 2006/07.

A total of Birr 5.9 billion was collected as non-tax revenue which showed a 34.8 percent increase over last year. Meanwhile, counterpart fund (CPF) grants reached Birr 9.9 billion, 30.7 percent higher a year ago.



Source: MoFED and NBE Staff Computation

Table 7.2 : Summary of General Government Revenue by Component

(In Millions of Birr)

Particulars	2006/07	2007/08		Percentage Change	Performance Rate
	[A]	[B]	[C]	[C/A]	[C/B]
	Pre. Act	Revised Budget	Pre. Act		
Total Revenue and Grants	29381	43890	39705	35.14	90.46
Total Revenue 1/	21797	33337	29794	36.69	89.37
Tax Revenue	17354	24446	23801	37.15	97.36
1. Direct Tax Revenue	5168	6588	7016	35.76	106.50
1.1 Income and Profit Taxes	4868	5754	6628	36.15	115.19
Personal	1828	1767	2667	45.90	150.93
Business	2305	2973	3040	31.89	102.25
Others 2/	735	1013	919	25.03	90.72
1.2 Rural Land Use Fee	130	150	149	14.62	99.33
1.3 Urban Land Use Fee	170	684	239	40.59	34.94
2. Indirect Taxes	12186	17858	16785	37.74	93.99
2.1 Domestic Taxes	3997	5056	5092	27.40	100.71
2.2 Foreign Trade Taxes	8189	12802	11693	42.79	91.34
Import	8189	12802	11693	42.79	91.34
Export	0	0	0		
3. Non-Tax Revenue	4444	8891	5993	34.86	67.41
3.1 Charges and Fees	342	461	421	23.10	91.32
3.2 Govt. Invt. Income 3/	2682	3255	3661	36.50	112.47
3.3 Reimb. And Property Sales	168	2883	355	111.31	12.31
3.4 Sales of Goods & Services	250	720	389	55.60	54.03
3.5 Others 4/	1001	1572	1166	16.48	74.17
4. Grants	7583	10553	9911	30.70	93.92

Source: Ministry of Finance and Economic Development (MoFED)

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/ Government investment income includes residual surplus, capital charge, interest payments and state dividend

4/Includes extraordinary, miscellaneous and pension contribution

7.3 Expenditure

Total general government expenditure amounted to Birr 46.9 billion in 2007/08 which was 31.8 percent higher than in 2006/07 due to both increased recurrent and capital expenditures.

Recurrent expenditure reached Birr 22.8 billion, showing a 32.8 percent increase over last fiscal year and its share in the total expenditure stood at 48.6 percent and its performance rate at 91.8 percent of the annual budget.

Capital expenditure at Birr 24.1 billion depicted a 31 percent growth vis-à-vis 2006/07 exclusively due to higher disbursements for economic development programs.

Accordingly, its share in total general government expenditure reached 51.4 percent.

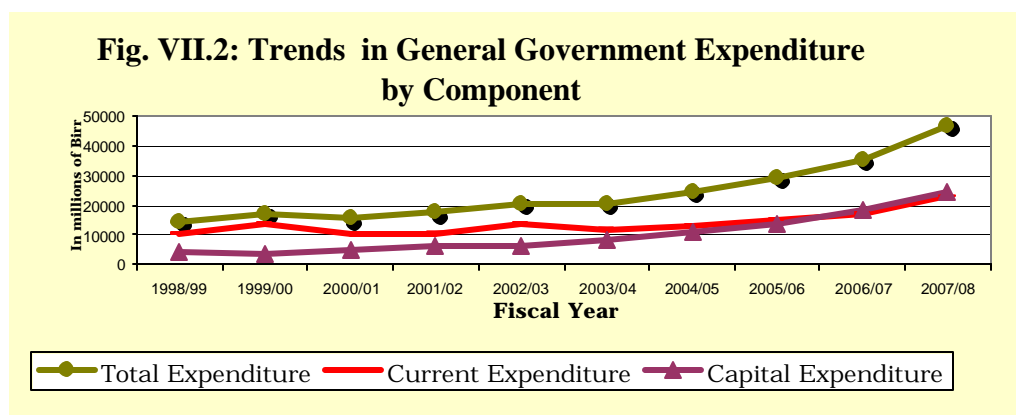
Table 7.3: Summary of General Government Expenditure

(In Millions of Birr)

Particulars	2006/07	2007/08		Percentage Change	Performance Rate
	[A]	[B]	[C]	[C/A]	[C/B]
	Pre. Act	Revised Budget	Pre. Act		
Total Expenditure	35,607	52,495	46,915	31.8	89.4
1. Current Expenditure	17,166	24,843	22,794	32.8	91.8
<i>General Services</i>	7,073	8,571	9,128	29.1	106.5
<i>Economic Services</i>	2,201	3,312	3,111	41.3	93.9
<i>Social Services</i>	6,198	8,843	8,662	39.8	98.0
<i>Interest and Charges</i>	1,207	1,540	1,133	-6.1	73.6
<i>External Assistance^{1/}</i>	411	450	401	-2.4	89.1
<i>Others (miscellaneous)</i>	76	2,126	359	372.4	16.9
2. Capital Expenditure	18,398	27,653	24,121	31.1	87.2
Economic Development	11,367	20,313	17,729	56.0	87.3
Social Development	5,998	6,203	5,426	-9.5	87.5
General Development	1,033	1,137	966	-6.5	85.0
3. Special programs	44	0	0	-100.0	

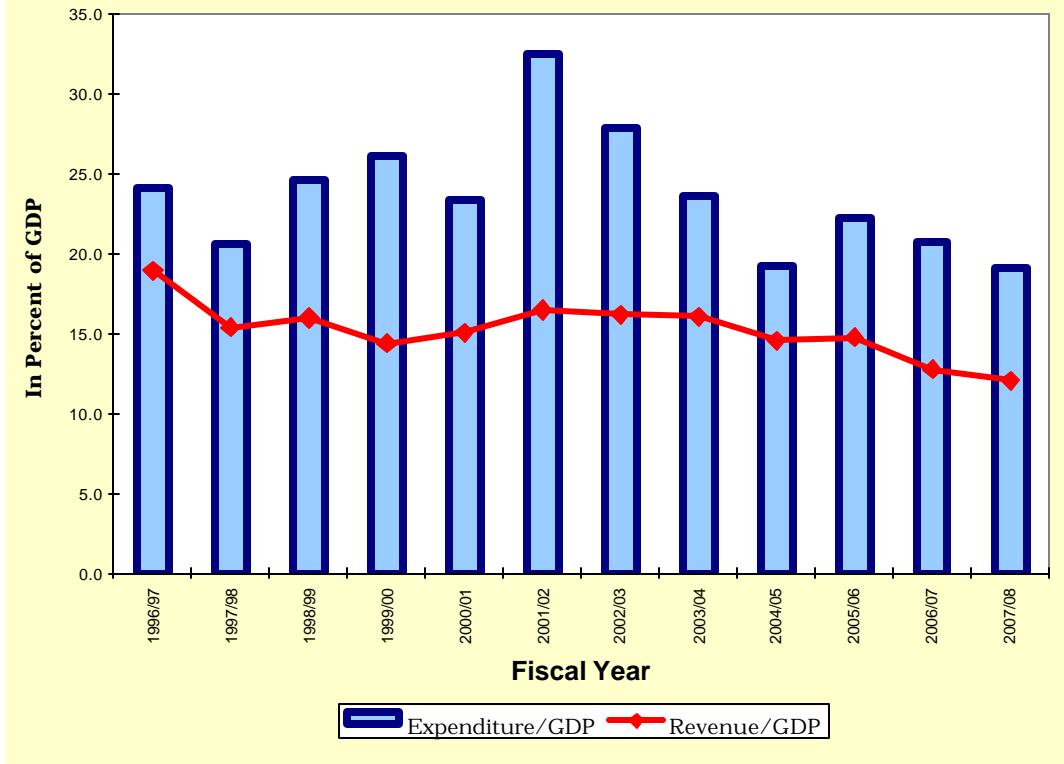
Source: MoFED

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



Source: MoFED and NBE Staff Computation

Fig. VII.3 Trends in General Government Expenditure and Revenue (% of GDP)



Source: MoFED and NBE Staff Computation

7.4 Deficit Financing

General government budgetary operations, including external grants, resulted in an overall deficit of Birr 7.2 billion in 2007/08. This was 15.8 percent higher than Birr 6.2 billion deficit recorded in the preceding year. The deficit was financed by domestic

borrowing, privatization proceeds, net external borrowing and others as well as residuals. The ratio of fiscal deficit to GDP was 2.9 percent compared to 3.6 percent a year earlier.

Table 7.4 Summary of General Government Finance

(In Millions of Birr)

Particulars	2006/07	2007/08		Percentage Change	Performance Rate
	[A]	[B]	[C]		
	Pre. Act	Revised Budget	Pre Act.	[C/A]	[C/B]
Revenue and Grants	29380	43890	39705	35.1	90.5
Revenue	21797	33337	29794	36.7	89.4
Grants	7583	10553	9911	30.7	93.9
Total Expenditure	35607	52495	46915	31.8	89.4
Current Expenditure	17165	24843	22794	32.8	91.8
Capital Expenditure	18398	27652	24121	31.1	87.2
Special Programs	44	0	0	-100.0	
Overall Surplus/ Deficit					
(Including Grants)	-6227	-8605	-7210	15.8	83.8
(Excluding Grants)	-13810	-19158	-17121	24.0	89.4
Total Financing	6227	8605	7210	15.8	83.8
Net External Borrowings	1912	3463	2396	25.3	69.2
Gross Borrowing	1774	2887	1810	2.0	62.7
o/w Special Programs	290	0	0	-100.0	
Amortization Paid	919	416	402	-56.3	96.6
HIPC relief & MDRI	1057	992	988	-6.5	99.6
Net Domestic Borrowings	6247	4475	6400	2.4	143.0
Banking System	4259	4475	3879	-8.9	86.7
Non-Banking Systems	1988	0	2521	26.8	
Privatization Receipts	0	667	1008		151.1
Others and Residuals	-1932	0	-2594	34.3	

Source: MoFED