

## VI. FEDERAL GOVERNMENT FINANCE

During the second quarter of the current fiscal year, Federal government finance depicts a surplus in the overall fiscal balance (including grants) to the tune of Birr 96.9 million. This was mainly due to the disbursement of World Bank budget support grant and increase in revenue during the quarter. The Birr 37.53 million revenue generated during the second quarter of the current fiscal year was higher by 47 percent and 26 percent vis-à-vis the preceding quarter and the same period of last year, respectively. In addition, the review quarter registered CPF grants amounting to Birr 1564 million, in contrast to the preceding quarter where no grants was received. The quarterly government expenditure was lower by 3.9 percent and higher by 20 percent vis-a vis the preceding quarter and the same period of last year, respectively. In a related development, current surplus (which is the difference between total revenue and current expenditure) was higher by 145.8 percent and 39.2 percent compared to the preceding quarter and the same period last year, respectively, mainly due to a surge in revenue generation. In the review period, revenue and grants accounted for about 37.2 percent of the annual budget. On the other hand, the quarterly expenditure accounted for 21.7 percent of the annual expenditure budget.

**Table VI.1 Summary of Federal Government Finance \***

(In million Birr)

No.	Particles	2003/04	2004/05 (1997)			Percentage Change		Performance Rate
		QII	Budget	QI	QII	D/C	D/A	
		A	B	C	D	D/C	D/A	
1	Revenue and Grants (1.1+1.2)	3137	14284	2544	5316.9	109.0	69.5	37.2
1.1	Total Revenue	2975	12773	2544	3753	47.5	26.1	29.4
	Tax Revenue	2662	9850	2311	2633	13.9	-1.1	26.7
	Non-Tax Revenue	313	2923	233	1120	381.0	258.0	38.3
1.2	Grants	162	1511	0.0	1563.9		865.4	103.5
2	Current Expenditure	1215	7150	1547.0	1301.6	-15.9	7.1	18.2
3	Current Surplus/Deficit (1.1-2)	1761	5623	997.2	2451.2	145.8	39.2	43.6
4	Capital Expenditure <sup>2</sup>	1196	6523	1554.8	1482.4	-4.7	24.0	22.7
5	Regional Transfers	1090	5556	1371.5	1535.2	11.9	40.8	27.6
6	Special Program	127	767	51.4	28.1	-45.3	-77.8	3.7
7	Total Expenditure <sup>1</sup> (2+4+5+6)	3627	19996	4524.7	4347.4	-3.9	19.9	21.7

8	Overall Surplus/Deficit							
	(Including Grants) (1-7)	-490	-5712	-1980.5	969.4	-148.9	-297.7	-17.0
	(Excluding Grants) (1.1-7)	-652	-7223	-1980.5	-594.6	-70.0	-8.8	8.2
9	Total Financing	490	5712	1980.5	-969.4	-148.9	-297.7	-17.0
9.1	Net External Borrowings	521	4204	483.6	511.2	5.7	-1.9	12.2
	External Borrowing	451	1778	464.3	274.5	-40.9	-39.1	15.4
	Counter Part Fund	0	1750	0.0	0.0			0.0
	Special program	152	767	81.2	26.7	-67.1	-82.4	3.5
	HIPC relief	91	713	175.3	124.6	-28.9	36.8	17.5
	Amortization Paid	173	-804	-237.2	-201.4	-15.1	-216.3	25.0
9.2	Net Domestic Borrowings	54	1508	887.0	-1627.4	-283.5	-3113.7	-107.9
	Banking System	-221	1508	843.0	-1776.0	-310.7	703.6	-117.8
	Non-Bank Sources	275	0	44.0	148.6	237.7	-46.0	
9.3	Privatization Receipts	0	0	0.0	0.0			
9.4	Others and Residuals	-85	0	609.9	146.8	-75.9	-273.5	

**Source:** Ministry of Finance and Economic Development

1/ All expenditures from domestic sources are authorized payments.

2/ Excludes external technical assistance.

## 6.1 Revenue and Grants

Total revenue and grants mobilized by the Federal Government during the review quarter was Birr 5317 million, out of which about 49.5 percent was collected from taxes, 21 percent from non-tax and 29.4 from CPF grants. A CPF grant of Birr 1564 million was received during the review period.

**Table VI. 2 Summary of Federal Government Revenue by Component**  
(In Millions Of Birr)

Particulars	2003/04	2004/05 (1997)			Percentage Change		Performance Rate
	QII	Budget	QI	QII			
	A	B	C	D	D/C	D/A	
Total Revenue and Grants	3136.2	14284	2544.2	5316.8	109.0	69.5	37.2
Total Domestic Revenue	2974.7	12773	2544.2	3752.9	47.5	26.2	29.4
1 Tax Revenue	2661.8	9850.4	2311.3	2632.6	13.9	-1.1	26.7
1.1 Direct Tax Revenue	531.2	2627.3	403.3	748.0	85.5	40.8	28.5
1.1.1 Income Taxes	414	2265.4	317.1	665.5	109.9	60.7	29.4
- Personal	72.8	325.4	80.2	111.0	38.4	52.5	34.1
- Business	341.2	1940	236.9	554.5	134.1	62.5	28.6
1.1.2 Others <sup>1</sup>	117.13	361.9	86.2	82.5	-4.3	-29.6	22.8
1.2. Indirect Taxes	2130.6	7223.1	1908	1884.6	-1.2	-11.5	26.1
2. 2.1 Domestic Taxes	419.1	2197.5	516.1	441.3	-14.5	5.3	20.1
2. 2.2 Foreign Trade Taxes	1712.3	5025.6	1391.9	1443.3	3.7	-15.7	28.7
- Import	1712.3	5025.6	1391.9	1443.2	3.7	-15.7	28.7
- Export	0	0	0	0.1			
2. Non-Tax Revenue	312.9	2922.5	232.9	1120.3	381.0	258.0	38.3
O/W Dividend	0	400	27.2	250.0	819.1		62.5
3. CPF Grants	161.5	1511	0	1563.9		868.4	103.5

**Source:** Ministry of Finance and Economic Development

\* Preliminary Actual

1/ Others include rental, with holding tax and interest income

Total domestic revenue mobilized during the first quarter of 2004/05 was 47.5 and 26.1 percent higher than that in the preceding quarter and the same period last year, respectively. The surge in domestic revenue was the combined effect of higher income tax and non-tax collections.

Meanwhile, the review quarter tax revenue was higher by 13 percent over the previous quarter while it recorded a decline of merely 1 percent against the revenue collected in the same period of the previous year. Of the total tax revenue, direct taxes, which comprises of personal and business income taxes as well as rental, withholding and interest income taxes, accounted for Birr 748.0 million (28.4 percent). At the same time indirect taxes, which consist of taxes from domestic and foreign trade reached Birr 1884.6 million (or 71.6 percent) in contrast to Birr 1908 million (82.6 percent share) in the previous quarter.

## 6.2 Expenditure

Total Federal Government expenditure during the first quarter amounted to Birr 4347.4 million. Of this sum, current expenditure, which covers outlays for general government services, economic services, social services, debt service and others, reached Birr 1301.6 million accounting for about 29.9 percent of the total Federal Government expenditure during the review quarter. Meanwhile, various development programs took up 21.7 percent of the total expenditure. Regional transfers accounted for 36.9 percent and special programs, such as demobilization and reconstruction projects, about 0.1 percent.

**Table VI. 3 Summary of Federal Government Expenditure by Component**

(In Millions of Birr)

Particulars	2003/04 (1996)	2004/05 (1997)			Percentage Change		Performance Rate
	QII	Budget	QI	QII	D/A	D/B	
	A	C	B	D	D/A	D/B	D/C
Total Expenditure <sup>1</sup>	1172.0	19996.0	4524.6	1303.3	11.2	-71.2	6.5
1. Current Expenditure	408.7	7150.0	1546.9	537.8	31.6	-65.2	7.5
- General Services	237.9	3732.9	1136.4	306.8	29.0	-73.0	8.2
- Economic Services	25.3	406.4	64.3	27.7	9.4	-56.9	6.8
- Social Services	44.1	806.5	130.9	60.7	37.7	-53.6	7.5
- Debt Service	92.4	1567.0	204.7	137.6	48.9	-32.8	8.8
-Contingency and Others	9.0	637.2	10.6	5.0	-44.4	-52.8	0.8
2. Capital Expenditure <sup>2</sup>	384.6	6523.2	1554.8	283.2	-26.4	-81.8	4.3
- Economic Development	171.3	4635.9	1063.1	198.5	15.8	-81.3	4.3
- Social Development	183.4	1670.1	372.3	69.5	-62.1	-81.3	4.2

- General Development	30.0	217.2	119.4	15.3	-49.0	-87.2	7.0
3. Regional Transfers	373.5	5555.8	1371.5	480.4	28.6	-65.0	8.6
4. Special Programs	5.2	767.0	51.4	1.9	-63.5	-96.3	0.2

Compared to the preceding quarter, total Federal Government expenditure decreased by 3.9 percent owing to the fall in both current and capital expenditure (15.9 and 4.7 percent, respectively). On the other hand, total expenditure went up by 20 percent vis-à-vis the same period last year due to increased outlays for all components of total expenditure except special program.

### 6.3 Deficit Financing

In the review quarter, the Federal Government fiscal operations resulted in a current surplus including grants of over Birr 969 million in contrast to Birr 1980.5 million deficit registered in the preceding quarter.

Net external borrowings stood at Birr 511.2 million which was higher by 5.7 percent as compared to that in the preceding quarter. On the other hand, net domestic borrowing amounted to Birr -1627.4 million indicating government repayment of debt to the banking system.