

VI. FEDERAL GOVERNMENT FINANCE

Federal government finance depicted a quarterly deficit in the overall fiscal balance (including grants) to the tune of Birr 2044.0 million. The Birr 2328.6 million revenue generated during the third quarter of the current fiscal year was lower by 38.0 percent and 23.5 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 520.5 million, which was lower by 66.7 percent against the preceding quarter. The quarterly government expenditure was higher by 11.8 percent and 6.9 percent relative to 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 75.5 percent and 60.4 percent lower than that of the preceding quarter and the same period last year, respectively.

In the review period, revenue and grants realized accounted for about 18.8 percent of the annual budget. On the other hand, the quarterly expenditure amounted to 24.3 percent of the total annual expenditure budget of the federal government.

Table VI.1 Summary of Federal Government Finance

(In million Birr)

No.	Particles	2003/04	2004/05			Percentage Change		Performance Rate
		QIII	Budget	QII	QIII	D/C	D/A	D/B
		A	B	C	D			
1	Revenue and Grants (1.1+1.2)	4679.0	14919	5316.9	2814.23	-47.1	-39.9	18.8
1.1	Total Revenue	3045.0	13118	3753	2328.6	-38.0	-23.5	17.8
	Tax Revenue	2122.0	9850	2633	2328.6	-11.6	9.7	23.6
	Non-Tax Revenue	923	2923	1120	0.0			
1.2	Grants	1634	1511	1563.9	520.5	-66.7	-68.1	34.4
2	Current Expenditure	1525	7150	1301.6	1726.9	32.7	13.2	24.2
3	Current Surplus/Deficit (1.1-2)	1520	5623	2451.2	601.6	-75.5	-60.4	10.7
4	Capital Expenditure ²	1511	6523	1482.4	2007.9	35.5	32.9	30.8
5	Regional Transfers	1458	5556	1535.2	1113.2	-27.5	-23.7	20

6	Special Program	52	767	28.1	10.3	-63.4	-80.2	1.3
7	Total Expenditure ¹ (2+4+5+6)	4545	19996	4347.4	4858.3	11.8	6.9	24.3
8	Overall Surplus/Deficit							
	(Including Grants) (1-7)	134	-5712	969.4	-2044.1	-310.9	-1625.4	35.8
	(Excluding Grants) (1.1-7)	-1501	-7223	-594.6	-2564.6	331.3	70.9	35.5
9	Total Financing	-134	5712	-969.4	2044.1	-310.9	-1625.4	35.8
9.1	Net External Borrowings	554	4204	511.2	443.7	-13.2	-19.9	10.6
	External Borrowing	415	1778	274.5	427.8	55.8	3.1	24.1
	Counter Part Fund	12	1750	0	197.1			102.7
	Special program	165	767	26.7	2.16	-91.9	-98.7	0.3
	HIPC relief	208	713	124.6	276.6	122	33	38.8
	Amortization Paid	-246	-804	-201.4	-262.9	30.5	6.9	32.7
9.2	Net Domestic Borrowings	-243	1508	-1627.4	-63.2	-96.1	-74	4.2
	Banking System	-341	1508	-1776	-246.2	-86.1	-27.8	16.3
	Non-Bank Sources	98	0	148.6	182.9	23.1	86.7	
9.3	Privatization Receipts	0	0	0	0			
9.4	Others and Residuals	-444	0	146.8	1611.7	997.9	-463	

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 2814 million, out of which about 82 percent was collected from taxes, 18 percent from CPF grants.

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

Particulars	2003/04	2004/05 (1997)			Percentage Change		Performance Rate
	QIII	Budget	QII	QIII	E/D	E/A	E/B
	A	B	D	E			
Total Revenue and Grants	4679.0	14919	5316.8	2814.1	-47.1	-39.2	19.7
Total Domestic Revenue	3045.0	13118	3752.9	2328.57	-38	-22.2	17.8
1 Tax Revenue	2122.2	9850.4	2632.6	2328.57	-11.6	9.7	23.6
1.1 Direct Tax Revenue	261.8	2627.3	748	289.2	-61.3	10.5	11
1.1.1 Income Taxes	169.7	2265.4	665.5				
- Personal	68.0	325.4	111				
- Business	101.7	1940	554.5				
1.1.2 Others ¹	92.1	361.9	82.5				
1.2. Indirect Taxes	1860.5	7223.1	1884.6	2039.2	8.2	9.6	28.2
2. 2.1 Domestic Taxes	483.6	2197.5	441.3	571.48	29.5	18.2	26
2. 2.2 Foreign Trade Taxes	1376.9	5025.6	1443.3	1468.3	1.7	6.6	29.2
- Import	1376.9	5025.6	1443.2	1468.3	1.7	6.6	29.2
- Export	0.0	0	0.1	0.1	0		
2. Non-Tax Revenue	871.8	2922.5	1120.3				
O/W Dividend	500.9	400	250				
3. CPF Grants	1634.4	1511	1563.9				

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 third quarter of 2004/05 was 38.0 and 22.2 percent lower than that in the preceding quarter and the same period last year, respectively. The fall in domestic revenue was mainly due to lower tax collections during the review period.

As indicated in Table VI.2, the review quarter tax revenue was down by 11.6 percent over the previous quarter while it recorded a 9.7 increment percent against the revenue collected a year earlier. Of the total tax revenue, direct taxes, which comprise of personal and business income taxes as well as rental, withholding and interest income taxes, accounted for Birr 289.2 million (10.3 percent). At the same time, indirect taxes, which consist of taxes from domestic and foreign trade, reached Birr 2039.2 million (or 87.6 percent) in contrast to Birr 1884.6 million (71.6 percent share) in the previous quarter.

6.2 Expenditure

The third quarter witnessed a total Federal Government expenditure amounted to Birr 4858.3 Million. Of this sum, current expenditure, reached Birr 1726.9 million accounting for about 35.4 percent of the total Federal Government expenditure during the review quarter. Meanwhile, various development programs absorbed 41%, regional transfers 22.9% and special programs (such as demobilization and reconstruction projects) 0.2 percent of the total expenditure.

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
	QIII	Budget	QII	QIII	D/C	D/A	
	A	B	C	D			D/B
Total Expenditure ¹	4545.5	19996	4347.4	4858.3	11.8	6.9	24.3
1. Current Expenditure	1524.6	7150	1301.6	1726.9	32.7	13.3	24.2
- General Services	861.2	3732.9	769.7	1022.8	32.9	18.8	27.4
- Economic Services	164.3	406.4	76.7	54	-29.6	-67.1	13.3

- Social Services	163.9	806.5	182.4	191.1	4.8	16.6	23.7
- Debt Service	314.5	1567	273.3	262.3	-4.0	-16.6	16.7
-Contingency and Others	20.6	637.2		196.8		855.3	30.9
2. Capital Expenditure ²	1511.1	6523.2	1482.4	2007.9	35.4	32.9	30.8
- Economic Development	1130	4635.9	1039.9	1676.7	61.2	48.4	36.2
- Social Development	296.5	1670.1	361.6	430.5	19.1	45.2	25.8
- General Development	84.5	217.2	81				
3. Regional Transfers	1458.2	5555.8	1535.2	1113.2	-27.5	-23.7	20.0
4. Special Programs	51.6	767	28.1	10.3	441.1	-80.0	1.3

Source: Ministry of Finance and Economic Development

Compared to the preceding quarter, total Federal Government expenditure increased by 11.8 percent, owing to the rise in both current and capital expenditure (32.7 and 35.5 percent, respectively). Year-on- year basis, total expenditure went up by 6.9 percent due to increased outlays for all components of government expenditure.

6.3 Deficit Financing

In the review quarter, the Federal Government fiscal operations resulted in a current of Birr 601.6 million in contrast to Birr 2451.2 million in the preceding quarter. The over all deficit (including grants), however reached Birr 2044.1 million which exceeded the Birr 969.4 million surplus a quarter earlier.

This large deficit was covered through net external borrowings which stood at Birr 443.7 million, which was lower by 13.2 percent as compared to that in the preceding quarter. On the other hand, net domestic borrowing amounted to Birr -63.2 million indicating government repayment of debt to the banking system.