

## **FEDERAL GOVERNMENT FINANCE**

During the second quarter of 2006/07, overall fiscal balance (including grants) of the Federal Government exhibited overall deficit of Birr 475.2 million, which was lower by 60.6 percent compared to a deficit of Birr 1205.3 million in the preceding quarter. The review quarter fiscal deficit was also 14.8 percent lower than Birr 557.5 million deficit of the same period of last fiscal year.

In the quarter under review, total revenue and grants went up by about 30 percent to Birr 6223.3 million from Birr 4549.5 million in the preceding quarter. Year-on-year basis, total revenue and grants soared by 36.8 percent. In a related development,

an increase in the Federal Government expenditure was also observed both on quarterly and annual bases. The review period Federal Government expenditure was 16.4 percent and 25.4 percent higher than the preceding quarter and the same quarter of last fiscal year, respectively.

Meanwhile, there was improvement in the current surplus (the difference between domestic revenue and current expenditure), both on quarterly (74.5 percent) and annual bases (44.8 percent) signifying better revenue mobilization efforts from domestic sources which resulted in a current surplus to finance development projects.

Table 6.1 Summary of Federal Government Finance

(In millions of Birr)

No	Particulars	2005/06	2006/07		Percentage Change		Performance Rate	
		QII	Budget	QI	QII	[D/A]	[D/C]	[D/B]
		[A]	[B]	[C]	[D]			
<b>1</b>	<b>Revenue and Grants (1.1+1.2)</b>	<b>4783.3</b>	<b>24551.0</b>	<b>4549.1</b>	<b>6223.3</b>	<b>30.1</b>	<b>36.8</b>	<b>25.3</b>
<b>1.1</b>	<b>Total Revenue</b>	<b>4563.5</b>	<b>18994.0</b>	<b>3798.6</b>	<b>5432.0</b>	<b>19.0</b>	<b>43.0</b>	<b>28.6</b>
	Tax Revenue	3149.4	14646.0	3241.1	3666.5	16.4	13.1	25.0
	Non-Tax Revenue	1414.1	4348.0	557.4	1765.5	24.8	216.7	40.6
<b>1.2</b>	<b>PBS Grant &amp; Relief</b>	<b>219.8</b>	<b>5557.0</b>	<b>750.5</b>	<b>791.3</b>	<b>260.0</b>	<b>5.4</b>	<b>14.2</b>
<b>2</b>	<b>Current Expenditure</b>	<b>1776.6</b>	<b>8282.0</b>	<b>1485.6</b>	<b>1396.6</b>	<b>-21.4</b>	<b>-6.0</b>	<b>16.9</b>
<b>3</b>	<b>Current Surplus/Deficit (1.1-2)</b>	<b>2786.9</b>	<b>10712.0</b>	<b>2313.0</b>	<b>4035.4</b>	<b>44.8</b>	<b>74.5</b>	<b>37.7</b>
<b>4</b>	<b>Capital Expenditure<sup>2</sup></b>	<b>1237.7</b>	<b>12557.0</b>	<b>2424.0</b>	<b>2526</b>	<b>104.1</b>	<b>4.2</b>	<b>20.1</b>
<b>5</b>	<b>Regional Transfers</b>	<b>2313.5</b>	<b>9056.0</b>	<b>1830.0</b>	<b>2759.4</b>	<b>19.3</b>	<b>50.8</b>	<b>30.5</b>
<b>6</b>	<b>Special Program</b>	<b>13</b>	<b>0</b>	<b>14.8</b>	<b>16.5</b>	<b>26.9</b>	<b>11.5</b>	<b>0.0</b>
<b>7</b>	<b>Total Expenditure<sup>1</sup> (2+4+5+6)</b>	<b>5340.8</b>	<b>29895.0</b>	<b>5754.4</b>	<b>6698.5</b>	<b>25.4</b>	<b>16.4</b>	<b>22.4</b>
<b>8</b>	<b>Overall Surplus/Deficit</b>							
	<i>(Including Grants) (1-7)</i>	<b>5340.8</b>	-5344.0	-1205.3	-475.2	-14.8	-60.6	8.9
	<i>(Excluding Grants) (1.1-7)</i>	-777.3	-10901.0	-1955.8	-1266.5	62.9	-35.2	11.6
<b>9</b>	<b>Total Financing</b>	<b>548.3</b>	<b>5344.0</b>	<b>1205.4</b>	<b>475.2</b>	<b>-13.3</b>	<b>-60.6</b>	<b>8.9</b>
<b>9.1</b>	<b>Net External Borrowings</b>	<b>336.5</b>	<b>1348.0</b>	<b>292.6</b>	<b>182.8</b>	<b>-45.7</b>	<b>-37.5</b>	<b>13.6</b>
	External Borrowing	193.9	2308.0	501.8	291.9	<b>50.5</b>	<b>-41.8</b>	<b>12.6</b>
	Counter Part Fund	0	0	0				
	Special program	128.5	0	95.5	72.5	-43.6	-24.1	
	Amortization Paid	205.7	960.0	304.8	181.6	-11.7	-40.4	18.9
<b>9.2</b>	<b>Net Domestic Borrowings</b>	<b>-114.2</b>	<b>3996.0</b>	<b>1429.1</b>	<b>-1941.8</b>	<b>1600.4</b>	<b>-235.9</b>	<b>-48.6</b>
	Banking System	176.7	3996.0	1311.4	-2277.6	-1389.0	-273.7	-57.0
	Non-Bank Sources	-290.9	0	117.7	335.8	-215.4	185.3	
<b>9.3</b>	<b>Privatization Receipts</b>	<b>-30.9</b>	<b>0</b>	<b>0</b>		<b>-100.0</b>		
<b>9.4</b>	<b>Others and Residuals</b>	<b>295.1</b>	<b>0</b>	<b>-516.3</b>	<b>2234.2</b>	<b>657.1</b>	<b>-532.7</b>	

Source: Ministry of Finance and Economic Development

## 6.1 Revenue and Grants

A total of Birr 6.22 billion revenue and grants was mobilized during the second quarter of 2006/07. Of this sum, 58.9 percent was from tax, 28.4 percent from non-tax and the remaining 12.7 percent from CPF grant. The amount of CPF grant

of this quarter was significantly higher than the same period of last fiscal year, due to increased PBS funding. The review quarter revenue and grants performance represented 25.3 percent of the annual budget.

**Table 6. 2 Summary of Federal Government Revenue by Component**

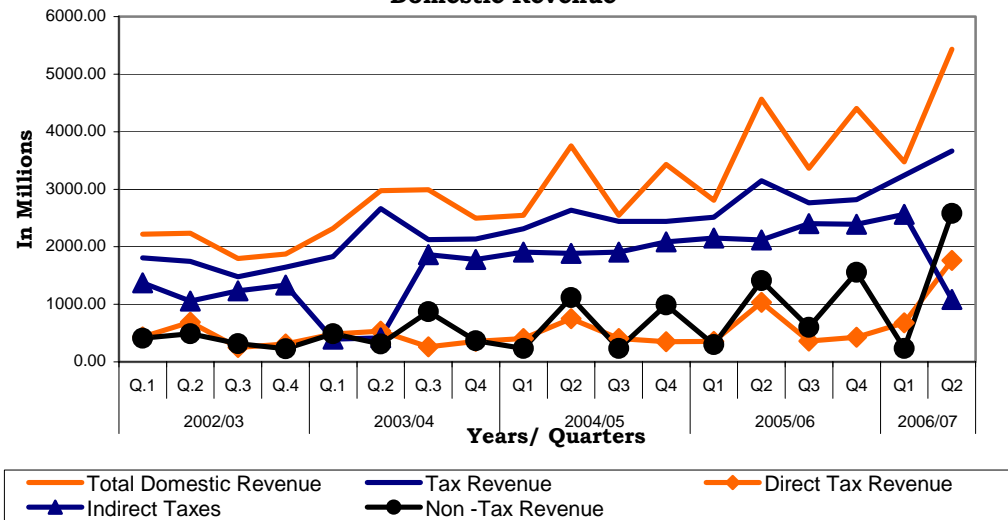
(In Millions Of Birr)

Particulars	2005/06	2006/07			Percentage Change		Performance Rate
	Qtr. II	Budget	Qtr. I	QII	[D/A]	[D/C]	
	[A]	[B]	[C]	[D]		[D/B]	
<b>Total Revenue and Grants</b>	<b>4783.3</b>	<b>24551.0</b>	<b>4549.1</b>	<b>6223.3</b>	<b>30.1</b>	<b>36.8</b>	<b>25.3</b>
<b>Total Domestic Revenue</b>	<b>4563.5</b>	<b>18994.0</b>	<b>3798.6</b>	<b>5432.0</b>	<b>19.0</b>	<b>43.0</b>	<b>28.6</b>
<b>1 Tax Revenue</b>	<b>3149.4</b>	<b>14645.0</b>	<b>3241.1</b>	<b>3666.4</b>	<b>16.4</b>	<b>13.1</b>	<b>25.0</b>
<b>1.1 Direct Tax Revenue</b>	<b>1031.6</b>	<b>2857</b>	<b>677.4</b>	<b>1084.9</b>	<b>5.2</b>	<b>60.2</b>	<b>38.0</b>
1.1.1 Income Taxes	939.1	2264	547.2	943.8	0.5	72.5	41.7
- Personal	115.6	598	121.9	128.0	10.8	5.0	21.4
- Business	823.5	1666	425.3	815.8	-0.9	91.8	49.0
1.1.2 Others <sup>1</sup>	92.5	593	130.2	141.06	52.5	8.3	23.8
<b>1.2. Indirect Taxes</b>	<b>2117.8</b>	<b>11788</b>	<b>2563.7</b>	<b>2581.5</b>	<b>21.9</b>	<b>0.7</b>	<b>21.9</b>
2. 2.1 Domestic Taxes	566.5	3551	705.1	719.92	27.1	2.1	20.3
2. 2.2 Foreign Trade Taxes	1551.3	8237	1858.6	1861.6	20.0	0.2	22.6
- Import	1551.3	8237	1858.6	1861.6	20.0	0.2	22.6
- Export	0						
<b>2. Non-Tax Revenue</b>	<b>1414.1</b>	<b>4348</b>	<b>557.4</b>	<b>1765.5</b>	<b>24.9</b>	<b>216.7</b>	<b>40.6</b>
O/W Dividend	2.7	1500	372.3	1000.3	36949	168.7	66.7
<b>3. PBS Grant and Relief</b>	<b>219.8</b>	<b>5557</b>	<b>750.5</b>	<b>791.3</b>	<b>260</b>	<b>5.4</b>	<b>14.2</b>

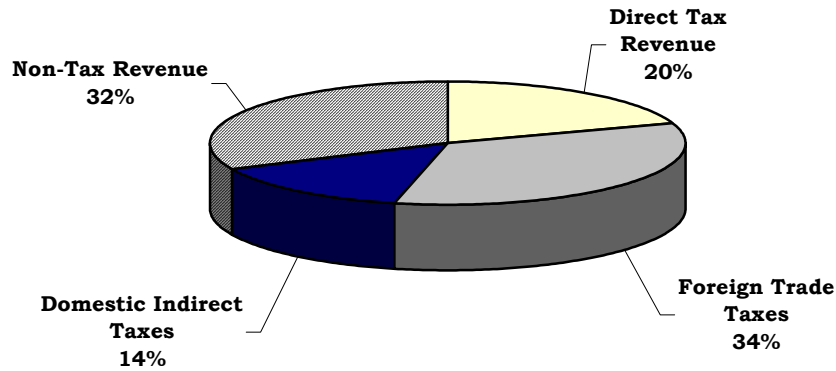
Source: Ministry of Finance and Economic Development

1/'Others' include rental, withholding tax and interest income

**Fig. VI.1 Quarterly Developments in Major Components of Domestic Revenue**



**Fig.VI.2 Domestic Revenue (by Major Components) During the First Quarter of 2006/07**



Total domestic revenue collected in the second quarter of 2006/07 was 36.8 percent and 30.1 percent higher than the revenue mobilized in the preceding quarter and a year earlier, respectively.

Tax revenue was up by 13.1 percent over the previous quarter and by 16.4 percent against the same period a year earlier. The review period tax revenue originated mainly from indirect taxes accounting for 70 percent of total tax revenues. The pick-up in tax revenue signifies the improvements witnessed in tax collection system of the country.

Revenue from indirect taxes increased by a respective 0.7 percent and 21.9 percent vis-à-vis the previous quarter and the same quarter of last year. Direct tax revenues, which mostly comprise personal and business income taxes, also rose to Birr 1084.9 million, exhibiting a significant improvement over the level of last quarter ( about 60.2) and of a year ago (5.2 percent). Non-tax revenues have also exhibited remarkable increase as dividend to the government from public enterprises tended to pick up. PBS grants have continued to flow in from donors such as the World Bank and DFID.

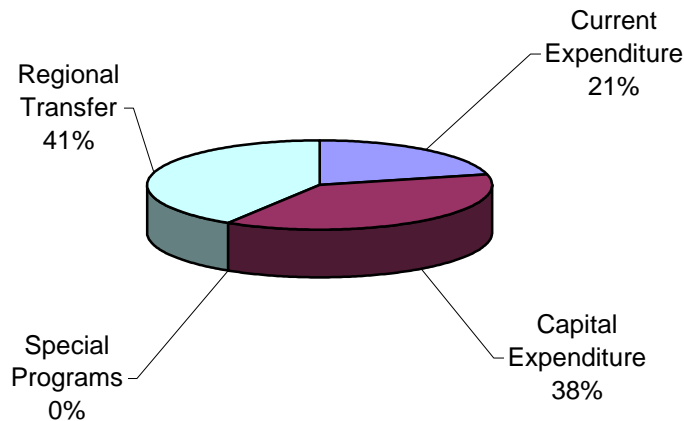
## 6.2 Expenditure

Total Federal Government expenditure, including regional transfers and special programs, stood at Birr 6698.6 million during the period under review, 16.4 percent and 25.4 percent higher than the previous quarter and the same period last year, respectively. This was attributed to the increase in regional transfers (by 50.8 percent), special programs (by 11.5 percent) as well as capital expenditure (by 4.2 percent), which outweighed the

decrease in recurrent expenditure by 6 percent.

Of the quarterly total expenditure, Birr 1396.7 million (or about 21 percent) went to finance current expenditure and Birr 2526 million (or 37.8 percent) to carryout various development programs. Regional transfers and special programs constituted 41 and 0.2 percent of the Federal Government expenditures of the quarter. The quarterly expenditure performance rate was 22.4 percent.

**Fig VI.3: Major Components of Federal Government Expenditure During the Second Quarter of Fiscal Year 2006/07**

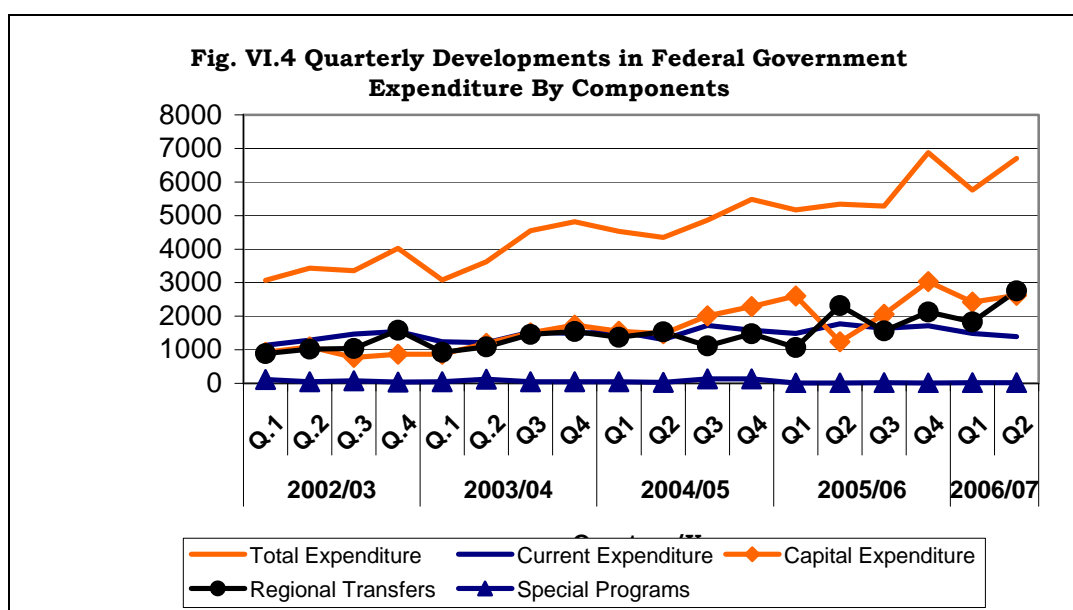


**Table 6. 2 Summary of Federal Government Expenditure by Component**

(In Millions Of Birr)

Particulars	2005/06	2006/07			Percentage Change		Performance Rate
	<i>QII</i>	Budget	<i>QI</i>	<i>QII</i>	<i>[D/A]</i>	<i>[D/C]</i>	<i>[D/B]</i>
	<i>[A]</i>	<i>[B]</i>	<i>[C]</i>	<i>[D]</i>			
<b>Total Expenditure</b>	5340.8	29895	5754.5	6698.5	25.4	16.4	22.4
<b>1. Current Expenditure</b>	1776.6	8282	1485.6	1396.7	-21.4	-6.0	16.9
- General Services	1122.37	4095	915	739.8	-34.1	-19.1	18.1
- Economic Services	78	512	83.6	83.8	7.5	0.3	16.4
- Social Services	182.8	1321	229.7	289.5	58.4	26.0	21.9
- Debt Service	251.2	1481	249.5	277.3	10.4	11.1	18.7
-Contingency and Others	142.3	872	7.7	6.2	-95.6	-19.5	0.7
<b>2. Capital Expenditure</b>	1237.7	12557	2424	2526	104.1	4.2	20.1
- Economic Development	803.8	8966	2050.1	1761.2	119.1	-14.1	19.6
- Social Development	376.1	2977	332.5	689.2	83.2	107.3	23.2
- General Development	57.8	615	41.4	75.6	30.8	82.6	12.3
<b>3. Regional Transfers</b>	2313.5	9056	1830	2759.4	19.3	50.8	30.5
<b>4. Special Programs</b>	13	0	14.8	16.5	26.9	11.5	

Source: Ministry of Finance and Economic Development



### 6.3 Deficit Financing

Federal Government's budgetary operations resulted in an overall deficit (including grant) of Birr 475.2 million, which was significantly lower than the preceding quarter and that of the same

period last year. Net external borrowing financed the fiscal deficit and other sources with about Birr 1941.8 million net repayments to domestic sources.

