

## VI. FEDERAL GOVERNMENT FINANCE

Overall fiscal balance (including grants) of the Federal Government depicted a deficit of Birr 1767.1 million during the third quarter of 2006/07. This figure was higher by more than threefold compared to Birr 475.2 million deficit in the preceding quarter, but 3.3 percent lower than the deficit in the same period of last fiscal year, which was Birr 1827.1 million.

In the review quarter, total revenue and grants fell to Birr 4369.7 million from Birr

6223.3 million in the preceding quarter. Year on year basis, however, total revenue and grants went up by 26.6 percent.

Meanwhile, quarterly Federal Government expenditure stood at Birr 6.1 billion exhibiting 8.4 percent decline over the previous quarter and 16.3 percent increase vis-à-vis the same period of last fiscal year.

Table VII Summary of Federal Government Finance

(In million Birr)

No	Particulars	2005/06	2006/07			Percentage Change		Performance Rate
		Qtr. III	Budget	Qtr. II	Qtr. III	[D/A]	[D/C]	[D/B]
		[A]	[B]	[C]	[D]			
<b>1</b>	<b>Revenue and Grants (1.1+1.2)</b>	<b>3451.1</b>	<b>24551</b>	<b>6223.3</b>	<b>4369.7</b>	<b>26.6</b>	<b>-29.8</b>	<b>17.8</b>
<b>1.1</b>	<b>Total Revenue</b>	<b>3366.4</b>	<b>18994</b>	<b>5432</b>	<b>3573.4</b>	<b>6.1</b>	<b>-34.2</b>	<b>18.8</b>
	Tax Revenue	2765.2	14646	3666.5	3199.0	15.7	-12.8	21.8
	Non-Tax Revenue	601.2	4348	1765.5	374.5	-37.7	-78.8	8.6
<b>1.2</b>	<b>PBS Grant &amp; Relief</b>	<b>84.7</b>	<b>5557</b>	<b>791.3</b>	<b>796.3</b>	<b>840.1</b>	<b>0.6</b>	<b>14.3</b>
<b>2</b>	<b>Current Expenditure</b>	<b>1638.5</b>	<b>8282</b>	<b>1396.6</b>	<b>1882.7</b>	<b>14.9</b>	<b>34.8</b>	<b>22.7</b>
<b>3</b>	<b>Current Surplus/Deficit (1.1-2)</b>	<b>1727.9</b>	<b>10712</b>	<b>4035.4</b>	<b>1690.7</b>	<b>-2.2</b>	<b>-58.1</b>	<b>15.8</b>
<b>4</b>	<b>Capital Expenditure<sup>2</sup></b>	<b>2062.1</b>	<b>12557</b>	<b>2526</b>	<b>2089.1</b>	<b>1.3</b>	<b>-17.3</b>	<b>16.6</b>
<b>5</b>	<b>Regional Transfers</b>	<b>1562.6</b>	<b>9056</b>	<b>2759.4</b>	<b>2157</b>	<b>38.0</b>	<b>-21.8</b>	<b>23.8</b>
<b>6</b>	<b>Special Program</b>	<b>15</b>	<b>0</b>	<b>16.5</b>	<b>8</b>	<b>-46.7</b>	<b>-51.5</b>	
<b>7</b>	<b>Total Expenditure<sup>1</sup> (2+4+5+6)</b>	<b>5278.2</b>	<b>29895</b>	<b>6698.5</b>	<b>6136.8</b>	<b>16.3</b>	<b>-8.4</b>	<b>20.5</b>
<b>8</b>	<b>Overall Surplus/Deficit</b>							
	(Including Grants) (1-7)	-1827.1	-5344	-475.2	-1767.1	-3.3	271.9	33.1
	(Excluding Grants) (1.1-7)	-1911.8	-10901	-1266.5	-2563.4	34.1	102.4	23.5
<b>9</b>	<b>Total Financing</b>	<b>1827.1</b>	<b>5344</b>	<b>475.2</b>	<b>1767.1</b>	<b>-3.3</b>	<b>271.9</b>	<b>33.1</b>
<b>9.1</b>	<b>Net External Borrowing</b>	<b>325.6</b>	<b>1348</b>	<b>182.8</b>	<b>-540.7</b>	<b>-266.1</b>	<b>-395.8</b>	<b>-40.1</b>

	External Borrowing	470.9	2308	291.9	-317.9	-167.5	-208.9	-13.8
	Special program	33.7	0	72.5	66	95.8	-9.0	
	Amortization Paid	-263.6	960	181.6	288.7	-209.5	59.0	30.1
<b>9.2</b>	<b>Net Domestic Borrowing</b>	<b>-581.6</b>	<b>3996</b>	<b>-1941.8</b>	<b>1641.9</b>	<b>-382.3</b>	<b>-184.6</b>	<b>41.1</b>
	Banking System	-603.6	3996	-2277.6	1298.4	-315.1	-157.0	32.5
	Non-Bank Sources	22	0	335.8	343.5	1461.4	2.3	
<b>9.3</b>	<b>Privatization Receipts</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>			
<b>9.4</b>	<b>Others and Residual</b>	<b>2167.7</b>	<b>0</b>	<b>2234.2</b>	<b>666</b>	<b>-69.3</b>	<b>-70.2</b>	

Source: Ministry of Finance and Economic Development

## 6.1 Revenue and Grants

Of the total Birr 4.37 billion revenue and grants mobilized during the third quarter of 2006/07, 73.2 percent was from tax, 8.6 percent from non-tax and the remaining 18.2 percent from CPF grant. The amount of

grant and relief for Protection of Basic Services (PBS) during the quarter under review was slightly higher than that of the preceding quarter.

Table VI.2 Summary of Federal Government Revenue by Component

(In Millions Of Birr)

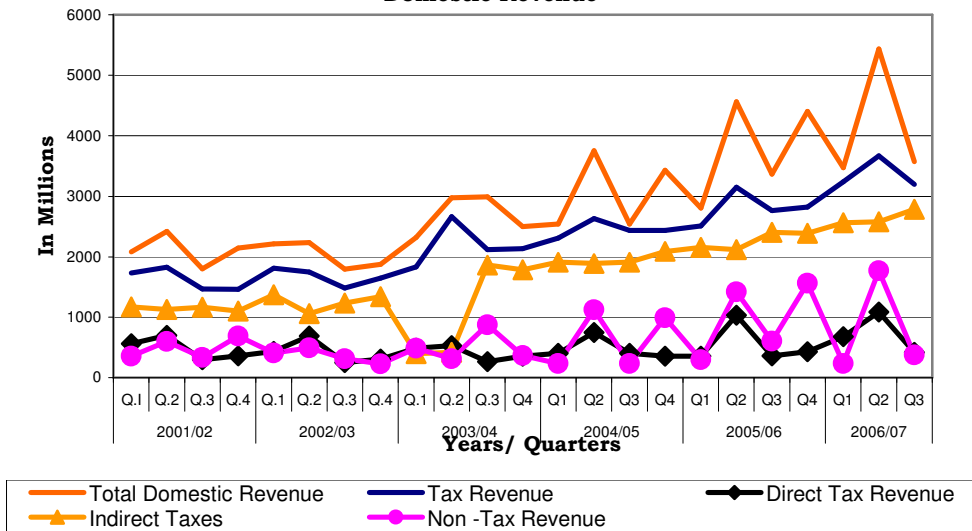
Particulars	2005/06	2006/07			Percentage Change		Performance Rate
	Qtr.III	Budget	Qtr.II	Qtr.III	[D/A]	[D/C]	[D/B]
	[A]	[B]	[C]	[D]			
<b>Total Revenue and Grants</b>	<b>3366.4</b>	<b>24550.0</b>	<b>6223.3</b>	<b>4369.6</b>	<b>29.8</b>	<b>-29.8</b>	<b>17.8</b>
<b>Total Domestic Revenue</b>	<b>3366.4</b>	<b>18993.0</b>	<b>5432.0</b>	<b>3573.3</b>	<b>6.1</b>	<b>-34.2</b>	<b>18.8</b>
<b>1 Tax Revenue</b>	<b>2765.2</b>	<b>14645.0</b>	<b>3666.4</b>	<b>3198.8</b>	<b>15.7</b>	<b>-12.8</b>	<b>21.8</b>
<b>1.1 Direct Tax Revenue</b>	<b>362</b>	<b>2857</b>	<b>1084.9</b>	<b>415.3</b>	<b>14.7</b>	<b>-61.7</b>	<b>14.5</b>
1.1.1 Income Taxes	199.3	2264	943.8	261.4	31.1	-72.3	11.5
- Personal	142.1	598	128.04	145.77	2.6	13.8	24.4
- Business	57.2	1666	815.8	115.58	102.1	-85.8	6.9
1.1.2 Others <sup>1</sup>	162.7	593	141.06	696.51	328.1	393.8	117.5
<b>1.2. Indirect Taxes</b>	<b>2403.2</b>	<b>11788</b>	<b>2581.5</b>	<b>2783.5</b>	<b>15.8</b>	<b>7.8</b>	<b>23.6</b>
2. 2.1 Domestic Taxes	589.1	3551	719.92	819.29	39.1	13.8	23.1
2. 2.2 Foreign Trade Taxes	1814.1	8237	1861.6	1964.16	8.3	5.5	23.8
- Import	1814.1	8237	1861.6	1964.16	8.3	5.5	23.8
<b>2. Non-Tax Revenue</b>	<b>601.2</b>	<b>4348</b>	<b>1765.5</b>	<b>374.5</b>	<b>-37.7</b>	<b>-78.8</b>	<b>8.6</b>
O/W Dividend	239	1500	1000.33	186.04	-22.2	-81.4	12.4
<b>3. PBS Grants and Relief</b>	<b>84.7</b>	<b>5557</b>	<b>791.3</b>	<b>796.3</b>	<b>840.1</b>	<b>0.6</b>	<b>14.3</b>

Source: Ministry of Finance and Economic Development  
 I/Others' include rental, withholding tax and interest income

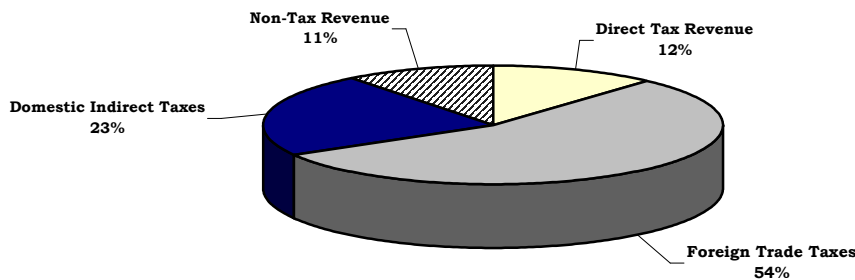
As it can be seen from Figure VI.1, a clear trend of seasonality in domestic government revenue has emerged since 2004/05. The seasonality originated particularly from non-

tax revenue. Non-tax revenue was uniformly low at the first and third quarters and high at the second and fourth quarters of a fiscal year.

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



**Fig.VI.2 Domestic Revenue (by Major Components)**



Total domestic revenue collected in the third quarter of 2006/07 reached Birr 3.57 billion, which was 34.2 percent lower and 6.1 percent higher than the revenue mobilized in the preceding quarter and a year earlier.

Tax revenue slowed down by 12.8 percent over the previous quarter but increased by 15.7 percent vis-à-vis the same period of last year. Indirect taxes accounted for Birr 2.78 billion or 87 percent of the total tax revenue.

Revenue from indirect taxes rose by 7.8 percent and 15.8 percent compared to the

previous quarter and the same quarter of 2005/06 fiscal year. In a similar development, direct tax revenue, which comprises personal and business income taxes as well as withholding tax on import and interest income tax, showed significant decline in contrast with the previous quarter and stood at Birr 415.3 million due to seasonality factors. Year-on-year basis, however, direct tax revenue went up by 14.5 percent owing to remarkable increase in withholding tax and interest income.

## 6.2 Expenditure

Total Federal Government expenditures stood at Birr 6.14 billion during the quarter under review, of which Birr 1882.8 million (or about 30.7 percent) went to finance current expenditure and Birr 2089.1 million (or 34 percent) to carry out various development programs. Regional transfers and special programs constituted 35 and 0.13 percent of the Federal Government expenditures of the review quarter.

Total Federal Government expenditure was 8.4 percent lower and 16.3 percent higher

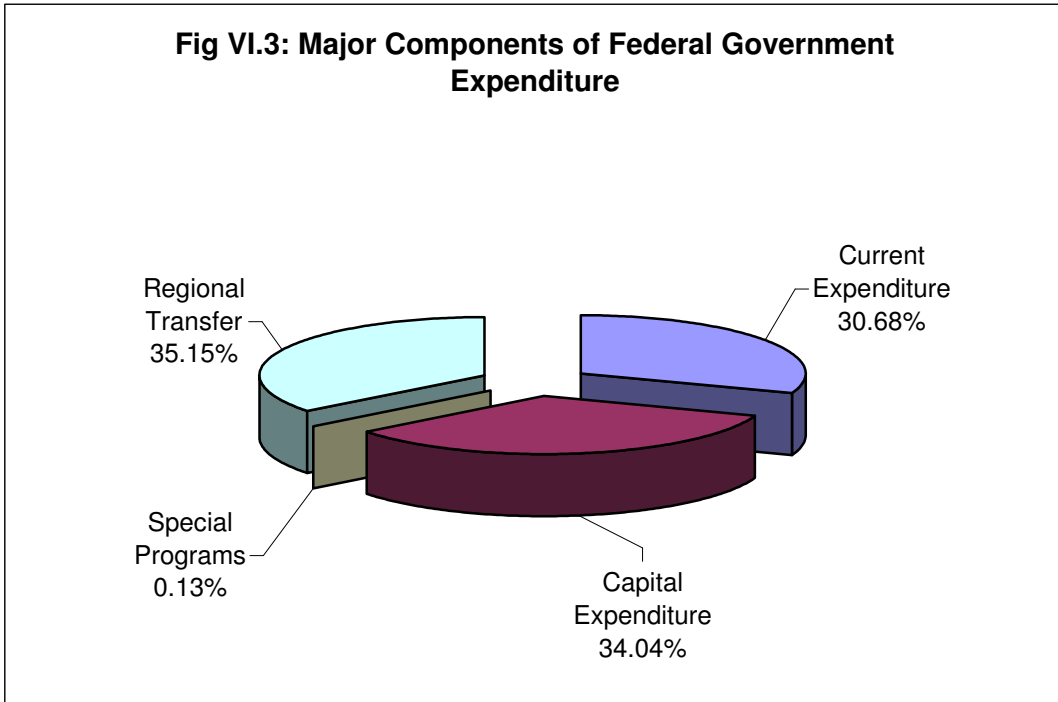
than the expenditure recorded in the previous quarter and the same quarter of last year. The contraction in capital expenditure by 17.3 percent and regional transfers by 21.8 percent as compared with the previous quarter, was the main reason behind the decline in total expenditure. In contrast, owing to 62.5 percent surge in expenditure on general services, the quarterly recurrent expenditure jumped by 34.8 percent to Birr 1.88 billion. On annual basis, recurrent expenditure rose by 14.9 percent .

**Table VI. 3 Summary of Federal Government Expenditure by Component**  
(In Millions Of Birr)

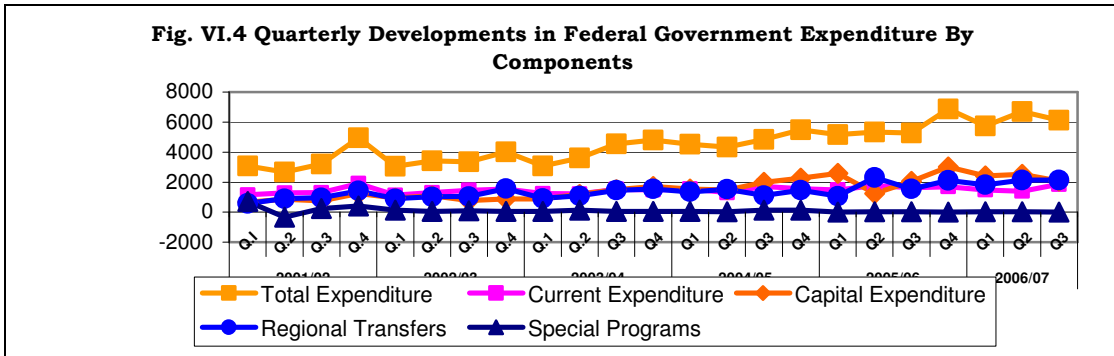
Particulars	2005/06	2006/07			Percentage Change		Performance Rate
	Qtr.III	Budget	Qtr.II	Qtr.III	[D/A]	[D/C]	[D/B]
	[A]	[B]	[C]	[D]			
<b>Total Expenditure</b>	5277.97	29895	6698.56	6136.9	16.3	-8.4	20.5
<b>1. Current Expenditure</b>	1638.47	8282	1396.66	1882.8	14.9	34.8	22.7
- General Services	986.09	4095	739.84	1201.9	21.9	62.5	29.4
- Economic Services	81.53	512	83.82	81.1	-0.5	-3.2	15.8
- Social Services	317.54	1321	289.5	269.8	-15.0	-6.8	20.4
- Debt Service	251.9	1481	277.3	307	21.9	10.7	20.7
-Contingency and Others	1.41	872	6.2	23	1531	271.0	2.6
<b>2. Capital Expenditure</b>	2061.9	12557	2526	2089.1	1.3	-17.3	16.6
- Economic Development	1498.4	8966	1761.2	1201.8	-19.8	-31.8	13.4
- Social Development	506.1	2977	689.19	822.6	62.5	19.4	27.6
- General Development	57.4	615	75.6	64.7	12.7	-14.4	10.5
<b>3. Regional Transfers</b>	1562.6	9056	2759.4	2157	38.0	-21.8	23.8
<b>4. Special Programs</b>	15	0	16.5	8	-46.7	-51.5	

Source: Ministry of Finance and Economic Development

**Fig VI.3: Major Components of Federal Government Expenditure**



**Fig. VI.4 Quarterly Developments in Federal Government Expenditure By Components**



### 6.3 Deficit Financing

As indicated earlier, Federal Government budgetary operations resulted in an

overall deficit (including grant) of Birr 1767.1 million, which was tripled that of

the preceding quarter due to the 29.8 percent drop in total revenue and grants vis-à-vis 8.4 percent decline in total expenditure. On annual basis, however, the deficit in the review quarter was lower by 3.3 percent.

billion, of which Birr 1298.4 million (or 79 percent) was from the banking system. Net external borrowing was negative in the review period implying a net repayment of Birr 540.7 million to external lenders.

The fiscal deficit was primarily financed by net domestic borrowing of Birr 1.6

**Fig.VI.5 Federal Government Finance During the Third Quarter Of F.Y 2006/07**

