

VI. FEDERAL GOVERNMENT FINANCE

In the review quarter, total revenue and grants increased by Birr 2567 million to Birr 6936.9 million, showing a quarterly increase of 58.8 percent. Similarly, year on year basis, total revenue and grants picked up by 28.7 percent.

In a similar development, quarterly Federal Government expenditure surged by 43.2 and 27.7 percent vis-à-vis the previous quarter and the same period of 2005/06, respectively to reach to Birr 8,785.5 million.

The review period total revenue & grants and total expenditure performance was 28.3 percent and 29.4 percent of the annual budget.

The overall fiscal balance (including grants) recorded a total deficit of Birr 1848.6 million which was 1.6 percent higher than Birr 1767 million deficit in the preceding quarter. Compared to the overall fiscal deficit of the same period of last fiscal year (Birr 1490.6 million), however, it has shown a significant increase of 24 percent.

Table VI.I Summary of Federal Government Finance
(In million Birr)

No	Particulars	2005/06	2006/07			Percentage Change		Performance Rate
		Qtr.IV	Budget	Qtr.III	Qtr.IV	[D/A]	[D/C]	[D/B]
		[A]	[B]	[C]	[D]			
1	Revenue and Grants (1.1+1.2)	5388.9	24551	4369.7	6936.9	28.7	58.8	28.3
1.1	Total Revenue	4404.8	18994	3573.4	4126.4	-6.3	15.5	21.7
	Tax Revenue	2845.6	14646	3198.95	3530.7	24.1	10.4	24.1
	Non-Tax Revenue	1559.2	4348	374.45	595.8	-61.8	59.1	13.7
1.2	PBS Grant & Relief	984.1	5557	796.3	2810.5	185.6	252.9	50.6
2	Current Expenditure	1711.7	8282	1882.7	2271.2	32.7	20.6	27.4
3	Current Surplus/Deficit (1.1-2)	2693.1	10712	1690.7	1855.2	-31.1	9.7	17.3
4	Capital Expenditure²	3030.4	12557	2089.1	3890.7	28.4	86.2	31.0
5	Regional Transfers	2127.1	9056	2157	2618.6	23.1	21.4	28.9
6	Special Program	10.3	0	8	5	-51.5	-37.5	
7	Total Expenditure¹ (2+4+5+6)	6879.5	29895	6136.8	8785.5	27.7	43.2	29.4
8	Overall Surplus/Deficit							
	<i>(Including Grants) (1-7)</i>	-1490.6	-5344	-1767.1	-1848.6	24.0	4.6	34.6
	<i>(Excluding Grants) (1.1-7)</i>	-2474.7	-10901	-2563.4	-4659.1	88.3	81.8	42.7
9	Total Financing	1495.2	5344	1767.1	1848.4	23.6	4.6	34.6
9.1	Net External Borrowings	609.7	1348	-540.7	202	-66.9	-137.4	15.0
	External Borrowing	321.8	2308	-317.9	289.7	-10.0	-191.1	12.6
	Special program	218.7	0	66	55.9	-74.4	-15.3	
	Amortization Paid	69.2	960	288.7	143.6	107.5	-50.3	15.0
9.2	Net Domestic Borrowings	536.1	3996	1641.9	5117	854.5	211.7	128.1
	Banking System	537.9	3996	1298.4	3926.5	630.0	202.4	98.3
	Non-Bank Sources	-1.8	0	343.5	1190.5	-66238.9	246.6	
9.3	Others and Residuals	349.4	0	666	-3470.6	-1093.3	-621.1	

Source: Ministry of Finance and Economic Development

6.1 Revenue and Grants

Of the total Birr 6.94 billion revenue and grants mobilized during the fourth quarter of 2006/07, about 51 percent was from taxes, 8 percent from non-taxes and the remaining 40.5 percent from the protection of basic

services (PBS) grant. The amount of PBS grant during the quarter was more than threefold compared to that of the preceding quarter and 50.5 percent of the annual budget.

Table VI.2 Summary of Federal Government Revenue by Component

(In Millions of Birr)

Particulars	2005/06	2006/07			Percentage Change		Performance Rate
	Qtr.IV	Budget	Qtr.III	Qtr.IV	[D/A]	[D/C]	[D/B]
	[A]	[B]	[C]	[D]			
Total Revenue and Grants	5222.9	24550.0	4369.6	6936.9	32.8	58.8	28.3
Total Domestic Revenue	4404.8	18993.0	3573.3	4126.4	-6.3	15.5	21.7
1 Tax Revenue	2844.7	14645.0	3198.8	3530.7	24.1	10.4	24.1
1.1 Direct Tax Revenue	453	2857	415.3	607.3	34.1	46.2	21.3
1.1.1 Income Taxes	325.5	2264	261.4	462.3	42.0	76.9	20.4
- Personal	127.6	598	145.77	160.7	25.9	10.2	26.9
- Business	197.9	1666	115.58	301.6	52.4	160.9	18.1
1.1.2 Others ¹	127.5	593	696.51	145	13.7	-79.2	24.5
1.2. Indirect Taxes	2391.7	11788	2783.5	2923.4	22.2	5.0	24.8
2. 2.1 Domestic Taxes	729.2	3551	819.29	911.19	25.0	11.2	25.7
2. 2.2 Foreign Trade Taxes	1662.5	8237	1964.16	2012.2	21.0	2.4	24.4
- Import	1662.5	8237	1964.16	2012.2	21.0	2.4	24.4
2. Non-Tax Revenue	1559.2	4348	374.5	595.76	-61.8	59.1	13.7
O/W Dividend	1.3	1500	186.04	3.66	181.5	-98.0	0.2
3. CPF Grants	984.1	5557	796.3	2810.5	185.6	252.9	50.6

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

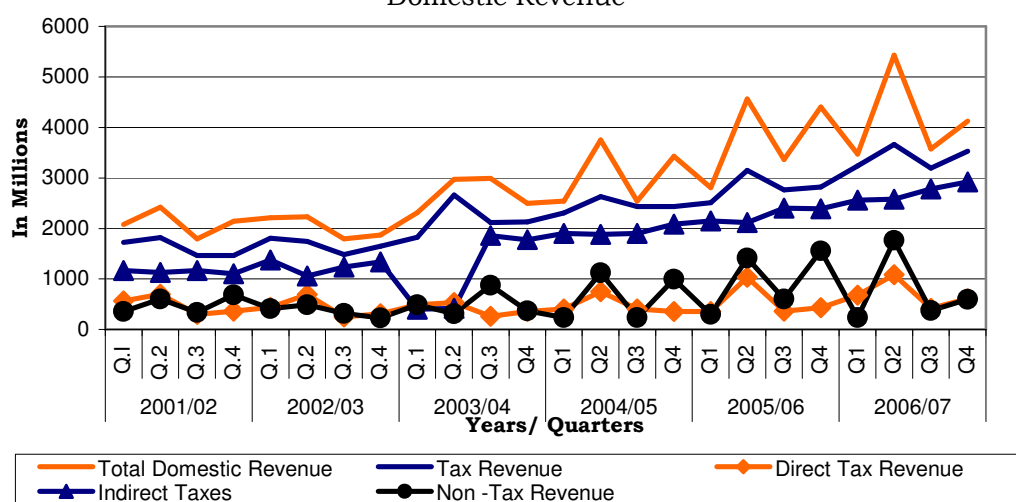
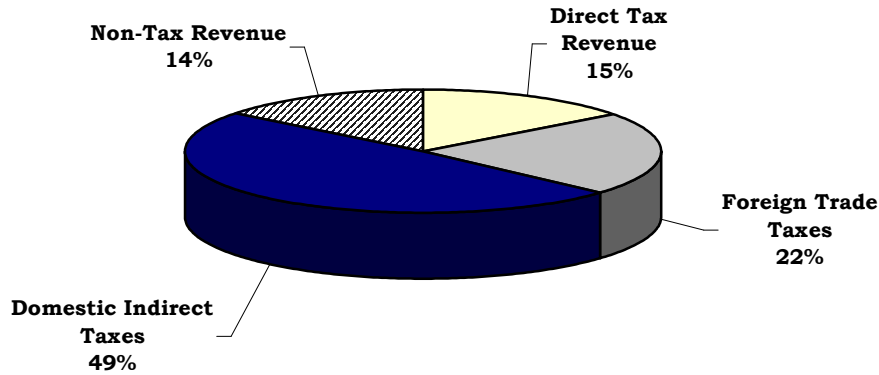


Fig.VI.2 Domestic Revenue (by Major Components)



The Birr 4.1 billion total domestic revenue collected in the fourth quarter of 2006/07 was 15.5 percent higher and 6.3 percent lower than the revenue mobilized in the preceding quarter and a year earlier, respectively.

Compared to the preceding quarter, non-tax revenue went up by 59.1 percent (over Birr 221 billion), while it declined by 61.8 percent vis-à-vis the same period of 2005/06 fiscal year. Meanwhile, tax revenue was up by 10.4 percent and 24.1 percent. Domestic indirect taxes and foreign trade taxes accounted for Birr 2.92 billion (82.8 percent) of total tax revenue during the

review quarter, while direct taxes covered the remaining 17.2 percent. Revenue from indirect taxes increased by 5 percent and 22 percent vis-à-vis the previous quarter and the same quarter of last year. Direct tax revenue, which mostly comprises personal and business income tax, rose to Birr 607.3 million, exhibiting a significant improvement over the last quarter as well as that of a year ago. All in all, domestic revenue performance was 21.7 percent of the annual budget and fully financed the quarterly current expenditure and resulted in current surplus of Birr 1855.2 million, which also covered 47.7 percent of the total capital expenditure during the review quarter.

6.2 Expenditure

Total Federal Government expenditure at Birr 8785.5 million was 43.2 percent and 27.7 percent higher than that of the previous quarter and same period of last year, respectively. The quarterly increase in total expenditure was due to the 20.6 percent and 86.2 percent surge both in recurrent and capital expenditures. In general, of the quarterly total expenditure, Birr 2271

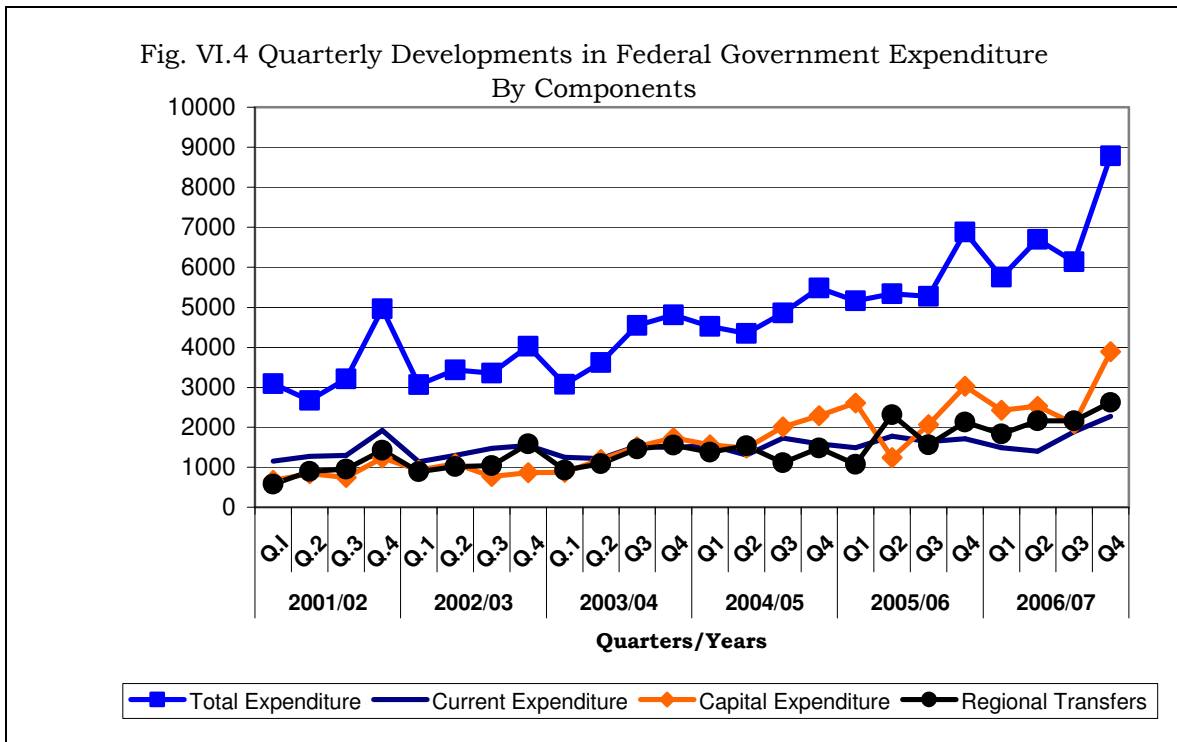
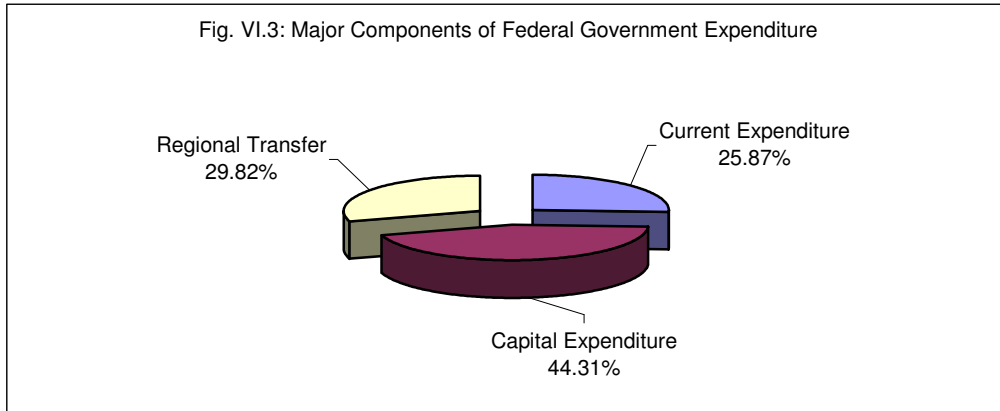
million (or about 26 percent) was the share of current expenditure, Birr 3890.7 million (or 44 percent) that of the various development programs and the remaining 30 percent allocated to regional transfers and special programs. Performance-wise, total expenditure represented close to one third of the annual budget (see table VI.3).

Table VI. 3 Summary of Federal Government Expenditure by Component

(In Millions Of Birr)

Particulars	2005/06	2006/07			Percentage Change		Performance Rate
	Qtr.IV	Budget	Qtr.III	Qtr.IV	[D/A]	[D/C]	[D/B]
	[A]	[B]	[C]	[D]			
Total Expenditure	6879.5	29895	6136.9	8785.5	27.7	43.2	29.4
1. Current Expenditure	1711.7	8282	1882.8	2271.2	32.7	20.6	27.4
- General Services	986.15	4095	1201.9	1430.1	45.0	19.0	34.9
- Economic Services	63.35	512	81.1	85.5	35.0	5.4	16.7
- Social Services	293.03	1321	269.8	382.1	30.4	41.6	28.9
- Debt Service	369.19	1481	307	372.8	1.0	21.4	25.2
-Contingency and Others	0	872	23	0.7		-97.0	0.1
2. Capital Expenditure	3030.4	12557	2089.1	3890.7	28.4	86.2	31.0
- Economic Development	2206.1	8966	1201.8	2468	11.9	105.4	27.5
- Social Development	755.9	2977	822.6	1099.7	45.5	33.7	36.9
- General Development	68.4	615	64.7	323	372.2	399.2	52.5
3. Regional Transfers	2127.1	9056	2157	2618.6	23.1	21.4	28.9
4. Special Programs	10.3	0	8	5	-51.5	-37.5	

Source: Ministry of Finance and Economic Development



6.3 Deficit Financing

As indicated earlier, Federal Government's budgetary operations resulted in the overall deficit (including grant) of Birr 1848.6 million, which was slightly higher than that of the preceding quarter. In comparison to the same period of last fiscal year, the review period fiscal deficit was higher by 24 percent.

The quarterly fiscal deficit was financed by net external borrowing to the tune of Birr 202 million and net domestic borrowing amounting to Birr 5117 million. Of the net domestic borrowing birr 3926.5 million or 76.7 percent was from the banking system.

Fig. VI.5 Federal Government Finance During the Fourth Quarter of F.Y 2006/07

