

VI. FEDERAL GOVERNMENT FINANCE

In the review quarter, total revenue and grants increased by 19.3 percent to Birr 8,534 million from Birr 7,152 million in the preceding quarter. Similarly annual total revenue and grants rose by 95.3 percent. Quarterly revenue performance was 27.5 percent of the total annual budget.

On the other hand, quarterly Federal Government expenditure decreased by 19.4

percent to Birr 7,848 million. It however, surged by 28 percent on annual terms.

Hence, overall fiscal balance (including grants) of Federal Government depicted an overall surplus of Birr 685 million during the third quarter compared to Birr 2587 million and Birr 1767 million deficits in the preceding quarter and the same period of last fiscal year, respectively.

Table 6.1 Summary of Federal Government Finance

(In million Birr)

No	Particulars	2006/07	2007/08			Percentage Change		Performance Rate
		III Qtr.	Budget	II Qtr.	III Qtr.	[D/A]	[D/C]	[D/B]
		[A]	[B]	[C]	[D]			
1	Revenue and Grants	4369.7	31,022	7,152	8,534	95.3	19.3	27.5
1.1	Total Revenue	3573.4	25,239	5,899	7,075	98.0	19.9	28.0
	Tax Revenue	3199.0	20,309	5,387	4,429	38.5	-17.8	21.8
	Non-Tax Revenue	374.5	4,930	512	2,646	606.6	417.0	53.7
1.2	DBS Grant & Relief	796.3	5,783	1,253	1,458	83.2	16.4	25.2
2	Current Expenditure	1882.7	10,020	2,329	2,018	7.2	-13.4	20.1
3	Current Surplus/Deficit	1690.7	15,219	3,570	5,057	199.1	41.7	33.2
4	Capital Expenditure	2089.1	14,209	3,953	2,270	8.7	-42.6	16.0
5	Regional Transfers	2157	13,555	3,458	3,560	65.0	2.9	26.3
6	Special Program	8	0	-1	0			
7	Total Expenditure (2+4+5+6)	6136.8	37,784	9,739	7,848	27.9	-19.4	20.8
8	Overall Surplus/Deficit							
	<i>(Including Grants)</i>	-1767.1	-6762	-2587	686	-138.8	-126.5	-10.1
	<i>(Excluding Grants)</i>	-2563.4	-12545	-3840	-773	-69.9	-79.9	6.2
9	Total Financing	1,767.1	6,762	2,588	-685	-138.8	-126.5	-10.1
9.1	Net External Borrowings	-540.6	2,287	156	247	-145.7	58.5	10.8
	External Borrowing	-317.9	2,703	584	355	-211.6	-39.2	13.1
	Special program	66		-290	-	-100.0	-100.0	
	<i>Less Amortization Paid</i>	288.7	416	138	108	-62.6	-21.9	26.0
9.2	Net Domestic Borrowings	1641.9	4,475	884	-954	-158.1	-207.9	-21.3
	Banking System	1298.4	4,475	2,127	-1527	-217.6	-171.8	-34.1
	Non-Bank Sources	343.5	0	-1243.2	573	66.8	-146.1	
9.3	Others and Residuals	666	0	1,548	21	-96.8	-98.6	

Source: Ministry of Finance and Economic Development

6.1 Revenue and Grants

Total revenue and grants mobilized during the third quarter of 2007/08, reached Birr 8.5 billion of which Birr 7.1 billion (or 83 percent) was from domestic sources and the rest (Birr 1,458 million) from CPF grants. About 62.6 percent of the domestic revenue

was from taxes and 27.1 percent from non-taxes. The amount of CPF grant, in the quarter was 16.4 percent and 83.2 percent higher than that of the preceding quarter and last fiscal year, respectively.

Table 6.2 Summary of Federal Government Revenue by Component

(In Millions Of Birr)

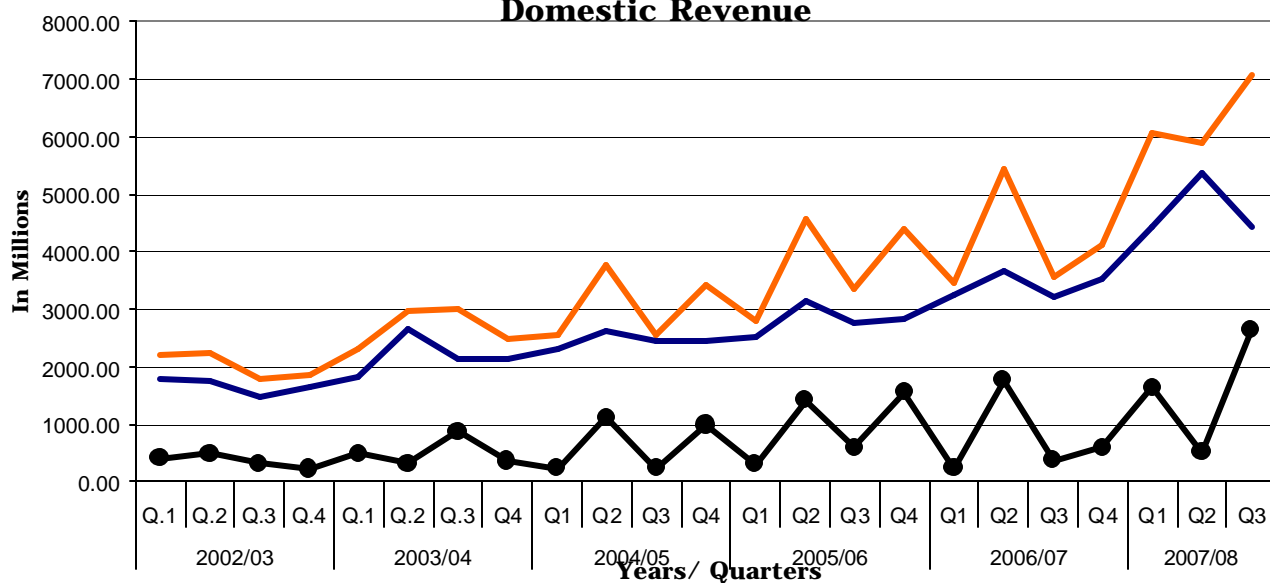
Third Quarter 2007/08

Particulars	2006/07	2007/08			Percentage Change		Performance Rate
	III Qtr.	Budget	II Qtr.	III Qtr.	[D/A]	[D/C]	[D/B]
	[A]	[B]	[C]	[D]			
Total Revenue and Grants	4369.6	31,022	7,152	8,534	95.3	19.3	27.5
Total Domestic Revenue	3573.3	25,239	5,899	7,075	98.0	19.9	28.0
1 Tax Revenue	3198.8	20,309	5,387	4,429	38.5	-17.8	21.8
1.1 Direct Tax Revenue	415	3,601	1,622	499	20.1	-69.3	13.8
1.1.1 Income Taxes	261	3,045	1,451	350	33.9	-75.9	11.5
- Personal	145.77	688	198	176	21.0	-10.7	25.6
- Business	115.58	2,357	1,253	174	50.1	-86.2	7.4
1.1.2 Others ¹	153.99	556	171	149	-3.4	-13.1	26.8
1.2. Indirect Taxes	2783.5	16,708	3,765	3,931	41.2	4.4	23.5
2. 2.1 Domestic Taxes	819.29	3,906	951	1,077	31.4	13.2	27.6
2. 2.2 Foreign Trade Taxes	1964.16	12,802	2,814	2,854	45.3	1.4	22.3
- Import	1964.16	12,802	2,814	2,854	45.3	1.4	22.3
2. Non-Tax Revenue	374.5	4,930	512	2,646	606.5	417.0	53.7
O/W Dividend	186.04	400	54	346	85.7	534.2	86.4
3. CPF Grants	796.3	5,783	1,253	1,458	83.2	16.4	25.2

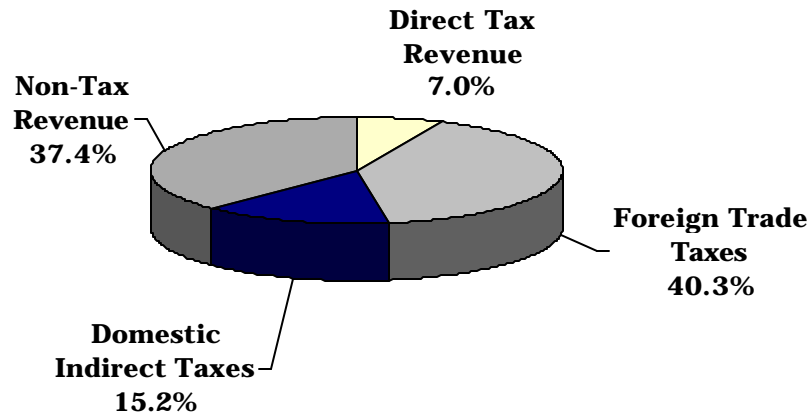
Source: Ministry of Finance and Economic Development

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

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



— Total Domestic Revenue — Tax Revenue — Non-Tax Revenue

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

Birr 7,075 million domestic revenue collected in the third quarter of 2007/08 was 20 percent and 98 percent higher than the revenue mobilized in the preceding quarter and a year earlier.

Tax revenue at Birr 4,429 million went down by 17.8 percent compared with last quarter mainly due to 69.3 percent decline in direct taxes particularly income taxes from individuals and businesses. In contrary, tax revenue registered 38.5 percent growth over the same period a year earlier as virtually all

components of tax revenue items tended to show improvements. As usual, tax revenue mainly originated from indirect taxes, accounting for Birr 3.9 billion (56 percent) of total domestic revenue of the quarter. Revenue from indirect taxes increased marginally by 4.4 percent on quarterly and 41.2 percent annual basis. Direct tax revenue, which mostly comprises personal and business income taxes, dropped to Birr 499 million, exhibiting quarterly decline of 69.3 percent and annual increment of 20.1 percent.

6.2 Expenditure

Total Federal Government expenditures including regional transfers stood at Birr 7,848 million, in the third quarter of

2007/08. This is 19.4 percent lower than the previous quarter but 30 percent higher than the corresponding quarter of last year. The

quarterly decline was due to slow down in recurrent expenditure by 13.4 percent and capital expenditure by 42.6 percent. In general, of the quarterly total expenditure, Birr 2,018 million (or about 25.7 percent) went to finance current expenditures and Birr 2,270 million (or 28.9 percent) to various development programs. The balance (45.4 percent) was regional transfers. Year-

on-year basis, recurrent expenditures increased by 7.2 percent largely owing to higher expenditure on social services and general services. Capital expenditure went up by 8.7 percent as a result of higher economic and general development expenditures. Regional transfers also showed a significant growth rate of 65 percent.

Table 6. 2 Summary of Federal Government Expenditure by Component

(In Millions Of Birr)

Particulars	2006/07	2007/08			Percentage Change		Performance Rate
	III Qtr.	Budget	II Qtr.	III Qtr.	[D/A]	[D/C]	[D/B]
	[A]	[B]	[C]	[D]			
Total Expenditure	6136.9	37,783	9,740	7,848	27.9	-19.4	20.8
1. Current Expenditure	1882.8	10,019	2,329	2,018	7.2	-13.4	20.1
- General Services	1201.9	4,772	1,284	1,317	9.6	2.5	27.6
- Economic Services	81.1	589	134	69	-15.0	-48.3	11.7
- Social Services	269.8	1,630	550	365	35.3	-33.6	22.4
- Debt Service	307	1,540	360	266	-13.3	-26.1	17.3
-Contingency and Others	23	1,488	1.2	0.9	-95.9	-21.2	0.1
2. Capital Expenditure	2089.1	14,209	3,953	2,271	8.7	-42.6	16.0
- Economic Development	1201.8	9,457	3,015	1,439	19.7	-52.3	15.2
- Social Development	822.6	3,012	750	582	-29.3	-22.4	19.3
- General Development	64.7	1,740	188	250	286.5	33.1	14.4
3. Regional Transfers	2157	13,555	3,458	3,560	65.0	2.9	26.3
4. Special Programs	8	0	-1	0	-100.0		

Source: Ministry of Finance and Economic Development

Fig VI.3: Major Components of Federal Government Expenditure

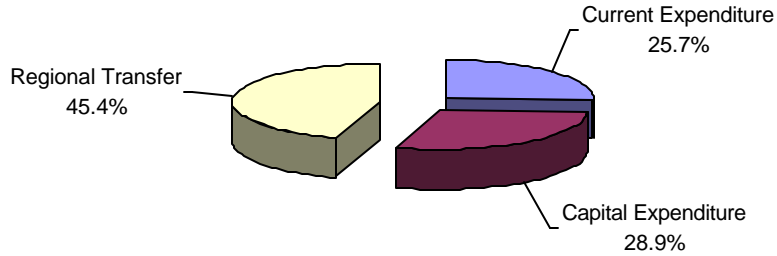


Fig. VI.4 Quarterly Developments in Federal Government Expenditure By Components

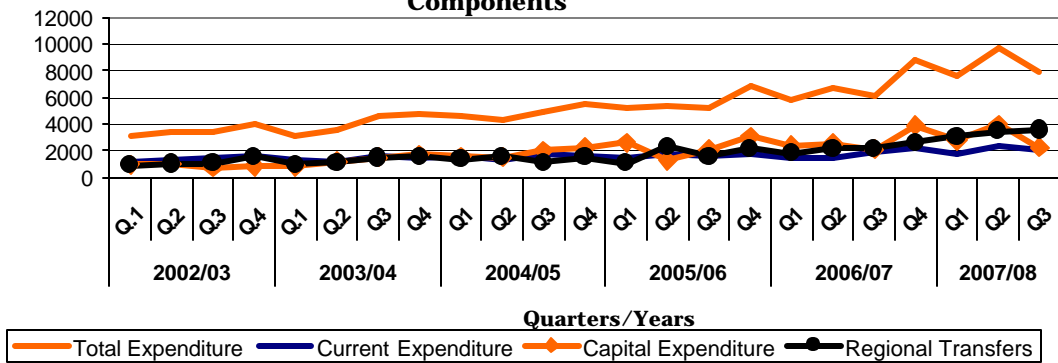
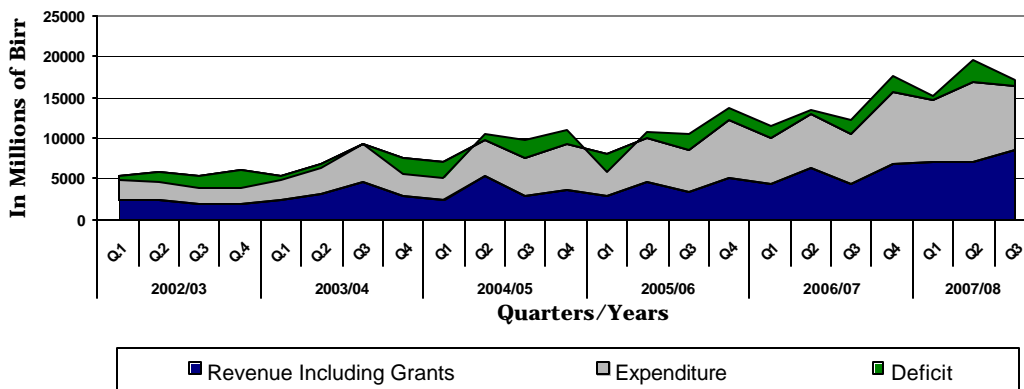


Fig. VI.5 Federal Government Finance During the Third Quarter of F.Y 2007/08



6.3 Deficit Financing

Unlike in the previous quarter Federal Government budgetary operations resulted in the overall surplus (including grant) of Birr 685 million during the

third quarter of current fiscal year as revenue exceeded expenditures. As a result, net domestic borrowing significantly declined.

