

VII. FEDERAL GOVERNMENT FINANCE

The review quarter witnessed worsening fiscal stance as the overall fiscal deficit (including grants) widened to Birr 2.69 billion from a surplus of Birr 686 million in the third quarter of fiscal year 2007/08. The observed fiscal imbalance was largely attributed to a 39.2 percent surge in

total expenditure and the 8.8 percent slowdown in total revenue collection.

However, the deficit was 8.5 percent lower than that of same period last year.

The budget deficit was largely financed from domestic sources.

Table 7.1 Summary of Federal Government Finance

(Million Birr)

Particulars	2006/07	2007/08			Percentage Change		Performance Rate
	IV Qtr.	Budget	III Qtr.	IV Qtr.	[D/A]	[D/C]	
	[A]	[B]	[C]	[D]	[D/A]	[D/C]	
Revenue and Grants	6936.9	31,022.0	8,533.5	9,235.9	33.1	8.2	29.8
Total Revenue	4126.4	25,239.0	7,075.1	6,450.8	56.3	-8.8	25.6
Tax Revenue	3530.7	20,309.0	4,429.2	5,646.6	59.9	27.5	27.8
Non-Tax Revenue	595.7	4,930.0	2,645.9	804.2	35.0	-69.6	16.3
DBS Grant & Relief	2810.5	5,783.0	1,458.5	2,784.9	-0.9	90.9	48.2
Current Expenditure	2271.2	10,020.0	2,017.8	2,254.0	-0.8	11.7	22.5
Current Surplus/Deficit	1855.2	15,219.0	5,057.2	4,196.8	126.2	-17.0	27.6
Capital Expenditure	3890.7	14,209.0	2,270.5	5,198.0	33.6	128.9	36.6
Regional Transfers	2618.6	13,555.0	3,559.6	3,474.5	32.7	-2.4	25.6
Special Program	5.0	-	-	-	-100.0		
Total Expenditure (2+4+5+6)	8785.5	37,784.0	7,847.9	10,926.5	24.4	39.2	28.9
Overall Surplus/Deficit							
<i>(Including Grants)</i>	-1848.6	(6,762.0)	685.7	(1,690.6)	-8.5	-346.6	25.0
<i>(Excluding Grants)</i>	-4659.1	(12,545.0)	(772.8)	(4,475.7)	-3.9	479.1	35.7
Total Financing	1,848.6	6,762.0	(685.7)	1,690.5	-8.6	-346.6	25.0
Net External Borrowings	202.0	2,287.0	246.9	561.3	177.9	127.3	24.5
External Borrowing	289.7	2,703.0	354.9	606.1	109.2	70.8	22.4
Special Program	55.9		-	-	-100.0		
Less Amortization Paid	143.6	416.0	108.0	44.8	-68.8	-58.5	10.8
Net Domestic Borrowings	5117.0	4,475.0	(953.8)	5,314.3	3.9	-657.2	118.8
Banking System	3926.5	4,475.0	(1,526.9)	3,450.8	-12.1	-326.0	77.1
Non-Bank Sources	1190.5	-	573.1	1,863.5	56.5	225.2	
Others and Residuals	(3470.4)	-	21.4	(4,185.1)	20.6	-19654.5	

Source: Ministry of Finance and Economic Development (MoFED)

7.1 Revenue and Grants

Total revenue & grants mobilized by the Federal Government during the review quarter was Birr 9.24 billion. Out of this, about 61.1 percent was collected from tax, 8.7 percent from non-tax and the

balance (30.2 percent) from CPF grants. Compared to that of last year same period, revenue and grants surged by 33 percent exclusively due to higher growth of domestic revenue.

Table 7.2 Summary of Federal Government Revenue by Component

(Millions of Birr)

Particulars	2006/07	2007/08			Percentage Change		Performance Rate
	IV Qtr.	Budget	III Qtr.	IV Qtr.	[D/A]	[D/C]	[D/B]
	[A]	[B]	[C]	[D]			
Total Revenue and Grants	6936.9	31,022	8,534	9,236	33.1	8.2	29.8
Total Domestic Revenue	4126.4	25,239	7,075	6,451	56.3	-8.8	25.6
1 Tax Revenue	3530.7	20,309	4,429	5,647	59.9	27.5	27.8
1.1 Direct Tax Revenue	607	3,601	499	983	61.8	97.0	27.3
1.1.1 Income Taxes	462	3,045	350	798	72.5	127.9	26.2
- Personal	160.7	688	176	262	63.0	48.5	38.1
- Business	301.6	2,357	174	536	77.6	208.6	22.7
1.1.2 Others ¹	145	556	149	185	27.6	24.4	33.3
1.2. Indirect Taxes	2923.4	16,708	3,931	4,664	59.5	18.7	27.9
2. 2.1 Domestic Taxes	911.19	3,906	1,077	1,220	33.9	13.3	31.2
2. 2.2 Foreign Trade Taxes	2012.2	12,802	2,854	3,444	71.2	20.7	26.9
- Import	2012.2	12,802	2,854	3,444	71.2	20.7	26.9
2. Non-Tax Revenue	595.76	4,930	2,646	804	35.0	-69.6	16.3
O/W Dividend	3.66	400	346	89	2339.9	-74.2	22.3
3. CPF Grants	2810.5	5,783	1,458	2,785	-0.9	90.9	48.2

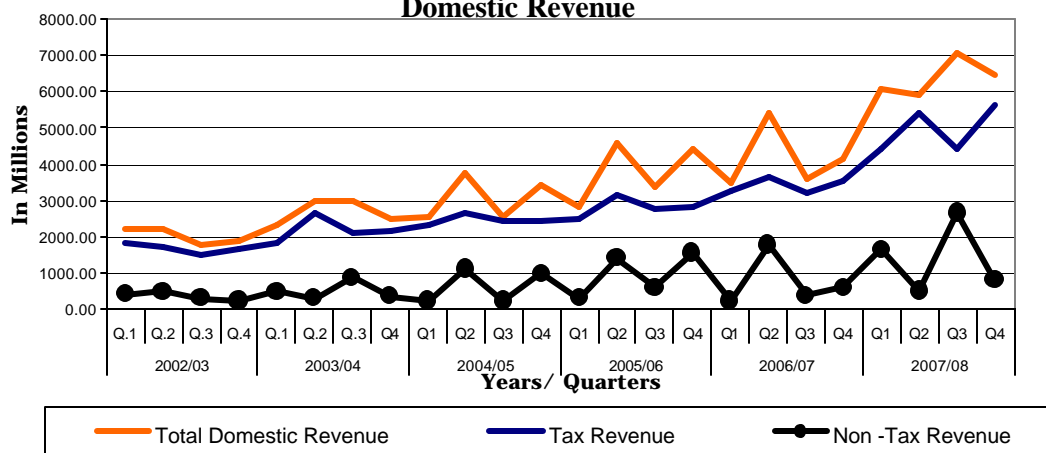
Source: Ministry of Finance and Economic Development (MoFED)

1/ others include rental, withholding tax and interest income

Total domestic revenue mobilized during the fourth quarter of 2007/08 fiscal year was 8.8 percent lower than that of the preceding quarter but 56.3 percent higher

than last year same period. The quarterly fall in non-tax revenue was the principal reason for the decline of the domestic revenue of the quarter.

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

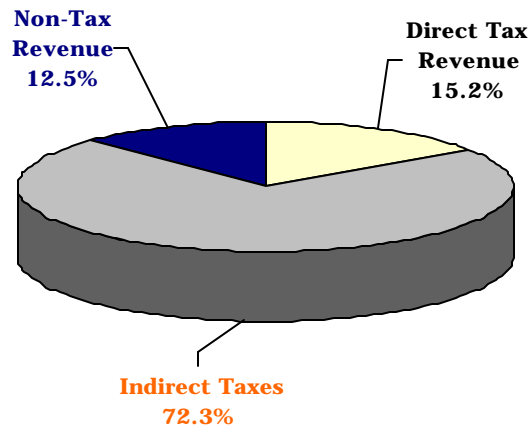


Meanwhile, tax revenue increased by 27.5 and 59.9 percent against the previous quarter and same period of last fiscal year, respectively. Of the total tax revenue, direct tax, which comprise income tax (including personal and business income tax) as well as rental, withholding and interest income, accounted for Birr 983 million (17.4 percent). At the same time, indirect tax, which

include domestic and foreign trade tax, reached Birr 4.66 billion (82.6 percent) in contrast with Birr 2.92 billion (82.8 percent) last year.

All in all, the domestic revenue performance during the reported period was 25.6 percent of the annual budget.

Fig.VII.2 Domestic Revenue (by Major Components) during Fourth Quarter



7.2 Expenditure

The total Federal Government expenditure during the fourth quarter amounted to Birr 10.9 billion. Of the stated sum, current

expenditure was Birr 2.25 billion accounting for about 20.6 percent of the total expenditure.

On the other hand, capital expenditure reached Birr 5.2 billion (47.57 percent) and the remaining

Birr 3.48 billion (31.8 percent) was spent on regional transfers.

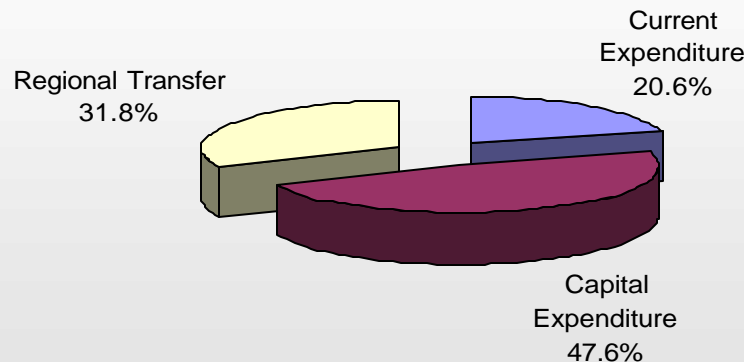
Table 7.2 Summary of Federal Government Expenditure by Component

(Millions of Birr)

Particulars	2006/07	2007/08		Percentage Change		Performance Rate	
	IV Qtr.	Budget	III Qtr.	IV Qtr.	[D/A]	[D/C]	[D/B]
	[A]	[B]	[C]	[D]			
Total Expenditure	8,785.5	37,783.0	7,848.0	10,926.5	24.4	39.2	28.9
1. Current Expenditure	2,271.2	10,019.0	2,017.8	2,254.0	(0.8)	11.7	22.5
- General Services	1,430.1	4,772.0	1,316.7	1,070.5	(25.1)	(18.7)	22.4
- Economic Services	85.5	589.0	69.0	272.0	218.2	294.4	46.2
- Social Services	382.1	1,630.0	364.9	563.1	47.4	54.3	34.5
- Debt Services	372.8	1,540.0	266.3	347.6	(6.8)	30.5	22.6
-Contingency and Others	0.7	1,488.0	0.9	0.8	7.4	(20.5)	0.1
2. Capital Expenditure	3,890.7	14,209.0	2,270.6	5,198.0	33.6	128.9	36.6
- Economic Development	2,468.0	9,457.0	1,438.7	3,987.0	61.5	177.1	42.2
- Social Development	1,099.7	3,012.0	581.9	984.5	(10.5)	69.2	32.7
- General Development	323.0	1,740.0	250.1	226.4	(29.9)	(9.4)	13.0
3. Regional Transfers	2,618.6	13,555.0	3,559.6	3,474.5	32.7	(2.4)	25.6
4. Special Programs	5.0	-	-	-	(100.0)		

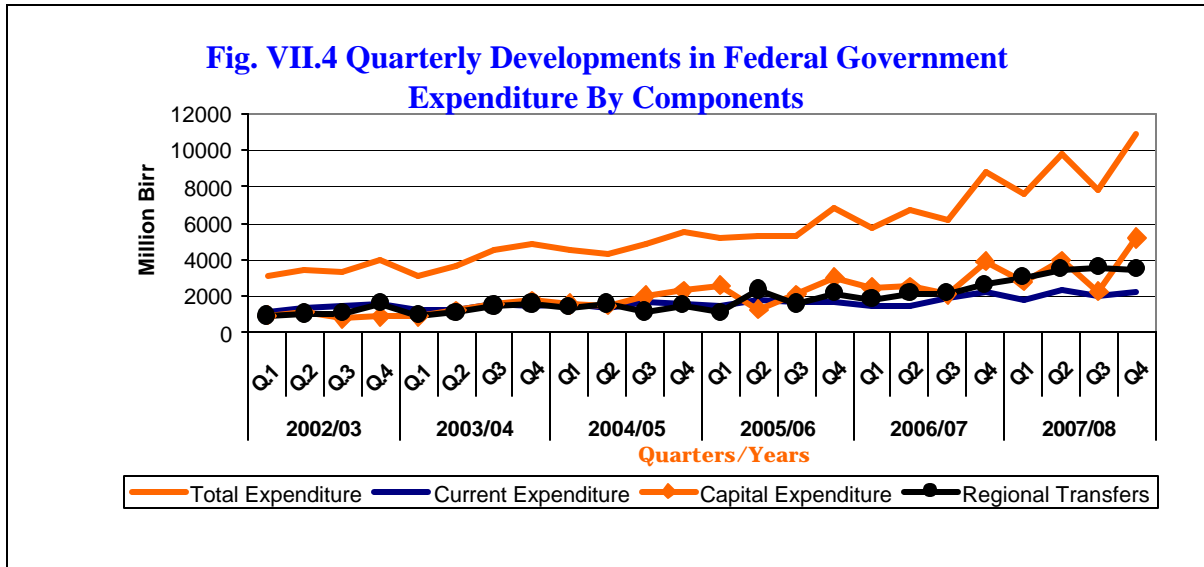
Source: Ministry of Finance and Economic Development (MoFED)

Fig VII.3: Major Components of Federal Government Expenditure during Fourth Quarter



As compared to last year fourth quarter, the Federal Government expenditure grew by 39.2 percent owing mainly to 128.9 percent surge in capital expenditure and 32.7 percent rise in

regional transfers. Meanwhile, current expenditure showed marginal decline since payment for general and public debt service and slowed down during the stated period.



7.3 Deficit Financing

The Federal Government fiscal operations resulted in a current surplus of Birr 4,197 million in the review quarter. Accordingly, the overall budget deficit, including grants, narrowed down to Birr 1,691 million as compared to Birr 1,848.6 million last year.

The deficit was financed by Birr 561 million net external, Birr 5,314 million domestic borrowings as well as Birr 4,185 residuals.