

FEDERAL GOVERNMENT FINANCE

The total revenue and grants decreased by 2.9 percent to Birr 8,966 million in the first quarter of 2008/09 from Birr 9,236 million in the fourth quarter of last fiscal year. Year on year basis, however, total revenue and grants rose by 27.4 percent. In addition, the performance of quarterly revenue was 19.9 percent of the total annual budget.

On the other hand, quarterly Federal Government expenditure declined by 6.8 percent to Birr 10,188 million although it surged by 33.8 percent on annual basis.

Hence, despite birr 6.31 billion current surpluses, the overall fiscal deficit (including grants) widened to Birr 1.22 billion compared to Birr 574 million deficit during the same period last year.

Table 7.1 Summary of Federal Government Finance

(In Millions of Birr)

No	Particulars	2007/08		2008/09		Percentage Change		Performance Rate
		I Qtr.	IVQtr.	Budget	I Qtr.			
		[A]	[B]	[C]	[D]	[D/B]	[D/A]	[D/C]
1	Revenue and Grants	7,039	9,236	45,011	8,966	-2.9	27.4	19.9
	1.1 Total Revenue	6,071	6,451	35,112	8,718	35.1	43.6	24.8
	Tax Revenue	4,427	5,647	26,415	5,184	-8.2	17.1	19.6
	Non-Tax Revenue	1,644	804	8,697	3,534	339.4	115.0	40.6
	1.2 DBS Grant & Relief	969	2,785	9,901	249	-91.1	-74.3	2.5
2	Current Expenditure	1,760	2,254	12,301	2,412	7.0	37.1	19.6
3	Current Surplus/Deficit	4,311	4,197	22,810	6,305	50.2	46.3	27.6
4	Capital Expenditure	2,813	5,198	19,449	4,158	-20.0	47.8	21.4
5	Regional Transfers	3,041	3,475	16,556	3,617	4.1	19.0	21.8
6	Total Expenditure (2+4+5)	7,614	10,927	48,306	10,188	-6.8	33.8	21.1
7	Overall Surplus/Deficit							
	(Including Grants)	(574)	(1,691)	(3,295)	(1,222)	-27.7	112.8	37.1
	(Excluding Grants)	(1,543)	(4,476)	(13,195)	(1,471)	-67.1	-4.7	11.1
8	Total Financing	574	1,691	3,295	1,222	-27.7	112.8	37.1
	8.1 Net External Borrowing	444	561	2,834	478	-14.8	7.7	16.9
	External Borrowing	265	606	3,291	618	1.9	132.8	18.8
	Special Program	290	-	-	-	-	-100.0	
	Amortization Paid	111	45	457	140	211.6	25.4	30.5
	8.2 Net Domestic Borrowing	1,500	5,314	-	598	-88.7	-60.1	
	Banking System	172	3,451	-	703	-79.6	308.4	
	Non-Bank Sources	1,328	1,864	-	(105)	-105.7	-107.9	
	8.3 Others and Residuals	(1,370)	(4,185)	460	146	-103.5	-110.6	31.7

Source: Ministry of Finance and Economic Development (MoFED)

7.1 Revenue and Grants

Total revenue and grants mobilized during the first quarter of 2008/09 reached Birr 8.96 billion of which Birr 8.71 billion (or 97.2 percent) was from domestic sources and the balance (Birr 249 million) from CPF grants. Besides, about 59.5 percent of the domestic

revenue was from taxes, and 40.5 percent from non-taxes. The amount of CPF grant during the reported period was 91.1 and 74.3 percent lower than that of the preceding quarter and the same period of last fiscal year, respectively.

Table 7.2 Summary of Federal Government Revenue by Component

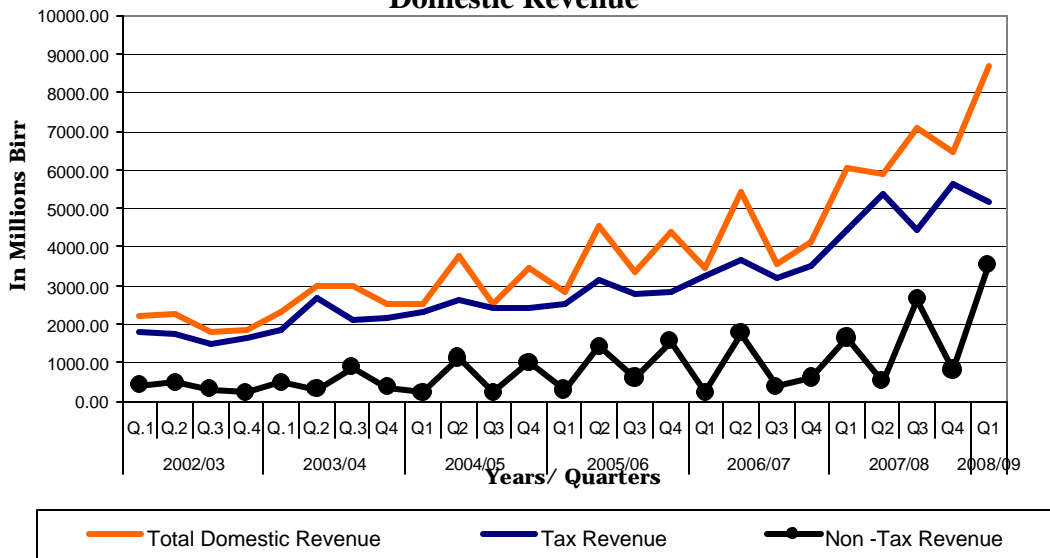
(In Millions of Birr)

Particulars	2007/08		2008/09		Percentage Change		Performance Rate
	I Qtr.	IV Qtr.	Budget	I Qtr.	[D/B]	[D/A]	
	[A]	[B]	[C]	[D]	[D/B]	[D/A]	
Total Revenue and Grants	7,039	9,236	45,011	8,966	-2.9	27.4	19.9
Total Domestic Revenue	6,070	6,451	35,111	8,717	35.1	43.6	24.8
1 Tax Revenue	4,427	5,647	26,415	5,184	-8.2	17.1	19.6
1.1 Direct Tax Revenue	867	983	5,499	815	-17.1	-6.0	14.8
1.1.1 Income Taxes	706	798	4,725	595	-25.4	-15.7	12.6
- Personal	158	262	998	233	-11.0	47.4	23.4
- Business	547	536	3,727	362	-32.4	-33.9	9.7
1.1.2 Others ¹	161	185	774	220	18.7	36.5	28.4
1.2. Indirect Taxes	3,560	4,664	20,916	4,369	-6.3	22.7	20.9
2. 2.1 Domestic Taxes	979	1,220	6,116	1,250	2.4	27.7	20.4
2. 2.2 Foreign Trade Taxes	2,582	3,444	14,800	3,119	-9.4	20.8	21.1
- Import	2,582	3,444	14,800	3,119	-9.4	20.8	21.1
2. Non-Tax Revenue	1,644	804	8,697	3,534	339.4	115.0	40.6
O/W Dividend	655	89	3,000	0	-100.0	-100.0	0.0
3. CPF Grants	969	2,785	9,901	249	-91.1	-74.3	2.5

Source: MoFED

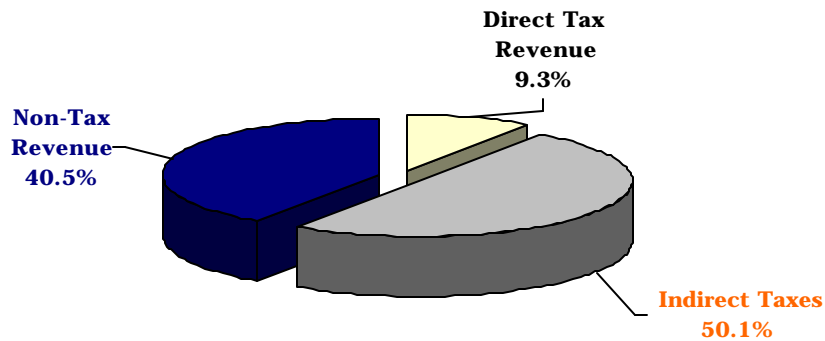
^{1/} 'Others' include rental, withholding tax and interest income

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



Source: MoFED

Fig.VII.2 Domestic Revenue (by Major Components) during First Quarter of 2008/09



Source: MoFED

Some Birr 8, 72 billion domestic revenue collected in the first quarter of 2008/09 was 35.1 and 43.6 percent higher than the revenue mobilized in the preceding quarter and a year earlier, respectively.

Tax revenue at Birr 5.18 billion fell by 8.2 percent over the previous quarter mainly due to a decline in direct tax revenue by 17.1 percent. On annual basis, however, tax revenue registered a 17.1 percent growth. As usual, tax revenue mainly originated from indirect taxes, accounting for Birr 4.3 billion (84.3 percent) of the total domestic revenue

7.2 Expenditure

The total Federal Government expenditures including regional transfers stood at Birr 10.19 billion during the stated period, about 33.8 percent higher than the corresponding quarter of last year. The 6.8 percent quarterly decline in the total expenditure was due to a slow down in the capital expenditure by 20 percent.

Of the quarterly total expenditure, Birr 2.41 billion (or about 23.7 percent) was channeled to finance current expenditures and Birr 4.16 billion (or 40.8 percent) to various development

garnered during the review quarter. The revenue from indirect taxes went up by 22.7 percent vis-à-vis the same quarter last year.

On the other hand, direct tax revenue, which mostly comprises of personal and business income tax, fell to Birr 815 million, exhibiting an annual decline of 6.0 percent as tax collection from businesses slowed down despite substantial increase in revenue from personal income taxes.

programs. The balance (35.5 percent) was allocated for regional transfers.

Year-on-year basis, recurrent expenditures increased by 37.1 percent as all the components of the expenditure went up. Capital expenditure also surged by 47.8 percent as a result of higher social and general development expenditures, despite significant declines in general development expenditure. Regional transfers also showed a surge by 19 percent growth over the same period of last fiscal year.

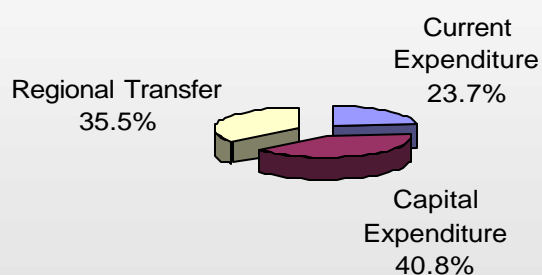
Table 7. 2 Summary of Federal Government Expenditure by Component

(In Millions of Birr)

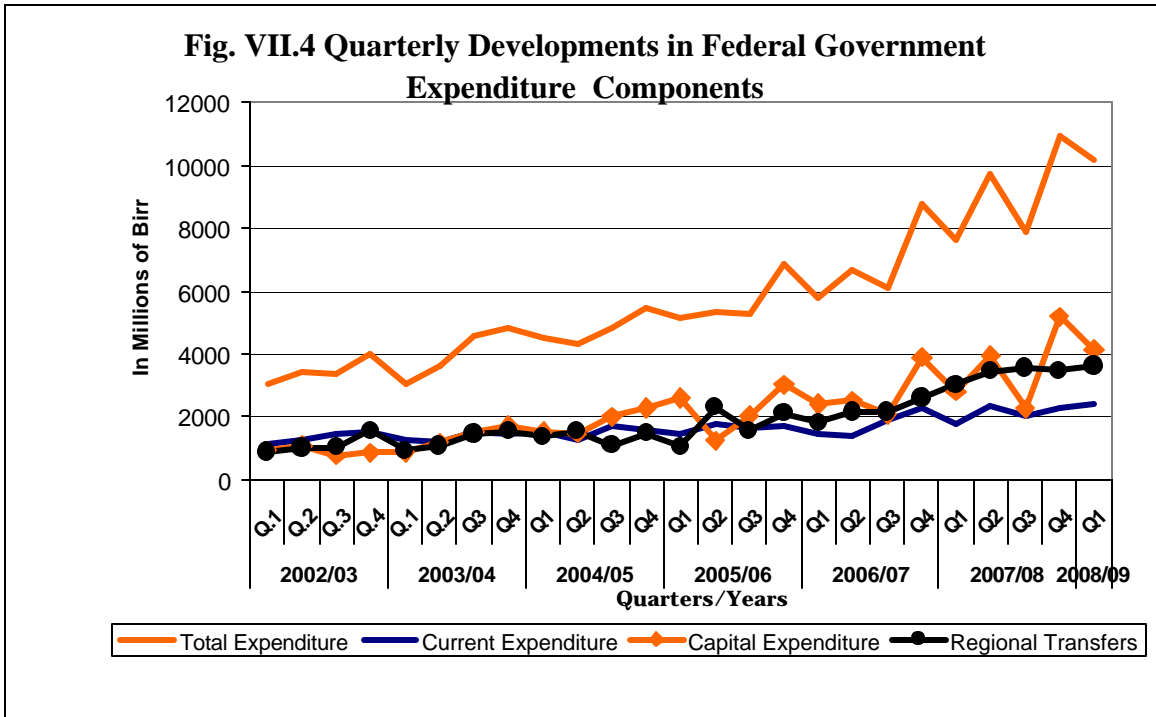
Particulars	2007/08		2008/09		Percentage Change		Performance Rate
	I Qtr.	IV Qtr.	Budget	I Qtr.	[D/B]	[D/A]	[D/C]
	[A]	[B]	[C]	[D]			
Total Expenditure	7,613	10,927	48,305	10,188	-100.0	-100.0	0.0
1. Current Expenditure	1,760	2,254	12,301	2,412	7.0	37.1	19.6
- General Services	1,320	1,070	5,629	1,502	40.3	13.8	26.7
- Economic Services	53	272	836	114	-58.0	116.5	13.7
- Social Services	218	563	2,154	461	-18.1	111.3	21.4
- Debt Service	159	348	2,207	320	-7.9	101.4	14.5
-Contingency and Others	10	1	1,474	14	1762.4	44.3	0.9
2. Capital Expenditure	2,813	5,198	19,449	4,158	-20.0	47.8	21.4
- Economic Development	1,612	3,987	15,003	3,201	-19.7	98.5	21.3
- Social Development	479	985	4,096	919	-6.7	91.9	22.4
- General Development	722	226	350	39	-82.8	-94.6	11.1
3. Regional Transfers	3,041	3,475	16,556	3,617	4.1	19.0	21.8

Source: MoFED

Fig VI.3: Major Components of Federal Government Expenditure during First Quarter of 2008/09



Source: MoFED

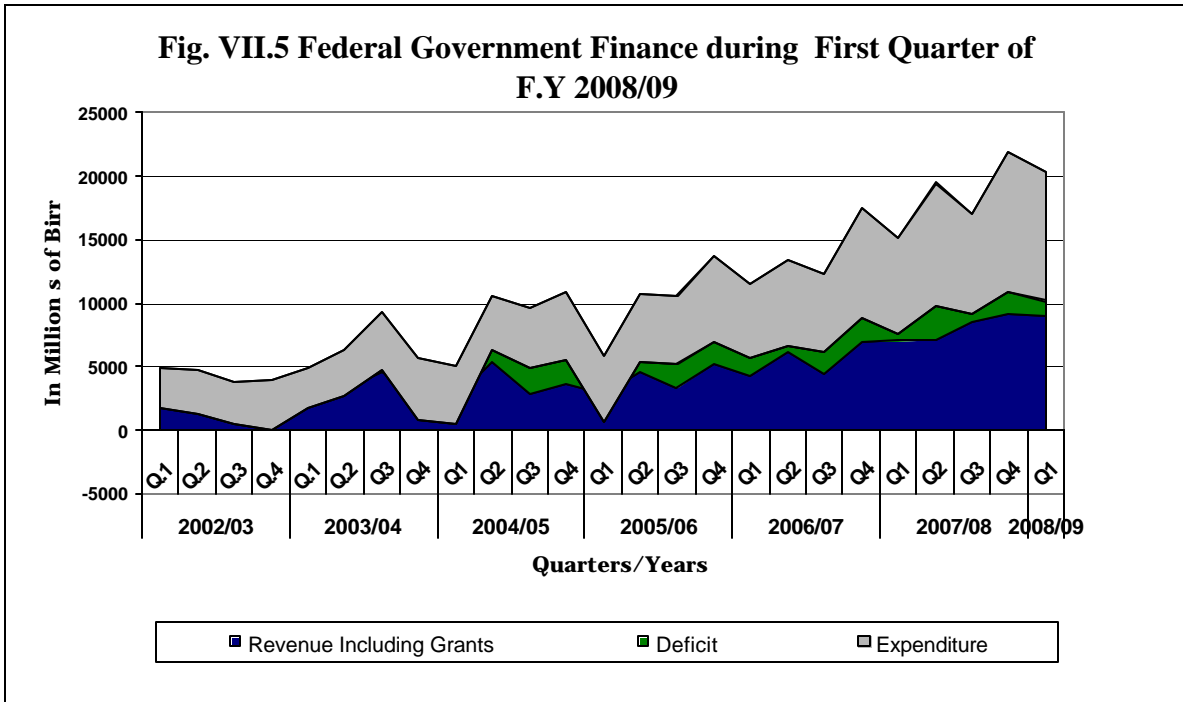


Source: MoFED

7.3 Deficit Financing

As indicated earlier, Federal Government budgetary operations resulted in an overall deficit (including grant) of Birr 1,22 billion, which was significantly higher than that of last year

same quarter by Birr 469. The fiscal deficit was financed by Birr 478 million net external borrowing and Birr 598 net domestic borrowing with Birr 146 million as residual and others.



Source: MoFED