

## VII. FEDERAL GOVERNMENT FINANCE

Total revenue and grants of the Federal Government increased by 25.8 percent to Birr 11.3 billion in the second quarter of 2008/09 from Birr 9.0 billion in the preceding quarter. It also surged by 57.7 percent on yearly basis.

At the same time, quarterly Federal government expenditure decreased by 3.8 percent to Birr 9.8 billion, while it

marginally rose by 0.6 percent on annual terms.

Hence, fiscal balance (including grants) depicted an overall surplus of Birr 1.5 billion during the second quarter of 2008/09 compared to Birr 1.2 billion and Birr 2.3 billion deficits in the preceding quarter and the same period of last fiscal year, respectively.

**Table 7.1 Summary of Federal Government Finance**

(In million Birr)

No	Particulars	2007/8	2008/9		Percentage Change		Performance Rate	
		II Qtr.	Budget	I Qtr.	II Qtr.	[D/A]	[D/C]	[D/B]
		[A]	[B]	[C]	[D]			
1	Revenue and Grants	7,152	45,013	8,966	11,279	57.7	25.8	25.1
1.1	Total Revenue	5,899	35,112	8,717	7,743	31.3	-11.2	22.1
	Tax Revenue	5,387	26,415	5,184	6,652	23.5	28.3	25.2
	Non-Tax Revenue	512	8,697	3,533	1,091	113.1	-69.1	12.5
1.2	DBS Grant & Relief	1,253	9,901	249	3,536	182.2	1320.1	35.7
2	Current Expenditure	2,329	12,301	2,412	2,229	-4.3	-7.6	18.1
3	Current Surplus/Deficit	3,570	22,810	6,305	5,514	54.5	-12.5	24.2
4	Capital Expenditure	3,953	19,449	4,158	3,186	-19.4	-23.4	16.4
5	Regional Transfers	3,458	16,556	3,617	4,375	26.5	21.0	26.4
6	Special Program	17	0	0	0			
7	Total Expenditure (2+4+5+6)	9,740	48,306	10,187	9,790	0.5	-3.9	20.3
8	Overall Surplus/Deficit							
	(Including Grants)	-2588	-3293	-1221	1489	-157.5	-221.9	-45.2
	(Excluding Grants)	-3841	-13195	-1470	-2047	-46.7	39.3	15.5
9	Total Financing	2,588	3,295	1,222	(1,478)	-157.1	-220.9	-44.9
9.1	Net External Borrowings	156	2,834	478	208	33.3	-56.5	7.3

	External Borrowing	584	3,291	618	318	-45.5	-48.5	9.7
	Special program	(290)	0			-100.0		
	Less Amortization Paid	138	457	140	110	-20.3	-21.4	24.1
<b>9.2</b>	<b>Net Domestic Borrowings</b>	<b>884</b>		<b>598</b>	<b>(2,677)</b>	<b>-402.8</b>	<b>-547.7</b>	
	Banking System	2,127		703	(2,928)	-237.7	-516.5	
	Non-Bank Sources	(1,243)	0	(105)	251	-120.2	-339.0	
<b>9.3</b>	<b>Others and Residuals</b>	<b>1,548</b>	<b>460</b>	<b>146</b>	<b>735</b>	<b>-52.5</b>	<b>403.4</b>	<b>159.8</b>

## 7.1 Revenue and Grants

Total revenue and grants mobilized during the second quarter of 2008/09 reached Birr 11.3 billion, of which, Birr 7.7 billion (or 68.6 percent) was from domestic sources; while the balance (Birr 3.5 billion) from CPF grants. About 85.9 percent of the

domestic revenue was mobilized from taxes and 14.1 percent from non-taxes. The amount of CPF grant during the review period was significantly higher than that of the preceding quarter and same period last year, respectively.

**Table 7. 2 Summary of Federal Government Revenue by Component**

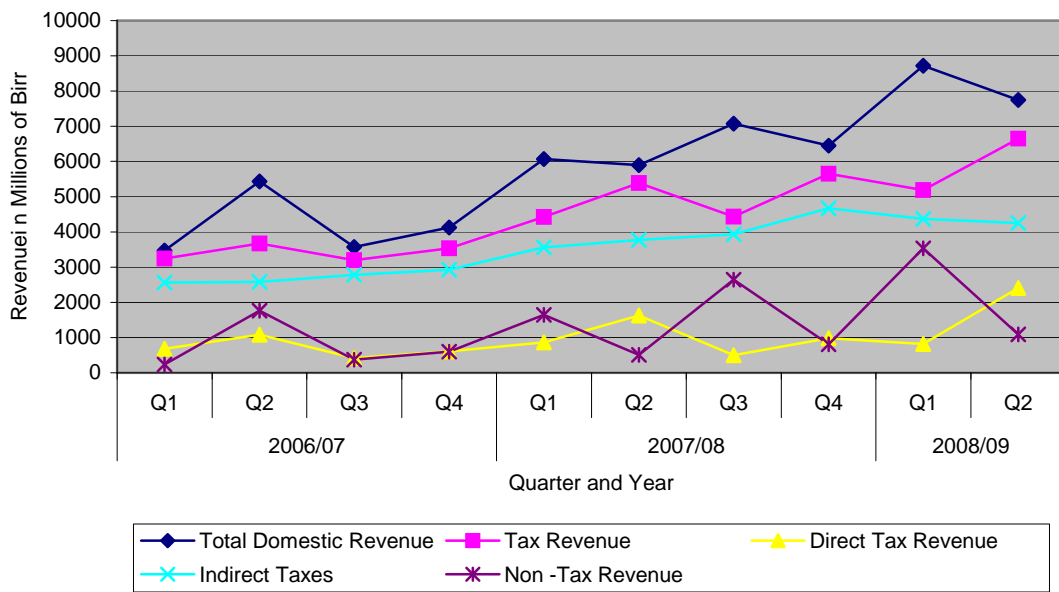
(In Millions of Birr)

Particulars	2007/08	2008/09			Percentage Change		Performance Rate
	II Qtr.	Budget	I Qtr.	II Qtr.	[D/A]	[D/C]	[D/B]
	[A]	[B]	[C]	[D]			
<b>Total Revenue and Grants</b>	<b>7,152</b>	<b>45,018</b>	<b>8,966</b>	<b>11,278</b>	<b>57.7</b>	<b>25.8</b>	<b>25.1</b>
<b>Total Domestic Revenue</b>	<b>5,899</b>	<b>35,112</b>	<b>8,717</b>	<b>7,743</b>	<b>31.3</b>	<b>-11.2</b>	<b>22.1</b>
<b>1 Tax Revenue</b>	<b>5,387</b>	<b>26,415</b>	<b>5,184</b>	<b>6,652</b>	<b>23.5</b>	<b>28.3</b>	<b>25.2</b>
<b>1.1 Direct Tax Revenue</b>	<b>1,622</b>	<b>5,499</b>	<b>815</b>	<b>2,403</b>	<b>48.2</b>	<b>194.9</b>	<b>43.7</b>
1.1.1 Income Taxes	1,451	4,725	595	2,227	53.5	274.2	47.1
- Personal	198	998	233	241	22.0	3.3	24.1
- Business	1,253	3,727	362	1,986	58.5	448.8	53.3
<b>1.2. Indirect Taxes</b>	<b>3,765</b>	<b>20,916</b>	<b>4,369</b>	<b>4,249</b>	<b>12.9</b>	<b>-2.7</b>	<b>20.3</b>
2. 2.1 Domestic Taxes	951	6,116	1,250	1,464	53.9	17.2	23.9
2. 2.2 Foreign Trade Taxes	2,814	14,800	3,119	2,785	-1.0	-10.7	18.8
- Import	2,814	14,800	3,119	2,785	-1.0	-10.7	18.8
<b>2. Non-Tax Revenue</b>	<b>512</b>	<b>8,697</b>	<b>3,533</b>	<b>1,091</b>	<b>113.2</b>	<b>-69.1</b>	<b>12.5</b>
O/W Dividend	54	3,000	-	700	1184.9		23.3
<b>3. CPF Grants</b>	<b>1,253</b>	<b>9,901</b>	<b>249</b>	<b>3,536</b>	<b>182.2</b>	<b>1320.7</b>	<b>35.7</b>

Source: MoFED

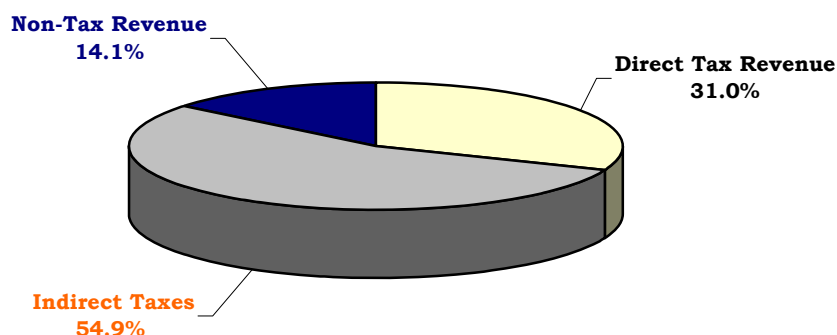
1/ includes withholding tax on import, tax on dividend and interest income

**Fig. VII.1 Developments in Major Revenue Components**



Source: MoFED

**Fig.VII.2 Domestic Revenue by Major Components during Second Quarter of 2008/09**



Source: MoFED

Domestic revenue collected during the second quarter of 2008/09 declined by 11.2 percent compared to the preceding quarter, but showed a 31.3 percent increase on yearly basis.

Tax revenue rose by 28.3 percent and reached Birr 6.6 billion over the previous quarter mainly due to higher revenue collected from direct tax. Similarly, it

registered a 23.5 percent growth against the same period of last year.

Revenue from indirect taxes, which accounted for about 64 percent of the total tax revenue mobilized during the review quarter, rose by 12.8 percent vis-à-vis the same quarter of last fiscal year. On the other hand, direct tax revenue, which mostly comprises personal and business income taxes, exhibited an annual increase of 48.2 percent and reached Birr 2.4 billion.

## 7.2 Expenditure

Total Federal government expenditure, including regional transfers, increased

marginally by 0.6 percent and stood at Birr 9.8 billion in the second quarter of 2008/09 vis-à-vis the corresponding quarter of last year. This was the result of a slow down in capital and recurrent expenditures which offset the surge in regional transfers (26.5 percent).

Of the quarterly total expenditure, Birr 2.2 billion (or about 22.9 percent) was used for current expenditure, Birr 3,186 million (or 32.5 percent) for various development programs, and the balance Birr 3.4 billion

(44.6 percent) for regional transfers.

Year-on-year basis, recurrent expenditure declined by 3.8 percent owing to lower expenditure for all components except a marginal increase for general services and contingencies. Similarly, capital expenditure dropped by 19.4 percent as a result of lower social, economic and general development expenditure in line with the government policy to arrest inflation through fiscal and monetary policies.

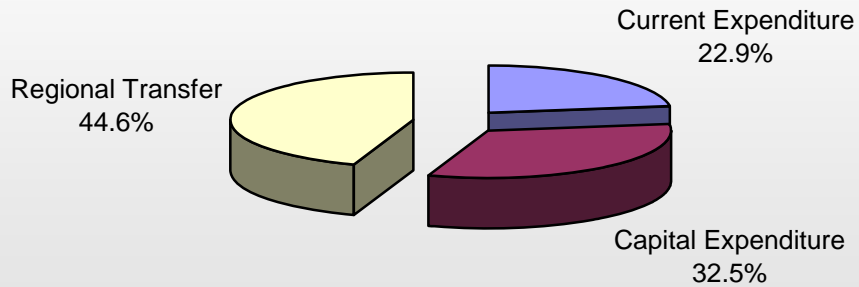
**Table 7.2 Summary of Federal Government Expenditure by Component**

(In Millions of Birr)

Particulars	2007/08	2008/09		Percentage Change		Performance Rate	
	II Qtr.	Budget	I Qtr.	II Qtr.	[D/A]		[D/C]
	[A]	[B]	[C]	[D]	[D/A]		[D/C]
<b>Total Expenditure</b>	<b>9740</b>	<b>48,305</b>	<b>10,188</b>	<b>9,802</b>	<b>0.6</b>	<b>-3.8</b>	<b>20.3</b>
<b>1. Current Expenditure</b>	<b>2,329</b>	<b>12,300</b>	<b>2,411</b>	<b>2,241</b>	<b>-3.8</b>	<b>-7.1</b>	<b>18.2</b>
- General Services	1,284	5,629	1,502	1,300	1.2	-13.5	23.1
- Economic Services	134	836	114	113	-15.6	-0.8	13.5
- Social Services	550	2,154	461	486	-11.7	5.4	22.6
- Debt Service	360	2,207	320	341	-5.4	6.4	15.4
-Contingency and Others	1	1,474	14	2	70.0	-87.9	0.1
<b>2. Capital Expenditure</b>	<b>3,953</b>	<b>19,449</b>	<b>4,158</b>	<b>3,186</b>	<b>-19.4</b>	<b>-23.4</b>	<b>16.4</b>
- Economic Development	3,015	15,003	3,200	2,478	-17.8	-22.6	16.5
- Social Development	750	4,096	919	637.8	-15.0	-30.6	15.6
- General Development	188	350	39	70.2	-62.7	80.0	20.1
<b>3. Regional Transfers</b>	<b>3,458</b>	<b>16,556</b>	<b>3,617</b>	<b>4,375</b>	<b>26.5</b>	<b>21.0</b>	<b>26.4</b>
<b>4. Special Programs</b>	<b>-</b>	<b>0</b>					

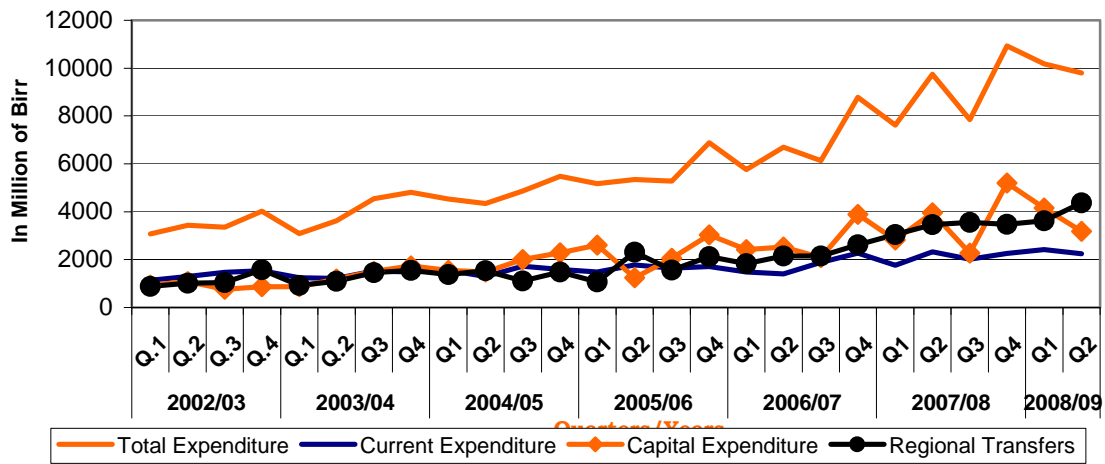
Source: MoFED

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



Source: MoFED

**Fig. VII.4 Quarterly Developments in Federal Government Expenditure by Components**



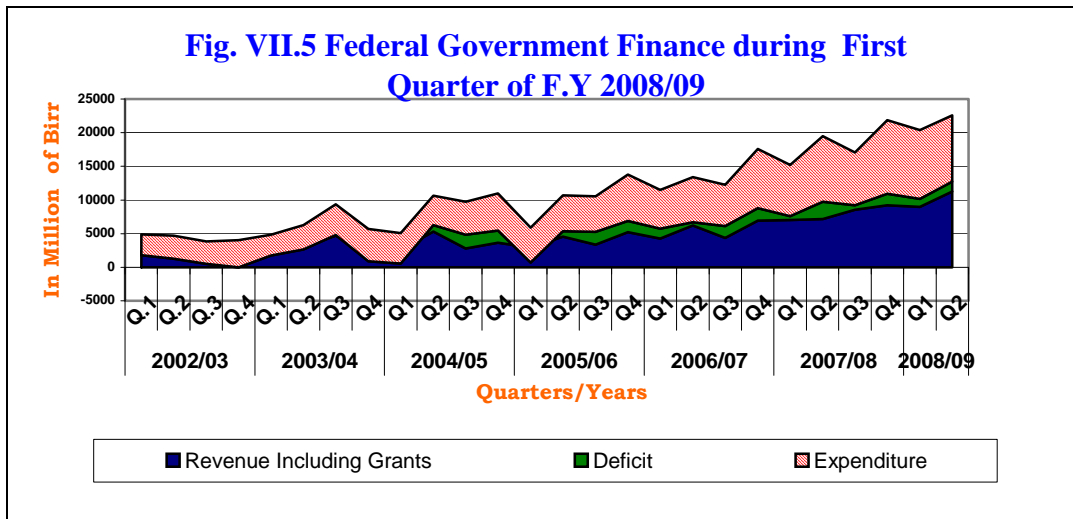
Source: MoFED

### 7.3 Deficit Financing

Federal Government second quarter

budgetary operations resulted in an overall surplus (including grant) of Birr 1,478 million compared to Birr 2,588 million deficit of same quarter of last fiscal year. Hence, net domestic

borrowing from the banking system dropped by Birr 2,928 million.



Source: MoFED