

VII. FEDERAL GOVERNMENT FINANCE

In the third quarter of 2008/09, the total revenue and grants decreased by 36.3 percent to Birr 7,188 million from Birr 11,279 million in the preceding quarter. In addition, year-on-year basis total revenue and grants fell by 15.8 percent. Quarterly revenue performance was 16 percent of the total annual budget.

On the other hand, the quarterly Federal Government expenditure increased by 24.9

percent to Birr 12,242 million and by 56 percent on annual terms.

Hence, overall fiscal balance (including grants) depicted an overall deficit of Birr 5.054 million during the review quarter as compared to a surplus of Birr 1,478 and Birr 686 million in the preceding quarter and same period of last fiscal year, respectively.

Table 7.1 Summary of Federal Government Finance

(In Millions of Birr)

No	Particulars	2007/08	2008/09			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	8,534	45,013	11,279	7,188	-15.8	-36.3	16.0
1.1	Total Revenue	7,075	35,112	7,743	7,128	0.7	-7.9	20.3
	Tax Revenue	4,429	26,415	6,651	5,359	21.0	-19.4	20.3
	Non-Tax Revenue	2,646	8,697	1,092	1,768	-33.2	61.9	20.3
1.2	DBS Grant & Relief	1,458	9,901	3,536	60	-95.9	-98.3	0.6
2	Current Expenditure	2,018	12,301	2,240	2,088	3.5	-6.8	17.0
3	Current Surplus/Deficit	5,057	22,811	5,514	5,040	-0.3	-8.6	22.1
4	Capital Expenditure	2,270	19,449	3,186	6,003	164.4	88.4	30.9
5	Regional Transfers	3,560	16,556	4,375	4,151	16.6	-5.1	25.1
6	Special Program	0	0	-	0			
7	Total Expenditure (2+4+5+6)	7,848	48,306	9,801	12,242	56.0	24.9	25.3

8	Overall Surplus/Deficit							
	<i>(Including Grants)</i>	686	-3295	1478	-5054	-837.1	-441.9	153.4
	<i>(Excluding Grants)</i>	-773	-13194	-2058	-5114	561.7	148.5	38.8
9	Total Financing	-686	3,295	(1,478)	5054	-837.3	-441.9	153.4
9.1	Net External Borrowings	247	2,834	208	3,043	1132.3	1363.0	107.4
	External Borrowing	355	3,291	318	1,799	406.9	465.7	54.7
	Special program	-						
	Less Amortization Paid	108	457	110	34	-68.5	-69.1	7.4
9.2	Net Domestic Borrowings	-954	-	(2,677)	-2337	145.0	-12.7	
	Banking System	-1527	-	(2,928)	-2595	70.0	-11.4	
	Non-Bank Sources	573	0	251	258	-55.0	2.8	
9.3	privatization receipts		460	255	155		-39.1	
9.4	Others and Residuals	21	0	735	4,194	19496.2	470.6	

Source: Ministry of Finance and Economic Development(MoFED)

7.1 Revenue and Grants

Total revenue and grants mobilized during the third quarter of 2008/09, reached Birr 7,188 million of which Birr 7,128 million (or 99 percent) was from domestic sources; while the rest (Birr 60 million) was derived from CPF grants. About 75 percent of the domestic revenue was generated from taxes

and the remaining 25 percent from non-taxes. The amount of CPF grant in the quarter was 98.3 and 95.9 percent lower than that of the preceding quarter and same period of last fiscal year, respectively.

Table 7. 2 Summary of Federal Government Revenue by Component

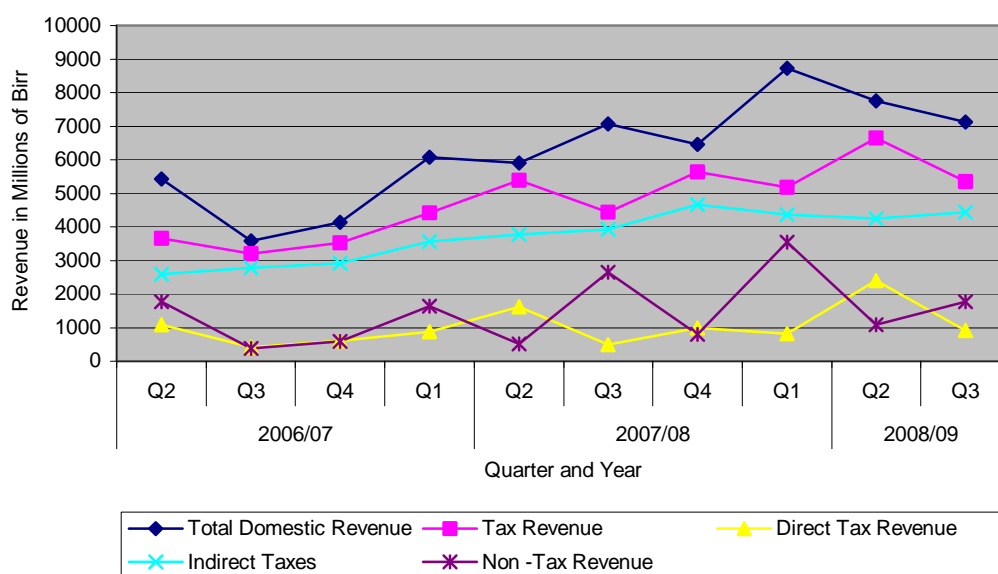
(In Millions of Birr)

Particulars	2007/08	2008/09			Percentage Change		Performance Rate
	III Qtr.	Budget	II Qtr.	III Qtr.	[D/A]	[D/C]	[D/B]
	[A]	[B]	[C]	[D]			
Total Revenue and Grants	8,534	45,013	11,279	7,188	-15.8	-36.3	16.0
Total Domestic Revenue	7,075	35,112	7,743	7,128	0.7	-7.9	20.3
1 Tax Revenue	4,429	26,415			21.0	-19.4	20.3

			6,651	5,359			
1.1 Direct Tax Revenue	499	5,499	2,403	923	85.1	-61.6	16.8
1.1.1 Income Taxes	350	4,725	2,227	734	109.7	-67.0	15.5
- Personal	176	998	241	258	46.2	7.1	25.9
- Business	174	3,727	1,986	476	174.3	-76.0	12.8
1.1.2 Others ¹	149	-	-	-	-100.0		
1.2. Indirect Taxes	3,931	20,916	4,247	4,436	12.9	4.4	21.2
2. 2.1 Domestic Taxes	1,077	6,116	1,462	1,493	38.7	2.1	24.4
2. 2.2 Foreign Trade Taxes	2,854	14,800	2,785	2,943	3.1	5.7	19.9
- Import	2,854	14,800	2,785	2,943	3.1	5.7	19.9
2. Non-Tax Revenue	2,646	8,697	1,092	1,768	-33.2	61.9	20.3
O/W Dividend	346	3,000	700	1,300	276.2	85.7	43.3
3. CPF Grants	1,458	9,901	3,536	60	-95.9	-98.3	0.6

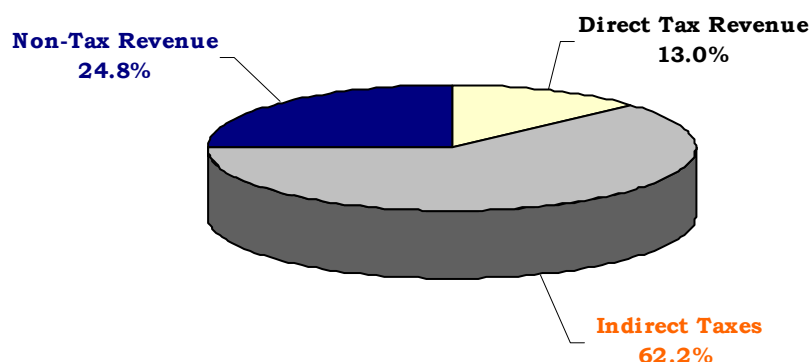
1/ Includes withholding tax on import, tax on dividend and interest income

Source: MoFED



Source: MoFED

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



Source: MoFED

Birr 7,128 million domestic revenue collected in the third quarter of 2008/09 declined by 7.9 percent in the preceding quarter, but increased by 0.7 percent over that of last year.

Tax revenue, which was Birr 5,359 million declined by 19.4 percent over the previous quarter mainly due to the reduction in revenue in direct tax by 61.6 percent. However, it registered a 21 percent growth over the same period a year earlier. As usual, tax revenue mainly originated from indirect taxes, accounting for Birr 4.4 billion

(62.2percent) of the total domestic revenue collected in the quarter. Revenue from indirect taxes increased by 4.4 and 12.9 percent vis-à-vis the previous quarter and same period of last fiscal year.

On the other hand, direct tax revenue, which mostly comprises personal and business income tax, fell to Birr 923 million, exhibiting a quarterly decline by 61.6, but annual increase by 85.1 percent.

7.2 Expenditure

Total Federal Government expenditure including regional transfers stood at Birr 12,227 million in the third quarter. This figure was 24.9 and 55.8 percent higher than the previous quarter and corresponding period of last year, respectively. The quarterly growth was attributed to the rise in capital expenditure by 88.4 percent.

In general, of the quarterly total expenditure, Birr 2,073 million (or about 16.9 percent) was channeled to finance

current expenditures, Birr 6,003 million (or 49 percent) to various development programs and the balance (34.1 percent) for regional transfers. Year-on-year basis, recurrent expenditures increased by 2.7 percent largely owing to higher expenditure on social service, economic service and other expenses. Capital expenditure went up by 164.4 percent as a result of higher social and economic development expenditures. Regional transfers also showed a surge by 16.6 percent.

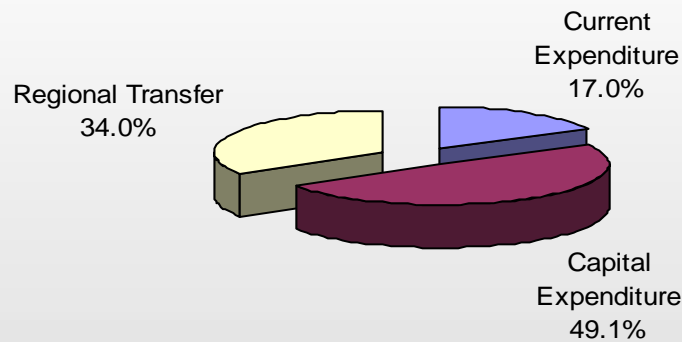
Table 7. 2 Summary of Federal Government Expenditure by Component

(In Millions of Birr)

Particulars	2007/08	2008/09			Percentage Change		Performance Rate
	III Qtr.	Budget	II Qtr.	III Qtr.	[D/A]	[D/C]	[D/B]
	[A]	[B]	[C]	[D]			
Total Expenditure	7,848	47,892	9,790	12,227	55.8	24.9	25.5
1. Current Expenditure	2,018	11,887	2,229	2,073	2.7	-7.0	17.4
- General Services	1,317	5,629	1,300	1,163	-11.7	-10.5	20.7
- Economic Services	69	837	104	91	31.9	-12.5	10.9
- Social Services	365	2,154	484	509	39.5	5.2	23.6
- Debt Service	266	2,207	341	310	16.4	-9.1	14.0
-Contingency and Others	0.9	1,060	-	-	-100.0		0.0
2. Capital Expenditure	2,271	19,449	3,186	6,003	164.4	88.4	30.9
- Economic Development	1,439	15,003	2,478	4,831	235.8	95.0	32.2
- Social Development	582	4,096	638	1,095	88.2	71.6	26.7
- General Development	250	350	70	77	-69.2	10.0	22.0
3. Regional Transfers	3,560	16,556	4,375	4,151	16.6	-5.1	25.1
4. Special Programs	0	0	0				

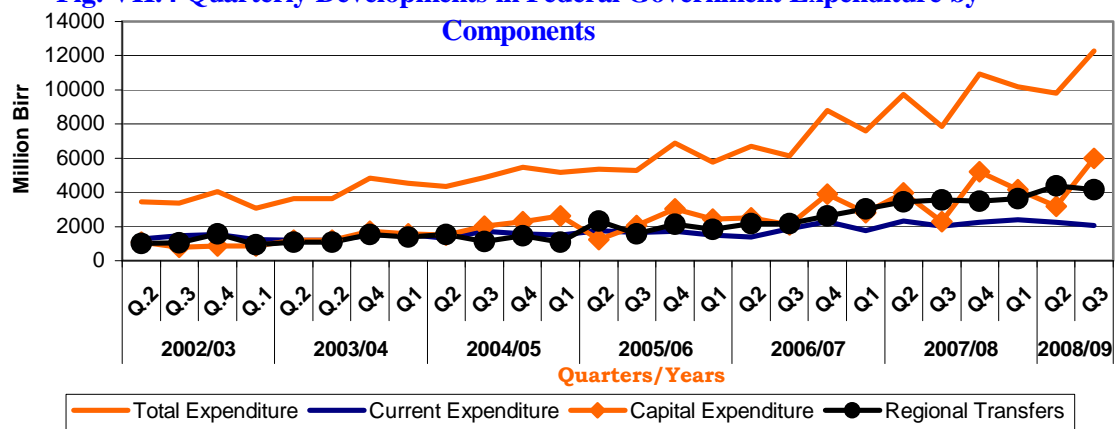
Source: MoFED

Fig 7.3: 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



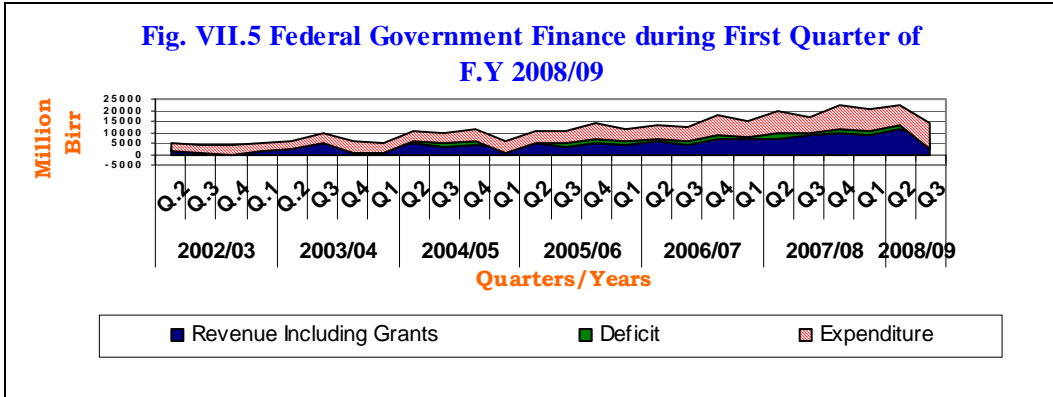
Source: MoFED

7.3 Deficit Financing

As indicated earlier, Federal Government budgetary operations resulted in the overall deficit (including

grant) of Birr 5,054 million, which was worsened than Birr 1,478 million surplus in the preceding quarter and the amount during same period of last fiscal year

showed surplus of Birr 686 million. This condition in the overall budget balance during the review quarter was due to the rise in capital expenditure and decline of total revenue and grants.



Source: MoFED