

VII. FEDERAL GOVERNMENT FINANCE

During the fourth quarter of 2008/09, total revenue and grants rose to Birr 12,989 million, about 41 percent higher than last year due to higher revenue mobilization both from domestic and external sources. The quarterly revenue performance was 23.7 percent of the total annual budget.

In contrast, the quarterly Federal Government expenditure declined by 6.6 percent to Birr 11,645 million owing to

higher current expenditure and regional transfers.

Hence, the overall fiscal balance (including grants) showed an overall surplus of Birr 1,344 million during the review quarter as compared to a deficit of Birr 1,691 million in the same period of last year.

Table 7.1 Summary of Federal Government Finance

(In Millions of Birr)

No.	Particulars	2007/08	2008/09			Percentage Change		Performance Rate
		IV Qtr.	Budget	III Qtr.	IV Qtr.	[D/A]	[D/C]	[D/B]
		[A]	[B]	[C]	[D]			
1	Revenue and Grants	9,236	45,012	7,188	12,989	40.6	80.7	28.9
1.1	Total Revenue	6,451	35,111	7,128	8,336	29.2	16.9	23.7
	Tax Revenue	5,647	26,414	5,359	6,022	6.6	12.4	22.8
	Non-Tax Revenue	804	8,697	1,768	2,314	187.7	30.9	26.6
1.2	DBS Grant & Relief	2,785	9,901	60	4,653	67.1	7655.0	47.0
2	Current Expenditure	2,254	12,301	2,088	3,227	43.2	54.5	26.2
3	Current Surplus/Deficit	4,197	22,810	5,040	5,109	21.7	1.4	22.4
4	Capital Expenditure	5,198	19,448	6,003	4,212	-19.0	-29.8	21.7
5	Regional Transfers	3,475	16,556	4,151	4,206	21.1	1.3	25.4
6	Special Program	0	0	0	0			
7	Total Expenditure (2+4+5+6)	10,927	48,305	12,242	11,645	6.6	-4.9	24.1
8	Overall Surplus/Deficit							
	<i>(Including Grants)</i>	-1691	-3293	-5054	1344	-179.5	-126.6	-40.8
	<i>(Excluding Grants)</i>	-4476	-13194	-5114	-3309	-26.1	-35.3	25.1
9	Total Financing	1691	3,293	5,054	-1344	-179.5	-126.6	-40.8
9.1	Net External Borrowings	561	2,833	3,043	545	-2.9	-82.1	19.2
	External Borrowing	606	3,290	1,799	633	4.4	-64.8	19.2
	Special program	-		0	-			
	<i>Less Amortization Paid</i>	45	457	34	89	98.7	161.8	19.5
9.2	Net Domestic Borrowings	5314	-	(2,338)	3982	-25.1	-270.4	
	Banking System	3451	-	(2,595)	3944	14.3	-252.0	
	Non-Bank Sources	1,864	0	258.0	36	-98.1	-86.0	
9.3	Privatization Receipt		460	155.0	62		-60.0	
9.4	Others and Residuals	(4,185)	0	4,194	(5,933)	41.8	-241.5	

Source: Ministry of Finance and Economic Development (MoFED)

7.1 Revenue and Grants

Of the total Birr 12,989 million revenue and grants mobilized during the review quarter 64 percent was from domestic sources, while the rest from CPF grants. Besides, about 72 percent of the domestic revenue

was generated from taxes and the remaining 28 percent from non-taxes. The amount of CPF grant in the quarter was Birr 4,653 million indicating a 67.1 percent growth over last fiscal year.

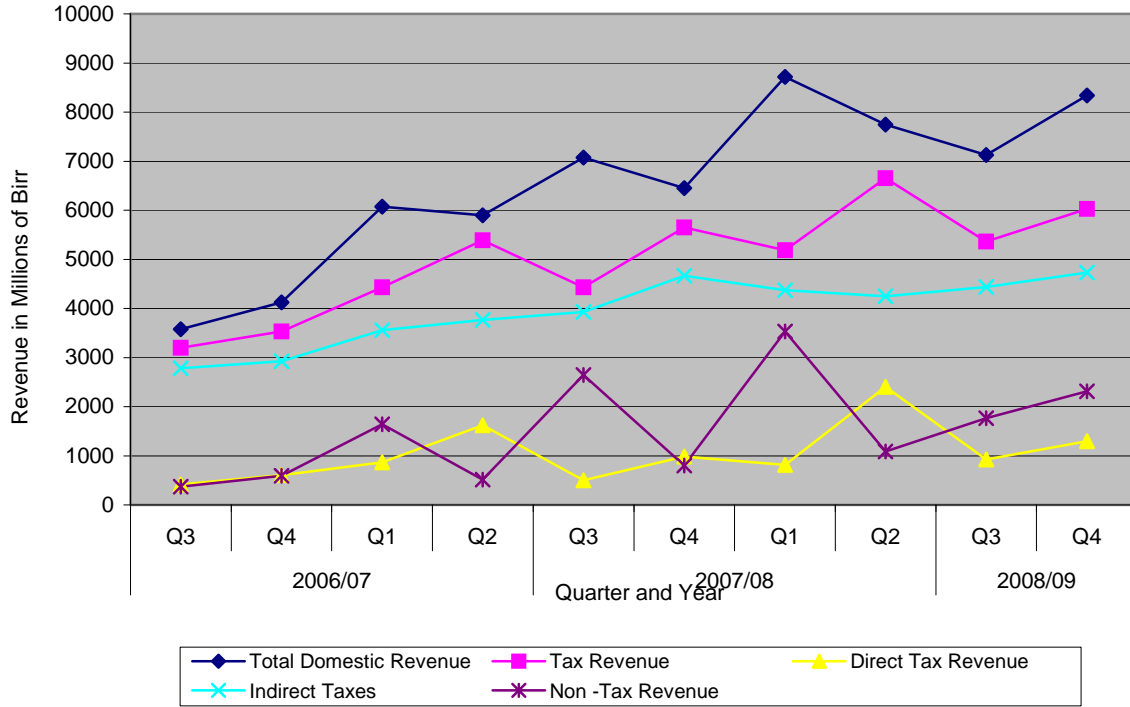
Table 7.2 Summary of Federal Government Revenue by Component
(In Millions of Birr)

Particulars	2007/08	2008/09			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	9,236	45,013	7,188	12,989	40.6	80.7	28.9
Total Domestic Revenue	6,451	35,112	7,128	8,337	29.2	16.9	23.7
1 Tax Revenue	5,647	26,415	5,359	6,023	6.7	12.4	22.8
1.1 Direct Tax Revenue	983	5,499	923	1,296	31.9	40.4	23.6
1.1.1 Income Taxes	798	998	734	1,106	38.7	50.7	110.8
- Personal	262	3,727	258	285	8.8	10.5	7.6
- Business	536	2,357	476	820	53.2	72.4	34.8
1.1.2 Others ¹	185	-	-	191			
1.2. Indirect Taxes	4,664	20,916	4,436	4,728	1.4	6.6	22.6
2. 2.1 Domestic Taxes	1,220	6,116	1,493	1,761	44.3	18.0	28.8
2. 2.2 Foreign Trade Taxes	3,444	14,800	2,943	2,967	-13.9	0.8	20.0
- Import	3,444	14,800	2,943	2,967	-13.9	0.8	20.0
2. Non-Tax Revenue	804	8,697	1,768	2,314	187.7	30.9	26.6
O/W Dividend	89	3,000	1,300	1,000	1019.8	-23.1	33.3
3. Privatization Receipt		460	155	63		-59.4	13.7
4. CPF Grants	2,785	9,901	60	4,653	67.1	7655.0	47.0

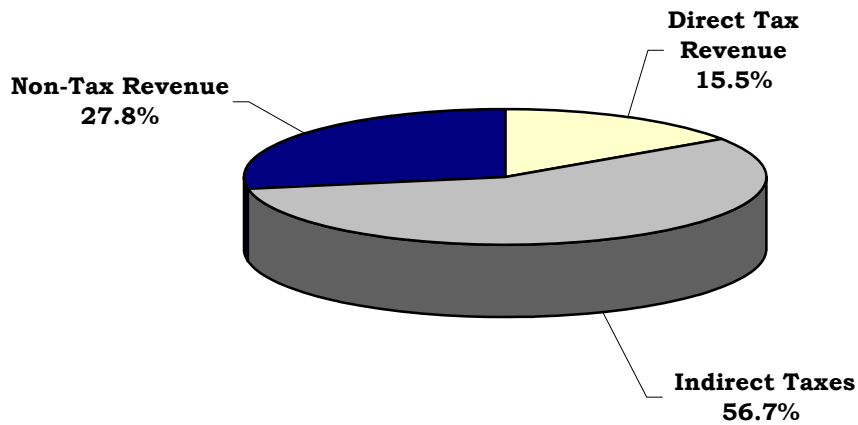
Source: MoFED

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

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



Source: MoFED



Source: MoFED

During the fourth quarter of 2008/09, Birr 8,337 million domestic revenue was collected indicating an increase of 29.2 percent over that of last year.

Tax revenue, which stood at Birr 6,023 million, went up by 6.7 percent over the previous year mainly due to the rise in direct tax revenue by 32 percent. And non-tax revenue by 187.7 percent. Yet tax revenue mainly came from indirect taxes, which

accounted for Birr 4.7 billion (56.7 percent) of the total domestic revenue collected in the quarter. Revenue from indirect taxes, showed a marginal increase of 1.4 percent vis-à-vis the previous year as revenue from domestic taxes went up by 44.3 percent despite 14 percent drop in import taxes.

The surge in revenue from direct taxes was largely attributed to a 53.2 percent increase in business income tax.

7.2 Expenditure

Total Federal Government expenditure including regional transfers stood at Birr 11,645 million during the review period. This figure was 6.6 percent higher than the corresponding period of last year. Largely due to 43.2 percent surge in current expenditure and 21 percent increase in regional transfers.

All in all, Birr 3,227 million (or about 27.7 percent) of the total quarterly expenditure was channeled to finance current expenditures, Birr 4,212 million (or 36.2 percent) to various development programs and the balance (36.1 percent) for regional transfers. Capital expenditure went down by 19 percent as a result of lower outlays on social, economic and general development expenditures .

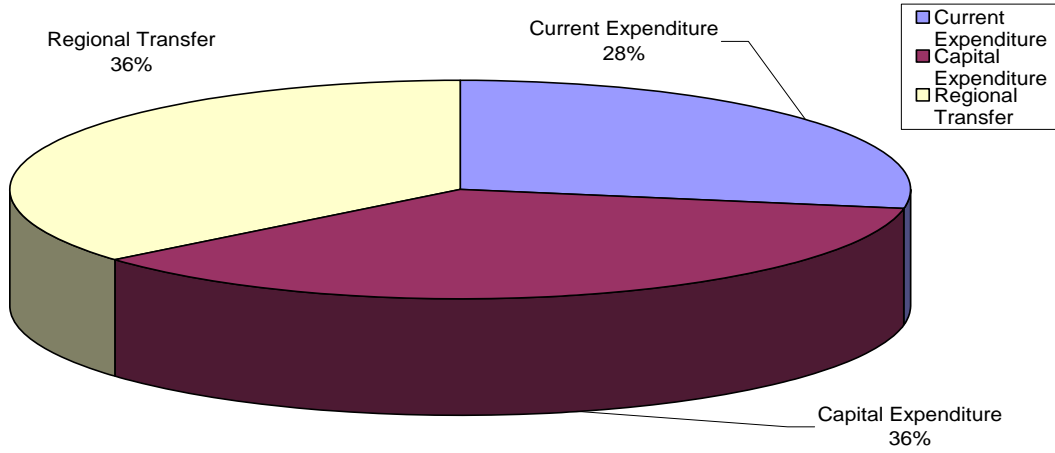
Table 7. 2 Summary of Federal Government Expenditure by Component

(In Millions of Birr)

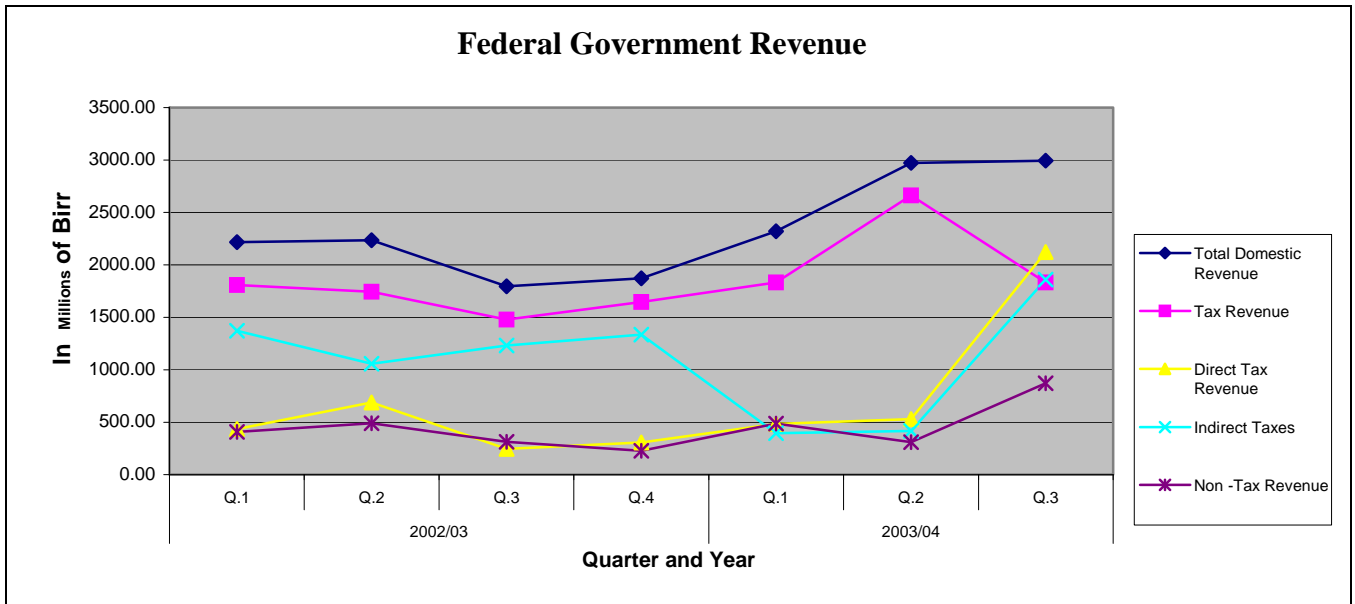
Particulars	2007/08	2008/09			Percentage Change		Performance Rate
	IV Qtr.	Budget	III Qtr.	IV Qtr.	[D/A]	[D/C]	[D/B]
	[A]	[B]	[C]	[D]			
Total Expenditure	10,927	47,892	12,242	11,645	6.6	-4.9	24.3
1. Current Expenditure	2,254	11,887	2,088	3,227	43.2	54.5	27.1
- General Services	1,070	5,629	1,163	1,804	68.5	55.1	32.0
- Economic Services	272	837	99	391	43.7	294.7	46.7
- Social Services	563	2,154	516	717	27.3	39.0	33.3
- Debt Service	348	2,207	310	315	-9.3	1.7	14.3
-Contingency and Others	0.8	1,060	-	-	-100.0		0.0
2. Capital Expenditure	5,198	19,449	6,003	4,212	-19.0	-29.8	21.7
- Economic Development	3,987	15,003	4,831	3,323	-16.6	-31.2	22.2
- Social Development	985	4,096	1,095	812	-17.5	-25.8	19.8
- General Development	226	350	77	77	-66.1	-0.4	21.9
3. Regional Transfers	3,475	16,556	4,151	4,206	21.0	1.3	25.4
4. Special Programs	0	0	0	0			

Source: MoFED

Fig. VII.3 Major Components of Federal Government Expenditure during Fourth Quarter of 2008/09



Source: MoFED

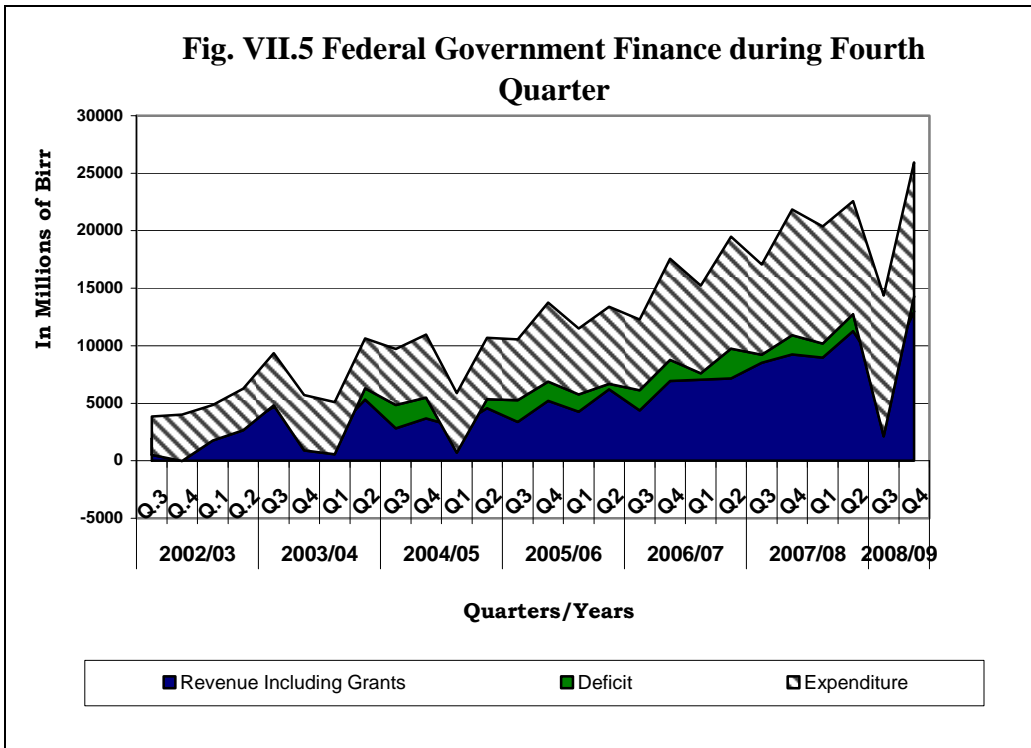


Source: MoFED

7.3 Deficit Financing

Federal Government budgetary operations resulted in the quarterly overall surplus (including grant) of Birr 1,344 million, compared to a deficit of

Birr 1,691 million, a year ago. This deficit was financed by Non-banking sources, banking system and privatization receipt.



Source: MoFED