

VI. FEDERAL GOVERNMENT FINANCE

The third quarter of 2009/10 depicted a 25.6 percent slow down in Federal Government revenue and grants to Birr 11.14 billion from Birr 14.95 billion a quarter earlier. Year-on-year basis, however, total revenue including grants went up by 54.9 percent, owing to the surge in external grants. Of the annual budget, the quarterly revenue performance stood at 21.5 percent (Table 6.1).

On the other hand, Federal Government expenditure reached Birr 14.4 billion, 2.8 percent lower than the preceding quarter, but 18 percent higher than a year ago. The

annual expansion in expenditure was attributed to 23.6 percent rise in current expenditure, 11.3 percent in capital expenditure and 24.8 percent in regional transfers.

In general, the overall fiscal balance (including grants) indicated a deficit of Birr 3.3 billion, which was lower than the preceding quarter and last year same period.

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Table 6.1 Summary of Federal Government Finance

(In Millions of

Birr)

No	Particulars	2008/09	2009/10			Percentage Change		Performance Rate
		Qrt.III	Annual Budget	Qrt.II	Qrt.III	[D/C]	[D/A]	[D/B]
		[A]	[B]	[C]	[D]			
1	Revenue and Grants	7,188	51,781	14,969	11,138	-25.6	54.9	21.5
1.1	Total Revenue	7,128	42,212	12,890	8,484	-34.2	19.0	20.1
	Tax Revenue	5,359	30,180	10,413	7,658	-26.5	42.9	25.4
	Non-Tax Revenue	1,768	12,032	2,477	826	-66.6	-53.3	6.9
1.2	DBS Grant & Relief	60	9,569	2,079	2,653	27.7	4322.3	27.7
2	Recurrent Expenditure	2,088	13,381	3,076	2,582	-16.1	23.6	19.3
3	Recurrent Surplus/Deficit	5,040	28,831	9,814	5,903	-39.9	17.1	20.5
4	Capital Expenditure	6,003	22,998	6,178	6,680	8.1	11.3	29.0
5	Regional Transfers	4,151	19,556	5,603	5,182	-7.5	24.8	26.5
6	Total Expenditure (2+4+5)	12,242	55,935	14,857	14,444	-2.8	18	25.8
7	Overall Surplus/Deficit							
	<i>(Including Grants)</i>	(5,054)	(4,154)	112	(3,306)	3054.2	-34.6	79.6
	<i>(Excluding Grants)</i>	(5,114)	(13,723)	(1,967)	(5,960)	203.0	16.5	43.4
8	Total Financing	5,054	4,154	(112)	3,306	3054.2	-34.6	79.6
8.1	Net External Borrowings	3,043	3,140	873	1,256	43.9	-58.7	40.0
	External Borrowing	1,799	3,594	1,052	1,327	26.1	-26.2	36.9
	<i>Special program</i>		-	-	-			
	Amortization Paid	34	454	179	71	-60.5	108.5	15.6
8.2	Net Domestic Borrowings	(2,337)	1,014	(3,442)	1,641	-147.7	-170.2	161.9
	Banking System	(2,595)	1,014	(3,945)	1,482	-137.6	-157.1	146.3
	Non-Bank Sources	258	-	503	159	-68.4	-38.5	
8.3	Privatization receipt	155	-	129	-	-100.0	-100.0	
8.4	Others and Residuals	4,194	-	2,328	409	-82.4	-90.2	

Source: MoFED

6.1 Revenue and Grants

During the review period, total revenue and grants stood at Birr 11.14 billion, of which Birr 8.45 billion (or 76.2 percent) was secured from domestic sources; and Birr 2.65 billion (or 23.8 percent) from DBS grants and relief (Table 6.2). Tax revenue, which accounted for about 90 percent of the domestic revenue, peaked up annually by 43 percent to Birr 7.66 billion; whereas non-tax revenue comprising 9.7 percent share, dropped by 53 percent to Birr 826 million

due to lower dividend transfers mainly from public enterprises. The yearly increase in tax revenue could be attributed to a 33 percent surge in direct tax revenue and a 45 percent increase in indirect tax revenue to Birr 1.2 billion and 6.4 billion, respectively as a result of higher revenue effort. Indirect tax revenue accounted for 75.8 percent of domestic revenue; while direct tax revenue constituted the balance (14.5 percent).

Table 6.2 Summary of Federal Government Revenue by Component

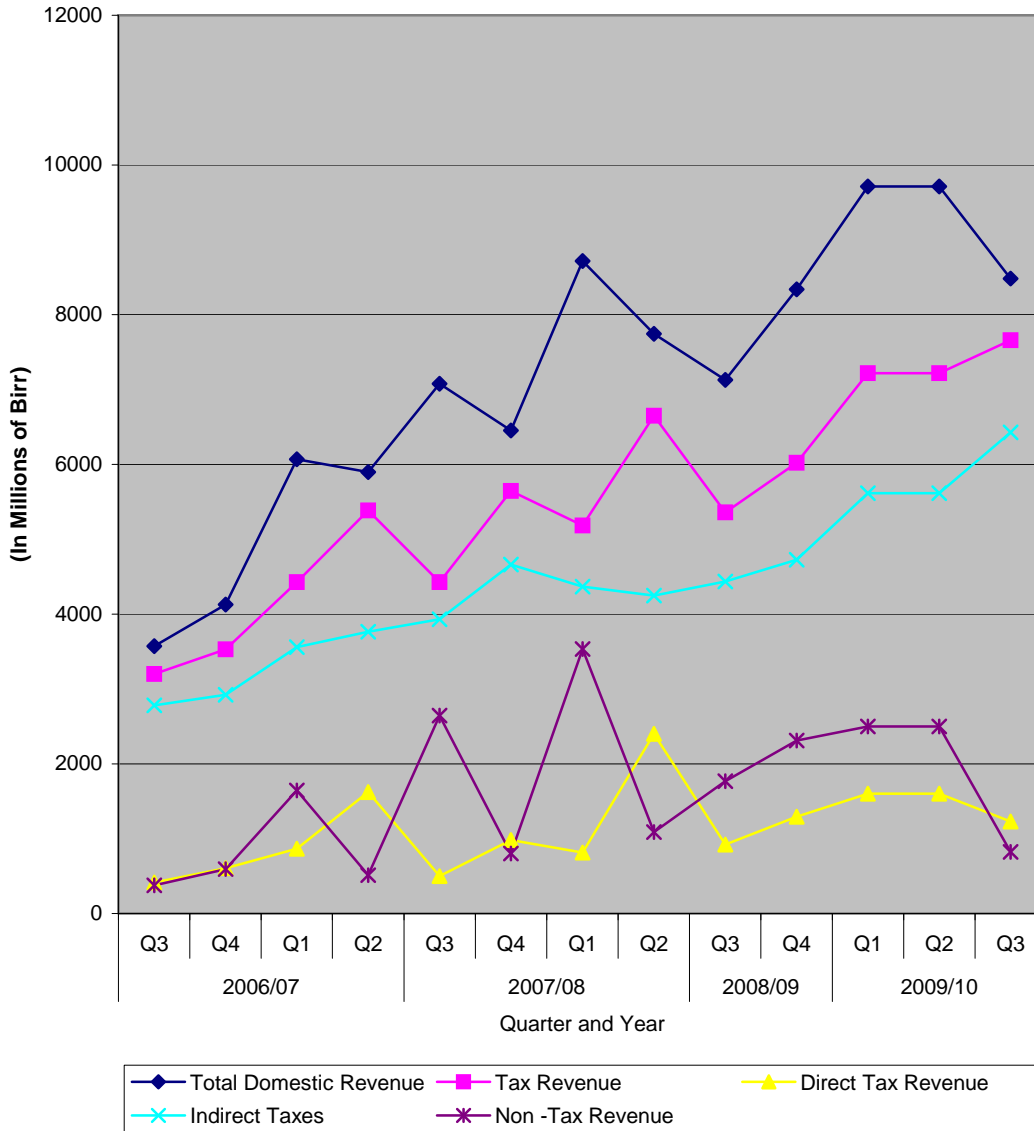
(In Millions of Birr)

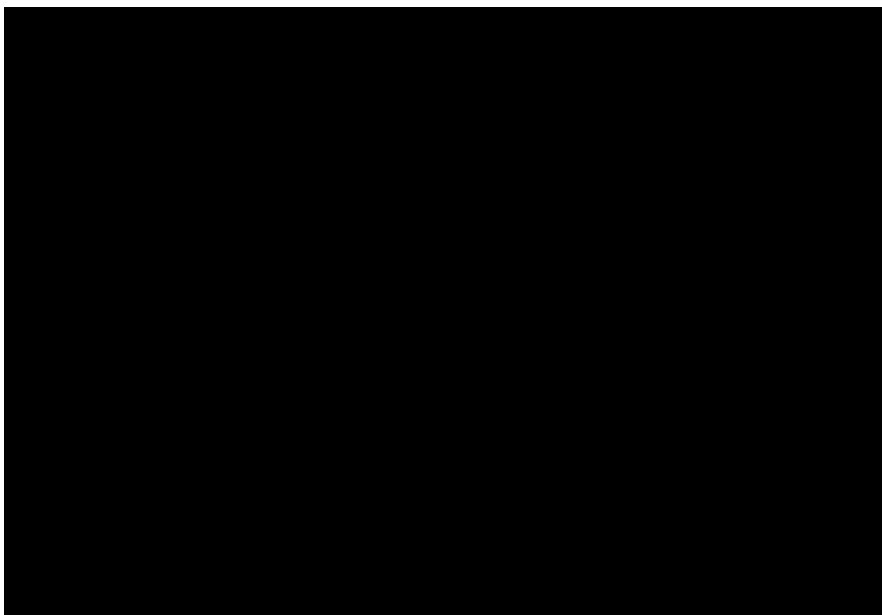
Particulars	2008/09	2009/10			Percentage Change		Performance Rate
	Qrt.III	Budget	Qrt.II	Qrt.III	[D/C]	[D/A]	[D/B]
	[A]	[B]	[C]	[D]			
Total Revenue and Grants	7,188	51,781	14,969	11,138	-25.6	54.9	21.5
Total Domestic Revenue	7,128	42,212	12,890	8,484	-34.2	19.0	20.1
1 Tax Revenue	5,359	30,180	10,413	7,658	-26.5	42.9	25.4
1.1 Direct Tax Revenue	923	7,620	3,867	1,230	-68.2	33.3	16.1
1.1.1 Income Taxes	734	6,610	3,644	919	-74.8	25.2	13.9
- Personal	258	1,284	305	287	-5.9	11.2	22.4
- Business	476	5,326	3,339	632	-81.1	32.8	11.9
1.1.2 Others ¹	189	1,010	224	310	38.4	64.0	30.7
1.2. Indirect Tax Revenue	4,436	22,560	6,546	6,429	-1.8	44.9	28.5
2. 2.1 Domestic Taxes	1,493	7,518	2,266	2,001	-11.7	34.0	26.6
2. 2.2 Foreign Trade Taxes	2,943	15,042	4,280	4,428	3.5	50.5	29.4
- Import	2,943	15,042	4,280	4,428	3.5	50.5	29.4
2. Non-Tax Revenue	1,768	12,032	2,477	826	-66.7	-53.3	6.9
O/w Dividend	1,300	5,252	452	498	10.2	-61.7	9.5
Grants	60	9,569	2,079	2,653	27.6	4,321.7	27.7

Source: Ministry of Finance and Economic Development [MoFED]

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

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





6.2 Expenditure

During the quarter under review, total Federal Government expenditure including regional transfers stood at Birr 14.4 billion depicting an 18 percent annual growth (Table 6.2). Current expenditure, constituting 17.9 percent of total expenditure mounted to 24 percent to Birr 2.58 billion. Capital expenditure, which comprises 46.2 percent, also went up by 11 percent to Birr 6.68 billion while regional transfers, having

a share of 35.9 percent, grew by 25 percent to Birr 5.18 billion (Fig.6.3).

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Table 6. 3 Summary of Federal Government Expenditure by Component

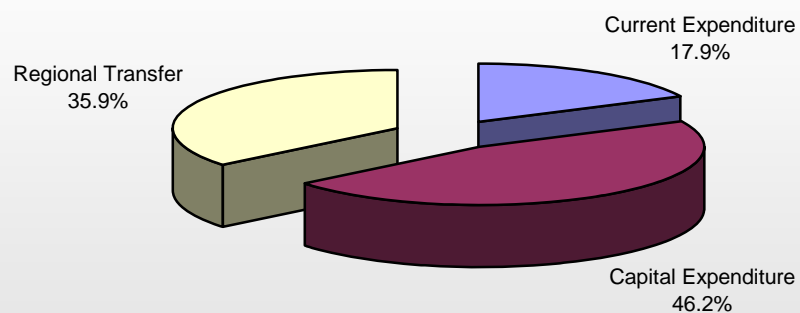
(In Millions of

Birr)

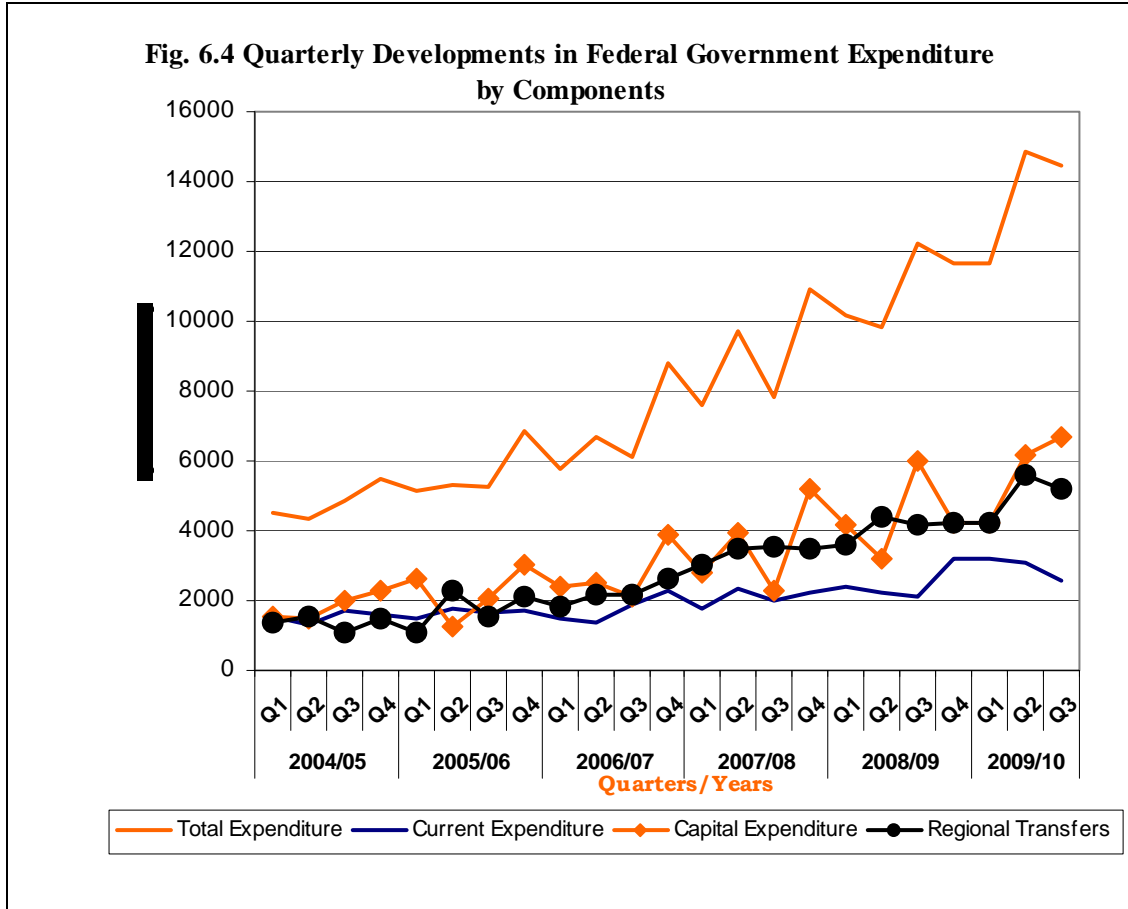
Particulars	2008/09	2009/10			Percentage Change		Performance Rate
	Qrt.III	Budget	Qrt.II	Qrt.III			
	[A]	[B]	[C]	[D]	[D/C]	[D/A]	[D/B]
Total Expenditure	12,242	55,935	14,857	14,444	-2.8	18.0	25.8
1. Recurrent Expenditure	2,088	13,381	3,076	2,582	-16.1	23.7	19.3
- General Services	1,163	5,782	1,911	1,458	-23.7	25.4	25.2
- Economic Services	99	888	140	112	-20.0	13.1	12.6
- Social Services	516	3,068	624	614	-1.6	19.0	20.0
- Debt Service	310	3,643	401	398	-0.7	28.4	10.9
2. Capital Expenditure	6,003	22,998	6,178	6,680	8.1	11.3	29.0
- Economic Development	4,831	17,811	5,021	5,681	13.1	17.6	31.9
- Social Development	1,095	4,818	1,106	946	-14.5	-13.6	19.6
- General Development	77	369	50	54	8.0	-29.9	14.6
3. Regional Transfers	4,151	19,556	5,603	5,182	-7.5	24.8	26.5

Source: MoFED

Fig 6.3: Major Components of Federal Government Expenditure During the Third Quarter of 2009/10



Source: Own computation

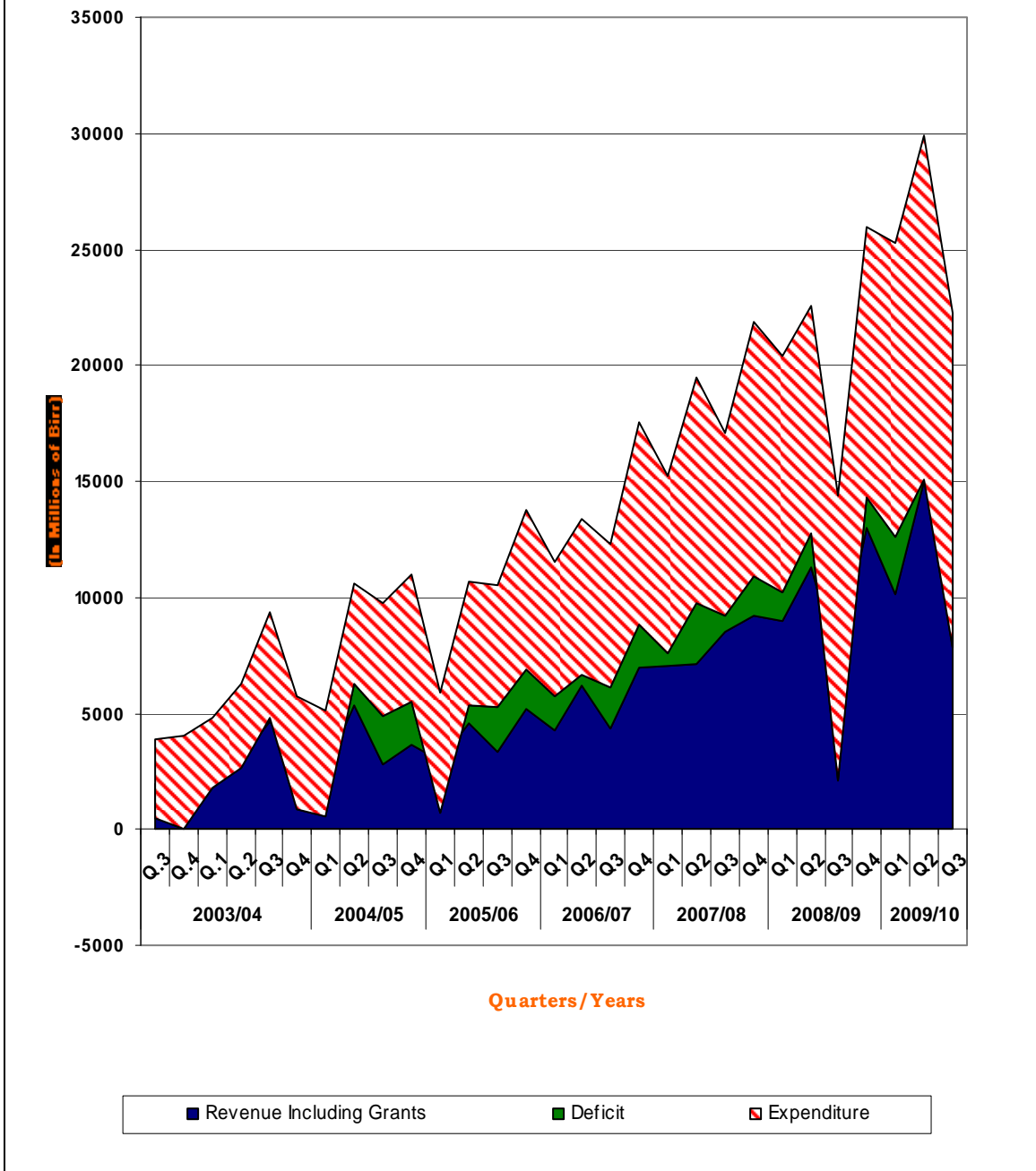


6.3 Deficit Financing

The Federal Government fiscal balance (including grant) has shown an overall deficit of Birr 3.31 billion in contrast to

Birr 5.05 billion deficit last year same period. The deficit was largely financed by the banking system and external borrowings.

Fig. 6.5 Federal Government Finance During the Third Quarter of 2009/10



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Third Quarter 2009/10