

. FEDERAL GOVERNMENT FINANCE

During the second quarter of 2011/12, total revenue and grant mobilized by the Federal Government went up 40 percent in contrast to last year and reached Birr 21.6 billion. The quarterly revenue and grant performance was 24.1 percent against the budget for 2011/12 (Table 6.1).

On the other hand, Federal Government expenditure was Birr billion, up by 50.9

percent compared to last year same period , owing to 62.2 percent growth in current expenditure, and 24.8 percent in capital expenditure and 82.3 percent in regional transfers.

Hence, the overall fiscal balance (including grants) recorded a deficit of about Birr 4.7 billion (Table 6.4)

Table 6.1 Summary of Quarterly Federal Government Finance [In millions of Birr]

No	Particulars	2010/11	2011/12				Percentage changes		Performance rate
		A	B	C	D	D/A	D/C	D/B	
		QII	Budget	QI	QII				
1	Revenue and Grants	15,444.3	89,850.0	20,788.2	21,645	40.1	4.1	24.1	
1.1	Total Revenue	15,414.6	79,161.4	20,763.2	19,725	28.0	-5.0	24.9	
	Tax Revenue	13,824.3	70,000.0	15,826.4	18,848	36.3	19.1	26.9	
	Direct tax	4,809.2	18,560.6	3,882.4	5,985	24.5	54.2	32.2	
	Indirect tax	9,015.2	51,439.4	11,944.0	12,863	42.7	7.7	25.0	
	Non-Tax Revenue	1,590.3	9,161.4	4,936.8	877	-44.8	-82.2	9.6	
1.2	Grant & Relief	29.7	10688.7	25.0	1,920	6363.4	7578.5	18.0	
2	Current Expenditure	3,271.0	21,534.9	3,596.0	5,307	62.2	47.6	24.6	
3	Current Surplus/Deficit								
	(Including Grants)	12,173.3	68,315.1	17,192.1	16,338	34.2	-5.0	23.9	
	(Excluding Grants)	12,143.6	57,626.4	17,167.1	14,418	18.7	-16.0	25.0	
4	Capital Expenditure	8,409.4	38,111.5	9,006.0	10,495	24.8	16.5	27.5	
5	Regional Transfers	5,803.0	45,555.8	7,155.2	10,579	82.3	47.8	23.2	
6	Total Expenditure (2+4+5)	17,483.4	10,5202.3	19,757.2	26,380	50.9	33.5	25.1	
7	Overall Surplus/Deficit								
	(Including Grants)	-2,039.1	-15,352.3	1,031.0	-4,736	132.2	-559.3	30.8	
	(Excluding Grants)	-2,068.8	-26,040.9	1,006.0	-6,655	221.7	-761.6	25.6	
8	Total Financing	2,039.1	15,352.3	-1,031.0	4,736	132.2	-559.3	30.8	
8.1	Net External Borrowings	1,293.7	5,377.5	1,131.9	1,725	33.4	52.4	32.1	
	External Borrowing	1,554.7	6,562.6	1,251.2	2,174	39.8	73.8	33.1	
	Amortization	261.0	1,185.1	119.3	449	72.0	276.3	37.9	
8.2	Net Domestic Borrowings	-1,792.4	9,974.7	-12,623.5	59	-103.3	-100.5	0.6	
	Banking System	-1,691.0	0.0	-15,155.4	-1,725	2.0	-88.6		
	Non-Bank Sources	-101.4	0.0	2,531.9	1,784	-1858.8	-29.6		
8.3	Privatization receipts	164.1	0.0	2,763.9	0	-100.0	-100.0		
8.4	Others and Residuals	2,373.7	0.0	7,696.7	2,952	24.3	-61.7		

Source: Ministry of Finance and Economic Development

6.1 Revenue and Grants

Total revenue and grants mobilized during the second quarter of 2011/12 was Birr 21.6 billion, of which Birr 19.72 billion (91.2 percent) was raised domestically and the rest Birr 1.9 million (8.8 percent) in the form of grants & relief.

Tax revenue, which constituted 95.5 percent of the domestic revenue (95.5 percent) reached Birr 18.8 billion during the review period depicting a 36.3 percent annual growth reflecting the government's effort to broaden the tax base and improve tax administration. Non-tax revenue comprising 4.5 percent of the total domestic revenue was Birr 877 million showing a 44.8 82. percent decline against a year ago (Table 6.2)

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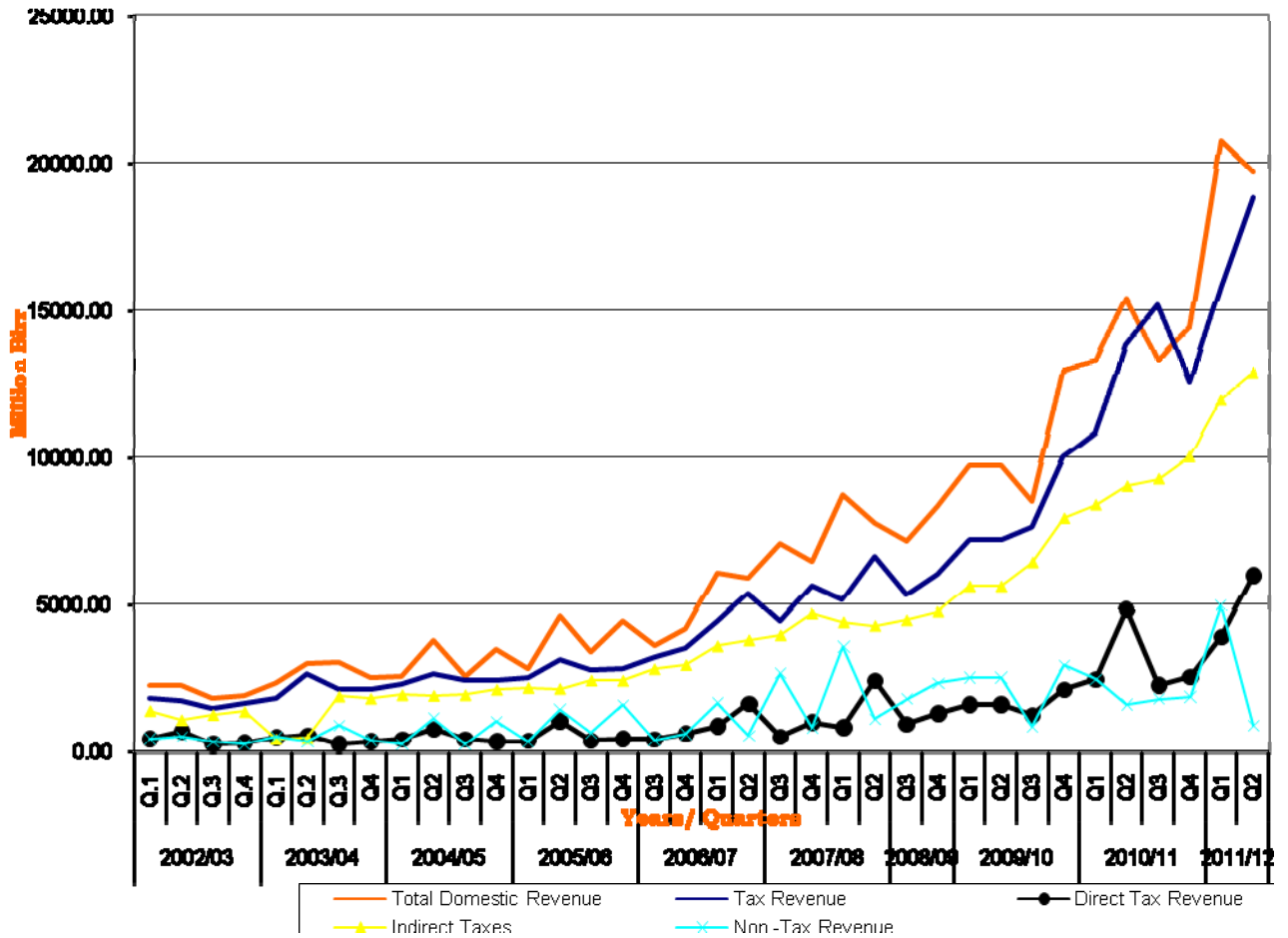
Table 6.2 Summary of Federal Government Revenue by component
(In Millions of Birr)

No	Particulars	2010/11	2011/12		Percentage Change		Perf. Rate	
		QII	Budget	QI	QII			
		A	B	C	D	[D/A]	[D/C]	[D/B]
	Total Revenue and Grants	15,444.3	89,850.0	20,788.2	21,644.7	40.1	4.1	24.1
	Total Domestic Revenue	15,414.6	79,161.4	20,763.2	19,725.1	28.0	-5.0	24.9
1	Tax Revenue	13,824.3	70,000.0	15,826.4	18,847.8	36.3	19.1	26.9
1.1	Direct Tax Revenue	4,809.2	18,560.6	3,882.4	5,985.2	24.5	54.2	32.2
1.1.1	Income Taxes	4,319.2	16,305.2	3,308.2	5,470.0	26.6	65.3	33.5
	- Personal	399.8	2,469.0	538.9	719.0	79.8	33.4	29.1
	-Business	3,919.4	13,836.2	2,769.2	4,751.0	21.2	71.6	34.3
1.1.2	Others ¹	490.0	2255.4	574.3	515.2	5.2	-10.3	22.8
1.2	Indirect Taxes	9,015.2	51,439.4	11,944.0	12,863	42.7	7.7	25.0
2.2.1	Domestic Taxes	2,959.1	18,539.5	4,498.0	3,898.1	31.7	-13.3	21.0
2.2.2	Foreign Trade Taxes	6,056.1	32,899.9	7,446.0	8,964.5	48.0	20.4	27.2
	Import	6,056.1	32,899.9	7,446.0	8,964.5	48.0	20.4	27.2
2	Non-Tax Revenue	1,590.3	9,161.4	4,936.8	877.3	-44.8	-82.2	9.6
3	Privatization	164.1	0.0	2,763.9	0.0	-100.0	-100.0	
4	Grants and Relief	29.7	10,688.7	25.0	1,920	6.363.4	7,578.5	18.0

Source: Ministry of Finance and Economic Development

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

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

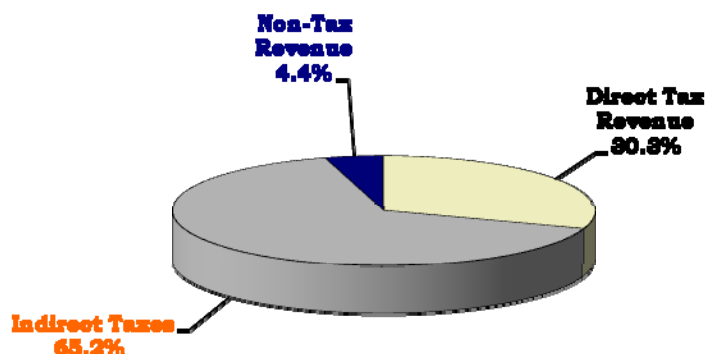


Looking at the sources of tax revenue, the lion’s share (about 65.2 percent) was collected through indirect taxes followed by direct taxes which accounted for 30.3 percent (Fig VI.2).

During the review period, revenue from

indirect taxes went up by 42.7 percent to Br 12.86 billion, owing to an increase in revenue from domestic taxes and import trade taxes. Direct tax revenue also surged by 24.5 percent to Birr 6 billion on account of higher revenue collected through income and business taxes.

**Fig.VI.2 Domestic Revenue by Major Components
During the Second Quarter of 2011/12**



6.2 Expenditure

Total Federal Government expenditures (including regional transfers) under the review quarter stood at Birr 26.38 billion, showing a yearly growth of 50.9 percent, as all components of expenditure tended to increase.

Of the total expenditures 40.1 percent or Birr 10.6 billion was regional transfers followed by capital (Birr 10.4 billion or 39.8 percent) and current expenditures, (20.1 percent or Birr 5.3 billion) (Table6.3).

Table 6.3 Summary of Federal Government Expenditure by Components

(In Millions of Birr)

No	Particulars	2010/11	2011/12		Percentage Change		Perf. Rate	
		QII	Budget	QI	QII			
		[A]	[B]	[C]	[D]	[D/A]	[D/C]	[D/B]
	Total Expenditure	17,483.4	10,5202.3	19,757.2	26,380.4	50.9	33.5	25.1
1	Current Expenditure	3,271.0	21,534.9	3,596.0	5,306.7	62.2	47.6	24.6
	- General Services	1,758.0	9,642.9	2,048.7	3,351.8	90.7	63.6	34.8
	- Economic Services	130.5	1,495.9	141.3	210.2	61.0	48.8	14.1
	- Social Services	760.3	5,367.3	892.6	1152.1	51.5	29.1	21.5
	- Debt Service	622.2	5,028.8	513.4	592.6	-4.8	15.4	11.8
2	Capital Expenditure	8,409.4	38,111.5	9,006.0	10,495.1	24.8	16.5	27.5
	- Economic Development	6,633.1	27,958.1	7,081.2	8,108.8	22.2	14.5	29.0
	- Social Development	1,686.7	9,259.2	1,824.5	2,232.0	32.3	22.3	24.1
	- General Development	89.6	894.2	100.3	154.3	72.2	53.8	17.2
3	Regional Transfers	5,803.0	45,555.8	7,155.2	10,578.6	82.3	47.8	23.2

Source: Ministry of Finance and Economic Development

Fig VI.3: Major Components of Federal Government Expenditure During the Second Quarter of 2011/12

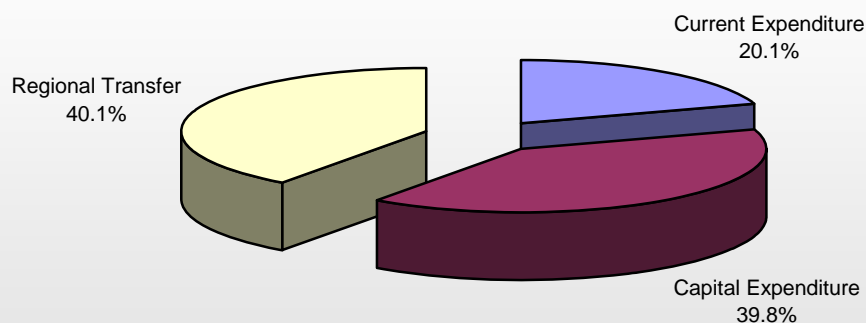
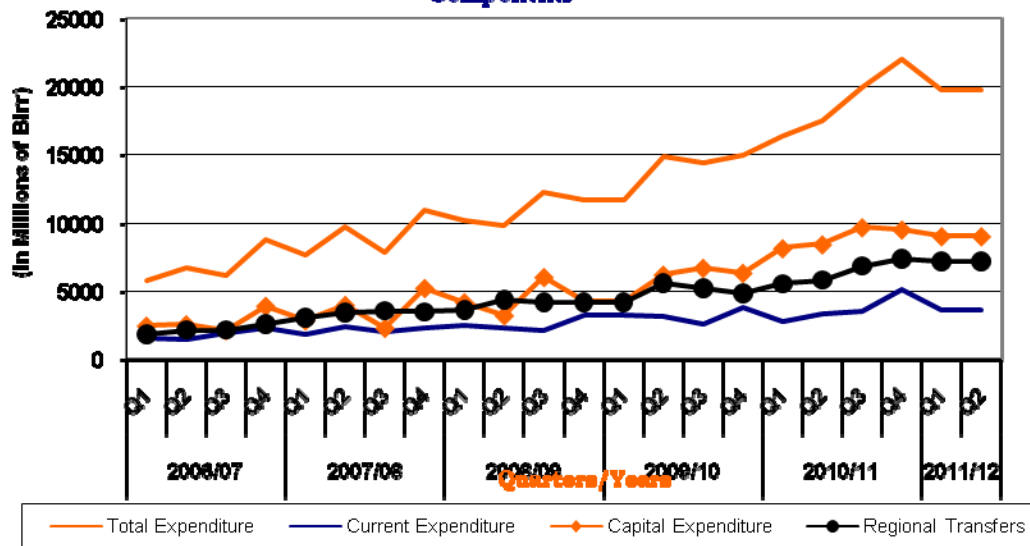


Fig. VI.4 Quarterly Developments in Federal Government Expenditure by Components



6.3 Deficit Financing

The Federal Government budget (including grant) depicted an overall deficit of Birr 4.73 billion in contrast to a deficit of Birr 20.4 billion a year earlier. On account of higher growth in expenditure relative to revenue and grant collected. The deficit was financed mainly from external borrowing (Birr1.7 billion) and residuals while there was repayment to the domestic banking system.

