

OVERALL ECONOMIC PERFORMANCE

1.1 Economic Growth

During fiscal year 2005/06, GDP at constant prices grew by 9.6 percent. This high growth was achieved for the third time in a row (i.e. 10.5 percent in 2004/05 and 11.9 percent in 2003/04), which places Ethiopia among the top performing economies in Sub-Saharan Africa.

Although all sectors contributed to this relatively high economic growth performance, agriculture bets first growing by 11.2 percent and contributing about 54 percent of the 9.6 percent overall GDP growth. Industry and service sectors also expanded by 7.4 and 9.2 percent, respectively.

Table 1.1: Sectoral Contribution to GDP and GDP Growth

Item		Fiscal Year					
		2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Real GDP (million Birr)		64,343.1	64,990.7	62,844.9	70,345.1	77,730.7	85,184.1
Sector	Agriculture & Allied Activities	31,438.7	30,763.8	27,258.0	31,978.9	36,250.0	40,307.5
	Industry	8,065.7	8,737.1	9,003.0	9,900.3	10,702.5	11,496.0
	Services	25,510.3	25,947.6	27,121.8	29,093.8	31,535.7	34,438.4
Growth in Real GDP		7.2	1.0	-3.3	11.9	10.5	9.6
Real GDP per capita		985	967	909	989	1065	1134
Share in GDP (in %)	Agriculture & Allied Activities	48.4	47.0	43.0	45.1	46.2	47.3
	Industry	12.4	13.3	14.3	14.1	13.8	13.5
	Services	39.6	39.9	43.2	41.4	40.6	40.4
Growth in Real GDP per capita		4.6	-1.8	-6.0	8.8	7.6	6.5
Agriculture & Allied Activities	Absolute Growth	10.4	-2.1	-11.4	17.3	13.4	11.2
	Contribution to GDP growth	5.0	-1.0	-5.4	7.4	6.0	5.2
	Contribution in %	70.6	-103.1	162.2	62.4	57.3	53.9
Industry	Absolute Growth	5.1	8.3	3.0	10.0	8.1	7.4
	Contribution to GDP growth	0.6	1.0	0.4	1.4	1.1	1.0
	Contribution in %	9.0	103.7	-12.4	12.0	10.9	10.6
Services	Absolute Growth	3.8	1.7	4.5	7.3	8.4	9.2
	Contribution to GDP growth	1.5	0.7	1.8	3.1	3.5	3.7
	Contribution in %	21.3	67.5	-54.7	26.3	33.1	38.9

Source: Ministry of Finance and Economic Development and Staff Computation

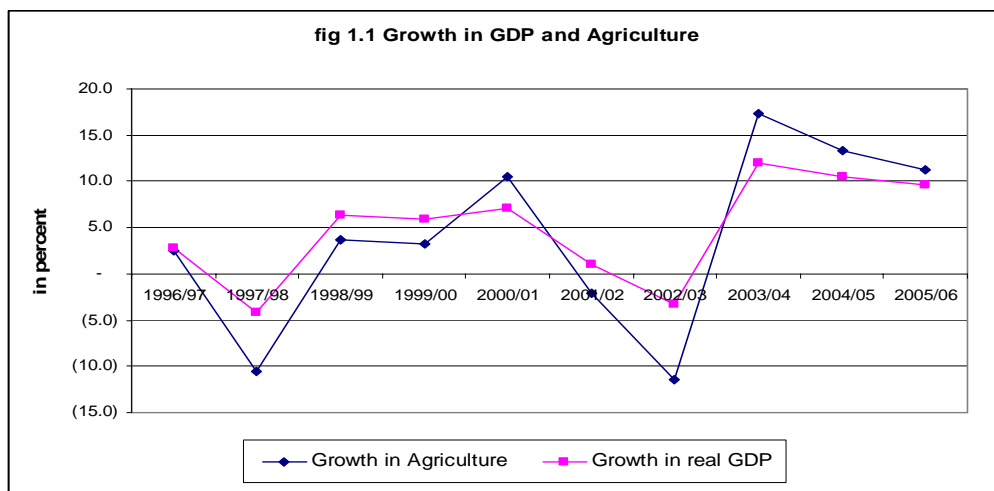
Note: Sectoral Contributions will not add-up to overall GDP growth because of FISIM (Financial Intermediary Service Indirect Measurement.)

1.2 GDP by Sector

In terms of sectoral distribution, agriculture has remained the major constituent of the economy contributing about 47.3 percent of the country's GDP followed by service and industry each accounting for 40.4 and 13.5 percentage share respectively in the review year.

Generally, overall economic growth in Ethiopia has been highly associated

with the performance of the agricultural sector. However, the dependence of the agricultural sector on unpredictable rainfall and the influence of exogenous factors such as drought has made its performance erratic leading to irregular overall GDP growth (Figure 1.1).



The increase in the 2005/06 agricultural outputs can largely be attributed to improved farmers' productivity achieved through better use of modern agricultural inputs and the favorable weather condition in the year.

Looking into the sub-components of agriculture, the crop sub-sector has

always been the major driving element in the sector's growth. Production of major crops including cereals, pulses and oilseeds grew by about 12.4 percent in 2005/06. This can further be decomposed into a 3.7 percent growth in cultivated land and 8.4 percent growth in productivity (Table 1.2).

Table: 1.2 Estimates of Agricultural Production and Cultivated Areas of Major Crops for Private Peasant Holdings- Meher Season

(Area in thousands of hectares and production in thousands of quintals)

Agricultural Production	Year							
	2002/03		2003/04		2004/05		2005/06	
	Cultivated Area	Production	Cultivated Area	Production	Cultivated Area	Production	Cultivated Area	Production
Cereals	6,323.8	63,440	6,994.0	90,007	7,643	100,365	8,081.0	116,243.0
(Annual % Change)	(5.9)	(23.5)	10.7	41.8	9.3	11.5	5.8	15.9
Pulses	1,065	8,231.7	1,100	10,373.1	1,349.1	13,495.8	1,292.0	12,712.0
(Annual % Change)	15.0	15.4	3.3	26.0	22.6	30.1	(4.2)	(5.8)
Oilseeds	474.3	1,965.5	570.8	3,128.6	824.0	5,264.0	797.0	4,866.0
(Annual % Change)	(6.1)	482.7	20.3	59.2	44.4	68.3	(3.3)	(7.6)
Total	7,863	73,638	8,664	103,509	9,817	119,127	10,170.0	133,818
(Annual % Change)	(3.5)	(18.6)	10.2	40.6	13.3	15.1	3.7	12.4

Source: Central Statistical Agency

Note: Starting from 2004/05 the following items have been included as others: Oilseeds, Vegetables, Root crops

The non-agricultural sector of the economy altogether showed 8.8 percent expansion during the review year. This was the combined effect of the 7.4 and 9.2 percent increase achieved in the industry and service sectors.

The recorded 7.4 percent growth of the industry sector mainly came from the electricity and water sub-sector which rose by 10.8 percent. The huge investment in hydroelectric power generating stations and expansion activities by the Ethiopian Electric and Power Corporation (EEPCo) has contributed to the growth in electricity.

Manufacturing, which accounts for about 40 percent of the industry sector value added, is largely dominated by food, beverage and textile industries. Output from this sub-sector, which consists of cottage and handicrafts, small, medium and large-scale enterprises, went up by 8.1 percent in the review year.

In the review year, the performance of the mining & quarrying as well as construction sub-sector was also good each registering a growth of 8.3 and 5.2 percent, respectively.

The share of the service sector has been growing up steadily in recent years reaching 40 percent in the review year from its level of 36 percent in 1996/97. This was mainly the result of the fast growth of the financial intermediation and education sub-sectors, which in the last five years registered an annual average growth of 13.6 and 11 percent, respectively.

The performance of these sub-sectors in the review year continued to excel all other service activities each growing by 29 and 12.2 percent, respectively.

1.3 GDP by Expenditure Component

In the review year, the share of total consumption expenditure slightly declined to 94.8 percent of GDP from about 97.4 percent in 2004/05. This was because of marginal reduction of both private and government

consumption expenditures. The share of government consumption expenditure has been about 14 percent while 79 percent was taken up by the private sector, the remaining balance being gross domestic savings.

On the other hand, gross domestic savings remained too small (amounting to 5.2 percent of GDP) although it showed an improvement over last year (2.6 percent). As gross domestic savings continued to be low compared to investment, resource gap remained wide at 17.5 percent of GDP.

The value of the country's transaction with the rest of the world in terms of both imports and exports has increased in the review year at current price terms.

Table 1.3: Expenditures on GDP and Gross Domestic Savings (As percentage of GDP)

Year	Domestic Absorption	Consumption Expenditure			Gross Capital Formation	Resource Balance	Exports of Goods & NFS	Imports of Goods & NFS	Gross Domestic Savings
		Total	Govt.	Pvt.					
1995/96	108.4	91.8	8.1	83.7	16.6	-7.0	9.3	16.3	8.2
1996/97	108.0	89.5	8.3	81.2	18.4	-6.9	12.1	19.1	10.5
1997/98	107.1	87.6	10.2	77.4	19.6	-7.9	13.3	21.2	12.4
1998/99	111.8	92.2	16.0	76.2	19.6	-12.6	12.0	24.6	7.8
1999/00	110.0	90.8	18.5	72.3	19.2	-12.3	12.5	24.8	9.2
2000/01	109.4	89.9	15.2	74.7	19.5	-12.5	12.2	24.7	10.1
2001/02	116.1	93.7	16.4	77.3	22.4	-15.3	12.6	27.9	6.3
2002/03	118.0	96.4	19.1	77.4	21.6	-15.0	14.2	29.2	3.6
2003/04	115.9	94.6	14.7	79.9	21.4	-17.7	15.8	33.5	5.4
2004/05	117.9	97.4	13.8	83.7	20.5	-22.3	16.1	38.4	2.6
2005/06	114.6	94.8	12.4	82.5	19.8	-24.3	15.7	40.0	5.2
Average:									
1995/96-2005/06	112.5	92.6	13.9	78.7	19.9	-14.0	13.3	27.2	7.4

Source: Ministry of Finance and Economic Development
Based on the Newly Revised Series