

VI. DEVELOPMENTS IN THE EXTERNAL SECTOR

6.1 Overall Balance of Payments

After narrowing in 2004/05, the deficit in the overall balance of payments widened to USD 326 million in 2005/06 from USD 101.4 million in the preceding year, reflecting the widening of the trade deficit (21.4 percent increase) and the slowdown in the surpluses of the services account.

As a result of higher growth of imports over exports, the merchandise trade deficit also widened to USD 3383.2 million (26 percent of GDP) in 2005/06 from USD

2786 million (25 percent of GDP) in 2004/05.

The surplus in net services account, on the other hand, declined to USD 108.5 million in 2005/06 from USD 242 million in 2004/05, as net receipts from travel and transportation services slowed.

Table 6.1 Balance of Payments

(In Millions USD)

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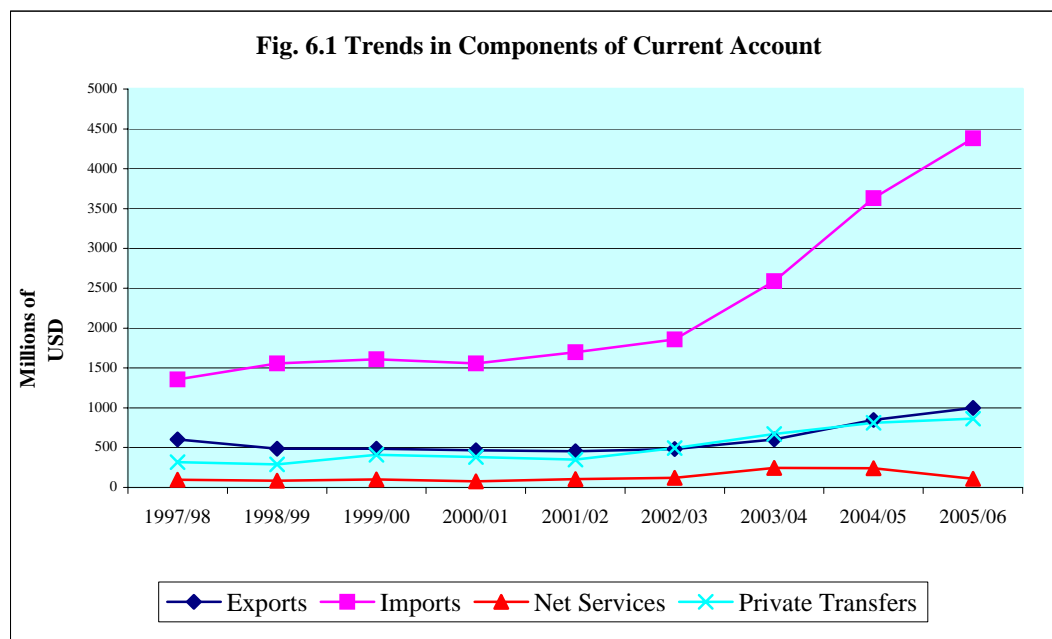
Particulars	2003/04	2004/05	2005/06	Percentage Change	
	A	B	C	C/B	C/A
Trade Balance	-1985.9	-2785.8	-3383.2	21.5	70.4
Exports	600.5	847.2	1000.3	18.1	66.6
Imports	2586.3	3633.0	4383.5	20.7	69.5
Net Services	246.2	242.2	108.5	-55.2	-56.0
Travel	100.6	114.0	62.7	-45.0	-37.7
Transportation	57.3	70.7	43.1	-39.1	-24.8
Government (n.i.e.)	173.8	176.9	278.4	57.4	60.2
Investment income	-63.6	-35.8	-40.3	12.6	-36.6
Interest	-38.9	-14.0	-11.8	-15.8	-69.7
Cash (net)	-11.1	12.5	25.2	101.5	-327.2
Arrears	0.0	0.0	0.0	-	-
Relief	-27.9	-26.5	-37.0	39.5	32.7
Dividend	-24.6	-21.8	-28.5	30.9	15.6
Other Services	-22.0	-83.7	-235.4	181.5	970.5
Private Transfers	671.4	810.8	861.2	6.2	28.3
Current Account Balance (excl. public transfers)	-1068.3	-1732.8	-2413.5	39.3	125.9
Public Transfers	566.6	749.7	866.4	15.6	52.9
Current Account Balance (incl. public transfers)	-501.7	-983.1	-1547.1	57.4	208.3
Non-monetary Capital	512.8	584.5	515.4	-11.8	0.5
Long-term (net)	388.3	440.0	197.0	-55.2	-49.3
Disbursements	510.6	570.3	344.4	-39.6	-32.5
Repayments	122.3	130.2	147.4	13.2	20.6
Cash	68.7	72.9	51.4	-29.5	-25.1
Arrears	0.0	0.0	0.0	-	-
Relief	53.6	57.3	96.0	67.6	79.1
Direct Investment (net)	150.0	150.0	342.7	128.5	128.5
Short-term (net)	-25.5	-5.5	-24.3	342.0	-4.7
Net Errors & Omissions	215.7	297.2	704.6	137.1	226.7
Overall Balance	226.7	-101.4	-326.3	221.9	-243.9
Financing	-226.7	101.4	326.3	221.9	-243.9
Reserves (-: increase)	-308.2	17.6	193.3	999.5	-162.7
NBE net foreign asset	-333.6	-52.8	275.1	-621.0	-175.3
CBE net foreign asset	25.4	70.4	-81.8	-216.2	-422.2
Arrears	0.0	0.0	0.0	-	-
Principal	0.0	0.0	0.0	-	-
Interest	0.0	0.0	0.0	-	-
Debt Relief	81.5	83.8	133.0	58.7	63.2
Principal	53.6	57.3	96.0	67.6	79.1
Interest	27.9	26.5	37.0	39.5	32.7

Source: National Bank of Ethiopia, Staff Compilation

Table 6.2: Components of External Trade as a Percentage of GDP

Particulars	2003/0	2004/0	2005/0	Percent Change	
	4	5	6	C/B	C/A
	A	B	C		
Exports	6.2	7.6	7.7	2.0	25.4
Imports	26.6	32.5	33.9	4.2	27.5
Trade Balance	-20.4	-24.9	-26.2	4.9	28.2
Net Services	2.5	2.2	0.8	-61.3	-66.9
Net Private Transfers	6.9	7.3	6.7	-8.2	-3.5
Current Account Deficit (Excluding Official Transfers)	-11.0	-15.5	-18.7	20.3	70.0
Current Account Deficit (Including Official Transfers)	-5.2	-8.8	-12.0	36.0	132.0

Source: National Bank of Ethiopia, Staff Compilation



6.2 Developments in Merchandise Trade

Reflecting a continuous surge in imports which more than offsetted the substantial rise in exports, the merchandise trade deficit widened from USD 1985.9 million

(20.4 percent of GDP) in 2003/04 to USD 2785.8 million (24.9 percent of GDP) in 2004/05 and further to USD 3383.2 million (26.2 percent of GDP) in 2005/06.

6.2.1 Exports

Spurred by a conducive policy environment and a surge in global demand, export earnings continued to register robust growth for the last three consecutive years. Accordingly, total merchandise exports amounted to USD 1000.3 million in 2006, up by 18 and 66 percent against the preceding two respective fiscal years. This

was mainly attributable to improvements in earnings from all components of exports, except chat and fruits and vegetables. Exports of oilseeds, meat and meat products, live animals and flowers recorded a noticeable performance in the review period.

Table 6.3 Values of Major Export Items

(In Millions of USD)

Particulars	2003/04	% Share	2004/05	% Share	2005/06	% Share	Percentage Change	
	A		B		C		C/B	C/A
Coffee	223.5	37.2	335.2	39.6	354.3	35.4	5.7	58.5
Oilseeds	82.7	13.8	125.0	14.8	211.4	21.1	69.1	155.7
Leather & Leather Products	43.6	7.3	67.6	8.0	75.0	7.5	10.9	72.1
Pulses	22.6	3.8	35.4	4.2	37.0	3.7	4.3	63.7
Meat & Meat Products	7.7	1.3	14.6	1.7	18.5	1.9	27.1	139.4
Fruits & Vegetables	12.7	2.1	16.1	1.9	13.2	1.3	-17.9	3.7
Live Animals	1.9	0.3	12.8	1.5	27.6	2.8	115.1	1342.9
Chat	88.0	14.7	100.2	11.8	89.1	8.9	-11.1	1.2
Gold	48.7	8.1	59.4	7.0	64.7	6.5	9.1	32.9
Flowers	2.3	0.4	7.8	0.9	21.8	2.2	177.8	832.1
Others	66.7	11.1	73.0	8.6	87.8	8.8	20.3	31.6
Total	600.5	100.0	847.2	100.0	1000.3	100.0	18.1	66.6
Non-Coffee	377.0	62.8	512.0	60.4	646.1	64.6	26.2	71.4

Source: Ethiopian Customs Authority

Earnings from oilseeds export more than doubled and picked-up to USD 211.4 million in the review period from USD 82.7 million in 2003/04, largely on account of 150.7 percent increase in the volume of oilseeds exported, which in turn, reflected the surge in oilseeds demand in China.

Receipts from exports of meat and meat products continued to rise in the recent years and reached USD 18.5 million in 2005/06 from USD 7.7 million in 2003/04 and USD 14.6 million in 2004/05, largely driven by deepening of markets in the Middle East, particularly market access to Egypt and establishment of modern abattoirs. For similar reasons, live animals export jumped to USD 27.6 million in 2005/06 from a mere USD 1.9 million in 2003/04. Export of leather and leather products also went up by 11 percent compared to last year mainly on account of improvement in the international price. Encouraged by a significant rise in its price (31.3 percent), gold export also surged to USD 64.7 million.

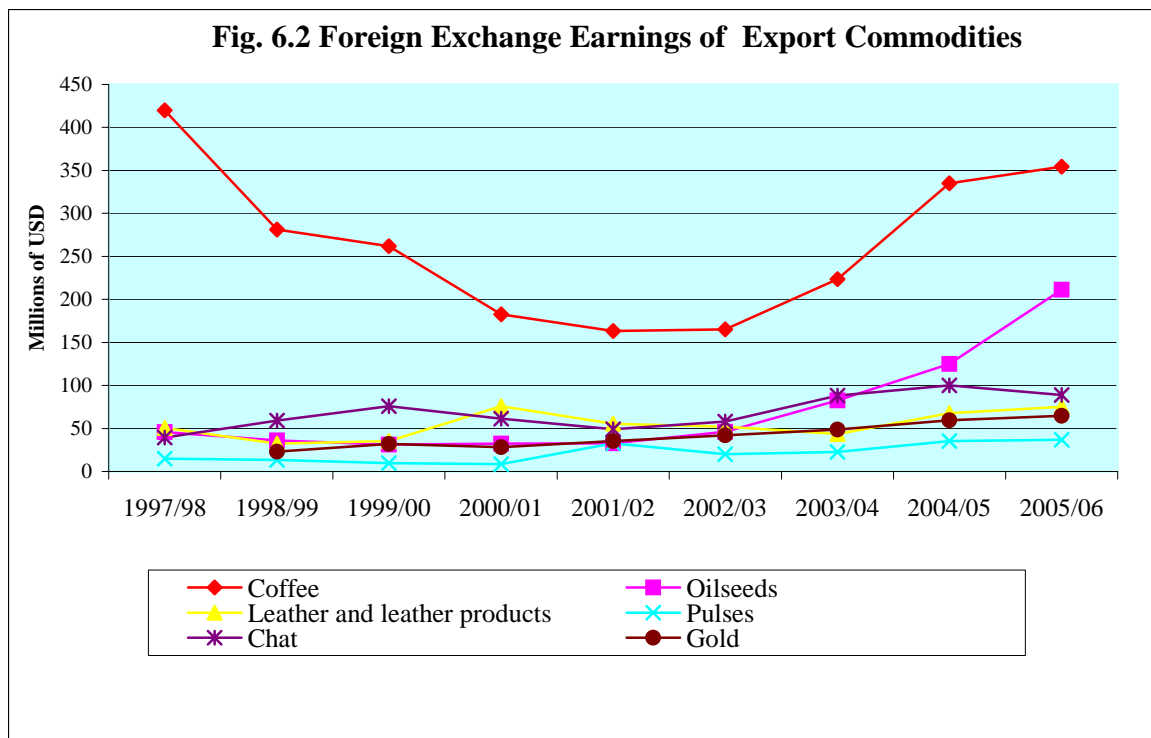
Reflecting the on-going investment activities in the horticulture sub-sector, earnings from flower exports rapidly

increased to USD 21.8 million in the review period from USD 2.3 million in 2003/04 and USD 7.8 million in 2004/05 putting a glimmer of hope for further diversifying the export sector in the future.

Notwithstanding the modest decline in the volume of export, earnings from coffee increased by 5.7 and 58.5 percent and reached USD 354.25 million in 2005/06 compared with the preceding two fiscal years, respectively. This was wholly accounted for 15 and 68 percent increase in the international price of coffee.

The volume of coffee exported, on the other hand, declined to 148 thousand metric tons in 2005/06 from 161 thousand metric tons in 2004/05 and 156 thousand metric tons in 2003/04, presumably due to the surge in the domestic prices of coffee that tended to divert exports to domestic consumption.

With regard to exports, although its share declined through time, coffee continued to be the dominant export item accounting for 35 percent of exports distantly followed by oilseeds (21 percent). All in all, about 85 percent of total export earnings are derived from agricultural and allied activities.



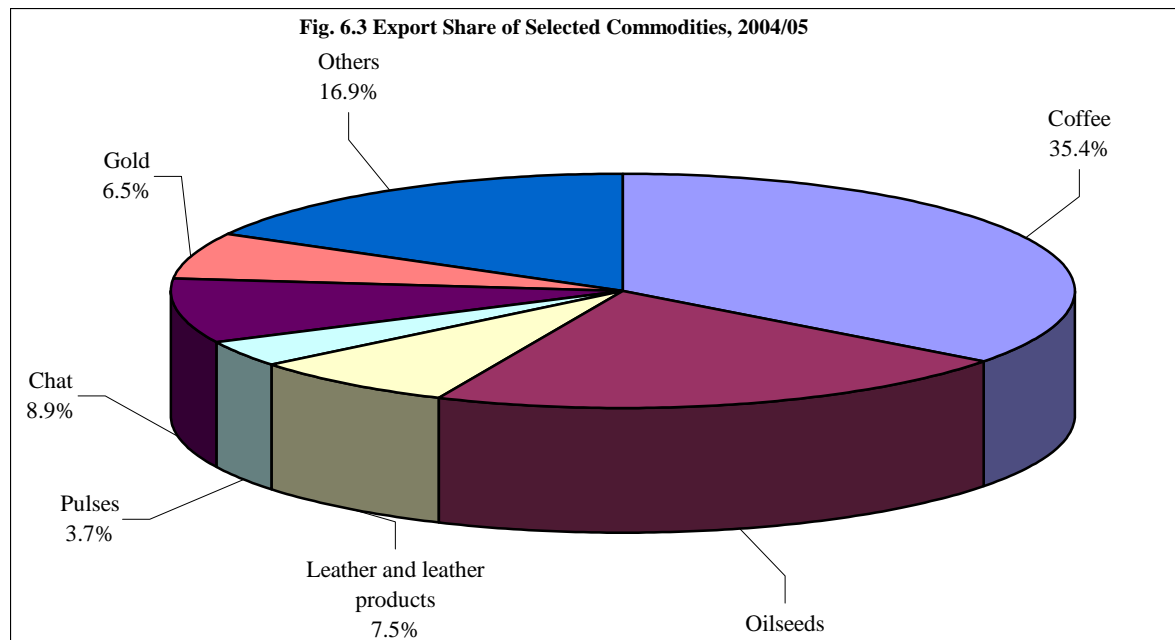


Table 6.4: Volume of Major Exports

(In Millions of Kg)

Particulars	2003/04	2004/05	2005/06	Percent Change	
	A	B	C	C/B	C/A
Coffee	156.4	161.1	147.7	-8.3	-5.6
Oilseeds	105.9	170.8	265.7	55.5	150.7
Leather & Leather Products	9.4	15.6	15.4	-1.6	63.8
Pulses	73.3	121.7	110.4	-9.2	50.7
Meat & Meat Products	4.0	7.3	8.0	9.4	98.5
Fruits & Vegetables	36.8	37.9	34.8	-8.2	-5.6
Live Animals	3.1	21.2	33.3	56.9	959.8
Chat	18.5	19.4	22.3	14.8	20.2
Gold	0.00448	0.00599	0.00497	-17.0	11.0

Source: Ethiopian Customs Authority.

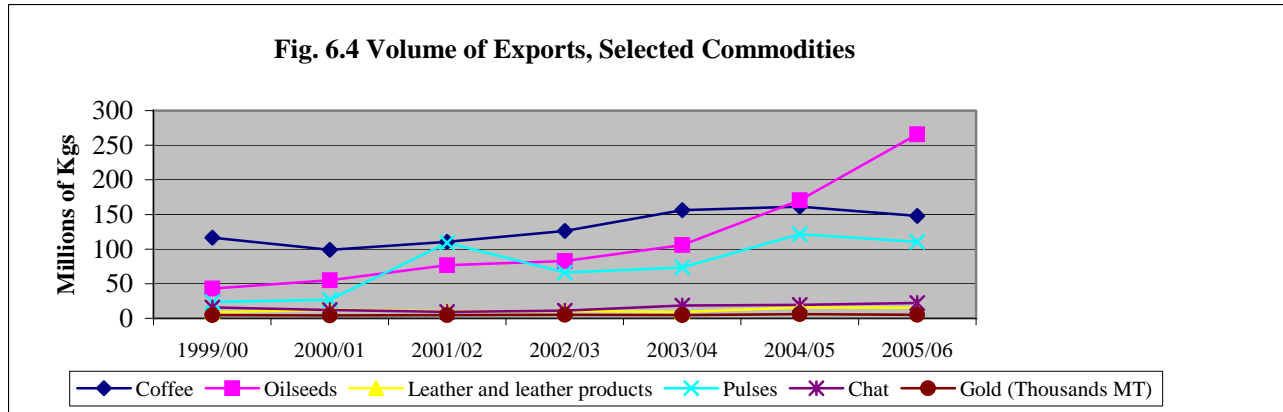
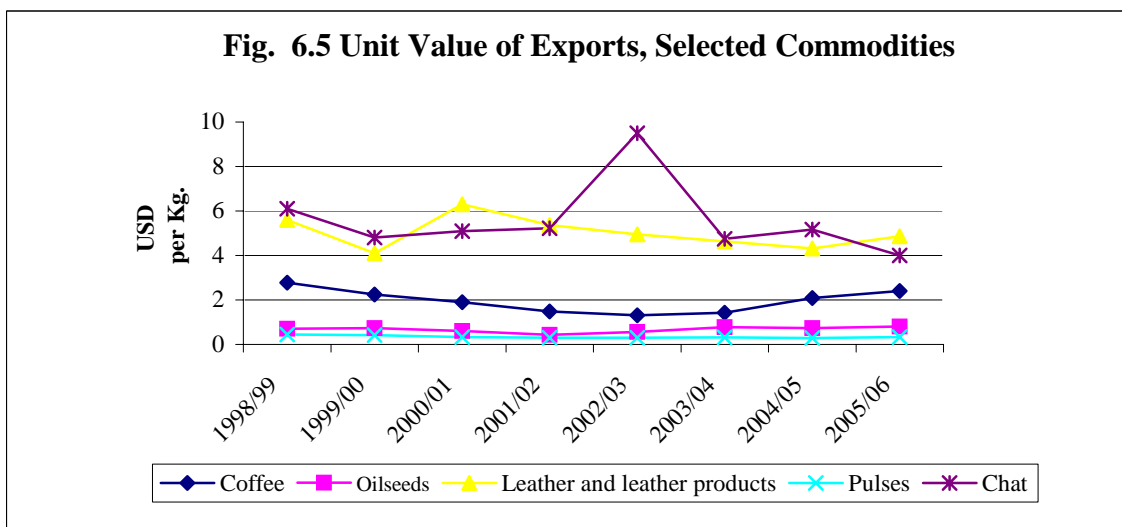


Table 6.5: Unit Value of Major Exports

(In USD Per Kg.)

Particulars	2003/04	2004/05	2005/06	Percent Change	
	A	B	C	C/B	C/A
Coffee	1.4	2.1	2.4	15.2	67.9
Oilseeds	0.8	0.7	0.8	8.7	2.0
Leather & Leather Products	4.6	4.3	4.9	12.7	5.1
Pulses	0.3	0.3	0.3	14.9	8.6
Meat & Meat Products	1.9	2.0	2.3	16.2	20.6
Fruits & Vegetables	0.4	0.4	0.4	-10.6	9.8
Live Animals	0.6	0.6	0.8	37.2	36.3
Chat	4.8	5.2	4.0	-22.6	-15.8
Gold	10,867.3	9,907.8	13,010.8	31.3	19.7

Source: Calculated from tables VI.3 and VI.4



6.2.2. Imports

Total imports surged to USD 4383.4 million (33.9 percent of GDP) in 2005/06 from USD 3633.3 million (32.5 percent of GDP) in 2004/05 and USD 2586.9 million (26.4 percent of GDP) in 2003/04, owing to improvements in all components of imports, except fuel, despite a notable rise in their prices.

Imports of raw materials increased by 57.3 and 197.3 percent and reached USD 77.2 million, reflecting the continuous rise in the international price of metal products such as iron sheet and steel. Metal prices are estimated to have increased by 45 percent in 2006 over 2005, mainly due to strong demand and production disruptions (World Economic Outlook, September, 2006).

Imports of capital goods increased by 21 and 65.7 percent and reached USD 1453 million in 2005/06, reflecting the continued rise in imports of machinery and transport equipment associated with the on-going

private investment activities and the capacity building program of the government in infrastructure facilities. During the last three years, capital goods imports, on average, accounted for a third of total imports, reflecting the typical feature of a developing country.

Imports of consumer goods also increased to USD 1281.9 million from USD 986 million a year earlier. This was basically due to higher imports of motor vehicles, cereals, medical and pharmaceuticals and textile fabrics.

Fuel imports, on the other hand, declined to USD 651 million in the review period from USD 668 million a year ago, wholly on account of slowdown in the volume of petroleum products imported. Nevertheless, fuel imports still accounted for 15 percent of total imports indicating the importance of fuel in total import basket.

Table 6.6: Value of Imports by End Use

(In Millions of USD)

Particulars	2003/04	Share from total Import	2004/05	Share from total Import	2005/06	Share from total Import	Percentage Change	
	A		B		C		C/B	C/A
Raw Materials	26.0	1.0	49.1	1.4	77.2	1.8	57.3	197.3

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Semi-finished Goods	435.2	16.8	664.7	18.3	821.6	18.7	23.6	88.8
O/w Fertilizers	106.6	4.1	122.0	3.4	136.0	3.1	11.5	27.5
Fuel	310.5	12.0	668.7	18.4	651.1	14.9	-2.6	109.7
Petroleum Products	310.2	12.0	667.4	18.4	647.2	14.8	-3.0	108.6
Others	0.3	0.0	1.4	0.0	4.0	0.1	191.6	1139.3
Capital Goods	876.6	33.9	1199.3	33.0	1453.1	33.2	21.2	65.8
Transport	298.3	11.5	371.6	10.2	429.9	9.8	15.7	44.1
Agricultural	10.8	0.4	24.4	0.7	38.7	0.9	58.9	259.6
Industrial	567.5	21.9	803.4	22.1	984.4	22.5	22.5	73.5
Consumer Goods	895.6	34.6	986.1	27.1	1281.9	29.2	30.0	43.1
Durables	294.6	11.4	337.3	9.3	415.7	9.5	23.2	41.1
Non-durables	601.0	23.2	648.8	17.9	866.2	19.8	33.5	44.1
Miscellaneous	43.1	1.7	65.3	1.8	98.5	2.3	50.9	128.7
Total Imports	2586.9	100.0	3633.3	100.0	4383.4	100.0	20.7	69.5

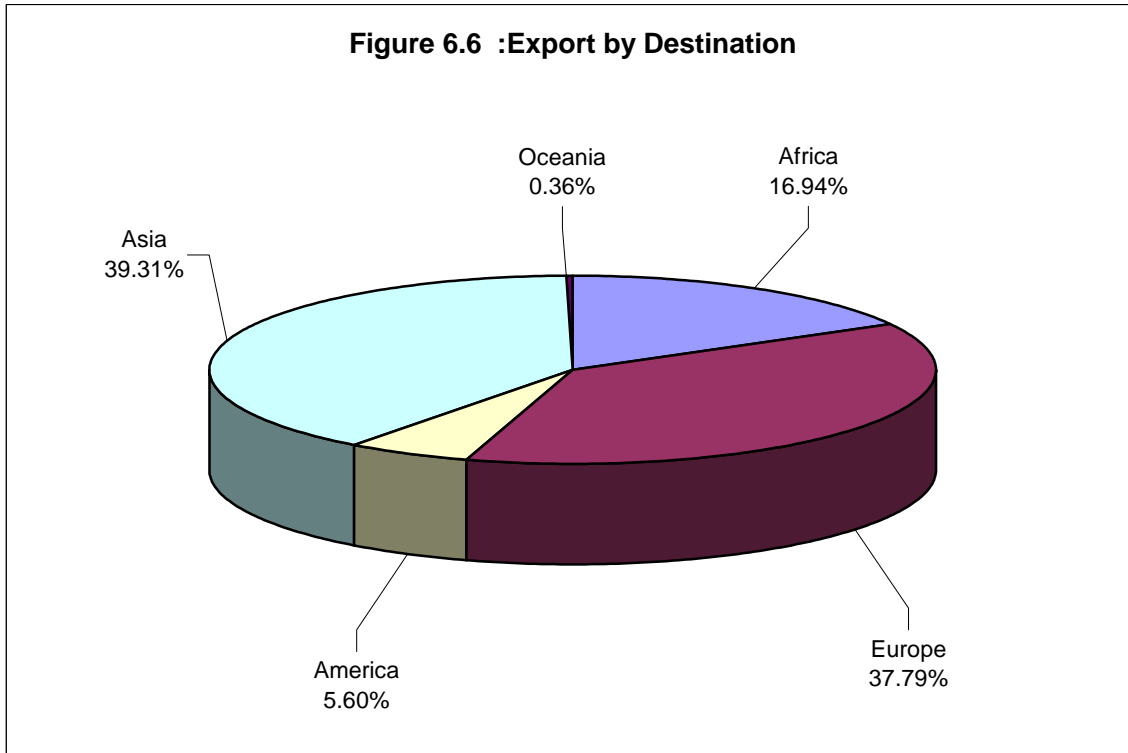
Source: Ethiopian Customs Authority

6.2.3 Direction of Trade

During the review period, most of Ethiopia's exports were destined to Asia (39 percent) followed by Europe (37.8 percent), Africa (16.9 percent) and America (5.6 percent). Out of the total exports to Asia, the major recipients were China (34.4 percent), Japan (20 percent) and Saudi Arabia (15.7 percent). China is the main importer of oilseeds, while Japan is the dominant importer of Ethiopian coffee. Among the European countries Germany was the main importer of coffee and flowers (26.9percent), followed by

Switzerland (17.7 percent), the sole importer of gold and, Italy (14.5 percent).

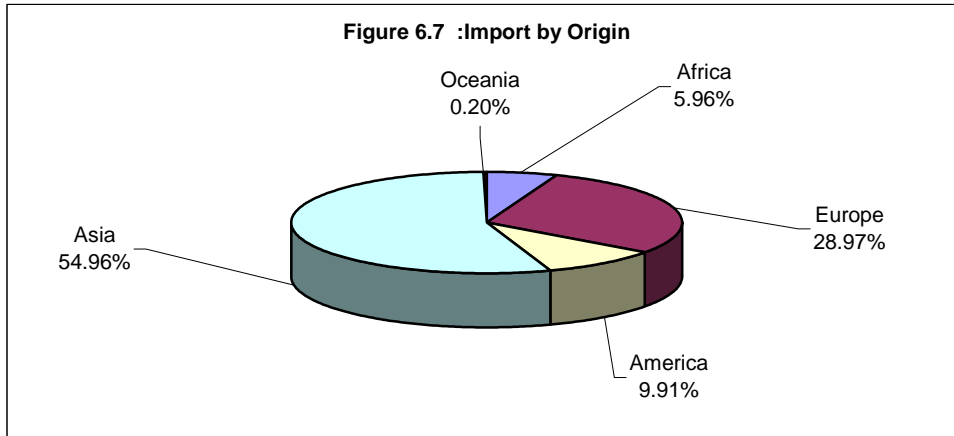
Similarly, of the total export destined to Africa, two neighboring countries, namely, Djibouti and Somalia took the lion's share (60 percent of the total export) as they are the main importers of chat, fruits and live animals. Like wise, over 96 percent of export to America went to the United States of America (86.6 percent) and Canada (10.4%).



Regarding the origin of imports, over half of Ethiopia's imports (55 percent) originated from Asia followed by Europe (29 percent), America (10 percent) and Africa (6 percent).

Of the total imports from Asia, about 51 percent came from two countries, namely, China (24 percent) and Saudi Arabia (27 percent). Imports of petroleum products alone accounted for 90 percent of the imports from Saudi Arabia.

Of the total imports from European countries, the lion's share came from Italy (20 percent) followed by Germany (13.5 percent) and Belgium (8 percent). Similarly, 52 percent of the import from Africa originated from Djibouti and Egypt. On the other hand, USA and Brazil constituted over 94 percent of imports from America.



6.3 Services and Transfers

6.3.1 Services

The surplus in net services account narrowed to USD 108.3 million in 2005/06 from USD 242 million in 2004/05, owing to a significant drop in net receipts from travel and transportation services and a sharp rise in net outflows from other services.

Net receipts from travel services declined to USD 62.7 million in the review year compared with USD 114 million last year, presumably due to fewer international conferences held in Addis Ababa and large number of out-bound travelers for holiday and business purposes.

In a related development, net receipts from transportation services plummeted from

USD 70.7 million in 2004/05 to USD 43 million in the review year, reflecting the surge in payments by the Ethiopian Airlines and Ethiopian Shipping Lines for fuel and port expenses. On the other hand, net payments to other services increased by 181 percent to USD 235.4 million in 2005/06 from USD 83.7 million last year, mirroring a significant increase in payments for construction, communication and insurance services. The significant rise in construction and communication services were the reflection of the capacity building program of the government in the infrastructure sub-sector of the economy.

6.3.2 Unrequited Transfers

The surplus in net private transfers increased by about 6 percent and reached USD 861.3 million in the review period compared with USD 811 million in the preceding year wholly on account of improvements in NGOs cash transfers. Private individual transfers almost remained at the previous year level of USD

371 million due to 18 percent decline in transfers in-kind, presumably associated with the change in policy on the privilege granted to import cars duty-free for Ethiopian returnees from abroad and the widening of the exchange rate premium between the official and parallel markets (3.97 percent).

Table 6.7: Unrequited Transfers

(In Millions of USD)

No.	Particulars	2003/04		2004/05		2005/06		Percentage Change	
		A	% Share	B	% Share	C	% Share	C/B	C/A
		1	Private Transfers	671.3	54.2	810.8	52.0	861.3	49.9
1.1	Receipts	690.2	54.6	828.1	52.3	871.4	49.9	5.2	26.3
	NGO's	456.8	36.2	457.4	28.9	499.8	28.6	9.3	9.4
	Cash	403.9	32.0	444.0	28.1	497.8	28.5	12.1	23.2
	Other	0.0	0.0	0.0	0.0	0.0	0.0		
	Food	52.9	4.2	13.4	0.8	2.1	0.1	-84.5	-96.1
	Private individuals	233.4	18.5	370.7	23.4	371.6	21.3	0.2	59.2
	Cash	211.0	16.7	350.8	22.2	354.9	20.3	1.2	68.2
	In-kind	22.4	1.8	20.0	1.3	16.8	1.0	-16.1	-25.2
1.2	Payments	-19.0	74.0	-17.3	76.6	-10.2	53.3	-41.2	-46.2
2	Official Transfers	566.5	45.8	749.7	48.0	866.2	50.1	15.5	52.9
2.1	Receipts	573.1	45.4	755.0	47.7	875.2	50.1	15.9	52.7
	Cash	491.0	38.9	659.8	41.7	811.3	46.5	23.0	65.3
	Other	0.2	0.0	0.3	0.0	0.4	0.0	48.6	94.6
	Food	82.0	6.5	94.9	6.0	63.5	3.6	-33.2	-22.6
2.2	Payments	-6.7	26.0	-5.3	23.4	-8.9	46.7	68.9	34.3
	Net Transfers	1237.8	100.0	1560.5	100.0	1727.5	100.0	10.7	39.6

Source: DPPA and NBE

Similarly, net official transfers increased to USD 866 million in 2005/06 from USD 750 million in the previous year, mainly due to higher official cash receipts from both multilateral and bilateral donors. Official cash transfers surged by 21 and 65

percent and stood at USD 811 million in 2005/06 compared with USD 668 million in 2004/05 and USD 491 million in 2003/04.

6.4. Current Account

The current account deficit (including official transfers) widened to USD 1547 million (12 percent of GDP) from USD 983 million (9 percent of GDP) in the preceding

year, reflecting the widening of trade deficit and the slowdown in the surplus of net services account.

6.5. Capital Account

The surplus in the capital account declined to USD 515.4 million from USD 584.5 million in 2004/05, owing to sluggish long-term loan disbursements (39.6 percent decline) and marked increase in principal loan repayments, largely associated with

HIPC debt relief (65 percent share). Nevertheless, net inflows of FDI was estimated at USD 342.7 million in 2005/06 against USD 150 million a year ago, contributing to the positive balance of the capital account.

6.6. Changes in Reserve Position

Mirroring the turn around in the overall balance of payments from a surplus of USD 226.7 million in 2003/04 to a deficit of USD 326.3 million in 2005/06, the banking system posted a reserve draw-down of USD

193.3 million in 2005/06 in contrast to a reserve build-up of USD 308.2 million in 2003/04. The exhibited reserve draw-down was solely ascribed to NBE's reserve draw-down of USD 275.1 million, reflecting the

NBE's role in providing commercial banks with liquidity through inter bank foreign exchange market. Yet, the gross official reserves of the NBE as at end of June 2006

was sufficient to cover 2.3 months of imports of goods and non-factor services of next year.

6.7. External Debt

Ethiopia's stock of external debt declined to USD 6029.1 million in 2005/06 from USD 7200.3 million in 2003/04, reflecting the impact of HIPC relief assistance. As to the structure of debt creditors, 80.9 percent of the total debt stock was owed to multilateral creditors, followed by bilateral creditors (13.2 percent) and commercial lenders (5.9 percent).

The debt burden of the country, as measured by the ratio of external debt to GDP and external debt to exports of goods and services, tended to decline overtime.

The ratio of external debt to GDP declined from 74 percent in 2003/04 to 53.9 percent in 2004/05 and further to 46.6 percent in 2005/06. The ratio of external debt to exports of goods and services also dropped to 290 percent in 2005/06 from 480 percent in 2003/04.

The ratio of debt service to exports of goods and non-factor services almost remained at the previous year level of 9.8 percent, but showed a marked decline as compared with the ratio of 12.3 percent in 2003/04.

Table 6.8 External Public Debt

(In million of USD)

Particulars	2003/04	2004/05	2005/06	Percent change	
	A	B	C	C/B	C/A
Debt outstanding					
Lenders Total	7200.3	6021.0	6029.1	0.1	-16.3
Multilateral	4679.9	4880.8	4876.3	-0.1	4.2
Bilateral	2520.4	787.6	797.7	1.3	-68.3
Commercial	-	352.6	355.1	0.7	-
Drawing by Lender					
Lender Total	510.6	570.3	344.4	-39.6	-32.5
Drawing by sector					
Sector Total	510.6	570.3	344.4	-39.6	-32.5
Debt service					
Costs	183.8	181.5	209.1	15.2	13.8
Principal repayments	122.3	130.2	147.4	13.2	20.6
Interest payments	61.5	51.3	61.7	20.1	0.2
Debt stock to GDP ratio	74.0	53.9	46.6	-13.5	-37.0
Ratio of Debt stock to export of goods & services	4.8	3.2	2.9	-11.6	-40.4
Receipt from goods & non-factor services	1498.2	1858.5	2104.7	13.2	40.5
Debt service ratio (%)^{1/}	12.3	9.8	9.9	1.7	-19.0
Arrears^{2/}	0.0	0.0	0.0	-	-
Principal	0.0	0.0	0.0	-	-
Interest	0.0	0.0	0.0	-	-

Source: Ministry of Finance and Economic Development

1. A fraction of debt service to receipts from export of goods and non-factor services

2. Outstanding as at end period

6.8 Developments in the Foreign Exchange Market

6.8.1 Developments in the Nominal Exchange Rate

The weighted average exchange rate of the Birr in the inter-bank market depreciated by 0.34 percent and stood at Birr 8.6810/USD in 2005/06 from Birr 8.6518/USD in 2004/05. The depreciation of the exchange rate of the Birr was more pronounced in parallel market as it depreciated by 3.61

percent and reached Birr 9.0258/USD against Birr 8.7110/USD in the corresponding period of last year. As a result, the spread between the parallel and the inter-bank market average rates widened to 3.97 percent in 2005/06 from 0.68 percent last year. The likely reasons

for the widening of the spread between the parallel market and the official rates were the growing e-commerce, illegal trade in foreign exchange and groundless

speculations of parallel market dealers and individuals that the government might devalue the Birr in the near future.

Table 6.9 Inter-Bank and Parallel Forex Market Exchange Rates

Period	Rates in Birr per USD				Amount Traded in millions of USD		Number of Trades		Parallel Market		Premium
	End Period Rates			Average Weighted Rate	Total	o/w Among CBs	Total	o/w Among CBs	End Period	Average	
	Weighted Rate	Highest	Lowest								
2003/04	8.6368	8.6368	8.6003	8.6197	228.0	96.0	978	343	8.7200	8.6751	0.64
Qtr. I	8.6104	8.6104	8.6003	8.6057	65.05	25.10	180	68	8.6400	8.6452	0.46
Qtr. II	8.6207	8.6207	8.6105	8.6166	96.51	38.51	254	124	8.6400	8.6617	0.52
Qtr. III	8.6281	8.6281	8.6208	8.6244	39.48	19.20	268	75	8.6800	8.6691	0.52
Qtr. IV	8.6368	8.6368	8.6003	8.6322	27.00	13.15	276	76	8.7233	8.7242	1.07
2004/05	8.6663	8.6663	8.6371	8.6518	138.9	22.2	1290	62	8.8100	8.7110	0.68
Qtr. I	8.6446	8.6446	8.6371	8.6408	28.80	0.6	281	9	8.7400	8.7143	0.85
Qtr. II	8.6521	8.6521	8.6446	8.6483	38.38	0.5	429	3	8.7000	8.7152	0.77
Qtr. III	8.6591	8.6591	8.6522	8.6554	33.80	5.85	354	18	8.7100	8.6961	0.47
Qtr. IV	8.6663	8.6663	8.6636	8.6625	37.92	15.20	226	32	8.8100	8.7185	0.65
2005/06	8.6949	8.6949	8.6687	8.6810	134.0	10.3	1304.2	32.0	8.8700	9.0258	3.97
Qtr. I	8.6739	8.6739	8.6687	8.6702	36.15	4.3	198	17	9.0000	8.9592	3.33
Qtr. II	8.6813	8.6813	8.6763	8.6776	36.55	6.0	302.0	15.0	9.1150	9.0198	3.94
Qtr. III	8.6882	8.6882	8.6835	8.6847	30.78	0.00	450.00	0.00	9.3100	9.1280	5.10
Qtr. IV	8.6949	8.6949	8.6902	8.6914	30.50	0.00	354.20	0.00	8.8700	8.9962	3.51

Source: BFED, NBE

Concerning exchange rate developments in the retail market, both the average buying and selling rates of commercial banks and foreign exchange bureaux depreciated in the review year, mirroring exchange rate

developments in the inter-bank market. The average buying and selling rates of commercial banks depreciated by 0.33 and 0.39 percent and stood at Birr 8.6810/USD and Birr 8.8545/USD.

Similarly, the average buying and selling rates of foreign exchange bureaux depreciated by 0.29 and 0.35 percent and reached Birr 8.6808/USD and Birr 8.8537/USD, respectively from Birr 8.6561/USD and Birr 8.8233/USD in the preceding year.

all of Ethiopia's major trading partners' currencies except the Japanese Yen. Compared with last year, the depreciation of the Birr was significant against Canadian dollar (11.2 percent) followed by Swedish Kroner (8.0 percent) and Euro (5.5 percent).

From the perspective of the end-period mid market rates, the Birr depreciated against

Table 6.10: Mid Market End Period Rates (Birr Per Unit of Currency)

Currency	2003/04	2004/05	2005/06	Percentage Change	
	A	B	C	C/B	C/A
US Dollar	8.6798	8.7095	8.7383	0.33	0.67
Pound Sterling	15.6983	15.7353	16.0164	1.79	2.03
Swedish Kroner	1.1499	1.1145	1.2037	8.00	4.68
Djibouti Frank	0.0489	0.0490	0.0492	0.31	0.61
Swiss Frank	6.8610	6.8027	7.0882	4.20	3.31
Saudi Riyal	2.3143	2.3222	2.3296	0.32	0.66
UAE Dirhams	2.3630	2.3711	2.3796	0.36	0.70
Canadian Dollar	6.4438	7.0838	7.8759	11.18	22.23
Japanese Yen	0.0799	0.0790	0.0760	-3.71	-4.80
EURO	10.4904	10.5262	11.1073	5.52	5.88
SDR	12.7382	12.7083	12.8212	0.89	0.65

Source: NBE

As the value of Birr is officially expressed in US dollar in the inter-bank foreign exchange market, the movement of the US dollar against other major currencies is very essential for the Ethiopian economy. The analysis revealed that both the buying and

selling rates of the USD appreciated against all major currencies compared with the average rate in 2004/05. Significant appreciation was recorded against Japanese Yen (6.95 percent) followed by Swiss Frank (6.51 percent) and Euro (4.33

percent). Hence, the appreciation of the US dollar against major currencies is likely to

affect the external competitiveness of Ethiopia.

6.8.2. Movements in the Real Effective Exchange Rate

Notwithstanding the slight depreciation in the nominal effective exchange rate (a depreciation of 2.6 percent), the real effective exchange rate of the Birr appreciated by 8.3 percent in 2005/06 compared with the preceding year. This was mainly due to the relative rise of domestic inflation (12.3 percent increase)

vis-à-vis the trading partner countries' inflation (3.4 percent increase). The relative appreciation of the real effective exchange rate of the Birr is likely to adversely affect the international competitiveness of the export sector.

Table 6.11: Period Average Exchange Rates (USD per Major Currencies)

		EURO			YEN			SDR		
		Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate
2003/04	A	1.1928	1.1928	1.1928	0.0090	0.0091	0.0091	1.4451	1.4451	1.4451
Qtr. I		1.1257	1.1257	1.1257	0.0085	0.0085	0.0085	1.3922	1.3921	1.3921
Qtr. II		1.1900	1.1900	1.1900	0.0092	0.0094	0.0093	1.4430	1.4430	1.4430
Qtr. III		1.2518	1.2518	1.2518	0.0093	0.0093	0.0093	1.4861	1.4861	1.4861
Qtr. IV		1.2038	1.2038	1.2038	0.0091	0.0091	0.0091	1.4593	1.4592	1.4593
2004/05	B	1.2716	1.2715	1.2716	0.0093	0.0093	0.0093	1.4915	1.4914	1.4914
Qtr. I		1.2213	1.2213	1.2213	0.0091	0.0091	0.0091	1.4664	1.4664	1.4664
Qtr. II		1.2954	1.2953	1.2953	0.0094	0.0094	0.0094	1.5097	1.5097	1.5097
Qtr. III		1.3106	1.3105	1.3106	0.0095	0.0096	0.0096	1.4978	1.4975	1.4977
Qtr. IV		1.2590	1.2590	1.2590	0.0093	0.0093	0.0093	1.4920	1.4921	1.4920
2005/06	C	1.2166	1.2164	1.2165	0.0087	0.0087	0.0087	1.4520	1.4520	1.4520
Qtr. I		1.2186	1.2184	1.2185	0.0090	0.0090	0.0090	1.4611	1.4607	1.4609
Qtr. II		1.1884	1.1881	1.1883	0.0085	0.0085	0.0085	1.4343	1.4346	1.4344
Qtr. III		1.2031	1.2031	1.2031	0.0085	0.0085	0.0085	1.4403	1.4403	1.4403
Qtr. IV		1.2562	1.2562	1.2562	0.0087	0.0087	0.0087	1.4722	1.4722	1.4722
Percentage Change	C/B	-4.32	-4.33	-4.33	-6.95	-6.96	-6.95	-2.65	-2.65	-2.65
	C/A	1.99	1.98	1.99	-3.73	-4.24	-3.98	0.47	0.47	0.47

Table 6. 12: Trends in the Real and Nominal Effective Exchange Rates

Year	REERI	NEERI
1999/00	93.6	95.5
2000/01	87.9	98.7
2001/02	85.3	103.1
2002/03	97.4	96.5
2003/04	99.0	92.0
2004/05	94.3	85.6
2005/06	102.1	83.4

Source: National Bank of Ethiopia, Staff Compilation

Note : REERI = Real Effective Exchange Rate Index

NEERI = Nominal Effective Exchange Rate Index

An increase in REERI and NEERI indicates appreciation and vice-versa.

6.8.3 Foreign Exchange Transactions

The amount of foreign exchange transacted in the inter-bank foreign exchange market declined to USD 134 million in 2005/06 from USD 138.9 million in the preceding year(Table 6.9). The amount of foreign exchange traded among commercial banks declined to USD 10.3 million 2005/06 from USD 22.2 million in 2004/05, presumably due to the surge in imports that forced commercial banks to finance the import demand from their own holdings. Indeed, 92 percent of the total foreign exchange transacted in the review period in the inter-bank market was supplied by the NBE, indicating the important role of the NBE in providing foreign exchange liquidity to the market, particularly for financing of imports

Concerning transactions in the retail market, commercial banks' purchase of foreign exchange from exporters increased by 12.8 percent and reached USD 418.8 million presumably reflecting improvements in export earnings. At the same time, in tandem with continuous increases in imports, commercial banks' sales of foreign exchange to importers rose to USD 2729.7 million in the review period from USD 2512.8 million in 2004/05 and USD 1586.5 million in 2003/04(Table 6.13).

Meanwhile, purchases of foreign exchange by foreign exchange bureaux markedly declined to USD 43.5 million (43 percent decline) from USD 76.6 million last year, presumably due to slowdowns in receipts

from travel services and the widening of the spread between the parallel and official rates to 3.97 percent from 0.68 percent a year ago. Their sales, on the other hand,

increased by 96.7 percent and reached USD 31.3 million, mirroring the intention of the travelers to purchase foreign exchange at low price from the official market.

Table 6.13: Foreign Exchange Transactions by Commercial Banks

(In Millions of USD)

Banks	2003/04		2004/05		2005/06		Percentage change	
	A	B	C	D	E	F	E/C	F/D
	Purchases	Sales	Purchases	Sale	Purchases	Sales	Purchases	Sales
Commercial Bank of Ethiopia	144.8	930.3	159.8	1585.2	144.5	1429.6	-9.6	-9.8
Bank of Abyssinia	20.9	81.6	31.0	109.2	31.4	161.1	1.2	47.5
Dashen Bank	30.1	187.5	58.8	190.2	104.2	312.1	77.2	64.2
Awash International Bank	3.9	91.9	4.4	117.7	10.0	152.0	124.9	29.1
Construction & Business Bank	1.8	26.7	0.1	111.5	3.0	111.2	2327.8	-0.3
Wegagen Bank	43.7	110.2	72.4	158.2	92.4	245.8	27.5	55.4
United Bank	0.0	34.6	0.0	127.1	0.0	157.3		23.8
Development Bank	0.0	0.0	0.0	0.0	0.0	0.0		
Nib International Bank	22.3	123.7	44.5	113.7	33.3	160.6	-25.1	41.3
Total	267.5	1586.5	371.1	2512.8	418.8	2729.7	12.9	8.6
Average Exchange Rate	8.6	8.8	8.7	8.8	8.7	8.9	0.3	0.4

Source: National Bank of Ethiopia

Table 6.14: Foreign Exchange Transactions by Foreign Exchange Bureaux of Commercial Banks

(In Millions of USD)

No	Forex Exchange Bureaux	2003/04		2004/05		2005/06		Percentage Change	
		A	B	C	D	E	F	E/C	F/D
		Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
1	Commercial Bank of Ethiopia	27.3	5.1	24.0	8.5	7.8	19.1	-67.6	125.3
2	Bank of Abyssinia	2.9	1.4	2.9	1.5	1.8	2.7	-37.5	81.5
3	Dashen Bank	9.0	2.3	13.1	1.9	9.3	2.7	-29.4	40.9
4	Awash International Bank	4.8	0.9	1.5	0.8	0.6	1.1	-56.2	43.7
5	Construction & Business Bank	1.2	0.2	1.3	0.2	0.5	0.4	-62.0	118.2
6	Wegagen Bank	2.9	1.4	3.2	1.5	6.9	2.6	113.4	72.7
7	United Bank	8.8	0.9	10.0	0.9	9.3	1.5	-7.3	68.2
9	Nib International Bank	13.9	0.9	20.7	0.7	7.5	1.3	-63.9	76.9
10	Total	70.7	13.0	76.6	15.9	43.5	31.3	-43.2	96.7
11	Average Exchange Rate	8.6	8.8	8.7	8.8	8.7	8.9	0.3	0.3