Governor's Note

Ethiopia has continued to register strong economic growth for the seventh time in a row in 2009/10 placing the country in a remarkable growth track. The economy grew 10.4 percent in 2009/10, higher than the estimated growth rate of 6.0 percent for Sub-Saharan Africa (SSA). Agriculture and allied activities with a share of 42 percent in real GDP grew by 7.6 percent contributing 30.2 percent to the 10.4 percent GDP growth in the fiscal year. Service and industry sectors have also played a considerable role in the overall economic growth. Industry with a share of 13 percent in total GDP, scaled up by 10.6 percent mainly due to huge investment in electricity and water sub-sectors. Manufacturing, mining and quarrying as well as construction sectors have also registered remarkable growth to support the overall economic growth. The service sectors expanded by 13.0 percent contributing 56.6 percent to the annual economic expansion.

During the fiscal year 2009/10, inflationary pressure continued to ease due to prudent monetary and fiscal policies and other government measures. Consequently, the annual average inflation dropped to 2.8 percent at the close of June 2010 against 36.4 percent a year earlier. Annualized food inflation, which has 57 percent share in total CPI inflation, scaled down from 44.3 percent to – 5.4 percent during the same period largely due to price decline in cereals, oil & fats and pulses. Similarly, annual average core (non-food) inflation went down to 18.2 percent compared to 23.8 percent a year ago, driven by the falling prices of house rent, construction materials, water, fuel and power.

The government's fiscal operations witnessed an overall fiscal deficit of 4.6 percent of GDP in contrast to 5.3 percent last year as a result of prudent fiscal policy. General government revenue, including grants depicted a 21.3 percent surge to reach Birr 66.2 billion owing to improved tax administration and notable economic growth. Revenue to GDP ratio, though still low compared to other developing countries, improved to 17.3 percent from 12.0 percent a year ago. General government expenditure registered a 23.5 percent annual increase to reach Birr 71.3 billion.

Pertaining to the monetary sector, monetary policy has been aimed at containing inflationary pressure and building international reserve of the country. Accordingly, efforts have been made to make growth of broad money supply in line with nominal GDP growth. Domestic liquidity measured by broad money supply rose by 22.2 percent against a nominal GDP growth of 20.8 percent during the fiscal year. Broad money to GDP ratio dropped from 33 percent in 2006/07 to 27.5 percent in 2007/08 and further to 24.6 percent in 2008/09 but re-surged to 27.2 percent in 2009/10. The surge in broad money supply during the review year was due to 51.2 percent increase in net foreign asset and 17.1 percent rise in domestic credit. Interest rates, except Treasury bill yield, was positive due to low inflation during the year as opposed to the previous year.

The financial sector registered robust growth in 2009/10 despite global economic shock and financial crisis. The total number of banks operating in Ethiopia reached 15 as two new private banks joined the industry during the fiscal year. The number of bank branches also increased by 45 from 636 to 681. As a result, the bank branch to population ratio has seen moderate improvement. Banks operating in the country registered high profit, enhanced resource mobilization, expanded their capital level, disbursed paramount loans and reduced their non-performing loans to a minimum level.

During the review fiscal year, deposit mobilized and outstanding loans of the banking system surged by 56.7 and 20.6 percent, respectively. The banking system disbursed fresh loans amounting to Birr 28.9 billion, 13.5 percent higher than last year, despite NBE's credit ceiling. Loan collection also went up by 14.1 percent over last year. Meanwhile, excess reserves declined by 25.4 percent and stood at Birr 6.3 billion against 8.4 billion last year.

Similarly, credit expansion and deposit mobilization of MFIs has surged by 18.0 and 26.7 percent, respectively witnessing their principal role in income generating, asset building and poverty reducing effort of the country.

With regard to external sector developments, the review fiscal year depicted strong performance in imports and exports, a surge in services and transfers and fairly narrowing current account deficit. Export proceeds amounted to USD 2.0 billion which was 36.7 percent higher than last year. The strong performance in export proceeds was due to higher proceeds from all major export items except leather & leather products and pulses. Net service recorded USD 456.6 million inflows, exceeding the preceding year by 18.7 percent, owing to the surge in net receipts from government, travel and transport services.

On the other hand, total import bill grew by 7 percent and reached UDS 8.3 billion from UDS 7.7 billion last year. This was attributed to the increase in the value of import items like semi-finished goods (7.6 percent), fuel (4.3 percent), capital goods (16.6 percent) and consumer goods (5.5 percent), offsetting the 40 percent slowdown in raw materials import. As a result, the share of imports in total GDP rose to 26.5 percent from 24 percent a year ago.

Net unrequited transfers witnessed modest growth of 8.4 percent in 2009/10, largely due to 22.8 percent rise in official transfers. Hence, the country's current account deficit (including public transfers) narrowed to USD 1.3 billion in the review year from USD 1.6 billion in the preceding year. The overall balance of payments registered a surplus of USD 316.6 million, showing a 38.3 percent increase over a year earlier.

Regarding exchange rate developments, the year 2009/10 revealed fast depreciation rate of the Birr against USD and other currencies. The Birr depreciated by 68.2 percent against Japanese Yen, 40.8 percent against USD, 31.7 percent against Swiss France , 27.9 percent against SDR and 8.7 percent against Euro.

In the money market, the amount of T-bills sold in the review year was Birr 41.7 billion, showing a 12.5 percent decline relative to last year due to lower participation of banks. The bank's share in T-bills outstanding went down to 33.3 percent in 2009/10 compared to 74.6 percent last year. The average yield across maturities, however, rose to 0.786 from 0.743 a year earlier. No inter-bank money market transactions were conducted during the review fiscal year. Besides the primary T-bills market, corporate bonds were also floated and the outstanding stock of corporate bonds reached Birr 27.7 billion by the end of the review period.

Looking ahead, the Ethiopian economy is projected to grow by 11.1 percent in 2010/11 as macroeconomic conditions are expected to continue improving. Concerted efforts will be made to contain inflation with in a single digit level by pursuing tight monetary and fiscal policies. Attention will also be given to improving international competitiveness by using appropriate exchange rate policy and other export enhancing mechanisms. Efforts also will be made to build international reserves of the country by prompting export, inward of remittances and FDI.

I. OVERALL ECONOMIC PERFORMANCE

1.1 Economic Growth

In 2009/10, real GDP growth was 10.4 percent slightly higher than 10 percent last fiscal year. This robust economic growth was in glaring contrast to 6 percent estimate for Sub-Saharan Africa. The growth was also continuous with 11.3 percent annual average growth during 2003/04-2009/10.

Accordingly, Ethiopia's real per capita GDP has scaled up to Birr 1933 or USD 238 in real terms with annual average growth rate of 8.3 percent during the last 7 years. This high growth rate attained for the seventh time in a row was broad based with all sectors exhibiting good performance.

Sector wise, the services sector showed 13 percent, while agriculture and industry exhibited 7.6 and 10.6 percent growth, respectively. As a result, the service sector contributed 57.7 percent to GDP growth, while the remaining 30.8 and 13.3 percent were contributed by agriculture and industry, respectively.

The resilience of the Ethiopian economy is projected to continue and show 11.0 percent expansion in 2010/11 compared to 5.5 percent average growth projection for Sub-Saharan Africa and 4.4 percent for the entire world.

Table 1.1 Sectoral Contribution to GDP and GDP Growth

(In Millions of Birr)

Items		Fiscal Year					
		2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Sector	Agriculture	39,728	44,062	48,225	51,843	55,141	59,348
	Industry	11,402	12,561	13,757	15,150	16,616	18,374
	Services	33,312	37,747	43,534	50,519	57,576	65,084
Total		84,443	94,371	105,517	117,514	129,333	142,807
Less FISM		639	896	1,018	1,323	1,489	1,619
Real GDP		83,804	93,474	104,499	116,190	127,844	141,187
Growth in Real GDP		12.6	11.5	11.8	11.2	10	10.4
Real GDP per capita		1,334.0	1,441.0	1,553.0	1,664.0	1,764.0	1,933.0
Share in GDP (in percent)	Agriculture	47.4	47.1	46.1	44.6	43.1	42.0
	Industry	13.6	13.4	13.2	13.0	13.0	13.0
	Services	39.7	40.4	41.7	43.5	45.0	46.1
Growth in Real GDP per capita		9.0	8.0	7.8	7.1	6.0	9.6
Agriculture	Absolute Growth	13.5	10.9	9.4	7.5	6.4	7.6
	Contribution to GDP growth	6.4	5.1	4.4	3.3	2.7	3.2
	Contribution in percent	50.8	44.5	36.9	29.9	27.6	30.8
Industry	Absolute Growth	9.4	10.2	9.5	10.0	9.9	10.6
	Contribution to GDP growth	1.3	1.4	1.3	1.3	1.3	1.4
	Contribution in percent	10.1	11.8	10.7	11.7	12.9	13.3
Services	Absolute Growth	12.8	13.3	15.3	16.0	14.0	13.0
	Contribution to GDP growth	5.1	5.4	6.4	7.0	6.3	6.0
	Contribution in percent	40.1	46.6	54.2	62.5	63.4	57.6

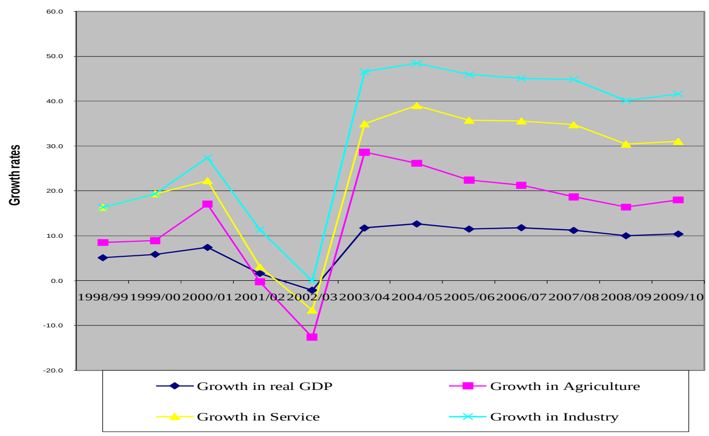
Source: MoFED and Staff Computation

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

1.2 GDP by Sector

Regarding Sectoral breakdown of GDP, the services sector took the lead and accounted for 46.1 percent, followed by agriculture (42 percent) and industry (13 percent). The share of agriculture in GDP tended to decline over time; however, it still remains the largest employer, the main source of foreign exchange, and supplier of raw materials and market to domestic industries(Fig.1.1).

Fig. I.1: GDP Growth by Major Sectors



Source: Central Statistical Agency (CSA)

The growth in agricultural outputs was largely attributed to improved productivity aided by favorable weather condition and conducive economic policy. Cultivated land expanded by 2.6 percent and reached 11.2 million hectares in 2009/10. Total agricultural production was 180.8 million quintals. Productivity also increased from 12.1 quintal/hectare in 2004/05 to 15.7 quintal/hectare in 2009/10.

Within the sector, the crop sub-sector has always been the main driving force. Accordingly, production of major crops including cereals, pulses and oilseeds increased by about 5.6 percent in 2009/10.

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

(Area and production are in thousands of hectars and quintals, respectively)

	2006/07		2007/08		2008/09		2009/10	
Agricultural Production	Cultivated Area	Total Production	Cultivated Area	Total Production	Cultivated Area	Total Production	Cultivated Area	Total Production
Cereals (Percent Change)	8,471.9 4.8	128,797.9 10.8	8,730.0 3.0	137,169.9 6.5	8,770.0 0.5	144,964.1 5.7	9233.0 5.3	155342.2 7.2
Pulses (Percent Change)	1,379.0 6.7	15,786.2 24.2	1,517.7 10.1	17,827.4 12.9	1,585.2 4.4	19,646.3 10.2	1489.3 -6.1	18980.5 -3.4
Oilseeds (Percent Change)	741.8 -6.9	4970.8 2.2	707.6 -4.6	6169.3 24.1	855.1 20.8	6,557.0 6.3	780.9 -8.7	6436.1 -1.8
Total (Percent Change)	10,592.8 4.2	149,555.0 11.8	10,955.3 3.4	161,166.6 7.8	11,210.3 2.3	171,167 6.2	11,503.2 2.6	180758.8 5.6

Source: CSA

The non-agricultural sector of the economy altogether showed a 23.6 percent expansion during the review year as a result of the combined effects of 10.6 and 13.0 percent growth in industry and service sectors, respectively. The growth in industrial sector was mainly attributed to electricity and water sub-sectors which rose 19.9 percent owing to huge investments in hydroelectric power generation and expansion activities.

Manufacturing, which makes up 43 percent of the industrial sector value added, depicted annual growth rate of 22.5 percent. Mining and quarrying sub-sector growth surged by 94.9 percent while construction sector showed a 1.2 percent slow down.

In recent years, the service sector has taken the leading position in terms of its share in GDP. The most important and growing activities were public sector, financial sector and wholesale and retail sector activities. Financial intermediation depicted 32.8 percent annual average growth during 2004/05-2009/10 as the financial sector continued to expand along with robust economic growth.

1.3 GDP by Expenditure Component

In the review year, the share of total consumption expenditure reached 94.4 percent of GDP slightly higher than 93.6 percent a year earlier reflecting largely the rise in private consumption expenditure from 85.4 percent to 86.1 percent. Meanwhile, government consumption increased marginally from 8.2 percent to 8.3 percent. The ratio of gross domestic savings to GDP dropped to 5.5 percent from 6.4 percent a year ago. Similarly, gross capital formation reached 22.3 percent of GDP against 22.7 percent last year, although it is almost equal to the average estimate (21.7 percent) for SSA.

Hence, the resource gap slightly widened to 19.4 percent of GDP from 18.2 percent last year largely as a result of slow down in gross domestic saving in relation to investment.

Table: 1.3: Expenditure on GDP and Gross Domestic Savings (As Percentage of GDP)

Year 1996/97	Domestic Absorption	Consumption Expenditure			Gross Capital Formation	Resource Balance	Exports of Goods & Services	Imports of Goods & Services	Gross Domestic Savings
		Total	Govt.	Pvt.					
1997/98	109.2	88.0	9.8	78.2	21.2	-7.7	12.8	20.5	12.0
1998/99	113.9	92.0	15.6	76.4	21.9	-12.4	11.6	24.0	8.0
1999/00	111.3	91.0	17.9	73.1	20.3	-11.9	12.0	23.9	9.0
2000/01	111.5	90.0	14.6	75.4	21.5	-11.7	12.0	23.7	10.0
2001/02	118.1	94.0	14.8	79.2	24.1	-14.0	12.6	26.6	6.0
2002/03	118.2	96.0	13.4	82.6	22.2	-14.1	13.3	27.4	4.0
2003/04	114.6	88.1	13.1	75.0	26.5	-16.7	14.9	31.6	11.9
2004/05	117.9	94.1	12.4	81.7	23.8	-20.4	15.1	35.5	5.9
2005/06	120.6	95.4	12.2	83.2	25.2	-22.7	13.8	36.5	4.6
2006/07	113.1	91.3	10.5	80.8	22.1	-19.3	12.7	32.0	8.7
2007/08	117.2	94.8	9.8	85.0	22.4	-19.4	11.4	30.8	5.2
2008/09	116.3	93.6	8.2	85.4	22.7	-18.2	10.5	28.7	6.4
2009/10	116.7	94.4	8.3	86.1	22.3	-19.4	13.6	33.0	5.5
Average:	115.4	92.6	12.4	80.2	22.8	-16.0	12.8	28.8	7.4

Source: MoFED (Based on the Newly Revised Series)

1.4 Micro and Small-Scale Enterprises

The five-year Growth and Transformation Plan has given particular attention to the expansion and strengthening of micro and small-scale enterprises. The sector is believed to be the major source of employment and income generation for a wider group of the society. The major objective of this program, which is creating and promoting MSEs in urban areas envisages to reduce urban unemployment rate. According to the Ministry of Works and Urban Development (MoWUD), a total of 176,543 MSEs were established in 2009/10 employing 666,192 people. The number of established and total employment created went up 141.6 and 25.6 percent, respectively, compared to a year ago. The total amount of loan received from micro finance institutions was Birr 814.1 million under the review period, 22.8 percent higher than last fiscal year.

Table: 1.4 Numbers, Amount of Credit and Jobs Created through MSEs

(Credit in Millions of Birr)

	2008/09	**2009/10**	**Percentage Change**
	A	B	C
No. of MSEs	73,062	176,543	141.6
No. of Total Employment	530,417	666,192	25.6
Amount of credit (in millions of Br)	662.7	814.1	22.8

Source: MoWUD

Table: 1.5. Number, Amount of Credit and Jobs Created through MSEs by Region

(Credit in Millions of Birr)

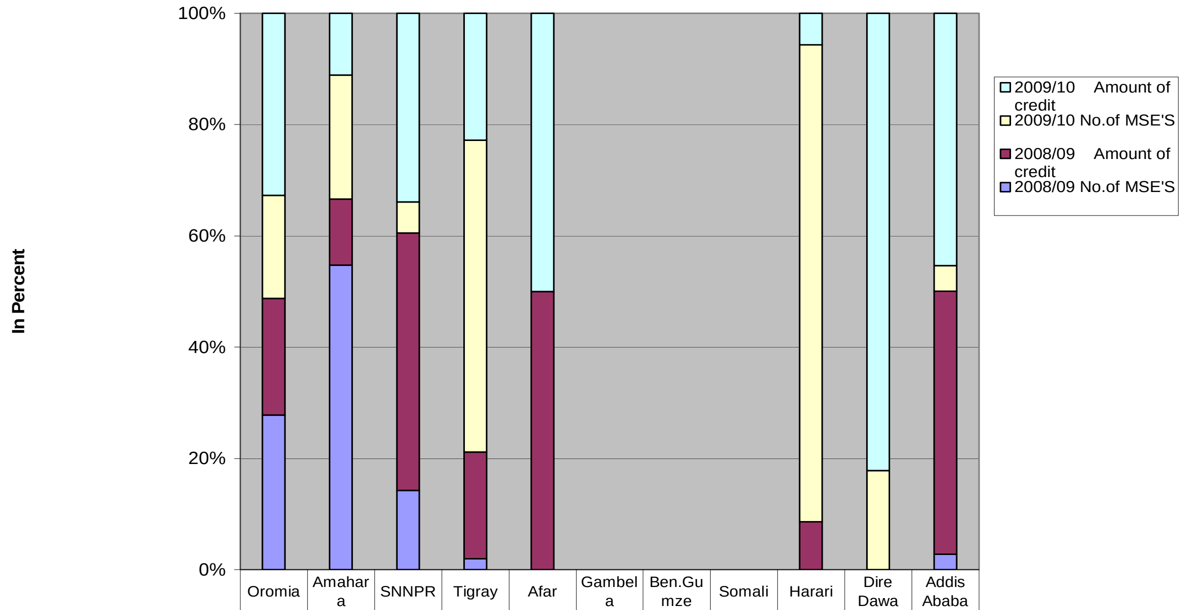
	Oromia	Amhara	SNNPR	Tigray	Harari	Dire Dawa	Addis Ababa	Grand Total
No. of MSEs	15,793	54,949	4,374	85,822	9,579	94	5,932	176,543
Amount of Credit	129.0	126.2	122.0	161.0	2.9	2.0	271.0	814.1
Total Employment	289,617	143,947	50,634	79,277	1,039	11,149	90,529	666,192
Percentage Share by Region								
No. of MSEs	9.0	31.1	2.5	48.6	5.4	0.1	3.4	100.00
Amount of Credit	15.8	15.5	15.0	19.8	0.4	0.2	33.3	100.0
No. of Total Employment	43.5	21.6	7.6	11.9	0.2	1.7	13.6	100.0

Source: MoWUD

Regarding regional distribution, about 48.6 percent of total MSEs were located in Tigray, followed by Amhara (31.1 percent), Oromia (9 percent), Harari (5.4 percent) and Addis Ababa (3.4 percent).

Of the total credit disbursed through MFIs, Addis Ababa accounted for 33.3 percent, Tigray 19.8 percent, Oromia 15.8 percent, Amhara 15.5 percent, SNNR 15 percent, Harari 0.4 percent and Dire Dawa 0.2 percent.

Fig 1.2 R egional share of Number of MSE's and amountof credit During Fiscal year of 2009/10



	Oromia	Amahara	SNNPR	Tigray	Afar	Gambela	Ben.Gumze	Somali	Harari	Dire Dawa	Addis Ababa
2009/10 Amount of credit	15.8	15.5	15.0	19.8	0.5				0.4	0.2	33.3
2009/10 No.of MSE'S	8.9	31.1	2.5	48.6					5.4	0.1	3.4
2008/09 Amount of credit	10.16	16.64	20.43	16.60	0.54				0.54		34.69
2008/09 No.of MSE'S	13.45	76.48	6.31	1.72							2.04

Source: MoWUD

1.5 Mining

In 2009/10, The Ministry of Mines and Energy issued 183 licenses to investors, engaged in the prospecting, exploration and mining activities. These investors registered a total capital of Birr 12.7 billion.

Upon going operational, the mining and petroleum development projects are expected to create jobs for 2,000 people (MoME).

In the review period, the volume of minerals exported exhibited a 31.5 percent increase over last year. Foreign exchange earned from such exports reached USD 212.9 million from USD 106.7 million a year ago, depicting a 99.5 percent annual growth.

In terms of volume, Tantalite concentrate accounted for 96.7 percent of the total minerals exported, followed by gold (2.2 percent) and rough gemstones (1.1 percent) (Table1.6).

Table:1.6. Type of Mineral Exported and Revenue Generated

(Amount in k.g and Revenue in Millions of USD)

Mineral type	2008/09			2009/10			Percentage Change	
		A	**B**		**C**	**D**		
	Unit	amount	Revenue	Unit	amount	Revenue	**C/A**	**D/B**
Gold	K.G	3,585.1		Kg	6003.0	_	67.4	_
Rough Gemstones	K.G	6,58.0		Kg	3105.0	_	371.8	_
Platinum concentrate	K.G	NA		Kg	0.64	_		_
Tantalite Concentrate	K.G	206,000.0		Kg	267,328.0	_	29.8	_
Total		210,243.1	106.7		276436.3.0	212.9	31.5	99.5

Source: Ministry of Mines and Energy& NBE Staff Computation

Note; Revenue is not disaggregated by mineral type

1.6 Access to Water Supply

The total annual replenishable ground water resources of the country have been estimated at 433 billion cubic meter (BCM). Keeping 34 BCM for natural discharge, the net annual ground water availability for the entire country is 399 BCM. The annual ground water drift is 231 BCM out of which 213 BCM is for irrigation and 18 BCM for domestic and industrial use.

According to the Ministry of Water Resources, the overall national access to water supply on average was 68.5 percent (i.e., 91.5 percent for urban and 65.8 percent for rural) in 2009/10, indicating a 2.3 percentage point increase over 2008/09.

At the same time, urban population with access to potable water within 0.5 km radius reached 91.5 percent from 88.6 percent last year. Similarly, rural population with access to potable water within 1.5 km radius was 65.8 percent compared to 61.5 percent a year ago.

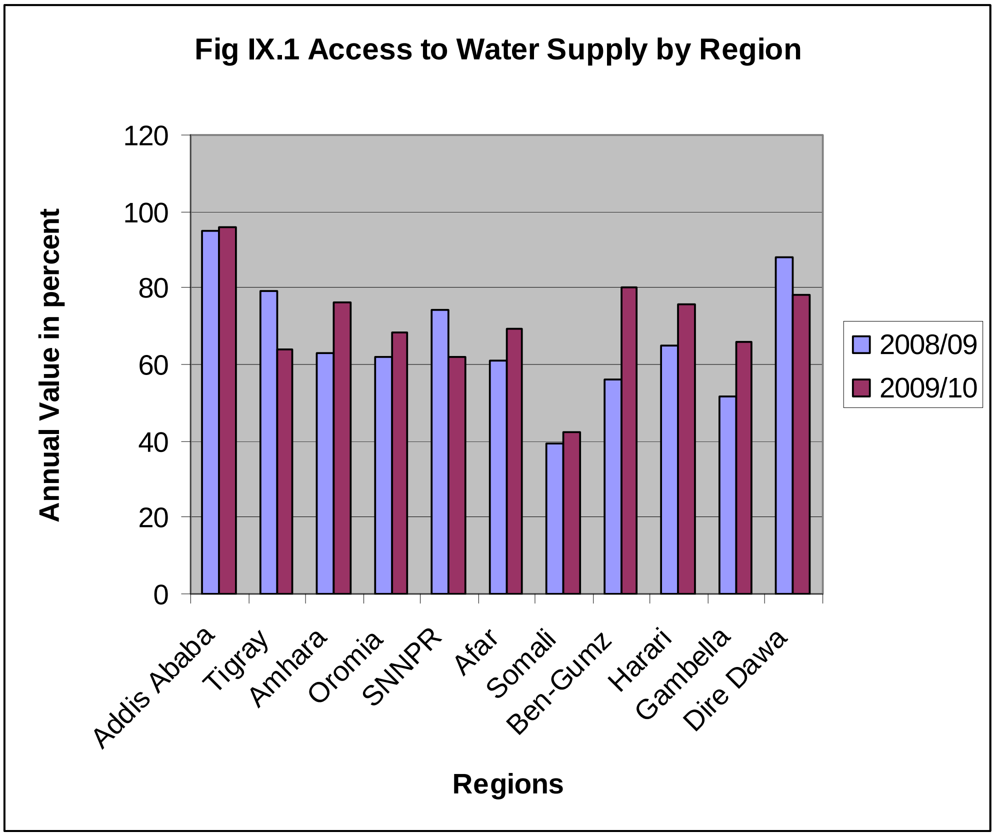
In the five year Growth and Transformation Plan, access to potable water will reach 98.5 percent by 2015. Population with access to potable water with 0.5 km radius will also rise to 100 percent during the same period.

Table: 1.7 Percentages of People with Access to Potable Water by Region

	2008/09			2009/10			Change in percentage point		
	A	B	C	D	E	F			
Region	Rural	Urban	Average	Rural	Urban	Average	**D-A**	**E-B**	**F-C**
Addis Ababa		95.0	95.0		96.0	96.0		1.0	1.0
Tigray	80.0	76.8	79.4	58.8	85.3	64.0	-21.2	8.5	-15.4
Amhara	59.3	90.1	63.1	80.0	90.0	76.0	20.7	-0.1	12.9
Oromia	57.6	94.0	62.1	64.5	95.5	68.5	6.9	1.5	6.4
SNNPR	74.2	74.9	74.3	58.7	90.9	62.0	-15.5	16.0	-12.3
Afar	58.4	77.7	61.0	67.0	77.7	69.5	8.6	0.0	8.5
Somali	33.5	76.5	39.5	37.0	76.5	42.5	3.5	0.0	3.0
Ben-Gumz	51.5	84.7	56.3	81.0	90.1	80.2	29.5	5.4	23.9
Harari	56.0	72.0	64.7	53.0	95.0	75.8	-3.0	23.0	11.1
Gambella	44.6	71.5	51.4	63.1	73.0	65.7	18.5	1.5	14.3
Dire Dawa	75.8	94.0	88.2	76.0	79.7	78.1	0.2	-14.3	-10.1
National Average	**61.5**	**88.6**	**66.2**	**65.8**	**91.5**	**68.5**	**4.3**	**2.9**	**2.3**

Source: Ministry of Water Resources (MoWR) and NBE Staff Computation

Note: Water supply access is calculated based on the provision of 20 liters/capita/day for urban and 15 l/c/d for rural at a radius of 0.5 and 1.5 kilo meters, respectively.



1.7 Road Transport Development

In Ethiopia road network reached 48,793 km in 2009/10, out of which 44.8 percent was Federal and 55.2 percent rural roads. During the fiscal year, 1,981km new roads were constructed. Of the 21,849 km Federal roads, 34.2 percent was asphalt and 65.8 percent gravel road. The share of total paved roads in total road network was 15.3 percent compared to 14.8 percent last year.

According to the five year Growth and Transformation Plan total road net work is planned to increase to 64,500 km in 2015.

Likewise, road density per 1, 000 sq km. is targeted to rise to 123.7 sq. km in 2015 from 44.5 sq.km in 2010 while road density per 1000 population will increase to 1.54 in 2015 from 0.64 in 2010.

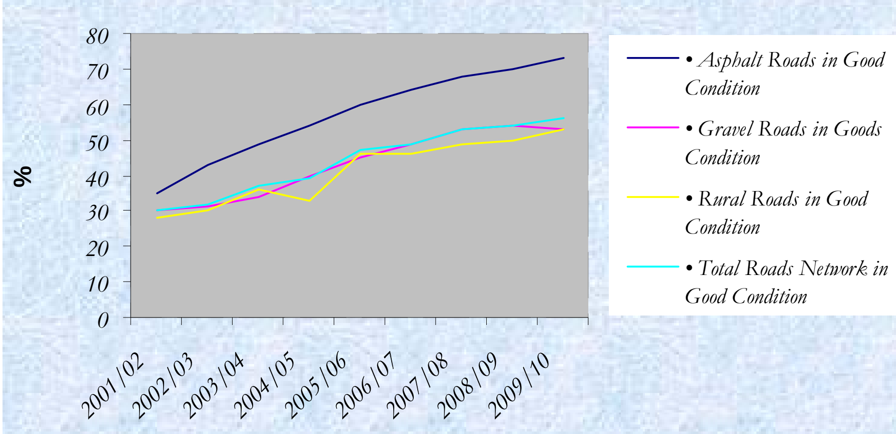
The performance of road density per 1,000 sq. km showed 4.2 percent annual growth in 2009/10 and road density per 1000 population 5.2 percent compared to last fiscal year.

All-weather road (rural road) expanded by 5.1 percent per annum constituting 55 percent (or 26,944 kms) in 2009/10. Besides, average distance from all-weather roads slightly declined to 11.3 from 11.8 kilometers a year ago.

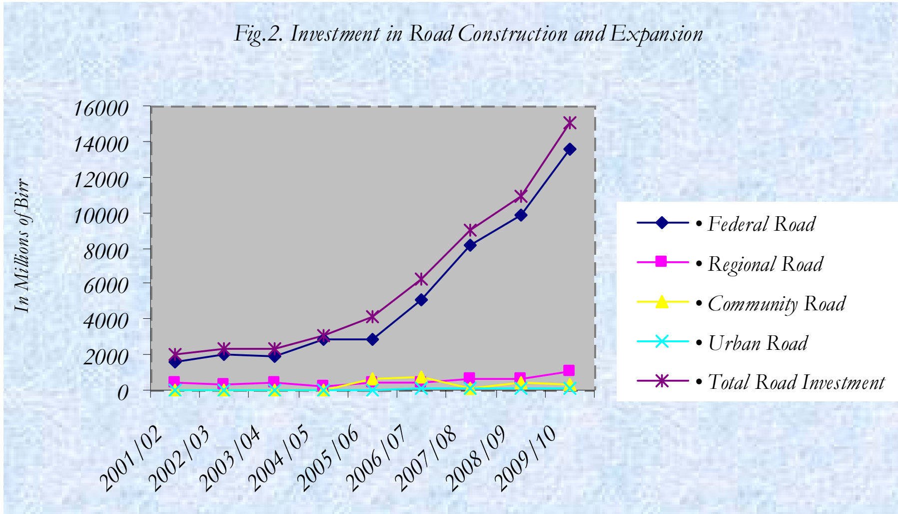
Similarly, the proportion of area more than 5 km from all weather roads went down to 64.2 percent in 2009/10 from 65.3 percent in 2008/09.

The community road (not included in total road net work) reached 100,384 km depicting 17 percent growth over last year.

Fig.1. Status of Roads



Source: Ethiopian Roads Authority and NBE Staff Computation



Source: Ethiopian Roads Authority and NBE Staff Computation

The percentage of total road network in good status was 56 percent in the review period.

Figure 2 depicts that the total investment capital for road construction and expansion had been steadily rising over the last nine years reaching Birr 15.04 billion in 2009/10 of which Birr 13.51 billion (or 89.9 percent) was attributed to Federal roads.

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1.8 DEVELOPMENTS IN EDUCATION SECTOR

For the last eight consecutive years, the education sector has witnessed a significant improvement both in terms of quality and coverage.

In line with this, Primary education (1-8 grades) enrolment grew from 8.7 million in 2002/03 to 15.6 million 2008/09 and 15.8 million in 2009/10. Besides, the number of primary schools reached 26,951 in 2009/10 from 12,471 in 2002/03. Of the total primary schools, 23,745 or 88 percent were located in the rural areas where about 83 percent of the total population lives.

On the other hand, secondary education enrolment stood at 1.7 million, 6.8 and 155 percent higher than 2008/09 and 2002/03, respectively. In addition, by the end of 2009/10, the number of secondary schools (9-12 grades) reached 1,335 exhibiting a 171.9 percent growth since 2002/03. Of the total secondary schools, 1,053 or 78.9 percent were found in urban areas.

Technical and Vocational Education and Training (TVET) enrolment was 0.4 million, 14.6 and 389.8 percent above in a year earlier and 2002/03, respectively. In addition TVET admission reached 95,563 students in the review period.

Parallel to this, the number of TVET institutions increased to 448 against 153 in eight years ago.

The education share of the annual national budget was 25.4 percent of GDP, which was 1.8 and 9.3 percentage points higher than that of the preceding year and 2002/03, respectively.

1.8 Education Sector Data

Indicators	2002/03 1995	2003/04 1996	2004/05 1997	2005/06 1998	2006/07 1999	2007/08 2000	2008/09 2001	2009/10 2002
Improvement of Education Service								
• Number of primary schools (urban, rural)	12,471	13,181	16,513	19,412	20,660	23,354	25,212	26,951
i. Urban	NA	NA	NA	NA	2,680	3,100	3,206	3,206
ii. Rural	NA	NA	NA	NA	17,980	20,254	21,886	23,745
• Number of secondary schools (urban, rural)	491	595	706	835	952	1,087	1,197	1,335
i. Urban	NA	NA	NA	NA	803	904	976	1053
ii. Rural	NA	NA	NA	NA	149	183	209	298
• Number of TVET centers (public, private, mission)	153	158	199	264	388	458	458	448
• Number of tertiary level institutions by universities (public, private), colleges (public, private)	13	21	23	50	55	61	72	90
i. universities	NA	NA	NA	11	21	22	22	NA
• Student intake capacity of higher education institutions	NA	NA	NA	NA	43,764	56,421	NA	NA
• Participation of women in higher education institutions (%)	NA	NA	NA	NA	26	24	22.2	26.5
Primary enrolment (in million)	8.7	9.5	11.4	12.7	14.0	15.3	15.6	15.8
Secondary enrolment (in thousands)	665.0	781.0	953.0	1190	1,399	1,501	1,588	1696
TEVT enrolment	72,162	87,158	106,336	123,557	191,151	229,252	308,501	353,420
Girls' primary enrolment(%)	41.2	42.6	44.2	45.2	45.9	46.5	47.3	47.4
• Grades (1-4) gross enrolment ratio(%)	84.2	86.9	102.7	117.6	117.1	127.8	122.6	118.8
a. Girls' gross enrolment ratio (%)	73.5	78.3	95.5	111.2	111.2	122.8	118.4	114.3
b. Goys' gross enrolment ratio (%)	94.6	95.2	109.8	123.9	122.9	133	126.7	123.2
• Grades (5-8) gross enrolment ratio(%)	42.4	47.1	52.5	58.8	61.1	60.2	63.1	65.5
a. Girls' gross enrolment ratio(%)	31.9	36.9	42.6	49.8	53.7	55.5	60.5	63.5
b. Goys' gross enrolment ratio (%)	52.5	57	62	67.4	68.3	64.8	65.6	67.4
• Girls' gross primary enrolment ratio (%)	53.8	59.1	71.5	83.9	85.1	90.5	90.7	101.6
• Boys' gross primary enrolment ratio(%)	74.6	77.4	88	98.6	98	100.5	97.6	108.4

• Gross Primary Enrolment ratio (%) (urban, rural, regional)	64.4	68.4	79.8	91.3	91.7	95.6	94.4	93.4
a. Tigray	73.7	80.6	91	101.5	104.8	109	107.1	103.3
b. Afar	13.8	14.8	20.9	21.9	22.2	26.2	31.2	39.3
c. Amhara	58.5	61.8	75.9	93	93.1	112.4	112.5	104.9
d. Oromia	66.9	72.7	87.5	97	91.4	91.4	88.9	88.4
e.Somali	15.1	15.1	23.3	30.3	38.5	32.7	35	65.6
f. Ben.Gumuz	98.4	100.5	107.4	122.5	127.9	112.3	112.1	114.6
g. SNNPR	71.8	74.2	78.9	89.4	97.8	102.9	101	97.3
h. Gambella	124.6	106.6	127.4	137.1	181.4	121.4	112.5	125.1
i. Harari	105.7	104.5	92.4	103.1	116.8	108.4	107.9	95.3
j. A.A	135.4	142.6	150.2	162	146.6	114.3	109.2	107.3
k. Dire Dawa	78.6	83.2	83.9	79	80	86.3	92.1	91.3
• Primary net enrolment rate(%)	54	57.4	68.5	77.5	79.1	83.4	83	82.1
• No. of students registered in the first cycle primary schools(1-4) (in million)	6	6.5	8	8.7	9.8	10.7	10.6	10.5
• No. of students registered in the second cycle primary schools(5-8) (in million)	2.7	3	3.4	4	4.2	4.6	5	5.3
• Number of students registered in the first cycle secondary schools(9-10) (in million)	0.6	0.7	0.9	1.1	1.2	1.3	1.4	1.5
Gross enrolment rate in (9-10 grades)(%)	19.3	22.1	27.3	33.2	37.3	37.1	38.1	39.1
• Number of students registered in the second cycle secondary schools(11-12)(in million)	0.08	0.095	0.092	0.1	0.2	0.2	0.21	0.24
• Preparatory admission	NA	NA	NA	NA	101,367	100,651	118,289	142,781
• TVET Admission	NA	NA	94,592	NA	99,430	95,563	NA	95563
• Completion rate of primary school (%)	23.5	27.1	34.3	41.7	42.9	44.7	43.6	47.8
D	70	74	79	83	85	87	90	
• Girls/boys ratio in secondary schools(%)	55	52	53	54	59	63	67	0.75
• Girls/boys ratio in(9-10)	0.58	0.55	0.55	0.57	0.61	0.65	0.72	0.78
• Girls/boys ratio in (11-12)	0.4	0.37	0.37	0.35	0.5	0.48	0.4	0.56
• Girls/boys ratio inTVET	0.93	0.9	1.05	1.01	0.78	0.92	0.86	0.8
• Girls/boys ratio in higher education	0.18	0.2	0.24	0.24	0.25	0.24	0.28	0.36
• Grade 1-8(primary) repetition rates (%)	6.7	3.7	3.8	6.1	6.1	6.7	6.7	4.9

• Primary school dropout rate (%)	19.2	14.8	11.8	12.4	12.4	14.6	14.6	18.6
• 1st grade dropout rate (%)	NA	31.4	22.4	20.6	20.1	18.3	22.9	28.1
• Pupil/teacher ratio								
i. Grade (1-8)	64	65	66	62	59	57	54	51
ii. Grade (9-12)	45	48	51	54	48	43	41	36
iii. TEVT	25	22	21	20	27	25	34	NA
iv. In higher education	13.7	20.5	28.5	35.9	24.3	NA	28.2	26.8
• Pupil/section ratio								
i. Grade (1-8)	73	74	69	69	64	62	59	57
ii. Grade (9-12)	77	79	78	82	79	74	68	64
• Number of class rooms in primary schools	117,988	126,368	161,795	183,088	206,106	263,623	218,793	NA
• Pupil-textbook ratio								
i. Grade(1-8)	NA	NA	NA	NA	1.5	1.5	1.5	1.5
ii. Grade(9-12)	NA	NA	NA	NA	1	1	1	1
• Pupil-school ratio								
i. Grade(1-8)	701.1	724	693.3	652	678.3	657	619	57
ii. Grade(9-12)	1,355	1,312	1,350	1,425	1,449	1,381	1,345	64
iii. TEVT	472	552	534	468	493	501	673	
• Annual education share of the national budget{%}	16.07	20.35	16.7	17.82	24.6	22.8	23.6	25.4
• Proportion of pupils starting grade 1 who reach grade 5(%)	NA	53.4	59.3	56.8	59.3	49.2	NA	NA
• Percentage of female enrolled in under graduate degree (%)	18.1	20.8	24	24.8	26	24.1	29	27
• Percentage of female graduated in under-graduate degree (%)	11.2	15.2	16.4	16.2	18	20.6	29.7	23.4
• Percentage of female enrolled in post-graduate degree	6.9	6.7	9.2	10	10	9.6	11.3	11.9
• Percentage of female graduated in post- graduate degree	8.9	7.1	9	9.8	9.4	10.7	10.5	13.9

Source:- Education Statistics Annual Abstract, Ministry of Education & NBE Staff Computation

II. ENERGY PRODUCTION

2.1 Electric Power Generation

Ethiopia has immense potential for hydroelectric power and geothermal energy generation. Nine of its major rivers are suitable for hydroelectric power with a total capacity of generating 45,000 MW. The country also has vast potential for geothermal energy generation.

The Ethiopian Electric Power Corporation (EEPCo) supplies power to more than 1,830,052 customers. According to the five year Growth and Transformation Plan, the country's installed electricity generating capacity was 2000 MW in 2010 and it is planned to surge to 8000 MW by the end of fiscal year 2014/15.

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The Ethiopian Electric Power Corporation is a public enterprise mandated with the task of generating, transmitting, distributing, and selling electricity. The Corporation generates electricity through two different power supply systems, namely, the Inter Connected System (ICS) and Self Contained System (SCS).

The ICS, which is largely generated by hydropower plants, constitutes the major source of electric power in Ethiopia. The SCS system merely contributed about 1.2 percent in 2009/10.

Source: EEPCo

The total amount of electric power generated during 2009/10 was 3905.4 million KWH, 5.5 percent higher than a year ago. Some 88.1 and 11.3 percent of the electric power was generated through hydropower and thermal power, respectively while the remaining 0.6 percent came from geothermal source (Table 2.1).

As per the government's five-year Growth and Transformation Plan, the coverage of electricity is planned to scale up to 75 percent in 2015 from 41 percent in 2010. Energy utilization capacity is also to grow to 8000 MW from 2000 MW during the same period.

In addition, the number of customers accessing electric power is envisaged to double to 4 million in 2015 in contrast to 2 million in 2010.

Currently, the number of towns and cities having access to electricity has reached 5,163.

Table 2.1: Electric Power Generation in ICS and SCS

(i n 000 KWH)

Source		2007/08 [A]	Share In percent	2008/09 [B]	Share In percent	2009/10 [C]	Share In percent	Percentage Change [C/A]	[C/B]
ICS	Hydro Power	3,368,682	95.4	3,277,138	88.5	3418609.8	87.5	1.5	4.3
	Thermal Power	131,769	3.7	380,416	10.3	418169.8	10.7	217.4	9.9
	Geothermal	-		6,581	0.2	23522.4	0.6	_	257.4
Sub Total		3,500,450	99.2	3,664,134	99.0	3860302.0	98.8	10.3	5.4
SCS	Hydro Power	2,733	0	7,928	0.2	20113.06	0.6	635.9	153.7
	Thermal Power	27,097	0.8	30,542	0.8	24960.226	0.6	-7.9	-18.3
	Geothermal	-		-		0			
Sub Total		29,830	0.8	38,470	1.0	45073.3	1.2	51.1	17.2
Total	Hydro Power	3,371,415	95	3,285,066	88.7	3438722.8	88.1	2.0	4.7
	Thermal Power	158,865	5	410,958	11.1	443130.1	11.3	178.9	7.8
	Geothermal	-		6,581	0.2	23522.4	0.6	_	257.4
Grand Total		**3,530,280**	**100**	**3,702,604**	**100**	**3905375.27**	**100.00**	10.6	5.5

Source: EEPCo

2.2 Volume and Value of Petroleum Imports

A total of 1,994.2 million metric tons of petroleum products worth Birr 16,826 million were imported into the country by the Ethiopian Petroleum Enterprise (EPE) during the period under review. The import value was 31.6 percent higher than that of 2008/09 on account of the continuous rise in the international oil prices.

Component wise, the value of imports of regular gasoline, jet fuel, fuel oil and gas oil grew by 54.4, 21.3, 10.8 and 35.8 percent, respectively. In volume terms, petroleum imports rose 1.1 percent in 2009/10 in contrast to the decline in the volumes of Jet fuel and fuel oil.

Table 2.2: Volume and Value of Petroleum Imports **(Volume in MT and Value in '000 Birr)**

Products	2008/09		2009/10		Percentage Change	
	Volume	Value	Volume	Value		
	[A]	*[B]*	*[C]*	*[D]*	*[C/A]*	*[D/B]*
Regular Gasoline (MGR)	142,983	890,747	155759.87	1,375,397	8.9	54.4
Jet Fuel	505,701	3,671,264	489778.5	4,451,842	-3.1	21.3
Fuel Oil	152,704	671,463	111570.26	744,190	-26.9	10.8
Gas Oil (ADO)	1,170,531	7,548,767	1237077.2	10,254,924	5.7	35.8
Total	1,971,918	12,782,241	1994185.9	16,826,353	1.1	31.6

Source: Ethiopian Petroleum Enterprise

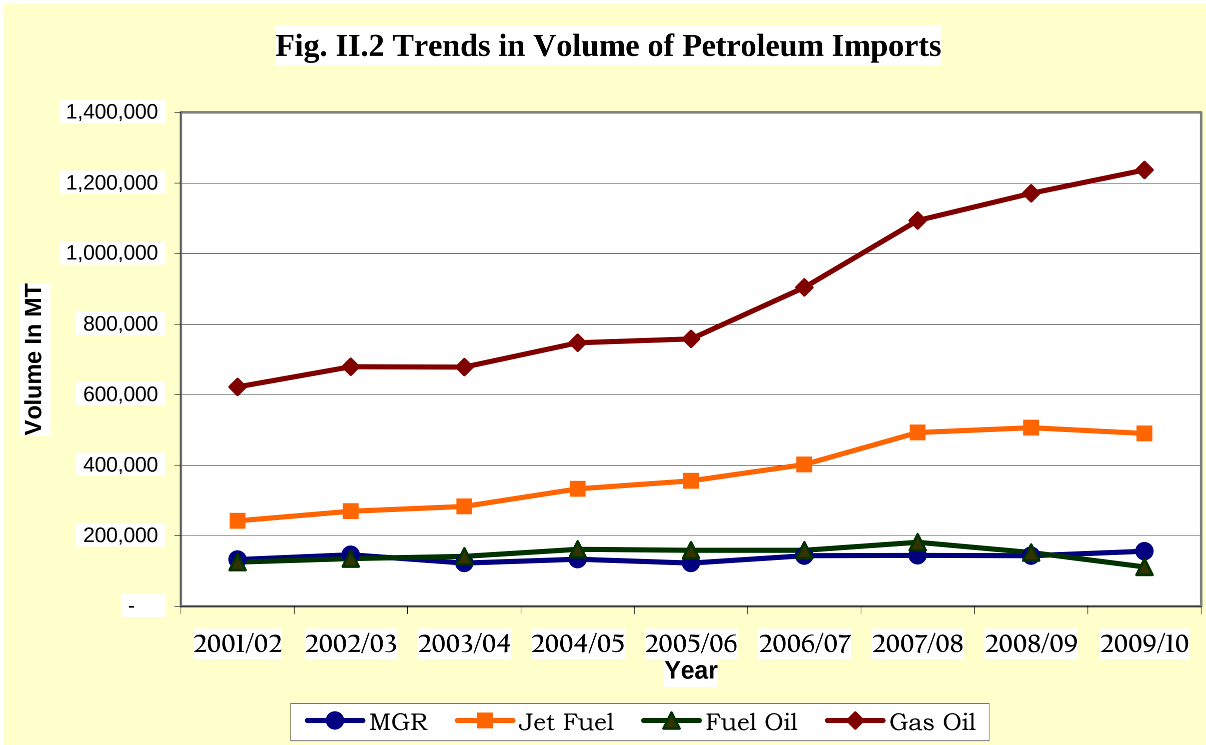
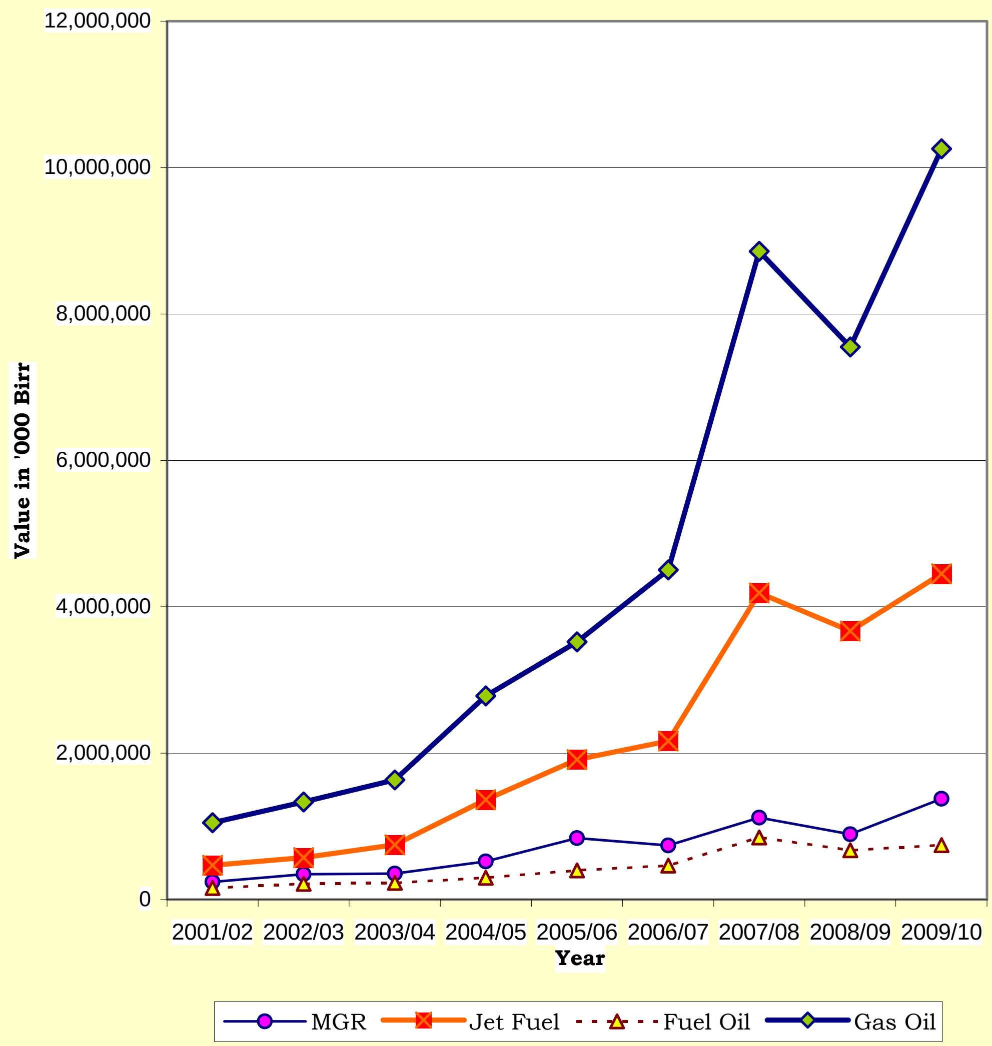


Fig. II.2 Trends in Volume of Petroleum Imports
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
-
Volume In MT
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
2007/08
2008/09
2009/10
Year
MGR
Jet Fuel
Fuel Oil
Gas Oil

Source: EPE

Fig. II.3 Trends in Value of Petroleum Imports



Source: EPE

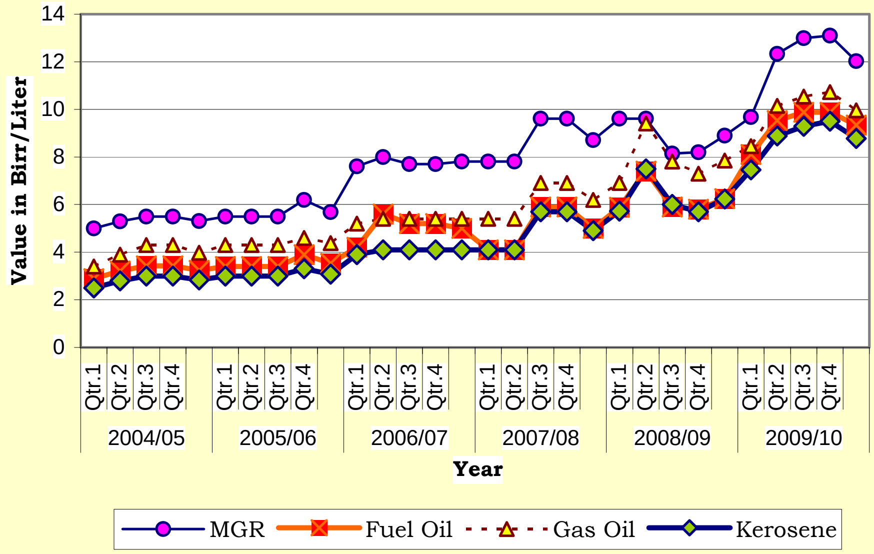
Generally, the domestic retail prices of petroleum products are adjusted monthly in line with the movements of oil prices in the world market. Accordingly, the retail prices of MGR, fuel oil, gas oil and kerosene were adjusted upward in the review period. As a result, the average domestic prices of all petroleum products increased over a year ago. In Addis Ababa, the average retail prices of these products grew by 8.8 percent through the fiscal year 2009/10.

Table2.3 : Annual Retail Prices of Petroleum Products in Addis Ababa (Birr / liter)

Year	Quarter	MGR	Fuel Oil	Gas Oil	Kerosene
	Qtr.1	7.60	4.20	5.20	3.90
	Qtr.2	8.00	5.60	5.40	4.10
	Qtr.3	7.70	5.20	5.40	4.10
	Qtr.4	7.70	5.20	5.40	4.10
2006/07	Average	**7.80**	**5.00**	**5.40**	**4.10**
	Qtr.1	7.80	4.10	5.40	4.10
	Qtr.2	7.80	4.10	5.40	4.10
	Qtr.3	9.60	5.90	6.90	5.70
	Qtr.4	9.60	5.90	6.90	5.70
2007/08	Average	**8.70**	**5.00**	**6.20**	**4.90**
	Qtr.1	9.61	5.89	6.90	5.72
	Qtr.2	9.61	7.40	9.40	7.50
	Qtr.3	8.14	5.90	7.81	6.00
	Qtr.4	8.20	5.80	7.30	5.70
2008/09	Average	**8.89**	**6.25**	**7.85**	**6.23**
	Qtr.1	9.67	8.10	8.45	7.46
	Qtr.2	12.33	9.53	10.15	8.88
	Qtr.3	12.99	9.88	10.53	9.29
	Qtr.4	13.10	9.87	10.72	9.50
2009/10	Average	**12.02**	**9.34**	**9.96**	**8.78**

Source: Ethiopian Petroleum Enterprise

Fig. II.4 Quarterly Average Retail Price of Petroleum Products in Addis Ababa (Birr/Liter)



Source: EPE

III. PRICE DEVELOPMENTS

3.1.Developments in Consumer Price at National Level

Annualized[1] headline inflation at the end of 2009/10 was 2.8 percent, which was 33.6-percentage points lower than the previous year level. This was largely attributed to the slowdown in the prices of food items whose combined contribution was 29.4 percentage points[2] while non-food items made up the remaining 4.2 percentage points (Table 3.1).

Annualized food inflation, on the other hand, dropped to -5.4 percent indicating remarkable decline of 49.7 percentage point vis-à-vis 44.3 percent a year ago due to a significant decline in the prices of cereals (accounted for about 40 percent of food inflation), bread and prepared food, potatoes, pulses and oil & fats among others.

Similarly annual average core inflation dropped to 18.2 percent from 23.8 percent at the close of last fiscal year (Table 3.1 and Fig. 3.1) as a result of lower prices of beverages, house rent, construction materials, water, fuel and power; cigarettes & tobacco and furniture furnishing, household equipment and operation, which jointly accounted for 62.4 percent of the spending on consumption of non-food items.

Year-on-year, headline inflation picked up to 7.3 percent from 2.7 percent a year earlier (Fig 3.2) as both food and non-food price inflation started to increase from November 2009 onwards. Accordingly, annual food inflation, which stood at -12.4 percent in July 2009, gradually increased to 0.04 percent registering 3.3 percentage point surge over the preceding year level.

Similarly, the year-on-year core inflation rose to 19.7 percent.

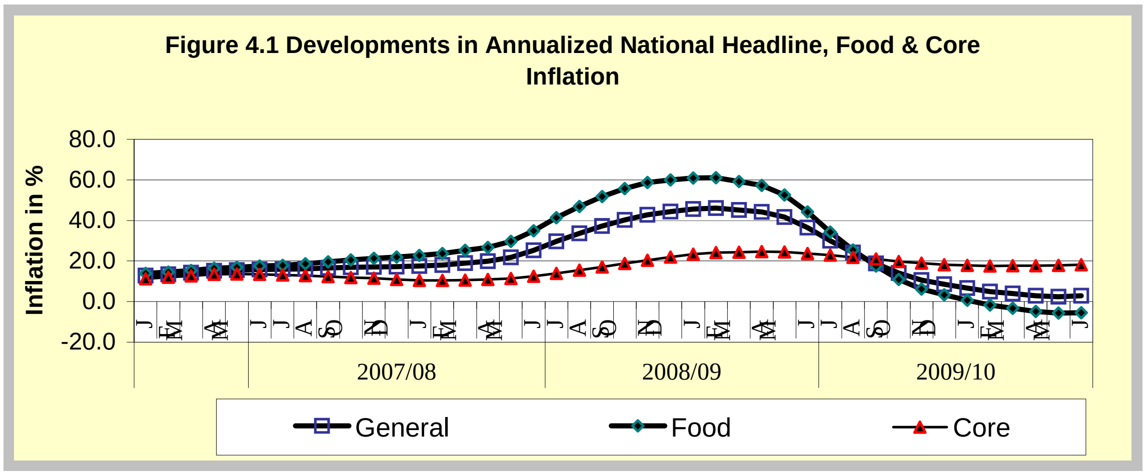
[1] 'Annualized' means 12 month average of CPI

[2] Contribution of a given consumption item (j) in a basket containing n different consumption items is computed as: $\left(\sum_{i=0}^{11} a_{j(t-i)} CPI_{j(t-i)} - \sum_{i=0}^{11} a_{j(t-i)} CPI_{j(t-12-i)}\right) \Big/ \sum_{j=1}^{n} \sum_{i=o}^{11} a_{j(t-i)} CPI_{j(t-12-i)}$ where *CPI*, *a*, *t* and *i* each stands for price index, weight attached to the index, the month for which contribution is being computed, and the number of lags of the current and the last eleven months from *t*

Table 3.1: Annual Average Inflation Rates (In percent)

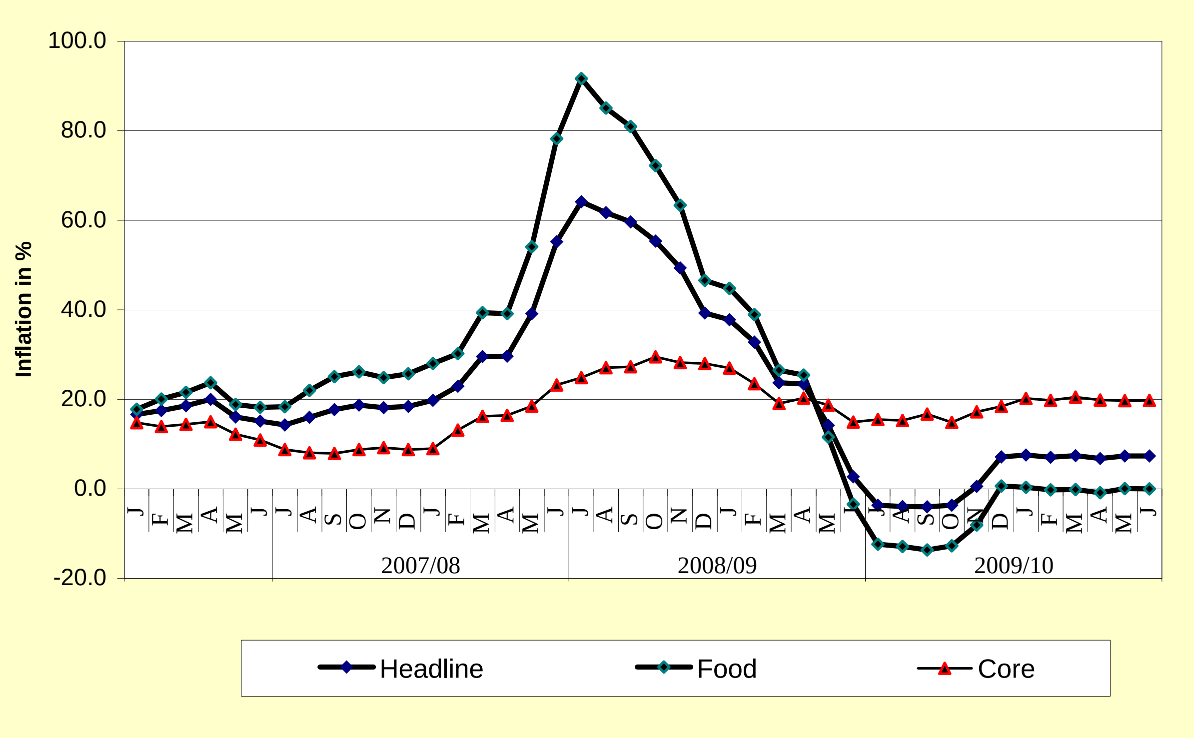
Consumption Items	2008/09	2009/10	Change (in Percentage Points)	Contribution to Change in Headline Inflation (in Percentage Points)
	A	B	B-A	C
General	36.4	2.8	-33.6	-33.6
Food	44.3	-5.4	-49.7	-29.4
Non-Food	23.8	18.2	-5.5	-4.2

Source: CSA and NBE Staff Computation



Source: CSA and NBE Staff Computation

Figure 4.2 Developments in Annual (year-on-year) National Headline, Food and Core Inflation



Source: CSA and NBE Staff Computation

3.2 Consumer Price Developments in Regional States

At the close of 2009/10, regional simple average headline inflation stood at 4.0 percent registering notable decline of 34.7 percentage point. Addis Ababa, Harari, Afar, Dire Dawa, and Somali regional states saw inflation rates above the regional simple average although headline inflation scaled down in all regional states due to the decline both in food and non-food inflation (Table 3.2)

Gambella regional state registered the highest decline in headline inflation (59.4 percentage point); while the lowest decline was recorded in Afar (14.7 percent).

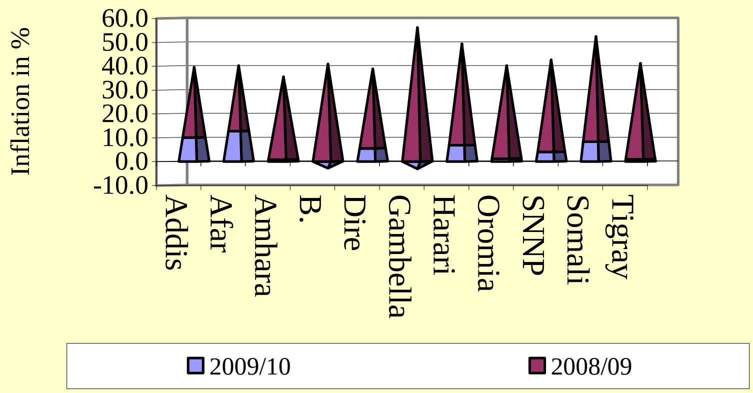
Between 2008/09 and 2009/10, Gambella, Somali and Harari regional states experienced relatively high price instability, while the other regions moderately witnessed more stable prices, as measured by the extent of change in the rate of inflation of a given regional state relative to standard deviation of the change across regions (Table 3.2).

Table 3.2: Regional Average Annual Inflation (2008/09 FY)

Regions	2008/09			2009/10			Change		
	General	Food	Non Food	General	Food	Non Food	General	Food	Non Food
	A	B	C	D	E	F	G=D-A	H=E-B	I=F-C
Addis Ababa	29.4	41.5	19.2	10.1	4.1	16.0	-19.3	-37.4	-3.2
Afar	27.4	39.3	10.2	12.7	7.5	22.4	-14.7	-31.8	12.2
Amhara	34.7	42.4	18.5	0.7	-6.9	20.0	-34.0	-49.3	1.5
B.Gumz	40.9	52.6	22.4	-2.9	-11.7	14.5	-43.8	-64.3	-7.9
D.Dawa	33.4	47.3	16.6	5.5	1.0	12.2	-27.9	-46.3	-4.4
Gambella	56.2	69.5	36.2	-3.2	-9.4	8.2	-59.4	-78.9	-28.0
Harari	42.4	57.3	25.6	6.8	2.5	12.9	-35.6	-54.8	-12.7
Oromia	39.1	45.6	27.8	1.1	-7.0	17.3	-38.0	-52.6	-10.5
SNNP	38.5	44.4	29.6	4.0	-4.7	18.9	-34.5	-49.1	-10.7
Somali	44.1	57.2	19.6	8.3	3.7	19.6	-35.8	-53.5	0.0
Tigray	40.7	49.8	24.8	1.0	-7.5	18.9	-39.1	-57.3	-5.9
Mean	*38.7*	*49.7*	*22.8*	4.0	-2.6	16.4	*-34.7*	*-52.3*	*-6.3*
Standard dev.	*7.8*	*8.9*	*7.1*	5.2	6.5	4.2	*11.9*	*12.6*	*10.0*
Coeff. of Var.	*0.20*	*0.18*	*0.31*	1.3	-2.5	0.3	*-0.3*	*-0.2*	*-1.6*

Source: CSA and NBE Staff Computation

Fig.4.3: Reigional Variations in Average Annual Headline Inflation

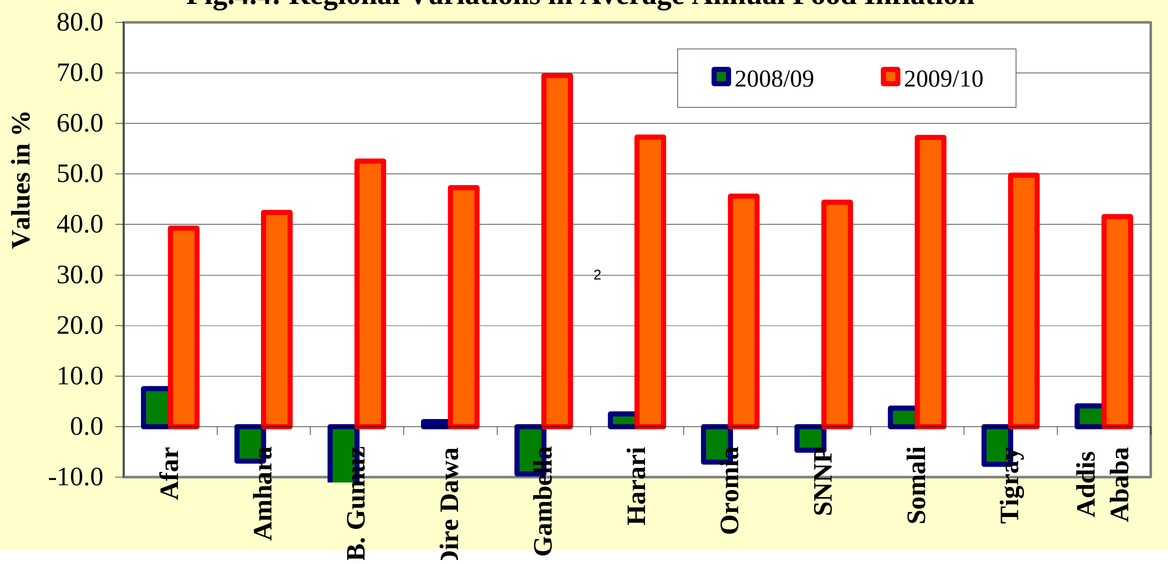


Source: CSA and NBE Staff Computation

The regional simple average food inflation was -2.6 percent at the end of June 2010 (Table 3.2). Food inflation in regional states like Addis Ababa, Afar, Dire Dawa, Harari and Somali was higher than the regional simple average but 52.3 percentage point lower vis-à-vis a year earlier.

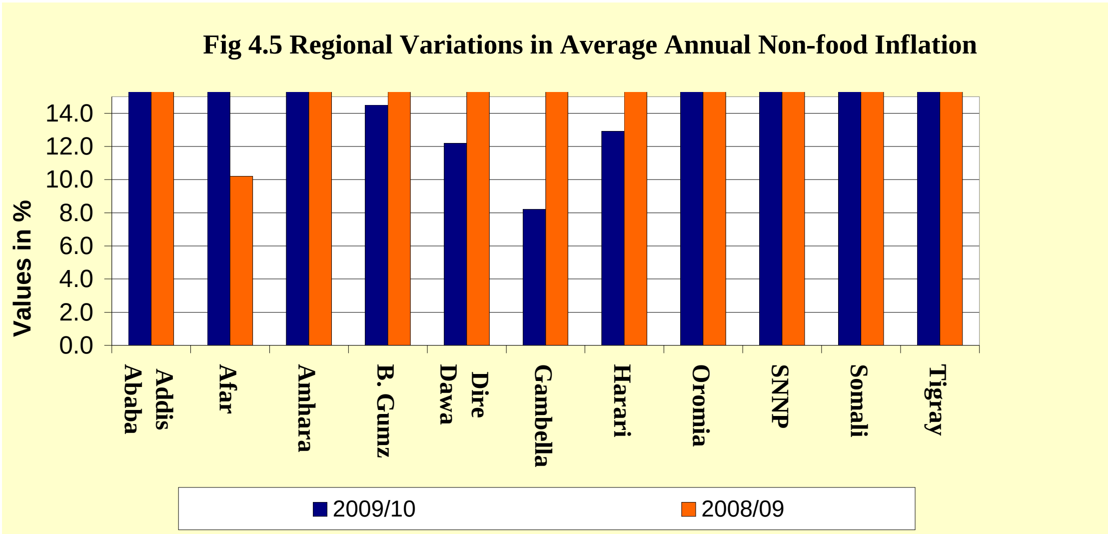
The highest decline (Table 3.2) in food inflation was registered in Gambella (78.9 percentage points); and the lowest in Afar (31.8 percentage points). Over the two-year period (2008/09 to 2009/10), food price instability was high in Gambella, Benishangul Gumz, and Tigray states but low in Dire Dawa, Afar, and Addis Ababa.

Fig.4.4: Regional Variations in Average Annual Food Inflation



Source: CSA and NBE Staff Computation

During 2009/10, simple average regional non-food inflation stood at 16.4 percent (Table 3.2). Afar, Amhara, SNNP, Oromia, Somali and Tigray recorded non-food inflation higher than the regional simple average. Compared to 2009/10, all regional states, except Afar and Amhara, exhibited a decline in non-food inflation.



Source: CSA and NBE Staff Computation

The highest rise in non-food inflation was recorded in Afar (12.2 percentage points), and the lowest in Gambella (-28 percentage points).

Concerning convergence as measured by the change in coefficient of variation[3] in regional rates of inflation between 2008/09 and 2009/10, no significant change was observed presumably due to the growing regional market integration as transportation and communication facilities improved.

In general, inflation has moderated through the fiscal year as a result of concerted efforts being made to break inflationary expectations through various fiscal, monetary and administrative measures.

[3]Coefficient of variation is the ratio of standard deviation to mean.

IV. MONETARY AND FINANCIAL DEVELOPMENTS

4.1 Monetary Developments and Policy

During the year under review, Ethiopia's monetary policy was geared towards containing inflationary pressure. Accordingly, the National Bank of Ethiopia has been closely monitoring monetary developments so as to arrest the speed of inflation and inflationary expectations. This was manifested in reducing annual average headline inflation down to 2.8 percent by end 2009/10 compared to 36.4 percent last year.

4.1.1Developments in Monetary Aggregates

As at end 2009/10 domestic liquidity, as measured by broad money supply (M2), reached Birr 104.4 billion reflecting 22.2 percent growth, compared with the same period last year, largely due to the increase in net foreign assets and domestic credit by 51.2 and 17.1 percent, respectively. Credit to the non-government sector grew remarkably by 26.6 percent and reached Birr 71.4 billion, while net credit to the government marginally increased by less than one percent.

Fiscal year 2009/10 also witnessed a surge in all components of broad money. Narrow money rose by 24.5 percent due to higher currency outside banks and demand deposits reflecting the growth in economic activities and improvements in transactions demand for money. Similarly, quasi-money, that comprises savings and time deposits, went up by 28.7 percent and reached Birr 52.0 billion, owing to improved financial intermediation as banks expanded their outreach through opening up of new branches.

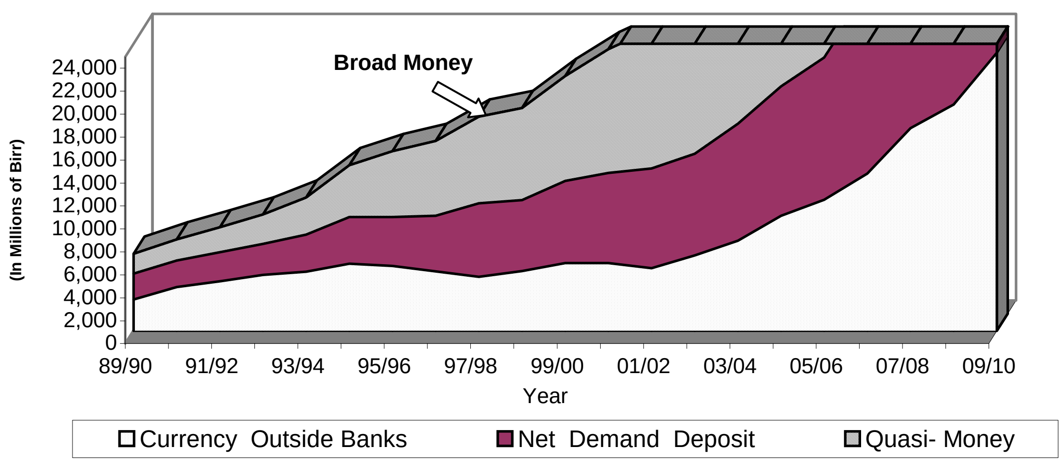
Table 4.1: **Components of Broad Money**

(In Millions of Birr)

Particulars	Year Ended June 30				Annual Percentage Change			
	2006/07	2007/08	2008/09	2009/10	2006/07	2007/08	2008/09	2009/10
Narrow Money Supply	**29,617.68**	**35,350.36**	**42,112.66**	**52,434.63**	**24.38**	**19.36**	**19.13**	**24.51**
. Currency Outside Banks	13,708.39	17,654.10	19,715.01	24,206.80	20.01	28.78	11.67	22.78
. Demand Deposits (net)	15,909.29	17,696.26	22,397.64	28,227.84	28.41	11.23	26.57	26.03
Quasi-Money	**27,034.20**	**32,831.78**	**40,397.09**	**51,997.77**	**19.80**	**21.45**	**23.04**	**28.72**
. Savings Deposits	23,715.18	29,477.65	37,148.72	48,041.57	15.77	24.30	26.02	29.32
. Time Deposits	3,319.03	3,354.13	3,248.37	3,956.21	59.57	1.06	-3.15	21.79
Broad Money Supply	**56,651.89**	**68,182.14**	**82,509.75**	**104,432.4**	**22.2**	**20.4**	**21.0**	**26.6**

Source: NBE

Fig V.1: Major Components of Broad Money
(1989/90 - 2009/10)



Source: NBE

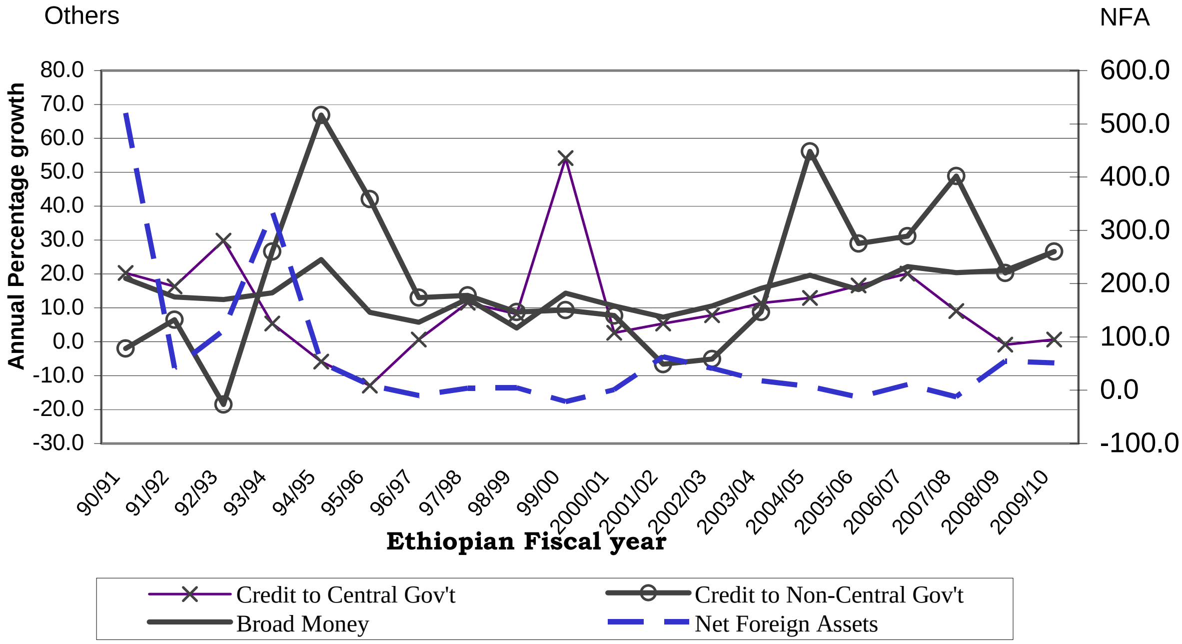
Table 4.2: Factors Influencing Broad Money

(In Millions of Birr)

Particulars	Year Ended June 30				Percentage Change			
	2006/07	2007/08	2008/09	2009/10	2006/07	2007/08	2008/09	2009/10
External Assets (net)	**13,340.36**	**11,665.63**	**17,976.81**	**27,189.78**	**10.2**	**-12.6**	**54.1**	**51.2**
Domestic Credit	**61,844.20**	**79,969.25**	**89,203.04**	**104,413.49**	**25.5**	**29.3**	**11.5**	**17.1**
. Claims on Central Gov't (net)	30,337.64	33,075.66	32,786.50	33,013.08	20.1	9.0	-0.9	0.7
. Claims on Non-Central Gov't	31,506.55	46,893.59	56,416.54	71,400.41	31.1	48.8	20.3	26.6
Other Items (net)	**18,532.67**	**23,452.75**	**24,670.10**	**27,170.87**	**23.3**	**26.5**	**5.2**	**10.1**
Broad Money (M2)	**56,651.89**	**68,182.14**	**82,509.75**	**104,432.40**	**22.2**	**20.4**	**21.0**	**26.6**

Source: NBE

Fig V.2: Major Determinants of Monetary Growth



Source: NBE

4.1.2. Developments in Reserve Money and Monetary Ratios

During the year under review, reserve money or base money showed a 9.6 percent growth over last year due to the significant increase in currency in circulation which offset the slight decline in deposits of banks at the NBE. Excess reserves of commercial banks decreased to Birr 6.2 billion from Birr 8.4 billion last year reflecting the slowdown in deposits of commercial banks at the NBE and the rise in their lending activities.

The ratio of M2/GDP, an indicator of financial deepening, went up merely by 4.5 percent to 25.6 percent in 2009/10, partly indicating the tight monetary policy measures taken to mitigate the inflationary pressure.

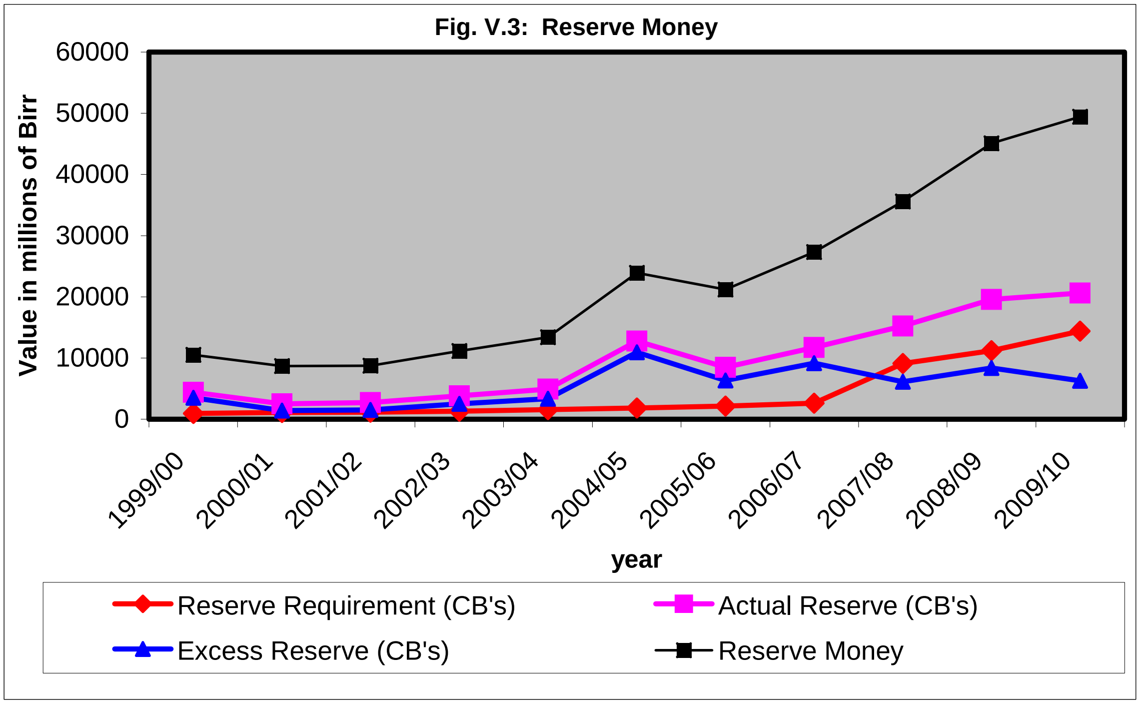
Table 4.3: Reserve Money and Monetary Ratios

(In Millions of Birr)

	Year Ended June 30				Percentage Change			
Particulars	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Reserve Requirement (CB's)	2,592.5	9,112.9	11,183.3	14,368.0	22.2	251.5	22.7	28.5
Actual Reserve (CB's)	11,734.0	15,233.0	19,569.4	20,620.9	38.8	29.8	28.5	5.4
Excess Reserve (CB's)	9,141.5	6,120.1	8,386.0	6,252.9	44.4	-33.1	37.0	-25.4
Reserve Money	27,313.6	35,551.1	45,107.0	49,424.5	28.9	30.2	26.9	9.6
. Currency in Circulation	15,175.2	20,216.4	23,836.4	28,802.9	20.8	33.2	17.9	20.8
. Bank Deposits	12,138.4	15,334.7	21,270.7	20,621.5	40.8	26.3	38.7	-3.1
Money Multiplier (Ratio):								
. Narrow Money to Reserve Money	1.1	1.0	0.9	1.1	-3.5	-8.3	-6.1	13.6
. Broad Money to Reserve Money	2.1	1.9	1.8	2.1	-5.3	-7.5	-4.6	15.5
Other Monetary Ratios (percent):								
. Currency to Narrow Money	51.2	57.2	56.6	54.9	-2.9	11.6	-1.0	-3.0
. Currency to Broad Money	26.8	29.7	28.9	27.6	-1.1	10.7	-2.6	-4.5
. Narrow Money to Broad Money	23.5	17.1	21.8	26.0	1.8	-27.3	27.3	19.5
. Quasi Money to Broad Money	47.7	48.2	49.0	49.8	-1.9	0.9	1.7	1.7
M2/GDP Ratio*	32.9	27.4	24.5	25.6	-6.3	-16.7	-10.5	4.5

Source: NBE

** M2/GDP ratio was calculated on the basis of new GDP series*



Source: NBE

4.2. Developments in Interest Rate

The review year witnessed no changes in the interest rate structure of commercial banks. As a result, minimum deposit interest rates on saving deposits remained at the previous year level of 4 percent per annum. Similarly, the maximum deposit rate stood at 5 percent. Accordingly, average interest rate on savings deposit was at the preceding year level of 4.5 percent. Average lending rate also remained unchanged and stood at 12.25 percent. The weighted annual average interest rate of time deposits, however, decreased to 4.7 percent from 5.26 percent during the same period. Compared with year-on-year inflation of 7.3 percent in 2009/10, all deposit rates, except average lending rates and weighted yields of T-bills and bond were negative in real terms.

In contrast to the annual average headline inflation of 2.8 percent ,however, all interest rates except T-bills yield were positive.

Table 4.4: Interest Rate Structure of Commercial Banks

(In percent per annum)

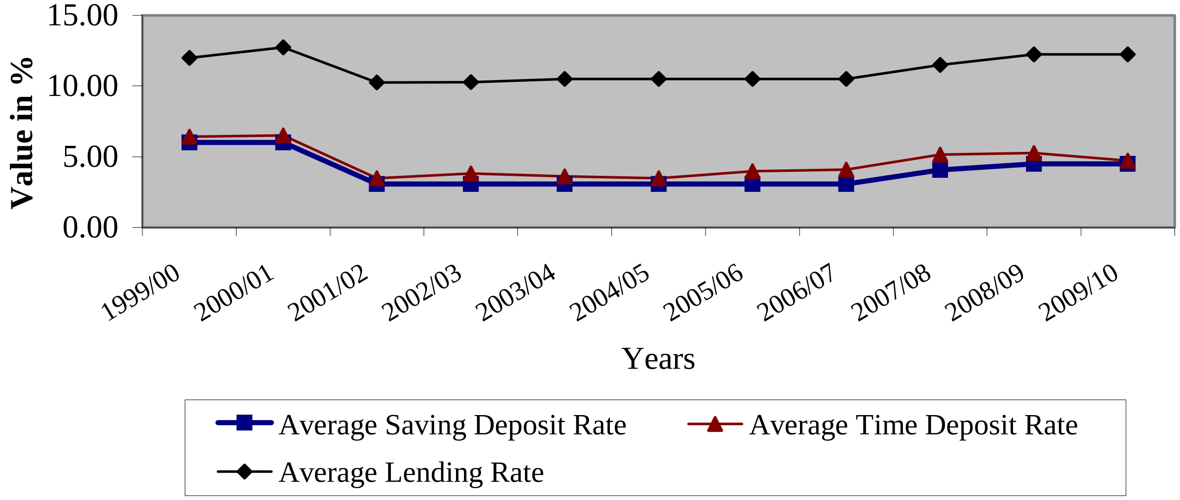
Rates	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Deposit Rate										
Savings Deposit										
Minimum	6.000	3.000	3.000	3.000	3.000	3.000	3.000	4.000	4.000	4.000
Maximum	6.000	3.150	3.150	3.150	3.150	3.150	3.150	4.150	5.000	5.000
Average*	**6.000**	**3.075**	**3.075**	**3.075**	**3.075**	**3.075**	**3.075**	**4.075**	**4.500**	**4.500**
Time deposit										
Up to 1 year	6.177	3.302	3.349	3.398	3.471	3.604	3.639	4.666	4.580	4.564
1 -2 years	6.360	3.513	3.617	3.640	3.710	4.005	4.112	5.228	6.204	4.970
Over 2 years	6.383	3.566	3.822	3.836	3.939	4.297	4.490	5.588	4.998	4.613
Average*	**6.307**	**3.461**	**3.596**	**3.625**	**3.707**	**3.969**	**4.080**	**5.161**	**5.260**	**4.716**
Demand Deposit (Average*)	-	**0.041**	**0.039**	**0.045**	**0.049**	**0.058**	**0.062**	**0.041**	**0.057**	**0.059**
Lending Rate										
Minimum	10.500	7.500	7.000	7.000	7.000	7.000	7.000	8.000	8.000	8.000
Maximum	15.000	14.000	14.000	14.000	14.000	14.000	14.000	15.000	16.500	16.500
Average*	**12.750**	**10.750**	**10.500**	**10.500**	**10.500**	**10.500**	**10.500**	**11.500**	**12.250**	**12.250**
Real Rate of Interest										
Deposit 1/	6.347	13.647	-7.849	-4.272	-3.051	-7.502	-12.755	-21.242	-31.889	1.700
Deposit 2/	4.582	2.786	2.923	0.839	-1.277	-4.073	-10.419	-8.376	-19.250	-13.700
Lending/1	13.097	21.322	-0.424	3.153	4.374	-0.077	-5.330	-13.817	-24.139	13.700
T-bills (Nominal)	**2.829**	**1.982**	**1.311**	**1.052**	**0.133**	**0.039**	**0.495**	**0.673**	**0.802**	**0.894**

Source: NBE

1/ Real saving deposit interest rates and real lending rates computed based on headline inflation.
2/ Real saving deposit interest rates computed based on core inflation.

- *It is simple average for saving deposit and lending rates, while weighted mean for time and demand deposits. As a result, the movements in the average interest rate on time and demand deposits reflect the change in the proportion of commercial bank deposits that would pay higher interest rate on time and demand deposits, rather than the change in interest rate.*

Fig. V.4: Interest Rate Structure of Commercial Banks



Source: NBE

4.3 Developments in Financial Sector

The major financial institutions operating in Ethiopia are banks, insurance companies and micro-finance institutions. The number of banks operating in the country reached 15 following the establishment of two new banks. In terms of ownership, twelve were private commercial banks, and the remaining three state-owned.

During the fiscal year, 45 new branches were opened raising the total branch network in the country to 681 from 636 last year. As a result, bank branch to population ratio improved to 117,474 (Taking total population 80 million) from 126,258 in 2008/09.

As Cooperative Bank of Oromia, Oromia International Bank and Dashen Bank aggressively expanded their branch networks, the share of private banks grew from 57 percent last year to 60 percent by the end of 2009/10.

About 39 percent of the bank branches were concentrated in Addis Ababa, which is the capital and major business center of the country.

Following significant capital injection by the private banks mainly Wegagen Bank, Awash International Bank, Dashen Bank, Nib International Bank and Berhan International Bank, the total capital of the banking industry showed a 16.7 percent increase to Birr 12.9 billion by the end of June 2010. As a result, the share of private banks in total capital of banks rose to 40.2 percent from 36.5 percent last year.

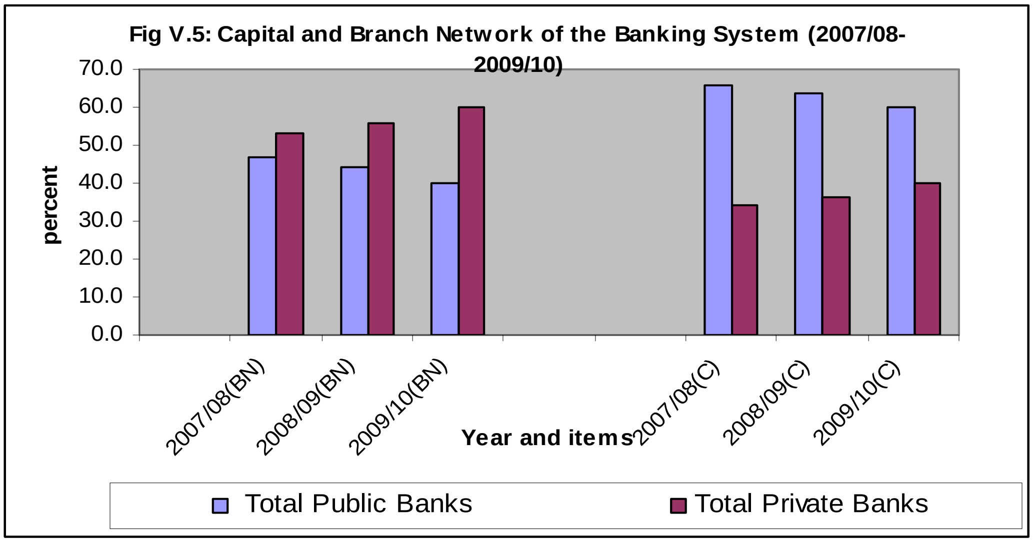
Despite the continuous increase in the capital base, the Ethiopian banking industry is still very small even by African standard suggesting the need for further efforts to enhance financial intermediation in the country.

In the meantime, the number of insurance companies remained 12 though the number of their branches increased to 207 following the opening of 13 additional branches.

A significant expansion of branches was under taken by Oromia Insurance Share Company (5 branches), followed by Awash Insurance Company (4 branches) and Global Insurance Company (3 branches).

Of the total insurance branches, about 50 percent were located in the capital, Addis Ababa. Ownership wise, private insurance companies owned 81.2 percent of the total branches, up from 79.9 percent a year ago.

Similarly, the total capital of insurance companies grew by 47.5 percent to Birr 962.4 million, with private insurance companies accounted for 65.3 percent.



Source: Commercial Banks

Table 4.5. Capital and Branch Network of the Banking System at the Close of June 30, 2010

(Branch in Number and Capital in Millions of Birr)

Banks	Branch Network								Capital			
	2008/09				2009/10				2008/09		2009/10	
	Addis Ababa	Regions	Total	percent Share	Regions	Addis Ababa	Total	percent Share	Total Capital	percent Share	Total Capital	percent Share
1. Public Banks												
Commercial Bank of Ethiopia	160	49	209	32.9	160	49	209	30.7	5,041.0	45.5	5,532.0	42.8
Construction & Business Bank	17	15	32	5.0	17	15	32	4.7	196.0	1.8	229.0	1.8
Development Bank of Ethiopia	31	1	32	5.0	31	1	32	4.7	1,800.0	16.2	1,969.0	15.2
Total Public Banks	**208**	**65**	**273**	**42.9**	**208**	**65**	**273**	**40.1**	**7,037.0**	**63.5**	**7,730.0**	**59.8**
2. Private Banks												
Awash International Bank	29	31	60	9.4	31	31	62	9.1	555.0	5.0	721.0	5.6
Dashen Bank	28	26	54	8.5	29	30	59	8.7	815.0	7.4	967.0	7.5
Abyssinia Bank	22	25	47	7.4	22	25	47	6.9	421.0	3.8	482.0	3.7
Wegagen Bank	26	23	49	7.7	27	23	50	7.3	656.0	5.9	828.0	6.4
United Bank	15	26	41	6.4	15	27	42	6.2	449.0	4.1	506.0	3.9
Nib International Bank	17	28	45	7.1	17	31	48	7.0	581.0	5.2	723.0	5.6
Cooperative Bank of Oromiya	23	3	26	4.1	32	5	37	5.4	155.0	1.4	169.0	1.3
Lion International Bank	11	9	20	3.1	11	11	22	3.2	192.0	1.7	201.0	1.6
Oromia International Bank	16	4	20	3.1	21	6	27	4.0	100.0	0.9	208.0	1.6
Zemen Bank	0	1	1	0.2	0	3	3	0.4	121.0	1.1	121.0	0.9
Buna International Bank	0	0	0	0.0	0	3	3	0.4	-	-	169.0	1.3
Berhan International Bank	0	0	0	0.0	3	5	8	1.2	-	-	108.0	0.8
Total Private Banks	**187**	**176**	**363**	**57.1**	**208**	**200**	**408**	**60**	**4,045.0**	**36.5**	**5,203.0**	**40.2**
3.Grand Total Banks	**395**	**241**	**636**	**100**	**416**	**265**	**681**	**100.0**	**11,082.0**	**100.0**	**12,933.0**	**100.0**

Source: Commercial Banks

Table.4.6: Branch Network and Capital of Insurance Companies

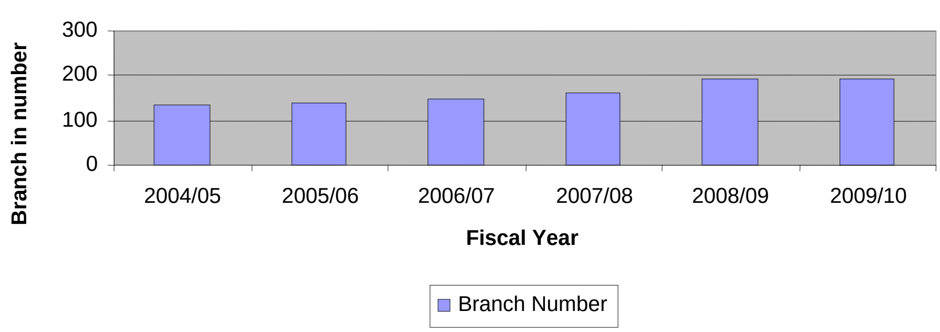
(Branch in Number and Capital in Million Birr)

No.	Insurance Companies	Branch				Capital		
		2008/09	2009/10			2008/09	2009/10	percent Change
		Total	A.A	Regions	Total	A	B	B/A
1	Ethiopian Insurance. Co.	39	11	28	39	249.4	333.9	33.9
2	Awash Insurance. Co.	22	15	11	26	52.9	93.7	77.2
3	Africa Insurance. Co.	13	6	7	13	59.0	23.4	-60.3
4	National Insurance. Co.	16	8	8	16	14.8	105.2	611.9
5	United Insurance. Co.	21	15	7	22	39.3	20.4	-48.0
6	Global Insurance. Co.	7	6	4	10	22.9	90.0	293.2
7	Nile Insurance. Co.	20	11	9	20	56.4	77.9	38.2
8	Nyala Insurance. Co.	16	8	8	16	61.6	102.7	66.8
9	Nib Insurance. Co.	21	12	8	20	60.3	77.0	27.8
10	Lion Insurance. Co.	10	6	5	11	7.1	13.2	85.5
11	Ethio-Life Insurance. Co.	-	-	-	-	3.3	4.4	-
12	Oromia Insurance. Co.	9	6	8	14	25.6	20.5	-
13	**Total**	**194**	**104**	**103**	**207**	**652.3**	**962.4**	**47.5**

Source: Insurance Companies

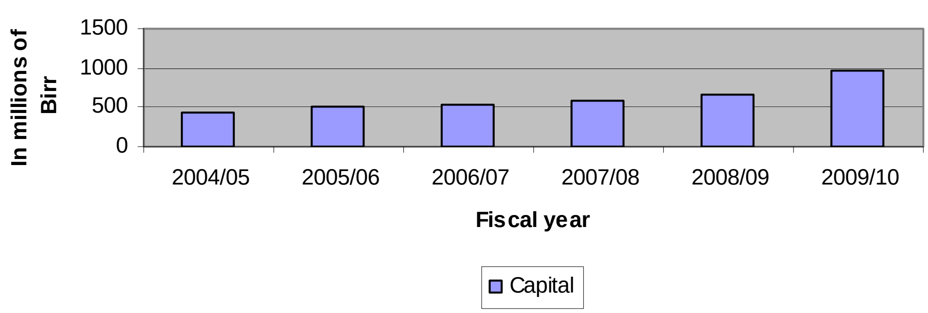
Note: A.A refers Addis Ababa

Fig.6; Branch Network of Insurance Companies



Source: Insurance Companies

Fig.7:Capita of Insurance Campanies



Source: Insurance Companies

By the end of 2009/10, the number of micro finance institutions (MFIs) operating in the country rose by 2 and reached 30. Their total capital also increased by 36.7 percent to Birr 2.4 billion compared to last year.

Similarly, their deposit mobilization and credit provision increased by 26.7 and 18.0 percent, respectively indicating the growing role of microfinance institutions. Mirroring their expanded activities, total assets of MFIs rose by 20.2 percent and reached Birr 8.0 billion at the end of fiscal year 2009/10 from Birr 6.6 billion last year.

Of the total MFIs, 46.7 percent were operating in Addis Ababa. The three largest MFIs, namely the Amhara, Oromia and Dedebit Credit and Savings institutions accounted for 65.4 percent of the total capital, 81.4 percent of the savings, 74.0 percent of the credit and 76.2 percent of the total assets of MFIs.

Table 4.7: Micro finance Institutions Performance as of June 2010 (In Thousands of Birr)

	2008/09	**2008/09**	**percent Change**
Micro-Financing Institutions	***A***	***B***	***B/A***
Total Capital	1,737,402.7	2,375,228.0	36.7
Saving	2,098,742.1	2,658,962.0	26.7
Credit	4,936,135.2	5,824,489.0	18.0
Total Assets	6,620,630.8	7,958,194.0	20.2

Source: Micro finance Institutions

4.3.1 Resource Mobilization

The total resources mobilization by the banking system in the form of net deposits, collection of loans and net borrowings increased by 28.3 percent and reached Birr 48.1 billion at the end of 2009/10 (Table 4.8).

Spurred by remarkable branch expansion, deposit liabilities of the banking system were Birr 98.6 billion reflecting annual growth rate of 26.2 percent. Component wise, savings deposits registered a significant increase of 29.3 percent followed by demand deposits (23.8

percent), and time deposits (18.8 percent). Saving deposits accounted for 48.7 percent of the total deposits followed by demand deposits (46.8 percent) and time deposits (4.5 percent).

Despite the arrival of two new private banks and the opening up of 45 new branches, the share of private banks in deposit mobilization stood at 38.2 percent up from 35.2 percent last year. CBE alone mobilized 58 percent of the total deposits due to its large branch network.

Borrowing by the banking industry is not an important source of resource mobilization as most of the banks are sufficiently liquid due to higher deposit mobilization and collection of loans. However, total outstanding borrowing at the end of the fiscal year reached Birr 5.6 billion from Birr 3.0 billion a year earlier. Of the total borrowing, domestic sources accounted for 82.7 percent, while foreign sources took the remaining balance.

On the other hand, loan collection by the banking system reached Birr 25.1 billion showing a 14.1 percent increase. About Birr 15.0 billion (59.4 percent) of the total loan collection was attributed to the private banks.

Table 4.8: Annual Resource Mobilization and Disbursing Activities of Commercial Banks and DBE (Specialized Bank) at June 30, 2010

(In Millions of Birr)

Particulars	2007/08			2008/09			2009/10			percent Change	
	Public Banks	Private Banks	Total (A)	Public Banks	Private Banks	Total (B)	Public Banks	Private Banks	Total (C)	C/A	C/B
1. Deposits (net change)	**4,283.1**	**4,808.0**	**9,091.1**	**7,524.9**	**7,670.8**	**15,195.7**	**11,863.0**	**8,618.4**	**20,481.4**	**125.3**	**34.8**
Demand	2,054.3	1,420.2	3,474.5	4,482.9	3,042.3	7,525.2	6,813.9	2,067.9	8,881.8	155.6	18.0
Savings	2,308.3	3,455.1	5,763.4	2,905.7	4,765.4	7,671.1	4,574.5	6,322.0	10,896.6	89.1	42.0
Time	(79.5)	(67.3)	(146.8)	136.3	(137.0)	(0.6)	474.5	228.5	703.0	424900	703600
2. Borrowing (net change)	**269.4**	**-**	**269.4**	**366.2**	**-**	**366.2**	**2,597.5**	**-**	**2,597.5**	**864.3**	**609.3**
Local	197.6	-	197.6	225.0	-	225.0	2,266.1	-	2,266.1	1,047.0	907.1
Foreign	71.8	-	71.8	141.2	-	141.2	331.4	-	331.4	361.5	134.7
3. Collection of Loans	9,493.0	9,296.2	18,789.2	10,368.8	11,596.7	21,965.5	10,168.0	14,898.8	25,066.8	33.4	14.1
4. Total Resources Mobilized (1+2+3)	**14,045.4**	**14,104.2**	**28,149.7**	**18,260.0**	**19,267.5**	**37,527.4**	**24,628.4**	**23,517.2**	**48,145.6**	**71.0**	**28.3**
5. Disbursement	15,447.5	11,807.0	27,254.5	12,782.3	12,694.7	25,477.0	13,939.3	14,965.8	28,905.1	6.1	13.5
6. Change in Liquidity (4-5)	***(1,402.1)***	***2,297.2***	***895.2***	***5,477.7***	***6,572.8***	***12,050.5***	***10,689.2***	***8,551.4***	***19,240.5***	***2,049.4***	***59.7***
Memorandum Item:											
7. Outstanding Credit*	31,666.6	16,575.2	48,241.8	33,912.8	17,720.8	51,633.5	39,384.7	22,907.5	62,292.2	29.1	20.6

Source: Commercial Banks and Staff Computation
* *Includes coupon bonds issued by the government*

Table 4.9: Deposits and Borrowings of Commercial Banks and DBE at June 30, 2010

(In Millions of Birr)

	2007/08	2008/09	2009/10	C/A	C/B
	A	B	C		
A. Deposits					
-Demand	29,742.0	37,267.3	46,149.0	55.2	23.8
-Savings	29,482.2	37,153.3	48,049.9	63.0	29.3
-Time	3,732.0	3,731.4	4,434.4	0.0	18.8
Total	**62,956.3**	**78,152.0**	**98,633.3**	**56.7**	**26.2**
B. Borrowings					
-Local	2,174.5	2,399.4	4,665.6	114.6	94.4
-Foreign	506.1	647.3	978.7	93.4	51.2
Total	**4,256.6**	**3,046.7**	**5,644.2**	**32.6**	**85.3**

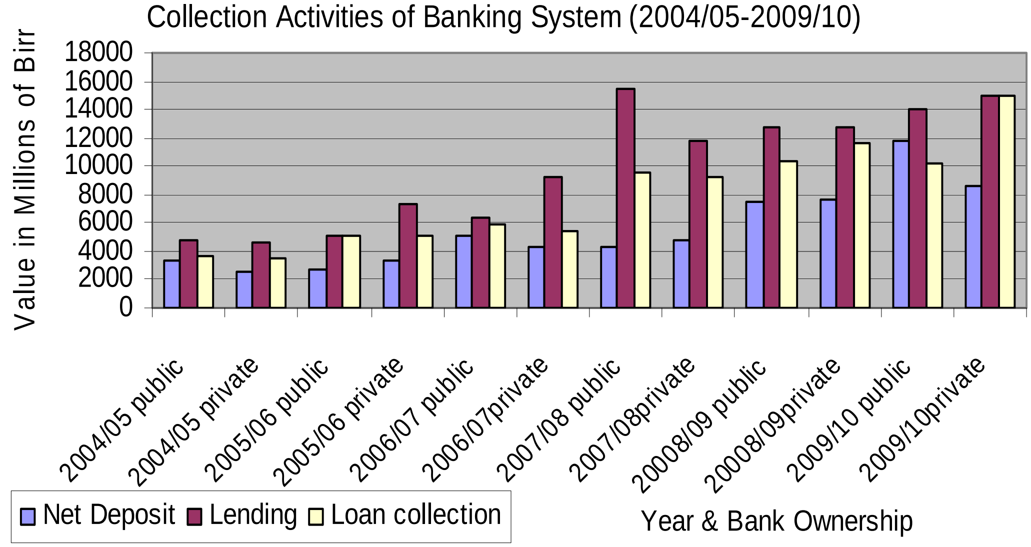
Source: Commercial Banks and Staff Computation

4.3.2 New Lending Activities

Commercial banks, including DBE, disbursed Birr 28.9 billion to the various economic sectors. Due to the tight monetary policy measures taken by the National Bank of Ethiopia, the fiscal year witnessed a moderate increase (13.5 percent) in fresh loan disbursements largely due to higher loan collection that can be re-lent without affecting the outstanding limits. Of the total new loans disbursed by the banking system, 51.8 percent was by private banks, with the public banks taking up the balance. The ratio of new loan disbursement by the private banks to their total deposit stood at 24.9 percent while that of public banks was 36.2 percent.

Concerning the beneficiaries of the new loans, 28.4 percent went to finance international trade followed by domestic trade (17.9 percent), and industry (17.2 percent) while other sectors consumed the remaining balance. The production sector (agriculture, industry and housing and construction) together took about 46.1 percent of the new loans disbursed reflecting the concentration of loans in trade and other short term loans than in direct production activities.

Fig V.8: Development in Deposit Mobilization, Lending and Loan Collection Activities of Banking System (2004/05-2009/10)



Source: Commercial Banks and DBE

Table.4.10: Loans and Advances by Lenders 1/ (In Millions of Birr)

	2008/09			2009/10					
	D*	C*	O/S*	D*	C*	O/S*	Percentage Change		
Lenders	A	B	C	D	E	F	D/A	E/B	F/C
A. Public Banks									
1.Commercial Bank of Ethiopia	11098.9	9340.6	24,779.8	10697.0	9116.5	22,859.0	-3.6	-2.4	-7.8
3. Construction & Business Bank of Ethiopia	1297.8	399.3	1,404.9	494.3	496.5	1,748.3	28.2	-21.1	-77.4
2.Development Bank of Ethiopia	385.6	628.9	7,728.1	2747.9	555.1	8,787.2	111.7	39.0	525.5
Sub-Total	***12,782.3***	***10,368.8***	***33,912.8***	***13,939.3***	***10,168.0***	***33,394.6***	**9.1**	**-1.9**	**-1.5**
B. Private Banks									
4 Awash International Bank	2845.6	2291.8	2722.4	2955.7	3153.3	3163.6	3.9	37.6	16.2
5. Dashen Bank	2293.6	2187.6	4447.0	2231.8	2434.3	5033.1	-2.7	11.3	13.2
6. Bank of Abyssinia	1367.2	1644.9	2701.7	2139.8	1884.6	3153.2	56.5	14.6	16.7
7. Wegagen Bank	2153.2	2348.5	2112.3	2189.4	2324.4	2473.9	1.7	-1.0	17.1
8. United Bank	1452.9	1198.9	2153.0	2283.7	2153.6	2524.7	57.2	79.6	17.3
9. Nib International Bank	1234.3	1265.0	2220.3	1066.8	1325.0	2546.1	-13.6	4.7	14.7
10. Cooperative Bank of Oromia	581.5	393.6	592.5	572.4	635.4	721.9	-1.6	61.4	21.8
11. Lion International Bank	452.2	227.2	469.6	355.0	313.7	583.5	-21.5	38.1	24.3
12. Oromia International Bank	108.2	10.8	113.3	424.0	263.2	383.9	291.8	2328.9	239.0
13. Zemen Bank	205.9	28.3	188.6	367.6	275.6	369.0	78.5	872.1	95.6
14.Berhan International Bank				155.5	108.3	153.2	-	-	-
15.Bunna International Bank				224.2	27.6	191.4	-	-	-
Sub-Total	***12,694.7***	***11,596.7***	***17,720.8***	***14,965.8***	***14,898.8***	***21,297.5***	**17.9**	**28.5**	**20.2**
Grand Total	***25,477.0***	***21,965.5***	***51,633.5***	***28,905.1***	***25,066.8***	***54,692.1***	**13.5**	**14.1**	**5.9**

Source: Commercial Banks
1. O/S Credit excludes lending to central government
D=Disbursement, C*=Collection, O/S*= Outstanding Credit*

Table 4.11: Percentage Share of Loans and Advances by Lenders

(In Millions of Birr)

Lenders	2008/09			2009/10			Percentage change		
	D*	C*	O/S*	D*	C*	O/S*			
	A	B	C	D	E	F	D/A	E/B	F/C
A. Public Banks									
1.Commercial Bank of Ethiopia	43.6	42.5	48.0	37.0	36.4	41.8	-15.1	-14.5	-12.9
2.Development Bank of Ethiopia	1.5	2.9	15.0	1.7	2.0	3.2	13.0	-30.8	-78.6
3. Construction & Business Bank of Ethiopia	5.1	1.8	2.7	9.5	2.2	16.1	86.6	21.8	490.5
Sub-Total	***50.2***	***47.2***	***65.7***	***48.2***	***40.6***	***61.1***	**-3.9**	**-14.1**	**-7.0**
B.Private Banks									
4 Awash International Bank	11.2	10.4	5.3	10.2	12.6	5.8	-8.4	20.6	9.7
5. Dashen Bank	9.0	10.0	8.6	7.7	9.7	9.2	-14.2	-2.5	6.8
6. Bank of Abyssinia	5.4	7.5	5.2	7.4	7.5	5.8	37.9	0.4	10.2
7. Wegagen Bank	8.5	10.7	4.1	7.6	9.3	4.5	-10.4	-13.3	10.6
8. United Bank	5.7	5.5	4.2	7.9	8.6	4.6	38.5	57.4	10.7
9. Nib International Bank	4.8	5.8	4.3	3.7	5.3	4.7	-23.8	-8.2	8.3
10. Cooperative Bank of Oromia	2.3	1.8	1.1	2.0	2.5	1.3	-13.2	41.4	15.0
11. Lion International Bank	1.8	1.0	0.9	1.2	1.4	1.1	-30.8	38.1	24.3
12. Oromia International Bank	0.4	0.0	0.2	1.5	1.2	0.7	245.4	2328.9	239.0
13. Zemen Bank	0.8	0.1	0.4	1.3	1.3	0.7	57.3	872.1	95.6
14.Berhan International Bank	0.0	0.0	0.0	0.5	0.5	0.3	-	-	-
15.Bunna International Bank	0.0	0.0	0.0	0.8	0.1	0.4	-	-	-
Sub-Total	***49.8***	***52.8***	***34.3***	***51.8***	***59.4***	***38.5***	**3.9**	**12.5**	**12.0**
Grand Total	***100.0***	***100.0***	***100.0***	***100.0***	***99.9***	***99.5***	**0.0**	**-0.1**	**-0.5**

D*=Disbursement, C*=Collection, O/S*= Outstanding Credit

4.3.3 Outstanding Loans

Total Outstanding credit of the banking system, including the central government, increased by 20.6 percent and reached Birr 62.3 billion at the end of June 2010. Gross outstanding claims on the central government and public enterprises increased by 35.0 and 3.3 percent, respectively while claims on the private sector and cooperatives surged by 20.2 and 50.9 percent (Table 4.13).

Sectoral distribution of outstanding loans indicated that credit to finance trade (both domestic and international) accounted for 33.2 percent, industry (19.6percent) and agriculture (10.9 percent). Claims on the private sectors including cooperatives stood at Birr 46.0 billion or 71.1 percent of the total outstanding claims reflecting a 21.4 percent growth over last year (Table 4.12).

Table 4.12: Loans and Advances by Economic Sectors[1]

Economic Sectors	2008/09			2009/10			Percentage Change		
	D*	C*	O/S*	D*	C*	O/S*	D*	C*	O/S*
	A	B	C	D	E	F	D/A	E/B	F/C
Government Deficit Financing	0	0	5,628.8	0	0	7,600.1			35.0
Agriculture	3,037.5	2,802.2	6,009.7	4,437.1	3,619.6	5,720.8	46.1	29.2	(4.8)
Industry	2,668.3	1,879.3	9,081.6	4,958.2	2,213.3	12,718.4	85.8	17.8	40.0
Domestic Trade	5,264.9	4,378.8	5,760.6	5,169.4	5,550.2	6,505.1	(1.8)	26.7	12.9
International Trade	8,165.5	7,200.3	12,513.6	8,217.4	8,114.0	13,758.6	0.6	12.7	9.9
Export	2,858.5	2,867.7	3,409.2	5,279.5	4,472.5	4,386.9	84.7	56.0	28.7
Import	5,307.0	4,332.6	9,104.4	2,937.9	3,641.5	9,371.6	(44.6)	(16.0)	2.9
Hotels and Tourism	274.6	278.6	1,023.7	320.2	265.5	1,307.5	16.6	(4.7)	27.7
Transport and Communication	903.3	1,339.6	2,531.8	965.6	1,122.6	2,875.4	6.9	(16.2)	13.6
Housing and Construction	4,040.2	3,010.6	6,688.1	3,916.0	3,163.6	8,511.1	(3.1)	5.1	27.3
Mines, Power and Water resource	-	1.6	4.6	7.2	6.7	3.7		308.0	(20.7)
Others	771.2	863.7	1,815.6	343.5	727.7	2,149.2	(55.5)	(15.7)	18.4
Personal	241.8	132.5	147.8	272.3	134.7	226.9	12.6	1.6	53.5
Interbank Lending	109.89	78.358	427.5	298.25	148.9997	240.4	-	90.2	(43.8)
Total	**25,477.0**	**21,965.5**	**51,633.5**	**28,905.1**	**25,066.8**	**62,292.2**	**13.5**	**14.1**	**20.6**

Source: Commercial Banks &Staff Computation

D=Disbursement, C*=Collection, O/S*= Outstanding Credit*

1/ includes lending to central government

Fig V.9: Sectoral Breakdown of Bank Credit(1999/00-2008/09)

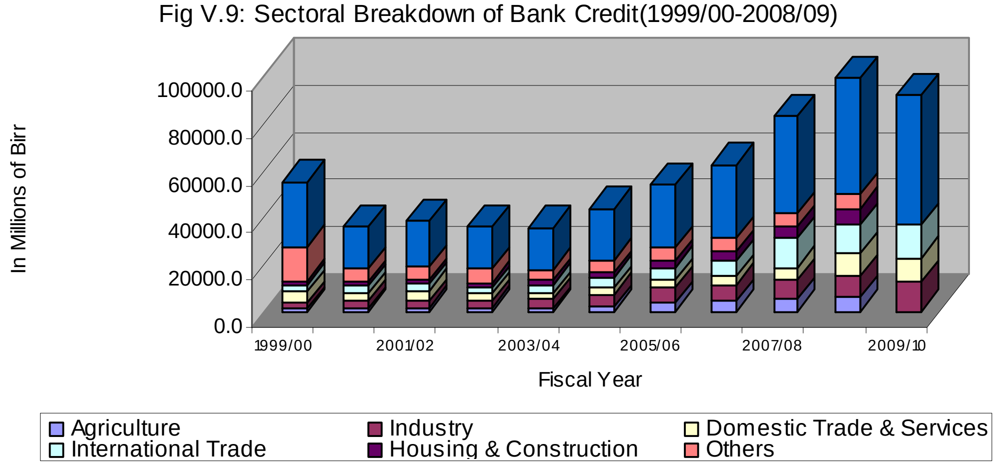


Table 4.13: Loans and Advances by Borrowers[1]

(In Millions of Birr)

Borrowing Sector	2006/07	2007/08	2008/09	2009/10		
	O/S*	O/S*	O/S*	D*	C*	O/S*
	A	B	C	D	E	F
Central Government	13,214.9	6,902.0	5,628.8	0.0	0.0	7,600.1
Public Enterprises	3,263.1	8,732.6	8,170.8	1,448.8	2,660.3	8,535.1
Cooperatives	2,025.0	3,161.1	3,364.5	3,722.4	2,367.5	3,876.4
Private & Individuals	25,513.4	29,269.6	34,041.9	23,435.6	19,890.0	41,539.0
Inter-bank Lending	225.7	176.5	427.5	298.2	149.0	66.3
Total	***44,242.2***	***48,241.8***	***51,633.5***	***28,905.1***	***25,066.8***	***62,292.2***
Total less Inter-bank Lending	***44,016.4***	***48,065.3***	***51,206.0***	***28,606.8***	***24,917.8***	***62031.3***

Source: Commercial Banks and Staff Computation

D=Disbursement, C*=Collection, O/S*= Outstanding Credit*

1/ Includes lending to central government

4.4. Financial Activities of NBE

By the end of 2009/10, outstanding claims of NBE on the central government reached Birr 46.0 billion due to a 4.4 percent rise in direct advances, offsetting the slight decline (0.5 percent) in government bonds. Direct advances to the government stood at Birr 36.4 billion or 79.2 percent of the total claims, while bond holdings accounted for 20.8 percent.

Concerning the liabilities of NBE, total deposits at the NBE grew by 8.0 percent due to the rise in deposits of financial institutions and central government by 8.8 and 5.5 percent, respectively.

Table 4.14: Financial Activities of National Bank of Ethiopia at the Close of June 30, 2010

(In Millions of Birr)

Particulars	2007/08	2008/09	2009/10	percent Change	
	A	B	C	C/A	C/B
Loans and Advances (1+2)	**41,563.1**	**44,498.7**	**45,989.7**	**10.7**	**3.4**
1.Claims on Central Gov't	**41,563.1**	**44,498.7**	**45,989.7**	**10.7**	**3.4**
1.1 Direct Advance	31,818.0	34,891.0	36,434.1	14.5	4.4
1.2 Bonds	9,745.1	9,607.7	9,555.6	-1.9	-0.5
2. Claims on DBE	-	-	-	-	-
3. Deposit Liabilities	**21,710.9**	**28,054.3**	**30,310.3**	**39.6**	**8.0**
3.1 Government	6,157.3	6,671.5	7,036.6	14.3	5.5
3.2 Financial Institutions	15,553.6	21,382.8	23,273.8	49.6	8.8

Source: NBE and Staff Computation

4.5 Developments in Financial Markets

Treasury bills market is the only regular primary market where securities are transacted on a fortnightly basis. There is no secondary market for the securities. Government bonds are occasionally issued to finance government expenditures and/or to absorb excess liquidity in the banking system.

4.5.1 Treasury Bills Market

The amount of Treasury-bills offered to the fortnightly auction market during the fiscal year reached Birr 55.2 billion, showing 93.9 percent annual surge while the total demand increased by 9.6 percent.

Of the total T-bills offered, T-bills worth Birr 41.7 billion were sold depicting 49.9 percent annual growth.

The dominance of commercial banks in the T-bills market continued to diminish in the review year owing to enhanced participation of non-bank institutions.

At the end of 2009/10, the total outstanding T-bills stood at Birr 11.6 billion, up by 48.6 percent vis-à-vis the preceding year balance. The non-bank institutions held 62 percent of the total outstanding T-bills.

The average weighted yield for all types of bills slightly increased to 0.79 from 0.74 percent last year.

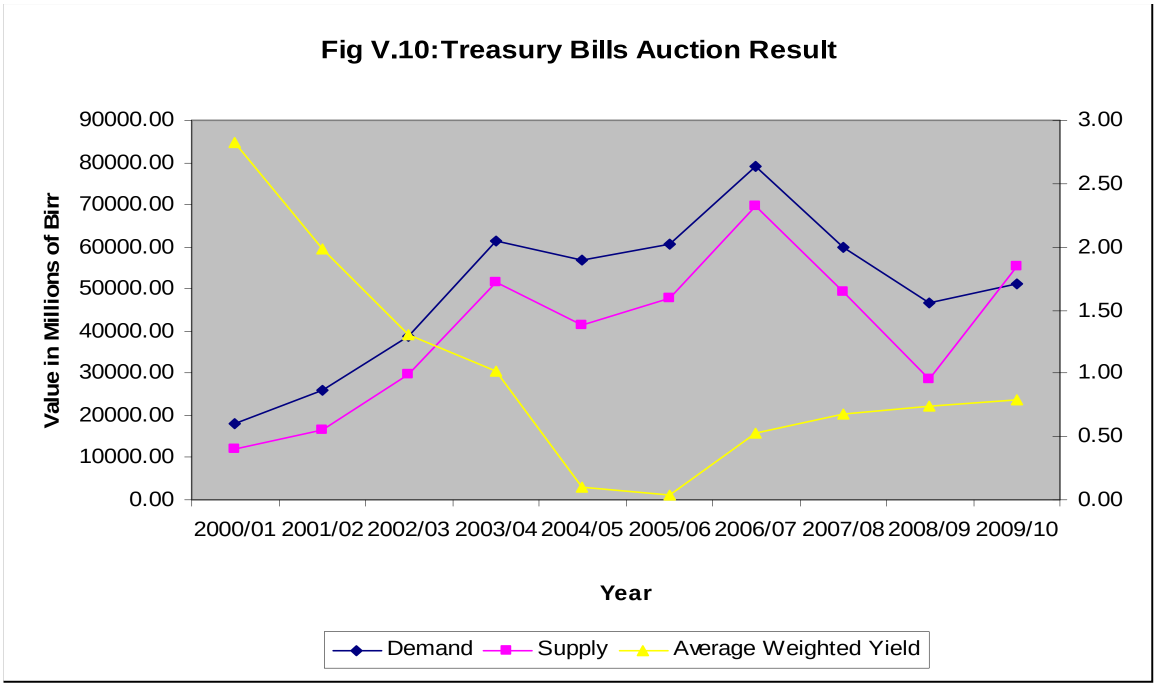
The yields for both 28-days and 91-days T-bills tended to increase, while that of 182 days declined by 12.5

percent, reflecting the bidders' preference of short-term bills to long-term bills.

Table 4.15: Results of Treasury Bills Auction

Particulars	2007/08 A	2008/09 B	2009/10 C	Percentage Change C/A	C/B
Number of Bidders	**182**	**261**	**280**	**53.8**	**7.3**
Amount Demanded (Mn.Birr)	**59,888.510**	**46,767.200**	**51,258.015**	-14.411	9.602
28-day bill	20,587.510	10,441.900	19,760.000	-4.019	89.238
91-day bill	17,779.000	29,477.700	27,553.755	54.979	-6.527
182-day bill	21,522.000	6,847.600	3,944.260	-81.673	-42.399
Amount Supplied (Mn.Birr)	**48,889.000**	**28,471.900**	**55,203.315**	**12.916**	**93.887**
28-day bill	12,320.000	4,265.000	15,110.000	22.646	254.279
91-day bill	15,394.000	15,931.700	28,150.495	82.867	76.695
182-day bill	21,175.000	8,275.200	11,942.820	-43.599	44.321
Amount Sold (Mn.Birr)	**47,716.510**	**27,839.800**	**41,736.415**	**-12.533**	**49.916**
Banks	35,613.000	2,672.000	13,902.000	-60.964	-92.497
Non-Banks	12,103.510	25,167.800	27,834.415	129.970	107.938
Average Weighted Price for Successful bids(Birr)	**99.820**	**99.797**	**97.017**	**-2.808**	**-2.785**
28-day bill	99.947	99.951	99.943	-0.004	-0.008
91-day bill	99.825	99.783	99.757	-0.067	-0.026
182-day bill	99.688	99.657	91.352	-8.362	-8.333
Average Weighted Yeild for Successful bids(percent)	**0.677**	**0.743**	**0.786**	**16.078**	**5.781**
28-day bill	0.700	0.636	0.750	7.155	17.919
91-day bill	0.704	0.871	0.976	38.581	12.067
182-day bill	0.628	0.723	0.633	0.781	-12.467
Outstanding bills at the end of period(Mn.Br.)	**8,239.500**	**7,783.100**	**11,566.200**	**40.375**	**48.607**
Banks	2,739.000	1,672.000	4,400.000	60.643	163.158
Non-Banks	5,500.500	6,111.100	7,166.200	30.283	17.265

Source: NBE



Source: NBE

4.5.2. Bonds Market

In recent years, following the strong growth in economic activities and real income, there was strong demand for corporate bonds. As a result, corporate bond holdings of the CBE increased to Birr 27.7 billion in 2009/10 from Birr 19.3 billion a year ago.

During the year, corporate bond issued by public institutions and regional governments reached Birr 10.9 billion reflecting 77 percent growth over last year.

4.16 Disbursement, Redemption and Outstanding of Coupon and Corporate Bond Purchases by the Banking System

(In Millions of Birr)

Particulars	Twelve Months		Percentage Change
	2008/09	2009/10	
	A	B	B/A
1. Corporate Bond Purchases by Clients	**6,135.0**	**10,860.0**	**77.0**
EEPCO	3,000.0	5,000.0	66.7
Regional governments	2,835.0	3,560.0	25.6
Development Bank of Ethiopia	300.0	2,300.0	666.7
Private Sector	0.0	0.0	-
2. Redemption of Bonds by Clients	**75.2**	**1,235.7**	**1,543.3**
Public Enterprises	0.0	0.0	#DIV/0!
Regional governments	31.3	1,116.4	-
Development Bank of Ethiopia	43.9	119.3	171.7
Private Sector	0.0	0.0	-
3. Outstanding Bonds by Clients	**19,310.6**	**27,727.3**	**43.6**
Public Enterprises	11,600.0	16,600.0	43.1
Regional governments	5,957.7	7,032.7	18.0
Development Bank of Ethiopia	1,752.9	4,094.6	133.6
Private Sector	0.0	0.0	-

Source: Commercial Banks

4.5.3. Inter-bank Money Market

The interbank money market was not active in Ethiopia due to the existence of excess reserves in the banking system. Accordingly, no inter-bank money market transaction was conducted in 2009/10. Since the introduction of the interbank money market in September 1998, merely twenty-three transactions worth Birr 259.2 million were transacted with interest rates ranging between 7 to 11 percent per year. The maturity period of these loans widely spanned from overnight to 5 years.

Table 4. 17: Interbank Money Market Transactions up to June 2008

Borrower	Lender	Amount Borrowed (In Thousand Birr)	Interest Rate percent	Date of Transaction	Maturity Period
Nib International Bank	Awash International Bank	7,000.0	11	16/11/00	Overnight
Wegagen Bank	Commercial Bank of Ethiopia	10,000.0	8	3/1/2001	5 years
Nib International Bank	,,	10,000.0	8	3/31/2001	3 months
Wegagen Bank	,,	10,000.0	8	3/22/2001	1 year
Nib International Bank	,,	3,600.0	8	5/31/2001	6 months
Nib International Bank	,,	3,700.0	8	06/31/01	6 months
Nib International Bank	,,	778.0	8	30-11-2001	6 months
Nib International Bank	Bank of Abyssinia	28,999.8	7	31/12/02	3.5 months
Nib International Bank	Bank of Abyssinia	19,046.9	7	31/01/03	3.5 months
Nib International Bank	Bank of Abyssinia	20,310.0	7	28/02/03	3.5 months
Nib International Bank	Bank of Abyssinia	28,987.0	7	31/03/03	3.5 months
Nib International Bank	Commercial Bank of Ethiopia	25,000.0	7.5	7/7/2003	5.2 months
Nib International Bank	Bank of Abyssinia	50.1	7.5	26/03/2005	open
Nib International Bank	Bank of Abyssinia	50.5	7.5	26/03/2005	open
Wegagen Bank	Awash International Bank	19,744.6	7.5	December, 2006	21/05/07
Wegagen Bank	Awash International Bank	19,870.4	7.5	January, 2007	21/05/07
Wegagen Bank	Awash International Bank	10,937.2	7.5	February, 2007	21/05/07
Awash International Bank	Nib International Bank	30,000.0	7.5	February, 2007	18/08/07
Wegagen Bank	Awash International Bank	10,931.4	7.5	March, 2007	21/05/07
Nib International Bank	Awash International Bank	142.0	8.5	January, 2008	25/4/08
Nib International Bank	Awash International Bank	7.0	8.5	February, 2008	25/04/08
Nib International Bank	Awash International Bank	3.0	8.5	March, 2008	25/04/08
Nib International Bank	Awash International Bank	17.0	8.5	April,2008	25/04/08
Total/Average	-	**259,174.8**	**7.87**	-	-

Source: NBE

V. DEVELOPMENTS IN EXTERNAL SECTOR

5.1 Overall Balance of Payments

The overall balance of payments in 2009/10 recorded a surplus of USD 316.6 million, much lower than the USD 513.5 million surplus in the preceding year.

Tthe trade deficit in the review period narrowed slightly by 0.2 percent owing to a 38.4 percent growth in merchandise exports against moderate increase (7 percent) in imports. As net private transfers improved slightly in the same period, the current account deficit also narrowed by 21.3 percent over last year and its share in GDP improved to 4.1 percent from 5.1% a year ago.

Table 5. 1. Balance of Payments

(In Millions of USD)

Particulars	2007/08	2008/09	2009/10	Percentage Change	
	A	B	C	C/B	C/A
Trade Balance	**-5,344.8**	**-6,279.2**	**-6,265.8**	**-0.2**	**17.2**
Exports	1,465.7	1,447.4	2,003.1	38.4	36.7
Imports	6,810.5	7,726.6	8,268.9	7.0	21.4
Net Services	**142.3**	**384.7**	**456.6**	**18.7**	**220.9**
Travel	149.8	207.9	224.1	7.8	49.6
Transportation	129.2	223.0	241.3	8.2	86.7
Government (n.i.e.)	134.6	160.4	225.2	40.4	67.4
Investment income	16.6	-34.6	-56.2	62.7	-438.2
Interest	30.0	-10.3	-29.3	185.5	-197.8
Cash (net)	34.1	-8.5	-27.2	219.5	-179.6
Arrears	0.0	0.0	0.0	-	-
Dividend	-13.4	-24.3	-26.9	10.7	101.3
Other Services	-287.9	-172.1	-177.8	3.3	-38.2
Private Transfers	**2,388.3**	**2,706.8**	**2,709.7**	**0.1**	**13.5**
Current Account Balance(excl. public transfers)	***-2814.2***	***-3187.6***	***-3193.4***	**0.2**	**13.5**
Public Transfers	**1,312.5**	**1,551.4**	**1,905.6**	**22.8**	**45.2**
Current Account Balance(incl. public transfers)	***-1,501.7***	***-1,636.2***	***-1,287.8***	**-21.3**	**-14.2**
Non-monetary Capital	**1,031.6**	**1,647.9**	**1,996.2**	**21.1**	**93.5**
Long-term (net)	306.4	722.2	1,043.6	44.5	240.6
Disbursements	377.2	781.3	1,118.1	43.1	196.4
Repayments	70.9	59.2	74.5	25.9	5.2
Cash	46.8	42.3	64.7	53.2	38.5
Arrears	0.0	0.0	0.0	-	-
Direct Investment (net)	814.6	893.7	956.4	7.0	17.4
Short-term (net)	-89.4	32.0	-3.8	-111.8	-95.8
Net Errors & Omissions	**219.3**	**501.8**	**-458.7**	**-191.4**	**-309.1**
Overall Balance	**-250.9**	**513.5**	**316.6**	**-38.3**	**-226.2**
Financing	**250.9**	**-513.5**	**-316.6**	**-38.3**	**-226.2**
Reserves (-:increase)	**279.1**	**-494.8**	**-304.6**	**-38.4**	**-209.2**
NBE net foreign asset	232.4	-558.7	57.8	-110.3	-75.1
CBs net foreign asset	46.7	63.9	-362.4	-667.6	-876.2

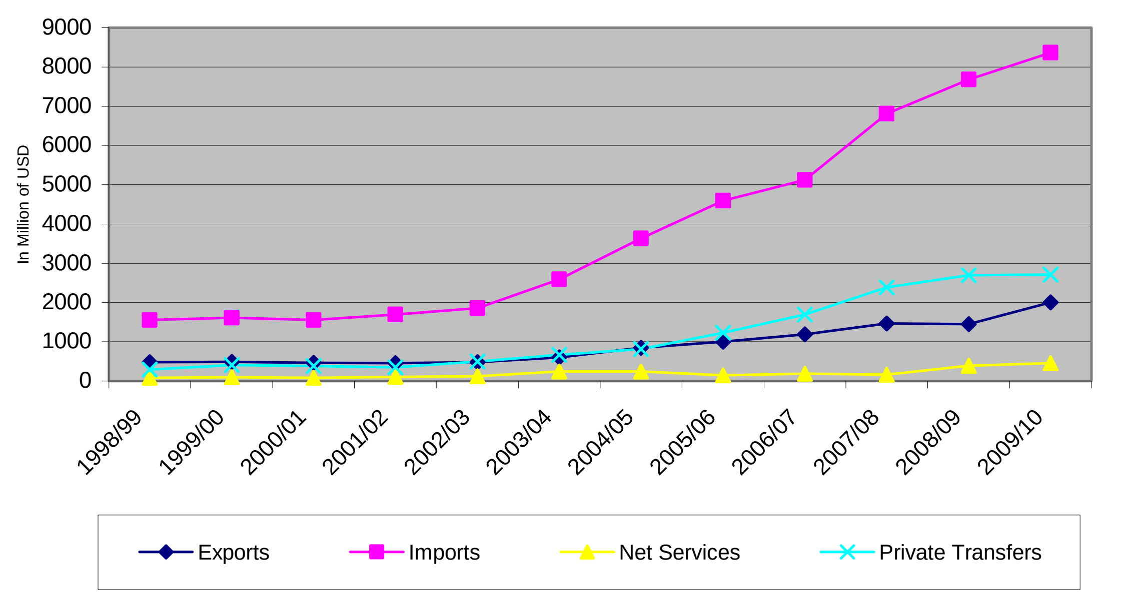
Source: NBE Staff Compilation

Table 5.2: Components of External Trade as Percentage of GDP

Particulars	2007/08	2008/09	2009/10	Percentage Change	
	A	B	C	C/B	C/A
Exports	5.5	4.5	6.3	41.3	14.9
Imports	25.6	24.0	26.5	10.5	3.3
Trade Balance	-20.1	-19.5	-20.1	3.4	0.1
Net Services	0.5	1.2	1.4	21.2	169.9
Net Private Transfers	9.0	8.4	8.6	2.2	-4.6
Current Account Deficit (Excluding Official Transfers)	-10.6	-9.9	-10.1	2.3	-4.6
Current Account Deficit (Including Official Transfers)	-5.7	-5.1	-4.1	-19.6	-27.9

Source: NBE Staff Compilation

Fig. VI.1 Trends in Components of Current Account



Source: NBE Staff Computations

5.2 Developments in Merchandise Trade

Merchandise trade deficit narrowed slightly to USD 6.3 billion in 2009/10 compared to the preceding fiscal year largely due to the significant growth in total exports and moderate increase in total import. As a result, export to GDP ratio rose to 6.3 percent from 4.5 percent.

Total merchandise exports in 2010/11 amounted to USD 2 billion, showing 38.4 percent surge vis-à-vis the preceding year. The impressive export performance was attributed to the increases in export earning from coffee, gold, chat, flower, live animals, fruit & vegetables, meat & meat products and oilseeds.

5.2.1 Exports

The receipts from export of coffee rose by 40.6 percent to USD 528.3 million on account of 28.5 and 9.4 percent increases in volume of export and world price respectively. The rise in volume of coffee export resulted presumably from improvements in domestic trading system, revival of world demand and market expansion in Japan. However, the share of coffee in total exports increased slightly to 26.4 percent from 26 percent recorded a year earlier.

Table 5.3 Values of Major Export Items

	2007/08	**percent share**	**2008/09**	**percent share**	**2009/10**	**percent share**	***Percentage Change***	
	A		**B**		**C**		**C/B**	**C/A**
Coffee	524.5	35.8	375.9	26.0	528.3	26.4	40.6	0.7
Oilseeds	218.8	14.9	356.1	24.6	358.5	17.9	0.7	63.9
Leather & Leather products	99.2	6.8	75.3	5.2	56.4	2.8	-25.1	-43.2
Pulses	143.6	9.8	90.7	6.3	130.1	6.5	43.4	-9.4
Meat & Meat Products	20.9	1.4	26.6	1.8	34.0	1.7	27.9	62.7
Fruits & Vegetables	12.8	0.9	12.1	0.8	31.5	1.6	159.4	145.4
Live Animals	40.9	2.8	52.7	3.6	90.7	4.5	72.3	122.1
Chat	108.3	7.4	138.7	9.6	209.5	10.5	51.0	93.5
Gold	78.8	5.4	97.8	6.8	281.4	14.0	187.6	257.2
Flower	111.8	7.6	130.7	9.0	170.2	8.5	30.2	52.3
Others	106.3	7.2	91.3	6.3	112.5	5.6	23.2	5.9
Total	**1,465.7**	**100.0**	**1,447.9**	**100.0**	**2,003.1**	**100.0**	**38.3**	**36.7**

Source: Ethiopian Revenue and Customs Authority

As a result of considerable growth in volume and world price, export proceeds from gold went up sharply to USD 281.4 million in 2009/10 from USD 97.8 million in the previous year. Hence, gold export revenue in total exports accounted for 14 percent compared to 6.8 percent in the preceding year.

Earning from export of *chat* accelerated by 51 percent in 2009/10 to reach USD 209.5 million as a result of 42.1 and 6.3 percent growth in volume and world price, respectively. Thus, its share in total export slightly improved to 10.5 from 9.5 percent a year earlier.

Earning from export of pulses jumped by 43.4 percent to USD 130.1 million wholly due to the increase in volume of exports (63.6 percent) despite the fall in world prices (12.3 percent). Nevertheless, the share of pulses in total exports stood at 6.5 percent, slightly higher than the 6.3 percent last year..

As a result of higher volume of exports and international prices, export revenue from flower increased by 30.2 percent in 2009/10 vis-à-vis the previous year. However, the share of flower export in total export was 8.5 percent, slightly lower than the 9 percent in 2008/09.

Despite moderate decline in international price, earning from export of live animals went up by 72.3 percent to USD 90.7 million.147 percent increase in volume of export. However, the share of live animals in total export improved marginally to 4.5 percent from 3.6 percent.

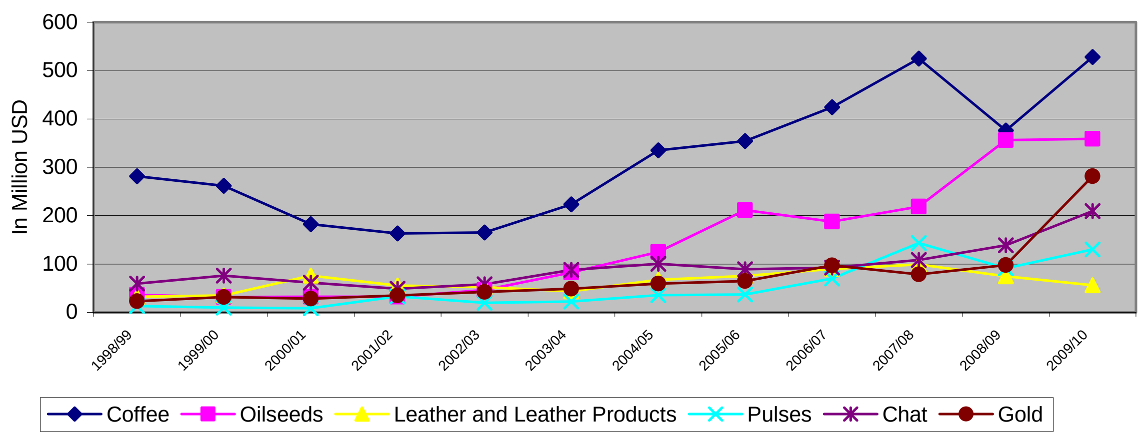
Export proceeds from fruit & vegetables in 2009/10 rose a sharply to USD 31.5 million, showing 159.4 percent increase over the preceding year owing to significantly higher volume and world price. Thus, earning from fruit & vegetables accounted for 1.6 percent against 0.8 percent in 2008/09.

Similarly, export of meat & meat products fetched USD 34 million, depicting 28 percent growth solely as a result of higher volume in spite of moderate decline in world price.

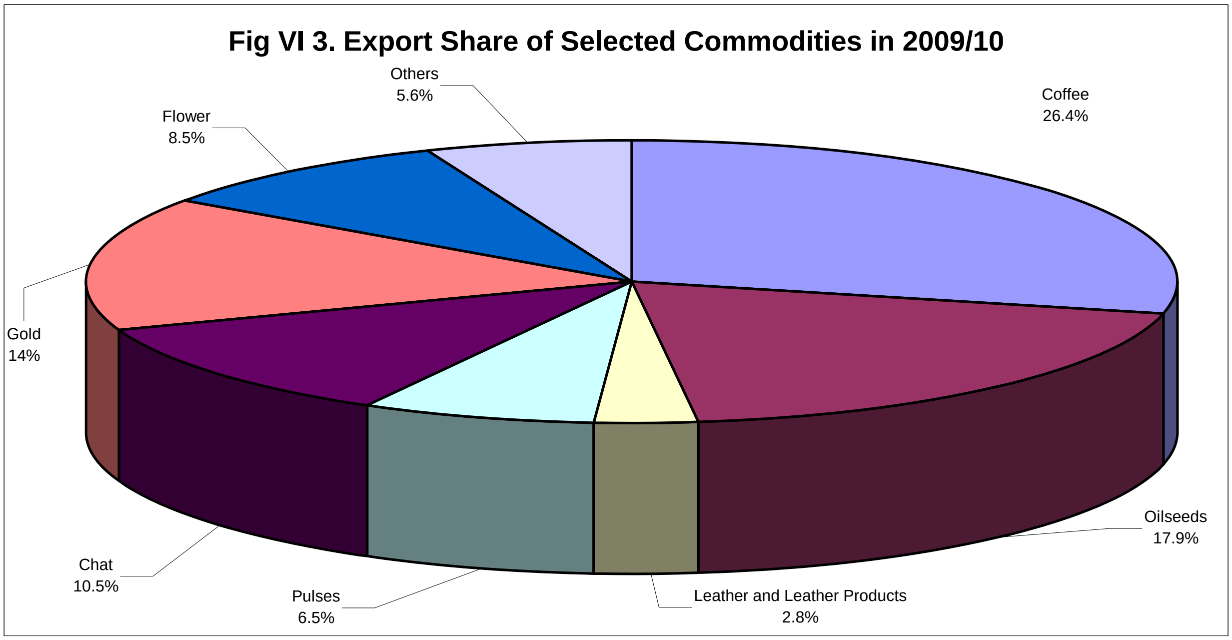
Export of oilseeds, the second important export product, earned USD 358.5 million, growing slightly by 0.7 percent wholly owing to 4.2 percent increase in volume despite the fall in international price (3.4 percent). Consequently, the share of oilseeds in total exports went down to 17.9 percent from 24.6 percent in the preceding fiscal year.

Export earnings from leather and leather products fell by 25.1 percent as the volume of exports went down by 60.2 percent in spite of the significant rise in international prices (88 percent).

Fig. VI 2 Foreign Exchange Earning From Selected Export Items



Source: Ethiopian Revenue and Customs Authority



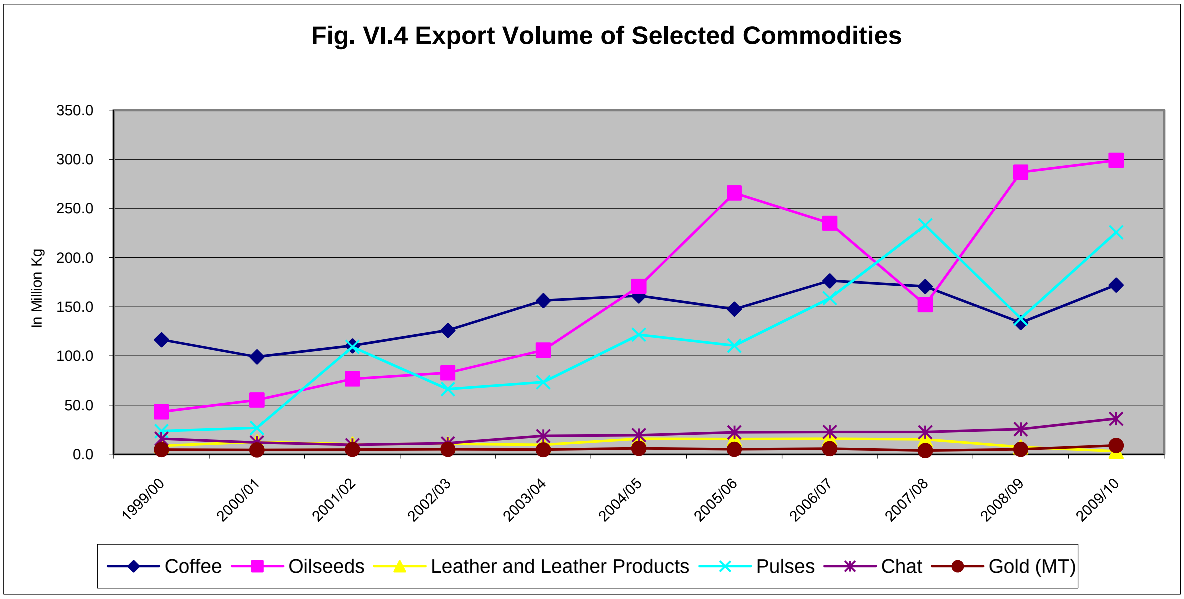
Source: NBE Staff Compilation

Table 5.4: Volume of Major Exports

(In Millions of Kg)

Particulars	2007/08	2008/09	2009/10	Percentage Change	
	A	B	C	C/B	C/A
Coffee	170.7	134.0	172.2	28.5	0.9
Oilseeds	152.1	287.0	299.0	4.2	96.6
Leather and Leather products	14.9	7.3	2.9	-60.2	-80.5
Pulses	233.0	138.0	225.7	63.6	-3.2
Meat & Meat Products	6.5	7.5	10.2	36.2	57.0
Fruits & Vegetables	39.9	38.5	66.3	72.4	66.2
Live Animals	40.0	36.7	90.7	147.1	127.0
Chat	22.4	25.4	36.1	42.1	61.1
Gold	0.0038	0.0049	0.0089	82.9	137.1
Flower	22.4	29.2	36.0	23.3	60.5

Source: Ethiopian Revenue and Customs Authority



Source: Ethiopian Revenue and Customs Authority

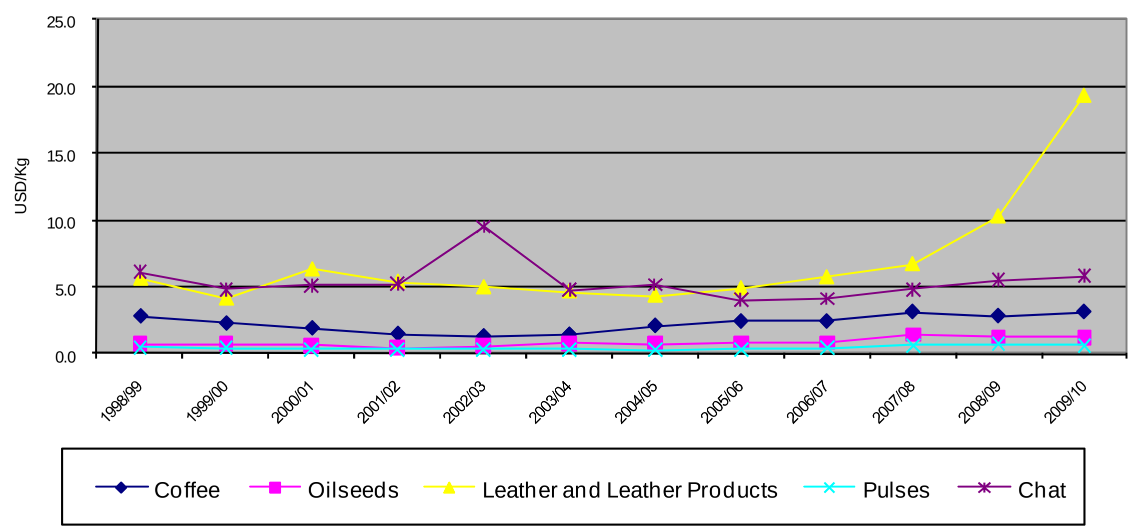
Table 5.5: Unit Value of Major Exports

(In USD per Kg)

	2007/08	2008/09	2009/10	Percentage Change	
	A	B	C	C/B	C/A
Coffee	3.1	2.8	3.1	9.4	-0.1
Oilseeds	1.4	1.24	1.20	-3.4	-16.6
Leather and Leather products a	6.7	10.3	19.4	88.0	191.7
Pulses	0.6	0.7	0.6	-12.3	-6.5
Meat & Meat Products	3.2	3.6	3.3	-6.1	3.6
Fruits & Vegetables	0.3	0.3	0.5	50.5	47.7
Live Animals	1.0	1.4	1.3	-6.9	30.7
Chat	4.8	5.5	5.8	6.3	20.1
Gold	20955.5	20084.1	31574.2	57.2	50.7
Flower	5.0	4.5	4.7	5.6	-5.1

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

Fig. VI. 5 Unit Value of Exports of Selected Commodities



Source: NBE Staff Compilation

5.2.2. Imports

In 2009/10, total merchandise import, which showed a 21 percent yearly average growth in the past five years, rose moderately by 7 percent to USD 8.3 billion. Hence, the proportion of import in GDP increased to 26.5 percent from 24 percent in 2008/09.

Imports of capital goods surged by 16.6 percent over the previous year and amounted to USD 2.9 billion, presumably due to the expansion of investment activities in various sectors of the economy. Thus, the share of capital goods in total import rose to 35 percent compared to 32 percent last year. Likewise, fuel import bill went up marginally by 4.3 percent to USD 1.3 billion as a result of recovery in international oil prices and increase in volume of oil imports driven by the rising domestic demand. However, the share of fuel in total import bill declined slightly to 16 percent from 16.3 percent recorded in 2008/09.

Meanwhile, imports of consumer goods soared by 5.5 percent solely owing to higher imports of durable consumer goods in spite of the marginal drop in non-durable consumer goods. Import of car & other vehicles and other durable goods except radio, television and cars' tyers accounted for the increase in durable consumer goods. However, the share of consumer goods in total imports slightly declined to 30.4 percent from 30.8 percent in the preceding year.

Import of semi-finished goods showed 7.6 percent growth in 2009/10 to reach USD 1.23 billion largely due to higher import of other semi-finished goods except chemical, fertilizer and textile materials.

On the other hand, raw material imports in 2009/10 fell by 40.1 percent compared to the preceding year and constituted 2.6 percent of the total import, down from 4.6 percent in 2008/09.

Table 5.6: Value of Imports by End Use

(In Millions of USD)

Imports	*2007/08*	*percent share*	*2008/09*	*percent share*	*2009/10*	*percent share*	*Percentage Change*	
	A		B		C		C/B	C/A
Raw Materials	**257.8**	**3.8**	**354.2**	**4.6**	**212.4**	**2.6**	**-40.1**	**-17.6**
Semi-finished Goods	**1,259.7**	**18.5**	**1,140.1**	**14.8**	**1,226.5**	**14.8**	**7.6**	**-2.6**
Fertilizers	302.1	4.4	270.7	3.5	249.4	3.0	-7.8	-17.4
Fuel	**1,621.4**	**23.8**	**1,256.6**	**16.3**	**1,310.7**	**15.9**	**4.3**	**-19.2**
Petroleum Products	1,614.4	23.7	1,246.9	16.1	1,303.0	15.8	4.5	-19.3
Others	7.0	0.1	9.7	0.1	7.7	0.1	-20.6	10.0
Capital Goods	**1,907.7**	**28.0**	**2,474.7**	**32.0**	**2,886.3**	**34.9**	**16.6**	**51.3**
Transport	380.9	5.6	384.2	5.0	509.8	6.2	32.7	33.8
Agricultural	40.9	0.6	31.3	0.4	59.8	0.7	91.1	46.0
Industrial	1,485.8	21.8	2,059.2	26.7	2,316.7	28.0	12.5	55.9
Consumer Goods	**1,532.3**	**22.5**	**2,383.5**	**30.8**	**2,515.7**	**30.4**	**5.5**	**64.2**
Durables	476.0	7.0	674.8	8.7	865.0	10.5	28.2	81.7
Non-durables	1,056.3	15.5	1,708.7	22.1	1,650.7	20.0	-3.4	56.3
Miscellaneous	**231.8**	**3.4**	**117.4**	**1.5**	**117.3**	**1.4**	**-0.1**	**-49.4**
Total Imports	**6,810.7**	**100.0**	**7,726.6**	**100.0**	**8,268.9**	**100.0**	**7.0**	**21.4**

Source: Ethiopian Revenue and Customs Authority

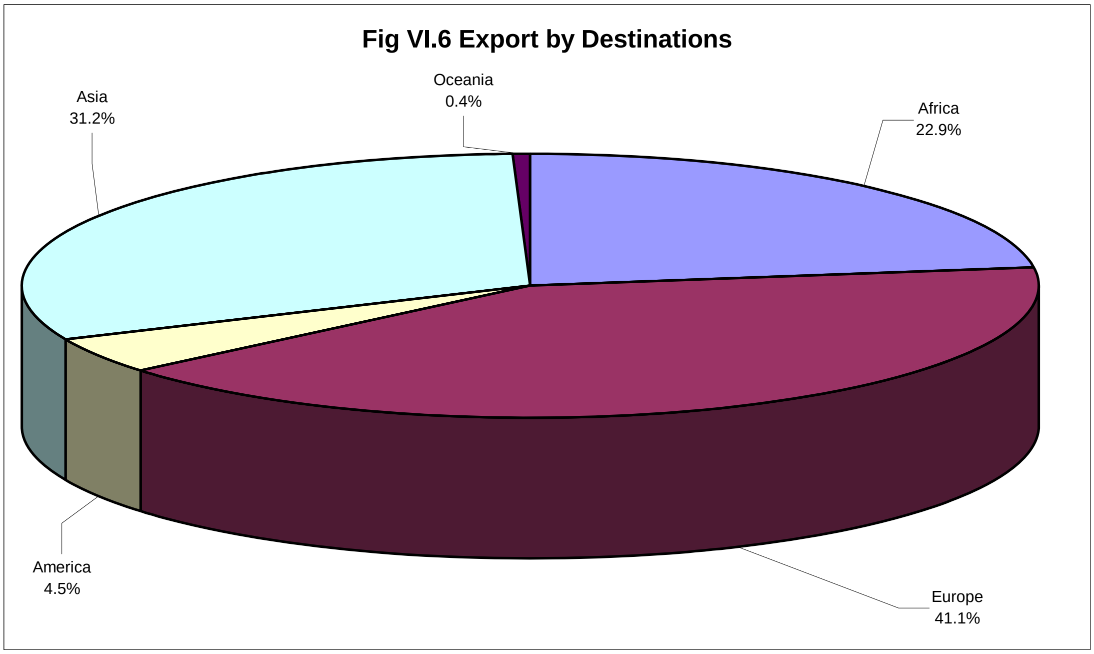
5.2.3 Direction of Trade

Ethiopia's merchandise exports have vast markets in Europe, accounting for 41 percent of the total exports during 2009/10. With in Europe, Switzerland was the largest market for about 11.2 percent of Ethiopia's exports, in particular for coffee, gold and oilseeds. Germany, with a 9.8 percent share in Ethiopia's total export, was the second most important destination in Europe mainly for coffee, flower and leather and leather products followed by the Netherlands for flower, vegetables, coffee, pulses and oilseeds. Italy was another destination for coffee, leather and leather products and pulses exports during the review period.

Asia has also been a potential market for Ethiopian exports and it constituted 31.2 percent of the total export in 2009/10. Of the total export to Asia, about 34.6 percent was shipped to China, 19.6 percent to Saudi Arabia, 12.4 percent to United Arab Emirates (UAE) and 8.4 percent to Israel.

Main exports to China include oilseeds, minerals and leather and leather products. Saudi Arabia imported coffee, meat and meat products and oilseeds, while live animals, meat and meat products, oilseeds, pulse and vegetables shipped to the United Arab Emirates (UAE).

Meanwhile, about 23 percent of Ethiopia's exports was to African countries, of which about 79 percent was destined to Somalia, Sudan, and South Africa. Exports to Somalia mainly included chat and live animals while live animals, coffee, spices and pulses went to Sudan. Gold, pulses and coffee had relatively vast market in South Africa.



Source: NBE staff compilation

The Americas accounted for 4.4 percent of Ethiopia's total exports of which the United States and Canada constituted 96 percent mainly in importing coffee, oilseeds and textiles and garments.

Regarding Ethiopia's imports by origin, Asian countries exported about 66 percent followed by Europe (20percent), America (7.5 percent) and Africa (3.4 percent).

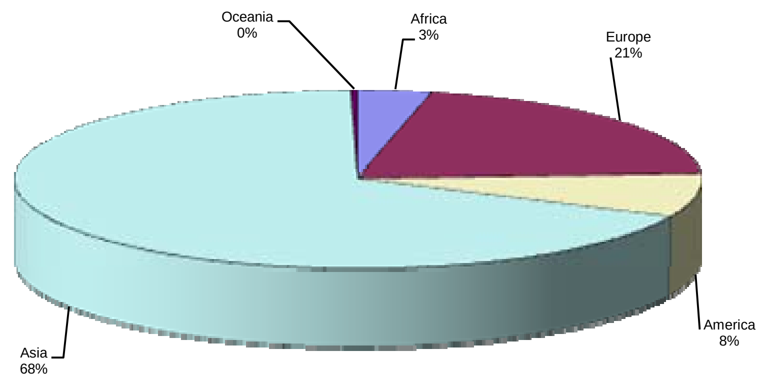
Of the total imports during the review year, the share of China was 17.5 percent, Saudi Arabia 12.6 percent, India 7.7 percent, Japan 5 percent and UAE 4.9 percent. China exported mainly machinery, metals and electric materials; while Saudi Arabia supplied petroleum products, paper and paper products and chemicals. Petroleum import from Saudi Arabia alone accounted for 61.1 percent of the total import of petroleum in 2009/10.

Meanwhile, main imports from India were electrical materials, metals, medical and pharmaceutical products and rubber products. Japan supplied road and motor vehicles, machinery, rubber products and metals. Petroleum, metal, machineries and glass and glassware were the major imports from UAE.

Within Europe, Italy, Turkey and Germany accounted for 24.1, 15 and 11.4 percent of the total imports from the continent, respectively. Italy supplied mainly machinery, road and motor vehicles, medical and pharmaceutical products and grain while metal, machinery and electrical materials were imported from Turkey. Main imports from Germany include machinery, road & motor vehicles and electrical materials.

Of the total imports from America, about 98.5 percent was from USA, Brazil and Canada. Imports included glass and glass ware, machinery, road and motor vehicles, electrical materials, food & grain and tobacco.

Fig. VI. 7 Import by Origin



Source: NBE Staff Compilation

5.3 Services and Transfers

5.3.1 Services

In 2009/10, net services account recorded USD 456.6 million inflow, showing a 18.7 percent increase over the preceding year as a result of higher net receipts from government, transport and travel services.

Net receipts from government service peaked up by 40.3 percent while transport and travel services receipts rose by 8.2 and 7.8 percent, respectively possibly due to expansion in tourism conference and air transport services.

5.3.2 Unrequited Transfers

Net private transfers in 2009/10 improved slightly owing to 9.3 and 7.5 percent increment in individual cash and estimated underground private transfers which offset a 3.5 percent decline in NGO transfers.

Table 5. 7: Unrequited Transfers

(In Millions of USD)

No.	Particulars	2006/07 A	% Share	2007/08 B	% Share	2009/10 C	% Share	Percentage Change C/B	C/A
1	**Private Transfers**	**2,388.3**	**64.5**	**2,706.8**	**63.6**	**2,709.7**	**58.7**	**0.1**	**13.5**
1.1	Receipts	2,418.3	64.4	2,733.3	63.6	2,736.2	58.8	0.1	13.1
	NGOs	**638.5**	**17.0**	**921.0**	**21.4**	**888.9**	**19.1**	**-3.5**	**39.2**
	Cash	609.7	16.2	916.9	21.3	860.5	18.5	-6.1	41.1
	Other	0.0	0.0	0.0	0.0	28.4	0.6	-	-
	Food	28.8	0.8	4.1	0.1	0.0	0.0		
	Private individuals	**1,779.7**	**47.4**	**1,812.3**	**42.1**	**1,847.3**	**39.7**	**1.9**	**3.8**
	Cash	800.0	21.3	723.2	16.8	790.3	17.0	9.3	-1.2
	In kind	165.1	4.4	195.5	4.5	96.7	2.1	-50.5	-41.4
	Underground Transfers(in kind)	814.6	21.7	893.6	20.8	960.3	20.6	7.5	17.9
1.2	Payments	-30.0	58.0	-26.5	63.4	-26.6	74.5	0.3	-11.4
2.	**Official Transfers**	**1,312.5**	**35.5**	**1,551.4**	**36.4**	**1,905.6**	**41.3**	**22.8**	**45.2**
2.1	Receipts	1,334.2	35.6	1,566.7	36.4	1,914.7	41.2	22.2	43.5
	Cash	1,314.4	35.0	1,444.8	33.6	1,741.5	37.4	20.5	32.5
	Other	0.8	0.0	0.2	0.0	0.0	0.0		
	Food	19.0	0.5	121.7	2.8	173.2	3.7	42.3	812.1
2.2	Payments	-21.7	42.0	-15.3	36.6	-9.1	25.5	-40.4	-58.2
	Total Net Transfers	**3,700.7**	**100**	**4,258.2**	**100**	**4,615.3**	**100**	**8.4**	**24.7**

Source: Disaster Prevention and Preparedness Agency, MoFED and NBE

Net official transfers hiked by 22.8 percent owing to increased grants from both international financial institutions and bilateral donors. Cash component of official transfers rose by 20.5 percent to USD 1.74 billion while food aid amounted to USD 173.2 million compared to USD 121.7 million in the previous year.

5.4. Current Account

As a result of growth in net services and public transfers, the current account deficit narrowed by 21.3 percent to USD 1.3 billion in 2009/10 from USD 1.64 billion last fiscal year.

5.5 Capital Account

In 2009/10, the balance in capital account recorded a surplus of USD 2 billion, about 21.1 percent higher than last year owing to the 43 percent increase in official long term net capital inflows and moderate growth in foreign direct investment.

5.6 Changes in Reserve Position

Net foreign assets of the banking system at end 2009/10 recorded a build-up of USD 316.6 million, solely due to USD 362.4 million increase in the net foreign assets of commercial banks. Hence, the gross international reserves of NBE was adequate to cover 2.2 months of imports of goods and non-factor services.

5.7 External Debt

External debt stock of the country at end 2009/10 amounted to USD 5.6 billion, depicting about 29.1 percent increase over the 2008/09 position. This was largely attributed to higher debt owed to international financial institutions (USD 2.7 billion) and bilateral creditors (USD 1.4 billion). Hence, the country's external debt stock to GDP ratio rose to 17.8 percent from 13.5 percent in 2008/09. Debt stock to total receipts from export of goods and non-factor services ratio also rose slightly to 1.1 percent in 2009/10 from 1 percent a year ago.

Similarly, commercial debt stock, which accounted for 26.3 percent of the total debt stock, showed a 31.2 percent increment to USD 1.5 billion by end 2009/10. Of the total debt stock, 48.6 percent was owed to multilateral and 25.1 percent to bilateral creditors.

The country's external debt burden as measured by debt services to export of goods and services ratio marginally increased to 2.3 percent from 2 percent in the same period last year.

Table 5.8 External Public Debt

(In Million of USD)

Particulars	2007/08 A	2008/09 B	2009/10 C	Percentage Change C/B	C/A
Debt Outstanding					
Lender Total	2767.1	4364.8	5634.0	29.1	103.6
Multilateral	1540.5	2032.3	2738.7	34.8	77.8
Bilateral	951.5	1204.3	1414.9	17.5	48.7
Commercial	275.0	1128.2	1480.4	31.2	438.2
Drawing by Lender	**394.8**	**650.4**	**842.4**	**29.5**	**113.4**
Lender Total	394.8	650.4	842.4	29.5	113.4
Drawing by Sector	**394.8**	**650.4**	**842.4**	**29.5**	**113.4**
Sector Total	394.8	650.4	842.4	29.5	113.4
Debt Service	**76.8**	**67.6**	**94.8**	**40.2**	**23.4**
Principal repayments	46.8	42.1	64.7	53.8	38.3
Interest payments	30.0	25.5	30.0	17.8	0.1
Debt stock to GDP ratio (in percent)	10.4	13.5	17.8	31.8	71.2
Debt stock to export of goods and non-factor services	0.9	1.0	1.1	7.9	19.9
Receipts from goods and non-factor services	3063.2	3381.4	4047.0	19.7	32.1
Debt service ratio (percent)[1/]	**2.5**	**2.0**	**2.3**	17.2	-6.6
Arrears	**0.0**	**0.0**	**0.0**	-	-
Principal	0.0	0.0	0.0	-	-
Interest	0.0	0.0	0.0	-	-
Relief	**28.2**	**18.7**	**12.0**	**-36.0**	**-57.6**
Principal	24.1	16.9	9.8	-42.2	-59.5
Interest	4.1	1.8	2.2	23.0	-46.6

Source: MoFED
1/ Ratio of debt service to receipts from export of goods and non-factor services
Note: *Outstanding as at end period.*

5.8.Developments in Foreign Exchange Markets

5.8.1. Developments in Nominal Exchange Rate

In the inter-bank market, the weighted average exchange rate of the Birr in 2009/10 weakened showing a year-on-year depreciation rate of 23.7 percent to Birr 12.89 USD. This development is expected to improve external competitiveness of the country.

Similarly, the Birr in the parallel market depreciated on average by 15.8 percent annually in 2009/10 to Birr 13.68 USD. Consequently, the spread between the official and parallel market rates went down to 6.1 percent from 13.3 percent a year earlier.

Table 5.9 Inter-Bank and Parallel Forex Market Exchange Rates

		Amount Traded in Millions of USD		Number of Trades		
Period	**Average Weighted Rate**	**Total**	**O/w among CBs**	**Total**	**O/w among CBs**	**Average Parallel Market Rate**
2007/8	**9.2441**	**114.4**	**17.9**	**1694**	**47.0**	**9.5569**
Qtr. I	9.0344	41.1	12.6	294	28.0	9.2917
Qtr. II	9.0704	38.4	5.4	372	19.0	9.3968
Qtr. III	9.3192	28.9	0.00	512	0.0	9.9822
Qtr. IV	9.5526	6.1	0.00	516	0.0	
2008/09	**10.4205**	**18.4**	**0.0**	**1818.0**	**0.0**	**11.8102**
Qtr. I	9.6602	6.3	0.0	483.0	0.0	10.2623
Qtr. II	9.8670	6.0	0.0	531.0	0.0	10.7540
Qtr. III	10.9521	3.0	0.0	387.0	0.0	12.8163
Qtr. IV	11.2028	3.1	0.0	417.0	0.0	13.4083
2009/10	**12.8909**	**12.6**	**0.0**	**252.0**	**0.0**	**13.6806**
Qtr. I	12.3746	3.3	0.0	65.0	0.0	13.2933
Qtr. II	12.5851	3.3	0.0	66.0	0.0	13.3933
Qtr. III	13.1342	3.0	0.0	60.0	0.0	13.8495
Qtr. IV	13.4697	3.1	0.0	61.0	0.0	14.1863

Source: Banking and Foreign Exchange Directorate, NBE

Mirroring the depreciation of exchange rate of the inter-bank market, the average buying and selling rates of forex bureaux depreciated by 16 percent each in 2009/10.

Table 5.10: Mid Market End Period Rates

(Birr per Unit of Currency)

Currency	2007/08	2008/09	2009/10	Percentage Change	
	A	B	C	C/B	C/A
USD	9.0746	9.6562	13.59975	40.8	49.9
Pound Sterling	18.1673	19.2476	20.47035	6.4	12.7
Swedish Korner	1.3209	1.6194	1.7395	7.4	31.7
Djibouti Frank	0.0511	0.0543	0.0781	43.7	52.7
Swiss Frank	7.3615	9.4873	12.4986	31.7	69.8
Saudi Riyal	2.4195	2.5749	3.62605	40.8	49.9
UAE Dirham	2.4706	2.6287	3.70265	40.9	49.9
Canadian Dollar	8.569	9.5662	12.95095	35.4	51.1
Japanese Yen	0.0735	0.0911	0.153254	68.2	108.5
Euro	12.1989	15.2471	16.57405	8.7	35.9
SDR	13.7419	15.7388	20.1222055	27.9	46.4

Source: NBE

The Birr also depreciated with respect to major international currencies. For instance, it depreciated against Japanese Yen (68.2 percent), USD (40.8 percent), followed by Swiss Frank (31.7 percent), SDR (27.9 percent) and Euro (8.7 percent) mirroring the depreciation of USD against major international currencies.

5.8.2. Movements in Real Effective Exchange Rate

The real effective exchange rate which appreciated in the last four years, tended to depreciate in 2009/10. Accordingly, the real effective exchange rate depreciated by 23 percent in 2009/10 against 35.5 percent appreciation in the preceding year. This was due to the decline in domestic inflation to 2.8 percent coupled with the 24.6 percent depreciation in nominal effective exchange rate.

Table 5. 11: Trends in Real and Nominal Effective Exchange Rates

Fiscal Year	REERI	NEERI	Percentage Change	
			REER	**NEER**
2003/04	98.5	89.3	-0.5	-4.6
2004/05	94.0	83.1	-4.5	-6.9
2005/06	102.9	80.9	9.4	-2.7
2006/07	121.3	77.6	17.9	-4.1
2007/08	136.3	72.4	12.4	-6.7
2008/09	184.7	76.1	35.5	5.2
2009/10	142.4	57.4	-22.9	-24.6

Source: NBE Staff Compilation

1. Regarding methodology of constructing effective exchange rate indices, see annual report of NBE, 2004-2005, P. 66
2. An increase in REERI and NEERI indicates appreciation and vice versa.
***Where**: REERI = Real Effective Exchange Rate Index*
NEERI = Nominal Effective Exchange Rate Index

5.8.3 Foreign Exchange Transactions

In the inter-bank foreign exchange market, USD 12.6 million was traded during 2009/10. This was lower than the USD 18.4 million transactions in the preceding year presumably due to the surge in export revenues from merchandise goods and slowdown in domestic demand for import. The transactions were wholly made between the NBE and commercial banks.

Meanwhile, foreign exchange purchase of forex bureau of commercial banks surged by 50.6 percent over the preceding year owing to expansion in conference tourism in the country. On the other hand, their sales of foreign exchange fell by 17 percent likely due to lower foreign exchange demand by travelers as reflected in the decline of travel service payments.

Table 5.12: Foreign Exchange Transactions by Commercial Banks

(In Millions of USD)

Commercial Banks	2007/08		2008/09		2009/10		Percentage Change	
	A	B	C	D	E	F	E/C	F/D
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
Commercial Bank of Ethiopia	31.0	18.2	44.8	11.7	40.6	0.2	-9.3	-98.3
Bank of Abyssinia	3.7	4.7	3.5	4.2	3.0	4.2	-15.1	1.2
Dashen Bank	13.3	8.4	16.9	17.6	13.6	20.6	-19.1	16.9
Awash International Bank	2.5	2.5	1.9	6.7	9.0	6.0	361.0	-11.0
Construction and Business Bank	1.0	4.3	1.4	0.5	1.0	0.2	-32.2	-68.9
Wegagen Bank	6.8	4.6	7.7	6.4	11.8	3.4	52.4	-47.1
United Bank	10.3	5.2	13.1	5.5	30.4	7.9	132.5	44.1
Nib International Bank	28.8	2.2	53.6	6.9	97.4	5.1	81.9	-26.0
Lion International Bank	0.0	0.0	1.4	0.1	7.9	1.0	-	-
Oromiya Intenational Bank	0.0	0.0	0.0	0.0	2.1	0.2	-	-
Zemen Bank	0.0	0.0	0.1	0.0	0.5	0.7	-	-
Cooperative Bank of Oromia	0.0	0.0	0.0	0.0	0.0	0.1	-	-
Buna international Bank	0.0	0.0	0.0	0.0	0.2	0.1	-	-
Total	**97.5**	**50.1**	**144.5**	**59.7**	**217.5**	**49.5**	**50.6**	**-17.0**
Average Exchange Rate	**9.2419**	**9.4255**	**11.1113**	**11.3107**	**12.8763**	**13.1343**	**15.9**	**16.1**

Source: NBE

VI. GENERAL GOVERNMENT FINANCE

6.1. General

General government revenue (including grants) rose 21.3 percent in 2009/10. The ratio of revenue to GDP reached 14.1 percent slightly higher than 12.2 percent a year earlier. Meanwhile, general government expenditure increased 25.3 percent to Birr 71.3 billion. Its ratio to GDP also rose to 18.6 percent compared to 17.2 percent last year. Hence, the overall fiscal deficit (excluding grants) narrowed to 4.6 percent of GDP from 5.3 percent a year ago (Table6.1).

Table 6.1: Measuring Fiscal Sustainability (In percent)

Fiscal Year	PD/GDP	IP/RR	Debt/GDP	R (Debt)	R (GDP)	Exp/GDP	Rev/GDP	R (OR)
1996/97	4.1	11.7	29.8	3.4		24.2	19	8.1
1997/98	-1.5	9.9	24.7	7.9	-3.9	20.7	15.4	2.8
1998/99	-4.0	10.1	15.4	11.9	5.9	24.7	16.0	8.3
1999/00	-6.4	11.8	25.4	61.1	13.4	26.1	14.4	8.3
2000/01	-2.2	10.6	21.4	-7.1	2.1	23.4	15.1	7.1
2001/02	-10.7	9.7	23.2	8.2	-2.2	32.6	16.5	2.3
2002/03	-5.2	10.9	25.6	10.7	10.3	27.9	15.2	7.1
2003/04	-1.8	7.8	26.6	22.6	18.0	23.7	16.1	24.8
2004/05	-3.9	6.5	22.2	2.3	22.9	19.3	14.6	12
2005/06	-5.5	5.4	20.1	12.2	23.7	22.3	14.8	25.1
2006/07	-3.0	5.5	17.6	13.5	29.8	20.8	12.7	11.6
2007/08	-2.1	3.8	15.6	27.1	42.9	19.1	12.1	36.7
2008/09	-0.9	3.2	14.8	28.7	35.1	17.2	12.2	34.8
2009/10	-1.3	2.9	11.9	2.3	14.3	18.6	14.1	34.1

Source: Staff computation

Definitions: PD = Primary Deficit
IP/RR= Share of Iinterest Payments in Recurrent Revenue
Debt/GDP=Ratio of Domestic Debt to GDP
R (Debt) = Growth Rate of Domestic Debt
R (GDP) = Growth Rate of GDP at Current Market Price
Exp/GDP=Ratio of General Government Expenditure to GDP
Rev/GDP= Ratio of General Government Revenue to GDP
R (OR) = Growth Rate of Ordinary Revenue
Note: Starting from 1997/98; the figure was based on revised GDP data

6.2. Revenue and Grants

General government revenue, including grants, depicted a 21.3 percent surge to Birr 66.2 billion (or 17.3 percent of GDP) on annual basis as a result of improved tax administration and economic growth. Of the total domestic revenue, about 80.4 percent was generated from taxes, and the rest from non-taxes.

Tax revenue rose 49.4 percent in the fiscal year owing to a 51.2 percent growth in direct taxes, which constitute income and profit taxes as well as urban and rural land use fees. Income and profit taxes alone accounted for 94.1 percent of the direct taxes. The share of rural land use fee, however, was merely 1.8 percent. Revenue from indirect taxes was Birr 28.4 billion and its share in total tax revenue reached 65.6 percent.

About 17.7 percent of the indirect tax revenue was generated through import duties whose share grew by about 49.7 percentage points over last year.

Non-tax revenue reached Birr 10.5 billion showing a 5.6 percent decline largely due to lower revenue from charges and fees, government investment income and property sales. External grants also showed a 14.4 percent decrease compared to last year.

All in all, the yearly performance of total revenue, including grants, was about 96.2 percent of annual budget.

Fig. 7.1 Trend of General Government Revenue by Component

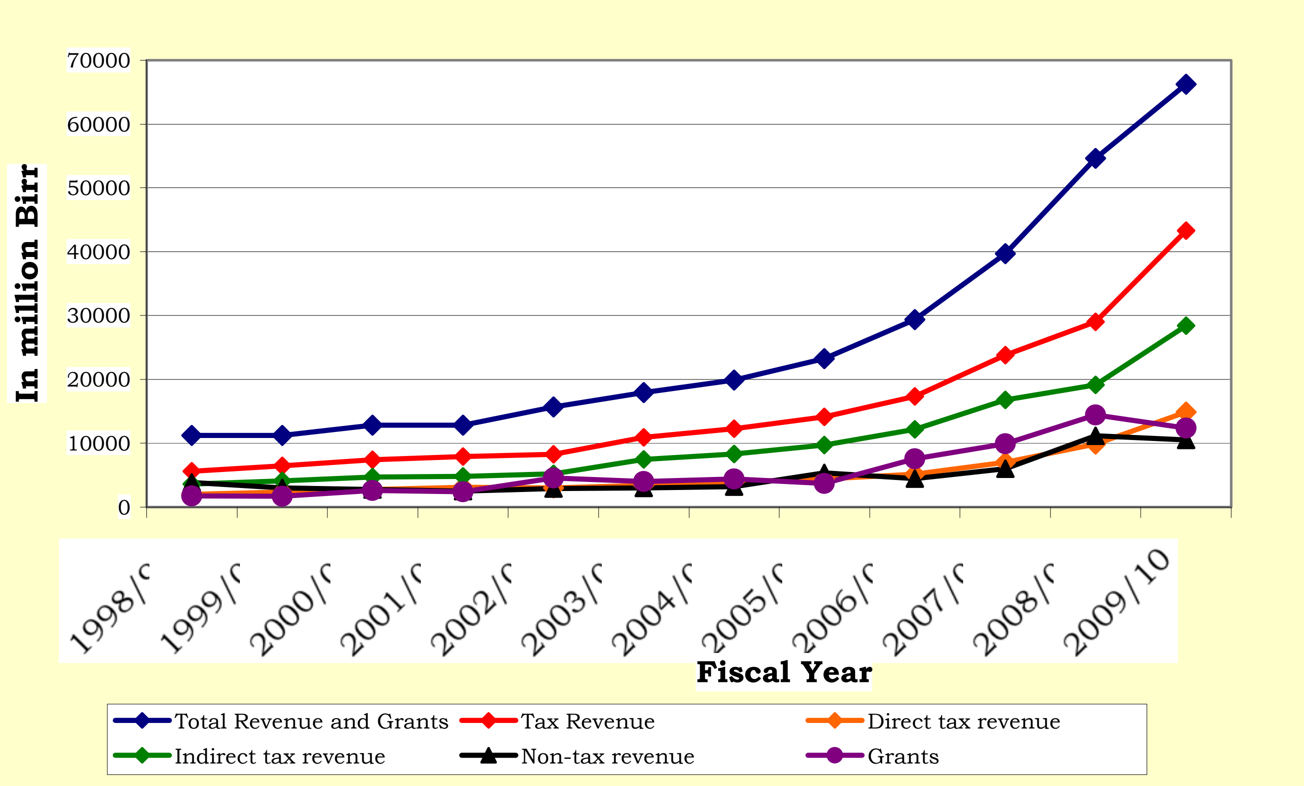


Table 6.2: Summary of General Government Revenue by Component

(In Millions of Birr)

Particulars	2008/09 [A] Pre. Act	2009/10 [B] Revised Budget	[C] Pre. Act	Percentage Change [C/A]	Perform-ance Rate [C/B]	percentage share
Total Revenue and Grants	**54,628**	**68,875**	**66,237**	**21.3**	**96.2**	**-**
Domestic Revenue 1/	**40,174**	**52,728**	**53,861**	**34.1**	**102.1**	**100**
Tax Revenue	**28,998**	**39,499**	**43,315**	**49.4**	**109.7**	**80.4**
1. Direct Tax Revenue	**9,859**	**14,052**	**14,903**	**51.2**	**106.1**	**27.7**
1.1 Income and Profit Taxes	9,289	12,721	14,027	51	110.3	**26**
Personal	3,530	4,137	4,391	24.4	106.2	**8.2**
Business	4,327	6,924	7,391	70.8	106.8	**13.7**
Others 2/	1,432	1,661	2,245	56.9	135.2	**4.2**
1.2 Rural Land Use Fee	239	232	270	13	116.2	**0.5**
1.3 Urban Land Use Fee	331	1,099	606	83.1	55.2	**1.1**
2. Indirect Taxes	**19,139**	**25,447**	**28,412**	**48.5**	**111.7**	**52.7**
2.1 Domestic Taxes	7,325	9,581	10,727	46.4	112	**19.9**
2.2 Foreign Trade Taxes	11,814	15,866	17,685	49.7	111.5	**32.8**
Import	11,814	15,866	17,685	49.7	111.5	**32.8**
Export	-	-	-			
3. Non-Tax Revenue	**11,176**	**13,229**	**10,546**	**-5.6**	**79.7**	**19.6**
3.1 Charges and Fees	554	468	489	-11.7	104.4	**0.9**
3.2 Govt. Invt. Income 3/	7,277	9,440	6,979	-4.1	73.9	**13**
3.3 Reimb. And Property Sales	940	85	108	-88.5	126.3	**0.2**
3.4 Sales of Goods & Services	878	1,078	1,032	17.6	95.8	**1.9**
3.5 Others 4/	1,527	2,158	1,938	27	89.9	**3.6**
4. Grants	**14,454**	**16,147**	**12,376**	**-14.4**	**76.6**	**-**

Source: MoFED

1/ It does not include privatization proceeds

2/ Others include rental income tax, with holding income tax on imports, interest income tax, capital gains tax, agricultural income and other incomes

3/Gov. Investment income includes : Residual surplus, capital charge, interest payments and state dividend

4/ Other extra ordinary, miscellaneous, pension contribution and other revenue

6.3 Expenditure

General government expenditure was 23.5 percent higher than the same period of last fiscal year due to significant growths in all of its components. Its share in GDP slightly went up from 17.2 percent in 2008/09 to 18.6 percent in the review year.

Recurrent expenditure went up by 17.8 percent over last fiscal year. About 91.5 percent of the current expenditure went to finance economic, social and general services. It accounted for 44.9 percent of the total expenditure and its ratio to GDP was 8.4 percent.

Capital expenditure rose to Birr 39.3 billion from Birr 30.6 billion of a year earlier on account of higher spending on all its components.

About 94.2 percent of the capital spending was for poverty related programs such as education, health and food security. Its share in GDP stood at about 10.3 percent in 2009/10.

In summary, expenditure performance rate was 94.5 percent of the annual budget.

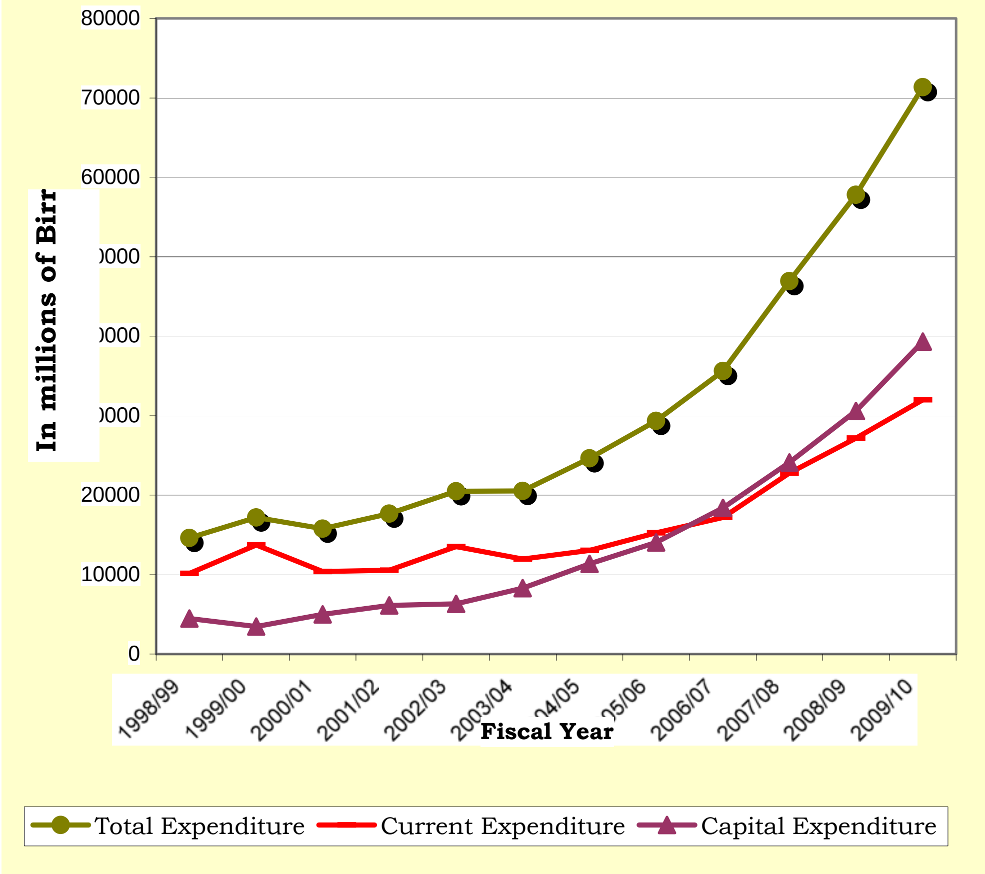
Table 6.3: Summary of General Government Expenditure

(In Millions of Birr)

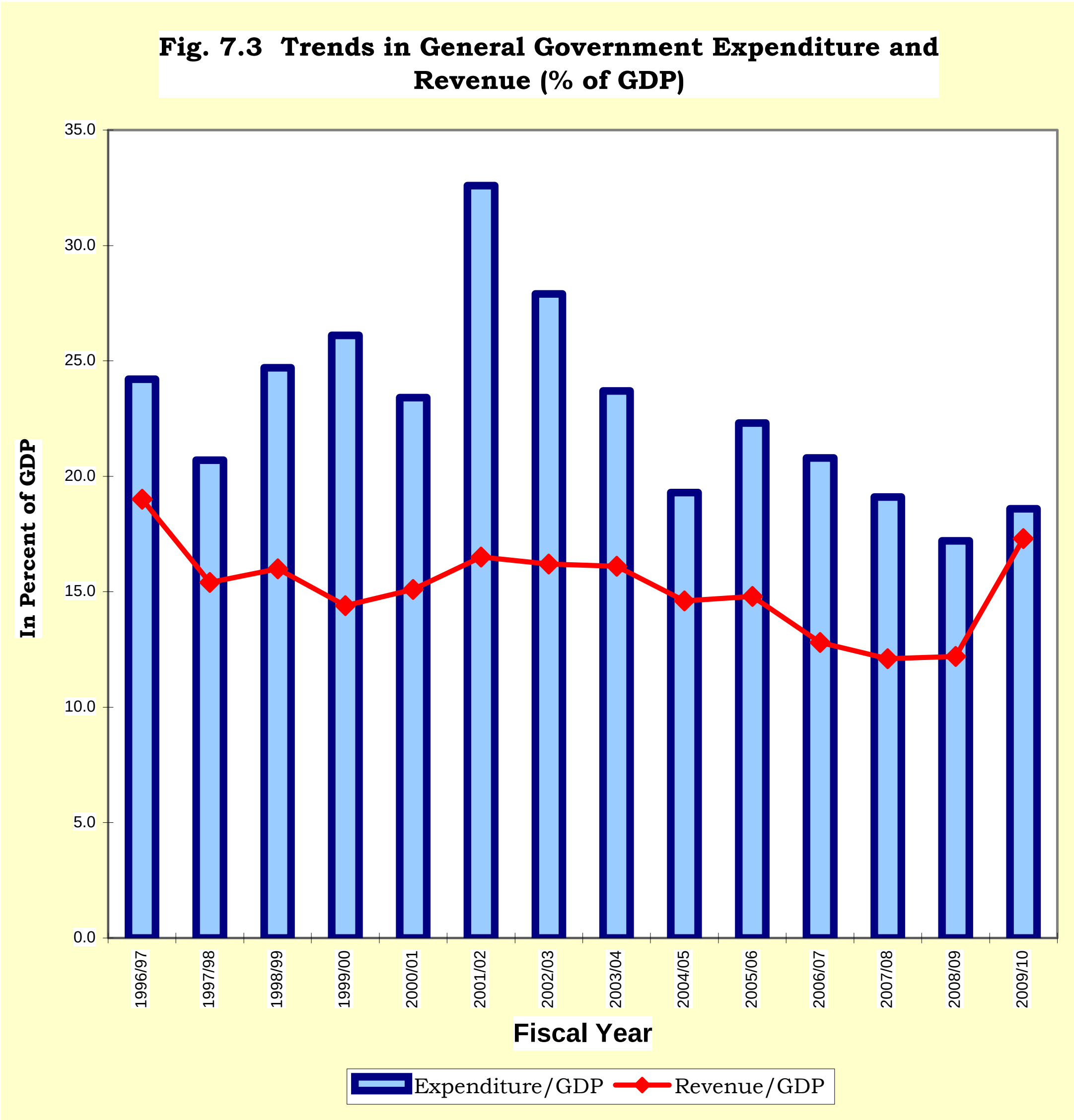
Particulars	2008/09 [A] Pre actual	2009/10 [B] Revised Budget	2009/10 [C] Pre actual	Percentage Change [C/A]	Perform-ance Rate [C/B]	Percentage share [C/B]
Total Expenditure	**57,775**	**75,508**	**71,334**	**23.5**	**94.5**	**100**
1. Current Expenditure	**27,176**	**34,935**	**32,012**	**17.8**	**91.6**	**44.9**
General Services	11,261	11,001	12,864	14.2	116.9	18.0
Economic Services	3,829	4,038	4,064	6.1	100.6	5.7
Social Services	10,249	12,778	12,349	20.5	96.6	17.3
Interest and Charges	1,286	2,173	1,587	23.4	73.1	2.2
*External Assistance1**	341	901	631	85.6	70	0.9
Others (miscellaneous)	210	4,045	517	146.2	12.8	0.7
2. Capital Expenditure	**30,599**	**40,573**	**39,322**	**28.5**	**96.9**	**55.1**
Economic Development	21,812	27,474	27,240	24.9	99.1	38.2
Social Development	7,068	10,942	9,793	38.6	89.5	13.7
General Development	1,719	2,157	2,289	33.2	106.1	3.2
4 Special programs	**0**	**0**	**0**			

Source: MoFED

Fig. 7.2: Trends in General Government Expenditure by Component



Source: MoFED



Source MoFED

6.4. Deficit Financing

During the review year, the overall fiscal balance (including grants) showed a deficit of Birr 5.1 billion, which was higher than Birr 3.1 billion compared to last year.

The budget deficit was financed by net external borrowing, net domestic borrowing and privatization receipts.

Table 6.4: Summary of General Government Finance

(In Millions of Birr)

Particulars	2008/09 [A] Pre. Act	2009/10 [B] Revised Budget	[C] Pre. Act	Percentage Change [C/A]	Performance Rate [C/B]]
Revenue and Grants	**54,628.0**	**68,875**	**66,237.4**	**21.3**	**96.2**
Revenue	40,174.0	**52,728**	53,861.3	**34.1**	**102.1**
Grants	14,454.0	**16,147**	12,376.1	**(14.4)**	**76.6**
Total Expenditure	**57,775.0**	**75,508**	**71,334.8**	**23.5**	**94.5**
Current Expenditure	27,176.0	**34,935**	32,012.4	**17.8**	**91.6**
Capital Expenditure	30,599.0	**40,573**	39,322.4	**28.5**	**96.9**
Special Programs	-	-	-		-
Overall Surplus/ Deficit					
(Including Grants)	**(3,147.0)**	**(6,633.0)**	**(5,097.4)**	**62.0**	**76.8**
(Excluding Grants)	**(17,601.0)**	**(22,780.0)**	**(17,473.5)**	**(0.7)**	**76.7**
Total Financing	**3,147.0**	**6,633.0**	**5,097.4**	**62.0**	**76.8**
Net External Borrowings	**3,176.0**	**3,446.0**	**4,131.3**	**30.1**	**119.9**
Gross Borrowing	3,368.0	3,781.0	4,446.1	**32.0**	**117.6**
o/w Special Programs	-		-		
Amortization Paid	371.9	454.0	458.5	**23.3**	**101.0**
HIPC relief & MDRI	180.6	119.0	143.7	**(20.4)**	**120.8**
Net Domestic Borrowings	**(417.0)**	**2,787.0**	**1,757.7**	**(521.5)**	**63.1**
Banking System	(857.0)	2,787.0	1,382.4	**(261.5)**	**49.6**
Non-Banking Systems	440.0	-	375.3	**(14.7)**	
Privatization Receipts	**472.0**	**400.0**	**697.3**	**47.7**	**174.3**
Others and Residuals	**(-84)**	**-**	**(1,488.9)**		

Source: MoFED

VII. INVESTMENT

During 1992/93-2009/10 a total of 50,099 investment projects with an aggregate capital of Birr 829.2 billion were licensed by the Ethiopian Investment Agency and Regional Investment Offices. The shares of domestic, foreign and public sector in approved investment projects were 84, 15.9 and 0.2 percent, respectively. Of the total projects, about 11.4 percent have become operational. The rest were in implementation and pre-implementation stage.

In terms of investment capital, Birr 382 billion originated from domestic investors, Birr 328.8 billion from foreign investors and Birr 118.3 billion from public sector.

In 2009/10 alone, 6,496 investment projects with total capital outlay of Birr 96.4 billion were licensed. Domestic private investment projects licensed in the review period accounted for 78.2 percent and foreign projects 12.4 percent; the rest being public projects.

With regard to investment capital, the share of foreign projects was Birr 55.2 billion or 57.2 percent, followed by domestic investment projects with Birr 40.9 billion (or 42.4 percent). The investment capital of the 3 public projects was Birr 393.5 million.

Upon commencement of operation, the approved investment projects are expected to create job opportunities for 224,633 permanent and 488,330 casual workers (Table 7.2).

Table 7.1: Number and Investment Capital of Approved Projects by Ownership since 1992/93

(Investment capital in millions of Birr)

Fiscal Year	Domestic projects		Foreign Projects		Public Projects		Total Projects	
	No. of Projects	**Investment Capital**	**No. of Projects**	**Investment Capital**	**No. of Projects**	**Investment Capital**	**No. of Projects**	**Investment Capital**
1992/93	542	3,750.0	3	233	0	0.00	545	3,983.0
1993/94	521	2,926.0	4	438	1	57.00	526	3,421.0
1994/95	684	4,794.0	7	505	2	39.00	693	5,338.0
1995/96	897	6,050.0	10	434	1	6.00	908	6,490.0
1996/97	752	4,447.0	42	2,268	1	7.00	795	6,722.0
1997/98	816	5,819.0	81	4,106	1	14.00	898	9,939.0
1998/99	674	3,765.0	30	1,380	9	4,915.00	713	10,060.0
1999/00	561	6,740.0	54	1,627	9	5,760.00	624	14,127.0
2000/01	635	5,675.7	45	2,923	7	257.00	687	8,856.0
2001/02	756	6,117.3	35	1,474	10	1,598.80	801	9,190.2
2002/03	1,127	9,362.9	84	3,369	6	706.11	1,217	13,437.9
2003/04	1,862	12,177.7	347	7,205	16	1,837.04	2,225	21,220.0
2004/05	2,240	19,571.7	622	15,405	10	1,486.48	2,872	36,463.3
2005/06	5,100	41,841.1	753	19,980	6	18,215.08	5,859	80,036.3
2006/07	5,322	46,630.1	1,150	46,949	0	0.00	6,472	93,579.0
2007/08	7,307	77,868.2	1,651	92,249	3	261.56	8,961	170,378.5
2008/09	7,184	83,630.2	1,613	73,111	10	82,783.52	8,807	239,524.8
2009/10	5,080	40,852.2	1,413	55,169	3	393.89	6,496	96,415.4
Cumulative	**42,060**	**382,018**	**7,944**	**328,826**	**95**	**118,337**	**50,099**	**829,181.3**
Average Annual	**2,337**	**21,223**	**441**	**18,268**	**5**	**6,574**	**2,783**	**46,066**

Source: Ethiopian Investment Agency

Fig 1 Approved investment projects by source

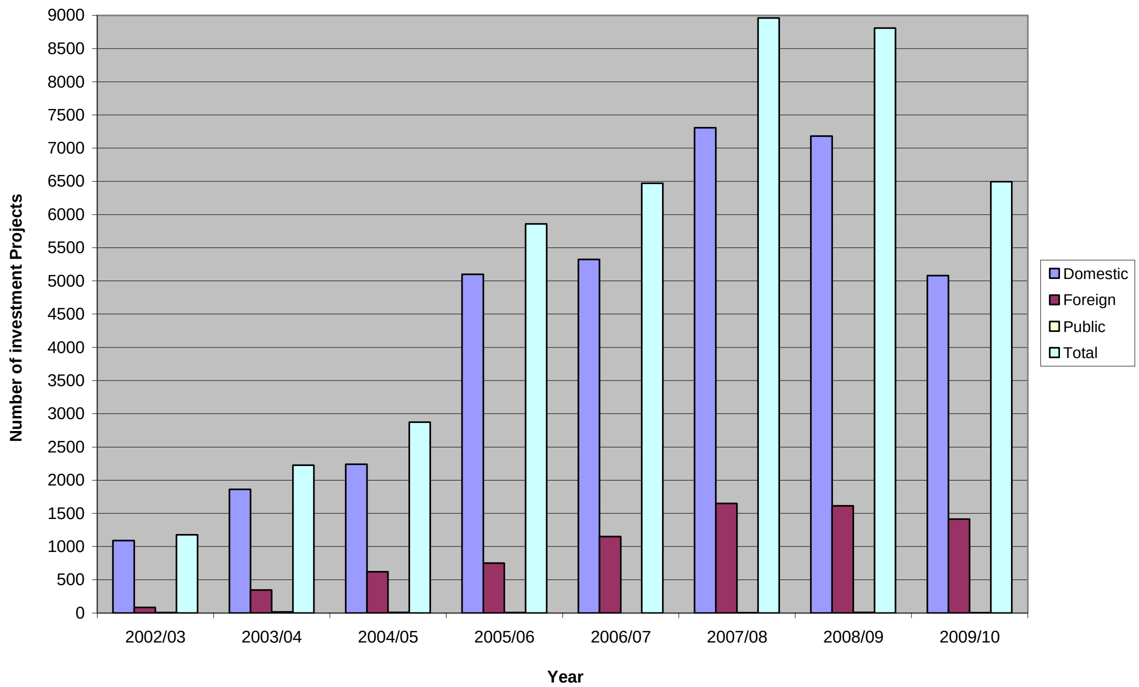


Fig 2 Capital of Approved Investment Projects by Source

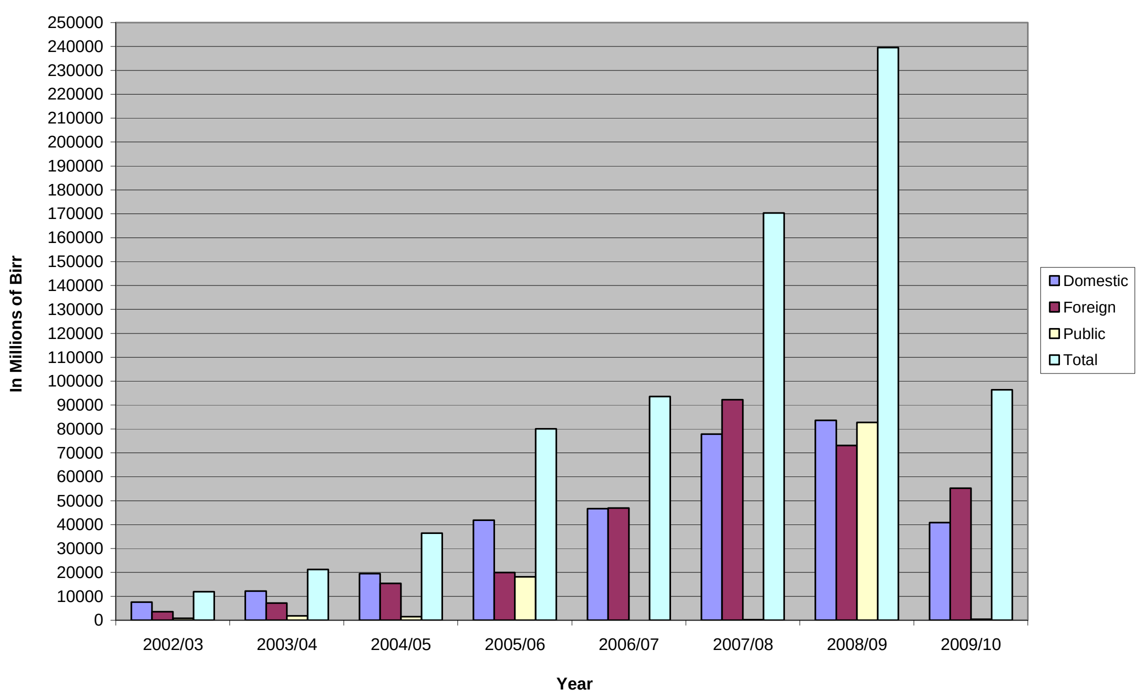


Table 7.2 Number, Capital and Expected Job Opportunities

(Capital in millions of Birr)

		2007/08	2008/09	2009/10	Percentage change	
		A	**B**	**C**	**C/A**	**C/B**
1. Total Investment	Number	8,961	8,807	6,496	-27.5	-26.2
	Capital	170,379	239,525	96,415	-43.4	-59.7
	Permanent Workers	592,188	614,172	224,633	-62.1	-63.4
	Casual Workers	1,148,119	1,166,468	488,330	-57.5	-58.1
2. Total Private	Number	8,958	8,797	6,493	-27.5	-26.2
	Capital	170,117	156,741	96,022	-43.6	-38.7
	Permanent Workers	592,117	405,296	223,161	-62.3	-44.9
	Casual Workers	1,148,084	868,166	488,162	-57.5	-43.8
3. Domestic	Number	7,307	7,184	5,080	-30.5	-29.3
	Capital	77,868	83,630	40,852	-47.5	-51.2
	Permanent Workers	263,205	196,420	152,283	-42.1	-22.5
	Casual Workers	646,209	569,864	311,185	-51.8	-45.4
4. Foreign	Number	1,651	1,613	1,413	-14.4	-12.4
	Capital	92,249	73,111	55,169	-40.2	-24.5
	Permanent Workers	328,912	208,876	70,878	-78.5	-66.1
	Casual Workers	501,875	298,302	176,977	-64.7	-40.7
5.Public	Number	3	10	3	0.0	-70.0
	Capital	262	82,784	394	50.6	-99.5
	Permanent Workers	71	208,876	1,472	1973.2	-99.3
	Casual Workers	35	298,302	168	380.0	-99.9

Source: Ethiopian Investment Agency

Table 7.3 Number and Capital of Investment Projects Approved by Sector

(Capital in millions of Birr)

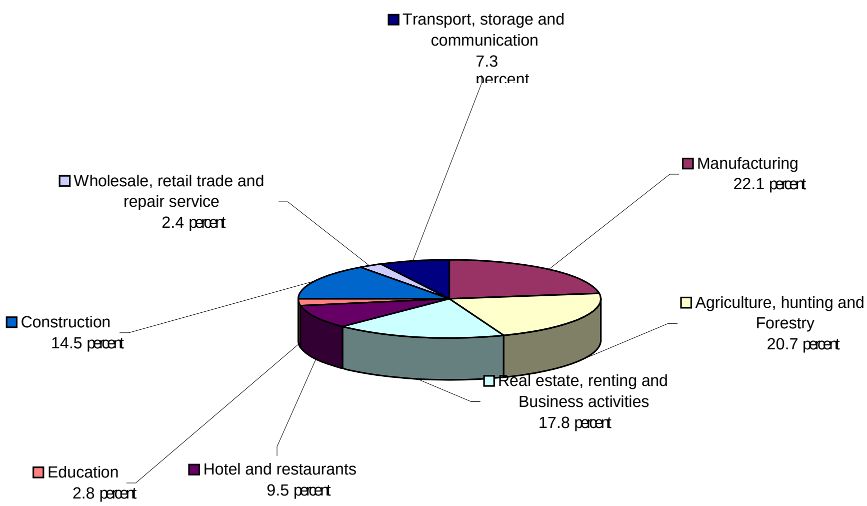
Sectors	2007/08		2008/09		2009/10		Percentage Share to Total in 2009/10	
	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital
Manufacturing	1,998	64,473.4	1,804	58,351.1	1,433	35,583	22.1	36.9
Agriculture, hunting and forestry	2,133	36,980.4	2,455	47153.7	1,342	21,625	20.7	22.4
Real estate, renting and Business activities	1,780	40,428.5	1506	21,489.7	1,155	11,617	17.8	12.0
Hotel and restaurants	1,339	17,564.7	1091	10,466.32	617	10,463	9.5	10.9
Education	324	1,563	249	5,664.0	181	1,464	2.8	1.5
Health and social work	175	1,516.3	155	2,255.2	99	2,519	1.5	2.6
Construction	582	3,173.5	826	81,162.7	942	9,924	14.5	10.3
Construction Machinery Leasing	-	-				0	0.00	0.00
Wholesale, retail trade and repair service	268	797.7	242	2,712.6	154	893	2.4	0.9
Transport, storage and communication	184	483.5	346	1,510.4	477	1,596	7.4	1.7
Fishing	2	3.9	7	100.2	8	19	0.1	0.02
Mining and quarying	38	516.2	25	317.8	9	358	0.1	0.4
Electricity, gas, steam and water supply	4	2,486.7	12	7,825.1	4	33	0.1	0.03
Public administration and defense; compulsory social security	1	8.3	0	0.00		0.00	0.0	0.00
Other community, social and personal service activities	133	382.6	89	515.7	75	321	1.2	0.3
Grand Total	**8,961**	**170,378.5**	**8,807**	**239,525.0**	**6,496**	**96,415.0**	**100**	**100**

7.1 Investment by Sector

Concerning sectoral distribution, about 22.1 percent of the approved projects were in manufacturing; 20.7 percent in agriculture, hunting and forestry; 17.8 percent in real estate, renting and business activities; 14.5 percent in construction and 9.5 percent in hotel and restaurants.

In terms of approved investment capital, manufacturing accounted for 36.9 percent followed by agriculture, hunting and forestry (22.4 percent), and real estate, renting and business activities (12.1 percent).

Fig. 3 Distribution of Investment Projects by Sector in 2009/10



7.2 Distribution by Region

The regional distribution of the approved investment projects depicted that Addis Ababa attracted 2,902 projects with Birr 29.2 billion investment capital, followed by Oromia 1,558 projects, with Birr 20.7 billion, Amhara 743 projects with Birr 17.4 billion; Tigray 626 projects with Birr 7.2 billion capital.

Table 7.4: Number and Capital of Approved Projects by Region

(Capital in millions Birr)

Regions	2007/08		2008/09		2009/10		percent ge share to Total	
	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital
Tigray	270	3,999.1	543	10862.8	626	7,224	9.6	7.5
Afar	20	390.4	46	4880	32	1,307	0.5	1.4
Amhara	1298	12,267.5	1,425	12167.2	743	17,371	11.4	18.02
Oromia	2977	70,776.4	2,689	63572.5	1,558	20,739	24	21.5
Somali	39	188.5	11	55.7	58	345	0.9	0.4
Benishangul-Gumuz	152	677.7	182	643.9	111	1,389	1.7	1.4
SNNPR	975	10,228.7	543	4487.8	163	2,020	2.5	2.1
Gambella	34	349.2	132	681.04	11	2,675	0.2	2.8
Harari	22	57.4			2	7	0.03	0.01
Addis Ababa	2621	47,388.6	2,773	120471.3	2,902	29,195	44.7	30.3
Dire Dawa	248	3,689.5	190	8078.9	172	1,455	2.6	1.5
Multiregional Projects	305	20,365.5	273	13623.4	118	12,689	1.8	13.2
Grand Total	**8961**	**170,378.5**	**8,807**	**239,524.8**	**6,496.00**	**96,415.44**	100.00	100.00

Source: Ethiopian Investment Agency

VIII. INTERNATIONAL DEVELOPMENTS

8.1. International Economic Developments

8.1.1. Overview of World Economy[4]

Global activity returned to positive territory in the second quarter of 2009 as the fiscal and monetary policy measures put in place in many countries gained additional traction and, together with measures aimed at stabilizing the financial sector, contributed to the improvement of financial market conditions and the reduction of uncertainty, and led to some initial reversal in the confidence losses experienced by economic agents.

The global recovery gained pace in the second half of 2009 and GDP growth returned to positive territory in the vast majority and of countries in the third quarter of the year. Global manufacturing activity was the key driver of the economic recovery, although, after some faltering, activity in the services sector also gained traction. One major feature of the recovery phase is the different speed at which it is taking place across countries, a development which possibly reflects, among other factors, the different nature of the policy measures adopted in the various countries, as well as the different strength of each country's fundamentals. The emergence of a cross-country divergence in the recovery phase contrasts with the high synchronization exhibited during the downturn, possibly highlighting the extent to which the financial turbulence contributed to the amplification of real disturbances. It is also worth noting that activity is recovering at a much faster pace in emerging economies, which had limited direct exposure to the financial crisis.

Economic activity was weak in the United States and in 2009 as a whole, the economy contracted at a rate of 2.4 percent, compared with growth of 0.4 percent in 2008. Real GDP continued to post consecutive negative quarterly growth rates in the first half of 2009, following the sharp downturn in the second half of the previous year.

[4] Excerpted from European Central Bank Annual Report, 2009

However, a gradual stabilization in financial market conditions, sizeable fiscal and monetary stimuli and a turn in the inventory cycle in the course of the year led to a return to positive economic growth in the second half of 2009. Private domestic spending remained subdued in the first half of 2009 in the context of tight credit conditions, the efforts of households to rebuild their net wealth and scale down debt accumulated over previous years and deteriorating labour market conditions; over 8.4 million jobs were lost in 2008 and 2009. Government stimulus measures temporarily supported private demand, particularly in the auto and housing sectors. Businesses continued to cut back on fixed investment amid tight lending conditions, low capacity utilization and the uncertain economic outlook. Housing market activity started to pick up in mid-2009 with the support of government stimulus measures, but the recovery continued to be held back by substantial headwinds. Export performance was weak in early 2009 owing to a downturn in foreign economic activity. Nevertheless, foreign trade contributed positively to growth as imports fell more sharply than exports. However, both exports and imports recovered in the second half of the year.

Table 8.1Overview of World Economic Outlook and Projection

(Annual Percentage Change)

	2008	2009	Projection	
			2010	2011
World Output	**2.8**	**-0.6**	**4.8**	**4.2**
Advanced Economies	0.2	-3.2	2.7	2.2
United States	0.0	-2.6	2.6	2.3
Euro Area	0.5	-4.1	1.7	1.5
Japan	-1.2	-5.2	2.8	1.5
Other Emerging Markets and Developing Countries	6.0	2.5	7.1	6.4
World Trade Volume (goods and services)	**2.9**	**-11.0**	**11.4**	**7.0**
Import				
Advanced Economies	0.4	-12.7	10.1	5.2
Other Emerging Markets and Developing Countries	9.0	-8.2	14.3	9.9
Export				
Advanced Economies	1.9	-12.4	11.0	6.0
Other Emerging Markets and Developing Countries	4.6	-7.8	11.9	9.1
Commodity Prices				
Oil	36.4	-36.3	23.3	3.3
Non-oil	7.5	-18.7	16.8	-2.0
Consumer Price				
Advanced Economies	3.4	0.1	1.4	1.3
Other Emerging Markets and Developing Countries	9.2	5.2	6.2	5.2

Source**:** IMF, World Economic Outlook, October 2010.

Euro area real GDP contracted by 4.0 percent in 2009, following the rapid slowdown in growth from 2.7 percent in 2007 to 0.5 percent in 2008. This considerable contraction by far the largest on record was mainly brought about by the very steep fall in output that occurred in the last quarter of 2008 and the first quarter of 2009, in the midst of renewed financial turmoil, heightened uncertainty and an unprecedented decline in world activity and demand. Confronted with the sudden deterioration in business prospects, rapidly depleting order books and costlier and reduced access to financing, firms reacted by postponing expansion plans and cutting inventories. Households, faced with greater uncertainty, increased their savings in the context of deterioration in short-term job prospects and portfolio losses. As a consequence, GDP fell by a cumulated 4.4 percent in the fourth quarter of 2008 and the first quarter of 2009. Thereafter, output broadly stabilized in the course of the second quarter of 2009 and returned to positive growth in the second half of the year albeit at a moderate pace and from a very low base as financial conditions gradually improved and external trade picked up again.

In Japan, economic activity deteriorated significantly in the first quarter of 2009, before entering a recovery phase in the second quarter. The downturn was primarily related to an unprecedented decline in exports and production. The improvement in the economic situation was mainly driven by an upturn in exports, reflecting, in part, the strong recovery in other Asian economies and the turnaround in the inventory cycle. Moreover, the recovery was supported by the internal and external fiscal stimulus packages. Business sentiment improved moderately from the second quarter of 2009 onwards, but corporate profits remained at a low level and employees' income decreased substantially. In addition, the unemployment rate rose to an all-time high of 5.7 percent in July 2009, before decreasing slightly.

In 2009, emerging Asia showed notable resilience to the global downturn. In the first quarter of 2009 the collapse of foreign trade led to negative real GDP growth rates in the export-oriented economies of Hong Kong S.A.R., Korea, Malaysia, Singapore, Taiwan P.o.C. and Thailand. China, India and Indonesia, on the other hand, posted lower but still positive economic growth in the same period. Boosted by large fiscal stimulus packages and expansionary monetary policy, emerging Asia began to recover in the second quarter and recorded annual real GDP growth of 5.7 percent .

In China, real GDP growth declined only slightly, from 9.6 percent in 2008 to 8.7 percent in 2009. The resilience of GDP growth to the global economic downturn can be explained by several factors. First, the Chinese authorities reacted promptly to the crisis. The RMB 4 trillion stimulus package and increased consumer subsidies, combined with an expansive monetary policy and strong credit growth, contributed to the 90 percent increase in investment in infrastructure in 2009 and to the resilience of private consumption. Second, given that the value-added content of Chinese exports is relatively low (as the import content of Chinese exports is relatively high), the direct impact of the global export slowdown on GDP growth was less severe.

Economic activity in Latin America contracted sharply during the first half of 2009, following a very similar pattern to that of the world economy. In year-on-year terms, real GDP for the region as a whole contracted by 2.8 percent in the first quarter of 2009 and by 3.9 percent in the second although it expanded by 0.4 percent quarter-on-quarter in the second quarter. For the region as a whole, the fall in economic activity in the first half of 2009 was the worst since 1980, even though several individual countries have experienced more severe recessions during the past three decades.

As sub-Saharan Africa rebounds from the slowdown in 2009, strong macroeconomic fundamentals through much of the region leave it well positioned to benefit from the global recovery now under way. The slowdown to 2.6 percent in 2009 was brief, limited also by the rapid implementation of countercyclical policies made possible by the policy room that many economies had built prior to the downturn. Output growth in the region is projected to accelerate to 5 percent in 2010 and 5.5 percent in 2011, supported not only by the recovery in exports and commodity prices, but also by robust domestic demand in a number of economies. Foreign inflows to the region, including official flows, FDI, and remittances, were less affected by the global downturn than had been feared, although the outlook remains uncertain.

The pickup in global demand and the strengthening of oil prices are supporting growth in Africa's oil-exporting economies. Sub-Saharan Africa's middle-income economies—whose output contracted in 2009 due to their stronger global trade linkages—are now firmly on the path to recovery. The region's largest economy, South Africa, has benefited from continued strong demand for commodities from emerging Asia and from a recovery in demand for manufactures from its largest export market, the euro area. The relatively low degree of exposure of the region's low-income economies to international trade and financial flows shielded them from the worst of the global downturn. Correspondingly, the acceleration of growth this year is expected to be modest. Output growth in these economies is expected to rise from 4.5 percent in 2009 to 4.9 percent in 2010 and further to 6 percent in 2011.

8.1.2 World Trade

In 2009, the volume of world trade in goods and services went down by 11 percent against 3 percent growth in the preceding year. However, the growth in world trade in goods and services is anticipated to boost by 11.4 percent in 2010 and then slowed down to 7 percent in 2011. While import of advance economies declined by 12.7 percent, that of other emerging markets and developing countries declined by 8.2 percent in 2009. Growth in import of goods and services in these countries are expected to revive by 10.1 and 14.3 percent respectively in 2010.

Likewise, exports of goods and services dropped by 12.4 and 7.8 percent in advanced economies and other emerging markets and developing countries in 2009 against the 1.9 and 4.6 percent growth recorded in 2008 respectively. However, exports from these countries are forecasted to recover by 11 and 12 percent respectively in the following year.

The USA's current account deficit narrowed sharply from 4.9 percent of GDP in 2008 to 2.9 percent on average in the first three quarters of 2009, mainly as a result of the contraction of domestic demand and the drop in oil prices.

In 2009, the current account of the euro area recorded a deficit of €59.0 billion (or 0.7 percent of euro area GDP), compared with a deficit of €140.6 billion in 2008. This fall in the deficit largely resulted from a decrease in the deficit in the income balance (of €40.9 billion) and improvements in the goods balance.

Following the sharp contraction in euro area goods trade towards the end of 2008 and in early 2009, goods exports stabilized and rebounded faster than goods imports, shifting the goods balance back into a surplus of €34.7 billion in 2009, compared with a deficit of €9.5 billion in 2008. A lower deficit in current transfers also contributed to the overall narrowing of the current account deficit in 2009. These changes were only partly offset by a decrease (of €10.4 billion) in the surplus in services.

8.1.3 Inflation and Commodity Prices

After peaking at 4.8 percent in OECD countries in July 2008, boosted by rising food and energy prices, headline inflation started to fall at a quick pace, standing at around 0.5 percent in spring 2009. This rapid retreat in inflation reflected the strong downward correction in commodity prices as well as rising spare capacity, as a result of the global drop in economic activity. In the middle of the year, OECD inflation actually turned slightly negative owing to significant base effects related to commodity prices. However, the negative inflation rates were, by and large, perceived to be a transitory phenomenon, as evidenced by measures of long-term inflation expectations, which remained in positive territory. In October 2009, on account of the fading of these base effects and of a rebound in commodity prices, headline inflation returned to positive territory and rose to 1.9 percent in the year to December 2009, down from 3.6 percent the year before. Excluding food and energy, inflation stood at 1.6 percent in the year to December 2009.

In the USA, the average annual change in the CPI for 2009 was -0.4 percent, down from 3.8 percent the year before. Headline inflation moved into negative territory in early 2009, reflecting strong base effects stemming from lower commodity prices. The annual rate of change in the CPI moved back into positive territory in late 2009 owing to an increase in commodity prices and a reversal of base effects. Economic slack limited any upward pressures on prices. Inflation excluding food and energy also decreased moderately during 2009, but remained positive at an average annual rate of 1.7 percent in 2009 compared with 2.3 percent in 2008.

Annual consumer price inflation in Japan turned negative in February 2009 and the pace of decline peaked at 2.5 percent in October. Price developments mainly reflected base effects related to petroleum products and the substantial slack persisting in the economy.

In 2009, consumer price inflation dropped considerably in most Asian emerging markets. Only India experienced rising food prices towards the end of the year, which caused a noticeable upward movement in the wholesale price index, the Reserve Bank of India's preferred measure of prices.

In China, annual consumer price inflation was negative between February and October 2009 owing to base effects, with underlying price pressures remaining moderate.

After falling abruptly in the second half of 2008, oil prices stabilized in the first quarter of 2009, and subsequently started to increase. At the end of 2009 the price of Brent crude oil stood at USD 77.8 per barrel. Measured in euro terms, this corresponds to roughly the level recorded at the beginning of 2006. For the year as a whole, the average price of Brent crude oil was USD 62.5 per barrel, i.e. 36.4 percent below the average of the previous year.

The prices of non-energy commodities followed a similar pattern. Metal prices, copper in particular, posted significant gains, which were also sustained by purchases related to the massive stimulus package, geared towards infrastructure, announced by the Chinese government. Food prices also increased, although to a lesser extent, led in particular by sugar. In aggregate terms, non-energy commodity prices (denominated in US dollars) decreased by an average of approximately 22 percent in 2009 compared with the previous year.

8.1.4 Exchange Rate

Exchange rate developments in 2009 were to a large extent shaped by the evolution of global financial conditions and the prospects for economic recovery around the world.

Tensions in global financial markets and very high uncertainty regarding the economic outlook prevailing in early 2009 resulted in an unwinding of carry trades (i.e. trades that consist of borrowing in a low-yielding currency and investing in a high-yielding currency) and global portfolio shifts, contributing to some large swings in the main bilateral exchange rates. These factors, together with decreasing monetary policy rates and a more unfavorable outlook for growth in the Euro area and the EU as a whole, contributed to a weakening of the Euro, which – as measured against the currencies of 21 of the Euro area's important trading partners – depreciated by over 3 percent in effective terms in the first two months of 2009.

After some volatility in March and April, the Euro started to rise in May 2009 amid improving financial market conditions, as reflected by gradually subsiding financial market spreads and decreasing implied volatilities. After strengthening by almost 5 percent in effective terms by the end of October 2009, the Euro stood close to the historical peaks recorded at the end of 2008. This appreciation resulted primarily from the strengthening of the Euro against the US dollar and major Asian currencies linked to the US currency. Subsequently, the Euro stabilized before depreciating somewhat in effective terms in December.

Overall, the Euro weakened in 2009. This reflected depreciation against the Pound Sterling, which was partly offset by a strengthening vis-à-vis the US dollar, major Asian currencies linked to the US dollar and the Japanese Yen. On 31 December, 2009 the Euro stood in nominal effective terms – as measured against the currencies of 21 important trading partners – 1 percent lower than at the beginning of the year and about 1.2 percent above its average level in 2008.

Against the US dollar, the Euro initially depreciated by around 9 percent in the first two months of 2009 amid portfolio flows into some segments of the US market against the background of a decreasing transatlantic interest rate differential. After March 2009, as the tensions in the financial markets started to ease gradually, the Euro rebounded against the US currency. At the same time, the re-emergence of carry trades, which may have been supported by the moderation of implied volatilities, also appears to have contributed to the weakening of the US dollar. Between early March and the end of October the Euro appreciated by almost 19 percent. On 31 December 2009, the Euro traded at USD/EUR 1.44, around 3.5 percent higher than at the beginning of 2009 and about 2 percent weaker than its 2008 average.

Following a similar pattern to the EUR/USD exchange rate, in the first two months of 2009, the Euro depreciated against the Japanese Yen. In March and April, when economic activity in Japan was reported to have deteriorated more than initially expected and financial market tensions started to ease, the Euro rebounded. Throughout the remainder of 2009, the Euro fluctuated within a range from JPY 128 to JPY 138. On 31 December 2009, the Euro traded at JPY 133.16, around 5.6 percent higher than at the beginning of the year but around 12.5 percent lower than its average for 2008.

After reaching an all-time high vis-à-vis the Pound Sterling in December 2008, the Euro depreciated in 2009 by around 7 percent, amid considerable volatility. The Euro also experienced sizeable fluctuations against the currencies of several other EU trading partners.

The euro remained broadly unchanged against the Swiss Franc in 2009, experiencing increased volatility in the first three months of 2009 and subsequently stabilizing amid reports of foreign exchange interventions by the Swiss National Bank.

8.1.5 Capital Flows

Given emerging Asia’s marked macroeconomic improvement from the second quarter of 2009 onwards and the gradual increase in investors’ risk appetite, foreign capital, especially portfolio investment, began flowing back into these countries in March 2009, thus leading to a steady rebound in local bond and equity markets. In many countries, increased capital inflows coincided with substantial current account surpluses, which led to strong upward pressures on exchange rates.

The Euro area experienced net inflows of €251.2 billion in combined direct and portfolio investment in 2009, compared with net inflows of €161.5 billion a year earlier. This increase reflected a shift from net outflows to net inflows in equity portfolio investment (a change of €80.5 billion) and a decrease in net outflows in foreign direct investment (of €98.1 billion). These developments were partly offset by lower net inflows in debt instruments (of €88.8 billion).

8.2. Implication for Ethiopia

The external sector of Ethiopia has responded positively to the global economic recovery largely since the second half of 2009/10. For instance, total earnings from export of merchandise goods, which fell by 1.2 percent in 2008/09 as a result of global demand contraction, rose markedly by 38.3 percent in 2009/10 driven by the increase in volume of exports and revival of international prices in response to the recovery of global economic activities.

Likewise, net receipts from service exports went up notably by 18.7 percent while individual remittances and FDI inflows showed moderate growth of 9.3 and 7 percent, respectively during the review year.

On the other hand, the rising international oil price as a result of strong demand since the start of global economic recovery is likely to negatively affect the country's current account balance as it consumed about 65.4 percent pf the total revenue from merchandise exports in 2009/10. the upward pressure on world oil price is anticipated to persist in 2010/11 due to continued robust demand and hence oil import will raise the foreign exchange payments of the country.

Yet, the overall global financial conditions are expected generally to remain stable or improve through the fiscal year. Hence, Ethiopia's external sector performance particularly with respect to export revenue, FDI inflows and private remittances is likely to improve.