

VI. DEVELOPMENTS IN EXTERNAL SECTOR

6.1 Overall Balance of Payments

During the review period, the overall balance of payments recorded a deficit of USD 263.3 million as compared to a surplus of USD 85 million last year. The widening of the trade deficit, decrease in the surplus of the services account and lower official loan disbursements were the major contributing factors for the decline.

The trade deficit widened from 20.8 percent of GDP in the preceding fiscal year to 23.8 percent in the review year as imports jumped by 32.8 percent offsetting a 23.7 percent increase in export earnings.

As a result of the widening trade deficit and decline in net services (16.3 percent), the current account deficit (including official transfers) went up to USD 1,479.8 million (6.6 percent of GDP) compared to USD 782.9 million (4 percent of GDP) in the previous fiscal year despite respective rises of 38.4 and 9.5 percent in net private and official transfers. On the other hand, the capital account recorded a surplus of USD 968 million.

Table 6.1 Balance of Payments

(In Millions of USD)

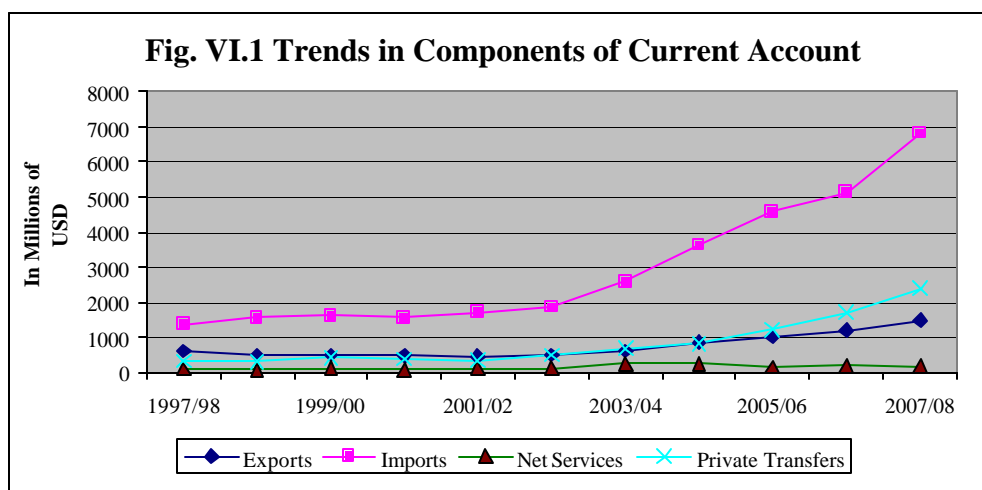
Particulars	2005/06	2006/07	2007/08	Percentage Change	
	A	B	C	D=C/B	E=C/A
Trade Balance	-3,592.5	-3,940.9	-5,344.8	35.6	48.8
Exports	1,000.3	1,185.1	1,465.7	23.7	46.5
Imports	4,592.8	5,126.0	6,810.5	32.9	48.3
Net Services	147.7	230.3	159.9	-30.6	8.2
Travel	60.4	69.9	149.8	114.3	148.0
Transportation	43.2	80.6	129.2	60.4	198.9
Government (n.i.e.)	278.5	258.8	134.6	-48.0	-51.7
Investment income	-1.7	30.4	34.2	12.6	-2114.1
Interest	26.7	47.5	47.6	0.2	78.3
Cash (net)	26.7	47.5	47.6	0.2	78.3
Arrears	0.0	0.0	0.0	-	-
Dividend	-28.4	-17.1	-13.4	-21.9	-53.0
Other Services	-232.7	-209.4	-287.9	37.5	23.7
Private Transfers	1,226.4	1,728.6	2,394.1	38.5	95.2
Current Account Balance(excl. public transfers)	-2,218.4	-1,982.0	-2,790.9	40.8	25.8
Public Transfers	755.9	1,199.1	1,312.5	9.5	73.6
Current Account Balance(incl. public transfers)	-1,462.6	-782.9	-1,478.4	88.7	1.1
Non-monetary Capital	632.5	798.5	968.1	21.2	53.0
Long-term (net)	291.8	307.9	242.8	-21.1	-16.8
Disbursements	343.2	325.7	289.6	-11.1	-15.6
Repayments	51.4	17.8	46.8	163.1	-9.1
Cash	51.4	17.8	46.8	163.1	-9.1
Arrears	0.0	0.0	0.0	-	-
Direct Investment (net)	365.1	521.2	814.6	56.3	123.1
Short-term (net)	-24.3	-30.5	-89.4	192.7	267.7
Net Errors & Omissions	622.5	69.1	246.8	255.3	-60.4
Overall Balance	-207.5	84.7	-263.5	-411.1	27.0
Financing	207.5	-84.7	263.5	-411.1	27.0
Reserves (-:increase)	207.5	-84.7	263.5	-411.1	27.0
NBE Net Foreign Asset	283.2	-39.4	244.4	-720.9	-13.7
CBs Net Foreign Asset	-75.7	-45.3	19.1	-142.1	-125.2

Source: NBE staff compilation

Table 6.2: Components of External Trade as Percentage of GDP

Particulars	2005/06	2006/07	2007/08	Percentage Change	
	A	B	C	C/B	C/A
Exports	6.6	6.1	6.5	7.1	-0.9
Imports	30.3	26.4	30.4	15.1	0.3
Trade Balance	-23.7	-20.3	-23.8	17.5	0.6
Net Services	1.0	1.0	0.7	-27.5	-27.1
Net Private Transfers	8.1	8.7	10.7	22.2	31.9
Current Account Deficit (Excluding Official Transfers)	-14.6	-10.6	-12.4	17.7	-14.9
Current Account Deficit (Including Official Transfers)	5.7	6.2	5.8	-5.2	2.4

Source: NBE staff compilation



Source: NBE staff compilation

6.2 Developments in Merchandise Trade

Reflecting a continuous surge in imports, which more than offset the considerable rise in exports, merchandise trade deficit widened from USD 3.59 billion (23.7 percent of GDP) in 2005/06 to USD 3.94 billion (20.3 percent of GDP) in 2006/07

and further to USD 5.34 billion (23.8 percent of GDP) in 2007/08.

6.2.1 Exports

Total merchandise exports reached USD 1,465.7 million in 2007/08, up by 23.7 percent over the preceding fiscal year.

Table 6.3 Values of Major Export Items

	2005/06	% share	2006/07	% share	2007/08	% share	Percentage Change	
	A		B		C		C/B	C/A
	Coffee	354.3	35.4	424.2	35.8	524.5	35.8	23.6
Oilseeds	211.4	21.1	187.4	15.8	218.8	14.9	16.7	3.5
Leather and Leather Products	75.0	7.5	89.6	7.6	99.2	6.8	10.7	32.2
Pulses	37.0	3.7	70.3	5.9	143.6	9.8	104.3	288.5
Meat & Meat Products	18.5	1.9	15.5	1.3	20.9	1.4	35.0	12.7
Fruits & Vegetables	13.2	1.3	16.2	1.4	12.8	0.9	-20.6	-2.8
Live Animals	27.6	2.8	36.8	3.1	40.9	2.8	11.1	48.2
<i>Chat</i>	89.1	8.9	92.8	7.8	108.3	7.4	16.7	21.6
Gold	64.7	6.5	97.0	8.2	78.8	5.4	-18.8	21.7
Flower	21.8	2.2	63.6	5.4	111.8	7.6	75.7	413.5
Others	87.8	8.8	91.8	7.7	106.3	7.2	15.7	21.0
Total	1000.3	100.0	1185.1	100.0	1465.7	100.0	23.7	46.5

Source: Ethiopian Customs Authority

Export earnings from coffee grew by 23.6 percent owing to the rise in the international price despite the decrease in volume. The slow down in volume was presumably due to the high domestic auction price of coffee that made coffee less profitable in the international market.

In addition, the sharp decline in the export of coffee to Japan, the second largest destination for Ethiopian coffee, during the months of May and June 2008 also contributed to all this effect. Hence, the share of coffee in the total exports stood at 35.8 percent similar to the of last year.

Export earnings from oilseeds, the second largest export item reached USD 218.8 million, up by 16.7 percent over the

preceding fiscal year. This was due to the rise in the international price despite a decrease in the volume by 35.3 percent. The share of oilseeds in the total exports dwindled from 21.1 percent in 2005/06 to 15.8 percent in 2006/07 and further to 14.9 percent during the review year.

The receipts obtained from the export of pulses continued to grow remarkably reaching USD 143.6 million in 2007/08 from USD 70.3 million a year earlier. This was attributable to the increase both in the volume and international prices. As a result, the share of pulses in total exports grew from 5.9 percent a year ago to 9.8 percent in the review period.

Revenue Secured from leather and leather products increased by 10.7 percent compared to the previous year solely on

account of higher international prices which more than offset the marginal decrease in volume.

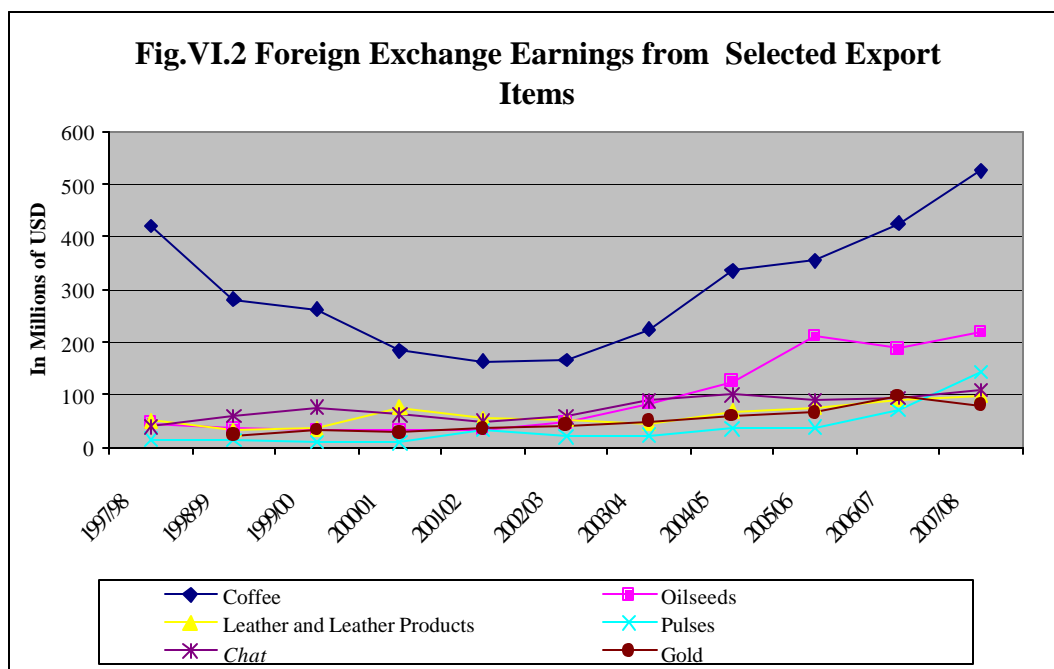
Similarly, revenue from meat and meat products rose to USD 21 million from USD 15.5 million in 2006/07 due to higher exports to the Middle East.

Export earnings from live animals also went up to USD 40.9 million in 2007/08 from USD 36.8 million in 2006/07 owing to better international prices.

Reflecting the favorable investment climate

in the horticulture sub-sector, earnings from exports of flower grew to USD 111.8 million in the review period from USD 63.6 million last year.

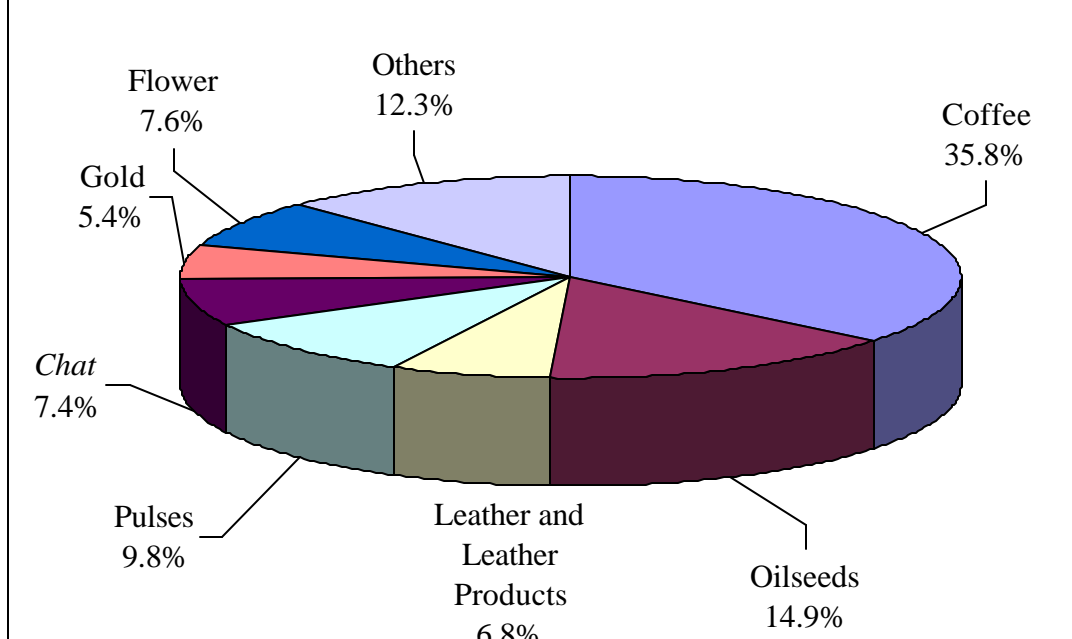
Despite a modest decline in the volume of exports, the income from *chat* went up by 16.7 percent and reached USD 108.3 million during the stated period. In contrast, export earnings from gold dropped from USD 97 million last year to USD 78.8 million in the review year wholly on account of a 32.6 percent decrease in the volume.



Source: Ethiopian Customs Authority

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Fig. VI.3 Export Share of Selected Commodities during Review Year



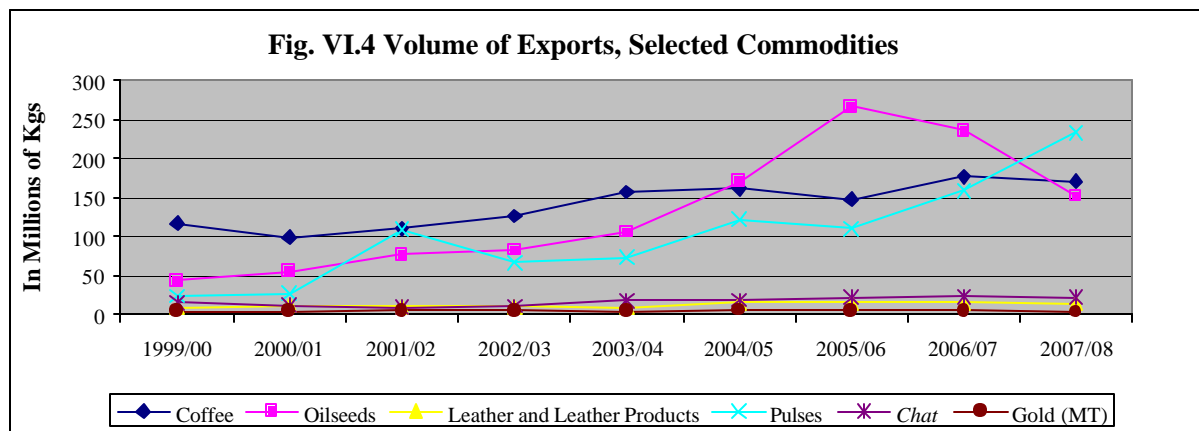
Source: NBE staff compilation

Table 6.4: Volume of Major Exports

(In Millions of Kg)

Particulars	2005/06	2006/07	2007/08	Percentage Change	
	A	B	C	C/B	C/A
Coffee	147.7	176.4	170.7	-3.2	15.6
Oilseeds	265.6	235.0	152.1	-35.3	-42.7
Leather and Leather Products	15.4	15.8	14.9	-5.4	-3.1
Pulses	110.4	158.8	233.0	46.8	111.0
Meat & Meat Products	8.0	5.8	6.5	10.8	-18.5
Fruits & Vegetables	34.8	40.9	39.9	-2.4	14.7
Live Animals	33.3	43.7	40.0	-8.5	20.0
Chat	22.3	22.7	22.4	-1.2	0.7
Gold	0.0050	0.0056	0.0038	-32.6	-24.4
Flower	6.3	14.4	22.4	55.1	258.0

Source: Ethiopian Customs Authority



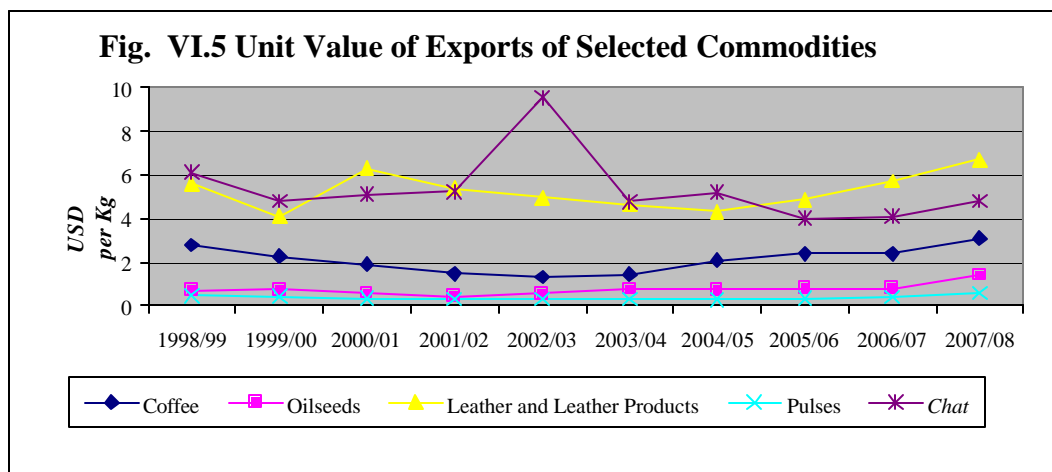
Source: Ethiopian Customs Authority

Table 6.5: Unit Value of Major Exports

(In USD per Kg)

Particulars	2005/06	2006/07	2007/08	Percentage Change	
	A	B	C	C/B	C/A
Coffee	2.4	2.4	3.1	27.8	28.1
Oilseeds	0.8	0.8	1.4	80.3	80.8
Leather and Leather Products	4.9	5.7	6.7	17.1	36.5
Pulses	0.3	0.4	0.6	39.2	84.1
Meat & Meat Products	2.3	2.6	3.2	21.8	38.3
Fruits & Vegetables	0.4	0.4	0.3	-18.7	-15.3
Live Animals	0.8	0.8	1.0	21.4	23.5
Chat	4.0	4.1	4.8	18.1	20.8
Gold	13,008.8	17,380.7	20,955.5	20.6	61.1
Flower	3.5	4.4	5.0	13.2	43.4

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



Source: NBE staff compilation

6.2.2. Imports

Total imports surged to USD 6.81 billion (30.4 percent of GDP) in 2007/08 from USD 5.13 billion (26.4 percent of GDP) in 2006/07 and USD 3.63 billion (30.3 percent of GDP) in 2005/06 owing to the increase in all major components of imports except capital goods.

Imports of raw materials rose by 73.5 percent to USD 257.8 million in the review period exhibiting the steady growth in international prices as well as vibrant domestic economic activities. Hence, the share of raw materials in the total imports went up from 2.9 percent in the preceding fiscal year to 3.8 percent in 2007/08.

Imports of capital goods showed a 4.9 percent decline compared to last year and stood at USD 1,777.4 million. The decrease in the imports of capital goods was mainly attributed to the fall in imports of transport capital goods specifically heavy road motor

vehicles. Imports of industrial and agricultural capital goods, however, tended to increase.

Import of consumer goods, grew by 15.1 percent to USD 1,515.7 million from USD 1,317 million last year largely due to higher imports of non-durables which included cereals, medical and pharmaceuticals as well as textile fabrics. On the other hand, the imports of durable goods exhibited decline during the reported time. The share of consumer goods in total imports slid down to 22.3 percent from 25.7 percent in 2006/07.

Meanwhile, fuel imports surged by 85.3 percent to USD 1,621.4 million in the review period from USD 875.1 million a year ago mainly on account of oil prices. Accordingly, the share of fuel in the total import bill rose from 17.1 percent last year to 23.8 percent in the review year.

Table 6.6: Value of Imports by End Use

(In Millions of USD)

	2005/06	Share from total	2006/07	Share from total	2007/08	Share from total	Percentage Change	
	A		B		C		C/B	C/A
Raw Materials	77.2	1.7	148.6	2.9	257.8	3.8	73.5	233.7
Semi-finished Goods	821.6	17.9	800.3	15.6	1,259.7	18.5	57.4	53.3
Fertilizers	135.9	3.0	140.0	2.7	302.1	4.4	115.8	122.3
Fuel	860.4	18.7	875.1	17.1	1,621.4	23.8	85.3	88.4
Petroleum Products	856.5	18.6	872.3	17.0	1,614.4	23.7	85.1	88.5
Others	4.0	0.1	2.7	0.1	7.0	0.1	154.8	76.7
Capital Goods	1,453.1	31.6	1,868.5	36.5	1,777.4	26.1	-4.9	22.3
Transport	429.9	9.4	633.8	12.4	380.9	5.6	-39.9	-11.4
Agricultural	38.7	0.8	33.0	0.6	40.9	0.6	24.2	5.7
Industrial	984.4	21.4	1,201.7	23.4	1,355.5	19.9	12.8	37.7
Consumer Goods	1,281.9	27.9	1,317.0	25.7	1,515.7	22.3	15.1	18.2
Durables	415.7	9.1	520.7	10.2	459.4	6.7	-11.8	10.5
Non-durables	866.2	18.9	796.3	15.5	1,056.3	15.5	32.6	21.9
Miscellaneous	98.5	2.1	116.6	2.3	378.7	5.6	224.7	284.5
Total Imports	4,592.8	100.0	5,126.2	100.0	6,810.7	100.0	32.9	48.3

Source: Ethiopian Customs Authority

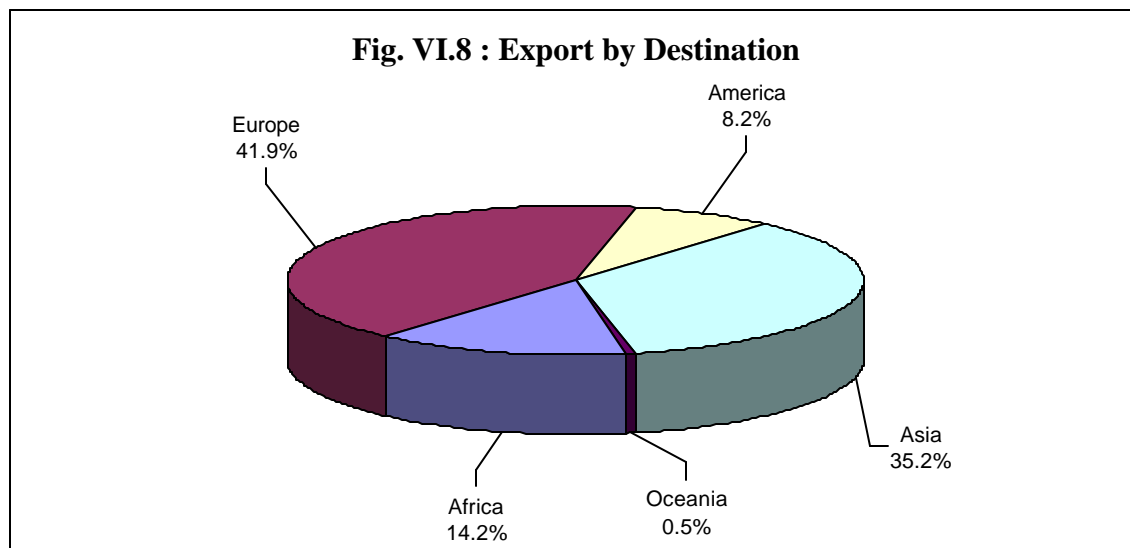
6.2.3 Direction of Trade

The largest market for Ethiopia's exports during the review period was Europe accounting for 41.9 percent of the country's exports. Among the European countries, Germany which mainly imported coffee and flower was the largest buyer of Ethiopian goods. The Netherlands, the biggest destination for Ethiopian flower during the review period was the second largest market followed by Switzerland, the sole importer of gold from Ethiopia and Italy whose main imports from Ethiopia include leather and leather products, coffee as well as textile and garments.

Exports shipped to the Asian market accounted for 35.2 percent of the total exports, of which 22.6 percent went to Saudi Arabia, 17.7 percent to Japan, 14 percent to China and 11 percent to United Arab Emirates (UAE). The major exports items to Saudi Arabia include coffee, live animals as well as meat and meat products. Coffee constituted the bulk of exports to Japan. Leather and leather products as well as oilseeds made up a larger portion of exports to China. Meat and meat products, pulses, live animals as well as fruits and vegetables were the major items exported to UAE.

Meanwhile, 14.2 percent of Ethiopia's exports were destined to African countries of which about 88.3 percent went to three neighboring countries viz. Somalia, Sudan, and Djibouti. *Chat* was the principal export item shipped to Somalia followed by live

animals. The major exports to Djibouti include *chat*, live animals as well as fruits and vegetables. On the other hand, Sudan mainly imported coffee, pulses, live animals and natural honey and bees wax.



Source: NBE staff compilation

The share of Americas from the country's total exports was 8.2 percent, of which 89.1 percent went to the United States of America, 6.1 percent to Canada and 1.2 percent to Mexico. The principal export items to the US were coffee and oilseeds.

As for imports, 62.6 percent of Ethiopia's imports originated from Asia followed by Europe (24.6 percent), Africa (6.8 percent) and America (5.8 percent).

Out of the total imports from Asia, about 72.8 percent had their origins from four countries; namely, China (23 percent), Saudi Arabia (22.1 percent), UAE (14.6 percent) and India (13.2 percent). The major import items from China include clothing and textiles, metals, telecommunications apparatus, electric materials and machinery. More than 91.9 percent of imports from Saudi Arabia and

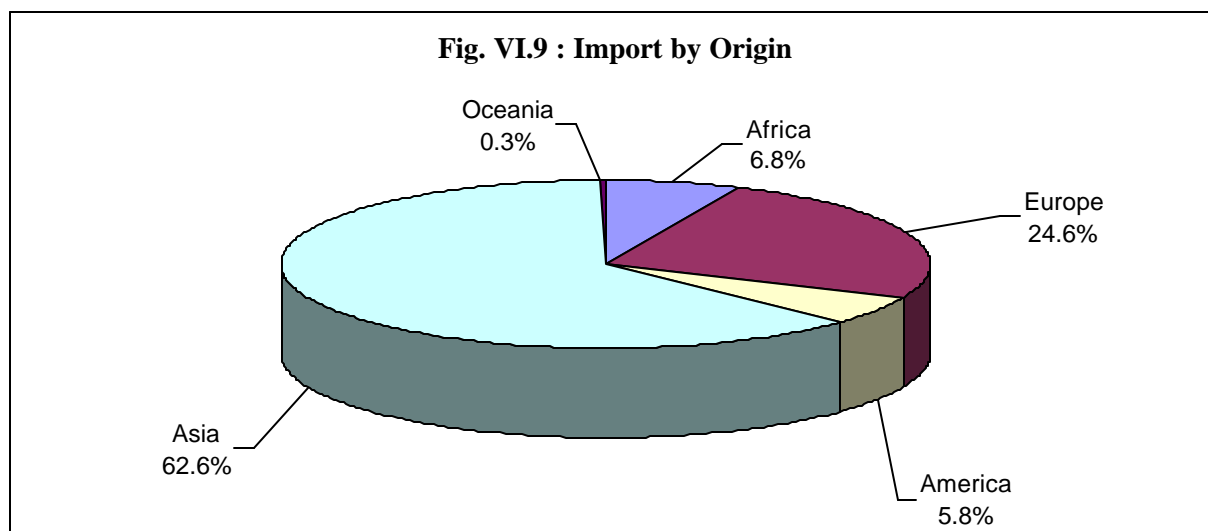
70.8 percent of imports from UAE were petroleum products. Metal and metal manufacturing constituted the bulk of imports from India.

Out of the total import items from Europe, Italy accounted for 22.4 percent, Germany 14.8 percent and Turkey 10.2 percent. Machinery, food and grain were the main import items from Europe.

Imports from African countries made up 6.8 percent of the country's imports, of

which 68.3 percent originated from three countries, viz. Sudan (35.1 percent), Egypt (20.1 percent) and Kenya (13.1 percent). Sudan's major exports to Ethiopia were petroleum products.

Imports from the Americas accounted for 5.8 percent of the total imports, of which 93.3 percent was from three countries. The United States of America was the leading exporter with a share of 4.0 percent followed by Brazil (1.1 percent) and Canada (0.3 percent).



Source: NBE staff compilation

6.3 Services and Transfers

6.3.1 Services

The surplus in net services account declined from USD 230.2 million in

2006/07 to USD 159.9 million in 2007/08 mainly as a result of the decrease in net receipts from government services and a rise in net payments for other services.

Net receipts from travel rose by 115.0 percent to USD 149.7 million. And that of transport services grew by 60.4 percent to USD 129.3 million.

On the other hand net receipts from government services declined by 48 percent from USD 258.8 million to USD 134.5 million.

Net interest income slightly rose from USD 30.5 million in 2006/07 to USD 34.2 million in 2007/08 mainly due to a 21.4 percent drop in dividend with no significant change in net interest receipts. On the other hand, net payments for other services increased by 37.5 percent and reached USD 287.9 million in 2007/08 due to higher

payments for construction service payments..

6.3.2 Unrequited Transfers

Net private transfers went up by 38.4 percent during 2007/08 and reached USD 2,393 million. Cash transfers through non-governmental organizations rose by 13.9 percent while cash transfers by private individuals surged by 27.2 percent. Transfers in kind by private individuals also grew by 181.7 percent during the stated period following the government's policy allowing the importation of cement on franco valuta basis in order to augment the domestic supply.

Table 6.7: Unrequited Transfers*(In Millions of USD)*

No.	Particulars	2005/06		2006/07		2007/08		Percentage Change	
		A	% Share	B	% Share	C	% Share	C/B	C/A
		1	Private Transfers	1,226	61.9	1,729	59.0	2,393	64.6
1.1	Receipts	1,237	61.8	1,744	59.1	2,423	64.5	38.9	95.9
	NGOs	500	25.0	536	18.2	639	17.0	19.1	27.8
	Cash	498	24.9	535	18.2	610	16.2	13.9	22.5
	Other	0.0	0.0	0.0	0.0	0.0	0.0	-	-
	Food	2.1	0.1	0.7	0.0	29	0.8	4,253	1,294
	Private individuals	737	36.8	1,208	41.0	1,784	47.5	47.8	142.2
	Cash	355	17.7	633	21.5	805	21.4	27.2	126.7
	In kind	16.8	0.8	58.6	2.0	165.1	4.4	181.7	885.6
	Underground Transfers (in kind)	365.1	18.2	516.4	17.5	814.6	21.7	57.7	123.1
1.2	Payments	(10.2)	53.3	(15.2)	73.2	(30.0)	58.0	97.8	194.2
2	Official Transfers	756	38.1	1,199	41.0	1,312	35.4	9.5	73.6
2.1	Receipts	765	38.2	1,205	40.9	1,334	35.5	10.8	74.4
	Cash	701	35.0	1,180	40.0	1,314	35.0	11.4	87.5
	Other	0.4	0.0	0.7	0.0	0.8	0.0	25.0	109.6
	Food	63.5	3.2	23.6	0.8	18.9	0.5	(20)	(70)
2.2	Payments	(8.9)	46.7	(5.5)	26.8	(21.7)	42.0	291.9	143.4
	Net Transfers	1,982	100	2,928	100	3,705	100	26.6	86.9

Source: Disaster Prevention and Preparedness Agency, MoFED and NBE

Similarly, net official transfers climbed by 9.5 percent from USD 1,199.1 million in 2006/07 to USD 1,312.4 million in 2007/08 owing to increased disbursement of grants from both multilateral and bilateral donors. Official cash transfers went up by 11.4 percent to USD 1,314.2 million in 2007/08.

6.4 Current Account

In spite of the growth in private and public transfers, current account deficit widened to USD 1,479.6 million (6.6 percent of GDP) in 2007/08 from USD 782.9 million (4

percent of GDP) in the preceding fiscal year, largely due to the widening in trade deficit.

6.5 Capital Account

The surplus in the capital account rose by 21.2 percent to reach USD 968.1 million compared to USD 798.5 million last year due to the rise in foreign investment inflows. Net official long-term capital decreased by 21.1 percent and reached USD 242.8 million due to the decline in disbursement of loans to the government

and a sharp rise in amortization payments. On the other hand, foreign direct investment is estimated to reach USD 814.6 million in 2007/08 compared to USD 521.2 million in the preceding fiscal year.

6.6 Changes in Reserve Position

As a result of the deficit in the balance of payments, the net foreign assets of the banking system recorded a draw-down of USD 263.5 million compared to a build-up of USD 84.7 million last year. Net foreign assets of the NBE went down by USD 244.4 million, that of commercial banks by USD 19.1 million.

Hence, at the end of the fiscal year, gross foreign reserves of NBE were adequate to cover 1.5 months of imports of goods and non-factor services of next fiscal year.

6.7 External Debt

The stock of the country's external debt increased by 19.7 percent from USD 2,300.3 million to USD 2,753.6 million in

2007/08. Debt owed to multilateral creditors rose from USD 1.2 billion to USD 1.5 billion. Thus the share of multilateral creditors in the total external debt increased from 51.7 to 55.6 percent.

Similarly, debt owed to bilateral creditors rose from USD 663.9 million to USD 946.7 million. Accordingly, in its share the country's total debt grew from 28.9 to 34.4 percent. Commercial debt, however, which accounted for 10 percent of the total debt, declined from USD 447.8 million to USD 275.8 million.

The ratio of external debt to GDP ratio increased to 12.3 percent in 2007/08 compared to 11.8 percent in 2006/07. The ratio of the stock of debt to export of goods and non-factor services stood at 0.9 percent.

The debt service ratio which is the ratio of principal and interest payments on external debt to export of goods and non-factor services rose from 1.2 percent in 2006/07 to 2.5 percent in 2007/08.

Table 6.8 External Public Debt

(In Million of USD)

Particulars	2005/06	2006/07	2007/08	Percentage Change	
	A	B	C	C/B	C/A
Debt Outstanding					
Lender Total	6029.1	2300.3	2753.6	19.7	-54.3
Multilateral	4876.3	1188.6	1531.2	28.8	-68.6
Bilateral	797.7	663.9	946.7	42.6	18.7
Commercial	355.1	447.8	275.8	-38.4	-22.3
Drawing by Lender	344.4	325.7	289.6	-11.1	-15.9
Lender Total	344.4	325.7	289.6	-11.1	-15.9
Drawing by Sector	344.4	325.7	289.6	-11.1	-15.9
Sector Total	344.4	325.7	289.6	-11.1	-15.9
Debt Service	209.1	29.8	76.7	157.9	-63.3
Principal Repayments	147.4	17.8	46.8	163.1	-68.3
Interest Payments	61.7	12.0	30.0	150.2	-51.4
Debt Stock to GDP Ratio (in %)	46.6	11.8	12.3	3.7	-73.7
Debt Stock to Export of Goods and Non-factor Services	2.865	0.926	0.899	-2.9	-68.6
Receipts from Goods and Non-factor Services	2104.7	2483.9	3063.2	23.3	45.5
Debt Service Ratio (%)^{1/}	9.9	1.2	2.5	109.1	-74.8
Arrears	0.0	0.0	0.0	-	-
Principal	0.0	0.0	0.0	-	-
Interest	0.0	0.0	0.0	-	-
Relief	133.0	102.9	28.2	-72.6	-78.8
Principal	96.0	72.9	24.1	-66.9	-74.9
Interest	37.0	30.0	4.1	-86.3	-88.9

Source: Ministry of Finance and Economic Development (MoFED)

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

2. Outstanding as at end period

6.8 Developments in Foreign Exchange Market

6.8.1 Developments in Nominal Exchange Rate

The weighted average exchange rate of the Birr reached Birr 9.2441/USD during the review fiscal year indicating a depreciation of 5.1 percent compared to 1.31 percent last year.

Similarly, the exchange rate of Birr in the parallel market depreciated by 6.7 percent and reached Birr 9.5569/USD. Hence, the premium between the official and the parallel market exchange rates, widened to 3.4 percent from 1.9 percent a year ago.

Table 6.9 InterBank and Parallel Forex Market Exchange Rates

Period	Average Weighted Rate	Amount Traded in millions of USD		Number of Trades		Average Rate in Parallel Market
		Total	O/w among CBs	Total	O/w among CBs	
2005/06	8.6810	134.0	10.3	1,304	32	9.0258
Qtr. I	8.6702	36.2	4.3	198	17	8.9592
Qtr. II	8.6776	36.6	6.0	302	15	9.0198
Qtr. III	8.6847	30.8	0.0	450	0	9.1280
Qtr. IV	8.6914	30.5	0.0	354	0	8.9962
2006/07	8.7943	189.8	59.4	1,999	128	8.9570
Qtr. I	8.6986	31.0	0.0	549	0	8.8872
Qtr. II	8.7197	34.5	0.0	576	0	8.9059
Qtr. III	8.8315	35.3	0.8	578	10	8.9553
Qtr. IV	8.9275	89.0	58.6	296	118	9.0795
2007/08	9.2441	114.4	17.9	1694.0	47.0	9.5569*
Qtr. I	9.0344	41.1	12.6	294.0	28.0	9.2917
Qtr. II	9.0704	38.4	5.4	372.0	19.0	9.3968
Qtr. III	9.3192	28.9	0.0	512.0	0.0	9.9822*
Qtr. IV	9.5526	6.1	0.0	516.0	0.0	

Source: Banking and Foreign Exchange Directorate, NBE

* Until March 13,2008

The movement of the exchange rates in the forex bureaux and commercial banks

mirrored exchange rate developments in the interbank foreign exchange market. Accordingly, the buying and selling rates of

forex bureaux depreciated by 5.1 percent each compared to last fiscal year. The average exchange rate at which forex bureaux bought foreign exchange was Birr 9.2419/USD while they sold it at Birr 9.4255/USD. The average spread between their buying and selling rates slightly widened to 1.99 percent compared to 1.95 percent a year ago.

Similarly, the average buying and selling rates of commercial banks each depreciated by 5.2 percent each to Birr 9.2504/USD and 9.4387/USD, respectively. The average spread between their buying and selling rates increased to 2.06 percent compared to 1.98 percent in the preceding fiscal year.

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

Currency	2005/06	2006/07	2007/08	Percentage Change	
	A	B	C	C/B	C/A
USD	8.7383	9.0746	9.6562	6.41	10.50
Pound	16.0164	18.1673	19.2476	5.95	20.17
Swedish Kroner	1.2037	1.3209	1.6194	22.60	34.54
Djibouti Frank	0.0492	0.0511	0.0543	6.37	10.48
Swiss Frank	7.0882	7.3615	9.4873	28.88	33.85
Saudi Riyal	2.3296	2.4195	2.5749	6.43	10.53
UAE Dirhams	2.3796	2.4706	2.6287	6.40	10.47
Canadian Dollar	7.8759	8.5690	9.5662	11.64	21.46
Japanese Yen	0.0760	0.0735	0.0911	23.92	19.79
Euro	11.1073	12.1989	15.2471	24.99	37.27
SDR	12.8212	13.7419	15.7388	14.53	22.76

Source: NBE

In 2007/08 the Birr depreciated against all currencies of Ethiopia's major trading partners. For example, the Birr depreciated by 28.8 percent against Swiss Frank, and 24.9 and 23.9 percent against Euro and Japanese Yen, respectively.

6.8.2. Movements in Real Effective Exchange Rate

As the inflation differential with trading partners continued to widen, the real effective exchange rate appreciated by 12.9

percent in 2007/08 despite a depreciation of 6.0 percent in nominal effective exchange rate. As the continuous real appreciation of the Birr is likely to affect the

competitiveness of the country's exports, the NBE is exerting efforts to mitigate the problem under current high level of inflation.

Table 6. 11: Trends in Real and Nominal Effective Exchange Rates

	REERI	NEERI	% Change	
			REERI	NEERI
2001/02	93.6	100.0	-	-
2002/03	99.0	93.6	5.8	-6.4
2003/04	98.5	89.3	-0.5	-4.6
2004/05	94.0	83.1	-4.6	-6.9
2005/06	102.9	80.9	9.5	-2.6
2006/07	120.8	77.6	17.4	-4.1
2007/08	136.5	72.9	13.0	-6.5

Source: NBE, staff compilation

An Increase in REERI and NEERI indicates appreciation and vice versa a decrease depreciation

6.8.3 Foreign Exchange Transactions

The amount of foreign exchange traded in the interbank foreign exchange market during 2007/08 was USD 114.4 million, down by 15.3 percent compared to that of the previous fiscal year. Trading among commercial banks was USD 17.9 million (15.7 percent of total trade) in 2007/08.

In the retail market, commercial banks purchased from exporters foreign currency to the tune of USD 605.0 million, which was 27.0 percent higher than last year. On the other hand, the amount of foreign

exchange they sold to importers increased by 32.9 percent USD 3724.9 million.

Foreign exchange purchase and sales by forex bureaux of commercial banks in 2007/08 was up by 50.8 and 98.9 percent, respectively compared to last year.

Table 6.12: Foreign Exchange Transactions by Commercial Banks**(In Millions of USD)**

Commercial Banks	2005/06		2006/07		2007/08		Percentage Change	
	A	B	C	D	E	F	E/C	F/D
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
Commercial Bank of Ethiopia	144.5	1429.6	179.5	1574.2	225.9	2051.5	25.9	30.3
Bank of Abyssinia	31.4	161.0	24.8	140.4	25.1	188.5	1.1	34.2
Dashen Bank	104.2	312.1	100.4	306.1	170.6	412.4	69.8	34.8
Awash International Bank	10.0	152.0	19.6	150.3	30.8	144.7	57.5	-3.7
Construction and Business Bank	3.0	111.2	5.4	64.9	4.7	85.7		32.1
Wegagen Bank	92.3	245.7	117.1	271.3	111.1	336.4	-5.1	24.0
United Bank	0.0	157.3	0.0	135.6	0.0	224.3		65.4
Development Bank	0.0	0.0	0.0	0.0	0.0	0.0		
Nib International Bank	33.3	160.6	29.6	151.9	34.4	253.5	16.4	66.9
Cooperative Bank of Oromia			0.0	7.3	2.4	27.9		
Total	418.8	2729.7	476.3	2802.0	605.0	3724.9	27.0	32.9
Average Exchange Rate	8.6810	8.8545	8.7953	8.9701	9.2504	9.4387	5.174	5.224

Source: NBE

Table 6.13 Foreign Exchange Transactions by Foreign Exchange Bureaux of Commercial Banks**(In Millions of USD)**

Name of Forex Bureau	2005/06		2006/07		2007/08		Percentage Change	
	A	B	C	D	E	F	E/C	F/D
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
Commercial Bank of Ethiopia	7.8	19.1	8.5	13.3	31.0	18.2	266.2	36.4
Bank of Abyssinia	1.8	2.6	2.3	2.7	3.7	4.7	61.4	73.3
Dashen Bank	9.2	2.7	11.1	2.5	13.3	8.4	20.5	229.3
Awash International Bank	0.6	1.1	0.8	1.5	2.5	2.5	230.6	72.2
Construction and Business Bank	0.5	0.4	0.6	0.3	1.0	4.3	77.6	1391.8
Wegagen Bank	6.9	2.6	10.4	1.9	6.8	4.6	-35.0	145.9
United Bank	9.3	1.5	6.1	1.4	10.3	5.2	68.8	277.4
Development Bank			0.0	0.0	0.0	0.0		
Nib International Bank	7.5	1.3	24.5	1.5	28.8	2.2	17.5	43.0
Cooperative Bank of Oromia			0.0	0.0	0.0	0.0		
Total	43.5	31.3	64.3	25.2	97.5	50.1	51.8	99.2
Average Exchange Rate	8.6808	8.8537	8.7949	8.9666	9.2419	9.4255	6.2	6.2

Source: NBE