

VI. DEVELOPMENTS IN THE EXTERNAL SECTOR

6.1 Overall Balance of Payments

The overall balance registered surplus of USD 84.7 million compared to a deficit of USD 207.5 million during the preceding fiscal year. Despite the widening of the trade deficit from USD 3.6 billion to USD 3.9 billion, improvement in the surplus of the service account, increase in private transfers and higher disbursement of loans and grants to the government helped to finance the trade deficit and register the overall surplus.

The trade deficit widened to 26.4 percent of GDP as imports rose by 11.6 percent

offsetting a substantial increase of 18.5 percent in export earnings.

On the other hand, the surge in net service (26.8 percent), private (32.1 percent) and official transfers (38.4 percent) has contributed to the significant improvement in the current account balance (including official transfers) by 36.7 percent against the preceding year. The capital account also recorded a surplus of USD 780.2 million.

Table 6. 1 Balance of Payments

(In Millions USD)

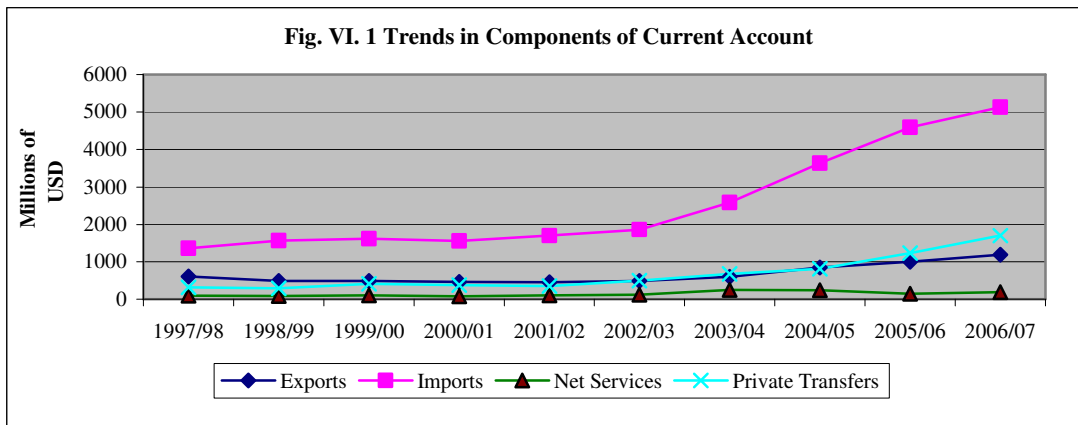
Particulars	2004/05	2005/06	2006/07	Percentage change	
	A	B	C	C/B	C/A
Trade Balance	-2,785.8	-3,592.5	-3,940.9	9.7	41.5
Exports	847.2	1,000.3	1,185.1	18.5	39.9
Imports	3,633.0	4,592.8	5,126.0	11.6	41.1
Net Services	242.2	147.6	190.8	29.3	-21.2
Travel	114.0	60.5	69.4	14.8	-39.1
Transportation	70.7	43.2	72.7	68.2	2.8
Government (n.i.e.)	176.8	278.4	258.8	-7.0	46.3
Investment income	-35.8	-1.8	30.0	-1,750.4	-183.8
Interest	-14.0	26.7	47.2	77.0	-436.6
Cash (net)	12.5	26.7	47.2	77.0	278.1
Arrears	0.0	0.0	0.0	-	-
Relief	-26.5	0.0	0.0	-	-
Dividend	-21.8	-28.5	-17.2	-39.6	-20.9
Other Services	-83.6	-232.7	-240.1	3.2	187.0
Private Transfers	810.8	1,226.4	1,695.6	38.3	109.1
<i>Current Account Balance(excl. public transfers)</i>	<i>-1,732.8</i>	<i>-2,218.6</i>	<i>-2,054.5</i>	<i>-7.4</i>	<i>18.6</i>
Public Transfers	749.7	866.2	1,199.0	38.4	59.9
<i>Current Account Balance(incl. public transfers)</i>	<i>-983.1</i>	<i>-1,352.4</i>	<i>-855.5</i>	<i>-36.7</i>	<i>-13.0</i>
Non-monetary Capital	585.1	632.5	780.2	23.3	33.4
Long-term (net)	440.6	291.8	339.9	16.5	-22.9
Disbursements	570.8	343.2	357.7	4.2	-37.3
Repayments	130.2	51.4	17.8	-65.4	-86.4
Cash	72.9	51.4	17.8	-65.4	-75.6
Arrears	0.0	0.0	0.0	-	-
Relief	57.3	0.0	0.0	-	-
Direct Investment (net)	150.0	365.1	482.0	32.0	221.3
Short-term (net)	-5.5	-24.3	-41.7	71.6	655.1
Net Errors & Omissions	296.7	512.3	159.9	-68.8	-46.1
Overall Balance	-101.4	-207.5	84.7	-140.8	-183.6
Financing	101.4	207.5	-84.7	-140.8	-183.6
Reserves (-:increase)	17.6	207.5	-84.7	-140.8	-581.9
NBE net foreign asset	-52.8	283.2	-39.4	-113.9	-25.4
CBs net foreign asset	70.4	-75.7	-45.3	-40.1	-164.4
Arrears	0.0	0.0	0.0	-	-
Principal	0.0	0.0	0.0	-	-
Interest	0.0	0.0	0.0	-	-
Debt Relief	83.8	0.0	0.0	-	-
Principal	57.3	0.0	0.0	-	-
Interest	26.5	0.0	0.0	-	-

Source: National Bank of Ethiopia, staff compilation

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

Particulars	2004/05	2005/06	2006/07	Percent Change	
	A	B	C	C/B	C/A
Exports	7.6	7.5	8.0	5.8	4.9
Imports	32.5	34.5	34.4	-0.3	5.8
Trade Balance	-24.9	-27.0	-26.4	-2.0	6.1
Net Services	2.2	1.1	1.3	15.5	-41.0
Net Private Transfers	7.3	9.2	11.4	23.5	56.7
Current Account Deficit (Excluding Official Transfers)	-15.5	-16.7	-13.8	-17.3	-11.1
Current Account Deficit (Including Official Transfers)	-8.8	-10.2	-5.7	-43.5	-34.8

Source: The National Bank of Ethiopia, staff compilation



6.2 Developments in Merchandise Trade

Merchandise trade deficit continued to widen reaching USD 3.9 billion (26.4 percent of GDP) during 2006/07 compared to USD 3.6 billion (27.0 percent of GDP) in 2005/06 and USD 2.8 billion (24.5 percent of GDP) in 2004/05. This was a reflection of a continuous surge in imports, which more than offset an impressive growth in export earnings.

6.2.1 Export

The growth in export earnings witnessed during the past three fiscal years also continued during 2006/07. Exports reached USD 1,185.1 million during the fiscal year, 18.5 percent higher than export earnings of the preceding fiscal year. Increases in all export items except oilseeds and meat contributed to this substantial rise in export.

Table 6.3 Values of Major Export Items

	2004/05	% share	2005/06	% share	2006/07	% share	Percentage Change	
	A		B		C		C/B	C/A
Coffee	335.2	39.6	354.3	35.4	424.2	35.8	19.7	26.5
Oilseeds	125.0	14.8	211.4	21.1	187.4	15.8	-11.3	49.9
Leather and Leather products	67.6	8.0	75.0	7.5	89.6	7.6	19.4	32.5
Pulses	35.4	4.2	37.0	3.7	70.3	5.9	90.2	98.4
Meat & Meat Products	14.6	1.7	18.5	1.9	15.5	1.3	-16.5	6.1
Fruits & Vegetables	16.1	1.9	13.2	1.3	16.2	1.4	22.5	0.6
Live Animals	12.8	1.5	27.6	2.8	36.8	3.1	33.4	187.1
Chat	100.2	11.8	89.1	8.9	92.8	7.8	4.2	-7.4
Gold	59.4	7.0	64.7	6.5	97.0	8.2	49.8	63.4
Flower	7.8	0.9	21.8	2.2	63.6	5.4	192.3	712.0
Others	73.0	8.6	87.8	8.8	91.8	7.7	4.6	25.7
Total	847.2	100.0	1000.3	100.0	1185.1	100.0	18.5	39.9

Source: Ethiopian Customs Authority

Export earnings from coffee grew by 19.7 percent as a result of a 19.4 percent increase in volume of exports while its average international price remained at its preceding fiscal year level. The share of coffee from total export showed a marginal increase by 1.1 percent vis-à-vis 2005/06 but went down by 10 percent against its position in 2004/05.

Oilseeds exports, which were growing rapidly during the past four fiscal years, declined by 11.3 percent during 2006/07 due to an 11.5 percent fall in the volume of exports although its international price remained constant. As a result, the share of oilseeds from total exports, which was 21.1

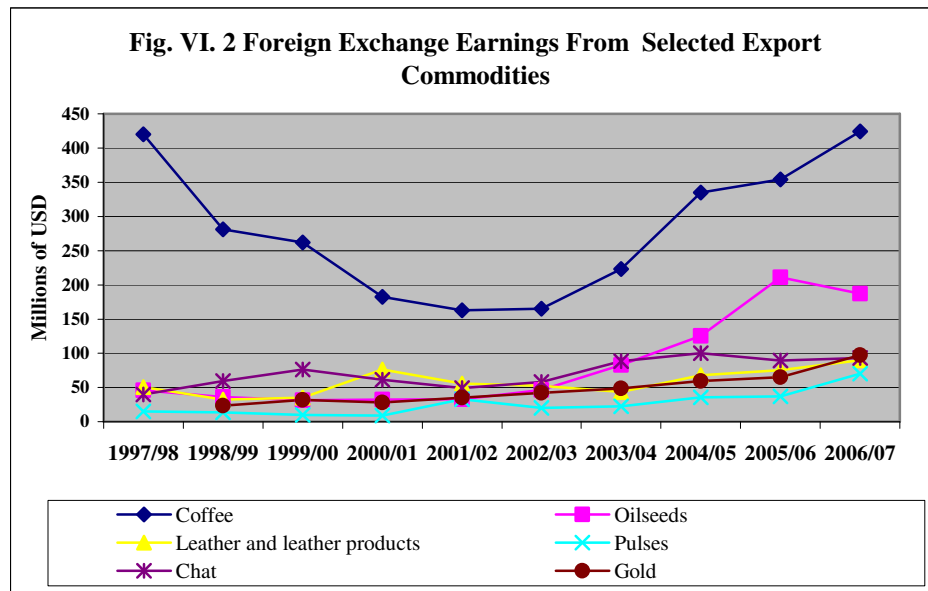
percent during the preceding fiscal year, dropped to 15.8 percent.

The international price of gold continued to surge and reached USD 650.21 per Troy ounce at the end of 2006/07 compared to USD 611.01 in 2005/06 and USD 437.1 in 2004/05. Hence, the value of gold exports reached USD 97.0 million in 2006/07 about 49.8 percent higher than the amount recorded in the preceding fiscal year. A 33.6 percent pick-up in the international price coupled with a 12.1 percent increase in the volume of exports contributed to the rise in export earnings from gold. In the fiscal year, gold became the third largest

export commodity of the country with a share of 8.2 percent compared to 6.5 percent in the preceding fiscal year.

Flower exports continued to grow reaching USD 63.6 million in 2006/07 compared to USD 21.8 million last fiscal year. This surge in flower exports was due to increase in volume of exports and prices. Earning from flower is expected to continue to grow in the coming years owing to continued incentives provided by the government for investors engaged in horticulture business.

Export earnings from leather and leather products also grew by 19.4 percent mainly due to higher international prices. Similarly, export earning from pulses went up by 90.1 percent as a result of a 43.7 percent increase in volume of exports. On the other hand, exports of meat and meat products fell by 16.5 percent due to the slow down in volume of export by 26.5 percent.



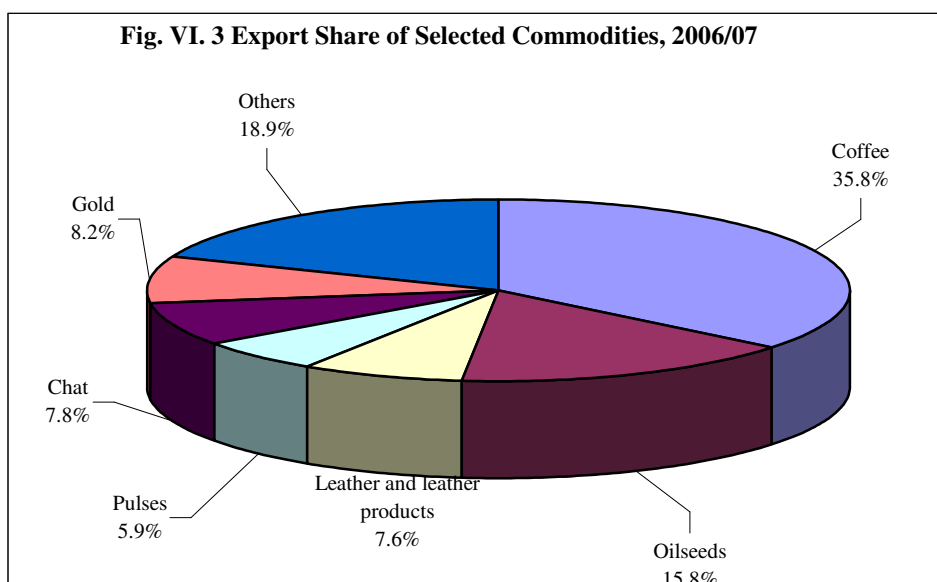


Table 6.4: Volume of Major Exports

(In Millions of Kg)

Particulars	2004/05	2005/06	2006/07	Percentage Change	
	A	B	C	C/B	C/A
Coffee	161.1	147.7	176.4	19.4	9.5
Leather and Leather products	15.6	15.4	15.8	2.5	0.8
Pulses	121.7	110.4	158.8	43.7	30.5
Oilseeds	170.8	265.6	235.0	-11.5	37.6
Meat & Meat Products	7.3	8.0	5.8	-26.5	-19.6
Fruits & Vegetables	37.9	34.8	40.9	17.6	8.0
Live Animals	21.2	33.3	43.7	31.1	105.7
Chat	19.4	22.3	22.7	1.8	16.9
Gold	0.0060	0.0050	0.0056	12.1	-6.9
Flowers	2.5	6.3	13.6	117.3	446.6

Source: Ethiopian Customs Authority.

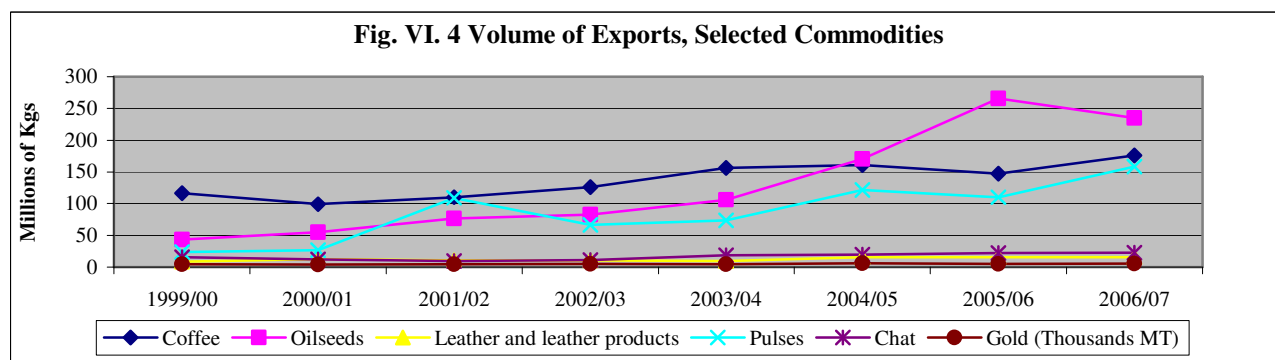
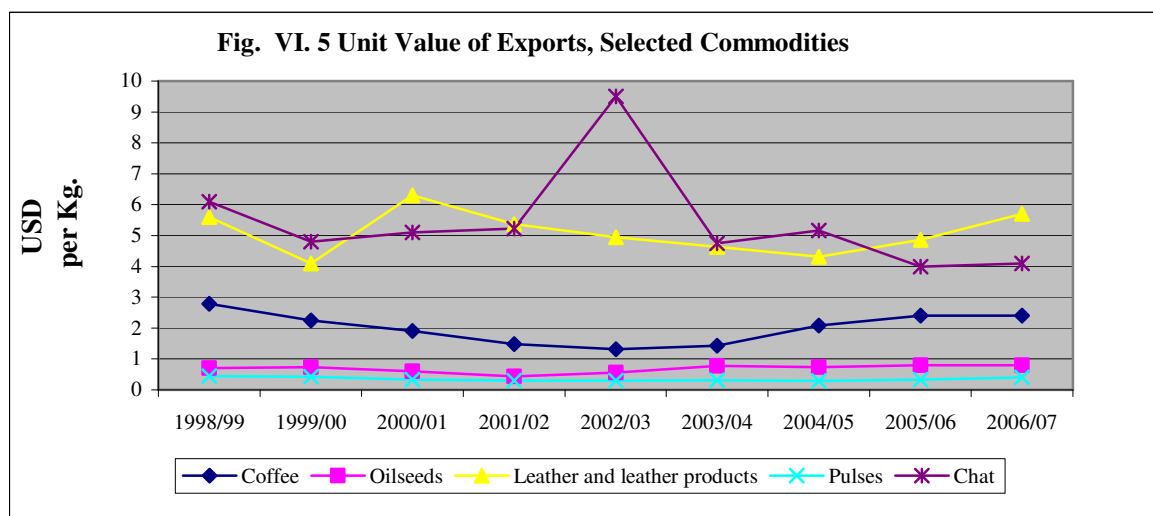


Table VI.5: Unit Value of Major Exports

Particulars	(In USD per Kg.)				
	2004/05	2005/06	2006/07	Percentage Change	
	A	B	C	C/B	C/A
Coffee	2.08	2.40	2.40	0.3	15.5
Leather and Leather products	4.32	4.87	5.68	16.6	31.4
Pulses	0.29	0.33	0.44	32.3	52.0
Oilseeds	0.73	0.80	0.80	0.2	9.0
Meat & Meat Products	2.00	2.33	2.64	13.5	32.0
Fruits & Vegetables	0.42	0.38	0.39	4.2	-6.8
Live Animals	0.60	0.83	0.84	1.7	39.5
Chat	5.17	4.00	4.09	2.3	-20.8
Gold	9,907.79	13,010.84	17,380.73	33.6	75.4
Flowers	3.15	3.48	4.68	34.5	48.6

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



6.2.2. Imports

The rapid growth in imports witnessed during the past three fiscal years moderated in 2006/07. Imports grew by 11.6 percent during the fiscal year compared to 40.4 percent in 2004/05 and 26.4 percent in 2005/06 putting average annual growth rate

of imports during the last three years at 26.1 percent. Total imports reached USD 5,126.2 million or 34.4 percent of GDP. All major import categories except for semi-finished goods increased during the fiscal year.

Imports of raw materials continued to surge mainly as a result of the recent increase in economic activity in the country and the continuous rise of commodity prices in the international market. Raw materials imports which accounted for 2.9 percent of total imports increased by 92.4 percent in 2006/07. Semi-finished goods imports tended to slow down over the previous year but went up by about 15 percent against the level of imports in 2004/05. Semi-finished goods accounted for 15 percent of the total import in 2006/07.

Reflecting the increased investment activity in the economy, imports of capital goods grew by 28.6 percent and reached USD 1,868.5 million during the fiscal year. The average annual growth in capital goods imports during the past four years was 36.5 percent indicating a high degree of association between imports and economic growth in the country. The share of capital goods imports from total imports increased

from 31.6 percent in 2005/06 to 36.5 percent in 2006/07.

Growth in consumer goods imports was 2.7 percent during the fiscal year compared to a growth rate of 30.0 percent during the preceding fiscal year. Declines in imports of non-durable consumer goods such as cereals and textiles were the major factors for the slow down in the growth of consumer goods imports whose share in total imports declined to 25.7 percent from 27.9 percent a year ago.

The rise in fuel imports moderated to 1.7 percent in the face of continuously high and volatile oil prices in the international market. In the preceding fiscal year, the annual increase in the value of fuel imports was nearly 30 percent. Accordingly, the share of fuel in total imports slightly went down to 17.0 percent compared to 18.6 percent in 2005/06.

Table 6.6: Value of Imports by End Use

(In Millions of USD)

	2004/05	<i>share from total</i>	2005/06	<i>share from total</i>	2006/07	<i>share from total</i>	<i>Percentage Change</i>	
	A		B		C		C/B	C/A
Raw Materials	49.1	1.4	77.2	1.7	148.6	2.9	92.4	202.5
Semi-finished Goods	664.7	18.3	821.6	17.9	765.6	14.9	-6.8	15.2
Fertilizers	122.0	3.4	135.9	3.0	140.0	2.1	-22.5	-13.6
Fuel	668.7	18.4	860.4	18.7	875.1	17.1	1.7	30.9
Petroleum Products	667.4	18.4	856.5	18.6	872.3	17.0	1.9	30.7
Others	1.4	0.0	4.0	0.1	2.7	0.1	-30.7	102.2
Capital Goods	1,199.3	33.0	1,453.1	31.6	1,868.5	36.5	28.6	55.8
Transport	371.6	10.2	429.9	9.4	633.8	12.4	47.4	70.6
Agricultural	24.4	0.7	38.7	0.8	33.0	0.6	-14.9	35.3
Industrial	803.4	22.1	984.4	21.4	1,201.7	23.4	22.1	49.6
Consumer Goods	986.1	27.1	1,281.9	27.9	1,317.0	25.7	2.7	33.6
Durables	337.3	9.3	415.7	9.1	520.7	10.2	25.3	54.4
Non-durables	648.8	17.9	866.2	18.9	796.3	15.5	-8.1	22.7
Miscellaneous	65.3	1.8	98.5	2.1	117.3	3.0	53.7	131.8
Total Imports	3,633.3	100.0	4,592.8	100.0	5,126.2	100.0	11.6	41.1

Source: Ethiopian Customs Authority

6.2.3 Direction of Trade

The major export market for Ethiopia during 2006/07 was Europe, which accounted for 47.8 percent of total exports. From European countries, Germany was the largest market buying about 11.8 percent of the total exports followed by Switzerland (8.8 percent) and Italy (6.3 percent). The major export items to Germany were coffee and flower while Switzerland was the major market for gold exports.

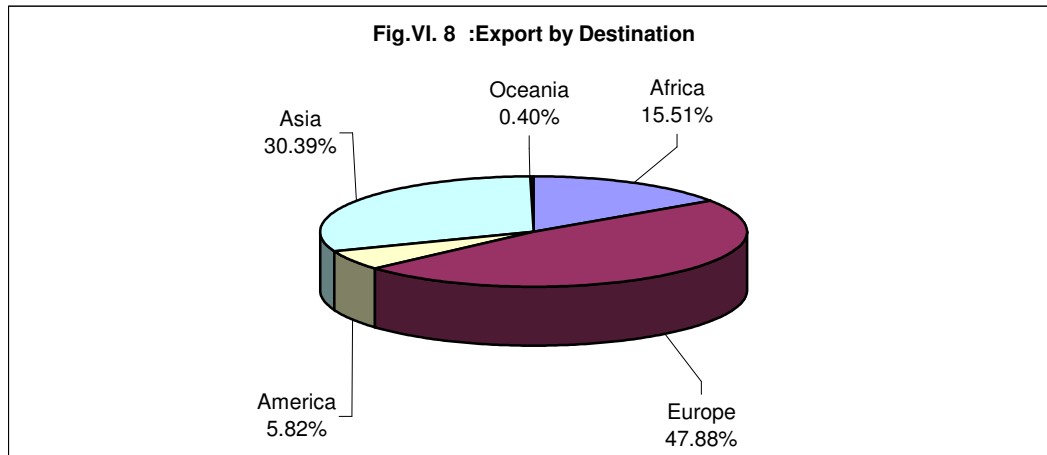
The second largest market was Asia, which imported about 30.3 percent of Ethiopia's exports. Saudi Arabia was the largest

importer with a share of 6.2 percent followed by Japan (6.1 percent) and China (5.0 percent). Coffee was the major export item destined to Saudi Arabia and Japan while China mainly imported oilseeds and hides & skin.

The share of Africa in total exports was 15.5 percent of which 88.5 percent went to neighboring countries namely Sudan, Djibouti and Somalia. Chat was the main export item to Somalia. Djibouti mainly imported chat, vegetables and fruits. On the other hand, the major export items to Sudan were live animals, coffee and pulses.

The share of America was only about 5.8 percent of Ethiopia's exports of which

United States of America took the lion's share. The main export items to the USA were coffee and oilseeds.

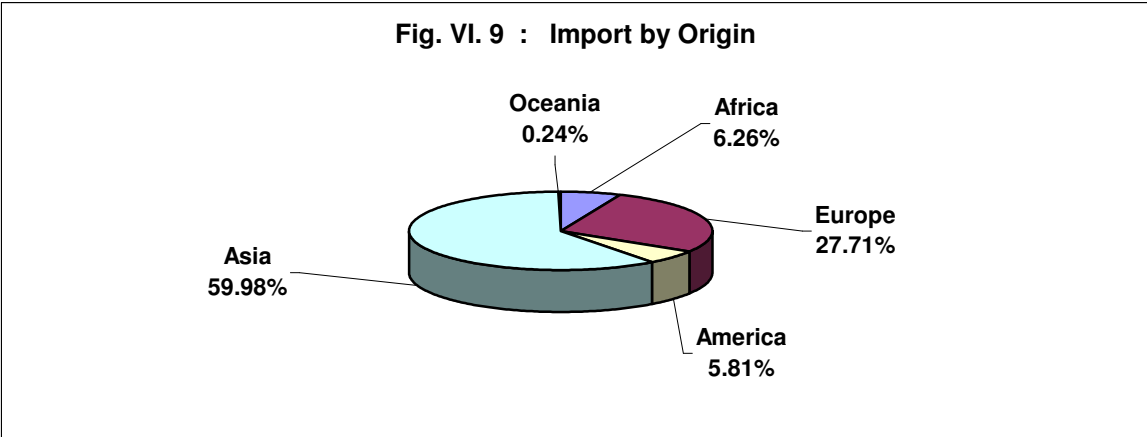


Meanwhile about 60.0 percent of Ethiopia's import originated from Asia where China accounted for 16.6 percent followed by Saudi Arabia (15.2 percent) and India (7.0 percent). The major imported items from China included clothing, textiles, metals and machineries while more than 90.0 percent of imports from Saudi Arabia constituted petroleum products.

About 25 percent of imports originated from Europe of which Italy accounted for 7.7 percent, Germany 3.7 percent and Belgium 2.0 percent. Electrical materials, machinery and vehicles were the main items imported from Europe.

African countries accounted for only 6.3 percent of Ethiopia's imports. The leading exporters to Ethiopia were Egypt 1.9 percent, Djibouti 1.1 percent and South Africa 0.8 percent. Petroleum products and metals were the major items imported from African countries.

Imports from the Americas accounted for 5.8 percent of total imports of which 94 percent originated from three countries. The United States of America was the leading exporter with a share of 3.8 percent followed by Brazil 1.6 percent and Canada 0.2 percent. Imports of machineries and grains accounted for the bulk of the imports from the Americas.



6.3 Services and Transfers

6.3.1 Services

The surplus in net services account improved from USD 148.1 million in 2005/06 to USD 190.8 million in 2006/07 mainly as a result of increased net receipts from travel and transportation services and lower interest payments on official debt.

Net receipts from travel services rose by 29.0 percent from USD 60.4 million last year to USD 69.4 million in the review year. Similarly, net receipts from transport services grew to USD 72.7 million from USD 43.0 million last year or by 69 percent. There was a slight decline of 7.1 percent in net receipts from government services from USD 278.5 million last year to USD 258.8 million.

Net interest income grew from USD 27.4 million in 2005/06 to USD 47.2 million in 2006/07 mainly as a result of a 50.0 percent drop in interest payment on external debt coupled with a marginal increase in gross interest receipts. On the other hand, net payment for other services increased by 3.2 percent and reached USD 240.1 million in 2006/07.

6.3.2 Unrequited Transfers

Net private transfers increased by 38.3 percent during 2006/07 and reached USD 1,695.6 million. Cash transfers through non-governmental organizations rose by 7.6 percent while cash transfers by private individuals surged by 78.3 percent. Transfers in-kind by private individuals also grew by more than three fold during

the fiscal year due to the government's policy to allow import of cement on franco

valuta basis in order to augment the domestic supply.

Table 6.7: Unrequited Transfers

(In Millions of USD)

No.	Particulars	2004/05		2005/06		2006/07		Percentage Change	
		A	% Share	B	% Share	C	% Share	C/B	C/A
		1	Private Transfers	810.8	52.0	1,226.3	58.6	1,695.6	58.6
1.1	Receipts	828.1	52.3	1,236.5	59.1	1,710.7	59.1	38.4	106..6
	NGO's	457.4	28.9	499.8	23.9	537.4	18.6	7.5	17.5
	Cash	444.0	28.1	497.8	23.8	535.4	18.5	7.6	20.6
	Other	0.0	0.0	0.0	0.0	0.0	0.0		
	Food	13.4	0.8	2.1	0.1	2.0	0.1	-4.8	-85.0
	Private individuals	370.7	23.4	736.7	35.2	1,173.3	40.5	59.3	216.5
	Cash	350.8	22.2	354.9	17.0	632.6	21.9	78.2	80.4
	In kind	20.0	1.3	16.8	0.8	58.6	2.0	248.8	193.6
	Underground transfers (in kind)			365.1	17.4	482.1	16.7	32.0	
1.2	Payments	-17.3	76.6	-10.2	53.4	-15.2	73.4	49.0	-12.2
2	Official Transfers	749.7	48.0	866.2	41.4	1,199.1	41.4	38.4	59.9
2.1	Receipts	755.0	47.7	875.2	41.8	1,204.7	41.6	37.6	59.6
	Cash	659.8	41.7	811.3	38.8	1,180.4	40.8	45.5	78.9
	Other	0.3	0.0	0.4	0.0	0.7	0.0	75.0	159.3
	Food	94.9	6.0	63.5	3.0	23.6	0.8	-62.8	-75.1
2.2	Payments	-5.3	23.4	-8.9	46.6	-5.5	26.6	-38.2	4.0
	Net Transfers	1,560.5	100.0	2,092.5	100.0	2,894.7	100.0	38.3	85.5

Source: DPPC and FESMD, NBE

Similarly, net official transfers significantly increased by 38.4 percent from USD 866.2 million in 2005/06 to USD 1,199.1 million in 2006/07 as a result of increased disbursement of grants from both multilateral and bilateral donors. Official cash transfers reached USD 1,180.4 million in 2006/07 compared to USD 811.3 million in the preceding fiscal year.

6.4 Current Account

Despite the widening of the trade deficit, the current account deficit narrowed down to USD 855.4 million (5.7 percent of GDP) in 2006/07 from USD 1,351.8 million (10.2 percent of GDP) in the preceding fiscal year as a result of the improvement in the surplus of the service account and the

significant increases in private as well as official transfers.

6.5 Capital Account

The surplus in the capital account increased by 23.1 percent to reach USD 780.2 million compared to USD 633.8 million in the preceding fiscal year. Increased net official loan disbursement and higher foreign investment inflow were behind the improvement in the surplus of the capital account. Net official long-term capital increased by 13.5 percent and reached USD 340.0 million due to a moderate rise in disbursement of loans to the government and a sharp decline in amortization payments. On the other hand, foreign direct investment is estimated to have reached USD 482.0 million in 2006/07 compared to USD 365.1 million in the preceding fiscal year.

6.6 Changes in Reserve Position

As a result the surplus in the balance of payments, the net foreign assets of the banking system recorded a build-up of USD 84.7 million compared to a draw-down of USD 207.5 million in the preceding fiscal year. Net foreign assets of

the National Bank of Ethiopia increased by USD 39.4 million while that of commercial banks rose by USD 45.3 million. Hence, at the end of the fiscal year, gross foreign reserves were equivalent to cover 2.2 months of imports of goods and non-factor services.

6.7 External Debt

The stock of Ethiopia's external debt drastically fell by 61.8 percent from USD 6,029.1 million at the end of the preceding fiscal year to USD 2,300.3 million in 2006/07. Thanks to the effect of MDRI. Accordingly, debt owed to multilateral creditors declined from USD 4.9 billion (80.9 percent of the total debt) to USD 1.2 billion (51.7 percent). Similarly, debt owed to bilateral creditors dropped from USD 797.7 million to USD 663.9 million where share in total external debt reached 2.8 percent. In contrast, the country's commercial debt increased from USD 355.1 million to USD 447.8 million accounting for 19.5 percent of the total debt.

The ratio of external debt to GDP which was 39.8 percent at the end of the preceding fiscal year plummeted to 12.2

percent at the end of 2006/07. Similarly, the ratio of the stock of debt to export of goods and services also declined from 287.5 percent to 92.5 percent.

The debt service ratio (which is the ratio of principal and interest payments on external debt to export of goods and services) declined from 3.6 percent in 2005/06 to 1.2 percent in 2006/07. Ethiopia has contracted no arrears.

Table 6.8 External Public Debt

(In million of USD)

Particulars	2004/05	2005/06	2006/07	Percentage change	
	A	B	C	C/B	C/A
Debt Outstanding					
Lender Total	6021.0	6029.1	2300.3	-61.8	-61.8
Multilateral	4880.8	4876.3	1188.6	-75.6	-75.6
Bilateral	787.6	797.7	663.9	-16.8	-15.7
Commercial	352.6	355.1	447.8	26.1	27.0
Drawing by Lender	570.8	344.4	357.7	3.9	-37.3
Lender Total	570.8	344.4	357.7	3.9	-37.3
Drawing by Sector	570.8	344.4	357.7	3.9	-37.3
Sector Total	570.8	344.4	357.7	3.9	-37.3
Debt Service	97.7	76.1	29.8	-60.8	-69.5
Principal repayments	72.9	51.4	17.8	-65.4	-75.6
Interest Payments	24.8	24.7	12.0	-51.4	-51.7
Debt Stock to GDP Ratio	49.0	39.8	12.2	-69.5	-75.2
Debt Stock to Export of goods & services	324.0	287.5	92.5	-67.8	-71.4
Receipt from goods & non-factor Services	1858.6	2097.4	2486.2	18.5	33.8
Debt service ratio (%) 1/	5.3	3.6	1.2	-67.0	-77.2
Arrears2/	0.0	0.0	0.0	-	-
Principal	0.0	0.0	0.0	-	-
Interest	0.0	0.0	0.0	-	-
Relief	83.8	133.0	102.9	-22.6	22.8
Principal	57.3	96.0	72.9	-24.1	27.2
Interest	26.5	37.0	30.0	-18.9	13.2

Source: Ministry of Finance and Economic Development

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

2. Outstanding as at end period

6.8 Developments in the Foreign Exchange Market

6.8.1 Developments in the Nominal Exchange Rate

The weighted average exchange rate of the Birr reached Birr 8.7943/USD during the fiscal year showing a depreciation of 1.3 percent compared to the preceding fiscal year. The rate of depreciation during the

fiscal year was faster than the 0.37 percent in 2004/05 and 0.34 percent in 2005/06.

On the other hand, the exchange rate of the Birr in the parallel market appreciated by 0.8 percent to Birr 8.957/USD. As a result, the premium between the official and parallel market exchange rates, which was 4.0 percent in the preceding fiscal year, narrowed down to 1.9 percent in 2006/07.

Table 6.9 Inter-Bank and Parallel Forex Market Exchange Rates (Birr/USD)

Period	Average Weighted Rate	Amount Traded in millions of USD		Number of Trades		Average Rate in the Parallel Market
		Total	o/w Among CBs	Total	o/w Among CBs	
2004/05	8.6518	138.9	22.2	1,290	62	8.7110
Qtr. I	8.6408	28.8	0.6	281	9	8.7143
Qtr. II	8.6483	38.4	0.5	429	3	8.7152
Qtr. III	8.6554	33.8	5.9	354	18	8.6961
Qtr. IV	8.6625	37.9	15.2	226	32	8.7185
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

Source: BFED, NBE

Note: CBs= commercial banks.

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

mirrored the exchange rate developments in the inter-bank foreign exchange market.

Accordingly, the buying and selling rates of forex bureaux and commercial banks each depreciated by 1.3 percent compared to their levels of the preceding fiscal year. Their average buying exchange rate was Birr 8.7949/USD while their selling rate was Birr 8.9666/USD. Thus, the average spread between their buying and selling rates slightly narrowed down to 1.95

percent compared to 1.99 percent during the preceding fiscal year.

Similarly, the average buying and selling rates of commercial banks depreciated by 1.3 percent and reached Birr 8.7953/USD and 8.9701/USD respectively with the spread narrowing to 1.99 percent to 2.0 percent.

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

Currency	2004/05	2005/06	2006/07	Percentage change	
	A	B	C	C/B	C/A
USD	8.7095	8.7383	9.0746	3.85	4.19
Pound	15.7353	16.0164	18.1673	13.43	15.46
Swedish Kroner	1.1145	1.2037	1.3209	9.74	18.52
Djibouti Frank	0.0490	0.0492	0.0511	3.87	4.18
Swiss Frank	6.8027	7.0882	7.3615	3.86	8.22
Saudi Riyal	2.3222	2.3296	2.4195	3.86	4.19
UAE Dirhams	2.3711	2.3796	2.4706	3.82	4.19
Canadian Dollar	7.0838	7.8759	8.5690	8.80	20.97
Japanese Yen	0.0790	0.0760	0.0735	-3.34	-6.92
Euro	10.5262	11.1073	12.1989	9.83	15.89
SDR	12.7083	12.8212	13.7419	7.18	8.13

Source: NBE

During 2006/07, the Birr depreciated against all of the currencies of Ethiopia's major trading partners except the Japanese Yen. The end period exchange rate of the Birr against the British Pound depreciated

by 13.4 percent from Birr 16.02 in 2005/06 to Birr 18.17. Similarly, the Birr depreciated by 9.8 percent against the Euro, 9.7 percent against Swedish Kroner and 8.8 percent against the Canadian Dollar. The

depreciation of the Birr against these currencies was a reflection of the depreciation of the US dollar, which is the intervention currency in Ethiopia

6.8.2. Movements in the Real Effective Exchange Rate

As the inflation differential with Ethiopia's trading partners continued to widen, the real

effective exchange rate appreciated by 12.3 percent in 2006/07 despite a depreciation of 3.9 percent in the nominal effective exchange rate. As the continuous real appreciation of the Birr is likely to affect the competitiveness of Ethiopia's exports, concerted efforts are made to reduce the level of inflation.

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

	REERI	NEERI
1999/00	93.6	95.5
2000/01	87.9	98.7
2001/02	85.3	103.1
2002/03	97.4	96.5
2003/04	99.0	92.0
2004/05	94.3	85.6
2005/06	102.0	83.4
2006/07	114.5	80.1

Source: National Bank of Ethiopia, staff compilation

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

Where: REERI = Real effective exchange rate index

NEERI = Nominal effective exchange rate index

6.8.3 Foreign Exchange Transactions

The amount of foreign exchange traded in the interbank foreign exchange market during 2006/07 was USD 189.8 million, 41.6 percent higher than the amount traded in 2005/06 as the amount of foreign exchange supplied to the market both by the National Bank of Ethiopia and

commercial banks increased. Trading among commercial banks which accounted for just 7.7 percent of the total traded volume in 2005/06 increased to USD 59.4 million (31.3 percent of the total trade) in 2006/07.

In the retail market, the amount of foreign exchange purchased by commercial banks from exporters reached USD 476.3 million, 13.7 percent higher than the amount they purchased in the preceding fiscal year. On the other hand, the amount of foreign exchange sold to importers increased by 2.6 percent and reached USD 2,802.0 million.

Foreign exchange purchased by forex bureaux of commercial banks in 2006/07 amounted to USD 64.3 million, up by 47.7 percent compared to the preceding fiscal year. On the other hand, foreign exchange sold by the bureaux slightly went down from USD 31.3 million in 2005/06 to USD 25.2 million (19.7 percent).

Table 6.12: Foreign Exchange Transactions by Commercial Banks

(In Millions of USD)

Commercial Banks	2004/05		2005/06		2006/07		Percentage Change	
	A	B	C	D	E	F	E/C	F/D
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
Commercial Bank of Ethiopia	159.8	1585.2	144.5	1429.6	179.5	1574.2	24.2	10.1
Bank of Abyssinia	31.0	109.2	31.4	161.0	24.8	140.4	-21.1	-12.8
Dashen Bank	58.8	190.1	104.2	312.1	100.4	306.1	-3.6	-1.9
Awash International Bank	4.4	117.7	10.0	152.0	19.6	150.3	95.9	-1.1
Construction and Business Bank	0.1	111.5	3.0	111.2	5.4	64.9		-41.6
Wegagen Bank	72.4	158.2	92.3	245.7	117.1	271.3	26.8	10.4
United Bank	0.0	127.1	0.0	157.3	0.0	135.6		-13.8
Development Bank of Ethiopia	0.0	0.0	0.0	0.0	0.0	0.0		
Nib International Bank	44.5	113.7	33.3	160.6	29.6	151.9	-11.2	-5.4
Cooperative Bank of Oromia					0.0	7.3		
Total	371.1	2512.8	418.8	2729.7	476.3	2802.0	13.7	2.6
Average Exchange Rate (Br/USD)	8.6523	8.8200	8.6810	8.8545	8.7953	8.9701	1.317	1.305

Source: NBE

**Table 6.13 Foreign Exchange Transactions by Foreign Exchange Bureaux of
Commercial Banks**

(In Millions of USD)

Name of Forex Bureau	2004/05		2005/06		2006/07		Percentage Change	
	A	B	C	D	E	F	E/C	F/D
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
Commercial Bank of Ethiopia	24.0	8.5	7.8	19.1	8.5	13.3	8.9	-30.1
Bank of Abyssinia	2.9	1.5	1.8	2.6	2.3	2.7	29.6	3.3
Dashen Bank	13.1	1.9	9.2	2.7	11.1	2.5	19.7	-4.7
Awash International Bank	1.5	0.8	0.6	1.1	0.8	1.5	20.9	29.8
Construction and Business Bank	1.3	0.2	0.5	0.4	0.6	0.3	16.7	-26.0
Wegagen Bank	3.2	1.5	6.9	2.6	10.4	1.9	52.1	-28.6
United Bank	10.0	0.9	9.3	1.5	6.1	1.4	-33.9	-9.9
Development Bank of Ethiopia	-	-	-	-	-	-	-	-
Nib International Bank	20.7	0.7	7.5	1.3	24.5	1.5	227.5	22.5
Cooperative Bank of Oromia	-	-	-	-	-	-	-	-
Total	76.6	15.9	43.5	31.3	64.3	25.2	47.7	-19.7
Average Exchange Rate (Br/USD)	8.6561	8.8233	8.6808	8.8537	8.7949	8.9666	1.3	1.3

Source: NBE