

## V. External Sector Developments

### 5.1 Overall Balance of Payments

The overall balance of payments registered a surplus of USD 171.7 million during the fourth quarter of 2006/07 compared to deficits of USD 53.6 million and USD 55.5 million

recorded during the preceding quarter and the same quarter of last year, respectively. This was mainly due to narrowing trade deficit and the significant increase in public transfers during the quarter.

Table V.1 Balance of Payments

(Millions of USD)

Ethiopian Fiscal Year Particulars	2005/06		2006/07		Percentage Change	
	QIV	Annual	QIII	QIV	E=D/C	F=D/A
	A	B	C	D		
<b>Trade Balance</b>	<b>-1,029.8</b>	<b>-3,592.5</b>	<b>-1,052.5</b>	<b>-956.7</b>	<b>-9.1</b>	<b>-7.1</b>
Exports	325.7	1,000.3	339.8	410.9	20.9	26.2
Imports	1,355.5	4,592.8	1392.3	1367.6	-1.8	0.9
<b>Net Services</b>	<b>55.5</b>	<b>147.6</b>	<b>60.1</b>	<b>59.2</b>	<b>-1.5</b>	<b>6.7</b>
Travel	17.5	60.5	20.4	9.6	-53.0	-45.1
Transportation	4.4	43.2	7.1	20.9	194.8	375.0
Government (n.i.e.)	78.5	278.4	60.3	43.8	-27.4	-44.2
Investment income	0.5	-1.8	7.2	8.9	23.4	1680.0
Interest	12.2	26.7	10.9	14.1	29.4	15.6
Cash (net)	12.2	26.7	10.9	14.1	29.4	15.6
Arrears	0.0	0.0	0.0	0.0	-	-
Dividend	-11.7	-28.5	-3.7	-5.2	40.9	-55.6
Other Services	-45.4	-232.7	-34.9	-24.0	-31.2	-47.1
<b>Private Transfers</b>	<b>370.0</b>	<b>1226.4</b>	<b>449.0</b>	<b>482.3</b>	<b>7.4</b>	<b>30.3</b>
<b>Current Account Balance(excl. public transfers)</b>	<b>-604.3</b>	<b>-2218.6</b>	<b>-543.5</b>	<b>-415.2</b>	<b>-23.6</b>	<b>-31.3</b>
<b>Public Transfers</b>	<b>186.6</b>	<b>866.2</b>	<b>230.9</b>	<b>598.7</b>	<b>159.3</b>	<b>220.8</b>
<b>Current Account Balance(incl. public transfers)</b>	<b>-417.6</b>	<b>-1,352.4</b>	<b>-312.6</b>	<b>183.5</b>	<b>-158.7</b>	<b>-143.9</b>
<b>Non-monetary Capital</b>	<b>229.7</b>	<b>528.5</b>	<b>248.4</b>	<b>133.0</b>	<b>-46.5</b>	<b>-42.1</b>
Long-term (net)	88.2	187.8	60.3	59.2	-1.8	-32.9
Disbursements	89.1	239.2	63.6	61.2	-3.8	-31.3
Repayments	0.9	51.4	3.3	2.0	-39.1	132.1
Cash	0.9	51.4	3.3	2.0	-39.1	132.1
Arrears	0.0	0.0	0.0	0.0	-	-
Direct Investment (net)	146.5	365.1	175.7	92.1	-47.6	-37.1
Short-term (net)	-4.9	-24.3	12.4	-18.3	-247.7	270.3
<b>Net Errors &amp; Omissions</b>	<b>132.4</b>	<b>616.3</b>	<b>10.6</b>	<b>-144.8</b>	<b>-1,471.5</b>	<b>-209.4</b>
<b>Overall Balance</b>	<b>-55.5</b>	<b>-207.5</b>	<b>-53.6</b>	<b>171.7</b>	<b>-420.4</b>	<b>409.34</b>
<b>Financing</b>	<b>55.5</b>	<b>207.5</b>	<b>53.6</b>	<b>-171.7</b>	<b>-420.4</b>	<b>-409.3</b>
<b>Reserves (-:increase)</b>	<b>55.5</b>	<b>207.5</b>	<b>53.6</b>	<b>-171.7</b>	<b>-420.4</b>	<b>-409.3</b>
<b>NBE net foreign asset</b>	<b>44.7</b>	<b>283.2</b>	<b>-84.4</b>	<b>-116.5</b>	<b>38.0</b>	<b>-360.5</b>
<b>CBs net foreign asset</b>	<b>10.8</b>	<b>-75.7</b>	<b>138.0</b>	<b>-55.2</b>	<b>-140.0</b>	<b>-611.5</b>

Source: Staff compilation.

Current receipts reached USD 1,854.0 million whose performance went up by 38.2 and 55.1 percent vis-à-vis the preceding quarter and the same quarter of last year, respectively. During the quarter, all types of current receipts surged significantly. Net public transfers, however, registered the highest performance of 159.3 and 221.1 percent growth on quarterly and annual bases. On the other hand, current payments showed a modest quarterly growth of 1.0 percent and reached USD 1,670.4 million due to a

15.7 percent increase in service payments, which offset a 1.8 percent decline in import payments. Year-on-year basis, current payments rose by 3.5 percent and stood at USD 1670.4 million. As a result, net current receipts reached USD 183.6 million against net current payments of USD 312.7 million and USD 417.6 million recorded in the preceding quarter and the same quarter of the previous fiscal year.

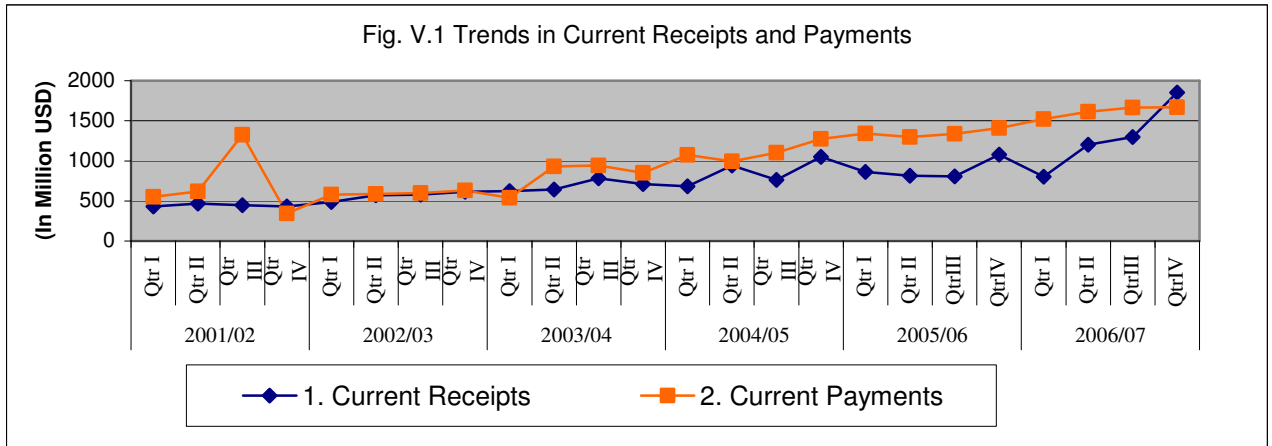
All in all, current receipts exceeded current payments by about 11 percent.

Table V.2 Current Receipts and Payments

(In Million of USD)

Particulars	2005/06	2006/07		Percentage Change	
	Qtr IV	Qtr III	Qtr IV	D=C/B	E=C/A
	A	B	C		
<b>1. Current Receipts</b>	<b>1,195.6</b>	<b>1,341.2</b>	<b>1,854.0</b>	<b>38.2</b>	<b>55.1</b>
Export Proceeds	325.7	339.8	410.9	20.9	26.2
Service Proceeds	313.3	321.6	362.0	12.6	15.5
Private Transfers (Net)	370.0	449.0	482.3	7.4	30.3
Public Transfer (Net)	186.5	230.9	598.8	159.3	221.1
<b>2. Current Payments</b>	<b>1,613.2</b>	<b>1,653.9</b>	<b>1,670.4</b>	<b>1.0</b>	<b>3.5</b>
Import Payments	1,355.5	1,392.3	1,367.6	-1.8	0.9
Service Payments	257.7	261.6	302.8	15.7	17.5
<b>3. Net(1-2)</b>	<b>-417.6</b>	<b>-312.7</b>	<b>183.6</b>	<b>-158.7</b>	<b>-144.0</b>

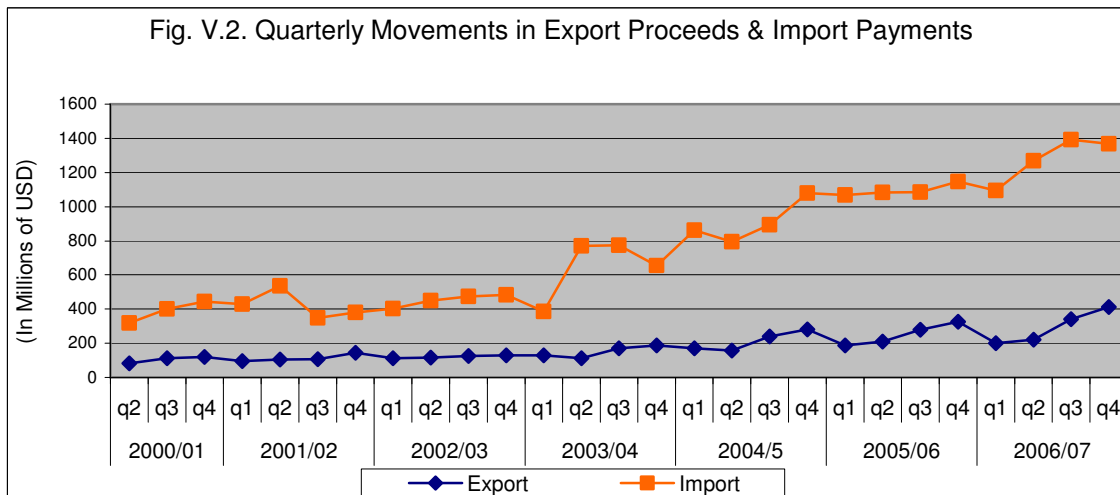
Source: Staff Compilation

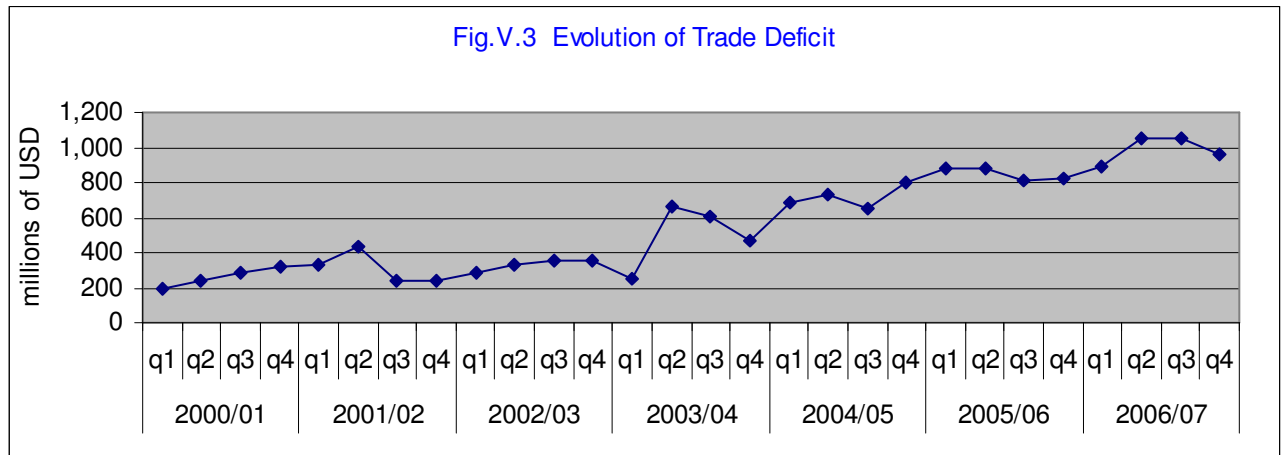


## 5.2 Merchandise Trade

Merchandise trade deficit narrowed down to USD 956.7 million (by 9.1 percent) during the fourth quarter of 2006/07 compared to a deficit of USD 1,052.5 million recorded in the

preceding quarter and USD 1029.9 million a year earlier. An increase of 20.9 percent in exports coupled with a slight decline of 1.8 percent in imports were behind the quarterly outcome.





### 5.2.1 Exports

During the quarter under review, total export proceeds reached USD 410.9 million, up by 20.9 percent against the previous quarter due to the significant surge in volume of coffee & gold export despite the decline in the export volumes flower and other non-traditional exports

of major export items such as oilseeds and pulses. Total export also went up by 26.2 percent year on year basis due to the significant rises in export of pulses, oilseeds, leather and leather products,

Table V.3 Values of Major Export Items

(In Millions of USD)

Particulars	2005/06		2006/07				Percentage Change	
	Qtr IV	%share	Qtr III	%share	Qtr IV	%share	C/B	C/A
	A		B		C			
Coffee	157.6	48.4	110.7	32.6	154.7	37.6	39.7	-1.9
Oilseeds	41.4	12.7	78.7	23.2	59.2	14.4	-24.8	42.9
Leather and Leather products <sup>1</sup>	23.2	7.1	23.3	6.9	26.1	6.3	11.8	12.4
Pulses	9.6	3.0	20.1	5.9	21.1	5.1	5.1	118.9
Meat & Meat Products	3.5	1.1	2.1	0.6	2.2	0.5	2.8	-37.4
Fruits & Vegetables	2.7	0.8	6.9	2.0	2.9	0.7	-57.7	6.4
Live Animals	5.3	1.6	10.6	3.1	7.1	1.7	-32.8	34.6
Chat	22.6	6.9	24.9	7.3	25.1	6.1	0.8	11.0
Gold	36.8	11.3	11.0	3.2	63.7	15.5	478.8	73.3
Flower	7.0	2.1	22.3	6.6	19.6	4.8	-12.1	180.7
Others	16.0	4.9	29.2	8.6	29.3	7.1	0.1	83.5
<b>Total</b>	<b>325.7</b>	<b>100.0</b>	<b>339.8</b>	<b>100.0</b>	<b>410.9</b>	<b>100.0</b>	<b>20.9</b>	<b>26.2</b>

<sup>1</sup> Formerly named as hides and skins

Source: Ethiopian Customs Authority.

Export earnings from coffee rose by 39.7 percent on quarterly basis and reached USD 154.7 million as a result of a 62.2 percent rise in the volume of exports which offset a slight decline of 4.3 percent in international prices. The increase in the volume of coffee exports was mainly the result of seasonality factor since coffee harvest usually surges during the second half of the fiscal year.

Export revenue from coffee, however, slightly declined by 1.9 percent on annual basis, despite the 3.9 percent increase in international prices as export volumes dropped by 5.5 percent.

Meanwhile, export revenue from oilseeds significantly dropped by 24.8 percent owing to a decline of 33.3 percent in the volume of exports although its international prices picked up by 12.8 percent. On annual basis, however, oilseeds exports rose by 42.9 percent as both the export volume and international prices were higher by 28.4 and 11.2 percent, respectively.

The volume of gold exports during the review period significantly increased to

3,500 Kg compared to 700 Kg during the preceding quarter leading to a 478.8 percent surge in export proceeds from gold which reached USD 63.7 million. The slight improvement in the international price (8.8 percent) also contributed to this effect. Year-on-year basis, the performance showed 73.2 percent increase on account of higher export volume and international prices.

Similarly, export revenue from leather & leather products reached USD 26.1 million, 11.8 percent higher than the earnings of the preceding quarter due to a 10.1 percent rise in the volume of exports coupled with a 1.6 percent increase in international prices. On annual basis, it also increased by 12.4 percent mainly due to a 36.2 percent surge in international prices which more than offset a 17.5 percent decline in the volume of exports.

In spite of the slight slowdown in the volume of exports by 3.4 percent on quarterly basis, export earnings from pulses rose by 5.1 percent due to the pick up in its international prices by 8.8 percent. Compared to the same quarter

last year, exports of pulses jumped by 118.9 percent owing to 60.6 and 36.3 percent increases in the volume of exports and international prices, respectively.

Meanwhile, earnings from flower exports slightly went down from USD 22.3 million during the preceding quarter to USD 19.6 million (by 12.1 percent) mainly due to a decline in international prices although there was no change in the export volume. On annual basis, however, flower exports jumped by 180.7 percent.

Export earnings from chat and meat increased by 0.8 and 2.8 percent, respectively while exports of live animals and fruits & vegetables went down by 32.8 and 57.7 percent, respectively.

As for the percentage of share of each component in total exports during the review quarter, coffee took the lion's share of total export accounting for

37.6 percent compared to 32.6 & 48.4 percent share in the preceding quarter and the same quarter of last year. As a result of the big surge in the volume of exports during the quarter, gold became the second largest export earner with a share of 15.5 percent compared to just 3.2 percent during the preceding quarter. Oilseeds exports accounted for 14.4 percent of total exports followed by leather & leather products (6.3 percent), chat (6.1 percent) and pulses (5.1 percent).

All in all, export revenue accounted for 30 percent of the total quarterly merchandise import bill.

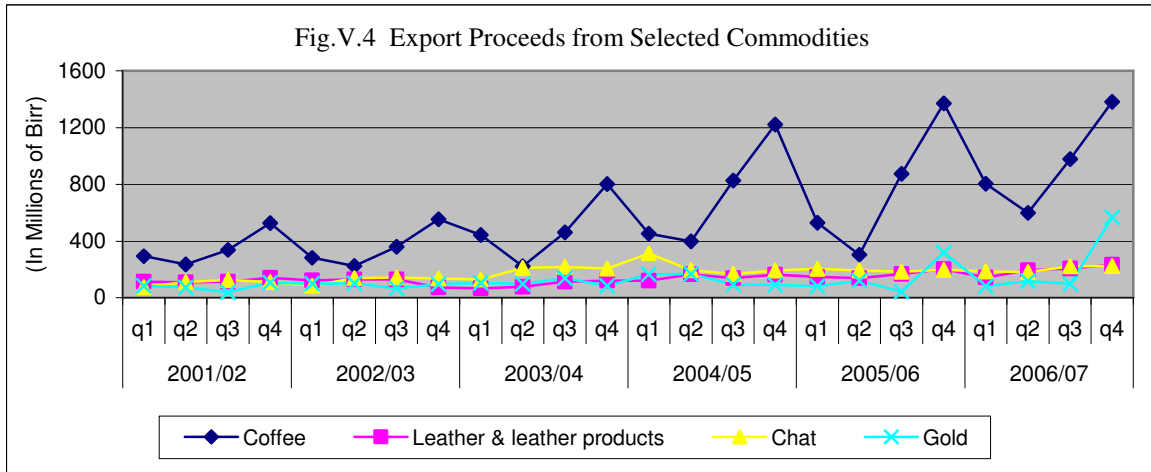


Table V.4: Volumes of Major Export Items (Mn Kg)

Particulars	2005/06		2006/07		Percentage Change	
	QIV	QIII	QIV	C/B	C/A	
	A	B	C			
Coffee	65.87	42.62	62.24	46.06	-5.51	
Oilseeds	52.06	100.21	66.86	-33.28	28.42	
Leather and Leather products <sup>a</sup>	5.08	3.81	4.19	10.08	-17.46	
Pulses	26.96	44.82	43.29	-3.41	60.59	
Meat & Meat Products	1.42	0.80	0.84	5.04	-40.77	
Fruits & Vegetables	7.30	11.97	9.65	-19.40	32.11	
Live Animals	7.56	12.19	8.99	-26.29	18.92	
Chat	6.07	6.03	6.30	4.56	3.77	
Gold	0.0027	0.0007	0.0035	431.85	30.59	
Flower	2.10	4.35	4.37	0.56	108.31	

<sup>a</sup> formerly known as hides and skin

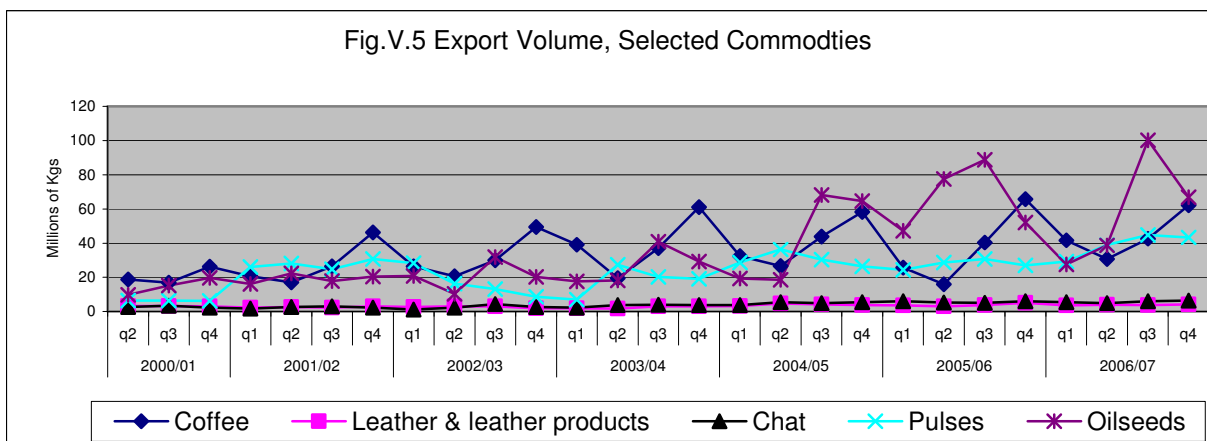
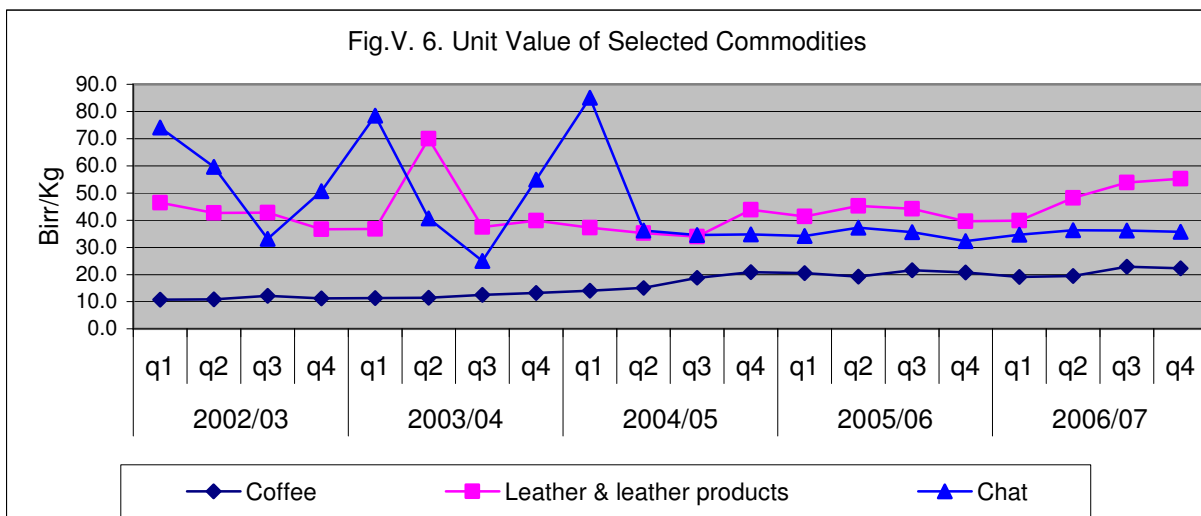




Table V.5: Unit Values of Major Export Items  
(USD/kg)

Particulars	2005/06	2006/07		Percentage Change	
	QIV	QIII	QIV	C/B	C/A
	A	B	C		
Coffee	2.39	2.60	2.48	-4.32	3.85
Oilseeds	0.80	0.78	0.89	12.77	11.24
Leather and Leather products <sup>1</sup>	4.56	6.12	6.21	1.56	36.20
Pulses	0.36	0.45	0.49	8.78	36.33
Meat & Meat Products	2.48	2.68	2.62	-2.15	5.77
Fruits & Vegetables	0.38	0.58	0.30	-47.47	-19.47
Live Animals	0.70	0.87	0.79	-8.85	13.20
Chat	3.72	4.13	3.98	-3.56	6.96
Gold	13,724.76	16,732.55	18,209.32	8.83	32.67
Flower	3.33	5.13	4.48	-12.59	34.75

<sup>1</sup> formerly known as hides and skin



## 5.2.2 Imports

Total merchandise imports declined slightly by 1.8 percent on quarterly basis and reached USD 1,367.6 million mainly

due to slow down in imports of fuel and raw materials. On annual basis, however, imports rose modestly by 0.9 percent.

Table V.6: Values of Major Import Items

(In Millions of USD)

Particulars	2005/06		2006/07				Percentage Change	
	Qtr IV	% share	Qtr III	% share	Qtr IV	% share	C/B	C/A
	A		B		C			
Raw Materials	15.5	1.1	60.2	4.3	40.9	3.0	-32.0	164.2
Semi-finished Goods	203.6	15.0	213.6	15.3	237.2	17.3	11.1	16.5
Fertilizers	25.0	1.8	36.4	2.6	62.3	4.6	71.3	148.7
Fuel	447.6	33.0	238.2	17.1	167.7	12.3	-29.6	-62.5
Petroleum Products	446.5	32.9	237.4	17.1	166.9	12.2	-29.7	-62.6
Others	1.1	0.1	0.8	0.1	0.7	0.1	-1.3	-30.6
Capital Goods	367.9	27.1	509.2	36.6	527.8	38.6	3.7	43.5
Transport	119.0	8.8	184.4	13.2	152.2	11.1	-17.5	27.9
Agricultural	8.1	0.6	10.5	0.8	6.6	0.5	-37.4	-19.2
Industrial	240.8	17.8	314.3	22.6	369.1	27.0	17.4	53.3
Consumer Goods	288.6	21.3	337.9	24.3	339.3	24.8	0.4	17.6
Durables	117.9	8.7	119.3	8.6	124.6	9.1	4.4	5.6
Non-durables	170.7	12.6	218.6	15.7	214.7	15.7	-1.8	25.8
Miscellaneous	32.4	2.4	33.2	2.4	54.7	4.0	64.6	68.9
<b>Total Imports</b>	<b>1,355.5</b>	<b>100.0</b>	<b>1,392.3</b>	<b>100.0</b>	<b>1,367.6</b>	<b>100.0</b>	<b>-1.8</b>	<b>0.9</b>

Source: Ethiopian Customs Authority

Import of capital goods, which accounted for 38.6 percent of total imports during the review quarter, went up by 3.7 percent on quarterly and 43.5 percent on annual basis. Continued investment needs are behind the persistent increase in capital goods imports.

Consumer goods imports, which were the second largest import category (24 percent), went up by 0.4 and 17.6 percent quarterly and annual basis.

On the other hand, fuel imports, dropped by 29.6 percent against the previous

quarter and 62.6 percent compared to last year same period. As a result, the share of fuel imports in total imports declined from 17 percent in the preceding quarter to 12.3 percent in the review period.

Similarly, imports of raw materials declined from USD 60.2 million in the preceding quarter to USD 40.9 million (32.0 percent). On annual basis, however, it surged by 164.2 percent.

Import of semi-finished goods, which accounted for 17.3 percent of total imports, went up by 11.1 percent and

reached USD 237.2 million. It also increased by 16.5 percent compared to the same period last year.

Franco-valuta imports have surged significantly during this fiscal year because of the government's decision to allow the import of cement on franco-valuta basis in order to meet the rising domestic demand for cement. During the review period import of

cement on franco-valuta basis, however, declined from USD 29.4 million in the preceding quarter to USD 17.2 million resulting in a 38.7 percent drop in total franco-valuta imports. The slowdown in import of cement in the quarter was presumably due the up coming rainy season where construction usually slows down.

Table V.7: Values of Franco Valuta Imports

(In Millions of USD)

Particulars	2005/06	2006/07		Percentage Change	
	QIV	QIII	QIV	C/B	C/A
	A	B	C		
Vehicles	1.836	0.014	0.031	122.04	-98.33
Vehicle Spare Parts	0.007	0.004	0.000	-	-
Other Spare Parts	0.042	0.059	0.020	-64.99	-51.64
Textile & Ready Made	0.011	0.006	0.135	2,043.17	1,076.58
Household Goods	0.026	0.016	0.001	-96.66	-98.03
Medicine & Medical Equip.	0.023	0.019	0.788	3960.08	3268.43
Food Stuffs	0.003	0.003	0.004	39.91	36.03
Electronic Goods	0.048	0.043	0.017	-61.49	-65.49
Machinery Equip. & Spare Parts	0.000	0.000	0.000	-	-
Cement	-	29.381	17.217	-41.40	-
Others	0.166	0.412	0.145	-64.81	-12.86
<b>Total</b>	<b>2.16</b>	<b>29.96</b>	<b>18.36</b>	<b>-38.72</b>	<b>748.38</b>

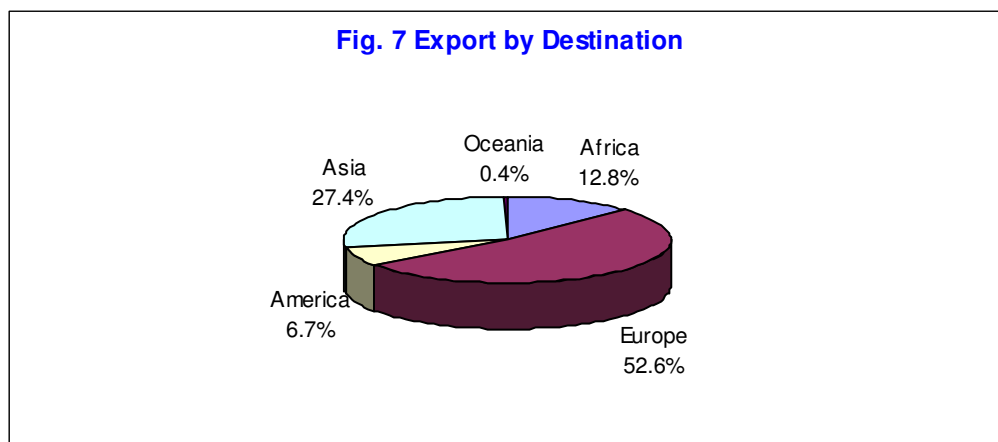
Source: NBE, Foreign Exchange Statistics and Monitoring Dept. (FESMD).

### 5.2.3 Direction of Trade

Europe continued to be the major market destination for Ethiopian exports, with exports to the continent accounting for over half of the export during the review quarter. Generally, the top three markets for Ethiopia's exports in Europe were Germany, Italy and the Netherlands. During the fourth quarter of 2006/07, however, exports to Switzerland accounted for 30.2 percent of the exports to Europe compared to 20.9 percent for Germany and 12.5 percent for Italy. Asia was the second

largest market for Ethiopia's exports accounting for 27.4 percent of total exports. The three largest markets in Asia were Japan (24.1 percent), Saudi Arabia (19.5 percent) and China (14.7 percent).

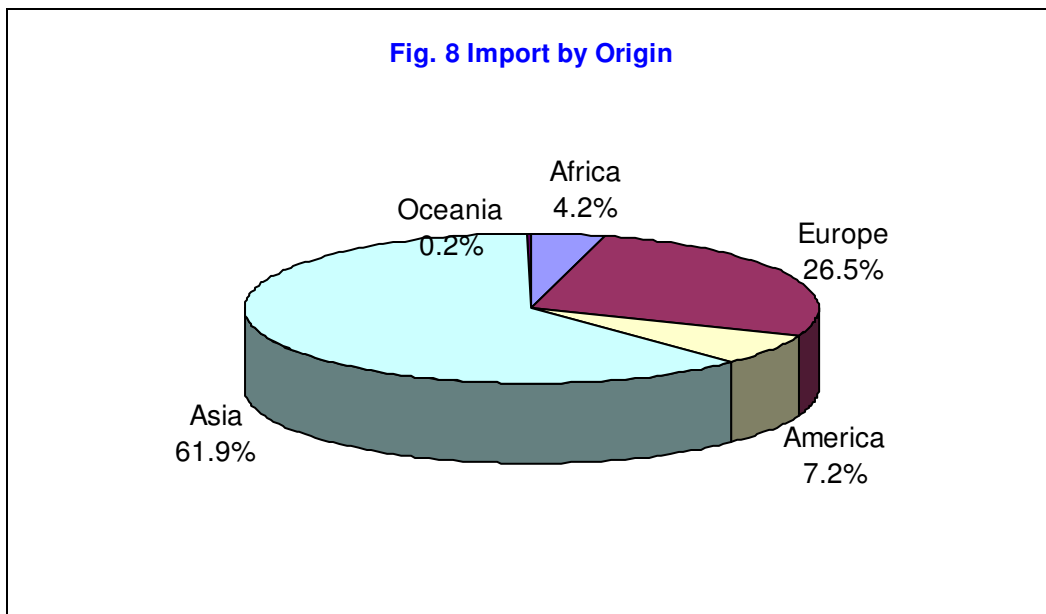
About 12.8 percent of Ethiopia's exports went to Africa with the three neighboring countries namely Somalia, Sudan and Djibouti accounting for more than 87.0 percent. The share of the Americas from Ethiopia's total exports was 6.7 percent out of which 88.8 percent went to the United States.



Meanwhile, of the total imports of the country during the fourth quarter of 2006/07, 61.9 percent came from Asia. Four countries, namely China, Saudi Arabia, India and Japan accounted for 77.6 percent of the imports from Asia.

Imports from Europe accounted for 26.5 percent of total imports, the leading countries being Italy (32.0 percent), Germany (11.9 percent) and France (4.8 percent). The share of Americas in total

imports was 7.2 percent and that of Africa 4.2 percent. The United States and Brazil were the leading exporters to Ethiopia while Egypt and South Africa accounted for the bulk of imports from the African continent.



### 5.3 Services and Transfers

The surplus in the services account slightly declined by 1.4 percent from USD 60.0 million in the preceding quarter to USD 59.2 million. This

decline was due to slowdown in net receipts from travel and government services. Net travel receipts declined from USD 20.4 million to USD 9.7

million (by 52.6 percent) while, net receipts from transportation services increased from USD 7.0 million to USD 20.8 million (196.3 percent).

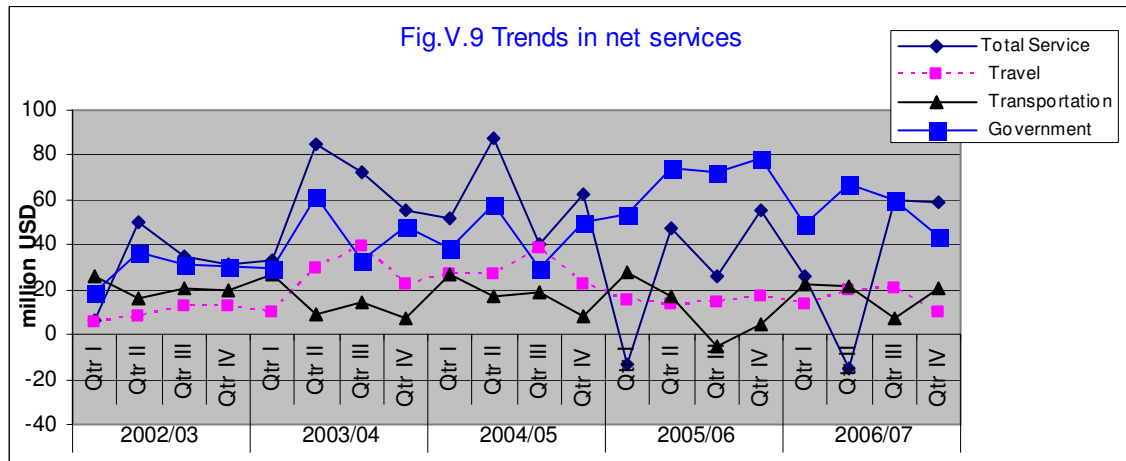
On annual basis, the surplus in the service account improved by 6.6 percent.

**Table V.8: Trends in Service Accounts**

(In Millions of USD)

Particulars	2005/06		2006/07				Percentage Change	
	QIV	%	QIII	%	QIV	%	C/B	C/A
	A	Share	B	Share	C	Share		
<b>Receipts</b>	<b>313.3</b>	<b>100.0</b>	<b>321.6</b>	<b>100.0</b>	<b>362.0</b>	<b>100.0</b>	<b>12.6</b>	<b>15.6</b>
Travel	45.5	14.5	43.2	13.4	33.6	9.3	-22.1	-26.1
Transportation	130.3	41.6	156.4	48.6	163.0	45.0	4.2	25.1
Government (n.i.e)	84.2	26.9	62.3	19.4	47.1	13.0	-24.5	-44.1
Investment Income	15.5	4.9	15.2	4.7	18.4	5.1	20.5	18.6
Interest	15.5	4.9	15.2	4.7	18.4	5.1	20.9	18.6
Dividend	0.0	0.0	0.1	0.0	0.0	0.0	-	-
Other Services	37.8	12.1	44.5	13.8	100.0	27.6	124.8	164.7
Communication Services	9.7	3.1	24.1	7.5	18.7	5.2	-22.5	91.7
Construction Services	3.6	1.2	1.9	0.6	5.8	1.6	211.4	61.0
Insurance Services	3.3	1.1	0.8	0.3	1.6	0.5	102.8	-50.4
Financial Services	3.1	1.0	1.3	0.4	44.9	12.4	3,325.4	1,335.3
Computer and Information Service	0.3	0.1	0.0	0.0	0.1	0.0	447.9	-70.5
Other Business Services	17.7	5.6	16.0	5.0	28.9	8.0	80.9	63.2
Personal, cultural and recreational	0.0	0.0	0.4	0.1	0.0	0.0	-	-
<b>Payments</b>	<b>257.7</b>	<b>100.0</b>	<b>261.6</b>	<b>100.0</b>	<b>302.8</b>	<b>100.0</b>	<b>15.8</b>	<b>17.5</b>
Travel	28.0	10.8	22.7	8.7	23.9	7.9	5.2	-14.4
Transportation	125.9	48.9	149.4	57.1	142.1	46.9	-4.9	12.9
Government (n.i.e)	5.7	2.2	2.0	0.8	3.3	1.1	65.6	-41.6
Investment Income	15.0	5.8	8.0	3.1	9.5	3.1	18.1	-36.7
Interest	3.3	1.3	4.3	1.6	4.3	1.4	-0.7	29.5
Dividend	11.7	4.5	3.7	1.4	5.2	1.7	39.7	-55.4
Other Services	83.2	32.3	79.4	30.4	124.0	40.9	56.1	48.9
Communication Services	3.7	1.4	4.0	1.5	4.0	1.3	-0.3	8.8
Construction Services	32.5	12.6	24.8	9.5	61.0	20.1	145.6	87.6
Insurance Services	16.0	6.2	16.3	6.2	17.0	5.6	4.1	5.9
Financial Services	0.3	0.1	0.0	0.0	1.7	0.6	4,340.6	467.6
Computer and Information Service	0.8	0.3	1.0	0.4	1.6	0.5	61.9	96.8
Other Business Services	29.9	11.6	33.2	12.7	38.7	12.8	16.6	29.7
Personal, cultural and recreational	0.0	0.0	0.0	0.0	0.0	0.0	-	-
<b>Net Services</b>	<b>55.5</b>		<b>60.0</b>		<b>59.2</b>		<b>-1.4</b>	<b>6.6</b>

Source: Staffs Compilation



During the period under review, total unrequited transfers jumped by 59.0 percent from USD 679.8 million to USD 1,081.1 million mainly as a result of a increased cash disbursements. Official cash transfers to the government during the period surged by 170.8 percent to USD 599.7 million. Meanwhile, food aid showed a drastic decline, line with the government's preference to purchase food aid from domestic market.

Similarly, private transfers (including transfers through NGOs) increased by 7.4 percent and reached USD 482.3 million. Cash transfers through NGOs rose by 2.5 percent to USD 133.2 million while food aid remained

unchanged. Total private individuals transfers also rose from USD 320.7 million to USD 350.7 million as a result of the doubling of cash transfers, which offset the 38.7 and 46.1 percent slow down in transfers in kind and estimated underground transfers.

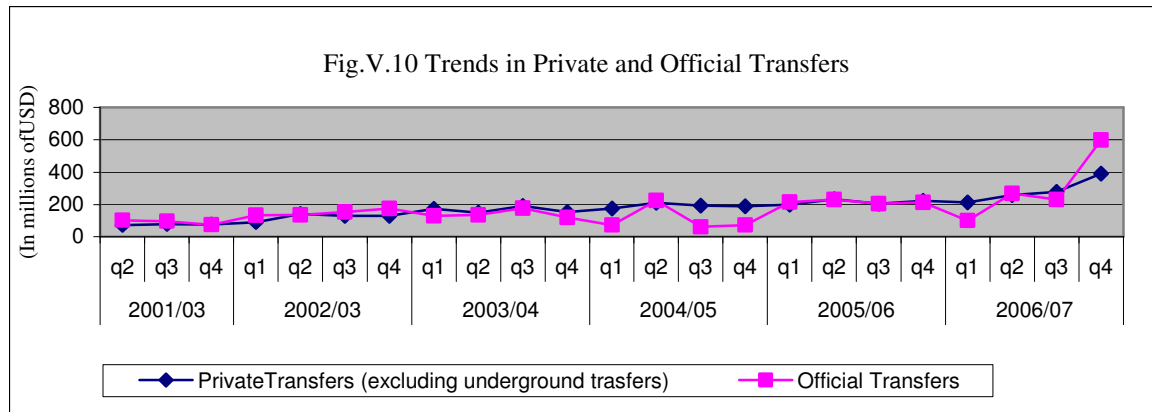
On annual basis, total unrequited transfers rose by 94.2 percent. The share of public transfers picked up from 33.5 percent to 55.4 percent while that of individual declined from 44.0 percent to 32.4 percent.

Table V.9: Developments of Transfer Accounts

(In Millions of USD)

Particulars	2005/06		2006/07				Percentage Change	
	Q IV	%	Q III	%	Q IV	%		
	A	Share	B	Share	C	Share	C/B	C/A
<b>Private Transfers</b>	<b>370.0</b>	<b>65.6</b>	<b>449.0</b>	<b>65.6</b>	<b>482.3</b>	<b>44.5</b>	<b>7.4</b>	<b>30.3</b>
Credit	372.9	66.1	451.3	65.9	484.5	44.7	7.4	29.9
<b>NGO's</b>	<b>128.3</b>	<b>22.7</b>	<b>130.5</b>	<b>19.1</b>	<b>133.8</b>	<b>12.3</b>	<b>2.5</b>	<b>4.3</b>
Cash	128.0	22.7	129.9	19.0	133.2	12.3	2.5	4.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Food	0.3	0.1	0.7	0.1	0.7	0.1	0.0	121.6
<b>Private individuals</b>	<b>244.6</b>	<b>43.4</b>	<b>320.7</b>	<b>46.9</b>	<b>350.7</b>	<b>32.3</b>	<b>9.3</b>	<b>43.3</b>
Cash	96.0	17.0	119.9	17.5	240.2	22.1	100.4	150.3
In-kind	2.2	0.4	30.0	4.4	18.4	1.7	-38.7	748.4
Under ground Private Transfers	146.5	26.0	170.9	25.0	92.1	8.5	-46.1	-37.1
Debit	-2.8	38.7	-2.3	51.5	-2.2	58.7	-4.6	-22.9
<b>Official Transfers</b>	<b>186.5</b>	<b>33.1</b>	<b>230.9</b>	<b>33.7</b>	<b>598.8</b>	<b>55.2</b>	<b>159.3</b>	<b>221.1</b>
Credit	191.0	33.9	233.1	34.1	600.3	55.3	157.6	214.3
Cash	175.3	31.1	221.5	32.4	599.7	55.3	170.8	242.2
Other	0.0	0.0	0.0	0.0	0.5	0.1	-	-
Food	15.8	2.8	11.6	1.7	0.1	0.0	-99.2	-99.4
Debit	-4.5	61.3	-2.2	48.5	-1.5	41.3	-28.7	-65.7
<b>Total Receipts</b>	<b>563.9</b>	<b>100.0</b>	<b>684.3</b>	<b>100.0</b>	<b>1,084.8</b>	<b>100.0</b>	<b>58.5</b>	<b>92.4</b>
<b>Total Payments</b>	<b>-7.3</b>	<b>100.0</b>	<b>-4.5</b>	<b>100.0</b>	<b>-3.7</b>	<b>100.0</b>	<b>-16.2</b>	<b>-49.1</b>
<b>Net Transfers</b>	<b>556.6</b>		<b>679.8</b>		<b>1,081.1</b>		<b>59.0</b>	<b>94.2</b>

Source: Staff Compilation



## 5.4 Current Account

Due to the decline in the trade deficit and the surge in transfer receipts, the current account (including official transfers) registered a surplus of USD

183.5 million during the fourth quarter of 2006/07 in contrast to deficits of USD 312.6 million and USD 417.6 million recorded in the preceding quarter and a year earlier.



## 5.5 Capital account

Meanwhile, the capital account surplus showed a significant quarter-on-quarter deterioration from USD 248.4 million to USD 133.0 million due to slowdown in estimated direct investment inflow by 47.6 percent. Net loan disbursement to the government also slightly declined by 1.8 percent from USD 60.3 million to USD 59.2 million. On annual basis too, the capital account surplus went down by 42.1 percent.

## 5.6 Changes in Reserve Position

As a result of the surplus in the overall balance of payments, there was a reserve build-up of USD 171.7 million in the banking system. Net foreign assets of the National Bank of Ethiopia rose by USD 116.5 million while that of commercial banks increased by USD 55.2 million.

## 5.7 Developments in the Foreign Exchange Market

### 5.7.1 Exchange Rate Movements

The average exchange rate of the Birr against the US dollar in the interbank

foreign exchange market reached Birr 8.9275/USD during the fourth quarter of 2006/07, depreciation by 1.1 and 2.7 percent against the preceding quarter and the year earlier. Similarly, the exchange rate of the Birr in the parallel market showed quarterly and annual depreciation rates of 1.4 and 0.9 percent, respectively and reached Birr 9.0795/USD. As the quarter depreciation rate of the Birr in the parallel market was higher than that of the official market, the spread between the official and the parallel market exchange rates widened from 1.4 percent during the preceding quarter to 1.7 percent. On annual basis, however, the spread has significantly narrowed down from 3.51 percent during the same quarter last year.

As the movements of the exchange rates of forex bureaux and commercial banks mirror the movement of the exchange rate in the interbank foreign exchange market, the rates of depreciation of both the buying and selling rates in the retail market were similar to those of the interbank market.

Table V.10: Exchange Rates in the Inter-bank Foreign Exchange Market

Period		Rates in Birr per USD				Amount Traded in millions of USD		Number of Trades		Parallel Market		Premium
		End Period Rates			Average Weighted Rate	Total	o/w Among CBs	Total	o/w Among CBs	End Period	Average	
		Weighted Rate	Highest	Lowest								
<b>2005/06</b>												
<b>Qtr. IV</b>	<b>C</b>	<b>8.6949</b>	<b>8.6949</b>	<b>8.6902</b>	<b>8.6914</b>	<b>31</b>	<b>0</b>	<b>354</b>	<b>0</b>	<b>8.8700</b>	<b>8.9962</b>	<b>3.51</b>
April		8.6902	8.6902	8.6902	8.6892	9	0	153	0	9.1339	9.1150	4.90
May		8.6925	8.6925	8.6925	8.6913	11	0	17	0	8.9300	8.9710	3.22
June		8.6949	8.6949	8.6949	8.6938	11	0	184	0	8.8700	8.9025	2.40
<b>2006/07</b>												
<b>Qtr. III</b>	<b>B</b>	<b>8.8439</b>	<b>8.8441</b>	<b>8.8394</b>	<b>8.8315</b>	<b>35</b>	<b>1</b>	<b>578</b>	<b>10</b>	<b>8.9890</b>	<b>8.9553</b>	<b>1.40</b>
January		8.8394	8.8395	8.8394	8.8113	14	0	214	3	8.9200	8.9009	1.02
February		8.8416	8.8417	8.8416	8.8406	10	0	197	0	8.9800	8.9777	1.55
March		8.8439	8.8441	8.8439	8.8428	11	0	167	7	8.9890	8.9873	1.63
<b>Qtr. IV</b>	<b>A</b>	<b>9.0296</b>	<b>9.0296</b>	<b>8.8611</b>	<b>8.9275</b>	<b>89</b>	<b>59</b>	<b>296</b>	<b>118</b>	<b>9.4250</b>	<b>9.0795</b>	<b>1.70</b>
April		8.8611	8.8611	8.8611	8.8488	22	11	129	9	9.0300	9.0025	1.74
May		8.9539	8.9539	8.9539	8.9210	38	24	79	50	9.0400	9.0233	1.15
June		9.0296	9.0296	9.0295	9.0127	30	24	88	59	9.4250	9.2126	2.22
Percentage changes	A/B	2.1	2.1	0.2	1.1	152.0	-	-48.8	-	4.9	1.4	21.5
	A/C	3.8	3.8	2.0	2.7	191.6	-	-16.4	-	6.3	0.9	-51.4

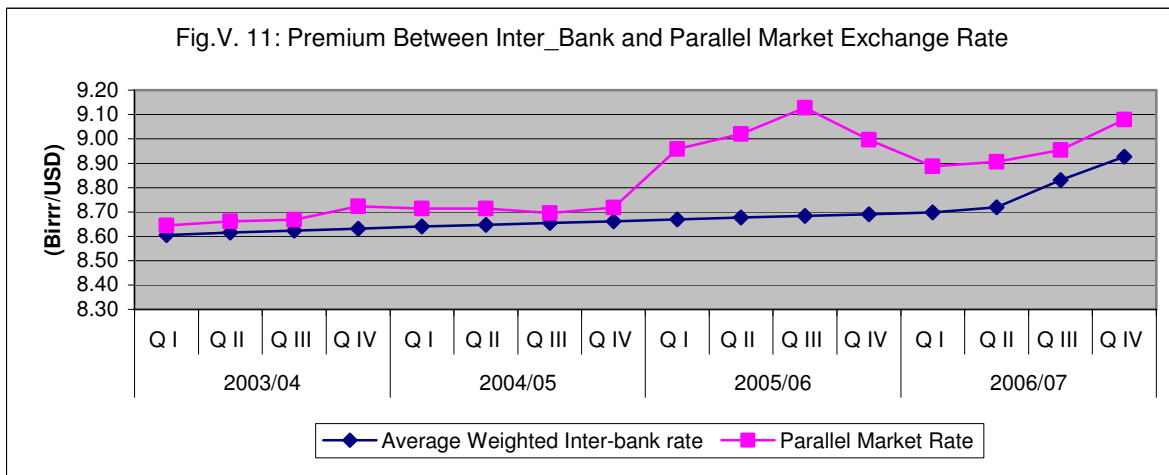


Table V.11: Period Average Exchange Rates (USD per other Major Currencies)

Period		EURO			YEN			SDR			POUND			Swiss Frank		
		Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate
<b>2005/06</b>																
<b>Qtr. IV</b>	<b>C</b>	<b>1.2562</b>	<b>1.2562</b>	<b>1.2562</b>	<b>0.0087</b>	<b>0.0087</b>	<b>0.0087</b>	<b>1.4722</b>	<b>1.4722</b>	<b>1.4722</b>	<b>1.8255</b>	<b>1.8255</b>	<b>1.8255</b>	<b>0.8034</b>	<b>0.8034</b>	<b>0.8034</b>
April		1.2264	1.2263	1.2264	0.0085	0.0085	0.0085	1.4497	1.4497	1.4497	1.7651	1.7651	1.7651	0.7783	0.7783	0.7783
May		1.2770	1.2770	1.2770	0.0090	0.0090	0.0090	1.4894	1.4894	1.4894	1.8688	1.8688	1.8688	0.8205	0.8205	0.8205
June		1.2653	1.2653	1.2653	0.0087	0.0087	0.0087	1.4775	1.4776	1.4775	1.8425	1.8426	1.8425	0.8113	0.8113	0.8113
<b>2006/07</b>																
<b>Qtr. III</b>	<b>B</b>	<b>1.3114</b>	<b>1.3114</b>	<b>1.3114</b>	<b>0.0084</b>	<b>0.0084</b>	<b>0.0084</b>	<b>1.4999</b>	<b>1.4999</b>	<b>1.4999</b>	<b>1.9547</b>	<b>1.9547</b>	<b>1.9547</b>	<b>0.8115</b>	<b>0.8115</b>	<b>0.8115</b>
January		1.3011	1.3011	1.3011	0.0083	0.0083	0.0083	1.4956	1.4956	1.4956	1.9584	1.9584	1.9584	0.8059	0.8059	0.8059
February		1.3085	1.3085	1.3085	0.0083	0.0083	0.0083	1.4968	1.4968	1.4968	1.9592	1.9592	1.9592	0.8072	0.8072	0.8072
March		1.3246	1.3246	1.3246	0.0085	0.0085	0.0085	1.5073	1.5073	1.5073	1.9464	1.9465	1.9465	0.8213	0.8213	0.8213
<b>Qtr. IV</b>	<b>A</b>	<b>1.3478</b>	<b>1.3478</b>	<b>1.3478</b>	<b>0.0083</b>	<b>0.0083</b>	<b>0.0083</b>	<b>1.5163</b>	<b>1.5162</b>	<b>1.5163</b>	<b>1.9856</b>	<b>1.9856</b>	<b>1.9856</b>	<b>0.8181</b>	<b>0.8181</b>	<b>0.8181</b>
April		1.3506	1.3506	1.3506	0.0084	0.0084	0.0084	1.5195	1.5195	1.5195	1.9872	1.9872	1.9872	0.8248	0.8248	0.8248
May		1.3508	1.3508	1.3508	0.0083	0.0083	0.0083	1.5180	1.5180	1.5180	1.9835	1.9835	1.9835	0.8186	0.8186	0.8186
June		1.3418	1.3418	1.3418	0.0082	0.0082	0.0082	1.5113	1.5112	1.5113	1.9859	1.9860	1.9859	0.8109	0.8109	0.8109
Percentage change	<b>A/B</b>	2.77	2.77	2.77	-1.16	-1.16	-1.16	1.09	1.09	1.09	1.58	1.58	1.58	0.81	0.81	0.81
	<b>A/C</b>	7.29	7.29	7.29	-5.18	-5.18	-5.18	2.99	2.99	2.99	8.77	8.77	8.77	1.83	1.83	1.83

Source: Staff Compilation

Mirroring the depreciation of the USD against the major currencies, the Birr also depreciated against all major currencies except Yen. The quarter-on-quarter depreciation rate of the Birr was 3.9 percent against Euro and 2.7 percent against pound sterling. On annual basis, it depreciated by 10.1 and 11.6 percent against the Euro and pound sterling, respectively.

On the other hand, the Birr appreciated against the Japanese Yen by 0.1 and 2.7 percent on quarterly and annual terms.

At the end of 2006/07, the exchange rate of the Birr against Euro reached Birr 12.1989/Euro implying annual depreciation rate of 9.8 percent. Similarly, it depreciated by 11.6 percent against pound sterling to Birr 18.1673/pound. Annual depreciation of the Birr against SDR stood at 5.72 percent.

Table V. 12: Period Average Exchange Rates (Birr per Major Currencies)

Period		USD			EURO			YEN			SDR			POUND			Swiss Frank		
		Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate
<b>2005/06</b>																			
Qtr. IV	C	8.6914	8.7783	8.7348	10.9215	11.0307	10.9761	0.0760	0.0768	0.0764	12.7985	12.9265	12.8625	15.8731	16.0318	15.9525	6.9849	7.0548	7.0199
April		8.6891	8.7760	8.7326	10.6559	10.7625	10.7092	0.0743	0.0750	0.0746	12.5963	12.7223	12.6593	15.3375	15.4909	15.4142	6.7627	6.8304	6.7965
May		8.6913	8.7782	8.7347	11.0969	11.2079	11.1524	0.0778	0.0786	0.0782	12.9440	13.0735	13.0087	16.2449	16.4074	16.3261	7.1330	7.2043	7.1686
June		8.6939	8.7806	8.7372	11.0116	11.1217	11.0666	0.0759	0.0767	0.0763	12.8553	12.9838	12.9196	16.0369	16.1972	16.1170	7.0591	7.1297	7.0944
<b>2006/07</b>																			
Qtr. III	B	8.8305	8.9188	8.8746	11.5804	11.6962	11.6383	0.0740	0.0748	0.0744	13.2450	13.3774	13.3112	17.2608	17.4334	17.3471	7.1658	7.2374	7.2016
January		8.8084	8.8962	8.8523	11.4605	11.5751	11.5178	0.0733	0.0740	0.0736	13.1734	13.3051	13.2393	17.2500	17.4224	17.3362	7.0987	7.1697	7.1342
February		8.8405	8.9289	8.8847	11.5675	11.6832	11.6253	0.0734	0.0741	0.0738	13.2328	13.3652	13.2990	17.3205	17.4937	17.4071	7.1360	7.2074	7.1717
March		8.8427	8.9311	8.8869	11.7132	11.8304	11.7718	0.0754	0.0761	0.0758	13.3287	13.4620	13.3954	17.2119	17.3840	17.2980	7.2626	7.3352	7.2989
Qtr. IV	A	8.9239	9.0131	8.9685	12.0269	12.1472	12.0871	0.0739	0.0747	0.0743	13.5309	13.6656	13.5982	17.7190	17.8961	17.8075	7.3001	7.3731	7.3366
April		8.8480	8.9364	8.8922	11.9505	12.0700	12.0103	0.0745	0.0752	0.0748	13.4443	13.5788	13.5115	17.5830	17.7588	17.6709	7.2975	7.3705	7.3340
May		8.9144	9.0036	8.9590	12.0419	12.1623	12.1021	0.0739	0.0746	0.0742	13.5321	13.6674	13.5997	17.6820	17.8588	17.7704	7.2974	7.3704	7.3339
June		9.0094	9.0992	9.0543	12.0884	12.2093	12.1489	0.0735	0.0742	0.0738	13.6162	13.7507	13.6834	17.8919	18.0708	17.9813	7.3054	7.3784	7.3419
Percentage change	A/B	1.06	1.06	1.06	3.86	3.86	3.86	-0.13	-0.13	-0.13	2.16	2.15	2.16	2.65	2.65	2.65	1.87	1.87	1.87
	A/C	2.68	2.68	2.68	10.12	10.12	10.12	-2.73	-2.73	-2.73	5.72	5.72	5.72	11.63	11.63	11.63	4.51	4.51	4.51

Source: NBE, Reserve Management and Foreign Exchange Market Department (RMFED)

Table V.13: Birr per Unit of Currency (End Period Mid Market Rate)

Currency	Jun-06	May-07	Jun-07	Percentage change	
	A	B	C	C/B	C/A
USD	8.7383	8.9985	9.0746	0.8	3.8
Pound	16.0164	17.7810	18.1673	2.2	13.4
Swedish Kroner	1.2037	1.2968	1.3209	1.9	9.7
Djibouti Frank	0.0492	0.0507	0.0511	0.8	3.9
Swiss Frank	7.0882	7.3427	7.3615	0.3	3.9
Saudi Riyal	2.3296	2.3992	2.4195	0.8	3.9
UAE Dirhams	2.3796	2.4499	2.4706	0.8	3.8
Canadian Dollar	7.8759	8.3793	8.5690	2.3	8.8
Japanese Yen	0.0760	0.0740	0.0735	-0.7	-3.3
Euro	11.1073	12.0886	12.1989	0.9	9.8
SDR	12.8212	13.6056	13.7419	1.0	7.2

Source: National Bank of Ethiopia –BFED

### 5.7.2. Movements in the Real Effective Exchange Rate

The real appreciation of the Birr continued during the fourth quarter of the fiscal year although the nominal exchange rate showed significant depreciation against most major currencies. The quarterly appreciation of the real effective exchange rate of

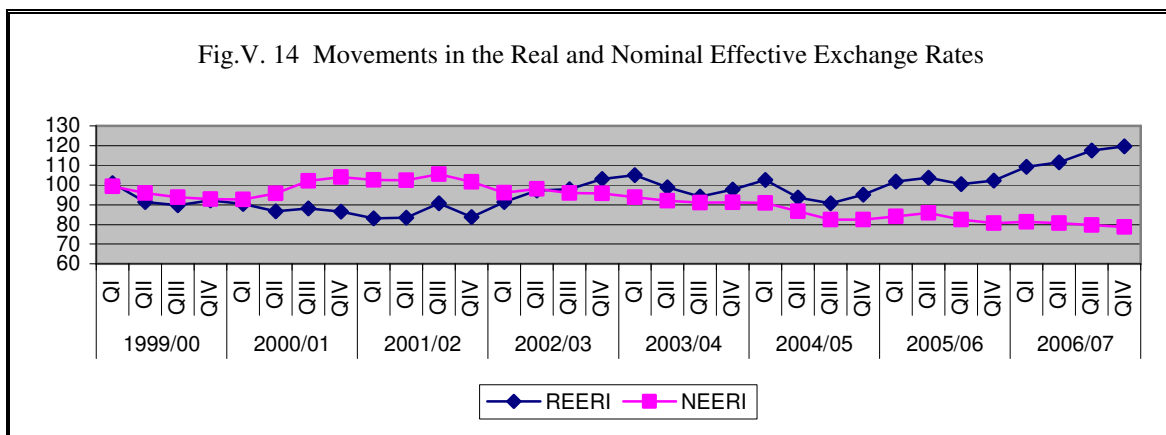
the Birr was 1.9 percent while it reached 17.4 percent on annual basis. In contrast, nominal effective exchange rate showed depreciation rates of 1.3 and 5.5 percent on quarterly and annual basis, respectively. Inflation differential between Ethiopia and its trading partners remained the major factor for the real appreciation of the Birr.

Table V.14 Trends in the Real Effective Exchange Rate

	2005/06	2006/07		Percentage Change	
	QIV	QIII	QIV	C/B	C/A
	A	B	C		
<b>REERI</b>	102.0	117.5	119.7	1.87	17.35
<b>NEERI</b>	83.4	79.8	78.8	-1.25	-5.52

REERI = Real Effective Exchange Rate Index

NEERI = Nominal Effective Exchange Rate Index



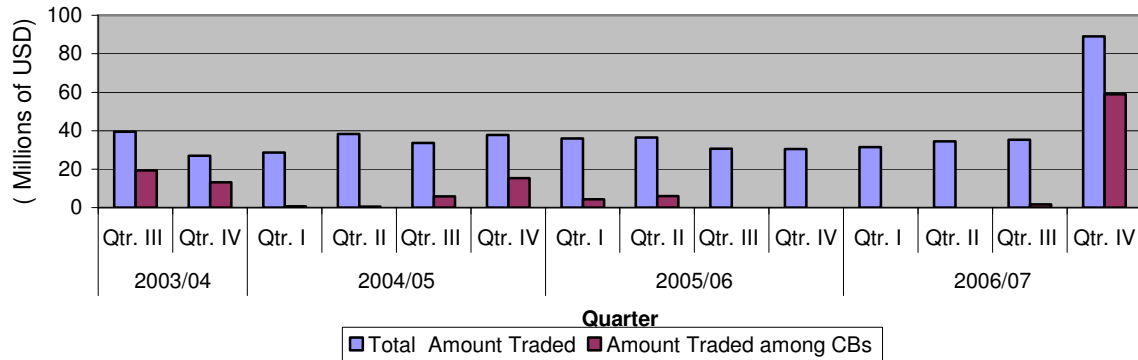
### 5.7.3 Volume of Transactions

The amount of foreign exchange transacted in the inter-bank foreign exchange market during the fourth quarter of 2006/07 increased to USD 89.0 million compared to USD 35.0 million in the preceding quarter and USD 31.0 million in the same quarter of last year. Unlike in the previous

quarters, where foreign exchange to the market was wholly supplied by the NBE, the bulk of the transactions (USD 59.0 million or 66.3 percent of the total) in the quarter under review were undertaken among commercial banks presumably due to the relative slow down in foreign exchange demand

pressure from importers which in turn led them to maintain a long position and transact among themselves.

Fig.V.15: Foreign Exchange Trade in the Inter-Bank Foreign Exchange Market



The amount of foreign exchange purchased by commercial banks from exporters was USD 149.0 million during the review quarter, 2.5 percent higher than that of the preceding quarter. On the other hand, their sales to importers declined from USD 702.3 million to USD 583.0 million (or by 17.0 percent) during the same period..

preceding quarter to USD 6.3 million. On annual basis, however, their sales declined by 39.5 percent indicating the slowdown in outbound travel.

Similarly, forex bureaux purchased USD 13.5 million from various clients, compared to USD 19.6 million in the preceding quarter. On annual basis, however, their purchase went up by 16.1 percent. Their sales also slightly went up from USD 5.9 million during the



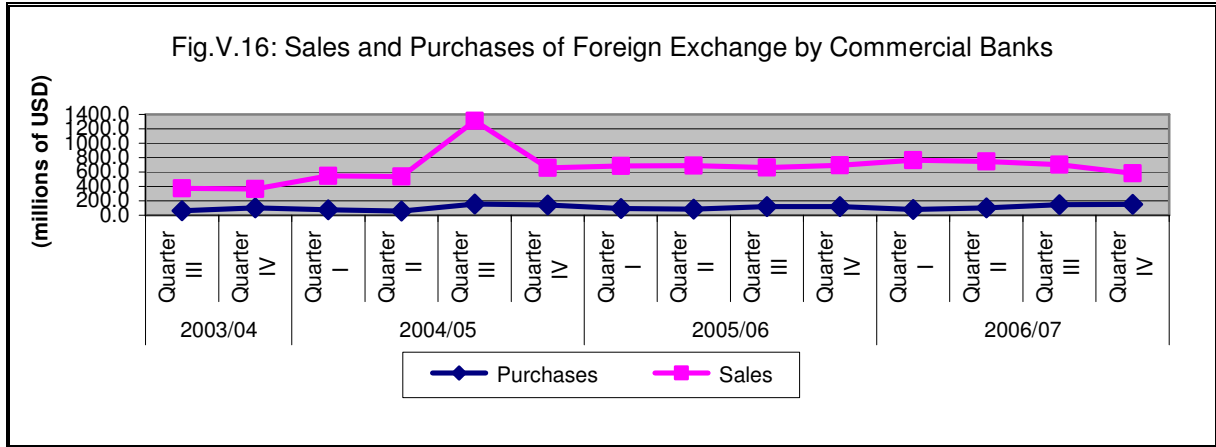


Table V.15: Amount of Foreign Exchange Purchased and Sold by Commercial Banks

(In millions of USD)

No	Name of Commercial Bank	2005/06		2006/07				Percentage Change			
		Quarter IV		Quarter III		Quarter IV		C/B			
		A	B	C		C/B		C/A			
		Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
1	Commercial Bank of Ethiopia	43.47	362.96	51.66	405.81	70.45	271.77	36.4	-33.0	62.1	-25.1
2	Bank of Abyssinia	11.68	39.21	6.64	30.46	7.81	34.39	17.7	12.9	-33.1	-12.3
3	Dashen Bank	30.26	79.05	29.97	84.93	26.53	70.01	-11.5	-17.6	-12.3	-11.4
4	Awash International Bank	4.09	41.90	7.09	36.41	5.89	44.29	-16.9	21.6	44.2	5.7
5	Construction and Business Bank	3.04	25.13	0.57	16.00	0.96	12.20	68.4	-23.7	-68.4	-51.4
6	Wegagen Bank	21.17	68.17	38.35	59.99	30.20	75.04	-21.2	25.1	42.7	10.1
7	United Bank	0.00	35.90	0.00	35.83	0.00	32.32		-9.8		-10.0
8	Development Bank	0.00	0.00	0.00	0.00	0.00	0.00				
9	Nib International Bank	6.56	39.47	10.99	32.58	7.10	41.11	-35.4	26.2	8.3	4.2
10	Oromiya Cooperative Bank	0.00	0.00	0.00	0.26	0.00	1.86		610.6		
	<b>Total</b>	<b>120.25</b>	<b>691.78</b>	<b>145.27</b>	<b>702.27</b>	<b>148.95</b>	<b>583.00</b>	<b>2.5</b>	<b>-17.0</b>	<b>23.9</b>	<b>-15.7</b>
	<b>Average Exchange Rate</b>	<b>8.6915</b>	<b>8.8653</b>	<b>8.8318</b>	<b>9.0084</b>	<b>8.9273</b>	<b>9.1050</b>	<b>1.1</b>	<b>1.1</b>	<b>2.7</b>	<b>2.7</b>

Table V.16: Amount of Foreign Exchange Purchased and Sold by Forex Bureau of Commercial Banks

(In millions of USD)

No	Name of Commercial Bank	No of Forex Bureau	2005/06		2006/07				Percentage Change			
			Quarter IV		Quarter III		Quarter IV		C/B		C/A	
			A		B		C					
			Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
1	Commercial Bank of Ethiopia	4	1.54	6.66	2.65	3.29	1.48	3.26	-44.2	-0.6	-4.3	-51.0
2	Bank of Abyssinia	5	0.20	0.84	0.52	0.57	0.42	0.66	-19.5	15.9	107.4	-21.5
3	Dashen Bank	4	2.20	0.66	3.35	0.67	2.55	0.59	-24.0	-11.1	15.9	-10.6
4	Awash International Bank	4	0.19	0.46	0.23	0.29	0.15	0.39	-33.3	34.4	-21.4	-14.5
5	Construction and Business Bank	3	0.09	0.12	0.15	0.06	0.11	0.10	-25.0	53.1	20.0	-16.6
6	Wegagen Bank	6	2.46	0.70	1.95	0.32	4.74	0.54	142.8	67.3	92.8	-22.7
7	United Bank	16	1.48	0.46	1.88	0.27	0.75	0.37	-60.4	37.3	-49.7	-20.0
8	Nib International Bank	3	3.43	0.45	8.83	0.41	3.28	0.35	-62.9	-14.8	-4.5	-23.3
9	Oromiya Cooperative Bank	None	0.00	0.00	0.00	0.00	0.00	0.00				
	<b>Total</b>	<b>41</b>	<b>11.61</b>	<b>10.35</b>	<b>19.57</b>	<b>5.87</b>	<b>13.47</b>	<b>6.26</b>	<b>-31.1</b>	<b>6.6</b>	<b>16.1</b>	<b>-39.5</b>
	<b>Average Exchange Rate</b>		<b>8.6913</b>	<b>8.8647</b>	<b>8.8304</b>	<b>9.0050</b>	<b>8.9292</b>	<b>9.1057</b>	<b>1.1</b>	<b>1.1</b>	<b>2.7</b>	<b>2.7</b>