

V. External Sector Developments

5.1 Overall Balance of Payments

The third quarter of 2007/08 witnessed a widening deficit in the overall balance of payments to USD 175 million from USD 140.5 million a quarter earlier and USD 53.6 million a year ago. This was largely attributed to slow down in receipts from net services and non monetary capital.

Quarterly trade deficit slightly narrowed, while the current account deficit (including public transfers) worsened as net services, private and public transfers as well as loan disbursements tended to fall. Year-on-year basis, public and private transfers increased although net services and non-monetary capital were subdued and trade deficit widened.

Table 5.1 Balance of Payments

(Millions of USD)

Ethiopian Fiscal Year Particulars	2007/08			Percentage Change	
	QIII	QII	QIII	D=C/B	E=C/A
	A	B	C		
Trade Balance	-1052.5	-1312.6	-1297.1	-1.2	23.2
Exports	339.8	267.7	474.3	77.2	39.6
Imports	1392.3	1580.3	1771.4	12.1	27.2
Net Services	79.4	70.7	59.2	-16.3	-25.4
Travel	20.2	34.6	42.8	23.6	111.7
Transportation	11.0	42.2	21.9	-48.1	99.3
Government (n.i.e.)	59.5	29.2	20.6	-29.6	-65.4
Investment income	8.1	11.2	7.9	-29.8	-3.0
Interest	11.7	16.4	9.4	-42.7	-19.7
Cash (net)	11.7	16.4	9.4	-42.7	-19.7
Arrears	0.0	0.0	0.0	-	-
Dividend	-3.6	-5.2	-1.6	-70.0	-56.7
Other Services	-19.4	-46.5	-33.9	-27.1	74.7
Private Transfers	448.3	578.3	563.9	-2.5	25.8
<i>Current Account Balance(excl. public transfers)</i>	<i>-524.8</i>	<i>-663.5</i>	<i>-674.0</i>	<i>1.6</i>	<i>28.4</i>
Public Transfers	230.9	358.5	331.7	-7.5	43.7
<i>Current Account Balance(incl. public transfers)</i>	<i>-293.9</i>	<i>-305.0</i>	<i>-342.3</i>	<i>12.2</i>	<i>16.5</i>
Non-monetary Capital	248.4	331.6	185.3	-44.1	-25.4
Long-term (net)	60.3	100.7	50.0	-50.4	-17.1
Disbursements	63.6	115.9	63.9	-44.9	0.4
Repayments	3.3	15.2	13.9	-8.7	317.9
Cash	3.3	15.2	13.9	-8.7	317.9
Arrears	0.0	0.0	0.0	-	-
Direct Investment (net)	175.7	192.1	176.9	-7.9	0.7
Short-term (net)	12.4	38.8	-41.6	-207.3	-435.6
Net Errors & Omissions	-8.1	-167.1	-18.0	-89.2	123.0
Overall Balance	-53.6	-140.5	-175.0	24.5	226.5
Financing	53.6	140.5	175.0	24.5	226.5
Reserves (-:increase)	53.6	140.5	175.0	24.5	226.5
NBE net foreign asset	-84.4	50.7	329.9	550.6	-490.9
CBs net foreign asset	138.0	89.8	-155.0	-272.6	-212.3

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narrowed, while the current account deficit (including public transfers) worsened as net services, private and public transfers as well as loan disbursements tended to fall. Year-on-year basis, public and private transfers increased although net services and non-monetary capital were subdued and trade deficit widened.

Current foreign exchange receipts reached USD 1,785.4 million during the third quarter of 2007/08, up by 10.9 and 33.6 percent compared to the preceding quarter and the same quarter of the preceding fiscal year, respectively. All types of receipt showed improvement over last year although private and public transfers showed slight quarterly

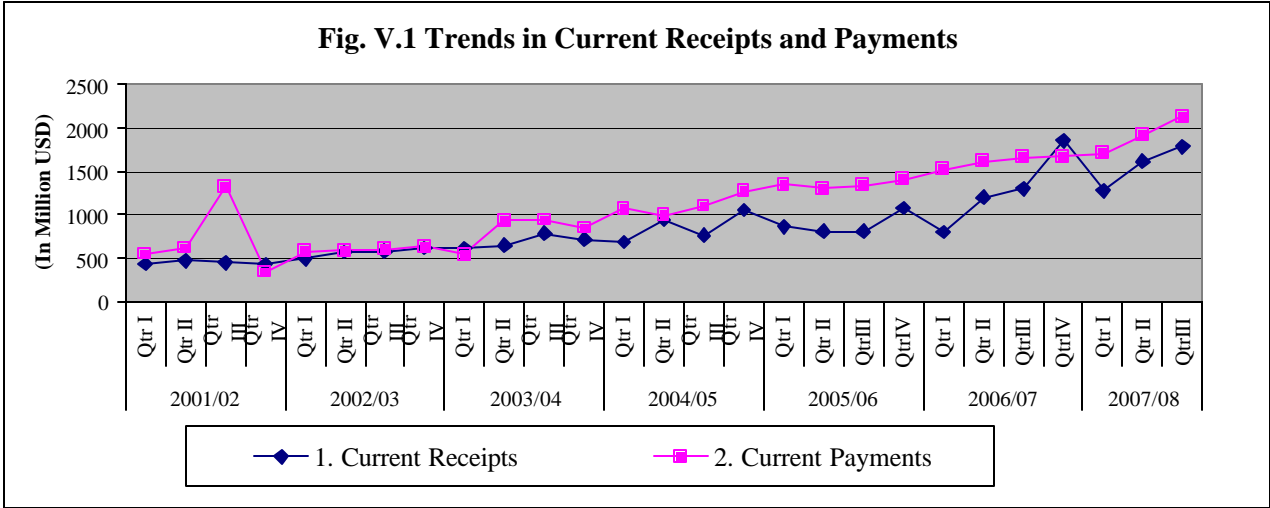
declines. On the other hand, current payments increased 11.1 percent on quarterly and 30.5 percent on annual basis to USD 2,127.7 million. As a result, there was a net outflow of USD 342.3 million during the third quarter of 2007/08, up by 12.3 and 16.5 percent against the preceding quarter and the same quarter of last year.

Table 5.2 Current Receipts and Payments

(In Million of USD)

Particulars	2006/07	2007/08		Percentage Change	
	Qtr III	Qtr II	Qtr III	D=C/B	E=C/A
	A	B	C		
1. Current Receipts	1,336.6	1,609.7	1,785.4	10.9	33.6
Export Proceeds	339.8	267.7	474.3	77.2	39.6
Service Proceeds	317.6	405.2	415.5	2.5	30.8
Private Transfers(Net)	448.3	578.3	563.9	-2.5	25.8
Public Transfer(Net)	230.9	358.5	331.7	-7.5	43.7
2. Current Payments	1,630.4	1,914.5	2,127.7	11.1	30.5
Import Payments	1,392.3	1,580.1	1,771.4	12.1	27.2
Service Payments	238.1	334.4	356.3	6.5	49.6
3. Net(1-2)	-293.8	-304.8	-342.3	12.3	16.5

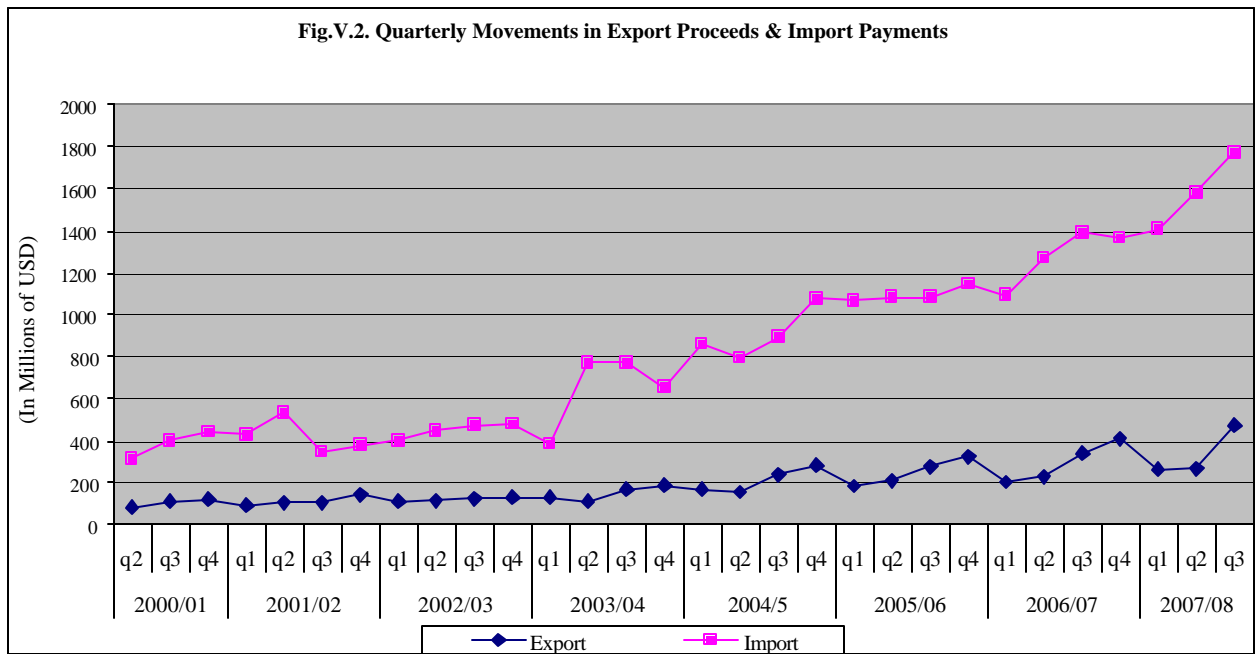
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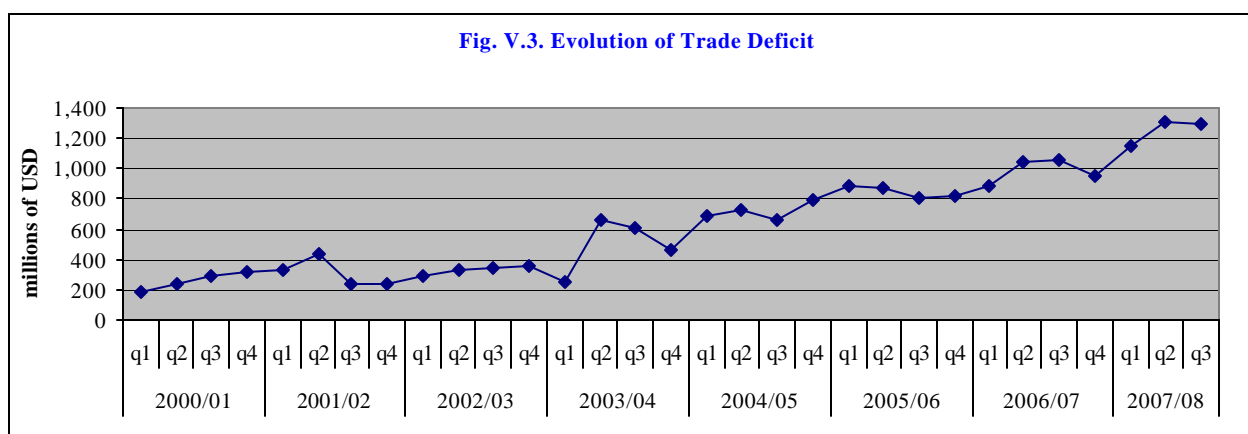


5.2 Merchandise Trade

In the third quarter of 2007/08 the merchandise trade deficit reached USD 1,297.1 million, 1.2 percent down compared to last quarter but 23.2 percent up against the same quarter of the

preceding fiscal year. The quarterly improvement in trade balance was the result of the surge in export earnings (77 percent) that outstripped 12 percent increase in imports.





5.2.1 Exports

Total export proceeds during the stated period reached USD 474.3 million, showing 77.2 percent and 39.6 percent growth on quarterly and annual basis. This was due to the significant increase in export earnings *inter alia*, from coffee, oilseeds, pulses and flower

despite a decline in earnings from some other major export items. The significant surge in export earning during the quarter reflects the seasonality effect as most of Ethiopia's exports pick-up during the third and fourth quarters of the fiscal year.

Table 5.3 Values of Major Export Items

(In Millions of USD)

Particular	2006/07		2007/08				Percentage change	
	Qtr III	% Share	Qtr II	% Share	Qtr III	% Share	C/B	C/A
	A		B		C			
Coffee	110.7	32.6	52.6	19.6	191.9	40.5	265.1	73.4
Oilseeds	78.7	23.2	31.4	11.7	87.3	18.4	178.0	11.0
Leather and Leather products ^a	23.3	6.9	29.1	10.9	24.0	5.1	-17.4	3.1
Pulses	20.1	5.9	31.1	11.6	49.0	10.3	57.7	143.7
Meat & Meat Products	2.1	0.6	5.6	2.1	5.5	1.2	-1.8	154.7
Fruits & Vegetables	6.9	2.0	2.9	1.1	3.4	0.7	19.4	-50.3
Live Animals	10.6	3.1	16.1	6.0	8.3	1.7	-48.8	-21.8
Chat	24.9	7.3	28.8	10.7	25.5	5.4	-11.2	2.6
Gold	11.0	3.2	15.9	5.9	15.6	3.3	-1.9	41.6
Flowers	22.3	6.6	24.0	9.0	32.7	6.9	36.6	46.6
Others	29.2	8.6	30.4	11.4	31.1	6.6	2.1	6.3
Total	339.8	100.0	267.7	100.0	474.3	100.0	77.2	39.6

Source: Ethiopian Customs Authority

a) Formerly named as hides and skins

Export earnings from coffee increased by 265.1 percent on quarterly and 73.4 percent on annual basis as the volume of exports grew by 241.8 and 43.3 percent respectively. Similarly, the international price of coffee showed 6.8 percent quarterly and 21 percent annual improvement.

As a result, the share of coffee in total export earnings rose to 40.5 percent compared to 19.6 percent last quarter and 32.6 percent a year earlier.

Export earnings from oilseeds also increased 178 percent over the preceding quarter to USD 87.3 million as volume of exports rose by 132.7 percent coupled with a 19.5 percent rise in their international price. Similarly, oilseeds exports went up by 11 percent yearly due to significantly higher world price despite a 45.7 percent decline in volume of exports. As a result, the share of oilseeds in total export earnings rose from 11.7 percent last quarter to 18.4 percent in the review quarter.

Similarly, quarterly export earnings from pulses jumped 57.7 percent to USD 49

million as a result of 34.1 percent increase in the volume of exports coupled with a 17.6 percent rise in international price. Year-on-year, export of pulses surged 143.7 percent as both volume of exports and prices improved. However, the share of pulses in total export earnings went down to 10.3 from 11.6 percent in the preceding quarter but still higher than 5.9 percent last year.

As a result of decreases in both volume of exports and international price, quarterly export earnings from leather and leather products declined by 17.4 percent to USD 24 million. Annually, however, earnings from leather and leather products went up 3 percent exclusively due to increased world price. At the same time, their share in total exports went down to 5.1 percent from 10.9 percent in the preceding quarter.

Export earnings from flower continued to grow and reached USD 32.7 million during the review quarter, showing a 36.6 percent quarter-on-quarter increase and a 46.6 percent annual surge. The growth in flower exports was attributable to increased volume and

prices. Flowers accounted for 6.9 percent of the total export earnings during the review quarter compared to 8.9 percent in the preceding quarter and 6.6 percent in the same quarter of the last fiscal year.

Export earnings from gold declined 1.9 percent on quarterly basis to USD 15.6 million due to the slowdown in volume of exports despite 20 percent increase in world price. On annual basis, however, earnings from gold grew 41.6 percent due to 43.5 percent increase in prices despite marginal slowdown in volume of export. The share of gold in total exports fell from 5.9 percent in the preceding quarter to 3.3 percent in the review period.

Despite 3.4 percent improvement in international price, quarterly export proceeds from chat decreased by 11.2 percent to USD 25.5 million due to 12.4 percent drop in volume. On annual terms, however, revenue from chat slightly increased 2.6 percent owing to higher international price despite 16.9 percent drop in volume. The share of chat in total export earnings went down

from 10.7 percent in the second quarter to 5.4 percent in the review quarter.

Export earnings from live animals which accounted for 1.7 percent of total exports, plummeted by 48.8 and 21.8 percent on quarterly and annual basis as a result of lower volume and international prices. Similarly, export of meat and meat products showed 1.8 percent quarterly decrease and 154.7 percent annual increase. Meanwhile, export of fruits and vegetables showed as increase of 19.4 percent on quarterly but a decline of 50.3 percent on annual basis.

In a nutshell, exports are estimated to reach USD 1553 million by end 2007/08, 29 percent higher than in 2006/07. During the first nine months of 2007/08, exports were USD 1,008 million compared to USD 774 million a year earlier. All in all, USD 474 million export revenue during the third quarter covered 26.8 percent of the USD 1771 million import bill of the same quarter.

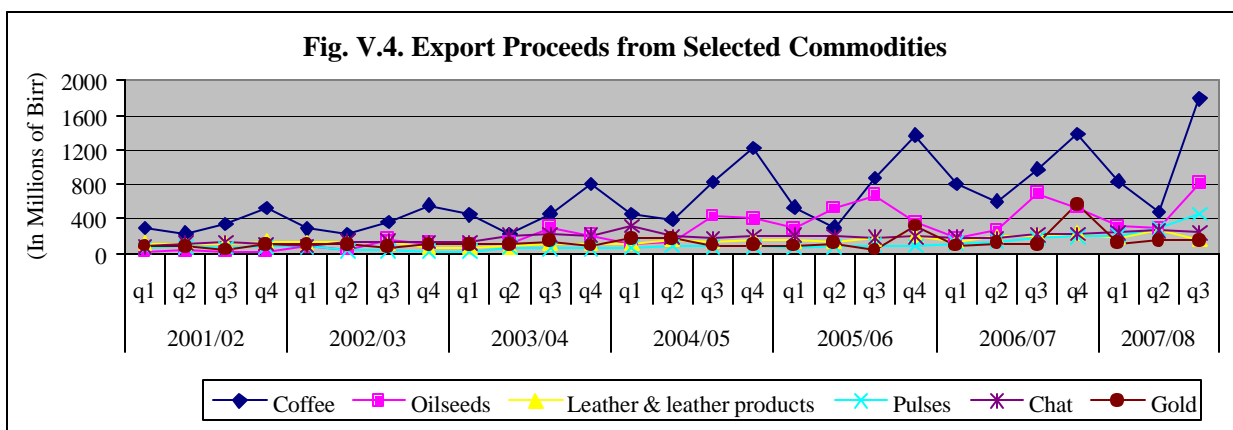


Table 5.4: Volumes of Major Export Items (Mn Kg)

Particular	2006/07	2007/08		Percentage change	
	Qtr III	Qtr II	Qtr III	C/B	C/A
	A	B	C		
Coffee	42.6	17.9	61.1	241.8	43.3
Oilseeds	100.2	23.4	54.4	132.7	-45.8
Leather and Leather products ¹	3.8	4.5	3.8	-15.7	-0.7
Pulses	44.8	55.8	74.9	34.1	67.1
Meat & Meat Products	0.8	1.7	1.7	-1.8	113.8
Fruits & Vegetables	12.0	10.3	9.7	-5.7	-19.1
Live Animals	12.2	15.0	8.8	-41.7	-28.1
Chat	6.0	5.8	5.0	-14.2	-16.9
Gold	0.0007	0.0008	0.0006	-18.4	-1.3
Flower	4.4	4.8	6.1	25.9	39.4

¹ formerly named as hides and skin

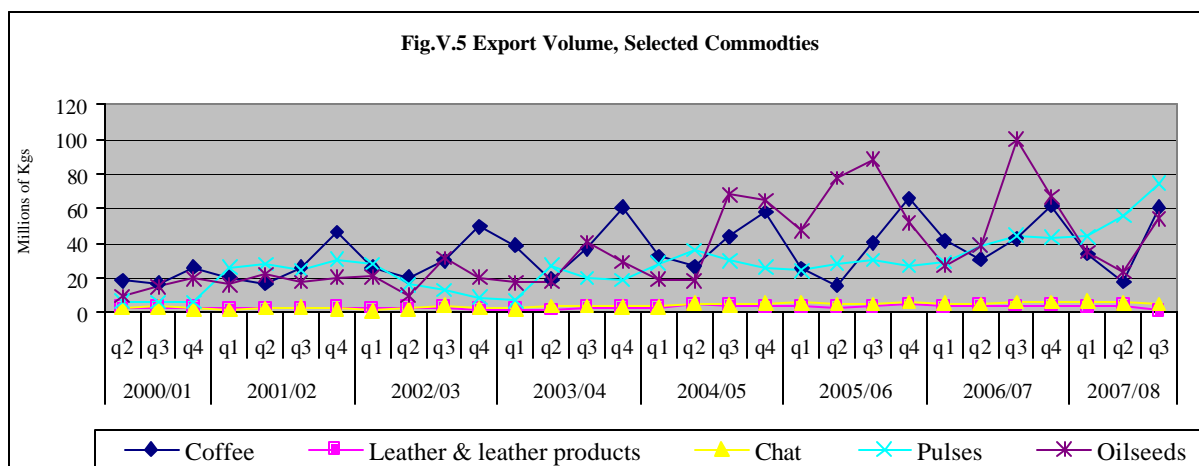
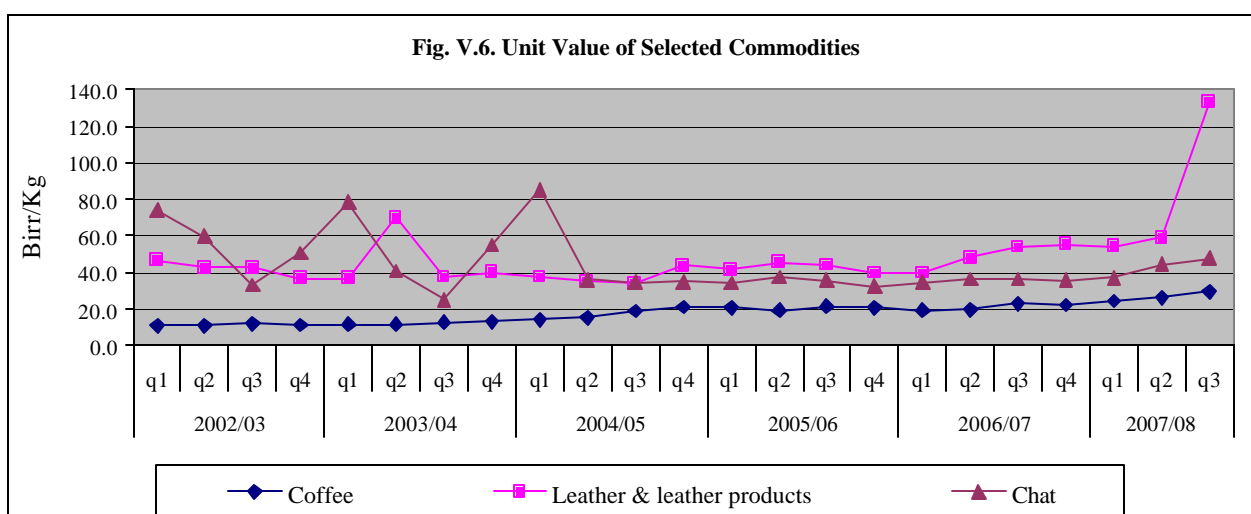


Table 5.5: Unit Values of Major Export Items

(USD/kg)

Particular	2006/07	2007/08		Percentage Change	
	Qtr III	Qtr II	Qtr III	C/B	C/A
	A	B	C		
Coffee	2.6	2.9	3.1	6.8	121.0
Oilseeds	0.8	1.3	1.6	19.5	204.7
Leather and Leather products ^a	6.1	6.5	6.4	-2.0	103.9
Pulses	0.4	0.6	0.7	17.6	145.8
Meat & Meat Products	2.7	3.2	3.2	-0.1	119.1
Fruits & Vegetables	0.6	0.3	0.4	26.7	61.4
Live Animals	0.9	1.1	0.9	-12.1	108.8
Chat	4.1	4.9	5.1	3.4	123.4
Gold	16,732.6	19,972.6	24,017.3	20.3	143.5
Flower	5.1	5.0	5.4	8.4	105.2

^a formerly named as hides and skin



5.2.2 Imports

Total imports during the quarter reached USD 1771 million, up by 12.1 percent on quarterly and 27.2 percent on annual basis. The quarterly increase was largely

attributable to higher import value of fertilizer, semi-finished goods, and fuel despite slow down in capital goods and raw materials.

Table 5.6: Values of Major Import Items**(In Millions of USD)**

Particular	2006/7		2007/08				Percentage change	
	Qtr III	%	Qtr II	% Share	Qtr III	% Share	C/B	C/A
	A	Share	B	% Share	C	% Share		
Raw Materials	60.2	4.3	70.4	4.5	50.8	2.9	-27.8	-15.5
Semi-finished Goods	213.6	15.3	258.8	16.4	453.6	25.6	75.2	112.4
Fertilizers	36.4	2.6	12.3	0.8	192.0	10.8	1,457.3	428.1
Fuel	238.2	17.1	348.3	22.0	407.6	23.0	17.0	71.1
Petroleum Products	237.4	17.1	346.3	21.9	406.1	22.9	17.3	71.1
Others	0.8	0.1	1.9	0.1	1.4	0.1	-26.8	87.7
Capital Goods	509.2	36.6	484.9	30.7	396.3	22.4	-18.3	-22.2
Transport	184.4	13.2	96.3	6.1	93.8	5.3	-2.7	-49.2
Agricultural	10.5	0.8	12.9	0.8	6.0	0.3	-53.7	-43.4
Industrial	314.3	22.6	375.7	23.8	296.6	16.7	-21.1	-5.6
Consumer Goods	337.9	24.3	374.9	23.7	375.2	21.2	0.1	11.0
Durables	119.3	8.6	122.9	7.8	107.4	6.1	-12.6	-10.0
Non-durables	218.6	15.7	252.0	15.9	267.8	15.1	6.3	22.5
Miscellaneous	33.2	2.4	42.7	2.7	87.9	5.0	106.0	164.5
Total Imports	1,392.3	100.0	1,580.1	100.0	1,771.4	100.0	12.1	27.2

Source: Ethiopian Customs Authority

Imports of capital goods at USD 396.3 million decreased by 18.3 percent on quarterly basis and 22.2 percent on annual basis due to the decline in all components of capital goods import. The share of capital goods in total imports also declined from 30.7 percent in the preceding quarter to 22.4 percent in the review period.

On the other hand, consumer goods imports reached USD 375.2 million, showing a slight quarterly increase of 0.1 percent and annual rise of 11 percent. However, the share of consumer goods imports in total imports also dropped from 23.7 percent in the

preceding quarter to 21.2 percent during the review quarter.

Fuel imports, however, continued to surge as a result of soaring oil prices in the international market. Thus, the value of fuel imports in the third quarter topped USD 407.6 million, 17 and 71.1 percent higher than the preceding quarter and the same quarter of the last fiscal year. Fuel accounted for 23 percent of total imports or 86 percent of the export revenue of the review quarter.

Import of semi-finished goods at USD 453.6 million showed quarterly and annual increases of 75.2 and 112.4 percent, due to the increased import bill

of fertilizer. Consequently, the share of semi-finished goods in total imports rose from 16.4 percent in the preceding quarter to 25.6 percent.

On the other hand, imports of raw materials were USD 50.8 million, down by 27.8 and 15.5 percent on quarterly and annual bases. The share of raw materials in total imports dropped to 2.9 percent from 4.5 percent in the preceding quarter and 4.3 percent in the same quarter of last year.

Due to lower import of cement, medicine and medical equipment, total franco-valuta imports during the review period decreased from USD 58.1 million in the second quarter to USD 31.9 million (45.1 percent) in the review quarter. Year-on-year basis, however, franco valuta imports rose 6.5 percent due to higher imports of vehicle spare parts and medicine and medical equipments.

Table 5.7: Values of Franco Valuta Imports

(In Millions of USD)

Particular	2006/07	2007/08		Percentage change	
	QIII	QII	QIII	C/B	C/A
	A	B	C		
Vehicles	0.0	0.0	0.0		
Vehicle Spare Parts	0.0	0.0	0.0		
Other Spare Parts	0.1	0.2	0.1	-50	
Textile & Ready Made	0.0	0.0	0.0		
Household Goods	0.0	0.3	0.0	-100	
Medicine & Medical Equip.	0.0	10.9	5.5	-49.5	
Food Stuffs	0.0	0.0	0.0		
Electronic Goods	0.0	0.0	0.0		
Machinery Equip. & Spare Parts	0.0	0.0	0.0		
Others*	29.8	46.6	26.3	-43.7	-11.7
Total	30.0	58.1	31.9	-45.1	6.3

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

*It includes franco valuta cement import

5.2.3 Direction of Trade

5.2.3.1 Exports

The largest market for Ethiopia's exports during the third quarter of 2007/08 was

Third Quarter 2007/08

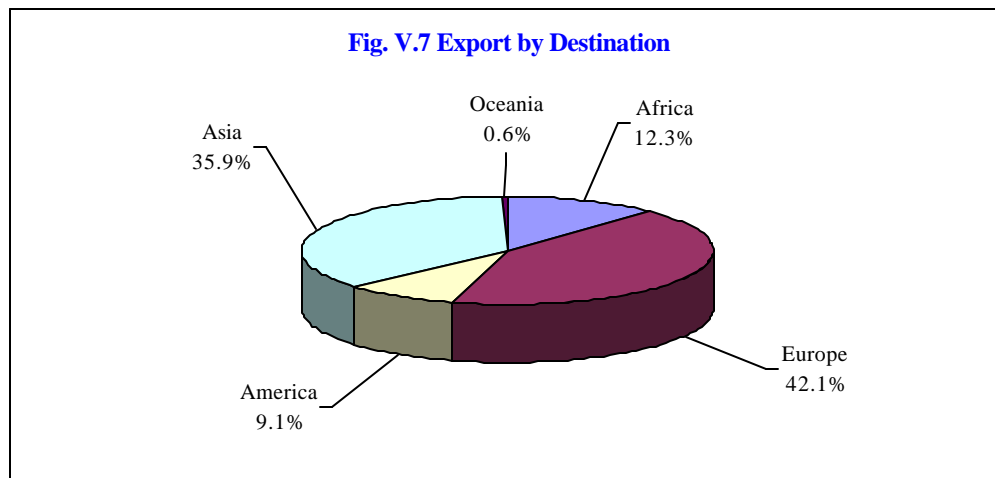
Europe accounting for 42.1 percent of the country's exports. From the

European countries, Germany which mainly imported coffee and flower, was the largest buyer of Ethiopian goods while the Netherlands importing largely flower and pulse was the second largest market followed by Switzerland, the only importer of gold from Ethiopia. Belgium also ranks high with its import of Ethiopian coffee.

Asia accounted for 35.9 percent of Ethiopia's total exports of which 23.8 percent went to Saudi Arabia, 17.4 percent to Japan, 13.7 percent to China and 11.2 percent to Israel. The major items exported to Saudi Arabia include coffee, oilseeds and meat & meat products while coffee constituted the bulk of exports to Japan. China and Israel imported largely oilseeds.

About 12.3 percent of Ethiopia's exports went to African countries with about 86.7 percent of it being to three neighboring countries viz. Somalia, Djibouti, and Sudan. Somalia's major imports from Ethiopia include chat and live animals while Djibouti imports chat, live animals and vegetables. On the other hand, Sudan mainly purchased pulses and coffee.

The share of the Americas in Ethiopia's total exports was 9.1 percent out of which 83.3 percent went to the United States 6.4 percent to Canada and 1.4 percent to Mexico. The major export items to the United States included coffee, oilseeds, flowers and textile & garments while Canada and Mexico mainly imported coffee and oilseeds.



5.2.3.2 Imports

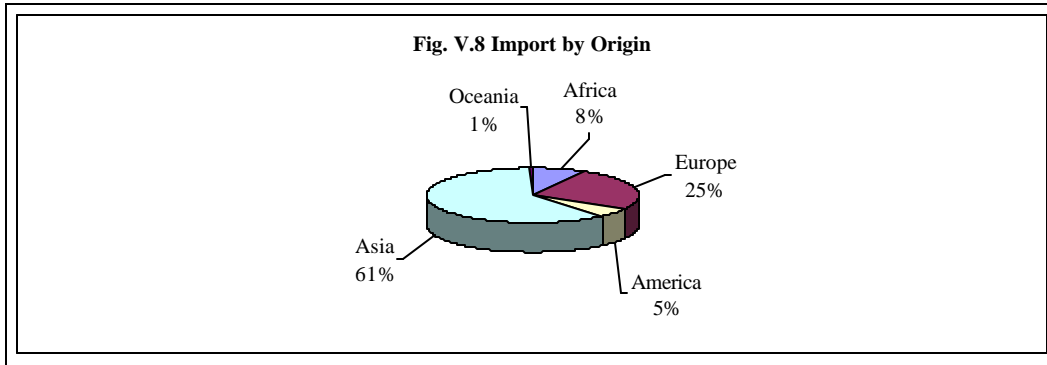
During the third quarter of 2007/08, 61 percent of Ethiopian's imports originated from Asia. United Arab Emirates was the largest exporter to Ethiopia followed by China, Saudi Arabia, India and Japan. Major items imported from United Arab Emirates include petroleum and fertilizer while China mainly exported electrical materials, machinery, metals, clothing and textile. Petroleum constituted 91.3 percent of Saudi Arabia's export to Ethiopia. Imports from India mainly include metals, medical and pharmaceutical products, electrical materials and machinery. Vehicles, machinery and rubber products were the main items imported from Japan.

Exports from Europe accounted for 24.6 percent of total Ethiopian imports. Italy, Russia, Germany, Turkey and Ukraine were the major suppliers. Machinery, electrical materials, metal, vehicles and grains were the major items imported from Italy while fertilizers constituted 99.1 percent of Russia's export to Ethiopia. Machinery, fertilizers and

vehicles constituted the bulk of imports from Germany while both Turkey and Ukraine mainly exported metals and electrical materials to Ethiopia.

Imports from the Americas accounted for 5.5 percent of total imports with two countries, namely the United States and Brazil accounting for over 91 percent. Grain, machinery, medical and pharmaceutical products were the major items imported from the US while Brazil supplied machinery, tobacco and vehicles.

Imports from African countries accounted for 8.4 percent of total imports with about 85.7 percent coming from four countries, namely Sudan, Libya, Egypt, and Morocco. Petroleum products, fertilizers, paper and tobacco constituted major items imported from African countries.



5.3 Services and Transfers

Net receipts from services amounted to USD 59.2 million in the third quarter of 2007/08, 16 percent lower than last quarter. A decrease in net transportation receipts from USD 42.2 million to USD 21.9 million and a decline in net receipts for government services from USD 29.6 million to USD 20.5 million were the major factors for the quarterly decline. The slowdown in net transportation receipts was presumably related to the surge in the price of fuel, which pushed

the transport service payments up by 30 and 15 percent on annual and quarterly basis. On the other hand, net receipts from travel rose to USD 42.8 million from USD 34.6 million a quarter earlier. Net payments from other services also went down from USD 46.5 million to USD 33.9 million. Similarly, net investment income which was USD 11.2 million last quarter declined to USD 7.9 million in the review period.

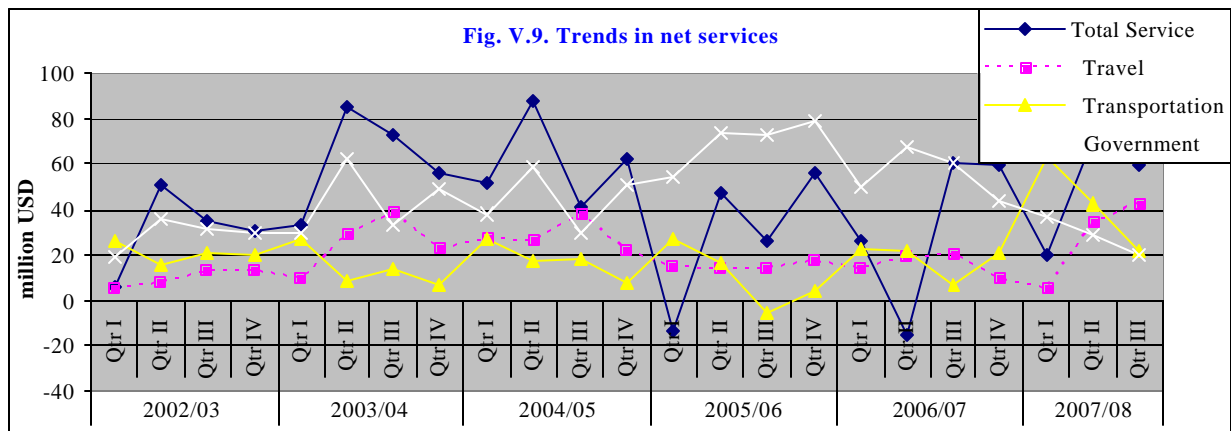


Table 5.8: Trends in Service Accounts

(In Millions of USD)

Particulars	2006/07		2007/08				Percentage Change	
	Qtr III	% Share	Qtr II	% Share	Qtr III	% Share	C/B	C/A
	A		B		C			
Receipts	317.6	100.0	405.2	100.0	415.5	100.0	2.6	30.9
Travel	42.6	13.4	64.3	15.9	79.7	19.2	24.1	87.0
Transportation	154.5	48.6	204.0	50.3	208.4	50.1	2.2	34.9
Government (n.i.e)	61.5	19.4	34.1	8.4	32.3	7.8	-5.1	-47.4
Investment Income	15.1	4.7	22.4	5.5	10.9	2.6	-51.4	-27.6
Interest	15.0	4.7	22.1	5.5	10.9	2.6	-50.8	-27.3
Dividend	0.1	0.0	0.3	0.1	0.0	0.0	-	-
Other Services	43.9	13.8	80.4	19.8	84.2	20.3	4.7	91.8
Communication Services	23.8	7.5	21.8	5.4	18.4	4.4	-15.6	-22.8
Construction Services	1.8	0.6	6.3	1.6	3.6	0.9	-43.5	94.7
Insurance Services	0.8	0.3	0.6	0.1	0.5	0.1	-8.0	-35.5
Financial Services	1.3	0.4	3.9	1.0	2.3	0.6	-41.7	76.7
Computer and Information Service	0.0	0.0	0.2	0.0	0.1	0.0	-63.4	372.7
Other Business Services	15.8	5.0	47.6	11.7	59.3	14.3	24.7	276.7
Personal, cultural and recreational	0.4	0.1	0.0	0.0	0.0	0.0	-1	-
Payments	238.1	100.0	334.4	100.0	356.3	100.0	6.6	49.7
Travel	22.5	9.4	29.7	8.9	37.0	10.4	24.5	64.6
Transportation	143.5	60.3	161.7	48.4	186.5	52.3	15.3	30.0
Government (n.i.e)	2.0	0.8	4.9	1.5	11.8	3.3	141.4	498.2
Investment Income	6.9	2.9	11.3	3.4	3.0	0.9	-72.9	-56.0
Interest	3.3	1.4	5.7	1.7	1.5	0.4	-74.2	-54.7
cash (Banks & MOF)	3.3	1.4	5.7	1.7	1.5	0.4	-74.2	-54.7
arrears	0.0	0.0	0.0	0.0	0.0	0.0	-	-
relief	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Dividend	3.7	1.5	5.5	1.7	1.6	0.4	-71.6	-57.1
Other Services	63.3	26.6	126.9	37.9	118.1	33.1	-6.9	86.7
Communication Services	4.0	1.7	5.0	1.5	4.4	1.2	-11.5	11.0
Construction Services	24.5	10.3	82.4	24.6	39.6	11.1	-51.9	61.7
Insurance Services	0.9	0.4	1.8	0.5	1.7	0.5	-5.2	79.4
Financial Services	0.0	0.0	0.1	0.0	0.0	0.0	-75.9	-18.7
Computer and Information Service	1.0	0.4	0.9	0.3	1.0	0.3	10.0	4.4
Other Business Services	32.8	13.8	36.6	11.0	71.3	20.0	94.5	117.4
Personal, cultural and recreational	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Net Services	79.5		70.7		59.2		-16.3	-25.5

Source: Staffs Compilation

As a result of a decline in official transfers coupled with a marginal slowdown in private transfers, total net transfers decreased from USD 937 million in the preceding quarter to USD 895 million (4.4 percent) in the review period. Net transfers to the government dropped by 7.5 percent on quarterly basis from USD 358.5 million to USD 331.7 million. All transfers to the government were cash transfers.

Similarly, net private transfers (including transfers through NGOs) declined by 2.5 percent on quarterly basis to USD 564 million as a result of a slight fall in individual transfers. Transfers to private individuals went down by 9.6 percent from USD 440.1 million to USD 398.1 million as cash transfer, transfers in-kind and estimated

underground transfers were down by 0.4, 25.1 and 18.1 percent, respectively. On the other hand, transfers through NGOs rose by 19.9 percent as food transfers surged to USD 22.5 million from USD 0.9 million. Quarterly cash transfers through NGOs also showed a modest increase of 5.1 percent from USD 145.2 million to USD 152.2 million.

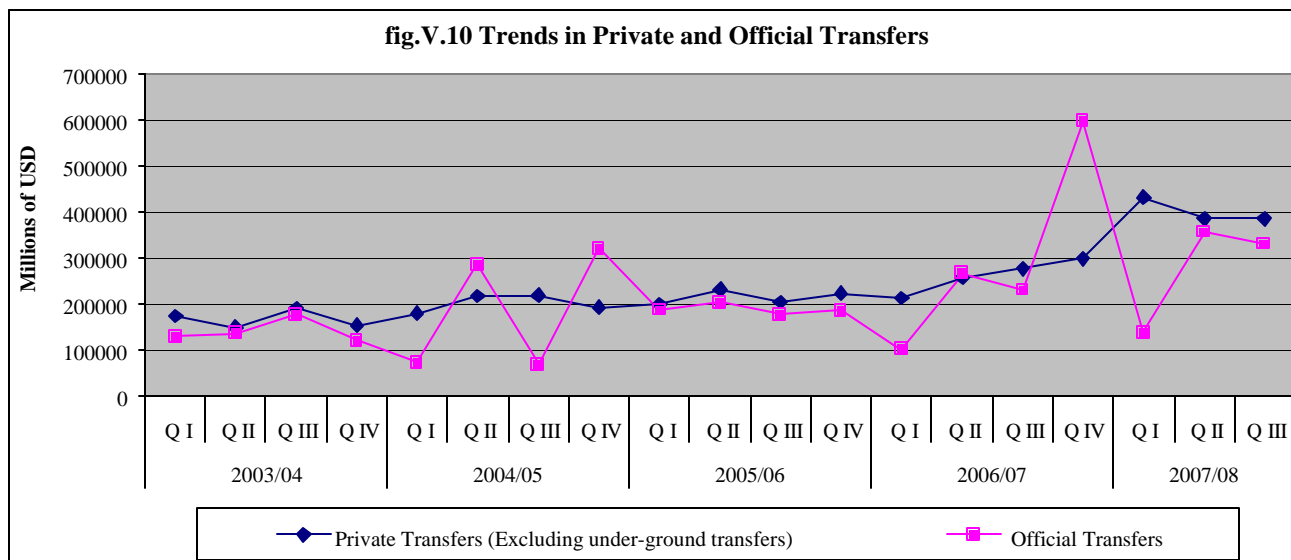
On annual terms, total net transfers surged by 31.9 percent due to 25.8 percent increase in net private transfers and 43.7 percent in net official transfers. The share of official transfers in total transfers slightly dropped to 37.0 percent from 38.3 percent a quarter earlier. On the other hand, the share of private transfers, which was 61.7 percent in the preceding quarter went up to 63.0 percent during the review period.

Table 5.9: Developments of Transfer Accounts

(In Millions of USD)

Particulars	2006/07		2007/08				Percentage Change	
	A	% Share	B	% Share	C	% Share	C/B	C/A
	QIII		Q II		Q III			
Private Transfers	448.3	66.0	578.3	61.7	563.9	63.0	-2.5	25.8
Credit	450.6	65.9	586.2	61.7	573.3	63.2	-2.2	27.2
NGO's	129.9	19.0	146.1	15.4	175.2	19.3	19.9	34.9
Cash	129.9	19.0	145.2	15.3	152.6	16.8	5.1	17.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Food	0.0	0.0	0.9	0.1	22.6	2.5	2,390.2	-
Private individuals	320.7	46.9	440.1	46.3	398.1	43.9	-9.6	24.1
Cash	119.9	17.5	190.0	20.0	189.3	20.9	-0.4	57.9
In-kind	30.0	4.4	58.1	6.1	31.9	3.5	-45.1	6.5
Under ground private transfers	170.9	25.0	192.1	20.2	176.9	19.5	-7.9	3.5
Debit	-2.3	51.5	-7.9	59.5	-9.3	83.8	18.4	306.3
Official Transfers	230.9	34.0	358.5	38.3	331.7	37.0	-7.5	43.7
Credit	233.1	34.1	363.9	38.3	333.5	36.8	-8.4	43.1
Cash	221.5	32.4	363.9	38.3	333.5	36.8	-8.4	50.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Food	11.6	1.7	0.0	0.0	0.0	0.0	-	-
Debit	-2.2	48.5	-5.4	40.5	-1.8	16.2	-66.5	-16.6
Total Receipts	683.6	101	950.1	101	906.8	101	-4.6	32.6
Total Payments	4.5	(0.7)	-13.3	(1.4)	-11.1	-	-16.0	149.9
Net Transfers	679.2	100	936.9	100	895.6	100	-4.4	31.9

Source: Staff Compilation



5.4 Current Account

The deficit in the current account balance (including official transfers) widened to USD 342.3 million, 1.6 and 28.4 percent higher than the deficit in the preceding quarter and the same quarter of last year, as a result of slow down in net services and private and official transfers.

5.5 Capital account

The capital account surplus declined by 44.1 percent on quarterly and 25.4 percent on annual basis and reached USD 185.3 million. A decline in net official disbursement coupled with a fall in estimated inflow of foreign direct investment was the main factor for the

significant drop in the capital account surplus.

5.6 Changes in Reserve Position

As a result of the deficit in the overall balance of payments, net foreign assets of the banking system showed a quarterly draw-down of USD 175 million compared to USD 53.6 million a year earlier. The net foreign assets of NBE declined by USD 329.9 million while that of commercial banks increased by USD 155 million during the review quarter.

5.7 Developments in Foreign Exchange Market

5.7.1 Exchange Rate Movements

The average exchange rate of the Birr in the interbank foreign exchange market during the third quarter of 2007/08 reached Birr 9.3192/USD. This has shown quarterly and annual depreciation

of 2.74 and 5.52 percent, respectively. The rate of depreciation of the Birr was faster in the parallel market with quarterly and annual depreciation of 6.2 and 11.5 percent. As a result, the average spread between the official and parallel market rates widened to 7.1 percent compared to 3.6 percent in the preceding quarter and 1.4 percent a year ago.

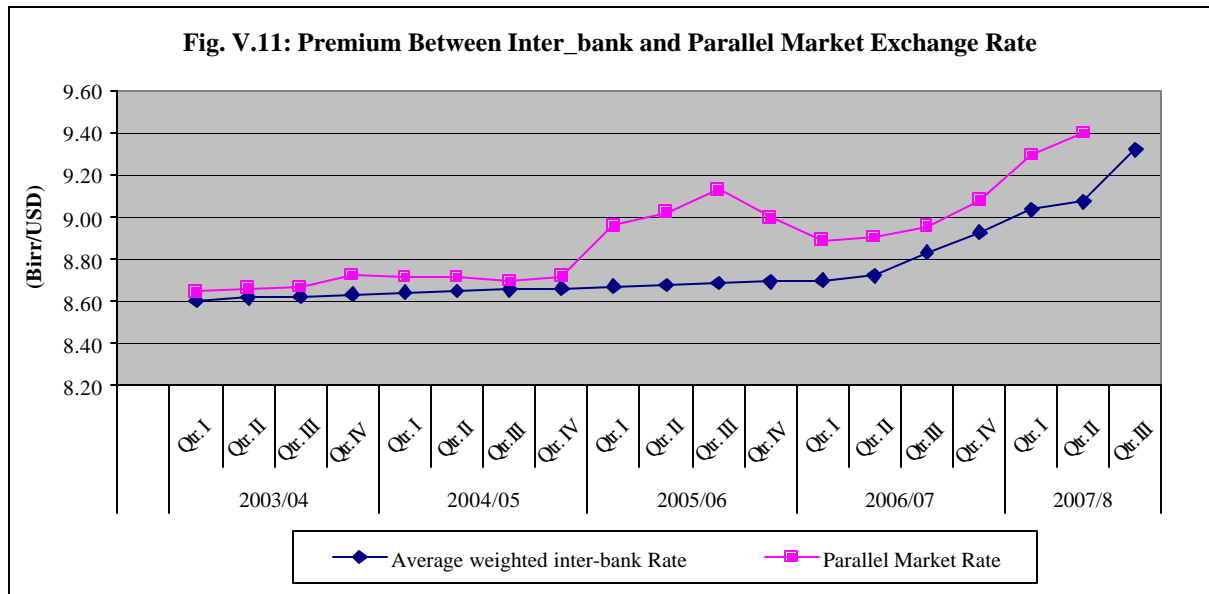


Table 5.10: Exchange Rates in the Inter-bank Foreign Exchange Market

Period		Rates in Birr per USD				Amount Traded in millions of USD		Number of Trades		Parallel Market		Premium
		End Period Rates			Average Weighted Rate							
		Weighted Rate	Highest	Lowest		Total	o/w Among CBs	Total	o/w Among CBs	End Period	Average	
2006/07		8.6949	8.6949	8.6687	8.6810	134.0	10.3	1304.2	32.0	8.8700	9.0258	3.97
Qtr. III	C	8.8439	8.8441	8.8394	8.8315	35.3	0.8	578.0	10.0	8.9890	8.9553	1.40
January		8.8394	8.8395	8.8394	8.8113	14.4	0.4	214.0	3.0	8.9200	8.9009	1.02
February		8.8416	8.8417	8.8416	8.8406	10.0	0.0	197.0	0.0	8.9800	8.9777	1.55
March		8.8439	8.8441	8.8439	8.8428	11.0	0.5	167.0	7.0	8.9890	8.9873	1.63
2007/08												
Qtr. II	B	9.2008	9.2009	9.0414	9.0704	38.4	5.4	372.0	19.0	9.6100	9.3968	3.60
October		9.0415	9.0415	9.0414	9.0400	14.3	4.8	102.0	15.0	9.3100	9.2905	2.77
November		9.0443	9.0444	9.0443	9.0431	11.6	0.6	111.0	4.0	9.4450	9.3691	3.60
December		9.2008	9.2009	9.2008	9.1281	12.5	0.0	159.0	0.0	9.6100	9.5308	4.41
Qtr. III	A	9.3588	9.3591	9.3558	9.3192	28.9		512.0		10.5750	9.9822	7.11
January		9.2436	9.2436	9.2401	9.2113	11.5	0.0	166.0	0.0	9.8000	9.6773	5.06
February		9.3402	9.3402	9.3357	9.2937	10.5	0.0	183.0	0.0	10.2150	9.9393	6.95
March		9.4925	9.4935	9.4917	9.4526	6.9		163.0		10.575 ¹	10.330 ¹	9.28
Percentage changes	A/B	1.72	1.72	3.48	2.74	-24.64		37.63		10.04	6.23	97.7
	A/C	5.82	5.82	5.84	5.52	-18.13		-		17.64	11.47	1
								11.42				407.
												70

¹Up to March 13, 2008

Looking at the retail market for foreign exchange, the average buying rate of foreign exchange bureaux during the period was USD 9.3186/USD and their selling rate Birr 9.5018/USD. The buying and selling rates depreciated by

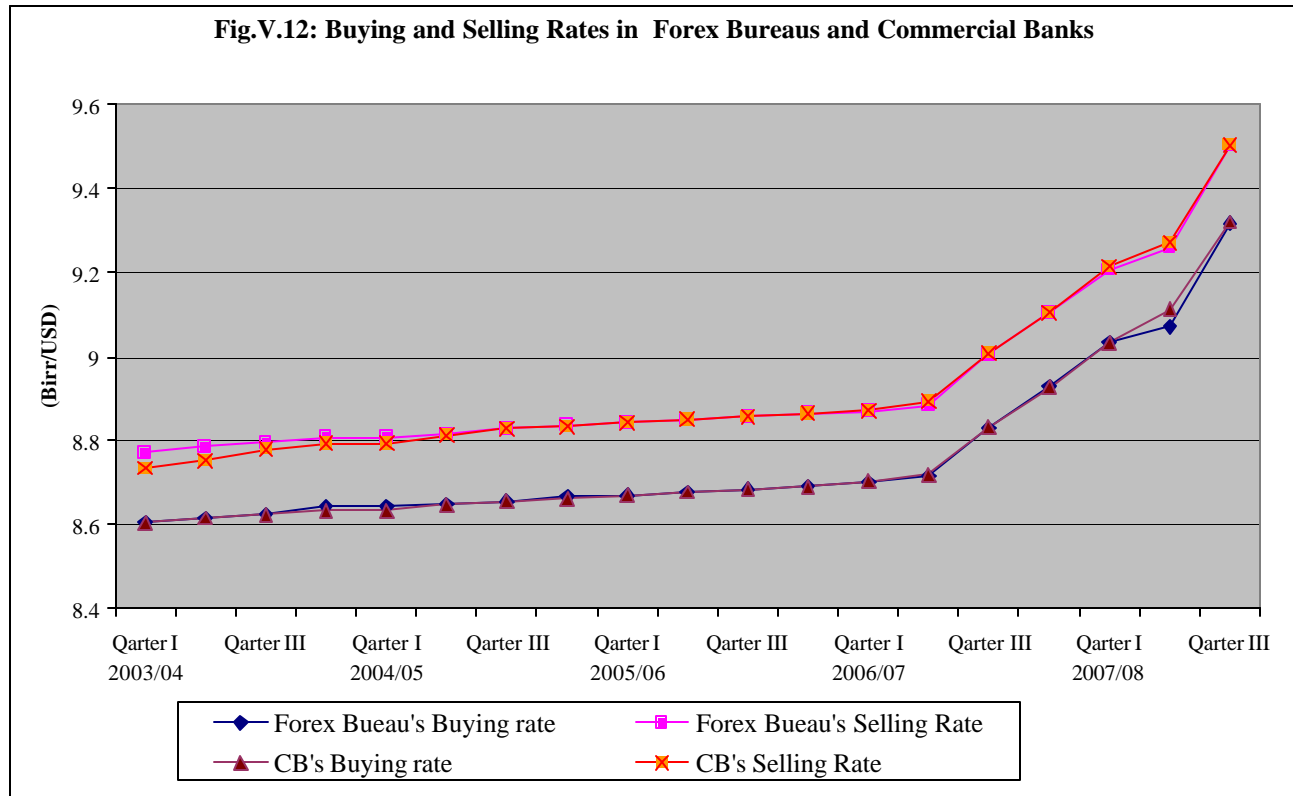
2.7 and 2.6 percent on quarterly and 5.5 percent each on annual basis.

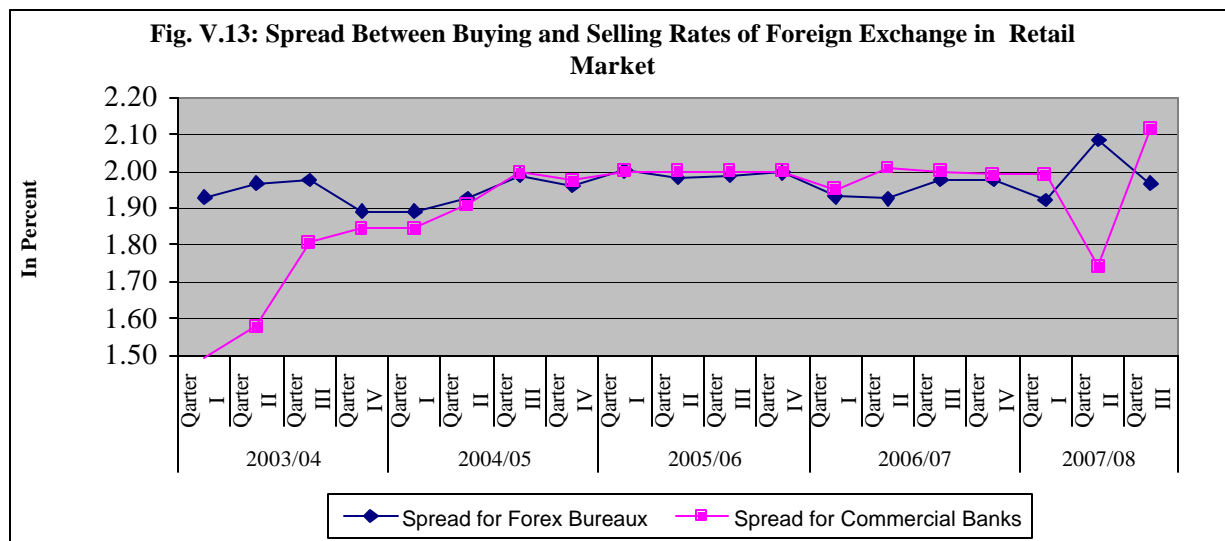
On the other hand, the buying rate of commercial banks depreciated by 2.3 percent on quarterly and 5.6 percent on annual basis to Birr 9.3255/USD.

Third Quarter 2007/08

Similarly, their selling rate showed 2.7 percent quarterly and 5.7 percent yearly depreciation to reach Birr 9.5225/USD. The average spread between their buying

and selling rates widened from 1.7 percent in the preceding quarter to 2.1 percent in the review period.





The depreciation of the US dollar against major currencies has continued through the review period. The average exchange rate of the US dollar against the Euro was 1.5008, showing 3.6 and 14.4 percent depreciation compared to the preceding quarter the same quarter of

last fiscal year. The US dollar also depreciated 7.4 percent against the Japanese yen. It, however, appreciated by 3.3 percent on quarterly but depreciated by 1.2 percent on annual basis against Pound Sterling.

Table 5.11: Period Average Exchange Rates (USD per other Major Currencies)

YEAR		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
2006/07		1.2716	1.2715	1.2716	0.0129	0.0130	0.0130	1.4915	1.4914	1.4914	1.8562	1.8562	1.8562	0.7863	0.7861	0.7862
Quarter III	C	1.3114	1.3114	1.3114	0.0084	0.0084	0.0084	1.4999	1.4999	1.4999	1.9547	1.9547	1.9547	0.8115	0.8115	0.8115
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
2007/08																
Quarter II	B	1.4487	1.4487	1.4487	0.0089	0.0089	0.0089	1.5730	1.5725	1.5727	2.0452	2.0452	2.0452	0.8730	0.8730	0.8730
October		1.4226	1.4226	1.4226	0.0086	0.0086	0.0086	1.5581	1.5566	1.5573	2.0436	2.0436	2.0436	0.8518	0.8518	0.8518
November		1.4683	1.4683	1.4683	0.0090	0.0090	0.0090	1.5854	1.5854	1.5854	2.0725	2.0725	2.0725	0.8905	0.8905	0.8905
December		1.4552	1.4553	1.4553	0.0089	0.0089	0.0089	1.5754	1.5754	1.5754	2.0196	2.0196	2.0196	0.8767	0.8767	0.8767
Quarter III	A	1.5017	1.4999	1.5008	0.0095	0.0095	0.0095	1.5994	1.5979	1.5987	1.9781	1.9782	1.9781	0.9372	0.9372	0.9372
January		1.4709	1.4709	1.4709	0.0093	0.0093	0.0093	1.5838	1.5791	1.5815	1.9695	1.9695	1.9695	0.9074	0.9074	0.9074
February		1.4759	1.4738	1.4748	0.0093	0.0093	0.0093	1.5843	1.5847	1.5845	1.9627	1.9629	1.9628	0.9161	0.9162	0.9162
March		1.5583	1.5552	1.5567	0.0099	0.0099	0.0099	1.6301	1.6301	1.6301	2.0020	2.0020	2.0020	0.9880	0.9880	0.9880
Percentage change	A/B	3.66	3.54	3.60	7.41	7.42	7.42	1.68	1.62	1.65	-3.28	-3.28	-3.28	7.36	7.36	7.36
	A/C	14.51	14.38	14.44	13.41	13.42	13.42	6.63	6.54	6.58	1.20	1.20	1.20	15.49	15.50	15.50

Source: Staff Compilation

Reflecting the continued weakening of the US dollar, the Birr also depreciated against other major currencies except Pound Sterling. Birr depreciated by 6.4 percent quarterly and 20.7 percent yearly

against Euro and 10.4 and 19.7 percent against Japanese yen. However, the Birr slightly appreciated on quarterly but depreciated by 6.8 percent on annual basis against the Pound Sterling.

Table 5. 12: Period Average Exchange Rates (Birr per Major Currencies)

YEAR		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
2006/07		8.6809	8.7678	8.7243	10.5631	10.6677	10.6154	0.0756	0.0763	0.0759	12.6053	12.7314	12.6684	15.4324	15.5867	15.5096	6.7893	6.8553	6.8223
Quarter III	C	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
2007/08																			
Quarter II	B	9.0677	9.1584	9.1130	13.1394	13.2708	13.2051	0.0803	0.0811	0.0807	14.2634	14.4016	14.3325	18.5411	18.7265	18.6338	7.9181	7.9973	7.9577
October		9.0399	9.1303	9.0851	12.8598	12.9884	12.9241	0.0781	0.0789	0.0785	14.0848	14.2121	14.1484	18.4739	18.6586	18.5663	7.7000	7.7770	7.7385
November		9.0429	9.1333	9.0881	13.2775	13.4103	13.3439	0.0814	0.0823	0.0819	14.3368	14.4802	14.4085	18.7418	18.9292	18.8355	8.0527	8.1333	8.0930
December		9.1203	9.2115	9.1659	13.2808	13.4137	13.3472	0.0812	0.0820	0.0816	14.3687	14.5124	14.4406	18.4076	18.5917	18.4997	8.0014	8.0815	8.0414
Quarter III	A	9.3159	9.4088	9.3623	13.9769	14.1166	14.0526	0.0886	0.0895	0.0890	14.9019	15.0371	14.9695	18.4292	18.6136	18.5214	8.7346	8.8220	8.7783
January		9.2108	9.3029	9.2569	13.5480	13.6835	13.6157	0.0854	0.0862	0.0858	14.5880	14.6904	14.6392	18.1411	18.3226	18.2318	8.3583	8.4419	8.4001
February		9.2919	9.3840	9.3379	13.6934	13.8303	13.7721	0.0867	0.0875	0.0871	14.7211	14.8704	14.7957	18.2374	18.4199	18.3286	8.5128	8.5981	8.5554
March		9.4450	9.5394	9.4922	14.6892	14.8361	14.7698	0.0938	0.0947	0.0942	15.3965	15.5505	15.4735	18.9092	19.0983	19.0038	9.3328	9.4261	9.3794
Percentage change	A/B	2.74	2.73	2.74	6.37	6.37	6.42	10.39	10.39	10.39	4.48	4.41	4.44	-0.60	-0.60	-0.60	10.31	10.31	10.31
	A/C	5.50	5.49	5.50	20.69	20.69	20.74	19.69	19.69	19.69	12.51	12.41	12.46	6.77	6.77	6.77	21.89	21.89	21.89

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

Table 5.13: Birr per Unit of Currency End Period Mid Market Rate

Currency	Mar-07	Feb-08	Mar-08	Percentage change	
	C	B	C	C/B	C/A
USD	8.8880	9.3823	9.5372	1.65	7.30
Pound	17.4508	18.6548	19.1382	2.59	9.67
Swedish Kroner	1.2729	1.5191	1.6019	5.45	25.85
Djibouti Frank	0.0501	0.0528	0.0537	1.70	7.29
Swiss Frank	7.3093	8.9287	9.5928	7.44	31.24
Saudi Riyal	2.3699	2.3272	2.5419	9.22	7.26
UAE Dirham	2.4205	2.5545	2.5965	1.64	7.27
Canadian Dollar	7.6734	9.2610	9.3824	1.31	22.27
Japanese Yen	0.0754	0.0895	0.0955	6.71	26.69
Euro	11.8611	14.2442	15.7043	10.25	32.40
SDR	13.4497	15.0358	15.0563	0.14	11.95

Source: National Bank of Ethiopia –BFED

5.7.2. Movements in Real Effective Exchange Rate

As inflation continued to remain high in Ethiopia in relation to that of its trading partners, the real exchange rate of the Birr showed steady appreciation despite the depreciation of the nominal

exchange rate. The real effective exchange rate of the Birr appreciated by 5 and 13.3 percent on quarterly and annual basis during the third quarter of 2007/08. On the other hand, the nominal effective exchange rate showed quarterly and annual depreciation of 2.8 and 7.3 percent.

Table 5.14 Trends in Real Effective Exchange Rate

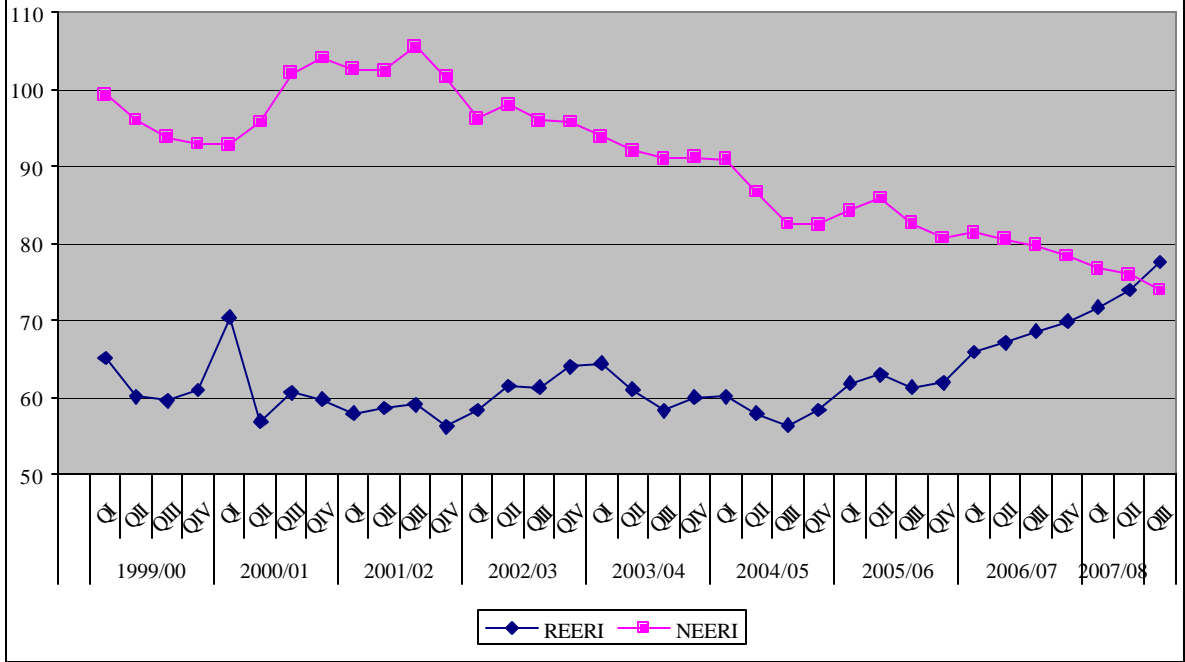
	2006/07	2007/08		Percentage Change	
	QIII	QII	QIII	C/B	C/A
	A	B	C		
REERI	68.5	73.9	77.6	5.01	13.28
NEERI	79.7	76.0	73.9	-2.76	-7.28

REERI = Real Effective Exchange Rate Index

NEERI = Nominal Effective Exchange Rate Index

Third Quarter 2007/08

Fig.V.4: Movement in Real and Nominal Exchange Rate



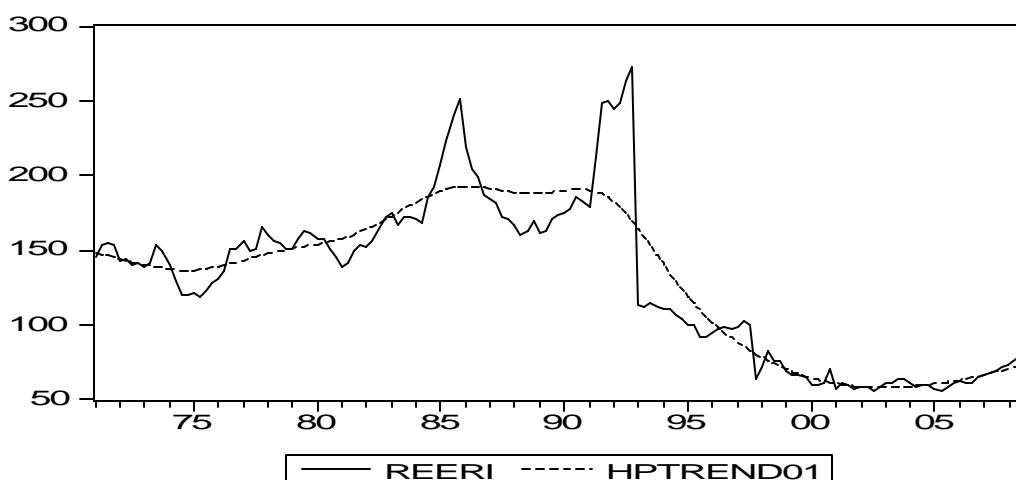
Box 1

Estimating Misalignment of REER from its Long-run Trend

The Real Effective Exchange Rate (REER) has been appreciating continuously during the past few quarters. The major reason for this appreciating trend was the inflation differential between Ethiopia and its trading partners as a result of higher domestic inflation. The inflation differential has offset the continuous depreciation of the nominal exchange rate and resulted in an appreciating REER.

This appreciating trend of the REER, if left unattended, is bound to affect the country's external competitiveness by making the country's exports relatively expensive whereas its imports relatively cheaper. In addition, there is a need to trackdown whether the REER is deviating from its long-run equilibrium. This is so because consistent misalignment of the real exchange rate from its equilibrium value could lead to a severe balance of payments difficulties. Therefore, it is essential to examine whether the current trend of the REER is diverging significantly from its equilibrium value or not.

Fig.1: Misalignment of REER from its Long-run Trend

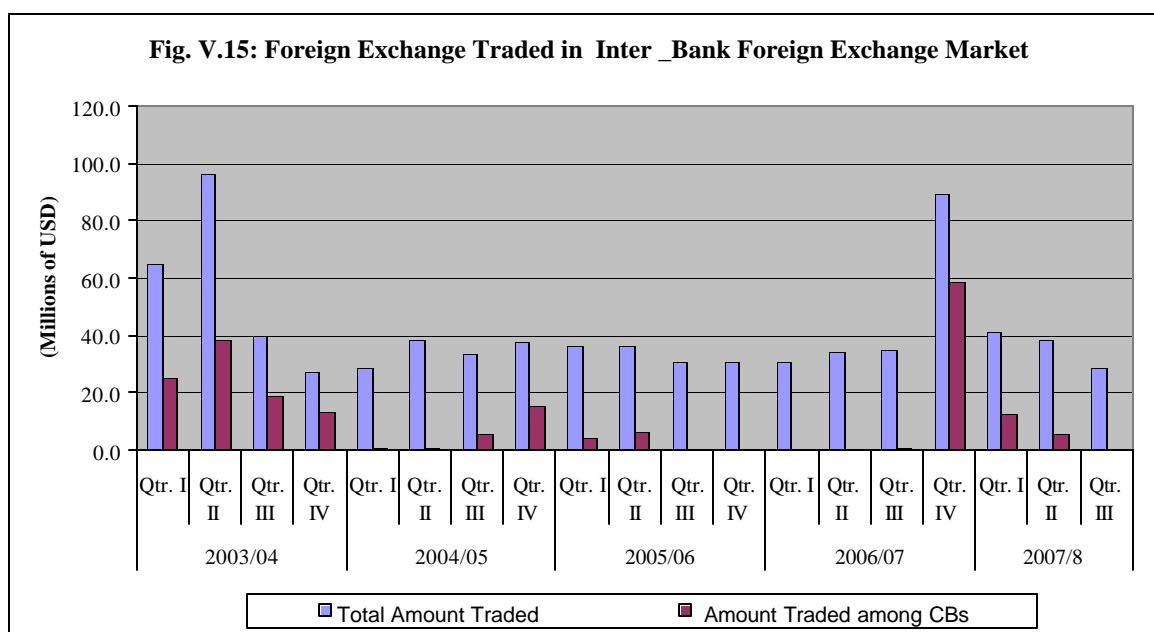


To this end, we have generated an estimate of the long-run trend of the REER using the Hodrick-Prescott filter and tried to see the deviation of the actual REER from its long-run trend. As can be seen from the results (see fig 1), the REER has been very much above its long-run trend in the mid 1980's and the beginning of the 1990's. In recent quarters the REER has been slightly above its long-run trend. The extent of this deviation, however, is very small with an average of 4 percent in 2007.

5.7.3 Volume of Transactions

The amount of foreign exchange traded in the interbank foreign exchange market during the review period was USD 28.9 million, down by 24.6 and 18.1 percent compared to the amount traded in the

preceding quarter and same quarter of last fiscal year. All the transactions took place between NBE and commercial banks with no trade among commercial banks.



In the retail market, commercial banks purchased foreign exchange to the tune of USD 166.7 million, 7.1 and 14.8 percent higher than last quarter and the same quarter of last year. Similarly, foreign exchange sold by commercial banks to importers showed quarterly and annual increases of 9.2 and 17.1 percent, to USD 822.7 million.

Forex bureaux purchases of foreign exchange surged 18 and 36.8 percent on quarterly and annual basis, to USD 26.7 million. Their sales also increased by 40.3 and 117.3 percent during the respective period.

Fig. V.16: Sales and Purchases of Foreign Exchange By Commercial Banks

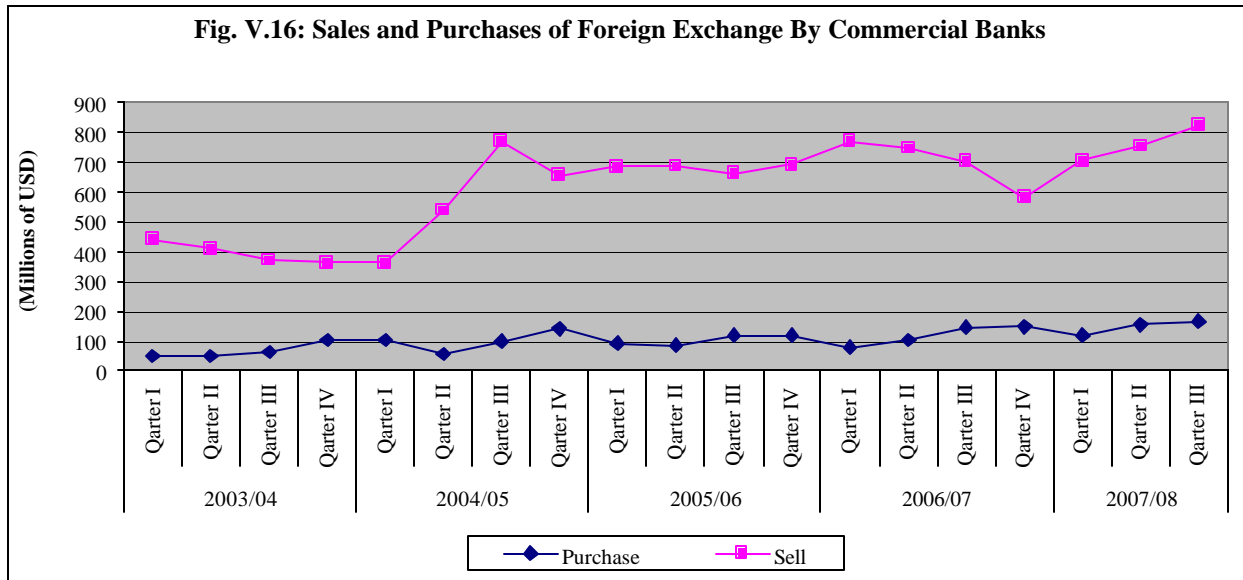


Table 5.15: Amount of Foreign Exchange Purchased and Sold by Commercial Banks
(In millions of USD)

No	Name of Forex Bureau	2006/07		2007/08				Percentage Change			
		Quarter III		Quarter II		Quarter III		C/B		C/A	
		A		B		C					
		Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
1	Commercial Bank of Ethiopia	51.66	405.81	44.77	358.84	55.80	384.14	24.6	7.1	8.0	-5.3
2	Bank of Abyssinia	6.64	30.46	4.56	42.54	2.95	46.83	-35.4	10.1	55.6	53.8
3	Dashen Bank	29.97	84.93	59.56	107.43	47.18	113.55	-20.8	5.7	57.4	33.7
4	Awash International Bank	7.09	36.41	7.23	39.13	10.04	37.73	38.8	-3.6	41.7	3.6
5	Construction and Business Bank	0.57	16.00	1.18	24.05	0.23	23.74	-80.9	-1.3		48.4
6	Wegagen Bank	38.35	59.99	27.09	80.63	40.92	85.83	51.0	6.4	6.7	43.1
7	United Bank	0.00	35.83	0.00	34.63	0.00	43.58		25.8		21.6
8	Development Bank	0.00	0.00	0.00	0.00	0.00	0.00			-	
9	Nib International Bank	10.99	32.58	11.31	60.76	9.59	80.94	-15.2	33.2	12.8	148.4
10	Oromiya Cooperative Bank	0.00	0.26	0.00	5.45	0.00	6.32		15.9	0.0	0.00
	Total	145.27	702.27	155.70	753.46	166.70	822.67	7.1	9.2	14.8	17.1
	Average Exchange Rate	8.8318	9.0084	9.1130	9.2715	9.3255	9.5225	2.3	2.7	5.6	5.7

Table 5.16: Amount of Foreign Exchange Purchased and Sold by Forex Bureaux of Commercial Banks

(In millions of USD)

No	Name of Forex Bureau	No of Branches	2006/07		2007/08				Percentage Change			
			Quarter III		Quarter II		Quarter III		C/B		C/A	
			A		B		C					
			Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
1	Commercial Bank of Ethiopia	7	2.65	3.29	6.62	4.13	10.44	4.92	57.5	19.2	294.2	49.8
2	Bank of Abyssinia	5	0.52	0.57	0.55	0.88	0.77	1.20	40.9	37.3	47.9	112.0
3	Dashen Bank	2	3.35	0.67	3.00	1.61	4.45	2.79	48.3	72.7	32.6	318.3
4	Awash International Bank	4	0.23	0.29	0.32	0.42	0.56	0.84	74.0	101.7	144.9	188.2
5	Construction and Business Bank	4	0.15	0.06	0.10	0.13	0.21	0.15	113.2	15.9	37.9	126.8
6	Wegagen Bank	5	1.95	0.32	1.96	0.93	1.64	1.44	-16.1	55.2	-15.9	346.1
7	United Bank	12	1.86	0.27	2.29	0.62	2.87	0.78	25.4	24.8	54.4	191.4
8	Nib International Bank	2	8.83	0.41	7.83	0.38	5.79	0.65	-25.9	69.1	-34.4	58.6
	Total	41	19.54	5.87	22.66	9.09	26.73	12.76	18.0	40.3	36.8	117.3
	Average Exchange Rate		8.8304	9.0050	9.0713	9.2604	9.3186	9.5018	2.7	2.6	5.5	5.5