I. Overview

During the third quarter of 2007/08, quarterly headline inflation was 8.0 percent which is 3.5 percent higher than that of the preceding quarter. Similarly, quarterly food inflation jumped from 3.9 to 9.3 percent and quarterly non-food (core) inflation from 3.6 to 6.0 percent. The rise in food inflation was mainly due to the rise in cereals inflation, while that of nonfood inflation was attributed to the increase in the inflation rates of house rent, construction materials, fuel, water and power; furniture, furnishing, household equipment and operation; transport and communications; and beverages sub-categories of the CPI.

With respective quarterly and annual growth rates of 7.5 and 23.3 percent, the stock of broad money supply at the end of the review period reached Br. 65.7 billion. The year-on-year growth in money supply was due to increases in both net foreign assets (12.6 percent) and domestic credit (29.2 percent), while the quarterly growth was solely attributable to a 9.0 percent expansion in domestic credit.

Similarly, savings deposits went up by 24.3 percent, time deposit by 21.3 percent, and demand deposit by 15.4 percent, as compared to last year same quarter. Reserve money also exhibited an annual increase of 21.3 percent owing to higher bank deposits at the central bank and currency in circulation.

With regard to interest rates developments, average nominal interest rate on savings deposit and demand deposits remained at the preceding quarter level of 4.08 and 0.04. On the other hand, weighted time deposits rate on average increased to 5.18 from the 5.07 percent a year earlier. Average lending rate also remained at 11.5 percent. Meanwhile, yields on T-bills also tended to rise to 0.5 percent from 0.2 percent during the same period. Yet, real interest rates remained negative owing to higher inflation.

As to financial sector developments, the number of banks stood at 11 and a total of 86 new bank branches were opened during the quarter raising the figure to 608. This has thus reduced the people-to-bank-branch ratio from 147,753 to 126,854. Contrary to past trend, 93 percent of these new branches are located outside Addis Ababa, showing a significant improvement the distribution. However, Ethiopia still remains one of the under-banked countries in Sub-Saharan Africa.

Similarly, the number of insurance companies remained at 10 and a total of 6 new branches were opened during the stated period, raising the total number of insurance branches throughout the country to 170 with a 1 branch serving 453,688 people.

The number of microfinance institutions, however, remained 19. These institutions are making significant contribution to poverty alleviation through their savings mobilization and credit allocation at grassroots level. These institutions mobilized Birr 1.36 billion in savings and their credit outstanding has reached Birr 3.7 billion during the reported period. Their total assets are also estimated at Birr 4.8 billion.

In the external sector, export receipts reached USD 474.3 million, up by 77.2 and 39.6 percent against that of the preceding quarter and same quarter of last year, respectively. The share of coffee rose to 40.5 percent from 19.6 in the preceding quarter due to 241.8 and 6.8 increases in the export volume and international price of coffee. Similarly, the shares in export earnings of oilseeds and flowers continued to rise. While that of leather and leather products, and pulses was declining. During the review quarter, about 42.1 percent of Ethiopia’s exports shipped to Europe, 35.9 percent to Asia, 12.3 percent to other African countries and 9.1 percent to the Americas.

Import bills also surged by 27.2 percent over last year same quarter and reached USD 1.8 billion as import values of fuel and consumer non-durables increased significantly, while import of capital goods and raw materials went down. About 61 percent of Ethiopia's import items originated from Asia, 24.6 percent from Europe, 5.5 percent from the Americas and 8.4 percent from Africa during the stated period.

Meanwhile, the surplus in the service account declined to USD 59.2 million from USD 70.7 million in the previous year mainly due to the decrease in net transportation receipts and net receipts from government services. Similarly, net transfers went down to USD 895.6 million from USD 937.0 million in the preceding quarter largely as a result of a decline in official transfers and marginal slowdown in private transfers. However, net transfers surged by about 3.2 percent over the same period last year, as both private and public transfers increased.

Accordingly, the current account deficit (including official transfers) widened to USD 342.3 million from USD 305.0 million and USD 294 million in the preceding quarter and the same period of last year, respectively. Therefore, despite the surplus registered in non-monetary capital, the overall balance showed increased deficit of USD 175.0 million from the respective deficit level of USD 140.5 million and USD 53.6 million in the preceding quarter and same period last year.

With regard to foreign exchange market, the Birr in the official market showed a quarterly depreciation of 2.74 percent against USD. In the parallel market the rate depreciated by 6.2 percent. As a result, the average spread between the two markets widened to 7.1 percent from 3.6 percent in the preceding quarter. The real effective exchange rate of the Birr appreciated by 3.0 percent over the preceding quarter due to continued high inflation in the country in relation to its major trading partner countries despite the continuous depreciation of the nominal exchange rate.

The fiscal sector development indicates that Federal Government revenue and grants increased by 19.3 percent on quarterly and 95.3 percent on annual basis owing to a significant growth in non-tax revenue. Tax revenue, however, declined by 17.8 percent quarterly but increased by 21.8 percent on annual basis. On the other hand, total Federal Government expenditure declined by 19.4 percent and increased by 27.9 percent compared to the preceding quarter and same period last year, respectively. The quarterly decline was due to slowdown in both current and capital expenditures by 13.4 percent and 42.6 percent. All in all, Federal Government overall fiscal operations resulted in an overall fiscal surplus of Birr 686 million (including grants). As a result, net domestic borrowing of the government showed a significant decline.

Regarding investment, a total of 2100 projects with a capital of Birr 45 billion were approved during the quarter under review. Domestic investment accounted for 81 percent of the total projects approved. Upon going operational, these projects are expected to create permanent and casual jobs to over 362,912 compatriots. Manufacturing took the major proportion of the total investment projects (23.7 percent), followed by agriculture, hunting and forestry (22.7 percent), real estate, renting and business activities (18.3 percent), and hotels and restaurants (13.2 percent).

To sum up, the third quarter of 2007/08 witnessed a continuous rise in inflation, moderate monetary expansion, higher export and import growth, widening of current account deficit, continued depreciation of the nominal exchange rate of the Birr, surplus in the overall fiscal operations and rising investment.