I. Overview

During the fourth quarter of 2007/08, quarterly headline inflation rose to 18.5 percent from 8.0 percent in the preceding quarter and 4.1 percent same period last year, spurred by 25.1 and 8.2 percent increase in food and non-food (core) inflation, respectively.

By the end of the review quarter, broad money supply reached Birr 68.2 billion, depicting a quarterly and annual growth rate of 3.8 and 20.4 percent, respectively, wholly driven by expansion of domestic credit. Year-on-year basis, domestic credit went up by 29.3 percent, reflecting the ongoing investment activities both by private and public enterprises.

On the liability side, all components of broad money witnessed improvements vis-à-vis the same period of last year. Accordingly, savings deposits went up by 24.3 percent, time deposit by 1.1 percent, and demand deposit by 11.2 percent. Reserve money also exhibited an annual growth rate of 30.2 percent, owing to increases in both currency in circulation and deposits of banks at the NBE.

With regard to interest rates development, average saving deposit rate and average lending rates of commercial banks remained stable at the preceding quarter level of 4.08 and 11.5 percent, respectively. On the other hand, the weighted demand deposit rate rose from 0.037 to 0.041 percent while time deposit rate marginally declined from 5.18 percent in the previous quarter to 5.16 percent. Meanwhile, yields on T-bills tended to rise to 0.6 percent from 0.5 percent in the previous quarter. Real interest rates continued to remain negative due to higher inflation.

The fourth quarter of 2007/08, marked continued branch expansion by the banking industry as revealed by the opening of 16 new bank branches thereby raising the total number of bank branches across the country to 562. Total resource mobilized by the banking system also went up by 8.9 and 7.9 percent vis-à-vis the preceding quarter and same quarter last year, respectively, and reached Birr 7.4 billion. New loan disbursements by banks also more than doubled and reached Birr 8.9 billion as compared to same period last year.

Similarly, while the insurance companies remained at 10, their branches expanded by two raising the total number of insurance branches throughout the country to 172. The number of microfinance institutions (MFIs), however, declined by one to 28 in the review quarter due to liquidation of one of the MFIs. They mobilized deposits amounting to Birr 1.56 billion, and their credit outstanding grew by 21.6 percent on quarterly basis to Birr 4.5 billion. Their total assets increased to Birr 5.3 billion signifying their growing role in poverty reduction and asset building of low-income groups.

In the external front, total export receipts reached USD 457.9 million, up by 11.4 percent vis-à-vis the correspond period of last year. This was mainly due to a surge in export earnings from coffee, pulses and flowers. Compared to the preceding quarter, however, export receipts declined marginally by 3.5 percent, reflecting the seasonality nature of some of the major export items. Regarding destination of exports, Europe was the leading recipient market (46.2 percent), followed by Asia (30.8 percent), America (11.4 percent) and Africa (10.9 percent).

Import bills surged by 15.8 and 50 percent over the preceding quarter and same period last year, respectively to reach USD 2.1 billion, as imports of fuel, raw materials, capital goods and consumer non-durable goods increased significantly. Imports of capital goods increased by 11.1 percent, accounting for 21.5 percent of total imports compared with 12.3 percent in the corresponding period of last year. About 66.7 percent of Ethiopia's imports originated from Asia, 23.6 percent from Europe, 6.1 percent from America, and 3.5 percent from Africa.

Meanwhile, net receipts from services sector dropped to USD 9.6 million in the fourth quarter of 2007/08, from USD 59.2 million in the preceding quarter mainly due to higher payments for transport and construction services. On the other hand, net private and official transfers went up by 16 and 46 percent respectively, alleviating the pressure on the current account balance. Nevertheless, the current account deficit (including official transfers) widened to USD 444.9 million, from a surplus of USD 159.3 million, last year. Mean while, the surplus in the capital account almost doubled and reached USD 357.9 million compared with the preceding quarter.

With regard to foreign exchange market, the average exchange rate of the Birr in the inter-bank foreign exchange market reached Birr 9.5526/USD, revealing quarterly and annual depreciation of 2.5 and 7.0 percent. As to the retail foreign exchange market, the average buying and selling rates of foreign exchange bureaux was Birr 9.5441 USD and Birr 9.7325 USD while that of commercial banks reached Birr 9.5535/USD and Birr 9.7470/USD, respectively. The real effective exchange rate of the Birr appreciated by 16.1 percent over the preceding quarter as inflation remained high in Ethiopia compared to its trading partners.

Regarding developments in the fiscal sector, total revenue and grants mobilized by the Federal Government reached Birr 9.24 billion of which about 61.1 percent was collected from tax, 8.7 percent from non-taxes and 30.2 percent from counter part fund (CPF) grants. Similarly, total Federal Government expenditure amounted to Birr 10.9 billion, of which current expenditure accounted for about 20.6 percent, capital expenditure 47.6 percent and regional transfers 31.8 percent. All in all, the overall budget deficit including grants narrowed to Birr 1,691 million as compared to Birr 1,848.6 million last year.

Regarding investment activities, a total of 3256 projects with a total capital of Birr 61.3 billion were approved during the quarter under review. The number of approved investment projects and their investment capital surged by 55 and 36 percent, over the previous quarter. Ownership wise, 88 percent of the projects and 26.6 percent of the investment capital were private domestic investment. Upon commencement of operation, these projects are expected to create permanent and casual jobs for over 672,489 compatriots. In terms of total investment capital, manufacturing sector took the lion's share (47.5 percent), followed by agriculture, hunting and forestry (33.0 percent), real estate, renting and business activities (10.3 percent).

To sum up, the fourth quarter of 2007/08 witnessed a continuous rise in inflation, moderate monetary expansion, higher export-import growth, widening of current account deficit, continued depreciation of the nominal exchange rate of the Birr, improved loans and advances by the banking system narrowing of the fiscal deficit and expanded investment activities.