I. OVERVIEW

The first quarter of 2008/09 witnessed a continuous surge in quarterly headline inflation which stood at 21.0 percent, 2.5 percentage points higher than that of the preceding quarter, and 15.3 percentage points vis-à-vis the corresponding quarter of a year earlier. Accordingly, the quarterly food inflation rose to 28.2 percent from 25.1 percent in the preceding quarter and 8.1 percent a year ago. On the other hand, the quarterly non-food (core) inflation reached 7.6 percent, 5.9 percentage points greater than that of the corresponding quarter of last year due to higher inflation rates in house rent, construction materials, fuel, water and power; furniture, furnishing, household equipment and operation; as well as beverages sub-categories of the CPI.

At the end of the first quarter, broad money supply reached 71.4 billion, depicting a quarterly and annual growth rates of 4.8 and 22.2 percent, respectively. The yearly upsurge was wholly driven by an increase in domestic credit (36.8 percent), which overweighed a continuous decline in net foreign assets (31.8 percent); while the quarterly growth was attributed to a 5.2 percent increase in domestic credit despite 11.0 percent slaw dawn in NFA.

On the liability side, compared to that of the same quarter of last year, savings deposits went up by 25.9 percent, and demand deposits by 21.6 percent; whereas time deposits dropped by 14.7 percent. On quarterly basis, except time deposits, total deposits continued to grow. Reserve money also exhibited a significant annual increase of 32.3 percent owing to higher bank deposits at the central bank and currency in circulation.

Average nominal interest rate on savings deposit and demand deposits as well as government bonds remained at the same level of the preceding quarter; while that of time deposits showed a marginal decline. Yet compared to last year same period, average savings deposit rate increased by one percentage point, and time deposit rate by 1.1 percentage points, while demand deposit rate tended to fall.

Average bond yield also rose by 0.14 percentage points. Yields on Treasury bills on average improved during the review period. At the same time, lending rate averaged 11.5 percent showing no change over the previous quarter but a one percentage point increase over the first quarter of 2007/08. Real interest rates on deposits and yields on T-bills and bonds remained negative owing to higher inflation.

Regarding financial institutions, the total number of banks in the country reached 13 during the reported period. Some 6 new bank branches were opened during the review quarter, raising the total number of bank branches in the country to 568. Yet, Ethiopia remains one of the under-banked countries even in Sub-Saharan Africa.

Ethiopian banks have continued scaling up their resource mobilization and disbursement activities. Stock of deposits surged by 6.9 percent, loan collection by 15.5 percent and new loan disbursement by 88.5 percent on annual basis. The share of private banks in the total bank branches rose to 53.5 percent, in capital to 36.2 percent, in total deposits to 35.7 percent and in loan disbursement to 32.6 percent.

On the other hand, the number of insurance companies reached 10 having 175 branches. Of the total insurance companies 9 are privet and they account for 78.9 percent of insurance branches.

The number of microfinance institutions stood at 28 and they are steadily increasing their savings mobilization and credit allocation at grassroots level. During the review period, they mobilized Birr 1.7 billion in savings and their credit outstanding reached Birr 4.7 billion.

External sector performance shows that export receipts reached USD 351.7 million, 32.3 percent higher than that of last year same quarter. The share of coffee, the main export item, rose by 37.9 percent. Leather and leather products, oilseeds, flowers and *chat* also depicted significant annual increase. Regarding direction of trade, about 46 percent of Ethiopia's exports went to Europe, 28 percent to Asia, 14.4 percent to other African countries and 7.1 percent to the Americas.

At the same time, import bills surged by 61.4 percent over last year same quarter and reached USD 2272.8 million as imports of all categories except fertilizer, transport, and industrial goods increased significantly. In the review quarter, fuel imports consumed USD 506.5 million (or 22.3 percent of the imports). Compared to USD 290 million a year ago, the shares of capital goods, raw materials and semi-finished goods and consumer goods in the total quarterly import bills reached 24.8, 4.2, 11.1 and 23.4 percent respectively.

As to the origin of imports, about 73 percent of the country's import items came from Asia, 20 percent from Europe, 3.5 percent from the Americas and 3.2 percent from Africa.

Meanwhile, net receipts from services amounted to USD 152.3 million in contrast to USD 20.4 million a year earlier as receipts from travel and transportation increased. Net transfers also surged to USD 1,012.3 million from USD 735 million last year largely owing to significant growth both in private and public transfers. On the other hand, non-monetary capital surged to USD 415.4 million from USD 172 million a year ago.

As trade balance deficit widened despite improvements in net services, the current account deficit (including transfers) increased to USD 756.4 million from USD 387.4 million last year same period. Consequently, the overall balance of payments registered a deficit of USD 142.2 million in contrast to a surplus of USD 207.5 million last year.

Regarding foreign exchange market, average exchange rate of the Birr in the official market showed a quarterly and annual depreciation of 1.1 and 6.9 percent, respectively and reached Birr 9.66 against USD. In the parallel market, its annual rate of depreciation stood at 10.4 percent. As a result, the premium between the two markets on average widened to 6.23 percent. On the other hand, the real exchange rate of the Birr tended to appreciate due to higher inflation differential with Ethiopia's major trading partner countries despite the continuous depreciation of the nominal exchange rate.

As to Federal Government fiscal operations, the total revenue and grants stood at Birr 8,966 million which indicated an increase of 27.4 percent on annual basis. Tax revenue rose by 17.1 percent to Birr 5,184 million, while non-tax revenue surged by 115 percent to Birr 3,534 million. Similarly, total Federal Government expenditure reached Birr 10,188 million, about 34 percent higher than that of last year as both current and capital expenditures increased. Hence, Federal Government overall fiscal operations resulted in an overall fiscal deficit (including grants) of Birr 1,222 million which was greater than that of last year.

With regard to investment, a total of 2,951 projects with an aggregate capital of Birr 31.5 billion were licensed during the quarter under review, significantly higher than that of last year same period. Out of this, domestic investment accounted for 84 percent of the total projects approved in the quarter. Upon going operations, these projects are expected to create over 391,994 permanent and casual jobs. In terms of sectoral share, agriculture, hunting and forestry make up the major proportion (30 percent) of the total investment projects followed by manufacturing (19.3 percent), real estate development, renting and various business activities (18 percent), as well as hotels and restaurants (14.4 percent).