

VI. EXTERNAL SECTOR DEVELOPMENTS

6.1 Overall Balance of Payments

The overall balance of payments deficit narrowed down to USD 43.9 million in the second quarter of 2008/09 from USD 142.2 million in the preceding quarter.

The main contributing factors were the

decline in the trade deficit and increases in net service receipts, private and public transfers and net official loan disbursement which more than offset a modest drop in estimated inflow of foreign direct investment.

Table 6.1 Balance of Payments

(Millions of USD)

Ethiopian Fiscal Year Particulars	2007/08	2008/09		Percentage Change	
	QII	QI	QII	D=C/B	E=C/A
	A	B	C		
Trade Balance	-1312.6	-1921.7	-1671.5	-13.0	27.3
Exports	267.7	351.1	270.9	-22.8	1.2
Imports	1580.3	2272.8	1942.4	-14.5	22.9
Net Services	70.7	149.6	170.3	13.8	140.9
Travel	34.6	62.0	47.0	-24.2	35.8
Transportation	42.2	70.1	84.1	20.0	99.3
Government (n.i.e.)	29.2	24.8	54.6	120.2	87.0
Investment income	11.2	3.2	-5.5	-271.9	-149.1
Interest	16.4	7.3	-1.5	-120.4	-109.1
Cash (net)	16.4	7.3	-1.5	-120.4	-109.1
Arrears	0.0	0.0	0.0	-	-
Dividend	-5.2	-4.1	-3.9	-4.5	-24.7
Other Services	-46.5	-10.5	-9.9	-5.7	-78.7
Private Transfers	578.3	688.2	738.8	7.4	27.8
Current Account Balance(excl. public transfers)	-663.5	-1083.9	-762.3	-29.7	14.9
Public Transfers	358.5	281.3	517.1	83.8	44.2
Current Account Balance(incl. public transfers)	-305.0	-802.6	-245.3	-69.4	-19.6
Non-monetary Capital	331.6	372.6	416.3	11.7	25.5
Long-term (net)	100.7	107.6	179.7	67.1	78.4
Disbursements	115.9	114.5	188.8	64.9	62.9
Repayments	15.2	6.9	9.1	31.1	-40.1
Cash	15.2	6.9	9.1	31.1	-40.1
Arrears	0.0	0.0	0.0	-	-
Direct Investment (net)	192.1	264.9	226.8	-14.4	18.1
Short-term (net)	38.8	0.1	9.8	6864.3	-74.8
Net Errors & Omissions	-167.1	287.8	-214.9	-174.7	28.6
Overall Balance	-140.5	-142.2	-43.9	-69.1	-68.8
Financing	140.5	142.2	43.9	-69.1	-68.8
Reserves (-:increase)	140.5	142.2	43.9	-69.1	-68.8
NBE net foreign asset	50.7	104.8	-103.0	-198.3	-303.1
CBs net foreign asset	89.8	37.5	146.9	292.0	63.6

Source: Staff compilation

Meanwhile current foreign exchange receipts reached USD 2,091.1 million, up by 13.5 and 29.9 percent compared to the preceding quarter and the same quarter of the preceding fiscal year, respectively. Increases in all types of receipt, except export proceeds (which declined by 23 percent), contributed to the quarterly rise while all receipts increased on annual basis.

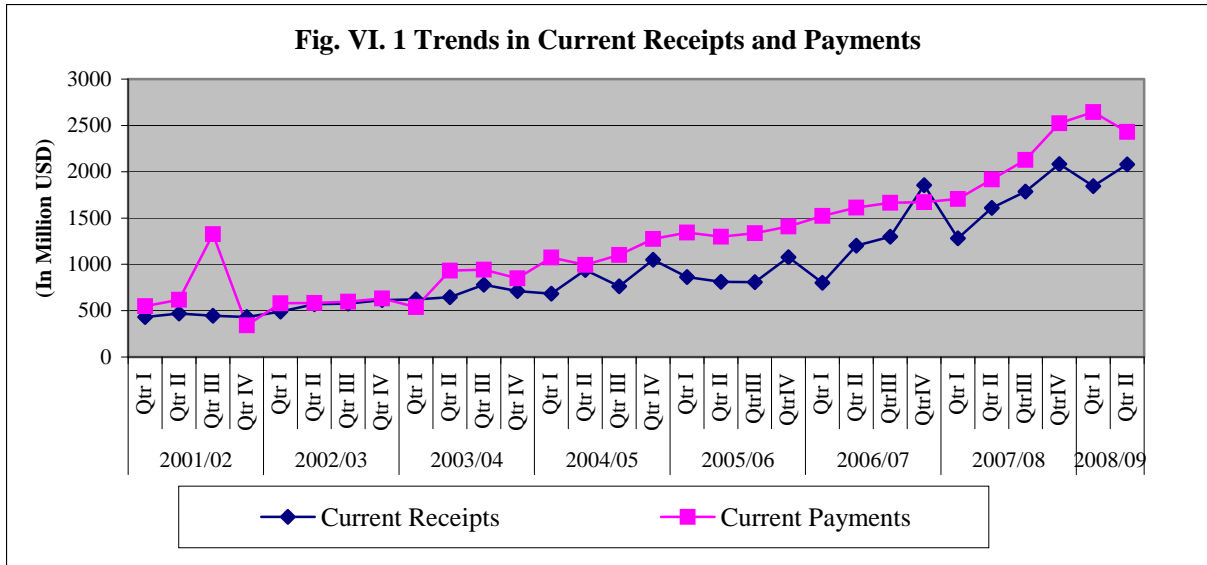
On the other hand, current payments showed a quarterly decline of 11.2 percent but grew by 21.9 percent on annual basis to reach USD 2,333.4 million. A decline in import payments was the major factor for the quarterly decline offsetting an increase in service payments while increases in both import and service payments were behind the annual increase. As a result, the net outflow significantly dropped by 69.8 percent on quarterly and 20.6 percent on annual basis to USD 242.3 million.

Table 6.2 Current Receipts and Payments

(In Millions of USD)

Particulars	2007/08	2008/09		Percentage Change	
	Qtr II	Qtr I	Qtr II	D=C/B	E=C/A
	A	B	C		
1. Current Receipts	1,609.7	1,842.9	2,091.1	13.5	29.9
Export Proceeds	267.7	351.7	270.9	-23.0	1.2
Service Proceeds	405.2	521.7	564.3	8.1	39.3
Private Transfers(Net)	578.3	688.2	738.8	7.4	27.5
Public Transfer(Net)	358.5	281.3	517.1	83.8	44.2
2. Current Payments	1,914.7	2,645.2	2,333.4	-11.8	21.9
Import Payments	1,580.3	2,272.8	1,942.4	-14.5	22.9
Service Payments	334.4	372.4	391.0	5.0	16.9
3. Net(1-2)	-305.0	-802.3	-242.3	-69.8	-20.6

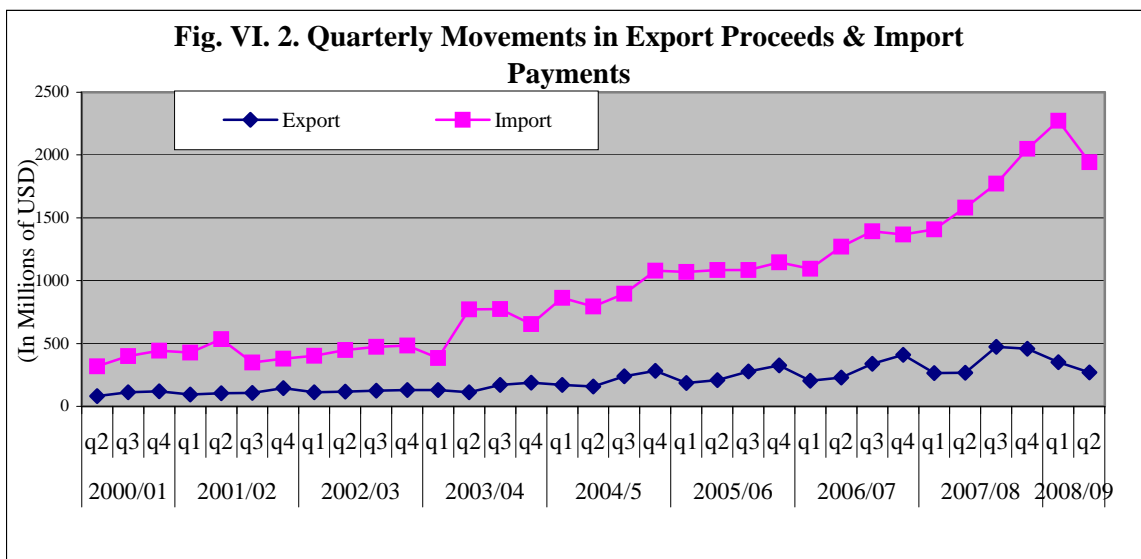
Source: Staff Compilation



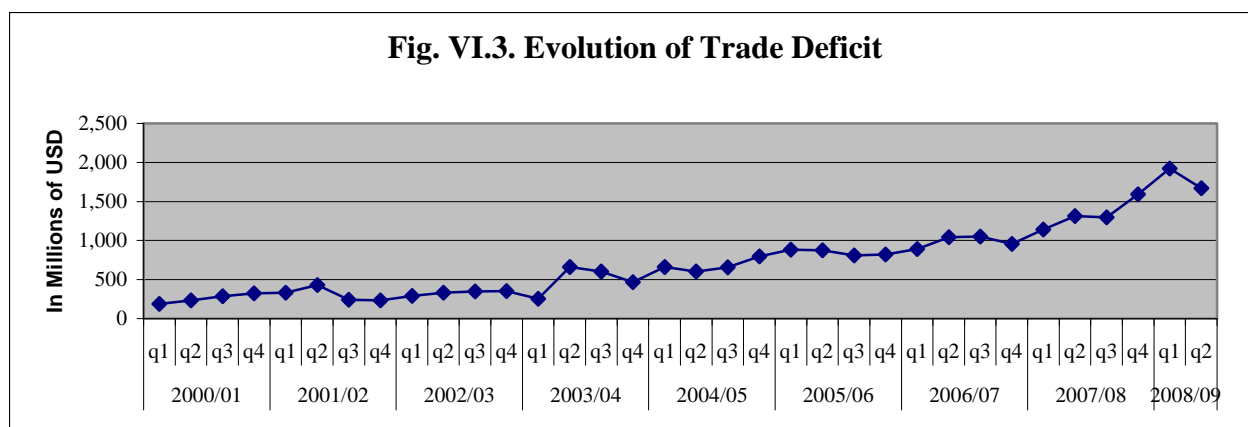
6.2 Merchandise Trade

In the second quarter of 2008/09, merchandise trade deficit reached USD 1,671 million, down by 13 percent against the preceding quarter but up by 27.4 percent on annual basis. The

narrowing down of the deficit on quarterly basis was the result of a slowdown in import payments which offset a decrease in export earnings.



Source: Ethiopian Revenue and Customs Authority



Source: NBE Staff Compilation

6.2.1 Exports

Total export proceeds showed a quarterly decrease of 23.0 percent but a 1.2 percent increase over last year same period. The quarterly decline in export earning was largely attributed to the slowdown in export earnings from coffee (68.7 percent), meat and meat products (16.7 percent) and fruits and

vegetables (37.8 percent) outweighing increased earnings from other major export items such as oilseeds (14.7 percent), leather and leather products (12.6 percent), gold (16 percent) and flowers (7.6 percent). *Chat* and live animals exports also showed quarterly increases.

Table 6.3 Values of Major Export Items

(In Millions of USD)

Particular	2007/08		2008/09				Percentage change	
	Qtr II	% Share	Qtr I	% Share	Qtr II	% Share	C/B	C/A
	A		B		C			
Coffee	52.6	19.6	133.3	37.9	41.7	15.4	-68.7	-20.6
Oilseeds	31.4	11.7	45.1	12.8	51.7	19.1	14.7	64.4
Leather and Leather Products ^a	29.1	10.9	25.3	7.2	28.5	10.5	12.6	-2.1
Pulses	31.1	11.6	21.5	6.1	22.5	8.3	4.7	-27.7
Meat & Meat Products	5.6	2.1	8.5	2.4	7.1	2.6	-16.7	27.5
Fruits & Vegetables	2.872	1.1	4.7	1.3	2.949	1.1	-37.8	2.7
Live Animals	16.1	6.0	15.7	4.5	16.8	6.2	7.2	4.5
<i>Chat</i>	28.8	10.7	32.9	9.4	34.4	12.7	4.4	19.6
Gold	15.9	5.9	17.5	5.0	20.3	7.5	16.0	27.9
Flower	24.0	9.0	26.8	7.6	28.8	10.6	7.6	20.3
Others	30.4	11.4	20.3	5.8	16.2	6.0	-20.4	-46.8
Total	267.7	100.0	351.7	100.0	270.9	100.0	-23.0	1.2

Source: Ethiopian Revenue and Customs Authority

¹ Previously known as hides and skin

Specifically, export earning from coffee dropped by 68.7 and 20.6 percent on quarter and annual bases respectively due to the combined effects of slow down in the volume of exports and a decline in international price. The volume of coffee exported decreased by 65.5 and 15 percent while international prices went down by 9.4 and 6.6 percent during the review period. Consequently, the share of coffee in total export earnings fell to 15.4 percent compared to 37.9 percent in the preceding quarter and 19.6 percent last fiscal year.

Year-on-year basis, the value of exports of oilseed went up by 64.4 percent and reached USD 51.7 million while it increased by 14.7 percent on quarterly basis primarily owing to an increase in export volume despite a significant fall in international price. The volume of export of oilseed surged by 30 percent and 69.5 percent on quarterly and yearly basis respectively while its international price declined by 11.8 and 3 percent over the same period. As a result, the share of oilseed export in total export earnings went up to 19.1 percent from 12.8 percent in the preceding quarter and

11.7 percent during the same period of last year.

Likewise, receipts from the exports of pulses increased by 4.7 percent on quarterly basis due to increase both in the volume of exports and international price by 3.3 and 1.3 percent respectively. However, receipts went down by 27.7 percent compared to a year ago because of lower volume of exports. Hence, the share of pulses in the total export earnings increased to 8.3 percent from 6.1 percent in the preceding quarter but lower than its share of 11.6 percent in the same quarter last year.

During the review period, earnings from leather and leather products reached USD 28.5 million, up by 12.6 percent over the preceding quarter due to higher volume of export despite a decrease in international price. Receipts from leather and leather products export accounted for 10.5 percent of the total merchandise export.

Flower export fetched USD 28.8 million during the review period showing 7.6 and 20.3 percent increases over the

preceding quarter and same period last year, respectively. This was attributed to the increase in volume of exports despite the decline in international price. The share of horticulture in total export earnings stood at 10.6 percent, higher than 9 percent last year and 7.6 percent in the preceding quarter.

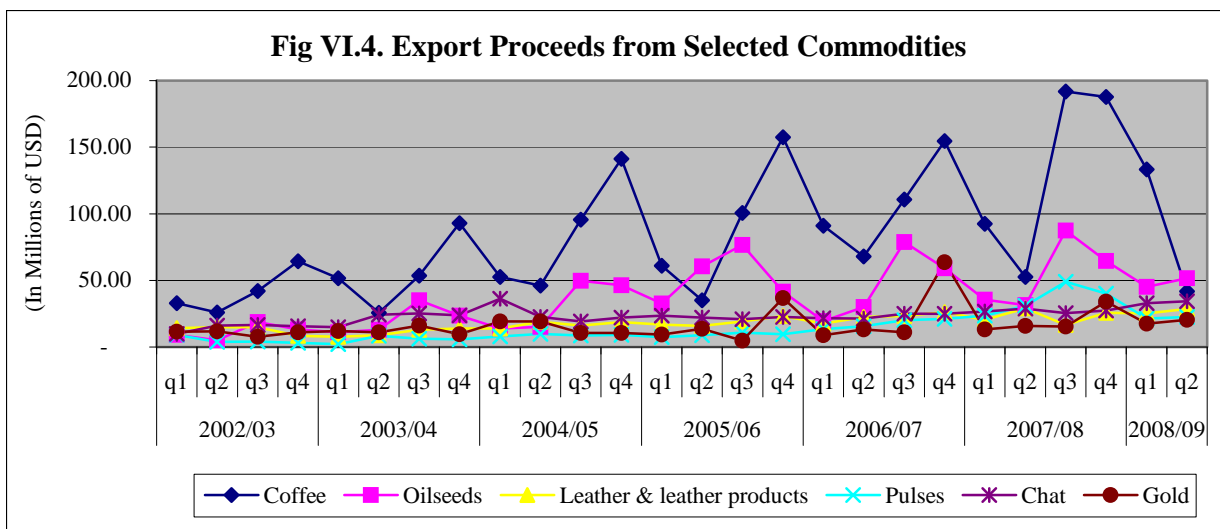
The revenue obtained from gold was USD 20.3 million, 16 and 27.9 percent higher than the previous quarter and a year earlier. The export of gold accounted for 7.5 percent of the country's export earnings during the review quarter.

Meanwhile, export proceeds from *chat* grew by 4.4 percent on quarterly and 19.6 percent on annual basis and reached USD 34.4 million. This was attributed to increases in both volume of exports and international price. *Chat* accounted for 12.7 percent of total merchandise export. Revenue from exports of live animals, went up by 7.2 and 4.5 percent on quarterly and annual basis and reached

USD 16.8 million as a result of an increase in international price despite slow down in volume.

Export earning from meat and meat products decreased by 16.7 percent on quarterly basis to USD 7.1 million as the volume of exports declined by 20 percent in spite of 4.1 percent increase in international price. Year-on-year basis, however, export earnings from meat and meat products went up by 27.5 percent.

Similarly, revenue from fruits and vegetables fell by 37.8 percent quarterly but slightly rose annually to record USD 2.9 million. As a result, their share in total export earnings dropped to 1.1 percent.



Source: Ethiopian Revenue and Customs Authority

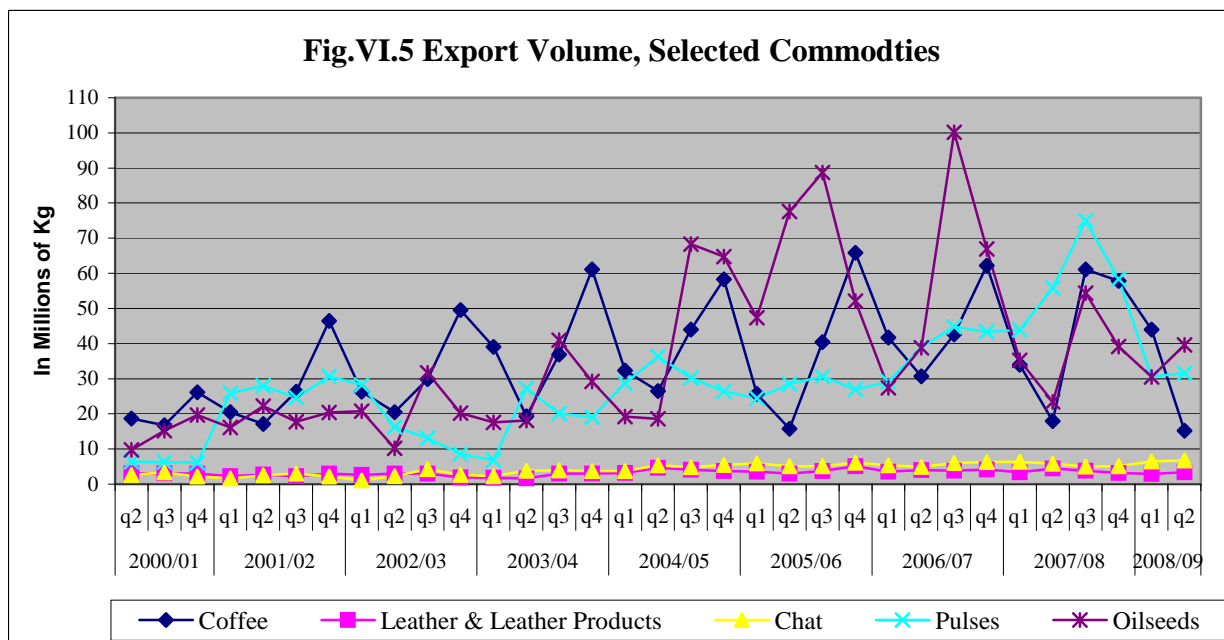
Table 6.4: Volume of Major Export Items

(In Millions of Kg)

Particulars	2007/08	2008/09		Percentage Change	
	Qtr II	Qtr I	Qtr II	C/B	C/A
	A	B	C		
Coffee	17.9	44.0	15.2	-65.5	-15.0
Oilseeds	23.4	30.5	39.6	30.0	69.5
Leather and Leather Products ¹	4.5	2.9	3.3	14.2	-25.6
Pulses	55.8	30.6	31.6	3.3	-43.4
Meat & Meat Products	1.7	2.4	1.9	-20.0	10.4
Fruits & Vegetables	10.3	11.4	10.3	-9.7	-0.2
Live Animals	15.0	11.7	11.4	-2.8	-24.3
Chat	5.8	6.5	6.8	4.0	15.7
Gold	0.0008	0.0011	0.0011	-	37.0
Flower	4.8	5.6	6.6	19.2	37.7

Source: Ethiopian Revenue and Customs Authority

¹ Previously known as hides and skin



Source: Ethiopian Revenue and Customs Authority

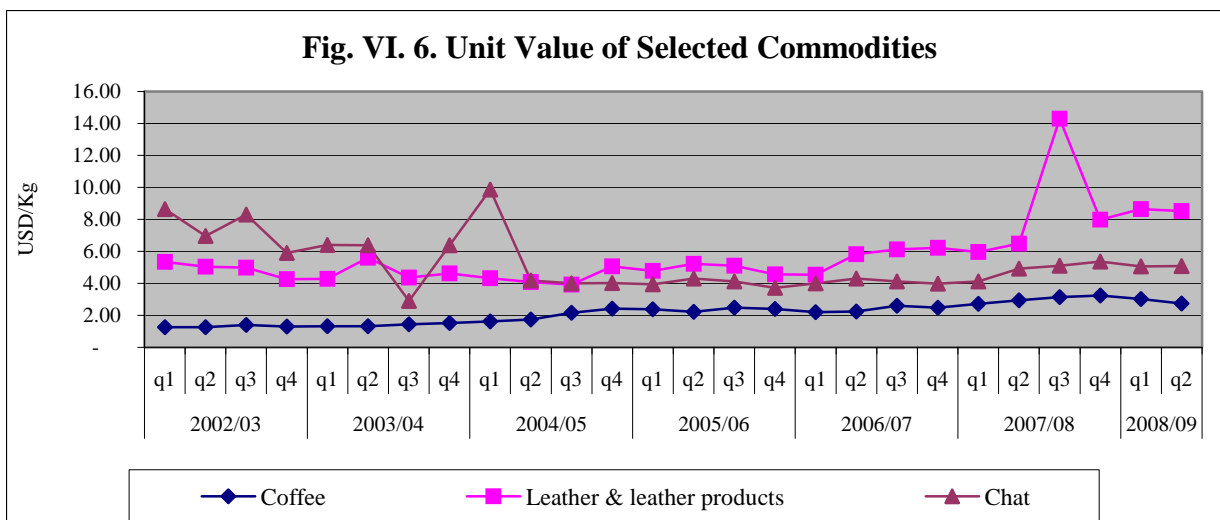
Table 6.5: Unit Values of Major Export Items

(USD/kg)

Particulars	2007/08	2008/09		Percentage Change	
	Qtr II	Qtr I	Qtr II	C/B	C/A
	A	B	C		
Coffee	2.9	3.0	2.7	-9.4	-6.6
Oilseeds	1.3	1.5	1.3	-11.8	-3.0
Leather and Leather Products ^a	6.5	8.6	8.5	-1.4	31.6
Pulses	0.6	0.7	0.7	-	27.9
Meat & Meat Products	3.2	3.5	3.7	4.1	15.5
Fruits & Vegetables	0.3	0.4	0.3	-31.2	2.9
Live Animals	1.1	1.3	1.5	10.2	38.1
Chat	4.9	5.1	5.1	-	3.4
Gold	19972.6	16624.2	18635.9	12.1	-6.7
Flower	5.0	4.8	4.3	-9.7	-12.7

Source: NBE Staff Computation

¹ Previously known as hides and skin



Source: NBE Staff Computation

6.2.2 Imports

The total imports bill during the second quarter of 2008/09 amounted to USD 1.9 billion, showing a 14.5 percent decrease compared to the preceding quarter and a

22.9 percent increase year-on-year basis. Declines in import of fuel and capital goods were the major factors for the quarterly slowdown in imports.

Table 6.6: Values of Major Import Items

(In Millions of USD)

Particulars	2007/08		2008/09				Percentage Change	
	Qtr II A	% Share	Qtr I B	% Share	Qtr II C	% Share	C/B	C/A
Raw Materials	70.4	4.5	96.0	4.2	117.5	6.1	22.4	66.9
Semi-finished Goods	258.8	16.4	251.9	11.1	245.7	12.6	-2.5	-5.1
Fertilizers	12.3	0.8	2.9	0.1	2.7	0.1	-7.2	-78.1
Fuel	348.5	22.1	506.5	22.3	244.4	12.6	-51.7	-29.9
Petroleum Products	346.4	21.9	502.0	22.1	242.5	12.5	-51.7	-30.0
Others	2.1	0.1	4.5	0.2	1.9	0.1	-58.5	-12.3
Capital Goods	484.9	30.7	779.5	34.3	574.5	29.6	-26.3	18.5
Transport	96.3	6.1	93.2	4.1	102.9	5.3	10.4	6.8
Agricultural	12.9	0.8	5.7	0.3	6.4	0.3	11.4	-50.4
Industrial	375.7	23.8	680.6	29.9	465.2	24.0	-31.6	23.8
Consumer Goods	374.9	23.7	573.3	25.2	717.7	36.9	25.2	91.4
Durables	122.9	7.8	161.5	7.1	147.7	7.6	-8.6	20.1
Non-durables	252.0	15.9	411.8	18.1	570.1	29.3	38.4	126.2
Miscellaneous	42.7	2.7	65.6	2.9	42.6	2.2	-35.0	-0.1
Total Imports	1,580.3	100.0	2,272.8	100.0	1,942.4	100.0	-14.5	22.9

Source: Ethiopian Revenue and Customs Authority

Capital goods imports reached USD 574 million, down by 26.3 percent on quarterly but 18.5 percent up on annual terms. Consequently, the share of capital goods in total imports stood at 29.6 percent.

On the other hand, consumer goods import was USD 717.7 million which showed 25.2 and 91.4 percent rise on quarterly and annual basis as non-durable consumer goods tended to grow. As a result, the share of consumer goods in total imports reached 36.9 percent during the review quarter.

On the other hand, fuel import plummeted to USD 244.4 million or dropped by 51.7 percent on quarterly and about 30 percent on yearly basis due to the slump in oil prices in the international market. As a result, it constituted 12.6 percent of total imports

in the review quarter as compared to 22.1 percent a year ago.

Imports of semi-finished goods reached USD 245.7 million, showing quarterly and annual declines of 2.5 and 5.1 percent, respectively. Their share in the total imports, however, reached 12.6 percent.

Imports of raw materials, on the other hand, amounted to USD 117.5 million, up by 22.4 and 66.9 percent over the preceding quarter and last year same quarter, respectively.

Franco-valuta imports also increased from USD 58.1 million last year to USD 69.1 million during the review quarter.

This was due to an increase in some of the major components of franco-valuta imports, such as cement, vehicles and vehicle spare parts and electronic goods and textile and ready made goods.

Table 6.7: Values of Franco Valuta Imports

(In Millions of USD)

Particulars	2007/08	2008/09		Percentage Change	
	QII	QI	QII	C/B	C/A
	A	B	C		
Vehicles	0.0072	0.0000	0.0263	-	265.31
Vehicle Spare Parts	0.0105	0.0090	0.0208	130.90	98.23
Other Spare Parts	0.1585	0.0725	0.0562	-22.57	-64.58
Textile & Ready Made	0.0007	0.0000	0.0054	-	659.93
Household Goods	0.3021	0.0000	0.0378	-	-87.50
Medicine & Medical Equip.	10.9045	3.0325	0.5336	-82.41	-95.11
Food Stuffs	0.0112	0.0033	0.0048	-	-56.76
Electronic Goods	0.0267	0.0095	0.1293	1261.27	384.66
Machinery Equip. & Spare Parts	0.0000	0.0000	0.0069	-	-
Others*	46.65	34.16	68.26	99.81	46.33
Total	58.07	37.29	69.08	85.25	18.97

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

*Includes franco valuta cement import

6.2.3 Direction of Trade

6.2.3.1 Exports

During the second quarter of 2008/09, Europe was the leading market for Ethiopia's export by importing 38.4 percent of the country's exports. Among European countries, the Netherlands, which mainly imported flowers, pulses, and leather and leather products was the largest buyer of Ethiopian commodities overtaking the leading role by Germany. Switzerland, the sole importer of gold from Ethiopia was the second largest market followed by Italy (that mainly imports leather and leather products,

coffee, textile and garments) and Germany (which mainly buys coffee and flowers).

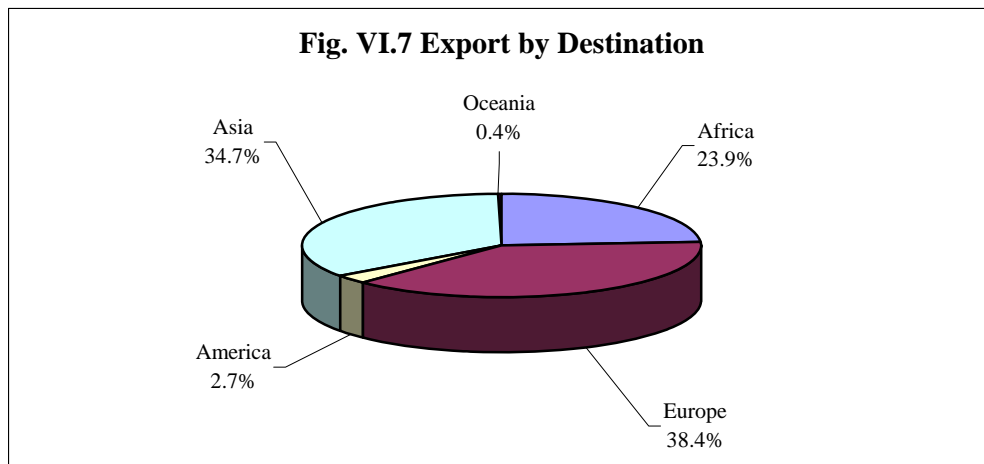
Exports destined to Asia accounted for 34.7 percent of the total exports of which 33.5 percent went to China, 18.7 percent to Saudi Arabia, 13.9 percent to United Arab Emirates (UAE) and 8.5 percent to Israel. Leather and leather products and oilseeds made up the bulk of exports to China while the major export items sent to Saudi Arabia include coffee, oilseeds,

live animals and meat and meat products. Some of the export items shipped to UAE comprised of live animals, meat and meat products, pulses, oilseeds and fruits and vegetables; whereas oilseeds and coffee were major exports to Israel.

About 23.8 percent of Ethiopia's exports went to African countries among which Somalia, Sudan and Djibouti accounted for 91.9 percent. Somalia's major imports from Ethiopia include *chat* and live animals, and animal products while that of Djibouti were *chat*, animal

products, beverages and fruits and vegetables. Sudan mainly purchased coffee, pulses, live animals and animal products, and natural honey and bee wax.

The share of America in Ethiopia's total exports was just 2.7 percent of which 75.1 percent went to the USA and 11.9 percent to Canada. The principal export items shipped to the US include coffee, oilseeds, beverages, flowers, mineral products other than gold and textile and garments while Canada purchased mainly coffee and oilseeds.



Source: Ethiopian Revenue and Customs Authority

6.2.3.2 Imports

About 63 percent of the total imports during the second quarter of 2008/09 originated from Asia among which China, Saudi Arabia, India and Japan accounted for 60.6 percent. Imports from China included electrical materials, machinery, metal and metal manufacturing, clothing and textile, rubber products and motor vehicles. The main item imported from Saudi Arabia was petroleum which constituted 93.8 percent of that country's export to Ethiopia. Medical and pharmaceutical products, machinery, electrical materials, metals and metal products were the main items imported from India. Vehicles and machineries were the main import items from Japan.

Meanwhile, imports from Europe accounted for 24.7 percent of total imports among which Italy, Bulgaria, Germany, Romania, France, Ukraine and

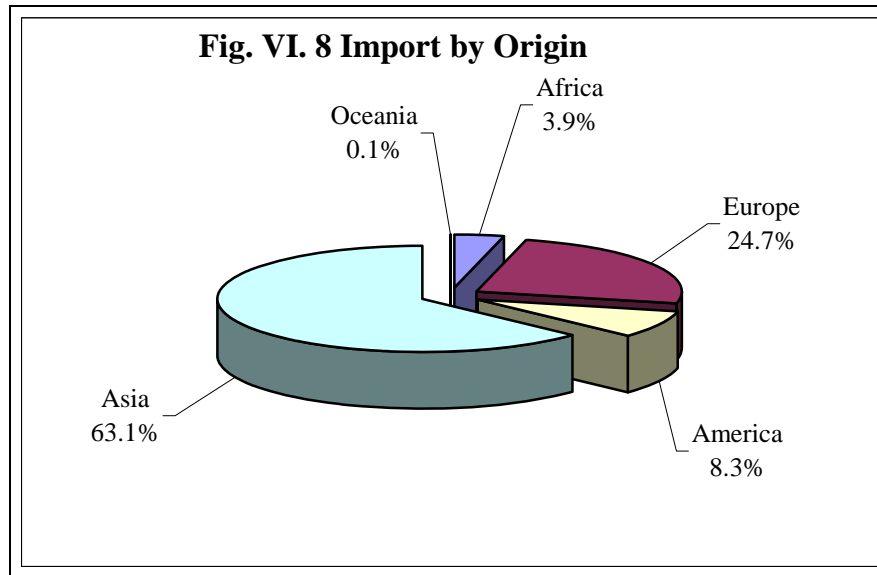
Turkey being the major suppliers. Import items from Italy comprised of machinery, electrical materials, metal, vehicles and grain. Similarly, imports from Germany mainly constituted grain, vehicles and machinery. Almost all imports from Bulgaria and Romania were grain. Machinery and medical and pharmaceutical products accounted for the bulk of imports from France. Metals and metal products were the principal import items from Turkey constituting 69 percent of that country's export to Ethiopia. About 76.1 and 23.9 percent of Ukraine's export to Ethiopia constituted grain and metals and metal products, respectively.

The share of imports from the Americas was 8.3 percent among which three countries; namely, the USA, Canada and Brazil contributed over 98.7 percent. Grain and food products were the major items imported from the US followed by machinery. Food grain was the main item imported from Canada and machinery from Brazil.

Import items from African countries made up for 3.9 percent of total imports of which 94.2 percent came from four

countries; namely, Egypt, Sudan, South Africa and Kenya. Petroleum products, soap and polish, papers and tobacco

constituted the major import items from African nations.



Source: Ethiopian Revenue and Customs Authority

6.3 Services and Transfers

The surplus in the service account rose by 13.9 percent from USD 149.6 million in the preceding quarter to USD 170.3 million. Increases in net receipts from transportation and government services were the major factors for the quarterly increase offsetting a decline in net travel receipts. Net receipts from transportation and government services showed quarterly increases of 19.9 and 120.5 percent, respectively. On the other hand, net travel and other service receipts

declined by 24.2 and 5.7 percent respectively.

On annual basis, the surplus in the service account surged by 140.8 percent due to the significant increase in net receipts from travel, transportation and government services, respectively and a 78.7 percent decline in other services payments.

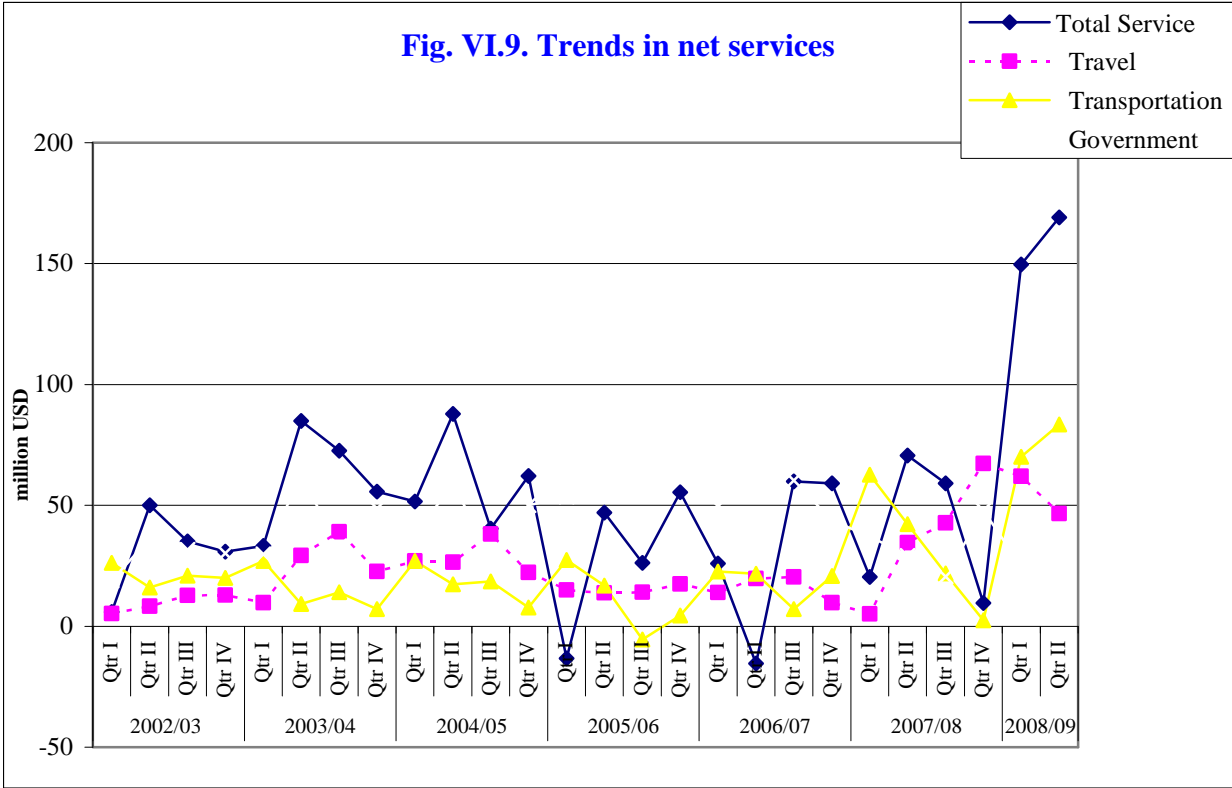


Table 6.8: Trends in Service Accounts

(In Millions of USD)

Particulars	2007/08		2008/09				Percentage Change	
	Qtr II	%	Qtr I		Qtr II	%	C/B	C/A
	A	Share	B	% Share	C	Share		
Receipts	405.2	100.0	522.0	100.0	564.3	100.0	8.1	39.3
Travel	64.3	15.9	105.4	20.2	84.6	15.0	-19.7	31.6
Transportation	204.0	50.3	303.4	58.1	308.1	54.6	1.6	51.1
Government (n.i.e)	34.1	8.4	29.1	5.6	62.7	11.1	115.5	83.9
Investment Income	22.4	5.5	8.6	1.7	4.8	0.8	-44.8	-78.8
Interest	22.1	5.5	8.5	1.6	4.8	0.8	-44.3	-78.5
Dividend	0.3	0.1	0.1	0.0	0.0	0.0	-	-
Other Services	80.4	19.8	75.6	14.5	104.1	18.5	37.8	29.5
Communication Services	21.8	5.4	16.9	3.2	23.9	4.2	41.0	9.6
Construction Services	6.3	1.6	7.2	1.4	7.5	1.3	3.5	18.1
Insurance Services	0.6	0.1	0.0	0.0	0.1	0.0	88.3	-88.2
Financial Services	3.9	1.0	3.0	0.6	14.4	2.5	386.1	266.4
Computer and Information Service	0.2	0.0	0.2	0.0	1.3	0.2	482.1	588.2
Other Business Services	47.6	11.7	48.2	9.2	56.8	10.1	17.9	19.4
Personal, cultural and recreational	0.0	0.0	0.0	0.0	0.2	0.0	-	-
Payments	334.4	100.0	372.4	100.0	394.0	100.0	5.8	17.8
Travel	29.7	8.9	43.4	11.6	37.6	9.5	-13.4	26.6
Transportation	161.7	48.4	233.3	62.6	224.1	56.9	-3.9	38.6
Government (n.i.e)	4.9	1.5	4.3	1.2	8.0	2.0	87.0	64.4
Investment Income	11.3	3.4	5.4	1.5	10.2	2.6	89.0	-9.3
Interest	5.7	1.7	1.2	0.3	6.3	1.6	417.7	9.7
cash (Banks & MOF)	5.7	1.7	1.2	0.3	6.3	1.6	417.7	9.7
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	5.5	1.7	4.2	1.1	3.9	1.0	-5.9	-28.8
Other Services	126.9	37.9	86.1	23.1	114.1	29.0	32.5	-10.1
Communication Services	5.0	1.5	7.5	2.0	3.8	1.0	-48.9	-23.1
Construction Services	82.4	24.6	46.7	12.5	71.9	18.2	54.0	-12.8
Insurance Services	1.8	0.5	3.7	1.0	1.1	0.3	-71.4	-41.1
Financial Services	0.1	0.0	0.1	0.0	0.1	0.0	-	-
Computer and Information Service	0.9	0.3	1.1	0.3	0.8	0.2	-28.1	-12.9
Other Business Services	36.6	11.0	26.9	7.2	36.4	9.2	35.0	-0.7
Personal, cultural and recreational	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Net Services	70.7		149.6		170.3		13.9	140.8

Source: Staff Compilation

Total net transfers amounted to USD 1,255.9 million during the second quarter of 2008/09, showing 29.6 and 33.9 percent increases compared to the preceding quarter and the same quarter of last year, respectively. Net official transfers showed quarterly and annual increases of 83.8 and 44.2 percent, respectively. Of the total official transfers, 92 percent was obtained in the form of cash.

Similarly, net private transfers (including transfers through NGOs) increased by 7.4 percent and 27.5 percent due to 52.8 percent increase in

transfers through NGOs offsetting a 9.8 percent drop in transfers to private individuals. On the other hand, increases of 97.6 and 2.9 percent in transfers through NGOs and to private individuals contributed to the year-on-year increase in net private transfers. However, cash transfers to individuals went down by 6.1 and 1.1 percent on quarterly and annual basis, respectively.

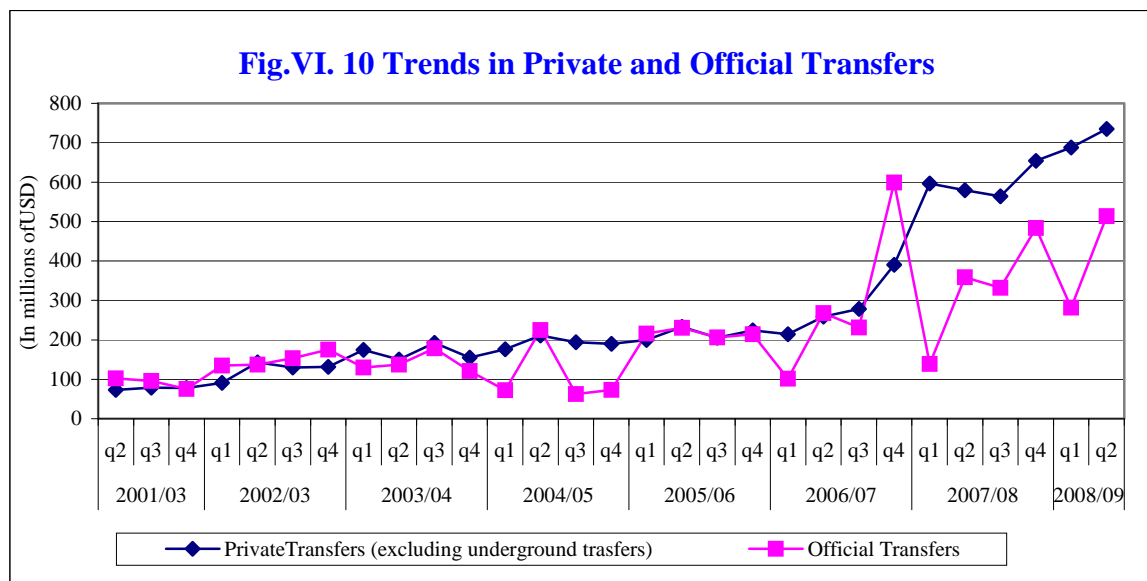
The share of private transfers from total transfers went down to 58.8 percent during the review quarter compared to 71 percent in the preceding quarter and 61.8 percent in the same quarter of last year. On the other hand, the share of official transfers which was 29 percent in the preceding quarter rose to 41.2 percent.

Table 6.9: Trends in Transfer Accounts

(In Millions of USD)

Particulars	2007/08		2008/09				Percentage Change	
	QII	% share	QI	% share	QII	% share	C/B	C/A
	A		B		C			
Private Transfers	579.6	61.8	688.2	71.0	738.8	58.8	7.4	27.5
Credit	587.5	61.7	692.4	71.0	742.7	58.8	7.3	26.4
NGO's	146.1	15.4	189.0	19.4	288.7	22.8	52.8	97.6
Cash	145.1	15.3	189.0	19.4	288.7	22.8	52.8	98.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Food	0.9	0.1	0.0	0.0	0.0	0.0	-	-
Private individuals	441.4	46.4	503.5	51.6	454.1	35.9	(9.8)	2.9
Cash	191.2	20.1	201.3	20.6	189.1	15.0	(6.1)	(1.1)
Inkind	58.1	6.1	37.3	3.8	36.5	2.9	(2.1)	(37.2)
Underground Private Transfers	192.1	20.2	264.9	27.2	228.5	18.1	(13.7)	18.9
Debit	-7.9	59.5	-4.2	76.8	(3.9)	49.1	(7.9)	(50.4)
Official Transfers	358.5	38.2	281.3	29.0	517.1	41.2	83.8	44.2
Credit	363.9	38.3	282.5	29.0	521.1	41.2	84.4	43.2
Cash	363.9	38.3	244.4	25.1	479.7	38.0	96.3	31.8
Other	0.0	0.0	0.2	0.0	0.0	0.0	-	-
Food	0.0	0.0	37.9	3.9	41.5	3.3	9.4	-
Debit	-5.4	40.5	-1.3	23.2	(4.1)	50.9	216.5	(24.6)
Total Receipts	951.4	101	975.0	101	1,263.9	101	29.6	32.8
Total Payments	-13.3	(1.4)	-5.5	(0.6)	(8.0)	(0.6)	44.2	(40.0)
Net Transfers	938.1	100	969.4	100	1,255.9	100	29.6	33.9

Source: Staff Compilation



6.4 Current Account

Reflecting the narrowing down in trade deficit and increases in net service receipts and private and public transfers, the current account deficit (including official transfers) declined to USD 245.3 million compared to USD 802.6 million deficit in the preceding quarter and USD 305 million during the same quarter of last year.

6.5 Capital Account

Meanwhile, net capital inflows increased by 11.7 percent on quarterly and 25.5 percent on annual basis and reached USD 416.3 million during the quarter. The quarter-on-quarter increase was the result of a 67.1 percent rise in net

official disbursement which offset a 14.4 percent drop in estimated foreign direct investment inflow.

6.6 Changes in Reserve Position

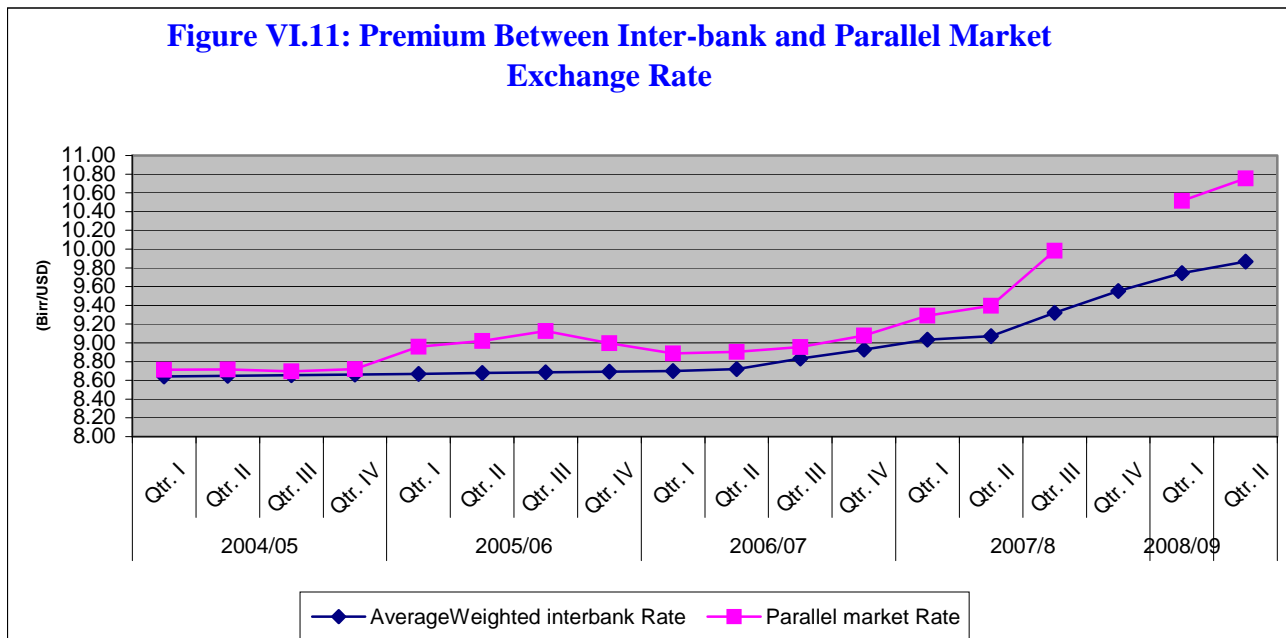
The balance of payments deficit during the quarter under review was entirely financed by a draw-down of foreign exchange reserves of the banking system. The foreign exchange reserves of commercial banks fell by USD 146.9 million offsetting an increase of USD 103 million in the reserves of the National Bank of Ethiopia.

6.7 Developments in Foreign Exchange Market

6.7.1 Exchange Rate Movements

The average exchange rate of the Birr in the inter bank foreign exchange market reached Birr 9.867/USD during the second quarter of 2008/09, showing quarterly and annual depreciations of 2.1 and 8.8 percent, respectively. The rate of depreciation of the Birr was faster in the

parallel market with quarterly and annual depreciation rates of 4.8 and 14.4 percent, respectively. Accordingly, the average spread between the exchange rates of the Birr in the official and parallel markets widened to 9.0 percent compared to 6.2 percent in the preceding quarter and 3.6 percent in the same quarter last year.



Note: The gap in parallel rate for fourth quarter of 2007/08 was due to government's action on parallel market dealers

Table 6.10: Exchange Rates in 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								
2007/08												
Qtr. II	C	9.2008	9.2009	9.0414	9.0704	38.4	5	372	19	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
2008/09												
Qtr. I	B	9.6929	9.6930	9.6542	9.6602	6.3	0	483	0	10.4700	10.2623	6.23
July		9.6533	9.6542	9.6542	9.6330	2.3	0.0	167.0	0.0	10.1600	10.1610	5.48
August		9.6736	9.6736	9.6735	9.6639	2.1	0.0	166.0	0.0	10.3100	10.2460	6.02
September		9.6929	9.6930	9.6929	9.6838	1.9	0.0	150.0	0.0	10.4700	10.3800	7.19
Qtr. II	A	9.9566	9.9566	9.9566	9.8670	6.0	0	531	0	11.4000	10.7540	8.99
October		9.9040	9.9040	9.9040	9.7456	2.3	0.0	203.0		10.6750	10.5160	7.91
November		9.9238	9.9238	9.9238	9.9144	2.0	0.0	181.0	0.0	10.7000	10.6630	7.55
December		9.9566	9.9566	9.9566	9.9409	1.7	0.0	147.0	0.0	11.4000	11.0830	11.49
Percentage Changes	A/B	2.7	2.7	3.1	2.1	-4.8		9.9		8.9	4.8	2.7
	A/C	8.2	8.2	10.1	8.8	-84.4		42.7		18.6	14.4	149.8

Looking at the retail market for foreign exchange, the average buying rate of foreign exchange bureaux during the period was USD 9.8686/USD while their selling rate reached Birr 10.0536/USD.

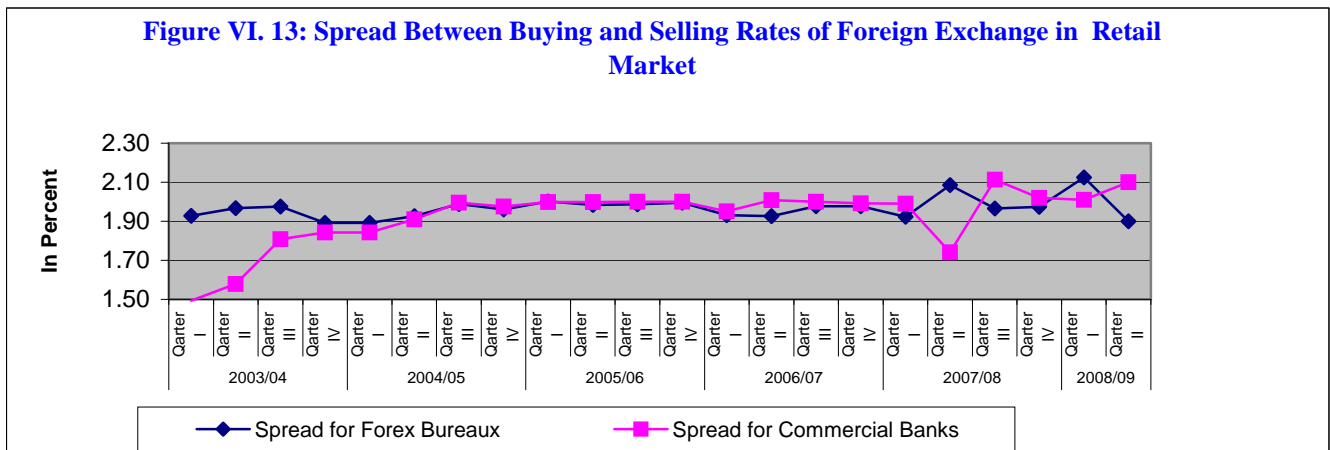
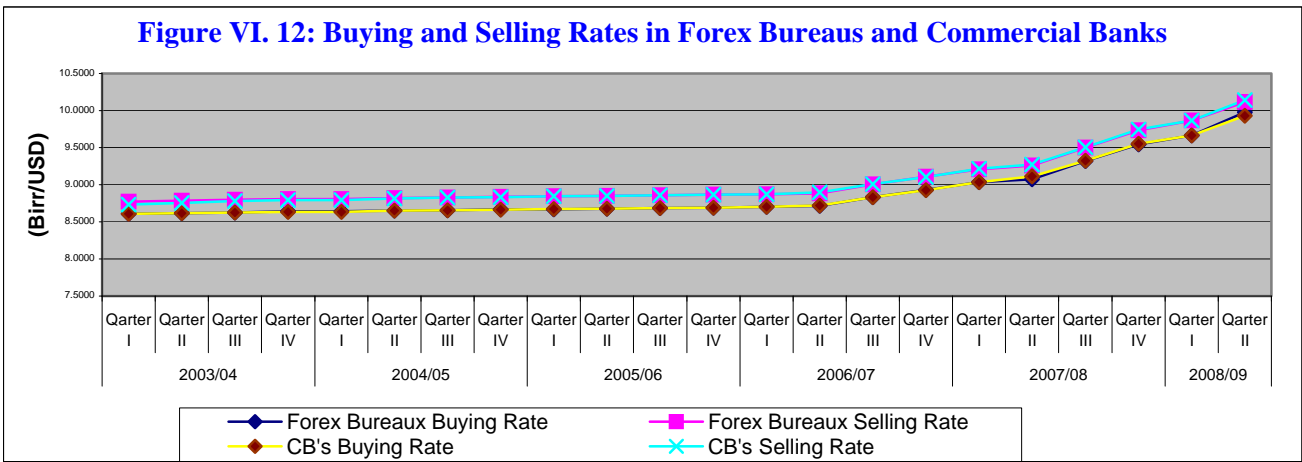
Accordingly, the buying and selling rates depreciated by 2.1 and 1.9 percent, on quarterly and 8.8 and 8.6 percent on annual basis. The average spread

between the buying and selling rates was about 1.9 percent.

and 9.4 percent year-on-year depreciation to reach Birr 10.1185/USD.

On the other hand, the buying rate of commercial banks depreciated by 2.8 percent on quarterly and 9.0 percent on annual terms and reached Birr 9.9294/USD. Similarly, their selling rate showed a 2.9 percent quarter-on-quarter

The average spread between their buying and selling rates was 2.1 percent the same as in the preceding quarter.



During the review period except Japanese yen the average exchange rate of US dollar against all major currencies appreciated at different rates compared to both the preceding quarter and the same quarter of last year. The appreciation was highest against Pound (16.8) followed by Euro (12.2), Swiss Frank (7.2%), and SDR (5.2%) on quarterly bases.

Table 6.11: 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
2007/08																
Quarter II	C	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
2008/09																
Quarter I	B	1.5030	1.5037	1.5033	0.0093	0.0093	0.0093	1.5909	1.5916	1.5913	1.8912	1.8922	1.8917	0.9326	0.9331	0.9328
July		1.5742	1.5761	1.5751	0.0094	0.0094	0.0094	1.6294	1.6314	1.6304	1.9858	1.9883	1.9870	0.9720	0.9732	0.9726
August		1.4946	1.4946	1.4946	0.0091	0.0091	0.0091	1.5857	1.5857	1.5857	1.8879	1.8884	1.8882	0.9229	0.9229	0.9229
September		1.4403	1.4403	1.4403	0.0094	0.0094	0.0094	1.5577	1.5577	1.5577	1.8000	1.8000	1.8000	0.9030	0.9030	0.9030
Quarter II	A	1.3200	1.3200	1.3200	0.0104	0.0104	0.0104	1.5086	1.5086	1.5086	1.5735	1.5735	1.5735	0.8657	0.8657	0.8657
October		1.3326	1.3326	1.3326	0.0099	0.0100	0.0100	1.5178	1.5178	1.5178	1.6957	1.6957	1.6957	0.8761	0.8761	0.8761
November		1.2715	1.2715	1.2715	0.0104	0.0103	0.0103	1.4831	1.4831	1.4831	1.5311	1.5311	1.5311	0.8402	0.8402	0.8402
December		1.3559	1.3559	1.3559	0.0110	0.0110	0.0110	1.5248	1.5248	1.5248	1.4937	1.4937	1.4937	0.8808	0.8808	0.8808
Percentage change	A/B	-12.18	-12.21	-12.20	12.24	12.08	12.16	-5.18	-5.22	-5.20	-16.80	-16.84	-16.82	-7.18	-7.22	-7.20
	A/C	-8.88	-8.88	-8.88	17.82	17.70	17.76	-4.09	-4.06	-4.08	-23.06	-23.06	-23.06	-0.83	-0.84	-0.83

Source: Staff Compilation

Reflecting the appreciation of the Euro & Pound Sterling against the dollar, the mid-market rates of the Birr also appreciated against Euro and the Pound Sterling both on quarterly and annual basis while it appreciated against the Swiss Frank on quarterly basis but

depreciated on annual basis. The appreciation was highest against Pound Sterling (15.3%) followed by Euro (10.4%), Swiss Frank (5.3%) and SDR (3.2%). On the other hand, the Birr depreciated against the Japanese Yen both on quarterly and annual basis.

Table 6.12: 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	
2007/08																				
<i>Quarter II</i>	C	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	
2008/09																				
<i>Quarter I</i>	B	9.6635	9.7559	9.7097	14.5233	14.6685	14.5959	0.0898	0.0907	0.0902	15.3733	15.5271	15.4502	18.2744	18.4588	18.3666	9.0120	9.1021	9.0571	
July		9.6446	9.7284	9.6865	15.1814	15.3331	15.2573	0.0902	0.0911	0.0907	15.7138	15.8709	15.7923	19.1511	19.3426	19.2469	9.3743	9.4680	9.4212	
August		9.6634	9.7601	9.7117	14.4425	14.5869	14.5147	0.0883	0.0892	0.0888	15.3234	15.4766	15.4000	18.2433	18.4308	18.3370	8.9179	9.0070	8.9625	
September		9.6825	9.7794	9.7310	13.9459	14.0853	14.0156	0.0908	0.0917	0.0912	15.0829	15.2337	15.1583	17.4289	17.6032	17.5160	8.7438	8.8313	8.7876	
Quarter II	A	9.8631	9.9617	9.9124	13.0183	13.1485	13.0834	0.1029	0.1038	0.1033	14.8785	15.0273	14.9529	15.5108	15.6660	15.5884	8.5381	8.6235	8.5808	
October		9.7364	9.8338	9.7851	12.9729	13.1027	13.0378	0.0968	0.0982	0.0975	14.7768	14.9245	14.8506	16.5071	16.6723	16.5897	8.5301	8.6154	8.5728	
November		9.9134	10.0125	9.9629	12.6047	12.7309	12.6678	0.1027	0.1030	0.1028	14.7027	14.8498	14.7763	15.1785	15.3303	15.2544	8.3293	8.4126	8.3710	
December		9.9394	10.0388	9.9891	13.4773	13.6121	13.5447	0.1092	0.1102	0.1097	15.1561	15.3077	15.2319	14.8468	14.9953	14.9210	8.7549	8.8425	8.7987	
Percentage change	A/B	2.07	2.11	2.09	-10.36	-10.36	-10.36	14.61	14.48	14.54	-3.22	-3.22	-3.22	-15.12	-15.13	-15.13	-5.26	-5.26	-5.26	
	A/C	8.77	8.77	8.77	-0.92	-0.92	-0.92	28.19	28.05	28.12	4.31	4.35	4.33	-16.34	-16.34	-16.34	7.83	7.83	7.83	

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

Table 6.13: Birr per Unit of Currency End Period Mid Market Rate

Currency	Dec-07	Sept-08	Dec-08	Percentage change	
	C	B	C	C/B	C
USD	9.2467	9.7405	10.0049	2.7	8.2
Pound	18.4768	17.8075	14.4451	-18.9	-21.8
Swedish Kroner	1.4468	1.459	1.2896	-11.6	-10.9
Djibouti Frank	0.0521	0.0548	0.0563	2.7	8.2
Swiss Frank	8.2310	8.8897	9.4591	6.4	14.9
Saudi Riyal	2.4644	2.5932	2.6652	2.8	8.1
UAE Dirham	2.5167	2.6516	2.7236	2.7	8.2
Canadian Dollar	9.4547	9.3911	8.2088	-12.6	-13.2
Japanese Yen	0.0827	0.0916	0.1107	20.9	34.0
Euro	13.6315	14.1237	14.1009	-0.2	3.4
SDR	14.5957	15.3001	15.4856	1.2	6.1

Source: National Bank of Ethiopia –BFED

6.7.2. Movements in Real Effective Exchange Rate

As inflation began to subside and the nominal exchange rate continued to depreciate, the appreciating trend of the real effective exchange rate was reversed during the review period.

Accordingly, during the second quarter

of 2008/09 the real effective exchange rate of the Birr depreciated by 7.7 percent compared to the preceding quarter. It, however, appreciated by 31.0 percent in contrast to a year ago.

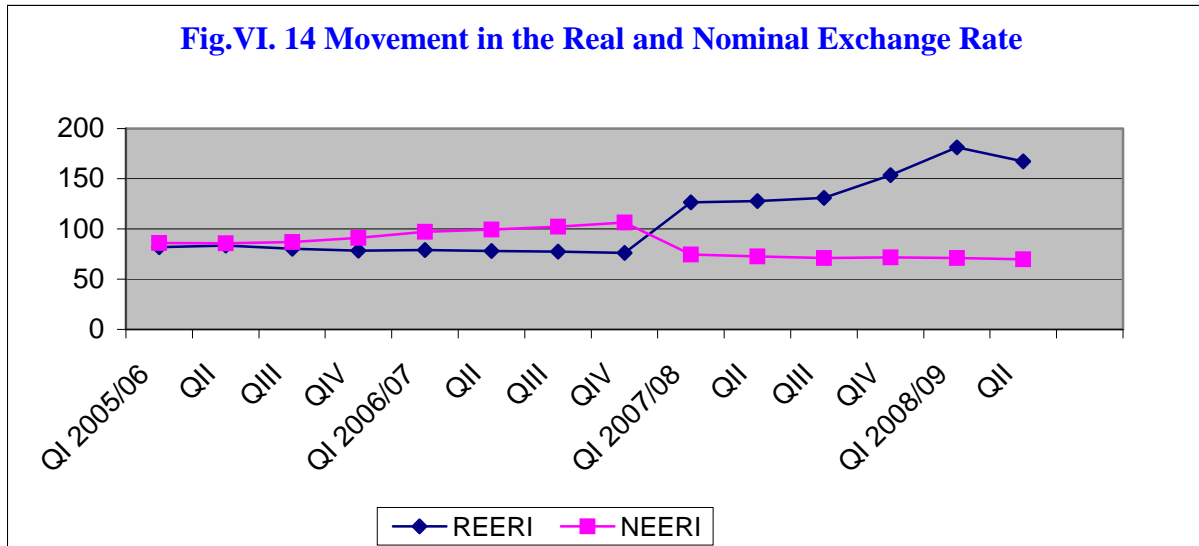
On the other hand, the nominal effective exchange rate showed quarterly and annual depreciations of 1.7 and 4 percent, respectively.

Table 6.14 Trends in Real Effective Exchange Rate

	2007/098	2008/09		Percentage Change	
	QII	QI	QII	C/B	C/A
	A	B	C		
REERI	127.7	181.1	167.2	-7.7	31.0
NEERI	72.7	71.0	69.8	-1.7	-4.0

REERI = Real Effective Exchange Rate Index

NEERI = Nominal Effective Exchange Rate Index

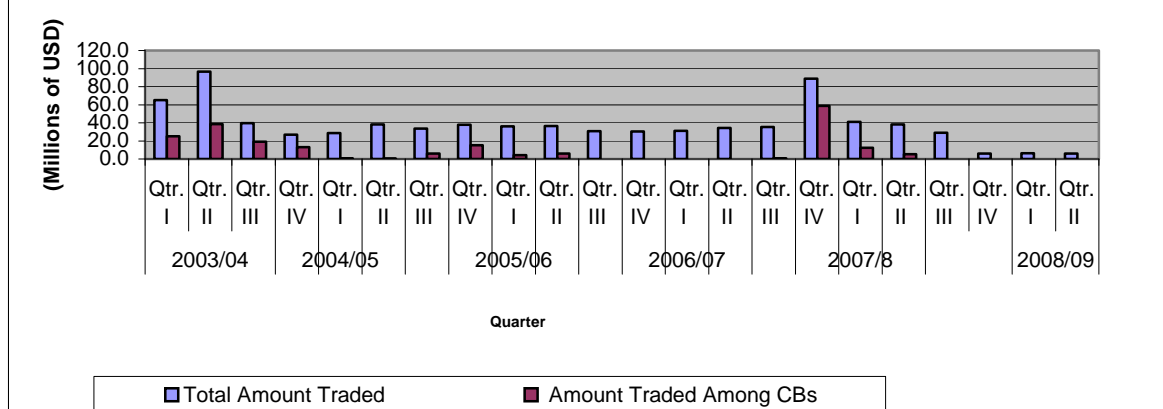


6.7.3 Volume of Transactions

The amount of foreign exchange traded in the inter bank foreign exchange market was USD 6.0 million during the review period about 4.8 and 84.4 percent lower than the amount traded in the

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

Fig.VI.15: Foreign Exchange Traded in Inter_Bank Foreign Exchange Market



In the retail market, commercial banks purchased foreign exchange to the tune of USD 106.4 million from exporters, which was 15.4 and 31.7 percent lower than the amount purchased during the preceding quarter and the same quarter of last year, respectively.

Similarly, foreign exchange sold by commercial banks to importers showed a

quarterly decrease of 9.7 percent and an annual increase of 28.9 percent to reach USD 971.1 million.

Meanwhile, forex bureaux purchases went up by 42.9 and 81.8 percent on quarterly and annual basis, respectively and reached USD 41.2 million. Their sales, on the other hand, decreased by 15.2 percent on quarterly basis but increased by 67.3 percent year-on-year basis to reach USD 15.2 million.

Fig.VI.16: Sales and Purchases of Foreign Exchange by Commercial Banks

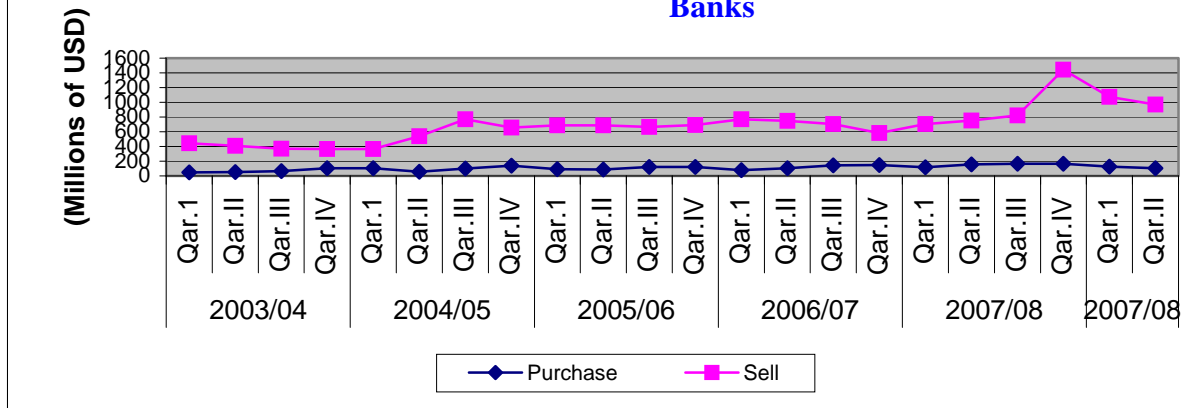


Table 6.15: Amount of Foreign Exchange Purchased and Sold by Commercial Banks
(In millions of USD)

Name of Forex Bureau	2007/08		2008/09				Percentage Change			
	Quarter II		Quarter I		Quarter II		Percentage Change			
	A		B		C		C/B		C/A	
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
Commercial Bank of Ethiopia	44.8	358.8	36.6	688.4	34.2	514.6	-6.4	-25.2	-23.6	43.4
Bank of Abyssinia	4.6	42.5	21.2	58.1	5.0	50.5	-76.5	-13.1	9.3	18.7
Dashen Bank	59.6	107.4	30.3	107.4	29.2	129.3	-3.8	20.3	-51.1	20.3
Awash International Bank	7.2	39.1	6.2	34.5	6.6	26.3	6.7	-23.7	-8.4	-32.7
Construction and Business Bank	1.2	24.1	0.0	11.0	0.5	14.0		27.3	-61.4	-41.7
Wegagen Bank	27.1	80.6	22.6	74.5	23.3	75.4	3.0	1.2	-14.1	-6.5
United Bank	0.0	34.6	0.0	47.4	0.0	98.0		106.9		183.0
Develoment Bank	0.0	0.0	0.0	0.0	0.0	0.0				
Nib International Bank	11.3	60.8	9.0	52.4	7.7	60.7	-14.2	15.8	-32.1	0.0
Oromiya Cooperative Bank	0.0	5.5	0.0	1.5	0.0	2.2		47.9		
Total	155.7	753.5	125.8	1075.2	106.4	971.1	-15.4	-9.7	-31.7	28.9
Average Exchange Rate	9.1130	9.2715	9.6614	9.8564	9.9294	10.1401	2.7731	2.8784	8.9587	9.3683

Table 6.16: Amount of Foreign Exchange Purchased and Sold by Forex Bureau of Commercial Banks

(In millions of USD)

Name of Forex Bureau	No of Branches	2007/08				2008/09		Percentage Change			
		Quarter II		Quarter I		Quarter II		C/B		C/A	
		A	B	C							
		Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
Commercial Bank of Ethiopia	4	6.6	4.1	10.2	7.8	7.9	3.5	-22.7	-55.3	18.6	-15.9
Bank of Abyssinia	5	0.5	0.9	1.1	1.0	1.1	1.2	-4.4	14.8	95.4	34.6
Dashen Bank	4	3.0	1.6	3.2	2.8	3.6	3.8	12.9	37.0	21.2	138.2
Awash International Bank	4	0.3	0.4	0.6	2.1	0.6	2.0	-6.0	-3.7	77.4	376.1
Construction and Business Bank	3	0.1	0.1	0.4	0.2	0.5	0.2	4.4	-25.4	367.8	41.9
Wegagen Bank	6	2.0	0.9	2.1	1.8	1.8	1.9	-14.1	4.8	-9.2	105.6
United Bank	16	2.3	0.6	2.6	1.0	3.2	1.3	24.4	23.3	39.5	107.4
Nib International Bank	3	7.8	0.4	8.6	1.1	22.6	1.3	161.5	18.9	188.6	248.5
Oromiya Cooperative Bank	None	0.0	0.0	0.0	0.0	0.0	0.0				
Total	41	22.66	9.09	28.82	17.89	41.19	15.22	-100.0	-14.9	81.8	67.3
Average Exchange Rate		9.0713	9.2604	9.6640	9.8668	9.8686	10.0536	2.1	1.9	8.8	8.6

