I. Overview

Latest world economic indicators increasingly suggested a moderation in the contraction of economic activity in major emerging economies and advanced countries. In most cases, the economic performance outcomes in the second quarter of 2009 were better than estimated. Global inflation rates remained low, owing to effects related to commodity prices and substantial spare capacity. Broadly speaking, commodity prices have remained stable.

Despite the promising world economic indicators, the impacts of the global economic downturn on Ethiopia were felt in the fourth quarter of EFY 2008/09 as exports declined by 7.4 percent compared to the corresponding period of last year. The crisis also impinged on remittance transfers causing a 1.2 percent decline unlike the substantial increases of the previous years. On the positive side, the decline in global commodity prices that accompanied the global crisis, to some extent, eased the balance of payments problems by reducing foreign exchange payments particularly for petroleum imports. Petroleum import in the fourth quarter of2008/09 was 50 percent lower than a year earlier.

Reversing its trend of decline and disinflation in the last two quarters, headline inflation in the fourth quarter of 2008/09 turned positive and stood at 1.9 percent. However, it remained quite low compared to the 18.5 percent inflation registered during the same quarter of last year. The slight rebound in food prices (0.9 percent) and non-food prices (by 3.6 percent) in the quarter from -7.3 and 1.5 percent levels in the previous quarter, respectively, have contributed to the observed positive headline inflation. The increase in the prices of cereals and spices from food items and house rent[1] and transport and communication from non-food items was worth noting during the review quarter.

Developments in regional inflation indicated significant variations among the regions. Headline inflation in Gambella (5%), Somali (4.2%), Addis Ababa (3.4%) and SNNP (3.3%) were significantly higher than that of the country level while Amhara and Tigray experienced lower inflation.

[1] Includes construction materials, water, fuel and electric power as well.

In the monetary sector, broad money supply expanded by 2.4 percent and 21 percent on quarterly and annual basis, respectively, and reached Birr 82.5 billion as at the end of June 2009. From the asset side, both net foreign assets and domestic credit grew at an annual growth rate of 54.1 percent and 11.5 percent and a quarterly increase of 20.9 percent and 4.6 percent, respectively. The growth in net foreign assets was partly the result of increased donor support. The annual growth in domestic credit was driven by a 20.3 percent surge in non-government sector credit. The quarterly growth, on the other hand, was mainly attributed to a 11.7 percent increase in claims on government presumably signifying the last quarter of the fiscal year where budgetary institutions step up their spending.

On the liability side, both narrow and quasi-money expanded annually by 19.1 percent and 23 percent, respectively, mainly driven by increases in all their components except time deposits. On quarterly basis, narrow money shrank by 1.7 percent on account of 5.1 percent decline in demand deposits while quasi money went up by 7.1 percent, allowing for broad money to keep positive growth.

Excess reserves of commercial banks increased to Birr 8.4 billion by the end of June 2009 from Birr 6.1 billion a year ago, reflecting the outcome of tight monetary policy, on the one hand, and undeveloped financial market, on the other.

The structure of interest rate largely remained at the previous quarter level with average saving rate being 4.5 percent; average lending rate 12.25 percent and bond yield 4.14 percent. On the other hand, there has been a marginal shift in the time deposits rate for 1 -2 years from 5.21 percent in March 2009 to 6.2 percent by end June 2009 and a decline for over 2 years deposits from 5.17 percent to 5 percent. The quarter under review also witnessed slight increase in weighted demand deposits rate from 0.053 percent to 0.057 percent during the same period.

Treasury bills worth Birr 7.0 billion were sold during the review quarter. Non-bank institutions were the main buyers, securing 85.8 percent of the total T-bills sold. The average weighted yield was 0.794 percent in contrast to 0.824 percent a year earlier.

There was no major change in the number and capital of financial institutions during the review quarter. The number of commercial banks, insurance companies and micro finance institutions stood at 13, 12 and 28, respectively. Yet, a notable development in the quarter was the opening up of 19 new bank branches and 4 new insurance branches.

Total resources mobilized by the banking system reached Birr 8.2 billion, down by 7.0 percent compared to the previous quarter. Similarly, disbursement of fresh loans declined by 7.3 and 36 percent on quarterly and annual basis as a result of slow down in loans to trade sector. Mean while, the total outstanding credit of the banking system at Birr 51.6 billion were slightly higher than the previous quarter.

External sector development witnessed a quarterly growth of 5.5 percent in export earning. Coffee and oilseeds each contributed close to 30 percent to the total export proceeds in the quarter. Compared to the same period of last year, however, earning from export went down by 7.4 percent on account of a significant fall in revenue from coffee, leather and leather products, pulses and fruits & vegetables.

The total import bill during the fourth quarter of 2008/09 amounted to USD 1.8 billion, up by 3.8 percent from the previous quarter due to the surge in fuel and semi-finished goods imports but down by 12.8 percent over the same quarter of last year. The increase in the quarterly value of fuel imports indicated the recently rising trend of international oil price but remained low compared to the same quarter of the previous year. Thus, merchandise trade deficit in the review quarter was USD 1.4 billion in contrast with USD 1.6 billion deficit a year ago.

At the same time, the services account registered a deficit of USD 20.5 million compared to the surplus of USD 9.6 million during the same quarter of last year. Declines in receipts from travel and government services coupled with increased payment for transportation and construction services were behind the quarterly deficit. A surge in public transfers and modest increases in private remittances put total net transfers at USD 1.2 billion in this quarter, showing a 4 percent increase over the corresponding quarter of a year earlier.

Although the merchandize trade and service balances worsened in the quarter under review, a surge in public transfers helped the current account deficit to narrow down by about 55 percent to USD 201.5 million compared to the same quarter of the previous year.

The capital account recorded a surplus of USD 343.4 million in this quarter but still 4 percent lower than last year because of lower direct investment.

In a nutshell, the overall balance of payments registered a quarterly surplus of USD 253 million compared to a deficit of USD 155.6 million a year earlier. Accordingly, the foreign exchange reserves of the banking system increased by USD 253 million.

Regarding exchange rate development, the average inter-bank foreign exchange rate stood at Birr 11.2028 /USD in the review quarter, showing a quarterly depreciation of 2.3 percent. In comparison, the parallel market rate depreciated by 4.6 percent to reach Birr 13.4083/USD, putting the premium at 19.7 percent. Following the depreciation of the nominal exchange rate and the slowdown in domestic prices in the review quarter, the real effective exchange rate depreciated by 5.3 percent.

Performance for federal government finance indicated a substantial increase in grants, modest growth in revenue and slowdown in expenditure under the review quarter. As a result, the overall fiscal balance of the federal government registered a surplus of 1.34 billion compared to the deficit of Birr 1.7 billion in the same quarter of last year.

In the quarter under review, investment projects with a capital of Birr 142.2 billion were licensed of which Birr 75 billion was for public investment in the construction sector.

During the quarter under review, a total of 531.2 thousand metric tones of petroleum products were imported, showing a 3 percent increase over the same quarter of last year. The FOB price of petroleum products in the quarter rose 23.5 percent over the preceding quarter but dropped by about 52 percent against the corresponding quarter of a year earlier. Despite the increase in FOB prices over the previous quarter, domestic retail prices of petroleum products in the quarter fell by about 4.3 percent on annual basis. It is to be noted that domestic petroleum prices are regularly revised in light of the oil price movements in the global market.

The total electric power generated during the fourth quarter stood at 757.6 million KWH, down 4.8 percent compared to a year earlier. In spite of a significant increase in thermal power, which accounted for 22.6 percent of the total, electric generation has fallen by 21.9 percent on quarterly basis due to the slowdown in hydropower generation by 33 percent on quarterly and 19.7 percent on yearly terms due to inadequate water level in the dams.

With respect to telecommunications, the fourth quarter of 2008/09 witnessed remarkable improvement over the same period of last year in terms of the installed exchange capacity of fixed telephone (by 54%), mobile phone subscriptions (by 107%) and dial-up Internet subscriptions (by 108 %) signifying the significant expansion in infrastructural investments.

As for the manufacturing sector, there were no new establishments during the review quarter. Yet, there has been slowdown in employment, sales revenue and export proceeds from the sector. The average capacity utilization of the manufacturing sector was 48.8 percent down from 50.4 percent in the proceeding quarter and 55.7 percent in the same quarter of last year due to shortage of electricity, among other factors.