I. OVERVIEW

1.1. International Economic Developments

The world economy has started to show a gradual revival after a two year long (2008-09) contraction. The economic recovery witnessed in advanced and emerging economies is manifested by a slight increase in economic growth, decline in unemployment, rise in manufacturing output and growth in export, partly due to increase in demand, among others.

Moreover, global inflation (excluding energy and food) is gradually picking up though annual change in consumer prices still remains negative in some parts of Asian countries. Oil prices which were between USD 70 and USD 75 per barrel in the month of October 2009 are expected to increase as a result of surge in international oil demand.

Despite the global economic recovery, the crisis has a mixed effect in the Ethiopian economy. On negative side, export of goods declined by 2.6 percent relative to a year ago. Remittance inflows, although showed 26 percent increase on quarterly basis, declined by 8.5 percent annually. On positive side, the country's BOP has tended to improve as a result of lower import payments particularly oil due to slow down in global commodity prices. Yet, revival of global economic growth is expected to boost Ethiopia's export performance, remittance transfers, FDI and tourism.

1.2. Performance of the Ethiopian Economy

The Ethiopian economy is estimated to have exhibited a 9.9 percent growth in 2008/09 and projected to expand by 10.1 percent in 2009/10 with envisaged broad-based growth in all sectors. Agriculture is expected to grow 6 percent, industry 10.2 percent and services14.5 percent in 2009/10.

The first quarter of 2009/10 depicted slow down in inflationary pressures. Headline inflation declined to 3.1 percent in the review period from 20.9 percent a year ago largely due to 26.6 percent deceleration in food inflation and 2.1 percent drop in non-food inflation. The subdued global inflation coupled with prudent fiscal and monetary policy measures taken by the government have contributed to this effect.

Broad money supply (M_2) showed quarterly and annual growth rates of 5.6 and 22 percent, respectively to reach Birr 87.2 billion in the review quarter, on account of substantial increase in net foreign assets and marginal expansion in net domestic credit, particularly credit to non-government sectors. Net foreign assets stood at Birr 22.1 billion, showing about 22.8 percent quarterly and 112.5 percent annual surges. Net domestic credit grew by 3.1 and 9.4 percent to Birr 92 billion, of which Birr 59.5 billion or 65 percent was extended to private sector.

Reserve money increased by 4 percent to Birr 46.9 billion relative to preceding quarter, due to a 13.4 percent rise in commercial banks' deposit at NBE, offsetting the 4.5 percent slow down in currency in circulation. Year-on-year basis, however, reserve money went up by 31 percent as currency in circulation and banks' deposit at NBE increased.

Regarding interest rate, the average saving deposit rate and lending rates remained unchanged from their respective levels of 4.5 and 12.3 percent at the end of June 2009 while the weighted average demand deposit and average time deposit rates depicted a quarterly increase of 22.8 and 0.9 percent. Weighted average yield on T-bills also increased to 0.803 percent from 0.646 percent a year ago. Yet, average bond yield remained at 4.5 percent.

Concerning financial sector development, the number of banks operating in the country increased by 1 to 14 while the number of insurance companies remained at 12 as it was in the previous quarter. In terms of branch expansion, 20 new bank branches and 2 new insurance branches were opened in the stated period by private banks and private insurance companies which raised the total number of bank and insurance branches to 656 and 196, respectively. On the other hand, the number of microfinance institutions remained at 28 but the total amount of outstanding credit extended to beneficiaries rose by 2 percent to Birr 5 billion relative to end June 2009.

Total resource mobilized by the banking sector rose by 24.9 percent to Birr 12.9 billion in the stated period against a year ago. The annual growth was on account of increase in net deposits, net borrowing and collection of loan by 42.2, 142.8 and 7.8 percent, respectively. Disbursement of fresh loans also increased by 11.7 percent to Birr 6.3 billion.

In the foreign exchange market, the exchange rate of Birr against USD was Birr 12.37 /USD, about 10.5 and 28 percent weaker compared to a quarter before and a year earlier, respectively. Meanwhile, the exchange rate of Birr against USD in the parallel market reached 13.29. Hence, the spread between official and parallel market rates narrowed to 7.4 percent from 19.7 percent in preceding quarter due to a 10 percent depreciation of the Birr in August 2009.

With respect to external sector development, quarterly export proceeds reached USD 342.4 million, about 2.6 percent lower than last year. The decline was attributed to a fall in earnings from coffee (21.4 percent), oilseeds (3.0 percent), leather and leather products (55.7 percent), meat and meat products (14.4 percent) and fruits and vegetables (35.9 percent). Similarly, imports decreased by 22.0 percent to USD 1.77 billion due to slow down in imports of fuel (47 percent), raw materials (37.5percent), capital goods (15.7 percent) and consumer goods (18.1 percent) compared to last year same quarter. Hence, merchandise trade deficit was USD 1.43 billion, about 25.5 percent lower than a year ago.

Total net transfers rose 6.9 percent to USD 1.04 billion from USD 969.1 million last year, owing to 40.4 percent increase in official transfers offsetting 6.8 percent decrease in private transfers. Services account also exhibited a surplus of USD 119 million in contrast to deficit of USD 163 million a year earlier.

Hence, the current account balance including public transfers, depicted a deficit of USD 277 million compared to USD 810 million last year. The capital account also registered a surplus of USD 409 million, resulting in USD 173.7 million BoP surplus, vis-a-vis USD 132.3 million deficit in the previous year.

The government fiscal operations witnessed 13.3 percent annual increase in total revenue including grants to Birr 10.16 billion and 24 percent rise in total expenditure to Birr 12.63 billion resulting in Birr 2.47 billion deficit (including grants), slightly wider than last year. The deficit was financed by external funds, privatization proceeds and others and residuals, while the government repaid Birr 898.5 million to domestic sources.

II. ENERGY PRODUCTION AND PROCESSING

2.1. Imported Petroleum Products

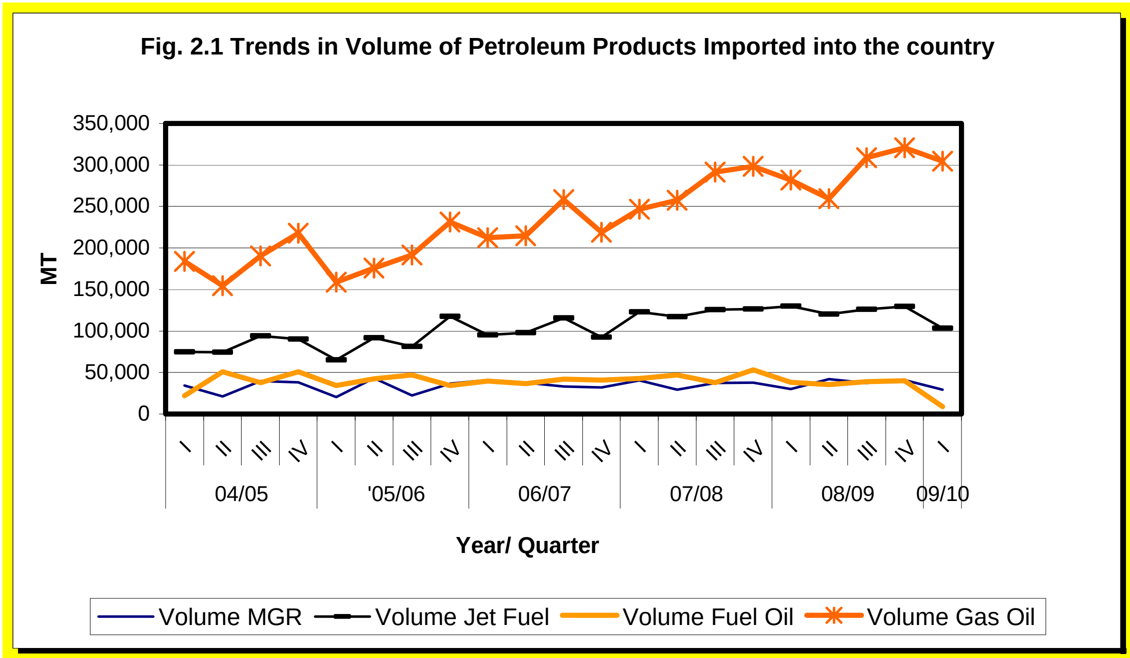
The Ethiopian Petroleum Enterprise (EPE) imported 445,733 metric tones (MT) of petroleum products into the country in the first quarter of 2009/10. The figure showed a decline by 16.1 and 7.1 percent compared to the preceding quarter and same quarter of last year, respectively. The year-on-year decline in volume was attributed to slow down in the volume of imports of all petroleum products (Table 2.1).

Table 2.1: Volume of Petroleum Products Imported

(In MT)

	2008/09				2009/10		Percentage Change	
	Qtr I		Qtr IV		Qtr I			
	A	Share In %	B	Share In %	C	Share In %	C/A	C/B
Regular Gasoline (MGR)	29,907	6.2	40,699	7.7	29,178	6.5	-2.4	-28.3
Jet Fuel	129,951	27.1	129,596	24.4	103,454	23.2	-20.4	-20.2
Fuel Oil	38,126	7.9	40,078	7.5	8,711	2.0	-77.2	-78.3
Gas Oil (ADO)	281,623	58.7	320,849	60.4	304,391	68.3	8.1	-5.1
Total	**479,608**	100.0	**531,221**	100.0	**445,733**	100.0	-7.1	-16.1

Source: Ethiopian Petroleum Enterprise(EPE)



Source: EPE

In value terms, petroleum import (C.I.F) peaked-up by 4 percent and reached Birr 3.3 billion on quarterly basis but dropped by 31.9 percent on annual basis (Table 2.2). The 4 percent quarterly increase in the value of petroleum was exclusively attributed to 17 percent surge in the value of gas oil, which more than offset the decrease in other products.

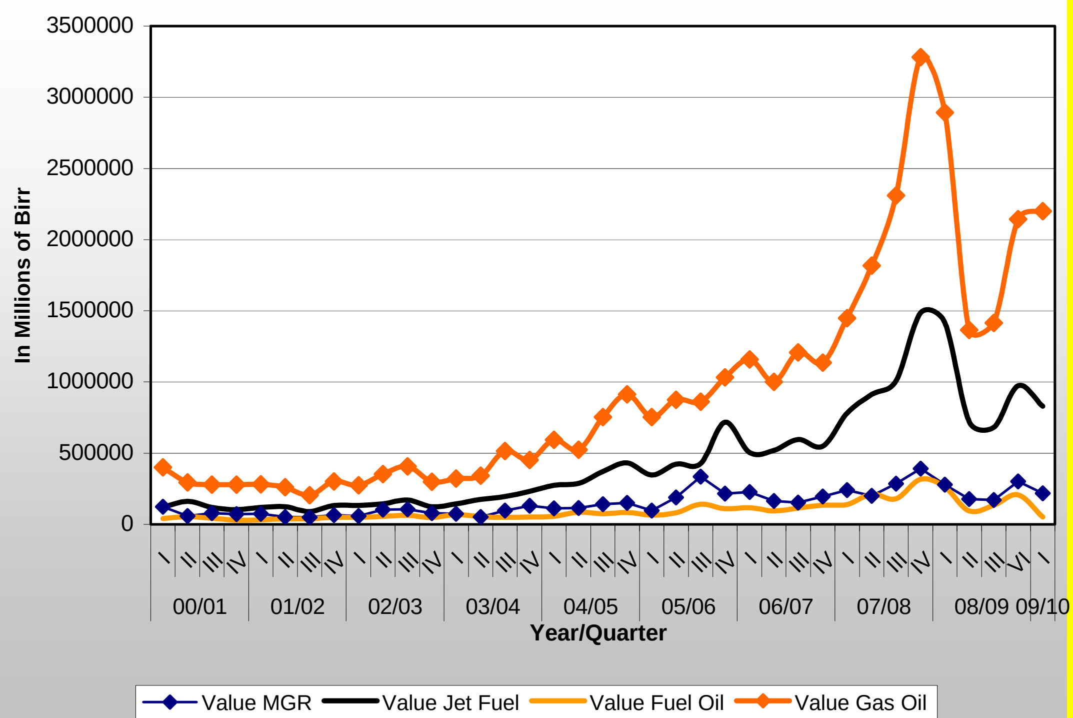
Table 2.2 Value of Petroleum Products Imported

(In 000 Birr)

	2008/09				2009/10		Percentage Change	
	Qtr I		Qtr IV		Qtr I			
	A	Share In %	B	Share In %	C	Share In %	C/A	C/B
Regular Gasoline (MGR)	278,406	*6*	264,350	8.3	219,214	6.6	-21.3	-17.1
Jet Fuel	1,416,096	*29*	852,235	26.9	830,832	25.2	-41.3	-2.5
Fuel Oil	261,299	*5*	181,264	5.7	52,467	1.6	-79.9	-71.1
Gas Oil (ADO)	2,892,661	*60*	1,876,052	59.1	2,198,944	66.6	-24.0	17.2
Total	**4,848,462**	*100*	**3,173,901**	100.0	**3,301,458**	100.0	-31.9	4.0

Source: EPE

Fig.2.2: Trends in Value of Petroleum Products Imported into the country



Source: EPE

The FOB prices (USD/Mt) of petroleum products on average exhibited a 14.3 percent rise over the previous quarter, and a 41.5 percent fall compared to last year same period. The quarterly rise in the FOB prices of petroleum products was exhibited in higher prices of fuel oil (22.3 percent), gas oil (12.9 percent), jet fuel (12.6 percent) and regular gasoline (12.2 percent). On the contrary, year-on-year basis FOB prices of all petroleum products tended to fall (Table 2.3).

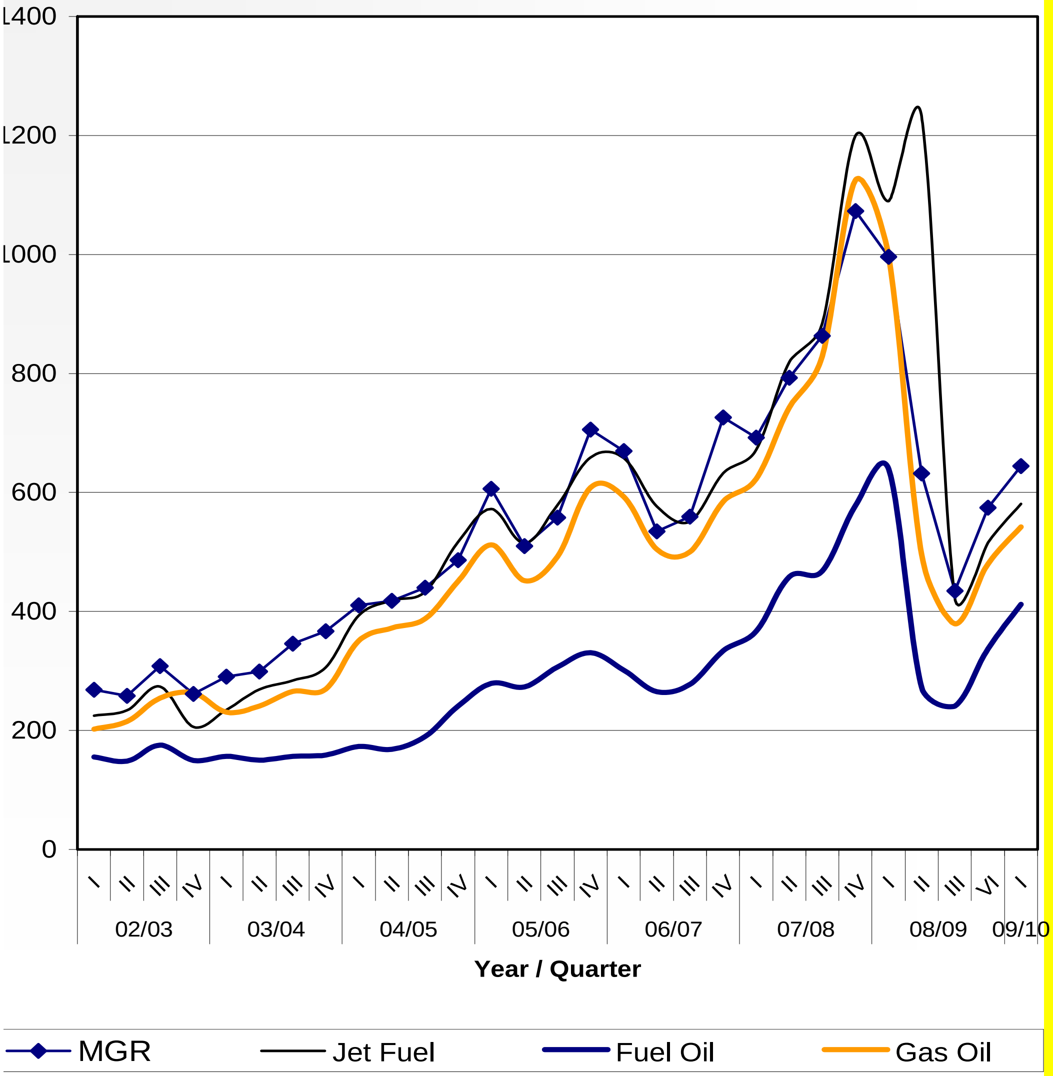
Table 2.3: FOB Price of Petroleum Products Imported

(In USD/Metric Tone)

Petroleum Products	2008/09		2009/10	Percentage Change	
	Qtr I	Qtr IV	Qtr I		
	A	B	C	C/A	C/B
Regular Gasoline (MGR)	996.2	574.2	644.1	-35.3	12.2
Jet Fuel	1089.7	515.6	580.7	-46.7	12.6
Fuel Oil	639.3	337.0	412.2	-35.5	22.3
Gas Oil (ADO)	996.9	480.0	541.9	-45.6	12.9
Average	930.5	476.7	544.7	-41.5	14.3

Source: EPE

Fig. 2.3 Trends in FOB Prices of Petroleum Products Imported into the Country



Source: EPE

In the first Quarter of 2009/10, domestic retail prices (Birr/ Liter) of all petroleum products, proxied by Addis Ababa retail price, showed an average increment of 27.7 and 22.2 percent against the previous quarter and same quarter of last year, respectively. The rise in domestic retail prices of petroleum products came from the surge in the prices of all the products. In Ethiopia domestic oil prices are adjusted monthly on the basis of price changes in the international market (Table 2.4).

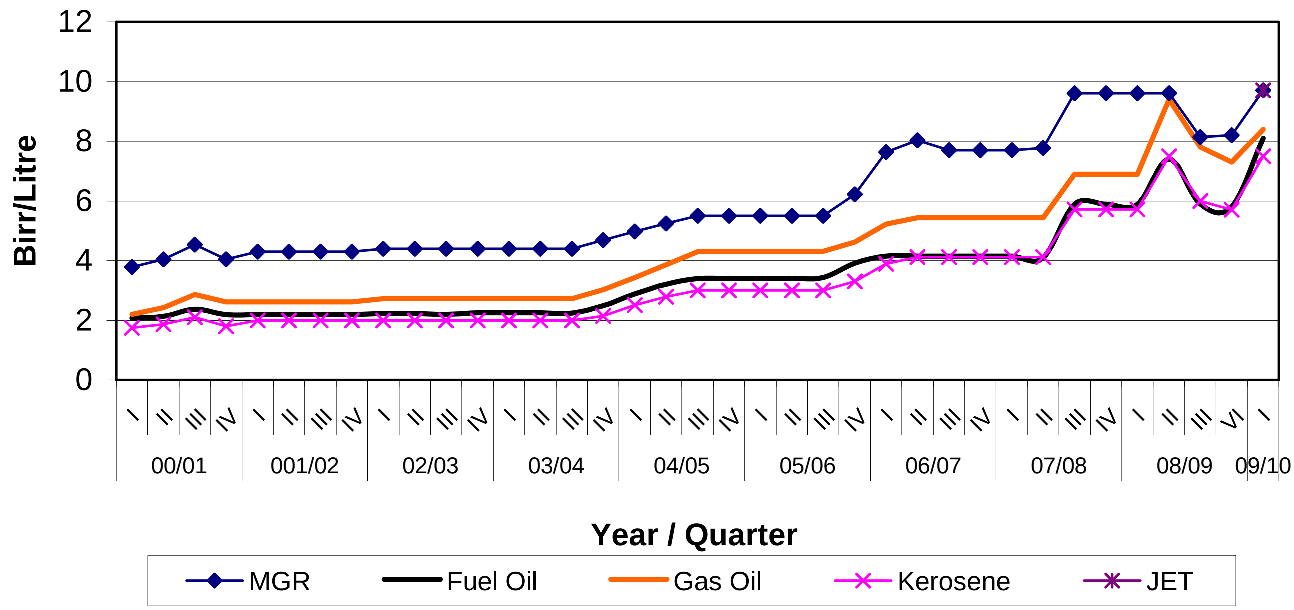
Table 2.4: Retail Prices of Fuel in Addis Ababa

(Birr/Liter)

Petroleum Products	2008/09 Qtr I	2008/09 Qtr IV	2009/10 Qtr I	Percentage Change	
	A	B	C	C/A	C/B
Regular Gasoline (MGR)	9.6	8.2	9.7	0.6	18.3
Fuel Oil	5.9	5.8	8.1	37.5	40.6
Gas Oil (ADO)	6.9	7.3	8.4	22.4	16.5
Kerosene	5.7	5.7	7.5	30.4	30.2
Jet	**7.4**	**7.8**	**9.7**	**31.3**	**24.1**
Average	**7.0**	**6.7**	**8.4**	**22.2**	**27.7**

Source: EPE

Fig. 2.4 Trends in Addis Ababa Retail Fuel Price



Source: EPE

Electric Power Generation

According to EEPCo, the total amount of electric power generated in the first quarter of 2009/10 reached 866,708.4 million KWH, which was 14.4 percent higher than the preceding quarter but 11.0 percent lower than same quarter of last year (Table 2.5).

Of the total electric power generated during the period some 78.7 percent was generated from hydropower and the remaining 20.6 and 0.6 percent from thermal and geothermal sources, respectively. The quarterly growth was the outcome of a significant increase in the power generated from hydro power (17.4 percent) and thermal power (4.3 percent) sources.

About 98.7 percent of the electric power was generated through Inter Connected System (ICS) and the rest 1.3 percent from Self Contained System (SCS) (Table 2.6).

The strategy of the government is to scale up electric power generation capacity of the country to 2,218 MWH by 2010.

Table 2.5: Electric Power Generation

(In '000KWH)

Power Source	2008/09				2009/10		Percentage Change	
	Qtr I	Share	Qtr IV	Share	Qtr I	Share		
	A	In %	B	In %	C	In %	C/A	C/B
Hydropower	906,986.1	93.2	581,340.8	76.7	682,347.20	78.7	-24.8	17.4
Thermal Power	66,512.5	6.8	171,406.7	22.6	178,786	20.6	168.8	4.3
Geo-thermal			**4,853.2**	**0.6**	**5,575.2**	0.6		
Total	**973,498.5**	**100**	**757,600.8**	**100**	**866,708.4**	100.0	**-11.0**	**14.4**

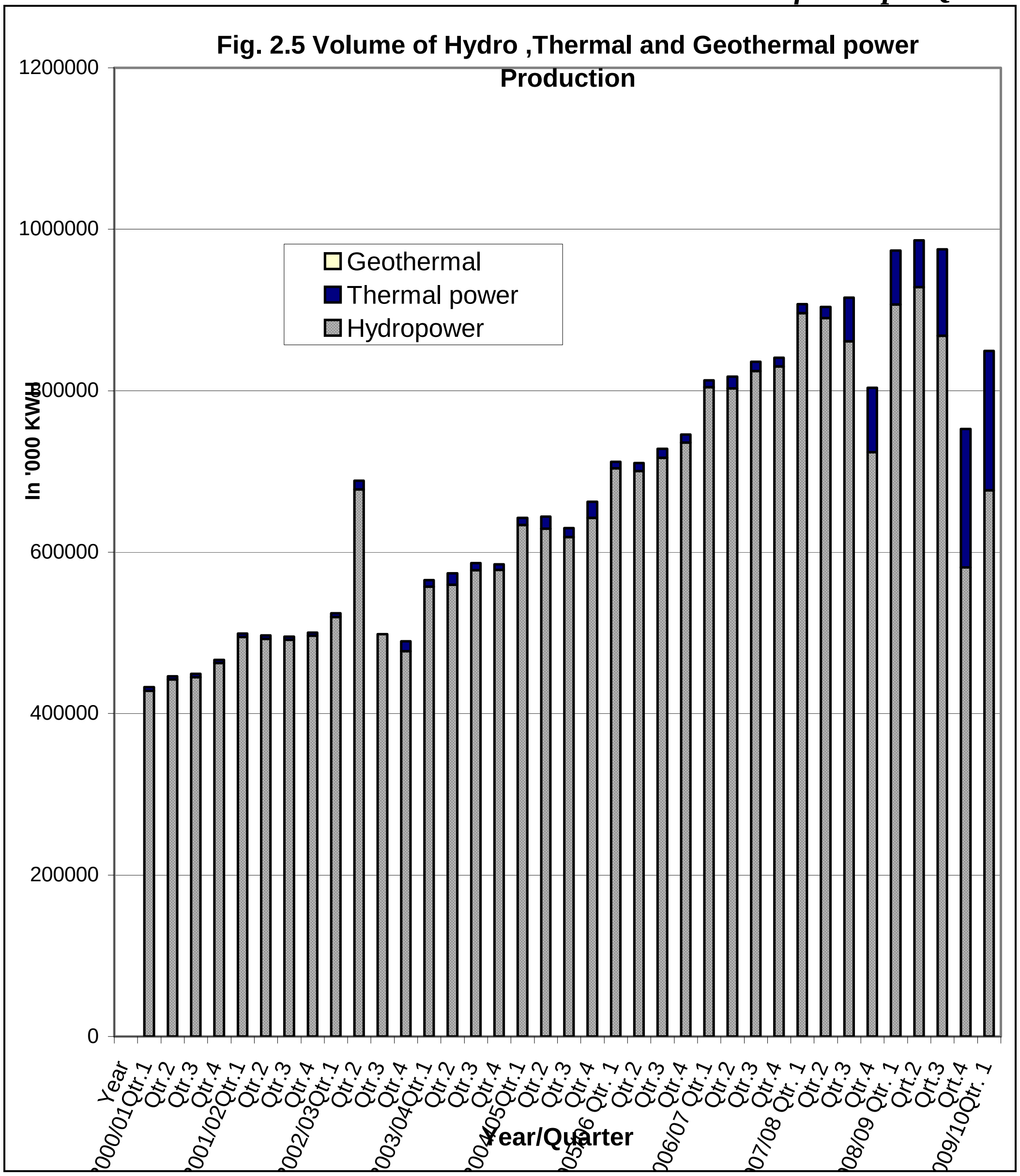
Source: EEPCo

Table 2.6: Electric Power Generation from ICS and SCS

(In '000 KWH)

System of Power Supply	2008/09				2009/10		Percentage Change	
	Qtr I	Share	Qtr IV	Share	Qtr I	Share		
	A	In %	B	In %	C	In %	C/A	C/B
ICS								
Hydro Power	902,621.1	92.7	581,340.8	75.9	676,800.8	78.1	(25.0)	16.4
Thermal Power	58,399.6	6.0	171,406.7	22.4	172,680.7	19.9	195.7	0.7
Geo-thermal	NA		4,853.2	0.6	5,575.2	0.6		
Sub-Total	**961,020.7**	98.7	**757,600.8**	**98.9**	**855,056.7**	98.7	**(11.0)**	**12.9**
SCS								
Hydro Power	4,365.0	0.4	194.7	0.03	5,546.4	0.6		
Thermal Power	8,113.5	0.8	8,247.4	1.1	6,105.3	0.7	(24.8)	(26.0)
Geo-thermal			0	0				
Sub-Total	**12,478.5**	1.3	**8,442.1**	**1.1**	**11,651.7**	1.3	**(6.6)**	**38.0**
Grand Total	**973,499.1**	100	**766,042.9**	**100.0**	**866,708.4**	100	**(11.0)**	**13.1**

Source: EEPCo



Source: EEPCo

III. TELECOMMUNICATIONS

The Ethiopian Telecommunications Corporation (ETC) is a state-owned institution that renders national and international telecom services.

During the first quarter of 2009/10 fiscal year, the total installed exchange capacity of fixed telephone (in terms of line) has reached 1,772,276 showing a 54.3 percent increase over the corresponding quarter of last year (Table 3.1).

Similarly, the number of fixed telephone subscription under all categories (residential, business enterprises, governmental and others) increased by 0.3 percent to 917,835.

On the other hand, the number of waiting list for fixed telephone subscribers in the review period was 10,507, down by 44.7 percent against last year mainly due to expansion in exchange capacity. Hence, the percentage share of customer demand to exchange capacity dropped to 52.4 percent from 79.8 percent a year earlier.

Table-3.1 Telephone Subscription Demand Statistics during First Quarter of 2009/10

Indicators	2008/09		2009/10	Percentage changes	
	QI	QIV	QI		
	A	B	C	C/A	C/B
Installed Capacity	1,148,424	1,769,024	1,772,276	54.3	0.2
Subscriber Lines	897,277	915,058	917,835	2.3	0.30
Waiting	18,990	18,548	10,507	-44.7	-43.4
Expressed Demand	916,267	933,606	928,342	1.3	-0.6
Main lines as % of expressed demand	97.9	98.0	98.9	1.0	0.9
Expressed demand as % of capacity	79.8	52.8	52.4	-27.4	-0.4

Source: Ethiopian Telecommunications Corporation (ETC)

Table 3.2 Mobile Subscription During First Quarter of 2009/10

Indicators	2008/09 QI A	2009/10 QIV B	2009/10 QI C	Percentage changes C/A	Percentage changes C/B
Number of Mobile Subscribers	2,424,436	4,051,703	4,412,553	82.00	8.9
Radio Network Capacity	2,690,801	4,808,248	5,259,991	95.5	9.4

Source: ETC

Similarly, the number of mobile phone subscribers, both pre-paid and post paid, rose by 82 percent to 4,412,553 in the review quarter. Radio network capacity was also 5,259,991 up by 95.5 percent relative to the same period of last fiscal year. The number of dial up Internet subscribers reached 65,992, showing an increase of 78.5 percent over the same period of last fiscal year.

All in all, the significant improvements witnessed in the telecom sector are reflections of the government's strategy to enhance capacity building program in the infrastructure sub-sector.

Table 3.3. Internet Subscribers During First Quarter of 2009/10

2008/09 QI A	2009/10 QIV B	2009/10 QI C	Percentage changes C/A	Percentage changes C/B
36,970	56,074	65,992	78.5	17.7

Source: ETC

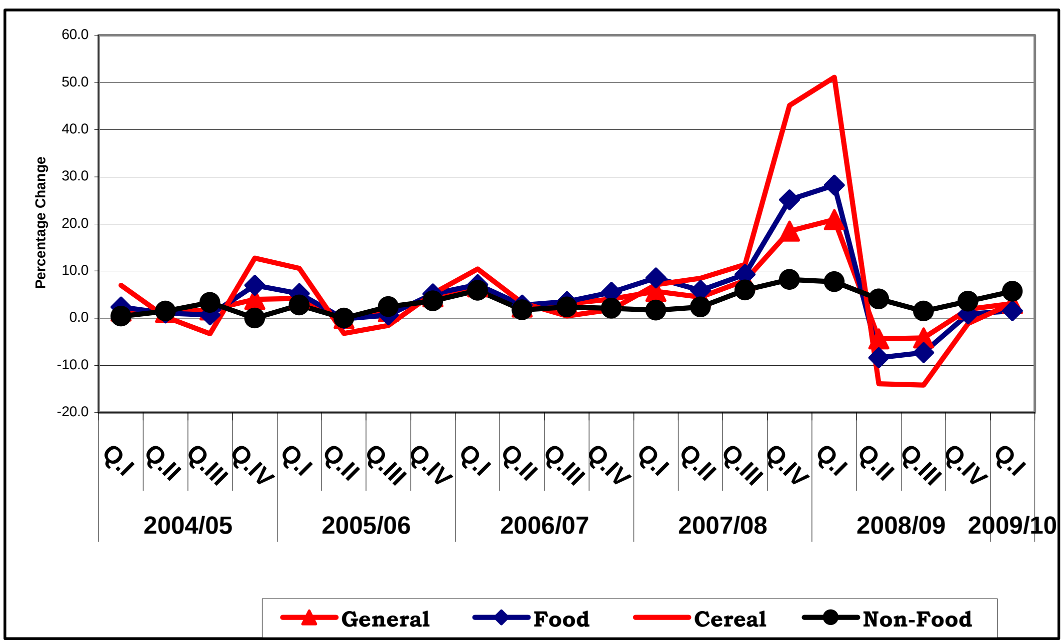
IV. QUARTERLY PRICE DEVELOPMENTS

4.1. Developments in National CPI

The first quarter of 2009/10 depicted an increase in headline inflation by 1.2 percent to reach 3.1 percent compared to the preceding quarter as both food and non- food inflation rose Year-on-year basis, however, head line inflation dropped by 17.8 percent mainly due to 26.6 percent deceleration in food inflation (Table 4.1).

During the review quarter, food inflation reached 1.6 percent, which was 0.7 percentage point higher than the previous quarter but 26.6 percent lower than the same quarter of last year. Cereals, coffee and tea leaves were the main contributors to the quarterly food inflation.

Fig. 4.1: Quarterly Movements in Consumer Price Indices at National Level



Source: Central Statistical Agency (CSA) and NBE Staff Computation

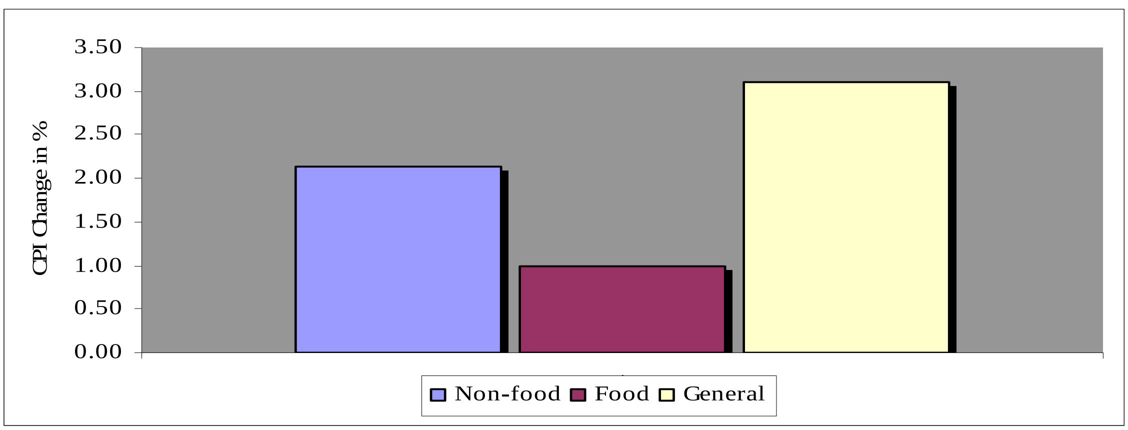
Table 4.1: Quarterly General Consumer Prices at National Level

	Weights	2008/09		2009/10	Change in percentage points		Contribution to	
		QI	QIV	QI				
		A	B	C	C-A	C-B	QI headline inflation	change in headline inflation over QIV
Headline	100.0	20.9	1.9	3.1	-17.8	1.2	3.1	1.2
Food	57.0	28.2	0.9	1.6	-26.6	0.7	1.0	0.4
Non-Food	43.0	7.7	3.6	5.7	-2.0	2.1	2.1	0.8

Source: CSA and NBE Staff Computation

Likewise, non- food inflation stood at 5.7 percent, up by 2.1 percent against the preceding quarter due to higher prices of house rent, construction materials, water, fuel and power which constitute 20.6 percent of the non-food price index. Year-on-year basis, non- food inflation declined by 2 percent as all its components, except transport and communication and personal care and effects showed deceleration of prices. (Table 4.3).

Fig.4.2: Quarterly Headline Inflation and Contribution of Food and Non-Food Items



Source: CSA and NBE Staff Computation

Table 4.2: Quarterly National Food Consumer Prices (%)

	Weights	2008/09		2009/10	Change in percentage points		Contribution to	
		QI	QIV	QI				
		A	B	C	C-A	C-B	QI food inflation	change in Food Inflation over QIV
Food	**57.01**	**28.2**	**0.9**	**1.6**	**-26.6**	**0.7**	**1.6**	**0.7**
Cereals	22.54	51.1	-1.1	3.2	-47.9	4.3	1.4	1.9
Pulses	4.31	20.8	2.8	-0.8	-21.6	-3.6	-0.1	-0.2
Bread and other prepared food	1.87	30.9	-0.2	2.7	-28.1	2.9	0.1	0.1
Meat	2.82	9.9	4.8	2.3	-7.6	-2.5	0.1	-0.1
Milk, cheese and egg	1.96	10.1	7.2	2.8	-7.3	-4.4	0.1	-0.1
Oil and fats	2.39	-0.4	1.6	-0.8	-0.4	-2.4	0.0	-0.1
Vegetables and fruits	2.55	-8.9	16.1	-10.2	-1.3	-26.3	-0.5	-1.2
Spices	1.98	12.7	-20.8	4.4	-8.3	25.2	0.1	0.9
Potatoes, other tubers and stems	4.16	12.6	3.6	-9.7	-22.3	-13.3	-0.8	-1.0
Coffee (bean, whole) and tea leaves	4.27	2.0	3.1	8.7	6.7	5.6	0.5	0.3
Other foods items	1.23	21.4	4.1	1.9	-19.5	-2.2	0.0	0.0
Milling charge	1.17	4.9	6.0	7.5	2.6	1.5	0.1	0.0
Food taken away from home	5.76	10.1	2.6	4.5	-5.6	1.9	0.4	0.2

Source: CSA and NBE Staff Computation

Table 4.3: Quarterly National Non-food Consumer Prices (%)

	Weights	2008/09		2009/10	Change in percentage points		Contribution to	
		QI	QIV	QI				
		A	B	C	C-A	C-B	QI Non-food inflation	change in non-food inflation over QIV
Non-Food	**43.00**	**7.7**	**3.6**	**5.7**	**-2.0**	**2.1**	**5.7**	**2.1**
Beverages	2.02	30.8	1.1	2.5	-28.3	1.4	0.1	0.1
Cigarettes and Tobacco	0.48	11.4	5.8	2.1	-9.3	-3.7	0.0	0.0
Clothing and Footwear	8.32	7.5	5.2	6.1	-1.4	0.9	1.3	0.2
House rent, construction Materials, Water, and Fuel and Electric Power	20.56	6.8	2.7	6.0	-0.8	3.3	2.7	1.5
Furniture, Household Equipment and Operation	3.75	6.9	4.2	5.1	-1.8	0.9	0.5	0.1
Medical Care and Health	1.11	4.2	5.7	3.2	-1.0	-2.5	0.1	-0.1
Transport and Communication	2.49	0.1	3.3	11.1	11.0	7.8	0.5	0.3
Recreation, Entertainment and Education	1.09	5.7	4.3	5.4	-0.3	1.1	0.1	0.0
Personal Care and Effects	0.83	6.8	7.7	7.6	0.8	-0.1	0.2	0.0
Miscellaneous goods	2.34	4.8	3.9	3.7	-1.1	-0.2	0.2	0.0

Source: CSA and NBE Staff Computation

4.2. Developments in Regional CPI

During the quarter under review, simple average regional headline inflation stood at 4.0 percent, relatively higher than the 3.1 percent weighted average inflation rate recorded at national level (Table 4.4) but significantly lower than 23.9 percent recorded last year.

The margin in the quarterly inflation rates among regions also dropped from 37.8 to 5 percentage points. The deviation of the regional headline inflation rates from the regional average as represented by standard deviation was about 1.8 percentage points compared to 10.4 a year ago.

Similarly, the simple average regional food inflation registered during the first quarter of 2009/10 was 3.2 percent higher than the national weighted average food inflation rate of 1.6 percent. Among the regional states, Benishangul Gumz, Gambella, Afar, Amhara, Addis Ababa and Dire Dawa recorded a quarterly food inflation rate relatively higher than the regional average. The variation in food inflation, measured by coefficient of variation also widened from 0.41 last year to 0.93 in the current quarter.

Meanwhile, simple average regional non-food inflation at 5.2 percent, was slightly lower than the national weighted average rate of 5.7 percent a year earlier. Afar, Tigray, Amhara, and SNNP registered a quarterly non-food inflation rates relatively higher than the regional average.

As compared to the corresponding period of last year, the variation in non-food inflation, as measured by coefficient of variation, has narrowed down from 0.53 to 0.31 in the review period.

Table 4.4 Quarterly Regional Headline, Food and Non-Food Inflation

Regions	2008/09						2009/10			Change			Change		
	QI			QIV			QI								
	A			B			C			D=C-A			D=C-B		
	General	Food	Non-food	General	Food	Non-food	General	Food	Non-food	General	Food	Non-food	General	Food	Non-food
SNNP	20.6	26.9	9.6	3.3	3.6	2.8	3.1	1.1	6.3	-17.5	-25.8	-3.3	-0.2	-2.5	3.5
Harari	18.1	25.8	8.1	2.2	1.8	2.8	2.6	0.6	5.3	-15.5	-25.2	-2.8	0.4	-1.2	2.5
Oromia	21.3	27.6	8.7	2.0	1.2	3.4	2.0	0.4	4.7	-19.3	-27.2	-4.0	0.0	-0.8	1.3
Tigray	26.2	34.3	9.9	0.2	-2.4	5.3	3.3	1.1	7.2	-22.9	-33.2	-2.7	3.1	3.5	1.9
Gambella	49.6	68.1	19.5	5.0	6.7	2.0	6.1	7.7	3.3	-43.5	-60.4	-16.2	1.1	1.0	1.3
Addis Ababa	11.8	20.6	3.8	3.4	3.3	3.4	4.5	3.3	5.7	-7.3	-17.3	1.9	1.1	0.0	2.3
Dire Dawa	15.0	22.6	4.7	1.7	0.2	3.9	2.1	1.8	2.7	-12.9	-20.8	-2.0	0.4	1.6	-1.2
Ben. Gumz	33.2	46.4	9.7	2.3	2.3	2.4	7.2	9.1	4.0	-26.0	-37.3	-5.7	4.9	6.8	1.6
Somali	25.5	35.6	3.9	4.2	4.2	4.2	2.2	1.4	4.0	-23.3	-34.2	0.1	-2.0	-2.8	-0.2
Afar	17.3	25.2	4.5	2.7	2.5	2.9	5.9	4.9	7.8	-11.4	-20.3	3.3	3.2	2.4	4.9
Amhara	24.6	31.2	8.6	0.0	-1.9	4.5	4.5	3.5	6.7	-20.1	-27.7	-1.9	4.5	5.4	2.2
Regional Average	**23.9**	**33.1**	**8.3**	**2.5**	**1.9**	**3.4**	**4.0**	**3.2**	**5.2**						

Source: CSA and NBE Staff Computation

V. MONETARY DEVELOPMENTS

The monetary policy has continued to be geared towards containing inflation and inflation expectations through the first quarter of 2009/10. The harmonized and tight monetary and fiscal policy measures taken since 2007/08 have brought about promising results as annual average general CPI inflation tumbled down to 18.7 percent in September 2009 from 37.2 percent same period last year. It also registered a 48.6 percentage point decline against the previous quarter.

Meanwhile, annual change in CPI decelerated to -4.1 percent from 59.6 percent a year ago due to the same effect.

5.1. Money Supply and Credit

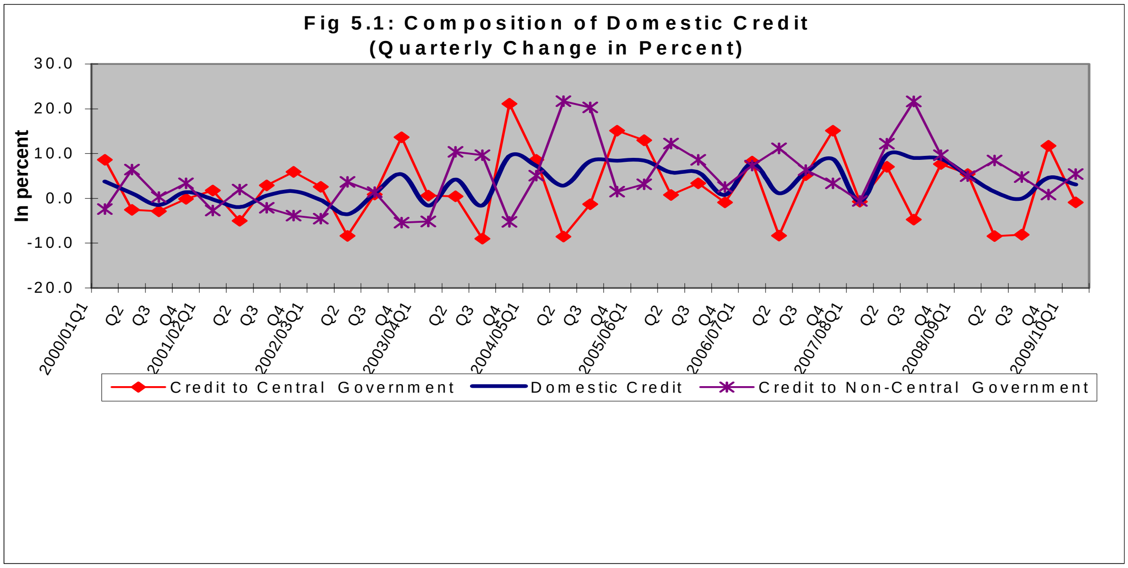
Domestic liquidity measured by broad money supply (M_2) showed quarterly and annual growth rates of 5.6 and 22.0 percent, respectively. The quarterly increase in money supply was mainly attributed to a 22.8 percent growth in net foreign assets and 3.1 percent rise in domestic credit. Broad money supply stood at Birr 87.2 billion at the end of September 2009.

Table 5.1: Factors Influencing Broad Money

(In Millions of Birr)

Particulars	2008/09		2009/10	Percentage Change	
	Qtr. I	Qtr. IV	Qtr. I		
	(Sept 08)	(Jun 09)	(Sept 09)		
	A	B	C	C/A	C/B
1. External Assets (net)	10,387.8	17,976.8	22,071.6	112.5	22.8
2. Domestic Credit	84,088.6	89,203.0	91,983.7	9.4	3.1
. Claims on Central Gov't (net)	34,872.4	32,786.5	32,500.4	-6.8	-0.9
. Claims on Other Sector's	49,216.2	56,416.5	59,483.3	20.9	5.4
. Financial Institutions	0.0	0.0	0.0		
. Others	49,216.2	56,416.5	59,483.3	20.9	5.4
3. Other Items (net)	23,040.0	24,670.1	26,899.8	16.8	9.0
4. Broad Money (M2)	71,436.3	82,509.8	87,155.5	22.0	5.6

Source**:** National Bank of Ethiopia (NBE)



Source: NBE

Components wise, both narrow and quasi-money showed quarterly expansion of 4.1 and 7.2 percent, respectively, due to the rise in all components of broad money except currency outside banks which registered a 5.9 percent quarterly decline. The slow down in currency outside banks during the quarter is reflected in higher bank deposits and increased quasi-money to broad money ratios. Year-on-year basis, narrow money scaled up by 18.6 percent and quasi money by 25.7 percent mainly driven by the growth in savings deposits (Table 5.2).

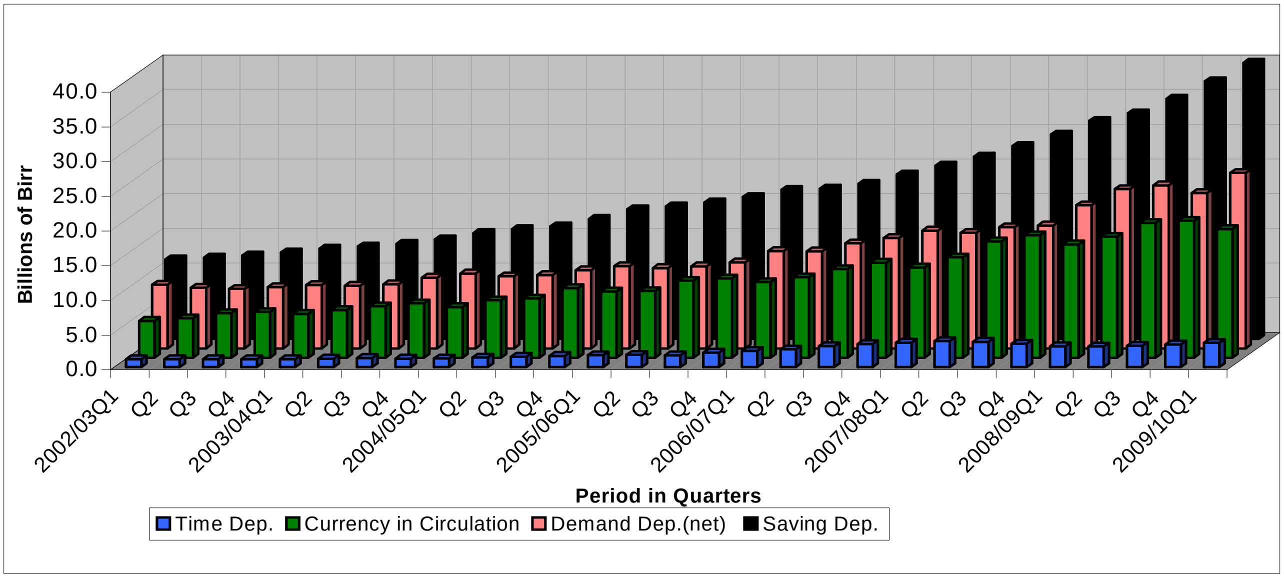
Table 5.2: Components of Broad Money

(In Millions of Birr)

Particulars	2008/09		2009/10	Percentage Change	
	Qtr. I	Qtr. IV	Qtr. I		
	(Sept 08)	(Jun 09)	(Sept 09)		
	A	B	C	C/A	C/B
1. Narrow Money Supply	**36,971.5**	**42,112.7**	**43,838.9**	**18.6**	**4.1**
. Currency Outside Banks	16,337.6	19,715.0	18,547.2	13.5	-5.9
. Demand Deposits (net)	20,633.9	22,397.6	25,291.7	22.6	12.9
2. Quasi-Money	**34,464.8**	**40,397.1**	**43,316.6**	**25.7**	**7.2**
. Savings Deposits	31,463.7	37,148.7	39,814.5	26.5	7.2
. Time Deposits	3,001.2	3,248.4	3,502.1	16.7	7.8
3. Broad Money Supply	**71,436.3**	**82,509.8**	**87,155.5**	**22.0**	**5.6**

Source: NBE

Fig. 5.2: Composition of Monetary Stock
(First Quarter of FY 2009/10)



Source: NBE

5.2. Developments in Reserve Money and Monetary Ratio

Reserve money registered a quarterly increase of about 4.0 percent and stood at Birr 46.9 billion at the end of September 2009 reflecting a 13.4 percent rise in banks' deposit at NBE which offset a 4.5 percent decline in currency in circulation. On annual basis, base money expanded 31.1 percent largely due to 49.4 percent surge in deposits of banks at NBE and 16 percent increase in currency in circulation.

Accordingly, excess reserves of commercial banks grew to Birr 10.7 billion in September 2009 from Birr 8.4 billion a year ago. This partially reveals higher resource mobilization through deposits and loan collection.

Table 5.3: Reserve Money and Ratios

(In Millions of Birr Unless Otherwise Indicated)

Particulars	2008/09 Qtr. I (Sept 08) A	2008/09 Qtr. IV (Jun 09) B	2009/10 Qtr. I (Sept 09) C	Percentage Change C/A	Percentage Change C/B
1. Reserve Requirement (CB's)	9,719.83	11,183.34	12,232.67	25.85	9.38
2. Actual Reserve (CB's)*	14,371.38	19,569.38	22,893.00	59.30	16.98
3. Excess Reserve (CB's)	4,651.55	8,386.04	10,660.34	129.18	27.12
4. Reserve Money	35,783.12	45,107.02	46,894.41	31.05	3.96
. Currency in Circulation	19,640.12	23,836.35	22,773.23	15.95	-4.46
*. Banks Deposits at NBE***	16,143.00	21,270.67	24,121.19	49.42	13.40
5. Money Multiplier (Ratio):					
. Narrow Money to Reserve Money	1.03	0.93	0.93	-9.52	0.13
. Broad Money to Reserve Money	2.00	1.83	1.86	-6.90	1.60
6. Other Monetary Ratios (%):					
. Currency to Narrow Money	53.12	56.60	51.95	-2.21	-8.22
. Currency to Broad Money	27.49	28.89	26.13	-4.96	-9.55
. Narrow Money to Broad Money	51.75	51.04	50.30	-2.81	-1.45
. Quasi Money to Broad Money	48.25	48.96	49.70	3.02	1.51

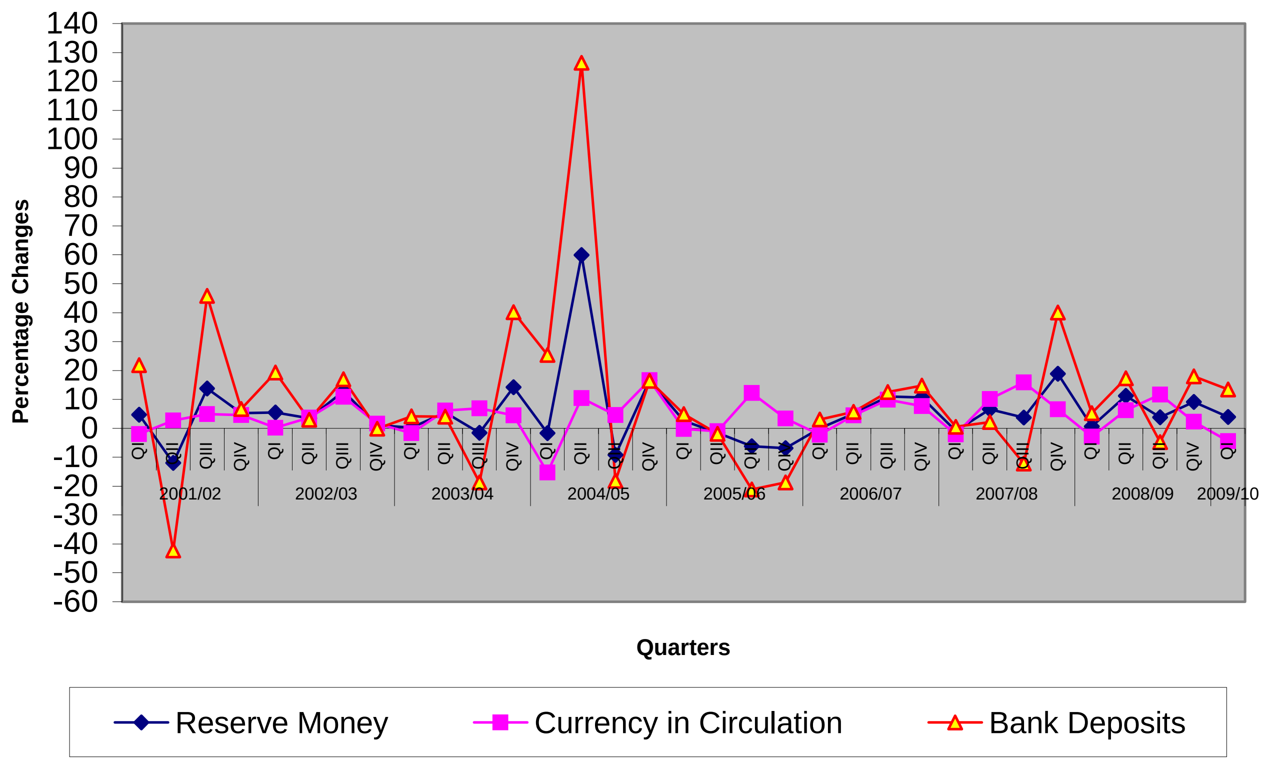
Source**:** NBE and commercial banks

* Obtained from commercial banks balance sheet

** Obtained from NBE balance sheet

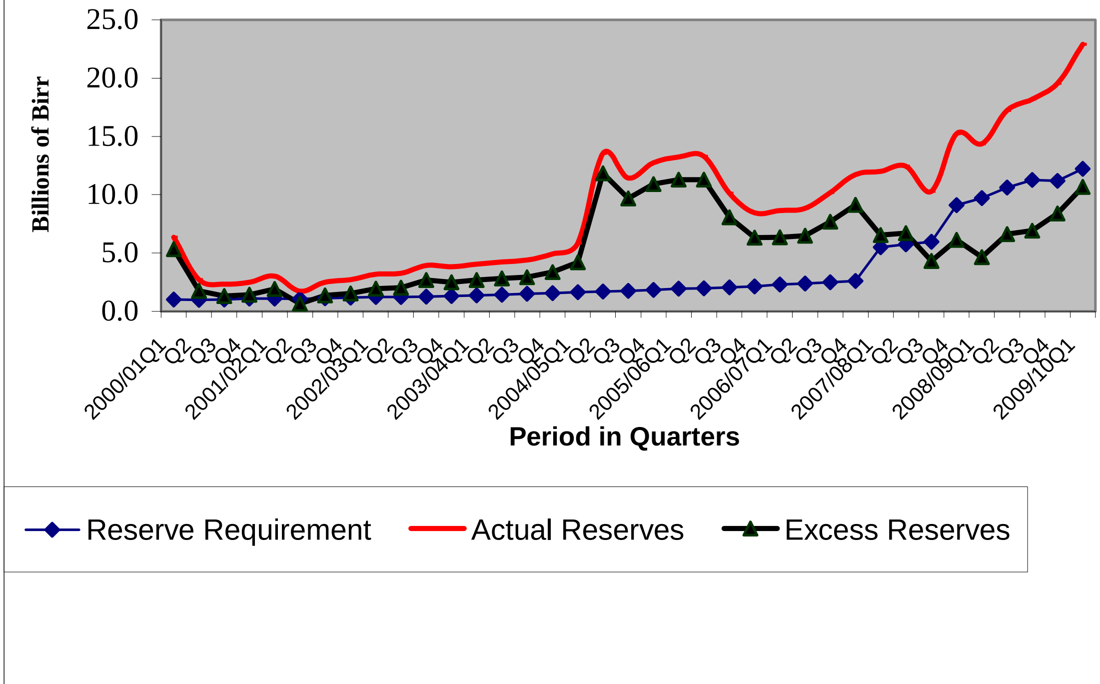
Concerning monetary ratios, narrow-money to broad money ratio declined from 51.75 percent last year to 50.3 percent this quarter; while quasi-money to broad money ratio grew from 48.25 to 49.7 percent during the same period partly reflecting the shift in the preference of the public from currency to deposits due to seasonality factors. On the other hand, the ratio of broad money to reserve money, i.e, money multiplier, increased from 1.83 in the preceding quarter to 1.86 reflecting the decline in currency in circulation (Table 5.3).

Fig. 5.3: Quarterly Growth of Reserve Money and Its Components



Source: NBE

Fig. 5.4: Monetary Aggregates
(First quarter of FY 2009/10)



Source: NBE

5.3. Interest Rate Developments

Interest rates exhibited an upward trend compared to last year. Average saving deposit rate rose to 4.5 percent and average lending rate to 12.25 percent from respective levels of 4.08 and 11.5 percent. Weighted average demand deposit rate and average time deposit rate also increased to 0.07 and 5.31 percent during the stated period. The weighted average yield on T-bills also grew to 0.80 percent from 0.65 percent in the same period of last year.

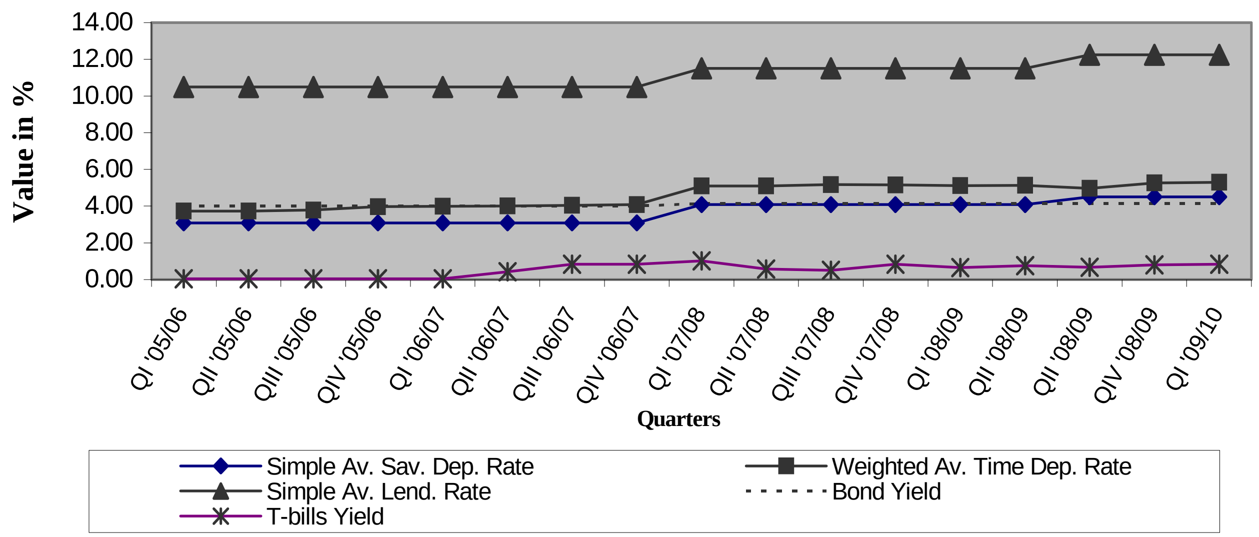
Considering headline inflation of 3.1 percent during the quarter under review, interest rate on deposits, except demand deposits, & T. bills turned positive in real terms.

Table 5. 4: Interest Rate Structure of Commercial Banks (In % per annum)

Particulars	2008/09		2009/10
	QI	QIV	QI
1. Savings Deposit Rate			
• *Minimum*	4.00	4.00	4.00
• *Maximum*	4.15	5.00	5.00
Average Savings Rate	**4.08**	**4.50**	**4.50**
2. Time Deposit Rate			
• *Up to 1 year*	4.674	4.580	4.343
• *1 - 2 years*	5.153	6.204	6.995
• *Over 2 years*	5.501	4.998	4.581
Average Time Dep. Rate	**5.109**	**5.260**	**5.306**
3. Demand Deposit Rate (Weighted)	**0.039**	**0.057**	**0.070**
4. Lending Rate			
• *Minimum*	8.00	8.00	8.00
• *Maximum*	15.00	16.50	16.50
Average Lending Rate	**11.50**	**12.25**	**12.25**
5. T-bills Rate (Weighted Ave.)	0.646	0.794	0.803
6. Headline inflation	21	1.9	3.1
7. Food inflation	28.2	0.9	1.6
8. Core/non-food inflation	7.7	3.6	5.7

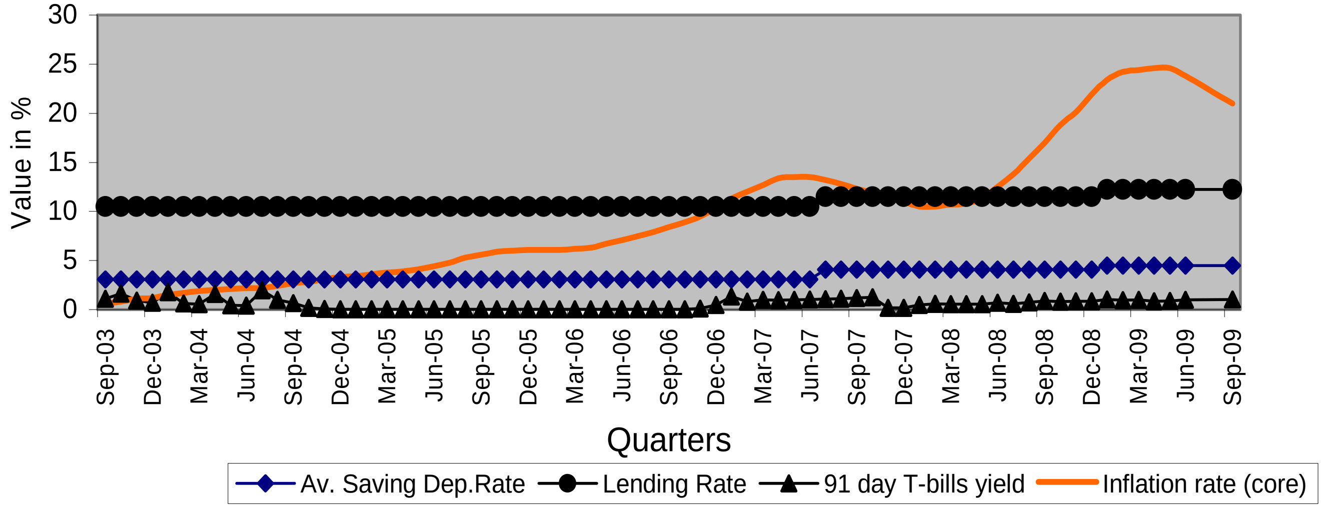
Source: NBE and commercial banks

Fig 5.5: Interest Rate Structure of Commercial Banks (In percent per annum)



Source: NBE and Commercial banks

Fig 5.6: Lending Rate, Average Saving Deposit Rate, 91-day T-bills Yield & Core Inflation Rate (in percent per annum)



Source: NBE staff compilation

5.4. Developments in Financial Sector

Banks, insurance companies and microfinance institutions are the major financial institutions operating in Ethiopia. The number of banks reached 14 of which 11 were privately owned.

During the first quarter of 2009/10, 20 new bank branches were opened, raising their total number to 656. Consequently, the ratio of bank branch to total population slightly dropped to 122,408 from 126,086. Yet Ethiopia remains one of the most under banked countries in the world given its population of close to 80 million.

Some 37 percent of the total bank branches were located in Addis Ababa. Of the total bank branches, the share of private banks slightly grew to 58.4 percent from 57.1 percent in the previous quarter.

The total capital of the banking system reached Birr 11.3 billion at the close of the quarter, showing a 2.1 percent increase. The private banks together owned 36.4 per cent of the total capital. Commercial Bank of Ethiopia, the largest commercial bank of the country, accounted for 44.6 percent of the total capital of the banking system.

The total number of insurance companies operating in the country reached 12 of which 11 were privately owned. Their total capital grew to Birr 694.7 million from Birr 652.3 million at the end of the preceding quarter registering a quarterly increase of 6.5 percent. Likewise, the total number of insurance branches rose to 196 following the opening of 2 more branches during the quarter.

Like the banking industry, the outreach of insurance companies was very low as one branch serves about 409,694 people and about 49 percent of the total branches are operating in Addis Ababa.

The number of Micro Finance Institutions (MFIs) was 28 at the close of September 2009. These institutions mobilized deposits amounting to Birr 2.2 billion, up by 4.8 percent compared to the previous quarter. Similarly, credit outstanding of the MFIs stood at Birr 5.0 billion indicating a 2.0 percent increase vis-à-vis the preceding quarter. Their total assets also increased to Birr 6.8 billion by the end of the review quarter recording quarterly and annual growth of 3.0 and 19.3 percent, respectively. The improvement in microfinance institutions' activities in the economy indicates the progress in attracting low income groups and enterprises with limited access to the formal banking sector for lack of enough collateral.

The five largest MFIs; namely, Amhara, Dedebit, Oromia, Omo and Addis Credit and Savings Institutions accounted for 86.4 percent of the total capital, 93.3 percent of the savings, 89.5 percent of credit and 90.4 percent of the total assets of the industry.

Table 5.5: Capital and Branch Network of Banking System by End of September 30,2009

(Branch in Number and Capital in Millions of Birr)

Banks	Branch Network												Capital		
	2008/09								2009/10				2008/09		2009/10
	Quarter I				Quarter IV				Quarter I						
	Regions	A.A	Total	% Share	Regions	A.A	Total	% Share	Regions	A.A	Total	% Share	Quarter I	Quarter IV	Quarter I
1. Public Banks															
Commercial Bank of Ethiopia	156	49	205	36.1	160	49	209	32.9	160	49	209	32.1	4561	5041	5041
Construction & Business Bank	15	12	27	4.8	17	15	32	5.0	17	15	32	4.9	196	196	215
Development Bank of Ethiopia	31	1	32	5.6	31	1	32	5.0	31	1	32	4.9	1916	1800	1940
Total Public Banks	**202**	**62**	**264**	**46.5**	**208**	**65**	**273**	**42.9**	**208**	**65**	**273**	**41.9**	**6673**	**7037**	**7196**
2. Private Banks															
Awash International Bank	24	29	53	9.3	29	31	60	9.4	29	31	60	9.2	508	555	563
Dashen Bank	24	24	48	8.5	28	26	54	8.5	29	26	55	8.4	756	815	819
Abyssinia Bank	20	25	45	7.9	22	25	47	7.4	22	25	47	7.2	408	421	449
Wegagen Bank	23	18	41	7.2	26	23	49	7.7	27	23	50	7.7	643	656	672
United Bank	13	23	36	6.3	15	26	41	6.4	15	26	41	6.3	470	449	450
Nib International Bank	16	26	42	7.4	17	28	45	7.1	17	28	45	6.9	492	581	581
Cooperative Bank of Oromia	18	2	20	3.5	23	3	26	4.1	29	4	33	5.1	150	155	153
Lion International Bank	11	6	17	3.0	11	9	20	3.1	11	9	20	3.1	183	192	195
Oromia International Bank		1	1	0.2	16	4	20	3.1	21	4	25	3.8	87	121	135
Zemen Bank		1	1	0.2	0	1	1	0.2	0	1	1	0.2	91	100	102
Bunna International Bank				0.0	0	0	0	0.0	0	1	1	0.2	-	-	-
Total Private Banks	**149**	**155**	**304**	**53.5**	**187**	**176**	**363**	**57.1**	**200**	**178**	**378**	**58.1**	**3788**	**4045**	**4119**
3.Grand Total Banks	**351**	**217**	**568**	**100.0**	**395**	**241**	**636**	**100.0**	**408**	**243**	**651**	**100.0**	**10461**	**11082**	**11315**

Source: NBE

Fig. 5.7. Branch Share of Public and Private Banks

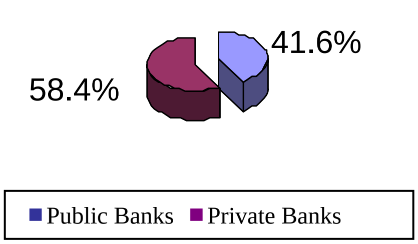
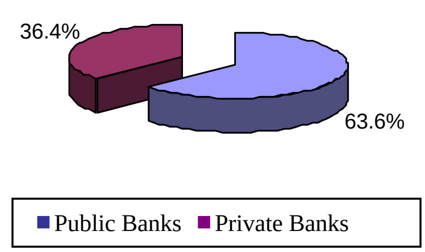


Fig. 5.8 Capital: Share of Public and Private Banks



Source: NBE

Table 5.6: Branch Network & Capital of Insurance Companies by End of September 2009

(Branch in Number and Capital in Millions of Birr)

Insurance Companies	Branch									Capital		
	Quarter I 2008/09			Quarter IV 2008/09			Quarter I 2009/10			Quarter I	Quarter IV	Quarter I
	A.A	Regions	Total	A.A	Regions	Total	A.A	Regions	Total	2008/09	2008/09	2009/10
Ethiopian Insurance Corporation	11	26	37	11	28	39	11	28	39	241.5	249.4	258.6
Awash Insurance Company	13	9	22	13	9	22	13	9	22	50.1	52.9	54.3
Africa Insurance Company	6	7	13	6	7	13	6	7	13	54.7	59.0	53.2
National Insurance Corporation of Ethiopia	8	6	14	8	8	16	8	8	16	12.3	14.8	15.2
United Insurance Company	13	6	19	14	7	21	12	7	19	38.3	39.3	60.5
Global Insurance Company	4	3	7	4	3	7	4	4	8	21.2	22.9	23.4
Nile Insurance Company	10	9	19	11	9	20	11	9	20	56.2	56.4	58.6
Nyala Insurance Company	8	8	16	8	8	16	8	8	16	53.4	61.6	73.6
Nib Insurance Company	12	6	18	13	8	21	12	8	20	38.0	60.3	61.5
Lion Insurance Company	6	4	10	6	4	10	6	6	12	9.1	7.1	8.5
Ethio-Life Insurance Company				-	-	-	-	-	-		3.3	3.1
Oromia Insurance Company				4	5	9	5	6	11		25.6	24.0
TOTAL	**91**	**84**	**175**	**98**	**96**	**194**	**96**	**100**	**196**	**574.6**	**652.3**	**694.8**

Source: NBE

5.5. Activities of Banking System

5.5.1. Resource Mobilization

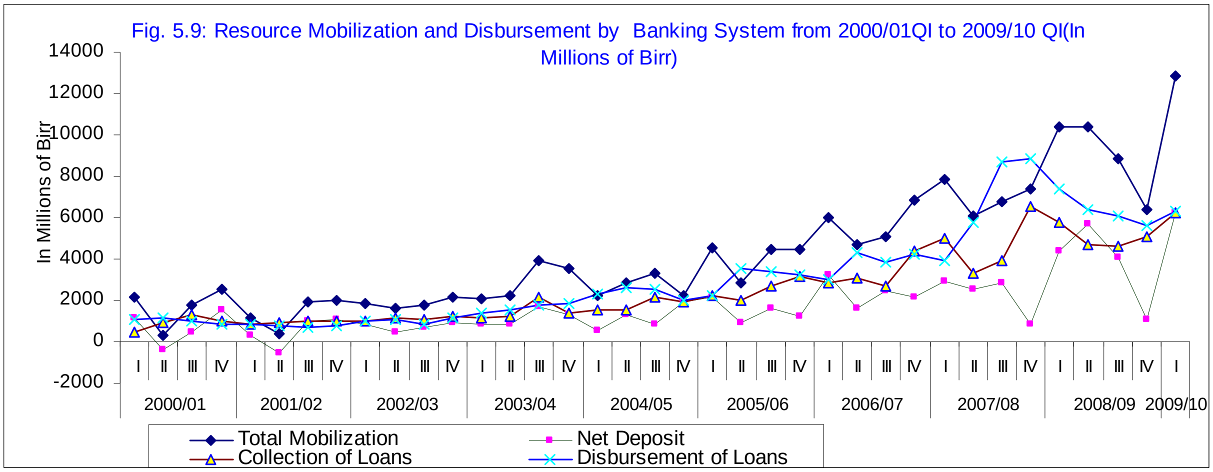
Total resources mobilized by the banking system, measured as the sum of net change in deposits, collection of loans and net change in borrowings, picked up by 25 percent and reached Birr 12.9 billion during the first quarter of 2009/10 from Birr 10.3 billion in the preceding year. This was mainly due to a surge in net deposit mobilization by 42.2 and 143 percent growth in net borrowing despite 7.8 percent decline in collection of loans.

Table 5.7: Summary of Resource Mobilization and Disbursement of Banking System during First Quarter of 2009/10

(In Millions of Birr)

Particulars	Public Banks		Private Banks		Grand Total			% Change	
	1		2		(3) = (1) + (2)				
	Qtr.IV 2008/09	Qtr.I 2009/10	Qtr.IV 2008/09	Qtr.I 2009/10	Qtr.I 2008/09	Qtr.IV 2008/09	Qtr.I 2009/10		
					A	B	C	C/A	C/B
1.Deposits (net change)	-449.4	2,354.0	1,497.9	3,839.1	4,354.5	1,048.4	6,193.0	42.2	490.7
-Demand	-1,764.2	1,373.3	106.5	1,906.7	2,608.2	-1,657.7	3,279.9	25.8	-297.9
-Saving	1,248.4	876.3	1,273.8	1,792.5	1,985.9	2,522.2	2,668.8	34.4	5.8
-Time	66.4	104.4	117.5	139.9	-239.5	183.9	244.3	-202.0	32.8
2. Borrowing (net change)	233.6	469.4	0.0	0.0	193.3	233.6	469.4	142.8	101.0
-Local	4.0	228.8	0.0	0.0	235.2	4.0	228.8	-2.7	5,669.5
-Foreign	229.6	240.6	0.0	0.0	16.9	229.6	240.6	1,324.4	-
3. Collection of Loans	3,149.3	2,823.2	3,774.0	3,378.9	5,753.3	6,923.3	6,202.1	7.8	-10.4
4. Total Resources Mobilized (1+2+3)	2,933.4	5,646.6	5,271.9	7,218.0	10,301.1	8,205.3	12,864.5	24.9	56.8
5. Disbursement	3,725.8	2,911.2	1,919.7	3,396.3	7,367.1	5,645.6	6,307.5	-14.4	11.7
6. Change in Liquidity (4-5)	-792.4	2,735.4	3,352.2	3,821.7	2,933.9	2,559.7	6,557.1	123.5	156.2
Memorandum Item:									
A. Outstanding Credit*	33,912.8	33,083.7	17,720.8	19,000.9	48,732.3	51,633.5	52,084.6	6.9	0.9
B. Outstanding Inter-bank Lending	427.5	388.7	0.0	0.0	359.4	427.5	388.7	8.2	-9.1

Source: Commercial Banks and Staff Computation



Source: NBE

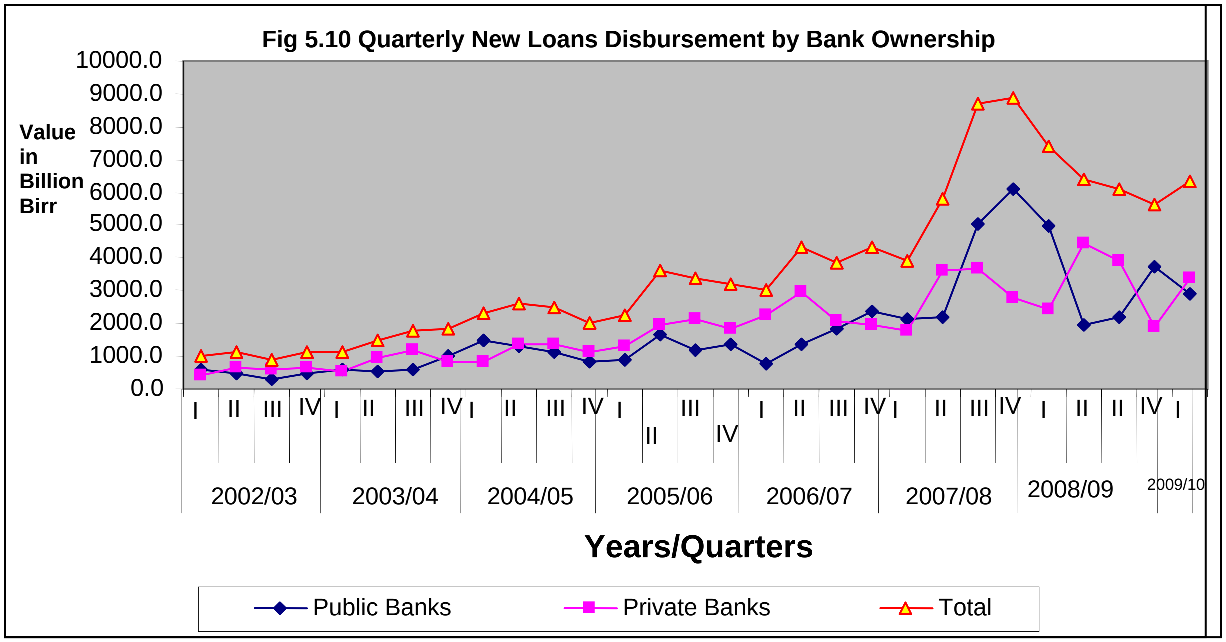
5.5.1.1 Deposit Mobilization

The banking system (including Development Bank of Ethiopia) accumulated a total of Birr 84.3 billion deposit liabilities indicating annual growth rate of 25.3 percent. The growth in deposit mobilization is partly attributed to the rise in the number of bank branches, increased awareness among the public about the importance of saving, improved economic activities and decline in inflation in recent months.

Table 5.8: Stock of Deposits Mobilized by Banking System at end of September 2009

(In Millions of Birr)

Types of Deposits	2008/09 Quarter I A	2008/09 % Share	2008/09 Quarter IV B	2008/09 % Share	2009/10 Quarter I C	2009/10 % Share	% Change C/A	% Change C/B
Demand Deposit	32,350.2	48.1	37,267.3	47.7	40,547.2	48.1	25.3	8.8
Saving Deposit	31,468.1	46.8	37,153.3	47.5	39,822.2	47.2	26.5	7.2
Time Deposit	3,492.5	5.2	3,731.4	4.8	3,975.7	4.7	13.8	6.5
Total	**67,310.8**	**100.0**	**78,152.0**	**100.0**	**84,345.0**	**100.0**	**25.3**	**7.9**
Share of Public Banks	*64.3*		*64.5*		*60.0*		*-6.6*	*-6.9*
Share of Private Banks	*35.7*		*35.5*		*40.0*		*11.9*	*12.6*



Source: NBE

Component wise, all types of deposits went up. Demand deposits with 48.1 percent share in total deposits increased by 25.3 percent on annual basis. Savings deposit which accounted for 47.2 percent of total deposits registered 26.5 percent yearly growth. Time deposits which constituted 4.7 percent of total deposits recorded 13.8 percent annual increase. The share of private banks in total deposits rose to 40.0 percent from 35.7 percent in the preceding year as they aggressively expanded their outreach.

5.5.1.2 Collection of Loans

Banks collected Birr 6.2 billion in loans and advances, which was 10.4 percent lower than last year. Accordingly, private banks collected Birr 3.4 billion (54.5 percent of total loans settlement); while public owned banks collected Birr 2.9 billion. About 77 percent or Birr 4.8 billion loan was collected from private sector followed by public enterprises (12.1 percent) and cooperatives (9.6 percent) (Table 5.11).

5.5.1.3 Borrowing

Outstanding borrowing of the banking sector reached Birr 3.5 billion at the end of the quarter reflecting 15.4 percent increase over the same quarter last fiscal year. About 75 percent of the banking sector's borrowing was from domestic and the balance from foreign sources.

Table 5.9: Outstanding Borrowing of Banking System by Sources

(In Millions of Birr)

Banks	2008/09		2009/10	Percentage change	
	Quarter I	Quarter IV	Quarter I		
	A	B	C	C/B	C/A
Domestic Borrowing	2,409.7	2,399.4	2,628.3	9.5	9.1
Foreign Borrowing	523.0	647.3	887.9	37.2	69.8
Total	**2,932.7**	**3,046.7**	**3,516.2**	**15.4**	**19.9**

Source: NBE

5.5.2. Disbursement of Fresh Loans

The banking sector granted a total of Birr 6.3 billion in new loans during the first quarter of 2009/10 registering 11.7 percent increase over the preceding quarter but 14.4 percent decline vis-à-vis the same quarter of last fiscal year. Private commercial banks disbursed Birr 3.4 billion, accounting for 53.8 percent of the total new loans during the stated period (Table 5.11).

About 94 percent of the new loans went to finance private sector (Table 5.11).

At the same time, 23.0 percent of the new loans was channeled to the industry, followed by international trade (21.6 percent), domestic trade (21.5 percent), housing and construction (19.4 percent) and agriculture (6.6 percent) (Table 5.10).

Table 5.10: Summary of Loans and Advances by Banks and Recipient Sectors from July to September 2009

(In Millions of Birr)

Borrowing Sector	Public Banks (1)			Private Banks (2)			Total (3)		
	D**	C**	O/S**	D**	C**	O/S **	D**	C**	O/S**
Central Government *			5358.9	0.0	0.0	0.0	0.0	0.0	5358.9
Agriculture	341.9	1,333.4	4,300.8	76.7	75.7	649.1	418.6	1,409.1	4949.9
Industry	1,147.9	159.7	6,947.6	323.8	306.5	3,204.1	1,471.7	466.2	10151.7
Domestic Trade	156.6	326.4	879.5	1,199.4	1,166.1	4,774.1	1,356.0	1,492.6	5653.5
International Trade	124.5	121.6	7,663.8	1,237.4	1,240.3	4,985.3	1,361.9	1,361.8	12649.1
Export	105.1	78.9	844.0	582.3	805.1	2,136.2	687.4	884.0	2980.3
Imports	19.3	42.7	6,819.8	655.1	435.1	2,849.1	674.5	477.8	9668.9
Hotels and Tourism	35.3	25.8	550.6	45.4	41.3	470.4	80.7	67.1	1021.1
Transport & Communication	76.7	113.5	1,523.4	155.2	140.3	1,128.5	232.0	253.8	2651.8
Housing & Construction	918.6	476.8	4,118.2	304.9	303.5	3,257.2	1,223.6	780.3	7375.5
Mines, Power & Water Res.	0.0	0.0	0.0	0.2	0.2	3.2	0.2	0.2	3.2
Others	32.1	200.0	1,269.7	18.9	90.2	452.1	51.0	290.3	1721.8
Personal	77.5	16.4	82.5	34.3	14.8	75.8	111.8	31.2	158.3
Inter-Bank Lending	0.0	49.5	388.7	0.0	0.0	1.0	0.0	49.5	389.7
Total	**2,911.2**	**2,823.2**	**33,083.7**	**3,396.3**	**3,378.9**	**19,000.9**	**6,307.5**	**6,202.1**	**52,084.6**

Source: Commercial Banks and staff computation

Notes: *Refers to government borrowing in the form of bonds and Treasury bills from commercial banks and other sectors other than NBE

****** D = Disbursement, C = Collection, O/S= Outstanding Credit

5.5.3. Outstanding Credit

The outstanding credit of the banking system on domestic economy (including central government, excluding corporate bond holdings) stood at Birr 52.1 billion at the end of September 2009, registering 6.9 percent growth over last year. Of the total outstanding claims, the private sector took the lion's share (67.6 percent), followed by public enterprises (14.4 percent) and central government (10.3 percent).

Sector wise, international trade, industry and housing and construction were the major beneficiaries accounting for 24.3, 19.5 and 14.2 percent of the total outstanding credit, respectively. Other major recipient sectors include domestic trade (10.9 percent) and agriculture (10.3 percent).

The share of the private banks in total outstanding credit has steadily increased to 36.5 percent at the close of the first quarter of 2009/10.

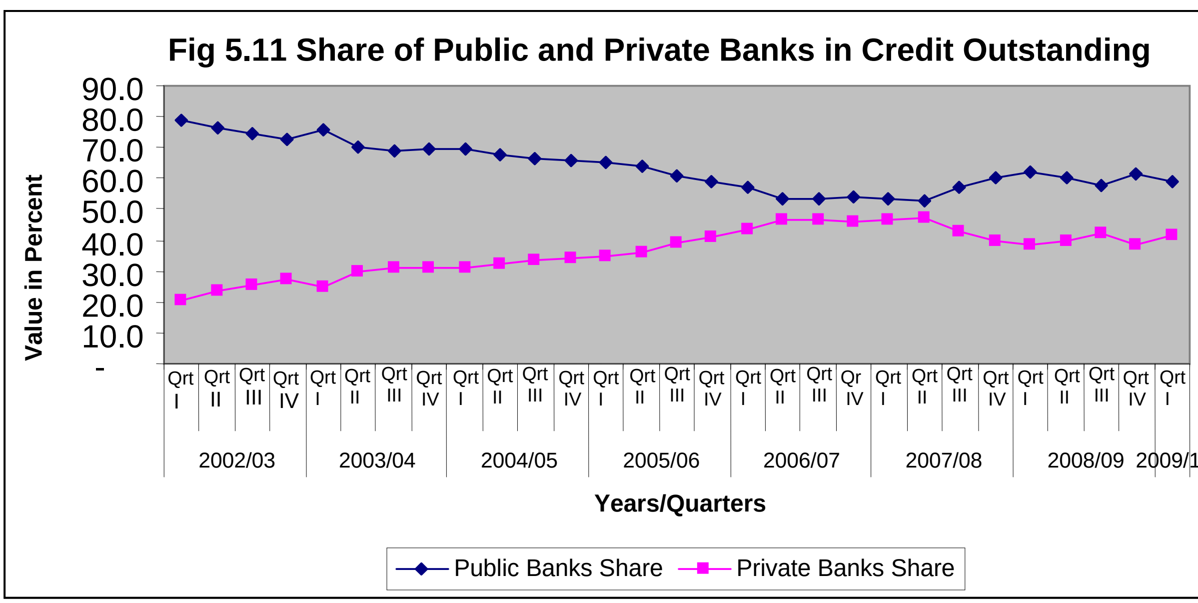
Table 5.11: Breakdown of Loans & Advances of Banking System by Clients during First Quarter of 2009/10

(In Millions of Birr)

Particulars	Loan Disbursement	% Share	Loan Collection	% Share	Outstanding Loan	% Share
Public Banks	**2,911.2**	**46.2**	**2,823.2**	**45.5**	**33,083.7**	**63.5**
Central Government*	0.0	0.0	0.0	0.0	5,358.9	16.2
State Enterprises	199.2	6.8	584.6	20.7	8,511.2	25.7
Cooperatives	133.9	4.6	637.7	22.6	2,464.4	7.4
Private Enterprises	2,578.1	88.6	1,551.4	55.0	16,360.5	49.5
Inter-bank Lending	0.0	0.0	49.5	1.8	388.7	1.2
Private Banks	**3,396.3**	**53.8**	**3,378.9**	**54.5**	**19,000.9**	**36.5**
Central Government*	0.0	0.0	0.0	0.0	0.0	0.0
State Enterprises	0.0	0.0	11.5	0.3	16.0	0.1
Cooperatives	26.0	0.8	111.3	3.3	124.8	0.7
Private Enterprises	3,370.3	99.2	3,256.1	96.4	18,860.2	99.3
Inter-bank Lending	0.0	0.0	0.0	0.0	0.0	0.0
Grand Total	**6,307.5**	**100.0**	**6,202.1**	**100.0**	**52,084.6**	**100.0**

Source: NBE

* Refers to government bonds and Treasury bill holdings



Source: NBE

5.6. Financial Activities of NBE

The outstanding claims of NBE on the central government stood at Birr 44.3 billion at the close of the first quarter of 2009/10 slightly higher than the same quarter of the preceding fiscal year. Direct advances at Birr 34.8 billion, accounted for 78.4 percent of the loans and advances to the government, registering a marginal increase of 1 percent over last year.

Stock of government bonds held by NBE slightly rose by 1.4 percent and reached Birr 9.56 billion.

NBE's deposit liabilities were Birr 31.4 billion, 32 percent higher than a year ago as a result of growth in deposits of both central government and financial institutions. Deposits of financial institutions accounted for 76.6 percent of NBE's deposit liabilities; while government deposits constituted the balance (23.3 percent).

Table 5.12: Financial Activities of NBE during First Quarter of 2009/10

(In Millions of Birr)

	2008/09		**2009/10**	% Change	
	Qtr.I	Qtr.IV	Qtr.I		
Particulars	**A**	**B**	**C**	**C/A**	**C/B**
1.Loans and Advances	**44,271.0**	**44,498.7**	**44,326.6**	**0.1**	**-0.4**
1.1. To Central Government	44,271.0	44,498.7	44,326.6	0.1	-0.4
Direct Advance	34,578.0	34,891.0	34,771.0	0.6	-0.3
Bonds	9,693.0	9,607.7	9,555.6	-1.4	-0.5
1.2.To Development Bank of Ethiopia	0.0	0.0	0.0	0.0	-
2.Deposit Liabilities	**23,929.6**	**28,054.3**	**31,635.4**	**32.2**	**12.8**
2.1. Government	7,223.0	6,671.5	7,372.3	2.1	10.5
2.2. Financial Institutions	16,706.6	21,382.8	24,263.1	45.2	13.5
O/W:					
-Banks	16,669.2	21,337.8	24,215.9	45.3	13.5
-Insurance companies	37.4	45.0	47.1	26.0	4.8
3.Net Claims of NBE	**20,341.4**	**16,444.4**	**12,691.2**	**-37.6**	**-22.8**

Source: NBE

5.7. Developments in Financial Markets

5.7.1. Treasury Bills Market

During the first quarter of 2009/10, Treasury bills worth Birr 8.3 billion were offered to the auction market, of which T-bills to the tune of Birr 7.8 billion were sold. This shows an 8.6 percent increase in sales over last year. Non-bank institutions purchased 92.3 percent of the total T-bills sold during the stated period. The demand for T-bills was Birr 11.8 billion, 17.5 percent higher than the corresponding period of last year.

The average weighted yield on T-bills increased to 0.80 percent in the review quarter from 0.65 percent a year ago.

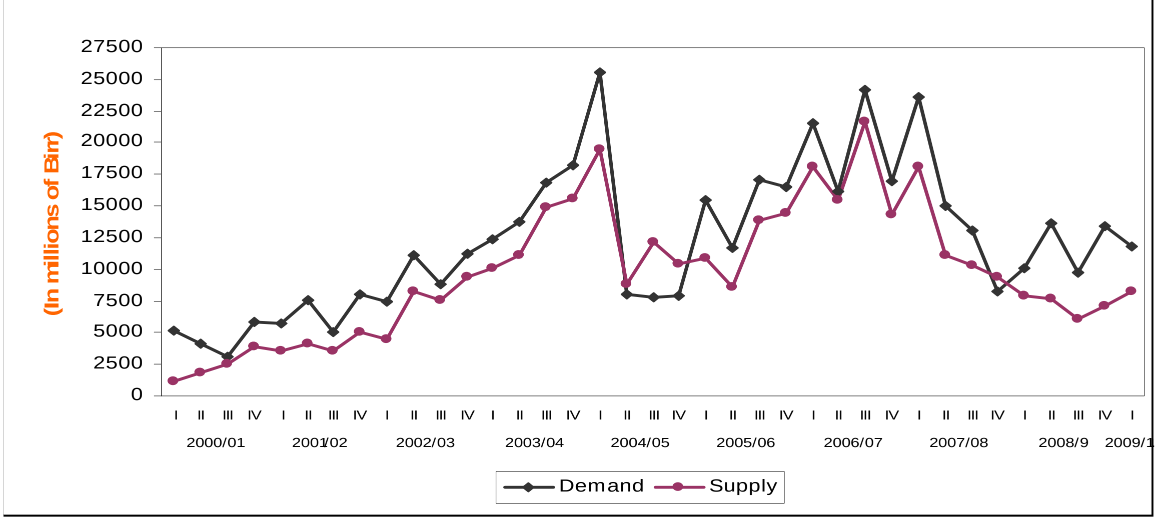
The stock of T-bills at the end of the quarter reached Birr 8.5 billion, showing 9.2 percent increase over the preceding year.

Table 5.13: Results of Treasury Bills Auction

Particulars	2008/09		2009/10	% Change	
	Qtr.I	Qtr.IV	Qtr.I		
	A	B	C	C/A	C/B
Number of Bidders	**70**	**66**	**75**	**7.14**	**13.64**
Public	48	43	55	14.58	27.91
Private	22	23	20	-9.09	-13.04
Number of Bids Accepted	**82**	**78**	**86**	**4.88**	**10.26**
Public	56	48	63	12.50	31.25
Private	26	30	23	-11.54	-23.33
Amount Demanded (Mn.Birr)	**10,048.21**	**13,413.00**	**11,801.30**	**17.45**	**-12.02**
28-day bill	2,510.00	1,980.00	3,370.00	34.26	70.20
91-day bill	6,061.00	9,094.60	6,918.70	14.15	-23.93
182-day bill	1,477.21	2,338.40	1,512.60	2.40	-35.31
Amount Supplied (Mn.Birr)	**7,622.00**	**7,133.30**	**8,294.10**	**8.82**	**16.27**
28-day bill	1,305.00	990.00	1,360.00	4.21	37.37
91-day bill	3,885.00	4,341.30	5,344.10	37.56	23.10
182-day bill	2,432.00	1,802.00	1,590.00	-34.62	-11.76
Amount Sold (Mn.Birr)	**7,212.81**	**7,023.70**	**7,829.70**	**8.55**	**11.48**
Banks	0.0	1,000.00	600.00	-	-40.00
Non-Banks	7113.0	6,023.70	7,229.70	1.64	20.02
Average Weighted Price for Successful Bids(Birr)	**99.809**	**99.788**	**99.781**	**-0.028**	**-0.007**
28-day bill	99.962	99.942	99.948	-0.01	0.01
91-day bill	99.819	99.772	99.745	-0.07	-0.03
182-day bill	99.647	99.650	99.651	0.00	0.00
Average Weighted Yeild for Successful Bids (%)	**0.646**	**0.794**	**0.803**	**25.237**	**0.410**
28-day bill	0.501	0.761	0.680	35.71	-10.71
91-day bill	0.728	0.916	1.027	41.03	12.13
182-day bill	0.710	0.704	0.703	-1.02	-0.19
Outstanding bills at the end of Period (Mn.Br.)	**7,912.21**	**7,783.10**	**8,502.12**	**7.46**	**9.24**
Banks	2,344.00	1,672.00	2,272.00	-3.07	35.89
Non-Banks	5,568.21	6,111.10	6,230.12	11.89	1.95

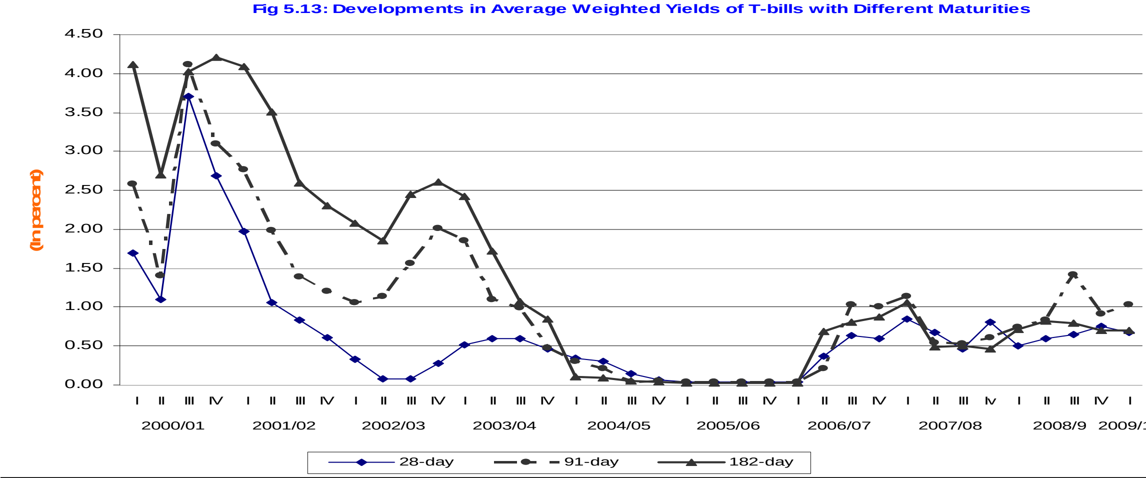
Source: NBE

Fig 5.12: Developments in T-Bills Market



Source: NBE

Fig 5.13: Developments in Average Weighted Yields of T-bills with Different Maturities



Source NBE

5.7.2. Inter- Bank Money Market

No inter-bank money market transaction was conducted during the first quarter of 2009/10 as virtually all commercial banks held excess reserves.

5.7.3. Corporate Bond Market

During the quarter under review, CBE purchased corporate bonds worth Birr 2.4 billion, of which 72.0 percent was issued by state enterprises and the remaining 28.0 percent by regional states. Compared to last year, corporate bonds issued increased 51 percent owing to continued expansion of public infrastructure facilities such as power stations and condominium houses.

By the end of the quarter, the outstanding stock of corporate bonds held by CBE reached Birr 21.5 billion of which 60.4 percent was claims on EEPCo and 30.6 percent on regional governments.

Table 5.14 Corporate Bond by Holders
(In Million Birr)
Source: NBE

Issuer	2008/09						2009/10		
	Quarter I			Quarter IV			Quarter I		
	NP	Red.	O/S	NP	Red.	O/S	NP	Red.	O/S
A.Public Enterprises	**1,200.0**	**43.9**	**11,252.9**	**500.0**	**-**	**13,352.9**	**1,700.0**	**119.3**	**14,933.6**
EEPCo	900.0	-	9,500.0	200.0	-	11,600.0	1,400.0	-	13,000.0
DBE	300.0	43.9	1,752.9	300.0	-	1,752.9	300.0	119.3	1,933.6
B. Regional Governments	**364.0**	**-**	**3,518.0**	**271.0**	**31.3**	**5,957.7**	**660.0**	**46.2**	**6,574.5**
Oromia	98.0	-	810.0	22.0	-	1,342.0	110.0	19.9	1,432.1
Amhara	38.0	-	602.0	23.0	14.5	1,014.5	100.0	10.7	1,103.8
Tigray	-	-	365.0	30.0	-	605.0	-	-	605.0
SNNPRS	49.0	-	444.0	70.0	-	734.0	50.0	8.4	775.6
Dire Dawa	-	-	100.0	26.0	10.0	152.0	-	-	152.0
Harari	29.0	-	97.0	-	6.8	110.2	-	7.3	106.0
Addis Ababa	150.0	-	1,100.0	100.0	-	2,000.0	400.0	-	2,400.0
C. Total (A+B)	**1,564.0**	**43.9**	**14,770.9**	**771.0**	**31.3**	**19,310.6**	**2,360.0**	**165.5**	**21,508.0**

Note: NP= New Purchase, Red. = Redemption, O/S= outstanding

VI. EXTERNAL SECTOR DEVELOPMENTS

5.8. Overall Balance of Payments

During the first quarter of 2009/10, the overall balance of payments recorded a surplus of USD 173.7 million, compared to a deficit of USD 132.3 million in the same period of last year. This was largely attributed to slow down in imports, higher public transfers and increased external loan disbursements.

Table 6.1 Balance of Payments

(In Millions of USD)

Ethiopian Fiscal Year	2008/09		2009/10		
Particulars	QI	QIV	QI	Percentage Change	
	A	B	C	D=C/B	E=C/A
Trade Balance	**-1921.7**	**-1364.4**	**-1431.5**	**4.9**	**-25.5**
Exports	351.7	423.8	342.4	-19.2	-2.6
Imports	2272.8	1788.2	1773.8	-0.8	-22.0
Net Services	**142.7**	**-22.2**	**118.7**	**-635.0**	**-16.8**
Travel	62.0	39.0	27.5	-29.6	-55.7
Transportation	70.1	32.0	59.3	85.3	-15.4
Government (n.i.e.)	24.8	26.3	42.8	62.8	72.7
Investment income	-3.7	-9.5	-12.5	31.6	237.8
Interest	2.5	-5.1	-8.3	62.7	-432.0
Cash (net)	2.5	-5.1	-8.3	62.7	-432.0
Arrears	0.0	0.0	0.0	-	-
Dividend	-6.2	-4.4	-4.2	-4.5	-32.2
Other Services	-10.6	-110.0	1.6	-101.5	-115.1
Private Transfers	**688.2**	**659.7**	**641.6**	**-2.7**	**-6.8**
Current Account Balance(excl. public transfers)	***-1090.8***	***-726.9***	***-671.1***	**-7.7**	**-38.5**
Public Transfers	**281.3**	**537.2**	**394.2**	**-26.6**	**40.2**
Current Account Balance(incl. public transfers)	***-809.6***	***-189.7***	***-276.9***	**46.0**	**-65.8**
Non-monetary Capital	**344.2**	**377.0**	**409.3**	**8.6**	**18.9**
Long-term (net)	79.1	120.2	153.5	27.7	94.0
Disbursements	101.6	132.2	175.9	33.0	73.2
Repayments	22.4	12.1	22.4	86.1	0.0
Cash	13.8	10.2	19.2	88.9	39.4
Arrears	0.0	0.0	0.0	-	-
Relief	8.7	1.9	3.2	70.7	-62.9
Direct Investment (net)	264.9	245.6	260.0	5.8	-1.9
Short-term (net)	0.1	11.2	-4.2	-137.3	-3085.7
Net Errors & Omissions	**333.1**	**68.1**	**41.3**	**-39.3**	**-87.6**
Overall Balance	**-132.3**	**255.4**	**173.7**	**-32.0**	**-231.3**
Financing	**132.3**	**-255.4**	**-173.7**	**-32.0**	**-231.28**
Reserves (-:increase)	**142.2**	**-253.0**	**-169.7**	**-32.9**	**-219.31**
NBE net foreign asset	**104.8**	**-185.7**	**-289.2**	**55.8**	**-376.13**
CBs net foreign asset	**37.5**	**-67.3**	**119.6**	**-277.7**	**219.11**
Debt Relief	**-9.9**	**-2.4**	**-4.0**	**67.4**	**-59.68**
Principal	**8.7**	**1.9**	**3.2**	**70.7**	**-62.89**
Interest	**1.3**	**0.5**	**0.8**	**54.9**	**-37.80**

Source: Staff compilation

In the review quarter, current foreign exchange receipts reached USD 1.84 billion, slightly lower than last year as all receipts except public transfers declined. Current payments also dropped by 20 percent on account of 22 percent decline in imports and 8.6 percent fall in service payments. As current payments exceeded current receipts, the quarter saw net payments of USD 276.9 million which was lower than USD 809.3 million net outflow recorded last year.

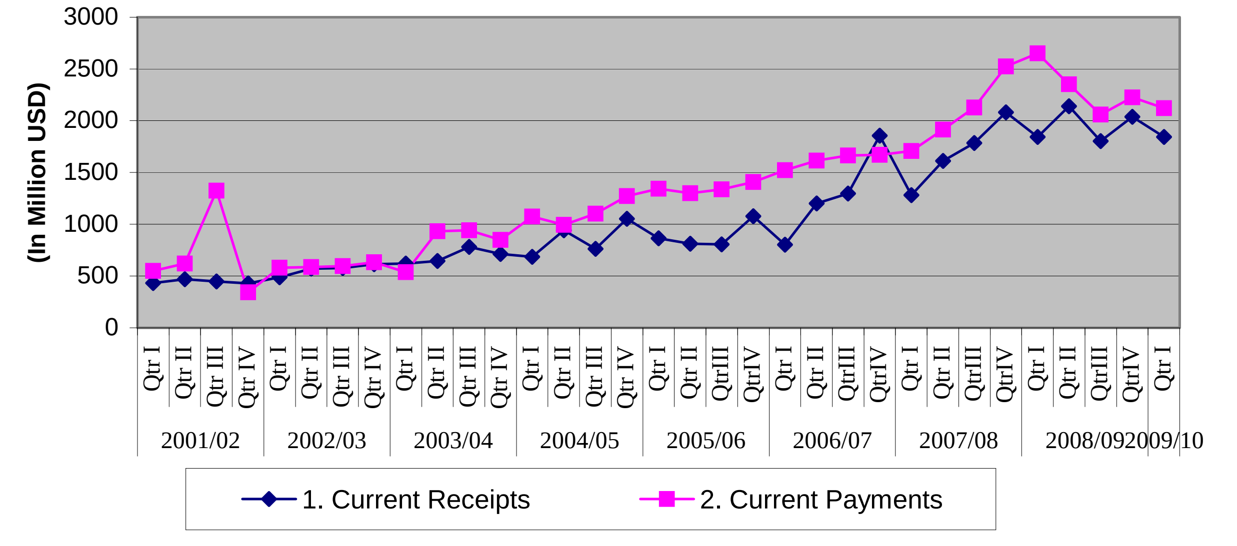
Table 6.2 Current Receipts and Payments

(In Million of USD)

Particulars	2008/09		2009/10	Percentage Change	
	Qtr I	Qtr IV	Qtr I		
	A	B	C	D=C/B	E=C/A
1. Current Receipts	**1842.9**	**2037.1**	**1843.9**	**-9.5**	**0.1**
Export Proceeds	351.7	423.8	342.4	**-19.2**	**-2.6**
Service Proceeds	522.1	416.4	465.6	**11.8**	**-10.8**
Private Transfers(Net)	688.3	659.7	641.6	**-2.7**	**-6.8**
Public Transfer(Net)	280.8	537.2	394.2	**-26.6**	**40.4**
2. Current Payments	**2652.2**	**2120.7**	**2120.7**	**0.0**	**-20.0**
Import Payments	2272.8	1788.2	1773.8	**-0.8**	**-22.0**
Service Payments	379.4	438.5	346.9	**-20.9**	**-8.6**
3. Net(1-2)	**-809.3**	**-83.6**	**-276.8**	**231.1**	**-65.8**

Source: Staff Compilation

Fig. 6.1 Trends in Current Receipts and Payments

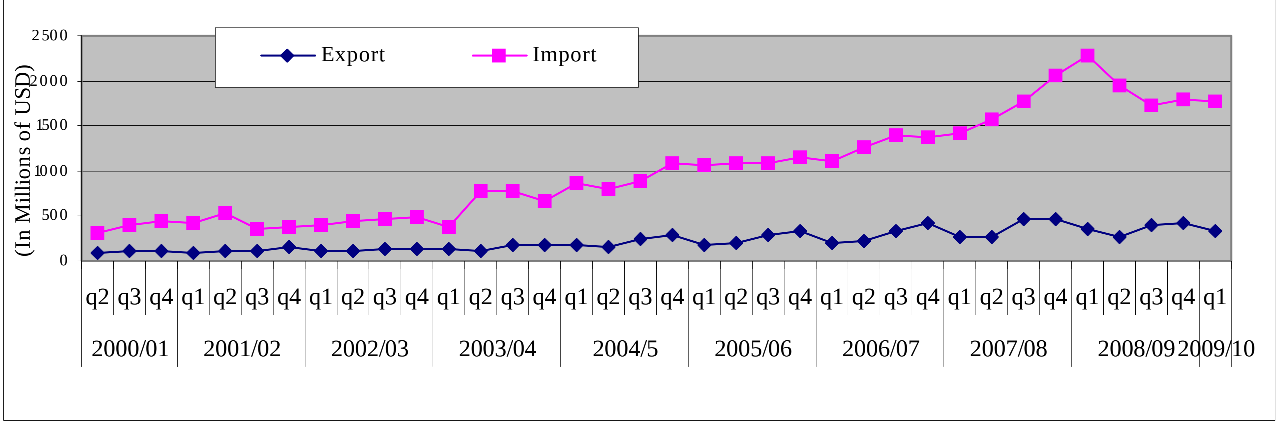


Source: Ethiopian Revenue and Customs Authority

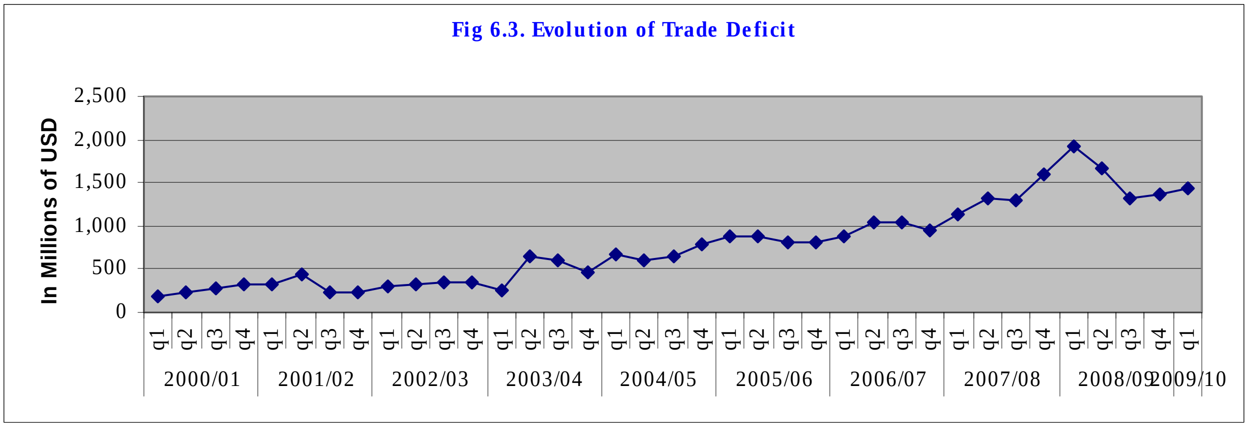
5.9. Merchandise Trade

The merchandise trade deficit reached USD 1.43 billion in the first quarter of 2009/10, about 25.5 percent lower than the preceding year as a result of significantly lower import payments and managing decline in export receipts.

Fig 6.2. Quarterly Movements in Export Proceeds & Import Payments



Source: Ethiopian Revenue and Customs Authority



Source: NBE Staff Compilation

5.9.1. Exports

Total export proceeds declined by 2.6 percent over the last year. The slow down was largely owing to the fall in export earnings from coffee (21.4 percent), leather and leather products (55.7 percent) and oilseeds (3.0 percent). Meanwhile, export receipts of pulses rose by 31.7 percent, flower by 30 percent, gold by 48.4 percent, *chat* by 38 percent and live animals by 12.2 percent.

Table 6.3 Values of Major Export Items **(In Millions of USD)**

Particular	2008/09				2009/10		Percentage change	
	Qtr I A	% Share	Qtr IV B	% Share	Qtr I C	% Share	C/B	C/A
Coffee	133.29	37.9	125.0	29.5	104.7	30.6	-16.2	-21.4
Oilseeds	45.05	12.8	125.7	29.7	43.7	12.8	-65.3	-3.0
Leather and Leather Products [1]	25.29	7.2	10.0	2.3	11.2	3.3	12.6	-55.7
Pulses	21.46	6.1	20.2	4.8	28.3	8.3	39.7	31.7
Meat & Meat Products	8.53	2.4	4.8	1.1	7.3	2.1	51.7	-14.4
Fruits & Vegetables	4.74	1.3	2.2	0.5	3.0	0.9	40.8	-35.9
Live Animals	15.72	4.5	8.0	1.9	17.6	5.2	119.4	12.2
Chat	32.94	9.4	34.3	8.1	45.5	13.3	32.7	38.1
Gold	17.52	5.0	35.2	8.3	26.0	7.6	-26.1	48.4
Flower	26.78	7.6	36.7	8.7	34.8	10.2	-5.2	30.1
Others	20.3	5.8	21.7	5.1	20.2	5.9	-6.7	-0.7
Total	**351.7**	**100.0**	**423.8**	**100.0**	**342.4**	**100.0**	**-19.2**	**-2.6**

Source: Ethiopian Revenue and Customs Authority
[1] Previously known as hides and skin

Export earnings from coffee, the main export item for decades, showed a respective fall of 16.2 and 21.4 percent on quarterly and annual basis, respectively and amounted to USD 104.7 million due to the drop in its volume and price. Hence, the share of coffee in total export earnings was 30.6 percent compared with 37.9 percent a year ago.

Exports of oilseeds went down by 3.0 percent on annual basis and reached USD 43.7 million, due to price decline despite increase in volume. As a result, the share of oilseeds in total exports remained at 12.8 percent the same level of last year.

Receipts from pulses rose by 31.7 percent year-on-year terms, on account of higher volume in spite of lower international price. Hence, the share of pulses in the total exports rose to 8.3 percent from 6.1 percent in the previous year.

Leather and leather products fetched USD 11.2 million, 55.7 percent lower than last year because of slow down in volume despite higher international prices. Receipts from leather and leather products export accounted for 3.3 percent of the total merchandise export during the review quarter.

Revenue from flower exports was USD 34.8 million during the review quarter exhibiting 30 percent growth over the preceding year as a result of increased volume out weighing marginal decline in price. The share of flower in total export earnings rose to 10.2 percent, from 7.6 percent last year.

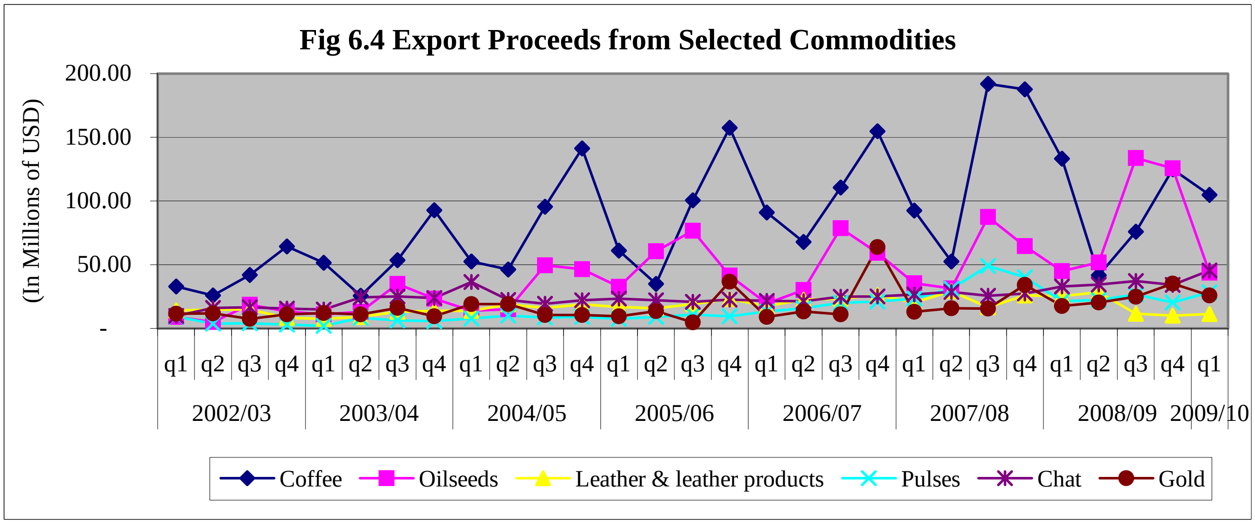
Export revenue from gold amounted to USD 26 million exceeding that of the previous year by 48.4 percent, as both value and volume improved.

Similarly, export proceeds from *chat* grew by 38.1 percent on annual basis and reached USD 45.5 million. The growth in chat revenue was attributed to higher volume of exports and prices. C*hat* accounted for 13.3 percent of the total merchandise export during the review quarter.

Exports of live animals fetched USD 17.6 million, with 12.2 percent annual increase due to the rise in volume despite lower prices.

Export earnings from meat and meat products dropped by 14.4 percent as both volume and prices went down.

Likewise, revenue from fruits and vegetables plummeted by about 36 percent on account of 39 percent deceleration in price although export volume slightly increased.



Source: Ethiopian Revenue and Customs Authority

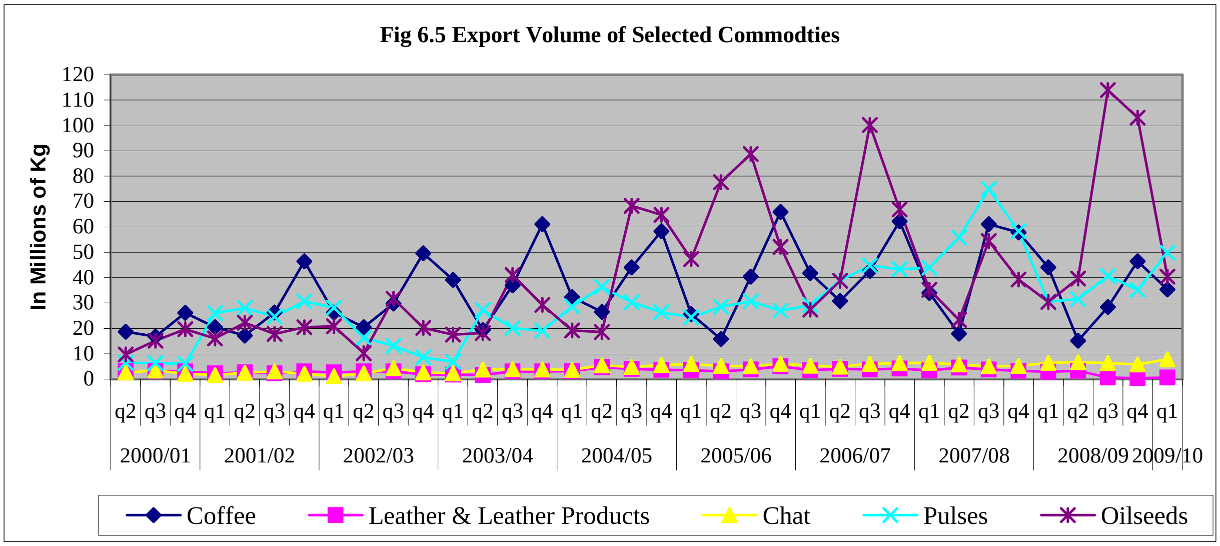
Table 6.4: Volume of Major Export Items

(In Millions of Kg)

Particulars	2008/09		2009/10	Percentage Change	
	Qtr I	Qtr IV	Qtr I		
	A	B	C	C/B	C/A
Coffee	44.0	46.4	35.3	-23.9	-19.7
Oilseeds	30.5	103.1	40.4	-60.8	32.6
Leather and Leather Products [1]	2.9	0.4	0.6	35.9	-80.6
Pulses	30.6	35.2	49.9	41.9	63.3
Meat & Meat Products	2.4	1.4	2.1	53.6	-12.7
Fruits & Vegetables	11.4	7.7	11.9	53.9	5.0
Live Animals	11.7	5.6	13.7	142.8	17.0
Chat	6.5	5.8	7.8	33.3	19.9
Gold	0.0011	0.0015	0.0011	-27.3	3.0
Flower	5.6	8.2	7.3	-10.6	31.3

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

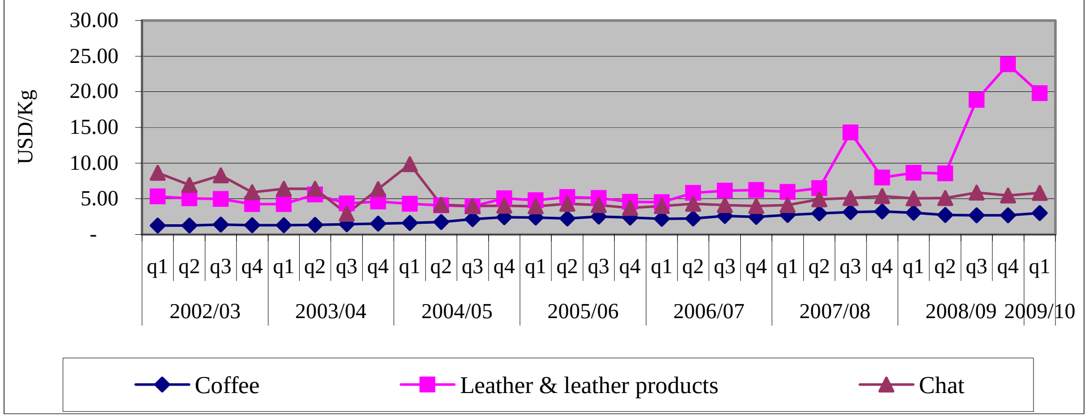
(USD/kg)

Particulars	2008/09		2009/10	Percentage Change	
	Qtr I	Qtr IV	Qtr I		
	A	B	C	C/B	C/A
Coffee	3.03	2.69	2.96	10.1	-2.1
Oilseeds	1.48	1.22	1.08	-11.4	-26.9
Leather and Leather Products [a]	8.65	23.87	19.78	-17.1	128.7
Pulses	0.70	0.58	0.57	-1.5	-19.3
Meat & Meat Products	3.55	3.52	3.48	-1.2	-2.0
Fruits & Vegetables	0.42	0.28	0.25	-8.5	-38.9
Live Animals	1.34	1.42	1.29	-9.7	-4.1
Chat	5.07	5.87	5.84	-0.4	15.2
Gold	16624.2	23569.7	23960.7	1.7	44.1
Flower	4.82	4.50	4.77	6.1	-0.9

Source: NBE Staff Computation

[a] Previously known as hides and skin

Fig 6.6 Unit Values of Selected Commodities



Source: NBE Staff Computation

5.9.2. Imports

Total import bill during the first quarter of 2009/10 amounted to USD 1.77 billion, indicating a 22 percent decrease compared to same period last year. Slowdown in import of fuel, raw materials, consumer goods and capital goods was the major factor behind the annual decline in imports offsetting an increase in imports of fertilizers, agricultural capital goods and durable consumer goods.

Table 6.6: Values of Major Import Items

(In Millions of USD)

Particulars	2008/09				2009/10		Percentage Change	
	Qtr I A	*% Share*	Qtr IV B	*% Share*	Qtr I C	*% Share*	C/B	C/A
Raw Materials	96.05	4.2	63.5	3.6	60.04	3.4	-5.5	-37.5
Semi-finished Goods	251.90	11.1	365.8	20.5	286.79	16.2	-21.6	13.9
Fertilizers	2.91	0.1	167.3	9.4	40.14	2.3	-76.0	1,278.5
Fuel	506.48	22.3	285.8	16.0	268.42	15.1	-6.1	-47.0
Petroleum Products	501.97	22.1	283.2	15.8	266.87	15.0	-5.8	-46.8
Others	4.50	0.2	2.6	0.1	1.55	0.1	-40.1	-65.5
Capital Goods	779.46	34.3	525.7	29.4	657.22	37.1	25.0	-15.7
Transport	93.16	4.1	92.1	5.2	89.77	5.1	-2.5	-3.6
Agricultural	5.72	0.3	10.1	0.6	15.08	0.9	49.8	163.6
Industrial	680.57	29.9	423.6	23.7	552.36	31.1	30.4	-18.8
Consumer Goods	573.31	25.2	523.4	29.3	469.81	26.5	-10.2	-18.1
Durables	161.51	7.1	169.4	9.5	168.23	9.5	-0.7	4.2
Non-durables	411.81	18.1	354.0	19.8	301.58	17.0	-14.8	-26.8
Miscellaneous	65.62	2.9	24.0	1.3	31.54	1.8	31.5	-51.9
Total Imports	2,272.8	100.0	1,788.2	100.0	1,773.8	100.0	-0.8	-22.0

Source: Ethiopian Revenue and Customs Authority

Capital goods import reached USD 657.2 million, 15.7 percent lower than last year due to slow down in transport and industrial goods. The share of capital goods in total imports was 37.1 percent in contrast with 34.3 percent a year ago.

Similarly, the value of consumer goods import at USD 469.8 million showed a 18 percent annual decline because of 26.8 percent fall in imports of non-durables. Consumer goods accounted for 26.5 percent of the total imports quarter under review.

Fuel import also plummeted by 47 percent on annual basis to USD 268.4 million presumably due to seasonality factors. Fuel constituted 15.1 percent of the quarterly imports which was significantly lower than 22.3 percent last year.

Imports of semi-finished goods, however, increased to USD 286.8 million, showing a 14 percent rise over last year largely due to remarkable increase in fertilizer import. Raw material import reached USD 60 million, down 37.5 percent compared to last year same quarter.

Meanwhile, imports of goods on franco-valuta basis amounted to USD 27.4 million USD 37.5 million a year ago signifying lower imports of cement, medicine and medical equipment, and food stuffs. Franco-valuta imports of spare parts and electronics goods, however, tended to increase.

Table 6.7: Values of Franco Valuta Imports

(In Millions of USD)

Particulars	2008/09		2009/10	Percentage Change	
	QI	QIV	QI		
	A	B	C	C/B	C/A
Vehicles	0.0000	0.0062	0.0000	-100.00	0.00
Vehicle Spare Parts	0.0089	0.0080	0.0150	86.09	67.99
Other Spare Parts	0.0717	0.1134	0.0839	-26.01	16.95
Textile & Ready Made clothes	0.0000	0.0032	0.0029	-9.47	0.00
Household Goods	0.0000	0.0009	0.0002	-72.84	0.00
Medicine & Medical Equipment	2.9988	0.0408	0.0381	-6.70	-98.73
Food Stuffs	0.0033	0.0385	0.0000	-100.00	-100.00
Electronic Goods	0.0094	0.0742	0.0352	-52.61	274.25
Machinery Equip. & Spare Parts	0.0000	0.0000	0.0000	0.00	0.00
Others*	34.43	40.17	27.22	-32.24	-20.95

Total	37.53	40.45	27.39	-32.28	-27.00

Source: NBE
**Includes franco valuta cement import*

5.9.3. Direction of Trade
6.2.3.1 Exports

During the first quarter of 2009/10, Europe was the largest market destination for Ethiopia by importing 42.2 percent of the country's exports. Among European countries, the Netherlands, which mainly imports flowers, was the largest buyer of Ethiopian commodities followed by Germany that imports mainly coffee and flowers. Switzerland as a sole importer of gold from Ethiopia was the third largest market in Europe followed by Italy importing coffee and leather and leather products.

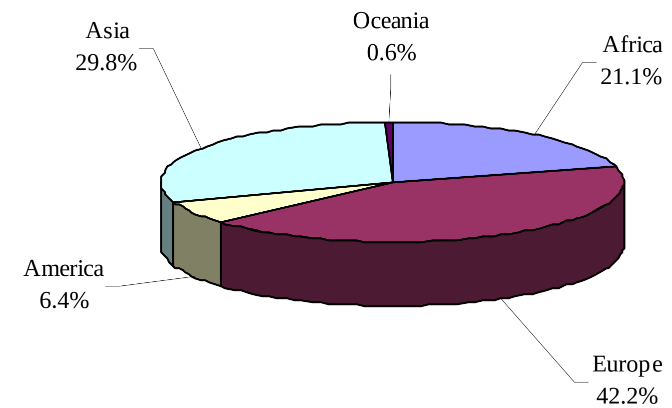
Exports destined to Asia accounted for 29.8 percent of the country's exports. Of the total exports to Asia, 27.8 percent went to Saudi Arabia, 17.9 percent to United Arab Emirates (UAE), 16 percent to Taiwan and 5.7 percent to China.

The major export items sent to Saudi Arabia include coffee, oilseeds, and meat and meat products; whereas live animals, pulses and meat and meat products are the major export items to UAE. Some of the export items shipped to Taiwan comprised of oilseeds and mineral products; whereas oilseeds was the major export to China.

About 21 percent of Ethiopia's exports went to African countries among which Somalia, Sudan and Djibouti accounted for 89.1 percent. Somalia's major import from Ethiopia was *chat* (91.3 percent). Major exports to Djibouti include *chat* and fruits and vegetables. Sudan mainly purchased pulses and spices.

The share of the Americas in Ethiopia's total exports was 6.4 percent of which 89 percent went to the USA and 6.8 percent to Canada. The principal exports to the US include coffee and oilseeds; while Canada purchased mainly coffee.

Fig. 6.7 Export by Destination



Source: Ethiopian Revenue and Customs Authority

6.2.3.2 Imports

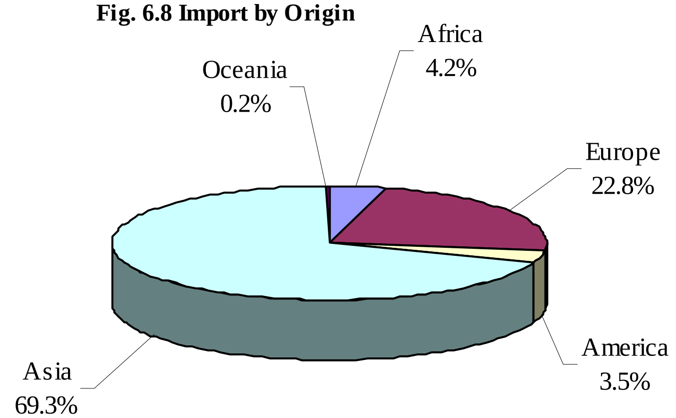
During the first quarter of 2009/10, about 69.2 percent of the total imports to Ethiopia originated from Asia among which China, Saudi Arabia, India, UAE and Japan accounted for 67 percent. Major imports from China included electrical goods, machinery, metals, chemicals, rubber products, clothing, textile and motor vehicles. The major import from Saudi Arabia and UAE was petroleum. Medical and pharmaceutical products, machinery, electrical goods, metals and metal products and paper and paper manufacturing were the main items imported from India. Imports from Japan mainly constituted motor vehicles, machinery and rubber products.

Imports from Europe accounted for 22.8 percent of total imports among which Italy, Turkey, Germany, Ukraine and France were the major suppliers. Machinery, electrical goods, metal, medicine and pharmaceutical products, vehicles and grain were the major imports from Italy. Metal and metal products and machinery were the principal imports from Turkey. Imports from Germany were mainly vehicles and machinery. The main imports from Ukraine comprised of fertilizer and metals; while imports from France included machinery and electrical goods.

The share of imports from the Americas was merely 3.5 percent among which three countries; namely, the USA, Canada and Brazil accounted for over 97.2 percent. Machinery was the major import item from the US followed by grain and food products. Machinery and vehicles were the main imports from Brazil, while Canada mainly exported machinery.

The share of African countries in total imports was just 4.2 percent of which 94.8 percent came from five countries; namely Sudan, Libya, Egypt, South Africa and Kenya. Fertilizer and petroleum products constituted the major import items from African nations.

Fig. 6.8 Import by Origin

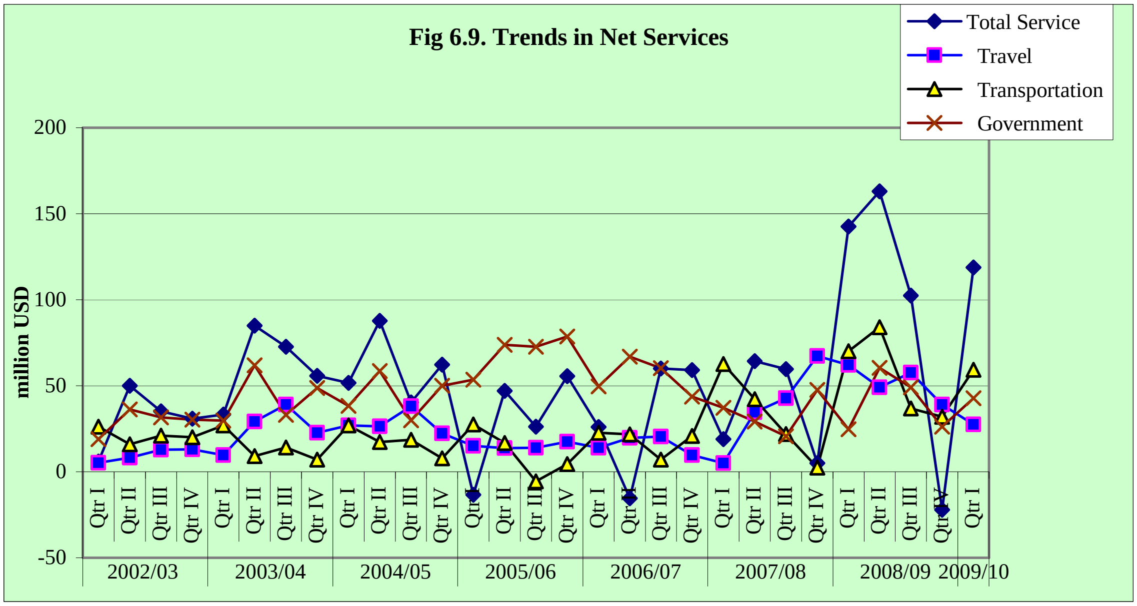


Source: Ethiopian Revenue and Customs Authority

5.10. Services and Transfers

The service account registered lower surplus of USD 118.7 million in the first quarter of 2009/10 vis-à-vis USD 142.6 million in the preceding year as net payments for government services, communication services, insurance services, financial services and computer and information services tended to increase. In short, the 10.8 percent fall in receipts outstripped the 8.6 percent decline in payments.

Net travel, transportation, government receipts and net investment income also dropped compared to last year.



Source: NBE Staff Computation

Table 6.8: Trends in Service Accounts

(In Millions of USD)

Particulars	2008/09				2009/10		Percentage Change	
	Qtr I A	% Share	Qtr IV B	% Share	Qtr I C	% Share	C/B	C/A
Receipts	**522.1**	**100.0**	**416.4**	**100.0**	**465.6**	**100.0**	**11.8**	**-10.8**
Travel	105.4	20.2	76.6	18.4	60.3	13.0	-21.2	-42.8
Transportation	303.4	58.1	222.0	53.3	261.6	56.2	17.8	-13.8
Government (n.i.e)	29.1	5.6	37.8	9.1	59.7	12.8	57.9	105.3
Investment Income	8.6	1.7	2.3	0.6	0.6	0.1	-74.3	-93.1
Interest	8.5	1.6	2.2	0.5	0.6	0.1	-73.2	-93.1
Dividend	0.1	0.0	0.1	0.0	0.0	0.0	-	-
Other Services	75.6	14.5	77.7	18.7	83.3	17.9	7.3	10.3
Communication Services	16.9	3.2	27.4	6.6	24.7	5.3	-9.9	45.5
Construction Services	7.2	1.4	4.5	1.1	6.7	1.4	49.7	-7.9
Insurance Services	0.0	0.0	0.0	0.0	0.0	0.0	172.5	3.1
Financial Services	3.0	0.6	3.4	0.8	4.8	1.0	42.7	63.8
Computer and Information Service	0.2	0.0	0.3	0.1	0.3	0.1	-5.6	10.7
Other Business Services	48.2	9.2	42.2	10.1	46.2	9.9	9.4	-4.2
Personal, cultural and recreational	0.0	0.0	0.0	0.0	0.7	0.2	-	-
Payments	**379.4**	**100.0**	**438.5**	**100.0**	**346.9**	**100.0**	**-20.9**	**-8.6**
Travel	43.4	11.4	37.5	8.6	32.9	9.5	-12.5	-24.3
Transportation	233.3	61.5	190.0	43.3	202.3	58.3	6.5	-13.3
Government (n.i.e)	4.3	1.1	11.5	2.6	16.9	4.9	46.4	293.0
Investment Income	12.3	3.3	11.8	2.7	13.1	3.8	11.4	6.2
Interest	6.1	1.6	7.3	1.7	8.9	2.6	22.9	47.0
Cash (Banks & MOF)	4.8	1.3	6.8	1.5	8.1	2.3	20.5	69.4
Arrears	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Relief	1.3	0.3	0.5	0.1	0.8	0.2	54.9	-37.8
Dividend	6.3	1.7	4.5	1.0	4.2	1.2	-7.2	-33.4
Other Services	86.1	22.7	187.7	42.8	81.7	23.6	-56.5	-5.1
Communication Services	7.5	2.0	4.1	0.9	8.5	2.5	109.6	13.2
Construction Services	46.7	12.3	140.3	32.0	31.8	9.2	-77.3	-31.8
Insurance Services	3.7	1.0	1.9	0.4	2.7	0.8	42.9	-27.1
Financial Services	0.1	0.0	6.1	1.4	0.1	0.0	-98.1	-5.0
Computer and Information Service	1.1	0.3	0.9	0.2	1.6	0.5	83.6	39.8
Other Business Services	27.0	7.1	34.5	7.9	37.0	10.7	7.2	37.1
Personal, cultural and recreational	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Net Services	**142.6**		**-22.1**		**118.7**		**-636.9**	**-16.8**

Source: NBE Staffs Compilation

Regarding transfers account, official transfers at USD 394.2 million rose by about 40 percent due to higher cash transfers although food transfers declined by 11 percent. Net private transfers (including transfers through NGOs), however, dropped by about 7 percent to USD 641.6 million. All transfers through NGOs were cash transfers which dropped by 5.6 percent to USD 178.5 million from USD 189 million a year ago. Private individual transfers also went down by 6.4 percent from USD 503.5 million to USD 471.4 million as all cash, kind and estimated underground transfers fell.

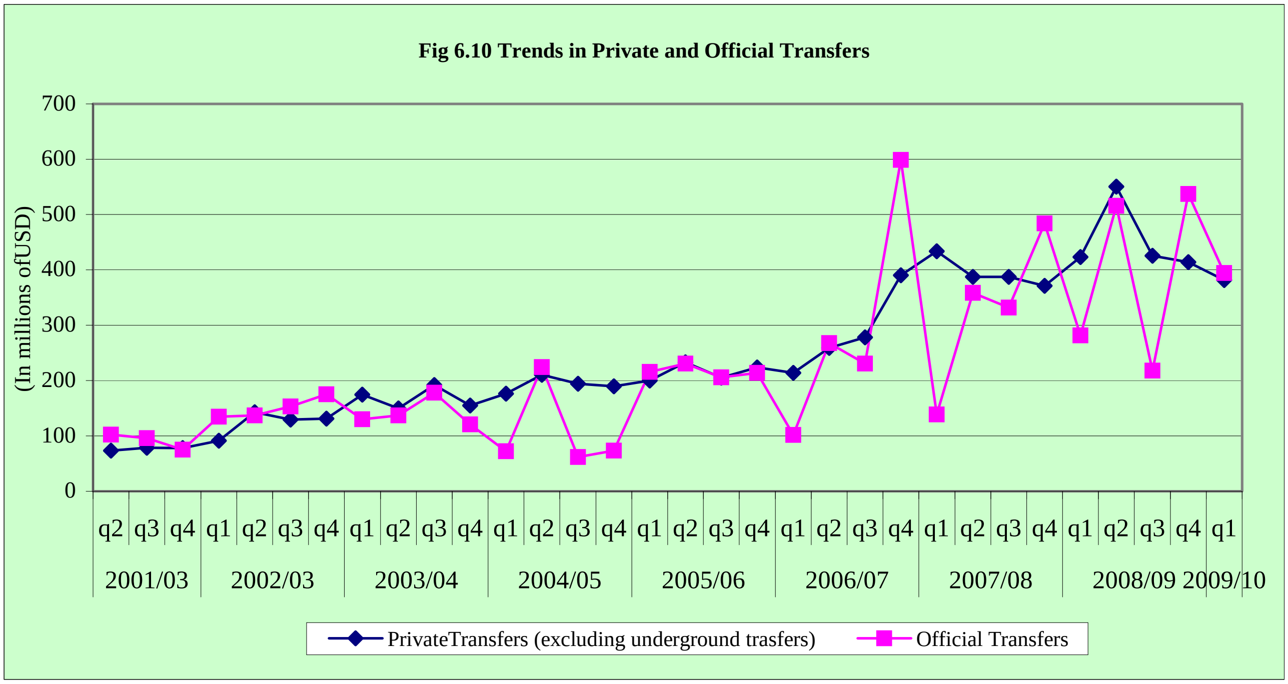
Hence, net transfers at USD 1.04 billion increased by about 7 percent over the same quarter of last year driven by improved official transfers counter balancing decline in private transfers.

Table 6.9: Developments of Transfer Accounts

(In Millions of USD)

Particulars	2008/09 A Q I	% share	2008/09 B Q IV	% share	2009/10 C Q I	% share	Percentage Change C/B	Percentage Change C/A
Private Transfers	**688.3**	**71.0**	**659.7**	**55.1**	**641.6**	**61.9**	**-2.7**	**-6.8**
Credit	692.6	71.0	671.8	55.4	649.9	62.2	**-3.3**	**-6.2**
NGO's	**189.1**	**19.4**	**240.0**	**19.8**	**178.5**	**17.1**	**-25.6**	**-5.6**
Cash	189.1	19.4	235.9	19.4	178.5	17.1	**-24.3**	**-5.6**
Other	0.0	0.0	0.0	0.0	0.0	0.0	**-**	**-**
Food	0.0	0.0	4.1	0.3	0.0	0.0	**-**	**-**
Private individuals	**503.5**	**51.6**	**431.7**	**35.6**	**471.4**	**45.1**	**9.2**	**-6.4**
Cash	201.3	20.6	146.1	12.0	184.1	17.6	**26.0**	**-8.5**
In kind	37.3	3.8	40.0	3.3	27.3	2.6	**-31.8**	**-26.7**
Under ground private transfers	264.9	27.2	245.6	20.2	260.0	24.9	**5.9**	**-1.8**
Debit	-4.3	70.6	-12.1	74.5	-8.3	86.2	**-31.5**	**94.7**
Official Transfers	**280.8**	**29.0**	**537.2**	**44.9**	**394.2**	**38.1**	**-26.6**	**40.4**
Credit	282.5	29.0	541.4	44.6	395.6	37.8	**-26.9**	**40.0**
Cash	244.4	25.1	525.3	43.3	361.9	34.6	**-31.1**	**48.1**
Other	0.2	0.0	0.0	0.0	0.0	0.0	**-**	**-**
Food	37.9	3.9	16.1	1.3	33.7	3.2	**109.4**	**-11.2**
Debit	-1.8	29.4	-4.1	25.5	-1.3	13.8	**-68.0**	**-25.3**
Total Receipts	975.1	100.6	1213.1	101.4	1045.5	100.9	**-13.8**	**7.2**
Total Payments	-6.0	-0.6	-16.2	-1.4	-9.6	-0.9	**-40.8**	**59.4**
Net Transfers	**969.1**	**100.0**	**1196.9**	**100.0**	**1035.9**	**100.0**	**-13.5**	**6.9**

Source: NBE Staff Compilation



Source:- NBE Staff Compilation

5.11. Current Account

Mirroring the narrowing of the trade deficit and a substantial increase in official transfers, the current account balance (including official transfers) showed lower deficit of USD 277.7 million compared to a deficit of USD 809.6 million in the preceding year.

5.12. Capital Account

Capital account also registered higher surplus of USD 409.3 million in the review quarter from USD 344.0 million a year ago due to higher loan disbursement from abroad.

5.13. Changes in Reserve Position

Reflecting USD 173.7 million surplus in the overall balance of payments, net foreign assets of the banking system increased by USD 169.7 million during the review quarter, compared to a draw down of USD 142 million last year same period.

5.14. Developments in Foreign Exchange Market

5.14.1. Exchange Rate Movements

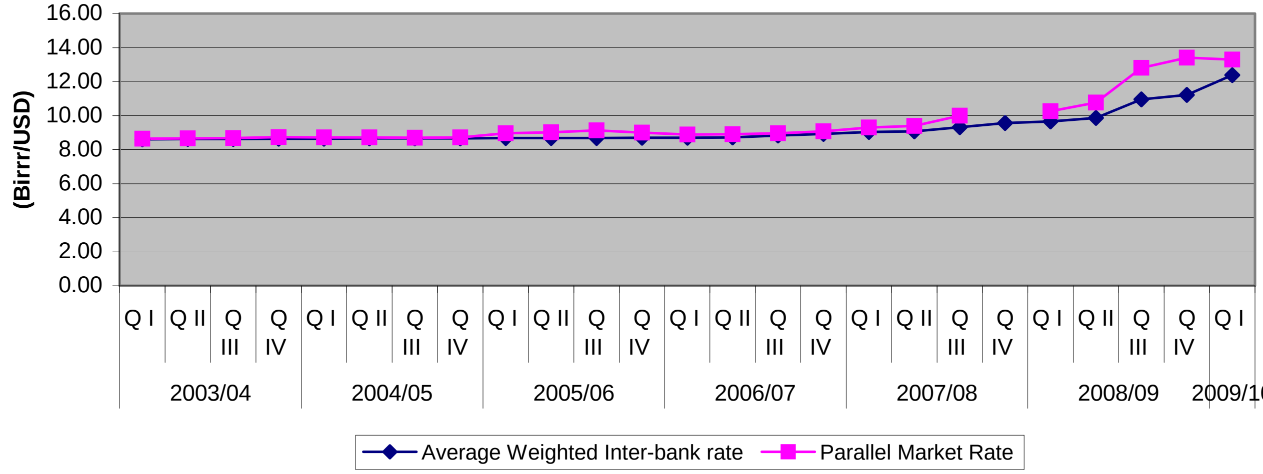
The average exchange rate of the Birr in the inter bank foreign exchange market depreciated by 10.5 and 28.1 percent on quarterly and annual basis, respectively and reached Birr 12.37 per USD at the end of September 2009. The Birr also lost ground in the parallel market as it depreciated by 29.5 percent vis-à-vis last year, although it appreciated by 0.9 percent against the preceding quarter. In the parallel market average exchange rate of the Birr was 13.29 to a dollar. Hence, the average spread between the official and parallel market exchange rates narrowed to 7.4 percent in the review period from 19.7 percent in the preceding quarter owing to the NBE's intervention.

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								
2008/09 Qtr. I	**C**	**9.6929**	**9.6930**	**9.6929**	**9.6602**	**6.3**	**0.0**	**483.0**	**0.0**	**10.4700**	**10.2623**	**6.23**
July		9.6533	9.6542	9.6542	9.6330	2.30	0.00	167	0	10.16	10.16	5.48
August		9.674	9.6736	9.6735	9.6639	2.10	0.00	166	0	10.31	10.25	6.02
September		9.6929	9.6930	9.6929	9.6838	1.90	0.00	150	0	10.47	10.38	7.19
Qtr. IV	**B**	**11.3009**	**11.3009**	**11.3009**	**11.2028**	**3.1**	**0.0**	**417.0**	**0.0**	**13.1000**	**13.4083**	**19.69**
April		11.1721	11.1721	11.1721	11.1421	1.05	0.00	146	0.0	13.6000	13.5800	21.88
May		11.2266	11.2266	11.2265	11.2008	0.90	0.00	123	0.0	13.4800	13.4917	20.45
June		11.3009	11.3009	11.3009	11.2654	1.10	0.00	148	0.0	13.1000	13.1531	16.76
2009/10 Qtr. I	**A**	**12.5377**	**12.5377**	**12.5377**	**12.3746**	**3.3**	**0.0**	**445.0**	**0.0**	**13.3000**	**13.2933**	**7.42**
July		12.4721	12.4721	12.4721	12.1111	1.15	0.00	149	0.0	13.4000	13.3200	9.98
August		12.5062	12.5062	12.5061	12.4899	1.05	0.00	145	0.0	13.3000	13.3800	7.13
September		12.5377	12.5377	12.5377	12.5227	1.05	0.00	151	0.0	13.3000	13.1800	5.25
Percentage changes	A/B	10.94	10.94	10.94	10.46	6.56		6.71	-	1.53	-0.86	-62.29
	A/C	29.35	29.35	29.35	28.10	-48.41		-7.87	-	27.03	29.54	19.12

Source: NBE staff compilation

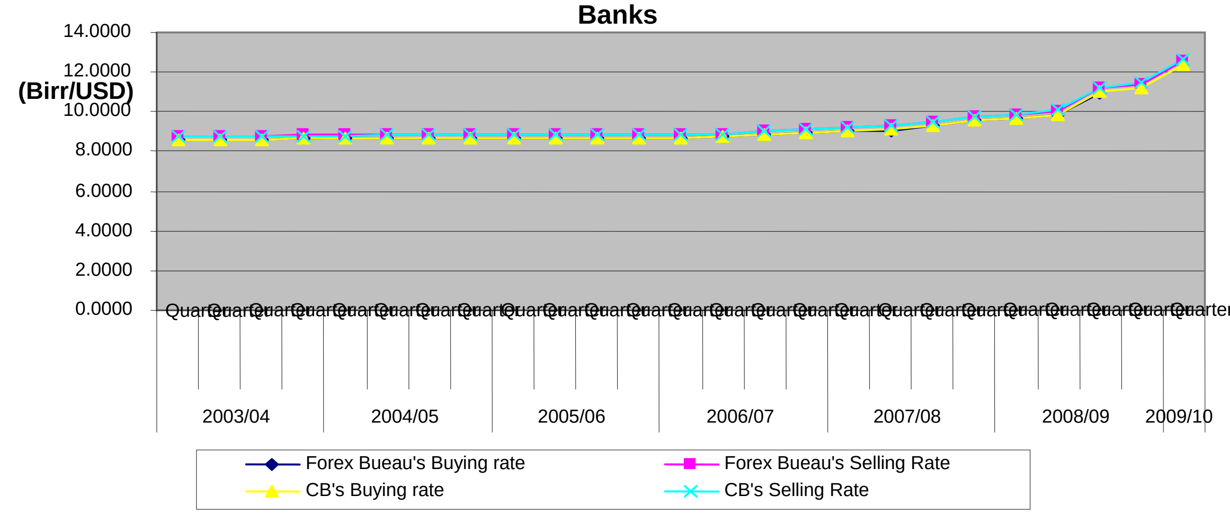
Figure 6.11: Premium Between Inter_Bank and Parallel Market Exchange Rate



Regarding the retail market for foreign exchange, the average buying rate of foreign exchange bureaux during the review period was Birr 12.3453/USD; while their selling rate was Birr 12.5975/USD. Both the buying and selling rates depreciated by 10.4 and 27.5 percent on quarterly and annual basis, respectively with an average spread of about 2 percent.

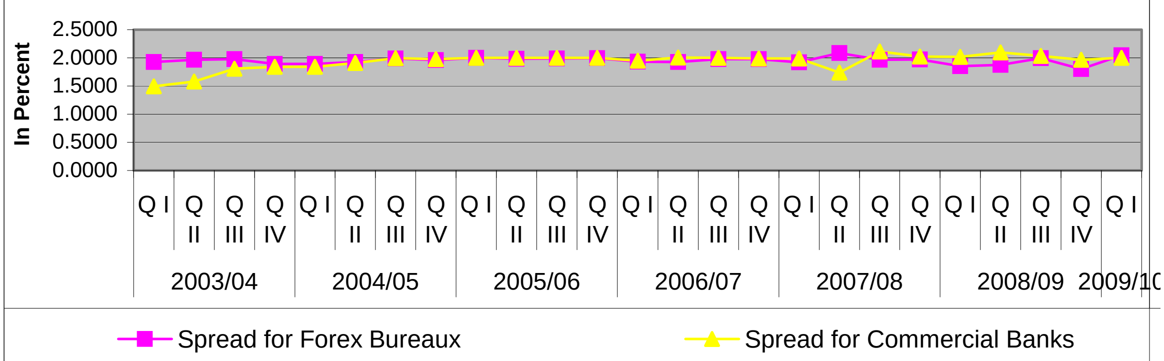
Similarly, the buying and selling rates of foreign exchange in commercial banks depreciated by 10.6 percent on quarterly and 28.2 percent on annual terms. Here also the average spread was 2.0 percent.

Figure 6.12: Buying and Selling Rates in Forex Bureaus and Commercial Banks



Source:- NBE, Banking and foreign Exchange Directorate

Fig.6.13: Spread Between Buying and Selling Rates of Foreign Exchange in Retail Market



Source:- NBE Staff Compilation

Compared to the preceding quarter, the US Dollar continued to depreciate against all major currencies. The highest quarter-on-quarter mid rate depreciation was witnessed against the Pound Sterling (9.5 percent), followed by Euro (8.5 percent) Swiss Frank (8.1 percent) and Japanese Yen (7.4 percent).

In contrast to the corresponding period of last year, however, USD appreciated against all major currencies, except Japanese Yen and Swiss Frank against which it depreciated by 14.9 and 0.8 percent, respectively.

Table 6.11: Period Average Exchange Rates (USD per other Major Currencies)

Period		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
2008/09																
Qtr. I	**C**	**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
Qtr. IV	**B**	**1.3170**	**1.3170**	**1.3170**	**0.0099**	**0.0099**	**0.0099**	**1.4682**	**1.4682**	**1.4682**	**1.4979**	**1.4979**	**1.4979**	**0.8699**	**0.8699**	**0.8699**
April		1.2599	1.2599	1.2599	0.0097	0.0097	0.0097	1.4241	1.4242	1.4241	1.4015	1.4015	1.4015	0.8317	0.8317	0.8317
May		1.2887	1.2887	1.2887	0.0098	0.0098	0.0098	1.4358	1.4358	1.4358	1.4563	1.4563	1.4563	0.8522	0.8522	0.8522
June		1.4024	1.4024	1.4024	0.0104	0.0104	0.0104	1.5447	1.5447	1.5447	1.6358	1.6358	1.6358	0.9259	0.9259	0.9259
2009/10																
Qtr. I	**A**	**1.4291**	**1.4287**	**1.4289**	**0.0107**	**0.0107**	**0.0107**	**1.5625**	**1.5625**	**1.5625**	**1.6409**	**1.6409**	**1.6409**	**0.9404**	**0.9404**	**0.9404**
July		1.4077	1.4078	1.4077	0.0106	0.0106	0.0106	1.5519	1.5520	1.5520	1.6366	1.6367	1.6367	0.9262	0.9262	0.9262
August		1.4257	1.4257	1.4257	0.0105	0.0105	0.0105	1.5594	1.5594	1.5594	1.6561	1.6561	1.6561	0.9352	0.9352	0.9352
September		1.4538	1.4525	1.4531	0.0109	0.0109	0.0109	1.5763	1.5763	1.5763	1.6300	1.6300	1.6300	0.9597	0.9597	0.9597
Percentage change	**A/B**	8.51	8.48	8.50	7.39	7.39	7.39	6.42	6.42	6.42	9.55	9.55	9.55	8.10	8.10	8.10
	A/C	-4.92	-4.99	-4.95	14.97	14.92	14.95	-1.79	-1.83	-1.81	-13.24	-13.28	-13.26	0.83	0.78	0.81

Source: Staff Compilation

In line with the continued weakening of the US Dollar, which is the intervention currency in Ethiopia, the Birr also depreciated against the US Dollar and other major currencies both on quarterly and annual basis. The Birr depreciated by 16.9 percent on quarterly and 10.9 percent on annual basis, against the Pound Sterling. During the same period, it depreciated by 15.7 and 21.6 percent against Euro, and 15.3 and 28.9 percent against Swiss Frank.

Table 6. 12: Period Average Exchange Rates (Birr per Major Currencies)

Period		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
2008/09																			
Qtr. I	**C**	**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
Qtr. IV	**B**	**11.1997**	**11.3117**	**11.2557**	**15.2582**	**15.4108**	**15.3345**	**0.1152**	**0.1164**	**0.1158**	**17.0097**	**17.1798**	**17.0947**	**17.3441**	**17.5175**	**17.4308**	**10.0793**	**10.1801**	**10.1297**
April		11.1392	11.2506	11.1949	14.7028	14.8498	14.7763	0.1128	0.1140	0.1134	16.6193	16.7855	16.7024	16.3556	16.5191	16.4373	9.7054	9.8025	9.7540
May		11.1978	11.3098	11.2538	15.2787	15.4315	15.3551	0.1162	0.1173	0.1167	17.0128	17.1829	17.0978	17.2545	17.4270	17.3408	10.1051	10.2062	10.1556
June		11.2620	11.3746	11.3183	15.7933	15.9512	15.8723	0.1167	0.1178	0.1172	17.3969	17.5709	17.4839	18.4222	18.6064	18.5143	10.4273	10.5316	10.4795
2009/10																			
Qtr. I	**A**	**12.3562**	**12.4796**	**12.4179**	**17.6625**	**17.8337**	**17.7481**	**0.1320**	**0.1333**	**0.1327**	**19.3092**	**19.5025**	**19.4058**	**20.2769**	**20.4797**	**20.3783**	**11.6222**	**11.7384**	**11.6803**
July		12.0606	12.1808	12.1207	16.9815	17.1513	17.0664	0.1277	0.1289	0.1283	18.7195	18.9067	18.8131	19.7416	19.9390	19.8403	11.1725	11.2842	11.2283
August		12.4875	12.6124	12.5499	17.8038	17.9818	17.8928	0.1315	0.1328	0.1322	19.4725	19.6678	19.5701	20.6804	20.8872	20.7838	11.6778	11.7946	11.7362
September		12.5204	12.6456	12.5830	18.2022	18.3680	18.2851	0.1368	0.1382	0.1375	19.7356	19.9329	19.8343	20.4087	20.6128	20.5108	12.0163	12.1364	12.0763
Percentage change	**A/B**	10.33	10.33	10.33	15.76	15.72	15.74	14.56	14.56	14.56	13.52	13.52	13.52	16.91	16.91	16.91	15.31	15.31	15.31
	A/C	27.86	27.92	27.89	21.62	21.58	21.60	47.04	47.04	47.04	25.60	25.60	25.60	10.96	10.95	10.95	28.96	28.96	28.96

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

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

Currency	Sep-08	Jun-09	Sep-09	Percentage change	
	C	B	A	A/B	A/C
USD	9.7405	11.2190	12.5989	12.3	29.3
Pound	17.8075	18.8749	20.1822	6.9	13.3
Swedish Kroner	1.4590	1.4855	2.1648	45.7	48.4
Djibouti Frank	0.0548	0.0639	0.0709	11.0	29.3
Swiss Frank	8.8897	10.4965	12.1858	16.1	37.1
Saudi Riyal	2.5932	3.0274	3.3594	11.0	29.5
UAE Dirham	2.6516	3.0911	3.4301	11.0	29.4
Canadian Dollar	9.3911	9.8201	11.6538	18.7	24.1
Japanese Yen	0.0916	0.1186	0.1405	18.4	53.4
Euro	14.1237	16.0137	18.4234	15.0	30.4
SDR	15.3001	17.6022	19.8755	12.9	29.9

Source: National Bank of Ethiopia –BFED

5.14.2. Movements in Real Effective Exchange Rate

As a result of the inflation differential with trading partners, the real exchange rate of the Birr continued to depreciate.

In the first quarter of 2009/10, the real effective exchange rate of the Birr depreciated by 9.6 and 16.8 percent on quarterly and annual basis, respectively. Similarly, the nominal effective exchange rate showed quarterly and annual depreciations of 11.7 and 15.4 percent.

Table 6.14 Trends in Real Effective Exchange Rate

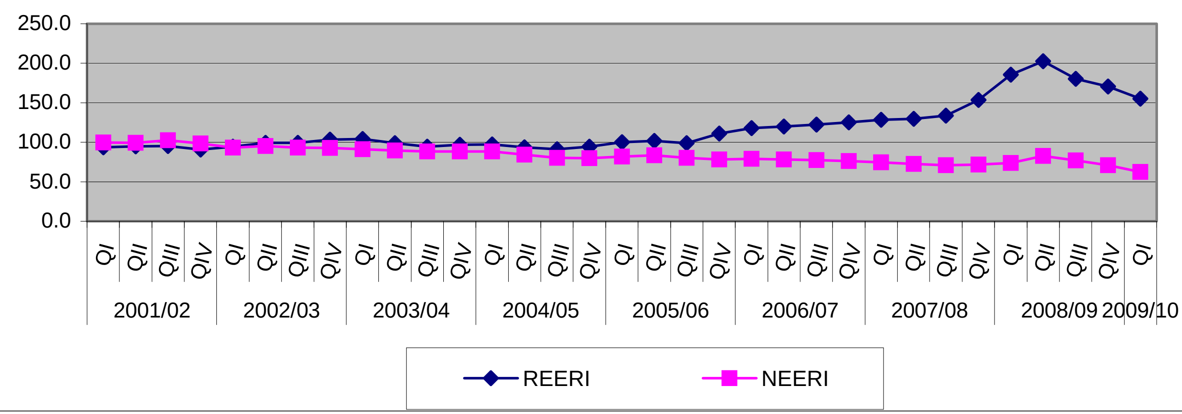
	2008/09		2009/10	Percentage Change	
	QI	Q IV	Q I		
	A	B	C	C/B	C/A
REERI	**185.5**	**170.7**	**154.3**	-9.61	-16.82
NEERI	**73.9**	**70.8**	**62.5**	-11.72	-15.43

REERI = Real Effective Exchange Rate Index

NEERI = Nominal Effective Exchange Rate Index

Source:- NBE staff compilation

Fig.6.14 Movement in Real and Nominal Effective Exchange Rate

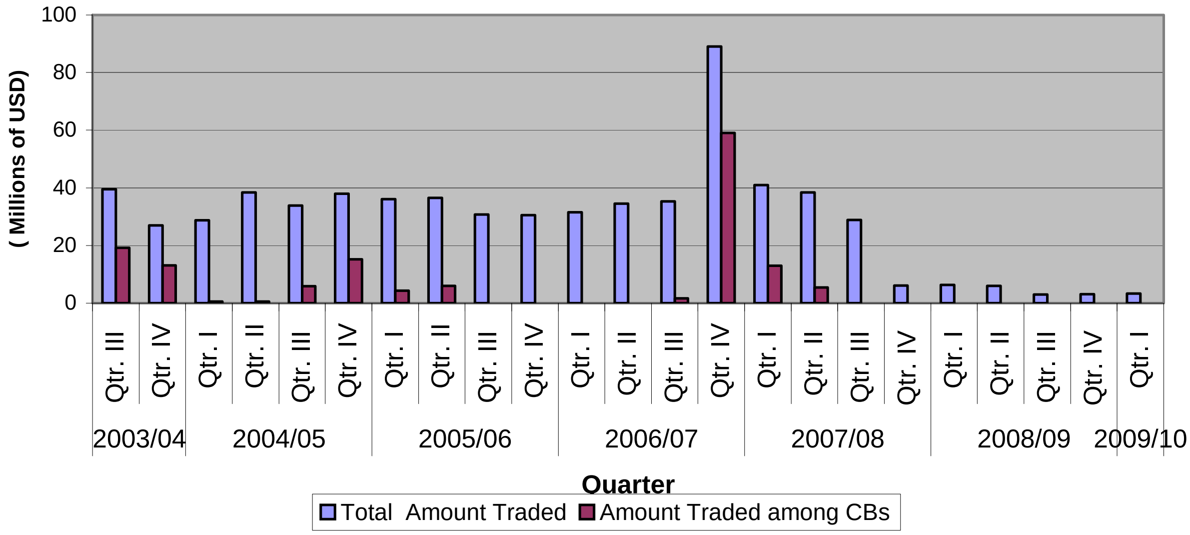


Source:- NBE staff compilation

5.14.3. Volume of Transactions

The amount of foreign exchange traded in the inter-bank foreign exchange market during the review period was USD 3.3 million, about 6.6 percent higher than the preceding quarter but 48.4 percent lower than the same quarter of last fiscal year. All transactions took place between NBE and commercial banks.

Figure 6.15: Foreign Exchange Trade in the Inter-Bank Foreign Exchange Market

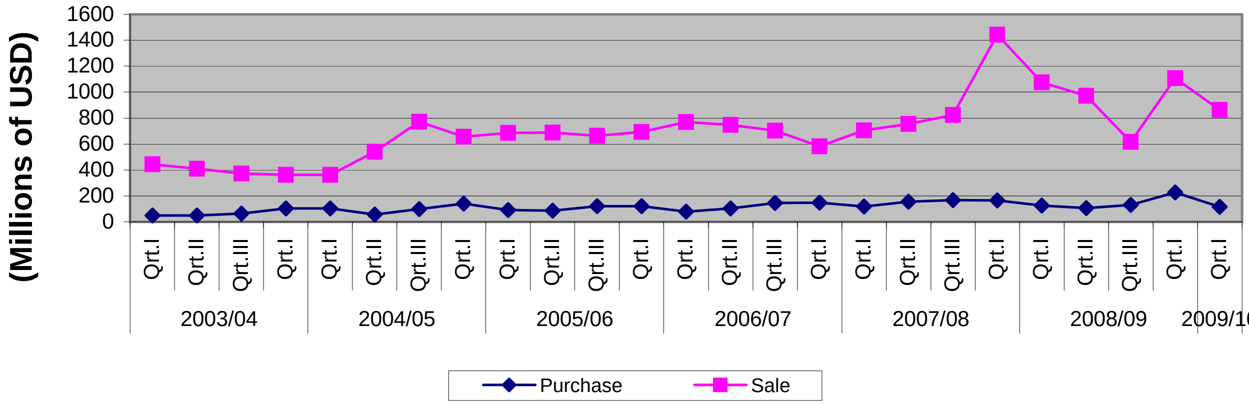


Source: NBE

In the retail market, commercial banks purchased foreign exchange from exporters amounting to USD 116.7 million, which was 48.4 and 7.4 percent lower than the preceding quarter and last year largely reflecting the seasonality of export earnings. On the other hand, they sold USD 863.0 million to importers. Their sales also fell by 22.1 and 19.7 percent on quarterly and annual basis presumably due to foreign exchange pressure. About 43.4 percent of the total purchase and 45.6 percent of the sales was conducted by private banks.

Meanwhile, forex bureaux whose number reached 322 by end September 2009, purchased foreign exchange to the tune of USD 37.6 million which was 30.5 percent on higher than a year ago, possibly owing to improved conference tourism and depreciation of the Birr. Their sales, however plummeted by 30.7 percent during the same period.

Fig. 6. 16: Sales and Purchases of Foreign Exchange by Commercial Banks



Source: NBE

Table 6.15: Amount of Foreign Exchange Purchased and Sold by Commercial Banks

(In millions of USD)

Name of Forex Bureau	2008/09				2009/10		Percentage Change			
	Quarter I		Quarter IV		Quarter I					
	A		B		C		C/B		C/A	
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
Commercial Bank of Ethiopia	36.5	688.4	162.9	804.2	66.1	469.8	-59.4	-41.6	80.9	-31.8
Bank of Abyssinia	21.2	58.1	6.2	35.6	11.5	73.6	86.3	106.8	-45.9	26.7
Dashen Bank	30.3	107.4	26.2	82.8	18.3	99.0	-30.1	19.5	-39.5	-7.9
Awash International Bank	6.2	34.5	6.4	37.3	1.9	15.7	-70.2	-57.7	-69.1	-54.4
Construction & Business Bank	0.0	11.0	0.4	8.4	0.1	7.9	-85.5	-5.9	-	-28.1
Wegagen Bank	22.6	74.5	11.3	52.4	9.5	115.4	-15.5	120.3	-57.7	54.8
United Bank	0.0	47.4	0.0	51.3	0.0	31.1	-	-39.3	-	-34.3
Development Bank	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-
Nib International Bank	8.9	52.4	12.5	31.2	9.3	45.2	-25.8	45.1	3.6	-13.8
Lion International Bank	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-
Oromia International Bank	0.0	1.5	0.0	0.0	0.0	0.0	-	-	-	-
Zemen Bank	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-
Cooperative Bank of Oromia	0.0	0.0	0.0	4.0	0.0	5.3	-	31.0	-	-
Total	**125.8**	**1075.2**	**225.9**	**1107.2**	**116.7**	**863.0**	**-48.4**	**-22.1**	**-7.2**	**-19.7**
Average Exchange Rate	**9.6614**	**9.8564**	**11.2057**	**11.4259**	**12.3899**	**12.6378**	**10.5678**	**10.6066**	**28.2412**	**28.2192**

Source: NBE

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	2008/09 Quarter I A Purchases	2008/09 Quarter I A Sales	2008/09 Quarter IV B Purchases	2008/09 Quarter IV B Sales	2009/10 Quarter I C Purchases	2009/10 Quarter I C Sales	Percentage Change C/B Purchases	Percentage Change C/B Sales	Percentage Change C/A Purchases	Percentage Change C/A Sales
Commercial Bank of Ethiopia	121	10.16	7.76	5.86	0.03	5.26	0.03	-10.3	0.0	-48.2	-99.6
Bank of Abyssinia	28	1.12	1.03	0.53	0.81	0.88	1.64	66.2	102.3	-21.3	59.8
Dashen Bank	58	3.22	2.81	2.82	5.27	3.74	4.39	32.4	-16.6	16.1	56.5
Awash International Bank	15	0.61	2.05	0.29	1.46	0.41	1.86	43.6	26.9	-32.1	-9.6
Construction & Business Bank	5	0.44	0.24	0.20	0.04	0.24	0.06	20.0	33.2	-44.0	-76.4
Wegagen Bank	19	2.07	1.82	1.71	0.10	1.96	0.10	14.9	0.0	-5.0	-94.5
United Bank	34	2.57	1.05	2.98	1.34	3.78	1.60	27.0	20.0	47.3	52.8
Nib International Bank	30	8.64	1.12	8.73	2.17	17.72	1.38	103.1	-36.3	105.2	22.8
Lion International Bank	1	0.00	0.00	1.07	0.05	1.78	0.21	65.7	-	-	-
Oromia Intenational Bank	7	0.00	0.00	0.03	0.00	1.61	0.08	-	-	-	-
Zemen Bank	1	0.00	0.00	0.10	0.04	0.18	0.17	-	-	-	-
Cooperative Bank of Oromia	2	0.01	0.01	0.00	0.05	0.03	0.01	-	-	-	-
Buna International Bank	1	0.00	0.00	0.00	0.00	0.00	0.00	-	-	-	-
Total	**322**	**28.82**	**17.89**	**24.32**	**11.35**	**37.60**	**11.52**	**54.6**	**1.5**	**30.5**	**-35.6**
Average Exchange Rate		**9.6639**	**9.8428**	**11.1954**	**11.3973**	**12.3453**	**12.5975**	**10.3**	**10.5**	**27.7**	**28.0**

Source: NBE

VII. FEDERAL GOVERNMENT FINANCE

During the first quarter of 2009/10, total revenue and grants collected by the Federal Government increased by 13.3 percent to Birr 10.16 billion from Birr 8.97 billion in the preceding quarter, wholly on account of higher tax revenue and grants. The quarterly revenue performance was 19.6 percent of the total annual budget (Table VI.1).

On the other hand, quarterly Federal Government expenditure peaked-up by 24 percent to Birr 12.63 billion largely reflecting 51 percent growth in capital expenditure.

Hence, the overall fiscal balance (including grants) depicted a wider deficit of Birr 2.47 billion compared to a deficit of Birr 1.22 billion million in the same period of last year.

Table 7.1 Summary of Federal Government Finance

(In Millions of Birr)

No	Particulars	2008/09		2009/10		Percentage Change		Performa-nce Rate
		I Qtr.	IV Qtr.	Budget	I Qtr.			
		[A]	[B]	[C]	[D]	[D/B]	[D/A]	[D/C]
1	**Revenue and Grants**	**8966.1**	**12989.0**	**51781.0**	**10161.4**	**-21.8**	**13.3**	**19.6**
1.1	**Total Revenue**	**8717.2**	**8336.0**	**42212.0**	**9715.6**	**16.5**	**11.5**	**23.0**
	Tax Revenue	5183.6	6022.0	30179.8	7217.6	19.9	39.2	23.9
	Non-Tax Revenue	3533.6	2314.0	12032.2	2498.0	8.0	-29.3	20.8
1.2	**DBS Grant & Relief**	**248.9**	**4653.0**	**9569.0**	**445.7**	**-90.4**	**79.1**	**4.7**
2	**Current Expenditure**	**2412.4**	**3227.0**	**13381.0**	**2434.2**	**-24.6**	**0.9**	**18.2**
3	**Current Surplus/Deficit**	**6304.8**	**5109.0**	**28831.0**	**7281.4**	**42.5**	**15.5**	**25.3**
4	**Capital Expenditure**	**4158.4**	**4212.0**	**22997.6**	**6275.5**	**49.0**	**50.9**	**27.3**
5	**Regional Transfers**	**3617.0**	**4206.0**	**19556.0**	**3924.4**	**-6.7**	**8.5**	**20.1**
6	**Special program**	**0.0**	**0.0**	**0.0**	**0.0**			
7	**Total Expenditure (2+4+5+6)**	**10187.8**	**11645.0**	**55934.6**	**12634.1**	**8.5**	**24.0**	**22.6**
8	**Overall Surplus/Deficit**							
	(Including Grants)	-1221.7	1344.0	-4153.6	-2472.7	-284.0	102.4	59.5
	(Excluding Grants)	-1470.6	-3309.0	-13722.8	-2918.5	-11.8	98.5	21.3
9	**Total Financing**	**1221.7**	**-1344.0**	**4153.6**	**2472.7**	**-284.0**	**102.4**	**59.5**
9.1	**Net External Borrowings**	**478.0**	**545.0**	**3140.0**	**647.7**	**18.8**	**35.5**	**20.6**
	External Borrowing	617.6	633.0	3594.0	748.9	18.3	21.3	20.8
	Special program	0.0	0.0	0.0	0.0			
	Amortization Paid	139.6	89.0	454.0	101.3	13.8	-27.4	22.3
9.2	**Net Domestic Borrowings**	**597.9**	**3982.0**	**1013.6**	**-898.5**	**-122.6**	**-250.3**	**-88.6**
	Banking System	703.2	3944.0	1013.6	-811.9	-120.6	-215.5	-80.1
	Non-Bank Sources	-105.3	36.0	0.0	-86.6	-340.6	-17.8	
9.3	**Privatization**	**0.0**	**62.0**	**0.0**	**140.7**	**126.9**		
9.4	**Others and Residuals**	**145.8**	**-5933.0**	**0.0**	**2582.8**	**-143.5**	**1671.5**	

Source: Ministry of Finance and Economic Development (MoFED)

Revenue and Grants

Total revenue and grants mobilized during the first quarter of 2009/10 reached Birr 10.2 billion about 13 percent higher than last year. Of the total revenue, Birr 9.7 billion (95.6 percent) was from domestic sources and the rest Birr 445.7 million (4.4 percent) from CPF grants. About 74 percent of the domestic revenue originated from taxes; while the remaining 25.7 percent was derived from non-taxes. The amount of CPF grant was 90.4 percent lower than that of the preceding quarter but 79.1 percent higher than the same period of last fiscal year, presumably reflecting seasonality of grants.

Table 7. 2 Summary of Federal Government Revenue by Component

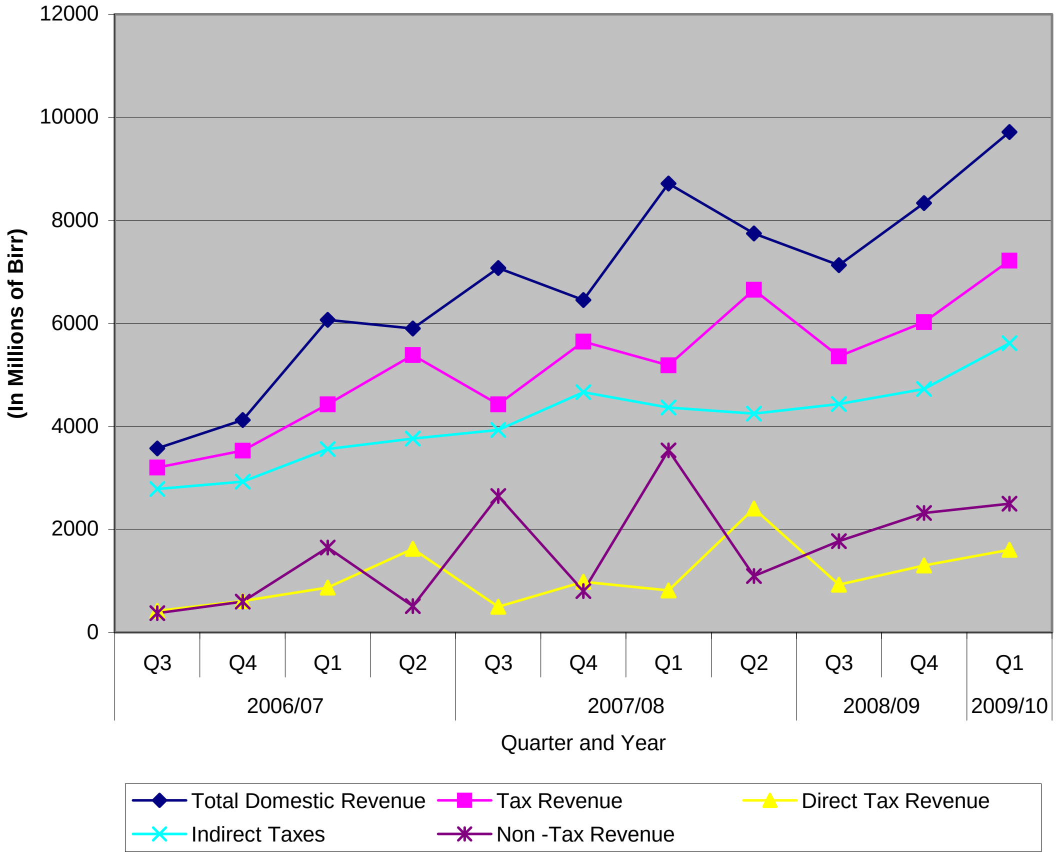
(In Millions Of Birr)

Particulars	2008/09		2009/10		Percentage Change		Performance Rate
	I Qtr.	IV Qtr.	Budget	I Qtr.			
	[A]	*[B]*	*[C]*	*[D]*	*[D/B]*	*[D/A]*	*[D/C]*
Total Revenue and Grants	**8966.1**	**12,989**	**51781.0**	**10161.4**	**-21.8**	**13.3**	**19.6**
Total Domestic Revenue	**8717.2**	**8,336**	**42212.0**	**9715.7**	**16.6**	**11.5**	**23.0**
1 Tax Revenue	**5183.6**	**6,022**	**30179.8**	**7217.6**	**19.9**	**39.2**	**23.9**
1.1 Direct Tax Revenue	**814.7**	**1,294**	**7619.8**	**1603.4**	**23.8**	**96.8**	**21.0**
1.1.1Income Taxes	595.1	1,106	6610.0	1325.2	19.8	122.7	20.0
- Personal	233.2	285	1284.0	299.6	5.1	28.5	23.3
- Business	361.9	820	5326.0	1025.6	25.1	183.4	19.3
1.1.2 Others[1]	219.6	188	1009.8	278.2	47.2	26.7	27.5
1.2. Indirect Taxes	**4368.9**	**4,728**	**22560.0**	**5614.2**	**18.7**	**28.5**	**24.9**
2. 2.1 Domestic Taxes	1249.6	1,761	7518.0	1772.0	0.6	41.8	23.6
2. 2.2 Foreign Trade Taxes	3119.3	2,967	15042.0	3842.2	29.5	23.2	25.5
- Import	3119.3	2,967	15042.0	3842.2	29.5	23.2	25.5
2. Non-Tax Revenue	**3533.6**	**2,314**	**12032.0**	**2498.0**	**8.0**	**-29.3**	**20.8**
O/W Dividend	0.0	1,000	5252.0	200.0	-80.0		3.8
3. CPF Grants	**248.9**	**4,652**	**9569.0**	**445.7**	**-90.4**	**79.1**	**4.7**

Source: MoFED

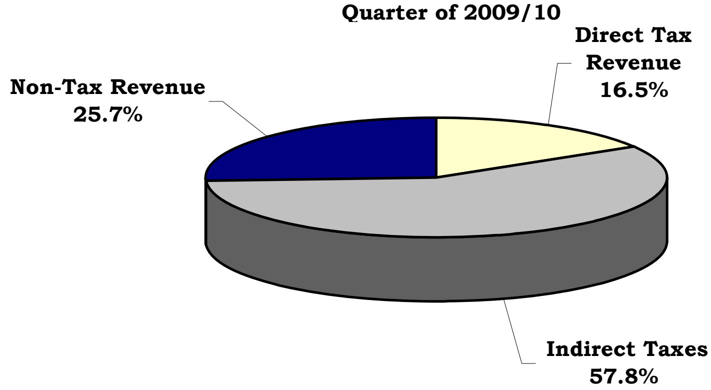
1/ includes withholding tax on import, tax on dividend and interest income

Fig. 7.1 Quarterly Developments in Major Components of Domestic Revenue



Source:MoFED

Fig.7.2 Domestic Revenue (by Major Components) during First Quarter of 2009/10



Source: MoFED

The Birr 9.72 billion domestic revenue collected in the first quarter of 2009/10, was 11.5 percent higher than the revenue mobilized a year earlier.

Likewise, Birr 7.22 billion revenue collected from taxes grew by 39.2 percent over the same quarter of last year on account of higher revenue both from direct and indirect taxes. Direct taxes which largely comprises personal and business taxes accounted for Birr 1.66 billion or 16.5 percent of the total domestic revenue or 22 percent of tax revenues. Direct taxes surged by 21 percent over last year. Meanwhile, indirect taxes, which constituted 57.8 percent of the total domestic revenue, showed a significant growth of 28.5 percent compared to a year earlier.

Expenditure

Total Federal Government expenditure including regional transfers stood at Birr 12.63 billion in the first quarter of 2009/10, up by 24 percent against the corresponding quarter of last year, mainly due to the surge in capital expenditures (Table 7.3).

Of the quarterly total expenditure, Birr 2.43 billion (about 19.3 percent) went to finance current expenditures, Birr 6.28 billion (49.7 percent) to capital expenditures and the remaining Birr 3.92 billion (31.1 percent) was transfers made to regional governments.

Year-on-year basis, capital expenditure rose by 50.9 percent as a result of higher expenditures on economic, social and general development in line with the pro-poor expenditure strategy of the government. Current expenditure growth was moderate at less than 1 percent due to the 11 percent slow down in spending in general services. Regional transfers were also 8.5 percent higher than last year.

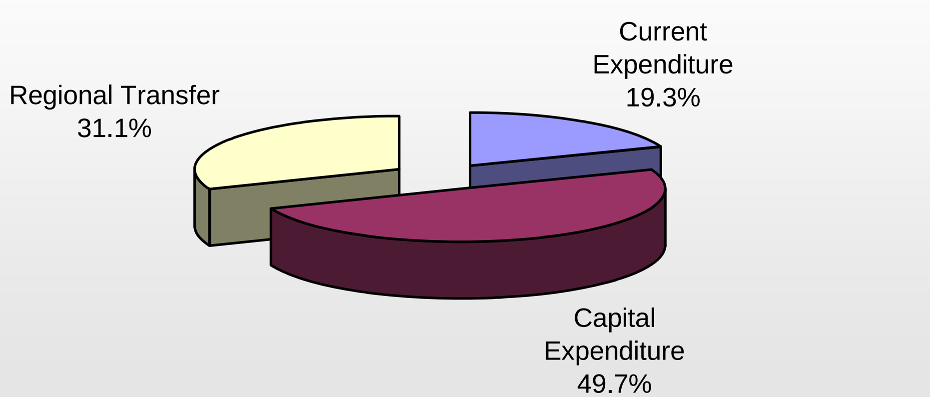
Table 7. 3 Summary of Federal Government Expenditure by Component

(In Millions of Birr)

Particulars	2008/09 I Qtr. [A]	2008/09 IV Qtr. [B]	2009/10 Budget [C]	2009/10 I Qtr. [D]	Percentage Change [D/B]	Percentage Change [D/A]	Performa-nce Rate [D/C]
Total Expenditure	**10187.8**	**11,645**	**55934.6**	**12634.2**	**8.5**	**24.0**	**22.6**
1. Current Expenditure	**2412.4**	**3,227**	**13381.0**	**2434.3**	**-24.6**	**0.9**	**18.2**
- General Services	1502.0	1,804	5782.0	1335.8	-26.0	-11.1	23.1
- Economic Services	114.3	391	888.0	124.3	-68.2	8.7	14.0
- Social Services	461.1	717	3068.0	613.9	-14.4	33.1	20.0
- Debt Service	320.1	315	3643.0	360.3	14.3	12.5	9.9
- Contingency and other	14.9	-	0.0	0.0			
2. Capital Expenditure	**4158.4**	**4,212**	**22997.6**	**6275.5**	**49.0**	**50.9**	**27.3**
- Economic Development	3200.6	3,323	17810.6	4400.5	32.4	37.5	24.7
- Social Development	918.9	812	4818.0	1757.3	116.4	91.2	36.5
- General Development	38.9	77	369.0	117.7	52.9	202.6	31.9
3. Regional Transfers	**3617.0**	**4,206**	**19556.0**	**3924.4**	**-6.7**	**8.5**	**20.1**

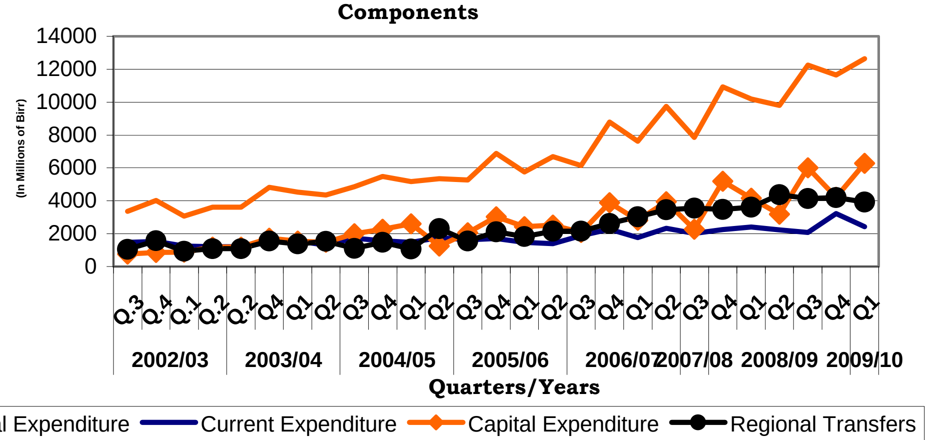
Source: MoFED

Fig 7.3: Major Components of Federal Government Expenditure during First Quarter of 2009/10



Source:- MoFED

Fig. 6.4 Quarterly Developments in Federal Government Expenditure by Components



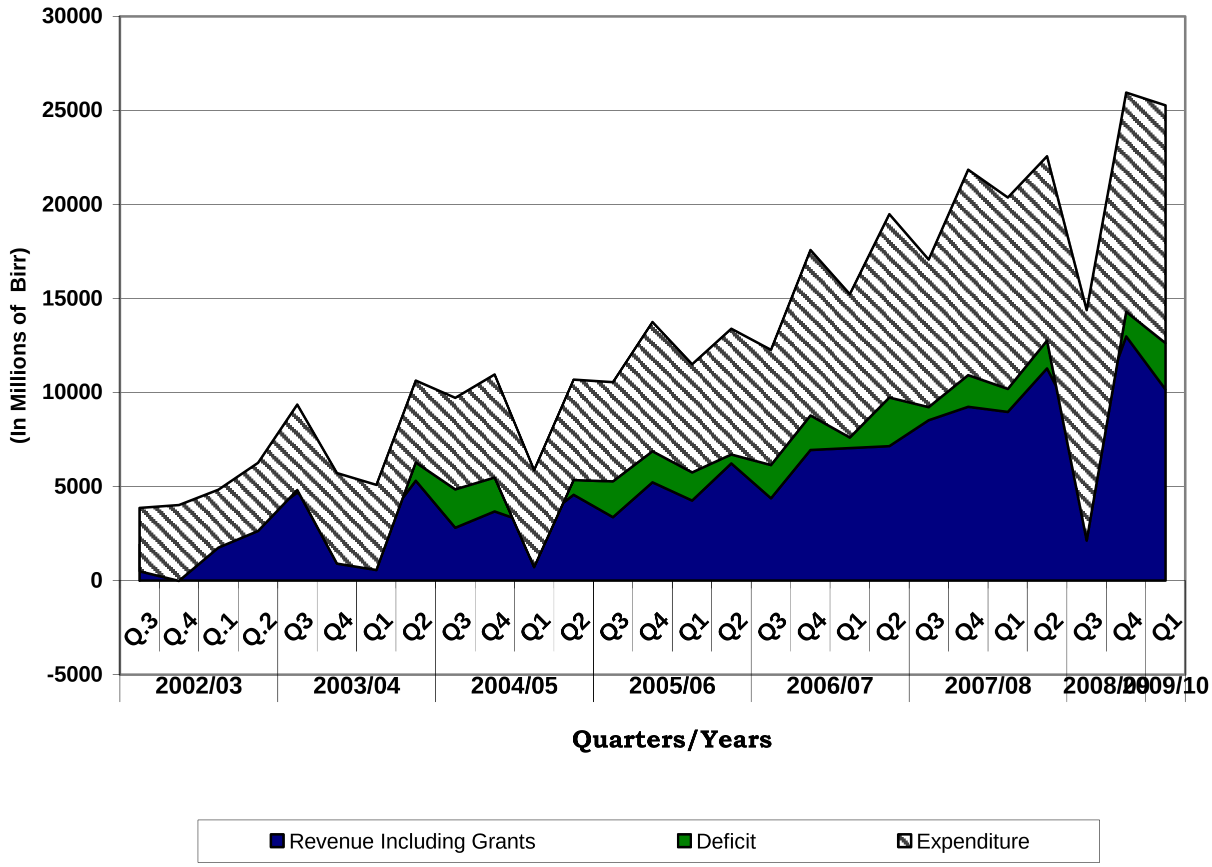
Source: MoFED

Deficit Financing

Federal Government budgetary operations resulted in an overall deficit (including grant) of Birr 2.47 billion. The deficit was higher than Birr 1.2 billion deficit recorded a year earlier as 24 percent growth in expenditure outweighed 13.3 percent increase in total revenue.

The fiscal deficit was largely financed by net external borrowings of Birr 647.7 million, privatization proceeds and other receipts and residuals. At the same time, the government repaid Birr 898.5 million to domestic creditors mainly the banking system.

Fig. 7.5 Federal Government Finance during First Quarter of F.Y 2009/10



Source: MoFED

VIII. INVESTMENT

A total of 1,701 investment projects with an aggregate capital of Birr 28.1 billion were licensed by the Ethiopian Investment Agency and Regional Investment Offices during the first quarter of 2009/10. Both the number and capital of approved investment projects fell in the review quarter as compared to the preceding quarter and the same period of last year, respectively (Table 8.1).

Out of the total investment projects approved in the review period, 1,699 projects were private, while the remaining 2 were public. In addition, of the total approved private investment projects, 1,315 projects (77.3 percent) were domestic and the rest 384 (22.7 percent) foreign direct investments. Despite their small number foreign direct investment projects constituted Birr 18.6 billion or 66.2% of the total capital of approved projects during the review period.

Upon going operational, the approved investment projects are expected to create 69,136 permanent and 112,174 casual jobs.

Table 8.1. Performance of Approved Investment Projects

Type of Projects	Items	2008/09 Q.I A	2009/10 Q.IV B	2009/10 Q.I C	Percentage changes C/A	Percentage changes C/B
1.Total Investment	Number of projects	2,951	1,712	1,701	-42	-1
	Capital[in million Birr]	31,497	142,250	28,047	-11	-80
	Permanent Employment	112,076	82,418	69,136	-38	-16
	Temporary Employment	279,918	184,071	112,174	-60	-39
2. Private Investment	Number of projects	2,945	1,711	1,699	-42	-1
	Capital[in million Birr]	27,079	67,250	27,995	3	-58
	Permanent Employment	112,076	72,418	69,071	-38	-5
	Temporary Employment	279,918	134,071	112,169	-60	-16
2.1 Domestic Investment	Number of projects	2,471	1,323	1,315	-47	-1
	Capital[in million Birr]	15,299	43,989	9,470	-38	-78
	Permanent Employment	65,797	30,543	53,287	-19	74
	Temporary Employment	193,432	94,365	82,310	-57	-13
2.2 Foreign Investment	Number of projects	474	388	384	-19	-1
	Capital[in million Birr]	11,781	23,261	18,525	57	-20
	Permanent Employment	46,279	41,875	15,784	-66	-62
	Temporary Employment	86,486	39,706	29,859	-65	-25
3. Public Investment	Number of projects	6	1	2	-67	100
	Capital[in million Birr]	4,418	75,000	52	-99	-100
	Permanent Employment	0	10,000	65	-	-99
	Temporary Employment	0	50,000	5	-	-100

Source: Ethiopian Investment Agency

With regard to sectoral distribution, of the total 1,701 projects licensed during the stated period, manufacturing makes up 23.9 percent followed by real estate, renting and various business activities (18 percent), construction (16.5 percent) and agriculture, hunting and forestry (15.6 percent). The order of sectors in total capital also follows the same pattern. (Table 8.2).

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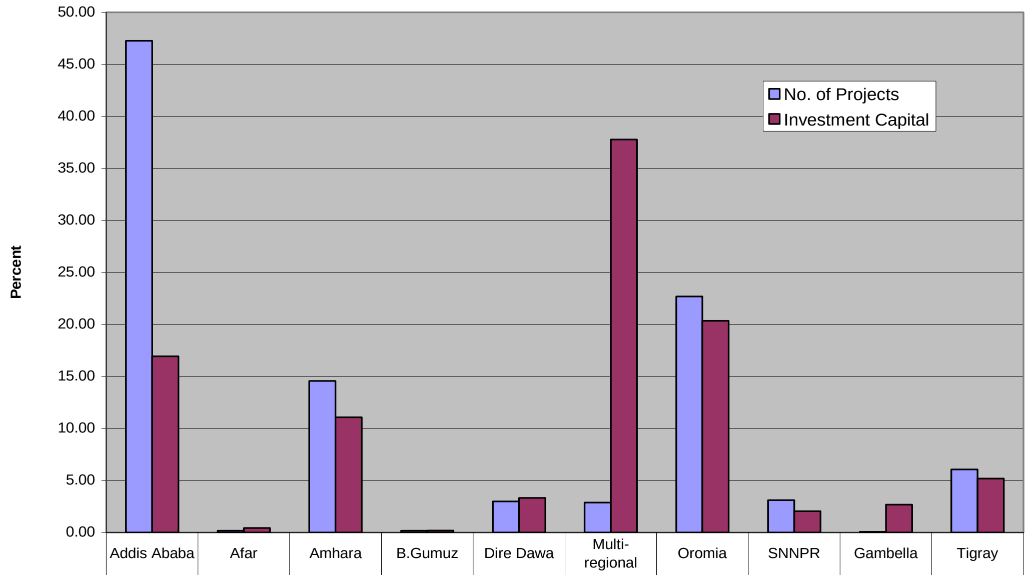
Regarding job creation, more permanent jobs are expected to be created by the manufacturing sector (29.3 percent), followed by construction (19.4 percent) and real estate, renting and business activities (15.8 percent). While, agriculture, hunting and forestry are envisaged to employ more casual workers.

Table 8.2 Investment Projects Distribution by Sector during First Quarter of 2009/10

	No. of Proj.	Share [in %]	Capital(in Million Birr)	Share [in %]	Perm. Emp.	Share [in %]	Temp. Emp.	Share [in %]
Agriculture, hunting and forestry	266	15.64	1,709.61	6.10	10,849	15.69	63,103	56.25
Construction	281	16.52	2,706.86	9.65	13,390	19.37	12,497	11.14
Education	53	3.12	222.43	0.79	1,429	2.07	833	0.74
Electricity, gas, steam and water supply	1	0.06	2.00	0.01	10	0.01	10	0.01
Fishing	7	0.41	17.46	0.06	165	0.24	40	0.04
Health and social work	16	0.94	98.99	0.35	362	0.52	688	0.61
Hotels and restaurants	171	10.05	1,549.94	5.53	7,655	11.07	5,742	5.12
Manufacturing	407	23.93	17,016.56	60.67	20,258	29.30	18,150	16.18
Mining and quarrying	4	0.24	26.20	0.09	112	0.16	180	0.16
Other community, social and personal service activities	18	1.06	74.74	0.27	600	0.87	478	0.43
Real estate, renting and business activities	306	17.99	3,824.66	13.64	10,953	15.84	8,125	7.24
Transport, storage and communication	97	5.70	270.08	0.96	1,048	1.52	682	0.61
Wholesale, retail trade & repair service	74	4.35	526.98	1.88	2,305	3.33	1,646	1.47
Grand Total	**1,701**	**100.00**	**28,046.52**	**100.00**	**69,136**	**100.00**	**112,174**	**100.00**

Source: Ethiopian Investment Agency

Fig 8:1 Approved Investment Projects by Region during First Quarter of 2009/10



	Addis Ababa	Afar	Amhara	B.Gumuz	Dire Dawa	Multi-regional	Oromia	SNNPR	Gambella	Tigray
No. of Projects	47.27	0.18	14.58	0.18	3.00	2.88	22.69	3.12	0.06	6.06
Investment Capital	16.94	0.43	11.07	0.20	3.32	37.77	20.34	2.06	2.67	5.19

Region

Source: Ethiopian Investment Agency

Regarding the distribution of licensed investment projects by region, 47 percent of the projects were in Addis Ababa followed by Oromia (22.7 percent) and Amhara (14.6 percent) (Fig. 8.1). Sector wise, Oromia took 45.9 percent share in agriculture, hunting and forestry and 34.5 percent in hotels and restaurants. Meanwhile Addis Ababa's share was 79.4 percent in construction projects, 45.7 percent in manufacturing and 28.3 percent in education. (Tabl8.3).

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Table 8.3 Regional-Sector Nexus in Number, Capital and Job Opportunities of Licensed Projects During First Quarter of 2009/10

Capital in million Birr

		Investment Region										
Sector	**Indicators**	**Addis Ababa**	**Afar**	**Amhara**	**B.Gumuz**	**Dire Dawa**	**Multi-regional**	**Oromia**	**SNNPR**	**Gambella**	**Tigray**	**Grand Total**
Agriculture, hunting and forestry	No of Proj.	6	2	90	3	4	13	122	11		15	266
	Capital.	37	100	220	55	12	79	884	140		183	1,710
	Perm.emp.	147	451	4,681	70	110	455	3,036	1,397		502	10,849
	Temp.emp.	160	3,500	16,382	300	140	1,005	35,398	440		5,778	63,103
Construction	No of Proj.	223		13		4	4	15	6	1	15	281
	Capital.	1,388		270		20	156	28	10	750	84	2,707
	Perm.emp.	11,676		726		54	165	165	107	75	422	13,390
	Temp.emp.	8,536		342		47	860	491	223	1,100	898	12,497
Education	No of Proj.	15		12		2	1	10	4		9	53
	Capital.	103		18		10	4	67	6		14	222
	Perm.emp.	614		123		128	10	247	107		200	1,429
	Temp.emp.	309		223		9	0	165	20		107	833
Electricity, gas, steam and water supply	No of Proj.					1						1
	Capital.					2						2
	Perm.emp.					10						10
	Temp.emp.					10						10
Fishing	No of Proj.			3				1	3			7
	Capital.			4				3	10			17
	Perm.emp.			75				10	80			165
	Temp.emp.			24				5	11			40
Health and social work	No of Proj.	8		3		1					4	16
	Capital.	51		15		9					24	99
	Perm.emp.	184		40		20					118	362
	Temp.emp.	65		574		12					37	688
Hotels and restaurants	No of Proj.	43		42		8	1	59	4		14	171
	Capital.	174		410		34	10	467	141		314	1,550
	Perm.emp.	2,936		1,744		227	30	1,924	346		448	7,655
	Temp.emp.	1,429		1,193		190	10	2,050	0		870	5,742
Manufacturing	No of Proj.	187	1	24		10	19	120	14		32	407
	Capital.	1,300	20	1,590		23	10,265	2,914	209		695	17,017
	Perm.emp.	7,180	50	1,422		165	949	7,796	1,460		1,236	20,258
	Temp.emp.	4,355	150	2,038		108	2,347	5,758	2,305		1,089	18,150
Mining and quarrying	No of Proj.							4				4
	Capital.							26				26
	Perm.emp.							112				112
	Temp.emp.							180				180

... Continued Table 8.3

Other community, social and personal service activities	No of Proj.	4		10		1		1	1		1	18
	Capital.	43		24		2		4	2		1	75
	Perm.emp.	176		248		15		15	20		126	600
	Temp.emp.	229		210		12		25	0		2	478
Real estate, renting and business activities	No of Proj.	222		34		16	8	9	8		9	306
	Capital.	1,400		395		811	72	970	49		128	3,825
	Perm.emp.	8,091		1,618		225	141	157	502		219	10,953
	Temp.emp.	5,862		1,267		296	329	202	71		98	8,125
Transport, storage and communication	No of Proj.	87		1			3	1	1		4	97
	Capital.	241		2			8	1	5		13	270
	Perm.emp.	854		12			30	6	76		70	1,048
	Temp.emp.	594		7			55	4	0		22	682
Wholesale, retail trade & repair service	No of Proj.	9		16		4		44	1			74
	Capital.	15		156		11		341	5		0	527
	Perm.emp.	100		1,313		53		814	25			2,305
	Temp.emp.	90		783		8		765	0			1,646
Total No of Projects		**804**	**3**	**248**	**3**	**51**	**49**	**386**	**53**	**1**	**103**	**1,701**
Total Capital		**4,752**	**120**	**3,104**	**55**	**932**	**10,594**	**5,704**	**578**	**750**	**1,456**	**28,047**
Total Permanent employment		**31,958**	**501**	**12,002**	**70**	**1,007**	**1,780**	**14,282**	**4,120**	**75**	**3,341**	**69,136**
Total Temporary employment		**21,629**	**3,650**	**23,043**	**300**	**832**	**4,606**	**45,043**	**3,070**	**1,100**	**8,901**	**112,174**
Percentage share												
No of Project		**47.27**	**0.18**	**14.58**	**0.18**	**3.00**	**2.88**	**22.69**	**3.12**	**0.06**	**6.06**	**100.00**
Capital.		**16.94**	**0.43**	**11.07**	**0.20**	**3.32**	**37.77**	**20.34**	**2.06**	**2.67**	**5.19**	**100.00**
Permanent employment		**46**	**1**	**17**	**0**	**1**	**3**	**21**	**6**	**0**	**5**	**100**
Temporary employment		**19**	**3**	**21**	**0**	**1**	**4**	**40**	**3**	**1**	**8**	**100**

Source: Ethiopian Investment Agency

Note: The empty spaces show that the values are zero

IX. INTERNATIONAL ECONOMIC DEVELOPMENTS

9.1. Overview of World Economy/ 1

1/ Excerpted from European Central Bank Monthly Bulletin, November, 2009.

Latest indicators reinforce the view that the significant contraction in global economic activity has come to an end and that the world economy has started growing again. In October, the global Purchasing Managers' Index (PMI) of output in the manufacturing sector recorded the highest value in more than three years and signaled that activity had picked up at a significantly higher pace than in previous months. According to the PMI, global activity in the manufacturing sector has expanded for five consecutive months. The expansion in activity in October was rather broad-based and was particularly strong in a number of advanced economies.

In the United States, economic activity expanded in the third quarter of 2009 after the sharp downturn in the previous quarters. According to advance estimates by the Bureau of Economic Analysis, real GDP increased by 3.5% in annualized terms in the third quarter of 2009, following four quarters of negative growth. The pick-up in activity reflects gains in consumer spending. Government stimulus measures temporarily supported private demand, particularly for motor vehicle sales. The pace of decline in business investment moderated from the previous quarter, while residential investment posted its first increase since late 2005, in line with recent signs of stabilization in housing markets. Inventories and government expenditure contributed positively to GDP growth. Net trade recorded a negative contribution of 0.5 percentage point as the rebound in imports outweighed the rise in exports.

In Japan, economic activity has recovered since the second quarter of

2009. The recovery has mainly been driven by an upturn in exports, reflecting, in part, the strong recovery in other Asian economies. In September, industrial production rose for a seventh consecutive month, by 1.4% month on month. Domestic private demand, however, has remained relatively weak in the light of subdued developments in corporate profits, employment and income.

According to preliminary estimates, real GDP in the United Kingdom, contracted slightly further in the third quarter, by 0.4% quarter on quarter, following the decline of 0.6% in the second quarter. Economic activity in the third quarter was significantly below market expectations. Overall, activity and housing market indicators suggest that the economic situation may improve in the months ahead. In particular, the Halifax house price index grew by 2.8% quarter on quarter in the third quarter, in spite of weak mortgage lending. At the same time, however, renewed weakness in industrial production – evidenced by the 2.5% decline month on month in August – suggests that the improvement in the economic situation might be rather limited.

The recovery has continued in emerging Asia. In addition to fiscal stimuli and accommodative monetary policy, higher asset prices have supported domestic demand. The most recent labor market data indicate that unemployment – which had risen in the wake of the global slowdown – has begun to decline in some countries. The rebound in foreign trade, however, has been lagging behind the economic recovery. In China, annual real GDP growth remained robust, accelerating to 8.9% in the third quarter of 2009. Overall, in the first three quarters of 2009, GDP increased at an average rate of 7.7% year on year. Growth continued to be largely dependent on the fiscal stimulus, with stimulus-driven fixed investment contributing 7.3 percentage points to annual GDP growth in the first three quarters of 2009. The contribution from consumption remained robust at 4.0 percentage points over the same period. Owing to weak exports, the trade surplus continued to decline in September, 2009.

In Latin America, the latest developments in economic activity havse remained heterogeneous across the major economies. In Brazil, industrial production declined at an annual rate of 7.8% in September, after falling by 7.2% in August. In Argentina, economic activity showed some signs of improvement, with industrial production remaining unchanged in September compared with a year ago, following a decline of 1.4% year on year in August. Economic activity in Mexico showed renewed signs of weakness in August, with industrial production declining by 7.7% year on year.

9.2. Inflation Developments

Global inflation rates have remained slightly negative owing to base effects related to commodity prices and elevated spare capacity. The headline CPI in OECD countries fell by 0.3% in the year to September, the same rate as in August. Excluding food and energy, annual CPI inflation was 1.5% in September. The global PMI of manufacturing input prices highlighted marked increases in global purchasing prices in October, following the acceleration recorded in September, partly owing to the recent increases in commodity prices.

The US consumer price index declined by 1.3% in the year to September. This followed a decrease of 1.5% in the year to August. The negative headline inflation continues to be driven, for the most part, by the decline in energy prices compared with the previous year. The annual rate of inflation, excluding food and energy, stood at 1.5% in September, up from 1.4% in August.

Annual Harmonized Index of Consumer Price (HICP) inflation in UK decreased from 1.6% in August to 1.1% in September. On 5 November the Monetary Policy Committee decided to maintain the official Bank Rate paid on commercial bank reserves at 0.5%. The Committee also decided to increase the size of the Bank of England's asset purchase program by GBP 25 billion to GBP 200 billion.

Inflation rates have remained negative in Japan over recent months owing to base effects related to petroleum products and considerable economic slack. While annual CPI inflation remained unchanged at -2.2% in September; annual CPI inflation excluding food and energy fell to -1.0% from -0.9% in

August. At its meeting on 30 October 2009, the Bank of Japan decided to leave its target for the uncollateralized overnight call rate unchanged at 0.1%.

According to Eurostat's flash estimate, Euro area annual HICP inflation stood at -0.1% in October, up from -0.3% in September. The current slightly negative inflation rates are in line with previous expectations and reflect mainly movements in global commodity prices over the past year. The fluctuation in annual HICP inflation rates in recent months largely responds to the interaction of upward base effects stemming from the drop in these prices in the second half of 2008 with current movements in global commodity prices.

As in previous months, the contribution of the energy price component to overall annual HICP developments was particularly negative. The annual rate of change in the energy component of the HICP decreased to -11.0% in September from -10.2% in August despite a small upward base effect stemming from the decline in oil prices 12 months earlier. Falling prices of liquid fuels for transport and heating were the main drivers of a significant month-on-month decrease in energy prices, while the annual growth rates of electricity and gas prices continued to decline following last year's developments in oil prices with a lag.

Inflation is gradually picking up, even though annual changes in consumer prices are still negative in some of emerging Asia countries. Recently, monthly changes in consumer prices in China have become positive and annual inflation reached -0.8% in September, up from -1.2% in August.

Annual CPI inflation in Brazil stood at 4.2% in September, 0.1 percentage point lower than in the previous month. In Argentina, inflationary pressures have picked up somewhat, with annual CPI inflation reaching 6.2% in September, up almost 1.0 percentage point from the five-year low recorded in June. Annual inflation in Mexico declined somewhat from 5.1% in August to 4.9% in September.

9.3. Commodity Prices

Oil prices were between USD 70 and USD 75 per barrel for most of October before posting a notable increase towards the end of the month. Looking at fundamentals, oil demand is expected to increase and the International Energy Agency has repeatedly revised its 2009 and 2010 demand projections upwards, especially for North America and Asia. Chinese trade data also point to robust growth in oil demand, which may have added momentum to rising prices. On the supply side, a moderate decrease in non-OPEC oil production was offset by increased output by OPEC countries.

The prices of non-energy commodities also increased in October. Food prices posted some increases, led, in particular, by maize and cocoa prices. Metal prices, especially copper and zinc, rose based on expectations of restocking taking place in OECD countries and gold prices also surged. In aggregate terms, the price index for non-energy commodities was about 23% higher at the end of October than at the beginning of the year.

9.4. Exchange Rate Developments

The euro exchange rate has continued to strengthen in nominal effective terms over the past three months, reaching levels close to its 2008 peak. On November 4, the nominal effective exchange rate of the euro was 2.6% stronger than at the end of July and 2.7% stronger than its average 2008 level. Over the last three months the appreciation has primarily been driven by the developments in the bilateral euro rates vis-à-vis the US dollar, the pound sterling and the major Asian currencies linked to the US dollar.

While in August the USD/EUR exchange rate remained broadly stable, in September and most of October the euro strengthened again vis-à-vis the US dollar. This reflected a rather broad-based depreciation of the US dollar against a larger set of currencies, reportedly as a result of the low US interest rates and declining global risk perceptions. Over the last three months the implied volatility of the USD/EUR exchange rate has remained at close to its average value over the past ten years.

Over the last three months, the bilateral exchange rate of the euro vis-à-vis the Japanese yen has fluctuated between JPY 130 and JPY 138. It has reportedly been affected by changes in the overall risk perception in financial markets and market considerations regarding Japanese exchange rate policy. In the same period, the implied volatility of the

JPY/EUR exchange rate has continued to decrease, but has remained above its historical average.

A US dollar was trading at average of Birr 12.3746; depicting depreciation of the Birr against USD by 28.1 percent on annual basis in the first quarter of 2009/10. Similarly the Birr depreciated by 21.6, 11 and 47 percent against Euro, Pound Sterling and Yen respectively in the same period.

9.5. Impact of Global Economic Developments on Ethiopian's Economy

Global economic crisis has exerted marginal impact on Ethiopia's export trade. Export earnings from merchandise goods declined by 2.6 percent during the first quarter of 2009/10 vis-à-vis the same period last year due to lower international prices of major export commodities such as coffee, leather and leather products, pulses and oilseeds. Similarly, private transfers dropped by about 7 percent due to the lagged effect of global economic down turn which is beginning to show a sign of recovery, recently. With inceased efforts there is high potential to improve the country's export performance and reduce current account deficit. With global recovery looming large, transfers and foreign direct investment are expected to rebound and the pressure on the overall balance of payments eased. Gross international reserves are also envisaged to improve during the FY 2009/10.