

V. EXTERNAL SECTOR DEVELOPMENTS

5.1 Overall Balance of Payments

The overall balance of payments during the second quarter of 2010/11 recorded a surplus of USD 114.4 million, depicting a 29.8 percent improvement over last year.

This was ascribed to higher net receipts from private and official transfers. Merchandise trade deficit also narrowed by 13 percent to USD 1.7 billion as a result of a significant export growth and moderate fall in total import.

The surplus in service account went down by 39.6 percent with respect to last year same period as service payments, in

particular for transport and other services, rose significantly.

The surplus in capital account also declined by 8.6 percent compared with a year ago due to lower net long term loan disbursements and higher net out flows of short term capital. Estimated FDI inflows however, tended to increase. (Table 5.1).

Table 5.1: Balance of Payments

(millions of USD)

Ethiopian Fiscal Year	2009/10		2010/11		Percentage Change	
	QII	QI	QII	C/B		
	A	B	C			
Trade Balance	-1948.4	-1229.3	-1695.0	37.9	-13.0	
Exports	370.4	563.4	550.7	-2.3	48.7	
Imports	2318.8	1792.7	2245.7	25.3	-3.2	
Net Services	216.2	241.7	130.5	-46.1	-39.6	
Travel	66.6	126.0	123.2	-2.2	85.0	
Transportation	89.6	113.4	75.7	-33.2	-15.5	
Government (n.i.e.)	64.1	64.1	58.7	-8.4	-8.4	
Investment income	-9.3	-7.7	-20.0	159.9	114.2	
Interest	-5.9	0.7	-12.6	-1901.4	112.3	
Cash (net)	-5.8	0.7	-12.9	-1948.6	125.0	
Arrears	0.0	0.0	0.0			
Relief	-0.2	0.0	0.3	-	-50.0	
Dividend	-3.4	-8.4	-7.4	117.7	11.9	
Other Services	5.2	-54.1	-107.1	98.0	-	
Private Transfers	759.1	537.2	901.5	67.8	18.8	
Current Account Balance(excl. public transfers)	-973.2	-450.4	-663.1	47.2	-31.9	
Public Transfers	446.3	462.6	659.2	42.5	47.7	
Current Account Balance(incl. public transfers)	-526.8	12.2	-3.9	-132.0	99.3	
Non-monetary Capital	726.9	374.7	664.2	77.3	-8.6	
Long-term (net)	411.7	205.8	385.4	87.3	-6.4	
Disbursements	434.4	226.8	426.2	87.9	-1.9	
Repayments	22.8	21.0	40.8	94.3	79.3	
Cash	22.0	18.7	39.1	109.1	77.4	
Arrears	0.0	0.0	0.0			
Relief	0.7	2.3	1.7	-26.1	139.4	
Direct Investment (net)	305.3	192.0	340.7	77.5	11.6	
Short-term (net)	10.0	-23.1	-61.9	167.8	-720.9	
Net Errors & Omissions	-112.0	-129.1	-546.0	322.8	387.6	
Overall Balance	88.1	257.7	114.4	-55.6	29.8	
Financing	-88.1	-257.7	-114.4	-55.6	29.8	
Reserves (-:increase)	-87.2	-255.4	-112.3	-56.0	28.8	
NBE net foreign asset	-33.4	-229.0	-105.9	-53.8	217.0	
CBs net foreign asset	-53.8	-26.5	-6.4	-75.7	-88.0	
Debt Relief	-0.9	-2.3	-2.0			
Principal	0.7	2.3	1.7			
Interest	0.2	0.0	0.3			

Source: Staff compilation.

The current receipts during the second quarter of 2010/11 amounted to USD 2.75 billion, showing 27.6 percent growth over the same period last year (Table 5.2).

This was largely ascribed to 48.7 percent increase in export proceeds, and 66.5 percent in transfers (including private and public).

Meanwhile, current payments amounted to USD 2.75 billion, which grew 2.7 percent.

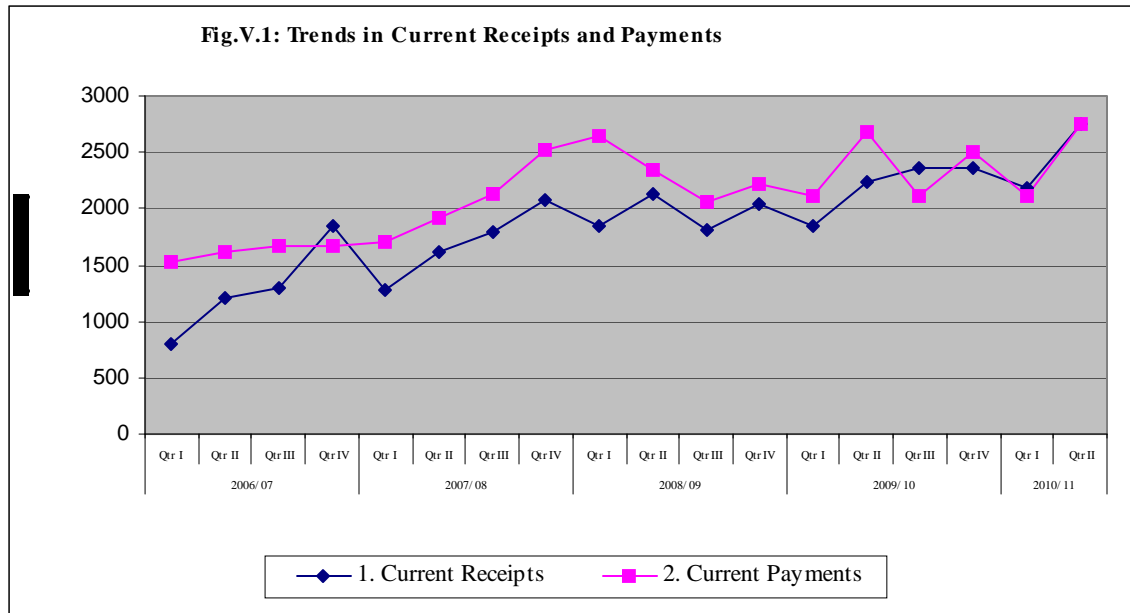
The marginal increase in current payments resulted wholly from huge service payments.

Table 5.2 Current Receipts and Payments

(In Million of USD)

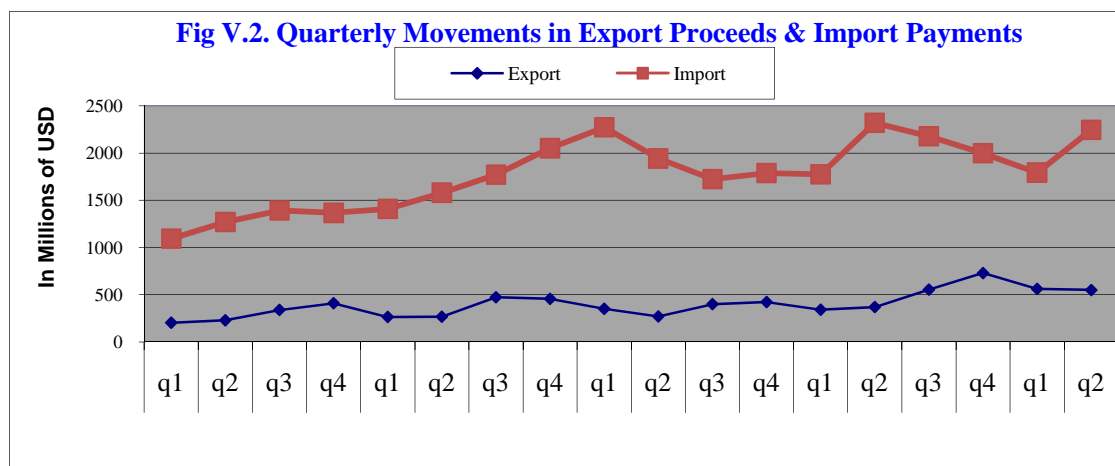
Particulars	2009/10	2010/11		Percentage Change	
	Qtr II	Qtr I	Qtr II	D=C/B	E=C/A
	A	B	C		
1. Current Receipts	2,156.4	2,176.5	2,750.5	26.4	27.6
Export Proceeds	370.4	563.4	550.7	-2.3	48.7
Service Proceeds	580.6	613.3	639.1	4.2	10.1
Private Transfers(net)	759.1	537.2	901.5	67.8	18.8
Public Transfer(net)	446.3	462.6	659.2	42.5	47.7
2. Current Payments	2,683.2	2,164.3	2,754.4	27.3	2.7
Import Payments	2,318.8	1792.7	2,245.7	25.3	-3.2
Service Payments	364.4	371.6	508.7	36.9	39.6
3. Net(1-2)	-526.8	12	-3.9	-99.4	-99.3

Source: Staff Compilation

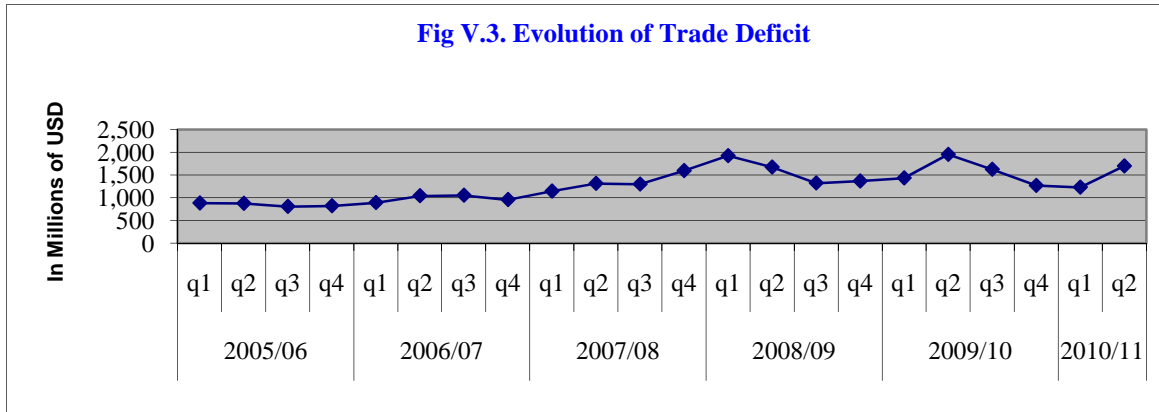


5.2 Merchandise Trade

In the second quarter of 2010/11, merchandise trade deficit stood at USD 1.7 billion, which narrowed by 13 percent year-on-year. This was attributed to the remarkable export growth and marginal decline in total imports.



Source: Ethiopian Revenue and Customs Authority



Source: NBE Staff Compilation

5.2.1 Exports

Merchandise goods exported fetched earned USD 550.7 million during the second quarter of 2010/11. Exhibiting a 48.7 percent growth over the same period last year. The annual growth in total export revenue was driven mainly by the increase in earnings from coffee

(133 percent), gold (152.7 percent), live animals (85.7 percent), chat (19.8 percent), leather and leather products (74.3 percent), meat and meat products (108.8 percent), flower (6.7 percent) and fruit and vegetables (33.4 percent).

Table 5.3 Values of Major Export Items*(In millions of USD)*

Particulars	2009/10		2010/11				Percentage Change	
	QII A	%Share	QI B	%Share	QII C	%Share	C/B	C/A
Coffee	58.2	15.7	184.8	32.8	135.7	24.6	-26.6	133.0
Oil Seeds	76.0	20.5	64.8	11.5	40.4	7.3	-37.7	-46.9
Leather and Leather products	12.5	3.4	18.7	3.3	21.8	4.0	16.7	74.3
Pulses	33.2	9.0	28.7	5.1	33.9	6.2	18.4	2.2
Meat & Meat Prod.	7.3	2.0	13.1	2.3	15.3	2.8	16.5	108.8
Fruits & Vegetables	5.5	1.5	5.9	1.1	7.3	1.3	23.3	33.4
Live Animals	22.2	6.0	35.3	6.3	41.3	7.5	16.9	85.7
Chat	52.4	14.1	64.1	11.4	62.8	11.4	-2.1	19.8
Gold	42.5	11.5	71.7	12.7	107.5	19.5	49.9	152.7
Flower	38.6	10.4	35.3	6.3	41.2	7.5	16.5	6.7
Others	21.8	5.9	40.8	7.2	43.5	7.9	6.5	99.5
Total	370.4	100.0	563.4	100.0	550.7	100.0	-2.3	48.7

Source: Ethiopian Revenue and Customs Authority

Export proceeds from coffee amounted to USD 135.7 million, showing 133 percent growth over the same period last year as a result of higher volume (103.8 percent) and world price (14.3 percent). Consequently, coffee export proceed in the review period constituted 24.6 percent of the total export revenue compared to the 15.7 percent last year.

Likewise, earning from gold export rose to USD 107.5 million, growing by 152.7 percent on yearly basis due to higher volume and international price. As a result, the share of gold in total increased to 19.5 percent from 11.5 percent last year.

Meanwhile, revenue from export of live animals amounted to USD 41.3 million, 85.7 percent higher than a year earlier solely owing to significant rise in volume of export. Thus, the share of live animals export in total export earning improved to 6 percent a year ago.

The proceeds from chat export showed a 19.8 percent yearly growth to reach USD 62.8 million wholly on account of higher volume of exports. Hence, chat export accounted for 11.4 percent of total exports in the review quarter.

Export receipts from leather and leather products reached USD 21.8 million, 74.3 percent surge over last year same quarter. Both increased volume and world prices contributed to this effect. Accordingly, export of leather & leather products recorded 4 percent share in total export revenue.

Driven by higher volume of exports and world prices, export proceeds of meat and meat products increased markedly by 108.8 percent year-on-year in the review quarter to USD 15.3 million. The share of these commodities in total export proceeds of the quarter was 2.8 percent.

Despite a 9.3 percent fall in international price, earning from flower export depicted 6.7 percent annual growth in the second quarter of 2010/11 and USD 41.2 million. This was solely due to

higher volume of exports. The share of flowers in total export went down to 7.5 percent from 10.4 percent last year. Similarly, fruits and vegetable export earnings amounted to USD 7.3 million, depicting 33.4 percent growth vis-à-vis the same quarter of last year mainly as a result of higher volume and improved world prices. The share of fruits and vegetables in total exports was 1.3 percent.

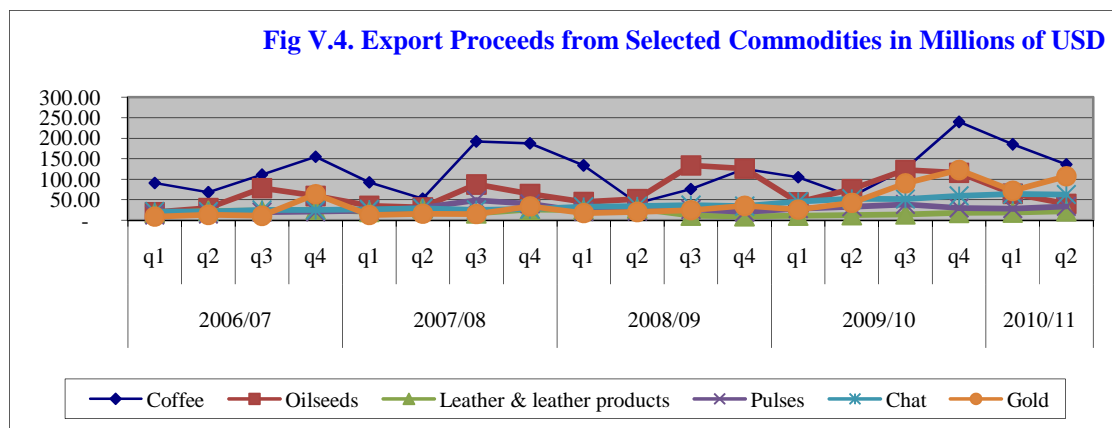
Receipts from export of oil seeds stood at USD 40.4 million, down by 47 percent on yearly basis on account of a significant decline in volume and international prices. Hence, the share of oilseeds export went down to 7.3 percent compared to 20.5 percent in same quarter of last year.

Table 5.4 Volume of Major Export Items

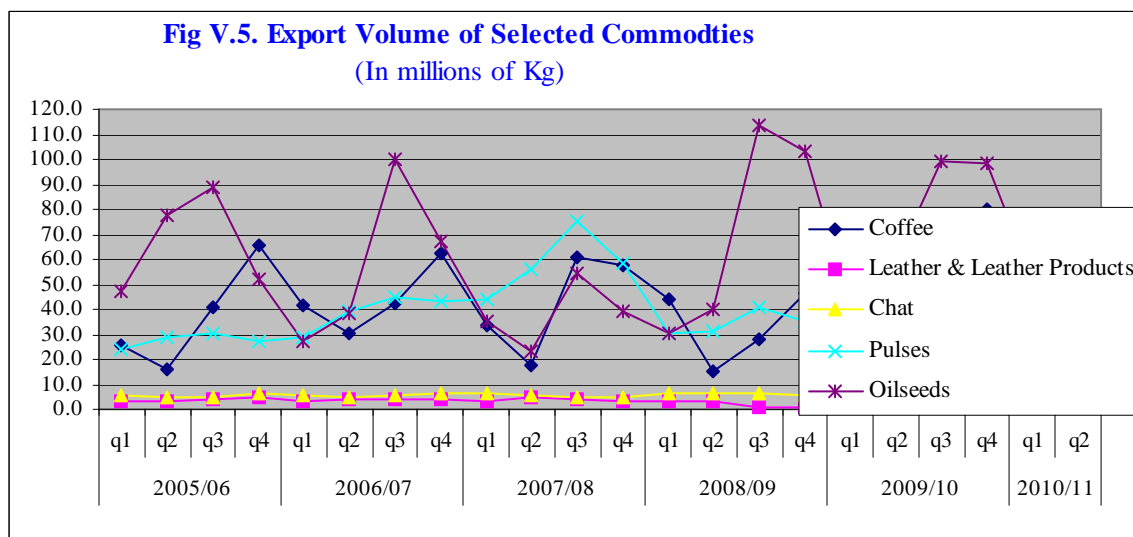
(In millions of kg)

Particulars	2009/10	2010/11		Percentage Change	
	QII	QI	QII	C/B	C/A
	A	B	C		
Coffee	19.4	55.5	39.6	-28.7	103.8
Oil Seeds	61.0	51.2	32.7	-36.2	-46.4
Leather & Leather products	0.7	1.1	1.1	-1.4	51.8
Pulses	33.2	50.1	53.1	5.9	59.8
Meat & Meat Prod.	2.3	3.6	4.4	20.9	93.8
Fruits & Veg.	15.7	19.7	22.6	15.0	43.8
Live Animals	16.5	26.7	31.5	17.9	91.0
Chat	9.0	11.3	10.8	-4.2	20.2
Gold	0.0017	0.0020	0.0027	32.8	58.0
Flower	8.4	8.7	9.9	14.0	17.6

Source: Ethiopian Revenue and Customs Authority



Source: Ethiopian Revenue and Customs Authority



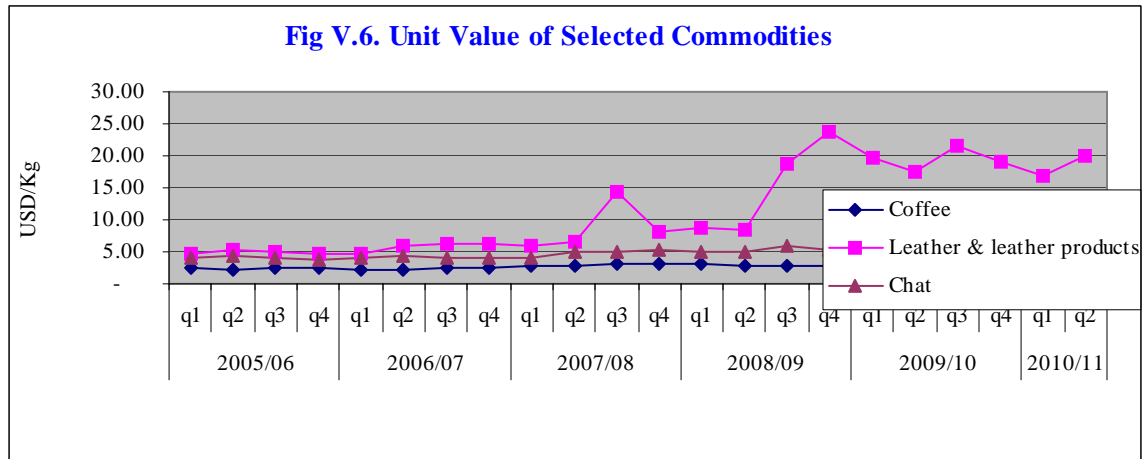
Source: Ethiopian Revenue and Customs Authority

Table 5.5 Unit value of Major Export Items (USD/kg)

Particulars	2009/10	2010/11		Percentage Change	
	QII	QI	QII	C/B	C/A
	A	B	C		
Coffee	3.0	3.3	3.4	3.0	14.3
Oil Seeds	1.2	1.3	1.2	-2.4	-0.9
Leather and Leather products	17.4	16.9	20.0	18.3	14.8
Pulses	0.5	0.6	0.6	11.8	18.7
Meat & Meat Prod.	3.2	3.6	3.5	-3.7	7.7
Fruits & Veg	0.3	0.3	0.3	7.2	-7.2
Live Animals	1.3	1.3	1.3	-0.8	-2.8
Chat	5.8	5.7	5.8	2.2	-0.3
Gold	25,139.1	35,637.2	40,220.9	12.9	60.0
Flower	4.6	4.1	4.2	2.2	-9.3

Source: NBE Staff Computation

Source: NBE Staff Computation



5.2.2 Imports

Year-on-year, total import of merchandise goods dropped by 3.2 percent to USD 2.24 billion largely driven by lower imports of consumer

goods (14.7 percent), raw materials (41 percent) and semi-finished goods (4.7 percent).

Table 5.6 Values of Major Import Items*(In Millions of USD)*

Particulars	2009/10		2010/11				Percentage Change	
	QII A	% Share	QI B	% Share	QII C	% Share	C/B	C/A
Raw Materials	85.2	3.7	33.7	1.9	50.3	2.2	49.3	-40.9
Semi-finished Goods	310.0	13.4	209.4	11.7	295.5	13.2	41.1	-4.7
Fertilizers	41.5	1.8	17.9	1.0	63.1	2.8	251.9	52.0
Fuel	363.0	15.7	282.2	15.7	391.9	17.4	38.8	7.9
Petroleum Products	360.5	15.5	280.6	15.7	388.6	17.3	38.5	7.8
Others	2.6	0.1	1.6	0.1	3.3	0.1	104.0	28.9
Capital Goods	869.6	37.5	653.4	36.4	901.6	40.1	38.0	3.7
Transport	138.4	6.0	159.4	8.9	193.9	8.6	21.7	40.1
Agricultural	11.8	0.5	19.8	1.1	18.4	0.8	-7.3	56.3
Industrial	719.4	31.0	474.2	26.4	689.3	30.7	45.4	-4.2
Consumer Goods	667.2	28.8	587.8	32.8	569.0	25.3	-3.2	-14.7
Durables	217.7	9.4	216.6	12.1	213.5	9.5	-1.4	-1.9
Non-durables	449.5	19.4	371.1	20.7	355.5	15.8	-4.2	-20.9
Miscellaneous	23.7	1.0	26.24	1.5	37.42	1.7	42.6	57.7
Total Imports	2318.8	100.0	1,792.7	100.0	2,245.7	100.0	25.3	-3.2

Source: Ethiopian Revenues and Customs Authority

Import of consumer goods in the review quarter amounted to USD 569 million, showing a 14.7 percent fall with respect to last year same period largely due to lower imports of non-durable goods (21 percent) coupled with slight fall in durable goods (2 percent). As a result, the share of consumer goods in total import dropped to 25.3 percent from 28.8 percent in the same quarter of last year.

Meanwhile, import bill of raw materials stood at USD 50.3 million, depicting a 41 percent annual decline owing to lower imports of metal and metal manufacturing.

Similarly, imports of semi-finished goods declined moderately by 4.7 percent year-on-year as a result of decline in imports of cement.

On the other hand, imports of capital goods, which constituted 40.1 percent of the total import, grew marginally by 3.7 percent on yearly basis and stood at

USD 901.6 million during the review period due to higher imports of transport and agricultural goods.

Likewise, fuel import bill, with a 17.4 percent share in total import during the

second quarter of 2010/11, showed 38.8 percent yearly growth as a result of higher volume of import and international price hike.

Table 5.7: Values of Franco-valuate Imports

(In Millions of USD)

Particulars	2009/10	2010/11		Percentage Change	
	QII	QI	QII	C/B	C/A
	A	B	C		
Vehicles	0.0000	0.0000	0.0014	-	-
Vehicle Spare Parts	0.0251	0.0035	0.0061	76.1	-75.6
Other Spare Parts	0.0740	0.0210	0.0872	315.0	17.8
Textile & Ready Made	0.0002	0.0003	0.0000	-	-
Household Goods	0.0000	0.0012	0.0003	-74.7	0.0
Medicine & Medical Equip.	0.0687	0.0435	0.0031	-92.9	-95.5
Food Stuffs	0.0002	0.0056	0.0010	-82.5	0.0
Electronic Goods	0.0240	0.0163	0.0587	259.6	144.7
Machinery Equip. & Spare Parts	0.0000	0.0000	0.0000	-	-
Others*	50.0	6.8	10.5	53.7	-79.0
Total	40.5	6.9	10.6	54.0	-78.8

Source: NBE, Foreign Exchange Monitoring and Reserve Management Directorate (FEFRMD)

*Includes import of cement on franco valuta basis.

5.2.3 Direction of Trade

5.2.3.1 Exports

Europe continued to be the largest market for Ethiopia's export products as the markets in the continent accounted for 47.7 percent of the total commodity exports of the country during the second quarter of 2010/11. Switzerland was the vast destination particularly for gold export, followed by Germany mainly for coffee and flower and the Netherlands for flower.

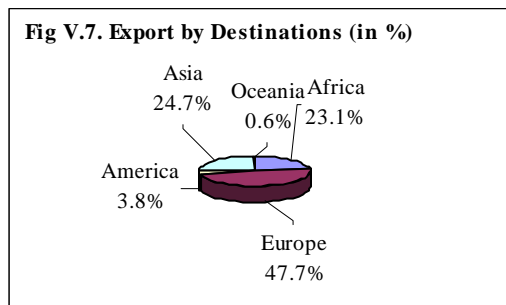
Asia was the second big market for about 24.7 percent of the total exports. Of the total exports to Asia region, Saudi Arabia constituted 25.6 percent, China 21 percent, United Arab Emirates (UAE) 13.3 percent and other Asian markets 39.1 percent.

The main export items shipped to China were oilseeds and leather and leather products. Live animals and pulses to were destined to UAE & meat & meat products to Saudi Arabia.

Meanwhile, about 23.1 percent of the total exports went to a few African countries mainly Somalia (49.4 percent), Sudan (25.9 percent) and Djibouti (12.5 percent) which altogether accounted for 87.8 percent of the total exports to Africa. Exports to Sudan included mainly pulses, spices and live animals while Somalia imported chat and live

animals. Chat constituted the main export to Djibouti.

Of the total exports, American markets accounted for 3.8 percent of which the USA alone accounted for about 83.9 percent. The major exports were coffee and oilseeds. The remaining 16 percent of exports to America went to different countries in the continent.



Source: Ethiopian Revenue and Customs Authority

5.2.3.2 Imports

Asia is the major sources of imports to Ethiopia. About 67.2 percent of Ethiopia's imports during the second quarter of 2010/11 originated from Asian countries including China (23 percent), Saudi Arabia (14.1 percent), India (10.4 percent), Japan (8.2 percent) and UAE (4.4%).

China supplied mainly electrical materials, machinery, metals, rubber

products, clothing & textiles and motor vehicles while medical & pharmaceutical products, machinery, electrical materials, metals and motor vehicles were imported from India. Machinery and road & motor vehicles were the major imports from Japan and petroleum products from Saudi Arabia. Petroleum imports from Saudi Arabia constituted 58.3 percent of the total petroleum imports of Ethiopia during the period under review.

With a 19.2 percent import share, Europe stood the second largest source of Ethiopia's imports most import originated from Italy (24.2 percent), Turkey (12.7 percent), Germany (10.8 percent), France (8.8 percent), Sweden (6.2 percent) and Spain (6 percent).

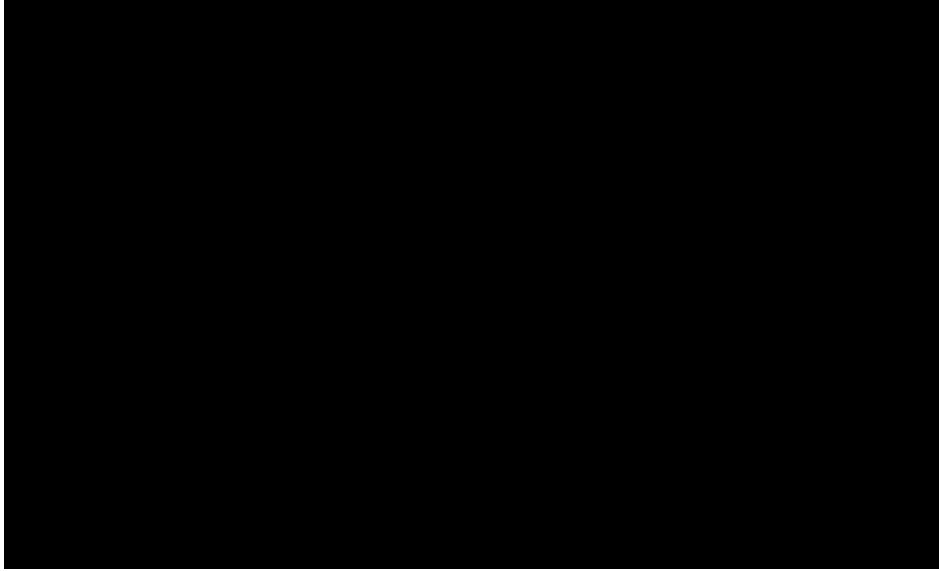
Machinery, electrical materials, vehicles, and medical and pharmaceutical products were imports the main from Italy, metal & metal products and electrical materials from Turkey, road & motor vehicles and machinery from Germany and electrical materials and machinery from France.

About 7.6 percent of the total imports during the review period came from a few African countries including Morocco (52.8 percent), Egypt (13.1 percent), Sudan (14.4 percent) and South

Africa (8.1 percent). Imports from Egypt included metal & metal products and electrical materials while petroleum products from Morocco and Sudan. Of the total petroleum imports, about 26.8 percent was were from Morocco and 5.6 percent from Sudan.

Of the total imports during the review period, about 5.7 percent was from America mostly USA (87.5 percent). There imports included grain, machinery, vehicles and medical & pharmaceutical products and food & live animals.

Source: Ethiopian Revenue and Customs Authority



5.3 Services and Transfers

Net services account recorded USD 130.4 million inflows during the second quarter of 2010/11 down by 39.6 percent compared to the same period last year. This was attributed to lower net receipts from travel, transport and government services and higher net payments for other services particularly construction and other business services.

Net receipts from travel services surged by 85.1 percent annually to USD 123.2

million where as net receipts from transport and government services fell by 15.5 and 8.4 percent and stood at USD 75.7 million and USD 58.7 million, respectively. On the other hand, net payments for other services and investment income strongly went down to USD 107.1 million and USD 20.1 million, respectively vis-a-vis last year same period.

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Fig. V. 9: Trends in Net Services

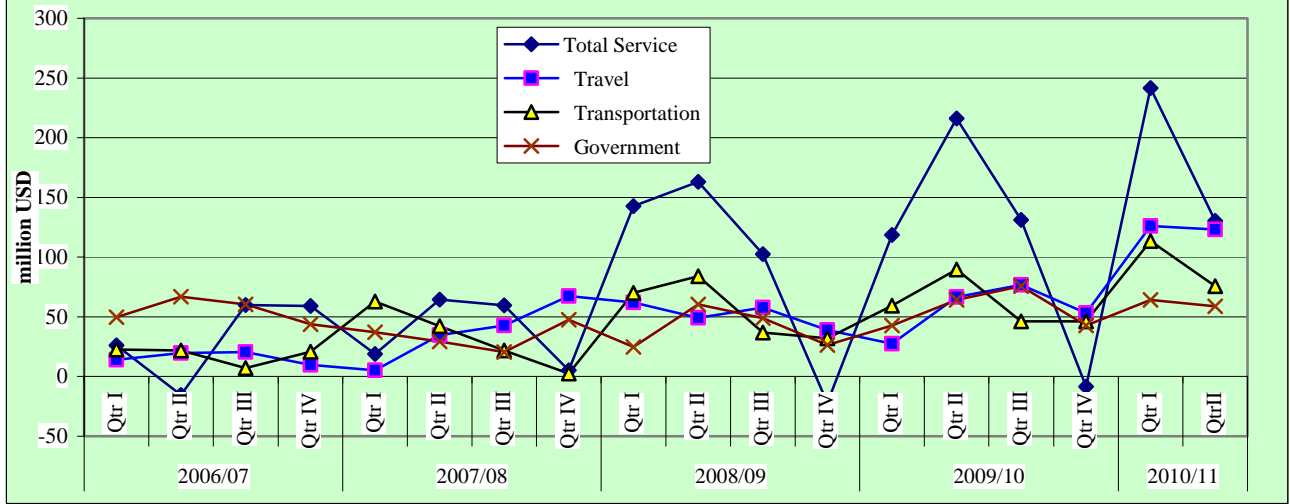


Table 5.8: Trends in Service Accounts

(In Millions of USD)

Particulars	2009/10		2010/11				Percentage Change	
	Qtr II		Qtr I		Qtr II		C/B	C/A
	A	% Share	B	% Share	C	% Share		
Receipts	580.6	100.0	613.3	100.0	639.1	100.0	4.2	10.1
Travel	102.6	17.7	162.6	26.5	162.4	25.4	-0.1	58.3
Transportation	302.6	52.1	304.9	49.7	335.5	52.5	10.0	10.9
Government (n.i.e)	70.9	12.2	69.1	11.3	62.4	9.8	-9.7	-12.0
Investment Income	0.7	0.1	3.9	0.6	2.1	0.3	-45.8	206.6
Interest	0.7	0.1	3.9	0.6	2.1	0.3	-45.8	206.6
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Other Services	103.9	17.9	72.8	11.9	76.7	12.0	5.3	-26.2
Communication Services	23.7	4.1	26.7	4.4	26.0	4.1	-2.7	9.6
Construction Services	7.8	1.3	2.6	0.4	3.5	0.5	35.9	-54.8
Insurance Services	0.0	0.0	1.5	0.2	0.6	0.1	-60.6	1327.3
Financial Services	4.8	0.8	0.1	0.0	0.0	0.0	-72.6	-99.2
Computer and Information Service	0.2	0.0	0.3	0.0	0.0	0.0	-86.6	-80.5
Other Business Services	67.3	11.6	41.5	6.8	46.5	7.3	11.9	-30.9
Personal, cultural and recreational	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Payments	364.4	100.0	371.6	100.0	508.7	100.0	36.9	39.6
Travel	36.0	9.9	36.6	9.9	39.2	7.7	7.1	8.9
Transportation	213.0	58.4	191.5	51.5	259.8	51.1	35.6	21.9
Government (n.i.e)	6.8	1.9	5.0	1.3	3.7	0.7	-25.7	-45.8
Investment Income	10.0	2.7	11.6	3.1	22.2	4.4	91.3	122.4
Interest	6.6	1.8	3.2	0.9	14.8	2.9	368.5	125.2
cash (Banks & MOF)	6.4	1.8	3.2	0.9	14.5	2.8	358.1	126.7
arrears	0.0	0.0	0.0	0.0	0.0	0.0	-	-
relief	0.2	0.1	0.0	0.0	0.3	0.1	-	-
Dividend	3.4	0.9	8.4	2.3	7.4	1.4	-12.6	116.8
Other Services	98.6	27.1	126.9	34.2	183.8	36.1	44.8	86.4
Communication Services	33.8	9.3	4.5	1.2	3.9	0.8	-13.7	-88.4
Construction Services	27.4	7.5	60.7	16.3	105.5	20.7	73.9	285.6
Insurance Services	2.2	0.6	4.4	1.2	3.0	0.6	-33.1	33.9
Financial Services	0.0	0.0	0.7	0.2	0.1	0.0	-91.3	70.4
Computer and Information Service	2.4	0.6	1.5	0.4	1.0	0.2	-31.2	-56.8
Other Business Services	32.8	9.0	55.1	14.8	70.4	13.8	27.7	114.4
Personal, cultural and recreational	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Net Services	216.2		241.7		130.4		-46.1	-39.6

Source: Staffs Computation

Total net transfers increased 29.5 percent to USD 1.56 billion with respect to USD 1.2 billion recorded last year same period. The transfers from individuals and NGO's showed a 18.7 percent growth to USD 901.5 million largely due to higher inflows from individual remittances.

Net inflows of private transfers grew by 22 percent to USD 681.7 million (USD 465.7 million cash transfers via the banking system and USD 202 million estimated underground private transfers).

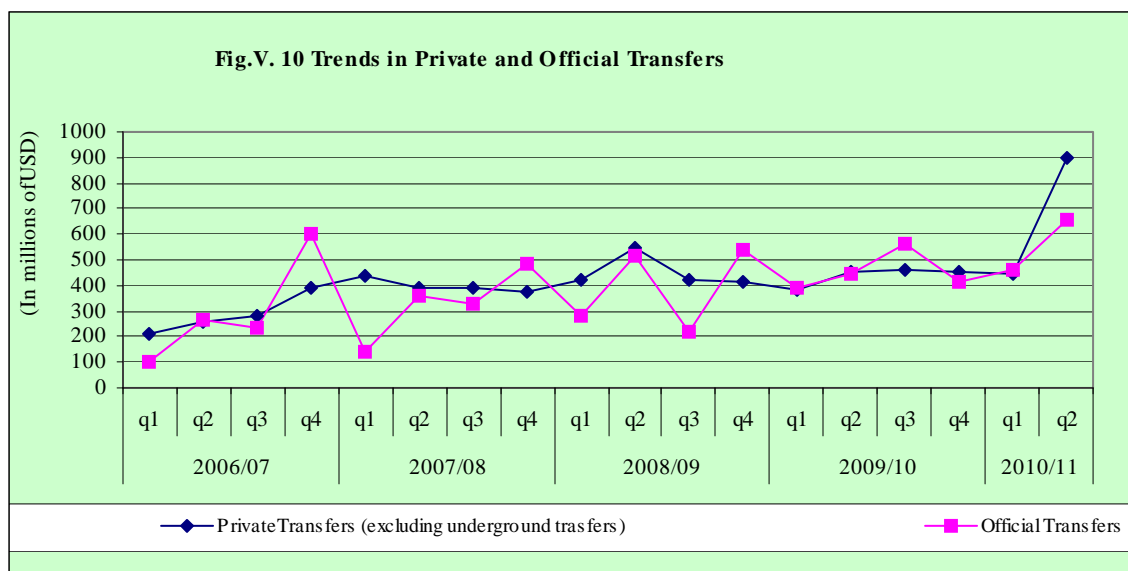
Net NGOs transfers wholly in cash, also rose by 10.7 percent and stood at USD 226.3 million.

Net official transfers also during surged by 47.8 percent annually to USD 659.7 million during the review period.

Table 5.9: Developments in Transfer Accounts*(In Millions of USD)*

Particulars	2009/10		2010/11				Percentage Change	
	A	% share	B	% share	C	% share	C/B	C/A
	QII		Q I		Q II			
Private Transfers	759.1	63.0	537.2	53.7	901.5	57.7	67.8	18.7
Credit	763.2	63.0	564.4	53.6	908.0	57.8	60.9	19.0
NGO's	204.5	16.9	235.9	22.4	226.3	14.4	-4.1	10.7
Cash	204.5	16.9	233.0	22.1	226.3	14.4	-2.9	10.7
Other	0.00	0.00	0.0	0.0	0.0	0.0	-	-
Food	0.00	0.00	2.9	0.3	0.0	0.0	-	-
Private individuals	558.7	46.1	328.5	31.2	681.7	43.4	107.5	22.0
Cash	203.30	16.8	230.0	21.8	465.7	29.6	102.5	129.1
In kind	50.15	4.1	6.9	0.7	14.0	0.9	102.7	-72.1
Under ground	305.30	25.2	91.6	8.7	202.0	12.9	120.5	-33.8
Debit	-4.11	75.5	-27.3	51.2	-6.5	-0.4	-76.0	59.1
Official Transfers	446.3	37.0	462.6	46.3	659.7	42.3	42.6	47.8
Credit	447.7	37.0	488.6	46.4	662.6	42.2	35.6	48.0
Cash	391.2	32.3	486.6	46.2	659.6	42.0	35.5	68.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Food	56.5	4.7	2.0	0.2	3.0	0.2	49.5	-94.7
Debit	-1.3	24.4	-26.0	48.8	-2.8	-0.2	-89.1	113.7
Total Receipts	1,210.9	100.4	1,053.1	105.3	1,570.6	100.6	49.1	29.7
Total Payments	-5.4	-0.4	-53.3	-5.3	-9.4	-0.6	-82.4	72.5
Net Transfers	1,205.4	100.0	999.8	100.0	1,561.2	100.0	56.1	29.5

Source: Staff Computation



5.4 Current Account

The balance in current account (including official transfers) during the review period showed USD 3.9 million annual deficit, or 99.3 percent lower than a year ago as a result of narrowing trade deficit, and strong growth in net private and official transfers.

5.5 Capital account

The surplus in capital account went down by 8.6 percent to USD 664.2 million from USD 726.9 million last year same period owing to lower long term net loan disbursement and short term capital. Nevertheless, estimated foreign direct investment increased by

11.6 percent to USD 340.7 million reflecting conducive investment climate in the country.

5.6 Changes in Reserve Position

The surplus in the overall balance of payments reflected a build-up of net foreign assets of the banking system during the review period. Accordingly, net foreign assets of the banking system rose by USD 114.4 million largely due to the USD 105.9 million build-up of NBE's net foreign assets. As a result, the gross official reserves position of NBE as end December 2010 was adequate to cover 2.3 months of imports of goods and non-factor services of next fiscal year.

5.7 Developments in the Foreign Exchange Market

5.7.1 Exchange Rate Movements

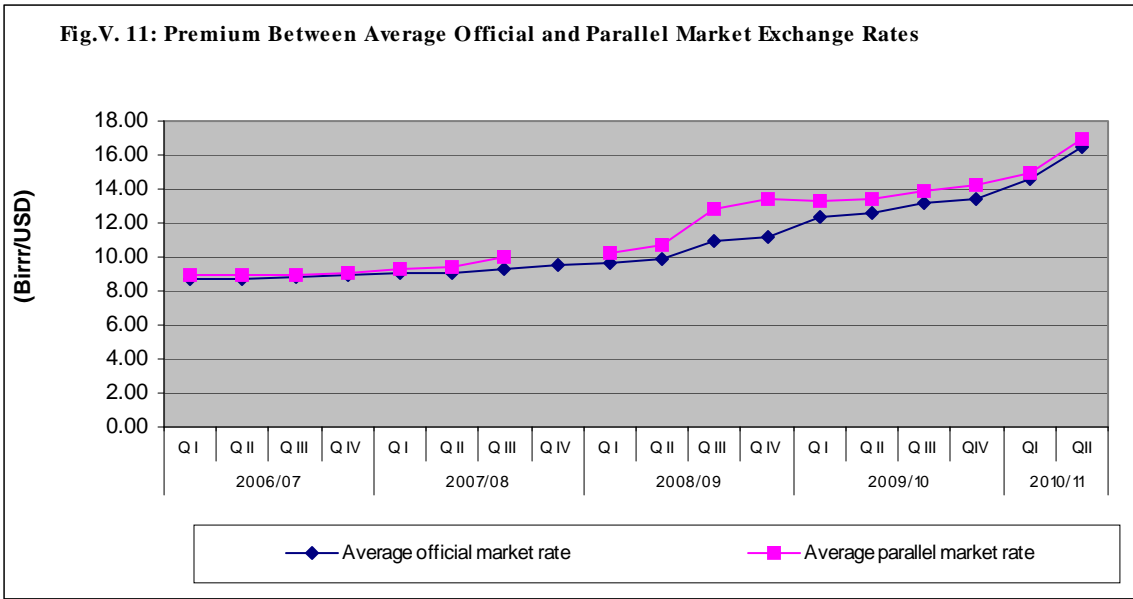
The official weighted average exchange rate of the Birr in the inter bank market depreciated by 30.8 percent annually through the second quarter of 2010/11 and stood at Birr 16.4667/USD.

Likewise, the parallel average exchange rate of the Birr weakened by 26.6 percent to Birr 16.9567/USD in the same period. Accordingly, the average premium between the official and parallel market rates narrowed to 3 percent from 6.4 percent a year ago (Table 5.10).

Table 5.10: Exchange Rates in the Inter-bank Foreign Exchange Market

Period		Official Market Rates		Amount of forex Traded in Millions of USD		Parallel Market		Premium
		End Period Rates		Total	O/w Among CBs	End Period	Average	
		Weighted Rate	Average Weighted Rate					
2009/10								
Qtr. II	C	12.6416	12.5851	3.3	0.0	13.5000	13.3933	6.42
October		12.5653	12.5522	1.10	0.0	13.3000	13.3200	6.12
November		12.5980	12.5825	1.00	0.0	13.4500	13.4000	6.50
December		12.6416	12.6207	1.15	0.0	13.5000	13.4600	6.65
2010/11								
Qtr. I	B	16.3888	14.5535	3.2	0.0	16.7300	14.9833	2.95
July		13.5822	13.5593	1.10	0.0	14.1200	14.1700	4.50
August		16.3514	13.7312	1.10	0.0	14.1600	14.1500	3.05
September		16.3888	16.3701	1.00	0.0	16.7300	16.6300	1.59
Qtr. II	A	16.5482	16.4667	3.3	0.0	17.4800	16.9567	2.98
October		16.4336	16.4134	1.05	0.0	16.8300	16.8200	2.48
November		16.4880	16.4646	1.05	0.0	16.8800	16.8500	2.34
December		16.5482	16.5221	1.15	0.0	17.4800	17.2000	4.10
Percentage changes	A/B	1.0	13.1	1.6	-	4.5	13.2	0.8
	A/C	30.9	30.8	0.0	-	29.5	26.6	-53.7

Source: NBE, Foreign Exchange Monitoring & Reserve Management Directorate



At the same time, the average selling and buying rates of forex bureaux during the second quarter of 2010/11 Birr 16.7864/USD and Birr 16.4630/USD respectively (table 5.15). Thus, the

average premium between the selling and buying rates remained unchanged at 1.96 percent; vis-a-vis last year same quarter (Fig V.13).

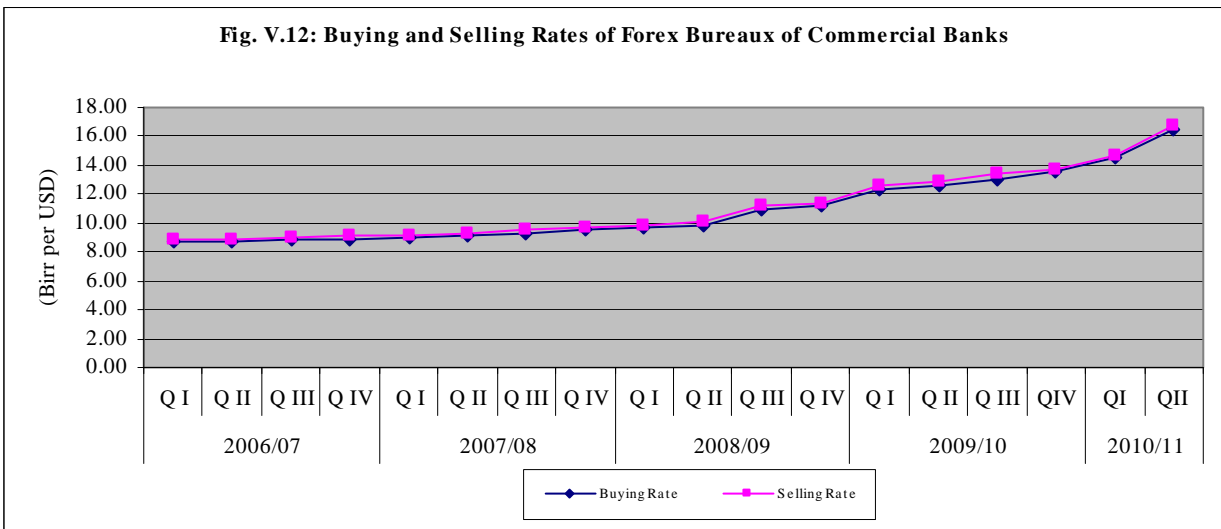
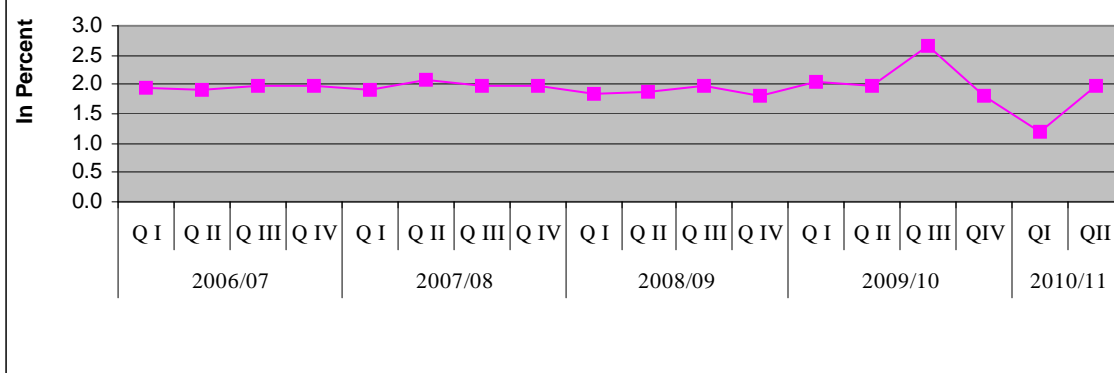


Fig.V.13: Average Spread between Buying and Selling Rates of Foreign Exchange in Forex Bureaux



Regarding the exchange rate of US Dollar relative to other foreign currencies, the US dollar weakened with respect to Japanese Yen (8.4 percent) and Swiss Franc (4.4 percent) while it

strengthened vis-à-vis Euro (7.9 percent), Pound Sterling (3.7 percent) and SDR (2.6 percent) year-on-year basis (Table 5.11).

Table 5.11: 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
2009/10																
Qtr. II	C	1.4736	1.4821	1.4778	0.0111	0.0112	0.0112	1.5930	1.6022	1.5976	1.6369	1.6464	1.6417	0.9808	0.9865	0.9837
October		1.4818	1.4818	1.4818	0.0111	0.0111	0.0111	1.5895	1.5895	1.5895	1.6180	1.6180	1.6180	0.9785	0.9785	0.9785
November		1.4922	1.5033	1.4978	0.0112	0.0113	0.0112	1.5990	1.6108	1.6049	1.6627	1.6750	1.6688	0.9879	0.9952	0.9915
December		1.4466	1.4611	1.4538	0.0112	0.0113	0.0112	1.5905	1.6064	1.5984	1.6300	1.6463	1.6382	0.9761	0.9859	0.9810
2010/11																
Qtr. I	B	1.2898	1.2953	1.2926	0.0117	0.0117	0.0117	1.5141	1.5164	1.5153	1.5490	1.5413	1.5452	0.9684	0.9698	0.9691
July		1.2729	1.2832	1.2781	0.0114	0.0114	0.0114	1.5000	1.5000	1.5000	1.5259	1.5259	1.5259	0.9469	0.9470	0.9469
August		1.2911	1.2976	1.2943	0.0117	0.0118	0.0117	1.5190	1.5258	1.5224	1.5662	1.5718	1.5690	0.9608	0.9652	0.9630
September		1.3053	1.3053	1.3053	0.0118	0.0118	0.0118	1.5234	1.5235	1.5235	1.5549	1.5261	1.5405	0.9974	0.9974	0.9974
Qtr. II	A	1.3606	1.3605	1.3605	0.0121	0.0121	0.0121	1.5557	1.5556	1.5556	1.5817	1.5814	1.5816	1.0270	1.0269	1.0269
October		1.3896	1.3895	1.3896	0.0122	0.0122	0.0122	1.5692	1.5691	1.5691	1.5857	1.5855	1.5856	1.0344	1.0343	1.0344
November		1.3714	1.3714	1.3714	0.0122	0.0122	0.0122	1.5633	1.5633	1.5633	1.5997	1.5990	1.5993	1.0171	1.0171	1.0171
December		1.3208	1.3205	1.3206	0.0120	0.0120	0.0120	1.5346	1.5343	1.5345	1.5597	1.5597	1.5597	1.0293	1.0293	1.0293
Percentage change	A/B	5.49	5.03	5.26	4.05	3.90	3.98	2.75	2.58	2.66	2.11	2.60	2.36	6.05	5.89	5.97
	A/C	-7.66	-8.20	-7.93	8.74	8.11	8.42	-2.34	-2.91	-2.63	-3.37	-3.95	-3.66	4.70	4.09	4.40

Source: Staff Compilation

Similarly, the Birr depreciated by 20.1 and 19.4 percent against Swiss Frank and Euro, and 17.9 percent relative to

Japanese Yen and 16.2 percent vis-a-vis Pound Sterling 16.2.

Table 5.12: 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
		2009/10																	
Qtr. II	C	12.5833	12.7091	12.6462	18.5160	18.7011	18.6085	0.1401	0.1415	0.1408	20.0170	20.2172	20.1171	20.5688	20.7745	20.6717	12.3247	12.4480	12.3863
October		12.5509	12.6764	12.6137	18.5984	18.7844	18.6914	0.1391	0.1405	0.1398	19.9497	20.1491	20.0494	20.3081	20.5112	20.4097	12.2814	12.4042	12.3428
November		12.5800	12.7059	12.6430	18.7608	18.9484	18.8546	0.1406	0.1420	0.1413	20.1033	20.3044	20.2039	20.9035	21.1126	21.0080	12.4197	12.5439	12.4818
December		12.6189	12.7451	12.6820	18.1887	18.3706	18.2796	0.1406	0.1420	0.1413	19.9981	20.1981	20.0981	20.4949	20.6998	20.5973	12.2731	12.3958	12.3344
2010/11																			
Qtr. I	B	14.5110	14.6370	14.5740	18.7306	18.9674	18.8490	0.1693	0.1710	0.1701	21.9804	22.2010	22.0907	22.4838	22.5431	22.5134	14.0795	14.2205	14.1500
July		13.5571	13.6927	13.6249	17.2575	17.5705	17.4140	0.1547	0.1562	0.1554	20.3356	20.5390	20.4373	20.6876	20.8945	20.7911	12.8377	12.9665	12.9021
August		13.6053	13.6836	13.6444	17.5651	17.7490	17.6571	0.1592	0.1608	0.1600	20.6664	20.8730	20.7697	21.3085	21.5011	21.4048	13.0727	13.2034	13.1380
September		16.3706	16.5348	16.4527	21.3691	21.5828	21.4759	0.1940	0.1959	0.1949	24.9391	25.1911	25.0651	25.4553	25.2336	25.3444	16.3282	16.4915	16.4099
Qtr. II	A	16.4641	16.6292	16.5467	22.4000	22.6224	22.5112	0.1996	0.2016	0.2006	25.6127	25.8674	25.7400	26.0409	26.2970	26.1689	16.9079	17.0767	16.9923
October		16.4109	16.5764	16.4936	22.8050	23.0331	22.9190	0.2005	0.2025	0.2015	25.7521	26.0096	25.8809	26.0221	26.2823	26.1522	16.9757	17.1455	17.0606
November		16.4620	16.6266	16.5443	22.5762	22.8019	22.6891	0.2001	0.2021	0.2011	25.7352	25.9925	25.8638	26.3347	26.5850	26.4598	16.7438	16.9112	16.8275
December		16.5195	16.6847	16.6021	21.8187	22.0321	21.9254	0.1982	0.2001	0.1992	25.3508	25.5999	25.4754	25.7659	26.0236	25.8947	17.0041	17.1733	17.0887
Percentage change	A/B	13.46	13.61	13.54	19.59	19.27	19.43	17.93	17.93	17.93	16.53	16.51	16.52	15.82	16.65	16.24	20.09	20.09	20.09
	A/C	30.84	30.85	30.84	20.98	20.97	20.97	42.48	42.48	42.48	27.95	27.95	27.95	26.60	26.58	26.59	37.19	37.18	37.19

Source: National Bank of Ethiopia

Table 5.13: Birr per Unit of Currency End Period mid Market Rate

Currency	Dec-09	Sep-10	Dec-10	Percentage change	
	C	B	A	A/B	A/C
USD	12.7029	16.4708	16.6310	1.0	30.9
Pound	20.4085	26.0271	25.6583	-1.4	25.7
Swedish Kroner	1.7785	2.4501	2.4417	-0.3	37.3
Djibouti Frank	0.0715	0.0945	0.0954	1.0	33.5
Swiss Frank	12.2746	16.8430	17.6887	5.0	44.1
Saudi Riyal	3.3866	4.3917	4.4341	1.0	30.9
UAE Dirhams	3.4583	4.4843	4.5278	1.0	30.9
Canadian Dollar	12.0773	16.0331	16.5994	3.5	37.4
Japanese Yen	0.1376	0.1969	0.2040	3.6	48.3
Euro	18.2541	22.4134	22.0261	-1.7	20.7
SDR	19.9349	25.4549	25.4984	0.2	27.9

Source: National Bank of Ethiopia

5.7.2. Movements in the Real Effective Exchange Rate

Following a 18 percent depreciation in the first quarter of 2010/11, the real effective exchange rate (REER) of the Birr depreciated by 21.7 percent year-on-year in the second quarter of the year largely driven by faster depreciation of the nominal exchange rate. The REER also showed a 12.1 percent depreciation on quarterly term during the same period.

Likewise, the nominal effective exchange rate (NEER) during the review quarter recorded 14.8 and 26.1 percent depreciation relative to the preceding and same quarter in 2009/10.

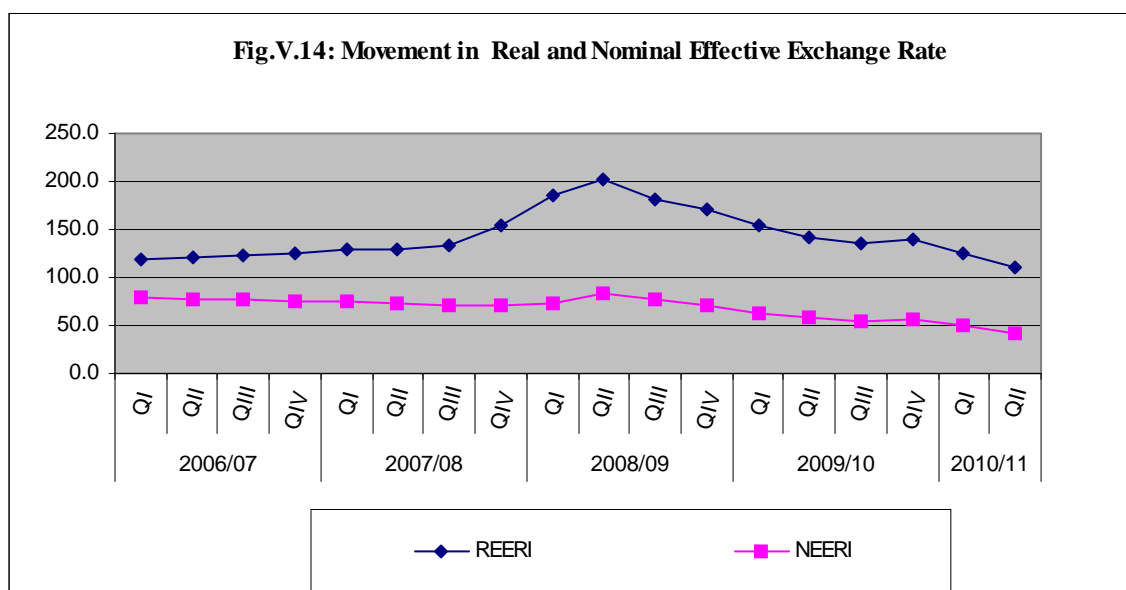
Table 5.14 Trends in the Real Effective Exchange Rate

	2009/10	2010/11		Percentage Change	
	QII	QI	QII		
	A	B	C	C/B	C/A
REERI	142.2	126.7	111.4	-12.1	-21.7
NEERI	57.8	50.1	42.7	-14.8	-26.1

REERI = Real Effective Exchange Rate Index

NEERI = Nominal Effective Exchange Rate Index

Note:- A decrease in the REER and NEER indices implies depreciation and vice-versa

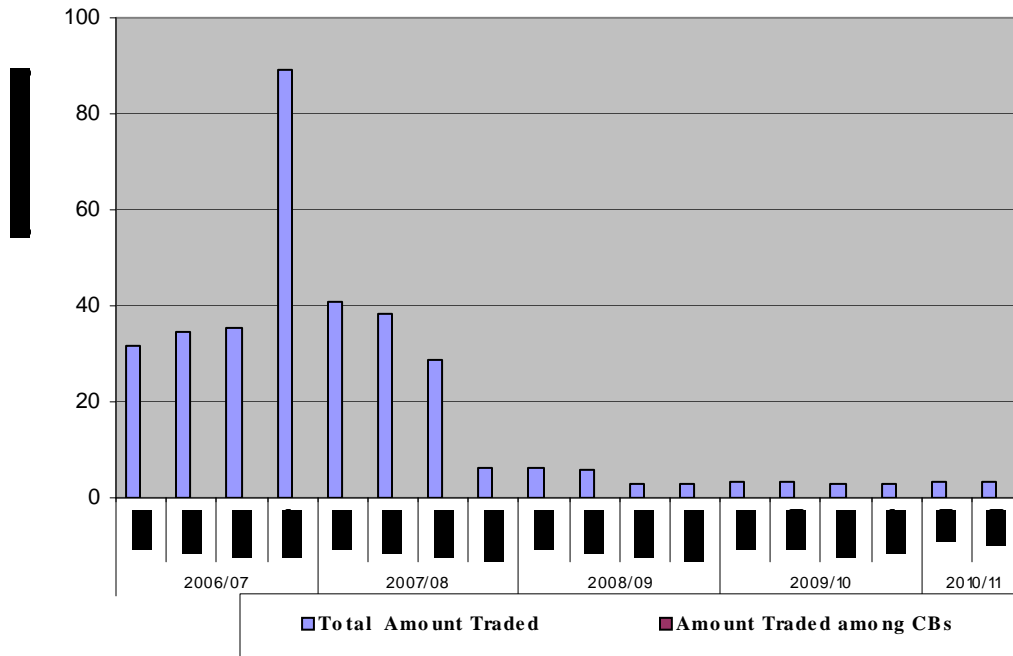


5.7.3 Volume of Transactions

In the inter-bank foreign exchange market, USD 3.3 million was traded during the second quarter of 2010/11, showing a 1.6 percent rise compared to

the preceding quarter and remained unchanged relative to the amount traded in the same quarter of last year. All the foreign exchange to the interbank market was supplied by the NBE. (Table5.10).

Fig.V. 15: Foreign Exchange Trade in the Inter-Bank Foreign Exchange Market



In the retail foreign exchange market, forex bureaux of commercial banks bought USD 54.3 million during the second quarter of 2010/11 showing a

28.3 percent growth over the same period last year. Meanwhile, their sales rose by 26.7 percent and amounted to USD 14.4 million (Table5.15).

Table 5.15: Amount of Foreign Exchange Purchased and Sold by Forex Bureaux of Commercial Banks
(In millions of USD)

No	Name of Forex Bureaux	No of Branches	2009/10		2010/11				Percentage Change			
			Quarter I		Quarter I		Quarter II		C/B		C/A	
			A		B		C					
			Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
1	Commercial Bank of Ethiopia	121	6.6	0.1	11.7	0.1	14.5	0.1	24.8	-3.5	121.1	32.3
2	Bank of Abyssinia	28	0.6	0.8	0.9	0.9	1.1	1.1	13.0	29.7	71.1	37.7
3	Dashen Bank	58	3.8	4.9	2.7	4.6	4.3	5.5	59.5	19.2	13.0	12.2
4	Awash International Bank	15	0.4	1.3	9.9	1.2	12.6	1.8	27.4	44.6	2950.6	40.8
5	Construction and Business Bank	5	0.1	0.1	0.2	0.0	0.3	0.0	37.4	-39.5	102.5	-94.6
6	Wegagen Bank	19	0.8	1.0	10.3	0.1	2.1	1.6	-79.4	1198.5	180.8	57.1
7	United Bank	34	4.9	1.8	4.3	1.9	4.8	2.0	11.5	5.2	-0.9	14.1
8	Nib International Bank	30	24.2	1.1	13.6	1.3	13.6	1.6	0.0	25.4	-43.8	45.0
9	Lion International Bank	1	0.7	0.0	0.3	0.1	0.2	0.1	-17.9	-	-71.3	141.8
10	Oromiya Intenational Bank	7	0.2	0.0	0.2	0.0	0.2	0.1	3.2	107.2	56.3	84.6
11	Zemen Bank	1	0.1	0.2	0.2	0.3	0.2	0.4	0.4	19.1	228.6	107.0
12	Cooperative Bank of Oromia	2	0.0	0.1	0.0	0.0	-	-	-	-	-	-
13	Buna international Bank	1	0.0	0.0	0.0	0.0	0.2	0.1	-	-	-	-
	Total	322	42.3	11.4	54.3	10.5	54.3	14.4	-0.1	36.8	28.3	26.7
	Average Exchange Rate		12.5842	12.8302	14.5220	14.6937	16.4630	16.7864	13.4	14.2	30.8	30.8