

I. OVERVIEW

International Economic Developments

According to the latest survey indicators, the momentum in global economic growth has recently moderated to some extent from the buoyant growth rates registered at the end of 2010.

In the United States, the economy is continuing its recovery, although at a slower pace than in the final quarter of 2010. Real GDP increased by 1.8% in annualized terms in the first quarter of 2011, decelerating from the 3.1% pace registered in the fourth quarter of 2010.

The recent data released has confirmed that the immediate impact on economic activity of the March 2011 Great East Japan Earthquake and the ensuing tsunami was severe in affecting the Japanese economy. As per the first preliminary release, real GDP contracted by 0.9% quarter-on-quarter in the first quarter of 2011, a remarkable decline than expected by the market, following a decline of 0.8% in the fourth quarter of 2010. In the United Kingdom, economic activity has recovered in the first quarter of 2011 as real GDP increased by 0.5% after declining by 0.5% in the fourth quarter of 2010 and increasing by 0.7% in the third quarter of 2010. On the expenditure side, growth was driven almost entirely by net exports, whereas household consumption and capital investment have dropped.

In China, the second largest economy, real GDP has registered 9.7% annual expansion in the first quarter of 2011, slightly lower from 9.8% in the fourth quarter 2010.

India's real GDP growth has declined to 7.7 percent in the first quarter of 2011 from 9.2 percent in the last quarter of 2010 due to moderate slowdown in fixed investment while private consumption remained relatively strong.

On the back of the economic recovery of the major advanced economies, except the moderate slowdown in economic activities of Japan in the first quarter of 2011,

Ethiopia's external sector has responded optimistically to the recovery of world economy as export proceeds from merchandise goods rose by 36.2 percent year-on-year and 38.4 percent on quarterly basis. Similarly, net service receipt, remittances and FDI inflows substantially grew annually by 75.2, 90.9 and 86.8 percent, respectively and hence the current account recorded a surplus of USD 68.1 million in the stated period in contrast to deficits in a year ago.

Macroeconomic Developments in Ethiopia

Inflation

During the third quarter of 2010/11, headline inflation surged to 8.9 percent up by 7.3 and 3.0 percentage points against the same quarter of last year and the previous quarter, respectively. Food inflation was the main driver of the quarterly inflation contributing 5.6 percent while core inflation contributed 3.3 percent.

Monetary Developments

Broad money supply (M2) reached Birr 130.3 billion at the close of the third quarter of 2010/11, up by 35.7 percent on annual basis, due to 80.5 percent surge in net foreign assets and 22.9 percent growth in domestic credit.

Reserve money increased by 12.2 and 26.4 percent on quarterly and annual bases, respectively and stood at Birr 63.6 billion at the close of March 2011 as both currency in circulation and banks deposit at NBE increased during the same period. The money multiplier, as measured by the ratio of both broad money to reserve money and narrow money to reserve money scaled up by 7.4 and 8.1 percent on annual terms reflecting growth in monetization of the economy.

Interest rate

As a result of the recent NBE's upward revision of the minimum saving deposits rate

from 4.0 percent to 5.0 percent, average saving deposits rate reached 5.38 percent up from 4.50 percent in the same quarter last year but remained unchanged vis-à-vis the previous quarter. On the contrary, weighted average time deposits rate slightly declined from 5.55 percent during the previous quarter to 5.43 percent in the review quarter but increased from 5.0 percent in March 2010. Meanwhile, the simple average lending rate remained at 12.25 percent both at the level of last year same quarter and the previous quarter.

Financial Sector Developments

At the close of March 2011, the number of commercial banks (including DBE) stood at 16 and that of insurance companies at 13. The total number of MFIs increased to 31 as one new institution was opened during the quarter.

Concerning branch expansion, 25 new bank branches and 5 new insurance branches were opened by private financial institutions. Accordingly, the total number of bank and insurance branches reached 866 and 218, respectively. As a result, bank branch to population ratio reached 92,379 by end of March 2011 compared to 95,124.9 at the close of December 2010. Likewise, the insurance branch to population ratio stood at about 366,972 people by end of March 2011 from 375,587 people in end of the preceding quarter. Total capital of the banking sector reached Birr 14.0 billion, showing 16.3 percent annual increase while the total capital of insurance companies reached Birr 832.36 million, down by 3.7 percent against a year earlier.

New loans disbursed by the banking sector during the review quarter was Birr 9.2 billion, up by 27 percent in comparison to last year same period. However, down by 21.7 percent on quarterly basis because of huge decline in private banks loans disbursement. Private Banks disbursed 34.6 percent of the total fresh loans, significantly lower than its share of 56.9 percent during the previous quarter.

During the third quarter of 2010/11, commercial banks operating in the economy managed to collect loans amounting to Birr 6.5 billion, down by 5.6 percent over the previous quarter but 25.6 percent higher than the same period of last fiscal year.

The stock of outstanding credit of the banking system (including claims on the central government but excluding corporate bond holding) reached Birr 73.6 billion, showing 9.4 percent annual growth.

Total deposits mobilized by the banking system at the close of the quarter under review reached Birr 129.6 billion, registering 36.3 percent annual growth. This was partially attributed to the substantial expansion in branch networks.

In the meantime, microfinance institutions mobilized Birr 3.4 billion in deposits while their credit outstanding and total asset increased to Birr 6.2 billion and Birr 9.4 billion, respectively.

NBE's net claims on the government slowed down by 12.4 percent against last year same period due to the surge in government deposit by 26.0 percent offsetting the 16.7 increase in direct advance.

External Sector and Foreign Exchange Developments

During the third quarter of 2010/11, earning from merchandise goods export was USD 762.4 million, 38.4 percent higher than the same quarter of last fiscal year. This substantial growth in exports was largely attributed to increased earnings from export of coffee (75.6 percent), gold (22.2 percent), leather and leather products (97.5 percent) and meat & meat products (92.7 percent) among others.

Meanwhile, total merchandise import reached USD 2.06 billion about 8.3 percent lower than a year ago. The slow down in imports was related to lower imports of capital goods (25 percent), consumer goods (14.8 percent) and semi-finished goods (1.5 percent) offsetting the surge in imports of fuel (50.2 percent) and raw materials (7.5 percent).

Net transfers decreased to USD 1.1 billion from USD 1.3 billion in the previous year same period, due to 59 percent slowdown in official transfers in the form of cash and food aid.

Net service account stood at USD 229.8 million, revealed 75 percent annual improvement during the third quarter of 2010/11 mainly due to significant rise in net receipts from travel (144.6 percent) and transport (44.8 percent).

Current account balance (including official transfers) was in surplus of USD 68.1 million against a deficit of USD 190.6 million last year same quarter.

The official weighted average exchange rate of the Birr in the interbank market depreciated by 26.6 percent year-on-year and 1.0 percent on quarterly basis reached Birr 16.6342/USD. In the parallel market average exchange rate of the local currency weakened by 23.5 percent to Birr 17.1067/USD vis-à-vis the same period last year. Accordingly, the average premium between the official and parallel market rates narrowed to 2.84 percent from 5.45 percent a year ago.

Investment

856 investment projects with a collective capital of Birr 160.4 billion were licensed during the review quarter by the Ethiopian Investment Agency and the regional investment offices. The number of approved investment projects decreased by 35.7 percent while their investment capital remarkably increased by 581 percent vis-à-vis the same quarter of last fiscal year.

Fuel prices

As international price of crude oil on average increased during the quarter, domestic retail prices of petroleum products were adjusted upwards accordingly. Therefore, in Addis Ababa, average retail price of fuel scaled up to Birr 14.9 per liter from Birr 13.2 in the previous quarter and Birr 11.0 a year earlier.