

VI. EXTERNAL SECTOR DEVELOPMENTS

6.1 Overall Balance of Payments

In the second quarter of 2009/10, the overall balance of payments recorded a surplus of USD 88.1 million compared to a deficit of USD 40.5 million in the corresponding period of last year. This

reflects good export performance, higher receipts from net services and private transfers as well as increased loan disbursements from abroad and growing foreign direct investment.

Table 6.1 Balance of Payments

(In Millions of USD)

Ethiopian Fiscal Year Particulars	2008/09	2009/10		Percentage Change	
	QII	QI	QII		
	A	B	C	D=C/B	E=C/A
Trade Balance	-1671.5	-1431.5	-1948.4	36.1	16.6
Exports	270.9	342.4	370.4	8.2	36.7
Imports	1942.4	1773.8	2318.8	30.7	19.4
Net Services	163.0	118.7	216.2	82.1	32.6
Travel	49.1	27.5	66.6	142.2	35.6
Transportation	84.1	59.3	89.6	51.1	6.6
Government (n.i.e.)	60.4	42.8	64.1	49.8	6.2
Investment income	-13.1	-12.5	-9.3	-25.6	-29.0
Interest	-5.0	-8.3	-5.9	-28.9	18.0
Cash (net)	-5.0	-8.3	-5.9	-28.9	18.0
Arrears	0.0	0.0	0.0	-	-
Dividend	-8.1	-4.2	-3.4	-19.0	-57.9
Other Services	-17.5	1.6	5.2	225.0	-129.8
Private Transfers	777.3	641.6	810.4	26.3	4.3
Current Account Balance(excl. public transfers)	-731.2	-671.1	-921.8	37.4	26.1
Public Transfers	515.4	394.2	444.0	12.6	-13.9
Current Account Balance(incl. public transfers)	-215.8	-276.9	-477.8	72.6	121.4
Non-monetary Capital	398.8	409.3	778.2	90.1	95.1
Long-term (net)	162.3	153.5	411.7	168.2	153.7
Disbursements	181.3	175.9	434.4	147.0	139.6
Repayments	19.1	22.4	22.8	1.4	19.2
Cash	15.7	19.2	22.0	14.6	40.2
Arrears	0.0	0.0	0.0	-	-
Relief	3.4	3.2	0.7	-77.9	-78.9
Direct Investment (net)	226.8	260.0	356.6	37.1	57.2
Short-term (net)	9.8	-4.2	10.0	-338.5	2.3

Net Errors & Omissions	-223.5	-161.5	-213.4	31.4	-5.0
Overall Balance	-40.5	-29.1	88.1	-402.5	-317.4
Financing	40.5	29.1	-88.1	-402.5	-317.4
Reserves (-:increase)	43.9	33.1	-87.2	-636.2	-298.7
NBE net foreign asset	-103.0	-86.4	-33.3	-61.4	-67.6
CBs net foreign asset	146.9	119.6	-53.8	-145.0	-136.6
Debt Relief	-3.4	-4.0	-0.9	-77.5	-73.3
Principal	3.4	3.2	0.7	-77.9	-78.9
Interest	0.0	0.8	0.2	-75.9	-

Source: Staff Compilation

In the review quarter, current foreign exchange receipts reached USD 2205.4 million, 3.1 percent higher than last year same quarter, owing to significant rise in exports and marginal improvement in private transfers. Current payments rose by 14 percent year-on-year basis to USD

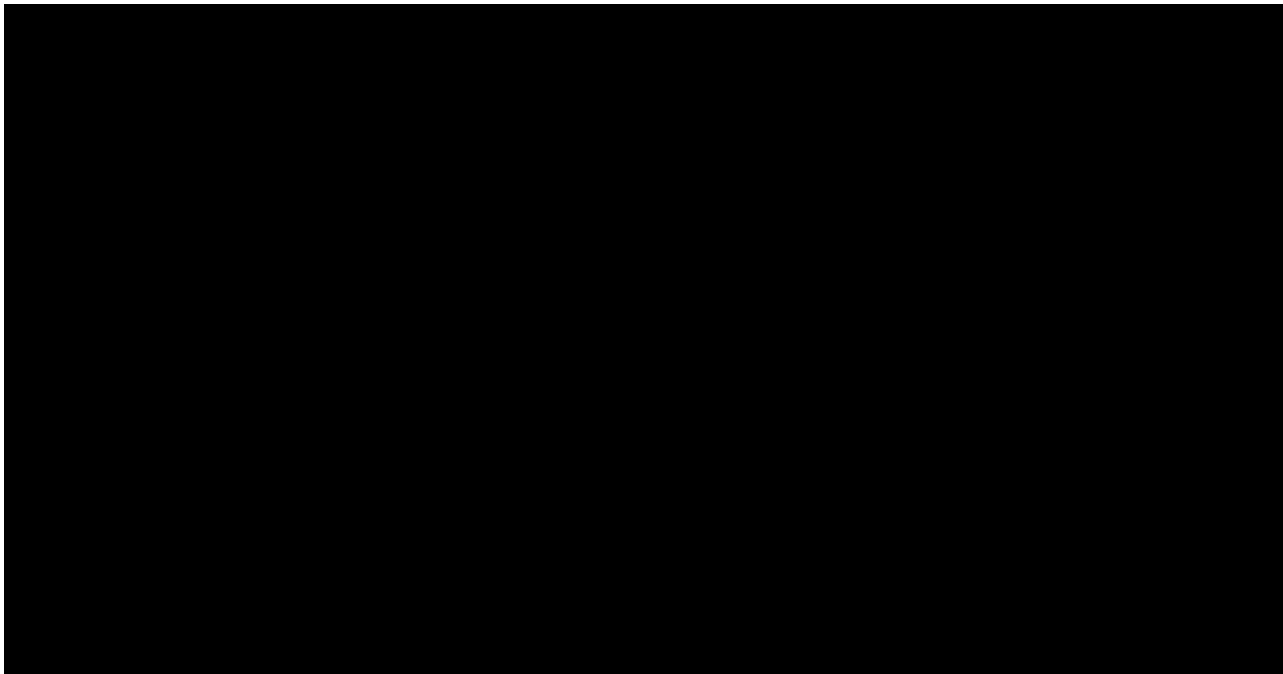
2683.2 million, largely on account of higher import payments and lower service payments. As a result, net outflows were USD 477.8 million in contrast to USD 215.8 million a year earlier.

Table 6.2 Current Receipts and Payments

(In Million of USD)

Particulars	2008/09	2009/10		Percentage Change	
	Qtr II	Qtr I	Qtr II	D=C/B	E=C/A
	A	B	C		
1. Current Receipts	2138.3	1843.8	2205.4	19.6	3.1
Export Proceeds	270.9	342.4	370.4	8.2	36.7
Service Proceeds	574.7	465.6	580.6	24.7	1.0
Private Transfers(Net)	777.3	641.6	810.4	26.3	4.3
Public Transfer(Net)	515.4	394.2	444.0	12.6	-13.9
2. Current Payments	2354.1	2120.7	2683.2	26.5	14.0
Import Payments	1942.4	1773.8	2318.8	30.7	19.4
Service Payments	411.7	346.9	364.4	5.0	-11.5
3. Net(1-2)	-215.8	-276.6	-477.8	72.5	121.4

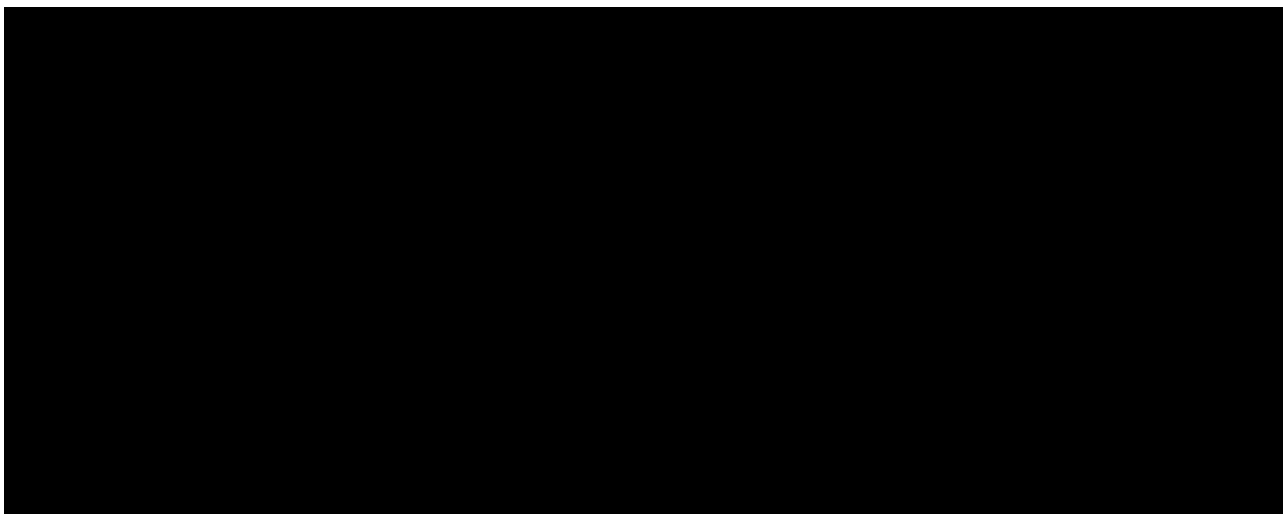
Source: Staff Compilation



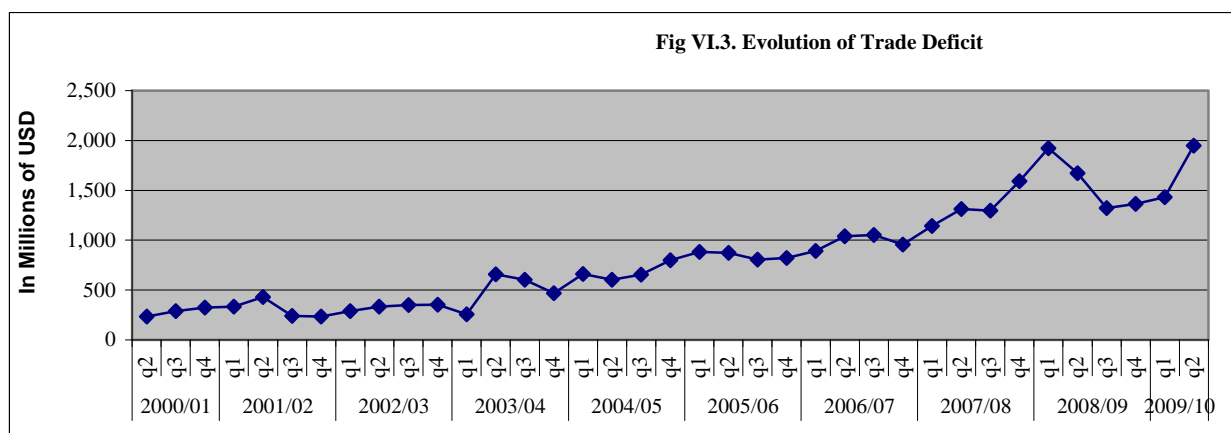
6.2 Merchandise Trade

In the second quarter of 2009/10, the merchandise trade deficit widened to USD 1,948.4 million, up by 16.6 percent

against the corresponding period of last year as import payments outweighed export earnings.



Source: Ethiopian Revenue and Customs Authority



Source: NBE Staff Compilation

6.2.1 Exports

Total export proceeds rose by 36.7 percent on annual terms largely owing to the rise in export earnings from coffee (39.6 percent), fruits and vegetables (85.6 percent), oilseeds (239 percent), gold (109.5 percent), live animals (32

percent), pulses (16.6 percent), *chat* (52.4 percent), flower (34 percent) and meat and meat products (3.2 percent) outweighing the 75.7 decline in leather and leather products.

Table 6.3 Values of Major Export Items

(In Millions of USD)

Particular	2008/09		2009/10				Percentage change	
	Qtr II A	% Share	Qtr I B	% Share	Qtr II C	% Share	C/B	C/A
Coffee	41.7	15.4	104.7	30.6	58.2	15.7	-44.4	39.6
Oilseeds	22.5	8.3	43.7	12.8	76.1	20.5	74.2	238.9
Leather and Leather Products ¹	51.7	19.1	11.2	3.3	12.5	3.4	11.8	-75.7
Pulses	28.5	10.5	28.3	8.3	33.2	9.0	17.4	16.6
Meat & Meat Products	7.1	2.6	7.3	2.1	7.3	2.0	0.4	3.2
Fruits & Vegetables	2.9	1.1	3.0	0.9	5.5	1.5	80.0	85.6
Live Animals	16.8	6.2	17.6	5.2	22.2	6.0	26.0	31.9
<i>Chat</i>	34.4	12.7	45.5	13.3	52.4	14.1	15.2	52.4
Gold	20.3	7.5	26.0	7.6	42.5	11.5	63.5	109.3
Flower	28.8	10.6	34.8	10.2	38.6	10.4	10.8	33.9
Others	16.2	6.0	20.2	5.9	21.8	5.9	7.9	34.7
Total	270.9	100.0	342.4	100.0	370.4	100.0	8.2	36.7

Source: Ethiopian Revenue and Customs Authority

¹ Previously known as hides and skin

Export earnings from coffee jumped by about 40 percent over the preceding year and amounted to USD 58.2 million, on account of the increase both in volume and international prices. Hence, the share of coffee in total export earnings was about 16 percent.

Exports of oilseeds surged 239 percent on annual basis and reached USD 76.1 million as result of higher volume and prices in the global market. Therefore, the share of oilseeds in total exports increased to 21 percent compared with 8.3 percent in the same quarter last year.

Receipts from pulses rose by 16.6 percent over last year, solely due to higher volume despite lower international prices.

Meanwhile, earnings from leather and leather products at USD 12.5 million, declined by 75.7 percent compared to the same period last year as a result of falling volume and prices.

Flower exports fetched USD 38.6 million during the review period showing 34 percent growth over last year same period. The annual growth

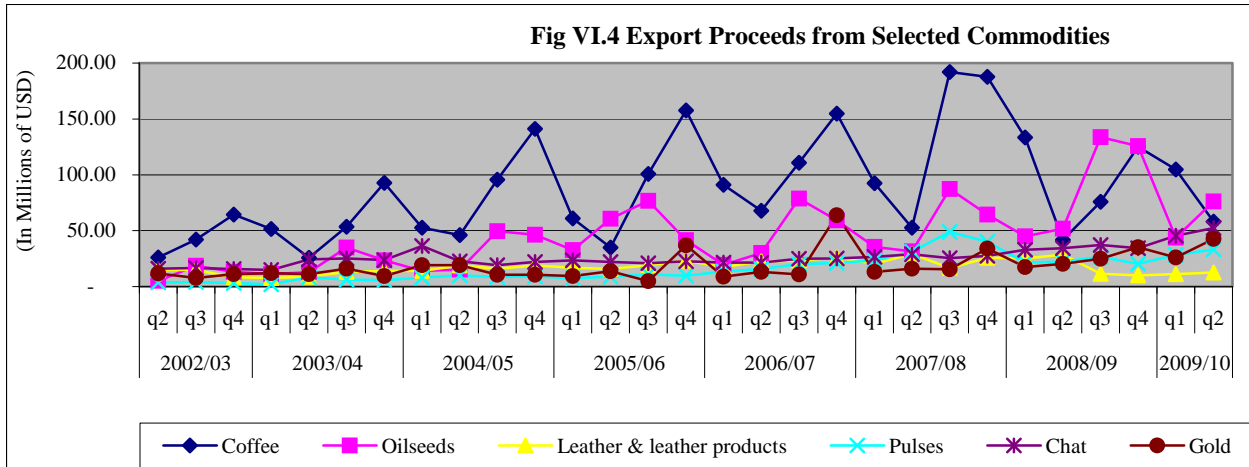
was attributed to the rise in both volume of export and international price. The share of flower in total export earnings leveled at around 10 percent.

Export revenue from gold amounted to USD 42.5 million, significantly higher than a year ago and accounted for 11.5 percent of the country's export earnings during the review quarter. Both higher prices and volume contributed to improved export performance of gold.

Similarly, export proceeds from *chat* grew by 52.4 percent on annual terms and reached USD 52.4 million. The yearly increase was attributed to the growth in volume and prices. *Chat* accounted for 14.1 percent of the total merchandise export during the period under review.

Revenue from exports of live animals was USD 22.2 million, up by 32 percent exclusively due to the rise in the volume of exports. At the same time, export of meat and meat products showed a marginal increase of 3.2 percent as a result of higher volume despite declining in prices.

Similarly, revenue from fruits and vegetables amounted to USD 5.5 million. and vegetables surged by 85.6 percent and



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 II	Qtr I	Qtr II	C/B	C/A
	A	B	C		
Coffee	15.2	35.3	19.4	-45.0	27.9
Oilseeds	39.6	40.4	61.0	50.9	54.0
Leather and Leather Products ¹	4.3	0.6	0.7	27.0	-83.4
Pulses	31.6	49.9	61.6	23.5	95.1
Meat & Meat Products	1.9	2.1	2.3	7.8	17.6
Fruits & Vegetables	10.3	11.9	15.7	31.9	53.3
Live Animals	11.4	13.7	16.5	20.4	44.9
Chat	6.8	7.8	9.0	15.8	33.5
Gold	0.00109	0.00109	0.0017	55.9	55.2
Flower	6.6	7.3	8.4	15.4	27.0

Source: Ethiopian Revenue and Customs Authority

¹ Previously known as hides and skin

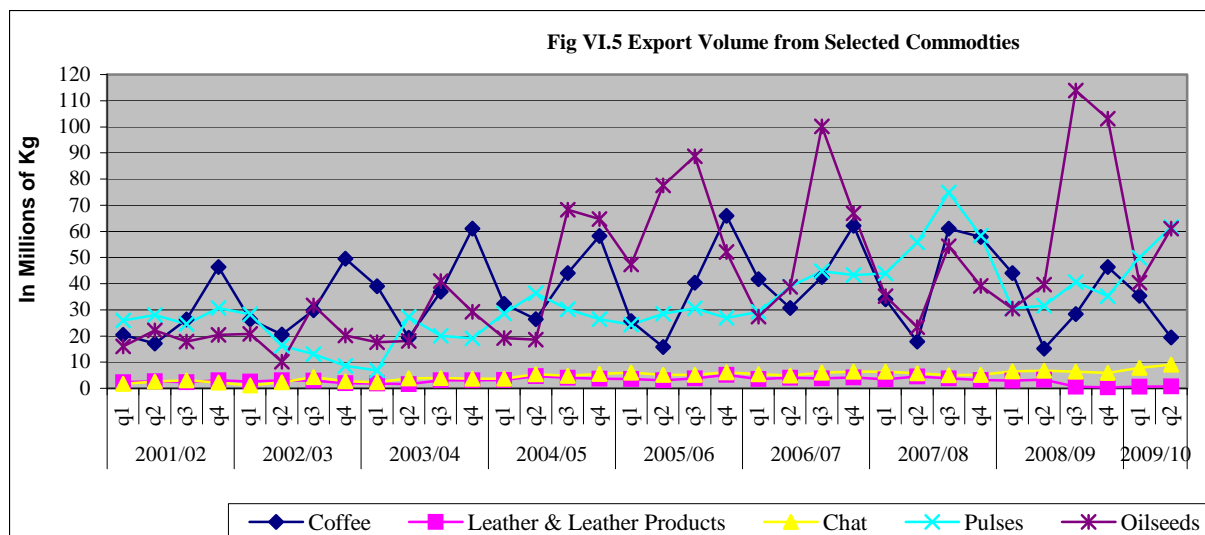


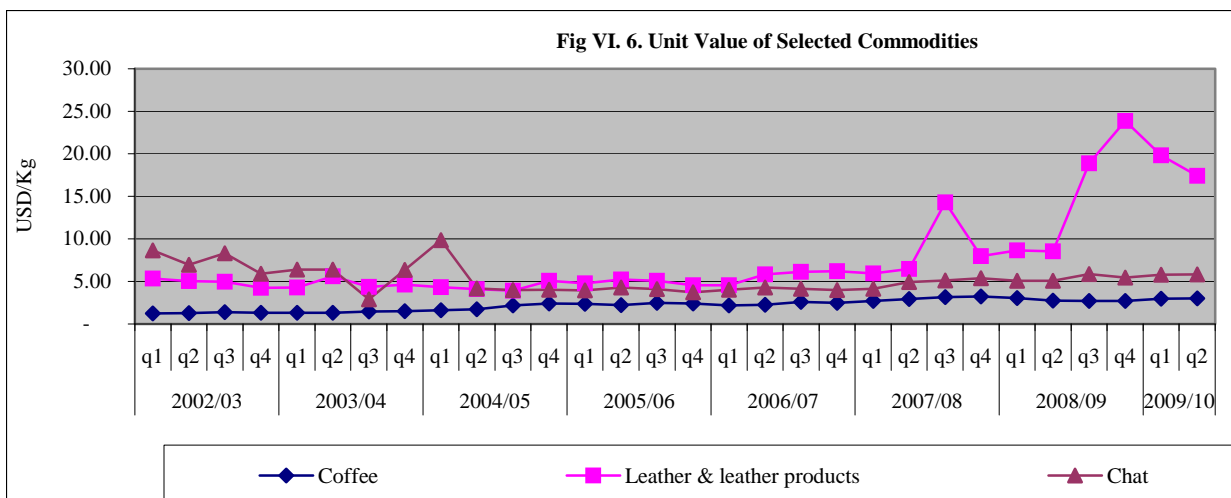
Table 6.5 Unit Values of Major Export Items

(USD/kg)

Particulars	2008/09	2009/10		Percentage Change	
	Qtr II	Qtr I	Qtr II	C/B	C/A
	A	B	C		
Coffee	2.75	2.96	3.00	1.1	9.2
Oilseeds	0.57	1.08	1.25	15.4	120.1
Leather and Leather Products ^a	11.90	19.78	17.41	-12.0	46.3
Pulses	0.90	0.57	0.54	-4.9	-40.3
Meat & Meat Products	3.69	3.48	3.24	-6.8	-12.3
Fruits & Vegetables	0.29	0.25	0.35	36.4	21.0
Live Animals	1.48	1.29	1.35	4.7	-8.9
Chat	5.09	5.84	5.81	-0.5	14.1
Gold	18635.91	23960.73	25132.15	4.9	34.9
Flower	4.35	4.77	4.58	-3.9	5.4

Source: NBE Staff Computation

^a Previously known as hides and skin



Source: NBE Staff Computation

6.2.2 Imports

The total imports bill during the second quarter of 2009/10 amounted to USD 2.3 billion, showing a 30.7 and a 19.4 percent increase over the preceding quarter and the same period last year

owing to higher imports of semi-finished goods, fuel, raw materials, capital goods and consumer durable goods was the major factor behind the quarterly increase in imports.

Table 6.6: Values of Major Import Items

(In Millions of USD)

Particulars	2008/09		2009/10				Percentage Change	
	Qtr II A	% Share	Qtr I B	% Share	Qtr II C	% Share	C/B	C/A
Raw Materials	117.5	6.1	60.0	3.4	85.2	3.7	42.0	-27.5
Semi-finished Goods	245.7	12.6	286.8	16.2	310.0	13.4	8.1	26.2
Fertilizers	2.7	0.1	40.1	2.3	41.5	1.8	3.4	1,436.5
Fuel	244.4	12.6	268.4	15.1	363.0	15.7	35.2	48.6
Petroleum Products	242.5	12.5	266.9	15.0	360.5	15.5	35.1	48.6
Others	1.9	0.1	1.6	0.1	2.6	0.1	65.2	37.2
Capital Goods	574.5	29.6	657.2	37.1	869.6	37.5	32.3	51.4
Transport	102.9	5.3	89.8	5.1	138.4	6.0	54.2	34.6
Agricultural	6.4	0.3	15.1	0.9	11.8	0.5	-22.1	84.3
Industrial	465.2	24.0	552.4	31.1	719.4	31.0	30.2	54.6
Consumer Goods	717.7	36.9	469.8	26.5	667.2	28.8	42.0	-7.0
Durables	147.7	7.6	168.2	9.5	217.7	9.4	29.4	47.4
Non-durables	570.1	29.3	301.6	17.0	449.5	19.4	49.0	-21.2
Miscellaneous	42.6	2.2	31.5	1.8	23.7	1.0	-24.8	-44.4

Total Imports	1,942.4	100.0	1,773.8	100.0	2,318.8	100.0	30.7	19.4
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Source: Ethiopian Revenue and Customs Authority

The import of capital goods reached USD 869.6 million, up by 51.4 percent on annual terms. Consequently, the share of capital goods in total imports went up to 37.5 percent from 29.6 percent the same quarter last year.

The value of consumer goods imported showed a 7 percent decline on annual terms and reached USD 667.2 million. This decline was attributed to slow down in the imports of non-durable consumer goods though consumer durables increased by 47 percent. As a result, the share of consumer goods in total imports dropped to 28.8 percent from 37 percent a year earlier.

On the other hand, fuel imports surged by 48.6 percent over last year and amounted to USD 363 million accounting for about 16 percent of total imports during the review quarter.

Imports of semi-finished goods reached USD 310 million, 26.2 percent higher than the preceding years and constituted 8.7 percent of the total imports. Within the semi-finished goods, fertilizer import depicted substantial increase whose share in total imports reached close to 2 percent.

Imports of raw materials standing at USD 85.2 million, were down by 27.5 percent over last year same quarter.

Import of goods on franco-valuta basis amounted to USD 50.2 million during the review quarter, depicting a year-on-year declining of 27.4 percent owing to slow down in all kinds of imports of import except vehicle spare parts. A significant proportion of the franco valuta imports constituted cement.

Table 6.7: Values of Franco Valuta Imports

Particulars	(In Millions of USD)				
	2008/09	2009/10		Percentage Change	
	QI	QI	QII	C/B	C/A
	A	B	C		
Vehicles	0.0263	0.0000	0.0000	0.00	-100.00
Vehicle Spare Parts	0.0208	0.0150	0.0251	67.89	20.78

Other Spare Parts	0.0562	0.0839	0.0740	-11.76	31.81
Textile & Ready Made	0.0054	0.0029	0.0002	-92.38	-95.87
Household Goods	0.0378	0.0002	0.0000	-100.00	-100.00
Medicine & Medical Equip.	0.5336	0.0381	0.0687	80.47	-87.13
Food Stuffs	0.0048	0.0000	0.0002	0.00	-94.88
Electronic Goods	0.1293	0.0352	0.0240	-31.74	-81.44
Machinery Equip. & Spare Parts	0.0069	0.0000	0.0000	0.00	-100.00
Others*	68.26	27.22	49.97	83.57	-26.81
Total	69.08	27.39	50.16	83.10	-27.40

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

*Includes franco valuta cement import

6.2.3 Direction of Trade

6.2.3.1 Exports

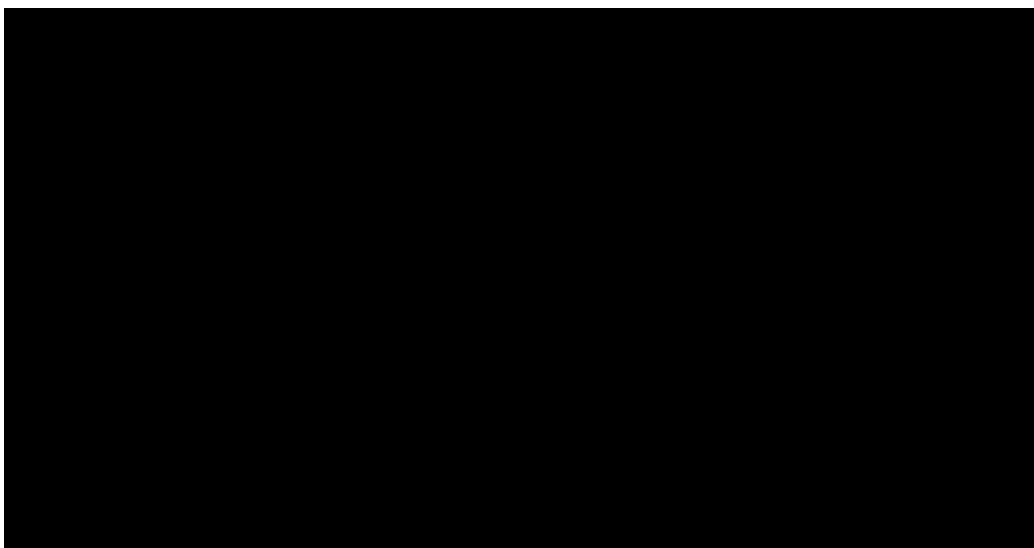
During the second quarter of 2009/10, Europe was the largest market for Ethiopia's export comprising 38.7 percent share. Among European countries Switzerland, a sole importer of gold from Ethiopia, was the largest market followed by the Netherlands that chiefly imported flowers. Germany that mainly imported coffee and flowers was the third largest buyer of Ethiopian commodities followed by Turkey, which primarily imported oil seeds and pulses.

Exports destined to Asia accounted for 33.8 percent of the country's exports. Of the total exports to Asia, 39.6 percent went to China, 15.1 percent to United Arab Emirates (UAE), 14.2 percent to Saudi Arabia and 10.6 percent to Israel.

The major export item to China were oilseeds. Live animals, pulses and meat and meat products are the main export items to UAE. Some of the export items shipped to Saudi Arabia include coffee and meat and meat products; whereas oilseeds were the major exports to Israel.

About 24.2 percent of Ethiopian exports went to African countries, among which Somalia, Sudan and Djibouti accounted for 91 percent. Somalia's major import from Ethiopia was *chat* (85.1 percent) and live animals. Major exports to Djibouti market include *chat* and fruits and vegetables. Sudan mainly purchased coffee, pulses and spices.

The share of the Americas in Ethiopia's total exports was 2.9 percent, of which 78.1 percent went to the USA and 11.8 percent to Canada. The principal export items to the USA include coffee and oilseeds; while Canada purchased mainly oilseeds.



Source: Ethiopian Revenue and Customs Authority

6.2.3.2 Imports

During the second quarter of 2009/10, about 69.5 percent of the total imports to Ethiopia originated from Asia among which China, Saudi Arabia, India and Japan accounted for 60.2 percent. Major imports from China included electrical materials, machinery, metals, chemicals, rubber products, clothing and textile and motor vehicles. The major import item from Saudi Arabia was petroleum. Medical and pharmaceutical products, machinery, electrical materials, metals and metal products, rubber products, road and motor vehicles were the main items imported from India; while import items from Japan were largely motor

vehicles, machinery, metals and rubber products.

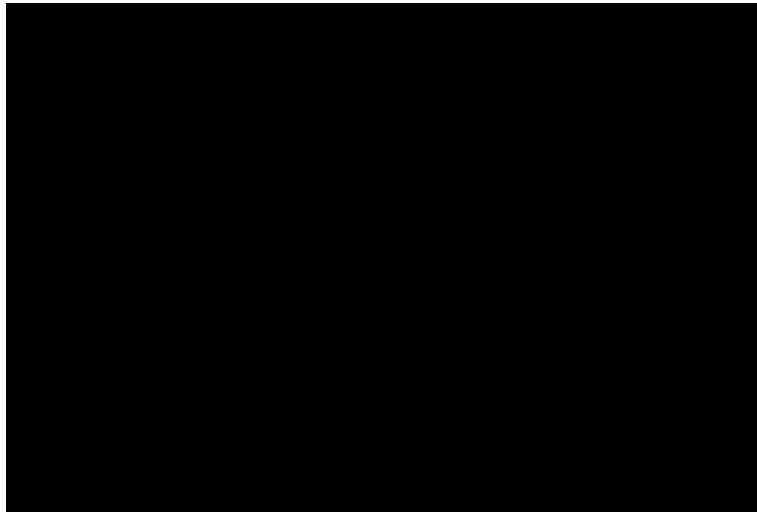
Meanwhile, imports from Europe accounted for 18 percent of total imports among which Italy, Turkey, Germany, Ukraine and United Kingdom (UK) were the major suppliers. Italy mainly exported machinery, electrical materials, metals, medicine and pharmaceutical products, vehicles, food and live animals and grain. Metal and metal products and machineries were the principal import items from Turkey. Similarly, imports from Germany were largely vehicles and machinery. The main imports from Ukraine comprised of fertilizers, grain and metals; whereas imports from UK

constituted machinery, vehicles and electrical materials.

The share of the Americas in imports was 9.6 percent among which two countries; namely, USA and Brazil accounted for over 98.5 percent. Grain, machinery, medical and pharmaceutical products, food and live animals were the major imports from the USA. Machinery

and vehicles are also imported from Brazil.

The share of African countries in total imports was just 2.7 percent of which 92 percent came from four countries; namely the Sudan, Egypt, South Africa and Kenya. Petroleum products constituted the major import item from the Sudan.



Source: Ethiopian Revenue and Customs Authority

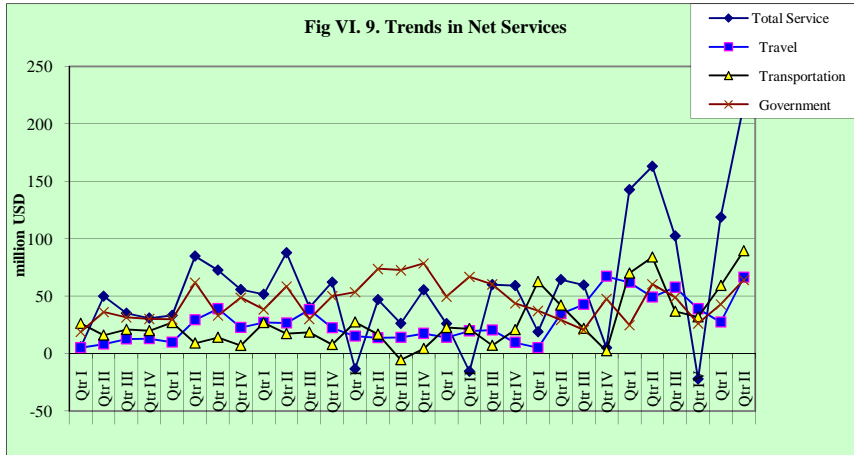
6.3 Services and Transfers

The service account registered a surplus of USD 216.2 million during the second quarter of 2009/10 compared to USD 163 million surplus last year, reflecting higher receipts from travel, transportation, government services and other business services.

Net travel and transport receipts rose to USD 66.6 million and USD 89.6 million

from USD 49.1 million and USD 84.1 million a year ago. Net government and other business services also rose from USD 60.4 and 21 million to USD 64.1 and 35 million, respectively. In a nutshell, the quarter under review witnessed a marginal increase of 1 percent in gross receipts and 11.5 percent drop in gross payments resulting

in a 32.6 percent growth in net service inflows over the corresponding quarter of 2008/09.



Source: Ethiopian Revenue and Customs Authority

Table 6.8: Trends in Service Accounts

(In Millions of USD)

Particulars	2008/09		2009/10				Percentage Change	
	Qtr II	% Share	Qtr I	% Share	Qtr II	% Share	C/B	C/A
	A		B	C	C			
Receipts	574.7	100.0	465.6	100.0	580.6	100.0	24.7	1.0
Travel	87.2	15.2	60.3	13.0	102.6	17.7	70.0	17.7
Transportation	308.1	53.6	261.6	56.2	302.6	52.1	15.7	-1.8
Government (n.i.e)	68.4	11.9	59.7	12.8	70.9	12.2	18.8	3.6
Investment Income	4.8	0.8	0.6	0.1	0.7	0.1	17.3	-85.4
Interest	4.8	0.8	0.6	0.1	0.7	0.1	17.3	-85.4
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Other Services	106.2	18.5	83.3	17.9	103.9	17.9	24.6	-2.2
Communication Services	23.9	4.2	24.7	5.3	23.7	4.1	-3.9	-0.8
Construction Services	8.1	1.4	6.7	1.4	7.8	1.3	16.3	-4.0
Insurance Services	0.1	0.0	0.0	0.0	0.0	0.0	15.1	-36.9
Financial Services	14.4	2.5	4.8	1.0	4.8	0.8	0.0	-66.3
Computer and Information Service	1.3	0.2	0.3	0.1	0.2	0.0	-23.0	-85.4
Other Business Services	58.3	10.1	46.2	9.9	67.3	11.6	45.8	15.5
Personal, cultural and recreational	0.2	0.0	0.7	0.2	0.0	0.0	-	-
Payments	411.7	100.0	346.9	100.0	364.4	100.0	5.1	-11.5
Travel	38.0	9.2	32.9	9.5	36.0	9.9	9.6	-5.3
Transportation	224.1	54.4	202.3	58.3	213.0	58.4	5.3	-4.9
Government (n.i.e)	8.0	1.9	16.9	4.9	6.8	1.9	-59.6	-15.1
Investment Income	17.8	4.3	13.1	3.8	10.0	2.7	-23.9	-44.1
Interest	9.8	2.4	8.9	2.6	6.6	1.8	-26.3	-32.7
Cash (Banks & MOF)	9.8	2.4	8.1	2.3	6.4	1.8	-21.5	-34.6
Arrears	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Relief	0.0	0.0	0.8	0.2	0.2	0.1	-	-
Dividend	8.1	2.0	4.2	1.2	3.4	0.9	-18.6	-57.9
Other Services	123.7	30.0	81.7	23.6	98.6	27.1	20.6	-20.3
Communication Services	3.8	0.9	8.5	2.5	33.8	9.3	296.6	778.7
Construction Services	80.9	19.6	31.8	9.2	27.4	7.5	-14.1	-66.2
Insurance Services	1.1	0.3	2.7	0.8	2.2	0.6	-17.7	109.9
Financial Services	0.1	0.0	0.1	0.0	0.0	0.0	-70.9	-54.6
Computer and Information Service	1.0	0.2	1.6	0.5	2.4	0.6	50.7	140.0
Other Business Services	36.9	9.0	37.0	10.7	32.8	9.0	-11.3	-10.9
Personal, cultural and recreational	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Net Services	163.0		118.7		216.2		82.1	32.6

Source: Staffs Compilation

Concerning transfers, total net transfers declined by 3 percent to USD 1.25 billion in the review quarter from USD 1.29 billion a year ago. Net official transfers dropped by about 14 percent to USD 444.0 million as a result of lower cash disbursements

Meanwhile, net private transfers (including transfers through NGO's) rose by 4.3 percent year-on-year basis and reached USD 810.4 million. All

transfers through NGOs were in cash, which plummeted by 31 percent to USD 204.5 million. Private individual transfers increased by 25.8 percent from USD 485 million last year to USD 610.1 million in the review quarter as cash and estimated underground transfers rose by 7.5 and 57 percent, respectively.

Table 6.9: Developments of Transfer Accounts

(In Millions of USD)

Particulars	2008/09		2009/10				Percentage Change	
	A		B		C		C/B	C/A
	Q II	% share	Q I	% share	Q II	% share		
Private Transfers	777.3	60.1	641.6	61.9	810.4	64.6	26.3	4.3
Credit	781.7	60.0	649.9	62.2	814.5	64.6	25.3	4.2
NGO's	296.7	22.8	178.5	17.1	204.5	16.2	14.5	-31.1
Cash	296.7	22.8	178.5	17.1	204.5	16.2	14.5	-31.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Food	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Private individuals	485.0	37.2	471.4	45.1	610.1	48.4	29.4	25.8
Cash	189.1	14.5	184.1	17.6	203.3	16.1	10.4	7.5
In-kind	69.1	5.3	27.3	2.6	50.2	4.0	83.6	-27.4
Under ground Private								
Transfers	226.8	17.4	260.0	24.9	356.6	28.3	37.2	57.2
Debit	-4.5	43.9	-8.3	86.2	-4.1	75.5	-50.3	-7.7
Official Transfers	515.4	39.9	394.2	38.1	444.0	35.4	12.6	-13.9
Credit	521.1	40.0	395.6	37.8	445.4	35.4	12.6	-14.5
Cash	479.7	36.8	361.9	34.6	388.9	30.9	7.5	-18.9
Other	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Food	41.5	3.2	33.7	3.2	56.5	4.5	67.8	36.2
Debit	-5.7	56.1	-1.3	13.8	-1.3	24.5	0.3	-76.6
Total Receipts	1302.8	100.8	1045.5	100.9	1259.9	100.4	20.5	-3.3
Total Payments	-10.1	-0.8	-9.6	-0.9	-5.4	-0.4	-43.3	-46.3
Net Transfers	1292.7	100.0	1035.9	100.0	1254.4	100.0	21.1	-3.0

Source: Staff Compilation

6.4 Current Account

The current account deficit (including official transfers) widened to USD 477.8 million from a deficit of USD 215.8 million in the corresponding period of last year, reflecting a significant deterioration in the trade balance.

6.5 Capital Account

The capital account was in surplus of USD 778.2 million in the review quarter compared with USD 398.8 million a year ago due to higher net loan disbursement and foreign direct investment inflows.

6.6 Changes in Reserve Position

Reflecting the surplus in net overall balance of payments, the foreign assets of the banking system increased by USD 87.2 million compared to USD 43.9 million draw down in the preceding year.

6.7 Developments in Foreign Exchange Market

6.7.1 Exchange Rate Movements

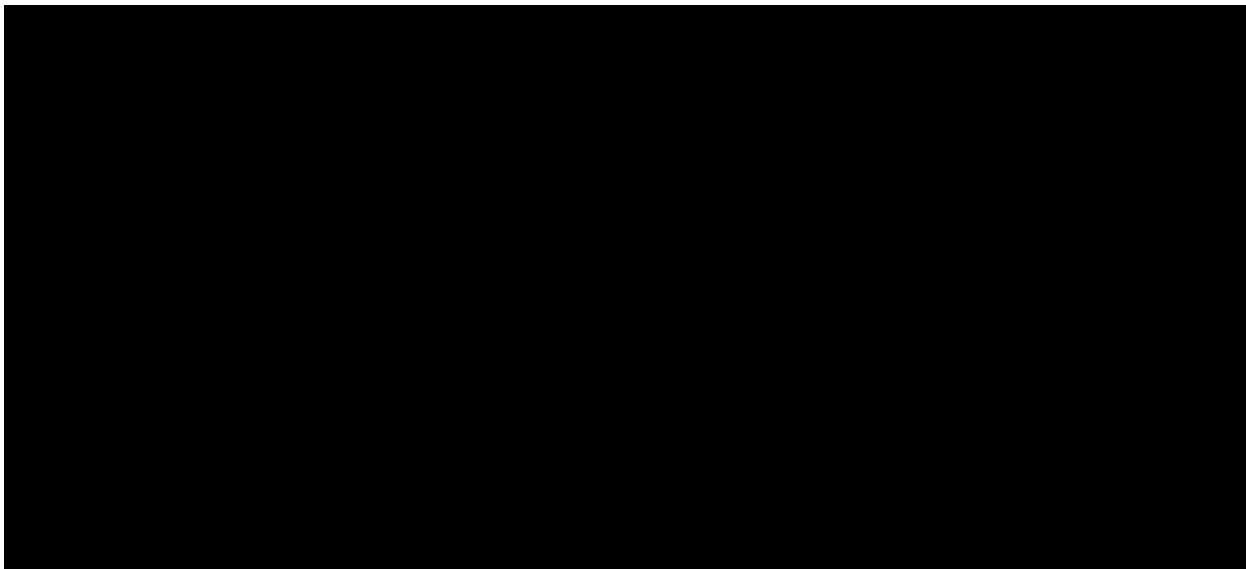
The average exchange rate of the Birr in the inter-bank foreign exchange market depreciated by 27.6 percent on annual basis and reached Birr 12.5851/USD. The Birr also depreciated by 24.5 percent in the parallel market and stood

at Birr 13.3933/USD. Hence, the average spread between the exchange rates of the Birr in the official and parallel markets narrowed to 6.42 percent in the review

period from 9 percent a year ago owing to faster depreciation of the Birr in the official market.

Table 6.10: Exchange Rates in the 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. II	C	9.9566	9.9566	9.9040	9.8670	6.00	0.0	531.0	0.0	11.40	10.75	8.99
October		9.9040	9.9040	9.9040	9.7456	2.30	0.00	203	0	10.68	10.52	7.91
November		9.924	9.9238	9.9238	9.9144	2.00	0.00	181	0	10.70	10.66	7.55
December		9.9566	9.9566	9.9566	9.9409	1.70	0.00	147	0	11.40	11.08	11.49
2009/10												
Qtr. I	B	12.5377	12.5377	12.4721	12.3746	3.25	0.0	445.0	0.0	13.30	13.29	7.42
July		12.4721	12.4721	12.4721	12.1111	1.15	0.00	149	0.0	13.40	13.32	9.98
August		12.5062	12.5062	12.5061	12.4899	1.05	0.00	145	0.0	13.30	13.38	7.13
September		12.5377	12.5377	12.5377	12.5227	1.05	0.00	151	0.0	13.30	13.18	5.25
Qtr. II	A	12.6416	12.6416	12.5653	12.5851	3.25	0.0	334.0	0.0	13.50	13.39	6.42
October		12.5653	12.5653	12.5653	12.5522	1.10	0.00	156	0.0	13.30	13.32	6.12
November		12.5980	12.5980	12.5980	12.5825	1.00	0.00	155	0.0	13.45	13.40	6.50
December		12.6416	12.6416	12.6416	12.6207	1.15	0.00	23	0.0	13.50	13.46	6.65
% age change	A/B	0.83	0.83	0.75	1.70	0.00		-24.94	-	1.50	0.75	-13.51
	A/C	26.97	26.97	26.87	27.55	-45.83		-37.10	-	18.42	24.54	-28.57



In the retail market, the average buying rate of foreign exchange bureaus during the review period was Birr 12.5829/USD; while their selling rate was Birr 12.8297/USD. Both the buying and selling rates depreciated by 1.9 and 27.5 percent on quarterly and annual basis, respectively. The average spread

between the buying and selling rates was about 2 percent.

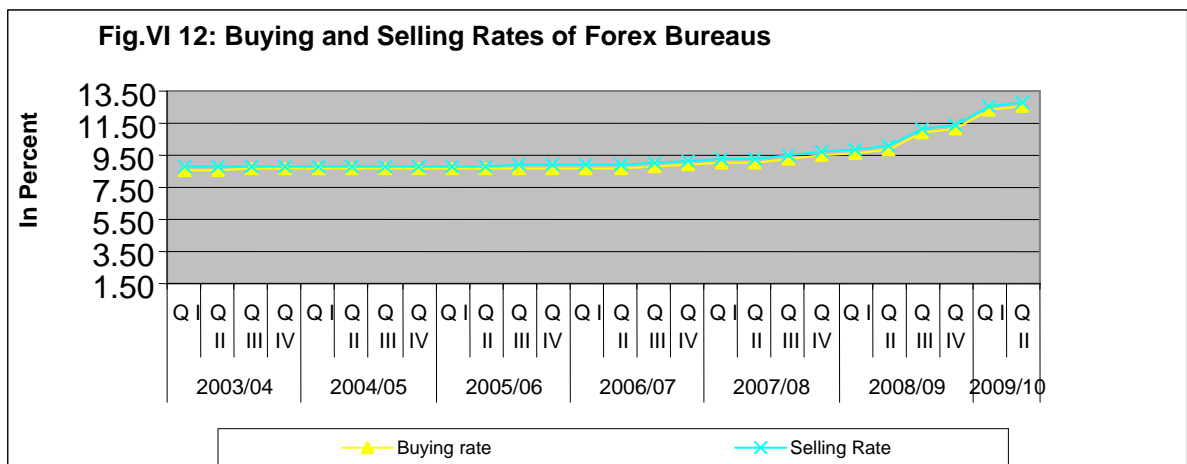
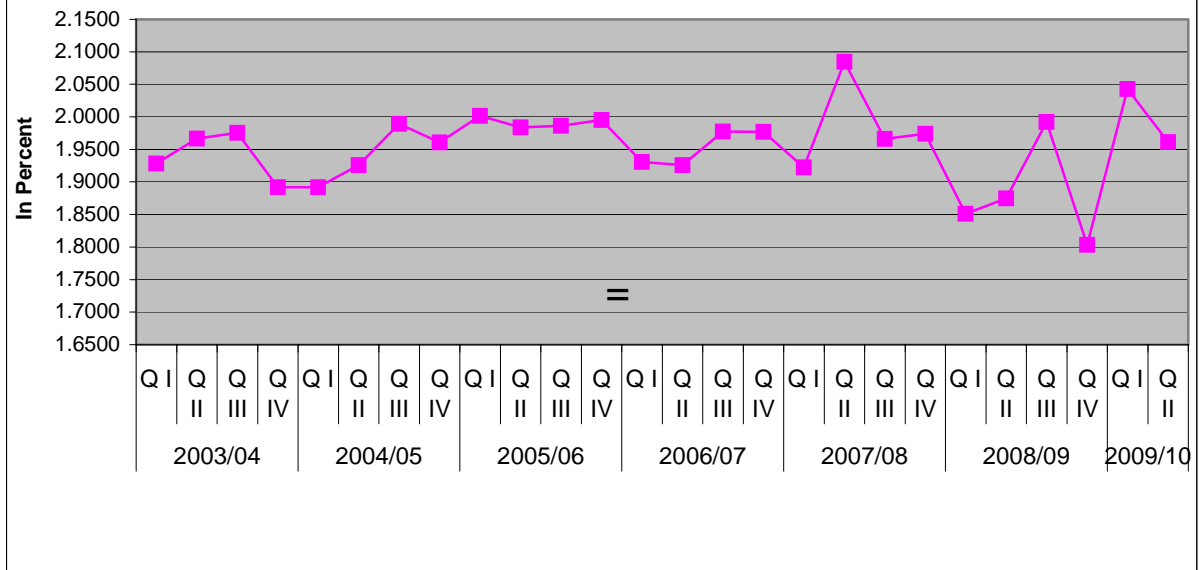


Fig.VI.13: Spread between Buying and Selling Rates of Foreign Exchange in Forex Bureaux



During the review period, the US dollar continued to depreciate against all major currencies. The highest quarter-on-quarter depreciation was witnessed against the Japanese yen (4.7 percent), followed by Swiss frank (4.6 percent),

Euro (3.4 percent), SDR (2.3 percent) and pound sterling (0.05 percent).

The highest year-on-year depreciation was against Swiss frank (13.6%), Euro (11.9%), Japanese yen (7.3%), SDR (5.9%) and Pound Sterling (4.3%).

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. II	C	1.3200	1.3200	1.3200	0.0104	0.0104	0.0104	1.5086	1.5086	1.5086	1.5735	1.5735	1.5735	0.8657	0.8657	0.8657
October		1.3326	1.3326	1.3326	0.0099	0.0100	0.0100	1.5178	1.5178	1.5178	1.6957	1.6957	1.6957	0.8761	0.8761	0.8761
November		1.2715	1.2715	1.2715	0.0104	0.0103	0.0103	1.4831	1.4831	1.4831	1.5311	1.5311	1.5311	0.8402	0.8402	0.8402
December		1.3559	1.3559	1.3559	0.0110	0.0110	0.0110	1.5248	1.5248	1.5248	1.4937	1.4937	1.4937	0.8808	0.8808	0.8808
2009/10																
Qtr. I	B	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
Qtr. II	A	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
Percentage change	A/B	3.11	3.74	3.42	4.39	5.00	4.69	1.95	2.54	2.25	-0.24	0.34	0.05	4.30	4.91	4.61
	A/C	11.63	12.28	11.95	6.93	7.66	7.30	5.60	6.21	5.90	4.03	4.63	4.33	13.30	13.96	13.63

Source: Staff Compilation

Similarly, the exchange rate of Birr on average depreciated against all major currencies on quarterly and annual basis. A quarter-on-quarter depreciation was the highest against Japanese yen (6.2%), Swiss frank (6.04%), Euro (4.8%), SDR (3.7%), USD (1.8%) followed by Pound sterling (1.44%).

The highest year-on-year depreciation was recorded against Swiss frank (44.4%), Euro (42.3%), Japanese yen (36.3%), SDR (34.5%), Pound sterling (32.6%) followed by USD (27.6%).

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. II	C	9.8631	9.9617	9.9124	13.0183	13.1485	13.0834	0.1029	0.1038	0.1033	14.8785	15.0273	14.9529	15.5108	15.6660	15.5884	8.5381	8.6235	8.5808
October		9.7364	9.8338	9.7851	12.9729	13.1027	13.0378	0.0968	0.0982	0.0975	14.7768	14.9245	14.8506	16.5071	16.6723	16.5897	8.5301	8.6154	8.5728
November		9.9134	10.0125	9.9629	12.6047	12.7309	12.6678	0.1027	0.1030	0.1028	14.7027	14.8498	14.7763	15.1785	15.3303	15.2544	8.3293	8.4126	8.3710
December		9.9394	10.0388	9.9891	13.4773	13.6121	13.5447	0.1092	0.1102	0.1097	15.1561	15.3077	15.2319	14.8468	14.9953	14.9210	8.7549	8.8425	8.7987
2009/10																			
Qtr. I	B	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
Qtr. II	A	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
Percentage change	A/B	1.84	1.84	1.84	4.83	4.86	4.85	6.14	6.14	6.14	3.67	3.66	3.67	1.44	1.44	1.44	6.04	6.04	6.04
	A/C	27.58	27.58	27.58	42.23	42.23	42.23	36.18	36.32	36.25	34.54	34.54	34.54	32.61	32.61	32.61	44.35	44.35	44.35

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

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

Currency	Dec-08	Sep-09	Dec-09	Percentage change	
	C	B	A	A/B	A/C
USD	10.0049	12.5989	12.7029	0.8	27.0
Pound	14.4451	20.1822	20.4085	1.1	41.3
Swedish Kroner	1.2896	2.1648	1.7785	-17.8	37.9
Djibouti Frank	0.0563	0.0709	0.0715	0.8	26.9
Swiss Frank	9.4591	12.1858	12.2746	0.7	29.8
Saudi Riyal	2.6652	3.3594	3.3866	0.8	27.1
UAE Dirham	2.7236	3.4301	3.4583	0.8	27.0
Canadian Dollar	8.2088	11.6538	12.0773	3.6	47.1
Japanese Yen	0.1107	0.1405	0.1376	-2.1	24.2
Euro	14.1009	18.4234	18.2541	-0.9	29.5
SDR	15.4856	19.8755	19.9349	0.3	28.7

Source: National Bank of Ethiopia – BFED

6.7.2. Movements in Real Effective Exchange Rate

The real exchange rate of the Birr continued to depreciate thanks to the continuous decline in the consumer price index of Ethiopia. In the second

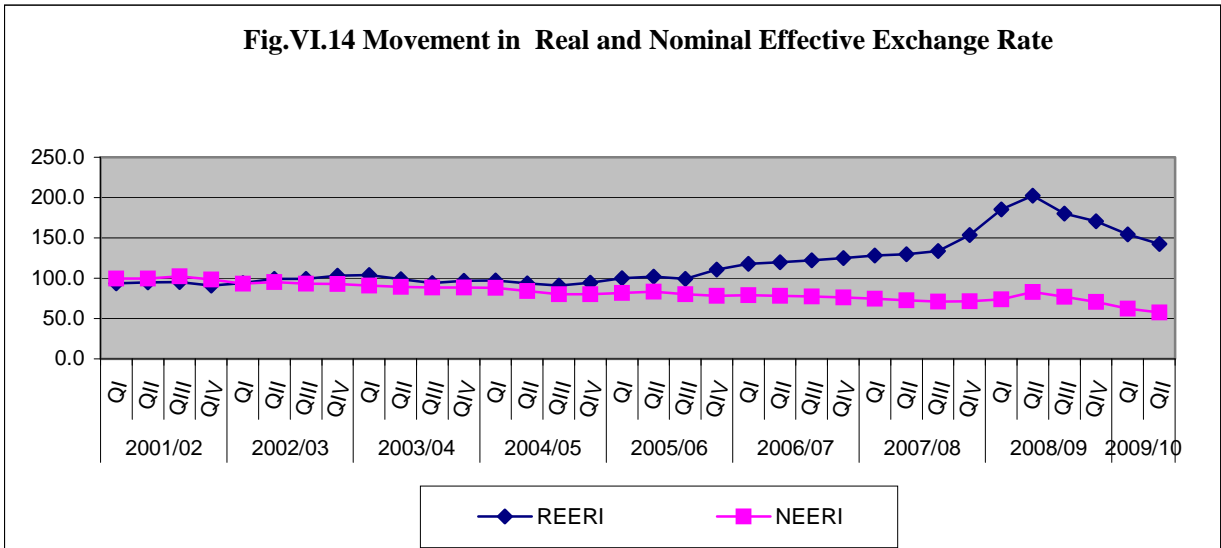
quarter of 2009/10, the real effective exchange rate of the Birr depreciated by 7.7 and 29.6 percent on quarterly and annual basis, respectively. Similarly, the nominal effective exchange rate showed quarterly and annual depreciations of 7.4 and 30.1 percent.

Table 6.14 Trends in the Real Effective Exchange Rate

	2008/09	2009/10		Percentage Change	
	QII	Q I	Q II		
	A	B	C	C/B	C/A
REERI	202.4	154.3	142.4	-7.71	-29.64
NEERI	82.8	62.5	57.9	-7.36	-30.07

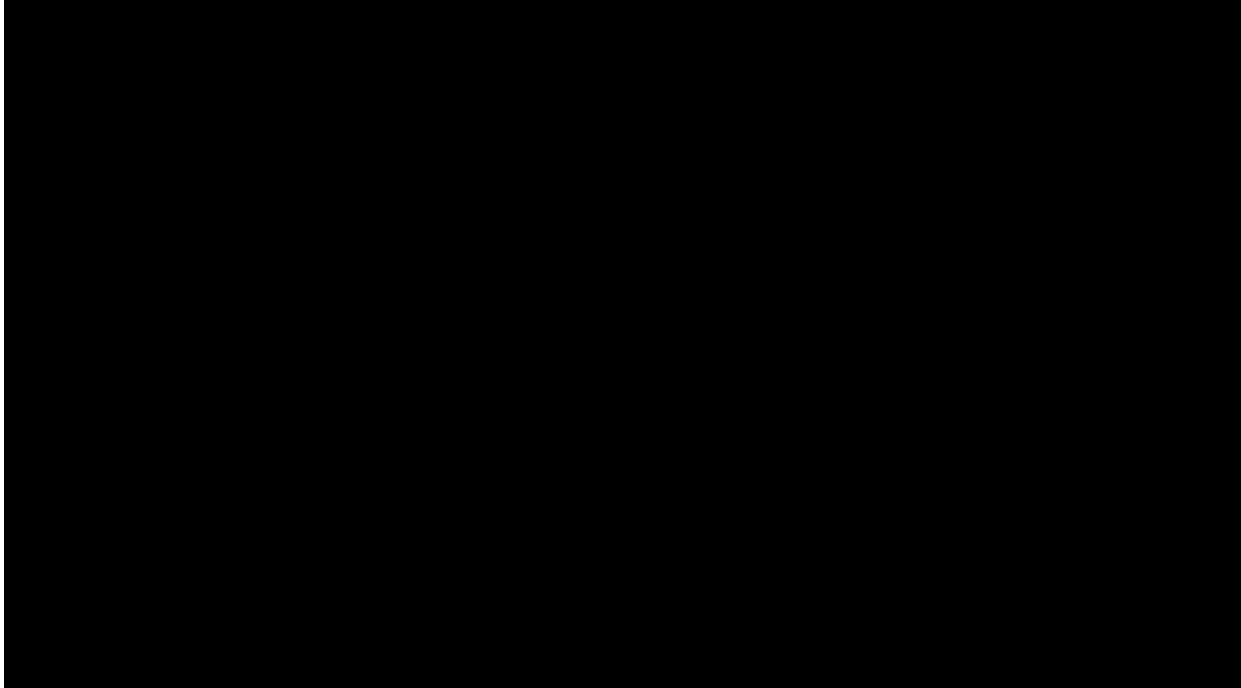
REERI = Real Effective Exchange Rate Index

NEERI = Nominal Effective Exchange Rate Index



6.7.3 Volume of Transactions

The amount of foreign exchange traded in the inter-bank foreign exchange market during the review period was USD 3.3 million, about 45.8 percent lower than last year. All transactions took place between NBE and commercial banks.



Meanwhile, forex bureaus purchases increased by 2.7 percent on annual basis and reached USD 42.3 million. However, their sales declined by 8.4 percent to USD 11.4 million compared to the preceding year.

Table 6.15: 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		2009/10				Percentage Change			
		Quarter II		Quarter I		Quarter II		C/B		C/A	
		A		B		C		Purch	Sales	Purch	Sales
		Purchases	Sales	Purchases	Sales	Purchases	Sales	ases		Purchases	Sales
Commercial Bank of Ethiopia	121	7.9	3.5	5.3	0.0	6.6	0.1	25.2	78.8	-16.2	-98.5
Bank of Abyssinia	28	1.1	1.2	0.9	1.6	0.6	0.8	-28.7	-49.2	-41.3	-29.3
Dashen Bank	55	3.6	3.8	3.7	4.4	3.8	4.9	1.9	11.7	4.8	27.5
Awash International Bank	22	0.6	2.0	0.4	1.9	0.4	1.3	0.4	-32.6	-27.5	-36.7
Construction and Business Bank	5	0.5	0.2	0.2	0.1	0.1	0.1	-41.0	11.5	-68.4	-64.7
Wegagen Bank	19	1.8	1.9	2.0	1.0	0.8	1.0	-61.7	7.0	-57.7	-45.1
United Bank	35	3.2	1.3	3.8	1.6	4.9	1.8	28.4	10.8	52.1	37.4
Nib International Bank	30	22.6	1.3	17.7	1.4	24.2	1.1	36.3	-19.8	7.0	-17.2
Lion International Bank	1	0.0	0.0	1.8	0.2	0.7	0.0	-59.2	-	-	-
Oromia International Bank	7	0.0	0.0	1.6	0.1	0.2	0.0	-	-	-	-
Zemen Bank	1	0.0	0.0	0.2	0.2	0.1	0.2	-	-	-	-
Cooperative Bank of Oromia	1	0.0	0.0	0.0	0.0	0.0	0.1	-	-	-	-
Bunna International Bank	1	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-
Berhan International Bank	2	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-
Total	328	41.2	15.2	37.6	12.4	42.3	11.4	12.5	-8.4	2.7	-25.3
Average Exchange Rate		9.8686	10.05	12.35	12.60	12.53	12.83	1.9	1.8	27.5	27.6