VIII. INVESTMENT

The Ethiopian Investment Agency and Regional Investment Offices licensed a total of 1,065 investment projects with an aggregate capital of Birr 32 billion during the second quarter of 2011/12. The number of approved investment projects was 25 percent higher relative to same period of last year. Similarly, the total registered capital of these projects grew by 164 percent(Table 8.1).

All projects approved during the review period were private of which 929 projects having 87 percent share, were domestic and the remaining 136 projects, constituting 13 percent, were foreign.

Foreign investment projects, though small in number, recorded an investment capital of Birr 24 billion, accounting for 75 percent of total private investment capital.

Relative to a year ago, domestic investment projects depicted a 41 percent surge while foreign investment projects tended to slow down.

After completion, the approved investment projects are expected to generate employment opportunities for 86,842 employees (26,454 permanent and 60,388 casual/.

Table 8.1. Performance of Approved Investment Projects [During the Second quarter of 2011/12]

Capital (In Million Birr)

Type of Projects	Items	2010/11 Q.II A	2011/12 Q.I B	2011/12 Q.II C	Percentage changes C/A	Percentage changes C/B
1.Total Investment	Number	850	1,213	1,065	25.3	-12
	Capital	12,087	32,677	31,959	164.4	-2
	Permanent Employment	33,442	33,969	26,454	-20.9	-22
	Temporary Employment	65,448	96,322	60,388	-7.7	-37
2. Private Investment	Number	849	1,212	1,065	25.4	-12
	Capital	12,085	30,420	31,958	164.4	5
	Permanent Employment	33,422	33,969	26,454	-20.8	-22
	Temporary Employment	65,378	96,322	60,388	-7.6	-37
2.1 Domestic Investment	Number	660	1,085	929	40.8	-14
	Capital	5,054	7,842	7,955	57.4	1
	Permanent Employment	18,880	22,565	16,349	-13.4	-28
	Temporary Employment	29,875	33,398	36,282	21.4	9
2.2 Foreign Investment	Number	189	127	136	-28.0	7
	Capital	7,031	22,578	24,003	241.4	6
	Permanent Employment	14,542	11,404	10,105	-30.5	-11
	Temporary Employment	35,503	62,924	24,106	-32.1	-62
3. Public Investment	Number	1	1	0	-100	-
	Capital	2	2,256	0	-100	-
	Permanent Employment	20	0	0	-100	-
	Temporary Employment	70	0	0	-100	-

Source: Ethiopian Investment Agency

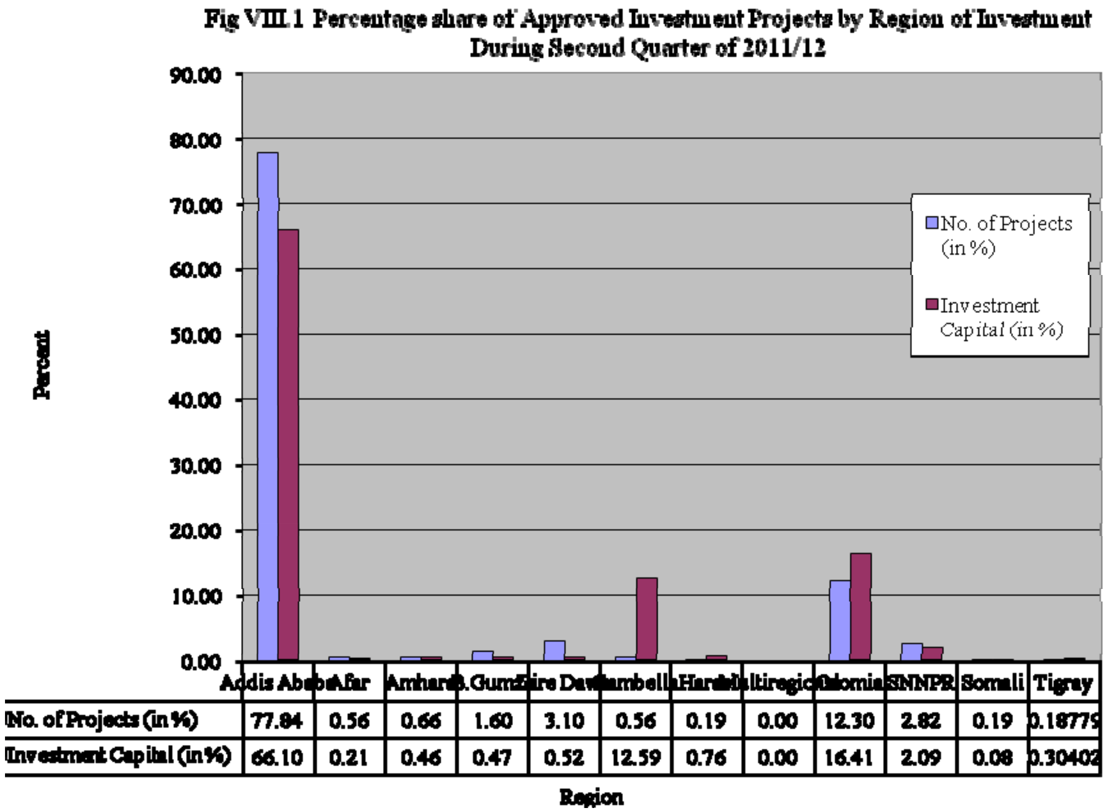
With regard to sectoral distribution of investment projects, the lion's share was taken up by mining and quarrying (44 percent) followed by real estate, renting and business activities (24 percent), construction (14 percent) and manufacturing & agriculture (6 percent each). As for investment capital, construction accounted for 46 percent followed by real estate (Table 8.2).

In relation to new jobs, 37 of the permanent employment opportunity is expected to be generated from real estate, renting and business activities, followed by Construction & manufacturing (17 percent each), mining and quarrying (14 percent) and agriculture, hunting and forestry (11 percent). At the same time, agriculture, hunting & forestry, real estate, renting and business activities, manufacturing and construction are expected to employ about 76 percent of the casual workers.

Table 8.2 Investment Distribution by Sector [During the second quarter of 2011/12]

	No. of Projects	Share [%]	Capital(in Million Birr)	Share [%]	Perm. Emp.	Share [%]	Temp. Emp.	Share [%]
Agriculture, hunting and forestry	67	6	5,744	18	2,994	11	22,566	37
Construction	154	14	14,678	46	4,518	17	11,025	18
Education	12	1	163	1	372	1	335	1
Health and social work		0		0		0		0
Hotels and restaurants	10	1	91	0	335	1	123	0
Manufacturing	59	6	3,205	10	4,527	17	12,776	21
Real estate, renting and business activities	253	24	5,996	19	9,732	37	8,046	13
Transport, storage and communication	3	0	23	0	55	0	53	0
Electricity, gas, steam and water supply	8	1	53	0	91	0	33	0
Minining and quarrying	471	44	1,844	6	3,578	14	4,735	8
Wholesale, retail trade & repair service	25	2	158	0	204	1	634	1
Others	3	0	5	0	48	0	62	0
Grand Total	**1,065**	**100**	**31,959**	**100**	**26,454**	**100**	**60,388**	**100**

Source: Ethiopian Investment Agency



Source: Ethiopian Investment Agency

Regarding regional distribution of investment projects, 78 percent of the projects with an investment capital share of 66 percent were in Addis Ababa, followed by Oromia (12 percent) (Fig.VIII.1). Sector wise, Oromia took 39 percent of the investment in agriculture, hunting & forestry. Meanwhile, Addis Ababa's share was 68 percent in manufacturing, 92 percent in real estate, renting and business activities and 88 percent in construction; SNNP received 18 percent in agriculture, hunting & forestry and 4 percent in Manufacturing (Table 8.3).

Table 8.3 Regional-Sector Nexus in the Number, Capital (in thousands of Birr) and Employment Creation Capacity of Licensed Projects [Qrt.II 2011/12]

Sector	Indicators	Addis Ababa	Afar	Amhara	B.Gumuz	Dire Dawa	Multi-regional	Oromia	SNNPR	Gambella	Somali	Harari	Tigray	Grand Total
	No of Proj.	4	2	3	12	1	0	26	12	3	2	2		67
	Capital.	52,350	2,500	5,966	93,305	1,209	0	766,052	532,504	4,022,206	26,538	241300		5,743,929
	Perm.emp.	89	14	40	301	18	0	1,001	229	542	60	700		2,994
	Temp.emp.	195	160	228	3,095		0	2,500	3,691	10,417	130	2150		22,566
Construction	No of Proj.	136	0	1	0	2	0	14		0		0		154
	Capital.	14,544,295	0	4,000	0	8,067	0	121,500		0		0		14,673,861
	Perm.emp.	4,186	0	30	0	47	0	245		0		0		4,518
	Temp.emp.	10,451	0	20	0	170	0	374		0		0		11,025
Education	No of Proj.	3	1		0	4	0		3	0		0	1	12
	Capital.	37,300	450		0	18,650	0		12,000	0.0		0	95,000	163,400
	Perm.emp.	60	2		0	182	0		78	0		0	50	372
	Temp.emp.	62	5		0	185	0		58	0		0	25	335
Electricity, gas, steam and water supply	No of Proj.		0	0	0	0		0	0	0	0	0	0	
	Capital.		0	0	0	0		0	0	0	0	0	0	
	Perm.emp.		0	0	0	0		0	0	0	0	0	0	
	Temp.emp.		0	0	0	0		0	0	0	0	0	0	
fishing	No of Proj.	0	0	0	0	0	0			0	0	0	0	
	Capital.	0	0	0	0	0	0			0	0	0	0	
	Perm.emp.	0	0	0	0	0	0			0	0	0	0	
	Temp.emp.	0	0	0	0	0	0			0	0	0	0	
Health and social work	No of Proj.	9	0		0		0	1		0		0		10
	Capital.	85,009	0		0		0	5,901		0		0		90,910

	Perm.emp.	312	0		0		0	23		0		0		335
	Temp.emp.	46	0		0		0	77		0		0		123
Hotels and restaurants	No of Proj.	40	0		2	2	0	14	1	0		0		59
	Capital.	3,059,604	0		2,467	12,553	0	88,906	41,000	0		0		3,204,530
	Perm.emp.	4,262	0		13	37	0	215		0		0		4,527
	Temp.emp.	12,176	0		65	20	0	401	114	0		0		12,776
Manufacturin g	No of Proj.	172	1	3	2	13	0	53	9	0		0		253
	Capital.	1,569,507	500	136,987	55,335	33,215	0	4,132,011	68,149	0		0		5,995,704
	Perm.emp.	5,229	1	302	103	243	0	3,757	97	0		0		9,732
	Temp.emp.	4,034	5	72	215	136	0	2,568	1,016	0		0		8,046
Mining and quarry	No of Proj.	2	0		1	0	0		0	0		0	0	3
	Capital.	22,300	0		300	0	0		0	0		0	0	22,600
	Perm.emp.	40	0		15	0	0		0	0		0	0	55
	Temp.emp.	28	0		25	0	0		0	0		0	0	53
Real estate, renting and business activities	No of Proj.	434	2		0	9	0	21	1	3		0	1	471
	Capital.	1,596,053	64,723		0	52,045	0	125,063	1,100	2,700		0	2,160	1,843,844
	Perm.emp.	2,467	20		0	175	0	900	3	11		0	2	3,578
	Temp.emp.	3,652	60		0	330	0	628		65		0		4,735
Tour operation, eco-tourism, cold storage service, etc.	No of Proj.	23	0	0	0	1			1	0		0	0	25
	Capital.	151,783	0	0	0	1,500			4,690	0		0	0	157,973
	Perm.emp.	184	0	0	0				20	0		0	0	204
	Temp.emp.	634	0	0	0		0			0		0	0	634
Wholesale, retail trade & repair service	No of Proj.	1	0		0		0	2	0	0		0		3

	Capital.	130	0		0		0	4,780	0	0		0		4,910
	Perm.emp.	5	0		0		0	43	0	0		0		48
	Temp.emp.	7	0		0		0	55	0	0		0		62
Others	No of Proj.	4	0	0	0	1	0	0	3	0		0		8
	Capital.	4,990	0	0	0	40,000	0	0	7,700	0		0		52,690
	Perm.emp.	35	0	0	0	24	0	0	32	0		0		91
	Temp.emp.	19	0	0	0		0	0	14	0		0		33
Total No of Proj.		**829**	**6**	**7**	**17**	**33**		**131**	**30**	**6**	**2**	**2**	**2**	**1,065**
Total Capital.		**21,123,322**	**68,173**	**146,953**	**151,407**	**167,238**		**5,244,212**	**667,143**	**4,024,906**	**26,538**	**241,300**	**97,160**	**31,958,351**
Total Perm.emp.		**16,879**	**37**	**372**	**432**	**726**		**6,184**	**459**	**553**	**60**	**700**	**52**	**26,454**
Total Temp.emp.		**31,314**	**230**	**320**	**3,400**	**841**		**6,603**	**4,893**	**10,482**	**130**	**2,150**	**25**	**60,388**
Percentage share			**0**									**0**		
No of Proj.		**78**	**0**	**1**	**2**	**3**	**0**	**12**	**3**	**1**	**0**	**0**	**0**	**100**
Capital.		**66**	**0**	**0**	**0**	**1**	**0**	**16**	**2**	**13**	**0**	**0**	**0**	**100**
Perm.emp.		**64**	**0**	**0**	**2**	**3**	**0**	**23**	**2**	**2**	**0**	**0**	**0**	**100**
Temp.emp.		**52**	**0**	**0**	**6**	**1**	**0**	**11**	**8**	**17**	**0**	**0**	**0**	**100**

Source: Ethiopian Investment Agency

VIII. International Economic Developments

7.1 Overview of the World Economy[1/]

In the fourth quarter of 2011, GDP growth in the OECD area slowed down to 0.1% quarter on quarter from 0.6% in the third quarter, with growth patterns across countries diverging considerably. Towards the end of 2011, signs of stabilization in global economic activity began to emerge. Nevertheless, structural impediments are expected to continue to restrain the pace of growth in the global economy over the medium term. These impediments mainly relate to weaknesses in the labour and housing markets in some major advanced economies as well as to the need for further repairs to both public and private sector balance sheets. In relation to the latter, while some progress has been made on rebalancing, the debt levels of households remain elevated in a number of major advanced economies.

In an environment of improving financial markets, both business and consumer sentiment have shown signs of improvement. The Purchasing Managers' Index (PMI) for global all-industry output continued to increase, reaching 55.5 in February. The improvement in business conditions was broadly based across sectors and countries. In addition, the more forward-looking, PMI for new orders has provided positive signals for the near-term global economic outlook. On the consumer side, indicators of consumer confidence have likewise tended to improve across countries. For advanced economies, however, these indicators remain below historical averages.

Data on global trade for the last quarter of 2011 points to weak, dynamics and broadly consistent with subdued global activity. World trade in goods increased by 0.3% compared with the previous quarter. The weakness of global imports largely reflected a sharp decline in imports by the euro area and other European economies, while imports by the United States, Japan and the emerging markets held up better. As regards the near-term outlook, the global PMI for new export orders rose to above the expansion-contraction threshold of 50 in January and February 2012. While remaining below its long-term average, it points towards a gradual recovery in the momentum of global trade.

In the United States, economic activity continued to gradually gain momentum in the fourth quarter of 2011, after being

[1/] Section 9.1 and 9.2 are excerpted from European Central Bank monthly bulletin for February 2012 while section 9.3 and 9.4 ate taken from January.

subdued in the first half of the year. Real GDP increased by 3.0% in annualized terms in the fourth quarter of 2011 (0.7% on a quarter-on-quarter basis), up from 1.8% in the previous quarter. The expansion in the fourth quarter was driven primarily by consumer spending and the change in private inventories. Residential investment picked up strongly, while net exports and government expenditure contributed negatively to growth. Real disposable personal income growth strengthened in the second half of 2011, but remained below real private consumption growth.

Looking ahead, the recovery in 2012 is expected to proceed at a more robust pace than previously anticipated, given that the latest monthly data have surprised mainly on the upside and point to a continued economic expansion in the first quarter of 2012. US non-farm payrolls were better than expected in January and employment growth was widespread in the private sector, including the construction industry. Moreover, jobless claims continued to decline in February, indicating a more resilient labour market in the first quarter. According to several housing market indicators, housing activity, which collapsed during the recession, appears to be bottoming out.

In Japan, economic activity was relatively weak at the end of 2011, following the rebound observed in the third quarter. Real GDP in Japan contracted by 0.2% quarter on quarter compared with an increase of 1.7% in the preceding quarter. This was largely driven by negative contributions from net exports and private inventories. Weaker external demand, the persistent strength of the Japanese yen and supply disruptions related to the floods in Thailand contributed to a sharp decline in Japanese exports of goods and services, while imports of goods and services continued to expand. Public investment unexpectedly declined for the second consecutive quarter, signaling some delay in the implementation of reconstruction plans. On the other hand, corporate investment expanded significantly in the last quarter of 2011, while private consumption grew at a more moderate pace. Overall, this implies that annual real GDP declined by 0.7% in 2011, compared with growth of 4.4% in 2010. Higher energy imports, together with a more subdued export performance, resulted in the re-emergence of a trade deficit in 2011. Looking ahead, economic activity is expected to return to moderate growth in 2012, particularly as a result of reconstruction-related expenditure.

In the United Kingdom, economic activity appears to be bottoming out. In the fourth quarter of 2011, real GDP declined by 0.2%, quarter on quarter, but monthly data since November 2011 have generally been favourable. Industrial production and the volume of retail sales, as well as most business and household survey indicators, point to an improvement in economic activity in the first quarter of 2012. The labour market situation has remained weak amid some signs of stabilization, while the main money and credit aggregates contracted by approximately 2%-3%, year on year, in December and January. Looking ahead, domestic demand growth is expected to remain constrained by tight credit conditions, households' ongoing balance sheet adjustments and a substantial tightening of fiscal policy, while the outlook for external demand is likely to dampen export growth.

In the largest central and eastern European (CEE) countries, economic recovery has slowed down. In the fourth quarter of 2011 real GDP in Romania and the Czech Republic declined by 0.2% and 0.3% respectively compared with the previous quarter, while it increased by 0.3% in Hungary, largely as a result of temporary factors. In Poland, quarter-on-quarter growth in real GDP continued at a relatively robust rate of 1.1% in the fourth quarter of 2011. Overall, short-term survey indicators point to a weakening of business and household sentiment in these countries.

In the other non-euro area EU Member States, aggregate growth is expected to be relatively slow in the near term, with some countries at risk of a recession. In Sweden and Denmark, the outlook for economic activity has become more subdued. However, in the fourth quarter of 2011, growth and especially external trade dynamics were very diverse in the two economies. In Denmark, strength in exports and household consumption helped real GDP to increase by 0.2% quarter on quarter, while in Sweden, real GDP decreased by 1.1% owing to weak exports.

In emerging Asia, economic growth held up well in the fourth quarter of 2011, despite worsening global economic conditions. Export growth slowed significantly in the last quarter of 2011, partly on account of a drop in global demand, while investment remained weak as a result of a heightened volatility of capital flows and the lagged effects of a tightening of domestic monetary policies. By contrast, private consumption remained strong.

In China, economic growth has continued to decelerate in recent months. Weaker external demand caused export growth to decline to 13%, year on year, by the end of 2011. External imbalances declined, with China's current account surplus falling to 2.7% of GDP in 2011, from 5.1% in 2010. In India, in the fourth quarter of 2011, real GDP growth decreased to 6.3%, year on year from 6.7% in the third quarter, driven mainly by a decline in investment and export growth. In Korea, real GDP growth moderated slightly to 3.4% year on year, in the fourth quarter of 2011 compared with 3.5% in the third quarter. The contribution of private consumption was smaller than in the previous quarter while investment growth rebounded to 3.0% year on year.

Within the group of the ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand), Indonesia's economy continued to grow strongly (by 6.5%, year on year in the fourth quarter of 2011), driven by both investment and private consumption. In Malaysia, GDP growth picked up in the fourth quarter mainly on account of strong domestic demand, while Singapore's GDP growth fell as a result of weaker manufacturing activity, particularly in the biomedical sector. Thailand experienced the worst floods in more than 50 years, leading to a significant negative impact on economic activity. Real GDP of Thailand contracted by 9.0% year on year in the fourth quarter of 2011.

Looking ahead, emerging Asia's economic growth is expected to remain resilient, with weak external demand being compensated for by relatively robust private consumption. The main downside risks to economic activity relate to stronger spillovers from major advanced economies as well as to a rapid unwinding of imbalances in some sectors in the region.

In Latin America, the expansion of economic activity continued to moderate in most countries in the fourth quarter of 2011. The pace of growth slowed down on account of the lagged effects of policy tightening and the deterioration in external conditions. In Brazil, economic activity cooled down in the second half of 2011. The slowdown was particularly pronounced in the manufacturing sector, with industrial production contracting by 1.7% on average in the final quarter of 2011. In Argentina, indicators of economic activity also showed increasing signs of a slowdown after the exceptionally high growth rates recorded over the past two years. Industrial production expanded at an annual rate of

3.2% in the final quarter of 2011, after having increased at a rate of 8.0% and 5.8% in the second and third quarters respectively. In Mexico, economic growth remained rather resilient, with real GDP expanding by 4.7% in the fourth quarter of 2011 compared with 3.2% in the previous quarter. Growth in the fourth quarter was supported by external demand from the United States and the limited exposure of the domestic financial system to global risks.

Looking ahead, an improvement in the global environment, coupled with the lagged effects of the more accommodative policies, should help to support growth dynamics. Domestic demand is expected to be the main driver of growth, while export growth should benefit from strong demand in other emerging market economies.

In the fourth quarter of 2011 in the Middle East and African oil-exporting countries continued to benefit from high oil prices and resilient demand, in particular from emerging market countries. Saudi Arabia maintained buoyant oil production in the final quarter of 2011, while Libyan oil output was rapidly being restored. Although there are indications that growth in consumer spending in Saudi Arabia declined once the impact of the bonus for public sector workers had receded, overall domestic economic performance remained strong. Political instability and security challenges continue to impede economic growth in several oil-importing countries in the Middle East and northern Africa. Looking ahead, the slowdown of external demand is expected to have a negative effect on the economic outlook for both the Middle East and Africa mainly through the trade channel. At the same time, raw material prices are expected to remain supportive of growth in the commodity-exporting countries of the region.

7.2 Inflation Developments

After peaking at 3.3% in September, inflation in the OECD countries declined modestly to 2.8% in January, mainly reflecting lower growth in energy prices. Inflation excluding food and energy declined marginally to 1.9% in January, compared with 2.0% in December. In the advanced economies, ample spare capacity and well-anchored inflation expectations helped to mitigate price pressures. In emerging economies, inflation rates also declined. However, underlying price pressures persist on account of limited spare capacity, wage indexation policies, as well as rather low real interest rates. Annual inflation rates remained above 6% in Brazil and 4% in China.

In the United State, annual CPI inflation declined to 2.9% in January 2012, from 3.0% in the previous month and 3.9% at its peak in September 2011. A decrease in both food and energy price inflation contributed to this decline. CPI inflation excluding food and energy, however, has been more persistent. It increased at an annual rate of 2.3% in January 2012, compared with 2.2% in the previous month. The strength in core inflation has been sustained lately by increases in the prices of medical care, recreation, education and communication, despite a moderation in the cost of transportation and housing.

Annual headline CPI inflation in Japan stood at 0.1% in January 2012, up from -0.2% in the previous month, partly on account of increases in prices of food. Excluding fresh food, annual CPI inflation remained unchanged at -0.1% in January, while annual CPI excluding food and energy declined at a slower pace (-0.8%) compared with December 2011 (-1.1%). At its latest monetary policy meeting on 14 February 2012, the Bank of Japan decided to maintain its target for the uncollateralized overnight call rate at around 0% to 1%. Moreover, it also announced that it would expand its Asset Purchase Program by JPY 10 trillion, through increased purchases of Japanese government bonds. Finally, it also decided to introduce a price stability goal in the medium to long term, which has been set (for the time being) at 1% in terms of the annual change in the CPI.

Inflation has continued to ease in United Kingdom as a result of the gradual waning of the impact of certain temporary factors (past energy price increases and the increase in the rate of VAT in January 2011), but the rate of inflation remains relatively high. Annual CPI inflation declined to 3.6% in January 2012, from 4.2% in December 2011, while CPI inflation excluding energy and unprocessed food declined by 0.5 percentage point to 2.9%. Inflation is likely to continue to ease in the near term, while the existence of ample spare capacity, together with the sluggish recovery of economic activity, should help contain inflationary pressures over the longer term. On 9 February 2012 the Bank of England's Monetary Policy Committee maintained the official Bank Rate paid on commercial bank reserves at 0.5%, but decided to increase the stock of asset purchases financed by the issuance of central bank reserves by GBP 50 billion to GBP 325 billion in total.

Annual HICP inflation continued to ease in Poland and Romania (to 4.1% and 2.8% respectively in January), partly reflecting favourable base effects related to energy prices. By contrast, inflation increased considerably in Hungary and the Czech Republic (to 5.6% and 3.8% respectively). This mainly reflects increases in indirect taxes and administered prices. In the smaller CEE countries, the recovery in economic activity has continued, but the outlook has deteriorated primarily on account of the weaker external environment. Quarter-on-quarter growth in real GDP slowed down to 0.8% in Latvia and 1.0% in Lithuania in the fourth quarter of 2011. In Lithuania, survey-based indicators point to weakening sentiment, while these indicators have shown more resilience in Bulgaria and Latvia. In the Baltic countries, unemployment remained high despite some signs of improvement. Inflation continued to decline in January 2012, reaching 3.4% in both Latvia and Lithuania, and 1.9% in Bulgaria.

In emerging Asia, annual inflation rates moderated further in the last quarter of 2011 as prices of key commodities, in particular food, continued to show a tendency to decline. In the light of easing inflationary pressures and downside risks to the economic outlook, some central banks in the region took accommodative policy measures. Annual wholesale price inflation – the Reserve Bank of India's preferred measure of inflation – dropped to 7.5% in December 2011 and to 6.6% in January 2012, owing to low price increases in both manufactured products and commodities. Annual CPI inflation in Korea fell from 4.2% in December 2011 to 3.0% in February 2012, i.e. within the Bank of Korea's target band of 2% to 4%. The Bank of Korea has maintained its policy rate at 3.25% since June 2011. Looking ahead, emerging Asia's, inflationary pressures are likely to decrease further owing to diminishing overheating risks.

Inflationary pressures eased across most countries in Latin America region, although they remained at rather elevated levels. Although there are clear signs of a slowdown in the growth momentum, inflationary pressures in Brazil remain elevated, with annual inflation standing at 6.7% in the fourth quarter of 2011. Annual CPI inflation in Argentina remained close to double-digit levels. In Mexico, annual consumer price inflation stood somewhat higher than in the preceding quarters, averaging 3.5% in the fourth quarter of 2011.

In oil-exporting countries in the Middle East and Africa, consumer price inflation remained largely stable in the last quarter of 2011 compared with that in the previous three-month period. In the fourth quarter of 2011, consumer price inflation in Saudi Arabia increased to 5.2%, year on year, from 5.0% in the previous quarter, mainly as a result of domestic factors. In most oil-importing countries, high inflationary pressures subsided towards the end of 2011.

7.3 Commodity Markets

Owing to a rally in the first days of 2012, oil prices increased overall between the beginning of December and early January. Brent crude oil prices stood at USD 113.4 per barrel on 11 January 2012, which is 21.6% higher than at the beginning of 2011 and 2.4% higher than at the beginning of December. Looking ahead, however, market participants expect lower oil prices in the medium term, with futures contracts for December 2013 trading at USD 103.6 per barrel.

The overall increase in oil prices masked an initial decline throughout the first half of December on account of worsening macroeconomic news and a decision by OPEC on 14 December to finally raise its production quota. The decision, the first in almost three years, was expected to provide some support to lean inventory levels. Since then, however, concerns over a major supply disruption in Iran in relation to escalating tensions over its nuclear programme have pushed prices continuously higher. In particular, recently imposed US sanctions and an agreed EU embargo on oil imports from Iran from an as yet unspecified date determined a rally in prices and appear to have overshadowed concerns over the impact of uncertainty regarding the macroeconomic outlook on oil demand.

On aggregate, prices of non-energy commodities further decreased slightly in the course of December. While both metal and food prices have to some extent been negatively affected by concerns over slowing global growth, food prices, in particular grains have recently been boosted by prospects of supply disruptions related to dry weather in Latin America. In aggregate terms, the price index for non-energy commodities (denominated in US dollars) was 14.8% lower towards the end of December than at the beginning of 2011.

7.4 Exchange Rate Developments

During the last quarter of 2011, the nominal effective exchange rate of the euro, as measured against the currencies of 20 of the euro area's most important trading partners, depreciated amid continued elevated volatility. On 11 January 2012, the nominal effective exchange rate of the euro was 4.1% below its level at the end of September 2011 and 5.0% below its average level in 2011.

In bilateral terms, over the past quarter, the euro has depreciated against most major currencies. Between 30 September 2011 and 11 January 2012 the euro declined against the US dollar by 5.8%, the pound sterling by 4.7%, the Japanese yen by 5.7%, and the Chinese renminbi by 6.8%. The euro also depreciated against other Asian currencies, in particular against the Korean won, the Hong Kong dollar and the Singapore dollar by 7.4%, 6.1% and 6.5% respectively, as well as against the currencies of some commodity exporters. Over the same horizon, the exchange rate of the euro against the Swiss franc remained virtually unchanged. The single currency appreciated vis-à-vis some other European currencies, most notably the Hungarian forint, the Czech koruna and the Polish zloty, by 6.6%, 4.3% and 1.3% respectively.

7.5 Impact of Global Economic Developments on the Ethiopian Economy

Ethiopian external economic sector started to respond to the slow down of global economic activities, in particular of advanced economies. For instance, growth in total Ethiopia's export of goods slowed down to 8 percent annualized in the second quarter of 2011/12, from 33.7 percent in the preceding quarter mainly due to the reduction in volumes of major export products and the pace of international prices of the export products.

Moreover, year-on-year growth in net receipts of private transfers (individual remittances and NGOs transfers) declined to 5.4 percent in the second quarter of 2011/12 from 20.9 percent in the preceding quarter.

On the other hand, the rise in international oil prices has been the primarily source for fuel import bills to surge significantly and exert an imperative contribution to balance of payment.