I. OVERVIEW

1. International Economic Developments

According to European Central Bank's Monthly Bulletin, the global recovery remains modest, diverse across regions and fragile. Survey indicators appear to have stabilized, although there has been some softening in sentiment more recently, suggesting that the world economy is likely to recover slowly. In most major non-euro area advanced economies, the moderate recovery is proceeding, but a number of factors will continue to restrain the medium-term growth outlook. In emerging market economies, growth decelerated slightly at the beginning of the year, but is expected to regain momentum over the course of 2013.

In the United States, real GDP growth accelerated in the first quarter of 2013. According to the second estimate by the Bureau of Economic Analysis, real GDP increased at an annualized quarter on- quarter rate of 2.4 percent in the first quarter of 2013, up from 0.4 percent in the previous three months. In the second estimate, real GDP growth was revised down by 0.1 percentage point, owing to a greater decline in government consumption and a lower positive contribution from the change in inventories, which more than offset upward revisions to personal consumption expenditure and a less negative contribution from net exports. Compared with the fourth quarter of 2012, the increase in growth was driven largely by strong personal consumption expenditure, which grew by an annualized 3.4 percent, the fastest growth rate in two years, and by a pick-up in inventories. Private fixed investment also contributed positively to real GDP growth, although growth slowed down sharply in the non-residential segment. On the other hand, government spending contracted further. Moreover, the contribution from net exports turned negative, with imports growing more than exports. Real disposable personal income declined significantly, although this development was influenced by strong dividend payments in the previous quarter. This pushed down the personal saving rate to its lowest post-crisis level of 2.3 percent, compared with 5.3 percent in the last quarter of 2012.

Excerpted from European Central Bank monthly bulletin of April, May & June 2013

In Japan, the first preliminary release of national accounts for the first quarter of 2013 confirmed that the economy picked up momentum at the start of 2013. Real GDP increased by 0.9 percent quarter on quarter in seasonally adjusted terms, following a revised 0.3 percent expansion in the final quarter of 2012. The pick-up in growth was supported to a large extent by solid growth in private consumption and a positive contribution from net exports (the first in four quarters), as exports of goods and services grew at a faster pace than imports. Public spending also made a positive contribution to growth, although it increased at a more modest pace than in the previous quarters, particularly in the case of public investment. At the same time, private residential investment continued to grow solidly, compensating to some extent for the weakness observed in private non-residential investment, which declined for the fifth consecutive quarter.

In the United Kingdom, real GDP increased by 0.3percent quarter on quarter in the first quarter of 2013, driven mainly by domestic demand. The economic recovery is expected to gradually gather pace, but domestic demand continues to be constrained by tight credit conditions, ongoing private and public sector balance sheet adjustment, as well as weak household real income dynamics. Labor markets have remained relatively resilient, with the unemployment rate hovering at just below 8percent, although employment growth has slowed down markedly in recent months. Recent survey indicators suggest that the economy has continued to grow at a modest pace during the second quarter of 2013.

In China, real GDP growth decelerated slightly to 7.7 percent year on year in the first quarter of 2013, from 7.9percent in the final quarter of 2012. Growth slowed down mainly owing to weaker investment. By contrast, private consumption accelerated and was the main driver of the Chinese economy in the first quarter, contributing 4.3 percentage points to growth. Net trade also contributed positively to growth, adding 1.1 percentage points, considerably higher than the 0.4 percentage point contribution recorded in the previous quarter.

In Turkey and Russia, economic developments were mixed in early 2013. While there are signs of a recovery taking hold in Turkey, in Russia economic activity continued to slow and, according to the flash estimate, real GDP grew by 1.6percent year on year in the first quarter of 2013, following growth of 2.1percent in the final quarter of 2012.

Economic growth in emerging Asia was weaker than expected in the first quarter of 2013. Both weak domestic and external demand contributed to the slowdown. Looking ahead, it is anticipated that economic growth in emerging Asia will accelerate slightly during 2013 on the back of a gradually improving external environment and strengthening domestic demand.

Real GDP in Latin America gained some momentum at the end of 2012. Economic activity has continued to recover in the first months of 2013, although at a moderate pace. This recovery has been supported by past monetary policy easing measures and government incentives to boost investment in major countries, in particular Brazil, as well as favorable financing conditions. Looking ahead, growth is expected to be supported primarily by robust domestic demand and a gradual strengthening in external demand.

In Brazil, real GDP grew by 0.6percent quarter on quarter in the first quarter of 2013, the same growth rate as in the previous three months. Economic activity was supported mainly by a strong increase in private investment, whereas net exports were a drag on growth. In Mexico, GDP decelerated in the first quarter of 2013, with the economy expanding at a rate of 0.5 percent quarter on quarter, down from 0.7 percent growth in the final quarter of last year. In Argentina, economic activity slowed down slightly in the first quarter of 2013, as suggested by the economic activity indicator, which declined to 1.0 percent quarter on quarter from 1.2 percent in the fourth quarter of 2012.

Impact of Global Economic Development on Ethiopian Economy

During the period under review, the global economic activity had been weak. This had to some extent affected the external sector of Ethiopia. Export earnings during third quarter of 2012/13 declined by 1 percent compared to last year same period. A fall in the prices of major export commodities of the country in the international market, decline the production of some of the export commodities and slow economic recovery in major trading partners are among the major factors to this decline.

However, the slow growth in the global economy has not affected the inflows of workers remittance to Ethiopia. Remittance inflows in the third quarter of 2012/13 rose by 40.8 percent presumably due to a strong rise in overseas employment especially in the UAE. Receipts from private transfers raised by 2.5 percent and FDI inflows by 7.8 percent in relation to last year same period.

On the other hand, in spite of an increment in volume, fuel import bill has shown a 4.9 percent decline mainly due to a fall in international oil price. Looking ahead, world oil price will tend to slow down thereby reducing the foreign exchange requirement of the sector.

2. Macroeconomic Developments in Ethiopia

Inflation

During the third quarter of 2012/13, headline inflation went down significantly to 0.4 percent from 5.4 percent registered last year same period. It, however, remained stable with respect to the preceding quarter. During the review quarter, both food and non-food inflation have declined by 0.3 and 1.5 percentage points vis-à-vis the same quarter of last fiscal year.

Fuel prices

The price of crude oil in international market was USD 94.3 per barrel during the review period compared to the USD 102.9 and USD 88.1 per barrel last year same period and the previous quarter, respectively.

Hence, due to relative stability of oil price in the global market, domestic retail prices of petroleum products in Addis Ababa were kept unchanged during the second and third quarters of 2012/13. However, the average retail price of fuel in Addis Ababa was adjusted slightly down by 4.6 percent on yearly basis following the international fuel price movement. Accordingly, the average retail price in Addis Ababa stood at Birr 16.9 per liter during the review period.

Monetary Developments

Broad money supply (M_2) reached Birr 225.6 billion at the end of the third quarter of 2012/13, indicating quarterly and annual growth rates of 9.4 percent and 31.5 percent, respectively. The annual growth rate was mainly attributed to the increase in domestic credit while the quarterly growth rate was due to the surge in net foreign asset and domestic credit by 18.2 and 9.1 percent, respectively, counterbalancing the rise in other item (net) by 19.2 percent.

On annual basis, domestic credit expanded by 26.2 percent, due to 30.8 percent increase in credit to other sectors, which offset the18.4 percent slowdown in net credit to central government. Similarly, net foreign assets increased by 2.6 percent on annual and 18.2 percent on quarterly basis, and reached about Birr 47.0 billion at the end of the third quarter of 2012/13.

Reserve money/base money stood at Birr 70.8 billion showing annual growth rate of 13.2 percent albeit a 5.6 percent quarterly decline. Excess reserves of commercial banks, however, scaled down considerably on annual basis (298.8 percent), but recorded a quarterly surge of 181.9 percent; mainly due to commercial banks participate in weekly T- bills market.

Regarding monetary ratios, narrow-money to broad money ratio decreased by 0.38 percent on annual basis while quasi money to broad money ratio increased by 0.37 percent.

Interest rate

Average saving deposit and lending rates remained at 5.4 and 11.88 percent, respectively, both on quarterly and annual basis. Weighted average time deposit rate, however, registered annual increase of 0.18 percentage point. On the other hand, the weighted average yield on T-bills slightly increased from 0.8 percent to 1.3 percent on yearly terms. Considering annual headline inflation of 7.6 percent during the quarter under review, average lending rate was positive in real terms while deposit rates and T-bill yields remained negative in real terms.

Financial Sector Developments

Banks, insurance companies and microfinance institutions are the main financial institutions in Ethiopia. The number of banks operating in the country reached 19 as of March 2013, of which 16 banks were privately owned.

During the review quarter, 101 new bank branches were opened, increasing the total number of bank branches to 1,616. As a result, the ratio of bank branches to total population has improved by 6.7 percent to reach 53,155.9[1] from 56,699.7 in the preceding quarter i.e. about 3,543.7 more people have been accessed to banking services during the quarter.

Likewise, the total number of insurance companies operating in the country increased to 16, of which 15 were privately owned. The number of insurance branches also rose to 264 from 232 last year. Of the total branches, about 53.8 percent are located in Addis Ababa, which depicts a relatively high concentration of insurance services and outreach in the capital. In the meantime, there are 31 micro-finance institutions (MFIs) operating in the country.

The total capital of the banking system reached about Birr 21.0 billion (about USD 1 billion) at the end of the review quarter. Private Banks jointly accounted for 49.4 percent of the total capital, with the remainder being held by state owned banks.

During the review quarter, the total capital of the insurance industry increased by 28.6 percent on annual basis and reached Birr 1.4 billion where the share of private insurance companies stood at 73.2 percent.

Total resources mobilized by the banking system (as measured by the sum of net change in deposit mobilization, loans collected and net change in borrowings) have surged by 4.0

[1] Computed based on the assumption that total population was 85.9 million

percent against the preceding quarter due to higher net change in borrowing and collection of loans counterbalancing a drop in net change in deposit mobilization.

During the third quarter of the fiscal year 2012/13, total disbursement of new loans by the banking system reached Birr 17.0 billion, reflecting a surge of 20.3 and 16.3 percent vis-à-vis the preceding quarter and the same quarter of last year, respectively. About 76 percent of the new loans were disbursed by public banks while the remaining balance was disbursed by private banks.

Sector wise, industry[2] was the largest beneficiary accounting for Birr 6.7 billion (39.2 percent) followed by agriculture Birr 4.7 Billion (27.9 percent), international trade Birr 1.6 Billion (9.7 percent), housing and construction Birr 1.4 Billion (8.0 percent) and domestic trade Birr 1.2 Billion (7.3 percent).

During the review period, the banking system collected Birr 8.4 billion in loans. Of the total loan collection, the share of private banks was Birr 4.2 billion (50.5 percent) and that of public banks Birr 4.2 (49.5 percent).

Total outstanding credit of the banking system (excluding credit to the central government) increased to Birr 132.9 billion at the end of March 2013, up by 9.8 percent against the preceding quarter.

About 94.5 percent of the outstanding loans of private banks were a claim on private sector including cooperatives while the remaining balance was claim on central government. As (5.3 percent) for public banks, (53.7percent) loan was on private sector and (46.3 percent) on non private sector (government and public enterprises).
Similarly, outstanding credit of the MFIs scaled up by 43.3 percent on annual basis and reached Birr 10.8 billion.

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[2] Usually, trade sector used to be the biggest beneficiary of bank loans. The recent trend, however, witnesses that the real sector (industry and agriculture) is benefiting more thanks to the government policy in allocating more funds to priority sectors through NBE Bills.

External Sector and Foreign Exchange Developments

Total forex earnings from merchandise exports in the third quarter of the fiscal year reached USD 813.1 million about 1 percent lower than that of the same period last year. The quarter-on-quarter slowdown in export revenue was attributed to lower earnings from coffee (20.2 percent), oilseeds (15.9 percent), live animals (22 percent), meat & meat products (4.6 percent) and fruits & vegetables (4.5 percent) due to lower volume of exports and/or basing international prices.

Receipts from export of coffee stood at USD 152.8 million revealing a 20.2 percent annual slowdown as a result of the 25.8 percent decline in international price in spite of a 7.5 percent increase in volume. Similarly, coffee export revenue recorded a 5.7 percent drop against the previous quarter due to lower export volume by 11.2 percent though international price rose by 6.3 percent. Hence, the share of coffee in the total export earnings declined to 18.8 percent from 23.3 percent in third quarter last year.

Total merchandise import during the review quarter of 2012/13 was USD 3 billion, down by 4.7 percent and 3 percent on quarter-on-quarter and quarterly basis, respectively. The quarter-on-quarter decline was principally attributed to a slowdown in imports of consumer goods (7 percent), semi-finished goods (33.3 percent) and raw materials (41.7 percent). Lower import of capital goods (12.1 percent), consumer goods (3.2 percent) and semi-finished goods (9.4 percent) were the main factors that led to a quarterly decrease in total import bill.

The net receipts from export of services stood at USD 108 million, up from USD 44.1 million recorded last year same period. The quarter-on-quarter increases in net service receipts was attributed to the rise in net transport services (84.4 percent) and government services (24.5 percent) despite a slowdown in net travel (50.2 percent) and net other service payments (38.1 percent).

The current account balance (including official transfers) registered 1 billion USD in deficit during the third quarter of 2012/13compared to USD 1.1 billion a year ago. The strong growth in net services and moderate increase in a private transfers coupled with the narrowing trade deficit (6 percent) contributed to the narrowing of the current account deficit.

In the inter-bank foreign exchange market, the weighted average exchange rate of the Birr depreciated by 5.7 percent compared to last year same period and reached Birr 18.2971/USD in the third quarter of 2012/13.Likewise, the parallel market average exchange rate at Birr 19.8367/USD depreciated by 8.8 percent during the same period. As a result, the premium between the parallel official foreign exchange markets in the review quarter rose to 8.4 percent a year earlier.

Federal Government Fiscal Operations

Total revenue and grants of the federal government increased by 2.5 percent over the same period last year and amounted to Birr 22.1billion. Meanwhile, total expenditure topped Birr 30.7 billion showing a 16.7 percent growth during the same period. Consequently, the over fiscal stance of the federal government (including grants) registered a deficit of Birr 8.6 billion compared to Birr 4.8 billion recorded last year same period.

Investment

The Ethiopian Investment Agency and Regional Investment offices issued investment licenses for about 647 projects with a total capital of Birr 26.1 billion during the third quarter of 2012/13. The number of approved investment projects declined by 63 percent and 46 percent on quarterly and annual basis, respectively