

V. External Sector Development

5.1 Balance of Payments

In the second quarter of 2013/14, the overall balance of payments registered USD 275.8 million in deficit, much higher than USD 0.4 million surplus a year ago. Although there was a (145.2 percent) surge in net service receipts and net capital inflow (28.8 percent), the quarter-on-quarter decrease is attributed to a decline in export (4.9 percent), private transfers (17 percent) and official transfers (93.2) as well as a rise in

imports (13.3 percent). The rise in capital account is mainly due to higher inflows of net official long-term capital (20.9 percent), net foreign direct investment (173.6) and short-term capital (648.8 percent). The decline in net services (32.4 percent), official transfers (90.5 percent) and a rise in imports (19.6 percent) are the main factors that underlie the USD 275.8 million quarterly deficit in the overall balance of payments.

Table 5.1: Balance of Payments

(In Millions of USD)

S/N	Particulars	2012/13	2013/14		Percentage Change	
		QII	QI	QII	C/A	C/B
		A	B	C		
1	Exports, f.o.b.	716.1	631.1	681.2	-4.9	7.9
	Coffee	161.9	137.3	85.3	-47.3	-37.9
	Other	554.2	493.8	595.9	7.5	20.7
2	Imports	3,082.2	2,919.5	3,491.9	13.3	19.6
	Fuel	520.7	645.7	548.9	5.4	-15.0
	Cereals	110.4	54.8	198.1	79.5	261.5
	Aircraft	3.8	7.2	13.7	265.1	90.4
	Imports excl. fuel, cereals, aircraft	2,447.4	2,211.8	2,731.1	11.6	23.5
3	Trade Balance (1-2)	-2,366.1	-2,288.4	-2,810.7	18.8	22.8
4	Services, net	62.1	225.5	152.3	145.2	-32.4
	Non-factor services, net	97.1	253.6	190.8	96.5	-24.8
	Exports of non-factor services	743.7	800.3	781.7	5.1	-2.3
	Imports of non-factor services	646.6	546.7	590.9	-8.6	8.1
	Income, net	-35	-28.1	-38.5	10.0	36.8
	O/w Gross official int. payment	36.3	28.9	34.2	-5.8	18.4
	Dividend	-1.0	-1.2	-4.9	390.0	315.5
5	Private transfers, net	1,222.8	921.6	1,014.5	-17.0	10.1
	o/w: Private Individuals	595.2	619.6	798.6	34.2	28.9
6	Current account balance	-1,081.26	-1,141.4	-1,643.8	52.0	44.0
7	Official transfers, net	758.1	538.8	51.2	-93.2	-90.5
8	Current account balance	-323.2	-602.6	-1,592.7	392.8	164.3
9	Capital account	1,070.8	434.5	1,379.1	28.8	217.4
	Off. Long-term Cap., net	314.8	91.6	380.6	20.9	315.5
	Disbursements	345.0	117.1	412.0	19.4	251.8
	Amortization	30.2	25.5	31.4	3.8	23.0
	Other pub. Long-term cap.	427.6	208.2	-65.6	-115.3	-131.5
	Foreign Direct Investment(net)	293.6	276.3	803.5	173.6	190.9
	Short-term Capital	34.8	-141.6	260.5	648.8	-284.0
10	Errors and omissions	-747.3	-243.3	-62.2		
11	Overall balance (8+9+10)	0.4	-411.4	-275.8		
12	Financing	-0.4	411.4	275.8		
13	Reserves [Increase (-), Decrease (+)]	1.8	412.8	276.3		
14	Central Bank (NFA)	-58.0	78.7	125.9		
	Asset	-97.3	-100.8	-129.4		
	Liabilities	39.3	179.5	255.3		
15	Commercial banks (NFA)	59.8	334.2	150.4		
16	Debt Relief	-2.2	-1.4	-0.5		
	Principal	1.1	1.2	0.6		
	Interest	1.1	0.2	0.1		

Source: NBE Staff Compilation

Total current foreign exchange receipts in the review quarter amounted to USD 2.8 billion, about 20.2 percent lower than the same period last year due to a slowdown in official transfers (89.9 percent), private transfers (17.8 percent) and export proceeds (4.9 percent).

Meanwhile, total current foreign exchange payments increased by 10.9 percent and stood at USD 4.2 billion on account of the rise in payments for merchandise imports (13.3 percent).

Consequently, the net current receipts recorded USD 1.4 billion in outflows, which

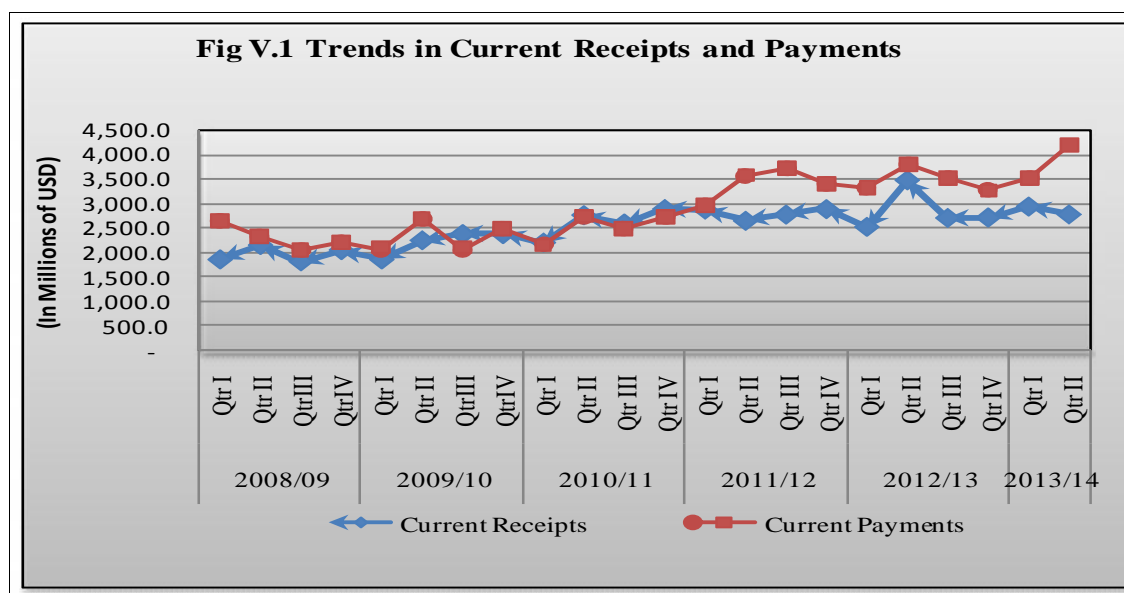
was 343.1 percent higher than that of a year ago (Table5.2).

Table 5.2 Current Receipts and Payments

(In millions of USD)

Particulars	2012/13	2013/14		Percentage Change	
	Qtr II	Qtr I	Qtr II	C/A	C/B
	A	B	C		
1. Current Receipts	3,465.0	2,926.5	2,765.4	-20.2	-5.5
Export Proceeds	716.1	631.1	681.2	-4.9	7.9
Service Proceeds	745.9	802.2	985.3	32.1	22.8
Private Transfers	1,243.50	932.6	1,021.90	-17.8	9.6
Public Transfer	759.5	560.6	77	-89.9	-86.3
2. Current Payments	3,788.8	3,529.3	4,200.3	10.9	19.0
Import Payments	3082.2	2919.5	3491.9	13.3	19.6
Service Payments	683.8	576.8	660.9	-3.3	14.6
Private Transfers	20.7	11.1	7.5	-63.6	-32.2
Public Transfer	2.1	21.9	40.0	1802.9	82.5
3. Net(1-2)	-323.8	-602.8	-1,434.9	343.1	138.0

Source: Staff Compilation

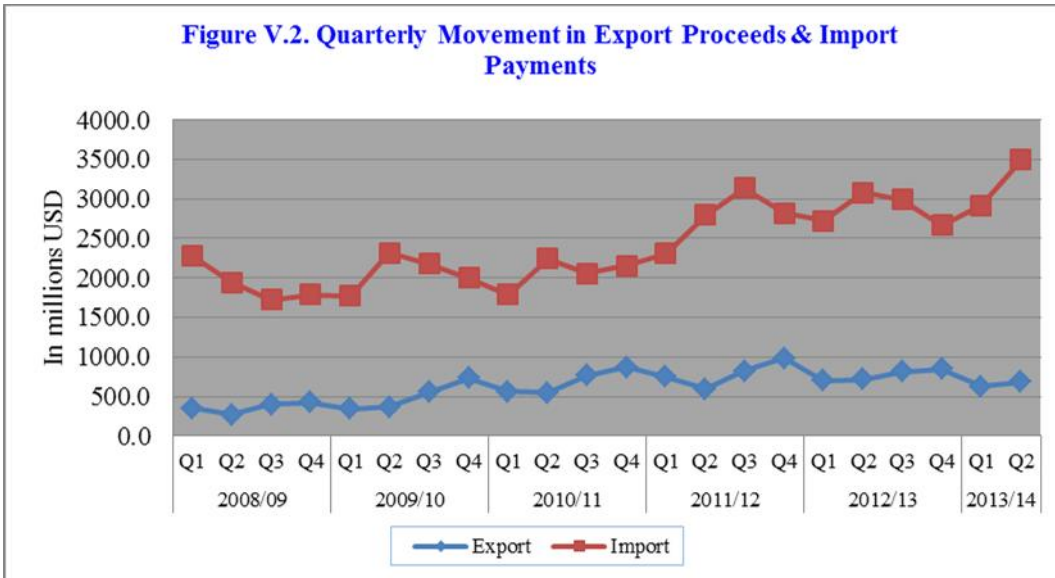


Source: NBE Staff Compilation

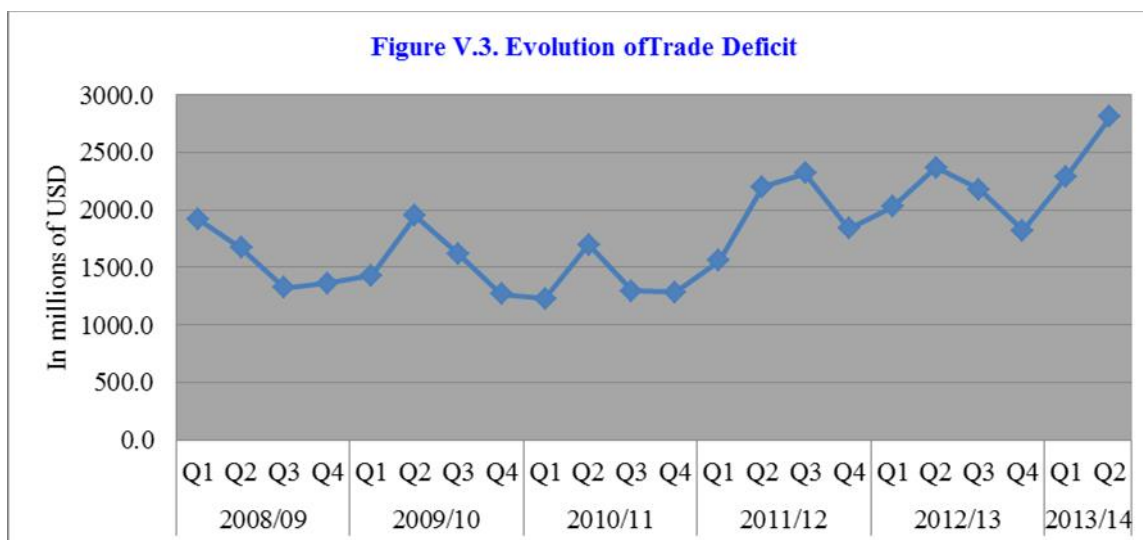
5.2 Merchandise Trade

The merchandise trade deficit in the second quarter of 2013/14 amounted to 2.8 billion, which is 22.8 percent and 18.8 percent higher than that of the preceding quarter and

the same period last year, respectively. This is the result of both an increase in total import and a decline in total export during the period



Source: Ethiopian Revenue and Customs Authority



Source: NBE Staff Compilation

5.2.1 Exports

Total merchandise exports reached USD 681.2 million showing a 4.9 percent decline on annual but increased by 7.9 percent on quarterly basis. The yearly decline resulted from the fall in export earnings from coffee (47.3 percent), gold (12.9 percent), flower (0.1 percent), live-animals (5.4 percent) and meat & meat products (7.3 percent). The decline in these export earnings in turn was attributed to lower export volume, prices or both.

The International Coffee Organization (ICO) (December 2013) report indicated that the weighted monthly average ICO composite indicator price for Arabica showed no improvement.

The unit value of coffee actually received by exporters fell by 8.6 and 1.0 percent on quarter-on-quarter and quarterly basis, respectively. As a result of the current gloomy global coffee market condition, the volume of coffee export in the review period declined drastically by 37.3 percent and 42.4 percent vis-à-vis the previous quarter and last year the same quarter, respectively. Similarly the value of export of coffee went down to USD 85.3 million from USD 137.3 million and USD 161.9 during the review period. The share of coffee export proceeds in total export earnings declined to 12.5 percent from 22.6 percent last year and 21.8 percent in the preceding quarter.

Receipts from the export of gold declined by 12.9 percent but increased by 50.4 percent compared to a year earlier and the preceding quarter, respectively. The fall in earnings from gold is, by and large, attributed to a 33.8 percent decline in the price of gold while, the export volume of gold increased by 31.6 percent vis-à-vis last year same quarter. Consequently, the share of gold in total export proceeds went down to 17.3 percent from 18.9 percent last year same quarter but increased from 12.4 percent in the preceding quarter.

Despite a 6.0 percent rise in international price, revenue from meat & meat products declined by 7.3 percent vis-à-vis the previous year same quarter resulting from (12.6 percent) drop in volume of exports. Likewise, owing to lower volume of exports and world prices, earnings from meat & meat products declined by 21.5 percent on quarterly basis to USD 15.8 million, accounting for 2.3 percent of the total merchandise export revenue of the review quarter.

Receipts from live-animals went down by 5.4 and 34.7 percent compared to previous year same quarter and the preceding quarter, respectively. The quarter- on-quarter decline is solely due to 9.9 percent in volume of export. Likewise, owing to the fall in volume of exports and world prices, earnings from live animals declined by 34.7 percent on quarterly basis to reach USD 41.6 million, with a 6.1 percent share in total merchandise export revenue of the review quarter.

Earnings from export of flower recorded a 0.1 percent decline with respect to last year same quarter owing to a 0.5 percent drop in international price despite a 0.4 percent improvement in export volume. Compared to preceding quarter, on the other hand, receipt from flower exports surged by 14.4 percent as a result of a rise in both volume (11.9 percent) and international price (2.2 percent). Consequently, the share of export revenue from flower in total export rose to 6.6 percent from 6.3 percent same period last year and 6.2 percent in the preceding quarter, respectively.

Table 5.3 Values of Major Export Items

(In millions of USD)

Particulars	2012/13		2013/14				Percentage	
	Qtr II		Qtr I		Qtr II		Change	
	A	% share	B	% share	C	% share	C/A	C/B
Coffee	161.9	22.6	137.3	21.8	85.3	12.5	-47.3	-37.9
Oilseeds	97.6	13.6	73.0	11.6	136.5	20.0	39.8	86.8
Leather & Leather products	32.2	4.5	32.0	5.1	35.1	5.2	9.0	9.8
Pulses	55.6	7.8	47.4	7.5	59.6	8.8	7.2	25.7
Meat & Meat Products	17.0	2.4	20.1	3.2	15.8	2.3	-7.3	-21.5
Fruits & Vegetables	9.6	1.3	9.9	1.6	13.8	2.0	43.6	40.0
Live Animals	43.98	6.1	63.8	10.1	41.61	6.1	-5.4	-34.7
Chat	66.05	9.2	76.1	12.1	72.39	10.6	9.6	-4.9
Gold	135.0	18.9	78.2	12.4	117.6	17.3	-12.9	50.4
Flower	45.14	6.3	39.4	6.2	45.10	6.6	-0.1	14.4
Others	52.0	7.3	53.8	8.5	58.5	8.6	12.5	8.6
Total	716.1	100.0	631.1	100.0	681.2	100.0	-4.9	7.9

Source: Ethiopian Revenue and Customs Authority

On the other hand, export revenue from oilseeds increased by 39.8 percent relative to last year same period on account of a 61.7 percent rise in the international price despite a fall in the export volume by 13.5 percent. Similarly, with respect to the preceding quarter, export proceeds showed 86.8 percent surge due to increased volume of export and international price by 42.0 and 31.6 percent, respectively. Consequently, the share of oilseeds in total export receipt increased to 20.0 percent from 11.6 percent vis-à-vis the preceding quarter and 13.6 percent in same period last year.

Similarly, export revenue from chat rose by 9.6 percent on quarter-on-quarter basis and

stood at USD 72.4 million owing to a 169 percent increase in volume of exports despite (59.3 percent) fall in international price.

However, in relation to the preceding quarter, chat export earnings went down by 4.9 percent due to (70.7 percent) slowdown in international price although volume of export increased by 130.6 percent. Receipts from chat exports accounted for 10.6 percent of the total merchandise export compared to 12.1 percent and 9.2 percent the preceding quarter and same period last year, respectively.

Earnings from export of pulses increased by 7.2 percent compared with last year same

quarter and, by 25.7 percent with reference to the preceding quarter. When compared to last year same quarter, despite a fall in the price of export by 8.1 percent, earnings from pulses showed increment owing to 16.7 percent rise in the international price.

On the other hand, export proceeds went up by 25.7 percent vis-a-vis the previous quarter, owing to 21.6 percent improvement in international price and 3.4 percent rise in volume.

Earnings from export of leather & leather products increased by 9.0 and 9.8 percent vis-à-vis same quarter last year and the preceding quarter, respectively. The quarterly increment is due to a 27 percent rise in export volume in spite of a 13.6 percent fall in international price. The yearly

rise in export revenue from these commodities was attributed to 27.4 percent increase in volume.

Consequently, the share of leather and leather products export revenue increased to 5.2 percent from 4.5 percent and 5.1 percent last year same period and the preceding quarter, respectively.

On the other hand, earnings from export of fruits and vegetables increased by 43.6 percent compared to last year same period as a result of increases both in the international price (40.4 percent) and volume of exports (2.3 percent). Similarly, with respect to the preceding quarter, export proceeds from fruits and vegetables went up by 40.0 percent and reached USD 13.8 million as international prices rise by 51.7 percent.

Table 5.4: Volume of Major Export Items

(In millions of kg)

Particulars	2012/13	2013/14		Percentage Change	
	Qtr II	Qtr I	Qtr II	C/A*100-100	C/B*100-100
	A	B	C		
Coffee	44.2	40.6	25.5	-42.4	-37.3
Oilseeds	69.6	42.4	60.2	-13.5	42.0
Leather and Leather products	1.23	1.23	1.57	27.4	27.0
Pulses	83.1	73.9	76.4	-8.1	3.4
Meat & Meat Products	3.6	4.0	3.1	-12.6	-21.2
Fruits & Vegetables	30.7	34.0	31.4	2.3	-7.7
Live Animals	27.1	36.2	24.4	-9.9	-32.6
Chat	11.5	13.4	30.9	169.0	130.6
Gold	0.0026	0.0019	0.0034	31.6	81.8
Flower	10.2	9.1	10.2	0.4	11.9

Source: Ethiopian Revenue and Customs Authority

Figure V.4. Export Proceeds from Selected Commodities

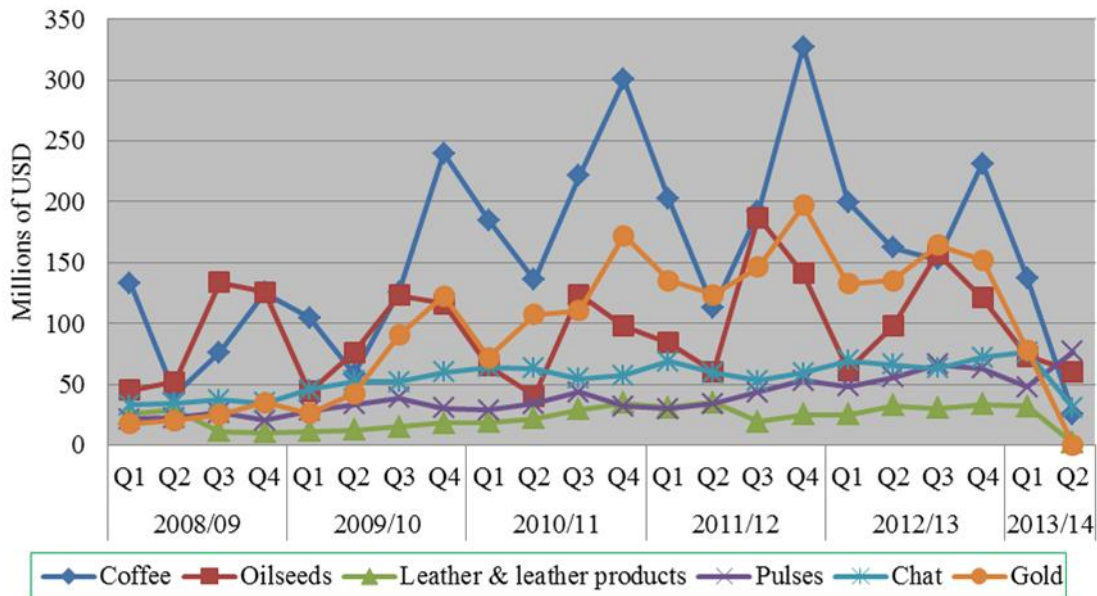


Figure V.5. Export Volume of Selected Commodities

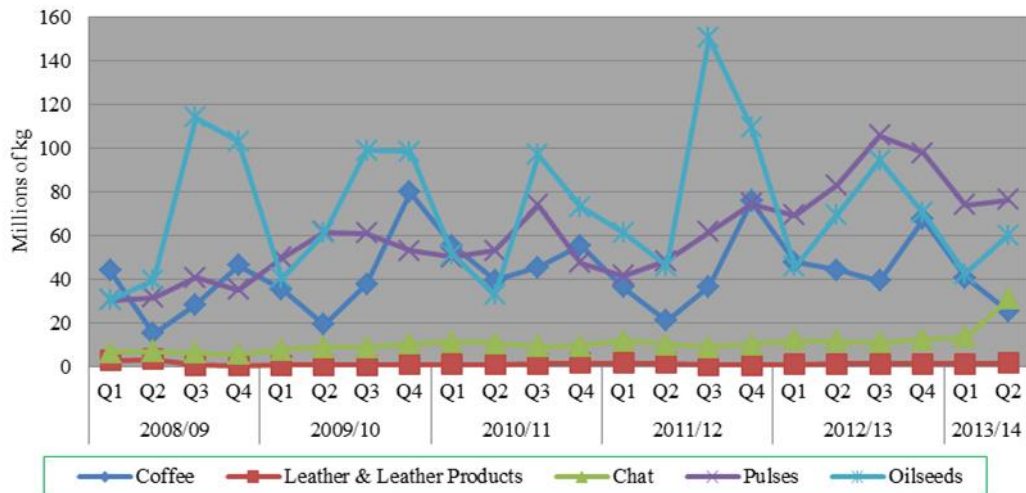
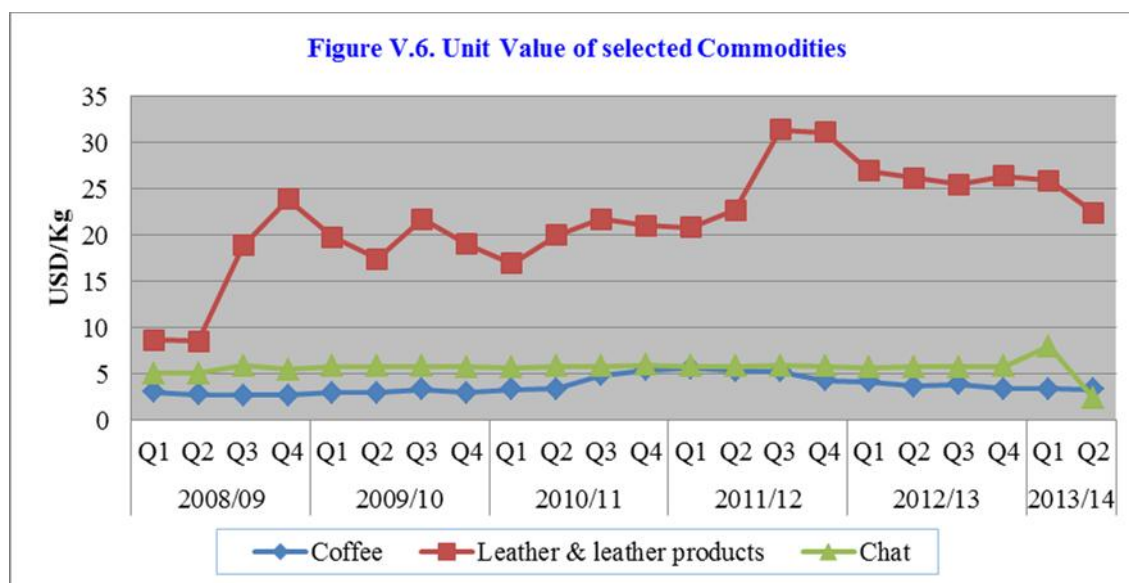


Table 5.5 Unit value of Major Export Items

(In USD/kg)

Particulars	2012/13	2013/14		Percentage Change	
	Qtr II	Qtr I	Qtr II	C/A*100-100	C/B*100-100
	A	B	C		
Coffee	3.7	3.4	3.3	-8.6	-1.0
Oilseeds	1.4	1.7	2.3	61.7	31.6
Leather and Leather products	26.2	25.9	22.4	-14.4	-13.6
Pulses	0.67	0.6	0.8	16.7	21.6
Meat & Meat Products	4.8	5.1	5.0	6.0	-0.4
Fruits & Vegetables	0.3	0.3	0.4	40.38	51.7
Live Animals	1.6	1.8	1.7	5.0	-3.2
Chat	5.8	8.0	2.3	-59.3	-70.7
Gold	52.0	41.6	34.4	-33.8	-17.3
Flower	4.4	4.3	4.4	-0.5	2.2

Source: NBE Staff Compilation



Source: NBE Staff Compilation

5.2.2 Imports

Total value of merchandise import during the second quarter of 2013/14 stood at USD 3.5 billion. Compared with the previous quarter, it went up by 19.6 percent owing to the rise in imports of consumer goods (29.1 percent), capital goods (37.4 percent) and semi-finished goods (25.3 percent). The rise in imports of capital goods was due to an increase in import value of industrial goods (52.2 percent) and transport goods (21.0 percent). Similarly, payment for fertilizer import increased by 1,268.6 percent compared to the preceding quarter. In the meantime, import bills of payment for

agricultural goods, fuel and raw materials went down by 19.8 percent, 15.0 percent and 3.5 percent, respectively. With respect to last year same quarter, total import increased by 13.3 percent mainly due to higher import of consumer goods (28.2 percent), capital goods (8.2 percent) fuel (5.4 percent) and semi-finished goods (5.6 percent). The rise in import value of consumer goods, in turn, was due to an increase in import of non-durable consumer goods (32.0 percent) and durable consumer goods (20.5 percent). On the other hand, import value of raw materials decreased by 0.3 percent.

Table 5.6 Values of Major Import Items

(In millions of USD)

Particulars	2012/13		2013/14				Percentage Changes	
	Quarter II	% share	Quarter I	% share	Quarter II	% share		
	A		B		C		C/A	C/B
Raw Materials	37.7	1.2	38.9	1.3	37.5	1.1	-0.3	-3.5
Semi-finished Goods	513.2	16.6	432.5	14.8	542.0	15.5	5.6	25.3
Fertilizers	90.1	2.9	8.2	0.3	112.2	3.2	24.6	1,268.6
Fuel	520.7	16.9	645.7	22.1	548.9	15.7	5.4	-15.0
Petroleum Products	513.0	16.6	639.0	21.9	528.5	15.1	3.0	-17.3
Others	7.7	0.2	6.7	0.2	20.5	0.6	165.7	204.5
Capital Goods	1,010.7	32.8	795.7	27.3	1,093.2	31.3	8.2	37.4
Transport	243.4	7.9	242.8	8.3	293.7	8.4	20.7	21.0
Agricultural	34.0	1.1	58.5	2.0	46.9	1.3	38.1	-19.8
Industrial	733.3	23.8	494.4	16.9	752.5	21.5	2.6	52.2
Consumer Goods	911.3	29.6	904.6	31.0	1,168.1	33.5	28.2	29.1
Durables	301.0	9.8	335.6	11.5	362.8	10.4	20.5	8.1
Non-durables	610.3	19.8	569.1	19.5	805.4	23.1	32.0	41.5
Miscellaneous	88.7	2.9	102.1	3.5	102.1	2.9	15.0	0.0
Total Imports	3,082.2	100.0	2,919.5	100.0	3,491.9	100.0	13.3	19.6

Source: Ethiopian Revenue and Customs Authority

Import bill of capital goods in the review period increased by 8.2 percent and 37.4 percent vis-à-vis same period last year and the previous quarter, respectively. The quarter-on-quarter rise in import bill was attributed to the rise in imports of industrial goods (2.6 percent), transport goods (20.7 percent) and agricultural capital goods (38.1 percent).

Similarly, due to the rise in imports of industrial goods (52.2 percent) and transport goods (21.0 percent), capital goods import in the review period surged by 37.4 percent

over the preceding quarter although imports of agricultural goods fell by 19.8 percent.

Meanwhile, as a result of a 24.6 percent and 1,268.6 percent rise in import bills of fertilizer, payment for imports of semi-finished goods increased by 5.6 percent and 24.3 percent in relation to last year same period and the preceding quarter, respectively.

Meanwhile, fuel import bill rose by 5.4 percent vis-à-vis last year same period to reach USD 548.9 million. However, import of fuel decreased by 15.0 percent compared to the preceding quarter.

On the other hand, import bills for consumer goods during the review period went up by 28.2 percent quarter-on-quarter basis due to growth in imports of non-durable and durable goods by 32.0 percent and 20.5 percent, respectively.

As the same time, imports of consumer goods showed a 29.1 percent increment over

the preceding quarter on account of both 41.5 percent surge in imports of non-durable goods and 8.1 percent in durable goods.

Consequently, the share of consumer goods in total imports rose to 33.5 percent from 29.6 percent same period last year but remained higher than the 31.0 percent recorded in the preceding quarter.

Total franco-valuta imports increased by 42.4 percent and 62.2 percent compared to last year same period and the preceding quarter, respectively, and stood at USD 842.4 million.

Table 5.7: Values of Franco-valuta Imports (In millions of USD)

Commodity Group	2012/13	2013/14		Percentage Changes	
	Qtr II	Qtr I	Qtr II	C/A	C/B
	A	B	C		
Beverages	0.2	0.25	0.2	-15.7	-26.9
Chemicals	2.0	2.4	1.4	-27.0	-40.5
Clothing	3.1	20.5	7.2	129.0	-65.0
Food and Live Animals	107.7	17.3	89.4	-17.0	416.9
Textiles	0.8	2.1	2.8	244.6	32.0
Tobacco	0.01	0.007	0.01	19.1	-11.9
Soap & Polish	0.3	0.4	0.5	52.5	34.6
Fertilizer	1.3	1.4	4.1	215.8	198.3
Paper & Paper Manufacturing.	0.5	0.9	0.5	-11.0	-43.6
Metal & Metal Manufacturing.	52.9	57.7	96.1	81.6	66.5
Med. & Pharm. Prod	98.3	93.3	204.7	108.2	119.4
Rubber Prod.	8.3	10.6	13.0	57.4	23.0
Petroleum Product	0.3	0.12	0.15	-42.8	20.8
Glass & Glass Ware	0.4	0.4	0.8	82.3	86.6
Electrical Material	15.1	15.6	30.3	101.0	94.3
Machine	112.2	95.8	180.4	60.8	88.2
Air Craft	3.8	7.2	31.1	729.5	330.7
Road & Motor Vehicles	57.9	69.0	52.1	-10.0	-24.5
Tele Apparatus	0.1	0.45	0.25	188.0	-45.0
Cement	7.4	0.102	0.13	-98.3	25.0
Others	118.9	124.1	127.3	7.1	2.6
Total	591.6	519.5	842.4	42.4	62.2

Source: Ethiopian Revenues and Customs Authority

**In this quarter data on francovaluta is obtained from ERCA not NB*

5.2.3 Direction of Trade

5.2.3.1 Exports

In the review period, the major destinations of Ethiopia's export were Asia, Europe and Africa. Accounting for 37.7 percent of the total export earnings, Europe continued to be the main outlet for Ethiopian export commodities. Switzerland accounted for 45.9 percent of the total export earnings from Europe, mainly from gold, followed by the Netherlands, (15.5 percent), from flower and coffee. Germany constituted for 11.7 percent of the total export earnings mainly from coffee, textile and garments. Turkey, account for 8.0 percent of the total export earnings from Europe. It mainly imported coffee, oilseeds and pulses. Italy, with 3.7 percent share, is the fifth major European destination mainly for leather and leather products. United Kingdom with 3.1 percent share is another European market mainly for coffee, vegetables, pulses and leather & leather products.

Asia accounted for 37.1 percent of the total exports, with China (28.5 percent), Saudi Arabia (18.2 percent), Israel (12.6 percent), United Arab Emirates (6.5 percent), Japan (5.7 percent), Pakistan (4.0 percent) and India (3.6 percent) being the major markets.

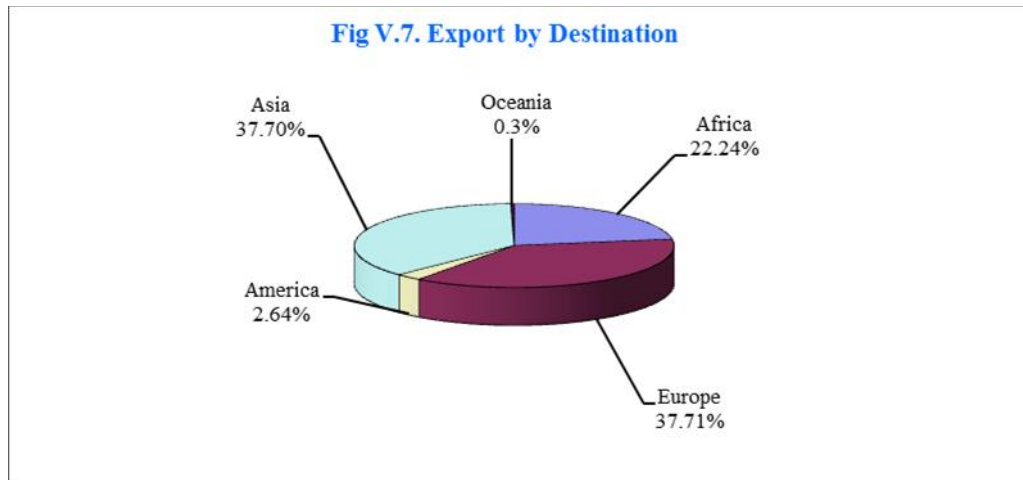
Altogether, these countries accounted for 79.1 percent of the total export earnings from Asia.

The main products exported to China were oilseeds, leather & leather products, mineral products and textile & garments while coffee, meat & meat products, flower and live-animals were sent to Saudi Arabia. The principal export items to United Arab Emirates were meat and meat products, coffee, pulses and live-animals. Coffee and oilseeds were the major exports to Japan while oilseeds, cereals and coffee went to Israel. Ethiopia also exported pulses to Pakistan and India and oilseeds to India.

In the meantime, about 22.2 percent of Ethiopia's exports earnings were generated from markets in Africa, mainly Somalia (38.2 percent), Sudan (16.0 percent), Djibouti (10.5 percent), and Egypt (3.9 percent) which altogether accounted for 68.6 percent of the total exports to Africa. The main items exported to Somalia and Djibouti were vegetables and live-animals while pulses, coffee and spices were exported to Sudan. Live-animals, pulses and oilseeds are the principal export items to Egypt.

American market generated 2.6 percent of Ethiopia's total export earnings during the second quarter of 2013/14, of which 79.9

percent was from United States which imported mainly, coffee, oilseeds and leather & leather products.



Source: Ethiopian Revenue and Customs Authority

5.2.3.2 Imports

In the review period, Asia accounted for about 62.6 percent of the total import bill. Of this, China exported 43.5 percent, Saudi Arabia 4.8 percent, India 14.8 percent, Japan 8.1 percent, Indonesia 5.2 percent, United Arab Emirates 3.3 percent and Malaysia 1.7 percent whose combined share stood at 81.4 percent.

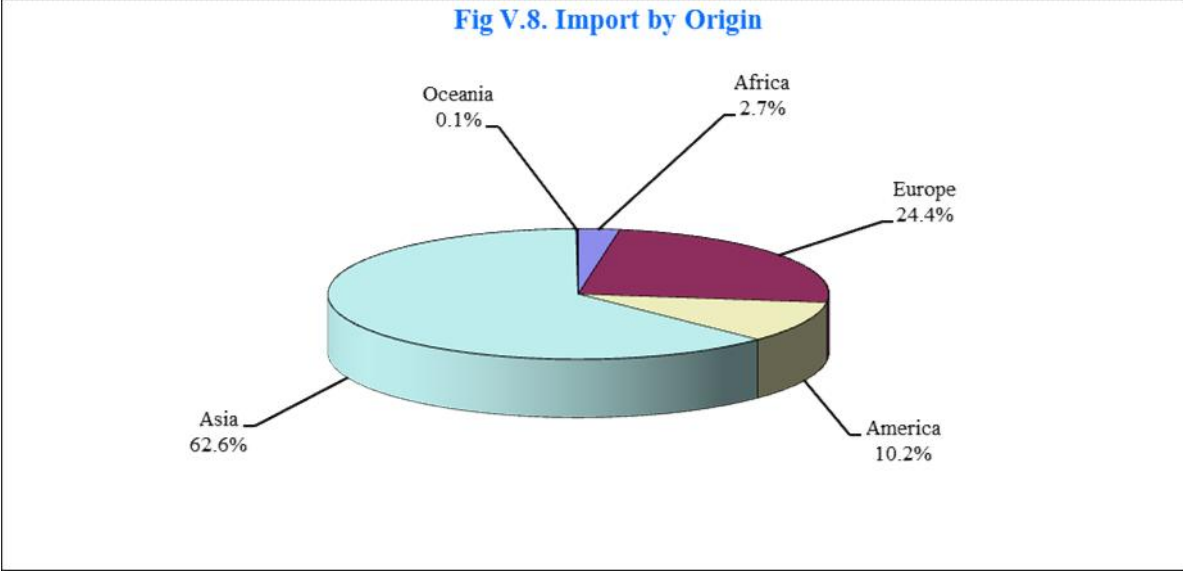
The major items imported from China were electric materials, machine & aircraft materials, metal & metal products, road & motor vehicles, and clothing. On the other hand, petroleum products and fertilizer

contributed the main import items from Saudi Arabia. Imports from India included metal & metal products, grain, medical & pharmaceutical products, and machine and aircraft materials. Road and motor vehicles, machine & aircraft materials and rubber were imported from Japan, paper & paper products, soap and polish from Indonesia, Imports from United Arab Emirates (UAE) were mainly petroleum products, machine & aircraft materials, and medical & pharmaceutical products.

Imports from Europe accounted for 24.4 percent of Ethiopia's total import bill. Italy (16.7 percent), Ukraine (15.8 percent), Turkey (14.0 percent), the Netherlands (11.9 percent) Germany (7.7 percent), France (5.1 percent) and Spain (5.1 percent) were the major origins. Items imported from Italy included mainly machinery & aircraft materials, road & motor vehicles, medical & pharmaceutical products, metal & metal products and electrical materials. The major imports from Ukraine were grain and metal & metal products. Metal & metal products, machine & air craft materials and electrical material were imported from Turkey. Medical & pharmaceuticals products and machine & aircraft electrical came from the Netherlands while machine & aircraft electrical, road & motor vehicles, metal & metal products and medical & pharmaceutical products originated from Germany. On the other hand, import items from France included machinery & aircraft, food & live animals, electrical materials, metal & metal products, medical & pharmaceutical products, and road & motor vehicles.

Import from Africa accounted for about 2.7 percent of the total merchandise import bill the major sources being South Africa (43.2 percent), Egypt (33.5 percent), Kenya (7.4 percent), Nigeria (3.7 percent) and Sudan (3.1 percent) which jointly accounted for 90.9 percent of the total import bill to the region. Road & motor vehicles and machine & aircraft materials were the primary imports from South Africa. Metal & metal products, petroleum products, clothing, food & live-animals, paper & paper products and rubber were imported from Egypt. The major imports from Kenya included metal & metal products, medical & pharmaceutical products, chemical, soap & polish and clothing.

Imports from America accounted for 10.2 percent of the total import bill, of which the share of United States was 85.7 percent, followed by Brazil (9.2 percent) and Canada (4.1 percent). Machinery & aircraft materials, grain, road & motor vehicles and medical & pharmaceutical products were the major items imported from USA while machinery & aircraft materials and road & motor vehicles came from Canada.

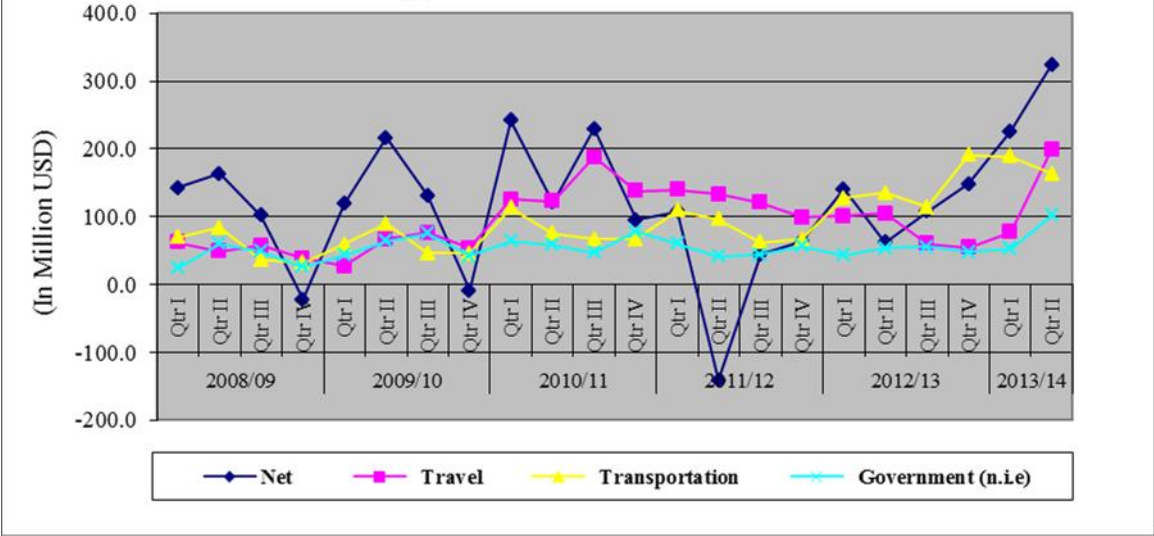


Source: Ethiopian Revenue and Customs Authority

5.3. Services and Transfers

The net receipt from services export stood at USD 152.3 million, up from USD 62.1 million last year same period. This was attributed to the rise in net transport services (7.7 percent) and government services (108 percent).

Fig.9 Trends in Net Service



Source; NBE Staff Compilation

Table 5.7: Developments in Service Account

(In Millions of USD)

S/N	Particulars	2012/13	2013/14		Percentage Change	
		QII	QI	QII	C/A	C/B
		A	B	C		
1	Investment Income (2+5)	-35.0	-28.1	-38.5	10.0	36.8
2	Interest, net (3-4)	-34.0	-27.0	-33.6	-1.2	24.6
3	Credit	2.3	1.9	0.6	-73.9	-68.7
4	Debit	36.3	28.9	34.2	-5.8	18.4
5	Dividend, net	-1.0	-1.2	-4.9	390.0	315.5
6	Other Services, net (7-12)	97.1	253.6	190.8	96.5	-24.8
7	Exports of non-factor services	743.7	800.3	781.7	5.1	-2.3
8	Travel	153.6	140.3	60.1	-60.9	-57.2
9	Transport	472.8	562.2	541.7	14.6	-3.7
10	Gov't	54.0	53.1	117.5	117.6	121.1
11	Other	63.3	44.6	62.4	-1.4	39.8
12	Imports of non-factor services	646.6	546.7	590.9	(8.6)	8.1
13	Travel	48.5	62.8	46.8	-3.5	-25.4
14	Transport	338.2	372.9	396.7	17.3	6.4
15	Gov't	0.3	0.03	5.8	1833.3	21461.3
16	Other	259.6	111.1	141.6	-45.5	27.5
17	Net Services (18+19+20+21+22)	62.1	225.5	152.3	145.2	-32.4
18	Travel (8 - 13)	105.1	77.6	13.3	-87.3	-82.9
19	Transport (9 - 14)	134.6	189.4	145	7.7	-23.4
20	Gov't (10 - 15)	53.7	53.1	111.7	108.0	110.3
21	Other (11 - 16)	-196.3	-66.4	-79.2	-59.7	19.2
22	Investment Income (2+5)	-35	-28.1	-38.5	10.0	36.8

Source: MoFED, Transport and Telecommunication Companies, NBE- FEMRMD and Staff Compilation.

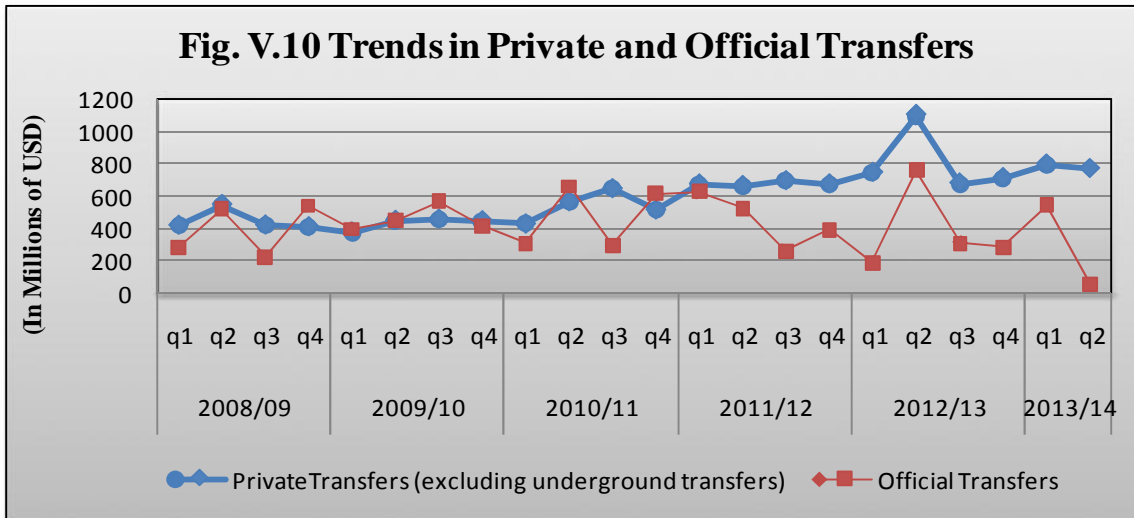
During the review period total net transfer receipts decreased by 44.1 percent relative to last year same period. Net transfers stood at USD 1.1 billion as net official and private transfers decreased by 93.2 percent and 17 percent, respectively.

Net private transfers decreased by 17 percent and amounted to USD 1 billion on account of the 65.6 percent decline in transfers to NGO offsetting the 34.2 percent surge in cash remittances from private individuals.

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

S/N	Particulars	2012/13		2013/14				Percentage Change	
		QII	%	Q I	%	Q II	%	C/A	C/B
		A	share	B	share	C	share		
1	Private Transfers (net) (2-11)	1,222.80	60.4	921.6	60.4	1,014.50	89.6	-17.0	10.1
2	Credit (3+7)	1,243.50	62.1	932.6	62.5	1,021.90	93.0	-17.8	9.6
3	NGO's (4+5+6)	648.3	32.4	313.1	21.0	223.3	20.3	-65.6	-28.7
4	Cash	302.3	15.1	305.5	20.5	190	17.3	-37.1	-37.8
5	Other	346	17.3	7.6	0.5	33.3	3.0	-90.4	336.5
6	Food	0	0.0	0	0.0	0	0.0		
7	Private individuals (8+9+10)	595.2	29.7	619.6	41.5	798.6	72.7	34.2	28.9
8	Cash	465	23.2	496.8	33.3	556.1	50.6	19.6	11.9
9	In kind	10.8	0.5	0.3	0.0	0.2	0.0	-98.1	-33.3
10	Underground Private Transfers	119.4	6.0	122.4	8.2	242.3	22.0	102.9	98.0
11	Debit	20.7	93.7	11.1	33.6	7.4	22.3	-64.3	-33.3
12	Official Transfers (net) (13-17)	758.1	37.4	538.8	35.3	51.2	4.5	-93.2	-90.5
13	Credit (14+15+16)	759.5	37.9	560.6	37.5	77	7.0	-89.9	-86.3
14	Cash	759.5	37.9	560.6	37.5	77	7.0	-89.9	-86.3
15	Other	0.0	0.0	0.0	0.0	0.0	0.0		
16	Food	0.0	0.0	0.0	0.0	0.0	0.0		
17	Debit	1.4	6.3	21.9	66.4	25.8	77.7	1742.9	17.8
18	Total Receipts (2+13)	2,003.0	98.9	1,493.2	97.8	1,098.9	97.1	-45.1	-26.4
19	Total Payments (11+17)	22.1	1.1	33.0	2.2	33.2	2.9	50.2	0.6
20	Net Transfers (18+19)	2,025.1	100.0	1,526.2	100.0	1,132.1	100.0	-44.1	-25.8

Source: Staff Computation



5.4. Current Account

The current account balance (including official transfers) registered USD 1.6 billion in deficit during the second quarter of 2013/14, higher than USD 323.2 million deficit recorded a year ago. This was

attributed to the fall in net private transfers (17 percent), official transfers (93.2 percent) and an increase in trade deficit (18.8 percent).

5.5. Capital account

In the review period, the capital account recorded USD 1.4 billion in surplus about 28.8 percent higher than last year same period. This was due to the growth in inflows of foreign direct investment (173.6 percent) and short-term capital (648.8 percent).

5.6. Changes in Reserve Position

During the review period, the significant rise in trade deficit resulted in a deficit of USD 275.8 million in the overall balance of payments. Consequently, net foreign assets of the banking system showed reserve draw

down by USD 276.3 million. The gross reserve as at December 31, 2013 was sufficient to cover 2 months of import of goods and non-factor services projected for next year.

5.7. Developments in the Foreign Exchange Market

5.7.1 Exchange Rate Movements

In the inter-bank foreign exchange market, the average official exchange rate of the Birr depreciated by 4.8 percent and 1.1 percent compared to last year same period and the preceding quarter, respectively, to reach Birr 18.9390/USD in the second quarter of 2013/14.

Likewise, the parallel market average exchange rate depreciated by 4.3 percent relative to same period a year ago and

appreciated by 1.1 percent over the preceding quarter and stood at Birr 19.5415/USD.

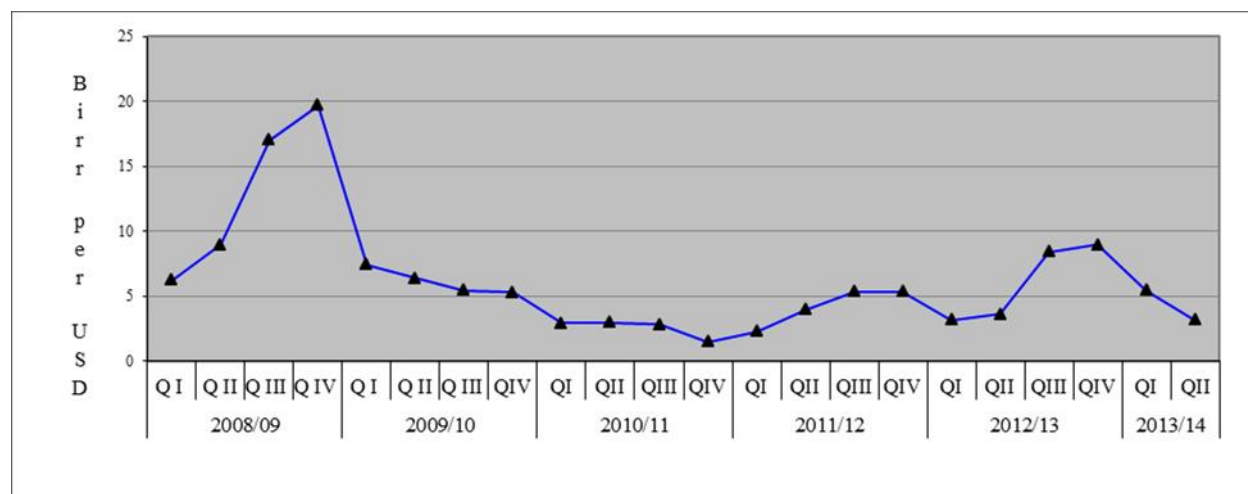
As a result of a relatively faster rate of depreciation of the Birr in the official market, the premium between the parallel and official markets in the review period narrowed to 3.2 percent from 3.6 percent a year earlier and 5.5 percent in the previous quarter (Table 5.10).

Table 5.10: Developments in Inter-bank and Parallel Market Exchange Rates

Period		Official Market				Parallel Market		Premium
		End Period Weighted rates	Average Weighted Rate	Amount Traded in millions of USD		End Period Rate	Average Rate	
				Total	Among CBs			
2012/13								
Qtr. II	C	18.1843	18.0782	3.3	0.0	19.4300	18.7333	3.62
October		18.0346	18.0038	1.10	0.0	18.4300	18.4700	2.59
November		18.1109	18.0780	1.10	0.0	18.8750	18.6700	3.27
December		18.1843	18.1527	1.1	0.0	19.4300	19.0600	5.00
2013/14								
Qtr. I	B	18.8255	18.7384	3.2	0.0	19.3800	19.7633	5.47
July		18.7075	18.6762	1.15	0.00	19.9300	19.8800	6.45
August		18.7696	18.7398	1.05	0.00	19.6800	19.8500	5.92
September		18.8255	18.7991	0.95	0.00	19.3800	19.5600	4.05
Qtr. II	A	19.0587	18.9390	8.2	5.0	19.6250	19.5415	3.18
October		18.8966	18.8595	3.05	2.0	19.4800	19.5300	3.56
November		18.9751	18.9388	3.05	2.0	19.4800	19.4800	2.86
December		19.0587	19.0188	2.1	1.0	19.6250	19.6144	3.13
Percentage changes	A/B	1.2	1.1	160.3	_	1.3	-1.1	-41.8
	A/C	4.8	4.8	152.3	_	1.0	4.3	-12.2

Source: NBE, Foreign Exchange Monitoring & Reserve Management Directorate and staff compilation

Fig. 11: Average Premium between the Inter-Bank and Parallel Market Exchange Rates



With regard to the retail foreign exchange market, the average buying rate in foreign exchange bureau of commercial banks was Birr 18.9535/USD in the second quarter of the fiscal year, while the selling rate stood at Birr 19.3055/USD, showing 1.1 and 1.2 percent depreciation against the preceding quarter, and 4.9 and 4.8 percent depreciation compared to the same quarter last year, respectively.

Thus, the average spread between the buying and selling rates marginally narrowed to 1.86 percent from 1.96 percent a year ago but widened compared to 1.78 percent in the preceding quarter (Table 11).

Table 5.11: Amount of Foreign Exchange Purchased and Sold by Forex Bureau of Commercial Banks (In ‘000 of USD)

No.	Name of Forex Bureau	2012/13		2013/14				Percentage change			
		Quarter II A		Quarter I B		Quarter II C		C/B		C/A	
		Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
1	Commercial Bank of Ethiopia	15,203.81	580.71	9,514.57	6,173.12	167.00	137.46	-98.2	-97.8	-98.9	-76.3
2	Bank of Abyssinia	1,275.44	1685.03	1,003.85	1,090.77	1,238.88	1,092.00	23.4	0.1	-2.9	-35.2
3	Dashen Bank	7,485.28	9888.03	5,316.27	6,925.82	9,737.20	9,161.30	83.2	32.3	30.1	-7.3
4	Awash International Bank	1,913.29	3154.71	2,357.93	3,118.58	2,252.70	3,284.00	-4.5	5.3	17.7	4.1
5	Construction & Business Bank	1,495.94	78.90	427.36	54.66	928.86	338.60	117.3	519.5	-37.9	329.1
6	Wegagen Bank	2,123.23	903.14	956.96	3,907.87	1,274.68	980.48	33.2	-74.9	-40.0	8.6
7	United Bank	5,854.22	2229.40	3,232.16	2,613.33	4,295.05	2,345.46	32.9	-10.3	-26.6	5.2
8	Development Bank	0.00	0.00	1,461.98	49.20	1,927.09	136.25	31.8	176.9		
9	Nib International Bank	1,671.67	1678.39	1,131.79	1,758.36	1,302.48	1,418.63	15.1	-19.3	-22.1	-15.5
10	Lion International Bank	1,328.48	153.72	664.69	310.47	630.29	187.66	-5.2	-39.6	-52.6	22.1
11	Oromia International Bank	572.78	400.21	414.91	226.43	771.31	396.54	85.9	75.1	34.7	-0.9
12	Zemen Bank	286.32	551.57	241.16	699.74	188.78	401.59	-21.7	-42.6	-34.1	-27.2
13	Cooperative Bank of Oromia	135.37	207.82	82.55	62.44	120.12	102.62	45.5	64.3	-11.3	-50.6
14	Buna International Bank	970.68	73.01	56.70	13.65	106.62	3.50	88.1	-74.4	-89.0	-95.2
15	Birhanu International Bank	128.29	31.40	2.80	1.10	3.85	0.00	37.4	-100.0	-97.0	-100.0
16	Abay Bank	276.36	154.93	60.92	295.56	295.96	518.18	385.8	75.3	7.1	234.5
17	Addis International Bank	509.60	42.70	83.39	81.72	492.75	123.15	490.9	50.7	-3.3	188.4
18	Debub Global Bank	0.00	0.00	32.80	23.18	22.99	10.41	-29.9	-55.1		
19	Enat Bank	0.00	0.00	0.00	0.00	192.60	41.55				
	Total	41,230.75	21,813.65	27,042.79	27,405.99	25,949.22	20,679.36	-4.04	-24.54	-37.06	-5.20
	Average Exchange Rate	18.0743	18.4291	18.7412	19.0751	18.9535	19.3055	1.13	1.21	4.86	4.76

Source:NBE, Foreign Exchange Monitoring & Reserve Management Directorate and staff compilation

Fig. V.12: Average Buying and Selling Rates of Forex Bureau of Commercial Banks

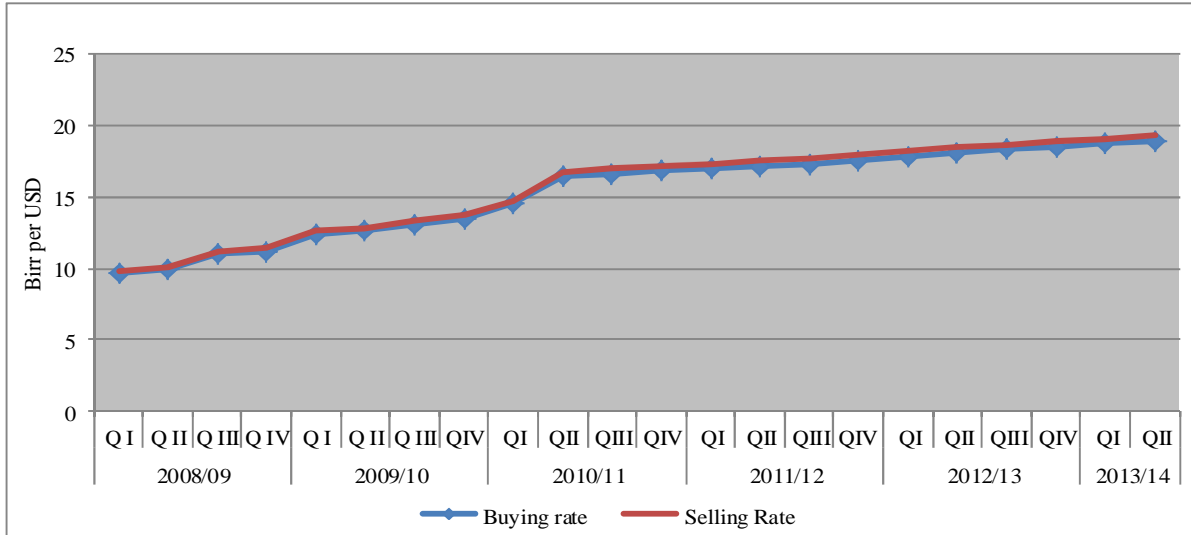
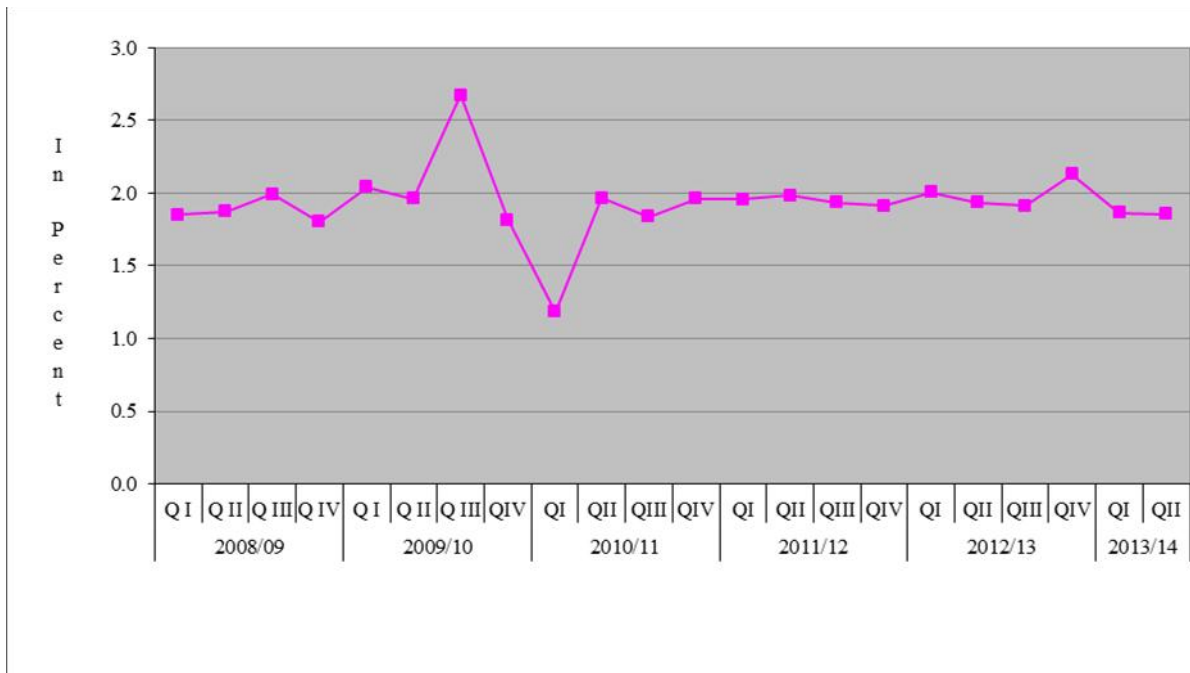


Fig. V.12: Average Spread Between Buying and Selling Rates in the Retail Foreign Exchange Market



Concerning the exchange rate of major international currencies, the average exchange rate of the US dollar appreciated by 1.04 percent against Japanese Yen and depreciated by 4.5 percent, 2.9 percent, 2.7 percent and 1.3 percent against Pound Sterling, Swiss Franc, EURO and SDR, respectively on quarterly basis.

Likewise, the rate appreciated year-on-year against Japanese Yen (19.2 percent) and SDR (0.2 percent), but depreciated against Euro (4.9 percent), Swiss Franc (2.7 percent) and Pound Sterling (0.8 percent) (Table 5.12)

Table 5.12: Period Average Exchange Rates (USD per Other Major International Currencies)

Period		EURO			JAPANESE YEN			SDR			POUNDS TERLING			SWISS FRANK		
		Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate
2012/13																
QII	C	1.2969	1.2969	1.2969	0.0123	0.0123	0.0123	1.5364	1.5364	1.5364	1.6062	1.6062	1.6062	1.0735	1.0820	1.0778
October		1.2969	1.2969	1.2969	0.0127	0.0127	0.0127	1.5407	1.5407	1.5407	1.6084	1.6084	1.6084	1.0719	1.0719	1.0719
November		1.2826	1.2826	1.2826	0.0124	0.0124	0.0124	1.5294	1.5293	1.5293	1.5963	1.5963	1.5963	1.0640	1.0640	1.0640
December		1.3113	1.3113	1.3113	0.0120	0.0120	0.0120	1.5390	1.5390	1.5390	1.6140	1.6140	1.6140	1.0846	1.1103	1.0974
2013/14																
QI	B	1.3238	1.3240	1.3240	0.0100	0.0101	0.0101	1.5138	1.5139	1.5139	1.5490	1.5490	1.5490	1.0707	1.0799	1.0753
July		1.3076	1.3082	1.3082	0.0100	0.0100	0.0100	1.5027	1.5030	1.5029	1.5174	1.5174	1.5174	1.0574	1.0851	1.0713
August		1.3310	1.3310	1.3310	0.0100	0.0102	0.0101	1.5181	1.5181	1.5181	1.5480	1.5480	1.5480	1.0748	1.0748	1.0748
September		1.3329	1.3329	1.3329	0.0101	0.0101	0.0101	1.5207	1.5207	1.5207	1.5816	1.5816	1.5816	1.0798	1.0798	1.0798
QII	A	1.3609	1.3601	1.3605	0.0100	0.0100	0.0100	1.5358	1.5312	1.5335	1.6183	1.6189	1.6186	1.1069	1.1060	1.1064
October		1.3636	1.3636	1.3636	0.0102	0.0102	0.0102	1.5384	1.5376	1.5380	1.6096	1.6087	1.6091	1.1075	1.1070	1.1072
November		1.3502	1.3476	1.3489	0.0100	0.0100	0.0100	1.5311	1.5257	1.5284	1.6087	1.6048	1.6067	1.0957	1.0936	1.0946
December		1.3690	1.3690	1.3690	0.0097	0.0096	0.0097	1.5379	1.5304	1.5341	1.6366	1.6433	1.6400	1.1175	1.1175	1.1175
Percentage changes	A/B	2.80	2.72	2.75	-0.65	-1.43	-1.04	1.45	1.14	1.30	4.47	4.51	4.49	3.38	2.42	2.90
	A/C	4.93	4.87	4.90	-19.17	-19.31	-19.24	-0.04	-0.33	-0.19	0.75	0.79	0.77	3.11	2.22	2.66

Source: NBE, Foreign Exchange Monitoring & Reserve Management Directorate and staff compilation

Compared to other international currencies, the Birr also depreciated year-on-year against most major currencies except the Japanese Yen (15.4 percent) the highest annual depreciation being those vis-à-vis Euro (9.9 percent) and Swiss Franc (7.6 percent), followed by Pound Sterling (5.6 percent) and SDR (4.6 percent).

Similarly, the Birr depreciated on quarterly basis vis-à-vis Pound Sterling (5.6 percent), Swiss Franc (4.1 percent), Euro (3.9 percent), SDR (2.4 percent) and Japanese Yen (0.03 percent) (Table 5.13).

Table 5.13: Period Average Exchange Rates (Birr per Major Currencies)

Period		Currency																	
		USD			EURO			JAPANESE YEN			SDR			POUNDS TERLING			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
2012/13																			
QII	C	18.0746	18.2554	18.1650	23.4423	23.6767	23.5595	0.2230	0.2253	0.2241	27.7693	28.0470	27.9082	29.0320	29.3222	29.1771	19.4032	19.7539	19.5786
October		18.0005	18.1805	18.0905	23.3449	23.5783	23.4616	0.2284	0.2307	0.2295	27.7339	28.0112	27.8725	28.9514	29.2409	29.0961	19.2943	19.4872	19.3908
November		18.0742	18.2551	18.1646	23.1818	23.4136	23.2977	0.2235	0.2258	0.2247	27.6417	27.9181	27.7799	28.8518	29.1400	28.9959	19.2303	19.4226	19.3264
December		18.1492	18.3307	18.2400	23.8001	24.0381	23.9191	0.2171	0.2193	0.2182	27.9324	28.2117	28.0721	29.2928	29.5857	29.4392	19.6850	20.3520	20.0185
2013/14																			
QI	B	18.7384	18.9258	18.8321	24.8086	25.0567	24.9327	0.1881	0.1912	0.1897	28.3676	28.6586	28.5131	29.0335	29.3239	29.1787	20.0636	20.3909	20.2273
July		18.6762	18.8630	18.7696	24.4217	24.6659	24.5438	0.1874	0.1892	0.1883	28.0650	28.3678	28.2164	28.3555	28.6391	28.4973	19.7472	20.3241	20.0357
August		18.7398	18.9272	18.8335	24.9424	25.1918	25.0671	0.1875	0.1931	0.1903	28.4484	28.7328	28.5906	29.0102	29.3003	29.1553	20.1415	20.3434	20.2424
September		18.7991	18.9871	18.8931	25.0618	25.3124	25.1871	0.1895	0.1913	0.1904	28.5893	28.8752	28.7323	29.7349	30.0322	29.8836	20.3022	20.5052	20.4037
QII	A	18.9391	19.1426	19.0406	25.7696	26.0235	25.8937	0.1889	0.1906	0.1897	29.0861	29.3072	29.1954	30.6495	30.9887	30.8163	20.9624	21.1691	21.0641
October		18.8595	19.0481	18.9532	25.7157	25.9614	25.8302	0.1930	0.1948	0.1939	29.0153	29.2923	29.1500	30.3618	30.6519	30.4985	20.8910	21.0910	20.9859
November		18.9390	19.1706	19.0548	25.5575	25.8131	25.6853	0.1897	0.1916	0.1906	28.9942	29.2320	29.1131	30.4596	30.7485	30.6041	20.7435	20.9509	20.8472
December		19.0188	19.2089	19.1139	26.0356	26.2959	26.1658	0.1839	0.1853	0.1846	29.2489	29.3974	29.3232	31.1271	31.5656	31.3463	21.2528	21.4654	21.3591
Percentage changes	A/B	1.07	1.15	1.11	3.87	3.86	3.85	0.39	-0.33	0.03	2.53	2.26	2.39	5.57	5.68	5.61	4.48	3.82	4.14
	A/C	4.78	4.86	4.82	9.93	9.91	9.91	-15.31	-15.40	-15.35	4.74	4.49	4.61	5.57	5.68	5.62	8.04	7.16	7.59

Source: Staff Compilation

Table 5.14: Birr per Unit of Currency End Period mid-Market Rate

Currency	Dec-12	Sep-13	Dec-13	Percentage change	
	C	B	A	A/B	A/C
USD	18.2752	18.9197	19.1540	1.2	4.8
Pound	29.4195	30.3774	31.5524	3.9	7.3
Swedish Kroner	2.8045	2.9525	2.9550	0.1	5.4
Djibouti Frank	0.1026	0.1062	0.1075	1.2	4.8
Swiss Frank	19.9207	20.7977	21.4827	3.3	7.8
Saudi Riyal	4.8721	5.0448	5.1069	1.2	4.8
UAE Dirhams	4.9753	5.1507	5.2147	1.2	4.8
Canadian Dollar	18.3597	18.3561	17.8759	-2.6	-2.6
Japanese Yen	0.2117	0.1920	0.1820	-5.2	-14.0
Euro	24.0722	25.5548	26.3482	3.1	9.5
SDR	28.1709	28.9909	29.5968	2.1	5.1

Source: Staff Compilation

5.7.2. Movements in the Real Effective Exchange Rate

Though the real effective exchange rate (REER) of the Birr had been appreciating over the period since the last quarter of 2010/11 due to higher domestic inflation relative to that of major trading partner countries, the rate of appreciation has showed significant decline as a result of steady drop in domestic inflation.

Accordingly, REER appreciated by 2.7 percent annually during the second quarter of the 2013/14 but depreciated by 2.8 percent on quarterly basis.

On the other hand, NEER depreciated both on quarterly and annual basis by 1.1 and 1.5 percent, respectively (Table 5.15).

Table 5.15 Trends in the Real and Nominal Effective Exchange Rates

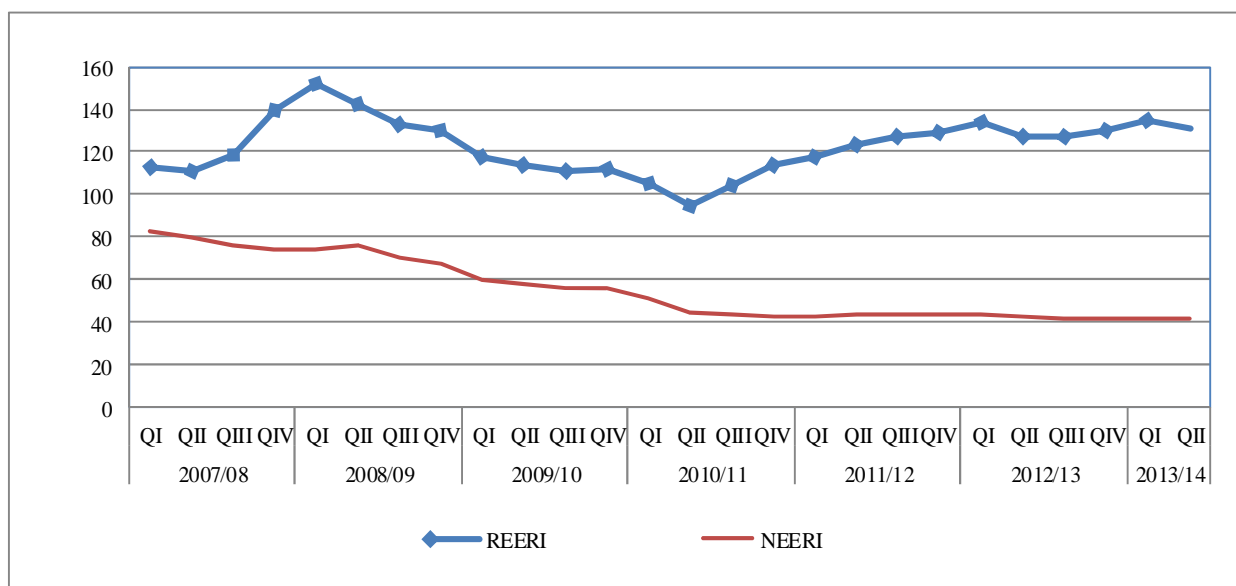
	2012/13	2013/14		Percentage change	
	QII	QI	QII		
	A	B	C	C/B	C/A
REERI	127.1	134.4	130.6	-2.8	2.7
NEERI	42.3	42.1	41.6	-1.1	-1.5

Source: Staff Compilation

NB: REERI = Real Effective Exchange Rate Index, NEERI = Nominal Effective Exchange Rate Index

A decrease in the REERI and NEERI implies depreciation and vice versa.

Fig.V.14: Movements in the Real and Nominal Effective Exchange Rate



5.7.3 Volume of Transactions

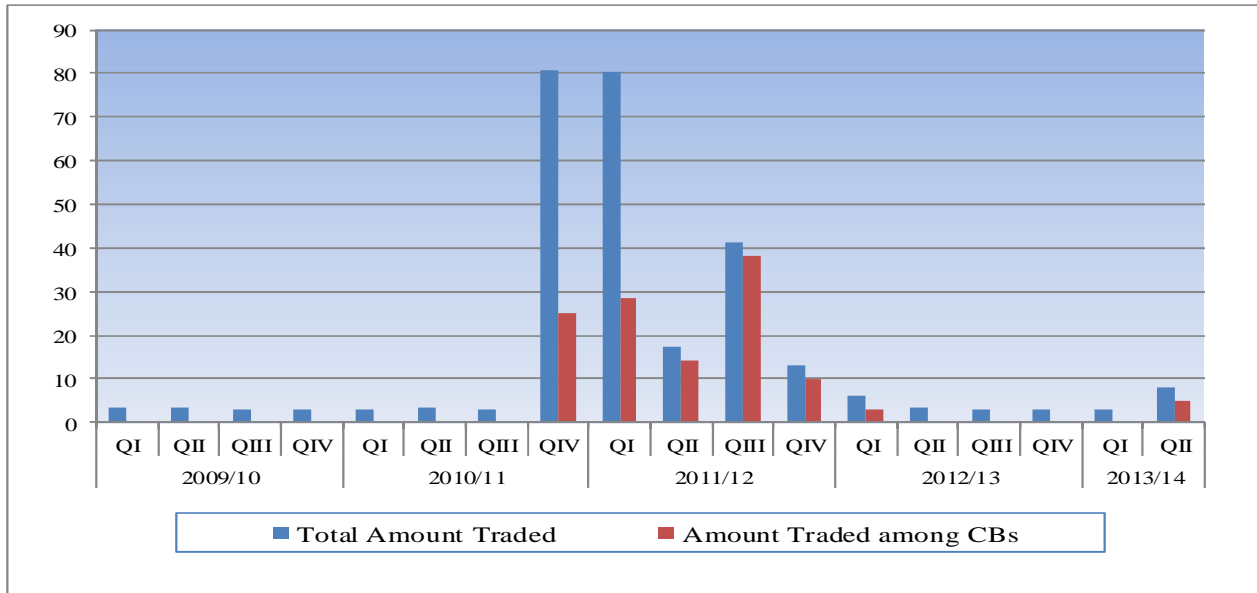
In the second quarter of 2013/14, the total amount of foreign exchange traded in the inter-bank foreign exchange market was

USD 8.2 million which was 160.3 and 152.3 percent higher than the preceding quarter and the same quarter last year, respectively.

Of the total amount traded during the review period, USD 5 million was among

commercial banks and the rest supplied by NBE (Table 5:10).

FigV.15 Foreign Exchange Trade in the Interbank Foreign Exchange Market



In the meantime, forex bureau of commercial banks purchased USD 25.9 million and sold USD 20.7 million from and to their clients, depicting 37.1 and 5.2 percent decline, respectively, compared to the amount traded in the same period last year. Their average buying and selling rates stood at Birr 18.9535/USD and Birr 19.3055/USD, respectively, resulting in 1.86 percent spread between the two rates (Table 5.11).