

I. OVERVIEW

1.1. International Economic Developments

The global economic activities and trade indicators showed a continued moderate recovery in the final quarter of 2016, according to the European Central Bank (ECB) Monthly Bulletin of 1/2017. The global composite output Purchasing Managers' Index (PMI) increasing to 53.3 during this period. The quarterly PMIs rose in all major advanced economies, with PMIs in Japan returning to an expansionary path. PMIs increased in China and Russia, while India's PMI showed a sharp decline.

In United States, real GDP grew at an annualized rate of 3.5 percent in the first quarter of 2016/17, supported primarily by consumer spending, net trade and turnaround in the contribution of inventories. The monthly increases in non-farm payroll employment, averaging 165,000 in the three months up to December contributed to a further acceleration of wage gains, with annual growth in average hourly earnings rising to 2.9 percent.

The economic growth in Japan remains modest and the real GDP increased by 0.3 percent quarter on quarter, in the first quarter of 2016/17, as both domestic demand growth and net trade remained subdued while the momentum of private consumption remained weak. Despite tight labor market, the unemployment rate remains 3 percent in October.

In the United Kingdom, indicators point renewed resilience of the economy despite increase in inflation.

In China, the economic growth has stabilized following rising to 6.7 percent year on year, in the first quarter.

1.2. Summary of Macroeconomic Developments in Ethiopia

Inflation

During the second quarter of 2016/17, general inflation declined to nil percent from 2.6 percent in the preceding quarter, but rose negligibly from -0.1 percent last year same quarter. The slight year-on-year rise in headline inflation was attributed wholly to the 1.3 percent increase in non-

food inflation while food & non-alcoholic beverages inflation remained unchanged at 1.3 percent. On the other hand, the 2.6 percent quarter-on-quarter fall in headline inflation was due to the decline of food & non-alcoholic beverages inflation by 5.2 percentage point, more than offsetting a 0.2 percentage point increase in non-food inflation. As a result, food & non-alcoholic beverages and non-food inflations contributed -0.7 and 0.6 percent respectively to headline inflation in the review period.

Monetary Developments

In the second quarter of 2016/17, broad money supply (M2) stood at Birr 496.3 billion, depicting a 25.1 percent growth over the same quarter last year owing to 24.7 percent expansion in domestic credit despite 47.6 percent decline in NFA.

Reserve money also increased 27.1 percent due to the 16 percent growth of currency in circulation and 64.3 percent in bank deposits at NBE.

Interest rate

Average savings deposit rate at 5.4 percent remained unchanged during the second quarter of 2016/17 although average lending interest rate increased to 12.75 from 11.88 percent a year ago. In contrast, weighted average time deposit rate declined by 0.04 percentage points while weighted average yield on T-bills remained unchanged at 1.41 percent. Hence, taking December 2016 headline inflation rate of 6.7 percent, all deposit rates and T-bill yields remained negative in real terms while average lending rate was about 6.05 percent positive in real terms.

Financial Sector Developments

1. Banks

The number of banks operating in Ethiopia remained 18 of which 16 were private banks. These banks opened 226 new bank branches during the second quarter of 2016/17 thereby increasing the total number of bank branches to 3,609. Therefore, currently one branch serves 25, 548.6¹

¹ Total population is 92,205,000 as CSA estimation for 2016.

people on average. Of the total bank branches, about 35 percent were located in Addis Ababa. Private banks accounted for about 64.1 percent of the total bank branches in the country.

Total capital of the banking system reached Birr 47.4 billion in the second quarter of 2016/17, depicting 18 percent annual growth. Of the total capital of the banking system, private banks accounted for 50.4 percent while that of Commercial Bank of Ethiopia and Development Bank of Ethiopia stood at 33.6 percent and 16 percent respectively thereby putting the total capital share of the two public banks at 49.6 percent.

During the review quarter, the banking sector disbursed 31.4 billion in new loans, indicating a 19.4 percent annual growth. Of the total new loans disbursement, the share of public banks was 61.7 percent while that of private banks was 38.3 percent.

Domestic trade was the largest beneficiary of the fresh loans accounting for 30.1 percent followed by industry (21.1 percent), housing and construction (14 percent), international trade (12.8 percent), transportation and communication (7.1 percent) and agriculture (6.7 percent). At the same time, the banking sector collected 22 billion in loans, 15.3 percent higher than last year same period. Of the total collection, 60 percent was by private banks and 40 percent by public banks.

Total outstanding credit of the banking system (excluding credit to central government and interbank lending) increased to Birr 292.1 billion depicting a 31.5 percent growth over last year same period. About 99.9 percent of the private banks and 47.7 percent of public banks loans went to finance the private sector.

2. Insurance Sector

The number of insurance companies remained at 17, consisting of 16 private and 1 public insurance companies. Total insurance branches increased to 465 from 405 a year earlier. Of the total branches, about 54.4 percent were in Addis Ababa. The total capital of insurance companies reached Birr 3.8 billion, of which private insurance companies accounted for 75.2 percent.

3. Microfinance Institutions

The number of micro-finance institutions (MFIs) reached 35 which jointly mobilized about Birr 20.2 billion in saving deposit, which showed a 23.3 percent annual growth. Likewise, their outstanding credit increased 15.1 percent, reflecting the growing role of the institutions in financing intermediation among low income groups both in rural and urban areas. Similarly their total asset expanded by 18.3 percent and stood at Birr 39.2 billion as of end December 2016.

External Sector and Foreign Exchange Developments

1. External Sector Development

During the second quarter of 2016/17, total merchandise export earnings (including electricity) amounted to USD 575 million, showing a 5 percent slow down over the same quarter of last year on account of lower export earnings from gold (48.5 percent), live animals (64.7 percent), oilseeds (18.5 percent), flower (12.4 percent) and leather & leather products (0.5 percent).

Similarly, total merchandise imports went down 5.9 percent to USD 33.9 billion, as import bills of capital goods and consumer goods declined by 12.6 percent and 12.4 percent, respectively. However, import values of semi-finished goods, fuel and agricultural capital goods increased during the same period.

During the second quarter of 2016/17, the average price of Brent crude oil used as a point of reference for international oil price, increased 15.3 percent to USD 50.1 per barrel from USD43.4 per barrel last year same period.

However, domestic retail prices were adjusted during the second quarter of 2016/17. Thus, average retail prices of fuel in Addis Ababa dropped by about 10 percent to Birr 13.87 per liter from Birr 15.38 per liter a year ago. This was ascribed to the decline in prices of gas oil and kerosene each by 12 percent followed by fuel oil (11 percent), regular gasoline (7.5 percent) and jet fuel (7.3 percent). However, the average retail prices rose marginally by 1 percent relative to the preceding quarter wholly on account of higher price of jet fuel, while the prices of other petroleum products remain unchanged.

Total transfer receipts decreased by about 29 percent as a result of 26.7 percent decline in private transfer receipts from both NGOs and private individuals. Meanwhile, the receipts of public transfer declined 37 percent.

Consequently, the current account balance (including official transfers) during the second quarter of 2016/17 recorded USD 1.9 billion deficit, which worsened by 30.6 percent over last year same period.

Capital account, however, recorded USD 1.3 billion surplus, about 33.8 percent higher than last year same period due to the surge in net official long term capital, net foreign direct investment and private sector long term capital.

2. Exchange Rate Development

The Birr continued to lose ground against the USD in the inter-bank forex market. During the second quarter of 2016/17, the weighted average official exchange rate depreciated 6.1 percent over the corresponding quarter of last year and stood at 22.2228/USD.

In contrast, the REERI appreciated by 4.3 percent on annual basis, mainly owing to relatively higher domestic inflation compared to that of Ethiopia's major trading partners. Similarly, NEER depreciated by 3.2 percent during the same period.

Federal Government Fiscal Operations

During the second quarter of 2016/17, total revenue and grants of the federal government stood at Birr 95.3 billion, showing a 148.7 percent surge over last year same quarter. Likewise, the federal government expenditure increased 108 percent and amounted to Birr 114.1 billion during the same period.

As a result, the overall fiscal balance (including grants) recorded Birr 18.7 billion deficits compared with Birr 16.5 billion deficit a year earlier.

II. Energy Production and Processing

2.1. Import of Petroleum Products

Total volume of petroleum products imported during the second quarter of 2016/17 amounted to 871.2 thousands of metric tons, about 14.3 percent higher than last year same quarter. This was attributed to increases in import of regular gasoline (36.4 percent), jet fuel (29.2 percent) and gas oil (10.5 percent), in contrast to 51.1 percent decline in fuel oil imports.

With regard to the previous quarter, the amount of petroleum imported rose 12.3 percent owing

to 18.4 percent increase in regular gasoline followed by gas oil (17.5 percent) and jet fuel (0.8 percent). Fuel oil, however, dropped 17.9 percent.

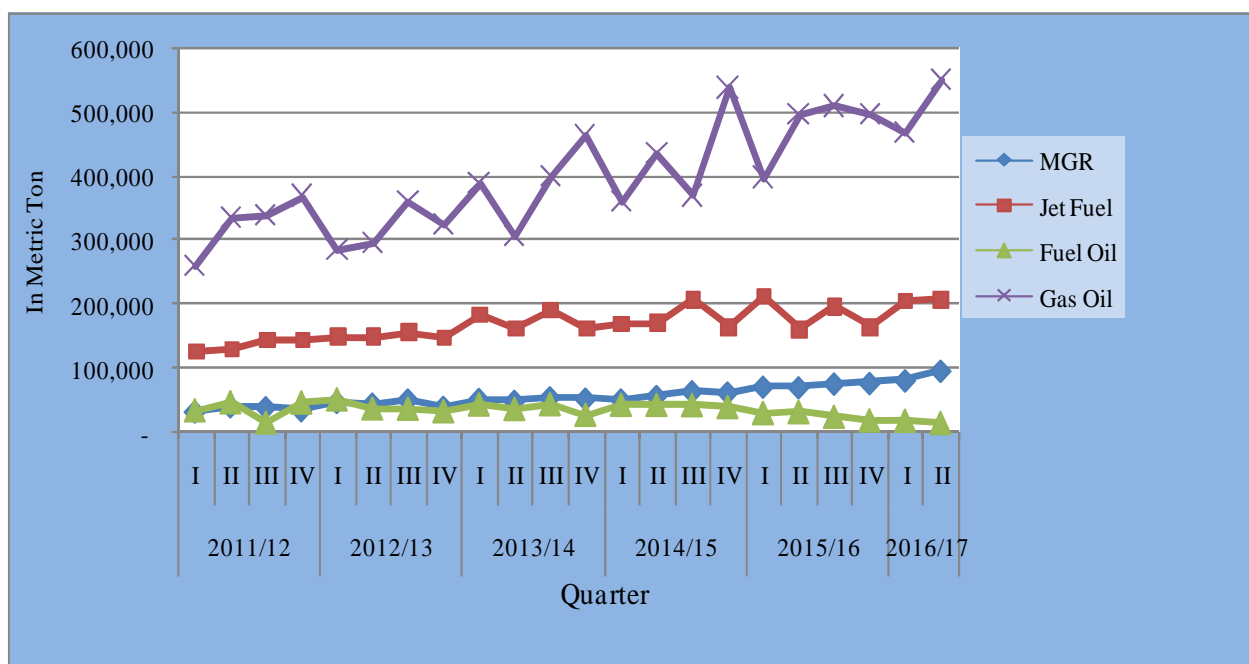
Of the total petroleum imports, gas oil accounted for 63.1 percent, followed by jet fuel (23.9 percent), regular gasoline (11.2 percent) and fuel oil (1.8 percent) (Table 2.1).

Table 2.1: Volume of Petroleum Products Imported

(In Metric Ton)

Petroleum Products	2015/16		2016/17				Percentage Change	
	Qtr. II		Qtr. I		Qtr. II			
	A	Share (In %)	B	Share (In %)	C	Share (In %)		
							C/A	C/B
Regular Gasoline (MGR)	71,317	9.4	82,152	10.6	97,259	11.2	36.4	18.4
Jet Fuel	161,194	21.1	206,560	26.6	208,283	23.9	29.2	0.8
Fuel Oil	31,854	4.2	18,987	2.4	15,580	1.8	-51.1	-17.9
Gas Oil (ADO)	497,966	65.3	468,051	60.3	550,034	63.1	10.5	17.5
Total	762,331	100.0	775,751	100.0	871,155	100.0	14.3	12.3

Source: Ethiopian Petroleum Enterprise

Fig.2.1: Trends in the Volume of Petroleum Products Imported

Source: Ethiopian Petroleum Enterprise

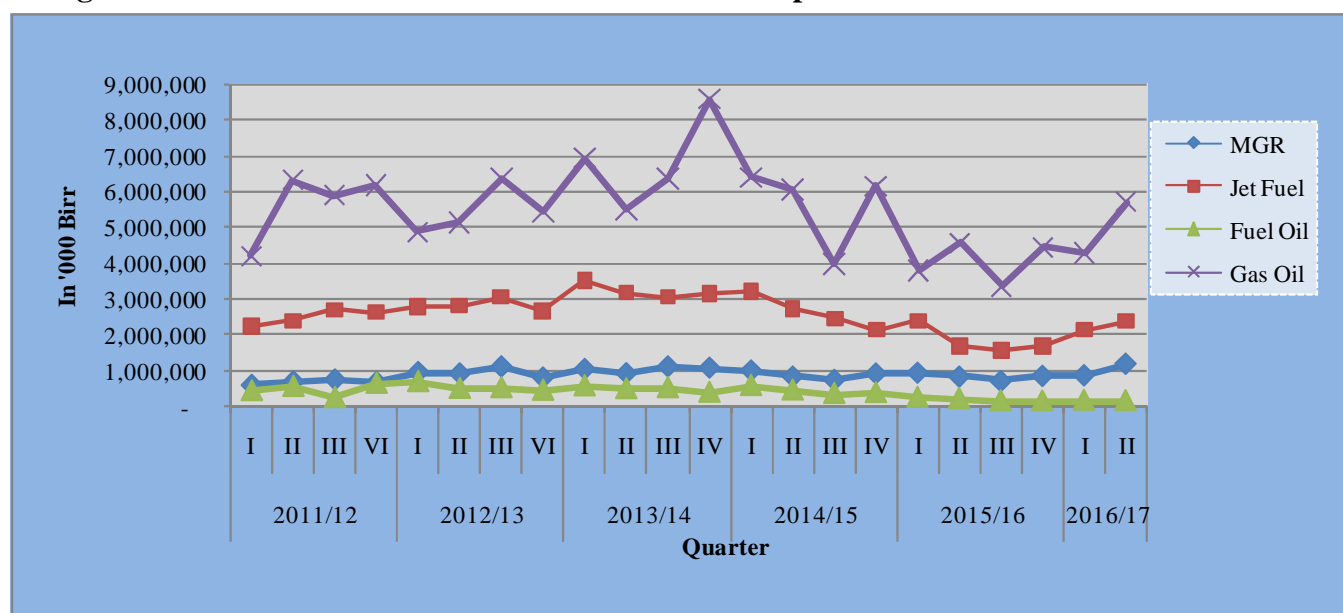
Petroleum import bill reached Birr 9.3 billion, showing a 29.8 percent growth over the same quarter of last year owing to higher import volume and improvement in international oil price. Except fuel oil, all other petroleum products saw increment in their import bill during the review quarter.

Compared with the previous quarter, the values of petroleum import increased 26.6 percent; as a result of 38.2 percent rise in regular gasoline followed by gas oil (32.8 percent) and jet fuel (11.5 percent) while that of fuel oil declined 6.2 percent (Table 2.2).

Table 2.2: Value of Petroleum Products Imported

(In '000Birr)

Petroleum Products	2015/16		2016/17				Percentage Change	
	Qtr. II		Qtr. I		Qtr. II			
	A	Share (In %)	B	Share (In %)	C	Share (In %)	C/A	C/B
Regular Gasoline (MGR)	806,457	11.2	845,005	11.5	1,167,931	12.5	44.8	38.2
Jet Fuel	1,636,083	22.8	2,100,240	28.5	2,341,175	25.1	43.1	11.5
Fuel Oil	194,025	2.7	142,260	1.9	133,417	1.4	-31.2	-6.2
Gas Oil (ADO)	4,549,651	63.3	4,282,735	58.1	5,686,499	61.0	25.0	32.8
Total	7,186,215	100.0	7,370,241	100.0	9,329,022	100.0	29.8	26.6

Source: Ethiopian Petroleum Enterprise**Fig.2.2: Trends in the Value of Petroleum Products Imported****Source:** Ethiopian Petroleum Enterprise

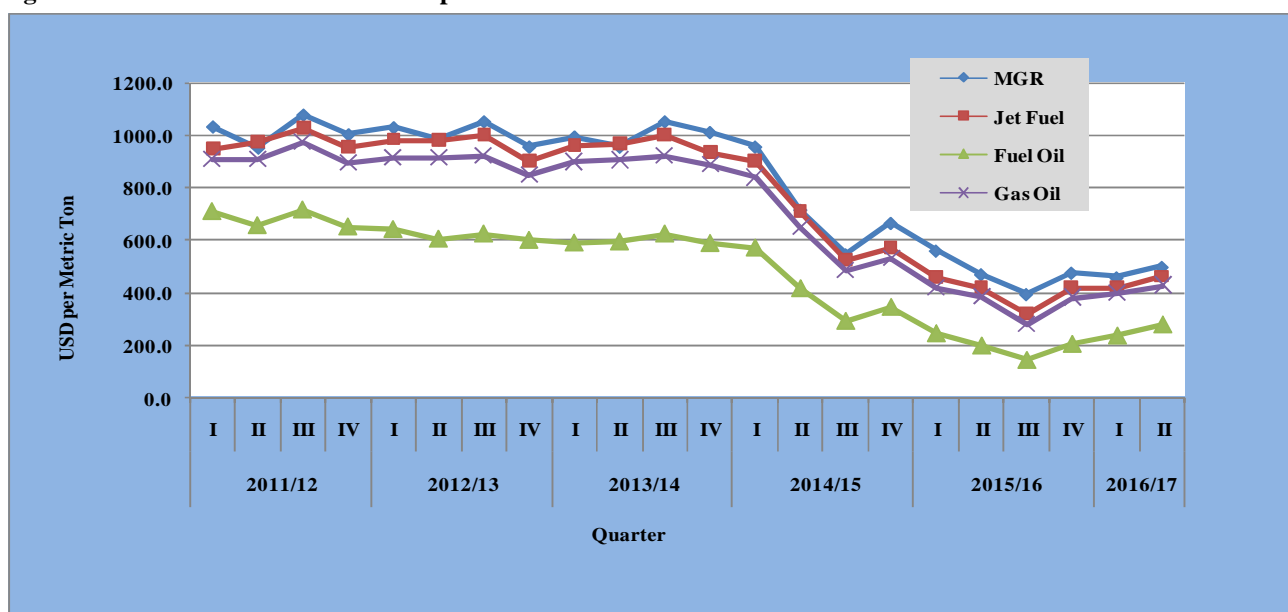
The average FOB price of petroleum products went up 13.2 percent in contrast with the same quarter of last year due to higher FOB prices of fuel oil (40.1

percent), gas oil (11.4 percent), jet fuel (10.2 percent) and regular gasoline (5.8 percent) (Table 2.3).

Table 2.3: FOB Price of Petroleum Products Imported

(In USD/ Metric Ton)

Petroleum Products	2015/16	2016/17		Percentage Change	
	Qtr. II	Qtr. I	Qtr. II		
	A	B	C	C/A	C/B
Regular Gasoline (MGR)	470.7	458.3	498.1	5.8	8.7
Jet Fuel	419.4	418.0	462.2	10.2	10.6
Fuel Oil	200.1	238.2	280.4	40.1	17.7
Gas Oil (ADO)	384.3	396.2	428.0	11.4	8.0
Average	368.6	377.7	417.2	13.2	10.5
Brent Crude Oil (USD/Barrel)	43.4	45.8	50.1	15.3	9.3

Source: Ethiopian Petroleum Enterprise**Fig.2.3: Trends in the FOB Price of Imported Petroleum Products****Source:** Ethiopian Petroleum Enterprise

During the second quarter of 2016/17, the average price of Brent crude oil, used as a point of reference for international oil

price, increased 15.3 percent and reached USD 50.1 per barrel compared with USD 43.4 a year ago (Table 2.3).

In contrast, the average retail price of fuel in Addis Ababa dropped by 9.9 percent to Birr 13.87 per liter from Birr 15.38 a year ago. Specifically, the retail price of gas oil and kerosene declined by 12 percent followed by fuel oil (11 percent), regular

gasoline (7.5 percent) and jet fuel (7.3 percent). Except jet fuel, the retail prices of all types of petroleum product were kept constant compared with the previous quarter which resulted in only 1 percent quarter-on-quarter increase (Table 2.4).

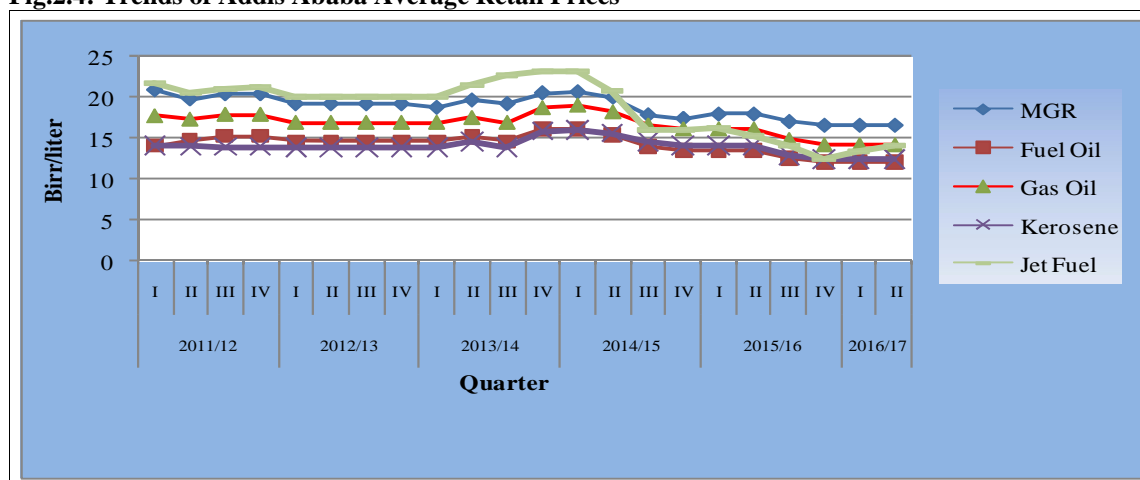
Table 2.4: Addis Ababa Average Retail Prices of Fuel

(Birr/Liter)

Petroleum Products	2015/16	2016/17		Percentage Change	
	Qtr. II	Qtr. I	Qtr. II		
	A	B	C	C/A	C/B
Regular Gasoline (MGR)	17.96	16.61	16.61	-7.5	0.0
Fuel Oil	13.59	12.10	12.10	-11.0	0.0
Gas Oil (ADO)	16.10	14.16	14.16	-12.0	0.0
Kerosene	14.13	12.43	12.43	-12.0	0.0
Jet fuel	15.14	13.36	14.03	-7.3	5.0
Average	15.38	13.73	13.87	-9.9	1.0

Source: Ministry of Trade

Fig. 2.4: Trends of Addis Ababa Average Retail Prices



Source: Ministry of Trade

2.2. Electric Power Generation

Electric power generated during the second quarter of 2016/17 was 3 billion KWH, about 20.9 percent higher than a year ago. This was attributed to a 24 percent increase in production from hydropower; while energy generation from thermal and wind sources dropped 5.3 and 5 percent, respectively

Of the total energy generated, about 91.6 percent was from hydropower and 8.4 percent from wind. The contribution of thermal power was insignificant at 1,027 thousand KWH (Table 2.5).

By system of generation, virtually all the power was generated through inter connected system (ICS)² while self-contained system (SCS)³ had minimal share (Table 2.6).

² The generated power from different power stations stored in substations before distribution

³ Power stations distribute the generated power independently

Table 2.5: Electricity Generation by Sources

(In '000 of K.W.H)

(in Crores of Rupees)

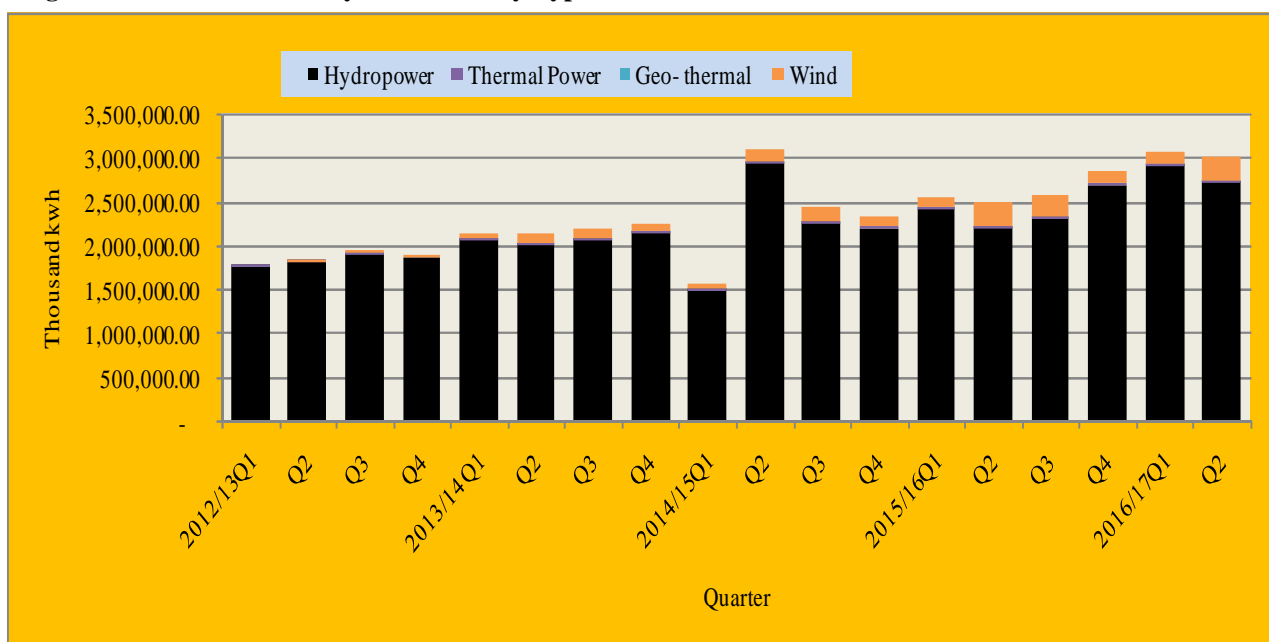
Power Source	2015/16		2016/17				Percentage Change	
	Qtr. II		Qtr. I		Qtr. II			
	A	Share (In %)	B	Share (In %)	C	Share (In %)	C/A	C/B
Hydropower	2,214,889.4	89.3	2,924,400.7	95.7	2,745,906.8	91.6	24.0	-6.1
Thermal Power	1,084.3	0.0	989.7	0.0	1,027.0	0.0	-5.3	3.8
Geothermal	-	0.0	0.7	0.0	-	-	0.0	0.0
wind	265,500.1	10.7	129,442.6	4.2	252,329.7	8.4	-5.0	94.9
Total	2,481,473.85	100.0	3,054,833.74	100.0	2,999,263.52	100.0	20.9	-1.8

Source: Ethiopian Electric Power**Table 2.6: Generation of Electricity Power in the Interconnected System (ICS) and Self Contained System (SCS)**

(In '000 of K.W.H)

System of Power Supply	2015/16		2016/17				Percentage Change	
	Qtr. II		Qtr. I		Qtr. II			
	A	Share (In %)	B	Share (In %)	C	Share (In %)	C/A	C/B
ICS								
Hydro Power	2,214,889.4	89.3	2,924,400.7	95.7	2,745,906.8	91.6	24.0	-6.1
Thermal Power	88.8	0.0		0.0		-		
Geothermal	-	0.0	0.7	0.0		-		
Wind	265,500.1	10.7	129,442.6	4.2	252,329.7	8.4	-5.0	94.9
Sub-Total	2,480,478.3	100.0	3,053,844.1	100.0	2,998,236.6	100.0	20.9	-1.8
SCS								
Hydro Power		0.0		0.0		-		
Thermal Power	995.5	0.0	989.7	0.0	1,027.0	0.0	3.2	3.8
Geothermal	-	0.0		0.0		-		
wind	-	0.0		0.0		-		
Sub-Total	995.5	0.0	989.7	0.0	1,027.0	0.0	3.2	3.8
Grand Total	2,481,473.9	100.0	3,054,833.7	100.0	2,999,263.5	100.0	20.9	-1.8

Source: Ethiopian Electric Power

Fig.2.5: Volume of Electricity Production by Type

Source: Ethiopian Electric Power

III. Quarterly Price Developments

3.1 Developments in National CPI

During the second quarter of 2016/17, headline inflation has scaled down to 0.0 percent from 2.6 percent registered in the previous quarter, but it turned up compared to -0.1 percent a year earlier. The 2.6 percentage point decline in quarterly headline inflation was attributed to 5.2 percentage point decline in food & non-alcoholic beverages inflation, offsetting 0.4 percentage point rise in non-food inflation. On the other hand, quarter-on-quarter headline inflation showed a 0.1 percentage point increase on account of a 0.3 percentage point rise in non-food inflation. Hence, food & non-alcoholic beverages and non-food inflation each contributed 0.7 percent to the headline inflation of the quarter under review (Table 3.1 and Fig 3.2).

In the review quarter, food & non-alcoholic beverages inflation has slowed down to -1.3 percent from 3.9 percent in the previous quarter, but it remained unchanged compared to last fiscal year same quarter. The 5.2 percentage point quarterly decline was attributed to

decrease in inflation rates of food items such as bread and cereals (5.2 percentage point), meat (4.6 percentage point), fruits (1.9 percentage point), vegetables (10.2 percentage point), food products n.e.c (1.8 percentage point) and non-alcoholic beverages (2.1 percentage point). Meanwhile, price inflation of milk, cheese & egg dropped 2.0 percentage point and that of sugar jam, honey, and chocolate 5.8 percentage point (Table 3.2).

Similarly, non-food inflation rose 0.2 percentage point on quarterly basis owing to an increase in inflation rates of alcoholic beverages and tobacco (10.0 percentage point), housing, water, electricity, gas and other fuel (4.2 percentage point), health (34.9 percentage point), recreation and culture (14.1 percentage point) and restaurant & hotel (13.9 percentage point), counterbalancing the slowdown in inflation rates of clothing and footwear (8.7 percentage point), furnishings, household equipment and routine maintenance of houses (4.4 percentage point), communication (24.1

percentage point) and education (24.2 percentage point) (Table 3.3).

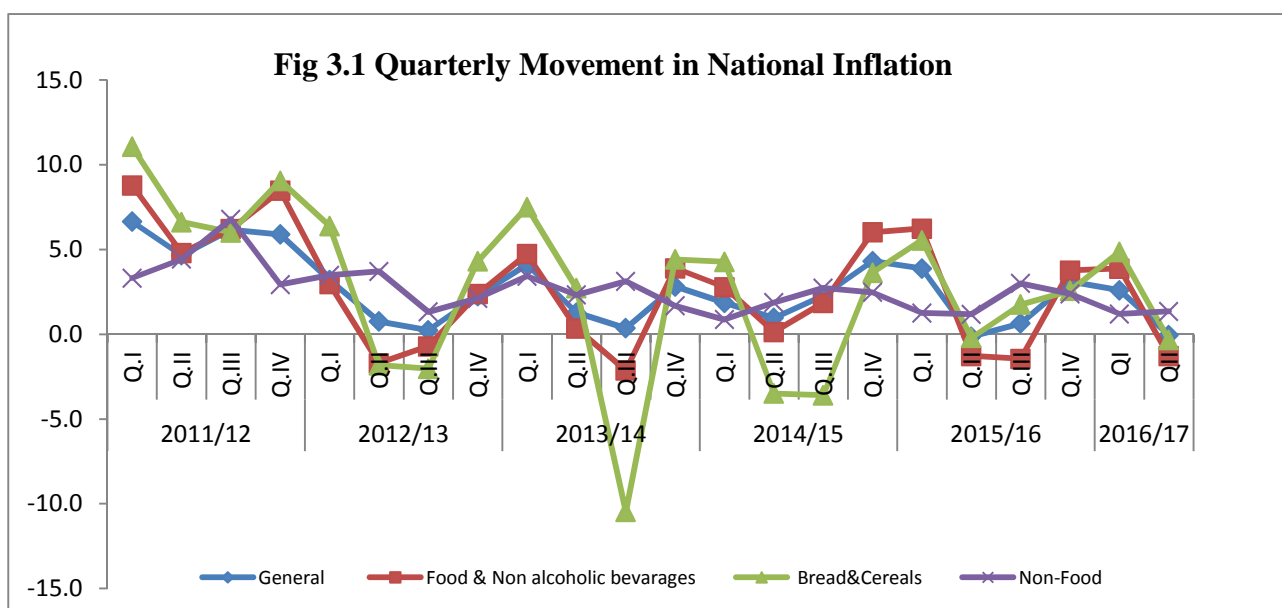
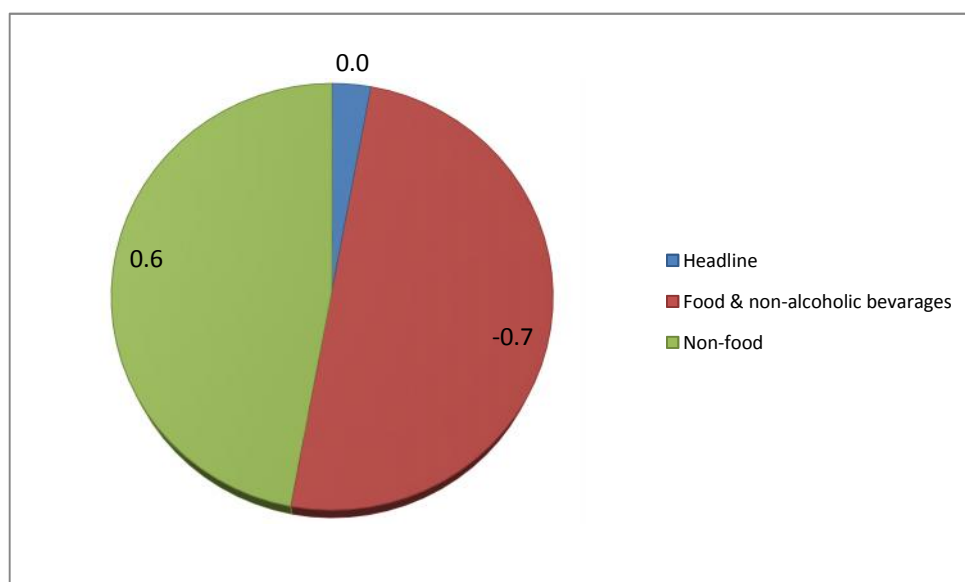


Table 3.1: Quarterly National General Consumer Prices (%) (Dec2011=100)

		2015/16	2016/17		Change in %age Points		Contribution to	
		QII	QI	QII				
	Weights	A	B	C	C-A	C-B	QII headline inflation	headline inflation over QI
Headline	100	-0.1	2.6	0.0	0.1	-2.6	0.0	-2.5
Food & non-alcoholic beverages	53	-1.3	3.9	-1.3	0.0	-5.2	-0.7	-2.7
Non-food	47	1.2	1.1	1.3	0.3	0.4	0.7	0.2

Source: CSA and NBE Staff Computation

FIG 3.2. Contribution of Food and Non-alcoholic beverages and Non-food Inflation in the 2016/17 FY Second Quarter Headline Inflation

Source: NBE Staff Computation

Table 3.2: Quarterly National Food & non-alcoholic beverages CPI Inflation (Dec2011=100)

Item	Weights	2015/16	2016/17		Change in %age points		Contribution to	
		QII	QI	QII			QII food inflation	change in Food Inflation over QI
		A	B	C	C-A	C-B		
Food & Non-alcoholic beverages	52.8	-1.3	3.9	-1.3	0.0	-5.2	-1.3	-5.2
Bread & Cereals	18.5	-0.2	4.8	-0.3	-0.1	-5.2	-0.1	-1.7
Meat	4.3	1.3	4.5	-0.1	-1.4	-4.6	0.0	-0.5
Milk, Cheese & Egg	2.2	2.4	-0.7	1.4	-1.0	2.0	0.1	0.1
Oils & Fats	3.7	-3.3	0.2	-0.7	2.6	-0.9	0.0	-0.1
Fruit	0.3	7.8	2.8	0.9	-6.9	-1.9	0.0	0.0
Vegetables	13.5	-0.1	3.8	-6.5	-6.4	-10.2	-1.8	-2.9
Sugar Jam, Honey, Chocolate	1.0	0.9	3.3	9.1	8.2	5.8	0.2	0.1
Food Products n.e.c	4.7	-8.2	2.8	1.0	9.1	-1.8	0.1	-0.2
Non-alcoholic Beverages	4.6	-3.1	9.7	7.6	10.7	-2.1	0.4	-0.1

Source: CSA and NBE Staff Computation

Table 3.3: Quarterly National Non-food CPI Inflation (Dec2011=100)

Item	Weights	2015/16	2016/17		Change in %age points		Contribution to	
		QII	QI	QII				
		A	B	C	C-A	C-B	QII non-food inflation	change in non-food inflation over QI
Non-Food	47.2	1.2	1.2	1.3	0.2	0.2	1.3	0.2
Alcoholic Beverages and Tobacco	4.9	1.1	-3.6	6.4	5.3	10.0	0.6	1.0
Clothing and Footwear	6.6	0.6	4.6	-4.1	-4.7	-8.7	0.0	0.1
Housing, Water, Electricity, Gas and Other Fuel	16.3	0.1	-0.5	3.7	3.6	4.2	0.1	-1.0
Furnishings, Household Equipment and Routine Maintenance of Houses	5.4	2.0	3.4	-1.0	-3.0	-4.4	0.2	0.1
Health	1.1	5.0	-15.2	19.7	14.7	34.9	0.1	0.2
Transport	2.8	1.8	0.8	1.6	-0.2	0.8	0.0	0.0
Communication	1.1	-2.5	12.0	-12.1	-9.6	-24.1	0.0	0.0
Recreation and Culture	0.6	5.4	-3.6	10.5	5.1	14.1	0.1	0.0
Education	0.4	9.2	12.9	-11.3	-20.5	-24.2	0.0	0.0
Restaurant Hotel	5.5	3.3	-4.5	9.4	6.1	13.9	0.2	-0.2
Miscellaneous Goods	2.6	0.9	0.7	0.5	-0.4	-0.1	0.0	0.0

Source: CSA and NBE Staff Computation

3.2. Developments in Regional CPI

During the review quarter, regional average headline inflation has risen to 0.5 percent from 0.1 percent a year ago. This was higher than the national headline inflation recorded in the quarter.

Regional states such as Somali, Dire Dawa, Tigray and Amhara have registered higher quarterly headline inflation than the regional average headline inflation. The highest headline inflation was in Somali (4.8 percent) and the lowest inflation (-2.1 percent) in Addis Ababa. Hence, the

margin between the highest and the lowest inflation rate was 6.9 percent.

At the same time, the deviation⁴ in the regional headline inflation rates from the average as represented by standard deviation was 2.4 percent compared to 1.7 percent in the previous quarter (Table 3.4).

Likewise, the regional average food & non-alcoholic beverages inflation declined to -0.8 percent compared to 0.3 percent last year same quarter. Regional states such as Somali, SNNP and Amhara have

⁴ The standard deviation shows how much dispersion exists from the average value.

experienced higher quarterly food & non-alcoholic beverages inflation than the regional average. The highest food & non-alcoholic beverages inflation was observed in Somali (4.6 percent) and the lowest in Addis Ababa (-4.6 percent) showing a 9.2 percentage point margin. The variation in food & non-alcoholic beverages inflation measured by standard deviation was 2.6 percent, which was slightly lower than 2.9 percent seen a year earlier. (Table 3.4)

On the other hand, the regional average non-food inflation rose to 1.7 percent compared to 0.8 percent a year ago. Regional states such as Tigray, Dire Dawa, Somali, Gambella and Amhara saw non-food inflation rate higher than the regional average. The highest average non-food inflation (6.7 percent) was recorded in Tigray and the lowest (-3.3 percent) in Afar revealing a 9.9 percentage point margin. The variation in non-food inflation measured by the standard deviation was 3.0 percent, which was slightly higher than that of the previous quarter (Table 3.4).

Table 3.4: Annualized Regional General, Food & non-alcoholic beverages and Non-food Inflation

Regions	2015/16			2016/17						Annual Change			Quarterly Change		
	QII			QI			QII								
	A			B			C			D=C-A			D=C-B		
	General	Food &Non-alcoholic beverages	Non-food	General	Food &Non-alcoholic beverages	Non-food	General	Food &Non-alcoholic beverages	Non-food	General	Food &Non-alcoholic beverages	Non-food	General	Food &Non-alcoholic beverages	Non-food
SNNP	-0.8	-3.9	1.7	1.4	1.4	1.4	-0.2	1.1	-1.2	0.6	5.0	-3.0	-1.5	-0.3	-2.6
Harari	2.0	1.7	2.3	1.8	5.1	-1.9	-0.4	-1.6	0.9	-2.4	-3.3	-1.4	-2.2	-6.6	2.8
Oromia	-0.4	-1.5	1.1	1.2	2.2	0.1	-1.0	-2.9	1.2	-0.7	-1.4	0.1	-2.3	-5.1	1.1
Tigray	2.8	4.9	0.9	2.8	6.5	-0.2	2.7	-1.9	6.7	-0.1	-6.8	5.7	-0.2	-8.4	6.8
Gambela	-1.6	-3.7	2.2	2.0	3.2	0.1	-0.2	-1.6	2.3	1.4	2.1	0.1	-2.3	-4.8	2.2
Addis Ababa	-0.6	-3.8	2.2	3.3	5.6	1.6	-2.1	-4.6	0.0	-1.5	-0.8	-2.2	-5.4	-10.2	-1.6
Dire Dawa	-0.2	1.0	-0.9	-1.4	3.1	-3.0	4.1	0.7	5.1	4.3	-0.2	6.0	5.5	-2.4	8.1
Ben. Gum	1.2	0.0	2.8	3.7	5.3	1.5	-1.9	-3.3	0.0	-3.1	-3.3	-2.7	-5.6	-8.6	-1.5
Somali	-2.5	2.3	-7.1	0.8	2.1	-0.4	4.8	4.6	5.0	7.3	2.3	12.1	4.0	2.5	5.5
Afar	0.0	-1.8	2.5	2.0	2.3	1.6	-1.7	-0.2	-3.3	-1.7	1.6	-5.8	-3.6	-2.5	-4.8
Amhara	1.4	1.3	1.5	5.1	6.5	3.8	1.4	1.0	1.8	0.0	-0.3	0.3	-3.7	-5.5	-2.0
Regions Average	0.1	-0.3	0.8	2.1	3.9	0.4	0.5	-0.8	1.7						
Standard deviation	1.6	2.9	2.8	1.7	1.9	1.8	2.4	2.6	3.0						
Coefficient of variation	13.1	-8.8	3.3	0.8	0.5	4.4	4.9	-3.3	1.8						

Source: CSA and NBE Staff Computation

4. MONETARY DEVELOPMENTS

4.1. Money Supply and Credit

Broad money supply (M₂) reached Birr 496.3 billion during the second quarter of 2016/17, showing a 25.1 percent expansion over the corresponding quarter of last year. The annual growth in broad money was

attributed to 24.7 percent surge in domestic credit (both government and non-government) offsetting a 47.6 percent decline in net foreign asset of the banking system (Table 4.1).

Table IV. 1: Factors Influencing Broad Money

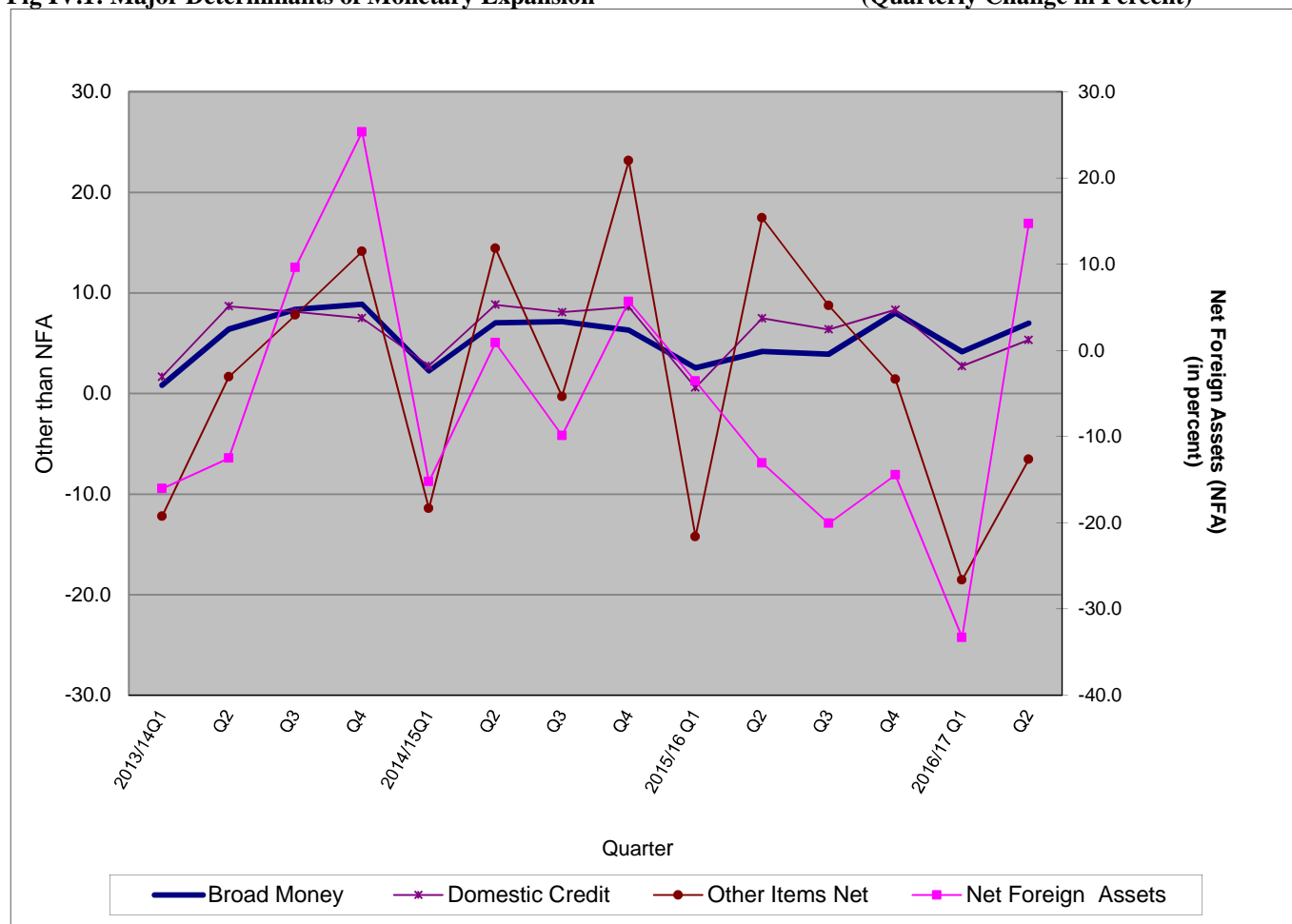
(In Millions of Birr)

Particulars	2015/16	2016/17		Percentage Change		Contributions of Each Component to Broad Money Growth	
	Qtr. II	Qtr. I	Qtr. II				
	(Dec. 15)	(Sept. 16)	(Dec. 16)				
	A	B	C	C/A	C/B	Annual	Quarterly
1. External Assets (net)	31,444.6	14,357.8	16,470.2	-47.6	14.7	-15.0	6.5
2. Domestic Credit	425,422.4	503,571.2	530,436.8	24.7	5.3	105.4	82.6
. Claims on Central Gov't (net)	25,008.5	49,852.8	45,594.0	82.3	-8.5	20.7	-13.1
. Claims on Non-Central Gov't	400,414.0	453,718.4	484,842.9	21.1	6.9	84.7	95.7
. Financial Institutions	24,857.0	25,607.0	26,107.0	5.0	2.0	1.3	1.5
. Others	375,557.0	428,111.4	458,735.9	22.1	7.2	83.4	94.2
3. Other Items (net)	60,252.0	54,160.0	50,611.8	-16.0	-6.6	-9.7	-10.9
4. Broad Money (M ₂)	396,615.1	463,769.0	496,295.2	25.1	7.0	100.0	100.0

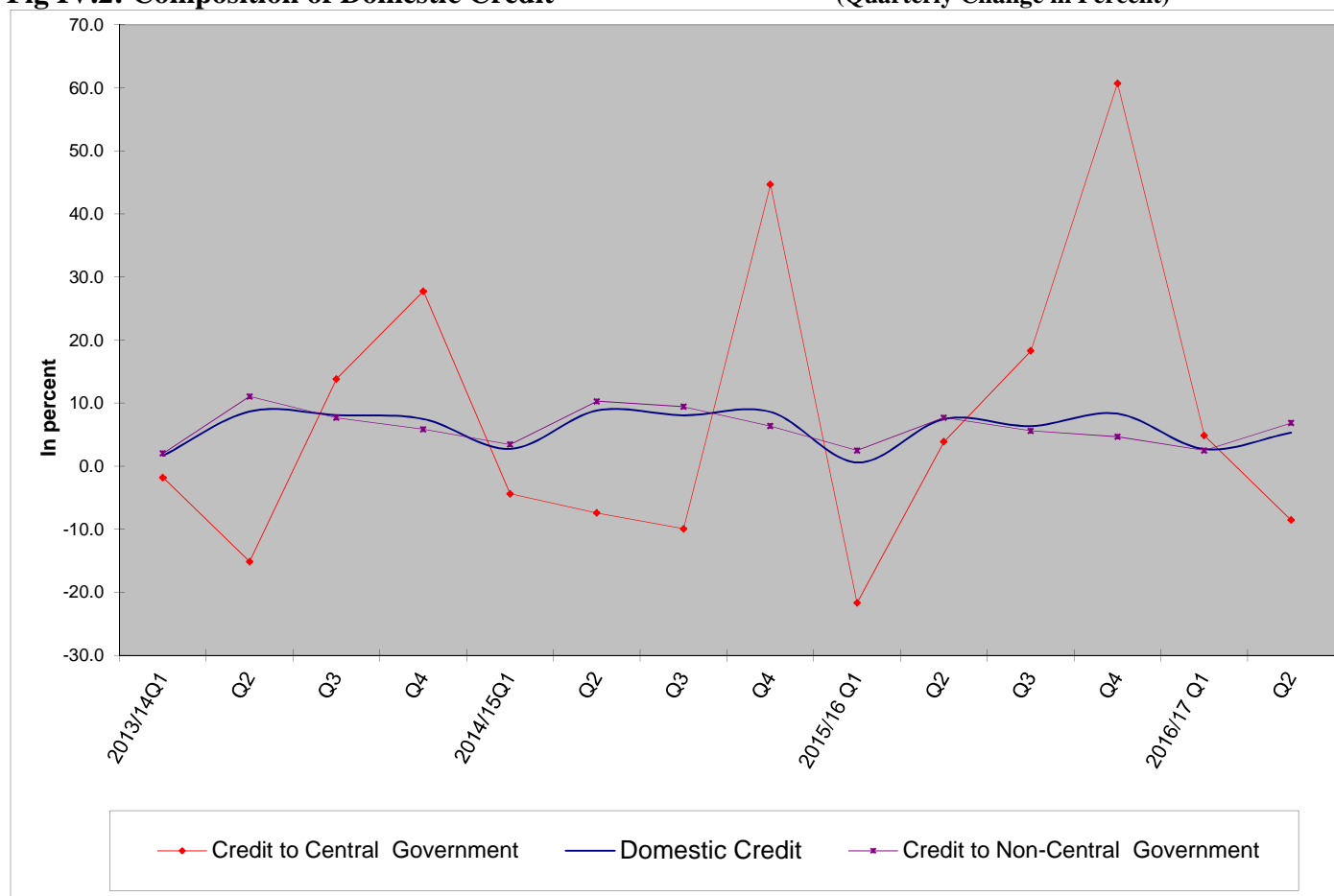
Source: Staff Computation, NBE

Fig IV.1: Major Determinants of Monetary Expansion

(Quarterly Change in Percent)



Source: Staff Computation, NBE

Fig IV.2: Composition of Domestic Credit**(Quarterly Change in Percent)**

Source: Staff computation, NBE

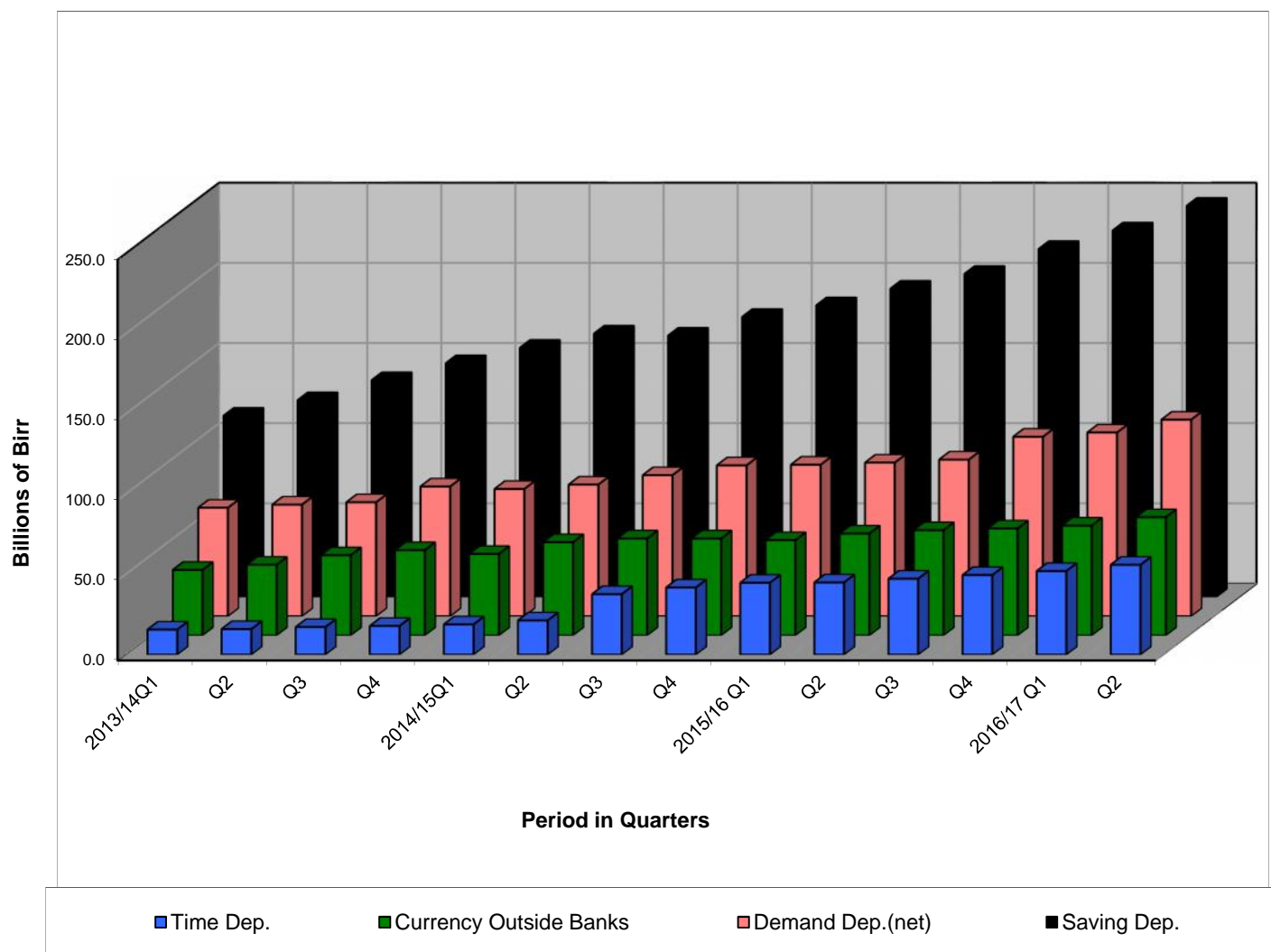
Component wise, quasi-money supply showed a 26.4 percent annual and 6.9 percent quarterly expansion while narrow money supply increased 23.2 and 7.2 percent, respectively. Narrow money contributed 37.1 percent to the year- on- year growth of broad money, while that of quasi money was 62.9 percent (Table 4.2).

The growth in quasi-money was the result of increased efforts of banks in expanding their branch network and improved service outreach as well as, NBE's monetary policy to maintain price stability.

Table 4.2: Components of Broad Money**(In millions of Birr, unless specified)**

Particulars	2015/16	2016/17		Percentage Change		Contributions of Each Component to Broad Money Growth	
	Qtr. II	Qtr. I	Qtr. II				
	(Dec. 15)	(Sept. 16)	(Dec. 16)				
	A	B	C	C/A	C/B	Annual	Quarterly
1. Narrow Money Supply	159,291.9	183,048.4	196,254.2	23.2	7.2	37.1	40.6
. <i>Currency outside banks</i>	63,507.1	68,485.1	73,702.5	16.1	7.6	10.2	16.0
. <i>Demand Deposits (net)</i>	95,784.8	114,563.3	122,551.6	27.9	7.0	26.9	24.6
2. Quasi-Money	237,323.2	280,720.7	300,041.1	26.4	6.9	62.9	59.4
. <i>Savings Deposits</i>	192,284.2	228,607.1	244,021.9	26.9	6.7	51.9	47.4
. <i>Time Deposits</i>	45,039.0	52,113.6	56,019.1	24.4	7.5	11.0	12.0
3. Broad Money Supply	396,615.1	463,769.0	496,295.2	25.1	7.0	100.0	100.0

Source: Staff Computation, NBE

Fig. IV. 3: Composition of Monetary Stock

Source: Staff computation, NBE

4.2. Developments in Reserve Money and Monetary Ratio

Reserve money was Birr 128.5 billion at the end of the second quarter of 2016/17, showing a 27.1 percent annual growth. Similarly, excess reserves of commercial banks surged by 251.1 percent, due to relatively lower government deposit with NBE.

The money multiplier measured both by the ratio of broad money to reserve money and the ratio of narrow money to reserve money tended to decline. The ratio of narrow money to reserve money was 1.5, down from 1.6 last year, while the ratio of broad money to reserve money declined to 1.86 from 1.92 last year (Table 4.3).

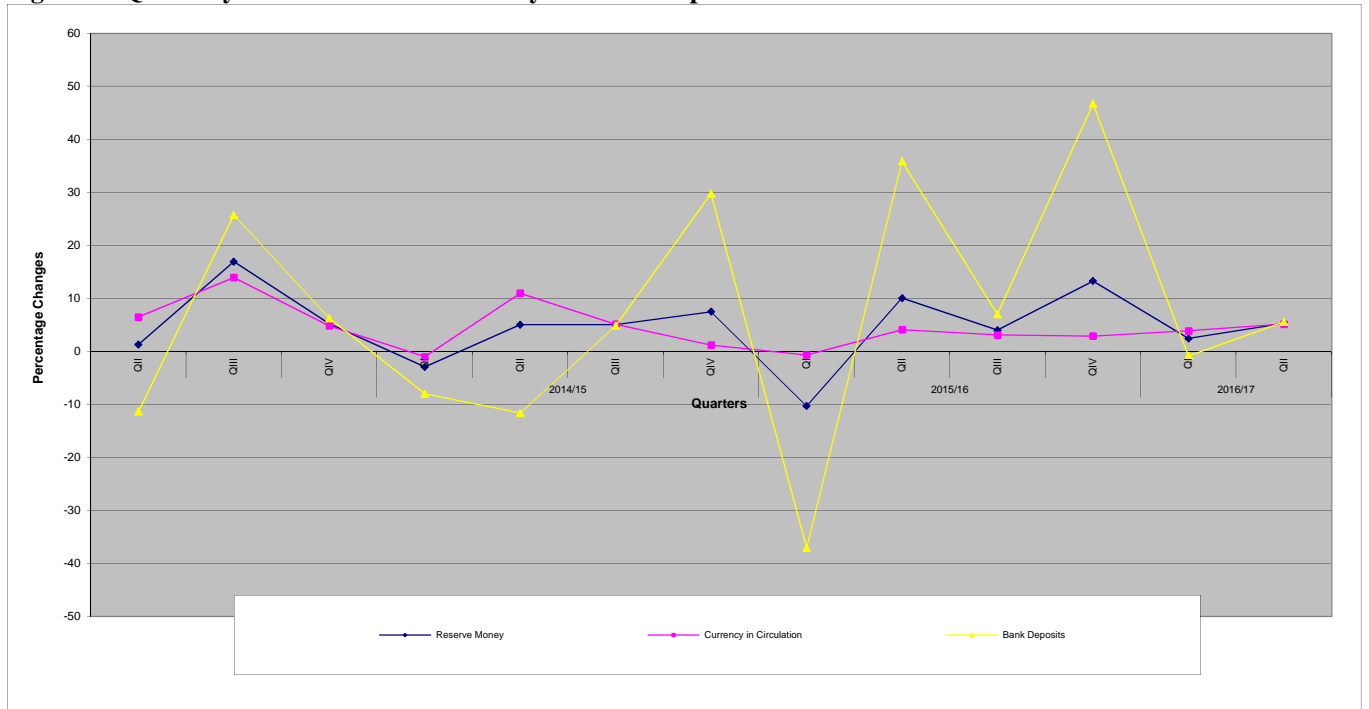
Table 4.3: Monetary Aggregates and Ratios

(In millions of Birr unless otherwise indicated)

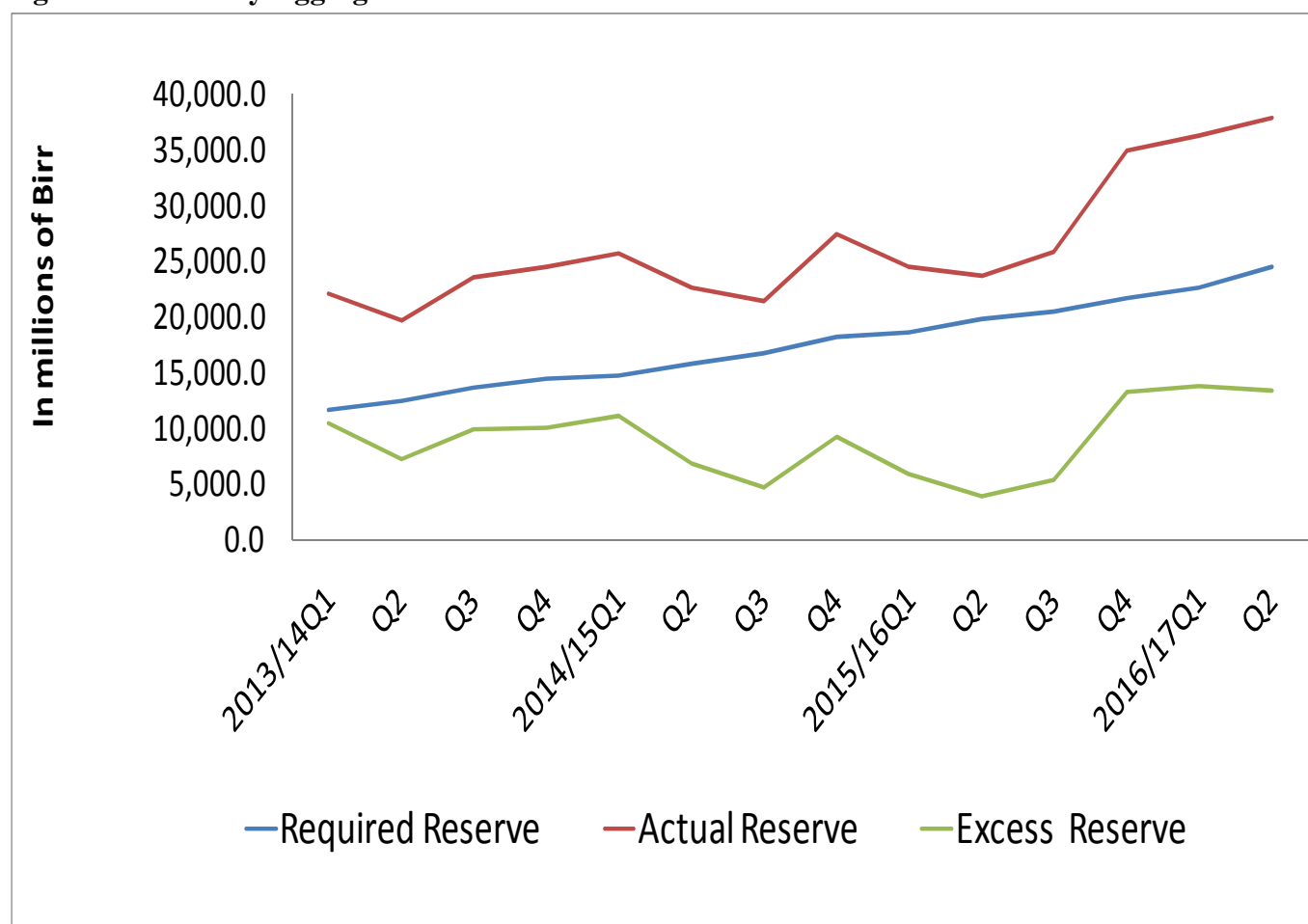
Particulars	2015/16	2016/17		Percentage Change	
	Qtr. II	Qtr. I	Qtr. II		
	(Dec. 15)	(Sept. 16)	(Dec. 16)		
	A	B	C	C/A	C/B
1. Reserve Requirement (CB's)	19,797.95	22,592.74	24,534.17	23.92	8.59
2. Actual Reserve (CB's)	23,620.46	36,401.97	37,955.27	60.69	4.27
3. Excess Reserve (CB's)	3,822.51	13,809.24	13,421.10	251.11	-2.81
4. Reserve Money	101,125.44	122,076.32	128,527.57	27.10	5.28
. Currency in Circulation	77,830.00	85,811.90	90,247.04	15.95	5.17
. Banks deposits at NBE	23,295.44	36,264.42	38,280.53	64.33	5.56
5. Money Multiplier (Ratio):					
. Narrow Money to Reserve Money	1.58	1.50	1.53	-3.06	1.83
. Broad Money to Reserve Money	3.92	3.80	3.86	-1.55	1.64
6. Other Monetary Ratios (%):					
. Currency to Narrow Money	48.86	46.88	45.98	-5.88	-1.91
. Currency to Broad Money	19.62	18.50	18.18	-7.34	-1.72
. Narrow Money to Broad Money	40.16	39.47	39.54	-1.54	0.19
. Quasi Money to Broad Money	59.84	60.53	60.46	1.03	-0.12

Source: National Bank of Ethiopia

Fig. IV.4: Quarterly Growth of Reserve Money and Its Components



Source: Staff Computation NBE

Figure 5: Monetary Aggregates

Source: Staff Computation NBE

4.3. Interest Rate Developments

Average annual interest rate on savings deposits remained unchanged at 5.4 percent while average lending interest rate increased to 12.75 from 11.88 percent a year ago. Weighted average time deposit rate slightly declined by 0.04 percentage points while weighted

average yield on T-bills remained unchanged at 1.41 percent. Taking in to account the December 2016 headline inflation of 6.7 percent, all deposit rates and the T-bills yields remained negative in real terms whereas the average real lending rate was positive (Table 4.4)

Table 4.4: Interest Rate Structure of Commercial Banks (In percent per annum)

Particulars	2015/16	2016/17		Percentage Point Changes	
	QII	QI	QII	Annual	Quarterly
1. Savings Deposit Rate 1/					
Minimum	5.00	5.00	5.00	0.00	0.00
Maximum	5.75	5.75	5.75	0.00	0.00
Average Saving Rate	5.38	5.38	5.38	0.00	0.00
2. Time Deposits					
Up to 1yr	5.52	5.44	5.46	-0.06	0.02
1-2 years	5.59	5.52	5.56	-0.03	0.04
Over 2 yrs	5.62	5.54	5.60	-0.02	0.06
Average Time Dep. Rate (Weighted)	5.58	5.50	5.54	-0.04	0.04
3. Demand Deposit (Weighted)	0.04	0.04	0.04	0.00	0.00
4. Lending Rate 2/					
Minimum	7.50	7.50	7.50	0.00	0.00
Maximum	16.25	18.00	18.00	1.75	0.00
Average Lending Rate	11.88	12.75	12.75	0.88	0.00
5. T-bills Rate (Weighted)	1.41	1.40	1.41	0.00	0.00
6. GERD Bond Yield 3/					
6.1 Maturity within 5 Years	5.50	5.50	5.50	0.00	0.00
6.1 Maturity above 5 Years	6.00	6.00	6.00	0.00	0.00
7. Headline Inflation (Year-on-year)	10.03	6.80	6.67	-3.35	-0.13
8. Food Inflation (Year-on-year)	12.11	6.10	5.27	-6.84	-0.83
9. Core/non-food Inflation (Year-on-year)	7.80	7.70	8.23	0.43	0.53

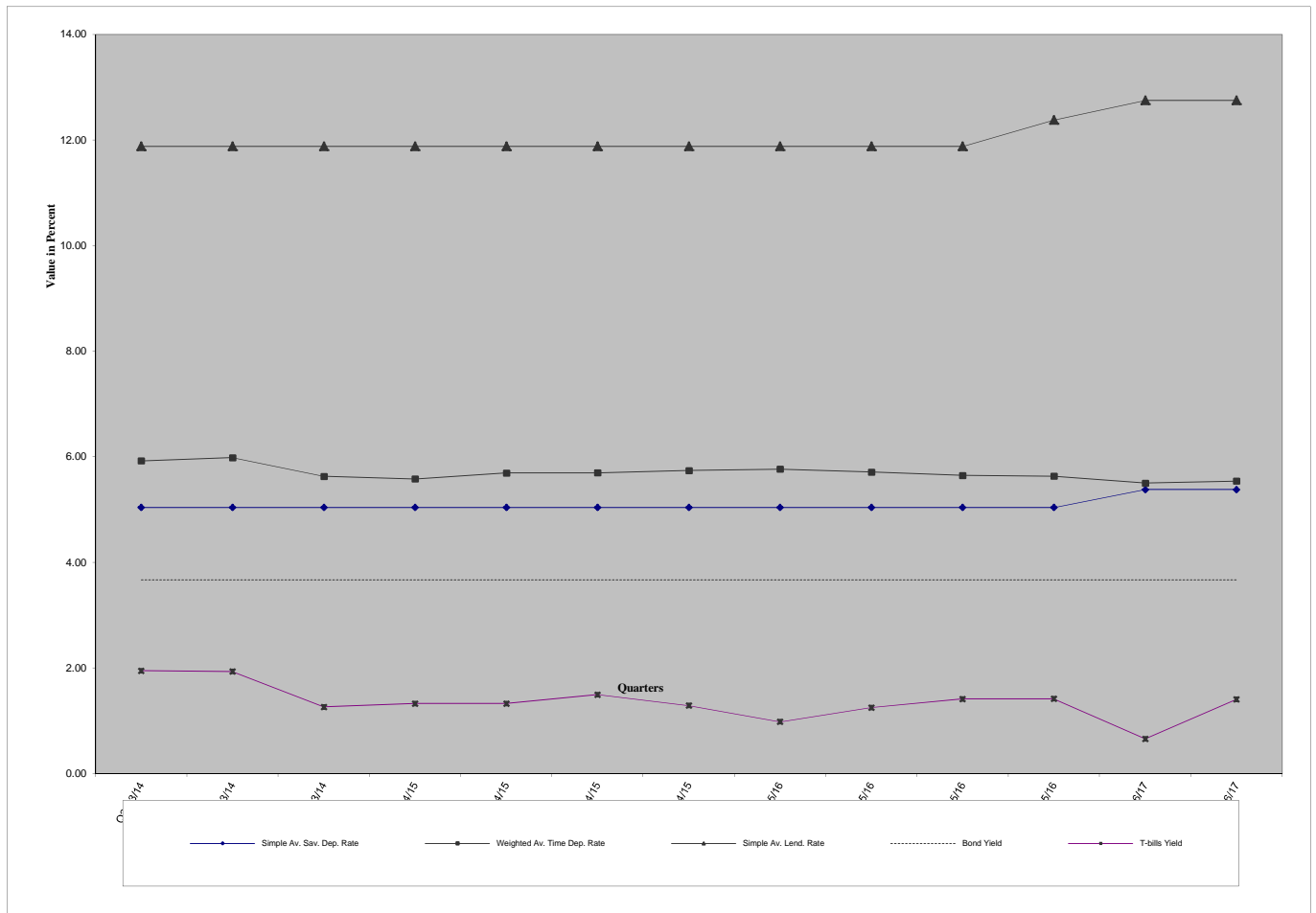
1/ Minimum interest rate on saving deposits is set by NBE, where as the maximum indicates the highest rate some banks are paying voluntarily.

2/ NBE does not control lending rates, the minimum & maximum lending rates presented here are determined by the commercial banks themselves.

3/ GERD stands for Grand Ethiopian Renaissance Dam

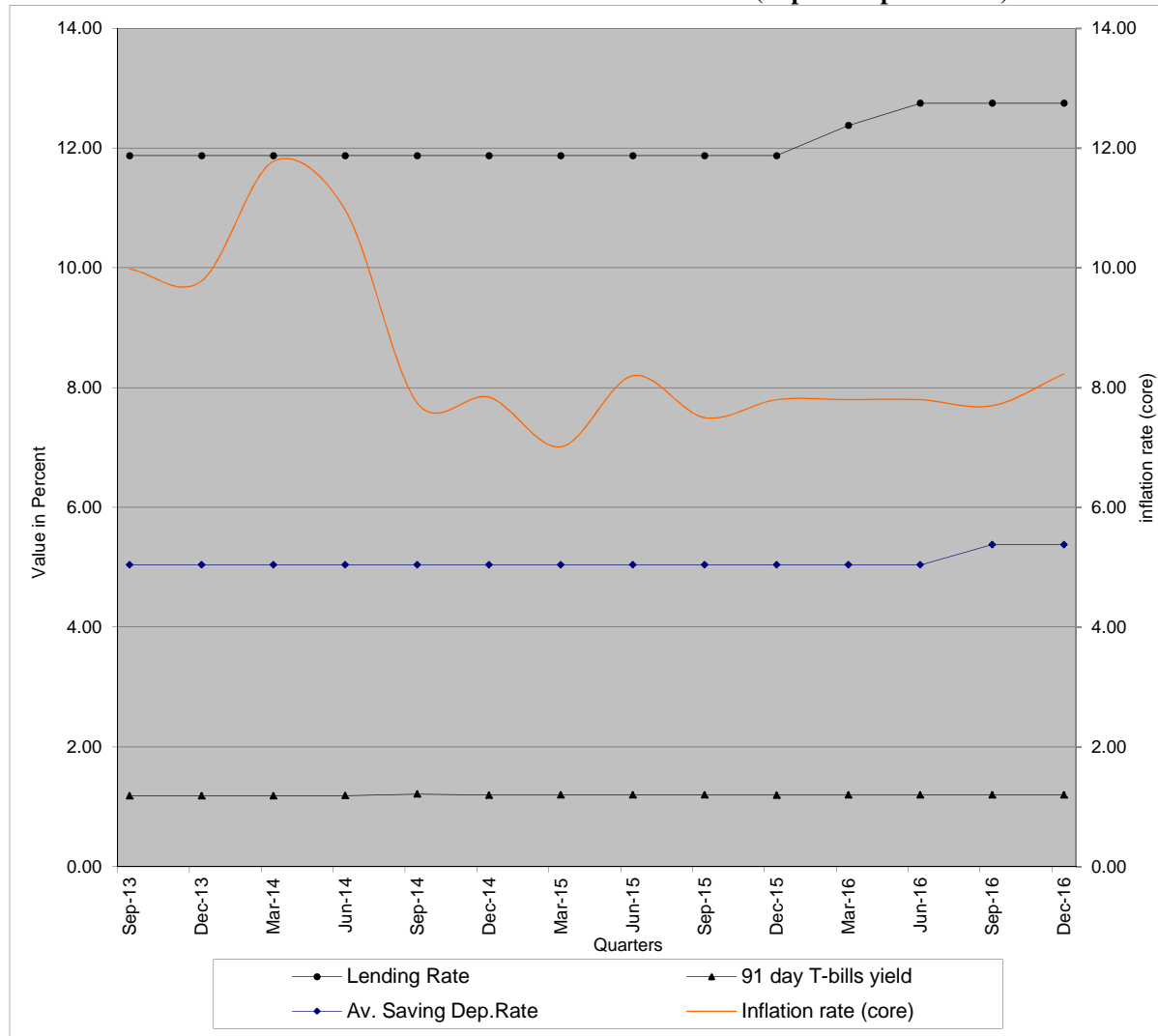
Source: Staff Computation NBE

Fig IV.6: Interest Rate Structure of Commercial Banks (In percent per annum)



Source: NBE and Commercial Banks

Fig IV.7: Average Lending Rate, Average Saving Deposit Rate, 91-day T-bills Yield & Core Inflation Rate (in percent per annum)



*Core inflation rate is depicted on the right axis while lending rate, 91 day T-bills yield and average saving deposit rates are shown on the left axis

Source: Staff computation, NBE

4.4. Developments in the Financial Sector

Of 18 banks operating in Ethiopia as of December 2016, 16 were private and two public. In the reviewed quarter, banks opened 226 new branches, thereby raising the total number of bank branches to 3,609. As a result, one branch was serving 25,548.6⁵ people on average. About 34.4 percent of the total bank branches were in Addis Ababa. Of the total bank branches, the share of public banks was 36 percent.

Meanwhile, total capital of the banking system reached Birr 47.4 billion, of which the share of private banks was 50.4 percent and that of public banks 49.6 percent. Commercial Bank of Ethiopia, the biggest state owned bank, accounted for 33.6 percent of the total capital of the banking system. Table 4.5)

There were 17 insurance companies of which 16 were private and one public. Their branches increased to 465 from 405 a year ago. Of the total branches, about 54.4 percent were located in Addis Ababa.

During the review quarter, the total capital of insurance companies reached Birr 3.8 billion,

of which 75.2 percent was that of private insurance companies (Table 4.6).

As of December 31, 2016, Microfinance Institutions were serving about 4.6 million clients through their 1,701 branch/sub-branch offices and other 98 coordinating offices. The institutions have been providing different financial service in all regions.

As of December 31, 2016, microfinance institutions mobilized 20.2 billion in the form of compulsory and voluntary savings. Furthermore, their total assets, outstanding loans and capital stood at Birr 39.2 billion, Birr 26.7 billion and 9.3 billion, respectively, depicting significant growth over the previous year. During the review period, the sector generated Birr 687.6 million in net profit. Besides, it created job opportunity for over 31 thousand citizens (Table 4.7).

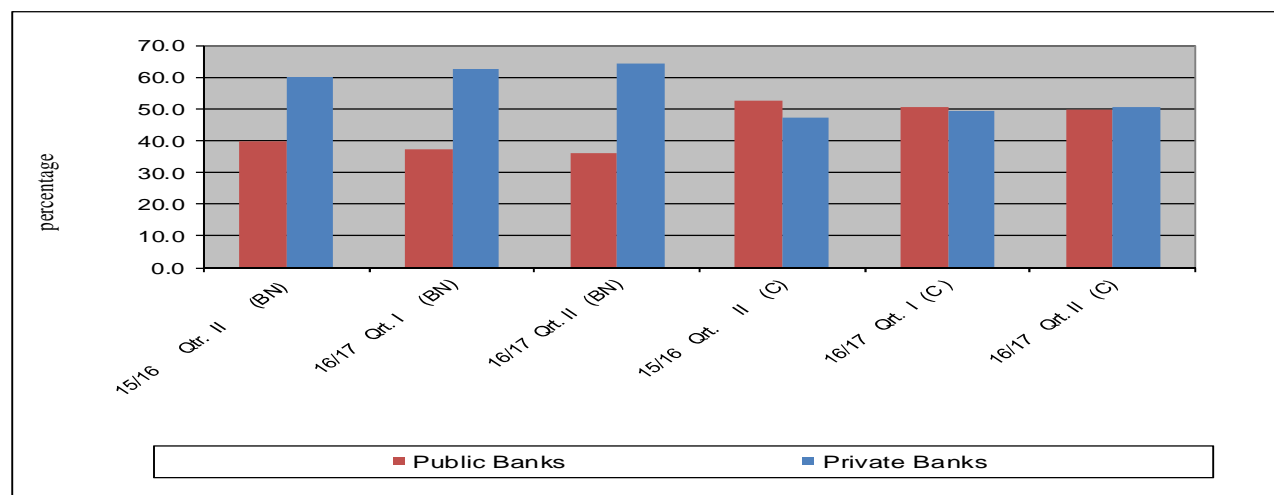
The top five largest MFIs (Amhara, Dedebeit, Oromia, Omo & Addis Credit and Savings Institutions) accounted for 83.4 percent of the total capital, 92.7 percent of the deposits, 88.1 percent of the credit and 89 percent of the total assets of MFIs.

⁵ Total population is 92,205,000 as CSA estimation for 2016.

Table 4.5: Capital and Branch Network of the Banking System

(Branch in Number & Capital in Millions of Birr)

Banks	Branch Network												Capital		
	2015/16				2016/17				2016/17				2015/16	2016/17	2016/17
	Quarter II				Quarter I				Quarter II				Quarter II	Quarter I	Quarter II
	Reg	A.A	Total	% Share	Reg.	A.A	Total	% Share	Reg.	A.A	Total	% Share			
1. Public Banks															
Commercial Bank of Ethiopia	856	209	1065	35.8	897	262	1,159	34.3	917	270	1,187	32.9	13,677	15,910.6	15,910.5
Development Bank of Ethiopia	70	52	122	4.1	106	4	110	3.3	106	4	110	3.0	7,500	7,605.0	7,595.1
Total Public Banks	926	261	1,187	40	1,003	266	1,269	37.5	1,023	274	1,297	35.9	21,177	23,515.6	23,505.6
2. Private Banks															
Awash International Bank	111	123	234	7.9	138	140	278	8.2	156	145	301	8.3	2,651	3,268.8	3,488.7
Dashen Bank	78	90	168	5.7	79	68	147	4.3	97	71	168	4.7	2,377	2,797.7	2,813.1
Abyssinia Bank	82	85	167	5.6	89	94	183	5.4	94	101	195	5.4	1,607	1,859.6	1,936.3
Wegagen Bank	85	63	148	5.0	111	76	187	5.5	114	79	193	5.3	2,421	2,463.7	2,621.6
United Bank	64	68	132	4.4	83	77	160	4.7	89	86	175	4.8	1,503	1,870.3	1,912.0
Nib International Bank	54	75	129	4.3	80	97	177	5.2	85	100	185	5.1	1,927	2,302.4	2,331.1
Cooperative Bank of Oromiya	123	41	164	5.5	143	47	190	5.6	192	52	244	6.8	1,140	1,233.6	1,281.7
Lion International Bank	70	43	113	3.8	79	46	125	3.7	86	47	133	3.7	683	1,046.5	1,046.6
Oromia International Bank	127	55	182	6.1	149	62	211	6.2	154	66	220	6.1	848	1,105.3	1,203.7
Zemen Bank	8	3	11	0.4	8	5	13	0.4	7	5	12	0.3	650	800.0	850.7
Buna International Bank	49	43	92	3.1	58	53	111	3.3	63	61	124	3.4	607	898.5	922.7
Berhan International Bank	36	42	78	2.6	54	50	104	3.1	59	54	113	3.1	698	890.7	921.9
Abay Bank	74	22	96	3.2	96	32	128	3.8	103	35	138	3.8	724	862.4	990.0
Addis Interational Bank	12	22	34	1.1	19	29	48	1.4	19	30	49	1.4	447	585.0	596.6
Debub Global Bank	15	9	24	0.8	17	15	32	0.9	18	17	35	1.0	241	273.6	294.6
Enat Bank S.C	5	8	13	0.4	7	13	20	0.6	8	19	27	0.7	469	620.4	677.2
Total Private Banks	5	8	1,785	60	1,210	904	2,114	62	1,344	968	2,312	64.1	18,993	22,878.4	23,888.5
3. Grand Total Banks	931	269	2,972	100	2,213	1,170	3,383	100.0	2,367	1,242	3,609	100.0	40,170	46,394.1	47,394.1

Source: Bank Supervision Directorate, NBE**Reg.** Stands for Region and A.A for Addis Ababa**Fig.IV.5: Capital and Branch Network of Banking System**

Source, Staff Compilation, NBE

Note: BN = Branches, C= Capital

Table 4.6: Branch Network & Capital of Insurance Companies

(Branch in Number & Capital in Millions of Birr)

S.No.	Insurance Companies	Branch									Capital		
		2015/16			2016/17			2016/17			2015/16	2016/17	2016/17
		Quarter II			Quarter I			Quarter II			Quarter II	Quarter I	Quarter II
		A.A	Reg	Total	A.A	Reg	Total	A.A	Reg	Total	Capital	Capital	Capital
1	Ethiopian Insurance Corporation	18	48	66	18	52	70	18	52	70	704	925	946
2	Awash Insurance Company	23	14	37	26	15	41	26	15	41	195	328	289
3	Africa Insurance Company	10	10	20	12	11	23	14	11	25	231	258	256
4	National Insurance Corporation of Ethiopia	14	14	28	16	15	31	18	15	33	91	108	108
5	United Insurance Company	18	10	28	20	11	31	20	11	31	267	337	300
6	Global Insurance Company	6	7	13	6	7	13	6	7	13	97	114	112
7	Nile Insurance Company	17	17	34	17	19	36	19	20	39	186	241	261
8	Nyala Insurance Company	13	10	23	13	10	23	15	11	26	267	374	416
9	Nib Insurance Company	19	9	28	22	10	32	22	11	33	222	247	296
10	Lion Insurance Company	15	12	27	15	14	29	16	14	30	101	95	97
11	Ethio-Life Insurance Company	10	4	14	15	4	19	15	4	19	67	95	90
12	Oromia Insurance Company	17	14	31	18	18	36	18	18	36	126	162	164
13	Abay Insurance Company S.C.	10	9	19	10	10	20	10	10	20	132	186	141
14	Berhan insurance S.C	6	1	7	7	1	8	9	2	11	63	77	73
15	Tsehay Insurance S.C.	8	3	11	8	4	12	10	4	14	79	89	94
16	Lucy	5	2	7	6	2	8	6	2	8	82	97	102
17	Bunna Insurance S.C.	10	2	12	11	3	14	11	5	16	58	58	66
	TOTAL	219	186	405	240	206	446	253	212	465	2,970	3,790	3,810

Source: Insurance Supervision Directorate, NBE**Table 4.7: Microfinance Institutions Performance as of December 31, 2016**

(In Thousands of Birr)

Table 4.7: Microfinance Institutions Performance as of December 31 2016 (In Thousands of Birr)					
Particulars	2015/16	2016/17	2016/17	% Change	
	Qtr.II	Qtr.I	Qtr.II		
	A	B	C	C/A	C/B
Total Capital	8,041,742.3	9,021,648.8	9,322,127.5	15.9	3.3
Saving	16,428,361.1	18,170,221.5	20,248,566.8	23.3	11.4
Credit	23,224,590.8	26,184,689.0	26,728,748.5	15.1	2.1
Total Assets	33,139,624.9	36,858,625.5	39,196,916.5	18.3	6.3

Source: Microfinance Supervision Directorate, NBE

4.5. Activities of the Banking System

4.5.1. Resource Mobilization

Total resources mobilized by the banking system (the sum of net change in deposit, loans collected and net change in

borrowings) showed a 40.5 percent surge over the same quarter of last year (Table 4.8).

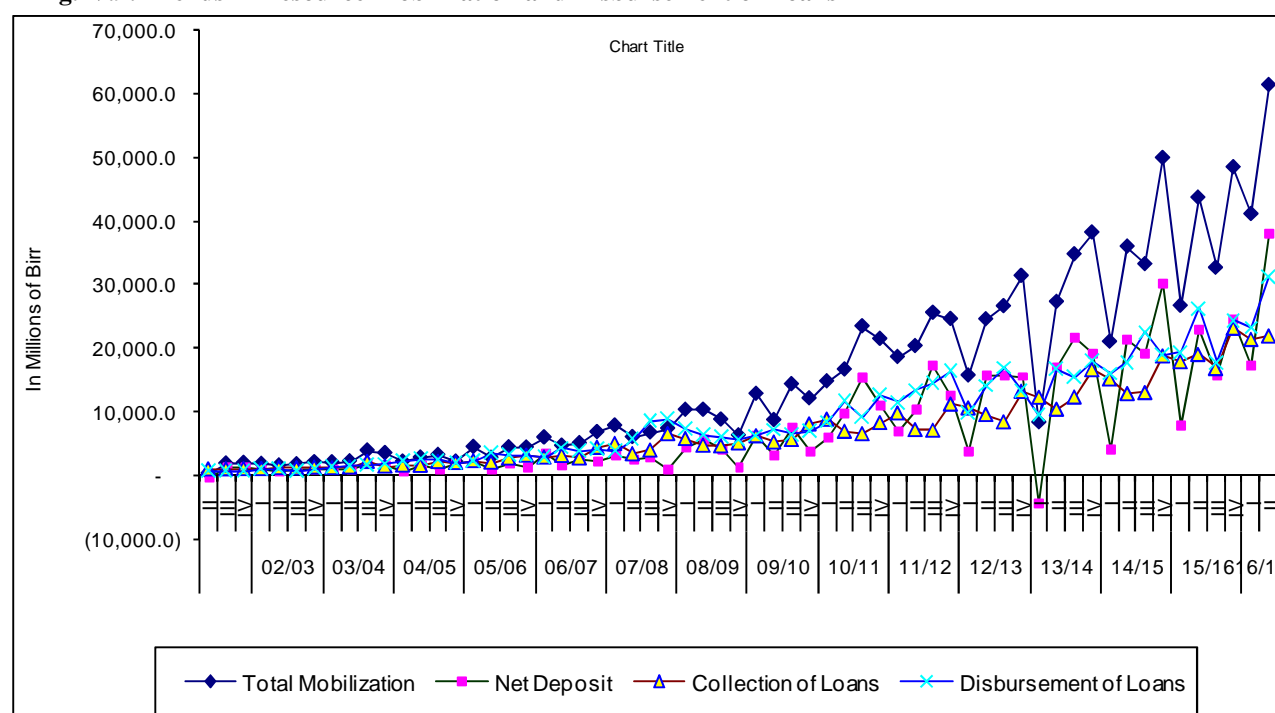
Table 4.8: Summary of Resource Mobilization & Disbursement of the Banking System

(In Millions of Birr)

Particulars	Public Banks		Private Banks		Grand Total			% Change	
	1		2		(3) = (1) + (2)				
	Qtr. I	Qtr. II	Qtr. I	Qtr. II	Qtr. II	Qtr. I	Qtr. II		
	2016/17	2016/17	2016/17	2016/17	2015/16	2016/17	2016/17		
	A	B	C	C/A	C/B				
1. Deposits (net change)	7,896.6	23,724.0	9,215.0	14,304.0	22,952.5	17,111.6	38,028.0	65.7	122.2
-Demand	1,810.2	14,308.7	1,332.0	4,400.3	12,395.5	3,142.2	18,709.0	50.9	495.4
-Saving	4,520.4	9,293.6	7,057.7	6,119.8	10,364.8	11,578.1	15,413.4	48.7	33.1
-Time	1,566.0	121.7	825.2	3,783.8	192.2	2,391.3	3,905.6	1,932.2	63.3
2. Borrowing (net change)	2,512.4	1,341.0	0.0	0.0	1,656.0	2,512.4	1,341.0	-19.0	-46.6
-Local	2,443.5	1,319.8	0.0	0.0	1,049.3	2,443.5	1,319.8	25.8	-46.0
-Foreign	68.9	21.2	0.0	0.0	606.7	68.9	21.2	-96.5	-69.2
3. Collection of Loans	9,686.6	8,808.8	11,804.4	13,214.3	19,099.0	21,491.0	22,023.0	15.3	2.5
4. Total Resources Mobilized (1+2+3)	20,095.6	33,873.8	21,019.3	27,518.3	43,707.5	41,115.0	61,392.0	40.5	49.3
5. Disbursement	9,484.1	12,510.3	13,780.9	18,893.7	26,300.3	23,265.0	31,403.9	19.4	35.0
6. Change in Liquidity (4-5)	10,611.6	21,363.5	7,238.4	8,624.6	17,407.1	17,850.0	29,988.1	72.3	68.0
Memorandum Item:									
A. Outstanding Credit*	169,581.2	176,323.4	99,484.7	115,743.2	222,179.6	269,066.0	292,066.6	31.5	8.5
B. Outstanding Interbank Lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Commercial Banks and staff computation

Notes: *Excludes bonds and treasury bills holding of commercial banks and Development Bank of Ethiopia (DBE)

Fig.IV.9: Trends in Resource Mobilization and Disbursement of Loans

Source: Staff computation, NBE

4.5.1.1. Deposit Mobilization

During the second quarter of 2016/17, total deposit liabilities of the banking system reached Birr 493.3 billion, indicating a 23.9 percent annual growth rate on the backdrop of accelerated expansion of bank branches, improved access to finance, growing saving culture of the society and an increase in per capita income.

Demand deposits, which accounted for 39.1 percent of the total deposits, stood at Birr 193.2

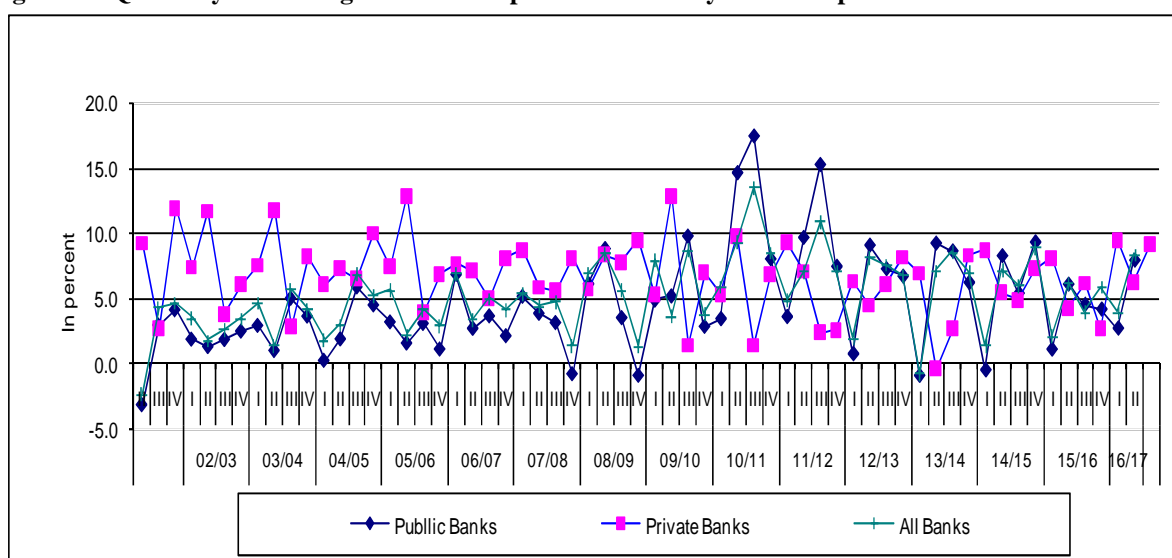
billion showing a 20.2 percent yearly increase. Similarly, saving deposits went up 27 percent and accounted for 49.5 percent of the total deposits while time deposits, which constituted 11.4 percent of the total deposit liabilities, rose 24.2 percent over the same period of last year. The share of public banks in total deposits outstanding reached 65.4 percent while that of private banks was 34.6 percent (Table 4.9).

Table 4.9: Stock of Deposits Mobilized by the Banking System

(In Millions of Birr)

Deposit by types	Quarter II 2015/16	% Share	Quarter I 2016/17	% Share	Quarter II 2016/17	% Share	C/A	C/B
	A		B		C			
Demand Deposit	160,454.7	40.3	174,161.7	38.3	192,870.8	39.1	20.2	10.7
Saving Deposit	192,296.3	48.3	228,625.9	50.2	244,039.3	49.5	26.9	6.7
Time Deposit	45,402.2	11.4	52,476.7	11.5	56,382.3	11.4	24.2	7.4
Total	398,153.2	100.0	455,264.3	100.0	493,292.3	100.0	23.9	8.4
<i>Share of Public Banks</i>	67.1		66.4		65.7			
<i>Share of Private Banks</i>	32.9		33.6		34.3			

Source: Commercial Banks and DBE

Fig.IV.10: Quarterly Net Change of Banks Deposit Liabilities by Ownership

Source: Staff Computation, NBE

4.5.1.2. Collection of Loans

During the review period the banking system collected loans amounting to Birr 22 billion, about 15.3 percent higher than a year earlier (Table 4.8).

Out of this collection, the share of private banks was 60 percent and that of public bank 40 percent. Client wise, 83.4 percent of the loans was collected from private enterprises (Table 4.12).

4.5.1.3. Borrowing

Total outstanding borrowing of the banking system stood at Birr 38 billion, showing a 14.7 percent annual increase.

Of the total borrowing, Birr 33 billion (87.3 percent) was from domestic and Birr 4.8 billion (12.7 percent) from external sources (Table 4.10).

Table 4.10: Public Outstanding Borrowing of the Banking System by Sources
(In Millions of Birr)

Banks	2015/16	2016/17	2016/17	Percentage change	
	Quarter II	Quarter I	Quarter II		
	A	B	C	C/B	C/A
Domestic Borrowing	28,419.1	31,771.85	33,091.64	4.2	16.4
Foreign Borrowing	4,625.2	4,795.67	4,816.88	0.4	4.1
Total	33,044.4	36,567.5	37,908.5	3.7	14.7

Source: Commercial Banks and Development Bank of Ethiopia

4.5.2. Disbursement of Fresh Loans

Commercial banks disbursed Birr 31.4 billion in fresh loans during the second quarter of 2016/17 which were 19.4 percent higher than a year ago. Of the total new loans disbursed, the share of public banks was 61.7 percent and that of private banks 38.3 percent (Table 4.12).

Domestic trade was the major beneficiary of the fresh loans accounting for Birr 9.5 billion

(30.1 percent) followed by industry (Birr 6.6 billion or 21.1 percent), housing and construction (Birr 4.4 billion or 13.9 percent), international trade (Birr 4.0 billion or 12.8 percent), transportation and communication (Birr 2.25 billion or 7.1 percent), and agriculture (Birr 2.1 billion or 6.7 percent). The remaining balance was taken up by other sectors (Table 4.11).

Table 4.11: Summary of Banking System Loans & advances by receiving Sectors
(In Millions of Birr)

Borrowing Sector	Public Banks			Private Banks			Total		
	(1)			(2)			(3)		
	D**	C**	O/S**	D**	C**	O/S **	D**	C**	O/S**
Central Government *	-	-	16,107	-	-	24	-	-	16,131
Agriculture	1,911	1,319	18,748	188	209	1,498	2,098	1,528	20,246
Industry	5,459	4,631	100,601	1,157	1,452	12,542	6,615	6,083	113,142
Domestic Trade	1,511	361	4,828	7,942	4,163	33,284	9,453	4,524	38,113
International Trade	320	477	19,474	3,712	4,028	33,382	4,033	4,505	52,855
Export	200	237	6,691	1,882	2,111	18,617	2,082	2,348	25,309
Imports	120	240	12,783	1,831	1,917	14,764	1,951	2,157	27,547
Hotels and Tourism	157	203	1,280	316	515	3,907	473	718	5,187
Transport & Communication	418	442	4,359	1,827	822	8,678	2,245	1,264	13,037
Housing & Construction	2,087	981	18,027	2,278	1,399	15,709	4,365	2,380	33,736
Mines, Power & Water Res.	22	34	188	25	9	69	46	43	258
Others	619	349	8,072	882	408	3,821	1,501	756	11,893
Personal	7	12	745	567	209	2,855	574	221	3,600
Inter-Bank Lending	-	-	-	-	-	-	-	-	-
Total	12,510	8,809	192,431	18,894	13,214	115,767	31,404	22,023	308,198

Notes: *Refers to government borrowing in the form of bonds and treasury bills from commercial banks and DBE
 ** D = Disbursement, C = Collection, O/S= Outstanding Credit

4.5.3. Outstanding Credit

Total outstanding credit of the banking system (excluding credit to government and interbank lending) increased to Birr 292.1 billion, about 17.7 percent higher than last year same quarter (Table 4.8).

Out of the total outstanding loans and advances of private banks, 99.9 percent was claims on private sector. In the case of public banks, the private sector share was 52 percent (Table 4.12)

Sector wise, credit to industry stood at Birr 113.1 billion (38.7 percent) followed by international trade (Birr 52.9 billion or 18.1 percent), domestic trade (Birr 38.1 billion or 13 percent), housing & construction (Birr 33.7 billion or 11.6 percent), agriculture (Birr 20.3 billion or 6.9 percent) while the remaining balance was on other sectors. (Table 4.11)

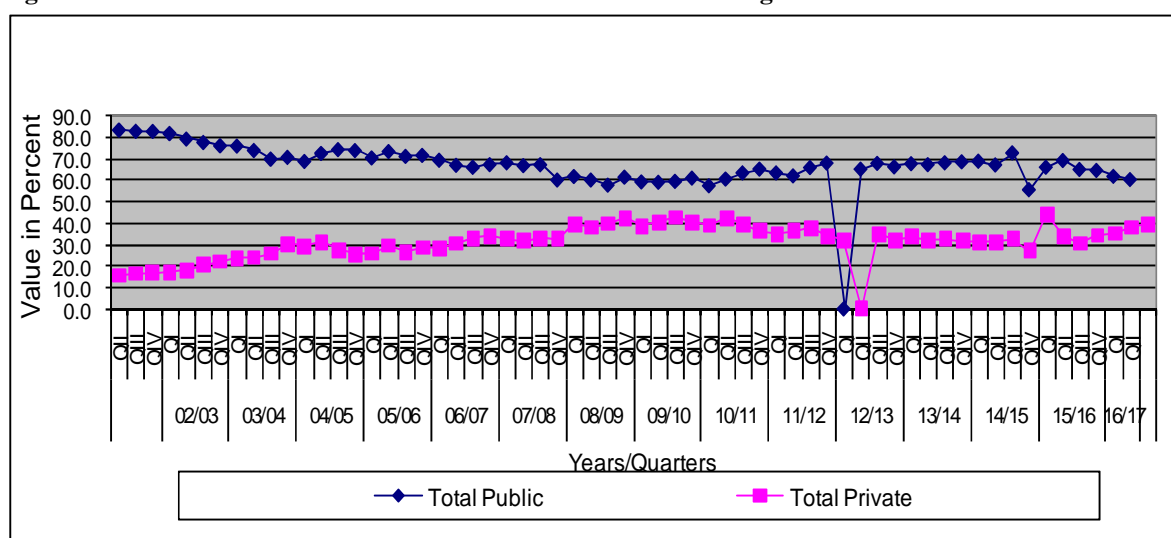
Table 4.12: Breakdown of Banking System Credit by Clients

(In Millions of Birr)

Particulars	Loan Disbursement	% Share	Loan Collection	% Share	Outstanding Loan	% Share
Public Banks	12,510.3	39.8	8,808.8	40.0	192,430.8	62.4
Central Government*	0.0	0.0	0.0	0.0	16,107.5	8.4
State Enterprises	3,146.9	25.2	3,655.2	41.5	84,531.5	43.9
Cooperatives	1,608.4	12.9	1,164.7	13.2	11,318.0	5.9
Private Enterprises	7,755.0	62.0	3,988.8	45.3	80,473.8	41.8
Inter-bank Lending	0.0	0.0	0.0	0.0	0.0	0.0
Private Banks	18,893.7	60.2	13,214.3	60.0	115,767.2	37.6
Central Government*	0.0	0.0	0.0	0.0	0.0	0.0
State Enterprises	8.2	0.0	10.9	0.1	172.2	0.1
Cooperatives	1,035.4	5.5	183.8	1.4	1,842.4	1.6
Private Enterprises	17,850.1	94.5	13,019.6	98.5	113,752.5	98.3
Inter-bank Lending	0.0	0.0	0.0	0.0	0.0	0.0
Grand Total	31,403.9	100.0	22,023.0	100.0	308,198.0	100.0

Source: Commercial banks and staff computation

Notes: *Refers to government borrowing in the form of bonds and treasury bills from commercial banks and DBE

Fig.IV.12: Share of Public and Private Banks in Credit Outstanding**Source:** Staff computation, NBE

4.6. Financial Activities of NBE

Gross claims of NBE on the central government reached Birr 120.6 billion by end December 2016, showing a 15.3

percent annual growth. Of the credit to the central government, direct advances accounted for 93.5 percent and bonds 6.5 percent. Direct advance went up by 17.1

percent over the corresponding period of last year. On the liability side, deposits of

financial institutions at NBE increased 61.3 percent during same period (Table 4.13).

Table 4.13: Financial Activities of NBE during the Second Quarter of 2015/16

(In Millions of Birr)

Particulars	2015/16	2016/17	2016/17	% Change	
	Qtr.II	Qtr.I	Qtr.II		
	A	B	C	C/A	C/B
1.Loans and Advances	129,514.34	141,247.85	146,747.85	13.3	3.9
1.1. To Central Government	104,657.34	115,640.85	120,640.85	15.3	4.3
Direct Advances	96,264.95	107,764.95	112,764.95	17.1	4.6
Bonds	8,392.40	7,875.90	7,875.90	-6.2	0.0
1.2.To Development Bank of Ethiopia	24,857.00	25,607.00	26,107.00	5.0	2.0
2.Deposit Liabilities	49,955.83	55,321.33	54,692.75	9.5	-1.1
2.1. Government	25,739.39	18,220.23	15,628.13	-39.3	-14.2
2.2. Financial Institutions	24,216.44	37,101.10	39,064.62	61.3	5.3
O/W:					
-Banks	24,190.69	36,975.11	39,015.50	61.3	5.5
-Insurance companies	25.8	126.0	49.1	90.7	-61.0
3.Net Claims of NBE(1-2)	79,558.5	85,926.5	92,055.1	15.7	7.1

Source: NBE

4.7. Developments in Financial Markets

4.7.1. Treasury Bills Market

During the second quarter of 2016/17, the amount of T-bills supplied to the weekly T-bills auction market reached Birr 53.1 billion, reflecting a 41.0 percent annual expansion. Similarly, the demand for T-bills rose 41.4 percent and stood at Birr 41.4 billion (Table 4.13).

Of the total T-bills sold, non-bank institutions accounted for the entire amount.

Hence, the total outstanding T-bills held by non-bank institutions was Birr 65.0 billion, about 33.2 percent higher than a year ago.

The annual average weighted yield of T-bills during the review quarter was 1.408 percent which was 0.004 percentage points lower than last year same quarter. (Table 4.13)

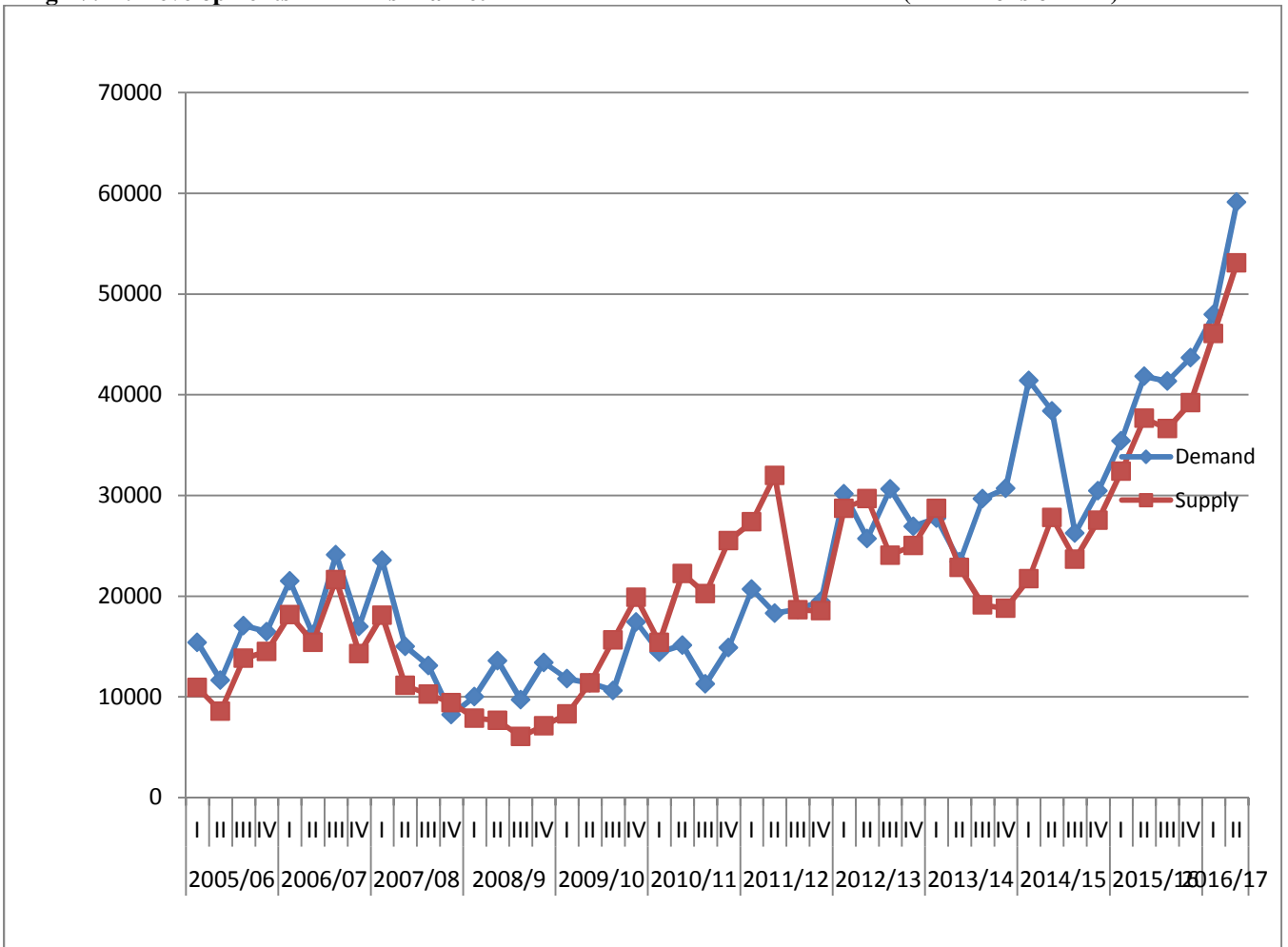
Table 4.13: Results of Treasury Bills Auction**(In Millions of Birr)**

Particulars	2015/16		2016/17	% Change	
	Quarter II	Quarter I	Quarter II	C/A	C/B
	A	B	C		
Number of Bidders	58.0	51.0	55.0	-5.2	7.8
Public	58.0	51.0	55.0	-5.2	7.8
Private	0.0	0.0	0.0	0.0	0.0
Number of Bids received	60.0	59.0	35.0	-41.7	-40.7
Public	60.0	59.0	35.0	-41.7	-40.7
Private	0.0	0.0	0.0	0.0	0.0
Amount Demanded (Mn. Birr)	41,823.6	47,988.6	59,133.6	41.4	23.2
28-day bill	260.0	240.0	260.0	0.0	8.3
91-day bill	32,112.6	44,482.6	50,522.6	57.3	13.6
182-day bill	1,785.0	516.0	685.0	-61.6	32.8
364-day bill	7,666.0	2,750.0	7,666.0	0.0	178.8
Amount Supplied (Mn. Birr)	37,660.6	46,061.6	53,093.6	41.0	15.3
28-day bill	260.0	240.0	260.0	0.0	8.3
91-day bill	28,049.6	42,055.6	44,482.6	58.6	5.8
182-day bill	1,785.0	1,016.0	685.0	-61.6	-32.6
364-day bill	7,566.0	2,750.0	7,666.0	1.3	178.8
Amount Sold (Mn. Birr)	41,823.6	47,988.6	59,133.6	41.4	23.2
Banks	-	-	-	0.0	0.0
Non-Banks	41,823.6	47,988.6	59,133.6	41.4	23.2
Average Weighted Price for Successful bids (%)	99.099	99.106	99.102	0.0	0.0
28-day bill	99.94	99.940	99.941	0.0	0.0
91-day bill	99.70	99.702	99.701	0.0	0.0
182-day bill	99.66	99.686	99.671	0.0	0.0
364-day bill	97.10	97.095	97.095	0.0	0.0
Average Weighted Yield for Successful bids (%)	1.412	1.404	1.408	-0.3	0.3
28-day bill	0.77	0.78	0.768	1.9	-1.9
91-day bill	1.19	1.20	1.202	0.7	0.1
182-day bill	0.69	0.63	0.661	-8.1	4.5
364-day bill	3.00	3.00	3.000	0.0	0.0
Outstanding bills at the end of Period (Mn.Br.)	48,809.6	58,979.6	65,019.6	33.2	10.2
Banks	-	-	-	0.0	0.0
Non-Banks	48,809.6	58,979.6	65,019.6	20.8	10.2

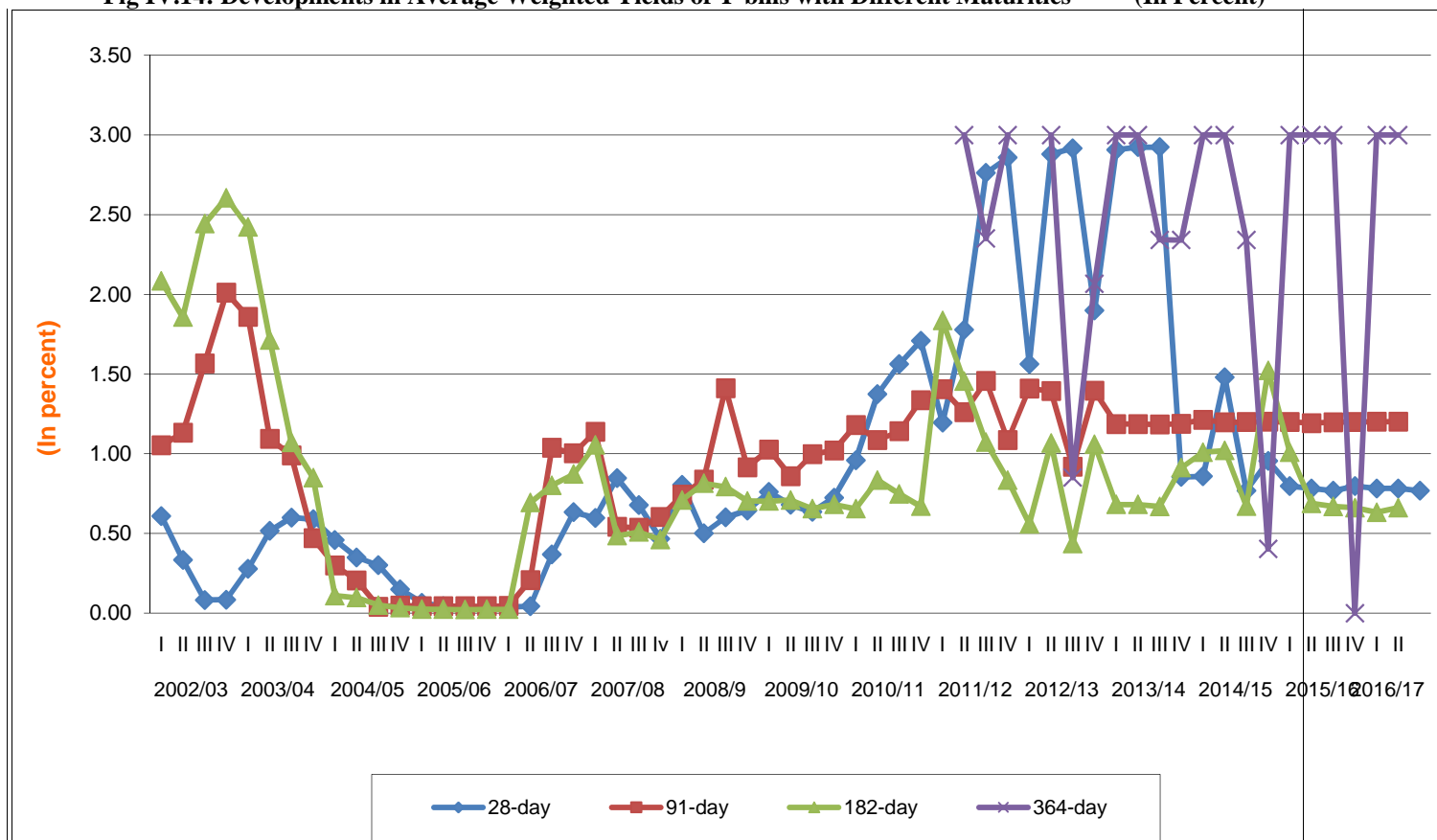
Source: NBE

Fig IV.14: Developments in T-Bills Market

(In Millions of Birr)



Source: NBE

Fig IV.14: Developments in Average Weighted Yields of T-bills with Different Maturities (In Percent)

Source: NBE

4.7.2. Inter- Bank Money Market

review (Table 4.12).

No inter-bank money market transaction was conducted during the quarter under

4.7.3. Corporate Bond Market

Corporate bond market is not well developed in Ethiopia where the main players are few public institutions and regional governments. The sole purchaser of these bonds is the Commercial Bank of Ethiopia (CBE).

During the quarter under review, CBE Second Quarter 2016/17

purchased corporate bonds worth Birr 11.1 billion. Respective shares of EEPCo, Addis Ababa City Government and Railway Corporation from total purchase during the review period were 85.2 percent (Birr 9.5 billion), 9.0 percent (Birr 1.0 billion) and 5.8 percent (Birr 642.5 million).

By end of December 2016, the stock of corporate bonds held by CBE stood at Birr 203.9 billion, of which 85.6 percent was claims on public enterprises and the remainder on regional governments (Table 4.15). Corporate bonds issued by EEPCO accounted for 89.7 percent of the bonds issued by public enterprises and 76.7 percent of the total outstanding corporate bond.

Table 4.15: Corporate Bond by holders**(Millions of Birr)**

Issuer of the Bond	2015/16			2016/17					
	QII			QI			QII		
	NP	Red	O/S	NP	Red	O/S	NP	Red	O/S
1.Puplic Enterprises	6,900.0	0.0	138,843.4	5,351.1	0.0	163,900.0	10,142.5	0.0	174,042.5
EEP	6,900.0	-	125,800.0	3,800.0	-	146,900.0	9,500.0	-	156,400.0
Railways Corporation	-	-	13,000.0	1,551.1	-	17,000.0	642.5	-	17,642.5
DBE	-	-	43.4	-	-	-	-	-	-
2. Regional Governments	4,375.0	1,907.0	28,566.4	1,450.0	492.1	31,158.6	1,000.0	2,330.9	29,827.8
Oromia	-	42.8	533.1	-	9.7	502.8	-	28.8	474.0
Amhara	-	-	0.2	-	-	0.2	-	-	0.2
Tigray	-	1.0	188.1	-	2.5	178.0	-	21.5	156.5
SNNPRS	-	270.3	7.8	-	-	7.6	-	-	7.6
Dire Dawa	-	-	-	-	-	-	-	-	-
Harari	-	-	-	-	-	-	-	-	-
Addis Ababa Housing Development Agency	4,375.0	1,592.9	27,837.1	1,450.0	479.9	30,470.1	1,000.0	2,280.6	29,189.5
3.Grand Total (1+2)	11,275.0	1,907.0	167,409.8	6,801.1	492.1	195,058.6	11,142.5	2,330.9	203,870.3

Source: NBE**Note: NP= New Purchase, Red. = Redemption, O/S= outstanding**

V. External Sector Developments

5.1. Balance of Payments

The overall balance of payments registered USD 83.9 million surplus compared to USD 246.7 million deficit a year ago. This was mainly attributed to

6.0 percent improvement in merchandise trade deficit and 9.5 percent slowdown in net service payments and 33.8 percent increase in capital account (Table 5.1).

Table 5.1: Balance of Payments*

(In Millions of USD)

S/N	Particulars	2015/16	2016/17		Percentage Change	
		QII	QI	QII		
		A	B	C	C/A	C/B
1	Exports, f.o.b.	604.9	658.9	575.0	-4.9	-12.7
	Coffee	120.07	181.03	132.68	10.51	-26.7
	Other	484.8	477.9	442.3	-8.8	-7.5
2	Imports	4,165.4	4,031.7	3,921.1	-5.9	-2.7
	Fuel	359.5	352.5	446.6	24.2	26.7
	Cereals	239.5	207.2	121.0	-49.5	-41.6
	Aircraft	14.1	37.8	51.3	264.0	35.7
	Imports excl. fuel, cereals, aircraft	3,552.3	3,434.2	3,302.2	-7.0	-3.8
3	Trade Balance (1-2)	-3,560.5	-3,372.8	-3,346.2	-6.0	-0.8
4	Services, net	-193.7	-181.2	-175.3	-9.5	-3.3
	Non-factor services, net	-86.1	-63.0	5.9	-106.8	-109.3
	Exports of non-factor services	749.2	862.2	856.1	14.3	-0.7
	Imports of non-factor services	835.3	925.2	850.2	1.8	-8.1
	Factor services (Investment income), net	-107.6	-118.2	-181.2	68.3	53.2
	Interest, net	-105.0	-114.4	-172.8	64.5	51.0
	Dividend, net	-2.6	-3.8	-8.4	223.8	119.5
5	Private transfers, net	1,824.5	1,327.2	1,329.9	-27.1	0.2
	o/w: NGO's	531.6	278.4	235.3	-55.7	-15.5
	Private Individuals	1,296.6	1,051.1	1,104.2	-14.8	5.0
	Current account balance excluding official transfers (3+4+5)	-1,929.7	-2,226.9	-2,191.5	13.6	-1.6
7	Official transfers, net	477.6	564.0	294.8	-38.3	-47.7
	Current account balance including official transfers (6+7)	-1,452.1	-1,662.9	-1,896.7	30.6	14.1
9	Capital account	1,006.8	1,593.6	1,347.5	33.8	-15.4
	Official Long-term Capital, net	193.1	213.0	291.9	51.2	37.1
	Disbursements	228.9	234.6	330.5	44.4	40.9
	Amortization	35.7	21.7	38.6	7.9	77.7
	Other public long-term capital	49.4	110.9	87.5	77.2	-21.1
	Private sector, long term	146.0	37.0	254.4	74.2	586.8
	Foreign Direct Investment, net	564.0	1,198.3	657.7	16.6	-45.1
	Short-term Capital	54.4	34.5	55.9	2.8	62.3
10	Errors and omissions	198.6	-266.9	633.2		-337.2
11	Overall balance (8+9+10)	-246.7	-336.3	83.9		-124.9
12	Financing	246.7	336.3	-83.9		-124.9
13	Reserves [Increase(-), Decrease (+)]	246.7	336.3	-83.9		-124.9
14	Central Bank (NFA)	329.8	324.8	-90.1		-127.7
	Asset	-869.5	3.1	168.0		5,370.5
	Liabilities	1,199.3	321.7	-258.1		-180.2
15	Commercial banks (NFA)	-83.0	11.5	6.2		-46.1
16	Debt Relief					
	Principal					
	Interest					

Source: NBE Staff Compilation

*preliminary

Second Quarter 2016/17

During the second quarter of 2016/17, total current account receipts amounted to USD 3.1 billion, about 16.1 percent lower than a year earlier due to 4.9 percent decline in merchandise exports, 26.7 percent decrease in private transfers and 37.0 percent drop in public transfers.

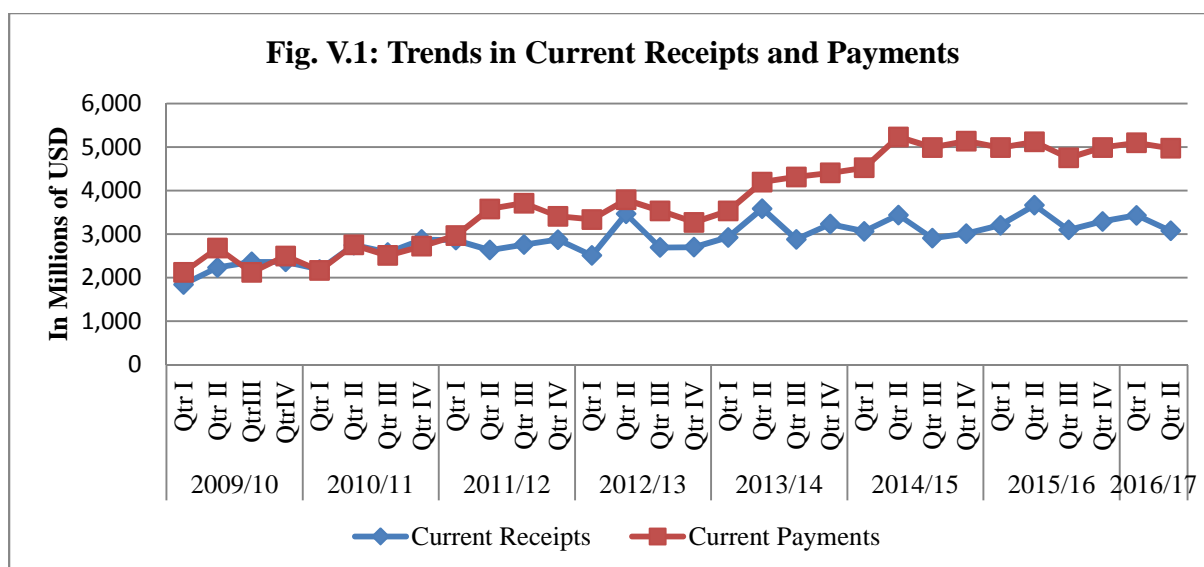
Likewise, total current account payments slowed down 2.8 percent and stood at USD 5.0 billion mainly owing to 5.9 percent decline in import payments. Thus, the current account recorded USD 1.9 billion deficit which was 30.6 percent higher than a year ago (Table 5.2).

Table 5.2 Current Receipts and Payments

(In millions of USD)

Particulars	2015/16	2016/17		Percentage Change	
	Qtr II	Qtr I	Qtr II		
	A	B	C	C/A	C/B
1. Current Receipts	3,664.21	3,432.46	3,075.35	-16.1	-10.4
Export Proceeds	604.9	658.9	575.0	-4.9	-12.7
Service Proceeds	752.2	865.9	859.0	14.2	-0.8
Private Transfers	1,828.2	1,329.5	1,339.5	-26.7	0.8
Public Transfer	478.8	578.2	301.9	-37.0	-47.8
2. Current Payments	5,116.33	5,095.41	4,972.09	-2.8	-2.4
Import Payments	4,165.37	4,031.75	3,921.12	-5.9	-2.7
Service Payments	945.98	1,047.09	1,034.29	9.3	-1.2
Private Transfers	3.8	2.34	9.56	154.5	309.2
Public Transfer	1.2	14.23	7.11	478.8	-50.0
3. Net(1-2)	-1,452.1	-1,662.9	-1,896.7	30.6	14.1

Source: NBE Staff Compilation

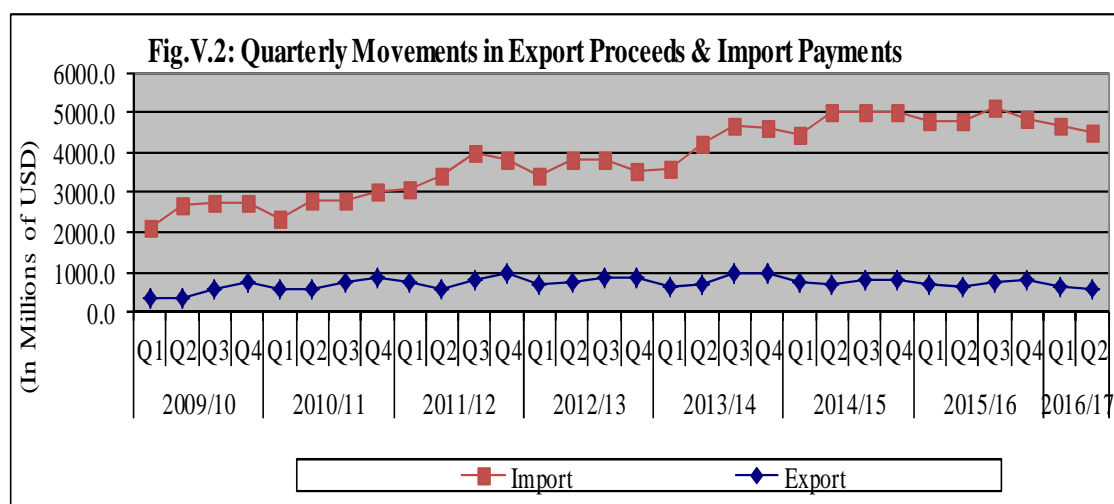


Source: NBE Staff Compilation

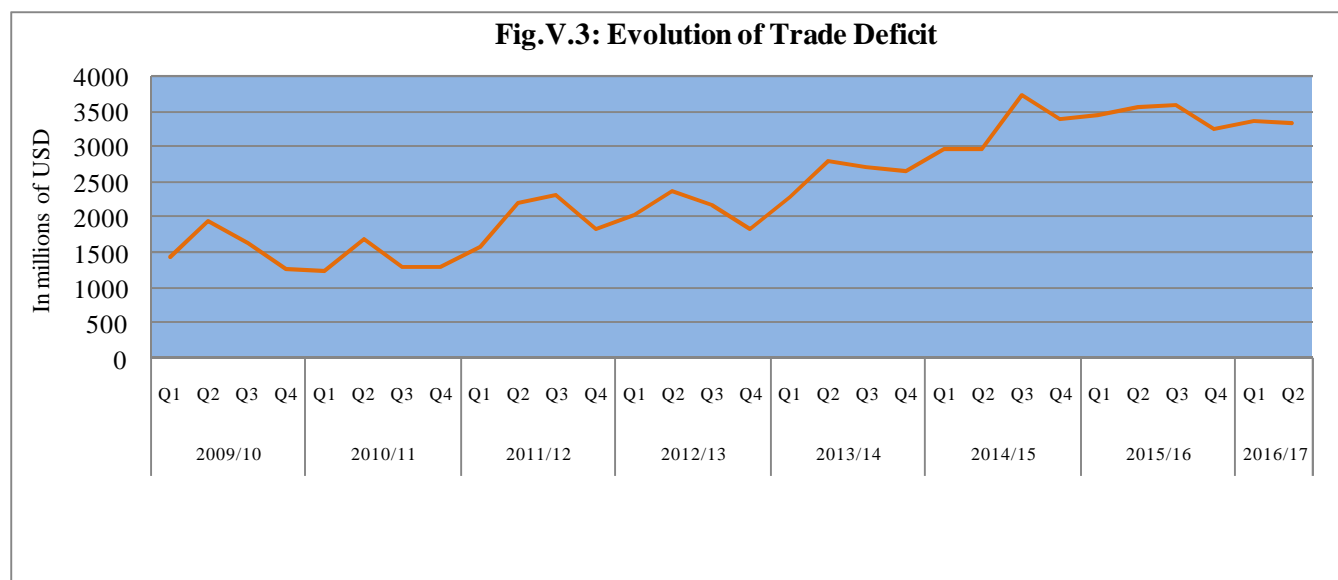
5.2 Balance of Trade

Merchandise trade deficit during the review quarter amounted to USD 3.3 billion, 6.0 percent lower than same

period last year as the decline in merchandise import payment outweighs the fall in merchandise export earnings.



Source: Ethiopian Revenue and Customs Authority



Source: NBE Staff Computation

5.2.1 Export of Goods

Total merchandise export earnings (including electricity) decreased 4.9 percent over same period last year and 12.7 percent against the preceding quarter. The year-over-year decrease was attributed to the slowdown in export earnings from gold (48.5 percent), live-animals (64.7 percent), oilseeds (18.5 percent), flower (12.4 percent) and leather & leather products (0.5 percent) due to lower export volume, prices or both.

Earnings from gold went down 48.5 percent on annual basis and stood at USD 34 million due to a 62.9 percent drop in export volume despite 38.8 percent increase in international price. As a result, the share of gold in total merchandise export earnings decreased to 5.9 percent from 10.9 percent a year earlier.

Meanwhile, earnings from export of live-animals amounted to USD 9.6 million, about 64.7 percent lower than same period last year, on account of 63.9 percent fall in export volume and 2.3 percent in international price. Thus, the share of live-animals in total export earnings declined to 1.7 percent from 4.5 percent a year ago.

Earnings from gold went down 48.5 percent on annual basis and stood at USD 34 million due to a 62.9 percent drop in export volume despite 38.8 percent increase in international price. As a result, the share of gold in total merchandise export earnings decreased to 5.9 percent from 10.9 percent a year earlier.

Earnings from oilseeds dropped 18.5 percent year-on-year owing to 8 percent decline in export volume and 11.4 percent in price. Hence, the share of oilseeds in total merchandise export earnings decreased to 12.1 percent from 14.1 percent a year earlier.

Export proceeds from flower export fell by 12.4 percent compared to last year same period as a result of 11.8 percent decline in volume and 0.7 percent in price. Therefore, the share of flower in total export earnings slightly decreased to 8.2 percent from 8.9 percent during the review period.

Similarly, export revenue from leather & leather products slowed down 0.5 percent vis-à-vis the same quarter of last year due to 9.9 percent decrease in international price despite 10.5 percent rise in export volume. As a result, the share of leather & leather products in total merchandise export went up to 5.0 percent from 4.8 percent a year ago.

In contrast, export revenue from coffee, pulses, meat & meat products, fruit & vegetables, chat, electricity and other exports witnessed positive growth.

Export earnings from coffee increased 10.5 percent on annual basis as export price increased 14.9 percent despite a 3.8 percent fall in export volume. However, export proceeds from coffee decreased by 26.7 percent on quarterly basis owing to a decrease in both export volume (21.8 percent) and international price (6.3 percent). As a result, the share of coffee in total merchandise export earnings increased to 23.1 percent from 19.8 percent last year same period.

Export earnings from pulses also increased 26.6 percent year-on-year due to 13.4 percent rise in export volume and 11.7 percent in price. Similarly, export earnings from pulses rose 52.5 percent vis-à-vis the previous quarter owing to a 46.7 percent increase in volume and 3.9 percent in international price. Consequently, the share of pulses in total merchandise export earnings increased to 13.6 percent from 10.2 percent last year same quarter.

Revenue from export of meat & meat products increased 6.9 percent compared to last year on account of 7.3 percent increase in export volume despite marginal fall in international

price. As a result, their share in total merchandise exports revenue increased to 4.2 percent from 3.7 percent a year earlier.

Export earnings from fruit & vegetables went up 5.8 percent due to 8.7 percent increase in export volume despite a 2.6 percent fall in international price. As a result, the share of fruit & vegetables in total merchandise export earnings inched up to 2.6 percent from 2.3 percent last year same period.

Similarly, receipts from chat slightly rose 1.0 percent owing to a 1.3 percent

growth in export volume although international price decreased 0.2 percent. Thus, the share of chat in total merchandise export earnings stood at 11.8 percent compared with 11.1 percent last year same period.

Likewise, proceeds from export of electricity surged 164.8 percent over last year same period on account of a 202.1 percent growth in export volume. Consequently, its share in total exports revenue increased to 2.3 percent from 0.8 percent a year earlier.

Table 5.3: Values of Major Export Items

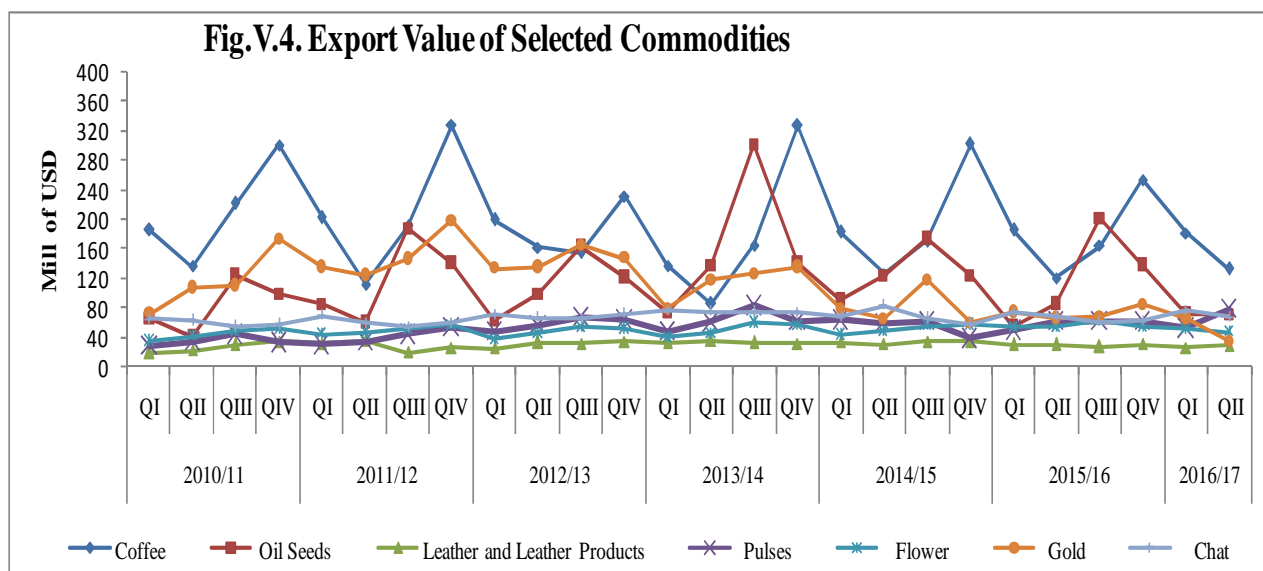
(In millions of USD)

(in millions of USD)

Particulars	2015/16		2016/17				Percentage Change	
	QII		QI		QII			
	A	%share	B	%share	C	%share	C/A	C/B
Coffee	120.1	19.8	181.0	27.5	132.7	23.1	10.5	-26.7
Oilseeds	85.2	14.1	71.5	10.9	69.5	12.1	-18.5	-2.8
Leather and Leather products	29.1	4.8	25.9	3.9	28.9	5.0	-0.5	11.5
Pulses	61.7	10.2	51.2	7.8	78.1	13.6	26.6	52.5
Meat & Meat Products	22.4	3.7	22.0	3.3	24.0	4.2	6.9	9.1
Fruits & Vegetables	13.9	2.3	13.5	2.0	14.7	2.6	5.8	9.0
Live Animals	27.3	4.5	33.3	5.1	9.6	1.7	-64.7	-71.0
Chat	67.0	11.1	75.1	11.4	67.7	11.8	1.0	-9.8
Gold	65.9	10.9	65.2	9.9	34.0	5.9	-48.5	-47.9
Flower	53.7	8.9	50.4	7.7	47.0	8.2	-12.4	-6.7
Electricity	5.1	0.8	18.0	2.7	13.5	2.3	164.8	-24.9
Others	53.6	8.9	51.7	7.9	55.3	9.6	3.2	6.8
Total Export	604.9	100.0	658.9	100.0	575.0	100.0	-4.9	-12.7
Total Export excluding electricity	599.8		640.9		561.5		-6.4	-12.4

Source: Ethiopian Revenues and Customs Authority, Ethiopian Electric Utility and Ethiopian Electric Power

Second Quarter 2016/17



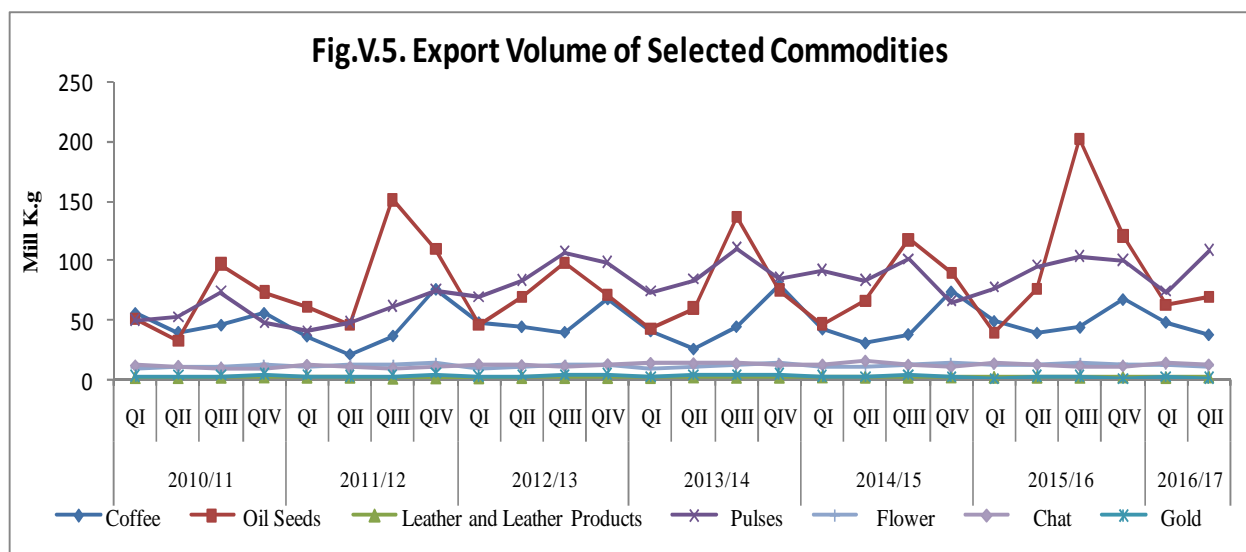
Source: NBE Staff Computation

Table 5.4: Volume of Major Export Items

(In millions of Kg)

Particulars	2015/16	2016/17		Percentage Change	
	QII	QI	QII		
	A	B	C	C/A*100-100	C/B*100-100
Coffee	39.0	47.9	37.5	-3.8	-21.8
Oilseeds	75.7	62.8	69.6	-8.0	10.8
Leather and Leather products	1.5	1.2	1.6	10.5	31.3
Pulses	95.4	73.7	108.1	13.4	46.7
Meat & Meat Products	4.4	4.5	4.7	7.3	5.2
Fruits & Vegetables	41.6	42.3	45.2	8.7	7.0
Live Animals	14.3	17.9	5.2	-63.9	-71.0
Chat	11.9	13.6	12.1	1.3	-11.0
Gold(in mill of grams)	2.1	1.7	0.8	-62.9	-54.2
Flower	12.1	11.6	10.7	-11.8	-8.1
Electricity	78.6	324.3	237.3	202.1	-26.8

Source: Ethiopian Revenues and Customs Authority, Ethiopian Electric Utility and Ethiopian Electric Power



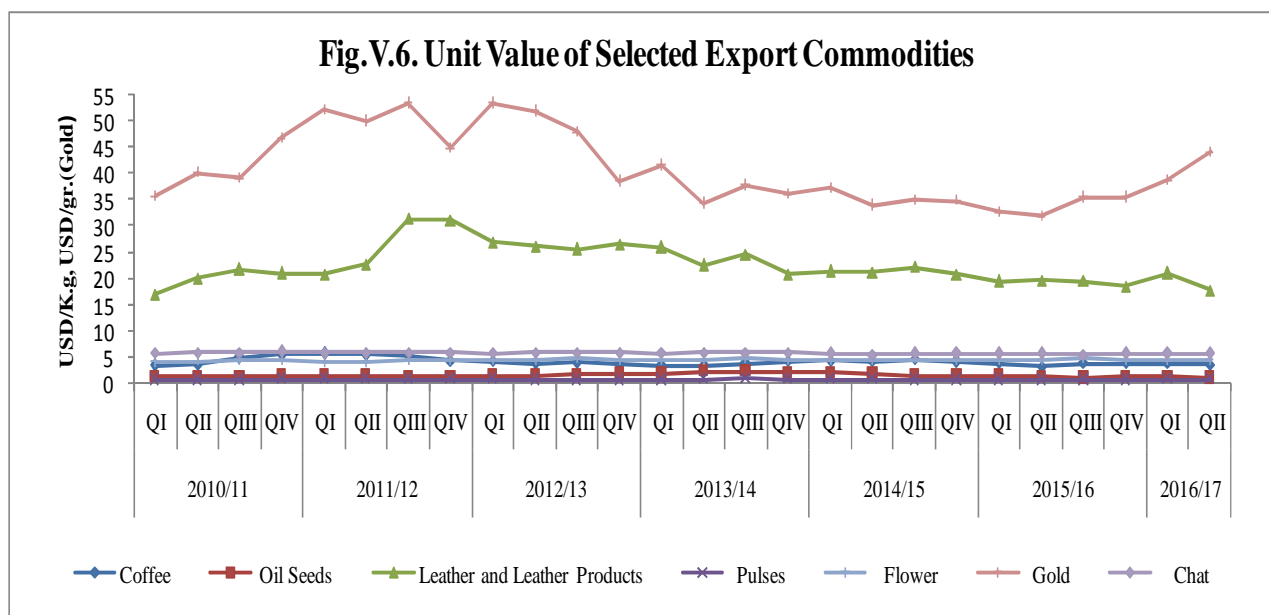
Source: NBE Staff Computation

Table 5.5: Unit Value of Major Export Items

(In USD/kg)

Particulars	2015/16	2016/17		Percentage Change	
	QII	QI	QII		
	A	B	C	C/A*100-100	C/B*100-100
Coffee	3.1	3.8	3.5	14.9	-6.3
Oilseeds	1.1	1.1	1.0	-11.4	-12.3
Leather and Leather products	19.7	20.9	17.7	-9.9	-15.1
Pulses	0.6	0.7	0.7	11.7	3.9
Meat & Meat Products	5.1	4.9	5.1	-0.4	3.7
Fruits & Vegetables	0.3	0.3	0.3	-2.6	1.9
Live Animals	1.9	1.9	1.9	-2.3	-0.1
Chat	5.6	5.5	5.6	-0.2	1.3
Gold	31.8	38.9	44.2	38.8	13.6
Flower	4.4	4.3	4.4	-0.7	1.5
Electricity	0.1	0.1	0.1	-12.3	2.7

Source: NBE Staff Compilation



Source: NBE Staff Computation

5.2.2 Import of Goods

Total merchandise import during the second quarter of 2016/17 was USD 3.9 billion, decreased 5.9 percent as a result of a 12.6 percent drop in value of capital goods and 12.4 percent decline in consumer goods.

Import bills of capital goods decreased 12.6 percent vis-à-vis same period last year on account of 11.1 percent decrease in import value of industrial capital goods and 17.6 percent in transport capital goods. Agricultural capital goods, however, rose 30.8 percent. Hence, the share of capital goods in total goods import bill went down to 40.7 percent from 43.8 percent a year ago.

Likewise, import payments for consumer goods fell 12.4 percent vis-à-vis same period last year owing to 17.7 percent and 9.8 percent drop in payments for durable goods and non-durable consumer goods, respectively. Thus, the share of consumer goods in total import bill went down to 29.8 percent from 32.0 percent a year ago.

On the other hand, import value of raw materials increased marginally (0.9 percent) compared to same period last year. Consequently, its share in total goods import bills rose to 0.9 percent from 0.8 percent last year same period.

Second Quarter 2016/17

At the same time, imports of semi-finished goods increased 6.8 percent mainly on account of significant surge in imports of fertilizer. As a result, the share of semi-finished goods in total import bill increased to 15.3 percent from 13.5 percent a year ago.

Likewise, fuel import went up 24.2 percent over same quarter last year, as a result of increased volume and

international price. Thus, the share of fuel in total goods import scaled up to 11.4 percent from 8.6 percent a year earlier.

Meanwhile, total franco-valuta import increased 15.8 percent during the review period and stood at USD 1.4 billion which accounted for 34.6 percent of the total imports.

Table 5.6: Values of Major Import Items

(In millions of USD)

(in millions of USD)

Particular	2015/16		2016/17				Percentage Changes	
	Qtr II	% share from total Import	Qtr I	% share from total Import	QtrII	% share from total Import		
	A		B		C		C/A	C/B
Raw Materials	34.0	0.8	38.2	0.9	34.3	0.9	0.9	-10.2
Semi-finished Goods	562.8	13.5	628.2	15.6	601.3	15.3	6.8	-4.3
Fertilizers	22.6	0.5	4.1	0.1	67.6	1.7	199.4	1569.1
Fuel	359.5	8.6	352.5	8.7	446.7	11.4	24.2	26.7
Petroleum Products	343.1	8.2	336.0	8.3	419.8	10.7	22.4	24.9
Others	16.5	0.4	16.5	0.4	26.9	0.7	63.6	63.2
Capital Goods	1826.4	43.8	1418.9	35.2	1596.7	40.7	-12.6	12.5
Transport	528.2	12.7	348.6	8.6	435.0	11.1	-17.6	24.8
Agricultural	19.1	0.5	21.7	0.5	25.0	0.6	30.8	14.8
Industrial	1279.1	30.7	1048.6	26.0	1136.7	29.0	-11.1	8.4
Consumer Goods	1332.2	32.0	1507.4	37.4	1167.6	29.8	-12.4	-22.5
Durables	425.3	10.2	663.4	16.5	349.9	8.9	-17.7	-47.3
Non-durables	906.8	21.8	844.0	20.9	817.7	20.9	-9.8	-3.1
Miscellaneous	50.5	1.2	86.5	2.1	74.6	1.9	47.8	-13.7
Total	4,165.4	100.0	4,031.7	100.0	3,921.2	100.0	-5.9	-2.7

Source: Ethiopian Revenue & Customs Authority and Ethiopian Petroleum Enterprise

Table 5.7: Values of Franco-Valuta Imports

(In millions of USD)

Commodity Group	2015/16	2016/17		Percentage Change	
	Qtr II	Qtr I	Qtr II		
	A	B	C	C/A	C/B
Beverages	2.6	0.3	0.1	-96.7	-69.2
Chemicals	4.3	4.5	3.7	-14.3	-17.8
Clothing	22.3	15.1	14.3	-36.1	-5.2
Food and live animals	140.7	103	39.9	-71.7	-61.3
Textiles	7.1	4.7	6.2	-11.4	32
Tobacco	0	0.1	0	-57.1	-70.5
Soap & polish	0.2	0.2	0.2	-7.7	-20.8
Fertilizer	50.9	13.6	109.8	115.9	708.4
Paper & paper manufacturing	0.3	0.7	0.4	8.1	-46
Metal & metal products	152.4	119.5	166.7	9.4	39.5
Medical and pharmaceuticals products	53.3	26.4	36	-32.5	36.4
Rubber products	15.1	12.6	10.6	-30.2	-16.3
Petroleum Crude	0	0	0	-23.7	1790.3
Petroleum product	2.5	2.3	5.1	104.7	121.8
Glass & glassware	4.2	3.6	2.6	-38	-29.2
Electrical materials	100.3	151.6	140.2	39.8	-7.6
Machine, Aircraft & Aircraft Parts	315	37	271.8	-13.7	633.8
Road motor vehicles	69	64.4	72.9	5.7	13.1
Tele apparatus	0.7	329.5	2.1	211.2	-99.4
Cement	0	0	0	-	-
Others	231.8	429.6	370.1	59.6	-13.8
Total	1,172.70	1,548.80	1,357.70	15.8	-12.3

Source: Ethiopian Revenues and Customs Authority

5.2.3 Direction of Trade

5.2.3.1 Export of Goods

In the review period, the major export destinations for Ethiopia were Asia, Europe and Africa. Asia accounted for 42.5 percent of total export earnings. Saudi Arabia, with 18.3 percent share in total export earnings from Asia, mainly imported coffee, meat & meat products, flowers and live-animals, followed by China, with 15.1 percent share and largely importing oilseeds and leather & leather products. The United Arab Emirates accounted for 8.9 percent of the total export earnings from Asia with the main export items being meat & meat products, oilseeds and pulses. Pakistan was the fourth largest market for Ethiopian products like pulses, tea, spices and chat. Japan, had 7.5 percent share in total export earnings from Asia: mainly imported coffee, oilseeds, and flower, textile & garment and leather & leather products. Israel with 6.3 percent share largely imported oilseeds, cereals, chat, coffee and spices. South Korea constituted 4.9 percent share and largely imported coffee and oilseeds. India had 3.1 percent share in total export to Asia. Major exports to India included pulses, chat and oilseeds. Altogether, these countries accounted for 74.1 percent of Ethiopia's total exports to Asia.

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Europe constituted 28.9 percent of Ethiopia's total export earnings, with the Netherlands accounting for 23.3 percent, followed by Switzerland 20.8 percent, Germany 16.3 percent, United Kingdom 7.0 percent, Belgium 6.6 percent, Italy 5.6 percent, France 3.9 percent, Turkey 3.3 percent and Russia 2.0 percent. These countries together took 88.8 percent share of Ethiopia's total exports to Europe.

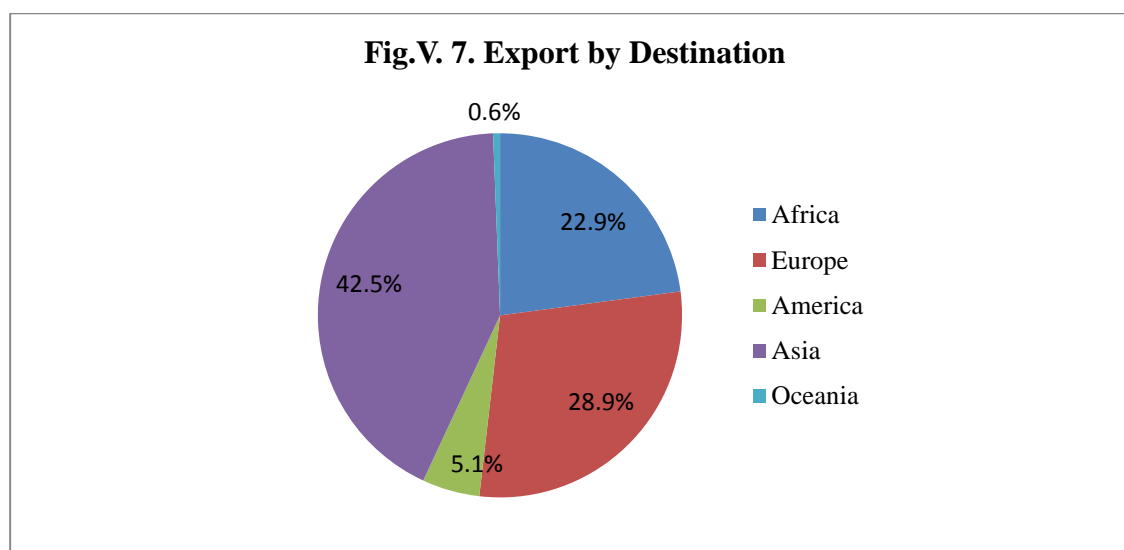
Main commodities exported to the Netherlands were flower, vegetables, coffee, pulses, oilseeds and fruits, while exports to Switzerland constituted gold, coffee, oilseeds, flower and fruits.

Coffee, textile & garment, flower, natural gum and bees wax were the main exports to Germany. Coffee, flower, oilseeds and vegetables went to the United Kingdom. Belgium imported mainly coffee, flower, pulses and vegetables, while coffee, textile & garment, leather & leather products, flower and pulses were exported to Italy. France imported coffee, textile & garment, flower and mineral products. Similarly, oilseeds, pulses, textile & garment and coffee were the main exports to Turkey,

while coffee, pulses, vegetables and leather & leather products went to Russia.

On the other hand, about 22.9 percent of Ethiopia's export earnings originated from markets in Africa, mainly Somalia (47.1 percent), Djibouti (20.9 percent), Sudan (12.7 percent), Kenya (5.7 percent), South Africa (1.4 percent), Nigeria (1.0 percent) and Egypt (0.5 percent), which altogether accounted for 89.4 percent of the total exports to Africa. The major exports to Somalia were chat, vegetables, and live-animals, while Djibouti imported chat, electricity and vegetables. Sudan imported largely electricity, coffee, pulses and spices, while pulses, leather & leather products, cereals and textile & garments went to Kenya. Pulses, flower, coffee and chat were exported to South Africa, while main exports to Nigeria included fruits, chat, animal products and flowers. Spices, coffee, fruits, oilseeds and textile & garments were the major exports to Egypt.

America accounted for 5.1 percent of Ethiopia's total export earning, of which 66 percent was to the United States, 6.6 percent to Canada and 1.4 percent to Mexico. Coffee, oilseeds, leather & leather products, textile & garment and flower were major exports to the United States. Canada imported mainly coffee, leather & leather products, flower, food and pulses, while Mexico imported oilseeds, animal products and mineral products.



Source: NBE Staff Compilation

5.2.3.2 Import of Goods

In the review period, Asia accounted for 64.9 percent of the total imports of Ethiopia. The major imports from Asia originated from China (49.3 percent), India (12.9 percent), Kuwait (8.3 percent), Japan (7.5 percent), U.A.E. (4.1 percent), Saudi-Arabia (3.9 percent), Malaysia (3.1 percent) and Indonesia (3.0 percent) whose combined share was 92.2 percent.

Major items imported from China were metal & metal products, machines including aircraft parts, electrical materials, road motor vehicles and clothes. Likewise, metal & metal products, grains, textiles, fertilizer, machines including aircraft parts and road motor vehicles were imported from India.

Petroleum products and chemicals were the major import items from Kuwait. Major imports from Japan included road motor vehicles, machines including aircrafts and metal and metal products. Similarly, imports from United Arab Emirates constituted petroleum products, chemicals and metal & metal products. Import from Saudi Arabia consisted of petroleum products, paper & paper products and beverages. Soap & polish, machines including aircrafts and electrical materials were major imports from Malaysia, while paper & paper products, soap & polish, electrical materials and textiles from Indonesia.

Imports from Europe accounted for 21.9 percent of Ethiopia's total imports with the major countries being Italy (23.7 percent),

Turkey (14.6 percent), Germany (6.8 percent), Belgium (6.7 percent), France (6.4 percent), Ukraine (5.7 percent), Poland (5.7 percent), United Kingdom (5.6 percent), Spain (5.0 percent), Sweden (4.0 percent) and Russia (2.0 percent). These countries jointly accounted for 86 percent of Ethiopia's total imports from Europe.

Major imports from Italy included fertilizer, road motor vehicles, machineries including aircrafts, metal & metal products and electrical materials. Imports from Turkey were metal & metal products, machines including aircraft parts, electrical materials and rubber products. Machines including aircraft parts, metal & metal products and road motor vehicles were the major imports from the Germans. Imports from Belgium were medical & pharmaceutical products, fertilizers, machines including aircraft parts and petroleum products. Import items from France were machines including aircrafts, metal & metal products and electrical materials. Major imports from Ukraine were metal & metal products, food & live animals and machines including aircraft parts, while metal & metal products, road motor vehicles, and machines including aircraft parts were from Poland.

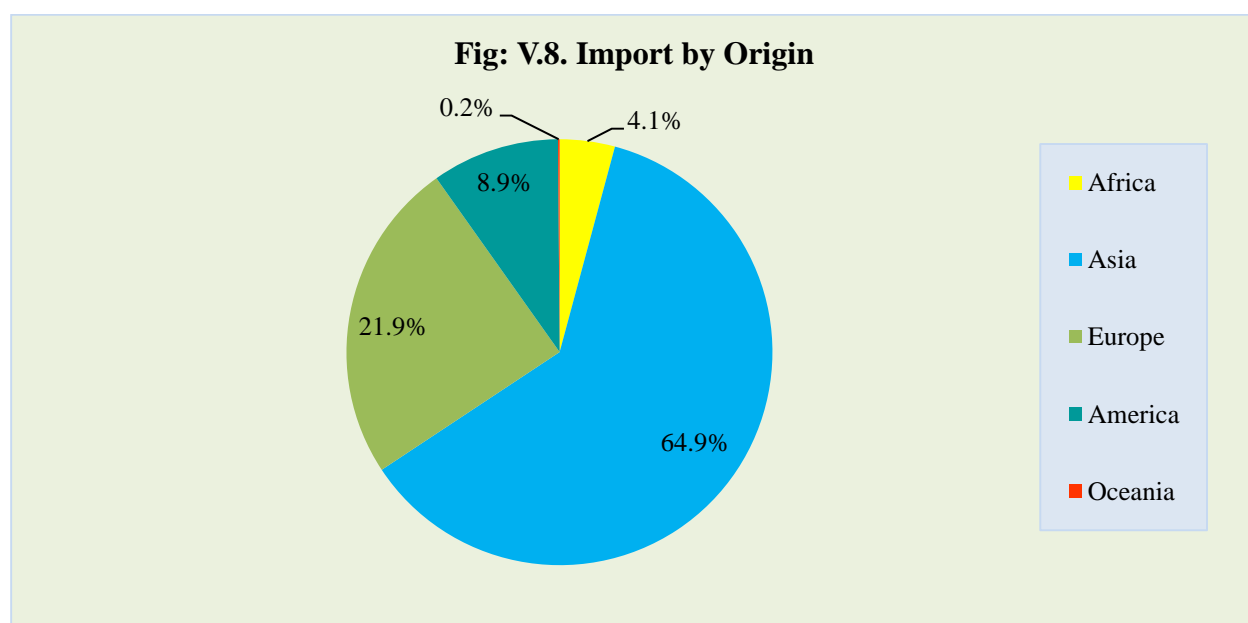
Machines including aircraft parts, electrical materials and fertilizers were the major imports from the United Kingdom. Imports from Spain were road motor vehicles, metal & metal products, machines including aircraft parts and electrical materials. Imports from Sweden include electrical materials, road motor vehicles and machines including aircrafts, while metal & metal products, tobacco, electrical materials and road motor vehicles are major imports from Russia.

Imports from America accounted for 8.9 percent of the total import bill, of which the share of United States was 83.5 percent with Brazil and Canada taking up 11.6 percent and 4.0 percent, respectively. Machines including aircraft parts, electrical materials, food & live animals and petroleum products were the major items imported from United States. Machines including aircraft parts, rubber products, road motor vehicles, and food & live animals were the main merchandise imports from Brazil, while machines including aircraft parts, electrical materials and fertilizers were the main imports from Canada.

Africa accounted for about 4.1 percent of Ethiopia's total merchandise import. The major countries of origin were Egypt (31.1 percent), South Africa (24.1 percent), Morocco (22.1 percent), Sudan (12.0 percent) and Kenya (3.7 percent), which altogether constituted 93.0 percent of the total imports from the continent.

Petroleum products, soap & polish, metal & metal products and paper & paper products were imported from Egypt. Road motor

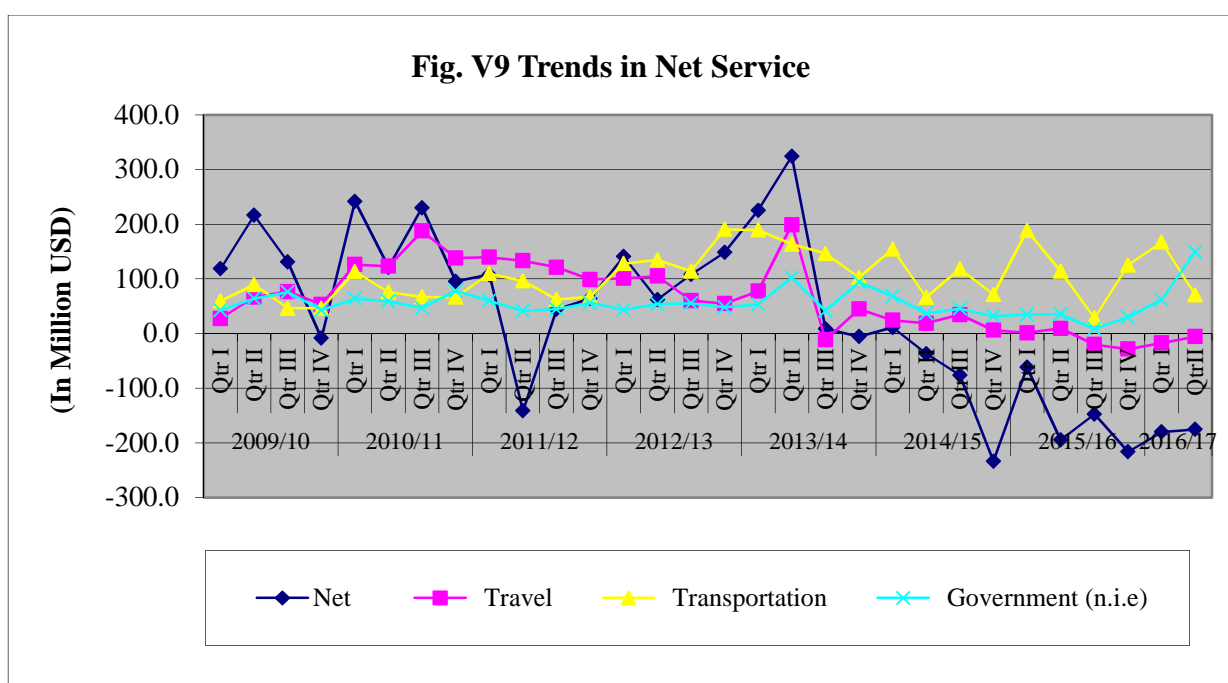
vehicles, metal & metal products and machines including aircraft parts were the major imports from South Africa. Electrical materials, metal & metal products, soap & polish and rubber production were the main imported items from Morocco. Similarly, petroleum products, soap & polish, textiles and food & live animals were imported from Sudan. Imports from Kenya constituted fertilizers, food & live animals, soap & polish and machineries including aircrafts.



Source: NBE Staff Compilation

5.3. Services and Transfers

Net payments for services trade stood at USD 175.3 million compared with USD 193.7 million last year same period. The 9.5 percent decline in net service payment was attributed to 322.3 percent increase in net government surplus and 14.7 percent decline in other net services payments.



Source: NBE Staff Compilation

Table 5.8: Developments in Services Accounts

(In Millions of USD)

S/N	Particulars	2015/16	2016/17		Percentage Change	
		QII	QI	QII		
		A	B	C	C/A	C/B
1	Investment Income (2+5)	-107.6	-118.2	-181.2	68.3	53.2
2	Interest, net (3-4)	-105.0	-114.4	-172.8	64.5	51.0
3	Credit	3.0	3.6	2.9	-3.8	-19.4
4	Debit	108.1	118.0	175.7	62.6	48.9
5	Dividend, net	-2.6	-3.8	-8.4	223.8	119.5
6	NON-FACTOR SERVICES, net (7-8)	-86.1	-63.0	5.9	-106.8	-109.3
7	Exports of non-factor services	749.2	862.2	856.1	14.3	-0.7
8	Travel	108.9	95.4	77.1	-29.3	-19.2
9	Transport	561.5	636.5	543.5	(3.2)	-14.6
10	Gov't	35.4	76.3	174.0	391.2	127.9
11	Other	43.3	54.0	61.5	42.0	13.9
12	Imports of non-factor services	835.3	925.2	850.2	1.8	-8.1
13	Travel	99.6	112.6	82.5	-17.2	-26.7
14	Transport	447.9	469.5	472.9	5.6	0.7
15	Gov't	0.1	14.4	24.6		71
16	Other	287.8	328.8	270.1	-6.1	-17.8
17	Net Services (18+19+20+21+22)	-193.7	-181.2	-175.3	-9.5	-3.3
18	Travel (8-13)	9.3	-17.2	-5.5	-158.8	-68.3
19	Transport (9-14)	113.7	167.0	70.6	-37.9	-57.7
20	Gov't (10-15)	35.4	62.0	149.3	322.3	141.0
21	Other (11-16)	-244.4	-274.7	-208.6	-14.7	-24.1
22	Investment Income (2+5)	-107.6	-118.2	-181.2	68.3	53.2

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

During the review period, total transfer receipts decreased by 28.9 percent and stood at USD 1.6 billion. This was attributed to 26.7 percent decline in private transfer receipts both from NGOs and private individuals.

Similarly, official transfer receipts showed a 37.0 percent slowdown. On the other hand, total transfer payments surged 234.4 percent due to 154.5 percent increase in private transfer payments and 478.8 percent in official transfer payments.

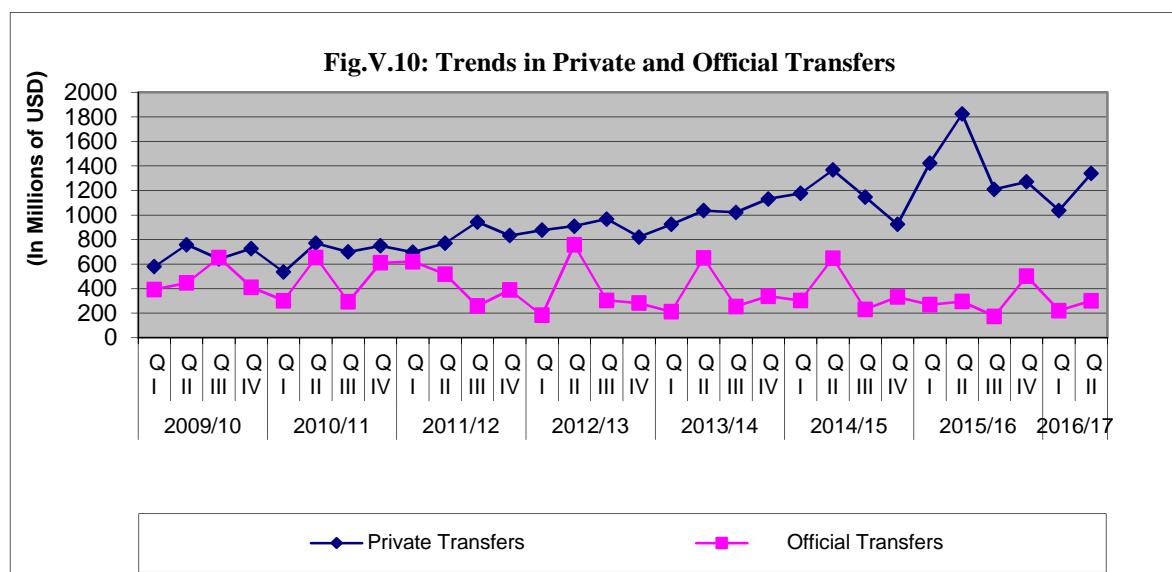
Table 5.9: Developments in Transfer Accounts

(In Millions of USD)

(in millions of USD)

S/N	Particulars	2015/16		2016/17				Percentage Change	
		QII	% Share	QI	% Share	QII	% Share		
		A		B		C		C/A	C/B
1	Private transfers, net (2-5)	1,824.5	79.3	1,327.2	70.2	1,329.9	81.9	-27.1	0.2
2	Credit (3+4)	1,828.2	79.4	1,329.5	70.3	1,339.5	82.4	-26.7	0.8
3	NGO's	531.6	23.1	278.4	14.7	235.3	14.5	-55.7	-15.5
4	Private individuals	1,296.6	56.3	1,051.1	55.6	1,104.2	68.0	-14.8	5.0
5	Debit	3.8	0.2	2.3	0.1	9.6	0.6	154.5	309.2
6	Official transfers, net (7-8)	477.6	20.7	564.0	29.8	294.8	18.1	-38.3	-47.7
7	Credit	478.8	20.8	578.2	30.6	301.9	18.6	-37.0	-47.8
8	Debit	1.2	0.1	14.2	0.8	7.1	0.4	478.8	-50.0
9	Total Receipts	2,307.1	100.2	1,907.7	100.9	1,641.4	101.0	-28.9	-14.0
10	Total Payments	5.0	0.2	16.6	0.9	16.7	1.0	234.4	0.7
11	Net Transfers	2,302.1	100.0	1,891.1	100.0	1,624.7	100.0	-29.4	-14.1

Source: NBE Staff Computation



Source: NBE Staff Compilation

5.4. Current Account Balance

Hence, the current account balance (including official transfers) registered USD 1.9 billion deficit during the second quarter of 2016/17, compared

with USD 1.5 billion deficit a year ago (Table 5.1).

5.5. Capital Account

In the review period, capital account recorded USD 1.3 billion surplus, which was 33.8 percent higher than that of a year earlier. This was attributed to increases in net official long term capital

(51.2 percent), other public long term capital (77.2 percent), private sector short term capital (74.2 percent) and FDI inflows (16.6 percent) (Table 5.1).

5.6. Changes in Reserve Position

Net foreign assets of the National Bank of Ethiopia showed a USD 90.1 million build up while that of commercial banks

exhibited USD 6.2 million drawdown. Thus, foreign reserve cover as of December 31, 2016 was 2.4 months of imports (Table 5.1).

5.7. Developments in the Foreign Exchange Market

5.7.1 Exchange Rate Movements

During the second quarter of 2016/17, the weighted average official exchange rate of Birr in the inter-bank forex market reached Birr 22.2228/USD, showing a 6.1 percent annual and 1.4 percent quarterly depreciation.

Likewise, the end period exchange rate at end of the quarter was Birr 22.4104/USD, which depicted 6.3 percent and 1.6 percent weakening against USD during the same period.

Table 5.10: Developments in Inter-bank Market Forex Traded and Exchange Rates (USD/ETB)

Period		Official Market			
		End Period Weighted Rate	Average Weighted Rate	Amount Traded in millions of USD	
				Total	Among CBs
2015/16		21.8004	21.1059	12.7	0.0
Qtr. II	C	21.0777	20.9497	3.25	0.00
October		20.9058	20.8639	1.10	0.00
November		20.9898	20.9498	1.05	0.00
December		21.0777	21.0355	1.10	0.00
2016/17					
Qtr. I	B	22.0534	21.9262	3.10	0.00
July		21.8746	21.8453	1.00	0.00
August		21.9654	21.9216	1.10	0.00
September		22.0534	22.0116	1.00	0.00
Qtr. II	A	22.4104	22.2228	3.25	0.00
October		22.1555	22.1069	1.05	0.00
November		22.2728	22.2168	1.10	0.00
December		22.4104	22.3447	1.10	0.00
Percentage Changes	A/B	1.62	1.35	4.84	
	A/C	6.32	6.08	0.00	

Source: National Bank of Ethiopia

In retail foreign exchange market, the average buying rate in the forex bureau of commercial banks stood at Birr 22.2252/USD, while the selling rate was Birr 22.6572/USD, showing 1.4 percent and 1.3 percent depreciation against the preceding quarter, respectively. Similarly, year-on-year the depreciation was 6.2 percent and 6.1 percent, respectively.

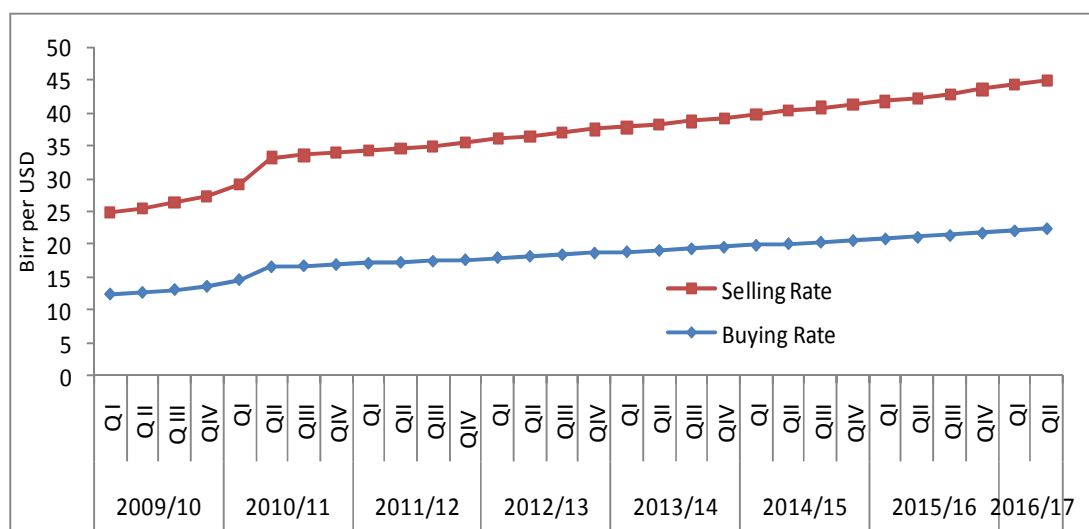
As a result, the average spread between the buying and selling rates narrowed to 1.94 percent from 2.02 percent last year same period. (Table 5.11)

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

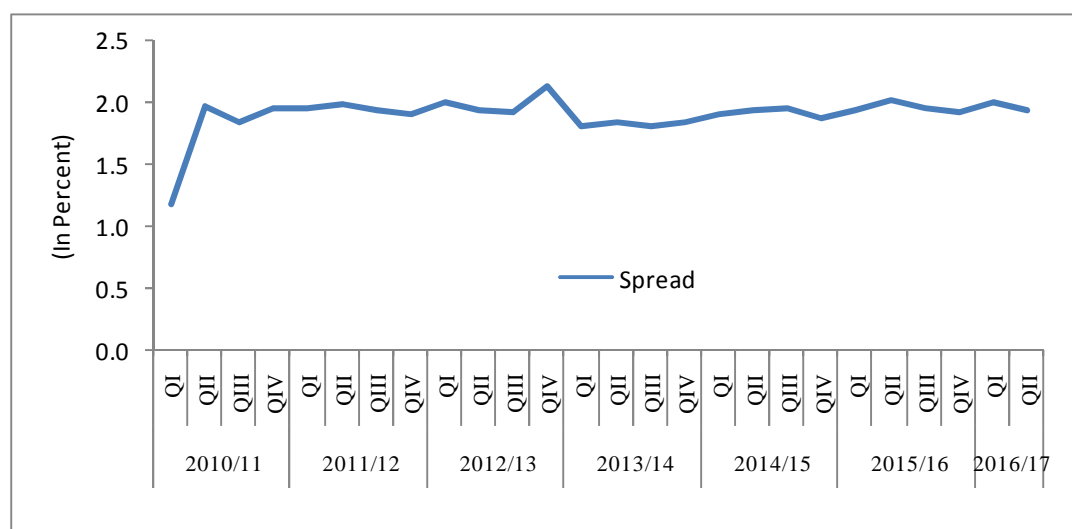
No.	Name of ForexBureaux	2015/16		2016/17				Percentage Change			
		Quarter II A		Quarter I B		Quarter II C		C/B		C/A	
		Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
1	Commercial Bank of Ethiopia	65,548.3	22,387.9	71,117.5	31,875.1	55,337.0	10,318.8	-22.19	-67.63	-15.58	-53.91
2	Bank of Abyssinia	806.8	2,323.1	3,407.3	2,964.5	973.6	3,257.2	-71.43	9.87	20.66	40.21
3	Dashen Bank	4,727.0	5,557.3	3,854.0	6,953.4	2,748.8	5,810.3	-28.68	-16.44	-41.85	4.55
4	Awash International Bank	1,293.7	2,215.6	1,210.3	2,561.7	1,584.0	4,111.8	30.88	60.51	22.44	85.58
5	Construction & Business Bank	1,265.5	526.2	-	-	-	-	-	-	-	-
6	Wegagen Bank	814.7	1,219.8	1,133.1	1,932.0	711.8	1,263.1	-37.18	-34.62	-12.62	3.55
7	United Bank	2,878.0	3,949.9	1,415.2	2,533.2	1,832.6	3,831.3	29.49	51.24	-36.32	-3.00
8	Development Bank	12.3	58.6	-	50.6	0.2	115.2	-	127.62	-98.38	96.58
9	Nib International Bank	351.5	1,252.7	447.4	1,691.2	290.1	1,980.3	-35.16	17.10	-17.48	58.09
10	Lion International Bank	7,735.4	817.2	7,470.7	1,627.0	8,244.2	1,558.3	10.35	-4.23	6.58	90.68
11	Oromia International Bank	1,147.0	1,128.5	955.1	1,368.2	626.5	997.1	-34.41	-27.13	-45.38	-11.64
12	Zemen Bank	176.4	1,568.0	241.7	2,261.5	167.8	5,543.1	-30.58	145.11	-4.90	253.52
13	Cooperative Bank of Oromia	104.3	406.7	79.9	194.2	196.8	690.4	146.40	255.45	88.69	69.76
14	Buna International Bank	33.0	210.1	612.0	784.3	634.5	537.7	3.67	-31.43	1825.08	155.96
15	Birhan International Bank	30.2	26.1	432.2	594.8	79.6	364.4	-	-38.73	163.58	-
16	Abay Bank	14.4	222.5	373.2	266.1	885.5	358.7	137.24	34.78	6036.58	61.25
17	Addis International Bank	223.2	448.5	132.1	347.2	156.8	310.4	18.75	-10.58	-29.73	-30.78
18	Debub Global Bank	9.2	106.5	11.6	78.9	10.0	105.8	-13.61	34.07	9.02	-0.70
19	Enat Bank	76.2	86.0	50.5	108.9	82.8	148.1	63.97	35.97	8.62	72.13
Total		87,247.0	44,511.2	92,944.0	58,192.9	74,562.7	41,302.1	-19.78	-29.03	-14.54	-7.21
Average Exchange Rate		20.9297	21.3527	21.9197	22.3599	22.2252	22.6572	1.39	1.33	6.19	6.11
Exchange Rate Spread (%)*		2.02		2.01		1.94					

Source: National Bank of Ethiopia

Note: * refers the percentage spread between forex bureaus average buying and selling exchange rate in a given quarter.

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

Source: NBE Staff Compilation

Fig. V.13: Spread between Buying and Selling Rates in the Retail Foreign Exchange Market

Source: NBE Staff Compilation

In the official forex market, US dollar has appreciated vis-à-vis selected major currencies on quarterly basis in associated with the market expectation of a shift towards more expansionary fiscal policy under Trump administration and heightened expectation for additional rate hike by Federal Reserve Bank of America. Hence, US dollar appreciated 5.9 percent against

Japanese Yen, 5.5 percent against Pound Sterling, 3.6 percent against Euro, 2.5 percent against Swiss Franc and 2.4 percent against SDR. In the same way, on yearly basis, the US dollar gained ground against Pound Sterling (18.1 percent), Swiss Franc (1.7 percent), Euro (1.4 percent) and SDR (1.3 percent) while it depreciated against Japanese Yen (11.4 percent) (Table5.12).

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

Period		EURO			JAPANESE YEN			SDR			POUNDSTELING			SWISS FRANC		
		Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate
2015/16																
QII	C	1.0954	1.0954	1.0954	0.0082	0.0082	0.0082	1.3823	1.3779	1.3801	1.5178	1.5178	1.5178	1.0169	1.0170	1.0169
October		1.1246	1.1245	1.1246	0.0083	0.0083	0.0083	1.4067	1.3936	1.4001	1.5326	1.5326	1.5326	1.0330	1.0330	1.0330
November		1.0755	1.0756	1.0756	0.0082	0.0082	0.0082	1.3689	1.3689	1.3689	1.5213	1.5214	1.5214	0.9929	0.9930	0.9930
December		1.0862	1.0862	1.0862	0.0082	0.0082	0.0082	1.3712	1.3712	1.3712	1.4995	1.4995	1.4995	1.0249	1.0249	1.0249
2016/17																
QI	B	1.1196	1.1196	1.1196	0.0098	0.0098	0.0098	1.3962	1.3962	1.3962	1.3150	1.3149	1.3149	1.0248	1.0248	1.0248
July		1.1174	1.1174	1.1174	0.0096	0.0096	0.0096	1.3908	1.3908	1.3908	1.3181	1.3181	1.3181	1.0179	1.0179	1.0179
August		1.1212	1.1212	1.1212	0.0099	0.0099	0.0099	1.3992	1.3992	1.3992	1.3115	1.3115	1.3115	1.0310	1.0310	1.0310
September		1.1203	1.1203	1.1203	0.0098	0.0098	0.0098	1.3984	1.3984	1.3984	1.3153	1.3151	1.3152	1.0254	1.0254	1.0254
QII	A	1.0798	1.0798	1.0798	0.0092	0.0092	0.0092	1.3622	1.3622	1.3622	1.2428	1.2428	1.2428	0.9996	0.9996	0.9996
October		1.1039	1.1039	1.1039	0.0096	0.0096	0.0096	1.3824	1.3824	1.3824	1.2377	1.2377	1.2377	1.0137	1.0137	1.0137
November		1.0804	1.0804	1.0804	0.0093	0.0093	0.0093	1.3674	1.3674	1.3674	1.2417	1.2417	1.2417	1.0041	1.0041	1.0041
December		1.0551	1.0551	1.0551	0.0086	0.0086	0.0086	1.3369	1.3369	1.3369	1.2490	1.2490	1.2490	0.9808	0.9808	0.9808
Percentage Changes	A/B	-3.56	-3.56	-3.56	-5.95	-5.94	-5.94	-2.43	-2.43	-2.43	-5.49	-5.48	-5.49	-2.46	-2.46	-2.46
	A/C	-1.43	-1.43	-1.43	11.40	11.40	11.40	-1.45	-1.14	-1.29	-18.12	-18.12	-18.12	-1.71	-1.71	-1.71

Source: National Bank of Ethiopia

Likewise, the Birr appreciated against major currencies on quarterly basis except US dollar. The Birr appreciated 4.6 percent against Japanese Yen, 4.2 percent against Pound Sterling, 2.2 percent against Euro, 1.2 percent against SDR and 1.1 percent against Swiss Franc, while it depreciated 1.4 percent against US dollar.

On annual basis, the Birr depreciated against Japanese Yen (18.2 percent), USD (6.1 percent), SDR (4.64 percent), Euro (4.58 percent) and Swiss Franc (4.3 percent), while it appreciated 13.2 percent against Pound Sterling presumably due to the perceived departure of UK from the European Union (Table5.13).

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

Period		Currency																	
		USD			EURO			JAPANESE YEN			SDR			POUNDSTERLING			SWISS FRANC		
		Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate
2015/16																			
QII	C	20.9497	21.1589	21.0543	22.9477	23.1772	23.0625	0.1726	0.1743	0.1734	28.9568	29.1545	29.0556	31.7965	32.1145	31.9555	21.3045	21.5175	21.4110
October		20.8639	21.0725	20.9682	23.4624	23.6970	23.5797	0.1739	0.1756	0.1747	29.3482	29.3662	29.3572	31.9755	32.2952	32.1353	21.5521	21.7677	21.6599
November		20.9498	21.1584	21.0541	22.5318	22.7572	22.6445	0.1711	0.1728	0.1719	28.6774	28.9642	28.8208	31.8714	32.1901	32.0307	20.8018	21.0099	20.9058
December		21.0355	21.2458	21.1407	22.8490	23.0775	22.9632	0.1727	0.1744	0.1736	28.8446	29.1331	28.9889	31.5427	31.8581	31.7004	21.5594	21.7750	21.6672
2016/17																			
QI	B	21.9262	22.1454	22.0358	24.5500	24.7955	24.6727	0.2139	0.2160	0.2150	30.6131	30.9192	30.7662	28.8320	29.1186	28.9753	22.4687	22.6934	22.5810
July		21.8453	22.0638	21.9546	24.4103	24.6544	24.5323	0.2095	0.2116	0.2106	30.3821	30.6859	30.5340	28.7945	29.0824	28.9384	22.2362	22.4586	22.3474
August		21.9216	22.1408	22.0312	24.5782	24.8240	24.7011	0.2166	0.2188	0.2177	30.6736	30.9804	30.8270	28.7494	29.0369	28.8931	22.6017	22.8277	22.7147
September		22.0116	22.2317	22.1217	24.6614	24.9080	24.7847	0.2156	0.2177	0.2167	30.7836	31.0914	30.9375	28.9521	29.2367	29.0944	22.5682	22.7938	22.6810
QII	A	22.2228	22.4450	22.3339	23.9995	24.2395	24.1195	0.2040	0.2060	0.2050	30.2530	30.5555	30.4043	27.6153	27.8915	27.7534	22.2161	22.4381	22.3271
October		22.1069	22.3280	22.2174	24.4034	24.6474	24.5254	0.2133	0.2154	0.2144	30.5611	30.8667	30.7139	27.3602	27.6337	27.4970	22.4102	22.6343	22.5222
November		22.2168	22.4389	22.3279	24.0238	24.2640	24.1439	0.2060	0.2081	0.2070	30.3839	30.6878	30.5358	27.5765	27.8523	27.7144	22.3244	22.5473	22.4358
December		22.3447	22.5681	22.4564	23.5712	23.8069	23.6890	0.1927	0.1946	0.1937	29.8141	30.1122	29.9631	27.9093	28.1884	28.0489	21.9136	22.1328	22.0232
Percentage Change	A/B	1.35	1.35	1.35	-2.24	-2.24	-2.24	-4.64	-4.63	-4.63	-1.18	-1.18	-1.18	-4.22	-4.21	-4.22	-1.12	-1.12	-1.12
	A/C	6.08	6.08	6.08	4.58	4.58	4.58	18.23	18.23	18.23	4.48	4.81	4.64	-13.15	-13.15	-13.15	4.28	4.28	4.28

Source: NBE Staff Compilation

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

Currency	December 31, 2015	September 30, 2016	December 31, 2016	Percentage change	
	C	B	A	A/B	A/C
USD	21.1831	22.1637	22.5225	1.62	6.32
Pound	31.3637	28.8106	27.6373	-4.07	-11.88
Swedish Kroner	2.5224	2.5809	2.4632	-4.56	-2.35
Djibouti Frank	0.1189	0.1244	0.1264	1.61	6.31
Swiss Frank	21.3755	22.8162	22.0161	-3.51	3.00
Saudi Riyal	5.6413	5.8986	6.0044	1.79	6.44
UAE Dirham	5.7663	6.0336	6.1312	1.62	6.33
Canadian Dollar	15.2682	16.9253	16.6685	-1.52	9.17
Japanese Yen	0.1758	0.2177	0.1935	-11.14	10.04
Euro	23.1404	24.8322	23.5856	-5.02	1.92
SDR	29.4254	30.9915	30.1261	-2.79	2.38

Source: NBE Staff Compilation

5.7.2. Movements in the Real Effective Exchange Rate

In the second quarter of 2016/17, the REERI appreciated 4.3 percent on annual basis, mainly owing to relatively higher domestic inflation compared to that of trading partners’.

On the other hand, the NEER slightly depreciated 0.04 percent vis-à-vis last year same period and appreciated 4.3 percent against the preceding quarter due to relatively fast depreciation of trading partners’ currencies against the US dollar (Table 5.15).

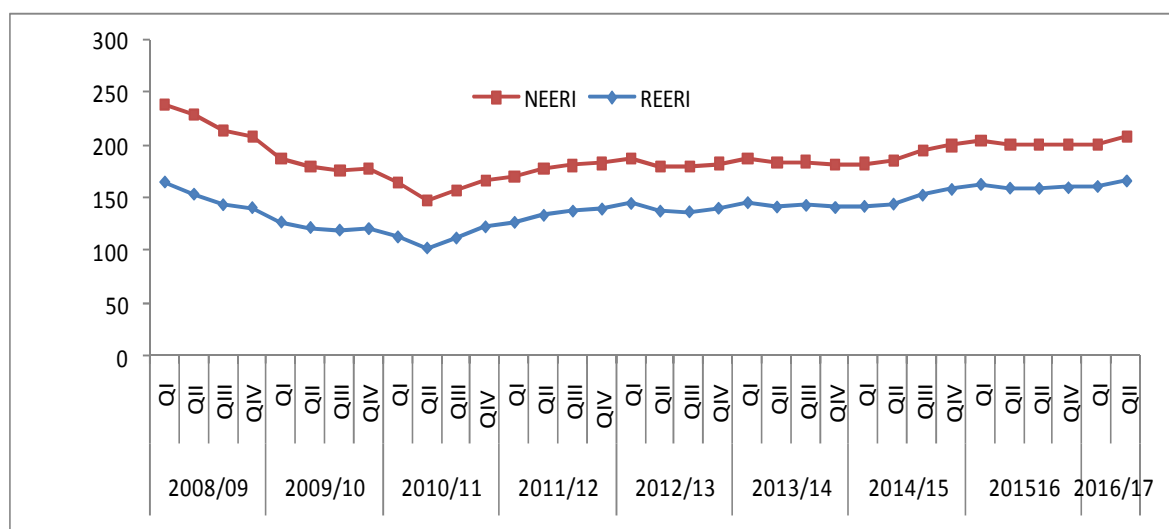
Table 5.15 Trends in the Real and Nominal Effective Exchange Rates

Item	2015/16	2016/17		Percentage Change	
	QII	QI	QII		
	A	B	C	C/B	C/A
REERI	158.8	160.5	165.6	3.18	4.27
NEERI	42.3	40.6	42.3	4.34	-0.04

Source: NBE 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

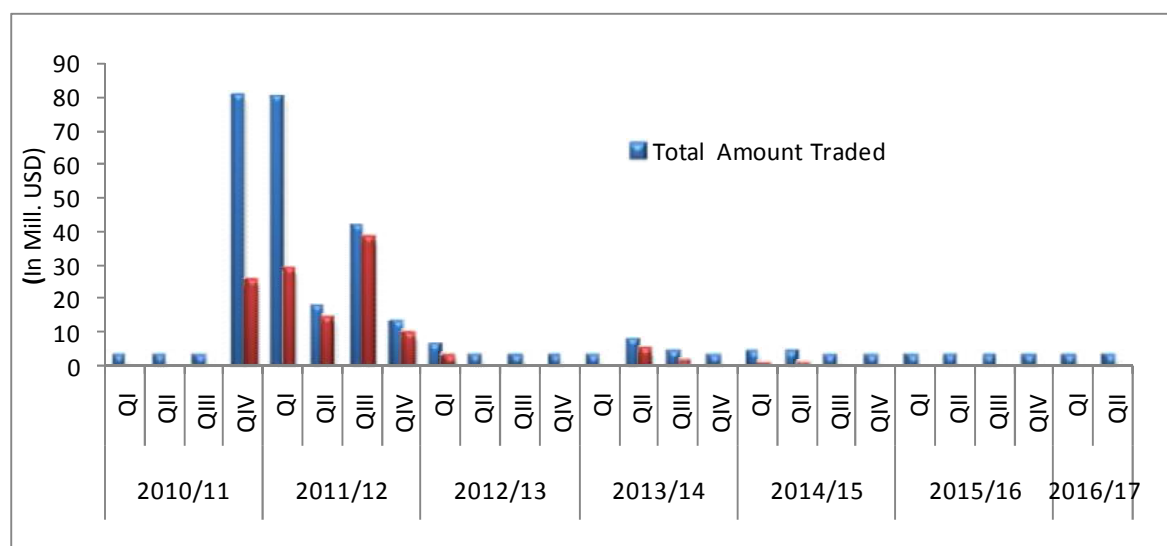
Source: NBE Staff Compilation

5.7.3 Volume of Transactions

In the second quarter of 2016/17, the total amount of foreign exchange traded in the inter-bank foreign exchange market was USD 3.3 million, which was 4.8 percent lower than the preceding quarter, while it

remained unchanged compared to last year same period. The total amount traded in the inter-bank market during the review period was wholly supplied by NBE (Table 5:10).

Fig V.15 Foreign Exchange Trade in the Interbank Foreign Exchange Market



Source: NBE Staff Compilation

In the same period, forex bureau of commercial banks purchased USD 74.6 million and sold USD 41.3 million foreign exchange. The amount purchased and sold was 19.8 percent and 29.0 percent lower than the preceding quarter and 14.5 percent

and 7.2 percent lower compared with that of a year earlier (Table 5.11).

VI. FEDERAL GOVERNMENT FINANCE

Total revenue and grants of federal government collected during the second quarter of 2016/17 surged 109.8 percent on quarterly and 148.7 percent on yearly basis and reached Birr 95.3 billion. The quarterly revenue and grant performance was 49.1 percent against the annual plan (Table 6.1).

Similarly, Federal government expenditure showed a 128.2 percent quarterly and 108 percent annual growth due to higher outlays in the form of capital expenditure, regional transfers and current expenditure.

Consequently, the overall fiscal balance of the Federal government fiscal operations (including grants) registered Birr 18.7 billion deficit compared to Birr 16.4 billion deficit a year ago (Table 6.1). The performance of total expenditure was 44.5 percent of the annual plan.

Table 6.1 Summary of Quarterly Federal Government Finance (In millions of Birr)

No	Particulars	2015/16	2016/17			Percentage changes		Performance rate
		A	B	C	D	D/A	D/C	D/B
		QII	Budget	QI	QII			
1	Revenue and Grants	38,339.8	194,229.6	45,455.9	95,345.6	148.7	109.8	49.1
1.1	Total Revenue	38,339.8	192,108.7	45,455.9	94,758.1	147.2	108.5	49.3
	Tax Revenue	37,227.8	170,667.4	39,154.6	79,356.8	113.2	102.7	46.5
	Direct tax	12,730.9	49,307.6	11,521.7	25,045.6	96.7	117.4	50.8
	Indirect tax	24,496.9	121,359.8	27,632.9	54,311.2	121.7	96.5	44.8
	Non-Tax Revenue	1,112.0	21,441.3	6,301.3	15,401.3	1,285.1	144.4	71.8
1.2	Grant & Relief		2,120.9	-	587.5			27.7
2	Current Expenditure	14,227.2	64,671.2	13,955.5	30,460.7	114.1	118.3	47.1
3	Current Surplus/Deficit							
	Including Grants	24,112.6	129,558.4	31,500.4	64,884.9	169.1	106.0	50.1
	Excluding Grants	24,112.6	127,437.5	31,500.4	64,297.4	166.7	104.1	50.5
4	Capital Expenditure	15,325.5	92,214.1	15,094.8	35,373.8	130.8	134.3	38.4
5	Regional Transfers	25,273.0	99,420.1	20,927.6	48,222.1	90.8	130.4	48.5
6	Total Expenditure (2+4+5)	54,825.7	256,305.4	49,977.9	114,056.5	108.0	128.2	44.5
7	Overall Surplus/Deficit			-				
	Including Grants	(16,485.9)	(62,075.8)	(4,522.0)	(18,710.9)	13.5	313.8	30.1
	Excluding Grants	(16,485.9)	(64,196.7)	(4,522.0)	(19,298.4)	17.1	326.8	30.1
8	Total Financing	16,485.9	62,075.8	4,522.0	18,710.9	13.5	313.8	30.1
8.1	Net External Borrowings	2,413.8	21,455.6	3,057.6	10,988.5	355.2	259.4	51.2
	External Borrowing	3,042.2	18,148.6	3,665.5	11,663.3	283.4	218.2	64.3
	Amortization	628.4	3,276.0	607.9	1,275.4	103.0	109.8	38.9
8.2	Net Domestic Borrowings	10,693.5	34,620.2	17,829.6	25,152.4	135.2	41.1	72.7
	Banking System	6,490.6	-	15,048.6	17,380.5	167.8	15.5	
	Non-Bank Sources	4,202.9	-	2,781.0	7,771.9	84.9	179.5	
8.3	Privatization receipts	-	6,000.0	-	-			
8.4	Others and Residuals	3,378.6	0.0	(16,365.2)	(17,429.9)	(615.9)	6.5	

Source: Ministry of Finance and Economic cooperation

6.1. Revenue and Grants

Total revenue and grants during the review period was 95.3 billion where domestic source accounted for 99.4 percent and grants 0.6 percent. Of the total domestic revenue 83.7 percent was collected from taxes and 16.3 percent from non-tax sources.

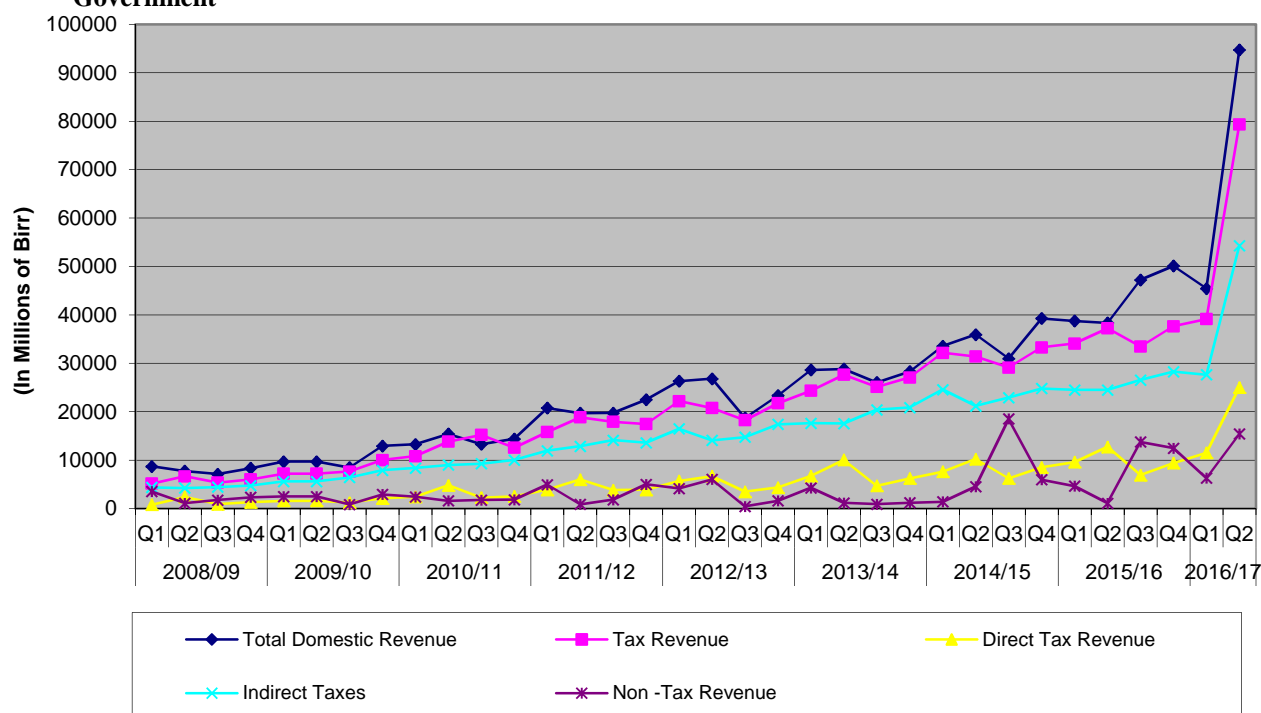
Grants & relief in the quarter amounted to Birr 587.5 million. Total revenue and grants showed 49.1 percent plan implementation against the annual budget (Table 6.2).

Table 6.2 Summary of Quarterly Federal Government Revenue by Component (In millions Birr)

No	Particulars	2015/16	2016/17			Percentage Change		Performance Rate
		QII	Budget	QI	QII			
		A	B	C	D	[D/A]	[D/C]	[D/B]
	Total Revenue and Grants	38,339.8	194,229.6	45,455.9	95,345.6	148.7	109.8	49.1
	Total Domestic Revenue	38,339.8	192,108.7	45,455.9	94,758.1	147.2	108.5	49.3
1	Tax Revenue	37,227.8	170,667.4	39,154.6	79,356.8	113.2	102.7	46.5
1.1	Direct Tax	12,730.9	49,307.6	11,521.7	25,045.6	96.7	117.4	50.8
1.1.1	Income Taxes	11,456.5	43,264.5	10,253.1	22,342.0	95.0	117.9	51.6
	- Personal	1,446.6	5,783.7	1,490.5	3,098.8	114.2	107.9	53.6
	- Business	10,010.0	37,480.8	8,762.6	19,243.2	92.2	119.6	51.3
1.1.2	Others ¹	1,274.4	6,043.0	1,268.6	2,703.7	112.2	113.1	44.7
1.2	Indirect Taxes	24,496.9	121,359.8	27,632.9	54,311.2	121.7	96.5	44.8
1.2.1	Domestic Taxes	8,447.6	49,678.4	9,963.2	20,534.9	143.1	106.1	41.3
1.2.2	Foreign Trade Taxes	16,049.3	71,681.4	17,669.7	33,776.3	110.5	91.2	47.1
	- Import	16,049.3	71,681.4	17,669.7	33,776.3	110.5	91.2	47.1
2	Non-Tax Revenue	1,112.0	21,441.3	6,301.3	15,401.3	1,285.1	144.4	71.8
3	Privatization	-	6,000.0	-	-			
4	Grants and Relief	-	2,120.9	-	587.5			27.7

Source: Ministry of Finance and Economic cooperation

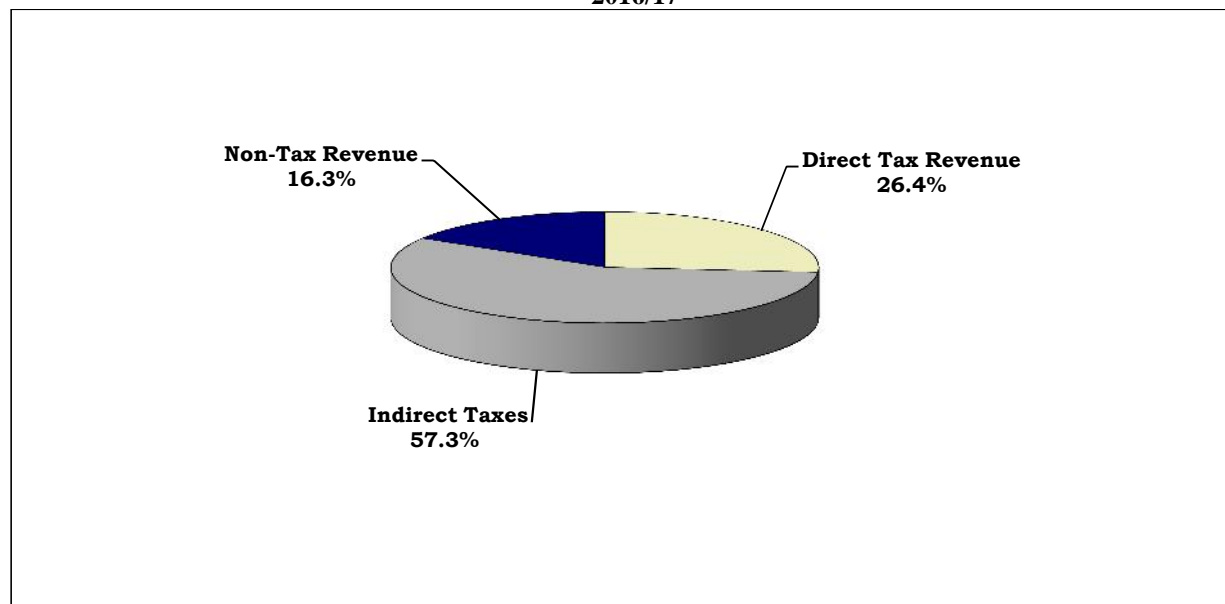
^{1/} includes Withholding tax on import, tax on dividend, royalty and interest income

Fig. VI.1 Quarterly Developments in Major Components of Domestic Revenue of the Federal Government

During the review period, tax revenue originated mainly from indirect taxes and accounting for 83.7 percent of the total domestic revenue. Revenue from indirect taxes surged 121.7 percent on annual bases and reached Birr 54.3 billion. Components wise, 62.2 percent

of revenue from indirect taxes originated from foreign trade taxes signifying the importance of foreign trade taxes. Direct tax revenue also surged by about 96.7 percent over the same period.

Fig.VI.2 Domestic Revenue of federal government by Major Components during the Second Quarter of 2016/17



6.2 Expenditure

Total Federal government expenditure (including regional transfers) was Birr 114 billion, depicting 108 percent annual growth due to the rise in all of its components.

Looking at the structure of expenditures, current expenditure with Birr 30.4 billion, accounted for 26.7 percent of the total quarterly expenditure, while capital expenditure at Birr 35.3 billion constituted 31 percent and regional transfers Birr 48.2 billion or 42.3 percent (Table 6.3).

Tale 6.3 Summary of Federal Government Expenditure by components (In Millions of Birr)

No	Particulars	2015/16	2016/17			Percentage Change		Performance Rate
		QII	Budget	QI	QII			
		[A]	[B]	[C]	[D]	[D/A]	[D/B]	[D/C]
	Total Expenditure	54,825.7	256,305.4	49,977.9	114,056.5	108.0	128.2	44.5
1	Current Expenditure	14,227.2	64,671.2	13,955.5	30,460.7	114.1	118.3	47.1
	- General Services	4,349.6	20,202.1	5,187.9	11,556.9	165.7	122.8	57.2
	- Economic Services	3,853.1	3,595.2	574.1	1,311.5	(66.0)	128.5	36.5
	- Social Services	4,068.8	19,020.5	6,411.8	13,346.2	228.0	108.2	70.2
	- Debt Service	1,955.8	21,853.4	1,781.7	4,246.0	117.1	138.3	19.4
2	Capital Expenditure	15,325.6	92,214.1	15,094.8	35,373.8	130.8	134.3	38.4
	- Economic Development	8,183.5	64,118.1	9,370.7	23,050.5	181.7	146.0	36.0
	- Social Development	4,864.6	24,155.2	5,111.3	11,117.2	128.5	117.5	46.0
	- General Development	2,277.5	3,940.7	612.9	1,206.2	(47.0)	96.8	30.6
3	Regional Transfers	25,273.0	99,420.1	20,927.6	48,222.1	90.8	130.4	48.5

Source: Ministry of Finance and Economic cooperation

Fig VI.3: Major Components of Federal Governments Expenditure during the Second Quarter of 2016/17

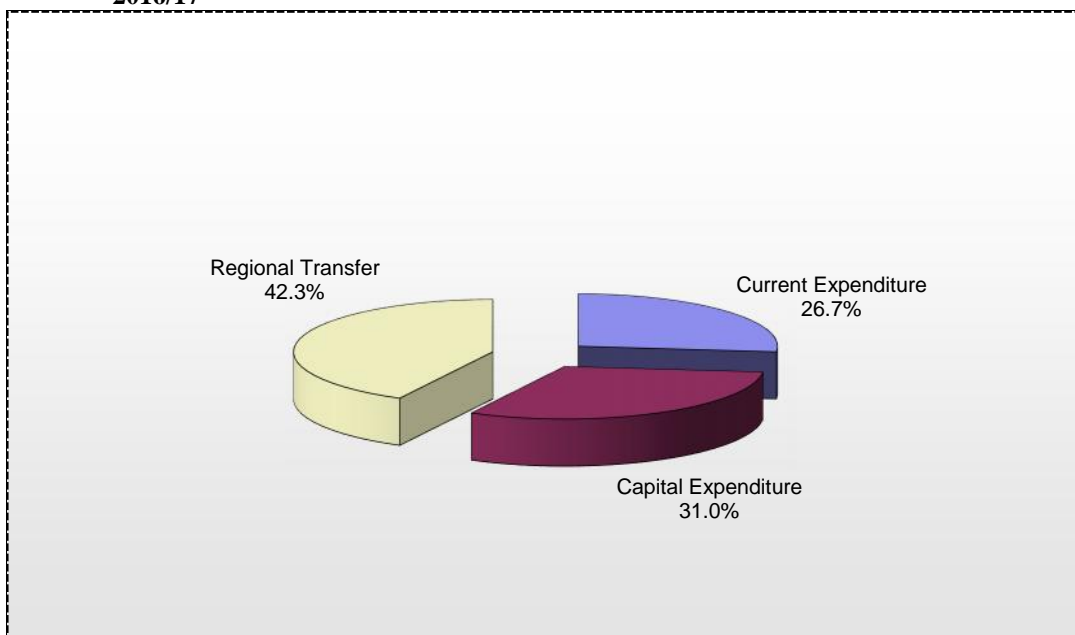
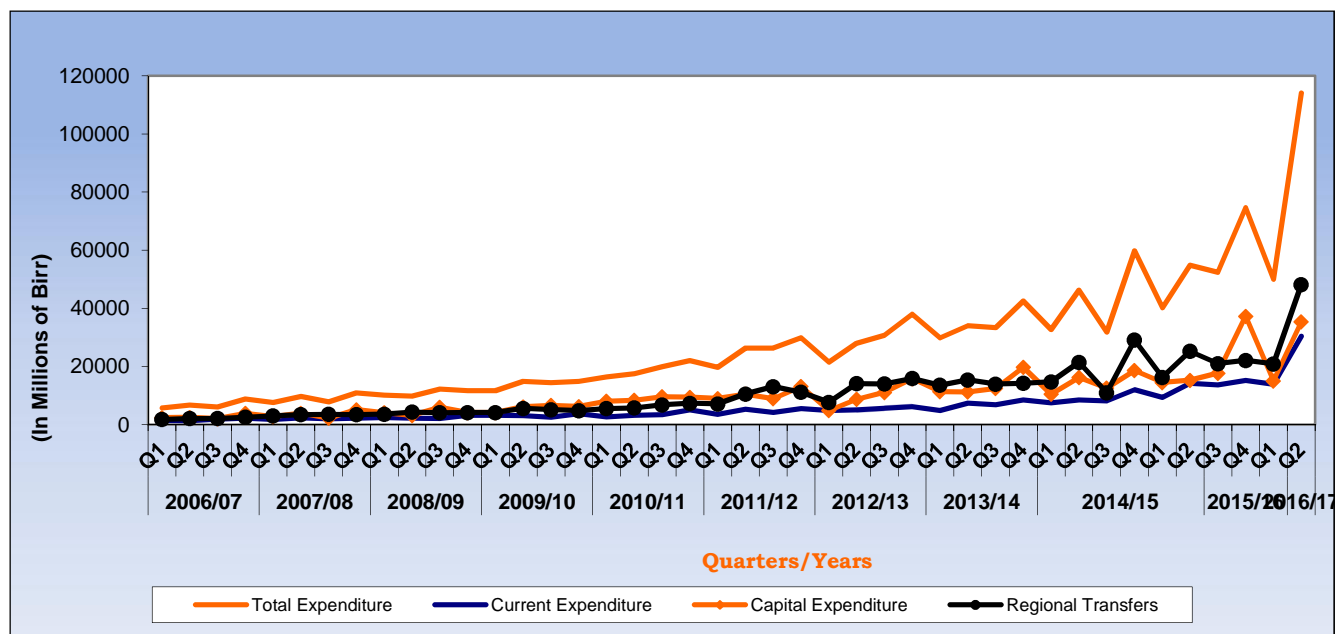


Fig.VI.4: Quarterly Developments in Federal Government Expenditure by components

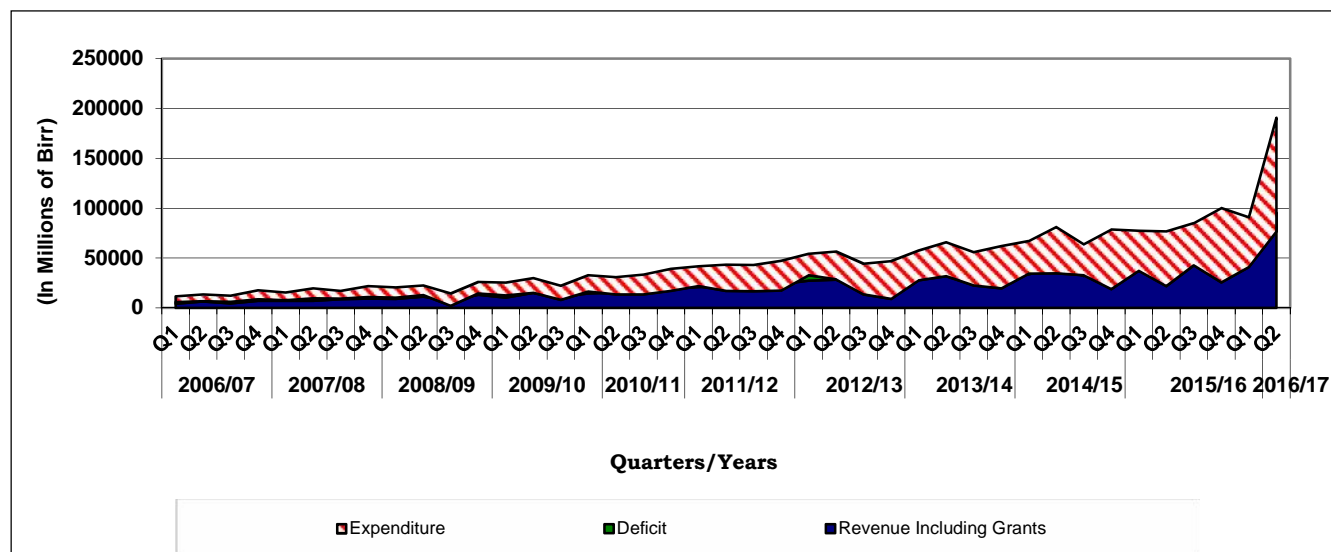


6.3. Deficit Financing

The Federal government budget operations resulted in an overall deficit (including grant) of Birr 18.7 billion,

compared with Birr 16.4 billion deficit a year ago. The deficit was financed from net external and domestic borrowing.

Fig.VI.5 Federal Government Finance during Second Quarter of F.Y 2016/17



VII. Developments in Investment

During the review period, 156 investment projects having investment capital of Birr 6.2 billion went to operational. Though, the number of investment projects declined by 76.9 percent, investment capital grew 64.8 percent over the previous year same period.

Of the 155 private investment projects, 96.8 percent were domestic and 3.2 percent foreign. Domestic investment projects had investment capital of Birr 1,152 million (19 percent) while foreign investment comprised Birr 29.7 million (0.5 percent). A single public investment project accounted for 81 percent of the total investment capital during the review quarter.

Compared with the previous quarter, the number of projects by domestic investors expanded 61.3 percent, while their capital diminished 31.3 percent. At the same time, the number and capital of foreign investment projects tended to decline

These investment projects have generated employment opportunities for 7,811 employees of which 42.4 percent were permanent and 57.6 percent casual (Table 7.1).

Table 7.1: Performance of Operational Investment Projects

Capital (In millions of Birr)

Type of Projects	Items	2015/16	2016/17			Percentage Changes	
		QI	QIV	QI			
		A	B	C	Share	C/A	C/B
1. Total Investment	Number of projects	674	104	156	100	-76.9	50.0
	Capital	3,750.0	1,752.7	6,182	100	64.8	252.7
	Permanent Employment	4,375	2,000	3,312	100	-24.3	65.6
	Temporary Employment	6,896	2,336	4,499	100	-34.8	92.6
2. Private Investment	Number of projects	674	104	155	99	-77.0	49.0
	Capital	3,750.0	1,752.7	1,182	19	-68.5	-32.6
	Permanent Employment	4,375	2,000	3,312	100	-24.3	65.6
	Temporary Employment	6,896	2,336	4,499	100	-34.8	92.6
2.1 Domestic Investment	Number of projects	661	93	150	96	-77.3	61.3
	Capital	3,691.9	1,676.6	1,152.0	19	-68.8	-31.3
	Permanent Employment	4,080	1,665	3,115	94	-23.7	87.1
	Temporary Employment	6,616.0	2,240	4,235	94	-36.0	89.1
2.2. Foreign Investment	Number of projects	13	11	5	3	-61.5	-54.5
	Capital	58.1	76.1	29.7	0.5	-48.9	-61.0
	Permanent Employment	295	335	197	6	-33.2	-41.2
	Temporary Employment	280	96	264	6	-5.7	175.0
3. Public Investment	Number of projects			1	1		
	Capital			5,000	81		
	Permanent Employment						
	Temporary Employment						

Source: Ethiopian Investment Commission.

As for sectoral distribution, construction constituted the lion's share by contributing 42.9 percent of total investment projects. Manufacturing had 31.4 percent share followed by real estate, renting & business Second Quarter 2016/17

activities (16.7 percent) and the remaining sectors 9 percent. Of the total Birr 6,181.7 million capital invested, real estate, renting & business activities sector received 82.8 percent followed by manufacturing (8.9 percent)

construction (7.1 percent) and others (1.2 percent).

With regard to job opportunity, more than half of the permanent employment was created by manufacturing followed by construction (34 percent) and real estate, renting & business

activities (7.7 percent). Construction was the leading sector by employing 58.2 percent of the temporary labor force. Manufacturing and agriculture, hunting & forestry on their part accounted for 33.8 and 4.2 percent of temporary employment, respectively (Table 7.2)

Table 7.2: Investment Distribution by Sector during the First Quarter of 2016/17

Sectors	No. of Proj.	Share (%)	Capital (in Million Birr)	Share (%)	Perm. Emp.	Share (%)	Temp. Emp.	Share (%)
Agriculture, hunting and forestry	5	3.2	43.3	0.7	87	2.6	190	4.2
Construction	67	42.9	436.7	7.1	1,125	34.0	2,619	58.2
Education		0.0	0.0	0.0		0.0		0.0
Electricity, gas, steam and water supply		0.0	0.0	0.0		0.0		0.0
Health and social work	2	1.3	13.4	0.2	15	0.5	5	0.1
Hotels and restaurants	1	0.6	6.5	0.1	10	0.3	25	0.6
Manufacturing	49	31.4	552.4	8.9	1,760	53.1	1,521	33.8
Mining and quarrying	2	1.3	7.2	0.1	16	0.5	44	1.0
Other community, social and personal service activities	2	1.3	1.5	0.0	16	0.5	7	0.2
Real estate, renting and business activities	26	16.7	5,115.4	82.8	256	7.7	69	1.5
Tour operation, transport, and communication	1	0.6	3.3	0.1	15	0.5	15	0.3
Wholesale, retail trade & repair service		0.0	0.0	0.0		0.0		0.0
Others	1	0.6	1.9	0.0	12	0.4	4	0.1
Grand Total	156	100.0	6,181.7	100.0	3,312	100.0	4,499	100.0

Source: Ethiopian Investment Commission.

As for regional distribution, about 84.6 percent of the total projects with 98.2 percent of total investment capital went to Addis Ababa, and 8.3 percent of the projects Second Quarter 2016/17

having 0.6 percent of the total capital were in Amhara. SNNPR had 2.6 percent of the projects with 0.7 percent capital while

Tigray attracted 2.6 percent of the investment projects and 0.2 percent of the capital.

In line with the share of projects and capital, Addis Ababa was the best performer in creating 89.9 percent of the permanent and 88.1 percent of the temporary employment. Similarly, Oromia created 5.2 percent of permanent and 5 percent of temporary employment, while the share of SNNPR was 2.6 and 4.6 percent, respectively (Table 7.3).

Table 7.3: Performance of Operational Investment Projects by Region

Capital in million Birr

	2015/16								2016/17								Growth Rate							
	QI				QIV				QI				C/A				C/B							
	A				B				C				Share In (%)											
Region	No of Proj	Capital	Perm emp	Tempemp	No of Proj.	Capital	Permemp	Tempemp	No of Proj.	Capital.	Perm.emp	Tempemp	No of Proj.	Capital.	Perm.emp	Temp emp	No of Proj.	Capital.	Perm emp	Temp emp	No of Proj.	Capital.	Perm emp	Tempemp
Addis Ababa	633	3662.9	4067	3971	88	1676.6	1667	2155	132	6071.7	2976	3965	84.6	98.2	89.9	88.1	-79.1	65.8	-26.8	-0.2	50.0	262.1	78.5	84.0
Afar	6	16.0	38	102									0.0	0.0	0.0	0.0	-100.0	-100.0	-100.0	-100.0				
Amhara					7	13.6	63	63	13	36.7	52	45	8.3	0.6	1.6	1.0					85.7	169.9	-17.5	-28.6
B.Gumu													0.0	0.0	0.0	0.0								
Dire Dawa													0.0	0.0	0.0	0.0								
Oromia	1	2.6	8	0	3	42.5	195	44	3	19.8	172	224	1.9	0.3	5.2	5.0	200.0	662.6	2050.0		0.0	-53.4	-11.8	409.1
SNNPR					1	2.2	10		4	42.1	87	207	2.6	0.7	2.6	4.6					300.0	1792.1	770.0	
Gambella													0.0	0.0	0.0	0.0								
Somali													0.0	0.0	0.0	0.0								
Harari													0.0	0.0	0.0	0.0								
Tigray	34	68.5	262	2823	5	17.8	65	74	4	11.4	25	58	2.6	0.2	0.8	1.3	-88.2	-83.4	-90.5	-97.9	-20.0	-36.0	-61.5	-21.6
Multi-regional													0.0	0.0	0.0	0.0								
Grand Total	674	3750.0	4375	6896	104	1752.7	2000	2336	156	6181.7	3312	4499	100	100	100	100	-76.9	64.8	-24.3	-34.8	50.0	252.7	65.6	92.6

Source: Ethiopian Investment Commission

VIII. International Economic Developments

8.1 Overview of the World Economy⁶

In the second quarter of 2016/17, global economic activities and trade indicators showed a continued moderate recovery.

During this period, global manufacturing activities reached the highest level recorded in more than a year. The global composite output Purchasing Managers' Index (PMI) increasing to 53.3 in the final quarter of 2016. Quarterly PMIs rose in all major advanced economies, with PMIs in Japan returning to an expansionary path. PMIs increased in China and Russia, while India's PMI showed a sharp decline.

In United States, real GDP grew at an annualized rate of 3.5% in the first quarter of 2016/17, supported primarily by consumer spending, net trade and turnaround in the contribution of inventories. Labor market conditions tightened further, with monthly increases in non-farm payroll employment averaging 165,000 in the three months up to

December. This contributed to a further acceleration of wage gains, with annual growth in average hourly earnings rising to 2.9%.

In Japan, economic growth remains modest. Real GDP increased by 0.3% quarter on quarter, in the first quarter of 2016/17, as both domestic demand growth and net trade remained subdued. Meanwhile, the momentum of private consumption remained weak. Despite tight labor market, the unemployment rate remain 3% in October.

In the United Kingdom, indicators point renewed resilience of the economy despite increase in inflation.

In China, the economic growth has stabilized following the rise to 6.7% year on year, in the first quarter. November data show stable industrial production growth.

⁶Sections 8.1 – 8.4 are excerpted from European Central Bank monthly bulletin of 1/2017.

8.2. Inflation Developments

Global inflation continued to increase in November, on the back of declining negative contributions from energy prices. Annual consumer price inflation in the member countries of the Organization for Economic Co-operation and Development (OECD) picked up to 1.4% in November, reaching the highest figure in two years. Excluding food and energy, annual inflation in the OECD stabilized at 1.7%. Fading base effects of past declines in commodity prices are expected to support a further increase in headline inflation in the months ahead, while the presence of spare capacity will continue to weigh on global inflation.

Annual headline CPI inflation in the United States increased to 1.5% in September,

while CPI excluding food and energy fell to 2.2%. In Japan, headline CPI inflation rose further in November, standing at 0.5%, year on year. At the same time, annual growth in the CPI excluding fresh food and energy – the Bank of Japan’s preferred measure of core inflation – decelerated to 0.2%. In U.K, annual CPI inflation accelerated to 1.6% in December 2016, driven partly by energy prices. The impact of the weakening of the pound sterling is also becoming increasingly visible in the first stages of the pricing chain, as shown by sharp increases in import and producer prices over recent months.

8.3 Commodity price

Oil prices started to increase due to the decision taken by the Organization of the Petroleum Exporting Countries (OPEC) on 30 November to cut output by 1.2 million barrels per day as from January 2017, and were buoyed further by non-OPEC producers' agreement on 12 December to cut output by 0.6 million barrels per day.

The prices of non-oil commodities have increased marginally since mid-December, driven mainly by a substantial rise in iron ore and copper prices, related to higher-than-expected demand for metals in China and some supply disruptions.

8.4 Exchange Rate Developments

In foreign exchange markets, the euro was broadly stable in trade-weighted terms. In bilateral terms, since 8 December, the euro has appreciated by 2.2% against the pound sterling, amid heightened uncertainty about the United Kingdom's prospects of leaving the European Union. The euro depreciated vis-à-vis a number of other major currencies of advanced economies, including the US dollar (by 0.9%), the Japanese yen (by 1.3%) and the Swiss franc (by 1.4%). The euro also depreciated against most currencies of emerging market economies, including the Chinese Renminbi (by 1.5%), as well as against the currencies of other non-euro area EU countries.

faced considerable capital outflow pressures towards the end of 2016. Mexico and Turkey were affected to a particular degree, recording a noticeable depreciation of their currencies and a sharp rise in interest rates.

Amid tighter financial conditions, some emerging market economies (EMEs) have

Second Quarter 2016/17

8.5. Impact of Global Economic Development on Ethiopian Economy

The global economic activities and trade indicators pointed a continued moderate recovery. Global manufacturing activities witnessed a further expansion. The global composite output Purchasing Managers' Index (PMI), which measures economic health of the manufacturing sector, reached the highest level recorded in more than a year.

During same period, global inflation started to increase due to recovery in global energy prices. According to the World Bank commodity prices data published on March 2, 2017, quarterly average global energy price index increased by 11.1 percent compared to the preceding quarter.

Similarly, prices of metals and fertilizers increased by 10.0 percent and 2.1 percent, respectively.

On the other hand, global price of agricultural commodities declined marginally by 1.6 percent. Prices of precious metals also fall by 9.3 percent against the previous quarter.

Thus, the observed decline in global prices of agricultural commodities and precious metals might have a daunting effect on the country's export revenue. While, increasing energy and metal prices could raise the country's import bills.