

## **I. OVERVIEW**

### **1.1 International Economic Developments**

According to the European Central Bank (ECB) economic bulletin issued on 3/2016, recent survey based indicators suggest that global economic activity has stabilized during the third quarter of 2015/16. The turbulence in financial markets observed at the beginning of the year has now settled, as heightened concerns about the global economy have gradually diminished. Indeed, stock markets have recovered all of the losses suffered since the start of the year, volatility has declined and commodity prices have also rebounded fairly. This has helped to ease financial conditions in many emerging market economies (EMEs), which have seen capital flows return amid an improved global appetite for risk.

The global composite output Purchasing Managers' Index (PMI) increased slightly in March relative to February, pointing to some improvement in global activity. However, in quarterly terms the global output PMI for the third quarter of 2015/16 was still lower than that of the previous quarter, remaining below its long-term average.

This decline was largely due to developments in advanced economies, particularly in the United States, while the composite output PMI improved somewhat among EMEs. Overall, the PMI data suggest some deceleration in growth among advanced economies and continued modest growth in EMEs in the third quarter of 2015/16.

In United State, the soft patch in US activity appears to have continued into the third quarter of 2015/16, although underlying fundamentals remain healthy. Following a moderate expansion of real GDP by an annualized rate of 1.4 percent in the second quarter of 2015/16, economic activity showed signs of further deceleration in the third quarter of 2015/16. In particular, high-frequency indicators for business equipment spending suggested only modest growth in business investment. While real consumption growth remained moderate in February, recent manufacturing data indicate improving conditions in the sector.

Non-farm payrolls rose strongly in March and the labor force participation rate increased further, suggesting that previously discouraged workers are returning to the labour market. This resulted in only a small uptick in the unemployment rate, to 5.0 percent. Looking forward, the strengthening of the labour market is expected to support real income and consumption.

In Japan, the growth momentum remains passive. Economic indicators at the start of 2016 continue to point to sluggish economic activity, following a quarter-on-quarter decline in real GDP of 0.3 percent in the second quarter of 2015/16. Recent surveys indicate that private consumption was weak at the start of the year. Industrial production also remained subdued, although this was largely due to one-off factors, while real exports staged a mild recovery.

In UK, GDP growth is expected to moderate. In the second quarter of 2015/16 real GDP increased by 0.6 percent quarter on quarter, more than previously estimated and at a more rapid pace with respect to the previous quarter. In the second quarter of 2015/16 economic growth was driven by solid private consumption, while investment growth turned sharply negative on the back of uncertainty regarding the pace of global demand and net exports continued to exert a drag on growth.

In China, available data remain consistent with a gradual slowdown in activity growth, which has been underpinned by policy support and rapid credit expansion. In the third quarter of 2015/16, China recorded GDP growth of 6.7 percent year-on-year, which was marginally below that recorded in the previous quarter but in line with the new growth target range set by Chinese authorities for 2016 (6.5-7.0 percent). The latest short-term indicators point to sustained economic momentum, with industrial production, fixed-asset investment, credit growth and retail sales showing some improvements. There are also signs of stabilization in the housing market, with a modest rebound in residential investment and strong increases in house prices in the large cities. Conversely, trade data, which have shown a high degree of volatility in recent months, weakened in the third quarter of the 2015/16.

## **1.2 Macroeconomic Developments in Ethiopia**

### **Fuel prices**

During the third quarter of 2015/16, the average price of Brent crude oil, used as a point of reference for international oil price, declined by 36.4 percent and reached USD 34.4 per barrel compared with USD 54 a year earlier. Similarly, the average price of Brent oil showed a 20.9 percent contraction over the previous quarter.

In line with movements in the international oil prices, domestic retail prices were also adjusted downwards. Accordingly, the average retail price of fuel products in Addis Ababa was reduced by 9.4 percent to Birr 14.28 per liter from Birr 15.76 per liter a year ago. Similarly, retail prices fell 7.2 percent against the preceding quarter as the price of all types of petroleum products declined. The prices of gas oil and kerosene dropped 8 percent each, jet fuel (7.8 percent), fuel oil (7.3 percent) and regular gasoline (5 percent).

### **Inflation**

During the third quarter of 2015/16, headline inflation scaled up to 0.6 percent from -0.1 percent in the previous quarter, but slowed down compared to 2.3 percent registered last fiscal year same quarter. The marginal rise in quarterly headline inflation by 0.7 percentage point was attributed to a 1.7 percentage point rise in non-food inflation while food & non-alcoholic beverages inflation declined 0.2 percentage point. On the other hand, quarter-on-quarter headline inflation registered -1.7 percentage point slowdown on account of -3.3 percentage point decrease in food & non-alcoholic beverages price inflation which offset a 0.2 percentage point increase in non-food inflation. In the quarter under review, food & non alcoholic beverage inflation contributed -0.8 percent to headline inflation while that of non-food inflation was 1.3 percent.

## **Monetary Developments**

Broad money supply (M2) reached Birr 412.1 billion at the close of the third quarter of 2015/16, showing 3.9 percent quarterly growth and 18 percent quarter-on-quarter expansion mainly due to 24.9 percent rise in domestic credit.

Meanwhile, reserve money reached Birr 105.2 billion depicting 10.3 percent annual and 4 percent increase quarterly. Excess reserves of commercial banks also grew 12.1 and 37.2 respectively.

## **Interest rate**

Average savings deposit rate remained at 5.4 percent, throughout the year, while average lending interest rate increased to 12.38 from 11.88 percent a year ago. Similarly, weighted average yield on T-bills rose to 1.42 from 1.29 percent. Considering the March 2016 annual headline inflation of 7.5 percent, all real deposit rates and t-bills yields remained negative while average real lending rate was positive.

## **Financial Sector Developments**

The number of banks declined to 18 in March 2016 due to merger of the Construction & Business Bank with the Commercial Bank of Ethiopia. Out of the total 18 banks, 16 were private. In the review quarter, 73 new bank branches were opened, raising the total number of bank branches to 3,045 from 2,516 a year ago. As a result, one branch is serving 30,281<sup>1</sup> people on average. About 34.5 percent of the total bank branches were located in Addis Ababa, indicating a relatively high concentration in the capital city. The share of public banks in total bank branches increased marginally to 41 percent from 39 percent last year, while that of private banks was 59 percent.

Meanwhile, the total capital of the banking system increased 38.1 percent over the corresponding quarter of last year and reached Birr 41.12 billion, of which the share of private banks was 50.4 percent and that of public banks 49.6 percent. The share of Commercial Bank of Ethiopia in total

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<sup>1</sup> Total population is 92,205,000 as CSA estimation for 2016.

capital of the banking system declined to 31.4 percent from 36.0 percent a year ago, while that of Development Bank of Ethiopia stood at 18.2 percent.

The number of insurance companies stood at 17 of which 16 were privately owned and their number of branches increased to 414 from 369 a quarter earlier. Of the total branches, about 54.4 percent were located in Addis Ababa. Meanwhile, the total capital of the insurance industry reached Birr 3.1 billion.

The 35 micro-finance institutions (MFIs) operating in the country mobilized Birr 17.6 billion in savings deposit which was 23.7 percent higher than a year ago. Similarly, their outstanding credit increased by 23.4 percent to Birr 23.1 billion. Their total asset also grew by 19.7 percent to Birr 34.7 billion at the end of March, 2016.

Total resources mobilized by the banking system (the sum of net change in deposit, loans collected and net change in borrowings) registered a 1.6 percent increase over the same quarter of last year and stood at Birr 32.7 billion.

Total fresh loans disbursement was Birr 17.8 billion, about 21 percent higher than last year same quarter. Of the total new loans disbursed, public banks disbursed Birr 11.9 billion (66.7 percent)

Of the total fresh loans, the share of industry sector was Birr 5.0 billion (28.1 percent) followed by housing and construction (Birr 4.2 billion or 23.8 percent), domestic trade (Birr 2.1 billion or 11.9 percent), international trade (Birr 1.7 billion or 9.4 percent).

At the same time, the banking system collected Birr 16.9 billion, about 29.2 percent higher than last year same period, of which the share of private banks was Birr 10.5 billion (62.3 percent). About 90.6 percent of the loan was collected from private sector.

Total outstanding credit of the banking system (excluding credit to government and interbank lending) increased to Birr 254.6 billion at the end of March 2016. Out of total outstanding loan

and advances of private banks, 99.8 percent was claims on private sector in contrast with 46.8 percent for public banks.

### **External Sector and Foreign Exchange Developments**

Total merchandise export earnings at USD 765.4 million showing a 6.8 percent decline compared to the same period last year. This was largely attributed to the decrease in the export earnings from coffee (4.2 percent), gold (42.5 percent), pulses (0.6 percent), chat (7.5 percent), leather & leather products (22.2 percent), live-animals (8.3 percent), electricity (50.9 percent) and others (19.2 percent) owing to slowdown in international price, volume of export or both.

Meanwhile, total merchandise import bill was USD 4.4 billion showing a 4.1 percent growth as import value of consumer goods rose (25.2 percent), semi finished goods (24.8 percent), raw materials (1 percent) and miscellaneous (5.8 percent). Import bills of capital goods and fuel, however, fell 9.3 and 29.5 percent, respectively.

Net transfer receipts increased 31.2 percent over last year same quarter and reached USD 1.8 billion of which USD 1.5 billion was private transfers which surged 29 percent. Net official transfers also increased by 37.8 percent and stood at USD 360 million.

Hence, current account balance (including official transfers) registered USD 2.09 billion deficit which was slightly higher than USD 2.08 billion deficit a year ago. This was ascribed to wider merchandise trade deficit and net service payments.

In contrast, capital account balance recorded USD 1.3 billion in surplus; about 71.1 percent higher than last year same period due to increased inflows of net official long-term capital (112.4 percent), other public sector long (321.3 percent) and foreign direct investment (23.2 percent).

In the inter-bank forex market, the weighted average official exchange rate of Birr with respect to USD depreciated 4.9 percent compared to last year same quarter and 1.2 percent against the preceding quarter, and reached Birr 21.2059/USD. Meanwhile, the REER, which measures Ethiopia's external sector competitiveness, appreciated by 4.2 percent on yearly terms despite 0.3 percent depreciation in NEER due to relatively higher domestic inflation compared to stable or low trading partners' inflation rates.

### **Federal Government Fiscal Operations**

Total Federal government revenue reached Birr 47.5 billion of which tax revenue constituted 70.9 percent and non-tax 29.1 percent. Similarly, Birr 291 million was mobilized through grants and relief.

During the review quarter, total Federal government expenditures, including regional transfers, registered a 64.5 percent quarter-on-quarter growth and stood at Birr 52.4 billion. Of the total expenditure, regional transfers accounted for Birr 21.0 billion (or 40.1 percent) capital expenditure Birr 17.7 billion (or 33.8 percent) and current expenditure Birr 13.7 billion (or 26.1 percent). Consequently, the fiscal balance of the Federal government recorded Birr 4.8 billion deficit, which was higher than Birr 869.4 million deficit a year earlier.

### **Investment**

The third quarter of 2015/16, saw 16 investment projects with total investment capital of Birr 77 million which have become operational. On yearly basis, the number of investment projects and investment capital surged by 45.5 and 14.4 percent, respectively.

## II. Energy Production and Processing

### 2.1. Import of Petroleum Products

The total volume of petroleum products imported during the third quarter of 2015/16 amounted to 808.6 thousand of metric tons, and depicted a 18 percent annual growth. This growth was attributed to higher import of gas oil (37.7 percent) and regular gasoline (19.1 percent), while imports of fuel oil and jet fuel declined by 41.4 and 5.2 percent, respectively.

Of the total petroleum imports, gas oil accounted for 63 percent, jet fuel 24.4 percent,

regular gasoline 9.6 percent and fuel oil 3.1 percent.

Quarter wise, the volume of petroleum products imported increased by 6.1 percent over the previous quarter, owing to 22.3 percent increase in the import of jet fuel followed by regular gasoline (8.3 percent) and gas oil (2.3 percent) while that of fuel oil declined by 21.5 percent (Table 2.1).

**Table 2.1: Volume of Petroleum Products Imported**

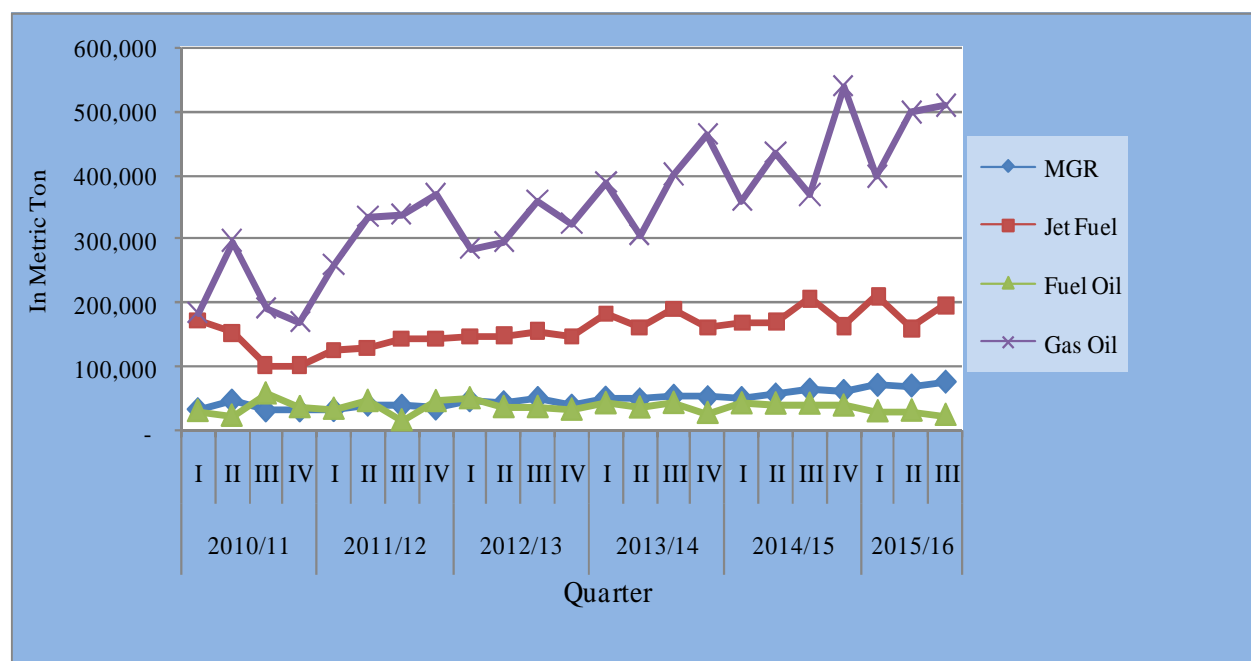
(In Metric Ton)

Petroleum Products	2014/15		2015/16				Percentage Change	
	Qtr. III		Qtr. II		Qtr. III			
	A	Share (In %)	B	Share (In %)	C	Share (In %)	C/A	C/B
Regular Gasoline (MGR)	64,895	9.5	71,317	9.4	77,272	9.6	19.1	8.3
Jet Fuel	207,909	30.3	161,194	21.1	197,134	24.4	-5.2	22.3
Fuel Oil	42,622	6.2	31,854	4.2	24,995	3.1	-41.4	-21.5
Gas Oil (ADO)	369,681	54.0	497,966	65.3	509,230	63.0	37.7	2.3
Total	685,107	100.0	762,331	100.0	808,631	100.0	18.0	6.1

**Source:** Ethiopian Petroleum Enterprise

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





**Source:** Ethiopian Petroleum Enterprise

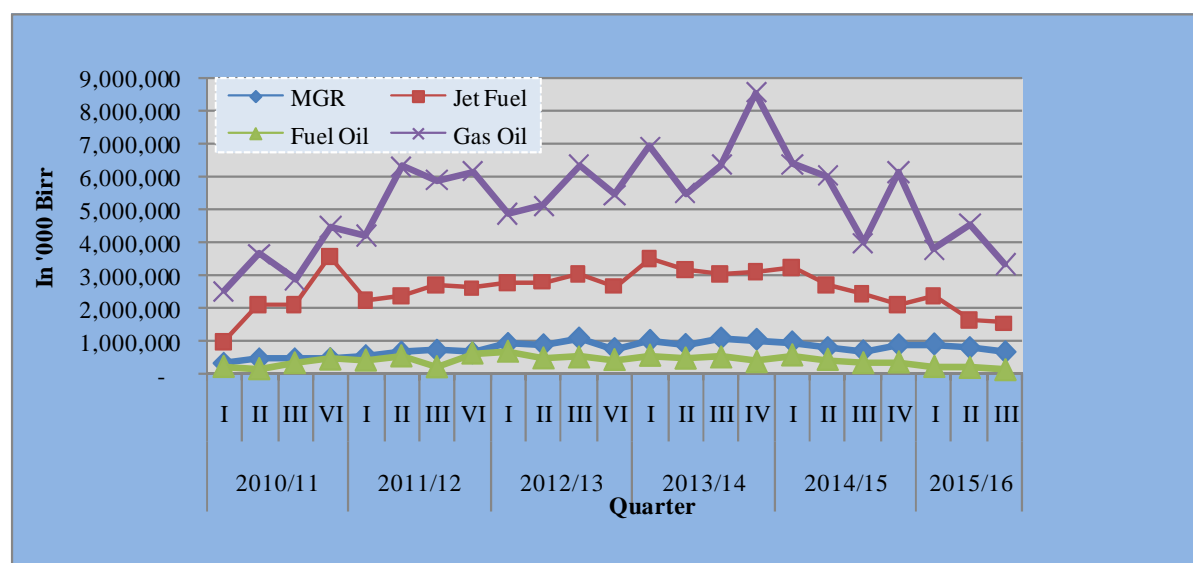
Import bill of petroleum reached Birr 5.7 billion, showing a 23.8 and 21.2 percent decline over same quarter of last year and the preceding quarter, respectively owing to steady decline in international oil price, despite increased import volume.

Hence, on quarter terms, the value of fuel oil declined 33.1 percent, gas oil 26.6 percent, regular gasoline 16 percent and jet fuel 7.5 percent. Similarly, quarter-on-quarter basis, import bill of fuel oil dropped 61.5 percent, jet fuel 37.4 percent, gas oil 15.7 percent and regular gasoline 4.7 percent (Table 2.2).

**Table 2.2: Value of Petroleum Products Imported**

(In '000 Birr)

Petroleum Products	2014/15		2015/16				Percentage Change	
	Qtr. III		Qtr. II		Qtr. III			
	A	Share (In %)	B	Share (In %)	C	Share (In %)	C/A	C/B
Regular Gasoline (MGR)	710,462	9.6	806,457	11.2	677,357	12.0	-4.7	-16.0
Jet Fuel	2,419,104	32.6	1,636,083	22.8	1,513,936	26.7	-37.4	-7.5
Fuel Oil	337,492	4.5	194,025	2.7	129,878	2.3	-61.5	-33.1
Gas Oil (ADO)	3,963,886	53.3	4,549,651	63.3	3,340,336	59.0	-15.7	-26.6
Total	7,430,945	100.0	7,186,215	100.0	5,661,508	100.0	-23.8	-21.2

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

The 38.5 percent down turn in the average FOB price of petroleum products against same quarter of last year was due to the fall in the FOB prices of fuel oil (50.6 percent), gas oil (42.2 percent), jet fuel (39.4 percent), and regular gasoline (27.6 percent).

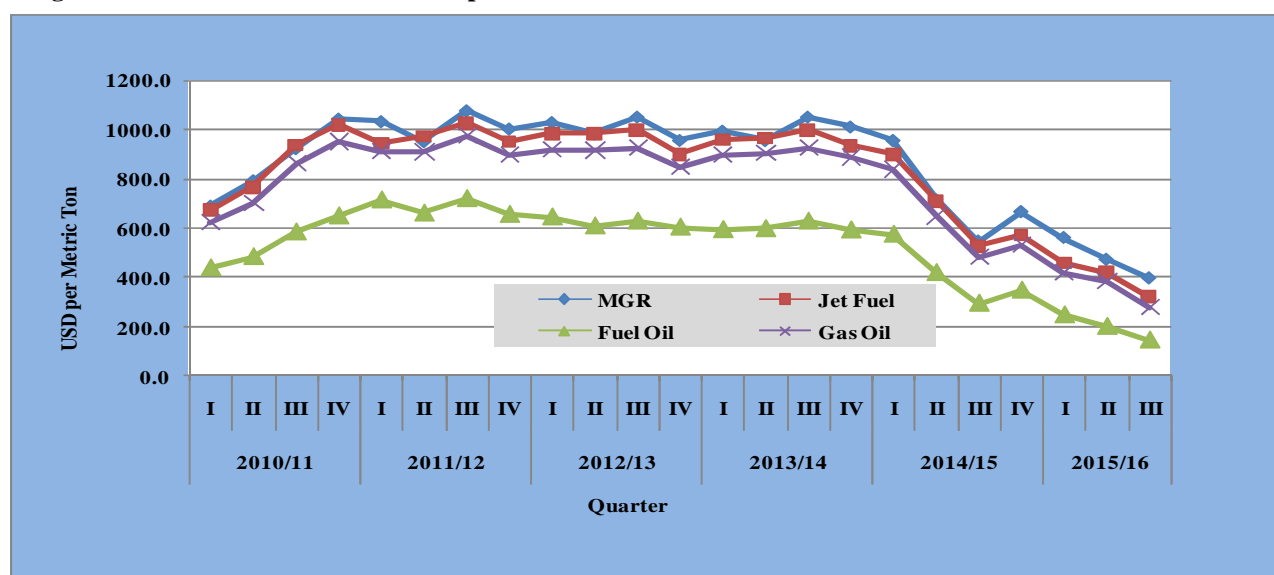
Similarly, the average FOB price of petroleum products showed a 22.7 percent decline compared with the preceding quarter (Table 2.3).

Table 2.3: FOB Price of Petroleum Products Imported

(In USD/ Metric Ton)

Petroleum Products	2014/15	2015/16		Percentage Change	
	Qtr. III	Qtr. II	Qtr. III		
	A	B	C	C/A	C/B
Regular Gasoline (MGR)	545.9	470.7	395.3	-27.6	-16.0
Jet Fuel	526.6	419.4	319.0	-39.4	-23.9
Fuel Oil	294.3	200.1	145.3	-50.6	-27.4
Gas Oil (ADO)	484.2	384.3	279.6	-42.2	-27.2
<b>Average</b>	<b>462.7</b>	<b>368.6</b>	<b>284.8</b>	<b>-38.5</b>	<b>-22.7</b>
<b>Brent Crude Oil (USD/Barrel)</b>	54.0	43.4	34.4	36.4	20.9

**Source:** Ethiopian Petroleum Enterprise

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

**Source:** Ethiopian Petroleum Enterprise

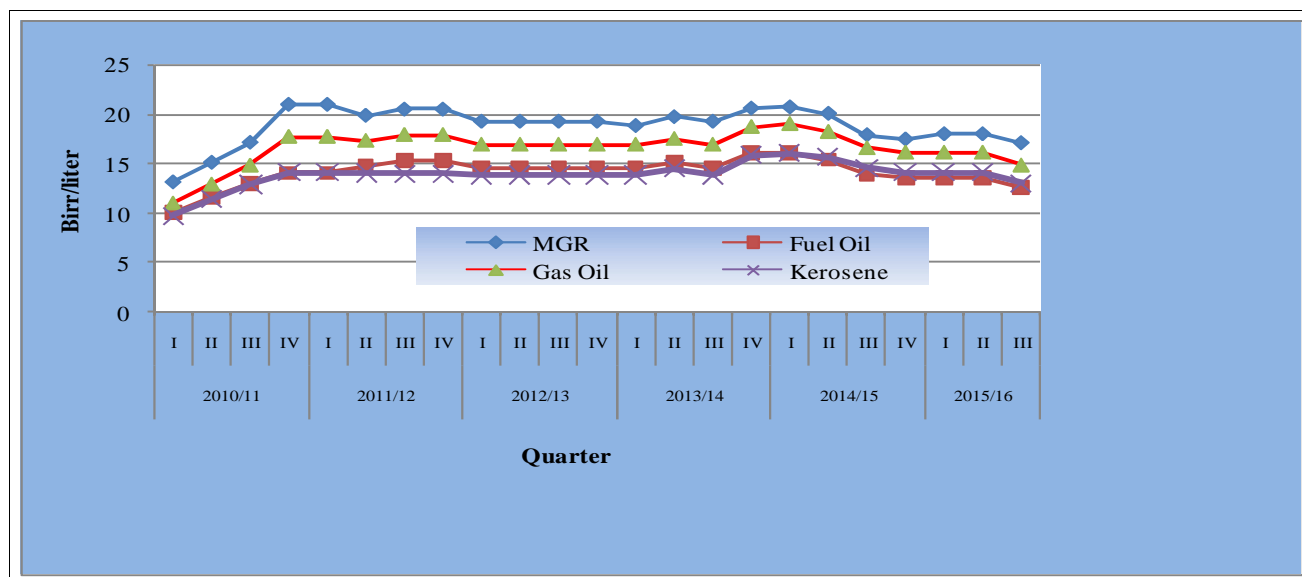
During the third quarter of 2015/16, the average price of Brent crude oil used as a point of reference for international oil price, declined by 36.4 percent and reached USD 34.4 per barrel compared with USD 54 a year ago. It also showed a 20.9 percent contraction against the previous quarter (Table 2.3).

In line with movements in international oil prices, domestic retail prices were also adjusted downwards. Thus, the average retail price of fuel in Addis Ababa dropped 9.4 percent to Birr 14.28 per liter from Birr 15.76 per liter a year ago. Similarly, the retail prices of fuel fell by 7.2 percent vis-a-vis the preceding quarter as the price of all types of petroleum products declined (Table 2.4).

**Table 2.4: Addis Ababa Average Retail Prices of Fuel**

(Birr/Liter)

Petroleum Products	2014/15	2015/16		Percentage Change	
	Qtr III	Qtr II	Qtr III		
	A	B	C	C/A	C/B
Regular Gasoline (MGR)	17.86	17.96	17.06	-4.5	-5.0
Fuel Oil	13.94	13.59	12.59	-9.7	-7.3
Gas Oil (ADO)	16.56	16.10	14.81	-10.6	-8.0
Kerosene	14.55	14.13	13.00	-10.7	-8.0
Jet fuel	15.88	15.14	13.95	-12.2	-7.8
<b>Average</b>	<b>15.76</b>	<b>15.38</b>	<b>14.28</b>	<b>-9.4</b>	<b>-7.2</b>

**Source:** Ministry of Trade**Fig.2.4: Trends of Addis Ababa Average Retail Prices****Source:** Ministry of Trade

## 2.2. Electricity Generation

Total electricity generated during the third quarter of 2015/16 reached 2.6 billion KWH registering 5.4 percent increase over the same quarter of last year due to enhanced production of hydropower (2.7 percent) and wind power (40.9 percent) .

About 90.6 percent of the total energy was produced from hydropower and 9.4 percent

from wind power. The contribution of thermal power was insignificant and no energy production from geothermal sources (Table 2.5).

Virtually all the electric power was generated through inter connected system (ICS<sup>2</sup>) while self contained system (SCS<sup>3</sup>) having minimal share (Table 2.6).

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<sup>2</sup> The generated power from different power stations stored in substations before distribution

<sup>3</sup> Power stations distribute the generated power independently

**Table 2.5: Electricity Generation by Sources**

(In '000 of K.W.H)

Power Source	2014/15		2015/16				Percentage Change	
	Qtr. III		Qtr. II		Qtr. III			
	A	Share (In %)	B	Share (In %)	C	Share (In %)	C/A	C/B
Hydropower	2,270,974.4	93.0	2,214,889.4	89.3	2,332,942.6	90.6	2.7	5.3
Thermal Power	615.7	0.0	1,084.3	0.0	1,041.4	0.0	69.1	-4.0
Geothermal	-	0.0	-	0.0	-	-	0.0	0.0
wind	171,611.4	7.0	265,500.1	10.7	241,744.7	9.4	40.9	-8.9
Total	2,443,201.54	100.0	2,481,473.85	100.0	2,575,728.68	100.0	5.4	3.8

**Source:** Ethiopian Electric Power

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

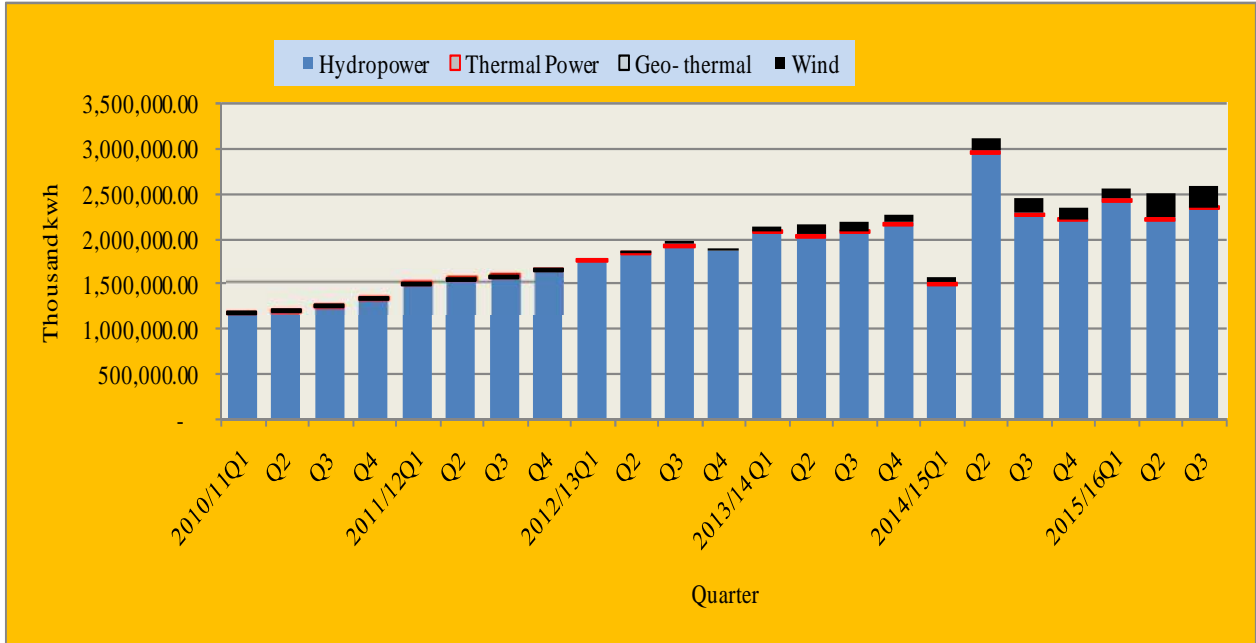
(In '000 of K.W.H)

System of Power Supply	2014/15		2015/16				Percentage Change	
	Qtr III		Qtr II		Qtr III			
	A	Share (In %)	B	Share (In %)	C	Share (In %)	C/A	C/B
ICS								
Hydro Power	2,270,974.4	93.0	2,214,889.4	100.0	2,332,942.6	90.6	2.7	5.3
Thermal Power	-	0.0	88.8	0.0	-	-		-100.0
Geothermal	-	0.0	-	0.0	-	-		
Wind	171,611.4	7.0	265,500.1	0.0	241,744.7	9.4	40.9	-8.9
Sub-Total	2,442,585.8	100.0	2,480,478.3	100.0	2,574,687.3	100.0	5.4	3.8
SCS		0.0		0.0		-		
Hydro Power	-	0.0		0.0	-	-		
Thermal Power	615.7	0.0	995.5	0.0	1,041.4	0.0	69.1	4.6
Geothermal	-	0.0	-	0.0	-	-		
wind	-	0.0	-	0.0	-	-		
Sub-Total	615.7	0.0	995.5	0.0	1,041.4	0.0	69.1	4.6
Grand Total	2,443,201.5	100.0	2,481,473.9	100.0	2,575,728.7	100.0	5.4	3.8

**Source:** Ethiopian Electric Power



**Fig.2.5: Volume of Electricity Production by Type**



**Source:** Ethiopian Electric Power

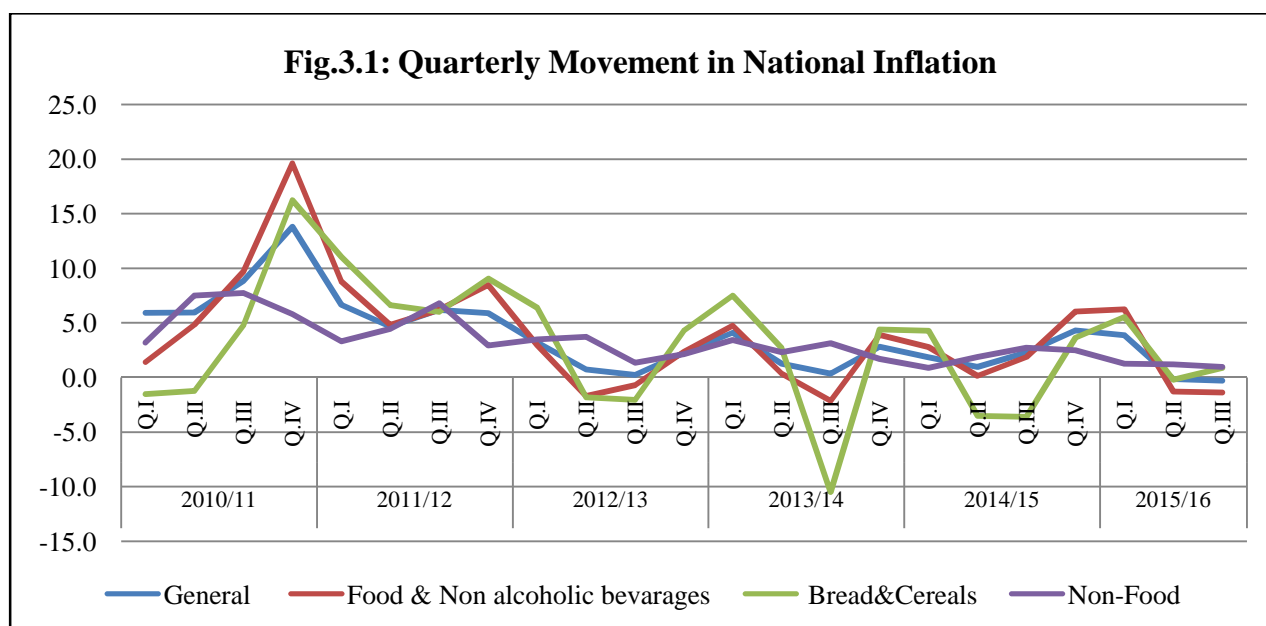
### III. Quarterly Price Developments

#### 3.1 Developments in National CPI

During the third quarter of the fiscal year 2015/16, headline inflation scaled up to 0.6 percent from -0.1 percent in the previous quarter, but slowed down compared to 2.3 percent registered last year same quarter. The 0.7 percentage point marginal rise in quarterly headline inflation was attributed to a 1.7 percent rise in non-food inflation offsetting 0.2 percent fall in food & non-alcoholic beverages inflation. Quarter-on-quarter, headline inflation registered -1.7 percentage point slow down on account of -3.3 percentage point decrease in food & non-alcoholic beverages inflation while non-food inflation rose 0.2 percentage point. In the review quarter, food & non alcoholic beverage inflation contributed -0.8 percent to the quarterly headline inflation while that of non-food inflation was 1.3 percent (Table 3.1 and Fig 3.2).

During the review quarter, food items such as food products n.e.c, fruit, non-alcoholic beverages and meat have recorded a quarterly price declines while that of sugar jam, honey, chocolate, milk, cheese & egg, bread and cereal, oils and fats and vegetables tended to increase (Table 3.2).

On the other hand, non-food inflation has slightly scaled up by 1.7 percentage point owing to a rise in inflation rates of alcoholic beverages and tobacco, housing, water, electricity, gas and other fuel, communication and furnishings, household equipment and routine maintenance of houses. In contrast, education, health, transport, recreation and culture, restaurant and hotel saw price declines (Table 3.3).



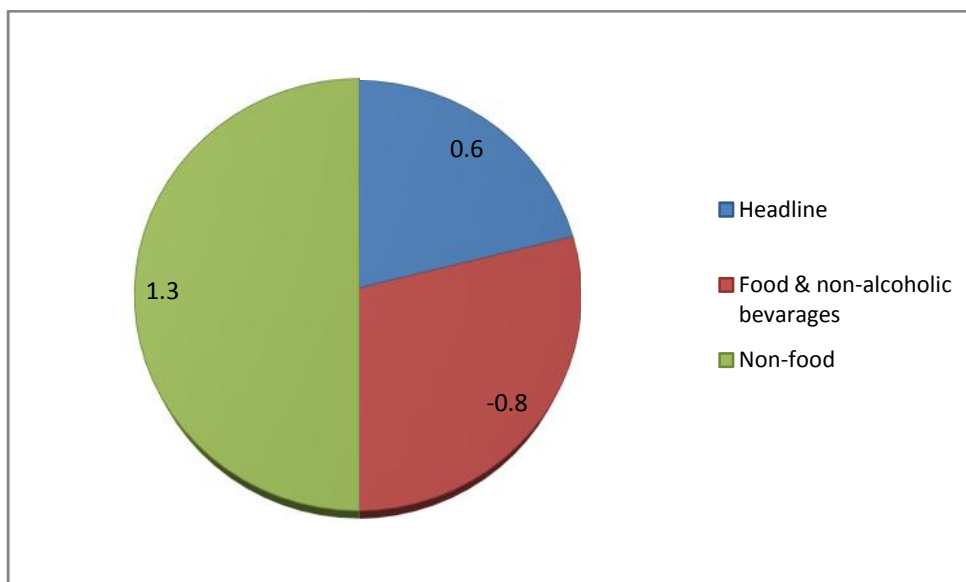
Source: CSA

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

Items	Weights	2014/15	2015/16		Change in %age Points		Contribution to	
		QIII	QII	QIII				
		A	B	C	C-A	C-B	QIII headline inflation	Change in headline inflation over QII
<b>Headline</b>	<b>100</b>	<b>2.3</b>	<b>-0.1</b>	<b>0.6</b>	<b>-1.7</b>	<b>0.7</b>	0.6	0.7
Food & non-alcoholic beverages	53	1.9	-1.3	-1.5	-3.3	-0.2	-0.8	-0.1
Non-Food	47	2.7	1.2	2.9	0.2	1.7	1.3	0.8

Source: CSA and NBE Staff Computation

**Fig.3.2: Contribution of Food and Non-alcoholic beverages and Non-food Inflation in the 2015/16 FY Third Quarter Headline Inflation**



**Source:** NBE Staff Computation

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

Items	Weights	2014/15	2015/16		Change in %age points		Contribution to	
		QIII	QII	QIII				
		A	B	C	C-A	C-B	QIII food inflation	change in Food Inflation over QII
<b>Food &amp; Non-alcoholic beverages</b>	<b>52.8</b>	<b>1.9</b>	<b>-1.3</b>	<b>-1.5</b>	<b>-3.3</b>	<b>-0.2</b>	<b>-1.5</b>	<b>-0.2</b>
Bread & Cereals	18.5	-3.6	-0.2	1.8	5.4	2.0	0.6	0.6
Meat	4.3	2.3	1.3	0.8	-1.5	-0.5	0.1	0.0
Milk, Cheese & Egg	2.2	5.5	2.4	5.0	-0.5	2.6	0.3	0.1
Oils & Fats	3.7	5.4	-3.3	-2.9	-8.4	0.3	-0.2	0.0
Fruit	0.3	7.5	7.8	0.5	-6.9	-7.3	0.0	0.0
Vegetables	13.5	8.1	-0.1	0.0	-8.1	0.1	0.0	0.0
Sugar Jam, Honey, Chocolate	1.0	-0.5	0.9	6.1	6.5	5.2	0.1	0.0
Food Products n.e.c	4.7	4.9	-8.2	-16.2	-21.2	-8.0	-2.0	-0.9
Non-alcoholic Beverages	4.6	-5.7	-3.1	-4.7	1.0	-1.6	-0.2	-0.1

**Source:** CSA and NBE Staff Computation

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

Item	Weights	2014/15	2015/16		Change in %age points		Contribution to	
		QIII	QII	QIII				
		A	B	C	C-A	C-B	QIII non-food inflation	change in non-food inflation over QII
<b>Non-Food</b>	<b>47.2</b>	<b>2.7</b>	<b>1.2</b>	<b>2.9</b>	<b>0.2</b>	<b>1.7</b>	<b>2.6</b>	<b>1.9</b>
Alcoholic Beverages and Tobacco	4.9	7.7	1.1	7.1	-0.6	6.1	0.8	0.6
Clothing and Footwear	6.6	2.7	0.6	1.0	-1.6	0.4	0.1	0.1
Housing, Water, Electricity, Gas and Other Fuel	16.3	2.9	0.1	3.6	0.7	3.5	1.3	1.3
Furnishings, Household Equipment and Routine Maintenance of Houses	5.4	2.0	2.0	3.2	1.2	1.2	0.4	0.1
Health	1.1	3.5	5.0	2.0	-1.5	-3.0	0.1	-0.1
Transport	2.8	-3.1	1.8	-1.1	2.0	-2.9	0.0	-0.1
Communication	1.1	0.5	-2.5	-0.9	-1.4	1.6	0.0	0.0
Recreation and Culture	0.6	0.6	5.4	3.3	2.6	-2.2	0.0	0.0
Education	0.4	0.1	9.2	0.1	0.0	-9.1	0.0	0.0
Restaurant Hotel	5.5	2.0	3.3	2.0	0.0	-1.3	0.0	0.0
Miscellaneous Goods	2.6	1.4	0.9	0.9	-0.4	0.0	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 scaled down to 0.7 percent from 2.2 percent a year earlier.

Regional states such as Harari, SNNP, Tigray and Dire Dawa have registered higher quarterly headline inflation than the regional average. The highest headline inflation was recorded in Harari (6.1 percent) and the lowest inflation (-1.5 percent) in Oromia and Addis Ababa, revealing about 7.6 percentage point margin between the highest and lowest inflation rates.

The deviation<sup>4</sup> in the regional headline inflation rates from the average (as represented by standard deviation) was 2.0 percent which was slightly higher than 1.6 percent registered in the previous quarter (Table 3.4).

Likewise, the regional average for food & non-alcoholic beverages inflation has slightly decreased to -0.7 percent compared to -0.5 percent registered in the previous quarter. Regional states such as SNNP, Dire Dawa, Harari and Tigray have experienced higher

quarterly food & non-alcoholic beverages inflation than the regional average inflation. The highest average food & non-alcoholic inflation was observed in SNNP (1.1 percent) and the lowest in Addis Ababa (-3.9 percent) revealing 5.0 percentage point margin. The variation in food & non-alcoholic beverages inflation measured by standard deviation was 1.6 percentage points compared with 2.8 percentage point a quarter earlier (Table 3.4).

On the other hand, the regional non-food inflation increased to 2.1 percent compared to 0.8 percent in the previous quarter. Regional states such as Harari, Afar and Tigray have experienced non-food inflation rates higher than the regional average. The highest average non-food inflation (12.9 percent) was recorded in Harari and the lowest (-1.4 percent) in Dire Dawa, revealing a 14.3 percentage point margin. The variation in non-food inflation measured by the standard deviation was 3.7 percent vis-a-vis 2.8 percent in the previous quarter (Table 3.4).

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<sup>4</sup> The standard deviation shows how much dispersion exists from the average value.

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

2014/15			2015/16						Annual Change			C
QIII			QII			QIII						
A			B			C			D=C-A			
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
1.9	2.9	1.2	-0.8	-3.9	1.7	1.4	1.1	1.5	-0.6	-1.8	0.2	2
4.9	0.5	9.9	2.0	1.7	2.3	6.1	0.2	12.9	1.2	-0.3	3.0	4
4.2	4.1	4.3	-0.4	-1.5	1.1	-1.5	-2.9	0.2	-5.7	-7.0	-4.1	-1
-2.1	-3.1	-1.1	2.8	4.9	0.9	1.2	0.2	2.2	3.3	3.3	3.3	-1
2.4	3.7	0.2	-1.6	-3.7	2.2	-0.1	-0.5	0.6	-2.4	-4.1	0.4	1
2.3	4.2	0.9	-0.6	-3.8	2.2	-1.5	-3.9	0.5	-3.7	-8.0	-0.5	-0
0.0	-1.3	-4.4	1.0	-0.6	-0.9	0.9	0.9	-1.4	1.0	2.2	3.0	0
0.8	3.8	-2.9	1.2	0.0	2.8	0.2	-1.0	1.7	-0.6	-4.8	4.6	-1
3.9	0.9	7.4	-2.5	2.3	-7.1	0.4	0.0	0.8	-3.5	-0.8	-6.5	3
4.0	0.3	8.9	0.0	-1.8	2.5	-0.1	-2.2	2.5	-4.1	-2.5	-6.4	-0
1.6	0.8	2.4	1.4	1.3	1.5	0.6	-0.2	1.3	-1.1	-1.0	-1.1	-0
2.2	1.5	2.5	0.2	-0.5	0.8	0.7	-0.7	2.1				
2.1	2.4	4.7	1.6	2.8	2.8	2.0	1.6	3.7				
1.0	1.6	1.9	7.2	-6.0	3.4	2.9	-2.2	1.8				

**Source:** CSA and NBE Staff Computation



## IV. Monetary Developments

### 4.1. Money Supply and Credit

Broad money supply ( $M_2$ ) reached Birr 412.1 billion during the third quarter of 2015/16, showing 3.9 percent quarterly and 18.0 percent quarter-on-quarter expansion. The annual expansion in broad money was mainly driven by 24.9 percent rise in

domestic credit, offsetting a 29.2 percent decline in NFA. The annual growth in domestic credit was due to a 39.3 percent increase in credit to central government and 24.0 percent to non-central government (Table 4.1).

**Table 4.1: Factors Influencing Broad Money**

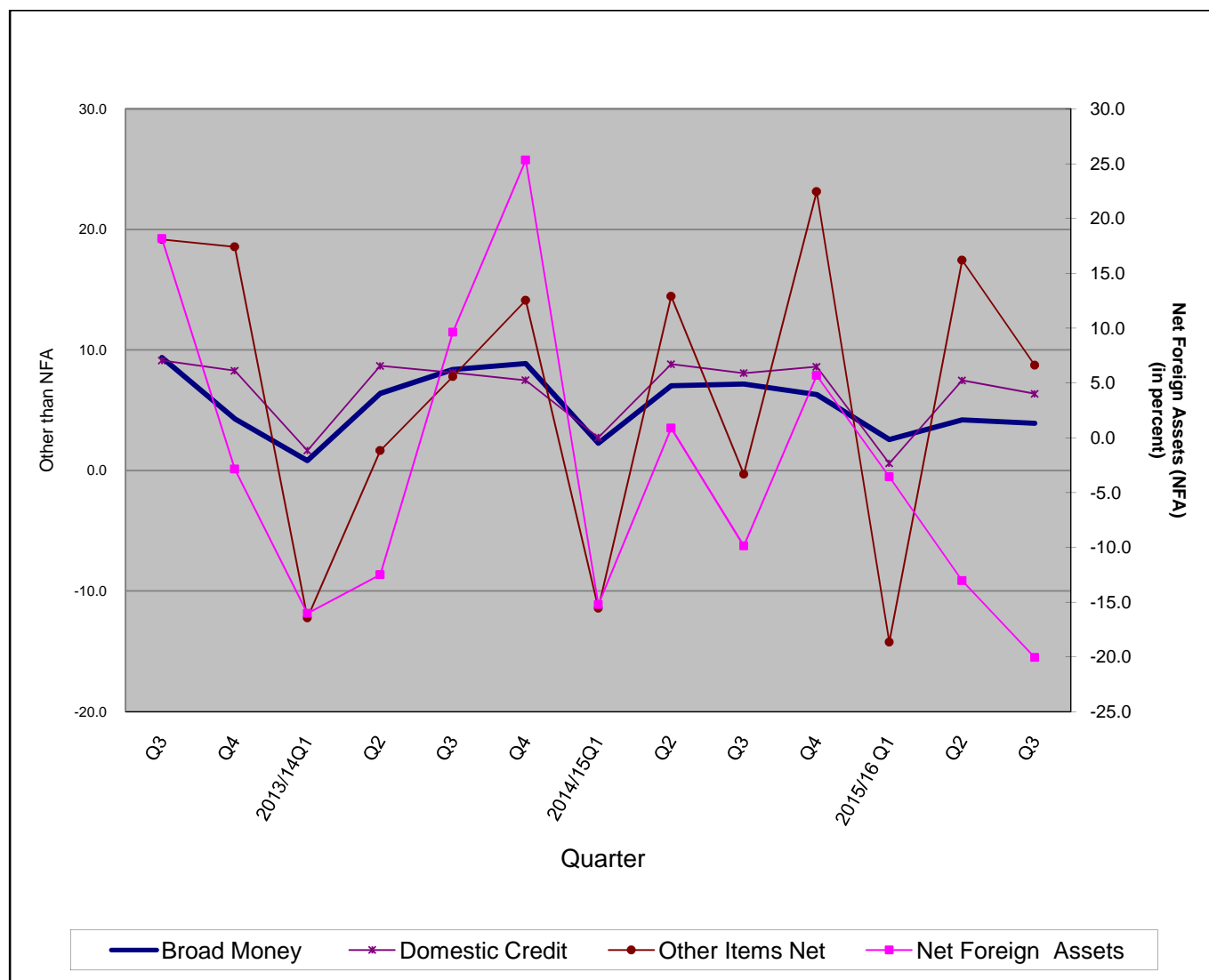
(In Millions of Birr, unless specified)

Particulars	2015		2016	Percentage Change		Contributions of each Component to Broad Money Growth	
	Qtr. III	Qtr. II	Qtr. III				
	(March.15)	(Dec.15)	(March.16)	D=C/A	E=C/B	Annual	Quarterly
	A	B	C				
1. External Assets (net)	35,516.9	31,444.6	25,157.5	-29.2	-20.0	-16.5	-40.5
2. Domestic Credit	362,235.3	425,422.4	452,516.2	24.9	6.4	143.4	174.7
<i>Claims on Central Gov't (net)</i>	21,242.0	25,008.5	29,582.0	39.3	18.3	13.2	29.5
<i>Claims on Non-Central Gov't</i>	340,993.3	400,414.0	422,934.2	24.0	5.6	130.1	145.2
<i>Financial Institutions</i>	22,857.0	24,857.0	24,857.0	8.8	0.0	3.2	0.0
<i>Others</i>	318,136.3	375,557.0	398,077.2	25.1	6.0	127.0	145.2
3. Other Items (net)	48,587.6	60,252.0	65,549.2	34.9	8.8	26.9	34.2
4. Broad Money ( $M_2$ )	349,164.6	396,615.1	412,124.5	18.0	3.9	100.0	100.0

**Source:** Staff computation, NBE

**Fig.IV.1: Major Determinants of Monetary Expansion**

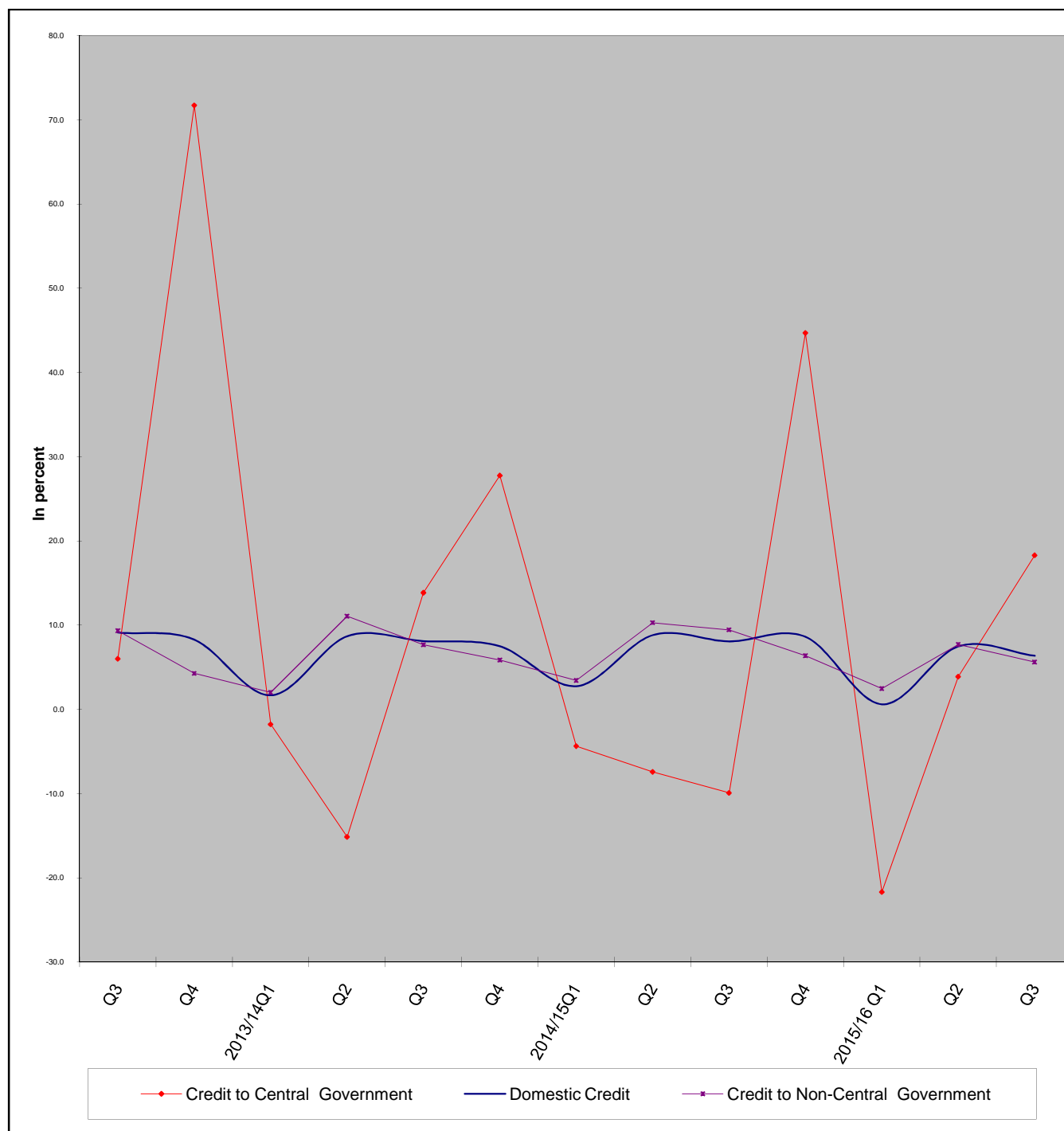
(Quarterly Change in Percent)



**Source:** Staff Computation, NBE

**Fig.IV.2: Composition of Domestic Credit**

(Quarterly Change in Percent)



**Source:** Staff computation, NBE

Component wise, quasi-money supply (time deposits and savings deposit) showed 23.9 percent annual and 4.9 percent quarterly growths while that of narrow money supply (currency outside banks and demand deposits) was 10.0 and 2.5 percent, respectively. Year-on-year basis, narrow money contributed 23.6 percent and quasi money 76.4 percent to the annual broad money growth (Table 4.2).

The surge in quasi-money was attributed to strenuous efforts of banks in expanding their branch network improving financial access as well as NBE's monetary policy stance aimed at maintaining price stability and ensuring safety and soundness of the financial system and creating conducive environment for economic growth.

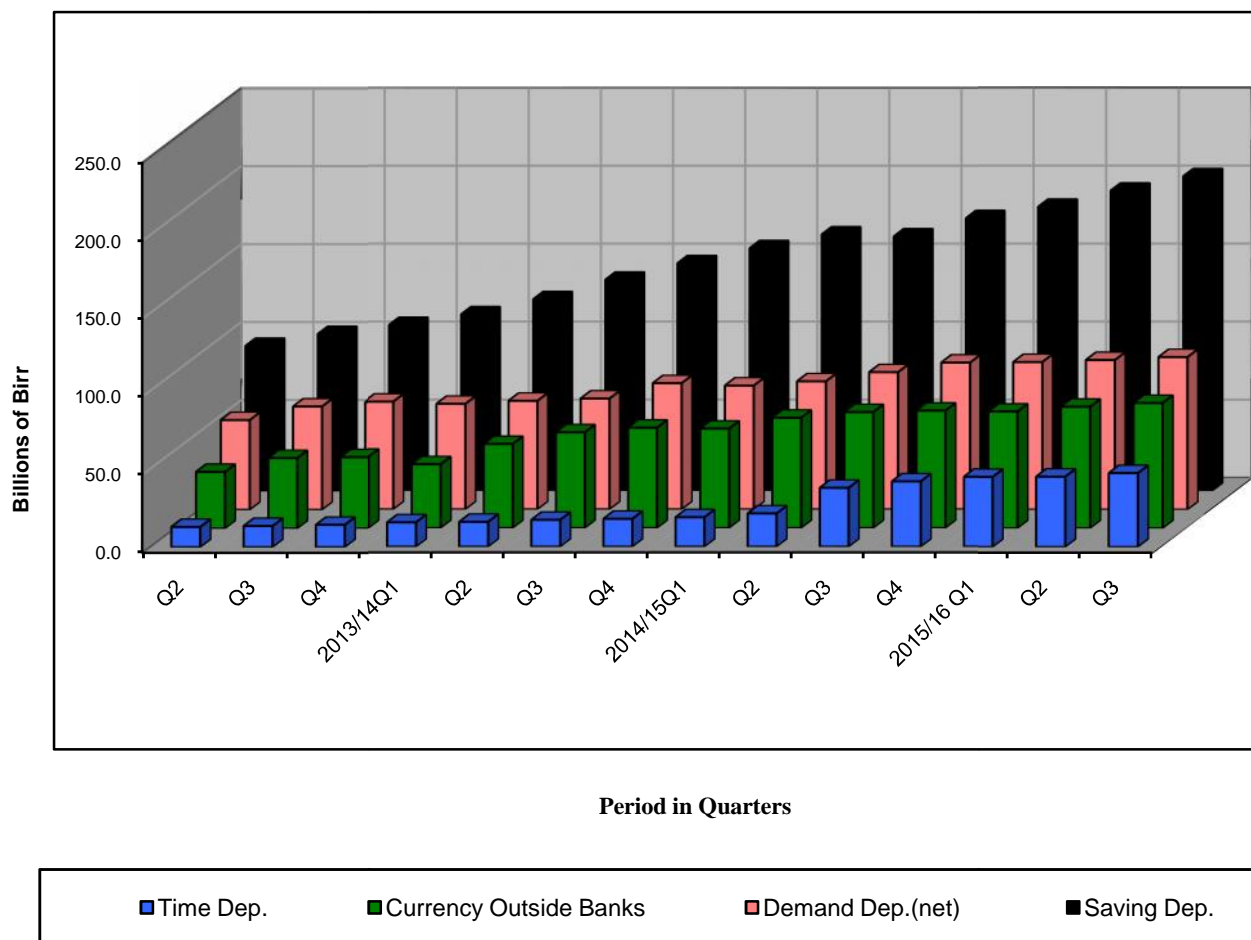
**Table 4.2: Components of Broad Money**

(In millions of Birr, unless specified)

Particulars	2015		2016	Percentage Change		Contributions of each Component to Broad Money Growth	
	QIII	QII	QIII				
	(March. 15)	(Dec. 15)	(March. 16)	C/A	C/B	Annual	Quarterly
	A	B	C				
<b>1. Narrow Money Supply</b>	<b>148,408.8</b>	<b>159,291.9</b>	<b>163,290.4</b>	<b>10.0</b>	<b>2.5</b>	<b>23.6</b>	<b>25.8</b>
<i>Currency outside banks</i>	60,465.0	63,507.1	65,623.8	8.5	3.3	8.2	13.6
<i>Demand Deposits (net)</i>	87,943.8	95,784.8	97,666.6	11.1	2.0	15.4	12.1
<b>2. Quasi-Money</b>	<b>200,755.8</b>	<b>237,323.2</b>	<b>248,834.1</b>	<b>23.9</b>	<b>4.9</b>	<b>76.4</b>	<b>74.2</b>
<i>Savings Deposits</i>	163,024.7	192,284.2	201,515.3	23.6	4.8	61.1	59.5
<i>Time Deposits</i>	37,731.1	45,039.0	47,318.8	25.4	5.1	15.2	14.7
<b>3. Broad Money Supply</b>	<b>349,164.6</b>	<b>396,615.1</b>	<b>412,124.5</b>	<b>18.0</b>	<b>3.9</b>	<b>100.0</b>	<b>100.0</b>

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 reached Birr 105.2 billion at the end of the third quarter of 2015/16, depicting a 10.3 percent annual and 4 percent quarterly expansion. Excess reserves of commercial banks also showed 12.1 and 37.2 percent increment, respectively.

The money multiplier measured by the ratio of broad money to reserve money, grew by 7.0 percent on annual basis implying the increased monetization of the economy. The ratio of narrow money to reserve money, however, dropped 0.3 percent (Table 4.3).

**Table 4.3: Monetary Aggregates and Ratios**

(In Millions of birr unless otherwise indicated)

Particulars	2015		2016	Percentage Change	
	Qtr. III	Qtr. II	Qtr. III		
	(March.15)	(Dec.15)	(March.16)		
	A	B	C	C/A	C/B
<b>1. Reserve Requirement (CB's)</b>	16,729.52	19,797.95	20,521.52	22.7	3.7
<b>2. Actual Reserve (CB's)</b>	21,407.90	23,620.46	25,766.75	20.4	9.1
<b>3. Excess Reserve (CB's)</b>	4,678.38	3,822.51	5,245.23	12.1	37.2
<b>4. Reserve Money</b>	95,320.5	101,125.4	105,185.7	10.3	4.0
<i>Currency in Circulation</i>	74,337.8	77,830.0	80,258.9	8.0	3.1
<i>Banks deposits at NBE</i>	20,982.7	23,295.4	24,926.8	18.8	7.0
<b>5. Money Multiplier (Ratio):</b>					
<i>Narrow Money to Reserve Money</i>	1.6	1.6	1.6	-0.3	-1.4
<i>Broad Money to Reserve Money</i>	3.7	3.9	3.9	7.0	-0.1
<b>6. Other Monetary Ratios (%):</b>					
<i>Currency to Narrow Money</i>	50.1	48.9	49.2	-1.9	0.6
<i>Currency to Broad Money</i>	21.3	19.6	19.5	-8.5	-0.8
<i>Narrow Money to Broad Money</i>	42.5	40.2	39.6	-6.8	-1.3
<i>Quasi Money to Broad Money</i>	57.5	59.8	60.4	5.0	0.9

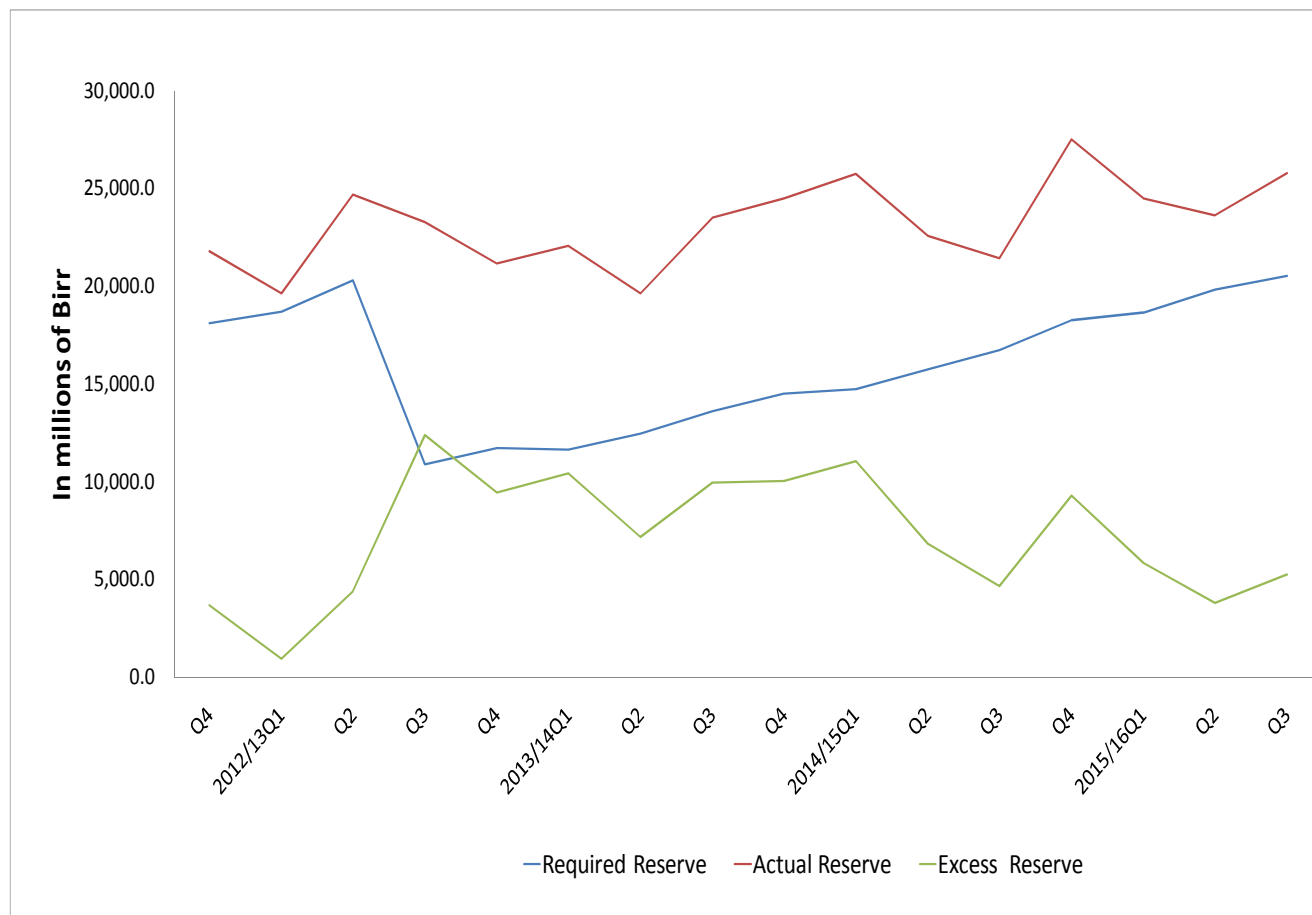
**Source:** NBE and Commercial Banks

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



**Source:** Staff Computation NBE

**Fig.IV.5: Monetary Aggregates**



**Source:** Staff Computation NBE



### 4.3. Interest Rate Developments

Average savings deposit rate remained at 5.4 percent while average lending interest rate increased to 12.38 from 11.88 percent a year earlier. At the same time, weighted average time deposit rate declined 0.11 percentage points to 5.63 percent while weighted average yield on T-bills rose to 1.42 percent from 1.29 percent. Hence, considering end March 2016 headline inflation of 7.5 percent, all real deposit rates and the T-bills yields

remained negative while average real lending rate was positive (Table 4.4).

Some commercial banks also pay interest on demand deposits whose weighted average stood at 0.04 percent compared with 0.03 percent a year ago. It is also worth noting that, the Grand Renaissance Dam bond (GERD) bears a 5.50 percent interest for these maturing within 5 years and 6 percent above five years.

**Table 4.4: Interest Rate Structure of Commercial Banks**

(Percent per annum)

Particulars	2014/15	2015/16		Percentage point Changes	
	QIII	QII	QIII	Annual	Quarterly
<b>1. Savings Deposit Rate 1/</b>					
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	<b>5.38</b>	<b>5.38</b>	<b>5.38</b>	<b>0.00</b>	<b>0.00</b>
<b>2. Time Deposits</b>					
Up to 1yr	5.67	5.59	5.57	-0.10	-0.02
1-2 years	5.75	5.66	5.65	-0.11	-0.01
Over 2 yrs	5.79	5.69	5.68	-0.11	-0.01
Average Time Dep. Rate (Weighted)	<b>5.74</b>	<b>5.65</b>	<b>5.63</b>	<b>-0.11</b>	<b>-0.01</b>
<b>3. Demand Deposit (Weighted)</b>	<b>0.03</b>	<b>0.04</b>	<b>0.04</b>	<b>0.00</b>	<b>0.00</b>
<b>4. Lending Rate 2/</b>					
Minimum	7.50	7.50	7.50	0.00	0.00
Maximum	16.25	16.25	17.25	1.00	1.00
Average Lending Rate	<b>11.88</b>	<b>11.88</b>	<b>12.38</b>	<b>0.50</b>	<b>0.50</b>
<b>5. T-bills Rate (Weighted)</b>	<b>1.29</b>	<b>1.41</b>	<b>1.42</b>	<b>0.13</b>	<b>0.00</b>
<b>6. GERD Bond Yield 3/</b>					
6.1 Maturity within 5 Years	<b>5.50</b>	<b>5.50</b>	<b>5.50</b>	<b>0.00</b>	<b>0.00</b>
6.1 Maturity above 5 Years	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>	<b>0.00</b>	<b>0.00</b>
<b>7. Headline Inflation (Year-on-year)</b>	<b>8.60</b>	<b>10.00</b>	<b>7.50</b>	<b>-1.10</b>	<b>-2.50</b>
<b>8. Food Inflation (Year-on-year)</b>	<b>10.10</b>	<b>12.10</b>	<b>7.30</b>	<b>-2.80</b>	<b>-4.80</b>
<b>9. Core/non-food Inflation (Year-on-year)</b>	<b>7.00</b>	<b>7.80</b>	<b>7.90</b>	<b>0.90</b>	<b>0.10</b>

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

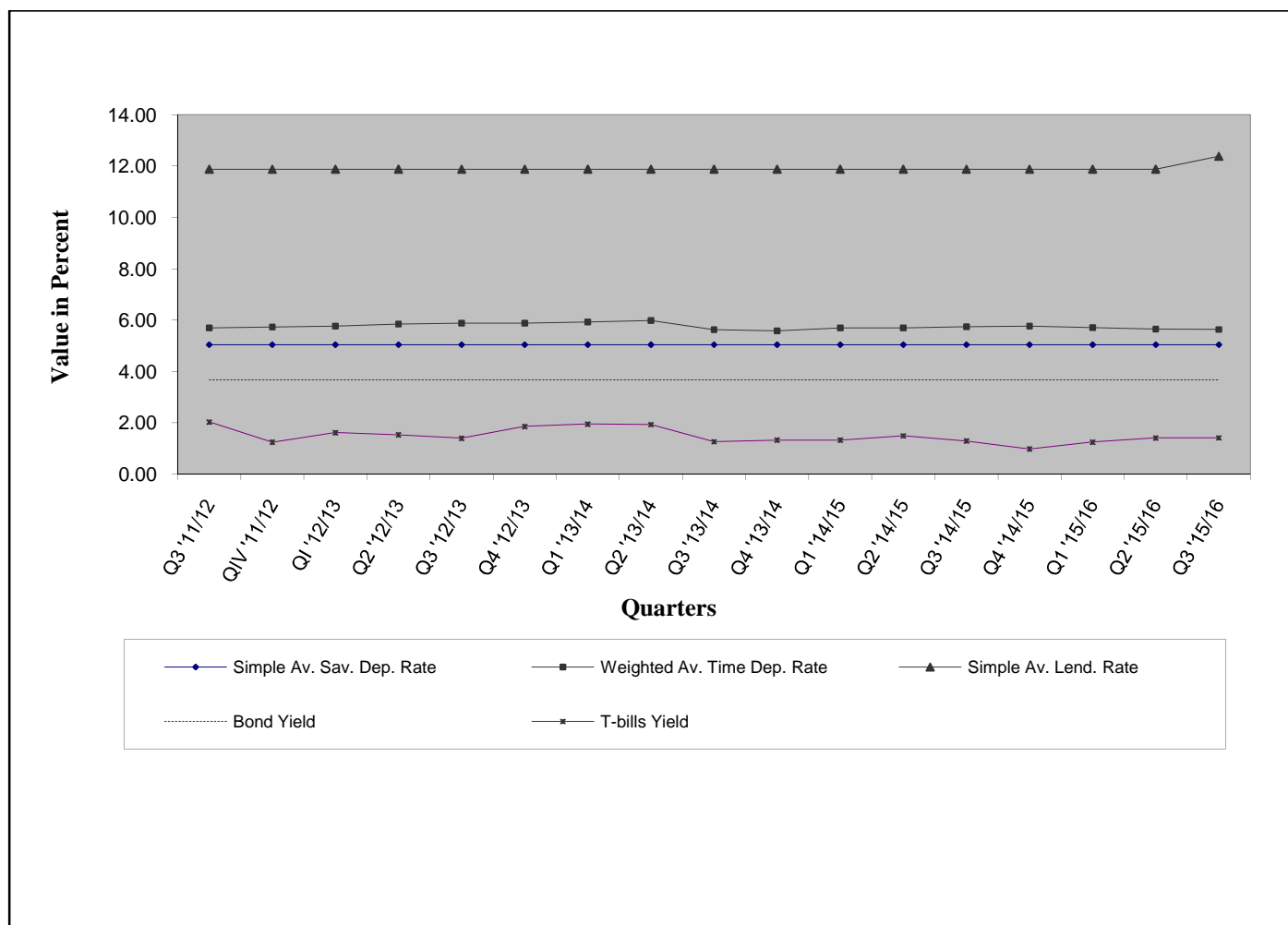
2/ NBE does not control lending rates. Hence, both the minimum & maximum rates presented here are determined by the market.

3/ GERD stands for Grand Ethiopian Renaissance Dam

Source: Staff Computation NBE

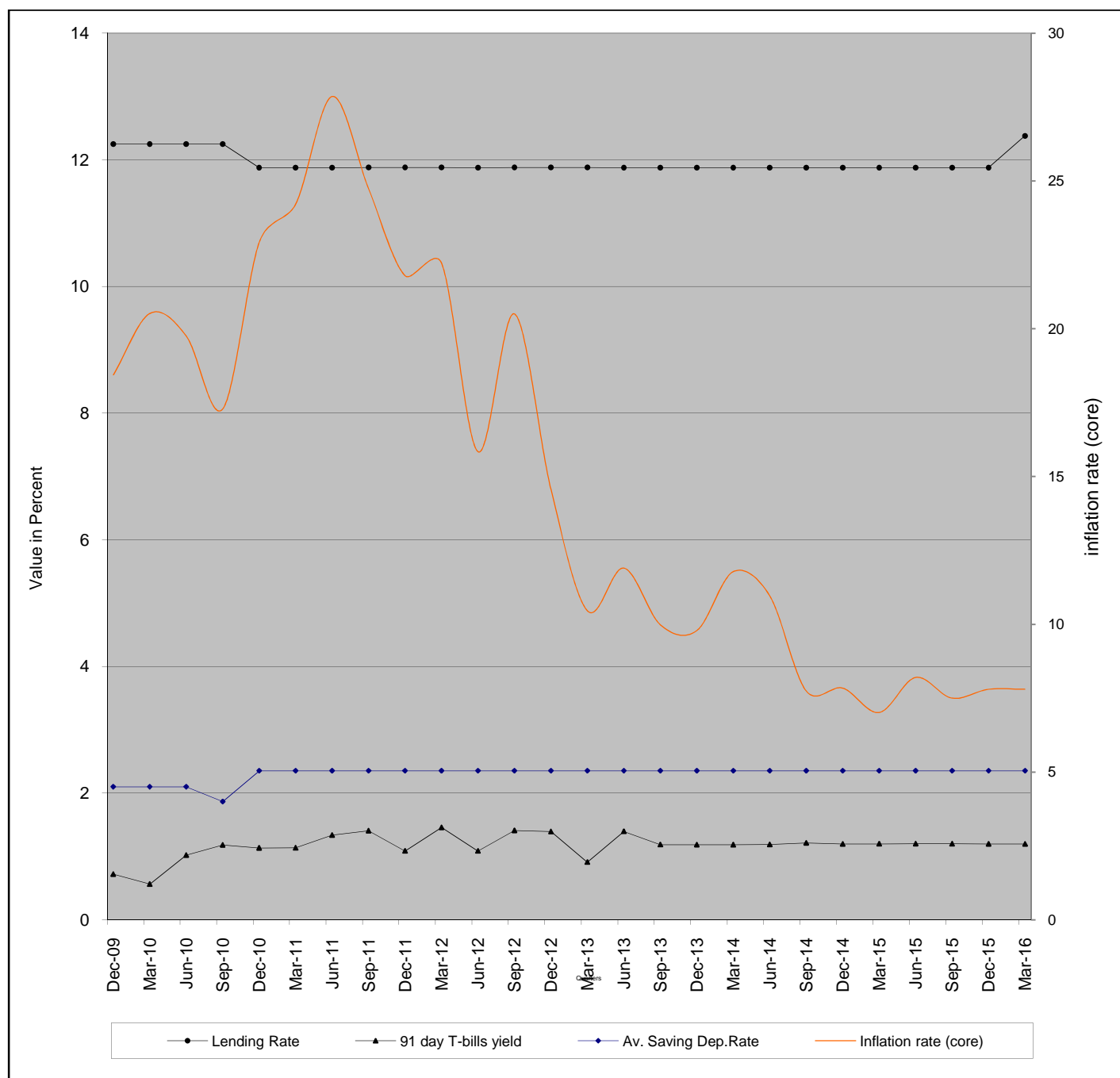
**Fig. IV.6: Interest Rate Structure of Commercial Banks**

(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)



\*While core inflation rate is depicted on the right axis, lending rate, 91 day T-bills yield and average saving deposit rate are shown on the left axis.

**Source:** Staff computation, NBE

#### 4.4. Developments in the Financial Sector

The number of banks operating in Ethiopia declined from 19 to 18 in March 2016 due to the merger of Construction & Business Bank with Commercial Bank of Ethiopia. Of the 18 banks, 16 were private and 2 public. 73 new bank branches were opened, during the third quarter raising the total number of bank branches to 3,045 from 2516 a year ago. As a result, one branch is currently serving 30,281<sup>5</sup> people on average. About 34.5 percent of the total bank branches were located in Addis Ababa indicating relatively high concentration of branches in the capital city. Of the total bank branches, the share of public banks was 40.8 percent.

Meanwhile, total capital of the banking system reached Birr 41.12 billion, of which private banks accounted for 50.4 percent and public banks 49.6 percent. The share of Commercial Bank of Ethiopia, in total capital of the banking system declined to 31.4 percent from 36.0 percent a year ago as the share of private banks steadily increased, while that of Development Bank of Ethiopia stood at 18.2 percent (Table 4.5).

Similarly, the number of insurance companies was 17, of which 16 were private. Meanwhile, their branches increased to 414 from 369 a year ago; of which about 16 percent were that of the Ethiopian insurance Corporation (EIC). Total capital of insurance companies reached Birr 3.1 billion, of which 78 percent was that of private insurance companies (Table 4.6).

There were 35 micro-finance institutions (MFIs) mobilizing Birr 17.6 billion in saving deposit which went up 23.7 percent over last year same period. Similarly, their outstanding credit rose 23.4 percent to Birr 23.1 billion reflecting their increasing role in serving low income groups both in rural and urban areas. Their total assets also expanded by 19.7 percent to Birr 34.7 billion by end of March, 2016 (Table 4.7).

The top five largest MFIs (Amhara Credit & Savings, Dedebit Credit & Savings, Oromia Credit & Savings, Omo Credit & Savings and Addis Credit and Savings Institute) constituted for 83.8 percent of the total capital, 93.5 percent of savings, 88.6 percent of credit and 89.4 percent of total assets of MFIs.

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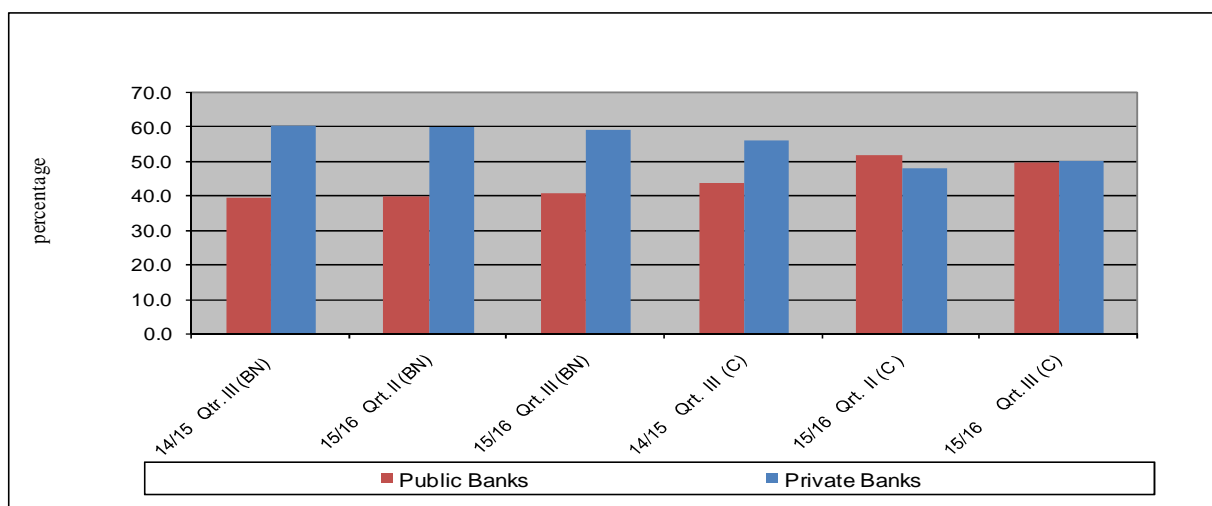
<sup>5</sup> Total population is 92,205,000 as CSA estimation for 2016.

**Table 4.5: Capital and Branch Network of the Banking System**

(Branch in Number &amp; Capital in Millions of Birr)

Banks	Branch Network												Capital		
	2014/15				2015/16								2014/15	2015/16	
	Quarter III				Quarter II				Quarter III				Quarter III	Quarter II	Quarter III
	Reg	A.A	Total	%	Reg.	A.A	Total	%	Reg.	A.A	Total	%			
<b>1. Public Banks</b>															
Commercial Bank of	771	186	957	38.0	825	208	1,033	34.8	878	254	1,132	37.2	10,716	12,903.1	12,903.1
Development Bank of	31	1	32	1.3	70	52	122	4.1	106	4	110	3.6	2,269	7,500.0	7,500.0
<b>Total Public Banks</b>	<b>802</b>	<b>187</b>	<b>989</b>	<b>39.3</b>	<b>926</b>	<b>261</b>	<b>1,187</b>	<b>39.9</b>	<b>984</b>	<b>258</b>	<b>1,242</b>	<b>40.8</b>	<b>12,986</b>	<b>20,403.1</b>	<b>20,403.1</b>
<b>2. Private Banks</b>															
Awash International	95	110	205	8.1	111	123	234	7.9	114	126	240	7.9	2,245	2,650.6	3,166.6
Dashen Bank	76	88	164	6.5	78	90	168	5.7	51	51	102	3.3	2,184	2,377.1	2,630.8
Abyssinia Bank	63	67	130	5.2	82	85	167	5.6	83	88	171	5.6	1,506	1,607.2	1,734.8
Wegagen Bank	63	56	119	4.7	85	63	148	5.0	92	64	156	5.1	2,061	2,421.1	2,426.3
United Bank	61	64	125	5.0	64	68	132	4.4	66	71	137	4.5	1,396	1,502.6	1,539.2
Nib International Bank	45	65	110	4.4	54	75	129	4.3	57	80	137	4.5	1,840	1,927.2	2,144.2
Cooperative Bank of	102	35	137	5.4	123	41	164	5.5	127	42	169	5.6	1,056	1,140.0	1,140.2
Lion International Bank	49	37	86	3.4	70	43	113	3.8	70	44	114	3.7	577	683.1	713.2
Oromia International	99	47	146	5.8	127	55	182	6.1	136	58	194	6.4	767	848.4	989.4
Zemen Bank	5	2	7	0.3	8	3	11	0.4	8	4	12	0.4	611	650.0	786.2
Buna International Bank	46	34	80	3.2	49	43	92	3.1	56	47	103	3.4	555	606.6	641.8
Berhan International	32	36	68	2.7	36	42	78	2.6	36	44	80	2.6	558	698.4	748.2
Abay Bank	69	18	87	3.5	74	22	96	3.2	80	26	106	3.5	547	723.7	782.6
Addis Interational Bank	10	22	32	1.3	12	22	34	1.1	13	25	38	1.2	361	446.7	466.9
Debub Global Bank	13	9	22	0.9	15	9	24	0.8	17	11	28	0.9	193	240.8	255.1
Enat Bank S.C	3	6	9	0.4	5	8	13	0.4	6	10	16	0.5	332	469.1	552.5
<b>Total Private</b>	<b>831</b>	<b>696</b>	<b>1527</b>	<b>60.7</b>	<b>993</b>	<b>792</b>	<b>1,785</b>	<b>60.1</b>	<b>1,012</b>	<b>791</b>	<b>1,803</b>	<b>59.2</b>	<b>16,790</b>	<b>18,992.9</b>	<b>20,717.6</b>
<b>3. Grand Total</b>	<b>1,633</b>	<b>883</b>	<b>2,516</b>	<b>100</b>	<b>1,919</b>	<b>1,053</b>	<b>2,972</b>	<b>100.0</b>	<b>1,996</b>	<b>1,049</b>	<b>3,045</b>	<b>100.0</b>	<b>29,776</b>	<b>39,396.0</b>	<b>41,120.7</b>

**Source:** Bank Supervision Directorate, NBE**Reg.** Stands for Region

**Fig.IV.5: Capital and Branch Network of Banking System**

**Source:** Staff computation, NBE

**Table 4.6: Branch Network & Capital of Insurance Companies**

(Branch in Number & Capital in Millions of Birr)

S.No.	Insurance Companies	Branch									Capital		
		2014/15			2015/16						2014/15	2015/16	
		Quarter III			Quarter II			Quarter III			Quarter III	Quarter II	Quarter III
		A.A	Reg	Total	A.A	Reg	Total	A.A	Reg	Total	Capital	Capital	Capital
1	Ethiopian Insurance Corporation	18	48	66	18	48	66	18	48	66	472.8	704.2	692.3
2	Awash Insurance Company	22	12	34	23	14	37	24	14	38	206.1	195.4	254.0
3	Africa Insurance Company	9	9	18	10	10	20	10	11	21	199.3	230.8	209.1
4	National Insurance Corporation of Ethiopia	9	12	21	14	14	28	15	14	29	69.9	91.4	93.1
5	United Insurance Company	18	10	28	18	10	28	18	10	28	231.4	267.1	280.2
6	Global Insurance Company	6	5	11	6	7	13	6	7	13	91.4	97.0	103.9
7	Nile Insurance Company	14	17	31	17	17	34	17	18	35	218.0	186.3	220.3
8	Nyala Insurance Company	13	10	23	13	10	23	13	10	23	284.3	267.3	305.9
9	Nib Insurance Company	18	8	26	19	9	28	20	9	29	235.9	221.6	272.0
10	Lion Insurance Company	15	9	24	15	12	27	15	12	27	87.0	100.8	97.7
11	Ethio-Life Insurance Company	7	4	11	10	4	14	11	4	15	24.0	67.2	75.7
12	Oromia Insurance Company	17	12	29	17	14	31	17	15	32	134.2	125.7	76.0
13	Abay Insurance Company S.C.	8	9	17	10	9	19	10	9	19	99.4	132.0	146.9
14	Berhan insurance S.C	6	1	7	6	1	7	7	1	8	35.9	63.3	68.1
15	Tsehay Insurance S.C.	6	2	8	8	3	11	8	3	11	42.0	79.3	77.0
16	Lucy	3	2	5	5	2	7	6	2	8	47.4	82.1	87.3
17	Bunna Insurance S.C.	8	2	10	10	2	12	10	2	12	21.3	58.3	59.4
	<b>TOTAL</b>	<b>197</b>	<b>172</b>	<b>369</b>	<b>219</b>	<b>186</b>	<b>405</b>	<b>225</b>	<b>189</b>	<b>414</b>	<b>2,500.2</b>	<b>2,969.9</b>	<b>3,118.7</b>

**Source:** Insurance Supervision Directorate, NBE

**Table 4.7: Microfinance Institutions Performance as of September 30, 2015****(In Thousands of Birr)**

Particulars	2014/15		2015/16		% Change	
	Qtr.III		Qtr.II		Qtr.III	
	A		B		C	
<i>Total Capital</i>	6,660,487.30		8,041,742.3		8,497,744.2	
<i>Saving</i>	14,243,260.10		16,428,361.1		17,615,103.9	
<i>Credit</i>	18,697,637.20		23,224,590.8		23,065,977.4	
<i>Total Assets</i>	28,963,642.30		33,139,624.9		34,667,048.6	
					19.7	
					4.6	

**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) increased 1.6 percent over same quarter of last year (Table 4.8).

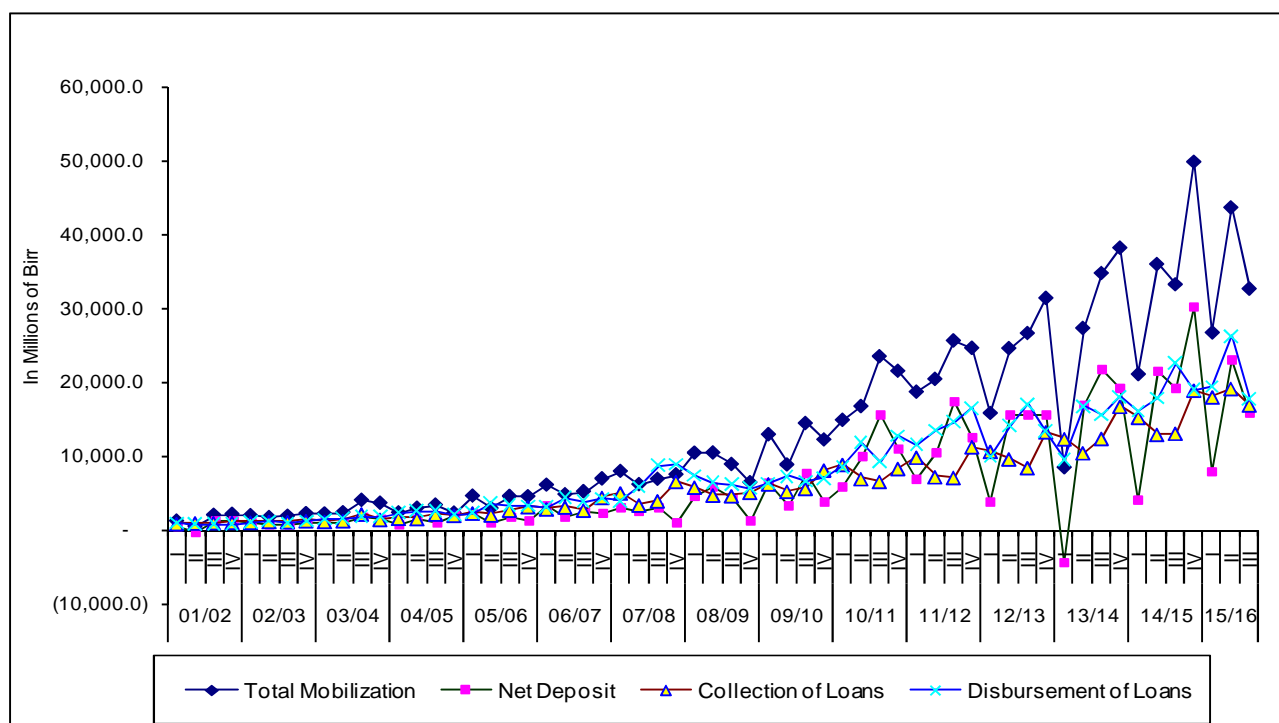
**Table 4.8: Summary of Resource Mobilization & Disbursement of the Banking System** (Millions of Birr)

Particulars	Public Banks		Private Banks		Grand Total			% Change	
	1		2		(3) = (1) + (2)				
	Qtr. II 2015/16	Qtr.III 2015/16	Qtr.II 2015/16	Qtr.III 2015/16	Qtr.III 2014/15	Qtr.II 2015/16	Qtr.III 2015/16		
	A	B	C	C/A	C/B				
1.Deposits (net change)	15,366.1	12,163.7	7,586.4	3,491.3	19,107.20	22,952.5	15,655.0	-18.1	-31.8
-Demand	8,614.3	4,236.6	3,781.2	-93.5	3,968.65	12,395.5	4,143.1	4.4	-66.6
-Saving	7,422.2	6,524.1	2,942.5	2,708.0	11,288.81	10,364.8	9,232.1	-18.2	-10.9
-Time	-670.5	1,403.0	862.6	876.8	3,849.75	192.2	2,279.8	-40.8	1,086.3
2. Borrowing (net change)	1,656.0	142.4	0.0	0.0	-	1,656.0	142.4		-91.4
-Local	1,049.3	40.3	0.0	0.0	-	1,049.3	40.3		-96.2
-Foreign	606.7	102.2	0.0	0.0	-	606.7	102.2		-83.2
3. Collection of Loans	8,705.6	6,363.6	10,393.5	10,504.8	13,052.11	19,099.0	16,868.3	29.2	-11.7
4. Total Resources Mobilized (1+2+3)	25,727.6	18,669.7	17,979.8	13,996.1	32,159.31	43,707.5	32,665.8	1.6	-25.3
5. Disbursement	15,284.4	11,902.6	11,016.0	5,931.4	22,579.48	26,300.3	17,834.0	-21.0	-32.2
6. Change in Liquidity (4-5)	10,443.2	6,767.0	6,963.9	8,064.7	9,579.83	17,407.1	14,831.7	54.8	-14.8
Memorandum Item:									
A. Outstanding Credit*	152,840.9	165,895.3	87,949.8	88,754.3	209,822.82	240,790.8	254,649.5	21.4	5.8
B. Outstanding Interbank Lending	54.3	50.5	0.0	0.0	57.8	54.3	50.5	-12.6	-6.9

**Source:** Commercial Banks and staff computation

Notes: \*Excludes bonds and treasury bill holdings 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

Total deposit liabilities of the banking system reached Birr 413.6 billion at the end of the third quarter of 2015/16, indicating 3.9 percent quarterly and 22.6 percent annual growth rates as banks constituted to expand their branch network and sustained economic growth.

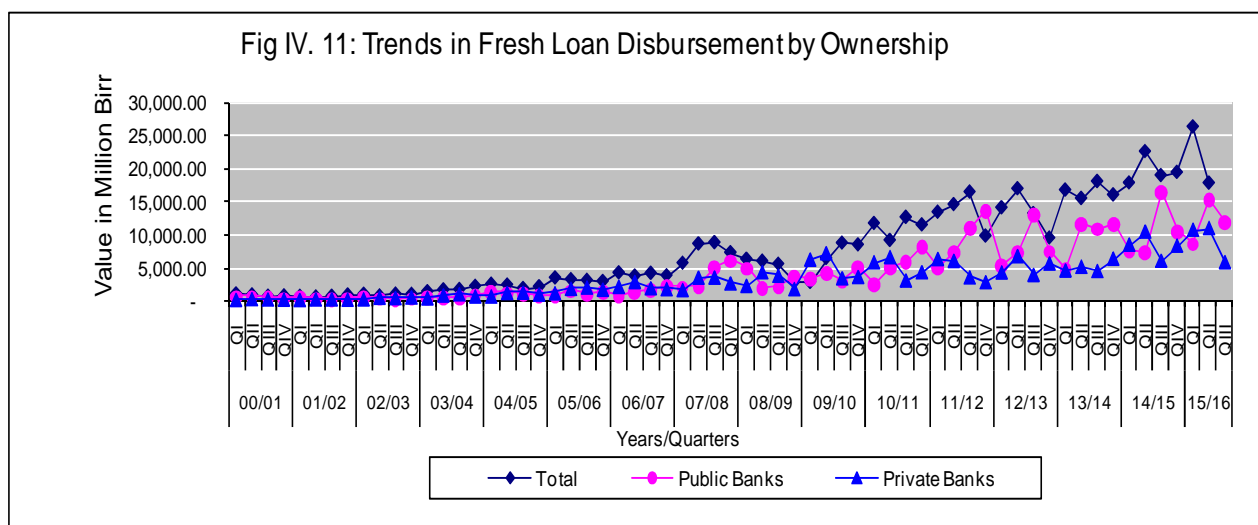
Demand deposits, which accounted for 38.9 percent of total deposits, reached Birr 160.9 billion showing 18.2 percent annual growth.

Likewise, saving deposits surged with 49.4 percent share and stood at Birr 204.4 billion. Time deposits, having 11.7 percent share in total deposit liabilities, went up by 26.9 percent over same period last year and reached Birr 48.3 billion. The share of public banks in total deposits outstanding was 67.3 percent while that of private banks stood at 32.7 percent (Table 4.9).

**Table 4.9: Stock of Deposits Mobilized by the Banking System**

(In Millions of Birr)

Deposit by types	Quarter III 2014/15	% Share	Quarter II 2015/16	% Share	Quarter III 2015/16		C/A	C/B
	A		B		C	% Share		
Demand Deposit	136,156.0	40.4	160,454.73	40.3	160,913.56	38.9	18.2	0.3
Saving Deposit	163,037.7	48.3	192,296.28	48.3	204,403.29	49.4	25.4	6.3
Time Deposit	38,094.3	11.3	45,402.17	11.4	48,324.77	11.7	26.9	6.4
<b>Total</b>	<b>337,287.9</b>	<b>100.0</b>	<b>398,153.19</b>	<b>100.0</b>	<b>413,641.62</b>	<b>100.0</b>	<b>22.6</b>	<b>3.9</b>
<i>Share of Public Banks</i>	67.5		67.1		67.3			
<i>Share of Private Banks</i>	32.5		32.9		32.7			

**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 to the tune of Birr 16.9 billion, about 29.2 percent higher than last year same period (Table 4.8). The share of private banks in loan collection reached

Birr 10.5 billion (62.3 percent) while that of public banks was Birr 6.4 billion (37.7 percent). Of the total loan collection, 90.6 percent was from private enterprises (including cooperatives) (Table 4.12).

### 4.5.1.3. Borrowing

Total outstanding borrowing of the banking system reached Birr 33.24 billion, showing a 12.8 percent annual increase. Of this sum, Birr 28.5 billion (85.8 percent) was from

domestic and Birr 4.7 billion (14.2 percent) from foreign sources (Table 4.10).

**Table 4.10: Public Outstanding Borrowing of the Banking System by Sources**

(In Millions of Birr)

Banks	2014/15	2015/16		Percentage change	
	Quarter III	Quarter II	Quarter III		
	A	B	C	C/B	C/A
Domestic Borrowing	25,690.6	28,419.14	28,515.41	0.3	11.0
Foreign Borrowing	3,770.0	4,625.24	4,727.40	2.2	25.4
<b>Total</b>	<b>29,460.6</b>	<b>33,044.4</b>	<b>33,242.8</b>	<b>0.6</b>	<b>12.8</b>

Source: Commercial Banks and Development Bank of Ethiopia

### 4.5.2. Disbursement of Fresh Loans

Total fresh loan disbursement was Birr 17.8 billion, about 21.0 percent higher than a year earlier. Of the total new loans, public banks disbursed Birr 11.9 billion (66.7 percent) and private banks Birr 5.9 billion (33.3 percent) (Table 4.12).

Industry sector was the largest beneficiary accounting for Birr 5.0 billion (28.1 percent)

of the total fresh loans followed by housing and construction (Birr 4.2 billion or 23.8 percent), domestic trade (Birr 2.1 billion or 11.9 percent), international trade (Birr 1.7 billion or 9.4 percent) while the remaining balance was taken up by other sectors (Table 4.11).

**Table 4.11: Summary of Loans and Advances by Banks and Receiving Sectors****(In Millions of Birr)**

<b>Borrowing Sector</b>	<b>Public Banks</b>			<b>Private Banks</b>			<b>Total</b>		
	<b>(1)</b>			<b>(2)</b>			<b>(3)</b>		
	<b>D**</b>	<b>C**</b>	<b>O/S**</b>	<b>D**</b>	<b>C**</b>	<b>O/S **</b>	<b>D**</b>	<b>C**</b>	<b>O/S**</b>
Central Government *	-	-	13,899	-	-	24	-	-	13,923
Agriculture	2,291	1,720	18,643	89	117	1,373	2,380	1,838	20,016
Industry	4,407	2,267	89,857	600	1,090	10,643	5,007	3,357	100,500
Domestic Trade	462	304	2,996	1,669	3,189	25,296	2,130	3,493	28,292
International Trade	377	238	24,406	1,293	3,644	26,184	1,670	3,882	50,590
Export	139	130	6,898	792	1,986	15,230	931	2,117	22,128
Imports	238	108	17,508	502	1,658	10,954	739	1,765	28,462
Hotels and Tourism	262	81	1,223	129	351	2,953	391	432	4,176
Transport & Communication	192	243	3,195	661	638	6,195	853	881	9,390
Housing & Construction	3,377	1,141	18,078	870	1,043	10,917	4,247	2,183	28,996
Mines, Power & Water Res.	62	12	827	53	6	56	115	19	882
Others	451	340	6,187	330	295	3,169	780	635	9,356
Personal	22	17	484	238	130	1,967	260	148	2,451
Inter-Bank Lending	-	-	51	-	-	-	-	-	51
<b>Total</b>	<b>11,903</b>	<b>6,364</b>	<b>179,845</b>	<b>5,931</b>	<b>10,505</b>	<b>88,778</b>	<b>17,834</b>	<b>16,868</b>	<b>268,624</b>

**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 254.6 billion by end March 2016, owing 5.8 percent quarterly increase (Table 4.8).

About 99.8 percent of total outstanding loan and advances of private banks was claims on private sector (including cooperatives) compared with 46.8 percent for public banks (Table 4.12).

Sector wise, about 39.5 percent (Birr 100.5 billion) of the credit went to industry followed by international trade (Birr 50.6 billion or 19.9 percent), housing & construction (Birr 29.0 billion or 11.4 percent), domestic trade (Birr 28.3 billion or 11.1 percent), agriculture (Birr 20.0 billion or 7.9 percent) and the rest to other sectors (Table 4.11). The share of private banks in total outstanding loan stood at 33.0 percent (Table 4.12).

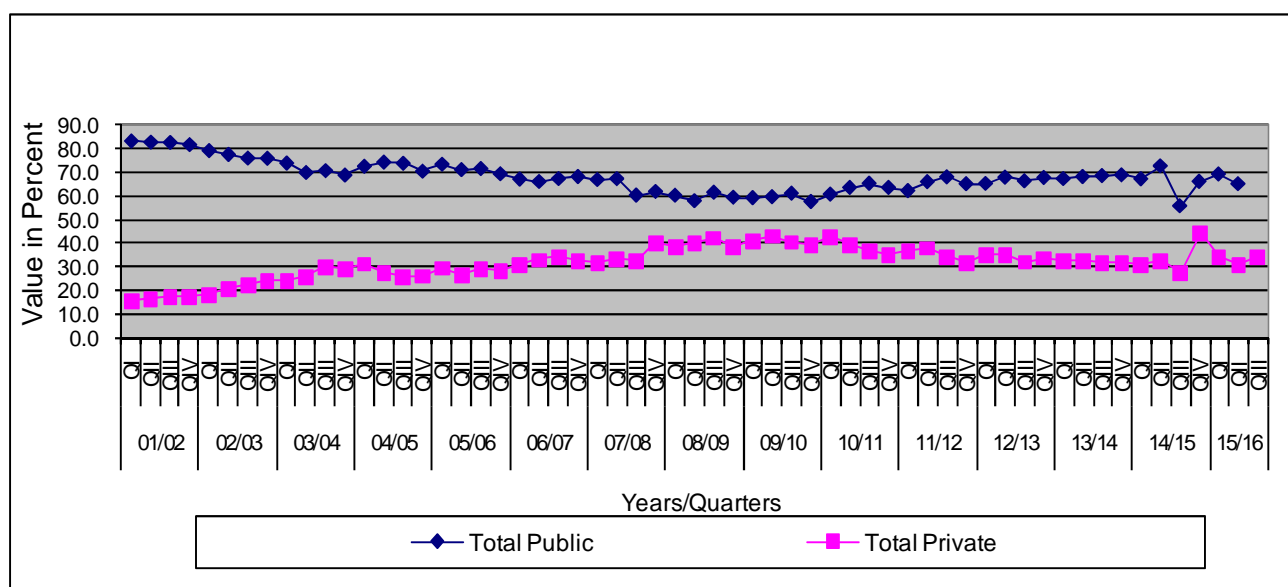
Table 4.12: Breakdown of Loans &amp; Advances of the Banking System by Clients

(In Millions of Birr)

Particulars	Loan Disbursement	% Share	Loan Collection	% Share	Outstanding Loan	% Share
<b>Public Banks</b>	<b>11,902.6</b>	<b>66.7</b>	<b>6,363.6</b>	<b>37.7</b>	<b>179,845.3</b>	<b>67.0</b>
Central Government*	0.0	0.0	0.0	0.0	13,899.5	7.7
State Enterprises	3,089.9	26.0	1,580.3	24.8	81,718.5	45.4
Cooperatives	2,568.4	21.6	1,824.3	28.7	12,084.6	6.7
Private Enterprises	6,244.3	52.5	2,959.0	46.5	72,092.2	40.1
Inter-bank Lending	0.0	0.0	0.0	0.0	50.5	0.0
<b>Private Banks</b>	<b>5,931.4</b>	<b>33.3</b>	<b>10,504.8</b>	<b>62.3</b>	<b>88,778.3</b>	<b>33.0</b>
Central Government*	0.0	0.0	0.0	0.0	24.0	0.0
State Enterprises	24.9	0.4	5.3	0.1	127.3	0.1
Cooperatives	136.6	2.3	136.1	1.3	1,255.6	1.4
Private Enterprises	5,769.9	97.3	10,363.3	98.7	87,371.4	98.4
Inter-bank Lending	0.0	0.0	0.0	0.0	0.0	0.0
<b>Grand Total</b>	<b>17,834.0</b>	<b>100.0</b>	<b>16,868.3</b>	<b>100.0</b>	<b>268,623.5</b>	<b>100.0</b>

**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 104.7 billion as of March 2016, about 28.9 percent higher than a year earlier. Of the total credit to the central government, direct advance accounted for 92 percent which increased

33.2 percent and bonds 8.0 percent declined 5.8 percent. Similarly, deposit of financial institutions at NBE increased 19.8 percent compared to last year same period (Table 4.13).

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

Particulars	2014/15	2015/16		(In Millions of Birr)	
	Qtr.III	Qtr.II	Qtr.III	% Change	
	A	B	C	C/A	C/B
<b>1.Loans and Advances</b>	<b>104,032.34</b>	<b>129,514.34</b>	<b>129,514.34</b>	<b>24.5</b>	<b>0.0</b>
1.1. To Central Government	81,175.34	104,657.34	104,657.34	28.9	0.0
Direct Advance	72,264.95	96,264.95	96,264.95	33.2	0.0
Bonds	8,910.39	8,392.40	8,392.40	-5.8	0.0
1.2.To Development Bank of Ethiopia	22,857.00	24,857.00	24,857.00	8.8	0.0
<b>2.Deposit Liabilities</b>	<b>42,987.28</b>	<b>44,328.37</b>	<b>46,058.67</b>	<b>7.1</b>	<b>3.9</b>
2.1. Government	21,308.75	25,739.39	20,077.26	-5.8	-22.0
2.2. Financial Institutions	21,678.53	18,588.98	25,981.41	19.8	39.8
O/W:					
-Banks	21,620.30	18,563.24	25,951.56	20.0	39.8
-Insurance companies	58.2	25.7	29.8	-48.8	15.9
<b>3.Net Claims of NBE</b>	<b>61,045.1</b>	<b>85,186.0</b>	<b>83,455.7</b>	<b>36.7</b>	<b>-2.0</b>

Source: NBE

## 4.7. Developments in Financial Markets

### 4.7.1. Treasury Bills Market

The amount of T-bills supplied to the weekly T-bills auction market reached Birr 36.6 billion during the third quarter, reflecting a 54.8 percent annual expansion. The demand for T-bills also surged 57.4 percent and stood at Birr 41.3 billion (Table 4.14).

All the T-bills were sold to non-bank institutions as commercial banks were urged to focus on their core activities to boost lending to private sector rather than

engaging in T-bills market.

Thus, total outstanding T-bills at the end of the quarter held by non banks reached Birr 53.5 billion, about 36.7 percent higher than last year same period.

The annual average weighted yield of T-bills during the review quarter was 1.416 percent compared to 1.291 a year earlier (Table 4.14).

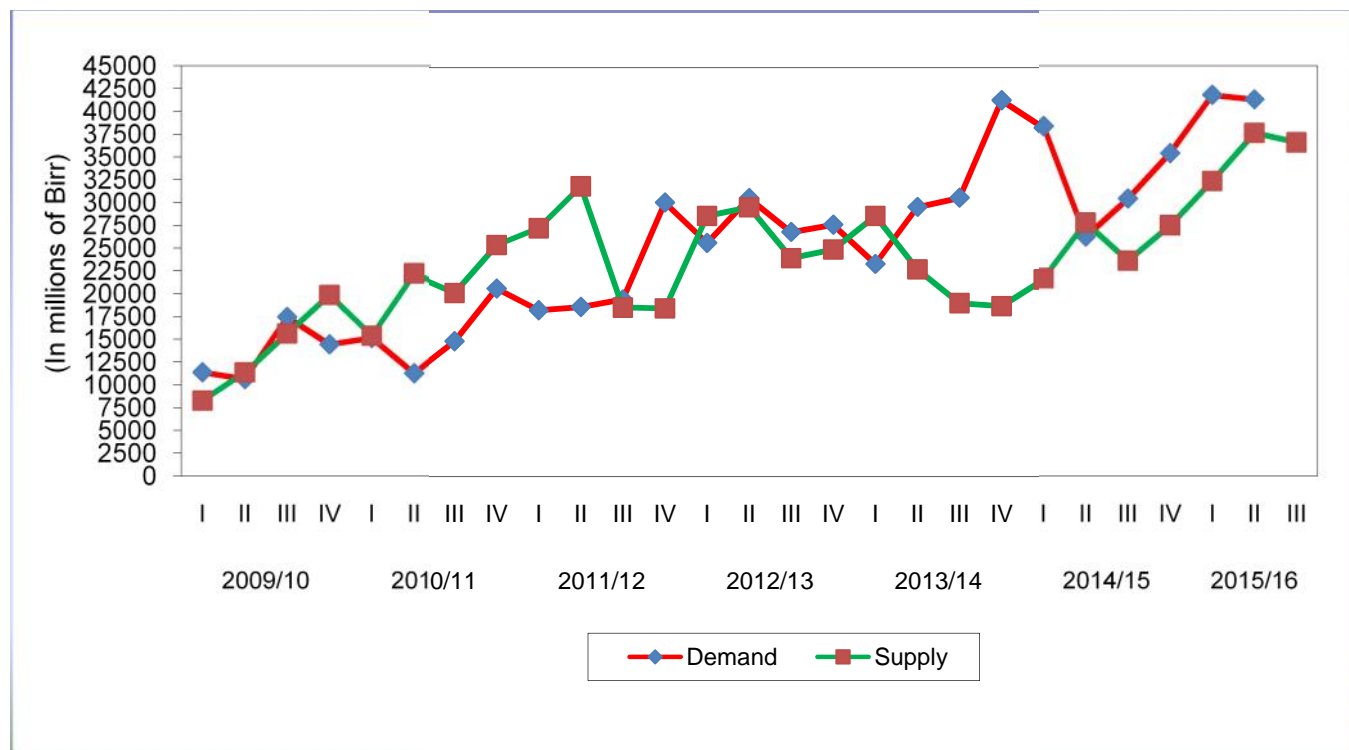
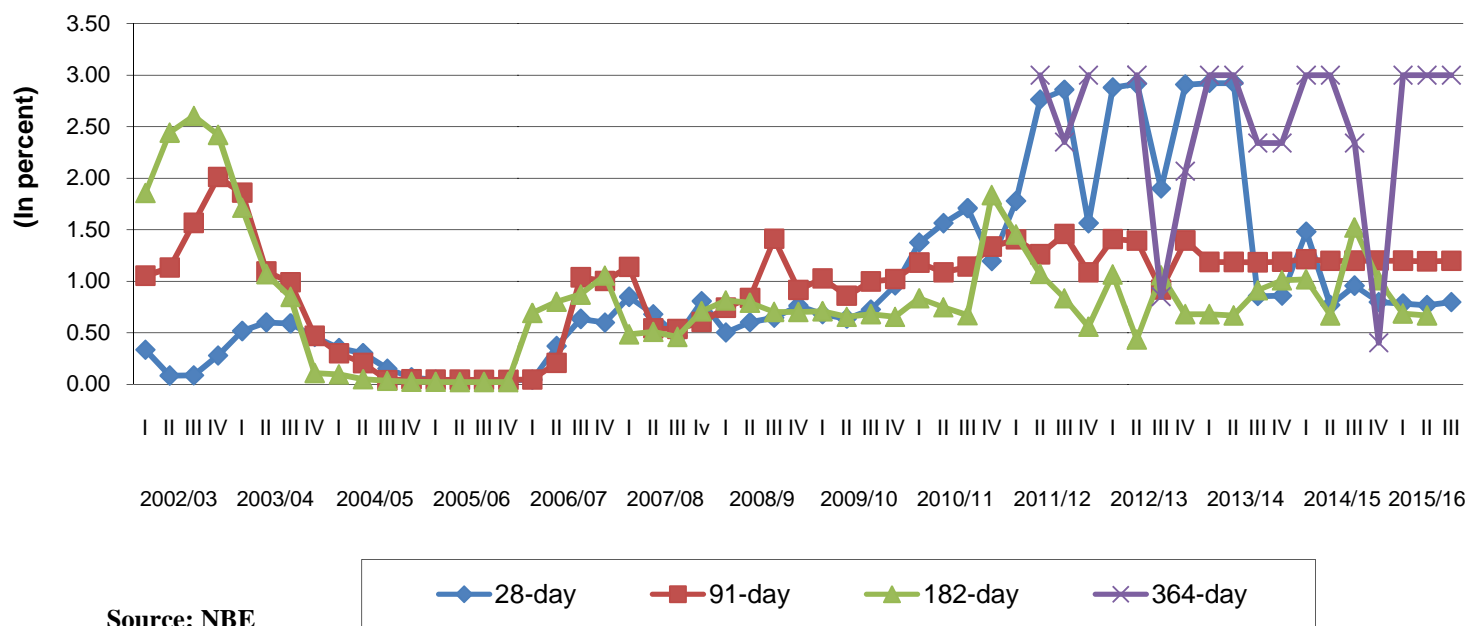
**Table 4.13: Results of Treasury Bills Auction**

(In Millions of Birr)

Particulars	2014/15	2015/16		% Change	
	Quarter	Quarter II	Quarter		
	A	B	C	C/A	C/B
<b>Number of Bidders</b>	<b>52</b>	<b>58</b>	<b>53</b>	<b>1.9</b>	<b>-8.6</b>
Public	50	58	53	6.0	-8.6
Private	2	0	0	-100.0	0.0
<b>Number of Bids received</b>	<b>59</b>	<b>60</b>	<b>60</b>	<b>1.7</b>	<b>0.0</b>
Public	56	60	60	7.1	0.0
Private	3	0	0	-100.0	0.0
<b>Amount Demanded (Mn. Birr)</b>	<b>26,258.9</b>	<b>41,823.6</b>	<b>41,341.6</b>	<b>57.4</b>	<b>-1.2</b>
28-day bill	340.0	260.0	300.0	-11.8	15.4
91-day bill	21,708.9	32,112.6	37,025.6	70.6	15.3
182-day bill	1,210.0	1,785.0	1,216.0	<b>0.5</b>	<b>-31.9</b>
364-day bill	3,000.0	7,666.0	2,800.0	-6.7	-63.5
<b>Amount Supplied (Mn. Birr)</b>	<b>23,658.4</b>	<b>37,660.6</b>	<b>36,628.6</b>	<b>54.8</b>	<b>-2.7</b>
28-day bill	240.0	260.0	300.0	25.0	15.4
91-day bill	19,168.4	28,049.6	32,312.6	68.6	15.2
182-day bill	1,250.0	1,785.0	1,216.0	-2.7	-31.9
364-day bill	3,000.0	7,566.0	2,800.0	<b>-6.7</b>	<b>-63.0</b>
<b>Amount Sold (Mn. Birr)</b>	<b>26,158.9</b>	<b>41,823.6</b>	<b>41,341.6</b>	<b>58.0</b>	<b>-1.2</b>
Banks	0.0	0.0	0.0	0.0	0.0
Non-Banks	26,158.9	41,823.6	41,341.6	58.0	-1.2
<b>Average Weighted Price for Successful bids (%)</b>	<b>99.254</b>	<b>99.099</b>	<b>99.101</b>	<b>-0.2</b>	<b>0.0</b>
28-day bill	99.927	99.941	99.939	0.0	0.0
91-day bill	99.702	99.703	99.702	0.0	0.0
182-day bill	99.667	99.658	99.667	0.0	0.0
364-day bill	97.721	97.095	97.095	-0.6	0.0
<b>Average Weighted Yield for Successful bids (%)</b>	<b>1.291</b>	<b>1.412</b>	<b>1.416</b>	<b>9.7</b>	<b>0.3</b>
28-day bill	0.956	0.768	0.797	-16.6	3.8
91-day bill	1.199	1.193	1.198	-0.1	0.4
182-day bill	0.670	0.688	0.670	0.0	-2.7
364-day bill	2.338	3.000	3.000	28.3	0.0
<b>Outstanding bills at the end of Period (Mn.Br.)</b>	<b>39,342.9</b>	<b>48,809.6</b>	<b>53,522.6</b>	<b>36.0</b>	<b>9.7</b>
Banks	0.0	0.0	0.0	0.0	0.0
Non-Banks	39,342.9	48,809.6	53,522.6	36.0	9.7

**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

There has been no inter-bank money market transaction through the third quarter (Table 4.12).

#### 4.7.3. Corporate Bond Market

During the quarter under review, CBE purchased corporate bonds worth Birr 13.6 billion, of which Ethiopian Electric Power (EEP) accounted for Birr 8.1 billion (or 59.6 percent), Railways Corporation Birr 2.0 billion (or 14.7 percent) and Addis Ababa Housing Development Agency Birr 3.5 billion (or 25.7 percent).

Hence, the stock of corporate bonds held by the CBE stood at Birr 177.4 billion as of March 2016, of which 83.9 percent was claims on public enterprises and the rest on regional governments (Table 4.15). Corporate bonds issued by EEP accounted for 89.9 percent of the total bonds issued by public enterprises and 75.5 percent of the entire outstanding corporate bond balance.

**Table 4.15: Corporate Bond by holders**

(Millions of Birr)

Issuer of the Bond	2014/15			2015/16					
	QIII			QII			QIII		
	NP	Red	O/S	NP	Red	O/S	NP	Red	O/S
<b>1. Public Enterprises</b>	<b>10,500.0</b>	<b>0.0</b>	<b>115,743.4</b>	<b>6,900.0</b>	<b>0.0</b>	<b>138,843.4</b>	<b>10,100.0</b>	<b>43.4</b>	<b>148,900.0</b>
EEP	8,800.0	-	107,300.0	6,900.0	-	125,800.0	8,100.0	-	133,900.0
Railways Corporation	1,700.0	-	8,400.0	-	-	13,000.0	2,000.0	-	15,000.0
DBE	-	-	43.4	-	-	43.4	-	43.4	-
<b>2. Regional Governments</b>	<b>1,600.0</b>	<b>354.6</b>	<b>20,815.8</b>	<b>4,375.0</b>	<b>1,907.0</b>	<b>28,566.4</b>	<b>3,500.0</b>	<b>3,596.0</b>	<b>28,470.4</b>
Oromia	-	45.3	632.3	-	42.8	533.1	-	14.0	519.1
Amhara	-	-	0.2	-	-	0.2	-	-	0.2
Tigray	-	1.2	220.6	-	1.0	188.1	-	6.8	181.3
SNNPRS	-	4.9	290.0	-	270.3	7.8	-	0.2	7.6
Dire Dawa	-	-	-	-	-	-	-	-	-
Harari	-	-	-	-	-	-	-	-	-
Addis Ababa Housing Development Agency	1,600.0	303.2	19,672.6	4,375.0	1,592.9	27,837.1	3,500.0	3,574.9	27,762.2
<b>3. Grand Total (1+2)</b>	<b>12,100.0</b>	<b>354.6</b>	<b>136,559.2</b>	<b>11,275.0</b>	<b>1,907.0</b>	<b>167,409.8</b>	<b>13,600.0</b>	<b>3,639.4</b>	<b>177,370.4</b>

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 deficit during the third quarter of 2015/16 was USD 314.3 million, compared to USD 213.4 million deficit a year ago.

Despite a 29 percent increase in net private transfers, the 6.8 percent decline

in merchandise export earnings, significant drop in net service receipts and 4.1 percent increase in merchandise import resulted in higher deficit in quarter-on-quarter balance of payments.

**Table 5.1: Balance of Payments**

(In Millions of USD)

S/N	Particulars	2014/15	2015/16		Percentage Change	
		QIII	QII	QIII		
		A	B	C	C/A	C/B
<b>1</b>	<b>Exports, f.o.b.</b>	<b>820.8</b>	<b>604.7</b>	<b>764.7</b>	<b>-6.8</b>	<b>26.5</b>
	Coffee	170.5	120.1	163.4	-4.2	36.1
	Other	650.3	484.6	601.2	-7.5	24.1
<b>2</b>	<b>Imports</b>	<b>4,195.0</b>	<b>4,165.4</b>	<b>4,367.4</b>	<b>4.1</b>	<b>4.9</b>
	Fuel	378.8	359.5	267.1	-29.5	-25.7
	Cereals	152.3	239.5	436.5	186.6	82.3
	Aircraft	42.1	14.1	70.6	67.8	400.7
	Imports excl. fuel, cereals, aircraft	3,621.9	3,552.3	3,593.1	-0.8	1.1
<b>3</b>	<b>Trade Balance (1-2)</b>	<b>-3,374.2</b>	<b>-3,560.7</b>	<b>-3,602.7</b>	<b>6.8</b>	<b>1.2</b>
<b>4</b>	<b>Services, net</b>	<b>-76.3</b>	<b>-194.7</b>	<b>-280.2</b>	<b>267.0</b>	<b>43.9</b>
	Non-factor services, net	1.8	-86.2	-231.1	-12899.2	167.9
	Exports of non-factor services	703.8	749.1	688.0	-2.2	-8.1
	Imports of non-factor services	702.0	835.3	919.1	30.9	10.0
	Income, net	-78.1	-108.4	-49.1	-37.2	-54.7
	O/w Gross official int.	74.7	108.1	48.6	-34.9	-55.0
	Dividend	-6.2	-2.6	-4.3	-30.1	67.0
<b>5</b>	<b>Private transfers, net</b>	<b>1,147.3</b>	<b>1,824.5</b>	<b>1,479.9</b>	<b>29.0</b>	<b>-18.9</b>
	o/w: Private Individuals	911.2	1,296.6	932.6	2.4	-28.1
<b>6</b>	<b>Current account balance excluding official transfers (3+4+5)</b>	<b>-2,303.3</b>	<b>-1,930.9</b>	<b>-2,403.0</b>	<b>4.3</b>	<b>24.5</b>
<b>7</b>	<b>Official transfers, net</b>	<b>222.1</b>	<b>295.7</b>	<b>306.0</b>	<b>37.8</b>	<b>3.5</b>
<b>8</b>	<b>Current account balance including official transfers(6+7)</b>	<b>-2,081.2</b>	<b>-1,635.2</b>	<b>-2,097.0</b>	<b>0.8</b>	<b>28.2</b>
<b>9</b>	<b>Capital account</b>	<b>900.6</b>	<b>2,015.3</b>	<b>1,303.4</b>	<b>44.7</b>	<b>-35.3</b>
	Off. Long-term Cap., net	114.4	1,193.1	243.1	112.4	-79.6
	Disbursements	130.2	1,228.9	261.1	100.6	-78.8
	Amortization	15.7	35.7	18.0	14.4	-49.6
	Other pub. Long-term cap.	68.7	49.4	289.5	321.3	486.3
	Private sector, long term	126.0	166.7	125.0	-0.8	-25.0
	Foreign Direct Investment(net)	561.3	564.0	691.6	23.2	22.6
	Short-term Capital	30.2	42.2	-45.7	-251.3	-208.3
<b>10</b>	<b>Errors and omissions</b>	<b>967.2</b>	<b>-626.9</b>	<b>479.3</b>		
<b>11</b>	<b>Overall balance (8+9+10)</b>	<b>-213.4</b>	<b>-246.7</b>	<b>-314.3</b>		
<b>12</b>	<b>Financing</b>	<b>213.4</b>	<b>246.7</b>	<b>314.3</b>		
13	Reserves [Increase (-), Decrease (+)]	213.4	246.7	314.3		
14	Central Bank (NFA)	52.8	329.8	418.4		
	Asset	567.3	-869.5	584.2		
	Liabilities	-514.5	1,199.3	-165.9		
15	Commercial banks (NFA)	160.6	-83.0	-104.1		
16	Debt Relief					
	Principal					
	Interest					

**Source:** NBE Staff Compilation

Total current foreign exchange receipts amounted to USD 3.3 billion, about 12.4 percent higher than last year same period due to 29.7 percent rise in private transfers and 38.8 percent public transfers.

Similarly, total current payments increased 7.5 percent to USD 5.4 billion

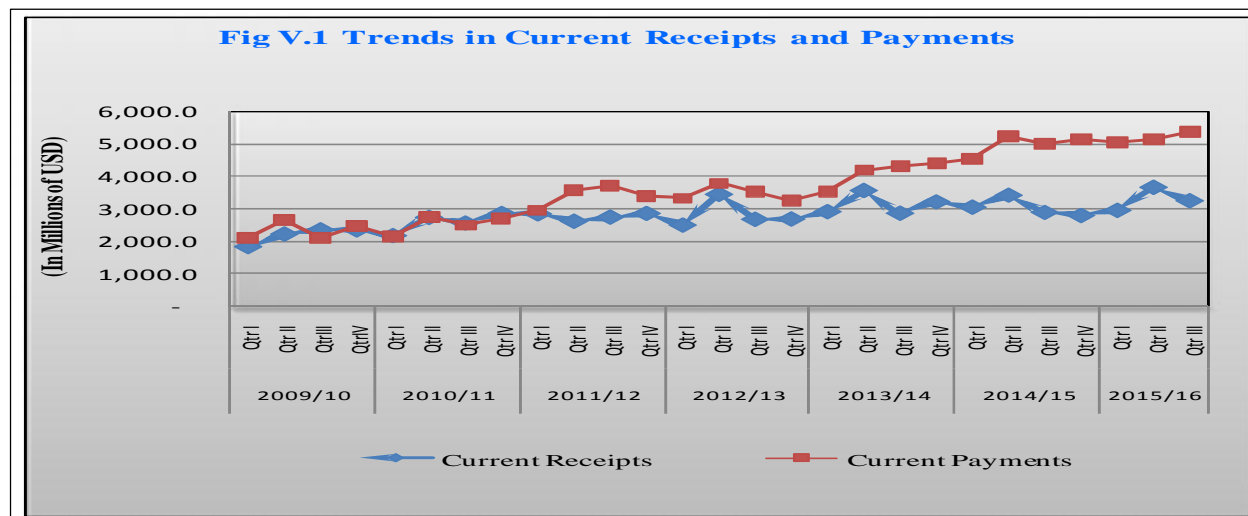
mainly due to increases in merchandise imports (4.1 percent), service payments (24.2 percent), private transfers (120.4 percent) and public transfers (228 percent). Hence, current account deficit recorded USD 2.1 billion deficit (Table 5.2).

**Table 5.2: Current Receipts and Payments**

(In millions of USD)

Particulars	2014/15	2015/16		Percentage Change	
	Qtr III	Qtr II	Qtr III		
	A	B	C	C/A	C/B
<b>1. Current Receipts</b>	<b>2,906.6</b>	<b>3,481.2</b>	<b>3,265.6</b>	<b>12.4</b>	<b>-6.2</b>
Export Proceeds	820.8	604.7	764.7	-6.8	26.5
Service Proceeds	706.5	751.3	691.9	-2.1	-7.9
Private Transfers	1,156.0	1,828.2	1,499.1	29.7	-18.0
Public Transfer	223.3	297.0	310.0	38.8	4.4
<b>2. Current Payments</b>	<b>4,987.8</b>	<b>5,116.3</b>	<b>5,362.6</b>	<b>7.5</b>	<b>4.8</b>
Import Payments	4,195.0	4,165.4	4,367.4	4.1	4.9
Service Payments	782.8	946.0	972.1	24.2	2.8
Private Transfers	8.7	3.8	19.2	120.4	411.7
Public Transfer	1.2	1.2	3.9	227.9	220.9
<b>3. Net(1-2)</b>	<b>-2,081.2</b>	<b>-1,635.2</b>	<b>-2,097.0</b>	<b>0.8</b>	<b>28.2</b>

**Source:** Staff Compilation

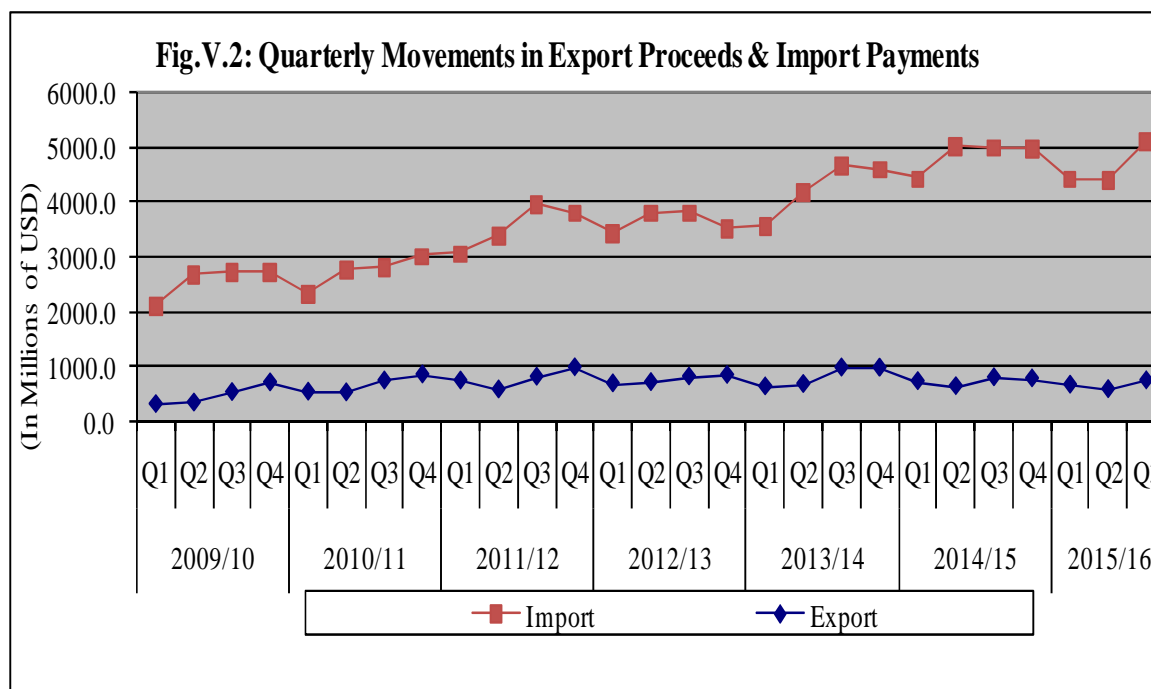


**Source:** NBE Staff Compilation

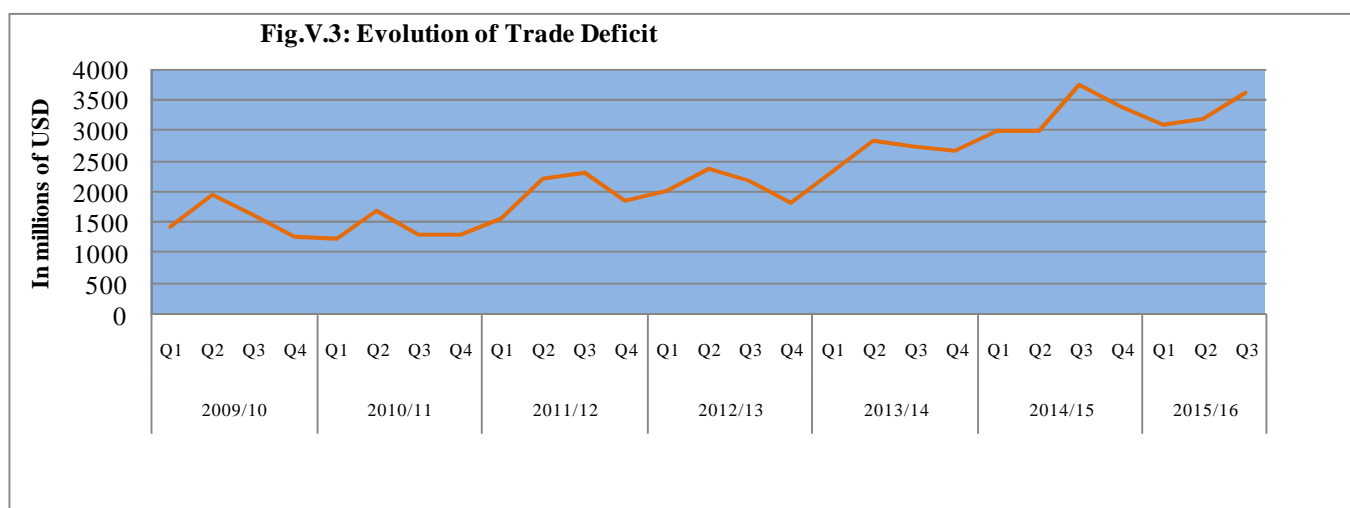
## 5.2 Merchandise Trade

Merchandise trade deficit during the third quarter of 2015/16 amounted to USD 3.6 billion, 6.8 percent higher than same period last year on account of

growth in import bills and decline in export earnings.



**Source:** Ethiopian Revenue and Customs Authority



**Source:** NBE Staff Computation

### 5.2.1 Exports

Total export earnings decreased by 6.8 percent compared to same period last year and amounted to USD 765.4 million. This was ascribed to the decline in export earnings from coffee (4.2 percent), gold (42.5 percent), pulses (0.6 percent), chat (7.5 percent), leather & leather products (22.2 percent), live-animals (8.3 percent), electricity (50.9 percent) and other export items (19.2 percent) as a result of slowdown in international price, volume of export or both.

Export earnings from coffee dropped 4.2 percent solely due to 17.3 percent fall in international price. The share of coffee in total exports was 21.4 percent.

Earnings from gold export went down by 42.5 percent vis-à-vis same quarter last year owing to 43.5 percent decrease in volume despite 1.8 percent in price increase. As a result, the share of gold in total exports stood at 8.8 percent compared with 14.3 percent last year same quarter.

Likewise, revenue from pulses decreased by 0.6 percent and stood at USD 61.2 million. The revenue fall from pulses

was exclusively attributed to lower international price (2.3 percent). Thus, the share of pulses in total merchandise export earnings was 8 percent.

Similarly, earnings from chat declined 7.5 percent due to 6.7 percent fall in export volume and 0.9 percent in international price. As a result, the share of chat export in total export earnings was 7.9 percent.

Meanwhile, Earnings from leather & leather products plummeted 22.2 percent vis-à-vis last year same quarter owing to 11.7 percent decline in export volume and 11.9 percent in international price. Consequently, the share of leather & leather products in total export proceeds went down to 3.5 percent from 4.2 percent share last year same period.

Revenue from live-animals export went down by 8.3 percent due to 11.8 percent decrease in export volume. Consequently, the share of live-animals export in total merchandise export revenue was 2.7 percent.

Similarly, electricity export declined by 50.9 percent vis-à-vis last year same period owing to 58.9 percent drop in



export volume largely due to lower water volume in major dams.

Export revenue from oilseeds increased 15.2 percent over last year same period on account of 72 percent surge in export volume despite 33 percent fall in international price. As a result, total export earnings from oilseeds stood at USD 200.3 million and its share reached 26.2 percent.

Similarly, proceeds from flower export increased 14.3 percent as a result of 10.7 and 3.2 percent growth in export volume and international price, respectively. Hence, the share of flower in total export earnings increased to 8.2 percent from 6.7 percent a year ago.

Receipts from meat & meat products increased 1.4 percent due to 4.8 percent increase in international price despite 3.3 percent decline in volume. As a result, the share of meat & meat products in export earnings was 3.1 percent.

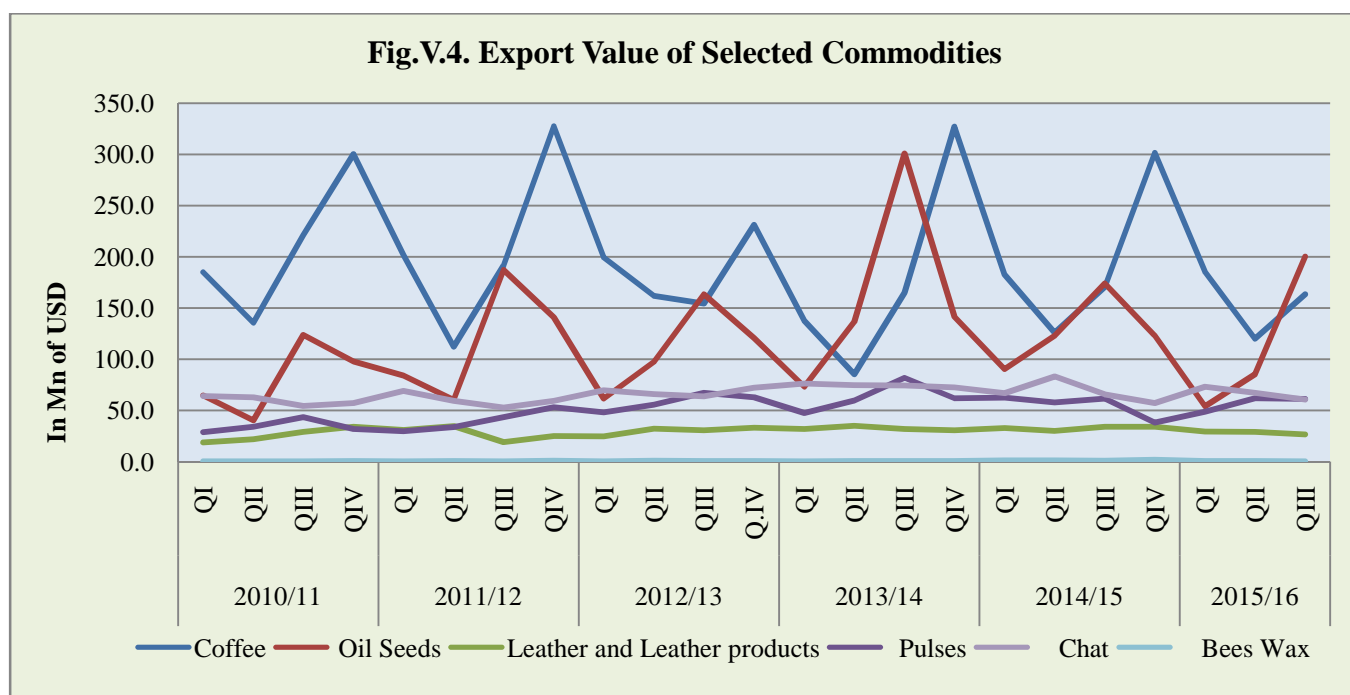
Likewise, earnings from export of fruits & vegetables went up 9.8 percent over last year same period due to a 19.7 percent increase in export volume albeit 8.3 percent fall in international price. Consequently, earnings from export of fruits & vegetables reached USD 13.4 million accounting for 1.7 percent in total merchandise export earnings.

**Table 5.3: Values of Major Export Items**

(In millions of USD)

Particulars	2014/15		2015/16				Percentage Change	
	QIII		QII		QIII			
	A	%share	B	%share	C	%share	C/A	C/B
Coffee	170.5	20.8	120.1	19.8	163.4	21.4	-4.2	36.1
Oilseeds	173.9	21.2	85.2	14.0	200.3	26.2	15.2	135.0
Leather & Leather products	34.3	4.2	29.1	4.8	26.7	3.5	-22.2	-8.2
Pulses	61.5	7.5	61.7	10.2	61.2	8.0	-0.6	-0.8
Meat & Meat Products	23.4	2.9	22.4	3.7	23.8	3.1	1.4	5.9
Fruits & Vegetables	12.2	1.5	13.9	2.3	13.4	1.7	9.8	-3.6
Live Animals	22.88	2.8	27.31	4.5	20.97	2.7	-8.3	-23.2
Chat	65.59	8.0	67.01	11.0	60.68	7.9	-7.5	-9.4
Gold	117.1	14.3	65.9	10.8	67.4	8.8	-42.5	2.3
Flower	55.2	6.7	53.7	8.8	63.0	8.2	14.3	17.3
Electricity	10.6	1.3	7.9	1.3	5.2	0.7	-50.9	-34.4
Others	73.6	9.0	53.6	8.8	59.5	7.8	-19.2	11.0
Total	820.8	100.0	607.7	100.0	765.4	100.0	-6.8	25.9
Total Excluding Electricity	810.3		599.8		760.2		-6.2	26.7

**Source:** Ethiopian Revenue and Customs Authority



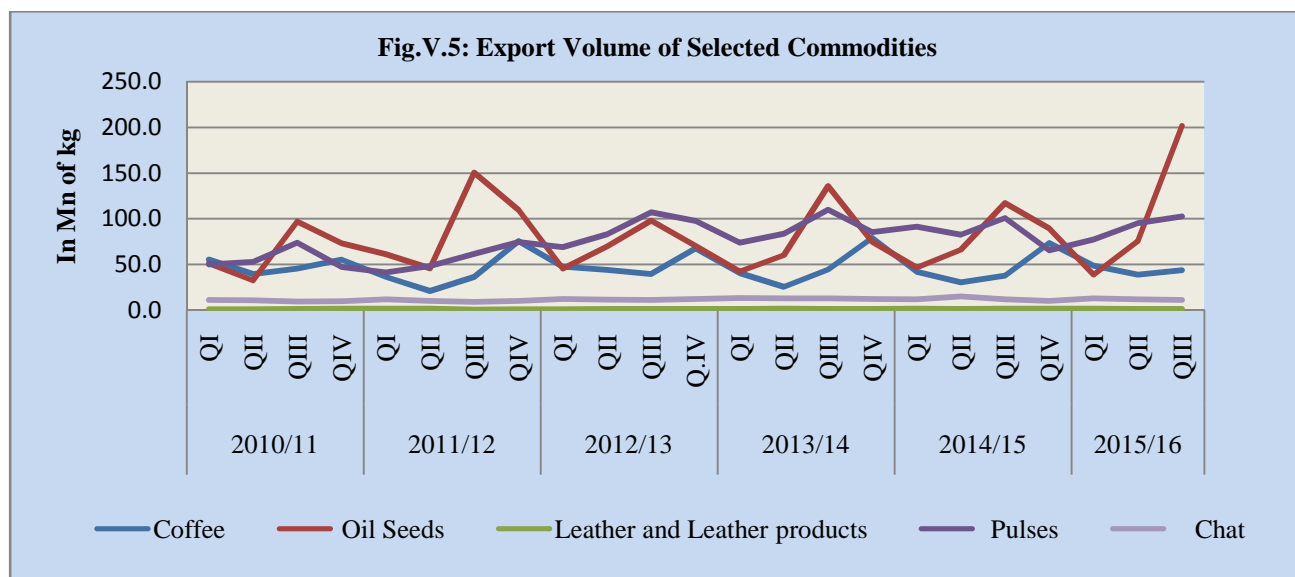
**Source:** NBE Staff Computation

**Table 5.4: Volume of Major Export Items**

In millions of Kg

Particulars	2014/15	2015/16		Percentage Change	
	Qtr III	Qtr II	Qtr III		
	A	B	C	C/A*100-100	C/B*100-100
Coffee	37.7	39.0	43.7	15.8	12.1
Oilseeds	117.1	75.7	201.5	72.0	166.2
Leather and Leather products	1.55	1.48	1.4	-11.7	-7.3
Pulses	100.9	95.4	102.7	1.8	7.7
Meat & Meat Products	4.8	4.4	4.7	-3.3	5.8
Fruits & Vegetables	34.9	41.6	41.7	19.7	0.3
Live Animals	12.4	14.3	11.0	-11.8	-23.5
Chat	11.9	11.9	11.1	-6.7	-7.3
Gold(in mill of grams)	3.35	2.07	1.89	-43.5	-8.5
Flower	12.2	12.1	13.5	10.7	11.5
Electricity(KWA)	180.3	86.3	74.1	-58.9	-14.1

**Source:** Ethiopian Revenue and Customs Authority



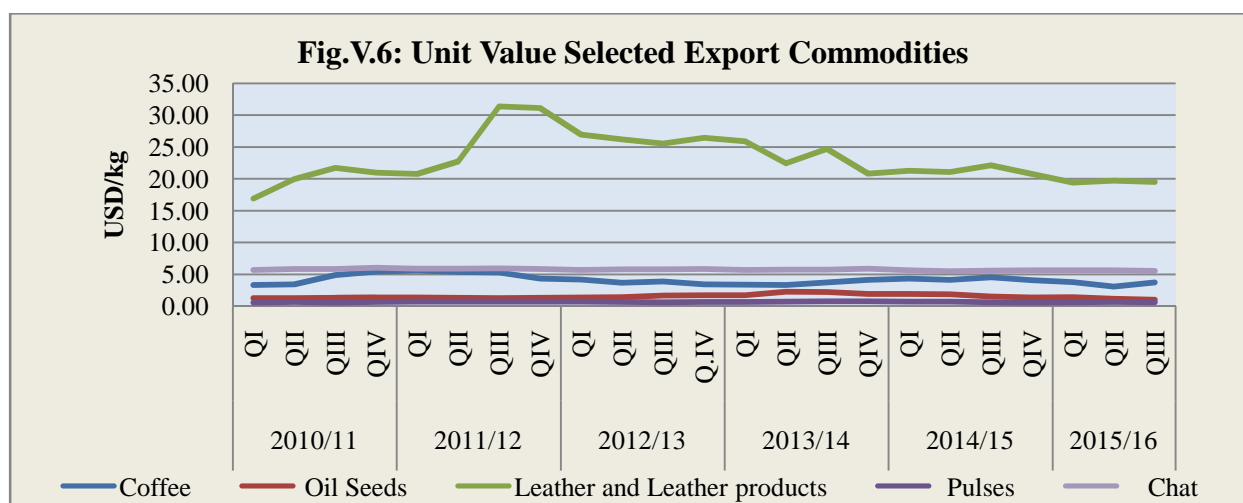
**Source:** NBE Staff Computation

**Table 5.5: Unit Value of Major Export Items**

(In USD/kg)

Particulars	2014/15	2015/16		Percentage Change	
	Qtr III	Qtr II	Qtr III		
	A	B	C	C/A*100-100	C/B*100-100
Coffee	4.5	3.1	3.7	-17.3	21.4
Oilseeds	1.5	1.1	1.0	-33.0	-11.7
Leather and Leather products	22.1	19.7	19.5	-11.9	-0.9
Pulses	0.61	0.65	0.60	-2.3	-7.9
Meat & Meat Products	4.9	5.1	5.1	4.8	0.1
Fruits & Vegetables	0.3	0.3	0.3	-8.3	-3.9
Live Animals	1.8	1.9	1.9	3.9	0.4
Chat	5.5	5.6	5.5	-0.9	-2.4
Gold (USD/gm)	34.9	31.8	35.6	1.8	11.7
Flower	4.5	4.4	4.7	3.2	5.2
Electricity (USD/KWA)	0.1	0.1	0.1	19.5	-23.6

**Source:** NBE Staff Computation



**Source:** NBE Staff Computation

### 5.2.2 Import

Total merchandise import bill during the third quarter of 2015/16 stood at USD 4.4 billion showing a 4.1 percent annual growth owing to rises in import value of consumer goods (25.2 percent), semi finished goods (24.8 percent), raw materials (1 percent) and miscellaneous (5.8 percent). Import bill of capital goods and fuel, however, declined by 9.3 and 29.5 percent, respectively.

Import of consumer goods increased 25.2 percent vis-à-vis same period last year owing to 55.9 percent surge in imports of non-durable consumer goods despite 15 percent decrease in that of durable goods. Thus, the share of consumer goods in total imports increased to 33.8 percent from 28.1 percent last year same quarter.

Likewise, import of semi-finished goods went up 24.8 percent relative to last year same period as import of fertilizer increased 25.5 percent. Consequently, the share of semi-finished goods in total imports increased to 18.5 percent from 15.4 percent a year ago.

Similarly, import value of raw materials went up by 1 percent vis-à-vis same quarter last year despite its share remaining at 0.8 percent.

Capital goods import bill fell 9.3 percent as import of industrial capital goods declined 0.2 percent, transport capital goods 35.9 percent, and agricultural capital goods 5 percent. Consequently, the share of capital goods in total

imports decreased to 39.5 percent from 45.3 percent a year ago.

Likewise, fuel import bill decreased by 29.5 percent vis-à-vis the same period last year due to lower international price despite 18 percent increase in volume of

fuel import. As a result, the share of fuel in total import payments declined to 6.1 percent from 9 percent a year earlier.

Meanwhile, total franco-valuta import increased 34 percent over last year same period and stood at USD 1,501.6 million.

**Table 5.6: Values of Major Import Items**

(In millions of USD)

Particular	2014/15		2015/16				Percentage Changes	
	Qtr III	% share from total Import	Qtr II	% share from total Import	Qtr III	% share from total Import		
	A		B		C		C/A	C/B
<b>Raw Materials</b>	<b>33.7</b>	<b>0.8</b>	<b>34.0</b>	<b>0.8</b>	<b>34.1</b>	<b>0.8</b>	<b>1.0</b>	<b>0.2</b>
<b>Semi-finished Goods</b>	<b>647.3</b>	<b>15.4</b>	<b>562.8</b>	<b>13.5</b>	<b>807.7</b>	<b>18.5</b>	<b>24.8</b>	<b>43.5</b>
Fertilizers	180.0	4.3	22.6	0.5	225.8	5.2	25.5	900.0
<b>Fuel</b>	<b>378.8</b>	<b>9.0</b>	<b>359.5</b>	<b>8.6</b>	<b>267.1</b>	<b>6.1</b>	<b>-29.5</b>	<b>-25.7</b>
Petroleum Products	367.4	8.8	343.1	8.2	260.9	6.0	-29.0	-24.0
Others	11.33	0.3	16.45	0.4	6.27	0.1	-44.7	-61.9
<b>Capital Goods</b>	<b>1,901.8</b>	<b>45.3</b>	<b>1,826.4</b>	<b>43.8</b>	<b>1,724.9</b>	<b>39.5</b>	<b>-9.3</b>	<b>-5.6</b>
Transport	481.3	11.5	528.2	12.7	308.5	7.1	-35.9	-41.6
Agricultural	16.0	0.4	19.1	0.5	15.2	0.3	-5.0	-20.5
Industrial	1,404.5	33.5	1,279.1	30.7	1,401.2	32.1	-0.2	9.5
<b>Consumer Goods</b>	<b>1,179.6</b>	<b>28.1</b>	<b>1,332.2</b>	<b>32.0</b>	<b>1,476.6</b>	<b>33.8</b>	<b>25.2</b>	<b>10.8</b>
Durables	511.3	12.2	425.3	10.2	434.5	9.9	-15.0	2.2
Non-durables	668.3	15.9	906.8	21.8	1,042.1	23.9	55.9	14.9
<b>Miscellaneous</b>	<b>53.8</b>	<b>1.3</b>	<b>50.5</b>	<b>1.2</b>	<b>56.9</b>	<b>1.3</b>	<b>5.8</b>	<b>12.7</b>
<b>Total</b>	<b>4,195.0</b>	<b>100.0</b>	<b>4,165.4</b>	<b>100.0</b>	<b>4,367.4</b>	<b>100.0</b>	<b>4.1</b>	<b>4.9</b>
<b>Total Excluding Fuel</b>	<b>3,816.3</b>		<b>3,805.8</b>		<b>4,100.2</b>		<b>7.4</b>	<b>7.7</b>

**Source:** Ethiopian Revenue and Customs Authority

**Table 5.7: Values of Franco-valuta Imports**

(In millions of USD)

Commodity Group	2014/15	2015/16		Percentage Changes	
	Qtr III	Qtr II	Qtr III		
	A	B	C	C/A	C/B
Beverages	1.4	2.6	2.7	89.6	1.5
Chemicals	10.1	4.3	4.2	-58.8	-3.5
Clothing	4.5	22.3	12.2	169.1	-45.6
Food and live animals	70.4	140.7	158.8	125.7	12.8
Textiles	4.5	7.1	5.6	24.6	-20.2
Tobacco	0.13	0.04	0.07	-47.1	79.9
Soap & polish	0.3	0.2	0.4	23.6	143.9
Fertilizer	40.2	50.9	55.8	38.7	9.7
Paper & paper manufacturing	0.4	0.3	0.6	60.5	71.9
Metal & metal manufacturing	165.9	152.4	160.8	-3.1	5.5
Medical and pharmaceuticals products	8.6	53.3	9.8	13.4	-81.6
Rubber products	13.4	15.1	12.6	-6.2	-16.8
Petroleum Crude	0.0	0.00	0.00		-72.9
Petroleum product	1.7	2.5	4.8	186.3	90.8
Glass & glass ware	5.3	4.2	3.1	-42.0	-26.0
Electrical material	118.9	100.3	72.2	-39.3	-28.0
Machine	246.6	315.0	528.9	114.5	67.9
Air craft	42.1	14.1	70.6	67.8	400.7
Road & motor vehicles	152.5	68.97	62.92	-58.8	-8.8
Tele apparatus	0.6	0.67	0.80	41.3	19.5
Cement	0.0	0.0	0.2	418.6	236.4
Others	233.2	231.8	334.8	43.6	44.4
<b>Total</b>	<b>1,120.8</b>	<b>1,186.8</b>	<b>1,501.6</b>	<b>34.0</b>	<b>26.5</b>

**Source:** Ethiopian Revenues and Customs Authority



## 5.2.3 Direction of Trade

### 5.2.3.1 Exports

The major destinations for Ethiopia's export were Asia, Europe, Africa and America. Asia constituted 44.1 percent of Ethiopia's exports where China accounted for 46.3 percent, Saudi Arabia 14 percent, United Arab Emirates 6.2 percent, Pakistan 5.3 percent, Israel 5 percent, India 4.6 percent, and South Korea 3.2 percent. In total, these countries alone accounted for 84.6 percent of Ethiopia's total exports to Asia. Commodity wise, export to China constituted oilseeds, leather & leather products, mineral products, coffee, natural gum and textile & garment. The major exports to Saudi Arabia were coffee, meat & meat products, live-animals, oilseeds, flowers and cereals. United Arab Emirates imported mainly meat & meat products, pulses, flower, oilseeds, food and coffee. Similarly, the main export items to Pakistan were pulses, tea, spices and flower. Major export items to Israel included oilseeds, cereals, coffee, beverage and textile & garments while India imported pulses, oilseeds, mineral products, leather & leather products, spices and chat. The major export items to South Korea were coffee, flower, leather & leather products and tea.

Europe, accounting for 31.3 percent of Ethiopia's total export earnings, was the second most important outlets. Within Europe, Switzerland accounted for 28.5 percent, Netherlands 21.3 percent, Germany 17.3 percent, Belgium 6.8 percent, Italy 6 percent and United Kingdom 4.3 percent. These countries together accounted for 84.2 percent of the total exports to Europe.

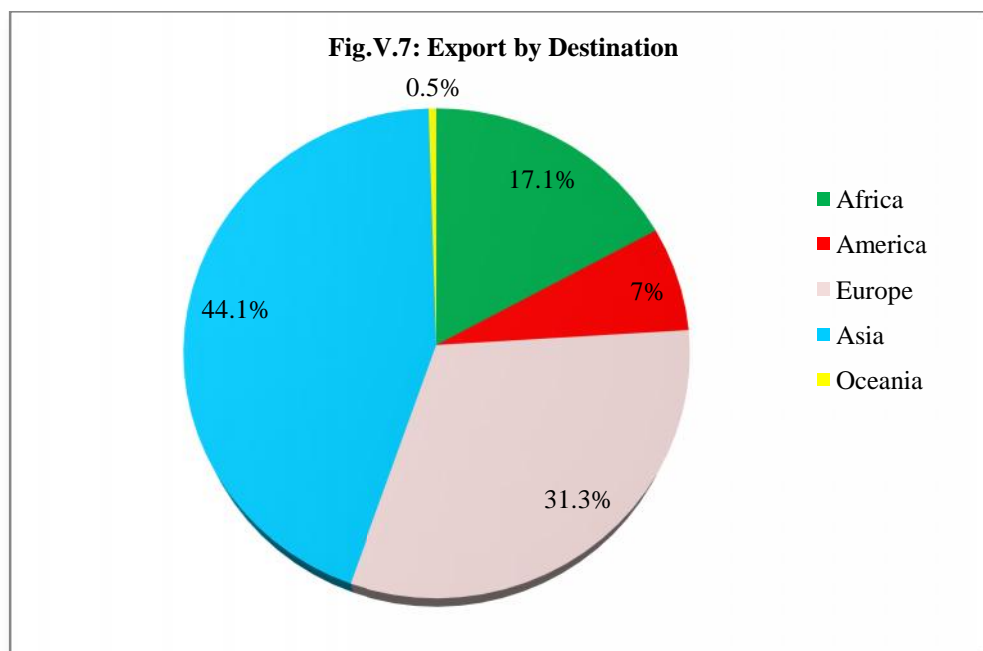
The major commodities exported to Switzerland were gold, oilseeds, coffee, spices and flower. Flower, vegetables, pulses, oilseeds, coffee and fruits were the main items exported to Netherlands. The principal export items to Germany were coffee, textile & garment, flower, oilseeds, leather & leather products and pulses. Coffee, flower, pulses, vegetables, oilseeds and textile & garment were the primary exports to Belgium. Likewise, Italy imported mainly coffee, leather & leather products, textile & garment, pulses, oilseeds and flower. Flower, oilseeds, leather & leather products, vegetables and textile & garment were sent to United Kingdom.

About 17.1 percent of Ethiopia's export earnings were generated from markets in Africa, mainly Somalia (48.9 percent),

Djibouti (18.3 percent), Sudan (12.3 percent), Kenya (7.2 percent) and Egypt (3.7 percent) which altogether accounted for 90.4 percent of the total exports to Africa.

The major items exported to Somalia and Djibouti were chat, live-animals, vegetables and fruits. Sudan imported largely pulses, coffee and spices. Main exports to Kenya included pulses, leather & leather products, textile & garment, tea and fruits while live-animals, oilseeds, pulses and spices were exported to Egypt.

America accounted for 6.9 percent of Ethiopia's total export earnings of which 86.4 percent was from the United States and 7.8 percent from Canada. Coffee, oilseeds, leather & leather products, textile & garments and flower were the major exports to the United States while Canada imported coffee, oilseeds, flower leather & leather products and food.



**Source:** NBE Staff Compilation

### 5.2.3.2 Imports

In the review period, Asia accounted for 57.5 percent of the total Ethiopian imports. In Asia the major import origins were China (54.1 percent), India (11.2 percent), Japan (6.1 percent), Kuwait (4.7 percent), Saudi Arabia (3.8 percent) and United Arab Emirates (3.7 percent) having a combined share of 83.6 percent.

Major items imported from China were metal & metal manufacturing, machine & aircraft materials, road & motor vehicles, electric materials and clothing & textiles. Likewise, metal & metal products, grains, machine & aircraft materials, road & motor vehicles

fertilizers and electrical materials were imported from India. Major imports from Japan included road & motor vehicles, machine & aircraft materials, metal & metal products, rubber products, electrical materials and chemicals. Petroleum products, chemicals and road & motor vehicles were the major import items from Kuwait. Import from Saudi Arabia included petroleum products, paper & paper manufacturing, beverages, chemicals and fertilizers. Similarly, United Arab Emirates exported materials mainly petroleum products, rubber products and electrical materials.

Imports from European countries accounted for 27.8 percent of Ethiopia's total imports where Italy (16.4 percent), Turkey (13.9 percent), Russia (10.7 percent), Rumania (10.3 percent), Germany (9.4 percent), United Kingdom (7.2 percent), Belgium (5.8 percent) and France (4.9 percent) were the major ones. These countries jointly accounted for 78.7 percent of Ethiopia's total imports from Europe.

Major imports from Italy included food & live-animals, machine & aircraft materials, road and motor vehicles, metal & metal manufacturing and electrical materials. Imports from Turkey included metal & metal manufacturing, machinery & aircraft materials, electric materials and rubber products. Imports from Russia were food and live-animals, tobacco, chemicals and road & motor vehicles. Import items from Rumania were food & live-animals, metal & metal manufacturing, machine and aircraft materials and fertilizers. Major imports from Germany included food & live-animals, beverages, machine & aircraft materials, road & motor vehicles, electric materials and metal & metal manufacturing. Imports from United Kingdom included machinery & aircraft materials, electric materials, road & motor

vehicles and fertilizers while machine & aircraft materials, medical & pharmaceutical products, electrical materials, metal & metal manufacturing and road & motor vehicles were imported from Belgium. The major items imported from France included machinery & aircraft materials, electric materials, fertilizers and beverages.

Imports from America accounted for 10 percent of the total import bills, of which United States had 93 percent share, Canada (3.4 percent) and Brazil (2.6 percent).

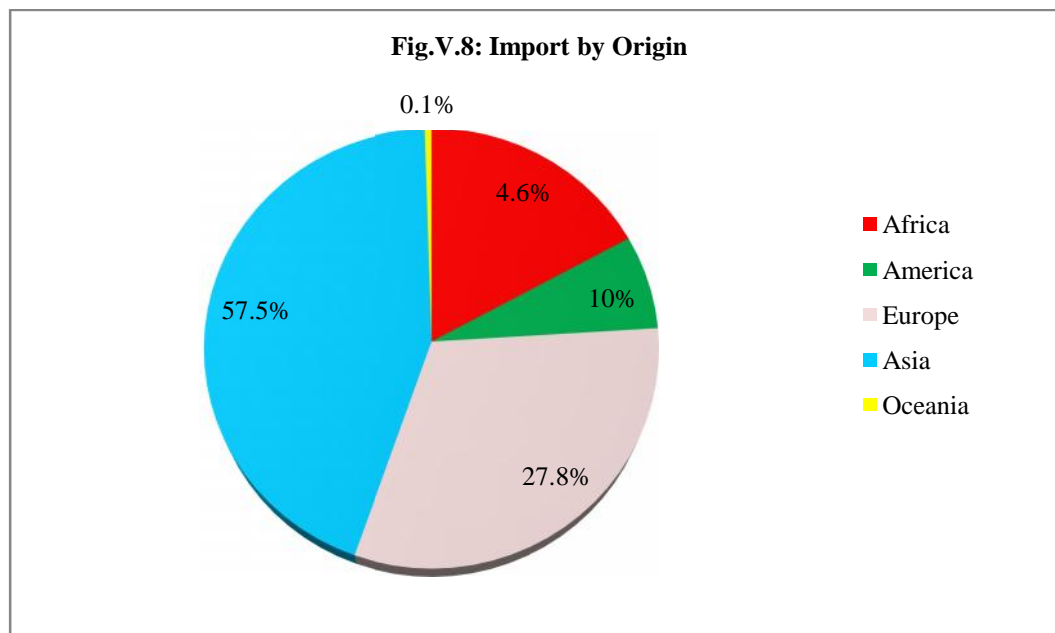
Machinery & aircraft materials, food & live-animals, fertilizers, road & motor vehicles and electric materials were the major items imported from USA. Canada exported machinery & aircraft materials, electric materials, textiles, fertilizer and metal & metal manufacturing. Machinery & aircraft materials, road & motor vehicles and rubber products were main import items from Brazil.

Africa accounted for about 4.6 percent of Ethiopia's total merchandise import. The major countries were Morocco (52.4 percent), Egypt (20.5 percent), South Africa (16.8 percent) and Kenya (3.9 percent) which altogether accounted for 93.6 percent of the total imports from the region.

Petroleum products, machine & aircraft materials, electrical materials, clothing and metal & metal manufacturing were major imports from Morocco. Food & live-animals paper & paper manufacturing and metal & metal manufacturing were imported from Egypt. Imports from South Africa were road

& motor vehicles, soap & polish, grain, metal & metal manufacturing and machine & aircraft materials.

Likewise, metal & metal manufacturing, textiles, electrical materials, food & live-animals and chemicals were main imports from Kenya.

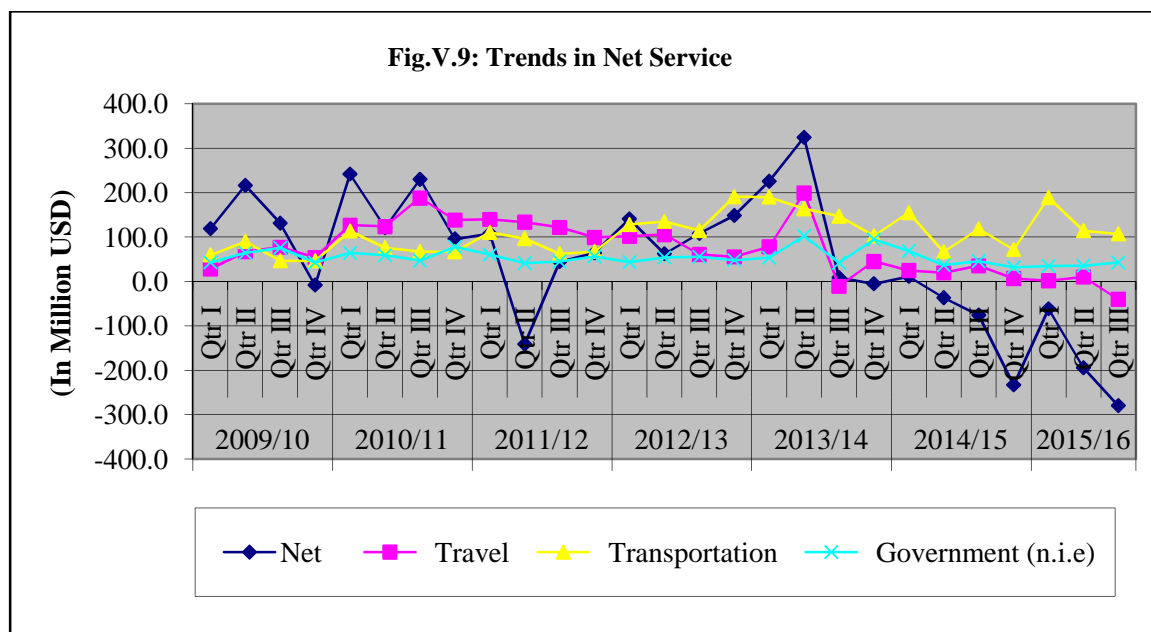


**Source:** NBE Staff Compilation

### 5.3: Services and Transfers

The net payments from services trade stood at USD 280.2 million compared with USD 76.3 million last year same period. This was attributed to the 218

percent drop in net travel; transport (9.6 percent), and government services (5.6 percent) coupled with a 73 percent rise in payments made to other services.



**Source:** NBE Staff Compilation

**Table 5.8: Developments in Services Accounts**

(In Millions of USD)

S/N	Particulars	2014/15	2015/16		Percentage Change	
		QIII	QII	QIII		
		A	B	C	C/A	C/B
<b>1</b>	<b>Investment Income (2+5)</b>	<b>-78.1</b>	<b>-108.4</b>	<b>-49.1</b>	<b>-37.2</b>	<b>-54.7</b>
2	Interest, net (3-4)	-72.0	-105.8	-44.8	-37.8	-57.7
3	Credit	2.7	2.2	3.9	43.2	73.2
4	Debit	74.7	108.1	48.6	-34.9	-55.0
5	Dividend, net	-6.2	-2.6	-4.3	-30.1	67.0
<b>6</b>	<b>Other Services, net (7-12)</b>	<b>1.8</b>	<b>-86.2</b>	<b>-231.1</b>		
7	Exports of non-factor services	703.8	749.1	688.0	-2.2	-8.1
8	Travel	106.7	108.9	96.1	-9.9	-11.8
9	Transport	502.9	561.5	501.3	-0.3	-10.7
10	Gov't	45.3	35.4	48.9	8.0	38.2
11	Other	48.9	43.2	41.7	-14.7	-3.5
12	Imports of non-factor services	702.0			30.9	10.0
13	Travel	72.1	835.3	919.1		
14	Transport	384.8	99.6	137.0	90.2	37.6
15	Gov't	0.0	447.9	394.5	2.5	-11.9
16	Other	245.1	0.1	6.2	14964.5	
<b>17</b>	<b>Net Services (18+19+20+21+22)</b>	<b>-76.3</b>	<b>-194.7</b>	<b>-280.2</b>	<b>267.0</b>	<b>43.9</b>
18	Travel (8 - 13)	34.6	9.3	-40.9	-218.3	-540.0
19	Transport (9 – 14)	118.2	113.7	106.8	-9.6	-6.0
20	Gov't (10 – 15)	45.2	35.4	42.7	-5.6	20.8
21	Other (11 – 16)	-196.2	-244.6	-339.6	73.1	38.9
22	Investment Income (2+5)	-78.1	-108.4	-49.1	-37.2	-54.7

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

During the review period, net transfer receipts increased by 31.2 percent and stood at USD 1.8 billion.

Relative to last year same period, net private transfers increased 29 percent and amounted to USD 1.5 billion on

account of the 131.3 percent rise in transfers to NGO and 2.4 percent rise in private individual transfers. Net official transfers also went up 37.8 percent.

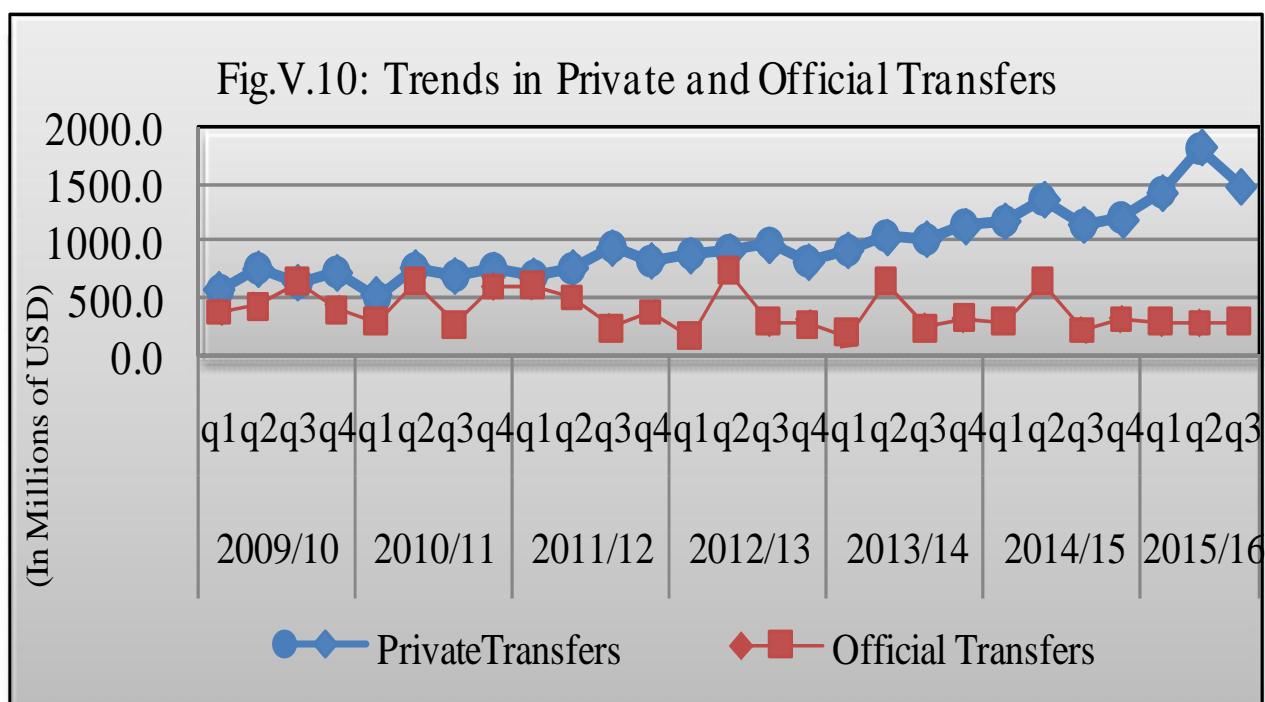


**Table 5.9: Developments in Transfer Accounts**

(In Millions of USD)

S/N	Particulars	2014/15		2015/16				Percentage Change	
		QIII	% share	Q II	% share	QIII	% share		
		A		B		C		C/A	C/B
1	<b>Private Transfers (Net)</b>	<b>1,147.3</b>	<b>83.8</b>	<b>1,824.5</b>	<b>86.1</b>	<b>1,479.9</b>	<b>82.9</b>	<b>29.0</b>	<b>-18.9</b>
2	Credit	1,156.0	83.8	1,828.2	86.0	1,499.1	82.9	29.7	-18.0
3	<b>NGO's</b>	<b>244.9</b>	<b>17.8</b>	<b>531.6</b>	<b>25.0</b>	<b>566.5</b>	<b>31.3</b>	<b>131.3</b>	<b>6.6</b>
4	<b>Private individuals</b>	<b>911.2</b>	<b>66.1</b>	<b>1,296.6</b>	<b>61.0</b>	<b>932.6</b>	<b>51.6</b>	<b>2.4</b>	<b>-28.1</b>
5	Debit	8.7	87.9	3.8	75.4	19.2	83.0	120.4	411.7
6	<b>Official Transfers (Net)</b>	<b>222.1</b>	<b>16.2</b>	<b>295.7</b>	<b>13.9</b>	<b>306.0</b>	<b>17.1</b>	<b>37.8</b>	<b>3.5</b>
7	Credit	223.3	16.2	297.0	14.0	310.0	17.1	38.8	4.4
8	Debit	1.2	12.1	1.2	24.6	3.9	17.0	227.9	220.9
9	Total Receipts	1,379.3	100.0	2,125.2	100.0	1,809.1	100.0	31.2	-14.9
10	Total Payments	9.9	100.0	5.0	100.0	23.2	100.0	133.5	364.7
11	<b>Net Transfers</b>	<b>1,369.4</b>	<b>100.0</b>	<b>2,120.2</b>	<b>100.0</b>	<b>1,785.9</b>	<b>100.0</b>	<b>30.4</b>	<b>-15.8</b>

**Source:** Staff Computation



**Source:** NBE Staff Compilation

## 5.4. Current Account

The current account balance (including official transfers) registered USD 2.09 billion deficit slightly higher than USD 2.08 billion deficit a year ago arising from merchandise trade deficit coupled with the rise in net service payments.

## 5.5. Capital account

In the review period, the capital account recorded USD 1.3 billion in surplus, about 71.1 percent higher than last year same period. This was due to increases in net official long-term capital (112.4 percent), other public sector long term capital (321.3

percent) and foreign direct investment (23.2 percent)

## 5.6. Changes in Reserve Position

During the review period, the increase in net service payments and trade balance resulted in an overall balance of payments deficit of USD 314.3 million. Consequently, net foreign assets of the National Bank showed a drawdown of USD 418.4 million while net assets of commercial banks registered build up of USD 104.1 million. Hence, gross reserves as of March 31, 2016 were sufficient to cover 2.2 months of imports of goods and non-factor services of next year.

## 5.7. Developments in the Foreign Exchange Market

### 5.7.1 Exchange Rate Movements

In the inter-bank forex market, last year same period and 1.2 percent weighted average official exchange rate against the preceding quarter, and of Birr with respect to USD stood at Birr 21.2059/USD (Table depreciated 4.9 percent compared to 5.10).

**Table 5.10: Developments in Inter-bank Exchange Rate**

Period		Official Market			
		Weighted End Period Rate	Weighted Average rate	Amount Traded in millions of USD	
				Total	Among CBs
<b>2014/15</b>		<b>20.5659</b>	<b>20.0956</b>	<b>14.50</b>	<b>2.00</b>
<b>Qtr. III</b>	<b>C</b>	<b>20.3293</b>	<b>20.2145</b>	<b>3.05</b>	<b>0.00</b>
January		20.1716	20.1396	1.00	0.00
February		20.2494	20.2126	1.00	0.00
March		20.3293	20.2914	1.05	0.00
<b>2015/16</b>					
<b>Qtr. II</b>	<b>B</b>	<b>21.0777</b>	<b>20.9497</b>	<b>3.25</b>	<b>0.00</b>
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
<b>Qtr. III</b>	<b>A</b>	<b>21.3641</b>	<b>21.2059</b>	<b>3.10</b>	<b>0.00</b>
January		21.1536	21.1176	0.95	0.00
February		21.2376	21.1976	1.05	0.00
March		21.3641	21.3025	1.10	0.00
<b>Percentage Changes</b>	<b>A/B</b>	<b>1.36</b>	<b>1.22</b>	<b>-4.62</b>	
	<b>A/C</b>	<b>5.09</b>	<b>4.90</b>	<b>1.64</b>	

**Source:** National Bank of Ethiopia

In retail foreign exchange market, the average buying rate in forex bureau of commercial banks was Birr 21.2047/USD and the selling rate Birr 21.6205/USD depicting 4.77 and 4.78 percent depreciation compared to the same quarter last year, respectively.

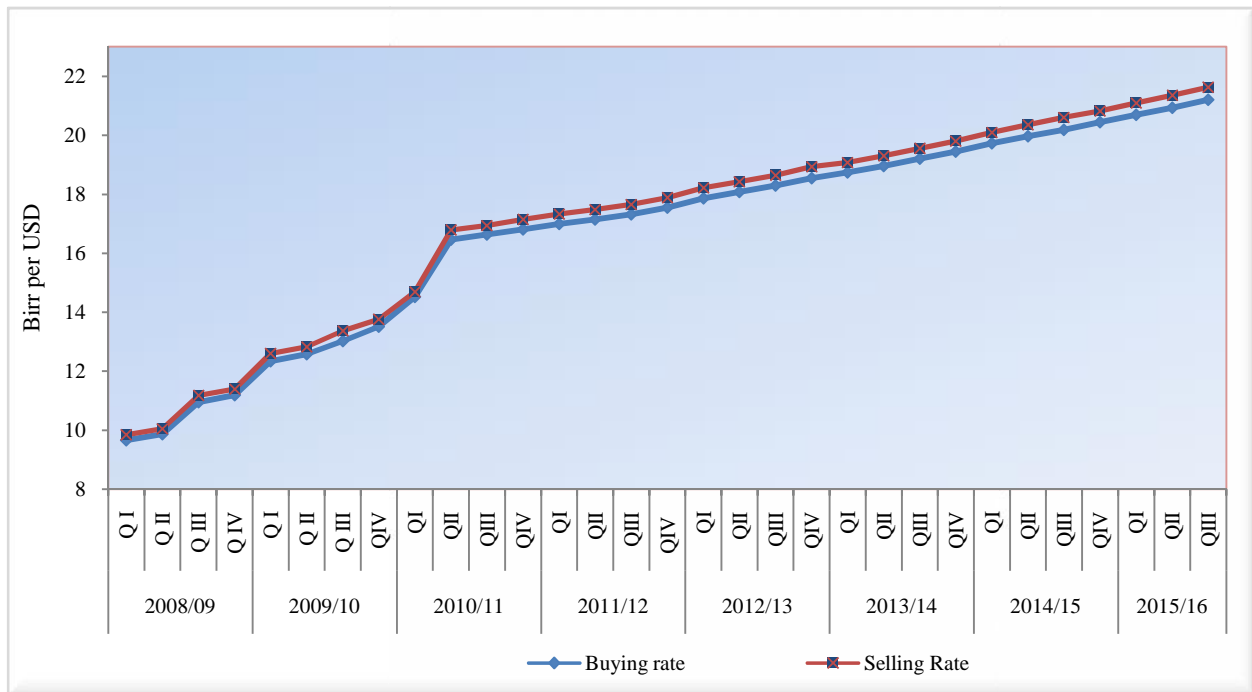
As a result, the average spread between the buying and selling rates marginally widened to 1.96 percent from 1.95 percent (Table 5.11).

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

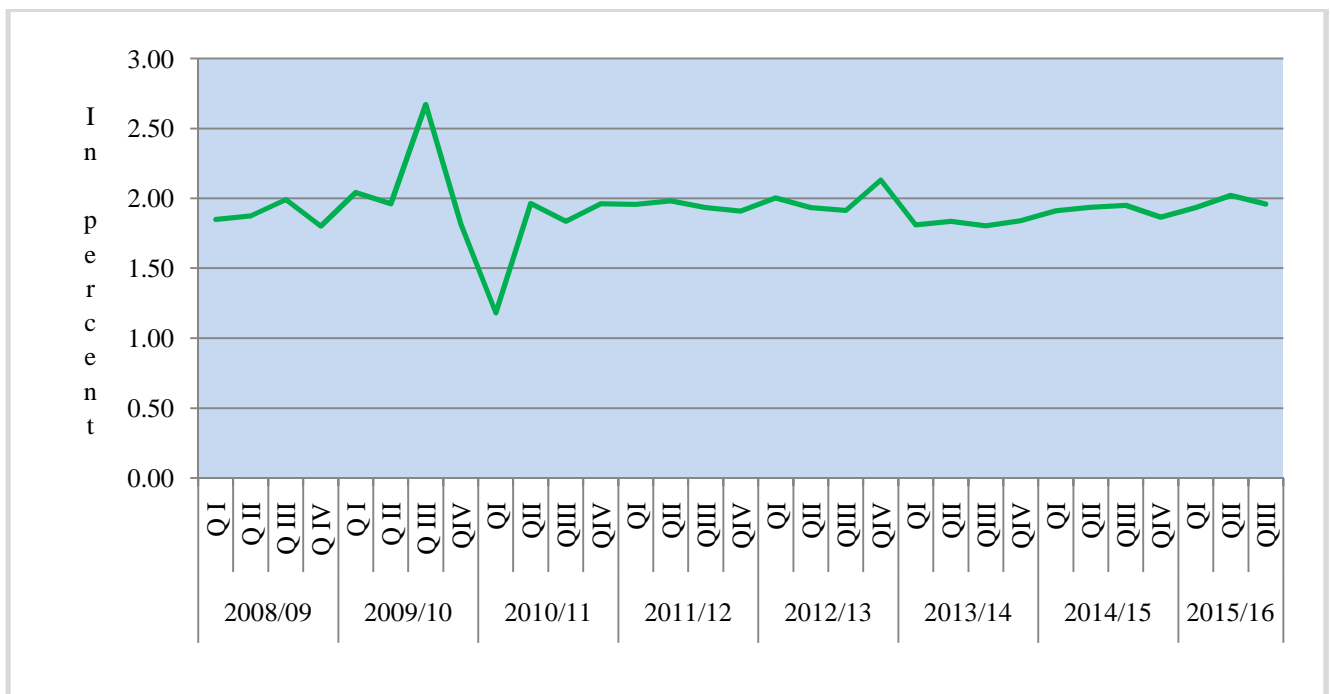
No.	Name of Forex Bureaux	2014/15		2015/16				Percentage Change			
		Quarter III A		Quarter II B		Quarter III C					
		Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
1	Commercial Bank of Ethiopia	77545.95	19825.37	65548.30	22387.90	67195.38	22665.80	-13.35	14.33	2.51	1.24
2	Bank of Abyssinia	2062.60	2276.02	806.84	2323.07	633.79	2142.12	-69.27	-5.88	-21.45	-7.79
3	Dashen Bank	5491.91	6682.61	4726.97	5557.34	3956.93	6697.57	-27.95	0.22	-16.29	20.52
4	Awash International Bank	1944.13	5132.18	1293.65	2215.60	1399.50	2184.54	-28.01	-57.43	8.18	-1.40
5	Construction & Business Bank	1482.75	1226.57	1265.45	526.21	832.22	468.33	-43.87	-61.82	-34.24	-11.00
6	Wegagen Bank	992.19	854.47	814.68	1219.78	688.88	1129.90	-30.57	32.23	-15.44	-7.37
7	United Bank	2764.60	2335.00	2877.98	3949.93	2961.38	3310.15	7.12	41.76	2.90	-16.20
8	Development Bank	4.52	68.75	12.32	58.62	14.65	83.07	223.94	20.82	18.89	41.69
9	Nib International Bank	975.91	2343.19	351.54	1252.68	291.13	1074.03	-70.17	-54.16	-17.18	-14.26
10	Lion International Bank	460.81	547.86	7735.35	817.21	7814.60	1011.98	1595.82	84.72	1.02	23.83
11	Oromia International Bank	933.42	768.61	1146.96	1128.48	1788.24	1207.94	91.58	57.16	55.91	7.04
12	Zemen Bank	119.73	946.08	176.45	1567.96	127.60	1528.61	6.58	61.57	-27.68	-2.51
13	Cooperative Bank of Oromia	403.79	635.02	104.32	406.70	56.56	317.95	-85.99	-49.93	-45.79	-21.82
14	Buna International Bank	138.13	27.27	32.96	210.09	110.35	202.41	-20.11	642.16	234.80	-3.66
15	Birhan International Bank	320.77	388.09	30.21	26.14	17.38	58.03	-94.58	-	-	121.98
16	Abay Bank	671.51	957.13	14.43	222.45	11.23	248.85	-98.33	-74.00	-22.15	11.87
17	Addis International Bank	139.75	171.94	223.16	448.48	122.60	313.07	-12.27	82.08	-45.06	-30.19
18	Debub Global Bank	44.90	62.95	9.21	106.54	8.56	94.04	-80.93	49.38	-7.03	-11.74
19	Enat Bank	114.13	81.40	76.24	86.04	64.40	67.19	-43.58	-17.46	-15.53	-21.91
	Total	96611.5	45330.5	87247.0	44511.2	88095.4	44805.6	-8.81	-1.16	0.97	0.66
	Average Exchange Rate	20.2386	20.6337	20.9297	21.3527	21.2047	21.6205	4.77	4.78	1.31	1.25
	Exchange Rate Spread (%) <sup>*</sup>	1.95		2.02		1.96					

**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.11: Average Buying and Selling Rates of Forex Bureau of Commercial Banks**

**Source:** National Bank of Ethiopia

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

**Source:** National Bank of Ethiopia

In the official forex market, US dollar appreciated with respect to major currencies vis-à-vis same period last year namely, 5.53 percent against Pound Sterling, 4.33 percent against Swiss Franc, 2.30 percent against SDR and 2.28 percent against EURO while it depreciated against Japanese Yen by 3.24 percent. The main reason for dollar appreciation was due to improved US

economy accompanied by interest rate hike made by US Federal Reserve.

Likewise, on quarterly basis, the US dollar appreciated against Pound Sterling (5.6 percent), Swiss Franc (1.12 percent), and SDR (0.27 percent) while it depreciated 5.2 and 0.59 percent against Japanese Yen and EURO, respectively (Table5.12).

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

		EURO			JAPANESE YEN			SDR			POUNDSTELING			SWISS FRANC		
Period		Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate	Buying	Selling	Mid Rate
2014/15																
QIII	C	1.1276	1.1276	1.1276	0.0084	0.0084	0.0084	1.4088	1.4088	1.4088	1.5166	1.5166	1.5166	1.0511	1.0510	1.0511
January		1.1624	1.1624	1.1624	0.0084	0.0084	0.0084	1.4273	1.4273	1.4273	1.5203	1.5203	1.5203	1.0621	1.0621	1.0621
February		1.1367	1.1367	1.1367	0.0084	0.0084	0.0084	1.4124	1.4124	1.4124	1.5306	1.5306	1.5306	1.0699	1.0699	1.0699
March		1.0838	1.0838	1.0838	0.0083	0.0083	0.0083	1.3868	1.3868	1.3868	1.4990	1.4990	1.4990	1.0212	1.0210	1.0211
2015/16																
QII	B	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
QIII	A	1.1018	1.1020	1.1019	0.0087	0.0087	0.0087	1.3763	1.3766	1.3764	1.4327	1.4328	1.4328	1.0051	1.0061	1.0056
January		1.0861	1.0861	1.0861	0.0084	0.0084	0.0084	1.3828	1.3828	1.3828	1.4450	1.4450	1.4450	0.9939	0.9939	0.9939
February		1.1091	1.1098	1.1095	0.0087	0.0087	0.0087	1.3524	1.3532	1.3528	1.4325	1.4327	1.4326	1.0054	1.0082	1.0068
March		1.1103	1.1102	1.1102	0.0089	0.0089	0.0089	1.3936	1.3936	1.3936	1.4207	1.4207	1.4207	1.0160	1.0160	1.0160
Percentage Changes	A/B	0.58	0.60	0.59	5.18	5.21	5.20	-0.43	-0.10	-0.27	-5.60	-5.60	-5.60	-1.16	-1.07	-1.12
	A/C	-2.29	-2.27	-2.28	3.23	3.25	3.24	-2.31	-2.29	-2.30	-5.53	-5.53	-5.53	-4.37	-4.28	-4.33

**Source:** National Bank of Ethiopia



At the same time, Birr depreciated against major currencies on annual and quarterly basis except Pound Sterling. On annual basis, the Birr depreciated 8.3 percent against Japanese Yen, 4.9 percent against USD, 2.6 percent against EURO, 2.5 percent against SDR and 0.4 percent against Swiss Franc. In contrast, it appreciated against Pound Sterling by 0.91 percent in fear of Brexit referendum on EU membership.

Likewise, the Birr depreciated against Japanese Yen (6.5 percent), Euro (1.8 percent), USD (1.2 percent), SDR (1.0 percent) and Swiss Franc (0.1 percent) quarter wise, while it appreciated against Pound Sterling by 4.5 percent (Table 5.13).

**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
2014/15																			
QIII	C	20.2145	20.4166	20.3156	22.7798	23.0076	22.8937	0.1697	0.1714	0.1705	28.4748	28.7596	28.6172	30.6558	30.9624	30.8091	21.2391	21.4500	21.3446
January		20.1396	20.3410	20.2403	23.3849	23.6187	23.5018	0.1700	0.1717	0.1708	28.7362	29.0236	28.8799	30.6130	30.9191	30.7660	21.3702	21.5839	21.4770
February		20.2126	20.4146	20.3136	22.9630	23.1927	23.0779	0.1704	0.1722	0.1713	28.5476	28.8331	28.6904	30.9385	31.2479	31.0932	21.6247	21.8410	21.7328
March		20.2914	20.4943	20.3929	21.9914	22.2114	22.1014	0.1686	0.1703	0.1694	28.1406	28.4220	28.2813	30.4159	30.7201	30.5680	20.7225	20.9253	20.8239
2015/16																			
QII	B	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
QIII	A	21.2064	21.4142	21.3098	23.3660	23.5997	23.4828	0.1837	0.1856	0.1847	29.1858	29.4776	29.3317	30.3817	30.6808	30.5281	21.3150	21.5440	21.4295
January		21.1176	21.3288	21.2232	22.9352	23.1646	23.0499	0.1784	0.1802	0.1793	29.2015	29.4936	29.3475	30.5155	30.8206	30.6681	20.9897	21.1995	21.0946
February		21.1976	21.3967	21.2972	23.5113	23.7464	23.6289	0.1841	0.1860	0.1851	28.6677	28.9544	28.8110	30.3657	30.6552	30.5245	21.3123	21.5730	21.4426
March		21.3041	21.5171	21.4090	23.6515	23.8880	23.7698	0.1886	0.1905	0.1896	29.6881	29.9850	29.8366	30.2640	30.5667	30.3917	21.6431	21.8595	21.7513
Percentage Change	A/B	1.23	1.21	1.21	1.82	1.82	1.82	6.48	6.48	6.48	0.79	1.11	0.95	-4.45	-4.46	-4.47	0.05	0.12	0.09
	A/C	4.91	4.89	4.89	2.57	2.57	2.57	8.29	8.30	8.30	2.50	2.50	2.50	-0.89	-0.91	-0.91	0.36	0.44	0.40

Source: NBE Staff Compilation

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

Currency	16-March	15-December	16-March	Percentage change	
	C	B	A	A/B	A/C
USD	20.4310	21.1831	21.4709	1.36	5.09
Pound	30.2337	31.3637	30.9504	-1.32	2.37
Swedish Kroner	2.3768	2.5224	2.6329	4.38	10.77
Djibouti Frank	0.1146	0.1189	0.1205	1.39	5.15
Swiss Frank	21.1851	21.3755	22.3029	4.34	5.28
Saudi Riyal	5.4461	5.6413	5.7242	1.47	5.11
UAE Dirhams	5.5628	5.7663	5.8453	1.37	5.08
Canadian Dollar	16.1586	15.2682	16.4844	7.97	2.02
Japanese Yen	0.1706	0.1758	0.1912	8.73	12.08
Euro	22.1451	23.1404	24.3416	5.19	9.92
SDR	28.3234	29.4254	30.0335	2.07	6.04

**Source:** NBE Staff Compilation

### 5.7.2. Movements in the Real Effective Exchange Rate

In the third quarter of 2015/16, the REER, which measures Ethiopia's external sector competitiveness, appreciated by 4.2 percent on annual basis mainly due to relatively higher domestic inflation compared with stable or low inflation in trading partner countries despite domestic inflation in single digit.

On the other hand, the REER depreciated by 0.1 percent on quarterly basis due to the decline in domestic prices and improved competitiveness.

Likewise, NEER depreciated by 0.3 percent and 0.8 percent vis-à-vis last year same period and the preceding quarter, respectively (Table 5.15).

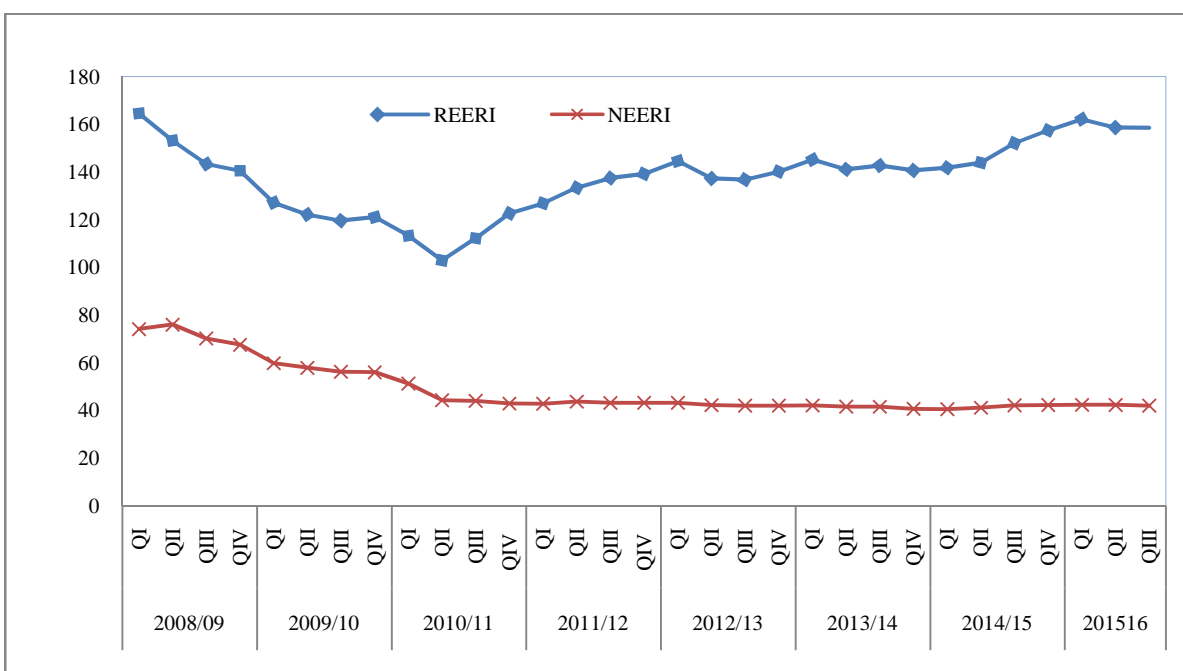
**Table 5.15: Trends in the Real and Nominal Effective Exchange Rates**

Item	2014/15	2015/16		Percentage Change	
	QIII	QII	QIII		
	A	B	C	C/A	C/B
REERI	152.3	158.8	158.7	4.22	-0.08
NEERI	42.1	42.3	42.0	-0.28	-0.77

**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.13: Movements in the Real and Nominal Effective Exchange Rate**

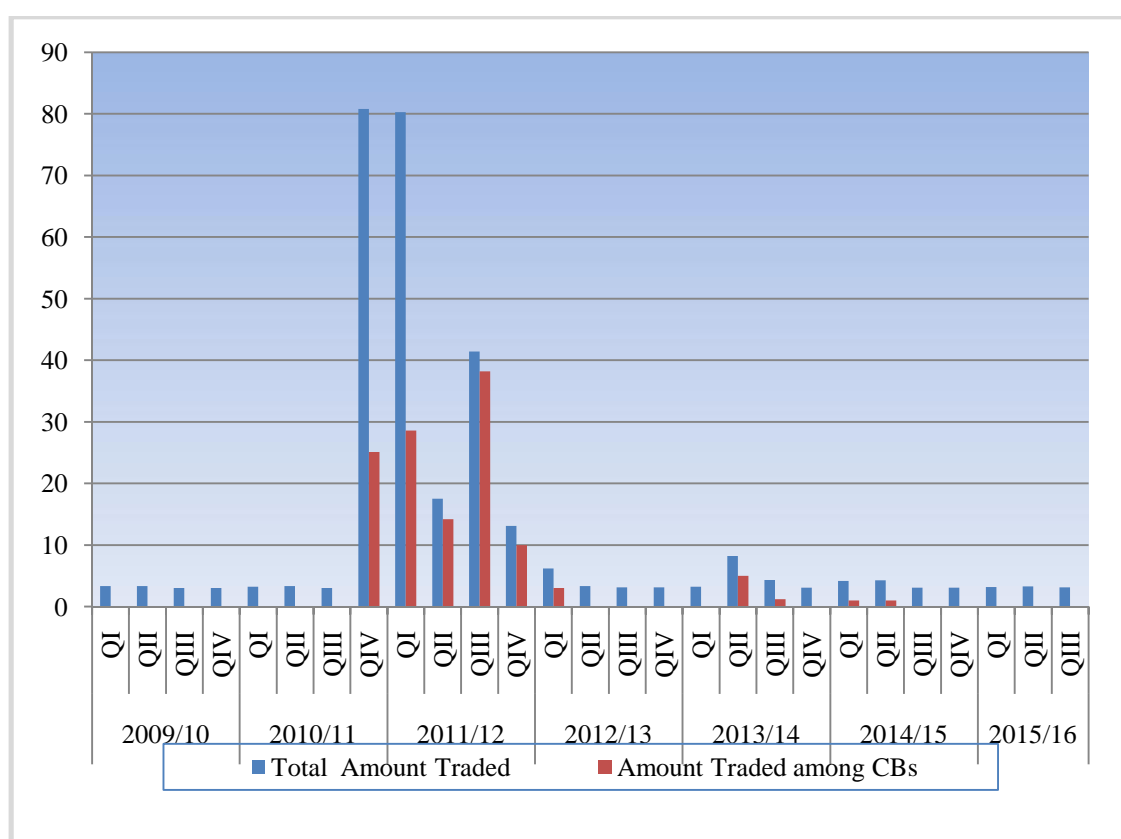
**Source:** NBE Staff Compilation

### 5.7.3 Volume of Transactions

In the third quarter of 2015/16, the total amount of foreign exchange traded in the inter-bank foreign exchange market was USD 3.1 million, 1.6 percent higher than that of last year same period, but 4.6 percent

lower than the amount traded in the preceding quarter. The total amount of FX traded in the inter-bank market was supplied solely by NBE (Table 5:10).

**Fig.V.14: Foreign Exchange Trade in the Interbank Foreign Exchange Market**



**Source:** NBE Staff Compilation

In the same period, forex bureau of commercial banks purchased USD 88.1 million and sold USD 44.8 million foreign exchange. The amount purchased and sold in the review quarter was 8.8 and 1.2 percent

lower than that of last year same period, respectively (Table 5.11).

## **VI. Federal Government Finance**

Total revenue and grants of the Federal government amounted to Birr 47.5 billion showing 53.3 percent growth over same period last year (Table 6.1).

Meanwhile, total expenditure surged 64.5 percent vis-a-vis a year ago.

Consequently, the overall fiscal balance (including grants) registered Birr 4.8 billion deficit compared to Birr 869.4 million deficit last year (Table 6.1).

**Table 6.1: summary of Quarterly Federal Government Finance**

(in millions of Birr)

No	Finer points	2014/15	2015/16				Percentage changes		Performance rate
		A	B	C	D	D/A	D/C	D/B	
		QIII	Budget	QII	QIII				
1	Revenue and Grants	30,992.5	158,135.2	38,339.8	47,523.3	53.3	24.0	30.1	
1.1	Total Revenue	30,992.5	157,060.8	38,339.8	47,232.7	52.4	23.2	30.1	
	Tax Revenue	29,138.8	141,208.5	37,227.8	33,476.0	14.9	-10.1	23.7	
	Direct tax	6,232.1	40,688.4	12,730.9	6,924.0	11.1	-45.6	17.0	
	Indirect tax	22,906.8	100,520.1	24,496.9	26,552.0	15.9	8.4	26.4	
	Non-Tax Revenue	1,853.7	15,852.3	1,112.0	13,756.7	642.1	1137.2	86.8	
1.2	Grant & Relief		1,074.4		290.6			27.0	
2	Current Expenditure	8,221.1	46,828.5	14,227.2	13,660.5	66.2	-4.0	29.2	
3	Current Surplus/Deficit								
	(Including Grants)	22,771.5	111,306.7	24,112.6	33,862.8	48.7	40.4	30.4	
	(Excluding Grants)	22,771.5	110,232.3	24,112.6	33,572.2	47.4	39.2	30.5	
4	Capital Expenditure	12,607.8	71,887.1	15,325.5	17,736.0	40.7	15.7	24.7	
5	Regional Transfers	11,033.1	84,850.1	25,273.0	21,007.4	90.4	-16.9	24.8	
6	Total Expenditure (2+4+5)	31,861.9	203,565.6	54,825.7	52,403.9	64.5	-4.4	25.7	
7	Overall Surplus/Deficit				0.0				
	(Including Grants)	-869.4	-4,5430.5	-16,485.9	-4,880.6	461.4	-70.4	10.7	
	(Excluding Grants)	-869.4	-4,6504.8	-16,485.9	-5,171.2	494.8	-68.6	11.1	
8	Total Financing	869.4	45,430.5	16,485.9	4,881.5	461.5	-70.4	10.7	
8.1	Net External Borrowings	5,223.8	18,719.5	2,413.8	4,526.0	-13.4	87.5	24.2	
	External Borrowing	1,843.9	15,645.5	3,042.2	3,081.0	67.1	1.3	19.7	
	Amortization	299.2	2,527.9	628.4	457.5	52.9	-27.2	18.1	
8.2	Net Domestic Borrowings	4,312.8	26,710.9	10,693.5	1,099.0	-74.5	-89.7	4.1	
	Banking System	4,312.8	0.0	6,490.6	-4,029.8	-193.4	-162.1		
	Non-Bank Sources	0.0	0.0	4,202.9	5,128.8		22.0		
8.3	Privatization receipts	485.0	0.0	0.0	0.0				
8.4	Others and Residuals	-9,152.2	0.0	3,378.6	-743.5	-91.9	-122.0		

**Source:** Ministry of Finance and Economic Development



## **6.1 Revenue and Grant**

Of the total Birr 47.5 billion revenue and grants obtained during the review quarter, 99.4 percent was mobilized from domestic sources. Domestic revenue at Birr 47.2 billion grew by 52.4 percent compared with a year ago (Table 6.2).

Of which Birr 33.5 billion or 70.9 percent was collected through tax revenue and Birr 13.8 billion or 29.1 percent from non-tax sources.

Meanwhile, grants and relief constituted Birr 291.0 million (Table 6.2).

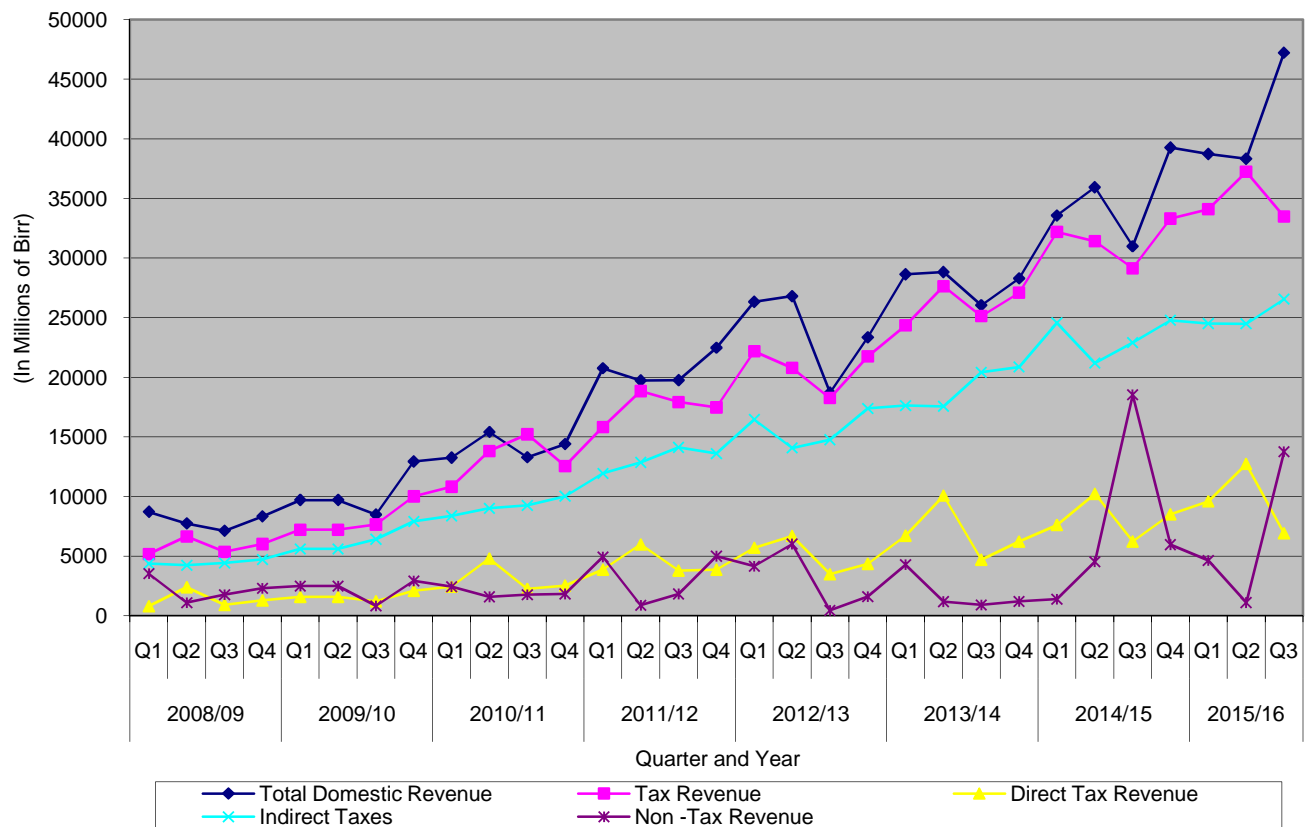
**Table 6.2: Summary of Federal Government Revenue by component****(In Millions of Birr)**

No	Particulars	2014/15	2015/16			Percentage Change		Performance Rate
		QIII	Budget	QII	QIII			
		A	B	C	D	[D/A]	[D/C]	[D/B]
	<b>Total Revenue and Grants</b>	<b>3,0992.5</b>	<b>158,135.2</b>	<b>38,339.8</b>	<b>47,523.5</b>	<b>53.3</b>	<b>24.0</b>	<b>30.1</b>
	<b>Total Domestic Revenue</b>	<b>3,0992.5</b>	<b>157,060.8</b>	<b>38,339.8</b>	<b>47,232.5</b>	<b>52.4</b>	<b>23.2</b>	<b>30.1</b>
1	<b>Tax Revenue</b>	<b>29,138.8</b>	<b>141,208.5</b>	<b>37,227.8</b>	<b>33,475.5</b>	<b>14.9</b>	<b>-10.1</b>	<b>23.7</b>
1.1	Direct Tax Revenue	6,232.1	40,688.4	12,730.9	6,923.7	11.1	-45.6	17.0
1.1.1	Income Taxes	5,138.8	35,671.1	11,456.5	5,782.6	12.5	-49.5	16.2
	- Personal	1,287.9	4,785.3	1,446.6	1,552.9	20.6	7.4	32.5
	- Business	3,850.9	30,885.8	10,010.0	4,229.7	9.8	-57.7	13.7
1.1.2	Others <sup>1</sup>	1,093.2	5,017.3	1,274.4	1,141.1	4.4	-10.5	22.7
1.2	Indirect Taxes	22,906.8	100,520.1	24,496.9	26,551.8	15.9	8.4	26.4
2.2.1	Domestic Taxes	10,185.4	41,212.5	8,447.6	10,741.2	5.5	27.1	26.1
2.2.2	Foreign Trade Taxes	12,721.4	59,307.6	16,049.3	15,810.6	24.3	-1.5	26.7
	- Import	12721.4	59307.6	16,049.3	15,810.6	24.3	-1.5	26.7
2	<b>Non-Tax Revenue</b>	<b>1853.7</b>	<b>15852.3</b>	<b>1112.0</b>	<b>13757.0</b>	<b>642.1</b>	<b>1137.2</b>	<b>86.8</b>
3	<b>Privatization</b>	<b>485.0</b>		<b>0.0</b>	<b>0.0</b>	<b>-100.0</b>		
4	<b>Grants and Relief</b>	<b>0.0</b>	<b>1074.4</b>	<b>0.0</b>	<b>291.0</b>			<b>27.1</b>

Source: Ministry of Finance and Economic Development

<sup>1/</sup> includes Withholding tax on import, tax on dividend, royalty and interest income

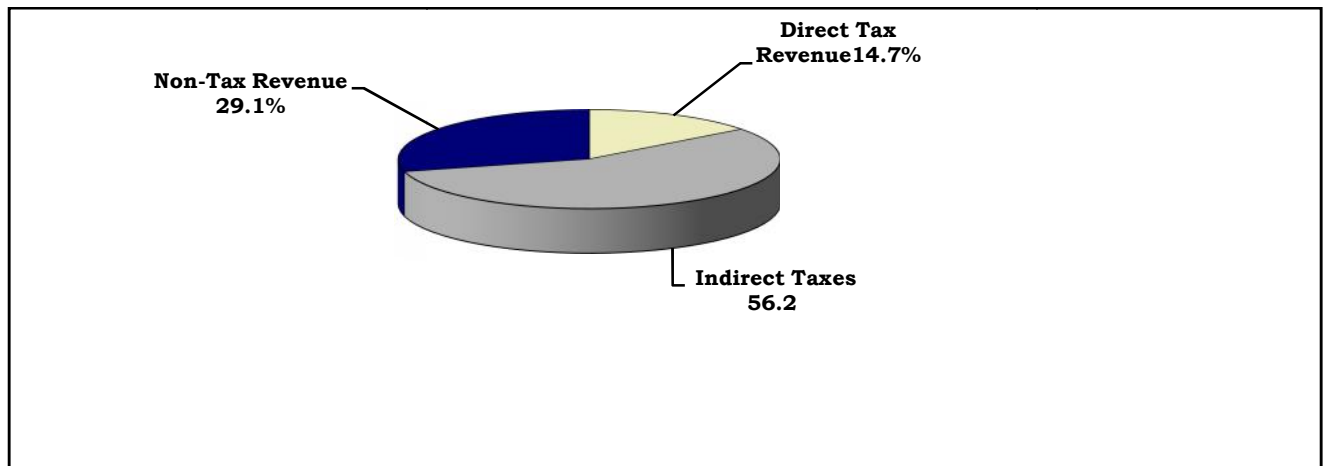
Fig.VI.1: Quarterly Developments in Major Components of Domestic Revenue of the Federal Government



Total tax revenue went up 14.9 percent compared with a year earlier due to 15.9 percent growth in indirect tax mainly

from import tax while, direct tax revenue increased 11 percent (Table 6.2).

Fig.VI.2: Domestic Revenue of federal government by Major Components during the third Quarter of 2015/16



## 6.2 Expenditure

Total government expenditure (including regional transfer) was Birr 52.4 billion, depicting 64.5 percent hike over last year as both recurrent and capital expenditures went up (Table 6.3).

On quarterly basis, the performance of the federal government expenditure moved down due to the decrease in both recurrent and regional transfer.

Total recurrent expenditure rose 66.2 percent to Birr 13.6 billion, mainly, on account of increased expenditure for economic and social services. Likewise, capital expenditure at Birr 17.7 billion showed 40.7 percent expansion.

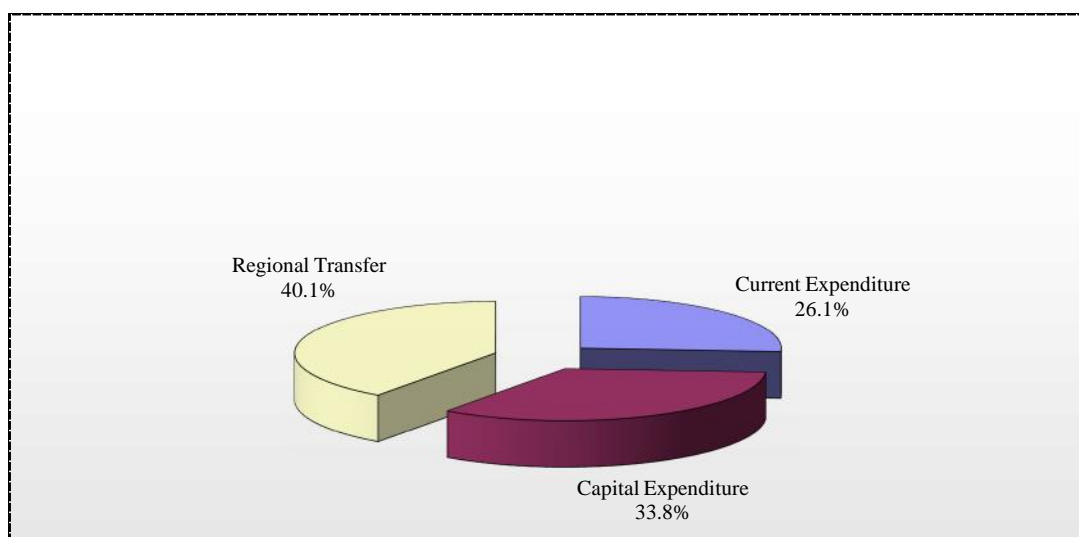
Recurrent expenditure accounted for 26.1 percent of the total expenditure while capital expenditure constituted 73.9 percent.

**Table 6.3: Summary of Federal Government Expenditure by Component****(In Millions of Birr)**

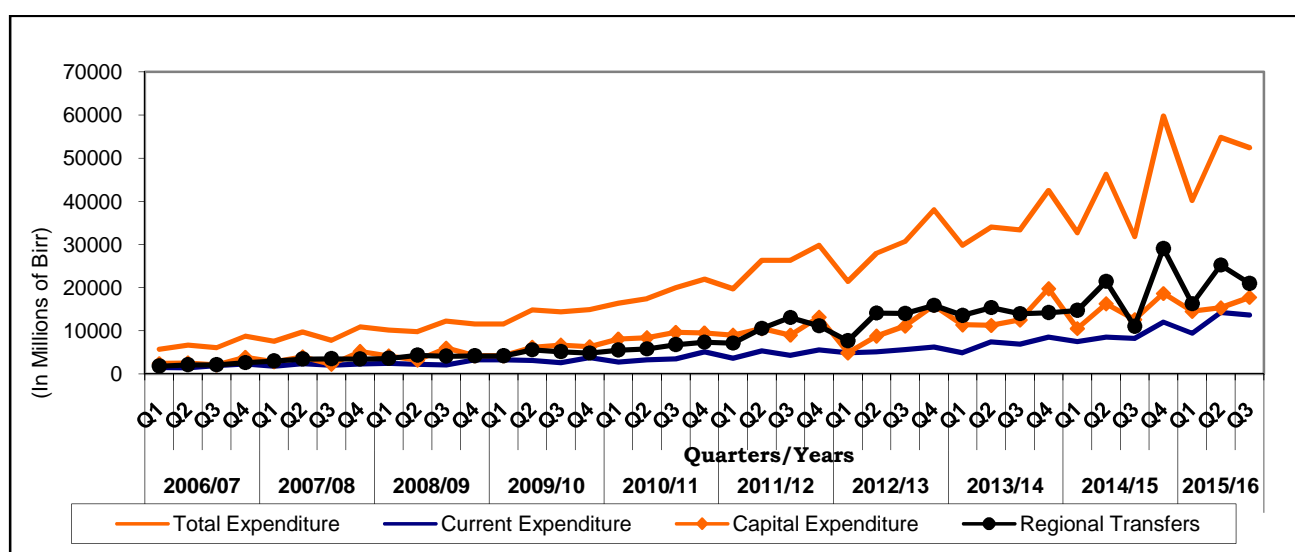
No	Particulars	2014/15	2015/16			Percentage Change		Performance Rate
		QIII	Budget	QII	QIII			
		A	B	C	D	[D/A]	[D/C]	[D/B]
	<b>Total Expenditure</b>	<b>31,861.9</b>	<b>203,565.6</b>	<b>54,825.7</b>	<b>52,403.1</b>	<b>64.5</b>	<b>-4.4</b>	<b>25.7</b>
1	<b>Current Expenditure</b>	<b>8,221.1</b>	<b>46,828.5</b>	<b>14,227.2</b>	<b>13,660.5</b>	<b>66.2</b>	<b>-4.0</b>	<b>29.2</b>
	- General Services	3,618.5	16,805.9	4,349.6	5,313.1	46.8	22.2	31.6
	- Economic Services	365.2	2,862.8	3,853.1	2,503.2	585.4	-35.0	87.4
	- Social Services	2,820.8	15,921.1	4,068.8	4,315.8	53.0	6.1	27.1
	- Debt Service	1,416.5	11,238.7	1,955.8	1,528.4	7.9	-21.9	13.6
2	<b>Capital Expenditure</b>	<b>12,607.8</b>	<b>71,887.1</b>	<b>15,325.6</b>	<b>17,735.2</b>	<b>40.7</b>	<b>15.7</b>	<b>24.7</b>
	- Economic Development	8,513.6	49,079.8	8,183.5	12,512.0	47.0	52.9	25.5
	- Social Development	3,605.7	19,245.0	4,864.6	4,814.0	33.5	-1.0	25.0
	- General Development	488.4	3,562.3	2,277.5	409.2	-16.2	-82.0	11.5
3	<b>Regional Transfers</b>	<b>11,033.1</b>	<b>84,850.1</b>	<b>25,273.0</b>	<b>21,007.4</b>	<b>90.4</b>	<b>-16.9</b>	<b>24.8</b>

**Source:** Ministry of Finance and Economic Development

**Fig.VI.3: Major Components of Federal Governments Expenditure during the third Quarter of 2015/16**



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

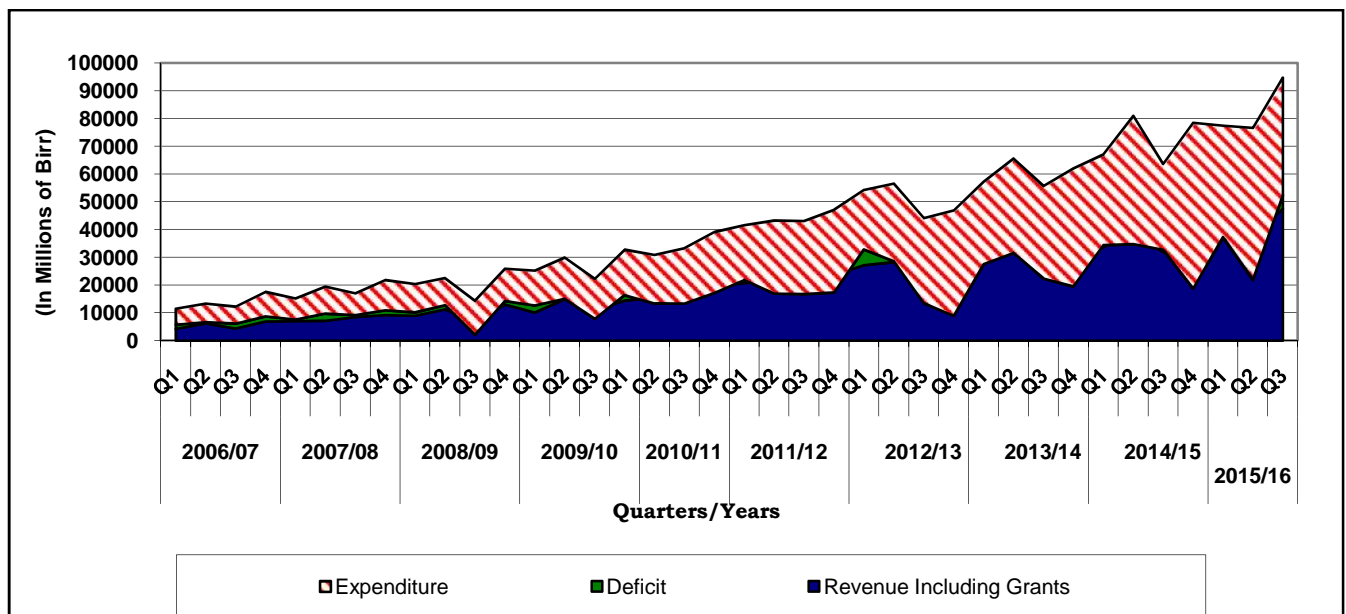


### 6.3 Deficit Financing

The fiscal balance of the Federal government through the third quarter of 2015/16 recorded Birr 4.8 billion deficit, compared with Birr 869.4 million deficit a year ago. The deficit was largely

financed by net external sources (Birr 4.5 billion) and net domestic borrowings (Birr 1.1 billion) mainly from non bank sources (Table 6.1).

Fig.VI.5: Federal Government Finance during third Quarter of F.Y 2015/16





## VIII. Developments in Investment

16 investment projects having investment capital of Birr 77 million became operational during the third quarter of 2015/16. On yearly basis, the number of investment project and investment capital expanded by 45.5 and 14.4 percent, respectively.

All the investment projects were privately owned, of which, 88 percent were domestic and 12 percent foreign. Domestic investment projects had investment capital of Birr 70.9 million (or 92 percent) while foreign investment constituted Birr 6.3 million (8 percent). This indicated that the number of

domestic investment projects grew remarkably (250 percent) while that of foreign investment contracted by 71.4 percent.

These investment projects have generated employment opportunities for 184 employees of which 64 percent were permanent and 36 percent casual. Despite increased number and capital of investment projects employment opportunity created dropped 97 percent presumably due to lower foreign investment which generally attracted, more labor compared with domestic investment (Table 7.1).

**Table 7.1: Performance of Operational Investment Projects**

Capital (In millions of Birr)

Type of Projects	Items	2014/15	2015/16			Percentage Changes	
		QIII	QII	QIII			
		A	B	C	Share	C/A	C/B
1.Total Investment	Number of projects	11	14	16	100	45.5	14.3
	Capital	67.5	54.3	77	100	14.4	42.4
	Permanent Employment	6,092	848	118	100	-98.1	-86.1
	Temporary Employment	115	285	66	100	-42.6	-76.8
2. Private Investment	Number of projects	11	14	16	100	45.5	14.3
	Capital	67.5	54.3	77	100	14.4	42.4
	Permanent Employment	6,092	848	118	100	-98.1	-86.1
	Temporary Employment	115	285	66	100	-42.6	-76.8
2.1 Domestic Investment	Number of projects	4	4	14	88	250.0	250.0
	Capital	10.5	24.2	70.9	92	575.7	192.7
	Permanent Employment	17	18	106	90	523.5	488.9
	Temporary Employment	43.0	73	64	97	48.8	-12.3
2.2. Foreign Investment	Number of projects	7	10	2	12	-71.4	-80.0
	Capital	57.0	30.0	6.3	8	-88.9	-79.0
	Permanent Employment	6,075	830	12	10	-99.8	-98.6
	Temporary Employment	72	212	2	3	-97.2	-99.1
3. Public Investment	Number of projects						
	Capital						
	Permanent Employment						
	Temporary Employment						

**Source:** Ethiopian Investment Agency.

As for sectoral distribution, real estate, renting & business activities constituted 69 percent of total projects. Construction and manufacturing sectors each accounted for 13 percent of projects, followed by mining & quarrying taking up 6 percent.

Out of the total Birr 77 million capital invested, real estate, renting & business activities attracted 70 percent, manufacturing (21 percent), construction (8 percent) and mining & quarrying (1 percent).

With regard to job opportunity, about 51.7 percent of permanent employment was created by real estate, renting & business activities, 22 percent by construction and 19.5 percent by mining & quarrying. Construction was the leading sector by engaging 48.5 percent of temporarily employed persons. Real estate, renting & business activities, and mining & quarrying on their part accounted for 33.3 and 15.2 percent of temporary employment, respectively. Manufacturing was the least sector accounting for 3 percent of temporary employment (Table 7.2).

**Table 7.2: Investment Distribution by Sector during the Third Quarter of 2015/16**

Sectors	No. of Proj.	Share (%)	Capital (in Million Birr)	Share (%)	Perm. Emp.	Share (%)	Temp. Emp.	Share (%)
Agriculture, hunting and forestry								
Construction	2	13	6	8	26	22.0	32	48.5
Education								
Electricity, gas, steam and water supply								
Health and social work								
Hotels and restaurants								
Manufacturing	2	13	15.91	21	8	6.8	2	3.0
Mining and quarrying	1	6	1	1	23	19.5	10	15.2
Other community, social and personal service activities								
Real estate, renting and business activities	11	69	54	70	61	51.7	22	33.3
Tour operation, transport, and communication								
Wholesale, retail trade & repair service								
<b>Grand Total</b>	<b>16</b>	<b>100</b>	<b>77.25</b>	<b>100</b>	<b>118</b>	<b>100.0</b>	<b>66</b>	<b>100.0</b>

**Source:** Ethiopian Investment Agency.

As for regional distribution, about 56.3 percent of the total projects with 62.2 percent of total investment capital went to Dire Dawa, and 25 percent of the projects having 25.8 percent total capital to Tigray. Addis Ababa had 12.5 percent of the projects with 8.2 percent capital.

SNNPR was the least performer by constituting 6.3 and 3.9 percent of total projects and investment capital, respectively. In line with the share of projects and capital, Dire Dawa was the best performer in permanent and temporary employment creation constituting 60.2 and 60.6 percent, respectively.

Similarly, 22.9 percent of permanent and 33.3 percent of temporary employment were created in Tigray while the share of Addis

Ababa was 10.2 and 3 percent, respectively (Table 7.3).

**Table 7.3: Performance of Operational Investment Projects by Region**

	2014/15					2015/16									
	QIII					QII				QIII				S	
	A					B				C				S	
Region	No of Proj	Capital	Perm emp	Temp emp	No of Proj.	Capital	Perm emp	Temp emp	No of Proj.	Capital	Perm. emp	Temp emp	No of Proj.	Capital.	
Addis Ababa	3	9090.2	5226	16	9	24260.3	187	95	2	6300	12	2	12.5	8.2	
Afar	3	8500	11	37											
Amhara															
B.Gumuz															
Dire Dawa					2	20754	0	0	9	48048.9	71	40	56.3	62.2	
Oromia	5	49942	855	62	2	8201.56	650	120							
SNNPR									1	3000	8	2	6.3	3.9	
Gambella															
Somali															
Harari															
Tigray					1	1050	11	70	4	19900	27	22	25.0	25.8	
Multi-regional															
Grand Total	11	67532.2	6092	115	14	54265.9	848	285	16	77248.9	118	66	100.0	100	

Capital (In thousands of Birr)

**Source:** Ethiopian Investment Commission

## VIII. International Economic Developments

### 8.1 Overview of the World Economy<sup>6</sup>

According to European central bank economic bulletin issued in 3/2016, recent survey based indicators suggest that global economic activity stabilized during the third quarter of 2015/16. The turbulence in financial markets observed at the beginning of the year has now subsided, as heightened concerns about the global economy have gradually diminished. Indeed, stock markets have recovered all of the losses suffered since the start of the year, volatility has declined and commodity prices have also rebounded somewhat. This has helped to ease financial conditions in many emerging market economies (EMEs), which have seen capital flows return amid an improved global appetite for risk.

The global composite output Purchasing Managers' Index (PMI) increased slightly in March relative to February, pointing to some improvement in global activity. However, in quarterly terms the global output PMI for the third quarter of 2015/16 was still lower than that of the previous quarter, remaining below its long-term average.

This decline was largely due to developments in advanced economies, particularly in the United States, while the composite output PMI improved somewhat among EMEs. Overall, the PMI data suggest some deceleration in growth among advanced economies and continued modest growth in EMEs in the third quarter of 2015/16.

In United State, the soft patch in US activity appears to have continued into the third quarter of 2015/16, although underlying fundamentals remain healthy. Following a moderate expansion of real GDP by an annualized rate of 1.4 percent in the second quarter of 2015/16, economic activity showed signs of further deceleration in the third quarter of 2015/16. In particular, high-frequency indicators for business equipment spending suggested only modest growth in business investment. While real consumption growth remained moderate in February, recent manufacturing data indicate improving conditions in the sector. Non-farm payrolls rose strongly in March and the labor force participation rate increased further, suggesting that previously

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<sup>6</sup>Sections 8.1 – 8.4 are excerpted from European Central Bank monthly bulletin of 3/2016.

discouraged workers are returning to the labour market. This resulted in only a small uptick in the unemployment rate, to 5.0 percent. Looking forward, the strengthening of the labour market is expected to support real income and consumption.

In Japan, the growth momentum remains subdued. Economic indicators at the start of 2016 continue to point to sluggish economic activity, following a quarter-on-quarter decline in real GDP of 0.3 percent in the second quarter of 2015/16. Recent surveys indicate that private consumption was weak at the start of the year. Industrial production also remained subdued, although this was largely due to one-off factors, while real exports staged a mild recovery.

In UK, GDP growth is expected to moderate. In the second quarter of 2015/16 real GDP increased by 0.6 percent quarter on quarter, more than previously estimated and at a more rapid pace with respect to the previous quarter. In the second quarter of 2015/16 economic growth was driven by solid private consumption, while investment growth turned sharply negative on the back of uncertainty regarding the pace of global

demand and net exports continued to exert a drag on growth.

In China, available data remain consistent with a gradual slowdown in activity growth, which has been underpinned by policy support and rapid credit expansion. In the third quarter of 2015/16, China recorded GDP growth of 6.7 percent year-on-year, which was marginally below that recorded in the previous quarter but in line with the new growth target range set by Chinese authorities for 2016 (6.5-7.0 percent). The latest short-term indicators point to sustained economic momentum, with industrial production, fixed-asset investment, credit growth and retail sales showing some improvements. There are also signs of stabilization in the housing market, with a modest rebound in residential investment and strong increases in house prices in the large cities. Conversely, trade data, which have shown a high degree of volatility in recent months, weakened in the third quarter of the 2015/16.

Growth momentum remains weak and heterogeneous across other EMEs. Activity



has remained resilient in commodity importing countries such as non-euro area central and eastern European countries and, to a lesser extent, India and Turkey, while growth continues to be very weak in commodity-exporting countries. In particular, latest short-term indicators suggest that the downturn in Brazil will continue into third quarter of 2015/16. Political uncertainty, deteriorating terms of trade and tightening financing conditions are weighing heavily on economic activity. In line with expectations, economic activity in Russia declined again in the second quarter of 2015/16, following tentative signs of improvement in the third quarter of last year. Uncertainty remains high and business confidence weak, while lower oil revenues continue to restrain public expenditure.

## 8.2 Inflation Developments

Global headline inflation remained at low levels. Annual consumer price index (CPI) inflation in the OECD area declined in February, to 1.0 percent from 1.2 percent the previous month, owing to a more negative contribution from energy prices). Excluding food and energy, OECD annual

CPI inflation remained unchanged at 1.9 percent in February.

In united State, headline inflation remained low. Annual headline CPI inflation decreased slightly in March to 0.9 percent, from 1.0 percent in February, weighed down by energy and food prices. Excluding food and energy, annual CPI inflation declined to 2.2 percent in March, restrained by negative goods price inflation, but has been on a gradual upward trend since the beginning of 2015/16.

In Japan, annual CPI inflation picked up from 0 percent in January to 0.3 percent in February, while annual CPI inflation excluding food and energy rose slightly, to 0.8 percent.

In United Kingdom, in February 2016 annual headline CPI inflation edged up to 0.3 percent owing to base effects stemming from energy prices, while inflation excluding food, energy, alcoholic beverages and tobacco declined marginally to 1.1 percent.

### 8.3 Commodity price

Headline inflation has remained at levels around zero in recent months. The low level of inflation continues to reflect the dampening impact of strongly negative annual rates of change in energy prices. At the same time, HICP inflation excluding food and energy continues to hover at rates around 1.0 percent. Most measures of underlying inflation do not show any clear upward trend. The annual rate of HICP inflation excluding food and energy continues to lie at or somewhat below 1.0 percent. This suggests that underlying inflation has not gathered upward momentum since last summer, as corroborated by the evidence from model-based measures. Looking at the main components, services price inflation increased to 1.4 percent in March, up 0.5 percentage point from a historical low of 0.9 percent in February. This acceleration partially reflects a temporary rebound in package holiday prices for the Easter period, which this year occurred in March.

Non-energy industrial goods price

inflation has been within the range of 0.5 percent to 0.7 percent in recent months.

The recent appreciation of the euro has mitigated some of the upward price pressure stemming from its earlier strong depreciation. Import price inflation for non-food consumer goods, which has thus far been the main source of upward pipeline pressures, decreased to 0.7 percent in February, from 1.6 percent in January.

### 8.4 Exchange Rate Developments

The effective exchange rate of the euro appreciated. In bilateral terms, the euro strengthened by 3.7 percent against the US dollar over the review period amid narrowing long-term bond yield spreads between the United States and the euro area, largely reflecting revised market expectations concerning the future path of US policy rates. The euro also appreciated against the pound sterling, the Chinese

renminbi, the Japanese yen and the currencies of most emerging market economies. It depreciated against the Russian Rouble, the Swedish Krona, the Swiss franc and the currencies of most commodity exporting countries, as well as the currencies of several central and eastern European countries.

### **8.5: Impact of Global Economic Development on Ethiopian Economy**

As global economic activity stabilized and uneven during the third quarter of 2015/16, export fell by 6.8 percent. The fall in these export earnings was in turn partly a result of a decrease in international price registered during the report period.

On the other hand, the fall in international oil prices resulted in the decline of fuel

import bill by 29.5 percent in the third quarter of 2015/16.

Net services payments stood at USD 280.2 million due to decline in net travel services partly as result of decline in travel from oil producing countries owing to the decline in their income following international fuel price decline. However, net official long-term capital and net other public sector long-term capital increased by 112.4 percent and 321.3 percent, respectively.

On the other hand, as a result of relatively low trading partners head-line inflation and relatively higher domestic price, REERI appreciated by 4.2 during third quarter of 2015/16 on annual basis.