

## **I. OVERVIEW**

### **1.1 International Economic Developments**

According to the European Central Bank (ECB) Monthly Bulletin of 7/2016, despite a modest recovery in some emerging market economies (EMEs), the global recovery remains slow. The global composite output Purchasing Managers' Index (PMI) increased marginally further in September 2016, with a slight slowdown in manufacturing output being offset by a pick-up in services. In quarterly terms, the global output PMI rose to 51.5 in the first quarter, up from 51.3 in the previous quarter. Mixed developments were observed in advanced economies, with the index rising in the United States and Japan in the first quarter, but declining in the United Kingdom.

In United States, indicators suggest that GDP growth in the first quarter following the soft patch at the start of 2016. US real GDP grew at an annualized rate of 1.4 percent in the fourth quarter of 2015/16. However, surveys and hard data suggest that the pace of expansion increased in the first quarter of 2016/17. Consumer spending is expected to remain the primary driver of growth, supported by continued improvements in labor market conditions. The non-farm payroll employment average monthly increase was 192,000 in the months to September.

In Japan, economic growth remains modest. Following some weakness in July, exports and production picked up in August. New construction orders in July also signaled some improvement in the housing market. Meanwhile, household surveys point to some deterioration in private consumption, despite the ongoing improvements in the labor market. The unemployment rate fell to 3 percent in July, while nominal cash earnings rose by 1.2 percent in year-on-year terms.

In the United Kingdom, economic growth remains robust. Following strong declines in the immediate aftermath of the UK referendum on EU membership, many short-term indicators bounced back in August and September. However, uncertainty surrounding the negotiations to leave the European Union is expected to dampen domestic demand, particularly investment.

In China, the economy is continuing to expand at a robust pace. Stable GDP growth of 6.7 percent year on year is confirmed in the first quarter, mainly driven by consumption, while the contribution of gross fixed capital formation decreased slightly compared with the fourth quarter of 2015/16 fiscal year, in line with a slow rebalancing of the economy.

## **1.2 Summary of Macroeconomic Developments in Ethiopia**

### **Inflation**

During the first quarter of the fiscal year 2016/17, general inflation has scaled down to 2.6 percent from 3.2 percent in the previous quarter, and 3.9 percent last fiscal year same quarter. The 1.3 percentage point year-on-year decline in headline inflation was attributed to the 2.4 percentage point slowdown in food & non-alcoholic beverage inflation and 0.2 percentage point drop in non-food inflation. On the other hand, the 0.6 percentage point quarterly fall in headline inflation was on account of a 1.4 percentage point decrease in non-food inflation offsetting 0.1 percentage point rise in food & non-alcoholic beverage inflation. Hence, in the reviewed quarter, food & non-alcoholic beverages inflation contributed 2.0 percent to headline inflation while that of non-food inflation was 0.5 percent.

### **Monetary Developments**

In the first quarter of 2016/17, broad money supply (M2) reached Birr 463.8 billion indicating a 21.8 percent expansion over the corresponding quarter of last year driven by 27.2 percent rise in domestic credit despite 60.3 percent slowdown in NFA.

Reserve money also depicted a 32.8 percent growth as currency in circulation increased 14.8 percent and bank deposits at NBE surged by 111.5 percent. This expansion in reserve money is largely explained by 34.1 percent surge in net credit of NBE offsetting the 88.1 percent decline in NBE's NFA. Excess reserves of commercial banks also saw a 136.8 percent significant growth owing to decline in government deposit with NBE.

## Interest rate

Average savings deposit rate at 5.4 percent remained unchanged during the first quarter of 2016/17 although average lending interest rate increased to 12.75 from 11.88 percent a year ago. In contrast, weighted average time deposit rate scaled down by 0.13 percentage points. Weighted average yield on T-bills has also declined from 1.50 to 1.40 percent. Hence, taking September 2016 headline inflation rate of 6.8 percent, all deposit rates and T-bill yield remained negative in real terms while average lending rate, was about 5.95 percent in real terms.

## Financial Sector Developments

### A/Banks

The number of banks operating in Ethiopia remained 18 of which 16 were private banks. These banks opened 274 new bank branches during the first quarter of 2016/17 increasing the total number of bank branch to 3,383. Hence, one branch serves 27,255.4<sup>1</sup> people on average. About 35 percent of the total bank branches were located in Addis Ababa. Private banks accounted for about 62.5 percent of the total bank branches in the country.

Besides expanding their outreach, commercial banks have increased their capital accumulation. In the review quarter, total capital of the banking system reached Birr 46.4 billion, a 26.4 percent annual expansion. Private banks accounted for 49.3 percent of the total capital of the banking sector. The share of Commercial Bank of Ethiopia, in total capital of the banking system, increased to 34.3 percent from 31.2 percent a year ago, while that of Development Bank of Ethiopia stood at 16.4 percent putting the total share of the two public banks slightly over 50 percent.

The review quarter also witnessed 19.7 percent quarter-on-quarter expansion in total new loan disbursement by the banking sector where public banks disbursed 40.8 percent and private banks 59.2 percent.

Domestic trade was the largest beneficiary of the fresh loans accounting for 23.5 percent followed by industry (22.3 percent), international trade (16.1 percent), agriculture (15.9 percent),

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

housing and construction (10.2 percent). The banking sector collected loans about 19.7 percent higher than a year ago of which 55 percent was by private banks and 45 percent by public banks.

Total outstanding credit of the banking system (excluding credit to central government and interbank lending) increased to Birr 269.1 billion depicting a 2 percent growth.

About 99.8 percent of the private banks and 46 percent of public banks loans went to finance the private sector.

### **B/Insurance Sector**

The number of insurance companies remained at 17, of which 16 were private and 1 public. Total insurance branches increased to 446 from 390 a year earlier where 54 percent were located in Addis Ababa. During the quarter under review, insurance companies had Birr 3.8 billion in capital, of which 76 percent was that of the private insurance companies.

### **C/Microfinance Institutions**

Moreover, there were 35 micro-finance institutions (MFIs) operating in the country which jointly mobilized Birr 18.2 billion in saving deposit which was 18.9 percent higher than a year ago. Likewise, their outstanding credit saw 15.4 percent annual increase highlighting their growing role in financing intermediation among low income groups both in rural and urban areas. Their total asset also expanded by 17.2 percent to reach Birr 36.9 billion at the end of September 2016.

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

### **A/External Sector Development**

Total merchandise export earnings (including electricity) scaled down 4.2 percent over same quarter last year due to slowdown in export earnings from coffee (2.3 percent), live-animals (54.5 percent), gold (12.0 percent), meat & meat products (15.2 percent), flower (6.2 percent), leather & leather products (12.3 percent), fruits & vegetables (2.1 percent).

In contrast, total merchandise imports rose by 2.3 percent to USD 4.2 billion, as a result of a 38.2 percent increase in the value of consumer goods and 43.3 percent in miscellaneous goods imports. Meanwhile, imports of capital goods, semi-finished goods, fuel and raw materials depicted slowdowns during the review quarter.

During the first quarter of 2016/17, the average price of Brent crude oil, used as a point of reference for international oil price, scaled down by 8.5 percent to reach USD 45.8 per barrel compared with USD 50 a year earlier. Likewise, it decreased marginally by 0.3 percent over the previous quarter.

In line with the movements in international oil prices and macroeconomic conditions, domestic retail prices were adjusted accordingly. Hence, the average retail price of fuel in Addis Ababa was plummeted by 12 percent to Birr 13.73 per liter from Birr 15.60 per liter a year ago. Price of jet fuel has dropped by 17.7 percent followed by gas oil (12 percent), kerosene (12 percent), fuel oil (11 percent) and regular gasoline (7.5 percent). Contrary, the retail prices picked up by 1.5 percent against the preceding quarter as the price of jet fuel scaled up by 8.3 percent, while the prices of other petroleum products remain unchanged.

Total transfer receipts also dropped by 25 percent as private transfer receipts declined by 27.1 percent on account of 42.5 and 18.7 percent slowdown in transfers from NGOs and private individuals, respectively.

Hence, the current account balance (including official transfers) registered USD 2.5 billion deficit which was 38.9 percent higher than a year earlier. This was on account of the widening of trade deficit, significant rise in net service payments and slowdown in net private transfers.

Nevertheless, capital account recorded USD 1.4 billion surplus due to 153.3 percent surge in net foreign direct investment despite declines in net official long term capital, other public long term capital and private sector short term capital.

### **B/Exchange Rate Development**

The Birr continued to lose ground against USD in the inter-bank forex market. The weighted average official exchange rate was Birr 21.9262/USD showing a 5.9 percent depreciation over the corresponding quarter of last year.

The REERI has also depreciated by 1.2 percent compared to last year same quarter reversing the last two years' appreciation trend on account of declining domestic inflation and continued depreciation of Birr against other trading partner currencies. Similarly, the NEER depreciated by 4.2 percent during same period.

### **Federal Government Fiscal Operations**

During the first quarter of 2016/17, Federal government total revenue and grants amounted to Birr 45.5 billion, which was 17.3 percent higher than last year same quarter. Similarly, Federal government expenditure at Birr 49.9 billion showed a 24.4 percent quarter-on-quarter increase.

As a result, the overall fiscal balance (including grants) recorded an overall deficit of Birr 4.5 billion compared with Birr 1.4 billion deficits a year earlier.

## II. Energy Production and Processing

### 2.1. Import of Petroleum Products

During the first quarter of 2016/17, the total volume of petroleum products imported amounted to 775.8 thousands of metric tons, about 8.6 percent higher than last year same quarter due increases in import of gas oil (17.6 percent) and regular gasoline (13.6 percent),

offsetting 3 and 38.1 percent reduction in jet fuel and fuel oil imports, respectively.

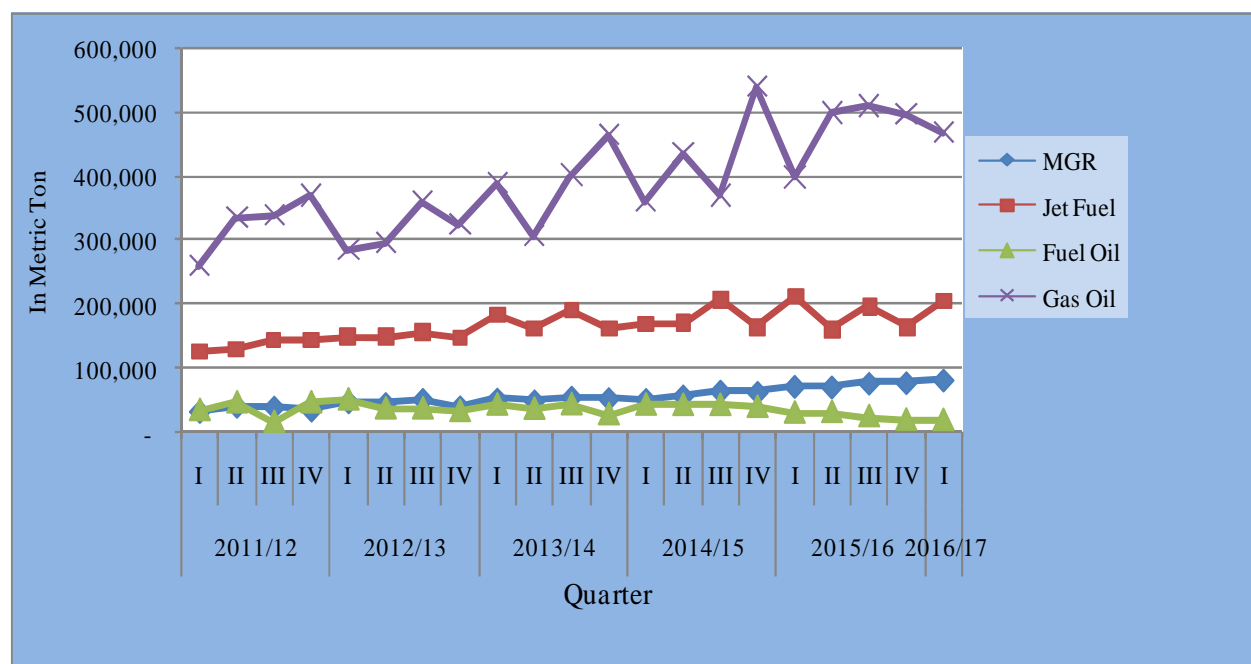
Of the total petroleum imports, gas oil accounted for 60.3 percent, followed by jet fuel (26.6 percent), regular gasoline (10.6 percent) and fuel oil (2.4 percent) (Table 2.1).

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

(In Metric Ton)

Petroleum Products	2015/16				2016/17		Percentage Change	
	Qtr. I		Qtr. IV		Qtr. I			
	A	Share (In %)	B	Share (In %)	C	Share (In %)	C/A	C/B
Regular Gasoline (MGR)	72,313	10.1	77,966	10.3	82,152	10.6	13.6	5.4
Jet Fuel	213,016	29.8	164,578	21.7	206,560	26.6	-3.0	25.5
Fuel Oil	30,650	4.3	19,479	2.6	18,987	2.4	-38.1	-2.5
Gas Oil (ADO)	398,136	55.8	496,460	65.5	468,051	60.3	17.6	-5.7
Total	714,115	100.0	758,483	100.0	775,751	100.0	8.6	2.3

**Source:** Ethiopian Petroleum Enterprise

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

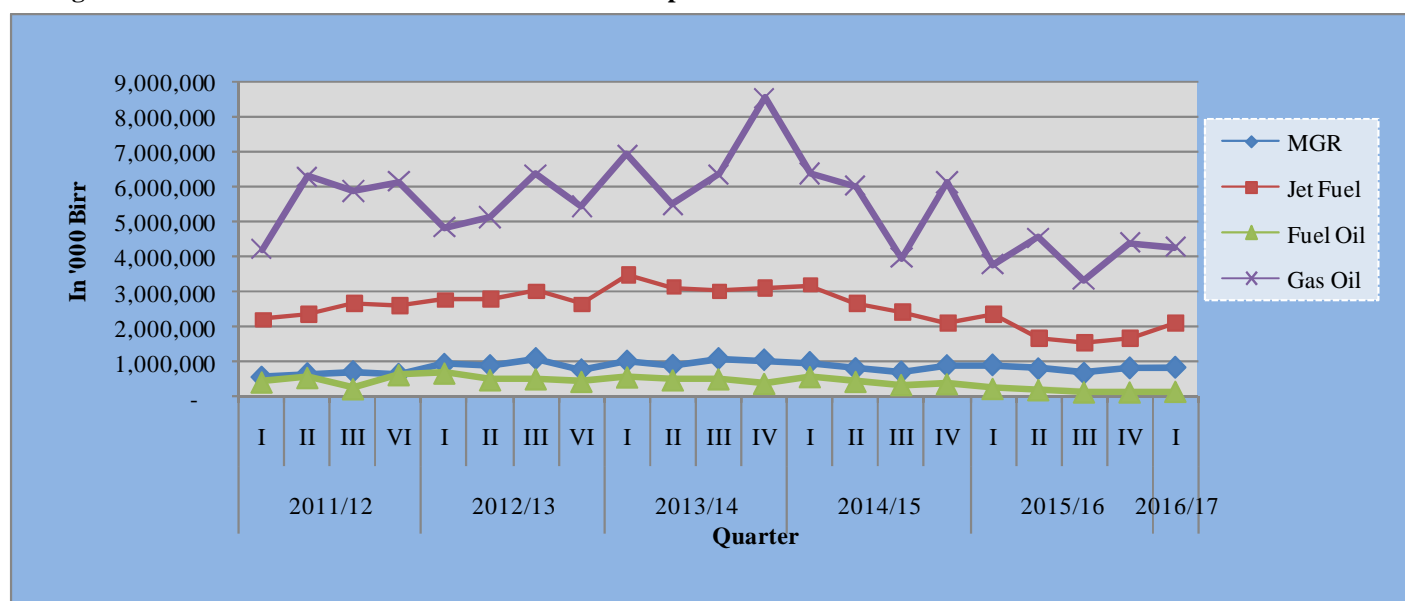
**Source:**Ethiopian Petroleum Enterprise

The total petroleum import bill reached Birr 7.4 billion, showing 1.4 percent moderate growth over same quarter of last year owing to higher imported volume despite marginal reduction in international oil price. Except gas oil, all other petroleum products saw declines in their import bill during the review quarter compared with a year earlier. (Table 2.2)

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

(In '000Birr)

Petroleum Products	2015/16				2016/17		Percentage Change	
	Qtr. I		Qtr. IV		Qtr. I			
	A	Share (In %)	B	Share (In %)	C	Share (In %)	C/A	C/B
Regular Gasoline (MGR)	916,488	12.6	826,732	11.8	845,005	11.5	-7.8	2.2
Jet Fuel	2,349,127	32.3	1,644,086	23.4	2,100,240	28.5	-10.6	27.7
Fuel Oil	226,355	3.1	123,353	1.8	142,260	1.9	-37.2	15.3
Gas Oil (ADO)	3,777,809	52.0	4,420,546	63.0	4,282,735	58.1	13.4	-3.1
Total	7,269,778	100.0	7,014,716	100.0	7,370,241	100.0	1.4	5.1

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

The average FOB price of petroleum products declined by 10.3 percent in contrast with same quarter of last year, due to slowdown in the FOB prices of regular

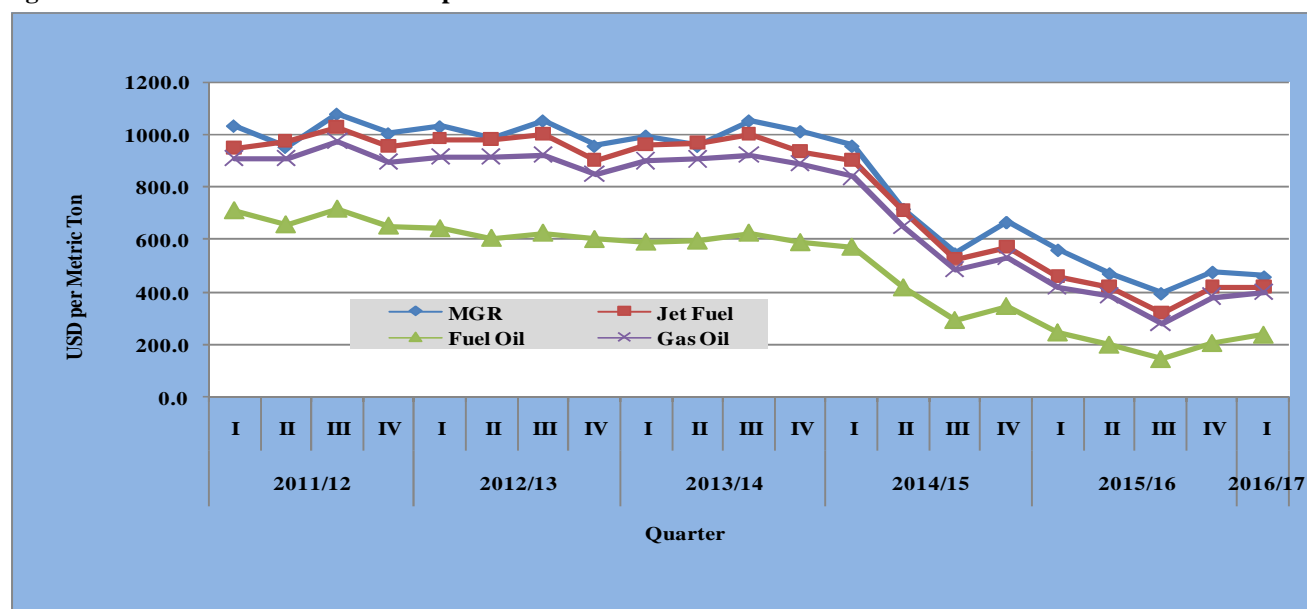
gasoline (18.2 percent), jet fuel (8.5 percent), gas oil (5.6 percent) and fuel oil (3.5 percent)(Table 2.3).

**Table 2.3: FOB Price of Petroleum Products Imported**

First Quarter 2016/17

(In USD/ Metric Ton)

Petroleum Products	2015/16		2016/17	Percentage Change	
	Qtr. I	Qtr. IV	Qtr. I		
	A	B	C	C/A	C/B
Regular Gasoline (MGR)	560.2	477.3	458.3	-18.2	-4.0
Jet Fuel	456.9	418.4	418.0	-8.5	-0.1
Fuel Oil	247.0	206.8	238.2	-3.5	15.2
Gas Oil (ADO)	419.5	381.8	396.2	-5.6	3.7
<b>Average</b>	<b>420.9</b>	<b>371.1</b>	<b>377.7</b>	<b>-10.3</b>	<b>1.8</b>
<b>Brent Crude Oil (USD/Barrel)</b>	<b>50</b>	<b>46</b>	<b>45.8</b>	<b>-8.5</b>	<b>-0.3</b>

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

During the first quarter of 2016/17, the average price of Brent crude oil, used as a point of reference for international oil price, declined by 8.5 percent and reached USD

45.8 per barrel compared with USD 50 a year ago (Table 2.3).

In line with movements in international oil prices and macroeconomic considerations,

domestic retail prices were adjusted accordingly. Thus, the average retail price of fuel in Addis Ababa dropped by 12 percent to Birr 13.73 per liter. Specifically, the price of jet fuel declined by 17.7 percent followed

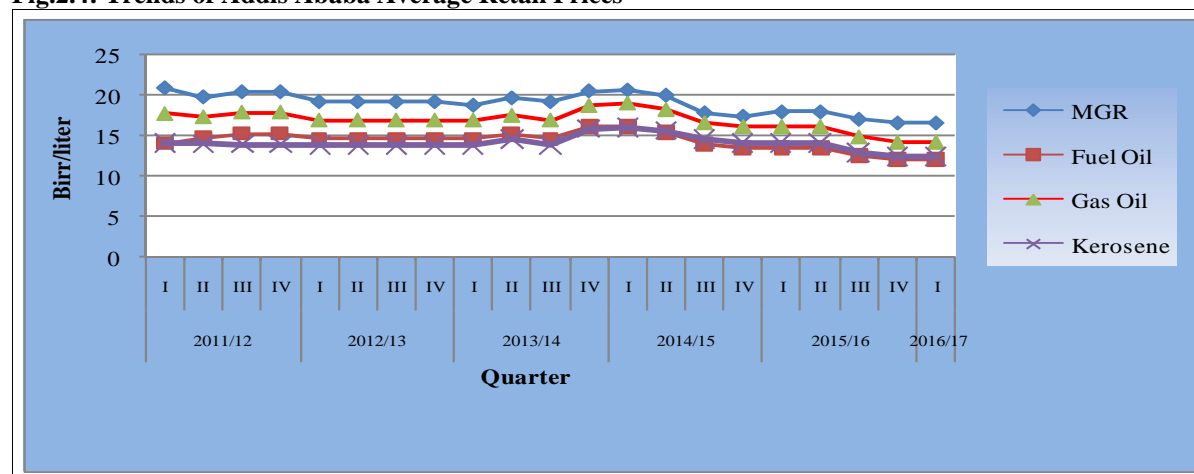
by gas oil (12 percent), kerosene (12 percent), fuel oil (11 percent) and regular gasoline (7.5 percent) (Table 2.4).

**Table 2.4: Addis Ababa Average Retail Prices of Fuel**  
(Birr/Liter)

Petroleum Products	2015/16		2016/17	Percentage Change	
	Qtr. I	Qtr. IV	Qtr. I		
	A	B	C	C/A	C/B
Regular Gasoline (MGR)	17.96	16.61	16.61	-7.5	0.0
Fuel Oil	13.59	12.10	12.10	-11.0	0.0
Gas Oil (ADO)	16.10	14.16	14.16	-12.0	0.0
Kerosene	14.13	12.43	12.43	-12.0	0.0
Jet fuel	16.23	12.34	13.36	-17.7	8.3
<b>Average</b>	<b>15.60</b>	<b>13.53</b>	<b>13.73</b>	<b>-12.0</b>	<b>1.5</b>

**Source:** Ministry of Trade

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



**Source:** Ministry of Trade

## 2.2. Electric Power Generation

Electric power generated during the first quarter of 2016/17 reached 3 billion KWH about 19.7 percent higher than that of same quarter of last year. This was attributed to a 20 percent increase in production from hydropower and 9.1 percent from wind. The thermal power production, however, showed a 53.5 percent reduction although its impact on total electricity production is insignificant.

percent from wind. The contribution of thermal power was insignificant at 708 KWH. (Table 2.5)

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

Of the total energy generated, about 95.7 percent was from hydropower and 4.2

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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)

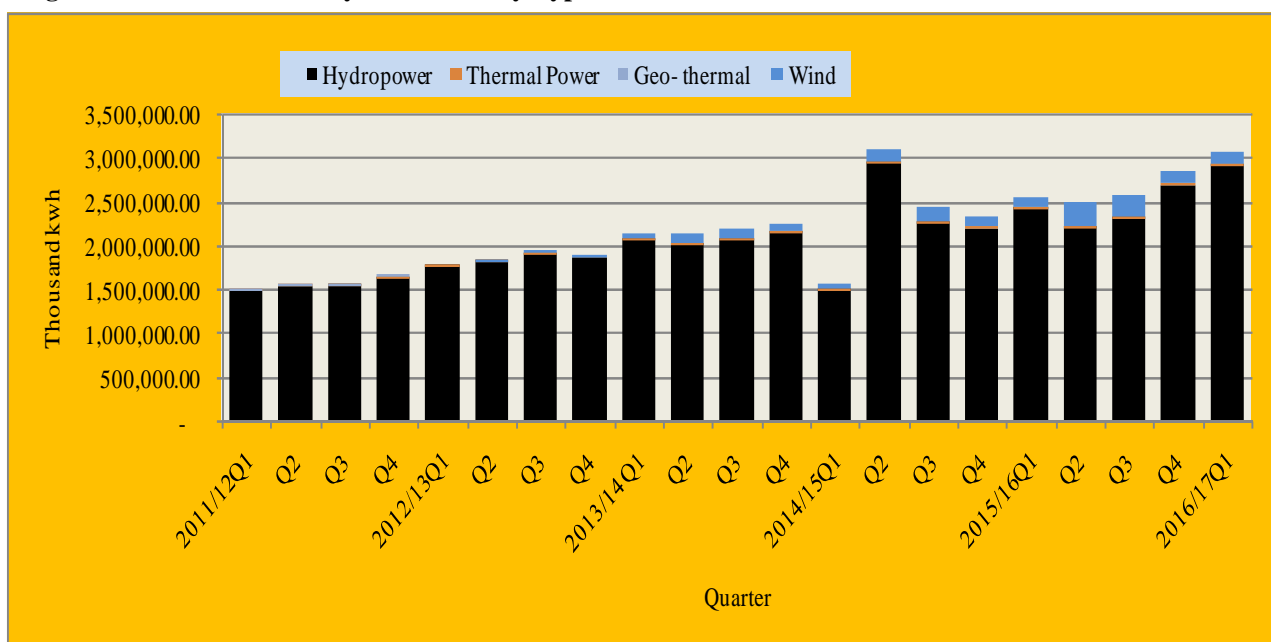
Power Source	2015/16				2016/17		Percentage Change	
	Qtr. I		Qtr. IV		Qtr. I			
	A	Share (In %)	B	Share (In %)	C	Share (In %)	C/A	C/B
Hydropower	2,431,312.9	95.3	2,693,183.5	94.4	2,924,400.7	95.7	20.3	8.6
Thermal Power	2,127.4	0.1	1,063.9	0.0	989.7	0.0	-53.5	-7.0
Geothermal	-	0.0	-	0.0	0.7	0.0	0.0	0.0
wind	118,680.8	4.7	159,727.8	5.6	129,442.6	4.2	9.1	-19.0
Total	2,552,120.99	100.0	2,853,975.23	100.0	3,054,833.74	100.0	19.7	7.0

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

(In '000 of K.W.H)

System of Power Supply	2015/16				2016/17		Percentage Change	
	Qtr. I		Qtr. IV		Qtr. I			
	A	Share (In %)	B	Share (In %)	C	Share (In %)	C/A	C/B
ICS								
Hydro Power	2,431,312.9	95.3	2,693,183.5	94.4	2,924,400.7	95.7	20.3	8.6
Thermal Power	928.6	0.0	-	-		-		
Geothermal	-	0.0	-	-	0.7	0.0		
Wind	118,680.8	4.7	159,727.8	5.6	129,442.6	4.2	9.1	-19.0
Sub-Total	2,550,922.2	100.0	2,852,911.3	100.0	3,053,844.1	100.0	19.7	7.0
SCS		0.0				-		
Hydro Power	-	0.0	-	-		-		
Thermal Power	1,198.8	0.0	1,063.9	0.0	989.7	0.0	-17.4	-7.0
Geothermal	-	0.0	-	-		-		
wind	-	0.0	-	-		-		
Sub-Total	1,198.8	0.0	1,063.9	0.0	989.7	0.0	-17.4	-7.0
Grand Total	2,552,121.0	100.0	2,853,975.2	100.0	3,054,833.7	100.0	19.7	7.0

**Source:** Ethiopian Electric Power

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

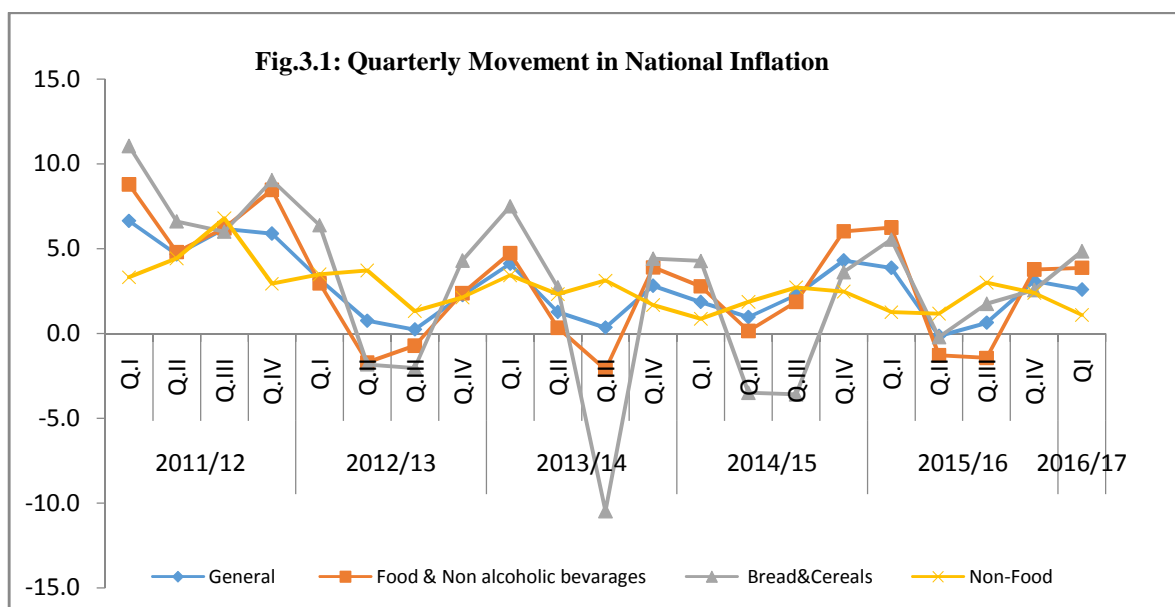
**Source:** Ethiopian Electric Power

### III. Quarterly Price Developments

#### 3.1 Developments in National CPI

During the first quarter of 2016/17, headline inflation slowed down to 2.6 percent compared to 3.9 percent last fiscal year same quarter. The 1.3 percentage point slowdown in the quarter-on-quarter headline inflation was ascribed to a 2.4 percentage point decrease in food & non-alcoholic beverages inflation and 0.2 percentage point in non-food inflation. In the reviewed quarter, food & non-alcoholic beverages inflation contributed 2.0 percent to the headline inflation while that of non-food inflation was 0.5 percent (Table 3.1 and Fig 3.2).

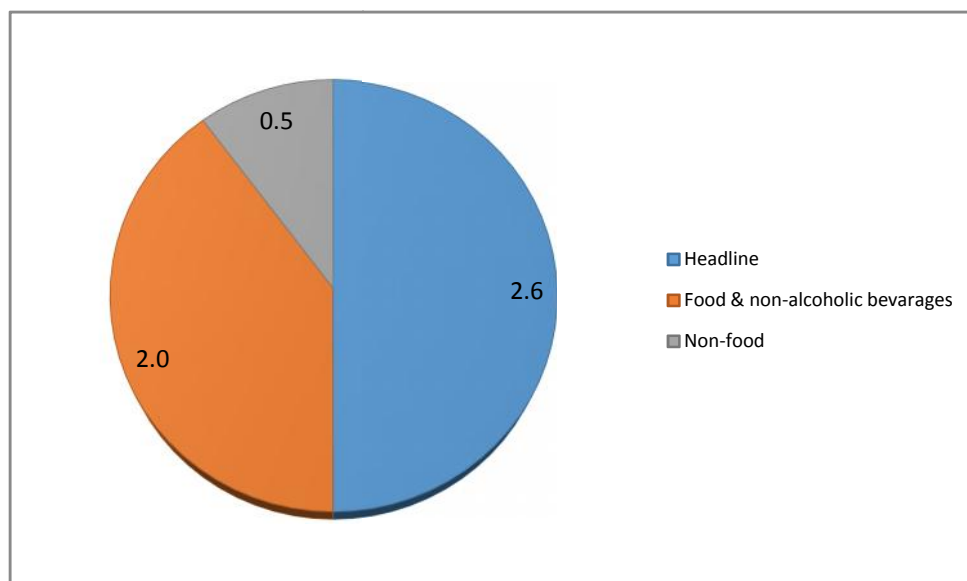
Except vegetables, sugar, Jam, honey&chocolate and non-alcoholic beverages, all other components of food & non-alcoholic beverages have exhibited slowdown in prices. Regarding non-food inflation, all of its components except housing, water, electricity, gas & fuel recorded price declines (Tables 3.2 and 3.3).



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

Items	Weights	2015/16		2016/17	Change in %age Points		Contribution to	
		QI	QIV	QI			QI headline inflation	headline inflation over QIV
		A	B	C	C-A	C-B		
Headline	100	3.9	3.2	2.6	-1.3	-0.6	2.6	-0.6
Food & non-alcoholic beverages	53	6.2	3.8	3.9	-2.4	0.1	2.0	0.1
Non-food	47	1.3	2.5	1.1	-0.2	-1.4	0.5	-0.7

**Source:** CSA and NBE Staff Computation

**Fig.3.2: Contribution of Food and Non-alcoholic beverages and Non-food Inflation in the 2016/17 FY First Quarter Headline Inflation**

**Source:** NBE Staff Computation

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

Items	Weights	2015/16		2016/17	Change in %age points		Contribution to	
		QI	QIV	QI			QI food inflation	change in Food Inflation over QIV
		A	B	C	C-A	C-B		
<b>Food &amp; Non-alcoholic beverages</b>	<b>52.8</b>	<b>6.2</b>	<b>3.8</b>	<b>3.9</b>	<b>-2.4</b>	<b>0.1</b>	<b>3.9</b>	<b>0.1</b>
Bread & Cereals	18.5	5.5	2.6	4.9	-0.7	2.3	1.6	0.7
Meat	4.3	4.9	3.9	4.5	-0.4	0.6	0.5	0.1
Milk, Cheese & Egg	2.2	0.6	3.3	-0.6	-1.2	-3.9	0.0	-0.2
Oils & Fats	3.7	1.5	3.2	0.2	-1.3	-3.0	0.0	-0.2
Fruit	0.3	5.0	-0.1	2.8	-2.3	2.9	0.0	0.0
Vegetables	13.5	2.4	6.7	3.8	1.3	-3.0	1.1	-0.8
Sugar Jam, Honey, Chocolate	1.0	-0.3	2.8	3.3	3.5	0.5	0.1	0.0
Food Products n.e.c	4.7	31.4	0.6	2.8	-28.6	2.2	0.3	0.2
Non-alcoholic Beverages	4.6	-3.6	3.7	9.7	13.3	6.0	0.5	0.3

**Source:** CSA and NBE Staff Computation**Table 3.3: Quarterly National Non-food CPI Inflation (Dec2011=100)**

Items	Weights	2015/16		2016/17	Change in %age points		Contribution to	
		QI	QIV	QI			QI non-food inflation	change in non-food inflation over QIV
		A	B	C	C-A	C-B		
<b>Non-Food</b>	<b>47.2</b>	<b>1.3</b>	<b>2.5</b>	<b>1.1</b>	<b>-0.2</b>	<b>-1.4</b>	<b>1.1</b>	<b>-1.4</b>
Alcoholic Beverages and Tobacco	4.9	-2.8	-6.3	-3.6	-0.9	2.7	-0.4	0.3
Clothing and Footwear	6.6	2.0	1.1	0.0	-2.0	-1.1	-0.1	-0.2
Housing, Water, Electricity, Gas and Other Fuel	16.3	1.1	6.8	3.0	1.8	-3.8	1.1	-1.3
Furnishings, Household Equipment and Routine Maintenance of Houses	5.4	1.7	1.0	0.8	-0.9	-0.2	0.1	0.0
Health	1.1	1.7	3.9	-2.7	-4.4	-6.6	-0.1	-0.2
Transport	2.8	1.8	-0.2	1.2	-0.7	1.4	0.0	0.1
Communication	1.1	2.6	1.1	-1.8	-4.5	-3.0	0.0	0.0
Recreation and Culture	0.6	6.6	1.3	1.6	-5.0	0.3	0.0	0.0
Education	0.4	4.8	0.1	0.1	-4.8	0.0	0.0	0.0
Restaurant Hotel	5.5	3.0	2.5	2.8	-0.2	0.3	0.3	0.0
Miscellaneous Goods	2.6	0.9	1.4	0.7	-0.3	-0.7	0.0	0.0

**Source:** CSA and NBE Staff Computation

### 3.2 Developments in Regional CPI

During the review quarter, regional average headline inflation scaled down to 1.3 percent from 3.4 percent last year same quarter. This was lower than the national headline inflation recorded in the quarter.

Regional states such as Harari, Afar and Dire Dawa have registered higher quarterly headline inflation than the regional average headline inflation. The highest headline inflation was recorded in Dire Dawa (4.8 percent) and the lowest inflation (-1.0 percent) in Benishangul Gumuz showing 5.8 percentage point margin in the rates of headline inflation between the regions.

The deviation<sup>4</sup> in the regional headline inflation rates from the average as represented by standard deviation was 2.0 percent (Table 3.4).

Likewise, the regional average food & non-alcoholic beverages inflation in the first quarter of 2016/17 was down to -0.1 percent compared to 0.2 percent registered in the previous quarter. Regional states such as SNNP, Somali, Oromia, Gambela,

Amhara and Afar have experienced higher quarterly food & non-alcoholic beverages

inflation than the regional average food & non-alcoholic beverages. The highest food & non-alcoholic beverages inflation was seen in SNNP (1.3 percent) and the lowest in Benishangul Gumuz (-1.7 percent). The variation in food & non-alcoholic beverages inflation measured by standard deviation was 0.9 percent compared with 4.7 percent last year same quarter (Table 3.4).

On the other hand, the regional average non-food inflation was 2.5 percent compared to 0.8 percent last year same quarter. Regional states such as Harari, Dire Dawa, Afar and Tigray have experienced non-food inflation rates higher than the regional average non-food inflation. The highest (9.3 percent) non-food inflation was recorded in Harari and the lowest (-1.7 percent) in Gambela. The variation in non-food inflation measured by the standard deviation was 3.8 percent (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**

	2015/16						2016/17			Annual Change			Quarterly Change		
	QI			QIV			QI								
	A			B			C			D=C-A			D=C-B		
	General	Food &Non-alcoholic beverages	Non-food	General	Food &Non-alcoholic beverages	Non-food	General	Food &Non-alcoholic beverages	Non-food	General	Food &Non-alcoholic beverages	Non-food	General	Food &Non-alcoholic beverages	Non-food
	1.7	2.1	1.3	0.2	0.5	-0.1	0.7	1.3	0.2	-1.0	-0.8	-1.1	0.5	0.8	0.4
	-0.3	0.6	-1.3	6.4	1.0	12.0	4.6	-0.6	9.3	4.9	-1.2	10.7	-1.9	-1.6	-2.7
	4.2	7.4	0.3	0.0	-0.5	0.6	0.7	0.1	1.4	-3.5	-7.4	1.2	0.7	0.6	0.8
	3.7	8.0	0.1	1.7	0.0	3.4	1.4	-0.1	2.7	-2.3	-8.2	2.6	-0.4	-0.1	-0.7
	7.1	9.1	3.7	0.4	0.2	0.8	-0.5	0.1	-1.7	-7.6	-8.9	-5.4	-0.9	0.0	-2.4
aba	6.6	12.6	2.1	-0.4	-1.4	0.3	-0.6	-1.0	-0.4	-7.3	-13.5	-2.4	-0.2	0.4	-0.7
a	-2.3	-0.4	-3.5	4.1	1.9	5.6	4.8	-0.7	8.2	7.1	-0.4	11.7	0.7	-2.6	2.7
t	6.7	10.2	2.0	-0.6	-1.0	0.1	-1.0	-1.7	-0.1	-7.7	-11.9	-2.1	-0.5	-0.7	-0.2
	0.1	-0.4	0.7	2.8	1.1	4.5	0.9	1.2	0.6	0.8	1.6	0.0	-1.9	0.1	-3.9
	5.7	10.3	0.1	2.4	0.0	5.4	3.0	0.0	6.6	-2.7	-10.3	6.5	0.6	-0.1	1.3
	4.5	6.0	3.1	0.9	0.4	1.4	0.2	0.1	0.3	-4.3	-5.9	-2.8	-0.7	-0.3	-1.1
Average	3.4	6.0	0.8	1.6	0.2	3.1	1.3	-0.1	2.5						
	3.2	4.7	2.0	2.2	0.9	3.7	2.0	0.9	3.8						
nt of	0.9	0.8	2.6	1.3	5.2	1.2	1.6	-7.3	1.5						

**Source:** CSA and NBE Staff Computation

## IV. Monetary Developments

### 4.1. Money Supply and Credit

Broad money supply ( $M_2$ ) at Birr 463.8 billion showed a 21.8 percent growth over the corresponding quarter of last year mainly driven by 27.2 percent rise in domestic credit offsetting a 60.3 percent decline in NFA. The annual growth in domestic credit was attributed to a 107.1 percent surge in credit to central government and 22.1 percent to non-central government, respectively (Table 4.1).

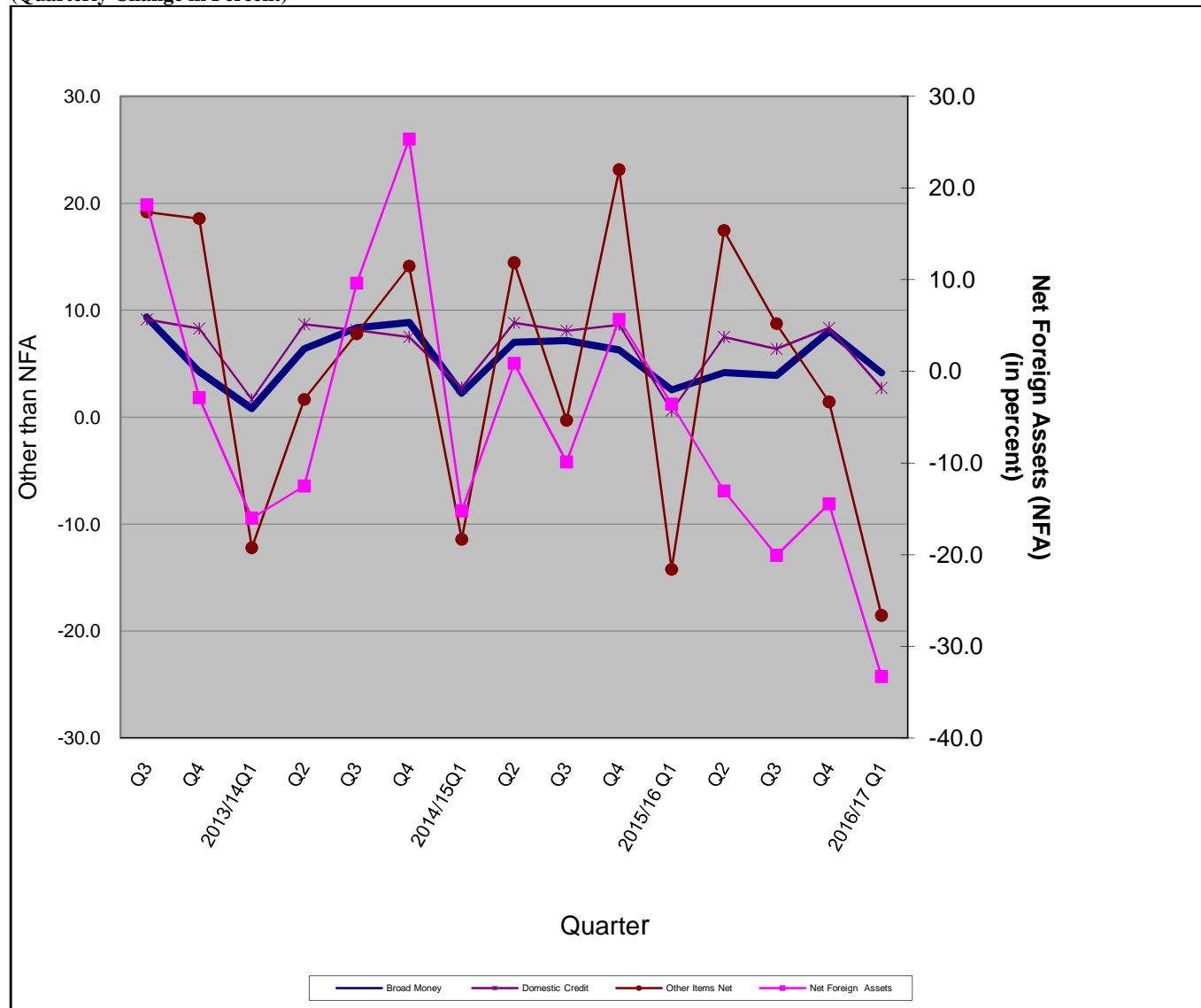
Net claim on government observed high growth rate due to improvement in utilization of targeted credit to government and rebounding effect of high government deposit with NBE over corresponding quarter of last year.

**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. I	Qtr. IV	Qtr. I				
	(Sept)	(June)	(Sept)				
	A	B	C	C/A	C/B	Annual	Quarterly
1. External Assets (net)	36,192.5	21,524.2	14,357.8	-60.3	-33.3	-26.3	-38.7
2. Domestic Credit	395,802.0	490,230.3	503,571.2	27.2	2.7	129.7	72.1
. Claims on Central Gov't (net)	24,072.0	47,548.4	49,852.8	107.1	4.8	31.0	12.5
. Claims on Non-Central Gov't	371,730.0	442,682.0	453,718.4	22.1	2.5	98.7	59.6
. Financial Institutions	23,857.0	25,607.0	25,607.0	7.3	0.0	2.1	0.0
. Others	347,873.0	417,075.0	428,111.4	23.1	2.6	96.6	59.6
3. Other Items (net)	51,317.4	66,488.3	54,160.0	5.5	-18.5	3.4	-66.6
4. Broad Money ( $M_2$ )	380,677.1	445,266.3	463,769.0	21.8	4.2	100.0	100.0

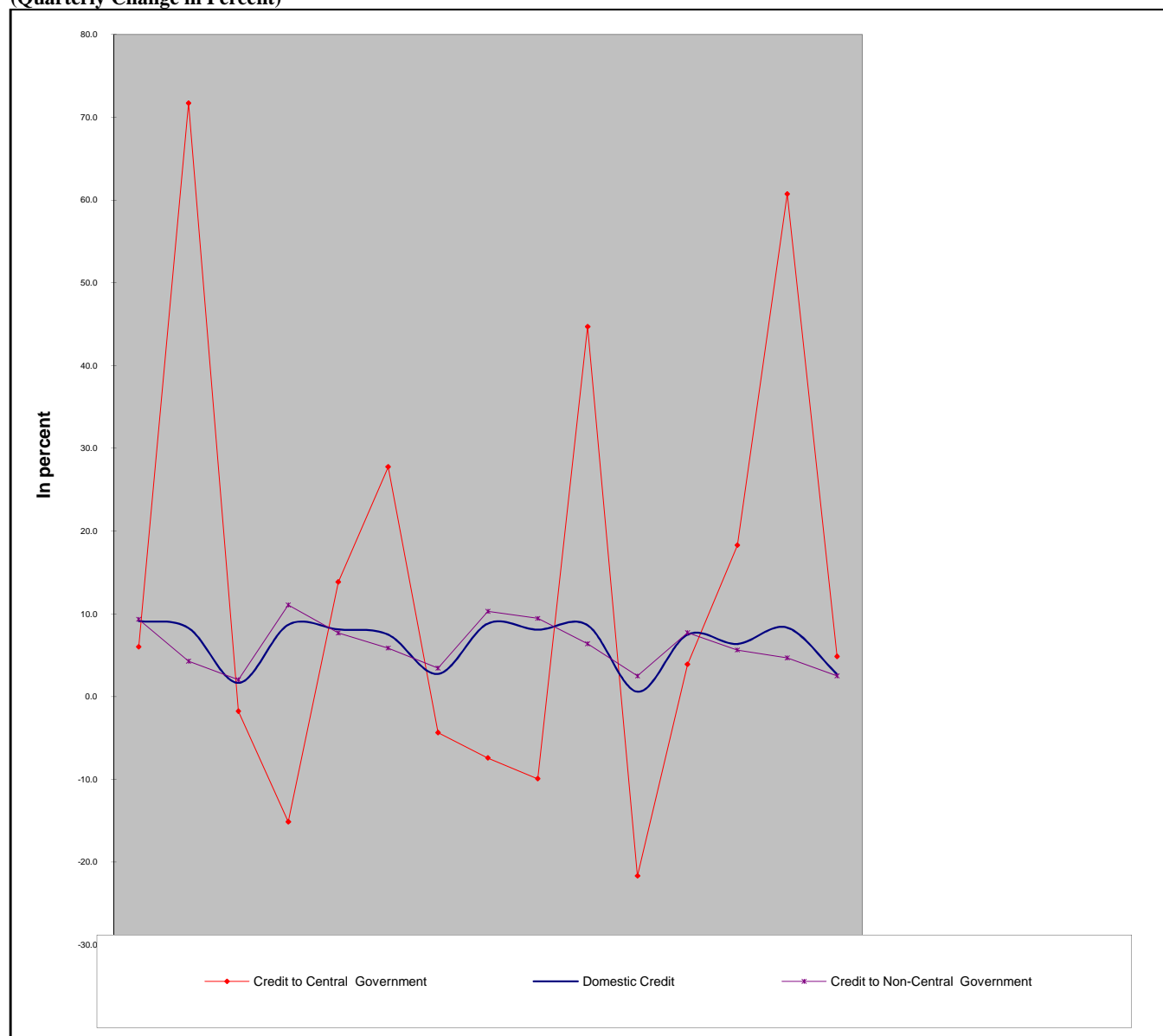
**Source:** Staff computation, NBE

**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

The first quarter of 2016/17 also saw a 23.8 percent growth in quasi-money supply and 18.9 percent expansion in narrow money supply. (Table 4.2)

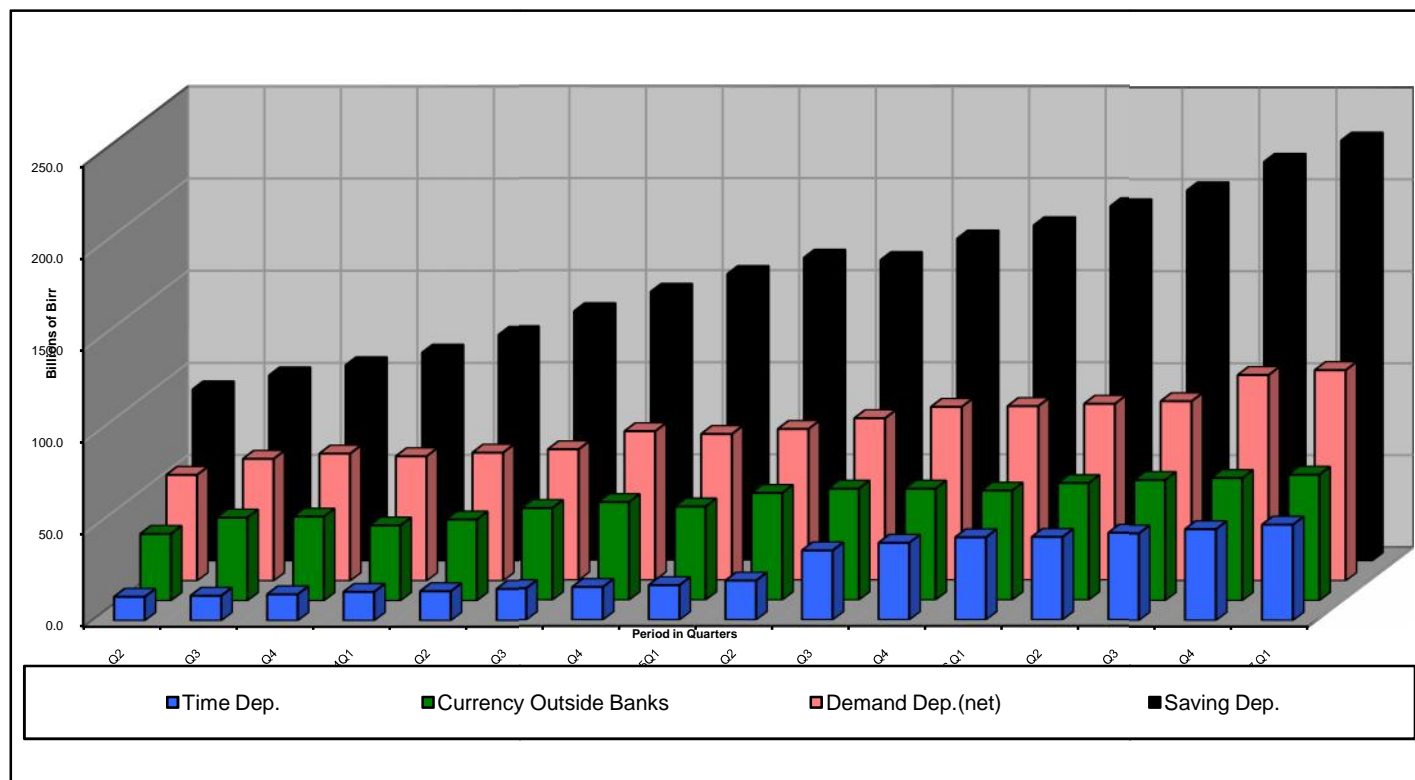
The surge in quasi-money supply was ascribed to vigorous bank branch expansion which attracted more deposit mobilization and improved access to finance.

**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	
	Qtr. I	Qtr. IV	Qtr. I				
	(Sept)	(June )	(Sept)				
	A	B	C	C/A	C/B	Annual	Quarterly
<b>1. Narrow Money Supply</b>	<b>153,911.1</b>	<b>178,609.7</b>	<b>183,048.4</b>	<b>18.9</b>	<b>2.5</b>	<b>35.1</b>	<b>24.0</b>
. Currency outside banks	59,407.7	66,686.2	68,485.1	15.3	2.7	10.9	9.7
. Demand Deposits (net)	94,503.3	111,923.5	114,563.3	21.2	2.4	24.1	14.3
<b>2. Quasi-Money</b>	<b>226,766.1</b>	<b>266,656.6</b>	<b>280,720.7</b>	<b>23.8</b>	<b>5.3</b>	<b>64.9</b>	<b>76.0</b>
. Savings Deposits	181,919.2	217,034.3	228,607.1	25.7	5.3	56.2	62.5
. Time Deposits	44,846.8	49,622.3	52,113.6	16.2	5.0	8.7	13.5
<b>3. Broad Money Supply</b>	<b>380,677.1</b>	<b>445,266.3</b>	<b>463,769.0</b>	<b>21.8</b>	<b>4.2</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 122.1 billion at the end of the first quarter of 2016/17, showing a 32.8 percent quarter-on-quarter growth. Similarly, excess reserves of commercial banks surged 136.8 percent lower government deposit with NBE contributed to higher excess reserve of commercial banks' increment.

The money multiplier, measured by the ratio of broad money to reserve money, and the ratio of narrow money to reserve money tended to decline implying the faster growth in reserve money than M1 and M2 (Table 4.3).

**Table 4.3: Monetary Aggregates and Ratios**  
(In millions of Birr unless otherwise indicated)

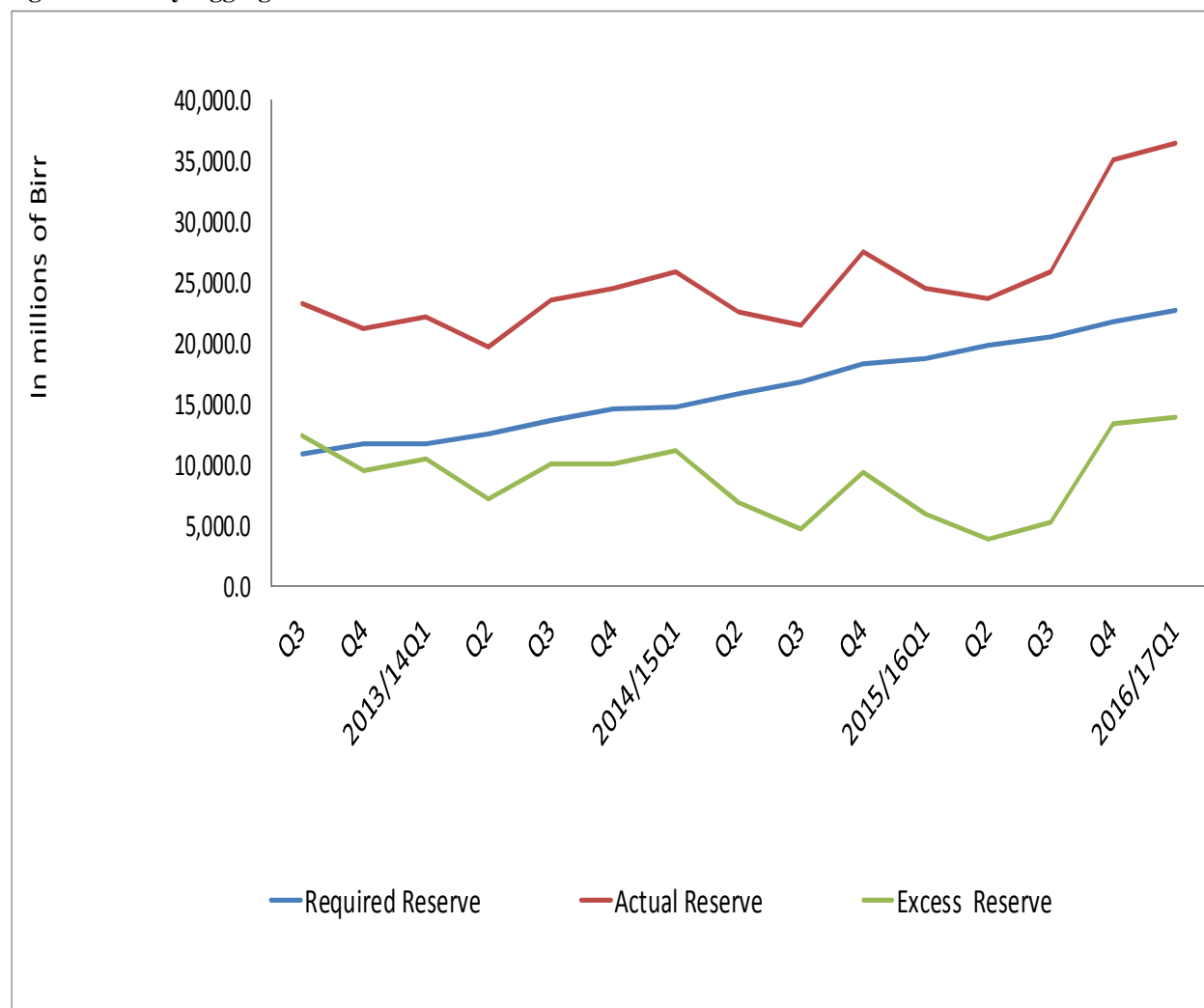
Particulars	2015	2016		Percentage Change	
	Qtr. I	Qtr. IV	Qtr. I		
	(Sept)	(June)	(Sept)		
	A	B	C	C/A	C/B
<b>1. Reserve Requirement (CB's)</b>	18,639.01	21,745.43	22,592.74	21.21	3.90
<b>2. Actual Reserve (CB's)</b>	24,471.66	34,999.38	36,401.97	48.75	4.01
<b>3. Excess Reserve (CB's)</b>	5,832.65	13,253.95	13,809.24	136.76	4.19
<b>4. Reserve Money</b>	91,892.57	119,164.72	122,076.32	32.85	2.44
. <i>Currency in Circulation</i>	74,745.66	82,592.70	85,811.90	14.81	3.90
. <i>Banks deposits at NBE</i>	17,146.91	36,572.02	36,264.42	111.49	-0.84
<b>5. Money Multiplier (Ratio):</b>					
. <i>Narrow Money to Reserve Money</i>	1.67	1.50	1.50	-10.47	0.04
. <i>Broad Money to Reserve Money</i>	4.14	3.74	3.80	-8.29	1.67
<b>6. Other Monetary Ratios (%):</b>					
. <i>Currency to Narrow Money</i>	48.56	46.24	46.88	-3.47	1.38
. <i>Currency to Broad Money</i>	19.63	18.55	18.50	-5.76	-0.25
. <i>Narrow Money to Broad Money</i>	40.43	40.11	39.47	-2.38	-1.60
. <i>Quasi Money to Broad Money</i>	59.57	59.89	60.53	1.61	1.07

**Source:** National Bank of Ethiopia

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



**Source:** Staff Computation NBE

**Fig.5: Monetary Aggregates**

Source: Staff Computation NBE

### 4.3. Interest Rate Developments

Average savings deposit rate remained at 5.4 percent, while average lending rate increased to 12.75 from 11.88 percent a year ago. At the same time, weighted average time deposit rate, slightly declined by 0.13 percentage points.

Similarly, weighted average yield on T-bills dropped from 1.50 to 1.40 percent.

Hence, deposit rates and T-bill yields were negative in real terms by end September 2016, while average lending rate was positive (Table 4.4).

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

(Percent per annum)

Particulars	2015/16		2016/17	Percentage point Changes	
	QI	QIV	QI	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
<b>Average Saving Rate</b>	<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	5.57	5.45	5.44	-0.13	-0.01
1-2 years	5.64	5.52	5.51	-0.14	-0.01
Over 2 yrs	5.67	5.54	5.54	-0.13	0.00
<b>Average Time Dep. Rate (Weighted)</b>	<b>5.63</b>	<b>5.50</b>	<b>5.49</b>	<b>-0.13</b>	<b>-0.01</b>
<b>3. Demand Deposit (Weighted)</b>	<b>0.04</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	18	18.00	1.75	0.00
<b>Average Lending Rate</b>	<b>11.88</b>	<b>12.75</b>	<b>12.75</b>	<b>0.88</b>	<b>0.00</b>
<b>5. T-bills Rate (Weighted)</b>	<b>1.50</b>	<b>0.66</b>	<b>1.40</b>	<b>-0.09</b>	<b>0.74</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>11.94</b>	<b>7.53</b>	<b>6.80</b>	<b>-5.14</b>	<b>-0.73</b>
<b>8. Food Inflation (Year-on-year)</b>	<b>16.05</b>	<b>7.16</b>	<b>6.10</b>	<b>-9.95</b>	<b>-1.06</b>
<b>9. Core/non-food Inflation (Year-on-year)</b>	<b>7.45</b>	<b>7.94</b>	<b>7.70</b>	<b>0.25</b>	<b>-0.24</b>

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

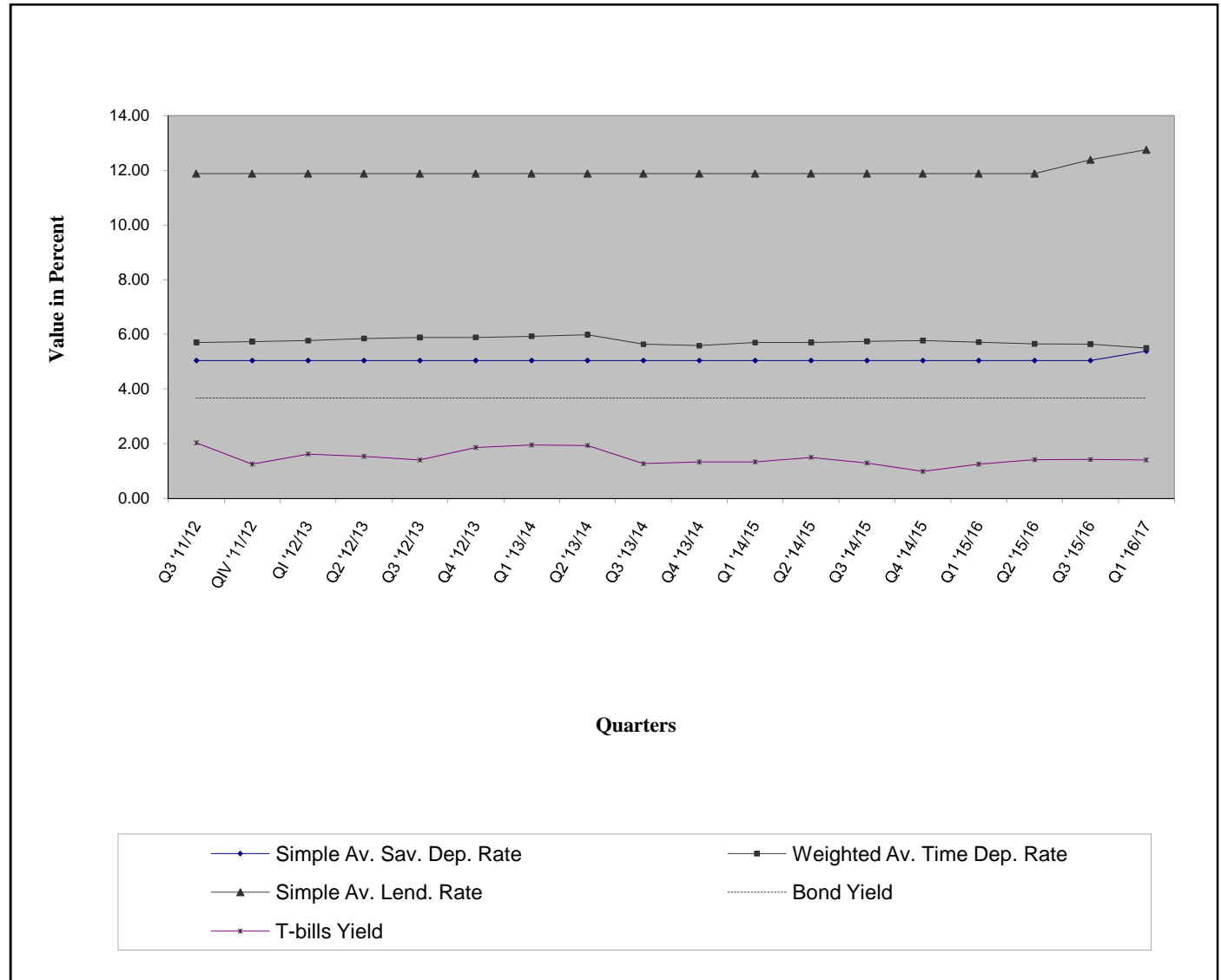
2/ Lending rates are determined by the market.

3/ GERD stands for Grand Ethiopian Renaissance Dam

**Source:** Staff Computation NBE

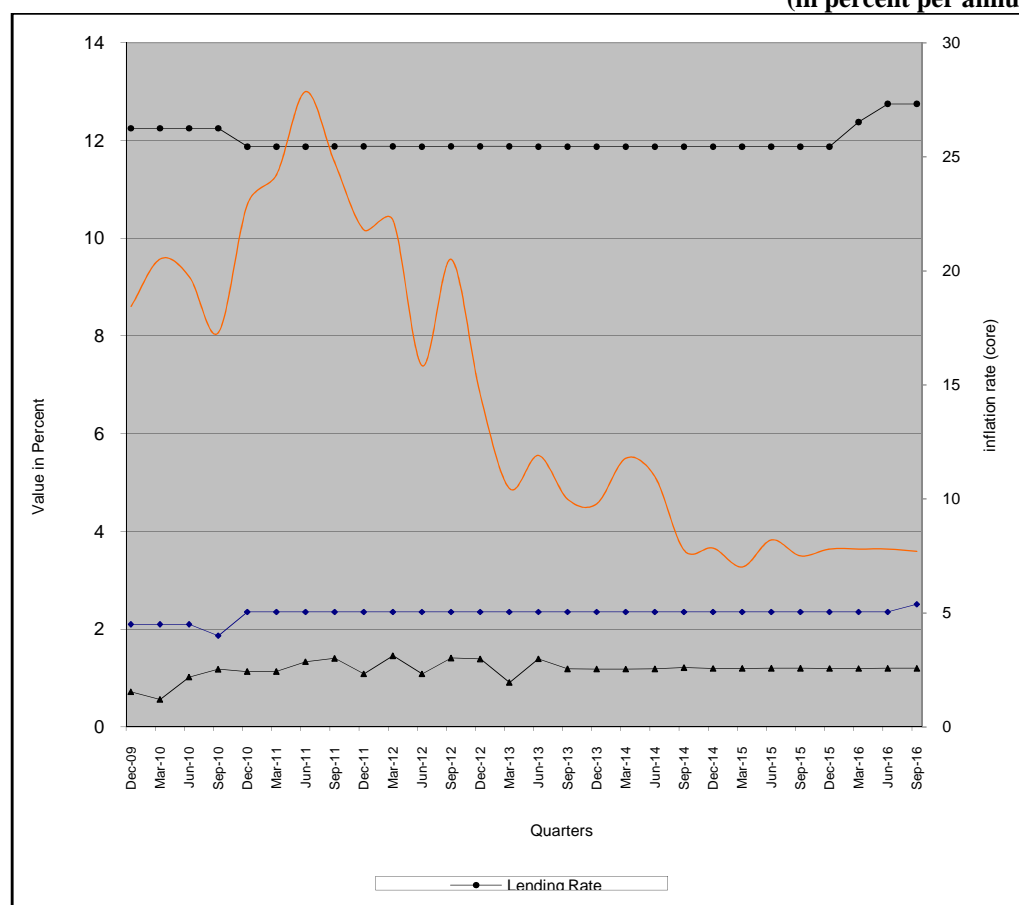
**Fig.IV.6: Interest Rate Structure of Commercial Banks**

(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 the inflation rate (core) is depicted on the right axis lending rate, 91 day T-bills yield and average saving deposit rate is depicted on the left axis

**Source:** Staff computation, NBE

## 4.4. Developments in the Financial Sector

The number of banks operating in Ethiopia remained at 18 as of September 2016 of which 16 were private and the remaining two public. In the reviewed quarter 274 new bank branches were opened, raising the total number of bank branches to 3,383. As a result, one branch was serving 27,255.4<sup>5</sup> people on

average. About 35 percent of the total bank branches were located in Addis Ababa. Of the total bank branches, the share of public banks was 37.5 percent.

Meanwhile, total capital of the banking system reached Birr 46.4 billion, of which private banks accounted for 49.3 percent and public banks 50.7 percent. The share of Commercial

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

Bank of Ethiopia, the biggest state owned bank in total capital of the banking system, increased to 34.3 percent from 31.2 percent a year ago, while that of Development Bank of Ethiopia another public bank, stood at 16.4 percent putting the total share of public banks at 50.7 percent (Table 4.5).

At the same time, the number of insurance companies stood at 17, of which 16 were private and one public. Their branches increased to 446 from 390 a year ago. Of the total branches, about 54 percent were located in Addis Ababa.

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

billion, of which 76 percent was that of private insurance companies (Table 4.6).

Moreover, 35 micro-finance institutions (MFIs) were operating in the country and they mobilized Birr 18.2 billion in saving deposit about 18.9 percent higher than a year ago. Similarly, their outstanding credit increased by 15.4 percent to Birr 26.2 billion and their total assets grew 17.2 percent to Birr 36.9 billion (Table 4.7).

The top five largest MFIs (Amhara, Dedebit, Oromia, Omo and Addis Credit and Savings Institutes) accounted for 83 percent of the total capital, 92.6 percent of the deposits, 88.4 percent of the credit and 88.8 percent of the total assets of MFIs.

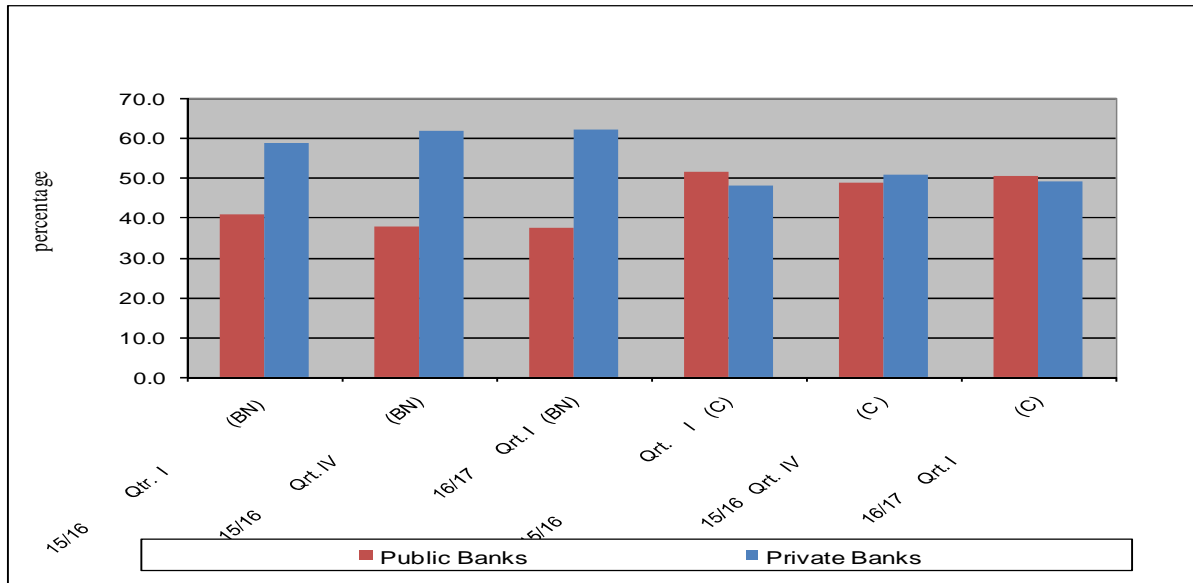
**Table 4.5: Capital and Branch Network of the Banking System**

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

Banks	Branch Network												Capital		
	2015/16				2015/16				2016/17				2015/16	2015/16	2016/17
	Quarter I				Quarter IV				Quarter I				Quarter I	Quarter IV	Quarter I
	Reg	A.A	Total	%	Reg.	A.A	Total	%	Reg.	A.A	Total	%	Quarter I	Quarter IV	Quarter I
<b>1. Public Banks</b>															
Commercial Bank of Ethiopia	862	246	1108	39.8	888	262	1,150	37.0	897	262	1,159	34.3	11,448	13,557.5	15,910.6
Development Bank of Ethiopia	31	1	32	1.1	31	1	32	1.0	106	4	110	3.3	7,500	7,500.8	7,605.0
<b>Total Public Banks</b>	<b>893</b>	<b>247</b>	<b>1140</b>	<b>40.9</b>	<b>919</b>	<b>263</b>	<b>1,182</b>	<b>38.0</b>	<b>1,003</b>	<b>266</b>	<b>1,269</b>	<b>37.5</b>	<b>18,948</b>	<b>21,058.3</b>	<b>23,515.6</b>
<b>2. Private Banks</b>															
Awash International Bank	97	118	215	7.7	118	127	245	7.9	138	140	278	8.2	2,540	3,191.2	3,268.8
Dashen Bank	78	90	168	6.0	61	57	118	3.8	79	68	147	4.3	2,377	2,809.3	2,797.7
Abyssinia Bank	77	78	155	5.6	84	92	176	5.7	89	94	183	5.4	1,594	1,838.2	1,859.6
Wegagen Bank	69	58	127	4.6	95	66	161	5.2	111	76	187	5.5	2,062	2,431.1	2,463.7
United Bank	62	67	129	4.6	70	74	144	4.6	83	77	160	4.7	1,475	1,814.7	1,870.3
Nib International Bank	54	68	122	4.4	69	86	155	5.0	80	97	177	5.2	1,925	2,253.9	2,302.4
Cooperative Bank of Oromiya	115	36	151	5.4	139	45	184	5.9	143	47	190	5.6	1,059	1,182.7	1,233.6
Lion International Bank	58	41	99	3.6	75	46	121	3.9	79	46	125	3.7	602	787.2	1,046.5
Oromia International Bank	108	51	159	5.7	148	62	210	6.8	149	62	211	6.2	772	1,069.9	1,105.3
Zemen Bank	5	2	7	0.3	8	5	13	0.4	8	5	13	0.4	650	800.0	800.0
Buna International Bank	47	36	83	3.0	56	49	105	3.4	58	53	111	3.3	559	774.7	898.5
Berhan International Bank	35	42	77	2.8	43	45	88	2.8	54	50	104	3.1	622	805.9	890.7
Abay Bank	70	19	89	3.2	89	27	116	3.7	96	32	128	3.8	591	814.5	862.4
Addis Interational Bank	10	22	32	1.1	17	26	43	1.4	19	29	48	1.4	400	569.8	585.0
Debub Global Bank	13	9	22	0.8	17	11	28	0.9	17	15	32	0.9	203	270.9	273.6
Enat Bank S.C	5	7	12	0.4	7	13	20	0.6	7	13	20	0.6	321	588.6	620.4
<b>Total Private Banks</b>	<b>903</b>	<b>744</b>	<b>1,647</b>	<b>59</b>	<b>1,096</b>	<b>831</b>	<b>1,927</b>	<b>62</b>	<b>1,210</b>	<b>904</b>	<b>2,114</b>	<b>62.5</b>	<b>17,752</b>	<b>22,002.5</b>	<b>22,878.4</b>
<b>3. Grand Total Banks</b>	<b>1,796</b>	<b>991</b>	<b>2,787</b>	<b>100</b>	<b>2,015</b>	<b>1,094</b>	<b>3,109</b>	<b>100.0</b>	<b>2,213</b>	<b>1,170</b>	<b>3,383</b>	<b>100.0</b>	<b>36,699</b>	<b>43,060.8</b>	<b>46,394.1</b>

**Source:** Bank Supervision Directorate, NBE**Reg.** Stands for Region and A.A for Addis Ababa

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



Source: Staff computation, NBE

Table 4.6: Branch Network &amp; Capital of Insurance Companies

(Branch in Number & Capital in Millions of Birr)

S.No	Insurance Companies	Branch									Capital		
		2015/16			2015/16			2016/17			2015/16	2015/16	2016/17
		Quarter I			Quarter IV			Quarter I			Quarter I	Quarter IV	Quarter I
		A.A	Reg	Total	A.A	Reg	Total	A.A	Reg	Total	Capital	Capital	Capital
1	Ethiopian Insurance Corporation	18	48	66	18	52	70	18	52	70	680.3	836.5	925.0
2	Awash Insurance Company	22	14	36	24	14	38	26	15	41	223.5	292.3	327.9
3	Africa Insurance Company	10	9	19	11	11	22	12	11	23	226.9	240.9	257.6
4	National Insurance Corporation of Ethiopia	10	14	24	15	14	29	16	15	31	103.3	100.0	107.6
5	United Insurance Company	18	10	28	18	10	28	20	11	31	263.3	322.5	337.3
6	Global Insurance Company	6	6	12	6	7	13	6	7	13	99.5	109.7	114.3
7	Nile Insurance Company	16	17	33	17	19	36	17	19	36	231.2	232.3	241.2
8	Nyala Insurance Company	14	10	24	13	10	23	13	10	23	290.8	327.8	374.0
9	Nib Insurance Company	19	9	28	21	9	30	22	10	32	242.6	316.3	246.6
10	Lion Insurance Company	15	11	26	15	13	28	15	14	29	97.8	91.2	94.8
11	Ethio-Life Insurance Company	10	4	14	12	4	16	15	4	19	32.1	81.3	94.7
12	Oromia Insurance Company	17	12	29	17	16	33	18	18	36	121.5	165.6	161.6
13	Abay Insurance Company S.C.	8	9	17	10	9	19	10	10	20	123.6	160.6	186.2
14	Berhan insurance S.C	6	1	7	7	1	8	7	1	8	55.7	71.3	76.7
15	Tsehay Insurance S.C.	7	3	10	8	4	12	8	4	12	71.0	80.3	88.8
16	Lucy	3	2	5	6	2	8	6	2	8	82.4	96.4	97.1
17	Bunna Insurance S.C.	10	2	12	10	3	13	11	3	14	46.7	64.6	58.4
	<b>TOTAL</b>	<b>209</b>	<b>181</b>	<b>390</b>	<b>228</b>	<b>198</b>	<b>426</b>	<b>240</b>	<b>206</b>	<b>446</b>	<b>2,992</b>	<b>3,590</b>	<b>3,790</b>

Source: Insurance Supervision Directorate, NBE

**Table 4.7: Microfinance Institutions Performance as of September 30, 2016**

(In Thousands of Birr)

Particulars	2015/16		2016/17	% Change	
	Qtr.I	Qtr.IV	Qtr.I		
	A	B	C	C/A	C/B
Total Capital	7,680,605.4	8,875,780.6	9,021,648.8	17.5	1.6
Saving	15,279,612.5	18,432,836.7	18,170,221.5	18.9	-1.4
Credit	22,683,555.9	25,203,763.0	26,184,689.0	15.4	3.9
Total Assets	31,445,468.5	36,668,011.6	36,858,625.5	17.2	0.5

**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) registered a 60 percent surge over the same quarter of last year (Table 4.8).

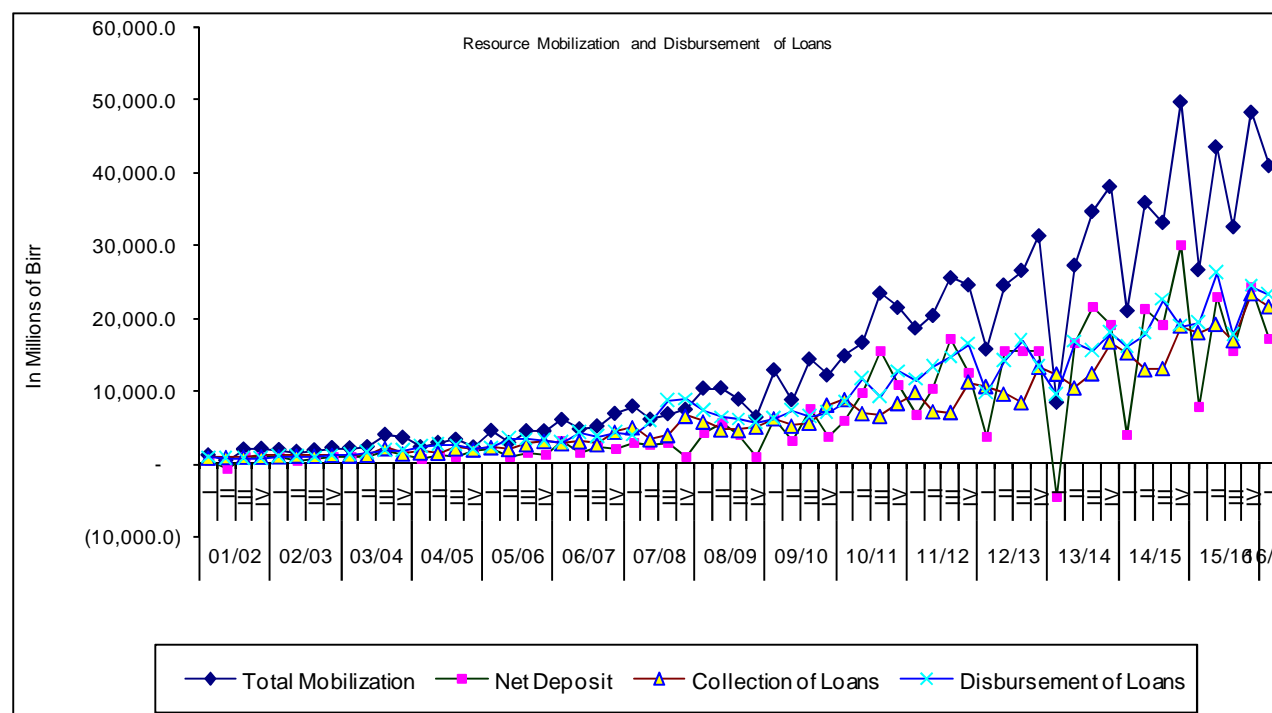
**Table 4.8: Summary of Resource Mobilization & Disbursement of the Banking System**

(In Millions of Birr)

(In Millions of BDT)

Particulars	Public Banks		Private Banks		Grand Total			% Change	
	1		2		(3) = (1) + (2)				
	Qtr. IV 2015/16	Qtr. I 2016/17	Qtr. IV 2015/16	Qtr. I 2016/17	Qtr. I 2015/16	Qtr. IV 2015/16	Qtr. I 2016/17		
	A	B	A	B	A	B	C		
	C/A	C/B							
1. Deposits (net change)	16,386.0	7,896.6	12,679.1	9,215.0	7,805.3	29,065.1	17,111.6	119.2	-41.1
-Demand	2,857.6	1,810.2	4,555.1	1,332.0	-2,392.2	7,412.7	3,142.2	-231.4	-57.6
-Saving	12,807.5	4,520.4	6,242.6	7,057.7	7,219.2	19,050.0	11,578.1	60.4	-39.2
-Time	721.0	1,566.0	1,881.5	825.2	2,978.3	2,602.4	2,391.3	-19.7	-8.1
2. Borrowing (net change)	862.9	2,512.4	0.0	0.0	-59.0	862.9	2,512.4		191.2
-Local	863.5	2,443.5	0.0	0.0	-46.5	863.5	2,443.5		183.0
-Foreign	-0.6	68.9	0.0	0.0	-12.5	-0.6	68.9		-11,911.4
3. Collection of Loans	10,902.7	9,686.6	12,360.3	11,804.4	17,956.3	23,263.1	21,491.0	19.7	-7.6
4. Total Resources Mobilized (1+2+3)	28,151.6	20,095.6	25,039.5	21,019.3	25,702.6	53,191.1	41,115.0	60.0	-22.7
5. Disbursement	13,759.7	9,483.4	10,686.1	13,780.9	19,442.9	24,445.8	23,264.2	19.7	-4.8
6. Change in Liquidity (4-5)	14,391.9	10,612.3	14,353.3	7,238.4	6,259.6	28,745.3	17,850.7	185.2	-37.9
Memorandum Item:									
A. Outstanding Credit*	170,719.9	169,581.2	93,181.7	99,484.7	222,125.4	263,901.6	269,066.0	21.1	2.0
B. Outstanding Interbank Lending	54.3	0.0	0.0	0.0	54.3	54.3	0.0	-100.0	-100.0

**Source:** Commercial Banks and staff computation**Notes:** \*Excludes bonds and treasury bills holding of commercial banks and Development Bank of Ethiopia (DBE)

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

**Source:** Staff computation, NBE

#### 4.5.1.1. Deposit Mobilization

Total deposit liabilities of the banking system reached Birr 455.3 billion at the end of the first quarter of 2016/17, indicating 3.9 percent annual growth rates. The growth in deposit mobilization was a cumulative effect of the expansion of bank branches and improved access to finance, growing saving culture of the population and an increase in per capita income.

Demand deposits, which accounted for 38.3 percent of total deposits, reached Birr

174.2 billion showing a 17.6 percent annual growth.

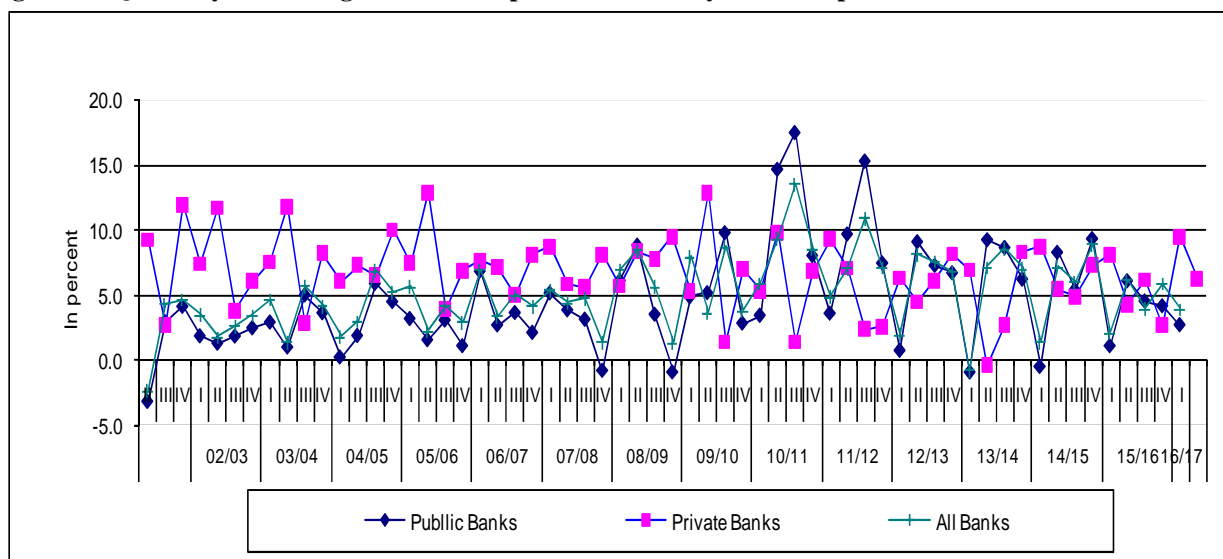
Similarly, saving deposits went up 25.7 percent and accounted for 50.2 percent of the total deposits while time deposits, which constituted 11.5 percent of the total deposit liabilities, increased 16.1 percent over the same period of last year. The share of public banks in total deposits outstanding was 65.7 percent while that of private banks was 34.3 percent (Table 4.9).

Table 4.9: Stock of Deposits Mobilized by the Banking System  
(In Millions of Birr)

Deposit by types	Quarter I 2015/16	% Share	Quarter IV 2015/16	% Share	Quarter I 2016/17	% Share	C/A	C/B
	A		B		C			
Demand Deposit	148,059.2	39.5	171,019.50	39.0	174,161.74	38.3	17.6	1.8
Saving Deposit	181,931.5	48.5	217,047.76	49.5	228,625.86	50.2	25.7	5.3
Time Deposit	45,210.0	12.0	50,085.46	11.4	52,476.71	11.5	16.1	4.8
<b>Total</b>	<b>375,200.7</b>	<b>100.0</b>	<b>438,152.72</b>	<b>100.0</b>	<b>455,264.32</b>	<b>100.0</b>	<b>21.3</b>	<b>3.9</b>
Share of Public Banks	67.1		66.4		65.7			
Share of Private Banks	32.9		33.6		34.3			

Source: Commercial Banks and DBE

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



Source: Staff Computation, NBE

#### 4.5.1.2. Collection of Loans

During the review period, the banking system collected loans amounting to Birr 21.5 billion, which were 19.7 percent higher than a year earlier (Table 4.8). The share of private banks constituted 54.9 percent of the

loan collection that of public banks was 45.1 percent. Of the total loan collection, 95.3 percent was from private enterprises (Table 4.12).

### 4.5.1.3. Borrowing

Total outstanding borrowing of the banking system stood at Birr 36.7 billion, showing a 16.3 percent annual increase.

Of the total borrowing, Birr 31.8 billion (86.9 percent) was from domestic and Birr 4.8 billion (13.1 percent) from external sources (Table 4.10).

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

Banks	2015/16	2015/16	2016/17	Percentage change	
	Quarter I	Quarter IV	Quarter I		
	A	B	C	C/B	C/A
Domestic Borrowing	27,425.9	29,328.36	31,771.85	8.3	15.8
Foreign Borrowing	4,018.5	4,726.81	4,795.67	1.5	19.3
<b>Total</b>	<b>31,444.4</b>	<b>34,055.2</b>	<b>36,567.5</b>	<b>7.4</b>	<b>16.3</b>

**Source:** Commercial Banks and Development Bank of Ethiopia

### 4.5.2. Disbursement of Fresh Loans

During the review quarter, Birr 23.3 billion was disbursed in fresh loans, indicating a 19.7 percent yearly growth. Of the total new loans disbursed, the share of public banks was 40.8 percent while that of private banks was 59.2 percent (Table 4.12).

Domestic Trade was the major beneficiary of the fresh loans accounting for Birr 5.5 billion

(23.5 percent) followed by industry (Birr 5.2 billion or 22.3 percent), international trade (Birr 3.8 billion or 16.1 percent), agriculture (Birr 3.7 billion or 15.9 percent), housing and construction (Birr 2.8 billion or 10.2 percent). 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)

Borrowing Sector	Public Banks			Private Banks			Total		
	(1)			(2)			(3)		
	D**	C**	O/S**	D**	C**	O/S **	D**	C**	O/S**
Central Government *	-	-	16,233	-	-	24	-	-	16,257
Agriculture	3,536	4,310	18,682	170	158	1,227	3,706	4,468	19,909
Industry	4,075	2,868	96,701	1,111	1,076	12,110	5,186	3,944	108,810
Domestic Trade	344	504	3,478	5,131	3,615	27,582	5,474	4,119	31,060
International Trade	622	215	21,754	3,135	4,157	28,409	3,757	4,372	50,163
Export	257	171	6,089	902	2,318	15,175	1,159	2,489	21,264
Imports	365	44	15,664	2,233	1,839	13,235	2,598	1,883	28,899
Hotels and Tourism	75	212	1,159	411	412	3,575	486	624	4,734
Transport & Communication	130	254	3,431	1,224	687	7,422	1,354	941	10,853
Housing & Construction	421	852	16,122	1,951	1,186	13,729	2,372	2,038	29,851
Mines, Power & Water Res.	122	20	176	0	20	76	123	41	252
Others	154	421	7,388	344	339	3,039	498	760	10,427
Personal	5	30	691	303	155	2,315	309	185	3,006
Inter-Bank Lending	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>9,483</b>	<b>9,687</b>	<b>185,814</b>	<b>13,781</b>	<b>11,804</b>	<b>99,509</b>	<b>23,264</b>	<b>21,491</b>	<b>285,323</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 269.1 billion, about 21.1 percent higher than last year same quarter (Table 4.8).

Out of total outstanding loan and advances of the private banks, 99.8 percent was claims on private sector. In contrast, 46.0 percent of the loans and advances of public banks went to

private sector and 45.2 percent to public enterprises.

Sector wise, credit to industry stood at Birr 108.8 billion (40.4 percent) followed by international trade (Birr 50.2 billion or 18.6 percent), domestic trade (Birr 31 billion or 11.5 percent), housing & construction (Birr 29.9 billion or 11.1 percent), agriculture (Birr 19.9 billion or 7.4 percent) and other sectors with the remaining balance (Table 4.11).

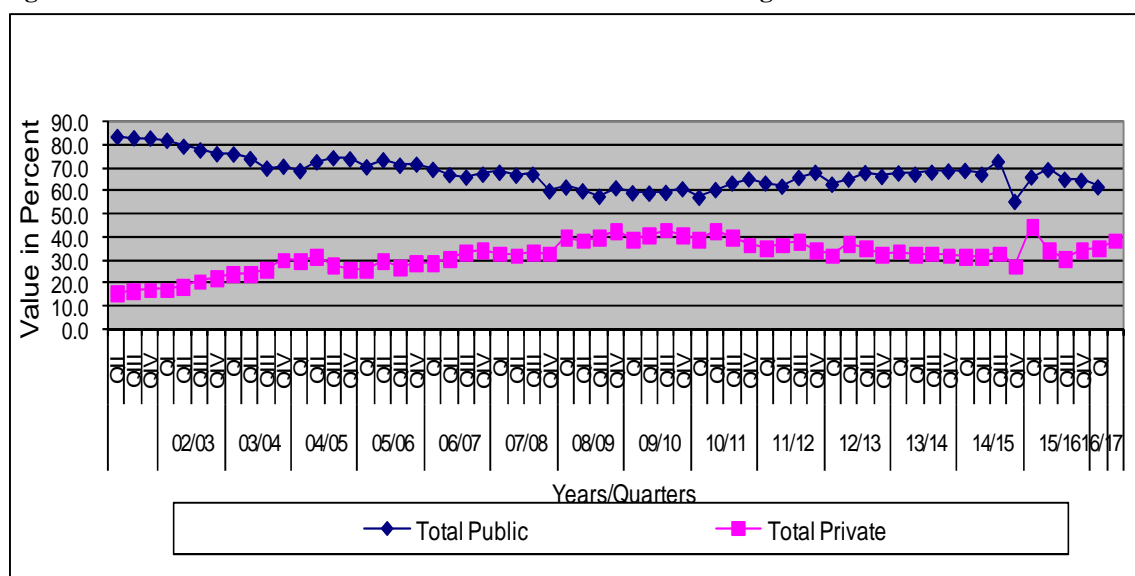
**Table 4.12: Breakdown of Loans & Advances of the Banking System by Clients**

(In Millions of Birr)

Particulars	Loan Disbursement	% Share	Loan Collection	% Share	Outstanding Loan	% Share
<b>Public Banks</b>	<b>9,483.4</b>	<b>40.8</b>	<b>9,686.6</b>	<b>45.1</b>	<b>185,814.5</b>	<b>65.1</b>
Central Government*	0.0	0.0	0.0	0.0	16,233.3	8.7
State Enterprises	2,354.8	24.8	1,002.2	10.3	84,378.5	45.4
Cooperatives	3,137.6	33.1	4,154.4	42.9	11,657.3	6.3
Private Enterprises	3,990.9	42.1	4,530.0	46.8	73,545.5	39.6
Inter-bank Lending	0.0	0.0	0.0	0.0	0.0	0.0
<b>Private Banks</b>	<b>13,780.9</b>	<b>59.2</b>	<b>11,804.4</b>	<b>54.9</b>	<b>99,508.7</b>	<b>34.9</b>
Central Government*	0.0	0.0	0.0	0.0	24.0	0.0
State Enterprises	1.1	0.0	8.0	0.1	158.9	0.2
Cooperatives	65.4	0.5	351.4	3.0	831.6	0.8
Private Enterprises	13,714.4	99.5	11,445.0	97.0	98,494.3	99.0
Inter-bank Lending	0.0	0.0	0.0	0.0	0.0	0.0
<b>Grand Total</b>	<b>23,264.2</b>	<b>100.0</b>	<b>21,491.0</b>	<b>100.0</b>	<b>285,323.2</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 115.6 billion by end September 2016 about 16 percent higher than a year earlier. Of the credit to the central government, direct advance accounted for 93.2 percent, and bonds 6.8

percent. Direct advance went up by 18.1 percent while financial institutions' deposit at NBE increased by 103.5 percent as compared to last year same periods (Table 4.13).

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

(In Millions of Birr)

Particulars	2015/16		2016/17	% Change	
	Qtr.I	Qtr.IV	Qtr.I		
	A	B	C	C/A	C/B
<b>1. Loans and Advances</b>	<b>123,514.34</b>	<b>134,687.40</b>	<b>141,247.85</b>	<b>14.4</b>	<b>4.9</b>
1.1. To Central Government	99,657.34	109,080.40	115,640.85	16.0	6.0
Direct Advance	91,264.95	100,764.95	107,764.95	18.1	6.9
Bonds	8,392.40	8,315.45	7,875.90	-6.2	-5.3
1.2. To Development Bank of Ethiopia	23,857.00	25,607.00	25,607.00	7.3	0.0
<b>2. Deposit Liabilities</b>	<b>49,967.80</b>	<b>51,696.98</b>	<b>55,321.33</b>	<b>10.7</b>	<b>7.0</b>
2.1. Government	31,740.19	14,042.32	18,220.23	-42.6	29.8
2.2. Financial Institutions	18,227.61	37,654.66	37,101.10	103.5	-1.5
O/W:					
-Banks	18,201.09	37,608.50	36,975.11	103.1	-1.7
-Insurance companies	26.5	46.2	126.0	375.0	173.0
<b>3. Net Claims of NBE</b>	<b>73,546.5</b>	<b>82,990.4</b>	<b>85,926.5</b>	<b>16.8</b>	<b>3.5</b>

Source: NBE

## 4.7. Developments in Financial Markets

### 4.7.1. Treasury Bills Market

T-bills to the tune of Birr 46.1 billion were supplied to the weekly T-bills auction market during the first quarter of 2016/17, reflecting a 42.2 percent increase over the same period last year. Similarly, sales of T-bills, reached Birr 47.9 billion reflecting a 35.8 percent growth relative to a year earlier (Table 4.14).

All the T-bills were purchased by non-bank institutions where 91 day bills were the most preferred ones.

The annual average weighted yield of T-bills during the review quarter was 1.404 percent which was 6.3 percent lower than that of a year earlier.

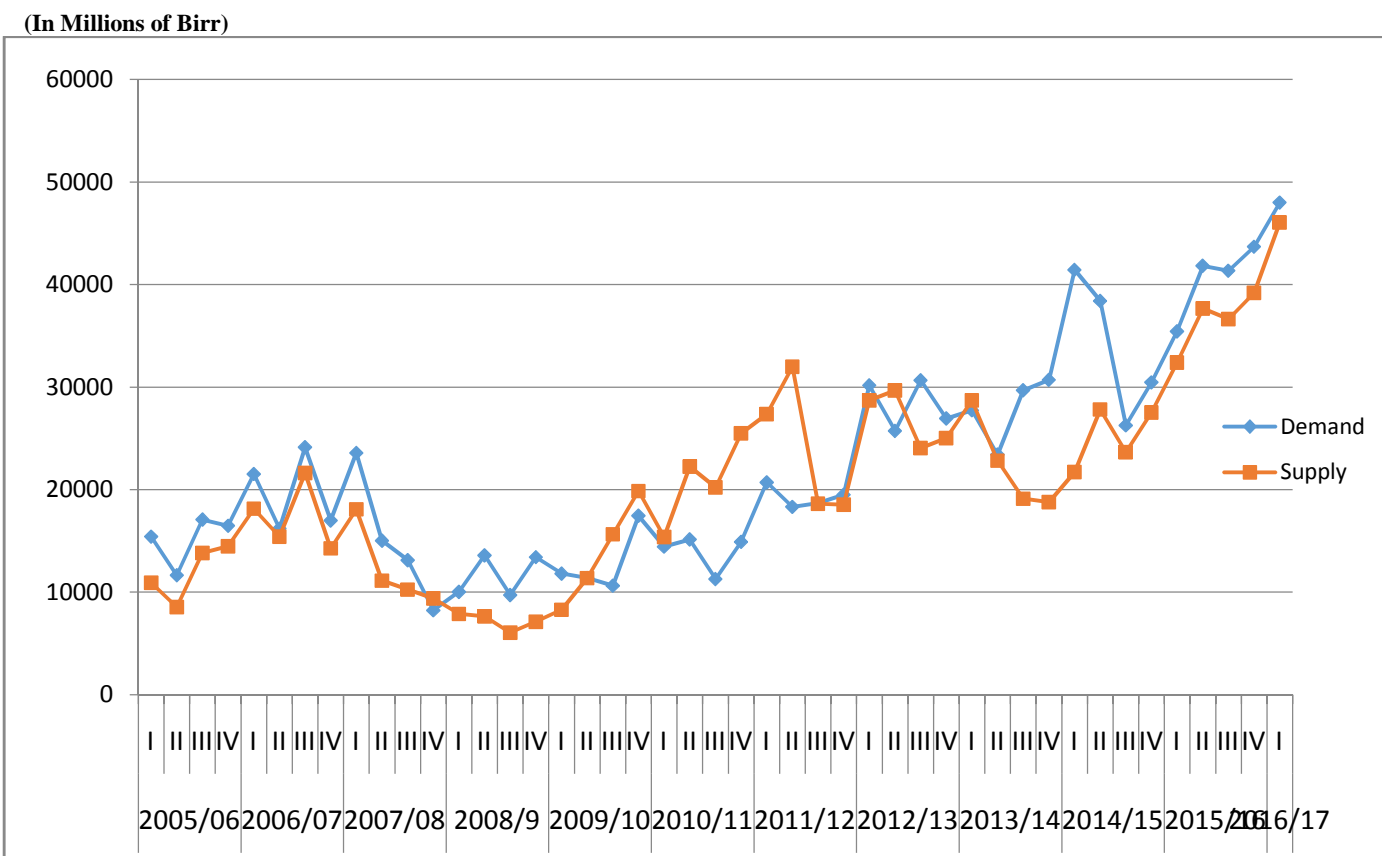
The total outstanding T-bills at the end of the quarter reached Birr 58.9 billion, reflecting a 32.1 percent annual increase. (Table 4.14)

**Table 4.14: Results of Treasury Bills Auction**

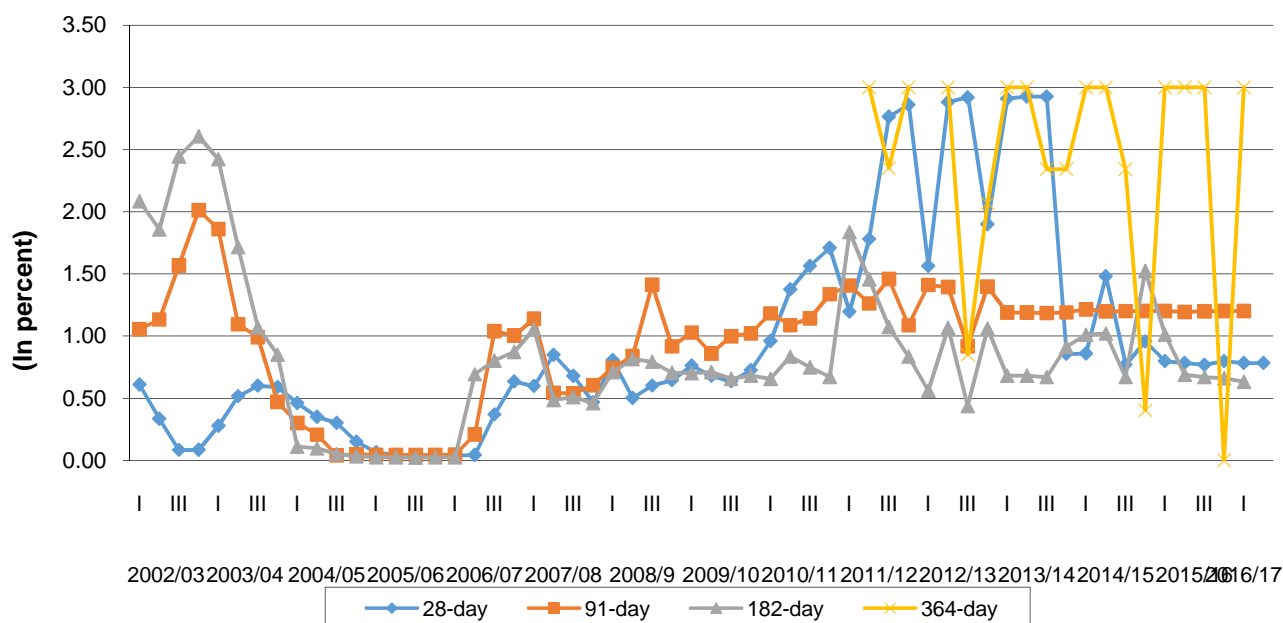
(In Millions of Birr)

Particulars	2015/16		2016/17	% Change	
	Quarter I	Quarter IV	Quarter I		
	A	B	C	C/A	C/B
<b>Number of Bidders</b>	<b>59</b>	<b>48</b>	<b>51</b>	<b>-13.6</b>	<b>6.3</b>
Public	58	48	51	-12.1	6.3
Private	1	0	-	-100.0	0.0
<b>Number of Bids received</b>	<b>62</b>	<b>60</b>	<b>59</b>	<b>-4.8</b>	<b>-1.7</b>
Public	61	60	59	-3.3	-1.7
Private	1	0	0	-100.0	0.0
<b>Amount Demanded (Mn. Birr)</b>	<b>35,429.6</b>	<b>43,680.6</b>	<b>47,988.6</b>	<b>35.4</b>	<b>9.9</b>
28-day bill	240.0	240.0	240.0	0.0	0.0
91-day bill	29,323.6	42,055.6	44,482.6	51.7	5.8
182-day bill	3,116.0	685.0	516.0	-83.4	-24.7
364-day bill	2,750.0	700.0	2,750.0	0.0	292.9
<b>Amount Supplied (Mn. Birr)</b>	<b>32,387.8</b>	<b>39,200.6</b>	<b>46,061.6</b>	<b>42.2</b>	<b>17.5</b>
28-day bill	240.0	240.0	240.0	0.0	0.0
91-day bill	26,281.8	37,575.6	42,055.6	60.0	11.9
182-day bill	3,116.0	1,385.0	1,016.0	-67.4	-26.6
364-day bill	2,750.0	0.0	2,750.0	0.0	0.0
<b>Amount Sold (Mn. Birr)</b>	<b>35,329.6</b>	<b>42,452.6</b>	<b>47,988.6</b>	<b>35.8</b>	<b>13.0</b>
Banks	0.0	0.0	0.0	0.0	0.0
Non-Banks	35,329.6	42,452.6	47,988.6	35.8	13.0
<b>Average Weighted Price for Successful bids (%)</b>	<b>99.059</b>	<b>99.77</b>	<b>99.11</b>	<b>-100.0</b>	<b>-0.7</b>
28-day bill	99.940	99.94	99.940	0.0	0.0
91-day bill	99.702	99.70	99.702	0.0	0.0
182-day bill	99.500	99.67	99.686	0.2	0.0
364-day bill	97.095	0.00	97.095	0.0	0.0
<b>Average Weighted Yield for Successful bids (%)</b>	<b>1.498</b>	<b>0.88</b>	<b>1.404</b>	<b>-6.3</b>	<b>59.3</b>
28-day bill	0.783	0.78	0.78	0.0	0.0
91-day bill	1.200	1.20	1.20	0.1	0.1
182-day bill	1.010	0.66	0.63	-37.3	-4.3
364-day bill	3.000	0.00	3.00	0.0	
<b>Outstanding bills at the end of Period (Mn.Br.)</b>	<b>44,646.6</b>	<b>57,252.6</b>	<b>58,979.6</b>	<b>32.1</b>	<b>3.0</b>
Banks	0.0	0.0	0.0	0.0	0.0
Non-Banks	44,646.6	57,252.6	58,979.6	32.1	3.0

**Source:** NBE**Fig.IV.14: Developments in T-Bills Market**



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

No inter-bank money market transactions were conducted during the quarter under review (Table 4.12).

#### 4.7.3. Corporate Bond Market

Corporate bond market continued between a few public institutions and regional governments on the one hand and the Commercial Bank of Ethiopia (CBE) on the other.

During the quarter under review, CBE purchased corporate bonds worth Birr 5.3 billion, of which Birr 3.8 billion (71.0 percent) was issued by EEPCo and the remaining Birr 1.6 billion (29.0 percent) by City Government of Addis Ababa.

Hence, the stock of corporate bonds held by CBE stood at Birr 195.1 billion, of which 84.0 percent was claims on public enterprises and the remaining on regional governments (Table 4.15). Corporate bonds issued by EEPCo accounted for 89.6 percent of the total bonds issued by public enterprises and 75.3 percent of the outstanding corporate bond balance.

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

Issuer of the Bond	2015/16						2016/17		
	QI			QIV			QI		
	NP	Red	O/S	NP	Red	O/S	NP	Red	O/S
<b>1. Public Enterprises</b>	<b>3,800.0</b>	<b>0.0</b>	<b>131,943.4</b>	<b>9,648.9</b>	<b>0.0</b>	<b>158,548.9</b>	<b>5,351.1</b>	<b>0.0</b>	<b>163,900.0</b>
EEPCO	3,800.0	-	118,900.0	9,200.0	-	143,100.0	3,800.0	-	146,900.0
Railways Corporation	-	-	13,000.0	448.9	-	15,448.9	1,551.1	-	17,000.0
DBE	-	-	43.4	-	-	-	-	-	-
<b>2. Regional Governments</b>	<b>1,700.0</b>	<b>147.5</b>	<b>26,098.3</b>	<b>3,000.0</b>	<b>1,269.6</b>	<b>30,200.8</b>	<b>1,450.0</b>	<b>492.1</b>	<b>31,158.6</b>
Oromia	-	18.2	575.9	-	6.6	512.5	-	9.7	502.8
Amhara	-	-	0.2	-	-	0.2	-	-	0.2
Tigray	-	8.2	189.1	-	0.8	180.5	-	2.5	178.0
SNNPRS	-	11.7	278.1	-	-	7.6	-	-	7.6
Dire Dawa	-	-	-	-	-	-	-	-	-
Harari	-	-	-	-	-	-	-	-	-
City Government of Addis	1,700.0	109.4	25,055.0	3,000.0	1,262.2	29,500.0	1,450.0	479.9	30,470.1
<b>3. Grand Total (1+2)</b>	<b>5,500.0</b>	<b>147.5</b>	<b>158,041.7</b>	<b>12,648.9</b>	<b>1,269.6</b>	<b>188,749.7</b>	<b>6,801.1</b>	<b>492.1</b>	<b>195,058.6</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 registered during the first quarter of 2016/17 was USD 336.3 million compared to USD 88.3 million a year ago.

This was mainly attributed to 3.6 percent widening of merchandise trade deficit and 491.8 percent increase in net services payments coupled with 27.2 percent decline in net private transfers and 9.7 percent fall in net official transfers (Table 5.1).

**Table 5.1: Balance of Payments\*** (In Millions of USD)

S/N	Particulars	2015/16		2016/17	Percentage Change	
		QI	QIV	QI	C/A	C/B
		A	B	C		
<b>1</b>	<b>Exports, f.o.b.</b>	<b>687.7</b>	<b>809.5</b>	<b>658.9</b>	<b>-4.2</b>	<b>-18.6</b>
	Coffee	185.3	254.0	181.0	-2.3	-28.7
	Other	502.4	555.5	477.9	-4.9	-14.0
<b>2</b>	<b>Imports</b>	<b>4,128.5</b>	<b>4,064.0</b>	<b>4,224.0</b>	<b>2.3</b>	<b>3.9</b>
	Fuel	371.6	340.7	352.6	-5.1	3.5
	Cereals	119.6	237.1	207.1	73.2	-12.7
	Aircraft	21.8	56.4	230.1	954.8	307.7
	Imports excl. fuel, cereals, aircraft	3,615.5	3,429.7	3,434.2	-5.0	0.1
<b>3</b>	<b>Trade Balance (1-2)</b>	<b>-3,440.8</b>	<b>-3,254.5</b>	<b>-3,565.1</b>	<b>3.6</b>	<b>9.5</b>
<b>4</b>	<b>Services, net</b>	<b>-30.9</b>	<b>-216.5</b>	<b>-182.7</b>	<b>491.8</b>	<b>-15.6</b>
	Non-factor services, net	10.0	-159.3	-64.4	-741.2	-59.6
	Exports of non-factor services	815.6	680.2	860.8	5.5	26.6
	Imports of non-factor services	805.5	839.5	925.2	14.9	10.2
	Income, net	-40.9	-57.2	-118.2	189.0	106.7
	O/w Gross official int. payment	42.1	57.1	118.0	180.6	106.7
	Dividend	-1.6	-3.6	-3.8	138.7	6.0
<b>5</b>	<b>Private transfers, net</b>	<b>1,424.5</b>	<b>1,271.6</b>	<b>1,037.6</b>	<b>-27.2</b>	<b>-18.4</b>
	o/w: Private Individuals	923.6	844.5	750.9	-18.7	-11.1
<b>6</b>	<b>Current account balance (3+4+5)</b>					
	Excluding off. transfers	<b>-2,047.2</b>	<b>-2,199.4</b>	<b>-2,710.1</b>	<b>32.4</b>	<b>23.2</b>
<b>7</b>	<b>Official transfers, net</b>	<b>269.2</b>	<b>501.6</b>	<b>243.1</b>	<b>-9.7</b>	<b>-51.5</b>
<b>8</b>	<b>Current account balance including official transfers(6+7)</b>	<b>-1,778.0</b>	<b>-1,697.9</b>	<b>-2,467.0</b>	<b>38.8</b>	<b>45.3</b>
<b>9</b>	<b>Capital account</b>	<b>1,336.5</b>	<b>1,913.6</b>	<b>1,593.6</b>	<b>19.2</b>	<b>-16.7</b>
	Off. Long-term Cap., net	371.7	702.2	213.0	-42.7	-69.7
	Disbursements	385.3	724.6	234.6	-39.1	-67.6
	Amortization	13.6	22.3	21.7	59.5	-2.9
	Other pub. long-term cap.	419.1	388.3	110.9	-73.5	-71.4
	Private sector, long term	146.0	12.8	37.0	-74.6	189.1
	Foreign Direct Investment(net)	473.11	648.79	1,198.30	153.28	84.7
	Short-term Capital	-73.4	161.5	34.5	-146.9	-78.7
<b>10</b>	<b>Errors and omissions</b>	<b>353.2</b>	<b>-397.3</b>	<b>537.1</b>	<b>52.1</b>	<b>235.2</b>
<b>11</b>	<b>Overall balance (8+9+10)</b>	<b>-88.3</b>	<b>-181.6</b>	<b>-336.3</b>	<b>281.0</b>	<b>85.2</b>
<b>12</b>	<b>Financing</b>	<b>88.3</b>	<b>181.6</b>	<b>336.3</b>	<b>281.0</b>	<b>85.2</b>
13	Reserves [ Increase(-), Decrease (+)]	88.3	181.6	336.3	281.0	85.2
14	Central Bank (NFA)	60.4	167.0	324.8	437.3	94.5
	Asset	122.5	10.2	3.1	-97.5	70.0
	Liabilities	-62.0	156.8	321.7	-618.6	105.2
15	Commercial banks (NFA)	27.8	14.6	11.5	-58.6	20.8
16	Debt Relief					
	Principal					
	Interest					

**Source:** NBE Staff Compilation

\*Preliminary

Total current account receipts amounted to USD 2.8 billion, about 12.0 percent lower than that of last year same period due to 4.2 percent decline in merchandise exports, 27.1 percent decrease in private transfers and 5.9 percent drop in public transfers.

In contrast, total current account payments increased by 6.1 percent and stood at USD 5.3 billion mainly due to

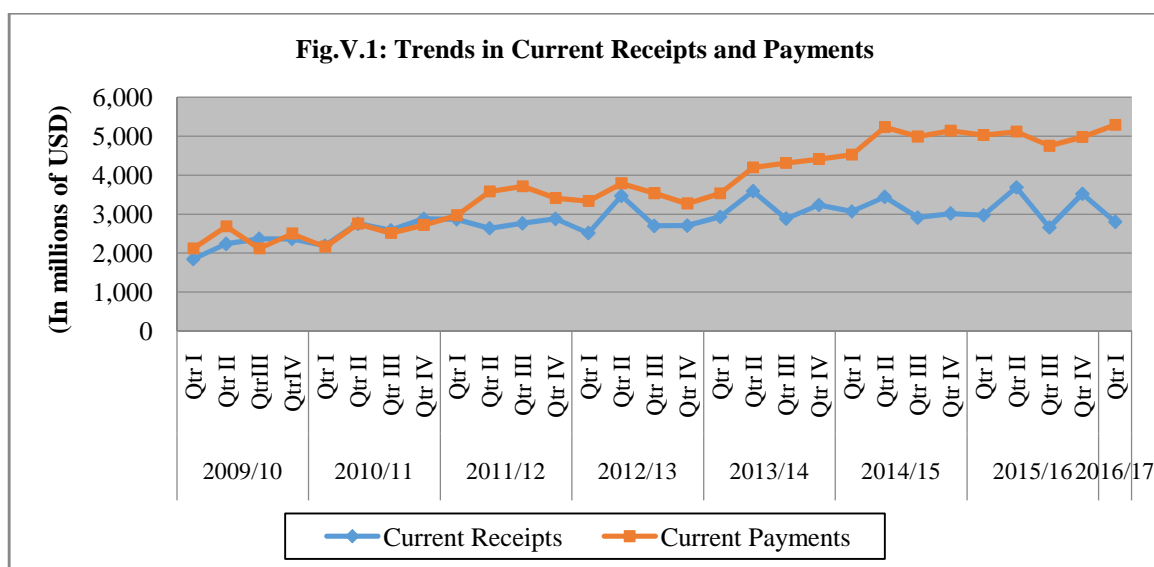
higher payments for goods import (2.3 percent), service import (23.0 percent), private transfers (65.9 percent) and public transfers (225 percent). Consequently, the current account recorded USD 2.5 billion deficit which was 38.8 percent higher than a year ago (Table 5.2).

**Table 5.2 Current Receipts and Payments**

(In millions of USD)

Particulars	2015/16		2016/17	Percentage Change	
	Qtr. I	Qtr. IV	Qtr. I		
	A	B	C	C/A	C/B
<b>1. Current Receipts</b>	<b>3,205.50</b>	<b>3,291.79</b>	<b>2,820.66</b>	<b>-12.0</b>	<b>-14.3</b>
Export Proceeds	687.69	809.45	658.91	-4.2	-18.6
Service Proceeds	818.34	683.65	864.44	5.6	26.4
Private Transfers	1,425.90	1,283.24	1,039.94	-27.1	-19.0
Public Transfers	273.58	515.44	257.4	-5.9	-50.1
<b>2. Current Payments</b>	<b>4,983.49</b>	<b>4,989.67</b>	<b>5,287.64</b>	<b>6.1</b>	<b>6.0</b>
Import Payments	4,128.50	4,063.98	4,224.0	2.3	3.9
Service Payments	849.20	900.19	1,047.1	23.3	16.3
Private Transfers	1.41	11.63	2.34	65.9	-79.9
Public Transfers	4.38	13.87	14.2	225.0	2.6
<b>3. Net(1-2)</b>	<b>-1,778.0</b>	<b>-1,697.9</b>	<b>-2,467.0</b>	<b>38.8</b>	<b>45.3</b>

**Source:** NBE Staff Compilation

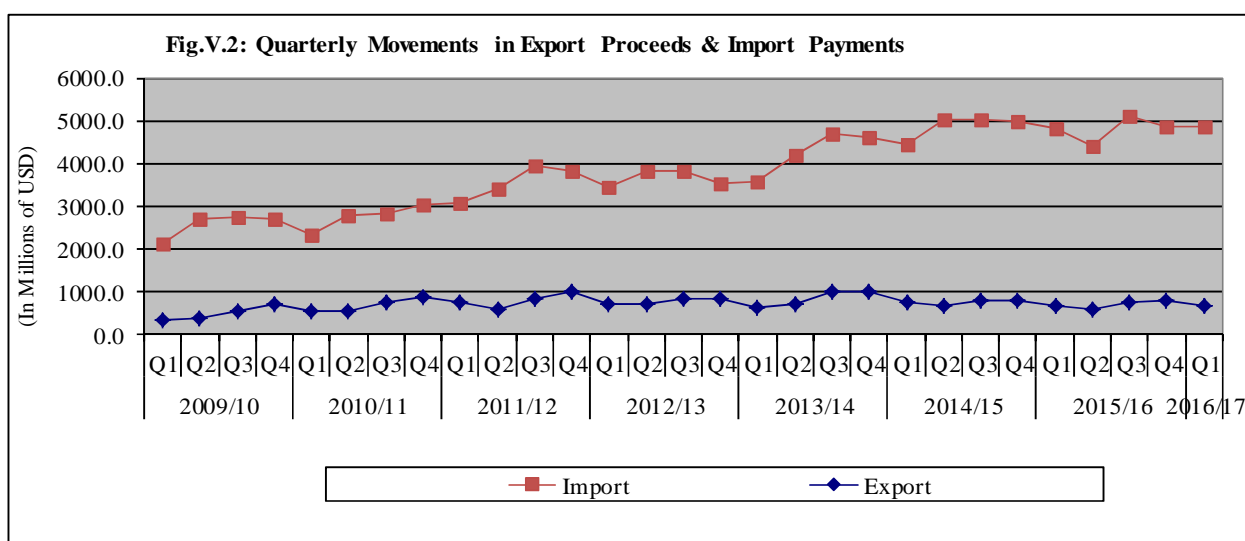


**Source:** NBE Staff Compilation

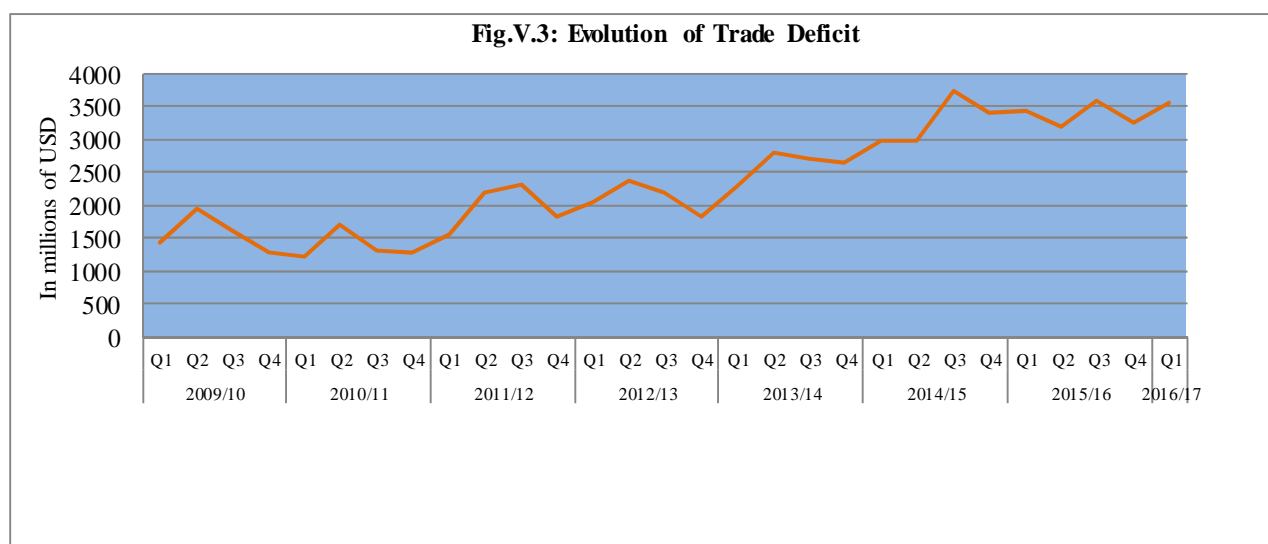
## 5.2 Balance of Trade

Merchandise trade deficit during the review quarter amounted to USD 3.6 billion, showing a 3.6 percent deterioration over last year same period

due to slowdown in merchandise export earnings and an increase in merchandise import bills.



**Source:** Ethiopian Revenue and Customs Authority



**Source:** NBE Staffs Computation

### 5.2.1 Export of Goods

Total merchandise export earnings (including electricity) decreased by 4.2 percent against same period last year. The quarter-on-quarter decrease was attributed to lower export earnings from coffee (2.3 percent), live-animals (54.5 percent), gold (12.0 percent), meat & meat products (15.2 percent), flower (6.2 percent), leather & leather products (12.3 percent), fruits & vegetables (2.1 percent).

Export revenue from coffee was USD 181.0 million which was a 2.3 percent lower than last year same period as a result of a 1.8 percent fall in export volume and 0.5 percent in international price. Yet, the share of coffee in total merchandise export earnings slightly rose to 27.5 percent from 27 percent a year earlier.

Similarly, export proceeds from live-animals plummeted by 54.5 percent vis-à-vis the same quarter of last year owing to 53.6 percent decrease in volume and 1.8 percent in international price. As a result, the share of live-animals in total merchandise export went down by half to 5.1 percent from 10.6 percent a year ago.

Meanwhile, earnings from gold decreased by 12.0 percent on account of 25.8 percent fall in export volume, despite 18.6 percent increase in price. Hence, the share of gold in total export earnings was about 10 percent.

Likewise, revenue from meat & meat products went down by 15.2 percent to USD 22 million due to 11.1 percent decline in export volume and 4.7 percent in international price. As a result, the share of meat & meat products in total merchandise export earnings decreased to 3.3 percent from 3.8 percent a year earlier.

At the same time, export proceeds from flower showed a 6.2 percent slowdown over last year same period on account of 6.9 percent drop in export volume despite a 0.7 percent rise in price. Thus, the share of flower in total export revenue remained at 7.7 percent.

Earnings from leather & leather products also went down by 12.3 percent over last year same quarter owing to a 18.4 percent decline in export volume though international price rose by 7.6 percent. Consequently, the share of leather & leather products in total merchandise

export revenue dropped to 3.9 percent from 4.3 percent last year same period.

Similarly, export revenue from fruits & vegetables decreased by 2.1 percent compared with last year same period owing to lower export volume (2.7 percent) despite 0.6 percent rise in price. Thus, the share of fruits & vegetables in total export earnings was merely 2.0 percent.

Yet, export of oilseeds, electricity, pulses, chat and others saw remarkable growth. Revenue from oilseeds hiked by 32.4 percent as export volume surged 61.0 percent regardless of 17.8 percent fall in price. As a result, the share of oilseeds in total merchandise export earnings increased to 10.9 percent from 7.9 percent a year ago.

Electricity export earnings also improved remarkably by 201.1 percent

over last year same period as export volume surged 225.0 percent. Consequently, the share of electricity in total merchandise export earnings improved to 2.7 percent from 0.8 percent last year same quarter.

Proceeds from export of pulses rose by 5.1 percent as a result of 10.3 percent increase in international price despite 4.7 percent drop in volume. As a result, its share in total merchandise export revenue slightly increased to 7.8 percent from 7.1 percent a year earlier.

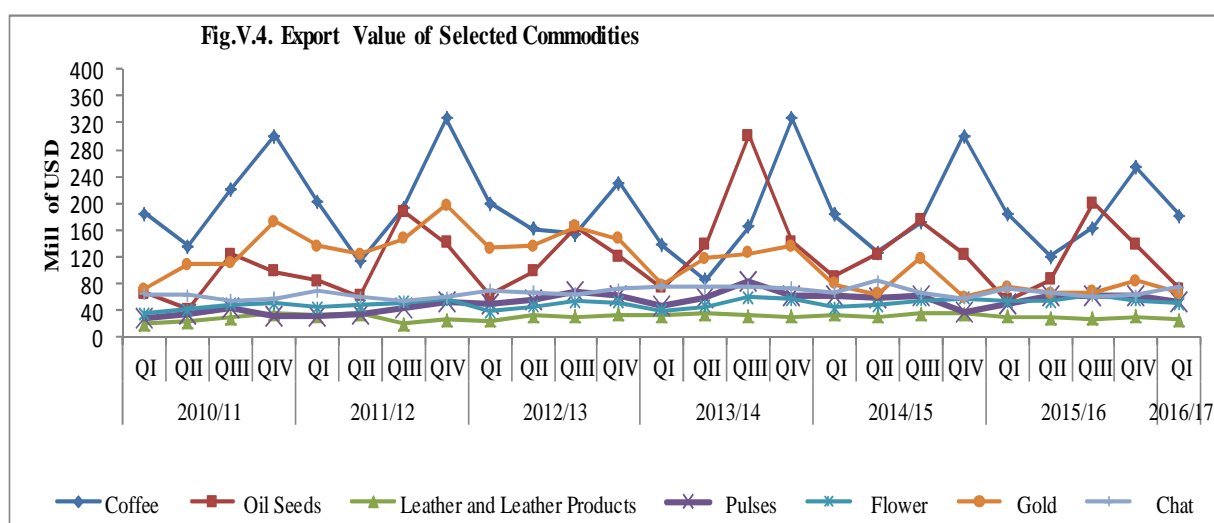
Similarly, receipts from chat went up by 2.7 percent as export volume increased 3.9 percent albeit 1.2 percent decrease in price. Thus, the share of chat in total merchandise export earnings was 11.4 percent.

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

(In millions of USD)

(in millions of USD)

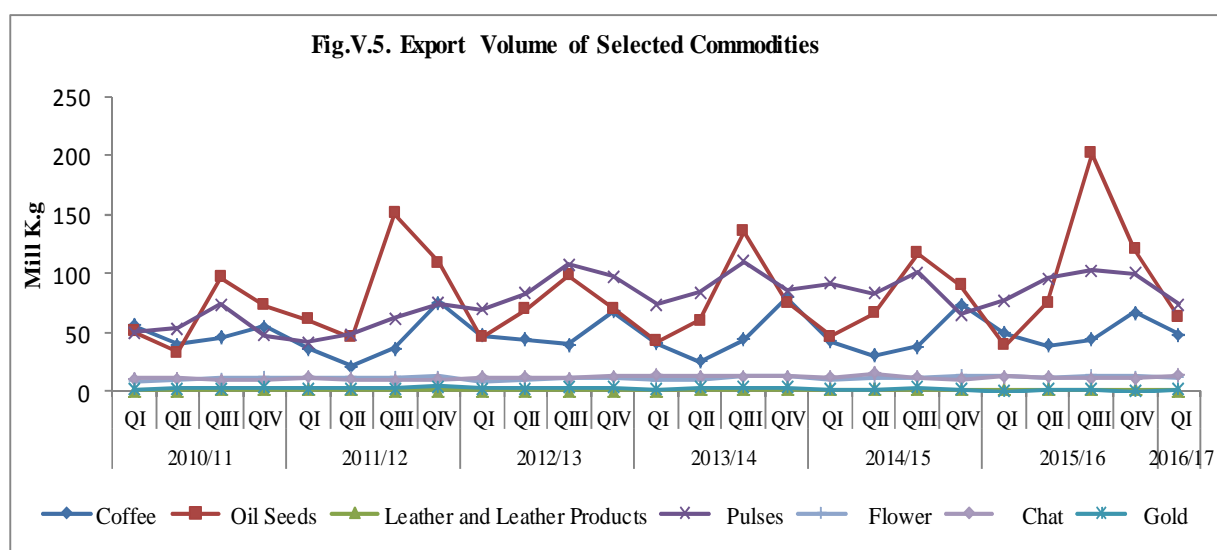
Particulars	2015/16				2016/17		Percentage Change	
	QI		QIV		QI			
	A	%share	B	%share	C	%share	C/A	C/B
Coffee	185.3	27.0	254.0	31.4	181.0	27.5	-2.3	-28.7
Oilseeds	54.0	7.9	137.7	17.0	71.5	10.9	32.4	-48.1
Leather and Leather products	29.6	4.3	30.0	3.7	25.9	3.9	-12.3	-13.5
Pulses	48.7	7.1	60.8	7.5	51.2	7.8	5.1	-15.7
Meat & Meat Products	25.9	3.8	24.3	3.0	22.0	3.3	-15.2	-9.5
Fruits & Vegetables	13.7	2.0	12.7	1.6	13.5	2.0	-2.1	5.6
Live Animals	73.14	10.6	26.37	3.3	33.29	5.1	-54.5	26.3
Chat	73.11	10.6	61.66	7.6	75.07	11.4	2.7	21.7
Gold	74.1	10.8	83.4	10.3	65.2	9.9	-12.0	-21.8
Flower	53.8	7.8	54.8	6.8	50.4	7.7	-6.2	-8.1
Electricity	6.0	0.8	14.9	1.8	18.0	2.7	225.6	20.7
Others	50.4	7.3	48.9	6.0	51.2	7.8	1.6	4.6
Total Export	687.7	100.0	809.5	100.0	658.8	100.0	-4.2	-18.6
Total Export excluding electricity	681.7		794.5		640.3		-6.0	-19.4

**Source:** Ethiopian Revenues and Customs Authority, Ethiopian Electric Utility and Ethiopian Electric Power**Source:** NBE Staff Computation

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

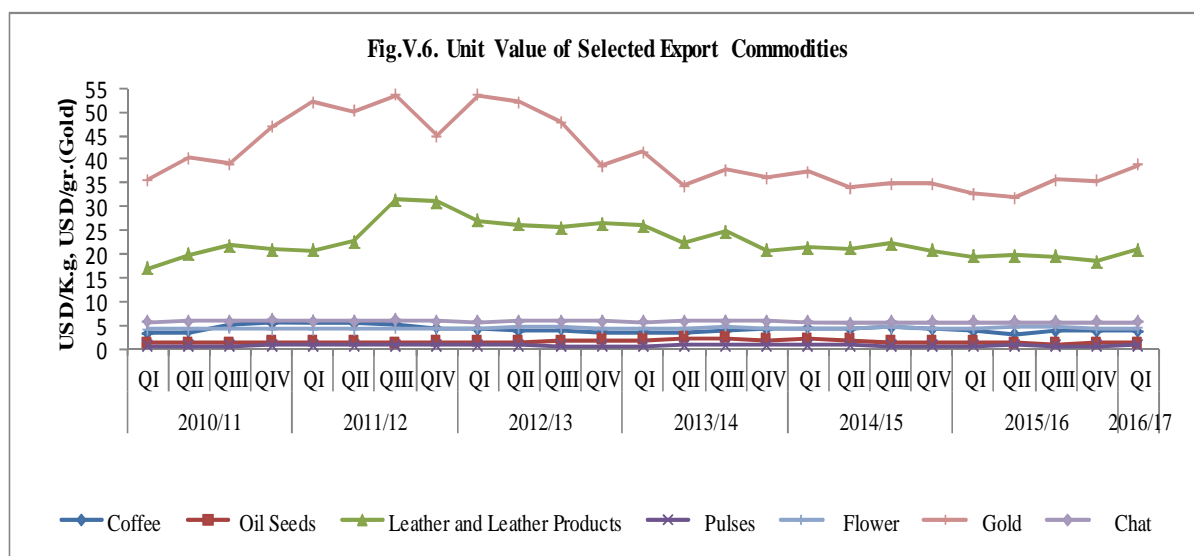
(In millions of Kg)

Particulars	2015/16		2016/17	Percentage Change	
	QI	QIV	QI		
	A	B	C	C/A*100-100	C/B*100-100
Coffee	48.8	67.2	47.9	-1.8	-28.6
Oilseeds	39.0	120.4	62.8	61.0	-47.8
Leather and Leather products	1.52	1.62	1.2	-18.4	-23.4
Pulses	77.4	100.0	73.7	-4.7	-26.2
Meat & Meat Products	5.1	4.8	4.5	-11.1	-6.7
Fruits & Vegetables	43.5	40.3	42.3	-2.7	5.0
Live Animals	38.5	13.9	17.9	-53.6	28.4
Chat	13.1	11.0	13.6	3.9	23.8
Gold(in mill of grams)	2.26	2.35	1.68	-25.8	-28.6
Flower	12.5	12.5	11.6	-6.9	-6.7
Electricity	90.8	252.4	324.3	257.2	28.5

**Source:** Ethiopian Revenues and Customs Authority, Ethiopian Electric Utility and Ethiopian Electric Power**Source:** NBE Staff Computation

**Table 5.5: Unit Value of Major Export Items***(In USD/kg)*

Particulars	2015/16		2016/17	Percentage Change	
	QI	QIV	QI		
	A	B	C	C/A*100-100	C/B*100-100
Coffee	3.8	3.8	3.8	-0.5	-0.1
Oilseeds	1.4	1.1	1.1	-17.8	-0.5
Leather and Leather products	19.4	18.5	20.9	7.6	12.9
Pulses	0.63	0.61	0.69	10.3	14.3
Meat & Meat Products	5.1	5.0	4.9	-4.7	-3.0
Fruits & Vegetables	0.3	0.3	0.3	0.6	0.5
Live Animals	1.9	1.9	1.9	-1.8	-1.6
Chat	5.6	5.6	5.5	-1.2	-1.7
Gold	32.8	35.5	38.9	18.6	9.6
Flower	4.3	4.4	4.3	0.7	-1.5
Electricity	0.60	0.059	0.055	-6.03	-7.35

**Source:** NBE Staff Compilation**Source:** NBE Staff Computation

### 5.2.2 Import of Goods

Total merchandise import during the review period amounted to USD 4.2 billion, showing a 2.3 percent quarter-on-quarter growth as a result of increased value of consumer goods (38.2 percent) and miscellaneous goods (43.3 percent) while capital goods decreased by 13.3 percent, semi-finished goods 10.6 percent, fuel 5.1 percent and raw materials 15.4 percent.

The quarter-on-quarter decline in capital goods import payment was ascribed to 27.6 percent decrease in import value of industrial capital goods and 7.3 percent agricultural capital goods. While transport capital goods surged by 40.0 percent. Consequently, the share of capital goods in total import bill dropped to 38.1 percent from 45.0 percent a year ago.

Likewise, fuel import bill dropped by 5.1 percent due to lower international price<sup>6</sup> despite 1.5 percent increase in volume.

As a result, the share of fuel in total goods import scaled down to 8.3 percent from 9.0 percent a year earlier.

Similarly, import value of raw materials decelerated by 15.4 percent and its share in total goods import bill was less than one percent.

At the same time, import of semi-finished goods decreased by 10.6 percent due to fall in import bills of fertilizer and other semi-finished goods by 57.9 percent and 15.3 percent, respectively. Import bills of chemicals, however, rose 24 percent and that of textile materials 13.1 percent. As a result, the share of semi-finished goods in total import bill was down to 14.9 percent from 17.0 percent a year ago.

On the other hand, import payments for consumer goods accelerated by 38.2 percent vis-à-vis same period last year owing to 80.1 percent hike in payments for durable goods and 16.9 percent in non-durable consumer goods. Thus, the share of consumer goods in total import bill went up to 35.7 percent from 26.4 percent during the same period.

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<sup>6</sup> During this period, international crude oil price deceased by 28.4 percent (IMF primary commodity price, 18- August 2016)

Meanwhile, total franco-valuta import, which comprised mainly Tele apparatus, machine, aircraft & aircraft parts, electrical materials, metal & metal

products and food & Live animals, increased by 51.0 percent and stood at USD 1.5 billion which accounted for 36.7 percent of the total imports.

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

(In millions of USD)

Particular	2015/16				2016/17		Percentage Changes	
	Qtr. I	% share from total Import	Qtr.IV	% share from total Import	Qtr.I	% share from total Import		
	A		B		C		C/A	C/B
Raw Materials	45.1	1.1	36.1	0.9	38.2	0.9	-15.4	5.6
Semi-finished Goods	703.0	17.0	821.9	20.2	628.2	14.9	-10.6	-23.6
Fertilizers	9.6	0.2	172.0	4.2	4.1	0.1	-57.9	-97.6
Fuel	371.6	9.0	340.7	8.4	352.5	8.3	-5.1	3.5
Petroleum Products	351.2	8.5	325.0	8.0	336.0	8.0	-4.3	3.4
Others	20.4	0.5	15.7	0.4	16.5	0.4	-19.3	4.9
Capital Goods	1,857.9	45.0	1,420.2	34.9	1,611.2	38.1	-13.3	13.4
Transport	386.5	9.4	312.4	7.7	540.9	12.8	40.0	73.1
Agricultural	23.5	0.6	25.7	0.6	21.7	0.5	-7.3	-15.3
Industrial	1,448.0	35.1	1,082.1	26.6	1,048.6	24.8	-27.6	-3.1
Consumer Goods	1,090.5	26.4	1,364.9	33.6	1,507.4	35.7	38.2	10.4
Durables	368.4	8.9	339.0	8.3	663.4	15.7	80.1	95.7
Non-durables	722.1	17.5	1,025.9	25.2	844.0	20.0	16.9	-17.7
Miscellaneous	60.3	1.5	80.1	2.0	86.5	2.0	43.3	8.0
<b>Total</b>	<b>4,128.5</b>	<b>100.0</b>	<b>4,064.0</b>	<b>100.0</b>	<b>4,224.0</b>	<b>100.0</b>	<b>2.3</b>	<b>3.9</b>

**Source:** Ethiopian Revenue & Customs Authority and Ethiopian Petroleum Enterprise

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

(In millions of USD)

Commodity Group	2015/16		2016/17	Percentage Change	
	Qtr. I	Qtr. IV	Qtr. I		
	A	B	C	C/A	C/B
Beverages	2.5	0.2	0.3	-88.8	34.3
Chemicals	3.4	14.7	4.5	34.2	-69.3
Clothing	21.5	12.7	15.1	-30.1	18.7
Food and live animals	51.5	170.7	103.0	100.0	-39.7
Textiles	4.9	5.4	4.7	-3.4	-13.1
Tobacco	0.0	0.0	0.1	37.5	19.1
Soap & polish	0.5	0.4	0.2	-56.4	-45.0
Fertilizer	35.5	177.0	13.6	-61.7	-92.3
Paper & paper manufacturing	0.9	0.7	0.7	-19.9	7.1
Metal & metal products	146.0	132.2	119.5	-18.2	-9.6
Medical and pharmaceuticals products	12.4	29.5	26.4	113.0	-10.7
Rubber products	12.3	11.8	12.6	2.8	6.6
Petroleum Crude	0.0	0.0	0.0	-99.3	-95.3
Petroleum product	1.7	1.9	2.3	36.8	22.7
Glass & glassware	3.5	5.4	3.6	4.2	-32.0
Electrical materials	80.2	84.6	151.6	89.1	79.3
Machine, Aircraft & Aircraft Parts	326.5	287.0	267.1	-18.2	-6.9
Road motor vehicles	58.5	70.5	64.4	10.1	-8.6
Tele apparatus	0.3	1.8	329.5	101,695.4	17,786.7
Cement	0.8	0.2	0.0	-96.4	-84.6
Others	262.4	328.2	429.6	63.7	30.9
<b>Total</b>	<b>1,025.3</b>	<b>1,335.0</b>	<b>1,548.8</b>	<b>51.1</b>	<b>16.0</b>

**Source:** Ethiopian Revenues and Customs Authority

### 5.2.3 Direction of Trade

#### 5.2.3.1 Export of Goods

During the first quarter of 2016/17, Asia accounted for 33.1 percent of Ethiopia's exports, of which 20.5 percent was to China, 18.0 percent to Saudi Arabia, 10.1 percent to United Arab Emirates, 9 percent to Japan, 8.7 percent to India, 6.2 percent to Israel, 4.9 percent to Pakistan, 4.3 percent to South Korea, 4.1 percent to Indonesia, 2.0 percent to Taiwan and 1.9 percent to Hong Kong. These countries together accounted for 89.7 percent of Ethiopia's total exports to Asia.

The major commodities exported to China were oilseeds, leather & leather products, coffee, mineral products and natural gum. While Saudi Arabia imported coffee, meat & meat products, live-animals, flowers, fruits and spices. Meat & meat products, flower, pulses, food and coffee were exported to UAE. Similarly, Japan imported coffee, oilseed, flower, bees wax, mineral products and leather & leather products, while India imported mainly pulses, oilseeds, mineral products, chat and leather & leather products. Oilseeds, chat, coffee, cereals and beverages went to Israel. While Pakistan imported pulses, tea, spice and chat. Exports to South Korea included coffee, oilseeds, leather & leather products

and flower. Major exports to Indonesia were pulses, leather & leather products and spices, while Taiwan imported coffee, mineral products and leather & leather products. Exports to Hong Kong were leather & leather products, chat, coffee and mineral products.

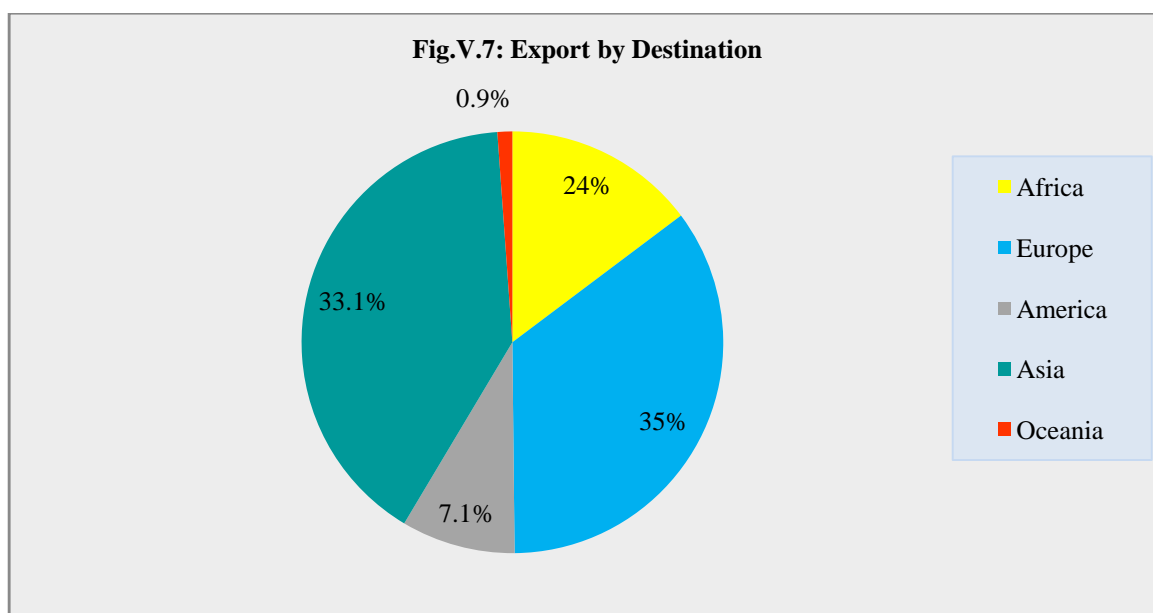
Europe, accounting for 35 percent of Ethiopia's total export earnings. Within Europe, Switzerland accounted for 28.5 percent, the Netherlands 18.7 percent, Germany 14.6 percent, Belgium 7.7 percent, United Kingdom 6 percent, Italy 5.3 percent, France 3.9 percent and Russia 1.7 percent. These countries together imported 86.4 percent of Ethiopia's total exports to Europe.

Main commodities exported to Switzerland were gold, coffee, food and beverages. Likewise, the main export items to the Netherlands were flower, coffee, pulses, oilseeds and fruits. While exports to Germany constituted coffee, flower, oilseeds and pulses. Coffee, flower, oilseeds, and pulses were exported to Belgium. United Kingdom imported mainly coffee, flower, leather & leather products and oilseeds. Coffee, leather & leather products, flower

and oilseeds were the main merchandise goods that went to Italy. France imported largely coffee, pulses, leather & leather products and flower, while coffee, pulses and leather & leather products exported to Russia.

About 24 percent of Ethiopia's export earnings originated from markets in Africa, mainly Somalia (50.4 percent), Djibouti (27.3 percent), Sudan (9.6 percent), Kenya (2.8 percent) and Egypt (2.3 percent), which altogether accounted for 92.4 percent of the total exports to Africa. The major items exported to Somalia were chat, live-animals and vegetables while chat, live animals, electricity and vegetables were the main items to Djibouti. Sudan imported largely coffee, spices, oilseeds, pulses and beverages. Kenya imported pulses, leather & leather products, tea and fruits, while live-animals, pulses, spices, and coffee went to Egypt.

America accounted for 7.1 percent of Ethiopia's total export earnings, of which 75.8 percent went to the United States and 6.1 percent to Canada. Coffee, oilseeds, leather & leather products, flower and food were the major exports to the United States, while Canada imported mainly coffee, leather & leather products, flower, food and chat.



**Source:** NBE Staff Compilation

### 5.2.3.2 Import of Goods

In the review period, Asia accounted for 59.5 percent of Ethiopia's total import. The major imports from Asia originated from China (50.6 percent), India (13.8 percent), Kuwait (7.7 percent), Japan (6.8 percent), U.A.E. (4.0 percent), Indonesia (3.3 percent), Saudi-Arabia (2.74 percent) and Malaysia (2.72 percent) with a combined share of 91.6 percent.

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

Petroleum products were the major import items from Kuwait. Japan exported mainly road motor vehicles, food & live-animals and grain. Imports from United Arab Emirates constituted largely petroleum products, metal & metal products and chemicals. Import from Indonesia included soap & polish, chemicals and paper & paper manufacturing. Machines including aircraft parts, soap & polish, electric materials and chemicals came from Malaysia, and petroleum products, beverages and paper manufacturing from Saudi Arabia.

Imports from Europe accounted for 26.1 percent of Ethiopia's total imports with the major countries being Sweden (32.3 percent), Italy (13.1 percent), Turkey (11.2 percent),

Germany (7.6 percent), Belgium (4.6 percent), France (4.5 percent), Spain (3.8 percent), United Kingdom (3.3 percent) and Rumania (3.1 percent). These countries jointly accounted for 83.4 percent of Ethiopia's total imports from Europe.

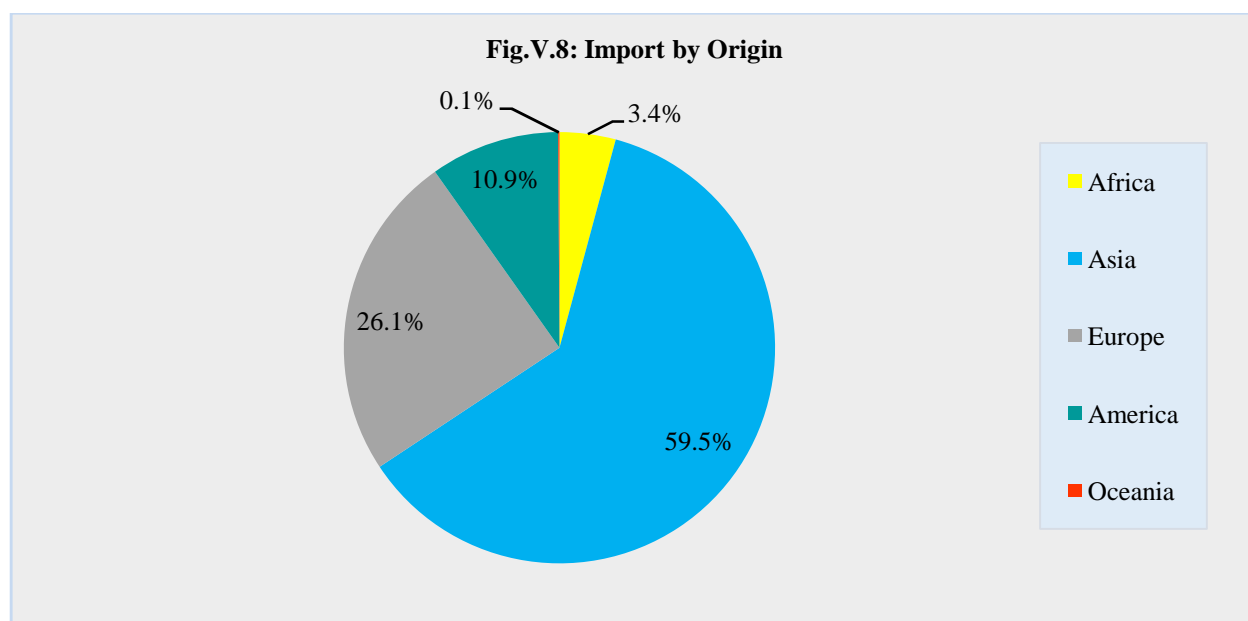
Imports from Sweden included telecom apparatus and electrical materials while metal & metal products, machines including aircraft parts, electrical materials and rubber products were imported from Turkey. Machines including aircraft parts, road motor vehicles and metal & metal products were the major imports from Germany. Imports from Belgium were medical & pharmaceutical products, machines including aircraft parts and road motor vehicles. Imports from France were glass & glass wares, road & motor vehicles and metal & metal products. Major imports from Spain included road motor vehicles, metal & metal products and machines including aircraft parts. Machines including aircraft parts, electric materials, fertilizer and road motor vehicles were imported from United Kingdom. Imports from Rumania consisted of food & live animals and machines including aircraft parts

Imports from America accounted for 10.9 percent of the total import bill of which the

share of United States was 91.8 percent with Canada and Brazil taking up 5.9 percent and 1.5 percent, respectively. Machines including aircraft parts, food & live animals, electrical materials and metal & metal products were the major items imported from United States. Imports of machines including aircraft parts, electrical materials and beverages originated from Canada and machines including aircraft parts, road motor vehicles, rubber products and electrical materials from Brazil.

Africa accounted for about 3.4 percent of Ethiopia's total merchandise import. The major countries of origin were South Africa (33.3 percent), Egypt (33.2 percent), Sudan (21.5 percent) and Kenya (7.6 percent), which altogether accounted for 95.6 percent of the total imports from the region.

Petroleum products, road motor vehicles, machines including aircraft parts and soap & polish were the major imports from South Africa. Soap & polish, petroleum products, food & live animals, metal & metal products and beverages were imported from Egypt. Imports from Sudan constituted petroleum products, food & live animals and soap & polish. Likewise, metal & metal products, machines including aircraft parts, food & live animals and fertilizers came from Kenya.

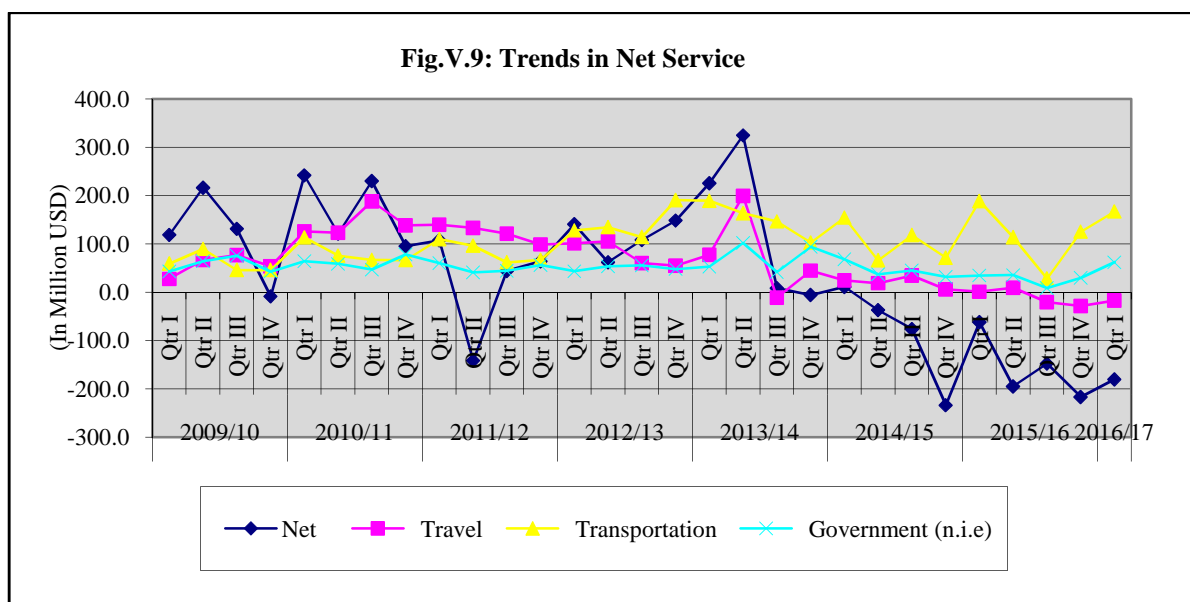


**Source:** NBE Staff Compilation

### 5.3. Services and Transfers

Net payments for services trade stood at USD 182.7 million compared with USD 30.9 million last year same period. The 491.8 percent surge in net service payment was attributed to 210.2 percent

growth in net travel, 35.1 percent increase in other services and 189.0 percent hike in net investment payments while net transport receipts declined by 9.9 percent.



**Source:** NBE Staff Compilation

**Table 5.8: Developments in Services Accounts**

(In Millions of USD)

S/N	Particulars	2015/16		2016/17	Percentage Change	
		QI	QIV	QI		
		A	B	C	C/A	C/B
<b>1</b>	<b>Investment Income (2+5)</b>	<b>-40.9</b>	<b>-57.2</b>	<b>-118.2</b>	<b>189.0</b>	<b>106.7</b>
2	Interest, net (3-4)	-39.3	-53.6	-114.4	191.1	113.4
3	Credit	2.8	3.5	3.6	31.1	3.9
4	Debit	42.1	57.1	118.0	180.6	106.7
5	Dividend, net	-1.6	-3.6	-3.8	138.7	6.0
<b>6</b>	<b>Other Services, net (7-12)</b>	<b>10.0</b>	<b>-159.3</b>	<b>-64.4</b>	<b>-741.2</b>	<b>-59.6</b>
7	Exports of non-factor services	815.6	680.2	860.8	5.5	26.6
8	Travel	94.2	77.6	95.4	1.3	22.9
9	Transport	642.8	523.0	636.5	(1.0)	21.7
10	Gov't	34.6	39.2	76.3	120.5	94.8
11	Other	44.0	40.3	52.6	19.5	30.6
12	Imports of non-factor services	805.5	839.5	925.2	14.9	10.2
13	Travel	99.7	106.2	112.6	12.9	6.1
14	Transport	457.4	397.8	469.5	2.6	18.0
15	Gov't	0.002	9.5	14.4		51
16	Other	248.4	326.1	328.8	32.3	0.8
<b>17</b>	<b>Net Services (18+19+20+21+22)</b>	<b>-30.9</b>	<b>-216.5</b>	<b>-182.7</b>	<b>491.8</b>	<b>-15.6</b>
18	Travel (8 - 13)	-5.6	-28.5	-17.2	210.2	-39.6
19	Transport (9 - 14)	185.4	125.3	167.0	-9.9	33.3
20	Gov't (10 - 15)	34.6	29.7	62.0	79.0	108.7
21	Other (11 - 16)	-204.4	-285.8	-276.2	35.1	-3.4
22	Investment Income (2+5)	-40.9	-57.2	-118.2	189.0	106.7

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

During the review period, total transfer receipts decreased by 23.7 percent and stood at USD 1.3 billion.

This was attributed to 27.1 percent decline in private transfer receipts both from NGOs and private individuals.

Similarly, official transfers showed a 5.9 percent slowdown.

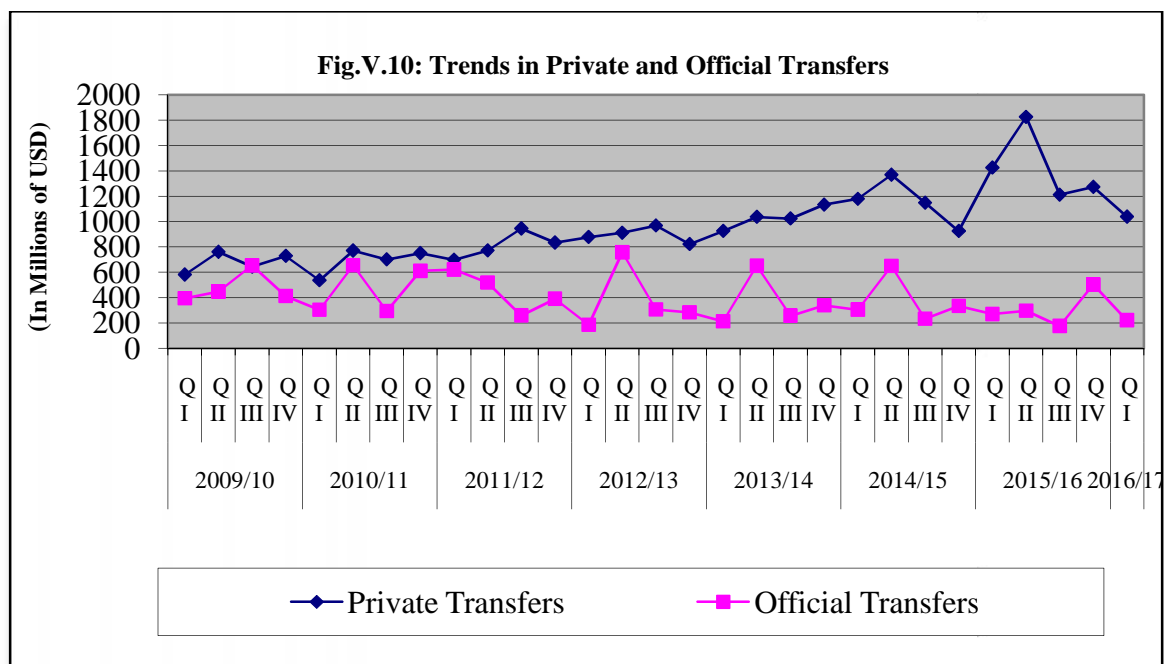
**Table 5.9: Developments in Transfer Accounts**

(In Millions of USD)

(in millions of USD)

S/N	Particulars	2015/16				2016/17		Percentage Change	
		QI	% Share	QIV	% Share	QI	% Share		
		A		B		C		C/A	C/B
1	Private transfers,net (2-5)	1,424.5	84.1	1,271.6	71.7	1,037.6	81.0	-27.2	-18.4
2	Credit (3+4)	1,425.9	84.2	1,283.2	72.4	1,039.9	81.2	-27.1	-19.0
3	NGO's	502.3	29.7	438.7	24.7	289.0	22.6	-42.5	-34.1
4	Private individuals	923.6	54.5	844.5	47.6	750.9	58.6	-18.7	-11.1
5	Debit	1.4	0.1	11.6	0.7	2.3	0.2	65.9	-79.9
6	Official transfers,net (7-8)	269.2	15.9	501.6	28.3	243.1	19.0	-9.7	-51.5
7	Credit	273.6	16.2	515.4	29.1	257.4	20.1	-5.9	-50.1
8	Debit	4.4	0.3	13.9	0.8	14.2	1.1	225.0	2.6
9	Total Receipts	1,699.5	100.3	1,798.7	101.4	1,297.3	101.3	-23.7	-27.9
10	Total Payments	5.8	0.3	25.5	1.4	16.6	1.3	186.2	-35.0
11	Net Transfers	1,693.7	100.0	1,773.2	100.0	1,280.7	100.0	-24.4	-27.8

**Source:** NBE Staff Computation



**Source:** NBE Staff Compilation

#### 5.4. Current Account Balance

The current account balance (including official transfers) registered USD 2.5 billion deficit during the first quarter of 2016/17, compared with USD 1.8 billion deficit a year ago. The widening of trade deficit (3.6 percent) and an increase in net service payments (491.8 percent) coupled with the decline in net private and official transfers by 27.2 and 9.7 percent, respectively, contributed to this effect (Table 5.1).

#### 5.5. Capital Account

In the review period, capital account recorded USD 1.6 billion surplus, 19.2 percent which was higher than that of last

year same period due to 153.3 percent significant increase in net foreign direct investment.

In contrast to remarkable declines in net official long term capital (42.7 percent), other public long term capital (73.5 percent) and private sector short term capital (146.9 percent) (Table 5.1).

#### 5.6. Changes in Reserve Position

Net foreign assets of the National Bank of Ethiopia showed a USD 324.8 million drawdown while that of commercial banks was USD 11.5 million. Thus, gross international reserves as of September 30, 2016 were adequate to cover 2.4 months of import payments (Table 5.1).

## 5.7. Developments in the Foreign Exchange Market

### 5.7.1 Exchange Rate Movements

In the inter-bank forex market, weighted average official exchange rate stood at Birr 21.9262/USD in the first quarter of 2016/17, depicting a 5.9 percent over last year same period.

Similarly, end period exchange rate was Birr 22.0534/USD, with the same depreciation of 5.9 percent.

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

Period		Official Market			
		End Period Weighted Rate	Average Weighted rate	Amount Traded in millions of USD	
				Total	Among CBs
<b>2015/16</b>		<b>21.8004</b>	<b>21.1059</b>	<b>12.7</b>	<b>0.00</b>
<b>Qtr. I</b>	<b>C</b>	<b>20.8178</b>	<b>20.6965</b>	<b>3.15</b>	<b>0.00</b>
July		20.6537	20.6118	1.10	0.00
August		20.7379	20.6978	1.05	0.00
September		20.8178	20.7799	1.00	0.00
<b>Qtr. IV</b>	<b>B</b>	<b>21.8004</b>	<b>21.5713</b>	<b>3.20</b>	<b>0.00</b>
April		21.4884	21.4293	1.00	0.00
May		21.6332	21.5642	1.10	0.00
June		21.8004	21.7205	1.10	0.00
<b>2016/17</b>					
<b>Qtr. I</b>	<b>A</b>	<b>22.0534</b>	<b>21.9262</b>	<b>3.10</b>	<b>0.00</b>
July		21.8746	21.8453	1.00	0.00
August		21.9654	21.9216	1.10	0.00
September		22.0534	22.0116	1.00	0.00
<b>Percentage Changes</b>	<b>A/B</b>	<b>1.16</b>	<b>1.64</b>	<b>-3.13</b>	
	<b>A/C</b>	<b>5.94</b>	<b>5.94</b>	<b>-1.59</b>	

**Source:** National Bank of Ethiopia



In retail foreign exchange market, the average buying rate in the forex bureau of commercial banks was Birr 21.9197/USD, while the selling rate stood at Birr 22.3599/USD, showing 5.9 and 6.0 percent depreciation compared to the same quarter last year, respectively.

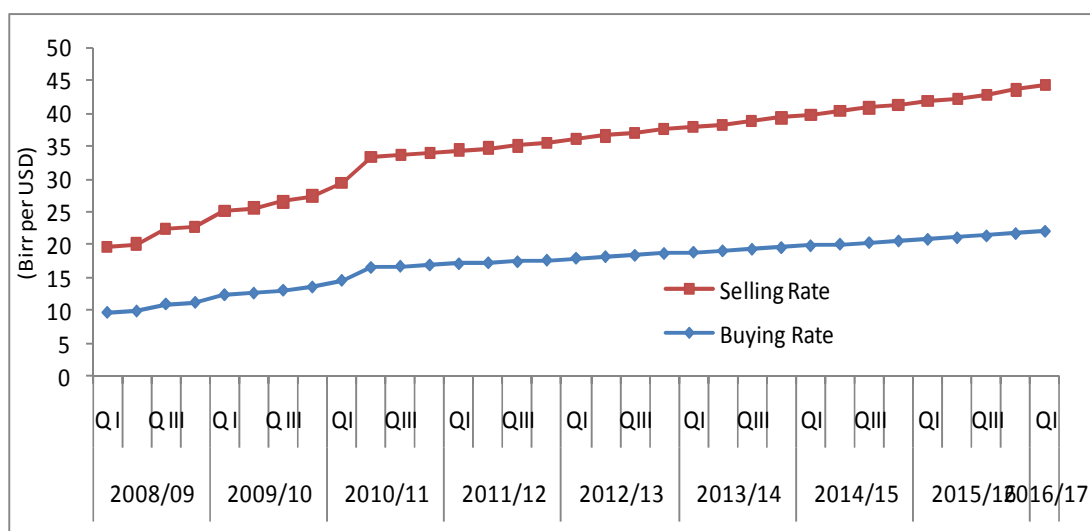
As a result, the average spread between the buying and selling rates slightly widened to 2.01 percent from 1.93 percent a year ago. (Table 5.11)

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

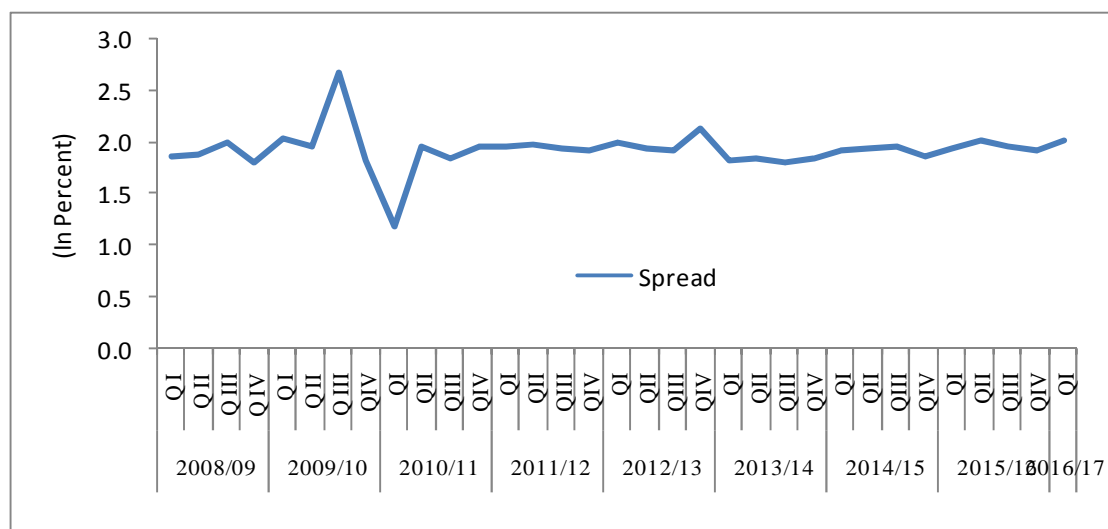
No.	Name of ForexBureaux	2015/16				2016/17		Percentage Change			
		Quarter I A		Quarter IV B		Quarter I C		C/B		C/A	
		Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
1	Commercial Bank of Ethiopia	62,518.9	24,113.4	66,759.1	24,333.6	71,117.5	31,875.1	6.53	30.99	13.75	32.19
2	Bank of Abyssinia	2,662.6	2,752.0	958.9	2,424.8	3,407.3	2,964.5	255.33	22.26	27.97	7.72
3	Dashen Bank	5,066.8	5,217.4	3,114.8	12,864.3	3,854.0	6,953.4	23.73	-45.95	-23.94	33.27
4	Awash International Bank	2,605.5	4,015.3	977.7	2,292.4	1,210.3	2,561.7	23.79	11.75	-53.55	-36.20
5	Construction & Business Bank	994.2	726.0	-	-	-	-	-	-	-	-
6	Wegagen Bank	1,359.7	2,074.8	905.9	1,563.5	1,133.1	1,932.0	25.07	23.57	-16.67	-6.88
7	United Bank	2,527.6	4,526.4	1,591.5	2,709.7	1,415.2	2,533.2	-11.08	-6.51	-44.01	-44.04
8	Development Bank	0.5	84.0	4.2	142.2	-	50.6	-100.00	-64.39	-100.00	-39.75
9	Nib International Bank	393.8	1,227.0	364.0	1,719.4	447.4	1,691.2	22.91	-1.64	13.62	37.83
10	Lion International Bank	1,115.5	1,668.9	2,375.9	1,272.1	7,470.7	1,627.0	214.44	27.90	569.75	-2.51
11	Oromia International Bank	5,257.0	1,715.4	822.3	1,040.1	955.1	1,368.2	16.15	31.54	-81.83	-20.24
12	Zemen Bank	141.3	985.8	205.3	2,110.5	241.7	2,261.5	17.72	7.15	71.05	129.42
13	Cooperative Bank of Oromia	459.1	730.2	49.2	218.9	79.9	194.2	62.39	-11.26	-82.60	-73.40
14	Buna International Bank	55.5	286.0	336.9	467.0	612.0	784.3	81.65	67.92	1003.10	174.24
15	Birhan International Bank	7.0	8.4	90.2	374.7	432.2	594.8	-	58.72	6095.20	-
16	Abay Bank	10.5	264.1	30.8	268.3	373.2	266.1	1112.86	-0.80	3452.05	0.78
17	Addis International Bank	351.0	399.3	86.4	393.9	132.1	347.2	52.77	-11.87	-62.38	-13.07
18	Debub Global Bank	20.5	72.3	123.6	87.1	11.6	78.9	-90.60	-9.40	-43.38	9.07
19	Enat Bank	63.3	52.1	111.2	47.8	50.5	108.9	-54.60	128.05	-20.22	108.89
	<b>Total</b>	<b>85,610.2</b>	<b>50,918.9</b>	<b>78,907.9</b>	<b>54,330.3</b>	<b>92,944.0</b>	<b>58,192.9</b>	<b>17.79</b>	<b>7.11</b>	<b>8.57</b>	<b>14.29</b>
	<b>Average Exchange Rate</b>	<b>20.6938</b>	<b>21.0941</b>	<b>21.5685</b>	<b>21.9831</b>	<b>21.9197</b>	<b>22.3599</b>	<b>1.63</b>	<b>1.71</b>	<b>5.92</b>	<b>6.00</b>
	<b>Exchange Rate Spread (%)<sup>*</sup></b>	<b>1.93</b>		<b>1.92</b>		<b>2.01</b>					

**Source:** National Bank of Ethiopia

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

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

**Source:** NBE Staff Compilation

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

**Source:** NBE Staff Compilation

In the official forex market, the US dollar has appreciated against Pound Sterling (15.2 percent), Swiss Franc (1.2 percent) and SDR (0.1 percent), while it depreciated vis-à-vis Japanese Yen (19.3 percent) and Euro (0.7 percent). This was due to increased demand

for Yen as safe haven currency following Britain's referendum for Brexit and the declined uncertainty in post Brexit and well performing Euro economy beyond the market expectation (Table 5.12).

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

Period		EURO			JAPANESE YEN			SDR			POUNDSTELING			SWISS FRANC		
		Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate
2015/16																
QI	C	1.1122	1.1122	1.1122	0.0082	0.0082	0.0082	1.3971	1.3971	1.3971	1.5509	1.5509	1.5509	1.0374	1.0374	1.0374
July		1.1016	1.1016	1.1016	0.0081	0.0081	0.0081	1.3975	1.3975	1.3975	1.5564	1.5564	1.5564	1.0501	1.0501	1.0501
August		1.1124	1.1125	1.1125	0.0081	0.0081	0.0081	1.4014	1.4014	1.4014	1.5595	1.5595	1.5595	1.0331	1.0331	1.0331
September		1.1226	1.1227	1.1226	0.0083	0.0083	0.0083	1.3923	1.3924	1.3923	1.5367	1.5367	1.5367	1.0290	1.0291	1.0291
QIV	B	1.1294	1.1273	1.1283	0.0092	0.0092	0.0092	1.4048	1.4048	1.4048	1.4365	1.4365	1.4365	1.0302	1.0302	1.0302
April		1.1337	1.1337	1.1337	0.0091	0.0091	0.0091	1.3944	1.3944	1.3944	1.4292	1.4292	1.4292	1.0375	1.0375	1.0375
May		1.1315	1.1316	1.1316	0.0092	0.0092	0.0092	1.4113	1.4113	1.4113	1.4541	1.4541	1.4541	1.0233	1.0233	1.0233
June		1.1229	1.1167	1.1198	0.0094	0.0095	0.0094	1.4088	1.4088	1.4088	1.4264	1.4264	1.4264	1.0299	1.0299	1.0299
2016/17																
QI	A	1.1196	1.1196	1.1196	0.0098	0.0098	0.0098	1.3962	1.3962	1.3962	1.3150	1.3149	1.3149	1.0248	1.0248	1.0248
July		1.1174	1.1174	1.1174	0.0096	0.0096	0.0096	1.3908	1.3908	1.3908	1.3181	1.3181	1.3181	1.0179	1.0179	1.0179
August		1.1212	1.1212	1.1212	0.0099	0.0099	0.0099	1.3992	1.3992	1.3992	1.3115	1.3115	1.3115	1.0310	1.0310	1.0310
September		1.1203	1.1203	1.1203	0.0098	0.0098	0.0098	1.3984	1.3984	1.3984	1.3153	1.3151	1.3152	1.0254	1.0254	1.0254
Percentage Changes	A/B	-0.86	-0.68	-0.77	5.55	5.54	5.54	-0.62	-0.62	-0.62	-8.46	-8.47	-8.47	-0.53	-0.53	-0.53
	A/C	0.67	0.67	0.67	19.27	19.27	19.27	-0.07	-0.07	-0.07	-15.21	-15.22	-15.21	-1.22	-1.22	-1.22

**Source:** National Bank of Ethiopia

Similarly, on annual basis, Birr depreciated against Japanese Yen (26.4 percent), Euro (6.7 percent), USD (5.94 percent), SDR (5.88 percent) and Swiss Franc (4.7 percent), while it appreciated vis-à-vis Pound Sterling associated with the prospect of British departure from EU (Table5.13).

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

Period		Currency																	
		USD			EURO			JAPANESE YEN			SDR			POUNDSTERLING			SWISS FRANC		
		Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate	Buying	Selling	Mid-Rate
2015/16																			
QI	C	20.6965	20.9033	20.7999	23.0195	23.2500	23.1348	0.1693	0.1710	0.1701	28.9143	29.2035	29.0589	32.0973	32.4182	32.2578	21.4702	21.6849	21.5776
July		20.6118	20.8179	20.7149	22.7051	22.9322	22.8186	0.1672	0.1689	0.1680	28.8042	29.0923	28.9482	32.0805	32.4013	32.2409	21.6444	21.8608	21.7526
August		20.6978	20.9048	20.8013	23.0253	23.2564	23.1408	0.1679	0.1696	0.1687	29.0065	29.2967	29.1516	32.2790	32.6018	32.4404	21.3829	21.5967	21.4898
September		20.7799	20.9872	20.8835	23.3282	23.5615	23.4449	0.1728	0.1745	0.1737	28.9321	29.2214	29.0768	31.9323	32.2517	32.0920	21.3834	21.5972	21.4903
QIV	B	21.5713	21.7870	21.6792	24.3611	24.5594	24.4603	0.1994	0.2014	0.2004	30.3047	30.6078	30.4562	30.9876	31.2975	31.1425	22.2232	22.4455	22.3344
April		21.4293	21.6436	21.5364	24.2937	24.5367	24.4152	0.1949	0.1969	0.1959	29.8807	30.1795	30.0301	30.6264	30.9327	30.7796	22.2317	22.4540	22.3428
May		21.5642	21.7798	21.6720	24.4003	24.6447	24.5225	0.1980	0.2000	0.1990	30.4329	30.7372	30.5851	31.3559	31.6694	31.5127	22.0669	22.2875	22.1772
June		21.7205	21.9377	21.8291	24.3893	24.4968	24.4431	0.2053	0.2073	0.2063	30.6005	30.9066	30.7535	30.9805	31.2903	31.1354	22.3712	22.5949	22.4831
2016/17																			
QI	A	21.9262	22.1454	22.0358	24.5500	24.7955	24.6727	0.2139	0.2160	0.2150	30.6131	30.9192	30.7662	28.8320	29.1186	28.9753	22.4687	22.6934	22.5810
July		21.8453	22.0638	21.9546	24.4103	24.6544	24.5323	0.2095	0.2116	0.2106	30.3821	30.6859	30.5340	28.7945	29.0824	28.9384	22.2362	22.4586	22.3474
August		21.9216	22.1408	22.0312	24.5782	24.8240	24.7011	0.2166	0.2188	0.2177	30.6736	30.9804	30.8270	28.7494	29.0369	28.8931	22.6017	22.8277	22.7147
September		22.0116	22.2317	22.1217	24.6614	24.9080	24.7847	0.2156	0.2177	0.2167	30.7836	31.0914	30.9375	28.9521	29.2367	29.0944	22.5682	22.7938	22.6810
Percentage Change	A/B	1.65	1.65	1.65	0.78	0.96	0.87	7.28	7.27	7.27	1.02	1.02	1.02	-6.96	-6.96	-6.96	1.10	1.10	1.10
	A/C	5.94	5.94	5.94	6.65	6.65	6.65	26.36	26.36	26.36	5.88	5.88	5.88	-10.17	-10.18	-10.18	4.65	4.65	4.65

**Source:** NBE Staff Compilation

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

Currency	September 30, 2015	June 30, 2016	September 30, 2016	Percentage change	
	C	B	A	A/B	A/C
USD	20.9219	21.9094	22.1637	1.16	5.94
Pound	31.7030	29.4309	28.8106	-2.11	-9.12
Swedish Kroner	2.4818	2.5751	2.5809	0.23	4.00
Djibouti Frank	0.1174	0.1229	0.1244	1.18	5.92
Swiss Frank	21.4738	22.3429	22.8162	2.12	6.25
Saudi Riyal	5.5767	5.8416	5.8986	0.98	5.77
UAE Dirham	5.6952	5.9650	6.0336	1.15	5.94
Canadian Dollar	15.6286	16.8612	16.9253	0.38	8.30
Japanese Yen	0.1744	0.2135	0.2177	1.97	24.86
Euro	23.4451	24.2822	24.8322	2.26	5.92
SDR	29.3911	30.5724	30.9915	1.37	5.45

**Source:** NBE Staff Compilation

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

In the first quarter of 2016/17, the REERI depreciated by 1.2 percent year-on-year reversing from the last two years' appreciation trend. This was mainly owing to relatively declining domestic inflation and the depreciation of Birr rate against major trading partner currencies.

Similarly, NEER depreciated by 4.2 percent during the same period (Table 5.15).

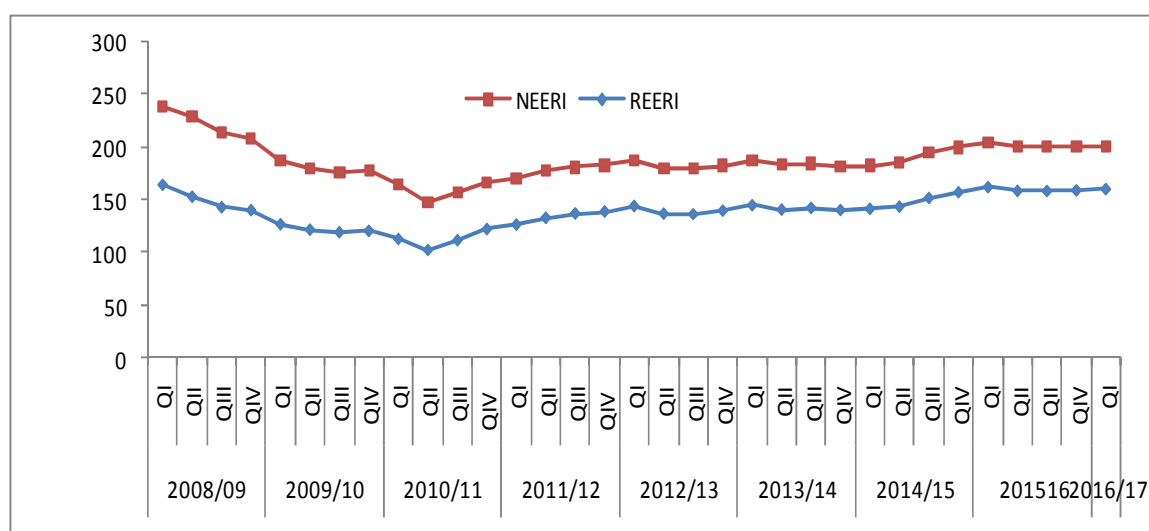
**Table 5.15: Trends in the Real and Nominal Effective Exchange Rates**

Item	2015/16		2016/17	Percentage Change	
	QI	QIV	QI		
	A	B	C	C/B	C/A
REERI	162.4	159.3	160.5	0.75	-1.15
NEERI	42.4	41.2	40.6	-1.42	-4.21

**Source:** NBE Staff Compilation

**NB:**

- REERI = Real Effective Exchange Rate Index, NEERI = Nominal Effective Exchange Rate Index
- A decrease in the REERI and NEERI implies depreciation and vice versa.

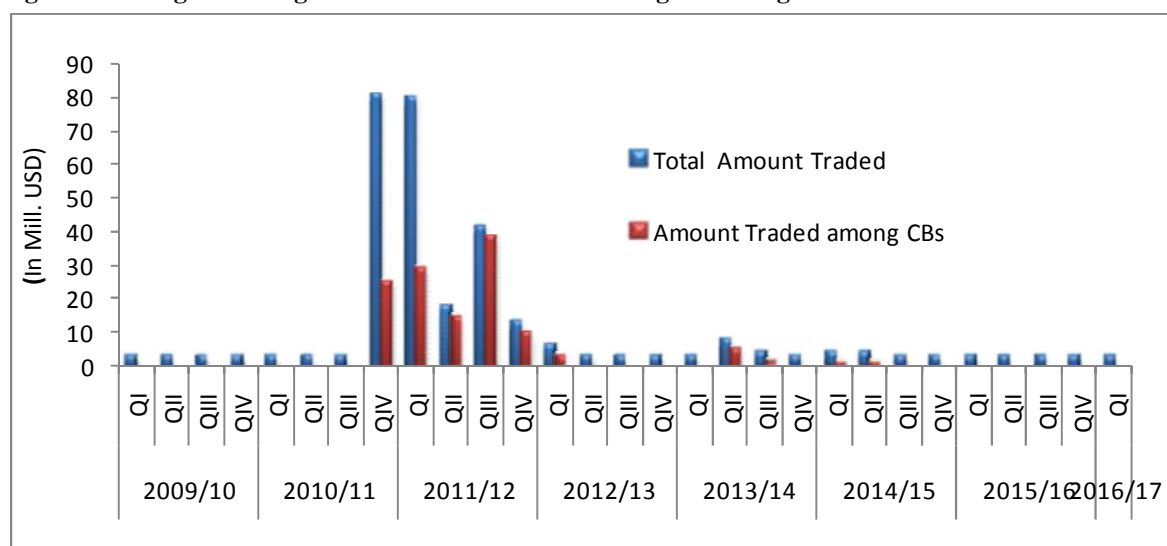
**Fig.V.14: Movements in the Real and Nominal Effective Exchange Rate**

**Source:** NBE Staff Compilation

### 5.7.3 Volume of Transactions

Total foreign exchange traded in the inter-bank foreign exchange market during the first quarter of 2016/17 was USD 3.1

million, which was 1.6 percent lower than that of last year same period and it was solely supplied by NBE (Table 5:10).

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

**Source:** NBE Staff Compilation

In the same period, forex bureau of commercial banks purchased USD 92.9 million and sold USD 58.2 million in foreign exchange. The amount of

forexpurchased and sold in the review quarter was 8.6 and 14.3 percent higher than that of a year earlier (Table 5.11).

## **VI. Federal Government Fiscal Operations**

During the first quarter of 2016/17, Federal Government total revenue and grants at Birr 45.5 billion depicted a 17.3 percent growth, while its total expenditure amounting to Birr 49.9 billion was 24.4 last year.

percent higher than

Hence, overall fiscal balance (including grants) recorded an overall deficit of Birr 4.5 billion compared to Birr 1.4 billion deficit a year ago.

**6.1: Summary of Quarterly Federal Government Finance**

[in millions of Birr]

No	Finer points	2015/16		2016/17		Percentage changes		performance rate
		A	B	C	D	D/A	D/B	D/C
		QI	QIV	Budget	QI			
1	<b>Revenue and Grants</b>	<b>38,741.8</b>	<b>50,113.9</b>	<b>194,229.6</b>	<b>45,455.9</b>	<b>17.3</b>	<b>(9.3)</b>	<b>23.4</b>
1.1	<b>Total Revenue</b>	<b>38,741.8</b>	<b>50,113.9</b>	<b>192,108.7</b>	<b>45,455.9</b>	<b>17.3</b>	<b>(9.3)</b>	<b>23.7</b>
	Tax Revenue	34,096.9	37,654.2	170,667.4	39,154.6	14.8	4.0	22.9
	Direct tax	9,592.1	9,395.2	49,307.6	11,521.7	20.1	22.6	23.4
	Indirect tax	24,504.9	28,259.0	121,359.8	27,632.9	12.8	(2.2)	22.8
	Non-Tax Revenue	4,644.9	12,459.7	21,441.3	6,301.3	35.7	(49.4)	29.4
1.2	Grant & Relief	-		2,120.9	-			-
2	Current Expenditure	9,387.0	15,178.8	64,671.2	13,955.5	48.7	(8.1)	21.6
3	Current Surplus/Deficit				-			
	(Including Grants)	29,354.7	34,935.2	129,558.4	31,500.4	7.3	(9.8)	24.3
	(Excluding Grants)	29,354.7	34,935.2	127,437.5	31,500.4	7.3	(9.8)	24.7
4	Capital Expenditure	14,509.1	37,307.8	92,214.1	15,094.8	4.0	(59.5)	16.4
5	Regional Transfers	16,286.5	22,144.4	99,420.1	20,927.6	28.5	(5.5)	21.0
6	<b>Total Expenditure (2+4+5)</b>	<b>40,182.6</b>	<b>74,630.9</b>	<b>256,305.4</b>	<b>49,977.9</b>	<b>24.4</b>	<b>(33.0)</b>	<b>19.5</b>
7	Overall Surplus/Deficit				-			
	(Including Grants)	(1,440.8)	(24,517.0)	(62,075.8)	(4,522.0)	213.8	(81.6)	7.3
	(Excluding Grants)	(1,440.8)	(24,517.0)	(64,196.7)	(4,522.0)	213.8	(81.6)	7.0
8	<b>Total Financing</b>	<b>1,440.8</b>	<b>24,517.0</b>	<b>62,075.8</b>	<b>4,522.0</b>	<b>213.8</b>	<b>(81.6)</b>	<b>7.3</b>
8.1	<b>Net External Borrowings</b>	<b>4,575.7</b>	<b>18,644.6</b>	<b>21,455.6</b>	<b>3,057.6</b>	<b>(33.2)</b>	<b>(83.6)</b>	<b>14.3</b>
	External Borrowing	4,615.3	15,611.7	18,148.6	3,665.5	(20.6)	(76.5)	20.2
	Amortization	432.3	671.4	3,276.0	607.9	40.6	(9.5)	18.6
8.2	<b>Net Domestic Borrowings</b>	<b>8,652.1</b>	<b>10,958.7</b>	<b>34,620.2</b>	<b>17,829.6</b>	<b>106.1</b>	<b>62.7</b>	<b>51.5</b>
	Banking System	5,776.1	7,670.7	-	15,048.6	160.5	96.2	
	Non-Bank Sources	2,876.0	3,288.0	-	2,781.0	(3.3)	(15.4)	
8.3	<b>Privatization receipts</b>	<b>-</b>	<b>500.0</b>	<b>6,000.0</b>	<b>-</b>			
8.4	<b>Others and Residuals</b>	<b>(11,787.0)</b>	<b>(5,586.3)</b>	<b>0.0</b>	<b>(16,365.2)</b>	<b>38.8</b>	<b>193.0</b>	

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

## 6.1 Revenue and Grants

As there were no grants and relief during the review quarter, all of the Birr 45.5 billion revenue was mobilized from domestic sources; which was 17.3 percent higher than

last year.

About 86.1 percent of the domestic revenue was from taxes and 13.9 percent from non-taxes.

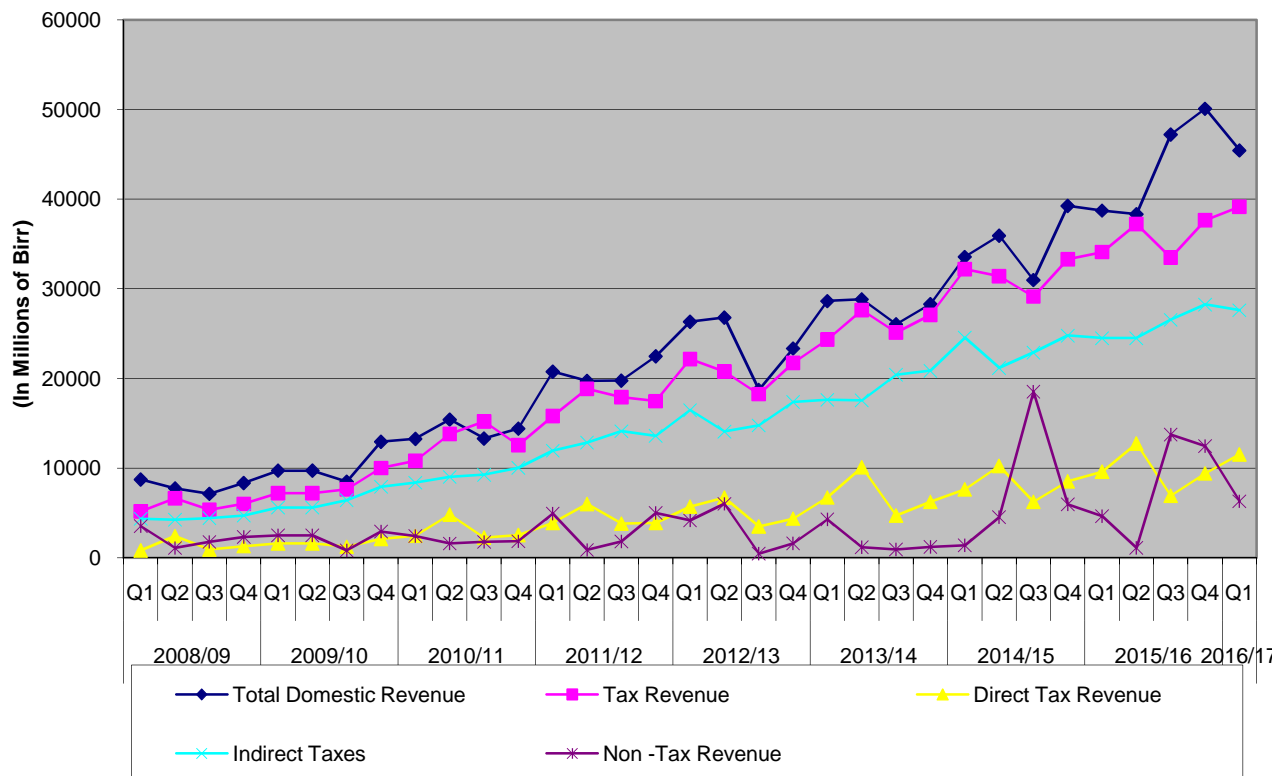
**Table 6.2: Summary of Federal Government Revenue by component** (In Millions of Birr)

No	Particulars	2015/16		2016/17		Percentage Change		Performance Rate
		QI	QIV	Budget	QI			
		A	B	C	D	D/A	D/B	D/C
	<b>Total Revenue and Grants</b>	<b>38,741.8</b>	<b>50,113.9</b>	<b>194,229.6</b>	<b>45,455.9</b>	<b>17.3</b>	<b>(9.3)</b>	<b>23.4</b>
	<b>Total Domestic Revenue</b>	<b>38,741.8</b>	<b>50,113.9</b>	<b>192,108.7</b>	<b>45,455.9</b>	<b>17.3</b>	<b>(9.3)</b>	<b>23.7</b>
1	<b>Tax Revenue</b>	<b>34,096.9</b>	<b>37,654.2</b>	<b>170,667.4</b>	<b>39,154.6</b>	<b>14.8</b>	<b>4.0</b>	<b>22.9</b>
1.1	Direct Tax Revenue	9,592.1	9,395.2	49,307.6	11,521.7	20.1	22.6	23.4
1.1.1	Income Taxes	8,507.0	7,983.2	43,264.5	10,253.1	20.5	28.4	23.7
	- Personal	1,339.6	1,665.6	5,783.7	1,490.5	11.3	(10.5)	25.8
	- Business	7,167.4	6,317.6	37,480.8	8,762.6	22.3	38.7	23.4
1.1.2	Others <sup>1</sup>	1,085.1	1,412.0	6,043.0	1,268.6	16.9	(10.2)	21.0
1.2	Indirect Taxes	24,504.9	28,259.0	121,359.8	27,632.9	12.8	(2.2)	22.8
1.2.1	Domestic Taxes	8,881.6	13,019.3	49,678.4	9,963.2	12.2	(23.5)	20.1
1.2.2	Foreign Trade Taxes	15,623.3	15,239.7	71,681.4	17,669.7	13.1	15.9	24.7
	- Import	15,623.3	15,239.7	71,681.4	17,669.7	13.1	15.9	24.7
2	<b>Non-Tax Revenue</b>	<b>4,644.9</b>	<b>12,459.7</b>	<b>21,441.3</b>	<b>6,301.3</b>	<b>35.7</b>	<b>(49.4)</b>	<b>29.4</b>
3	<b>Privatization</b>		<b>500.0</b>	<b>6,000.0</b>	<b>-</b>			
4	<b>Grants and Relief</b>			<b>2,120.9</b>	<b>-</b>			

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

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

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



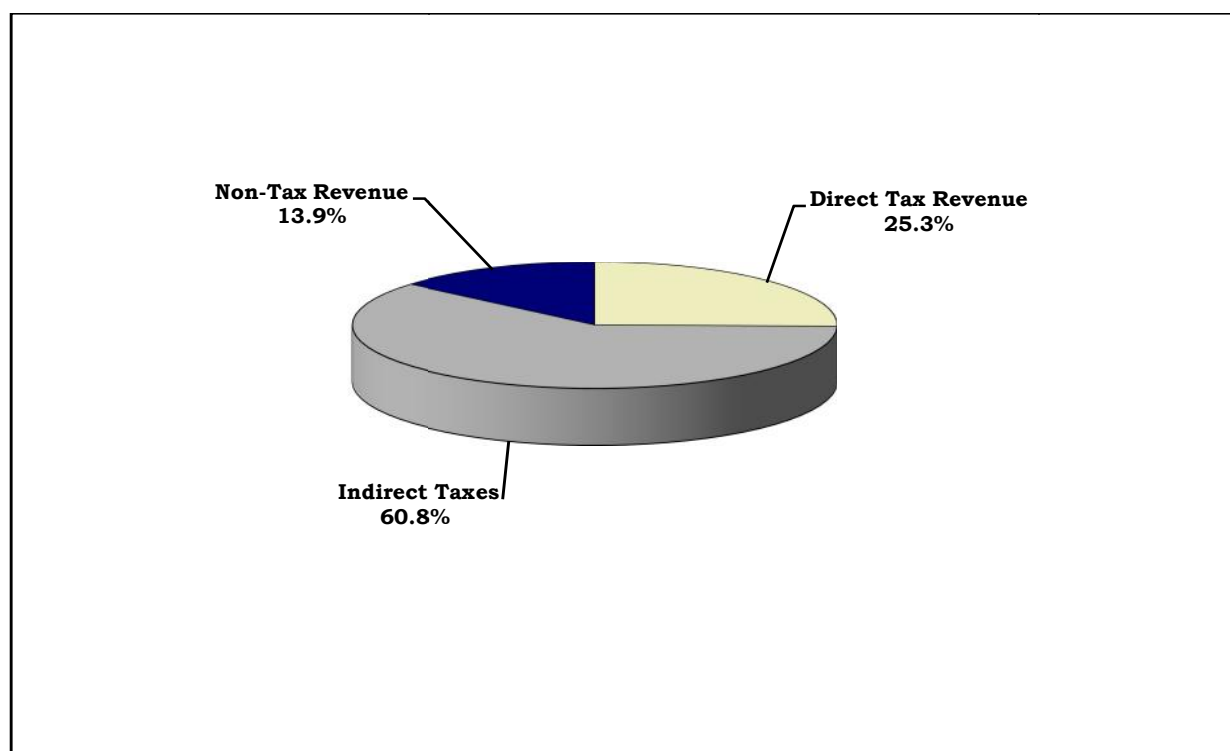
Tax revenue amounted to Birr 39.1 billion and it showed a 14.8 percent annual growth.

Indirect tax revenue mainly originated from foreign trade taxes accounted for Birr 27.6 billion or 70.5 percent of total tax revenue of the quarter and increased by 12.8 percent

over last year same period.

On the other hand, direct tax revenue, which comprises personal and business income tax, rose to Birr 11.5 billion and exhibited 20.1 percent yearly increase.

**Fig.VI.2: Domestic Revenue by Major Components during the First Quarter of 2016/17**



## 6.2 Expenditure

Total Federal Government expenditures, including regional transfers, stood at Birr 49.9 billion which was 24.4 percent higher than a year ago. Of the total expenditure, Birr 13.9 billion or about 27.9 percent went to current expenditures and Birr 15.1 billion (30.2 percent) to capital expenditure. While Birr 20.9 billion or 41.9 percent was allocated for regional transfers. Year-on-

year, current expenditure increased by 48.7 percent due to higher spending on social and general services. Similarly, capital expenditure rose by 4 percent as a result of increased social and general development expenditures by 54.1 and 25.1 percent, respectively. Regional transfers also showed a 28.5 percent growth.

**Tale 6.3: Summary of Federal Government Expenditure by components**

(In millions of Birr)

No	Particulars	2015/16		2016/17		Percentage Change		Performance Rate
		QI	QIV	Budget	QI			
		A	B	C	D	D/A	D/B	D/C
	<b>Total Expenditure</b>	<b>40,182.6</b>	<b>74,630.9</b>	<b>256,305.4</b>	<b>49,977.9</b>	<b>24.4</b>	<b>(33.0)</b>	<b>19.5</b>
1	<b>Current Expenditure</b>	<b>9,387.0</b>	<b>15,178.8</b>	<b>64,671.2</b>	<b>13,955.5</b>	<b>48.7</b>	<b>(8.1)</b>	<b>21.6</b>
	-General Services	3,723.6	4,870.3	20,202.1	5,187.9	39.3	6.5	25.7
	- Economic Services	1,071.9	903.9	3,595.2	574.1	(46.4)	(36.5)	16.0
	- Social Services	2,896.5	7,135.8	19,020.5	6,411.8	121.4	(10.1)	33.7
	- Debt Service	1,695.1	2,268.9	21,853.4	1,781.7	5.1	(21.5)	8.2
2	<b>Capital Expenditure</b>	<b>14,509.1</b>	<b>37,307.8</b>	<b>92,214.1</b>	<b>15,094.8</b>	<b>4.0</b>	<b>(59.5)</b>	<b>16.4</b>
	- Economic Development	10,701.2	26,820.9	64,118.1	9,370.7	(12.4)	(65.1)	14.6
	- Social Development	3,317.9	9,637.4	24,155.2	5,111.3	54.1	(47.0)	21.2
	- General Development	489.9	849.5	3,940.7	612.9	25.1	(27.8)	15.6
3	<b>Regional Transfers</b>	<b>16,286.5</b>	<b>22,144.4</b>	<b>99,420.1</b>	<b>20,927.6</b>	<b>28.5</b>	<b>(5.5)</b>	<b>21.0</b>

Source: Ministry of Finance and Economic Development

**Fig.VI.3: Major Components of Federal Government Expenditure during the First Quarter of 2016/17**

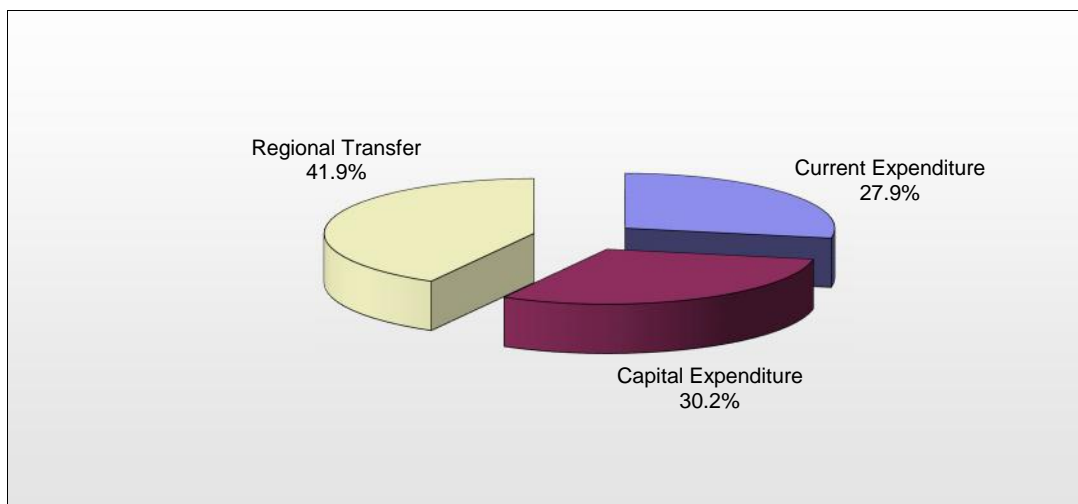
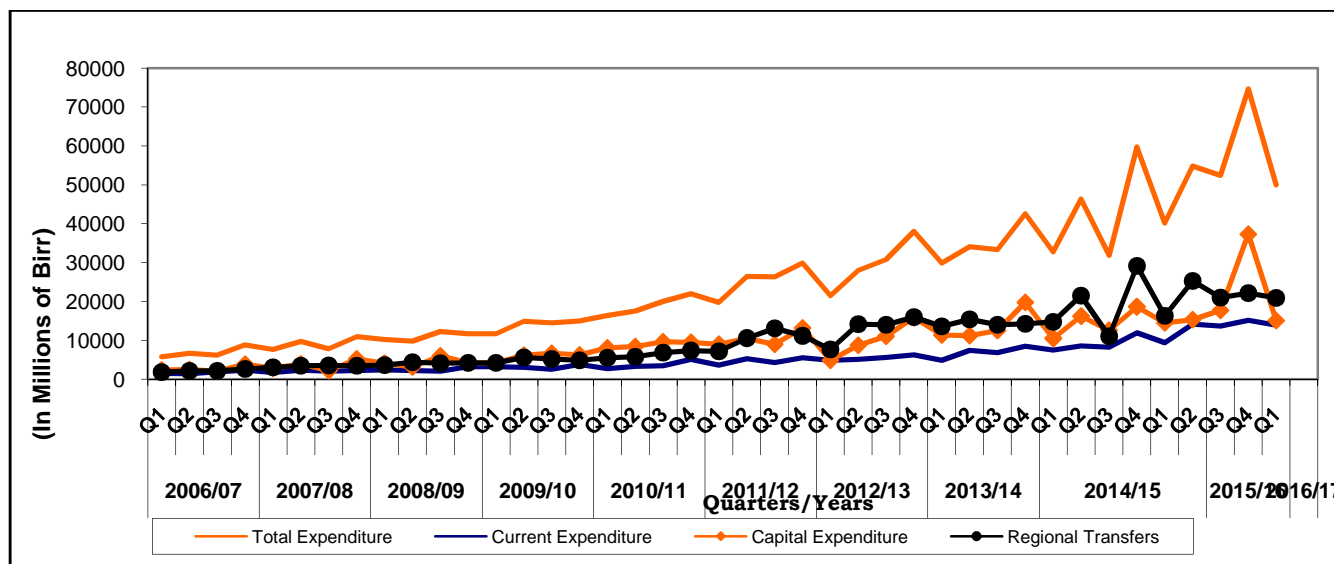


Fig.VI.4:Quarterly Development in Federal Government Expenditure by Components

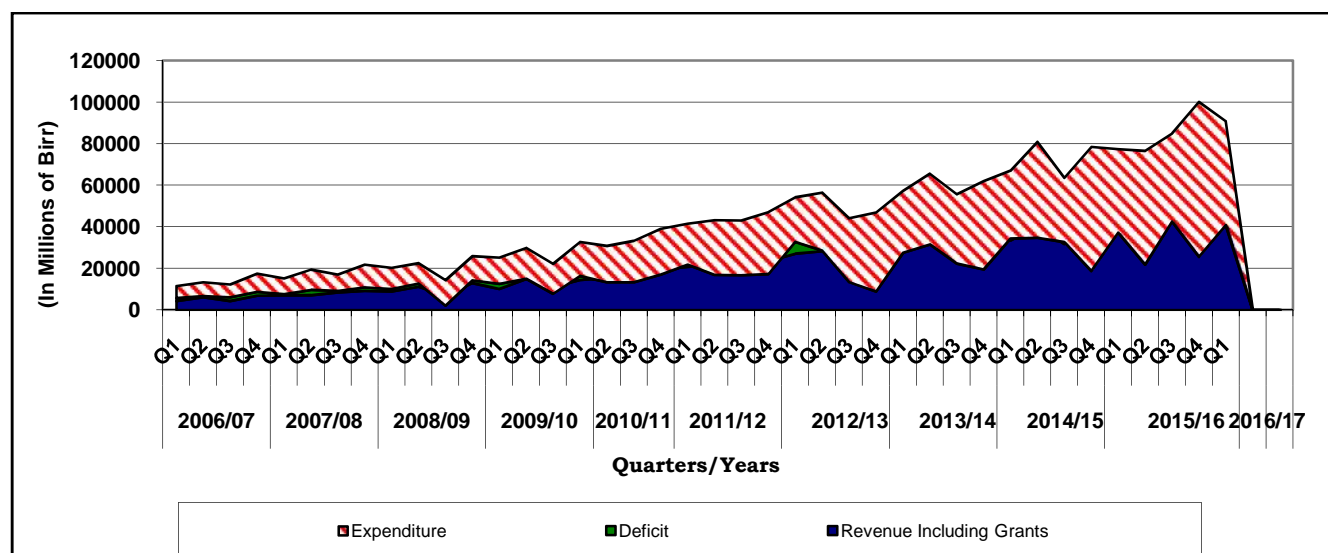


### **6.3 Deficit Financing**

Budgetary operations of Federal Government during the review period resulted in the overall deficit (including grant) of Birr 4.5 billion, compared to Birr 1.4 billion deficit last year same quarter.

The deficit was financed from net external borrowing and net domestic borrowing.

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



## VII. Developments in Investment

During the review period, 104 investment projects with investment capital of Birr 1,753 million became operational. Though, the number of investment projects declined by 41.9 percent, investment capital grew by 188 percent over the previous year same period.

All the investment projects were private, of which 89.4 percent were domestic and 10.6 percent foreign. Domestic investment

projects had investment capital of Birr 1,676.6 million (96 percent) while foreign investment comprised Birr 76.1 million (4 percent).

These investment projects have generated employment opportunities for 4,336 employees of which 46 percent were permanent and 54 percent casual (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	
		QIV	QIII	QIV			
		A	B	C	Share	C/A	C/B
1.Total Investment	Number of projects	179	16	104	100	-41.9	550.0
	Capital	608.5	77.2	1,753	100	188.0	2,169.0
	Permanent Employment	2,248	118	2,000	100	-11.0	1,594.9
	Temporary Employment	5,417	66	2,336	100	-56.9	3,439.4
2. Private Investment	Number of projects	179	16	104	100	-41.9	550.0
	Capital	608.5	77.2	1,753	100	188.0	2,169.0
	Permanent Employment	2,248	118	2,000	100	-11.0	1,594.9
	Temporary Employment	5,417	66	2,336	100	-56.9	3,439.4
2.1 Domestic Investment	Number of projects	174	14	93	89.4	-46.6	564.3
	Capital	594.9	70.9	1,676.6	96	181.8	2,263.1
	Permanent Employment	2,135	106	1,665	83	-22.0	1,470.8
	Temporary Employment	5,327.0	64	2,240	96	-58.0	3,400.0
2.2. Foreign Investment	Number of projects	5	2	11	10.6	120.0	450.0
	Capital	13.7	6.3	76.1	4	457.3	1,108.2
	Permanent Employment	113	12	335	17	196.5	2,691.7
	Temporary Employment	90	2	96	4	6.7	4,700.0
3. Public Investment	Number of projects						
	Capital						
	Permanent Employment						
	Temporary Employment						

**Source:** Ethiopian Investment Commission.

As for sectoral distribution, construction had the lion's share accounting for 41.3 percent of total investment projects. The share of manufacturing was 26.9 percent followed by real estate, renting & business activities (21.2

percent) with other sectors taking up the remaining 10.6 percent share. Out of the total Birr 1,753 million capital invested, manufacturing sector has received 76 percent followed by

construction (15.7 percent) and real estate, renting & business activities (6.7 percent) and other sectors 1.6 percent.

With regard to job opportunity, half of the permanent employment was created by manufacturing followed by construction (29.6 percent) and real estate, renting & business activities (11.4 percent).

Similarly, construction was the leading sector by employing 66.3 percent of temporary labor force. Manufacturing and real estate, renting & business activities accounted for 22 and 5.4 percent of the temporary employment, respectively. Agriculture was the least sector, accounting for 0.7 and 0.4 percent of permanent and temporary employment, respectively (Table 7.2)

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

Sectors	No. of Proj.	Share (%)	Capital(in Million Birr)	Share (%)	Perm. Emp.	Share (%)	Temp. Emp.	Share (%)
Agriculture, hunting and forestry	2	1.9	8.50	0.5	14	0.7	10	0.4
Construction	43	41.3	274.47	15.7	591	29.6	1,549	66.3
Education	3	2.9	7.12	0.4	49	2.5	13	0.6
Electricity, gas, steam and water supply								
Health and social work								
Hotels and restaurants	1	1.0	1.10	0.1	50	2.5	50	2.1
Manufacturing	28	26.9	1,332.50	76.0	1,007	50.4	513	22.0
Mining and quarrying	3	2.9	9.49	0.5	48	2.4	63	2.7
Other community, social and personal service activities								
Real estate, renting and business activities	22	21.2	117.01	6.7	227	11.4	126	5.4
Tour operation, transport, and communication	2	1.9	2.55	0.1	14	0.7	12	0.5
Wholesale, retail trade & repair service								
<b>Grand Total</b>	<b>104</b>	<b>100</b>	<b>1,753</b>	<b>100</b>	<b>2,000</b>	<b>100</b>	<b>2,336</b>	<b>100</b>

**Source:** Ethiopian Investment Commission

As for regional distribution, about 84.6 percent of the total projects with 95.7 percent of total investment capital were in Addis Ababa, and 6.7 percent of the projects having 0.8 percent total capital went to Amhara. Tigray had 4.8 percent of the projects with one percent capital. SNNPR was the least performer by attracting only one investor with an investment capital of Birr 2.2 million.

In line with the share of projects and capital, Addis Ababa was the best performer in both permanent and temporary employment creation constituting 83.4 and 92.3 percent, respectively. Similarly, 9.8 percent of permanent and 1.9 percent of temporary employment were created in Oromia while that of Tigray was 3.3 and 3.2 percent, respectively (Table 7.3).

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

Capital (In Millions of Birr)

	2014/15				2015/16											
Region	QIV				QIII				QIV				Share In (%)			
	No of Project	Capital	Permanent Emp.	Temporary Emp.	No of Project	Capital	Perm. emp	Temp emp	No of Project	Capital	Perm emp	Temp emp	No of Proj.	Capital	Perm emp	Temp emp
Addis Ababa	4	6.1	73	90	2	6.3	12	2	88	1676.6	1667	2155	84.6	95.7	83.4	92.3
Afar	6	23.5	46	177									0.0	0.0	0.0	0.0
Amhara									7	13.6	63	63	6.7	0.8	3.2	2.7
B.Gumuz													0.0	0.0	0.0	0.0
Dire Dawa					9	48.0	71	40					0.0	0.0	0.0	0.0
Oromia	129	500.1	1922	1484					3	42.5	195	44	2.9	2.4	9.8	1.9
SNNPR					1	3.0	8	2	1	2.2	10		1.0	0.1	0.5	0.0
Gambella													0.0	0.0	0.0	0.0
Somali													0.0	0.0	0.0	0.0
Harari	1	1.8	15	6									0.0	0.0	0.0	0.0
Tigray	39	77.1	192	3660	4	19.9	27	22	5	17.8	65	74	4.8	1.0	3.3	3.2
Multi-regional													0.0	0.0	0.0	0.0
Grand Total	179	608.5	2248	5417	16	77.2	118	66	104	1752.7	2000	2336	100	100	100	100

**Source:** Ethiopian Investment Commission

## VIII. International Economic Developments

### 8.1 Overview of the World Economy<sup>7</sup>

Despite a modest recovery in some emerging market economies (EMEs), the global recovery remains gradual. The global composite output Purchasing Managers' Index (PMI) increased marginally further in September 2016, with a slight decline in manufacturing output being offset by a pick-up in services. In quarterly terms, the global output PMI rose to 51.5 in the first quarter, up from 51.3 in the previous quarter. Mixed developments were observed in advanced economies, with the index rising in the United States and Japan in the first quarter, but declining in the United Kingdom.

In United States, indicators suggest that GDP growth in the first quarter following the soft patch at the start of 2016. US real GDP grew at an annualized rate of 1.4% in the fourth quarter of 2015/16. However, surveys and hard data suggest that the pace of expansion increased in the first quarter of 2016/17. Consumer spending is expected to remain the primary driver of growth, supported by continued improvements in labor market conditions. The non-farm payroll employment average monthly

increase was 192,000 in the three months to September.

In Japan, economic growth remains modest. Following some weakness in July, exports and production picked up in August. New construction orders in July also signaled some improvement in the housing market. Meanwhile, household surveys point to some deterioration in private consumption, despite the ongoing improvements in the labor market. The unemployment rate fell to 3% in July, while nominal cash earnings rose by 1.2% in year-on-year terms.

In the United Kingdom, economic growth remains robust. Following strong declines in the immediate aftermath of the UK referendum on EU membership, many short-term indicators rebounded in August and September. However, uncertainty surrounding the negotiations to leave the European Union is expected to dampen domestic demand, particularly investment.

In China, the economy is continuing to expand at a robust pace. Stable GDP growth of 6.7% year on year is confirmed in the first quarter, mainly driven by consumption, while the contribution of gross fixed capital

<sup>7</sup>Sections 8.1 – 8.4 are excerpted from European Central Bank monthly bulletin of 7/2016.

formation decreased slightly compared with the fourth quarter of 2015/16 fiscal year, in line with a slow rebalancing of the economy. Net exports remained a small drag on growth. House prices in larger cities have been rising sharply, at rates of around 30% year on year. As a result, some local

## 8.2. Inflation Developments

Low energy price inflation continues to weigh on headline global inflation. Annual CPI inflation in OECD countries picked up slightly to stand at 0.9% in August. Meanwhile, CPI excluding food and energy was unchanged at 1.8%. Energy prices continued falling in August, but at a slower pace than in the previous month, declining by 6.7% year on year, while food prices decreased marginally. While the base effects of past declines in commodity prices are expected to contribute to an increase in headline inflation in the months ahead, the presence of ample spare capacity will continue to weigh on global inflation over the medium term.

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

authorities have started to impose restrictions on purchases.

Growth prospects for EMEs have improved relative to the second half of 2015/16 fiscal year, with surveys indicating that economic activity may have turned the corner.

while CPI excluding food and energy fell to 2.2%. In Japan Annual headline CPI inflation moved further into negative territory in August, standing at -0.5%. CPI excluding fresh food and energy– the Bank of Japan’s preferred measure of core inflation–also declined, standing at 0.4%. In U.K. Annual CPI inflation accelerated to 1.0% in September and is expected to increase further on the back of the recent depreciation of the pound sterling. In China Inflation picked up in September, with annual CPI inflation rising to 1.9%, while annual producer price inflation, which has been in negative territory since March 2012, rose to 0.1%.

### 8.3 Commodity price

The price of Brent crude oil has risen sharply following OPEC's announcement regarding an agreement to cut oil production. OPEC's decision to reduce production by around 0.5-1.0 million barrels per day – which still needs to be ratified at its next meeting at the end of November – was largely unexpected. However, the fact that inventories are close to record highs

will have a dampening effect on the rebalancing of the market. Even if the decision is ratified, OECD countries' stock overhang will only be halved at most over the next six quarters. The prices of non-oil commodities are broadly unchanged since early September.

### 8.4 Exchange Rate Developments

In foreign exchange markets, the euro was broadly stable in trade-weighted terms. In bilateral terms, since 8 September, the euro has appreciated by 5.7% against the pound sterling, amid continued uncertainty after the outcome of the UK referendum. It also appreciated vis-à-vis the currencies of most

non-euro area EU countries. At the same time, the euro depreciated vis-à-vis most other major currencies, including the US dollar (by 2.8%), the Japanese yen (by 1.1%) and the Swiss franc (by 0.6%), as well as against the currencies of major emerging economies.

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

In the first quarter of 2016/17, the global indicators point to gradual recovery in economic activity and trade. The quarter also witnessed a marginal increase in global manufacturing activities. The recorded slow recovery doesn't seem sufficient to improve the performance of Ethiopia's major Ethiopia's export items.

Global headline inflation, meanwhile, has remained at low levels mainly reflecting past energy price declines. Declining domestic inflation and the depreciation of Birr rate against trading partner's currency improves the country's competitiveness by making the REER depreciate. On the other hand, the fall in international prices helped to reduce the country's import bill.

The uncertainty about the global outlook in the future due to U.K. vote to exit from E.U continued to prevail in the first quarter of 2016/17. This implies the downside risk of the world economy in the future. The weak investor confidence in the global economy, if persists for long might affect the external sector of the Ethiopian economy through trade and FDI flows.