

## Governor's Note



It is with great pleasure that I present, dear readers, the 2007/08 Annual Report of the National Bank of Ethiopia which gives a clear sense of the latest developments witnessed in the Ethiopian economy within the context of the global economic environment.

The Ethiopian economy has continued to show substantial growth rates during the last four years. This growth momentum steadily increased through FY 2007/08 as the economy showed a growth rate of 11.6 percent compared to 11.5 percent in 2006/07 in contrast with decelerating world economic growth and financial crisis. The growth was broad based. Yet, with its 42.9 percent share in GDP, agriculture remains the major contributor (28.5 percent) to the annual economic growth as agriculture and allied activities increased by 7.5 percent, reflecting increased productivity, more land area brought under cultivation as well as favorable weather conditions.

Non-agricultural sectors also contributed a significant share to the overall economic expansion as the growth became more broad-based and structural transformation was evidenced. Accordingly, the industrial sector, with a share in total GDP of 13.0 percent, grew by 10.4 percent and its contribution to overall growth was 11.6 percent. The growth in industry was a reflection of expanded investments in hydroelectric power generating stations and the water sub-sector. The contributions of the manufacturing, mining and quarrying, and construction sub-sectors have also been noticeable. Similarly, the steady increase in the share of the services sector in overall real GDP over the last four years has been reinforced and the sector depicted a growth rate of 42.9 percent by the end of 2007/08. Its contribution to the annual economic growth also reached about 63 percent. Financial intermediation has also seen improvements during the last four years, contributing to the boom in the service sector.

Consumption wise, private consumption expenditure increased from 83 to 87 percent while that of government slightly declined from 10.4 to 9.8 percent. With the improved investment climate, Ethiopia has continued to attract and expand both domestic and foreign investment as evidenced by the increasing number of approved projects, the growing number of projects that go operational and the magnitude of employment opportunities they create. In 2007/08 alone, a total of 8,961 projects with a capital of Birr 170.4 billion were approved, the highest since 1992/93. When implemented, these projects are expected to create jobs for over 1.74 million people including casual workers.

With regard to price developments, Ethiopia has continued to face inflationary pressure due to the consequences of external shocks and internal factors. Rapid economic transformation accompanied by structural changes and supply side constraints as well as rising world commodity prices particularly fuel, fertilizer and metals, have contributed to the surge in inflation. Accordingly annual average headline inflation, led mainly by food inflation, reached 25.3 percent at the end of 2007/08 compared to 15.8 percent a year earlier. Annualized food price inflation soared to a record high of 34.9 percent in the year owing to a rise mainly in the prices of cereals, spices, potatoes and other tubers and stems. Annualized core (non-food) inflation, however, slowed down by 1 percentage point to 12.5 percent compared to 13.5 percent in 2006/07. Yet, the impact of imported inflation is gradually felt as the imports continued to surge as domestic demand escalated with booming economic activities.

In order to address the inflationary pressure and to fight against the inflation from being entrenched, the National Bank of Ethiopia (NBE) used the available monetary policy instruments. It raised the reserve requirement from 5 to 15 percent, liquidity requirement from 15 to 25 percent and the minimum interest rate on savings and time deposits from 3 to 4 percent during the review fiscal year. Other concerted fiscal and monetary policy measures were also taken to mitigate the adverse effects of inflation and inflationary expectation on the economy in general and the urban poor in particular. These policy

measures were also aimed at eliminating macroeconomic imbalances while sustaining economic growth and poverty reduction targets.

Government fiscal operations were also supportive of economic growth during 2007/08. Revenue and grants increased by 35.1 percent over the preceding fiscal year. Revenue to GDP ratio at 12.1 percent was low compared to other developing countries, indicating the need for strengthening the tax reform program. Meanwhile, tax revenue went-up by 37 percent and accounted for about 80 percent of total domestic revenue. At the same time, total general government expenditures were 31.8 percent higher than that of last year as pro-poor sector expenditures increased over the last fiscal years consistent with the government's commitment to fighting poverty. As a result of the restrictive fiscal policy, the fiscal deficit of the general government (including grants) stood at 2.9 percent of GDP, lower than 3.6 percent in 2006/07.

In the monetary area, broad money supply by end June 2008 grew by 20.4 percent, less than the 22.2 percent rise in 2006/07. The annual growth in money supply was significantly lower than the 43.7 percent surge in nominal GDP recorded in the fiscal year. This prudent monetary policy was consistent with the NBE's primary objective of maintaining price and exchange rate stability and creating a conducive environment for sustainable economic growth. As monetary indicators show, growth in broad money supply was exclusively attributed to the increase in domestic credit particularly to the non-government sector while net foreign assets declined, reflecting the pressure on current account balance of the country. The expansion in private sector domestic credit was associated with the boom in private sector businesses coupled with favorable interest rates. It is also worth mentioning that savings and time deposits continued to grow despite negative real rates of interest. Financial deepening tended to decline, reflecting the tight monetary policy pursued during the review fiscal year. Excess reserves of commercial banks as percentage of total deposits dropped from 19.4 percent in the review fiscal year as demand for domestic credit increased.

Encouraging results were also observed in the financial sector despite extraordinary shocks in the global financing system that unfolded in 2007 through 2008. The Ethiopian financing institutions continued to operate under a sound domestic environment. With new banks established, the number of banks operating in the country reached 11 with the total number of branches increasing to 562 from 495 last year. However, the high people-to-bank branch ratio indicated that Ethiopia still remains as one of the under-banked economies even by SSA standards. Ethiopian banks have continued to show significant profits, to widen their capital base, enhance resource mobilization and loan disbursement efforts as well as to reduce the level of non performing loans. Other soundness indicators also show the healthy pace of the financial sector. The total deposits and outstanding loans of these financial institutions rose by 16.9 and 8.9 percent, respectively. The banks also disbursed fresh loans to the tune of Birr 27.3 billion, about 75 percent higher than last year. Of the total new loans over 43 percent was disbursed by private banks, and 81 percent of the fresh loans went to finance private sector activities.

At the same time, the number of insurance companies increased to 10, and their total branches rose to 172. Their total capital also grew by 11.5 percent over that of the previous year. With regard to the microfinance sector, the number of these institutions stood at 28 having a total capital and assets to the tune of Birr 1.3 billion and Birr 5.3 billion, respectively. These microfinance institutions have mobilized Birr 1.6 billion in deposits and disbursed loans amounting to Birr 4.5 billion to their clients. Hence, microfinance institutions in Ethiopia are playing a remarkable role in alleviating poverty and creating wealth at the grass roots level both in urban and rural areas.

As for external sector development, Ethiopia's exports increased by 23.7 percent to USD 1,465.7 million in 2007/08 due to increases in prices of all export items except fruits and vegetables. There was a decline in the volume of virtually all merchandise exports except pulses, meat and meat products and flowers. Non-coffee exports increased by 23.7 percent which was close to the 23.6 percent growth in coffee export. The share of exports in GDP declined to 5.5 percent from to 6.1 percent a year earlier, indicating the need for diversification of exports to reap the benefits of competitiveness.

At the same time, imports went up by 32.8 percent to USD 6.81 billion as all types of imports except durable consumer goods and transport capital goods tended to rise, reflecting growing domestic demand and increasing commodity prices in the international market. The share of imports in GDP was 25.6 percent, about 0.6 percentage point lower than last year. Hence, the merchandise trade deficit remained high at 20 percent of GDP. The current account deficit (including official transfers) worsened to reach 5.6 percent of GDP due to lower net receipts despite higher unrequited transfers. Net private transfers reached USD 2.4 billion about 38.4 percent higher than a year ago. Of the total private transfers, USD 1.78 billion was contributed by private individuals signifying the huge potential that could be reaped through remittances given the large number of the Ethiopian Diaspora.. There was also a surplus in the capital account mainly due to the rise in net official long-term capital and net foreign direct investment with the latter showing remarkable signs that Ethiopia could become one of the favored destinations for FDI.

As a result of the widening trade deficit and lower net services despite increasing transfers and positive balance in the capital account the balance of payments recorded a deficit of USD 263 million compared to a surplus of USD 85 million a year earlier.

With regard to developments in the foreign exchange market, the weighted average exchange rate of the Birr in the official market showed annual depreciation of 5.1 percent against USD compared to 6.7 percent depreciation in the parallel market resulting in a 3.4 percent premium. The Birr also depreciated against all major currencies (taking mid market, end period rates) the highest being against Euro (25 percent) followed by Swiss Franc and Japanese Yen. Meanwhile, the real effective exchange rate tended to appreciate despite a continuous depreciation of the nominal effective exchange rate due to higher domestic inflation compared to Ethiopia's major trade partners. Accordingly, various efforts are underway to mitigate the effect of the appreciation of real effective exchange rate and the consequent loss of competitiveness of Ethiopia's exports.

Developments in the financial market remained moderate. Treasury bill market, the only active primary market in the country, has shown declines in terms of the amount of bills sold and demanded as some big banks reduced their participation in the auction. However, the yield on Treasury bills tended to improve. On the other hand, corporate bond sales has increased as demand for large investments in infrastructure grew. The inter-bank money market remained weak. Yet, efforts are underway to identify the obstacles inherent in the financial market through integrated research and consultancy services under the World Bank Financial Sector Capacity Building Project which is already in full swing.

Looking ahead, the Ethiopian economy is expected to grow by 11.2 percent in 2008/09 as agriculture, the mainstay of the economy, is envisaged to fare well and with broad based sectoral growth continuing. Monetary policy will remain tight and geared towards maintaining price and exchange rate stability, ensuring soundness of the financial sector and creating a conducive environment for economic growth. Special attention will be given to mitigate the inflationary pressure by consolidating the existing measures and introducing new ones as necessary. Efforts will also be made to build up the level of international reserves. The Bank will continue to support diversification of exports and enhance transfers and inward remittances to improve the external position of the country. Closer coordination between monetary and fiscal policies will be pursued to ensure macroeconomic stability and sustainable growth in 2008/09.

Finally, I would like to thank the management and staff of the Bank and all those who worked hard and contributed to the positive achievements made in 2007/08 and urge them to do so in the years ahead.



TELESWOLD ATNAFU  
GOVERNOR

## I. OVERALL ECONOMIC PERFORMANCE

### 1.1 Economic Growth

During the fiscal year 2007/08, real GDP grew by 11.6 percent. This high growth rate was achieved for the fifth time in a row (i.e. 11.7 percent in 2003/04, 12.6 in 2004/05, 11.5 in 2005/06 and 11.5 in 2006/07), which places Ethiopia among the top performing economies in the Sub-Saharan Africa. All sectors contributed

to this relatively high economic growth with the service expanding by 17.0 percent and contributing about 62.8 percent to the overall real GDP growth. The agriculture and industry sectors also grew by 7.5 and 10.4 percent, respectively. Furthermost real GDP is projected to grow by 11.2 percent in 2008/09.

**Table 1.1: Sectoral Contribution to GDP and GDP Growth**

(In Millions of Birr unless otherwise indicated)

| Items                           |                                 | Year    |         |         |         |          |          |
|---------------------------------|---------------------------------|---------|---------|---------|---------|----------|----------|
|                                 |                                 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07  | 2007/08  |
| Sector                          | Agriculture & Allied Activities | 29,920  | 34,990  | 39,729  | 44,063  | 48,226   | 51,843   |
|                                 | Industry                        | 9,331   | 10,420  | 11,402  | 12,561  | 13,841   | 15,276   |
|                                 | Services                        | 27,799  | 29,536  | 33,312  | 37,748  | 43,146   | 50,477   |
| Total                           |                                 | 67050.0 | 74946.0 | 84443.0 | 94372.0 | 105213.0 | 117596.0 |
| Less FISM                       |                                 | 462.8   | 548.7   | 639.0   | 897.6   | 1018.0   | 1301.0   |
| Real GDP                        |                                 | 66587.2 | 74397.3 | 83804.0 | 93474.4 | 104195.0 | 116295.0 |
| Growth in Real GDP              |                                 | -2.1    | 11.7    | 12.6    | 11.5    | 11.5     | 11.6     |
| Real GDP per capita             |                                 | 1051.6  | 1161.6  | 1263.5  | 1362.6  | 1473.8   | 1596.8   |
| Share in GDP (in %)             | Agriculture & Allied Activities | 44.6    | 46.7    | 47.0    | 46.7    | 45.8     | 44.1     |
|                                 | Industry                        | 13.9    | 13.9    | 13.5    | 13.3    | 13.2     | 13.0     |
|                                 | Services                        | 41.5    | 39.4    | 39.4    | 40.0    | 41.0     | 42.9     |
| Growth in Real GDP per capita   |                                 | 2.5     | 10.5    | 8.8     | 7.8     | 8.2      | 8.3      |
| Agriculture & Allied Activities | Absolute Growth                 | -10.5   | 16.9    | 13.5    | 10.9    | 9.4      | 7.5      |
|                                 | Contribution to GDP growth      | -4.7    | 7.9     | 6.4     | 5.1     | 4.3      | 3.3      |
|                                 | Contribution in %               | 223.3   | 67.4    | 50.4    | 44.1    | 37.8     | 28.5     |
| Industry                        | Absolute Growth                 | 6.5     | 11.7    | 9.4     | 10.2    | 10.2     | 10.4     |
|                                 | Contribution to GDP growth      | 0.9     | 1.6     | 1.3     | 1.4     | 1.3      | 1.3      |
|                                 | Contribution in %               | -42.9   | 13.8    | 10.1    | 11.7    | 11.7     | 11.6     |
| Services                        | Absolute Growth                 | 6.0     | 6.2     | 12.8    | 13.3    | 14.3     | 17.0     |
|                                 | Contribution to GDP growth      | 2.5     | 2.5     | 5.0     | 5.3     | 5.9      | 7.3      |
|                                 | Contribution in %               | -118.7  | 21.0    | 39.9    | 46.2    | 51.1     | 62.8     |

Source: Ministry of Finance and Economic Development (MoFED) and NBE Staff Computation

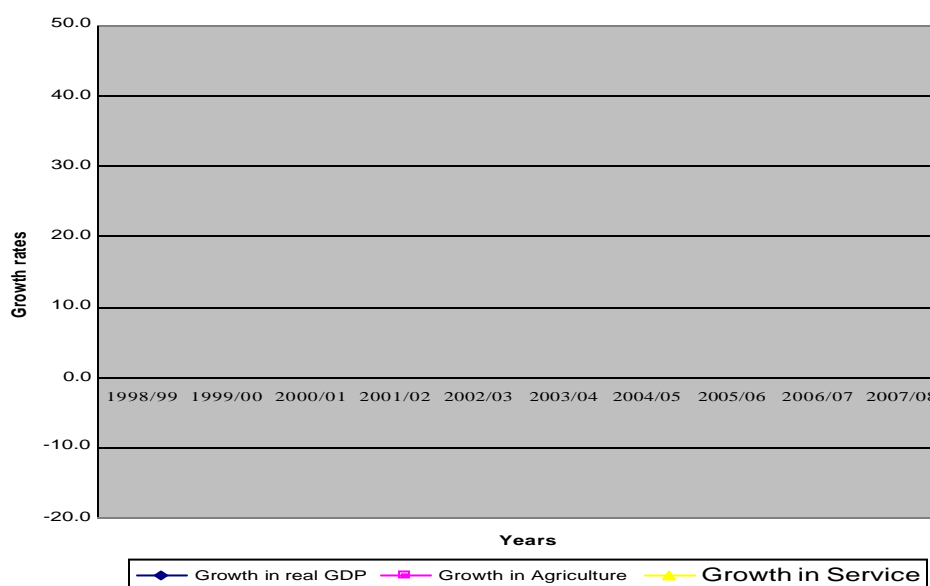
Note: Sectoral contributions will not add-up to overall GDP growth because of FISIM (Financial Intermediary Service Indirect Measurement)

## 1.2 GDP by Sector

In terms of sectoral distribution, agriculture remained the major constituent of the economy with about 44.1 percent share in the country's GDP; followed by the service and industry sectors each accounting for 42.9 and 13.0 percent, respectively.

Generally, the overall economic growth of the country has been highly associated with the performance of the agricultural sector. However, the role of the service sector is also increasing and contributed the major share to the growth in the real GDP in the review year (Fig.1.1).

**Fig. 1.1: GDP Growth by Major Sectors**



Source: Central Statistical Agency (CSA)

The boost in the 2007/08 agricultural outputs can largely be attributed to improved productivity achieved through better use of modern agricultural inputs, favorable weather condition in the year as well as to a 3.4 percent expansion in cultivated land.

Looking into the sub-components of agriculture, the crop sub-sector has always been the main driving force. Accordingly, the production of major crops including cereals, pulses and oilseeds increased by about 7.8 percent in 2007/08.

**Table 1.2: Estimates of Agricultural Production and Cultivated Areas of Major**



**Crops for Private Peasant Holdings - Meher Season**

(Area and production are in thousands of hectares and quintals, respectively)

| Agricultural Production | 2004/05         |                  | 2005/06         |                  | 2006/07         |                  | 2007/08         |                  |
|-------------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|
|                         | Cultivated Area | Total Production | Cultivated Area | Total Production | Cultivated Area | Total Production | Cultivated Area | Total Production |
| Cereals                 | 7,643           | 100,365          | 8,081.0         | 116,243.0        | 8,471.9         | 128,797.9        | 8,730.0         | 137,169.9        |
| (Annual % Change)       | 9.3             | 58.2             | 5.7             | 15.8             | 4.8             | 10.8             | 3.0             | 6.5              |
| Pulses                  | 1,349.1         | 13,495.8         | 1,292.0         | 12,712.0         | 1,379.0         | 15,786.2         | 1,517.7         | 17,827.4         |
| (Annual % Change)       | 26.7            | 63.9             | -4.2            | -5.8             | 6.7             | 24.2             | 10.1            | 12.9             |
| Oilseeds                | 824.0           | 5264.0           | 797.0           | 4866.0           | 741.8           | 4970.8           | 707.6           | 6169.3           |
| (Annual % Change)       | 73.7            | 167.8            | -3.3            | -7.6             | -6.9            | 2.2              | -4.6            | 24.1             |
| Total                   | 9,816.1         | 119,124.8        | 10,170.0        | 133,821.0        | 10,592.8        | 149,555.0        | 10,955.3        | 161,166.6        |
| (Annual % Change)       | 15.0            | 61.8             | 3.6             | 12.3             | 4.2             | 11.8             | 3.4             | 7.8              |

Source: CSA

Note: Oilseeds, vegetables and root crops have been included as others since 2004/05

The non-agricultural sector of the economy altogether showed 15.4 percent expansion during the review year. This was the combined effect of the 10.4 and 17.0 percent growth in industry and services, sectors respectively.

The 10.4 percent growth recorded in the industry sector mainly came from the electricity and water sub-sectors which rose by 15.9 percent. The huge investment in the hydroelectric power generating stations and expansion activities being undertaken by the Ethiopian Electric and Power Corporation (EEPCo) contributed to the rapid growth in the sector.

Manufacturing, which makes up for about 43 percent of the industry sector value added, registered an annual growth rate of 7.1 percent. Mining and quarrying as well as the construction sub-sector also expanded by 6.8 and 11.3 percent, respectively.

The share of the service sector has been growing steadily in the recent years reaching 43.4 percent in the review year from merely 36 percent in 1996/97. This was largely the outcome of the growth of wholesale and retail trade, real estate, renting and various business activities; transport and communication as well as education sub-sectors, which in the last five years registered an average annual growth rates of 13.5, 11.8, 11.5 and 14.1 percent, respectively.

### 1.3 GDP by Expenditure Component

In the review year, the share of the total consumption expenditure increased to 96.8 percent of GDP from about 93.7 percent in 2006/07. This was the result of the marginal increase in private consumption expenditure from 83.3 to 87 percent in 2007/08. The share of government consumption expenditure declined from 10.4 to 9.8 percent during the review year.

Gross domestic savings also declined from 6.3 to 3.2 percent of GDP. Similarly, gross capital formations reached 21.2 percent of GDP which is lower than 24.8 percent a year earlier. The resource gap stood wide at 19.6 percent of GDP in 2007/08.

**Table: 1.3: Expenditures on GDP and Gross Domestic Savings (As Percentage of GDP)**

| Year            | Domestic Absorption | Consumption Expenditure |       |      | Gross Capital Formation | Resource Balance | Exports of Goods & Services | Imports of Goods & Services | Gross Domestic Savings |
|-----------------|---------------------|-------------------------|-------|------|-------------------------|------------------|-----------------------------|-----------------------------|------------------------|
|                 |                     | Total                   | Govt. | Pvt. |                         |                  |                             |                             |                        |
| 1997/98         | 109.2               | 88.0                    | 9.8   | 78.2 | 21.2                    | (7.6)            | 12.8                        | 20.5                        | 12.0                   |
| 1998/99         | 113.9               | 92.0                    | 15.6  | 76.4 | 21.9                    | (12.4)           | 11.6                        | 24.0                        | 8.0                    |
| 1999/00         | 111.3               | 91.0                    | 17.9  | 73.1 | 20.3                    | (11.9)           | 12.0                        | 23.9                        | 9.0                    |
| 2000/01         | 111.5               | 90.0                    | 14.6  | 75.4 | 21.5                    | (11.7)           | 12.0                        | 23.7                        | 10.0                   |
| 2001/02         | 117.9               | 94.0                    | 14.8  | 79.2 | 23.9                    | (14.0)           | 12.6                        | 26.6                        | 6.0                    |
| 2002/03         | 117.8               | 96.0                    | 13.4  | 82.6 | 21.8                    | (14.1)           | 13.3                        | 27.4                        | 4.0                    |
| 2003/04         | 120.5               | 95.0                    | 13.1  | 81.9 | 25.5                    | (16.7)           | 14.9                        | 31.6                        | 5.0                    |
| 2004/05         | 120.0               | 97.0                    | 12.3  | 84.8 | 23.0                    | (20.4)           | 15.1                        | 35.5                        | 3.0                    |
| 2005/06         | 120.6               | 96.4                    | 12.1  | 84.3 | 24.2                    | (22.7)           | 13.8                        | 36.5                        | 3.6                    |
| 2006/07         | 118.5               | 93.7                    | 10.4  | 83.3 | 24.8                    | (19.3)           | 12.7                        | 32.1                        | 6.3                    |
| 2007/08         | 18.0                | 96.8                    | 9.8   | 87.0 | 21.2                    | (19.6)           | 11.5                        | 31.2                        | 3.2                    |
| Average:        |                     |                         |       |      |                         |                  |                             |                             |                        |
| 1997/98-2007/08 | 115.7               | 93.3                    | 12.6  | 80.7 | 22.4                    | -14.8            | 12.8                        | 27.6                        | 6.7                    |

Source: MoFED Based on the Newly Revised Series

## **1.5 Urban Residential Housing**

### **1.5.1 Construction of Condominium Houses**

The country's five-year development plan known as Plan for Accelerated and Sustainable Development to End Poverty (PASDEP), aims at reducing slum areas in the main towns by 50 percent through the construction of 400,000 new residential houses by 2009/10. As per the national integrated housing development program, the Ministry of Works and Urban Development and Regional Urban Development Offices envisage to build of 396,000 condominium houses during 2006/07 - 2009/10.

Accordingly, in 2006/07 and 2007/08 more than 112,000 condominium houses were constructed. In 2007/08 alone, the number of planned blocks and housing units reached 3076 and 83,089,

respectively. Out of the 3076 blocks, 1,590 were under construction in 59 regional towns including Addis Ababa and Dire Dawa.

The number of housing units increased by 37.2 percent compared to the preceding year although the number of blocks under construction decreased by 36.7 percent largely due to the shortage of construction materials.

Loans disbursed by banks for housing and construction purposes reached Birr 195.2 million in 2007/08 in contrast to just Birr 16.2 million last year. These loans accounted for 11.2 percent of the total loan disbursed by the banks during the review fiscal year.

**Table: 1.4 Condominium Houses Construction by Region, including Planned Blocks for 2007/08**

| Regions/cities | 2006/07         |                                 |                          |                                     | 2007/2008       |                                 |                          |                                     | Percentage Changes |       |       |
|----------------|-----------------|---------------------------------|--------------------------|-------------------------------------|-----------------|---------------------------------|--------------------------|-------------------------------------|--------------------|-------|-------|
|                |                 | A                               | B                        | C                                   |                 | D                               | E                        | F                                   | D/A                | E/B   | F/C   |
|                | Number of towns | Number of planned housing units | Number of planned blocks | Number of blocks under construction | Number of towns | Number of planned housing units | Number of planned blocks | Number of blocks under construction |                    |       |       |
| Tigray         | 7               | 4106                            | 169                      | 167                                 | 12              | 5,659                           | 236                      | 236                                 | 37.8               | 39.6  | 41.3  |
| Afar           | -               | -                               | -                        | -                                   | 1               | 125                             | -                        | -                                   |                    |       |       |
| Amhara         | 8               | 7090                            | 298                      | 295                                 | 12              | 13223                           | 541                      | 526                                 | 86.5               | 81.5  | 78.3  |
| Oromia         | 11              | 9020                            | 592                      | 592                                 | 16              | 12,144                          | 467                      | 394                                 | 86.5               | -21.1 | -33.5 |
| Somali         | -               |                                 |                          |                                     | 1               | 125                             | -                        | -                                   |                    |       |       |
| Ben-Gumuz      | -               |                                 |                          |                                     | 1               | 125                             | -                        | -                                   |                    |       |       |
| Gamballa       | -               |                                 |                          |                                     | 1               | 125                             | -                        | -                                   |                    |       |       |
| SNNP           | 7               | 5291                            | 392                      | 392                                 | 12              | 9,405                           | 380                      | 345                                 | 77.8               | -3.1  | -12.0 |
| Harari         | 1               | 1100                            | 58                       | 58                                  | 1               | 1,540                           | 72                       | 60                                  | 40.0               | 24.1  | 3.5   |
| Dire Dawa      | 1               | 966                             | 76                       | 56                                  | 1               | 2,118                           | 97                       | 29                                  | 119.3              | 27.6  | -48.2 |
| Addis Ababa    | 1               | 33000                           | 1001                     | 950                                 | 1               | 38,500                          | 1283                     | -                                   | 16.7               | 28.2  |       |
| Grand Total    | 36              | 60573                           | 2586                     | 2510                                | 59              | 83,089                          | 3076                     | 1590                                | 37.2               | 19.0  | -36.7 |

Source : Ministry of Works and Urban Development

### 1.5.2 Micro and Small-Scale Enterprises

The PASDEP envisages to create a total of 12,000 Micro and Small-Scale enterprises (MSE's) each year. Micro and Small-scale Enterprises Development Program is one of the programs incorporated under Urban Development Package. The major objective of this program is creating and promoting MSEs with the aim of reducing urban unemployment down to less than 20% by the end of 2009/10. Accordingly, 3,589 MSEs were created

under the Integrated Housing Development Program. These enterprises created job opportunities for 70,562 citizens on both permanent and casual bases.

About 64 percent of the MSEs were operating in the production sector and 36 percent in construction sector. MSEs in the production sector alone generated 52 percent of job opportunities.

**Table: 1.5 Sectoral Distribution of MSEs Engaged in Construction of Condominium Houses during 2007/08**

| <b>Sector</b>       | <b>No. of MSE's</b> | <b>Share %</b> | <b>Total emp</b> | <b>Share %</b> |
|---------------------|---------------------|----------------|------------------|----------------|
| Production sector   | 2285                | 64             | 36,837           | 52.2           |
| Construction sector | 1304                | 36             | 33,725           | 47.8           |
| Grand Total         | 3589                | 100            | 70,562           | 100            |

Source: Ministry of Works and Urban Development

### 1.5.3 MSEs and Credit Distribution in Regions

In addition to these MSEs, there were 57,605 non-construction related MSEs established in five regions and in Addis Ababa and Dire Dawa cities in 2007/08.

About Birr 651.4 million was disbursed in loans to these MSEs through micro

finance institutions (MFIS) in 2007/08. These MSEs created employment opportunities for 506,172 citizens in 2007/08.

**Table: 1.6 Number, Amount of Credit and Jobs Created through MSEs by Region**

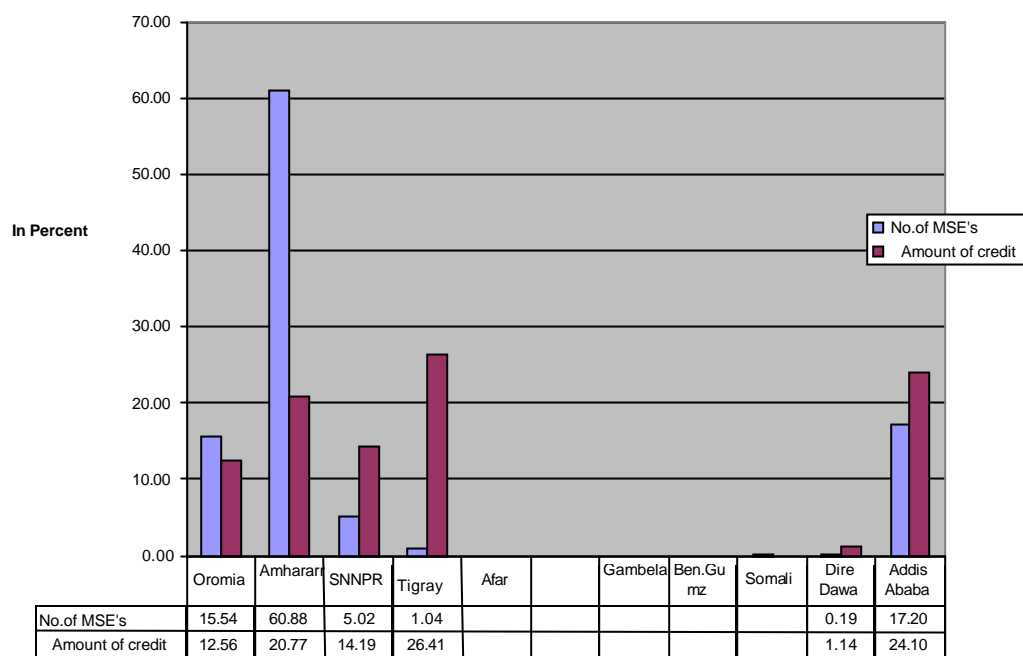
(Credit in Millions of Birr)

|                            | Oromia | Amhara | SNNPR  | Tigray | Harari | Dire Dawa | Addis Ababa | Total   |
|----------------------------|--------|--------|--------|--------|--------|-----------|-------------|---------|
| No. of MSEs                | 8,954  | 35,068 | 2,893  | 601    | 73     | 107       | 9909        | 57,605  |
| Amount of Credit           | 81.8   | 135.3  | 92.41  | 172    | 5.44   | 7.42      | 157         | 651.37  |
| No of Total Employment     | 89,548 | 90,373 | 41,818 | 41,823 | 8110   | 11,258    | 223,242     | 506,172 |
| Percentage Share by Region |        |        |        |        |        |           |             |         |
| No .of MSEs                | 15.56  | 60.88  | 5.02   | 1.04   | 0.13   | 0.19      | 17.22       | 100.00  |
| Amount of Credit           | 12.56  | 20.77  | 14.19  | 26.4   | 0.84   | 1.14      | 24.1        | 100.00  |
| No of Total Employment     | 17.98  | 18.14  | 8.40   | 8.26   | 1.6    | 2.26      | 44.82       | 100.00  |

Source: Ministry of Works and Urban Development

As indicated under Table 1.6 above, about 60.9 percent of the total MSEs were found in Amhara; followed by Addis Ababa (17.2%), Oromia (15.5 percent) and SNNPR (5.02 percent).

Regarding the amount of credit disbursed through MFIs, Tigray accounted for 26.4 percent; followed by Addis Ababa (24.1 percent), Amhara (20.8 percent), SNNPR (14.2 percent) and Oromia (12.6 percent).

**Fig 1.2 Number of MSEs and Amount of Credit during Fiscal Year of 2007/08**

Regions

Source: Ministry of Works and Urban Development

## 1.6 Mining

Regional geological mapping coverage reached 43.4 percent in 2007/08 compared to 41 percent a year ago. Similarly, hydro geological, geophysical (gravity study) and engineering geological mapping coverage trended to increase to 33,77 and 10 percent, respectively.

The Ministry of Mines and Energy issued 57 licenses to investors with an aggregate capital of 864.2 million USD to engage in the prospecting, exploration and mining activities in 2007/08.

Concerning petroleum exploration and development, five production sharing agreements were signed with various companies that have planned to invest over Birr 308.3 million capital.

Upon going fully operational, the mining and petroleum development projects are expected to generate jobs for more than 3,657 people. In addition, some 17 artisanal (traditional) mining associations were organized in four regional states. The associations created jobs for over 232 citizens.

Some of the minerals exported include gold, rough gemstones, tantalite concentrate and platinum concentrate.

## 1.7 Developments in Education Sector

The education sector has witnessed a great leap forward over the past years. The progress made both in raising the coverage of the education sector as well as ensuring the quality was remarkable .

Primary education (1-8 grades) enrolment grew from 8.7 million in 2002/03 to 14.0 million in 2006/07. Besides, the number of primary schools reached 20,660 in 2006/07 showing a 65.7percent growth over 2002/03. Of the total primary schools, 17,980 or 87 percent were located in the rural areas where about 85 percent of the total population lives.

On the other hand, secondary education enrolment stood at 1.4 million, 110 percent higher than 2002/03. In addition, by the end of 2006/07, the number of secondary schools (9-12 grades) reached 952 exhibiting a 94 percent growth since 2002/03. Of the total secondary schools, 803 or 84 percent were found in urban areas.

Technical and Vocational Education and Training (TVET) enrolment reached 0.2 million, 54.7 and 165 percent higher than the previous year and 2002/03,

respectively with TVET admission of 99,430 students. Parallel to this, the number of TVET institutions increased to 388 against 153 five years ago.

During the review period, the number of universities reached 21 and their enrolment capacity increased to 56,421 compared to 43,764 a year earlier. In 2006/07, the number of higher learning institutions (universities and colleges) sharply grew to 55 in comparison to 13 in 2002/03.

Some 24.6 percent of the national budget (24.6%GDP) was channelled to education sector, in 2006/07 which was 6.8 and 8.3 percentage points higher than that of 2005/06 and 2002/03, respectively.



Table 1.7 EDUCATION SECTOR DATA

| Indicators   | 2002/03<br>(1995) | 2003/04<br>(1996) | 2004/05<br>(1997) | 2005/06<br>(1998) | 2006/07<br>(1999) | 2007/08<br>(2000) |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Improvement of Education Service</b>  |                   |                   |                   |                   |                   |                   |
| <b>Number of primary schools</b>   | 12,471            | 13,181            | 16,513            | 19,412            | 20,660            | NA                |
| Urban  | NA                | NA                | NA                | NA                | 2,680             | NA                |
| Rural  | NA                | NA                | NA                | NA                | 17,980            | NA                |
| <b>• Number of secondary schools (urban, rural)</b>  | 491               | 595               | 706               | 835               | 952               | NA                |
| Urban  | NA                | NA                | NA                | NA                | 803               |                   |
| Rural  | NA                | NA                | NA                | NA                | 149               | NA                |
| <b>• Number of TVET centers (public, private, mission)</b>   | 153               | 158               | 199               | 264               | 388               | NA                |
| <b>• Number of tertiary level institutions by universities (public, private), colleges (public, private)</b> | 13                | 21                | 23                | 40                | 55                | NA                |
| universities   | NA                | NA                | NA                | NA                | 21                | NA                |
| • Student intake capacity of higher education institutions   | NA                | NA                | NA                | NA                | 43,764            | 56,421            |
| • Participation of women in higher education institutions (%)  | NA                | NA                | NA                | NA                | 26                | NA                |
| Primary enrolment (in million)   | 8.7               | 9.5               | 11.4              | 12.7              | 14.0              | NA                |
| Secondary enrolment (in thousands)   | 665.0             | 781.0             | 953.0             | 1190              | 1,399             | NA                |
| TEVT enrolment   | 72,162            | 87,158            | 106,336           | 123,557           | 191,151           | NA                |
| Girls' primary enrolment(%)  | 41.2              | 42.6              | 44.2              | 45.2              | 45.9              | NA                |
| <b>• Grades (1-4) gross enrolment (%)</b>  | 84.2              | 86.9              | 102.7             | 117.6             | 117.1             | NA                |
| Girls' gross enrolment (%)   | 73.5              | 78.3              | 95.5              | 111.2             | 111.2             | NA                |
| Boys' gross enrolment (%)  | 94.6              | 95.2              | 109.8             | 123.9             | 122.9             | NA                |
| <b>• Grades (5-8) gross enrolment (%)</b>  | 42.4              | 47.1              | 52.5              | 58.8              | 61.1              | NA                |
| Girls' gross enrolment (%)   | 31.9              | 36.9              | 42.6              | 49.8              | 53.7              | NA                |
| Boys' gross enrolment (%)  | 52.5              | 57                | 62                | 67.4              | 68.3              | NA                |
| <b>• Girls' gross primary enrolment (%)</b>  | 53.8              | 59.1              | 71.5              | 83.9              | 85.1              | NA                |
| <b>• Boys' gross primary enrolment (%)</b>   | 74.6              | 77.4              | 88                | 98.6              | 98                | NA                |
| <b>• Gross Primary Enrolment (%) (urban, rural, regional)</b>  | 64.4              | 68.4              | 79.8              | 91.3              | 91.7              | NA                |
| Tigray   | 73.7              | 80.6              | 91                | 101.5             | 104.8             | NA                |
| Afar   | 13.8              | 14.8              | 20.9              | 21.9              | 22.2              | NA                |
| Amhara   | 58.5              | 61.8              | 75.9              | 93                | 93.1              | NA                |
| Oromia   | 66.9              | 72.7              | 87.5              | 97                | 91.4              | NA                |
| Somali   | 15.1              | 15.1              | 23.3              | 30.3              | 38.5              | NA                |
| Benishangul Gumuz  | 98.4              | 100.5             | 107.4             | 122.5             | 127.9             | NA                |
| SNNPR  | 71.8              | 74.2              | 78.9              | 89.4              | 97.8              | NA                |
| Gambella   | 124.6             | 106.6             | 127.4             | 137.1             | 181.4             | NA                |
| Harari   | 105.7             | 104.5             | 92.4              | 103.1             | 116.8             | NA                |
| Addis Ababa  | 135.4             | 142.6             | 150.2             | 162               | 146.6             | NA                |
| Dire Dawa  | 78.6              | 83.2              | 83.9              | 79                | 80                | NA                |
| <b>• Primary net enrolment rate (%)</b>  | 54                | 57.4              | 68.5              | 77.5              | 79.1              | NA                |
| • No. of students registered in the first cycle primary schools(1-4) (in million)                            | 6                 | 6.5               | 8                 | 8.7               | 9.8               | NA                |
| • No. of students registered in the second cycle primary schools(5-8) (in million)                           | 2.7               | 3                 | 3.4               | 4                 | 4.2               | NA                |
| • Number of students registered in the first cycle secondary schools(9-10) (in million)                      | 0.6               | 0.7               | 0.9               | 1.1               | 1.2               | NA                |
| Gross enrolment rate in (9-10 grades)(%)   | 19.3              | 22.1              | 27.3              | 33.2              | 37.3              | NA                |
| • Number of students registered in the second cycle secondary schools(11-12)(in million )                    | 0.08              | 0.095             | 0.092             | 0.1               | 0.2               | NA                |
| • Preparatory admission  | NA                | NA                | NA                | NA                | 101,367           | NA                |
| • TVET Admission   | NA                | NA                | 94,592            | NA                | 99,430            | NA                |
| • Completion rate of primary school (%)  | 23.5              | 27.1              | 34.3              | 41.7              | 42.9              | NA                |
| • Girls/boys ratio in primary schools  | 0.7               | 0.74              | 0.79              | 0.83              | 0.85              | NA                |
| • Girls/boys ratio in secondary schools  | 0.55              | 0.52              | 0.53              | 0.54              | 0.59              | NA                |
| • Girls/boys ratio in(9-10)  | 0.58              | 0.55              | 0.55              | 0.57              | 0.61              | NA                |
| • Girls/boys ratio in (11-12)  | 0.4               | 0.37              | 0.37              | 0.35              | 0.5               | NA                |
| • Girls/boys ratio inTVET  | 0.93              | 0.9               | 1.05              | 1.01              | 0.78              | NA                |
| • Girls/boys ratio in higher education   | 0.18              | 0.2               | 0.24              | 0.24              | 0.25              | NA                |
| • Grade 1-8(primary) repetition rates (%)  | 6.7               | 3.7               | 3.8               | 6.1               | NA                | NA                |
| • Primary school dropout rate (%)  | 19.2              | 14.8              | 11.8              | 12.4              | NA                | NA                |

| Indicators  | 2002/03<br>(1995) | 2003/04<br>(1996) | 2004/05<br>(1997) | 2005/06<br>(1998) | 2006/07<br>(1999) | 2007/08<br>(2000) |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| • 1st grade dropout rate (%)                              | NA                | 31.4              | 22.4              | 20.6              | 20.1              | NA                |
| • Text book/pupil ratio for core subjects for grade 1-8   | NA                | NA                | NA                | NA                | 1.5               | NA                |
| • Pupil/teacher ratio                                     |                   |                   |                   |                   |                   |                   |
| Grade (1-8)   | 64                | 65                | 66                | 62                | 59                | NA                |
| Grade (9-12)  | 45                | 48                | 51                | 54                | 48                | NA                |
| In higher education                                       | 13.7              | 20.5              | 28.5              | 35.9              | 24.3              | NA                |
| • Pupil/section ratio                                     |                   |                   |                   |                   |                   |                   |
| Grade (1-8)   | 73                | 74                | 69                | 69                | 64                | NA                |
| Grade (9-12)  |                   |                   |                   |                   |                   |                   |
|   | 77                | 79                | 78                | 82                | 79                | NA                |
| • Number of class rooms in primary schools                | 117,988           | 126,368           | 161,795           | 183,088           | 206,106           | NA                |
| • Pupil-textbook ratio                                    |                   |                   |                   |                   |                   |                   |
| Grade(1-8)  | NA                | NA                | NA                | NA                | 1.5               | NA                |
| Grade(9-12)   | NA                | NA                | NA                | NA                | 1                 | NA                |
| • Pupil-school ratio                                      |                   |                   |                   |                   |                   |                   |
| Grade(1-8)  | 701.1             | 724               | 693.3             | 652               | 678.3             | NA                |
| Grade(9-12)   | 1355              | 1312              | 1350              | 1425              | 1449              | NA                |
| • Annual budget allocation is percentage of GDP           | 16.07             | 20.35             | 16.7              | 17.82             | 24.6              | NA                |
| • Proportion of pupils starting grade 1 who reach grade 5 | NA                | NA                | NA                | 56.8              | NA                | NA                |
| • Female enrolled in under graduate degree (%)            | 18.1              | 20.8              | 24                | 24.8              | 26                | NA                |
| • Female graduated in under-graduate degree (%)           | 11.2              | 15.2              | 16.4              | 16.2              | 18                | NA                |
| • Female enrolled in post-graduate degree (%)             | 6.9               | 6.7               | 9.2               | 10                | 10                | NA                |
| • Female graduated in post- graduate degree (%)           | 8.9               | 7.1               | 9                 | 9.8               | 9.4               | NA                |

Source: Education Statistics Annual Abstract, Ministry of Education and NBE Staff Computation

## 1.8 Access to Water Supply

According to the country's five-year development plan, it is planned to increase the total population having access to safe drinking water (rural and urban) from 51.5 percent in 2005/06 to 84.5 percent by the end of 2009/10. In addition, urban population having access to potable water within 0.5 km and rural population having access to potable water within 1.5 km are also expected to grow to 92.5 and 80 percent, respectively by the end of the plan

period from 80.65 and 44 percent in 2005/06.

Accordingly, the overall national access to potable water supply climbed to 59.5 percent (i.e., 86.2 percent for urban and 53.9 percent for rural) in 2007/08 from 52.5 percent (i.e., 82.02 percent for urban and 46.4 percent for rural) in 2006/07.

Similarly, urban population with access to potable water within 0.5 km went up from 82.0 percent in 2006/07 to 86.2 percent in 2007/08 depicting a 4.2 percentage point's rise over the preceding fiscal year. Besides, rural

population with access to potable water within 1.5 km reached 53.9 percent by the end of 2007/08, exhibiting a 7.5 percent growth compared to 46.4 percent in the previous year.

**Table: 1.8 Percentage of Population Having Access to Potable Water by Region**

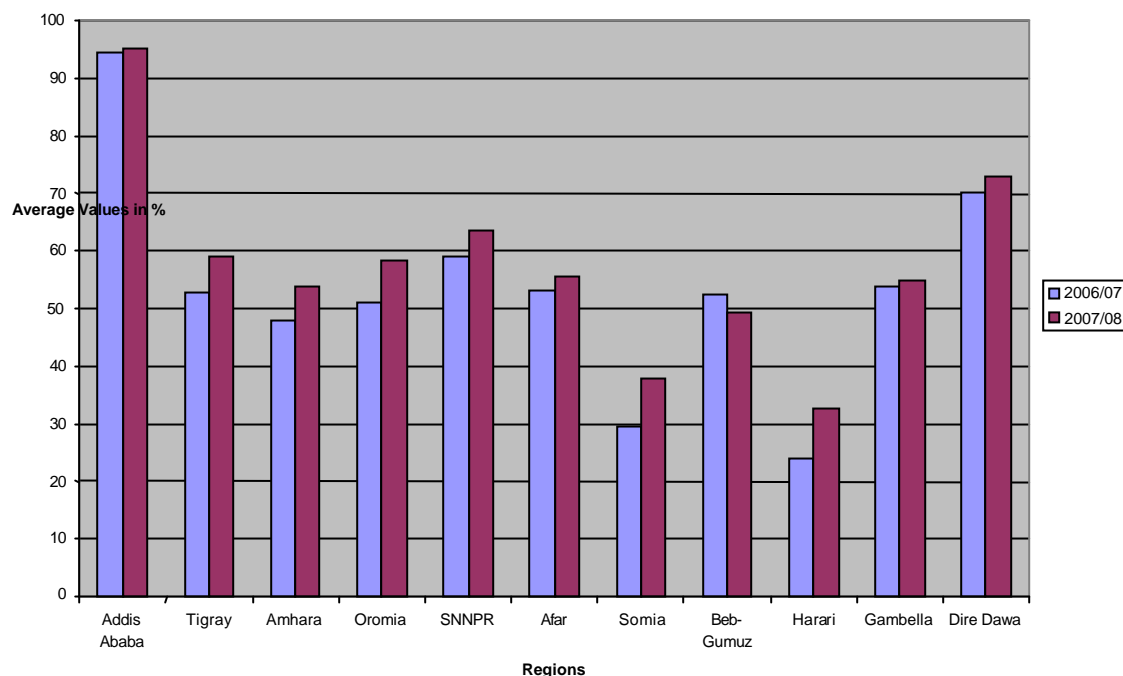
| Region           | 2006/07 |       |         | 2007/08 |       |         | Change in percentage point |      |       |
|------------------|---------|-------|---------|---------|-------|---------|----------------------------|------|-------|
|                  | A       | B     | C       | D       | E     | F       |                            |      |       |
|                  | Rural   | Urban | Average | Rural   | Urban | Average | D-A                        | E-B  | F-C   |
| Addis Ababa      | -       | 94.42 | 94.42   | -       | 95    | 95      | -                          | 0.58 | 0.58  |
| Tigray           | 51.15   | 60    | 52.8    | 56      | 72    | 59.1    | 4.85                       | 12   | 6.3   |
| Amhara           | 42.45   | 82    | 48      | 49      | 87.7  | 53.7    | 6.55                       | 5.7  | 5.7   |
| Oromia           | 45      | 90.4  | 50.9    | 52      | 97.9  | 58.3    | 7                          | 7.5  | 7.4   |
| SNNPR            | 58      | 66    | 59      | 63      | 72.1  | 63.6    | 5                          | 6.1  | 4.6   |
| Afar             | 51      | 73    | 52.98   | 53.1    | 77.4  | 55.4    | 2.1                        | 4.4  | 2.42  |
| Somali           | 23.26   | 60    | 29.44   | 32.9    | 61.6  | 37.9    | 9.64                       | 1.6  | 8.46  |
| Ben-Gumuz        | 48.72   | 85.56 | 52.33   | 44.3    | 93.1  | 49.3    | -4.4                       | 7.54 | -3.03 |
| Harari           | 29.24   | 21    | 24.13   | 41      | 27.5  | 32.5    | 11.8                       | 6.5  | 8.37  |
| Gambella         | 49.43   | 72.9  | 53.71   | 43.9    | 98.6  | 54.7    | -5.5                       | 25.7 | 0.99  |
| Dire Dawa        | 65.07   | 72    | 70.21   | 75.8    | 72    | 73      | 10.7                       | 0    | 2.79  |
| National Average | 46.39   | 82.02 | 52.46   | 53.9    | 86.2  | 59.5    | 7.51                       | 4.18 | 7.04  |

Source: Ministry of Water Resources and NBE Staff Computation

**Note:** Water supply access is calculated based on provision of 20 liters/capita /day for urban and 15 l/c/d for rural population at a radius of 0.5 and 1.5 kilo meters respectively

Regional comparisons in potable water provision revealed a significant increase in all regions (including Addis Ababa

and Dire Dawa Administrations) except Benishangul-Gumuz.

**Fig. 1.3 :Access to Water Supply by Region**

Source: NBE Staff Computation

**Note:** All the required data and information are not included in the calculation of 2007/08 water supply access since performance reports from some woredas and certain non-government organizations are not obtained. Nevertheless, the figures indicated above will definitely increase when all the remaining information is included.

## 1.9 Health and Health-Related Indicators

In the country's five-year development plan (Plan for Accelerated and Sustainable Development to End Poverty), it is envisaged to reduce infant mortality rate (IMR) per 1000, under-five mortality rate per 1000 and maternal mortality rate (MMR) per 100,000, respectively to 45, 85 and 600 by the end of 2009/10 from 69,114 and 808 in 2005/06. Brdofrd, DPT3 and primary health service coverage are expected to pick up to 80 and 100 percent respectively by the end of the plan period from 72 and 75 percent in 2005/06.

Accordingly, health and health-related indicators reveal that the ratio of the number of deaths under the age of one year occurring in a given year to the number of births in the same year (IMR per 1000) were 77 during 2007/08. The probability of dying between birth and age five per 1000, live births in a given year (under 5 morality rate per 1000) and maternal mortality ratio were 123 per 1000 and 163 per 100,000 live births, respectively

The percentage of one-year-old children immunized against measles (DPT3 coverage) increased from 73 percent in 2006/07 to 81 percent in 2007/08 depicting an 8 percentage points rise over that of last year .On the other hand, full immunization coverage reached 62.6 percent at the end of 2007/08, exhibiting a 10 percentage points increase compared to 52.5 percent last year.

Similarly, primary health service coverage showed a 2.9 percentage point growth from 86.7 in 2006/07 to 89.6 percent in 2007/08.

**Table: 1.9 Vital Statistics**

|             | 2006/07      |     |     |              |              |                     |         |           | 2007/08      |     |     |              |              |                     |         |           |
|-------------|--------------|-----|-----|--------------|--------------|---------------------|---------|-----------|--------------|-----|-----|--------------|--------------|---------------------|---------|-----------|
| Regions     | CBR per 1000 | RNI | TFR | IMR per 1000 | CMR per 1000 | Under 5 MR per 1000 | Male LE | Female LE | CBR per 1000 | RNI | TFR | IMR per 1000 | CMR per 1000 | Under 5 MR per 1000 | Male LE | Female LE |
| Tigray      | 37.3         | 2.7 | 5.1 | 67           | 42           | 106                 | 52      | 54.9      | 37.5         | 2.7 | 5.1 | 67           | 42           | 106                 | 52      | 54.9      |
| Afar        | 37.3         | 2.2 | 4.9 | 61           | 66           | 123                 | 56.9    | 50.8      | 31.4         | 2.2 | 4.9 | 61           | 66           | 123                 | 56.9    | 50.8      |
| Somali      | 37.3         | 2.6 | 6   | 57           | 39           | 93                  | 58.7    | 55.4      | 34.3         | 2.6 | 6   | 57           | 39           | 93                  | 58.7    | 55.4      |
| Gambella    | 37.3         | 2.6 | 4   | 92           | 70           | 156                 | 57.6    | 58.3      | 32.7         | 2.6 | 4   | 92           | 70           | 156                 | 57.6    | 58.3      |
| Ben-Gumuz   | 37.3         | 2.5 | 5.2 | 84           | 80           | 157                 | 51.4    | 53.5      | 37.2         | 2.5 | 5.2 | 84           | 80           | 157                 | 50.1    | 51.1      |
| SNNPR       | 37.3         | 2.9 | 5.6 | 85           | 63           | 142                 | 51.4    | 53.5      | 38.6         | 2.9 | 5.6 | 85           | 63           | 142                 | 51.4    | 53.5      |
| Amhara      | 37.3         | 2.7 | 5.1 | 94           | 66           | 154                 | 53.4    | 56        | 36.6         | 2.7 | 5.1 | 94           | 66           | 154                 | 53.4    | 56        |
| Oromia      | 37.3         | 2.9 | 6.2 | 76           | 51           | 122                 | 53      | 55.5      | 38.3         | 2.9 | 6.2 | 76           | 51           | 122                 | 53      | 55.5      |
| Harari      | 35.7         | 2.4 | 3.8 | 66           | 40           | 103                 | 55.6    | 54.7      | 33.6         | 2.4 | 3.8 | 66           | 40           | 103                 | 55.6    | 54.7      |
| Dira Dawa   | 35.7         | 2.5 | 3.6 | 71           | 70           | 136                 | 51.1    | 55.8      | 35.1         | 1.5 | 1.4 | 45           | 28           | 72                  | 60.3    | 64.1      |
| Addis Ababa | 35.7         | 1.5 | 1.4 | 45           | 28           | 72                  | 60.3    | 64.1      | 23.8         | 2.5 | 3.6 | 71           | 70           | 136                 | 54.1    | 55.8      |
| National    | 35.7         | 2.7 | 5.4 | 77           | 50           | 123                 | 53.4    | 55.4      | 36.89        | 2.7 | 5.4 | 77           | 50           | 123                 | 53.4    | 55.4      |

Source: Ministry of Health (MoH) and NBE Staff Computation

CBR: Crude Birth Rate

RNI: Rate of National Increase

IMR: Infant Mortality Rate

TFR: Total Fertility Rate

CRM: Crude Mortality Rate

LE: Life Expectancy

Vital statistics: Births and Deaths Statistics

**Note:** Maternal mortality ratio is 163 per 100,000 live births; there is no desegregation by region

**Table: 1.10 Immunization Coverage by Region**

| Region      | 2006/07     |                   |                  |             |                      |             |                   |         | 2007/08          |                   |                  |             |                      |             |                   |             |
|-------------|-------------|-------------------|------------------|-------------|----------------------|-------------|-------------------|---------|------------------|-------------------|------------------|-------------|----------------------|-------------|-------------------|-------------|
|             |             |                   | DPT3             |             | Measles Immunization |             | Full Immunization |         |                  | DPT3              |                  |             | Measles Immunization |             | Full Immunization |             |
|             | Live Births | Surviving Infants | Achieved         | Cov. by (%) | Achieved             | Cov. by (%) | Achieved          | Cov (%) | Live Births      | Surviving Infants | Achieved         | Cov (%)     | Achieved             | Cov (%)     | Achieved          | Cov (%)     |
| Tigray      | 165,948     | 154,825           | 133,435          | 86          | 125,034              | 80.8        | 114,300           | 73.8    | 170,275          | 158,862           | 133,423          | 84.0        | 125,407              | 78.9        | 117,517           | 74.0        |
| Afar        | 52,891      | 49,630            | 21,153           | 43          | 14,715               | 69.6        | 14,715            | 29.6    | 54,048           | 50,715            | 31,298           | 61.7        | 25,560               | 50.4        | 21,387            | 42.2        |
| Somali      | 165,761     | 156,318           | 22,840           | 73          | 28,861               | 18.5        | 14,790            | 9.5     | 170,088          | 160,398           | 49,901           | 31.1        | 42,015               | 26.2        | 37,289            | 23.2        |
| Ben-Gumz    | 23,872      | 21,888            | 18,279           | 74          | 14,927               | 81.6        | 9,646             | 44.1    | 24,469           | 22,435            | 15,331           | 68.3        | 12,426               | 55.4        | 11,439            | 51.0        |
| Gambella    | 9,437       | 8,569             | 2,966            | 15          | 3,404                | 114.8       | 3,390             | 39.6    | 9,661            | 8,772             | 4,015            | 45.8        | 3,709                | 42.3        | 2,254             | 25.7        |
| SNNPR       | 571,473     | 522,890           | 477,913          | 84          | 455,233              | 87.1        | 365,520           | 69.9    | 587,289          | 537,361           | 519,418          | 96.7        | 490,636              | 91.3        | 456,368           | 84.9        |
| Amhara      | 731,975     | 663,292           | 485,624          | 91          | 448,122              | 67.6        | 337,118           | 50.8    | 751,073          | 680,598           | 564,163          | 82.9        | 493,094              | 72.5        | 414,569           | 60.9        |
| Oromia      | 1,018,439   | 941,032           | 700,424          | 35          | 572,873              | 81.8        | 480,281           | 51      | 1,046,899        | 967,329           | 818,236          | 84.6        | 711,813              | 73.6        | 584,320           | 60.4        |
| Harari      | 4,750       | 6,765             | 4,619            | 68          | 4,051                | 59.5        | 3,603             | 53.3    | 4,891            | 6,965             | 5,261            | 75.5        | 5,261                | 75.5        | 5,261             | 75.5        |
| Dire Dawa   | 9,641       | 13,781            | 8,204            | 43          | 7,059                | 51.2        | 5,985             | 43.3    | 9,997            | 14,290            | 8,279            | 57.9        | 6,962                | 48.7        | 6,312             | 44.2        |
| Addis Ababa | 71,581      | 104,297           | 44,618           | 60          | 40,194               | 90.1        | 38,003            | 36.4    | 73,640           | 107,297           | 49,799           | 46.4        | 42,719               | 39.8        | 42,365            | 39.5        |
| National    | 2,825,768   | <b>2,643,287</b>  | <b>1,920,075</b> | 73          | 1,714,473            | 64.9        | 1,387,351         | 52.5    | <b>2,902,330</b> | <b>2,715,022</b>  | <b>2,199,124</b> | <b>81.0</b> | <b>1,959,602</b>     | <b>72.2</b> | <b>1,699,081</b>  | <b>62.6</b> |

Source: MoH and NBE Staff Computation

Besides, the proportion of women of reproductive age (15-49 years) who use modern contraceptive method (new and repeat acceptors) were 50.8 percent revealing 17.5 percentage point annual increase.

At the end of 2007/08, people living with HIV/AIDS (PLWHA) reached 1,345,970 from 977,394 in 2006/07. Meanwhile, adult HIV incidence declined from 0.28 percent in 2006/07 to 0.27 percent in the review year. HIV prevalence at national level stood at 2.1 in 2007/08.



**Table: 1.11 HIV Prevalence**

|             | 2006/07 |                  |        |       |                   |          |                     | 2007/08  |                     |        |       |                   |          |                     |
|-------------|---------|------------------|--------|-------|-------------------|----------|---------------------|----------|---------------------|--------|-------|-------------------|----------|---------------------|
| Regions     | PLWHA   | HIV prevalence % |        |       | New HIV infection |          | Adult HIV Incidence | PLWHA    | HIV prevalence in % |        |       | New HIV infection |          | Adult HIV incidence |
|             | All age | male             | Female | total | All ages          | Children |                     | All ages | Male                | Female | total | All ages          | Children |                     |
| Tigray      | 69,662  | 2.2              | 3.2    | 2.7   | 9,966             | 1,092    | 0.37                | 97477    | 2.2                 | 3.2    | 2.7   | 10499             | 1553     | 0.35%               |
| Afar        | 16,445  | 1.5              | 2.3    | 1.9   | 2181              | 216      | 0.26                | 22620    | 1.5                 | 2.3    | 1.9   | 2395              | 310      | 0.25%               |
| Amhara      | 318,291 | 2.2              | 3.2    | 2.7   | 38,491            | 5,148    | 0.32                | 430441   | 2.2                 | 3.2    | 2.7   | 41415             | 7191     | 0.32%               |
| Oromia      | 236,808 | 1.2              | 1.8    | 1.5   | 28,523            | 3,992    | 0.18                | 323402   | 1.2                 | 1.8    | 1.5   | 30142             | 5565     | 0.16%               |
| Somali      | 21,279  | 0.6              | 0.9    | 0.8   | 27,00             | 299      | 0.1                 | 29282    | 0.6                 | 0.9    | 0.8   | 2891              | 432      | 0.10%               |
| Ben-Gumuz   | 7,129   | 1.5              | 2.2    | 1.8   | 980               | 117      | 0.25                | 9928     | 1.5                 | 2.2    | 1.8   | 1054              | 171      | 0.24%               |
| SNNPR       | 132,410 | 1.2              | 1.7    | 1.4   | 18,739            | 2,305    | 0.21                | 183670   | 1.2                 | 1.7    | 1.4   | 20516             | 3320     | 0.20%               |
| Gambella    | 3,885   | 1.9              | 2.8    | 2.4   | 365               | 47       | 0.2                 | 5178     | 1.9                 | 2.8    | 2.4   | 369               | 65       | 0.19%               |
| Harari      | 3,911   | 2.6              | 3.8    | 3.2   | 514               | 28       | 0.49                | 5533     | 2.6                 | 3.8    | 3.2   | 570               | 40       | 0.49%               |
| Addis Ababa | 156,577 | 6.0              | 8.9    | 7.5   | 21,585            | 808      | 1.5                 | 222828   | 6                   | 8.9    | 7.5   | 23432             | 1186     | 1.49%               |
| Dire Dawa   | 10,999  | 3.3              | 5      | 4.2   | 1,484             | 95       | 0.65                | 15611    | 3.3                 | 5      | 4.2   | 1653              | 136      | 0.65%               |
| Total       | 977,394 | 1.7              | 2.6    | 2.1   | 125,528           | 14,147   | 0.28                | 1345970  | 1.7                 | 2.6    | 2.1   | 134936            | 19969    | 0.27%               |

Source: MoH and NBE Staff Computation

### 1.9.1 Health Infrastructures

The number of hospitals (MoH, private, OGO, and NGO) grew by 4.2 percent from 143 in 2006/07 to 149 in 2007/08. Compared with 2005/06, the number of hospitals increased by 8 percent putting average annual growth rate of hospitals during the last two years at 6 percent.

The number of beds in 2007/08 was 13,145, about 4 percent lower than a year ago.

Similarly, the number of health centers and NHC+HS reached 826 and 1517 in 2007/08 from 690 and 1376 in 2006/07, respectively registering 17.7 and 10.2 percent increase over last year.

On the other hand, the number of health posts and private clinics meant not for profit declined to 8,603 and 271, respectively in the review period from 9,914 and 397 in 2006/07.

**Table: 1.12 Health Infrastructures by Ownership**

|                               |           | 2005/06 | 2006/07 | 2007/08 | Percentage Change |       |
|-------------------------------|-----------|---------|---------|---------|-------------------|-------|
|                               |           | A       | B       | C       | C/A               | C/B   |
| Hospitals                     | MoH       | 86      | 88      | 89      | 3.5               | 1.1   |
|                               | Others ** | 52      | 55      | 60      | 15.4              | 9.1   |
|                               | Total     | 138     | 143     | 149     | 8.0               | 4.2   |
|                               | Beds      | 13,922  | 13,677  | 13,145  | -5.6              | -3.9  |
| Health Center                 | MoH       | 620     | 671     | 815     | 31.5              | 21.5  |
|                               | Other *   | 15      | 19      | 11      | -26.7             | -42.1 |
|                               | Total     | 635     | 690     | 826     | 30.1              | 19.7  |
|                               | Beds      | 1580    | 1495    | 1431    | -9.4              | -4.3  |
| NHC+HS                        |           | 1206    | 1,376   | 1517    | 25.8              | 10.2  |
| Health post                   |           | 5,955   | 9,914   | 8,603   | 44.5              | -13.2 |
| Private Clinic not for profit |           | 480     | 397     | 271     | -43.5             | -31.7 |

Source: MoH and NBE Staff computation

Note:- \*\*Includes private, Other Governmental Organizations (OGO) and Non- Governmental Organization (NGO)

\*Facilities owned by OGO and NGO

NHC+HS=Nucleus Health Center and Health Stations

The number of beds in Addis Ababa, Dire Dawa for both years and Amhara 2007/08 fiscal year do not include private OGO & NGO beds

## 1.9.2 Health Budget per Person

During 2007/08 health budget per person at national level grew by 7.2 Birr from Birr 19.5 in 2006/07 to Birr 26.7. When we compare the regions, higher health budget per person was registered in

Harari region (Birr 95.5) followed by Dire Dawa (Birr 88.5), Gambella (Birr 68.8) and Addis Ababa (Birr 68) per person.

**Fig: I.4 Comparison of Health Budget per Person (in ETB) by Region (2005/06-2007/08)**

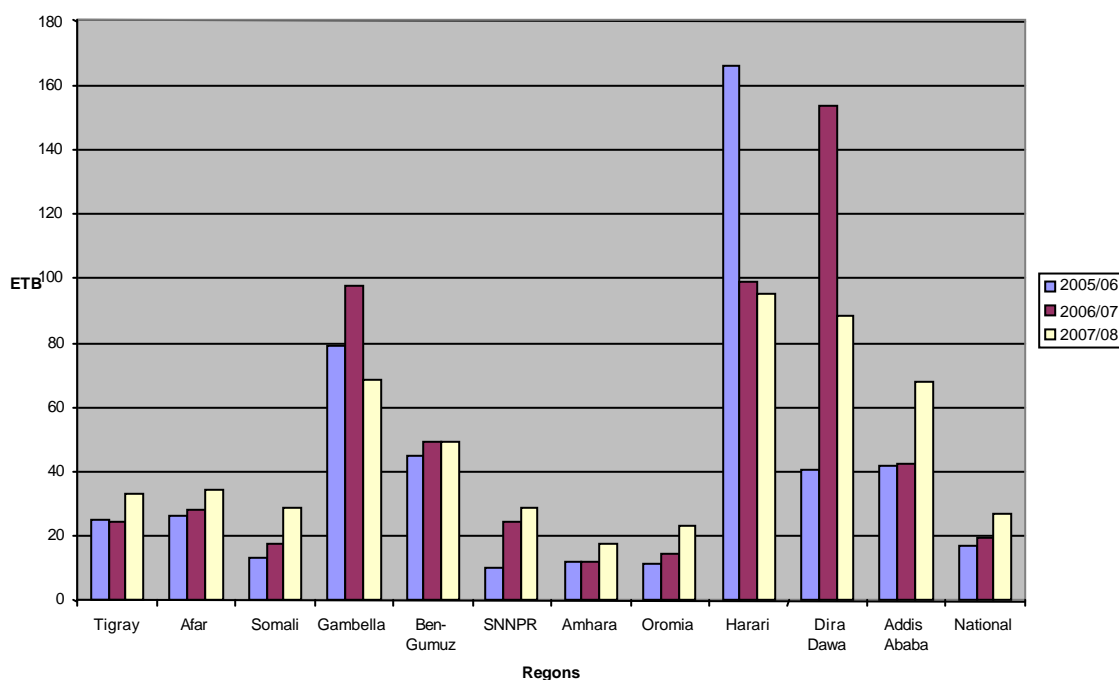


Table: 1.13 Health Budget per Person by Region

| Regions      | 2005/06                    |   |                         | 2006/07                    |   |                         | 2007/08                    |   |                         | Change in Point |       |
|--------------|----------------------------|---|-------------------------|----------------------------|---|-------------------------|----------------------------|---|-------------------------|-----------------|-------|
|              | A                          | B                                       | C                       | D                          | E                                       | F                       | G                          | H                                       | I                       | I-C             | I-F   |
|              | Population<br>(in million) | Budget<br>Allocation<br>(in million Br) | Budget<br>per<br>person | Population<br>(in million) | Budget<br>Allocation<br>(in million Br) | Budget<br>per<br>person | Population<br>(in million) | Budget<br>Allocation<br>(in million Br) | Budget<br>per<br>person |                 |       |
| Tigray       | 4.3                        | 107.9                                   | 24.9                    | 4.4                        | 108.3                                   | 24.3                    | 4.6                        | 150.8                                   | 33.0                    | 8.1             | 8.7   |
| Afar         | 1.4                        | 36.3                                    | 26.2                    | 1.4                        | 39.7                                    | 28.0                    | 1.4                        | 49.4                                    | 34.1                    | 7.9             | 6.1   |
| Somali       | 4.3                        | 56.8                                    | 13.1                    | 4.4                        | 78.3                                    | 17.6                    | 4.6                        | 132.5                                   | 29.1                    | 16.0            | 11.4  |
| Gambella     | 0.2                        | 19.6                                    | 79.3                    | 0.3                        | 24.7                                    | 97.7                    | 0.3                        | 17.8                                    | 68.8                    | -10.5           | -28.9 |
| Ben-Gumuz    | 0.6                        | 28.1                                    | 44.9                    | 0.6                        | 31.7                                    | 49.5                    | 0.7                        | 32.2                                    | 49.1                    | 4.2             | -0.4  |
| SNNPR        | 14.9                       | 149.2                                   | 10.0                    | 15.3                       | 375.5                                   | 24.5                    | 15.7                       | 449.9                                   | 28.6                    | 18.6            | 4.1   |
| Amhara       | 19.1                       | 228.9                                   | 12.0                    | 19.6                       | 235.7                                   | 12.0                    | 20.1                       | 357.7                                   | 17.8                    | 5.8             | 5.8   |
| Oromia       | 26.6                       | 300.3                                   | 11.3                    | 27.3                       | 399.1                                   | 14.6                    | 28.1                       | 652.6                                   | 23.3                    | 11.9            | 8.6   |
| Harari       | 0.2                        | 32.5                                    | 165.8                   | 0.2                        | 20.1                                    | 99.1                    | 0.2                        | 19.9                                    | 95.2                    | -70.6           | -3.8  |
| Dira Dawa    | 0.4                        | 16.2                                    | 40.7                    | 0.4                        | 63.4                                    | 153.8                   | 0.4                        | 37.9                                    | 88.5                    | 47.7            | -65.4 |
| Addis Ababa  | 3.0                        | 124.2                                   | 41.8                    | 3.1                        | 129.1                                   | 42.2                    | 3.1                        | 213.9                                   | 68.0                    | 26.2            | 25.8  |
| Federal FMOH |                            | 158.1                                   |                         |                            |   |                         |                            |   |                         |                 |       |
| National     | 75.1                       | 1,258.1                                 | 16.8                    | 77.1                       | 1,505.7                                 | 19.5                    | 79                         | 2,114.7                                 | 26.7                    | 9.9             | 7.2   |

Source: MoH and NBE Staff Computation

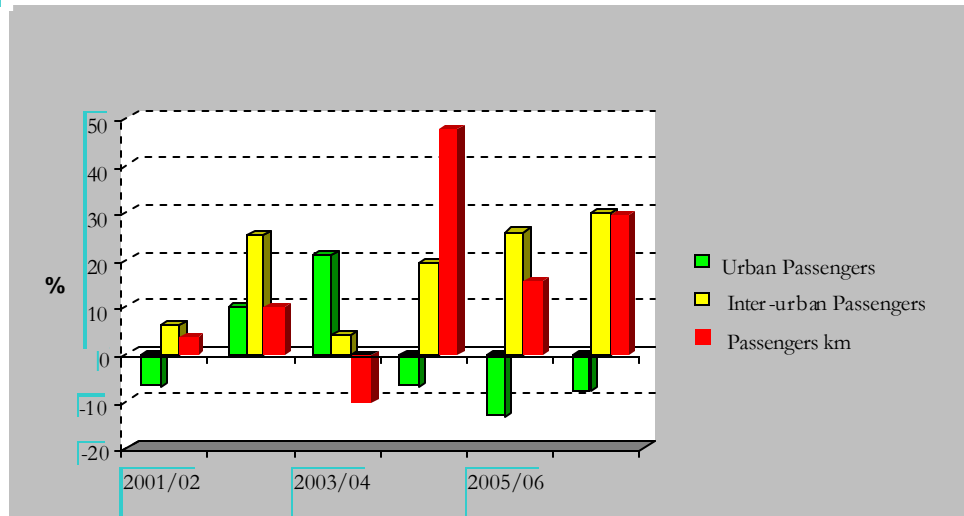
## 1.10 Transport Sector Development

### 1.10.1 Road Transport

In 2006/07, the total number of passengers reached 321 million where road, rail and air passengers constituted 99.31, 0.04, and 0.65 percent, respectively. Similarly, the total passenger distance was 17 billion kilometres with the respective percentage points of 57.8, 0.2 and 42 percent for road, rail and air transport. In terms of freight services, rail freight tended to slow down as others showed marginal improvement.

From the total 318.6 million road transport passengers, 185.7 million were urban passengers and the remaining 132.9 million inter-urban. The number of urban passengers declined from 249.1 million in 2003/04 to 185.8 million in 2006/07, whereas that of inter-urban passengers increased from 68.2 to 132.9 million.

The 29.7 percent annual growth in inter-urban passengers in 2006/07 highly contrasted with the 8 percent decline in urban passengers. Moreover, the annual passenger distance significantly rose by 29.4 percent in 2006/07.

**Fig I.5 Road Transport Development**

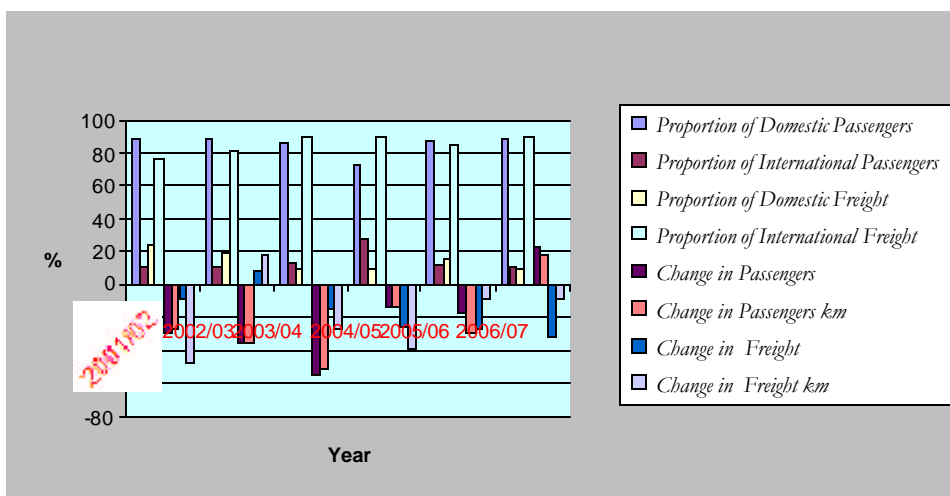
Source: Ministry of Transport and Communication and NBE Staff Computation

### 1.10.2 Rail Transport

The Bole Addis Ababa-Djibouti rail way transported over 126 thousand passengers in 2006/07, which was 22.4 percent higher than that of last year. About 88.6 percent of the total road transport passengers were domestic ones. Besides, the total passenger kilometre was

28.2million as compared to 24 million a year earlier.

The number of rail-way passengers and average passenger kilometre were declining over the last six years.

**Fig I.6 Rail Freight and Passengers Transport**

Source: Ministry of Transport and Communication and NBE Staff Computation

### 1.10.3. Air Transport

Of the total 2.1 million passengers in the air transport sector, domestic passengers constituted 14.6 percent and international passengers 85.4 percent in 2006/07 (Table 1.1). The number of passengers grew by 18.8 percent during the review year. In addition, the passenger route covered a

distance of over 7.2 billion kilometres, 24.3 percent higher than that of 2005/06.

**Table 1.14 Passenger Services by Sub-Sector**

|  | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|--|---------|---------|---------|---------|---------|---------|---------|
| <b>1. Rail transport</b>               |         |         |         |         |         |         |         |
| 1.1. Total passengers in '000'         | 717.0   | 501.0   | 324.0   | 145.0   | 124.8   | 103.0   | 126.1   |
| 1.2. Total passengers km in million    | 173.0   | 127.0   | 82.0    | 40.0    | 34.4    | 24.0    | 28.2    |
| <b>2. Air transport</b>                |         |         |         |         |         |         |         |
| 2.1. Domestic passengers in '000'      | 266.0   | 264.0   | 276.0   | 275.0   | 304.0   | 308.0   | 305.0   |
| 2.2. International passengers in '000' | 700.0   | 791.0   | 846.0   | 955.0   | 1,252.0 | 1,455.0 | 1,790.0 |
| 2.3. Total passengers in '000'         | 966.0   | 1,055.0 | 1,122.0 | 1,230.0 | 1,556.0 | 1,763.0 | 2,095.0 |
| 2.4. Total passengers km in million    | 2,806.0 | 3,044.0 | 3,424.0 | 3,837.0 | 4,964.0 | 5,829.0 | 7,243.0 |

Source: Ministry of Transport and Communication and NBE Staff Computation

### 1.10.4 Road Sector Development

During 2007/08, the Ethiopian road network reached 27,563 miles (46 percent Federal and 54 percent rural) with annual growth rate of 5 percent as a result of 1,199 miles new road constructed. Of the total 12,694 miles Federal roads, asphalt road constituted 30 percent and gravel road 70 percent.

Moreover, the share of the total paved or asphalt road reached to 13.7 percent,

about 0.9 percentage points higher than the preceding year.

The community road, which was not calculated as part of the total road network as it was non-engineered road, was 43,520 miles growing by 21 percent over the previous year.

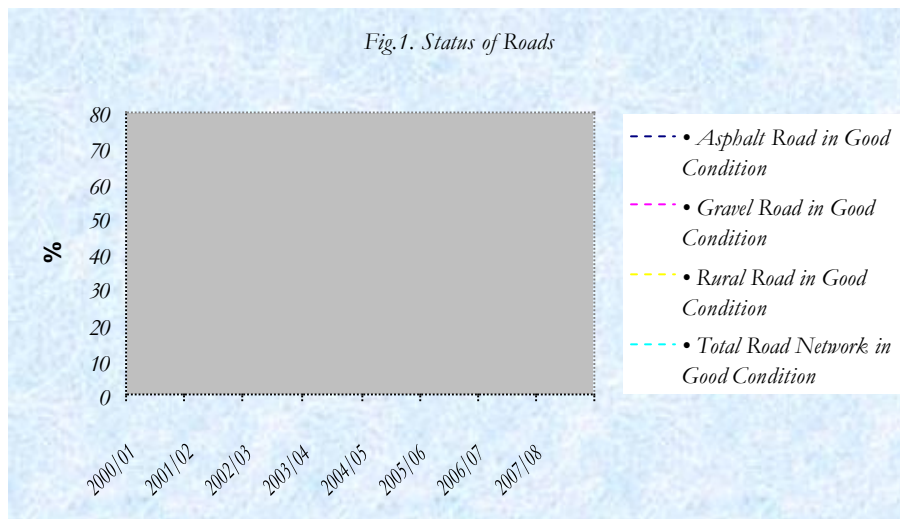
During the review year, road density including community road was 167 miles

per 1,000 square miles moving upwards by 101 units in line with the PASDEP plan. Likewise, the road density per 1000 population increased to 1.0 miles substantially above the PASDEP projection.

All-weather road (rural road) grew by 7 percent per annum constituting 54 percent or 14,869 miles of the total road network in 2007/08. Besides, the annual

average distance from all-weather roads declined to 7.7 miles from 8.1 miles during the same year.

Similarly, the proportion of area more than 5 km from all weather roads which was 68 percent in 2006/07 went down to 66.8 percent in 2007/08 though the PASDEP projection for 2007/08 was 63 percent.

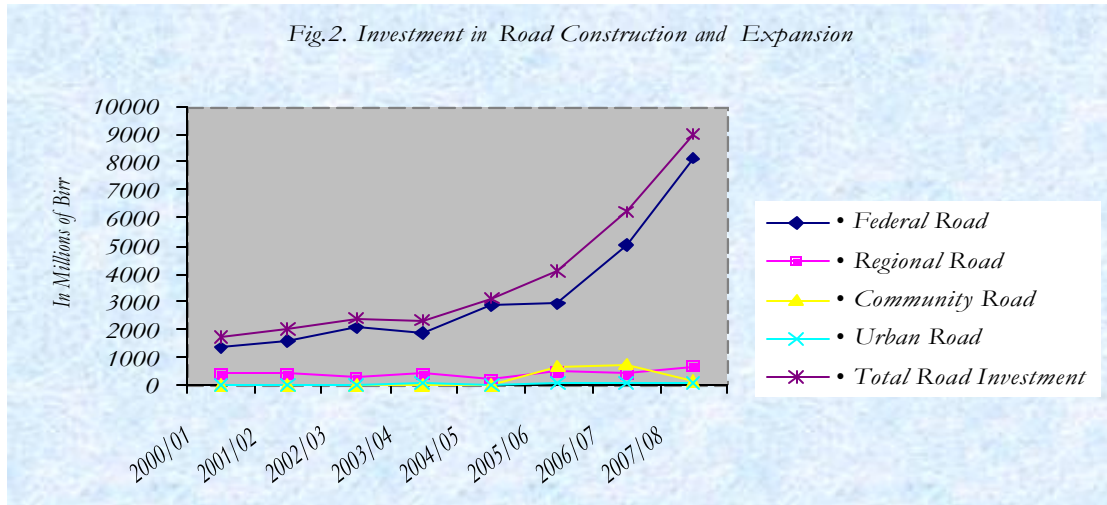


Source : Ministry of Transport and Communication and NBE Staff Computation

As the above figure illustrates, some 53 percent of the total road network in the country is found in good condition. This indicates 16 and 4 percentage points improvement over 2003/04 and 2006/07,

respectively. Unlike the other road types, the highest proportion of asphalt road was in good condition. At the same time, there has been an overall improvement in all types of roads during the last eight years.





Source : Ministry of Transport and Communication and NBE Staff Computation

Figure 2 depicts that the cumulative investment capital in the road construction and expansion sector had been steadily rising over the past eight years reaching Birr 9.0 billion in 2007/08. Investment in the Federal road construction and expansion also reached Birr 8.0 billion making up the lion's share of the total investment capital in the sector during the reported period.

**Table 1.15 Road Sector Development Data**

| INDICATORS  | 2000/01        | 2001/02        | 2002/03        | 2003/04        | 2004/05        | 2005/06        | 2006/07        | 2007/08        |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| •Total Road Network (km)  | 32,871         | 33,297         | 33,856         | 36,496         | 37,018         | 39,477         | 42,429         | 44,359         |
| •Growth rate of total road network expansion                        | -              | 1              | 2              | 8              | 1              | 7              | 7              | 5              |
| •Federal Roads (km)   | 16,391         | 16,617         | 16,702         | 18,540         | 18,612         | 19,313         | 20,080         | 20,429         |
| •Asphalt Road (km)  | 3,924          | 4,053          | 4,362          | 4,635          | 4,972          | 5,002          | 5,452          | 6,066          |
| •Gravel Road (km)   | 12,467         | 12,564         | 12,340         | 13,905         | 13,640         | 14,311         | 14,628         | 14,363         |
| •Rural Road [All-weather Road](km)                                  | 16,480         | 16,680         | 17,154         | 17,956         | 18,406         | 20,164         | 22,349         | 23,930         |
| •Community Road (km)  | NA             | NA             | NA             | NA             | NA             | NA             | 57,763.74      | 70,038.1       |
| •New Road Construction (km)   | 1,317          | 426            | 559            | 2,640          | 522            | 2,459          | 2,952          | 1,930          |
| •Growth rate in the construction sector                             |                | -67.7          | 31.2           | 372.3          | -80.2          | 371.1          | 20.0           | -34.6          |
| •Paved Roads (%)  | 11.9           | 12.2           | 12.9           | 12.7           | 13.4           | 12.7           | 12.8           | 13.7           |
| • Asphalt roads in good condition (%)                               | 30             | 35             | 43             | 49             | 54             | 60             | 64             | 68             |
| • Gravel roads in good condition (%)                                | 30             | 30             | 31             | 34             | 40             | 45             | 49             | 53             |
| • Rural roads in good condition (%)                                 | 26             | 28             | 30             | 36             | 33             | 46             | 46             | 49             |
| • Total road network in good condition (%)                          | 28             | 30             | 32             | 37             | 39             | 47             | 49             | 53             |
| • Area more than 5km from all - weather roads (%)                   | 74.17          | 73.88          | 73.51          | 71.76          | 71.42          | 69.85          | 68             | 66.81          |
| • Average distance to all-weather road in km                        | 16.73          | 16.52          | 16.25          | 15.07          | 14.86          | 13.93          | 12.96          | 12.4           |
| • Road Density /1,000 sq.km   | 29.9           | 30.3           | 30.8           | 33.2           | 33.7           | 35.9           | 38.6           | 40.3           |
| • Road Density/1000 population in km                                | 0.5            | 0.5            | 0.49           | 0.51           | 0.5            | 0.53           | 0.55           | 0.56           |
| • Number of domestic construction firms                             | 2              | 4              | 5              | 12             | 12             | 9              | 14             | NA             |
| • Number of foreign construction firms                              | 3              | 1              | 1              | 2              | 5              | 3              | 7              | NA             |
| •Total expenditure on road construction and expansion (in mln Birr) | 1,722.1        | 2,001.7        | 2,355.9        | 2,339.6        | 3,114.2        | 4,088.1        | 6,215.2        | 8,977.5        |
| •Total Ethiopian population(in mln )                                | 65.3           | 67.2           | 69.1           | 71.1           | 73.9           | 75.1           | 77.0           | 79.0           |
| •Per capita expenditure on road construction and expansion          | 26.4           | 29.8           | 34.1           | 32.9           | 42.1           | 54.5           | 80.7           | 113.6          |
| <b>iii. Investment in mln Birr</b>                                  |                |                |                |                |                |                |                |                |
| • Federal road  | 1313.6         | 1593.4         | 2033.6         | 1882.9         | 2848.3         | 2885.9         | 5037.4         | 8,124.40       |
| • Regional road   | 391.1          | 388.3          | 294.3          | 419.3          | 222.9          | 471.2          | 395.2          | 671            |
| • Community road  | 0              | 2.6            | 4.5            | 0              | 17.8           | 684.4          | 719.3          | 121            |
| • Urban road  | 17.4           | 17.4           | 23.5           | 37.4           | 25.2           | 46.60          | 63.3           | 61.1           |
| • Total   | <b>1,722.1</b> | <b>2,001.7</b> | <b>2,355.9</b> | <b>2,339.6</b> | <b>3,114.2</b> | <b>4,088.1</b> | <b>6,215.2</b> | <b>8,977.5</b> |

Source: Ethiopian Roads Authority (ERA) and NBE Staff Computation

## II. ENERGY PRODUCTION

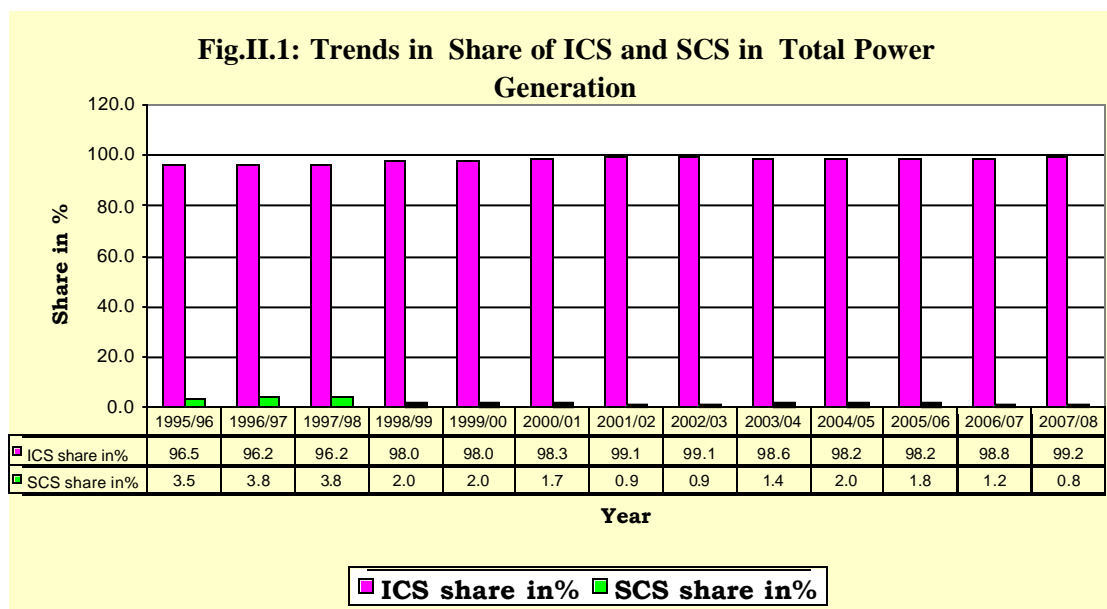
### 2.1 Electric Power Generation

Ethiopia has immense potential for hydroelectric power and geothermal energy generation. Nine of its major rivers are suitable for hydroelectric power generation with a total capacity of generating 15,000-30,000 MW. Apart from this, the country has vast potential for geothermal energy generation. Despite such huge resources, the country has so far managed to utilize merely 790 MW of its power generating potential and, as a result, only about 17 percent of the population has access to electricity.

The Ethiopian Electric Power Corporation (EEPCo) is a public enterprise with the mandate of generating, transmitting, distributing,

and selling electricity. EEPCo generates electricity through two different power supply systems; namely, the Interconnected System (ICS) and the Self Contained System (SCS).

The ICS, which is largely generated by hydropower plants, is the major source of electric power generation. On the other hand, the power generated from SCS system has steadily dwindled with its share from the total electric power generated dropping to 0.8 percent in 2007/08 from an average of three percent during 1995/96-1999/00.



Source: EEPCo

Total electric power generated during 2007/08 was 3,530.2 million KWH, 6.6 percent higher than that of last year. Of this amount, some 95.5 percent of the electric power was generated through hydropower while the rest (4.5 percent) came from thermal power (Table II.1).

As per the government's five-year development plan (2005/06-2009/10) (PASDEP), it is envisaged to step up electric power generation capacity of the country by finalizing the power projects currently under construction as well as building new ones thus expanding the coverage to rural towns and *kebeles*.

By 2010, when the power generation projects such as *Tekeze* (300 MW), *Gilgel Gibe 2nd* (420 MW), *Amertenesh* (97 MW), *Beles* (460 MW), Wind Power (50 MWH) and *Yayo* (100 MW) are completed, the country's power generation capacity is expected to reach 2218 MW per hour. The number of electrified cities and towns accessing electric power services is also planned to reach 6000 from the current 1,166.

**Table: 2.1 Electric Power Generation in ICS and SCS**

(in 000 KWH)

| Source      |               | 2005/2006 | 2006/2007 | 2007/2008 | Percentage Change |        |
|-------------|---------------|-----------|-----------|-----------|-------------------|--------|
|             |               | [A]       | [B]       | [C]       | [C/A]             | [C/B]  |
| ICS         | Hydro Power   | 2,838,714 | 3,259,789 | 3,368,682 | 18.7              | 3.3    |
|             | Thermal Power | 6,307     | 9,713     | 131,769   | 1989.3            | 1256.6 |
| Sub Total   |               | 2,845,021 | 3,269,502 | 3,500,450 | 23.0              | 7.1    |
| SCS         | Hydro Power   | 18,663    | 5,238     | 2,733     | -85.4             | -47.8  |
|             | Thermal Power | 32,839    | 35,653    | 27,097    | -17.5             | -24.0  |
| Sub Total   |               | 51,502    | 40,891    | 29,830    | -42.1             | -27.1  |
| Total       | Hydro Power   | 2,857,378 | 3,265,027 | 3,371,415 | 18.0              | 3.3    |
|             | Thermal Power | 39,147    | 45,366    | 158,865   | 305.8             | 250.2  |
| Grand Total |               | 2,896,525 | 3,310,394 | 3,530,280 | 21.9              | 6.6    |

Source: Ethiopian Electric Power Corporation (EEPCo)

## 2.2 Volumes and Value of Petroleum Imports

In 2007/08, a total of 1.9 million metric tons of petroleum products worth Birr 15,011.1 million were imported into the country by the Ethiopian Petroleum Enterprise (EPE). The import bill was 90.7 percent higher than that of the preceding fiscal year on account of the continuous rise in the international oil prices and increased fuel demand owing to the growing economy.

As Ethiopia is net importer of fuel, the escalating oil price in the international market has contributed to a widening trade deficit and inflationary pressure by way of a pass-through effect.

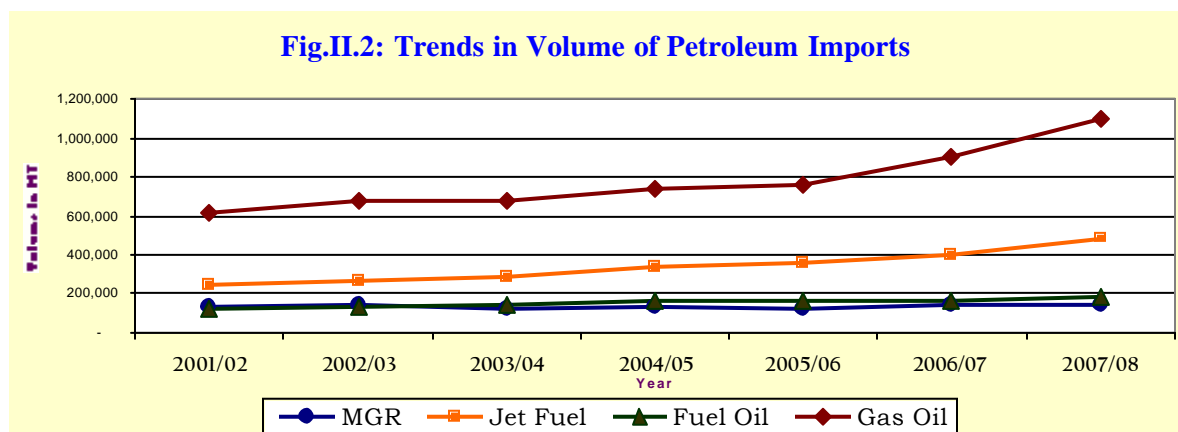
Component wise, the value of imports of regular gasoline, jet fuel, fuel oil and gas oil grew by 51.1, 93.2, 83.8 and 96.6 percent, respectively.

**Table 2.2 Volume and Value of Petroleum Imports**

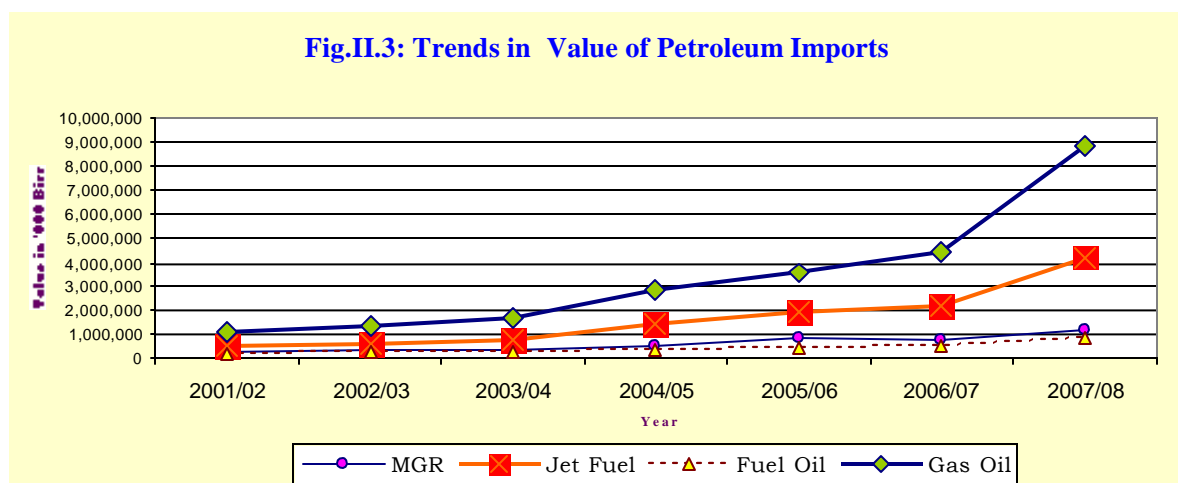
(Volume in MT and Value in Thousand Birr)

| Products                      | 2006/07            |                    | 2007/08            |                     | Percentage Change |             |
|-------------------------------|--------------------|--------------------|--------------------|---------------------|-------------------|-------------|
|                               | Volume [C]         | Value [D]          | Volume [E]         | Value [F]           | [E/C]             | [F/D]       |
| <i>Regular Gasoline (MGR)</i> | 143,663.6          | 740,426.2          | 144,505.0          | 1,118,494.9         | 0.6               | 51.06       |
| <i>Jet Fuel</i>               | 401,492.4          | 2,168,104.6        | 492,083.5          | ,189,310.1          | 22.6              | 93.2        |
| <i>Fuel Oil</i>               | 158,842.8          | 461,230.4          | 180,992.8          | 847,556.7           | 13.9              | 83.8        |
| <i>Gas Oil (ADO)</i>          | 904,378.2          | 4,503,816.2        | 1,093,804.5        | 8,855,755.4         | 20.9              | 96.6        |
| <i>Total</i>                  | <i>1,608,377.0</i> | <i>7,873,577.5</i> | <i>1,911,385.7</i> | <i>15,011,117.2</i> | <i>18.8</i>       | <i>90.7</i> |

Source:EPE



Source: EEPCo



Source: EEPCo

Generally, the domestic retail prices of petroleum products are adjusted quarterly in line with the movements of oil prices in the world market. The retail prices of MGR, fuel oil, gas oil and kerosene were adjusted upward in the third quarter of 2007/08. As a result, the average prices of all petroleum products tended to rise over

the preceding fiscal year. In Addis Ababa, the average retail prices of MGR grew by 11.5 percent, gas oil by 14.8 percent and kerosene by 19.5 percent in 2007/08 (Table 2.3).

**Table 2.3: Quarterly Retail Prices of Petroleum Products in Addis Ababa (Birr/liter)**

|                | Quarter | MGR  | Fuel Oil | Gas Oil | Kerosene |
|----------------|---------|------|----------|---------|----------|
| <b>2004/05</b> | Qtr.1   | 5.0  | 2.89     | 3.4     | 2.5      |
|                | Qtr.2   | 5.3  | 3.21     | 3.9     | 2.8      |
|                | Qtr.3   | 5.5  | 3.43     | 4.3     | 3.0      |
|                | Qtr.4   | 5.5  | 3.43     | 4.3     | 3.0      |
| <b>2005/06</b> | Average | 5.31 | 3.24     | 3.98    | 2.83     |
|                | Qtr.1   | 5.5  | 3.4      | 4.3     | 3.0      |
|                | Qtr.2   | 5.5  | 3.4      | 4.3     | 3.0      |
|                | Qtr.3   | 5.5  | 3.4      | 4.3     | 3.0      |
|                | Qtr.4   | 6.2  | 3.9      | 4.6     | 3.3      |
| <b>2006/07</b> | Average | 5.68 | 3.53     | 4.38    | 3.08     |
|                | Qtr.1   | 7.6  | 4.2      | 5.2     | 3.9      |
|                | Qtr.2   | 8.0  | 5.6      | 5.4     | 4.1      |
|                | Qtr.3   | 7.7  | 5.2      | 5.4     | 4.1      |
| <b>2007/08</b> | Qtr.4   | 7.7  | 5.2      | 5.4     | 4.1      |
|                | Average | 7.8  | 5.0      | 5.4     | 4.1      |
|                | Qtr.1   | 7.8  | 4.1      | 5.4     | 4.1      |
|                | Qtr.2   | 7.8  | 4.1      | 5.4     | 4.1      |
|                | Qtr.3   | 9.6  | 5.9      | 6.9     | 5.7      |
| <b>2007/08</b> | Qtr.4   | 9.6  | 5.9      | 6.9     | 5.7      |
|                | Average | 8.7  | 5.0      | 6.2     | 4.9      |

Source: EEPCo

### III. TELECOMMUNICATIONS

The Ethiopian Telecommunications Corporation (ETC), is a state-owned enterprise that provides national and international telecommunications services using Satellite, microwave Digital Radio Multi-Access System (DRMAS), VSAT, UHF, VHF, Long Line and HF Radio. Currently, ETC is serving the public through its 966 public stations and exchanges.

Accordingly, the number of fixed telephone subscription (residential, business, government organizations and others) increased from 880,088 in 2006/07 to 897,287 in 2007/08 revealing a two percent annual increase. The number of waiting list for fixed telephone subscribers grew by 40 percent from 13,579 in 2006/07 to 19,013 in the review year (Table 3.1).

Similarly the number of mobile-telephone subscribers increased from 1208,498 to 1,954,327 showing a 61.7 percent growth.

Besides, the number of Internet subscribers went up from 31,400 in 2006/07 to 34,110 in the reported period registering a 8.6 percent increase.

Despite the increased performance in fixed telephone, mobile and Internet subscription, the country's telecommunications penetration rate (tele-density excluding mobile or the number of telephone subscribers per 100 inhabitants) declined from 1.16 in 2006/07 to 1.15 in 2007/08. However, the penetration rate was higher (3.6 per 100 inhabitants) when mobile subscriptions are included.

With respect to telephone traffic, the registered domestic traffic picked up by 0.03 percent from 2,714.31 million pulses in 2006/07 to 2,715.07 million pulses in 2007/08. Similarly, the outgoing international telephone traffic calls increased from 12.7 million in 2006/07 to 19.3 million in 2007/08.



The country's five-year development plan (PASDEP) envisages increasing the number of fixed line subscribers from 830,000 in 2005/06 to 3.2 million by the end of 2009/10.

The number of mobile-telephone subscribers and Internet users is also expected to pick up to a respective 6.76 million and 193,100 by the end of the plan period from 1.465 million and 48,970 in 2005/06.

**Table 3.1: SUMMARY OF BASIC TELECOM STATISTICS**

[1985 - 2000 E.F.Y (1992/93 - 2007/2008 G.C)]

|      |   | 1985     | 1986     | 1987     | 1988     | 1989     | 1990     | 1991      | 1992      | 1993     | 1994      | 1995      | 1996      | 1997      | 1998      | 1999      | 2000      | Average Annual Growth | Annual Growth |
|------|---|----------|----------|----------|----------|----------|----------|-----------|-----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------------|---------------|
| No.  | ITEMS   | 1992/93) | 1993/94) | 1994/95) | 1995/96) | 1996/97) | 1997/98) | (1998/99) | (1999/00) | 2000/01) | (2001/02) | (2002/03) | (2003/04) | (2004/05) | (2005/06) | (2006/07) | (2007/08) |                       |               |
| 1    | <b>PUBLIC STATIONS &amp; EXCHANGES(1.2+1.3+1.5)</b> | 475      | 486      | 512      | 536      | 548      | 563      | 573       | 606       | 649      | 700       | 770       | 784       | 865       | 904       | 919       | 966       | 4.8                   | 5.1           |
| 1.1  | Automatic Exchanges                                 | 36       | 37       | 40       | 44       | 47       | 53       | 82        | 112       | 129      | 150       | 156       | 171       | 273       | 423       | 511       | 540       | 19.8                  | 5.7           |
| 1.2  | Automatic Stations                                  | 22       | 23       | 26       | 30       | 32       | 37       | 58        | 79        | 93       | 105       | 122       | 142       | 242       | 391       | 475       | 510       | 23.3                  | 7.4           |
| 1.3  | Manual Exchanges(Stations)                          | 375      | 388      | 403      | 403      | 403      | 403      | 390       | 382       | 356      | 347       | 341       | 335       | 256       | 136       | 92        | 86        | (9.4)                 | (6.5)         |
| 1.4  | Manual Stations with Semi - Auto. facility          | 55       | 74       | 113      | 153      | 155      | 175      | 181       | 331       | 259      | 306       | 313       | 310       | 239       | 131       | 90        | 78        | 2.4                   | (13.3)        |
| 1.5  | Pay Stations & R.R.C                                | 78       | 75       | 83       | 103      | 113      | 123      | 125       | 145       | 200      | 248       | 307       | 307       | 368       | 378       | 352       | 370       | 10.9                  | 5.1           |
| 1.6  | Total Exchange Capacity                             | 169622   | 172742   | 179094   | 190177   | 196322   | 211108   | 372885    | 458247    | 511474   | 600337    | 649593    | 722548    | 872,228   | 1,022,399 | 1,123,281 | 1,146,555 | 13.6                  | 2.1           |
| 1.7  | Automatic Exchange Capacity                         | 142756   | 143756   | 150556   | 161180   | 167252   | 182911   | 348644    | 433299    | 490724   | 579,589   | 629,477   | 703,160   | 857,374   | 1,016,111 | 1,120,071 | 1,143,525 | 14.9                  | 2.1           |
| 1.8  | Manual Exchange Capacity                            | 26866    | 28986    | 28538    | 28997    | 29070    | 28197    | 24241     | 24948     | 20750    | 20,748    | 20,116    | 19,388    | 14,854    | 6,288     | 3,210     | 3,030     | (13.5)                | (5.6)         |
| 1.9  | % Digital by Capacity                               | -        | 37.20    | 35.88    | 34.33    | 34.82    | 40.51    | 67.49     | 73.60     | 80.30    | 83.22     | 89.64     | 97.18     | 98.30     | 99.38     | 99.71     | 99.74     | 7.3                   | 0.0           |
| 1.10 | % Digital by Total Connected Lines / DEL /          | -        | 39.34    | 38.87    | 38.15    | 37.95    | 39.88    | 51.98     | 61.90     | 74.02    | 80.9      | 89.9      | 97.80     | 93.84     | 98.24     | 99.82     | 99.82     | 6.9                   | (0.0)         |
| 2    | <b>SUBSCRIPTION</b>                                 |          |          |          |          |          |          |           |           |          |           |           |           |           |           |           |           |                       |               |
| 2.01 | Telephone Subscriber Lines                          | 132478   | 137731   | 142452   | 148739   | 156538   | 164140   | 194494    | 231945    | 283683   | 353,816   | 404790    | 484368    | 610,347   | 725,046   | 880,088   | 897,287   | 13.6                  | 2.0           |
| 2.02 | Waiting List for Telephone                          | 141035   | 160939   | 178992   | 193499   | 206562   | 230225   | 224788    | 196883    | 155208   | 139,095   | 146,062   | 156,963   | 58,755    | 56,053    | 13,579    | 19,013    | (12.5)                | 40.0          |
| 2.03 | DEL's   | 136102   | 141650   | 146566   | 153001   | 160861   | 168639   | 199474    | 238495    | 290887   | 361,688   | 413,186   | 494,008   | 620,661   | 738,805   | 894,337   | 912,695   | 13.5                  | 2.1           |
| 2.04 | PBX's   | 1251     | 1271     | 1317     | 1338     | 1476     | 1544     | 1615      | 1241      | 1419     | 1386      | 1322      | 1348      | -         | -         | -         | -         | 0.5                   |               |
| 2.05 | Coin Boxes  | 988      | 997      | 1005     | 1010     | 1008     | 1014     | 1016      | 957       | 935      | 1,610     | 1,759     | 1,813     | 2,585     | 4,294     | 4,718     | 4,944     | 11.3                  | 4.8           |
| 2.06 | Number of subscriber's Facsimile                    | 745      | 1039     | 1424     | 1604     | 2012     | 2476     | 3010      | 3555      | 3858     | 4231      | 4601      | 4925      | -         | -         | -         | -         | 18.3                  |               |
| 2.07 | Number of Facsimile Machines                        | 762      | 1057     | 1445     | 1624     | 2038     | 2502     | 3034      | 3594      | 3890     | 4271      | 4649      | 4978      | -         | -         | -         | -         | 18.6                  |               |
| 2.08 | Number of Internet Subscribers                      | -        | -        | -        | -        | 1042     | 2068     | 2163      | 2461      | 4073     | 6740      | 9534      | 12155     | 17,710    | 25,724    | 31,400    | 34,110    | 37.3                  | 8.6           |
| 2.09 | Mobile Telephone Subscription                       | -        | -        | -        | -        | -        | -        | 6740      | 17757     | 27532    | 42910     | 51234     | 155,534   | 410,630   | 866,700   | 1,208,498 | 1,954,327 | 87.8                  | 61.7          |

**Table 3.1: SUMMARY OF BASIC TELECOM STATISTICS**

| [1985 - 2000 E.F.Y (1992/93 - 2007/2008 G.C)] |  |           |           |          |          |          |          |            |            |            |            |            |            |            |            |            |           |                       |               |
|---|--|-----------|-----------|----------|----------|----------|----------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-----------|-----------------------|---------------|
|   |  | 1985      | 1986      | 1987     | 1988     | 1989     | 1990     | 1991       | 1992       | 1993       | 1994       | 1995       | 1996       | 1997       | 1998       | 1999       | 2000      | Average Annual Growth | Annual Growth |
| No.   | ITEMS  | 1992/93)  | 1993/94)  | (1994/95 | 1995/96) | 1996/97) | 1997/98) | (1998/99 ) | (1999/00 ) | (2000/01 ) | (2001/02 ) | (2002/03 ) | (2003/04 ) | (2004/05 ) | (2005/06 ) | (2006/07 ) | (2007/08) |                       |               |
| 2.10  | Percentage of lines residential/business     | 62.4/19.6 | 63.4/17.7 | 62/18    | 62/19    | 62/20    | 61/20    | 62/19      | 63/20      | 67/19      | 70/17.7    | 70.5/16.5  | 72.5/16.6  | 74/16.5    | 74.8/16.5  | 73.2/14.9  | 75.6/15.5 | -                     |               |
| 2.11  | Number of Digital Data Circuits              | -         | -         | -        | -        | -        | -        | -          | -          | -          | -          | 129        | 178        | -          | -          | -          | -         | 38.0                  |               |
| 2.12  | Number of Digital Data Customers             | -         | -         | -        | -        | -        | -        | -          | -          | -          | -          | 65         | 91         | -          | -          | -          | -         | 40.0                  |               |
| 2.13  | Number of Rural Kebeles                      | -         | -         | -        | -        | -        | -        | -          | -          | -          | -          | -          | -          | 60         | 4,837      | 7,389      | 8,676     | 424.9                 | 17.4          |
| <b>3</b>                                      | <b>TELEPHONE TRAFFIC (millions)</b>          |           |           |          |          |          |          |            |            |            |            |            |            |            |            |            |           |                       |               |
| 3.1   | Metered - Pulses                             | 470.8     | 523.6     | 540      | 568.3    | 619.45   | 704.4    | 786.42     | 1010.21    | 1253.41    | 1573.99    | 1890.37    | 2,225.14   | 2,341.99   | 2,475.56   | 2,714.31   | 2,715.07  | 12.4                  | 0.03          |
| 3.2   | Metered - CDR *                              |           |           |          |          |          |          |            |            |            |            |            |            |            |            | 344.60     | 346.11    | 0.4                   | 0.4           |
| 3.3   | Interurban calls (via operator)              | 3.7       | 4.4       | 5.4      | 6.08     | 6.65     | 7.22     | 6.78       | 7.72       | 10.37      | 12.73      | 14.18      | 15.57      | -          | -          | -          | -         | 14.0                  |               |
| 3.4   | International calls (OG)                     | 2.8       | 3.1       | 3.1      | 3.41     | 3.56     | 3.94     | 4.08       | 4.36       | 4.62       | 4.62       | 4.93       | 6.67       | 8.57       | 11.48      | 5.73       | -         | 11.4                  |               |
| 3.5   | International minutes (OG)                   | 10.9      | 11.5      | 10.5     | 10.35    | 10.69    | 11.84    | 12.45      | 13.42      | 13.42      | 12.88      | 14.31      | 17.70      | 20.59      | 28.68      | 15.95      | 27.10     | 6.3                   | 13.0          |
| 3.6   | International calls (IC)                     | 4.09      | 4.49      | 5.45     | 6.47     | 6.76     | 7.11     | 8.15       | 7.68       | 8.63       | 8.71       | -          | -          | -          | -          | -          | -         | 8.8                   |               |
| 3.7   | International minutes (IC)                   | 22.88     | 23.17     | 26.15    | 32.5     | 38.14    | 38.8     | 38.59      | 36.73      | 42.71      | 35.56      | 54.81      | 133.68     | 199.12     | 240.01     | 289.09     | 504.90    | 22.9                  | 60.0          |
| <b>4</b>                                      | <b>Mobile Telephone and Internet Traffic</b> |           |           |          |          |          |          |            |            |            |            |            |            |            |            |            |           |                       |               |
| 4.1   | Mobile - Local (million mins.)               | -         | -         | -        | -        | -        | -        | -          | 26.76      | 60.80      | 77.01      | 120.75     | 165.76     | N.A.       | N.A.       | N.A.       | -         | 57.8                  |               |
| 4.2   | Mobile - International (million mins.)       | -         | -         | -        | -        | -        | -        | -          | 1.41       | 2.43       | 2.45       | 3.34       | 3.83       | N.A.       | N.A.       | N.A.       | -         | 28.4                  |               |
| 4.3   | Internet Traffic ( ' 000 hours )             | -         | -         | -        | -        | -        | -        | -          | 334.60     | 577.11     | 622.05     | 2,325.33   | 3,285.74   | N.A.       | N.A.       | N.A.       | -         | 77.0                  |               |
| <b>5</b>                                      | <b>TELEGRAPH MESSAGES (Thousands)</b>        |           |           |          |          |          |          |            |            |            |            |            |            |            |            |            |           |                       |               |
| 5.1   | National                                     | 152.4     | 153.5     | 165.9    | 183.3    | 158.2    | 124.3    | 126        | 107.2      | 102.6      | 85.9       | 80.3       | 64.34      | 55.04      | -          | -          | -         | (8.1)                 |               |
| 5.2   | International (OG)                           | 5         | 3         | 3        | 2.7      | 2.3      | 1.6      | 1.2        | 1.4        | 0.66       | 0.41       | 0.95       | 0.36       | 0.11       | -          | -          | -         | (27.3)                |               |
| <b>6</b>                                      | <b>INTERNATIONAL CIRCUITS</b>                |           |           |          |          |          |          |            |            |            |            |            |            |            |            |            |           |                       |               |
| 6.1   | Satellite Telephone Circuits                 | 247       | 346       | 345      | 369      | 350      | 386      | 386        | 380        | 427        | 430        | 514        | 802        | 1,816      | 1,749      | 1,756      | -         | 15.0                  |               |
| 6.2   | Microwave Telephone Circuits                 | 49        | 91        | 91       | 186      | 193      | 25       | 25         | 26         | 53         | 53         | 109        | 109        | 137        | 167        | 167        | -         | 9.2                   |               |
| 6.3   | Submarine Cable                              | 18        | 18        | 24       | 24       | 24       | -        | -          | -          | 25         | 73         | 102        | 101        | 250        | 578        | 1,018      | -         | 33.4                  |               |

**Table 3.1: SUMMARY OF BASIC TELECOM STATISTICS**

[1985 - 2000 E.F.Y (1992/93 - 2007/2008 G.C.)]

|     |                              | 1985      | 1986    | 1987      | 1988    | 1989    | 1990    | 1991      | 1992      | 1993      | 1994      | 1995      | 1996      | 1997      | 1998      | 1999      | 2000      | Average Annual Growth | Annual Growth |
|-----|------------------------------|-----------|---------|-----------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------------|---------------|
| No. | ITEMS                        | (1992/93) | 1993/94 | (1994/95) | 1995/96 | 1996/97 | 1997/98 | (1998/99) | (1999/00) | (2000/01) | (2001/02) | (2002/03) | (2003/04) | (2004/05) | (2005/06) | (2006/07) | (2007/08) |                       |               |
| 7   | PERSONNEL                    |           |         |           |         |         |         |           |           |           |           |           |           |           |           |           |           |                       |               |
|     | Male                         | 3434      | 3352    | 3514      | 3470    | 3582    | 3861    | 4267      | 4607      | 4868      | 5058      | 5416      | 5987      | 6,763     | 7,764     | 8,087     | 8,712     | 6.4                   | 7.7           |
|     | Female                       | 1862      | 1870    | 1982      | 1993    | 2037    | 2225    | 2306      | 2476      | 2502      | 2522      | 2497      | 2632      | 3,015     | 3,470     | 3,557     | 3,548     | 4.4                   | (0.3)         |
|     | Total                        | 5296      | 5222    | 5496      | 5463    | 5619    | 6086    | 6573      | 7083      | 7370      | 7580      | 7913      | 8619      | 9,778     | 11,234    | 11,644    | 12,260    | 5.8                   | 5.3           |
| 8   | FINANCIAL                    |           |         |           |         |         |         |           |           |           |           |           |           |           |           |           |           |                       |               |
| 8.1 | Income (Millions Birr)       | 253.40    | 292.10  | 445.80    | 496.73  | 551.80  | 624.34  | 624.09    | 720.37    | 932.19    | 914.82    | 1042.66   | 1241.76   | 1,813.80  | 2,155.04  | N.A.      | 3,292.25  | 18.6                  | 20.0          |
| 8.2 | Expense (Millions Birr)      | 154.30    | 179.20  | 194.46    | 199.98  | 222.30  | 280.86  | 285.64    | 371.12    | 718.74    | 468.40    | 487.43    | 638.42    | 820.26    | 1,499.60  | N.A.      | 951.74    | 12.9                  | 13.4          |
| 8.3 | Gross Profit (Millions Birr) | 99.10     | 112.90  | 251.34    | 296.75  | 329.50  | 343.48  | 338.45    | 349.25    | 213.45    | 446.42    | 555.23    | 603.34    | 993.54    | 655.44    | N.A.      | 2,340.51  | 23.5                  | 22.9          |
| 8.4 | ASSETS (Millions Birr)       |           |         |           |         |         |         |           |           |           |           |           |           |           |           |           |           |                       |               |
| 8.5 | Fixed Gross (Millions Birr)  | 536.80    | 573.20  | 603.49    | 695.34  | 731.35  | 837.47  | 911.46    | 1218.92   | 1611.42   | 1818.60   | 2340.06   | 2596.34   | 2,806.21  | 2,843.80  | N.A.      | 4,667.90  | 15.5                  | 24.7          |
| 8.6 | Depreciation (Millions Birr) | 302.10    | 326.10  | 348.65    | 376.35  | 408.26  | 442.62  | 483.4     | 544.72    | 630.09    | 748.28    | 918.89    | 1084.14   | 1,256.37  | 1,430.73  | N.A.      | 1,595.66  | 11.7                  | 2.0           |
| 8.7 | Net Asset (Millions Birr)    | 234.70    | 247.10  | 254.84    | 318.99  | 323.09  | 394.85  | 428.08    | 674.20    | 981.33    | 1070.32   | 1421.17   | 1512.20   | 1,549.84  | 1,413.07  | N.A.      | 3,072.25  | 18.7                  | 41.1          |
| 9   | Population /in millions/     | 51.43     | 53.02   | 54.65     | 56.37   | 58.12   | 59.88   | 61.67     | 63.49     | 65.3947   | 67.22     | 69.13     | 71.10     | 73.2      | 75.2      | 77.1      | 79.4      | 2.9                   | 3.0           |
| 10  | Teledensity                  | 0.26      | 0.26    | 0.26      | 0.26    | 0.27    | 0.27    | 0.32      | 0.37      | 0.43      | 0.53      | 0.59      | 0.68      | 0.83      | 0.98      | 1.16      | 1.15      | 10.5                  | (0.9)         |
| 11  | Teledensity (Fixed + Mobile) | -         | -       | -         | -       | -       | -       | 0.33      | 0.39      | 0.48      | 0.59      | 0.66      | 0.90      | 1.39      | 2.14      | 2.73      | 3.61      | 30.6                  | 32.4          |

Source : Ethiopian Telecommunications Corporation, Annual Statistical Bulletin, (2007/08)

Note:- Average annual growth rate is computed for the years 1992/93-2007/08 E.F.Y.

\* Traffic of CDR-10 and AXE-10 exchanges measured in pulses; but for the remaining exchanges in CDR

-Figures in brackets under annual growth column show declines

## IV. PRICE DEVELOPMENTS

### 4.1 Developments in Consumer Price at National Level

Year-on-year basis, annualized<sup>1</sup> headline inflation at the end of 2007/08 fiscal year continued to surge following the trend that has set in since the second quarter of 2005/06 and reached 25.3 percent from 15.8 percent in 2006/07. Annualized food inflation grew to 34.9 percent from 17.5 percent, and core inflation, proxied by non-food inflation, dropped to 12.5 percent from 13.5 percent last year (Table IV.1 and Fig. 4.1).

The 9.5 percentage point rise in the annualized year-on-year headline inflation rate was wholly attributed to the increase in the prices of food items which made a combined contribution of 10.5 percentage points<sup>2</sup> compared to a 1.0 percentage point negative contribution of non-food items (Table IV.1).

On the other hand, the 17.4 percentage points surge in annualized year-on-year food inflation rate over that of last year was mainly due to a significant rise in the prices of cereals; spices; and potatoes, other tubers and stems, which together accounted for 15.4 percentage points of the upsurge. However, the slow rise in the prices of meat and food taken away from home has slightly checked the upward movement in the overall food inflation as compared to last year (Table IV.2).

As compared to the preceding year, the decline in the year-on-year annualized non-food inflation was mainly due to the drop in the rate of inflation of house rent, construction materials, potable water, fuel and electric power; transport and communication; and personal care and effects, which jointly constituted up 55.6 percent of the non-food consumption expenditure.

<sup>1</sup> 'Annualized' means 12 month average of CPI

<sup>2</sup> Contribution of a given consumption item (j) in a basket containing n different consumption items is computed as:

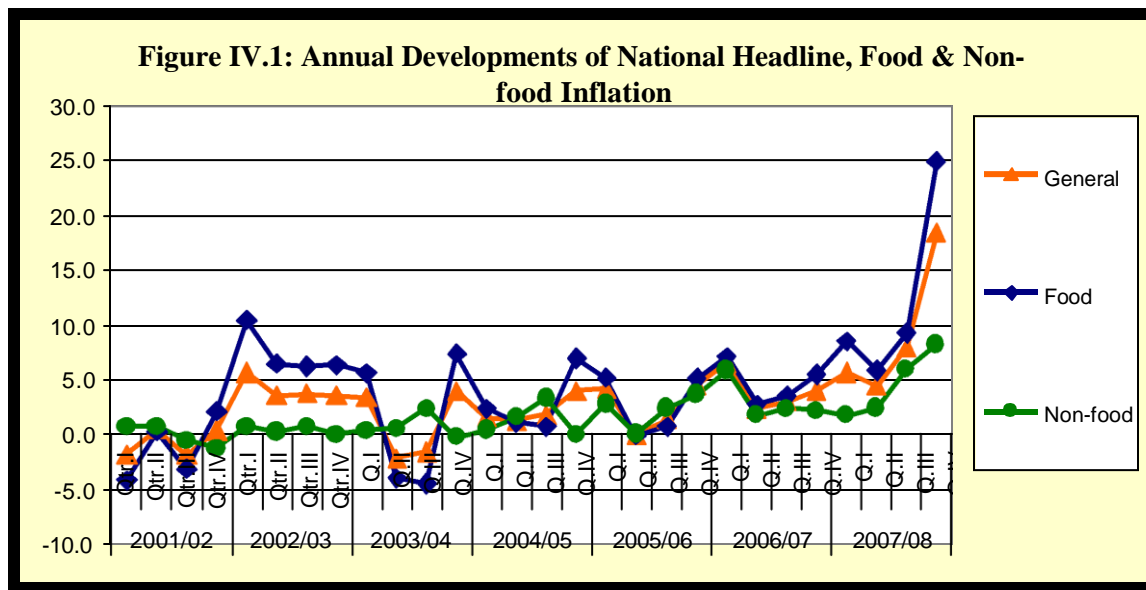
$$\frac{\sum_{i=0}^{t-1} \frac{a_i}{CPI_i} - \frac{a_t}{CPI_t}}{\sum_{i=0}^{t-1} \frac{a_i}{CPI_i}} \quad \text{where } CPI, a, t$$

and  $i$  each stands for price index, weight attached to the index, the month for which contribution is being computed, and the number of lags of the current and the last eleven months from  $t$

**Table 4.1: Annual Average Inflation Rates (In %)**

| Consumption Items | 2006/07 | 2007/08 | Change (in Percentage Points) | Contribution to Change in Headline Inflation (in Percentage Points) |
|-------------------|---------|---------|-------------------------------|---|
| A                 | B       | C       | C-B                           | D   |
| <b>General</b>    | 15.8    | 25.3    | 9.5                           | 9.5   |
| <b>Food</b>       | 17.5    | 34.9    | 17.4                          | 10.5  |
| <b>Non-Food</b>   | 13.5    | 12.5    | -1.0                          | -1.0  |

Source: Central Statistical Authority (CSA) and NBE Staff Computation



Source: CSA and NBE Staff Computation

**Table 4.2: Selected Food Items and Their Contribution to Food Inflation**  
(In Percentage Points)

| Food Items                       | Contribution to Change in | Weight |
|----------------------------------|---------------------------|--------|
| Cereals                          | 8.5                       | 39.5   |
| Spices                           | 5.4                       | 3.5    |
| Potatoes, other tubers and stems | 1.5                       | 7.3    |
| Meat                             | -0.3                      | 5.0    |
| Food taken away from home        | -1.0                      | 10.1   |

Source: CSA and NBE Staff Computation

The joint contribution of the aforementioned items to the 1.0 percentage point annual decline in core inflation was 5.1 percentage points (over 500 percent). On the other hand, clothing and footwear; furniture, furnishing, household equipment and operation; and miscellaneous goods categories exerted upward pressure on the year-on-year annualized non-food inflation. Collectively, these categories made a contribution of 3.5 percentage points<sup>3</sup>.

## 4.2 Regional Consumer Price Developments

Regional simple average headline inflation stood at 24.0 percent (Table IV.3) in 2007/08. Five regions; namely, Benishangul Gumz, Oromia, Tigray, Amhara, and SNNP registered a rate above the regional simple average. However, compared to that of 2006/07, headline inflation increased in all regional states due to the mounting food inflation.

The highest increment in headline inflation was registered in Benishangul Gumz (21.7

percentage points) and the lowest in Addis Ababa (1.6 percent).

Between 2006/07 and 2007/08, Benishangul Gumz, Tigray and Somali experienced high price instability. However, Addis Ababa, Harari, and Gambella relatively witnessed more stable prices, as measured by the extent of change in the rate of inflation of a given regional state relative to standard deviation of the change across regions (Table IV.3).

Regarding convergence as measured by the change in coefficient of variation<sup>4</sup> in regional rates of inflation between 2006/07 and 2007/08, one can see that regional inflation rates in 2007/08 showed a tendency to converge to their common mean more than the preceding year. This was presumably due to the growing interconnection among regional markets as transportation and communication facilities improved.

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<sup>3</sup> The contribution of these items tended to raise non-food inflation, but overwhelmed by the contribution of the items that made non-food price index decline by 1.0 percentage point

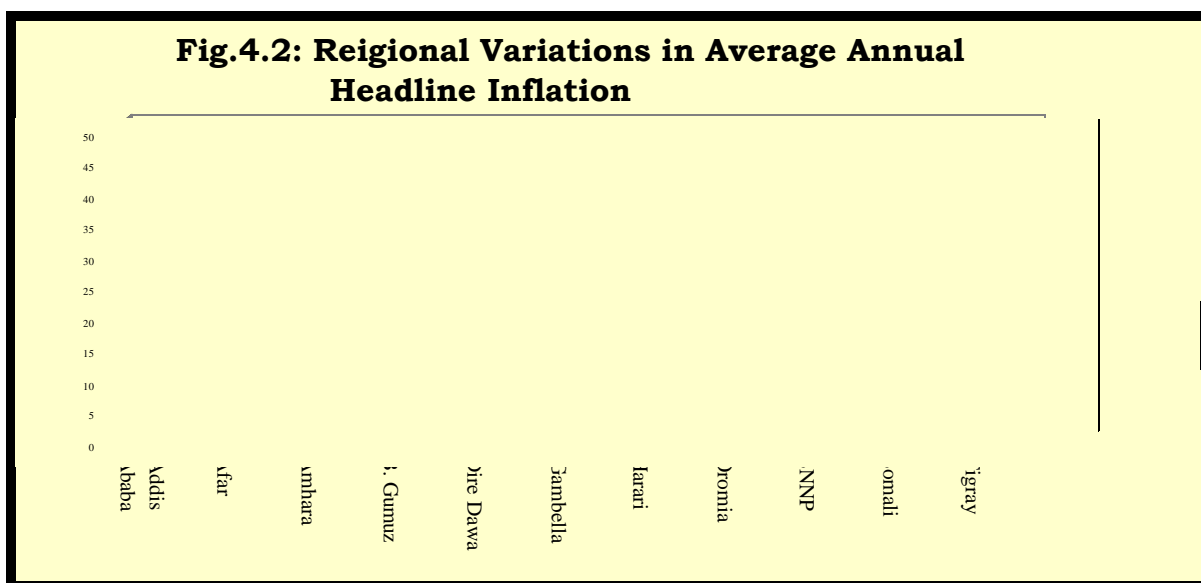
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<sup>4</sup> Coefficient of variation is the ratio of standard deviation to mean

**Table 4.3: Regional Average Annual Inflation (2006/07 FY)**

| Regions        | 2006/07 |      |          | 2007/08 |      |          | Change  |       |          |
|----------------|---------|------|----------|---------|------|----------|---------|-------|----------|
|                | General | Food | Non Food | General | Food | Non Food | General | Food  | Non Food |
| A              | B       | C    | D        | E       | F    | H        | I=E-B   | J=F-C | K=H-D    |
| Addis Ababa    | 19.2    | 25.4 | 14.0     | 20.8    | 32.1 | 12.7     | 1.6     | 6.7   | -1.3     |
| Afar           | 14.4    | 19.8 | 7.3      | 21.3    | 31.8 | 8.6      | 6.9     | 12.0  | 1.3      |
| Amhara         | 18.7    | 17.1 | 20.1     | 25.5    | 35.8 | 8.0      | 6.8     | 18.7  | -12.1    |
| B.Gumz         | 13.4    | 13.9 | 10.0     | 35.1    | 46.7 | 19.8     | 21.7    | 32.8  | 9.8      |
| D.Dawa         | 15.4    | 14.9 | 14.3     | 22.8    | 31.1 | 14.1     | 7.4     | 16.2  | -0.2     |
| Gambella       | 14.8    | 16.0 | 12.1     | 21.5    | 30.6 | 10.1     | 6.7     | 14.6  | -2.0     |
| Harari         | 14.6    | 16.4 | 10.8     | 19.5    | 29.2 | 10.2     | 4.9     | 12.8  | -0.6     |
| Oromia         | 19.2    | 20.8 | 13.7     | 27.5    | 36.7 | 13.9     | 8.3     | 15.9  | 0.2      |
| SNNP           | 16.4    | 19.2 | 11.4     | 25.4    | 31.3 | 17.2     | 9.0     | 12.1  | 5.8      |
| Somali         | 7.8     | 9.6  | 4.9      | 17.5    | 23.0 | 8.4      | 9.7     | 13.4  | 3.5      |
| Tigray         | 9.7     | 10.0 | 9.3      | 27.4    | 39.5 | 10.3     | 17.7    | 29.5  | 1.0      |
| Mean           | 14.9    | 16.6 | 11.6     | 24.0    | 33.4 | 12.1     | 9.2     | 16.8  | 0.5      |
| Standard dev.  | 3.7     | 4.6  | 4.0      | 4.9     | 6.2  | 3.8      | 5.7     | 7.8   | 5.4      |
| Coeff. of Var. | 0.25    | 0.28 | 0.35     | 0.20    | 0.18 | 0.32     | 0.62    | 0.46  | 11.05    |

Source: CSA and NBE Staff Computation



Source: CSA and NBE Staff Computation

As for food inflation, the regional simple average stood at 33.4 percent (Table

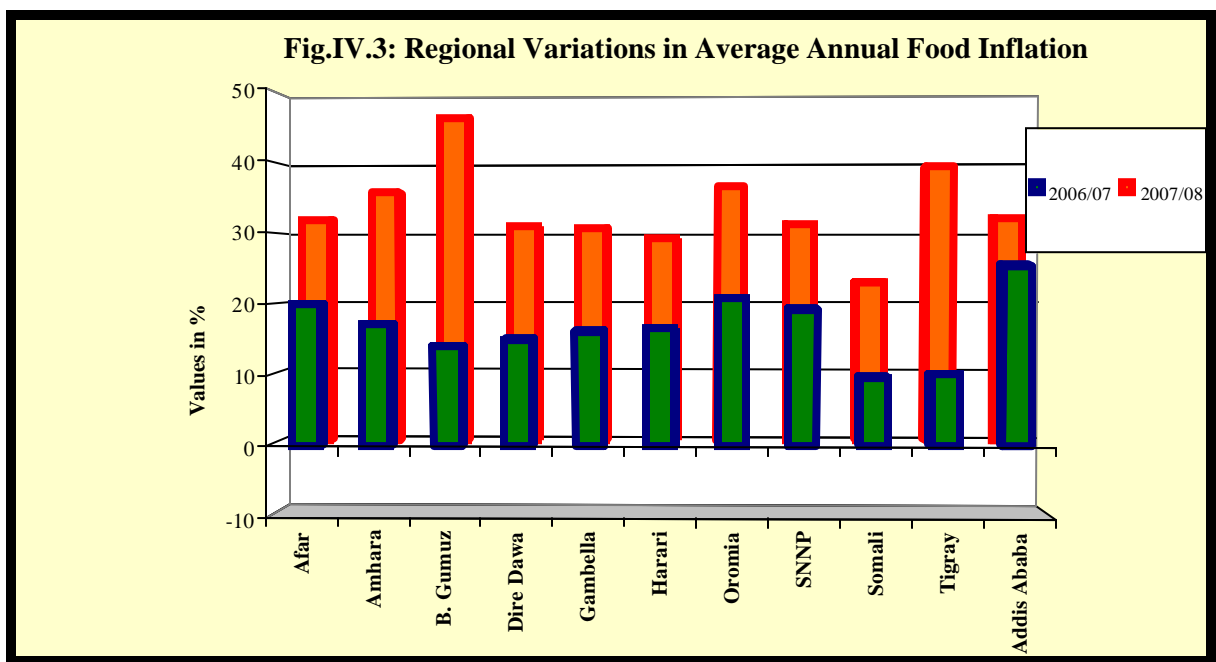
IV.3). Four regions; namely, Benishangul Gumz, Oromia, Tigray and Amhara



registered inflation rate higher than the regional simple average. Nonetheless, in comparison with that of 2006/07, food inflation increased in all regional states due to the rising cereal inflation.

The highest surge in food inflation was registered in Benishangul Gumz (32.8

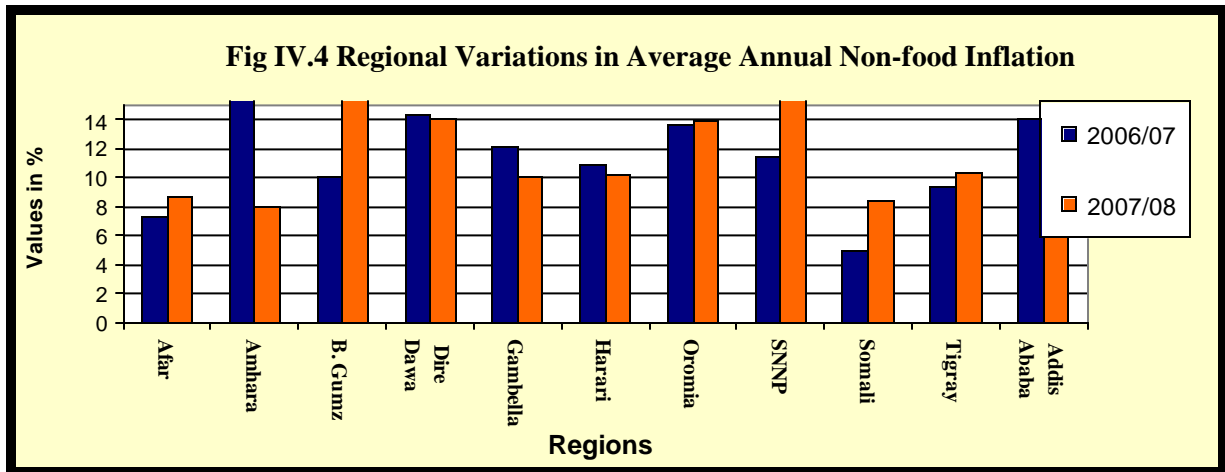
percentage points); while the lowest in Addis Ababa (6.7 percentage points). Over the two-year period (2006/07 to 2007/08), food price instability was high in Benishangul Gumz, Tigray, and Amhara states but low in Addis Ababa, Afar, and SNNP.



Source: CSA and NBE Staff Computation

During 2007/08, simple average regional non-food inflation stood at 19.8 percent (Table IV.3). Benishangul Gumz, SNNP, Dire Dawa, Oromia, and Addis Ababa witnessed a rate higher than the regional

simple average. Compared to the rate in 2006/07, Amhara, Gambella, Addis Ababa, Harari, and Dire Dawa exhibited a decline in non-food inflation.



Source: CSA and NBE Staff Computation

The highest rise in non-food inflation was recorded in Benishangul Gumz (9.8 percentage points), and the lowest in Oromia (0.2 percentage points). Regional variation in non-food inflation as measured by coefficient of variation was higher than that of 2006/07 due to the disproportionate boom in the construction sector in some regions that led to high demand for construction materials and thus to relatively faster rise in non-food inflation rate.

#### 4.3 Measures Taken to Mitigate Inflationary Pressure

The government took various measures to mitigate the impact of inflation on the low-income groups of the society. Some of the measures were:-

- a) A ban on the export of wheat, pepper, barley, teff and corn;
- b) Facilitating the importation of sugar from abroad and reduction of the floor bid price of a quintal of sugar produced locally;
- c) Subsidizing domestic fuel retail prices despite persistent rise in international market;
- d) Supplying wheat and edible oil at lower prices to low-income households in Addis Ababa and other towns in the regions;
- e) Raising the minimum saving deposit rate from 3 to 4 percent;
- f) Adjusting the reserve requirement from 5 to 10 and from 10 to 15 percent twice;
- g) Raising liquidity requirement from 15 to 25 percent as of April 7, 2008;
- h) Lifting of VAT and turnover tax on food grains effective from mid March, 2008.

- i) Administrative measures to restrain unfair oligopolistic pricing and hoarding behaviors such as requiring traders to use price tags;
- j) Introduced Ethiopian Commodity Exchange (ECX).

The above measures played a role in checking the pace of inflation and its negative impact on low-income groups of the society. The government will continue taking additional fiscal and monetary policy measures in the future.

## **V. MONETARY AND FINANCIAL DEVELOPMENTS**

### **5.1 Monetary Developments and Policy**

Ethiopia's monetary policy continued to be geared towards maintaining price and exchange rate stability, amidst inflationary pressures. To mitigate inflationary pressures witnessed in recent years, the National Bank of Ethiopia (NBE) implemented the following monetary policy measures. It raised the reserve requirement ratio from 5 to 10

percent and then to 15 percent (for the second time since July 2007) and liquidity requirement ratio from 15 to 25 percent effective from April 7, 2008. Interest rate was also increased from 3 to 4 percent. These measures together with other fiscal and administrative actions are envisaged to contribute towards slowing down the pace of inflation and inflationary expectations.

#### **5.1.1 Developments in Monetary**

##### **Aggregates**

Broad money supply (M2) grew by 20.4 percent and reached Birr 68.1 billion by the end of 2007/08, compared with the same period last year, wholly driven by the expansion of domestic credit, which more than offset the 12.6 percent decline in net foreign assets. Credit to the central government increased by 9.0 percent to Birr 33.1 billion while credit to the non-government sector grew over last year by 48.8 percent to Birr 46.9 billion and June , 2008.

Net foreign assets, on the other hand, declined by 12.6 percent and reached Birr 11.7 billion mainly reflecting the continued widening of the current account deficit.

The fiscal year 2007/08 witnessed a surge in all components of broad money. Narrow money rose by 19.4 percent to Birr 35.4 billion, driven by 28.8 and 11.2 percent increases in currency outside banks and demand deposits reflecting the growing economic activities and improvements in transactions demand for money. Similarly, quasi-money that comprises both savings and time deposits went up by 21.4 percent

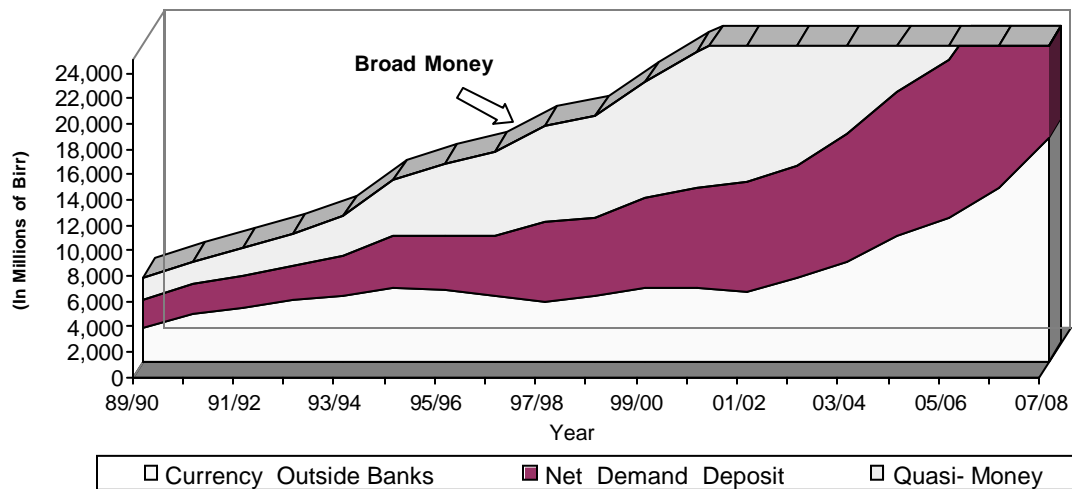
and reached Birr 32.8 billion, owing to through opening up of new branches.  
improved financial intermediation by banks

**Table 5.1: Components of Broad Money**

| Particulars                | (In Millions of Birr) |                 |                 | Annual Percentage Change |             |             |
|----------------------------|-----------------------|-----------------|-----------------|--------------------------|-------------|-------------|
|                            | Year Ended June 30    |                 |                 |                          |             |             |
|                            | 2005/06               | 2006/07         | 2007/08         | 2005/06                  | 2006/07     | 2007/08     |
| <b>Narrow Money Supply</b> | <b>23,811.9</b>       | <b>29,617.7</b> | <b>35,350.4</b> | <b>11.8</b>              | <b>24.4</b> | <b>19.4</b> |
| . Currency Outside Banks   | 11,422.9              | 13,708.4        | 17,654.1        | 14.0                     | 20.0        | 28.8        |
| . Demand Deposits (net)    | 12,389.0              | 15,909.3        | 17,696.3        | 9.9                      | 28.4        | 11.2        |
| <b>Quasi-Money</b>         | <b>22,565.5</b>       | <b>27,034.2</b> | <b>32,831.8</b> | <b>19.3</b>              | <b>19.8</b> | <b>21.4</b> |
| . Savings Deposits         | 20,485.5              | 23,715.2        | 29,477.6        | 18.3                     | 15.8        | 24.3        |
| . Time Deposits            | 2,080.0               | 3,319.0         | 3,354.1         | 29.1                     | 59.6        | 1.1         |
| <b>Broad Money Supply</b>  | <b>46,377.4</b>       | <b>56,651.9</b> | <b>68,182.1</b> | <b>15.3</b>              | <b>22.2</b> | <b>20.4</b> |

Source : National Bank of Ethiopia (NBE)

**Fig V.1: Major Components of Broad Money  
(1989/90 - 2007/08)**



Source: NBE

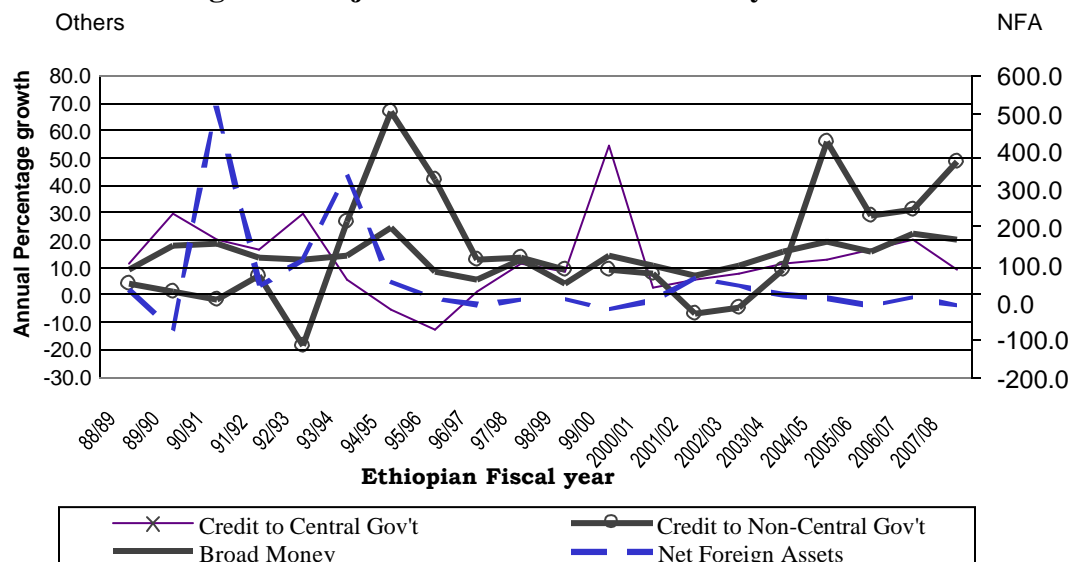
**Table 5.2: Factors Influencing Broad Money**

(In Millions of Birr)

| Particulars                     | Year Ended June 30 |                 |                 | Percentage Change |             |              |
|---------------------------------|--------------------|-----------------|-----------------|-------------------|-------------|--------------|
|                                 | 2005/06            | 2006/07         | 2007/08         | 2005/06           | 2006/07     | 2007/08      |
| <b>External Assets (net)</b>    | <b>12,109.6</b>    | <b>13,340.4</b> | <b>11,665.6</b> | <b>-12.7</b>      | <b>10.2</b> | <b>-12.6</b> |
| <b>Domestic Credit</b>          | <b>49,295.9</b>    | <b>61,844.2</b> | <b>79,969.3</b> | <b>22.3</b>       | <b>25.5</b> | <b>29.3</b>  |
| . Claims on Central Gov't (net) | 25,266.4           | 30,337.6        | 33,075.7        | 16.6              | 20.1        | 9.0          |
| . Claims on Non-Central Gov't   | 24,029.6           | 31,506.6        | 46,893.6        | 28.9              | 31.1        | 48.8         |
| <b>Other Items (net)</b>        | <b>15,028.1</b>    | <b>18,532.7</b> | <b>23,452.7</b> | <b>7.6</b>        | <b>23.3</b> | <b>26.5</b>  |
| <b>Broad Money (M2)</b>         | <b>46,377.4</b>    | <b>56,651.9</b> | <b>68,182.1</b> | <b>15.3</b>       | <b>22.2</b> | <b>20.4</b>  |

Source: NBE

**Fig V.2: Major Determinants of Monetary Growth**



Source: NBE

### 5.1.2. Developments in Reserve Money and Monetary Ratios

Reserve money or base money rose by 30.2 percent to Birr 35.6 billion by the end June, 2008 spurred by increases in both currency in circulation and deposits of banks at the NBE. Currency in circulation grew by 33.2 percent owing to the surge in transactions demand for money associated with the growth in real

income. Similarly, deposits of banks at the NBE edged up by 26.3 percent partly reflecting the revision of reserve requirement ratio from 5 to 15 percent between July 2007 and April 2008.

Mirroring this development, the excess reserves of commercial banks dropped to

Birr 6.1 billion from Birr 9.1 billion last year.

At the same time, the ratio of M2/GDP, an indicator of financial deepening, showed a tendency to decline over the

past two years and reached 32.9 percent in 2007/08, partly reflecting the tight monetary policy measures taken so as to mitigate the inflationary pressures witnessed in recent years.

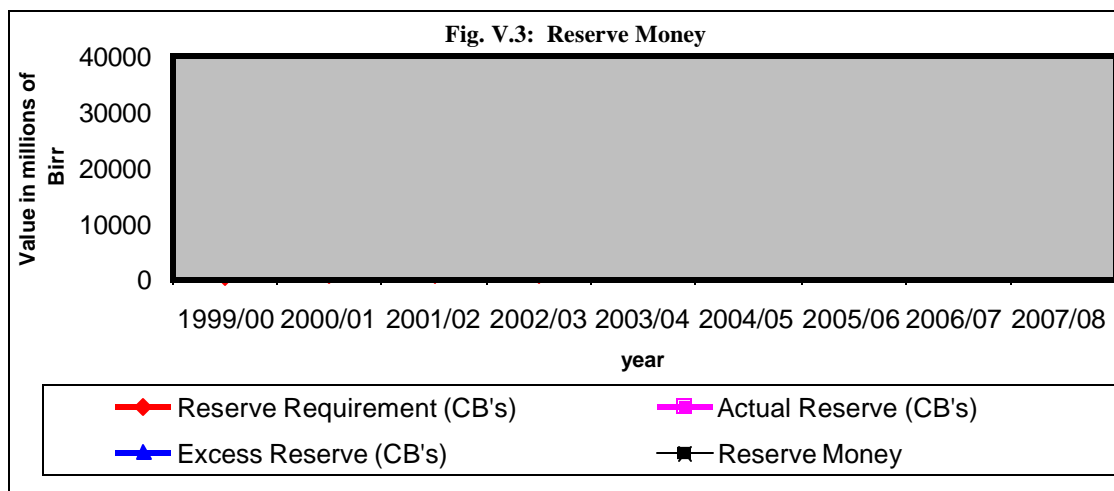
**Table 5.3: Reserve Money and Monetary Ratios**

(In Millions of Birr)

| Particulars                       | Year Ended June 30 |          |          | Percentage Change |         |         |
|-----------------------------------|--------------------|----------|----------|-------------------|---------|---------|
|                                   | 2005/06            | 2006/07  | 2007/08  | 2005/06           | 2006/07 | 2007/08 |
| <b>Reserve Requirement (CB's)</b> | 2,120.9            | 2,592.5  | 9,112.9  | 16.0              | 22.2    | 251.5   |
| <b>Actual Reserve (CB's)</b>      | 8,452.1            | 11,734.0 | 15,233.0 | -34.3             | 38.8    | 29.8    |
| <b>Excess Reserve (CB's)</b>      | 6,331.2            | 9,141.5  | 6,120.1  | -42.6             | 44.4    | -33.1   |
| <b>Reserve Money</b>              | 21,181.9           | 27,313.6 | 35,551.1 | -11.8             | 28.9    | 30.2    |
| . Currency in Circulation         | 12,560.2           | 15,175.2 | 20,216.4 | 14.6              | 20.8    | 33.2    |
| . Bank Deposits                   | 8,621.7            | 12,138.4 | 15,334.7 | -34.0             | 40.8    | 26.3    |
| <b>Money Multiplier (Ratio):</b>  |                    |          |          |                   |         |         |
| . Narrow Money to Reserve Money   | 1.1                | 1.1      | 1.0      | 26.9              | -3.5    | -8.3    |
| . Broad Money to Reserve Money    | 2.2                | 2.1      | 1.9      | 30.8              | -5.3    | -7.5    |
| <b>Other Monetary Ratios (%):</b> |                    |          |          |                   |         |         |
| . Currency to Narrow Money        | 52.7               | 51.2     | 57.2     | 2.4               | -2.9    | 11.6    |
| . Currency to Broad Money         | 27.1               | 26.8     | 29.7     | -0.7              | -1.1    | 10.7    |
| . Narrow Money to Broad Money     | 51.3               | 52.3     | 51.8     | -3.0              | 1.8     | -0.8    |
| . Quasi Money to Broad Money      | 48.7               | 47.7     | 48.2     | 3.4               | -1.9    | 0.9     |
| <b>M2/GDP Ratio*</b>              | 35.2               | 33.1     | 32.9     | -6.7              | -5.9    | -0.8    |

Source: NBE

\* M2/GDP ratio was calculated on the basis of new GDP series.



Source: NBE

## 5.2. Developments in Interest Rate

In response to NBE's upward revision of the minimum interest rate on savings and time deposits from 3 to 4 percent effective from July 4, 2007, commercial banks revised their minimum deposit interest rates on saving and time deposits upward by one percentage point. The minimum and maximum lending rates of commercial banks also increased by the same percentage point. Accordingly, average interest rate on savings deposit rate rose to 4.08 percent from 3.08 percent in the

preceding year. The weighted annual average interest rate on time deposits also increased to 5.16 percent from 4.08 percent while that of demand deposit fall to 0.041 percent from 0.062 percent.

The average lending rate of commercial banks reached 11.5 percent from 10.5 percent a year earlier. Given high inflation, all deposit rates and average weighted yields on T-bills were negative in real terms.



**Table 5.4: Interest Rate Structure of Commercial Banks**

(In % per annum)

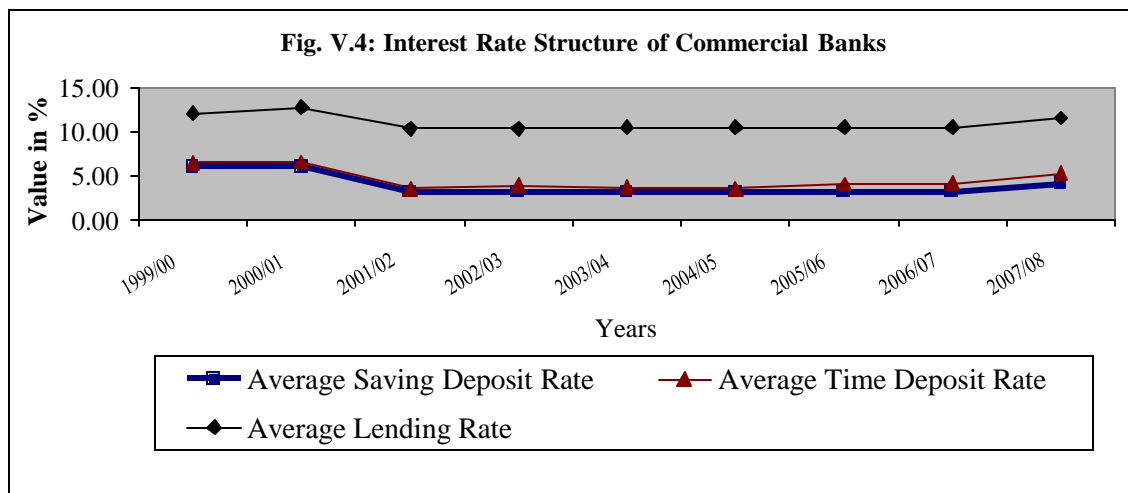
| Rates                            | 2000/01       | 2001/02       | 2002/03       | 2003/04       | 2004/05       | 2005/06       | 2006/07       | 2007/08       |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Deposit Rate</b>              |               |               |               |               |               |               |               |               |
| <b>Savings Deposit</b>           |               |               |               |               |               |               |               |               |
| Minimum                          | 6.000         | 3.000         | 3.000         | 3.000         | 3.000         | 3.000         | 3.000         | 4.000         |
| Maximum                          | 6.000         | 3.150         | 3.150         | 3.150         | 3.150         | 3.150         | 3.150         | 4.150         |
| <b>Average*</b>                  | <b>6.000</b>  | <b>3.075</b>  | <b>3.075</b>  | <b>3.075</b>  | <b>3.075</b>  | <b>3.075</b>  | <b>3.075</b>  | <b>4.075</b>  |
| <b>Time deposit</b>              |               |               |               |               |               |               |               |               |
| Up to 1 year                     | 6.177         | 3.302         | 3.349         | 3.398         | 3.471         | 3.604         | 3.639         | 4.666         |
| 1 -2 years                       | 6.360         | 3.513         | 3.617         | 3.640         | 3.710         | 4.005         | 4.112         | 5.228         |
| Over 2 years                     | 6.383         | 3.566         | 3.822         | 3.836         | 3.939         | 4.297         | 4.490         | 5.588         |
| <b>Average*</b>                  | <b>6.307</b>  | <b>3.461</b>  | <b>3.596</b>  | <b>3.625</b>  | <b>3.707</b>  | <b>3.969</b>  | <b>4.080</b>  | <b>5.161</b>  |
| <b>Demand Deposit (Average*)</b> | -             | 0.041         | 0.039         | 0.045         | 0.049         | 0.058         | 0.062         | 0.041         |
| <b>Lending Rate</b>              |               |               |               |               |               |               |               |               |
| Minimum                          | 10.500        | 7.500         | 7.000         | 7.000         | 7.000         | 7.000         | 7.000         | 8.000         |
| Maximum                          | 15.000        | 14.000        | 14.000        | 14.000        | 14.000        | 14.000        | 14.000        | 15.000        |
| <b>Average*</b>                  | <b>12.750</b> | <b>10.750</b> | <b>10.500</b> | <b>10.500</b> | <b>10.500</b> | <b>10.500</b> | <b>10.500</b> | <b>11.500</b> |
| <b>Real Rate of Interest</b>     |               |               |               |               |               |               |               |               |
| Deposit 1/                       | 6.347         | 13.647        | -7.849        | -4.272        | -3.051        | -7.502        | -12.748       | -21.225       |
| Deposit 2/                       | 4.582         | 2.786         | 2.923         | 0.839         | -1.277        | -4.073        | -10.419       | -8.425        |
| Lending/1                        | 13.097        | 21.322        | -0.424        | 3.153         | 4.374         | -0.077        | -5.323        | -13.800       |
| <b>T-bills (Nominal)</b>         | <b>2.829</b>  | <b>1.982</b>  | <b>1.311</b>  | <b>1.052</b>  | <b>0.133</b>  | <b>0.039</b>  | <b>0.495</b>  | <b>0.673</b>  |

Source : NBE

1/ Real saving deposit interest rates and real lending rates are computed based on headline inflation.

2/ Real saving deposit interest rates are computed based on core inflation.

\* It is simple average for saving deposit and lending rates, while weighted mean for time and demand deposits. As a result, the movements in the average interest rate on time and demand deposits reflect the change in the proportion of commercial bank deposits that would pay higher interest rate on time and demand deposits, rather than the change in interest rate.



Source : NBE

### 5.3 Developments in Financial Sector

Banks, insurance companies and micro-finance institutions are the major financial institutions in Ethiopia. The number of banks operating in the country in 2007/08 reached 11, of which eight were private and the remaining three state owned.

All the banks, except Development Bank of Ethiopia and Construction and Business Bank, expanded their branch network during the review year. As a result, 67 new branches were opened raising the total number of branch banks across the country to 562.

Noticeable expansion of branch banks was carried out by Bank of Abyssinia and Nib International Bank (14 branches each), followed by Commercial Bank of Ethiopia (9 branches), Awash International Bank (8 branches) and Dashen Bank and United Bank (6 branches each). Reflecting the significant branch expansion by private banks, the share of private banks grew to 53 percent by the end of 2007/08 from 48.5 percent last year.

Some 38 percent of the branch banks were located in Addis Ababa in 2007/08.

Spurred by significant growth in the capital of private banks, particularly that of Wegagen Bank, Awash International Bank and Lion International Bank, the total capital of the banking industry increased by 12.2 percent and reached Birr 9965 million by the end of June 2008. Accordingly, from the total capital of the banking system, the share of private banks rose to 33.8 percent from 29.7 percent a year ago.

With the launching of a new insurance company - Lion Insurance Company, the number of insurance companies in the country rose to 10 in 2007/08 from 9 a year earlier. In terms of ownership, all insurance companies, except Ethiopian Insurance Corporation, are privately owned.

Following the opening up of 26 additional branches in 2007/08, the total branches of insurance companies climbed to 172. Significant expansion of branches was undertaken by Lion Insurance Share Company (10 branches) followed by Africa Insurance Company (4 branches) and Awash Insurance Company (3 branches).

Of the total branch insurance companies, 51.2 percent were located in Addis Ababa. Branch share of private insurance companies in the country rose to 78.5 percent in 2007/08 from 75.3 percent a year ago.

Meanwhile, the total capital of the insurance companies grew by 11.5 percent and reached Birr 582.1 million in 2007/08, mainly due to 53.4 and 24.6 percent rise in the capital of Nib and United Insurance Companies, respectively.

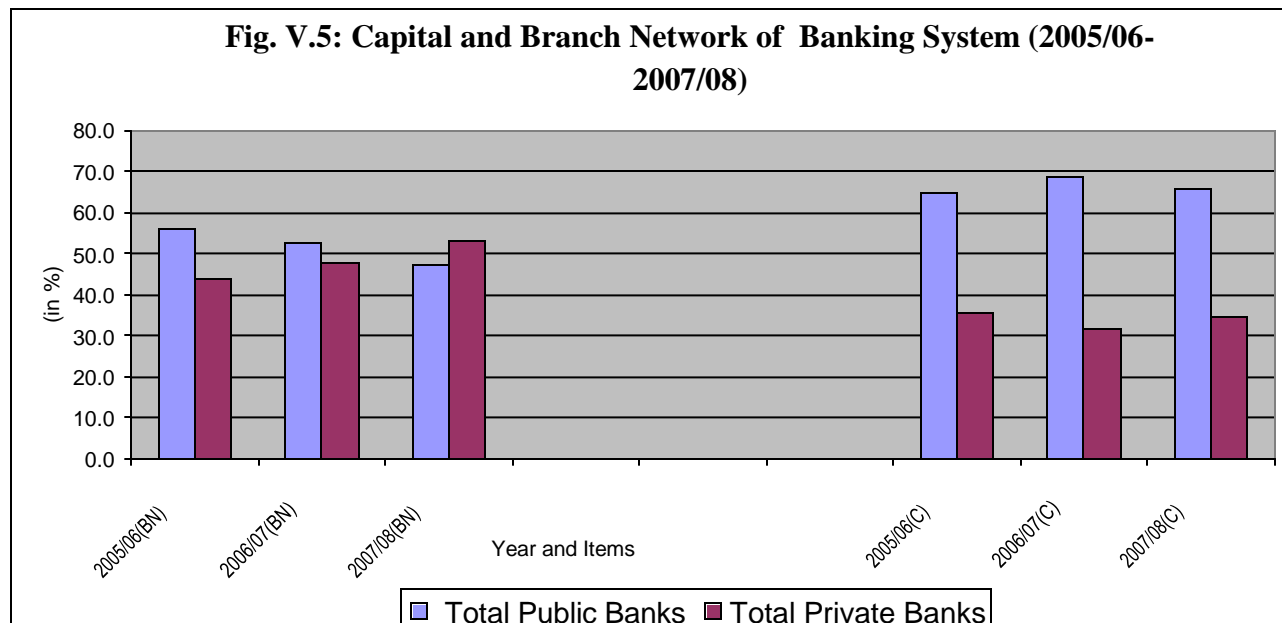
**Table 5.5.A: Capital and Branch Network of Banking System**

(Branches in Number and Capital in Millions Birr)

| Banks                        | Branch Network |            |             |            |             |            |              | Capital*       |              |                |              |
|------------------------------|----------------|------------|-------------|------------|-------------|------------|--------------|----------------|--------------|----------------|--------------|
|                              | 2006/07        |            |             | 2007/08    |             |            |              | 2006/07        |              | 2007/08        |              |
|                              | Regions        | Total      | % Share     | Regions    | Addis Ababa | Total      | % Share      | Total Capital  | % Share      | Total Capital  | % Share      |
| <b>Public Banks</b>          |                |            |             |            |             |            |              |                |              |                |              |
| Commercial Bank of Ethiopia  | 147            | 196        | 39.6        | 156        | 49          | 205        | 36.5         | 4,220.0        | 47.5         | 4,561.0        | 45.8         |
| Construction & Business Bank | 26             | 27         | 5.4         | 15         | 12          | 27         | 4.8          | 156.0          | 1.8          | 175.0          | 1.8          |
| Development Bank of Ethiopia | 20             | 32         | 6.5         | 31         | 1           | 32         | 5.7          | 1,865.0        | 21.0         | 1,865.0        | 18.7         |
| <b>Total Public Banks</b>    | <b>193</b>     | <b>255</b> | <b>51.5</b> | <b>202</b> | <b>62</b>   | <b>264</b> | <b>47.0</b>  | <b>6,241.0</b> | <b>70.3</b>  | <b>6,601.0</b> | <b>66.2</b>  |
| <b>Private Banks</b>         |                |            |             |            |             |            |              |                |              |                |              |
| Awash International Bank     | 20             | 45         | 9.1         | 24         | 29          | 53         | 9.4          | 327.0          | 3.7          | 480.0          | 4.8          |
| Dashen Bank                  | 19             | 42         | 8.5         | 24         | 24          | 48         | 8.5          | 612.0          | 6.9          | 731.0          | 7.3          |
| Abyssinia Bank               | 12             | 28         | 5.7         | 19         | 23          | 42         | 7.5          | 357.0          | 4.0          | 416.0          | 4.2          |
| Wegagen Bank                 | 22             | 39         | 7.9         | 22         | 18          | 40         | 7.1          | 292.0          | 3.3          | 467.0          | 4.7          |
| United Bank                  | 10             | 30         | 1.6         | 13         | 23          | 36         | 6.4          | 359.0          | 4.0          | 467.0          | 4.7          |
| Nib International Bank       | 8              | 28         | 5.7         | 16         | 26          | 42         | 7.5          | 426.0          | 4.8          | 489.0          | 4.9          |
| Cooperative Bank of Oromiya  | 14             | 16         | 3.2         | 18         | 2           | 20         | 3.6          | 131.0          | 1.5          | 137.0          | 1.4          |
| Lion International Bank      | 7              | 12         | 2.4         | 11         | 6           | 17         | 3.0          | 134.0          | 1.5          | 177.0          | 1.8          |
| <b>Total Private Banks</b>   | <b>112</b>     | <b>240</b> | <b>48.5</b> | <b>147</b> | <b>151</b>  | <b>298</b> | <b>53</b>    | <b>2,638.0</b> | <b>29.7</b>  | <b>3,364.0</b> | <b>33.8</b>  |
| <b>Grand Total Banks</b>     | <b>305</b>     | <b>495</b> | <b>100</b>  | <b>349</b> | <b>213</b>  | <b>562</b> | <b>100.0</b> | <b>8,879.0</b> | <b>100.0</b> | <b>9,965.0</b> | <b>100.0</b> |

**Source:** Commercial Banks

\* Excludes provision for profit/loss



**Source:** Commercial Banks

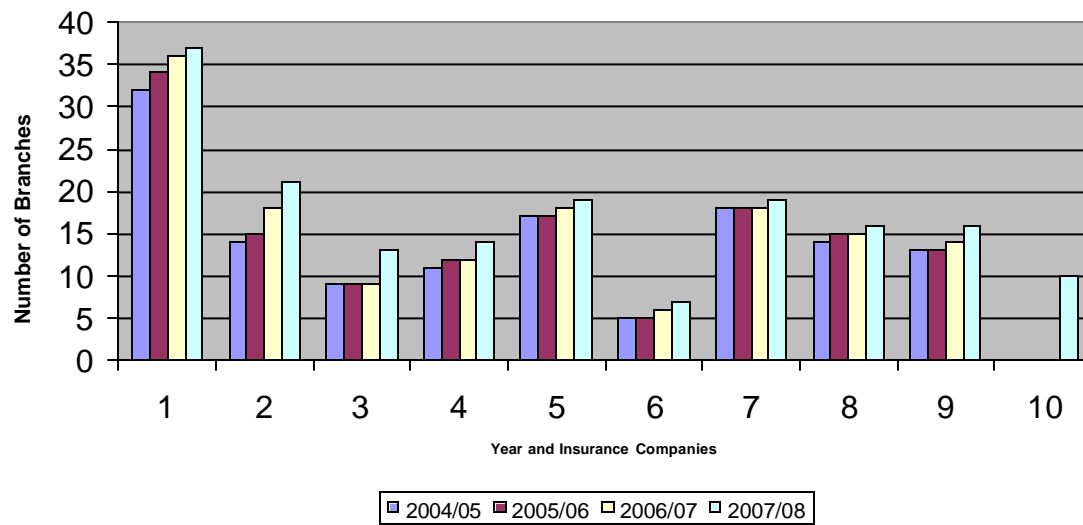
**Table 5.5.B: Branch Network of Insurance Companies**

(Branches in Number and Capital in Millions of Birr)

| Insurance Companies       | Branch     |             |           |            | Capital      |              |                   |
|---------------------------|------------|-------------|-----------|------------|--------------|--------------|-------------------|
|                           | 2006/07    | 2007/08     |           |            | 2006/07      | 2007/08      | Percentage Change |
|                           | Total      | Addis Ababa | Regions   | Total      | A            | B            | B/A               |
| Ethiopian Ins. Cor.       | 36         | 11          | 26        | 37         | 211.7        | 229.3        | 8.3               |
| Awash Ins.Com.S.C.        | 18         | 12          | 9         | 21         | 46.3         | 51.5         | 11.2              |
| Africa Ins.Com S.C.       | 9          | 6           | 7         | 13         | 48.6         | 46.1         | -5.1              |
| National Ins. Co. of Eth. | 12         | 8           | 6         | 14         | 14.8         | 13.4         | -9.5              |
| United Ins.Com. S.C       | 18         | 13          | 6         | 19         | 45.2         | 56.3         | 24.6              |
| Global Ins. Com.S.C       | 6          | 4           | 3         | 7          | 18.9         | 20.3         | 7.4               |
| Nile Ins.Com.S.C          | 18         | 10          | 9         | 19         | 60.2         | 53.1         | -11.8             |
| Nyala Ins.Com.S.C         | 15         | 8           | 8         | 16         | 46.9         | 56.1         | 19.6              |
| Nib Ins. Com.S.C          | 14         | 10          | 6         | 16         | 29.4         | 45.1         | 53.4              |
| Lion Ins. Com.S.C         | -          | 6           | 4         | 10         | -            | 10.9         | -                 |
| <b>TOTAL</b>              | <b>146</b> | <b>88</b>   | <b>84</b> | <b>172</b> | <b>522.0</b> | <b>582.1</b> | <b>11.5</b>       |

**Source:** Insurance Companies

**Fig.V.6: Branch Network of Insurance Companies**

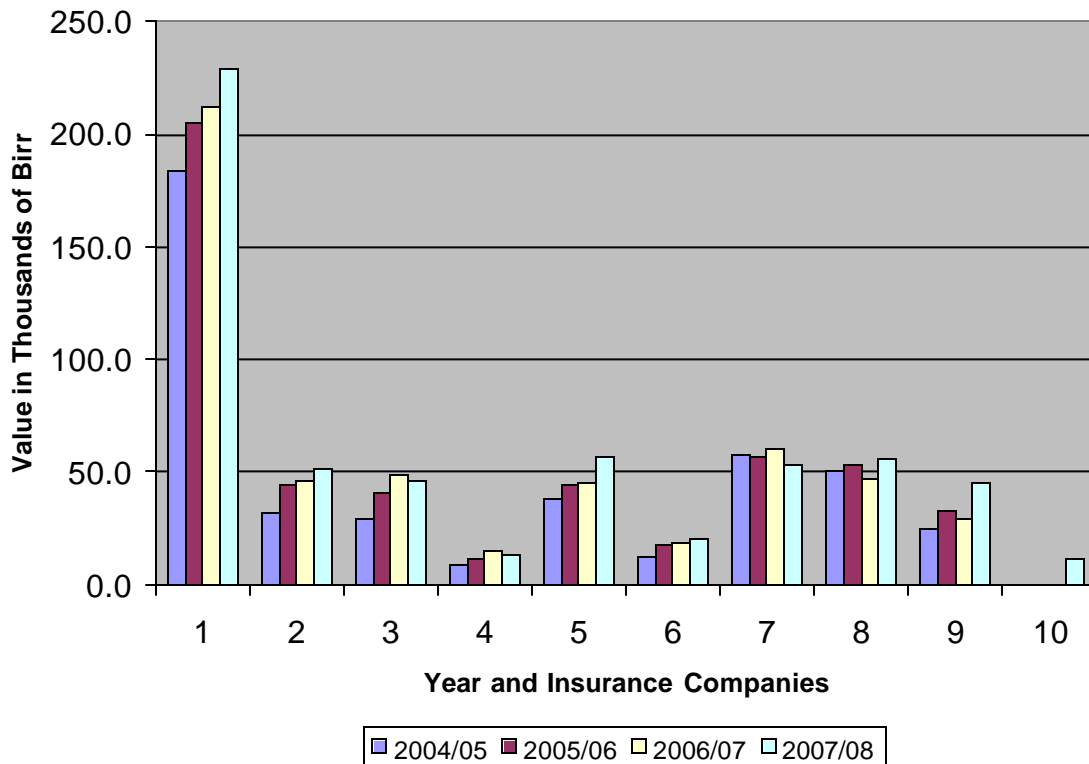


Source : Insurance Companies

***Insurance Companies***

1. Ethiopian Insurance Corporation
2. Awash Insurance Company S.C.
3. Africa Insurance Company S.C.
4. National Insurance Co. of Ethiopia
5. United Insurance Company S.C
6. Global Insurance Company S.C
7. Nile Insurance Company S.C
8. Nyala Insurance Company S.C
9. Nib Insurance Company S.C
10. Lion Insurance Company S.C

**Fig. V.7: Capital of Insurance Companies (2004/05-2007/08)**



**Source:** Insurance Companies

***Insurance Companies***

1. Ethiopian Insurance Corporation
2. Awash Insurance Company S.C.
3. Africa Insurance Company S.C.
4. National Insurance Co. of Ethiopia
5. United Insurance Company S.C
6. Global Insurance Company S.C
7. Nile Insurance Company S.C
8. Nyala Insurance Company S.C
9. Nib Insurance Company S.C
10. Lion Insurance Company S.C

The number of Microfinance Institutions (MFIs) operating in the country stood at 28 by the end of 2007/08 as one MFIs was liquidated and a new micro-finance was licensed.

The total capital of MFIs was Birr 1.3 billion and their total asset reached Birr 5.3 billion. They also mobilized deposits to the tune of Birr 1.6 billion and advanced loans amounting to Birr 4.5 billion by the end of the review period.

Of the total MFIs, 12 were operating in Addis Ababa. The two largest MFIs, the Amhara and Dedebit Credit and Savings institutions, alone accounted for 54.1 percent of the total capital, 67.2 percent of savings, 64 percent of credit and 64.2 percent of total assets of MFIs by the end 2007/08.

**Table 5.6: MFIs Operating in Ethiopia as of June 2008**

(Amount in Thousands of Birr)

|    | Micro-Financing Institutions         | Regions          | Total Capital    | Saving*          | Credit           | Total Assets     |
|----|--------------------------------------|------------------|------------------|------------------|------------------|------------------|
| 1  | Amhara Credit and Savings Ins.       | Amhara           | 382726           | 695472.0         | 1466180          | 1666097          |
| 2  | Dedebit Credit and Savings Ins.      | Tigray           | 342716.8         | 352901.2         | 1396903.2        | 1761486.1        |
| 3  | Oromiya Credit and Savings Ins.      | Oromia           | 182467.7         | 232183.2         | 664554           | 770677.5         |
| 4  | Omo Credit and Savings Ins.          | SNNP             | 37681.1          | 105841.0         | 292985.5         | 355529.3         |
| 5  | Specialized Fina.& Prom. ins.        | A.A              | 16272.4          | 13485.6          | 33092.9          | 38931            |
| 6  | Gasha Micro-financing Ins.           | A.A              | 5099.2           | 5976.8           | 16006.4          | 21155.9          |
| 7  | Wisdom Micro-financing Ins.          | A.A              | 31974.1          | 19550.2          | 81021.4          | 89597.9          |
| 8  | Sidama Micro-financing Ins.          | SNNP             | 12174.1          | 6144.7           | 24230.9          | 31243.4          |
| 9  | African Village Financial Serv.      | A.A              | 9252.2           | 3494.3           | 9913.1           | 15332.8          |
| 10 | Buussa Gonof.Micro-f inancing Ins.   | Oromia           | 15527.2          | 5363.3           | 31682.7          | 35178.7          |
| 11 | PEACE Micro-financing Ins.           | A.A              | 13186.9          | 8682.3           | 35044.3          | 41083.1          |
| 12 | Meket Micro-financing Ins.           | Amhara           | 2419.8           | 564.1            | 2414.5           | 3340.9           |
| 13 | Addis Credit and Savings Ins.        | A.A              | 188822           | 61815.0          | 238170           | 276779           |
| 14 | Meklit Micro-financing Ins.          | A.A              | 5138.1           | 5892.4           | 18103.6          | 18971.4          |
| 15 | Eshet Micro-financing Ins.           | Oromia           | 11111.3          | 5640.1           | 36493.1          | 42195.4          |
| 16 | Wassassa Micro-financing Ins..       | Oromia           | 14426.4          | 11306.7          | 43922.5          | 50328            |
| 17 | Ben. Gum Micro-financing Ins.        | Benishagul Gumuz | 20228            | 11643.3          | 33108.2          | 44991.7          |
| 18 | Sha.Idi.ye.Ag. Micro-financing Ins.. | Oromia           | 3266.2           | 913.5            | 3263.3           | 4665.2           |
| 19 | Metemamen Micro-financing Ins.       | A.A              | 9209             | 1896.5           | 8517.9           | 11209.6          |
| 20 | Dire Micro-financing Ins.            | Dire Dawa        | 19758.5          | 4351.4           | 20476.8          | 33378.6          |
| 21 | Agar Micro-financing Ins.            | A.A              | 3182.3           | 2491.7           | 4804.9           | 6644.6           |
| 22 | Harbu Micro-financing Ins.           | Oromia           | 3853.1           | 3634.2           | 7168.6           | 10435.4          |
| 23 | Ghion MFI                            | Amhara           | 130.3            | 32.3             | 93.6             | 169.9            |
| 24 | Leta MFI                             | Oromia           | 937.9            | 78.2             | 724.1            | 1021.9           |
| 25 | Digaf MFI                            | A.A              | 267.7            | 655.6            | 853              | 968.5            |
| 26 | Harar MFI                            | Harar            | 7972.8           | 949.4            | 5190.8           | 9019.5           |
| 27 | Lefayda Credit and Savings Ins.      | A.A              | 150.4            | 12.3             | 57.5             | 176.4            |
| 28 | Tesfa Micro-Finance                  | -                | NA               | NA               | NA               | NA               |
|    | <b>Total</b>                         |                  | <b>1339951.5</b> | <b>1560971.3</b> | <b>4474976.8</b> | <b>5340608.7</b> |

**Source:** Microfinance Institutions**Note:** AA: Addis Ababa

SNNP: Southern Nations Nationalities and Peoples'



### 5.3.1 Resource Mobilization by Banks

The total resource mobilized by the banking system in the form of deposits, collection of loans and borrowings grew by 32.6 percent to Birr 28.1 billion by the end of 2007/08. This was solely attributed to a 64.4 percent surge in loan collections which more than offset the decline in net deposits and borrowings.

Deposit liabilities of the banking system rose to Birr 62.9 billion at the end of June 2008, showing an annual growth rate of 16.9 percent compared to Birr 53.9 billion a year earlier. Component wise, savings deposits registered a significant increase of 24.3 percent followed by demand deposits (13.2 percent) while time deposits moderately declined by 3.8 percent. Demand deposits accounted for the lion's share of total deposits (47.2 percent) followed by savings deposits (46.8 percent) and time deposit (6.0 percent).

Mirroring a significant branch network expansion by private banks, the share of government-owned banks in total deposits declined to 64.8 percent from 67.7 percent last year; whereas that of

private banks increased to 35.2 percent from 32.3 percent a year ago.

Borrowing is an important source of resource mobilization for two state-owned banks; namely the Development Bank of Ethiopia and Construction and Business Bank. As a result, the total outstanding borrowing of the two banks showed a 9.7 percent rise and reached Birr 2.7 billion by the end of June, 2008 from Birr 2.4 billion a year earlier. Of the total borrowing, domestic sources accounted for 81.1 percent, while foreign sources constituted 18.9 percent.

With regard to loan collections, the banking system collected loans amounting to Birr 18.8 billion in the review year indicating an annual growth rate of 64.4 percent. Both public and private banks collected about 50 percent of the loans each.

**Table 5.7: Annual Resource Mobilizing & Disbursing Activities of Commercial Banks and DBE (Specialized Bank) (In Millions of Birr)**

| Particulars                              | 2006/07         |                 |                 | 2007/08          |                 |                 | Percent Change |
|--|-----------------|-----------------|-----------------|------------------|-----------------|-----------------|----------------|
|  | Public Banks    | Private Banks   | Total (A)       | Public Banks     | Private Banks   | Total (B)       | B/A            |
| <b>Deposits (net change)</b>             | <b>5,073.9</b>  | <b>4,332.4</b>  | <b>9,406.3</b>  | <b>4,283.1</b>   | <b>4,808.0</b>  | <b>9,091.1</b>  | <b>-3.4</b>    |
| Demand                                   | 3,737.7         | 1,265.9         | 5,003.6         | 2,054.3          | 1,420.2         | 3,474.5         | (30.6)         |
| Savings                                  | 1,375.1         | 1,855.5         | 3,230.6         | 2,308.3          | 3,455.1         | 5,763.4         | 78.4           |
| Time                                     | (38.9)          | 1,211.0         | 1,172.1         | (79.5)           | (67.3)          | (146.8)         | (112.5)        |
| <b>Borrowing (net change)</b>            | <b>396.6</b>    | <b>-</b>        | <b>396.6</b>    | <b>269.4</b>     | <b>-</b>        | <b>269.4</b>    | <b>(32.1)</b>  |
| Local                                    | 301.7           | -               | 301.7           | 197.6            | -               | 197.6           | (34.5)         |
| Foreign                                  | 95.0            | -               | 95.0            | 71.8             | -               | 71.8            | (24.4)         |
| <b>Collection of Loans</b>               | <b>5,954.6</b>  | <b>5,473.0</b>  | <b>11,427.6</b> | <b>9,493.0</b>   | <b>9,296.2</b>  | <b>18,789.2</b> | <b>64.4</b>    |
| <b>Total Resources Mobilized (1+2+3)</b> | <b>11,425.1</b> | <b>9,805.4</b>  | <b>21,230.5</b> | <b>14,045.4</b>  | <b>14,104.2</b> | <b>28,149.7</b> | <b>32.6</b>    |
| <b>Disbursement</b>                      | <b>6,306.3</b>  | <b>9,252.7</b>  | <b>15,559.0</b> | <b>15,447.5</b>  | <b>11,807.0</b> | <b>27,254.5</b> | <b>75.2</b>    |
| <b>Change in Liquidity (4-5)</b>         | <b>5,118.8</b>  | <b>552.7</b>    | <b>5,671.6</b>  | <b>(1,402.1)</b> | <b>2,297.2</b>  | <b>895.2</b>    | <b>(84.2)</b>  |
| Memorandum Item                          |                 |                 |                 |                  |                 |                 |                |
| <b>Outstanding Credit*</b>               | <b>29,792.2</b> | <b>14,450.0</b> | <b>44,242.2</b> | <b>31,666.6</b>  | <b>16,575.2</b> | <b>48,241.8</b> | <b>9.0</b>     |

**Source:** Commercial Banks and DBE

\* Includes Government borrowing

**Table 5.8: Deposits and Borrowings of Commercial Banks and Specialized Bank**

(In Millions of Birr)

| Particulars       | 2007/08         |                |                |                |                |                |                |                |                |              |              | Total           |                 | Percentage Change |
|-------------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|--------------|-----------------|-----------------|-------------------|
|                   | CBE             | DBE            | CBB            | AIB            | DB             | BOA            | WB             | UB             | NIB            | CBO          | LIB          | 2006/07         | 2007/08         | M/L               |
|                   | A               | B              | C              | D              | E              | F              | G              | H              | I              | J            | K            | L               | M               |                   |
| <b>Deposits</b>   |                 |                |                |                |                |                |                |                |                |              |              |                 |                 |                   |
| -Demand           | 23,174.1        | 126.0          | 278.5          | 825.3          | 1,616.8        | 785.0          | 1,156.7        | 684.9          | 670.8          | 281.3        | 142.6        | 26,267.6        | 29,742.0        | 13.2              |
| -Savings          | 15,274.0        | 4.6            | 902.6          | 2,791.5        | 3,841.9        | 2,411.5        | 1,094.2        | 1,364.4        | 1,435.0        | 185.4        | 177.1        | 23,718.8        | 29,482.2        | 24.3              |
| -Time             | 327.7           | 369.9          | 308.2          | 252.7          | 692.8          | 281.0          | 681.5          | 391.6          | 362.4          | 23.2         | 41.0         | 3,878.9         | 3,732.0         | (3.8)             |
| <b>Total</b>      | <b>38,775.8</b> | <b>500.6</b>   | <b>1,489.3</b> | <b>3,869.5</b> | <b>6,151.5</b> | <b>3,477.5</b> | <b>2,932.4</b> | <b>2,440.9</b> | <b>2,468.2</b> | <b>489.9</b> | <b>360.7</b> | <b>53,865.2</b> | <b>62,956.3</b> | <b>16.9</b>       |
| <b>Borrowings</b> |                 |                |                |                |                |                |                |                |                |              |              |                 |                 |                   |
| -Local            | 0               | 2,102.2        | 72.3           | 0              | 0              | 0              | 0              | 0              | 0              | 0            | 0            | 2009.6          | 2,174.5         | 8.2               |
| -Foreign          | 0               | 506.1          | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0            | 0            | 434.3           | 506.1           | 16.5              |
| <b>Total</b>      | <b>-</b>        | <b>2,608.3</b> | <b>72.3</b>    | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>     | <b>-</b>     | <b>2,443.90</b> | <b>2,680.57</b> | <b>9.7</b>        |

**Source:** Commercial Banks and DBE

CBE = Commercial Bank of Ethiopia

DBE= Development Bank of Ethiopia

CBB= Construction & Business Bank

DB= Dashen Bank

BOA= Bank of Abyssinia

WB= Wegagen Bank

UB= United Bank

NIB= Nib International Bank

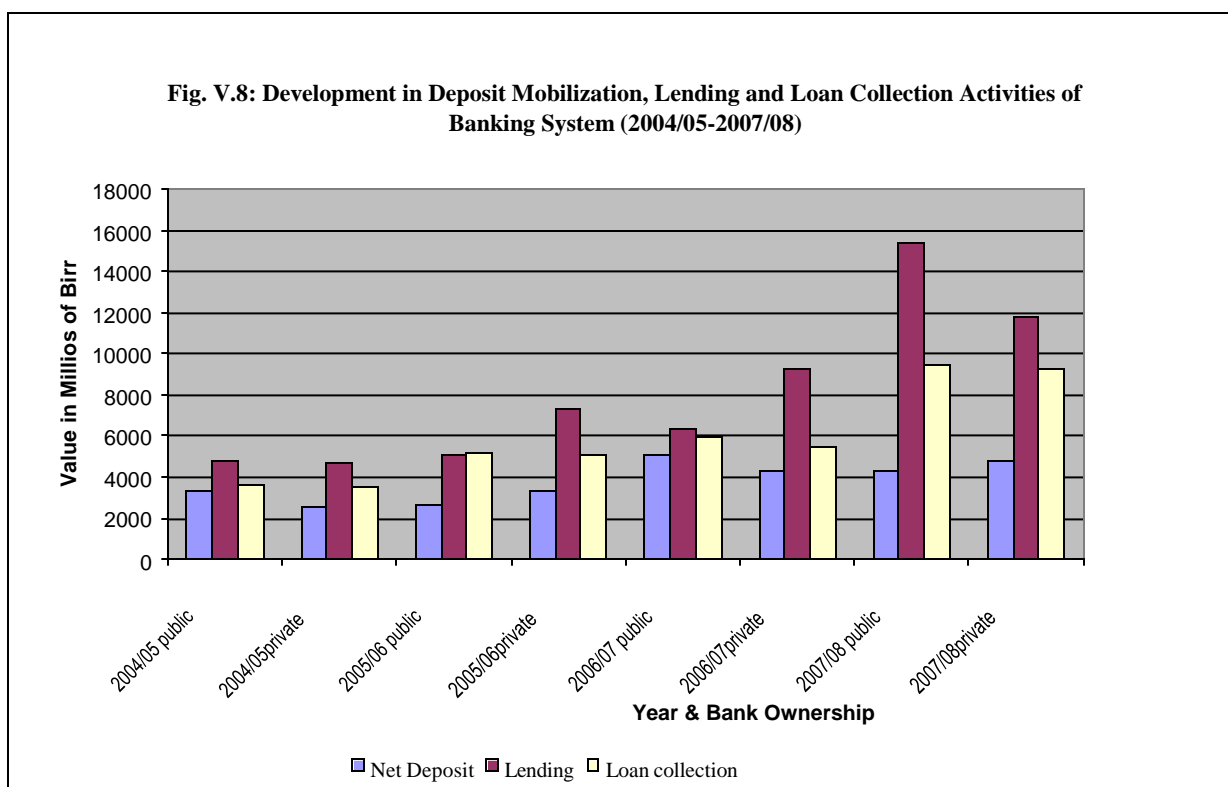
AIB= Awash International Bank

### 5.3.2 New Lending Activities

The fiscal year 2007/08 marked a substantial increase in fresh loan disbursements by banks, exhibiting high economic growth. Accordingly, new loan disbursements surged by more than half (75.2 percent rise) over the previous year and reached Birr 27.3 billion. Of the total new loans disbursed by the banking system, 56.7 percent was provided by

public banks, while the remaining 43.3 percent by private banks.

Concerning the beneficiaries of the new loans, some 33.8 percent was channeled to international trade followed by agriculture (19.7 percent). Domestic trade and industry each took 18.4 and 10.1 percent of the new loans respectively (Table 5.11).



**Source:** Commercial Banks and DBE

**Table 5.9: Loans and Advances by Lender Banks 1/**

(In Millions of Birr)

| Name of Bank                             | 2006/07         |                 |                 | 2007/08         |                 |                 | Percentage Change |             |             |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|-------------|-------------|
|  | D<br>(1)        | C<br>(2)        | O/S<br>(3)      | D<br>(4)        | C<br>(5)        | O/S<br>(6)      |                   |             |             |
| <b>Public Banks</b>                      |                 |                 |                 |                 |                 |                 |                   |             |             |
| Commercial Bank of Ethiopia              | 5231.7          | 5043.2          | 22,766.2        | 14418.2         | 8508.2          | 23,850.1        | 175.6             | 68.7        | 4.8         |
| Development Bank of Ethiopia             | 723.9           | 708.0           | 5,865.5         | 233.8           | 315.5           | 6,611.9         | -67.7             | -55.4       | 12.7        |
| Construction & Business Bank of Ethiopia | 350.6           | 203.4           | 1,160.6         | 795.5           | 669.4           | 1,204.6         | 126.9             | 229.2       | 3.8         |
| <b>Sub-Total</b>                         | <b>6,306.3</b>  | <b>5,954.6</b>  | <b>29,792.2</b> | <b>15,447.5</b> | <b>9,493.0</b>  | <b>31,666.6</b> | <b>145.0</b>      | <b>59.4</b> | <b>6.3</b>  |
| <b>Private Banks</b>                     |                 |                 |                 |                 |                 |                 |                   |             |             |
| Awash International Bank                 | 1807.3          | 853.6           | 2512.3          | 1547.0          | 1078.7          | 2867.9          | -14.4             | 26.4        | 14.2        |
| Dashen Bank                              | 1935.8          | 984.8           | 3980.5          | 2145.7          | 1793.5          | 4382.4          | 10.8              | 82.1        | 10.1        |
| Bank of Abyssinia                        | 982.4           | 748.5           | 2504.1          | 1934.3          | 1576.3          | 2822.7          | 96.9              | 110.6       | 12.7        |
| Wegagen Bank                             | 2399.3          | 1890.6          | 2155.1          | 2754.1          | 2707.8          | 2346.8          | 14.8              | 43.2        | 8.9         |
| United Bank                              | 688.9           | 344.1           | 1240.3          | 746.8           | 257.5           | 1515.6          | 8.4               | -25.2       | 22.2        |
| Nib International Bank                   | 994.5           | 480.1           | 1817.3          | 1144.1          | 893.2           | 2108.9          | 15.0              | 86.0        | 16.0        |
| Cooperative Bank of Oromia               | 388.0           | 167.6           | 240.3           | 1337.6          | 872.5           | 323.9           | 244.8             | 420.6       | 34.8        |
| Lion International Bank                  | 56.4            | 3.6             | 73.3            | 197.3           | 116.8           | 207.1           | 249.9             | 3145.2      | 182.6       |
| <b>Sub-Total</b>                         | <b>9,252.7</b>  | <b>5,473.0</b>  | <b>14,523.3</b> | <b>11,807.0</b> | <b>9,296.2</b>  | <b>16,575.2</b> | <b>27.6</b>       | <b>69.9</b> | <b>14.1</b> |
| <b>Total</b>                             | <b>15,559.0</b> | <b>11,427.6</b> | <b>44,315.5</b> | <b>27,254.5</b> | <b>18,789.2</b> | <b>48,241.8</b> | <b>75.2</b>       | <b>64.4</b> | <b>8.9</b>  |

Source : Commercial Banks and DBE

1/ Outstanding credit includes lending to central government

\* D = Disbursement, C = Collection, O/S = Outstanding Credit

**Table 5.10: Percentage Share of Loans and Advances by Lender Banks**

| Name of Bank                             | 2006/07      |              |              | 2007/08      |              |              | Percentage Change |            |            | /2 | 6/3 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|-------------------|------------|------------|----|-----|
|  | D*           | C*           | O/S*         | D*           | C*           | O/S*         |                   |            |            |    |     |
|  | (1)          | (2)          | (3)          | (4)          | (5)          | (6)          | 7=(4/1)           | 8=(5/2)    | 9=(6/3)    |    |     |
| Commercial Bank of Ethiopia              | 33.6         | 44.1         | 51.4         | 52.9         | 45.3         | 49.4         | 57.3              | 2.6        | -3.8       |    |     |
| Development Bank of Ethiopia             | 4.7          | 6.2          | 13.2         | 0.9          | 1.7          | 13.7         | -81.6             | -72.9      | 3.6        |    |     |
| Construction & Business Bank of Ethiopia | 2.3          | 1.8          | 2.6          | 2.9          | 3.6          | 2.5          | 29.5              | 100.2      | -4.7       |    |     |
| Awash International Bank                 | 11.6         | 7.5          | 5.7          | 5.7          | 5.7          | 5.9          | -51.1             | -23.1      | 4.9        |    |     |
| Dashen Bank                              | 12.4         | 8.6          | 9.0          | 7.9          | 9.5          | 9.1          | -36.7             | 10.8       | 1.1        |    |     |
| Bank of Abyssinia                        | 6.3          | 6.6          | 5.7          | 7.1          | 8.4          | 5.9          | 12.4              | 28.1       | 3.5        |    |     |
| Wegagen Bank                             | 15.4         | 16.5         | 4.9          | 10.1         | 14.4         | 4.9          | -34.5             | -12.9      | 0.0        |    |     |
| United Bank                              | 4.4          | 3.0          | 2.8          | 2.7          | 1.4          | 3.1          | -38.1             | -54.5      | 12.3       |    |     |
| Nib International Bank                   | 6.4          | 4.2          | 4.1          | 4.2          | 4.8          | 4.4          | -34.3             | 13.2       | 6.6        |    |     |
| Cooperative Bank of Oromia               | 2.5          | 1.5          | 0.5          | 4.9          | 4.6          | 0.7          | 96.8              | 216.6      | 23.8       |    |     |
| Lion International Bank                  | 0.4          | 0.0          | 0.2          | 0.7          | 0.6          | 0.4          | 99.7              | 1873.7     | 159.6      |    |     |
| <b>Total</b>                             | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>0.0</b>        | <b>0.0</b> | <b>0.0</b> |    |     |

Source: Commercial Banks and DBE

\* D = Disbursement, C = Collection, O/S = Outstanding Credit

### 5.3.3 Outstanding Loans

The outstanding loan of the banking system (including credit to government) stood at Birr 48.2 billion by the end of 2007/08, recording a 8.9 percent increase over the previous year. Gross outstanding claims on central government declined by 47.8 percent, while that of public enterprises, private sector and cooperatives surged by 167.6, 14.7 and 56.1 percent, respectively (Table 5.13).

Meanwhile, sectoral distribution of loans indicated that credit to trade (both domestic and international) accounted for 36.1 percent; while to that of industry and agriculture were 16.4 and 11.4 percent, respectively. Loans to housing and construction sector also rose to 10.1 percent from 8.6 percent a year earlier (Table 5.12).

**Table 5.11: Loans & Advances by Economic Sectors**

(In Millions of Birr)

| Economic Sectors                | 2006/07         |                 |                 | 2007/08         |                 |                 | Percentage Change |             |            |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|-------------|------------|
|                                 | D*              | C*              | O/S*            | D*              | C*              | O/S*            | D*                | C*          | O/S*       |
|                                 | (1)             | (2)             | (3)             | (4)             | (5)             | (6)             | 7=(4/1)           | 8=(5/2)     | 9=(6/3)    |
| Government Deficit Financing    |                 |                 | 13,214.9        |                 |                 | 6,902.0         |                   |             | (47.8)     |
| Agriculture                     | 2,621.0         | 1,638.7         | 4,218.4         | 5,371.6         | 4,443.4         | 5,481.2         | 104.9             | 171.2       | 29.9       |
| Industry                        | 1,524.9         | 1,389.4         | 6,996.5         | 2,739.4         | 1,587.3         | 7,897.0         | 79.6              | 14.2        | 12.9       |
| Domestic Trade                  | 2,986.4         | 2,021.4         | 3,821.4         | 5,012.1         | 3,424.5         | 5,219.2         | 67.8              | 69.4        | 36.6       |
| International Trade             | 4,377.0         | 3,867.7         | 6,500.3         | 9,210.4         | 5,685.3         | 12,205.0        | 110.4             | 47.0        | 87.8       |
| Export                          | 2,233.8         | 1,785.2         | 2,334.5         | 3,116.3         | 2,526.8         | 2,973.8         | 39.5              | 41.5        | 27.4       |
| Import                          | 2,143.2         | 2,082.5         | 4,165.9         | 6,094.1         | 3,158.6         | 9,231.2         | 184.3             | 51.7        | 121.6      |
| Hotels and Tourism              | 165.0           | 113.0           | 675.5           | 243.6           | 201.7           | 722.7           | 47.6              | 78.5        | 7.0        |
| Transport and Communications    | 1,431.5         | 599.2           | 2,369.7         | 1,337.7         | 1,075.5         | 2,779.9         | (6.6)             | 79.5        | 17.3       |
| Housing and Construction        | 1,674.9         | 925.3           | 3,790.7         | 2,017.0         | 1,431.9         | 4,865.1         | 20.4              | 54.8        | 28.3       |
| Mines, Power and Water Resource | 13.3            | -               | 40.9            | 59.3            | 0.4             | 4.2             | 344.9             | -           | (89.8)     |
| Others                          | 585.4           | 691.2           | 2,316.4         | 997.5           | 733.0           | 1,819.7         | 70.4              | 6.1         | (21.4)     |
| Personal                        | 179.5           | 101.6           | 147.2           | 265.8           | 120.6           | 169.3           | 48.1              | 18.6        | 15.0       |
| Interbank Lending               | -               | 79.965          | 225.7           | -               | 85.5            | 176.5           | -                 | 6.9         | (21.8)     |
| <b>Total</b>                    | <b>15,559.0</b> | <b>11,427.6</b> | <b>44,317.5</b> | <b>27,254.5</b> | <b>18,789.2</b> | <b>48,241.8</b> | <b>75.2</b>       | <b>64.4</b> | <b>8.9</b> |

**Source:** Commercial Banks and DBE

\* D = Disbursement, C = Collection, O/S = Outstanding Credit

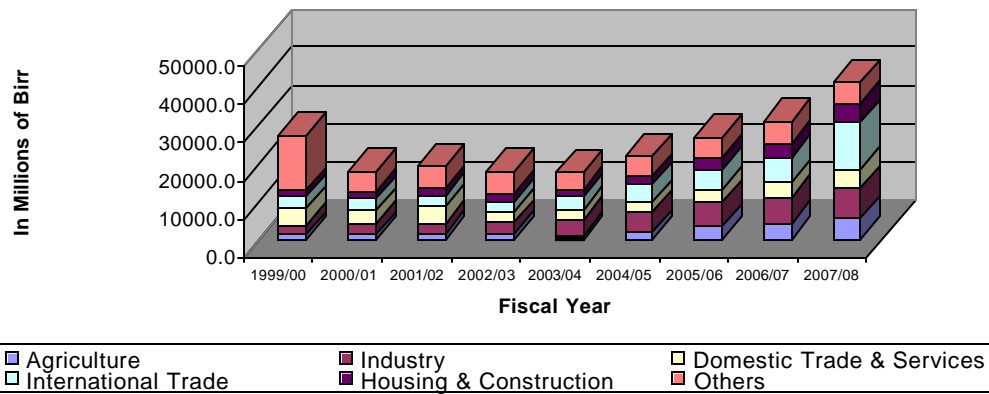
**Table 5.12: Percentage Share of Loans & Advances by Economic Sectors**

| Economic Sectors                | 2005/06      |              |              | 2006/07      |              |              | 2007/08      |              |              |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                 | D*           | C*           | O/S*         | D*           | C*           | O/S*         | D*           | C*           | O/S*         |
| Central Gov't                   |              |              | 32.5         |              |              | 29.9         |              |              | 14.3         |
| Agriculture                     | 17.6         | 13.8         | 8.6          | 16.9         | 14.3         | 9.5          | 19.7         | 23.6         | 11.4         |
| Industry                        | 10.5         | 11.3         | 15.9         | 9.8          | 12.2         | 15.8         | 10.1         | 8.4          | 16.4         |
| Domestic Trade                  | 19.8         | 18.1         | 8.4          | 19.1         | 17.7         | 8.5          | 18.4         | 18.2         | 10.8         |
| International Trade             | 28.6         | 34.5         | 13.2         | 28.1         | 33.8         | 14.6         | 33.8         | 30.3         | 25.3         |
| Export                          | 13.4         | 16.3         | 4.0          | 14.3         | 15.6         | 5.3          | 11.4         | 13.4         | 6.2          |
| Import                          | 15.2         | 18.3         | 9.4          | 13.8         | 18.2         | 9.4          | 22.4         | 16.8         | 19.1         |
| Hotels and Tourism              | 0.7          | 1.0          | 0.8          | 1.1          | 1.0          | 1.5          | 0.9          | 1.1          | 1.5          |
| Transport and Communications    | 8.1          | 5.0          | 4.0          | 9.2          | 5.2          | 5.4          | 4.9          | 5.7          | 5.8          |
| Housing and Construction        | 9.4          | 7.1          | 8.1          | 10.8         | 8.1          | 8.6          | 7.4          | 7.6          | 10.1         |
| Mines, Power and Water Resource | -            | -            | 0.1          | 0.1          | -            | 0.1          | 0.2          | 0.0          | 0.0          |
| Others                          | 4.1          | 7.2          | 7.2          | 3.8          | 6.1          | 5.2          | 3.7          | 3.9          | 3.8          |
| Personal                        | 1.1          | 1.0          | 0.2          | 1.2          | 0.9          | 0.3          | 1.0          | 0.6          | 0.4          |
| Interbank Lending               | -            | 0.8          | 0.7          | -            | 0.7          | 0.5          | -            | 0.5          | 0.4          |
| <b>Total</b>                    | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

Source : Commercial Banks and DBE

\* D = Disbursement, C = Collection, O/S = Outstanding Credit

**Fig. V.9: Sectoral Breakdown of Bank Credit(1999/00-2007/08)**



Source : Commercial Banks and DBE

**Table 5.13: Loans & Advances by Borrower**

(In Millions of Birr)

| Borrowing Sector              | 2005/06         | 2006/07         | 2007/08         |                 |                 | Percentage change |            |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|------------|
|                               | O/S*            | O/S*            | D*              | C*              | O/S*            |                   |            |
|                               | A               | B               | C               | D               | E               | E/A               | E/B        |
| Central Government            | 12,880.1        | 13,214.9        | -               | -               | 6,902.0         | -46.4             | -47.8      |
| Public Enterprises            | 3,017.4         | 3,263.1         | 5,174.5         | 686.4           | 8,732.6         | 189.4             | 167.6      |
| Cooperatives                  | 1,848.8         | 2,025.0         | 5,390.0         | 5,024.5         | 3,161.1         | 71.0              | 56.1       |
| Private & Individuals         | 21,610.0        | 25,513.4        | 16,690.0        | 12,996.1        | 29,269.6        | 35.4              | 14.7       |
| Interbank Lending             | 274.9           | 225.7           | 0.0             | 82.2            | 176.5           | -35.8             | -21.8      |
| <b>Total</b>                  | <b>39,631.2</b> | <b>44,242.2</b> | <b>27,254.5</b> | <b>18,789.2</b> | <b>48,241.8</b> | <b>21.7</b>       | <b>9.0</b> |
| Total Less Inter-bank Lending | 39,356.3        | 44,016.4        | 27,254.5        | 18,707.0        | 48,065.3        | 22.1              | 9.2        |

**Source:** Commercial Banks and DBE

\* D = Disbursement, C = Collection, O/S = Outstanding Credit

## 5.4. Financial Activities of NBE

Outstanding claims of NBE on the central government reached Birr 41.6 billion, in 2007/08 about 2.4 percent higher than last year. This was attributed largely to 35.0 percent rise in direct advances which reached Birr 31.8 billion or 76.6 percent of total claims. NBE's holdings of government bonds was Birr 9.7 billion (or 23.4 percent).

Concerning the liabilities of NBE, deposits of the central government and domestic financial institutions grew by 3.1 percent and reached Birr 21.7 billion by

the end of 2007/08. This was mainly attributed to 25.5 percent rise in the deposits of financial institutions offsetting a 28.9 percent decline in government deposit.

The surge observed in the deposits of financial institutions with NBE partly reflects the upward revision of the reserve requirement ratio and partly improvements in economic transactions that require large balances for settlement purposes.



**Table 5.14: Financial Activities of NBE**

| Particulars                                   | (In Millions of Birr) |                 |                 |                     |             |
|---|-----------------------|-----------------|-----------------|---------------------|-------------|
|   | 2005/06<br>A          | 2006/07<br>B    | 2007/08<br>C    | % Change<br>C/A C/B |             |
| <b>Loans and Advances</b>                     | <b>26,461.8</b>       | <b>33,513.4</b> | <b>41,563.1</b> | <b>57.1</b>         | <b>24.0</b> |
| <b>Claims on Central Gov't</b>                | <b>26,461.8</b>       | <b>33,513.4</b> | <b>41,563.1</b> | <b>57.1</b>         | <b>24.0</b> |
| Direct Advance                                | 16,442.0              | 23,562.0        | 31,818.0        | 93.5                | 35.0        |
| Bonds   | 10,019.8              | 9,951.4         | 9,745.1         | -2.7                | -2.1        |
| <b>Claims on Development Bank of Ethiopia</b> | -                     | -               | -               | -                   | -           |
| <b>Deposit Liabilities</b>                    | <b>15,824.2</b>       | <b>21,053.6</b> | <b>21,710.9</b> | <b>37.2</b>         | <b>3.1</b>  |
| Government                                    | 7,037.0               | 8,657.8         | 6,157.3         | -12.5               | -28.9       |
| Financial Institutions                        | 8,787.2               | 12,395.8        | 15,553.6        | 77.0                | 25.5        |

Source: NBE

## 5.5 Developments in Financial Markets

The only regular primary market where securities are transacted on a fortnightly auction basis is the Treasury bills market. There is no secondary market in the country. Government bonds are

occasionally issued to finance government expenditures and/or to absorb excess liquidity in the banking system.

### 5.5.1 Treasury Bills Market

The amount of Treasury-bills supplied to the fortnightly auction market amounted to Birr 49.3 billion in 2007/08 which was 29.1 percent lower than that of last year. The total demand for T-bills also declined by 24.1 percent and reached Birr 59.9 billion.

Similarly, the amount of T-bills sold during the stated period was Birr 47.8 billion, depicting an annual decline of 26.9 percent. All in all, the amount of T-

bills sold during the reported time covered about 80 percent of the demand.

The dominance of commercial banks in the T-bills auction market tended to diminish in the review year due to enhanced participation of non-bank institutions in the T-bills market.

The total outstanding T-bills stood at Birr 8.6 billion at the close of 2007/08,

about 25.4 percent lower than the preceding year. Of the total outstanding bills, the non-bank institutions held 68.2 percent against 20.9 percent last year.

The average weighted yield for all types of bills went up by 27.8 to 0.68 percent in 2007/08 from 0.53 percent a year earlier.

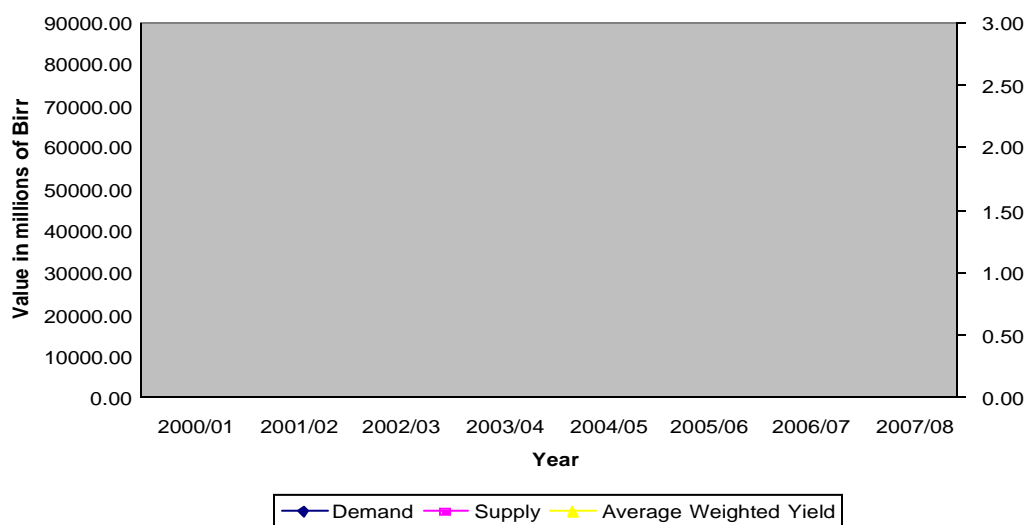
**Table 5.15: Treasury Bills Auction Result (2005/06 – 2007/08)**

**(In Millions of Birr)**

| Particulars   | 2005/06          | 2006/07          | 2007/08          | Percentage Change |              |
|---|------------------|------------------|------------------|-------------------|--------------|
|   | A                | B                | C                | C/A               | C/B          |
| <b>Number of Bidders</b>                                | <b>187</b>       | <b>168</b>       | <b>182</b>       | <b>-2.7</b>       | <b>8.3</b>   |
| <b>Amount Demanded (Mn.Birr)</b>                        | <b>60,603.50</b> | <b>78,922.00</b> | <b>59,938.51</b> | <b>-1.1</b>       | <b>-24.1</b> |
| 28-day bill   | 34,863.50        | 38,601.50        | 20,587.51        | -40.9             | -46.7        |
| 91-day bill   | 18,330.00        | 32,163.50        | 17,829.00        | -2.7              | -44.6        |
| 182-day bill  | 7,410.00         | 8,157.00         | 21,522.00        | 190.4             | 163.8        |
| <b>Amount Supplied (Mn.Birr)</b>                        | <b>47,793.50</b> | <b>69,487.00</b> | <b>49,249.00</b> | <b>3.0</b>        | <b>-29.1</b> |
| 28-day bill   | 26,859.50        | 34,257.50        | 12,680.00        | -52.8             | -63.0        |
| 91-day bill   | 14,740.00        | 28,135.50        | 15,394.00        | 4.4               | -45.3        |
| 182-day bill  | 6,194.00         | 7,094.00         | 21,175.00        | 241.9             | 198.5        |
| <b>Amount Sold (Mn.Birr)</b>                            | <b>47,793.50</b> | <b>65,315.00</b> | <b>47,766.51</b> | <b>-0.1</b>       | <b>-26.9</b> |
| Banks   | 44,465.60        | 58,599.60        | 35,838.00        | -19.4             | -38.8        |
| Non-Banks   | 3,327.90         | 6,715.40         | 11,928.51        | 258.4             | 77.6         |
| <b>Average Weighted Price for Successful Bids(Birr)</b> | <b>99.99</b>     | <b>99.843</b>    | <b>99.820</b>    | <b>-0.17</b>      | <b>-0.02</b> |
| 28-day bill   | 99.997           | 99.968           | 99.947           | -0.050            | -0.021       |
| 91-day bill   | 99.989           | 99.857           | 99.825           | -0.164            | -0.033       |
| 182-day bill  | 99.988           | 99.704           | 99.688           | -0.300            | -0.016       |
| <b>Average Weighted Yield for Successful Bids(%)</b>    | <b>0.036</b>     | <b>0.530</b>     | <b>0.678</b>     | <b>1765.3</b>     | <b>27.8</b>  |
| 28-day bill   | 0.040            | 0.417            | 0.700            | 1649.7            | 67.8         |
| 91-day bill   | 0.044            | 0.574            | 0.705            | 1503.1            | 22.9         |
| 182-day bill  | 0.025            | 0.600            | 0.628            | 2411.8            | 4.7          |
| <b>Outstanding Bills by End of Period(Mn.Br.)</b>       | <b>11,638.50</b> | <b>11,546.00</b> | <b>8,609.51</b>  | <b>-26.0</b>      | <b>-25.4</b> |
| Banks   | 10,612.30        | 9,135.00         | 2,739.00         | -74.2             | -70.0        |
| Non-Banks   | 1,026.20         | 2,411.00         | 5,870.51         | 472.1             | 143.5        |

**Source:** NBE

**Fig. V. 10: Treasury Bills Auction Result (2000/01 -2007/08)**



**Source:** NBE

### **5.5.2. Bonds Market**

There is no formal market for government bonds. The last auction for government bonds was held in November 2000 in which commercial banks purchased bonds with a two-year maturity. However, there were bonds issued by the government without

an auction on various occasions for specific reasons. In contrast, there was strong demand for corporate bonds. As a result, corporate bond holdings of the Commercial Bank of Ethiopia increased to Birr 13.2 billion from 8 billion a year ago.

### **5.5.3. Interbank Money Market**

The interbank money market is underdeveloped in Ethiopia, mainly due to the existence of excess reserves in the banking system. As a result, four small transactions involving a total amount of Birr 169 thousand were conducted in 2007/08. Since the introduction of the

interbank money market in September 1998, merely twenty three transactions worth Birr 259.2 million were carried out with interest rates ranging between 7 and 11 percent. The maturity period of these loans widely spanned from overnight to 5 years.

**Table 5. 16: Interbank Money Market Transactions up to June 2008**

| <b>Borrower</b>          | <b>Lender</b>               | <b>Amount<br/>Borrowed (In<br/>Thousand Birr)</b> | <b>Interest Rate<br/>%</b> | <b>Date of<br/>Transaction</b> | <b>Maturity<br/>Period</b> |
|--------------------------|-----------------------------|---|----------------------------|--------------------------------|----------------------------|
| Nib International Bank   | Awash International Bank    | 7,000.0   | 11                         | 16/11/00                       | Overnight                  |
| Wegagen Bank             | Commercial Bank of Ethiopia | 10,000.0  | 8                          | 3/1/2001                       | 5 years                    |
| Nib International Bank   | „                           | 10,000.0  | 8                          | 3/31/2001                      | 3 months                   |
| Wegagen Bank             | „                           | 10,000.0  | 8                          | 3/22/2001                      | 1 year                     |
| Nib International Bank   | „                           | 3,600.0   | 8                          | 5/31/2001                      | 6 months                   |
| Nib International Bank   | „                           | 3,700.0   | 8                          | 06/31/01                       | 6 months                   |
| Nib International Bank   | „                           | 778.0   | 8                          | 30-11-2001                     | 6 months                   |
| Nib International Bank   | Bank of Abyssinia           | 28,999.8  | 7                          | 31/12/02                       | 3.5 months                 |
| Nib International Bank   | Bank of Abyssinia           | 19,046.9  | 7                          | 31/01/03                       | 3.5 months                 |
| Nib International Bank   | Bank of Abyssinia           | 20,310.0  | 7                          | 28/02/03                       | 3.5 months                 |
| Nib International Bank   | Bank of Abyssinia           | 28,987.0  | 7                          | 31/03/03                       | 3.5 months                 |
| Nib International Bank   | Commercial Bank of Ethiopia | 25,000.0  | 7.5                        | 7/7/2003                       | 5.2 months                 |
| Nib International Bank   | Bank of Abyssinia           | 50.1  | 7.5                        | 26/03/2005                     | open                       |
| Nib International Bank   | Bank of Abyssinia           | 50.5  | 7.5                        | 26/03/2005                     | open                       |
| Wegagen Bank             | Awash International Bank    | 19,744.6  | 7.5                        | December, 2006                 | 21/05/07                   |
| Wegagen Bank             | Awash International Bank    | 19,870.4  | 7.5                        | January, 2007                  | 21/05/07                   |
| Wegagen Bank             | Awash International Bank    | 10,937.2  | 7.5                        | February, 2007                 | 21/05/07                   |
| Awash International Bank | Nib International Bank      | 30,000.0  | 7.5                        | February, 2007                 | 18/08/07                   |
| Wegagen Bank             | Awash International Bank    | 10,931.4  | 7.5                        | March, 2007                    | 21/05/07                   |
| Nib International Bank   | Awash International Bank    | 142.0   | 8.5                        | January, 2008                  | 25/4/08                    |
| Nib International Bank   | Awash International Bank    | 7.0   | 8.5                        | February, 2008                 | 25/04/08                   |
| Nib International Bank   | Awash International Bank    | 3.0   | 8.5                        | March, 2008                    | 25/04/08                   |
| Nib International Bank   | Awash International Bank    | 17.0  | 8.5                        | April, 2008                    | 25/04/08                   |
| <b>Total/Average</b>     | <b>-</b>                    | <b>259,174.8</b>                                  | <b>7.87</b>                | <b>-</b>                       | <b>-</b>                   |

**Source :** NBE

## **VI. DEVELOPMENTS IN EXTERNAL SECTOR**

### **6.1 Overall Balance of Payments**

During the review period, the overall balance of payments recorded a deficit of USD 263.3 million as compared to a surplus of USD 85 million last year. The widening of the trade deficit, decrease in the surplus of the services account and lower official loan disbursements were the major contributing factors for the decline.

The trade deficit widened from 20.8 percent of GDP in the preceding fiscal year to 23.8 percent in the review year as imports jumped by 32.8 percent offsetting a 23.7 percent increase in export earnings.

As a result of the widening trade deficit and decline in net services (16.3 percent), the current account deficit (including official transfers) went up to USD 1,479.8 million (6.6 percent of GDP) compared to USD 782.9 million (4 percent of GDP) in the previous fiscal year despite respective rises of 38.4 and 9.5 percent in net private and official transfers. On the other hand, the capital account recorded a surplus of USD 968 million.

**Table 6.1 Balance of Payments**

(In Millions of USD)

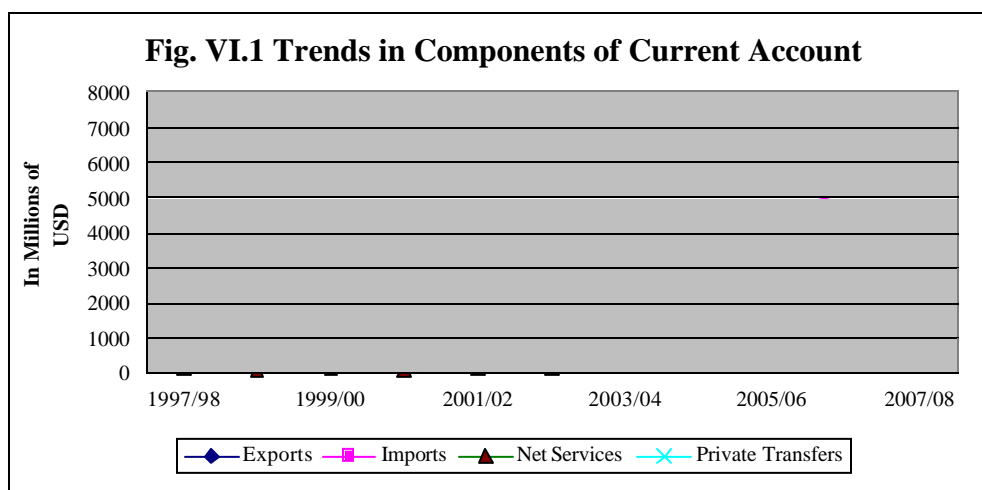
| Particulars  | 2005/06         | 2006/07         | 2007/08         | Percentage Change |               |
|--|-----------------|-----------------|-----------------|-------------------|---------------|
|  | A               | B               | C               | D=C/B             | E=C/A         |
| <b>Trade Balance</b>                                   | <b>-3,592.5</b> | <b>-3,940.9</b> | <b>-5,344.8</b> | <b>35.6</b>       | <b>48.8</b>   |
| Exports  | 1,000.3         | 1,185.1         | 1,465.7         | 23.7              | 46.5          |
| Imports  | 4,592.8         | 5,126.0         | 6,810.5         | 32.9              | 48.3          |
| <b>Net Services</b>                                    | <b>147.7</b>    | <b>230.3</b>    | <b>159.9</b>    | <b>-30.6</b>      | <b>8.2</b>    |
| Travel   | 60.4            | 69.9            | 149.8           | 114.3             | 148.0         |
| Transportation   | 43.2            | 80.6            | 129.2           | 60.4              | 198.9         |
| Government (n.i.e.)                                    | 278.5           | 258.8           | 134.6           | -48.0             | -51.7         |
| Investment income                                      | -1.7            | 30.4            | 34.2            | 12.6              | -2114.1       |
| Interest   | 26.7            | 47.5            | 47.6            | 0.2               | 78.3          |
| Cash (net)   | 26.7            | 47.5            | 47.6            | 0.2               | 78.3          |
| Arrears  | 0.0             | 0.0             | 0.0             | -                 | -             |
| Dividend   | -28.4           | -17.1           | -13.4           | -21.9             | -53.0         |
| Other Services   | -232.7          | -209.4          | -287.9          | 37.5              | 23.7          |
| <b>Private Transfers</b>                               | <b>1,226.4</b>  | <b>1,728.6</b>  | <b>2,394.1</b>  | <b>38.5</b>       | <b>95.2</b>   |
| <b>Current Account Balance(excl. public transfers)</b> | <b>-2,218.4</b> | <b>-1,982.0</b> | <b>-2,790.9</b> | <b>40.8</b>       | <b>25.8</b>   |
| <b>Public Transfers</b>                                | <b>755.9</b>    | <b>1,199.1</b>  | <b>1,312.5</b>  | <b>9.5</b>        | <b>73.6</b>   |
| <b>Current Account Balance(incl. public transfers)</b> | <b>-1,462.6</b> | <b>-782.9</b>   | <b>-1,478.4</b> | <b>88.7</b>       | <b>1.1</b>    |
| <b>Non-monetary Capital</b>                            | <b>632.5</b>    | <b>798.5</b>    | <b>968.1</b>    | <b>21.2</b>       | <b>53.0</b>   |
| Long-term (net)  | 291.8           | 307.9           | 242.8           | -21.1             | -16.8         |
| Disbursements  | 343.2           | 325.7           | 289.6           | -11.1             | -15.6         |
| Repayments   | 51.4            | 17.8            | 46.8            | 163.1             | -9.1          |
| Cash   | 51.4            | 17.8            | 46.8            | 163.1             | -9.1          |
| Arrears  | 0.0             | 0.0             | 0.0             | -                 | -             |
| Direct Investment (net)                                | 365.1           | 521.2           | 814.6           | 56.3              | 123.1         |
| Short-term (net)                                       | -24.3           | -30.5           | -89.4           | 192.7             | 267.7         |
| <b>Net Errors &amp; Omissions</b>                      | <b>622.5</b>    | <b>69.1</b>     | <b>246.8</b>    | <b>255.3</b>      | <b>-60.4</b>  |
| <b>Overall Balance</b>                                 | <b>-207.5</b>   | <b>84.7</b>     | <b>-263.5</b>   | <b>-411.1</b>     | <b>27.0</b>   |
| <b>Reserves (-:increase)</b>                           | <b>207.5</b>    | <b>-84.7</b>    | <b>263.5</b>    | <b>-411.1</b>     | <b>27.0</b>   |
| <b>NBE Net Foreign Asset</b>                           | <b>283.2</b>    | <b>-39.4</b>    | <b>244.4</b>    | <b>-720.9</b>     | <b>-13.7</b>  |
| <b>CBs Net Foreign Asset</b>                           | <b>-75.7</b>    | <b>-45.3</b>    | <b>19.1</b>     | <b>-142.1</b>     | <b>-125.2</b> |

Source: NBE staff compilation

**Table 6.2: Components of External Trade as Percentage of GDP**

| Particulars  | 2005/06 | 2006/07 | 2007/08 | Percentage Change |       |
|--|---------|---------|---------|-------------------|-------|
|  | A       | B       | C       | C/B               | C/A   |
| Exports  | 6.6     | 6.1     | 6.5     | 7.1               | -0.9  |
| Imports  | 30.3    | 26.4    | 30.4    | 15.1              | 0.3   |
| Trade Balance  | -23.7   | -20.3   | -23.8   | 17.5              | 0.6   |
| Net Services   | 1.0     | 1.0     | 0.7     | -27.5             | -27.1 |
| Net Private Transfers                                  | 8.1     | 8.7     | 10.7    | 22.2              | 31.9  |
| Current Account Deficit (Excluding Official Transfers) | -14.6   | -10.6   | -12.4   | 17.7              | -14.9 |
| Current Account Deficit (Including Official Transfers) | 5.7     | 6.2     | 5.8     | -5.2              | 2.4   |

Source: NBE staff compilation



Source: NBE staff compilation

## 6.2 Developments in Merchandise Trade

Reflecting a continuous surge in imports, which more than offset the considerable rise in exports, merchandise trade deficit widened from USD 3.59 billion (23.7 percent of GDP) in 2005/06 to USD 3.94 billion (20.3 percent of GDP) in 2006/07

and further to USD 5.34 billion (23.8 percent of GDP) in 2007/08.

### 6.2.1 Exports

Total merchandise exports reached USD 1,465.7 million in 2007/08, up by 23.7 percent over the preceding fiscal year.

**Table 6.3 Values of Major Export Items**

|                              | 2005/06       | % share      | 2006/07       | % share      | 2007/08       | % share      | Percentage Change |             |
|------------------------------|---------------|--------------|---------------|--------------|---------------|--------------|-------------------|-------------|
|                              | A             |              | B             |              | C             |              | C/B               | C/A         |
| Coffee                       | 354.3         | 35.4         | 424.2         | 35.8         | 524.5         | 35.8         | 23.6              | 48.1        |
| Oilseeds                     | 211.4         | 21.1         | 187.4         | 15.8         | 218.8         | 14.9         | 16.7              | 3.5         |
| Leather and Leather Products | 75.0          | 7.5          | 89.6          | 7.6          | 99.2          | 6.8          | 10.7              | 32.2        |
| Pulses                       | 37.0          | 3.7          | 70.3          | 5.9          | 143.6         | 9.8          | 104.3             | 288.5       |
| Meat & Meat Products         | 18.5          | 1.9          | 15.5          | 1.3          | 20.9          | 1.4          | 35.0              | 12.7        |
| Fruits & Vegetables          | 13.2          | 1.3          | 16.2          | 1.4          | 12.8          | 0.9          | -20.6             | -2.8        |
| Live Animals                 | 27.6          | 2.8          | 36.8          | 3.1          | 40.9          | 2.8          | 11.1              | 48.2        |
| Chat                         | 89.1          | 8.9          | 92.8          | 7.8          | 108.3         | 7.4          | 16.7              | 21.6        |
| Gold                         | 64.7          | 6.5          | 97.0          | 8.2          | 78.8          | 5.4          | -18.8             | 21.7        |
| Flower                       | 21.8          | 2.2          | 63.6          | 5.4          | 111.8         | 7.6          | 75.7              | 413.5       |
| Others                       | 87.8          | 8.8          | 91.8          | 7.7          | 106.3         | 7.2          | 15.7              | 21.0        |
| <b>Total</b>                 | <b>1000.3</b> | <b>100.0</b> | <b>1185.1</b> | <b>100.0</b> | <b>1465.7</b> | <b>100.0</b> | <b>23.7</b>       | <b>46.5</b> |

Source: Ethiopian Customs Authority

Export earnings from coffee grew by 23.6 percent owing to the rise in the international price despite the decrease in volume. The slow down in volume was presumably due to the high domestic auction price of coffee that made coffee less profitable in the international market.

In addition, the sharp decline in the export of coffee to Japan, the second largest destination for Ethiopian coffee, during the months of May and June 2008 also contributed to all this effect. Hence, the share of coffee in the total exports stood at 35.8 percent similar to the of last year.

Export earnings from oilseeds, the second largest export item reached USD 218.8 million, up by 16.7 percent over the

preceding fiscal year. This was due to the rise in the international price despite a decrease in the volume by 35.3 percent. The share of oilseeds in the total exports dwindled from 21.1 percent in 2005/06 to 15.8 percent in 2006/07 and further to 14.9 percent during the review year.

The receipts obtained from the export of pulses continued to grow remarkably reaching USD 143.6 million in 2007/08 from USD 70.3 million a year earlier. This was attributable to the increase both in the volume and international prices. As a result, the share of pulses in total exports grew from 5.9 percent a year ago to 9.8 percent in the review period.

Revenue Secured from leather and leather products increased by 10.7 percent compared to the previous year solely on



account of higher international prices which more than offset the marginal decrease in volume.

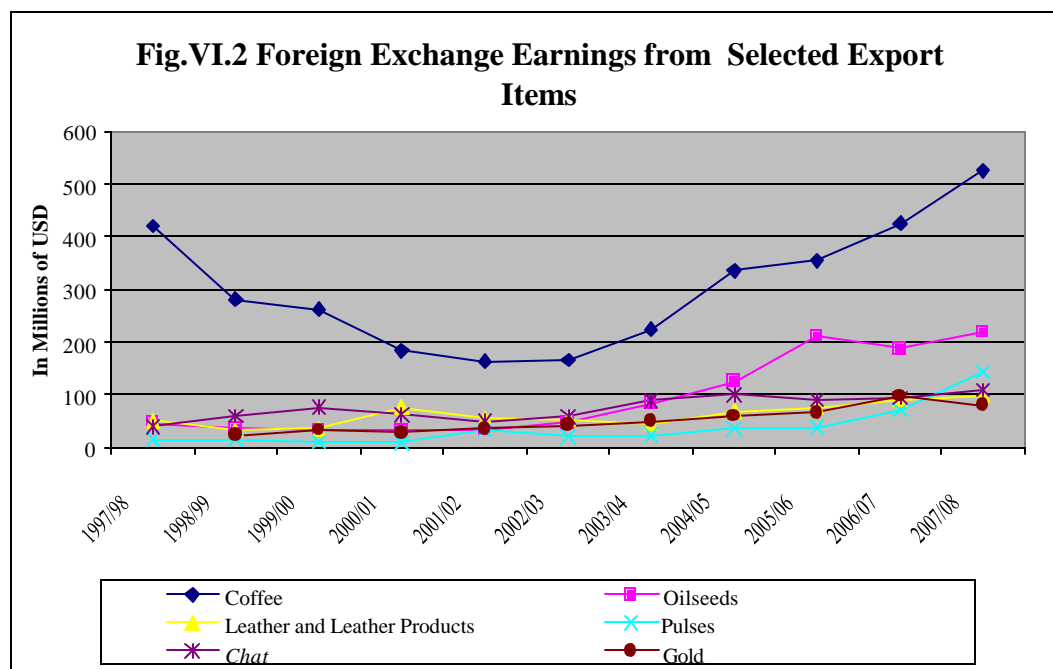
Similarly, revenue from meat and meat products rose to USD 21 million from USD 15.5 million in 2006/07 due to higher exports to the Middle East.

Export earnings from live animals also went up to USD 40.9 million in 2007/08 from USD 36.8 million in 2006/07 owing to better international prices.

Reflecting the favorable investment climate

in the horticulture sub-sector, earnings from exports of flower grew to USD 111.8 million in the review period from USD 63.6 million last year.

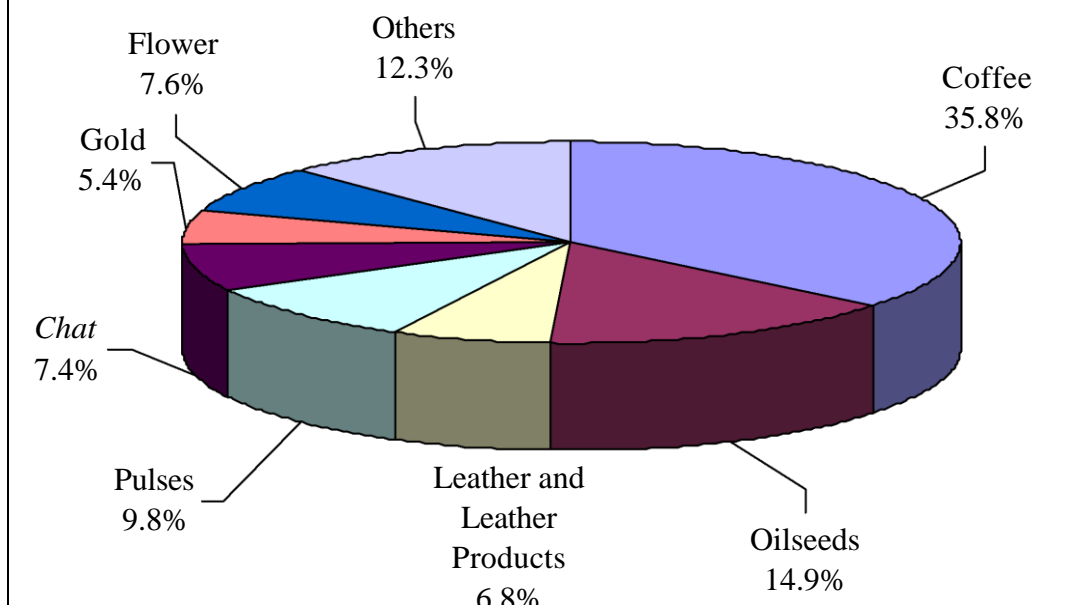
Despite a modest decline in the volume of exports, the income from *chat* went up by 16.7 percent and reached USD 108.3 million during the stated period. In contrast, export earnings from gold dropped from USD 97 million last year to USD 78.8 million in the review year wholly on account of a 32.6 percent decrease in the volume.



source: Ethiopian Customs Authority

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**Fig. VI.3 Export Share of Selected Commodities during Review Year**



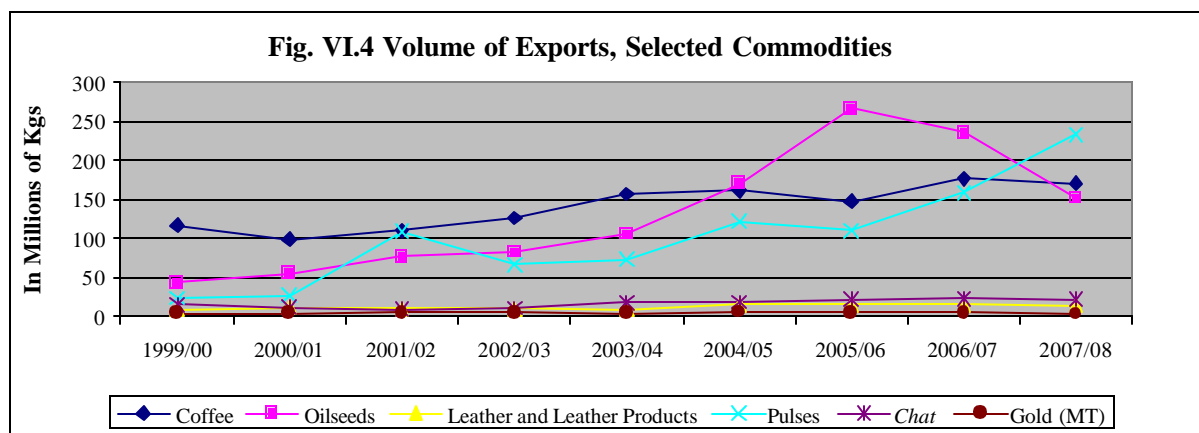
Source: NBE staff compilation

**Table 6.4: Volume of Major Exports**

(In Millions of Kg)

| Particulars                  | 2005/06 | 2006/07 | 2007/08 | Percentage Change |       |
|------------------------------|---------|---------|---------|-------------------|-------|
|                              | A       | B       | C       | C/B               | C/A   |
| Coffee                       | 147.7   | 176.4   | 170.7   | -3.2              | 15.6  |
| Oilseeds                     | 265.6   | 235.0   | 152.1   | -35.3             | -42.7 |
| Leather and Leather Products | 15.4    | 15.8    | 14.9    | -5.4              | -3.1  |
| Pulses                       | 110.4   | 158.8   | 233.0   | 46.8              | 111.0 |
| Meat & Meat Products         | 8.0     | 5.8     | 6.5     | 10.8              | -18.5 |
| Fruits & Vegetables          | 34.8    | 40.9    | 39.9    | -2.4              | 14.7  |
| Live Animals                 | 33.3    | 43.7    | 40.0    | -8.5              | 20.0  |
| Chat                         | 22.3    | 22.7    | 22.4    | -1.2              | 0.7   |
| Gold                         | 0.0050  | 0.0056  | 0.0038  | -32.6             | -24.4 |
| Flower                       | 6.3     | 14.4    | 22.4    | 55.1              | 258.0 |

Source: Ethiopian Customs Authority

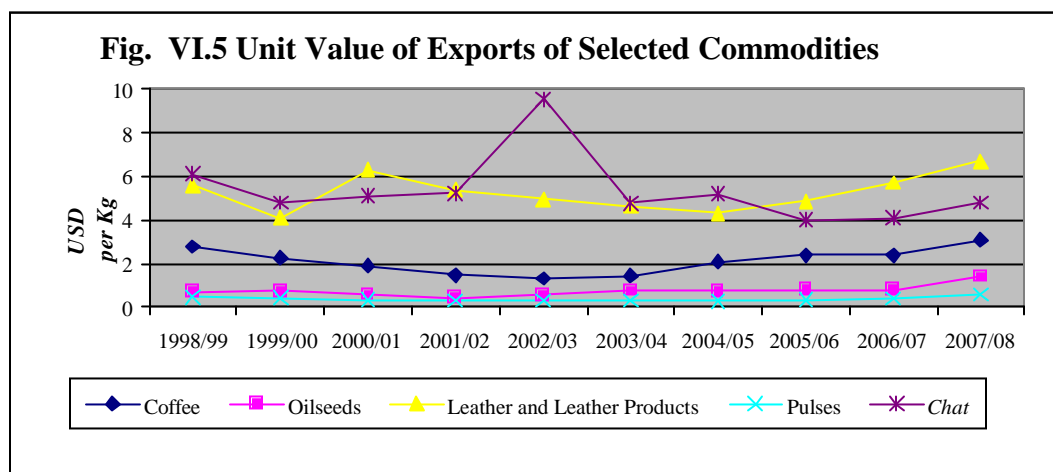


Source: Ethiopian Customs Authority

**Table 6.5: Unit Value of Major Exports**

| Particulars                  | (In USD per Kg) |          |          |                   |       |
|------------------------------|-----------------|----------|----------|-------------------|-------|
|                              | 2005/06         | 2006/07  | 2007/08  | Percentage Change |       |
|                              | A               | B        | C        | C/B               | C/A   |
| Coffee                       | 2.4             | 2.4      | 3.1      | 27.8              | 28.1  |
| Oilseeds                     | 0.8             | 0.8      | 1.4      | 80.3              | 80.8  |
| Leather and Leather Products | 4.9             | 5.7      | 6.7      | 17.1              | 36.5  |
| Pulses                       | 0.3             | 0.4      | 0.6      | 39.2              | 84.1  |
| Meat & Meat Products         | 2.3             | 2.6      | 3.2      | 21.8              | 38.3  |
| Fruits & Vegetables          | 0.4             | 0.4      | 0.3      | -18.7             | -15.3 |
| Live Animals                 | 0.8             | 0.8      | 1.0      | 21.4              | 23.5  |
| Chat                         | 4.0             | 4.1      | 4.8      | 18.1              | 20.8  |
| Gold                         | 13,008.8        | 17,380.7 | 20,955.5 | 20.6              | 61.1  |
| Flower                       | 3.5             | 4.4      | 5.0      | 13.2              | 43.4  |

Source: Calculated from tables VI.3 and VI.4



Source: NBE staff compilation

### 6.2.2. Imports

Total imports surged to USD 6.81 billion (30.4 percent of GDP) in 2007/08 from USD 5.13 billion (26.4 percent of GDP) in 2006/07 and USD 3.63 billion (30.3 percent of GDP) in 2005/06 owing to the increase in all major components of imports except capital goods.

Imports of raw materials rose by 73.5 percent to USD 257.8 million in the review period exhibiting the steady growth in international prices as well as vibrant domestic economic activities. Hence, the share of raw materials in the total imports went up from 2.9 percent in the preceding fiscal year to 3.8 percent in 2007/08.

Imports of capital goods showed a 4.9 percent decline compared to last year and stood at USD 1,777.4 million. The decrease in the imports of capital goods was mainly attributed to the fall in imports of transport capital goods specifically heavy road motor

vehicles. Imports of industrial and agricultural capital goods, however, tended to increase.

Import of consumer goods, grew by 15.1 percent to USD 1,515.7 million from USD 1,317 million last year largely due to higher imports of non-durables which included cereals, medial and pharmaceuticals as well as textile fabrics. On the other hand, the imports of durable goods exhibited decline during the reported time. The share of consumer goods in total imports slid down to 22.3 percent from 25.7 percent in 2006/07.

Meanwhile, fuel imports surged by 85.3 percent to USD 1,621.4 million in the review period from USD 875.1 million a year ago mainly on account of oil prices. Accordingly, the share of fuel in the total import bill rose from 17.1 percent last year to 23.8 percent in the review year.

**Table 6.6: Value of Imports by End Use**

(In Millions of USD)

|                            | 2005/06        | Share<br>from total | 2006/07        | Share<br>from total | 2007/08        | Share<br>from total | Percentage Change |              |
|----------------------------|----------------|---------------------|----------------|---------------------|----------------|---------------------|-------------------|--------------|
|                            | A              |                     | B              |                     | C              |                     | C/B               | C/A          |
| <b>Raw Materials</b>       | <b>77.2</b>    | <b>1.7</b>          | <b>148.6</b>   | <b>2.9</b>          | <b>257.8</b>   | <b>3.8</b>          | <b>73.5</b>       | <b>233.7</b> |
| <b>Semi-finished Goods</b> | <b>821.6</b>   | <b>17.9</b>         | <b>800.3</b>   | <b>15.6</b>         | <b>1,259.7</b> | <b>18.5</b>         | <b>57.4</b>       | <b>53.3</b>  |
| Fertilizers                | 135.9          | 3.0                 | 140.0          | 2.7                 | 302.1          | 4.4                 | 115.8             | 122.3        |
| Fuel                       | 860.4          | 18.7                | 875.1          | 17.1                | 1,621.4        | 23.8                | 85.3              | 88.4         |
| Petroleum Products         | 856.5          | 18.6                | 872.3          | 17.0                | 1,614.4        | 23.7                | 85.1              | 88.5         |
| Others                     | 4.0            | 0.1                 | 2.7            | 0.1                 | 7.0            | 0.1                 | 154.8             | 76.7         |
| <b>Capital Goods</b>       | <b>1,453.1</b> | <b>31.6</b>         | <b>1,868.5</b> | <b>36.5</b>         | <b>1,777.4</b> | <b>26.1</b>         | <b>-4.9</b>       | <b>22.3</b>  |
| Transport                  | 429.9          | 9.4                 | 633.8          | 12.4                | 380.9          | 5.6                 | -39.9             | -11.4        |
| Agricultural               | 38.7           | 0.8                 | 33.0           | 0.6                 | 40.9           | 0.6                 | 24.2              | 5.7          |
| Industrial                 | 984.4          | 21.4                | 1,201.7        | 23.4                | 1,355.5        | 19.9                | 12.8              | 37.7         |
| <b>Consumer Goods</b>      | <b>1,281.9</b> | <b>27.9</b>         | <b>1,317.0</b> | <b>25.7</b>         | <b>1,515.7</b> | <b>22.3</b>         | <b>15.1</b>       | <b>18.2</b>  |
| Durables                   | 415.7          | 9.1                 | 520.7          | 10.2                | 459.4          | 6.7                 | -11.8             | 10.5         |
| Non-durables               | 866.2          | 18.9                | 796.3          | 15.5                | 1,056.3        | 15.5                | 32.6              | 21.9         |
| <b>Miscellaneous</b>       | <b>98.5</b>    | <b>2.1</b>          | <b>116.6</b>   | <b>2.3</b>          | <b>378.7</b>   | <b>5.6</b>          | <b>224.7</b>      | <b>284.5</b> |
| <b>Total Imports</b>       | <b>4,592.8</b> | <b>100.0</b>        | <b>5,126.2</b> | <b>100.0</b>        | <b>6,810.7</b> | <b>100.0</b>        | <b>32.9</b>       | <b>48.3</b>  |

Source: Ethiopian Customs Authority

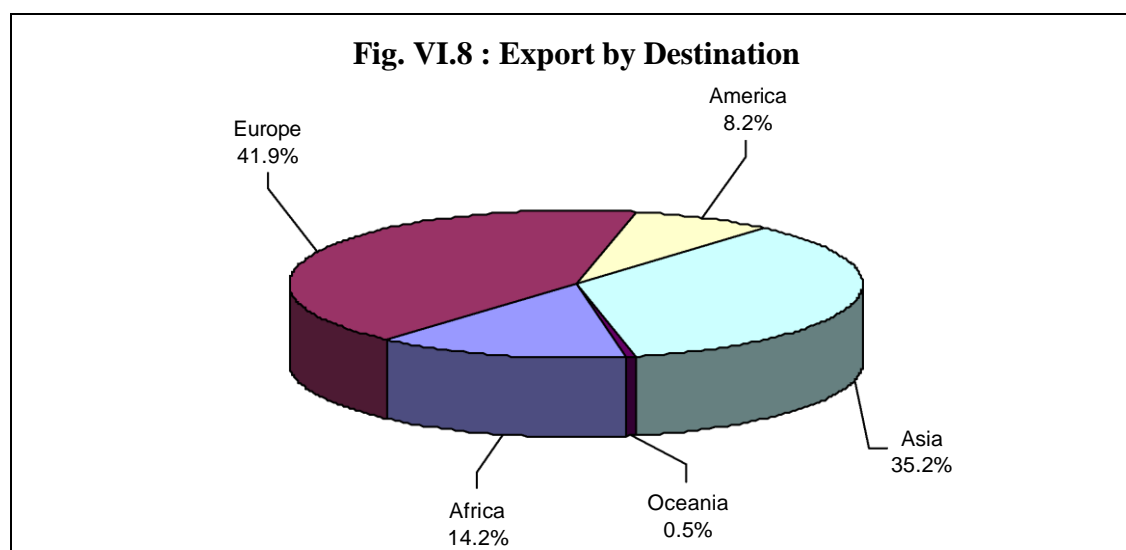
### 6.2.3 Direction of Trade

The largest market for Ethiopia's exports during the review period was Europe accounting for 41.9 percent of the country's exports. Among the European countries, Germany which mainly imported coffee and flower was the largest buyer of Ethiopian goods. The Netherlands, the biggest destination for Ethiopian flower during the review period was the second largest market followed by Switzerland, the sole importer of gold from Ethiopia and Italy whose main imports from Ethiopia include leather and leather products, coffee as well as textile and garments.

Exports shipped to the Asian market accounted for 35.2 percent of the total exports, of which 22.6 percent went to Saudi Arabia, 17.7 percent to Japan, 14 percent to China and 11 percent to United Arab Emirates (UAE). The major exports items to Saudi Arabia include coffee, live animals as well as meat and meat products. Coffee constituted the bulk of exports to Japan. Leather and leather products as well as oilseeds made up a larger portion of exports to China. Meat and meat products, pulses, live animals as well as fruits and vegetables were the major items exported to UAE.

Meanwhile, 14.2 percent of Ethiopia's exports were destined to African countries of which about 88.3 percent went to three neighboring countries viz. Somalia, Sudan, and Djibouti. *Chat* was the principal export item shipped to Somalia followed by live

animals. The major exports to Djibouti include *chat*, live animals as well as fruits and vegetables. On the other hand, Sudan mainly imported coffee, pulses, live animals and natural honey and bees wax.



Source: NBE staff compilation

The share of Americas from the country's total exports was 8.2 percent, of which 89.1 percent went to the United States of America, 6.1 percent to Canada and 1.2 percent to Mexico. The principal export items to the US were coffee and oilseeds.

As for imports, 62.6 percent of Ethiopia's imports originated from Asia followed by Europe (24.6 percent), Africa (6.8 percent) and America (5.8 percent).

Out of the total imports from Asia, about 72.8 percent had their origins from four countries; namely, China (23 percent), Saudi Arabia (22.1 percent), UAE (14.6 percent) and India (13.2 percent). The major import items from China include clothing and textiles, metals, telecommunications apparatus, electric materials and machinery. More than 91.9 percent of imports from Saudi Arabia and

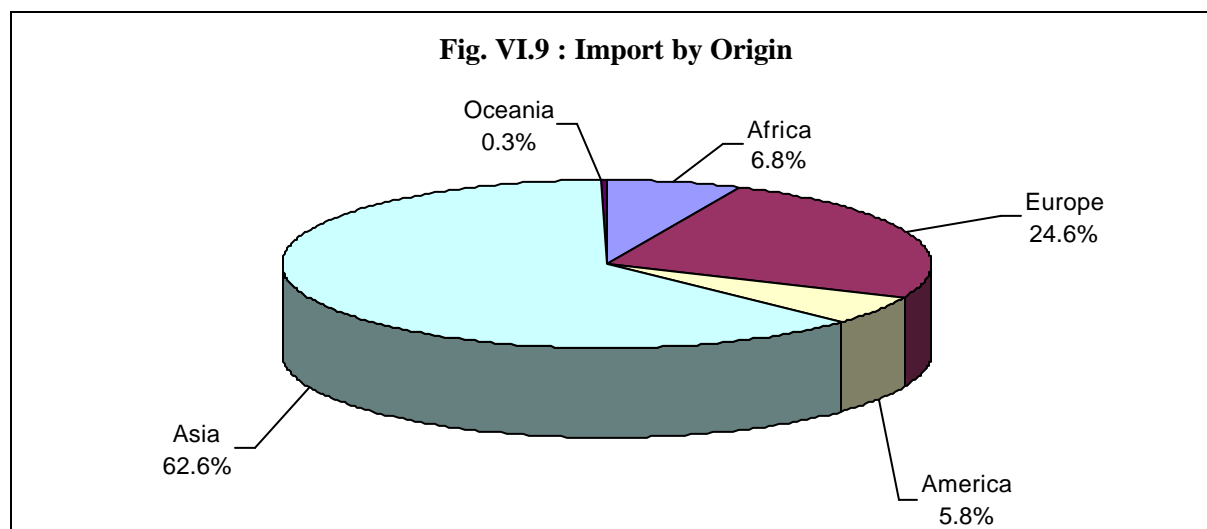
70.8 percent of imports from UAE were petroleum products. Metal and metal manufacturing constituted the bulk of imports from India.

Out of the total import items from Europe, Italy accounted for 22.4 percent, Germany 14.8 percent and Turkey 10.2 percent. Machinery, food and grain were the main import items from Europe.

Imports from African countries made up 6.8 percent of the country's imports, of

which 68.3 percent originated from three countries, viz. Sudan (35.1 percent), Egypt (20.1 percent) and Kenya (13.1 percent). Sudan's major exports to Ethiopia were petroleum products.

Imports from the Americas accounted for 5.8 percent of the total imports, of which 93.3 percent was from three countries. The United States of America was the leading exporter with a share of 4.0 percent followed by Brazil (1.1 percent) and Canada (0.3 percent).



Source: NBE staff compilation

## 6.3 Services and Transfers

### 6.3.1 Services

The surplus in net services account declined from USD 230.2 million in

2006/07 to USD 159.9 million in 2007/08 mainly as a result of the decrease in net receipts from government services and a rise in net payments for other services.

Net receipts from travel rose by 115.0 percent to USD 149.7 million. And that of transport services grew by 60.4 percent to USD 129.3 million.

On the other hand net receipts from government services declined by 48 percent from USD 258.8 million to USD 134.5 million.

Net interest income slightly rose from USD 30.5 million in 2006/07 to USD 34.2 million in 2007/08 mainly due to a 21.4 percent drop in dividend with no significant change in net interest receipts. On the other hand, net payments for other services increased by 37.5 percent and reached USD 287.9 million in 2007/08 due to higher

payments for construction service payments..

### **6.3.2 Unrequited Transfers**

Net private transfers went up by 38.4 percent during 2007/08 and reached USD 2,393 million. Cash transfers through non-governmental organizations rose by 13.9 percent while cash transfers by private individuals surged by 27.2 percent. Transfers in kind by private individuals also grew by 181.7 percent during the stated period following the government's policy allowing the importation of cement on franco valuta basis in order to augment the domestic supply.



**Table 6.7: Unrequited Transfers***(In Millions of USD)*

| No.        | Particulars                     | 2005/06      |             | 2006/07      |             | 2007/08      |             | Percentage Change |              |
|------------|---------------------------------|--------------|-------------|--------------|-------------|--------------|-------------|-------------------|--------------|
|            |                                 | A            | % Share     | B            | % Share     | C            | % Share     | C/B               | C/A          |
|            |                                 |              |             |              |             |              |             |                   |              |
| <b>1</b>   | <b>Private Transfers</b>        | <b>1,226</b> | <b>61.9</b> | <b>1,729</b> | <b>59.0</b> | <b>2,393</b> | <b>64.6</b> | <b>38.4</b>       | <b>95.1</b>  |
| <b>1.1</b> | Receipts                        | 1,237        | 61.8        | 1,744        | 59.1        | 2,423        | 64.5        | 38.9              | 95.9         |
|            | NGOs                            | <b>500</b>   | <b>25.0</b> | <b>536</b>   | <b>18.2</b> | <b>639</b>   | <b>17.0</b> | <b>19.1</b>       | <b>27.8</b>  |
|            | Cash                            | 498          | 24.9        | 535          | 18.2        | 610          | 16.2        | 13.9              | 22.5         |
|            | Other                           | 0.0          | 0.0         | 0.0          | 0.0         | 0.0          | 0.0         | -                 | -            |
|            | Food                            | 2.1          | 0.1         | 0.7          | 0.0         | 29           | 0.8         | 4,253             | 1,294        |
|            | Private individuals             | <b>737</b>   | <b>36.8</b> | <b>1,208</b> | <b>41.0</b> | <b>1,784</b> | <b>47.5</b> | <b>47.8</b>       | <b>142.2</b> |
|            | Cash                            | 355          | 17.7        | 633          | 21.5        | 805          | 21.4        | 27.2              | 126.7        |
|            | In kind                         | 16.8         | 0.8         | 58.6         | 2.0         | 165.1        | 4.4         | 181.7             | 885.6        |
|            | Underground Transfers (in kind) | 365.1        | 18.2        | 516.4        | 17.5        | 814.6        | 21.7        | 57.7              | 123.1        |
| <b>1.2</b> | Payments                        | (10.2)       | 53.3        | (15.2)       | 73.2        | (30.0)       | 58.0        | 97.8              | 194.2        |
| <b>2</b>   | <b>Official Transfers</b>       | <b>756</b>   | <b>38.1</b> | <b>1,199</b> | <b>41.0</b> | <b>1,312</b> | <b>35.4</b> | <b>9.5</b>        | <b>73.6</b>  |
| <b>2.1</b> | Receipts                        | 765          | 38.2        | 1,205        | 40.9        | 1,334        | 35.5        | 10.8              | 74.4         |
|            | Cash                            | 701          | 35.0        | 1,180        | 40.0        | 1,314        | 35.0        | 11.4              | 87.5         |
|            | Other                           | 0.4          | 0.0         | 0.7          | 0.0         | 0.8          | 0.0         | 25.0              | 109.6        |
|            | Food                            | 63.5         | 3.2         | 23.6         | 0.8         | 18.9         | 0.5         | (20)              | (70)         |
| <b>2.2</b> | Payments                        | (8.9)        | 46.7        | (5.5)        | 26.8        | (21.7)       | 42.0        | 291.9             | 143.4        |
|            | <b>Net Transfers</b>            | <b>1,982</b> | <b>100</b>  | <b>2,928</b> | <b>100</b>  | <b>3,705</b> | <b>100</b>  | <b>26.6</b>       | <b>86.9</b>  |

Source: Disaster Prevention and Preparedness Agency, MoFED and NBE

Similarly, net official transfers climbed by 9.5 percent from USD 1,199.1 million in 2006/07 to USD 1312.4 million in 2007/08 owing to increased disbursement of grants from both multilateral and bilateral donors. Official cash transfers went up by 11.4 percent to USD 1,314.2 million in 2007/08.

#### 6.4 Current Account

In spite of the growth in private and public transfers, current account deficit widened to USD 1,479.6 million (6.6 percent of GDP) in 2007/08 from USD 782.9 million (4

percent of GDP) in the preceding fiscal year, largely due to the widening in trade deficit.

#### 6.5 Capital Account

The surplus in the capital account rose by 21.2 percent to reach USD 968.1 million compared to USD 798.5 million last year due to the rise in foreign investment inflows. Net official long-term capital decreased by 21.1 percent and reached USD 242.8 million due to the decline in disbursement of loans to the government

and a sharp rise in amortization payments. On the other hand, foreign direct investment is estimated to reach USD 814.6 million in 2007/08 compared to USD 521.2 million in the preceding fiscal year.

### **6.6 Changes in Reserve Position**

As a result of the deficit in the balance of payments, the net foreign assets of the banking system recorded a draw-down of USD 263.5 million compared to a build-up of USD 84.7 million last year. Net foreign assets of the NBE went down by USD 244.4 million, that of commercial banks by USD 19.1 million.

Hence, at the end of the fiscal year, gross foreign reserves of NBE were adequate to cover 1.5 months of imports of goods and non-factor services of next fiscal year.

### **6.7 External Debt**

The stock of the country's external debt increased by 19.7 percent from USD 2,300.3 million to USD 2,753.6 million in

2007/08. Debt owed to multilateral creditors rose from USD 1.2 billion to USD 1.5 billion. Thus the share of multilateral creditors in the total external debt increased from 51.7 to 55.6 percent.

Similarly, debt owed to bilateral creditors rose from USD 663.9 million to USD 946.7 million. Accordingly, in its share the country's total debt grew from 28.9 to 34.4 percent. Commercial debt, however, which accounted for 10 percent of the total debt, declined from USD 447.8 million to USD 275.8 million.

The ratio of external debt to GDP ratio increased to 12.3 percent in 2007/08 compared to 11.8 percent in 2006/07. The ratio of the stock of debt to export of goods and non-factor services stood at 0.9 percent.

The debt service ratio which is the ratio of principal and interest payments on external debt to export of goods and non-factor services rose from 1.2 percent in 2006/07 to 2.5 percent in 2007/08.

**Table 6.8 External Public Debt**

| Particulars   | (In Million of USD) |         |         |                   |       |
|---|---------------------|---------|---------|-------------------|-------|
|   | 2005/06             | 2006/07 | 2007/08 | Percentage Change |       |
|   | A                   | B       | C       | C/B               | C/A   |
| <b>Debt Outstanding</b>                               |                     |         |         |                   |       |
| Lender Total  | 6029.1              | 2300.3  | 2753.6  | 19.7              | -54.3 |
| Multilateral  | 4876.3              | 1188.6  | 1531.2  | 28.8              | -68.6 |
| Bilateral   | 797.7               | 663.9   | 946.7   | 42.6              | 18.7  |
| Commercial  | 355.1               | 447.8   | 275.8   | -38.4             | -22.3 |
| <b>Drawing by Lender</b>                              | 344.4               | 325.7   | 289.6   | -11.1             | -15.9 |
| Lender Total  | 344.4               | 325.7   | 289.6   | -11.1             | -15.9 |
| <b>Drawing by Sector</b>                              | 344.4               | 325.7   | 289.6   | -11.1             | -15.9 |
| Sector Total  | 344.4               | 325.7   | 289.6   | -11.1             | -15.9 |
| <b>Debt Service</b>                                   | 209.1               | 29.8    | 76.7    | 157.9             | -63.3 |
| Principal Repayments                                  | 147.4               | 17.8    | 46.8    | 163.1             | -68.3 |
| Interest Payments                                     | 61.7                | 12.0    | 30.0    | 150.2             | -51.4 |
| <b>Debt Stock to GDP Ratio (in %)</b>                 | 46.6                | 11.8    | 12.3    | 3.7               | -73.7 |
| Debt Stock to Export of Goods and Non-factor Services | 2.865               | 0.926   | 0.899   | -2.9              | -68.6 |
| <b>Receipts from Goods and Non-factor Services</b>    | 2104.7              | 2483.9  | 3063.2  | 23.3              | 45.5  |
| <b>Debt Service Ratio (%)<sup>1/</sup></b>            | 9.9                 | 1.2     | 2.5     | 109.1             | -74.8 |
| <b>Arrears</b>  | 0.0                 | 0.0     | 0.0     | -                 | -     |
| Principal   | 0.0                 | 0.0     | 0.0     | -                 | -     |
| Interest  | 0.0                 | 0.0     | 0.0     | -                 | -     |
| <b>Relief</b>   | 133.0               | 102.9   | 28.2    | -72.6             | -78.8 |
| Principal   | 96.0                | 72.9    | 24.1    | -66.9             | -74.9 |
| Interest  | 37.0                | 30.0    | 4.1     | -86.3             | -88.9 |

Source: Ministry of Finance and Economic Development (MoFED)

1. A fraction of debt service to receipts from export of goods and non-factor services

2. Outstanding as at end period

## 6.8 Developments in Foreign Exchange Market

### 6.8.1 Developments in Nominal Exchange Rate

The weighted average exchange rate of the Birr reached Birr 9.2441/USD during the review fiscal year indicating a depreciation of 5.1 percent compared to 1.31 percent last year.

Similarly, the exchange rate of Birr in the parallel market depreciated by 6.7 percent and reached Birr 9.5569/USD. Hence, the premium between the official and the parallel market exchange rates, widened to 3.4 percent from 1.9 percent a year ago.

**Table 6.9 InterBank and Parallel Forex Market Exchange Rates**

| Period         | Average Weighted Rate | Amount Traded in millions of USD |               | Number of Trades |               |                                 |
|----------------|-----------------------|----------------------------------|---------------|------------------|---------------|---------------------------------|
|                |                       | Total                            | O/w among CBs | Total            | O/w among CBs | Average Rate in Parallel Market |
|                |                       |                                  |               |                  |               |                                 |
| <b>2005/06</b> | <b>8.6810</b>         | <b>134.0</b>                     | <b>10.3</b>   | <b>1,304</b>     | <b>32</b>     | <b>9.0258</b>                   |
| Qtr. I         | 8.6702                | 36.2                             | 4.3           | 198              | 17            | 8.9592                          |
| Qtr. II        | 8.6776                | 36.6                             | 6.0           | 302              | 15            | 9.0198                          |
| Qtr. III       | 8.6847                | 30.8                             | 0.0           | 450              | 0             | 9.1280                          |
| Qtr. IV        | 8.6914                | 30.5                             | 0.0           | 354              | 0             | 8.9962                          |
| <b>2006/07</b> | <b>8.7943</b>         | <b>189.8</b>                     | <b>59.4</b>   | <b>1,999</b>     | <b>128</b>    | <b>8.9570</b>                   |
| Qtr. I         | 8.6986                | 31.0                             | 0.0           | 549              | 0             | 8.8872                          |
| Qtr. II        | 8.7197                | 34.5                             | 0.0           | 576              | 0             | 8.9059                          |
| Qtr. III       | 8.8315                | 35.3                             | 0.8           | 578              | 10            | 8.9553                          |
| Qtr. IV        | 8.9275                | 89.0                             | 58.6          | 296              | 118           | 9.0795                          |
| <b>2007/08</b> | <b>9.2441</b>         | <b>114.4</b>                     | <b>17.9</b>   | <b>1694.0</b>    | <b>47.0</b>   | <b>9.5569*</b>                  |
| Qtr. I         | 9.0344                | 41.1                             | 12.6          | 294.0            | 28.0          | 9.2917                          |
| Qtr. II        | 9.0704                | 38.4                             | 5.4           | 372.0            | 19.0          | 9.3968                          |
| Qtr. III       | 9.3192                | 28.9                             | 0.0           | 512.0            | 0.0           | 9.9822*                         |
| Qtr. IV        | 9.5526                | 6.1                              | 0.0           | 516.0            | 0.0           |                                 |

Source: Banking and Foreign Exchange Directorate, NBE

\* Until March 13,2008

The movement of the exchange rates in the forex bureaux and commercial banks

mirrored exchange rate developments in the interbank foreign exchange market. Accordingly, the buying and selling rates of

forex bureaux depreciated by 5.1 percent each compared to last fiscal year. The average exchange rate at which forex bureaux bought foreign exchange was Birr 9.2419/USD while they sold it at Birr 9.4255/USD. The average spread between their buying and selling rates slightly widened to 1.99 percent compared to 1.95 percent a year ago.

Similarly, the average buying and selling rates of commercial banks each depreciated by 5.2 percent each to Birr 9.2504/USD and 9.4387/USD, respectively. The average spread between their buying and selling rates increased to 2.06 percent compared to 1.98 percent in the preceding fiscal year.

**Table 6.10: Mid Market End Period Rates (Birr per Unit of Currency)**

| Currency        | 2005/06 | 2006/07 | 2007/08 | Percentage Change |       |
|-----------------|---------|---------|---------|-------------------|-------|
|                 | A       | B       | C       | C/B               | C/A   |
| USD             | 8.7383  | 9.0746  | 9.6562  | 6.41              | 10.50 |
| Pound           | 16.0164 | 18.1673 | 19.2476 | 5.95              | 20.17 |
| Swedish Kroner  | 1.2037  | 1.3209  | 1.6194  | 22.60             | 34.54 |
| Djibouti Frank  | 0.0492  | 0.0511  | 0.0543  | 6.37              | 10.48 |
| Swiss Frank     | 7.0882  | 7.3615  | 9.4873  | 28.88             | 33.85 |
| Saudi Riyal     | 2.3296  | 2.4195  | 2.5749  | 6.43              | 10.53 |
| UAE Dirhams     | 2.3796  | 2.4706  | 2.6287  | 6.40              | 10.47 |
| Canadian Dollar | 7.8759  | 8.5690  | 9.5662  | 11.64             | 21.46 |
| Japanese Yen    | 0.0760  | 0.0735  | 0.0911  | 23.92             | 19.79 |
| Euro            | 11.1073 | 12.1989 | 15.2471 | 24.99             | 37.27 |
| SDR             | 12.8212 | 13.7419 | 15.7388 | 14.53             | 22.76 |

Source: NBE

In 2007/08 the Birr depreciated against all currencies of Ethiopia's major trading partners. For example, the Birr depreciated by 28.8 percent against Swiss Frank, and 24.9 and 23.9 percent against Euro and Japanese Yen, respectively.

### **6.8.2. Movements in Real Effective Exchange Rate**

As the inflation differential with trading partners continued to widen, the real effective exchange rate appreciated by 12.9

percent in 2007/08 despite a depreciation of 6.0 percent in nominal effective exchange rate. As the continuous real appreciation of the Birr is likely to affect the

competitiveness of the country's exports, the NBE is exerting efforts to mitigate the problem under current high level of inflation.

**Table 6. 11: Trends in Real and Nominal Effective Exchange Rates**

|         | REERI | NEERI | % Change |       |
|---------|-------|-------|----------|-------|
|         |       |       | REERI    | NEERI |
| 2001/02 | 93.6  | 100.0 | -        | -     |
| 2002/03 | 99.0  | 93.6  | 5.8      | -6.4  |
| 2003/04 | 98.5  | 89.3  | -0.5     | -4.6  |
| 2004/05 | 94.0  | 83.1  | -4.6     | -6.9  |
| 2005/06 | 102.9 | 80.9  | 9.5      | -2.6  |
| 2006/07 | 120.8 | 77.6  | 17.4     | -4.1  |
| 2007/08 | 136.5 | 72.9  | 13.0     | -6.5  |

Source: NBE, staff compilation

An Increase in REERI and NEERI indicates appreciation and vice versa a decrease depreciation

### 6.8.3 Foreign Exchange Transactions

The amount of foreign exchange traded in the interbank foreign exchange market during 2007/08 was USD 114.4 million, down by 15.3 percent compared to that of the previous fiscal year. Trading among commercial banks was USD 17.9 million (15.7 percent of total trade) in 2007/08.

exchange they sold to importers increased by 32.9 percent USD 3724.9 million.

Foreign exchange purchase and sales by forex bureaux of commercial banks in 2007/08 was up by 50.8 and 98.9 percent, respectively compared to last year.

In the retail market, commercial banks purchased from exporters foreign currency to the tune of USD 605.0 million, which was 27.0 percent higher than last year. On the other hand, the amount of foreign

**Table 6.12: Foreign Exchange Transactions by Commercial Banks****(In Millions of USD)**

| Commercial Banks               | 2005/06       |               | 2006/07       |               | 2007/08       |               | Percentage Change |       |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|-------|
|                                | A             | B             | C             | D             | E             | F             | E/C               | F/D   |
|                                | Purchases     | Sales         | Purchases     | Sales         | Purchases     | Sales         | Purchases         | Sales |
| Commercial Bank of Ethiopia    | 144.5         | 1429.6        | 179.5         | 1574.2        | 225.9         | 2051.5        | 25.9              | 30.3  |
| Bank of Abyssinia              | 31.4          | 161.0         | 24.8          | 140.4         | 25.1          | 188.5         | 1.1               | 34.2  |
| Dashen Bank                    | 104.2         | 312.1         | 100.4         | 306.1         | 170.6         | 412.4         | 69.8              | 34.8  |
| Awash International Bank       | 10.0          | 152.0         | 19.6          | 150.3         | 30.8          | 144.7         | 57.5              | -3.7  |
| Construction and Business Bank | 3.0           | 111.2         | 5.4           | 64.9          | 4.7           | 85.7          |                   | 32.1  |
| Wegagen Bank                   | 92.3          | 245.7         | 117.1         | 271.3         | 111.1         | 336.4         | -5.1              | 24.0  |
| United Bank                    | 0.0           | 157.3         | 0.0           | 135.6         | 0.0           | 224.3         |                   | 65.4  |
| Development Bank               | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |                   |       |
| Nib International Bank         | 33.3          | 160.6         | 29.6          | 151.9         | 34.4          | 253.5         | 16.4              | 66.9  |
| Cooperative Bank of Oromia     |               |               | 0.0           | 7.3           | 2.4           | 27.9          |                   |       |
| <b>Total</b>                   | <b>418.8</b>  | <b>2729.7</b> | <b>476.3</b>  | <b>2802.0</b> | <b>605.0</b>  | <b>3724.9</b> | 27.0              | 32.9  |
| <b>Average Exchange Rate</b>   | <b>8.6810</b> | <b>8.8545</b> | <b>8.7953</b> | <b>8.9701</b> | <b>9.2504</b> | <b>9.4387</b> | 5.174             | 5.224 |

Source: NBE

**Table 6.13 Foreign Exchange Transactions by Foreign Exchange Bureaux of Commercial Banks****(In Millions of USD)**

| Name of Forex Bureau           | 2005/06       |               | 2006/07       |               | 2007/08       |               | Percentage Change |        |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|--------|
|                                | A             | B             | C             | D             | E             | F             | E/C               | F/D    |
|                                | Purchases     | Sales         | Purchases     | Sales         | Purchases     | Sales         | Purchases         | Sales  |
| Commercial Bank of Ethiopia    | 7.8           | 19.1          | 8.5           | 13.3          | 31.0          | 18.2          | 266.2             | 36.4   |
| Bank of Abyssinia              | 1.8           | 2.6           | 2.3           | 2.7           | 3.7           | 4.7           | 61.4              | 73.3   |
| Dashen Bank                    | 9.2           | 2.7           | 11.1          | 2.5           | 13.3          | 8.4           | 20.5              | 229.3  |
| Awash International Bank       | 0.6           | 1.1           | 0.8           | 1.5           | 2.5           | 2.5           | 230.6             | 72.2   |
| Construction and Business Bank | 0.5           | 0.4           | 0.6           | 0.3           | 1.0           | 4.3           | 77.6              | 1391.8 |
| Wegagen Bank                   | 6.9           | 2.6           | 10.4          | 1.9           | 6.8           | 4.6           | -35.0             | 145.9  |
| United Bank                    | 9.3           | 1.5           | 6.1           | 1.4           | 10.3          | 5.2           | 68.8              | 277.4  |
| Development Bank               |               |               | 0.0           | 0.0           | 0.0           | 0.0           |                   |        |
| Nib International Bank         | 7.5           | 1.3           | 24.5          | 1.5           | 28.8          | 2.2           | 17.5              | 43.0   |
| Cooperative Bank of Oromia     |               |               | 0.0           | 0.0           | 0.0           | 0.0           |                   |        |
| <b>Total</b>                   | <b>43.5</b>   | <b>31.3</b>   | <b>64.3</b>   | <b>25.2</b>   | <b>97.5</b>   | <b>50.1</b>   | 51.8              | 99.2   |
| <b>Average Exchange Rate</b>   | <b>8.6808</b> | <b>8.8537</b> | <b>8.7949</b> | <b>8.9666</b> | <b>9.2419</b> | <b>9.4255</b> | 6.2               | 6.2    |

Source: NBE

## VII. GENERAL GOVERNMENT FINANCE

### 7.1 General

Overall fiscal deficit of the general government (excluding grants) was Birr 17.1 billion or 7 percent of GDP in 2007/08 compared to 8.0 percent in 2006/07.

Total revenue (excluding grants) reached Birr 29.8 billion whose ratio to GDP declined from 12.7 to 12.1 percent during the same period. The primary

deficit, which shows fiscal stance of the government and measured as a deficit excluding interest payments and capital revenue like privatization proceeds and income property sales, narrowed to 2.1 percent of GDP from 3.0 percent last year. The ratio of domestic debt to GDP, which has been declining for the last three consecutive years, dropped further to 15.6 percent of GDP.

**Table 7.1: Measuring Fiscal Sustainability (In %)**

| Fiscal Year | PD/GDP | IP/RR | Ddebt/GDP | R(Debt) | R(GDP) | Exp/GDP | Rev/GDP | R(OR) |
|-------------|--------|-------|-----------|---------|--------|---------|---------|-------|
| 1996/97     | 4.1    | 11.7  | 29.8      | 3.4     |        | 24.2    | 19      | 8.1   |
| 1997/98     | -1.5   | 9.9   | 24.7      | 7.9     | -3.9   | 20.7    | 15.4    | 2.8   |
| 1998/99     | -4.0   | 10.1  | 15.4      | 11.9    | 5.9    | 24.7    | 16.0    | 8.3   |
| 1999/00     | -6.4   | 11.8  | 25.4      | 61.1    | 13.4   | 26.1    | 14.4    | 8.3   |
| 2000/01     | -2.2   | 10.6  | 21.4      | -7.1    | 2.1    | 23.4    | 15.1    | 7.1   |
| 2001/02     | -10.7  | 9.7   | 23.2      | 8.2     | -2.2   | 32.6    | 16.5    | 2.3   |
| 2002/03     | -5.2   | 10.9  | 25.6      | 10.7    | 10.3   | 27.9    | 15.2    | 7.1   |
| 2003/04     | -1.8   | 7.8   | 26.6      | 22.6    | 18.0   | 23.7    | 16.1    | 24.8  |
| 2004/05     | -3.9   | 6.5   | 22.2      | 2.3     | 22.9   | 19.3    | 14.6    | 12    |
| 2005/06     | -5.5   | 5.4   | 20.1      | 12.2    | 23.7   | 22.3    | 14.8    | 25.1  |
| 2006/07     | -3.0   | 5.5   | 17.6      | 13.5    | 29.8   | 20.8    | 12.7    | 11.6  |
| 2007/08     | -2.1   | 3.8   | 15.6      | 27.1    | 42.9   | 19.1    | 12.1    | 36.7  |

Source: NBE Staff computation

Definitions: PD = Primary Deficit

IP/RR= Share of Interest Payments in Recurrent Revenue

DDebt/GDP=Ratio of Domestic Debt to GDP

R (Debt) = Growth Rate of Domestic Debt

R (GDP) = Growth Rate of GDP at Current Market Price

Exp/GDP=Ratio of General Government Expenditure to GDP

Rev/GDP= Ratio of General Government Revenue to GDP

R (OR) = Growth Rate of Ordinary Revenue

Note: Starting from 1997/98; the figure was based on revised GDP data



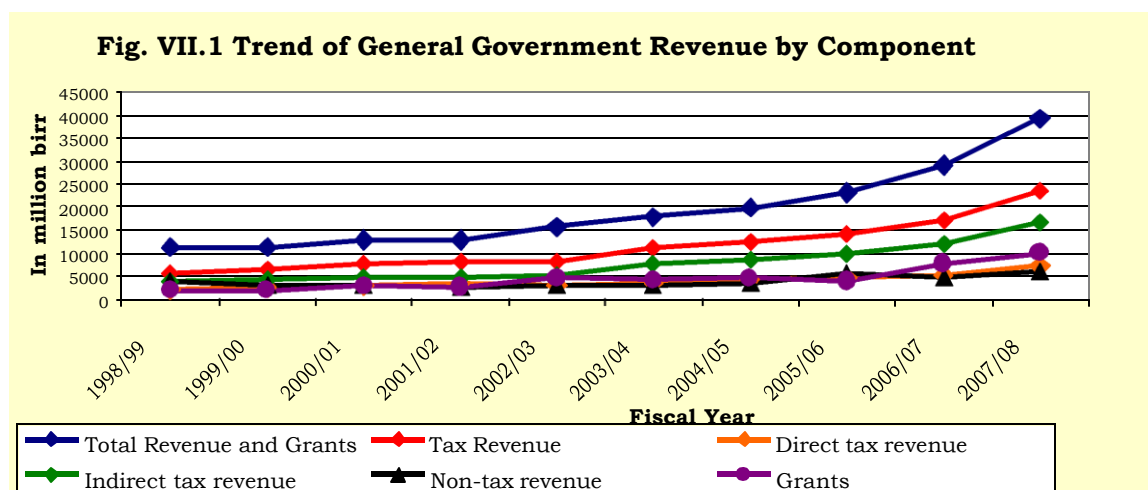
## 7.2 Revenue and Grants

General government revenue, including grants, registered a 35.1 percent increase on annual basis to reach Birr 39.7 billion in the review year. In terms of GDP, general government revenue slightly dropped to 12.1 percent compared to 12.7 percent in 2006/07.

About 79.8 percent of the total domestic revenue was generated from tax sources which surged by 37.2 percent in the review year to Birr 23.8 billion. The increase in tax revenue was attributed to higher collection of taxes both from direct (35.8 percent) and indirect (37.7 percent) sources. The share of direct and

indirect taxes in tax revenue was 29.5 and 70.5 percent in 2007/08 compared to 29.8 and 70.2 percent in 2006/07.

A total of Birr 5.9 billion was collected as non-tax revenue which showed a 34.8 percent increase over last year. Meanwhile, counterpart fund (CPF) grants reached Birr 9.9 billion, 30.7 percent higher a year ago.



Source: MoFED and NBE Staff Computation

**Table 7.2 : Summary of General Government Revenue by Component**

(In Millions of Birr)

| Particulars                              | 2006/07      | 2007/08        |              | Percentage Change | Performance Rate |
|--|--------------|----------------|--------------|-------------------|------------------|
|  | [A]          | [B]            | [C]          | [C/A]             | [C/B]            |
|  | Pre. Act     | Revised Budget | Pre. Act     |                   |                  |
| <b>Total Revenue and Grants</b>          | <b>29381</b> | <b>43890</b>   | <b>39705</b> | <b>35.14</b>      | <b>90.46</b>     |
| <b>Total Revenue 1/</b>                  | <b>21797</b> | <b>33337</b>   | <b>29794</b> | <b>36.69</b>      | <b>89.37</b>     |
| <b>Tax Revenue</b>                       | <b>17354</b> | <b>24446</b>   | <b>23801</b> | <b>37.15</b>      | <b>97.36</b>     |
| <b>1. Direct Tax Revenue</b>             | <b>5168</b>  | <b>6588</b>    | <b>7016</b>  | <b>35.76</b>      | <b>106.50</b>    |
| <i>1.1 Income and Profit Taxes</i>       | 4868         | 5754           | 6628         | 36.15             | 115.19           |
| <i>Personal</i>                          | 1828         | 1767           | 2667         | 45.90             | 150.93           |
| <i>Business</i>                          | 2305         | 2973           | 3040         | 31.89             | 102.25           |
| <i>Others 2/</i>                         | 735          | 1013           | 919          | 25.03             | 90.72            |
| <i>1.2 Rural Land Use Fee</i>            | 130          | 150            | 149          | 14.62             | 99.33            |
| <i>1.3 Urban Land Use Fee</i>            | 170          | 684            | 239          | 40.59             | 34.94            |
| <b>2. Indirect Taxes</b>                 | <b>12186</b> | <b>17858</b>   | <b>16785</b> | <b>37.74</b>      | <b>93.99</b>     |
| <i>2.1 Domestic Taxes</i>                | 3997         | 5056           | 5092         | 27.40             | 100.71           |
| <i>2.2 Foreign Trade Taxes</i>           | 8189         | 12802          | 11693        | 42.79             | 91.34            |
| <i>Import</i>                            | 8189         | 12802          | 11693        | 42.79             | 91.34            |
| <i>Export</i>                            | 0            | 0              | 0            |                   |                  |
| <b>3. Non-Tax Revenue</b>                | <b>4444</b>  | <b>8891</b>    | <b>5993</b>  | <b>34.86</b>      | <b>67.41</b>     |
| <i>3.1 Charges and Fees</i>              | 342          | 461            | 421          | 23.10             | 91.32            |
| <i>3.2 Govt. Invt. Income 3/</i>         | 2682         | 3255           | 3661         | 36.50             | 112.47           |
| <i>3.3 Reimb. And Property Sales</i>     | 168          | 2883           | 355          | 111.31            | 12.31            |
| <i>3.4 Sales of Goods &amp; Services</i> | 250          | 720            | 389          | 55.60             | 54.03            |
| <i>3.5 Others 4/</i>                     | 1001         | 1572           | 1166         | 16.48             | 74.17            |
| <b>4. Grants</b>                         | <b>7583</b>  | <b>10553</b>   | <b>9911</b>  | <b>30.70</b>      | <b>93.92</b>     |

Source: Ministry of Finance and Economic Development (MoFED)

1/ it does not include privatization proceeds

2/ others include rental income tax, withholding income tax on imports, interest income tax, capital gains tax, agricultural income and other income

3/ Government investment income includes residual surplus, capital charge, interest payments and state dividend

4/Includes extraordinary, miscellaneous and pension contribution

### 7.3 Expenditure

Total general government expenditure amounted to Birr 46.9 billion in 2007/08 which was 31.8 percent higher than in 2006/07 due to both increased recurrent and capital expenditures.

Recurrent expenditure reached Birr 22.8 billion, showing a 32.8 percent increase over last fiscal year and its share in the total expenditure stood at 48.6 percent and its performance rate at 91.8 percent of the annual budget.

Capital expenditure at Birr 24.1 billion depicted a 31 percent growth vis-à-vis 2006/07 exclusively due to higher disbursements for economic development programs.

Accordingly, its share in total general government expenditure reached 51.4 percent.

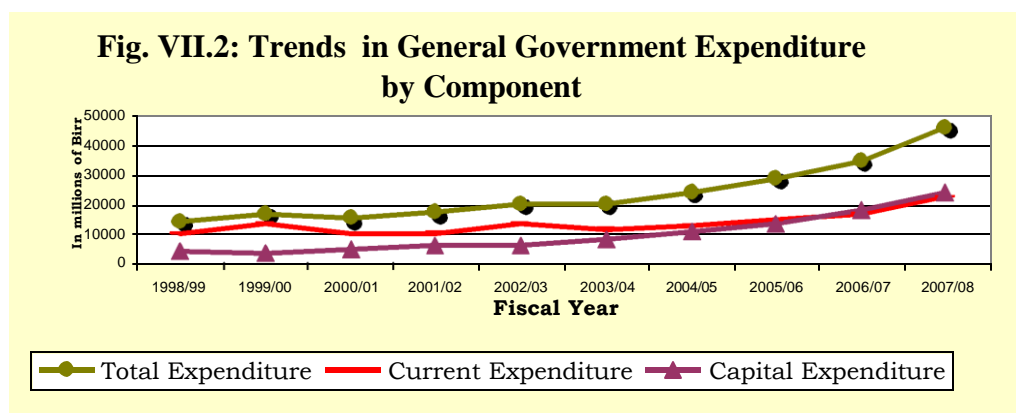
**Table 7.3: Summary of General Government Expenditure**

(In Millions of Birr)

| Particulars                       | 2006/07       | 2007/08        |               | Percentage Change | Performance Rate |
|-----------------------------------|---------------|----------------|---------------|-------------------|------------------|
|                                   | [A]           | [B]            | [C]           | [C/A]             | [C/B]            |
|                                   | Pre. Act      | Revised Budget | Pre. Act      |                   |                  |
| <b>Total Expenditure</b>          | <b>35,607</b> | <b>52,495</b>  | <b>46,915</b> | <b>31.8</b>       | <b>89.4</b>      |
| <b>1. Current Expenditure</b>     | <b>17,166</b> | <b>24,843</b>  | <b>22,794</b> | <b>32.8</b>       | <b>91.8</b>      |
| General Services                  | 7,073         | 8,571          | 9,128         | 29.1              | 106.5            |
| Economic Services                 | 2,201         | 3,312          | 3,111         | 41.3              | 93.9             |
| Social Services                   | 6,198         | 8,843          | 8,662         | 39.8              | 98.0             |
| Interest and Charges              | 1,207         | 1,540          | 1,133         | -6.1              | 73.6             |
| External Assistance <sup>1/</sup> | 411           | 450            | 401           | -2.4              | 89.1             |
| Others (miscellaneous)            | 76            | 2,126          | 359           | 372.4             | 16.9             |
| <b>2. Capital Expenditure</b>     | <b>18,398</b> | <b>27,653</b>  | <b>24,121</b> | <b>31.1</b>       | <b>87.2</b>      |
| Economic Development              | 11,367        | 20,313         | 17,729        | 56.0              | 87.3             |
| Social Development                | 5,998         | 6,203          | 5,426         | -9.5              | 87.5             |
| General Development               | 1,033         | 1,137          | 966           | -6.5              | 85.0             |
| <b>3. Special programs</b>        | <b>44</b>     | <b>0</b>       | <b>0</b>      | <b>-100.0</b>     |                  |

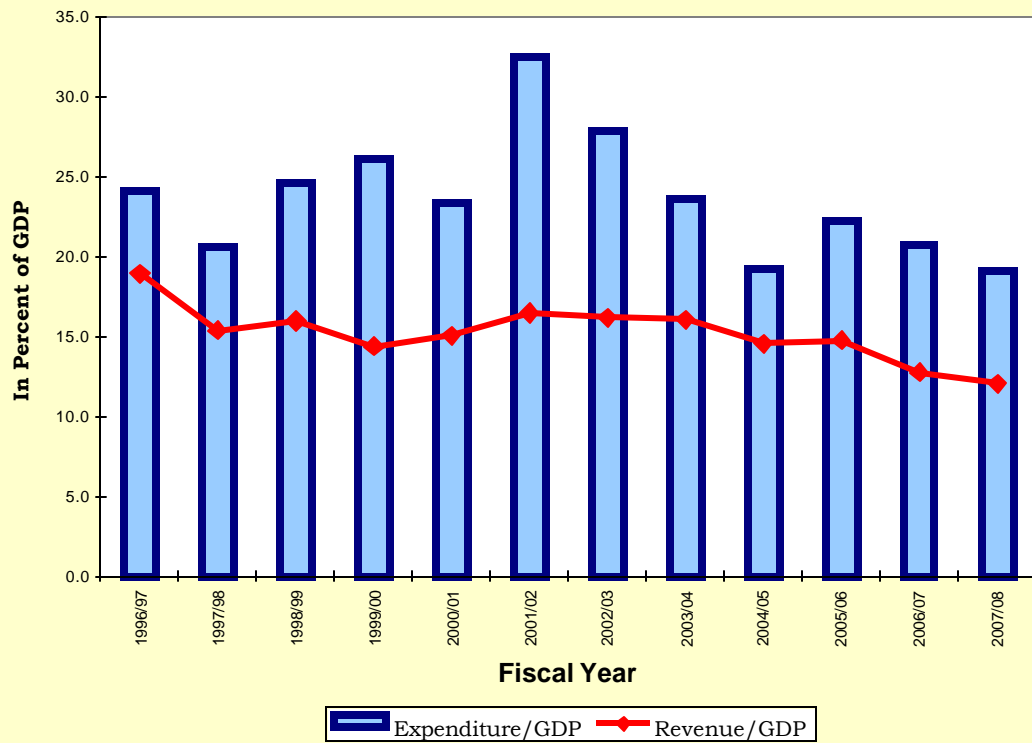
Source: MoFED

Note: <sup>1/</sup> Includes mapping, science and technology, public buildings, etc



Source: MoFED and NBE Staff Computation

**Fig. VII.3 Trends in General Government Expenditure and Revenue (% of GDP)**



Source : MoFED and NBE Staff Computation

## 7.4 Deficit Financing

General government budgetary operations, including external grants, resulted in an overall deficit of Birr 7.2 billion in 2007/08. This was 15.8 percent higher than Birr 6.2 billion deficit recorded in the preceding year. The deficit was financed by domestic

borrowing, privatization proceeds, net external borrowing and others as well as residuals. The ratio of fiscal deficit to GDP was 2.9 percent compared to 3.6 percent a year earlier.

**Table 7.4 Summary of General Government Finance**

(In Millions of Birr)

| Particulars                     | 2006/07       | 2007/08        |               | Percentage Change | Performance Rate |
|---------------------------------|---------------|----------------|---------------|-------------------|------------------|
|                                 | [A]           | [B]            | [C]           | [C/A]             | [C/B]            |
|                                 | Pre. Act      | Revised Budget | Pre Act.      |                   |                  |
| <b>Revenue and Grants</b>       | <b>29380</b>  | <b>43890</b>   | <b>39705</b>  | <b>35.1</b>       | <b>90.5</b>      |
| Revenue                         | 21797         | 33337          | 29794         | 36.7              | 89.4             |
| Grants                          | 7583          | 10553          | 9911          | 30.7              | 93.9             |
| <b>Total Expenditure</b>        | <b>35607</b>  | <b>52495</b>   | <b>46915</b>  | <b>31.8</b>       | <b>89.4</b>      |
| Current Expenditure             | 17165         | 24843          | 22794         | 32.8              | 91.8             |
| Capital Expenditure             | 18398         | 27652          | 24121         | 31.1              | 87.2             |
| Special Programs                | 44            | 0              | 0             | -100.0            |                  |
| <b>Overall Surplus/ Deficit</b> |               |                |               |                   |                  |
| <b>(Including Grants)</b>       | <b>-6227</b>  | <b>-8605</b>   | <b>-7210</b>  | <b>15.8</b>       | <b>83.8</b>      |
| <b>(Excluding Grants)</b>       | <b>-13810</b> | <b>-19158</b>  | <b>-17121</b> | <b>24.0</b>       | <b>89.4</b>      |
| <b>Total Financing</b>          | <b>6227</b>   | <b>8605</b>    | <b>7210</b>   | <b>15.8</b>       | <b>83.8</b>      |
| <b>Net External Borrowings</b>  | <b>1912</b>   | <b>3463</b>    | <b>2396</b>   | <b>25.3</b>       | <b>69.2</b>      |
| Gross Borrowing                 | 1774          | 2887           | 1810          | 2.0               | 62.7             |
| o/w Special Programs            | 290           | 0              | 0             | -100.0            |                  |
| Amortization Paid               | 919           | 416            | 402           | -56.3             | 96.6             |
| HIPC relief & MDRI              | 1057          | 992            | 988           | -6.5              | 99.6             |
| <b>Net Domestic Borrowings</b>  | <b>6247</b>   | <b>4475</b>    | <b>6400</b>   | <b>2.4</b>        | <b>143.0</b>     |
| Banking System                  | 4259          | 4475           | 3879          | -8.9              | 86.7             |
| Non-Banking Systems             | 1988          | 0              | 2521          | 26.8              |                  |
| <b>Privatization Receipts</b>   | <b>0</b>      | <b>667</b>     | <b>1008</b>   |                   | 151.1            |
| <b>Others and Residuals</b>     | <b>-1932</b>  | <b>0</b>       | <b>-2594</b>  | <b>34.3</b>       |                  |

**Source:** MoFED

## VIII. INVESTMENT

The Ethiopian Investment Agency and regional Investment Offices licensed some 34,796 investment projects with an aggregate capital of Birr 493.2 billion during 1992/93 – 2007/08. Of these projects, 29,796 (or 85.6 percent) were domestic, 4918 (or 14.13 percent) foreign and 82 (or 0.2 percent) public. In terms of capital, Birr 257.5 billion (or 52 percent) was attributed to domestic investors, Birr 200.5 billion (or 40.6 percent) to foreign investors and Birr 35.1 billion (or 7.13 percent) to the public sector.

In 2007/08, a total of 8,961 investment projects with a combined capital of Birr 170.4 billion were approved, a record high in a single year since 1992/93.

Domestic investment accounted for more than 81 percent of the total projects approved during the reported period. The number of foreign projects reached 1,651 which was 43.5 percent higher than the same period last year.

With regard to investment capital, foreign investment projects accounted for Birr 92.2 billion (or 54.1 percent) of the total

approved investment capital, followed by domestic private projects which make up Birr 77.8 billion or 45.7 percent.

Upon going operational, the investment projects approved during the review fiscal year are expected to create 592,188 permanent and 1,148,119 casual jobs (Table 9.2).

Out of the total projects, 163 went operational in the same year, of which 52 projects being in the real estate development, rental services and various business activities.

**Table 8.1: Number and Investment Capital of Approved Projects by Ownership  
Since 1992/93**

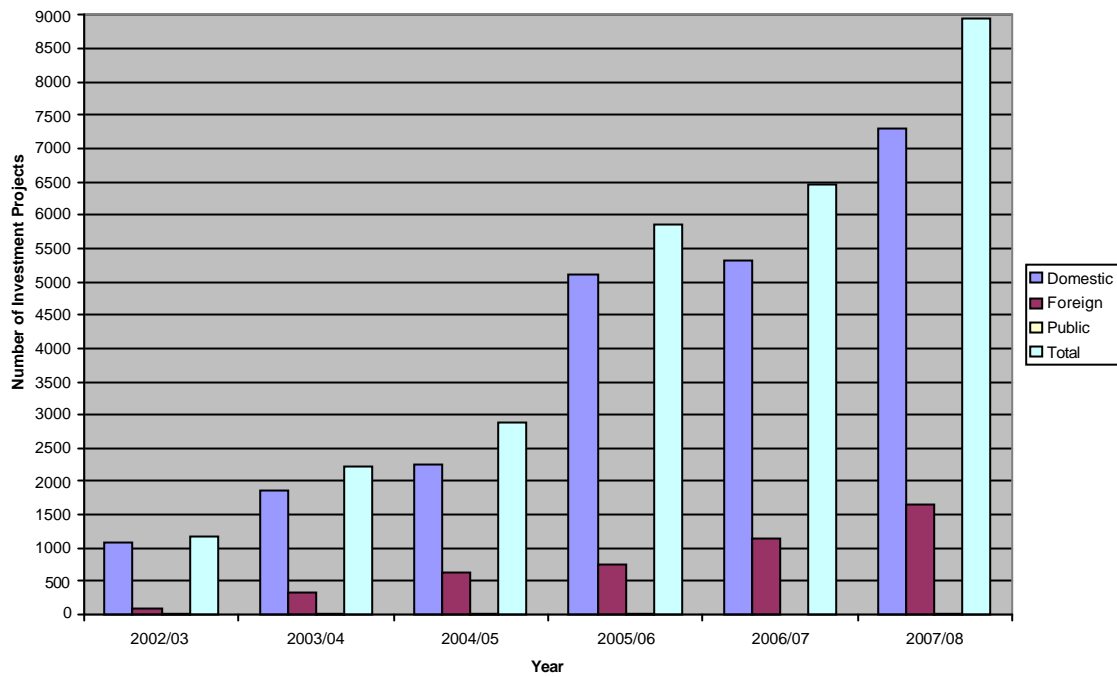
(Capital in Millions of Birr)

| Fiscal Year           | Domestic Projects |                    | Foreign Projects |                    | Public Projects |                    | Total Projects  |                    |
|-----------------------|-------------------|--------------------|------------------|--------------------|-----------------|--------------------|-----------------|--------------------|
|                       | No. of Projects   | Investment Capital | No. of Projects  | Investment Capital | No. of Projects | Investment Capital | No. of Projects | Investment Capital |
| 1992/93               | 542               | 3,750.00           | 3                | 233.00             | 0               | 0.00               | 545             | 3,983.00           |
| 1993/94               | 521               | 2,926.00           | 4                | 438.00             | 1               | 57.00              | 526             | 3,421.00           |
| 1994/95               | 684               | 4,794.00           | 7                | 505.00             | 2               | 39.00              | 693             | 5,338.00           |
| 1995/96               | 897               | 6,050.00           | 10               | 434.00             | 1               | 6.00               | 908             | 6,490.00           |
| 1996/97               | 752               | 4,447.00           | 42               | 2,268.00           | 1               | 7.00               | 795             | 6,722.00           |
| 1997/98               | 816               | 5,819.00           | 81               | 4,106.00           | 1               | 14.00              | 898             | 9,939.00           |
| 1998/99               | 674               | 3,765.00           | 30               | 1,380.00           | 9               | 4,915.00           | 713             | 10,060.00          |
| 1999/00               | 561               | 6,740.00           | 54               | 1,627.00           | 9               | 5,760.00           | 624             | 14,127.00          |
| 2000/01               | 635               | 5,675.70           | 45               | 2,923.30           | 7               | 257.00             | 687             | 8,856.00           |
| 2001/02               | 756               | 6,117.30           | 35               | 1,474.10           | 10              | 1,598.80           | 801             | 9,190.20           |
| 2002/03               | 1,127             | 9,362.93           | 84               | 3,368.82           | 6               | 706.11             | 1,217           | 13,437.86          |
| 2003/04               | 1,862             | 12,177.74          | 347              | 7,205.22           | 16              | 1,837.04           | 2,225           | 21,220.00          |
| 2004/05               | 2,240             | 19,571.66          | 622              | 15,405.12          | 10              | 1,486.48           | 2,872           | 36,463.26          |
| 2005/06               | 5,100             | 41,841.14          | 753              | 19,980.06          | 6               | 18,215.08          | 5,859           | 80,036.28          |
| 2006/07               | 5,322             | 46,630.06          | 1,150            | 46,948.95          | 0               | 0.00               | 6,472           | 93,579.01          |
| <b>2007/08</b>        | <b>7,307</b>      | <b>77,868.16</b>   | <b>1,651</b>     | <b>92,248.78</b>   | <b>3</b>        | <b>261.56</b>      | <b>8,961</b>    | <b>170,378.50</b>  |
| <b>Average Annual</b> | <b>1,862</b>      | <b>16,095.98</b>   | <b>307</b>       | <b>12,534.08</b>   | <b>5</b>        | <b>2,197.50</b>    | <b>2,175</b>    | <b>30,827.57</b>   |
| <b>Cumulative</b>     | <b>29,796</b>     | <b>257,535.69</b>  | <b>4,918</b>     | <b>200,545.34</b>  | <b>82</b>       | <b>35,160.07</b>   | <b>34,796</b>   | <b>493,241.10</b>  |

Source: Ethiopian Investment Agency

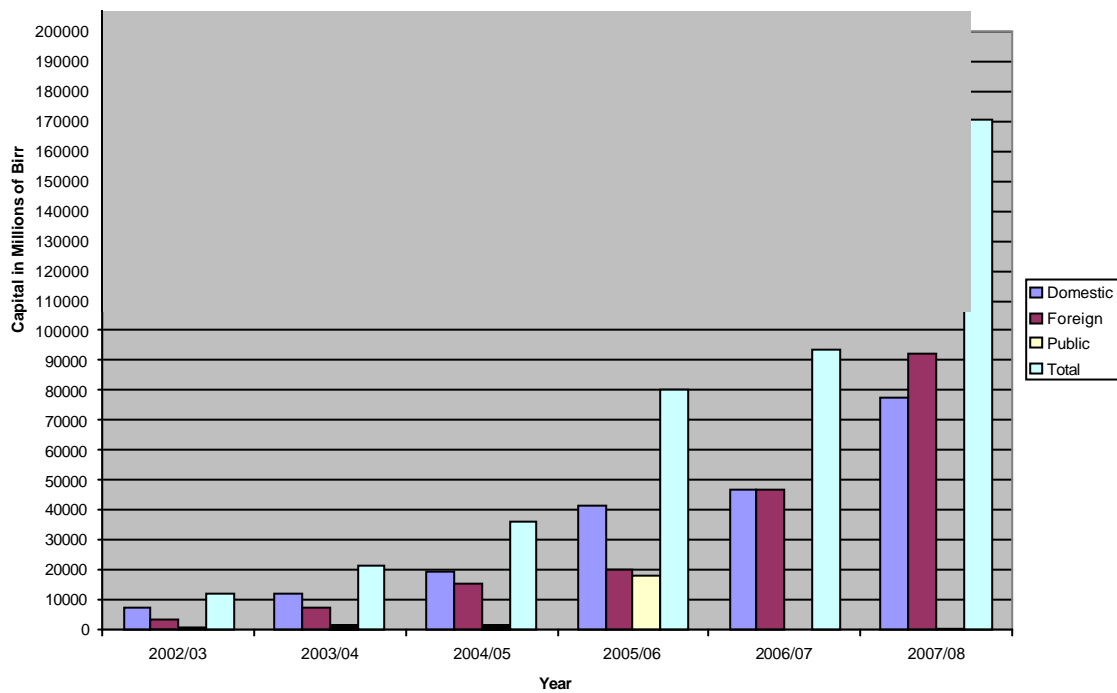


**Fig VIII.1 Approved Investment Projects by Source**



Source: Ethiopian Investment Agency

**Fig VIII.2 Capital Outlay of Approved Investment Projects by Source**



Source: Ethiopian Investment Agency

**Table 8.2 Number, Capital and Expected Job Opportunities of Approved Projects**  
(Capital in Millions of Birr)

|                  |                | 2005/06  | 2006/07  | 2007/08  | Percentage Change |        |
|------------------|----------------|----------|----------|----------|-------------------|--------|
|                  |                | A        | B        | C        | C/A               | C/B    |
| Total Investment | Number         | 5859     | 6472     | 8961     | 52.94             | 38.46  |
|                  | Capital        | 80036.27 | 93579.01 | 170378.5 | 112.88            | 82.07  |
|                  | Permanent Jobs | 211112   | 302598   | 592188   | 180.51            | 95.70  |
|                  | Casual Jobs    | 339732   | 461341   | 1148119  | 237.95            | 148.87 |
| Private          | Number         | 5853     | 6472     | 8958     | 53.05             | 38.41  |
|                  | Capital        | 61821.2  | 93579.01 | 170116.9 | 175.18            | 81.79  |
|                  | Permanent Jobs | 211071   | 302598   | 592117   | 180.53            | 95.68  |
|                  | Casual Jobs    | 334682   | 461341   | 1148084  | 243.04            | 148.86 |
| Domestic         | Number         | 5100     | 5322     | 7307     | 43.27             | 37.30  |
|                  | Capital        | 41841.14 | 46630.06 | 77868.16 | 86.10             | 66.99  |
|                  | Permanent Jobs | 140347   | 200592   | 263205   | 87.54             | 31.21  |
|                  | Casual Jobs    | 256063   | 330989   | 646209   | 152.36            | 95.24  |
| Foreign          | Number         | 753      | 1150     | 1651     | 119.26            | 43.57  |
|                  | Capital        | 19980.06 | 46948.95 | 92248.78 | 361.70            | 96.49  |
|                  | Permanent Jobs | 70724    | 102006   | 328912   | 365.06            | 222.44 |
|                  | Casual Jobs    | 78619    | 130352   | 501875   | 538.36            | 285.02 |
| Public           | Number         | 6        | -        | 3        | -50.00            | -      |
|                  | Capital        | 18215.08 | -        | 261.56   | -98.56            | -      |
|                  | Permanent Jobs | 41       | -        | 71       | 73.17             | -      |
|                  | Casual Jobs    | 5050     | -        | 35       | -99.31            | -      |

Source: Ethiopian Investment Agency

## 8.1 Investment by Sector

Sector-wise, 2133 projects (about 23.8 percent of the total projects licensed in 2007/08) were in agriculture, hunting and forestry followed by manufacturing (22.3 percent), real estate development rental services and various business activities (19.8 percent), hotel and restaurant services (14.9 percent) and construction (6.5 percent). Manufacturing, real estate development

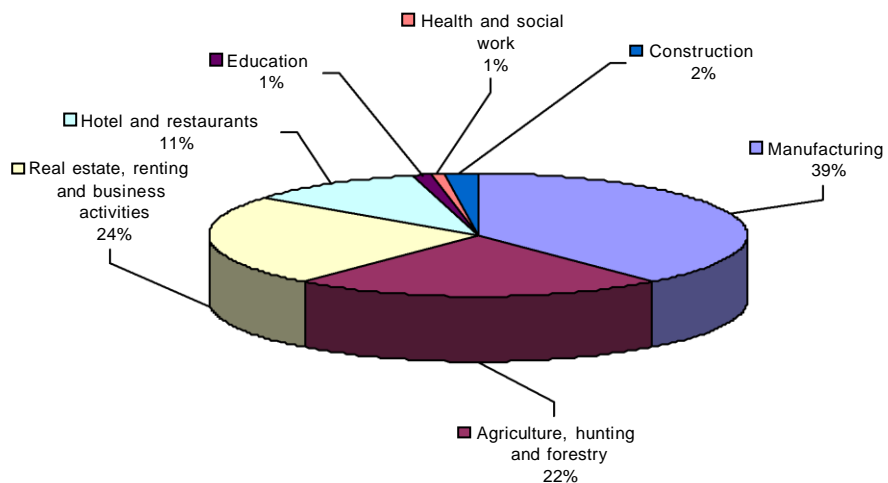
rental services and various business activities and agriculture, hunting and forestry appeared to dominate in terms of approved investment capital with a respective share of 37.8 percent, 23.7 percent and 21.7 percent, respectively.

**Table 8.3: Number and Capital of Investment Projects Approved by Sector**  
(Capital in Millions of Birr)

| Sector   | 2005/06         |                    | 2006/07         |                    | 2007/08         |                    | Percentage Share |                    |
|--|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|------------------|--------------------|
|  | No. of Projects | Investment Capital | No. of Projects | Investment Capital | No. of Projects | Investment Capital | No. of Projects  | Investment Capital |
| Manufacturing  | 1331            | 32881.51           | 1260            | 37382.24           | 1998            | 64473.36           | 22.30            | 37.84              |
| Agriculture, hunting and forestry  | 729             | 7149.46            | 1103            | 14379.60           | 2133            | 36980.35           | 23.80            | 21.70              |
| Real estate development, rental services and various Business activities | 2345            | 10632.52           | 2568            | 24523.46           | 1780            | 40428.50           | 19.86            | 23.73              |
| Hotel and restaurant services  | 497             | 2227.99            | 515             | 9205.80            | 1339            | 17564.73           | 14.94            | 10.31              |
| Education  | 262             | 1456.23            | 327             | 2037.99            | 324             | 1562.96            | 3.62             | 0.92               |
| Health and social work   | 89              | 620.48             | 149             | 2700.50            | 175             | 1516.30            | 1.95             | 0.89               |
| Construction   | 333             | 4289.11            | 283             | 1878.30            | 582             | 3173.49            | 6.49             | 1.86               |
| Wholesale, retail trade and repair service                               | 94              | 181.04             | 115             | 504.96             | 268             | 797.66             | 2.99             | 0.47               |
| Transport, storage and communication                                     | 98              | 1342.69            | 86              | 270.32             | 184             | 483.49             | 2.05             | 0.28               |
| Fishing  | 2               | 4.06               | 5               | 100.30             | 2               | 3.91               | 0.02             | 0.00               |
| Mining and quarrying   | 15              | 122.83             | 13              | 179.11             | 38              | 516.20             | 0.42             | 0.30               |
| Electricity, gas, steam and water supply                                 | 8               | 18267.50           | 4               | 37.79              | 4               | 2486.70            | 0.04             | 1.46               |
| Public administration and defense; compulsory social security            |                 |                    |                 |                    | 1               | 8.25               | 0.01             | 0.00               |
| Other community, social and personal service activities                  | 56              | 860.86             | 44              | 378.55             | 133             | 382.60             | 1.48             | 0.22               |
| <b>Grand Total</b>   | <b>5859</b>     | <b>80036.27</b>    | <b>6472</b>     | <b>93579</b>       | <b>8961</b>     | <b>170378.5</b>    | <b>100.0</b>     | <b>100.0</b>       |

Source: Ethiopian Investment Agency

Fig. VIII.3 Distribution of Capital Outlay of Approved Investment Projects by Sector



Source: Ethiopian Investment Agency

## 8.2 Investment by Region

The regional distribution of the approved investment projects revealed that Oromia attracted 2,977 projects (about 33.2 percent of the total) and Birr 7.07 billion investment capital (41.5 percent) during the review fiscal year.

**Table 8.4: Number and Capital of Approved Projects by Region**

| Region                 | 2005/06         |                    | 2006/07         |                    | 2007/08         |                    | Percentage Share |                    |
|------------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|------------------|--------------------|
|                        | No. of Projects | Investment Capital | No. of Projects | Investment Capital | No. of Projects | Investment Capital | No. of Projects  | Investment Capital |
| Tigray                 | 201             | 899.41             | 375             | 4614.66            | 270             | 3999.07            | 3.01             | 2.35               |
| Afar                   | 15              | 6813.95            | 28              | 102.97             | 20              | 390.44             | 0.22             | 0.23               |
| Amhara                 | 422             | 8717.04            | 662             | 12643.20           | 1298            | 12267.48           | 14.48            | 7.20               |
| Oromia                 | 1026            | 18676.27           | 899             | 25477.20           | 2977            | 70776.35           | 33.22            | 41.54              |
| Somali                 | 2               | 43.00              | 9               | 43.40              | 39              | 188.50             | 0.44             | 0.11               |
| Benishangul-Gumuz      | 17              | 40.15              | 97              | 370.97             | 152             | 677.66             | 1.70             | 0.40               |
| SNNPR                  | 887             | 3273.32            | 634             | 5552.36            | 975             | 10228.71           | 10.88            | 6.00               |
| Gambella               | 1               | 1.60               | 10              | 9.99               | 34              | 349.18             | 0.38             | 0.20               |
| Harari                 | 74              | 124.73             | 34              | 97.84              | 22              | 57.44              | 0.25             | 0.03               |
| Addis Ababa            | 2989            | 22834.31           | 3364            | 38161.60           | 2621            | 47388.62           | 29.25            | 27.81              |
| Dire Dawa              | 70              | 2539.90            | 121             | 1194.40            | 248             | 3689.49            | 2.77             | 2.17               |
| Multiregional Projects | 155             | 16072.58           | 239             | 5310.26            | 305             | 20365.55           | 3.40             | 11.95              |
| <b>Grand Total</b>     | <b>5859</b>     | <b>80036.27</b>    | <b>6472</b>     | <b>93578.85</b>    | <b>8961</b>     | <b>170378.50</b>   | <b>100.00</b>    | <b>100.00</b>      |

Source: Ethiopian Investment Agency

## IX. INTERNATIONAL DEVELOPMENTS

### 9.1 International Economic Developments<sup>1</sup>

#### 9.1.1 Overview of World Economy

Global GDP measured at purchasing-power-parity weights is estimated to have increased by 4.9 percent in 2007—well above trend for the fourth consecutive year. Following a stronger-than-expected third quarter, activity in the advanced economies decelerated quite sharply toward the end of the year, particularly in the United States, as the debacle in the U.S. sub-prime mortgage market had knock-on effects across a broad range of financial markets and institutions.

By contrast, the emerging and developing economies continued to grow robustly, notwithstanding some slowing in activity toward the end of the year. China and India—which grew 11.4 percent and 9.2 percent, respectively, in 2007—continued to lead the way, but all regions maintained robust rates of growth. The growth momentum is

being provided by strong productivity gains as these countries progressively integrate into the global economy, by terms-of-trade increases for commodity producers as oil and other raw material prices continue to soar, and by strengthened policy frameworks.

The U.S. economy slowed markedly to grow by 2 percent in 2007, down from almost 3 percent in 2006. The pace of activity weakened sharply in the fourth quarter to only 0.6 percent (at an annualized rate). With the housing correction continuing full blast, the contraction of residential investment sliced a full percentage point off growth in 2007. Consumption and business investment also softened markedly toward the end of the year, as sentiment soured and lending conditions tightened significantly after the outbreak of financial turbulence in August, despite the Federal Reserve's aggressive turn to monetary easing.

For most of 2007, activity in Western Europe continued to expand at a robust pace. The euro area grew by 2.6 percent in 2007 as a whole, close to the

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<sup>1</sup> Excerpts from IMF, World Economic Outlook, April 2008

rapid pace achieved in 2006 and still well above potential. Similarly, growth in the United Kingdom registered a strong 3.1 percent increase despite woes in the banking sector. Robust domestic demand was fueled by steady employment growth and buoyant investment, supported by healthy corporate balance sheets and strong global demand.

According to preliminary data GDP grew at an annualized rate of 3.5 percent in Japan in the fourth quarter of 2007, led by robust net exports and business investment. Exports

continued to be supported by strong demand from Asia and Europe, and business investment rebounded after contracting during the first half of the year.

Following the tightening of building standards in June, the slump in residential investment continued and household spending remained weak. The growth momentum entering 2008, however, appears to have slowed with deteriorating business and consumer confidence, and export growth shows signs of moderating.

**Table 9.1: Overview of World Economic Outlook and Projections**

(Annual Percentage Changes)

|  | 2006       | 2007       | Projection |            |
|--|------------|------------|------------|------------|
|  |            |            | 2008       | 2009       |
| <i>World Output</i>                              | <b>5.1</b> | <b>5.0</b> | <b>3.9</b> | <b>3.0</b> |
| Advanced Economies                               | 3.0        | 2.6        | 1.5        | 0.5        |
| United States                                    | 2.8        | 2.0        | 1.6        | 0.1        |
| Euro Area  | 2.8        | 2.6        | 1.3        | 0.2        |
| Japan  | 2.4        | 2.1        | 0.7        | 0.5        |
| Other Emerging Markets and Developing Countries  | 7.9        | 8.0        | 6.9        | 6.1        |
| <b>World Trade Volume (goods &amp; services)</b> | <b>9.3</b> | <b>7.2</b> | <b>4.9</b> | <b>4.1</b> |
| <b>Imports</b>                                   |            |            |            |            |
| Advanced Economies                               | 7.5        | 4.5        | 1.9        | 1.1        |
| Other Emerging Markets and Developing Countries  | 14.7       | 14.2       | 11.7       | 10.5       |
| <b>Exports</b>                                   |            |            |            |            |
| Advanced Economies                               | 8.4        | 5.9        | 4.3        | 2.5        |
| Other Emerging Markets and Developing Countries  | 11.0       | 9.5        | 6.3        | 7.4        |
| <i>Commodity Prices</i>                          |            |            |            |            |
| Oil  | 20.5       | 10.7       | 50.8       | -6.3       |
| Non-oil  | 23.2       | 14.1       | 13.3       | -6.2       |
| <i>Consumer Prices</i>                           |            |            |            |            |
| Advanced Economies                               | 2.4        | 2.2        | 3.6        | 2.0        |
| Other Emerging Markets and Developing Countries  | 5.4        | 6.4        | 9.4        | 7.8        |

Source: IMF, World Economic Outlook, October 2008

Growth in emerging Asia remained strong in the second half of 2007, although with some emerging signs of softness. Growth was led by China, where output expanded by 11.4 percent (year over year) in the second half of 2007, driven by strong investment growth and net exports, although the pace of growth moderated somewhat toward the end of the year. Growth in India slowed modestly to 8½ percent (year over year) in the second half of last year as consumption cooled in response to tighter monetary policy,

although investment continued at a brisk pace. Robust domestic demand, led by consumption, supported activity in Indonesia, Malaysia, Hong Kong SAR, the Philippines, and Singapore, even while export growth began to show some signs of moderation. Export growth remained strong in Korea and Thailand, but high fuel prices and political uncertainty weighed on domestic demand in Thailand. In Korea, domestic demand was supported by an acceleration in construction and investment activity.



Building on the best period of sustained economic growth since independence, the pace of economic activity in sub-Saharan Africa (SSA) accelerated to 6.8 percent in 2007, led by very strong growth in oil-exporting countries and supported by robust expansions in the region's other economies. The region's strongest growth was recorded by Angola, where oil and diamond production have both risen sharply. In Nigeria, robust non-oil sector growth offset the drag from a decline in oil production in the Niger Delta. The pace of activity elsewhere in SSA has been supported by domestic demand (investment in particular), the payoff from improvements in macroeconomic stability, and the reforms undertaken in most countries. In South Africa, the region's largest economy, the pace of activity has eased modestly as tighter monetary policy, aimed at containing rising inflation pressures from food and fuel prices, has applied a brake to household spending, but investment continues to grow at a brisk pace in preparation for the 2010 FIFA World Cup.

### **9.1.2 World Trade**

Growth in the volume of world trade in goods and services slowed down to 7.2 percent in 2007 from 9.3 percent in 2006. It is expected to further decline by 4.9 percent in 2008 and 4.1 percent in 2009. The growth in imports of the advanced countries, which was 7.4 percent in 2006 went down to 4.2 percent in 2007 and is further expected to fall to 3.1 percent in 2008. Similarly, the growth in exports of these countries declined to 5.8 percent in 2007 from 8.2 percent in 2006. Other emerging markets and developing countries' exports grew by 8.9 percent in 2007 compared to 11 percent in 2006 while growth in their volume of imports declined to 12.8 percent from 14.4 percent in 2006. Growth in exports of these countries is expected to further slow down to 7.1 percent in 2008 while their import growth is also expected to decline to 11.8 percent.

Although it showed some signs of narrowing down, global trade imbalance remained large in 2007. The US current account deficit declined to 5.5 percent of GDP in 2007 from 6.2 percent in 2006 mainly owing to depreciation of the US dollar and a more balanced pattern of global demand growth. On the other hand,

China's current account surplus widened from 9.4 percent of GDP in 2006 to 11.1 percent in 2007.

### **9.1.3 Inflation and Commodity Prices**

Headline inflation has increased around the world, boosted by the continuing buoyancy of food and energy prices. Rapid increases in commodity prices have mainly reflected continued strong demand growth in the emerging economies, which have accounted for the bulk of the increase in commodity consumption in recent years, and a sluggish supply response, with financial factors also playing some role. In the advanced economies, core inflation has edged upward in recent months despite slowing growth. In the emerging economies, headline inflation has risen more markedly, reflecting both strong demand growth and the greater weight of energy and particularly food in consumption baskets.

In the US rising oil prices helped dampen consumption, while also boosting 12-month headline inflation to 3.4 percent in February (measured using the personal consumption expenditure deflator). Core inflation

has stood at about 2 percent, the top of the Federal Reserve's implicit comfort zone.

Rising food and fuel prices contributed to positive headline inflation in Japan in the last three months of 2007, but consumer price inflation, excluding food and energy, remained marginally negative.

Headline inflation in the euro area rose to 3.5 percent (year over year) in March 2008, considerably exceeding the European Central Bank's (ECB's) inflation threshold of 2 percent. The surge was largely in energy and food prices, which have risen sharply since mid 2007. Core inflation remained stable throughout 2007 at just under 2 percent, against a background of moderate wage increases and the dampening effect of euro appreciation, but it picked up in early 2008.

In the United Kingdom, inflation is projected to rise moderately from 2.0 percent in December 2007 to 2.5 percent in 2008 because of high energy and food prices. Although core inflation began to decelerate in the second half of 2007, inflation expectations have increased recently despite a weakening of the growth momentum.

The strength of domestic demand in emerging Asia, combined with rising food and energy prices, has contributed to a buildup of inflation pressures in a number of countries. In China, inflation rose to 8.7 percent in February. Inflation largely reflects rising food prices, boosted by a swine epidemic, but there is rising concern that persistent food price increases could spill over into wages and spark a broader pickup in inflation. Inflation pressures have also begun to emerge in Indonesia, Thailand, and the Philippines. In India, monetary tightening earlier in the year led to an easing of inflation by the end of 2007; however, inflation started to pick up in 2008 owing to rising commodity prices.

In Sub-Saharan Africa, inflation pressures remain generally well contained, reflecting a variety of factors, including stabilization gains in some countries, improved food supplies, appropriately restrictive monetary policies—with, in some cases, exchange rate appreciation in response to capital inflows—and lower bank financing of fiscal deficits.

The commodity price boom picked up in 2007 and has shown little sign of

abating in 2008, notwithstanding financial market turmoil and concerns about slowing growth in the major advanced economies. The IMF commodity price index rose by 33 percent during the first six months of 2008, led by soaring fuel prices, before softening in the third quarter of the year. Many prices—including those of crude oil, tin, nickel, soybeans, corn, and wheat—reached new record highs in current U.S. dollar terms.

After rising rapidly in the first half of 2007, oil prices experienced another strong run-up from late August to early January 2008. Over the year, spot prices for West Texas Intermediate (WTI) rose from \$58 a barrel on January 3, 2007, to more than \$100 a barrel on January 2, 2008. Although prices eased thereafter around concerns about slowing global growth, prices recovered in February and have stayed above \$100 a barrel since end-February on a string of news signalling short-term supply problems and financial factors, as discussed above. Oil prices reached an all-time record high (in both nominal and real terms) of \$143 a barrel on July 11, and then declined to just over \$100 by mid-September.

With the moderate easing of market conditions— at least through end-2009—but with inventories and spare capacity still low, oil prices are expected to remain high, albeit below recent peaks. Oil futures options prices suggest a much wider range of uncertainty about price prospects than in recent years. Oil prices are expected to range between \$60 a barrel to more than \$165 a barrel for end-2008.

Food prices rose by 39 percent from February 2007 to February 2008—led by wheat, soybeans, corn, and edible oils, all of which reached new highs. As in the oil market, price strength reflects tight market balances, with inventories of major food crops at a two-decade low despite generally robust production growth. The tightening reflects a number of factors. Rising biofuel production in the United States and the European Union has boosted demand for corn, rapeseed oil, and other grains and edible oils. Although biofuels still account for only 1½ percent of the global liquid fuels supply, they accounted for almost half the increase in the consumption of major food crops in 2006–07, mostly because of corn-based ethanol produced in the United States.

#### **9.1.4 Exchange Rates**

The US dollar remained weak against major currencies in 2007/08. The average exchange rate of the US dollar against the Euro which was 1.37 in July 2007 depreciated to 1.56 in June 2008. Similarly, the dollar also depreciated against the Japanese yen from 121.4 to 107 over the same period. On the other hand, the dollar gained some ground against the Pound Sterling in the first half of 2008 after falling to record lows for most of the second half of 2007. The average dollar-pound exchange rate which was 2.04 in July 2007 dropped to 1.97 in June 2008.

The Chinese renminbi continued its gradual but steady appreciation against the US dollar. The average exchange rate of the renminbi against the dollar which was 7.58 in July 2007 appreciated to 6.9 in June 2008.

#### **9.1.5 Capital Flows**

In 2007, there was a big surge in net capital inflows to emerging and developing countries which jumped to USD 492 billion from USD 65 billion in 2006. This surge was in the form of increased private direct investment inflow (from USD 246 billion in 2006

to USD 379 billion), net private portfolio flows and higher other private capital flows which rose from USD 84 billion to USD 200 billion. Net capital inflows are expected to slightly drop to USD 370 billion in 2008 mainly as a result of outflows in private capital inflows and decline in the net flow of other private capital despite an expected increase in private direct investment flows.

Net capital flows to African countries doubled to USD 38 billion in 2007 from USD 19 billion in 2006 as a result of higher inflow of private direct investment decline in official capital outflows. Private direct investment to Africa amounted to USD 31 billion in 2007 which accounted for a mere 8 percent of the total private direct investment inflows to emerging and developing countries. Net capital inflows to African countries are expected to further rise to USD 50 billion in 2008.

The hike in the price of oil in the international market remained the major threat to the Ethiopian economy in 2007/08. The country's oil import bill accounted for about 24 percent of total imports contributing to the very rapid growth of imports, which in turn was the major factor for the widening of the current account deficit.

The global price increase was also one of the factors that was pushing domestic prices higher to unprecedented levels during the fiscal year.

The global financial crisis which started in August 2007 and intensified during September 2008 is also bound to affect the Ethiopian economy, albeit minimally. As the crisis is pushing advanced economies towards recession, commodity prices are likely to go down. And the decline in commodity prices, including coffee, oilseeds etc. is bound to reduce the country's export earnings.

## **9.2 Implications of International Economic Development on Ethiopian Economy**

In addition, as the governments in the advanced economies will be preoccupied in dealing with the crisis as well as spend a huge sum of money for the cause, there is a risk that official development assistance may decline. Moreover, the slow down in these economies may also lead to a drop in remittance and FDI inflows.