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Governor's Note

Ethiopia continued to maintain the double digit growth it has started since the last eight years. In 2010/11, real GDP growth was 11.4 percent moderately higher than the 10 percent growth a year earlier. This robust and broad based economic growth places Ethiopia among the top performing African and other developing Asian countries. During the fiscal year, agriculture grew by 9.0 percent due to improved productivity, good weather conditions and conducive policy environment. The industry sector expanded by 15.0 percent, owing to investment in electricity & water and construction sector. Service sector growth, however, slightly declined to 12.5 percent from 13.0 percent a year ago.

Despite the fact that Ethiopia had historically been a low inflation country, it has begun witnessing some inflationary pressure during the last two years. Annual average general inflation at the close of the fiscal year 2010/11 hiked up to 18.1 percent, about 15.3 percentage point higher than the preceding year. This was largely attributed to the surge in the prices of food items which contributed 14.1 percentage point to the total annual change in headline inflation. Annualized food inflation, scaled up to 15.7 percent from -5.4 percent in June 2010 registering a 21.1 percentage point increase on account of higher food prices in the international market, domestic supply side constraints and reserve money growth largely due to higher NFA. Annual average core inflation also slightly increased to 21.8 percent from 18.2 percent at the end of last fiscal year, owing to higher commodity prices, mainly fuel prices in the international market.

The government's fiscal operations revealed an overall fiscal deficit of 4.8 percent of GDP in contrast to 4.6 percent a year earlier. General government revenue, including grants depicted a 29.2 percent surge to Birr 85.6 billion due to improved tax administration and continued economic growth. Yet, revenue to GDP ratio remained

modest at 13.5 percent from 14.1 percent a year ago, which was quite low compared to other similar developing countries indicating the need for increased tax effort. General government expenditure also registered a 31.5 percent annual increase to reach Birr 93.8 billion, as poverty related expenditure tended to play a significant role.

Monetary policy continued to focus on containing inflationary pressure and building international reserves of the country. Efforts were made to make the growth of broad money supply in line with nominal GDP growth. Accordingly, broad money to GDP ratio increased from 27.2 percent in 2009/10 to 29.1 percent in 2010/11 on account of remarkable growth in net foreign assets and domestic credit. Similarly, annual reserve money growth was 39.7 percent owing to same reason. As for interest rate, the NBE continued to set the minimum interest rate on saving and time deposits while leaving lending rates to be freely determined by banks. The minimum interest rate on deposits rate was set at 5 percent while lending rate ranged between 7.5 and 16.25 percent. As inflation remained high, real rate of interest remained negative throughout the fiscal year.

Regarding financial sector development, the Ethiopian banking system continued to perform well. Consequently, the number of banks operating in the country reached 17 as two new private banks joined the industry during the year. Of the total banks, 14 were privately owned. The number of bank branches reached 970. About 23 percent of the public banks and 49 percent of private bank branches were concentrated in Addis Ababa. Ethiopia is still one of the most under banked countries in the world with one bank branch serving over 82,000 people.

Banks operating in the country registered high profit, enhanced their resource mobilization, expanded their capital base, disbursed significant amount of credit and reduced their non-performing loans to a minimum level. Accordingly, deposit mobilized by the banking system surged 42.5 percent and their outstanding loans rose by 24.7 percent. New loans disbursed amounted to Birr 42.2 billion, about 46.0 percent higher than last year. Excess reserves scaled up by 16.1 percent to reach at Birr 7.3 billion compared to 6.3 billion a year earlier as a result of enhanced deposit mobilization and loan collection by banks. Total capital of the banks reached Birr 15.9 billion showing a 23.3 percent annual growth. The share of private banks in total

capital was Birr 7.23 billion accounting for 44 percent in contrast to 40 percent in 2009/10.

The number of insurance companies increased to 14 as two more private insurance companies were opened during the year. Their branch network reached 221 following the opening of 11 additional branches during the same period. Except 1, all the other insurance companies with a branch network of 81.4 percent were privately owned. The total capital of insurance companies reached Birr 955.7 million of which private insurance companies accounted for about 70 percent. About 51 percent of the insurance companies were located in the capital, Addis Ababa.

As for microfinance institutions, their number increased to 31. Their total capital and assets reached Birr 2.9 billion and Birr 10.2 billion, registering 24 and 27.6 percent annual growth, respectively. Their credit extension at Birr 7 billion showed a 20 percent increase. They mobilized deposits to the tune of Birr 3.8 billion which rose 42 percent over last year. These developments clearly witness the growing role of MFIs in income generation, asset building and poverty reduction as they largely serve low income groups with no or little access to formal bank loans.

With regard to external sector developments, the review fiscal year revealed strong growth in export, a surge in services and private transfers and slightly narrowing current account deficit. Export proceeds reached USD 2.8 billion, indicating 37.1 percent annual growth, due to higher earnings from all major export items except oilseeds.

Hence, the ratio of exports to GDP increased to about 10 percent compared to 6.7 percent a year ago. The export receipts covered about 33 percent of the import bill during the review year in contrast to 24 percent last year.

Meanwhile, total import bill with marginal decline of 0.8 percent stood at USD 8.3 billion. This was attributed to the slowdown in import items like raw materials (13.5 percent), capital goods (4.5 percent) and consumer goods (8.8 percent).

Import bills of other commodities particularly fuel, however, tended to increase. The share of imports in total GDP marginally rose to 29.6 percent from 27.8 percent a year ago.

Net private transfers witnessed 16.7 percent growth in the fiscal year and reached Birr 3.2 billion. Private individuals remitted USD 2.3 billion in cash and in kind showing 24.6 percent annual growth partly reflecting the increasing use of official transmission channels. Official transfers, however, slightly declined to USD 1.89 billion.

Consequently, the country's current account (including official transfers) registered a surplus of USD 234.4 million in the review year vis-a-vis USD 1.2 billion deficit in the preceding year. The country also saw growth in FDI and net long term capital as a result of improved policy environment.

Following positive developments in external sector, the overall balance of payments registered a surplus of USD 1.37 billion, almost four times higher than last year.

Regarding exchange rate developments, the fiscal year 2010/11 revealed the fast depreciation of Birr against USD mainly due to the impact of NBE's intervention in September 2010 which led to a one-go devaluation of the Birr by twenty percent. The aim was to enhance the country's international competitiveness. Accordingly, in 2010/11 the Birr depreciated by 25.0 percent against USD in the official inter-bank market and 20.8 percent in the parallel market. This resulted in the narrowing of the premium between the official and parallel exchange rates to 2.6 percent from 6.1 percent a year ago. NBE continued to focus on maintaining exchange rate stability of the Birr through periodic monitoring of exchange rate developments and participating in the interbank foreign exchange market.

Money market in the country remains shallow and narrow. Treasury bills market is the only active primary market in the Ethiopian financial market although the sale of corporate bonds is gradually looming large.

Treasury bills with a maturity period of 28 days, 91 days and 182 days are traded bi-weekly where few institutional investors participate. The amount of T-bills sold in the review year was Birr 52.3 billion, 25.3 percent higher than last year. The weighted yield across maturities increased to 1.126 from 0.786 a year earlier.

During the 2010/11 fiscal year, there was no inter-bank money market transaction due to the absence of liquidity shortage in the banking system. The sale of corporate bonds increased largely owing to huge demand for infrastructure development in the country. All in all, the fiscal year 2010/11, was a year of success in maintaining sustainable economic growth, despite some hiccups regarding inflationary pressure.

Looking ahead, the Ethiopian economy is projected to grow by about 11 percent (lower case scenario) in 2011/12 as macroeconomic conditions are envisaged to continue improving. Inflation is expected to be a major challenge. Therefore, coordinated and prudent monetary and fiscal policies will continue during the fiscal year. To this end, developments in reserve money will be closely monitored. Attention will also be given to improving the country's international competitiveness and building international reserves by using appropriate exchange rate policy and other export enhancing mechanisms.

Finally, I would like to thank the management and staff of the NBE for their effort in the implementation of the country's monetary and financial sector policies as well as in contributing to the continued growth of the economy. I am confident that they will continue to do more in the coming year(s). I also thank all those stakeholders for their cooperation in realizing the objectives of the NBE throughout the fiscal year and expect the same in the fiscal year ahead.

I. OVERALL ECONOMIC PERFORMANCE

1.1 Economic Growth

Ethiopia continued to maintain the double digit growth rate which averaged 11.4 percent over the last eight years. In the fiscal year 2010/11, real GDP growth was 11.4 percent moderately higher than the previous year's growth of 10.4 percent. This robust economic growth, which is broad based, placed Ethiopia among the top performing African and other developing Asian countries.

Accordingly, Ethiopia's real per capita GDP rose to USD 392 from USD 377 a year earlier.

The resilience of the Ethiopian economy is projected to continue through 2011/12 and show 11.0 percent growth compared to 5.5

percent for Sub-Saharan Africa and 4.4 percent for the entire world.

1.2 GDP By Sector

Regarding sectoral development, agriculture grew by 9 percent, industry 15 percent and services 12.5 percent. Consequently, agriculture and allied activities accounted for 41 percent of GDP, industry 13.4 and services 45.6 percent. Similarly, agriculture contributed 4.7, industry 1.5 and service 5.3 percentage points to the 11.4 percent real GDP growth in 2010/11. Although, the share of agriculture in GDP tended to decline over time, it still remains the largest employer, the main source of foreign exchange, and supplier of raw materials and market to domestic industries (Fig.I.1 below).

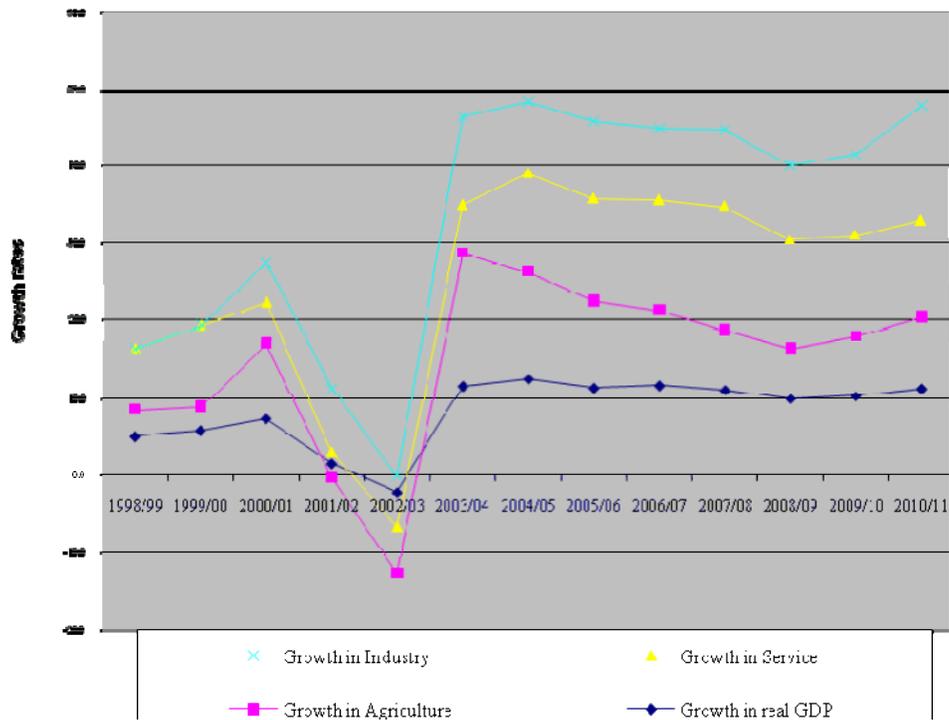
Table 1.1 Sectoral Contribution to GDP and GDP Growth*(In Millions of Birr)*

Items		Fiscal Year						
		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Sector	Agriculture	39,728	44,062	48,225	51,843	55,141	59,348	64,698
	Industry	11,402	12,561	13,757	15,150	16,616	18,374	21,178
	Services	33,312	37,747	43,534	50,519	57,576	65,084	73,368
Total		84,443	94,371	105,517	117,514	129,333	142,807	159,244
<i>Less FISIM</i>		639	896	1,018	1,323	1,489	1,619	1780
Real GDP		83,804	93,474	104,499	116,190	127,844	141,187	157,464
Growth in Real GDP		12.6	11.5	11.8	11.2	10	10.4	11.4
Real GDP per capita		1,334.0	1,441.0	1,553.0	1,664.0	1,764.0	1,933.0	1,946.4
Share in GDP (in percent)	Agriculture	47.4	47.1	46.1	44.6	43.1	42.0	41.1
	Industry	13.6	13.4	13.2	13.0	13.0	13.0	13.4
	Services	39.7	40.4	41.7	43.5	45.0	46.1	46.1
Growth in Real GDP per capita		9.0	8.0	7.8	7.1	6.0	9.6	8.5
Agriculture	Absolute Growth	13.5	10.9	9.4	7.5	6.4	7.6	9.0
	Contribution to GDP growth	6.4	5.1	4.4	3.3	2.7	3.2	4.69
	Contribution in percent	50.8	44.5	36.9	29.9	27.6	30.8	41.1
Industry	Absolute Growth	9.4	10.2	9.5	10.0	9.9	10.6	15.0
	Contribution to GDP growth	1.3	1.4	1.3	1.3	1.3	1.4	1.53
	Contribution in percent	10.1	11.8	10.7	11.7	12.9	13.3	13.4
Services	Absolute Growth	12.8	13.3	15.3	16.0	14.0	13.0	12.5
	Contribution to GDP growth	5.1	5.4	6.4	7.0	6.3	6.0	5.26
	Contribution in percent	40.1	46.6	54.2	62.5	63.4	57.6	45.6

Source: MoFED and Staff Computation

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

Figure. I.1: GDP Growth by Major Sectors



Source: Central Statistical Agency (CSA)

The growth in agricultural outputs was largely attributed to improved productivity aided by favorable weather condition and conducive economic policy. Cultivated land expanded by 4.6 percent and reached 12 million hectares in 2010/11. Production is estimated to have increased by about 8.8 percent while productivity rose from 15.7 quintal/hectare in 2004/05 to 16.3 quintal/hectare in 2010/11. Cereal production accounted for about 87.7

percent of the total production estimated for 2010/11.

Meanwhile, the 15 percent annual growth in industry was largely due to expansion in electricity and water subsectors. Manufacturing grew by 12 percent with mining and quarrying expanded by 57.7 percent. The 12.5 percent growth in services sector which has gained momentum in recent years was attributed to growth in financial sector, real estate and hotel & tourism sectors.

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	2007/08		2008/09		2009/10		2010/11	
	Cultivated Area	Total Production						
Cereals	8,730.0	137,169.9	8,770.0	144,964.1	9233.0	155342.2	9905.5	172,383.2
(Percent Change)	3.0	6.5	0.5	5.7	5.3	7.2	7.3	11.0
Pulses	1,517.7	17,827.4	1,585.2	19,646.3	1489.3	18980.5	1343.9	17,487.7
(Percent Change)	10.1	12.9	4.4	10.2	-6.1	-3.4	-9.8	-7.9
Oilseeds	707.6	6169.3	855.1	6,557.0	780.9	6436.1	781.2	6765.2
(Percent Change)	-4.6	24.1	20.8	6.3	-8.7	-1.8	0.04	5.1
Total	10,955.3	161,166.6	11,210.3	171,167	11,503.2	180758.8	12,030.6	196,636.1
(Percent Change)	3.4	7.8	2.3	6.2	2.6	5.6	4.6	8.8

Source: CSA

1.3 GDP by Expenditure Component

In the fiscal year under review, total consumption expenditure as a percent of GDP slowed down to 91.2 from 94.8 percent in last year, largely due to a 3 percentage point slowdown in private consumption. On the other hand, gross domestic saving as percent of GDP went up to 8.8 percent from

5.5 percent a year earlier. The ratio of gross capital formation to GDP increased to 25.5 percent from 22.3 percent in 2009/10.

The resource gap narrowed to 15 percent of GDP from 19.4 percent last fiscal year.

Table: 1.3: Expenditure 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.					
1996/97									
1997/98	109.2	88.0	9.8	78.2	21.2	-7.7	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	118.1	94.0	14.8	79.2	24.1	-14.0	12.6	26.6	6.0
2002/03	118.2	96.0	13.4	82.6	22.2	-14.1	13.3	27.4	4.0
2003/04	114.6	88.1	13.1	75.0	26.5	-16.7	14.9	31.6	11.9
2004/05	117.9	94.1	12.4	81.7	23.8	-20.4	15.1	35.5	5.9
2005/06	120.6	95.4	12.2	83.2	25.2	-22.7	13.8	36.5	4.6
2006/07	113.1	91.3	10.5	80.8	22.1	-19.3	12.7	32.0	8.7
2007/08	117.2	94.8	9.8	85.0	22.4	-19.4	11.4	30.8	5.2
2008/09	116.3	93.6	8.2	85.4	22.7	-18.2	10.5	28.7	6.4
2009/10	116.7	94.8	8.6	86.2	24.7	-19.4	13.6	33.0	5.2
2010/11	116.7	91.2	8.1	83.1	25.5	-15	16.8	31.8	8.8
Average:	115.4	92.6	12.4	80.2	22.8	-16.0	12.8	28.8	7.4

Source: MoFED (Based on the Newly Revised Series)

1.4 Micro and Small-Scale Enterprises

The five-year Growth and Transformation Plan (GTP) envisages to create a total of three million micro and small-scale enterprises (MSE's) at the end of the plan period. The development of this sector is believed to be the major source of employment and income generation for a wider group of the society in general and urban youth in particular. According to the Ministry of Urban Development and Construction

(MoUDC), a total of 51,983 MSEs were established in 2010/11 employing 541,883 people. The number of establishments and total employment went down by 70.6 percent and 18.7 percent respectively, compared to a year ago. The total amount of loan received from micro finance institutions was Birr 983 million, 20.7 percent higher than last fiscal year.

Table: 1.4 Numbers, Amount of Credit and Jobs Created through MSEs

(Credit in Millions of Birr)

	2009/10	2010/11	Percentage Change
	A	B	C= (B/A)
No. of MSEs	176,543	51,983	-70.6
Total Employment	666,192	541,883	-18.7
Amount of credit (in millions of Br)	814.1	983	20.7

Source: MoUDC

Table: 1.5. Number, Amount of Credit and Jobs Created through MSEs by Region*(Credit in Millions of Birr)*

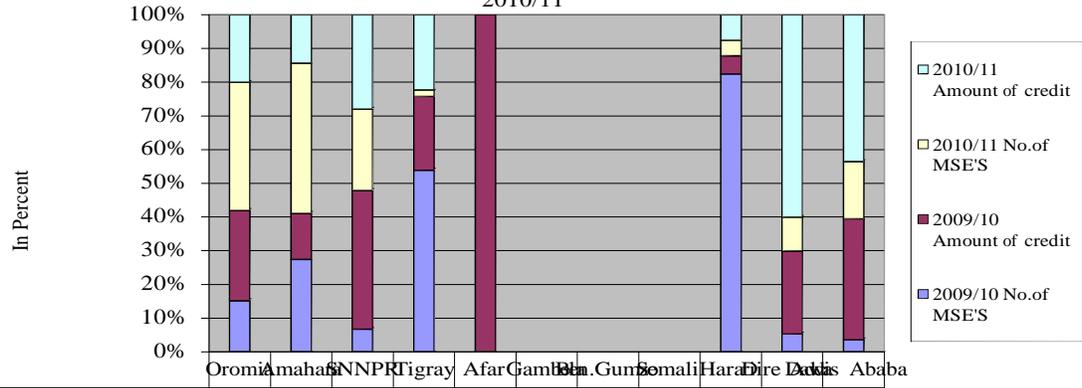
	Oromia	Amhara	SNNPR	Tigray	Harari	Dire Dawa	Addis Ababa	Grand Total
No. of MSEs	11,684	26,273	4,586	859	137	68	8,166	51,983
Amount of Credit	115.78	160.60	100.13	197.50	4.66	6.27	397	982.51
Total Employment	264,443	97,447	48,767	54,238	1433	9,575	60481	541,883
Percentage Share by Region								
No. of MSEs	22.48	50.54	8.82	1.65	0.26	0.13	15.71	100
Amount of Credit	11.78	16.35	10.19	20.10	0.47	0.64	40.39	100
Total Employment	48.80	17.98	9.00	10.01	0.26	1.77	11.16	100

Source: MoUDC

Regarding regional distribution, Amhara region with 50.5 percent of total MSEs, was the leading in establishing MSEs, followed by Oromia (22.5 percent), Addis Ababa (15.7 percent), SNNPR (8.8 percent) and Tigray (1.7 percent).

Of the total credit disbursed through MFIs, Addis Ababa accounted for 40.4 percent, Tigray 20.1 percent, Amhara 16.4 percent, Oromia 11.8 percent, SNNR 10.2 percent, Dire Dawa 0.6 percent and Harari 0.5 percent.

Fig I.2 Regional share of Number of MSE's and amountof credit During Fiscal year of 2010/11



		Oromia	Amhara	SNNPR	Tigray	Afar	Gambela	Ben. Guuz	Somali	Harar	Dire Dawa	Addis Ababa
2010/11	Amount of credit	11.8	16.3	10.2	20.1					0.5	0.6	40.4
2010/11	No. of MSE'S	22.5	50.5	8.8	1.7					0.3	0.1	15.7
2009/10	Amount of credit	15.8	15.5	15.0	19.8	0.5				0.4	0.2	33.3
2009/10	No. of MSE'S	8.9	31.1	2.5	48.6					5.4	0.1	3.4

Source: MoUDC

1.5 Access to Water Supply

The five-year Growth & Transformation Plan, envisaged to increase the total population having access to safe drinking water (rural and urban) from 68.5 percent in 2005/06 to 98.5 percent by 2015. 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 expected to grow to 100 and 98.5 percent, respectively by the end of the plan period from 91.5 and 68.5 percent in 2010/11.

The overall national access to potable water supply climbed to 73.3 percent (i.e., 92.5 percent for urban and 71.3 percent for rural) in 2010/11 from 68.5 percent (i.e., 91.5 percent for urban and 65.8 percent for rural) in 2009/10 showing annual growth of 4.8 percentage points.

Similarly, urban population with access to potable water within 0.5 km went up from 91.5 percent in 2009/10 to 92.5 percent in 2010/11 depicting a 1.0 percentage point rise over the preceding

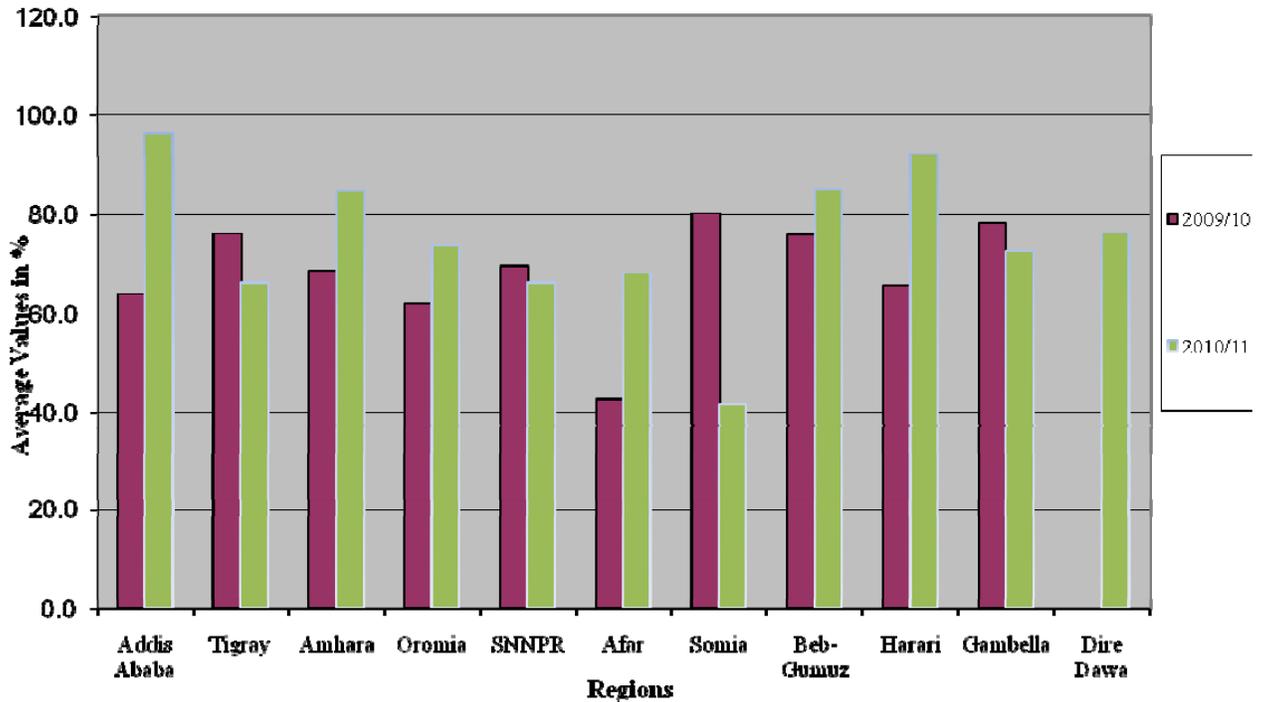
fiscal year. Besides, rural population with access to potable water within 1.5 km reached 71.3 percent by the end of 2010/11, exhibiting a 5.5 percent growth compared to 65.8 percent in the previous year.

Table: 1.6 Percentages of People with Access to Potable Water by Region

	2009/10			2010/11			Change in percentage point		
	A	B	C	D	E	F	D-A	E-B	F-C
Region	Rural	Urban	Average	Rural	Urban	Average			
Addis Ababa		96.0	96.0		96.08	96.08	0.0	0.1	0.1
Tigray	58.8	85.3	64.0	60.4	89.7	66.1	1.6	4.4	2.1
Amhara	80.0	90.0	76.0	89.9	90.6	84.9	9.9	0.6	8.9
Oromia	64.5	95.5	68.5	70.1	97.3	73.6	5.6	1.8	5.1
SNNPR	58.7	90.9	62.0	63.0	92.8	66.0	4.3	1.8	4.0
Afar	67.0	77.7	69.5	65.7	84.2	68.1	-1.3	6.5	-1.4
Somali	37.0	76.5	42.5	36.1	74.6	41.5	-0.9	-1.9	-1.0
Ben-Gumz	81.0	90.1	80.2	86.9	87.4	85.0	5.9	-2.7	4.8
Harari	53.0	95.0	75.8	56.5	122.5	92.3	3.5	27.5	16.5
Gambella	63.1	73.0	65.7	73.6	70.1	72.7	10.5	-2.9	7.0
Dire Dawa	76.0	79.7	78.1	74.2	77.8	76.2	-1.8	-1.9	-1.9
National Average	65.8	91.5	68.5	71.3	92.5	73.3	5.5	1.0	4.8

Source: Ministry of Water Resources Development (MoWRD) and NBE Staff Computation

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

Fig.I. 3 Access to Water Supply by Region

1.6 Road Transport Development

During 2010/11, the Ethiopian road network reached 53,143 km (42.2 percent Federal and 57.8 percent rural) with annual growth rate of 10.7 percent as a result of 3,662 km new road being constructed. Of the total 22,431 km Federal roads, asphalt road constituted 37 percent and gravel road 63 percent.

Moreover, the share of the total paved or asphalt road reached to 15.6 percent, about 2.0 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 854km declined by 99.1 percent over the previous year.

During the review year, road density including community road was 48.1km per 1,000 square km moving upwards by 5.9 from the previous year in line with the five year Growth and Transformation Plan which planned to increase total road net work to 64,500 km in 2015.

Likewise, road density per 1, 000 sq km. is targeted to rise to 123.7 sq. km in 2015 from 48.1 sq. km in 2010/11 while road density per 1000 population will increase to 1.54 in 2015 from 0.65 in 2010/11.

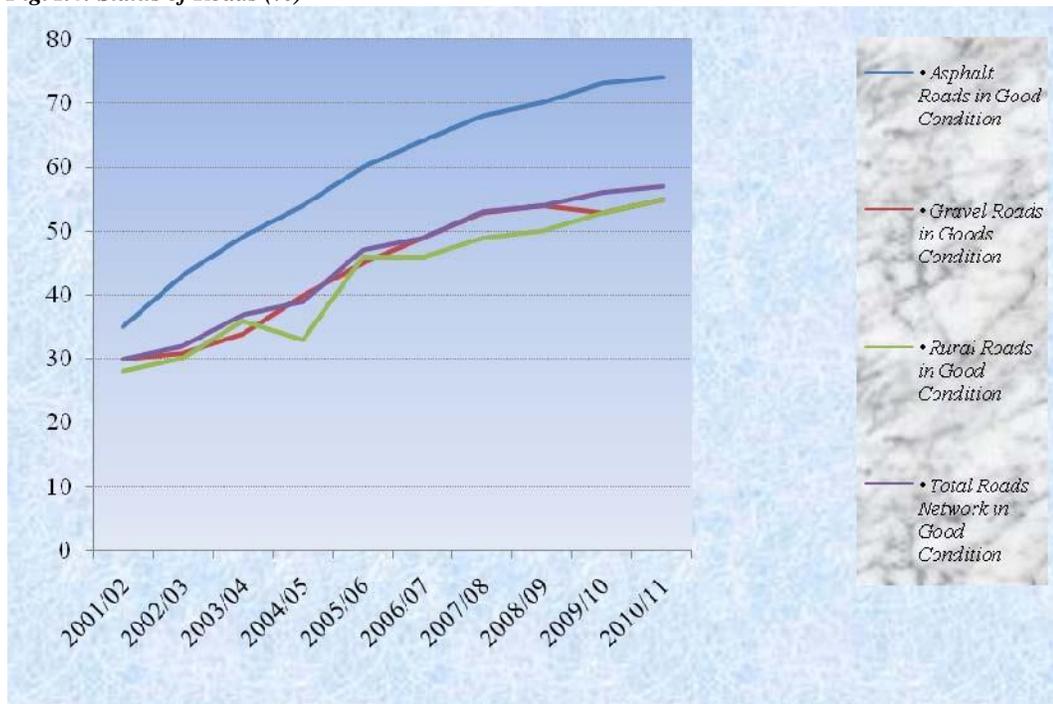
Similarly, the proportion of area more than 5 km from all weather roads went down to 61.69 percent in 2010/11 from 64.2 percent in 2009/10.

The performance of road density per 1,000 sq. km showed 8.8 percent annual growth in 2010/11 and road density per 1000 population 8.3 percent compared to last fiscal year.

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

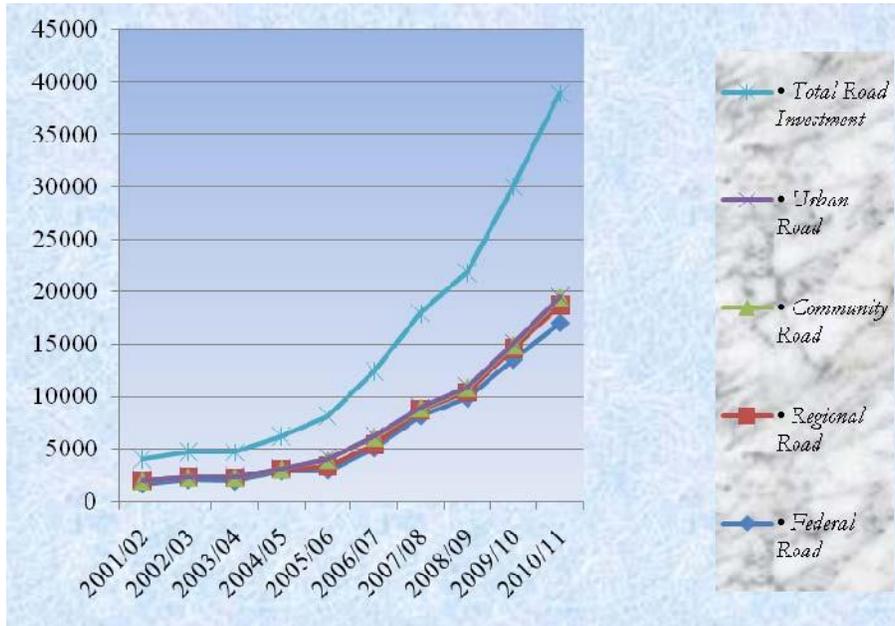
All-weather road (rural road) expanded by 14 percent per annum constituting 57.8 percent (or 30,712 kms) in 2010/11. Besides, average distance from all-weather roads slightly declined to 10.35 from 11.3 kilometers a year ago.

Fig. I.4: Status of Roads (%)



Source: Ethiopian Roads Authority and NBE Staff Computation

Fig. 1.5: Investment in Road Construction and Expansion (In million of Birr)



Source: Ethiopian Roads Authority and NBE Staff Computation

The percentage of total road network in good status was 57 percent in the review period.

Figure 1.5 illustrates the total investment capital for road construction and expansion. It has been steadily rising over the last ten years reaching Birr 19.5 billion in 2010/101 of which Birr 17 billion (or 87.2 percent) was attributed to Federal roads.

1.7 Development on Education Sector

The education sector has witnessed its improvement both in terms of quality and coverage since 2006/07, positive trend to achieve Growth and Transformation Plan goal of producing democratic, efficient and effective, knowledge based, inspired and innovative citizens who can contribute to the realization of the long term vision of making Ethiopia into a Middle Income Economy.

In line with this, Primary education (1-8 grades) enrolment grew from 14 million in 2006/07 to 15.8 million in 2009/10 and 17 million in 2010/11. Besides, the number of primary schools reached 28,301 in 2010/11 from 20,660 in 2006/07. Of the total primary schools, 24,313 or 86 percent were located in the rural areas where about 77 percent of the total population lives.

On the other hand, secondary education enrolment stood at 1.8 million, 4 and 26 percent higher than 2009/10 and 2006/07, respectively.

In addition, by the end of 2010/11, the number of secondary schools (9-12 grades) reached 1,392 exhibiting a 46 percent growth since 2006/07. Of the total secondary schools, 1,053 or 76 percent were found in urban areas.

Technical and Vocational Education and Training (TVET) enrolment was 371,347, 5.1 and 94.3 percent above in a year earlier and 2006/07, respectively. Parallel to this, the number of TVET institutions increased to 505 against 388 in five years ago.

The education share of the annual national budget was 17.5 percent, which was 32 and 29 percentage points lower than that of the preceding year and 2006/07, respectively.

Table 1.7: Education Sector Data

Indicators	2006/07	2007/08	2008/09	2009/10	2010/11
	1999	2000	2001	2002	2003
Improvement of Education Service					
Number of primary schools (urban, rural)	20,660	23,354	25,092	26,951	28,301
i. Urban	2,680	3,100	3,206	3,206	3,988
ii. Rural	17,980	20,254	21,886	23,745	24,313
Number of secondary schools (urban, rural)	952	1087	1185	1351	1392
iii. Urban	803	904	976	1,053	1,053
iv. Rural	149	183	209	298	339
Number of TVET centers (public, private, mission)	388	458	458	448	505
Number of tertiary level institutions by universities (public, private), colleges (public, private)	55	61	72	90	86
Universities	21	22	22	22	26
Student intake capacity of higher education institutions	43,764	56,421	NA	NA	95,000
Participation of women in higher education institutions (%)	26	24	22.2	27	27
Primary enrolment (in million)	14.0	15.3	15.6	15.8	16.7
Secondary enrolment (in thousands)	1,399	1,501	1,588	1,696	1,760
TVET enrolment	191,151	229,252	308,501	353,420	371,347
Girls' primary enrolment (%)	45.9	46.5	47.3	47.4	47.3
Grades (1-4) gross enrolment ratio (%)	117.1	127.8	122.6	118.8	124
a. Girls' gross enrolment ratio (%)	111.2	122.8	118.4	114.3	119.1
b. Boys' gross enrolment ratio (%)	122.9	133	126.7	123.2	128.8
Grades (5-8) gross enrolment ratio (%)	61.1	60.2	63.1	65.5	66.1
a. Girls' gross enrolment ratio (%)	53.7	55.5	60.5	63.5	64.8
b. Boys' gross enrolment ratio (%)	68.3	64.8	65.6	67.4	67.4
Girls' gross primary enrolment ratio (%)	85.1	90.5	90.7	101.6	93.2
Boys' gross primary enrolment ratio (%)	98	100.5	97.6	108.4	99.5
Gross Primary Enrolment ratio (%) (urban, rural, regional)	91.7	95.6	94.4	93.4	96.4
a. Tigray	104.8	109	107.1	103.3	102.1
b. Afar	22.2	26.2	31.2	39.3	40.1
c. Amhara	93.1	112.4	112.5	104.9	104.2
d. Oromia	91.4	91.4	89.3	88.4	94.8
e. Somali	38.5	32.7	35	65.6	61.3
f. Ben.Gumuz	127.9	112.3	112.1	114.6	119.7
g. SNNPR	97.8	102.9	101	97.3	102.6
h. Gambella	181.4	121.4	112.5	125.1	132
i. Harari	116.8	108.4	107.9	95.3	91.5
j. A.A		114.3	109.2	107.3	103.1
k. Dire Dawa	80	86.3	92.1	91.3	89.1
Primary net enrolment rate (%)	79.1	83.4	83	82.1	89.7
No. of students registered in the first cycle primary schools(1-4) (in million)	9.8	10.7	10.6	10.5	11.3

No. of students registered in the second cycle primary schools(5-8) (in million)	4.2	4.6	5	5.3	5.5
Number of students registered in the first cycle secondary schools(9-10) (in million)	1.2	1.3	1.4	1.5	1.5
Gross enrolment rate in (9-10 grades)(%)	37.3	37.1	38.1	39.1	38.4
Number of students registered in the second cycle secondary schools(11-12)(in million)	0.2	0.2	0.21	0.24	0.23
Preparatory admission	101,367	100,651	118,289	142,781	NA
TVET Admission	99,430	95,563	NA	95,563	NA
Completion rate of primary school (%)	42.9	44.7	43.6	47.8	49.4
Girls/boys ratio in primary schools (%)	85	87	89.7	91	90.4
Girls/boys ratio in secondary schools (%)	59	63	67	0.75	79
Girls/boys ratio in(9-10)	0.61	0.65	0.72	0.78	0.81
Girls/boys ratio in (11-12)	0.5	0.48	0.4	0.56	0.83
Girls/boys ratio inTVET	0.78	0.92	0.86	0.8	0.86
Girls/boys ratio in higher education	0.25	0.24	0.28	0.36	0.36
Grade 1-8(primary) repetition rates (%)	6.1	6.7	6.7	4.9	8.5
Primary school dropout rate (%)	12.4	14.6	14.6	18.6	13.1
1st grade dropout rate (%)	20.1	18.3	22.9	28.1	19.9
Pupil/teacher ratio					
i. Grade (1-8)	59	57	54	51	51
ii. Grade (9-12)	48	43	41	36	31
iii. TEVT	27	25	34	NA	29
iv. In higher education	24.3	NA	28.2	26.8	
Pupil/section ratio					
i. Grade (1-8)	64	62	59	57	57
ii. Grade (9-12)	79	74	68	64	58
Number of class rooms in primary schools	206,106	236,712	247,759	254,744	279,292
Pupil-textbook ratio					
i. Grade(1-8)	1.5	1.5	1.5	1.5	NA
ii. Grade(9-12)	1	1	1	1	NA
Pupil-school ratio					
i. Grade(1-8)	678.3	657	619	573	590
ii. Grade(9-12)	1,449	1,381	1,345	1270	1160
iii. TVET	493	501	673	788	735
Annual education share of the national budget{ % }	24.6	22.8	23.6	25.9	17.5
Proportion of pupils starting grade 1 who reach grade 5(%)	59.3	49.2	39.6	75.6	69.1
Percentage of female enrolled in under graduate degree (%)	26	24.1	29	27	27
Percentage of female graduated in under-graduate degree (%)	18	20.6	29.7	23.4	27.2
Percentage of female enrolled in post-graduate degree	10	9.6	11.3	11.9	13.8
Percentage of female graduated in post-graduate degree	9.4	10.7	10.5	13.9	14.4

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

1.8 Telecommunications

Ethio-Telecom, the former Ethiopian Telecommunications Corporation (ETC), has been undertaking several huge network expansion projects during the last few years with a view to enhancing the development of the telecom sector and to support the steady growth of the country.

To ensure that Ethio Telecom runs parallel with top telecom operators, the Ethiopian government has reached an agreement with France Telecom, one of the world's leader telecommunication companies. This agreement will help Ethio Telecom to improve its management capability through the transfer of world-renowned know-hows and skills.

Ethio-Telecom has provided national and international telecommunications services using Satellite, microwave Digital Radio Multi-Access System (DRMAS), VSAT, UHF, VHF, Long Line and HF Radio. The current task of Ethio-Telecom is the expansion of Telecom services intensively throughout the country with required standards through

deployment of Next Generation Network (NGN) projects. In parallel with the country's endeavor to access the Ethiopian society with multi-faceted NGN based telecom services across the nation, the government has already engaged in deploying a new telecom company through the application of transformational plan leading to create a world-class telecom service provider.

The number of waiting list for fixed telephone subscribers was 4,982 in the review year 2010/11 (Table 1.8).

Similarly, the number of Internet subscribers went up from 124,528 in 2009/10 to 128,764 in the reported period registering a 3.4 percent increase.

Besides, the country's telecommunication penetration rate (tele-density mobile plus fixed telephone subscribers per 100 inhabitants) increased from 10.1 in 2009/10 to 13.9 in 2010/11.

The country's five-year development plan Growth & Transformation Plan (GTP) envisages increasing the number of fixed line subscribers from 1 million in 2010/11 to 3.05 million by the end of 2014/15.

The number of mobile-telephone subscribers and Internet users is also expected to pick up to a respective 40 million and 3.69 million by the end of the plan period from 6.52 million and 187,000 in 2010/11.

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Table 1.8: Summary of Telecommunications

[1985 - 2003 E.F.Y (1992/93 - 2010/2011G.C)]

No.	ITEMS	1985 1992/93)	1986 1993/94)	1987 1994/95)	1988 1995/96)	1989 1996/97)	1990 1997/98)	1991 (1998/99)	1992 (1999/00)	1993 2000/01)	1994 (2001/02)	1995 (2002/03)	1996 (2003/04)	1997 (2004/05)	1998 (2005/06)	1999 (2006/07)	2000 (2007/08)	2001 2008/09)	2002 2009/10)	2003 2010/11)
1	PUBLIC STATIONS & EXCHANGES(1.2+1.3+1.5)	475	486	512	536	548	563	573	606	649	700	770	784	865	904	919		N.A.	N.A.	N.A.
1.1	Automatic Exchanges	36	37	40	44	47	53	82	112	129	150	156	171	273	423	511	966	N.A.	N.A.	N.A.
1.2	Automatic Stations	22	23	26	30	32	37	58	79	93	105	122	142	242	391	475	540	N.A.	N.A.	N.A.
1.3	Manual Exchanges(Stations)	375	388	403	403	403	403	390	382	356	347	341	335	256	136	92	510	N.A.	N.A.	N.A.
1.4	Manual Stations with Semi-Auto. facility	55	74	113	153	155	175	181	331	259	306	313	310	239	131	90	86	N.A.	N.A.	N.A.
1.5	Pay Stations & R.R.C	78	75	83	103	113	123	125	145	200	248	307	307	368	378	352	78	N.A.	N.A.	N.A.
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	N.A.	N.A.	N.A.
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	N.A.	N.A.	N.A.
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	N.A.	N.A.	N.A.
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	N.A.	N.A.	N.A.
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	N.A.	N.A.	N.A.
2	SUBSCRIPTION																	N.A.	N.A.	N.A.
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	N.A.	N.A.	N.A.
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	N.A.	N.A.	4982
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	N.A.	N.A.	N.A.
2.04	PBX's	1251	1271	1317	1338	1476	1544	1615	1241	1419	1386	1322	1348	-	-	-	-	N.A.	N.A.	N.A.
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	N.A.	N.A.	N.A.
2.06	Number of subscriber's Facsimile	745	1039	1424	1604	2012	2476	3010	3555	3858	4231	4601	4925	-	-	-	-	N.A.	N.A.	N.A.
2.07	Number of Facsimile Machines	762	1057	1445	1624	2038	2502	3034	3594	3890	4271	4649	4978	-	-	-	-	N.A.	N.A.	N.A.
2.08	Number of Internet Subscribers	-	-	-	-	1042	2068	2163	2461	4073	6740	9534	12155	17,710	25,724	31,400	34,110	60611	124528	128764
2.09	Mobile Telephone Subscription	-	-	-	-	-	-	6740	17757	27532	42910	51234	155,534	410,630	866,700	1,208,498	1,954,327	4051703	6677903	10526190

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Cont'd Table 1.8:

[1985 - 2003 E.F.Y (1992/93 - 2010/2011G.C)]

No.	ITEMS	1985 (1992/93)	1986 (1993/94)	1987 (1994/95)	1988 (1995/96)	1989 (1996/97)	1990 (1997/98)	1991 (1998/99)	1992 (1999/00)	1993 (2000/01)	1994 (2001/02)	1995 (2002/03)	1996 (2003/04)	1997 (2004/05)	1998 (2005/06)	1999 (2006/07)	2000 (2007/08)	2001 (2008/09)	2002 (2009/10)	2003 (2010/11)
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	N.A.	N.A.	N.A.
2.11	Number of Digital Data Circuits	-	-	-	-	-	-	-	-	-	-	129	178	-	-	-	-	N.A.	N.A.	N.A.
2.12	Number of Digital Data Customers	-	-	-	-	-	-	-	-	-	-	65	91	-	-	-	-	N.A.	N.A.	N.A.
2.13	Number of Rural Kebeles	-	-	-	-	-	-	-	-	-	-	-	-	60	4,837	7,389	8,676	N.A.	N.A.	N.A.
3	TELEPHONE TRAFFIC (millions)																	N.A.	N.A.	N.A.
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	N.A.	N.A.	N.A.
3.2	Metered -CDR *														344.60	346.11		N.A.	N.A.	N.A.
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	-	-	-	-	N.A.	N.A.	N.A.
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	-	N.A.	N.A.	N.A.
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		32777569	35894689
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	-	-	-	-	-	-	N.A.	N.A.	N.A.
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		538062202	611198303
4	Mobile Telephone and Internet Traffic																	N.A.	N.A.	N.A.
4.1	Mobile -Local (million mins.)	-	-	-	-	-	-	-	26.76	60.80	77.01	120.75	165.76	N.A.						
4.2	Mobile -International (million mins.)	-	-	-	-	-	-	-	1.41	2.43	2.45	3.34	3.83	N.A.						
4.3	Internet Traffic (' 000 hours)	-	-	-	-	-	-	-	334.60	577.11	622.05	2,325.33	3,285.74	N.A.						
5	TELEGRAPH MESSAGES (Thousands)																	N.A.	N.A.	N.A.
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	-	-	N.A.	N.A.	N.A.	N.A.
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	-	-	N.A.	N.A.	N.A.	N.A.
6	INTERNATIONAL CIRCUITS																	N.A.	N.A.	N.A.
6.1	Satellite Telephone Circuits	247	346	345	369	350	386	386	380	427	430	514	802	1,816	1,749	1,756	-	2119	2730	2708
6.2	Microwave Telephone Circuits	49	91	91	186	193	25	25	26	53	53	109	109	137	167	167	-	178	178	301
6.3	Submarine Cable	18	18	24	24	24	-	-	-	25	73	102	101	250	578	1,018		1768	3087	3625

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Cont'd Table 1.8:

[1985 - 2003 E.F.Y (1992/93 - 2010/2011G.C)]

No.	ITEMS	1985 (1992/93)	1986 1993/94)	1987 (1994/95)	1988 1995/96)	1989 1996/97)	1990 1997/98)	1991 (1998/99)	1992 (1999/00)	1993 (2000/01)	1994 (2001/02)	1995 (2002/03)	1996 (2003/04)	1997 (2004/05)	1998 (2005/06)	1999 (2006/07)	2000 (2007/08)	2001	2002	2003
7	PERSONNEL																N.A.	N.A.	N.A.	N.A.
	Male	3434	3352	3514	3470	3582	3861	4267	4607	4868	5058	5416	5987	6,763	7,764	8,087	8,712	8913	9145	6999
	Female	1862	1870	1982	1993	2037	2225	2306	2476	2502	2522	2497	2632	3,015	3,470	3,557	3,548	3471	3697	1622
	Total	5296	5222	5496	5463	5619	6086	6573	7083	7370	7580	7913	8619	9,778	11,234	11,644	12,260	12384	12842	8621
8	FINANCE																			
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	5663	7050.7	8556.08
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	2113	2967.09	2894.79
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	4398	5348.97	6999.56
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	4637	4730.07	21735.48
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	230	253.27	2191.97
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	2211	2051.48	16865.39
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	N.A.	N.A.	80.9
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	N.A.	N.A.	N.A.
11	Teledensity (Fixed + Mobile)	-	-	-	-	-	-	0.33	0.39	0.48	0.59	0.66	0.90	1.39	2.14	2.73	3.61	6.56	10.06	13.88

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

II. ENERGY PRODUCTION

2.1 Electric Power Generation

Ethiopia is one of the few African countries with a huge potential to produce hydroelectric and geothermal power. Nine of its major rivers are suitable for hydroelectric power with a total capacity of generating 45,000 MW. The country also has vast potential for geothermal energy generation.

The Ethiopian Electric Power Corporation (EEPCo) supplies power to more than 1,830,052 customers. Under the five year Growth and Transformation Plan (GTP), the country's installed electricity generating capacity is expected to reach 8000 MW by the end of fiscal year 2014/15 from the current level of 2000 MW. This is anticipated to be achieved by committing huge investment to construction of dams and harnessing other power generation

schemes such as geothermal, wind and solar powers.

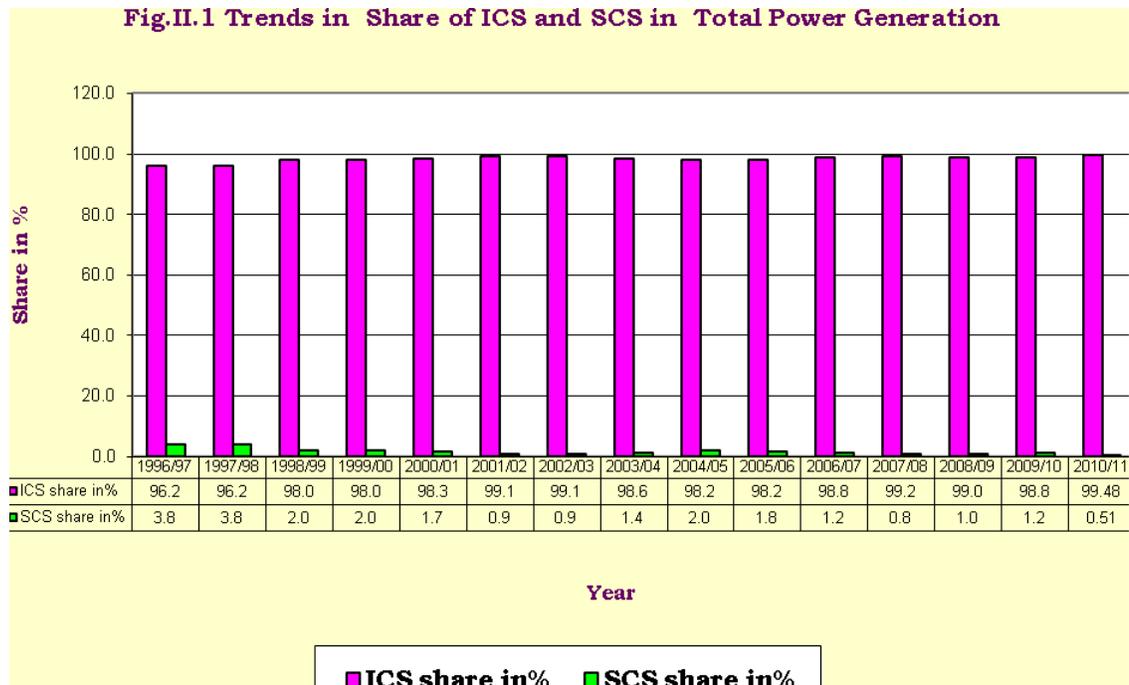
The Ethiopian Electric Power Corporation, a government corporation mandated with the task of generating, transmitting, distributing, and selling electricity, generates electricity through two different power supply systems, namely, the Inter Connected System (ICS) and Self Contained System (SCS).

The ICS, which is largely generated by hydropower plants, constitutes the major source of electric power in Ethiopia. The SCS system contributes less than 3 percent. In 2010/11 power supply through ICS accounted for 99 percent.

The total amount of electric power generated during the current fiscal year was 4980.5 million KWH, which is 27.5 percent higher than the previous year.

Of this, hydropower accounting for about 99.0 percent and the remaining being the share of thermal (0.6

percent) and geothermal (0.4 percent) sources. (See Table 2.1 below).



Source: EEPCo

By end 2015 the coverage of electricity is planned to scale up to 75 percent compared to 41 percent in 2010. Energy utilization capacity is also to grow five fold to 10,000 MW from 2000 MW during the same period.

The number of customers with access to electric power is targeted to reach 4 million in 2015 from about 2 million in 2010.

To achieve these objectives, the Ethiopian government is undertaking several programs such as electric

power generation and construction program, electricity transmission lines construction program, the power distribution and expansion program and universal electrification access programs.

Table 2.1: Electric Power Generation in ICS and SCS

(In 000 KWH)

Source		2008/09	2009/10	2010/11	Percentage Change	
		[A]	[B]	[C]	[C/A]	[C/B]
ICS	Hydro Power	3,277,138	3,418,610	4,922,069	50.2	44.0
	Thermal Power	380,416	418,170	13,716	-96.4	-96.7
	Geothermal	6,581	23,522	19,267	192.8	-18.1
	Sub Total	3,664,134	3,860,302	4,955,052	35.2	28.4
SCS	Hydro Power	7,928	20,113	9,351	17.9	-53.5
	Thermal Power	30,542	24,960	16,094	-47.3	-35.5
	Geothermal					
	Sub Total	38,470	45,073	25,445	-33.9	-43.5
Total	Hydro Power	3,285,066	3,438,723	4,931,420	50.1	43.4
	Thermal Power	410,958	443,130	29,810	-92.7	-93.3
	Geothermal	6,581	23,522	19,267	192.8	-18.1
Grand Total		3,702,604	3,905,375	4,980,497	34.5	27.5

Source: EEPCo

2.2 Volume and Value of Petroleum

Imports

Ethiopia's second commercial energy resource is oil. During the year under review a total of 1902.23 million metric tons of petroleum products worth Birr 26.75 billion were imported by the Ethiopian Petroleum Enterprise (EPE). Although the import volume dropped by about 23 percent, import value recorded a 60 percent over the previous years presumably due to the devaluation of the Ethiopian Birr against the USD and the

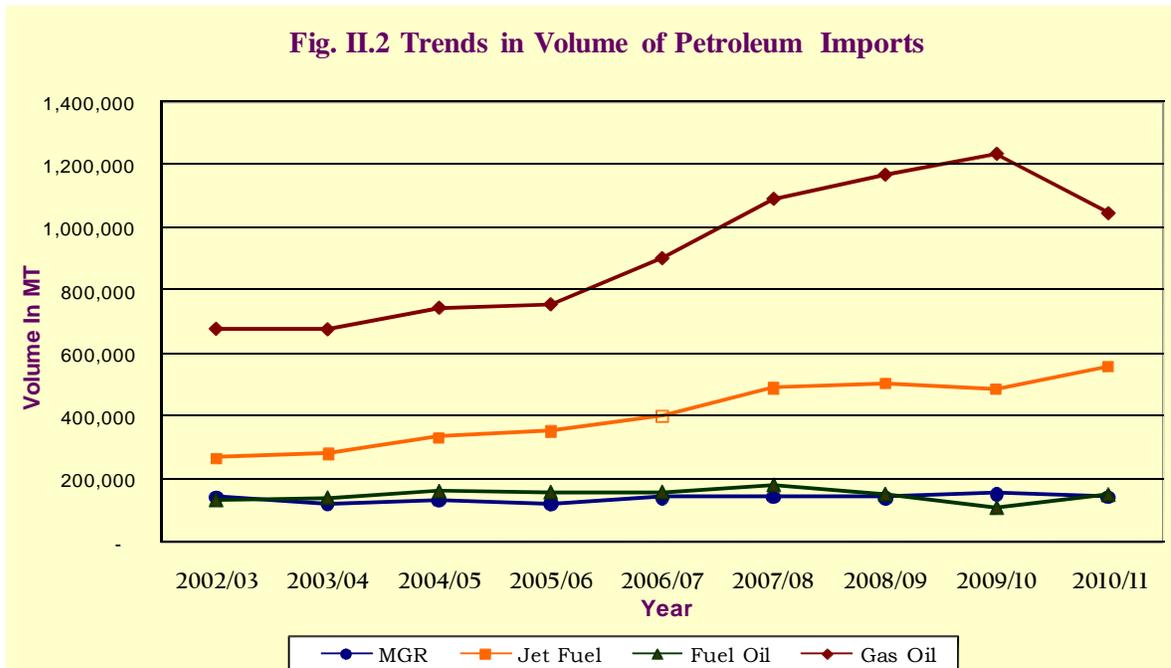
increase of petroleum price in the world commodity market.

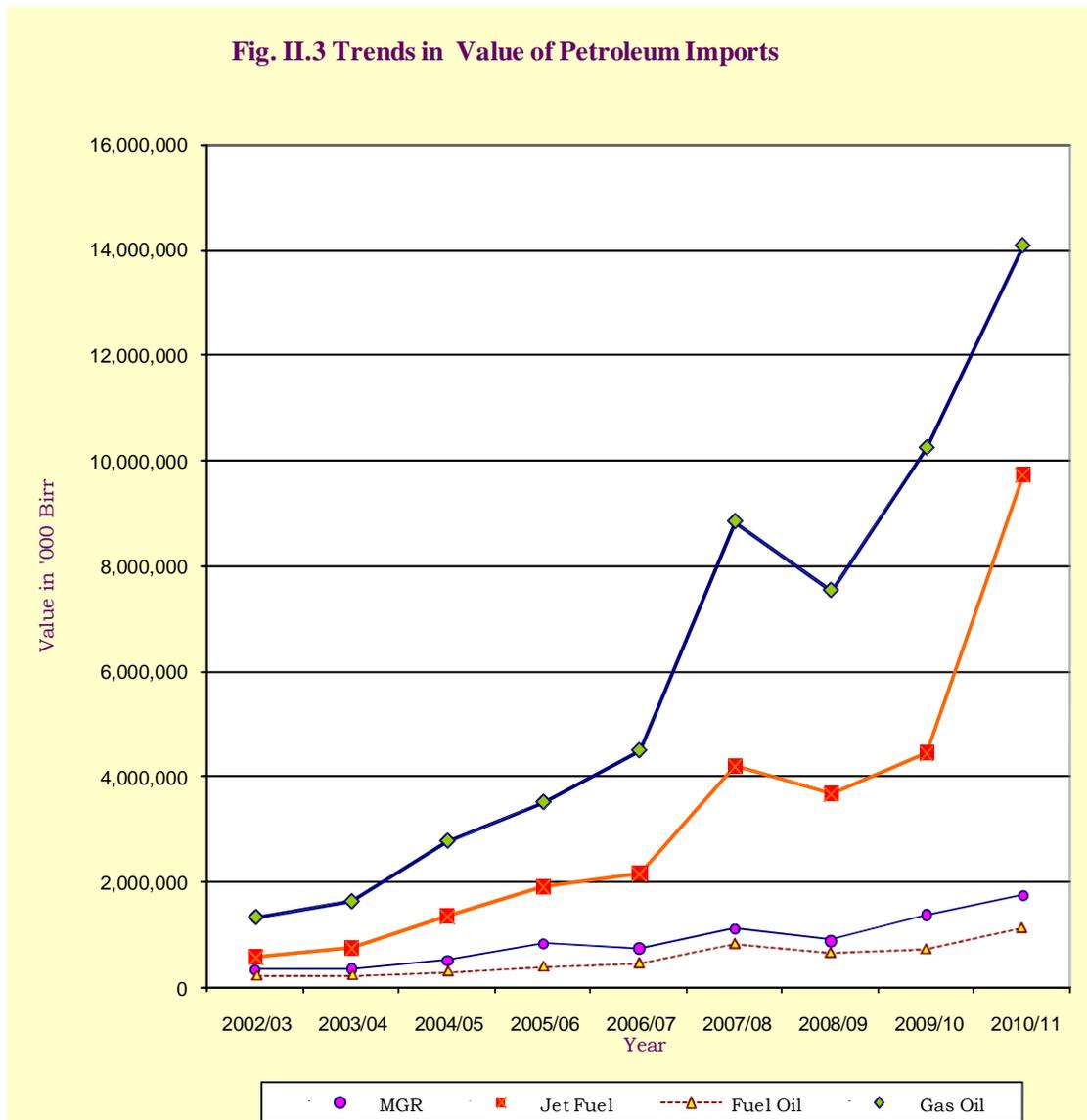
Component wise, except fuel oil, the volume of all other petroleum products imported tended to decline. On the other hand, the value of all petroleum products exhibited 59 percent price surges on average.

Table 2.2: Volume and Value of Petroleum Imports

(Volume in MT and Value in '000 Birr)

Products	2009/10		2010/11		Percentage Change	
	Volume	Value	Volume	Value	[C/A]	[D/B]
	[A]	[B]	[C]	[D]		
Regular Gasoline (MGR)	194,066	1,375,397	143,878.8	1,743,315	-25.9	26.7
Jet Fuel	610,846	4,451,842	559,522.5	9,738,630	-8.4	118.8
Fuel Oil	123,621	744,190	150,968	1,171,276.2	22.1	57.4
Gas Oil (ADO)	1,568,443	10,254,924	1,047,862	14,096,853	-33.2	37.5
Total	2,496,977	16,826,353	1,902,232	26,750,074	-23.8	59.0

Source: *Ethiopian Petroleum Enterprise*Source: *Ethiopian Petroleum Enterprise*



Source: EPE

Generally, domestic retail prices of petroleum products are adjusted monthly in line with the movements of oil prices in the world market. As a result, the average domestic prices of all petroleum products increased over the previous fiscal year. Specifically, in Addis Ababa,

the average retail prices of petroleum products grew by 37 percent. Component wise, MGR, Fuel oil, Gas oil and kerosene surged by about 38 percent, 31 percent, 41 percent and 37 percent, respectively.

**Table2.3 :- Annual Retail Prices of Petroleum Products in Addis Ababa
(Birr / liter)**

YEAR	Quarter	MGR	Fuel Oil	Gas Oil	Kerosene
2007/08	Qtr.1	7.80	4.10	5.40	4.10
	Qtr.2	7.80	4.10	5.40	4.10
	Qtr.3	9.60	5.90	6.90	5.70
	Qtr.4	9.60	5.90	6.90	5.70
	Average	8.70	5.00	6.20	4.90
2008/09	Qtr.1	9.61	5.89	6.90	5.72
	Qtr.2	9.61	7.40	9.40	7.50
	Qtr.3	8.14	5.90	7.81	6.00
	Qtr.4	8.20	5.80	7.30	5.70
	Average	8.89	6.25	7.85	6.23
2009/10	Qtr.1	9.67	8.10	8.45	7.46
	Qtr.2	12.33	9.53	10.15	8.88
	Qtr.3	12.99	9.88	10.53	9.29
	Qtr.4	13.10	9.87	10.72	9.50
	Average	12.02	9.34	9.96	8.78
2010/11	Qtr.1	13.14	10.08	10.98	9.75
	Qtr.2	15.10	11.64	12.87	11.43
	Qtr.3	17.14	12.98	14.75	12.92
	Qtr.4	20.94	14.09	17.73	14.05
	Average	16.58	12.20	14.08	12.04

Source:EthiopianPetroleumEnterprise

III. PRICE DEVELOPMENTS

3.1. Developments in Consumer Price at National Level

Annual average general inflation at the close of the fiscal year 2010/11 was 18.1 percent, 15.3 percentage point higher than the preceding year level. This was predominantly due to the hike in the prices of food items that contributes the lion's share of 14.1 percentage point of the total annual change in headline inflation while non-food items made up the remaining 1.2 percentage point (Table 3.1).

Annualized food inflation, scaled up to 15.7 percent from -5.4 percent in June 2010 registering notable rise of 21.1 percentage point on account of a significant surge in the prices of cereals (which accounts roughly for about 39.5 percent of food CPI,) coffee, potatoes, oil

and fats, milk & cheese, bread and prepared food among others.

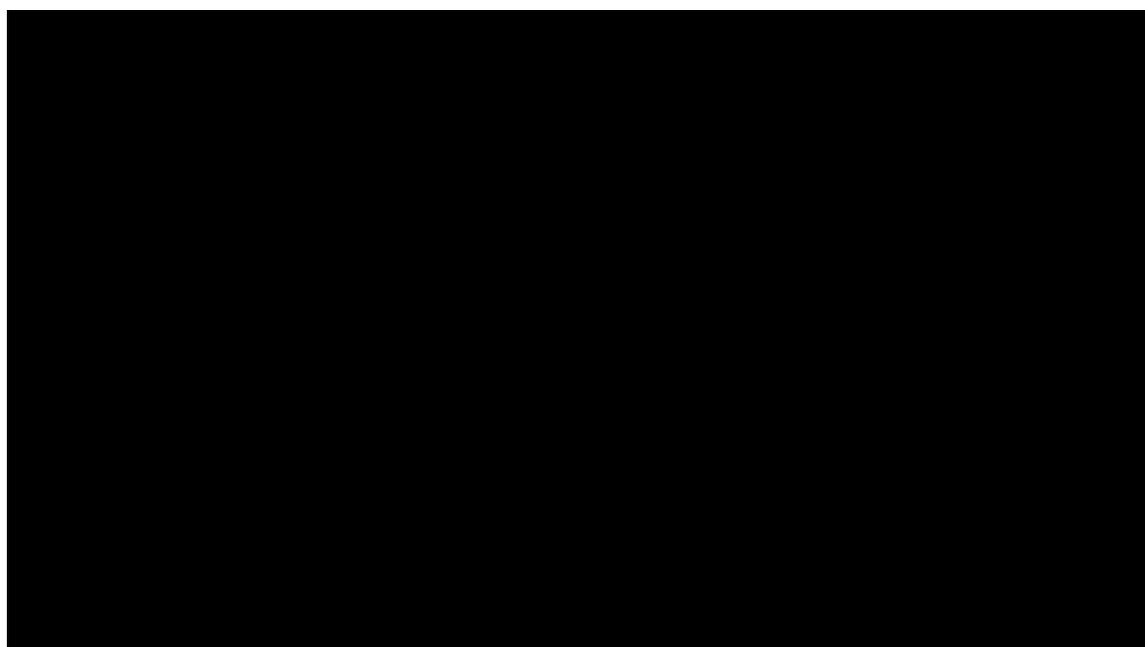
Likewise, annual average core inflation slightly increased to 21.8 percent from 18.2 percent at the end of last fiscal year (Table 3.1 and Fig. 3.1) as a result of higher prices of all non-food items.

Year-on-year, headline inflation surged to 38.1 percent from 7.3 percent a year ago (Fig 3.2) as both food and non-food price inflation registered 45.0 and 8.1 percentage points increase, respectively. Annual food inflation, which was just 0.0 percent in June 2010, increased to 45.0 percent in June 2011 while core inflation picked up to 27.9 percent from 19.7 over the same period.

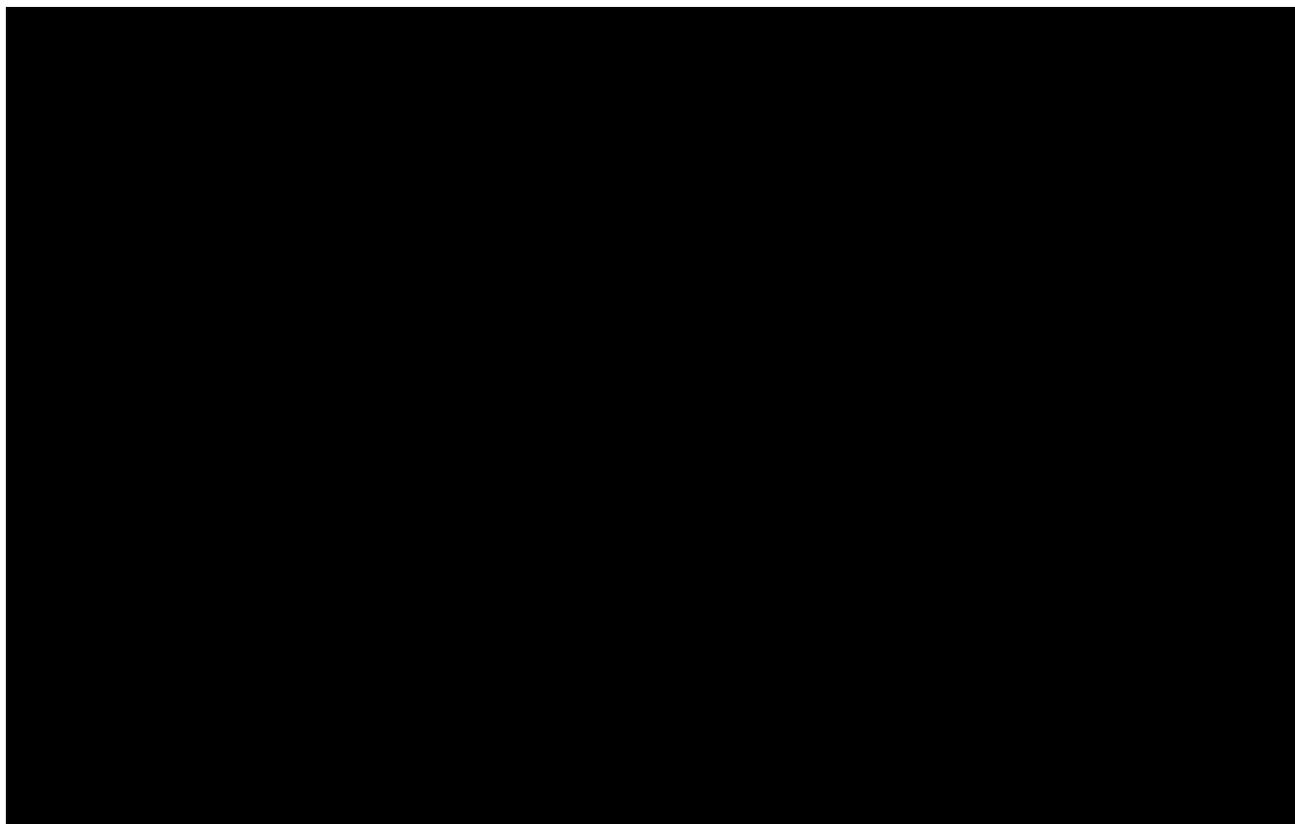
Table 3.1: Annual Average Inflation Rates (in percent)

Consumption Items	2009/10	2010/11	Change (in Percentage Points)	Contribution to Change in Headline Inflation (in Percentage Points)
	A	B	B-A	C
General	2.8	18.1	15.3	15.3
Food	-5.4	15.7	21.1	14.1
Non-Food	18.2	21.8	3.6	1.2

Source: CSA and NBE Staff Computation



Source: CSA and NBE Staff Computation



Source: CSA and NBE Staff Computation

3.2 Consumer Price Developments in

Regional States

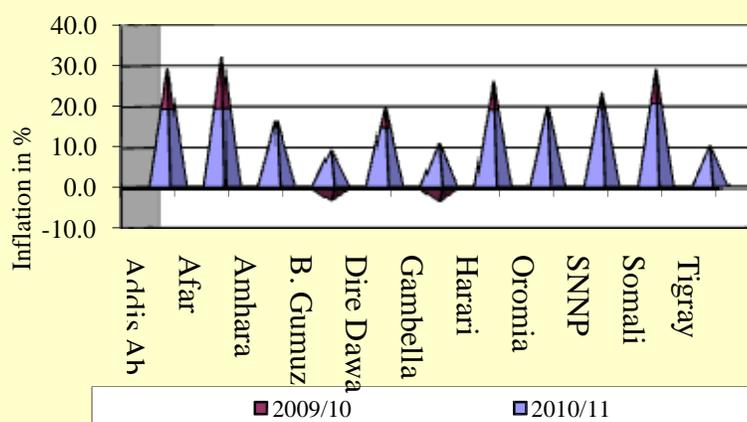
At the end of 2010/11, regional simple average headline inflation jumped to 16.3 percent from 4.0 percent a year earlier. Addis Ababa, Amhara, Harari, Oromia, SNNP and Somali regional states registered headline inflation rates above the regional simple average (Table 3.2). The highest surge in headline

inflation (18.2 percentage point) was recorded in Oromia and the lowest (6.9 percentage point) in Afar.

Table 3.2: Regional Average Annual Inflation (2010/11 FY)

Regions	2009/10			2010/11			Change		
	General	Food	Non Food	General	Food	Non Food	General	Food	Non Food
	A	B	C	D	E	F	G=D-A	H=E-B	I=F-C
Addis Ababa	10.1	4.1	16.0	19.4	14.8	23.5	9.3	10.7	7.5
Afar	12.7	7.5	22.4	19.6	14.9	27.1	6.9	7.4	4.7
Amhara	0.7	-6.9	20.0	15.9	11.8	24.0	15.2	18.7	4
B.Gumuz	-2.9	-11.7	14.5	9.5	4.0	17.9	12.4	15.7	3.4
D.Dawa	5.5	1.0	12.2	14.7	13.2	16.6	9.2	12.2	4.4
Gambella	-3.2	-9.4	8.2	11.3	8.3	16.1	14.5	17.7	7.9
Harari	6.8	2.5	12.9	19.3	20.5	17.8	12.5	18	4.9
Oromia	1.1	-7.0	17.3	19.3	18.4	22.0	18.2	25.4	4.7
SNNP	4.0	-4.7	18.9	19.7	18.8	19.1	15.7	23.5	0.2
Somali	8.3	3.7	19.6	20.9	21.5	19.6	12.6	17.8	0.0
Tigray	1.0	-7.5	18.9	9.7	5.3	16.9	8.7	12.8	-2.0
<i>Mean</i>	4.0	-2.6	16.4	16.3	13.8	20.1	12.3	16.4	3.6
Standard dev.	5.2	6.5	4.2	4.3	6.0	3.6	3.5	5.4	3.1
Coeff. of Var.	1.3	-2.5	0.3	0.3	0.4	0.2	0.3	0.3	0.9

Source: CSA and NBE Staff Computation

Fig.III.3: Regional Annual Average Headline Inflation

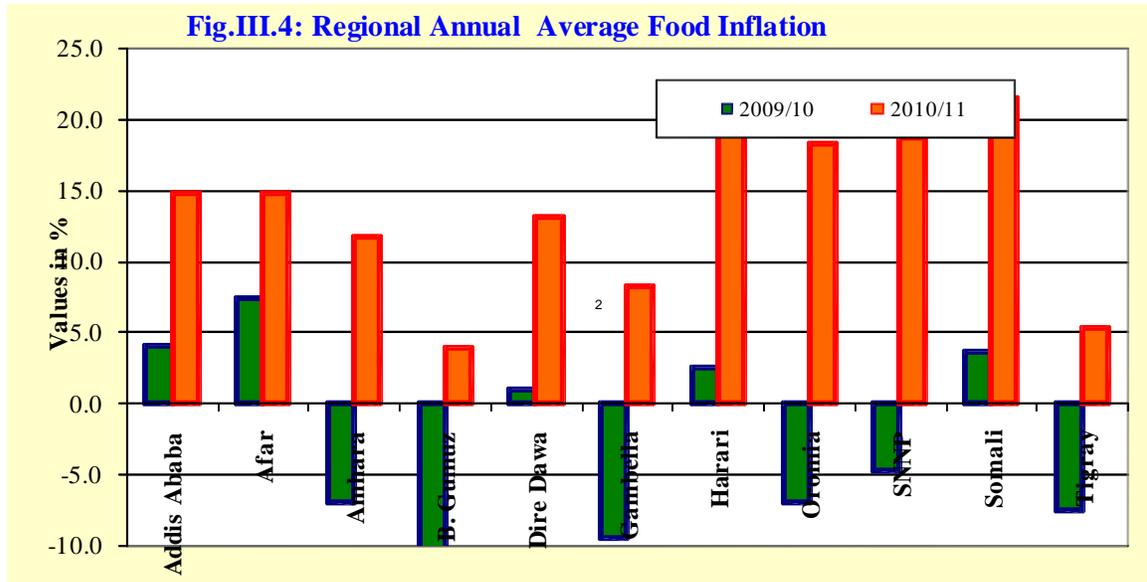
Source: CSA and NBE Staff Computation

The regional simple average food inflation was 13.8 percent at the end of June 2011 with Addis Ababa, Afar, Oromia, Harari,

SNNP and Somali regions experiencing higher food price inflation than the regional simple average (Table 3.2).

The highest increase in food inflation was registered in Oromia (25.4 percentage points) and the lowest in Afar (7.4 percentage points). Over the two-year period (2009/10 to 2010/11), food price

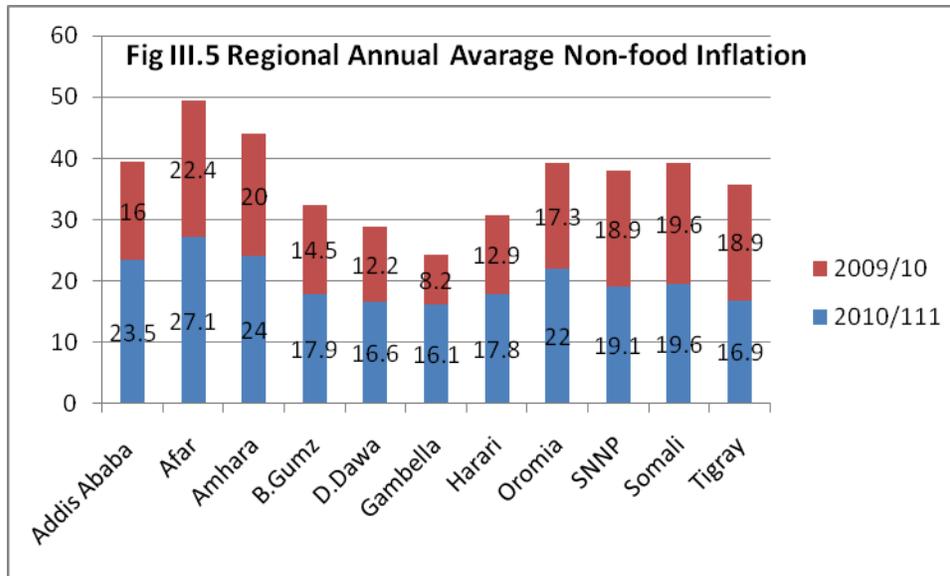
instability was high in Gambella, Benishangul Gumz, Amhara, Oromia and Tigray states but relatively low in Dire Dawa, Afar, and Addis Ababa.



Source: CSA and NBE Staff Computation

During 2010/11, simple average regional non-food inflation stood at 20.1 percent (Table 3.2). Addis Ababa, Afar, Amhara, and Oromia regions recorded non-food inflation higher than the regional simple

average. Compared to 2009/10, all regional states, except Tigray, exhibited a surge in non-food inflation.



Source: CSA and NBE Staff Computation

The highest rise in non-food inflation was recorded in Gambella (7.9 percentage points), and the lowest (-2.0 percentage points) in Tigray.

Regarding convergence as measured by the change in coefficient of variation¹ in regional rates of inflation between 2009/10 and 2010/11, no significant change was observed apparently due to the growing regional market integration as transportation and communication improved. In general, inflation soared largely due to increasing food and oil prices in the international market.

¹Coefficient of variation is the ratio of standard deviation to mean.

IV. MONETARY AND FINANCIAL DEVELOPMENTS

4.1 Monetary Developments and Policy

During the year under review, Ethiopia's monetary policy was geared towards containing inflationary pressure. Accordingly the National Bank of Ethiopia has been closely monitoring monetary development so as to arrest the speed of inflation and inflation expectation.

However, annual average head line inflation at the end of the fiscal year reached 18.1 percent from 2.8 percent last year due the surge in international commodity prices and marginal increase in base money.

4.1.1 Developments in Monetary

Aggregates

As at end 2010/11, domestic liquidity as measured by broad money supply (M2) reached Birr 145.4 billion reflecting 39.2 percent growth over last year, largely due to 104.2 percent surge in net foreign assets and 29.8 percent growth in domestic credit. Domestic credit to the non-government sector rose by 49.9 percent while credit to central government slowed down by 13.3 percent.

34.5 percent rise in currency outside banks and 54.4 percent surge in demand deposits reflecting the growth in economic activities and improvements in transactions demand for money. Similarly, quasi-money that comprises savings and time deposits went up by 33.1 percent and reached Birr 62.9 billion, owing to improved financial intermediation by banks through opening up of 289 new branches.

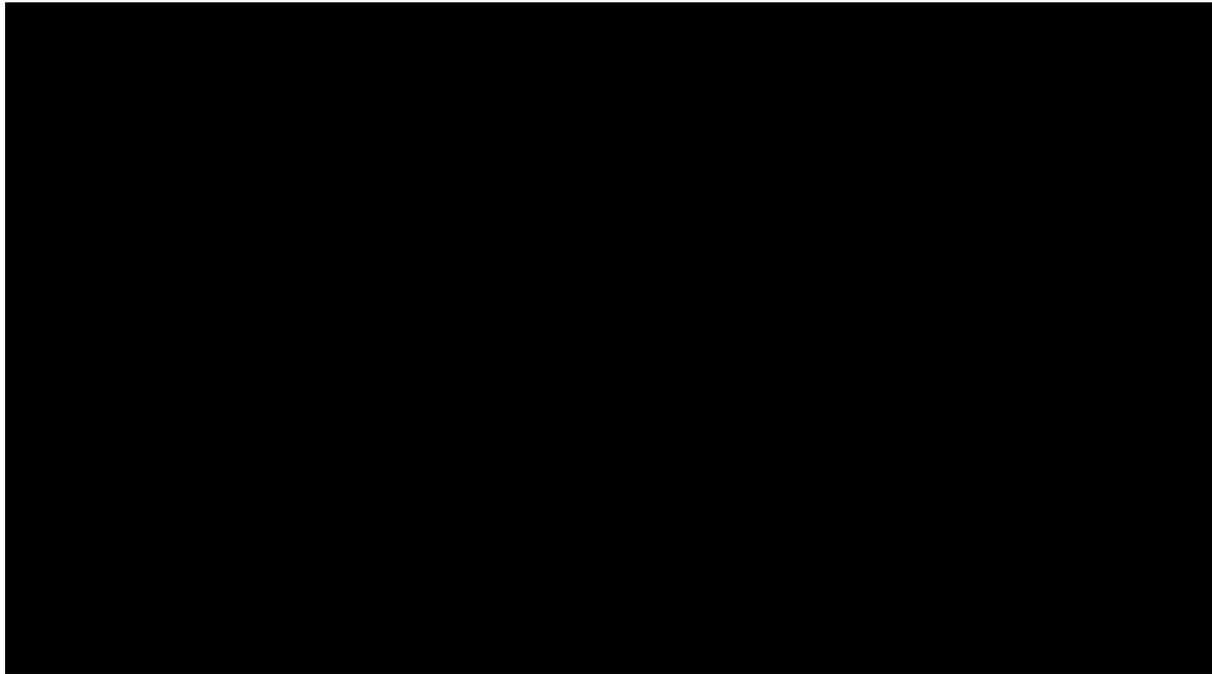
In terms of components of broad money, narrow money rose by 45.3 percent due to

Table 4.1: Components of Broad Money

(In Million of Birr)

Particulars	Year Ended June 30				Annual Percentage Change		
	2007/08	2008/09	2009/10	2010/11	2008/09	2009/10	2010/11
Narrow Money Supply	35,350.4	42,112.7	52,434.6	76,171.0	19.1	24.5	45.3
. Currency Outside Banks	17,654.1	19,715.0	24,206.8	32,574.9	11.7	22.8	34.6
. Demand Deposits (net)	17,696.3	22,397.6	28,227.8	43,596.1	26.6	26.0	54.4
Quasi-Money	32,831.8	40,397.1	51,997.8	69,206.0	23.0	28.7	33.1
. Savings Deposits	29,477.6	37,148.7	48,041.6	64,539.6	26.0	29.3	34.3
. Time Deposits	3,354.1	3,248.4	3,956.2	4,666.4	-3.2	21.8	18.0
Broad Money Supply	68,182.1	82,509.8	104,432.4	145,377.0	21.0	26.6	39.2

Source: NBE



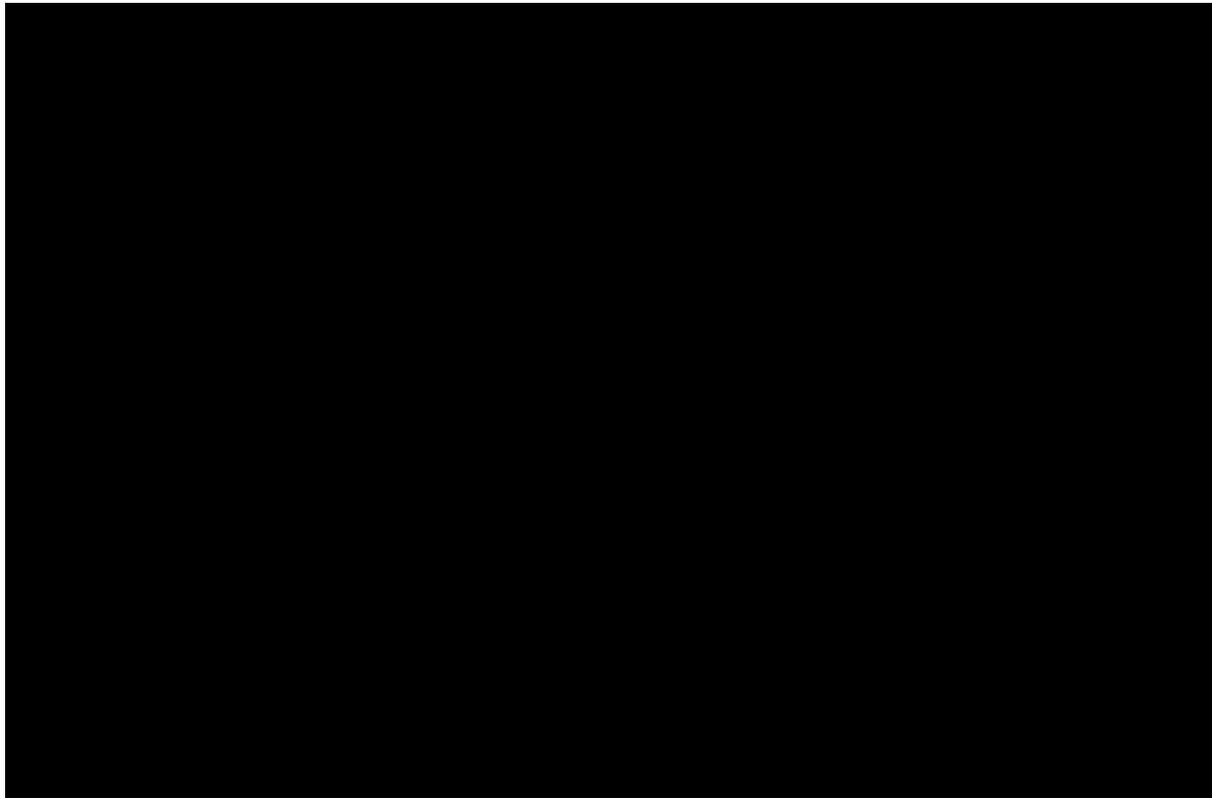
Source: NBE

Table 4.2: Factors Influencing Broad Money

In Millions of Birr)

Particulars	Year Ended June 30				Percentage Change			
	2007/08	2008/09	2009/10	2010/11	2007/08	2008/09	2009/10	2010/11
External Assets (net)	11,665.6	17,976.8	27,189.8	55,534.7	-12.6	54.1	51.2	104.2
Domestic Credit	79,969.3	89,203.0	104,413.5	135,553.9	29.3	11.5	17.1	29.8
. Claims on Central Gov't (net)	33,075.7	32,786.5	33,013.1	28,651.7	9.0	-0.9	0.7	-13.2
. Claims on Non-Central Gov't	46,893.6	56,416.5	71,400.4	106,902.2	48.8	20.3	26.6	49.7
Other Items (net)	23,452.7	24,670.1	27,170.9	45,711.6	26.5	5.2	10.1	68.2
Broad Money (M2)	68,182.1	82,509.8	104,432.4	145,377.0	20.4	21.0	26.6	39.2

Source: NBE



Source: NBE

4.1.2. Developments in Reserve Money and Monetary Ratios

During the year under review, reserve money or base money rose by 39.7 percent over last year due to the 35.8 percent increase in currency in circulation and 45.2 percent growth in bank deposits. The growth in reserve money was attributed to the surge in net foreign assets and net domestic credit. Excess reserves of commercial banks increased to Birr 7.3 billion from Birr 6.3 billion last year reflecting the increased deposit mobilization capabilities of banks as a result of strong

branch expansion. Deposit liabilities of banks surged by 42.5 percent during the review period.

The ratio of M2/GDP, an indicator of financial deepening, went up merely by 6.7 percent to 29.1 percent in 2010/11, partly indicating the tight monetary policy measures taken to mitigate the inflationary pressures. Money multiplier defined as narrow money to reserve money and broad money to reserve money remained the same at 1.1 and 2.1 percent, respectively.

Table 4.3: Reserve Money and Monetary Ratios

(In Millions of Birr)

Particulars	Year Ended June 30				Percentage Change			
	2007/08	2008/09	2009/10	2010/11			2009/10	2010/11
Reserve Requirement (CB's)	9,112.9	11,183.3	14,368.0	20,495.2	251.5	22.7	28.5	42.6
Actual Reserve (CB's)	15,233.0	19,569.4	20,620.9	27,757.3	29.8	28.5	5.4	34.6
Excess Reserve (CB's)	6,120.1	8,386.0	6,252.9	7,262.1	-33.1	37.0	-25.4	16.1
Reserve Money	35,551.1	45,107.0	49,424.5	69,043.1	30.2	26.9	9.6	39.7
. Currency in Circulation	20,216.4	23,836.4	28,802.9	39,100.6	33.2	17.9	20.8	35.8
. Bank Deposits	15,334.7	21,270.7	20,621.5	29,942.5	26.3	38.7	-3.1	45.2
Money Multiplier (Ratio):								
. Narrow Money to Reserve Money	1.0	0.9	1.1	1.1	-8.3	-6.1	13.6	4.0
. Broad Money to Reserve Money	1.9	1.8	2.1	2.1	-7.5	-4.6	15.5	-0.3
Other Monetary Ratios (%):								
. Currency to Narrow Money	49.9	46.8	46.2	42.8	7.9	-6.3	-1.4	-7.4
. Currency to Broad Money	25.9	23.9	23.2	22.4	7.0	-7.7	-3.0	-3.3
. Narrow Money to Broad Money	51.8	51.0	50.2	52.4	-0.8	-1.6	-1.6	4.4
. Quasi Money to Broad Money	48.2	49.0	49.8	47.6	0.9	1.7	1.7	-4.4
M2/GDP Ratio*	27.5	24.6	27.2	29.1	-16.6	-10.4	10.7	6.7

Source: NBE)

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



Source: NBE

4.2. Developments in Interest Rate

Following the policy adjustment in minimum deposit interest rate on December 1, 2010 all commercial banks changed their lending rates. Accordingly, the minimum deposit interest rate on saving deposits increased to 5.04 percent per annum from 4 percent last year. With, the maximum deposit rate reaching 5.75 percent, the average interest rate on savings deposit rate rose to 5.4 percent from 4.5 percent in the preceding year. Similarly the weighted annual average interest rate on time deposit

increased to 5.49 percent from 4.79 percent of last year. Average lending rate witnessed a decline from 12.25 percent to 11.88 percent due to lowering of minimum lending rate from 8 to 7 percent and maximum lending rate from 16.50 to 16.25 percent.

Yet, all rates, including yield on T-Bills remained negative in real terms with annual average headline inflation hovering around 18.1 percent during the review fiscal year.

Table 4.4: Interest Rate Structure of Commercial Banks

(In % per annum)

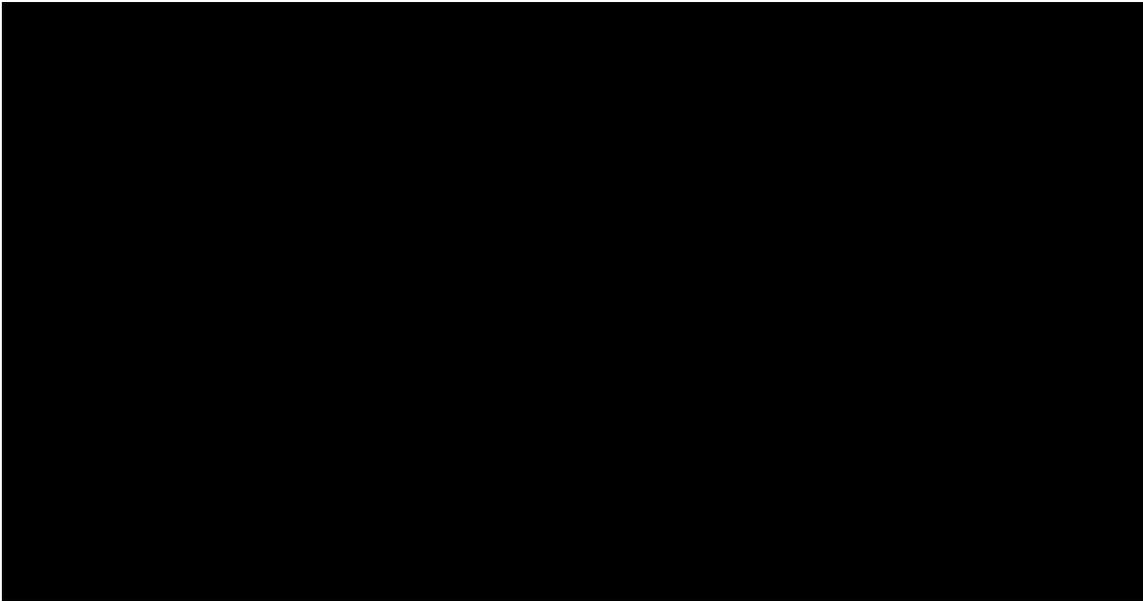
Rates	2001/02	2002/03	2003/04	2005/06	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Deposit Rate										
Savings Deposit										
Minimum	3.00	3.00	3.00	3.00	3.00	3.00	4.00	4.00	4.00	5.04
Maximum	3.15	3.15	3.15	3.15	3.15	3.15	4.15	5.00	5.00	5.75
Average*	3.08	3.08	3.08	3.08	3.08	3.08	4.08	4.50	4.50	5.40
Time deposit										
Up to 1 year	3.30	3.35	3.40	3.60	3.60	3.64	4.67	4.12	4.56	5.37
1 -2 years	3.51	3.62	3.64	4.01	4.01	4.11	5.23	4.48	4.80	5.51
Over 2 years	3.57	3.82	3.84	4.30	4.30	4.49	5.59	4.73	5.01	5.60
Average*	3.46	3.60	3.62	3.97	3.97	4.08	5.16	4.44	4.79	5.49
Demand Deposit (Average*)	0.04	0.04	0.05	0.06	0.06	0.06	0.04	0.06	0.06	0.06
Lending Rate										
Minimum	7.50	7.00	7.00	7.00	7.00	7.00	8.00	8.00	8.00	7.50
Maximum	14.00	14.00	14.00	14.00	14.00	14.00	15.00	16.50	16.50	16.25
Average*	10.75	10.50	10.50	10.50	10.50	10.50	11.50	12.25	12.25	11.88
Real Rate of Interest										
Deposit 1/	13.65	-14.70	0.70	-7.73	-7.73	-12.03	-51.13	1.80	1.70	-12.70
Deposit 2/	2.79	1.98	0.48	-7.93	-7.93	-7.83	-19.13	-10.50	-13.70	-16.40
Lending/1	21.32	-7.27	8.12	-0.30	-0.30	-4.60	-43.70	9.55	13.70	-6.23
T-bills (Nominal)	1.98	1.31	1.05	0.04	0.04	0.50	0.67	0.80	0.89	1.31

Source: NBE

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

2/ Real saving deposit interest rates computed based on average 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

4.3 Developments in Financial Sector

The major financial institutions operating in Ethiopia are banks, insurance companies and micro-finance institutions. The number of banks operating in the country during the fiscal year reached 17 following the establishment of two new banks. In terms of ownership, fourteen were private commercial banks and the remaining three state-owned.

During the fiscal year, 289 new bank branches were opened raising the total branch network in the country to 970 from 681 last year. As a result, the bank to people

ratio declined from 117,474² people to 82,474 in 2010/11.

The significant branch expansion was undertaken by CBE (208), followed by Bank of Abyssinia (10 branches), Oromia International Bank (9 branches), with Awash International Bank, United Bank and Lion International Bank opening 8 branches each. Due to the aggressive branch expansion by CBE, the share of private banks branch network went down to 49 percent at the end of 2010/11 from 60 percent last year.

² Taking total population 80 million

The number of bank branches in Addis Ababa, the capital and major business center of the country, increased by 13.9 percent from last year, indicating booming economic activities in the city.

Following significant capital injection by private banks mainly Awash International Bank (Birr 383 million), Wegagen Bank (Birr 265 million), Nib International Bank (Birr 260 million), United bank (Birr 242 million) and Dashen bank (Birr 185 million), the total capital of the banking industry increased by 23.3 percent and reached Birr 15.9 billion by the end of June 2011. As a result, the share of private banks in the total capital rose to 43.6 percent from 40.2 percent last year.

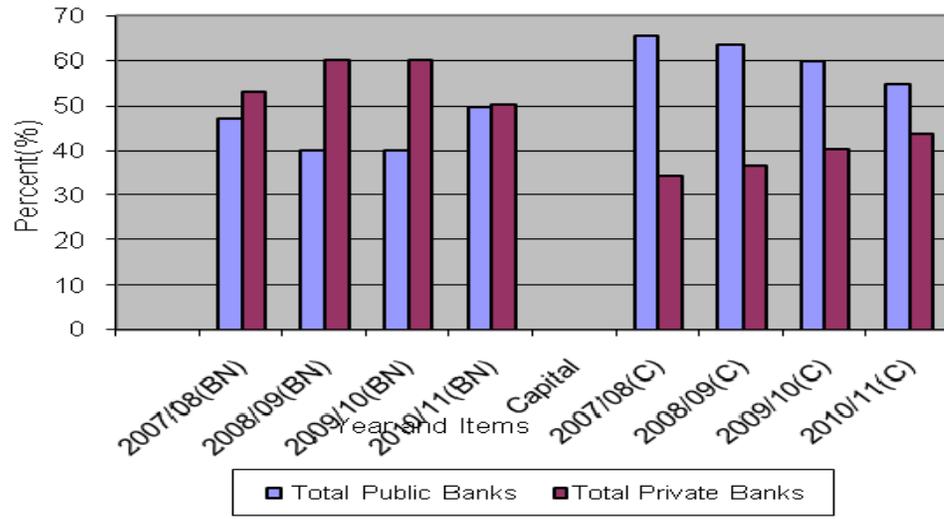
In the meantime, the number of insurance companies increased to 14 from last year level of 12. The number of branches reached

221 following the opening of 11 additional branches. Major expansions of branches were undertaken by Awash Insurance, Oromia Insurance, Ethiopian Insurance and Nib insurance.

Of the total insurance branches, 50.7 percent were concentrated in Addis Ababa. Private insurance companies owned 81.4 percent of the total branches.

On the other hand, the total capital of insurance companies declined by 0.7 percent from Birr 962.4 million to Birr 955.7 million. Private insurance companies accounted for 69.5 percent of the total capital, while the remaining share was taken up by the single public owned enterprise, the Ethiopian Insurance Corporation.

Fig IV.5: Capital and Branch Network of Banking System(2007/08-2010/11)



Source: Commercial Banks

Table 4.5. A: Capital and Branch Network of the Banking System at the Close of June 30, 2011

(Branch in Number and Capital in Million Birr)

Banks	Branch Network								Capital			
	2009/10				2010/11				2009/10		2010/11	
	Addis Ababa	Regions	Total	% Share	Regions	Addis Ababa	Total	% Share	Total Capital	% Share	Total Capital	% Share
1. Public Banks												
• Commercial Bank of Ethiopia	49	160	209	30.7	323	94	417	43.0	5,532.0	42.8	6,262.0	39.3
• Construction & Business Bank	15	17	32	4.7	17	17	34	3.5	229.0	1.8	277.0	1.7
• Development Bank of Ethiopia	1	31	32	4.7	31	1	32	3.3	1,969.0	15.2	2,179.0	13.7
Total Public Banks	65	208	273	40.1	371	112	483	49.8	7,730.0	59.8	8,718.0	54.7
2. Private Banks												
• Awash International Bank	31	31	62	9.1	36	34	70	7.2	721.0	5.6	1,104.0	6.9
• Dashen Bank	30	29	59	8.7	31	34	65	6.7	967.0	7.5	1,152.0	7.2
• Abyssinia Bank	25	22	47	6.9	25	32	57	5.9	482.0	3.7	532.0	3.3
• Wegagen Bank	23	27	50	7.3	29	24	53	5.5	828.0	6.4	1,093.0	6.9
• United Bank	27	15	42	6.2	18	32	50	5.2	506.0	3.9	748.0	4.7
• Nib International Bank	31	17	48	7.0	19	32	51	5.3	723.0	5.6	983.0	6.2
• Cooperative Bank of Oromiya	5	32	37	5.4	38	5	43	4.4	169.0	1.3	207.0	1.3
• Lion International Bank	11	11	22	3.2	17	13	30	3.1	201.0	1.6	318.0	2.0
• Oromia International Bank	6	21	27	4.0	25	11	36	3.7	208.0	1.6	265.0	1.7
• Zemen Bank	3	0	3	0.4	0	3	3	0.3	121.0	0.9	193.0	1.2
• Buna International Bank	3	0	3	0.4	2	9	11	1.1	169.0	1.3	220.0	1.4
• Berhan International Bank	5	3	8	1.2	3	7	10	1.0	108.0	0.8	138.0	0.9
• Abay Bank	0	0	0	0.0	7	1	8	0.8	-	-	161.0	1.0
• Addis International Bank	0	0	0	0.0	n/a	n/a	-	-	-	-	117.0	0.7
Total Private Banks	200	208	408	59.9	250.0	237.0	487	50.2	5,203.0	40.2	7,231.0	43.6
3. Grand Total Banks	265	416	681	100	621	349	970	100.0	12,933.0	100.0	15,949.0	98.3

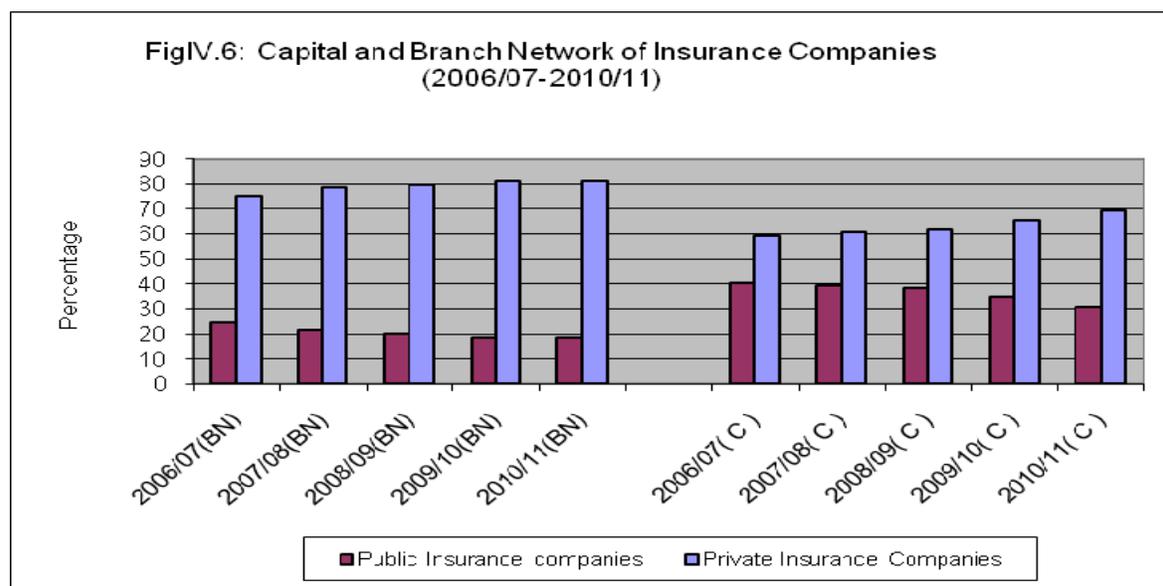
Source: Commercial Banks

Table.4.5. B: Branch Network & Capital of Insurance Companies at a close of June 2011.
(Branch in Number and Capital in Million Birr)

No.	Insurance Companies	Branch						Capital		
		2009/10			2010/11			2009/10	2010/11	% Change
		A.A	Regions	Total	A.A	Regions	Total	A	B	B/A
1	Ethiopian Ins. Cor.	11.0	28.0	39	11	30	41	333.9	291.0	-12.9
2	Awash Ins.Com.S.C.	15.0	11.0	26	18	11	29	93.7	89.0	-5.0
3	Africa Ins.Com S.C.	6.0	7.0	13	6	7	13	23.4	81.0	245.4
4	National Ins. Co. of Eth.	8.0	8.0	16	8	8	16	105.2	27.9	-73.4
5	United Ins.Com. S.C	15.0	7.0	22	15	8	23	20.4	88.0	331.3
6	Global Ins. Com.S.C	6.0	4.0	10	6	4	10	90.0	27.8	-69.1
7	Nile Ins.Com.S.C	11.0	9.0	20	11	10	21	77.9	100.3	28.7
8	Nyala Ins.Com.S.C	8.0	8.0	16	8	8	16	102.7	96.3	-6.2
9	Nib Ins. Com.S.C	12.0	8.0	20	14	8	22	77.0	87.4	13.4
10	Lion Ins. Com.S.C	6	5	11	6	5	11	13.2	17.3	31.1
11	Ethio-Life Ins.Com.S.c	-	-	-	0	0	-	4.4	4.9	11.8
12	Oromia Ins.Com.S.c	6	8	14	8	8	16	20.5	23.9	16.8
13	Abay Insurance Company S.C	1	2	3	1	2	3	-	11.4	-
14	Berhan insurance S.C	-	-	-	-	-	-	-	9.4	-
15	Total	105.0	105.0	210	112	109	221	962.4	955.7	-0.7

Source: Insurance Companies

Note: A.A=Addis Abeba



Source: Insurance Companies

By the end of 2010/11, the number of microfinance institutions (MFIs) operating in the country rose by 1 and reached 31. Their total capital increased by 24 percent to Birr 2.9 billion and their assets rose by 27.6 percent to Birr 10.2 billion mirroring their ever growing rose in the economy.

Deposit mobilization and credit provision of microfinance institutions have also witnessed a remarkable increment. Compared to last year, deposit mobilization went up by 42 percent and reached Birr 3.8 million. Their total credit to clients also rose by 20 percent to Birr about 7 billion indicating the expanding outreach of microfinance institutions.

Of the total MFIs, 14 (46.7 percent) were operating in Addis Abeba. The three largest MFIs, namely Amhara, Oromia and Dedebit Credit and Savings institutions accounted for 67.1 percent of the total capital, 81.4 percent of the savings, 74.0 percent of the credit and 76.2 percent of the total assets of MFIs by the end of 2010/11.

Table 4.6: Microfinance Institutions Performance as of June 2010 (In Thousands of Birr)

Micro-Financing Institutions	2008/09	2009/2010	2010/2011	% Change
	A	B	C	C/B*100
Total Capital	1,737,402.7	2,375,228.0	2,945,970.0	24
Saving	2,098,742.1	2,658,962.0	3,779,089.0	42
Credit	4,936,135.2	5,824,489.0	6,991,986.0	20
Total Assets	6,620,630.8	7,958,194.0	10,156,387.0	27.6

Source: Microfinance Institutions

4.3.1 Resource Mobilization

Total resource mobilization by the banking system in the form of net deposits, collection of loans and net

borrowings increased by 58.9 percent and reached Birr 76.5 billion at the end of 2010/2011.

Spurred by remarkable branch expansion, deposit liabilities of the banking system reached Birr 140.5 billion reflecting annual growth rate of 42.5 percent over last year. Component wise, demand deposits registered a 53.5 percent growth followed by savings deposits (34.3 percent), and time deposits (16.4 percent). Demand deposits accounted for 50.4 percent of the total deposits followed by saving deposits (46 percent) and time deposit (3.8 percent).

The surge in demand deposit over saving deposit indicates the relative increase in transaction demand for money. At the same time the growth in saving deposits reflected an increase in financial intermediation of banks.

Despite the arrival of two new private banks and opening of 61 new branches by private commercial banks, the share of private banks in deposit mobilization went down to 33.3 percent from 35.2 percent last year. CBE alone mobilized 58.3 percent of the total deposit due to its large branch network.

Raising funds through borrowing was not an important source of resource

mobilization. As a result, total outstanding borrowing at the end of the fiscal year was only Birr 9.6 billion. Of the total borrowing, domestic sources accounted for 89.5 percent, while foreign sources took the remaining balance.

On the other hand, loan collection by the banking system stood at Birr 30.6 billion up by 21.9 percent over last year. More than half of the loan collection (60.8 percent) was by the private banks.

Table 4.7: Annual Resource Mobilization & Disbursing Activities of Commercial Banks and DBE (Specialized Bank) at June 30, 2011 (In Million Birr)

Particulars	2008/09			2009/10			2010/11			Percent Change	
	Public Banks	Private Banks	Total (A)	Public Banks	Private Banks	Total (B)	Public Banks	Private Banks	Total (C)	C/A	C/B
1. Deposits (net change)											
Demand	7,524.9	7,670.8	15,195.7	11,863.0	8,618.4	20,481.4	30,423.2	11,475.2	41,898.4	175.7	104.6
Savings	4,482.9	3,042.3	7,525.2	6,813.9	2,067.9	8,881.8	19,721.7	4,971.7	24,693.4	228.1	178.0
Time	2,905.7	4,765.4	7,671.1	4,574.5	6,322.0	10,896.6	10,114.6	6,364.2	16,478.8	114.8	51.2
	136.3	(137.0)	(0.6)	474.5	228.5	703.0	586.9	139.3	726.2	(112,867.5)	3.3
2. Borrowing (net change)	366.2	-	366.2	2,597.5	-	2,597.5	4,041.7	-	4,041.7	1,003.7	55.6
Local	225.0	-	225.0	2,266.1	-	2,266.1	4,001.0	-	4,001.0	1,678.1	76.6
Foreign	141.2	-	141.2	331.4	-	331.4	40.8	-	40.8	(71.1)	(87.7)
3. Collection of Loans	10,368.8	11,596.7	21,965.5	10,168.0	14,898.8	25,066.8	11,987.8	18,560.4	30,548.2	39.1	21.9
4. Total Resources Mobilized (1+2+3)	18,260.0	19,267.5	37,527.4	24,628.4	23,517.2	48,145.6	46,452.7	30,035.6	76,488.4	103.8	58.9
5. Disbursement	12,782.3	12,694.7	25,477.0	13,939.3	14,965.8	28,905.1	21,955.8	20,252.0	42,207.9	65.7	46.0
6. Change in Liquidity (4-5)	5,477.7	6,572.8	12,050.5	10,689.2	8,551.4	19,240.5	24,496.9	9,783.6	34,280.5	184.5	78.2
Memorandum Item:											
7. Outstanding Credit*	33,912.8	17,720.8	51,633.5	39,384.7	22,896.0	62,280.7	50,743.5	26,947.0	77,690.5	50.5	24.7

Source: Commercial Banks & Staff Computation

* Includes coupon bonds issued by the government.

Table 4.8: Deposits and Borrowings of Commercial Banks and DBE at June 30, 2011
(in Million Birr)

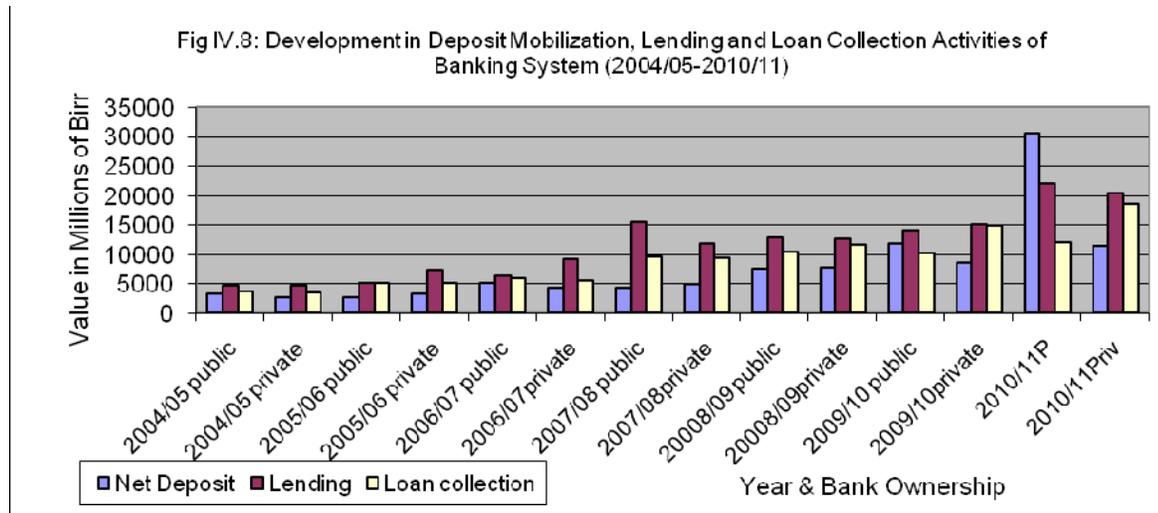
	2008/09 A	2009/10 B	2010/11 C	C/A	C/B
A. Deposits					
-Demand	37,267.3	46,149.0	70,842.4	90.1	53.5
-Savings	37,153.3	48,049.9	64,528.7	73.7	34.3
-Time	3,731.4	4,434.4	5,160.6	38.3	16.4
Total	78,152.0	98,633.3	140,531.8	79.8	42.5
B. Borrowings					
-Local	2,399.4	4,665.6	8,666.5	261.2	85.8
-Foreign	647.3	978.7	1,019.4	57.5	4.2
Total	3,046.7	5,644.2	9,686.0	217.9	71.6

Source: Commercial Banks & Staff Computation

4.3.2 New Lending Activities

Commercial banks including DBE disbursed Birr 42.2 billion to various economic sectors. Despite the tight monetary policy measures followed by the National Bank of Ethiopia, the fiscal year witnessed a 46 percent increase in fresh loan disbursements by banks, indicating the surge in deposit mobilization and loan collection. Of the total new loans disbursed 48 percent was provided by private banks, while the public banks took the remaining balance. The ratio of new loan disbursement to total deposit was 40.5 percent for private banks and 24.2 percent for public banks.

About 25 percent of the new loans went to finance international trade followed by industry (24.8 percent) and domestic trade (16 percent), while other sectors took the remaining share. The share of the new loan disbursement to the production sector (agriculture, industry and housing & construction) rose from 46 percent last year to 51.2 percent in the review year reflecting the shift in loan disbursement towards production sector in contrast to service sector.



Source: Commercial Banks and DBE

Table.4.9: Loans and Advances by Lenders at June 30, 2011 (In Million Birr)

Lenders	2009/10			2010/11			Percentage Change		
	D*	C*	O/S*	D*	C*	O/S*	D/A	E/B	F/C
	A	B	C	D	E	F			
A. Public Banks									
1. Commercial Bank of Ethiopia	10697.0	9116.5	22,859.0	17796.8	10156.7	34,217.7	66.4	11.4	49.7
2. Construction & Business Bank of Ethiopia	494.3	496.5	1,748.3	367.2	593.8	1,726.6	-25.7	19.6	-1.2
3. Development Bank of Ethiopia	2747.9	555.1	8,787.2	3791.8	1237.3	11,980.5	38.0	122.9	36.3
Sub-Total	13,939.3	10,168.0	33,394.6	21,955.8	11,987.8	47,924.8	57.5	17.9	43.5
B. Private Banks									
4. Awash International Bank	2955.7	3153.3	3163.6	4654.0	4257.3	3994.8	57.5	35.0	26.3
5. Dashen Bank	2231.8	2434.3	5033.1	2912.0	2748.1	6141.7	30.5	12.9	22.0
6. Bank of Abyssinia	2139.8	1884.6	3153.2	2497.9	2338.4	3315.9	16.7	24.1	5.2
7. Wegagen Bank	2189.4	2324.4	2473.9	2612.0	2640.7	2910.0	19.3	13.6	17.6
8. United Bank	2283.7	2153.6	2524.7	2557.1	2287.4	3277.0	12.0	6.2	29.8
9. Nib International Bank	1066.8	1325.0	2546.1	1645.0	1724.9	2766.5	54.2	30.2	8.7
10. Cooperative Bank of Oromia	572.4	635.4	721.9	660.2	703.6	799.5	15.3	10.7	10.7
11. Lion International Bank	355.0	313.7	583.5	472.9	514.8	677.0	33.2	64.1	16.0
12. Oromia International Bank	424.0	263.2	383.9	649.4	465.4	645.2	53.1	76.8	68.1
13. Zemen Bank	367.6	275.6	369.0	817.4	490.0	661.7	122.4	77.8	79.3
14. Berhan International Bank	155.5	108.3	153.2	312.4	192.0	330.0	100.9	77.3	115.4
15. Bunna International Bank	224.2	27.6	191.4	309.5	187.0	366.3	38.1	577.8	91.4
16. Abay Bank				152.3	10.8	161.0	0.0	0.0	0.0
Sub-Total	14,965.8	14,898.8	21,297.5	20,252.0	18,560.4	26,046.6	35.3	24.6	22.3
Grand Total	28,905.1	25,066.8	54,692.1	42,207.9	30,548.2	73,971.4	46.0	21.9	35.3

Source: Commercial Banks

O/S Credit excludes lending to central government

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

**Table 4.10: Percentage Share of Loans and Advances by Lenders at June 30, 2011
(In Million Birr)**

Lenders	2009/10			2010/11			Percentage change		
	D*	C*	O/S*	D*	C*	O/S*	D/A	E/B	F/C
	A	B	C	D	E	F			
A.Public Banks									
1.Commercial Bank of Ethiopia	37.0	36.4	41.8	42.2	33.2	46.3	13.9	-8.6	10.7
2.Development Bank of Ethiopia	9.5	2.2	16.1	0.9	1.9	2.3	-90.8	-12.2	-85.5
3. Construction & Business Bank of Ethiopia	1.7	2.0	3.2	9.0	4.1	16.2	425.4	104.5	406.7
Sub-Total	48.2	40.6	61.1	52.0	39.2	64.8	7.9	-3.3	6.1
B.Private Banks									
4 Awash International Bank	10.2	12.6	5.8	11.0	13.9	5.4	7.8	10.8	-6.6
5. Dashen Bank	7.7	9.7	9.2	6.9	9.0	8.3	-10.6	-7.4	-9.8
6. Bank of Abyssinia	7.4	7.5	5.8	5.9	7.7	4.5	-20.1	1.8	-22.3
7. Wegagen Bank	7.6	9.3	4.5	6.2	8.6	3.9	-18.3	-6.8	-13.0
8. United Bank	7.9	8.6	4.6	6.1	7.5	4.4	-23.3	-12.8	-4.0
9. Nib International Bank	3.7	5.3	4.7	3.9	5.6	3.7	5.6	6.8	-19.7
10. Cooperative Bank of Oromia	2.0	2.5	1.3	1.6	2.3	1.1	-21.0	-9.1	-18.1
11. Lion Interenational Bank	1.2	1.3	1.1	1.1	2.1	1.2	-8.8	64.1	16.0
12. Oromia International Bank	1.5	1.1	0.7	1.5	1.9	1.2	4.9	76.8	68.1
13. Zemen Bank	1.3	1.1	0.7	1.9	2.0	1.2	52.3	77.8	79.3
14.Berhan International Bank	0.5	0.4	0.3	0.7	0.8	0.6	-	-	-
15.Bunna International Bank	0.8	0.1	0.3	0.7	0.7	0.7	-	-	-
Sub-Total	50.5	58.9	38.3	47.6	60.5	35.0	-5.6	2.8	-8.6
Grand Total	98.7	99.5	99.4	99.6	99.8	99.8	1.0	0.3	0.4

Source: Commercial Banks

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

4.3.3 Outstanding Loans

Total Outstanding credit of the banking system, including the central government, increased by 24.7 percent and reached Birr 77.7 billion at end June 2011. Outstanding claims on the central government dropped by 51.1 percent while those on the private sector including cooperatives surged by 31 percent to Birr 60.3 billion.

Sectoral distribution of outstanding loans indicated that credit to trade sector (both domestic and international) accounted for 32.5 percent followed by industry (26.6 percent) and agriculture (13.6 percent).

Table 4.11: Loans & Advances by Economic Sectors¹

Economic Sectors	2009/10			2010/11			Percentage Change		
	D*	C*	O/S*	D*	C*	O/S*	D*	C*	O/S*
	A	B	C	D	E	F	D/A	E/B	F/C
Government Deficit Financing	0	0	7,600.1	0	0	3,719.1			(51.1)
Agriculture	4,437.1	3,619.6	6,819.6	8,248.0	5,114.4	10,575.3	85.9	41.3	55.1
Industry	4,958.2	2,213.3	12,234.9	10,465.2	3,556.5	20,650.5	111.1	60.7	68.8
Domestic Trade	5,169.4	5,550.2	6,210.0	6,733.5	6,148.3	7,261.1	30.3	10.8	16.9
International Trade	8,217.4	8,114.0	14,433.9	10,569.9	9,943.5	18,025.7	28.6	22.5	24.9
Export	5,279.5	4,472.5	5,137.3	5,921.4	6,078.5	7,222.8	12.2	35.9	40.6
Import	2,937.9	3,641.5	9,296.6	4,648.5	3,895.6	10,802.8	58.2	7.0	16.2
Hotels and Tourism	320.2	265.5	1,257.4	395.4	333.1	1,435.5	23.5	25.5	14.2
Transport and Communication	965.6	1,122.6	2,786.5	1,850.6	1,455.4	3,558.6	91.6	29.7	27.7
Housing and Construction	3,916.0	3,163.6	8,222.5	2,900.9	2,739.5	9,023.1	(25.9)	(13.4)	9.7
Mines, Power and Water resource	7.2	6.7	3.4	7.3	14.9	37.2	0.2	123.5	986.6
Others	343.5	727.7	2,233.8	711.9	729.0	3,076.6	107.3	0.2	37.7
Personal	272.3	134.7	229.2	311.7	359.4	315.0	14.5	166.8	37.4
Interbank Lending	298.25	148.9997	260.9	13.66	123.5853	12.9	(95.4)	(17.1)	(95.0)
Total	28,905.1	25,066.8	62,292.2	42,207.9	30,548.2	77,690.5	46.0	21.9	24.7

Source: Commercial Banks & Staff Computation

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

1/ includes lending to central government

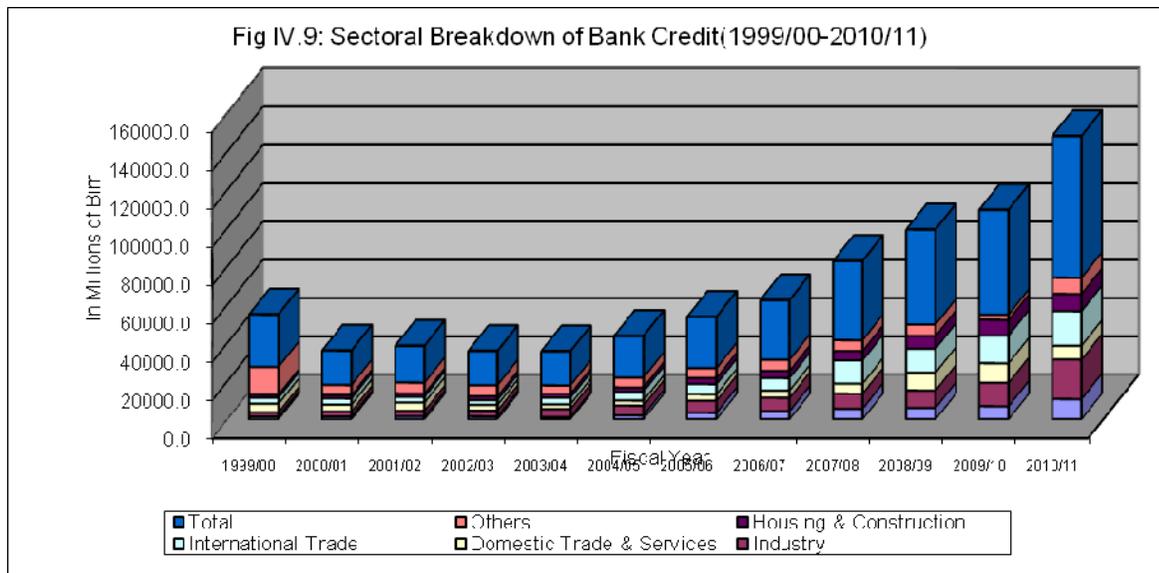


Table 4.12: Loans and Advances by Borrowers at June 30, 2011**(In Million Birr)**

Borrowing Sector	2007/08	2008/09	2009/10	2010/11			Percentage change	
	O/S*	O/S*	O/S*	D*	C*	O/S*	G/B	G/C
	A	B	C	E	F	G		
Central Government	6,902.0	5,628.8	7,600.1	0.0	0.0	3,719.1	-33.9	-51.1
Public Enterprises	8,732.6	8,170.8	8,442.7	6,102.6	1,611.0	13,687.9	67.5	62.1
Cooperatives	3,161.1	3,364.5	5,077.8	7,502.5	4,494.7	8,377.5	149.0	65.0
Private & Individuals	29,269.6	34,041.9	40,910.7	28,589.2	24,319.0	51,893.1	52.4	26.8
Inter-bank Lending	176.5	427.5	260.9	13.7	123.5	12.9	-97.0	-95.0
Total	48,241.8	51,633.5	62,292.2	42,207.9	30,548.2	77,690.5	50.5	24.7
<i>Total less Inter-bank Lending</i>	48,065.3	51,206.0	62,031.3	42,194.2	30,424.7	77,677.5	51.7	25.2

Source: Commercial Banks & Staff Computation

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

4.4. Financial Activities of NBE

By the end of 2010/11, outstanding claims of NBE on the central government went up by 20.3 percent to Birr 55.3 billion. This was attributed to a 27 percent rise in direct advances to Birr 46.3 billion. Direct advances to the government accounted for 83.6 percent of the total claims, while bond

holdings took the remaining 16.4 percent.

Total deposits at the NBE grew by 34.3 percent due to 30.7 percent rise in deposits of financial institutions and 46.2 percent in that of central government.

Table 4.14: Financial Activities of National Bank of Ethiopia at the Close of June 30, 2010

(in Million Birr)

Particulars	2008/09	2009/10	2010/11	% Change	
	A	B	C	C/A	C/B
Loans and Advances (1+2)	44,498.7	45,989.7	61,570.7	38.4	33.9
1. Claims on Central Gov't	44,498.7	45,989.7	55,320.7	24.3	20.3
1.1 Direct Advance	34,891.0	36,434.1	46,265.0	32.6	27.0
1.2 Bonds	9,607.7	9,555.6	9,055.7	-5.7	-5.2
2. Claims on DBE	-	-	6,250.0	-	-
3. Deposit Liabilities	28,054.3	30,310.3	40,705.9	45.1	34.3
3.1 Government	6,671.5	7,036.6	10,290.9	54.3	46.2
3.2 Financial Institutions	21,382.8	23,273.8	30,415.0	42.2	30.7

Source: NBE and Staff Computation

4.5 Developments in Financial Markets

4.5.1 Treasury Bills Market

Treasury bills market is the only regular market where securities are transacted on a fortnightly basis. Three types of T-bills with a maturity period 28 days, 91 days and 182 days are supplied to the market. There is no secondary market for the security. Government bonds are occasionally issued to finance government expenditures and/or to absorb excess liquidity in the banking system.

The amount of Treasury-bills offered to the fortnightly auction market during the fiscal year reached Birr 83.4 billion, about 51 percent higher than last year. Total demand also registered a 8.8 percent growth.

On the other hand, the amount of T-bills sold during the year stood at Birr 52.3 billion (98.3 percent of total demand), depicting 25.3 percent increase.

The dominance of commercial banks in the T-bills market continued to diminish through the review year owing to enhanced participation of non-bank institutions.

At the end of 2010/2011, the total outstanding T-bills stood at Birr 10.8 billion, of which 91.7 percent was held by non-bank institutions.

The average weighted yield for all types of bills increased to 1.13 from 0.79 percent last year.

The yields for 28-days 91-days and 182 days T-bills grew by 94.7, 21.5 and 15.7 percent respectively over last year reflecting the higher demand for short term bills than the long term bills.

Table 4.15: Results of Treasury Bills Auction at June 30, 2011

Particulars	2008/09 A	2009/10 B	2010/11 C	Percentage C/A	Change C/B
Number of Bidders	261	280	220	-15.7	-21.4
Amount Demanded (Mn.Birr)	46,767.2	51,258.0	55,760.0	19.2	8.8
28-day bill	10,441.9	19,760.0	30,635.0	193.4	55.0
91-day bill	29,477.7	27,553.8	22,159.9	-24.8	-19.6
182-day bill	6,847.6	3,944.3	2,965.2	-56.7	-24.8
Amount Supplied (Mn.Birr)	28,471.9	55,203.3	83,390.7	192.9	51.1
28-day bill	4,265.0	15,110.0	41,575.9	874.8	175.2
91-day bill	15,931.7	28,150.5	35,152.6	120.6	24.9
182-day bill	8,275.2	11,942.8	6,662.1	-19.5	-44.2
Amount Sold (Mn.Birr)	27,839.8	41,736.4	52,316.0	87.9	25.3
Banks	2,672.0	13,902.0	20,271.3	658.7	45.8
Non-Banks	25,167.8	27,834.4	32,044.8	27.3	15.1
Average Weighted Price for Successful bids(Birr)	99.797	97.017	99.745	-0.052	2.811
28-day bill	99.951	99.943	99.886	-0.065	-0.057
91-day bill	99.783	99.757	99.703	-0.080	-0.054
182-day bill	99.657	91.352	99.645	-0.012	9.078
Average Weighted Yield for Successful bids(%)	0.743	0.786	1.126	51.517	43.236
28-day bill	0.636	0.750	1.460	129.595	94.706
91-day bill	0.871	0.976	1.186	36.193	21.529
182-day bill	0.723	0.633	0.732	1.295	15.722
Outstanding bills at the end of period (Mn.Br.)	7,783.100	11,566.200	10,796.620	38.719	-6.654
Banks	1,672.000	4,400.000	900.000	-46.172	-79.545
Non-Banks	6,111.100	7,166.200	9,896.620	61.945	38.101

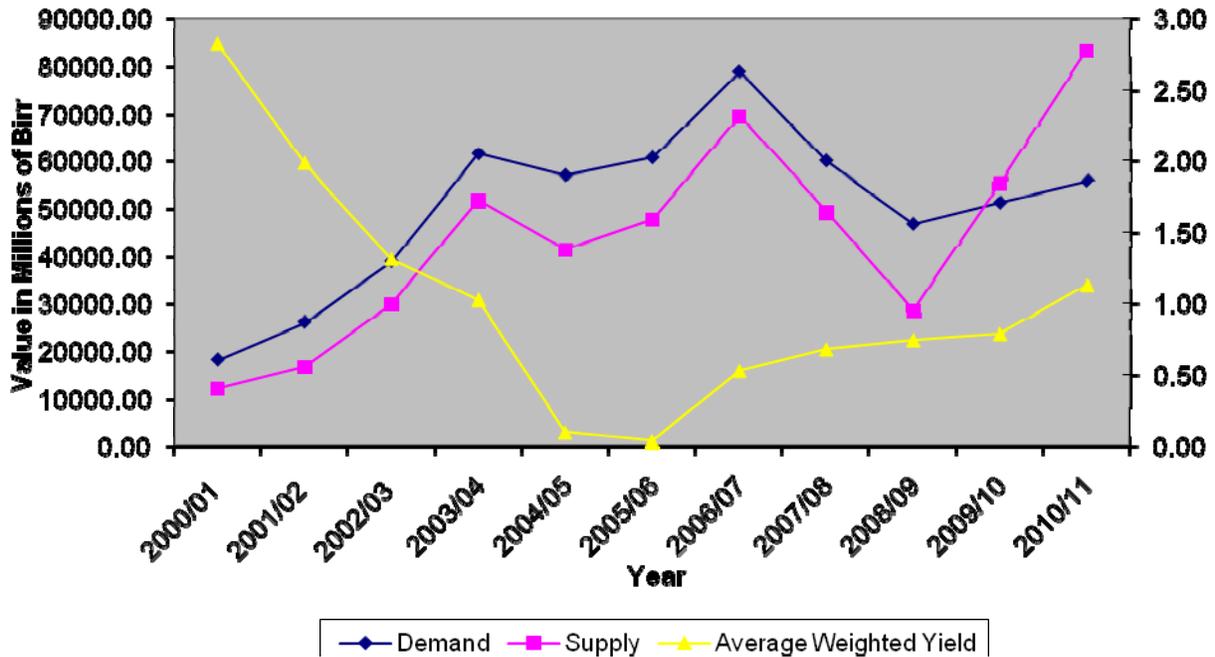
Source: NBE

4.5.2 NBE Bill Market

On April 4, 2011 NBE introduced NBE Bill market to mobilize resource from the banking system to finance priority sectors identified as the driving forces of the economy. Following the introduction of

the NBE Bill market, the total NBE bill purchased by the banking sector reached Birr 6.3 billion at the end of the fiscal year.

Fig IV.10: Treasury Bills Auction Result



Source: NBE

4.5.3. Bonds Market

In recent years, following the strong growth in economic activities and real income, the issuance of corporate bonds has tended to increase. Outstanding Corporate bond holdings of CBE issued by regional states, EEPCO and DBE increased to Birr 40.3 billion (or shared 45.2 percent) in 2010/11 from Birr 27.7 billion a year ago.

governments reached Birr 18.2 billion reflecting 67.2 percent growth over last year.

During the review year alone, corporate bond issued by public institutions and regional

Table 4.16 Disbursement, Redemption and Outstanding of Coupon and Corporate Bond Purchases by the Banking System at June 30, 2011 (In Millions of Birr)

Particulars	Annual		Percentage Change
	2009/10 A.	2010/11 B	A/B
1. Corporate Bond Purchases by holders	10,860.0	18,157.0	67.2
EEPCO	5,000.0	13,000.0	160.0
Regional governments	3,560.0	3,007.0	-15.5
Development Bank of Ethiopia	2,300.0	2,150.0	-6.5
Private Sector			
2. Redemption of Bonds by Clients	1,235.7	5,611.7	354.1
EEPCO	0.0	0.0	-
Regional governments	1,116.4	1,167.1	4.5
Development Bank of Ethiopia	119.3	4,444.6	3,626.1
Private Sector			
3. Outstanding Bonds by Clients	27,727.3	40,258.3	45.2
EEPCO	16,600.0	29,600.0	78.3
Regional governments	7,032.7	8,858.3	26.0
Development Bank of Ethiopia	4,094.6	1,800.0	-56.0
Private Sector			

Source: Commercial Banks

4.5.4. Inter-bank Money Market

The interbank money market was not active in Ethiopia due to the existence of excess reserves in the banking system. Accordingly, no inter-bank money market transaction was conducted since April 2008. Ever since the introduction of the interbank money market in September

1998, merely twenty three transactions worth Birr 259.2 million were conducted with interest rates ranging between 7 to 11 percent per year. The maturity period of these loans widely spanned from overnight to 5 years.

Table 4. 17: Interbank Money Market Transactions up to June 20, 2011

Borrower	Lender	Amount Borrowed (In Thousand Birr)	Interest Rate %	Date of Transaction	Maturity Period
Nib International Bank	Awash International Bank	7,000.0	11	November, 2000	Overnight
Wegagen Bank	Commercial Bank of Ethiopia	10,000.0	8	January, 2001	5 years
Nib International Bank	„	10,000.0	8	March, 2001	3 months
Wegagen Bank	„	10,000.0	8	March, 2001	1 year
Nib International Bank	„	3,600.0	8	May, 2001	6 months
Nib International Bank	„	3,700.0	8	June, 2001	6 months
Nib International Bank	„	778.0	8	November, 2001	6 months
Nib International Bank	Bank of Abyssinia	28,999.8	7	December, 2002	3.5 months
Nib International Bank	Bank of Abyssinia	19,046.9	7	January, 2003	3.5 months
Nib International Bank	Bank of Abyssinia	20,310.0	7	February, 2003	3.5 months
Nib International Bank	Bank of Abyssinia	28,987.0	7	March, 2003	3.5 months
Nib International Bank	Commercial Bank of Ethiopia	25,000.0	7.5	July, 2003	5.2 months
Nib International Bank	Bank of Abyssinia	50.1	7.5	March, 2005	open
Nib International Bank	Bank of Abyssinia	50.5	7.5	March, 2003	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
Total/Average	-	259,174.8	7.87	-	-

Source: NBE

V. DEVELOPMENTS IN EXTERNAL SECTOR

5.1 Overall Balance of Payments

The overall balance of payments in 2010/11 recorded USD 1.37 billion in surplus compared to USD 316.6 million in the preceding year. This achievement was the result of robust growth in net service receipts, private transfers, long term official loan disbursement and estimated foreign direct investment inflows.

The deficit in merchandise trade during the review period narrowed by 12.1

percent owing to a strong rise in merchandise export (37.1 percent) and a slight contraction in total imports (0.2 percent). The current account also registered USD 234.4 million in surplus in contrast to the USD 1.2 billion deficit mainly due to the increase in net service receipts (50.4 percent) and private transfers (16.7 percent). As a result, current account (including official transfer) to GDP ratio improved to 0.8 percent from -4 percent in 2009/10.

Table 5.1 Balance of Payments

(In Millions of USD)

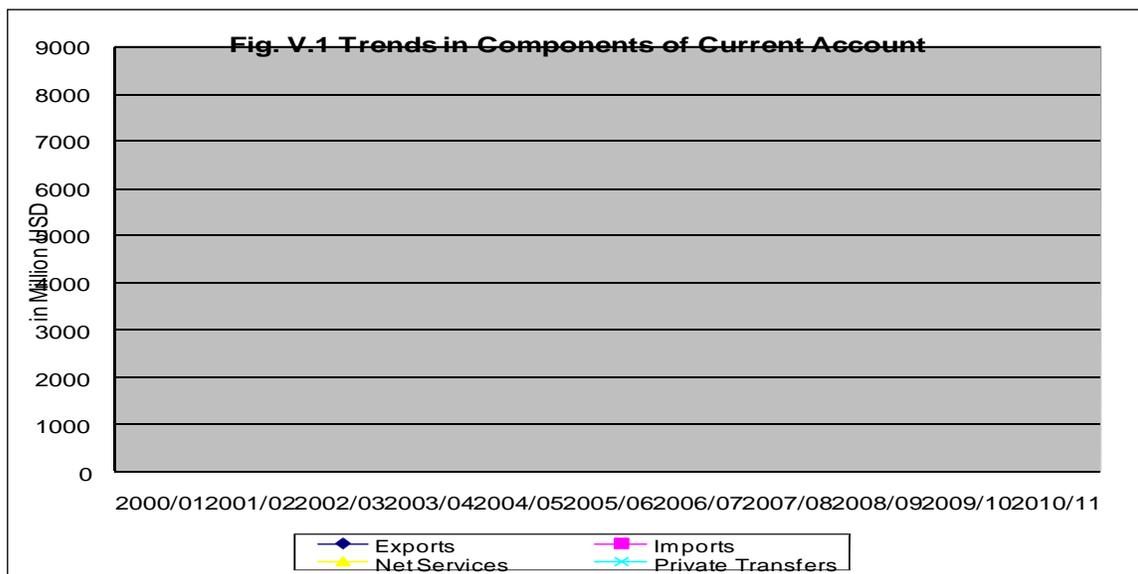
Particulars	2008/09	2009/10	2010/11	Percentage Change	
	A	B	C	C/B	C/A
Trade Balance	-6,279.2	-6,265.8	-5,506.2	-12.1	-12.3
Exports	1,447.4	2,003.1	2,747.1	37.1	89.8
Imports	7,726.6	8,268.9	8,253.3	-0.2	6.8
Net Services	384.7	457.5	688.1	50.4	78.9
Travel	207.9	224.1	574.9	156.5	176.5
Transportation	223.0	241.3	322.5	33.7	44.6
Government (n.i.e.)	160.4	225.2	247.4	9.9	54.2
Investment income	-34.6	-55.2	-69.6	26.1	101.2
Interest	-10.3	-28.3	-41.5	46.7	302.9
Cash (net)	-8.5	-26.1	-40.9	56.7	381.2
Arrears	0.0	0.0	0.0		
Relief	1.8	-2.2	-0.6	-72.6	-133.3
Dividend	-24.3	-26.9	-28.1	4.5	15.6
Other Services	-172.1	-177.8	-387.1	117.7	124.9
Private Transfers	2,706.8	2,709.7	3,161.5	16.7	16.8
Current Account Balance(excl. public transfers)	-3,187.6	-3,099.5	-1,656.6	-46.6	-48.0
Public Transfers	1,551.4	1,905.6	1,891	-0.8	21.9
Current Account Balance(incl. public transfers)	-1,636.2	-1,193.9	234.4	-119.6	-114.3
Non-monetary Capital	1,647.9	1,996.2	2,473.3	23.9	50.1
Long-term (net)	722.2	1,043.6	1,387.4	32.9	92.1
Disbursements	781.3	1,118.1	1,538.9	37.6	97.0
Repayments	59.2	74.5	151.5	103.4	155.9
Cash	42.3	64.7	143.7	122.1	239.7
Arrears	0.0	0.0	-		
Relief	16.9	9.8	7.8	-20.2	-53.8
Direct Investment (net)	893.7	956.4	1,242.5	29.9	39.0
Short-term (net)	32.0	-3.8	-156.6		
Net Errors & Omissions	501.8	-485.7	-1,340.4		
Overall Balance	513.5	316.6	1,367.3	331.9	166.3
Financing	-513.5	-316.6	-1,367.3		
Reserves (-:increase)	-494.8	-304.6	-1,358.9		
NBE net foreign asset	-558.7	57.8	-915.3		
CBs net foreign asset	63.9	-362.4	-443.6		
Debt Relief	18.7	-12.0	-8.4		
Principal	16.9	9.8	7.8		
Interest	1.8	2.2	0.6		

Source: NBE Staff Compilation

Table 5.2: Components of External Trade as Percentage of GDP

Particulars	2008/09	2009/10	2010/11	Percentage Change	
	A	B	C	C/B	C/A
Exports	4.5	6.7	9.9	47.8	120.0
Imports	24.0	27.8	29.6	6.5	23.3
Trade Balance	-19.5	-21.1	-19.9	-5.7	2.1
Net Services	1.2	1.5	2.5	66.7	108.3
Net Private Transfers	8.4	9.1	11.4	25.3	35.7
Current Account Deficit (Excluding Official Transfers)	-9.9	-10.4	-6.0	-42.3	-39.4
Current Account Deficit (Including Official Transfers)	-5.1	-4.0	0.8	-120.0	-115.7

Source: NBE Staff Compilation



5.2 Developments in Merchandise Trade

Merchandise trade deficit in 2010/11 narrowed by 12.1 percent to USD 5.5 billion vis-a-vis the preceding fiscal year, largely due to the significant growth in total exports and a small reduction in total imports. Hence, total export of goods to GDP ratio improved to 10 percent from 6.7 percent in 2009/10.

Total merchandise export proceeds in 2010/11 amounted to USD 2.75 billion, showing 37.1 percent growth over the previous fiscal year largely owing to higher earnings from export of coffee (59.3 percent), gold (64.1 percent),

live animals (63 percent), leather & leather products (84.1 percent), meat & meat

products (86.2 percent), chat (13.7 percent), pulses (6 percent) and flower (3 percent). This improvement in receipts was driven by the rise in global commodity prices and expansion in volume of exports.

5.2.1 Exports

Earning from export of coffee rose sharply by 59.3 percent in 2010/11 to USD 841.8 million on account of a 40 and 14 percent growth in world coffee price and volume of export, respectively. As a result, the share of coffee in total exports of goods increased to 30.6 percent from 26.4 percent in the previous year.

Table 5.3 Values of Major Export Items*(In Millions of USD)*

Export Commodities	2008/09		2009/10		2010/2011		Percentage Change	
	Value A	Share (%)	Value B	Share (%)	Value C	Share (%)	C/B	C/A
Coffee	375.9	26.0	528.3	26.4	841.8	30.6	59.3	124.0
Oilseeds	356.1	24.6	358.5	17.9	326.6	11.9	-8.9	-8.3
Leather & Leather products	75.3	5.2	56.4	2.8	103.8	3.8	84.1	37.9
Pulses	90.7	6.3	130.1	6.5	137.9	5.0	6.0	51.9
Meat & Meat Products	26.6	1.8	34.0	1.7	63.3	2.3	86.2	138.1
Fruits & Vegetables	12.1	0.8	31.47	1.6	31.50	1.1	0.1	159.6
Live Animals	52.7	3.6	90.7	4.5	147.9	5.4	63.0	180.7
Chat	138.7	9.6	209.5	10.5	238.3	8.7	13.7	71.8
Gold	97.8	6.8	281.4	14.0	461.7	16.8	64.1	371.9
Flower	130.7	9.0	170.2	8.5	175.3	6.4	3.0	34.1
Others	91.3	6.3	112.5	5.6	219.1	8.0	94.7	139.9
Total	1,447.9	100.0	2,003.1	100.0	2,747.1	100.0	37.1	89.7

Source: Ethiopian Revenue and Customs Authority

Similarly, gold export proceeds expanded by 64.1 percent to USD 461.7 million, supported by a 25.3 and 31 percent rise in volume of export and world gold price, respectively. Revenue from gold export accounted for 16.8 percent of total export revenue compared to 14 percent in the preceding year.

The country earned USD 148 million from export of live animals depicting a 63 percent annual growth solely due to the 66.1 percent increment in volume despite a 2 percent fall in international price. Revenue from live animals export constituted 5.4 percent of the total merchandise export.

Owing to a significant growth in volume of exports and marginal increase in international price, export revenue from leather & leather products in 2010/11 depicted an 84.1 percent surge over the previous year and stood at USD 103.8 million. Consequently, its share in the total exports improved to 3.8 percent from 2.8 percent a year ago.

Meanwhile, earnings from export of meat & meat products rose by 86.2 percent to USD 63.3 million as a result of 65.8 percent surge in volume of exports and 12.3 percent rise in international price.

Export of chat went up moderately by 13.7 percent to USD 238.3 million owing

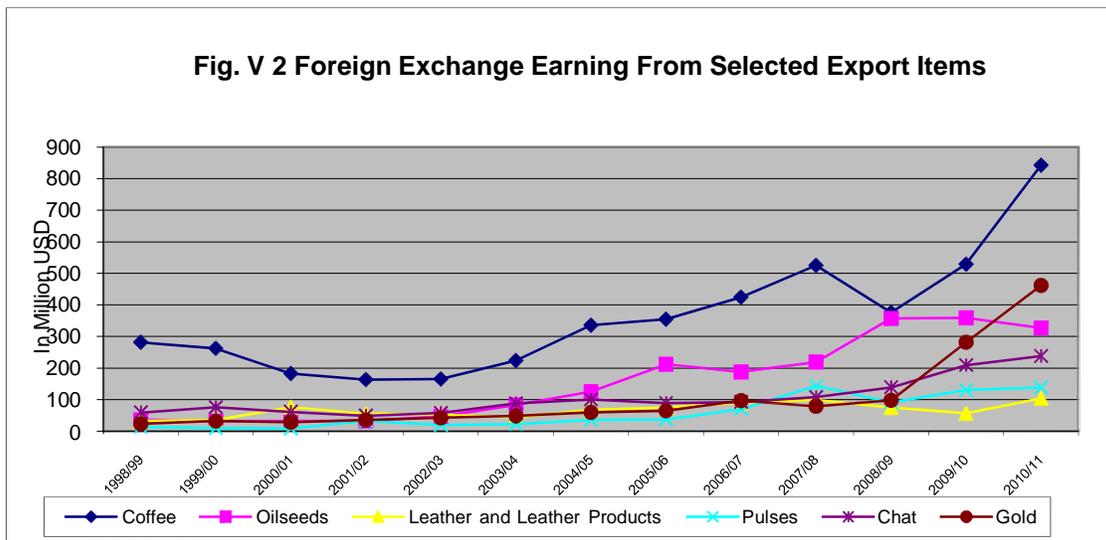
to 13.5 percent growth in volume of export. However, its share in the total export of goods went down to 8.7 percent relative to 10.5 percent last year.

Despite a slight drop in volume of exports, pulses export proceeds increased marginally by 6 percent and stood at USD 138 million wholly driven by moderate improvement in international prices. Revenue from export of pulses constituted only 5 percent of the total income from exports.

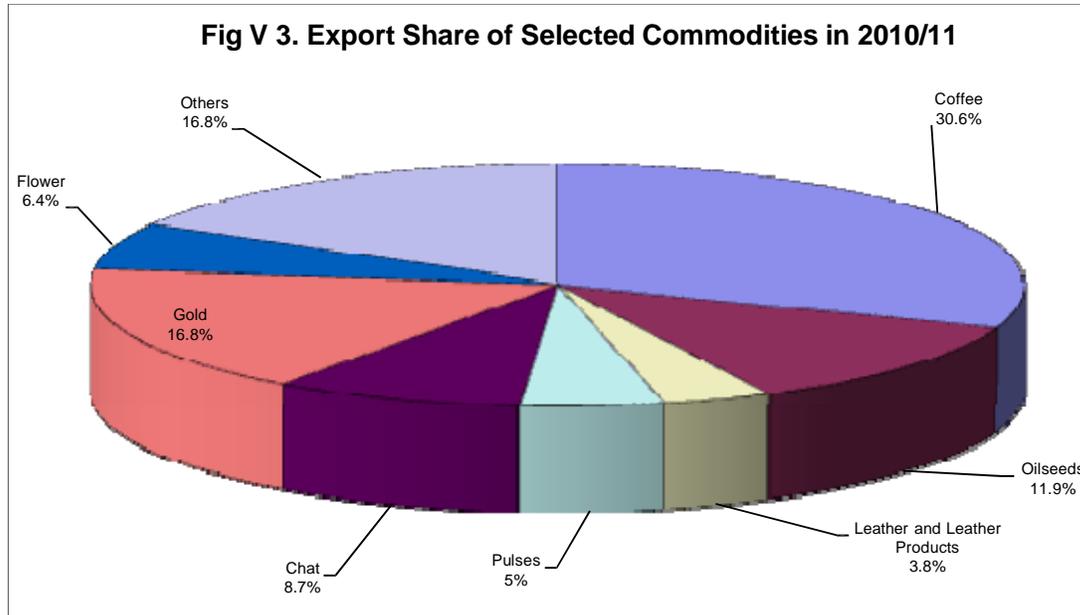
Earning from export of flower was USD 175.3 million, showing 3 percent increase solely due to a 15.6 percent growth in volume of exports despite 11 percent

decline in price. Of the total revenue from exports, flower export accounted for 6.4 percent, down from 9 and 8.5 percent in the past two years, respectively.

On the other hand, export of oilseeds went down by 9 percent and fetched USD 326.6 million during the review period. The poor performance was ascribed to the decline in volume of exports (15 percent) inspite of a 7.2 percent improvement in world prices.



Source: Ethiopian Revenue and Customs Authority



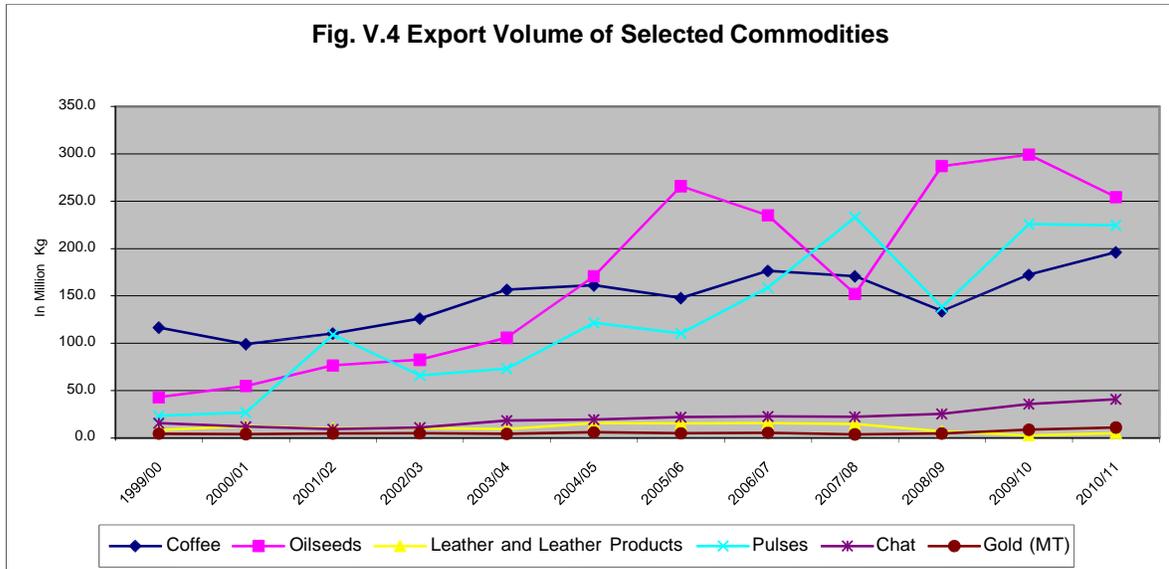
Source: NBE Staff Compilation

Table 5.4: Volume of Major Exports

(In Millions of Kg)

Particulars	2008/09	2009/10	2010/11	Percentage Change	
	A	B	C	C/B	C/A
Coffee	134.0	172.2	196.1	13.9	46.4
Oilseeds	287.0	299.0	254.2	-15.0	-11.4
Leather and Leather products	7.3	2.9	5.2	77.8	-29.1
Pulses	138.0	225.7	224.5	-0.5	62.7
Meat & Meat Products	7.5	10.2	16.9	65.8	125.7
Fruits & Vegetables	38.5	66.3	91.6	38.1	138.0
Live Animals	36.7	67.9	112.8	66.1	207.1
Chat	25.4	36.1	41.0	13.5	61.3
Gold	0.0049	0.0089	0.0112	25.3	129.2
Flower	29.2	36.0	41.6	15.6	42.5

Source: Ethiopian Revenue and Customs Authority



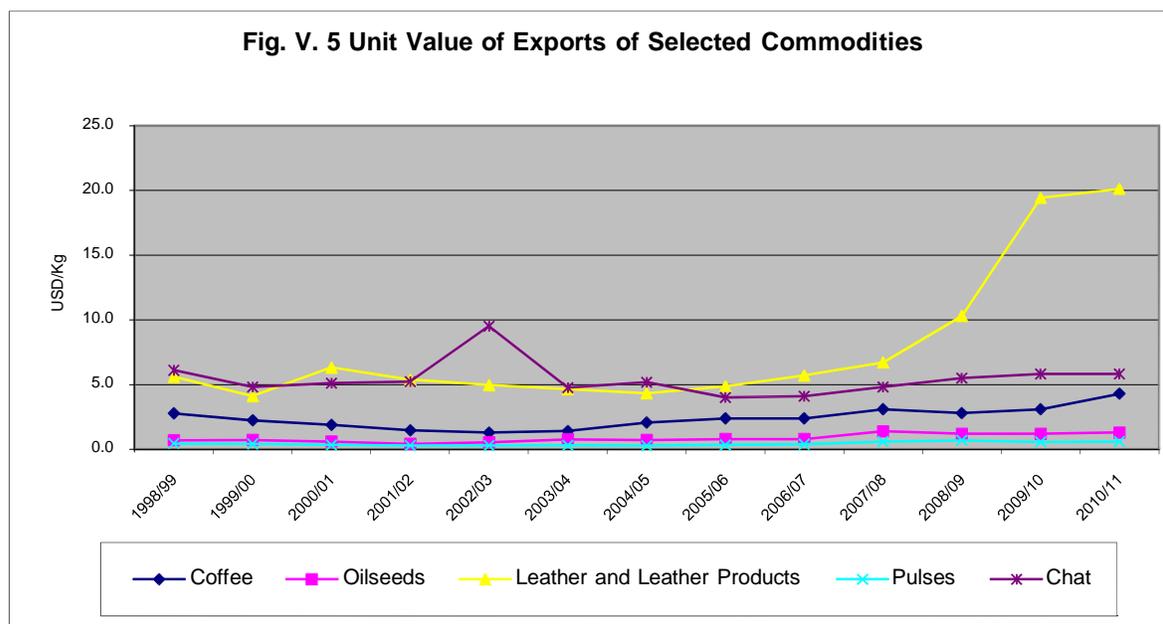
Source: Ethiopian Revenue and Customs Authority

Table 5.5: Unit Value of Major Exports

(In USD per Kg)

	2008/09	2009/10	2010/11	Percentage Change	
	A	B	C	C/B	C/A
Coffee	2.8	3.1	4.3	39.9	53.0
Oilseeds	1.24	1.20	1.3	7.2	3.6
Leather and Leather products	10.3	19.4	20.1	3.5	94.6
Pulses	0.7	0.6	0.61	6.5	-6.6
Meat & Meat Products	3.6	3.3	3.8	12.3	5.5
Fruits & Vegetables	0.3	0.5	0.34	-27.5	9.1
Live Animals	1.4	1.3	1.31	-1.9	-8.6
Chat	5.5	5.8	5.82	0.2	6.5
Gold	20,084.1	31,574.2	41,344.5	30.9	105.9
Flower	4.5	4.7	4.2	-10.9	-5.9

Source: Calculated from Tables 5.3 and 5.4



Source: NBE Staff Compilation

4.2.2. Imports

Total merchandise imports in 2010/11 contracted slightly by 0.2 percent relative to the preceding year and reached USD 8.25 billion owing to lower imports of raw materials, capital goods particularly industrial goods; and consumer goods. Nevertheless, the ratio of imports to GDP slightly rose to 29.6 percent from 27.8 percent in 2009/10.

Imports of capital goods fell by 4.5 percent compared to last year and amounted to USD 2.8 billion, wholly on account of a 13.4 percent reduction in

imports of industrial goods. Imports of transport goods and agricultural goods, however, depicted 35 and 6.4 percent growth, respectively. As a result, the share of capital goods in total imports declined to 33.4 percent from 35 percent last year.

Likewise, import of consumer goods dropped by 8.8 percent owing to a 13.6 percent contraction in imports of non-durable consumer goods. The curb in import of cereals (61.8 percent) was the sole contributing factor for lower imports of non-durable goods. Consumer goods

accounted for 27.8 percent of the total import bill.

Meanwhile, raw material imports went down by 13.5 percent compared to the preceding year and constituted 2.2 percent of the total imports.

On the other hand, import of fuel grew strongly by 26.6 percent and reached USD 1.7 billion largely owing to the continued rise in international oil price and increased volume. Consequently, the

share of fuel import in total imports of goods rose to 20.1 percent from 16 percent in 2009/10.

Imports of semi-finished goods reached USD 1.23 billion, close to the performance in the preceding fiscal year. However, import of fertilizer surged by 37.3 percent to USD 342.4 million, largely driven by higher world prices.

Table 5. 6: Value of Imports by End Use

(In Millions of USD)

Categories	2008/09		2009/10		2010/11		Percentage Change	
	Value	Share (%)	Value	Share (%)	Value	Share (%)	C/B	C/A
	A		B		C			
Raw Materials	354.2	4.6	212.4	2.6	183.7	2.2	-13.5	-48.1
Semi-finished Goods	1,140.1	14.8	1,226.5	14.8	1,228.0	14.9	0.1	7.7
Fertilizers	270.7	3.5	249.4	3.0	342.4	4.1	37.3	26.5
Fuel	1,256.6	16.3	1,310.7	15.9	1,659.3	20.1	26.6	32.0
Petroleum Products	1,246.9	16.1	1,303.0	15.8	1,648.8	20.0	26.5	32.2
Others	9.7	0.1	7.7	0.1	10.5	0.1	36.9	8.7
Capital Goods	2,474.7	32.0	2,886.3	34.9	2,757.0	33.4	-4.5	11.4
Transport	384.2	5.0	509.8	6.2	688.1	8.3	35.0	79.1
Agricultural	31.3	0.4	59.8	0.7	63.6	0.8	6.4	3
Industrial	2,059.2	26.7	2,316.7	28.0	2,005.4	24.3	-13.4	-2.6
Consumer Goods	2,383.5	30.8	2,515.7	30.4	2,294.8	27.8	-8.8	-3.7
Durables	674.8	8.7	865.0	10.5	868.5	10.5	0.4	28.7
Non-durables	1,708.7	22.1	1,650.7	20.0	1,426.3	17.3	-13.6	-16.5
Miscellaneous	117.4	1.5	117.3	1.4	130.5	1.6	11.3	10.9
Total Imports	7,726.6	100.0	8,268.9	100.0	8,253.3	100.0	-0.2	6.8

Source: Ethiopian Revenue and Customs Authority

5.2.3 Direction of Trade

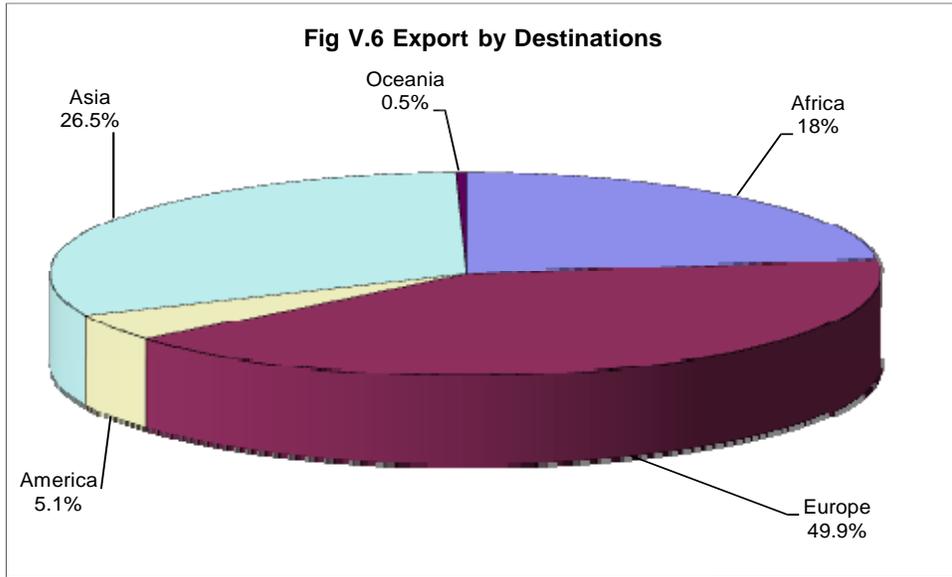
In 2010/11, Europe emerged as the largest market for Ethiopia's exports. It accounted for 50 percent of the total merchandise exports of the nation. With in European countries, Switzerland was the vast market for about 34 percent of the total exports particularly gold and coffee, followed by Germany, constituting 23.1 percent. Germany was the second important market, mainly for coffee, flower, leather & leather products and textile exports. The Netherlands, with a 12 percent share in Ethiopia's export to Europe, was major destination for flower, vegetables, coffee and pulses exports. Italy, a market for coffee, leather & leather products, cereals and textile exports, accounted for 7.7 percent of Ethiopia's export to Europe during the review period.

Meanwhile, about 26.5 percent of the total Ethiopia's exports were shipped to Asian countries of which China constituted 34.2 percent, Saudi Arabia 19 percent, United Arab Emirates 10.3 percent, Israel 8.4 percent and Japan 5.4 percent.

The major export items to China include oilseeds, mineral products and leather & leather products. Coffee, meat & meat products, spices and live animals were exported to Saudi Arabia. Live animals, meat & meat products, oilseeds, pulses and vegetables were the major export products to United Arab Emirates. Israel bought mainly coffee and oilseeds while Japan imported largely coffee.

African nations accounted for about 18 percent of Ethiopia's total exports in the same period. Somalia, Sudan, Djibouti, and Egypt constituted 95 percent of the total exports to the African continent. Exports to Somalia included mainly chat, live animals and vegetables. Coffee, spices, pulses, live animals and cereals were exported to Sudan. Djibouti mainly imported live animals, chat and vegetables while Egypt imported live animals.

American markets accounted for 5.1 percent Ethiopia's total exports during 2010/11. United States and Canada alone constituted 93.4 percent of the exports. The United States imported mainly coffee and oilseeds while Canada bought coffee.



Source: NBE staff compilation

Regarding Ethiopia's imports by countries of origin, about 67 percent of its imports in 2010/11 were originated from Asia, 21.3 percent from Europe, 5.5 percent from America and 6 percent from Africa.

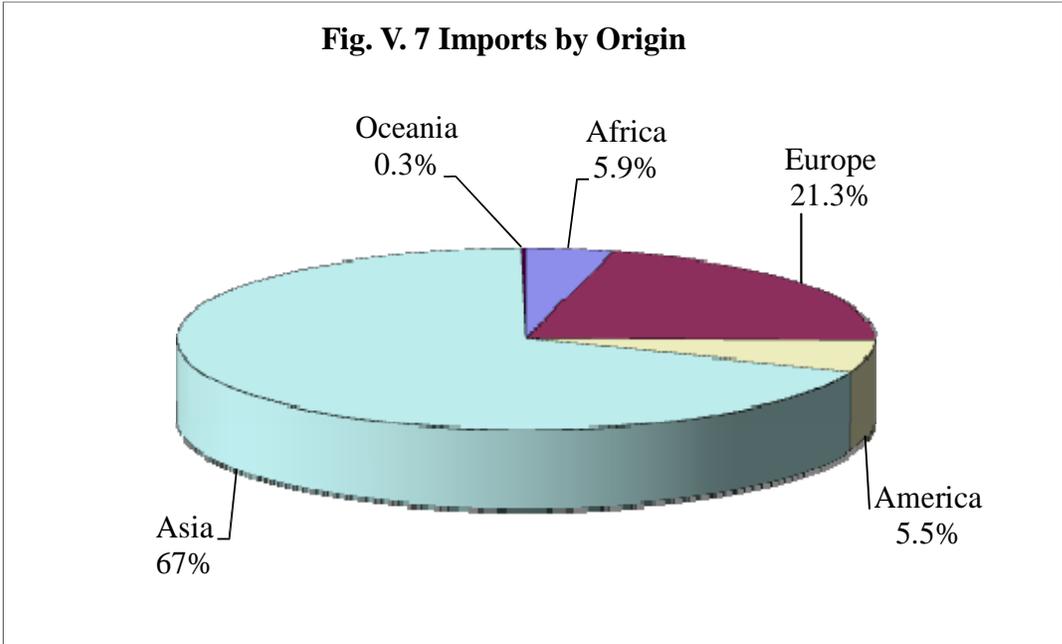
Among Asian countries, China accounted for 23.3 percent, Saudi Arabia 13.4 percent, India 10.8 percent, United Arab Emirates 10.3 percent, Japan 8.1 percent, Malaysia 3.8 percent and Thailand 2 percent. The main items imported from China included chemicals, clothing, glass & glass wares, machinery, medical & pharmaceutical products, road & motor vehicles, metals, electric materials and rubber products. Petroleum products were the major imports from Saudi Arabia which accounted for 64.1 percent of the total petroleum imports of Ethiopia in 2010/11.

Imports from India were mainly electrical materials, machinery, metals, medical & pharmaceutical products and rubber products. Road & motor vehicles, machinery and rubber products were imported from Japan. United Arab Emirates supplied petroleum products and metals to Ethiopia.

Of the Ethiopian imports from Europe, Italy accounted for 21 percent, Turkey 16.6 percent, Germany 10.8 percent, France 7.7 percent, Ukraine 7 percent, Spain 6.2 percent, United Kingdom 5.4 percent and the Netherlands 5.3 percent. Machinery, electrical materials, vehicles and medical & pharmaceutical products were the major import from Italy. Metal, machinery and electrical materials came from Turkey. Part of imported machinery, road & motor vehicles and electrical materials were imported from Germany and France.

About 91.2 percent of Ethiopia's import from America originated from USA, Brazil and Canada. The main imports were glass & glass wares, machinery, road & motor vehicles, electrical materials and grain.

Likewise, 77.2 percent of Ethiopia's imports from African nations originated from Egypt (27 percent), Sudan (26.8 percent), South Africa (14.5 percent) and Kenya (9 percent). Import items included petroleum products, electrical materials, vehicles, metals and soap & polish.



5.3 Services and Transfers

5.3.1 Services

The services account in 2010/11 recorded USD 688.1 million in net inflows, depicting 50.4 percent growth over the preceding year. This was attributed to higher net receipts from travel, transport and government services.

Net receipts from travel rose sharply by 156.5 percent due to the increase in tourism. Net incomes from transport service went up by 33.7 percent largely driven by the expansion of air transport services. Net government service receipts also showed a moderate growth of 10 percent during the review period.

5.3.2 Unrequited Transfers

Net receipts from private transfers in 2010/11 improved by 16.7 percent to USD 3.2 billion largely because of the 87.4 percent growth in cash receipts of individual remittances and 3.8 percent rise in cash transfers to non-governmental organizations. Underground transfers and transfer in kind, however, declined by 21.3 and 34 percent, respectively.

Table 5. 7: Unrequited Transfers*(In Millions of USD)*

No.	Particulars	2008/09		2009/10		2010/11		Percentage Change	
		A	% Share	B	% Share	C	% Share	C/B	C/A
		1	Private Transfers	2,706.8	63.6	2,709.7	58.7	3,161.5	62.6
1.1	Receipts	2,733.3	63.6	2,736.2	58.8	3,202.9	62.5	17.1	17.2
	NGOs	921.0	21.4	888.9	19.1	901.8	17.6	1.5	-2.1
	Cash	916.9	21.3	860.5	18.5	893.5	17.4	3.8	-2.5
	Other	0.0	0.0	28.4	0.6	0.0	0.0	-	-
	Food	4.1	0.1	0.0	0.0	8.3	0.2		
	Private individuals	1,812.3	42.1	1,847.3	39.7	2,301.1	44.9	24.6	27.0
	Cash	723.2	16.8	790.3	17.0	1,481.2	28.9	87.4	104.8
	In kind	195.5	4.5	96.7	2.1	63.9	1.2	-33.9	-67.3
	Underground Private Transfers	893.6	20.8	960.3	20.6	756.0	14.7	-21.3	-15.4
1.2	Payments	-26.5	63.4	-26.6	74.5	-41.4	55.7	55.9	56.3
2.	Official Transfers	1,551.4	36.4	1,905.6	41.3	1,891.0	37.4	-0.8	21.9
2.1	Receipts	1,566.7	36.4	1,914.7	41.2	1,923.8	37.5	0.5	22.8
	Cash	1,444.8	33.6	1,741.5	37.4	1,893.7	36.9	8.7	31.1
	Other	0.2	0.0	0.0	0.0	0.0	0.0		
	Food	121.7	2.8	173.2	3.7	30.1	0.6	-82.6	-75.2
2.2	Payments	-15.3	36.6	-9.1	25.5	-32.9	44.3	261.6	115.4
	Total Receipts	4,300.0	101	4,650.9	101	5,126.7	101	10.2	19.2
	Total Payments	-41.8	-1.0	-35.7	-0.8	-74.3	-1.5	108.3	78.0
	Total Net Transfers	4,258.2	100	4,615.2	100	5,052.4	100	9.5	18.7

Source: NBE, MoFED and Disaster Prevention & Preparedness Agency

In contrast, net official transfers during 2010/11 dropped by 0.8 percent to USD 1.9 billion relative to the preceding year as a result of a sharp decline in food aid.

5.4. Current Account

The current account balance (including public transfers) registered USD 234.4 million in surplus against USD 1.2 billion deficit in the preceding fiscal year due to

higher income from net services and private transfers.

5.5 Capital Account

In 2010/11, the surplus in capital account reached USD 2.5 billion compared to USD 2 billion surpluses in the preceding fiscal year. This was ascribed to strong growth in official long term loan disbursements (33 percent) and estimated foreign direct investment inflows (30 percent).

5.6 Changes in Reserve Position

Reflecting the surpluses in current and capital accounts, the banking system recorded USD 1.37 billion reserve build up by end 2010/11. Consequently, the gross foreign reserve position of the NBE was adequate to cover 3.1 months of imports of goods and non-factor services.

5.7 External Debt

As at end 2010/11, Ethiopia's total external debt stock reached USD 7.3 billion, depicting a 31.4 percent growth over last year. Of the total debt stock by creditors, debt owed to international financial institutions rose by 27.5 percent to USD 3.5 billion and accounted for 47.6 percent. Debt owed to bilateral and commercial creditors also increased by 24.1 and 45.7 percent to reach USD 1.7 billion and USD 2.1 billion, and constituted 23.6 and 28.8 percent of the total debt stock, respectively.

Accordingly, the total debt stock to GDP ratio, increased to 26.3 percent from 17.8 percent a year earlier. However, the ratio of total debt stock to total receipts from export of goods and non-factor services remained unchanged at 1.4 percent due to proportional growths in total debt stock (31.4 percent) and total receipts from export of goods and non-factor services (31.8).

Debt service (including both principal and interest) to total export receipts of goods and services ratio, rose to 3.7 percent from 2.3 percent in the preceding fiscal year as the debt service grew significantly faster than total receipts from export of goods and services.

Table 5. 8 External Public Debts

(In Millions of USD)

Particulars	2008/09	2009/10	2010/11	Percentage change	
	A	B	C	C/B	C/A
Debt Outstanding					
Lender Total	3,304.5	5,569.8	7,318.8	31.4	121.5
Multilateral	2,029.1	2,729.1	3,480.9	27.5	71.5
Bilateral	1,020.5	1,389.7	1,724.5	24.1	69.0
Commercial	254.9	1,451.0	2,113.4	45.7	729.1
Drawing by Lender	650.4	842.4	1,038.2	23.2	59.6
Lender Total	650.4	842.4	1,038.2	23.2	59.6
Drawing by Sector	650.4	842.4	1,038.2	23.2	59.6
Sector Total	650.4	842.4	1,038.2	23.2	59.6
Debt Service	67.6	94.8	196.0	106.8	190.1
Principal repayments	42.1	64.7	143.7	122.0	241.5
Interest payments	25.5	30.0	52.3	74.1	105.1
Debt stock to GDP ratio (in percent)	10.2	18.7	26.3	40.3	156.6
Debt stock to export of goods and non-factor services	1.0	1.4	1.4	-0.5	40.1
Receipts from goods and non-factor services	3,381.4	4,047.0	5,332.6	31.8	57.7
Debt service ratio (percent)^{1/}	2.0	2.3	3.7	57.0	83.9
Arrears	0.0	0.0	0.0	-	-
Principal	0.0	0.0	0.0	-	-
Interest	0.0	0.0	0.0	-	-
Relief	18.7	12.0	8.4	-29.8	-55.0
Principal	16.9	9.8	7.8	-20.2	-53.8
Interest	1.8	2.2	0.6	-72.6	-66.3

Source: Ministry of Finance and Economic Development

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

Note: Outstanding as at end period

5.8. Developments in Foreign Exchange Markets

5.8.1 Developments in Nominal Exchange Rate

During 2010/11, the weighted average exchange rate of the Birr in the inter-bank market depreciated by 25 percent to Birr 16.1178/USD with respect to Birr 12.8909/USD recorded in the previous year (Table 5.9).

The Birr also weakened in the parallel market where it depreciated by 20.8 percent during the same period to reach Birr 16.5292/USD. As a result, the average premium between the official and parallel average market rates narrowed to 2.6 percent from 6.1 percent last year mainly due to faster depreciation of the Birr in the official foreign Exchange market.

Table 5.9 Inter-Bank and Parallel Forex Market Exchange Rates

Period	Average Weighted Rate	Amount Traded in millions of USD		Number of Trades		Average Rates in Parallel Market
		Total	o/w Among CBs	Total	o/w Among CBs	
2008/09	10.4205	18.4	0.0	1818.0	0.0	11.8102
Qtr. I	9.6602	6.3	0.0	483.0	0.0	10.2623
Qtr. II	9.8670	6.0	0.0	531.0	0.0	10.7540
Qtr. III	10.9521	3.0	0.0	387.0	0.0	12.8163
Qtr. IV	11.2028	3.1	0.0	417.0	0.0	13.4083
2009/10	12.8909	12.6	0.0	252.0	0.0	13.6806
Qtr. I	12.3746	3.3	0.0	65.0	0.0	13.2933
Qtr. II	12.5851	3.3	0.0	66.0	0.0	13.3933
Qtr. III	13.1342	3.0	0.0	60.0	0.0	13.8495
Qtr. IV	13.4697	3.1	0.0	61.0	0.0	14.1863
2010/11	16.1178	90.2	25.1	284.0	11.0	16.5292
Qtr. I	14.5535	3.2	0.0	64.0	0.0	14.9833
Qtr. II	16.4667	3.3	0.0	65.0	0.0	16.9567
Qtr. III	16.6342	3.0	0.0	60.0	0.0	17.1067
Qtr. IV	16.8169	80.8	25.1	95.0	11.0	17.0700

Source: NBE

Likewise, the average retail buying and selling rates of forex bureaux of commercial banks depicted a 25.7 and 25 percent depreciation during 2010/11 and stood at Birr 16.1914/USD and Birr 16.4333/USD, respectively.

Consequently, the average premium between the buying and selling rates of forex bureaux narrowed to 1.5 percent from 2.1 percent in the preceding year (Table 5.13).

Table 5.10: End Period Mid Market Rates

(USD per Unit of Foreign Currency)

Currency	2008/9	2009/10	2010/11	Percentage change	
	A	B	C	C/B	C/A
Pound Sterling	1.6824	1.5052	1.6036	6.5	-4.7
Swedish Kroner	0.1324	0.1279	0.1566	22.4	18.3
Djibouti Frank	0.0639	0.0057	0.0056	-2.2	-91.2
Swiss Frank	0.9356	0.9190	1.1989	30.5	28.1
Saudi Riyal	0.2698	0.2666	0.2666	0.0	-1.2
UAE Dirhams	0.2755	0.2723	0.2723	0.0	-1.2
Canadian Dollar	0.8753	0.9523	1.0274	7.9	17.4
Japanese Yen	0.0106	0.0113	0.0123	9.5	16.7
Euro	1.4274	1.2187	1.4434	18.4	1.1
SDR	1.5690	1.4796	1.5903	7.5	1.4

Source: NBE

Table 5.11: End Period Mid Market Rates

(Birr per Unit of Foreign Currency)

Currency	2008/9	2009/10	2010/11	Percentage change	
	A	B	C	C/B	C/A
USD	11.2190	13.5998	16.9927	24.9	51.5
Pound Sterling	18.8749	20.4704	27.2494	33.1	44.4
Swedish Kroner	1.4855	1.7395	2.6612	53.0	79.1
Djibouti Frank	0.0639	0.0781	0.0954	22.2	49.2
Swiss Frank	10.4965	12.4986	20.3725	63.0	94.1
Saudi Riyal	3.0274	3.6261	4.5308	25.0	49.7
UAE Dirham	3.0911	3.7027	4.6264	24.9	49.7
Canadian Dollar	9.8201	12.9510	17.4588	34.8	77.8
Japanese Yen	0.1186	0.1533	0.2096	36.8	76.7
Euro	16.0137	16.5741	24.5272	48.0	53.2
SDR	17.6022	20.1222	27.0234	34.3	53.5

Source: NBE

The mid exchange rate of the US dollar relative to major international currencies at end 2010/11 showed a noticeable depreciation, though at different rates. The US dollar depreciated with respect to Swiss Frank (30.5 percent), Euro (18.4 percent), Japanese Yen (9.5 percent) and Pound Sterling (6.5 percent) (Table 5.10).

Likewise, the end period exchange rate depreciation of the Birr in relation to the international currencies varied. For

instance, the Birr weakened strongly relative to Swiss Frank (63 percent) Euro (48 percent), Japanese Yen (36.8 percent) and Pound Sterling (33.1 percent) (Table 5.11).

5.8.2. Movements in Real Effective Exchange Rate

The pace of depreciation in the real effective exchange rate (REER) in 2010/11 slowed down to 14.8 percent from 23.1 percent in the preceding fiscal

year, largely as a result of the rise in domestic prices (Table 5.12).

Nominal effective exchange rate (NEER) also depreciated by 23.8 percent, slightly slower than the rate of depreciation recorded in 2009/10.

Table 5. 12: Trends in Real and Nominal Effective Exchange Rates

Years	REERI	NEERI	Percentage Change	
			REERI	NEERI
2004/05	94.0	83.1	–	–
2005/06	102.9	80.9	9.4	-2.7
2006/07	121.3	77.6	17.9	-4.1
2007/08	136.3	72.4	12.4	-6.7
2008/09	184.7	76.1	35.5	5.1
2009/10	142.1	57.4	-23.1	-24.6
2010/11	121.1	43.7	-14.8	-23.8

Source: NBE Staff Compilation

1. Regarding the methodology for constructing the effective exchange rate indices, see annual report of NBE, 2004-2005, P. 66

2. An increase in REERI and NEERI indicates appreciation and vice versa.

Where: REERI = Real Effective Exchange Rate Index

NEERI = Nominal Effective Exchange Rate Index

5.8.3 Foreign Exchange Transactions

The amount of foreign exchange transaction in the inter-bank foreign exchange market during 2010/11 increased significantly to USD 90.2 million from USD 12.6 million in 2009/10. Of the total transaction, USD 65.1 million was traded between NBE and commercial banks, and the remaining USD

25.1 million among commercial banks themselves (Table 5.13).

The volume of foreign exchange purchased by forex bureaux of commercial banks during 2010/11 declined by 8.3 percent to USD 199.4 million while their sales went up by 14.6 percent to USD 57 million in the same period (Table 5.13).

Table 5.13: Foreign Exchange Transactions by Forex Bureaux of Commercial Banks

(In Millions of USD)

Name of Forex Bureau	2008/09		2009/10		2010/11		Percentage Change	
	A Purchases	B Sales	C Purchases	D Sales	E Purchases	F Sales	E/C Purchases	F/D Sales
Commercial Bank of Ethiopia	44.80	11.68	40.64	0.20	55.56	1.21	36.7	515.1
Bank of Abyssinia	3.48	4.18	2.96	4.23	5.67	4.75	91.6	12.3
Dashen Bank	16.86	17.60	13.64	20.57	15.48	19.89	13.5	-3.3
Awash International Bank	1.94	6.70	8.96	5.96	25.94	8.19	189.4	37.5
Construction & Business Bank	1.43	0.53	0.97	0.16	2.27	0.22	134.6	34.9
Wegagen Bank	7.73	6.38	11.78	3.38	16.08	4.11	36.5	21.7
United Bank	13.09	5.48	30.44	7.90	20.96	8.68	-31.2	9.8
Development Bank	0.00	0.00	0.00	0.00	0.00	0.00		
Nib International Bank	53.56	6.91	97.41	5.11	52.46	6.94	-46.1	35.9
Lion International Bank	1.43	0.13	7.89	0.97	1.38	0.42	-82.6	-56.3
Oromia International Bank	0.03	0.00	2.10	0.25	1.59	0.60	-24.3	140.3
Zemen Bank	0.10	0.04	0.54	0.74	0.99	1.50	83.1	101.8
Cooperative Bank of Oromia	0.00	0.05	0.03	0.10	0.03	0.04	-6.7	-56.7
Buna International Bank	0.00	0.00	0.19	0.05	0.92	0.26	389.1	381.1
Birhan International Bank	0.00	0.00	0.00	0.00	0.07	0.05		
Total	144.5	59.7	217.5	49.6	199.4	56.9	-8.3	14.6
Average Exchange Rate	11.1113	11.3107	12.8763	13.1481	16.1914	16.4333	25.7	25.0

Source: NBE

VI. GENERAL GOVERNMENT FINANCE

6.1. Government Finance

Overall fiscal performance of the general government during the review period indicated an expansion of the overall fiscal deficit (excluding grants) from Birr 17.5 billion in 2009/10 to Birr 24.7 billion in 2010/11. Its ratio to GDP also tended to rise marginally from 4.6 percent to 4.8 percent a year earlier.

General government revenue (including grants) improved by 29.2 percent in 2010/11 compared to last year. The ratio of revenue to GDP was 13.5 percent, almost the same as last fiscal year. General government expenditure also went up by 31.5 percent while its ratio to GDP fell to 18.4 percent from 18.6 percent a year ago (Table 6.1).

Table 6.1: Measuring Fiscal Sustainability (In %)

Fiscal Year	PD/GDP	IP/RR	Debt/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
2008/09	-0.9	3.2	14.8	28.7	35.1	17.2	12.2	34.8
2009/10	-1.3	2.9	11.9	2.3	14.3	18.6	14.1	34.1
2010/11	-1.6	2.2	26.5	29.8	33.5	18.4	13.5	28.3

Source: 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

6.2 Revenue and Grants

Under the review period, Birr 85.6 billion (including grants) was collected which was close to the planned target. It increased by 29.2 percent as a result of improved tax administration and economic growth. Its share in GDP was 16.7 percent. Of the total domestic revenue, about 85.3 percent was generated from taxes, and 14.7 percent was from non-taxes.

Tax revenue rose 36.2 percent in the fiscal year owing to a 31.2 percent growth in direct taxes, which largely constitute personal income and business taxes. These taxes alone accounted for

96.2 percent of the direct taxes. The share of rural and urban land use fee, however, was only 3.8 percent. Revenue from indirect taxes was Birr 39.4 billion and its share in total tax revenue reached 66.9 percent.

About 60.2 percent of the indirect tax revenue was generated through import duties whose share grew by about 34.2 percentage points over last year.

Non-tax revenue reached Birr 10.1 billion showing a 3.9 percent decline largely due to lower income from government investment income.

External grants showed a 33.3 percent increase compared to last year.

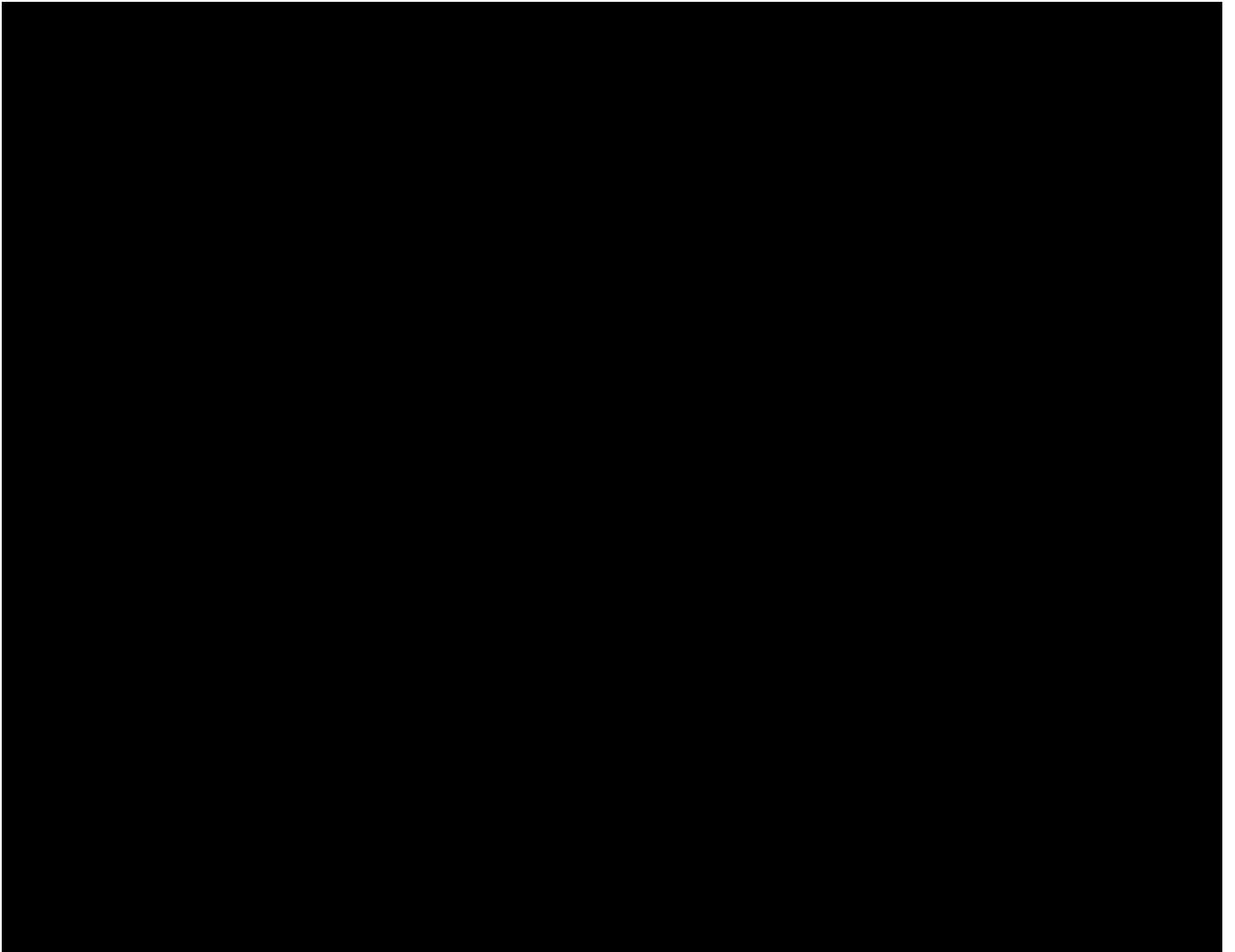


Table 5.2: Summary of General Government Revenue by Component

(In Million of Birr)

Particulars	2009/10	2010/11		Percentage Change	Performance Rate
	[A]	[B]	[C]	[C/A]	[C/B]
	Pre. Act	Revised Budget	Pre. Act		
Total Revenue and Grants	66,237	86164.2	85,611	29.2	99.4
Total Revenue 1/	53,861	66172.5	69,120	28.3	104.5
Tax Revenue	43,315	56,173	58,981	36.2	105.0
1. Direct Tax Revenue	14,903	19,517	19,550	31.2	100.2
<i>1.1 Income and Profit Taxes</i>					
<i>Personal</i>	14,027	17,403	18,809	34.1	108.1
<i>Business</i>	4,391	5,321	5,733	30.6	107.8
<i>Others 2/</i>	7,391	9,619	10,055	36.0	104.5
<i>Others 2/</i>	2,245	2,464	3,021	34.5	122.6
<i>1.2 Rural Land Use Fee</i>	270	315	317	17.3	100.4
<i>1.3 Urban Land Use Fee</i>	606	1,798	424	-30.1	23.6
2. Indirect Taxes	28,412	36,656	39,431	38.8	107.6
<i>2.1 Domestic Taxes</i>	10,727	13,225	15,705	46.4	118.8
<i>2.2 Foreign Trade Taxes</i>	17,685	23,431	23,726	34.2	101.3
<i>Import</i>	17,685	23,431	23,726	34.2	101.3
<i>Export</i>	-	-	-	-	-
3. Non-Tax Revenue	10,546	9,999	10,139	-3.9	101.4
<i>3.1 Charges and Fees</i>	489	737	970	98.4	131.7
<i>3.2 Govt. Invt. Income 3/</i>	6,979	5,602	4,476	-35.9	79.9
<i>3.3 Reimb. And Property Sales</i>	108	113	194	80.2	172.3
<i>3.4 Sales of Goods & Services</i>	1,032	1,603	1,775	71.9	110.7
<i>3.5 Others 4/</i>	1,939	1,945	2,725	40.6	140.1
4. Grants	12,376	19992	16,491	33.3	82.5

Source: Ministry of Finance and Economic Development

1/ It does not include privatization proceeds

2/ Others include rental income tax, with holding income tax on imports, interest income tax, capital gains tax, agricultural income and other incomes

3/Gov. Investment income includes : Residual surplus, capital charge, interest payments and state dividend

4/ Other extra ordinary, miscellaneous, pension contribution and other revenue

6.3 Expenditure

General government expenditure amounted to Birr 93.8 billion exhibiting 31.5 percent growth over last year. Its share in GDP declined marginally to 18.4 percent from 18.6 percent last fiscal year.

Recurrent expenditure at Birr 40.5 billion went up by 26.6 percent over last fiscal year and accounted for 43.2 percent of total expenditure and 7.9 percent of GDP. The largest share of the current expenditure went to finance social and general services.

Capital expenditure reached Birr 53.3 Billion from Birr 39.3 Billion of a year earlier on account of higher spending on all its components.

About 81.4 percent of the capital spending was for poverty related programs (like education, health and food security etc.). Its share in GDP stood at about 10.4 percent.

In summary, expenditure performance rate was 95.4 percent of the annual budget.

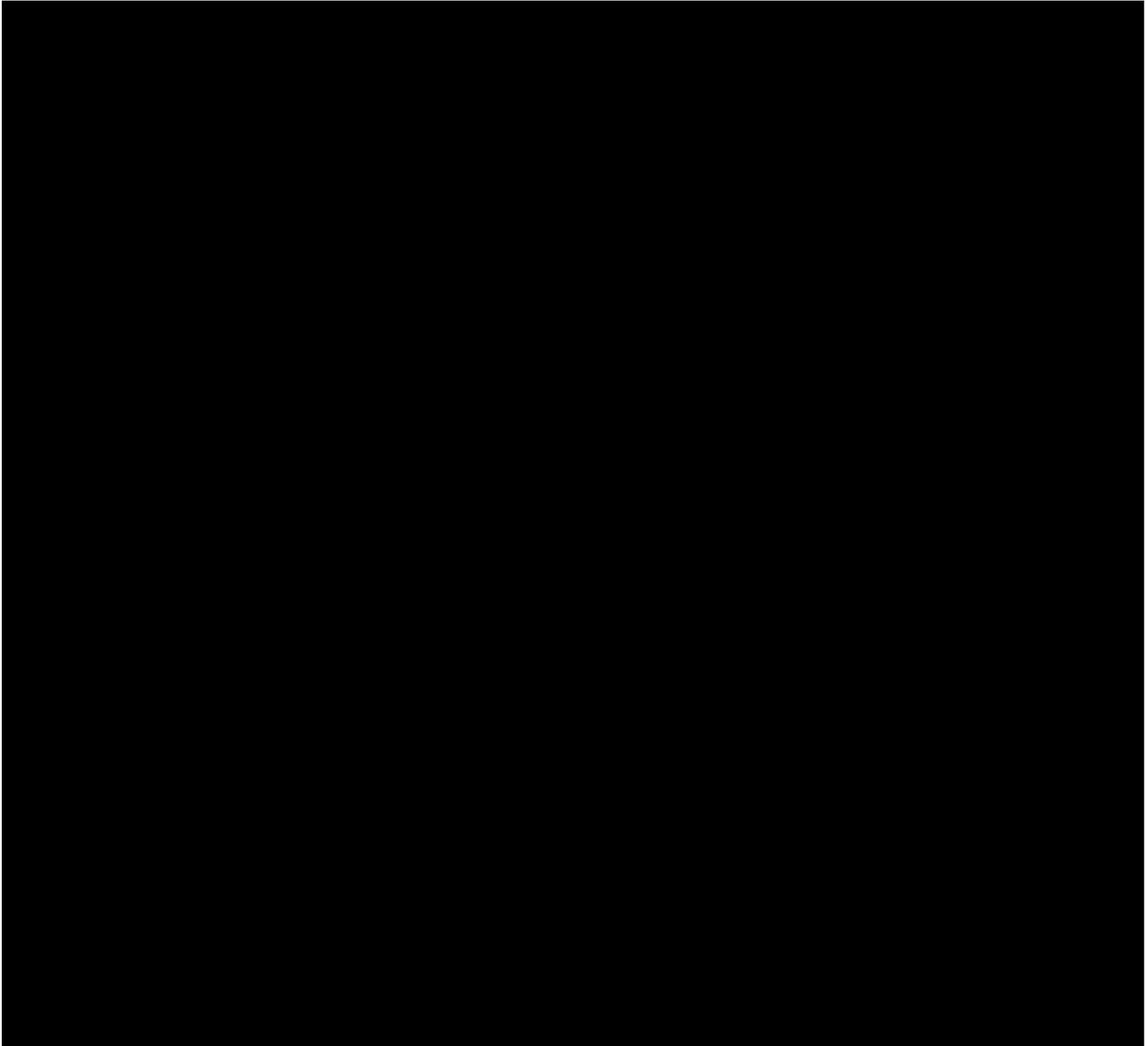
Table 6.3: Summary of General Government Expenditure

(In Million Birr)

Particulars	2009/10	2010/11		Percentage Change	Performance Rate
	[A]	[B]	[C]	[C/A]	[C/B]
	Pre actual	Revised Budget	Pre actual		[C/B]
Total Expenditure	71,335	98,406	93,831	31.5	95.4
1. Current Expenditure	32,012	43,246	40,535	26.6	93.7
<i>General Services</i>	12,864	12,666	15,655	21.7	123.6
<i>Economic Services</i>	4,064	4,840	5,325	31.0	110.0
<i>Social Services</i>	12,349	15,397	16,057	30.0	104.3
<i>Interest and Charges</i>	1,587	2,326	1,913	20.5	82.2
<i>External Assistance*</i>	631	750	338	-46.5	45.0
<i>Others (miscellaneous)</i>	517	7,268	1,248	141.4	17.2
2. Capital Expenditure	39,322	55,159	53,297	35.5	96.6
Economic Development	27,240	33,949	35,310	29.6	104.0
Social Development	9,793	17,364	14,707	50.2	84.7
General Development	2,289	3,846	3,280	43.3	85.3
3. Special programs	-	-	-	-	-

Source: Ministry of Finance and Economic Development

Note: * value estimated



Source MoFED

6.4. Deficit Financing

General government budgetary operations resulted in a deficit of Birr 8.2 billion during the review year, about 61.3 percent higher than a year earlier. Fiscal deficit as percentage GDP was 1.6

percent. More than 94 percent of the deficit was financed by net external borrowing. While the remaining balance was covered by net domestic borrowing and privatization receipts.

Table 6.4 Summary of General Government Finance

(In Million Birr)

Particulars	2009/10	2010/11		Percentage Change	performance rate
	[A]	[B]	[C]	[C/A]	[C/B]
	Pre. Act	Revised Budget	Pre. Act		
Revenue and Grants	66,237	86,164	85611.2	29.2	99.36
Revenue	53,861	66,172	69119.9	28.3	104.45
Grants	12,376	19,992	16491.4	33.3	82.49
Total Expenditure	71,335	98,406	93831.4	31.5	95.35
Current Expenditure	32,012	43,246	40534.7	26.6	93.73
Capital Expenditure	39,322	55,159	53296.7	35.5	96.62
Overall Surplus/ Deficit					
(Including Grants)	(5,097)	(12,242)	(8220.2)	61.3	67.15
(Excluding Grants)	(17,473)	(32,234)	(24711.5)	41.4	76.66
Total Financing	5,097	12,242	8220.2	61.3	67.15
Net External Borrowings	4,131	4,520	7797.6	88.7	172.51
Gross Borrowing	4,446	5,126	8435.5	89.7	164.56
Amortization Paid	459	748	770.3	68.0	102.98
HIPC relief & MDRI	144	142	132.4	-7.8	93.35
Net Domestic Borrowings	1,758	7,356	111.2	-93.7	1.51
Banking System	1,382	7,356	(3039.5)	-319.9	(41.32)
Non-Banking Systems	375	-	3150.7	739.5	
Privatization Receipts	697	366	1457.6	109.0	398.25
Others and Residuals	(1,489)	(0)	-1146.3	-23.0	

Source: Ministry of Finance and Economic Development

VII. INVESTMENT

The Ethiopian Investment Agency and regional Investment Offices licensed some 56,421 investment projects with an aggregate capital of Birr 1.1 trillion during 1992/93 – 2010/11. Of these projects, 47,420 (or 84.1 percent) were domestic, 8,896 (or 15.7 percent) foreign and 105 (or 0.2 percent) public. In terms of capital, Birr 424.1 billion (or 39.4 percent) was attributed to domestic investors, Birr 382.2 billion (or 35.4 percent) to foreign investors and Birr 272.4 billion (or 25.2 percent) to the public sector (Table 7.1).

In 2010/11, a total of 6,322 investment projects with a combined capital of Birr 249.5 billion were approved, a record high in a single year since 1992/93.

Domestic investment accounted for more than 84 percent of the total projects approved during the review period. The number of foreign projects reached 952

which were 33 percent lower than the same period last year.

With regard to investment capital, domestic private projects which make up Birr 42.1 billion or 17 percent while foreign investment projects accounted for Birr 53.4 billion (or 21 percent) of the total approved investment capital the rest 62 percent investment was carried out by the government.

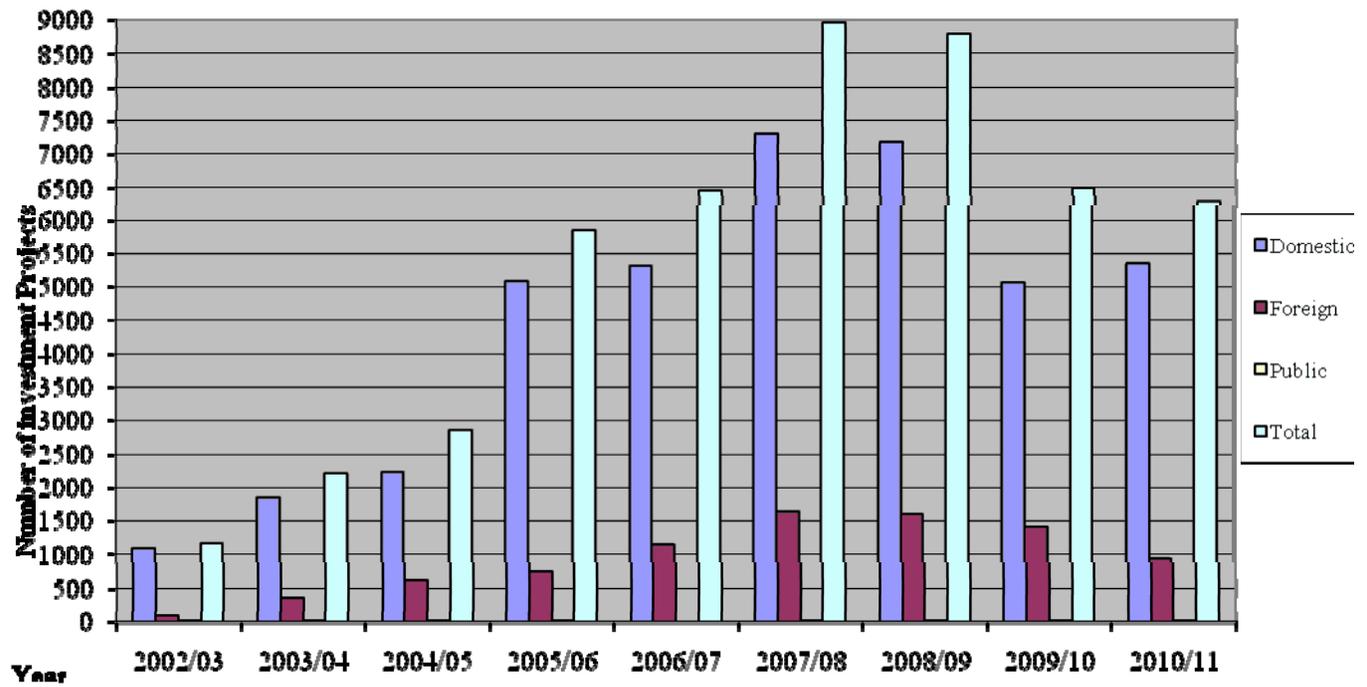
Upon commencement of operation, the approved investment projects are expected to create job opportunities for 227,715 permanent and 586,380 casual workers (Table 7.2).

Table 7.1: Number and Investment Capital of Approved Projects by Ownership since 1992/93*(Investment 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	3	233	0	0.00	545	3,983.0
1993/94	521	2,926	4	438	1	57.00	526	3,421.0
1994/95	684	4,794	7	505	2	39.00	693	5,338.0
1995/96	897	6,050	10	434	1	6.00	908	6,490.0
1996/97	752	4,447	42	2,268	1	7.00	795	6,722.0
1997/98	816	5,819	81	4,106	1	14.00	898	9,939.0
1998/99	674	3,765	30	1,380	9	4,915.00	713	10,060.0
1999/00	561	6,740	54	1,627	9	5,760.00	624	14,127.0
2000/01	635	5,675.7	45	2,923	7	257.00	687	8,856.0
2001/02	756	6,117.3	35	1,474	10	1,598.80	801	9,190.2
2002/03	1,127	9,362.9	84	3,369	6	706.11	1,217	13,437.9
2003/04	1,862	12,177.7	347	7,205	16	1,837.04	2,225	21,220.0
2004/05	2,240	19,571.7	622	15,405	10	1,486.48	2,872	36,463.3
2005/06	5,100	41,841.1	753	19,980	6	18,215.08	5,859	80,036.3
2006/07	5,322	46,630.1	1,150	46,949	0	0.00	6,472	93,579.0
2007/08	7,307	77,868.2	1,651	92,249	3	261.56	8,961	170,378.5
2008/09	7,184	83,630.2	1,613	73,111	10	82,783.52	8,807	239,524.8
2009/10	5,080	40,852.2	1,413	55,169	3	393.89	6,496	96,415.4
2010/11	5,360	42,093	952	53,357	10	154,019	6,322	249,469
Average Annual	2,496	223,22	468	20,115	6	14,335	2,969	56,771
Cumulative	47,420	424,111	8,896	382,182	105	272,356	56,421	1,078,650

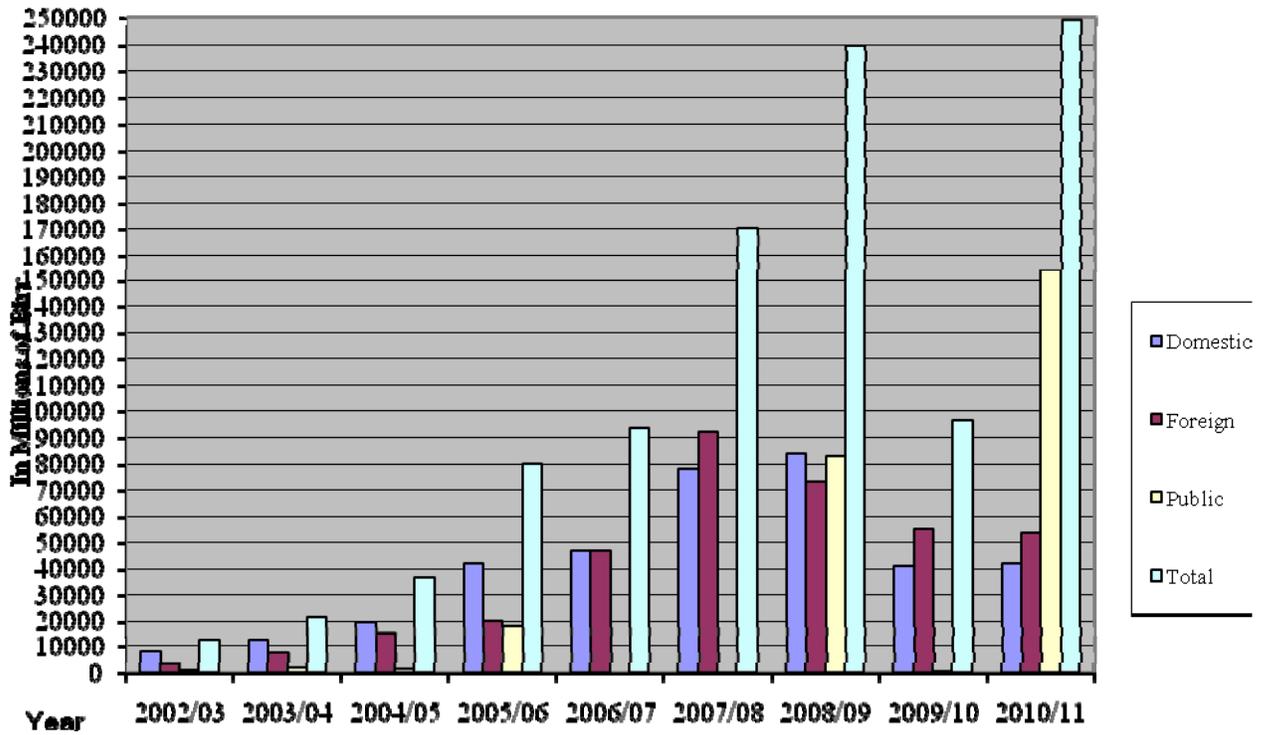
Source: Ethiopian Investment Agency

Fig. VII.1 Approved investment projects by source



Source: Ethiopian Investment Agency

Fig. VII.2 Capital of Approved Investment Projects by Source



Source: Ethiopian Investment Agency

Table 7.2 Numbers, Capital and Expected Job Opportunities

(Capital in millions of Birr)

		2008/09	2009/10	2010/11	Percentage change	
		A	B	C	C/A	C/B
1. Total Investment	Number	8,807	6,496	6,322	-28.2	-2.7
	Capital	239,525	96,415	249,469	4.2	158.7
	Permanent Workers	614,172	224,633	227,715	-62.9	1.4
	Casual Workers	1,166,468	488,330	586,380	-49.7	20.1
2. Total Private	Number	8,797	6,493	6,312	-28.2	-2.8
	Capital	156,741	96,022	95,450	-39.1	-0.6
	Permanent Workers	405,296	223,161	212,470	-47.6	-4.8
	Casual Workers	868,166	488,162	412,117	-52.5	-15.6
3. Domestic	Number	7,184	5,080	5,360	-25.4	5.5
	Capital	83,630	40,852	42,093	-49.7	3.0
	Permanent Workers	196,420	152,283	146,378	-25.5	-3.9
	Casual Workers	569,864	311,185	283,277	-50.3	-9.0
4. Foreign	Number	1,613	1,413	952	-41.0	-32.6
	Capital	73,111	55,169	53,357	-27.0	-3.3
	Permanent Workers	208,876	70,878	66,092	-68.4	-6.8
	Casual Workers	298,302	176,977	128,840	-56.8	-27.2
5. Public	Number	10	3	10	0.0	233.3
	Capital	82,784	394	154,019	86.0	39002.4
	Permanent Workers	208,876	1,472	15,245	-92.7	935.7
	Casual Workers	298,302	168	174,263	-41.6	103628.0

Source: Ethiopian Investment Agency

Table 7.3 Number and Capital of Investment Projects Approved by Sector*(Capital in millions of Birr)*

Sectors	2008/09		2009/10		2010/11		Percentage Share to total in 2010/11	
	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital
Manufacturing	1804	58351.11	1,433	35,583	1,294	43,530	20.47	17.45
Agriculture, hunting and forestry	2455	47153.74	1,342	21,625	907	82,769	14.35	33.18
Real estate, renting and Business activities	1506	21489.76	1,155	11,617	1,652	10,439	26.13	4.18
Hotel and restaurants	1091	10466.32	617	10,463	609	9,968	9.63	4.00
Education	249	5664.00	181	1,464	143	1,586	2.26	0.64
Health and social work	155	2255.24	99	2,519	87	1,143	1.38	0.46
Construction	826	81162.70	942	9,924	947	11	14.98	0.00
Construction Machinery Leasing				0			0.00	0.00
Wholesale, retail trade and repair service	242	2712.63	154	893	158	586	2.50	0.23
Transport, storage and communication	346	1510.43	477	1,596	413	1,743	6.53	0.70
Fishing	7	100.21	8	19	1	8	0.02	0.00
Mining and quarrying	25	317.84	9	358	17	222	0.27	0.09
Electricity, gas, steam and water supply	12	7825.13	4	33	7	85,570	0.11	34.30
Public administration and defense; compulsory social security	0	0.00		0.00			0.00	0.00
Other community, social and personal service activities	89	515.68	75	321	87	756	1.38	0.30
Grand Total	8807	239525	6496	96415	6322	249,469	100	100

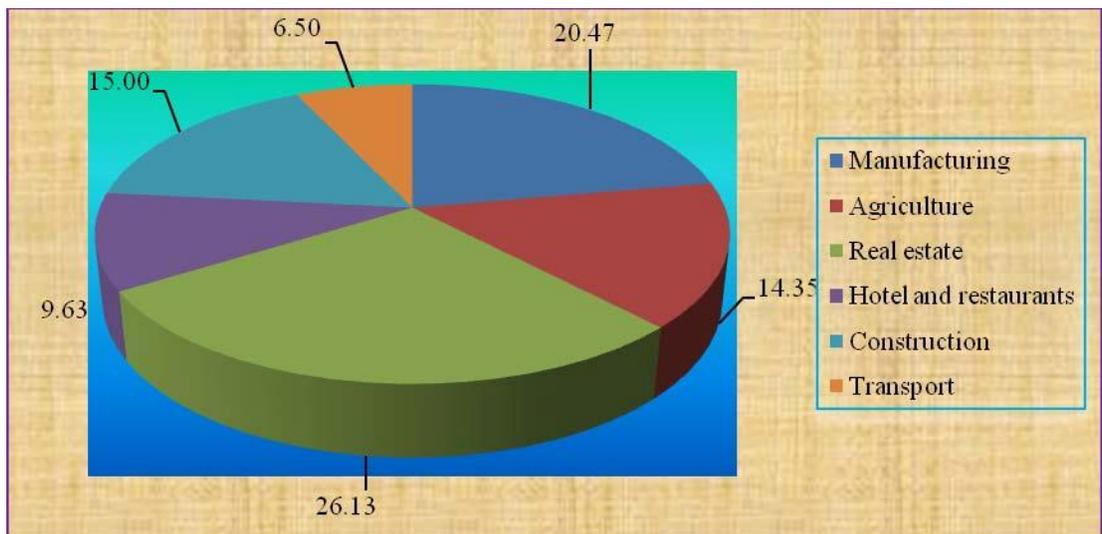
Source: Ethiopian Investment Agency

7.1 Investment by Sector

About 20.5 percent of the approved projects were in manufacturing; 14.4 percent in agriculture, hunting and forestry; 26.1 percent in real estate, renting and business activities; 15 percent in construction and 9.6 percent in hotel and restaurants.

In terms of approved investment capital, Electricity, gas, steam and water supply accounted for 34 percent followed by Agriculture, hunting and forestry (33.2 percent) and Manufacturing (17.5 percent).

Fig. VII.3 Distribution of Major Investment Projects by Sector in 2010/11 (in %)



Source: Ethiopian Investment Agency

7.2 Distribution by Region

The regional distribution of the approved investment projects depicted that Addis Ababa attracted 3,221 projects with Birr 30.6 billion investment capital, followed by Oromia 1,386 projects, with Birr 32.2

billion, Amhara 722 projects with Birr 32.7 billion; Tigray 349 projects with Birr 11.1 billion capital and SNNPR with 160 projects and Birr 49.7 billion capital.

Table 7.4: Number and Capital of Approved Projects by Region

(Capital in millions Birr)

Regions	2008/09		2009/10		2010/11		percentage share to Total	
	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital
Tigray	543	10862.8	626	7,224	349	11,112	5.52	4.45
Afar	46	4880	32	1,307	26	399	0.41	0.16
Amhara	1,425	12167.2	743	17,371	722	32,753	11.42	13.13
Oromia	2,689	63572.5	1,558	20,739	1,386	32,219	21.93	12.92
Somali	11	55.7	58	345	127	2,738	2.01	1.10
Benishangul-Gumuz	182	643.9	111	1,389	56	81,611	0.89	32.71
SNNPR	543	4487.8	163	2,020	160	49,751	2.53	19.94
Gambella	132	681.04	11	2,675	14	3,920	0.22	1.57
Harari			2	7	48	276	0.76	0.11
Addis Ababa	2,773	120471.3	2,902	29,195	3,221	30,627	50.97	12.28
Dire Dawa	190	8078.9	172	1,455	207	2,995	3.28	1.20
Multiregional Projects	273	13623.4	118	12,689	6	1,067	0.09	0.43
Grand Total	8,807	239,524.8	6496	96415.44	6322	249,469	100	100

Source: Ethiopian Investment Agency

8.1 International Economic Developments

8.1.1 Overview of World Economy³

In 2010, global economic activity continued to recover from the severe recession recorded during the global financial crisis. Particularly in the first half of the year, the economic upturn was sustained by monetary and fiscal policy stimulus measures, some further normalization of global financing conditions and improvements in consumer and business confidence. In addition, a prolonged inventory cycle supported the global economic recovery, as firms rebuilt their stocks in response to a more favorable global economic outlook. In fact, the restocking contributed significantly to GDP growth in major economies over this period. Accordingly, the global composite Purchasing Managers' Index (PMI) continued to recover in early 2010 and reached a peak of 57.7 in April, which was above the levels prevailing just before the intensification of the global economic crisis after the collapse of Lehman Brothers in September 2008.

The overall improvement in the economic situation and the rebound in activity – which

was led by the manufacturing sector – were accompanied by a strong recovery in world trade, as reflected in very buoyant export and import growth rates, particularly in the first half of the year. However, the pace of the recovery was rather uneven across regions. In advanced economies, the upturn remained fairly modest. At the same time, emerging economies, particularly in Asia, led the global recovery, even raising concerns about overheating pressures in several countries. Global employment indicators also gradually improved in the course of the year, following widespread job losses throughout the preceding two years.

In the second half of the year, the global recovery temporarily lost some momentum in the light of waning support from the global inventory cycle and the retrenchment of fiscal stimuli, but the recovery seemed to have moved onto a more self-sustained trajectory. Several countries also announced consolidation measures to address the precarious fiscal situation. The process of balance sheet adjustment in various sectors and subdued labour market developments, particularly in advanced economies, further dampened the recovery of the world economy. Correspondingly, global trade

³ Excerpted from European Central Bank, Annual Report 2010.

dynamics also slowed down in the second half of 2010, six months. However, available information suggests that the growth momentum picked up again at the turn of the year.

In the United States, the economy continued to recover in 2010. A modest cyclical upswing gained traction, with the support of substantial macroeconomic policy stimuli and a gradual improvement in financial conditions. The recovery in private domestic demand was slow by historical standards, reflecting subdued growth in consumer spending. Household consumption remained constrained by high unemployment, low confidence and continuing efforts to repair stretched balance sheets. A strong rebound in business investment in equipment and software was an important driver of the recovery, underpinned by improving access to credit, as well as solid corporate profitability against the background of cost-cutting measures implemented during the downturn. Growth was also supported by temporary factors such as government policies enacted to foster the economic recovery and the

restocking of inventories. The housing sector failed to improve: after tentatively increasing in the first half of the year, housing activity and prices weakened again in the second half following the expiration of some housing support initiatives.

Economic activity in Canada picked up rapidly in early 2010, after emerging from the recession in mid-2009, supported by solid domestic demand, macroeconomic stimuli and a rebound in exports. By the third quarter of 2010, however, the recovery had lost momentum owing to a slowdown in construction activity, coupled with a negative net trade contribution to growth. Labour market conditions were relatively favourable, as they continued to improve gradually in parallel with the evolving economic upturn. However, despite declining to 7.6% in December 2010, the unemployment rate remained well above its pre-recession levels. Economic activity continued to be supported by a low interest rate environment, stable financial market conditions and a resilient banking system, which allowed for a continued flow of credit to businesses and households.

Table 8.1 Overview of World Economic Outlook and Projection

(Annual Percentage Change)

	2009	2010	Projection	
			2011	2012
World Output	-0.7	5.1	4.0	4.0
Advance Economies	-3.7	3.1	1.6	1.9
United States	-3.5	3.0	1.5	1.8
Euro Area	-4.3	1.8	1.6	1.1
Japan	-6.3	4.0	-0.5	2.3
Other Emerging Markets and Developing Countries	2.8	7.3	6.4	6.1
World Trade Volume (goods and services)	-10.7	12.8	7.5	5.8
Import				
Advance Economies	-12.4	11.7	5.9	4.0
Other Emerging Markets and Developing Countries	-8.0	14.9	11.1	8.1
Export				
Advance Economies	-11.9	12.3	6.2	5.2
Other Emerging Markets and Developing Countries	-7.7	13.6	9.4	7.8
Commodity Prices				
Oil	-36.3	27.9	30.6	-3.1
Non-Oil	-15.7	26.3	21.2	-4.7
Consumer Price				
Advance Economies	0.1	1.6	2.6	1.4
Other Emerging Markets and Developing Countries	5.2	6.1	7.5	5.9

Source: IMF, World Economic Outlook, September, 2011.

Following the sharp contraction experienced in 2008-09, euro area economic growth turned positive again at the end of 2009 and continued to grow in 2010. Quarterly real GDP growth rates in the first half of 2010 were better than expected, reflecting in part considerable support from fiscal stimuli and the accommodative monetary policy stance, as well as the rebound in global economic activity. In line with expectations, economic growth moderated somewhat in the second

half of the year, while the underlying momentum of the euro area recovery remained positive. Overall, euro area real GDP increased by around 1.8% in 2010 after having contracted by 4.3% in 2009.

In Japan, the economic recovery continued during the first three quarters of 2010, supported by the implementation of accommodative monetary policy and a substantial fiscal stimulus. The improvement in the economic situation in Japan was also

aided by strong global demand, in particular from the Asian emerging economies, especially in the first half of 2010. In the second half of the year, the contribution from the external sector declined, owing to the moderation of world trade growth, while domestic spending remained firm. However, towards the end of the year, as a result of volatility in domestic spending following the withdrawal of the government stimulus, the economic recovery in Japan hit a soft patch, resulting in a deterioration in business sentiment. Labor market conditions improved somewhat over 2010, although the unemployment rate remained rather high by historical standards.

Emerging Asia's resilience to the global economic and financial crisis was demonstrated by very strong economic performance across the region in 2010, with an area-wide GDP growth rate of 9.1%. While supportive fiscal and monetary policies were gradually withdrawn and the contribution of net exports declined in the second half of the year, domestic private demand and, notably, gross fixed investment took over as the main drivers of economic growth, especially in India and Indonesia. Overall economic performance remained robust in the second half of 2010, although the pace of expansion slowed down

somewhat compared with the previous six months.

Real GDP growth in China accelerated to 10.3% in 2010, from 9.2% in 2009. The vigorous economic performance reflected increasing contributions from private investment and net exports, which counterbalanced the negative impact of the gradual withdrawal of policy stimuli. However, the relative contribution of consumption to growth decreased and the current account surplus widened in nominal terms in 2010, evidence of the persistence of internal and external imbalances.

Latin America's economic activity continued to recover rapidly in 2010. GDP growth was particularly robust in the first half of the year, mainly owing to buoyant domestic demand which more than offset the outstanding negative contribution of external demand (about 3 percentage points in the third quarter) to GDP growth. Thereafter, the growth momentum slowed down somewhat as policy stimulus measures were withdrawn and foreign demand weakened. In year-on-year terms, real GDP for the region as a whole increased by 6.0% on average in the first three quarters of 2010. Gross capital formation, including inventory accumulation and private consumption were the main

drivers of regional growth. Investment was spurred on by the improved growth outlook, the rise in commodity prices, the decline in real interest rates and the greater availability of financing, which, in some countries, was enhanced by lending by public banks. Private consumption growth was sustained by a rapid recovery in confidence as well as employment and real wages.

The SSA region is showing solid macroeconomic performance, with many economies already growing at rates close to their pre-crisis averages. The global slowdown has not significantly affected the region thus far, but downside risks have risen. Real activity in the region expanded strongly in 2010 and so far in 2011. Robust private and public consumption underpinned this strength, as many countries used available macroeconomic policy room to help speed the recovery from the crisis-induced slowdown.

A further deterioration of the global economic environment could have substantial spillovers to the SSA region. A faltering U.S. or European recovery could undermine prospects for exports, remittances, official aid, and private capital flows. The region is poised for continued economic expansion in the near term,

provided the recent rise in financial and economic instability in major advanced economies remains contained. Real GDP growth in the SSA region is projected to average 5.3 to 5.8 percent during 2011–12, with considerable differences across the region.

8.1.2 World Trade

Trade has been an important driver of the global economic recovery in 2010 as the performance of global volume of trade in goods and services depicted 12.8 percent growth from a 10.7 percent decline in 2009. The pace of growth in global volume of trade in goods and service is, however, expected to slow down to 7.5 percent in 2011 and further to 5.8 percent in the subsequent year. Imports in advanced economies also went up by 11.7 percent in 2010 in contrast to a 12.4 percent fall in the preceding year. Import growth in these countries are anticipated to grow by 6 and 4 percent in the following two years respectively. Likewise, exports in advanced nations recorded a 12.3 percent growth in 2010 following a 12 percent decline in 2009. Growth in exports of these economies are forecasted to slow down to 6.2 and 5.2 percent in the next two years respectively.

The volume of export of goods and services in other emerging markets and developing countries expanded by 13.6 percent while imports increased by 15 percent in 2010 against a 7.7 and 8 percent contraction respectively in the previous year. Growth in exports and imports of these countries are anticipated to slow down moderately to 9.4 and 11.1 percent respectively in 2011.

Having contracted sharply during the recession, the US current account deficit widened modestly with the onset of the recovery and averaged 3.3% of GDP in the first three quarters of 2010, up from 2.7% in 2009.

In 2010, the current account of the euro area recorded a deficit of €56.4 billion (or 0.6% of euro area GDP), compared with a deficit of €51.4 billion in 2009. These developments resulted from a decrease in the deficit in the income balance of €18.6 billion, while the trade balance in services remained somewhat stable. However, the trade balance in goods worsened during 2010, counterbalancing the improvement in the income balance. After the rebound in trade in early 2009 and the improvement in the trade balance over 2009, the goods balance continued to register a surplus in 2010 that was €16.2 billion lower than the

surplus recorded in 2009. Finally, the deficit in the current transfers balance deteriorated by €8.2 billion in 2010.

8.1.3 Inflation and Commodity Prices

In spite of a gradual increase in commodity prices, mostly in the second half of the year, inflationary pressures in advanced economies remained subdued in 2010 – with some notable exceptions, such as the United Kingdom – on account of well-anchored inflation expectations and the prevailing spare capacity. This contrasted with dynamic emerging markets where inflationary pressures were more pronounced, partly on account of higher commodity prices as well as rising capacity constraints. Amid persisting concerns regarding inflation resulting from overheating, several central banks in emerging economies decided to withdraw some of the exceptional liquidity measures introduced in response to the crisis and to tighten their monetary policy stances.

Headline annual consumer price inflation in the OECD area declined gradually during 2010, from a peak of just above 2% in January 2010 to 1.6% in August, before edging up again to stand at 2.1% in December. This is also consistent with developments in the PMI for input prices,

which also increased in the second half of 2010 and in January 2011 stood at the highest level in almost two and a half years. Higher food and energy prices contributed to this increase. Excluding food and energy, annual consumer price inflation in the OECD area declined throughout the year, from 1.6% at the beginning of 2010 to 1.2% in December.

In the context of a modest economic recovery, price developments in United States remained subdued as upward cost pressures were limited by the persistent slack in product and labour markets. The annual change in the CPI for 2010 rose to 1.6% from -0.4% the year before, on account of rising energy costs. Excluding food and energy, CPI inflation continued to slow and averaged 1.0% for the whole year, down from 1.7% in 2009.

In Canada, headline and core CPI inflation stayed within the central bank's target inflation range of 1% to 3%. Annual headline CPI inflation trended upwards in the second half of 2010 and stood at 2.4% in December, reflecting the impact of higher energy and food prices, while core inflation was 1.5% in December, following a gentle deceleration in the course of 2010.

Consumer prices in Japan fell throughout most of 2010, on a year-on-year basis, owing to substantial slack in the economy. In October, however, annual CPI inflation turned positive for the first time in almost two years, driven partly by an increase in tax on cigarettes and higher commodity prices, while annual CPI inflation excluding food and energy, although moderating, continued its deflationary trend.

Inflationary pressures in the Euro area remained moderate in 2010, with some upward pressure emerging at the end of the year and in early 2011. The average annual inflation rate in 2010 stood at 1.6%. Month-on-month developments in the inflation rate were noteworthy, as annual HICP inflation gradually increased in 2010, rising from a low of 0.9% in February to 2.2% in December. The gradual increase in HICP inflation mainly reflected developments in commodity prices, driven by the global economic recovery and by base effects. Market-based and survey-based measures of long-term inflation expectations remained broadly anchored at levels consistent with the Governing Council's aim of keeping inflation rates below, but close to 2% in the medium term.

After recording very low consumer price inflation rates in 2009, inflationary pressures in emerging Asia increased markedly during 2010. Annual CPI inflation for the region stood at 5% in December 2010, mainly on account of rising food and commodity prices. Most central banks in the region started to tighten their monetary stances in the second half of 2010, reducing the monetary stimuli introduced in the previous year.

Inflationary pressures in China increased during the year, with CPI inflation reaching 4.6% in annual terms in December, mainly on account of rising food prices. Property price pressures emerged against the background of ample liquidity, ongoing loose credit conditions and negative real interest rates on deposits.

In early 2010, notwithstanding sizeable differences across Latin America countries, inflation in most of the countries with inflation-targeting arrangements moved significantly closer to the respective target value. However, in the context of strong growth in economic activity and rising commodity prices, inflationary pressures started to rise later in the year and some countries began to reverse part of the monetary stimuli deployed during the crisis.

From April onwards several central banks in the region initiated a cycle of official interest rate rises.

Across the SSA region, there has been a marked increase in inflation. The earlier surge in commodity prices risks fueling inflation further amid the limited economic slack of the LICs (for example, Uganda), especially in net staple importers (such as Ethiopia) or where there is significant pass-through from international to domestic food prices (for example, Kenya). Among oil exporters, inflation is projected to remain high, dominated by price developments in Nigeria and Angola, where rapid monetary expansion before the crisis (Nigeria) and a sharp increase in domestic fuel prices (Angola) fed into price increases.

After having remained broadly stable amid some volatility in the first half of 2010, oil prices began to increase steadily in August, with the Brent crude oil price standing at USD 113 per barrel on 25 February 2011, compared with USD 78 per barrel at the beginning of 2010. In US dollar terms, the level reached at the end of February 2011 was broadly similar to that recorded in May 2008. For the year 2010 as a whole, the average price of Brent crude oil was USD 80

per barrel, i.e. 29% above the average of the previous year.

The oil price increases came against the background of a recovery in global oil demand, which strengthened throughout the year, and was supported by the global economic recovery, as well as by weather conditions in the northern hemisphere in the second part of the year. This growth in demand also led to a reassessment of future demand prospects, which looked much more robust than one year earlier and suggested that the market might tighten in the future. One indication of this was the stream of repeated upward revisions of demand projections by the International Energy Agency, both for emerging and developed economies. On the supply side, the output in North America and in former Soviet Union countries proved to be higher than foreseen, but on the other hand, OPEC decided not to raise its production quotas in 2010, despite its ample spare capacity. In the context of buoyant demand, this led to a substantial drawdown in OECD inventories, which nevertheless remained at high levels by historical standards. In the first two months of 2011 geopolitical events in North Africa and the Middle East further tightened the supply side of the market, thereby accelerating the increase in prices.

The prices of non-energy commodities also increased in 2010, amid robust demand from emerging economies and supply constraints. Metal prices, in particular of copper, nickel and tin – posted significant gains, which were also sustained by buoyant imports by emerging economies. On the back of supply constraints, food prices also increased, led in particular by maize, sugar and wheat. In aggregate terms, non-energy commodity prices (denominated in US dollars) were about 36% higher towards the end of February 2011 compared with the beginning of 2010.

8.1.4 Exchange Rates

Exchange rate developments in 2010 were to a large extent shaped by the economic recovery, fiscal conditions and monetary policy around the world. Developments were somewhat volatile in many advanced economies, as the economic recovery was still vulnerable and dependent on the support of fiscal and monetary policies. In the first half of the year, the euro depreciated against several major currencies, reflecting rising concerns about the sovereign debt situation in some euro area countries. This uncertainty also resulted in an increase in the implied volatility of the euro exchange rate against

major currencies in May and June. In the second half of 2010, the euro rebounded, amid some volatility, owing mostly to the alleviation of concerns about sovereign debt, as well as more positive than expected macroeconomic news for the euro area. The overall appreciation was driven mainly by developments in the USD/EUR exchange rate.

In the course of 2010, the euro depreciated by 8.2% in effective terms as measured against the currencies of 20 of the euro area's important trading partners. As a consequence, the average level of the nominal effective exchange rate in 2010 was 6.3% lower compared with 2009. In 2010 the euro stood 5.5% higher than the historical average since 1999.

The euro traded at USD 1.34 on 31 December 2010, about 7.3% lower than at the beginning of 2010 and 4.2% weaker than its average in 2009. The depreciation of the euro vis-à-vis the US dollar in the first half of 2010 was driven by a stronger macroeconomic recovery in the United States than in the euro area in early 2010. In the second half of 2010, the euro strengthened against the US dollar in response to the approval by the US

authorities of an additional economic stimulus.

In the first half of 2010 the euro also continued to depreciate vis-à-vis the Japanese yen, completely reversing its appreciation in 2009. Throughout the remainder of 2010, the bilateral JPY/EUR exchange rate fluctuated within a rather narrow range, with the euro trading between JPY 105 and JPY 115. The euro traded at JPY 108.65 on 31 December 2010, lower by 18.4% than at the beginning of the year and 16.7% below its average for 2009. Volatility in the JPY/EUR exchange rate increased sharply in May and June 2010, before declining in the second half of 2010.

In 2010, the euro depreciated against the Pound Sterling by 3.1% from GBP 0.89 to GBP 0.86. The euro depreciated against the Pound Sterling in the first half of 2010 amid market concerns over fiscal sustainability in some euro area countries. In the second half of the year, the euro recovered some of the earlier losses. By the end of 2010, the euro bilateral exchange rate against the Pound Sterling was still above its historical average since 1999, owing to the appreciation that occurred in 2008 and early 2009. In 2010, the euro depreciated against the Swiss Franc by 15.7%. Until June 2010, the depreciation

was moderated as a result of interventions by the Swiss National Bank. In the second half of 2010, the euro further depreciated against the Swiss Franc significantly, amid some volatility.

8.1.5 Capital Flows

Given emerging Asia's strong macroeconomic performance and the declining risk aversion of international investors the region also experienced a major rebound in capital inflows. A number of countries intervened in currency markets to stem the ensuing currency appreciation pressures and also introduced capital controls and macro-prudential measures.

A large capital inflows in to China, particularly in the last quarter of 2010, fuelled a rapid increase in foreign exchange reserves, which reached USD 2.85 trillion by the end of 2010. Private capital flows, which had been gaining importance in Sub-Saharan Africa region as a source of external financing before the crisis, have resumed only to a handful of emerging and frontier economies (Ghana, Mauritius, South Africa).

8.2 Implication for Ethiopia

The continuous recovery and expansion of global economic activities in particular of

advanced nations and emerging Asia economies and the rising global commodity prices accounted largely for a robust development of Ethiopia external sector in 2010/11.

The global developments in commodity prices attributed importantly to the strong growth of commodity exports while the expansion of economic activities in advanced countries has been the prime driving factor for the significant inflows of individual remittances and service receipts mainly from travel and transport services during the review fiscal year.

On the other hand, the increase in global commodity prices had produced a notable pass-through effect and contributed to rising domestic food price. The surge in fuel import bill during the review period was primarily pushed up by the hike in international oil price following the political unrest in Middle East and North Africa since the beginning of the second half of 2010/11. Fertilizer import bill also poised a potential burden on foreign exchange payments of the nation largely driven by the increase in international price of the product.