I. The overall Economic Performance

1.1 Economic Growth

The Ethiopian economy which had exhibited 9.8 percent average annual growth during 2010/11-2015/16, registered 8 percent growth in 2015/16 despite challenging macroeconomic and weather conditions. The 8 percent real GDP growth was 3.2 percentage point lower than base case scenario GTPII target set for the fiscal year although it was significantly higher than 1.6 percent average growth estimated for Sub - Saharan Africa (World Economic Outlook Update, July 2016).

The growth in real GDP was mainly attributed to 8.7 percent growth in services, 2.3 percent in agriculture and 20.6 percent in industrial sectors (Table 1.1).

Nominal GDP per capita rose to USD 794 from USD 725 a year earlier depicting 9.5 percent improvement.

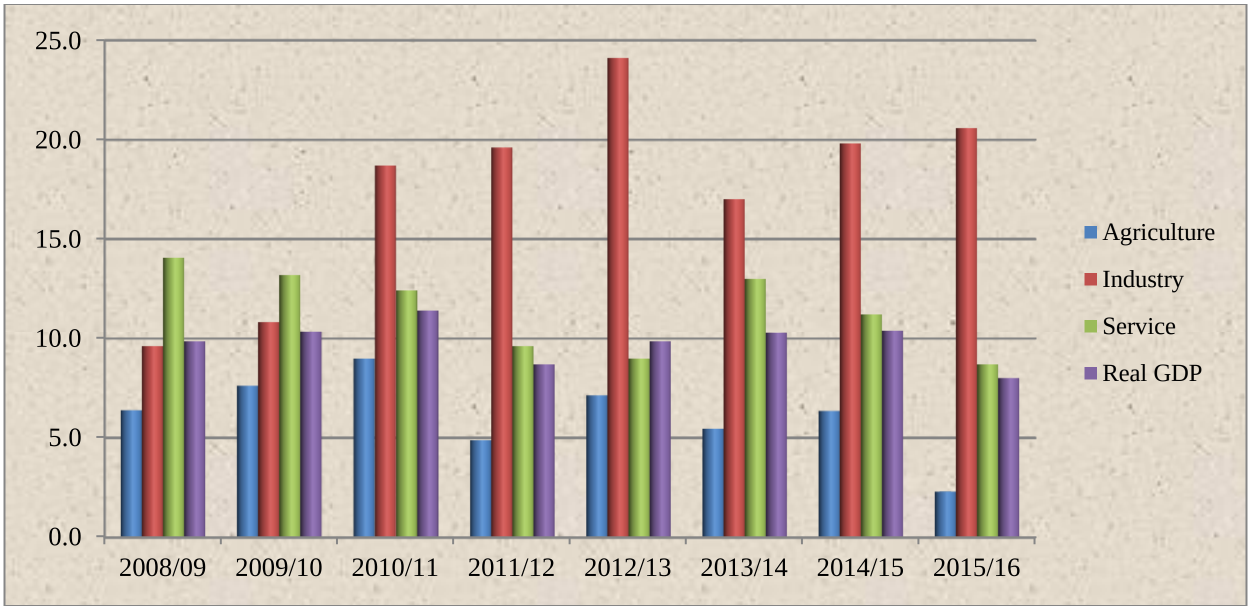
The Ethiopian economy is targeted to grow 11.1 percent in 2016/17 in contrast to 3.8 and 5.1 percent growth forecast of the IMF for the world and Sub-Saharan Africa (SSA), respectively (WEO, July 2016).

Table 1.1: Sectoral Contributions to GDP and GDP Growth
(In Billions of Birr)

Items		2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Sector	Agriculture	212.5	222.9	238.8	251.8	267.8	274.0
	Industry	49.8	59.6	73.9	86.5	103.7	125.0
	Services	216.6	237.0	259.0	292.0	325.0	353.0
Total		478.9	519.5	571.7	630.3	696.5	752.0
Less FISIM		3.0	3.0	3.0	4.0	4.0	5.0
Real GDP		475.6	517.0	568.0	627.0	692.0	747.0
Growth in Real GDP		11.4	8.7	9.9	10.3	10.4	8.0
Per capita GDP (USD) (Nominal)		396	523	559	640	725	794
Growth rate in Per capita GDP			32.2	6.8	14.4	13.4	9.5
Mid-year population(in millions)		80.7	82.7	84.8	87.0	89.1	91.2
Share in GDP (in %)	Agriculture	44.7	43.1	42.0	40.2	38.7	36.7
	Industry	10.5	11.5	13.0	13.8	15.0	16.7
	Services	45.5	45.9	45.5	46.6	47.0	47.3
Agriculture	Absolute Growth	9.0	4.9	7.1	5.4	6.4	2.3
	Contribution to GDP growth	4.2	2.2	3.1	2.3	2.5	0.9
	Contribution in %	36.6	25.3	31.2	22.3	24.0	11.3
Industry	Absolute Growth	18.7	19.6	24.1	17.0	19.8	20.6
	Contribution to GDP growth	2.0	2.1	2.8	2.2	2.7	3.1
	Contribution in %	17.2	24.1	27.9	21.4	26.0	38.8
Services	Absolute Growth	12.4	9.6	9.0	13.0	11.2	8.7
	Contribution to GDP growth	5.6	4.4	4.1	5.8	5.2	4.0
	Contribution in %	50	50.6	41	56.3	50.0	50.0

Source: National Planning Commission

Fig.I.1: Real GDP Growth by Major Sectors



Source: National Planning Commission

In 2015/16, the agricultural sector exhibited slower growth rate of 2.3 percent compared with 8.2 percent target mainly due to contraction in grain crop production (Table 1.2) largely on account of Elino effect. The total grain production reached 266.8 million quintals, of which cereal production accounted for 86.7 percent, pulses 10.4 percent and oil seeds 2.9 percent. Cereals production went down by 2 percentage point over the preceding year owing to 1.7 percent reduction in cultivated land area. In contrast, the production of pulses and oilseeds improved by 3.6 and 3.3 percent while cultivated land area expanded by 6.1 and 0.4 percent, respectively during the same period (Table1.2).

The total land cultivated for crop production slightly declined by 0.6 percent to 12.5 million hectares, of which cereals production covered 79.9 percent, pulses 13.2 percent and oil seeds 6.9 percent (Table 1.2).

Table1.2: Estimates of Agricultural Production and Cultivated Areas of Major Grain Crops for Private Peasant Holdings-Meher Season

[Area in thousands of Hectares and Production in thousands of quintals]

Agricultural Production	2012/13		2014/15		2014/15		2015/16	
	Cultivated Area	Total Production	Cultivated Area	Total Production	Cultivated Area	Total Production	Cultivated Area	Total Production
Cereals	9,601	196,512	9,848	215,835	10,144	236,077	9,974	231,288
(Annual % Change)	0.1	4.5	2.6	9.8	3.0	9.4	-1.7	-2.0
Pulses	1,863	27,510	1,743	28,589	1,558	26,718	1,653	27,693
(Annual % Change)	15.3	18.8	-6.5	3.9	-10.6	-6.5	6.1	3.6
Oilseeds	818.4	7,266.6	816.0	7,112.6	856	7,601	859.1	7,848.1
(Annual % Change)	-7.0	-0.6	-0.3	-2.1	4.9	6.9	0.4	3.3
Total	12,282.9	231,288.5	12,406.6	251,536.4	12,558	270,396	12,486	266,829
(Annual % Change)	1.6	5.8	1.0	8.8	1.2	7.5	-0.6	-1.3

Source: Central Statistical Agency (CSA)

The share of agriculture in GDP in 2015/16 went down to 36.7 percent from 38.7 percent a year earlier; lower than GTPII target of 37.5 percent for the fiscal year. Likewise, the sector's contribution to GDP growth rate declined to 11.3 percent compared with 24 percent last year (Table 1.1). The lion's share of agricultural sector was crop production, comprising 71.9 percent, followed by animal farming & hunting (19.5 percent) and forestry (8.4 percent). In terms of growth rate, crop and forestry increased by 3.4 and 2.2 percent, respectively; while animal farming & hunting went down by 1.5 percent (Table 1.3).

Industrial sector showed a 20.6 percent annual growth and accounted for 16.7 percent of GDP. The sector contributed 38.8 percent to the overall economic growth during the fiscal year (Table1.1) and its performance was more or less in line with GTPII target of 21.8 percent growth and 16.6 percent share.

Manufacturing sector increased by 18.4 percent (lower than 20.2 GTPII target) and constituted about 32.4 percent of industrial output. Construction industry, on the other hand, contributed more than half (56.8 percent) to industrial sector and expanded by 25 percent signifying the leading role the construction sector plays in terms growing expansion of roads, railways, dams and residential houses.

Electricity & water and mining & quarrying had 6.3 and 4.5 percent contribution to industrial production, respectively (Table1.3).

Service sector continued to dominant the economy as its share in GDP rose to about 47.3 percent and its contribution to GDP growth was about 50 percent meaning, half of the country's economic growth was attributed to service sector (Table 1.1).

This was largely owing to the expansion of wholesale & retail trade (8.2 percent), real estate, renting & business activities (3.7 percent) and hotels & restaurant (15.6 percent) (Table 1.3).

Table 1.3: Growth and Percentage Distribution of Major Agricultural, Industrial and Service Sub-sectors

	Sectors	2011/12.	2012/13	2013/14	2014/15	2015/16
Growth rate	Crop	5.0	8.2	6.6	7.2	3.4
	Animal Farming and Hunting	5.4	5.2	2.1	4.7	-1.5
	Forestry	3.1	3.3	4.2	3.5	2.2
	Fishing	21.3	19.4	32.5	30.6	0.1
Share in Agriculture	Crop	69.1	69.8	70.6	71.1	71.9
	Animal Farming and Hunting	21.7	21.3	20.6	20.3	19.5
	Forestry	9.1	8.8	8.7	8.4	8.4
	Fishing	0.1	0.1	0.2	0.2	0.2
Growth rate	Mining and Quarrying	12.7	6.3	(3.2)	(25.6)	(3.3)
	Manufacturing	11.8	16.9	16.6	18.2	18.4
	Electricity and Water	13.5	10.0	6.8	4.5	15.0
	Construction	31.5	38.7	23.9	31.6	25.0
Share in Industry	Mining and Quarrying	12.9	11.0	9.1	5.7	4.5
	Manufacturing	35.6	33.6	33.4	33.0	32.4
	Electricity and Water	9.3	8.3	7.6	6.6	6.3
	Construction	42.2	47.1	49.9	54.8	56.8
Growth rate	Whole Sale and Retail Trade	12.5	10.1	17.7	12.3	8.2
	Hotels and Restaurants	10.1	19.1	26.6	29.6	15.6
	Transport and Communications	12.6	16.5	12.7	13.3	13.7
	Real Estate, Renting and Business Activities	3.8	3.9	3.9	4.1	3.7
	Public Administration and Defense	3.1	7.6	11.0	6.0	7.4
	Others*	13.4	5.2	8.1	7.3	7.5
Share in Service	Whole Sale and Retail Trade	33.6	33.9	35.3	35.7	35.6
	Hotels and Restaurants	7.9	8.6	9.7	11.3	12.0
	Transport and Communications	9.4	10.1	10.1	10.2	10.7
	Real Estate, Renting and Business Activities	19.3	18.4	16.9	15.8	15.1
	Public Administration and Defense	11.2	11.0	10.8	10.3	10.2
	Others*	18.6	18.0	17.2	16.6	16.4

Source: National Planning Commission

* Includes: financial intermediation, education, health and social work, private households with employed persons and other community, social and personal services.

1.2. GDP by Expenditure Components

Total consumption expenditure (public and private) in percent of GDP slowed down to 77.6 percent from 78.1 percent last year mainly due to 1.1 percentage point decline in private consumption expenditure to GDP ratio despite 0.7 percentage point rise in government final consumption expenditure.

Consequently, gross domestic saving to GDP ratio rose to 22.4 percent from 21.9 percent in the previous year, slightly lower than 22.8 percent target (Table 1.4).

Hence, domestic saving increased by 20.1 percent, while total consumption expenditure rose by 17.1 percent during 2015/16.

During 2015/16, gross capital formation to GDP ratio reached 38.5 percent showing 0.9 percentage point reduction over last year, and domestic absorption reached 116.1 percent of the country's GDP.

Table: 1.4: 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.					
2001/02	117.1	90.7	15.9	74.8	26.4	(14.1)	12.7	26.9	9.3
2002/03	116.7	92.4	14.3	78.1	24.3	(14.2)	13.5	27.7	7.6
2003/04	113.9	84.9	14.0	70.9	29.0	(16.8)	15.1	31.9	15.1
2004/05	116.5	90.5	13.3	77.3	26.0	(20.6)	15.3	35.8	9.5
2005/06	119.3	91.7	13.1	78.7	27.6	(22.9)	14.0	36.9	8.3
2006/07	111.9	87.6	11.2	76.4	24.2	(19.5)	12.8	32.4	12.4
2007/08	115.3	90.8	10.5	80.3	24.5	(19.6)	11.5	31.1	9.2
2008/09	115.1	90.2	9.5	80.7	24.9	(18.4)	10.6	29.0	9.8
2009/10	117.7	90.7	9.2	81.5	27.0	(19.6)	13.8	33.3	9.3
2010/11	114.9	82.8	10.3	72.4	32.1	(14.9)	16.7	31.5	17.2
2011/12	117.9	80.8	8.3	72.5	37.1	(17.9)	13.8	31.6	19.2
2012/13	116.5	82.4	9.0	73.5	34.1	(16.5)	12.5	29.0	17.6
2013/14	117.5	79.5	9.2	70.2	38.0	(17.5)	11.6	29.1	20.5
2014/15	117.5	78.1	9.0	69.0	39.4	(20.9)	9.4	30.3	21.9
2015/16	116.1	77.6	9.7	67.9	38.5	(19.8)	8.0	27.8	22.4
Average 2011/12-2015/16	**117.1**	**79.7**	**9.1**	**70.6**	**37.4**	**-18.5**	**11.1**	**29.6**	**20.3**
Average 2006/07-2015/16	**116.0**	**84.0**	**9.6**	**74.5**	**32.0**	**-18.4**	**12.1**	**30.5**	**16.0**

Source: National Planning Commission

1.3: Micro and Small-Scale Enterprises

In 2015/16 alone 190,587 new MSEs were established which employed about 1.7 million people. The number of establishments and the employment created during the review period decreased by29.8 and 40.3 percent, respectively. At the same time, MSEs received more than Birr 5.4 billion in loans which was 18 percent lower than a year ago.

The contraction in the number of new enterprises, employment and credit disbursement was attributed to the exclusion of rural enterprises as the Federal Micro and Small Scale Enterprise Development Agency (FeMSEDA) was splited into two, namely Federal Urban Job Creation & Food Security Agency, and Federal Small & Medium Manufacturing Industry Development Agency.

Table 1.5: Numbers, Amount of Credit and Jobs Created through MSEs

(Credit in Millions of Birr)

Particulars	2014/15	2015/16	Percentage Change
	A	B	B/A
No. of MSE's	271,519	190,587	-29.8
Amount of credit	6,541.88	5,366.55	-18.0
No of Total employment	2,788,667	1,665,517	-40.3

Source: FeUJCFSA

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

(Credit in Millions of Birr)

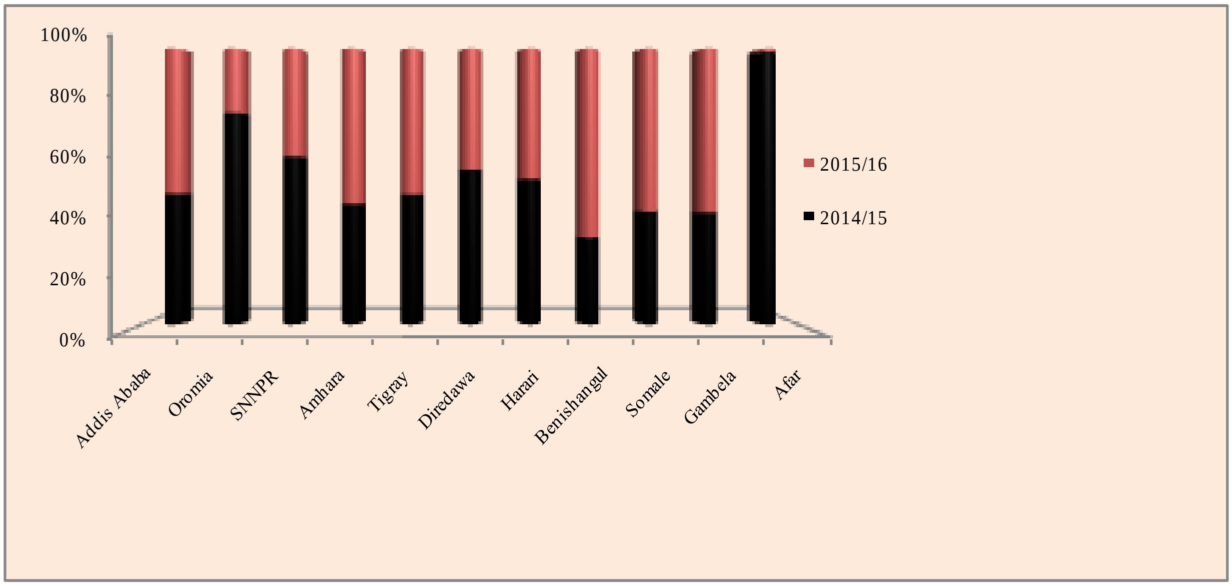
	Addis Ababa	Oromia	SNNPR	Amhara	Tigray	Dire Dawa	Harari	Benish angul	Somali	Gambela	Afar	Total
No. of MSEs	8,081	42,775	12,549	84,890	37,523	2,124	372	1,045	680	543	5	190,587
Amount of credit	1,009.5	2,046.4	957.1	938.5	240.7	59.8	18.2	1.1	85.6	4.6	4.9	5,366.6
No. of total Employment created by MSEs	189,866	530,989	161,001	582,508	140,518	25,125	8,061	9,413	12,533	3,726	1,777	1,665,517
Regional Percentage Share												
No. of MSEs	4.2	22.4	6.6	44.5	19.7	1.1	0.2	0.5	0.4	0.3	0.0	100.0
Amount of credit	18.8	38.1	17.8	17.5	4.5	1.1	0.3	0.0	1.6	0.1	0.1	100.0
No. of total Employment created by MSEs	11.4	31.9	9.7	35.0	8.4	1.5	0.5	0.6	0.8	0.2	0.1	100.0

Source:FeUJCFSA

In terms of regional distribution 44.5 percent of the newly established MSE's, were in Amhara followed by Oromia (22.4 percent), Tigray (19.7 percent), SNNPR (6.6 percent) and Addis Ababa (4.2 percent). With respect to total loans, SME's in Oromia received 38.1 percent, Addis Ababa 18.8 percent, SNNPR 17.8 percent, Amhara 17.5 percent, and Tigray 4.5 percent.

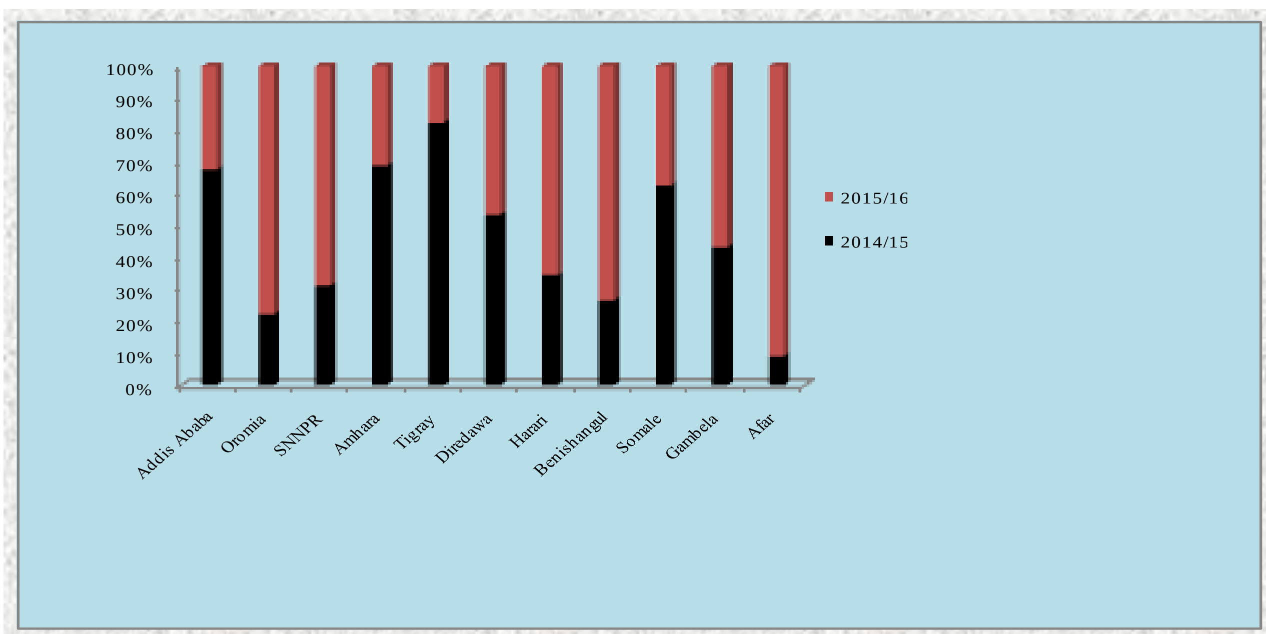
About 35 percent of the employment was created in Amhara followed by Oromia (31.9 percent), Addis Ababa (11.4 percent), SNNPR (9.7 percent) and Tigray (8.4 percent).

Fig.I.2: Yearly Distribution of Numbers of MSEs during 2014/15and 2015/16



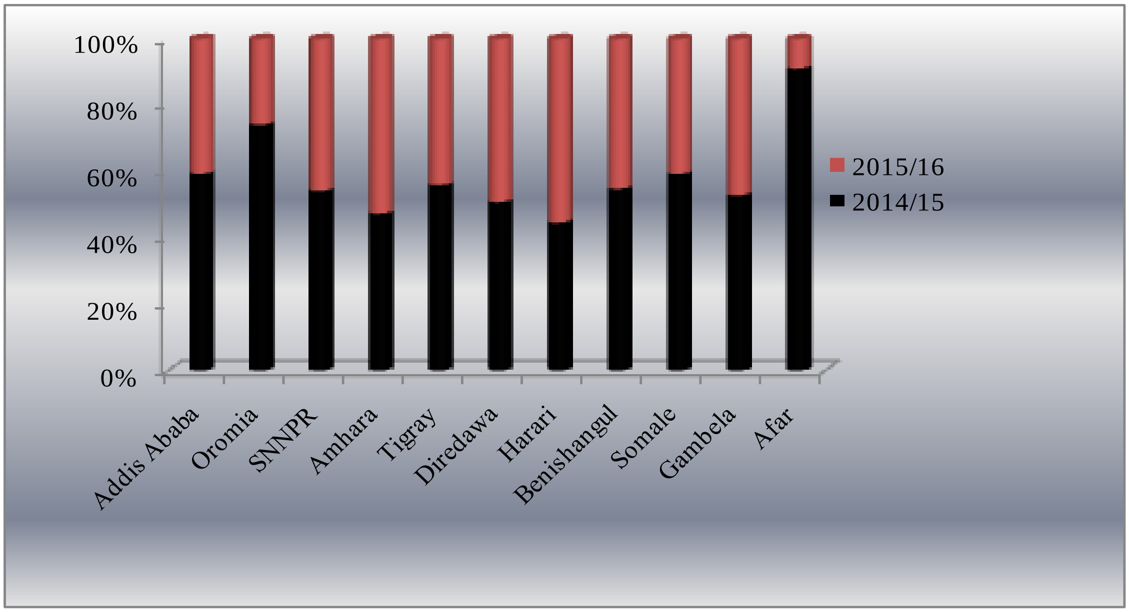
Source: FeUJCFSA

Fig.I.3: Yearly Distribution of Amount of Credit during 2014/15 and 2015/16



Source: FeUJCFSA

Fig.I.4: Yearly Distribution of Employment Created during 2014/15 and 2015/16



Source: FeUJCFSA

1.4 Access to Water Supply

In 2015/16, the Ministry of Water, Irrigation and Energy employed new standard as per GTP II so as to determine access to potable water. Accordingly, the former standard calculated based on the provision of 20 liters/capita/day for urban and 15 liters/capita/day for rural at a radius of 0.5 and 1.5 kilometers, respectively has been replaced by new standard. Accordingly, for rural areas the standard was 25 liter/capita/day with in 1Km radius while for urban areas, it depended on population size and ranged from 40 liter/capita/day to 100 liter/capita/day.

During the review period, the proportion of people having access to potable water supply reached 61 percent. At the same time, 63.1 percent of rural and 52.5 percent of urban areas have access to potable water. Rural areas have relatively better access than the urban areas due to difference in standards.

Region wise, Afar, Somali and Benishangul Gumuz were the least performers while Addis Ababa, Amhara, Harari and Dire Dawa showed improved performance .

In terms of urban population, Addis Ababa leads by 90 percent followed by Harari (67 percent) and Amhara (59.9 percent). Dire Dawa and Amhara performed relatively well for rural areas by accessing 71.5 and 65.8 percent of the region's rural population, respectively (Table 1.7).

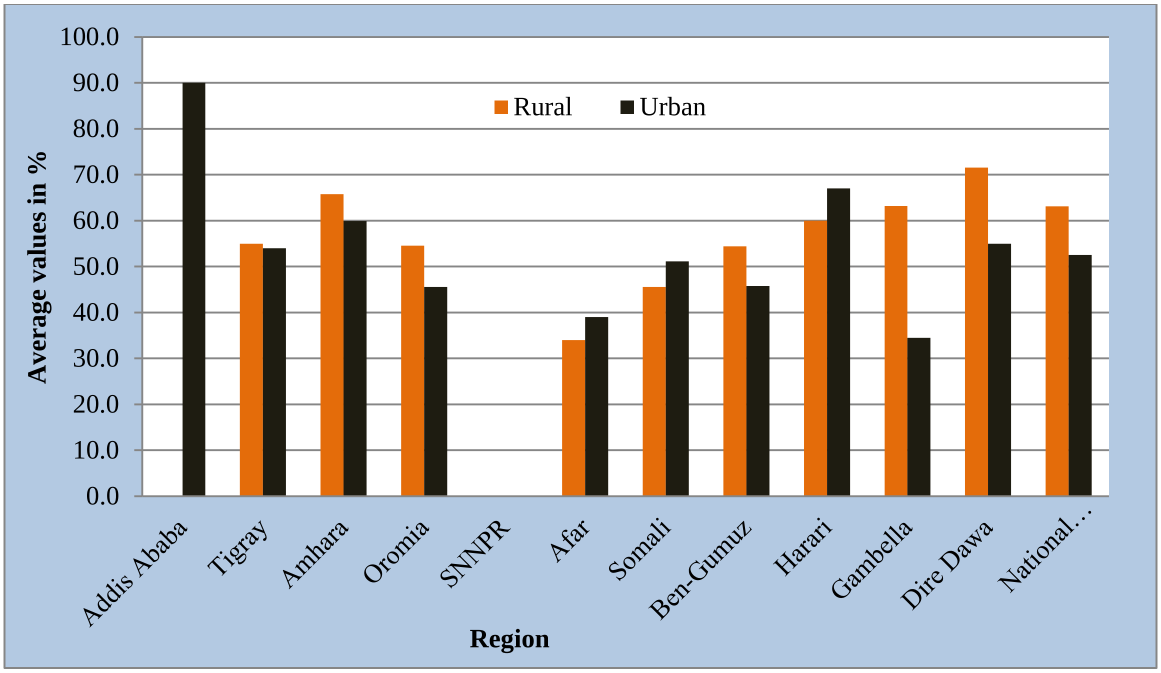
Table 1.7: Percentages of People with Access to Potable Water by Region

Regions	2015/16		
	Rural	**Urban**	**Average**
Addis Ababa	0.0	90.0	90.0
Tigray	55.0	54.0	54.2
Amhara	65.8	59.9	65.0
Oromia	54.6	45.5	53.3
SNNPR	NA*	NA*	NA*
Afar	34.0	39.0	36.0
Somali	45.6	51.2	46.4
Ben-Gumuz	54.4	45.8	52.6
Harari	60.0	67.0	63.3
Gambella	63.2	34.5	55.9
Dire Dawa	71.5	55.0	61.1
National	**63.1**	**52.5**	**61.0**

Source: Ministry of Water, Irrigation and Energy and NBE Staff Computation

*Not calculated as per new standard

Fig.I.5: Access to water supply by Region



Source: Ministry of Water, Irrigation and Energy; and NBE Staff Computation

1.5 Road Sector Development

1.5.1 Road Network

Road transport is the dominant mode of transport in Ethiopia, having a wider network and accessibility thereby contributing to mobility of goods and services as well as sustained economic growth and investment.

In 2015/16, total road network in Ethiopia has reached 113,066 Km, showing a 2.4 percent annual expansion. Of the total roads, 28,032 Km (24.8 percent) was Federal[1], 31,620 Km (28 percent) rural, 5,357 Km (4.7 percent) urban and 48,057 (42.5 percent) Km Woreda roads. The Federal road included 14,632 Km (52.2 percent) asphalt and 13,400 Km (47.8 percent) gravel road which depicted 8 percent annual expansion and 4.7 percent reduction, respectively. The reduction in gravel road network was mainly due to the upgrading of gravel roads to asphalt level.

The asphalt road network in 2015/16 constituted about 12.9 percent of the total road network in the country. It

[1]Federal roads are roads administered by federal government

included 85 Km Addis-Adama Express Way which was completed in 2013/14 and the first of its kind in the country.

During the review period, rural road network, administered by regional authorities, increased by 3.2 percent and reached 31,620 Km. Woreda roads also reached 48,057 Km after the community road was replaced as woreda road during 2010/11 (Table 1.8)

Table 1.8: Classification of Road Network (Length in km)

	Federal Road								Urban Road				
	Asphalt		Gravel		Rural road		Woreda road *		Paved	Coble	Unpaved	Total**	
Year	Length	Growth rate	Length	Growth rate	Length	Growth rate	Length	Growth rate				Length	Growth rate
2000 /01	3,924	-	12,467	-	16,480	-	NA	-	NA	NA	NA	**32,871**	**-**
2001/02	4,053	3.3	12,564	0.8	16,680	1.2	NA	-	NA	NA	NA	**33,297**	**1.3**
2002/03	4,362	7.6	12,340	-1.8	17,154	2.8	NA	-	NA	NA	NA	**33,856**	**1.7**
2003/04	4,635	636	13,905	12.7	17,956	4.7	NA	-	NA	NA	NA	**36,496**	**7.8**
2004/05	4,972	7.3	13,640	-1.9	18,406	2.5	NA	-	NA	NA	NA	**37,018**	**1.4**
2005/06	5,002	0.6	14,311	4.9	20,164	9.6	NA	-	NA	NA	NA	**39,477**	**6.6**
2006/07	5,452	9.0	14,628	2.2	22,349	10.8	57,763.7	-	NA	NA	NA	**42,429**	**7.5**
2007/08	6,066	11.3	14,363	-1.8	23,930	7.1	70,038.1	21.3	NA	NA	NA	**44,359**	**4.5**
2008/09	6,938	14.4	14,234	-0.9	25,640	7.2	85,767.0	22.5	NA	NA	NA	**46,812**	**5.5**
2009/10	7,476	7.8	14,373	1.0	26,944	5.1	100,384.9	17.0	NA	NA	NA	**48,793**	**4.2**
2010/11	8,295	11.0	14,136	-1.6	30,712	14.0	854.0	-	NA	NA	NA	**53,997**	**10.7**
2011/12	9,875	19.1	14,675	3.8	31,550	2.7	6,983.0	717.7	NA	NA	NA	**63,083**	**16.8**
2012/13	11,301	14.4	14,455	-1.5	32,582	3.3	27,628	295.6	NA	NA	NA	**85,966**	**36.3**
2013/14	12,640	11.8	14,217	-1.6	33,609	3.2	39,056	41.4	NA	NA	NA	**99,522**	**15.8**
2014/15	13,551	7.2	14,055	-1.1	30,641	-8.8	46,810	19.9	1,693	850	2,814	**110,414**	**10.9**
2015/16	14,632	8.0	13,400	-4.7	31,620	3.2	48,057	2.7	**1,693**	NA	3,664.0	113,066	**2.4**

Source: Ethiopian Roads Authority

* Includescommunity road, which was replaced by woreda road and registered as new road in 2010/11

** Total road length does not include community road length till 2010/11as it is non-engineered road; but it includes woreda road.

1.5.2 Road Density

Basically road network is assessed by road density as measured by road length per 1,000 persons or by road length per 1,000 km^2. At the end of 2015/16, the road density per 1,000 square Km improved to 102.8 km from 100.4km a year ago depicting a 2.4 percent annual growth. Road density per 1,000 population in 2015/16 was 1.23 km up by 2.5 percent over the preceding fiscal year (Table 1.9).

Table 1.9: Road Densities

Year	Road Density /1000 person	Road density /1000 sq. km
2001/02	0.5	30.3
2002/03	0.5	30.8
2003/04	0.5	33.2
2004/05	0.5	33.7
2005/06	0.5	35.9
2006/07	0.6	38.6
2007/08	0.6	40.3
2008/09	0.6	42.6
2009/10	0.6	44.4
2010/11	0.7	48.3
2011/12	0.8	57.3
2012/13	1.0	78.2
2013/14	1.1	90.5
2014/15	1.2	100.4
2015/16	1.23	102.8
Growth Rate	2.5	2.4

Source: Ethiopian Roads Authority

1.5.3 Road Accessibility

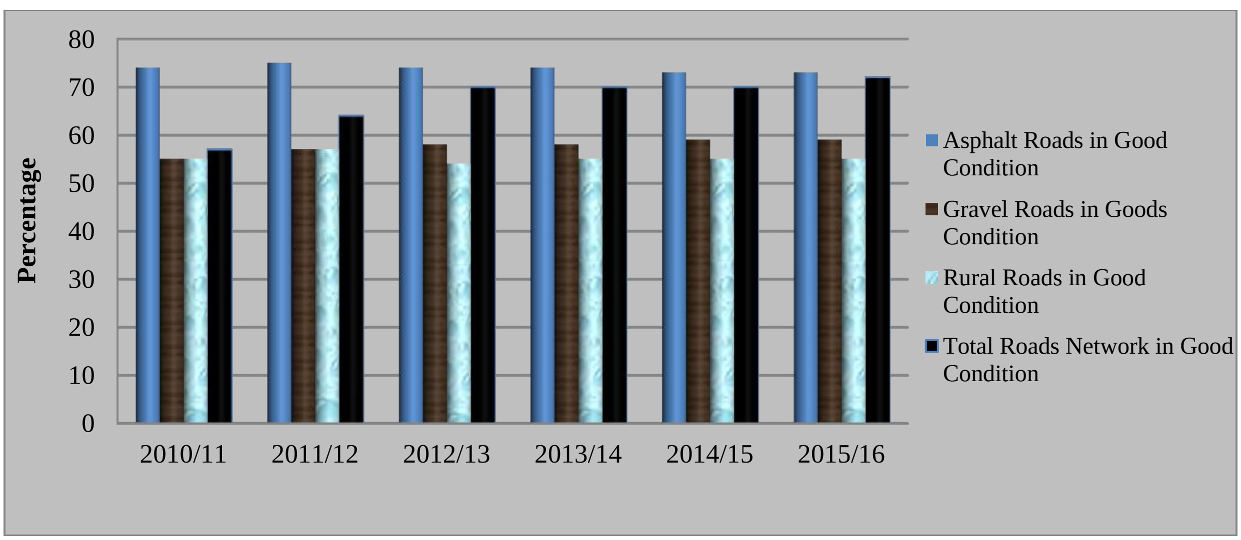
In 2015/16, average distance from all-weather roads declined from 5 km to 4.9 kilometers and the proportion of area more than 5km from all-weather roads went down to 35.8 percent from 36.6 percent a year ago (Table 1.10).About 72 percent of the total road network specifically 73 percent of the asphalt road, 59 percent of the gravel road and 55 percent of the rural road were in good condition (Figure I.6).

Table 1.10: Road Accessibility

Indicators	2014/15	2015/16	Percentage change
Proportion of area more than 5Km from all-weather road	36.6	35.8	**-2.2**
Average distance from all-weather roads	5	4.9	**-2.0**

Source: Ethiopian Roads Authority

Fig.I.6: Status of Road



Source: Ethiopian Roads Authority

1.5.4 Road Sector Financing

In 2015/16, total investment in road construction and expansion (excluding urban road) surged by 21.8 percent to Birr 47.5 billion from Birr 37.2 billion a year earlier (Table 1.11 and fig.I.7). The road sector financing including urban road reached Birr 95 billion during the same period.

Investment in the Federal road construction and expansion was Birr 29.4 billion accounted for 31 percent of the total road investment. Regional roads constituted 14.8 percent of the sector-wide investment followed by Woreda road investment (4.2 percent). Almost half of the total investment in road construction and expansion was on urban roads (Table 1.10) and (Fig.1.7).

Table 1.11: Investments in the Road Sector

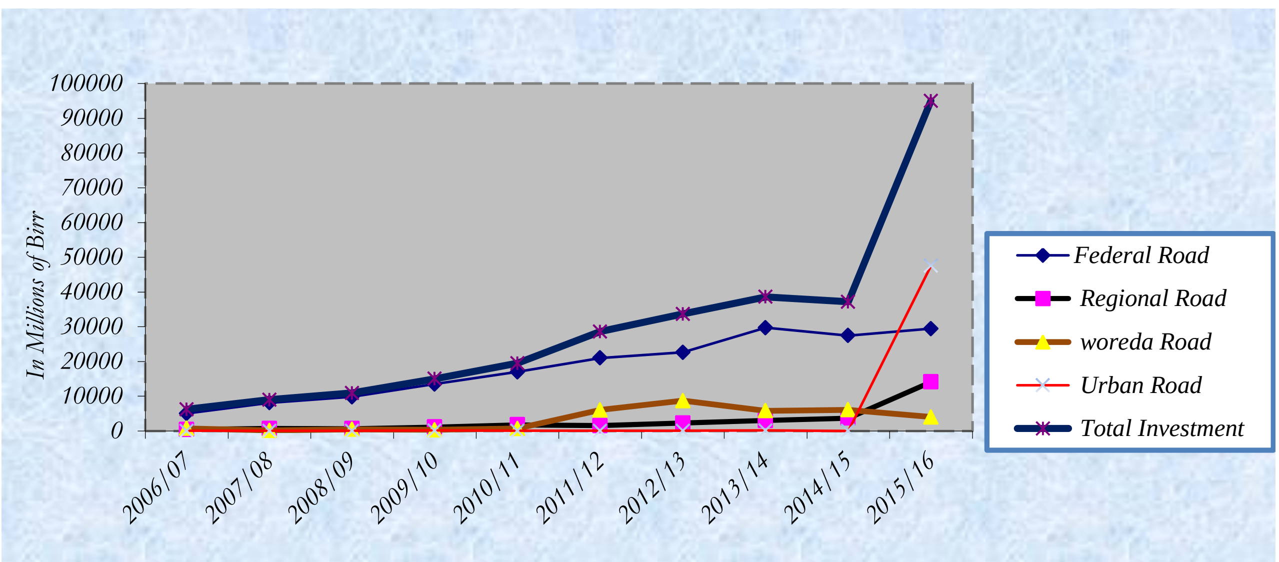
(In millions of Birr)

Road Type	2014/15		2015/16		Percentage change
	A	Share (In %)	B	Share (In %)	
Federal roads	27,445.5	73.8	29425.3	31.0	7.2
Regional road	3,663.6	9.9	14085.6	14.8	284.5
Woreda road	6,067.6	16.3	4009.4	4.2	-33.9
Urban road*	NA	NA	47520.3	50.0	NA
Total	37,176.7	100.0	95040.6	100.0	155.6

Source: Ethiopian Roads Authority

* All municipalities' maintenance.

Fig.I.7: Investment in Road Construction and Expansion



Source: Ethiopian Roads Authority

1.6 Developments in Education Sector

The education sector has seen visible improvements both in terms of coverage and quality.

During the review period, primary education (1-8 grades) enrolment improved from 18.3 million in 2013/14 to 18.7 million in 20014/15.The number of primary schools also increased to 33,373 from 32,0488 a year ago showing establishment of 1,325 new schools. Of the total number of primary schools, 28,604 (85.7 percent) were located in rural areas and 4,769 (14.3 percent) in urban centers.

Similarly, secondary education enrolment reached 2.1 million, 5.5 percent higher than last year and the number of secondary schools (9-12 grades) reached 2,830 showing 21.5 percent annual increase.

At the same time, technical and vocational education and training (TVET) enrolment was 352,144; exhibiting 47.9 percent yearly increment.

The share of education in annual government expenditure was 24.9 percent slightly lower than the preceding year.

Table 1.8: Education Sector Data

Indicators	2008/09 2001	2009/10 2002	2010/11 2003	2011/12 2004	2012/13 2005	2013/14 2006	2014/15 2007
Number of primary schools (urban, rural)	25,212	26,951	28,349	29,482	30,534	32,048	33,373
i. Urban	3,206	3,206	3,988	4,241	4,536	4,451	4,769
ii. Rural	21,886	23,745	24,313	25,227	25,998	27,597	28,604
Number of secondary schools (urban, rural)	1,185	1,351	1,392	1,710	1,912	2,329	2,830
iii. Urban	976	1,053	1,053	1,342	1,451	1,636	1891
iv. Rural	209	298	339	368	461	693	939
Number of TVET centers (public, private, mission)	458	448	505	505	437	437	919
Number of tertiary level institutions by universities (public, private), colleges (public, private)	72	70	74	91	99	124	171
Universities	22	22	26	32	32	33	33
Participation of women in higher education institutions (%)	22.2	27	27	21.1	29.5	32	35
Primary enrolment (in million)	15.6	15.8	16.7	17	17.5	18.3	18.7
Secondary enrolment (in thousands)	1,588	1,696	1,760	1,766	1,900	1,998	2,108
TVET enrolment	308,501	353,420	371,347	330,409	237,877	238,049	352,144
Girls' primary enrolment (%)	47.3	47.4	47.3	47.8	48	48	47.2
Grades (1-4) gross enrolment ratio (%)	122.6	118.8	124	122.6	124.9	128.9	137.7
a. Girls' gross enrolment ratio (%)	118.4	114.3	119.1	118.1	119.8	123.6	130.6
b. Boys' gross enrolment ratio (%)	126.7	123.2	128.8	127.0	129.7	134	144.7
Grades (5-8) gross enrolment ratio (%)	63.1	65.5	66.1	65.6	62.9	64.4	66.3
a. Girls' gross enrolment ratio (%)	60.5	63.5	64.8	65.3	62.2	63.4	64.8
b. Boys' gross enrolment ratio (%)	65.6	67.4	67.4	65.9	63.5	64.1	67.8
Girls’ gross primary enrolment ratio (%)	90.7	101.6	93.2	92.9	92.4	94.3	98.4
Boys' gross primary enrolment ratio (%)	97.6	108.4	99.5	97.9	98.2	100.1	107.0

Indicators	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	2001	2002	2003	2004	2005	2006	2007
Gross Primary Enrolment ratio (%)	94.4	93.4	96.4	95.4	95.3	97.2	102.7
Tigray	107.1	103.3	102.1	100.1	98.8	105.3	118.8
Afar	31.2	39.3	40.1	43.7	50.5	53.2	70.3
Amhara	112.5	104.9	104.2	1003	100.7	106.7	110.3
Oromia	89.3	88.4	94.8	92	91.2	89.3	94.8
Somali	35	65.6	61.3	75.1	96.9	84.8	91.7
Ben.Gumuz	112.1	114.6	119.7	115.9	111.9	95.4	107.0
SNNPR	101.0	97.3	102.6	100.7	98.4	100.3	108.4
Gambella	112.5	125.1	132	138.5	126.6	136.4	151.4
Harari	107.9	95.3	91.5	89.3	87.1	98.1	101.8
A.A	109.2	107.3	103.1	102.4	99.2	163.6	150.6
Dire Dawa	92.1	91.3	89.1	87.3	84.9	91.4	67.5
Primary net enrolment rate (%)	83.0	82.1	85.3	85.4	85.9	89	94.3
No. of students registered in the first cycle primary schools(1-4) (in million)	10.6	10.5	11.3	11.4	12.0	12.7	12.8
No. of students registered in the second cycle primary schools(5-8) (in million)	5	5.3	5.5	5.7	5.5	5.6	5.9
Number of students registered in the first cycle secondary schools(9-10) (in million)	1.4	1.5	1.5	1.4	1.5	1.6	1.7
Gross enrolment rate in (9-10 grades) in percent	38.1	39.1	38.4	36.9	38.4	39.3	39.8
Preparatory admission(in million)	0.21	0.24	0.29	0.32	0.36	0.39	0.42
Completion rate of primary school (%)	43.6	47.8	49.4	52.1	52.8	46.7	50
Girls/boys ratio in primary schools (%)	89.7	91	90.4	92	94	91	89.8
Girls/boys ratio in secondary schools (%)	67	75	79	84	88	89	89.9

Indicators	2008/09 2001	2009/10 2002	2010/11 2003	2011/12 2004	2012/13 2005	2013/14 2006	2014/15 2007
Girls/boys ratio in (9-10) (%)	72	78	81	86	90	90	92.9
Girls/boys ratio in (11-12)(%)	40	56	83	75	80	82	87.6
Girls/boys ratio inTVET(%)	86	80	86	91	105	105	109.7
Girls/boys ratio in higher education (%)	0.28	36	36	39	42	46	49.9
Grade 1-8(primary) repetition rates (%)	6.7	4.9	8.5	8.5	7.9	8.4	7.3
Primary school dropout rate (%)	18.6	13.1	16.3	16.3	15.7	7.9	9.9
1st grade dropout rate (%)	22.9	28.1	19.9	25	22.5	23.9	19
Pupil to Teacher Ratio							
i. Grade (1-8)	54	51	51	50	49.4	47	46
ii. Grade (9-12)	41	36	31	29	28.7	27.8	26
iii. TEVT	34	NA	29	24.7	18.6	16.5	-
iv. In higher education	28.2	26.8	26.7	25	24.4	25.9	26.4
Pupil to Section Ratio							
i. Grade (1-8)	59	57	57	55	53.7	54	54
ii. Grade (9-12)	68	64	58	56.1	59.3	56.9	57
Number of class rooms in primary schools	247,759	254,744	279,292	308,905	324,587	321,468	-
Pupil to Textbook Ratio							
i. Grade(1-8)	1.5	1.5	1.5	1.5	1.35	1	1
ii. Grade(9-12)	1	1	1	1	1	1	1
Pupil to School Ratio							
i. Grade(1-8)	619	573	590	576	571	571	560
ii. Grade(9-12)	1,345	1270	1160	1033	994	857	369
iii. TEVT	673	788	735	654	544	545	383
Proportion of pupils starting grade 1 who reach grade 5(%)	39.6	55	47	50.2	55.5	69.5	61

Indicators	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	2001	2002	2003	2004	2005	2006	2007
Percentage of female enrolled in under graduate degree (%)	29	27	27	22	30	30.3	34.7
Percentage of female graduated in under-graduate degree (%)	29.7	23.4	27.2	25.3	28.7	25.6	28.5
Percentage of female enrolled in post-graduate degree	11.3	11.9	13.8	20.2	20.6	19.5	23.8
Percentage of female graduated in post-graduate degree	10.5	13.9	14.4	14.0	14.9	15	16.7
Annual education share of the national expenditure{%}	23.6	25.9	17.5	25.3	25.2	25	24.9

Source: Ministry of Education

1.7. Telecommunication

The telecom sector has confined to exhibit remarkable expansion. In 2015/16, the numbers of mobile subscribers increased by 18.4 percent to 46 million of which 99.6 percent were pre-paid and 0.4 percent post paid subscribers. The number of fixed line subscribers also surged by 33.2 percent to 1.1 million. Similarly, the number of internet subscribers depicted by 44 percent like reached 13.6 million (Table 1.13)

Table 1.13: Number of Subscribers

Service Type	2014/15	2015/16	Percentage Change
I. Fixed line	**837,766**	**1,115,561**	**33.2**
II. ALL MOBIL	**38,803,786**	**45,962,553**	**18.4**
Total mobile pre-paid	38,629,151	45,769,105	18.5
Total Mobile post-paid	174,635	193,448	10.8
III. Total data and Internet	**9,440,289**	**13,593,866**	**44.0**
Broadband (EVDO, WCDMA, ADSL)	64,794	4,871,541	7418.5
Narrowband (1X, dialup, ADSL*< 256K)	142,757	248,038	73.7
GPRS	7,398,234	8,474,287	14.5
WCDMA	1,834,504	4,692,185	155.8
Grand Total	**39,849,103**	**47,505,508**	**19.2**

Source: Ethio-Telecom

**CDMA (Code Division Multiple Access), GSM (Global System for Mobiles), GPRS (General Packet Radio Service)and ADSL (Asymmetric Digital Subscriber Line)*

The country's telecommunication penetration rate (telecom density) increased from 44 in 2014/15 to 51; mobile density to 49.8; and internet and data density to14.7. Fixed line density however, showed marginal improvement from 1 to 1.2 the review period (Table 1.14).

Table 1.14: Telecom Density

Tele density/100 Subscribers*	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Fixed line	1	1	0.9	1	1	1.2
Mobile	12.9	20.4	27.6	33.3	43	49.8
Total	**13.9**	**21.4**	**28.5**	**34.3**	**44**	**51**
Internet and data	0.2	0.3	5.2	7.3	10	14.7

Source: Ethio-Telecom

*Tele-density is mobile plus fixed telephone subscribers per 100 inhabitants

Although the number of international outgoing calls increased 49.5 percent, international outgoing minutes in mobile telephone and internet traffic has decreased by 18.8percent from 71 million in 2014/15 to 57.7million in 2015/16.

At the same time, the number of incoming calls rose 19 percent, while international incoming minutes, dropped by 33.5 percent. In addition, annual traffic for local calls improved by 31.1 percent (Table 1.15).

Table 1.15: Annual Traffic for Local and International Calls

Annual Traffic	2014/15	2015/16	Percentage Change
Mobile local traffic (In millions)	21,132.2	27710	31.1
International Traffic			
International outgoing calls (In number)	24,453,237	36,563,778	49.5
International outgoing minutes	71,046,274	57,724,646	-18.8
International incoming calls (In number)	92213852	109,751,868	19.0
International incoming minutes	582,249,947	387,327,476	-33.5

Source: Ethio-Telecom

Consequently, income of Ethio-telecom rose by 32 percent over last year and reached Birr 28.4 billion while its expenses reached Birr 12.9 billion showing a 85.6 percent annual surge.

Hence, Ethio – telecom earned a gross profit of Birr 15.5 billion in 2015/16 about 6.4 percent higher than a year ago(Table 1.16).

Table 1.16: Financial Performance and Asset of Ethio -Telecom

(In Millions of Birr)

Finance and Asset	2013/14	2014/15	2015/16	Percentage Change	
	A	B	C	C/A	C/B
Income	17,358	21,500	28,371.67	63.5	32.0
Expense	5,554	6,945	12,888.36	132.1	85.6
Gross Profit	11,804	14,555	15,483.31	31.2	6.4
Assets	34,323	52,750	37,904.65	10.4	-28.1
Fixed Gross	24,209	24,129	30,949	27.8	28.3
Depreciation	1,673	2,118	8,162	387.9	285.4

Source: Ethio– Telecom

II. Energy Production

2.1. Electric Power Generation

According to Ethiopian Electric Power (EEP), the country has an estimated hydro-power potential of 45,000 MW, a geothermal potential of 10,000 MW and 1.3 million MW potential from wind farm.

The country's generating capacity is largely based on hydropower reservoirs as nine of its major rivers are suitable for hydroelectric power generation. Though it is vulnerable to the effects of climatic changes, hydropower remains the predominant energy source.

Considering the increasing power demand and capacity shortfall in the system and to have a better generation mix, the country has been looking to diversify its production of renewable energy to wind and geothermal sources.

Wind energy is considered as an immediate, renewable and clean energy solution with short construction period and significant advantage of quick result. Accordingly, the Ethiopian Electric Power has implemented different wind power projects in several parts of the country.

Adama II wind farm is the latest and the third project completed and started operation with a generating capacity of 153 MW; raising country's wind power to 324 MW (combined with Adama I (51MW) and Ashegoda (120 MW)). In addition, a process is underway to undertake the construction of Aysha300 MW wind power project.

Ethiopia is also identified as one of the huge potential sources of solar energy in Africa because of its geographical location near the equator.

In its bid to become a major power exporter in East Africa and green economy, the country is building several geothermal power plants. The project will also be a crucial input to enhance Ethiopia's economic growth to become a carbon-neutral middle income economy by 2025.

The former Ethiopian Electric Power Corporation has been divided into two separate institutions, namely Ethiopian Electric Power (EEP) and Ethiopian

Electric Utility. The former is mandated with the task of network construction and generating energy while the latter is responsible for distributing generated power and selling electricity to users. The EEP generates electricity through two different power supply systems, namely, the Inter Connected System (ICS)[2] and Self Contained System (SCS)[3]. ICS, constituted almost 100 percent of electric power generating system for the year 2015/16(Table 2.1).

The total amount of electric power generated in 2015/16 was about 10,465 billion GWH, showing a 9.9 percent annual growth. During the review period, 92.4 percent of the electric power was generated through hydropower, 7.5 percent from wind and 0.1 from thermal sources (Table 2.1).

In2015/16, the production of wind energy got momentum as the total electric energy generated from wind sources increased to 785.5 GWH from 497.7 GWH last year depicting 57.8 percent annual growth (Table 2.1).

[2] Generates power by connecting to other systems
[3] Generates power independently

Table 2.1: Electric Power Generation in ICS and SCS

(I n '000 KWH)

Source		2013/14 [A]	Share (In %)	2014/15 [B]	Share (In %)	2015/16 [C]	Share (In %)	Percentage Change [C/A]	[C/B]
ICS	Hydro Power	8,335,745.7	95.8	9,014,010.6	94.7	9674157.6	92.4	16.1	7.3
	Thermal Power		-	3,360.3	0.0	1,017.4	0.0		
	Geothermal		-	-	-		-		
	Wind	355,757.9	4.1	497,690.8	5.2	785,505.5	7.5	120.8	57.8
Sub Total		8,691,503.5	99.9	9,515,061.7	100.0	10,460,680.5	100.0	20.4	9.9
SCS	Hydro Power	676.9	0.0	-	-		-	-100.0	
	Thermal Power	8,837.0	0.1	4,285.5	0.0	4,259.1	0.0	-51.8	-0.6
Sub Total		9,513.9	0.1	4,285.5	0.0	4,259.1	0.0	-55.2	-0.6
Total	Hydro Power	8,336,422.6	95.8	9,014,010.6	94.7	9,674,157.6	92.4	16.0	7.3
	Thermal Power	8,837.0	0.1	7,645.8	0.1	5,276.5	0.1	-40.3	-31.0
	Geothermal	-	-	-	-		-		
	Wind	355,757.9	4.1	497,690.8	5.2	785,505.5	7.5	120.8	57.8
Grand Total		**8,701,017.5**	**100.0**	**9,519,347.1**	**100.0**	**10,464,939.6**	**100**	**20.3**	**9.9**

Source: Ethiopian Electric Power

2.2. Volume and Value of Petroleum Imports

In 2015/16, the Ethiopian Petroleum Enterprise imported about 3 million metric tons of petroleum products worth Birr 30.3 billion which was 20.1 percent lower than last year mainly due to a significant drop in international oil price. The volume of petroleum imports however rose 7.8 percent with higher imports of regular gasoline (25.7 percent), gas oil (11.7 percent) and jet fuel (3.3 percent). Fuel oil import dropped by 36.4 percent (Table 2.2) (Fig.II.1& Fig.II.2).

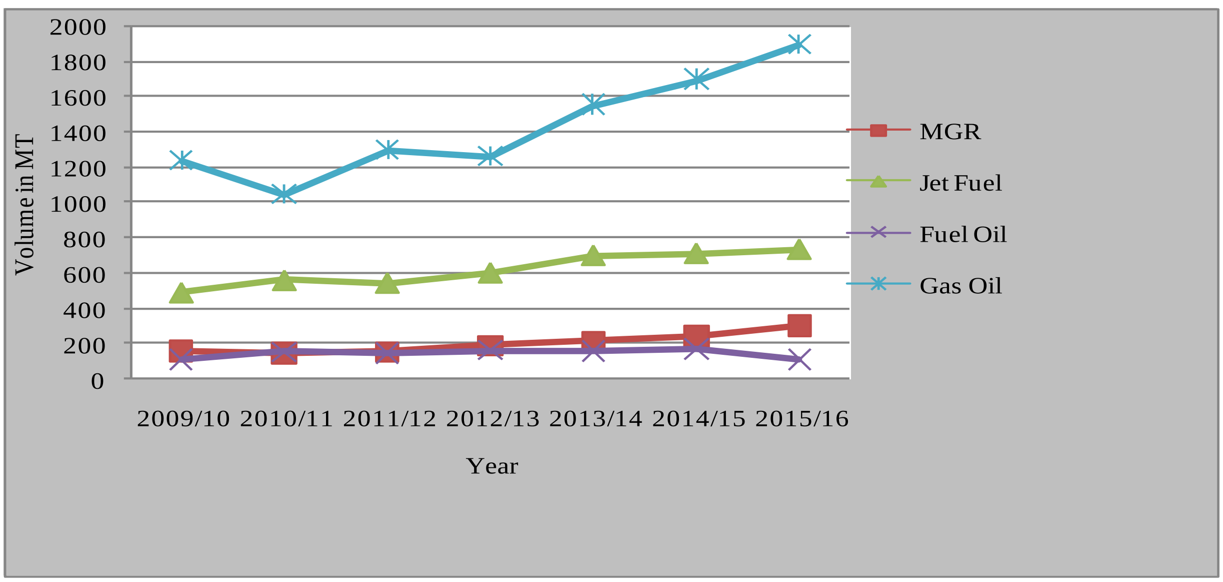
Table 2.2: Volume and Value of Petroleum Imports

(Volume in MT and Value in '000 Birr)

Petroleum Products	2014/15		2015/16		Percentage Change	
	Volume	Value	Volume	Value		
	A	B	C	D	C/A	D/B
Regular Gasoline (MGR)	237,744.0	3,393,238.3	298,867.5	6,429,199.4	25.7	89.5
Jet Fuel	712,748.0	10,381,064.6	735,921.7	7,143,231.6	3.3	-31.2
Fuel Oil	168,305.6	1,702,150.3	106,978.39	673,610.9	-36.4	-60.4
Gas Oil (ADO)	1,703,260.8	22,507,794.1	1,901,791.5	16,088,341.8	11.7	-28.5
Total	2,822,058.4	37,984,247.3	3,043,559.1	30,334,383.7	7.8	-20.1

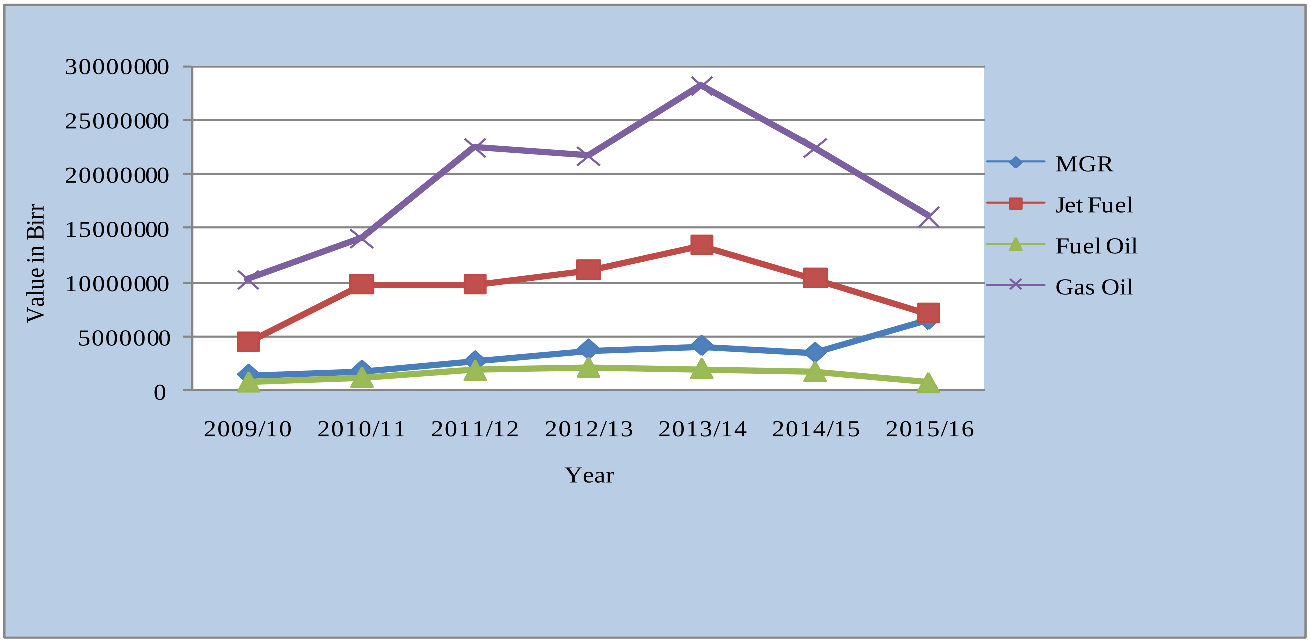
Source: Ethiopian Petroleum Enterprise

Fig.II.1: Trends in Volume of Petroleum Imports (In '000)



Source:Ethiopian Petroleum Enterprise

Fig.II.2: Trends in Value of Petroleum Imports (In '000)



Source: Ethiopian Petroleum Enterprise

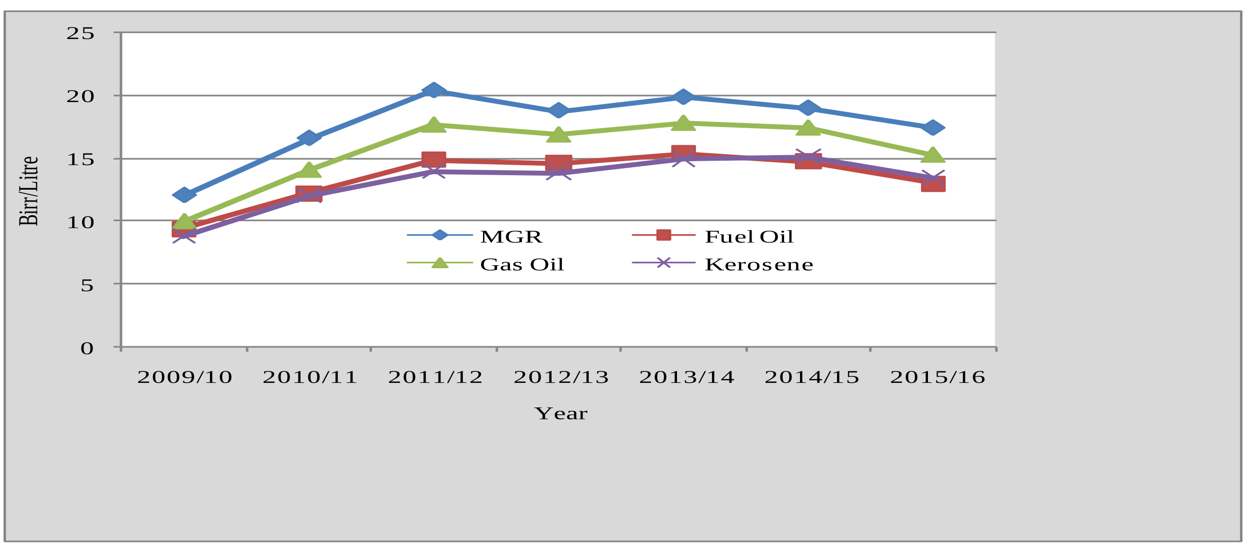
In line with the decline in international oil prices, domestic retail prices were also adjusted down wards. Accordingly, retail prices of jet fuel went down 23.7 percent, gas oil (12.4 percent), fuel oil (12.2 percent), kerosene (11 percent) and regular gasoline (8.4 percent) (Table 2.3).

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

Year	Quarter	Regular Gasoline (MGR)	Fuel Oil	Gas Oil	Kerosene	Jet fuel
	Qtr.1	18.94	14.59	16.91	13.85	20.01
	Qtr.2	19.67	15.09	17.49	14.50	21.34
	Qtr.3	20.30	15.81	18.28	15.50	22.68
	Qtr.4	20.53	16.04	18.70	15.83	23.04
2013/14	**Average**	19.86	15.38	17.85	14.92	22.17
	Qtr.1	**20.64**	**16.13**	**19.00**	**16.00**	**23.09**
	Qtr.2	**20.00**	**15.42**	**18.19**	**15.63**	**20.75**
	Qtr.3	**17.86**	**13.94**	**16.56**	**14.55**	**15.88**
	Qtr.4	**17.43**	**13.59**	**16.10**	**14.13**	**15.89**
2014/15	**Average**	**18.98**	**14.77**	**17.46**	**15.08**	**18.90**
	Qtr.1	**17.96**	**13.59**	**16.10**	**14.13**	**16.23**
	Qtr.2	**17.96**	**13.59**	**16.10**	**14.13**	**15.14**
	Qtr.3	**17.06**	**12.59**	**14.81**	**13.00**	**13.95**
	Qtr.4	**16.61**	**12.10**	**14.16**	**12.43**	**12.34**
	Average	**17.40**	**12.97**	**15.29**	**13.42**	**14.41**
2015/16	**Annual percentage change**	**-8.4**	**-12.2**	**-12.4**	**-11.0**	**-23.7**

Source: Ethiopian Petroleum Enterprise

Fig.II.3: Trends in Average Fuel Price in Addis Ababa



Source: Ethiopian Petroleum Enterprise.

III. PRICE DEVELOPMENTS

3.1. Developments in Consumer Price at National Level

Annual average headline inflation was 9.7 percent by end 2015/16, which was 2.0 percentage point higher than the previous year on account of 3.7 percent increase in food & non-alcoholic beverages inflation (Table 3.1).

Annualized food & non-alcoholic beverages inflation scaled up to 11.2 percent in 2015/16 from 7.4percent a year ago showing a 3.7 percentage point annual growth due to higher prices of food products, milk, cheese &eggs.

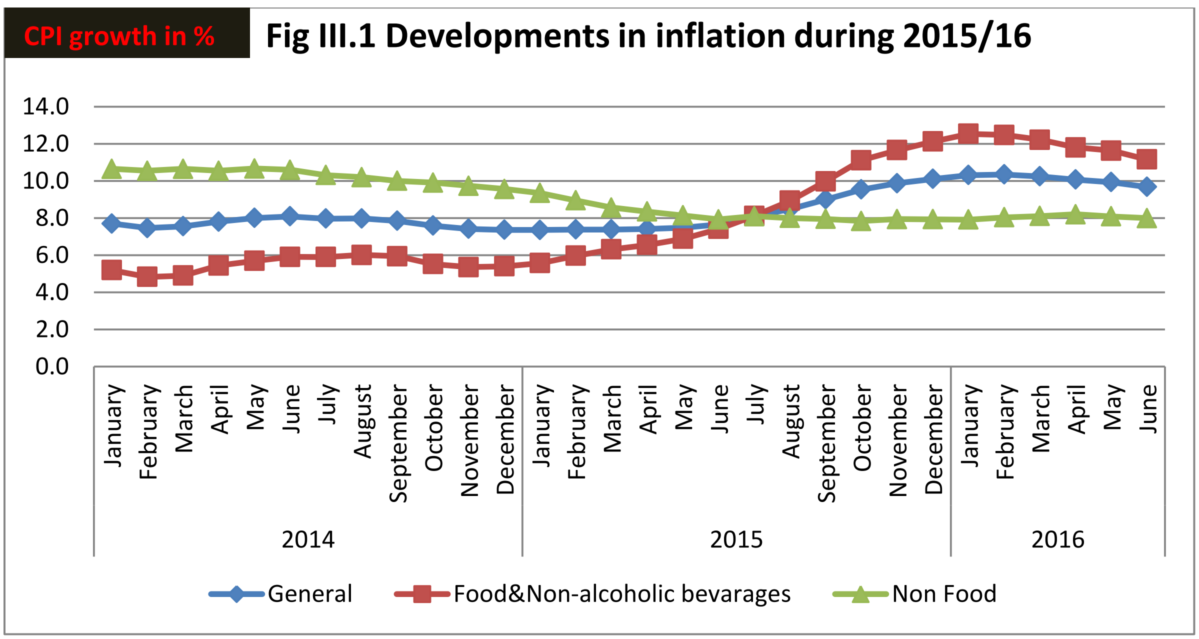
In contrast, annual average non-food inflation remained at 8.0 percent in 2015/16. (Table 3.1 and Fig III.1)

Meanwhile, year-on-year, headline inflation slowdown to 7.5 percent from 10.4 percent a year ago owing to 5.3 percentage points decline in food& non-alcoholic beverages inflation and 0.4 percentage points decline in non-food inflation. Annual food & non-alcoholic beverages inflation, which was 12.5 percent in 2014/15, dropped to 7.2 percent, while annual non-food inflation declined to 7.8 percent from 8.2 percent over the same period (Table 4.2 and Fig.III.2).

Table 3.1: Annual Average Inflation Rates (in percent)

Items	2014/15	2015/16	Change (Percentage Points)	Contribution to change in headline inflation (percentage points)
	A	B	B-A	C
General	**7.7**	**9.7**	**2.0**	**2.3**
Food &Non-alcoholic beverages	7.4	11.2	3.7	1.4
Non-Food	8.0	8.0	0.0	0.9

Source: CSA and NBE Staff Computation

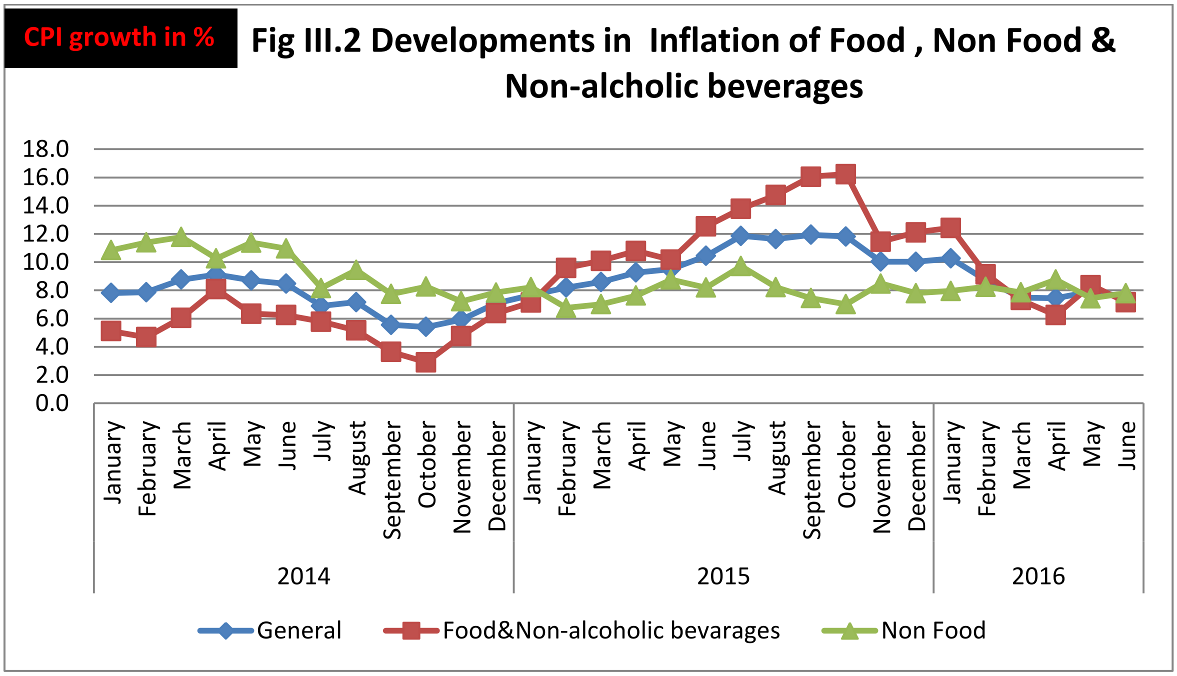


Source: CSA and NBE Staff Computation

Table 3.2: Annual Inflation Rates (in percent)

Items	2014/15	2015/16	Change(Percentage Points)
	A	B	B-A
General	**10.4**	**7.5**	**-2.9**
Food&Non-alcoholicbeverages	12.5	7.2	-5.3
Non-Food	8.2	7.8	-0.4

Source: CSA and NBE Staff Computation



Source: CSA and NBE Staff Computation

3.2 Consumer Price Developments in Regional States

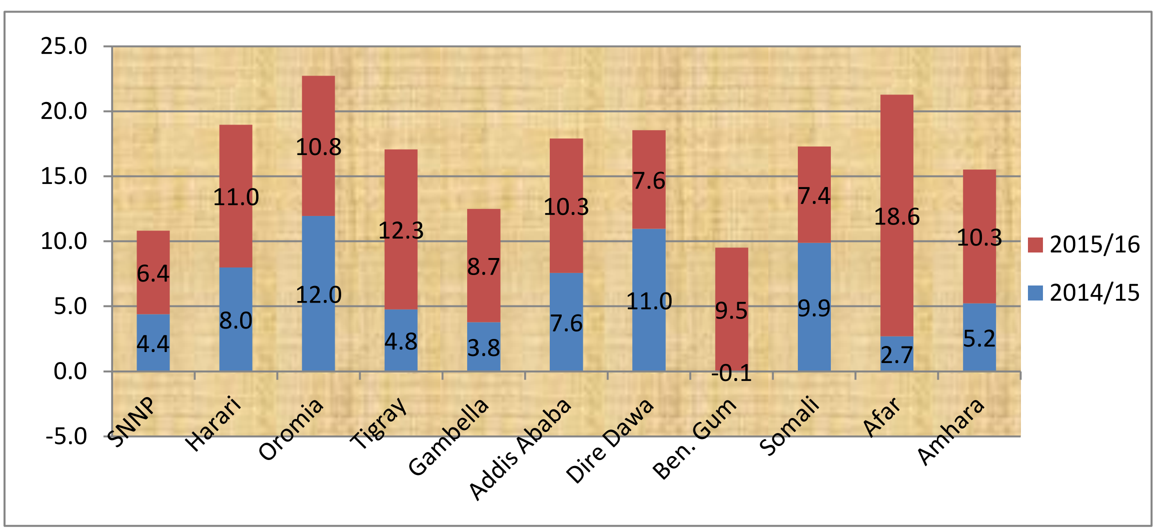
In 2015/16, regional simple average general inflation scaled up to 10.3 percent from 6.3 percent a year earlier where Afar, Tigray, Harari and Oromia regional states registered headline inflation rates greater than the regional average (Table 3.3). Afar regional state experienced the highest headline inflation (18.6 percent) while the lowest 6.4 percent was in SNNP, showing a 12.2 percentage point margin.

Table 3.3: Regional Average Annual Inflation (2015/16 FY)

Regions	2014/15			2015/16			Change		
	General	Food &Non-alcoholic beverages	Non-food	General	Food &Non-alcoholic beverages	Non-food	General	Food &Non-alcoholic beverages	Non-food
	A	B	C	D	E	F	G=D-A	H=E-B	I=F-C
SNNP	4.4	5.7	3.2	6.4	9.4	4.2	2.0	3.6	1.0
Harari	8.0	10.7	5.1	11.0	7.5	14.8	3.0	-3.3	9.7
Oromia	12.0	13.2	10.6	10.8	13.3	7.8	-1.2	0.1	-2.7
Tigray	4.8	-0.5	9.9	12.3	12.4	12.2	7.5	13.0	2.3
Gambela	3.8	4.5	2.5	8.7	10.0	11.7	4.9	5.5	9.2
Addis Ababa	7.6	12.2	4.4	10.3	16.6	5.8	2.8	4.3	1.4
Dire Dawa	11.0	7.9	13.1	7.6	3.8	10.0	-3.4	-4.1	-3.1
Ben. Gum	-0.1	-0.8	0.9	9.5	13.6	4.4	9.6	14.4	3.6
Somali	9.9	6.0	14.2	7.4	5.3	9.7	-2.4	-0.7	-4.5
Afar	2.7	5.7	-1.0	18.6	14.0	24.5	15.9	8.3	25.4
Amhara	5.2	2.4	8.1	10.3	9.9	10.7	5.1	7.4	2.6
Regions Average	6.3	6.1	6.5	10.3	10.5	10.5			
Standard deviation	3.7	4.7	5.0	3.3	3.9	5.7			
Coefficient of variation	0.6	0.8	0.8	0.3	0.4	0.5			

Sources: CSA and NBE's staff computation

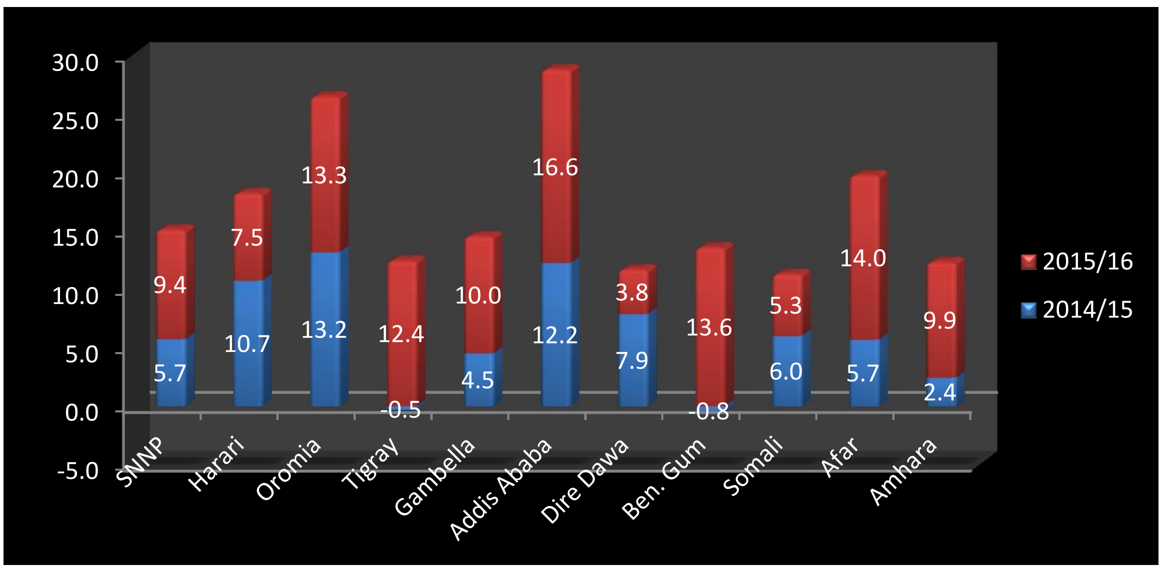
Fig III.3:Variation in Regional Annual Average Headline Inflation



Regional simple average food & non-alcoholic beverages inflation was 10.5 percent in 2015/16 (Table 3.3) where regional states likeAddis Ababa, Afar, BenishangulGumuz, Oromia and Tigray recorded higher than the regional average.

The highest food& non-alcoholic beverages inflation was registered in Addis Ababa (16.6 percent); and the lowest in Dire Dawa (3.8 percent) recording 12.8 percentage point margin.

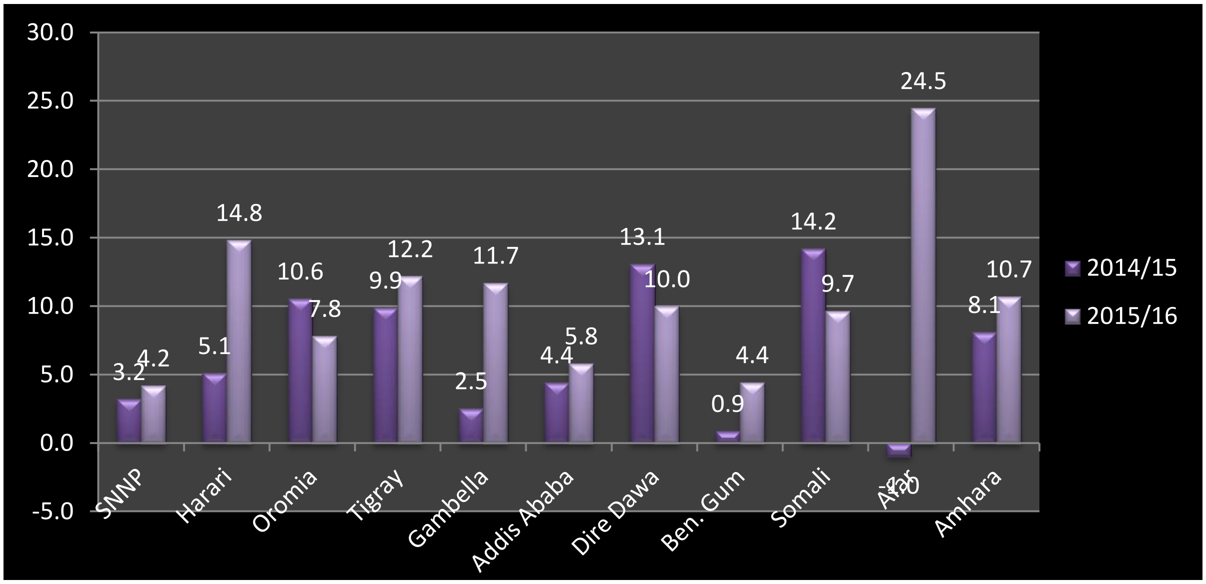
Fig III.4: Variation in Regional Annual Average Food & Non-alcoholic Beverages Inflation



Meanwhile, simple average regional non-food inflation was 10.5 percent (Table 3.3) compared with 6.5 percent last year. Afar, Harari, Tigray, Gambela and Amhara regional states saw non-food inflation higher than the regional simple average.

The highest (24.5 percentage) non-food inflation was recorded in Afar and the lowest (4.2 percentage) in SNNP with 20.3 percentage point margin.

Fig.III.5: Variation in Regional Annual Average Non-food Inflation



Source: CSA and NBE Staff Computation

IV. MONETARY AND FINANCIAL DEVELOPMENTS

4.1 Monetary Developments and Policy

In 2015/16, Ethiopia's monetary policy confined to focus, among others on keeping inflation rate in single digit. To this end, the National Bank of Ethiopia has made reserve money as its monetary anchor and closely monitored development in monetary aggregates.

Accordingly, domestic liquidity, as measured by broad money supply (M2), reached Birr 445.3 billion in 2015/16 reflecting a 19.9 percent annual expansion mainly due to 24.6 percent growth in domestic credit. This growth in domestic credit was attributed to a 54.7 percent surge in credit to government and 22.1 percent increase in credit to non-central government sectors (Table 5.2).

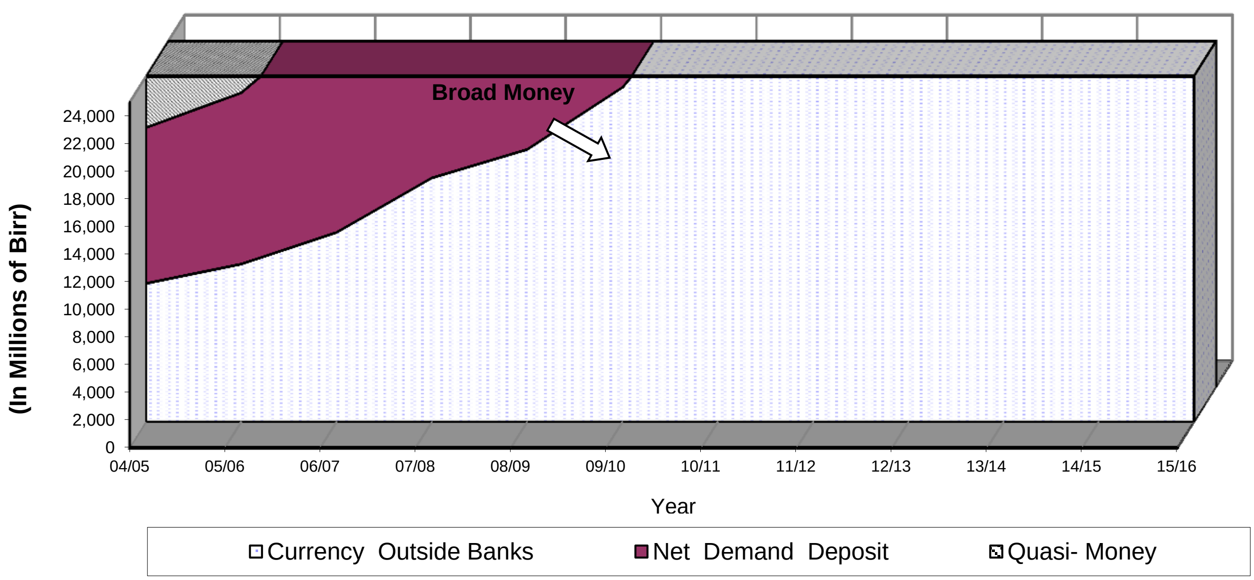
All components of broad money witnessed expansion where narrow money grew 15.5 percent due to the increases in demand deposits and currency outside banks. Similarly, quasi-money that comprises savings and time deposits went up 23.1 percent to Birr 266.7 billion as all commercial banks scaled up their deposit mobilization by opening 694 new branches (Table 4.1).

Table 4.1: **Components of Broad Money**

Particulars	Year Ended June 30 (In Millions of Birr) 2012/13	2013/14	2014/15	2015/16	Annual Percentage Change 2013/14	2014/15	2015/16
Narrow Money Supply	**114,745.7**	**134,063.8**	**154,706.3**	**178,609.7**	**16.8**	**15.4**	**15.5**
. Currency Outside Banks	45,671.0	53,176.0	60,460.9	66,686.2	**16.4**	**13.7**	**10.3**
. Demand Deposits (net)	69,074.7	80,887.8	94,245.4	111,923.5	**17.1**	**16.5**	**18.8**
Quasi-Money	**120,567.9**	**163,682.8**	**216,622.6**	**266,656.6**	**35.8**	**32.3**	**23.1**
. Savings Deposits	105,866.0	136,334.0	174,632.0	217,034.3	**28.8**	**28.1**	**24.3**
. Time Deposits	14,701.9	27,348.8	41,990.6	49,622.3	**86.0**	**53.5**	**18.2**
Broad Money Supply	**235,313.6**	**297,746.6**	**371,328.9**	**445,266.3**	**26.5**	**24.7**	**19.9**

Source: National Bank of Ethiopia (NBE)

Fig V.1: Major Components of Broad Money (2004/05 - 2015/16)



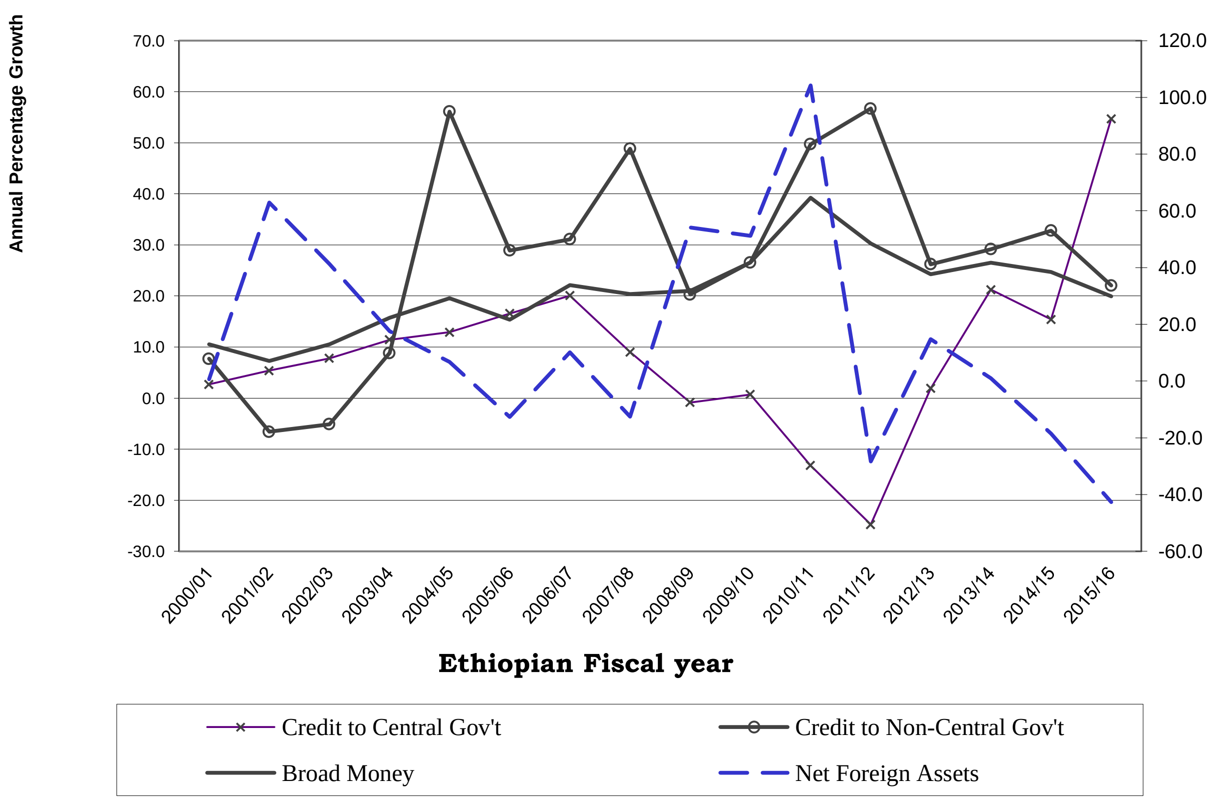
Source: NBE

Table 4.2: Factors Influencing Broad Money

Particulars	Year Ended June 30				Annual Percentage Change		
	2012/13	2013/14	2014/15	2015/16			
	(In Millions of Birr)				2013/14	2014/15	2015/16
External Assets (net)	**45,648.5**	**45,972.3**	**37,570.9**	**21,524.2**	**0.7**	**-18.3**	**-42.7**
Domestic Credit	**233,404.3**	**300,026.6**	**393,421.7**	**490,230.3**	**28.5**	**31.1**	**24.6**
. Claims on Central Gov't (net)	21,965.5	26,929.7	30,735.3	47,548.4	**22.6**	**14.1**	**54.7**
. Claims on Non-Central Gov't	211,438.8	273,096.8	362,686.5	442,682.0	**29.2**	**32.8**	**22.1**
Other Items (net)	**43,739.3**	**48,252.3**	**59,663.8**	**66,488.3**	**10.3**	**23.6**	**11.4**
Broad Money (M2)	**235,313.6**	**297,746.6**	**371,328.9**	**445,266.3**	**26.5**	**24.7**	**19.9**

Source: NBE

Fig V.2: Major Determinants of Monetary Growth



Source: NBE

4.1.2. Developments in Reserve Money and Monetary Ratios

In 2015/16, reserve money or base money expanded 16.3 percent in response to inflation expectation pressure, arising from Elnino related drought. This growth was attributed to 34.3 percent rise in deposits of banks at NBE and 9.8 percent increase in currency in circulation. Domestic credit went up 20.1 percent offsetting a 64.9 percent fall in NBE's net foreign assets. Excess reserves of commercial banks reached Birr 13.3 billion at the end of June 2015/16 compared with Birr 9.3 billion a year ago.

The ratio of Broad money (M2) to GDP, an indicator of financial deepening, slightly rose to 0.34 points, partly indicating prudent monetary policy measures under taken to mitigate the inflationary pressure. Compared to last year same period, money multiplier defined as narrow money to reserve money remained at 1.5 whereas ratio of broad money to reserve money increased to 3.7 from 3.6 a year earlier, reflecting improvements in domestic deposit mobilization (Table 4.3).

Table 4.3: Reserve Money and Monetary Ratios

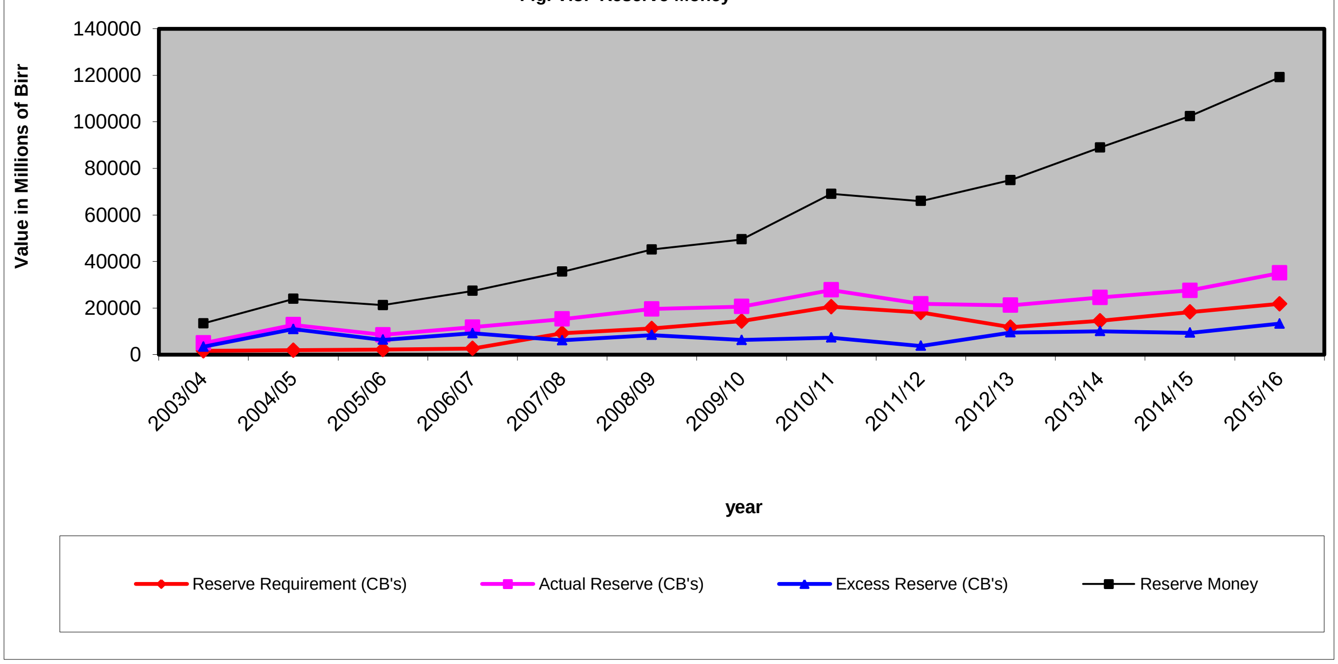
(In Millions of Birr, where applicable)

Particulars	Year Ended June 30				Annual Percentage Change		
	2012/13	2013/14	2014/15	2015/16	2013/14	2014/15	2015/16
Reserve Requirement (CB's)	11,708.8	14,479.4	18,250.4	21,745.4	23.7	26.0	19.2
Actual Reserve (CB's)	21,160.9	24,493.3	27,562.6	34,999.4	15.7	12.5	27.0
Excess Reserve (CB's)	9,452.1	10,013.9	9,312.2	13,253.9	5.9	-7.0	42.3
Reserve Money	74,942.3	89,322.5	102,467.8	119,164.7	19.2	14.7	16.3
. Currency in Circulation	54,917.7	64,355.0	75,240.7	82,592.7	17.2	16.9	9.8
. Bank Deposits	20,024.6	24,967.5	27,227.1	36,572.0	24.7	9.1	34.3
Money Multiplier (Ratio):							
. Narrow Money to Reserve Money	1.53	1.50	1.51	1.50	-2.0	0.6	-0.7
. Broad Money to Reserve Money	3.14	3.33	3.62	3.74	6.2	8.7	3.1
Other Monetary Ratios (%):							
. Currency to Narrow Money	0.48	0.48	0.49	0.46	0.3	1.3	-4.9
. Currency to Broad Money	0.23	0.22	0.20	0.19	-7.4	-6.3	-8.5
. Narrow Money to Broad Money	0.49	0.45	0.42	0.40	-7.7	-7.5	-3.7
. Quasi Money to Broad Money	0.51	0.55	0.58	0.60	7.3	6.1	2.7
M2/GDP Ratio*	0.30	0.31	0.33	0.34	3.4	6.4	4.3

Source: National Bank of Ethiopia (NBE)

* M2/GDP ratio for 2015/16 is calculated on the basis of estimated nominal GDP for the same year.

Fig. V.3: Reserve Money



Source: NBE

4.2. Developments in Interest Rate

In 2015/16, both minimum and maximum deposit interest rates were unchanged at 5.0 percent and 5.75 percent, respectively. Consequently, average interest rate on savings deposit remained constant at its preceding year level of 5.38 percent. Simple average lending interest rate however, rose to 12.75 percent from 11.88 percent whereas weighted annual average interest rates on time and demand deposits stood at 5.59 and 0.04 percent respectively.

Thus, real rate of interest, except for lending rate, remained negative given 7.5 percent headline inflation (Table 4.4).

Table 4.4: Interest Rate Structure of Commercial Banks

(In percent per annum)

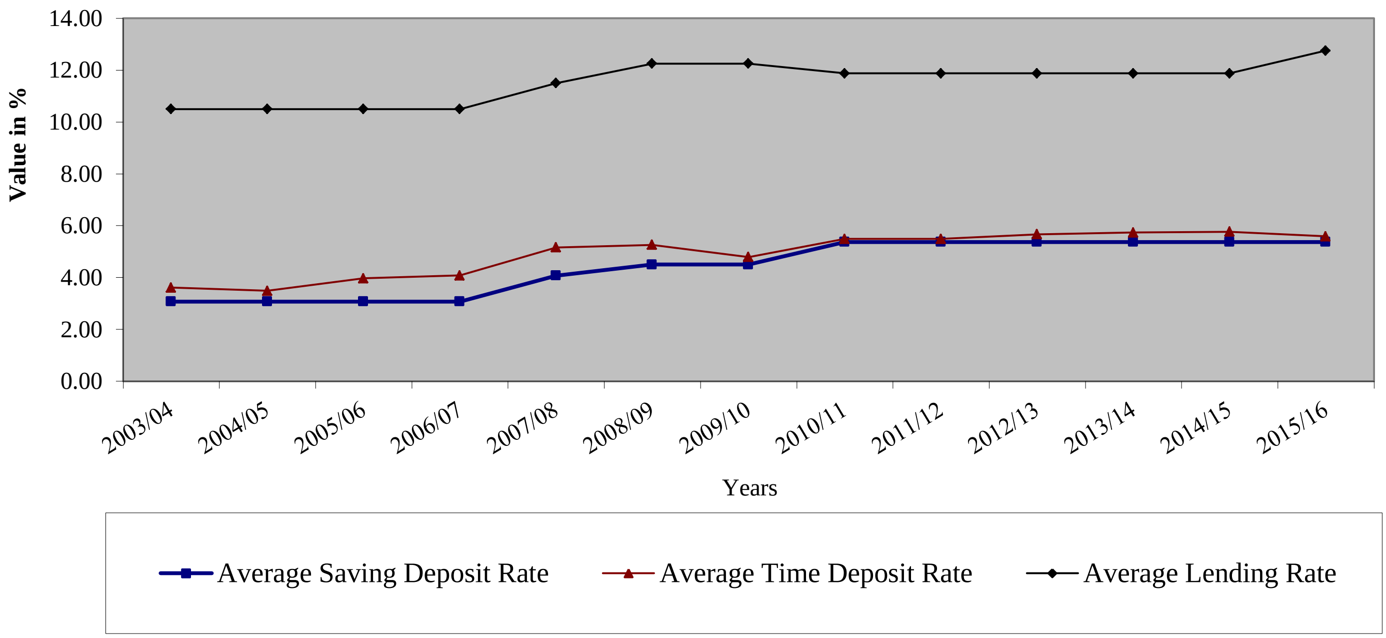
Rates	2007/08	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
1. Deposit Rate								
1.1 Savings Deposit (Simple Average)	**4.08**	**4.50**	**5.38**	**5.38**	**5.38**	**5.38**	**5.38**	**5.38**
Minimum	4.00	4.00	5.00	5.00	5.00	5.00	5.00	5.00
Maximum	4.15	5.00	5.75	5.75	5.75	5.75	5.75	5.75
1.2 Time deposit (Weighted Average)	**5.16**	**4.79**	**5.49**	**5.55**	**5.66**	**5.66**	**5.77**	**5.59**
Up to 1 year	4.67	4.56	5.37	5.48	5.57	5.55	5.71	5.53
1 -2 years	5.23	4.80	5.51	5.57	5.68	5.68	5.78	5.60
Over 2 years	5.59	5.01	5.60	5.61	5.74	5.74	5.81	5.64
1.3 Demand Deposit (Weighted Average)	**0.04**	**0.06**	**0.06**	**0.02**	**0.03**	**0.03**	**0.04**	**0.04**
2. Lending Rate (Average)	**11.50**	**12.25**	**11.88**	**11.88**	**11.88**	**11.88**	**11.88**	**12.75**
Minimum	8.00	8.00	7.50	7.50	7.50	7.50	7.50	7.50
Maximum	15.00	16.50	16.25	16.25	16.25	16.25	16.25	18.00
3. T-bills (Nominal)	**0.67**	**0.89**	**1.31**	**1.25**	**1.86**	**1.59**	**1.43**	**1.44**
4. Headline Inflation (Year-onYear)	**7.8**	**7.9**	**8.8**	**9.1**	**8.7**	**8.5**	**10.4**	**7.5**
5. Real Rate of Interest on:								
5.1 SavingDeposit (1.1 - 4)	-3.74	-3.37	-3.39	-3.75	-3.33	-3.09	-5.07	-2.15
5.2 Time Deposit (1.2 - 4)	-2.65	-3.07	-3.27	-3.57	-3.04	-2.81	-4.68	-1.94
5.3 Lending (2 - 4)	3.69	4.38	3.11	2.75	3.17	3.41	1.43	5.22

Source: NBE

* 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

Fig. V.4: Interest Rate Structure of Commercial Banks



Source: NBE

4.3. Developments in Financial Sector

In 2015/16 the number of banks declined to 18 from 19 due to the merger of the Construction & Business Bank with the Commercial Bank of Ethiopia. Of the 18 banks 16 were private and 2public.

Banks opened 494 new branches in 2015/16 (of which 363 were private) raising the total branch network to reach 3187 from 2693 last year. As a result, bank branch to population ratio declined from 1:33,448[4] people to 1:28,616 in 2015/16.

The share of public banks, in total branches declined to 39.5 percent from 41.9 percent last year signifying the growing role of private banks (Table 4.5).

About 34.4 percent of bank branches were situated in Addis Ababa.

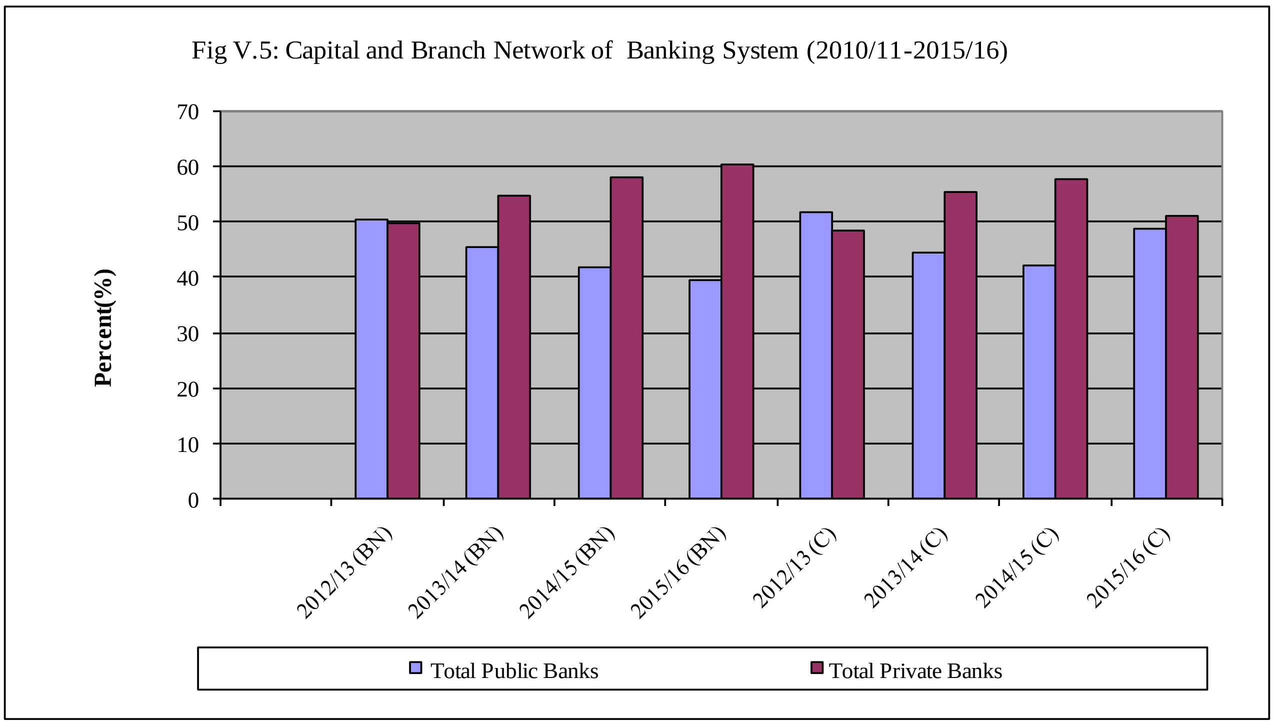
[4]Taking total population 90.76 in 2014/15 and 91.2 million in 2015/16

The total capital of the banking system rose 39.8 percent to Birr 43.0 billion by end June 2016 (Table 4.5).

In the meantime, the number of insurance companies stood at 17 (1 public and 16 private) with their branches rising to 426 following the opening of 49 new branches. About 53.5 percent of insurance branches were in Addis Ababa and 83.6 percent of the total branches were private.

At the same time, the total capital of insurance companies grew 25.3 percent to Birr 3.6 billion of which the share of private insurance companies was 76.7 percent (Table 4.6).

Fig.IV.5: Capital and Branch Network of the Banking system (2010/11-2014/15)



Source: Commercial Banks

Table.4.5: Capital and Branch Network of the Banking System a of June 30, 2016

(Branch in Number and Capital in Millions of Birr)

Banks	Branch Network								Capital			
	2014/15				2015/16				2014/15		2015/16	
	Regions	Addis Ababa	Total	% Share	Regions	Addis Ababa	Total	% Share	Total Capital	% Share	Total Capital	% Share
1. Public Banks												
Commercial Bank of Ethiopia	785	192	977	36.3	888	262	1150	36.1	10,716.4	34.8	13,557.5	31.5
Construction & Business Bank	69	51	120	4.5	0	0	0	0.0	-	-		0.0
Development Bank of Ethiopia	31	1	32	1.2	106	4	110	3.5	2,269.2	7.4	7,500.8	17.4
Total Public Banks	**885**	**244**	**1129**	**41.9**	**994**	**266**	**1260**	**39.5**	**12,985.5**	**42.1**	**21,058.3**	**48.9**
2. Private Banks												
Awash International Bank	95	112	207	7.7	118	127	245	7.7	2,540.3	8.2	3,191.2	7.4
Dashen Bank	76	88	164	6.1	61	57	118	3.7	2,377.2	7.7	2,809.3	6.5
Abyssinia Bank	64	72	136	5.1	84	92	176	5.5	1,594.3	5.2	1,838.2	4.3
Wegagen Bank	63	56	119	4.4	95	66	161	5.1	2,061.9	6.7	2,431.1	5.6
United Bank	62	66	128	4.8	70	74	144	4.5	1,475.0	4.8	1,814.7	4.2
Nib International Bank	50	65	115	4.3	69	86	155	4.9	1,925.3	6.2	2,253.9	5.2
Cooperative Bank of Oromiya	106	35	141	5.2	139	45	184	5.8	1,058.7	3.4	1,182.7	2.7
Lion International Bank	50	38	88	3.3	75	46	121	3.8	601.6	2.0	787.2	1.8
Oromia International Bank	103	49	152	5.6	148	62	210	6.6	771.7	2.5	1,069.9	2.5
Zemen Bank	5	2	7	0.3	8	5	13	0.4	650.0	2.1	800.0	1.9
Buna International Bank	47	35	82	3.0	56	49	105	3.3	559.3	1.8	774.7	1.8
Berhan International Bank	32	39	71	2.6	43	45	88	2.8	622.3	2.0	805.9	1.9
Abay Bank	70	19	89	3.3	89	27	116	3.6	591.0	1.9	814.5	1.9
Addis International Bank	10	22	32	1.2	17	26	43	1.3	399.6	1.3	569.8	1.3
Debub Global Bank	13	9	22	0.8	17	11	28	0.9	202.6	0.7	270.9	0.6
Enat Bank	5	6	11	0.4	7	13	20	0.6	392.1	1.3	588.6	1.4
Total Private Banks	**851.0**	**713.0**	**1,564.0**	**58.1**	**1,096.0**	**831.0**	**1,927.0**	**60.5**	**17,822.8**	**57.9**	**22,002.5**	**51.1**
3.Grand Total Banks	**1736**	**957**	**2693**	**100**	**2,090.0**	**1097**	**3187**	**100.0**	**30,808.3**	**100.0**	**43,060.8**	**100.0**

Source: Commercial Banks

Table.4.6: Branch Network &Capital of Insurance Companies as of June 30, 2016

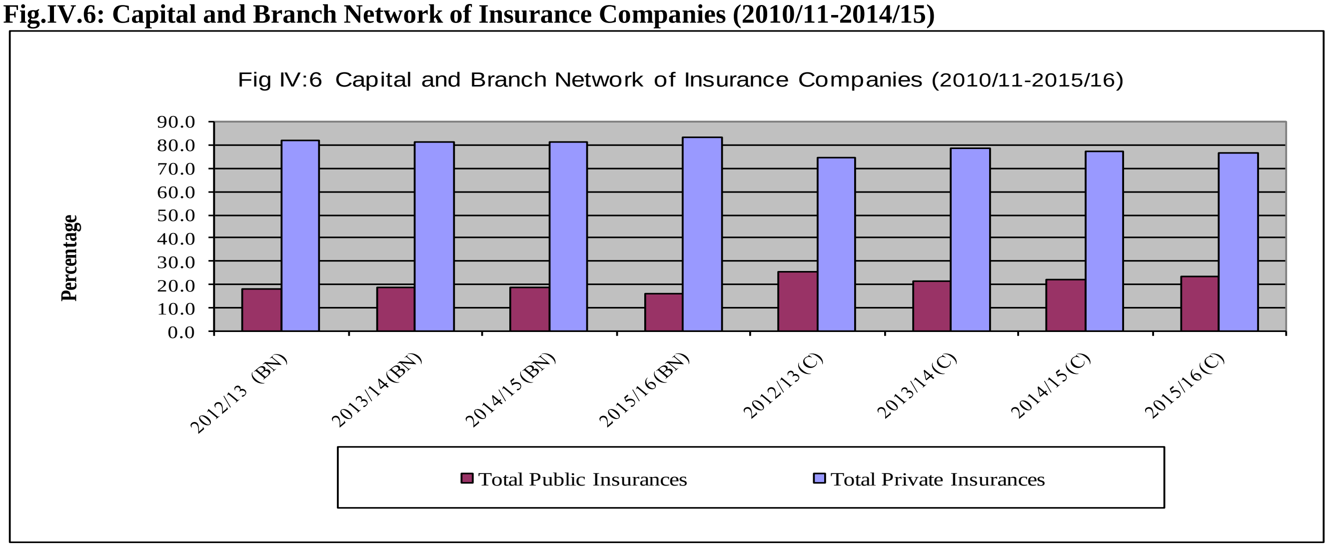
(Branch in Number and Capital in Millions of Birr)

No.	Insurance Companies	Branch 2014/15 A.A	Regio	Total	Branch 2015/16 A.A	Regio	Total	Capital 2014/15 A	2015/16 B	% Change B/A
1	Ethiopian Ins. Cor.	18.0	48.0	66	18	52	70	643.2	836.5	30.1
2	Awash Ins.Com.S.C.	22.0	14.0	36	24	14	38	219.0	292.3	33.5
3	Africa Ins.Com S.C.	9.0	9.0	18	11	11	22	211.5	240.9	13.9
4	National Ins. Co. of Eth.	9.0	13.0	22	15	14	29	80.8	100.0	23.8
5	United Ins.Com. S.C	18.0	10.0	28	18	10	28	258.4	322.5	24.8
6	Global Ins. Com.S.C	6.0	6.0	12	6	7	13	95.8	109.7	14.5
7	Nile Ins.Com.S.C	14.0	17.0	31	17	19	36	232.6	232.3	-0.1
8	NyalaIns.Com.S.C	13.0	10.0	23	13	10	23	286.3	327.8	14.5
9	Nib Ins. Com.S.C	19.0	9.0	28	21	9	30	263.6	316.3	20.0
10	Lion Ins. Com.S.C	15	10	25	15	13	28	96.6	91.2	-5.6
11	Ethio-Life Ins.Com.S.c	8.0	4.0	12	12	4	16	31.8	81.3	155.9
12	OromiaIns.Com.S.c	17	12	29	17	16	33	138.1	165.6	19.9
13	Abay Insurance	8	9	17	10	9	19	108.3	160.6	48.3
14	Berhan insurance S.C	6	1	7	7	1	8	46.9	71.3	52.1
15	Tsehay Insurance S.C	6	2	8	8	4	12	48.7	80.3	64.9
16	Lucy	3	2	5	6	2	8	64.7	96.4	49.0
17	Bunna Insurance S.C.	8	2	10	10	3	13	38.8	64.6	66.7
	Total	**199**	**178**	**377**	**228**	**198**	**426**	**2,865**	**3,590**	**25.3**

Source: Insurance Companies

Note: A.A=Addis Ababa

Fig.IV.6: Capital and Branch Network of Insurance Companies (2010/11-2014/15)



Source: Insurance Companies

Similarly, the number of micro-finance institutions remained at 35 while their total capital and total asset increased significantly by 23.5 and 20.0 percent and reached Birr 8.9 billion and Birr 36.7 billion, respectively.

Their mobilized deposits grew by 24.3 percent to Birr 18.4 billion and their outstanding credit rose by 15.5 percent to Birr 25.2 billion (Table 4.7).

The five largest MFIs, namely Amhara, Dedebit, Oromiya, Omo and Addis Credit and Savings institutions, accounted for 83.6 percent of the total capital, 92.9 percent of the savings, 88.3 percent of the credit and 89.2 percent of the total assets of MFIs at the end of 2015/16.

Table 4.7: Microfinance Institutions Performance as of June 30, 2016 (In Thousands of Birr

Particulars	2014/15	2015/16	% Change
	A	B	B/A
Total Capital	7,187,259.5	8,875,780.6	23.5
Saving	14,832,747.4	18,432,836.7	24.3
Credit	21,827,337.3	25,203,763.0	15.5
Total Assets	30,562,012.2	36,668,011.6	20.0

4.3.1 Resource Mobilization

Total resources mobilized by the banking system (deposit, loan collection and borrowing) rose by 8.0 percent and reached Birr 149.6 billion by end 2015/16 (Table 4.8).

As commercials banks expanded their branch network, their, deposit liabilities increased to Birr 438.1 billion showing a 19.3 percent annual growth. Saving deposits grew by 24.2 percent followed by time deposits (18.6 percent), and demand deposits (13.7 percent).Saving deposits accounted for 49.5 percent of the total deposits distantly followed by demand deposits (39.0 percent) and time deposit (11.4 percent) (Table 4.9).

The share of private banks in deposit mobilization increased to 33.6 percent from 32.2 percent last year due to the opening of 363 new branches. CBE alone mobilized 66.1 percent of the total deposits banking system owing to its large branch network.

Raising funds through borrowing by the banking system was not an important source of resource mobilization in Ethiopia as virtually all banks were sufficiently liquid aided by increased deposit mobilization and collection of loans.

Consequently, total outstanding borrowing of the banking system stood at Birr 32.9 billion slightly higher than Birr 31.5 billion a year ago (Table 4.9). Of the total borrowing, domestic sources accounted for 89.1 percent and foreign sources the remaining balance.

Birr 77.2 billion collected during the review fiscal year was up by 28.6 percent of which, 56.3 percent was the share of private banks (Table 4.8).

Table 4.8: Annual Resource Mobilization & Disbursing Activities of Commercial Banks and DBE (Specialized Bank) as at June 30, 2016

(In Million Birr)

Particulars	2013/14			2014/15			2015/16			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)	***40,053.9***	***15,592.7***	***55,646.6***	***48,523.8***	***26,023.7***	***74,547.5***	***41,941.1***	***28,816.2***	**70,757.3**	***27.2***	***(5.1)***
Demand	9,350.1	3,294.4	12,644.6	14,573.5	7,089.8	21,663.3	12,897.7	7,670.4	20,568.0	62.7	(5.1)
Savings	20,784.5	9,685.0	30,469.5	23,058.8	15,305.6	38,364.5	25,960.6	16,374.8	42,335.4	38.9	10.4
Time	9,919.3	2,613.2	12,532.5	10,891.5	3,628.3	14,519.7	3,082.8	4,771.0	7,853.8	(37.3)	(45.9)
2. Borrowing (net change)	***4,034.1***	**-**	***4,034.1***	***3,932.3***	**-**	***3,932.3***	***1,667.8***	**-**	**1,667.8**	***(58.7)***	***(57.6)***
Local	2,925.9	-	2,925.9	3,571.7	-	3,571.7	1,855.9	-	1,855.9	(36.6)	(48.0)
Foreign	1,108.2	-	1,108.2	360.6	-	360.6	(188.1)	-	(188.1)	(117.0)	(152.2)
3. Collection of Loans	26,127.5	25,617.2	51,744.7	27,982.1	32,032.2	60,014.2	33,722.8	43,463.9	77,186.7	49.2	28.6
4. Total Resources Mobilized (1+2+3)	***70,215.4***	***41,209.9***	***111,425.3***	***80,438.1***	***58,055.9***	***138,494.0***	***77,331.7***	***72,280.1***	**149,611.8**	***34.3***	***8.0***
5. Disbursement	38,937.9	21,027.5	59,965.4	41,913.2	33,567.8	75,481.0	49,626.3	38,396.8	88,023.1	46.8	16.6
6. Change in Liquidity (4-5)	***31,277.5***	***20,182.4***	***51,459.9***	***38,524.9***	***24,488.1***	***63,013.0***	***27,705.4***	***33,883.3***	**61,588.7**	***19.7***	***(2.3)***
Memorandum Item:											
7. Outstanding Credit*	114,664.0	53,691.1	168,355.1	141,751.2	75,617.0	217,368.2	170,719.9	93,181.7	263,901.6	56.8	21.4

Source: Commercial Banks & Staff Computation

*Includes government borrowing in the form of bonds and treasury bills from commercial banks and other sectors other than NBE

Table 4.9: Deposits and Borrowings of Commercial Banks and Specialized Bank as at June 30, 2016

(in Million Birr)

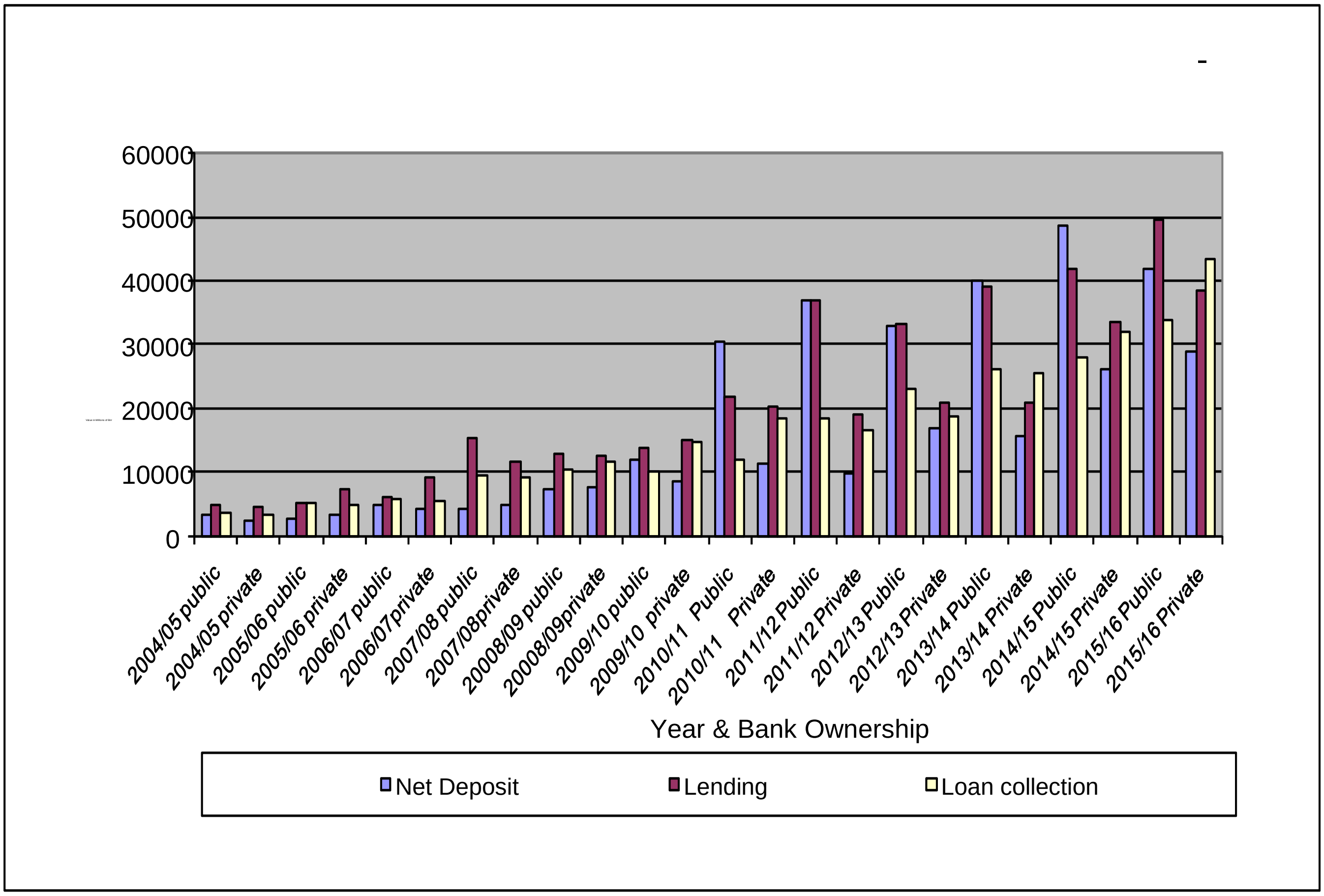
	2013/14	2014/15	2015/16	S/R	T/S
	R	S	T		
A. Deposits					
-Demand	128,788.1	150,451.5	171,019.5	16.8	13.7
-Savings	136,347.8	174,712.3	217,047.8	28.1	24.2
-Time	27,711.9	42,231.7	50,085.5	52.4	18.6
Total	**292,847.9**	**367,395.4**	438,152.7	**25.5**	**19.3**
B. Borrowings			0.0		
-Local	23,900.8	27,472.4	29,328.4	14.9	6.8
-Foreign	3,409.4	3,770.0	3,581.9	10.6	-5.0
Total	**27,310.1**	**31,242.4**	**32,910.2**	**14.4**	**5.3**
Source: Commercial Banks					

4.3.2 New Lending Activities

Banks, including Development Bank of Ethiopia (DBE) disbursed fresh loans to the tune of Birr 88.0 billion in 2015/16 which was a 16.6 percent higher than a year ago. Of the total new loans, about 43.6 percent was made by private banks, and the rest by public banks (Table 4.10).

About 29.0 percent of the loans went to industry followed by domestic trade (17.1 percent), housing and construction (15.5 percent), agriculture (15.20 percent) and international trade (10.8 percent) and others (12.4 percent) (Table 4.12).

Fig.IV.7: Deposit Mobilization, Lending and Loan Collection of the Banking System (2004/05- 2015/16)



Source: Commercial Banks and DBE

Table.4.10: Loans and Advances by Lenders 1/ (In Millions Birr)

Lenders	2014/15			2015/16			Percentage Change		
	D*	C*	O/S*	D*	C*	O/S*			
	A	B	C	D	E	F	D/A	E/B	F/C
A.Public Banks									
1.Commercial Bank of Ethiopia	33715.5	22474.1	111,435.3	42378.2	28610.7	138,854.3	25.7	27.3	24.6
3. Construction & Business Bank of Ethiopia	1354.8	1421.5	2,735.5	918.5	1003.3	-	-32.2	-29.4	-100.0
2.Development Bank of Ethiopia	6842.9	4086.4	27,580.4	6329.6	4108.8	31,865.6	-7.5	0.5	15.5
Sub-Total	***41,913.2***	***27,982.1***	***141,751.2***	***49,626.3***	***33,722.8***	***170,719.9***	**18.4**	**20.5**	**20.4**
B. Private Banks									
4 Awash International Bank	3723.6	3967.0	12482.0	4476.2	5383.3	15450.8	20.2	35.7	23.8
5. Dashen Bank	5179.8	5903.7	11479.1	5372.6	6727.7	12683.4	3.7	14.0	10.5
6. Bank of Abyssinia	1818.7	2436.4	5992.2	3025.6	2287.2	8149.0	66.4	-6.1	36.0
7. Wegagen Bank	3089.5	3287.0	6169.5	3137.2	4888.2	7630.3	1.5	48.7	23.7
8. United Bank	3188.8	4145.3	6860.1	3174.0	5211.8	8534.4	-0.5	25.7	24.4
9. Nib International Bank	4629.1	3489.4	7000.1	4041.2	3708.8	7647.1	-12.7	6.3	9.2
10. Cooperative Bank of Oromia	1736.4	918.5	6738.3	2182.8	3042.9	6177.3	25.7	231.3	-8.3
11. Lion Interenational Bank	1612.2	1127.7	2878.3	2302.8	1851.5	4389.7	42.8	64.2	52.5
12. Oromia International Bank	1266.2	1241.3	2275.5	1572.4	1744.7	3403.8	24.2	40.6	49.6
13. Zemen Bank	2393.0	1668.5	4767.2	1647.6	2243.2	5258.3	-31.1	34.4	10.3
14.Berhan International Bank	809.1	790.7	1908.6	2150.5	1920.2	3766.0	165.8	142.8	97.3
15.Bunna International Bank	1447.3	795.0	2433.9	2031.6	1313.1	3675.2	40.4	65.2	51.0
16.Abay Bank	1353.4	1228.9	2376.5	1722.6	1567.8	3118.6	27.3	27.6	31.2
17. Addis International Bank	343.0	322.3	771.6	382.9	438.6	1063.1	11.6	36.1	37.8
18. Debub Global Bank	242.7	241.4	338.9	546.6	481.9	599.3	0.0	0.0	0.0
19. Enat Bank	735.1	469.0	1145.3	630.1	652.8	1635.3	0.0	0.0	0.0
Sub-Total	***33,567.8***	***32,032.2***	***75,617.0***	***38,396.8***	***43,463.9***	***93,181.7***	**14.4**	**35.7**	**23.2**
Grand Total	***75,481.0***	***60,014.2***	***217,368.2***	***88,023.1***	***77,186.7***	***263,901.6***	**16.6**	**28.6**	**21.4**

Source: Commercial Banks

1. O/S Credit excludes centeral government borrowing

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

Table 4.11: Percentage Share of Loans and Advances by Lenders

Lenders	2014/15			2015/16			Percentage change		
	D*	C*	O/S*	D*	C*	O/S*			
	A	B	C	D	E	F	D/A	E/B	F/C
A.Public Banks									
1.Commercial Bank of Ethiopia	44.668	37.4	51.3	48.1	37.1	52.6	7.8	-1.0	2.6
2.Development Bank of Ethiopia	9.066	6.8	12.7	1.0	1.3	0.0	-88.5	-80.9	-100.0
3. Construction & Business Bank of Ethiopia	1.795	2.4	1.3	7.2	5.3	12.1	300.6	124.7	859.5
Sub-Total	***55.528***	***46.6***	***65.2***	***56.4***	***43.7***	***64.7***	**1.5**	**-6.3**	**-0.8**
B.Private Banks									
4 Awash International Bank	4.9	6.6	5.7	5.1	7.0	5.9	3.1	5.5	2.0
5. Dashen Bank	6.9	9.8	5.3	6.1	8.7	4.8	-11.1	-11.4	-9.0
6. Bank of Abyssinia	2.4	4.1	2.8	3.4	3.0	3.1	42.7	-27.0	12.0
7. Wegagen Bank	4.1	5.5	2.8	3.6	6.3	2.9	-12.9	15.6	1.9
8. United Bank	4.2	6.9	3.2	3.6	6.8	3.2	-14.6	-2.2	2.5
9. Nib International Bank	6.1	5.8	3.2	4.6	4.8	2.9	-25.1	-17.4	-10.0
10. Cooperative Bank of Oromia	2.3	1.5	3.1	2.5	3.9	2.3	7.8	157.6	-24.5
11. Lion Interenational Bank	2.1	1.9	1.3	2.6	2.4	1.7	22.5	27.7	25.6
12. Oromia International Bank	1.7	2.1	1.0	1.8	2.3	1.3	6.5	9.3	23.2
13. Zemen Bank	3.2	2.8	2.2	1.9	2.9	2.0	-41.0	4.5	-9.1
14.Berhan International Bank	1.1	1.3	0.9	2.4	2.5	1.4	127.9	88.8	62.5
15.Bunna International Bank	1.9	1.3	1.1	2.3	1.7	1.4	20.4	28.4	24.4
16. Abay Bank	1.8	2.0	1.1	2.0	2.0	1.2	9.1	-0.8	8.1
17. Addis International Bank	0.5	0.5	0.4	0.4	0.6	0.4	-4.3	5.8	13.5
18. Debub Global Bank	0.3	0.4	0.2	0.6	0.6	0.2	0.0	0.0	0.0
19. Enat Bank	1.0	0.8	0.5	0.7	0.8	0.6	0.0	0.0	0.0
Sub-Total	***44.5***	***53.4***	***34.8***	***43.6***	***56.3***	***35.3***	**-1.9**	**5.5**	**1.5**
Grand Total	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	**0.0**	**0.0**	**0.0**

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

4.3.3 Outstanding Loans

Total outstanding credit of the banking system expanded by 20.4 percent and reached Birr 280.3 billion at the end of June 2016. Specifically, outstanding claims on private sector rose by 23.8 percent on public enterprises 21.2 percent and on the central government 6.2 percent. (Table 4.13)

Credit to industry accounted for 40.2 percent followed by international trade (19.7 percent), domestic trade (10.8 percent), housing and construction (10.6 percent) and agriculture (7.7 percent) (Table 4.12). The share of private sector in outstanding credit was Birr 179.2 billion (or 63.9 percent) depicting a 21.5 percent annual growth (Table 4.13).

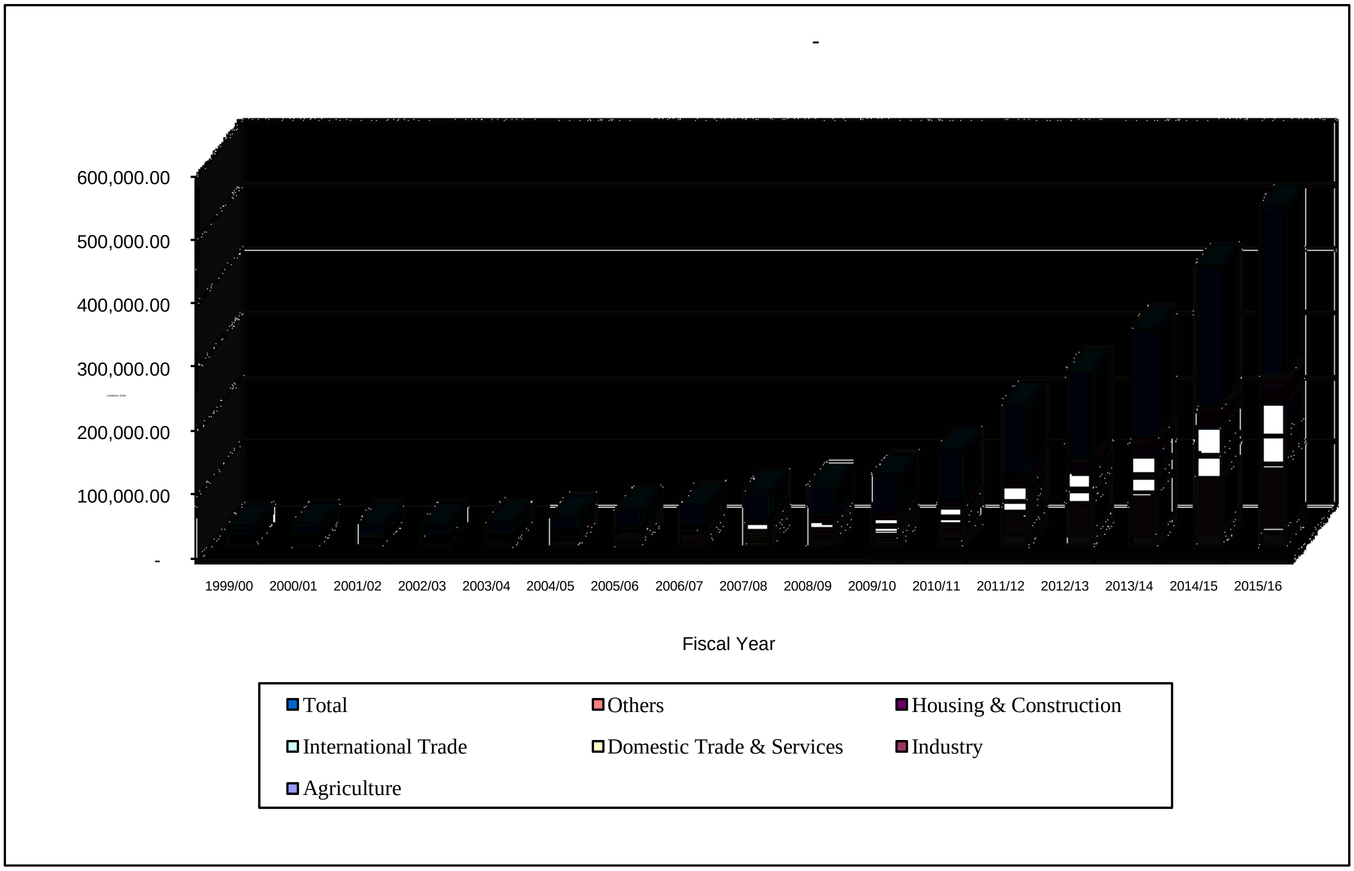
Table 4.12: Loans & Advances by Economic Sectors

Economic Sectors	2014/15			2015/16			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	15,514.4	0	0	16,471.6	-	-	6.2
Agriculture	13,077.1	11,456.2	18,579.8	13,375.7	12,863.4	20,377.5	2.3	12.3	9.7
Industry	23,437.4	11,782.9	86,212.3	25,495.6	15,954.1	106,164.0	8.8	35.4	23.1
Domestic Trade	15,589.0	12,183.2	25,336.4	15,040.5	15,297.7	28,550.6	(3.5)	25.6	12.7
International Trade	8,415.0	11,790.8	43,303.9	9,528.0	15,707.9	51,900.4	13.2	33.2	19.9
Export	3,780.4	5,587.3	17,581.3	4,404.9	8,429.6	23,028.4	16.5	50.9	31.0
Import	4,634.6	6,203.5	25,722.6	5,123.1	7,278.3	28,872.0	10.5	17.3	12.2
Hotels and Tourism	1,620.3	1,510.9	3,590.6	1,893.8	2,406.5	4,818.8	16.9	59.3	34.2
Transport and Communication	3,625.5	2,340.6	7,289.0	4,494.1	3,336.8	10,026.1	24.0	42.6	37.6
Housing and Construction	6,720.1	7,040.4	22,529.1	13,641.9	8,422.3	28,080.8	103.0	19.6	24.6
Mines, Power and Water resource	165.2	83.4	844.7	341.2	145.5	851.8	106.5	74.4	0.8
Others	2,163.8	1,449.8	7,827.7	3,160.8	2,393.9	10,297.7	46.1	65.1	31.6
Personal	667.5	363.4	1,796.9	1,051.4	652.9	2,779.6	57.5	79.7	54.7
Interbank Lending	-	12.66	57.8	-	5.72	54.3	-	(54.8)	(6.2)
Total	**75,481.0**	**60,014.3**	**232,882.6**	**88,023.1**	**77,186.7**	**280,373.3**	**16.6**	**28.6**	**20.4**

Source: Commercial Banks &Staff Computation

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

Fig.IV.8: Sectoral Breakdown of Bank Credit (1999/00-2015/16)



Source: Commercial Banks including DBE & Staff Computation

Table 4.13: Loans and Advances by Borrowers (In Millions of Birr)

Borrowing Sector	2012/13	2013/14	2014/15	2015/16			Percentage change	
	O/S*	O/S*	O/S*	D*	C*	O/S*		
	A	B	C	E	F	G	G/B	G/C
Central Government	5,797.4	12,969.5	15,514.4	-	0.0	16,471.6	27.0	6.2
Public Enterprises	40,888.6	53,703.7	69,841.6	16,114.6	8,058.3	84,675.6	57.7	21.2
Cooperatives	12,219.7	12,664.7	13,850.7	12,213.7	13,281.7	13,704.4	8.2	-1.1
Private & Individuals	82,558.2	101,920.7	133,618.1	59,694.8	55,841.0	165,467.4	62.3	23.8
Inter-bank Lending	163.3	65.9	57.8	0.0	5.7	54.3	-17.7	-6.2
Total	***141,627.3***	***181,324.6***	***232,882.6***	***88,023.1***	***77,186.7***	***280,373.2***	54.6	20.4
Total less Inter-bank Lending	***141,463.9***	***181,258.6***	***232,824.8***	***88,023.1***	***77,181.0***	***280,319.0***	**54.7**	**20.4**

Source: Commercial Banks &Staff Computation

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

4.4. Financial Operations of NBE

Outstanding claims of NBE on the central government was Birr 109.2 billion on account of 21.0 percent growth in direct advance which reached Birr 100.7 billion or 92.4 percent of the total claims.

At the same time, outstanding claims of NBE on DBE reached Birr 25.6 billion about 9.6 percent higher than last year.

Meanwhile, total deposit liabilities of NBE increased by 20.0 percent to Birr 51.7 billion, as a result a 34.6 percent rise in deposits of financial institutions (Table 4.14).

Table 4.14: Financial Activities of National Bank of Ethiopia at the Close of June 30, 2016

(In Millions of Birr)

Particulars	2013/14	2014/15	2015/16	% Change	
	A	B	C	B/A	C/B
Loans and Advances (1+2)	**82,551.5**	**115,532.3**	**134,687.4**	**40.0**	**16.6**
1.Claims on Central Gov't	**64,394.5**	**92,175.3**	**109,080.4**	**43.1**	**18.3**
1.1 Direct Advance	64,264.9	83,264.9	100,764.9	29.6	21.0
1.2 Bonds	129.6	8,910.4	8,315.5	6775.3	-6.7
2. Claims on DBE	**18,157.0**	**23,357.0**	**25,607.0**	**28.6**	**9.6**
3. Deposit Liabilities	**35,140.8**	**43,077.7**	**51,697.0**	**22.6**	**20.0**
3.1 Government	13,412.5	15,098.5	14,042.3	12.6	-7.0
3.2 Financial Institutions	21,728.3	27,979.2	37,654.7	28.8	34.6

Source: NBE and Staff Computation

4.5. Developments in Financial Markets

4.5.1 Treasury Bills Market

The amount of T-bill offered and demanded in the Treasury-bill market showed a similar pattern. The amount of Treasury-bills offered surged by 46.5 percent and reached Birr 147.6 billion while the demand grow 18.3 percent to Birr 161.6 billion. Total T-bills sold during the review year was Birr 161.5 billion indicating Birr 13.9 billion (9.4 percent) oversubscription

Hence, at end of 2015/16, total outstanding T-bills went up by 37.3 percent and reached Birr 57.3 billion, all of which was held by non-banks.

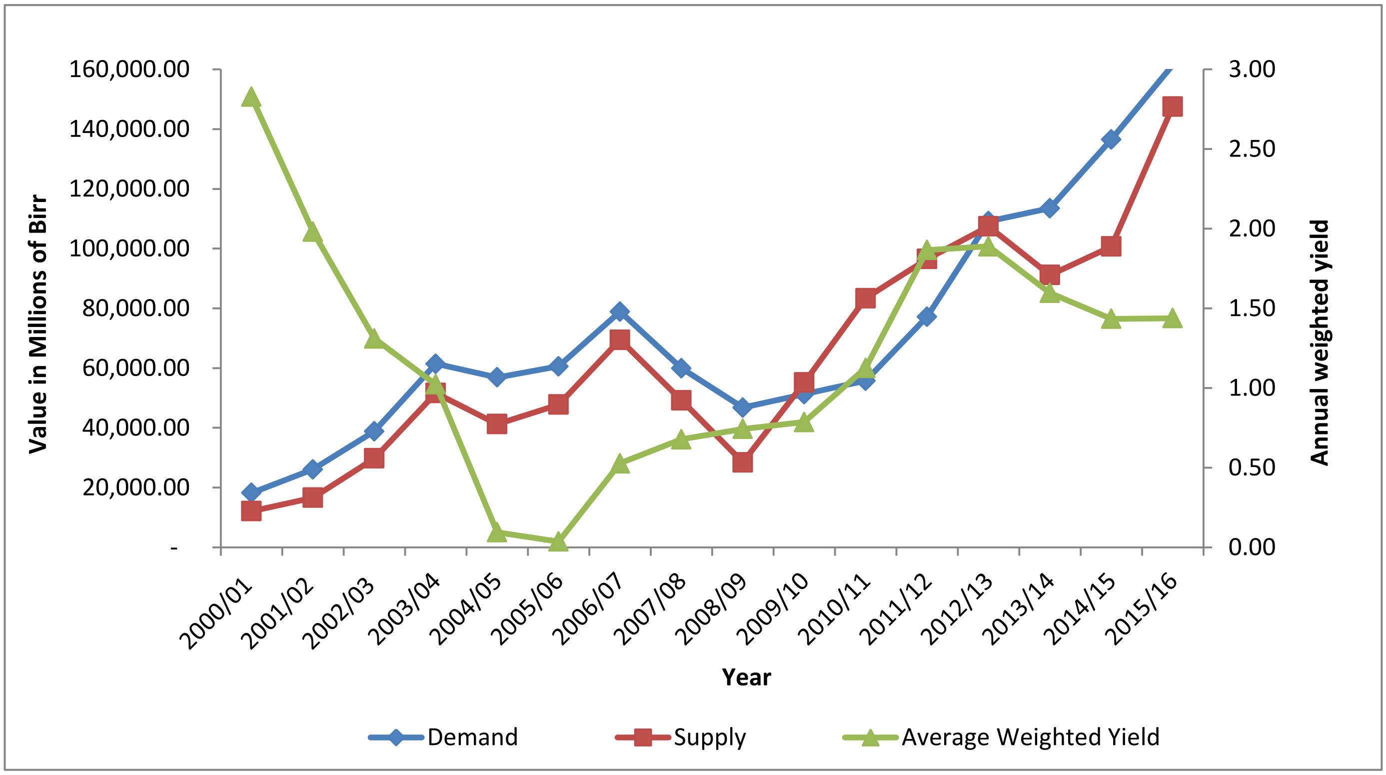
The average weighted yield on T-bills increased slightly to 1.438 percent a year earlier (Table 4.15). The highest yield was recorded for the 364-day T-bills (3 percent) and the lowest (0.78 percent) for 28-day bills.

Table 4.15: Results of Treasury Bills Auction

Particulars	2013/14 A	Share %	2014/15 B	Share %	2015/16 C	Share %	Percentage Change C/A	Percentage Change C/B
Number of Bidders	**415**		**248**		**217**		**-47.7**	**-12.5**
Amount Demanded (Mn.Birr)	**113,528.0**		**136,536.8**		**161,575.2**		**42.3**	**18.3**
28-day bill	25,199.0		1,480.0		1,040.0		-95.9	-29.7
91-day bill	69,329.0		111,938.8		140,517.2		102.7	25.5
182-day bill	8,432.0		14,498.0		6,802.0		-19.3	-53.1
364-day bill	10,568.0		8,620.0		13,216.0		25.1	53.3
Amount Supplied (Mn.Birr)	**91,174.9**		**100,739.4**		**147,579.4**		**61.9**	**46.5**
28-day bill	21,341.0		1,040.0		1,040.0		-95.1	0.0
91-day bill	51,085.9		78,832.4		125,921.4		146.5	59.7
182-day bill	9,582.0		12,247.0		7,502.0		-21.7	-38.7
364-day bill	9,166.0		8,620.0		13,116.0		43.1	52.2
Amount Sold (Mn.Birr)	**95,315.0**		**110,593.3**		**161,475.2**		**69.4**	**46.0**
Banks	18,727.0		0.0		0.0		-100.0	0.0
Non-Banks	76,588.0		110,593.3		161,475.2		110.8	46.0
Average Weighted Price for Successful bids (Birr)	**99.150**		**99.183**		**99.088**		**-0.1**	**-0.1**
28-day bill	99.856		99.923		99.940		0.1	0.0
91-day bill	99.699		99.701		99.702		0.0	0.0
182-day bill	99.591		99.477		99.616		0.0	0.1
364-day bill	97.453		97.632		97.095		-0.4	-0.5
Average Weighted Yeild for Successful bids (%)	**1.597**		**1.434**		**1.438**		**-9.9**	**0.3**
28-day bill	1.883		1.000		0.783		-58.4	-21.8
91-day bill	1.213		1.203		1.198		-1.2	-0.4
182-day bill	0.731		1.093		0.773		5.8	-29.3
364-day bill	2.562		2.441		3.000		17.1	22.9
Outstanding bills at the end of period(Mn.Br.)	**32,286.9**	**Share %**	**41,704.8**	**Share %**	**57,252.6**	**Share %**	**-58.4**	**37.3**
Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Banks	32,286.9	100.0	41,704.8	100.0	57,252.6	100.0	77.3	37.3
Public Servants Social Security Agency	14,590.4	45.2	19,371.6	46.4	30,566.6	53.4	109.5	57.8
Development Bank of Ethiopia	11,416.0	35.4	13,216.0	31.7	13,216.0	23.1	15.8	0.0
Private Organizations' Employees Social Security Agency	3,707.5	11.5	6,799.2	16.3	11,182.0	19.5	201.6	64.5
Other Public Non-Bank Institutions	2,573.0	8.0	2,318.0	5.6	2,288.0	4.0	-11.1	-1.3

Source: NBE

Fig IV.9: Treasury Bills Auction Result



Source: NBE

4.5.2 NBE Bill Market

On April 4, 2011, NBE has introduced NBE-Bills aimed at mobilizing resources from commercial banks to finance priority sectors deemed as the driving forces of the economy. Since its introduction the total NBE bills purchased by the banking sector has reached Birr 49.9 billion.

4.5.3. Corporate Bonds

Corporate bonds purchased by CBE during 2015/16 showed an annual decline of 11.0 percent and reached to Birr 43.0 billion.

At the same time, corporate bonds redeemed by regional governments, Development Bank of Ethiopia (DBE) and City Administration of

Addis Ababa stood at Birr 6.96 billion, 43.4 million and Birr 6.5 billion, in total depicting a 248.7 surge over the previous year (Table 4.16).

Consequently, total outstanding bond holdings, in the review fiscal year reached Birr 188.7 billion showing a 23.6 percent registered a year-on-year growth. About 75.8 percent of outstanding corporate bonds was held by EEPCO, While the 15.6 percent by City Administration of Addis Ababa, 8.2 percent by the Railway Corporation and 0.4 percent by Regional governments.

Table 4.16: Disbursement, Redemption and Outstanding of Coupon and Corporate Bond of CBE

(In Millions of Birr)

Particulars	Annual	Annual	Percentage Change
	2014/15	2015/16	
	A	B	B/A
1. Corporate Bond Purchases by holde	**48,350.0**	**43,023.9**	**-11.0**
EEPCO	28,000.0	28,000.0	0.0
Regional governments	-	-	-
Development Bank of Ethiopia	-	-	-
City Government of Addis Ababa	12,650.0	12,575.0	-0.6
Railway Corporation	7,700.0	2,448.9	-68.2
Private Sector	-	-	-
2. Redemption of Bonds by Clients	**1,998.7**	**6,963.4**	**248.4**
EEPCO	0.0	-	-
Regional governments	315.9	380.6	20.5
Development Bank of Ethiopia	-	43.4	100.0
City Government of Addis Ababa	1,682.8	6,539.4	288.6
Railway Corporation	-	-	-
Private Sector	-	-	-
3. Outstanding Bonds by Clients	**152,689.3**	**188,749.7**	**23.6**
EEPCO	115,100.0	143,100.0	24.3
Regional governments	1,081.4	700.8	-35.2
Development Bank of Ethiopia	43.4	-	-
City Government of Addis Ababa	23,464.4	29,500.0	25.7
Railway Corporation	13,000.0	15,448.9	18.8
Private Sector	-	-	-

Source: Commercial Bank of Ethiopia

4.5.4. Inter-bank Money Market

Interbank money market has remained dormant. Since its introduction in September 1998, merely twenty three transactions worth Birr 259.2 million were transacted with the interest rates ranging between 7 to 11 percent and with maturity period widely spanning from overnight to 5 years (Table 4.17).

Table 4.17: Interbank Money Market Transactions up to June 30, 2012

Borrower	Lender	Amount Borrowed (In Thousand Birr)	Interest Rate %	Date of Transaction	Maturity Period
Nib International Bank	Awash International Bank	7,000.0	11	16/11/00	Overnight
Wegagen Bank	Commercial Bank of Ethiopia	10,000.0	8	3/1/2001	5 years
Nib International Bank	,,	10,000.0	8	3/31/2001	3 months
Wegagen Bank	,,	10,000.0	8	3/22/2001	1 year
Nib International Bank	,,	3,600.0	8	5/31/2001	6 months
Nib International Bank	,,	3,700.0	8	06/31/01	6 months
Nib International Bank	,,	778.0	8	30-11-2001	6 months
Nib International Bank	Bank of Abyssinia	28,999.8	7	31/12/02	3.5 months
Nib International Bank	Bank of Abyssinia	19,046.9	7	31/01/03	3.5 months
Nib International Bank	Bank of Abyssinia	20,310.0	7	28/02/03	3.5 months
Nib International Bank	Bank of Abyssinia	28,987.0	7	31/03/03	3.5 months
Nib International Bank	Commercial Bank of Ethiopia	25,000.0	7.5	7/7/2003	5.2 months
Nib International Bank	Bank of Abyssinia	50.1	7.5	26/03/2005	open
Nib International Bank	Bank of Abyssinia	50.5	7.5	26/03/2005	open
Wegagen Bank	Awash International Bank	19,744.6	7.5	December, 2006	21/05/07
Wegagen Bank	Awash International Bank	19,870.4	7.5	January, 2007	21/05/07
Wegagen Bank	Awash International Bank	10,937.2	7.5	February, 2007	21/05/07
Awash International Bank	Nib International Bank	30,000.0	7.5	February, 2007	18/08/07
Wegagen Bank	Awash International Bank	10,931.4	7.5	March, 2007	21/05/07
Nib International Bank	Awash International Bank	142.0	8.5	January, 2008	25/4/08
Nib International Bank	Awash International Bank	7.0	8.5	February, 2008	25/04/08
Nib International Bank	Awash International Bank	3.0	8.5	March, 2008	25/04/08
Nib International Bank	Awash International Bank	17.0	8.5	April,2008	25/04/08
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 saw USD 830.9 million deficit, about USD 521.4 million higher than a year earlier.

This was a reflection of the widening trade deficit as merchandise import bills over weighed a 5 percent drop in merchandise export earnings.

Similarly, net services registered USD 721.5 million deficit which was nearly double of last year level. At the same time, current account deficit (including official transfers) widened to USD 7.6 billion from USD 7.4 billion a year ago its GDP ratio reached 10.4 percent.

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

S/N	Particulars	2013/14 A	2014/15 B	2015/16 C	Percentage Change B/A	C/B
1	**Exports,f.o.b.**	**3,300.1**	**3,019.1**	**2,867.7**	**-8.5**	**-5.0**
	Coffee	714.4	780.5	722.7	9.2	-7.4
	Other	2,585.7	2,238.7	2,145.0	-13.4	-4.2
2	**Imports**	**13,712.3**	**16,458.6**	**16,725.2**	**20.0**	**1.6**
	Fuel	2,573.1	2,040.9	1,339.0	-20.7	-34.4
	Cereals	442.8	601.6	1,032.7	35.9	71.6
	Aircraft	35.4	190.6	162.9	438.8	-14.5
	Imports excl. fuel, cereals, aircraft	10,661.0	13,625.5	14,190.6	27.8	4.1
	O/w Public investment related imports					
3	**Trade Balance (1-2)**	**-10,412.2**	**-13,439.5**	**-13,857.5**	**29.1**	**3.1**
4	**Services, net**	**559.5**	**-341.4**	**-721.5**	**-161.0**	**111.3**
	Non-factor services, net	712.2	-78.9	-466.6	-111.1	491.3
	Exports of non-factor services	3,174.2	3,028.4	2,932.8	-4.6	-3.2
	Imports of non-factor services	2,461.9	3,107.3	3,399.5	26.2	9.4
	Income, net	-152.8	-262.5	-254.8	71.9	-2.9
	O/w Gross official int. payment	143.5	249.2	255.9	73.6	2.7
	Dividend	-17.9	-23.7	-12.1	32.1	-48.8
5	**Private transfers, net**	**4,114.8**	**4,881.6**	**5,998.5**	**18.6**	**22.9**
	o/w: Private Individuals	3,043.7	3,796.7	3,990.5	24.7	5.1
6	**Current account balance (3+4+5)**					
	excluding off. Transfers	**-5,738.0**	**-8,899.3**	**-8,580.4**	**55.1**	**-3.6**
7	**Official transfers, net**	**1,461.0**	**1,507.9**	**1,021.6**	**3.2**	**-32.2**
8	**Current account balance including official trasfers(6+7)**	**-4,276.9**	**-7,391.4**	**-7,558.8**	**72.8**	**2.3**
9	**Capital account**	**4,134.6**	**7,381.2**	**6,245.4**	**78.5**	**-15.4**
	Off. Long-term Cap., net	2,308.9	2,566.7	1,510.1	11.2	-41.2
	Disbursements	2,442.8	2,653.7	1,599.8	8.6	-39.7
	Amortization	133.9	87.1	89.7	-35.0	3.0
	Other pub. Long-term cap.	331.9	2,228.0	1,146.2	571.3	-48.6
	Private sector, long term		350.0	450.8		28.8
	Foreign Direct Investment(net)	1,466.96	2,202.17	3,028.18	50.1	37.5
	Short-term Capital	26.8	34.3	110.0	28.4	220.4
10	**Errors and omissions**	**45.5**	**-511.2**	**482.6**		
11	**Overall balance (8+9+10)**	**-96.9**	**-521.4**	**-830.9**		
12	**Financing**	**96.9**	**521.4**	**830.9**		
13	Reserves [Increase(-), Decrease (+)]	100.3	521.4	830.9		
14	Central Bank (NFA)	-42.5	-92.9	975.6		
	Asset	-218.2	-663.1	-152.6		
	Liabilities	175.7	570.2	1,128.2		
15	Commercial banks (NFA)	142.9	614.3	-144.7		
16	Debt Relief	-3.5				
	Principal	2.9				
	Interest	0.6				

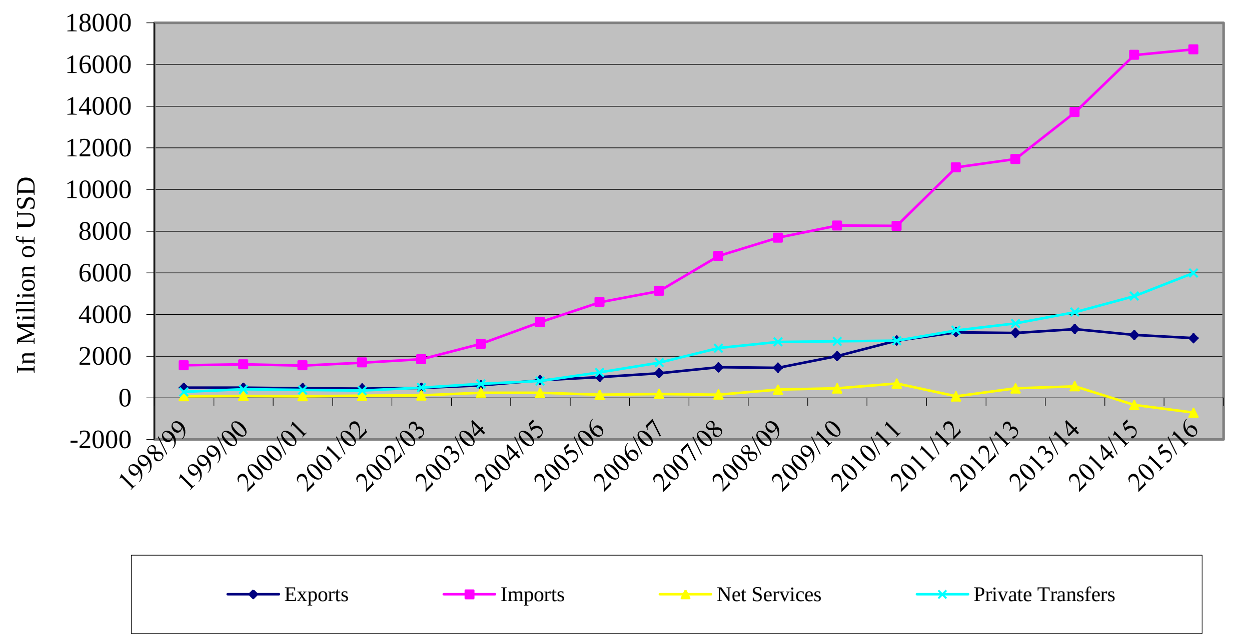
Source: NBE Staff Compilation

Table 5.2: Components of Current Account as Percentage of GDP

Particulars	FY 2013/14 A	FY 2014/15 B	FY 2015/16 C	Percentage Change B/A	Percentage Change C/B
Exports	5.9	4.7	4.0	-21.2	-15.3
Imports	24.7	25.5	23.1	3.3	-9.3
Trade Balance	-18.7	-20.8	-19.1	11.1	-8.0
Net Services	1.0	-0.5	-1.0	-152.5	88.5
Net Private Transfers	7.4	7.6	8.3	2.2	9.6
Current Account Deficit (excluding official transfers)	-10.3	-13.8	-11.9	33.5	-14.0
Current Account Deficit (including official transfers)	-7.7	-11.4	-10.4	48.8	-8.8

Source: NBE Staff Compilation

Fig. V.1 Trends in Components of Current Account



Source:NBE Staff Computations

5.2 Developments in Merchandise Trade

5.2.1 Balance of Trade

Merchandise trade deficit in 2015/16 stood at USD 13.9 billion, which widened by 3.1 percent over the preceding fiscal year mainly due to growth in total import bills in the face of falling merchandise export earnings. Yet, merchandise trade deficit as a ratio of GDP decreased by 2.3 percentage points and stood at 19.6 percent.

5.2.2 Merchandise Export

Total merchandise export earnings (including electricity) declined by 5 percent over the same period of last year due to lower export earnings from coffee (7.4 percent), oilseeds (6.4 percent), gold (8.8 percent), chat (3.7 percent), live-animals (0.5 percent), leather & leather products (12.4 percent) and electricity (26.5 percent). Hence, the ratio of merchandise export to GDP declined to 4.1 percent from 4.9 percent a year ago.

Specifically, export earnings from coffee dropped by 7.4 percent owing to 14.3 percent decline in international price despite 8 percent increase in export volume. As a result, the share of coffee in total merchandise export was to 25.2 percent slightly lowers than 25.8 percent recorded last year same period.

Revenue from oilseeds was down 6.4 percent and reached USD 477.2 million because of a 31.5 percent fall in international price despite 36.7 percent growth in export volume. Hence, the share of oilseeds in total merchandise export was down to 16.6 percent.

Similarly, gold fetched USD 290.7 million which was 8.8 percent lower than last year as a result of a 5.1 percent decline in volume and 3.9 percent drop in international price. As a result, the share of gold in total merchandise export stood at 10.1 percent.

Chat export earnings decreased by 3.7 percent as export volume dropped 4.5 percent despite 0.9 percent rise in international price. Yet, its share in total merchandise export earnings went up to 9.2 percent

Proceeds from export of live-animals declined by 0.5 percent as a result of a

0.1 percent decrease in export volume and 0.4 percent in price. Hence, the share of revenue from live-animals in total merchandise export increased to 5.2 from 4.9 percent a year ago.

Export of leather & leather products saw 12.4 percent declined in revenue owing to a 3.1 percent fall in export volume and 9.6 percent international price. Consequently, the share of leather & leather products export in total merchandise export revenue stood at 4 percent

Similarly, electricity export earnings decreased by 26.5 percent vis-à-vis last year same period owing to 30.5 percent fall in export volume on account of drought effect. As a result, the share of electricity in total merchandise export earnings marginally declined to 1.1 percent from 1.4 percent last year same period.

In contrast, earnings from pulses export increased by 5.7 percent to USD 232.4 million due to 10.2 percent a rise in export volume despite 4.1 percent decline in price. As a result, the share of pulses in total merchandise export earnings increased to 8.1 percent from 7.3 percent a year earlier.

Likewise, export proceeds from flower went up 10.9 percent over last year same period as both export volume and international price tended to improve by 9.3 percent and 1.5 percent respectively. Hence, the share of flower in total export earnings increased to 7.9 percent from 6.7 percent last year same period.

Receipts from meat & meat products grew by 3.9 percent compared to last year same period solely on account of 4.3 percent increase in price in contrast to a 0.4 percent decline in volume. As a result, the share of meat & meat products in total merchandise export earnings was 3.4 percent.

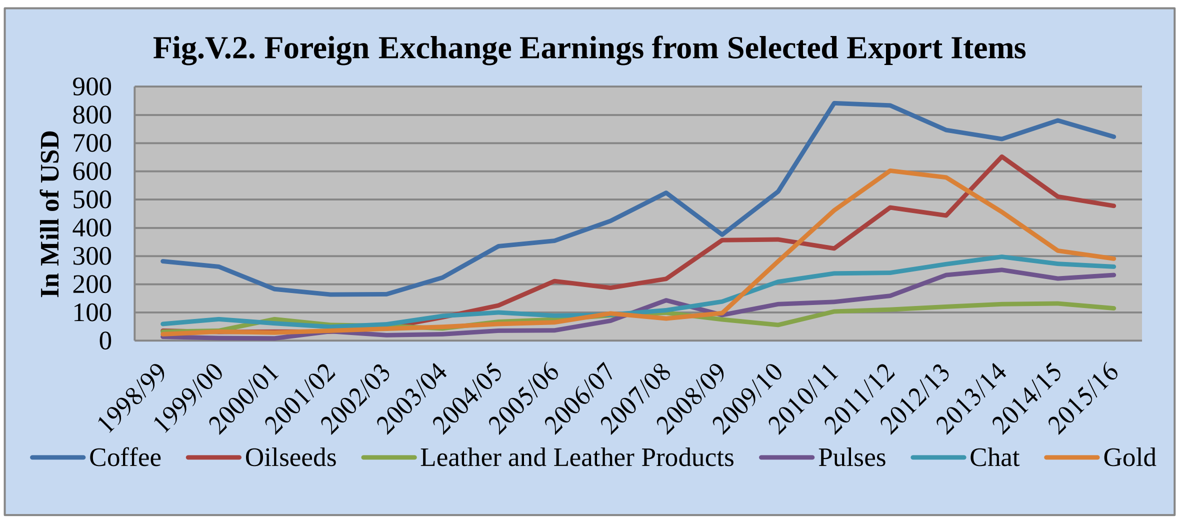
Export earnings from fruits and vegetables increased by 12.9 percent vis-à-vis last year same period owing to 11.3 percent hike in export volume and 1.4 percent rise in price. Thus, the share of fruits and vegetables in total merchandise export earnings reached 1.9 percent during the review period.

Table 5.3 Values of Major Export Items

(In millions of USD)

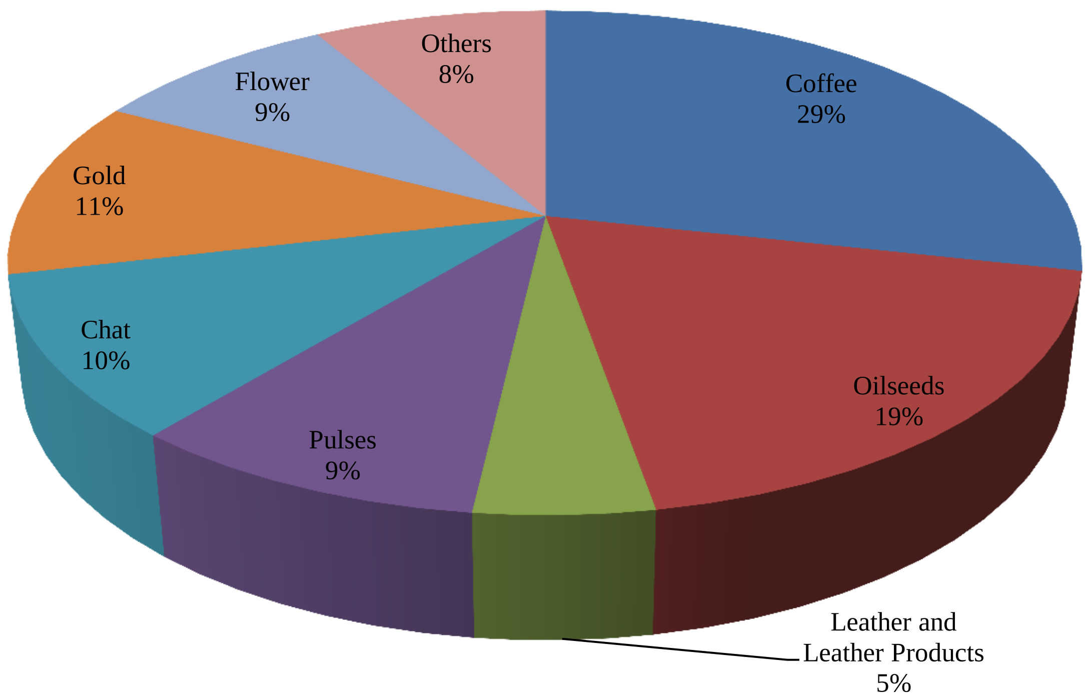
Commodities	2013/14		2014/15		2015/16		Percentage Change	
	A	%shar	B	%share	C	%share	B/A	C/B
Coffee	714.4	21.6	780.5	25.8	722.7	25.2	9.3	-7.4
Oilseeds	651.9	19.8	510.1	16.9	477.2	16.6	-21.8	-6.4
Leather & Leather Products	129.8	3.9	131.6	4.4	115.3	4	1.4	-12.4
Pulses	250.7	7.6	219.9	7.3	232.4	8.1	-12.3	5.7
Meat & Meat Products	74.6	2.3	92.8	3.1	96.4	3.4	24.4	3.9
Fruits & Vegetables	45.9	1.4	47.6	1.6	53.7	1.9	3.7	12.9
Live Animals	186.68	5.7	148.51	4.9	147.8	5.2	-20.4	-0.5
Chat	297.35	9	272.42	9	262.45	9.2	-8.4	-3.7
Gold	456.2	13.8	318.7	10.6	290.7	10.1	-30.1	-8.8
Flower	199.7	6.1	203.1	6.7	225.3	7.9	1.7	10.9
Electricity	45.3	1.4	42.8	1.4	31.5	1.1	-5.5	-26.5
Others	247.4	7.5	251.4	8.3	212.3	7.4	1.6	-15.6
Total Export	**3300.1**	**100**	**3019.3**	**100**	**2867.7**	**100**	**-8.5**	**-5.0**
Total Export Excluding Electricity	**3254.8**		**2976.5**		**2836.3**		**-8.6**	**-4.7**

Source: Ethiopian Revenue and Customs Authority and Ethiopian Electric Power



Source: NBE Staff Computation

Fig.V.3 Export Share of Selected Commodities



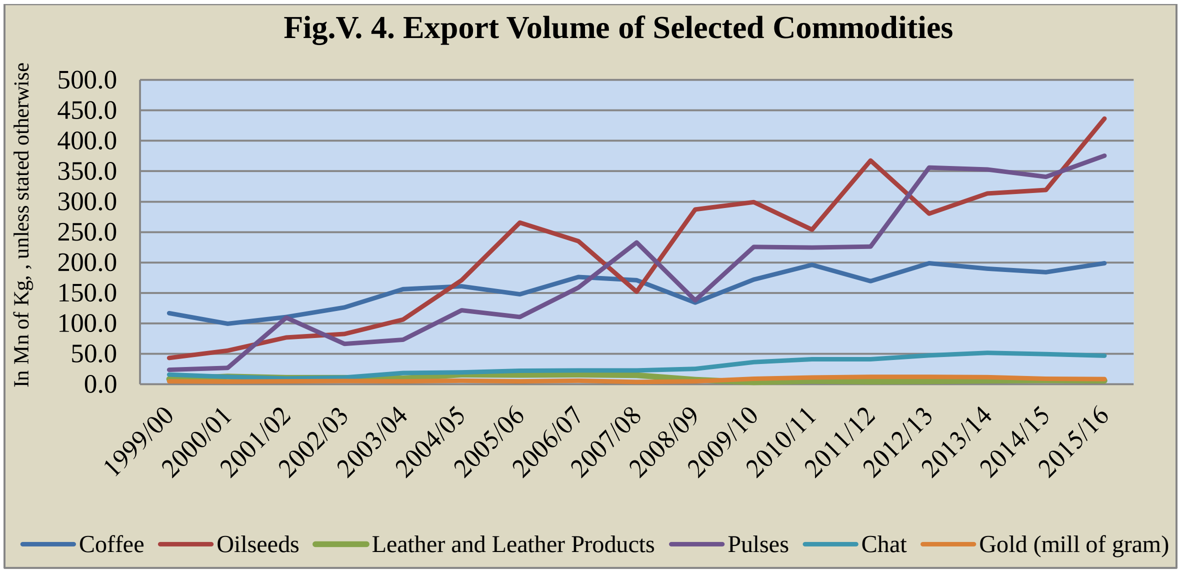
Source: NBE Staff Computation

Table 5.4: Volume of Major Exports

(In millions of kg unless stated otherwise)

Particulars	2013/14	2014/15	2015/16	Percentage Change	
	A	B	C	B/A	C/B
Coffee	189.7	183.9	198.7	-3.1	8.0
Oilseeds	313.5	319.5	436.6	1.9	36.7
Leather and Leather Products	5.57	6.17	5.98	10.8	-3.1
Pulses	353.0	340.7	375.4	-3.5	10.2
Meat & Meat Products	15.0	19.0	19.0	27.1	-0.4
Fruits & Vegetables	145.4	150.1	167.1	3.2	11.3
Live Animals	105.8	77.9	77.8	-26.4	-0.1
Chat	51.7	49.2	47.0	-4.8	-4.5
Gold(*in million of grams*)	12.35	9.04	8.58	-26.9	-5.1
Flower	44.7	46.3	50.6	3.6	9.3
Electricity (*millionof kwh*)	782.6	735.3	511.3	-6.0	-30.5

Source: Ethiopian Revenue and Customs Authority and Ethiopian Electric Power



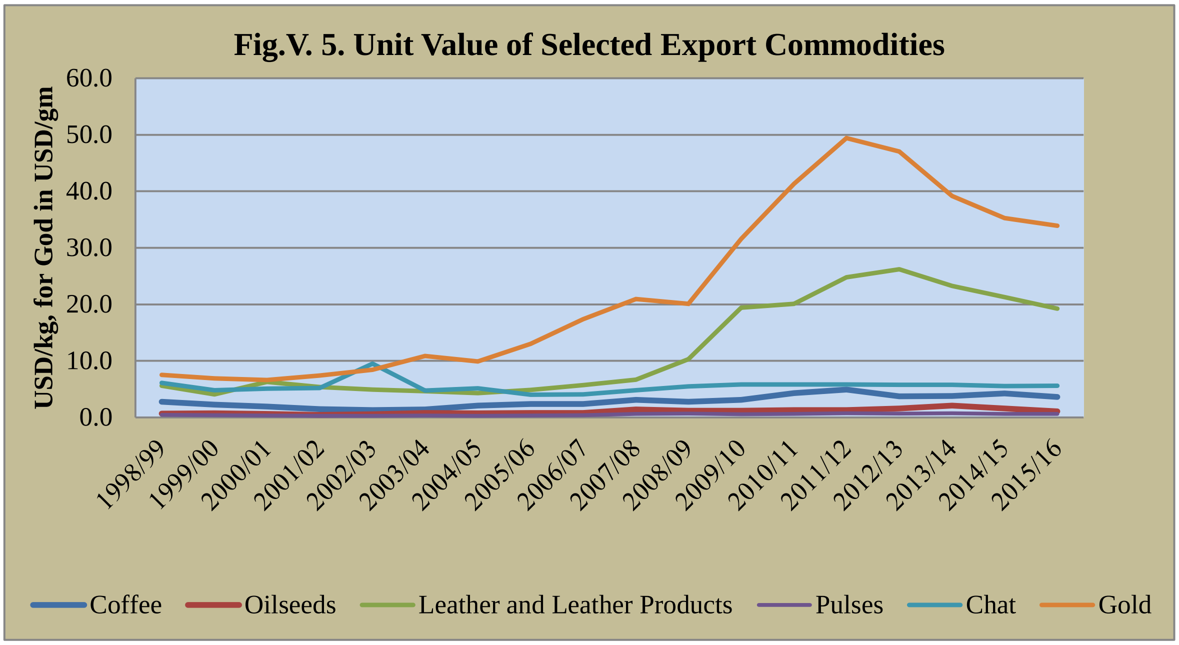
Source: NBE Staff Computation

Table 5.5: Unit Value of Major Export Items

(In USD/kg unless stated otherwise)

Particulars	2013/14	2014/15	2015/16	Percentage Change	
	A	B	C	B/A	C/B
Coffee	3.8	4.2	3.6	12.7	-14.3
Oilseeds	2.1	1.6	1.1	-23.2	-31.5
Leather and Leather products	23.3	21.3	19.3	-8.5	-9.6
Pulses	0.71	0.65	0.62	-9.1	-4.1
Meat & Meat Products	5.0	4.9	5.1	-2.2	4.3
Fruits & Vegetables	0.3	0.3	0.3	0.3	1.4
Live Animals	1.8	1.9	1.9	8.1	-0.4
Chat	5.8	5.5	5.6	-3.8	0.9
Gold *(USD/ gram)*	36.9	35.3	33.9	-4.5	-3.9
Flower	4.5	4.4	4.5	-1.9	1.5
Electricity*(USD/ KWH)*	0.1	0.1	0.1	0.6	5.7

Source: Ethiopian Revenue and Customs Authority



Source: NBE Staff Computation

5.2.3. Import of Goods

Total merchandise import bills reached USD 16.7 billion showing a 1.6 percent increase over last year same period mainly due to higher import bills of consumer goods and semi-finished goods. While that of capital goods, fuel, raw materials and miscellaneous goods, declined. Hence, import to GDP ratio decreased to 23.6 percent from 26.8 percent a year ago.

Import bill of consumer goods at USD 5.3 billion was 16.7 percent higher than last year due to higher import payments for non-durable consumer goods (27.4 percent) while that of durable consumer goods fell 2.5 percent. Thus, the share of consumer goods in total merchandise import bills went up to 31.5 percent from 27.4 percent in the preceding year.

Similarly, semi-finished goods import bill stood at USD 2.9 billion, showing a 12.3 percent annual growth. Fertilizer import, however, dropped by 14.5 percent. As a result, the share of semi-finished goods in total merchandise import bills increased to 17.3 percentfrom15.7 percent last year.

Total import bills of capital goods declined 0.8 percent as imports of transport capital goods slowdown by 9.6 percent despite 16.4 percent rise in agricultural capital goods and 1.9 percent in industrial capital goods import. Thus, the share of capital goods in total merchandise import bills stood at 40.8 percent.

Fuel import bills decreased by 34.4 percent in 2015/16 and amounted to USD 1.3 billion. This was attributed to 41.3 percent decline in international price of crude oil despite 13.7 percent increase in volume. Hence, the share of fuel in total merchandise import dropped to 8 percent from 12.4 percent last year same period.

Import of raw materials went down by 12.5 percent relative to the preceding year and accounted for 0.9 percent of total merchandise import of the review fiscal year.

Table 5.6: Value of Imports by End Use

(In Millions of USD)

	2013/14		2014/15		2015/16		Percentage change	
	A	% share	B	% share	C	% share	B/A	C/B
Raw Materials	**166.6**	**1.2**	**170.5**	**1.0**	**149.3**	**0.9**	**2.4**	**-12.5**
Semi-finished Goods	**2,231.7**	**16.3**	**2,578.4**	**15.7**	**2,895.5**	**17.3**	**15.5**	**12.3**
Fertilizers	398.9	2.9	502.9	3.1	430.0	2.6	26.1	-14.5
Fuel	**2,573.1**	**18.8**	**2,040.9**	**12.4**	**1,339.0**	**8.0**	**-20.7**	**-34.4**
Petroleum Products	2,494.9	18.2	1,985.1	12.1	1,280.1	7.7	-20.4	-35.5
Others	78.2	0.6	55.9	0.3	58.9	0.4	-28.6	5.4
Capital Goods	**4,845.5**	**35.3**	**6,882.3**	**41.8**	**6,829.4**	**40.8**	**42.0**	**-0.8**
Transport	1,089.4	7.9	1,699.1	10.3	1,535.6	9.2	56.0	-9.6
Agricultural	169.0	1.2	71.6	0.4	83.4	0.5	-57.6	16.4
Industrial	3,587.0	26.2	5,111.6	31.1	5,210.4	31.2	42.5	1.9
Consumer Goods	**3,694.6**	**26.9**	**4,510.9**	**27.4**	**5,264.3**	**31.5**	**22.1**	**16.7**
Durables	1,176.2	8.6	1,608.0	9.8	1,567.3	9.4	36.7	-2.5
Non-durables	2,518.3	18.4	2,902.9	17.6	3,697.0	22.1	15.3	27.4
Miscellaneous	**200.9**	**1.5**	**275.6**	**1.7**	**247.8**	**1.5**	**37.2**	**-10.1**
Total Imports	**13,712.3**	**100.0**	**16,458.6**	**100.0**	**16,725.2**	**100.0**	**20.0**	**1.6**

Source: Ethiopian Revenue and Customs Authority and Ethiopian petroleum Enterprise

5.2.4 Direction of Trade

Asia, Europe, Africa and America have confined to become the main destinations for Ethiopian exports. Asia accounted for 37.2 percent of Ethiopia's exports, of which, 32.2 percent was to China, 17.6 percent to Saudi Arabia, 8.4 percent to United Arab Emirates, 6.7 percent to Israel, 6.6 percent to India, 5.6 percent to Japan and 5.3 percent to Pakistan. Altogether, these countries accounted for 82.4 percent of Ethiopia's total exports to Asia. The major exports to China constituted of oilseeds, leather & leather products, mineral products, coffee, textile materials and natural gums. Saudi Arabia largely imported coffee, meat & meat products, live-animals, flower, oilseeds, spices and cereals. While exports to United Arab Emirates were meat & meat products, pulses, oilseeds, flower, food, live-animals and coffee. Oilseeds, cereals, coffee, beverage and spices went to Israel. The main exports to India were pulses, mineral products, oilseeds, leather & leather products, spices and chat. Japan imported mainly coffee, oilseeds, flower, leather & leather products, bees wax and textile & garment. While Pakistan imported pulses, tea, spices and vegetables.

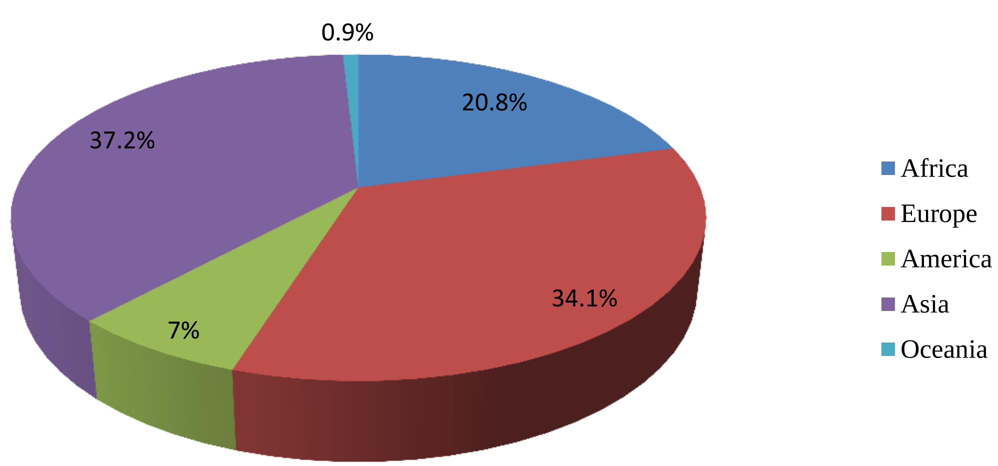
Europe accounted for 34.1 percent of Ethiopia's total exports. Within Europe, Switzerland constituted 29 percent, the Netherlands 19.4 percent, Germany 17.5 percent, Belgium 6.3 percent, Italy 5.1 percent, United Kingdom 4.4 percent and France 3.9 percent. These countries together accounted for 85.6 percent of Ethiopian export to Europe.

The main exports to Switzerland were gold, oilseeds and coffee.While the Netherlands imported mainly flower, coffee, oilseeds, vegetables and pulses. Likewise, Germany mainly imported coffee, textile & garment and flower. While coffee, flower, oilseeds, vegetables and textile & garment were exported to Belgium. Italy imported mainly coffee, leather & leather products, textile & garment, flower, pulses and oilseeds. while the major Exports to UK constituted coffee, flower, leather & leather products, oilseeds, vegetables and pulses. Ethiopian exports to France were coffee, flower, Textile & garment, pulses and leather & leather products.

About 20.8 percent of Ethiopia's exports went to Africa, mainly Somalia (55.8 percent), Djibouti (21.5 percent), Sudan (12 percent), Kenya (4.9 percent) and Egypt (3.6 percent), which altogether accounted for 97.8 percent of the total exports to Africa. The major exports to Somalia were chat, live-animals, fruits and vegetables while chat, live–animals, electricity, vegetables and fruits to Djibouti. Sudan imported largely pulses, coffee, spices, electricity and live-animals. The main exports to Kenya included pulses, leather & leather products, textile & garment and tea while live-animals, oilseeds, pulses, spices, coffee and fruits were exported to Egypt.

America accounted for 7 percent of Ethiopia's total exports, of which 88 percent was destined to the United States and 6.5 percent to Canada. Coffee, oilseeds, leather & leather products, food, textile & garments and flower were the major exports to the United States and coffee, oilseeds, leather & leather and flower to Canada.

Fig.V.6. Export by Destination



Source: NBE Staff Compilation

In terms of merchandise exports, about 62.7 percent originated from Asia 25.1 percent from Europe, 8.3 percent America and 3.9 percent Africa.

The major import origins in Asia were China (53.0 percent), India (12.0 percent), Japan (6.7 percent), Kuwait (5.3 percent) United Arab Emirates (4.4 percent), Saudi Arabia (3.6 percent), Indonesia (3.4 percent), Malaysia (2.4 percent) and South Korea (2.1 percent) whose combined share was 92.9 percent.

Major imports from China included metal & metal products, machines including aircraft parts, electrical materials, road motor vehicles, cloths and textiles. Likewise, metal & metal products, machines including aircraft parts, grain and fertilizer were the major imports from India. Imports from Japan constituted road motor vehicles, aircraft parts, metal & metal products and electrical materials. Petroleum products and road motor vehicles were the major import items from Kuwait. Similarly, imports from United Arab Emirates were petroleum products, chemicals, metal & metal products and rubber products. Petroleum products were the major Ethiopian imports from Saudi Arabia. Imports from Indonesia included soap & polish, paper & paper products, textile, chemicals and electric materials. Machines including aircraft parts, soap & polish and electric materials were the major imports from Malaysia, and aircraft parts, petroleum products and telecom apparatus from South Korea.

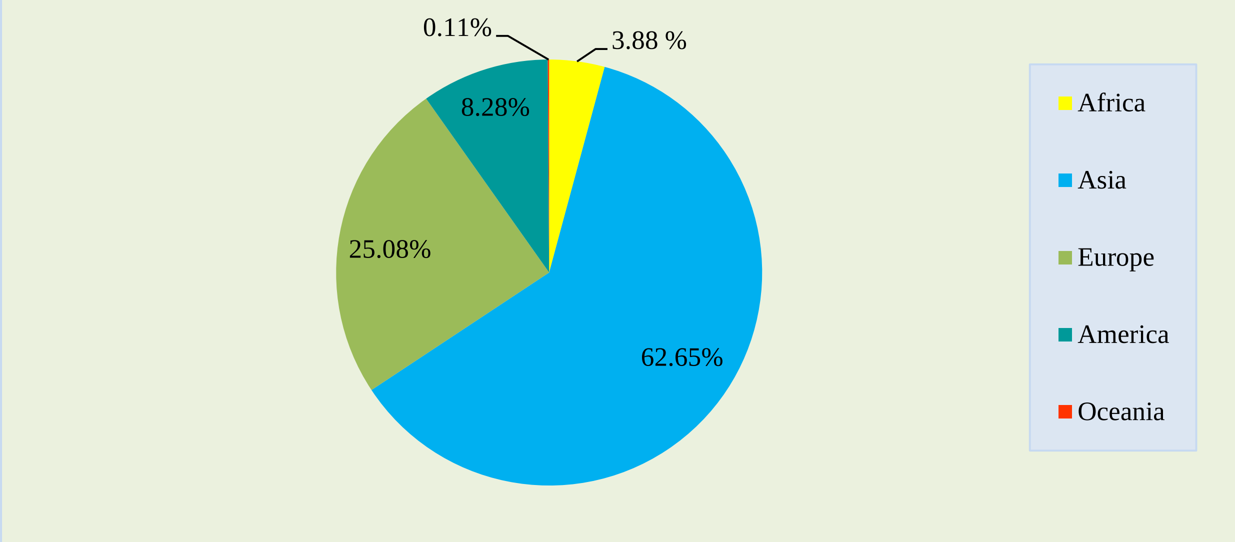
Imports from Europe accounted for 25.1 percent of Ethiopia’s total imports with the major countries being Turkey (15.2 percent), Italy (15.0 percent), Sweden (12.1 percent), Germany (8.8 percent), Belgium (6.9 percent), Ukraine (5.7 percent), United Kingdom (4.8 percent), France (4.7 percent), the Netherlands (4.6 percent), Russia (4.5 percent) and Romania (4.2 percent). These countries jointly constituted 86.5 percent of Ethiopia’s imports from Europe.

Major imports from Turkey were metal & metal products, aircraft parts, electrical materials, petroleum products and rubber products. Imports from Italy included aircraft parts, road motor vehicles, food & live-animals, metal & metal products, electric materials and fertilizer. Aircraft parts, road motor vehicles, telecom apparatus, food & live-animals were the imports from Sweden. Imports from Germany were aircraft parts, food & live-animals, road motor vehicles and electrical materials. While Belgium exported largely aircraft parts and medical & pharmaceuticals products. Metal & metal products and aircraft parts were the main imports from Ukraine. Imports from United Kingdom included aircraft parts, electric materials and road motor vehicles. The major imports from France were aircraft parts, electric materials and road motor vehicles. Fertilizer, aircraft parts and food & live-animals and electric materials were imported from the Netherlands. Imports from Russia were food & live-animals, metal & metal products and tobacco. Food & live-animals, machines including aircraft parts, metal & metal products were the main items imported from Romania.

Imports from America accounted for 8.3 percent of the total Ethiopian import bills, of which the United States accounted for 91.1 percent Canada 3. 4 percent and Brazil 3.2 percent. Food & live-animals, fertilizer, electric materials and road motor vehicles were the major imports from the United States. Machines including aircraft parts and electrical materials were imported from Canada. Aircraft parts, road motor vehicles and food & live-animals constituted the main imports from Brazil.

Africa accounted for about 3.9 percent of Ethiopia's total imports. The major countries of origin were Egypt (28.5 percent), South Africa (27.6 percent), Morocco (26.7 percent), Sudan (6.5 percent) and Kenya (5.2 percent) which jointly accounted for 94.5 percent of Ethiopia's imports for the continent. Metal & metal products, machines including aircraft parts, rubber production and food & live-animals were the major imports from Egypt. Road motor vehicles, petroleum products, soap & polish, machines including aircraft parts, paper & paper products originated from South Africa. The major Morocco exported mainly petroleum products while Sudan exported petroleum products and food & live-animals. Metal & metal products, machines including aircraft parts, rubber products were the main imports from Kenya.

Fig: V.7. Import by Origin



Source: NBE Staff Compilation

5.3 Services and Transfers

5.3.1 Services

In 2015/16, net services account recorded USD 721.5 million deficit, which was significantly higher than USD 341.4 million deficit recorded a year ago. This was largely attributed to wider deficit in net travel (178.5 percent) net other services (42.3 percent) and net government services (21.9 percent).

Table 5.7 Services Accounts (In Millions of USD)

S/N	Particulars	2013/14	2014/15	2015/16	Percentage Change	
		A	B	C	B/A	C/B
1	**Investment Income (2+5)**	**-152.8**	**-262.5**	**-254.8**	**71.9**	**-2.9**
2	Interest, net (3-4)	-134.8	-238.9	-242.7	77.1	1.6
3	Credit	8.7	10.3	13.1	19.1	27.4
4	Debit	143.5	249.2	255.9	73.6	2.7
5	Dividend, net	-17.9	-23.7	-12.1	32.1	-48.8
6	**NON-FACTOR SERVICES, net (7-8)**	**712.2**	**-78.9**	**-466.6**	**-111.1**	**491.3**
7	Exports of non-factor services	3,174.2	3,028.4	2,932.8	-4.6	-3.2
	Travel	538.8	409.8	376.8	-23.9	-8.1
	Transport	2,144.9	2,186.9	2,228.6	2.0	1.9
	Government	297.3	184.0	158.2	-38.1	-14.0
	Other	193.1	247.7	169.2	28.3	-31.7
8	Imports of non-factor services	2,461.9	3,107.3	3,399.5	26.2	9.4
	Travel	223.5	326.1	442.5	45.9	35.7
	Transport	1542.8	1776.7	1697.5	15.2	-4.5
	Government	6.3	1.7	15.8	-72.4	802.3
	Other	689.2	1002.7	1243.6	45.5	24.0
9	**Net Services (10+11+12+13+14)**	**559.5**	**-341.4**	**-721.5**	**-161.0**	**111.3**
10	Travel	315.3	83.7	-65.7	-73.5	-178.5
11	Transport	602.1	410.2	531.1	-31.9	29.5
12	Government	291.0	182.2	142.4	-37.4	-21.9
13	Other	-496.1	-755.0	-1074.4	52.2	42.3
14	Investment Income	-152.8	-262.5	-254.8	71.9	-2.9

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

5.3.2 Unrequited Transfers

Net transfers improved by 9.9 percent due to 22.9 percent increase in private transfers despite a 32.2 percent decline in official transfers. The decline in net official transfers was attributted to lower grants from both international financial institutions and bilateral donors.

Table 5.8 Unrequited Transfers

(In Millions of USD)

No.	Particulars	2013/14 A	2013/14 %Share	2014/15 B	2014/15 %Share	2015/16 C	2015/16 % Share	Percentage Change B/A	Percentage Change C/B
1	**Private Transfers**	**4,114.8**	**73.8**	**4,881.6**	**76.4**	**5,998.5**	**85.4**	**18.6**	**22.9**
1.1	Receipts	4,140.1	74.3	4,901.2	76.7	6,029.6	85.9	18.4	23.0
	NGOs	**1,096.4**	**19.7**	**1,104.5**	**17.3**	**2,039.1**	**29.0**	**0.7**	**84.6**
	Cash	982.3	17.6	1,017.0	15.9	1,207.7	17.2	3.5	18.8
	Food	114.1	2.0	87.5	1.4	831.4	11.8	-23.3	850.2
	Other								
	Private individuals	**3,043.7**	**54.6**	**3,796.7**	**59.4**	**3,990.5**	**56.8**	**24.7**	**5.1**
1.2	Payments	25.3	0.5	19.6	0.3	31.0	0.4	-22.5	58.4
2	**Official Transfers**	**1,461.0**	**26.2**	**1,507.9**	**23.6**	**1,021.6**	**14.6**	**3.2**	**-32.2**
2.1	Receipts	1,548.4	27.8	1,524.7	23.9	1,045.5	14.9	-1.5	-31.4
	Cash	1,548.4	27.8	1,524.7	23.9	1,045.5	14.9	-1.5	-31.4
	Food								
	Other								
2.2	Payments	87.4	1.6	16.9	0.3	23.9	0.3	-80.7	42.0
	Total Net Transfers	**5,575.8**	**100.0**	**6,389.5**	**100.0**	**7,020.1**	**100.0**	**14.6**	**9.9**

Source: Disaster Prevention and Preparedness Agency, MoFEC and NBE

5.4. Current Account

The deficit in the current account balance widened to USD 7.6 billion in 2015/16 from USD 7.4 billion last year, as both trade balance and net services recorded deficits.

5.5 Capital Account

In contrast, capital account showed USD 6.2 billion surplus although it was 15.4 percent lower than that of last year in official net long term capital 41.2 percent and other public long term net capital by 48.6 percent. Foreign direct investment however surged by 37.5 percent compared to last year.

5.6 Changes in Reserve Position

Net foreign assets of the banking system at recorded a reserve drawdown of USD 830.9 million, due to the decline in net foreign assets of NBE of commercial banks tended to improve. Thus, the gross international reserves were was adequate to cover 2.6 months of imports of goods and non-factor services.

5.7 External Debt

Ethiopia's external debt stock of reached USD 21.7 billion in 2015/16, depicting a 14 percent annual growth largely due to higher debt owed to multilateral, bilateral, and commercial creditors. Hence, the country's external debt stock to GDP ratio stood at 30.7 percent. Plummeted by stock ratio to total receipts from export of goods and non-factor services rose to 3.7 percent from 3.2 percent a year ago. Similarly, commercial debt stock, reached USD 6.9 billion showing a 2.8 percent annual increase and accounting for 31.1 percent of the total debt stock. Of the total debt stock, 35.6 percent was owed to multilateral and 32.7 percent to bilateral creditors. The country's external debt burden as measured by debt services to export of goods and services ratio increased slightly to 16.7 percent from 16.1 percent year earlier.

Table 5.9: External Public Debt (In Million of USD)

Particulars	2013/14	2014/15	2015/16	Percentage Change	
	A	B	C	B/A	C/B
Annual Debt	**3,153.45**	**6,419.05**	**3,399.60**	**103.6**	**-47.0**
Debt Stock	**14,005.06**	**19,092.05**	**21,740.36**	**36.3**	**13.9**
Multilateral	6,154.55	6,484.85	7,742.01	5.4	19.4
Bilateral	4,505.10	5,904.91	7,109.03	31.1	20.4
Commercial	3,345.46	6,702.30	6,889.32	100.3	2.8
Debt Service	**663.75**	**975.17**	**968.23**	**46.9**	**-0.7**
Principal repayments	505.56	719.97	677.18	42.4	-5.9
Interest payments	158.19	255.20	291.05	61.3	14.1
Debt stock to GDP ratio (In percent)	**25.5**	**31.0**	**30.7**	**21.7**	**-1.0**
Debt stock to export of goods and non-factor services	**2.2**	**3.2**	**3.7**	**45.9**	**18.8**
Receipts from goods and non-factor services	**6,474.20**	**6,047.50**	**5,797.70**	**-6.6**	**-4.1**
Debt service ratio (In percent)[1/]	**10.3**	**16.1**	**16.7**	**57.3**	**3.6**
Arrears					
Principal					
Interest					
Relief	**3.5**				
Principal	2.9				
Interest	0.6				

Source:MoFEC

1/ Ratio of debt service to receipts from export of goods and non-factor services

5.8. Developments in Foreign Exchange Markets

5.8.1. Developments in Nominal Exchange Rate

In 2015/16, weighted average exchange rate of Birr in the inter-bank foreign exchange market was Birr 21.1059/USD, which showed a 5.0 percent annual depreciation (Table 5.10).

Table 5.10 Inter-Bank Exchange Ratesof Birr per USD

Period	Average Weighted Rate	Amount Traded in millions of USD		Number of Trades	
		Total	o/w Among CBs	Total	o/w Among CBs
2013/14	**19.0748**	**18.70**	**6.20**	**254.00**	**7.00**
Qtr. I	18.7384	3.20	0.00	63.00	0.00
Qtr. II	18.9390	8.20	5.00	65.00	4.00
Qtr. III	19.1819	4.30	1.20	65.00	3.00
Qtr. IV	19.4400	3.05	0.00	61.00	0.00
2014/15	**20.0956**	**14.50**	**2.00**	**258.00**	**5.00**
Qtr. I	19.7288	4.15	1.00	66.00	2.00
Qtr. II	19.9925	4.25	1.00	69.00	3.00
Qtr. III	20.2145	3.05	0.00	61.00	0.00
Qtr. IV	20.4466	3.05	0.00	62.00	0.00
2015/16	**21.1059**	**12.65**	**0.00**	**253.00**	**0.00**
Qtr. I	20.6965	3.15	0.00	63.00	0.00
Qtr. II	20.9497	3.25	0.00	65.00	0.00
Qtr. III	21.2059	3.10	0.00	62.00	0.00
Qtr. IV	21.5713	3.15	0.00	63.00	0.00

Source: NBE, Foreign Exchange Monitoring & Reserve Management Directorate and staff compilation

In the retail foreign exchange market, the average buying and selling rates of birr at forex bureaus depreciated by 4.9 percent and 5.0 percent with spread margin of 1.9 percent.

Table 5.11: End Period Mid-Market Rates (USD per Unit of Foreign Currency)

Currency	2013/14	2014/15	2015/16	Percentage change	
	A	B	C	B/A	C/B
Pound Sterling	1.7023	1.5697	1.3433	-7.79	-14.42
Swedish Kroner	0.1481	0.1202	0.1175	-18.86	-2.19
Djibouti Frank	0.0056	0.0056	0.0056	0.22	-0.05
Swiss Frank	1.1194	1.0708	1.0198	-4.34	-4.76
Saudi Riyal	0.2666	0.2666	0.2666	0.01	0.00
UAE Dirhams	0.2723	0.2723	0.2723	-0.01	0.00
Canadian Dollar	0.9349	0.8094	0.7696	-13.43	-4.92
Japanese Yen	0.0099	0.0081	0.0097	-17.82	19.78
Euro	1.3616	1.1112	1.1083	-18.39	-0.26
SDR	1.5438	1.4067	1.3954	-8.88	-0.80

Source: Staff Compilation

In 2015/16, the end period mid market exchange rate of the US dollar appreciated against almost all major international currencies. Specifically USD appreciated against Pound Sterling (14.4 percent), Canadian Dollar (4.9 percent), Swiss Franc (4.8 percent), Swedish Kroner (2.2 percent), SDR (0.8 percent), Euro (0.3 percent), while it depreciated against Japanese Yen by 19.8 percent due to safe haven effects resulting from global financial market volatility, narrowing of interest rate differentials with the U.S., market perceptions of limits to BoJ's stimulus, and current account surplus (2016 IMF Article IV consultation). At the same time, US dollar remained unchanged against Saudi Riyal and UAE Dirham (Table 5.11).

Table 5.12: End Period Mid-Market Rates (Birr per Unit of Foreign Currency)

Currency	2013/14	2014/15	2015/16	Percentage change	
	A	B	C	B/A	C/B
USD	19.6750	20.6688	21.9094	5.05	6.00
Pound	33.4928	32.4437	29.4309	-3.13	-9.29
Swedish Kroner	2.9131	2.4838	2.5751	-14.74	3.68
Djibouti Frank	0.1104	0.1160	0.1229	5.07	5.95
Swiss Frank	22.0251	22.1316	22.3429	0.48	0.95
Saudi Riyal	5.2460	5.5108	5.8416	5.05	6.00
UAE Dirhams	5.3567	5.6274	5.9650	5.05	6.00
Canadian Dollar	18.3947	16.7291	16.8612	-9.06	0.79
Japanese Yen	0.1941	0.1682	0.2135	-13.35	26.97
Euro	26.7895	22.9671	24.2822	-14.27	5.73
SDR	19.6750	20.6688	21.9094	-4.28	5.15

Source: Staff Compilation

The Birr also lost ground against most international currencies. Particularly Japanese Yen (27.0 percent), Saudi Riyal (6.0 percent) against, Euro (5.7 percent) SDR (5.2 percent) Swedish Kroner (3.7 percent) Swiss Franc (1.0 percent) Canadian Dollar (0.8 percent). In contrast, it appreciated against British Pound by 9.3 percent presumably due Brexit from the European Union (Table 5. 12).

5.8.2. Movements in Real Effective Exchange Rate

Meanwhile, the real effective exchange rate (REER) of the Birr has been appreciating since 2010/11 due to higher domestic inflation relative to that of its major trading partners. Yet, 2015/16, the REER appreciation was merely 1.1 percent compared to 11.9 percent in 2014/15 due to slowdown in domestic inflation. (Table 5.13)

On the other hand, the nominal effective exchange rate (NEER) of the Birr depreciated by 2.7 percent year-on-year vis-a-vis 4.0 percent appreciation in 2014/15.

Table 5.13: Trends in Real and Nominal Effective Exchange Rates

Fiscal Year	REERI	NEERI	Percentage Change	
			REERI	NEERI
2007/08	150.5	74.0	27.86	-12.4
2008/09	140.7	67.5	-6.54	-8.7
2009/10	121.2	56.1	-13.84	-17.0
2010/11	122.8	42.9	1.33	-23.5
2011/12	139.4	43.2	13.49	0.7
2012/13	140.2	42.0	0.59	-2.7
2013/14	140.8	40.7	0.44	-3.3
2014/15	157.6	42.3	11.93	4.0
2015/16	159.3	41.2	1.1	-2.7

Source: NBE Staff Compilation

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

In 2015/16, USD 12.7 million was traded in the inter-bank foreign exchange market which was 13 percent lower than last year. All the foreign exchange traded in the inter-bank foreign exchange market was supplied by National Bank of Ethiopia (Table 5.10).

Meanwhile, forex bureaux of commercial banks purchased foreign exchange to the tune of USD 339.9 million showing a 6.8 percent decline over the preceding year. Likewise, their foreign exchange sales dropped by 7.4 percent to USD 194.6 million (Table 5.14).

Table 5.14: Foreign Exchange Transactions by Forex Bureaus of Commercial Banks

(In Millions of USD)

	2013/14		2014/15		2015/16		Percentage Change	
	A	B	C	D	E	F	E/C	F/D
Name of Forex Bureau	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
Commercial Bank of Ethiopia	412.21	70.77	292.96	100.82	262.02	93.50	-10.56	-7.26
Bank of Abyssinia	4.41	5.13	5.32	10.02	5.06	9.64	-4.78	-3.74
Dashen Bank	33.55	37.30	22.80	28.51	16.87	30.34	-26.02	6.39
Awash International Bank	9.13	12.53	6.68	19.51	6.28	10.71	-6.07	-45.11
Construction & Business Bank	4.27	1.40	4.36	3.03	3.09	1.72	-29.11	-43.21
Wegagen Bank	5.02	6.73	4.62	5.71	3.77	5.99	-18.46	4.95
United Bank	16.25	10.09	11.22	13.41	9.96	14.50	-11.25	8.10
Development Bank	3.72	0.73	0.43	0.65	0.03	0.37	-92.70	-43.35
Nib International Bank	4.47	6.40	2.66	8.39	1.40	5.27	-47.32	-37.14
Lion International Bank	2.59	1.73	2.21	2.62	19.04	4.77	759.72	81.76
Oromia International Bank	2.81	2.11	6.18	4.62	9.01	5.09	45.96	10.22
Zemen Bank	0.90	4.07	0.67	3.97	0.65	6.19	-2.34	55.98
Cooperative Bank of Oromia	0.41	0.41	0.93	3.07	0.67	1.67	-27.83	-45.51
Buna International Bank	0.38	0.29	0.67	1.37	0.54	1.17	-20.32	-14.87
Birhan International Bank	0.01	0.03	0.33	0.45	0.14	0.47	-55.78	4.23
Abay Bank	0.54	1.36	0.88	2.09	0.07	1.00	-92.43	-51.90
Addis International Bank	1.61	0.47	0.95	0.96	0.78	1.55	-17.37	61.62
Debub Global Bank	1.28	0.25	0.29	0.27	0.16	0.36	-43.82	34.31
Enat Bank	0.62	0.26	0.52	0.54	0.32	0.25	-39.33	-53.11
Total	**504.18**	**162.07**	**364.67**	**210.00**	**339.86**	**194.57**	**-6.8**	**-7.4**
Average Exchange Rate	**19.0997**	**19.4255**	**20.1003**	**20.4798**	**21.0910**	**21.5044**	**4.9**	**5.0**

Source: Staff Compilation

VI.GENERAL GOVERNMENT FINANCE

6.1. General

The overall fiscal operations of the general government resulted in Birr 29.2 billion deficit, which was slightly lower than Birr 30.8 billion (including grants) recorded in 2014/15.

Total revenue (including grants) showed a 22.1 percent annual growth. Accordingly, revenue to GDP ratio stood at 15.1 percent which was similar to that of the preceding year.

Meanwhile, general government expenditure went up by 18.4 percent to Birr 272.9 Billion as both current and capital expenditures expanded. Hence, the ratio of expenditure to GDP reached 17.9 percent compared with 18.6 percent a year earlier (Table 6.1).

6.1 Measuring Fiscal Sustainability (In percent)

Fiscal Year	PD/GDP	IP/RR	Debt/GDP	R(Debt)	R(GDP)	Exp/GDP	Rev/GDP	R(OR)
2002/03	-6.6	10.9	38.8	2.4	10.3	28.2	15.3	7.1
2003/04	-3.0	7.8	36.3	10.4	18.0	23.9	16.2	24.8
2004/05	-4.5	6.5	38.2	29.4	22.9	23.5	14.7	11.1
2005/06	-4.7	5.4	37.8	22.3	23.6	22.5	15.0	26.3
2006/07	-3.7	5.5	36.3	25.5	30.6	20.9	12.8	11.6
2007/08	-2.9	3.8	32.5	29.3	44.4	19.1	12.1	36.7
2008/09	-0.9	3.2	26.9	11.5	35.1	17.4	12.1	34.8
2009/10	-1.3	2.9	27.5	17.1	14.2	18.8	14.2	34.1
2010/11	-1.6	2.8	26.8	29.8	33.4	18.6	13.7	28.3
2011/12	-1.2	2.2	25.6	39.5	46.1	16.8	13.9	48.8
2012/13	-2.0	2.4	27.4	23.4	15.5	18.1	14.6	20.6
2013/14	-2.6	2.6	28.6	28.4	21.1	17.5	13.8	17.8
2014/15	-2.5	2.9	31.8	31.1	16.6	18.6	15.1	27.7
2015/16	-1.9	3.1	32.1	24.6	23.6	17.9	15.1	23.6

Source: Staff Computation
PD = Primary Deficit
IP/RR = Share of interest payments in Recurrent revenue
Debt/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 GD
Rev/GDP = Ratio of General Government Revenue to GDP
R(OR) = Growth rate of ordinary Revenue

6.2 Revenue and Grants

General government revenue, including grants reached Birr 243.6 billion in 2015/16 and its GDP ratio remained at 15.1 percent. About 82.3 percent of the total domestic revenue came from tax sources which recorded 14.8 percent annual growth. Owing to improved collection of direct taxes (18.2 percent) and indirect taxes (12.8 percent). Direct taxes contributed 37.5 percent to total tax revenue while that of in direct taxes was 62.5 percent.

At the same time, Birr 40.9 billion was collected from non-tax sources which exhibited a 92.2 percent surge largely due to remarkable increase in collection from government investment income and sales of goods and services.

Grants at Birr 13 Billion remained at the previous year level.

All in all, total revenue including grants accounted for 96.7 percent of the annual target.

Fig. VI.1 Trend of General Government Revenue by Component

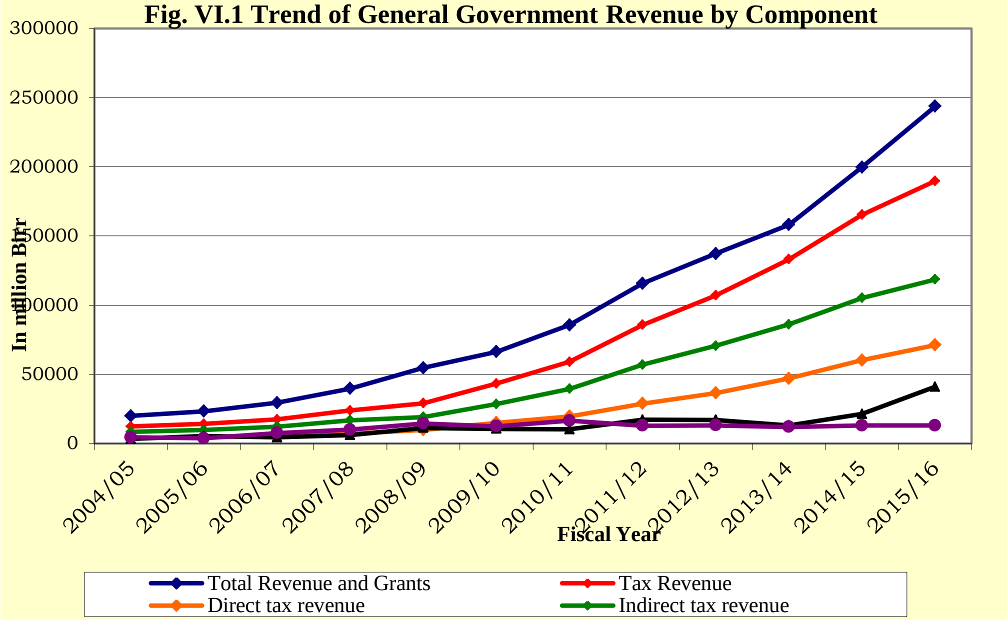


Table 6. 2: Summary of General Government Revenue by Component (In Millions of Birr)

Particulars	2014/15	2015/16		Percentage Change	Performance Rate
	[A]	[B]	[C]		
	Pre. Act	Revised Budget	Pre. Act	[C/A]	[C/B]
Total Revenue and Grants	**199,639.1**	**251,919.8**	**243,671.6**	**22.1**	**96.7**
Total Revenue 1/	**186,618.7**	**237,862.1**	**230,657.3**	**23.6**	**97.0**
Tax Revenue	**165,312.5**	**195,035.8**	**189,717.2**	**14.8**	**97.3**
1. Direct Tax Revenue	**60,154.4**	**78,039.7**	**71,126.8**	**18.2**	**91.1**
1.1 Income and Profit Taxes	58,288.1	75,286.5	69,520.2	19.3	92.3
Personal	20,432.8	25,787.0	25,171.2	23.2	97.6
Business	30,444.1	41,366.3	36,445.7	19.7	88.1
Others 2/	7,411.2	8,133.2	7,903.3	6.6	97.2
1.2 Rural Land Use Fee	239.7	377.3	330.0	37.7	87.5
1.3 Urban Land Use Fee	1,626.6	2,375.9	1,276.7	-21.5	53.7
2. Indirect Taxes	**105,158.0**	**116,996.1**	**118,590.4**	**12.8**	**101.4**
2.1 Domestic Taxes	52,367.9	57,688.5	55,867.4	6.7	96.8
2.2 Foreign Trade Taxes	52,790.1	59,307.6	62,722.9	18.8	105.8
Import	52,790.1	59,307.6	62,722.9	18.8	105.8
Export					
3. Non-Tax Revenue	**21,306.2**	**42,826.3**	**40,940.1**	**92.2**	**95.6**
3.1 Charges and Fees	2,384.2	2,242.2	2,399.8	0.7	107.0
3.2 Govt. Invt. Income 3/	4,997.2	14,834.5	15,431.8	208.8	104.0
3.3 Reimb. And Property Sales	199.9	197.3	117.7	-41.1	59.7
3.4 Sales of Goods & Services	3,017.3	5,194.8	4,097.7	35.8	78.9
3.5 Others 4/	10,707.6	20,357.6	18,893.2	76.4	92.8
4. Grants	**13,020.4**	**14,057.7**	**13,014.3**		**92.6**

Source: Ministry of Finance and Economic Development

1/ It does not include privatization proceeds

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

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

4/Other extraordinary, miscellaneous and pension contribution

6.1 Expenditure

Total expenditure reached Birr 272.9 billion about 18.4 percent higher than last year due to increases both in recurrent and capital expenditures.

Recurrent expenditure stood at Birr 131.9 billion, a showing 16.3 percent annual growth and its share in total expenditure was 48.3 percent and the its annual performance was 87.4 percent

Meanwhile, capital expenditure depicted 20.4 percent rice to Birr 141 billion having a 51.7 percent share in total expenditure. Capital expenditure showed a 94.3 percent performance.

In summary, the performance of general government expenditure became 90.8 percent of the annual budget.

Table 6.3: Summary of General Government Expenditure (In Millions of Birr)

Particulars	2014/15 [A] Pre. Act	2015/16 [B] Revised Budget	2015/16 [C] Pre. Act	Percentage Change [C/A]	Performance Rate [C/B]
Total Expenditure	**230,521.2**	**300,462.0**	**272,930.1**	**18.4**	**90.8**
1. Current Expenditure	**113,375.5**	**150,926.0**	**131,902.8**	**16.3**	**87.4**
General Services	38,915.7	37,136.9	41,444.5	6.5	111.6
Economic Services	14,840.5	19,609.3	22,342.3	50.5	113.9
Social Services	51,688.6	60,532.3	57,682.0	11.6	95.3
Interest and Charges	5,337.7	8,443.7	7,231.8	35.5	85.6
External Assistance1/					
Social Safety Net					
Others (miscellaneous)	2,593.0	25,203.7	3,202.2	23.5	12.7
2. Capital Expenditure	**117,145.7**	**149,536.0**	**141,027.3**	**20.4**	**94.3**
Economic Development	76,398.8	95,046.6	89,934.9	17.7	94.6
Social Development	28,639.5	39,058.2	38,214.0	33.4	97.8
General Development	12,107.4	15,431.2	12,878.3	6.4	83.5
3. Special programs	-	-	-	-	-

Source: *Ministry of Finance and Economic Cooperation*
Note: *1/ Includes mapping, science and technology, public buildings, etc*

Fig. VI.2: Trends in General Government Expenditure by Component

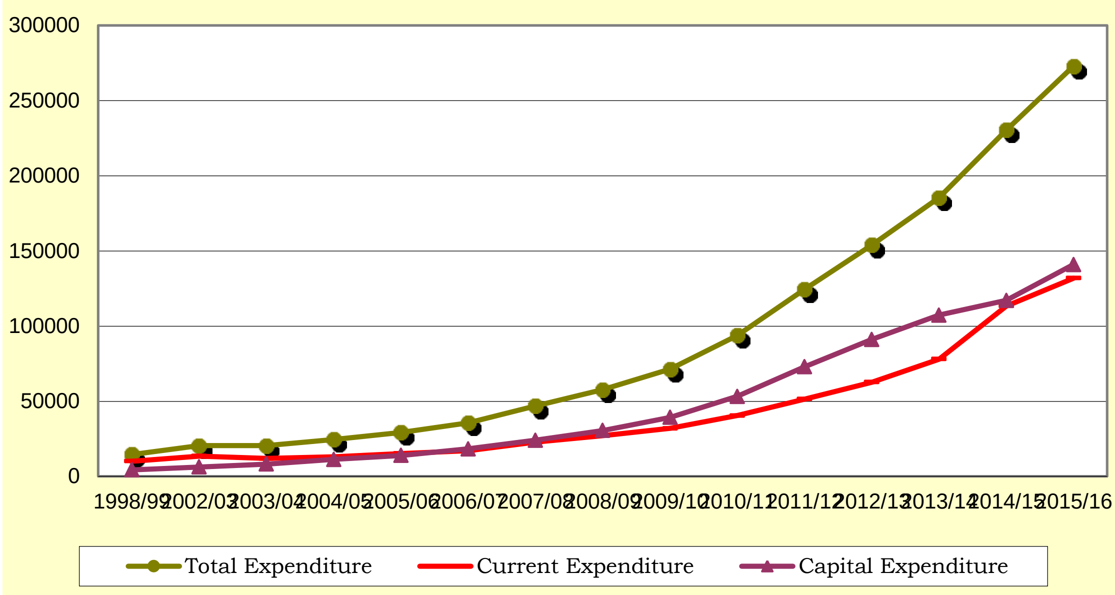
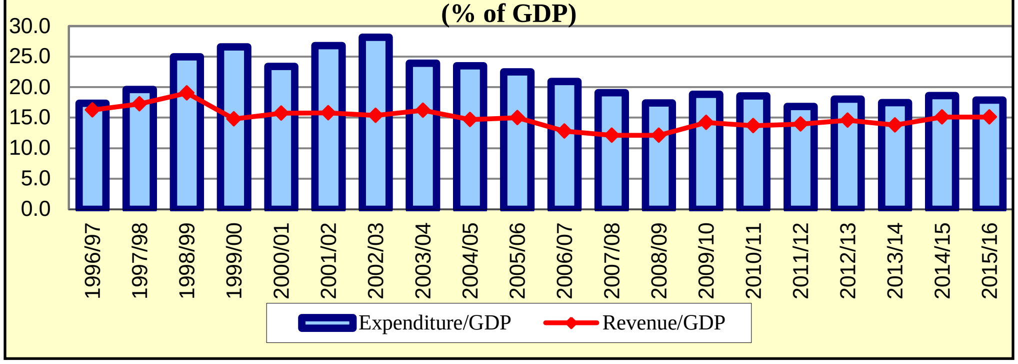


Fig.VI.3 Trends in General Government Expenditure and Revenue (% of GDP)



6.4. Deficit Financing

In 2015/16 government budgetary operations, (including) grants resulted in a fiscal deficit of Birr 29.2 billion about 5.3 percent lower than a year earlier. Fiscal deficit as percentage of GDP was 1.9 percent and it was financed by net external borrowing, net domestic borrowing and privatization receipts.

Table 6.4 Summary of General Government Finance(In Millions of Birr)

Particulars	2014/15 [A] Pre. Act	2015/16 [B] Revised Budget	2015/16 [C] Pre. Act	Percentage Change [C/A]	Perform-ance Rate [C/B]
Revenue and Grants	**199,639.1**	**251,919.8**	**243,671.6**	**22.1**	**96.7**
Revenue	186,618.7	237,862.1	230,657.3	23.6	97.0
Grants	13,020.4	14,057.7	13,014.3	0.0	92.6
Total Expenditure	**230,521.2**	**300,462.0**	**272,930.1**	**18.4**	**90.8**
Current Expenditure	113,375.5	150,926.0	131,902.8	16.3	87.4
Capital Expenditure	117,145.7	149,536.0	141,027.3	20.4	94.3
Overall Surplus/ Deficit					
(Including Grants)	**-30,882.1**	**-48,542.2**	**-29,258.5**	**-5.3**	**60.3**
(Excluding Grants)	**-43,902.5**	**-62,599.9**	**-42,272.8**	**-3.7**	**67.5**
Total Financing	**30,882.1**	**48,542.2**	**29,258.5**	**-5.3**	**60.3**
Net External Borrowings	**18,733.6**	**21,331.2**	**26,033.5**	**39.0**	**122.0**
Gross Borrowing	20,683.3	23,859.1	28,223.1	36.5	118.3
o/w Special Programs					
Amortization Paid	1,949.7	2,527.9	2,189.6	12.3	86.6
HIPC Relief					
Net Domestic Borrowings	**18,466.2**	**26,710.9**	**24,704.0**	**33.8**	**92.5**
Banking System	10,738.6		9,208.3	-14.3	
Non-Banking Systems	7,727.6		15,495.7	100.5	
Privatization Receipts	**485.0**	**500.0**	**500.0**	**3.1**	
Others and Residuals	**-6,802.7**		**-21,979.0**	**223.1**	

Source: Ministry of Finance and Economic Cooperation

VII. Investment

In 2015/16, 407 projects were licensed by the Ethiopian Investment Agency (EIA) and Regional Investment Offices which were 149.7 percent higher than a year earlier. All of which were private and at operational stage. These projects command Birr 4.1 billion investment capital showing 173.5 percent annual growth.

Of the total investment projects, 362 (or 89 percent) were domestic with a capital of Birr 1.5 billion; and 45 projects were foreign having Birr 2.6 billion as capital.

The average capital per project for domestic investors was Birr 4.2 million and that of foreign investor Birr 57.9 million, signifying that foreign investment projects were more of capital intensive nature than domestic ones.

It is estimated that these investment projects have created job opportunities for about 11,227 permanent and 10,505 casual workers (Table 7.1).

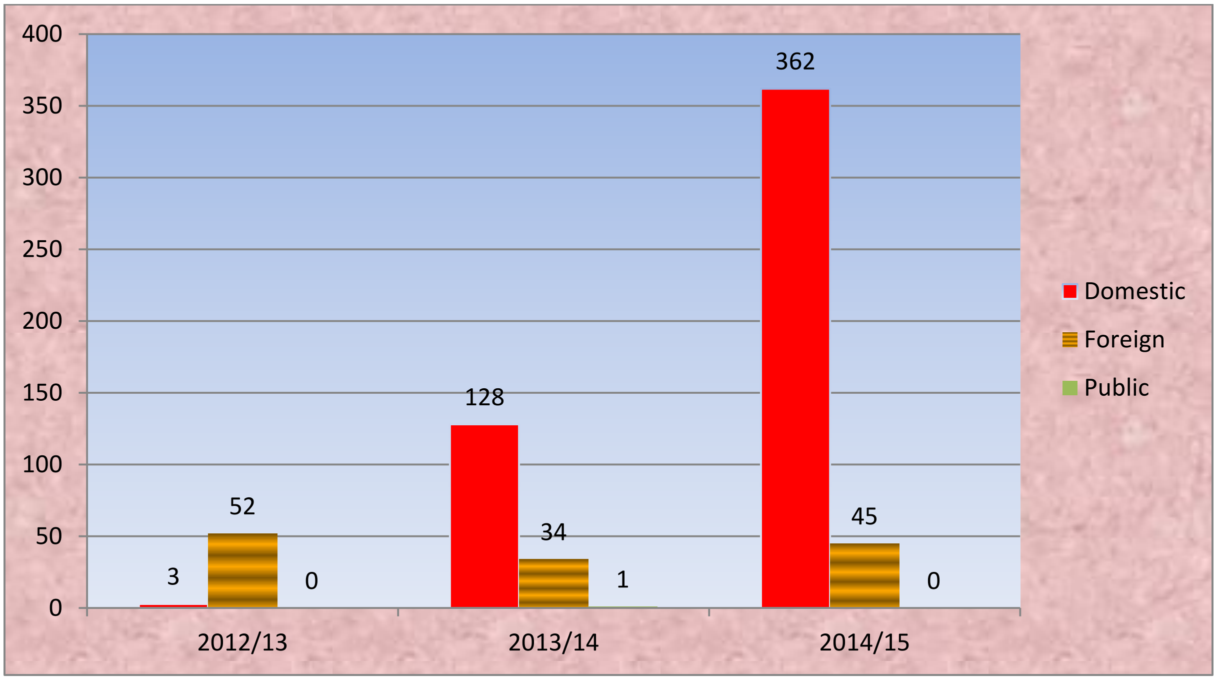
Table 7.1: Number of Projects, Capital and Jobs Created by Operational Investment

(Capital in millions of Birr)

		2012/13	2013/14	2014/15	Percentage change	
		A	B	C	C/A	C/B
1. Total Investment	Number	55	163	407	**640.0**	**149.7**
	Capital	1,512	5,636.2	4,135.0	**173.5**	**(26.6)**
	Permanent Workers	1,861	3,936	11,227	**503.3**	**185.2**
	Temporary Workers	1,221	6,425	10,505	**678.7**	**63.5**
1.1. Total Private	Number	55	162	407	**760.4**	**151.2**
	Capital	1,511.7	3,136.2	4,135.0	**173.5**	**31.8**
	Permanent Workers	1,861	3,911	11,227	**503.3**	**187.1**
	Temporary Workers	1,221	6,425	10,505	**760.4**	**63.5**
1.1.1. Domestic	Number	3	128	362	**11,966.7**	**182.8**
	Capital	4.4	628.0	1,530.3	**34,351.0**	**143.7**
	Permanent Workers	11	2,022	3,467	**31,418.2**	**71.5**
	Temporary Workers	12	5,942	9,278	**77,216.7**	**56.1**
1.1.2. Foreign	Number	52	34	45	**(13.5)**	**32.4**
	Capital	1,507.2	2,508.2	2,604.7	**72.8**	**3.8**
	Permanent Workers	1,850	1,889	7,760	**319.5**	**310.8**
	Temporary Workers	1,209	483	1,227	**1.5**	**154.0**
1.2.Public	Number	0	1	0		
	Capital	0	2,500	0		
	Permanent Workers	0	25	0		
	Temporary Workers	0	0	0		

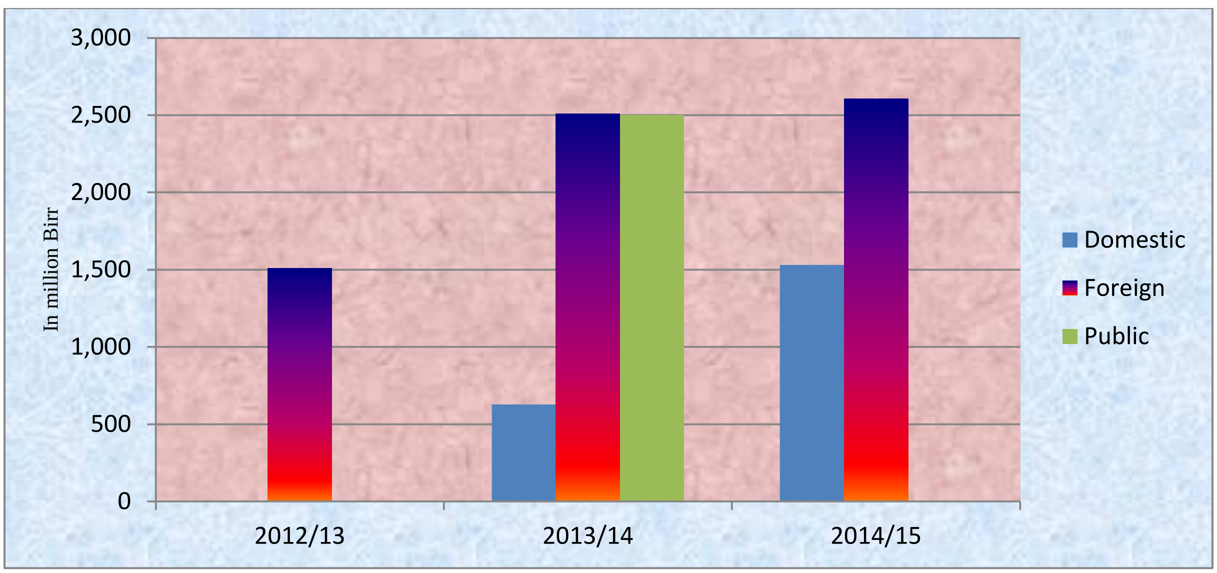
Source: Ethiopian Investment Agency

Fig.VII.1: Number of Operational Investment Projects by Source



Source: Ethiopian Investment Agency.

Fig.VII.2: Capital of Operational Investment Projects by Source



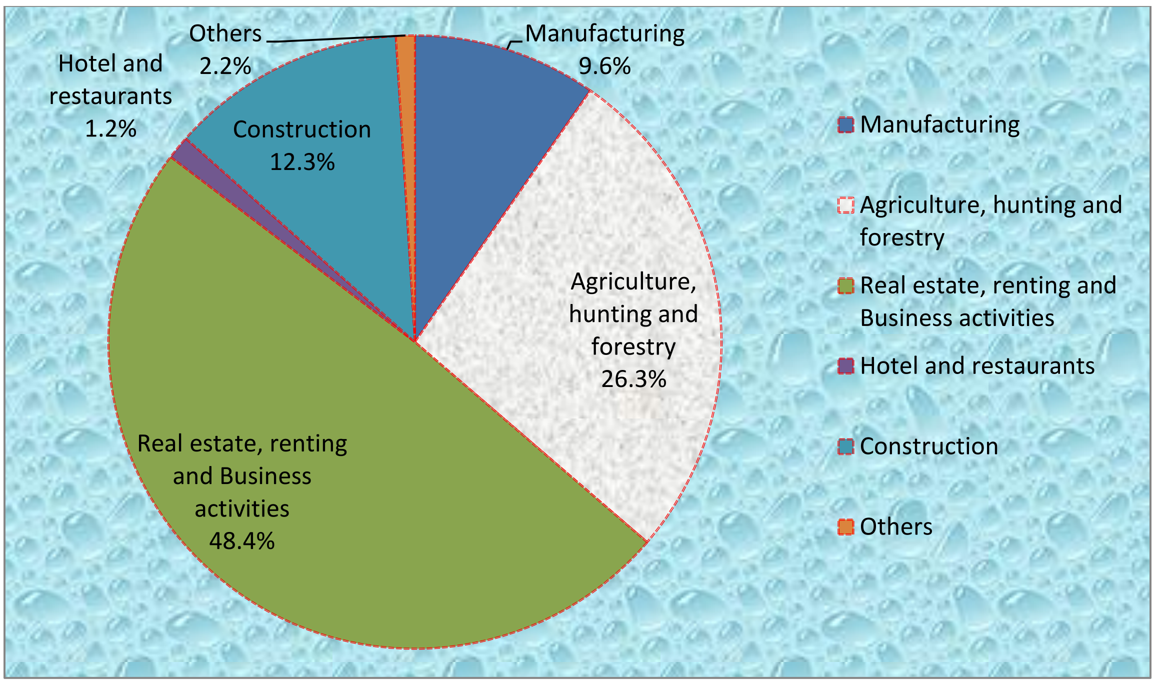
Source: Ethiopian Investment Agency

7.1: Investment by Sector

Of the total investment projects, about 48.4 percent were in real estate, renting & business activities, 26.3 percent in agriculture, hunting& forestry, 12.3 percent in construction, 9.6 percent in manufacturing, 1.2 percent in hotel and restaurants and the other sectors constituted 2.2 percent.

As for, investment capital, manufacturing sector constituted 65.5 percent followed by real estate renting & business activities (13.6 percent), agriculture hunting & forestry (12.6 percent), construction (3.2 percent) and the remaining sectors 5.1 percent (Table 7.2).

Fig.VII.3: Distribution of Operational Investment Projects by Sector in 2014/15



Source: Ethiopian Investment Agency.

Table: 7.2: Numbers and Capital of Operational Investment Projects by Sector

(Capital in millions of Birr)

Sectors	2012/13		2013/14		2014/15		Percentage share	
	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital
Manufacturing	24	1,370.5	38	516.8	39	2,707.2	**9.6**	**65.5**
Agriculture, hunting and forestry		0	13	70.1	107	521.7	**26.3**	**12.6**
Real estate, renting and Business activities	17	89.0	36	2,135.3	197	563.4	**48.4**	**13.6**
Hotel and restaurants	2	3.1	6	44.1	5	105.8	**1.2**	**2.6**
Education	2	4.8	2	25.4	1	79.8	**0.2**	**1.9**
Health and social work	2	3.7	1	0.2	1	4.0	**0.2**	**0.1**
Construction	3	21.6	58	2,811.2	50	132.8	**12.3**	**3.2**
Tour operation, transport and communication	3	5.2	4	12.1	3	5.8	**0.7**	**0.1**
Whole sale, retail trade and repair service	0	0.0	1	10.9	0	0.0	**0.0**	**0.0**
Mining and quarrying	0	0.0	1	1.1	0	0.0	**0.0**	**0.0**
Electricity, gas, steam and water supply	0	0.0	0	0.0	0	0.0	**0.0**	**0.0**
Others and other community, social and personal service activities	2	13.8	3	9.1	4	14.5	**1.0**	**0.4**
Grand Total	**55.0**	**1,511.7**	**163**	**5,636.2**	**407.0**	**4,135.0**	**100.0**	**100.0**

Source: Ethiopian Investment Agency.

7.2. Distribution by Region

Of the total 407 investment projects that went in to operation in 2014/15, about 304 projects (74.7 percent) with Birr 1.4 billion capital were located in Oromia, followed by49 projects (12.0 percent) with Birr 207.3 million capital were in Tigray. Similarly these were 31 projects (7.6 percent) with investment capital of Birr 2.4 billion in Addis Ababa; 15 projects (3.7 percent) with Birr 97.5 million capital in Afar, and 4 projects with investment capital of Birr 10 million in Amhara regional state (Table 7.3).

Table 7.3: Number and Capital of Operational Projects by Region

(Capital in millions of Birr)

Regions	2012/13		2013/14		2014/15		Percentage share	
	No. of projects	Investment Capital	No. of projects	Investment Capital	No. of projects	Investment Capital	No. of projects	Investment Capital
Tigray	1	1.4	11	90.2	49	207.3	**12.0**	**5.0**
Afar	1	1.0	12	21.1	15	97.5	**3.7**	**2.4**
Amhara	0	0.0	31	112.7	4	10.0	**1.0**	**0.2**
Oromia	16	1,308.4	7	139.3	304	1,398.4	**74.7**	**33.8**
Somali	0	0.0	0	0.0	0	0.0	**0.0**	**0.0**
Benishangul-Gumuz	0	0.0	0	0.0	0	0.0	**0.0**	**0.0**
SNNPR	0	0.0	1	10.9	1	13.8	**0.2**	**0.3**
Gambella	0	0.0	0	0.0	0	0.0	**0.0**	**0.0**
Harari	0	0.0	0	0.0	3	26.5	**0.7**	**0.6**
Addis Ababa	37	200.8	101	5,262.0	31	2,381.5	**7.6**	**57.6**
Dire Dawa	0	0.0	0	0.0	0	0.0	**0.0**	**0.0**
Multiregional Projects	0	0.0	0	0.0	0	0.0	**0.0**	**0.0**
Grand Total	**55.0**	**1,511.7**	**163**	**5,636.2**	**407**	**4,135.0**	**100.0**	**100.0**

Source: Ethiopian Investment Agency.

VIII. International Developments

8.1. International Economic Developments

8.1.1. Overview of the World Economy

Global growth is projected to remain modest in 2016, at 3.1 percent, before picking up to 3.4 percent in 2017.Growth in most advanced economies remained lackluster, with low potential growth and a gradual closing of output gaps. Prospects remained diverse across emerging market and developing economies, with some improvement for a few large emerging markets.

Growth is projected to continue in the United States at a moderate pace, supported by strengthening balance sheets, no further fiscal drag in 2016, and an improving housing market. These forces are expected to offset the drag to net exports coming from the strengthening of the dollar and slower growth in trading partners, the additional decline in energy investment, weaker manufacturing, and tighter domestic financial conditions for some sectors of the economy (for example, oil and gas and related industries). As a result, growth is projected to level off at 2.2 percent in 2016, with a modest uptick in 2017. The impact of Brexit is projected to be muted for the United States, as lower long-term interest rates and a more gradual path of monetary policy normalization are expected to broadly offset larger corporate spreads, a stronger U.S. dollar, and some decline in confidence.

In the Euro area, growth is forecasted to fall slightly to 1.6 percent in 2016 from 1.7 percent in 2015. This is due to the fallout from the U.K. referendum. In light of the potential impact of increased uncertainty on consumer and business confidence (and potential bank stresses), 2017 growth is forecasted down by 0.2 percentage points relative to 2016 estimate.

InJapan,the underlying momentum in domestic demand remains weak and inflation has dropped. As a result, its economy is forecasted to grow by 0.3 percent in 2016. The further appreciation of the yen in recent months is expected to take a toll on growth in both2016 and 2017:

Consequently, the growth for 2017 forecasted to be 0.1 percent.

Emerging markets and developing countries would register a growth rate of 4.1 percent in 2016, and increase to 4.6 percent in 2017. Growth continues to run above six percent in emerging and developing Asia despite a slight decline of the momentum due to marginal contraction in China and India. Consumer and business confidence appears to have bottomed out in Brazil, and the GDP contraction in the first quarter was milder than anticipated. Consequently, the 2016 recession is now projected to be slightly less severe, with a return to positive growth in 2017. Political and policy uncertainties remain, however, and cloud the outlook. Higher oil prices are providing some relief to the Russian economy, where the decline in GDP this year is now projected to be milder, but prospects of a strong recovery are subdued given long- standing structural bottlenecks and the impact of sanctions on productivity and investment.

The outlook for other emerging market and developing economies remains diverse. Aggregate growth in sub-Saharan Africa is expected to slow down to 1.6 percent in 2016 from 3.3 percent in 2015, reflecting challenging macroeconomic conditions in its largest economies, which are adjusting to lower commodity revenues. In Nigeria, economic activity is projected to contract in 2016, as the economy adjusts to foreign currency shortages as a result of lower oil receipts, low power generation, and weak investor confidence. In South Africa, GDP is projected to grow at lower rate of 0.1 percent in 2016, with only a modest recovery next year. In the Middle East, oil exporters are benefiting from the recent modest recovery in oil prices while continuing fiscal consolidation in response to structurally lower oil revenues, but many countries in the region are still plagued by strife and conflict.

Table 8.1: Overview of World Economic Outlook and Projection

(Annual Percentage Change)

Particulars	2014	2015	Projection	
			2016	2017
World Output	**3.4**	**3.1**	**3.1**	**3.4**
Advanced Economies	1.9	1.9	1.8	1.8
United States	2.4	2.4	2.2	2.5
Euro Area	0.9	1.7	1.6	1.4
Japan	0.0	0.5	0.3	0.1
Emerging Market & Developing Economies	4.6	4.0	4.1	4.4
World Trade Volume (goods & services)*	**3.5**	**2.8**	**3.1**	**3.8**
Imports				
Advanced Economies	3.5	4.3	3.4	4.1
Emerging Market and Developing Economies	3.7	0.5	3.0	3.7
Exports				
Advanced Economies	3.5	3.4	2.5	3.5
Emerging Market and Developing Economies	3.1	1.7	3.8	3.9
Commodity Prices (U.S. dollars)				
Oil	-7.5	-47.2	-15.5	16.4
Non- oil	-4.0	-17.5	-3.8	-0.6
Consumer Prices				
Advanced Economies	1.4	0.3	0.7	1.6
Emerging Market & Developing Economies	4.7	4.7	4.6	4.4

Source: IMF, World Economic Outlook, July, 2016

*IMF, World Economic Outlook, April, 2016

8.1. 2 World Trade

Global volume of world trade growth in goods and services is projected to remain moderate but to pick up gradually from 2016 onward. It is estimated to expand by 3.1

percent in 2016 and is further projected to increase by 3.8 percent in 2017.

Imports of goods and services by advanced economies rose by 3.4 percent in 2016. Similarly, imports by emerging market and developing economies forecasted to grow by 3.0 percent and 3.7 percent in 2016 and 2017, respectively. On the other hand, export of goods and services from advanced economies and emerging and developing economies is forecasted to expand by 2.5 percent and 3.8 percent in 2016, respectively.

The United States' current account deficit slightly expanded to 2.9 percent of GDP in 2016 from 2.7 percent 2015. On the other hand, the current account of euro area is estimated to be flat at 0.7 percent of the region GDP in 2016, while current account deficit emerging market and developing economies is forecasted to expand from 0.2 percent to 0.6 percent.

8.1.3 Inflation and Commodity Prices

With the December 2015 declines in oil prices mostly expected to persist this year, consumer price inflation is projected to remain below central bank targets in 2016. Excluding Venezuela (where average inflation is projected to rise to close to 500 percent this year and even further next year), inflation in emerging market and developing economies is projected to fall to 4.5 percent in 2016, from 4.7 percent in 2015, reflecting the decline in commodity prices and the dissipating effects of last year's currency depreciations.

In the United States, inflation in 2016 is projected to rise to 0.8 percent from 0.1 percent in 2015 amid a tightening labor market, even though dollar appreciation and pass-through from lower oil prices are exerting downward pressure on prices. Consumer price index inflation is projected to rise over the medium term to about 2.25 percent, with inflation measured with the personal consumption expenditure deflator—the Federal Reserve's preferred inflation measure—reaching 2 percent.

In the euro area, headline inflation is projected to reach 0.4 percent in 2016 (from about zero in 2015) and to increase further to 1.1 percent in 2017 with support from monetary policy easing by the ECB. Inflation is thereafter expected to rise only very gradually over the medium term.

Average inflation in other advanced economies will also remain below central bank targets, mostly as a result of the decline in oil prices. Inflation is projected to return to target next year in Korea (partly because the Bank of Korea recently reduced its inflation target), but only over the medium term in Singapore and Sweden. Consumer prices in Switzerland are projected to decline in 2016 and 2017 given the appreciation of the currency last year.

In emerging market economies, the downward pressure from lower oil prices is offset to varying degrees by the pass-through of nominal exchange rate depreciations to domestic prices, especially in countries with strong depreciations, such as Brazil, Colombia, Russia, and more recently, Kazakhstan. In subsequent years, inflation is expected to ease gradually toward official targets.

In China, inflation is forecast to remain low at about 1.8 percent in 2016, reflecting lower commodity prices, the real appreciation of the Renminbi, and somewhat weaker domestic demand. In India, monetary conditions remain consistent with achieving the inflation target of 5 percent in the first half of 2017, although an unfavorable monsoon and an expected public sector wage increase pose upside risks. In Brazil, average inflation is expected to fall slightly to 8.7 percent this year from 9.0 percent last year, as the effects of the large administered price adjustments and currency depreciation in 2015 diminish. In Russia, inflation is projected to decline from 15.5 percent in 2015 to 8.4 percent in 2016. In Turkey, inflation for 2016 is projected at 9.8 percent, almost 5 percentage points above target.

In 2016, oil prices have decreased further, by 32 percent, on account of strong supply from members of the Organization of the Petroleum Exporting Countries (OPEC) and risk-off behavior in financial markets, with investors moving away from what they perceive to be riskier assets, including commodities and stocks. The further collapse in oil prices has proceeded in spite of geopolitical tensions in the Middle East, suggesting that market expectations are firmly anchored in “low for long” oil prices.

Metal prices have declined 9 percent since August 2015. Prices have been gradually declining because of a slowdown and a shift away from commodity intensive investment in China, which consumes roughly half of global metals. Metal prices are projected to decline by 14 percent in 2016 and 1 percent in 2017. Futures prices point to continued low prices, but with rising uncertainty on account of both demand (especially from China) and stronger supply.

Prices of agricultural commodities have declined by 4 percent overall relative to August 2015. Food prices have decreased by 4 percent, with declines in most food items, except sugar and a few oilseeds. Sugar and palm oil prices have increased because of a drought in India and Malaysia, likely caused by El Niño. El Niño has also taken a toll on East Africa. International prices do not fully reflect the adverse weather shock, however, because of high prior inventory levels. For example, Ethiopia is suffering from its worst drought in 30 years. Unusually dry weather in North Africa is also likely to reduce harvests significantly, including those for cereals. The beverage price index has stagnated as a cocoa price increase has offset a decline in coffee prices.

8.1.4. Exchange Rate

Between August 2015 and February 2016, the currencies of advanced economies tended to strengthen, and those of commodity exporters with floating exchange rates—especially oil-exporting countries—tended to weaken further. Across advanced economies, the Japanese yen's appreciation (about 10 percent in real effective terms)was particularly sharp, while the U.S. dollar and the euro strengthened by about 3 percent and 2 percent, respectively. In contrast, the British pound depreciated by 7 percent, driven by expectations of a later normalization of monetary policy in the United Kingdom due to uncertainties on its exit from the European Union.

8.2 Implications of International Economic Developments on the Ethiopia Economy

During the 2015/16 global recovery continues, but at an ever slowing and fragile pace. In addition to some non economic origin threatening the global economy; global asset market volatility, loss of growth momentum in the advanced economies, and continuing headwinds for emerging market economies and lower-income countries are some of the contributions to this slowdown. This has negatively affected the performance of Ethiopia's major export items.

Global headline inflation, meanwhile, has remained at low levels mainly reflecting past energy price declines. The relatively higher domestic prices affected the county's competitiveness by making the REER appreciate. On the other hand, the fall in international prices helped to reduce the country's import bills.

The outcome of U.K. vote to exit from E.U created financial market volatility and increased uncertainty about the global outlook. This implies the downside risk of the world economy in the future. The weak investor confidence in the global economy, if persists for long, might affect the external sector of the Ethiopian economy through trade and FDI flows.