

Governor's Note

1. The Ethiopian economy has recovered from the El Niño induced drought and regained its growth trajectory in 2016/17, registering a 10.9 percent expansion compared to 8 percent in 2015/16. This was made possible as a result of 18.6 percent growth in industrial output, 10.3 percent rise in service sector and 6.7 percent expansion in agriculture.

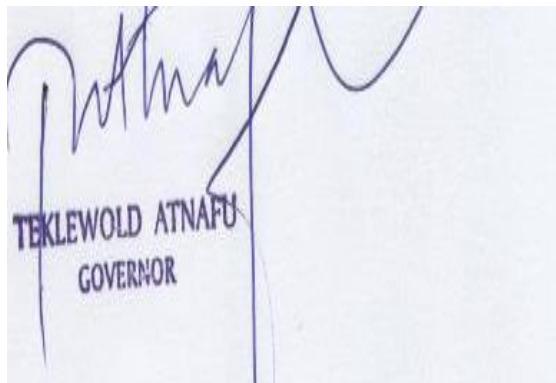
Accordingly, the share of industry in GDP rose sharply to 25.6 percent in 2016/17 from 16.7 percent while that of agriculture largely remained at around 36 percent. In contrast, the share of service sector dropped to 39.3 percent from 47.3 percent a year ago. This gradual but steady shift in the structure of the economy reflects the government's policy of developing manufacturing sector and promoting export-led growth while continuing to give due attention to modernizing the agriculture sector which has dominated for long the country's economic base.

2. Rapid and sustainable economic growth over the last 15 years has led to improvements in income inequality and poverty reduction. Accordingly the level of per capita income has reached USD 863 in 2016/17 compared to USD 784 last year. Poverty has declined to 22 percent from 38.7 percent in 2004/05. Investment to GDP ratio has increased to 39 percent and domestic savings to GDP ratio to 24.1 percent.
3. Despite the recent uptick, inflation has been kept within single digit level largely aided by tight monetary and prudent fiscal policy stance. Accordingly, the annual average headline inflation slowed down to 7.2 percent in 2016/17 from 9.7 percent registered in the preceding year primarily due to the decline in both food & non-alcoholic beverages inflation and non-food inflation. Annual headline inflation however, rose to 8.8 percent from 7.5 percent as food inflation increased by 4 percentage point despite 1.8 percentage point drop in non-food inflation.
4. Fiscal policy has been geared towards increasing tax revenue through strengthening tax administration and enforcement, while covering a greater proportion of government expenditures from domestic resources. These government expenditures have largely focused on growth enhancing capital expenditure and pro-poor social spending programs and

promoting safety nets. Thus, domestic revenue registered 11.3 percent annual growth while general government expenditure increased by 20.6 percent resulting in the budget deficit equivalent to 3.3 percent of GDP, compared to 3.5 percent of GDP target.

5. The National Bank of Ethiopia (NBE) with a view of maintaining inflation low and at single digit, has kept the growth of reserve money within the target by closely monitoring movements in domestic credit, including direct advance to the government. The Bank has also ensured the stability and predictability of the interest rate by setting the minimum deposit rate while allowing lending rate to be determined by market forces. This policy has resulted in increased saving mobilization and investment activities throughout the fiscal year.
6. Ethiopia has maintained managed floating exchange regime to ensure the competitiveness of the local currency. Accordingly, the Birr was allowed to depreciate by 6.2 percent in nominal terms against the US Dollar as a counter measure for the 7.9 percent appreciation of the real effective exchange rate largely due to strengthening of the US Dollar against major currencies and relatively low inflation in Ethiopia's major trading partner countries.
7. The Ethiopian financial sector has remained safe and sound besides being well capitalized and profitable. Commercial banks have opened 956 new branches in 2016/17 alone, which raised the total number of branches to 4,257 from 3,301 a year ago. Banks have also increased their deposit mobilization (by 29.8 percent), loan collection (by 25.9 percent) and loan disbursement (by 23.8 percent). Their non-performing loan was within the required level. Similarly, insurance companies and microfinance institutions have scaled up their services by expanding their network and product diversification. Capital goods finance companies have also stepped up their operation and there are visible signs of improvement.
8. Moreover the on-going financial inclusion strategy is bearing fruits not only in terms of increased financial intermediation but also in enhancing the use of electronic money and new financial products. The recently introduced National Financial Inclusion Strategy is expected to further improve access to finance and financial inclusion for a greater proportion of the society which is currently outside the reach of banking services. To mitigate potential risks, associated in this process, NBE has strengthened its monitoring and supervising operation using international standard toolkits.

9. FY 2016/17 has been a challenging year for Ethiopia's external sector particularly exports. Merchandise exports exhibited modest growth of 1.4 percent. Meanwhile, total merchandise import dropped by 5.5 percent due to slow down in capital goods import largely those related to public projects. Although, Ethiopia's external sector performance saw a widening of current account deficit (including official transfers), its capital account and overall balance of payments recorded surpluses, specifically FDI showed a 27.6 percent. growth. Thus, the gross international reserve of the country was sufficient to cover 2.3 months of imports of next year.
10. In a nut shell, economic performance remained robust in 2016/17 as reflection of a strong commitment of the Ethiopian government to implement sound macroeconomic policies that ensure sustainable growth and help alleviate abject poverty. Notwithstanding poor export performance, most of the macroeconomic indicators were in line with the growth target set in GTP II. Against this backdrop, the economic prospects for 2017/18 are envisaged to remain positive despite some down side risks related to commodity price shocks, temporary inflation pressure and weather conditions.
11. In conclusion, I would like to express my whole hearted appreciation to all members of management team and staff of the NBE for their strong commitment shown in achieving the strategic objectives of the Bank and in contributing to macroeconomic stability and growth. I also take this opportunity to call upon them to double their efforts to achieve more positive outcomes and robust progress during FY 2017/18 and beyond.



TEKLEWOLD ATNAFU
GOVERNOR

I. The overall Economic Performance

1.1 Economic Growth¹

The Ethiopian economy which had exhibited 9.9 percent average annual growth during 2012/13-2016/17, registered 10.9 percent growth in 2016/17, depicting recovery from challenging macroeconomic and weather conditions of the previous year. The registered growth rate in real GDP was 0.2 percentage point lower than base case scenario GTPII target set for the fiscal year although it was significantly higher than 2.6 percent average growth estimated for Sub-Saharan Africa (World Economic Outlook Update, October 2017).

The growth in real GDP was mainly attributed to 10.3 percent growth in services, 6.7 percent in agriculture and 18.7 percent in industrial sectors (Table 1.1).

Nominal GDP per capita rose to USD 863 depicting 7.8 percent improvement over the previous year.

The Ethiopian economy is projected to grow 11.1 percent in 2017/18 in contrast to IMF's forecast of 3.7 percent growth for the world and 3.4 percent for Sub-Saharan Africa (SSA), (WEO, and October 2017)

¹ The real values of the economic sectors in 2016/17 were based on 2015/16 base year; and others are on 2010/11 fiscal year. As a result, there will be some adjustments when the rebasing of National Accounts Statistics is finalized.

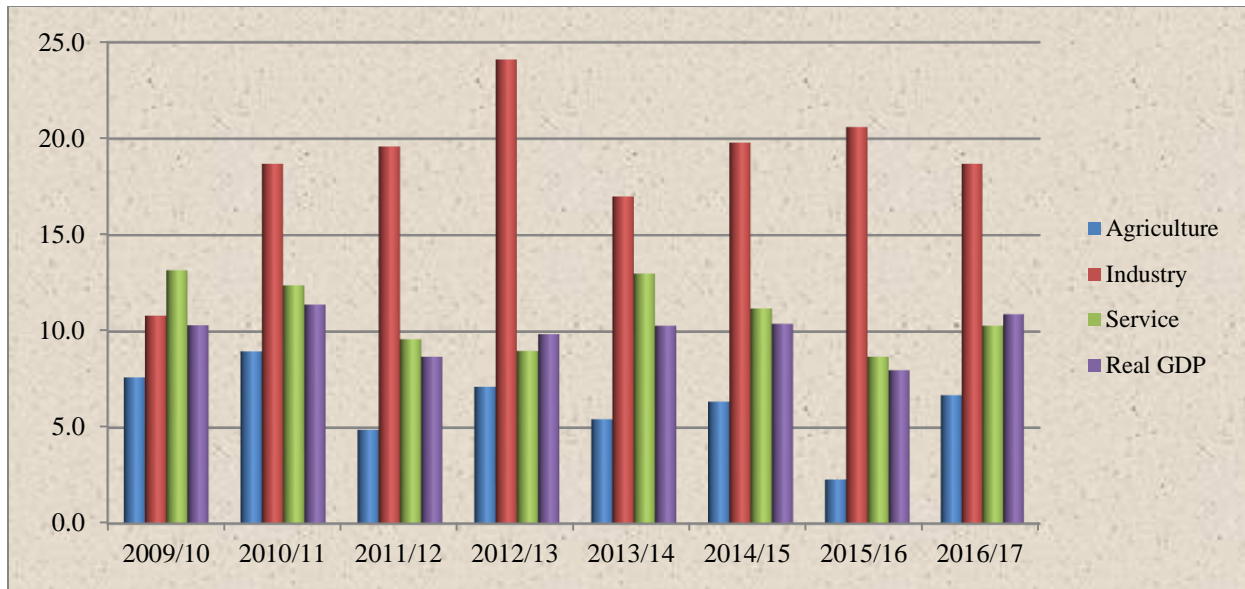
Table 1.1: Sectoral Contributions to GDP and GDP Growth²

(In Billions of Birr)

Items		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Sector	Agriculture	222.9	238.8	251.8	267.8	274.0	573.1
	Industry	59.6	73.9	86.5	103.7	125.0	404.3
	Services	237.0	259.0	292.0	325.0	353.0	620.2
Total		519.5	571.7	630.3	696.5	752.0	1,597.6
<i>Less FISIM</i>		3.0	3.0	4.0	4.0	5.0	20.5
Real GDP		517.0	568.0	627.0	692.0	747.0	1,577.1
Growth in Real GDP		8.7	9.9	10.3	10.4	8.0	10.9
Per capita GDP (USD) (Nominal)		523	559	640	725	794	863.0
Growth rate in Per capita GDP		32.2	6.8	14.4	13.4	9.5	7.8
Mid-year population(in millions)		82.7	84.8	87.0	89.1	91.2	93.4
Share in GDP (in %)	Agriculture	43.1	42.0	40.2	38.7	36.7	36.3
	Industry	11.5	13.0	13.8	15.0	16.7	25.6
	Services	45.9	45.5	46.6	47.0	47.3	39.3
Agriculture	Absolute Growth	4.9	7.1	5.4	6.4	2.3	6.7
	Contribution to GDP growth	2.2	3.1	2.3	2.5	0.9	2.5
	Contribution in %	25.3	31.2	22.3	24.0	11.3	22.9
Industry	Absolute Growth	19.6	24.1	17.0	19.8	20.6	18.7
	Contribution to GDP growth	2.1	2.8	2.2	2.7	3.1	4.4
	Contribution in %	24.1	27.9	21.4	26.0	38.8	40.4
Services	Absolute Growth	9.6	9.0	13.0	11.2	8.7	10.3
	Contribution to GDP growth	4.4	4.1	5.8	5.2	4.0	4.0
	Contribution in %	50.6	41	56.3	50.0	50.0	36.7

Source: National Planning Commission

² Ibid

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

Source: National Planning Commission

In 2016/17, the agricultural sector exhibited 6.7 percent growth rate which showed recovery from El-Nino effect of the previous year which merely saw 2.3 percent expansion. Yet, it was 1.3 percentage point lower than the 8 percent target for the year.

Total grain production during the fiscal year reached 290.4 million quintals, of which cereal production accounted for 87.4 percent, pulses 9.7 percent and oil seeds 2.9 percent. Cereals production went up by 9.8 percent over the preceding year owing to 2.5 percent expansion in cultivated land area and improvement in productivity. Similarly,

production of pulses and oilseeds improved by 1.6 and 6.9 percent though cultivated land area shrank by 6.2 and 6.3 percent, respectively during the same period (Table1.2).

Meanwhile, total land cultivated for crop production slightly increased to 12.6 million hectares, of which cereals production covered 81.3 percent, pulses 12.3 percent and oil seeds 6.4 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	2013/14		2014/15		2015/16		2016/17	
	Cultivated Area	Total Production	Cultivated Area	Total Production	Cultivated Area	Total Production	Cultivated Area	Total Production
Cereals	9,848	215,835	10,144	236,077	9,974	231,288	10,219	253,847
(Annual % Change)	2.6	9.8	3.0	9.4	-1.7	-2.0	2.5	9.8
Pulses	1,743	28,589	1,558	26,718	1,653	27,693	1,550	28,146
(Annual % Change)	-6.5	3.9	-10.6	-6.5	6.1	3.6	-6.2	1.6
Oilseeds	816.0	7,112.6	856	7,601	859.1	7,848.1	805	8,392
(Annual % Change)	-0.3	-2.1	4.9	6.9	0.4	3.3	-6.3	6.9
Total	12,406.6	251,536.4	12,558	270,396	12,486	266,829	12,574	290,386
(Annual % Change)	1.0	8.8	1.2	7.5	-0.6	-1.3	0.7	8.8

Source: Central Statistical Agency (CSA)

During 2016/17, the share of agriculture in GDP went down to 36.3 percent, more or less equivalent with GTPII target of 36.4 percent for the fiscal year. Likewise, the sector's contribution to GDP growth rate was 22.9 percent (Table 1.1). The lion's share of agricultural sector was crop production, comprising 65.3 percent, followed by animal farming & hunting (25.3 percent) and forestry (8.9 percent). In terms of growth rate, crop sub sector increased by 8.1 percent while animal farming & hunting and forestry improved by 4.5 and 3.5 percent, respectively (Table 1.3).

Industrial sector showed 18.7 percent annual growth and accounted for 25.6 percent of GDP. The sector contributed 40.4 percent to the overall economic growth during the fiscal year (Table 1.1) and its performance was more or less in line with GTPII target of 20.8 percent growth through its share was higher than 18 percent share targeted for the same period.

Manufacturing sector increased by 17.4 percent and constituted about 25 percent of industrial output. Construction industry, on the other hand, contributed more than half (70.9 percent) to industrial sector and expanded by 20.7 percent signifying the leading role the construction sector plays in terms of roads, railways, dams and residential houses expansion.

Electricity & water and mining & quarrying had 3 and 1.1 percent contribution to industrial production, respectively (Table 1.3).

Service sector continued to dominate the economy as its share in GDP was about 39.3 percent and its contribution to GDP growth reached 36.7 percent (Table 1.1). The 10.3 percent growth in service sector was largely attributed to the expansion of wholesale & retail trade (7.6 percent), public administration & defense (22.1 percent) and transport & communication (12.1 percent) (Table 1.3).

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

Sectors		2012/13	2013/14	2014/15	2015/16	2016/17
Growth rate	Crop	8.2	6.6	7.2	3.4	8.1
	Animal Farming and Hunting	5.2	2.1	4.7	-1.5	4.5
	Forestry	3.3	4.2	3.5	2.2	3.5
	Fishing	19.4	32.5	30.6	0.1	0.5
Share in Agriculture	Crop	69.8	70.6	71.1	71.9	65.3
	Animal Farming and Hunting	21.3	20.6	20.3	19.5	25.3
	Forestry	8.8	8.7	8.4	8.4	8.9
	Fishing	0.1	0.2	0.2	0.2	0.2
Growth rate	Mining and Quarrying	6.3	-3.2	-25.6	-3.3	-29.8
	Manufacturing	16.9	16.6	18.2	18.4	17.4
	Electricity and Water	10.0	6.8	4.5	15.0	11.4
	Construction	38.7	23.9	31.6	25.0	20.7
Share in Industry	Mining and Quarrying	11.0	9.1	5.7	4.5	1.1
	Manufacturing	33.6	33.4	33.0	32.4	25.0
	Electricity and Water	8.3	7.6	6.6	6.3	3.0
	Construction	47.1	49.9	54.8	56.8	70.9
Growth rate	Whole Sale and Retail Trade	10.1	17.7	12.3	8.2	7.6
	Hotels and Restaurants	19.1	26.6	29.6	15.6	11.1
	Transport and Communications	16.5	12.7	13.3	13.7	12.1
	Real Estate, Renting and Business Activities	3.9	3.9	4.1	3.7	4.1
	Public Administration and Defense	7.6	11.0	6.0	7.4	22.1
	Others*	5.2	8.1	7.3	7.5	7.4
Share in Service	Whole Sale and Retail Trade	33.9	35.3	35.7	35.6	34.6
	Hotels and Restaurants	8.6	9.7	11.3	12.0	5.4
	Transport and Communications	10.1	10.1	10.2	10.7	12.5
	Real Estate, Renting and Business Activities	18.4	16.9	15.8	15.1	10.9
	Public Administration and Defense	11.0	10.8	10.3	10.2	12.5
	Others*	18.0	17.2	16.6	16.4	24.2

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

In 2016/17, total consumption expenditure (public and private) in percent of GDP slowed down to 75.9 percent from 77.6 percent last year mainly due to 4.4 percentage point decline in private consumption expenditure to GDP ratio despite 2.6 percentage point rise in government final consumption expenditure.

Consequently, gross domestic saving to GDP ratio rose to 24.1 percent from 22.4 percent in the previous year, slightly higher than 23.8 percent GTPII target for the fiscal year (Table 1.4). Domestic saving increased by 27.6 percent while total consumption expenditure went up by 15.5 percent.

Meanwhile, gross capital formation to GDP ratio reached 39 percent showing 0.5 percentage point growth over last year, and domestic absorption stood at 114.9 percent of 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
2016/17	114.9	75.9	12.3	63.5	39.0	(16.0)	7.7	23.7	24.1
Average 2012/13-2016/17	116.5	78.7	9.9	68.8	37.8	(18.1)	9.8	28.0	21.3
Average 2007/08-2016/17	116.3	82.9	9.7	73.2	33.5	(18.1)	11.6	29.7	17.1

Source: National Planning Commission

1.3: Micro and Small-Scale Enterprises

During 2016/17 alone, a total of 157,768 new micro and small scale enterprises (MSEs) employing about 1.2 million people were established. These enterprises received

more than Birr 7.1 billion in loans to own their operations.

Table 1.5: Numbers, Amount of Credit and Jobs Created through MSEs
(Credit in Millions of Birr)

Particulars	2014/15	2015/16	2016/17
No. of MSE's	271,519	190,587	157,768
Amount of credit	6,541.88	5,366.55	7,075.77
No of Total employment	2,788,667	1,665,517	1,172,678

Source: Federal Urban Job Creation and Food Security Agency

Table 1.6: Numbers, Amount of Credit and Jobs Created through MSEs by Region**(Credit in Millions of Birr)**

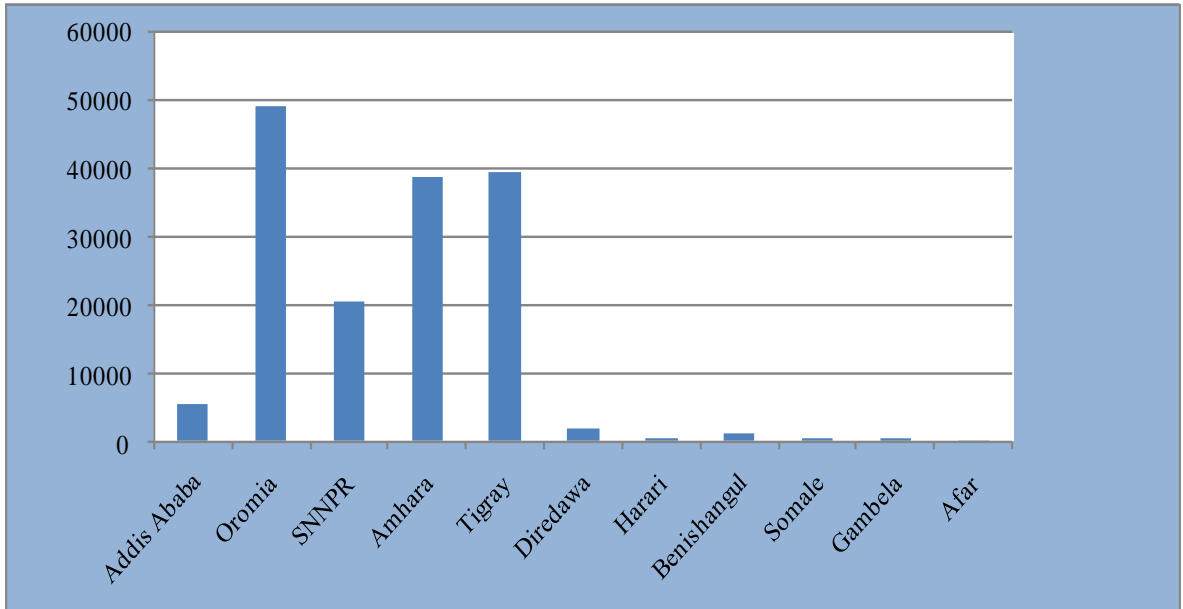
	Addis Ababa	Oromia	SNNPR	Amhara	Tigray	Dire Dawa	Harari	Benish angul	Somali	Gambela	Afar	Total
No. of MSEs	5,540	49,373	20,474	38,692	39,600	1,938	359	969	380	426	17	157,768
Amount of credit	1,641.3	1,133.6	361.7	2,750.3	882.8	160.3	29.2	1.1	114.9	NA	0.7	7,075.8
No. of total Employment created by MSEs	80,966	474,592	202,675	187,514	164,157	23,201	8,947	8,530	16,905	3,479	1,712	1,172,678
Regional Percentage Share												
No. of MSEs	3.5	31.3	13.0	24.5	25.1	1.2	0.2	0.6	0.2	0.3	0.0	100.0
Amount of credit	23.2	16.0	5.1	38.9	12.5	2.3	0.4	0.0	1.6	NA	0.0	100.0
No. of total Employment created by MSEs	6.9	40.5	17.3	16.0	14.0	2.0	0.8	0.7	1.4	0.3	0.1	100.0

Source: FeUJCFSA

In terms of regional distribution, 31.3 percent of the newly established MSEs were located in Oromia followed by Tigray (25.1 percent), Amhara (24.5 percent), SNNPR (13 percent) and Addis Ababa (3.5 percent). With respect to total loans, SMEs in Amhara received 38.9 percent, in Addis Ababa 23.2 percent, in Oromia 16 percent, in Tigray 12.5 percent, and in SNNPR 5.1 percent.

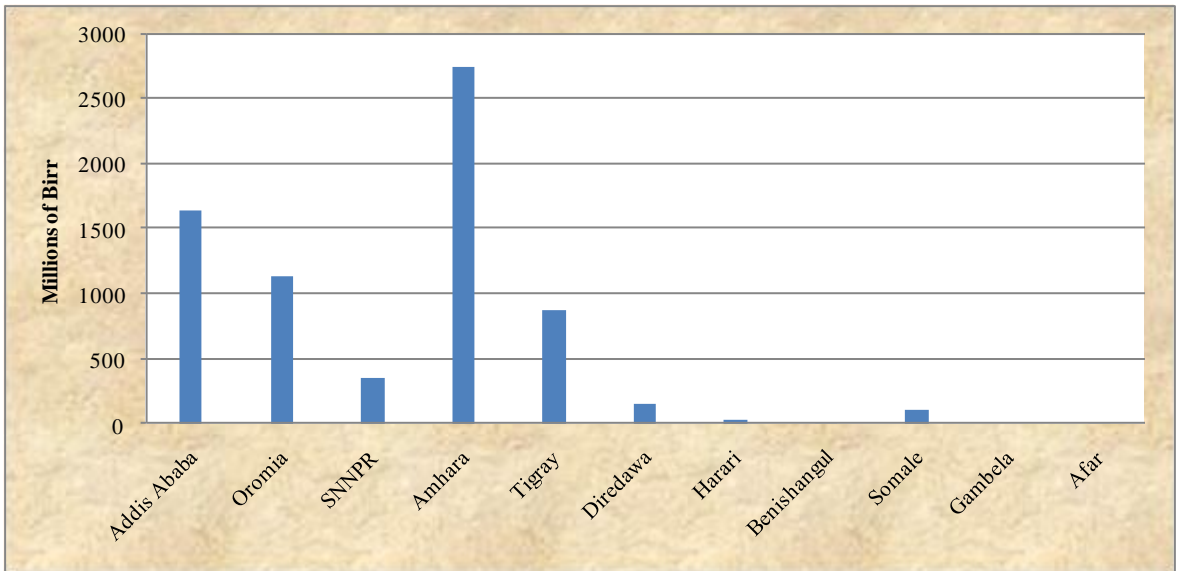
These enterprises created jobs. Of the total jobs created by these enterprises, about 40.5 percent was in Oromia, 17.3 percent in SNNPR, 16 percent in Amhara, 14 percent in Tigray and 6.9 percent in Addis Ababa.

Fig.I.1: Yearly Distribution of Numbers of MSEs during 2016/17



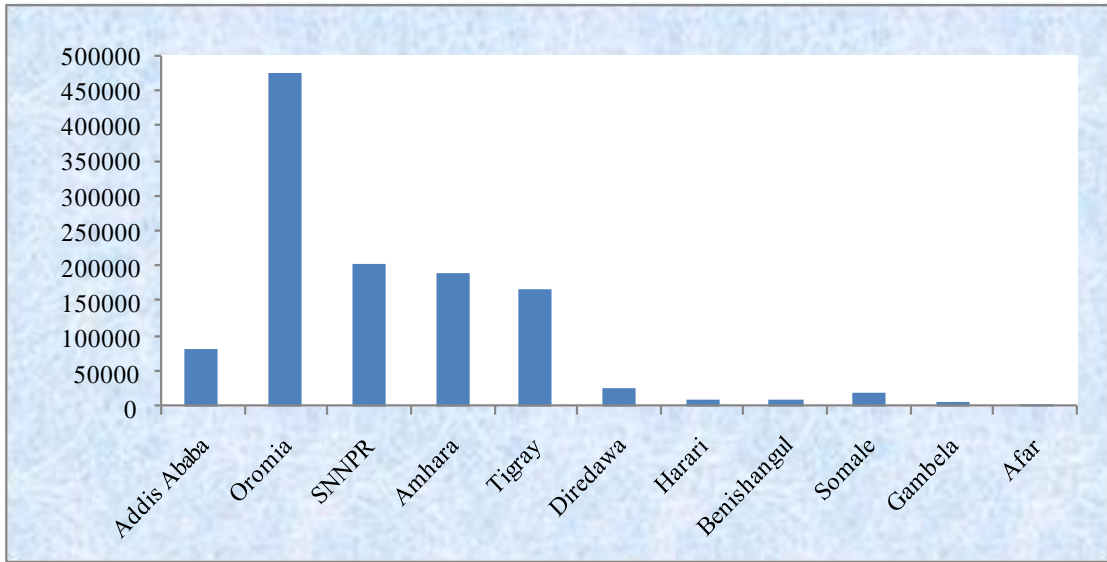
Source: FeUJCFSA

Fig.I.2: Yearly Distribution of Amount of Credit during 2014/15 and 2015/16



Source: FeUJCFSA

Fig.I.3: Yearly Distribution of Employment Created during 2016/17



Source: FeUJCFSA

1.4. Access to Water Supply

During 2016/17, the proportion of people having access to potable water supply improved by 5 percentage point to 66 percent (68 percent rural and 55 percent urban population); relative to 61 percent (63.1 percent rural and 52.5 percent urban people) coverage a year earlier. In other words, rural areas had relatively better access than the urban areas due to difference in newly depicted standards by the ministry of water, Irrigation and Energy.

Against GTP II annual target for the year 2016/17, urban potable water supply coverage showed 5 percentage point shortfall while that of rural area was 1 percent. GTP II has set potable water supply coverage for the fiscal year at 67 percent.

In terms of percentage of people with access to potable water, Afar region had 46 percent accessibility to potable water registered the lowest percentage while that of Addis Ababa was (92 percent) followed by Amhara (75 percent), and Harari and Somali (66 percent each).

In terms of access to potable water in urban areas, Addis Ababa had the leading share of 92 percent followed by SNNPR (75 percent), Amhara (69 percent) and Harari (66 percent), Somali (61 percent), Tigray (56 percent), Oromia (51 percent), Benishangul Gumuz (50 percent) and Gambella (41 percent).

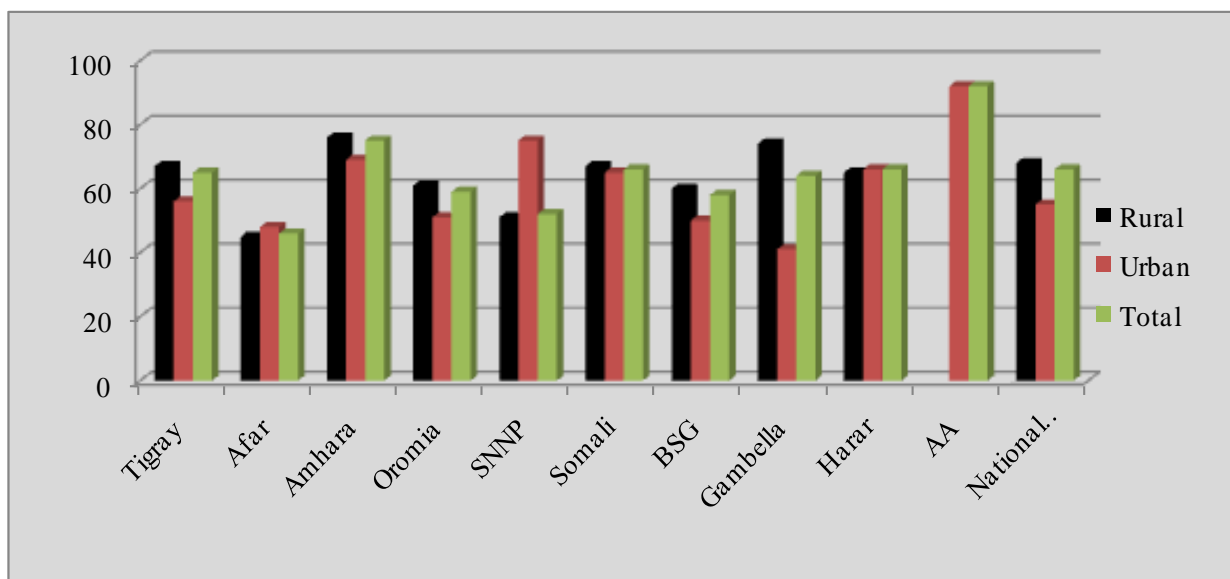
In terms of rural population, despite some improvement in access to potable water, Afar and SNNPR registered the lowest performance 45 and 51 percent respectively. On the other hand, Dire Dawa saw the highest performance of 78 percent followed by Amhara (76 percent), Gambella (74 percent), Tigray and Somali (67 percent), Harari (65 percent), and Oromia (61 percent) (Table 1.7).

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

Regions	2015/16			2016/17			Change in percentage point		
	Rural	Urban	Total	Rural	Urban	Total			
	A	B	C	D	E	F	D-A	E-B	F-C
Tigray	55.0	54.0	54.2	67.0	56.0	65.0	12.0	2.0	10.8
Afar	34.0	39.0	36.0	45.0	48.0	46.0	11.0	9.0	10.0
Amhara	65.8	59.9	65.0	76.0	69.0	75.0	10.2	9.1	10.0
Oromia	54.6	45.5	53.3	61.0	51.0	59.0	6.4	5.5	5.7
SNNPR	47.1	73.7	49.4	51.0	75.0	52.0	3.9	1.3	2.6
Somali	45.6	51.2	46.4	67.0	65.0	66.0	21.4	13.8	19.6
B.Gumuz	54.4	45.8	52.6	60.0	50.0	58.0	5.6	4.2	5.4
Gambella	63.2	34.5	55.9	74.0	41.0	64.0	10.8	6.5	8.1
Harar	60.0	67.0	63.3	65.0	66.0	66.0	5.0	-1.0	2.7
D. Dawa	71.5	55.0	61.1	78.0	NA	NA	6.5		
AA		92.0	92.0		92.0	92.0	0.0	0.0	0.0
Total	63.1	52.5	61.0	68.0	55.0	66.0	4.9	2.5	5.0

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

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

In 2016/17, total road network reached 120,171 Km, showing a 6.3 percent annual expansion. The country's total road network was consisted of 52,748 Km (43.9 percent) Woreda road, 33,367 Km (27.8 percent) rural road, 28,699 Km (23.9 percent) federal road and 5,357 Km (4.4 percent) urban road. The Federal road included 15,886 Km (55.4 percent) asphalt which expanded by 8.6 percent and 12,813 Km (44.6 percent) gravel road which declined by 4.4 percent mainly due to the upgrading of gravel roads to asphalt level.

Asphalt road network accounted for about 13.2 percent of the road network which was slightly lower than 14 percent GTPII target set for the fiscal year. This network included 85 Km Addis-Adama

Express Way, the first of its kind in the country, which was completed in 2013/14. During the review period, rural road network, administered by regional authorities, showed a 5.5 percent annual growth and reached 33,367 Km while Woreda road stood at 52,748 Km (Table 1.8).

Table 1.8: Classification of Road Network

(Length in km)

Year	Federal Road				Rural road				Urban Road			Total**	
	Asphalt		Gravel		Length	Growth rate	Woreda road *		Paved	Coble	Unpaved	Length	Growth rate
	Length	Growth rate	Length	Growth rate			Length	Growth rate					
	Length	Growth rate	Length	Growth rate	Length	Growth rate	Length	Growth rate	Paved	Coble	Unpaved	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	113,066	2.4
2016/17	15,886	8.6	12,813	-4.4	33,367	5.5	52,748	9.8	1,693	NA	3,664	120,171	6.3

Source: Ethiopian Roads Authority

* Includes community 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 2010/11 as it is non-engineered road; but it includes woreda road.

1.5.2 Road Density

At the end of 2016/17, road density per 1,000 square Km increased to 109.2 km from 102.8 km a year ago depicting a 6.2 percent improvement over the previous year.

Meanwhile, road density per 1,000 population was 1.3 km up by 5.7 percent during the same period (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
2016/17	1.3	109.2
Growth Rate	5.7	6.2

Source: Ethiopian Roads Authority

1.5.3 Road Accessibility

In 2016/17, annual average distance from all-weather roads declined by 6.1 percent from 4.9 km in 2015/16 to 4.6 km. Similarly, the proportion of area more than 5 km from all-weather roads dropped to 33.5 percent from 35.8

percent last year. By 2019/20, it is envisaged to narrow the proportion of area more than 5 Km from all-weather road to 13.5 percent (Table 1.10).

Exclusively 73 percent of the asphalt road and 66 percent of the gravel road

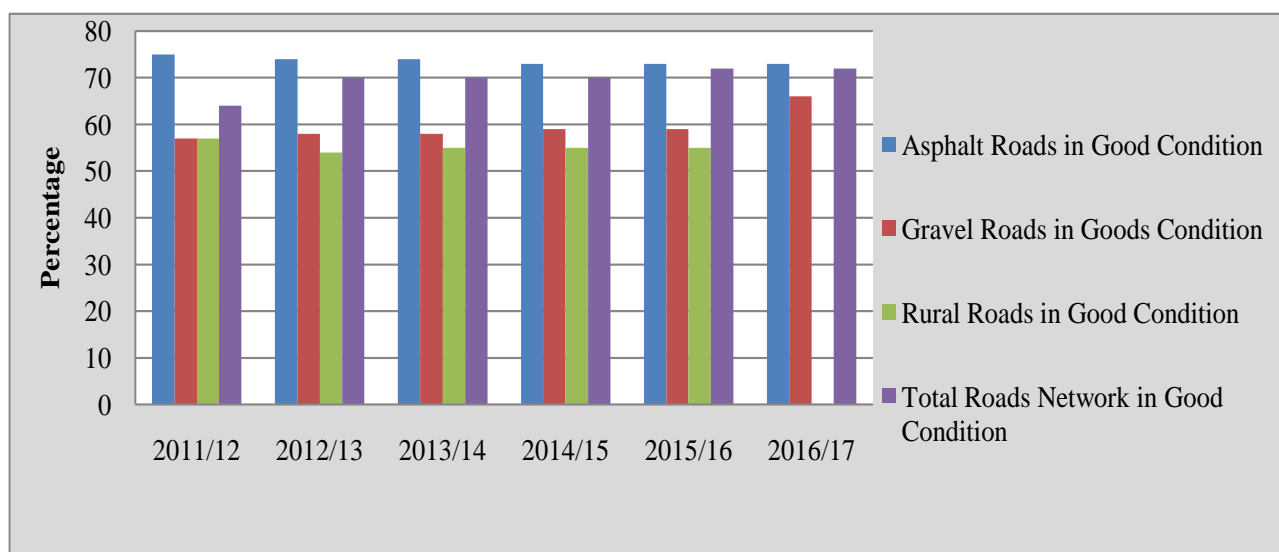
were in good condition during 2016/17 (Figure I.6).

Table 1.10: Road Accessibility

Indicators	2015/16	2016/17	Percentage change
Proportion of area more than 5Km from all-weather roads	35.8	33.5	-6.4
Average distance from all-weather roads	4.9	4.6	-6.1

Source: Ethiopian Roads Authority

Fig.I.6: Status of Road



Source: Ethiopian Roads Authority

1.5.4 Road Sector Financing

Construction and maintenance of roads remained one of the key investments for the Ethiopian government over the past decade.

In 2016/17, total investment in road construction and expansion (excluding urban road) declined by 28.6 percent to Birr 33.9 billion from Birr 47.5 billion a year earlier (Table 1.11 and fig.I.7). The road sector financing including urban road was Birr 95 billion during 2015/16.

Investment in the Federal road construction and expansion accounted for 84 percent of the total road investment capital and reached at Birr 28.8 billion, while regional roads constituted 8.1 percent followed by Woreda road (7 percent). There was no investment in urban road construction and expansion during the period (Table 1.11) and (Fig.1.7).

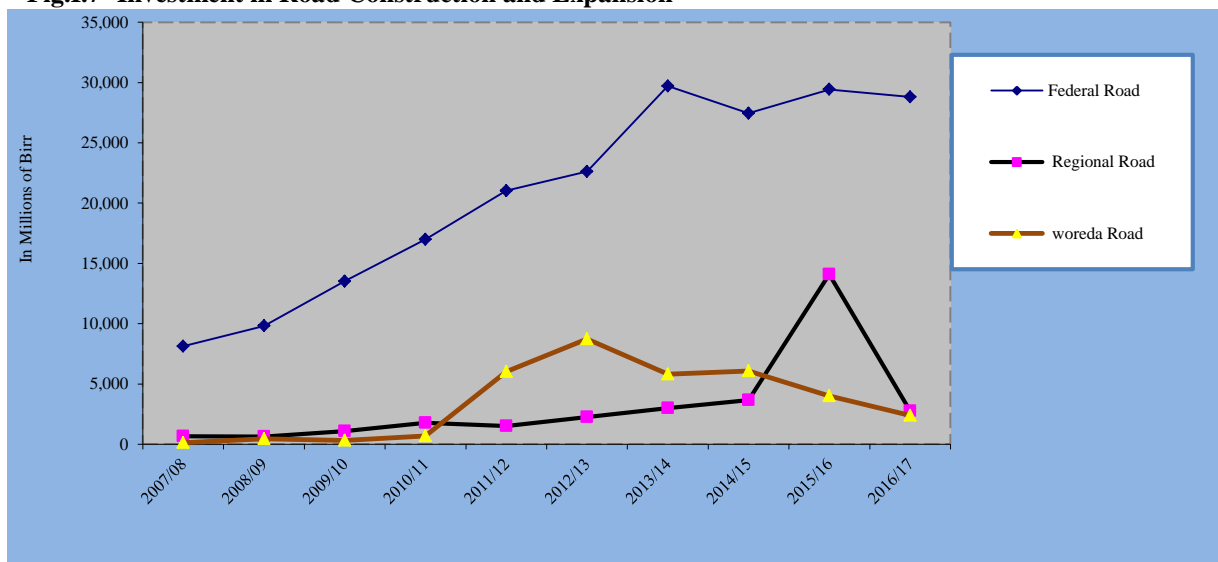
Table 1.11: Investments in the Road Sector

(In millions of Birr)

Road Type	2015/16		2016/17		Percentage change
	A	Share (In %)	B	Share (In %)	
Federal roads	29,425.3	31.0	28,797.7	84.8	-2.1
Regional road	14,085.6	14.8	2,756.2	8.1	-80.4
Woreda road	4,009.4	4.2	2,392.2	7.0	-40.3
Urban road*	47,520.3	50.0	NA	NA	NA
Total	95,040.6	100.0	33,946.1	100.0	-64.3

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 been improving in terms of coverage during the last few years whose objectives are producing efficient, effective and innovative citizens which can contribute to the realization of the country's vision to become a middle income country by 2025.

During 2015/16 fiscal year, primary education (1-8 grades) enrolment rose from 18.7 million in 2014/15 to 20 million in 2015/16; showing a 7 percent annual growth. During the review period, the number of primary schools reached 34,867 from 33,373 in the preceding year as 1,494 new schools were opened. Of the total number of primary schools, 29,856 (85.7 percent) were located in rural areas and 4,985 (14.3 percent) in urban centers.

Similarly, secondary education enrolment was 2.4 million, about 14 percent higher than a year earlier. The number of secondary schools (9-12 grades) also increased by 11.5 percent and reached 3,156 with the opening of 326 new secondary schools.

Similarly, technical and vocational education and training (TVET) enrolment was 304,139; which showed 14.4 percent annual growth. There were 582 TVET

institutions in the country under both government and non-government ownership, though there is under-reporting of data from most of the regions.

The share of education in annual government expenditure was 24.3 percent in 2015/16.

Table 1.8: Education Sector Data

Indicators	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	2002	2003	2004	2005	2006	2007	2008
Number of primary schools (urban, rural) & including others	26,951	28,349	29,482	30,534	32,048	33,373	34,867
i Urban	3,206	3,988	4,241	4,536	4,451	4,769	4,985
ii. Rural	23,745	24,313	25,227	25,998	27,597	28,604	29,856
Number of secondary schools(urban, rural) & including others	1,351	1,392	1,710	1,912	2,329	2,830	3,156
i. Urban	1,053	1,053	1,342	1,451	1,636	1,891	1,973
ii. Rural	298	339	368	461	693	939	1,178
No of TVET centers (public, private, mission)	448	505	505	437	437	919	919
Number of tertiary level institutions (public, private)	70	74	91	99	124	171	172
Universities	22	26	32	32	33	33	37
Participation of women in higher education institutions (%)	27	27	21.1	29.5	32	35	34.1
Primary enrolment (in millions)	15.8	16.7	17	17.5	18.3	18.7	20.0
Secondary enrolment (in thousands)	1,696	1,760	1,766	1,900	1,998	2,108	2,421
TVET enrolment	353,420	371,347	330,409	237,877	238,049	265,745	304,139
Girls' primary enrolment (%)	47.4	47.3	47.8	48	48	47.2	47.1
Grades (1-4) gross enrolment ratio (%)	118.8	124	122.6	124.5	136.9	140.3	144.7
a. Girls' gross enrolment ratio (%)	114.3	119.1	118.1	119.4	130.5	132.7	136.6
b. Boys' gross enrolment ratio (%)	123.2	128.8	127.0	129.4	143	147.6	152.5
Grades (5-8) gross enrolment ratio (%)	65.5	66.1	65.6	62.8	64.1	66.3	71.1
a. Girls' gross enrolment ratio (%)	63.5	64.8	65.3	62.2	63.4	64.8	68.9
b. Boys' gross enrolment ratio (%)	67.4	67.4	65.9	63.4	64.7	67.8	73.3
Girls' gross primary enrolment ratio (%)	101.6	93.2	92.9	93	97.8	99.5	103.5
Boys' gross primary enrolment ratio (%)	108.4	99.5	99.5	97.9	104.8	108.5	113.7
Gross Primary Enrolment ratio (%)	93.4	96.4	95.4	95.5	101.3	104	108.7
Tigray	103.3	102.1	100.1	98.8	105.3	118.8	114.1
Afar	39.3	40.1	43.7	50.5	53.2	70.3	66.2
Amhara	104.9	104.2	1003	100.7	106.7	110.3	111.6
Oromia	88.4	94.8	92	91.2	89.3	94.8	104.3
Somali	65.6	61.3	75.1	96.9	84.8	91.7	95.9
Ben.Gumuz	114.6	119.7	115.9	111.9	95.4	107.0	109.6
SNNPR	97.3	102.6	100.7	98.4	100.3	108.4	115.5

National Bank of Ethiopia

Indicators	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	2002	2003	2004	2005	2006	2007	2008
Gambella	125.1	132	138.5	126.6	136.4	151.4	154.4
Harari	95.3	91.5	89.3	87.1	98.1	101.8	107.9
A.A	107.3	103.1	102.4	99.2	163.6	150.6	146.3
Dire Dawa	91.3	89.1	87.3	84.9	91.4	67.5	70.2
Primary net enrolment rate (%)	82.1	85.3	85.4	85.9	89	94.3	100.3
No. of students registered in the first cycle primary schools(1-4) (in millions)	10.5	11.3	11.4	12.0	12.7	12.8	13.6
No. of students registered in the second cycle primary schools(5-8) (in millions)	5.3	5.5	5.7	5.5	5.6	5.9	6.4
Number of students registered in the first cycle secondary schools(9-10) (in millions)	1.5	1.5	1.4	1.5	1.6	1.7	1.9
Gross enrolment rate in (9-10 grades) %	39.1	38.4	36.9	38.4	39.3	39.8	44.8
Preparatory admission(in millions)	0.24	0.29	0.32	0.36	0.39	0.42	0.5
Completion rate of primary School (%)	47.8	49.4	52.1	52.8	46.7	51.3	54.3
Girls/boys ratio in primary schools (%)	91	90.4	92	94	91	89.8	89
Girls/boys ratio in secondary schools (%)	75	79	84	88	89	89.9	89.7
Girls/boys ratio in (9-10) (%)	78	81	86	90	90	92.9	91.1
Girls/boys ratio in (11-12) (%)	56	83	75	80	82	87.6	84.8
Girls/boys ratio in TVET (%)	80	86	91	105	105	109.7	108.1
Girls/boys ratio in higher education (%)	36	36	39	42	46	49.9	51.8
Grade 1-8(primary) repetition rates (%)	4.9	8.5	8.5	7.9	8.4	7.3	6.7
Primary school dropout rate (%)	13.1	16.3	16.3	15.7	7.9	9.9	10.1
1 st grade dropout rate (%)	28.1	19.9	25	22.5	23.9	19	16.8
Pupil to teacher ratio							
i. Grade (1-8)	51	51	50	49.4	47	46	46
ii. Grade (9-12)	36	31	29	28.7	27.8	26.4	26.5
iii. TEVT	NA	29	24.7	18.6	18.6	16.5	12.6
iv. In higher education	26.8	26.7	25	24.4	25.9	26.4	20.1
Pupil to Section Ratio							
i. Grade (1-8)	57	57	55	53.7	54	54	55
ii. Grade (9-12)	64	58	56.1	59.3	56.9	57	54
Number of class rooms in primary schools	254,744	279,292	308,905	324,587	321,468	3,41086	365,530
Pupil to Textbook Ratio							
i. Grade(1-8)	1.5	1.5	1.35	1	1	4.20	3.8

National Bank of Ethiopia

Indicators	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	2002	2003	2004	2005	2006	2007	2008
ii. Grade(9-12)	1	1	1	1	1	13	11.8
Pupil to School Ratio							
i. Grade(1-8)	573	590	576	571	571	560	573
ii. Grade(9-12)	1270	1160	1033	994	857	744.9	767.2
iii. TEVT	788	735	654	544	545	383	331
Proportion of pupils starting grade 1 who reach grade 5(%)	39.6	55	47	50.2	55.5	55.75	56.5
Percentage of female enrolled in under graduate degree (%)	27	27	22	30	30.3	34.7	34.1
Percentage of female graduated in under-graduate degree (%)	23.4	27.2	25.3	28.7	25.6	28.5	33.4
Percentage of female enrolled in post-graduate degree	11.9	13.8	20.2	20.6	19.5	23.8	23.1
Percentage of female graduated in post-graduate degree	13.9	14.4	14.0	14.9	15	16.7	18.9
Annual education share of the national expenditure{ % }	25.9	17.5	25.3	25.2	25	24.9	24.3

1.7 Telecommunication

Since telecommunication is one of the prime support services needed for rapid growth and modernization of various sectors of the economy as well as for attracting investment, creating market opportunities, enhancing competitiveness and boosting regional economic integration, the Ethiopian government has made huge investments to improve service quality, coverage and institutional capacity in the telecom sector. As a result, Ethio Telecom has set ambitious targets to enhance customer acquisition, customer satisfaction and provision of quality services to customers.

In 2016/17, the number of mobile subscribers surged by 26.4 percent and reached 58.1 million from 46 million a year ago. 99.5 percent of mobile subscribers were pre-paid subscribers and 0.5 percent postpaid mobile subscribers. Similarly, the number of fixed line subscribers rose to 1.2 million from 1.1 million showing a 4.8 percent annual growth. Yet, the number of mobile and fixed line users was 11.3 and 80.4 percent lower than GTPII target set respectively for fiscal year 2016/17.

Meanwhile, the number of internet subscribers increased by 21.4 percent and reached 16.5 million from 13.6 million recorded in 2015/16 (Table 1.13).

Table 1.13: Number of Subscribers

Service Type	2015/16	2016/17	Percentage Change
I. Fixed line	1,115,561	1,169,625	4.8
II. ALL MOBIL	45,962,553	58,080,626	26.4
Total mobile pre-paid		57,784,164	26.3
Total Mobile post-paid	193,448	296,462	53.3
III. Total data and Internet	13,593,866	16,505,225	21.4
Broadband (EVDO, WCDMA, ADSL)	4,871,541	6,902,902	41.7
Narrowband (1X, dialup, ADSL* < 256K)	248,038	276,294	11.4
GPRS	8,474,287	9,326,029	10.1
WCDMA	4,692,185	6,902,902	47.1
Grand Total	47,505,508	59,899,089	26.1

Source: Ethio-Telecom

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

Similarly, the country's telecommunication penetration rate (telecom density) increased from 51 percent in 2015/16 to 63 percent; mobile density rose to 61.6 percent from 49.8 percent; and internet and data density improved to 17.5 percent from 14.7 percent. On the other hand,

fixed line density remained constant at 1.2 per 100 subscribers (Table 1.14). As compared with GTPII target for the year 2016/17, mobile service penetration and fixed line density declined by 5.6 and 28.2 percentage point, while internet data density surpassed the GTPII target.

Table 1.14: Telecom Density

Tele density/100 Subscribers*	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Fixed line	1	0.9	1	1	1.2	1.2
Mobile	20.4	27.6	33.3	43	49.8	61.6
Total	21.4	28.5	34.3	44	51	63
Internet and data	0.3	5.2	7.3	10	14.7	17.5

Source: Ethio-Telecom

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

The number of international outgoing calls increased by 7 percent while, international outgoing minutes decreased from 57.7 million in 2015/16 to 54.2 million in 2016/17.

by 26.8 percent and reached 35.1 billion during the review period (Table 1.15).

At the same time, the number of incoming calls improved 17.6 percent and international incoming minutes increased by 22.3 percent to 473.6 million. The annual traffic for local calls improved

Table 1.15: Annual Traffic for Local and International Calls

Annual Traffic	2014/15	2015/16	Percentage Change
Mobile local traffic (In millions)	27,710.0	35,142	26.8
International Traffic			
International outgoing calls (In number)	36,563,778	39,137,793	7.0
International outgoing minutes	57,724,646	54,163,949	-6.2
International incoming calls (In number)	109,751,868	129,033,583	17.6
International incoming minutes	387,327,476	473,617,783	22.3

Source: Ethio-Telecom

Ethio-telecom's income rose by 17.5 percent to Birr 33.3 billion while, its total expenses dropped to Birr 8.6 billion showing a 33.7 percent annual reduction.

Hence, its gross profit stood at Birr 24.8 billion, about 60.1 percent higher than the previous year (Table 1.16).

Table 1.16: Financial Performance and Asset of Ethio -Telecom

(In Millions of Birr)

Finance and Asset	2014/15	2015/16	2016/17	Percentage Change	
	A	B	C	C/A	C/B
Income	21,500	28,371.67	33,343.16	55.1	17.5
Expense	6,945	12,888.36	8,551.15	23.1	-33.7
Gross Profit	14,555	15,483.31	24,792.01	70.3	60.1
Assets	52,750	37,904.65	NA		
Fixed Gross	24,129	30,949	32,399	34.3	4.7
Depreciation	2,118	8,162	2,422.17	14.4	-70.3

Source: Ethio- Telecom

II. ENERGY PRODUCTION

2.1. Electric Power Generation

Ethiopia is estimated to have 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.

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

Adama II wind farm has a generating capacity of 153 MW and combined with Adama I (51MW) and Ashegoda (120 MW), the total energy production from wind has reached 324 MW. In addition, the construction of Aysha 300 MW wind power project was under way. Ethiopia is also identified as having a huge solar

energy potential due to its geographical location near the equator. In its bid to become a major power exporter in East Africa and green economy, the country is also building several geothermal power plants.

The amount of electric power generated in 2016/17 was about 12.5 billion KWH, showing a 19.8 percent annual expansion. About 93.7 percent of the electric power was generated through hydropower, 6.3 percent from wind and 0.02 percent from thermal sources. The production of hydro power energy got momentum as the total electric energy generated increased to 11.8 billion KWH from 9.7 billion KWH a year earlier showing 21.5 percent annual increase while energy production from wind sources showed a marginal decrease of 0.2 percent (Table 2.1).

Table 2.1: Electric Power Generation in ICS and SCS

(In '000 KWH)

Source		2014/15		2015/16		2016/17		Percentage Change	
		[A]	Share (In %)	[B]	Share (In %)	[C]	Share (In %)	[C/A]	[C/B]
ICS	Hydro Power	9,014,010.6	94.7	9,674,157.6	92.4	11,752,824.4	93.7	30.4	21.5
	Thermal Power	3,360.3	0.0	1,017.4	0.0	67.9	0.0		
	Geothermal	-	-	-	-	-	-		
	Wind	497,690.8	5.2	785,505.5	7.5	783,797.7	6.3	57.5	-0.2
Sub Total		9,515,061.7	100.0	10,460,680.5	100.0	12,536,690.0	100.0	31.8	19.8
SCS	Hydro Power	-	-	-	-	-	-		
	Thermal Power	4,285.5	0.0	4,259.1	0.0	2,837.8	0.0	-33.8	-33.4
Sub Total		4,285.5	0.0	4,259.1	0.0	2,837.8	0.0	-33.8	-33.4
Total	Hydro Power	9,014,010.6	94.7	9,674,157.6	92.4	11,752,824.4	93.7	30.4	21.5
	Thermal Power	7,645.8	0.1	5,276.5	0.1	2,905.6	0.0	-62.0	-44.9
	Geothermal	-	-	-	-	-	-		
	Wind	497,690.8	5.2	785,505.5	7.5	783,797.7	6.3	57.5	-0.2
Grand Total		9,519,347.1	100.0	10,464,939.6	100	12,539,527.8	100.0	31.7	19.8

Source: Ethiopian Electric Power

2.2. Volume and Value of Petroleum Imports

In 2016/17, about 3.4 million metric tons of petroleum products worth Birr 37.3 billion were imported by the Ethiopian Petroleum Enterprise. The total value of petroleum imports increased by 23.1 percent mainly due higher international oil prices and 13 percent rise in volume of petroleum imports. Imported volume of regular gasoline increased by 21.7 percent followed by gas

oil (15.6 percent) and jet fuel (8.8 percent) while fuel oil import volume dropped by 29.6 percent. On the other hand, the value of gas oil surged by 43.6 percent followed by jet fuel (28.4 percent). Yet, the values of regular gasoline and fuel oil dropped by 31.6 percent and 2.4 percent, respectively (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	2015/16		2016/17		Percentage Change	
	Volume	Value	Volume	Value	C/A	D/B
	A	B	C	D		
Regular Gasoline (MGR)	298,867.5	6,429,199.4	363,845.1	4,399,921.8	21.7	-31.6
Jet Fuel	735,921.7	7,143,231.6	800,783.3	9,172,380.3	8.8	28.4
Fuel Oil	106,978.4	673,610.9	75,283.59	657,563.3	-29.6	-2.4
Gas Oil (ADO)	1,901,791.5	16,088,341.8	2,199,354.6	23,098,209.4	15.6	43.6
Total	3,043,559.1	30,334,383.7	3,439,266.6	37,328,074.9	13.0	23.1

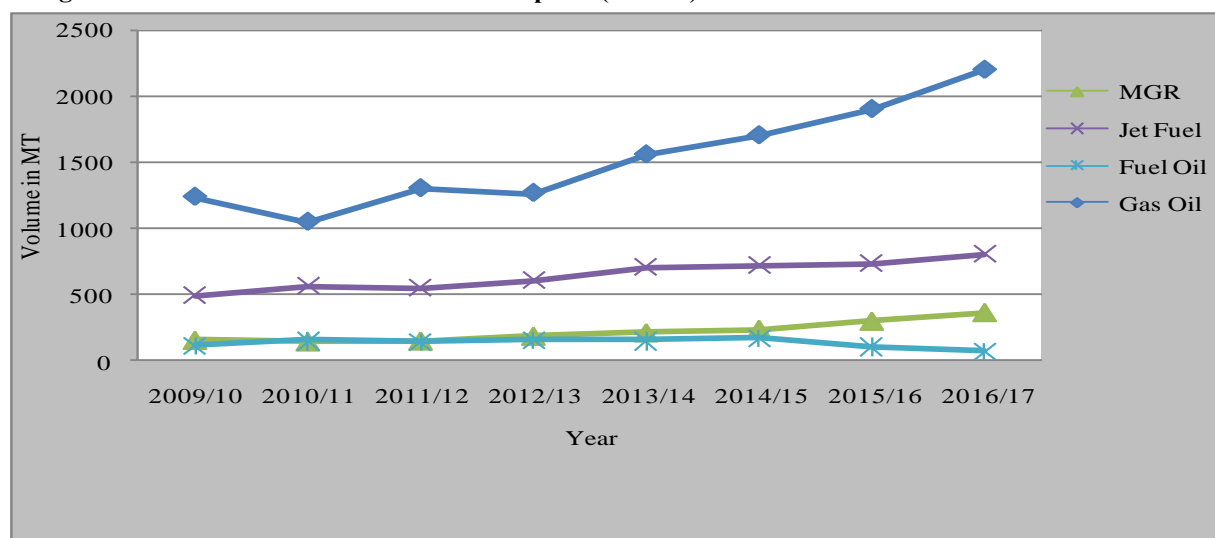
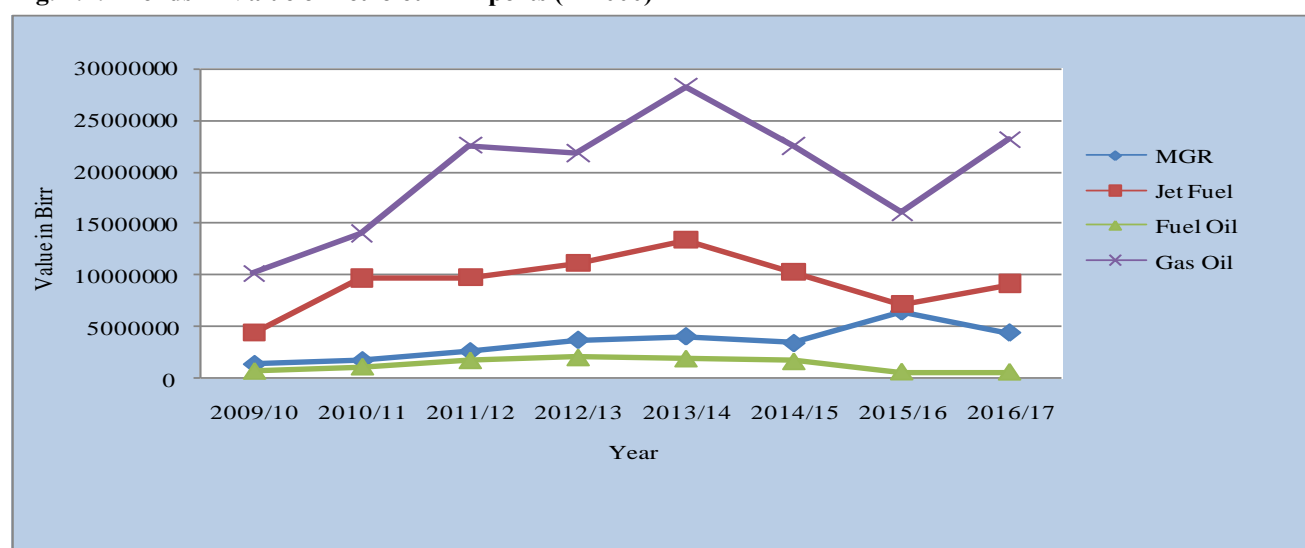
Source: Ethiopian Petroleum Enterprise**Fig.II.1: Trends in Volume of Petroleum Imports (In '000)****Source:** Ethiopian Petroleum Enterprise

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

Source: Ethiopian Petroleum Enterprise

In line with the increase in international oil prices, domestic retail prices were also adjusted up wards. Thus, retail prices of Kerosene increased by 5.2 percent followed

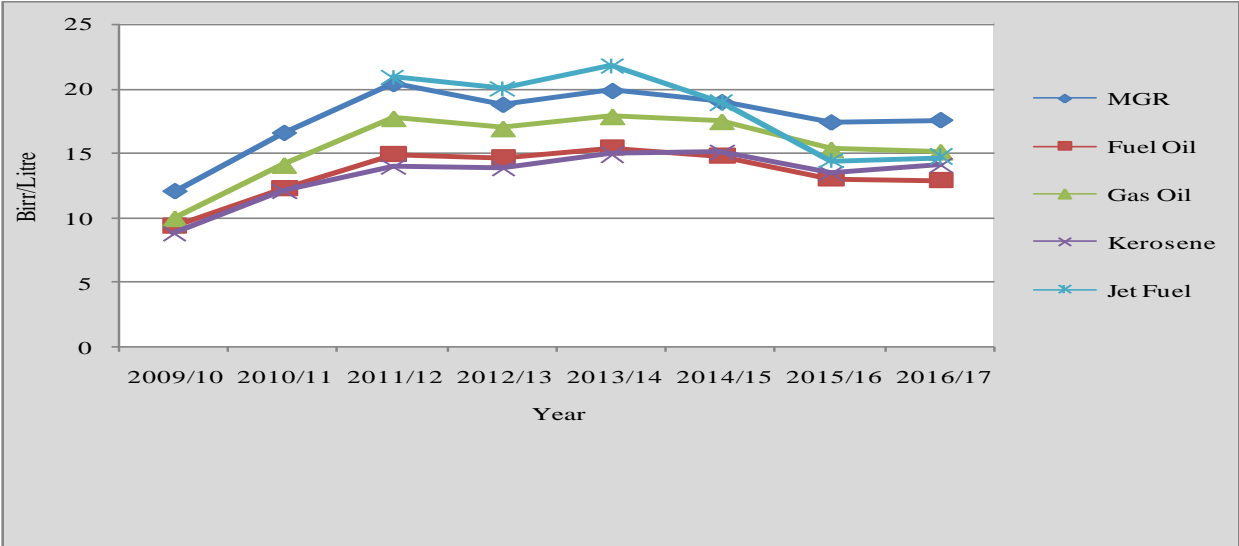
by jet fuel (2 percent) and Regular gasoline (1 percent). In contrast, retail prices of gas oil and fuel Oil dropped by 1.2 and 1 percent, respectively (Table 2.3).

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
2015/16	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
2016/17	Qtr.1	16.61	12.10	14.16	12.43	13.36
	Qtr.2	16.61	12.10	14.16	12.43	14.03
	Qtr.3	18.32	13.46	15.76	15.25	15.74
	Qtr.4	18.77	13.69	16.35	16.35	15.70
	Average	17.58	12.84	15.11	14.12	14.71
	Annual percentage change	1.0	-1.0	-1.2	5.2	2.0

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

In 2016/17, the annual average headline inflation slowed down to 7.2 percent from 9.7 percent a year ago. This was largely owing to 3.9 percent decline in food & non-alcoholic beverages inflation from 11.2 percent to 7.3 percent and 1.1 percent drop in non-food inflation from 8 to 7 percent (Table 3.1).

The slowdown in, annual average food & non-alcoholic beverages inflation was due to lower prices of vegetables and sugar, jam, honey & chocolate (Table 3.1 and Fig III.1).

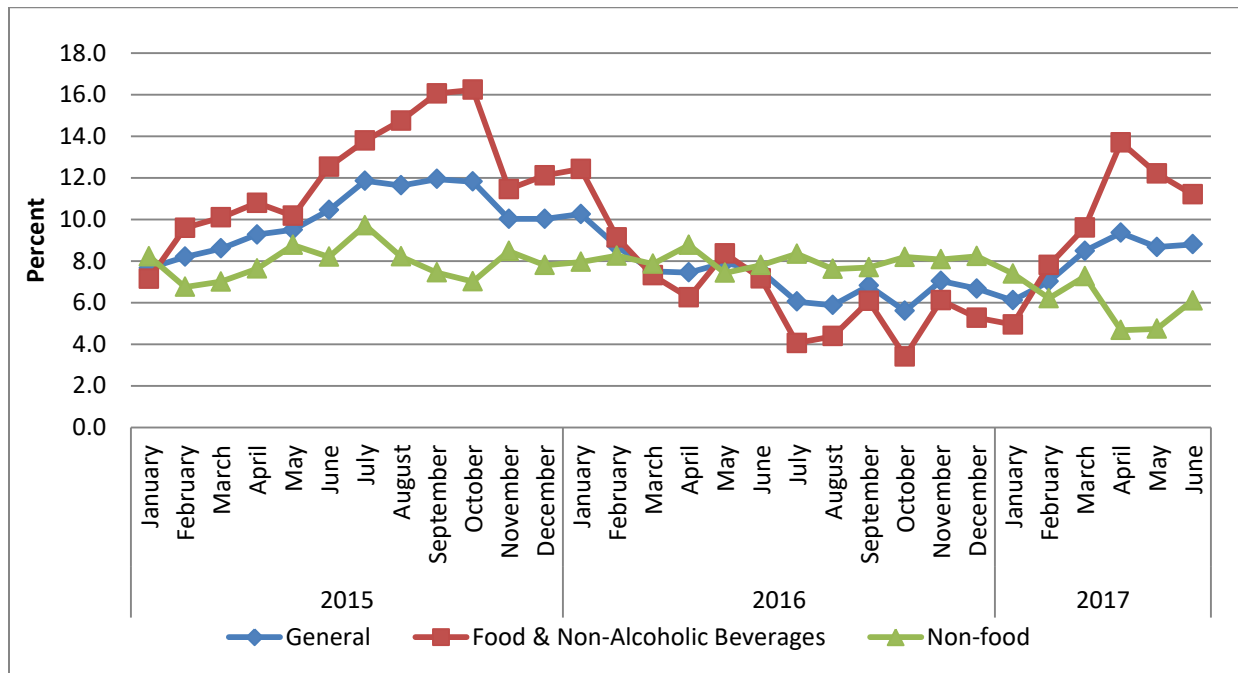
In the meantime, annual headline inflation scaled up to 8.8 percent from 7.5 percent wholly on account of 4.0 percentage

points rise in food & non-alcoholic beverages inflation against 1.8 percentage points decline in non-food inflation. Annual food & non-alcoholic beverages inflation rose to 11.2 percent from 7.2 percent last year while that of non-food inflation dropped to 6.1 percent from 7.9 percent (Table 3.2 and Fig. III. 2).

Table 3.1: Annual Average Inflation Rates (in percent)

Items	2015/16	2016/17	Change (in %age Points)	Contribution to Change in Headline Inflation (in %age points)
	A	B	B-A	C
General	9.7	7.2	-2.5	-2.5
Food & Non-alcoholic beverages	11.2	7.3	-3.9	-2.0
Non-Food	8.1	7.0	-1.1	-0.5

Source: CSA and NBE Staff Computation

Fig.III.1: Developments in National Inflation

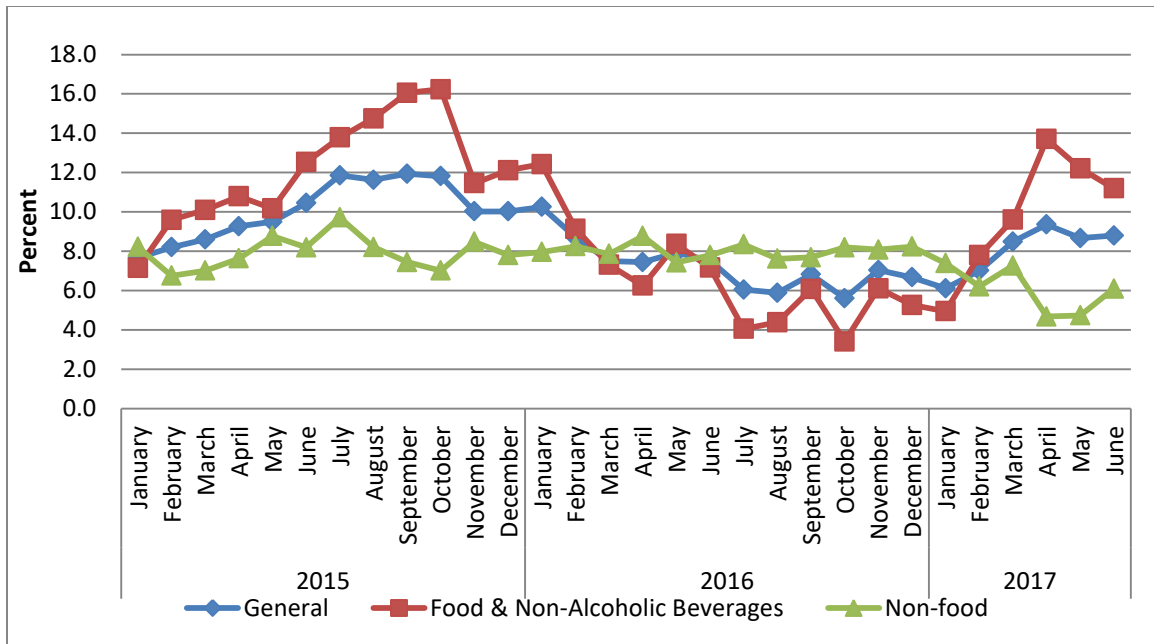
Source: CSA and NBE Staff Computation

Table 3.2: Annual Inflation Rates (in percent)

Items	2015/16	2016/17	Change (in %age Points)
	A	B	B-A
General	7.5	8.8	1.3
Food & Non-alcoholic beverages	7.2	11.2	4.0
Non-Food	7.9	6.1	-1.8

Source: CSA and NBE Staff Computation

Fig.III.2: Developments in Inflation of Food, Non-Food & Non-alcoholic beverages



Source: CSA and NBE Staff Computation

3.2. Consumer Price Developments in Regional States

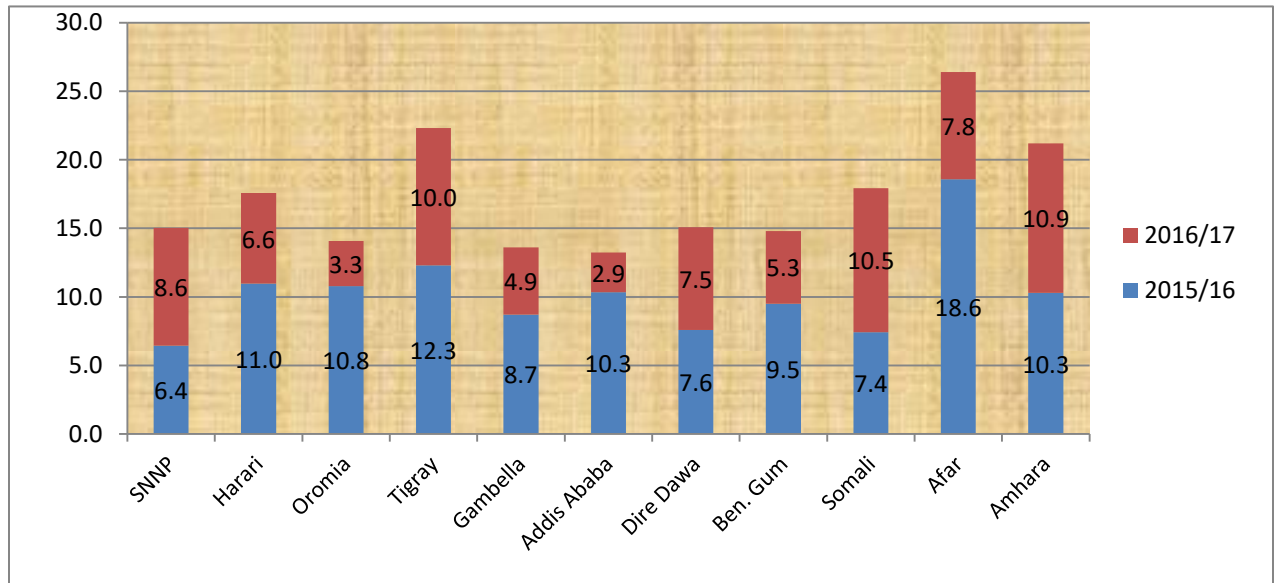
Regional average general inflation decelerated to 7.1 percent in 2016/17 from 10.3 percent a year earlier. Amhara, Somali, Tigray, SNNP, Afar and Dire Dawa saw higher inflation than the regional average (Table 3.3). The highest

headline inflation (10.9 percent) was recorded in Amhara and the lowest (2.9 percent) in Addis Ababa, depicting a 8.0 percentage point margin.

Table 3.3: Regional Average Annual Inflation (2016/17 FY)

Regions	2015/16			2016/17			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	6.4	9.4	4.2	8.6	13.3	4.9	2.2	3.9	0.7
Harari	11.0	7.5	14.8	6.6	9.0	4.0	-4.4	1.5	-10.8
Oromia	10.8	13.3	7.8	3.3	1.0	6.3	-7.5	-12.3	-1.5
Tigray	12.3	12.4	12.2	10.0	8.9	10.9	-2.3	-3.5	-1.3
Gambella	8.7	10.0	11.7	4.9	7.1	7.6	-3.8	-2.9	-4.1
Addis Ababa	10.3	16.6	5.8	2.9	1.3	4.2	-7.4	-15.3	-1.6
Dire Dawa	7.6	3.8	10.0	7.5	9.4	6.7	-0.1	5.6	-3.3
Ben. Gum	9.5	13.6	4.4	5.3	5.4	5.2	-4.2	-8.2	0.8
Somali	7.4	5.3	9.7	10.5	11.2	9.9	3.1	5.9	0.2
Afar	18.6	14.0	24.5	7.8	1.0	15.8	-10.8	-13.0	-8.7
Amhara	10.3	9.9	10.7	10.9	12.2	9.7	0.6	2.3	-1.0
Regions Average	10.3	10.5	10.5	7.1	7.3	7.7			
Standard deviation	3.3	3.9	5.7	2.8	4.5	3.6			
Coefficient of variation	0.3	0.4	0.5	0.4	0.6	0.5			

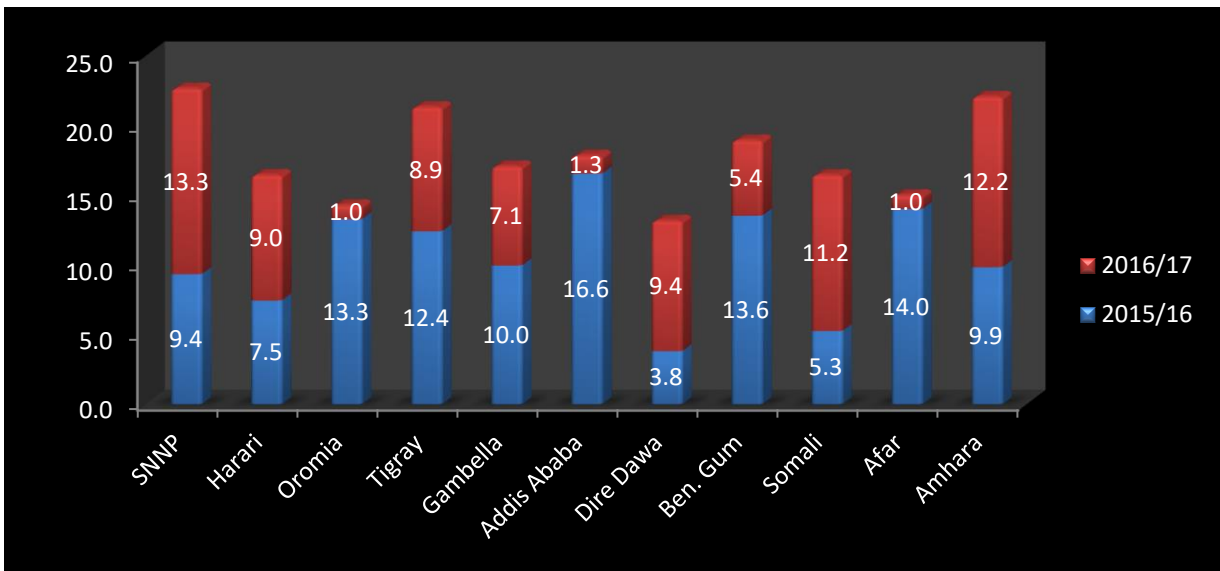
Sources: CSA and NBE's staff computation

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

The regional simple average food & non-alcoholic beverages inflation was 7.3 percent in 2016/17 where SNNP, Amhara, Somali, Dire Dawa, Harari, and Tigray regional states registered higher inflation than the regional average (Table 3.3).

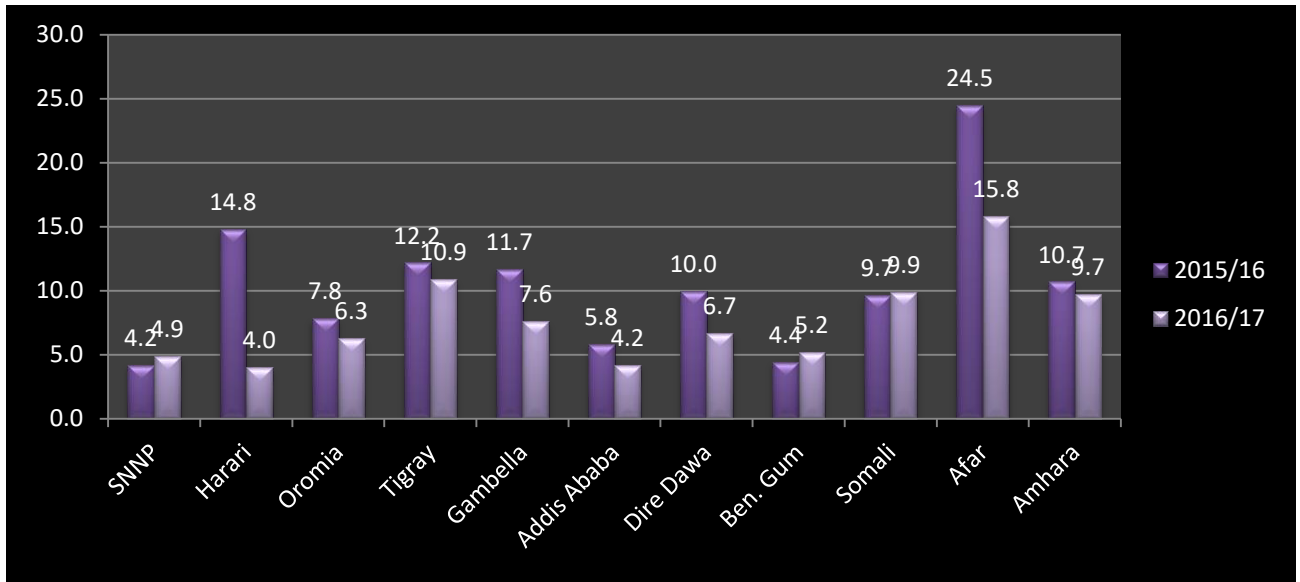
The highest inflation was seen in SNNP (13.3 percent) and the lowest in Oromia (1.0 percent) resulting in 12.3 percentage point margin.

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



Meanwhile, the regional average non-food inflation slowed down to 7.7 percent from 10.5 percent last year. Afar, Tigray, Somali and Amhara regional states experienced higher non-food inflation than the regional simple average (Table 3.3) with Afar registering the highest (15.8 percent), and Harari the lowest non-food inflation (4.0 percent), showing 11.8 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 2016/17, Ethiopia's monetary policy was focused on maintaining inflation in single digit. Accordingly, the National Bank of Ethiopia has managed to keep

single digit inflation using the available monetary policy instruments in conjunction with prudent fiscal policy operations.

4.1.1 Developments in Monetary Aggregates

Domestic liquidity, as measured by broad money supply (M2), reached Birr 573.4 billion reflecting a 28.8 percent annual expansion mainly due to the 76.7 percent surge in external assets (net) and 28.7 percent growth in domestic credit. The growth in domestic credit was attributed to a 79.7 percent increase in credit to the central government mainly due to an increase in CBE's paid-up capital to Birr 40.0 billion (Table 4.2). Credit to non-central government also rose by 23.3 percent during the review period. As for

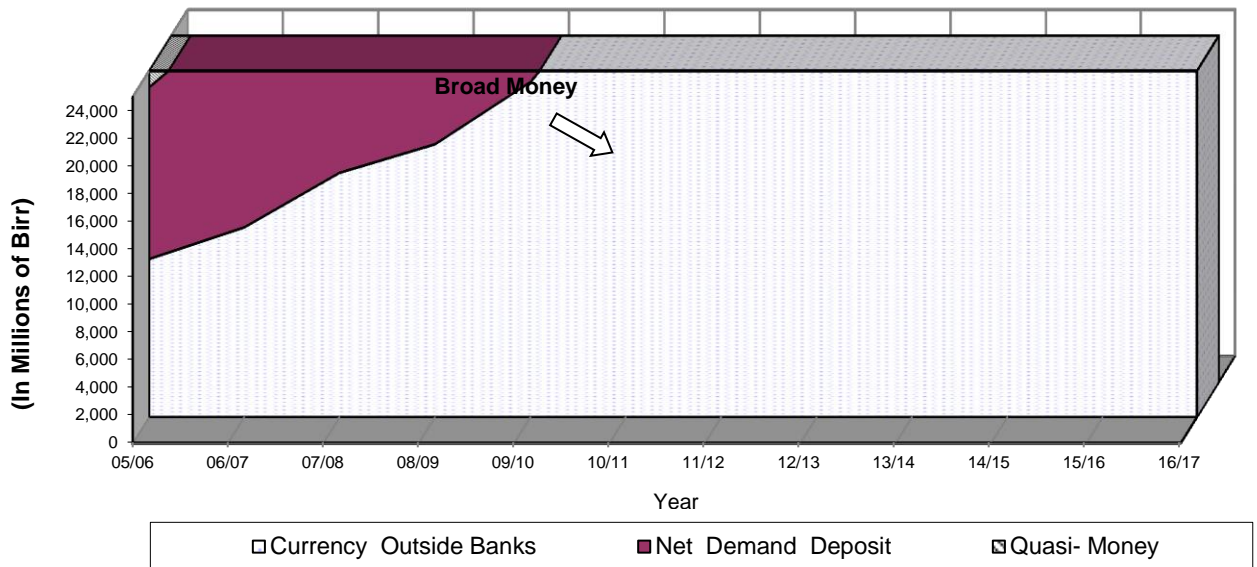
components of broad money, narrow money hiked by 21.4 percent as both demand deposits and currency outside banks, increased reflecting the boom in economic activities and improvements in money demand for transaction purposes. Similarly, quasi-money that comprises savings and time deposits rose by 33.7 percent and reached Birr 356.6 billion owing to the growing capacity of banks in deposit mobilization aided by the opening of 956 new branches and stability of domestic prices (Table 4.1).

Table 4.1: Components of Broad Money

Particulars	Year Ended June 30				Annual Percentage Change		
	2013/14	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17
	(In Millions of Birr)				2014/15	2015/16	2016/17
Narrow Money Supply	134,063.8	154,706.3	178,609.7	216,769.6	15.4	15.5	21.4
. Currency Outside Banks	53,176.0	60,460.9	66,686.2	73,917.7	13.7	10.3	10.8
. Demand Deposits (net)	80,887.8	94,245.4	111,923.5	142,851.9	16.5	18.8	27.6
Quasi-Money	163,682.8	216,622.6	266,656.6	356,614.4	32.3	23.1	33.7
. Savings Deposits	136,334.0	174,632.0	217,034.3	293,431.7	28.1	24.3	35.2
. Time Deposits	27,348.8	41,990.6	49,622.3	63,182.7	53.5	18.2	27.3
Broad Money Supply	297,746.6	371,328.9	445,266.3	573,384.1	24.7	19.9	28.8

Source: National Bank of Ethiopia (NBE)

Fig.V.1: Major Components of Broad Money (2005/06 - 2016/17)



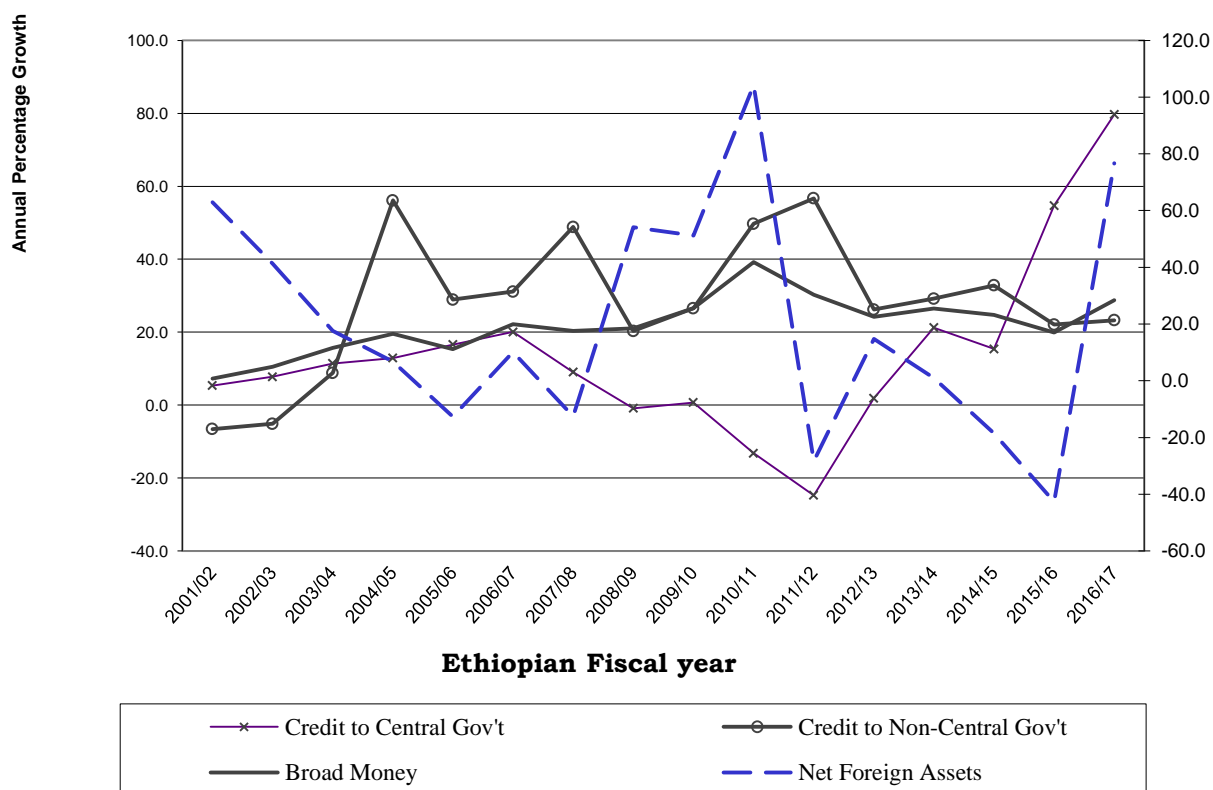
Source: NBE

Table 4.2: Factors Influencing Broad Money

Particulars	Year Ended June 30				Annual Percentage Change		
	2013/14	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17
	(In Millions of Birr)						
External Assets (net)	45,972.3	37,570.9	21,524.2	38034.8	-18.3	-42.7	76.7
Domestic Credit	300,026.6	393,421.7	490,230.3	631,092.7	31.1	24.6	28.7
. Claims on Central Gov't (net)	26,929.7	30,735.3	47,548.4	85,441.8	14.1	54.7	79.7
. Claims on Non-Central Gov't	273,096.8	362,686.5	442,682.0	545,650.9	32.8	22.1	23.3
Other Items (net)	48,252.3	59,663.8	66,488.3	100,721.6	23.6	11.4	51.5
Broad Money (M2)	297,746.6	371,328.9	445,266.3	573,384.1	24.7	19.9	28.8

Source: NBE

Fig.V.2: Major Determinants of Monetary Growth



Source: NBE

4.1.2. Developments in Reserve Money and Monetary Ratios

Reserve money or base money witnessed a 22.7 percent year-on-year growth and reached Birr 146.3 billion at the close of the fiscal year. The growth was ascribed to 42.2 percent rise in deposits of banks at NBE and 42.2 percent surge in currency in circulation. Determinant wise, the growth in reserve money was the result of 128.3 percent increase in NBE's net foreign assets and 28.7 percent expansion in net domestic credit. Meanwhile, excess reserves of commercial banks reached Birr 26.7 billion at the end of June 2017 compared to Birr 13.3 billion a year earlier.

mobilization by commercial banks (Table 4.3).

The ratio of broad money to GDP³, an indicator of financial deepening, went up by 6.6 percent to 0.31, partly indicating the prudent monetary policy measures undertaken to mitigate inflationary pressure. The Money multiplier, defined as the ratio of narrow money to reserve money remained constant at 1.5 whereas ratio of broad money to reserve money showed slight increments and reached 3.9, reflecting improvements in deposit

³ The 2016/17 GDP is estimated by assuming that 2015/16 GDP grew by an average GDP growth rates of 2013/14-2015/16.

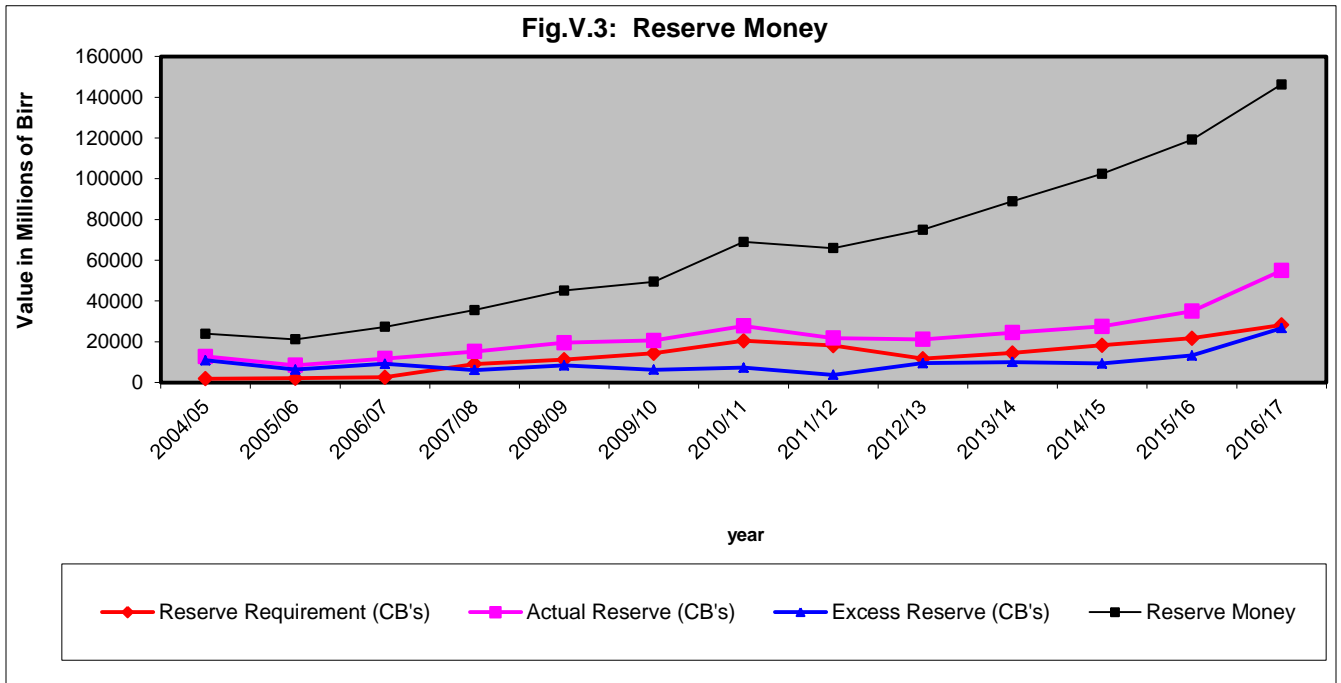
National Bank of Ethiopia

Table 4.3: Reserve Money and Monetary Ratios (In millions of Birr, where applicable)

Particulars	Year Ended June 30				Annual Percentage Change		
	2013/14	2014/15	2015/16	2016/17	2014/15	2015/16	2016/2017
Reserve Requirement (CB's)	14,479.4	18,250.4	21,745.4	28,280.8	26.0	19.2	30.1
Actual Reserve (CB's)	24,493.3	27,562.6	34,999.4	54,977.9	12.5	27.0	57.1
Excess Reserve (CB's)	10,013.9	9,312.2	13,253.9	26,697.1	-7.0	42.3	101.4
Reserve Money	89,322.5	102,467.8	119,164.7	146,257.9	14.7	16.3	22.7
. Currency in Circulation	64,355.0	75,240.7	82,592.7	94,245.5	16.9	9.8	14.1
. Bank Deposits	24,967.5	27,227.1	36,572.0	52,012.4	9.1	34.3	42.2
Money Multiplier (Ratio):							
. Narrow Money to Reserve Money	1.50	1.51	1.50	1.48	0.59	-0.73	-1.12
. Broad Money to Reserve Money	3.33	3.62	3.74	3.92	8.71	3.11	4.92
Other Monetary Ratios (%):							
. Currency to Narrow Money	39.66	39.08	37.34	34.10	-1.47	-4.46	-8.67
. Currency to Broad Money	17.86	16.28	14.98	12.89	-8.83	-8.02	-13.92
. Narrow Money to Broad Money	45.03	41.66	40.11	37.81	-7.47	-3.72	-5.75
. Quasi Money to Broad Money	54.97	58.34	59.89	62.19	6.12	2.66	3.85
M2/GDP Ratio*	0.28	0.29	0.29	0.31	1.93	1.86	6.59

Source: National Bank of Ethiopia (NBE)

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



Source: NBE

4.2. Developments in Interest Rate

In 2016/17, both minimum and maximum deposit interest rates remained constant at 5.0 percent and 5.75 percent, respectively. Consequently, average interest rate on savings deposit remained at the preceding year level of 5.38 percent. Similarly, simple average lending interest rate remained the same at 12.75 percent; weighted annual average interest rates on time and demand

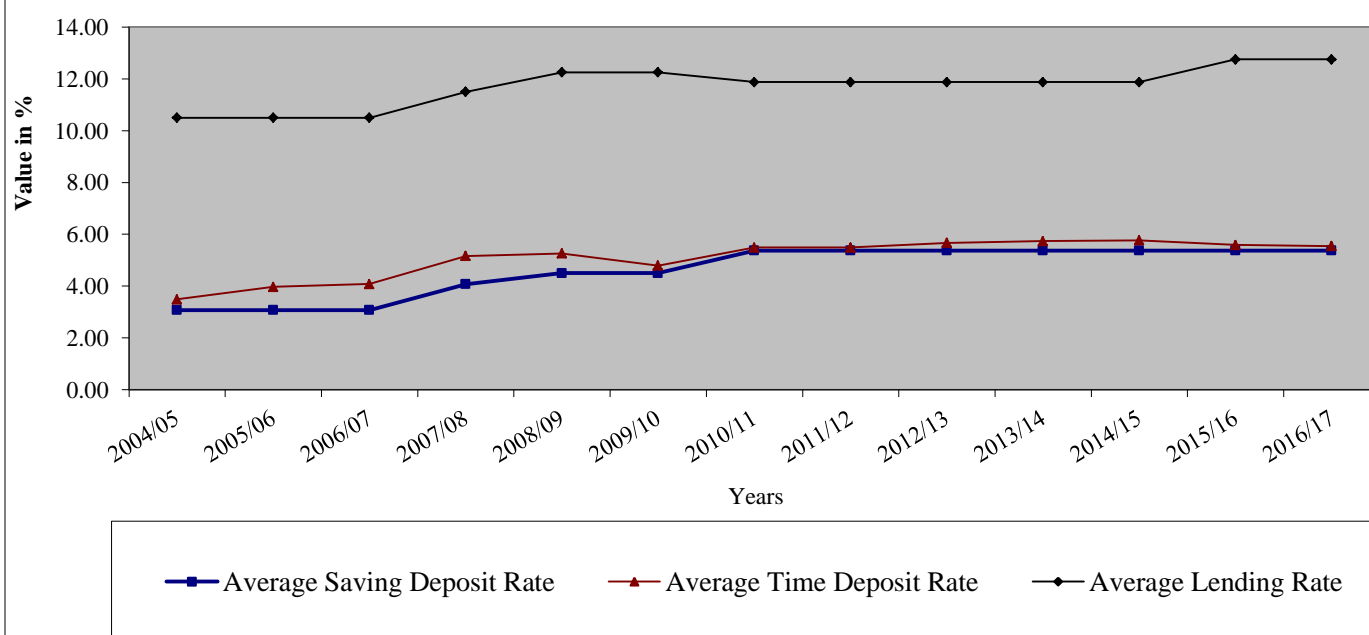
deposits showed a slight increase to 5.54 and 0.04 percent, respectively.

However, the real rate of interest, except the lending rate, was negative as head line inflation stood higher than the deposit interest rates. Consequently, the average real interest rate stood at negative 3.43 percent for saving deposit, negative 3.26 percent for time deposit and positive 3.95 percent for lending interest rate (Table 4.4).

Table 4.4: Interest Rate Structure of Commercial Banks						
[In percent per annum]						
Rates	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
1. Deposit Rate						
1.1 Savings Deposit (Simple Average)	5.38	5.38	5.38	5.38	5.38	5.38
Minimum	5.00	5.00	5.00	5.00	5.00	5.00
Maximum	5.75	5.75	5.75	5.75	5.75	5.75
1.2 Time deposit (Weighted Average)	5.55	5.66	5.66	5.77	5.59	5.54
Up to 1 year	5.48	5.57	5.55	5.71	5.53	5.43
1 -2 years	5.57	5.68	5.68	5.78	5.60	5.57
Over 2 years	5.61	5.74	5.74	5.81	5.64	5.63
1.3 Demand Deposit (Weighted Average)	0.02	0.03	0.03	0.04	0.04	0.04
2. Lending Rate (Average)	11.88	11.88	11.88	11.88	12.75	12.75
Minimum	7.50	7.50	7.50	7.50	7.50	7.50
Maximum	16.25	16.25	16.25	16.25	18.00	18.00
3. T-bills (Nominal)	1.25	1.86	1.59	1.43	1.44	1.42
4. Headline Inflation (Year-on-Year)	9.1	8.7	8.5	10.4	7.5	8.8
5. Real Rate of Interest on:						
5.1 Saving Deposit (1.1 - 4)	-3.75	-3.33	-3.09	-5.07	-2.15	-3.43
5.2 Time Deposit (1.2 - 4)	-3.57	-3.04	-2.81	-4.68	-1.94	-3.26
5.3 Lending (2 - 4)	2.75	3.17	3.41	1.43	5.22	3.95

Source : NBE

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



Source: NBE

4.3 Developments in Financial Sector

Banks, insurance companies and micro-finance institutions were the major financial institutions operating in Ethiopia. Of the 18 banks, 16 were private and 2 state-owned. Accordingly, the number of banks stood at 18, insurance companies 17 and micro finance institutions 35 by end June 2017.

Banks opened 956 new branches in 2016/17 there by raising the total number of branches to 4,257 from 3,301 a year earlier. As a result, bank branch to population ratio declined from 1:27,932⁴ people in 2015/16 to 1:22,164⁵ people in 2016/17. About 33 percent of bank branches were located in Addis Ababa.

Major branch expansion was undertaken by Commercial Bank of Ethiopia (160 branches), followed by Cooperative Bank of Oromia (103 branches), Awash International Bank (94 branches), Berhan International Bank (89 branches), Dashen Bank (83 branches) and Abyssinia Bank (77 branches). The share of private banks in total branch network rose to 66.6 percent from 61.8 percent last year, in line with the branch expansion target set for private banks in GTP II (Table 4.5).

Following a significant capital injection by Commercial Bank of Ethiopia, the total capital

of the banking industry increased by 81.1 percent and reached Birr 78.0 billion by the end of June 2017 (Table 4.5).

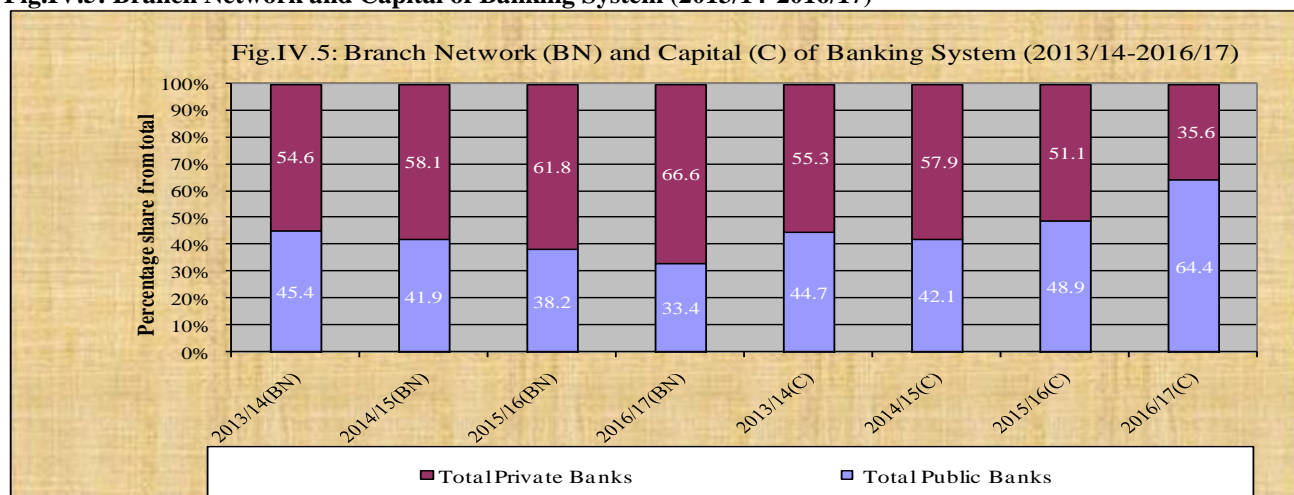
Although the number of insurance companies remained at 17, their branches increased to 492 following the opening of 66 new branches. About 53.5 percent of insurance branches were situated in Addis Ababa and 84.8 percent of the total branches were private. Insurance companies increased their total capital by 20.7 percent to Birr 4.3 billion of which the share of Private insurance companies was 75.6 percent and that of public insurance company was 24.4 percent (Table 4.6).

⁴ Taking total population 92,205,000 (CSA 2015/16).

⁵ Taking total population 94,352,000 (CSA 2016/17).

National Bank of Ethiopia

Fig.IV.5: Branch Network and Capital of Banking System (2013/14-2016/17)



Source: Commercial Banks including DBE & Staff Computation

Table.4.5: Branch Network and Capital of the Banking System at the Close of June 30, 2017

(Branch in Number and Capital in Millions of Birr)

Banks	Branch Network								Capital			
	2015/16				2016/17				2015/16		2016/17	
	Regions	Addis Ababa	Total	% Share	Regions	Addis Ababa	Total	% Share	Total Capital	% Share	Total Capital	% Share
1. Public Banks												
Commercial Bank of Ethiopia	888	262	1150	34.8	1028	282	1310	30.8	13,557.5	31.5	42,579.6	54.6
Development Bank of Ethiopia	106	4	110	3.3	106	4	110	2.6	7,500.8	17.4	7,595.1	9.7
Total Public Banks	994	266	1260	38.2	1134	286	1420	33.4	21058.3	48.9	50,174.7	64.4
2. Private Banks												
Awash International Bank	118	127	245	7.4	186	153	339	8.0	3,191.2	7.4	3,807.6	4.9
Dashen Bank	118	114	232	7.0	184	131	315	7.4	2,809.3	6.5	3,420.9	4.4
Abyssinia Bank	84	92	176	5.3	140	113	253	5.9	1,838.2	4.3	2,371.0	3.0
Wegagen Bank	95	66	161	4.9	139	84	223	5.2	2,431.1	5.6	2,824.5	3.6
United Bank	70	74	144	4.4	111	93	204	4.8	1,814.7	4.2	2,221.0	2.8
Nib International Bank	69	86	155	4.7	92	111	203	4.8	2,253.9	5.2	2,570.2	3.3
Cooperative Bank of Oromiya	139	45	184	5.6	232	55	287	6.7	1,182.7	2.7	1,281.7	1.6
Lion International Bank	75	46	121	3.7	110	48	158	3.7	787.2	1.8	1,163.5	1.5
Oromia International Bank	148	62	210	6.4	164	73	237	5.6	1,069.9	2.5	1,378.3	1.8
Zemen Bank	8	5	13	0.4	15	7	22	0.5	800.0	1.9	1,050.7	1.3
Buna International Bank	56	49	105	3.2	74	69	143	3.4	774.7	1.8	1,152.3	1.5
Berhan International Bank	43	45	88	2.7	114	63	177	4.2	805.9	1.9	1,536.3	2.0
Abay Bank	89	27	116	3.5	112	40	152	3.6	814.5	1.9	1,139.3	1.5
Addis International Bank	17	26	43	1.3	21	32	53	1.2	569.8	1.3	688.4	0.9
Debub Global Bank	17	11	28	0.8	19	19	38	0.9	270.9	0.6	373.1	0.5
Enat Bank	7	13	20	0.6	10	23	33	0.8	588.6	1.4	809.3	1.0
Total Private Banks	1,153	888	2,041	61.8	1,723	1,114	2,837	66.6	22,002.5	51.1	27,788.1	35.6
3. Grand Total Banks	2147	1154	3301	100	2,857	1400	4257	100.0	43,060.8	100.0	77,962.7	100.0

Source: Commercial Banks

National Bank of Ethiopia

Table.4.6: Branch Network & Capital of Insurance Companies as at June 30, 2017

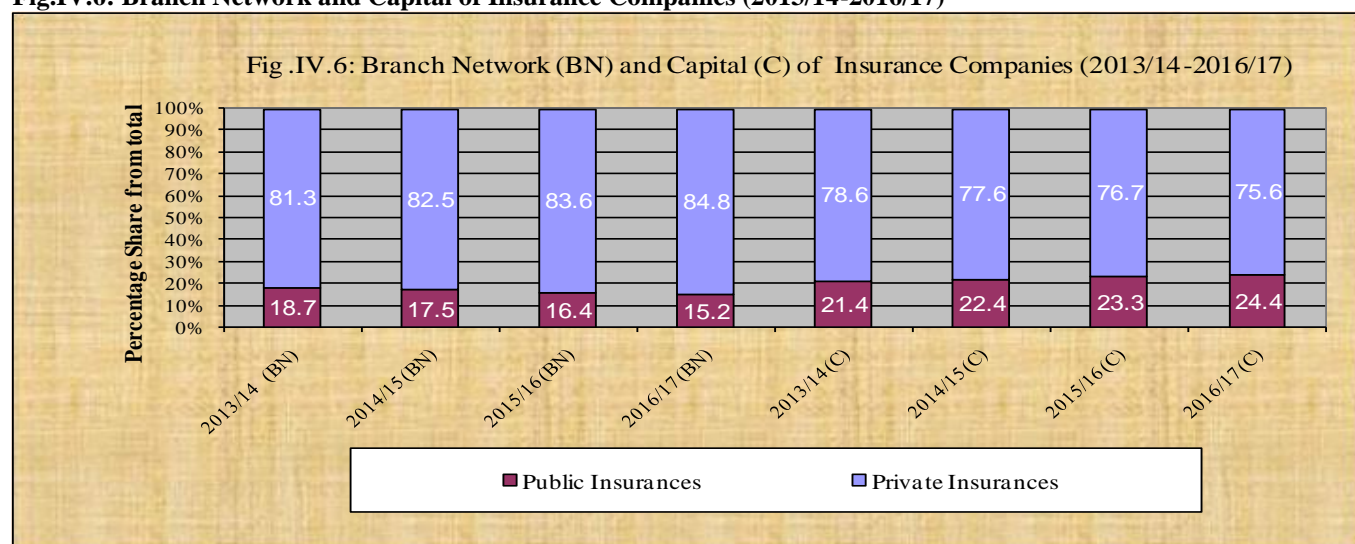
(Branch in Number and Capital in Millions of Birr)

No.	Insurance Companies	Branch						Capital		
		2015/16			2016/17			2015/16	2016/17	% Change
		A.A	Regions	Total	A.A	Regions	Total	A	B	B/A
1	Ethiopian Ins. Cor.	18	52	70	20	55	75	836.5	1,056.0	26.2
2	Awash Ins.Com.S.C.	24	14	38	26	15	41	292.3	400.0	36.9
3	Africa Ins.Com S.C.	11	11	22	14	13	27	240.9	271.0	12.5
4	National Ins. Co. of Eth.	15	14	29	19	15	34	100.0	111.0	11.0
5	United Ins.Com. S.C	18	10	28	20	11	31	322.5	334.0	3.6
6	Global Ins. Com.S.C	6	7	13	8	7	15	109.7	128.0	16.7
7	Nile Ins.Com.S.C	17	19	36	19	20	39	232.3	320.0	37.7
8	Nyala Ins.Com.S.C	13	10	23	15	15	30	327.8	391.0	19.3
9	Nib Ins. Com.S.C	21	9	30	24	13	37	316.3	328.0	3.7
10	Lion Ins. Com.S.C	15	13	28	16	15	31	91.2	83.0	-9.0
11	Ethio-Life Ins.Com.S.c	12	4	16	15	4	19	81.3	100.0	23.0
12	Oromia Ins.Com.S.c	17	16	33	18	19	37	165.6	215.0	29.8
13	Abay Insurance	10	9	19	12	11	23	160.6	217.0	35.1
14	Berhan insurance S.C	7	1	8	9	2	11	71.3	91.0	27.6
15	Tsehay Insurance S.C	8	4	12	10	5	15	80.3	98.0	22.0
16	Lucy	6	2	8	7	4	11	96.4	116.0	20.3
17	Bunna Insurance S.C.	10	3	13	11	5	16	64.6	73.0	13.0
	Total	228	198	426	263	229	492	3,590	4,332	20.7

Source: Insurance Companies

Note: A.A=Addis Ababa

Fig.IV.6: Branch Network and Capital of Insurance Companies (2013/14-2016/17)



The number of Micro-finance Institutions (MFIs) remained at 35 by end June 2017 while their total capital and total assets increased significantly by 20.8 and 35.1 percent, to reach Birr 10.7 billion and Birr 49.6 billion, respectively.

Their deposit mobilization and credit allocation also expanded remarkably. Compared to last year, their deposits surged by 42.8 percent and reached Birr 26.3 billion while their outstanding credit went-

up by 28.5 percent to Birr 32.4 billion (Table 4.7).

Amhara, Dedebit, Oromiya, Omo and Addis Credit and Savings institutions were the major MFIs accounting for 83.7 percent of the total capital, 93.1 percent of the savings, 88.6 percent of the credit and 89.9 percent of the total assets of the MFIs sector.

Table 4.7: Microfinance Institutions Performance as of June 30, 2017 (In Thousands of Birr)

Particulars	2015/16	2016/17	% Change
	<i>A</i>	<i>B</i>	<i>B/A</i>
Total Capital	8,875,780.6	10,720,058.6	20.8
Saving	18,432,836.7	26,323,896.4	42.8
Credit	25,203,763.0	32,398,857.4	28.5
Total Assets	36,668,011.6	49,551,770.7	35.1
Source:MFIs			

4.3.1 Resource Mobilization

Total resources mobilized by the banking system in the form of deposit, borrowing and loan collection hiked by 55.2 percent and reached Birr 233.6 billion at the end of 2016/17 (Table 4.8). Aided by remarkable branch expansion, deposit liabilities of the banking system topped Birr 568.8 billion, reflecting 29.8 percent

annual growth rate. Saving deposits grew by 35.2 percent followed by time deposits (26.4 percent) and demand deposits (24 percent). Of the total deposits, saving deposits accounted for 51.6 percent, demand deposits 37.3 percent and time deposits 11.1 percent (Table4.9).

National Bank of Ethiopia

The share of private banks in deposit mobilization increased to 35.5 percent from 33.6 percent last year mainly due to the opening of 796 new branches. CBE alone mobilized 64.4 percent of the total deposits due to its extensive branch network.

Raising funds through borrowing by the banking industry was not an important source of resource mobilization in Ethiopia as most of the banks were sufficiently liquid due to increased deposit mobilization and collection of loans.

As a result, total outstanding borrowing was Birr 39.8 billion of which domestic sources accounted for 87.9 percent and foreign sources 12.3 percent (Table 4.9).

On the other hand, banks' loan collection reached Birr 97.2 billion, showing a 25.9 percent annual increment, of which 55.9 percent was collected by private banks (Table 4.8).

National Bank of Ethiopia

Table 4.8: Annual Resource Mobilization & Disbursing Activities of Commercial Banks and DBE (Specialized Bank) as at June 30, 2017

(In Million of Birr)

Particulars	2014/15			2015/16			2016/17			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)	48,523.8	26,023.7	74,547.5	41,941.1	28,816.2	70,757.3	76,058.3	54,607.7	130,666.0	75.3	84.7
Demand	14,573.5	7,089.8	21,663.3	12,897.7	7,670.4	20,568.0	27,103.6	13,959.0	41,062.6	89.5	99.6
Savings	23,058.8	15,305.6	38,364.5	25,960.6	16,374.8	42,335.4	44,423.5	31,979.6	76,403.1	99.2	80.5
Time	10,891.5	3,628.3	14,519.7	3,082.8	4,771.0	7,853.8	4,531.2	8,669.1	13,200.3	(9.1)	68.1
2. Borrowing (net change)	4,193.3	-	4,193.3	2,551.8	-	2,551.8	5,751.5	-	5,751.5	37.2	125.4
Local	3,571.7	-	3,571.7	1,855.9	-	1,855.9	5,656.1	-	5,656.1	58.4	204.8
Foreign	621.6	-	621.6	695.8	-	695.8	95.4	-	95.4	(84.7)	(86.3)
3. Collection of Loans	27,982.1	32,032.2	60,014.2	33,722.8	43,463.9	77,186.7	42,899.1	54,270.0	97,169.1	61.9	25.9
4. Total Resources Mobilized (1+2+3)	80,699.1	58,055.9	138,755.0	78,215.6	72,280.1	150,495.8	124,708.9	108,877.7	233,586.6	68.3	55.2
5. Disbursement	41,913.2	33,567.8	75,481.0	49,626.3	38,396.8	88,023.1	48,386.6	60,624.6	109,011.2	44.4	23.8
6. Change in Liquidity (4-5)	38,786.0	24,488.1	63,274.1	28,589.4	33,883.3	62,472.6	76,322.3	48,253.1	124,575.5	96.9	99.4
Memorandum Item:											
7. Outstanding Credit	141,751.2	75,617.0	217,368.2	170,719.9	93,181.7	263,901.6	188,366.8	134,640.5	323,007.4	48.6	22.4

Source: Commercial Banks & Staff Computation

Table 4.9: Deposits and Borrowings of Commercial Banks and Specialized Bank as at June 30, 2017
(In Millions of Birr)

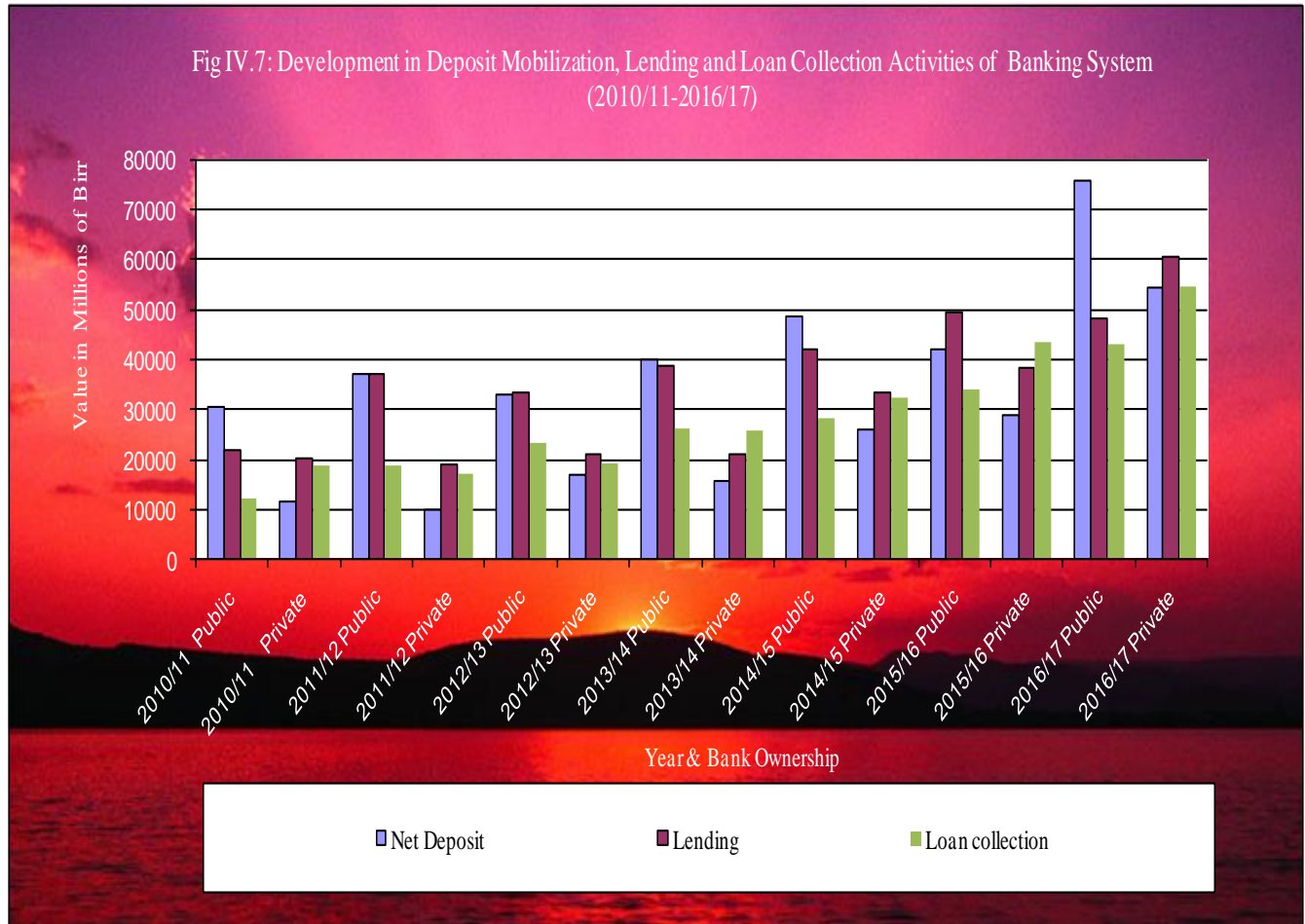
	2014/15	2015/16	2016/17	S/R	T/S
	R	S	T		
A. Deposits					
-Demand	150,451.5	171,019.5	212,082.1	13.7	24.0
-Savings	174,712.3	217,047.8	293,450.9	24.2	35.2
-Time	42,231.7	50,085.5	63,285.8	18.6	26.4
Total	367,395.4	438,152.7	568,818.7	19.3	29.8
B. Borrowings					
-Local	27,472.4	29,328.4	34,984.4	6.8	19.3
-Foreign	4,031.0	4,726.8	4,822.2	17.3	2.0
Total	31,503.4	34,055.2	39,806.6	8.1	16.9
Source: Commercial Banks & Staff Computation					

4.3.2 New Lending Activities

Commercial banks and Development bank of Ethiopia (DBE) disbursed Birr 109 billion in fresh loans which was 23.8 percent higher than a year ago. Of the total new loans, about 55.6 percent was provided by private banks and 44.4 percent by the two public banks (Table 4.10).

About 23 percent of the fresh loans went to industry followed by domestic trade (21.7 percent), housing and construction (12.5 percent), international trade (12.4 percent) and agriculture (12 percent) while other economic sectors accounted for 18.4 percent (Table 4.12).

Fig.IV.7: Development in Deposit Mobilization, Lending and Loan Collection Activities of the Banking System (2010/11-2016/17)



Source: Commercial Banks and DBE

National Bank of Ethiopia

Table.4.10: Loans and Advances by Lenders 1/							(In Millions of Birr)		
Lenders	2015/16			2016/17			Percentage Change		
	D*	C*	O/S*	D*	C*	O/S*	D/A	E/B	F/C
	A	B	C	D	E	F			
A. Public Banks									
1. Commercial Bank of Ethiopia	43296.7	29614.0	138,854.3	42817.6	38126.6	154,164.0	-1.1	28.7	11.0
2. Development Bank of Ethiopia	6329.6	4108.8	31,865.6	5569.0	4772.5	34,202.8	-12.0	16.2	7.3
Sub-Total	49,626.3	33,722.8	170,719.9	48,386.6	42,899.1	188,366.8	-2.5	27.2	10.3
B. Private Banks									
4 Awash International Bank	4476.2	5383.3	15450.8	6642.8	6975.0	22576.3	48.4	29.6	46.1
5. Dashen Bank	5372.6	6727.7	12683.4	8694.1	7877.7	18078.9	61.8	17.1	42.5
6. Bank of Abyssinia	3025.6	2287.2	8149.0	5384.3	2881.2	14105.4	78.0	26.0	73.1
7. Wegagen Bank	3137.2	4888.2	7630.3	3945.0	5595.1	10367.5	25.7	14.5	35.9
8. United Bank	3174.0	5211.8	8534.4	4961.6	5989.5	11996.3	56.3	14.9	40.6
9. Nib International Bank	4041.2	3708.8	7647.1	6725.2	4555.4	10888.4	66.4	22.8	42.4
10. Cooperative Bank of Oromia	2182.8	3042.9	6177.3	7360.3	4647.1	9995.5	237.2	52.7	61.8
11. Lion Interenational Bank	2302.8	1851.5	4389.7	2663.4	2513.9	5598.3	15.7	35.8	27.5
12. Oromia International Bank	1572.4	1744.7	3403.8	1817.2	2103.4	4160.1	15.6	20.6	22.2
13. Zemen Bank	1647.6	2243.2	5258.3	3294.9	2882.3	7175.5	100.0	28.5	36.5
14. Berhan International Bank	2150.5	1920.2	3766.0	2741.1	2675.8	5366.7	27.5	39.3	42.5
15. Bunna International Bank	2031.6	1313.1	3675.2	2264.7	1491.6	5202.8	11.5	13.6	41.6
16. Abay Bank	1722.6	1567.8	3118.6	1902.3	1722.3	4274.3	10.4	9.9	37.1
17. Addis International Bank	382.9	438.6	1063.1	425.1	552.2	1581.3	11.0	25.9	48.7
18. Dehub Global Bank	546.6	481.9	599.3	654.6	617.5	794.3	0.0	0.0	0.0
19. Enat Bank	630.1	652.8	1635.3	1148.2	1190.0	2479.1	0.0	0.0	0.0
Sub-Total	38,396.8	43,463.9	93,181.7	60,624.6	54,270.0	134,640.5	57.9	24.9	44.5
Grand Total	88,023.1	77,186.7	263,901.6	109,011.2	97,169.1	323,007.4	23.8	25.9	22.4

Source: Commercial Banks

1/ Outstanding Credit excludes central government borrowing

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

National Bank of Ethiopia

Table 4.11: Percentage Share of Loans and Advances by Lenders

Lenders	2015/16			2016/17			Percentage change		
	D*	C*	O/S*	D*	C*	O/S*	D/A	E/B	F/C
	A	B	C	D	E	F			
A.Public Banks									
1.Commercial Bank of Ethiopia	49.188	38.4	52.6	39.3	39.2	47.7	-20.1	2.3	-9.3
2.Development Bank of Ethiopia	7.191	5.3	12.1	5.1	4.9	10.6	-29.0	-7.7	-12.3
Sub-Total	56.4	43.7	64.7	44.4	44.1	58.3	-21.3	1.1	-9.9
B.Private Banks									
4 Awash International Bank	5.1	7.0	5.9	6.1	7.2	7.0	19.8	2.9	19.4
5. Dashen Bank	6.1	8.7	4.8	8.0	8.1	5.6	30.7	-7.0	16.5
6. Bank of Abyssinia	3.4	3.0	3.1	4.9	3.0	4.4	43.7	0.1	41.4
7. Wegagen Bank	3.6	6.3	2.9	3.6	5.8	3.2	1.5	-9.1	11.0
8. United Bank	3.6	6.8	3.2	4.6	6.2	3.7	26.2	-8.7	14.8
9. Nib International Bank	4.6	4.8	2.9	6.2	4.7	3.4	34.4	-2.4	16.3
10. Cooperative Bank of Oromia	2.5	3.9	2.3	6.8	4.8	3.1	172.3	21.3	32.2
11. Lion Interenational Bank	2.6	2.4	1.7	2.4	2.6	1.7	-6.6	7.9	4.2
12. Oromia International Bank	1.8	2.3	1.3	1.7	2.2	1.3	-6.7	-4.2	-0.1
13. Zemen Bank	1.9	2.9	2.0	3.0	3.0	2.2	61.5	2.1	11.5
14.Berhan International Bank	2.4	2.5	1.4	2.5	2.8	1.7	2.9	10.7	16.4
15.Bunna International Bank	2.3	1.7	1.4	2.1	1.5	1.6	-10.0	-9.8	15.7
16. Abay Bank	2.0	2.0	1.2	1.7	1.8	1.3	-10.8	-12.7	12.0
17. Addis International Bank	0.4	0.6	0.4	0.4	0.6	0.5	-10.4	0.0	21.5
18. Dehub Global Bank	0.6	0.6	0.2	0.6	0.6	0.2	0.0	0.0	0.0
19. Enat Bank	0.7	0.8	0.6	1.1	1.2	0.8	0.0	0.0	0.0
Sub-Total	43.6	56.3	35.3	55.6	55.9	41.7	27.5	-0.8	18.1
Grand Total	100.0	100.0	100.0	100.0	100.0	100.0	0.0	0.0	0.0

Source: Commercial Banks

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

4.3.3 Outstanding Loans

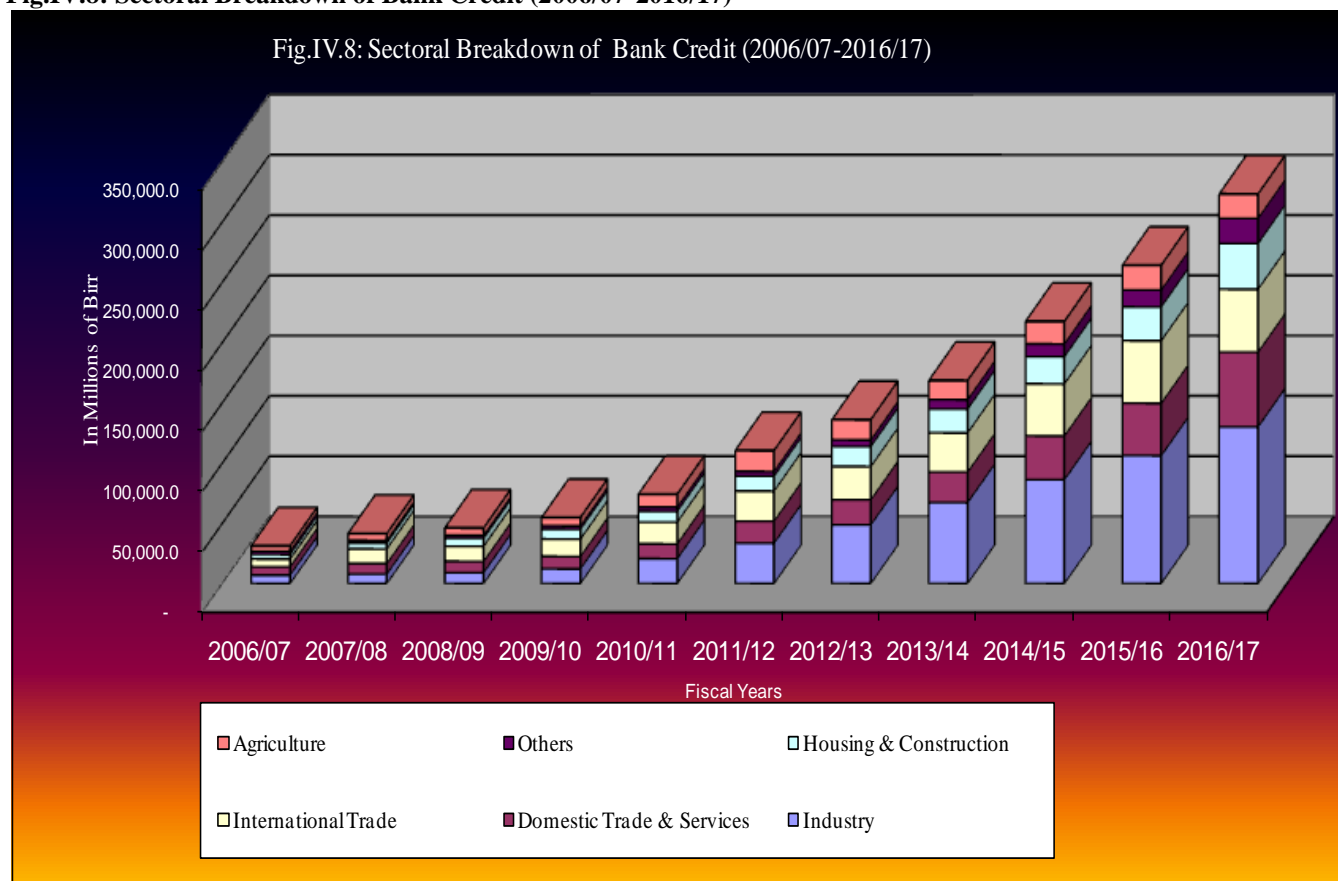
Total outstanding credit of the banking system, including to the central government increased by 30.4 percent and reached Birr 365.6 billion at the end of June 2017. Excluding central government, credit to industry accounted for 40.2 percent followed by international

trade (16.2 percent), domestic trade (13 percent), housing and construction (11.8 percent) and agriculture (6.2 percent) (Table 4.12). The share of private sector in outstanding credit was Birr 231.2 billion (or 63.2 percent) reflecting a 29.1 percent year-on-year growth (Table 4.13).

National Bank of Ethiopia

Economic Sectors	2015/16			2016/17			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	16,471.6	0	0	42,593.8	-	-	158.6
Agriculture	13,375.7	12,863.4	20,377.5	13,133.7	13,962.6	20,041.8	(1.8)	8.5	(1.6)
Industry	25,495.6	15,954.1	106,164.0	25,035.6	20,942.8	129,977.7	(1.8)	31.3	22.4
Domestic Trade	15,040.5	15,297.7	28,550.6	23,608.9	18,399.2	41,830.1	57.0	20.3	46.5
International Trade	9,528.0	15,707.9	51,900.4	13,494.8	20,993.9	52,207.7	41.6	33.7	0.6
Export	4,404.9	8,429.6	23,028.4	6,062.2	10,478.0	30,017.5	37.6	24.3	30.3
Import	5,123.1	7,278.3	28,872.0	7,432.7	10,515.9	22,190.2	45.1	44.5	(23.1)
Hotels and Tourism	1,893.8	2,406.5	4,818.8	2,213.4	2,390.9	5,852.8	16.9	(0.6)	21.5
Transport and Communication	4,494.1	3,336.8	10,026.1	6,924.9	4,901.9	14,275.4	54.1	46.9	42.4
Housing and Construction	13,641.9	8,422.3	28,080.8	13,583.6	10,521.0	37,970.6	(0.4)	24.9	35.2
Mines, Power and Water resource	341.2	145.5	851.8	363.4	179.8	225.1	6.5	23.6	(73.6)
Others	3,160.8	2,393.9	10,297.7	8,452.9	3,938.9	16,373.4	167.4	64.5	59.0
Personal	1,051.4	652.9	2,779.6	2,199.8	938.1	4,252.8	109.2	43.7	53.0
Total	88,023.1	77,180.9	280,319.0	109,011.2	97,169.2	365,601.2	23.8	25.9	30.4
Source: Commercial Banks & Staff Computation									
D*=Disbursement, C*=Collection, O/S*= Outstanding Credit									

Fig.IV.8: Sectoral Breakdown of Bank Credit (2006/07-2016/17)



Source: Commercial Banks including DBE & Staff Computation

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

Borrowing Sector	2013/14	2014/15	2015/16	2016/17			Percentage change	
	O/S*	O/S*	O/S*	D*	C*	O/S*	G/B	G/C
	A	B	C	E	F	G		
Central Government	12,969.5	15,514.4	16,471.6	-	0.0	42,593.8	174.5	158.6
Public Enterprises	53,703.7	69,841.6	84,675.6	14,333.5	11,867.9	91,771.6	31.4	8.4
Cooperatives	12,664.7	13,850.7	13,704.4	13,421.8	13,730.6	13,477.1	-2.7	-1.7
Private & Individuals	101,920.7	133,618.1	165,467.4	81,255.9	71,570.6	217,758.7	63.0	31.6
Total	181,258.6	232,824.8	280,319.0	109,011.1	97,169.1	365,601.2	57.0	30.4

Source: Commercial Banks & Staff Computation
D*=Disbursement, C*=Collection, O/S*= Outstanding Credit

4.4. Financial Activities of NBE

As of June 2017, gross claims of NBE on the central government reached Birr 135.6 billion which was 24.3 percent higher than a year earlier. Of the total credit to the central government, direct advance accounted for 94.2 percent and bond 5.8 percent.

Similarly, NBE's outstanding claims on DBE was Birr 26.6 billion showing a 3.9 percent increase over last year same period.

On the liability side, total deposits at NBE surged by 47 percent and stood at Birr 76 billion, as a result of 51.3 percent growth in deposits of financial institutions and 35.5 percent of rise in government deposits (Table 4.14).

Table 4.14: Financial Activities of National Bank of Ethiopia at the Close of June 30, 2017

(In Millions of Birr)

Particulars	2014/15	2015/16	2016/17	% Change	
	A	B	C	B/A	C/B
Loans and Advances (1+2)	115,532.3	134,687.4	162,247.8	16.6	20.5
1. Claims on Central Gov't	92,175.3	109,080.4	135,640.8	18.3	24.3
1.1 Direct Advance	83,264.9	100,764.9	127,764.9	21.0	26.8
1.2 Bonds	8,910.4	8,315.5	7,875.9	-6.7	-5.3
2. Claims on DBE	23,357.0	25,607.0	26,607.0	9.6	3.9
3. Deposit Liabilities	43,077.7	51,697.0	75,987.7	20.0	47.0
3.1 Government	15,098.5	14,042.3	19,031.5	-7.0	35.5
3.2 Financial Institutions	27,979.2	37,654.7	56,956.2	34.6	51.3

Source: NBE and Staff Computation

4.5 Developments in Financial Markets

Despite the nonexistence of secondary market, government bonds are occasionally issued to finance government fiscal operations and/or to absorb excess liquidity in the banking system. Treasury Bills are the major financial instruments traded in the primary market.

4.5.1 Treasury Bills Market

The amount of Treasury bills offered and demanded in the Treasury-bill market tended to grow simultaneously during the review fiscal year. The amount of Treasury-bills offered registered a 42.6 percent annual growth and reached Birr 210.4 billion while the amount of T-bills demanded in the weekly auction market exhibited a 39.5 percent surge and stood at Birr 225.3 billion.

The amount of T-bills sold during the fiscal year was Birr 225.3 billion indicating a 10

percent oversubscription of T-bills worth Birr 15.0 billion. The maturity periods of T-bills extended from 28 days to 365 days. Thus, the total outstanding T-bills went up by 28.0 percent and reached Birr 73.3 billion.

All the T-bill market participants were non-bank financial and public institutions where non-bank institutions accounted for the entire amount of the T-bills' outstanding (Table 4.15).

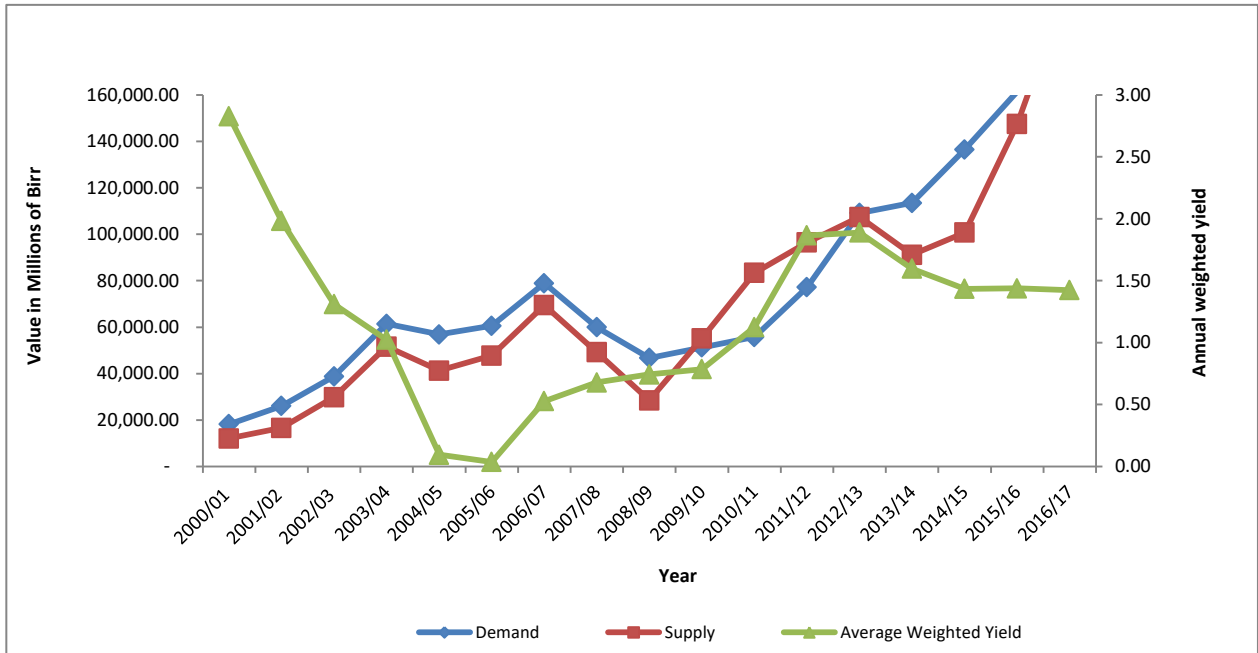
The average weighted yield slightly decreased to 1.424 percent from 1.438 percent a year earlier (Table 4.15). The highest yield (3 percent) was recorded for the 364-day T-bill and the lowest (0.67 percent) for 182-day T-bill.

Table 4.15: Results of Treasury Bills Auction

Particulars	2014/15		2015/16		2016/17		Percentage Change	
	A		B		C		B/A	C/B
Number of Bidders	248		217		200		-12.5	-7.8
Amount Demanded (Mn.Birr)	136,536.8		161,575.2		224,101.2		18.3	38.7
28-day bill	1,480.0		1,040.0		1,040.0		-29.7	0.0
91-day bill	111,938.8		140,517.2		207,443.2		25.5	47.6
182-day bill	14,498.0		6,802.0		2,402.0		-53.1	-64.7
364-day bill	8,620.0		13,216.0		13,216.0		53.3	0.0
Amount Supplied (Mn.Birr)	100,739.4		147,579.4		210,382.2		46.5	42.6
28-day bill	1,040.0		1,040.0		1,060.0		0.0	1.9
91-day bill	78,832.4		125,921.4		193,204.2		59.7	53.4
182-day bill	12,247.0		7,502.0		2,902.0		-38.7	-61.3
364-day bill	8,620.0		13,116.0		13,216.0		52.2	0.8
Amount Sold (Mn.Birr)	110,593.3		161,475.2		225,321.2		46.0	39.5
Banks	0.0		0.0		0.0		0.0	0.0
Non-Banks	110,593.3		161,475.2		225,321.2		46.0	39.5
Average Weighted Price for Successful bids(Birr)	99.183		99.088		99.100		-0.1	0.0
28-day bill	99.923		99.940		99.937		0.0	0.0
91-day bill	99.701		99.702		99.701		0.0	0.0
182-day bill	99.477		99.616		99.666		0.1	0.1
364-day bill	97.632		97.095		97.095		-0.5	0.0
Average Weighted Yeild for Successful bids(%)	1.434		1.438		1.424		0.3	-1.0
28-day bill	1.000		0.783		0.821		-21.8	4.9
91-day bill	1.203		1.198		1.203		-0.4	0.4
182-day bill	1.093		0.773		0.672		-29.3	-13.1
364-day bill	2.441		3.000		3.000		22.9	0.0
Outstanding bills at the end of period(Mn.Br.)	41,704.8	Share %	57,252.6	Share %	73,271.6	Share %	37.3	28.0
Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Banks	41,704.8	100.0	57,252.6	100.0	73,271.6	100.0	37.3	28.0
Public Servants Social Security Agency	19,371.6	46.4	30,566.6	53.4	41,015.6	56.0	57.8	34.2
Development Bank of Ethiopia	13,216.0	31.7	13,216.0	23.1	13,216.0	18.0	0.0	0.0
Private Organizations' Employees Social Security Agency	6,799.2	16.3	11,182.0	19.5	16,604.0	22.7	64.5	48.5
Other Public Non-Bank Institutions	2,318.0	5.6	2,288.0	4.0	2,436.0	3.3	-1.3	6.5

Source: NBE

Fig.IV.9: Treasury Bills Auction Result



Source: NBE

4.5.2 NBE Bill Market

Following the introduction of the NBE Bill market in April 2011, the total NBE bill purchased (net of redemption) by the banking sector reached Birr 55.7 billion at the end of 2016/17.

4.5.3. Bonds Market

Corporate bond purchase of CBE during 2016/17 showed a 11.5 percent annual growth and reached Birr 48.0 billion. At the same time, corporate bond redeemed by regional government, City Governments, of Addis Ababa and Railway Corporation stood at Birr 74.7 million, 4.6 billion and Birr 78.6 million, respectively (Table 4.16).

As a result, total outstanding bond holdings registered an annual growth rate of 26.0 percent and reached to Birr 237.8 billion. The share of EEPSCO in outstanding corporate bond reached 75.4 percent while that of City Government of Addis Ababa, Railway Corporation and Regional States was 24.6 percent.

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

Particulars	2015/16	2016/17	Percentage Change
	A	B	B/A
1. Corporate Bond Purchases by holders	43,023.9	47,951.1	11.5
EEPCO	28,000.0	32,100.0	14.6
Regional governments	-	-	
Development Bank of Ethiopia	-	-	
City Government of Addis Ababa	12,575.0	12,300.0	-2.2
Railway Corporation	2,448.9	3,551.1	45.0
2. Redemption of Bonds by Clients	6,963.4	4,801.1	-31.1
EEPCO	0.0	-	
Regional governments	380.6	74.7	-80.4
Development Bank of Ethiopia	43.40	0.0	0.0
City Government of Addis Ababa	6,539.4	4,647.8	-28.9
Railway Corporation	-	78.57	
3. Outstanding Bonds by Clients	188,749.7	237,784.6	26.0
EEPCO	143,100.0	179,300.0	25.3
Regional governments	700.8	625.4	-10.8
City Government of Addis Ababa	29,500.0	38,937.8	32.0
Railway Corporation	15,448.9	18,921.4	22.5

Source: Commercial Bank of Ethiopia

4.5.4. Inter-bank Money Market

Since its introduction in September 1998, merely twenty three transactions worth Birr 259.2 million were transacted in the interbank money market with interest

rates ranging between 7 to 11 percent per year. The maturity period of those loans widely spanned 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 registered USD 658.6 million surplus in 2016/17 compared to USD 830.9 million deficit a year earlier. This was a reflection of the narrowing trade deficit as a result of a 5.5 percent drop in merchandise import aided by 1.4 percent increase in merchandise export.

Net services registered USD 546.9 million deficit in contrast to USD 619.0 deficit last year. Hence, current account deficit (including official transfers) slightly narrowed to USD 6.5 billion from USD 6.7 billion a year ago and its ratio to GDP was estimated at 8.1 percent.

Table 5.1: Balance of Payments¹

(In Millions of USD)

S/N	Particulars	2014/15*	2015/16*	2016/17	Percentage Change	
		A	B	C	B/A	C/B
1	Exports, f.o.b.	3,019.1	2,867.7	2,907.5	-5.0	1.4
	Coffee	780.5	722.7	883.2	-7.4	22.2
	Other	2,238.7	2,145.0	2,024.3	-4.2	-5.6
2	Imports	16,458.6	16,725.2	15,802.6	1.6	-5.5
	Fuel	2,040.9	1,339.0	1,823.6	-34.4	36.2
	Cereals	601.6	1,032.7	554.1	71.6	-46.3
	Aircraft	190.6	162.9	150.3	-14.5	-7.7
	Imports excl. fuel, cereals, aircraft	13,625.5	14,190.6	13,274.5	4.1	-6.5
3	Trade Balance (1-2)	-13,439.5	-13,857.5	-12,895.1	3.1	-6.9
4	Services, net	-351.7	-619.0	-546.9	76.0	-11.6
	Non-factor services, net	-78.9	-245.3	-61.3	210.9	-75.0
	Exports of non-factor services	3,028.4	3,196.4	3,331.1	5.5	4.2
	Imports of non-factor services	3,107.3	3,441.8	3,392.5	10.8	-1.4
	Income, net	-272.8	-373.7	-485.6	37.0	29.9
	O/w Gross official int. payment	259.4	374.7	455.2	44.4	21.5
	Dividend, net	-23.7	-12.1	-48.9	-48.8	303.7
5	Private transfers, net	4,881.6	6,428.6	5,485.3	31.7	-14.7
	o/w: Private Individuals	3,796.7	4,420.3	4,427.5	16.4	0.2
6	Current account balance excluding off. Transfers (3+4+5)	-8,909.51	-8,048.0	-7,956.8	-9.7	-1.1
7	Official transfers, net	1,507.9	1,391.1	1,428.3	-7.7	2.7
8	Current account balance including official transfers(6+7)	-7,401.6	-6,656.9	-6,528.4	-10.1	-1.9
9	Capital account	8,285.6	6,509.2	6,831.5	-21.4	5.0
	Off. Long-term Cap., net	3,352.3	1,627.6	1,401.6	-51.4	-13.9
	Disbursements	3,439.6	1,729.8	1,512.2	-49.7	-12.6
	Amortization	87.3	102.1	110.6	17.0	8.2
	Other pub. long-term cap.	2,346.8	1,052.0	626.3	-55.2	-40.5
	Private sector, long term	350.0	450.8	502.8		11.5
	Foreign Direct Investment(net)	2,202.17	3,268.69	4,170.80	48.43	27.6
	Short-term Capital	34.3	110.0	130.0	220.4	18.2
10	Errors and omissions	-1,405.4	-683.2	355.5		
11	Overall balance (8+9+10)	-521.4	-830.9	658.6		
12	Financing	521.4	830.9	-658.6		
13	Reserves [Increase(-), Decrease (+)]	521.4	830.9	-658.6		
14	Central Bank (NFA)	-92.9	975.6	-555.7		
	Asset	-663.1	-152.6	204.7		
	Liabilities	570.2	1,128.2	-760.4		
15	Commercial banks (NFA)	614.3	-144.7	-103.0		
16	Debt Relief					
	Principal					
	Interest					

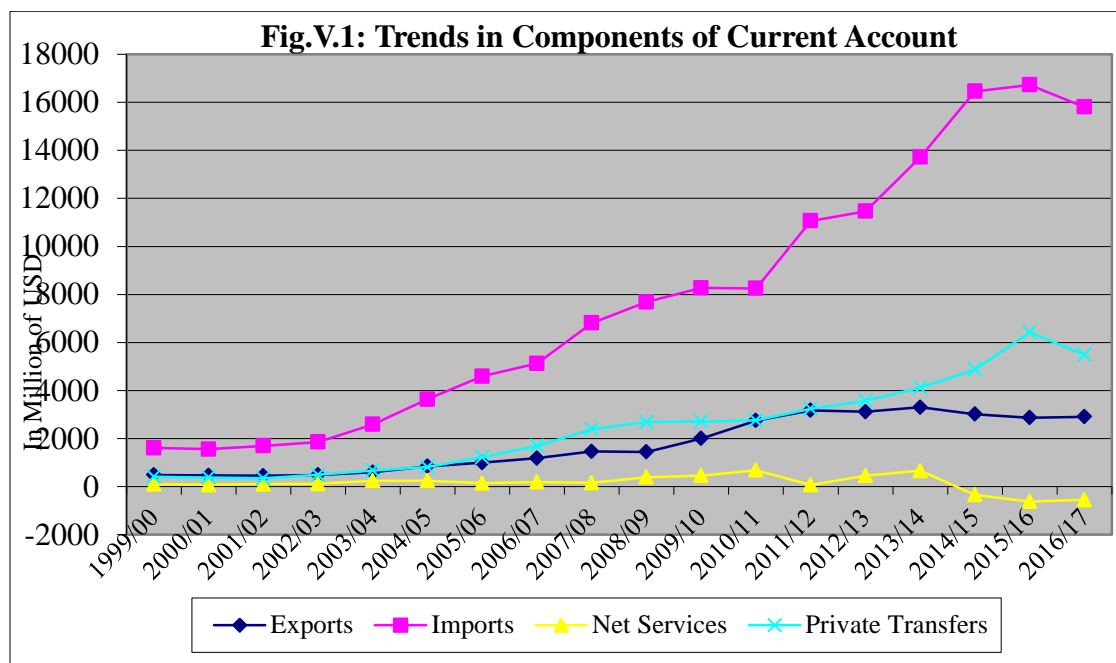
Source: NBE Staff Compilation
1 2016/17 data are Preliminary
*Some items are revised

Table 5.2: Components of Current Account as Percentage of GDP

Particulars	FY 2014/15	FY 2015/16	FY 2016/17*	Percentage Change	
	A	B	C	B/A	C/B
Exports	4.7	4.0	3.6	-15.3	-8.8
Imports	25.5	23.1	19.6	-9.3	-15.0
Trade Balance	-20.8	-19.1	-16.0	-8.0	-16.3
Net Services	-0.5	-0.9	-0.7	61.7	-20.5
Net Private Transfers	7.6	8.9	6.8	17.5	-23.3
Current Account Deficit (excluding official transfers)	-13.8	-11.1	-9.9	-19.3	-11.1
Current Account Deficit (including official transfers)	-11.5	-9.2	-8.1	-19.7	-11.8

Source: NBE Staff Compilation

*GDP is a forecast



Source: NBE Staff Computations

5.2. Developments in Merchandise Trade

5.2.1 Balance of Trade

Merchandise trade deficit in 2016/17 was USD 12.9 billion, which showed a 6.9 percent improvement over the preceding fiscal year mainly due to slowdown in total import bills coupled with marginal increase in merchandise

export. Yet, merchandise trade deficit as a ratio of GDP dropped by 3.1 percentage points and stood at 16.0 percent.

5.2.2 Merchandise Export

Total merchandise export (including electricity) increased by 1.4 percent year-on-year due to higher export earnings from coffee (22.2 percent), pulses (20.5 percent), chat (4.0 percent), fruit and vegetables (4.5 percent), meat & meat product (2.3 percent), electricity (133.0 percent) and other export items (33.4 percent). Thus, the ratio of merchandise export to GDP declined to 3.6 percent from 4.1 percent a year ago.

international price and 23.6 percent decrease in export volume. Hence, the share of oilseeds in total merchandise export was down to 12.1 percent.

Likewise, gold generated USD 208.8 million, about 28.2 percent lower than last year as a result of a 30.4 percent slowdown in volume despite a 3.2 percent growth in international price. As a result, the share of gold in total merchandise export stood at 7.2 percent.

Export earnings from coffee increased owing to 7.5 percent rise in international price and 13.6 percent increase in export volume. As a result, the share of coffee in total merchandise export rose to 30.4 percent from 25.2 percent a year ago. Receipts from oilseeds declined by 26.4 percent and reached USD 351 million on account of 3.7 percent drop in

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Revenue from chat export increased by 4.0 percent as export volume rose by 3.9 percent despite 0.1 percent decline in international price. Hence, the share of chat export in total merchandise export went up to 9.4 percent. In contrast, revenue from export of live-animals declined by 54.2 percent as a result of a

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significant (53.6 percent) drop in export volume and 1.3 percent fall in international price. Therefore, the share of live-animals in total merchandise export earnings decreased to 2.3 from 5.2 percent a year ago.

Export earnings from leather & leather products decreased by 1.1 percent due to a 1.6 percent fall in export volume despite 0.5 percent rise in international price. Consequently, the share of leather & leather products in total export revenue stood at 3.9 percent.

Electricity export earnings surged by 133.0 percent over last year same period owing to 155.3 percent hike in export volume despite 8.8 percent hike in price. As a result, the share of electricity in total merchandise export earnings increased to 2.5 percent from 1.4 percent last year same period.

Earnings from pulses increased by 20.5 percent to USD 279.9 million due to 4.6 percent rise in export volume and 15.1 percent increase in price. Thus, the share of pulses in total merchandise export revenue increased to 9.6 percent from 8.1 percent a year earlier.

Conversely, export proceeds from flower went down by 3.0 percent as both export volume and international price fell by 2.5 and 0.5 percent, respectively. Hence, the share of flower in total export earnings decreased to 7.5 percent from 7.9 percent last year same period.

Receipts from meat & meat products showed a 2.3 percent annual growth mainly on account of a 3.2 percent increase in export volume despite a 0.8 percent decline in price. As a result, the share of meat & meat products in total merchandise export earnings stood at 3.4 percent.

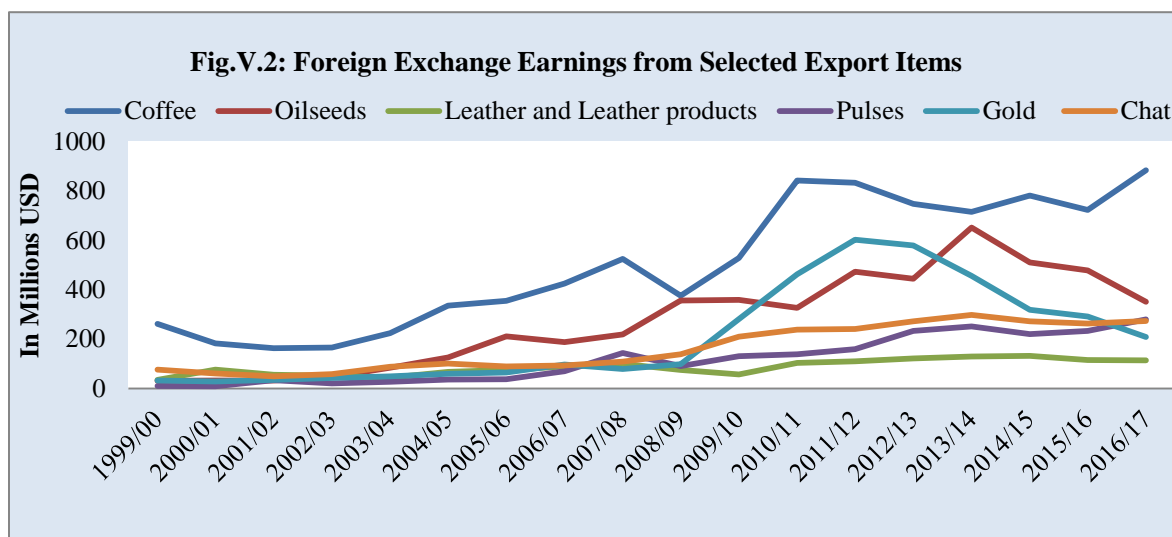
Export earnings from fruits and vegetables increased by 4.5 percent vis-à-vis last year same period due to 6.9 percent rise in export volume in contrast to 2.2 percent decline in international price. Thus, the share of fruits and vegetables in total merchandise export earnings reached 1.9 percent during the review period.

Table 5.3: Values of Major Export Items

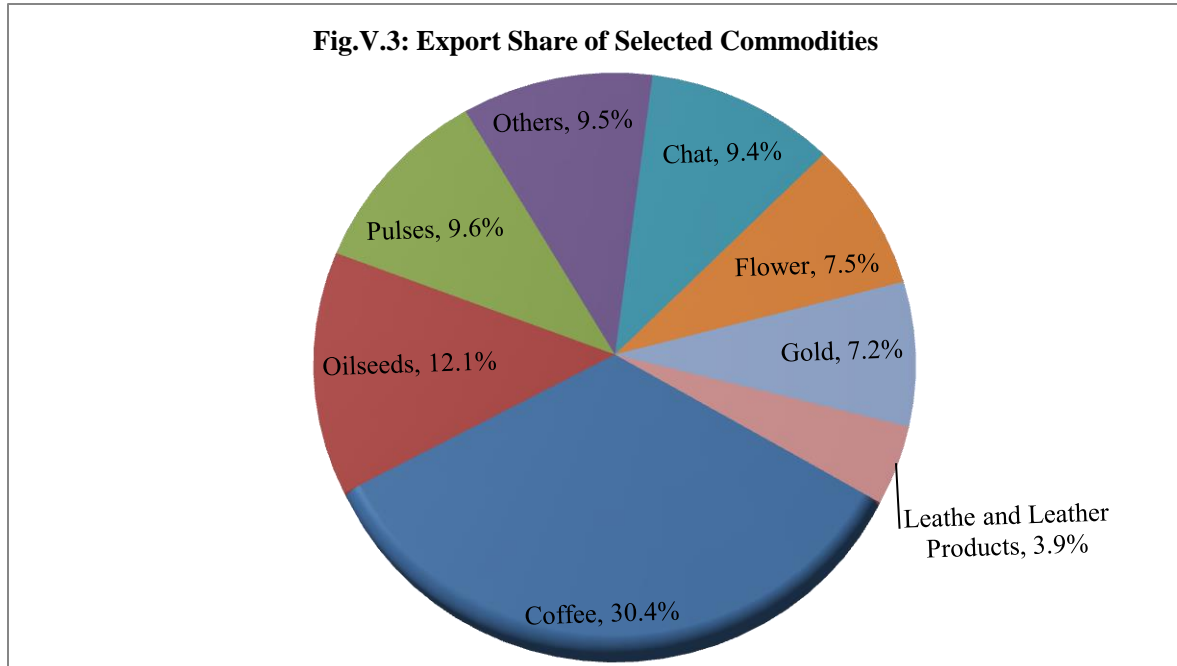
(In millions of USD)

Commodities	2014/15		2015/16		2016/17		Percentage Change	
	A	%share	B	%share	C	%share	B/A	C/B
Coffee	780.5	25.8	722.7	25.2	883.2	30.4	-7.4	22.2
Oilseeds	510.1	16.9	477.2	16.6	351.0	12.1	-6.4	-26.4
Leather & Leather Products	131.6	4.4	115.3	4	114.0	3.9	-12.4	-1.1
Pulses	219.9	7.3	232.4	8.1	279.9	9.6	5.7	20.5
Meat & Meat Products	92.8	3.1	96.4	3.4	98.7	3.4	3.9	2.3
Fruits & Vegetables	47.6	1.6	53.7	1.9	56.1	1.9	12.9	4.5
Live Animals	148.5	4.9	147.8	5.2	67.6	2.3	-0.5	-54.2
Chat	272.4	9	262.5	9.2	273.0	9.4	-3.7	4.0
Gold	318.7	10.6	290.7	10.1	208.8	7.2	-8.8	-28.2
Flower	203.1	6.7	225.3	7.9	218.5	7.5	10.9	-3.0
Electricity	42.6	1.4	31.5	1.1	73.4	2.5	-26.2	133.0
Others	251.4	8.3	212.3	7.4	283.2	9.7	-15.6	33.4
Total Export	3019.3	100	2867.7	100	2907.5	100	-5.0	1.4
Total Export Excluding Electricity	2976.5		2836.3		2834.11		-4.7	-0.1

Source: Ethiopian Revenue and Customs Authority and Ethiopian Electric Power



Source: NBE Staff Computation



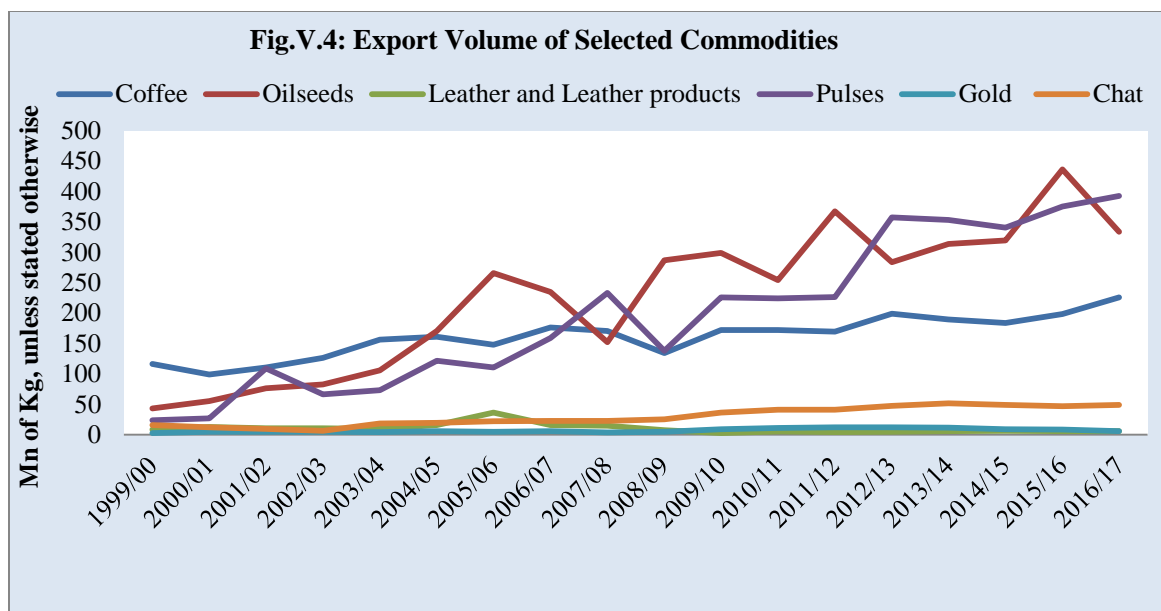
Source: NBE Staff Computation

Table 5.4: Volume of Major Exports

(In millions of kg unless stated otherwise)

Particulars	2014/15	2015/16	2016/17	Percentage Change	
	A	B	C	B/A	C/B
Coffee	183.9	198.7	225.7	8.0	13.6
Oilseeds	319.5	436.6	333.5	36.7	-23.6
Leather and Leather Products	6.2	6.0	5.9	-3.1	-1.6
Pulses	340.7	375.4	392.7	10.2	4.6
Meat & Meat Products	19.0	19.0	19.6	-0.4	3.2
Fruits & Vegetables	150.1	167.1	178.6	11.3	6.9
Live Animals	77.9	77.8	36.1	-0.1	-53.6
Chat	49.2	47.0	48.8	-4.5	3.9
Gold(<i>millions of grams</i>)	9.0	8.6	6.0	-5.1	-30.4
Flower	46.3	50.6	49.4	9.3	-2.5
Electricity (<i>millions of kwh</i>)	729.8	511.3	1305.5	-29.9	155.3

Source: Ethiopian Revenue and Customs Authority and Ethiopian Electric Power



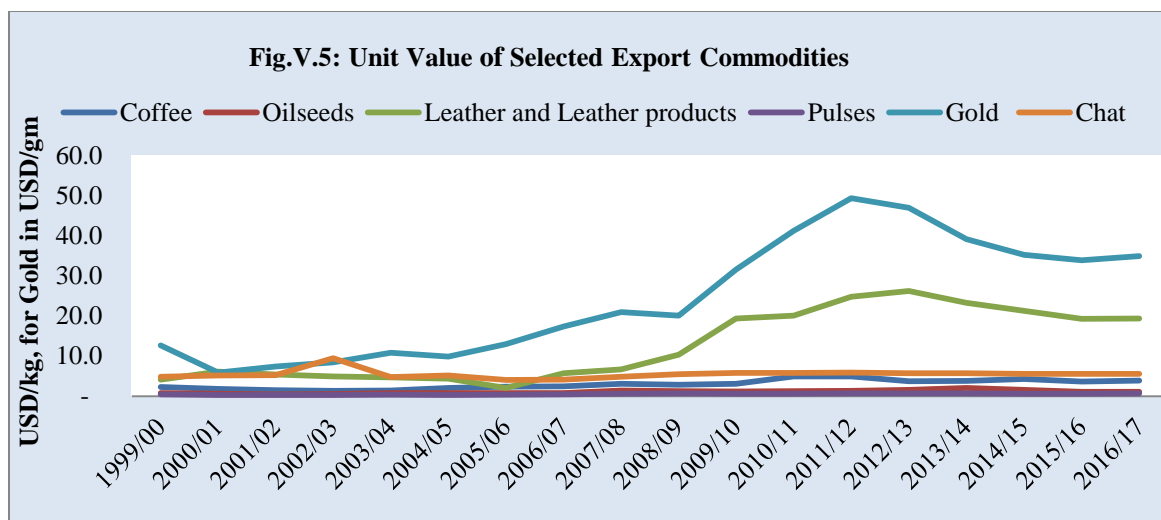
Source: NBE Staff Computation

Table 5.5: Unit Value of Major Export Items

(In USD/kg unless stated otherwise)

Particulars	2014/15	2015/16	2016/17	Percentage Change	
	A	B	C	B/A	C/B
Coffee	4.2	3.6	3.9	-14.3	7.5
Oilseeds	1.6	1.1	1.1	-31.5	-3.7
Leather and Leather products	21.3	19.3	19.4	-9.6	0.5
Pulses	0.6	0.6	0.7	-4.1	15.1
Meat & Meat Products	4.9	5.1	5.0	4.3	-0.8
Fruits & Vegetables	0.3	0.3	0.3	1.4	-2.2
Live Animals	1.9	1.9	1.9	-0.4	-1.3
Chat	5.5	5.6	5.6	0.9	0.1
Gold (USD/ gram)	35.3	33.9	35.0	-3.9	3.2
Flower	4.4	4.5	4.4	1.5	-0.5
Electricity(USD/ KWH)	0.06	0.1	0.1	5.42	-8.8

Source: Ethiopian Revenue and Customs Authority



Source: NBE Staff Computation

5.2.3. Import of Goods

Total merchandise import reached USD 15.8 billion showing a 5.5 percent decrease over last year same period mainly due to lower imports of capital, raw materials, semi-finished and consumer goods. Fuel import, however, increased during the fiscal year. Hence, total import to GDP ratio dropped to 19.6 percent from 23.6 percent a year ago.

Import of consumer goods stood at USD 4.9 billion, depicting a 7 percent slowdown due to lower import payments for non-durable consumer goods by 13.7 percent. Import value of durable consumer goods, however, rose by 9 percent. Thus, the share of consumer goods in total merchandise import went

down to 31.0 percent from 31.5 percent in the preceding year.

Similarly, import of semi-finished goods stood at USD 2.6 billion, about 9.5 percent lower than last year while that of textile fabrics import increased by 11.4 percent. As a result, the share of semi-finished goods in total merchandise import bills fell to 16.6 percent from 17.3 percent last year.

Total import of capital goods also declined by 11.7 percent due decline of imports of transport (6.9 percent), agricultural growth (9.1 percent) and industrial capital goods (13.1 percent). Thus, capital goods accounted for 38.2

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percent of total merchandise imports compared to 40.8 percent last year.

Import of raw materials went down by 15.9 percent compared to last year and accounted for 0.8 percent of total merchandise imports.

Meanwhile, fuel import grew by 36.2 percent and amounted to USD 1.8

billion. This was attributed to 12.0 percent increase in fuel import volume and despite 16.2 percent increase in price. Hence, the share of fuel in total merchandise import increased to 11.5 percent from 8.0 percent a year earlier.

Table 5.6: Value of Imports by End Use

(In Millions of USD)

Particulars	2014/15		2015/16		2016/17		Percentage change	
	A	% share	B	% share	C	% share	B/A	C/B
Raw Materials	170.5	1.0	149.3	0.9	125.6	0.8	-12.4	-15.9
Semi-finished Goods	2578.4	15.7	2895.5	17.3	2620.6	16.6	12.3	-9.5
Fertilizers	502.9	3.1	430	2.6	367.9	2.3	-14.5	-14.4
Fuel	2040.9	12.4	1339	8.0	1823.7	11.5	-34.4	36.2
Petroleum Products	1985.1	12.1	1280.1	7.7	1743.7	11.0	-35.5	36.2
Others	55.9	0.3	58.9	0.4	80.1	0.5	5.4	35.9
Capital Goods	6882.3	41.8	6829.4	40.8	6032.1	38.2	-0.8	-11.7
Transport	1699.1	10.3	1535.6	9.2	1429.7	9.0	-9.6	-6.9
Agricultural	71.6	0.4	83.4	0.5	75.8	0.5	16.5	-9.1
Industrial	5111.6	31.1	5210.4	31.2	4526.7	28.6	1.9	-13.1
Consumer Goods	4510.9	27.4	5264.3	31.5	4898.3	31.0	16.7	-7.0
Durables	1608	9.8	1567.3	9.4	1707.8	10.8	-2.5	9.0
Non-durables	2902.9	17.6	3697	22.1	3190.5	20.2	27.4	-13.7
Miscellaneous	275.6	1.7	247.8	1.5	302.3	1.9	-10.1	22.0
Total Imports	16,458.6	100.0	16,725.2	100.0	15,802.6	100.0	1.6	-5.5

Source: Ethiopian Revenue and Customs Authority and Ethiopian petroleum Enterprise

5.2.4 Direction of Trade

Asia, Europe, Africa and America were the main destinations for Ethiopian exports. Asia accounted for 37.7 percent of Ethiopia's exports, of which, 20.7 percent was to China, 17.9 percent to Saudi Arabia, 10.9 percent to United Arab Emirates, 9.0 percent to Japan, 6.0 percent to Israel, 5.0 percent to South Korea, 4.8 percent to India, 4.4 percent to Pakistan, 2.3 percent to Indonesia, 1.9 percent to Yemen, 1.7 percent to Hong Kong and 1.3 percent to Taiwan. Altogether, these countries accounted for 86.0 percent of Ethiopia's total exports to Asia. The major exports to China constituted oilseeds, leather & leather products, coffee, mineral products, natural gums and textile materials. Saudi Arabia largely imported coffee, meat & meat products, live-animals, flower, oilseeds and spices while exports to United Arab Emirates were meat & meat products, pulses, oilseeds, coffee, mineral product, flower and food. Japan imported mainly coffee, oilseeds, flower, textile & garment. Oilseeds, coffee, chat, cereals and pulses went to Israel. The main exports to South Korea constituted coffee, oilseeds and leather and leather products, while exports to India were pulses, mineral products, oilseeds, chat, spices and leather & leather products.

Pakistan imported pulses, tea, spices and chat. Indonesia mainly Imported pulses, leather and leather products, spices and textile and garments. While Yemen imported pulses, oilseeds, live animals and spices. The main exports to Hong Kong were leather and leather products, oilseeds, chat, mineral products, coffee and animal products. Coffee, oilseeds and leather and leather products went to Taiwan.

Europe accounted for 32.4 percent of Ethiopia's total exports during the review fiscal year. Within Europe, Switzerland constituted 22.3 percent, the Netherlands 19.7 percent, Germany 18.6 percent, Belgium 9.3 percent, Italy 6.4 percent, United Kingdom 6.1 percent and France 3.9 percent. These countries together accounted for 86.2 percent of Ethiopian export to Europe.

The main exports to Switzerland were gold, coffee, oilseeds, textile and garment, food and beverage. While the Netherlands imported mainly flower, coffee, vegetables, pulses, oilseeds, fruits and textile & garment. Likewise, Germany chiefly imported coffee, textile & garment, flower, oilseeds, natural gum and pulses. While coffee, flower, pulse, oilseeds and beeswax

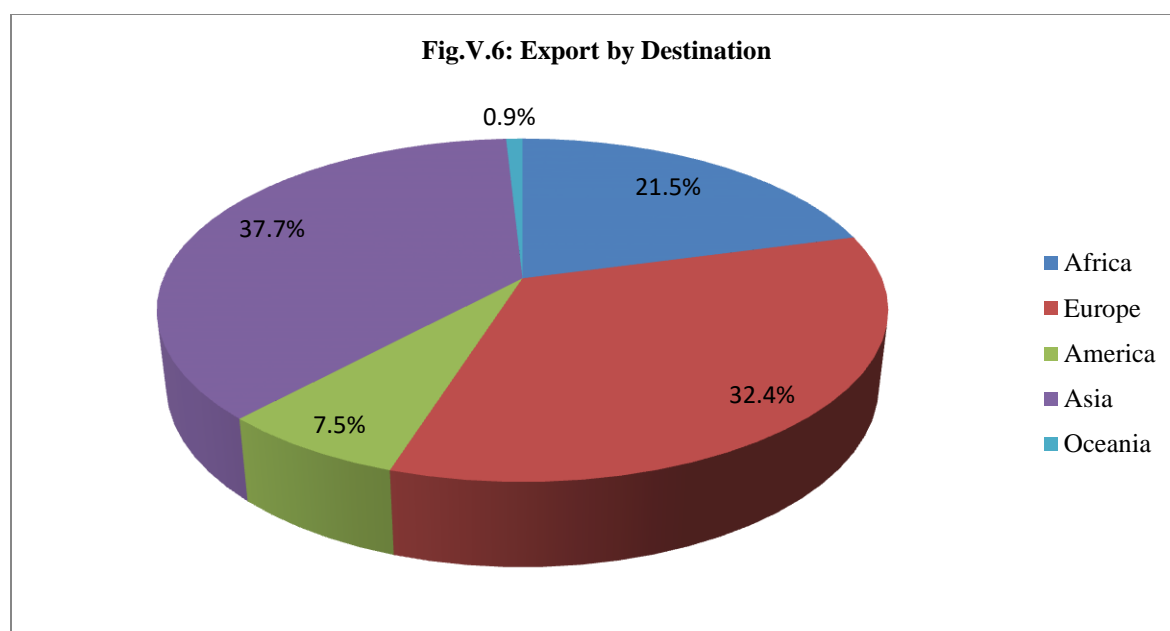
were exported to Belgium. Italy imported largely coffee, textile & garment, leather & leather products, flower, pulses and oilseeds. While the major exports to UK constituted coffee, flower, leather & leather products, oilseeds, textile and garment, pulses and vegetables. Ethiopian exports to France were coffee, textile & garment, flower, pulses, mineral products and leather & leather products.

About 21.5 percent of Ethiopia's exports went to Africa, mainly to Somalia (42.7 percent), Djibouti (21.6 percent), Sudan (14.5 percent), Kenya (8.4 percent) and Nigeria (2.3 percent), which altogether accounted for 89.5 percent of the total exports to Africa. The major exports to Somalia were chat, vegetables, live-animals, fruits and pulses, while chat, electricity, live animals, vegetables and fruits went to Djibouti. Sudan imported largely electricity,

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coffee, spices, pulses and textile & garment. The main exports to Kenya included cereals, pulses, leather & leather products, tea and textile & garment, while fruit, chat, animal product, flower and vegetables were exported to Nigeria.

America accounted for 7.5 percent of Ethiopia's total exports, of which 87.3 percent was destined to the United States and 5.5 percent to Canada. Coffee, leather & leather products, oilseeds, textile & garments, flower, food and mineral products were the major exports to the United States, while coffee, leather & leather products, flower, food, oilseeds and textile and garments exported to Canada.



Source: NBE Staff Compilation

In terms of merchandise imports, about 62.6 percent originated from Asia, 22.1 percent from Europe, 8.3 percent from America and 3.9 percent from Africa.

The major import origins in Asia were China (50.7 percent), India (11.8 percent), Kuwait (7.4 percent), Japan (6.9 percent), Saudi Arabia (4.7 percent), United Arab Emirates (3.7 percent), Malaysia (3.0 percent) and Indonesia (2.9 percent) whose combined share was 91.0 percent.

Major imports from China included aircraft parts, metal & metal products, electrical materials, road motor vehicles, cloths and textiles. Likewise, metal & metal products, grain, fertilizer and machines including aircraft parts were the major imports from

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India. Petroleum products, chemical and fertilizer were the major import items from Kuwait. Imports from Japan constituted road motor vehicles, aircraft parts, metal & metal products and rubber product. Petroleum products were the major Ethiopian imports from Saudi Arabia. Similarly, imports from United Arab Emirates were petroleum products, metal & metal products, chemicals and rubber products. Machines including aircraft parts, soap & polish and electric materials were the major imports from Malaysia. Imports from Indonesia included soap & polish, paper & paper products, textile, chemicals and electric materials.

Imports from Europe accounted for 22.5 percent of Ethiopia's total imports with the major countries of origin being Italy (19.5

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percent) Turkey (15.2 percent), Sweden (11.6 percent), Germany (7.2 percent), Belgium (5.9 percent), France (5.7 percent), the Netherlands (5.6 percent), United Kingdom (4.7 percent), Spain (4.5 percent) Ukraine (3.1 percent) and Romania (2.4 percent). These countries jointly constituted 85.7 percent of Ethiopia's imports from Europe.

Major imports from Italy included machine and aircraft parts, road motor vehicles, fertilizer, metal & metal products, electric materials and food & live-animals. Imports from Turkey were metal & metal products, aircraft parts, electrical materials, rubber products and fertilizer. Telecom apparatus, electrical materials, road motor vehicles and aircraft parts were the main imports from Sweden. Imports from Germany were aircraft parts, road motor vehicles, electrical materials and metal & metal products, While Belgium exported largely aircraft parts, medical & pharmaceuticals products and fertilizer. Aircraft parts, electric materials and Metal & metal products were the main imports from France. Import from Netherlands included fertilizer, aircraft parts and Food and Live Animals The major imports from United Kingdom were aircraft parts, electric materials, road and motor vehicles and Fertilizer. Road and motor

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vehicles, metal & metal products and aircraft parts were imported from the Spain. Imports from Ukraine were metal & metal products, food & live-animals, and aircraft. Food & live-animals, machines including aircraft parts, chemical and fertilizer were the main items imported from Romania.

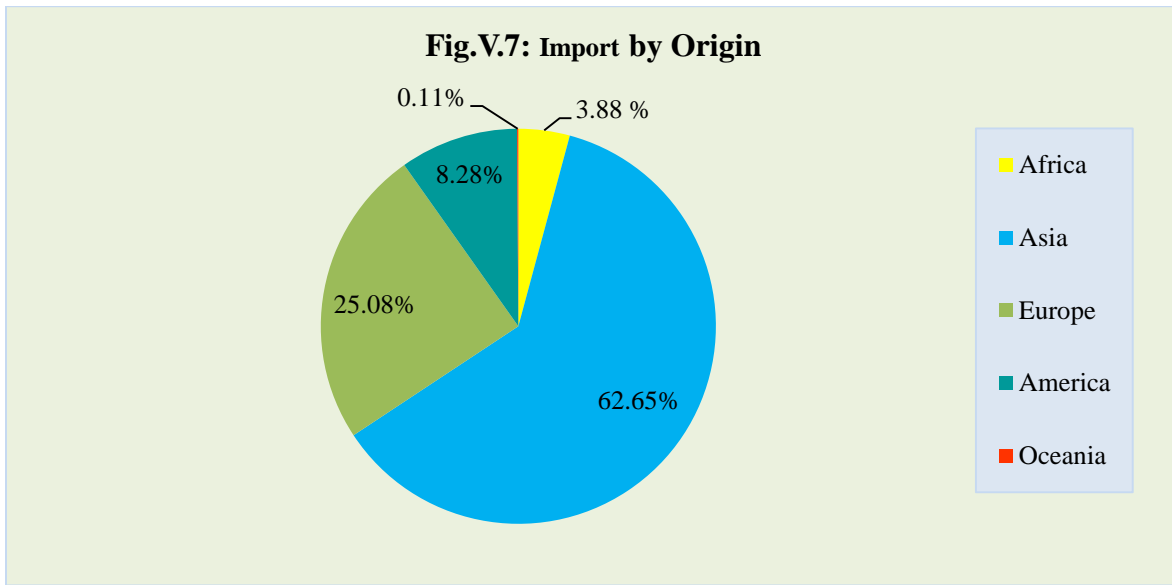
Imports from America accounted for 7.8 percent of the total Ethiopian import bills, of which the United States accounted for 83.4 percent, Brazil 10.1 percent and Canada 5.9 percent. Machine and aircraft parts, Food & live-animals, electric materials, fertilizer and road and motor vehicles were the major imports from the United States. Machines including aircraft parts, road and motor vehicles, rubber products and food & live-animals were imported from Brazil. Aircraft parts and electric materials constituted the main imports from Canada.

Africa accounted for about 5.2 percent of Ethiopia's total imports. The major countries of origin were Morocco (30.6 percent), South Africa (24.8 percent), Egypt (22.2 percent), Sudan (14.6 percent) and Kenya (4.2 percent) which jointly accounted for 96.3 percent of Ethiopia's imports from the continent. Major imports from Morocco included road and motor vehicles, Petroleum Product, Beverages and Electrical Material

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Petroleum Product, road and motor vehicles, Machine. & and Air Craft and Electrical Material were the major imports from South Africa. The major Imports from Egypt were Petroleum Product, soap & polish, Metal &

metal products, and Food and Live Animals while, Sudan exported petroleum products and food & live-animals. Food & live-animals and machines including aircraft parts, were the main imports from Kenya.



Source: NBE Staff Compilation

5.3 Services and Transfers

5.3.1 Services

In 2016/17, net services recorded USD 546.9 million deficit, compared to USD 619.0 million deficit a year ago. This was attributed to narrower deficit in net travel (35.4 percent) and net other services (26.6 percent) coupled with improvement in government services (6.9 percent).

Table 5.7 Services Accounts

(In Millions of USD)

S/N	Particulars	2014/15	2015/16	2016/17	Percentage Change	
		A	B	C	D=B/A	E=C/B
1	Investment Income (2+5)	-272.8	-373.7	-485.6	37.0	29.9
2	Interest, net (3-4)	-249.1	-361.6	-436.6	45.2	20.8
3	Credit	10.3	13.1	18.5	27.4	41.1
4	Debit	259.4	374.7	455.2	44.4	21.5
5	Dividend, net	-23.7	-12.1	-48.9	-48.8	303.7
6	NON-FACTOR SERVICES, net (7-8)	-78.9	-245.3	-61.3	210.9	-75.0
7	Exports of non-factor services	3,028.4	3,196.4	3,331.1	5.5	4.2
	Travel	409.8	376.8	340.4	-8.1	-9.7
	Transport	2,186.9	2,228.6	2304.0	1.9	3.4
	Government	184.0	418.2	460.3	127.3	10.1
	Other	247.7	172.8	226.4	-30.3	31.0
8	Imports of non-factor services	3,107.3	3,441.8	3,392.5	10.8	-1.4
	Travel	326.1	442.5	382.9	35.7	-13.5
	Transport	1776.7	1697.5	1921.7	-4.5	13.2
	Government	1.7	58.1	75.5		29.9
	Other	1002.7	1243.6	1012.4	24.0	-18.6
9	Net Services (10+11+12+13+14)	-351.7	-619.0	-546.9	76.0	-11.6
10	Travel	83.7	-65.7	-42.5	-178.5	-35.4
11	Transport	410.2	531.1	382.3	29.5	-28.0
12	Government	182.2	360.1	384.8	97.6	6.9
13	Other	-755.0	-1070.8	-786.0	41.8	-26.6
14	Investment Income	-272.8	-373.7	-485.6	37.0	29.9

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

5.3.2 Unrequited Transfers

Net transfers declined by 11.6 percent due to 14.7 percent drop in private transfers despite 2.7 percent increase in official transfers. The decline in net private transfers compared with the previous year was attributed to lower

transfers to NGO's (45.2 percent) albeit a slight increment in private individuals transfers (0.2 percent).

Table 5.8: Unrequited Transfers

(In Millions of USD)

S/N	Particulars	2014/15		2015/16		2016/17		Percentage Change	
		A	% share	B	% share	C	% share	B/A	C/B
1	Private Transfers	4,881.6	76.4	6,428.6	82.2	5,485.3	79.3	31.7	-14.7
1.1	Receipts	4,901.2	76.3	6,459.6	82.0	5,544.8	79.1	31.8	-14.2
	NGO's	1,104.5	17.2	2,039.2	25.9	1,117.2	15.9	84.6	-45.2
	Cash	1,017.0	15.8	1,207.7	15.3	922.4	13.2	18.8	-23.6
	Food Other	87.5	1.4	831.5	10.6	194.8	2.8	850.4	-76.6
	Private individuals	3,796.7	59.1	4,420.3	56.1	4,427.5	63.1	16.4	0.2
1.2	Payments	19.6	53.8	31.0	56.5	59.5	60.9	58.4	91.6
2	Official Transfers	1,507.9	23.6	1,391.1	17.8	1,428.3	20.7	-7.7	2.7
2.1	Receipts	1,524.7	23.7	1,415.0	18.0	1,466.5	20.9	-7.2	3.6
	Cash Food	1,524.7	23.7	1,159.4	14.7	920.0	13.1	-24.0	-20.6
	Other			255.6	3.2	546.5	7.8		113.8
2.2	Payments	16.9	46.2	23.9	43.5	38.1	39.1	42.0	59.4
	Total Receipts	6,426.0	100.0	7,874.6	100.0	7,011.2	100.0	22.5	-11.0
	Total Payments	36.4	100.0	55.0	100.0	97.6	100.0	50.8	77.6
3	Net Transfers	6,389.5	100.0	7,819.6	100.0	6,913.6	100.0	22.4	-11.6

Source: National Disaster Risk Management Commission, MoFEC and NBE

5.4. Current Account

The deficit in the current account balance, including official transfers, slightly narrowed to USD 6.5 billion in 2016/17 from USD 6.7 billion last year due to improvement in trade balance and net services as well as net official transfers.

5.5 Capital Account

The capital account showed USD 6.8 billion surplus which was 5.0 percent higher than that of last year, mainly due increase in private sector long term capital (11.5 percent), foreign direct investment (27.6 percent) and short term capital (18.2 percent). Official net long term capital and net other public long term capital, however, declined by 13.9 percent and 40.5 percent, respectively.

5.6 Changes in Reserve Position

Net foreign assets of the banking system recorded a USD 658.6 million increase due to growth both in net foreign

assets of NBE and commercial banks. Thus, gross international reserve was adequate to cover 2.4 months of imports of goods and non-factor services.

5.7 External Debt

Ethiopia's external debt stock reached USD 23.5 billion in 2016/17, depicting a 9.2 percent annual growth largely due to higher debt owed to multilateral and bilateral creditors. Hence, the country's external debt stock to GDP ratio stood at 29.2 percent. Its ratio to total receipts from export of goods and non-factor services rose to 3.8 from 3.5 a year ago. Commercial debt stock reached USD 6.4 billion showing a 0.6 percent annual decline and accounted for 27.4 percent of the total debt stock. Of the total debt stock, 38.6 percent was owed to multilateral and 34.0 percent to bilateral creditors. The country's external debt burden as measured by debt services to export of goods and non-factor services ratio increased slightly to 20.0 percent from 18.5 percent a year earlier.

Table 5.9: External Public Debt*

(In Millions of USD)

Particulars	2014/15	2015/16	2016/17	Percentage Change	
	A	B	C	D=B/A	E=C/B
Annual Debt	6,419.1	3,444.4	2,853.5	-46.3	-17.2
Debt Stock	19,091.9	21,510.6	23,492.1	12.7	9.2
Multilateral	6,484.7	7,719.6	9,067.2	19.0	17.5
Bilateral	5,904.9	7,318.2	7,993.7	23.9	9.2
Commercial	6,702.3	6,472.9	6,431.3	-3.4	-0.6
Debt Service	975.2	1,123.6	1,223.6	15.2	11.1
Principal repayments	720.0	765.0	820.9	6.3	7.3
Interest Payments	255.2	358.6	402.7	40.5	12.3
Debt Stock to GDP Ratio (in %)	29.6	29.7	29.2	0.5	-1.8
Debt stock to export of goods and non-factor services	3.2	3.5	3.8	12.4	6.2
Receipt from Goods & Non-factor Services	6,047.5	6,064.2	6,238.6	0.3	2.9
Debt service ratio (In percent)^{1/}	16.1	18.5	20.0	14.6	8.3
Arrears					
Principal					
Interest					
Relief					
Principal					
Interest					

Source: MoFEC and NBE^{1/} GDP is a forecast^{2/} Ratio of debt service to receipts from export of goods and non-factor services

*2014/15 and 2015/16 data are revised according to MoFEC statistics 2016/17 data are Preliminary

5.8. Developments in Foreign Exchange Markets

5.8.1. Developments in Nominal Exchange Rate

During 2016/17, the weighted average exchange rate of Birr in the inter-bank foreign exchange market was Birr 22.4137/USD, depicting a 6.2 percent annual depreciation (Table 5.10).

Table 5.10 Inter-Bank Exchange Rates of 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
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
2016/17	22.4137	12.55	0.00	251.00	0.00
Qtr. I	21.9262	3.10	0.00	62.00	0.00
Qtr. II	22.2228	3.25	0.00	65.00	0.00
Qtr. III	22.5832	3.15	0.00	63.00	0.00
Qtr. IV	22.9225	3.05	0.00	61.00	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 both depreciated by

6.3 percent with spread margin of 1.96 percent.

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

Currency	2014/15	2015/16	2016/17	Percentage change	
	A	B	C	B/A	C/B
Pound Sterling	1.5697	1.3433	1.2965	-14.42	-3.48
Swedish Kroner	0.1202	0.1175	0.1173	-2.19	-0.18
Djibouti Franc	0.0056	0.0056	0.0056	-0.05	0.02
Swiss Franc	1.0708	1.0198	1.0429	-4.76	2.26
Saudi Riyal	0.2666	0.2666	0.2666	0.00	0.01
UAE Dirhams	0.2723	0.2723	0.2722	0.00	-0.01
Canadian Dollar	0.8094	0.7696	0.8106	-4.92	5.33
Japanese Yen	0.0081	0.0097	0.0089	19.78	-8.95
Euro	1.1112	1.1083	1.1405	-0.26	2.91
SDR	1.4067	1.3954	1.3876	-0.80	-0.56

Source: Staff Compilation

In 2016/17, the end period mid-market exchange rate of the US dollar appreciated against Japanese Yen (9.0 percent), Pound Sterling (3.5 percent), SDR (0.6 percent), Swedish Kroner (0.2 percent) and UAE Dirham (0.01 percent). In contrast, it depreciated against Canadian Dollar (5.3 percent), Euro (2.9 percent), Swiss Franc (2.3 percent), Djibouti Franc (0.02 percent) and Saudi Riyal (0.01 percent) to US dollar appreciation vis-à-vis those currencies was mainly attributed to stronger U.S.

economic performance relative to other countries and divergence of U.S. growth and monetary policy prospects from key trading partners as well as bullish expectation of dealers. In addition to aforementioned reasons, the appreciation of USD specifically against Pound sterling was associated with Brexit. On the other hand, the depreciation of US dollar against Euro was related to the economic recovery of the Eurozone. (Table 5.11)

Table 5.12: End Period Mid-Market Rates

(Birr per Unit of Foreign Currency)

Currency	2014/15	2015/16	2016/17	Percentage change	
	A	B	C	B/A	C/B
USD	20.6688	21.9094	23.2237	6.00	6.00
Pound	32.4437	29.4309	30.1095	-9.29	2.31
Swedish Kroner	2.4838	2.5751	2.7248	3.68	5.81
Djibouti Frank	0.1160	0.1229	0.1303	5.95	6.02
Swiss Frank	22.1316	22.3429	24.2191	0.95	8.40
Saudi Riyal	5.5108	5.8416	6.1923	6.00	6.00
UAE Dirhams	5.6274	5.9650	6.3222	6.00	5.99
Canadian Dollar	16.7291	16.8612	18.8260	0.79	11.65
Japanese Yen	0.1682	0.2135	0.2061	26.97	-3.49
Euro	22.9671	24.2822	26.4866	5.73	9.08
SDR	20.6688	21.9094	32.2251	5.15	5.41

Source: Staff Compilation

The Birr also weakened against most international currencies, specifically, Canadian Dollar (11.7 percent), Euro (9.1 percent), Swiss Franc (8.4 percent), Swedish Kroner (5.8 percent), SDR (5.4 percent) and British Pound (2.3 percent). In addition, the Birr depreciated by 6.0

percent against USD, Djibouti Franc, Saudi Riyal and UAE Dirham. In contrast, it appreciated against Japanese Yen by 3.5 percent (Table 5. 12).

5.8.2. Movements in Real Effective Exchange Rate

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. In 2016/17, the REER

appreciation was 7.9 percent compared to 1.1 percent a year earlier owing to strengthening of Birr against trading partners' currency and rising domestic inflation. (Table 5.13)

On the other hand, the nominal effective exchange rate (NEER) of the Birr appreciated by 1.6 percent compared to 2.7 percent depreciation a year ago.

Table 5.13: Trends in Real and Nominal Effective Exchange Rates

Fiscal Year	REERI	NEERI	Percentage Change	
			REERI	NEERI
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
2016/17	171.9	41.8	7.9	1.6

Source: NBE Staff Compilation

N.B: 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

During 2016/17, USD 12.6 million was traded in the inter-bank foreign exchange market which was 0.8 percent lower than last year. All the foreign exchange traded in the inter-bank foreign exchange market was supplied by the National Bank of Ethiopia (Table 5.10).

Meanwhile, forex bureaux of commercial banks purchased foreign exchange to the tune of USD 318.1 million showing a 6.4 percent decline over the preceding year. Likewise, their foreign exchange sales fell by 1.0 percent to USD 192.7 million (Table 5.14).

Table 5.14: Foreign Exchange Transactions by Forex Bureaus of Commercial Banks
(In Millions of USD)

Name of Forex Bureau	2014/15		2015/16		2016/17		Percentage Change	
	A	B	C	D	E	F	E/C	F/D
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
Commercial Bank of Ethiopia	292.96	100.82	262.02	93.50	242.05	84.48	-7.62	-9.65
Bank of Abyssinia	5.32	10.02	5.06	9.64	6.32	11.32	24.75	17.41
Dashen Bank	22.80	28.51	16.87	30.34	12.97	20.59	-23.10	-32.13
Awash International Bank	6.68	19.51	6.28	10.71	4.85	16.70	-22.69	55.94
Construction & Business Bank	4.36	3.03	3.09	1.72	0.00	0.00	-100.00	-100.00
Wegagen Bank	4.62	5.71	3.77	5.99	4.16	5.61	10.41	-6.30
United Bank	11.22	13.41	9.96	14.50	6.03	13.10	-39.46	-9.63
Development Bank	0.43	0.65	0.03	0.37	0.00	0.28	-99.37	-23.79
Nib International Bank	2.66	8.39	1.40	5.27	1.35	7.60	-3.91	44.14
Lion International Bank	2.21	2.62	19.04	4.77	25.59	5.61	34.41	17.56
Oromia International Bank	6.18	4.62	9.01	5.09	3.46	5.02	-61.60	-1.47
Zemen Bank	0.67	3.97	0.65	6.19	0.72	11.74	11.39	89.57
Cooperative Bank of Oromia	0.93	3.07	0.67	1.67	0.75	2.17	12.36	29.39
Buna International Bank	0.67	1.37	0.54	1.17	4.25	2.39	692.94	104.86
Birhan International Bank	0.33	0.45	0.14	0.47	0.68	2.38	372.49	408.93
Abay Bank	0.88	2.09	0.07	1.00	1.38	1.34	1966.67	34.01
Addis International Bank	0.95	0.96	0.78	1.55	3.20	1.55	308.93	-0.15
Debub Global Bank	0.29	0.27	0.16	0.36	0.07	0.29	-58.71	-20.32
Enat Bank	0.52	0.54	0.32	0.25	0.25	0.52	-21.42	104.38
Total	364.67	210.00	339.86	194.57	318.09	192.67	-6.41	-0.97
Average Exchange Rate	20.1003	20.4798	21.0910	21.5044	22.41	22.85	6.26	6.26

Source: Staff Compilation

VI. GENERAL GOVERNMENT FINANCE

6.1 General

Overall fiscal operations of the general government during 2016/17 F.Y resulted in Birr 60.1 billion deficit, compared to Birr 29.2 billion deficit a year earlier (Table 6.4).

Total revenue (including grants) depicted a 10.4 percent annual growth. While, revenue to GDP ratio decreased

to 14.2 percent from 15.1 percent last year (Table 6.1).

General government expenditure in the review period also rose by 20.6 percent as a result of growth in both current and capital expenditures (Table 6.3).

The ratio of expenditure to GDP slightly increased to 18.2 percent from 17.9 percent of 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)
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
2016/17	-3.3	3.2	34.9	28.7	18.2	18.2	14.2	11.3

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 and grants registered 10.4 percent growth and was Birr 269.1 billion in the review period (Table 6.2). About 81.9 percent of the total domestic revenue was generated through taxes which grew by 10.8 percent and reached to Birr 210.1 billion. This was attributed to improved collection of taxes from direct taxes (14.5 percent) and indirect taxes (8.5 percent) whose respective contribution to tax revenue was 38.7 percent and 61.3 percent.

Birr 46.4 billion was collected through non-taxes which saw a 13.6 percent growth over the preceding year due to improvements in all components of non-taxes except government investment income (Table 6.2).

External grants stood at Birr 12.4 billion about 4.1 percent lower than a last year same period.

In short, total general government revenue performance, including grants, was about 89.6 percent of the annual target.

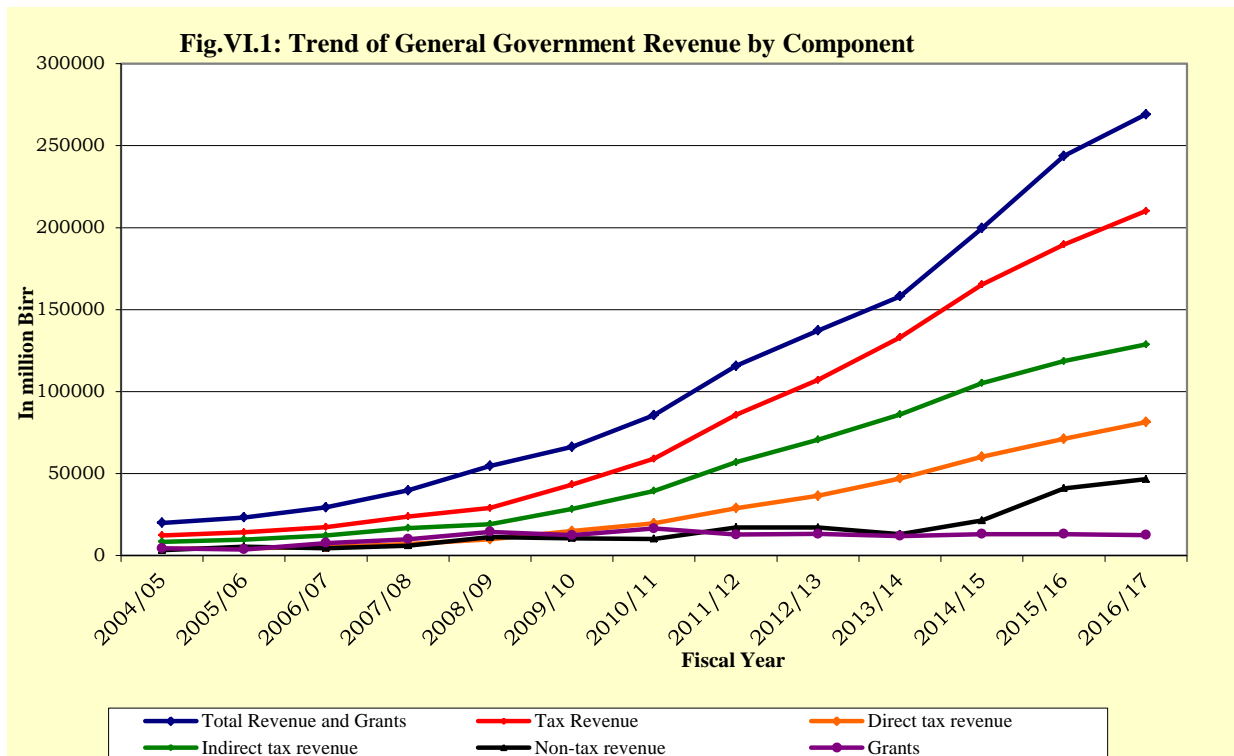


Table 6.2: Summary of General Government Revenue by Component

(In Millions of Birr)

Particulars	2015/16	2016/17		Percentage Change	Performance Rate
	[A]	[B]	[C]		
	Pre. Act	Revised Budget	Pre. Act	[C/A]	[C/B]
Total Revenue and Grants	243,671.6	300,493.9	269,105.9	10.4	89.6
Total Revenue 1/	230,657.3	284,385.5	256,629.0	11.3	90.2
Tax Revenue	189,717.2	226,894.4	210,135.9	10.8	92.6
1. Direct Tax Revenue	71,126.8	87,618.8	81,410.4	14.5	92.9
<i>1.1 Income and Profit Taxes</i>	69,520.2	84,652.7	78,321.7	12.7	92.5
<i>Personal</i>	25,171.2	26,618.5	26,577.5	5.6	99.8
<i>Business</i>	36,445.7	48,148.4	42,260.2	16.0	87.8
<i>Others 2/</i>	7,903.3	9,885.8	9,484.0	20.0	95.9
<i>1.2 Rural Land Use Fee</i>	330.0	437.8	410.9	24.5	93.8
<i>1.3 Urban Land Use Fee</i>	1,276.7	2,528.2	2,677.8	109.8	105.9
2. Indirect Taxes	118,590.4	139,275.6	128,725.4	8.5	92.4
<i>2.1 Domestic Taxes</i>	55,867.4	67,594.2	62,523.1	11.9	92.5
<i>2.2 Foreign Trade Taxes</i>	62,722.9	71,681.4	66,202.4	5.5	92.4
<i>Import</i>	62,722.9	71,681.4	66,202.4	5.5	92.4
<i>Export</i>					
3. Non-Tax Revenue	40,940.1	57,491.1	46,493.2	13.6	80.9
<i>3.1 Charges and Fees</i>	2,399.8	2,046.7	3,567.8	48.7	174.3
<i>3.2 Govt. Invt. Income 3/</i>	15,431.8	16,749.1	14,746.0	(4.4)	88.0
<i>3.3 Reimb. And Property Sales</i>	117.7	253.2	145.9	24.0	57.6
<i>3.4 Sales of Goods & Services</i>	4,097.7	6,515.0	4,956.9	21.0	76.1
<i>3.5 Others 4/</i>	18,893.2	31,927.0	23,076.6	22.1	72.3
4. Grants	13,014.3	16,108.4	12,476.9	(4.1)	77.5

Source: Ministry of Finance and Economic Co-operation

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

6.3 Expenditure

Birr 329.2 billion budget was spent on different general government operations, which showed a 20.6 percent increase over last year (Table 6.3). Current expenditure amounted to Birr 176.7 billion, about 34 percent higher than a year earlier. Its share in total expenditure was 53.7 percent.

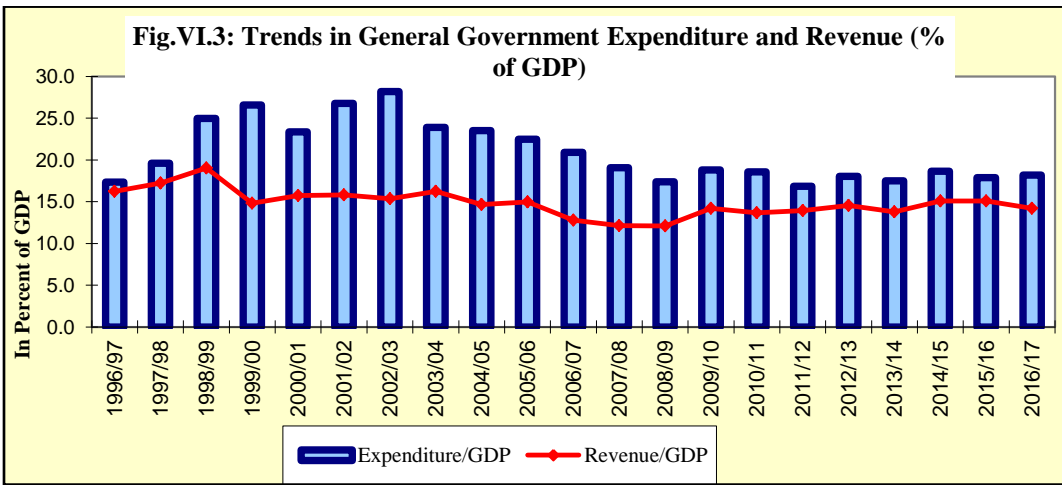
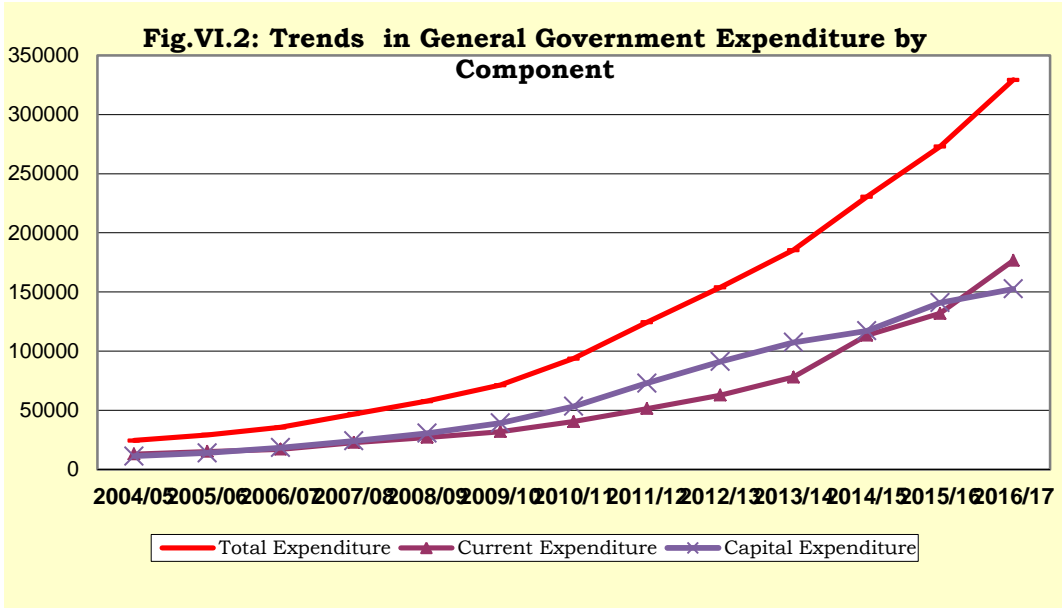
Capital expenditure reached Birr 152.5 billion and depicted 8.2 percent annual increase and its share in total expenditure was 46.3 percent.

All in all, general government expenditure performance rate was 89.1 percent of the annual budget.

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

Particulars	2015/16	2016/17		Percentage Change	Performance Rate
	[A]	[B]	[C]	[C/A]	[C/B]
	Pre. Act	Revised Budget	Pre. Act		
Total Expenditure	272,930.1	369,704.2	329,286.8	20.6	89.1
1. Current Expenditure	131,902.8	192,634.2	176,703.0	34.0	91.7
<i>General Services</i>	41,444.5	43,459.0	53,697.4	29.6	123.6
<i>Economic Services</i>	22,342.3	22,551.9	23,536.3	5.3	104.4
<i>Social Services</i>	57,682.0	75,690.4	86,659.4	50.2	114.5
<i>Interest and Charges</i>	7,231.8	9,808.5	8,248.1	14.1	84.1
<i>External Assistance^{1/}</i>					
<i>Social Safety Net</i>					
<i>Others (miscellaneous)</i>	3,202.2	41,124.3	4,561.9	42.5	11.1
2. Capital Expenditure	141,027.3	177,070.1	152,583.8	8.2	86.2
Economic Development	89,934.9	110,538.1	98,781.3	9.8	89.4
Social Development	38,214.0	47,122.6	39,869.0	4.3	84.6
General Development	12,878.3	19,409.4	13,933.6	8.2	71.8
3. Special programs					

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



6.4 Deficit Financing

During the review period, general government budgetary operations, including external grants, resulted in a deficit of Birr 60.1 billion, which was significantly higher than that of a year earlier. Primary deficit as percentage of GDP was 3.3 percent.

The deficit was financed by net domestic borrowing, external borrowing and privatization receipt.

Table 6.4 Summary of General Government Finance

(In Millions of Birr)

Particulars	2015/16	2016/17		Percentage Change	Performance Rate
	[A]	[B]	[C]		
	Pre. Act	Revised Budget	Pre. Act	[C/A]	[C/B]
Revenue and Grants	243,671.6	300,493.9	269,105.9	10.4	89.6
Revenue	230,657.3	284,385.5	256,629.0	11.3	90.2
Grants	13,014.3	16,108.4	12,476.9	(4.1)	77.5
Total Expenditure	272,930.1	369,704.2	329,286.8	20.6	89.1
Current Expenditure	131,902.8	192,634.2	176,703.0	34.0	91.7
Capital Expenditure	141,027.3	177,070.1	152,583.8	8.2	86.2
Overall Surplus/ Deficit					
(Including Grants)	(29,258.5)	(69,210.4)	(60,180.9)	105.7	87.0
(Excluding Grants)	(42,272.8)	(85,318.8)	(72,657.8)	71.9	85.2
Total Financing	29,258.5	69,210.4	60,180.9	105.7	87.0
Net External Borrowings	26,033.5	22,030.2	28,952.5	11.2	131.4
Gross Borrowing	28,223.1	25,306.2	31,621.5	12.0	125.0
o/w Special Programs					
Amortization Paid	2,189.6	3,276.0	2,668.9	21.9	81.5
HIPC Relief					
Net Domestic Borrowings	24,704.0	34,620.2	34,629.5	40.2	100.0
Banking System	9,208.3		18,651.6	102.6	
Non-Banking Systems	15,495.7		15,977.9	3.1	
Privatization Receipts	500.0	12,560.0	10,883.3	2,076.7	86.7
Others and Residuals	(21,979.0)	0.0	(14,284.4)	(35.0)	

Source: Ministry of Finance and Economic co-operation

VII. INVESTMENT

In 2016/17, 468 projects became operational about 45.1 percent lower than a year earlier. Of the projects, 99.8 percent were private owned. These projects had investment capital Birr 8.9 billion showing 32.6 percent annual growth.

Of the total investment projects, 424 (90.6 percent) were domestic with a capital of Birr 3.3 billion (37 percent); and 43 projects were foreign having Birr 602 million capital signifying that foreign investment projects

were more capital intensive than domestic ones in terms of average capital per project.

The only public investment project on real estate, renting, and business activities accounted for 56.2 percent of total investment capital during the review fiscal year.

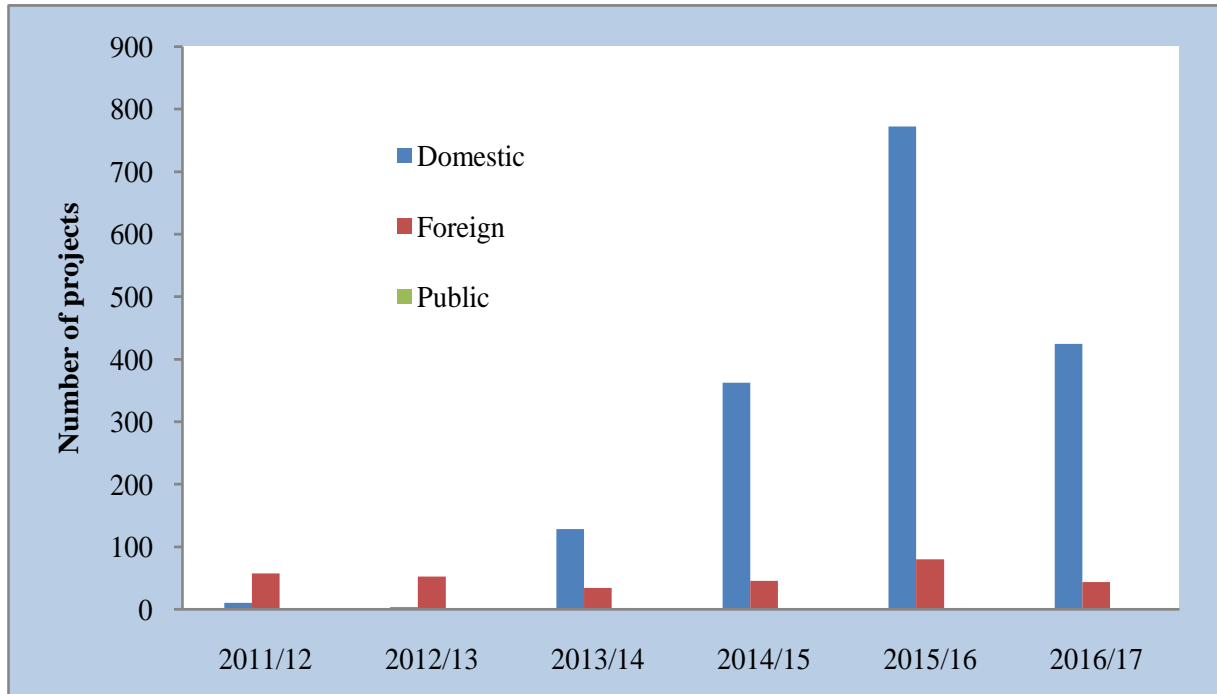
These investment projects are estimated to have created job opportunities for about 20,712 permanent and 9,775 casual workers. (Table 7.1)

Table 7.1: Number of Projects, Capital and Jobs Created by Operational Investment
(Capital in millions of Birr)

Types of Projects	Items	2014/15	2015/16	2016/17		Percentage change	
		A	B	C	Share	C/A	C/B
1. Total Investment	Number	407	852	468	100.0	15.0	-45.1
	Capital	4,135.0	6,708.6	8,896.9	100.0	115.2	32.6
	Permanent Workers	11,227	12,724	20,712	100.0	84.5	62.8
	Temporary Workers	10,505	12,710	9,775	100.0	-6.9	-23.1
1.1. Total Private	Number	407	852	467	99.8	14.7	-45.2
	Capital	4,135.0	6,708.6	3,896.9	43.8	-5.8	-41.9
	Permanent Workers	11,227	12,724	20,692	99.9	84.3	62.6
	Temporary Workers	10,505	12,710	9,775	100.0	-6.9	-23.1
1.1.1. Domestic	Number	362	772	424	90.6	17.1	-45.1
	Capital	1,530.3	5,463.7	3,295.0	37.0	115.3	-39.7
	Permanent Workers	3,467	5,869	17,810	86.0	413.7	203.5
	Temporary Workers	9,278	8,993	9,051	92.6	-2.4	0.6
1.1.2. Foreign	Number	45	80	43	9.2	-4.4	-46.3
	Capital	2,604.7	1,244.9	602.0	6.8	-76.9	-51.6
	Permanent Workers	7,760	6,855	2,882	13.9	-62.9	-58.0
	Temporary Workers	1,227	3,717	724	7.4	-41.0	-80.5
1.2. Public	Number			1	0.2		
	Capital			5,000.0	56.2		
	Permanent Workers			20	0.1		
	Temporary Workers						

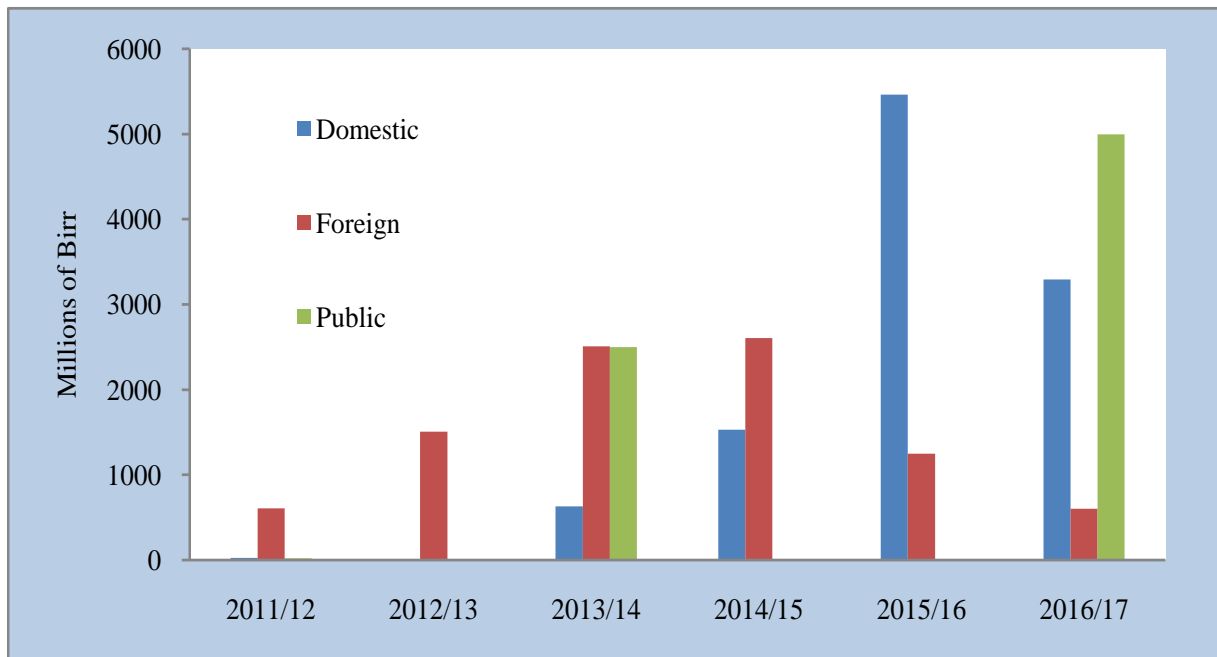
Source: Ethiopian Investment Commission

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



Source: Ethiopian Investment Commission.

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



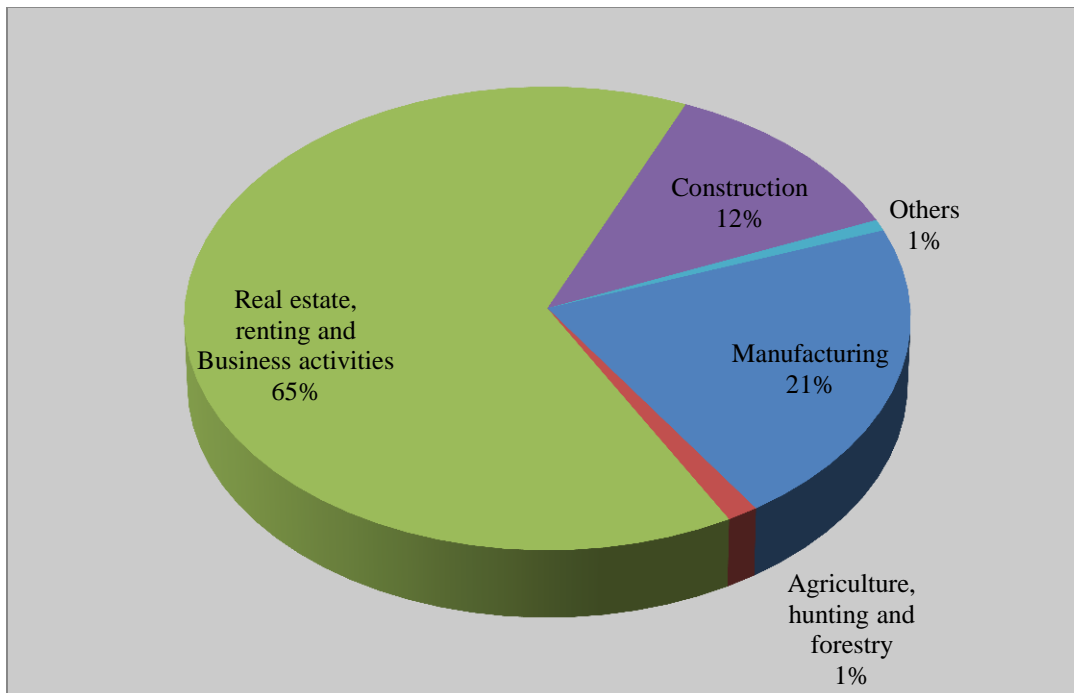
Source: Ethiopian Investment Commission

7.1 Investment by Sector

Of the total investment projects, about 42.5 percent were in construction, followed by manufacturing (31.8 percent), real estate, renting & business activities (17.3 percent), agriculture, hunting & forestry (3 percent), and mining & quarrying (1.7 percent). The rest of the sectors attracted only 3.7 percent of total investment projects.

Real estate renting & business activities constituted 64.5 percent of the investment capital followed by manufacturing (21.2 percent), construction (12.2 percent), agriculture hunting & forestry (1.3 percent), and the remaining sectors 0.8 percent (Table 7.2).

Fig.VII.3: Distribution of Operational Investment capital by Sector in 2016/17



Source: Ethiopian Investment Commission.

Others*: hotel & restaurant, education, health & social work, tour operation, transport & communication, mining & quarrying, others and other community, social and personal service activities.

Table: 7.2: Numbers and Capital of Operational Investment Projects by Sector
(Capital in millions of Birr)

Sectors	2014/15		2015/16		2016/17		Percentage share	
	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital
Manufacturing	39	2,707.2	85	2,539.5	149	1,888.0	31.8	21.2
Agriculture, hunting and forestry	107	521.7	35	66.0	14	119.6	3.0	1.3
Real estate, renting and Business activities	197	563.4	637	3,550.7	81	5,737.4	17.3	64.5
Hotel and restaurants	5	105.8	3	10.8	2	9.5	0.4	0.1
Education	1	79.8	3	7.1	4	6.1	0.9	0.1
Health and social work	1	4.0			3	13.7	0.6	0.2
Construction	50	132.8	75	506.7	199	1,081.9	42.5	12.2
Tour operation, transport and communication	3	5.8	5	10.7	3	14.7	0.6	0.2
Whole sale, retail trade and repair service	0	0.0					0.0	0.0
Mining and quarrying	0	0.0	6	12.1	8	18.7	1.7	0.2
Electricity, gas, steam and water supply	0	0					0.0	0.0
Other community, social and personal service activities	4	14.5	2	0.9	4	5.2	0.9	0.1
Others			1	4.0	1	1.9	0.2	0.0
Grand Total	407	4,135.0	852	6,708.6	468	8,896.9	100.0	100.0

Source: Ethiopian Investment Commission.

7.2 Distribution by Region

Of the total 468 investment projects that went into operation, about 376 projects (80.3 percent) with Birr 8.3 billion capital (93.4 percent) were located in Addis Ababa, followed by 42 projects (9 percent) with Birr 104.5 million capital in Amhara region. Similarly there were 21 projects (4.5 percent) with investment capital of Birr 65.9 million in Tigray; 19 projects (4.1 percent)

with Birr 335.6 million capital (3.8 percent) in Oromia, and 10 projects with investment capital of Birr 83.5 million in SNNPR. There was no operational investment project in Afar, Somali, Benishangul Gumuz, Gambella, Harari and Diredawa during 2016/17 (Table 7.3).

Table 7.3: Number and Capital of Operational Projects by Region
(Capital in millions of Birr)

Regions	2014/15		2015/16		2016/17		Percentage share	
	No. of projects	Investment Capital	No. of projects	Investment Capital	No. of projects	Investment Capital	No. of projects	Investment Capital
Tigray	49	207.3	45	111.5	21	65.9	4.5	0.7
Afar	15	97.5	6	16.0			0.0	0.0
Amhara	4	10.0	7	13.6	42	104.5	9.0	1.2
Oromia	304	1,398.4	26	345.9	19	335.6	4.1	3.8
Somali	0	0					0.0	0.0
Benishangul-Gumuz	0	0					0.0	0.0
SNNPR	1	13.8	2	5.2	10	83.5	2.1	0.9
Gambella	0	0					0.0	0.0
Harari	3	27					0.0	0.0
Addis Ababa	31	2,381.5	755	6,147.6	376	8,307.5	80.3	93.4
Dire Dawa	0	0	11	68.8			0.0	0.0
Multiregional Projects	0	0					0.0	0.0
Grand Total	407	4,135.0	852	6,708.6	468	8,896.9	100.0	100.0

Source: Ethiopian Investment Commission.

VIII. INTERNATIONAL DEVELOPMENTS

8.1. International Economic Developments

8.1.1. Overview of the World Economy

Global growth gained momentum and marked improvements in manufacturing and trade in the second half of 2016, due to stronger momentum in demand, investment in particular. Economic activity in both advanced economies and emerging & developing economies is forecast to accelerate in 2017, to 2.0 percent and 4.6 percent, respectively, with global growth projected to be 3.5 percent.

Growth picked up in 2016 in the United States as firms grew more confident about future demand, and inventories started contributing positively to growth. However, the growth forecast has been revised down from 2.3 percent to 2.1 percent in 2017 and from 2.5 percent to 2.1 percent in 2018. The main assumption for the revision is that the fiscal policy will be less expansionary than previously assumed.

Economic activity improved in Japan. The growth forecast for 2017 revised up to 1.3

percent showing a marginal increase from 1.0 percent in growth registered in 2016, supported by private consumption, investment and exports.

Growth in the United Kingdom is projected to be 1.7 percent in 2017, before declining to 1.5 percent in 2018. In the medium term, the likely effects of the Brexit Vote because of the expected increase in barriers to trade, migration and financial services sector might affect the economy.

The growth projections have been revised up for many euro area countries, including France, Germany, Italy, and Spain. The growth forecast in Euro area is projected to be 1.9 percent in 2017 up from 1.8 percent projected in 2016, indicating stronger momentum in domestic demand than previously anticipated.

The outlook for other emerging market and developing economies remains diverse. China's growth remained strong, reflecting continued policy support. Aggregate growth

in Sub-Saharan Africa is expected to increase to 2.7 percent in 2017 from 1.3 percent in 2016, largely driven by specific factors in the largest economies (Nigeria and South Africa), which faced challenging macroeconomic conditions in 2016. In Nigeria, economic activity is projected to expand by 0.8 percent in 2017 as a result of a recovery in oil production, continued growth in agriculture, and higher public investment. In South Africa, GDP is projected to grow at a modest rate of 1.0 percent in 2017, due to the improvement in commodity prices, draught conditions and

the expansion of electricity. In the Middle East, North Africa, Afghanistan and Pakistan the growth has slowed to 2.6 percent in 2017 from 5.0 percent in 2016 due to lower headline growth in the regions oil exporters driven by the November 2016 OPEC agreement to cut oil production, which masks the expected pickup in non-oil growth as the pace of fiscal adjustment to structurally lower oil revenues slows. Besides, continued strife and conflict in many countries in the region also detract from economic activity.

Table 8.1: Overview of World Economic Outlook and Projection

(Annual Percentage Change)

Particulars	2015	2016	Projection	
			2017	2018
World Output	3.4	3.2	3.5	3.6
Advanced Economies	2.1	1.7	2.0	1.9
United States	2.6	1.6	2.1	2.1
Euro Area	2.0	1.8	1.9	1.7
Japan	1.1	1.0	1.3	0.6
United Kingdom	2.2	1.8	1.7	1.5
Emerging Market & Developing Economies	4.3	4.3	4.6	4.8
Middle East, North Africa, Afghanistan and Pakistan	2.7	5.0	2.6	3.3
Sub-Saharan Africa	3.4	1.3	2.7	3.5
Nigeria	2.7	-1.6	0.8	1.9
South Africa	1.3	0.3	1.0	1.2
World Trade Volume (goods & services)*	2.7	2.2	3.8	3.9
Imports				
Advanced Economies	4.4	2.4	4.0	4.0
Emerging Market and Developing Economies	-0.8	1.9	4.5	4.3
Exports				
Advanced Economies	3.7	2.1	3.5	3.2
Emerging Market and Developing Economies	1.4	2.5	3.6	4.3
Commodity Prices (U.S. dollars)				
Oil	-47.2	-15.7	21.2	0.1
Non- oil	-17.5	-1.8	5.4	-1.4
Consumer Prices*				
Advanced Economies	0.3	0.8	2.0	1.9
United States	0.1	1.3	2.7	2.4
Euro Area	0.0	0.2	1.7	1.5
United Kingdom	0.1	0.6	2.5	2.6
Japan	0.8	-0.1	1.0	0.6
Emerging Market & Developing Economies	4.7	4.4	4.7	4.4
China	1.4	2.0	2.4	2.3
Mexico	2.7	2.8	4.8	3.2
Turkey	7.7	7.8	10.1	9.1
Brazil	9.0	8.7	4.4	4.3
Russia	15.5	7.0	4.5	4.2
Sub-Saharan Africa	7.0	11.4	10.7	9.5
Angola	10.3	32.4	27.0	17.8
Nigeria	9.0	15.7	17.4	17.5
Ghana	17.2	17.5	12.0	9.0

Source: IMF, World Economic Outlook, July, 2017

*IMF, World Economic Outlook, April, 2017

8.1. 2 World Trade

Global volume of world trade growth of goods and services in 2016 is estimated to have grown by 2.2 percent in volume terms. It is estimated to expand by 3.8 percent in 2017 and is projected to increase by 3.9 percent in 2018. Imports of goods and services by advanced economies rise by 4.0 percent in 2017. Similarly, imports by emerging market and developing economies

forecasted to grow by 4.5 percent and 4.3 percent in 2017 and 2018, respectively. Likewise, export of goods and services from advanced economies and emerging and developing economies is forecasted to expand by 3.5 percent and 3.6 percent in 2017, respectively.

8.1.3 Inflation and Commodity Prices

Higher commodity prices have pushed up global headline inflation. Core inflation remains subdued, especially in advanced economies. A broad based increase in headline inflation rates is projected in both advanced and emerging market and developing economies. In advanced economies, inflation rate is forecasted to be 2.0 percent in 2017, up from 0.8 percent in 2016. Inflation in emerging market and developing economies is projected to rise to 4.7 percent in 2017 from 4.4 percent in 2016, mostly reflecting higher commodity prices.

In the United States, consumer price inflation is picking up relatively strongly, from 1.3 percent in 2016 to a projected 2.7 percent in 2017 due to the recovery in energy prices.

Inflation is also picking up in the euro area, to about 1.7 percent in 2017 from 0.2 in 2016, partly reflecting base effects from energy and food prices.

Inflation in Japan forecasted to be 1.0 percent in 2017 from -0.1 percent in 2016. Higher energy prices, the recent weakening in the yen, and slowly building wage-price pressures are expected to lift the inflation rate in Japan.

In the United Kingdom, the pound's depreciation and the increase in energy prices are projected to push inflation up to 2.5 percent in 2017 from 0.6 percent in 2016.

In emerging market economies, inflation development is diverse. In China inflation is

expected to pick up to 2.4 percent in 2017 from 2.0 percent in 2016. Inflation is also forecasted to rise in Mexico and Turkey in 2017, mostly due to the liberalization of gasoline prices in Mexico as well as the significant depreciation of both countries' currencies. On the other hand, inflation rates in Brazil and Russia are expected to continue to decline, reflecting a combination of negative output gaps and the dissipation of the effects of past currency depreciations, supply shocks, and/or administrative price increases.

Inflation in 2017 is expected to remain at double-digit levels in a few large economies in Sub-Saharan Africa (for example, Nigeria, Angola and Ghana) reflecting, among other factors, the pass through of large depreciations.

Oil prices have continued to increase, following the agreement of OPEC members On November 30, 2016 to reduce crude oil output to 32.5 million barrels a day (mbd) effective January 2017. In response to these agreements, spot oil prices increased by 21.2 percent in 2017, after two consecutive years of significant decline.

Metal prices will increase by 23.2 percent in 2017 compared with the 2016 prices. On the

demand side, metal consumption in China, which accounts for half of global demand, rebounded in 2016 in response to the authorities' policies in support of credit growth. The IMF agriculture price index, which consists of food, beverages, and agricultural raw materials prices, has increased by 4.3 percent since August 2016.

8.1.4. Exchange Rate

Between August 2016 and March 2017, the U.S. dollar, Korean won, Taiwanese dollar, and Australian dollar have strengthened in real effective terms since August. While the euro, and the Japanese yen, have weakened. The Turkish lira and the Malaysian ringgit have depreciated in real effective terms. Indian rupee and the currencies of commodity exporting emerging market economies—in particular the Russian ruble—have gained. The Mexican peso has also strengthened relative to August.

8.2 Implications of International Economic Developments on the Ethiopia Economy

Global growth gained momentum and marked improvements in manufacturing and trade in the second half of 2016, due to stronger momentum in demand, investment in particular. Economic activity in both advanced economies and emerging and developing economies is forecasted to accelerate in 2017. The improvement in the global economy has positively contributed to the growth performance of Ethiopia's receipts from major export items, mainly coffee.

Global headline inflation has also increased due to higher commodity prices. The projected broad based increase in headline inflation rates both in advanced and emerging market & developing economies will support growth of the export earnings for the country. This is also expected to slow down the appreciation rate of the country's Real Effective Exchange Rate (REER) which may improve the country's competitiveness. On the other hand, the increase in oil price during 2016/17 has increased the country's import bills.