I.THE OVERALL ECONOMIC PERFORMANCE

1.1. Economic Growth

The Ethiopian economy continued to register remarkable growth. Real GDP expanded by 10.3 percent in 2013/14, compared to the GTP target of 11.2 percent for 2013/14.This economic growth has also been impressive compared with the5.4 percent growth estimated for Sub-Saharan Africa in 2014 (World Economic Outlook Update, July 2014).

This remarkable growth was mainly attributed to service sector (51.7percent), agricultural sector (21.9 percent) and industrial sector (26.4 percent) (Table 1.1). Nominal GDP per capita went up to USD 631.5 from USD 557.6 in the preceding year. Similarly, real per capita GDP increased by 3.0 percent to USD 377.1against the preceding year.

All in all Ethiopian economy registered average annual growth rate of 10.1 percent during the GTP period of 2010/11-2013/14. In line with the single digit inflation policy target and the Growth and Transformation Plan of the country, the Ethiopian economy is projected to grow by11.4 percent in 2014/15 in contrast to 4.0 and 5.8 percent growth projected by IMF for the world and SSA respectively (WEO, July 2014).

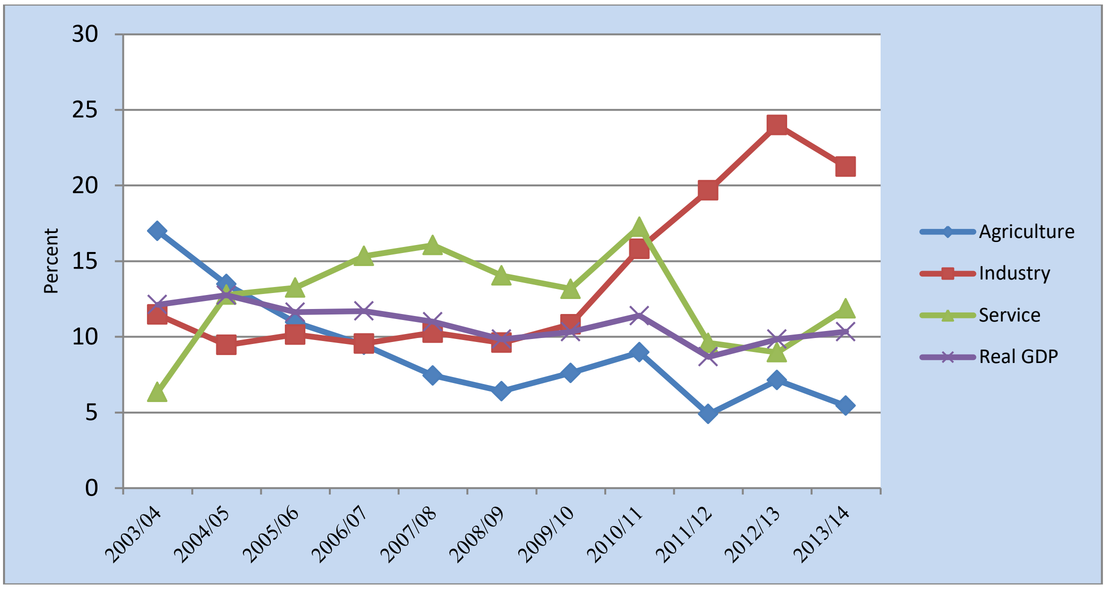
Table 1.1: Sectoral Contributions to GDP and GDP Growth

(In Billions of Birr)

Items		**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Sector	Agriculture	158.5	170.3	181.2	195.0	212.5	222.9	238.8	251.8
	Industry	32.1	35.4	38.8	43.0	49.8	59.6	73.9	89.6
	Services	123.3	143.1	163.2	184.7	216.6	237.4	258.7	289.4
Total		313.9	348.8	383.2	422.7	478.9	519.9	571.4	630.8
Less FISIM		1.8	2.4	2.7	2.9	3.2	2.9	3.5	4.2
Real GDP		**312.1**	**346.4**	**380.5**	**419.8**	**475.7**	**517.0**	**567.9**	**626.6**
Growth in Real GDP		**11.7**	**11.0**	**9.8**	**10.3**	**11.4**	**8.7**	**9.8**	**10.3**
Real GDP per capita(in thousands of Birr)		4.3	4.6	5.0	5.3	5.9	6.3	6.7	7.2
Growth in Real GDP per capita		8.0	7.3	7.1	7.5	10.6	6.1	7.1	7.5
Mid-year population(in millions)		72.4	74.9	76.8	78.8	80.7	82.7	84.8	87.0
Share in GDP (in %)	Agriculture	50.5	48.8	47.3	46.1	44.4	42.9	41.8	39.9
	Industry	10.2	10.1	10.1	10.2	10.4	11.5	12.9	14.2
	Services	39.3	41.0	42.6	43.7	45.2	45.7	45.3	45.9
Agriculture	Absolute Growth	9.5	7.4	6.4	7.6	9.0	4.9	7.1	5.4
	Contribution to GDP growth	4.8	3.6	3.0	3.5	4.0	2.1	3.0	2.2
	Contribution in %	41.6	33.8	31.7	34.9	31.1	25.4	30.9	21.9
Industry	Absolute Growth	9.6	10.3	9.6	10.8	15.8	19.7	24.0	21.2
	Contribution to GDP growth	1.0	1.0	1.0	1.1	1.6	2.3	3.1	3.0
	Contribution in %	8.5	9.5	9.9	10.6	12.1	23.9	27.8	26.4
Services	Absolute Growth	15.3	16.1	14.0	13.2	17.3	9.6	9.0	11.9
	Contribution to GDP growth	6.0	6.6	6.0	5.8	7.8	4.4	4.1	5.4
	Contribution in %	49.8	5.7	58.4	54.4	56.8	50.7	41.4	51.7

Source: Ministry of Finance and Economic Development (MoFED)

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



Source: MoFED

The agricultural sector showed a moderate growth rate of 5.4 percentin 2013/14 ascrop production increased by 6.6 percent,(Table 1.3),in general and grain crop production by 8.8 percent in particular (Table 1.2). Of the total 251.5 million quintals of grain production, cereal production alone constituted 85.8 percent while pulses and oil seeds comprised14.2 percent. The production of cereals increased by 9.8 percent overthe preceding year owing to 2.6 percent expansion in cultivated land area.Pulses production also grew by 3.9 percent while the production of oilseedsdeclined by 2.1 percent during the same period (Table 1.2).

Meanwhile, out of 12.4 million hectares of land cultivated for crop production, 79.4 percent was covered by cereals while the remaining 14.0 percent and 6.6 percent were taken up by pulses and oil seeds, respectively (Table 1.2).

The growth in agricultural output was mainlyattributed to productivity improvements supported by favorable and conducive agricultural development policies and by better productive safety net programs through rehabilitation of the environment by strengthening soil and water conservations.

The share of agriculture in Ethiopian economy during the F.Y 2013/14 was 39.9percent which went down by 1.9 percentage points in relation with the preceding year. Likewise, thesector's contribution to GDP growth rate was down by 9.0 percentage points to 21.9 percent against the previous year witnessing the structural shift of the economy from agriculture to service sector (Table 1.1).

On the other hand, the growth rate of industrialsectorwas21.2 percent; about 2.8percentage point lower than a year earlier.The share of industry in total domestic output was 14.2 percent; 1.3 percentage point up over the preceding year. The sector contributed 26.4percent to the overall economic growth during the review fiscal year (Table1.1). The share of industrial sector in GDP was very low, despite its faster growth than the other two sectors. This calls for enhancing investment in manufacturing sector taking into account the country's competitive advantages.

Manufacturing sector expanded by 11.3percent and it contributed about 30.8 percent to industrial output growth and 4.4 percent to real GDP growth. Construction industry, on the other hand, contributed more than half (53.1percent) to industrial sector growth and7.6 percent to GDP growth; implying that construction sector is currently the leading industry due to expanding in the construction of roads, railways, dams and residential houses in the country. Meanwhile, mining & quarrying and electricity & water contribute 8.8 and 7.4 percent to industrial growth, respectively(Table 1.3).

Similarly, the service sector was relatively the dominant sector in Ethiopia after it overtook the agricultural sector in 2010/11. Its year-on-year growth was 11.9 percent which was 2.9 percentage point higher than last year. The share of service sector in GDP was about 45.9 percent and its contribution to GTP was about 51.7 percent in 2013/14 (Table 1.1). The significant contribution of the sector to GDP had become gripping due to the massive contribution and growth of the major sub-sectors. Whole sale and retail trade services which expanded by14.5 percent were the major contributors (34.9 percent) to service sector growth followed by real estate, renting and business activities sub-sector which grew annually by 3.9

percent and contributed 17 percent to the sector's growth. Similarly, hotels and restaurants contributed 9.8 percent to the service sector, followed by transport and communication (10.1 percent) and public administration and defense (10.2 percent)(Table 1.3).

Table 1.2: 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	2010/11		2011/12		2012/13		2013/14	
	Cultivated Area	Total Production	Cultivated Area	Total Production	Cultivated Area	Total Production	Cultivated Area	Total Production
Cereals	9,690	177,613.0	9,588	188,099	9,601	196,512	9,848	215,835
Percentage changes	4.9	14.3	-1.1	5.9	0.1	4.5	2.6	9.8
Pulses	1,357.0	19,531.0	1,616.0	23,162	1,863	27,510	1,743	28,589
Percentage changes	-8.9	2.9	19.1	18.6	15.3	18.8	-6.5	3.9
Oilseeds	774.0	6,339.0	880.0	7,308.0	818.4	7,266.6	816.0	7,112.6
Percentage changes	-0.88	-1.5	13.7	15.3	-7.0	-0.6	-0.3	-2.1
Total	**11,821.0**	**203,483.0**	**12,084.0**	**218,569.0**	**12,282.9**	**231,288.5**	**12,406.6**	**251,536.4**
Percentage changes	**2.8**	**12.6**	**2.2**	**7.4**	**1.6**	**5.8**	**1.0**	**8.8**

Source: Central Statistical Agency (CSA)

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

Sub-sectors/Year	2011/12	2012/13	2013/14
Percentage Contribution of Major Agricultural Sub-Sectors			
Crop	69.2	69.9	70.7
Animal Farming and Hunting	21.7	21.3	20.6
Forestry	9.1	8.8	8.7
Growth of Major Agricultural Sub-Sectors (in %)			
Crop	5	8.2	6.6
Animal Farming and Hunting	5.4	5.2	2.1
Forestry	3.1	3.3	4.2
Percentage Contribution of Major Industrial Sub-Sectors			
Mining and Quarrying	12.9	11.0	8.8
Manufacturing	35.6	33.6	30.8
Large and Medium Scale Manufacturing	24.0	24.0	22.7
Small Scale and Cottage Industries	11.6	9.5	8.1
Electricity and Water	9.3	8.3	7.4
Construction	42.1	47.1	53.1
Growth of Major Industrial Sub-sectors (in %)			
Mining and Quarrying	12.7	6.3	-3.4
Manufacturing	11.8	16.9	11.3
Large and Medium Scale Manufacturing	15.9	24.2	14.5
Small Scale and Cottage Industries	4.2	1.9	3.1
Electricity and Water	13.5	10.0	7.5
Construction	31.5	38.7	36.4
Percentage Contribution of Major Service Sub-Sectors			
Whole Sale and Retail Trade	33.6	34.0	34.9
Hotels and Restaurants	7.9	8.6	9.8
Transport and Communications	9.4	10.0	10.1
Real Estate, Renting and Business Activities	19.3	18.4	17.0
Public Administration and Defense	11.2	10.9	10.2
Others*	18.6	18.2	18.0
Growth of Major Service Sub-sectors (in %)			
Whole Sale and Retail Trade	12.5	10.1	14.9
Hotels and Restaurants	10.1	19.1	26.4
Transport and Communications	12.6	15.2	13.7
Real Estate, Renting and Business Activities	3.8	3.8	3.9
Public Administration and Defense	3.1	6.5	5.0
Others*	13.4	6.2	10.7

Source: MoFED

* 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

During 2013/14, the total consumption expenditure (public and private) as a percent of GDP went down to 77.5 percent from 80.8 percent last year and 85.6 percent GTP target set for the year. This slowdown in consumption expenditure was mainly due to 3 percentage point decline in private consumption expenditure to GDP ratio andthe 4.5 percentage point rise in capital formation.

As a result, gross domestic saving to GDP ratio went up to 22.5 percent from 19.2 percent in the previous year, and 14.4 percent GTP target for the year. The 3.3 percentage point decrease in the level of total consumption expenditure to GDP ratio has contributed to an improvement in domestic savings by the same percentage points (Table 1.4). The increase in the level of domestic saving was 41.8 percent while that of total consumption expenditure was 16.2 percent.

The trade deficit to GDP ratio rose by 1.2 percentage pointsto reach 17.8against the preceding year owing to the marginal rise (by 0.4 percent percentage points) in the value of import bill to GDP ratio and marginal decrease in the value of export bill to GDP ratio by 0.8percentage points. In other words, the growth in the value of import (22.8 percent) was relatively higher than the growth in the value of export (13.6 percent); as the country's import expenditure usually remain more than double of its export earnings. In this regard, the performance of the external sector was moderately not in a row to hit the GTP target of 14.5 percent resource gap to GDP ratio as a result of continued increase in the level of importation of capital goods and machineries which were believed to positively contribute to the ongoing renaissance of the country.

In the review year, the level of gross capital formation to GDP ratio reached 40.3 percent; showing 11.4 percentage points increase over last year and compared to the GTP target of 28.9 percent for the same year. The level of gross capital formation and private consumption expenditures were the main sources of aggregate demand of the country as the public consumption merely constituted 8.0 percent of GDP. The contribution of gross capital formation to GDP was less than the contribution of private consumption expenditure which accounted for 69.5 percent of GDP.

Table1.4: 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.					
1999/00	110.4	88.2	19.1	69.1	22.2	(12.0)	12.1	24.2	11.8
2000/01	110.5	86.9	15.7	71.2	23.6	(11.8)	12.1	23.9	13.1
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	116.6	80.8	8.3	72.5	35.8	(16.6)	12.5	29.1	19.2
2013/14	117.8	77.5	8.0	69.5	40.3	(17.8)	11.7	29.5	22.5
Average	**115.4**	**87.1**	**12.0**	**75.1**	**28.3**	**-17.1**	**13.2**	**30.3**	**12.9**

Source: MoFED

1.3. Micro and Small-Scale Enterprises

The five-year Growth and Transformation Plan envisagestocreate3 million employment opportunities in micro and small scale enterprises (MSEs) at the end of the plan period. The development of this sector is generally believed to be the major source of employment and income generation for a wider group of the society in general and urban youth in particular. According to the Federal Micro and Small Scale Enterprise Development Agency (FeMESDA), a total 200,319 new MSEs were established during the fiscal year 2013/14 which employed about 2.5 million people.

The number of establishmentsand the employment created during the periodsurged by 158.8 and 104.1percent, respectively.At the same time, MSEs receivedmore than Birr 5 billionin loans which was85.6 percent higher than a year ago.

According to the Agency's report, the remarkable performance of the sector with respect to the number of new enterprises, employment created and credit disbursement during the periodwas attributed to the commitment of all regions to meet the GTP plan and the commencement ofmany government projects that began operation during the fiscal year.

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

(Credit in Millions of Birr)

	2012/13	**2013/14**	**Percentage Change**
	A	**B**	**B/A**
No. of MSE's	77,415	200,319	**158.8**
Amount of credit	2,728.7	5,063.9	**85.6**
No of Total employment	**1,223,679**	**2,497,181**	**104.1**

Source: FeMSEDA

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

(Credit in Millions of Birr)

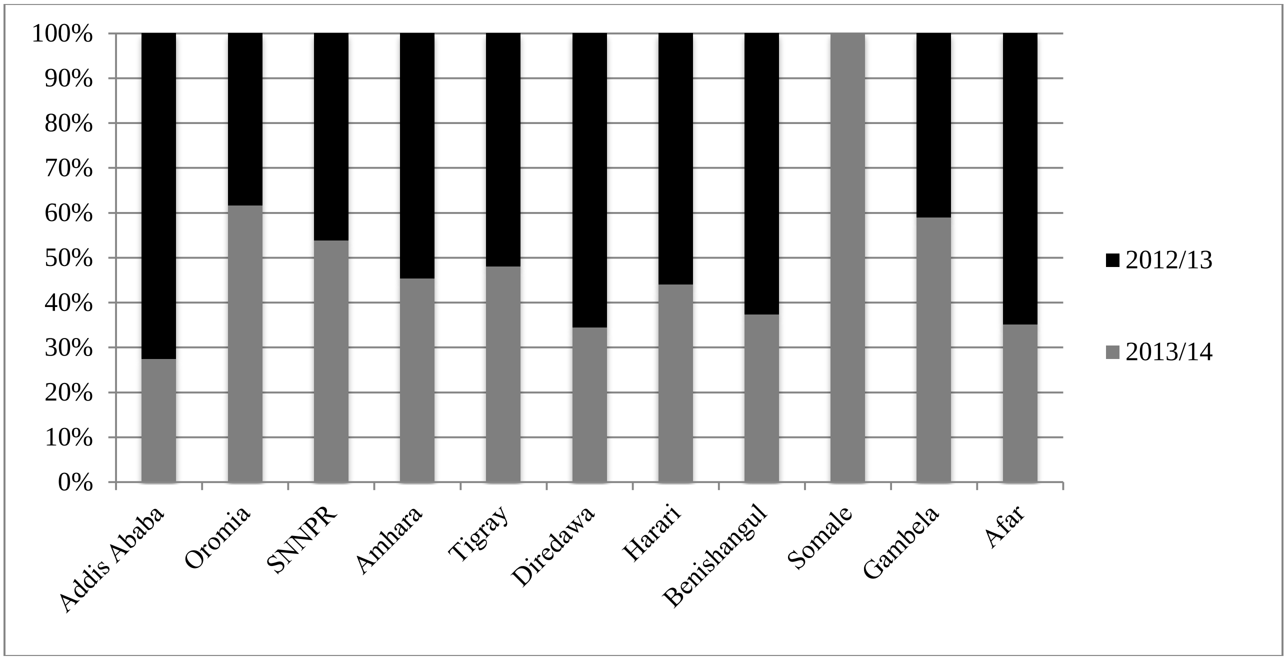
	Addis Ababa	Oromia	SNNPR	Amhara	Tigray	Dire Dawa	Harari	Benishangul	Somali	Gambela	Afar	Total
No. of MSEs	7,392	70,259	22,632	64,135	32,726	2,017	240	296	222	309	91	**200,319**
Amount of credit	1,567.4	755.6	338.7	1,327.1	994.1	43.3	17.1	6.0	7.5	7.2	0.0	**5,063.9**
No. of total Employment created by MSEs	251,399	1,113,741	320,956	460,297	289,885	24,561.	12,663	7,373	11,009	3,262	2,035	**2,497,181**
Regional Percentage Share												
No. of MSEs	3.7	35.1	11.3	32.0	16.3	1.0	0.12	0.15	0.11	0.2	0.05	**100.0**
Amount of credit	31.0	14.9	6.7	26.2	19.6	0.9	0.3	0.1	0.1	0.1	0.0	**100.0**
No. of total Employment created by MSEs	10.1	44.6	12.9	18.4	11.6	1.0	0.5	0.3	0.4	0.1	0.1	**100.0**

Source:FeMSEDA

In terms of regional distribution of new MSE's established,Oromia region took the leading share (35.1 percent) followed by Amhara (32 percent), Tigray (16.3percent) SNNPR (11.3 percent) and Addis Ababa (3.7 percent). In terms of loans, however, Addis Ababa received 31 percent of the credit disbursed during the review period followed by Amahara(26.2 percent), Tigray (19.6percent), Oromia (14.9 percent), and SNNPR (6.7 percent).

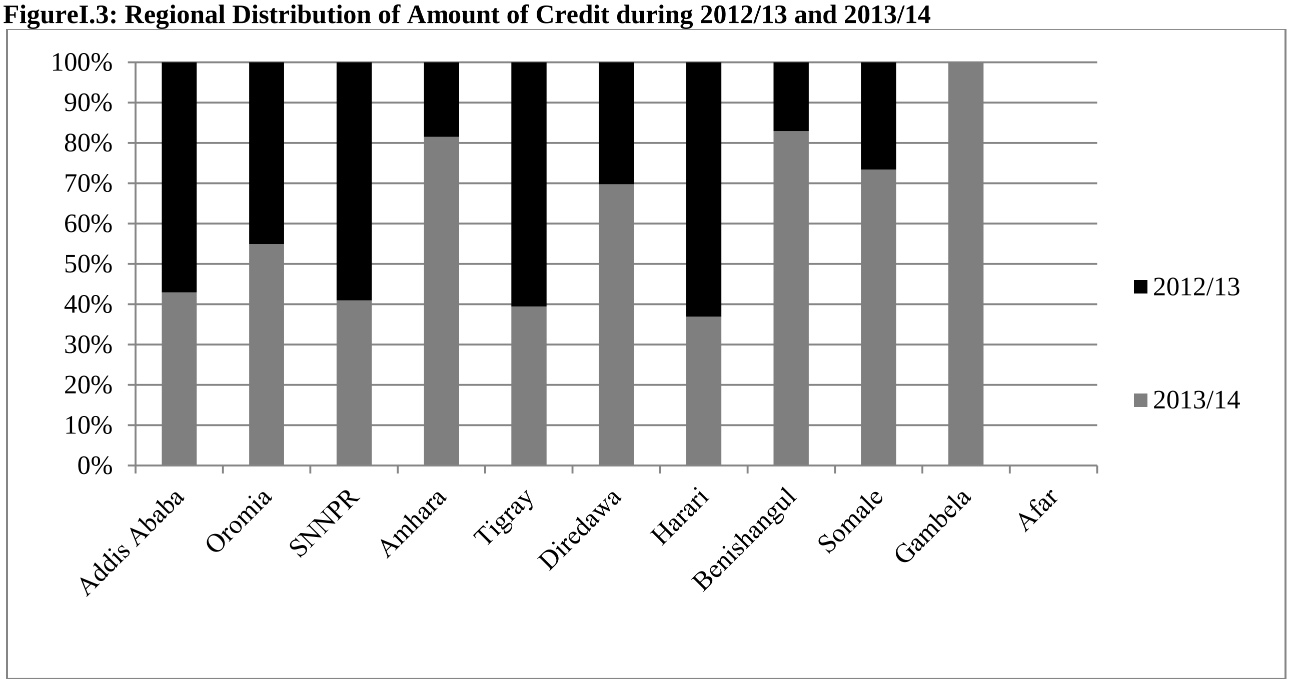
With regard to the employment opportunities created during the period Oromiahadthe highest share (44.6 percent) followed by Amhara region (18.4 percent) SNNPR (12.9 percent), Tigray (11.6 percent) and Addis Ababa (10.1 percent).

Figure I.2 Regional Distribution of Numbers of MSEs during 2012/13 and 2013/14



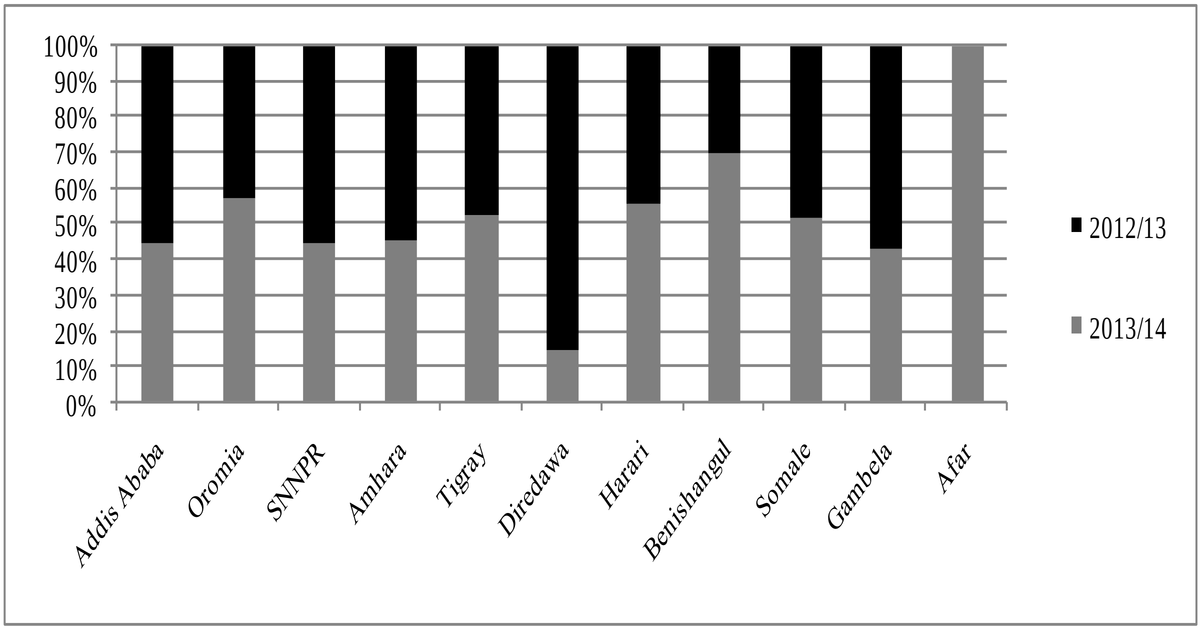
Source: FeMSEDA

FigureI.3: Regional Distribution of Amount of Credit during 2012/13 and 2013/14



Source: FeMSEDA

Figure I.4: Regional Distribution of Employment Created during 2012/13 and 2013/14



Source: FeMSEDA

1.4. Access to Water Supply

During 2013/14, the proportion of people having access to potable water supply improved by 8.3 percentage point to 76.7percent (84.2 percent urban and 75.5 percent rural population); relative to 68.5percent (81.3 percent urban and 66.5 percent rural people) in 2012/13.

Urban population with access to potable water within radius of 0.5 km increased to 84.2 percent in 2013/14 from 81.3 percent in 2012/13, depicting a 2.9 percentage point improvement. Similarly, rural population with access to potable water within 1.5 km radius reached 75.5 percent by the end of 2013/14, exhibiting 8.9 percent expansion over the 66.5 percent in 2012/13.

In the Growth & Transformation Plan, the total population (rural and urban) having access to safe drinking water is envisaged to reach 98.5 percent by the end 2014/15. Urban and rural population with access to potable water within a radius of 0.5 Km and 1.5 Km are also expected to increase to 100 and 98 percent, respectively, by the end of the plan period.

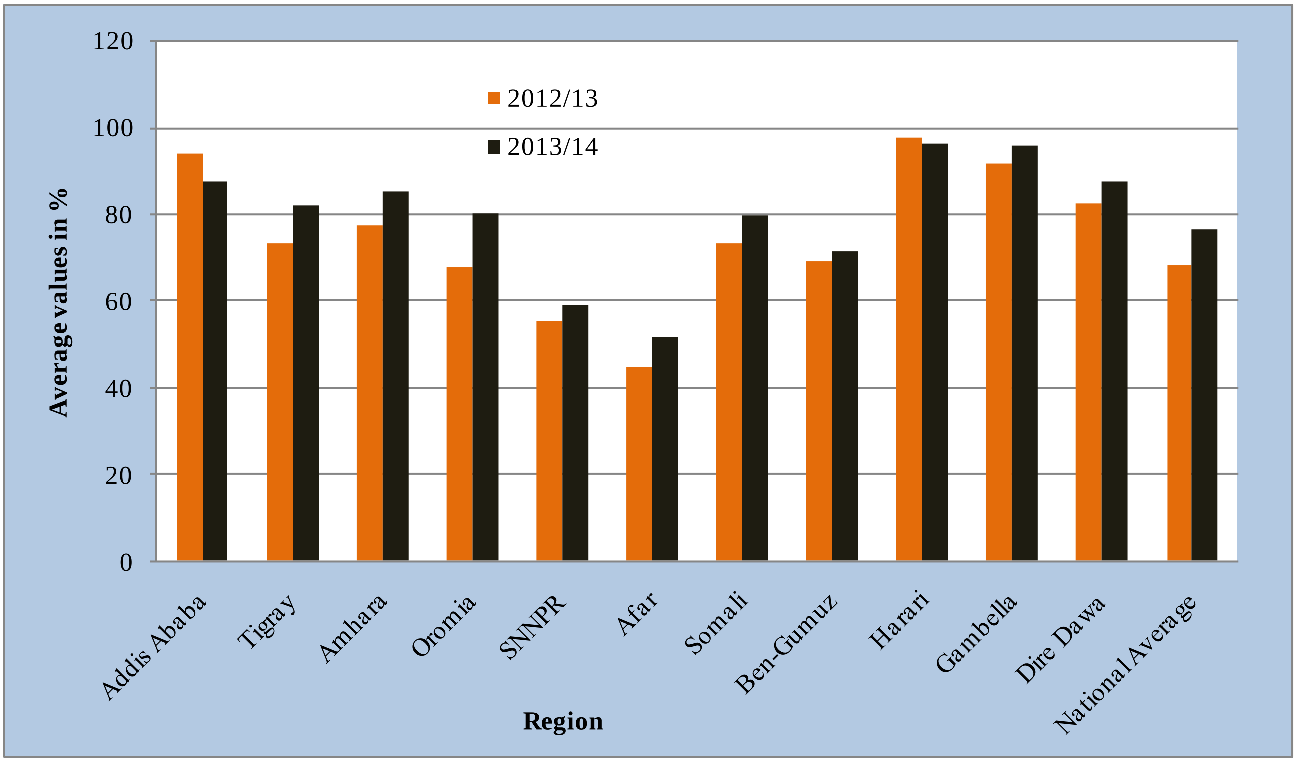
Table1.5: Percentages of People with Access to Potable Water by Region

Regions	2012-13			2013-14			Change in Percentage Point		
	A	B	C	D	E	F			
	Rural	Urban	Average	Rural	Urban	Average	D-A	E-B	F-C
Addis Ababa		94.0	94.0		87.7	87.7	0.0	-6.3	-6.3
Tigray	74.1	70.2	73.4	83.8	75.4	82.2	9.7	5.2	8.8
Amhara	78.2	72.8	77.6	85.5	83.3	85.3	7.3	10.4	7.6
Oromia	66.4	85.2	67.9	79.5	86.1	80.1	13.1	0.9	12.2
SNNPR	53.1	94.4	55.6	56.1	97.0	59.0	3.0	2.6	3.4
Afar	42.4	79.2	44.7	48.6	82.0	51.7	6.2	2.8	7.0
Somali	70.8	89.2	73.5	78.0	91.4	79.9	7.2	2.2	6.4
Ben-Gumuz	69.4	63.8	69.2	72.2	65.3	71.7	2.8	1.5	2.5
Harari	97.0	98.8	98.0	97.0	96.0	96.5	0.0	-2.8	-1.5
Gambella	85.7	98.0	91.9	95.7	97.6	96.1	10.0	-0.4	4.3
Dire Dawa	85.3	83.4	82.6	88.6	87.5	87.8	3.3	4.1	5.3
National	**66.5**	**81.3**	**68.5**	**75.5**	**84.2**	**76.7**	**8.9**	**2.9**	**8.3**

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

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

FigI.4: 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

The government of Ethiopia has been engaged in extensive investment in infrastructure development to sustain economic growth, improve product competitiveness and encourage private investors. The development of road transport, which is the dominant mode of transport in Ethiopia, is believed to create a network over a wide array of infrastructural facilities so as to improve the accessibility and mobility of agricultural and industrial products.

Accordingly, in 2013/14, the total stock of road network reached 99,522 Km of which 26,857 Km was Federal[1], 33,609 Km rural and 39,056 Km woreda road. The Federal road includes 12,640 Km (47.1 percent) asphalt and 14,217 Km

[1]Federal roads are roads administered by federal government

(52.9 percent) gravel roadwhich, showed annual expansion of 11.8 percent and reduction of 1.6 percent, respectively.

The asphalt road network in 2013/14 constituted about 12.7 percent of the total stock of road network in the country. It includes 85 Km Addis-AdamaExpressWay, the first of its kind in the country, which was completed in 2013/14.

In 2013/14, total road network reached 99,522 Km,which expanded by 15.8 percent compared to 85,966 Km recorded in 2012/13. Similarly, rural road network increase by 3.2 percent per annum constituting 33.8 percent or 33,609 Km of the total road network during the period.

The community road, which was renamed as woreda road in 2010/11 and included under the total road network, has remarkably increased to 39,056 km from 27,628 km a year ago. Hence, the government's plan to connect each kebele to the main road in line with the woreda road program during the Growth and Transformation Plan period is proceeding well.

Table 1.7: Classification of Road Network

(Length in km)

Year	Federal Road				Rural road		Woreda road *		Total**	
	Asphalt		Gravel							
	Length	Growth rate	Length	Growth rate	Length	Growth rate	Length	Growth rate	Length	Growth rate
2000 /01	3,924	-	12,467	-	16,480	-	NA	-	**32,871**	**-**
2001/02	4,053	3.3	12,564	0.8	16,680	1.2	NA	-	**33,297**	**1.3**
2002/03	4,362	7.6	12,340	-1.8	17,154	2.8	NA	-	**33,856**	**1.7**
2003/04	4,635	636	13,905	12.7	17,956	4.7	NA	-	**36,496**	**7.8**
2004/05	4,972	7.3	13,640	-1.9	18,406	2.5	NA	-	**37,018**	**1.4**
2005/06	5,002	0.6	14,311	4.9	20,164	9.6	NA	-	**39,477**	**6.6**
2006/07	5,452	9.0	14,628	2.2	22,349	10.8	57,763.7	-	**42,429**	**7.5**
2007/08	6,066	11.3	14,363	-1.8	23,930	7.1	70,038.1	21.3	**44,359**	**4.5**
2008/09	6,938	14.4	14,234	-0.9	25,640	7.2	85,767.0	22.5	**46,812**	**5.5**
2009/10	7,476	7.8	14,373	1.0	26,944	5.1	100,384.9	17.0	**48,793**	**4.2**
2010/11	8,295	11.0	14,136	-1.6	30,712	14.0	854.0	-	**53,997**	**10.7**
2011/12	9,875	19.1	14,675	3.8	31,550	2.7	6,983.0	717.7	**63,083**	**16.8**
2012/13	11,301	14.4	14,455	-1.5	32,582	3.3	27,628.0	295.6	**85,966**	**36.3**
2013/14	12,640	11.8	14,217	-1.6	33,609	3.2	39,056	41.4	**99,522**	**15.8**

Source: Ethiopian Roads Authority

* Includescommunity road was replaced byworeda road and registered as new road in 2010/11

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

1.5.2. Road Density

The proper level of road network is assessed by road density which is measured by road length per 1,000 persons or by road length per 1,000 km^2.

In the five year GTP period, the plan is to increase road density from 44.5 Km to 123.7 km per 1,000 km^2 and from 0.64 Km to 1.54 km per 1000 population.

At the end of 2013/14, the road density per1,000 square Km showed improvement to 90.5 km from 78.2 km a year ago though slightly lower than GTP target of 106.9km for the year 2013/14.

The road density per 1,000 population in 2013/14 was 1.1 km and up by 10 percent over preceding fiscal year. GTP target was 1.37 km per 1,000 population for the year 2013/14 (Table 1.8).

Table 1.8: Road Densities

Year	Road Density /1000 person	Road density /1000 sq. km
2000/01	0.5	29.9
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

Source: Ethiopian Roads Authority

1.5.3. Road Accessibility

During 2013/14 the annual average distance from all-weather roads declined by 8.3 percent from 6 kilometers in 2012/13 to 5.5 kilometers. Similarly, the proportion of area more than 5 km from all-weather roads went down to 40.5 percent from 46 percent during the same period. In the Growth and Transformation Plan the target for 2013/14 was to reach 34.3 percent (Table 1.9).

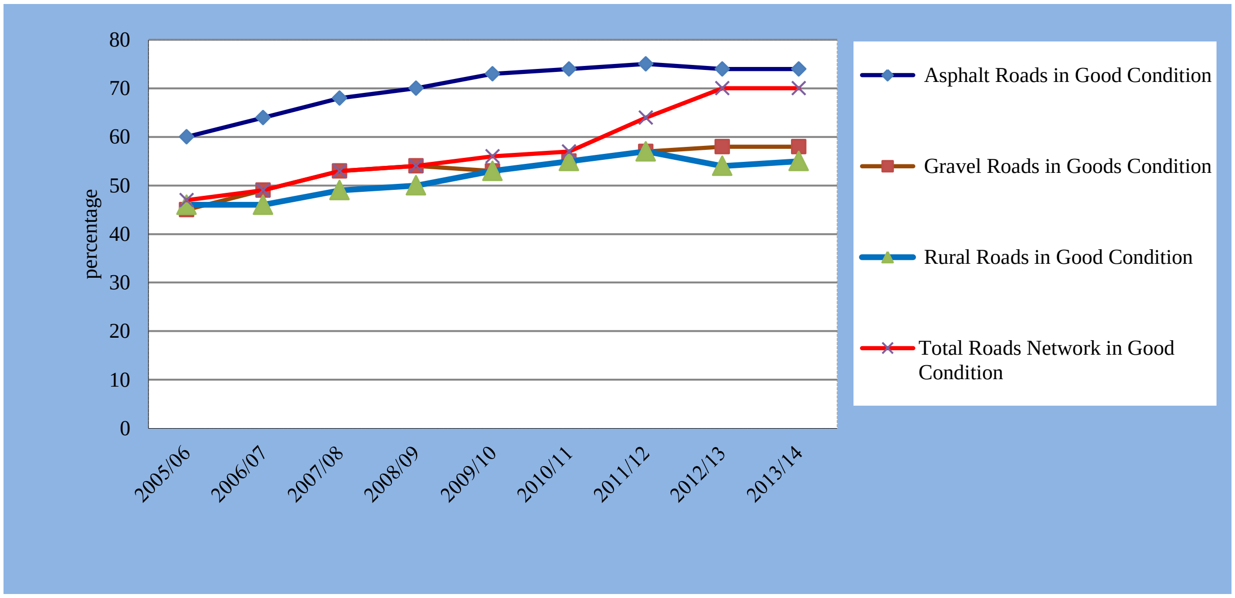
About 70 percent of the total road network in the country is found in good condition, as it was the case last year. The highest proportion of road in good condition was woreda road (87 percent) followed by asphalt road (74 percent), gravel road (58 percent) and rural road (55 percent). Both asphalt and gravel roads showed no improvement over the previous fiscal year 2013/14 (Figure I.4).

Table 1.9: Road Accessibility

Indicators	2012/13	2013/14	Percentage change
Proportion of area more than 5Km from all-weather road	46	40.5	**-12**
Average distance from all-weather roads	6	5.5	**8.3**

Source: Ethiopian Roads Authority

Fig I.4: 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 government over the past few years. Hence, large sum of finance has been mobilized for road construction and maintenance both from foreignand domestic sources.

In 2013/14, total investment in road construction and expansion rose by 14.7 percent to Birr 38.6 billion from Birr 33.7 billion a year earlier (see Table 1:10 and fig.I.5). Investment in the Federal road construction and expansion also reached Birr 29.7 billion thereby taking up 76.9 percent share in total road investment capital.

The higher percentage change of investment registered 131.1 percent for urban road (municipalities' maintenances). Similarly, financing of regional and federal roads rose by 32 and 31.3 percent, respectively as compared to 2012/13.Investment in woreda road, however, declined by 33.4 percent (Table 1.10), due to lower physical accomplishment of 11,428 Km new woreda road in 2013/14 compared with the previous year's 20,645 Km (Table 1.7).

Table 1.10: Investments in the Road Sector

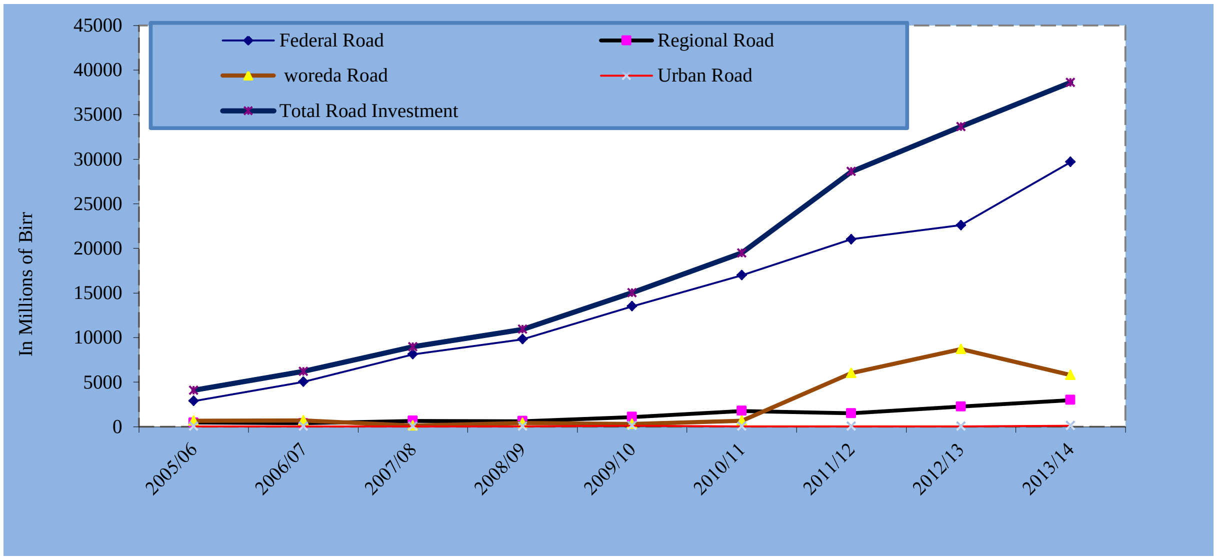
(In millions of Birr)

Road Type	2012/13		2013/14		Percentage change
	A	Share (In %)	B	Share (In %)	
Federal roads	22,615.5	67.2	29,697.0	76.9	**31.3**
Regional road	2,266.9	6.7	2,992.7	7.7	**32.0**
Woreda road	8,725.1	25.9	5,809.0	15.0	**-33.4**
Urban road*	51.4	0.2	118.8	0.3	**131.1**
Total	**33,658.9**	**100.0**	**38,617.5**	**100.0**	**14.7**

Source: Ethiopian Roads Authority

* All municipalities' maintenance

Fig I.5 Investment in Road construction and expansion



Source: Ethiopian Roads Authority

1.8. Developments in Education Sector

The education sector has been improving both in terms of qualities and coverage during the previous years. In the sector, there were positive trends to achieve the goals of Growth and Transformation Plan through producing efficient, effective and innovative citizens which can contribute to the realization of the long term vision to become a middle income country.

In 2013/14, Primary education (1-8 grades) enrolment improved from 15.8 million in 2009/10 to 18.3 million in 20013/14; grew by 4.6 percent against the preceding year. In 2013/14, the number of primary schools reached 32, 048 from 30,534 in the preceding year and 26,951 five years ago. Of the total number of primary schools, 27,597 (86 percent) were located in the rural area whereas 4,451 (14 percent) were located in urban.

Similarly, secondary education enrolment reached 2.0 million, 17.8 percent and 5.2 percent higher than 2009/10 and 2012/13, respectively. By the end of 2013/14, moreover, the number of secondary schools (9-12 grades) reached 2,329 exhibiting 72.4 and 22 percent growth over 2009/10 and 2012/13. Of the total secondary schools, 1,636 (70 percent) were found in the urban areas while the remaining were located in the rural areas.

The Technical and Vocational Education and Training (TVET) enrolment was 238,049; showing 0.1 percent increment vis-à-vis 2012/13 but declined by 32.6 compared with 2009/10. Parallel to this, the number of TVET institutions remained 437 compared with previous year, but decreased by 13.5 percent from 505 institutions in 2011/12. This was due to the under-reporting of data from most of the regions and no report at all from Somali, Bunishangul Gumuz and Harari regions for 2013/14.

Education share of the annual government expenditure was 25.0 percent which was 0.2 and 0.9 percentage points lower than the preceding year and the year 2009/10, respectively.

Table 1.8: Education Sector Data

Indicators	2007/08 2000	2008/09 2001	2009/10 2002	2010/11 2003	2011/12 2004	2012/13 2005	2013/14 2006
Number of primary schools (urban, rural)	23,354	25,212	26,951	28,349	29,482	30,534	32,048
i. Urban	3,100	3,206	3,206	3,988	4,241	4,536	4,451
ii. Rural	20,254	21,886	23,745	24,313	25,227	25,998	27,597
Number of secondary schools (urban, rural)	1,087	1,185	1,351	1,392	1,710	1,912	2,329
iii. Urban	904	976	1,053	1,053	1,342	1,451	1,636
iv. Rural	183	209	298	339	368	461	693
Number of TVET centers (public, private, mission)	458	458	448	505	505	437	437
Number of tertiary level institutions by universities (public, private), colleges (public, private)	61	72	70	74	91	99	124
Universities	22	22	22	26	32	32	33
Participation of women in higher education institutions (%)	24	22.2	27	27	21.1	29.5	32
Primary enrolment (in millions)	15.3	15.6	15.8	16.7	17	17.5	18.3
Secondary enrolment (in thousands)	1,501	1,588	1,696	1,760	1,766	1,900	1,998
TVET enrolment	229,252	308,501	353,420	371,347	330,409	237,877	238,049
Girls' primary enrolment (%)	46.5	47.3	47.4	47.3	47.8	48	48
Grades (1-4) gross enrolment ratio (%)	127.8	122.6	118.8	124	122.6	124.9	128.9
a. Girls' gross enrolment ratio (%)	122.8	118.4	114.3	119.1	118.1	119.8	123.6
b. Boys' gross enrolment ratio (%)	133.0	126.7	123.2	128.8	127.0	129.7	134
Grades (5-8) gross enrolment ratio (%)	60.2	63.1	65.5	66.1	65.6	62.9	64.4
a. Girls' gross enrolment ratio (%)	55.5	60.5	63.5	64.8	65.3	62.2	63.4
b. Boys' gross enrolment ratio (%)	64.8	65.6	67.4	67.4	65.9	63.5	64.1
Girls' gross primary enrolment ratio (%)	90.5	90.7	101.6	93.2	92.9	92.4	94.3
Boys' gross primary enrolment ratio (%)	100.5	97.6	108.4	99.5	97.9	98.2	100.1

Indicators	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	2000	2001	2002	2003	2004	2005	2006
Gross Primary Enrolment ratio (%)	95.6	94.4	93.4	96.4	95.4	95.3	97.2
Tigray	109.0	107.1	103.3	102.1	100.1	98.8	105.3
Afar	26.2	31.2	39.3	40.1	43.7	50.5	53.2
Amhara	112.4	112.5	104.9	104.2	1003	100.7	106.7
Oromia	91.4	89.3	88.4	94.8	92	91.2	89.3
Somali	32.7	35	65.6	61.3	75.1	96.9	84.8
Ben.Gumuz	112.3	112.1	114.6	119.7	115.9	111.9	95.4
SNNPR	102.9	101.0	97.3	102.6	100.7	98.4	100.3
Gambella	121.4	112.5	125.1	132	138.5	126.6	136.4
Harari	108.4	107.9	95.3	91.5	89.3	87.1	98.1
A.A	114.3	109.2	107.3	103.1	102.4	99.2	163.6
Dire Dawa	86.3	92.1	91.3	89.1	87.3	84.9	91.4
Primary net enrolment rate (%)	83.4	83.0	82.1	85.3	85.4	85.9	89
No. of students registered in the first cycle primary schools(1-4) (in millions)	10.7	10.6	10.5	11.3	11.4	12.0	12.7
No. of students registered in the second cycle primary schools(5-8) (in millions)	4.6	5	5.3	5.5	5.7	5.5	5.6
Number of students registered in the first cycle secondary schools(9-10) (in millions)	1.3	1.4	1.5	1.5	1.4	1.5	1.6
Gross enrolment rate in (9-10 grades) in percent	37.1	38.1	39.1	38.4	36.9	38.4	39.3
Preparatory admission(in millions)	0.20	0.21	0.24	0.29	0.32	0.36	0.39
Completion rate of primary school (%)	44.7	43.6	47.8	49.4	52.1	52.8	46.7
Girls/boys ratio in primary schools (%)	87	89.7	91	90.4	92	94	91
Girls/boys ratio in secondary schools (%)	63	67	75	79	84	88	89

Indicators	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	2000	2001	2002	2003	2004	2005	2006
Girls/boys ratio in (9-10) (%)	65	72	78	81	86	90	90
Girls/boys ratio in (11-12) (%)	48	40	56	83	75	80	82
Girls/boys ratio inTVET(%)	92	86	80	86	91	105	105
Girls/boys ratio in higher education (%)	24	0.28	36	36	39	42	46
Grade 1-8(primary) repetition rates (%)	6.7	6.7	4.9	8.5	8.5	7.9	8.4
Primary school dropout rate (%)	14.6	18.6	13.1	16.3	16.3	15.7	7.9
1st grade dropout rate (%)	18.3	22.9	28.1	19.9	25	22.5	23.9
Pupil to Teacher Ratio							
i. Grade (1-8)	57	54	51	51	50	49.4	47
ii. Grade (9-12)	43	41	36	31	29	28.7	27.8
iii. TEVT	25	34	NA	29	24.7	18.6	16.5
iv. In higher education	NA	28.2	26.8	26.7	25	24.4	25.9
Pupil to Section Ratio							
i. Grade (1-8)	62	59	57	57	55	53.7	54
ii. Grade (9-12)	74	68	64	58	56.1	59.3	56.9
Number of class rooms in primary schools	236,712	247,759	254,744	279,292	308,905	324,587	321,468
Pupil to Textbook Ratio							
i. Grade(1-8)	1.5	1.5	1.5	1.5	1.5	1.35	1
ii. Grade(9-12)	1	1	1	1	1	1	1
Pupil to School Ratio							
i. Grade(1-8)	657	619	573	590	576	571	571
ii. Grade(9-12)	1,381	1,345	1270	1160	1033	994	857
iii. TEVT	501	673	788	735	654	544	545
Proportion of pupils starting grade 1 who reach grade 5(%)	49.2	39.6	55	47	50.2	55.5	69.5

Indicators	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	2000	2001	2002	2003	2004	2005	2006
Percentage of female enrolled in under graduate degree (%)	24.1	29	27	27	22	30	30.3
Percentage of female graduated in under-graduate degree (%)	20.6	29.7	23.4	27.2	25.3	28.7	25.6
Percentage of female enrolled in post-graduate degree	9.6	11.3	11.9	13.8	20.2	20.6	19.5
Percentage of female graduated in post-graduate degree	10.7	10.5	13.9	14.4	14.0	14.9	15
Annual education share of the national expenditure{%}	22.8	23.6	25.9	17.5	25.3	25.2	25

Source: Ministry of Education

1.7. Telecommunication

Telecommunication is one of the prime support services needed for rapid growth and modernization of various sectors of the economy.

Cognizant of this facts,the Ethiopian government has established a new telecom company known as Ethio Telecom, to replace the long serving Ethiopian Telecommunications Corporation, with a view to enhancing the development of the telecom sector and supporting the steady growth of the country. Pursuant to this grand objective,Ethio Telecom has set ambitious targets to enhance customer acquisition, customer satisfaction and provision of quality services to customers.

The country's five-year Growth and Transformation Plan (GTP) envisages increasing the number of fixed line subscribers from 1 million in 2009/10 to 3.1 million by the end of 2014/15. The number of mobile-telephone subscribers is expected to pick up to 40 million from 6.5 million. Similarly, the number of internet users will increase to 3.7 million from 187,000 by the end of the plan period.

In 2013/14, the number of mobile subscribers surged by 19.2 percent and reached 28.3million from 23.8 million a year ago. Similarly, the number of fixed line subscribers slightly increased by 2.9percent to 813,410 from 790,168.

Meanwhile, the number of internet subscribers surged by 39.2 percent on annual basis and reached 6.2 million from 4.4 million recorded (Table 1.11).

Table1.11: Number of Subscribers

Service Type	2012 /13	2013 /14	Percentage Change
Fixed line	**790,168**	**813,410**	**2.9**
Total mobile pre-paid	**23,637,007**	**28,050,182**	**18.7**
Mobile GSM pre-paid*	23,526,519	27,832,955	18.3
3G mobile pre-paid**	-	91,535	-
Mobile CDMA pre- paid*	110,488	125,692	13.8
Voice	11,197	12,162	8.6
Voice + Data	99,291	113,530	14.3
Total mobile post-paid	**119,600**	**257,480**	**115.3**
Mobil GSM post- paid	107,739	238,323	
Mobil CDMA post- paid	11,861	19,157	61.5
Voice	8,595	14,017	63.1
Voice + Data	2,621	4,290	63.7
GOTA only	645	850	31.8
All Mobile	**23,756,607**	**28,307,662**	**19.2**
Total data and Internet	**4,430,032**	**6,168,046**	**39.2**
Broadband (EVDO, WCDMA, ADSL)	44,032	61,913	40.6
Narrowband (1X, dialup, ADSL*< 256K)	177,011	186,038	5.1
GPRS	4,208,989	5,920,095	40.7
Total	**24,767,818**	**29,369,023**	**18.6**

Source: Ethio-Telecom

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

***3G service started in 2013/14.*

Meanwhile,the country's telecommunication penetration rate (telecom density) increased from 28.5 in 2012/13 to34.3 in 2013/14. Mobile density has also rose to 33.3 in 2013/14. In the review period, internet and data density improved to 7.3from 5.2 a year ago. The fixed line density has increased slightly to 1.0 in 2013/14 from 0.9 in 2012/13 (Table 1.12).

Table 1.12: Telecom Density

Tele density/100 Subscribers*	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Fixed line	1.2	1.4	1.0	1.0	0.9	1.0
Mobile	5.4	8.7	12.9	20.4	27.6	33.3
Total	**6.6**	**10.1**	**13.9**	**21.4**	**28.5**	**34.3**
Internet and data	0.1	0.3	0.2	0.3	5.2	7.3

Source: Ethio-Telecom

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

International outgoing minutes in mobile telephone and internet traffic increased by 17.0percent from 59.3 million in 2012/13 to 69.4 million in 2013/14. However,international incoming minutesdecreased by 15.8 percent to 670.9 million compared to 797.1 million a year ago (Table 1.13).

Table 1.13: Annual Traffic for Local and International Calls

Annual Traffic	2012/13	2013/14	Percentage Change
Mobile local traffic (In millions)	17,234.6	17,379.8	0.8
International Traffic			
International outgoing calls (In number)	37,253,286	44,570,184	19.6
International outgoing minutes	59,264,121	69,366,192	17.0
International incoming calls (In number)	207,483,552	176,849,300	-14.8
International incoming minutes	797,113,550	670,853,817	-15.8

Source: Ethio-Telecom

Income of Ethio-telecom rose by 4.3 percent to Birr 17.4 billion in 2013/14 vis-à-vis Birr 16.6 billion in 2012/13. Similarly, total expense of the company reached Birr 5.6 billion showing a 30 percent increase.

Yet, Ethio – telecom earned a gross profit of Birr 11.8 billion;in 2013/14 which was 3.5 percent lower thanthe previous year (Table 1.14).

Table 1.14: Financial Performance and Asset of Ethio -Telecom

(In Millions of Birr)

Finance and Asset	2011/12	2012/13	2013/14	Percentage Change	
	A	B	C	C/B	C/A
Income	12,770	16,644	17,358.40	4.3	35.9
Expense	1,722	4,270	5,554	30.1	222.5
Gross Profit	9,657	12,227	11,804.4	-3.5	22.2
Assets	NA	37,244	NA	-	-
Fixed Gross	NA	15,834	24,209.3	52.9	-
Depreciation	4,297	4,622	4,303.3	-6.9	0.1

Source: Ethio – Telecom

Note: The financial figures in the above table are not audited.

II. ENERGY PRODUCTION

2.1.Electric Power Generation

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

The country's generating capacity is largely based on hydropower reservoirs as nine of its major rivers are suitable for hydroelectric power generation.Though it is vulnerable to the effects of climatic changeit will remain a predominant energy source. Considering the increasing power demand and capacity shortfall in the system and to have a better generation mix, the country is looking to diversify its production of renewable energy to wind and geothermal sources.

Wind energy is found an immediate and clean energy solution as wind power is renewable with short construction period and it has significant advantage of quick result. Ethiopian Electric Power implemented different wind power projects in several parts of Ethiopia. Ashegoda Wind Farm, with a generating capacity of 120MW, is the second project in the country after the first 51 MW AdamaWind Farm Project, which began production in 2011. In addition, preparation for undertaking a feasibility study is under way for a 300 MW AyshaWind Power.

The country has also been identified as being one of the huge solar energy potentials in Africa because of its geographical location near the equator. Therefore, utilizing such untapped solar energy potential enables the country to provide electricitycover for remote regions.

As part of Ethiopia's plan to become a major power exporter in East Africa, the country is building several geothermal power plants. The project will be a crucial input to enhance Ethiopia's economic growth to become a carbon-neutral middle income economy by 2025. The geothermal development will help Ethiopia towards achieving sustainable energy supply in line with the country's green economy.

The former Ethiopian Electric Power Corporation has been divided into two separate institutions, namely Ethiopian Electric Power (EEP) and Ethiopian Electric Utility.The former is mandated with the task of network construction and generating energy while the latter is responsible for distributing generated power and selling electricity to users. The EEP generates electricity through two different power supply systems, namely, the Inter Connected System (ICS)[2] and Self Contained System (SCS)[3]. ICS, constituted 99.9 percent of electric power generating system (Table 2.1).

The total amount of electric power generated in 2013/14 was about 8.7 billion KWH, showing a 14.7 percent annual growth and 38.4 percent increase compared to 2011/12. During the review period, 95.8 percent of the electric power was generated by hydropower while the remaining 4.1 and 0.1 percent came from wind and thermal sources, respectively (Table 2.1).

During the FY 2013/14, the production of wind energy got momentum as the total electric energy generated from wind sources increased to 355.8 million KWH from 191.8 million KWH last year and 29.3 million KWH in 2011/12 (Table 2.1).

As per the government's five-year Growth and Transformation Plan, the electricity coverage is planned to scale up to 75 percent in 2014/15 from 41 percent in 2009/10. Similarly,energy production capacity is planned to grow to 32,656 GWH at the end of the GTP period from 7,653 GWH in the base year. In 2013/14 actual performance was 8,701 GWH, or about 45 percent compared with the annual plan.

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

Table 2.1: Electric Power Generation in ICS and SCS

(I n '000 KWH)

Source		2011/12		2012/13		2013/14		Percentage Change	
		[A]	Share (In %)	[B]	Share (In %)	[C]	Share (In %)	[C/A]	[C/B]
ICS	Hydro Power	6,239,288.9	99.3	7,384,011.4	97.3	8,335,745.7	95.8	33.6	12.9
	Thermal Power	-	-	37.8	0.0	-	-	-	-100.0
	Geothermal	7,979.9	0.1	-	-	-	-	-100.0	-
	Wind	29,256.3	0.5	191,784.7	2.5	355,757.9	4.1	1,116.0	85.5
Sub Total		**6,276,525.2**	**99.8**	**7,575,833.9**	**99.8**	**8,691,503.5**	**99.9**	**38.5**	**14.7**
SCS	Hydro Power	1,715.7	0.0	1,648.2	0.0	676.9	0.0	-60.5	-58.9
	Thermal Power	8,180.4	0.1	10,865.8	0.1	8,837.0	0.1	8.0	-18.7
Sub Total		**9,896.2**	**0.2**	**12,514.0**	**0.2**	**9,513.9**	**0.1**	**-3.9**	**-24.0**
Total	Hydro Power	6,241,004.6	99.3	7,385,659.6	97.3	8,336,422.6	95.8	33.6	12.9
	Thermal Power	8,180.4	0.1	10,903.6	0.1	8,837.0	0.1	8.0	-19.0
	Geothermal	7,979.9	0.1	-	-	-	-	-100.0	-
	Wind	29,256.3	0.5	191,784.7	2.5	355,757.9	4.1	1,116.0	85.5
Grand Total		**6,286,421.3**	**100.0**	**7,588,347.9**	**100.0**	**8,701,017.5**	**100.0**	**38.4**	**14.7**

Source: Ethiopian Electric Power

2.2. Volume and Value of Petroleum Imports

During the FY 2013/14, a total of about 2.63 million metric tons of petroleum products worth Birr 47.6 billion were imported into the country by the Ethiopian Petroleum Enterprise. As compared to previous year the total value of import for the year 2013/14 increased by 22.9 percent mainly due to higher import of gas oil (29.5 percent), jet fuel (19.9 percent) and gasoline (9.2 percent), despite a 5.4 percent decline in imports of fuel oil. Similarly, the total volume of petroleum imports went up by 18.5 percent owing to higher volume of gas oil (23 percent), jet fuel (16.4 percent) and gasoline (13.4 percent) outweighing a 5.4

percent decline in import volume of fuel oil (Table 2.2).

In general, higher import bill of petroleum products was associated with rise in international oil price, and higher volume of import during the period (Fig II.1&Fig II.2).

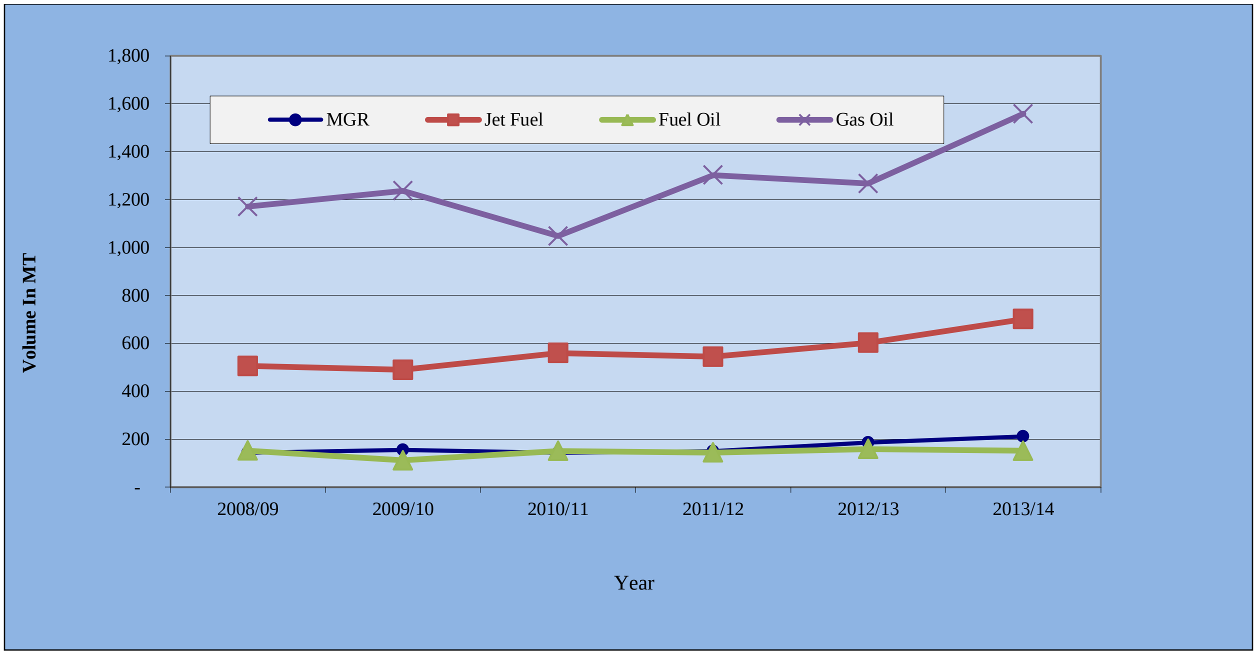
Table 2.2 Volume and Value of Petroleum Imports

(Volume in MT and Value in '000 Birr)

Petroleum Products	2012/13		2013/14		Percentage Change	
	Volume A	Value B	Volume C	Value D	C/A	D/B
Regular Gasoline (MGR)	186,517.5	3,700,854.8	211,597.2	4,042,535.8	**13.4**	**9.2**
Jet Fuel	602,427.0	11,190,669.9	701,418.9	13,416,935.9	**16.4**	**19.9**
Fuel Oil	159,297.4	2,093,480.5	152,093.7	1,979,727.1	**-4.5**	**-5.4**
Gas Oil (ADO)	1,266,562.9	21,759,803.1	1,558,341.1	28,180,671.4	**23.0**	**29.5**
Total	**2,214,804.8**	**38,744,808.3**	**2,623,450.8**	**47,619,870.2**	**18.5**	**22.9**

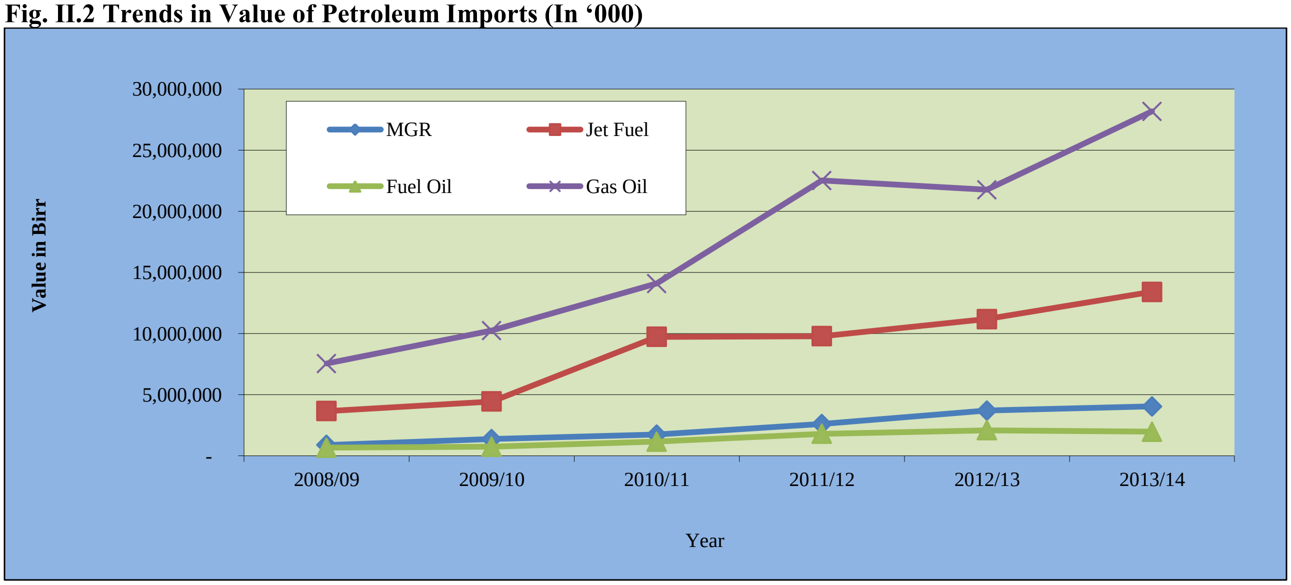
Source:Ethiopian Petroleum Enterprise

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

As international oil prices tended to increase during 2013/14 domestic retail prices were also adjusted accordingly. Thus, the average domestic retail prices of petroleum products increased vis-à-vis the previous year because of the rise in retail prices of Jet fuel (10.8 percent), Kerosene (7.7 percent), Regular Gasoline (5.7 percent), Gas Oil (5.5 percent) and Fuel Oil (5.4 percent) in the review period (Table 2.3).

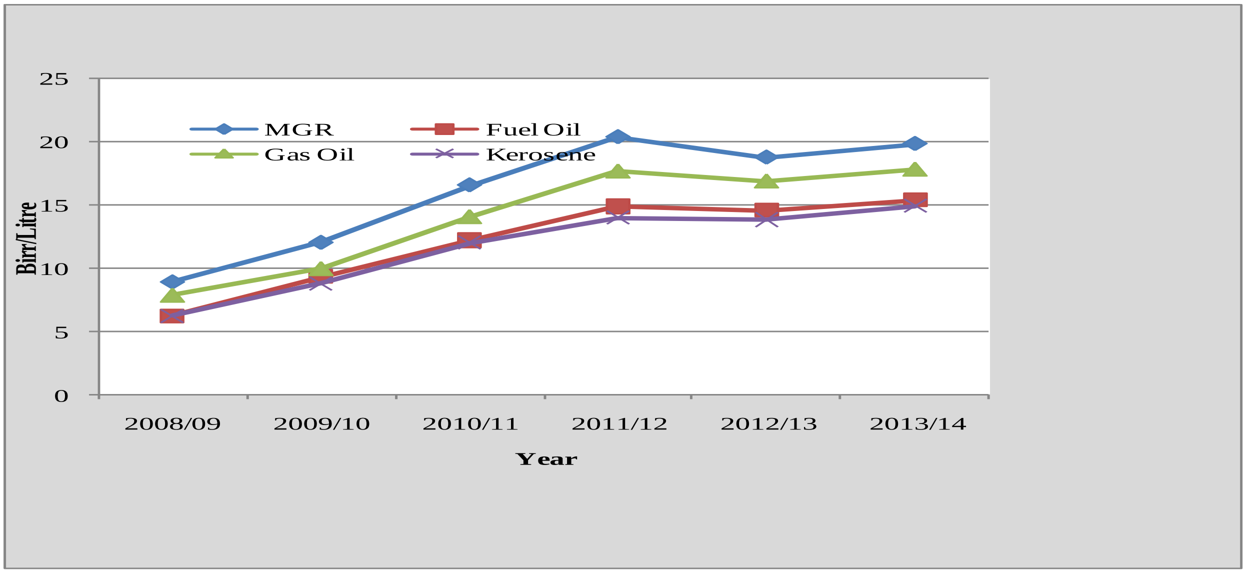
As illustrated in Fig.II.3 and Table 2.3, the retail fuel prices in Addis Ababa tended to increase for all types of petroleum products over the last five years except in 2012/13.

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

Year	Quarter	Regular Gasoline (MGR)	Fuel Oil	Gas Oil	Kerosene	Jet fuel
	Qtr.1	20.94	14.09	17.73	14.05	21.74
	Qtr.2	19.81	14.84	17.28	13.95	20.49
	Qtr.3	20.42	15.27	17.89	13.95	20.94
	Qtr.4	20.42	15.27	17.89	13.95	21.25
2011/12	**Average**	20.40	14.86	17.70	13.98	20.69
	Qtr.1	18.78	14.59	16.91	13.85	20.06
	Qtr.2	18.78	14.59	16.91	13.85	20.01
	Qtr.3	18.78	14.59	16.91	13.85	20.01
	Qtr.4	18.78	14.59	16.91	13.85	20.01
2012/13	**Average**	18.78	14.59	16.91	13.85	20.01
	Qtr.1	18.94	14.59	16.91	13.85	20.01
	Qtr.2	19.67	15.09	17.49	14.50	21.34
	Qtr.3	20.30	15.81	18.28	15.50	22.68
	Qtr.4	20.53	16.04	18.70	15.83	23.04
	Average	19.86	15.38	17.85	14.92	22.17
2013/14	**Annual percentage change**	**5.7**	**5.4**	**5.5**	**7.7**	**10.8**

Source*:* Ethiopian Petroleum Enterprise

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



Source: Ethiopian Petroleum Enterprise.

III.PRICE DEVELOPMENTS

3.1. Developments in Consumer Price at National Level

Annual average national headline inflation at the end of fiscal year 2013/14 was 8.1 percent, about5.4 percentage pointslower than last year. This was due to the slowdown in both food & non-alcoholic beverages and non-food inflation by 6.7 and 3.9 percentage points, respectively. As usual, food & non-alcoholic beverage inflation contributed the lion's share to the 5.4 percentage point slowdown in annualized headline inflation (Table 3.1).

Annualized food & non-alcoholic beverages inflation, scaled down to 5.9 percent from 12.6 percent in 2012/13 on account of a significant drop in the prices of most food& non-alcoholic beverages items except non-alcoholic beverages & coffee, food products and oils & fats which saws price surges.

Similarly, annual average non-food inflation registered 3.9 percentage point decline compared to last year same period and stood at 10.6 percent. The year- on–year slowdown in annualized non-food inflation was due to lower price inflation of all non-food items except alcoholic beverages & tobacco and transport which rose by 6.4 and 0.7 percentage points respectively (Table 3.1 and Fig.III.1).

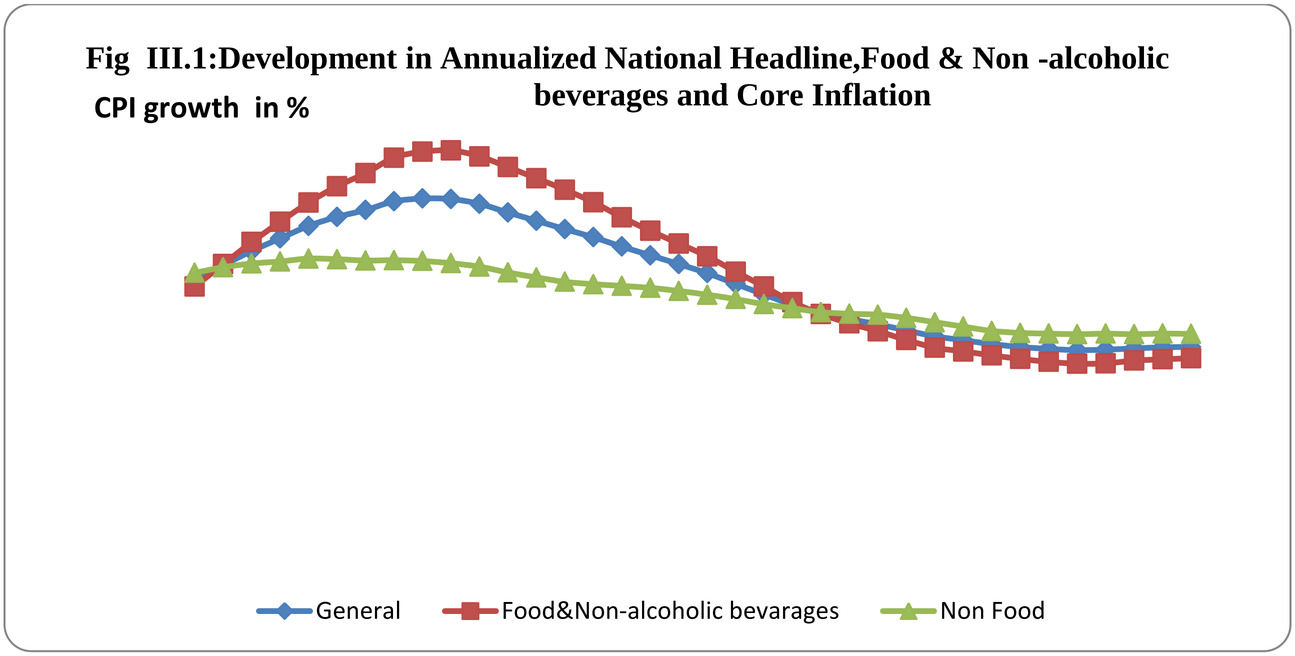
In contrast, annual headline inflation slightly went up to 8.5 percent from 7.4 percent a year ago as food& non-alcoholic beverages inflation rose by2.6 percentage point offsetting a 0.9 percentage point decline in non-food inflation. Annual food& non-alcoholic beverages inflation, which was3.7 percent in 2012/13, increased to 6.2 percent in 2013/14 while annual non-food inflation slightly declined to 11 percent from 11.9 over the same period (Table 3.2 and Fig.III.2).

All in all, prudent fiscal, tight monetary policies, relative decline in price of tradable commodities in the international market and improvement in domestic supply have contributed to slowdown in headline, food and non-food inflation.

Table 3.1: Annual Average Inflation Rates (in percent)

Items	2012/13	2013/14	Percentage Points Change	Contribution to headline inflation percentage points
	A	B	B-A	C
General	**13.5**	**8.1**	**-5.4**	**-5.4**
Food &Non-alcoholic beverages	12.6	5.9	-6.7	-3.7
Non-Food	14.5	10.6	-3.9	-1.7

Source: CSA and NBE Staff Computation



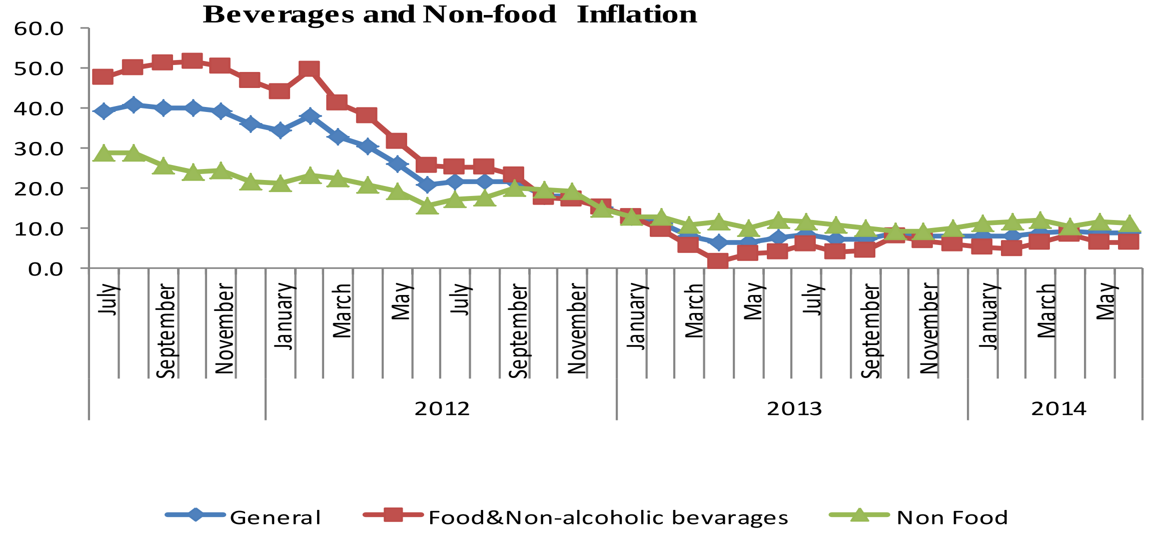
Source: CSA and NBE Staff Computation

Table 3.2: Annual Inflation Rates (in percent)

Items	2012/13	2013/14	Change(Percentage Points)
	A	B	B-A
General	**7.4**	**8.5**	**1.1**
Food&Non-alcoholic beverages	3.7	6.2	2.6
Non-Food	11.9	11.0	-0.9

Source: CSA and NBE Staff Computation

Fig.III.2.Development in Annual National,Headline,Food & Non-alcoholic Beverages and Non-food Inflation



Source: CSA and NBE Staff Computation

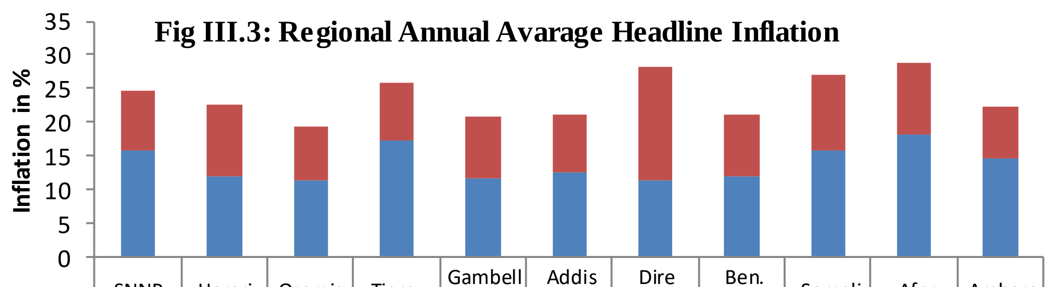
3.2. Consumer Price Developments in Regional States

At the close of 2013/14, regional simple average general inflation declined to 9.9 percent from 13.9 percent a year earlier. Dire Dawa, Somali, Afar and Harari regional states registered headline inflation rates greater than the regional simple average (Table 3.3). Dire Dawaexperienced the highest headline inflation of 16.9 percent; while the lowest7.7 percent was recorded in Amhara, revealing 9.2 percentage point margin in the rates of inflation between regions with the highest and the lowest headline inflation.

Table 3.3: Regional Average Annual Inflation (2013/14 FY)

Regions	2012/13 General	2012/13 Food &Non-alcoholic beverages	2012/13 Non-food	2013/14 General	2013/14 Food &Non-alcoholic beverages	2013/14 Non-food	Change General	Change Food &Non-alcoholic beverages	Change Non-food
	A	B	C	D	E	F	G=D-A	H=E-B	I=F-C
SNNP	15.9	15.1	16.5	8.8	6.7	11.6	-7.1	-8.4	-4.9
Harari	12.0	20.0	3.8	10.6	10.5	10.8	-1.4	-9.5	7.1
Oromia	11.3	10.3	12.9	7.9	6.7	9.3	-3.4	-3.7	-3.6
Tigray	17.4	15.2	20.4	8.5	7.3	9.6	-8.9	-7.8	-10.7
Gambella	11.7	11.2	12.5	9.2	8.2	10.7	-2.6	-2.9	-1.8
Addis Ababa	12.6	13.1	11.9	8.5	4.6	11.4	-4.0	-8.5	-0.6
Dire Dawa	11.3	9.0	13.4	16.9	7.1	24.7	5.6	-1.8	11.3
Ben. Gum	11.9	7.5	18.4	9.1	7.0	11.9	-2.8	-0.6	-6.6
Somali	15.9	14.1	18.4	11.1	6.5	16.8	-4.8	-7.5	-1.6
Afar	18.0	13.3	24.6	10.8	7.2	15.6	-7.1	-6.1	-9.0
Amhara	14.6	15.8	13.9	7.7	4.7	11.0	-6.9	-11.1	-2.8
Regions Average	**13.9**	**13.1**	**15.2**	**9.9**	**7.0**	**13.0**			
Standard deviation	**2.5**	**3.5**	**5.4**	**2.6**	**1.6**	**4.5**			
Coefficient of variation	**0.2**	**0.3**	**0.4**	**0.3**	**0.2**	**0.3**			

Sources: CSA and NBE's staff computation



	SNNP	Harari	Oromia	Tigray	Gambella	Addis Ababa	Dire Dawa	Ben. Gum	Somali	Afar	Amhara
2013/14	8.8	10.6	7.9	8.5	9.2	8.5	16.9	9.1	11.1	10.8	7.7
2012/13	15.9	12	11.3	17.4	11.7	12.6	11.3	11.9	15.9	18	14.6

The regional simple average food& non-alcoholic beverages inflation was 7.0 percent in 2013/14 (Table 3.3). Food & non-alcoholic beverage inflation in regional states likeHarari, Gambela, Tigray, Afar and Dire Dawa was higher than the regional simple average.

The highest food& non-alcoholic beverages inflation was registered in Harari (10.5 percent); and the lowest in Addis Ababa (4.6 percent)revealing 5.9 percentage point margin in the rate of food and non-alcoholic beverages inflation among regions, which is lower than the 12.5 percentage point margin during the previous year.This might specify more regional integration through communication and transportation among other factors in reducing regional differences.

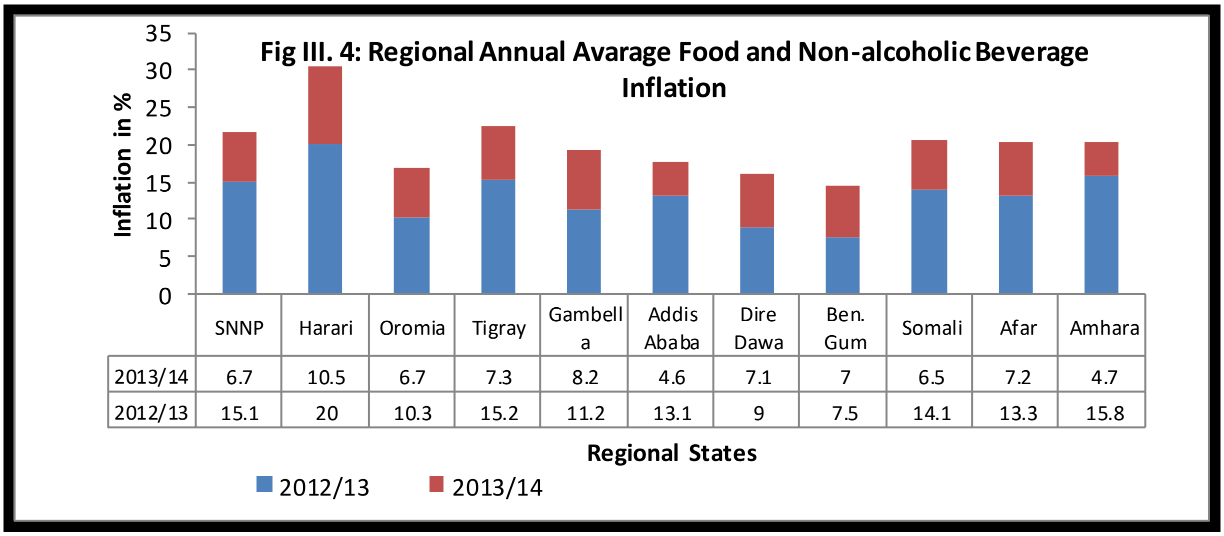
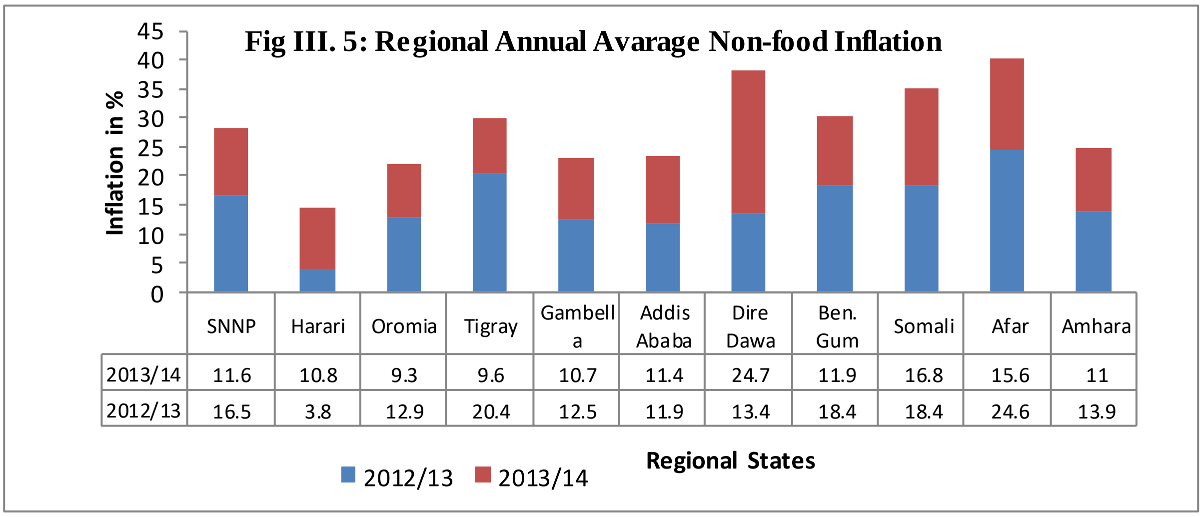


Fig III. 4: Regional Annual Avarage Food and Non-alcoholic Beverage Inflation

	SNNP	Harari	Oromia	Tigray	Gambella	Addis Ababa	Dire Dawa	Ben. Gum	Somali	Afar	Amhara
2013/14	6.7	10.5	6.7	7.3	8.2	4.6	7.1	7	6.5	7.2	4.7
2012/13	15.1	20	10.3	15.2	11.2	13.1	9	7.5	14.1	13.3	15.8

During 2013/14, simple average regional non-food inflation stood at 13 percent (Table 3.3) declining from 15.2 percent in the previous year. Dire Dawa, Somali and Afar regional states recorded non-food inflation higher than the regional simple average.



	SNNP	Harari	Oromia	Tigray	Gambella	Addis Ababa	Dire Dawa	Ben. Gum	Somali	Afar	Amhara
2013/14	11.6	10.8	9.3	9.6	10.7	11.4	24.7	11.9	16.8	15.6	11
2012/13	16.5	3.8	12.9	20.4	12.5	11.9	13.4	18.4	18.4	24.6	13.9

Source: CSA and NBE Staff Computation

The highest rise in non-food inflation was recorded in Dire Dawa(24.7 percentage), and the lowest inOromia (9.3 percentage).

Yet, regarding convergence indicators there isno significant change observed due to the growing domestic market integration as transportation and communication facilities improved.

IV. MONETARY AND FINANCIAL DEVELOPMENTS

4.1 Monetary Developments and Policy

Ethiopia's monetary policy continued to focus on containing inflation rate at single digit. Accordingly, the National Bank of Ethiopia (NBE) has been closely monitoring monetary developmentsto achieve the single digit inflation objective. NBE uses reserve money as nominal anchor for its monetary policy.

4.1.1. Developments in Monetary Aggregates

At the end of 2013/14 domestic liquidity, as measured by broad money supply (M2), reached Birr297.7 billion reflecting a 26.5 percent annual growth mainly due to a 28.4 percent surge in domestic credit accompanied by 0.9 percent slight growth in external assets (net). The significant expansion of domestic credit was attributed to a 29.2 percent increase in credit to the non-central government and 21.2 percent growth in credit to central government (Table 5.2).

As for developments in components of broad money,narrow money rose by 16.8 percent due to 17.1 percent increase in demand depositsand 16.4 percent pick up in currency outside banks reflecting the growth in economic activities and improvementsin money demand for transactionpurposes. Similarly, quasi-money that comprises savings and time deposits rose by 35.8 percent and reached Birr 163.7billion by the close of the fiscal yearowing to stability of domestic prices and increased capacity of banks in deposit mobilization as witnessed by the opening of480 new branches (Table 4.1).

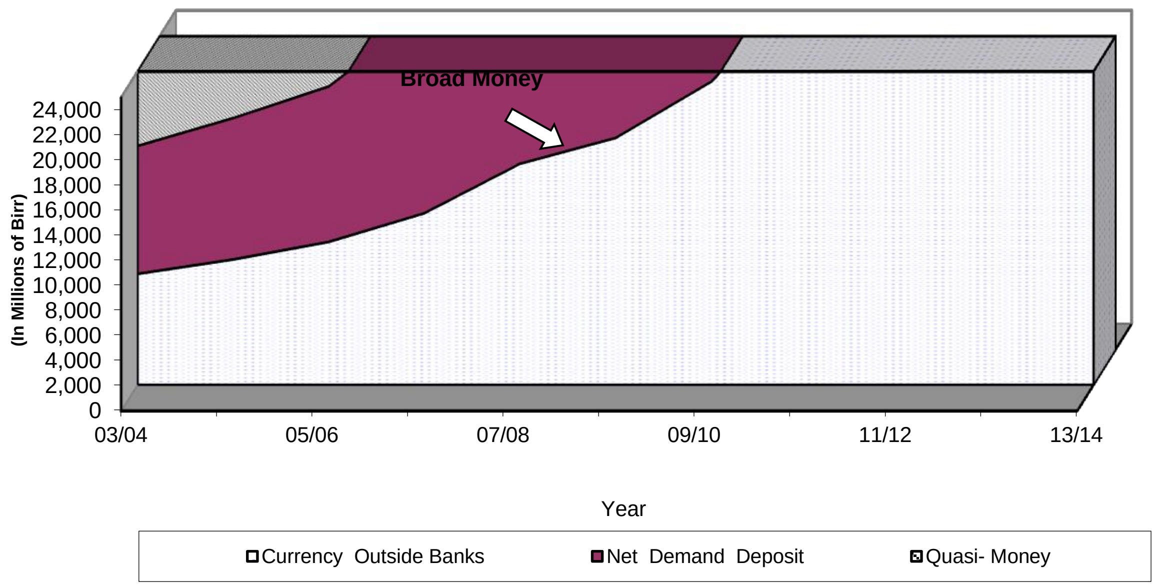
Table 4.1: **Components of Broad Money**

(In Millions of Birr, where applicable)

Particulars	Year Ended June 30				Annual Percentage Change			
	2010/11	2011/12	2012/13	2013/14	2010/11	2011/12	2012/13	2013/14
Narrow Money Supply	**76,171.0**	**94,849.9**	**114,745.7**	**134,049.2**	**45.3**	**24.5**	**21.0**	**16.8**
. Currency Outside Banks	32,574.9	38,537.1	45,671.0	53,161.4	34.6	18.3	18.5	16.4
. Demand Deposits (net)	43,596.1	56,312.7	69,074.7	80,887.8	54.4	29.2	22.7	17.1
Quasi-Money	**69,206.0**	**94,548.9**	**120,567.9**	**163,682.8**	**33.1**	**36.6**	**27.5**	**35.8**
. Savings Deposits	64,539.6	82,487.8	106,276.2	145,810.5	34.3	27.8	28.8	37.2
. Time Deposits	4,666.4	12,061.1	14,291.7	17,872.3	18.0	158.5	18.5	25.1
Broad Money Supply	**145,377.0**	**189,398.8**	**235,313.6**	**297,732.0**	**39.2**	**30.3**	**24.2**	**26.5**

Source: National Bank of Ethiopia (NBE)

Fig IV.1: Major Components of Broad Money (2003/04 - 2013/14)



Source: NBE

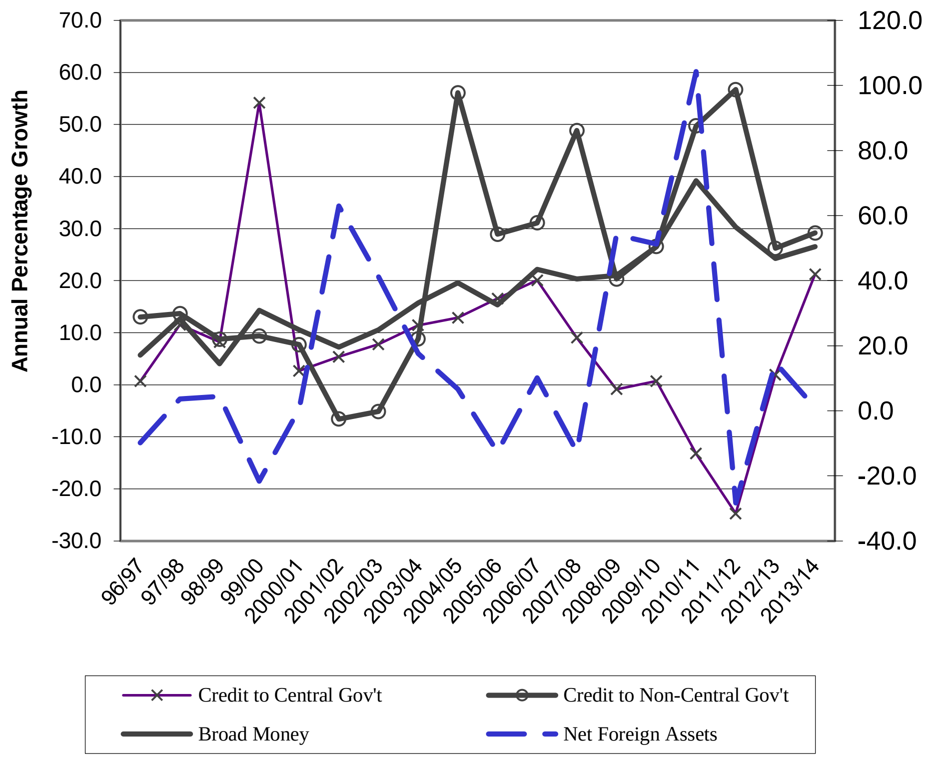
Table 4.2: Factors Influencing Broad Money

(In Millions of Birr, where applicable)

Particulars	Year Ended June 30				Annual Percentage Change			
	2010/11	2011/12	2012/13	2013/14	2010/11	2011/12	2012/13	2013/14
External Assets (net)	**55,534.7**	**39,787.7**	**45,648.5**	**46,079.4**	**104.2**	**-28.4**	**14.7**	**0.9**
Domestic Credit	**135,553.9**	**189,080.8**	**233,404.3**	**299,727.6**	**29.8**	**39.5**	**23.4**	**28.4**
Claims on Central Gov't (net)	28,651.7	21,557.4	21,965.5	26,630.8	-13.2	-24.8	1.9	21.2
Claims on Non-Central Gov't	106,902.2	167,523.4	211,438.8	273,096.8	49.7	56.7	26.2	29.2
Other Items (net)	**45,711.6**	**39,469.7**	**43,739.3**	**48,075.0**	**68.2**	**-13.7**	**10.8**	**9.9**
Broad Money (M2)	**145,377.0**	**189,398.8**	**235,313.6**	**297,732.0**	**39.2**	**30.3**	**24.2**	**26.5**

Source: NBE

Fig IV.2: Major Determinants of Monetary Growth



Source: NBE

4.1.2. Developments in Reserve Money and Monetary Ratios

During the year under review, reserve money or base money reached Birr 89.0 billion reflecting an 18.7 percent expansion over last year. The outturn wasmerely 0.2 percentage points above the annual target of 18.5 percent. The reserve money growth was attributed to

17.2 percent rise incurrency in circulation and 22.9 percent increase in deposits of banks at NBE. Determinant wise, the increment in reserve money was the result of the rise in net domestic credit by 17.5 percent coupled with a buildup of NBE's net foreign assets by 8.8 percent. Excess reserves of commercial banks reached Birr 10.0 billion at the end of June 2013/14 from Birr 9.5 a year ago.

The ratio of M2 to GDP, an indicator of financial deepening, went up slightly by 4.5 percent to reach 0.28points in 2013/14, partly indicating the prudent monetary policy measures taken to mitigate the inflationary pressure. Compared to last year same period, the money multipliers defined as narrow money to reserve money showed no change at 1.5 whereas ratio of broad money to reserve money saw slight increment to reach 3.3 from 3.1 last year reflecting improvements in deposit mobilization by commercial banks (Table 4.3).

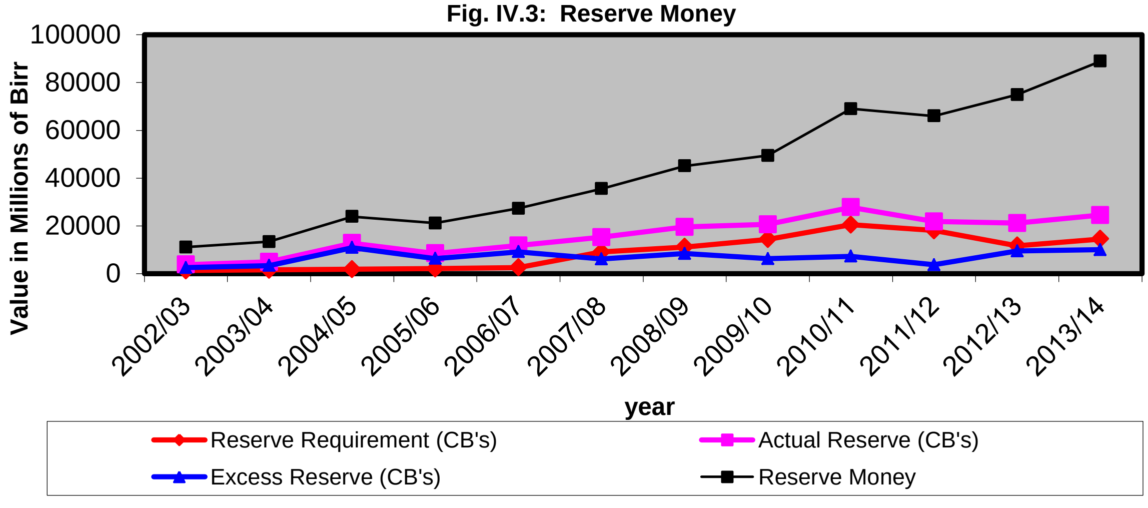
Table 4.3: Reserve Money and Monetary Ratios

(In Millions of Birr, where applicable)

Particulars	Year Ended June 30				Annual Percentage Change			
	2010/11	2011/12	2012/13	2013/14	2010/11	2011/12	2012/13	2013/14
Reserve Requirement (CB's)	20,495.2	18,080.6	11,708.8	14,479.4	42.6	-11.8	-35.2	23.7
Actual Reserve (CB's)	27,757.3	21,791.8	21,160.9	24,493.3	34.6	-21.5	-2.9	15.7
Excess Reserve (CB's)	7,262.1	3,711.3	9,452.1	10,013.9	16.1	-48.9	154.7	5.9
Reserve Money	69,043.1	65,972.6	74,942.3	88,951.0	39.7	-4.4	13.6	18.7
. Currency in Circulation	39,100.6	45,785.2	54,917.7	64,340.5	35.8	17.1	19.9	17.2
. Bank Deposits	29,942.5	20,187.4	20,024.6	24,610.5	45.2	-32.6	-0.8	22.9
Money Multiplier (Ratio):								
. Narrow Money to Reserve Money	1.1	1.4	1.5	1.5	4.0	30.3	6.5	-1.6
. Broad Money to Reserve Money	2.1	2.9	3.1	3.3	-0.3	36.3	9.4	6.6
Other Monetary Ratios (%):								
. Currency to Narrow Money	42.8	40.6	39.8	39.7	-7.4	-5.0	-2.0	-0.4
. Currency to Broad Money	22.4	20.3	19.4	17.9	-3.3	-9.2	-4.6	-8.0
. Narrow Money to Broad Money	52.4	50.1	48.8	45.0	4.4	-4.4	-2.6	-7.7
. Quasi Money to Broad Money	47.6	49.9	51.2	55.0	-4.4	4.9	2.6	7.3
M2/GDP Ratio	0.28	0.25	0.27	0.28	-2.7	-10.2	7.4	4.5

Source:NBE

Fig. IV.3: Reserve Money



Source: NBE

4.2. Developments in Interest Rate

In 2013/14, both minimum and maximum deposit interest rates remained at the past two years' level of 5.0 percent and 5.75 percent, respectively. Consequently, average interest rate on savings deposit was 5.38 percent while weighted annual average interest rate on time deposit stood at 5.66 percent and demand deposit and lending ratesat 0.03 percent and 11.88 percent, respectively.

On the other hand, the real rate of interest on savings and time deposit showed a slight improvement over the past year as a result of a year-on-year drop in inflation from 8.7 percent to 8.5 percent. Consequently, the real lending interest rate was positive at 3.41 percent although yield on T-Bills remained negative(Table 4.4).

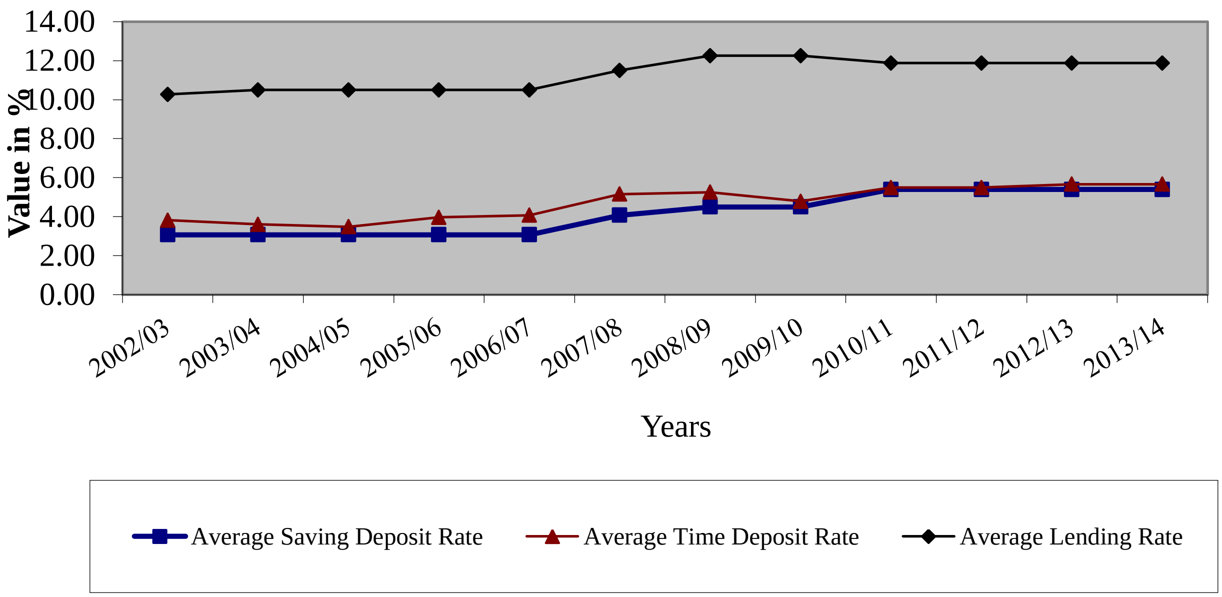
Table 4.4: Interest Rate Structure of Commercial Banks

(In percent per annum)

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

Source: NBE

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



Source: NBE

4.3. Developments in Financial Sector

The major financial institutions operating in Ethiopia are banks, insurance companies and micro-finance institutions. The number of banks operating in the country reached 19of which 16 were private, and the remaining 3 state-owned.

During the fiscal year these banks opened 480 new branches raising the total branch network in the country to 2,208 from 1,728 last year. As a result, bank branch to population ratio declined from 1:49,826people to 1:39,402 in 2013/14.

The significant branch expansion was undertaken by Commercial Bank of Ethiopia (CBE) with 124 branches, followed by Oromiya International Bank (44 branches),Awash International Bank (38 branches), Cooperative Bank of Oromiya (31 branches), Dashen Bank and Bunna International Bank (30 brancheseach),Berhan International Bank (26 branches), and United Bank (24 branches). The share of public banks in total branch network slightly went down to 45.4 percent at the end of 2013/14 from 50.3 percent last year signifying the steady growth in private banks.

The number of bank branches in Addis Ababa, the capital city and major business center of the country, increased by 29.4 percent over last year, indicating the booming economic activities in the city.

Following a significant capital injection by private banks mainly Dashen Bank, Bank of Abyssinia, United Bank, Awash International Bank, Nib International Bank, WegagenBank andCooperative Bank of Oromiya,the total capital of the banking industry increased by 13.2 percent and reached Birr 26.4 billion by the end of June 2014. As a result, the share of private banks in total capital surged to 55.3 percent from 48.4 percent last year.At the same time, the share of CBE in total capital of the banking sector went down to 34.2 percent from 38.7 percent a year ago (Table 4.5).

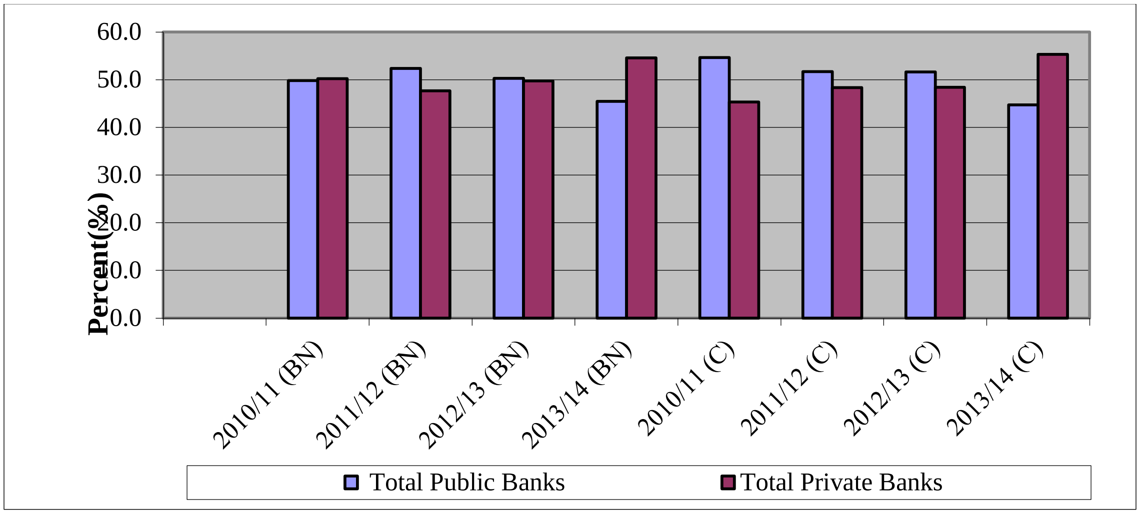
The number of insurance companies operating in Ethiopia increased to 17 from 16 last year and other branch network reached 332 following the opening of 59additional branches. Majorbranch expansion was undertaken by the state owned Ethiopian

Insurance Corporation (EIC) (13 branches) followed by Abay Insurance (7 branches), Oromia Insurance and Nile Insurance Company (5 branches) each.

About, 55 percent of insurance branches were located in Addis Ababa.The share of private insurance companies in total branches stood at 81.3 percent, slightly down from 82.1 percent a year ago.

On the other hand, total capital of insurance companies increased by 36.6 percent reaching Birr 2.0 billion from Birr 1.5 billion last year. Private insurance companies accounted for 78.6 percent of the total capital of insurance sector while theshare of EIC was21.4 percent (Table 4.6).

Fig IV.5: Capital and Branch Network of the Banking system (2010/11-2013/14)



Source: Commercial Banks

Table 4.5: Capital and Branch Network of the Banking System as at the Close of June 30, 2014

(Branch in Number and Capital in Millions of Birr)

Banks	Branch Network								Capital			
	2012/13				2013/14				2012/13		2013/14	
	Regions	Addis Ababa	Total	% Share	Regions	Addis Ababa	Total	% Share	Total Capital	% Share	Total Capital	% Share
1. Public Banks												
Commercial Bank of Ethiopia	595	137	732	42.4	700	156	856	38.8	9,027.0	38.7	9,045.0	34.2
Construction & Business Bank	63	42	105	6.1	68	47	115	5.2	465.0	2.0	642.1	2.4
Development Bank of Ethiopia	31	1	32	1.9	31	1	32	1.4	2,554.0	10.9	2,134.8	8.1
Total Public Banks	**689**	**180**	**869**	**50.3**	**799**	**204**	**1003**	**45.4**	**12,046.0**	**51.6**	**11,821.9**	**44.7**
2. Private Banks												
Awash International Bank	47	67	114	6.6	62	90	152	6.9	1,628.0	7.0	1,979.3	7.5
Dashen Bank	59	53	112	6.5	69	73	142	6.4	1,493.0	6.4	1,994.1	7.5
Abyssinia Bank	41	45	86	5.0	55	54	109	4.9	909.0	3.9	1,326.0	5.0
Wegagen Bank	38	41	79	4.6	51	49	100	4.5	1,570.0	6.7	1,825.8	6.9
United Bank	30	45	75	4.3	44	55	99	4.5	951.0	4.1	1,334.4	5.0
Nib International Bank	30	42	72	4.2	39	55	94	4.3	1,453.0	6.2	1,731.3	6.5
Cooperative Bank of Oromiya	62	12	74	4.3	84	21	105	4.8	549.0	2.4	739.9	2.8
Lion International Bank	23	22	45	2.6	35	27	62	2.8	415.0	1.8	514.3	1.9
Oromia International Bank	44	21	65	3.8	80	29	109	4.9	490.0	2.1	594.3	2.2
Zemen Bank	3	5	8	0.5	3	6	9	0.4	400.0	1.7	529.1	2.0
Buna International Bank	20	13	33	1.9	41	22	63	2.9	321.0	1.4	446.6	1.7
Berhan International Bank	11	11	22	1.3	22	26	48	2.2	340.0	1.5	488.7	1.8
Abay Bank	37	10	47	2.7	54	16	70	3.2	300.0	1.3	395.0	1.5
Addis International Bank	2	9	11	0.6	5	16	21	1.0	205.0	0.9	277.9	1.1
Debub Global Bank	10	4	14	0.8	12	7	19	0.9	114.0	0.5	177.3	0.7
Enat Bank	0	2	2	0.1	0	3	3	0.1	162.0	0.7	261.6	1.0
Total Private Banks	**457.0**	**402.0**	**859.0**	**49.7**	**656.0**	**549.0**	**1,205.0**	**54.6**	**11,300.0**	**48.4**	**14,615.4**	**55.3**
3.Grand Total Banks	**867**	**582**	**1728**	**100**	**1455**	**753**	**2208**	**100.0**	**23,346.0**	**100.0**	**26,437.3**	**100.0**

Source: Commercial Banks

Table 4.6: Branch Network & Capital of Insurance Companies as at June 30, 2014

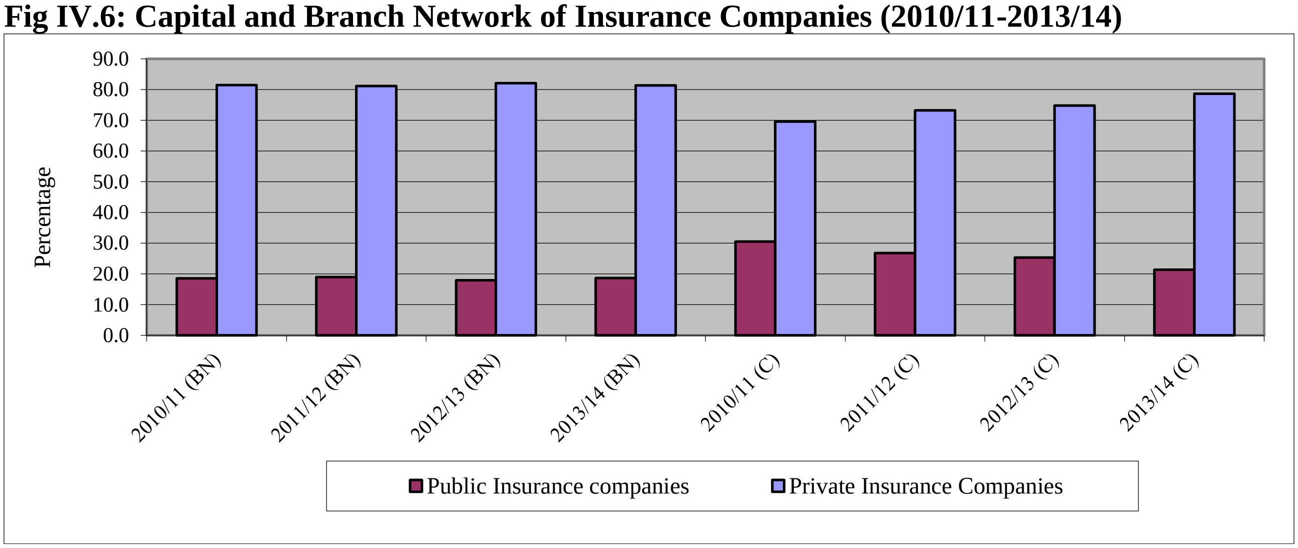
(Branch in Number and Capital in Millions of Birr)

No.	Insurance Companies	Branch						Capital		
		2012/13			2013/14			2012/13	2013/14	% Change
		A.A	Regio	Total	A.A	Regio	Total	A	B	B/A
1	Ethiopian Ins. Cor.	11.0	38.0	49	18	44	62	376.0	434.4	15.5
2	Awash Ins.Com.S.C.	20.0	12.0	32	21	12	33	145.7	182.9	25.6
3	Africa Ins.Com S.C.	6.0	7.0	13	8	7	15	106.5	134.9	26.7
4	National Ins. Co. of Eth.	9.0	10.0	19	9	12	21	54.9	72.6	32.1
5	United Ins.Com. S.C	16.0	8.0	24	18	10	28	88.9	203.1	128.3
6	Global Ins. Com.S.C	6.0	5.0	11	6	5	11	44.2	67.1	51.9
7	Nile Ins.Com.S.C	11.0	12.0	23	14	14	28	158.9	182.0	14.6
8	Nyala Ins.Com.S.C	12.0	9.0	21	12	9	21	163.0	206.3	26.6
9	Nib Ins. Com.S.C	15.0	8.0	23	17	8	25	151.8	207.3	36.5
10	Lion Ins. Com.S.C	11	5	16	14	6	20	52.7	83.4	58.4
11	Ethio-Life Ins.Com.S.c	3.0	0.0	3	6	1	7	25.9	20.3	-21.9
12	Oromia Ins.Com.S.c	12	8	20	14	11	25	76.6	119.2	55.5
13	Company S.C	3	4	7	7	7	14	12.1	48.5	300.1
14	Berhan insurance S.C	6	1	7	6	1	7	15.5	22.4	45.0
15	Tsehay Insurance S.C	5	0	5	6	2	8	7.9	24.3	206.6
16	Lucy	0	0	0	2	1	3	8.4	16.8	100.4
17	Bunna Insurance S.C				4	0	4	0.0	8.6	-
18	**Total**	**146**	**127**	**273**	**182**	**150**	**332**	**1,489.0**	**2,034.1**	**36.6**

Source: Insurance Companies

Note: A.A=Addis Ababa

Fig IV.6: Capital and Branch Network of Insurance Companies (2010/11-2013/14)



Source: Insurance Companies

By the end of 2013/14, the number of micro-finance institutions (MFIs) operating in the country reached 31. Their overall performance was encouraging as their total capital and total asset increased by 24.6 and 38.6 percent and reached Birr 5.6 billion and Birr 24.5 billion, respectively.

At the same time, their deposit mobilization and credit provision have expanded remarkably. Compared to last year, deposit mobilization of MFIs went up by 54.8 percent and reached Birr 11.8 billion while their outstanding credit rose by 31.9 percent indicating their expanded outreach (Table 4.7).

The four largest MFIs, namely Amhara, Dedebit, Oromiya and Omo Credit and Savings institutions accounted for 74.9 percent of the total capital, 84.0 percent of the savings, 80.6 percent of the credit and 81.6 percent of the total assets of MFIs at the end of 2013/14.

Table 4.7: Microfinance Institutions Performance as of June 30, 2014

(In thousands of Birr)

Particulars	2012/13	2013/14	% Change
	A	*B*	*B/A*
Total Capital	4,536,577.6	5,652,005.7	24.6
Saving	7,611,397.0	11,784,059.6	54.8
Credit	12,781,816.6	16,855,556.8	31.9
Total Assets	17,700,416.3	24,535,850.0	38.6

Source: Microfinance Institutions

4.3.1. Resource Mobilization

Total resources mobilized by the banking system in the form of deposit, loan collection and borrowing increased by 13.6 percent and reached Birr 111.4 billion at the end of 2013/14 (Table 4.8).

Spurred by remarkable branch expansion, deposit liabilities of the banking system reached Birr 292.8 billion reflecting annual growth rate of 23.5 percent over last year. Component wise, saving deposits registered a 37.2 percent increase followed by time deposits (23.5 percent), and demand deposits (10.9 percent). Savings deposit accounted for 49.8 percent of the total deposits followed by demand deposits (44.0 percent) and time deposits (6.2 percent) (Table 4.9). The rise in saving deposits indicates an increase in financial intermediation of banks in the year under review.

Despite the opening of 244 new branches by private commercial banks, the share of private banks' deposit mobilization decreased marginally to 31.5 percent from 32.3 percent last year. CBE alone mobilized 66.4 percent of the total deposits due to expansion in its large branch network.

Raising funds through borrowing by banks was not an important source of resource mobilization as most banks were sufficiently liquid due to the surge in deposit mobilization and collection of loans. As a result, total outstanding borrowing of the banking system at the end of the fiscal year was Birr 27.3 billion up from Birr 23.3 billion a year earlier(Table 4.8). Of the total borrowing, domestic sources accounted for 87.5 percent and foreign sources took the remaining balance.

On the other hand, loan collection by banks stood at Birr 51.7 billion showing a 23.7 percent yearly increase (Table 4.8). Of this, 49.5 percent was collected by private banks.

Table 4.8: Annual Resource Mobilization & Disbursing Activities of Commercial Banks and DBE (Specialized Bank) as at June 30, 2014

(In Millions of Birr)

Particulars	2011/12			2012/13			2013/14			Percentage Change	
	Public Banks	Private Banks	Total (A)	Public Banks	Private Banks	Total (B)	Public Banks	Private Banks	Total (C)	B/A	C/B
1. Deposits (net change)	**37,004.6**	**9,754.3**	**46,758.9**	**32,949.9**	**16,960.8**	**49,910.7**	**40,053.9**	**15,592.7**	**55,646.6**	**6.7**	**11.5**
Demand	19,199.2	2,213.2	21,412.4	18,781.8	5,106.9	23,888.7	9,350.1	3,294.4	12,644.6	11.6	-47.1
Savings	12,049.3	5,916.5	17,965.9	12,937.5	10,856.5	23,794.0	29,850.8	9,685.0	39,535.8	32.4	66.2
Time	5,756.0	1,624.6	7,380.6	1,230.6	997.4	2,228.0	853.0	2,613.2	3,466.2	-69.8	55.6
2. Borrowing (net change)	**7,247.1**	**-**	**7,247.1**	**6,343.0**	**-**	**6,343.0**	**4,034.1**	**-**	**4,034.1**	**-12.5**	**-36.4**
Local	7,232.4	-	7,232.4	5,075.9	-	5,075.9	2,925.9	-	2,925.9	-29.8	-42.4
Foreign	14.7	-	14.7	1,267.1	-	1,267.1	1,108.2	-	1,108.2	8514.5	-12.5
3. Collection of Loans	18,479.9	16,707.6	35,187.4	22,935.5	18,884.7	41,820.2	26,127.5	25,617.2	51,744.7	18.8	23.7
4. Total Resources Mobilized (1+2+3)	**62,731.5**	**26,461.9**	**89,193.4**	**62,228.4**	**35,845.5**	**98,073.9**	**70,215.4**	**41,209.9**	**111,425.3**	**10.0**	**13.6**
5. Disbursement	36,949.2	19,152.9	56,102.1	33,249.7	21,001.8	54,251.5	38,937.9	21,027.5	59,965.4	-3.3	10.5
6. Change in Liquidity (4-5)	***25,782.4***	***7,308.9***	***33,091.3***	***28,978.7***	***14,843.7***	***43,822.4***	***31,277.5***	***20,182.4***	***51,459.9***	**32.4**	**17.4**
Memorandum Item:											
7. Outstanding Credit*	85,721.7	36,740.4	122,462.1	103,585.1	47,618.9	151,203.9	127,634.3	53,693.1	181,327.4	23.5	19.9

Source: Commercial Banks &Staff Computation

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

Table 4.9: Deposits and Borrowings of Commercial Banks and Specialized Bank as at June 30, 2014

(In Millions of Birr)

	2011/12	2012/13	2013/14	B/A	C/B
	A	B	C		
A. Deposits					
-Demand	92,254.8	116,143.6	128,788.1	25.9	10.9
-Savings	82,494.6	106,288.6	145,824.3	28.8	37.2
-Time	12,541.3	14,769.2	18,235.4	17.8	23.5
Total	**187,290.7**	**237,201.3**	**292,847.9**	**26.6**	**23.5**
B. Borrowings			0.0		
-Local	15,898.9	20,974.8	23,900.8	31.9	13.9
-Foreign	1,034.1	2,301.2	3,409.4	122.5	48.2
Total	**16,933.1**	**23,276.1**	**27,310.1**	**37.5**	**17.3**

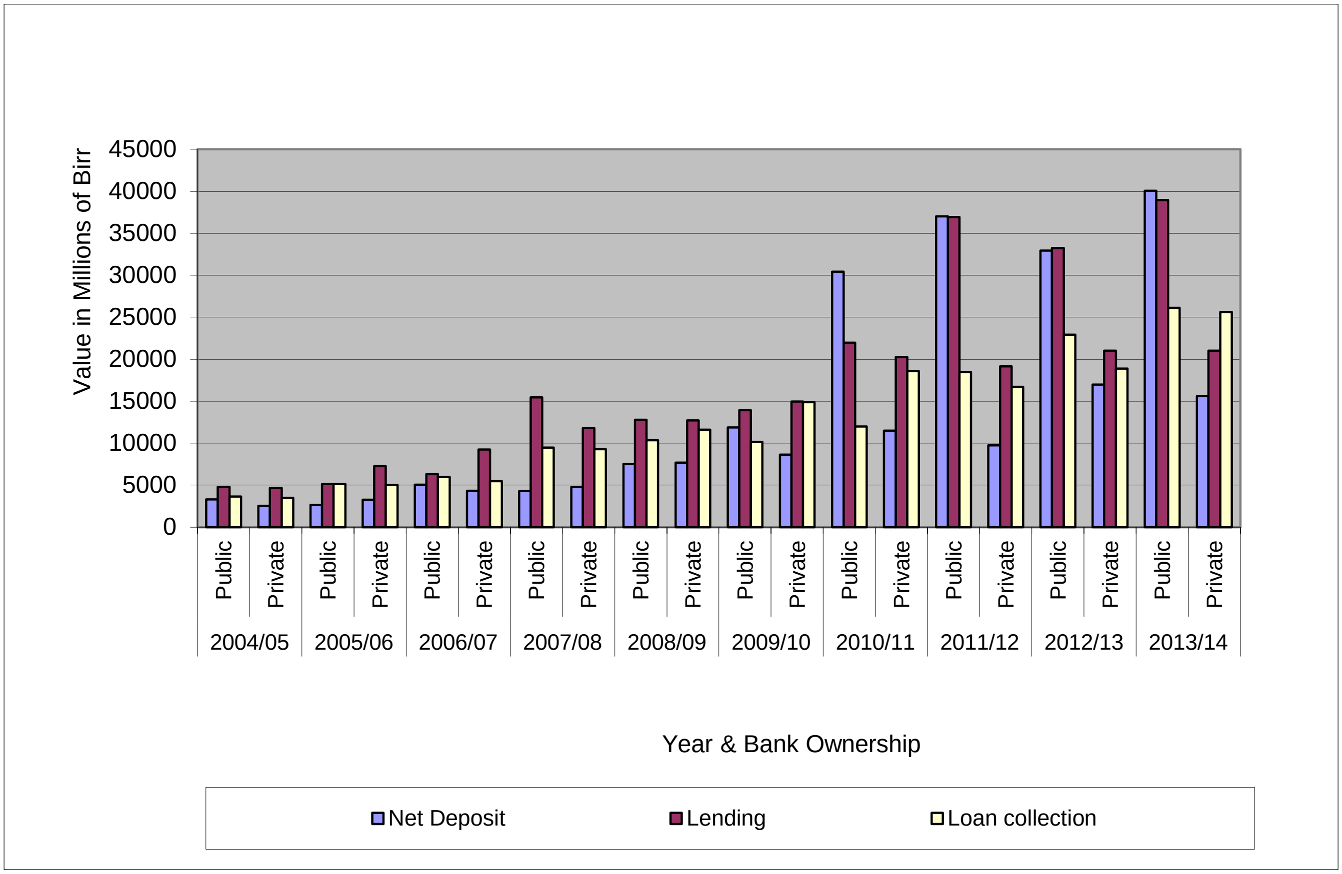
Source: Commercial Banks &Staff Computation

4.3.2. New Lending Activities

New lending to the economy has continued to increase. Commercial banks and Development Bank of Ethiopia(DBE) disbursed Birr 59.9 billion which went up by 10.5 percent over last year as the capacity of banks to lending remained strong due to higher deposit mobilization and loan collection. Of the total new loans disbursed by the banking system, 35.1 percent was by private banks, while the share of public bankswas 64.9 percent (Table 4.10).

Regarding disbursement by sector, 34.0 percent went to Industry followed by agriculture (18.1 percent) and domestic trade (15.2 percent), while other sectors consumed the remaining balance (Table 4.12).

Fig IV.7: Development in Deposit Mobilization, Lending and Loan Collection Activities of the Banking System (2004/05- 2013/14)



Source: Commercial Banks and DBE

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

Lenders	2012/13			2013/14			Percentage Change		
	D*	C*	O/S*	D*	C*	O/S*			
	A	B	C	D	E	F	D/A	E/B	F/C
A.Public Banks									
1.Commercial Bank of Ethiopia	27365.9	19700.4	70,432.3	32184.1	22025.5	89,665.2	17.6	11.8	27.3
3. Construction & Business Bank of Ethiopia	548.2	687.7	1,792.7	1288.0	1088.5	2,332.0	135.0	58.3	30.1
2.Development Bank of Ethiopia	5335.6	2547.3	18,948.5	5465.8	3013.4	22,666.8	2.4	18.3	19.6
Sub-Total	***33,249.7***	***22,935.5***	***91,173.4***	***38,937.9***	***26,127.5***	***114,664.0***	**17.1**	**13.9**	**25.8**
B. Private Banks									
4 Awash International Bank	2961.5	2027.3	7737.1	1944.6	2912.5	9176.4	-34.3	43.7	18.6
5. Dashen Bank	2917.3	3913.3	8836.6	3757.5	4943.6	9569.7	28.8	26.3	8.3
6. Bank of Abyssinia	2252.6	1800.9	4675.9	1534.2	2228.4	5153.5	-31.9	23.7	10.2
7. Wegagen Bank	3031.3	2493.6	4689.9	2070.9	2944.4	4604.4	-31.7	18.1	-1.8
8. United Bank	2210.4	2580.0	4710.8	2085.4	3303.6	5069.6	-5.7	28.0	7.6
9. Nib International Bank	2429.6	2131.3	4542.8	3382.8	3128.5	5521.6	39.2	46.8	21.5
10. Cooperative Bank of Oromia	332.9	635.0	1941.0	803.9	991.6	3718.4	141.5	56.1	91.6
11. Lion Interenational Bank	601.8	514.1	1318.1	567.0	718.0	1562.0	-5.8	39.7	18.5
12. Oromia International Bank	816.4	548.9	1621.2	787.3	1075.1	1430.0	-3.6	95.9	-11.8
13. Zemen Bank	1195.3	972.8	1369.7	1149.9	950.6	2551.6	-3.8	-2.3	86.3
14.Berhan International Bank	690.9	329.7	967.6	484.0	708.9	1184.4	-29.9	115.0	22.4
15.Bunna International Bank	532.4	448.3	948.4	679.3	557.0	1339.4	27.6	24.2	41.2
16.Abay Bank	686.5	383.9	864.9	806.8	652.4	1516.7	17.5	69.9	75.4
17. Addis International Bank	232.5	92.5	328.0	222.9	197.3	511.0	-4.1	113.2	55.8
18. Debub Global Bank	104.4	13.1	98.5	271.5	169.5	270.4	0.0	0.0	0.0
19. Enat Bank	6.0	0.0	6.0	479.4	135.8	511.9	0.0	0.0	0.0
Sub-Total	***21,001.8***	***18,884.7***	***44,656.5***	***21,027.5***	***25,617.2***	***53,691.1***	**0.1**	**35.7**	**20.2**
Grand Total	***54,251.5***	***41,820.2***	***135,829.9***	***59,965.4***	***51,744.7***	***168,355.1***	**10.5**	**23.7**	**23.9**

Source: Commercial Banks

1. O/S Credit excludes centeral government borrowing

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

Table 4.11: Percentage Share of Loans and Advances by Lenders

Lenders	2012/13			2013/14			Percentage change		
	D*	C*	O/S*	D*	C*	O/S*			
	A	B	C	D	E	F	D/A	E/B	F/C
A.Public Banks									
1.Commercial Bank of Ethiopia	50.443	47.1	51.9	53.7	42.6	53.3	6.4	-9.6	2.7
2.Development Bank of Ethiopia	9.835	6.1	14.0	2.1	2.1	1.4	-78.2	-65.5	-90.1
3. Construction & Business Bank of Ethiopia	1.010	1.6	1.3	9.1	5.8	13.5	802.1	254.1	920.1
Sub-Total	***61.288***	***54.8***	***67.1***	***64.9***	***50.5***	***68.1***	**5.9**	**-7.9**	**1.5**
B.Private Banks									
4 Awash International Bank	5.5	4.8	5.7	3.2	5.6	5.5	-40.6	16.1	-4.3
5. Dashen Bank	5.4	9.4	6.5	6.3	9.6	5.7	16.5	2.1	-12.6
6. Bank of Abyssinia	4.2	4.3	3.4	2.6	4.3	3.1	-38.4	0.0	-11.1
7. Wegagen Bank	5.6	6.0	3.5	3.5	5.7	2.7	-38.2	-4.6	-20.8
8. United Bank	4.1	6.2	3.5	3.5	6.4	3.0	-14.6	3.5	-13.2
9. Nib International Bank	4.5	5.1	3.3	5.6	6.0	3.3	26.0	18.6	-1.9
10. Cooperative Bank of Oromia	0.6	1.5	1.4	1.3	1.9	2.2	118.5	26.2	54.6
11. Lion Interenational Bank	1.1	1.2	1.0	0.9	1.4	0.9	-14.8	12.9	-4.4
12. Oromia International Bank	1.5	1.3	1.2	1.3	2.1	0.8	-12.8	58.3	-28.8
13. Zemen Bank	2.2	2.3	1.0	1.9	1.8	1.5	-13.0	-21.0	50.3
14.Berhan International Bank	1.3	0.8	0.7	0.8	1.4	0.7	-36.6	73.8	-1.2
15.Bunna International Bank	1.0	1.1	0.7	1.1	1.1	0.8	15.4	0.4	13.9
16. Abay Bank	1.3	0.9	0.6	1.3	1.3	0.9	6.3	37.3	41.5
17. Addis International Bank	0.4	0.2	0.2	0.4	0.4	0.3	-13.3	72.3	25.7
18. Debub Global Bank	0.2	0.0	0.1	0.5	0.3	0.2	0.0	0.0	0.0
19. Enat Bank	0.0	0.0	0.0	0.8	0.3	0.3	0.0	0.0	0.0
Sub-Total	***38.7***	***45.2***	***32.9***	***35.1***	***49.5***	***31.9***	**-9.4**	**9.6**	**-3.0**
Grand Total	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	**0.0**	**0.0**	**0.0**

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

4.3.3. Outstanding Loans

Total outstanding credit of the banking system (excluding NBE) including the central government increased by 19.9 percent and reached Birr 181.3 billion at the end of June 2014. While gross outstanding claims on the central government decreased by 15.6 percent, that of public enterprises and private sector increased by 31.3 percent and 23.5 percent respectively (Table 4.13).

Sectoral distribution of outstanding loans indicated that credit to industry accounted for 37.1 percent followed by international trade (18.0 percent), housing and construction (10.9 percent), domestic trade (9.0 percent) and agriculture (8.7 percent) (Table 4.12). Outstanding claims on the private sector including cooperatives stood at Birr 114.6 billion or 63.2 percent of the total outstanding claim reflecting a 20.9 percent growth over last year (Table 4.13).

Table 4.12: Loans & Advances by Economic Sectors

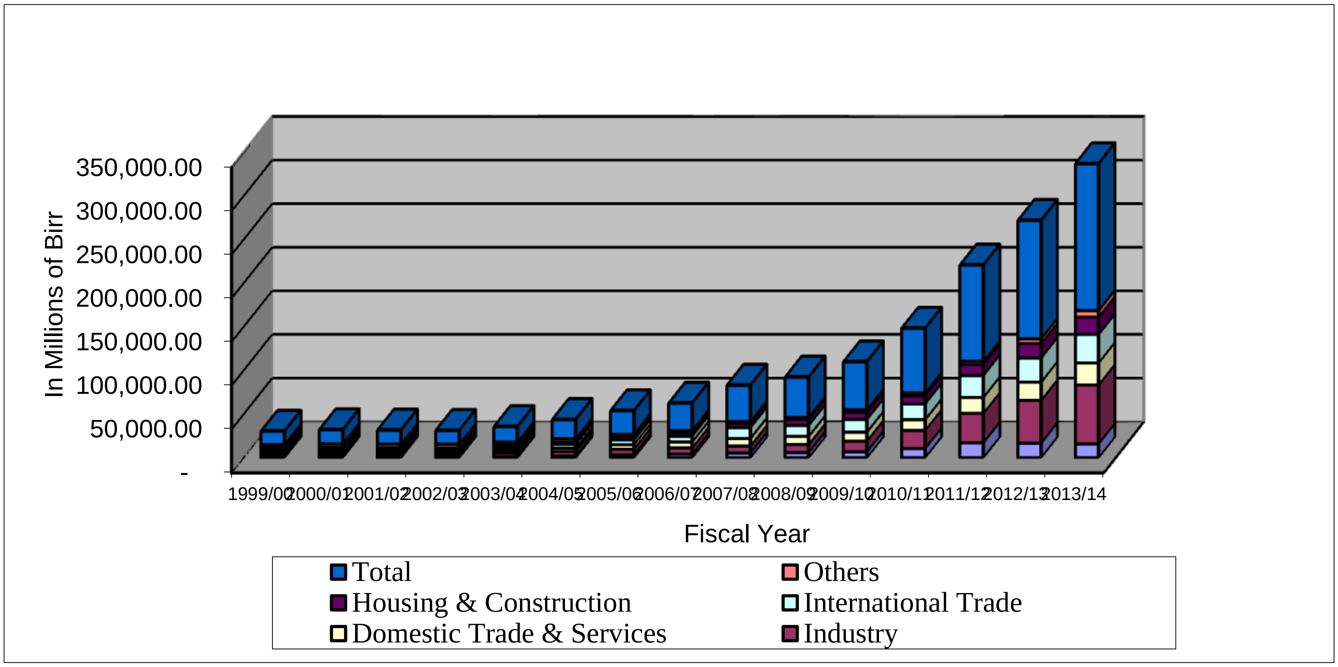
(In Millions of Birr)

Economic Sectors	2012/13			2013/14			Percentage Change		
	D*	C*	O/S*	D*	C*	O/S*	D*	C*	O/S*
	A	B	C	D	E	F	D/A	E/B	F/C
Government Deficit Financing	0	0	15,374.1	0	0	12,972.3	-	-	(15.6)
Agriculture	9,709.2	10,107.1	16,723.4	10,867.5	11,535.1	15,815.0	11.9	14.1	(5.4)
Industry	19,298.4	7,845.9	48,739.0	20,391.1	9,400.9	67,219.4	5.7	19.8	37.9
Domestic Trade	8,325.0	7,980.3	14,185.1	9,104.1	9,506.2	16,399.2	9.4	19.1	15.6
International Trade	5,973.6	8,286.3	27,519.3	7,280.7	11,008.1	32,579.6	21.9	32.8	18.4
Export	2,569.1	2,777.2	10,616.1	2,973.3	4,625.4	13,312.0	15.7	66.6	25.4
Import	3,700.5	5,509.1	16,963.3	4,307.3	6,382.7	19,267.6	16.4	15.9	13.6
Hotels and Tourism	882.6	555.0	1,848.5	1,190.6	1,117.8	3,562.8	34.9	101.4	92.7
Transport and Communication	1,575.7	1,798.6	4,779.0	1,555.5	1,903.0	5,278.8	(1.3)	5.8	10.5
Housing and Construction	6,322.9	4,098.7	16,544.5	6,695.8	5,553.2	19,802.0	5.9	35.5	19.7
Mines, Power and Water resource	82.4	18.7	88.3	265.6	77.0	546.7	222.4	311.2	518.9
Others	1,529.5	790.8	4,624.5	1,899.8	1,384.3	6,033.5	24.2	75.0	30.5
Personal	256.3	185.7	554.6	268.4	221.2	1,052.0	4.7	19.1	89.7
Interbank Lending	-	153.06	163.3	446.38	37.96	65.9	-	(75.2)	(59.6)
Total	**54,251.5**	**41,820.2**	**151,203.9**	**59,965.4**	**51,744.7**	**181,327.4**	**10.5**	**23.7**	**19.9**

Source: Commercial Banks &Staff Computation

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

Fig IV.8:Sectoral Breakdown of Bank Credit (1999/00-2013/14)



Source: Commercial Banks including DBE & Staff Computation

Table 4.13: Loans and Advances by Borrowers/1 as at June 30, 2014

(In Millions of Birr)

Borrowing Sector	2011/12	2012/13	2013/14			Percentage change	
	O/S*	O/S*	D*	C*	O/S*		
	B	C	E	F	G	C/B	G/C
Central Government	12,261.6	15,374.1	-	0.0	12,972.3	25.4	-15.6
Public Enterprises	27,694.9	40,888.6	13,483.3	6,192.8	53,703.7	47.6	31.3
Cooperatives	13,750.2	12,219.7	9,189.3	10,470.4	12,664.7	-11.1	3.6
Private & Individuals	68,479.1	82,558.2	36,846.6	35,043.6	101,920.7	20.6	23.5
Inter-bank Lending	276.4	163.3	446.2	38.0	65.9	-40.9	-59.6
Total	***122,462.1***	***151,203.9***	***59,965.4***	***51,744.7***	***181,327.4***	23.5	19.9
Total less Inter-bank Lending	***122,185.7***	***151,040.6***	***59,519.2***	***51,706.8***	***181,261.4***	**23.6**	**20.0**

Source: Commercial Banks &Staff Computation

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

1/ inclueds lending to the central government

4.4. Financial Activities of NBE

By the end of 2013/14, outstanding claims of NBE on the central government reached Birr 73.3 billion due to a 16.3 percent increase in direct advance. Direct advances to the government stood at Birr 64.3 billion or 87.7 percent of the total claim, while bond holdings accounted the remaining 12.3 percent. By the end of 2013/14, the outstanding claim of NBE on DBE has reached Birr 18.2 billion.

Regarding liabilities of NBE, total deposits at the NBE increased by 19.3 percent to Birr 35.1 billion, due to a surge in deposits of central government by 46.9 percent (Table 4.14).

Table 4.14: Financial Activities of National Bank of Ethiopia as at the Close of June 30, 2014

(In Millions of Birr)

Particulars	2011/12	2012/13	2013/14	% Change	
	A	B	C	B/A	C/B
Loans and Advances (1+2)	**68,064.5**	**81,017.4**	**91,461.3**	**19.0**	**12.9**
1.Claims on Central Gov't	**55,562.5**	**64,510.4**	**73,304.3**	**16.1**	**13.6**
1.1 Direct Advance	46,264.9	55,264.9	64,264.9	19.5	16.3
1.2 Bonds*	9,297.5	9,245.4	9,039.4	-0.6	-2.2
2. Claims on DBE	**12,502.0**	**16,507.0**	**18,157.0**	**32.0**	**10.0**
3. Deposit Liabilities	**30,756.9**	**29,464.2**	**35,140.8**	**-4.2**	**19.3**
3.1 Government	10,218.4	9,133.0	13,412.5	-10.6	46.9
3.2 Financial Institutions	20,538.5	20,331.1	21,728.3	-1.0	6.9

Source: NBE and Staff Computation

* *Including non-interest bearing special bond*

4.5. Developments in Financial Markets

Treasury bill market is the only regular market where securities are transacted on a weekly basis. However, Government bonds are occasionally issued to finance government expenditures and/or to absorb excess liquidity in the banking system.There is no secondary market for the securities.

4.5.1. Treasury Bills Market

Treasury-bills market showed a mixed development. The amount of Treasury-bills offered registered annual decline while demand tended to increase. The amount ofTreasury-bills supplied reached Birr 91.2 billion, about 15.2 percent than last year, while total demand for rose by 4.0 percent to reach Birr 113.5 billion.

The amount of T-bills sold during the year stood at Birr 95.3 billion indicating oversubscription of the by market Birr 18.2 billion (19.0 percent).

At the end of 2013/14, the total outstanding T-bills stood at Birr 32.3 billion, 24.0 percent up from a year ago.

Although banks participation in the T-bill market is showing a marked improvement, the dominance of non-bank institutions continued in the review year. Accordingly, the non-bank institutions account for the entire amounted of the total outstanding T-billsby the close of 2013/14 (Table 4.15).

The average weighted yield of the four types of bills slightly fellto 1.597 from 1.889 percent last year (Table 4.15).

Table 4.15: Results of Treasury Bills Auction

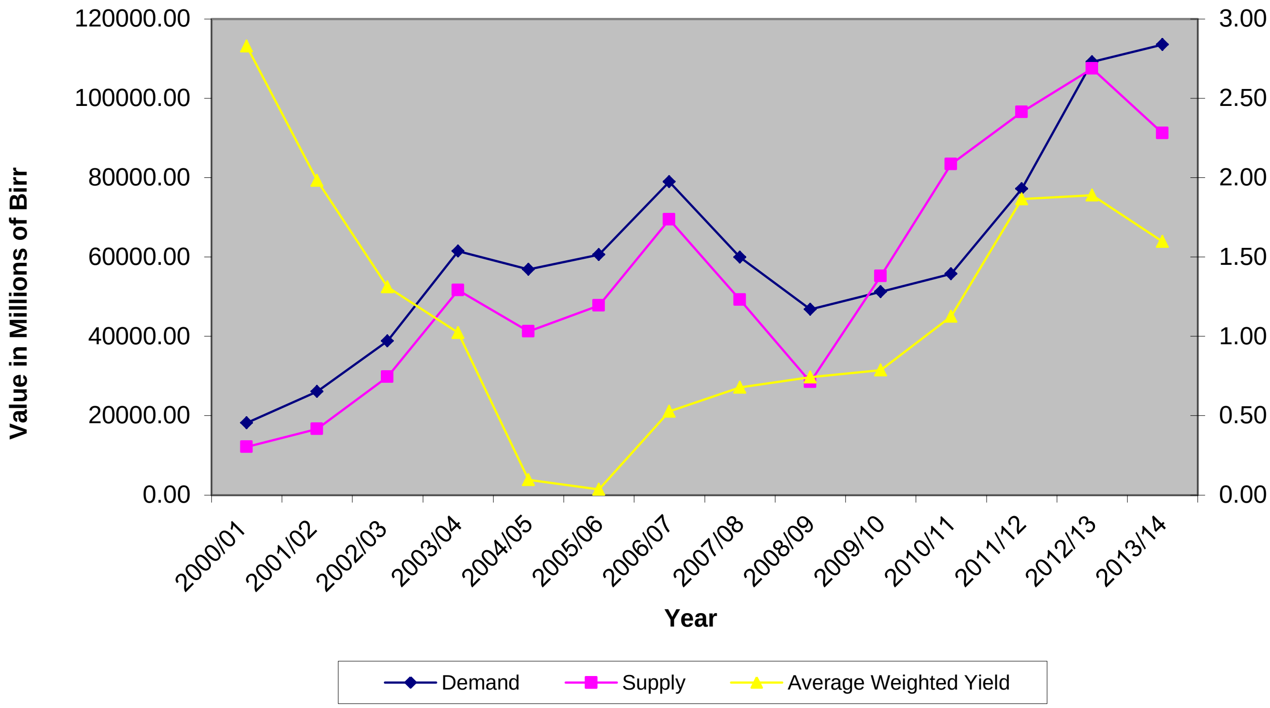
Particulars	2011/12	2012/13	2013/14	Percentage Change	
	A	B	C	C/A	C/B
Number of Bidders	**406**	**604**	**415**	**2.2**	**-31.3**
Amount Demanded (Mn.Birr)	**77,194.8**	**109,184.6**	**113,528.0**	**47.1**	**4.0**
28-day bill	33,689.1	54,313.5	25,199.0	-25.2	-53.6
91-day bill	28,691.7	38,905.1	69,329.0	141.6	78.2
182-day bill	9,748.0	9,600.0	8,432.0	-13.5	-12.2
364-day bill	5,066.0	6,366.0	10,568.0	-	-
Amount Supplied (Mn.Birr)	**96,511.9**	**107,484.6**	**91,174.9**	**-5.5**	**-15.2**
28-day bill	40,024.0	50,678.0	21,341.0	-46.7	-57.9
91-day bill	35,435.6	35,532.6	51,085.9	44.2	43.8
182-day bill	16,652.3	12,358.0	9,582.0	-42.5	-22.5
364-day bill	4,400.0	8,916.0	9,166.0	-	-
Amount Sold (Mn.Birr)	**74,694.8**	**109,184.6**	**95,315.0**	**27.6**	**-12.7**
Banks	24,212.7	51,493.5	18,727.0	-22.7	-63.6
Non-Banks	50,482.1	57,691.1	76,588.0	51.7	32.8
Average Weighted Price for Successful bids(Birr)	**98.556**	**99.156**	**99.150**	**0.6**	**0.0**
28-day bill	99.806	99.778	99.856	0.0	0.1
91-day bill	99.653	99.652	99.699	0.0	0.0
182-day bill	97.254	99.472	99.591	2.4	0.1
364-day bill	97.513	97.721	97.453	-	-
Average Weighted Yeild for Successful bids(%)	**1.866**	**1.889**	**1.597**	**-14.4**	**-15.5**
28-day bill	2.533	2.897	1.883	-25.7	-35.0
91-day bill	1.399	1.403	1.213	-13.3	-13.5
182-day bill	1.342	0.940	0.731	-45.5	-22.2
364-day bill	2.189	2.317	2.562	17.0	10.6
Outstanding bills at the end of period(Mn.Br.)	**20,011.9**	**26,044.9**	**32,286.9**	**61.3**	**24.0**
Banks	2,383.5	3,436.0	0.0	-100.0	-100.0
Non-Banks	17,628.4	22,608.9	32,286.9	83.2	42.8

Source: NBE

4.5.2. NBE Bill Market

On April 4, 2011, NBE has introduced NBE-Bill was introduced on April 4, 2014 to mobilize resources from domestic banks and finance priority sectors that are identified as key for long-term growth of the economy. Sincethen,the total NBE bills purchased by the banking sector have reachedBirr 26.0 billion by end 2013/14.

Fig IV.9: Treasury Bills Auction Result



Source: NBE

4.5.3. Bonds Market

In recent years, following the vibrant growth in economic activities and real income, there has been strong demand for corporate bonds. As a result, CBE has been purchasing corporate bondsfrom major public institutions whose outstanding holdingsincreased to Birr 109.1 billion in 2013/14 from Birr 80.5 billion a year ago. The share of EEPCO in outstanding corporate bonds marginally fell to 79.1 from 80.8 percent the previous year,while the holdingsby City Government of

Addis Ababa, Railway Corporation and Regional States accounted for14.9, 4.7 and 1.3percent, respectively.

During the year under review, new corporate bonds issued by public institutions and City Government of Addis Ababa reached Birr 33.2 billion, reflecting a 44.5 percentsurge over last year (Table 4.16).

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

(In Millions of Birr)

Particulars	Annual 2012/13 A	Annual 2013/14 B	Percentage Change B/A
1. Corporate Bond Purchases by holders	**22,975.0**	**33,200.0**	**44.5**
EEPCO	16,200.0	22,000.0	35.8
Regional governments	0.0	0.0	0.0
Development Bank of Ethiopia	0.0	0.0	0.0
City Government of Addis Ababa	5,675.0	7,000.0	23.3
Railway Corporation	1,100.0	4,200.0	281.8
Private Sector	0.0	0.0	
2. Redemption of Bonds by Clients	**4,202.2**	**8,167.4**	**94.4**
EEPCO	0.0	4,092.0	0.0
Regional governments	1,913.4	1,281.6	-33.0
Development Bank of Ethiopia	1,182.2	689.4	-41.7
City Government of Addis Ababa	1,106.6	2,104.4	90.2
Railway Corporation	0.0	0.0	0.0
Private Sector	0.0	0.0	0.0
3. Outstanding Bonds by Clients	**80,559.5**	**109,138.0**	**35.5**
EEPCO	65,100.0	86,300.0	32.6
Regional governments	2,649.0	1,397.4	-47.2
Development Bank of Ethiopia	688.7	43.4	-93.7
City Government of Addis Ababa	11,021.8	16,297.2	47.9
Railway Corporation	1,100.0	5,100.0	363.6
Private Sector	0.0	0.0	0.0

Source: Commercial Bank of Ethiopia

4.5.4. Inter-bank Money Market

Interbank money market has continued to remaindormant due to the existence of excess reserves in the banking system. Accordingly, no inter-bank money market transaction has been conducted since April 2008. Since the introduction of the interbank money market in September 1998, merely twenty three transactions worth Birr 259.2 million were transacted with interest rates ranging between 7 to 11 percent per year. The maturity period of these loans widely spanned from overnight to 5 years (Table 4.17).

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 deficit in FY 2013/14 was USD 91.4 million, higher than USD 6.5 million deficit registered in the preceding year.

The trade deficit also widened by 24.8 percent during the review period owing to a 19.7 percent growth in merchandise imports compared to a moderate increase (5.6 percent) in merchandise exports. Meanwhile, despite a 13 percent increase in net private transfers in the same period, the current account deficit (including official transfers) widened to USD 4.7 billion from USD 2.8 billion in the previous year. As a result, current account deficit to GDP ratio increased to 8.6 percent from 5.9 percent a year ago.

Table 5.1: Balance of Payments

(In Millions of USD)

S/N	Particulars	FY 2011/12	FY2012/13	FY2013/14	Percentage Change	
		A	B	C	B/A	C/B
1	**Exports, f.o.b.**	**3,152.7**	**3,081.2**	**3,254.8**	**-2.3**	**5.6**
	Coffee	833.0	746.6	714.4	-10.4	-4.3
	Other	2,319.7	2,334.6	2,540.4	0.6	8.8
2	**Imports**	**11,061.2**	**11,467.3**	**13,721.9**	**3.7**	**19.7**
	Fuel	2,124.7	2,163.8	2,543.2	1.8	17.5
	Cereals	652.5	560.8	351.7	-14.1	-37.3
	Aircraft	42.1	7.7	35.4	-81.8	363.0
	Imports excl. fuel, cereals, aircraft	8,241.8	8,735.1	10,791.6	6.0	23.5
3	**Trade Balance (1-2)**	**-7,908.5**	**-8,386.1**	**-10,467.2**	**6.0**	**24.8**
4	**Services, net**	**74.9**	**459.1**	**559.5**	**512.9**	**21.9**
	Non-Factor services, net	171.1	571.7	712.2	234.2	24.6
	Exports of non-factor services	2,810.5	2,852.9	3,174.2	1.5	11.3
	Imports of non-factor services	2,639.4	2,281.2	2,461.9	-13.6	7.9
	Income, net	-96.2	-112.645	-152.8	17.1	35.6
	O/w Gross office. int. payment	89.1	120.7	143.5	35.5	18.9
	Dividend	-15.5	-1.7	-17.9	-89.0	954.0
5	**Private transfers**	**3,245.8**	**3,577.5**	**4,042.5**	**10.2**	**13.0**
	o/w: Private Individuals	1,945.9	2,491.3	2,971.4	28.0	19.3
6	**Current account balance excluding**	-4,587.8	-4,349.4	-5,865.2	-5.2	34.8
7	**Official transfers, net**	**1,787.9**	**1,529.9**	**1,161.6**	**-14.4**	**-24.1**
8	**Current account balance including**	**-2,799.8**	**-2,819.5**	**-4,703.7**	**0.7**	**66.8**
9	**Capital account**	**2,119.8**	**3,226.4**	**3,901.6**	**52.2**	**20.9**
	Off. Long-term Cap., net	937.8	1,687.5	1,287.4	80.0	-23.7
	Disbursements	1,007.0	1,743.3	1,374.1	73.1	-21.2
	Amortization	69.2	55.8	86.7	-19.4	55.3
	Other pub. Long-term cap.	230.8	398.9	1,082.9	72.9	171.4
	Foreign Direct Investment(net)	1,072.1	1,231.6	1,467.0	14.9	19.1
	Short-term Capital	-120.9	-91.6	64.3	-24.2	-170.2
10	**Errors and omissions**	**-292.7**	**-413.4**	**710.7**	**41.2**	**-271.9**
11	**Overall balance (8+9+10)**	**-972.8**	**-6.5**	**-91.4**		
12	**Financing**	**972.8**	**6.5**	**91.4**		
13	**Reserves [Increase (-), Decrease (+)]**	980.8	15.5	94.9		
14	**Central Bank (NFA)**	846.5	-57.2	-48.0		
	Asset	810.0	-127.2	-95.2		
	Liabilities	36.6	70.0	47.2		
15	**Commercial banks (NFA)**	134.3	72.7	142.9		
16	**Debt Relief**	-8.0	-9.0	-3.5		
	Principal	6.7	7.1	2.9		
	Interest	1.3	2.0	0.6		

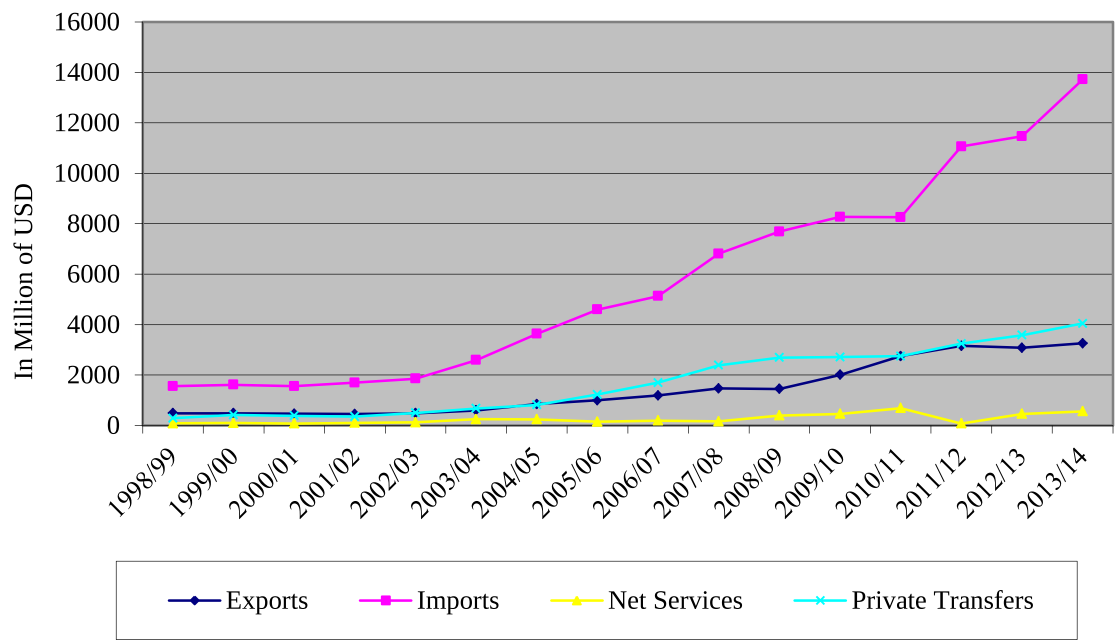
Source: NBE Staff Compilation

Table 5.2: Components of External Trade as Percentage of GDP[4]

Particulars	FY 2011/12	FY 2012/13	FY 2013/14	Percentage Change	
	A	B	C	B/A	C/B
Exports	7.3	6.5	5.9	-10.9	-8.4
Imports	25.5	24.1	25.0	-5.5	3.8
Trade Balance	-18.3	-17.6	-19.1	-3.4	8.2
Net Services	0.2	1.0	1.0	458.7	5.7
Net Private Transfers	7.5	7.5	7.4	0.5	-2.0
Current Account Deficit (excluding official transfers)	-10.6	-9.2	-10.7	-13.6	16.9
Current Account Deficit (including official transfers)	-6.5	-5.9	-8.6	-8.2	44.6

Source: NBE Staff Compilation

Fig. V.1: Trends in Components of Current Account



Source: NBE Staff Computations

[4] CA to GDP ratios for FY2013/14 are based on GDP actual from MoFED

5.2. Developments in Merchandise Trade

The trade deficit in merchandise trade during 2013/14 stood at USD 10.5 billion, widened by 24.8 percent relative to the preceding fiscal year mainly due to the 19.7 percent growth in total import bills coupled with low performance (5.6 percent) increase in total export proceeds. Export to GPP ratio went down by8.4 percent of 6.5 percent last year, however, import to GDP ratio went up by 3.8 percent and reached 25 percent of GDP in the review period. Compared to same period last year, export to GDP ratio went down by 0.7 percentage point from 7.2 percent, while import to GDP ratios went up 0.8 percentage points, from 26.7 percent last year.

5.2.1 Exports

Total export proceeds during 2013/14 amounted to USD 3.3 billion showing a 5.6 percent moderate growth vis-à-vis the previous fiscal year. This export growthwas achieved through increased earnings from oilseeds (47.0 percent), chat (9.6 percent), pulses (7.4 percent), flower (7.0 percent), live-animals (12.2 percent), leather & leather products (7.2 percent), meat & meat products (0.5 percent), fruits & vegetables (4.7 percent) and bees' wax (3.7 percent) owing to higher global commodity prices and/or increased in volume of exports.

Export earnings from oilseeds reached USD 651.9 million, depicting a 47.0 percent hikeover the preceding year owing to increased volume of export (10.5 percent) and international price (33.1 percent). Export earnings from oilseeds accounted for 20 percent of the total merchandise export proceeds as they rose from 14.4 percent in the previous year.

Export proceeds from chat increased by 9.6 percent and reached USD 297.3 million solely due to a 9.6 percent improvement in export volume. As a result, its share in total export proceeds went up to 9.1 percent from 8.8 percent last year.

Likewise, earnings from export of pulses rose by 7.4 percent in 2013/14 and amounted to USD 250.7 million. This increase in export revenue was solely attributed to 8.8 percent rise in international price. Despite the significant growth in proceeds from export of pulses its share in total earnings remained at about 8 percent.

During the review period, export proceeds from flower increased by 7.0 percent and stood at USD 199.7 million driven higher volume of export (5.4 percent) and international price (1.6 percent). As it was the case last year, receipts from flower export constituted 6.1 percent of the total merchandise export earnings.

Earning from export of live-animals in the review period was USD 186.7 million, which showed a 12.2 percent growth due to 4.9 percent increase volume and 7 percent rise in international price. The share ofExport proceeds from live animals in total exports increased marginally from 5.4 percent to 5.7 percent.

Similarly, earnings from export of leather and leather products reached USD 129.8 million, up by 7.2 percent vis-à-vis the previous year. Thiswas solely attributed to20.8 percent growth in volume of export. Its share in total export proceeds slightly improved from 3.9 percent to 4.0 percent in the review period.

Earnings from export of meat & meat products also improved by a 0.5 percent and reached USD 74.6 million. The rise in export proceeds was due to 3.8 percent increase in international price despite a 3.2 percentfall in export volume. However, the share of earnings from export of meat & meat products in total export proceeds decreased from 2.4 percent last year to 2.3 percent in the review period.

The country earned USD 45.9 million from export of fruits and vegetables, 4.7 percent higher than the previous year. The rise in the value of export was due to a 7.6 percent increase in volume of exports that offset a2.7 percent decline in international price.Fruits and vegetables accounted for only 1.4 percent of the total export earnings.

Table 5.3: Values of Major Export Items*

(In Millions of USD)

Particulars	2011/12 A	% share	2012/13 B	% share	2013/14 C	% share	Percentage change C/A	Percentage change C/B
Coffee	833.1	26.4	746.6	24.2	714.4	21.9	-14.2	-4.3
Oilseeds	472.3	15.0	443.5	14.4	651.9	20.0	38.0	47.0
Leather & Leather products	109.9	3.5	121.1	3.9	129.8	4.0	18.1	7.2
Pulses	159.7	5.1	233.3	7.6	250.7	7.7	57.0	7.4
Meat & Meat Products	78.8	2.5	74.3	2.4	74.6	2.3	-5.3	0.5
Fruits & Vegetables	44.9	1.4	43.9	1.4	45.9	1.4	2.2	4.7
Live Animals	207.1	6.6	166.4	5.4	186.7	5.7	-9.8	12.2
Chat	240.3	6.7	271.3	8.8	297.3	9.1	23.7	9.6
Gold	602.4	19.1	578.8	18.8	456.2	14.0	-24.3	-21.2
Flower	197.0	6.2	186.7	6.1	199.7	6.1	1.4	7.0
Others	207.1	6.6	215.4	7.0	247.4	7.6	19.4	14.9
Total	**3,152.7**	**100.0**	**3,081.2**	**100.0**	**3,254.8**	**100.0**	**3.2**	**5.6**

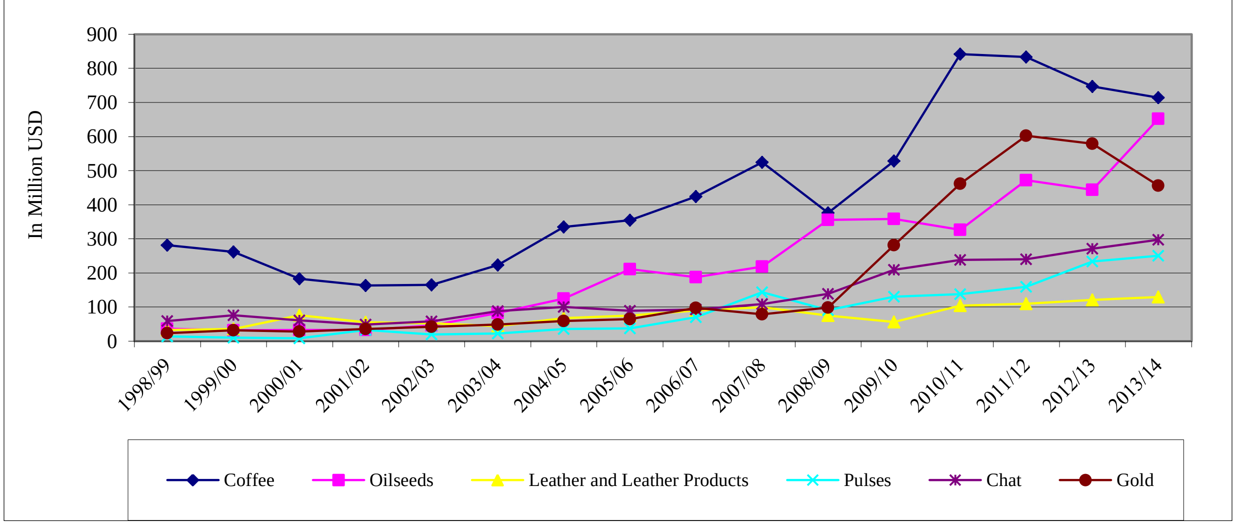
Source: Ethiopian Revenue and Customs Authority

**Data for 2012/13 was revised by ERCA*

Earnings from coffee export declined by 4.3 percent and reached USD 714.4 million. This poor export performance was attributed to a 4.7 percent drop in export volume in contrast with a marginal (0.5 percent) improvement in international price.Hence, the share of coffee in total export revenue in the review period, dropped from 24.2 percent last year to 21.9 percent in 2013/14.

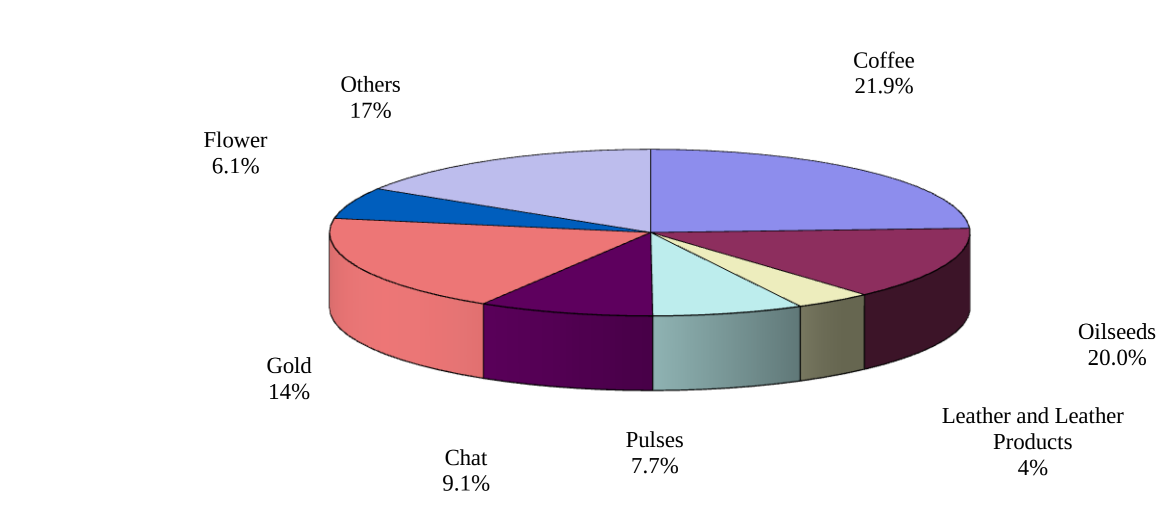
Similarly, earnings from export of gold contracted by 21.2 percent annually to reach USD 456.2 million, driven by 16.6 percent and 5.4 percent decline in international price and export volume, respectively. Gold accounted for 14.0 percent of total export proceeds, 4.8 percentage points lower than that of the preceding year.

Fig. V. 2: Foreign Exchange Earning From Selected Export Items



Source: Ethiopian Revenue and Customs Authority

Fig V. 3. Export Share of Selected Commodities in 2013/14



Source: NBE Staff Compilation

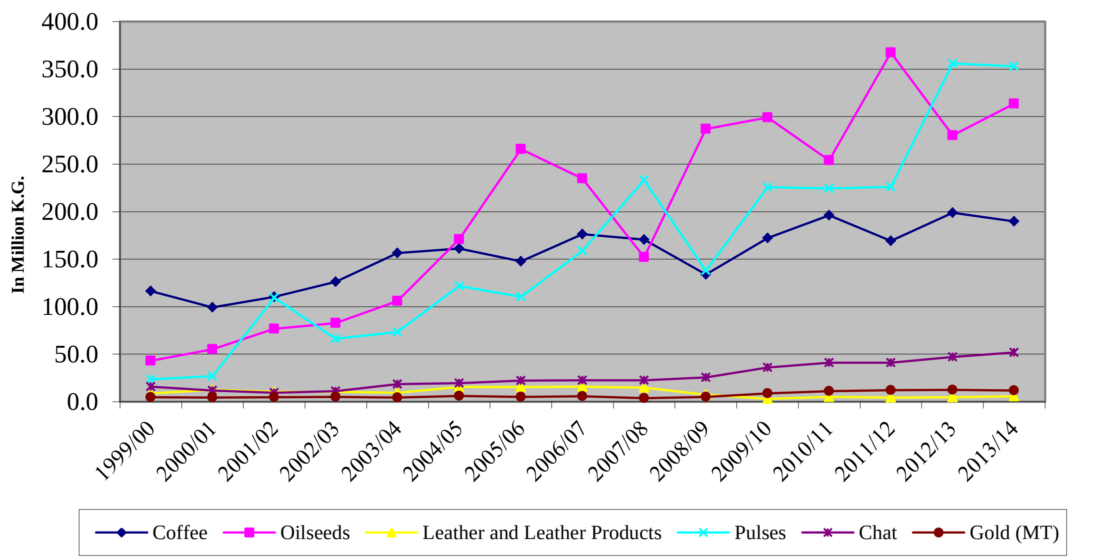
Table 5.4: Volume of Major Exports

(In Millions of K.G.)

Particulars	2011/12	2012/13	2013/14	Percentage Change	
	A	B	C	C/A*100-100	C/B*100-100
Coffee	169.4	199.1	189.7	12.0	-4.7
Oilseeds	367.4	283.9	313.5	-14.7	10.5
Leather & Leather products	4.4	4.6	5.6	25.6	20.8
Pulses	226.2	357.5	353.0	56.1	-1.3
Meat & Meat Products	17.7	15.5	15.0	-15.2	-3.2
Fruits & Vegetables	123.5	135.2	145.4	17.7	7.6
Live Animals	144.9	100.9	105.8	-27.0	4.9
Chat	41.1	47.2	51.7	25.9	9.6
Gold	0.0122	0.0123	0.0116	-4.5	-5.4
Flower	46.8	42.4	44.7	-4.4	5.4

Source: Ethiopian Revenue and Customs Authority

Fig. V.4 Export Volume of Selected Commodities



Source: Ethiopian Revenue and Customs Authority

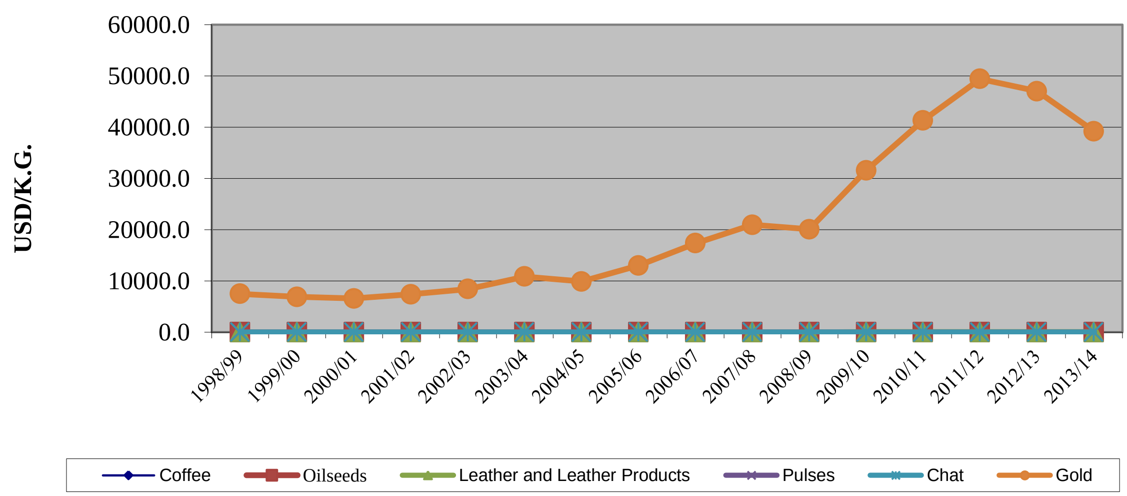
Table 5.5: Unit Value of Major Exports

(In USD per K.G.)

Particulars	2011/12	2012/13	2013/14	Percentage Change	
	A	B	C	C/A*100-100	C/B*100-100
Coffee	4.9	3.7	3.8	-23.4	0.5
Oilseeds	1.285	1.562	2.079	61.8	33.09
Leather & Leather products	24.8	26.2	23.3	-6.0	-11.2
Pulses	0.71	0.65	0.71	0.6	8.8
Meat & Meat Products	4.5	4.8	5.0	11.7	3.8
Fruits & Vegetables	0.36	0.32	0.32	-13.1	-2.7
Live Animals	1.43	1.65	1.76	23.4	7
Chat	5.85	5.75	5.75	-1.74	0.01
Gold (USD/gm)	49.4	47.0	39.2	-20.7	-16.6
Flower	4.21	4.40	4.47	6.1	1.6

Source: Calculated from Tables 5.3 and 5.4

Fig. V. 5: Unit Value of Exports of Selected Commodities



Source: NBE Staff Compilation

5.2.2. Imports

Total merchandise import bills in 2013/14 hiked by 19.7 percent compared to last year and reached USD 13.7 billion as a result of a rise in values of imports of capital goods (26 percent), consumer goods (11.1 percent), fuel (17.5 percent), semi-finished goods (19.6 percent) and raw materials (13.5 percent). Accordingly, import to GDP ratio grew by 3.8 percent and reached25 percent from 24.1 percentof last year.

Import of capital goods rose considerably by 26 percent and amounted to USD 4.5 billion mainly due to higher import bills of industrial (27.9 percent), transport (20.1 percent) and agricultural goods (28.4 percent). Consequently, the share of capital goods in total import bill increased to 32.8 percent from 31.2 percent last year.

Similarly, import of consumer goods increased by 11.1 percent owing to37.7 percent rise in import durable goods while non-durable goods import declinedby 1.3 percent. Hence, the share of consumer goods in total import decreased to 27.9 percent from 30.1 percent the preceding year.

Fuel import rose by 17.5 percent in 2013/14 and amounted to USD 2.5 billion, as volume of fuel import increased by 18.5 percent though international crude oil price declined by 3.7 percent. Thus, the share of fuel import in total import went down marginally to 18.5 percent from 18.9 percent last year.

Similarly, semi-finished goods import stood at USD 2.1 billion, which was 19.6 percent higher than a year earlier as one of its components. Particularly fertilizer import increased by 36.7 percent and reached USD 398.9 million.

Meanwhile, raw materials import rose by 13.5 percent relative to the preceding year and accounted for 1.2 percent of total imports.

Table 5.6: Value of Imports by End Use

(In Millions of USD)

Particulars	2011/12 A	% share	2012/13 B	% share	2013/14 C	% share	Percentage change C/A	Percentage change C/B
Raw Materials	**199.7**	**1.8**	145.6	**1.3**	**165.2**	**1.2**	**-17.2**	**13.5**
Semi-finished Goods	**1,957.2**	**17.7**	1,753.9	**15.3**	**2,098.1**	**15.3**	**7.2**	**19.6**
Fertilizers	604.6	5.5	291.8	2.5	398.9	2.9	-34	36.7
Fuel	**2,124.8**	**19.2**	2,163.9	**18.9**	**2,543.2**	**18.5**	**19.7**	**17.5**
Petroleum Products	2,078.3	18.8	2,128.2	18.6	2,494.9	18.2	20	17.2
Others	46.4	0.4	1,236.1	10.8	48.4	0.4	4.3	-96.1
Capital Goods	**2,961.7**	**26.8**	3,572.6	**31.2**	**4,500.3**	**32.8**	**52**	**26.0**
Transport	809.7	7.3	903.1	7.9	1,084.3	7.9	33.9	20.1
Agricultural	119.5	1.1	129.9	1.1	166.8	1.2	39.6	28.4
Industrial	2,032.5	18.4	2,539.6	22.1	3,249.2	23.7	59.9	27.9
Consumer Goods	**3,531.7**	**31.9**	3,452.4	**30.1**	**3,834.1**	**27.9**	**8.6**	**11.1**
Durables	1,105.3	10.0	1,089.8	9.5	1,501.1	10.9	35.8	37.7
Non-durables	2,426.4	21.9	2,362.6	20.6	2,333.0	17.0	-3.9	-1.3
Miscellaneous	**286.3**	**2.6**	378.9	**3.3**	**581.0**	**4.2**	**103**	**53.3**
Total Imports	**11,061.2**	**100.0**	**11,467.3**	**100.0**	**13,721.9**	**100.0**	**24.1**	**19.7**

Source: Ethiopian Revenue and Customs Authority

5.2.3. Direction of Trade

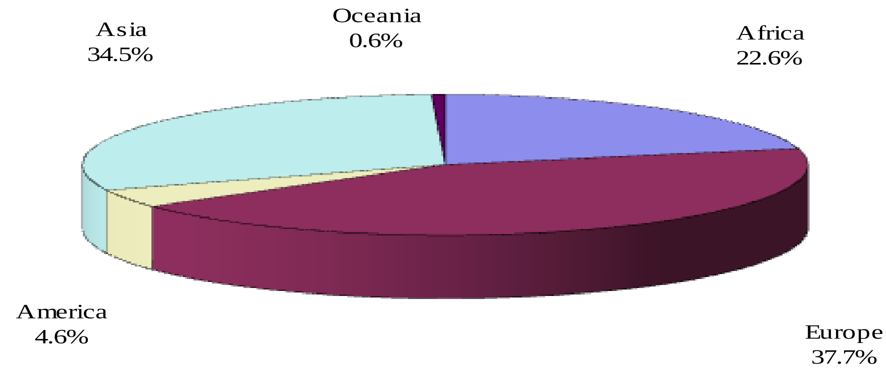
Europe accounts for 37.7 percent of Ethiopia's total merchandise exports. Within European countries, Switzerland was the largest market which had 14.1 percent share in total Ethiopian exports, largely for gold and coffee. The Netherlands was the second important destination market within Europe accounting for 6 percent of Ethiopia's export proceeds mainly from flower, oilseeds, and coffee, pulses and textile products. Germany, constituting 5.8 percent of Ethiopia's total export was another major export destination primarily for coffee and gold.

About 34.5 percent of the total Ethiopian export proceeds originated from Asian market of which China, Saudi Arabia, Israel and United Arab Emirates had 12.2 percent, 5.7 percent, 3 percent 2.4 percent share, respectively. The major export items shipped to China include oilseeds, leather and leather products, textile materials, mineral products, natural gums and coffee. Coffee, meat & meat products, oilseeds, live-animals and flower were the main commodities shipped to Saudi Arabia. Israel importedmainly oilseeds, cereals, coffee and vegetables. Meat and meat products, coffee, pulse, oilseeds, live- animals, flower and food were the major products exported to United Arab Emirates. Similarly, coffee, oilseeds, and flower were imported by Japan.

Meanwhile, about 22.6 percent of Ethiopia's total export proceeds were from Africa of which Somalia, Djibouti and Sudan, constituted 82.2 percent of the total export proceeds obtained from the continent. Exports to Somalia mainly included vegetables,live- animals, chat and coffee while pulses, coffee, spices, live-animals and textiles were the main exports to Sudan. Djibouti imported coffee, vegetables, live-animals, oilseeds, pulses and chat from Ethiopia.

Export earnings from American market comprised 4.6 percent of Ethiopia's total export proceeds during 2013/14.Of this item, United States and Canada made up 88.9 percent and 6.6 percent respectively. The United States imported mainly coffee, leather and leather products, oilseeds, flower and food while coffee was the primary export item to Canada.

Fig V.6: Export by Destinations



Source: NBE staff compilation

Concerning Ethiopia's imports by countries of origin, about 70.6 percent of the total merchandise imports in 2013/14 came from Asia, 20.3 percent from Europe, 6.0 percent from America and 3.0 percent from Africa.

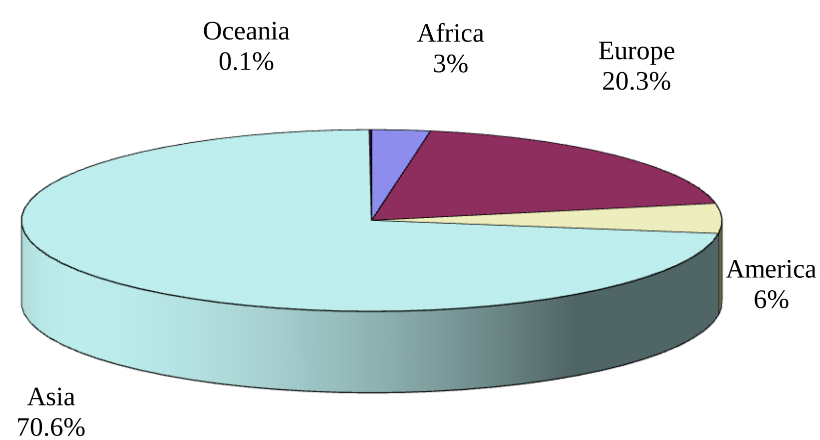
Among Asian countries the major countries with the largest share during the review period were China (24.9 percent), Saudi Arabia (8.9 percent), India (7.4 percent) and Kuwait (4.9 percent). The prime imports from China include metal & metal manufacturing, machinery & air craft materials, electric materials, road & motor vehicles, clothing, textiles & rubber products. Petroleum products were the major imports from Saudi Arabia which accounted for 50.8 percent of Ethiopia's total petroleum imports in 2013/14.

The share of European countries in total import bill was 20.3 percent of which 64.1 percent went to five countries; namely, Italy (17.9 percent), Turkey (16.2 percent), Germany (12.3 percent), Ukraine (10.7 percent) and theNetherlands (6.9 percent). Machinery & aircraft equipment, road & motor vehicles, metals & metal manufacturing and electrical materials were imported from Italy.Meanwhile, metal & metal manufacturing, machinery & aircraft equipment and electrical materials were bought from Turkey. The principal imports from Germany were machinery& aircraft equipment, road & motor vehicles, rubber products, metal & metal manufacturing and electrical materials.Metal & metal manufacturing, grain & fertilizer were imported from Ukraine. Imports from the Netherlands were medical & pharmaceutical products, machinery and aircraft materials.

About 6.0 percent of Ethiopia's importsoriginated from Americaof which, USA and Brazil alone constitute over 94.1 percent of import bills. Machinery & aircraft equipment, grain, food & electrical materials were major imports from USA while machinery & aircraft equipment and road & motor vehicles came from Brazil.

African constituted merely 3.0 percent of Ethiopia's total imports.Within African countries, the major import origins were Egypt (30.3 percent), South Africa (29.3 percent), Sudan (12.7 percent) and Morocco (10.3 percent). These four countries accounted for 82.6 percent of total importsfrom Africa. The major import items from Egypt were metal & metal manufacturing, rubber products and food & live animals.Imports from South Africa included road & motor vehicles, machinery & aircraft equipment and metals.

Fig.V.7:Import by Origin



<u>Source</u>: NBE staff compilation

5.3. Services and Transfers

In 2013/14, net services account recorded USD 559.5 million inflows, showing a 21.9 percent rise over the preceding year on account of higher net transport services (6.1 percent) and net government services (45.3 percent).

5.3.2 Unrequited Transfers

Net transfers in 2013/14 improved by 1.9 percent, owing to a 19.3 percent growth in private individual transfersmainly cash component (19.8 percent). Net official transfers and receipts from NGO transfers, however, declined by 24.1 and 5.8 percent, respectively.

Table 5.7: Services Accounts

(In Millions of USD)

S/N	Particulars	2011/12 A	2012/13 B	2013/14 C	Percentage Change B/A	Percentage Change C/B
1	**Investment Income (2+5)**	**-96.2**	**-112.6**	**-152.8**	**17.09**	**35.61**
2	Interest, net (3-4)	-80.7	-110.9	-134.8	37.48	21.54
3	Credit	8.4	9.8	8.7	16.67	-11.61
4	Debit	89.1	120.7	143.5	35.52	18.85
5	Dividend, net	-15.5	-1.7	-17.9	-89.03	953.98
6	**OTHER SERVICES, net (7-8)**	**171.1**	**571.7**	**712.2**	**234.16**	**24.57**
7	Exports of non-factor services	2810.5	2852.9	3174.2	1.51	11.26
	Travel	680.9	514.1	538.8	-24.50	4.80
	Transport	1,690.8	1889.7	2144.9	11.76	13.51
	Gov't	212.1	201.0	297.3	-5.23	47.93
	Other	226.7	248.1	193.1	9.44	-22.15
8	Imports of non-factor services	2,639.4	2281.2	2461.9	-13.57	7.93
	Travel	188.2	192.9	223.5	2.50	15.87
	Transport	1355.7	1322.4	1542.8	-2.46	16.67
	Gov't	10.2	0.7	6.3	-93.14	805.48
	Other	1085.3	765.2	689.2	-29.50	-9.92
9	**Net Services (10+11+12+13+14)**	**74.9**	**459.1**	**559.5**	**512.94**	**21.86**
10	Travel	492.6	321.2	315.3	-34.79	-1.85
11	Transport	335.1	567.3	602.1	69.29	6.13
12	Gov't	202	200.3	291.0	-0.84	45.28
13	Other	-858.6	-517.1	-496.1	-39.78	-4.05
14	Investment Income	-96.2	-112.6	-152.8	17.09	35.61

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

Table 5.8: Unrequited Transfers

(In Millions of USD)

No.	Particulars	2010/11 A	% Share	2011/12 B	% Share	2012/13 C	% Share	Percentage Change B/A	C/B
1	**Private Transfers**	**3,245.8**	**64.5**	**3,577.5**	**70.0**	**4,042.5**	**77.7**	**10.22**	**13.00**
1.1	Receipts	3,318.3	64.7	3,655.5	70.4	4,067.8	76.5	10.16	11.28
	NGOs	**1,372.4**	**26.8**	**1164.2**	**22.4**	**1096.4**	**20.6**	**-15.17**	**-5.82**
	Cash	1,186.5	23.1	1028.0	19.8	982.3	18.5	-13.36	-4.45
	Food	185.9	3.6	136.2	2.7	0.0	0.0	-26.77	-100.00
	Other	0.0	0.0	0.0	0.0	114.1	2.2		
	Private individuals	**1,945.9**	**37.9**	**2,491.3**	**48.0**	**2,971.4**	**55.9**	**28.03**	**19.27**
	Cash	1,347.5	26.3	1,821.9	35.1	2,182.9	41.1	35.21	19.81
	In kind	70.8	1.4	30.9	0.6	25.4	0.5	-56.34	-17.91
	Underground Transfers(in kind)	527.6	10.3	638.5	12.3	763.2	14.4	21.02	19.53
1.2	Payments	72.5	75.0	77.9	93.1	25.3	22.4	7.52	-67.57
2.	**Official Transfers**	**1,787.9**	**35.5**	**1,529.9**	**30.0**	**1,161.6**	**22.3**	**-14.43**	**-24.08**
2.1	Receipts	1,812.1	35.3	1,535.7	29.6	1,248.9	23.5	-15.25	-18.67
	Cash	1,692.3	33.0	1,535.7	29.6	1,248.9	23.5	-9.25	-18.67
	Food	119.8	2.3	0.0	0.0	0.0	0.0	-100.00	
	Other	0.0	0.0	0.0	0.0	0.0	0.0		
2.2	Payments	24.2	25.0	5.8	6.9	87.4	77.6	-76.00	1406.40
	Total Net Transfers	**5,033.7**	**100.0**	**5,107.4**	**100.0**	**5,204.0**	**100.0**	**1.46**	**1.89**

Source: Disaster Prevention and Preparedness Agency, MoFED and NBE

The decline in net official transfers was due to lower grants from both international financial institutions and bilateral donors. Cash component of official transfers declined by 18.7 percent to reach USD 1.2 billion compared to USD 1.5 million in the previous year.

5.4. Current Account

Due to the widening of trade deficit coupled with the decline in public transfers, the current account deficitwidened to USD 4.7 billion (8.6 percent of GDP) in 2013/14 from USD 2.8 billion (5.9 percent of GDP) deficit recorded last fiscal year.

5.5. Capital Account

The balance in capital account showed a surplus of USD 3.9 billion, about 20.9 percent higher than last year owing to the surge in other public long term net capital inflows(171.4 percent) and foreign direct investment (19.1 percent). Net official long term capital flow, however, declined by 23.7 percent

5.6.Changes in Reserve Position

Net foreign assets of the banking system at the end of 2013/14 recorded a reserve drawdown of USD 91.4 million, due to decrease in net foreign assets of commercial banks by USD 142.9 million.The buildup in foreign assets of NBE, however,was USD 48 million. Hence, by end 2013/14 gross international reserve of NBE was adequate to cover 2.3 months of imports of goods and non-factor services.

5.7. External Debt

External debt stock of the country at the end of 2013/14 amounted to USD 13.9 billion, depicting a 36.7 percent increase over the preceding year. Of the total debt stock (USD 5.85 billion) was to multilateral, (USD 2.5 billion)bilateral and USD5.5 billion commercial creditors.In other words, of the total debt stock, 42.1 percent was owed to multilateral, 18.2 percent to bilateral and 39.7 percent to commercial creditors. Hence, the country'sexternal debt stock to GDP ratio rose to 27.9 percent from 23.7 percent in 2012/13. Debt stock to total receipts from export of goods and non-factor services ratio also went up to 2.2 from 1.7 a year ago. Similarly, the country's external debt burden as measured by debt services to export of goods and services ratio increased from8.2 percent last yearto10.2 percent in the review year.

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

Particulars	2011/12	2012/13	2013/14	Percentage Change	
	A	B	C	B/A	C/B
Annual Debt	**1,471.8**	**2,445.7**	**2,879.1**	**66.2**	**17.7**
Debt Stock	8,846.3	10,185.1	13,923.8	15.1	36.7
Multilateral	4,001.1	4,721.9	5,856.8	18.0	24.0
Bilateral	2,227.5	2,052.5	2,537.7	-7.9	23.6
Commercial	2,617.7	3,410.7	5,529.3	30.3	62.1
Debt Service	**391.8**	**489.0**	**651.5**	**24.8**	**33.2**
Principal repayments	302.2	366.3	512.9	21.2	40.0
Interest payments	89.1	122.7	138.6	37.7	13.0
Debt stock to GDP ratio (In percent)	22.4	23.7	27.9	5.8	17.7
Debt stock to export of goods and non-factor services	**1.5**	**1.7**	**2.2**	**15.7**	**26.2**
Receipts from goods and non-factor services	**5,963.2**	**5,934.1**	**6,429.0**	**-0.5**	**8.3**
Debt service ratio (In percent)[1/]	**6.6**	**8.2**	**10.1**	**25.4**	**23.0**
Arrears[2/]					
Principal					
Interest					
Relief	**7.9**	**7.9**	**3.5**	**0.0**	**-56.5**
Principal	6.7	7.1	2.9	5.2	-59.3
Interest	1.3	2.0	0.6	47.7	-70.0

Source:MoFED

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

5.8. Developments in Foreign Exchange Markets

5.8.1. Developments in Nominal Exchange Rate

Theweighted average exchange rate of the Birr in the inter-bank foreign exchange mmarket, depreciated by 4.8 percentin 2013/14 to Birr 19.0748/USD compared to Birr 18.1947/USD last year (Table 5.9).

Similarly, the Birr in the parallel foreign exchange market stood at Birr 19.8666/USD on average, showing a 2.9 percent depreciation against the preceding fiscal year.

As a result, the premium between the official and parallel market narrowed to 4.2 percent from 6.1 percent the previous year, mainly due to relatively slow depreciation of the Birr in the parallel market .

Table 5.10 Inter-Bank and Parallel Forex Market Exchange Rates

Period	Average Weighted Rate	Amount Traded in millions of USD		Number of Trades		Average Rates in parallel Market
		Total	o/w Among CBs	Total	o/w Among CBs	
2011/12	**17.2536**	**152.2**	**90.9**	**292.0**	**37.0**	**17.9883**
Qtr. I	17.0011	80.3	28.6	75.0	10.0	17.3900
Qtr. II	17.1522	17.5	14.2	73.0	8.0	17.8333
Qtr. III	17.3107	41.4	38.2	78.0	15.0	18.2400
Qtr. IV	17.5503	13.1	10.0	66.0	4.0	18.4900
2012/13	**18.1947**	**15.6**	**3.0**	**231.0**	**2.0**	**19.3022**
Qtr. I	17.8705	6.2	3.0	65.0	2.0	18.4400
Qtr. II	18.0782	3.3	0.0	65.0	0.0	18.7333
Qtr. III	18.2971	3.1	0.0	61.0	0.0	19.8367
Qtr. IV	18.5331	3.1	0.0	40.0	0.0	20.1988
2013/14	**19.0748**	**18.7**	**6.2**	**254.0**	**7.0**	**19.8666**
Qtr. I	18.7384	3.2	0.0	63.0	0.0	19.7621
Qtr. II	18.9390	8.2	5.0	65.0	4.0	19.5372
Qtr. III	19.1819	4.30	1.20	65.00	3.00	19.8222
Qtr. IV	19.4400	3.05	0.00	61.00	0.00	20.3448

Source:NBE, FEMRMD and EEAIRD staff compilation

Following the depreciation of the exchange rate of the Birr in the inter-bank foreign exchange market, the average retail buying and selling rates of forex bureau also depreciated by 4.8 percent and 4.5 percent and stood at Birr 19.0861/USD and Birr 19.4246/USD, respectively.

Accordingly, the average spread between forex bureaus buying and selling rates marginally went down to 1.8 percent in 2013/14 compared to 2.1 percent last fiscal year (Table 5.13).

Table 5.11: End Period Mid-Market Rates

(USD per Unit of Foreign Currency)

	2011/12	2012/13	2013/14	Percentage change	
Currency	**A**	**B**	**C**	**C/B**	**C/A**
Pound Sterling	1.6036	1.5563	1.7023	11.41	9.38
Swedish Kroner	0.1566	0.1416	0.1481	-0.47	4.57
Djibouti Frank	0.0056	0.0056	0.0056	-0.07	-0.01
Swiss Frank	1.1989	1.0365	1.1194	5.92	8.00
Saudi Riyal	0.2666	0.2666	0.2666	-0.01	0.00
UAE Dirhams	0.2723	0.2722	0.2723	0.00	0.00
Canadian Dollar	1.0274	0.9745	0.9349	-2.35	-4.06
Japanese Yen	0.0123	0.0126	0.0099	-3.15	-21.61
Euro	1.4434	1.2450	1.3616	4.51	9.37
SDR	1.5903	1.5139	1.5438	2.57	1.98

Source: NBE, FEMRMD and EEAIRD staff compilation

The mid exchange rate of USD at the end of FY 2013/14 depreciated annually against some major international currencies such as Pound Sterling (11.4 percent), Swiss Franc (5.9 percent), Euro (4.5 percent), and SDR (2.6 percent), while it appreciated vis-à-vis Japanese Yen (3.2 percent), Canadian Dollar (2.4 percent), Swedish Kroner (0.5 percent) and Djibouti Frank (0.1 percent). However, US dollar remained stable with respect to Saudi Riyal and UAE Dirhams (Table 5.10).

Table 5.12: End Period Mid-Market Rates

(Birr per Unit of Foreign Currency)

Currency	2011/12	2012/13	2013/14	Percentage change	
	A	B	C	C/B	C/A
USD	17.8192	18.7358	19.675	5.01	10.41
Pound	27.732	28.6284	33.49275	16.99	20.77
Swedish Kroner	2.5231	2.7871	2.9131	4.52	15.46
Djibouti Frank	0.1000	0.1052	0.1104	4.94	10.40
Swiss Frank	18.4693	19.8011	22.02505	11.23	19.25
Saudi Riyal	4.7513	4.9959	5.246	5.01	10.41
UAE Dirhams	4.8513	5.101	5.35665	5.01	10.42
Canadian Dollar	17.3642	17.9376	18.3947	2.55	5.93
Japanese Yen	0.2242	0.1908	0.19405	1.70	-13.45
Euro	22.1849	24.4109	26.78945	9.74	20.76
SDR	26.9757	28.1998	30.37425	7.71	12.60

Source: NBE, FEMRMD and EEAIRD staff compilation

The end period exchange rate of the Birr also depreciated against most international currencies vis-à-vis the previous year. For instance, it depreciated against Pound Sterling (17 percent), Swiss Franc (11.2 percent), Euro (9.7 percent) and SDR (7.7 percent),Swedish Kroner, (4.9 percent) Canadian Dollar, (4.5 Percent) and Japanese Yen (1.7 percent) (Table 5. 11).

5.8.2. Movements in Real Effective Exchange Rate

Though the real effective exchange rate (REER) of the Birr had been appreciating since FY 2010/11, due to higher domestic inflation relative to that of major trading partner countries, the rate of appreciation has slowed down in the review year as domestic inflation remained in single digit. Accordingly, REER appreciated by 0.4 percent annually in 2013/14, slightly lower than 0.6 percent appreciation in the preceding year (Table 5.12).

On the other hand, the nominal effective exchange rate depreciated by 3.3 percent annually compared to 2.7 percent deprecation in 2012/13.

Table 5.13: Trends in Real and Nominal Effective Exchange Rates

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

Source:NBE, FEMRMD and EEAIRD staff compilation

An increase in REERI and NEERI indicates appreciation and vice versa.
***Where**: REERI = Real Effective Exchange Rate Index*
NEERI = Nominal Effective Exchange Rate Index

5.8.3 Foreign Exchange Transactions

With regard to the volume of foreign exchange transaction, the amount of foreign exchange traded in the inter-bank foreign exchange market increased to USD 18.7 million relative to USD 15.6 million in FY 2012/13. Of the total transaction, USD 6.2 million (33.2 percent) was traded among commercial banks and USD 12.5 million (66.8 percent) was supplied by the NBE (Table 5.9).

The volume of foreign exchange purchase of forex bureau of commercial banks decreased by 40.6 percent to USD 101.9 million while, their sales increased from USD 89.7 million in 2012/13 to USD 97.9 million in 2013/14. This was due to higher foreign exchange demand by travelers as reflected on the rise of travel service payments (Table 5.14).

Table 5.14: Foreign Exchange Transactions by ForexBureaux of Commercial Banks

(In Millions of USD)

Name of Forex Bureau	2011/12		2012/13		2013/14		Percentage Change	
	A	B	C	D	E	F	E/C	F/D
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
Commercial Bank of Ethiopia	55.77	2.26	73.64	2.24	9.95	6.55	-86.49	192.44
Bank of Abyssinia	5.97	7.24	4.50	6.77	4.41	5.13	-2.03	-24.21
Dashen Bank	17.20	29.56	28.52	34.84	33.55	37.30	17.62	7.07
Awash International Bank	7.82	14.75	7.09	13.08	9.13	12.53	28.82	-4.18
Construction & Business Bank	4.56	0.91	4.91	1.25	4.27	1.40	-13.01	12.14
Wegagen Bank	3.06	4.44	5.73	4.26	5.02	6.73	-12.46	57.87
United Bank	22.29	12.05	25.87	12.10	16.25	10.09	-37.18	-16.63
Development Bank	0.00	0.00	3.53	0.27	3.72	0.73	5.50	170.08
Nib International Bank	8.89	7.75	5.94	6.67	4.47	6.40	-24.68	-4.03
Lion International Bank	1.93	1.76	3.65	1.03	2.59	1.73	-29.03	68.21
Oromia International Bank	2.34	1.28	1.99	1.66	2.81	2.11	41.14	27.15
Zemen Bank	2.89	3.92	0.97	2.65	0.90	4.07	-7.01	53.55
Cooperative Bank of Oromia	0.49	0.70	0.58	0.79	0.41	0.41	-29.05	-47.56
Buna International Bank	1.00	0.05	1.51	0.57	0.38	0.29	-74.79	-48.96
Birhan International Bank	0.59	1.05	0.45	0.37	0.01	0.03	-97.74	-91.94
Abay Bank	0.37	0.21	1.00	0.90	0.54	1.36	-45.69	51.24
Addis International Bank	0.09	0.08	1.80	0.22	1.61	0.47	-10.53	115.58
Debub Global Bank	0.00	0.00	0.05	0.05	1.28	0.25	2450.84	397.60
Enat Bank					0.62	0.26	-	-
Total	**134.64**	**88.0**	**171.70**	**89.70**	**101.93**	**97.86**	**-40.64**	**9.09**
Average Exchange Rate	**17.2531**	**17.6002**	**18.2085**	**18.5881**	**19.0861**	**19.4246**	**4.82**	**4.50**

Source: NBE, FEMRMD and EEAIRD staff compilation

VI.GENERAL GOVERNMENT FINANCE

6.1.General

Overall fiscal performance of general government during the review year indicateda widening of overall fiscal deficit (including grants) from Birr 16.7 billion in 2012/13 to Birr 27.4 billion in 2013/14. Its ratio to GDP also rose to 2.6 percent compared to 2.0 percent last year. Total revenue (including grants) during the same period depicted a 15.2 percent growth over the preceding fiscal year. However, revenue to GDP ratio went down slightly to 14 percent from 14.6 percent. Meanwhile, general government expenditure increased by 20.5 percent due to an increase in current and capital expenditures. However, the ratio of total government expenditure to GDP declined to 17.7 percent from 18.1 percent during the same period (Table 6.1).

Table 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)
2000/01	-3.7	7.9	40.9	4.9	2.1	23.4	15.7	8.5
2001/02	-7.3	7.8	41.8	0.0	-2.2	26.8	15.8	-1.8
2002/03	-6.6	7.8	38.8	2.4	10.3	28.2	15.3	7.1
2003/04	-3.0	6.0	36.3	10.4	18.0	23.9	16.2	24.8
2004/05	-4.5	5.0	38.2	29.4	22.9	23.5	14.7	11.1
2005/06	-4.7	4.5	37.8	22.3	23.6	22.5	15.0	26.3
2006/07	-3.7	4.1	36.3	25.5	30.6	20.9	12.8	11.6
2007/08	-2.9	2.9	32.5	29.3	44.4	19.1	12.1	36.7
2008/09	-0.9	2.4	26.9	11.5	35.1	17.4	12.1	34.8
2009/10	-1.3	2.4	27.5	17.1	14.2	18.8	14.2	34.1
2010/11	-1.6	2.2	26.8	29.8	33.4	18.6	13.7	28.3
2011/12	-1.2	1.9	25.6	39.5	46.1	16.8	13.9	48.8
2012/13	-2.0	2.1	27.4	23.4	15.5	18.1	14.6	20.6
2013/14	-2.6	2.4	28.6	28.4	21.1	17.7	14.0	17.8

Source: Staff Computation
PD = Primary Deficit
IP/RR = Share of interest payments in Recurrent revenue
Ddebt/GDP = Ratio of Domestic Debt to GDP
R(Debt) = Growth rate of Domestic Debt
R(GDP) = Growth rate of GDP at current market price
Exp/GDP = Ratio of General Government Expenditure to GDP
Rev/GDP = Ratio of General Government Revenue to GDP
R(OR) = Growth rate of ordinary Revenue

6.2. Revenue and Grants

During the review period, the general government revenue including grants registered a 15.2 percent growth compared to a year earlier and amounted to Birr 158 billion. However, its ratio to GDP slightly declined from 15.9 percent to 15.1 percent.

Total domestic tax revenue surged by 17.8 percent vis-à-vis the preceding year and reached Birr 146.1 billion on account of both higher direct tax(29.2 percent) and indirect taxcollection (21.9 percent). The respective contributions of direct and indirect taxes to total tax revenue were 35.3 percent and 64.7 percent, respectively.

Revenue from non-tax sources was Birr 13.1 billion, about 23.5 percent lower than last year mainly due to 57.3 percent decline in government investment income.

Similarly, grants dropped by 9.2 percent over the same period of last year. All in all, the total revenue performance including grantswas 96.7 percent of the annual plan.

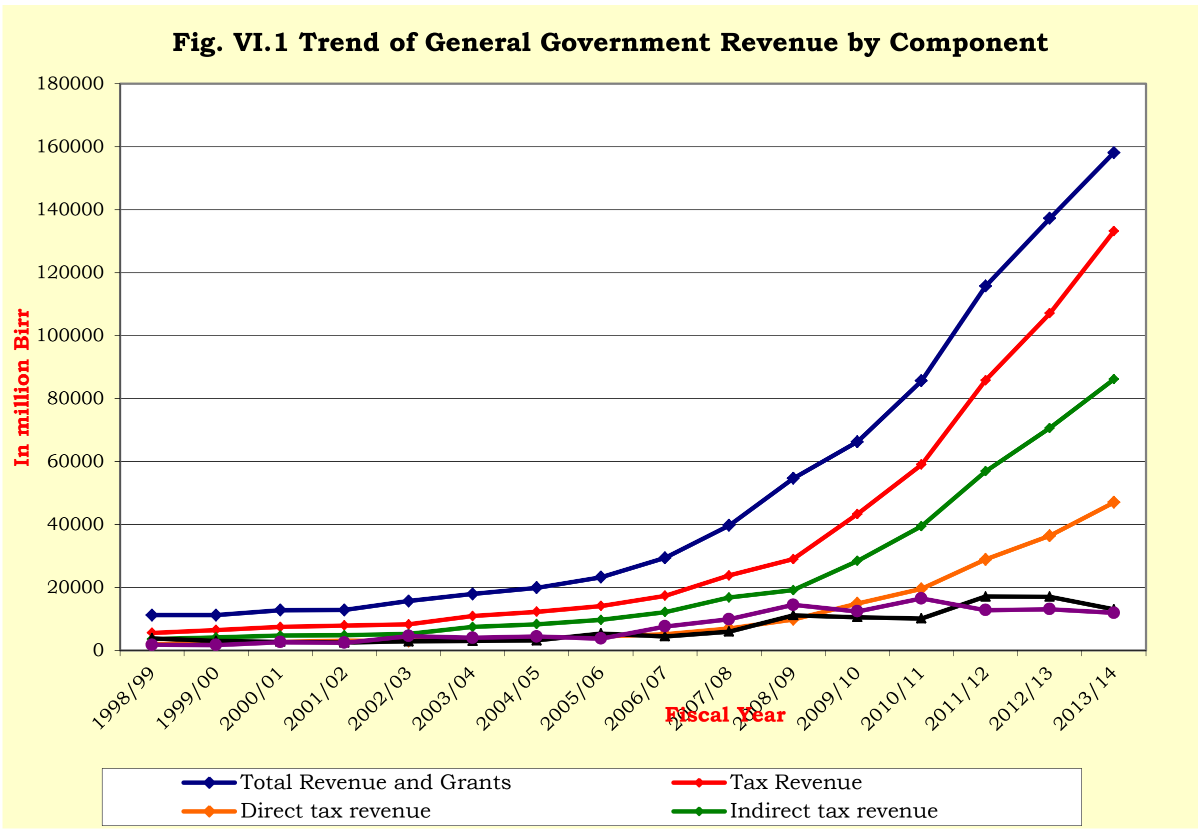


Table6. 2: Summary of General Government Revenue by Component

(In Millions of Birr)

Particulars	2012/13 [A] Pre. Act	2013/14 [B] Revised Budget	2013/14 [C] Pre. Act	Percentage Change [C/A]	Performance Rate [C/B]
Total Revenue and Grants	**137,192.48**	**163,455.20**	**158,076.52**	**15.2**	**96.7**
Total Revenue 1/	**124,077.43**	**147,690.67**	**146,172.77**	**17.8**	**99.0**
Tax Revenue	**107,010.31**	**133,329.11**	**133,118.26**	**24.4**	**99.8**
1. Direct Tax Revenue	**36,392.64**	**47,623.68**	**47,020.68**	**29.2**	**98.7**
1.1 Income and Profit Taxes	35,354.77	44,554.08	45,708.71	29.3	102.6
Personal	11,567.05	14,312.14	13,796.25	19.3	96.4
Business	19,437.13	23,677.39	26,909.94	38.4	113.7
Others 2/	4,350.59	6,564.55	5,002.52	15.0	76.2
1.2 Rural Land Use Fee	340.95	457.59	326.25	-4.3	71.3
1.3 Urban Land Use Fee	696.91	2,612.01	985.72	41.4	37.7
2. Indirect Taxes	**70,617.67**	**85,705.42**	**86,097.58**	**21.9**	**100.5**
2.1 Domestic Taxes	32,440.34	38,077.00	40,498.88	24.8	106.4
2.2 Foreign Trade Taxes	38,177.32	47,628.42	45,598.70	19.4	95.7
Import	38,177.32	47,628.42	45,598.70	19.4	95.7
Export					
3. Non-Tax Revenue	**17,067.12**	**14,361.57**	**13,054.51**	**-23.5**	**90.9**
3.1 Charges and Fees	1,087.93	1,394.94	1,527.53	40.4	109.5
3.2 Govt. Invt. Income 3/	8,347.79	2,206.70	3,562.84	-57.3	161.5
3.3 Reimb. And Property Sales	177.39	235.35	245.27	38.3	104.2
3.4 Sales of Goods & Services	1,998.88	3,322.32	2,538.34	27.0	76.4
3.5 Others 4/	5,455.13	7,202.26	5,180.53	-5.0	71.9
4. Grants	**13,115.05**	**15,764.53**	**11,903.75**	**-9.2**	**75.5**

Source: Ministry of Finance and Economic Development

1/ It does not include privatization proceeds

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

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

4/Other extraordinary, miscellaneous and pension contribution

6.3. Expenditure

In the review period total general government expenditure amounted to Birr 185.5 billion about 20.5 percent higher than last fiscal year as both capital and recurrent expenditures tended to increase.

Recurrent expenditure amounted to Birr 78.1 billion, showing a 24.4 percent growth over the previous year and accounted for 42.1 percent of the totalexpenditure of the review fiscal year. Its performance was 94.4 percent.

Likewise capital expenditure rose by 17.8 percent relative to last year to Birr 107.4 billon and constituted 57.9 percent of the annual expenditure. Capital expenditure performancewas 96.2 percent.

In summary, the performance of general government expenditure was 95.4 percent of the annual budget in 2013/14.

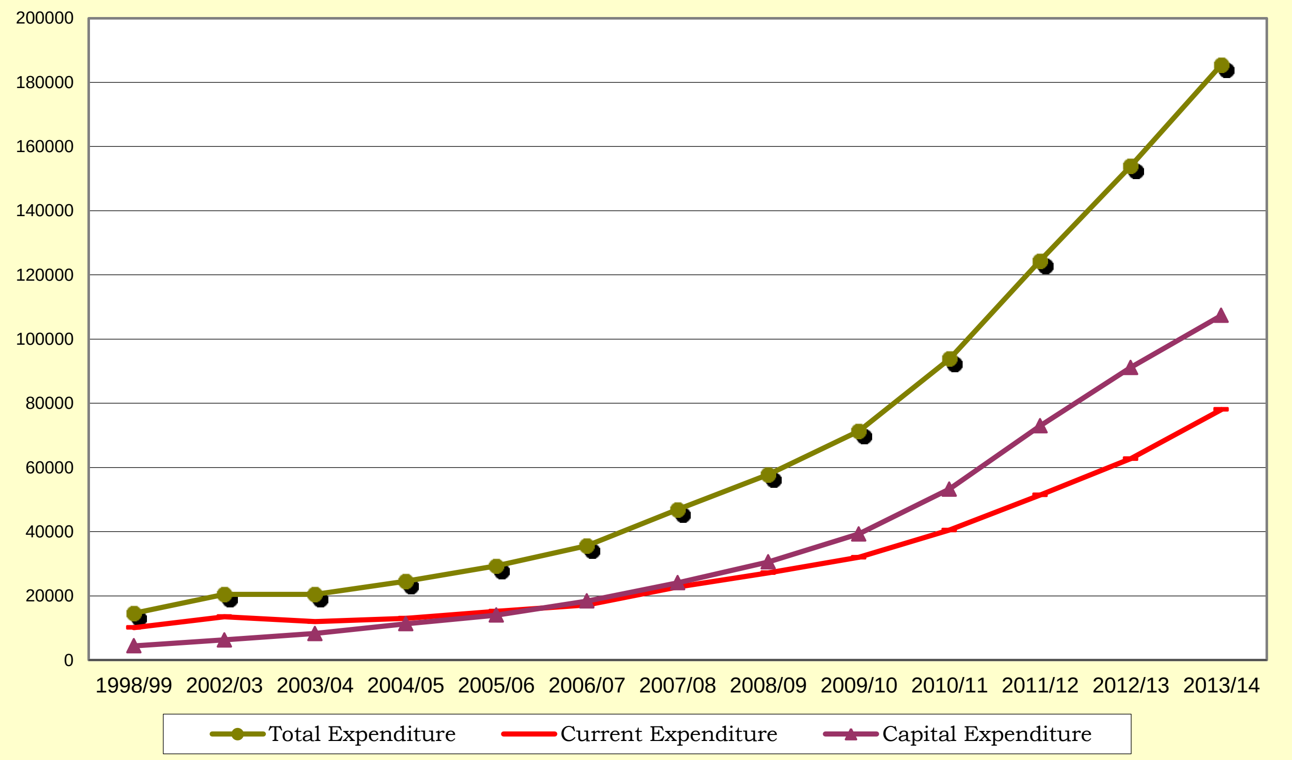
Table 6.3: Summary of General Government Expenditure (In Millions of Birr)

Particulars	2012/13 [A] Pre. Act	2013/14 [B] Revised Budget	2013/14 [C] Pre. Act	Percentage Change [C/A]	Performance Rate [C/B]
Total Expenditure	**153,928.68**	**194,343.69**	**185,471.78**	**20.5**	**95.4**
1. Current Expenditure	**62,745.80**	**82,690.20**	**78,086.90**	**24.4**	**94.4**
General Services	23,301.58	25,216.96	29,193.90	25.3	115.8
Economic Services	8,408.10	11,444.18	10,370.60	23.3	90.6
Social Services	26,891.15	34,771.25	32,519.40	20.9	93.5
Interest and Charges	2,931.37	4,460.22	3,794.20	29.4	85.1
External Assistance1/					
Social Safety Net					
Others (miscellaneous)	1,213.60	6,797.59	2,208.80	82.0	32.5
2. Capital Expenditure	**91,182.88**	**111,653.49**	**107,384.88**	**17.8**	**96.2**
Economic Development	64,271.40	75,449.94	73,461.69	14.3	97.4
Social Development	21,131.58	27,807.50	26,200.00	24.0	94.2
General Development	5,779.90	8,396.05	7,723.18	33.6	92.0
3. Special programs					

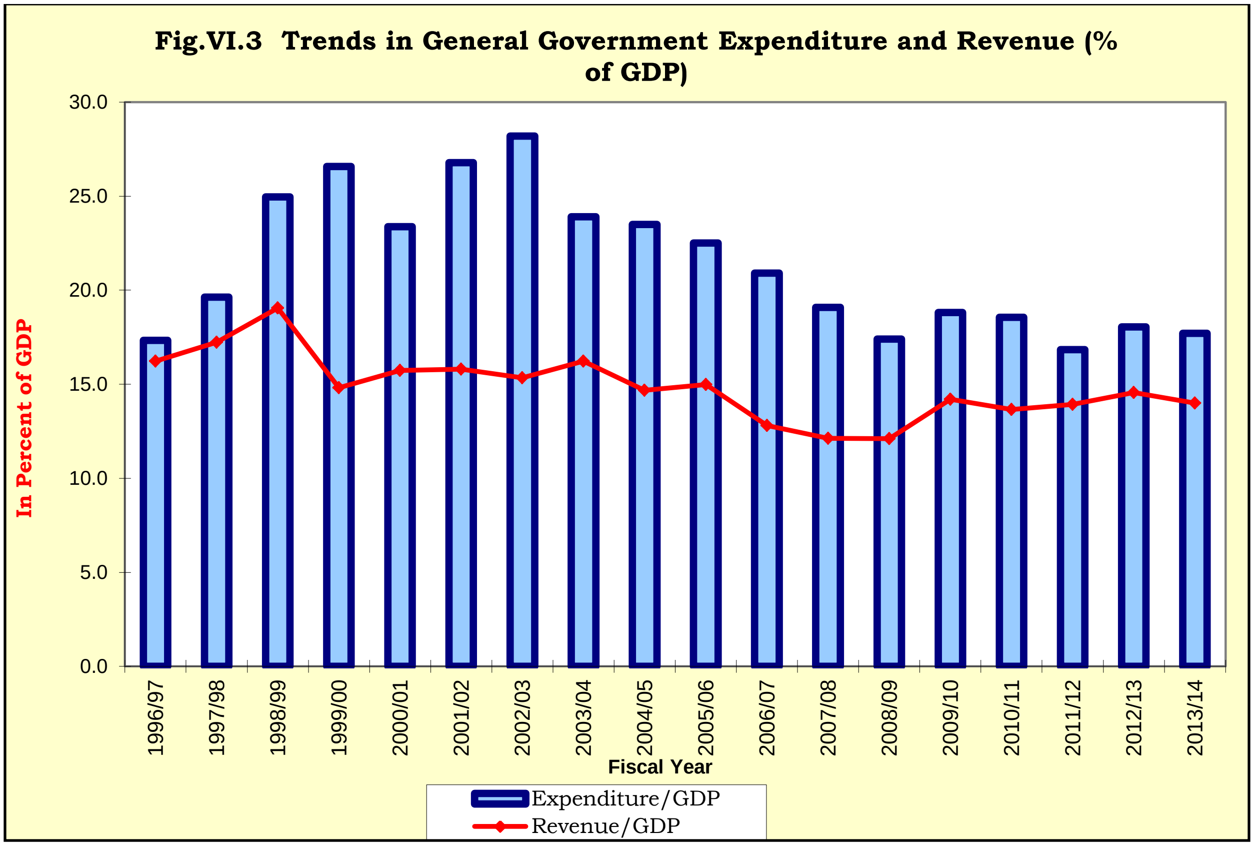
Source: *Ministry of Finance and Economic Development*

Note: *1/ Includes mapping, science and technology, public buildings, etc*

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



Source: Ministry of Finance and Economic Development



Source: Ministry of Finance and Economic Development

6.4. Deficit Financing

Government budgetary operation including grants during 2013/14 resulted in a Birr 27.4 billion deficit, compared to Birr 16.7 billion deficit a year ago as expenditure growth outstripped that of revenue.Its ratio to GDP stood at 2.6 percent. The deficit was financed through external and domestic borrowings. Almost 75 percent of deficit was financed from external sources.

Table 6.4: Summary of General Government Finance

(In Millions of Birr)

Particulars	2012/13 [A] Pre. Act	2013/14 [B] Revised Budget	2013/14 [C] Pre. Act	Percentage Change [C/A]	Perform-ance Rate [C/B]
Revenue and Grants	**137,192.5**	**163,455.2**	**158,076.5**	**15.2**	**96.7**
Revenue	124,077.4	147,690.7	146,172.8	17.8	99.0
Grants	13,115.1	15,764.5	11,903.7	-9.2	75.5
Total Expenditure	**153,928.7**	**194,343.7**	**185,471.8**	**20.5**	**95.4**
Current Expenditure	62,745.8	82,690.2	78,086.9	24.4	94.4
Capital Expenditure	91,182.9	111,653.5	107,384.9	17.8	96.2
Special Programs					
Overall Surplus/ Deficit					
(Including Grants)	**-16,736.2**	**-30,888.5**	**-27,395.3**	**63.7**	**88.7**
(Excluding Grants)	**-29,851.2**	**-46,653.0**	**-39,299.0**	**31.6**	**84.2**
Total Financing	**16,736.2**	**30,888.5**	**27,395.3**	**63.7**	**88.7**
Net External Borrowings	**16,845.6**	**14,865.5**	**20,493.3**	**21.7**	**137.9**
Gross Borrowing	17,964.9	16,478.9	21,877.4	21.8	132.8
o/w Special Programs					
Amortization Paid	1,281.0	1,711.5	1,424.3	11.2	83.2
HIPC Relief	161.7	98.0	40.2	-75.1	41.0
Net Domestic Borrowings	**1,764.3**	**16,023.0**	**13,510.0**	**665.7**	**84.3**
Banking System	-3,245.0		2,218.2	-168.4	
Non-Banking Systems	5,009.3		11,291.8	125.4	
Privatization Receipts	**1,200.0**				
Others and Residuals	**-3,073.7**		-6,608.0	**115.0**	

Source: Ministry of Finance and Economic Development

VII. INVESTMENT

The Ethiopian Investment Agency (EIA) and Regional Investment Offices licensed a total of 163 projects having a combined investment capital of Birr 5.6 billion.

Private investment projects constituted 99.4 percent of the total licensed projects, Out of the total private investment projects, 128 were domestic with a capital of Birr 628 million while 34 projects were foreign with total capital of Birr 2.5 billion.

The investment projects licensed during the fiscal yearare expected to create job opportunities for about 3,936 permanent and 6,425 casual workers (Table 7.1)

.

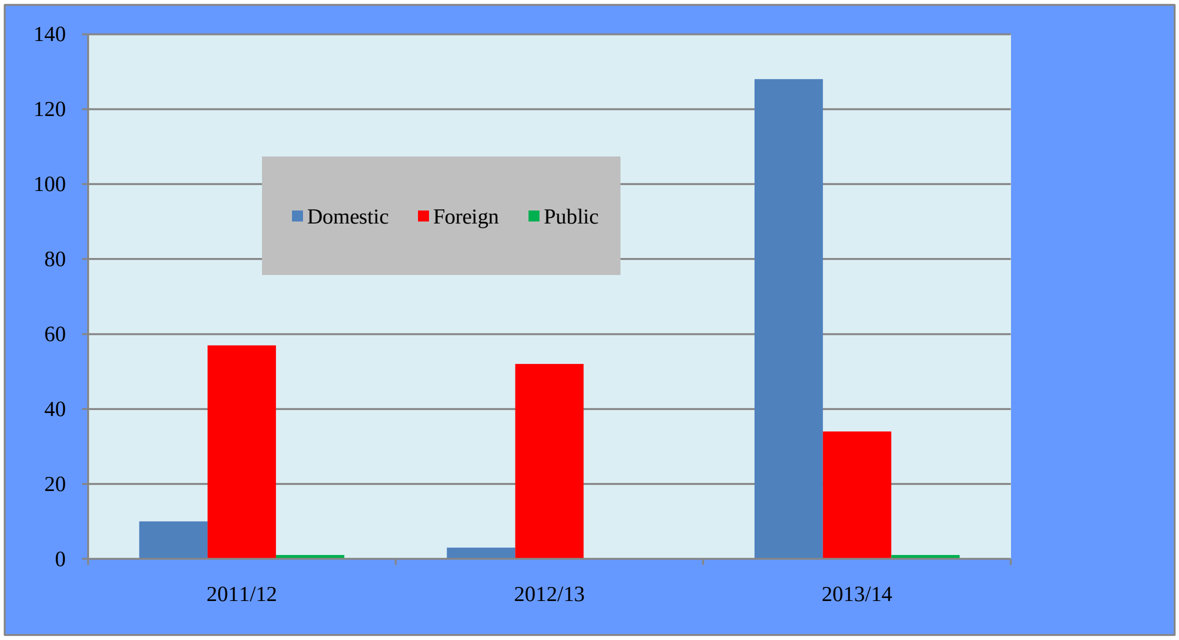
Table 7.1: Number of Projects, Capital and Jobs Created by Operational Investment

(Capital in millions of Birr)

		2011/12	2012/13	2013/14	Percentage change	
		A	B	C	C/A	C/B
1. Total Investment	Number	68	55	163	139.7	196.4
	Capital	648	1512	5636	770.1	272.8
	Permanent Workers	2109	1861	3936	86.6	111.5
	Temporary Workers	1746	1221	6425	268.0	426.2
1.1. Total Private	Number	67	55	162	141.8	194.5
	Capital	627	1512	3136	400.1	107.5
	Permanent Workers	2045	1861	3911	91.2	110.2
	Temporary Workers	1618	1221	6425	297.1	426.2
1.1.1. Domestic	Number	10	3	128	1,180.0	4,166.7
	Capital	22	4	628	2,751.1	14,037.9
	Permanent Workers	119	11	2022	1,599.2	18,281.8
	Temporary Workers	526	12	5942	1,029.7	49,416.7
1.1.2. Foreign	Number	57	52	34	-40.4	-34.6
	Capital	605	1507	2508	314.5	66.4
	Permanent Workers	1926	1850	1889	-1.9	2.1
	Temporary Workers	1092	1209	483	-55.8	-60.0
1.2.Public	Number	1	-	1	-	-
	Capital	21	-	2500	12,047.2	-
	Permanent Workers	64	-	25	-60.9	-
	Temporary Workers	128	-	-	-100.0	-

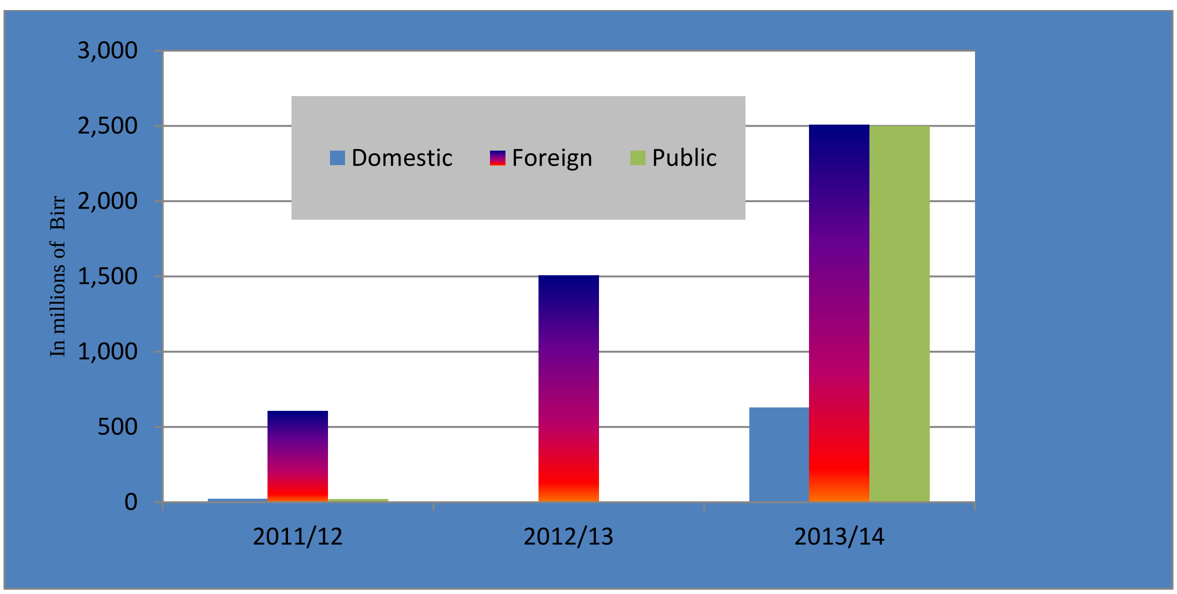
Source: Ethiopian Investment Agency (EIA)

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



Source: Ethiopian Investment Agency

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



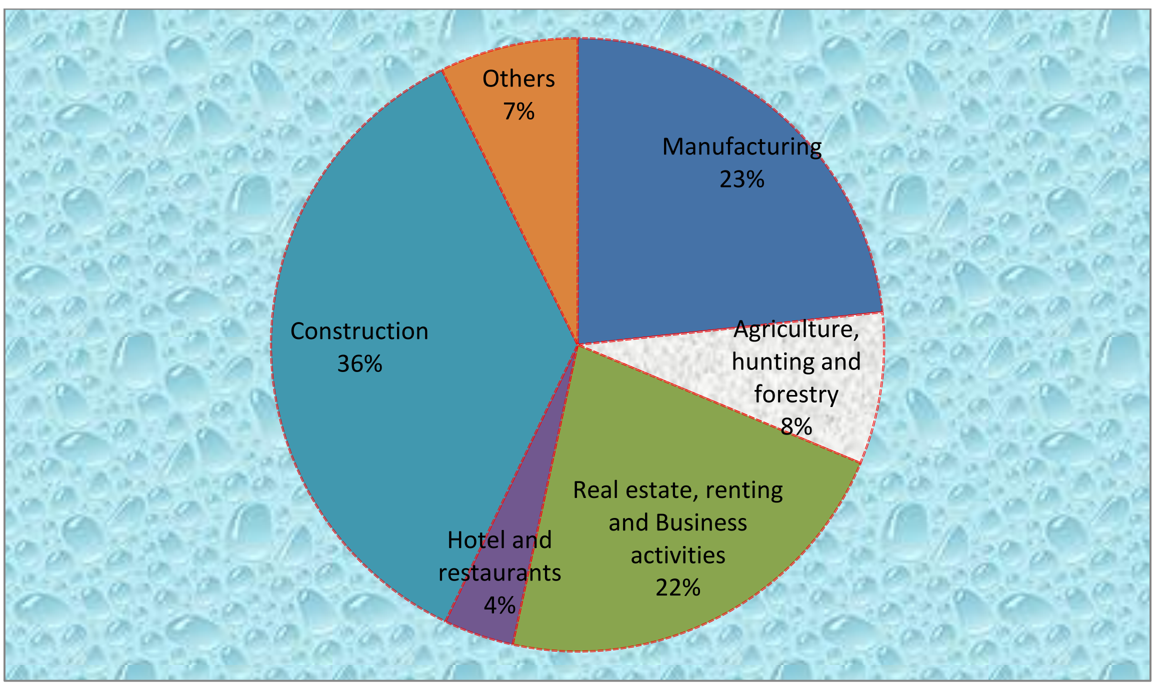
Source: Ethiopian Investment Agency

7.1. Investment by Sector

Of the total number of licensed investment projects during 2013/14, about 35.6 percent were in construction, 23.3 percent in manufacturing, 22.1 percent in real estate, renting and business activities, 8.0 percent in agriculture, hunting and forestry and about 11 percent in other sectors.

In terms of investment capital, construction sector constituted 49.9 percent, real estate, renting and business activities 37.9 percent, manufacturing 9.2 percent and the remaining sectors constituted only 3.0 percent of the total investment capital of the year (Table 7.2).

Fig.VII.3: Distribution of Operational Investment Projects by Sector in 2013/14



Source: Ethiopian Investment Agency

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

(Capital in millions of Birr)

Sectors	2011/12		2012/13		2013/14		Percentage share	
	No. of projects	Investment capital	No. of projects	Investment capital	No. of projects	Investment capital	No. of projects	Investment capital
Manufacturing	18	146.1	24	1,370.5	38	516.8	23.3	9.2
Agriculture, hunting and forestry	6	16.4	-	0.0	13	70.1	8.0	1.2
Real estate, renting and Business activities	32	223.2	17	89.0	36	2,135.3	22.1	37.9
Hotel and restaurants	-	-	2	3.1	6	44.1	3.7	0.8
Education	-	-	2	4.8	2	25.4	1.2	0.5
Health and social work	2	6.6	2	3.7	1	0.2	0.6	0.0
Construction	4	244.2	3	21.6	58	2,811.2	35.6	49.9
Construction Machinery Leasing	-	-	-	-	-	-	-	-
Wholesale, retail trade and repair service	1	0.1	-	0.0	1	10.9	0.6	0.2
Transport, storage and communication	5	11.2	3	5.2	4	12.1	2.5	0.2
Fishing	-	-	-	0.0		0.0	0.0	0.0
Mining and quarrying	-	-	-	0.0	1	1.1	0.6	0.0
Electricity, gas, steam and water supply	-	-	-	0.0	-	0.0	-	-
Public administration and defense; compulsory social security	-	-	-	0.0	-	0.0	-	-
Other community, social and personal service activities	-	-	2	13.8	3	9.1	1.8	0.2
Grand Total	**68.0**	**647.7**	**55**	**1,511.7**	**163.0**	**5,636.2**	**100.0**	**100.0**

Source: EIA

7.2. Distribution by Region

Out of the total 163 operational investment projectslicensed in 2013/14; about 101 (62 percent) with investment capital of Birr 5.3 billion were established in Addis Ababa.Other regions which attracted more investment projects were Amhara, Tigray, Oromiaand SNNPR.

Table 7.3: Number of Projects and Capital of Operational Investment by Region

(Capital in millions of Birr)

Regions	2011/12		2012/13		2013/14		Percentage share	
	No. of projects	Investment Capital	No. of projects	Investment Capital	No. of projects	Investment Capital	No. of projects	Investment Capital
Tigray	2	2.7	1	1.4	11	90.2	6.7	1.6
Afar	7	55.7	1	1.0	12	21.1	7.4	0.4
Amhara	-	-	-	-	31	112.7	19.0	2.0
Oromia	6	85.1	16	1,308.4	7	139.3	4.3	2.5
Somali	-	-	-	-	-	-	-	-
SNNPR	-	-	-	-	1	10.9	0.6	0.2
Gambella	-	-	-	-	-	-	-	-
Addis Ababa	52	498.2	37	200.8	101	5,262.0	62.0	93.4
Dire Dawa	1	6.0	-	-	-	-	-	-
Multiregional Projects	-	-	-	-	-	-	-	-
Grand Total	**68**	**647.7**	**55**	**1,511.7**	**163**	**5,636.2**	**100.0**	**100.0**

Source: EIA

VIII. INTERNATIONAL DEVELOPMENTS

8.1 International Economic Developments

8.1.1 Overview of the World Economy[5]

Global activity strengthened during the second half of 2013 and is expected to improve further in 2014–15. The impulse has come mainly from advanced economies, although their recoveries remain uneven. With supportive monetary conditions and a smaller drag from fiscal consolidation, annual growth is projected to rise above trend in the United States and to be close to trend in the core euro area economies. In the stressed euro area economies, however, growth is projected to remain weak and fragile as high debt and financial fragmentation hold back domestic demand.
Furthermore, in Japan, fiscal consolidation in 2014–15 is projected to result in some growth moderation. Growth in emerging market economies is projected to pick up only modestly. These economies are adjusting to a more difficult external financial environment in which international investors are more sensitive to policy weakness and vulnerabilities given prospects for better growth and monetary policy normalization in some advanced economies.

As a result, financial conditions in emerging market economies have tightened further compared with the October 2013 World Economic Outlook (WEO), while they have been broadly stable in advanced economies. Downside risks continue to dominate the global growth outlook, notwithstanding some upside risks in the United States, the United Kingdom, and Germany. In advanced economies, major concerns include downside risks from low inflation and the possibility of protracted low growth, especially in the euro area and Japan. While output gaps generally remain large, the monetary policy stance should stay accommodative, given continued fiscal consolidation. In emerging market economies, vulnerabilities appear mostly localized. Nevertheless, a still-greater general slowdown in these economies remains a risk, because capital inflows could slow or reverse. Emerging market and developing economies must therefore be ready to weather market turmoil and reduce external vulnerabilities.

[5] Excerpted from European Central Bank annual report 2012, monthly reports through January to June, 2013 and World Economic Outlook, April 2013

Table 8.1: Overview of World Economic Outlook and Projection

(Annual Percentage Change)

Particulars	2012	2013	Projection 2014	Projection 2015
World Output	**3.2**	**3.0**	**3.6**	**3.9**
Advanced Economies	1.4	1.3	2.2	2.3
United States	2.8	1.9	2.8	3.0
Euro Area	-0.7	-0.5	1.2	1.5
Japan	1.4	1.5	1.4	1.0
Emerging Market & Developing Economies	5.0	4.7	4.9	5.3
World Trade Volume (goods & services)	**2.8**	**3.0**	**4.3**	**5.3**
Imports				
Advanced Economies	1.1	1.4	3.5	4.6
Emerging Market & Developing Economies	5.8	5.6	5.2	6.3
Exports				
Advanced Economies	2.1	2.3	4.2	4.8
Emerging Market & Developing Economies	4.2	4.4	5.0	6.2
Commodity Prices (U.S. dollars)				
Oil	1.0	-0.9	0.1	–6.0
Non- oil	-10.0	-1.2	–3.5	–3.9
Consumer Prices				
Advanced Economies	2.0	1.4	1.5	1.6
Emerging Market & Developing Economies	6.0	5.8	5.5	5.2

Source: IMF, World Economic Outlook,April 2014

A major impulse to global growth has come from the United States, whose economy grew at 3.2 percent in the second half of 2013— stronger than expected in the October 2013 WEO. Some of the upside surprise was due to strong export growth and temporary increases in inventory demand. Recent indicators suggest some slowing in early 2014. Much of this seems related to unusually bad weather, although some payback from previous inventory demand increases may also be contributing. Nevertheless, annual growth in 2014–15 is projected to be above trend at about 2.8 percent. More moderate fiscal consolidation helps; it is estimated that the change in the primary structural balance will decline from slightly more than 2 percent of GDP in 2013 to about ½ percent in 2014–15. Support also comes from accommodative monetary conditions as well as from a real estate sector that is recovering after a long slump, higher household wealth, and easier bank lending conditions.

In the euro area, growth has turned positive. In Germany, supportive monetary conditions, robust labor market conditions, and improving confidence have underpinned a pickup in domestic demand, reflected mainly in higher consumption and a tentative revival in investment but also in housing. Across the euro area, a strong reduction in the pace of fiscal tightening from about 1 percent of GDP in 2013 to ¼ percent of GDP is expected to help lift growth. Outside the core, contributions from net exports have helped the turn around, as has the stabilization of domestic demand. However, growth in demand is expected to remain sluggish, given continued financial fragmentation, tight credit, and a high corporate debt burden. Past credit supply shocks in some economies have not yet fully reversed and are still weighing on credit and growth. Credit demand is also weak, however, because of impaired corporate balance sheets. Overall, economic growth in the euro area is projected to reach only 1.2 percent in 2014 and 1.5 percent in 2015.

In Japan, some underlying growth drivers are expected to strengthen, notably private investment and exports, given increased partner country growth and the substantialYen depreciation over the past 12 months. Nevertheless, activity overall is projected to slow moderately in response to a tightening fiscal policy stance in 2014–15. The tightening is the result of a two-step increase in the consumption tax rate—to 8 percent from 5 percent in the second quarter of 2014 and then to 10 percent in the fourth quarter Of 2015—and to the unwinding of reconstruction spending and the first stimulus package Of the Abenomics program. However, at about 1 percent of GDP, the tightening of the Fiscal policy stance in 2014 will be more moderate than was expected in the October 2013 WEO, as a result of new fiscal stimulus amounting to about 1 percent of GDP. This stimulus is projected to lower the negative growth impact of the tightening by 0.4 percentage point to 0.3 percent of GDP in 2014. In 2015, the negative growth effect of the fiscal stance is projected to increase to 0.5 percent of GDP. Overall, growth is projected to be 1.4 percent in 2014 and 1.0 percent in 2015.

The forecast for China is that growth will remain broadly unchanged at about 7.5

percent in 2014–15, only a modest decline from 2012–13. This projection is predicated on the assumption that the authorities gradually rein in rapid credit growth and make progress in implementing their reform blue- print so as to put the economy on a more balanced and sustainable growth path.

For India, real GDP growth is projected to strengthen to 5.4 percent in 2014 and 6.4 percent in 2015, assuming that government efforts to revive investment growth succeed and export growth strengthens after the recent rupee depreciation. Elsewhere in emerging and developing Asia, growth is expected to remain at 5.3 percent in 2014 because of tighter domestic and external financial conditions before rising to 5.7 percent in 2015, helped by stronger external demand and weaker currencies.

Only a modest acceleration in activity is expected for regional growth in Latin America, with growth rising from 2.5 percent in 2014 to 3 percent in 2015 some economies have recently faced strong market pressure, and tighter financial conditions will weigh on growth. Important differences are evident across the major economies in the region. In Mexico, growth is expected to strengthen to 3 percent in 2014, resulting from a more expansionary macroeconomic policy stance, a reversal of the special factors behind low growth in 2013, and spillovers from higher U.S. growth. It is expected to increase to 3½ percent in 2015, as the effect of major structural reforms takes hold. Activity in Brazil remains subdued. Demand is supported by the recent depreciation of the real and still- buoyant wage and consumption growth, but private investment continues to be weak, partly reflecting low business confidence. Near-term prospects in Argentina and Venezuela have deteriorated further. Both economies continue to grapple with difficult external funding conditions and the negative impact on output from pervasive exchange and administrative controls.

In emerging market and developing economies, growth picked up slightly in the second half of 2013. The weaker cyclical momentum in comparison with that in the advanced economies reflects the opposite effects of two forces on growth. On one hand, export growth increased, lifted by stronger activity in advanced economies and by currency depreciation. Other hand, investment weakness continued, and external funding and domestic financial conditions increasingly tightened. Supply-side and other structural constraints on investment and potential output (for example, infrastructure Bottlenecks) are issues in some economies. These offsetting forces are expected to remain in effect through much of 2014. Overall, however, emerging market and developing economies continue to contribute more than two-thirds of global growth, and their growth is projected to increase from 4.7 percent in 2013 to 4.9 percent in 2014 and 5.3 percent in 2015.

8.1.2 World Trade

Global trade volume growth slowed substantially in the adjustment after the global financial crisis of 2007–09 and the euro area crisis of 2011–12. This slowing has fueled questions about whether international trade will remain an engine of global growth, which are motivated by concerns about stalling or declining globalization. However, data on world trade growth since 2008 seem to be in line with global output and investment growth. Moreover, recent forecast errors for world trade growth are strongly and positively correlated with those for global GDP growth, as in the past. These factors suggest that the recent trade weakness has simply mirrored stronger-than-expected declines in growth across the globe. Indeed, world trade growth picked up strongly with the strengthening in global activity in the second half of 2013.

Global current account imbalances narrowed further in 2013. The narrowing was partly driven by external adjustment in stressed economies in the euro area—which increasingly reflects not only import compression, but also some adjustment in relative prices and rising exports—although balances in euro area surplus economies did not decline materially. The narrowing also reflects larger energy imports in Japan since the2011 earthquake and tsunami, a decline in net energy imports in the United States, and a combination of falling oil export revenues and increased expenditures in fuel exporters. A modest further narrowing of imbalances is projected for the medium term, resulting mostly from lower surpluses of oil exporters.

8.1.3 Inflation and CommodityPrices

In the United States, all relevant inflation measures decreased in the course of 2013, with core inflation running at rates of less than 1.5 percent, notwithstanding continued declines in the unemployment rate. The lower unemployment rates partly reflect reductions in labor force participation due to demographic trends as well as discouraged workers dropping out of the labor force. A portion of the decline in labor force participation is expected to be reversed, because some of these workers are likely to seek employment as labor market conditions improve. In addition, the long-term unemployment rate remains high compared with historical standards. As a result, wage growth is expected to be sluggish even as unemployment declines toward the natural rate in 2014–15.

In the euro area, inflation has steadily declined since late 2011. Both headline and underlying inflation have fallen below 1 percent since the fourth quarter in 2013. Several economies with particularly high unemployment have seen either inflation close to zero or outright deflation during the same period. For 2013 as a whole, inflation was 1.3 percent, which is closer to the lower end of the range forecast provided by the European Central Bank (ECB) staff at the end of 2012 and below the lowest value provided by Consensus Forecast survey participants at the time. Inflation is projected to increase slightly as the recovery strengthens and output gaps slowly decrease. Under the current baseline projections, inflation is expected to remain below the ECB's price stability objective until at least 2016.

In Japan, inflation started to increase with stronger growth and the depreciation of the yen during the past year or so. In 2014–15, it is projected to accelerate temporarily in response to increases in the consumption tax. Indications are, however, that labor market conditions have started to tighten. Nominal wages have also begun to increase, and underlying inflation is projected to converge gradually toward the 2 percent target.

In emerging market and developing economies, inflation is expected to decline from about 6 percent currently to about 5.2 percent by 2015 Softer world commodity prices in U.S. dollar terms should help reduce price pressures, although in some economies, this reduction will be more than offset by recent exchange rate depreciation. In addition, activity- related price pressures will ease with the recent growth declines in many emerging market economies. Thatsaid, this relief will be limited in some emerging market economies, given evidence of domestic demand pressures and capacity constraints in some.

8.1.4 Exchange Rate

Foreign exchange markets experienced two distinctive episodes during 2013: the early part of the year was highlighted by a dramatic depreciation of the Japanese yen, and in May-June, a number of emerging and developing countries saw the sharp devaluation of their currencies. In the outlook for 2014-2015, major uncertainties and volatility in foreign exchange markets will still be associated with the currencies of emerging economies. Among major currencies, the yen devalued significantly vis-à-vis the United States dollar, from 80 yen per dollar by the end of 2012 to about 100 yen per dollar in March 2013, partly reflecting a set of drastically expansionary policies adopted by the new Japanese Administration.

The euro-to-dollar exchange rate saw some fairly wide swings, between 1.28 and 1.34, but with no clear direction during the first half of 2013, and followed by a period of appreciation in the third quarter (reaching 1.38 before dropping to 1.34 during November).

Changes in relative risk perceptions were an important driving force. For the last few years these have been evenly balanced between eruptions of the euro area debt crisis and United States fiscal impasses. As the year progressed, however, risks stemming from the European debtcrisis subsided significantly, while those in the United States remained in play. In addition, the euro area current-account surplus began to widen notably, but stronger growth in the United States provided some counterbalance. Going forward, however, the shifting balance of monetary policies is expected to play an important role. The European Central Bank (ECB) cut its policy rates in November (the second time in 2013)leading to a sharp drop in the euro. In terms of unconventional policies, the United States is expected to taper its QE program soon, while the ECB is still entertaining new forms of stimulus. The balance of expected policies in the three areas, coupled with the stronger growth outlook in the United States, leads to an expectation of the dollar appreciating moderately against both the yen and the euro.

Currencies in many developing countries and economies in transition have depreciated vis-à-vis the United States Dollar and other major currencies in 2013. Currencies in a number of emerging economies depreciated by the greatest amountIn May-June 2013, particularly in Brazil, India, Indonesia, South Africa and Turkey, at the same time that capital inflows to these economies declined. In contrast, the renminbi of China continued to appreciate gradually against the United States dollar and other major currencies. The difference between the trends in the exchange rates of China and other large emerging economies can be counted for by a number of factors, including much larger foreign reserves, a less open capital account, higher domestic savings, and more concentration of FDI in the capital inflows to China (when compared with the other emerging economies). Given the remaining current-account surplus of China vis-à-vis the UnitedStates, the renminbi is expected to further appreciate slightly against the dollar in 20142015, unless China liberalizes its capital and financial accounts soon, which could trigger more capital outflows and renminbi depreciation. The currencies of other emerging economies are likely to remain under depreciation pressures.

8.1.5 Capital Flow

Longer-term U.S. interest rates rose immediately after the May 2013 tapering-related announcement by the Federal Reserve but have broadly stabilized since. Rates in the core euro area economies and Japan have increased by a fraction. Equity markets have been buoyant, with price-to-earnings ratios back to precise levels.

Spreads on Italian and Spanish bonds have continued to decrease.

Financial conditions in emerging market economies have tightened recently in response to a more difficult external financial environment. Bond rates and spreads have increased, and equity markets have moved sideways. Gross capital inflows have declined, and exchange rates have depreciated. Overall, the cost of capital in emerging market economies has increased, which will dampen investment and growth, although increased exports to advanced economies are expected to provide some offset.

8.2.Implications for Ethiopia

The global economy remains on a gradual recovery path, although the growth momentum moderated somewhat in 2014 as a result of temporary factors. As the adverse effects of these factors are gradually waning, global activity should gather pace in the period ahead. The slow growth in global economic activity has affected Ethiopia's external sector to certain extent. Earnings from export of goods during 2013/14 rose by 5.6 percent owing to improvements in global commodity prices and/or increased in volume of exports of the country.

Furthermore, net receipts from service exports went up by 21.9 percent while private transfers and FDI inflows showed a moderate growth of 13percent and 19.1 percent, respectively, during the review year.

The declining international oil price has positively contributedto the country's current account balance despite high fuel import bill, which constituted 17.5 percent of the total import bill of the country in 2013 /14.