

### **Governor's Note**

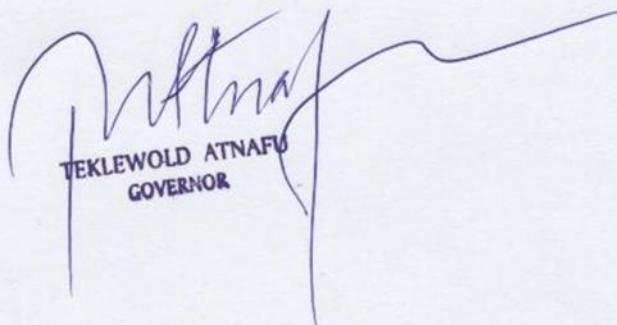
1. Ethiopia has recorded a rapid economic performance of 10.2 percent in 2014/15, continuing the double digit growth trend of the last decade with a broad contribution of all sectors. Accordingly, industry grew by 21.6 percent, services 10.2 percent and agriculture 6.4 percent. Their contributions to the annual growth were 3.0 percent, 4.7 percent and 2.5 percent, respectively.
2. While agriculture remained a dominant sector, its share in GDP slightly declined from 40.1 percent in 2013/14 to 38.8 percent in 2014/15. The share of industry scaled up to 15.2 percent from 13.8 percent while that of service sector remained at 46.6 percent over the same period, revealing a gradual structural transformation, measured by change in shares of major economic sectors. GDP per capita has also increased to USD 691 compared to USD 639.6 last year while poverty is estimated to have declined to 22 percent from 38.7 percent a decade ago. At the same time, investment to GDP ratio improved to 39.3 percent from 38 percent compared with 21.9 percent average for Sub-Saharan Africa. Similarly, the ratio of domestic savings to GDP rose to 21.8 percent during the review fiscal year vis-à-vis 16 percent estimated average for Sub-Saharan Africa. This outcome was achieved as a result of a number of saving enhancing measures such as expansion of financial institutions, introduction of housing schemes, saving bonds, reforms in employees' pension scheme etc undertaken over the last few years not to mention the effect of growing per capita income in line with economic growth.
3. Inflationary pressure eased as annual average headline inflation dropped to 7.7 percent compared to 8.1 percent in 2013/14 on account of a 2.7 percentage point slowdown in non-food inflation offsetting a 1.5 percentage point rise in food & non-alcoholic beverages. This was slightly below the 8 percent average for Sub-Saharan Africa. Annual headline inflation, however, increased from 8.5 percent to 10.4 percent due to 6.3 percentage point surge in food & non-alcoholic beverages inflation in contrast to 2.8 percentage point slowdown in non-food annual inflation. Hence, although the 10.2 percent inflation was marginally above the single digit inflation target, it was consistent with the single digit (8 percent) core inflation recorded at the end of the fiscal year.

4. On the fiscal front, the Federal government continued to focus on prudent fiscal policy and pro poor spending programs. At the same time, efforts have been made to improve tax collection and administration, with a view to financing a growing part of government spending through domestic sources. As a result, Federal government domestic revenue depicted a 26.3 percent annual growth which led to general government revenue to GDP to improve to 15.1 percent from 13.8 percent a year earlier. Similarly, general government expenditure witnessed a 24.3 percent annual increase where recurrent expenditure depicted a 45.2 percent surge while capital expenditure scaled up by 9.1 percent. Hence, general government fiscal operations resulted in a deficit of 2.5 of GDP which was within the planned target.
5. Monetary policy of the National Bank of Ethiopia (NBE) has been geared towards maintaining price & exchange rate stability, ensuring safety and soundness of the financial system as well as creating conducive environment for overall economic growth of the country. In order to attain these strategic policy objectives, the Bank continued to use reserve money as nominal anchor and broad money supply ( $M_2$ ) as intermediate target which was planned to grow in line with the GDP growth. Accordingly, reserve money increased by 14.7 percent in 2014/15 owing to 16.9 percent expansion in currency in circulation and 9.1 percent growth in commercial banks' deposit at the NBE. At the same time, broad money supply ( $M_2$ ) scaled up by 24.7 percent on account of 31.1 percent expansion in domestic credit in contrast with 18.4 percent slowdown in net foreign assets. All in all, the monetary policy of NBE has succeeded in keeping core (non-food) inflation in single digit which in year-on-year terms dropped from 10 percent in 2013/14 to 8.0 percent in 2014/15.
6. Interest rate, which is one of the monetary policy instruments of NBE, has been kept unchanged with simple average minimum savings and time deposit rates standing at 5.38 percent and average nominal lending rate at 11.88 percent. Efforts have also been made to improve the real rate of interest by containing inflation around the single digit band without curbing investment. At the same time, treasury bills which were used as NBE's monetary policy instruments besides being a fiscal instrument, have continued to operate smoothly with steady growth both in demand and supply.

7. With regard to exchange rate development, the Birr continued its steady depreciation against USD which averaged 5.4 percent by end 2014/15. NBE has managed to address exchange rate stability and international reserve targets in line with the country's macroeconomic stability and growth objectives.
8. In contrast, the review fiscal year witnessed poor performance in merchandise exports which declined by 8.5 percent vis-à-vis the preceding fiscal year due to lower commodity prices in the world market for export items like oilseeds, pulses and gold. Similarly, receipts from net services plummeted while net private transfers improved by about 21 percent in the face of 39 percent slow down in public transfer. Meanwhile, total merchandise import registered a 20.0 percent yearly growth as all components of imports, except fuel, tended to hike during the fiscal year underpinned by an ever expanding domestic demand associated with the country's economic growth and huge investments in infrastructures like power, road, rail way, communication as well as industrial expansion such as sugar and textiles.
9. As the trade and current account deficits deteriorated while capital account showed surplus, the overall balance of payments recorded a deficit at the end of the fiscal year. As a result, the international reserve of the country was adequate to finance 2.5 months of imports of goods and non-factor services which was within the planned target.
10. With respect to financial sector performance, Ethiopia has made remarkable progress. Commercial banks opened 485 new branches which increased their total to 2,693 up from 2,208 a year ago. Commercial banks, on their part have stepped up their deposit mobilization which saw a 25.5 percent annual growth. Their loan collection exhibited a 16.0 percent increase and new loan disbursement about 26 percent expansions. Of the total new disbursement, about 68 percent went to finance private sector. Moreover, all indicators showed that commercial banks were well capitalized and their returns on equity and assets were well above the

required level, and their non performing loans were kept within the prudential requirement. Insurance companies also expanded their branches to 377. Micro finance institutions have also been performing well as they continued increasing their savings mobilization, loan provision and collection and other asset building services particularly among low income groups of society.

11. In sum, the Ethiopian economy has continued to record strong growth despite challenges arising from both internal and external factors. External factors were largely associated with the international commodity prices and decreasing net services which led to a widening current account deficit while domestic factors consisted of growing demand for foreign exchange to finance mega projects and relatively higher rate of inflation.
12. Going forward, Ethiopia is committed to sustain its growth trajectory and ensure macroeconomic stability carefully using the mix of policy instruments consistent with the level of development of the country.
13. Finally, I would like to thank all employees of NBE for their dedication and hard work to bring to fruition the strategic objectives of the Bank as well as the successful completion of the first Growth and Transformation Plan (GTP I). I would like also to encourage them to strengthen their commitment to register more positive results in the second GTP (2015/16-2019/20) and beyond.



TEKLEWOLD ATNAFU  
GOVERNOR

## **I. The overall Economic Performance**

### **1.1 Economic Growth**

The Ethiopian economy continued to register a notable growth. In FY 2014/15, the real GDP grew by 10.2 percent relative to 11.2 percent growth target set in the first GTP for the fiscal year. The growth of the economy has also been remarkable compared to the 4.4 percent growth estimated for Sub - Saharan Africa in 2015 (World Economic Outlook Update, July 2015).

This impressive growth was mainly attributed to service sector (10.2 percent), agricultural sector (6.4 percent) and industrial sector (21.6 percent) (Table 1.1).

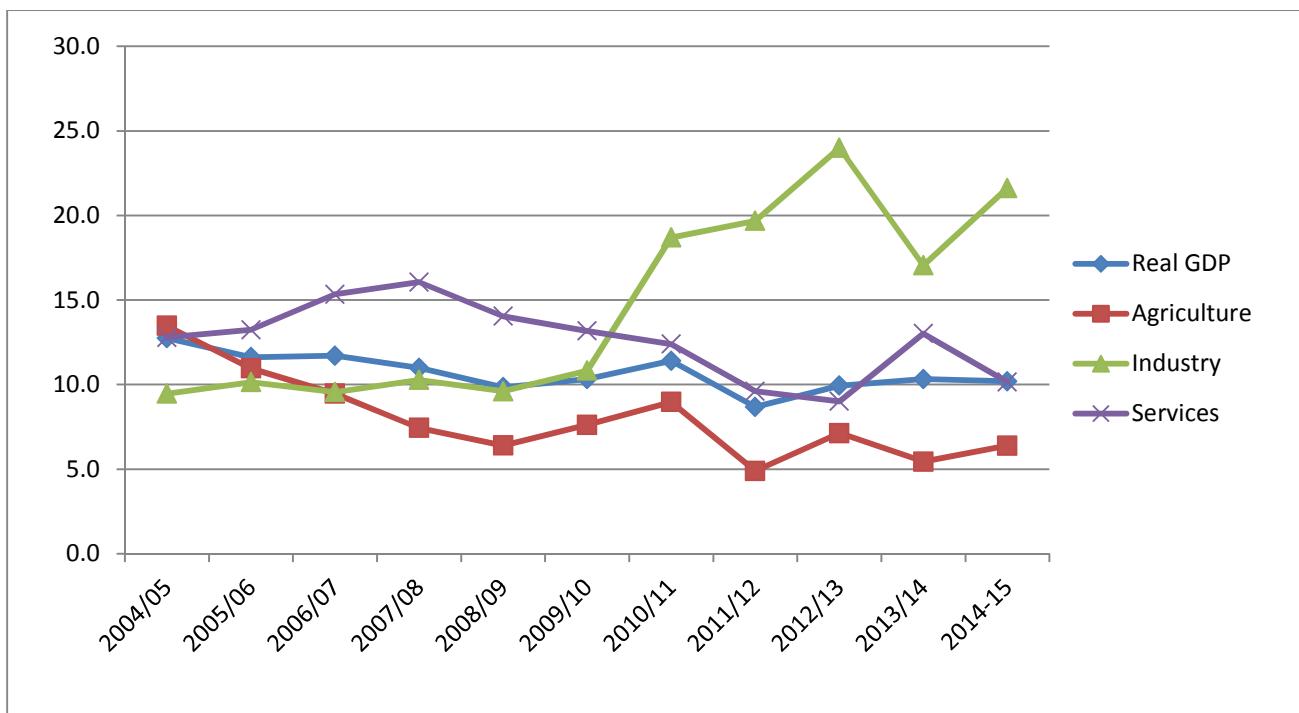
Nominal GDP per capita went up to USD 691 from USD 639.6 and real per capita GDP to USD 418 against the preceding year. Generally, the Ethiopian economy recorded 10.1 percent average growth rate per annum during the GTP period (2010/11-2014/15). The Ethiopian economy is projected to grow by 11 percent in FY 2015/16 in contrast to 3.8 and 5.1 percent growth by IMF for the world and SSA respectively (WEO, July 2015).

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

(In Billions of Birr)

Items		2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Sector	Agriculture	170.3	181.2	195.0	212.5	222.9	238.8	251.8	267.9
	Industry	35.4	38.8	43.0	49.8	59.6	73.9	86.5	105.2
	Services	143.1	163.2	184.7	216.6	237.4	258.8	292.5	322.2
Total		348.8	383.2	422.7	478.9	519.9	571.5	630.8	695.3
<i>Less FISIM</i>		2.4	2.7	2.9	3.2	2.9	3.1	3.7	4.3
Real GDP		346.4	380.5	419.8	475.6	517.0	568.4	627.1	691.0
Growth in Real GDP		11.0	9.8	10.3	11.4	8.7	9.9	10.3	10.2
Real GDP per capita (in thousands of Birr)		4.6	5.0	5.3	5.9	6.3	6.7	7.2	7.8
Mid-year population (in million)		74.9	76.8	78.8	80.7	82.7	84.8	87.0	89.1
Share in GDP (in %)	Agriculture	48.8	47.3	46.1	44.4	43.1	42.0	40.1	38.8
	Industry	10.1	10.1	10.2	10.4	11.5	13.0	13.8	15.2
	Services	41.0	42.6	43.7	45.2	45.9	45.5	46.6	46.6
Growth in Real GDP per capita		7.3	7.1	7.5	10.6	6.1	7.2	7.5	7.6
Agriculture	Absolute Growth	7.4	6.4	7.6	9.0	4.9	7.1	5.4	6.4
	Contribution to GDP growth	3.8	3.1	3.6	4.1	2.2	3.1	2.3	2.5
	Contribution in %	33.8	31.7	34.9	31.1	25.3	31.1	22.3	24.5
Industry	Absolute Growth	10.3	9.6	10.8	15.8	19.7	24.0	17.1	21.6
	Contribution to GDP growth	1.0	1.0	1.1	1.6	2.1	2.8	2.2	3.0
	Contribution in %	9.5	9.9	10.6	12.1	24.1	27.9	21.3	29.4
Services	Absolute Growth	16.1	14.0	13.2	12.4	9.6	9.0	13.0	10.2
	Contribution to GDP growth	6.3	5.8	5.6	7.5	4.4	4.1	5.9	4.7
	Contribution in %	56.7	58.4	54.4	56.8	50.6	42	57.1	46.1

Source: Ministry of Finance and Economic Development (MoFED)

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

Source: MoFED

In FY 2014/15, the agricultural sector depicted a moderate growth rate of 6.4 percent mainly due to 7.2 percent increase in crop production (Table 1.3), in general and 7.5 percent expansion in grain crop production in particular (Table 1.2). The total grain production reached 270.4 million quintals, of which cereal production accounted for 87.3 percent while pulses and oil seeds comprised 12.7 percent. Cereals and oilseeds production went up by 9.4 and 6.9 percent over the preceding year owing to the 3 and 4.9 percent expansion in cultivated land area respectively. In contrast, the production of pulses declined by 6.5 percent while cultivated land area contracted by

10.6 percent during the same period (Table1.2).

The total land cultivated for crop production expanded slightly by 1.2 percent to 12.6 million hectares, of which cereals production covered 80.8 percent while pulses and oil seeds covered 12.4 and 6.8 percent, respectively (Table 1.2).

The growth in agricultural output was mainly attributed to improved productivity supported by favorable and conducive agricultural development policies and better productive safety net programs.

The share of agriculture in GDP in F.Y 2014/15 went down to 38.8 percent from 40.1 percent a year earlier. Likewise, the sector's contribution to GDP growth rate rose to 24.5 percent compared with 22.3 percent last year (Table 1.1).

Industrial sector showed a 21.6 percent growth; over the previous year and accounted for 15.2 percent of GDP. The sector contributed 29.4 percent to the overall economic growth during the fiscal year (Table 1.1). This indicates that despite its rapid growth relative to agriculture and service sectors, the share of industrial sector in GDP was very low. Calling for enhanced investment in manufacturing sector taking into account the country's competitive advantage.

Manufacturing sector increased by 15.8 percent and constituted about 31.8 percent of industrial output growth and 4.6 percent of real GDP growth. Construction industry, on the other hand, contributed more than half (56.1 percent) to industrial sector growth and 8.5 percent to GDP growth. This

implies that construction sector is currently the leading industry due to expansion in construction of roads, railways, dams and residential houses.

Meanwhile, electricity & water and mining & quarrying contributed 6.5 and 5.6 percent to industrial growth, respectively (Table 1.3).

Service sector has also become relatively a dominant sector in Ethiopia since it overtook the agricultural sector in 2010/11. In 2014/15, its growth rate was 10.2 percent; and its share in GDP rose to about 46.6 percent. Its contribution to GDP growth was about 46.1 percent in the same period (Table 1.1).

The significant contribution of the sector to GDP was gripping due to the expansion of whole sale and retail trade services which expanded by 9.9 percent followed by real estate, renting and business activities (4.1 percent), hotels and restaurants (11.3 percent), transport and communication (10.3 percent) and public administration and defense (10.7 percent) (Table 1.3).

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

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

Agricultural Production	2011/12		2012/13		2014/15		2014/15	
	Cultivated Area	Total Production						
Cereals	9,588	188,099	9,601	196,512	9,848	215,835	10,144	236,077
(Annual % Change)	-1.1	5.9	0.1	4.5	2.6	9.8	3.0	9.4
Pulses	1,616.0	23,162	1,863	27,510	1,743	28,589	1,558	26,718
(Annual % Change)	19.1	18.6	15.3	18.8	-6.5	3.9	-10.6	-6.5
Oilseeds	880.0	7,308.0	818.4	7,266.6	816.0	7,112.6	856	7,601
(Annual % Change)	13.7	15.3	-7.0	-0.6	-0.3	-2.1	4.9	6.9
Total	12,084.0	218,569.0	12,282.9	231,288.5	12,406.6	251,536.4	12,558	270,396
(Annual % Change)	2.2	7.4	1.6	5.8	1.0	8.8	1.2	7.5

Source: Central Statistical Agency (CSA)

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

Sub-sectors/Year	2012/13	2013/14	2014/15
<b>Percentage Contribution of Major Agricultural Sub-Sectors</b>			
Crop	69.8	70.6	71.1
Animal Farming and Hunting	21.3	20.6	20.3
Forestry	8.8	8.7	8.5
Fishing	0.1	0.2	0.2
<b>Growth of Major Agricultural Sub-Sectors (in %)</b>			
Crop	8.2	6.6	7.2
Animal Farming and Hunting	5.2	2.1	4.7
Forestry	3.3	4.2	3.7
Fishing	19.4	32.5	30.6
<b>Percentage Contribution of Major Industrial Sub-Sectors</b>			
Mining and Quarrying	11.0	9.1	5.6
Manufacturing	33.6	33.4	31.8
Large and Medium Scale Manufacturing	24.0	24.9	24.6
Small Scale and Cottage Industries	9.5	8.5	7.2
Electricity and Water	8.3	7.6	6.5
Construction	47.1	49.9	56.1
<b>Growth of Major Industrial Sub-sectors (in %)</b>			
Mining and Quarrying	6.3	-3.2	-25.7
Manufacturing	16.9	16.6	15.8
Large and Medium Scale Manufacturing	24.2	21.6	20.3
Small Scale and Cottage Industries	1.9	4.3	2.9
Electricity and Water	10	6.8	4.5
Construction	38.7	23.9	36.8
<b>Percentage Contribution of Major Service Sub-Sectors</b>			
Whole Sale and Retail Trade	33.9	35.3	35.2
Hotels and Restaurants	8.6	9.7	11.3
Transport and Communications	10.1	10.1	10.3
Real Estate, Renting and Business Activities	18.4	17.0	16.0
Public Administration and Defense	11.0	10.9	10.7
Others*	18.0	17.2	16.4
<b>Growth of Major Service Sub-sectors (in %)</b>			
Whole Sale and Retail Trade	10.1	17.7	9.9
Hotels and Restaurants	19.1	26.6	29.2
Transport and Communications	16.5	12.7	13.3
Real Estate, Renting and Business Activities	3.9	3.9	4.1
Public Administration and Defense	7.6	11.5	8.8
Others*	5.2	8.0	5.1

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

Total consumption expenditure (public and private) in percent of GDP went down slightly to 78.2 percent in 2014/15 from 79.5 percent last year and 85 percent GTP target set for the year. The performance in total consumption expenditure was mainly attributed to a 1 percentage point decline in private consumption expenditure to GDP ratio and 1.3 percentage point rise in capital formation.

Consequently, gross domestic saving to GDP ratio rose to 21.8 percent from 20.5 percent in the previous year, and 15 percent GTP target for the year. The slowdown of total consumption expenditure to GDP ratio contributed 1.3 percentage points improvement in domestic savings (Table 1.4). While the level of domestic saving increased by 23.6 percent, total consumption expenditure rose by 14.8 percent during FY 2014/15.

The trade deficit to GDP ratio remained stable at 17.5 percent against the preceding year and 13.1 percent GTP I target owing to the decline in the value of import and export to GDP ratio, by 1.8 percentage points each.

During 2014/15, the level of gross capital formation to GDP ratio reached 39.3 percent; showing 1.3 percentage point improvement over last year and compared to the GTP target of 28.2 percent for the same year. Gross capital formation and private consumption expenditures were the main sources of aggregate demand. Public consumption merely constituted 9 percent of GDP while that of private consumption expenditure was 69.2 percent.

**Table: 1.4: Expenditure on GDP and Gross Domestic Savings (As Percentage of GDP)**

Year	Domestic Absorption	Consumption Expenditure			Gross Capital Formation	Resource Balance	Exports of Goods & Services	Imports of Goods & Services	Gross Domestic Savings
		Total	Govt.	Pvt.					
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	116.5	82.4	9.0	73.5	34.1	(16.5)	12.5	29.0	17.6
2013/14	117.5	79.5	9.2	70.2	38.0	(17.5)	11.6	29.1	20.5
2014/15	117.5	78.2	9.0	69.2	39.3	(17.5)	9.8	27.3	21.8
<b>Average 2010/11-2014/15</b>	<b>116.8</b>	<b>80.7</b>	<b>9.2</b>	<b>71.6</b>	<b>36.1</b>	<b>-16.8</b>	<b>12.9</b>	<b>29.7</b>	<b>19.3</b>
<b>Average 1999/00-2014/15</b>	<b>115.5</b>	<b>86.8</b>	<b>12.0</b>	<b>74.8</b>	<b>28.8</b>	<b>-17.1</b>	<b>13.0</b>	<b>30.1</b>	<b>13.2</b>

Source: MoFED

### 1.3: Micro and Small-Scale Enterprises

The first five-year Growth and Transformation Plan (GTP I) envisaged to create 3 million employment opportunities through micro and small scale enterprises (MSEs) at the end of the plan period given the perceived role of these enterprises as the major sources 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 271,519 new MSEs were established in 2014/15 which employed about 2.8 million people.

The number of establishments and the employment created during the review period increased by 35.6 and 11.7 percent, respectively. At the same time, MSEs received more than Birr 6.5 billion in loans which was 29.2 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 was attributed to the commitment of all regions to meet the GTP plan and the commencement of many government projects that began operation during the fiscal year.

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

Particulars	2013/14	2014/15	Percentage Change
	A	B	B/A
No. of MSE's	200,319	271,579	<b>35.6</b>
Amount of credit	5,063.90	6,541.88	<b>29.2</b>
No of Total employment	2,497,181	2,788,667	<b>11.7</b>

**Source:** FeMESDA

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

(Credit in Millions of Birr)

	Addis Ababa	Oromia	SNNPR	Amhara	Tigray	Dire Dawa	Harari	Benishan gul	Somali	Gambela	Afar	Total
No. of MSEs	7,291	140,858	19,521	65,480	33,570	2,725	414	481	471	369	399	<b>271,579</b>
Amount of credit	2,105.27	584.08	436.59	2,071.07	1,118.62	68.66	9.55	0.40	143.60	3.54	0.499	<b>6,541.88</b>
No. of total Employment created by MSEs	277,587	1,531,028	190,945	525,391	178,886	26,073	6,505	11,457	18,290	4,185	18,320	<b>2,788,667</b>

**Regional Percentage Share**

No. of MSEs	2.7	51.9	7.2	24.1	12.4	1.0	0.2	0.2	0.2	0.1	0.1	<b>100.0</b>
Amount of credit	32.2	8.9	6.7	31.7	17.1	1.0	0.1	0.01	2.2	0.1	0.0	<b>100.0</b>
No. of total Employment created by MSEs	10.0	54.9	6.8	18.8	6.4	0.9	0.2	0.4	0.7	0.2	0.7	<b>100.0</b>

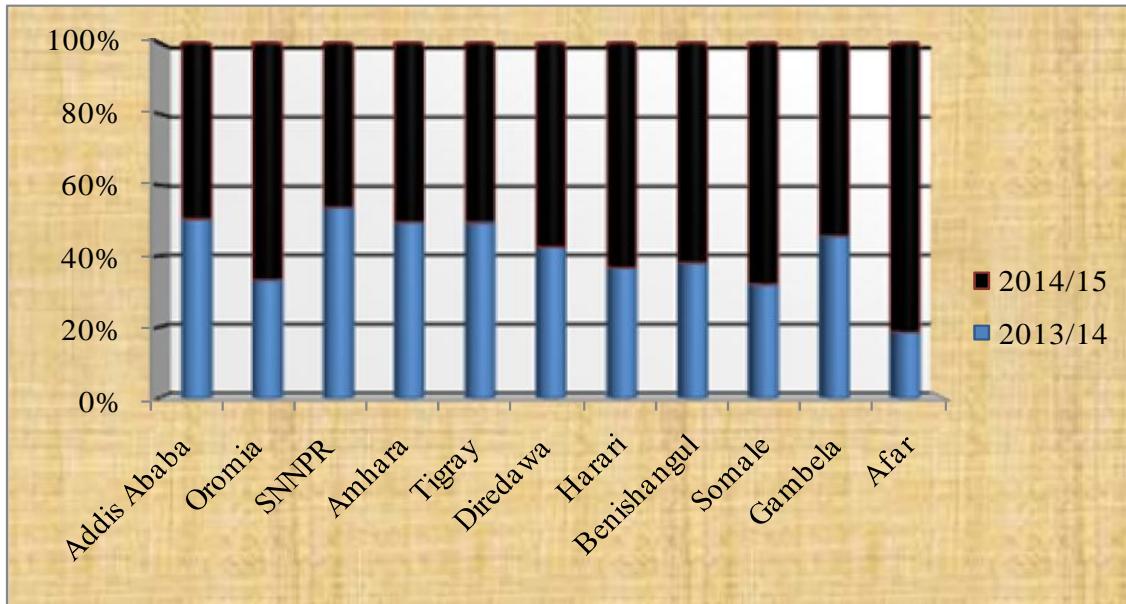
**Source:** FeMSEDA

In terms of regional distribution of newly established MSE's, 51.9 percent was in Oromia followed by Amhara (24.1 percent), Tigray (12.4 percent), SNNPR (7.2 percent) and Addis Ababa (2.7 percent). In terms of loans, SME's in Addis Ababa received 32.2 percent of the credit disbursed followed by Amahara

(31.7 percent), Tigray (17.1 percent), Oromia (8.9 percent), and SNNPR (6.7 percent).

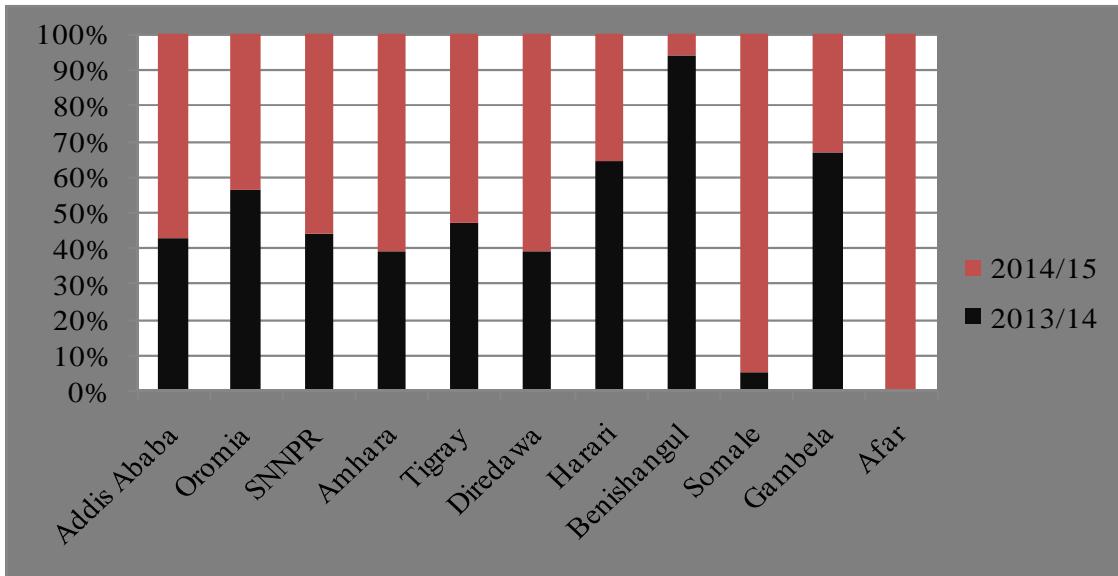
With regard to employment, Oromia had the highest share (54.9 percent) followed by Amhara (18.8 percent), Addis Ababa (10 percent), SNNPR (6.8 percent) and Tigray (6.4 percent).

**Fig.I.2: Yearly Distribution of Numbers of MSEs during 2013/14 and 2014/15**

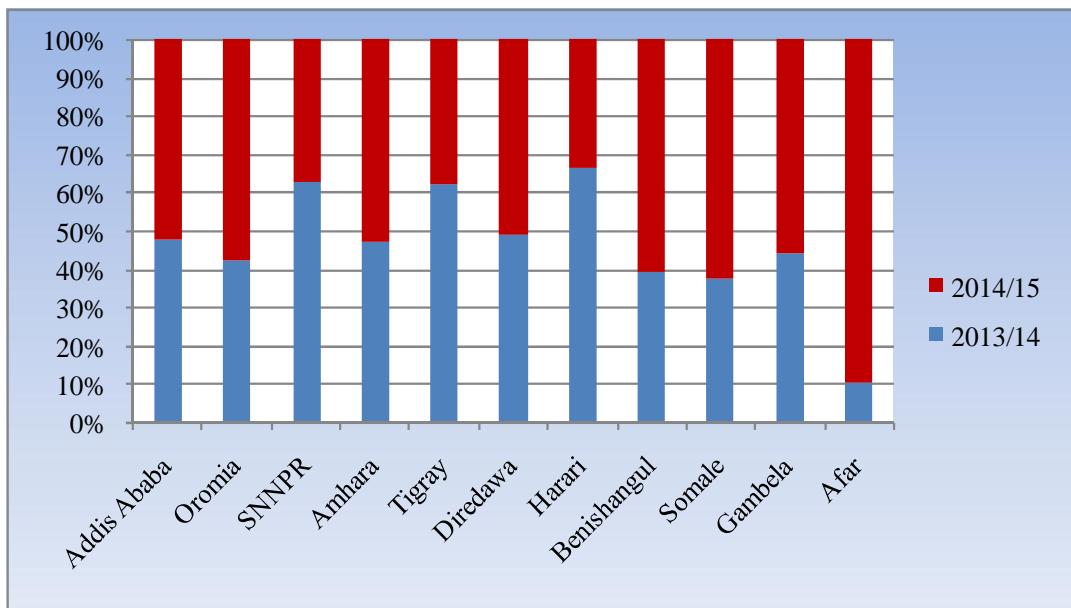


**Source:** FeMSEDA

**Fig.I.3: Yearly Distribution of Amount of Credit during 2013/14 and 2014/15**



**Source:** FeMSEDA

**Fig.I.4: Yearly Distribution of Employment Created during 2013/14 and 2014/15**

**Source:** FeMSEA

## 1.4 Access to Water Supply

During 2014/15, the proportion of people having access to potable water supply improved by 7.3 percentage point to 84 percent (91 percent urban and 82 percent rural population); relative to 76.7 percent (84.2 percent urban and 75.5 percent rural people) coverage last year. By the end of GTP I period, it was targeted to reach 98.5 percent.

Urban population with access to potable water within a radius of 0.5 km increased to 91 percent in 2014/15 from 84.2 percent in 2013/14, depicting a 6.8 percentage point improvement. Similarly, rural population with access to

potable water within 1.5 km radius reached 82 percent by the end of 2014/15, compared with 75.5 percent coverage a year earlier.

During the fiscal year, access to potable water was the lowest in Afar region (63 percent) and the highest in Tigray (93 percent) and Dire Dawa (90.6 percent).

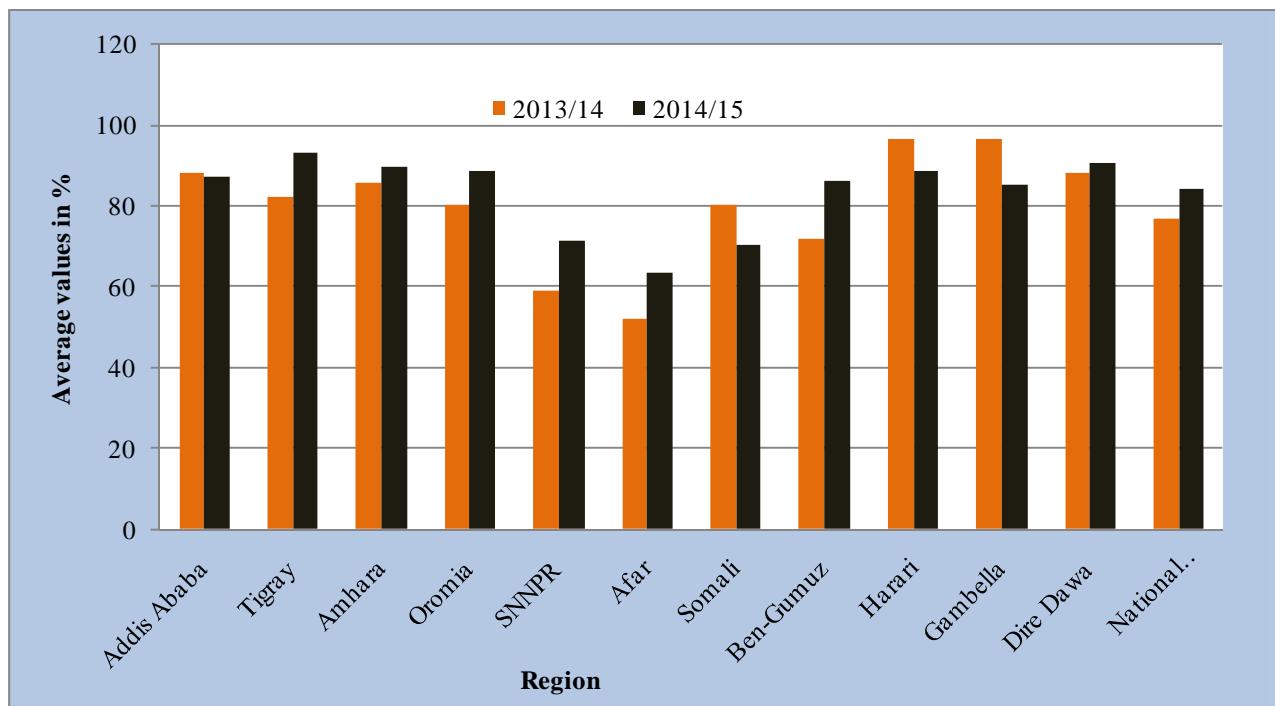
In terms of urban population, Tigray and Oromia topped at 95 and 93.3 percent, respectively. The lowest being Somali (76 percent). Addis Ababa's access to potable water was 87 percent (Table 1.5).

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

Regions	2013-14			2014/15			Change in Percentage Point		
	A	B	C	D	E	F	D-A	E-B	F-C
	Rural	Urban	Average	Rural	Urban	Average			
Addis Ababa		87.7	87.7		87.0	87.0	0.0	-0.7	-0.7
Tigray	83.8	75.4	82.2	90.0	95.0	93.0	6.2	19.6	10.8
Amhara	85.5	83.3	85.3	89.1	91.7	89.5	3.6	8.5	4.2
Oromia	79.5	86.1	80.1	87.6	93.3	88.4	8.1	7.3	8.3
SNNPR	56.1	97.0	59.0	68.7	92.9	71.1	12.6	-4.1	12.1
Afar	48.6	82.0	51.7	60.0	83.0	63.0	11.4	1.0	11.3
Somali	78.0	91.4	79.9	69.0	76.0	70.0	-9.0	-15.4	-9.9
Ben-Gumuz	72.2	65.3	71.7	87.5	77.2	85.7	15.3	11.9	14.0
Harari	97.0	96.0	96.5	88.0	89.0	88.5	-9.0	-7.0	-8.0
Gambella	95.7	97.6	96.1	84.0	86.0	85.0	-11.7	-11.6	-11.1
Dire Dawa	88.6	87.5	87.8	95.0	88.0	90.6	6.4	0.5	2.8
<b>National</b>	<b>75.5</b>	<b>84.2</b>	<b>76.7</b>	<b>82.0</b>	<b>91.0</b>	<b>84.0</b>	<b>6.5</b>	<b>6.8</b>	<b>7.3</b>

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.*

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

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

## 1.5 Road Sector Development

### 1.5.1 Road Network

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, sustain economic growth, improve product competitiveness and encourage investment.

Accordingly, in 2014/15, the total stock of road network reached 110,414 Km, which showed a 10.9 percent annual

expansion of the total roads, 27,606 Km was Federal<sup>1</sup>, 30,641 Km rural, 5,357 Km Urban and 46,810 Km Woreda roads. The Federal road includes 13,551 Km (49.1 percent) asphalt and 14,055 Km (50.9 percent) gravel road depicting a 7.2 percent annual expansion and 1.1 percent reduction, respectively.

The asphalt road network in 2014/15 constituted about 12.3 percent of the total stock of road network in the

<sup>1</sup>Federal roads are roads administered by federal government

country. It includes 85 Km Addis-Adama Express Way, the first of its kind

in the country, which was completed in 2013/14.

**Table 1.8: Classification of Road Network**

(Length in km)

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

**Source:** Ethiopian Roads Authority

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

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

### 1.5.2 Road Density

The proper level of road network is assessed by road density as measured by road length per 1,000 persons or by road length per 1,000 km<sup>2</sup>.

In the five year GTP period, the plan was to increase road density from 44.5 Km to 123.7 km per 1,000 km<sup>2</sup> and from 0.64 Km to 1.54 km per 1000 population.

At the end of 2014/15, the road density per 1,000 square Km showed improvement to 100.4 km from 90.5 km a year ago, though lower than GTP target of 123.7 km for the year 2014/15.

The road density per 1,000 population in 2014/15 was 1.2 km and up by 9 percent over preceding fiscal year. GTP target was 1.54 km per 1,000 population (Table 1.8).

**Table 1.9: Road Densities**

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

**Source:** Ethiopian Roads Authority

### 1.5.3 Road Accessibility

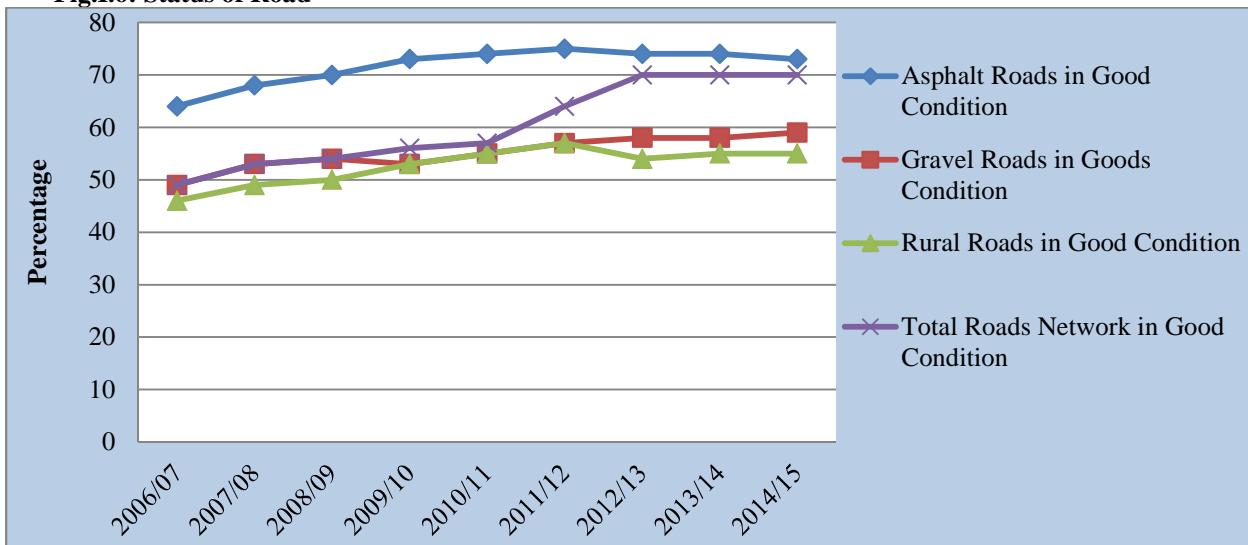
During 2014/15, the annual average distance from all-weather roads declined by 9.1 percent from 5.5 kilometers in 2013/14 to 5 kilometers. Similarly, the proportion of area more than 5 km from all-weather roads went down to 36.6 percent from 40.5 percent during the same period. GTP I target was 29 percent, (Table 1.9).

About 70 percent of the total road network was in good condition specifically 73 percent of the asphalt road, 59 percent of the gravel road and 55 percent of the rural road were in good condition in 2014/15 (Figure I.4).

**Table 1.10: Road Accessibility**

Indicators	2013/14	2014/15	Percentage change
Proportion of area more than 5Km from all-weather road	40.5	36.6	<b>-9.6</b>
Average distance from all-weather roads	5.5	5	<b>-9.1</b>

**Source:** Ethiopian Roads Authority

**Fig.I.6: Status of Road**

**Source:** Ethiopian Roads Authority

### 1.5.4 Road Sector Financing

Construction and maintenance of roads remained one of the key investments for the government over the past few years. Hence, large sum of finance has been mobilized for road construction and maintenance both from foreign and domestic sources.

In 2014/15, total investment in road construction and expansion (except urban road) contracted by 3.7 percent to Birr 37.2 billion from Birr 38.6 billion a year earlier (Table 1.10 and fig.I.5).

Investment in the Federal road construction and expansion, accounted for 73.8 percent of the total road investment capital and stood at Birr 27.4 billion.

Regional roads constituted 9.9 percent of the sector-wide investment and registered 22.4 percent annual expansion, followed by Woreda road investment (4.5 percent growth) (Table 1.10) and (Fig.1.7).

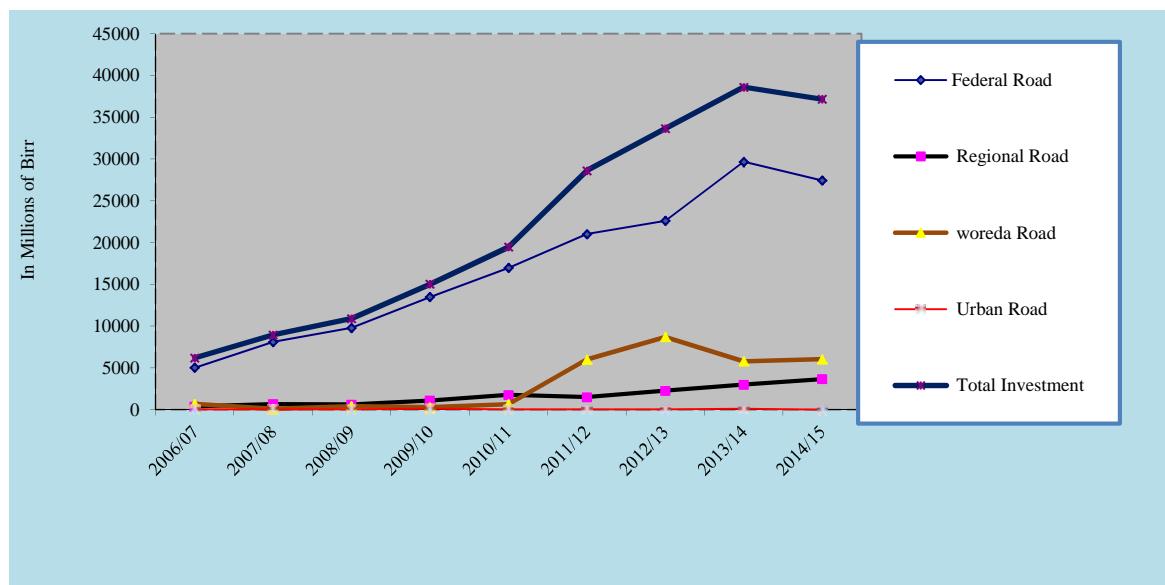
**Table 1.11: Investments in the Road Sector**

(In millions of Birr)

Road Type	2013/14		2014/15		Percentage change
	A	Share (In %)	B	Share (In %)	
Federal roads	29,697.0	76.9	27,445.5	73.8	-7.6
Regional road	2,992.7	7.7	3,663.6	9.9	22.4
Woreda road	5,809.0	15.0	6,067.6	16.3	4.5
Urban road*	118.8	0.3	NA	NA	NA
<b>Total</b>	<b>38,617.5</b>	<b>100.0</b>	<b>37,176.7</b>	<b>100.0</b>	<b>-3.7</b>

**Source:** Ethiopian Roads Authority

\* All municipalities' maintenance.

**Fig.I.7: Investment in Road Construction and Expansion****Source:** Ethiopian Roads Authority

## 1.6. Telecommunication

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

Cognizant of this fact, 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 I) envisaged

increasing the number of fixed line subscribers from 1 million in 2009/10 to 3.1 million, the number of mobile-telephone subscribers from 6.5 million to 40 million and the number of internet users to 3.7 million from 187,000 by the end of the plan period, (2014/15).

In 2014/15, the number of mobile subscribers surged by 37.1 percent to 38.8 million from 28.3 million a year ago. Similarly, the number of fixed line subscribers slightly increased by 3 percent to 837,766 from 813,410.

Meanwhile the number of internet subscribers surged by 53.1 percent and reached 9.4 million from 6.2 million recorded in 2013/14 (Table 1.11).

**Table 1.12: Number of Subscribers**

Service Type	2013/14	2014/15	Percentage Change
<b>I. Fixed line</b>	813,410	837,766	3.0
<b>II. ALL MOBIL</b>	28,307,662	38,803,786	37.1
<b>Total mobile pre-paid</b>	28,050,182	38,629,151	37.7
<b>Total Mobile post-paid</b>	257,480	174,635	(32.2)
<b>III. Total data and Internet</b>	6,168,046	9,440,289	53.1
Broadband (EVDO, WCDMA, ADSL)	61,913	64,794	4.7
Narrowband (1X, dialup, ADSL*< 256K)	186,038	142,757	(23.3)
GPRS	5,920,095	7,398,234	25.0
WCDMA		1,834,504	
<b>Grand Total</b>	<b>29,369,023</b>	<b>39,849,103</b>	<b>35.7</b>

**Source:** Ethio-Telecom

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

At the same time, the country's telecommunication penetration rate (telecom density) increased from 34.35 in 2013/14 to 44; mobile density rose to 43; and internet and data density

improved to 10 from 7.3 a year ago. While fixed line density remained at 1.0 during 2014/15. (Table 1.12)

**Table 1.13: Telecom Density**

Tele density/100 Subscribers*	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Fixed line	1.4	1	1	0.9	1	1
Mobile	8.7	12.9	20.4	27.6	33.3	43
<b>Total</b>	<b>10.1</b>	<b>13.9</b>	<b>21.4</b>	<b>28.5</b>	<b>34.3</b>	<b>44</b>
Internet and data	0.3	0.2	0.3	5.2	7.3	10

**Source:** Ethio-Telecom

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

International outgoing minutes in mobile telephone and internet traffic has increased by 2.4 percent from 69.4 million in 2013/14 to 71 million in 2014/15.

International incoming minutes, however, dropped by 13.2 percent to 582.2 million compared to 670.9 million a year ago (Table 1.13).

**Table 1.14: Annual Traffic for Local and International Calls**

Annual Traffic	2012/13	2013/14	Percentage Change
Mobile local traffic (In millions)	17,379.8	21,132.2	21.6
<b>International Traffic</b>			
International outgoing calls (In number)	44,570,184	24,453,237*	-45.1
International outgoing minutes	69,366,192	71,046,274	2.4
International incoming calls (In number)	176,849,300	92213852*	-47.9
International incoming minutes	670,853,817	582,249,947	-13.2

**Source:** Ethio-Telecom

Income of Ethio-telecom rose by 23.9 percent to Birr 21.5 billion in 2014/15 vis-à-vis Birr 17.4 billion in 2013/14. Similarly, its total expenses reached Birr 6.9 billion showing a 25 percent annual increase.

Hence, Ethio – telecom earned a gross profit of Birr 14.6 billion in 2014/15 which was 23.3 percent higher than the previous year (Table 1.14).

**Table 1.15: Financial Performance and Asset of Ethio -Telecom**

(In Millions of Birr)

Finance and Asset	2012/13	2013/14	2014/15	Percentage Change	
	A	B	C	C/B	C/A
Income	16,644	17,358	21,500	23.9	29.2
Expense	4,270	5,554	6,945	25.0	62.6
Gross Profit	12,227	11,804	14,555	23.3	19.0
Assets	37,244	34,323	52,750	53.7	41.6
Fixed Gross	15,834	24,209	24,129	-0.3	52.4
Depreciation	4,622	1,673	2,118	26.6	-54.2

**Source:**Ethio – Telecom**Note:** The financial figures in the above table are not audited

## II. Energy Production

### 2.1. Electric Power Generation

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

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

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

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

During 2014/15, Adama II wind farm became the third project completed and started operation with a generating capacity of 153 MW; raising country's wind power to 324 MW (combined with Adama I (51MW) and Ashegoda (120 MW)). In addition, a process is underway to undertake the construction of Aysha 300 MW wind power project.

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

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

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

Electric Utility. The former is mandated with the task of network construction and generating energy while the latter is responsible for distributing generated power and selling electricity to users. The EEP generates electricity through two different power supply systems, namely, the Inter Connected System (ICS)<sup>2</sup> and Self Contained System (SCS)<sup>3</sup>. ICS, constituted almost 100 percent of electric power generating system for the year 2014/15 (Table 2.1).

The total amount of electric power generated in 2014/15 was about 9.5 billion KWH, showing a 9.4 percent annual growth. During the review period, 94.7 percent of the electric power was generated through hydropower while the remaining 5.2 and 0.1 percent came from wind and thermal sources, respectively (Table 2.1).

In 2014/15, the production of wind energy got momentum as the total electric energy generated from wind sources increased to 497.7 million KWH from 355.8 million KWH last year (Table 2.1).

It is worth mentioning that as per the government's five-year Growth and Transformation Plan, the electricity coverage was planned to scale up to 75 percent in 2014/15 from 41 percent in 2009/10. Similarly, energy production capacity was projected to grow to 32,656 GWH from 7,653 GWH in the base year. At the end of GTP I (2014/15), the actual performance was 9,519 GWH was below GTP plan.

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<sup>2</sup> Generates power by connecting to other systems

<sup>3</sup> Generates power independently

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

(In '000 KWH)

Source	2012/13		2013/14		2014/15		Percentage Change	
	[A]	Share (In %)	[B]	Share (In %)	[C]	Share (In %)	[C/A]	[C/B]
ICS	<b>Hydro Power</b>	7,384,011.4	97.3	8,335,745.7	95.8	9,014,010.6	94.7	22.1
	<b>Thermal Power</b>	37.8	0.0	-	-	3,360.3	0.0	
	<b>Geothermal</b>	-	-	-	-	-	-	
	<b>Wind</b>	191,784.7	2.5	355,757.9	4.1	497,690.8	5.2	159.5
<b>Sub Total</b>		7,575,833.9	99.8	8,691,503.5	99.9	9,515,061.7	100.0	25.6
SCS	<b>Hydro Power</b>	1,648.2	0.0	676.9	0.0	-	-	-100.0
	<b>Thermal Power</b>	10,865.8	0.1	8,837.0	0.1	4,285.5	0.0	-60.6
<b>Sub Total</b>		12,514.0	0.2	9,513.9	0.1	4,285.5	0.0	-65.8
Total	<b>Hydro Power</b>	7,385,659.6	97.3	8,336,422.6	95.8	9,014,010.6	94.7	22.0
	<b>Thermal Power</b>	10,903.6	0.1	8,837.0	0.1	7,645.8	0.1	-29.9
	<b>Geothermal</b>	-	-	-	-	-	-	-13.5
	<b>Wind</b>	191,784.7	2.5	355,757.9	4.1	497,690.8	5.2	159.5
<b>Grand Total</b>		<b>7,588,347.9</b>	<b>100.0</b>	<b>8,701,017.5</b>	<b>100.0</b>	<b>9,519,347.1</b>	<b>100.0</b>	<b>25.4</b>
<b>Source:</b> Ethiopian Electric Power								

## 2.2. Volume and Value of Petroleum Imports

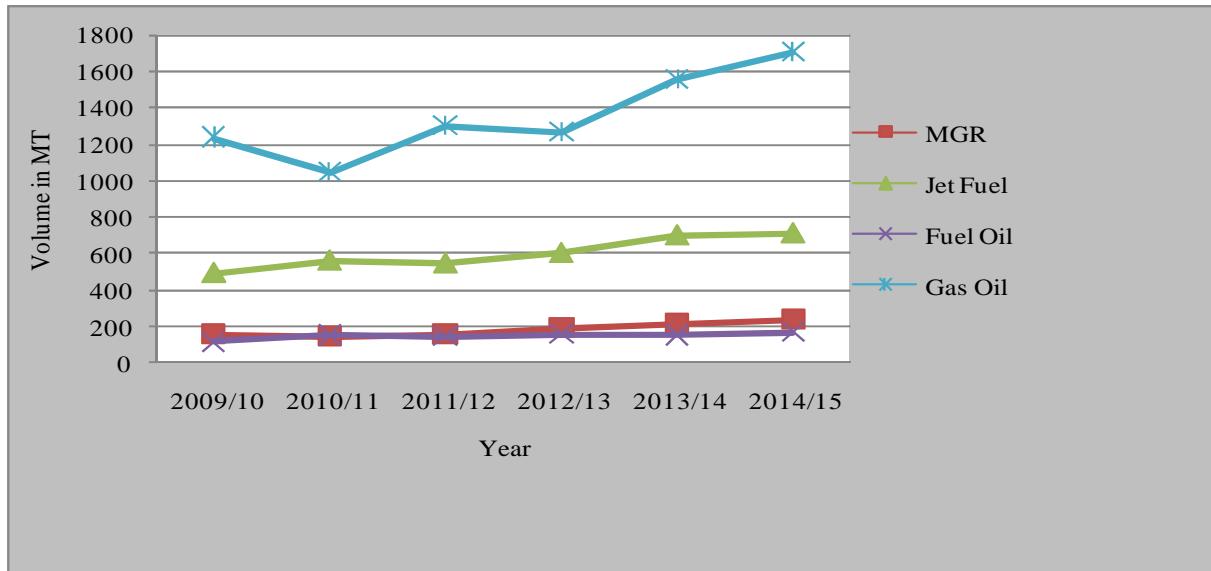
In 2014/15, about 2.8 million metric tons of petroleum products worth Birr 38 billion were imported by the Ethiopian Petroleum Enterprise. As compared to previous year, total value of petroleum imports decreased by 20.2 percent mainly due to a significant drop in international oil price despite a 7.6

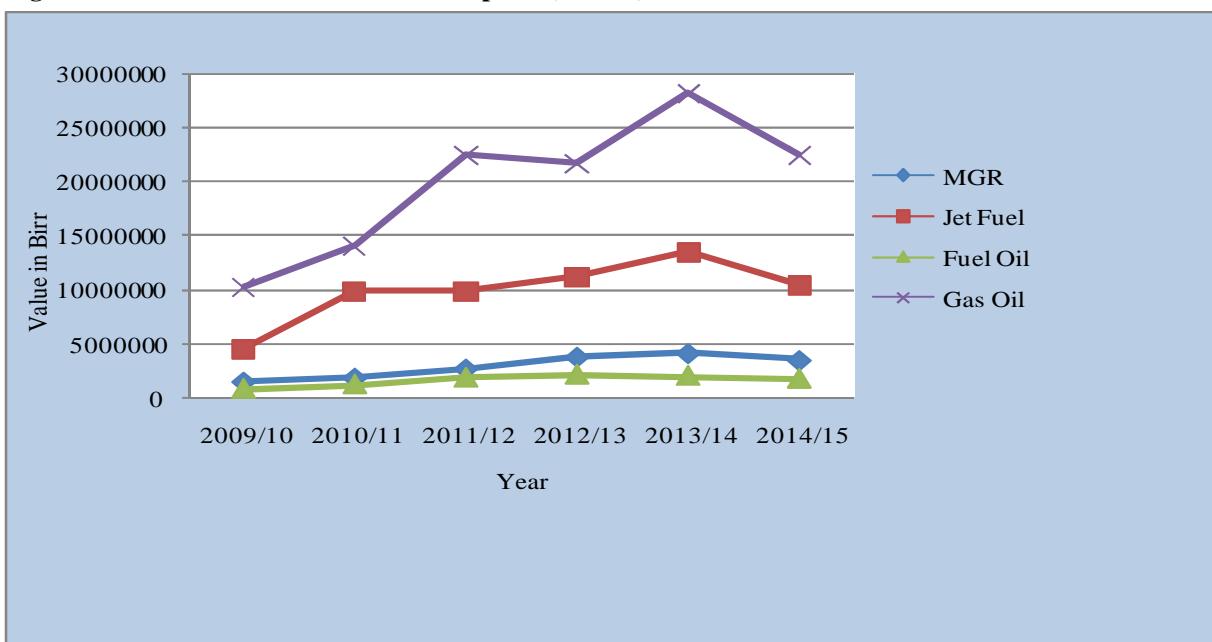
percent increase in volume of petroleum imports associated with higher imports of gasoline (12.4 percent), fuel oil (10.7 percent), gas oil (9.3 percent) and jet fuel (1.6 percent) (Table 2.2), (Fig.II.1 & Fig.II.2).

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

(Volume in MT and Value in '000 Birr)

Petroleum Products	2013/14		2014/15			
	Volume	Value	Volume	Value	Percentage Change	
	A	B	C	D	C/A	D/B
Regular Gasoline (MGR)	211,597.2	4,042,535.8	237,744.0	3,393,238.3	<b>12.4</b>	<b>-16.1</b>
Jet Fuel	701,418.9	13,416,935.9	712,748.0	10,381,064.6	<b>1.6</b>	<b>-22.6</b>
Fuel Oil	152,093.7	1,979,727.1	168,305.6	1,702,150.3	<b>10.7</b>	<b>-14.0</b>
Gas Oil (ADO)	1,558,341.1	28,180,671.4	1,703,260.8	22,507,794.1	<b>9.3</b>	<b>-20.1</b>
<b>Total</b>	<b>2,623,450.8</b>	<b>47,619,870.2</b>	<b>2,822,058.4</b>	<b>37,984,247.3</b>	<b>7.6</b>	<b>-20.2</b>

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 declined domestic retail prices were also adjusted down wards. Thus, retail prices of Jet fuel declined by 13.2 percent, Regular Gasoline (4.4

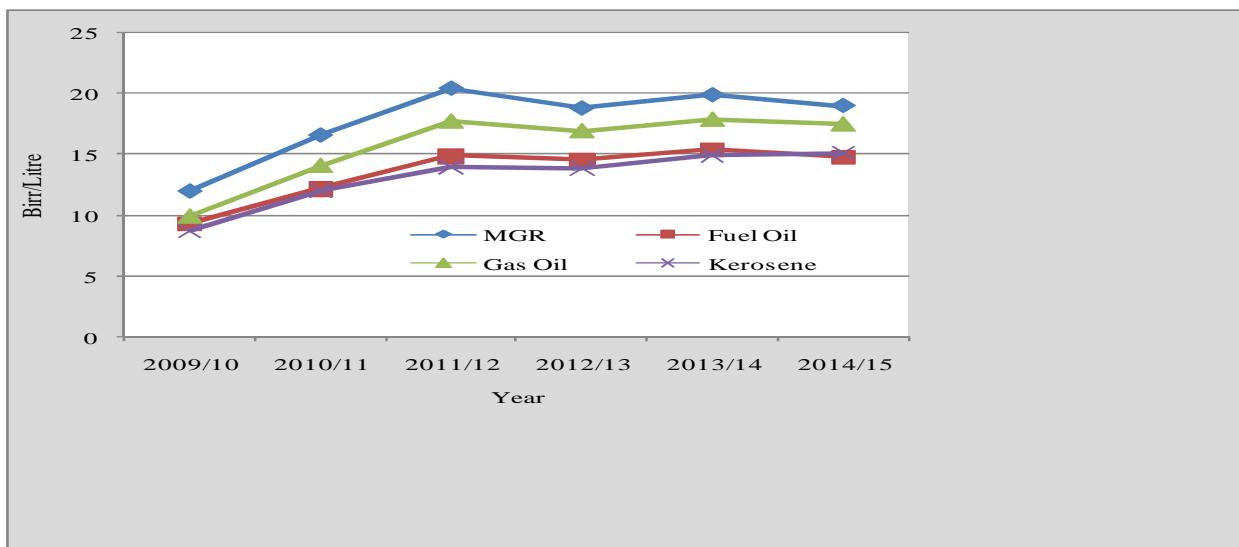
percent), Fuel Oil (4 percent) and Gas Oil (2.1 percent), while that of Kerosene showed a 1.1 percent marginal increment (Table 2.3).

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

Year	Quarter	Regular Gasoline (MGR)	Fuel Oil	Gas Oil	Kerosene	Jet fuel
2012/13	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
	<b>Average</b>	18.78	14.59	16.91	13.85	20.01
2013/14	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
	<b>Average</b>	19.86	15.38	17.85	14.92	22.17
2014/15	Qtr.1	20.64	16.13	19.00	16.00	23.09
	Qtr.2	20.00	15.42	18.19	15.63	20.75
	Qtr.3	17.86	13.94	16.56	14.55	15.88
	Qtr.4	17.43	13.59	16.10	14.13	15.89
	<b>Average</b>	18.98	14.77	17.46	15.08	18.90
	<b>Annual percentage change</b>	-4.4	-4.0	-2.1	1.1	-13.2

**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 the fiscal year 2014/15 was 7.6 percent, 0.5 percentage points lower than the previous year level. This was due to the slowdown in non-food inflation by 2.7 percentage points which outweighed a 1.5 percentage point increase in food & non-alcoholic beverages (Table 4.1).

Annualized food & non-alcoholic beverages inflation scaled up to 7.4 percent from 5.9 percent in 2013/14 showing a 1.5 percentage points increase due to a significant growth in the prices of food products such as oils and fats.

Meanwhile, annual average non-food inflation dropped by 2.7 percentage points to 7.9 percent in 2014/15 due to lower inflation registered in all non-food items

except alcoholic beverages & tobacco and communication (Table 4.1 and Fig.IV.1).

At the same time, year-on-year headline inflation surged to 10.4 percent from 8.5 percent a year ago as food & non-alcoholic beverages inflation rose by 6.3 percentage points to 12.5 percent counterbalancing the 2.8 percent slowdown in non-food inflation to 8.2 percent (Table 4.2 and Fig.IV.2).

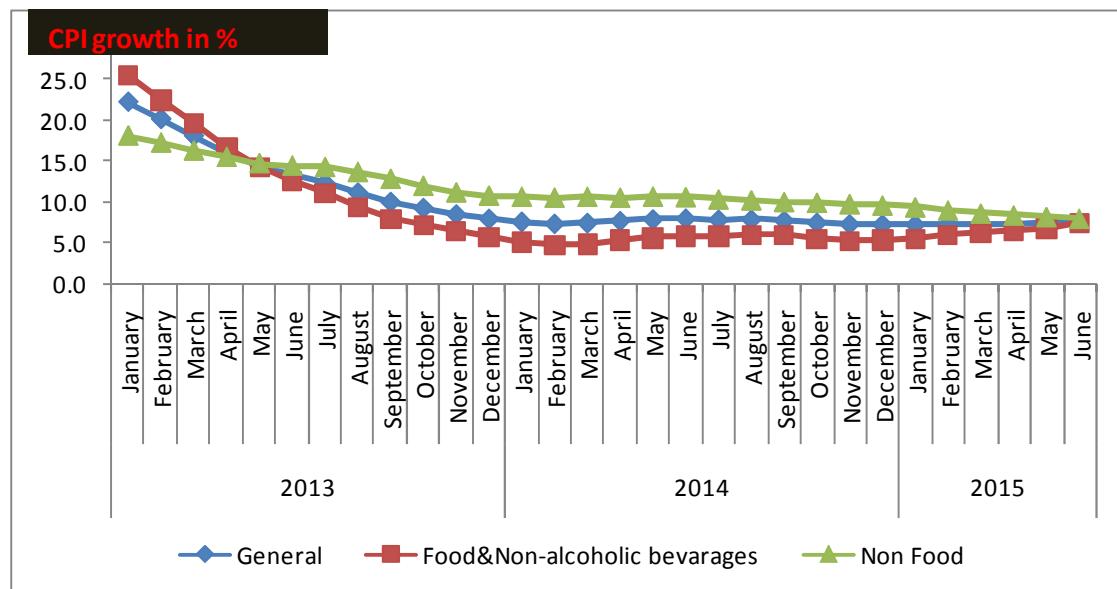
Yet, annual average headline inflation of 7.6 percent was within the single digit target set by the NBE. Tight monetary policy, prudent fiscal policy and various administrative measures taken by the government have contributed to this effect.

**Table 3.1: Annual Average Inflation Rates (in percent)**

Items	2013/14	2014/15	Change (Percentage Points)	Contribution to change in headline inflation
	A	B	B-A	C
<b>General</b>	<b>8.1</b>	<b>7.6</b>	<b>-0.5</b>	<b>-0.5</b>
Food &Non-alcoholic beverages	5.9	7.4	1.5	0.7
Non-Food	10.6	7.9	-2.7	-1.2

Source: CSA and NBE Staff Computation

**Fig.III.1: Development in Annualized National Headline, Food & non -alcoholic beverages and Non-food Inflation**



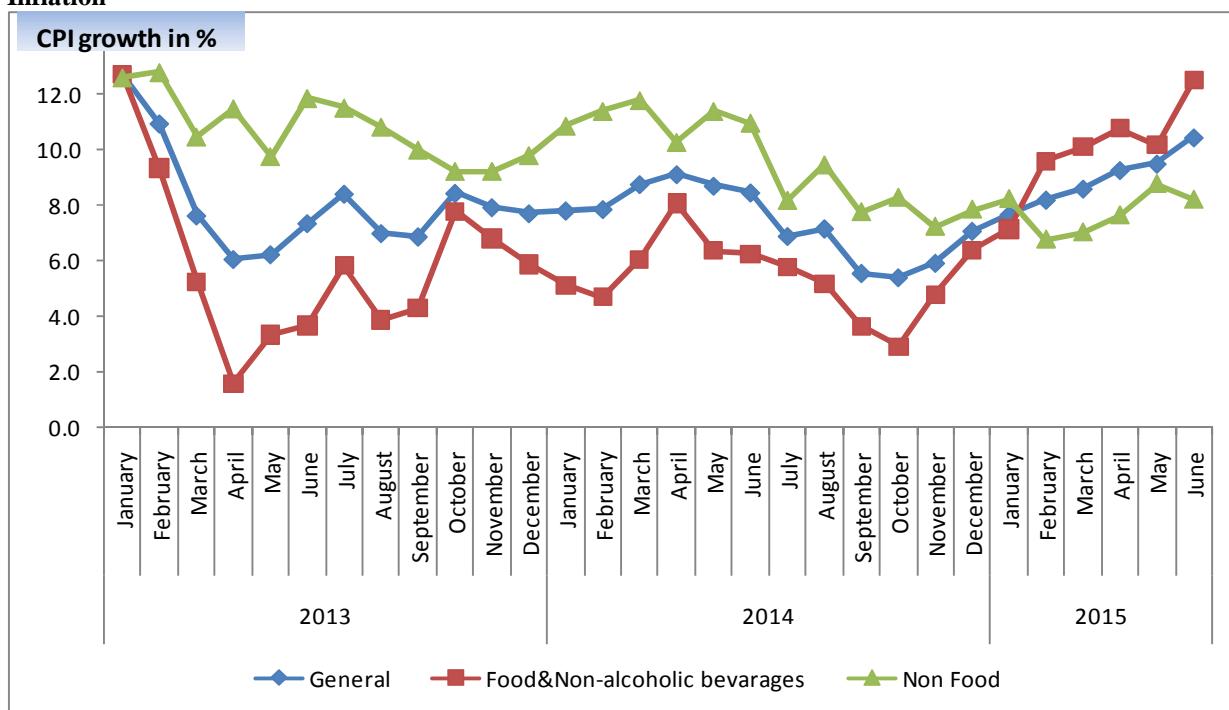
Source: CSA and NBE Staff Computation

**Table 3.2: Annual Inflation Rates (in percent)**

Items	2013/14	2014/15	Change (Percentage Points)
	A	B	B-A
<b>General</b>	<b>8.5</b>	<b>10.4</b>	<b>1.9</b>
Food & Non-alcoholic beverages	6.2	12.5	6.3
Non-Food	11.0	8.2	-2.8

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 2014/15, regional simple average general inflation declined to 6.3 percent from 9.9 percent a year earlier. Oromia, Dire Dawa, Somali, Harari and Addis Ababa regional states registered

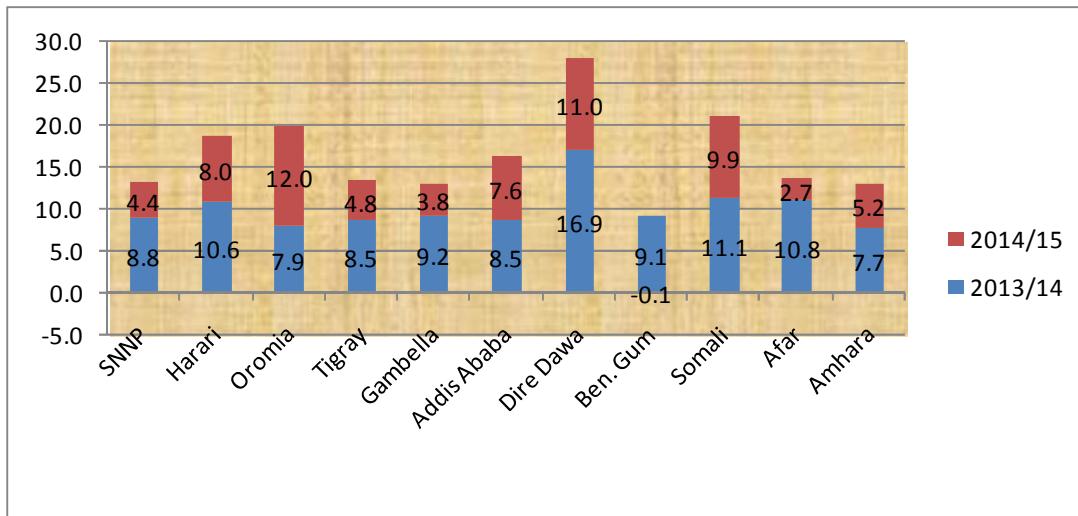
headline inflation rates greater than the regional simple average (Table 4.3). Oromia regional state experienced the highest headline inflation of 12.0 percent; while the lowest -0.1 percent was

recorded in Benishangu gumuz, revealing a 12.1 percentage point margin in the rates of inflation between the regions with the highest and lowest annual average headline inflation.

**Table 3.3: Regional Average Annual Inflation (2014/15 FY)**

Regions	2013/14			2014/15			Change		
	General	Food &Non-alcoholic beverages	Non-food	General	Food &Non-alcoholic beverages	Non-food	General	Food &Non-alcoholic beverages	Non-food
	A	B	C	D	E	F	G=D-A	H=E-B	I=F-C
SNNP	8.8	6.7	11.6	4.4	5.7	3.2	-4.4	-1.0	-8.4
Harari	10.6	10.5	10.8	8.0	10.7	5.1	-2.6	0.3	-5.7
Oromia	7.9	6.7	9.3	12.0	13.2	10.6	4.1	6.5	1.3
Tigray	8.5	7.3	9.6	4.8	-0.5	9.9	-3.7	-7.8	0.2
Gambela	9.2	8.2	10.7	3.8	4.5	2.5	-5.4	-3.7	-8.1
Addis Ababa	8.5	4.6	11.4	7.6	12.2	4.4	-1.0	7.6	-6.9
Dire Dawa	16.9	7.1	24.7	11.0	7.9	13.1	-5.9	0.7	-11.6
Ben. Gum	9.1	7.0	11.9	-0.1	-0.8	0.9	-9.1	-7.8	-11.0
Somali	11.1	6.5	16.8	9.9	6.0	14.2	-1.3	-0.5	-2.6
Afar	10.8	7.2	15.6	2.7	5.7	-1.0	-8.2	-1.5	-16.6
Amhara	7.7	4.7	11.0	5.2	2.4	8.1	-2.5	-2.3	-2.9
<b>Regions Average</b>	<b>9.9</b>	<b>7.0</b>	<b>13.0</b>	<b>6.3</b>	<b>6.1</b>	<b>6.5</b>			
<b>Standard deviation</b>	<b>2.6</b>	<b>1.6</b>	<b>4.5</b>	<b>3.7</b>	<b>4.7</b>	<b>5.0</b>			
<b>Coefficient of variation</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>	<b>0.6</b>	<b>0.8</b>	<b>0.8</b>			

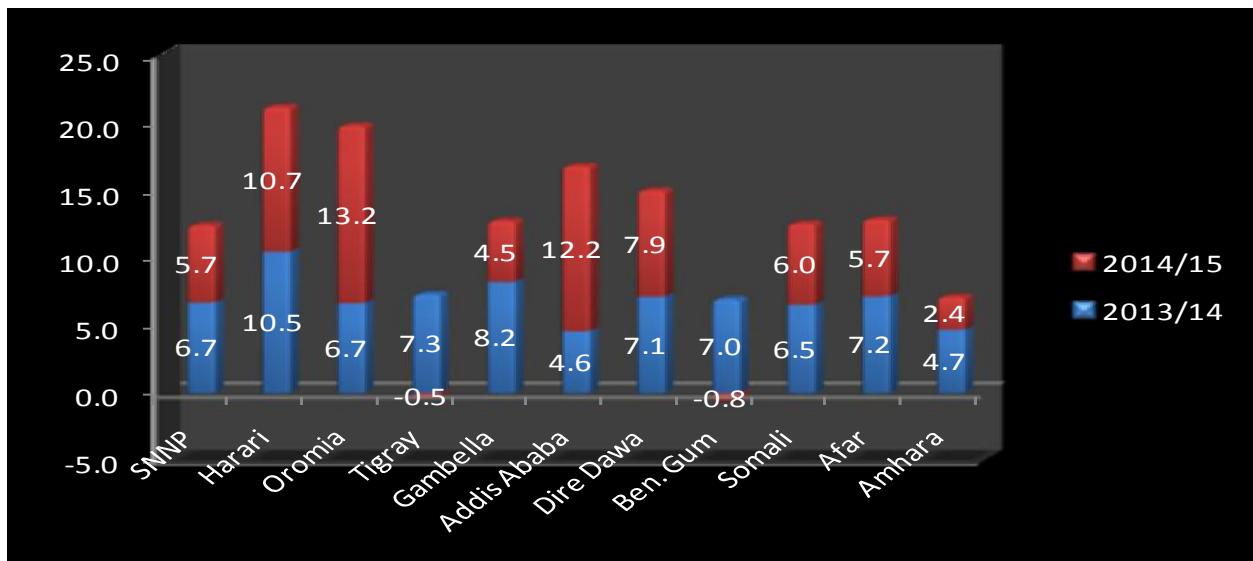
Sources: CSA and NBE's staff computation

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

**Source:** CSA and NBE Staff Computation

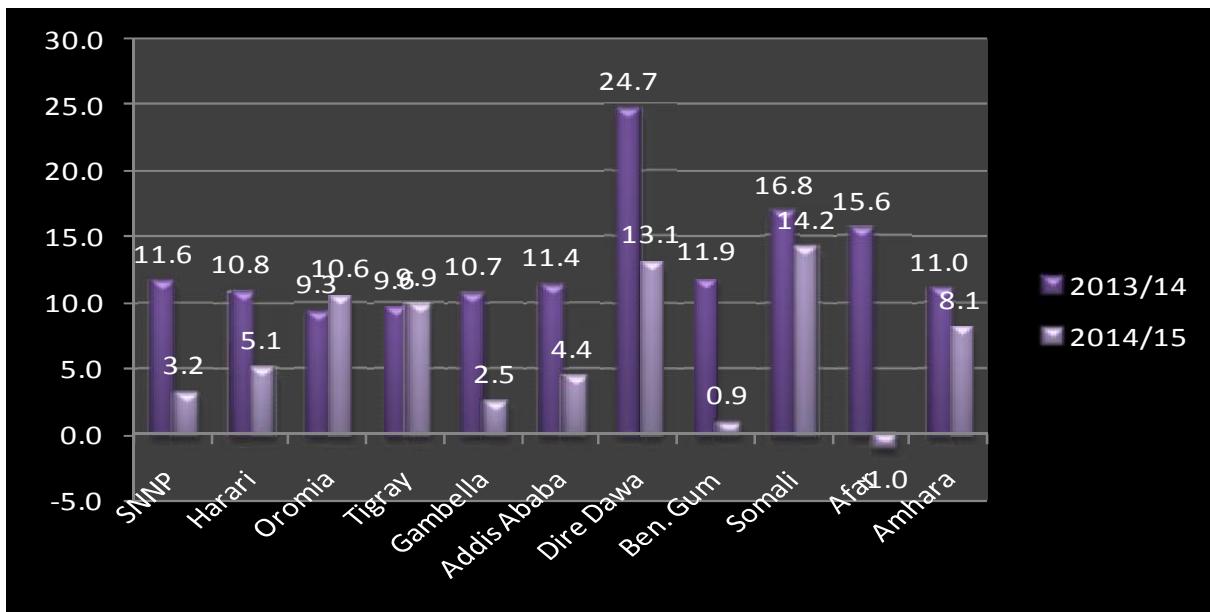
The regional simple average food & non-alcoholic beverages inflation was 6.1 percent in 2014/15. Food & non-alcoholic beverage inflation in regional states like Oromia, Addis Ababa, Harari and Dire Dawa was higher than the regional simple average.

The highest (13.2 percent) food & non-alcoholic beverages inflation was registered in Oromia; and the lowest (-0.8 percent) in Benishangu Gumuz. Hence, there was a 14 percentage point margin in the rate of food and non-alcoholic beverages inflation among the regions (Table 4.3).

**Fig.III.4: Variation in Regional Annual Average Food & non-alcoholic beverages Inflation**

Source: CSA and NBE Staff Computation

During 2014/15, simple average regional non-food inflation was 6.5 percent significantly lower than 13 percent in the previous year. Somali, Dire Dawa, Oromia, Tigray and Amhara regional states recorded non-food inflation higher than the regional simple average (Table 4.3).

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

Source: CSA and NBE Staff Computation

The highest (14.2 percentage) rise in non-food inflation was recorded in Somali, and the lowest (-1 percentage) in Afar. Yet, regarding convergence indicator, there is no

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 be geared towards keeping inflation rate at single digit. Accordingly, the National Bank of Ethiopia has been closely monitoring monetary development throughout the fiscal year so as to sustain

the single digit inflation and manage inflation expectations. By end June 2015, annual headline inflation reached 10.4 percent slightly above the single digit target.

#### 4.1.1 Developments in Monetary Aggregates

At the end of 2014/15, domestic liquidity, as measured by broad money supply (M2), reached Birr 371.2 billion reflecting a 24.7 percent annual growth mainly due to a 31.3 percent surge in domestic credit. The high growth of domestic credit was attributed to a 32.8 percent increase in credit to the non-central government and 14.1 percent growth in credit to central government. (Table 5.2)

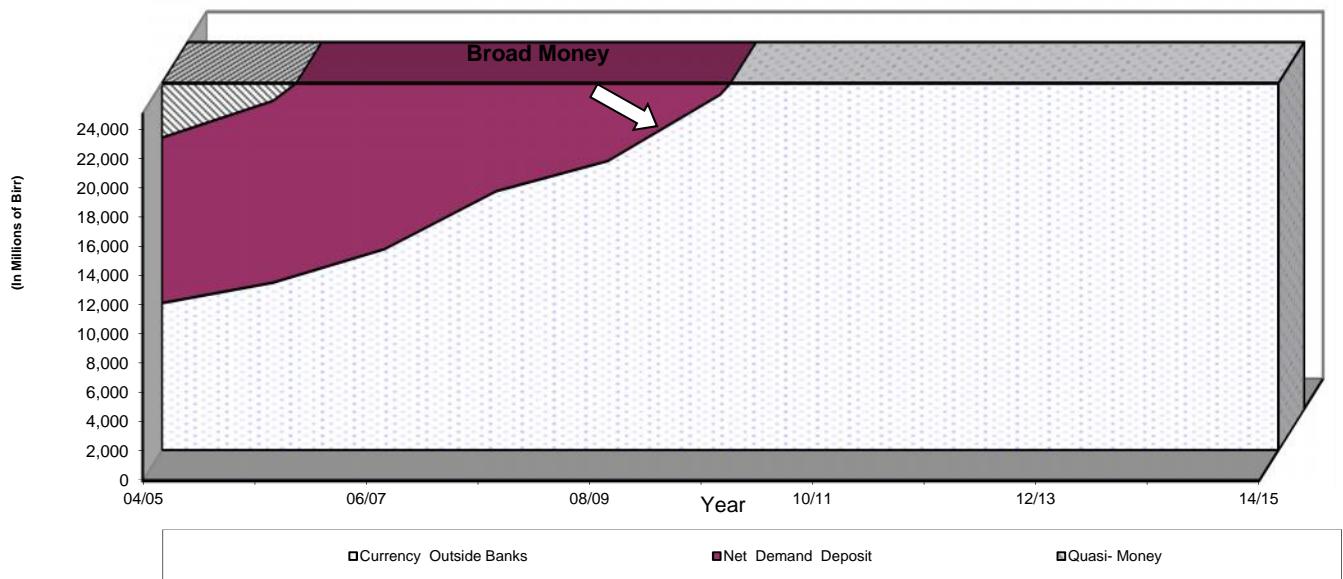
Component-wise, narrow money expanded by 15.3 percent due to the rise in demand deposits and currency outside banks reflecting the growth in economic activities and improvements in money demand for transaction purposes. Similarly, quasi-money, that comprises savings and time deposits, went up by 32.3 percent and reached Birr 216.6 billion in line with the increased capacity of banks in deposit mobilization with the opening of 485 new branches and stability of domestic prices (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	2014/15	2011/12	2012/13	2013/14	2014/15
<b>Narrow Money Supply</b>	<b>76,171.0</b>	<b>94,849.9</b>	<b>114,745.7</b>	<b>134,063.8</b>	<b>154,584.8</b>	<b>24.5</b>	<b>21.0</b>	<b>16.8</b>	<b>15.3</b>
. Currency Outside Banks	32,574.9	38,537.1	45,671.0	53,176.0	60,496.3	18.3	18.5	16.4	13.8
. Demand Deposits (net)	43,596.1	56,312.7	69,074.7	80,887.8	94,088.5	29.2	22.7	17.1	16.3
<b>Quasi-Money</b>	<b>69,206.0</b>	<b>94,548.9</b>	<b>120,567.9</b>	<b>163,682.8</b>	<b>216,567.6</b>	<b>36.6</b>	<b>27.5</b>	<b>35.8</b>	<b>32.3</b>
. Savings Deposits	64,539.6	82,487.8	106,276.2	136,334.0	174,699.1	27.8	28.8	28.3	28.1
. Time Deposits	4,666.4	12,061.1	14,291.7	27,348.8	41,868.5	158.5	18.5	91.4	53.1
<b>Broad Money Supply</b>	<b>145,377.0</b>	<b>189,398.8</b>	<b>235,313.6</b>	<b>297,746.6</b>	<b>371,152.4</b>	<b>30.3</b>	<b>24.2</b>	<b>26.5</b>	<b>24.7</b>

Source: National Bank of Ethiopia (NBE)

**Fig.V.1: Major Components of Broad Money  
(2004/05 - 2014/15)**

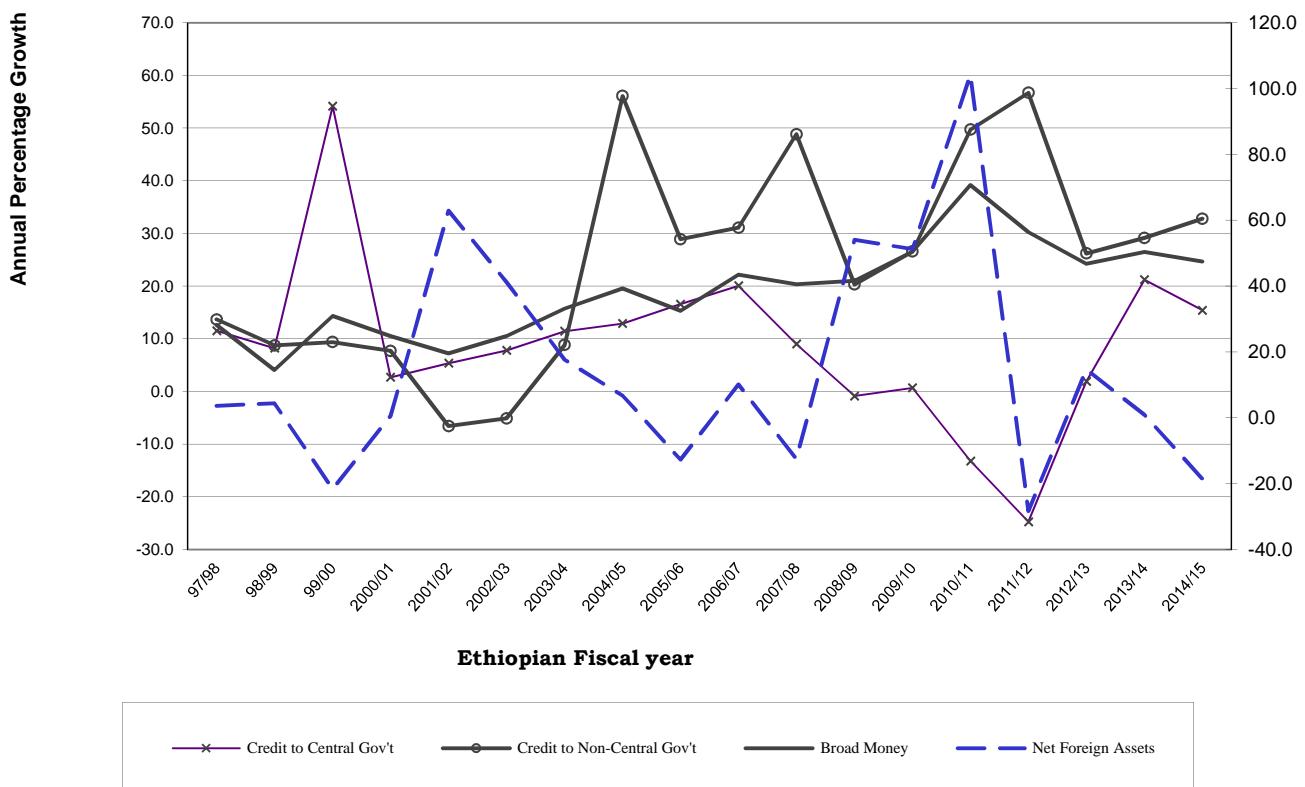
Source: NBE

**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	2014/15	2011/12	2012/13	2013/14	2014/15
External Assets (net)	55,534.7	39,787.7	45,648.5	45,972.3	37,532.4	-28.4	14.7	0.7	-18.4
Domestic Credit	135,553.9	189,080.8	233,404.3	300,026.6	393,451.9	39.5	23.4	28.5	31.1
. Claims on Central Gov't (net)	28,651.7	21,557.4	21,965.5	26,929.7	30,735.3	-24.8	1.9	22.6	14.1
. Claims on Non-Central Gov't	106,902.2	167,523.4	211,438.8	273,096.8	362,716.6	56.7	26.2	29.2	32.8
Other Items (net)	45,711.6	39,469.7	43,739.3	48,252.3	59,831.9	-13.7	10.8	10.3	24.0
Broad Money (M2)	145,377.0	189,398.8	235,313.6	297,746.6	371,152.4	30.3	24.2	26.5	24.7

Source: NBE

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

Source: NBE

#### **4.1.2. Developments in Reserve Money and Monetary Ratios**

Reserve money or base money reached Birr 102.5 billion in 2014/15 reflecting a 14.7 percent annual expansion but showing a 3.3 percentage points slowdown compared with the annual target of 18.0 percent. The growth in reserve money was attributed to 16.9 percent rise in currency in circulation and 9.1 percent in deposits of banks at NBE. Excess reserves of commercial banks reached Birr 9.3 billion at the end of June 2014/15 lower than Birr 10.0 billion a year ago.

The ratio of M2 to GDP, an indicator of financial deepening, went up to 0.29 points from 0.28 points in 2013/14 partly indicating the prudent monetary policy measures undertaken to mitigate the inflationary pressures. Compared to last year same period, the money multiplier defined as narrow money to reserve money, showed no change at 1.5 whereas the ratio of broad money to reserve money slightly increased to 3.6 from 3.3 last year the same period, reflecting improvements in deposit mobilization by commercial banks (Table 4.3).

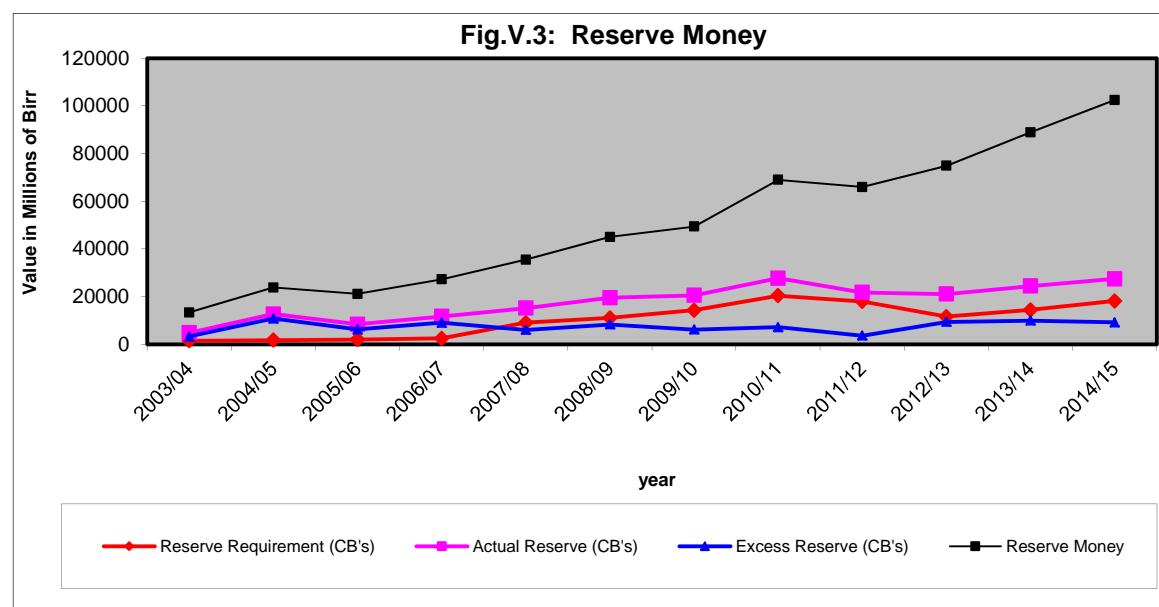
**Table 4.3: Reserve Money and Monetary Ratios**

(In Millions of Birr, where applicable)

Particulars	Year Ended June 30					Annual Percentage Change			
	2010/11	2011/12	2012/13	2013/14	2014/15	2011/12	2012/13	2013/14	2014/15
<b>Reserve Requirement (CB's)</b>	20,495.2	18,080.6	11,708.8	14,479.4	18,240.5	-11.8	-35.2	23.7	26.0
<b>Actual Reserve (CB's)</b>	27,757.3	21,791.8	21,160.9	24,493.3	27,513.5	-21.5	-2.9	15.7	12.3
<b>Excess Reserve (CB's)</b>	7,262.1	3,711.3	9,452.1	10,013.9	9,273.1	-48.9	154.7	5.9	-7.4
<b>Reserve Money</b>	69,043.1	65,972.6	74,942.3	89,322.5	102,467.8	-4.4	13.6	19.2	14.7
. Currency in Circulation	39,100.6	45,785.2	54,917.7	64,355.0	75,240.7	17.1	19.9	17.2	16.9
. Bank Deposits	29,942.5	20,187.4	20,024.6	24,967.5	27,227.1	-32.6	-0.8	24.7	9.1
<b>Money Multiplier (Ratio):</b>									
. Narrow Money to Reserve Money	1.1	1.4	1.5	1.5	1.5	30.3	6.5	-2.0	0.5
. Broad Money to Reserve Money	2.1	2.9	3.1	3.3	3.6	36.3	9.4	6.2	8.7
<b>Other Monetary Ratios (%):</b>									
. Currency to Narrow Money	42.8	40.6	39.8	39.7	39.1	-5.0	-2.0	-0.3	-1.3
. Currency to Broad Money	22.4	20.3	19.4	17.9	16.3	-9.2	-4.6	-8.0	-8.7
. Narrow Money to Broad Money	52.4	50.1	48.8	45.0	41.6	-4.4	-2.6	-7.7	-7.5
. Quasi Money to Broad Money	47.6	49.9	51.2	55.0	58.4	4.9	2.6	7.3	6.1
<b>M2/GDP Ratio*</b>	0.28	0.26	0.28	0.28	0.29	-9.8	7.6	3.0	2.9

**Source:** NBE

\* M2/GDP ratio was calculated on the basis of new GDP series and the value of GDP in 2014/ 15 is an estimate **(to be updated)**.

**Source:** NBE

## 4.2. Developments in Interest Rate

In 2014/15, both minimum and maximum deposit interest rates remained unchanged at 5.0 and 5.75 percent, respectively. With average interest rate on savings deposit staying at 5.38 percent while weighted annual average interest rates on time deposit rose to 5.77 percent from 5.66 percent a year earlier. Interest rate on demand deposits also

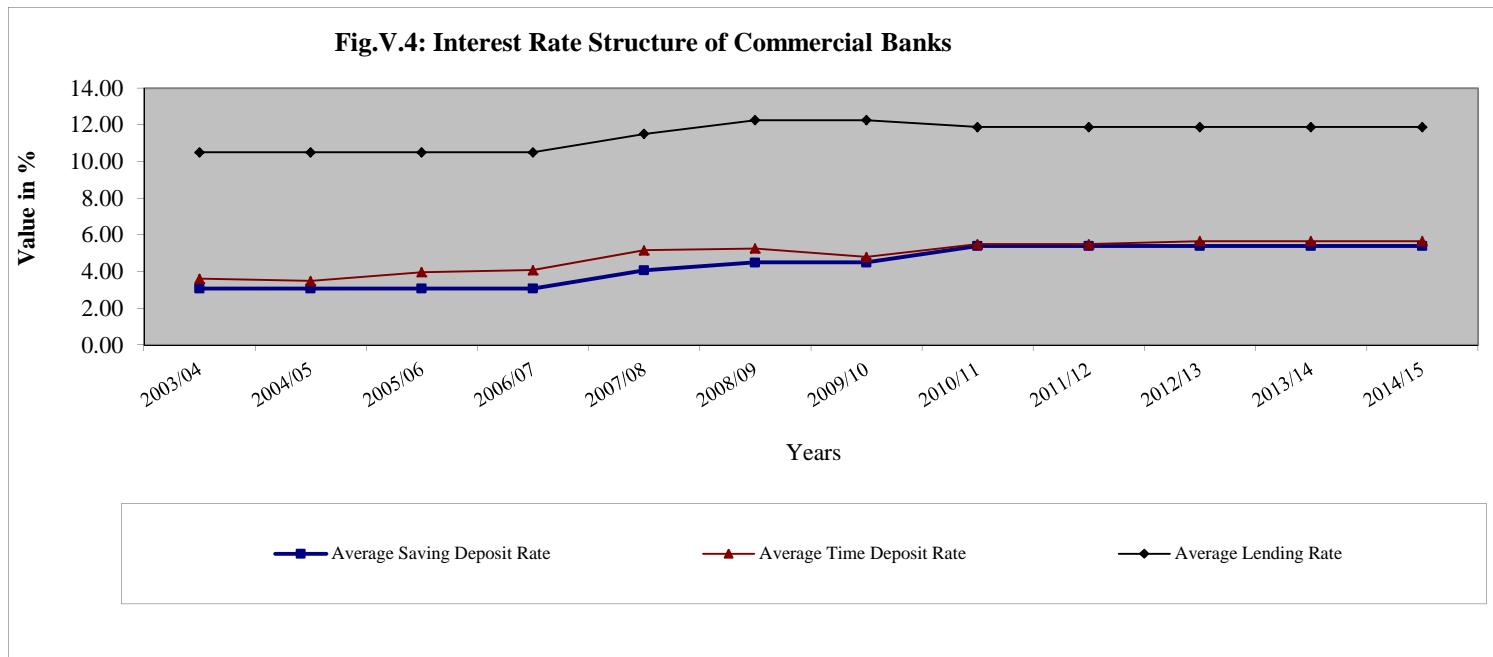
tended to rise. Similarly, average lending rate stood at 11.88 percent.

Yet, real rate of interest, except the lending rate, were negative given a surge in the inflation rate from 8.5 to 10.4 percent in 2014/15 (Table 4.4).

**Table 4.4: Interest Rate Structure of Commercial Banks**

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

Source: NBE



**Source:** NBE

### 4.3 Developments in Financial Sector

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

Banks opened 485 new branches in 2014/15 (of which 359 were private) raising the total branch network in the country to reach 2693 from 2208 last year. As a result, bank branch to population ratio declined from 1:39,833.8<sup>4</sup> people to 1:33,448.2<sup>5</sup> in 2014/15.

The significant branch expansion was undertaken by Commercial Bank of Ethiopia (CBE) with 127 branches, followed by Awash International Bank (55 branches), Oromia International Bank (43 branches), Cooperative Bank of Oromiya (36 branches), United Bank (29 branches), Bank of Abyssinia (27 branches), and Loin International Bank (26 branches). Despite aggressive branch expansion by public banks, their share in total branches slightly went down to 41.9 percent from 45.4 percent last year (Table 4.5).

About 35.5 percent of bank branches were in Addis Ababa, during the review fiscal year.

The total capital of the banking industry increased by 19.0 percent and reached Birr 31.5 billion by the end of June 2015 as a number of banks injected more capital. As a result, the share of private banks in total capital marginally increased to 56.5 percent from 55.4 percent last year, while that of CBE remained at 34.0 percent (Table 4.5).

In the meantime, the number of insurance companies remained at 17 with their branches rising to 377 following the opening of 45 additional branches.

About 52.8 percent of insurance branches were located in Addis Ababa. Ownership wise, 82.5 percent of the total branches were private which slightly increased from 81.3 percent a year ago.

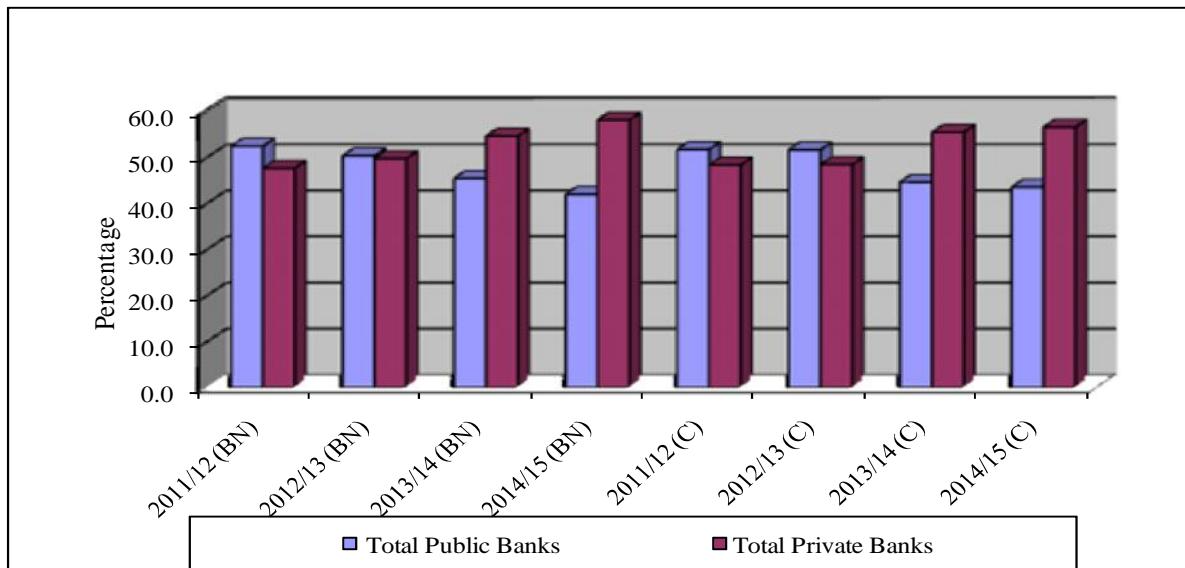
Meanwhile, the total capital of insurance companies increased by 40.8 percent to Birr 2.8 billion from Birr 2.0 billion last year. Private insurance companies accounted for 77.6 percent of the total capital while the share of the lone public insurance company was 22.4 percent (Table 4.6).

<sup>4</sup> Taking total population 87,952,991 (CSA 2013/14)

<sup>5</sup> Taking total population 90,076,014(CSA 2014/15)

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



Source: Commercial Banks

Table 4.5: Capital and Branch Network of the Banking System at the Close of June 30, 2015

(Branch in Number and Capital in Millions of Birr)

Banks	Branch Network							Capital				
	2013/14			2014/15				2013/14		2014/15		
	Regions	Addis Ababa	Total	% Share	Regions	Addis Ababa	Total	% Share	Total Capital	% Share	Total Capital	% Share
<b>1. Public Banks</b>												
Commercial Bank of Ethiopia	700	156	856	38.8	785	192	977	36.3	9,045.0	34.1	10,716.4	34.0
Construction & Business Bank	68	47	115	5.2	69	51	120	4.5	642.1	2.4	731.2	2.3
Development Bank of Ethiopia	31	1	32	1.4	31	1	32	1.2	2,134.8	8.1	2,269.2	7.2
<b>Total Public Banks</b>	<b>799</b>	<b>204</b>	<b>1003</b>	<b>45.4</b>	<b>885</b>	<b>244</b>	<b>1129</b>	<b>41.9</b>	<b>11,821.9</b>	<b>44.6</b>	<b>13,716.7</b>	<b>43.5</b>
<b>2. Private Banks</b>												
Awash International Bank	62	90	152	6.9	95	112	207	7.7	1,979.3	7.5	2,540.3	8.1
Dashen Bank	69	73	142	6.4	76	88	164	6.1	1,994.1	7.5	2,377.2	7.5
Abyssinia Bank	55	54	109	4.9	64	72	136	5.1	1,326.0	5.0	1,594.3	5.1
Wegagen Bank	51	49	100	4.5	63	56	119	4.4	1,825.8	6.9	2,061.9	6.5
United Bank	44	55	99	4.5	62	66	128	4.8	1,334.4	5.0	1,475.0	4.7
Nib International Bank	39	55	94	4.3	50	65	115	4.3	1,731.3	6.5	1,925.3	6.1
Cooperative Bank of Oromiya	84	21	105	4.8	106	35	141	5.2	739.9	2.8	1,058.7	3.4
Lion International Bank	35	27	62	2.8	50	38	88	3.3	514.3	1.9	601.6	1.9
Oromia International Bank	80	29	109	4.9	103	49	152	5.6	594.3	2.2	771.7	2.4
Zemen Bank	3	6	9	0.4	5	2	7	0.3	529.1	2.0	650.0	2.1
Buna International Bank	41	22	63	2.9	47	35	82	3.0	446.6	1.7	559.3	1.8
Berhan International Bank	22	26	48	2.2	32	39	71	2.6	560.1	2.1	622.3	2.0
Abay Bank	54	16	70	3.2	70	19	89	3.3	395.0	1.5	591.0	1.9
Addis International Bank	5	16	21	1.0	10	22	32	1.2	277.9	1.0	399.6	1.3
Debub Global Bank	12	7	19	0.9	13	9	22	0.8	177.3	0.7	202.6	0.6
Enat Bank	0	3	3	0.1	5	6	11	0.4	261.6	1.0	392.1	1.2
<b>Total Private Banks</b>	<b>656.0</b>	<b>549.0</b>	<b>1,205.0</b>	<b>54.6</b>	<b>851.0</b>	<b>713.0</b>	<b>1,564.0</b>	<b>58.1</b>	<b>14,686.8</b>	<b>55.4</b>	<b>17,822.8</b>	<b>56.5</b>
<b>3. Grand Total Banks</b>	<b>1455</b>	<b>753</b>	<b>2208</b>	<b>100</b>	<b>1,736.0</b>	<b>957</b>	<b>2693</b>	<b>100.0</b>	<b>26,508.7</b>	<b>100.0</b>	<b>31,539.5</b>	<b>100.0</b>

Source: Commercial Banks

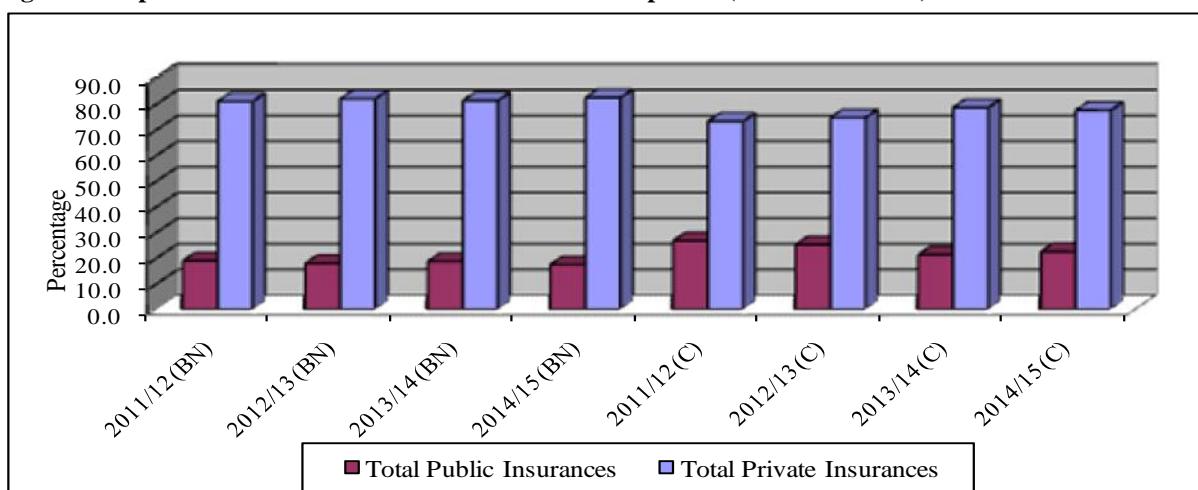
**Table.4.6: Branch Network & Capital of Insurance Companies as at June 30, 2015**

(Branch in Number and Capital in Millions of Birr)

No.	Insurance Companies	Branch						Capital		
		2013/14			2014/15			2013/14	2014/15	% Change
		A.A	Regio	Total	A.A	Regio	Total			
1	Ethiopian Ins. Cor.	18.0	44.0	62	18	48	66	434.4	643.2	48.1
2	Awash Ins.Com.S.C.	21.0	12.0	33	22	14	36	182.9	219.0	19.7
3	Africa Ins.Com S.C.	8.0	7.0	15	9	9	18	134.9	211.5	56.8
4	National Ins. Co. of Eth.	9.0	12.0	21	9	13	22	72.6	80.8	11.3
5	United Ins.Com. S.C	18.0	10.0	28	18	10	28	203.1	258.4	27.3
6	Global Ins. Com.S.C	6.0	5.0	11	6	6	12	67.1	95.8	42.7
7	Nile Ins.Com.S.C	14.0	14.0	28	14	17	31	182.0	232.6	27.8
8	Nyala Ins.Com.S.C	12.0	9.0	21	13	10	23	206.3	286.3	38.8
9	Nib Ins. Com.S.C	17.0	8.0	25	19	9	28	207.3	263.6	27.1
10	Lion Ins. Com.S.C	14	6	20	15	10	25	83.4	96.6	15.8
11	Ethio-Life Ins.Com.S.c	6.0	1.0	7	8	4	12	20.3	31.8	56.8
12	Oromia Ins.Com.S.c	14	11	25	17	12	29	119.2	138.1	15.9
13	Abay Insurance	7	7	14	8	9	17	48.5	108.3	123.2
14	Berhan insurance S.C	6	1	7	6	1	7	22.4	46.9	108.9
15	Tsehay Insurance S.C	6	2	8	6	2	8	24.3	48.7	100.3
16	Lucy	2	1	3	3	2	5	16.8	64.7	285.9
17	Bunna Insurance S.C.	4	0	4	8	2	10	8.6	38.8	352.5
	<b>Total</b>	<b>182</b>	<b>150</b>	<b>332</b>	<b>199</b>	<b>178</b>	<b>377</b>	<b>2,034</b>	<b>2,865</b>	<b>40.8</b>

Source: Insurance Companies

Note: A.A=Addis Ababa

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

Source: Insurance Companies

By end 2014/15, the number of micro-finance institutions (MFIs) reached 35 from 31 a year ago. Their total capital and total asset also increased significantly by 27.2 and 24.6 percent and reached Birr 7.2 billion and Birr 30.5 billion, respectively.

These micro-finance institutions mobilized deposits which went up by 25.9 percent and reached Birr 14.8 billion.

Their outstanding credit also expanded by 29.5 percent as they increased their outreach. (Table 4.7)

The five largest MFIs, namely Amhara, Dedebit, Oromiya, Omo and Addis Credit and Savings institutions, accounted for 84.2 percent of the total capital, 93.4 percent of the savings, 89.3 percent of the credit and 89.7 percent of the total assets of MFIs at the end of 2014/15.

**Table 4.7: Microfinance Institutions Performance as of June 30, 2015**

Particulars	(In Thousands of Birr)		
	2013/14 A	2014/15 B	% Change B/A
<i>Total Capital</i>	5,652,005.7	7,187,259.5	27.2
<i>Saving</i>	11,784,059.6	14,832,747.4	25.9
<i>Credit</i>	16,855,556.8	21,827,337.3	29.5
<i>Total Assets</i>	24,535,850.0	30,562,012.2	24.6
<i>Source: MFIs</i>			

#### 4.3.1 Resource Mobilization

Total resources mobilized by the banking system in the form of deposit, loan collection and borrowing increased by 24.5 percent and reached Birr 138.7 billion at the end of 2014/15 (Table 4.8).

Spurred by remarkable branch expansion, deposit liabilities of the banking system reached Birr 367.4 billion reflecting

annual growth rate of 25.5 percent over last year. Component wise, time deposits registered significant increase (131.6 percent) followed by saving deposits (19.8 percent), and demand deposits (16.8 percent). Saving deposits accounted for 47.6 percent of the total deposits followed by demand deposits (41.0 percent) and time deposit (11.5

percent) (Table 4.9). The rise in saving deposits indicates the steady growth in financial intermediation of banks.

The share of private banks in deposit mobilization increased only marginally to 32.2 percent from 31.5 percent last year despite their opening of 359 new branches. CBE alone mobilized 66.1 percent of the total deposits due to its large branch network.

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

As a result, total outstanding borrowing at the end of the fiscal year was only Birr 31.5 billion up from Birr 27.3 billion a year earlier (Table 4.8). Of the total borrowing, domestic sources accounted for 87.2 percent, while foreign sources took the remaining balance.

Loan collection by the banking system was Birr 60.0 billion up by 16.0 percent (Table 4.8). Of this, 53.4 percent was collected by private banks.

Table 4.8: Annual Resource Mobilization &amp; Disbursing Activities of Commercial Banks and DBE (Specialized Bank) as at June 30, 2015

(In Millions of Birr)

Particulars	2012/13			2013/14			2014/15			Percent Change	
	Public Banks	Private Banks	Total (A)	Public Banks	Private Banks	Total (B)	Public Banks	Private Banks	Total (C)	B/A	C/B
<b>1. Deposits (net change)</b>	<b>32,949.9</b>	<b>16,960.8</b>	<b>49,910.7</b>	<b>40,053.9</b>	<b>15,592.7</b>	<b>55,646.6</b>	<b>48,523.8</b>	<b>26,023.7</b>	<b>74,547.5</b>	<b>11.5</b>	<b>34.0</b>
Demand	18,781.8	5,106.9	23,888.7	9,350.1	3,294.4	12,644.6	14,573.5	7,089.8	21,663.3	(47.1)	71.3
Savings	12,937.5	10,856.5	23,794.0	29,850.8	9,685.0	39,535.8	13,582.3	15,305.6	28,888.0	66.2	(26.9)
Time	1,230.6	997.4	2,228.0	853.0	2,613.2	3,466.2	20,368.0	3,628.3	23,996.2	55.6	592.3
<b>2. Borrowing (net change)</b>	<b>6,343.0</b>	<b>-</b>	<b>6,343.0</b>	<b>4,034.1</b>	<b>-</b>	<b>4,034.1</b>	<b>4,193.3</b>	<b>-</b>	<b>4,193.3</b>	<b>(36.4)</b>	<b>3.9</b>
Local	5,075.9	-	5,075.9	2,925.9	-	2,925.9	3,571.7	-	3,571.7	(42.4)	22.1
Foreign	1,267.1	-	1,267.1	1,108.2	-	1,108.2	621.6	-	621.6	(12.5)	(43.9)
3. Collection of Loans	22,935.5	18,884.7	41,820.2	26,127.5	25,617.2	51,744.7	27,982.1	32,032.2	60,014.2	23.7	16.0
<b>4. Total Resources Mobilized (1+2+3)</b>	<b>62,228.4</b>	<b>35,845.5</b>	<b>98,073.9</b>	<b>70,215.4</b>	<b>41,209.9</b>	<b>111,425.3</b>	<b>80,699.1</b>	<b>58,055.9</b>	<b>138,755.0</b>	<b>13.6</b>	<b>24.5</b>
5. Disbursement	33,249.7	21,001.8	54,251.5	38,937.9	21,027.5	59,965.4	41,913.2	33,567.8	75,481.0	10.5	25.9
<b>6. Change in Liquidity (4-5)</b>	<b>28,978.7</b>	<b>14,843.7</b>	<b>43,822.4</b>	<b>31,277.5</b>	<b>20,182.4</b>	<b>51,459.9</b>	<b>38,785.9</b>	<b>24,488.1</b>	<b>63,274.0</b>	<b>17.4</b>	<b>23.0</b>
Memorandum Item:											
7. Outstanding Credit*	103,580.0	47,618.9	151,198.9	127,629.3	53,693.1	181,322.3	156,134.5	75,635.0	231,769.5	19.9	27.8

Source: Commercial Banks &amp; Staff Computation

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

**Table 4.9: Deposits and Borrowings of Commercial Banks and Specialized Bank as at June 30, 2015**

	<i>(In Millions of Birr)</i>				
	2012/13	2013/14	2014/15	S/R	T/S
	R	S	T		
<b>A. Deposits</b>					
-Demand	116,143.6	128,788.1	150,451.5	10.9	16.8
-Savings	106,288.6	145,824.3	174,712.3	37.2	19.8
-Time	14,769.2	18,235.4	42,231.7	23.5	131.6
<b>T o t a l</b>	<b>237,201.3</b>	<b>292,847.9</b>	<b>367,395.4</b>	<b>23.5</b>	<b>25.5</b>
<b>B. Borrowings</b>			0.0		
-Local	20,974.8	23,900.8	27,472.4	13.9	14.9
-Foreign	2,301.2	3,409.4	4,031.0	48.2	18.2
<b>T o t a l</b>	<b>23,276.1</b>	<b>27,310.1</b>	<b>31,503.4</b>	<b>17.3</b>	<b>15.4</b>

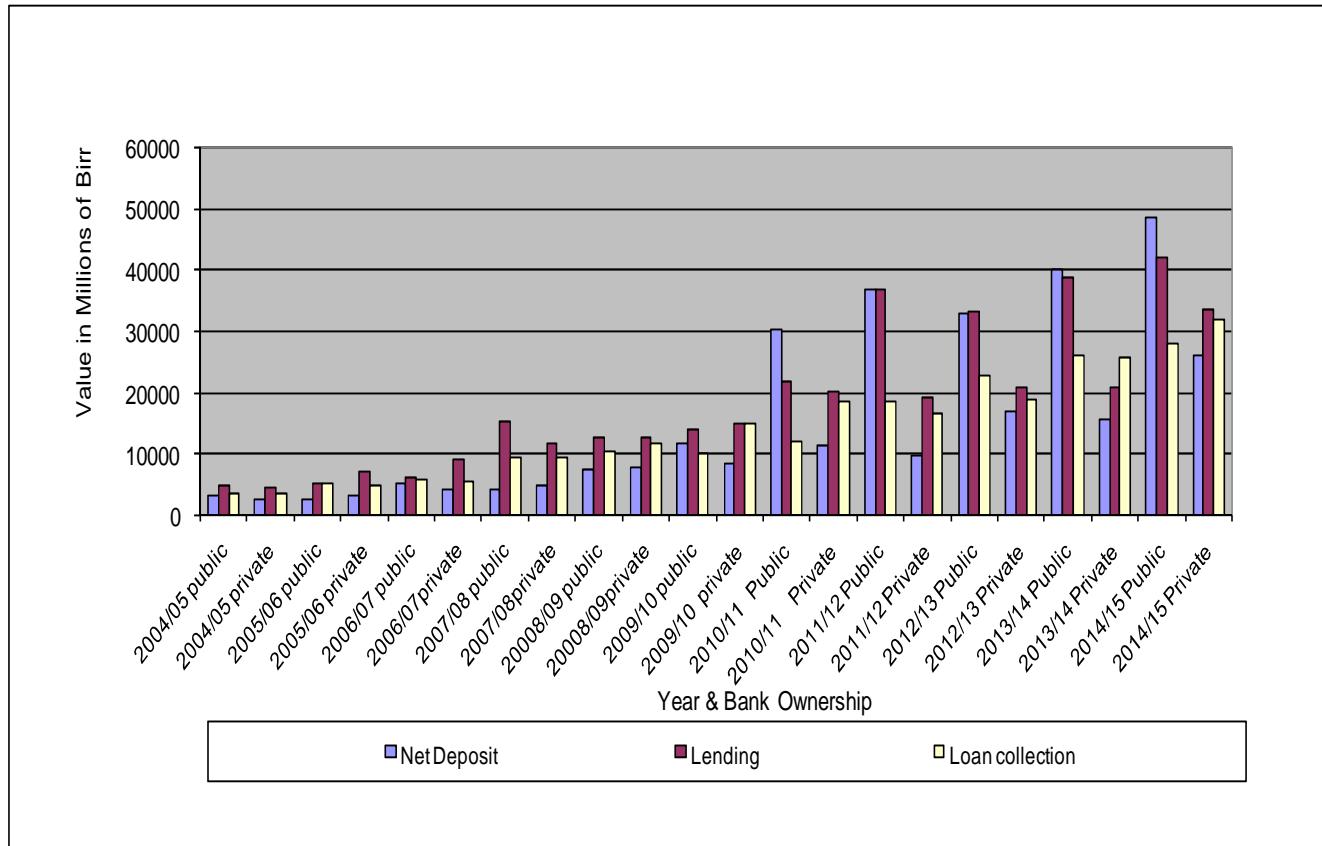
Source: Commercial Banks

### 4.3.2 New Lending Activities

Commercial Banks and the Development Bank of Ethiopia (DBE) disbursed Birr 75.5 billion in new loans to various economic sectors during the review fiscal year witnessing a 25.9 percent annual increase in line with higher deposit mobilization and collection of loans. Of the total new loans, about 44.5 percent was by private banks, and the rest by public banks (Table 4.10).

Regarding disbursement by sector, 31.1 percent of the loans went to industry followed by domestic trade (20.7 percent), agriculture (17.3 percent), international trade (11.1 percent) and housing and construction (8.9 percent) while the remaining balance went to other sectors (Table 4.12).

**Fig.IV.7: Development in Deposit Mobilization, Lending and Loan Collection Activities of the Banking System (2004/05- 2014/15)**



Source: Commercial Banks and DBE

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

Lenders	2013/14			2014/15			Percentage Change		
	D*	C*	O/S*	D*	C*	O/S*	D/A	E/B	F/C
	A	B	C	D	E	F			
<b>A. Public Banks</b>									
1. Commercial Bank of Ethiopia	32184.1	22025.5	89,665.2	33715.5	22474.1	111,435.3	4.8	2.0	24.3
3. Construction & Business Bank of Ethiopia	1288.0	1088.5	2,332.0	1354.8	1421.5	2,735.5	5.2	30.6	17.3
2. Development Bank of Ethiopia	5465.8	3013.4	22,666.8	6842.9	4086.4	27,580.4	25.2	35.6	21.7
<b>Sub-Total</b>	<b>38,937.9</b>	<b>26,127.5</b>	<b>114,664.0</b>	<b>41,913.2</b>	<b>27,982.1</b>	<b>141,751.2</b>	<b>7.6</b>	<b>7.1</b>	<b>23.6</b>
<b>B. Private Banks</b>									
4 Awash International Bank	1944.6	2912.5	9176.4	3723.6	3967.0	12482.0	91.5	36.2	36.0
5. Dashen Bank	3757.5	4943.6	9569.7	5179.8	5903.7	11479.1	37.9	19.4	20.0
6. Bank of Abyssinia	1534.2	2228.4	5153.5	1818.7	2436.4	5992.2	18.5	9.3	16.3
7. Wegagen Bank	2070.9	2944.4	4604.4	3089.5	3287.0	6169.5	49.2	11.6	34.0
8. United Bank	2085.4	3303.6	5069.6	3188.8	4145.3	6860.1	52.9	25.5	35.3
9. Nib International Bank	3382.8	3128.5	5521.6	4629.1	3489.4	7000.1	36.8	11.5	26.8
10. Cooperative Bank of Oromia	803.9	991.6	3718.4	1736.4	918.5	6738.3	116.0	-7.4	81.2
11. Lion Interenational Bank	567.0	718.0	1562.0	1612.2	1127.7	2878.3	184.3	57.1	84.3
12. Oromia International Bank	787.3	1075.1	1430.0	1266.2	1241.3	2275.5	60.8	15.5	59.1
13. Zemen Bank	1149.9	950.6	2551.6	2393.0	1668.5	4767.2	108.1	75.5	86.8
14. Berhan International Bank	484.0	708.9	1184.4	809.1	790.7	1908.6	67.2	11.5	61.1
15. Bunna International Bank	679.3	557.0	1339.4	1447.3	795.0	2433.9	113.1	42.7	81.7
16. Abay Bank	806.8	652.4	1516.7	1353.4	1228.9	2376.5	67.7	88.4	56.7
17. Addis International Bank	222.9	197.3	511.0	343.0	322.3	771.6	53.9	63.3	51.0
18. Debub Global Bank	271.5	169.5	270.4	242.7	241.4	338.9	0.0	0.0	0.0
19. Enat Bank	479.4	135.8	511.9	735.1	469.0	1145.3	0.0	0.0	0.0
<b>Sub-Total</b>	<b>21,027.5</b>	<b>25,617.2</b>	<b>53,691.1</b>	<b>33,567.8</b>	<b>32,032.2</b>	<b>75,617.0</b>	<b>59.6</b>	<b>25.0</b>	<b>40.8</b>
<b>Grand Total</b>	<b>59,965.4</b>	<b>51,744.7</b>	<b>168,355.1</b>	<b>75,481.0</b>	<b>60,014.2</b>	<b>217,368.2</b>	<b>25.9</b>	<b>16.0</b>	<b>29.1</b>

Source: Commercial Banks

1. O/S Credit excludes central government borrowing

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

**Table 4.11: Percentage Share of Loans and Advances by Lenders**

Lenders	2013/14			2014/15			Percentage change		
	D*	C*	O/S*	D*	C*	O/S*			
	A	B	C	D	E	F	D/A	E/B	F/C
<b>A. Public Banks</b>									
1. Commercial Bank of Ethiopia	53.671	42.6	53.3	44.7	37.4	51.3	-16.8	-12.0	-3.7
2. Development Bank of Ethiopia	9.115	5.8	13.5	1.8	2.4	1.3	-80.3	-59.3	-90.7
3. Construction & Business Bank of Ethiopia	2.148	2.1	1.4	9.1	6.8	12.7	322.1	223.7	816.0
<b>Sub-Total</b>	<b>64.934</b>	<b>50.5</b>	<b>68.1</b>	<b>55.5</b>	<b>46.6</b>	<b>65.2</b>	<b>-14.5</b>	<b>-7.7</b>	<b>-4.3</b>
<b>B. Private Banks</b>									
4. Awash International Bank	3.2	5.6	5.5	4.9	6.6	5.7	52.1	17.4	5.4
5. Dashen Bank	6.3	9.6	5.7	6.9	9.8	5.3	9.5	3.0	-7.1
6. Bank of Abyssinia	2.6	4.3	3.1	2.4	4.1	2.8	-5.8	-5.7	-9.9
7. Wegagen Bank	3.5	5.7	2.7	4.1	5.5	2.8	18.5	-3.7	3.8
8. United Bank	3.5	6.4	3.0	4.2	6.9	3.2	21.5	8.2	4.8
9. Nib International Bank	5.6	6.0	3.3	6.1	5.8	3.2	8.7	-3.8	-1.8
10. Cooperative Bank of Oromia	1.3	1.9	2.2	2.3	1.5	3.1	71.6	-20.1	40.4
11. Lion Interenational Bank	0.9	1.4	0.9	2.1	1.9	1.3	125.9	35.4	42.7
12. Oromia International Bank	1.3	2.1	0.8	1.7	2.1	1.0	27.8	-0.5	23.2
13. Zemen Bank	1.9	1.8	1.5	3.2	2.8	2.2	65.3	51.3	44.7
14. Berhan International Bank	0.8	1.4	0.7	1.1	1.3	0.9	32.8	-3.8	24.8
15. Bunna International Bank	1.1	1.1	0.8	1.9	1.3	1.1	69.3	23.0	40.7
16. Abay Bank	1.3	1.3	0.9	1.8	2.0	1.1	33.3	62.4	21.4
17. Addis International Bank	0.4	0.4	0.3	0.5	0.5	0.4	22.3	40.8	16.9
18. Debub Global Bank	0.5	0.3	0.2	0.3	0.4	0.2	0.0	0.0	0.0
19. Enat Bank	0.8	0.3	0.3	1.0	0.8	0.5	0.0	0.0	0.0
<b>Sub-Total</b>	<b>35.1</b>	<b>49.5</b>	<b>31.9</b>	<b>44.5</b>	<b>53.4</b>	<b>34.8</b>	<b>26.8</b>	<b>7.8</b>	<b>9.1</b>
<b>Grand Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

### 4.3.3 Outstanding Loans

Total outstanding credit of the banking system including to the central government increased by 27.8 percent and reached Birr 231.7 billion at the end of June 2015. Specifically, outstanding claims on private sector rose by 31.1 percent, public enterprises (30.0 percent)

and the central government (11.1 percent). (Table 4.13)

Sectoral distribution of outstanding loans (excluding central government) indicated that credit to industry accounted for 39.7 percent followed by international trade (19.9 percent), domestic trade (11.7

percent), housing and construction (10.4 percent) and agriculture (8.5 percent) (Table 4.12). The share private sector including cooperatives in outstanding

credit stood at Birr 147.4 billion or 67.9 percent reflecting a 28.7 percent growth over last year (Table 4.13).

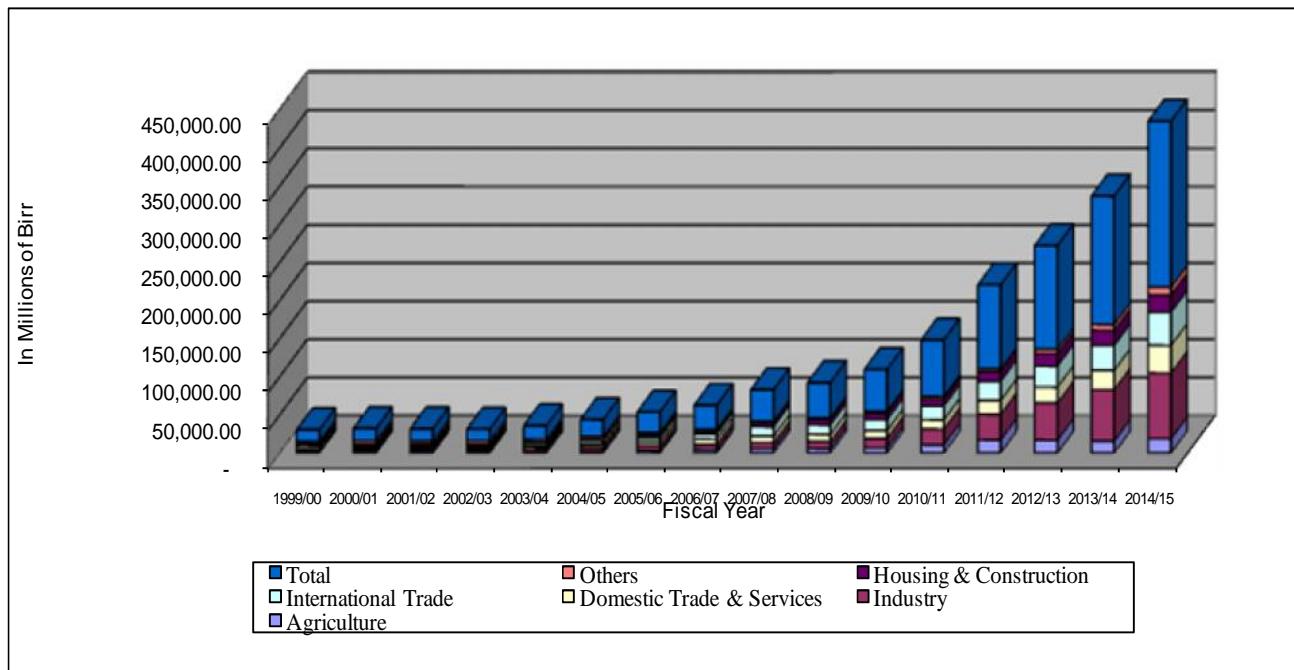
**Table 4.12: Loans & Advances by Economic Sectors**

Economic Sectors	2013/14			2014/15			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	2,969.5	0	0	14,401.3	-	-	385.0
Agriculture	10,867.5	11,535.1	15,815.0	13,077.1	11,456.2	18,579.8	20.3	(0.7)	17.5
Industry	20,391.1	9,400.9	67,219.4	23,437.4	11,782.9	86,212.3	14.9	25.3	28.3
Domestic Trade	9,104.1	9,506.2	16,399.2	15,589.0	12,183.2	25,336.4	71.2	28.2	54.5
International Trade	7,280.7	11,008.1	32,579.6	8,415.0	11,790.8	43,266.3	15.6	7.1	32.8
Export	2,973.3	4,625.4	13,312.0	3,780.4	5,587.3	17,581.3	27.1	20.8	32.1
Import	4,307.3	6,382.7	19,267.6	4,634.6	6,203.5	25,722.6	7.6	(2.8)	33.5
Hotels and Tourism	1,190.6	1,117.8	3,562.8	1,620.3	1,510.9	3,590.6	36.1	35.2	0.8
Transport and Communication	1,555.5	1,903.0	5,278.8	3,625.5	2,340.6	7,289.0	133.1	23.0	38.1
Housing and Construction	6,695.8	5,553.2	19,802.0	6,720.1	7,040.4	22,529.1	0.4	26.8	13.8
Mines, Power and Water resource	265.6	77.0	546.7	165.2	83.4	844.7	(37.8)	8.3	54.5
Others	1,899.8	1,384.3	6,033.5	2,163.8	1,449.8	7,827.7	13.9	4.7	29.7
Personal	268.4	221.2	1,052.0	667.5	363.4	1,796.9	148.7	64.3	70.8
Interbank Lending	446.38	37.96	65.9	-	12.66	57.8	-	(66.6)	(12.3)
<b>Total</b>	<b>59,965.4</b>	<b>51,744.7</b>	<b>171,324.6</b>	<b>75,481.0</b>	<b>60,014.3</b>	<b>231,769.5</b>	<b>25.9</b>	<b>16.0</b>	<b>35.3</b>

**Source:** Commercial Banks & Staff Computation

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

**Fig.IV.8: Sectoral Breakdown of Bank Credit (1999/00-2014/15)**



**Source:** Commercial Banks including DBE & Staff Computation

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

Borrowing Sector	2012/13		2014/15			Percentage change	
	O/S*	O/S*	D*	C*	O/S*		
	B	C	E	F	G	C/B	G/C
Central Government	15,369.0	12,967.3	-	-	14,401.3	-15.6	11.1
Public Enterprises	40,888.6	53,703.7	13,856.3	5,366.8	69,841.6	31.3	30.0
Cooperatives	12,219.7	12,664.7	10,496.8	10,555.2	13,850.7	3.6	9.4
Private & Individuals	82,558.2	101,920.7	51,127.8	44,079.6	133,618.1	23.5	31.1
Inter-bank Lending	163.3	65.9	0.0	12.7	57.8	-59.6	-12.3
<b>Total</b>	<b>151,198.9</b>	<b>181,322.4</b>	<b>75,481.0</b>	<b>60,014.2</b>	<b>231,769.5</b>	<b>19.9</b>	<b>27.8</b>
<i>Total less Inter-bank Lending</i>	<i>151,035.6</i>	<i>181,256.4</i>	<i>75,481.0</i>	<i>60,001.6</i>	<i>231,711.7</i>	<i>20.0</i>	<i>27.8</i>

Source: Commercial Banks &amp; Staff Computation

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

#### 4.4. Financial Activities of NBE

Outstanding claims of NBE on the central government reached Birr 92.1 billion by the end of 2014/15, due to a 29.6 percent increase in direct advance. Direct advances to the government stood at Birr 83.2 billion or 90.3 percent of the total claims, while bond holdings constituted the remaining 9.7 percent.

At the same time, outstanding claims of NBE on DBE also reached Birr 23.3 billion about 15.3 percent higher than a year ago.

Regarding liabilities of NBE, total deposits at the NBE increased by 25.1 percent to Birr 43.0 billion, due to a 71.7 percent surge in deposits of central government (Table 4.14).

**Table 4.14: Financial Activities of National Bank of Ethiopia at the Close of June 30, 2015**

(In Millions of Birr)

Particulars	2012/13	2013/14	2014/15	% Change	
	A	B	C	B/A	C/B
<b>Loans and Advances (1+2)</b>	<b>81,017.4</b>	<b>93,561.4</b>	<b>115,532.3</b>	<b>15.5</b>	<b>23.5</b>
<b>1. Claims on Central Gov't</b>	<b>64,510.4</b>	<b>73,304.4</b>	<b>92,175.3</b>	<b>13.6</b>	<b>25.7</b>
1.1 Direct Advance	55,264.9	64,264.9	83,264.9	16.3	29.6
1.2 Bonds	9,245.4	9,039.4	8,910.4	-2.2	-1.4
<b>2. Claims on DBE</b>	<b>16,507.0</b>	<b>20,257.0</b>	<b>23,357.0</b>	<b>22.7</b>	<b>15.3</b>
<b>3. Deposit Liabilities</b>	<b>29,464.2</b>	<b>34,432.1</b>	<b>43,077.7</b>	<b>16.9</b>	<b>25.1</b>
3.1 Government	9,133.0	8,793.5	15,098.5	-3.7	71.7
3.2 Financial Institutions	20,331.1	25,638.6	27,979.2	26.1	9.1

Source: NBE and Staff Computation

## 4.5 Developments in Financial Markets

Although there is no secondary market in Ethiopia, government bonds are occasionally issued to finance government expenditures and/or to absorb excess liquidity in the banking system.

### 4.5.1 Treasury Bills Market

The transaction in the Treasury-bills market on weekly basis constituted throughout the fiscal year. Accordingly, the amount of Treasury-bills offered was Birr 100.7 billion, about 10.5 percent higher than last year, while a total demand for registered 20.3 percent growth to reach Birr 136.5 billion.

The amount of T-bills sold during the year stood at Birr 110.6 billion indicating a Birr 25.6 billion (23.6 percent) oversubscription.

At the end of 2014/15, the total outstanding T-bills stood at Birr 41.7 billion, 29.0 percent up from a year ago.

Although banks' participation in the T-bill market showed 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-bills (Table 4.15).

The average weighted yield of the four types of bills decreased slightly to 1.434 from 1.597 percent a mere 10.2 percent decrease from last year (Table 4.15).

**Table 4.15: Results of Treasury Bills Auction**

Particulars	2012/13		2013/14		2014/15		Percentage Change	
	A	B	C		C/A	C/B		
<b>Number of Bidders</b>	<b>604</b>	<b>415</b>	<b>248</b>		<b>-58.9</b>	<b>-40.2</b>		
<b>Amount Demanded (Mn.Birr)</b>	<b>109,184.6</b>	<b>113,528.0</b>	<b>136,536.8</b>		<b>25.1</b>	<b>20.3</b>		
28-day bill	54,313.5	25,199.0	1,480.0		-97.3	-94.1		
91-day bill	38,905.1	69,329.0	111,938.8		187.7	61.5		
182-day bill	9,600.0	8,432.0	14,498.0		51.0	71.9		
364-day bill	6,366.0	10,568.0	8,620.0		35.4	-18.4		
<b>Amount Supplied (Mn.Birr)</b>	<b>107,484.6</b>	<b>91,174.9</b>	<b>100,739.4</b>		<b>-6.3</b>	<b>10.5</b>		
28-day bill	50,678.0	21,341.0	1,040.0		-97.9	-95.1		
91-day bill	35,532.6	51,085.9	78,832.4		121.9	54.3		
182-day bill	12,358.0	9,582.0	12,247.0		-0.9	27.8		
364-day bill	8,916.0	9,166.0	8,620.0		-3.3	-6.0		
<b>Amount Sold (Mn.Birr)</b>	<b>109,184.6</b>	<b>95,315.0</b>	<b>110,593.3</b>		<b>1.3</b>	<b>16.0</b>		
Banks	51,493.5	18,727.0	0.0		-100.0	-100.0		
Non-Banks	57,691.1	76,588.0	110,593.3		91.7	44.4		
<b>Average Weighted Price for Successful bids(Birr)</b>	<b>99.156</b>	<b>99.150</b>	<b>99.183</b>		<b>0.0</b>	<b>0.0</b>		
28-day bill	99.778	99.856	99.923		0.1	0.1		
91-day bill	99.652	99.699	99.701		0.0	0.0		
182-day bill	99.472	99.591	99.477		0.0	-0.1		
364-day bill	97.721	97.453	97.632		-0.1	0.2		
<b>Average Weighted Yield for Successful bids(%)</b>	<b>1.889</b>	<b>1.597</b>	<b>1.434</b>		<b>-24.1</b>	<b>-10.2</b>		
28-day bill	2.897	1.883	1.000		-65.5	-46.9		
91-day bill	1.403	1.213	1.203		-14.3	-0.8		
182-day bill	0.940	0.731	1.093		16.3	49.5		
364-day bill	2.317	2.562	2.441		5.3	-4.7		
<b>Outstanding bills at the end of period(Mn.Br.)</b>	<b>26,044.9</b>	<b>Shar e %</b>	<b>32,286.9</b>	<b>Shar e %</b>	<b>41,704.8</b>	<b>Share %</b>	<b>60.1</b>	<b>29.2</b>
Banks	3,436.0	13.2	0.0	0.0	0.0	0.0	-100.0	0.0
Non-Banks	22,608.9	86.8	32,286.9	100.0	41,704.8	100.0	84.5	29.2
Public Servants Social Security Agency	8,494.4	32.6	14,590.4	45.2	19,371.6	46.4	128.1	32.8
Development Bank of Ethiopia	9,716.0	37.3	11,416.0	35.4	13,216.0	31.7	36.0	15.8
Private Org. Employees Social Security Agency	1,725.5	6.6	3,707.5	11.5	6,799.2	16.3	294.0	83.4
Other Public Non-Bank Institutions	2,673.0	10.3	2,573.0	8.0	2,318.0	5.6	-13.3	-9.9

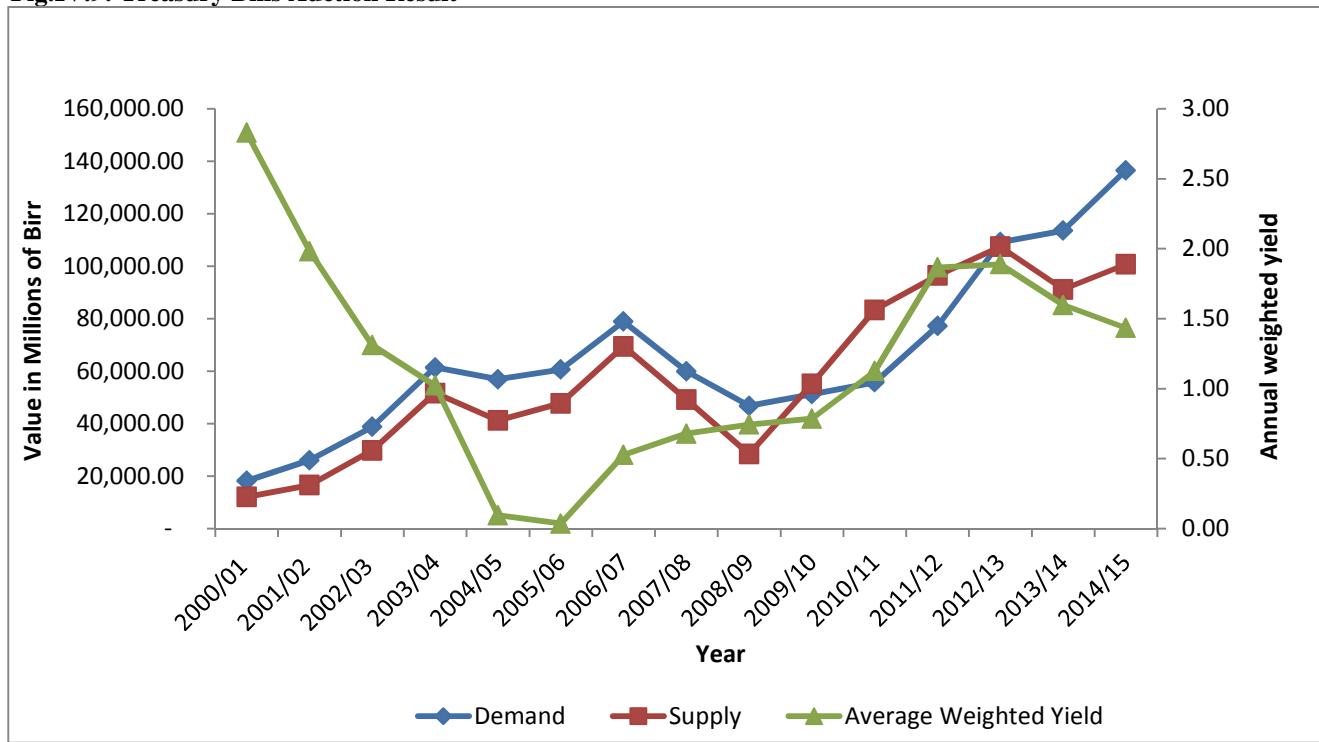
Source: NBE

#### 4.5.2 NBE Bill Market

NBE-Bill was introduced in April 4, 2011 so as to mobilize resources from commercial banks to finance priority sectors identified by the government as key for long-term growth of the economy.

Since their introduction until end June 2015, NBE bills to the tune of Birr 37.4 billion were sold to the banking sector.

**Fig.IV.9: Treasury Bills Auction Result**



Source: NBE

#### 4.5.3. Bonds Market

In recent years, following the strong growth in economic activities and real income, there has been strong demand for corporate bonds. As a result, corporate bond purchase of CBE during 2014/15 F.Y showed an annual growth

of 50.2 percent and reached to Birr 48.3 billion.

During the year under review, corporate bond redeemed by regional government and City Government of Addis Ababa reached Birr 315.9

million and Birr 1.7 billion, reflecting an annual contraction of 73.0 percent and 2.4 percent, respectively (Table 4.16).

As a result of the above development, total outstanding bond holdings, during the period under review, registered an annual growth of 38.6 percent and reached to Birr 152.7 billion. The share of EEPSCO from the outstanding corporate bond reached to 75.4. While the holdings by City Government of Addis

Ababa, Railway Corporation and Regional States accounted for 15.4, 8.5 and 0.7 percent of the outstanding corporate bond, respectively.

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

(In Millions of Birr)

Particulars	Annual		Percentage Change B/A
	2013/14	2014/15	
	Actual	B	
<b>1. Corporate Bond Purchases by holders</b>	<b>32,200.0</b>	<b>48,350.0</b>	<b>50.2</b>
EEPCO	21,200.0	28,000.0	32.1
Regional governments	0.0	0.0	0.0
Development Bank of Ethiopia	0.0	0.0	0.0
City Government of Addis Ababa	7,000.0	12,650.0	80.7
Railway Corporation	4,000.0	7,700.0	92.5
Private Sector	0.0	0.0	0.0
<b>2. Redemption of Bonds by Clients</b>	<b>7,633.5</b>	<b>1,998.7</b>	<b>-73.8</b>
EEPCO	4,092.0	0.0	-100.0
Regional governments	1,171.6	315.9	-73.0
Development Bank of Ethiopia	645.3	0.0	-100.0
City Government of Addis Ababa	1,724.6	1,682.8	-2.4
Railway Corporation	0.0	0.0	0.0
Private Sector	0.0	0.0	0.0
<b>3. Outstanding Bonds by Clients</b>	<b>110,138.0</b>	<b>152,689.3</b>	<b>38.6</b>
EEPCO	87,100.0	115,100.0	32.1
Regional governments	1,397.4	1,081.4	-22.6
Development Bank of Ethiopia	43.4	43.4	0.0
City Government of Addis Ababa	16,297.2	23,464.4	44.0
Railway Corporation	5,300.0	13,000.0	145.3
Private Sector	0.0	0.0	0.0

Source: Commercial Bank of Ethiopia

#### 4.5.4. Inter-bank Money Market

The interbank money market remained inactive in Ethiopia due to the existence of excess reserves in the banking system. Accordingly, no inter-bank money since its introduction 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**

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

Source: NBE

## V. Developments in External Sector

### 5.1. Developments in Merchandise Trade

The deficit in merchandise trade during 2014/15 stood at USD 13.4 billion, widened by 29.1 percent relative to the preceding fiscal year mainly due to the significant growth in total import bills coupled with low performance in the growth of total export proceeds.

In the review period, export to GDP ratio went down and import to GDP ratios went up by 4.6 and 26.5 percentage points, respectively from 6 and 25 percent of last year.

#### 5.1.1 Exports

Total export proceeds, including electricity, amounted to USD 3 billion down by 8.5 percent vis-à-vis the previous fiscal year. The poor performance in exports was due to slowdown in export earnings from oilseeds (21.8 percent), gold (30.2 percent), chat (8.4 percent), pulses (12.3 percent), live-animals (20.4 percent) and electricity (5.5 percent) owing to lower global commodity prices and/or volume of exports.

Export earnings from oilseeds reached USD 510.1 million, depicting a 21.8 percent fall over the preceding year on account of 23.2 percent drop in international price albeit 1.9 percent increase in volume. Oilseeds export accounted for 16.9 percent of the total merchandise export proceeds, compared with 19.8 percent last year.

Similarly, earnings from export of gold decreased by 30.2 percent to USD 318.7 million, driven by 4.5 percent decline in international price and 26.9 percent in volume. Gold accounted for 10.6 percent of total export proceeds, down from 13.8 percent in the preceding year.

Export proceeds from chat also fell 8.4 percent and reached USD 272.4 million due to a 4.8 percent decline in volume and 3.8 percent in international price. Earnings from chat accounted for 9 percent of the total export earnings in the review period

Export revenue from pulses at USD 219.9 million was down by 12.3 percent due to declines both in volume and price.

As a result, its share in total exports slightly declined from 7.6 percent last year to 7.3 percent in the review period.

Earning from export of live-animals was USD 148.5 million, which showed a 20.4 percent drop due to 26.4 percent fall in volume though international price rose by 8.1 percent. Hence, the share of live animals in export proceeds went down from 5.7 percent to 4.9 percent during the same period.

Similarly, export earnings from electricity declined by 5.5 percent due to a 6 percent fall in volume though unit price increased by 0.6 percent.

Export of coffee increased by 9.2 percent and reached USD 780.5 million. As a result of a 12.7 percent rise in international price despite 3.1 percent slow down in export volume. Thus, the share of coffee in total export earnings accounted for 25.8 percent which was higher than 21.6 percent share last year.

Export proceeds from flower increased by 1.7 percent and stood at USD 203.1 million driven by a 3.6 percent growth in volume although international price went down by 1.9 percent.

As a result, the share of flower export in total merchandize export increased to 6.7 percent.

Likewise, earnings from export of leather and leather products reached USD 131.6 million, showing a 1.4 percent annual increase solely due to a 10.8 percent growth in volume of export though international price declined by 8.5 percent. Its share in total export proceeds slightly improved from 3.9 percent last year to 4.4 percent in the review period.

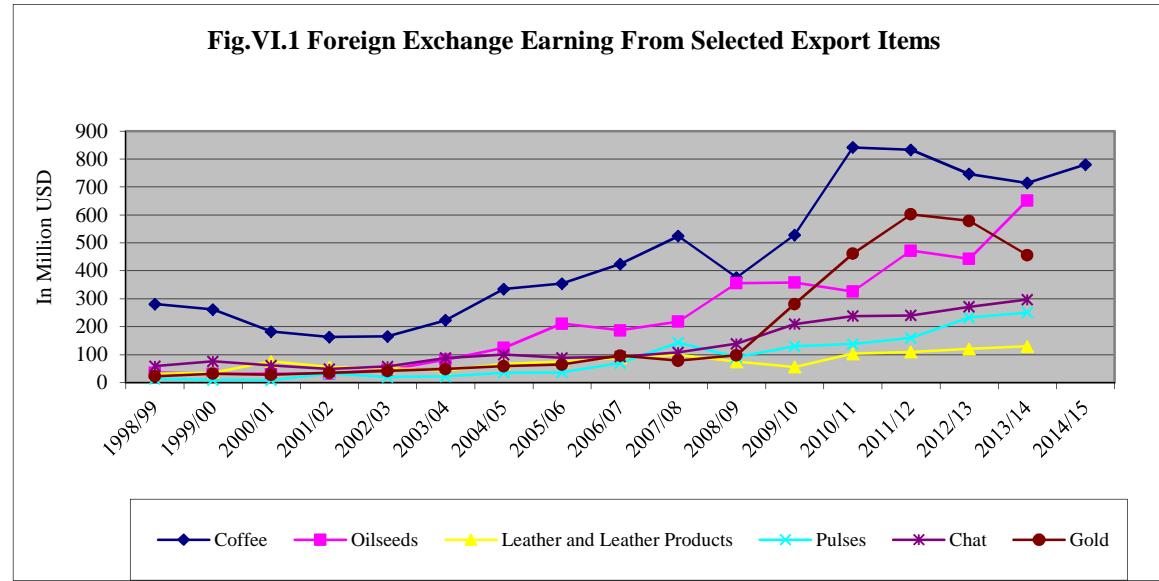
Earnings from export of meat & meat products also improved by 24.4 percent and reached USD 92.8 million owing to 27.1 percent increase in export volume despite 2.2 percent decline in international price. Hence, the share of meat & meat products in total export proceeds increased from 2.3 percent to 3.1 percent.

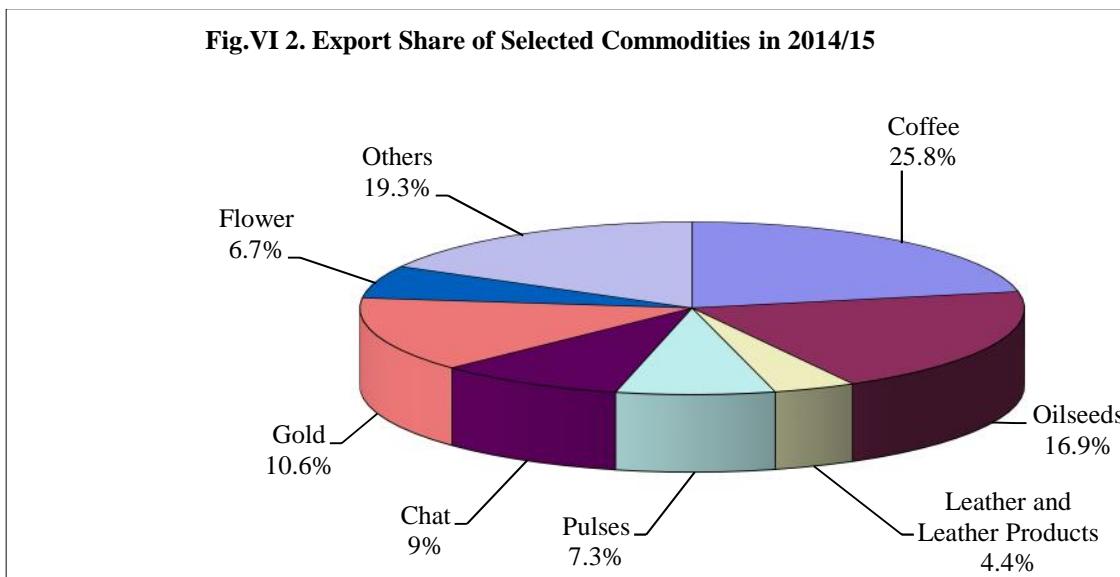
The country earned USD 47.6 million from export of fruits and vegetables, 3.6 percent higher than the previous year. The rise in the value of export was due to a 3.2 percent increase in volume 0.3 percent in and international price. Their share in total exports was merely 1.6 percent.

**Table 5.1: Values of Major Export Items\****(In Millions of USD)*

Particulars	2012/13		2013/14		2014/15		Percentage change	
	A	%share	B	%share	C	%share	C/A	C/B
Coffee	746.6	24.0	714.4	21.6	780.5	25.8	4.5	9.2
Oilseeds	443.5	14.2	651.9	19.8	510.1	16.9	15.0	-21.8
Leather and Leather products	121.1	3.9	129.8	3.9	131.6	4.4	8.7	1.4
Pulses	233.3	7.5	250.7	7.6	219.9	7.3	-5.8	-12.3
Meat & Meat Products	74.3	2.4	74.6	2.3	92.8	3.1	25.0	24.4
Fruits & Vegetables	43.9	1.4	45.9	1.4	47.6	1.6	8.5	3.6
Live Animals	166.40	5.3	186.68	5.7	148.51	4.9	-10.7	-20.4
Chat	271.27	8.7	297.35	9.0	272.42	9.0	0.4	-8.4
Gold	578.8	18.6	456.2	13.8	318.7	10.6	-44.9	-30.2
Flower	186.7	6.0	199.7	6.1	203.1	6.7	8.8	1.7
Electricity	34.6	1.1	45.3	1.4	42.8	1.4	23.9	-5.5
Others	215.4	6.9	247.4	7.5	251.4	8.3	16.7	1.6
<b>Total Export</b>	<b>3115.8</b>	<b>100.0</b>	<b>3300.1</b>	<b>100.0</b>	<b>3019.3</b>	<b>100.0</b>	<b>-3.1</b>	<b>-8.5</b>
<b>Total Export excluding electricity</b>	<b>3081.2</b>		<b>3254.8</b>		<b>2976.5</b>		<b>-3.4</b>	<b>-8.5</b>

\*Data for electricity export of 2014/15 is an estimate

**Source:** Ethiopian Revenue and Customs Authority**Fig.VI.1 Foreign Exchange Earning From Selected Export Items****Source:** Ethiopian Revenue and Customs Authority



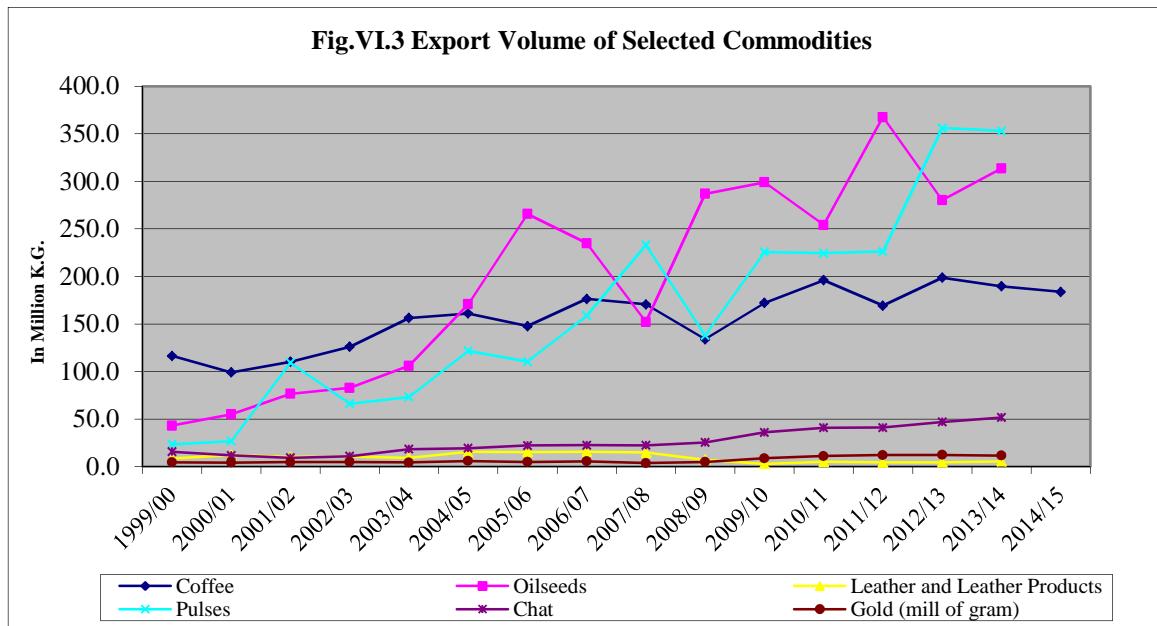
**Source:** NBE Staff Compilation

**Table 5.2: Volume of Major Exports**

(In mill of kg)

Particulars	2012/13	2013/14	2014/15	Percentage Change	
	A	B	C	C/A*100-100	C/B*100-100
Coffee	199.1	189.7	183.9	-7.7	-3.1
Oilseeds	283.9	313.5	319.5	12.5	1.9
Leather and Leather products	4.61	5.57	6.17	33.8	10.8
Pulses	357.5	353.0	340.7	-4.7	-3.5
Meat & Meat Products	15.5	15.0	19.0	23.1	27.1
Fruits & Vegetables	135.2	145.4	150.1	11.1	3.2
Live Animals	100.9	105.8	77.9	-22.8	-26.4
Chat	47.2	51.7	49.2	4.3	-4.8
Gold( <i>in mill of grams</i> )	12.31	12.35	9.04	-26.6	-26.9
Flower	42.4	44.7	46.3	9.2	3.6
Electricity	562.6	782.6	735.3	30.7	-6.0

**Source:** Ethiopian Revenue and Customs Authority



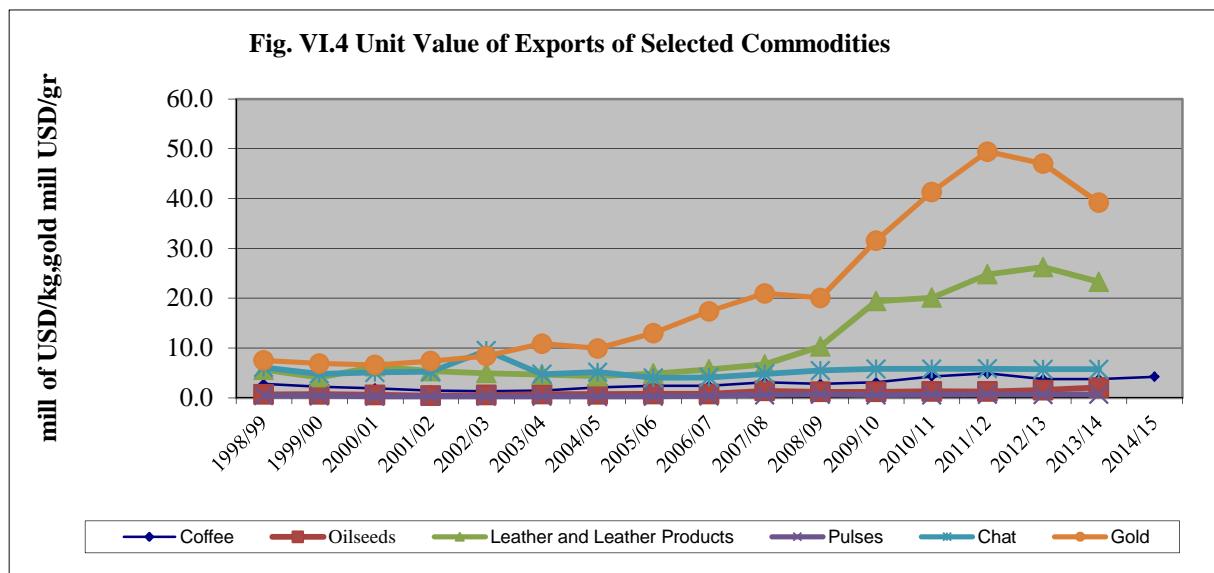
**Source:** Ethiopian Revenue and Customs Authority

**Table 5.3: Unit Value of Major Exports**

(In USD per K.G except gold in USD/gr.)

Particulars	2012/13	2013/14	2014/15	C/A*100-100	C/B*100-100
	A	B	C		
Coffee	3.7	3.8	4.2	13.2	12.7
Oilseeds	1.6	2.1	1.6	2.2	-23.2
Leather and Leather products	26.2	23.3	21.3	-18.8	-8.5
Pulses	0.65	0.71	0.65	-1.1	-9.1
Meat & Meat Products	4.8	5.0	4.9	1.6	-2.2
Fruits & Vegetables	0.3	0.3	0.3	-2.4	0.3
Live Animals	1.6	1.8	1.9	15.6	8.1
Chat	5.8	5.8	5.5	-3.7	-3.8
Gold	47.0	36.9	35.3	-25.0	-4.5
Flower	4.4	4.5	4.4	-0.3	-1.9
Electricity	0.1	0.1	0.1	-5.2	0.6

**Source:** Calculated from Tables 5.3 and 5.4



Source: NBE Staff Compilation

### 5.1.2. Imports

Total merchandise imports in 2014/15 increased by 20 percent over last year and reached USD 16.5 billion as a result of a rise in imports of capital goods, consumer goods, semi-finished goods and raw materials. Import of fuel, however, declined by 20.7 percent in association with a slump in global price. Hence, import GDP ratio is estimated to have increased to 26.3 percent from 24.9 percent in 2013/14.

Import of capital goods rose considerably by 42 percent and amounted to USD 6.9 billion mainly due to increased import of industrial and transport capital goods which surged by 42.5 percent and 56 percent, respectively while agricultural

capital imports however plummeted by 57.6 percent. Consequently, the share of capital goods in total import bills increased to 41.8 percent from 35.3 percent last year.

Similarly, import of consumer goods rose by 22.1 percent due to higher imports of non durable and durable goods by 15.3 and 36.7 percent, respectively. Thus, the share of consumer goods in total import bills went up to 27.4 percent from 26.9 percent the preceding year.

Similarly, semi-finished goods import stood at USD 2.6 billion, which was higher than USD 2.2 billion a year earlier. Meanwhile, fertilizer import went up by 26.1 percent to USD 502.9 million.

Import of raw materials rose by 2.4 percent relative to the preceding year and accounted for only 1 percent of the total imports of the review period.

Fuel import declined by 20.7 percent in 2014/15 and amounted to USD 2 billion as the international price of crude oil dropped by 32.7<sup>6</sup> percent.

The volume of fuel import, however, increased by 6.2 percent. As a result, the share of fuel in total imports went down to 12.4 percent from 18.8 percent last year same period.

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<sup>6</sup> Mundi Index

**Table 5.4: Value of Imports by End Use***(In Millions of USD)*

Categories	2012/13		2013/14		2014/15		Percentage change	
	A	% share	B	% share	C	% share	C/A	C/B
<b>Raw Materials</b>	<b>146.0</b>	<b>1.3</b>	<b>166.6</b>	<b>1.2</b>	<b>170.5</b>	<b>1.0</b>	<b>16.8</b>	<b>2.4</b>
<b>Semi-finished Goods</b>	<b>1,898.0</b>	<b>16.6</b>	<b>2,231.7</b>	<b>16.3</b>	<b>2,578.4</b>	<b>15.7</b>	<b>35.8</b>	<b>15.5</b>
Fertilizers	291.8	2.5	398.9	2.9	502.9	3.1	72.4	26.1
<b>Fuel</b>	<b>2,174.9</b>	<b>19.0</b>	<b>2,573.1</b>	<b>18.8</b>	<b>2,040.9</b>	<b>12.4</b>	<b>-6.2</b>	<b>-20.7</b>
Petroleum Products	2,128.2	18.6	2,494.9	18.2	1,966.7	11.9	-7.6	-21.2
Others	46.7	0.4	61.4	0.4	55.9	0.3	19.5	-9.0
<b>Capital Goods</b>	<b>3,825.1</b>	<b>33.4</b>	<b>4,845.5</b>	<b>35.3</b>	<b>6,882.3</b>	<b>41.8</b>	<b>79.9</b>	<b>42.0</b>
Transport	916.5	8.0	1,089.4	7.9	1,699.1	10.3	85.4	56.0
Agricultural	132.5	1.2	169.0	1.2	71.6	0.4	-46.0	-57.6
Industrial	2,776.0	24.2	3,587.0	26.2	5,111.6	31.1	84.1	42.5
<b>Consumer Goods</b>	<b>3,206.0</b>	<b>28.0</b>	<b>3,694.6</b>	<b>26.9</b>	<b>4,510.9</b>	<b>27.4</b>	<b>40.7</b>	<b>22.1</b>
Durables	804.2	7.0	1,176.2	8.6	1,608.0	9.8	100.0	36.7
Non-durables	2,401.8	21.0	2,518.3	18.4	2,902.9	17.6	20.9	15.3
<b>Miscellaneous</b>	<b>210.7</b>	<b>1.8</b>	<b>200.9</b>	<b>1.5</b>	<b>275.6</b>	<b>1.7</b>	<b>30.8</b>	<b>37.2</b>
<b>Total Imports</b>	<b>11,460.6</b>	<b>100.0</b>	<b>13,712.3</b>	<b>100.0</b>	<b>16,458.6</b>	<b>100.0</b>	<b>43.6</b>	<b>20.0</b>

Source: Ethiopian Revenue and Customs Authority

### 5.1.3. Direction of Trade

About 38.4 percent of Ethiopia's total merchandise export proceeds were derived from Asian markets. Within the Asian countries, the shares of China, Saudi Arabia, United Arab Emirates,

Japan and Israel were 12.1 percent, 6.6 percent, 3.2 percent 3.2 percent and 3.1 percent, respectively

The major exports to China include oilseed, leather & leather products,

natural gums, textile materials, coffee and mineral products.

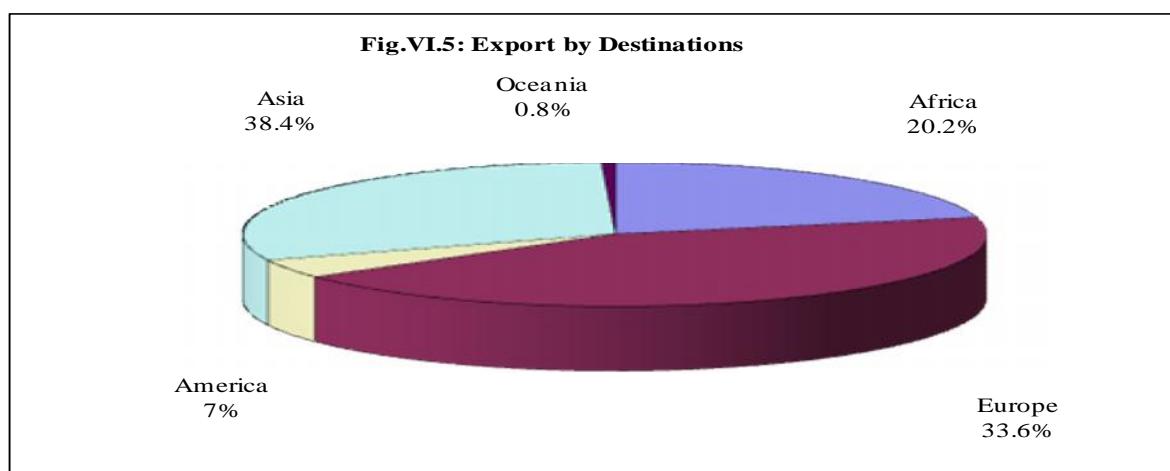
Coffee, meat & meat products, live-animals, flower, oilseeds and cereals were exported to Saudi Arabia. Meat & meat products, live-animals, pulses, flower, food and coffee constituted the major export products to United Arab Emirates. Coffee, oilseeds, flower and bees wax were sent to Japan. Similarly, Israel imported mainly oilseeds, coffee, cereals, chat and spices.

Approximately 33.6 percent of the Ethiopian exports went to European countries of which Switzerland was the largest market accounting for 10.6 percent of the total export. Switzerland largely imported gold and coffee. Germany, constituted 6.9 percent of Ethiopia's export and it was the second major export destination market primarily for coffee, textile & garment and flower. The Netherlands was the third important market in Europe having 5.9 percent of Ethiopia's exports mainly flower, coffee, vegetables and oilseeds.

About 20.2 percent of Ethiopia's total export proceeds were to African countries of which Somalia, Djibouti, Sudan and Egypt accounted for 82.7 percent of the

total export proceeds to the continent. Exports to Somalia included mainly chat, vegetables, live- animals and fruits while chat, vegetables, live-animals, fruits and pulses were exported to Djibouti. In the review period, Sudan imported coffee, pulses, spice and cereals.

Export earnings from the America comprised 7 percent of the country's total export proceeds during 2014/15 of which the United States and Canada took 81.9 percent and 4.8 percent share, respectively. The United States imported mainly coffee, leather & leather products, oilseeds, textile & garment, mineral products, food and flower while coffee was the primary export to Canada.



**Source:** NBE staff compilation

Concerning Ethiopia's merchandize imports by continents of origin, about 70.3 percent were from Asia, 19.5 percent from Europe, 5.4 percent from America and 4.7 percent from Africa.

Among Asian countries, the major import origin was China (38.3 percent), India (6.7 percent), Saudi Arabia (5.1 percent) and Kuwait (4.5 percent).

The prime imports from China included electric materials, metal & metal manufacturing, machinery & air craft materials, road & motor vehicles, clothing, textiles and rubber products. Imports from India constituted metal & metal manufacturing, grains, machine & aircraft materials. Petroleum products were the major imports from Saudi Arabia which accounted for 40.4 percent of the total petroleum imports in 2014/15.

The share of Europe in total imports to Ethiopia was 19.5 percent, of which Italy (3.1 percent), Turkey (2.5 percent), Germany (2.1 percent), the Netherlands (1.6 percent) and United Kingdom (1.3 percent). Machinery & aircraft materials, road & motor vehicles, fertilizer, electrical materials and metals & metal manufacturing were imported from Italy

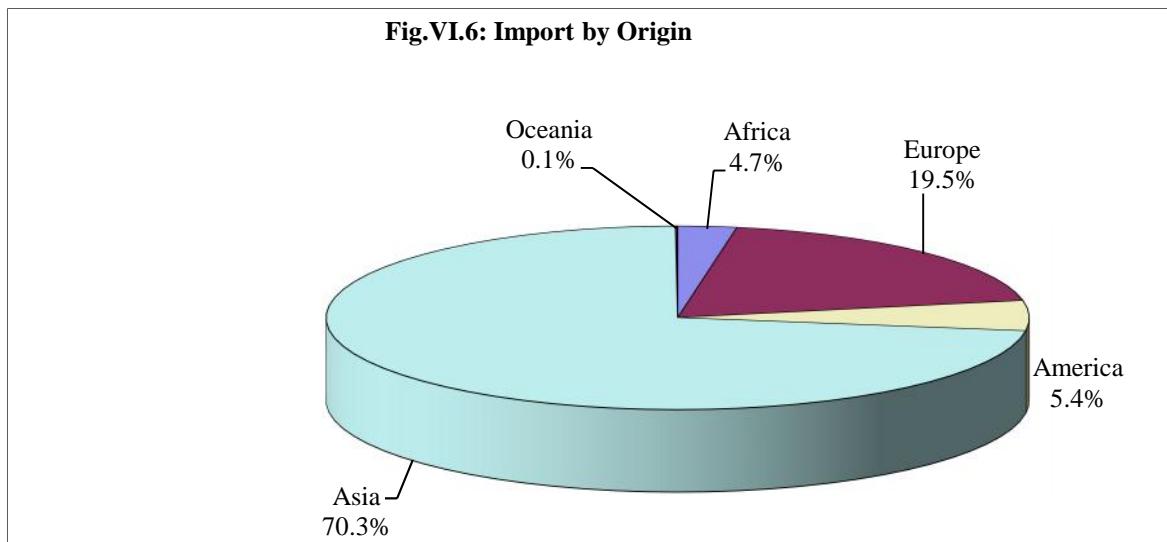
while metal & metal manufacturing, machinery & aircraft materials and electrical materials originated from Turkey. The principal imports from Germany were machinery & aircraft materials, road & motor vehicles, food & live-animals, electrical materials and metal & metal manufacturing. At the same time, fertilizer, machine & air craft materials, food & live-animals and electric materials were imported from the Netherlands. Imports from United Kingdom included machinery and aircraft materials, electric materials, road & motor vehicles and metal & metal manufacturing.

America took 5.4 percent of Ethiopia's import bill of which USA, Brazil and Canada alone constitute over 95.9 percent of the total imports. Machinery & aircraft materials, food and electrical materials were the major imports items from USA and machinery & aircraft materials and road & motor vehicles from Brazil. Machinery & aircraft materials and food were the major items imported from Canada.

Merely 4.7 percent of Ethiopia's imports originated from Africa. With in African countries, the major imports were from

Morocco (30.2 percent), Egypt (22.8 percent), South Africa (19.4 percent) and Sudan (17.4 percent). These four countries constituted 89.8 percent of Ethiopia's total imports.

The major import items from Morocco were petroleum products, electrical materials and road & motor vehicles while petroleum products, metal & metal manufacturing & paper manufacturing were imported from Egypt.



Source: NBE staff compilation

## 5.2 Services and Transfers

### 5.2.1. Services

In 2014/15, net services account recorded USD 341.4 million outflows; compared to USD 559.5 million surplus in the preceding year.

This was attributed to lower net travel (73.5 percent), transport (31.9 percent) and net government services (37.4 percent) coupled with a rise in payments to other services (52.2 percent)

### 5.2.2. Unrequited Transfers

Net transfers improved by 20.8 percent, owing to 27.9 percent surge in private individual transfers, mainly cash

component (24.3 percent) and underground private transfers (43.1 percent). Net official transfers receipts, however, declined by 39.3 percent

**Table 5.5: Services Accounts**

(In Millions of USD)

S/N	Particulars	2012/13	2013/14	2014/15	Percentage Change	
		A	B	C	B/A	C/B
<b>1</b>	Investment Income (2+5)	<b>-112.6</b>	<b>-152.8</b>	<b>-262.5</b>	<b>35.6</b>	<b>71.9</b>
2	Interest, net (3-4)	-110.9	-134.8	-238.9	21.5	77.1
3	Credit	9.8	8.7	10.3	-11.6	19.1
4	Debit	120.7	143.5	249.2	18.9	73.6
5	Dividend, net	-1.7	-17.9	-23.7	954.0	32.1
<b>6</b>	<b>OTHER SERVICES, net (7-8)</b>	<b>571.7</b>	<b>712.2</b>	<b>-78.9</b>	<b>24.6</b>	<b>-111.1</b>
7	Exports of non-factor serves	2852.9	3174.2	3,028.4	11.3	-4.6
	Travel	514.1	538.8	409.8	4.8	-23.9
	Transport	1889.7	2144.9	2,186.9	13.5	2.0
	Gov't	201.0	297.3	184.0	47.9	-38.1
	Other	248.1	193.1	247.7	-22.2	28.3
8	Imports of non-factor serves	2281.2	2461.9	3,107.3	7.9	26.2
	Travel	192.9	223.5	326.1	15.9	45.9
	Transport	1322.4	1542.8	1,776.7	16.7	15.2
	Gov't	0.7	6.3	1.7	805.5	-72.4
	Other	765.2	689.2	1,002.7	-9.9	45.5
<b>9</b>	<b>Net Services (10+11+12+13+14)</b>	<b>459.1</b>	<b>559.5</b>	<b>-341.4</b>	<b>21.9</b>	<b>-161.0</b>
10	Travel	321.2	315.3	83.7	-1.8	-73.5
11	Transport	567.3	602.1	410.2	6.1	-31.9
12	Gov't	200.3	291.0	182.2	45.3	-37.4
13	Other	-517.1	-496.1	-755.0	-4.1	52.2
14	Investment Income	-112.6	-152.8	-262.5	35.6	71.9

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

**Table 5.6 Unrequited Transfers**

(In Millions of USD)

No.	Particulars	2012/13		2013/14		2014/15		Percentage Change	
		A	%Share	B	%Share	C	% Share	B/A	C/B
1	<b>Private Transfers</b>	<b>3,575.5</b>	<b>70.0</b>	<b>4,039.4</b>	<b>73.4</b>	<b>4,881.6</b>	<b>84.6</b>	<b>36.5</b>	<b>20.8</b>
1.1	Receipts	3,653.4	70.4	4,064.7	72.4	4,901.2	84.4	34.2	20.6
	NGOs	<b>1,164.2</b>	<b>22.4</b>	<b>1,096.4</b>	<b>19.5</b>	<b>1,104.5</b>	<b>19.0</b>	<b>-5.1</b>	<b>0.7</b>
	Cash	1,028.0	19.8	982.3	17.5	1,017.0	17.5	-1.1	3.5
	Food	136.2	2.6	114.1	2.0	87.5	1.5	-35.7	-23.3
	Other	-	-	-	-	-	-	-	-
	<b>Private individuals</b>	<b>2,489.3</b>	<b>48.0</b>	<b>2,968.4</b>	<b>52.9</b>	<b>3,796.7</b>	<b>65.4</b>	<b>52.5</b>	<b>27.9</b>
	Cash	1,821.9	35.1	2,182.9	38.9	2,712.6	46.7	48.9	24.3
	In kind	30.9	0.6	29.9	0.5	2.7	0.0	-91.1	-90.8
	Underground Transfers	636.4	12.3	755.6	13.5	1,081.4	18.6	69.9	43.1
1.2	Payments	77.9	93.1	25.3	22.4	19.6	53.8	-74.9	-22.5
2.	<b>Official Transfers</b>	<b>1,529.9</b>	<b>30.0</b>	<b>1,461.0</b>	<b>26.6</b>	<b>886.5</b>	<b>15.4</b>	<b>-42.1</b>	<b>-39.3</b>
2.1	Receipts	1,535.7	29.6	1,548.4	27.6	903.3	15.6	-41.2	-41.7
	Cash	1,535.7	29.6	1,548.4	27.6	903.3	15.6	-41.2	-41.7
	Food	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-
2.2	Payments	5.8	6.9	87.4	77.6	16.8	46.2	189.8	-80.8
	<b>Total Net Transfers</b>	<b>5,105.4</b>	<b>100.0</b>	<b>5,500.5</b>	<b>100.0</b>	<b>5,768.2</b>	<b>100.0</b>	<b>13.0</b>	<b>4.9</b>

**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 41.7 percent to USD 903.3 million compared with USD 1.5 billion in the previous year.

### 5.3. Current Account

Due to the widening of trade deficit and net service outflow coupled with the decline in public transfers, the current account deficit deteriorated to USD 8 billion from USD 4.4 billion deficit last year.

## 5.4. Capital Account

The balance in capital account showed a USD 7 billion surplus, about 70 percent higher than that of last year owing to 11.1 percent growth in official long term loans, other public long term (571.3 percent) net capital inflows and 50.1 percent expansion in FDI.

## 5.5 Changes in Reserve Position

Net foreign assets of the banking system recorded a reserve drawdown of USD 521.4 million, due to decreases in the net foreign assets of commercial banks by USD 614.3 million while that of NBE rose by USD 92.9 million. Hence, gross international reserves of NBE were adequate to cover 2.5 months of imports of goods and non-factor services of next fiscal year.

## 5.6. External Debt

External debt stock of the country at the end of 2014/15 amounted to USD 18.2 billion, depicting a 29.9 percent increase over the preceding year.

This was attributed largely to higher debt owed to commercial (9.2 billion), multilateral (USD 6.2 billion) and bilateral creditors (USD 2.7 billion).

Hence, the country's external debt stock to GDP ratio rose to 29.1 percent from 25.5 percent in 2014/15. At the same time, debt stock to total receipts from export of goods and non-factor services ratio slightly rose to 3 percent from 2.2 percent a year ago. Similarly, commercial debt stock reached USD 9.2 billion in 2014/15 accounting for 50.7 percent of the total debt stock and showing a 175.4 percent annual growth. Of the total debt stock, 34.2 percent was owed to multilateral and 15.1 percent to bilateral creditors.

Thus, the country's external debt burden as measured by debt service to export of goods and services ratio increased to 10.8 percent from 7.5 percent in the same period of last year.

**Table 5.7: External Public Debt**

Particulars	(In Million of USD)				
	2012/13 A	2013/14 B	2014/15 C	B/A	Percentage Change C/B
<b>Annual Debt</b>	<b>2,679.2</b>	<b>3,150.0</b>	<b>5,423.1</b>	<b>17.6</b>	<b>72.2</b>
<b>Debt Stock</b>	11,222.7	14,008.1	18,194.1	24.8	29.9
Multilateral	5,028.5	6,154.5	6,228.6	22.4	1.2
Bilateral	3,192.3	4,505.3	2,743.2	41.1	-39.1
Commercial	3,001.9	3,348.3	9,222.4	11.5	175.4
<b>Debt Service</b>	<b>648.6</b>	<b>652.7</b>	<b>878.2</b>	<b>0.6</b>	<b>34.6</b>
Principal repayments	527.9	509.2	629.0	-3.5	23.5
Interest payments	120.7	143.5	249.2	18.9	73.6
<b>Debt stock to GDP ratio (In percent )</b>	23.7	25.5	29.1	7.5	14.1
<b>Debt stock to export of goods and non-factor services</b>	<b>1.9</b>	<b>2.2</b>	<b>3.0</b>	15.1	39.0
<b>Receipts from goods and non-factor services</b>	<b>5,968.7</b>	<b>6,474.2</b>	<b>6,047.7</b>	<b>8.5</b>	<b>-6.6</b>
<b>Debt service ratio (In percent )<sup>1/</sup></b>	<b>6.6</b>	<b>7.5</b>	<b>10.8</b>	<b>15.1</b>	<b>42.6</b>
<b>Arrears<sup>2/</sup></b>					
Principal					
Interest					
<b>Relief</b>	<b>9.0</b>	<b>3.5</b>	-		
Principal	7.1	2.9			
Interest	2.0	0.6			

**Source:** MoFED

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

## 5.7 Overall Balance of Payments

As a result of the external developments, the overall balance of payments exhibited a USD 521.4 million deficit compared with USD 96.9 million deficit last year.

The trade deficit widened by 29.1 percent owing to a 20 percent growth in merchandise imports in contrast with a 8.5 percent drop in merchandise exports.

Net private transfers also surged by 20.8 percent in the same period. Yet, the current account deficit (including official transfers) widened to USD 8 billion from USD 4.4 billion resulting in current account deficit to GDP ratio rising to 12.8 percent from 7.9 percent a year ago.

**Table 5.8: Balance of Payments**

(In Millions of USD)

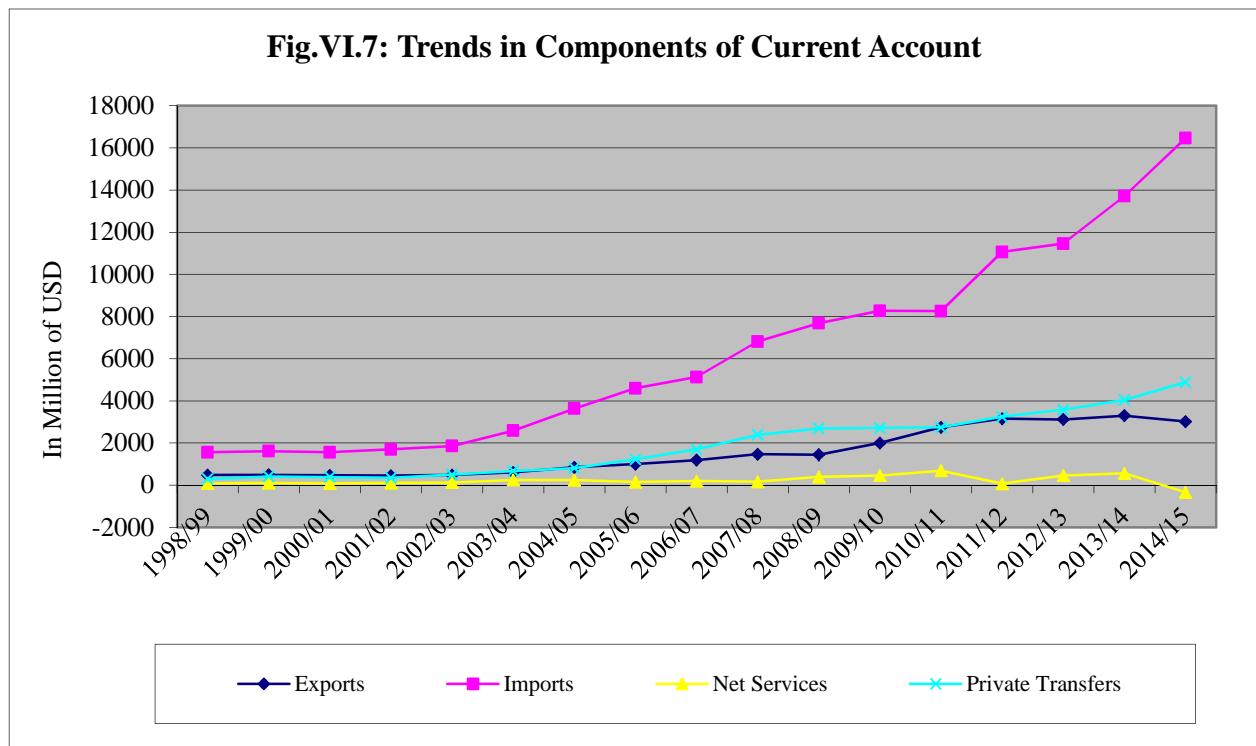
S/N		2012/13	2013/14	2014/15	Percentage Change	
		A	B	C	B/A	C/B
<b>1</b>	<b>Exports, f.o.b.</b>	<b>3,115.8</b>	<b>3,300.1</b>	<b>3,019.3</b>	<b>5.9</b>	<b>-8.5</b>
	Coffee	746.6	714.4	780.5	-4.3	9.2
	Other	2,369.2	2,585.7	2,238.8	9.1	-13.4
<b>2</b>	<b>Imports</b>	<b>11,460.6</b>	<b>13,712.3</b>	<b>16,458.6</b>	<b>19.6</b>	<b>20.0</b>
	Fuel	2,174.9	2,573.1	2,040.9	18.3	-20.7
	Cereals	560.8	442.8	601.6	-21.0	35.9
	Aircraft	18.1	35.4	190.6	95.7	438.8
	Imports excl. fuel, cereals, aircraft	8,706.9	10,661.0	13,625.5	22.4	27.8
<b>3</b>	<b>Trade Balance (1-2)</b>	<b>-8,344.8</b>	<b>-10,412.2</b>	<b>-13,439.3</b>	<b>24.8</b>	<b>29.1</b>
<b>4</b>	<b>Services ,net</b>	<b>459.1</b>	<b>559.5</b>	<b>-341.4</b>	<b>21.9</b>	<b>-161.0</b>
	Non-factor services, net	571.7	712.2	-78.9	24.6	-111.1
	Exports of non-factor services	2,852.9	3,174.2	3,028.4	11.3	-4.6
	Imports of non-factor services	2,281.2	2,461.9	3,107.3	7.9	26.2
	Income, net	-112.645	-152.8	-262.5	35.6	71.9
	O/w Gross official int.	120.7	143.5	249.2	18.9	73.6
	Dividend	-1.7	-17.9	-23.7	954.0	32.1
<b>5</b>	<b>Private transfers, net</b>	<b>3,575.5</b>	<b>4,039.4</b>	<b>4,881.6</b>	<b>13.0</b>	<b>20.8</b>
	o/w: Private Individuals	2,489.3	2,968.4	3,796.7	19.2	27.9
<b>6</b>	<b>Current account balance excluding</b>	<b>-4,310.2</b>	<b>-5,813.3</b>	<b>-8,899.1</b>	<b>34.9</b>	<b>53.1</b>
<b>7</b>	<b>Official transfers, net</b>	<b>1,529.9</b>	<b>1,461.0</b>	<b>886.5</b>	<b>-4.5</b>	<b>-39.3</b>
<b>8</b>	<b>Current account balance including</b>	<b>-2,780.3</b>	<b>-4,352.3</b>	<b>-8,012.6</b>	<b>56.5</b>	<b>84.1</b>
<b>9</b>	<b>Capital account</b>	<b>3,291.2</b>	<b>4,134.6</b>	<b>7,030.6</b>	<b>25.6</b>	<b>70.0</b>
	Off. Long-term Cap., net	1,269.6	2,308.9	2,566.0	81.9	11.1
	Disbursements	1,438.5	2,442.8	2,653.7	69.8	8.6
	Amortization	168.9	133.9	87.7	-20.7	-34.5
	Other pub. long-term cap.	881.7	331.9	2,228.0	-62.4	571.3
	Foreign Direct Investment(net)	1,231.6	1,467.0	2,202.2	19.1	50.1
	Sht-trm Capital	-91.6	26.8	34.3	-129.2	28.4
<b>10</b>	<b>Errors and omissions</b>	<b>-517.5</b>	<b>120.8</b>	<b>460.6</b>		
<b>11</b>	<b>Overall balance (8+9+10)</b>	<b>-6.5</b>	<b>-96.9</b>	<b>-521.4</b>		
<b>12</b>	<b>Financing</b>	<b>6.5</b>	<b>96.9</b>	<b>521.4</b>		
13	Reserves [ Increase(-), Decrease (+)]	15.5	100.3	521.4		
14	Central Bank (NFA)	-57.2	-42.5	-92.9		
	Asset	-127.2	-218.2	-663.1		
	Liabilities	70.0	175.7	570.2		
15	Commercial banks (NFA)	72.7	142.9	614.3		
16	Debt Relief	-9.0	-3.5			
	Principal	7.1	2.9			
	Interest	2.0	0.6			

**Source:** NBE Staff Compilation

**Table 5.9: Components of External Trade as Percentage of GDP<sup>7</sup>**

Particulars	FY 2012/13	FY 2013/14	FY 2014/15	Percentage Change	
	A	B	C	B/A	C/B
Exports	6.6	6.0	4.8	-8.8	-19.6
Imports	24.2	25.0	26.3	3.1	5.5
Trade Balance	-17.6	-19.0	-21.5	7.5	13.4
Net Services	1.0	1.0	-0.5	5.0	-153.6
Net Private Transfers	7.6	7.4	7.8	-2.7	6.2
Current Account Deficit (excluding official transfers)	-9.1	-10.6	-14.2	16.2	34.5
Current Account Deficit (including official transfers)	-5.9	-7.9	-12.8	34.9	61.8

**Source:** NBE Staff Compilation



**Source:** NBE Staff Computations

<sup>7</sup> CA to GDP ratios for FY2013/14 are based on GDP estimate

## 5.8. Developments in Foreign Exchange Markets

### 5.8.1. Developments in Nominal Exchange Rate

The weighted average exchange rate of the Birr in the inter-bank foreign exchange market was Birr 20.0956/USD in 2014/15, depicting 5.4 percent year-on-year depreciation (Table 5.10).

Similarly, the Birr in the parallel foreign exchange market depreciated on average

by 12.2 percent annually to reach Birr 22.2932/USD.

As a result of relatively higher rate of depreciation of the Birr in the parallel market than in the official market, the average spread between the two markets widened to 10.9 percent in 2014/15 from 4.2 percent last year.

**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	
<b>2012/13</b>	<b>18.1947</b>	<b>15.60</b>	<b>3.00</b>	<b>253.00</b>	<b>2.00</b>	<b>19.3025</b>
Qtr. I	17.8705	6.20	3.00	65.00	2.00	18.4400
Qtr. II	18.0782	3.30	0.00	65.00	0.00	18.7333
Qtr. III	18.2971	3.10	0.00	61.00	0.00	19.8367
Qtr. IV	18.5331	3.10	0.00	62.00	0.00	20.2000
<b>2013/14</b>	<b>19.0748</b>	<b>18.70</b>	<b>6.20</b>	<b>254.00</b>	<b>7.00</b>	<b>19.8666</b>
Qtr. I	18.7384	3.20	0.00	63.00	0.00	19.7621
Qtr. II	18.9390	8.20	5.00	65.00	4.00	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
<b>2014/15</b>	<b>20.0956</b>	<b>14.50</b>	<b>2.00</b>	<b>258.00</b>	<b>5.00</b>	<b>22.2932</b>
Qtr. I	19.7288	4.15	1.00	66.00	2.00	21.0731
Qtr. II	19.9925	4.25	1.00	69.00	3.00	22.3220
Qtr. III	20.2145	3.05	0.00	61.00	0.00	22.8861
Qtr. IV	20.4466	3.05	0.00	62.00	0.00	22.8914

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

In the retail foreign exchange market, the average buying and selling rates of forex bureaus depreciated by 5.2 percent and 5.4 percent and stood at Birr 20.1003/USD and Birr 20.4798/USD, respectively.

Therefore, the average spread between forex bureaus buying and selling rates slightly went up to 1.9 percent in 2014/15 from 1.7 percent a year ago (Table 5.14).

**Table 5.11: End Period Mid-Market Rates**

(USD per Unit of Foreign Currency)

Currency	2012/13	2013/14	2014/15	Percentage change	
	A	B	C	C/B	C/A
Pound Sterling	1.5280	1.7023	1.5697	-7.79	2.73
Swedish Kroner	0.1488	0.1481	0.1202	-18.86	-19.24
Djibouti Frank	0.0056	0.0056	0.0056	0.22	0.22
Swiss Frank	1.0569	1.1194	1.0708	-4.34	1.31
Saudi Riyal	0.2666	0.2666	0.2666	0.01	0.01
UAE Dirhams	0.2723	0.2723	0.2723	-0.01	-0.01
Canadian Dollar	0.9574	0.9349	0.8094	-13.43	-15.46
Japanese Yen	0.0102	0.0099	0.0081	-17.82	-20.24
Euro	1.3029	1.3616	1.1112	-18.39	-14.71
SDR	1.5051	1.5438	1.4067	-8.88	-6.54

Source: Staff Compilation

The end period mid market exchange rate of the US dollar appreciated against virtually all major international currencies such as Swedish Kroner (18.9 percent), Euro (18.4), Japanese Yen (17.8 percent), Canadian Dollar (13.4 percent),

SDR (8.9 percent), Pound Sterling (7.8 percent), Swiss Frank (4.3 percent) and UAE Dirhams (0.01 percent). It however depreciated vis-à-vis Djibouti Frank (0.2 percent) and Saudi Riyal (0.01 percent) (Table 5.11).

**Table 5.12: End Period mid Market Rates**

(Birr per Unit of Foreign Currency)

Currency	2012/13	2013/14	2014/15	Percentage change	
	A	B	C	C/B	C/A
<b>USD</b>	18.7358	19.675	20.6688	5.05	10.32
<b>Pound</b>	28.6284	33.49275	32.4437	-3.13	13.33
<b>Swedish Kroner</b>	2.7871	2.9131	2.4838	-14.74	-10.88
<b>Djibouti Frank</b>	0.105	0.1104	0.1160	5.07	10.27
<b>Swiss Frank</b>	19.8011	22.02505	22.1316	0.48	11.77
<b>Saudi Riyal</b>	4.9959	5.246	5.5108	5.05	10.31
<b>UAE Dirhams</b>	5.101	5.35665	5.6274	5.05	10.32
<b>Canadian Dollar</b>	17.9376	18.3947	16.7291	-9.06	-6.74
<b>Japanese Yen</b>	0.1908	0.19405	0.1682	-13.35	-11.87
<b>Euro</b>	24.4109	26.78945	22.9671	-14.27	-5.91
<b>SDR</b>	28.1998	30.37425	29.0748	-4.28	3.10

**Source:** Staff Compilation

Meanwhile, the end period exchange rate of the Birr appreciated against most international currencies. For instance, Birr appreciated 14.7 percent against Swedish Kroner, 14.3 percent against Euro, 13.4 percent against Japanese Yen, 9.1 percent against Canadian Dollar, 4.3 percent against SDR and 3.1 percent against Pound Sterling. Nevertheless, the end period Birr rate depreciated against Djibouti Frank, USD, UAE Dirham's and Saudi Riyal by 5.1 percent each and 0.5 percent against Swiss Frank (Table 5.12).

### 5.8.2. Movements in Real Effective Exchange Rate

The real effective exchange rate of the Birr (REER) has been appreciating since 2010/11 due to higher domestic inflation relative to that of major trading partner countries. In 2014/15, REER of the Birr highly appreciated by 11.9 percent compared to 0.44 percent appreciation in the previous year due to the combined effect of relatively higher domestic inflation and fast depreciation of trading partners' currency against USD than that of the Birr (Table 5.13).

Accordingly, the nominal effective exchange rate (NEER) of the Birr appreciated by 4 percent annually

compared to 3.3 percent depreciation in 2013/14.

**Table 5.13: Trends in Real and Nominal Effective Exchange Rates**

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

**Source:** NBE Staff Compilation

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

**Where:** REERI = Real Effective Exchange Rate Index

NEERI = Nominal Effective Exchange Rate Index

### 5.8.3. Foreign Exchange Transactions

About, USD 14.5 million was traded in the inter-bank foreign exchange market in 2014/15 which was 22.5 percent lower than that of 2013/14.

Of the total amount of traded, USD 2.0 million (or 13.8 percent) was among commercial banks the remaining USD 12.5 million (86.2 percent) was supplied by NBE (Table 5.10).

Meanwhile, foreign exchange purchase of forex bureau of commercial banks decreased by 27.7 percent over the preceding year and reached USD 364.7 million. Their sales, however, increased by 29.6 percent to USD 210 million from USD 162.1 million in 2013/14 due to higher foreign exchange demand for business, education and medical relate travels (Table 5.14).

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

Name of Forex Bureau	2012/13		2013/14		2014/15		Percentage Change	
	A	B	C	D	E	F	E/C	F/D
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
Commercial Bank of Ethiopia	73.64	2.24	412.21	70.77	292.96	100.82	-28.93	42.47
Bank of Abyssinia	4.5	6.77	4.41	5.13	5.32	10.02	20.58	95.22
Dashen Bank	28.52	34.84	33.55	37.30	22.80	28.51	-32.05	-23.56
Awash International Bank	7.09	13.08	9.13	12.53	6.68	19.51	-26.84	55.65
Construction & Business Bank	4.91	1.25	4.27	1.40	4.36	3.03	2.11	116.15
Wegagen Bank	5.73	4.26	5.02	6.73	4.62	5.71	-7.84	-15.16
United Bank	25.87	12.1	16.25	10.09	11.22	13.41	-30.95	32.94
Development Bank	3.53	0.27	3.72	0.73	0.43	0.65	-88.38	-10.94
Nib International Bank	5.94	6.67	4.47	6.40	2.66	8.39	-40.58	31.05
Lion International Bank	3.65	1.03	2.59	1.73	2.21	2.62	-14.50	51.48
Oromia International Bank	1.99	1.66	2.81	2.11	6.18	4.62	119.90	118.88
Zemen Bank	0.97	2.65	0.90	4.07	0.67	3.97	-26.13	-2.43
Cooperative Bank of Oromia	0.58	0.79	0.41	0.41	0.93	3.07	125.31	641.36
Buna International Bank	1.51	0.57	0.38	0.29	0.67	1.37	76.62	370.58
Birhan International Bank	0.45	0.37	0.01	0.03	0.33	0.45	3122.37	1402.43
Abay Bank	1	0.9	0.54	1.36	0.88	2.09	64.52	53.30
Addis International Bank	1.8	0.22	1.61	0.47	0.95	0.96	-41.15	102.84
Debub Global Bank	0.05	0.05	1.28	0.25	0.29	0.27	-77.40	7.73
Enat Bank	-	-	0.62	0.26	0.52	0.54	-16.53	104.29
<b>Total</b>	<b>171.7</b>	<b>89.7</b>	<b>504.18</b>	<b>162.07</b>	<b>364.67</b>	<b>210.00</b>	<b>-27.67</b>	<b>29.57</b>
<b>Average Exchange Rate</b>	<b>18.2085</b>	<b>18.5881</b>	<b>19.0997</b>	<b>19.4255</b>	<b>20.1003</b>	<b>20.4798</b>	<b>5.24</b>	<b>5.43</b>

**Source:** Staff Compilation

## VI. General Government Finance

### 6.1 General

The overall fiscal operations of the general government in 2014/15 resulted in a deficit of Birr 30.8 billion, which was greater than Birr 27.3 billion (including grants) recorded in 2013/14. Total revenue (including grants) depicted a 26.3 percent annual growth (Table 6.2). Thus, revenue to GDP ratio increased to 15.1 percent from 13.8 percent last year (Table 6.2).

General government expenditure also rose by 24.3 percent during the review period due to growth in both current and capital expenditures (Table 6.3).

The ratio of expenditure to GDP slightly rose to 18.6 percent from 17.5 percent a year earlier. (Table 6.1)

#### 6.1 Measuring Fiscal Sustainability (In %)

Fiscal Year	PD/GDP	IP/RR	Debt/GDP	R(Debt)	R(GDP)	Exp/GDP	Rev/GDP	R(OR)
2001/02	-7.3	9.7	41.8	0.0	-2.2	26.8	15.8	-1.8
2002/03	-6.6	10.9	38.8	2.4	10.3	28.2	15.3	7.1
2003/04	-3.0	7.8	36.3	10.4	18.0	23.9	16.2	24.8
2004/05	-4.5	6.5	38.2	29.4	22.9	23.5	14.7	11.1
2005/06	-4.7	5.4	37.8	22.3	23.6	22.5	15.0	26.3
2006/07	-3.7	5.5	36.3	25.5	30.6	20.9	12.8	11.6
2007/08	-2.9	3.8	32.5	29.3	44.4	19.1	12.1	36.7
2008/09	-0.9	3.2	26.9	11.5	35.1	17.4	12.1	34.8
2009/10	-1.3	2.9	27.5	17.1	14.2	18.8	14.2	34.1
2010/11	-1.6	2.8	26.8	29.8	33.4	18.6	13.7	28.3
2011/12	-1.2	2.2	25.6	39.5	46.1	16.8	13.9	48.8
2012/13	-2.0	2.4	27.4	23.4	15.5	18.1	14.6	20.6
2013/14	-2.6	2.6	28.6	28.4	21.1	17.5	13.8	17.8
2014/15	-2.5	2.9	31.8	31.1	16.6	18.6	15.1	27.7

Source: Staff Computation

PD = Primary Deficit

IP/RR = Share of interest payments in Recurrent revenue

D(debt/GDP) = Ratio of Domestic Debt to GDP

R(Debt) = Growth rate of Domestic Debt

R(GDP) = Growth rate of GDP at current market price

Exp/GDP = Ratio of General Government Expenditure to GDP

Rev/GDP = Ratio of General Government Revenue to GDP

R(OR) = Growth rate of ordinary Revenue

## 6.2 Revenue and Grants

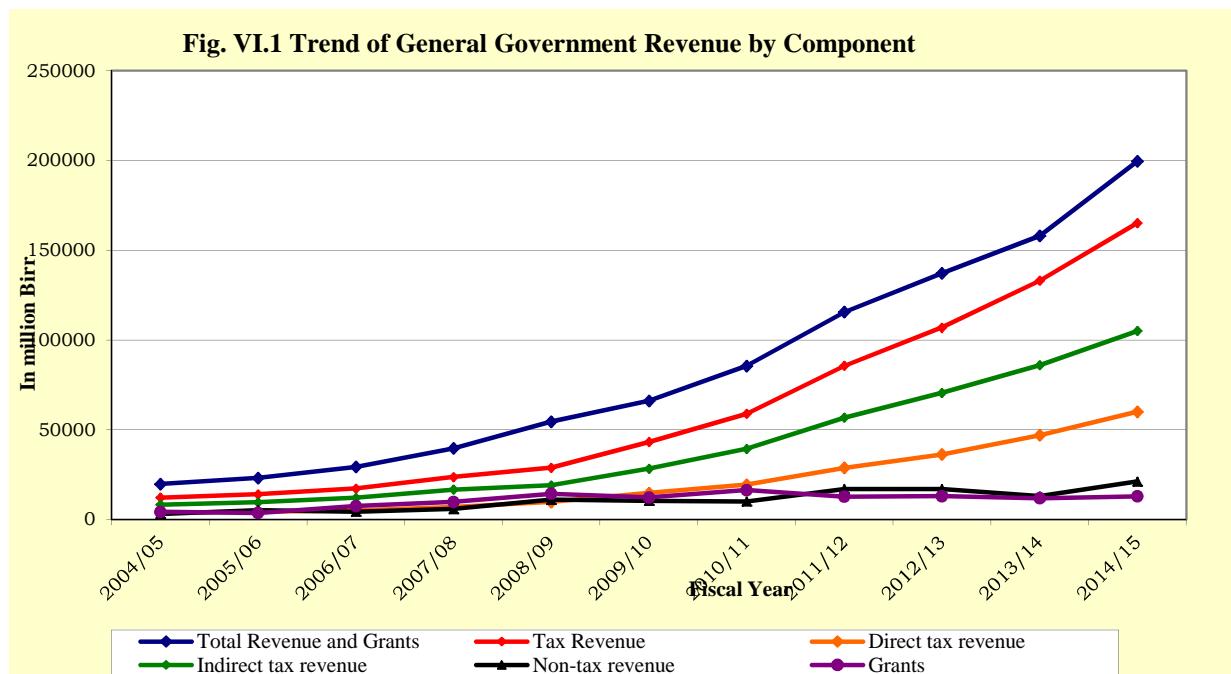
General government revenue, including grants, registered 26.3 percent increase to Birr 199.6 billion in the review year (Table 6.2). Its GDP ratio increased to (15.1 percent) from 13.8 percent in 2013/14.

About 88.6 percent of the total domestic revenue was generated through taxes which surged by 24.2 percent and reached Birr 165.3 billion on account of improved collection of taxes from direct taxes (27.9 percent) and indirect taxes (22.1 percent). Hence, the respective contributions of direct and indirect taxes

to tax revenue were 36.4 percent and 63.6 percent in 2014/15.

A total of Birr 21.3 billion was collected through non-taxes in 2014/15, which showed a 63.2 percent growth over last year same period due to improvements in all components of non-taxes except reimbursement & property sales (Table 6.2).

External grants stood at Birr 13 billion, about 9.4 percent higher than a year ago. All in all, total revenue performance including grants in the 2014/15 was about 103 percent of the total annual budget.



**Table 6.2: Summary of General Government Revenue by Component**

(In Millions of Birr)

Particulars	2013/14	2014/15		Percentage Change	Performance Rate
	[A]	[B]	[C]		
	Pre. Act	Revised Budget	Pre. Act		
<b>Total Revenue and Grants</b>	<b>158,076.5</b>	<b>193,807.6</b>	<b>199,639.1</b>	<b>26.3</b>	<b>103.0</b>
<b>Total Revenue 1/</b>	<b>146,172.8</b>	<b>176,980.2</b>	<b>186,618.7</b>	<b>27.7</b>	<b>105.4</b>
<b>Tax Revenue</b>	<b>133,118.3</b>	<b>158,239.7</b>	<b>165,312.5</b>	<b>24.2</b>	<b>104.5</b>
<b>1. Direct Tax Revenue</b>	<b>47,020.7</b>	<b>56,411.5</b>	<b>60,154.4</b>	<b>27.9</b>	<b>106.6</b>
1.1 Income and Profit Taxes	45,708.7	53,998.6	58,288.1	27.5	107.9
Personal	13,796.3	17,370.6	20,432.8	48.1	117.6
Business	26,909.9	30,731.4	30,444.1	13.1	99.1
Others 2/	5,002.5	5,896.7	7,411.2	48.1	125.7
1.2 Rural Land Use Fee	326.3	407.6	239.7	(26.5)	58.8
1.3 Urban Land Use Fee	985.7	2,005.3	1,626.6	65.0	81.1
<b>2. Indirect Taxes</b>	<b>86,097.6</b>	<b>101,828.2</b>	<b>105,158.0</b>	<b>22.1</b>	<b>103.3</b>
2.1 Domestic Taxes	40,498.9	46,566.9	52,367.9	29.3	112.5
2.2 Foreign Trade Taxes	45,598.7	55,261.3	52,790.1	15.8	95.5
Import	45,598.7	55,261.3	52,790.1	15.8	95.5
Export					
<b>3. Non-Tax Revenue</b>	<b>13,054.5</b>	<b>18,740.5</b>	<b>21,306.2</b>	<b>63.2</b>	<b>113.7</b>
3.1 Charges and Fees	1,527.5	1,367.8	2,384.2	56.1	174.3
3.2 Govt. Invt. Income 3/	3,562.8	4,249.1	4,997.2	40.3	117.6
3.3 Reimb. And Property Sales	245.3	511.2	199.9	(18.5)	39.1
3.4 Sales of Goods & Services	2,538.3	4,374.2	3,017.3	18.9	69.0
3.5 Others 4/	5,180.5	8,238.2	10,707.6	106.7	130.0
<b>4. Grants</b>	<b>11,903.7</b>	<b>16,827.4</b>	<b>13,020.4</b>	<b>9.4</b>	<b>77.4</b>

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**

A total of Birr 230.5 billion was spent on different general government operations, which was 24.3 percent higher than in 2013/14 due to both increased in recurrent and capital expenditures (Table 6.3).

Recurrent expenditure reached Birr 113.3 billion, showing 45.2 percent growth over last fiscal year and its share in total expenditure stood at 49.2 percent.

Capital expenditure at Birr 117.1 billion depicted 9.1 percent increase vis-à-vis 2013/14. The performance rate of capital expenditure was 94 percent.

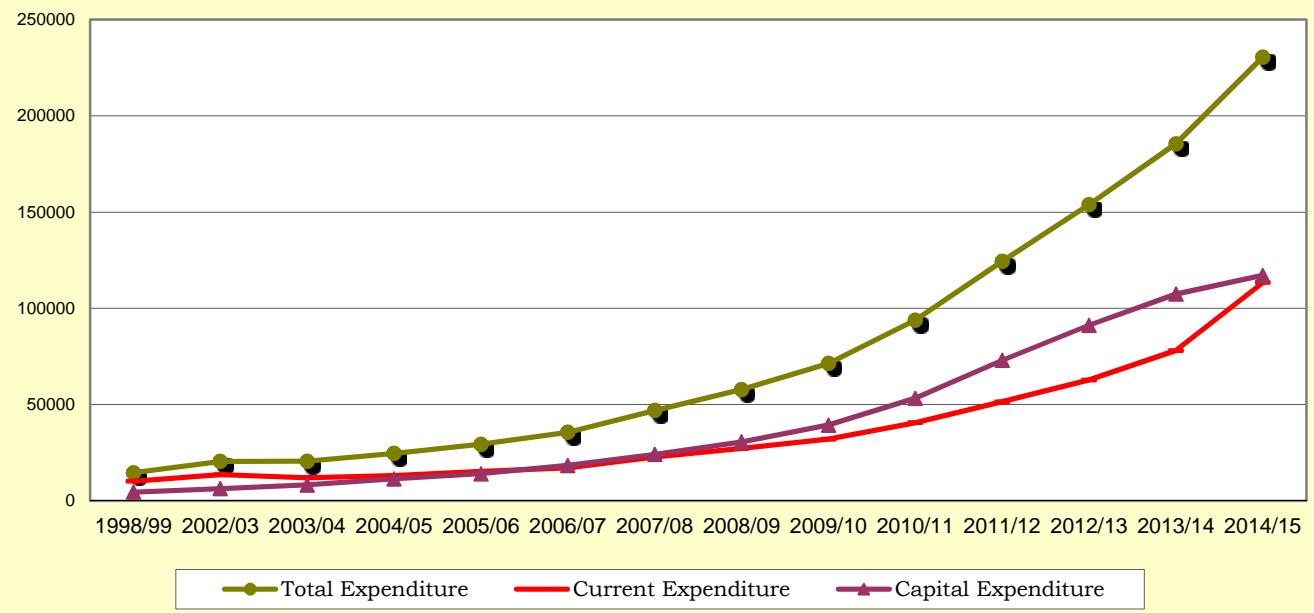
In summary, general government expenditure performance rate was 100.3 percent of the annual budget.

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

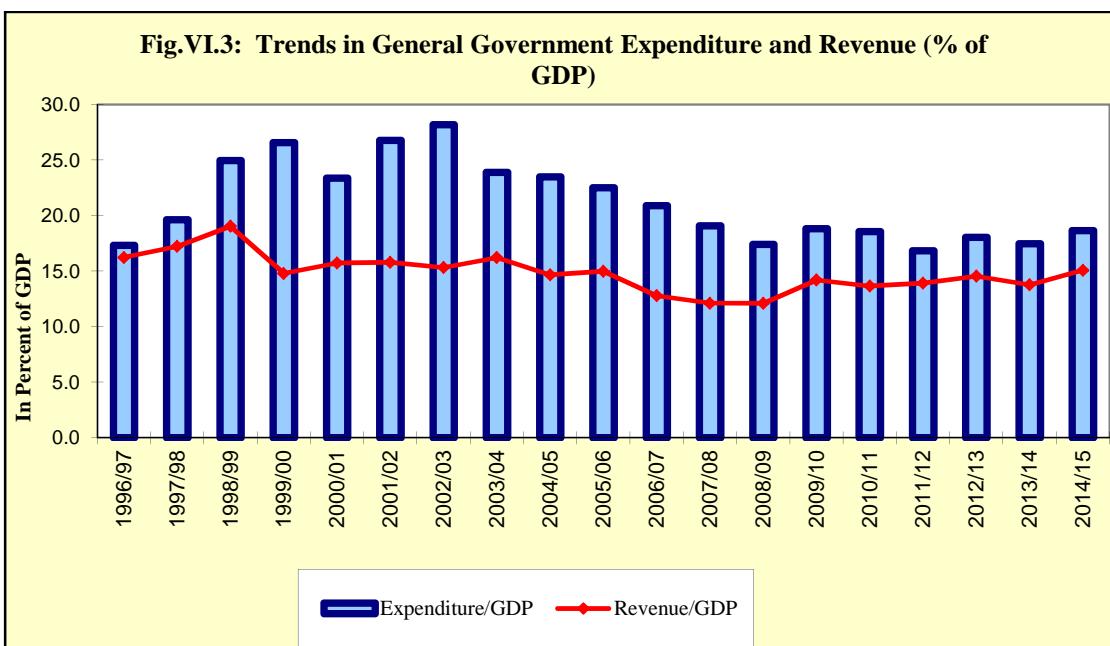
Particulars	2013/14	2014/15		Percentage Change [C/A]	Performance Rate [C/B]
	[A] Pre. Act	[B] Revised Budget	[C] Pre. Act		
Total Expenditure	<b>185,471.78</b>	<b>229,742.62</b>	<b>230,521.18</b>	<b>24.3</b>	<b>100.3</b>
<b>1. Current Expenditure</b>	<b>78,086.90</b>	<b>105,167.42</b>	<b>113,375.50</b>	<b>45.2</b>	<b>107.8</b>
General Services	29,193.90	29,336.63	38,915.70	33.3	132.7
Economic Services	10,370.60	14,335.82	14,840.50	43.1	103.5
Social Services	32,519.40	41,534.17	51,688.60	58.9	124.4
Interest and Charges	3,794.20	5,417.30	5,337.70	40.7	98.5
External Assistance <sup>1/</sup>					
Social Safety Net					
Others (miscellaneous)	2,208.80	14,543.50	2,593.00	17.4	17.8
<b>2. Capital Expenditure</b>	<b>107,384.88</b>	<b>124,575.20</b>	<b>117,145.68</b>	<b>9.1</b>	<b>94.0</b>
Economic Development	73,461.69	86,009.50	76,398.81	4.0	88.8
Social Development	26,200.00	31,632.70	28,639.51	9.3	90.5
General Development	7,723.18	6,933.00	12,107.36	56.8	174.6
<b>3. Special programs</b>					

*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**



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



## **6.4 Deficit Financing**

During the review period general government budgetary operations, including external grants, resulted in a deficit of Birr 30.8 billion, which was , 12.7 percent higher than a year earlier. Primary deficit as percentage of GDP was 2.5 percent. The deficit was mainly financed by net domestic and external borrowing.

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

Particulars	2013/14	2014/15		Percentage Change [C/A]	Perform- ance Rate [C/B]
	[A]	[B]	[C]		
	Pre. Act	Revised Budget	Pre. Act		
<b>Revenue and Grants</b>	<b>158,076.5</b>	<b>193,807.6</b>	<b>199,639.1</b>	<b>26.3</b>	<b>103.0</b>
Revenue	146,172.8	176,980.2	186,618.7	27.7	105.4
Grants	11,903.7	16,827.4	13,020.4	9.4	77.4
<b>Total Expenditure</b>	<b>185,471.8</b>	<b>229,742.6</b>	<b>230,521.2</b>	<b>24.3</b>	<b>100.3</b>
Current Expenditure	78,086.9	105,167.4	113,375.5	45.2	107.8
Capital Expenditure	107,384.9	124,575.2	117,145.7	9.1	94.0
<b>Overall Surplus/ Deficit (Including Grants)</b>					
<b>(Excluding Grants)</b>	<b>(27,395.3)</b>	<b>(35,935.0)</b>	<b>(30,882.1)</b>	<b>12.7</b>	<b>85.9</b>
<b>Total Financing</b>	<b>(39,299.0)</b>	<b>(52,762.4)</b>	<b>(43,902.5)</b>	<b>11.7</b>	<b>83.2</b>
<b>Net External Borrowings</b>	<b>27,395.3</b>	<b>35,935.0</b>	<b>30,882.1</b>	<b>12.7</b>	<b>85.9</b>
Gross Borrowing	<b>20,493.3</b>	<b>15,293.5</b>	<b>18,733.6</b>	<b>(8.6)</b>	<b>122.5</b>
o/w Special Programs	21,877.4	17,502.9	20,683.3	(5.5)	118.2
Amortization Paid					
HIPC Relief	1,424.3	2,209.4	1,949.7	<b>36.9</b>	<b>88.2</b>
<b>Net Domestic Borrowings</b>	<b>40.2</b>				
Banking System	<b>13,510.0</b>	<b>20,641.5</b>	<b>18,466.2</b>	<b>36.7</b>	<b>89.5</b>
Non-Banking Systems	2,218.2		10,738.6	384.1	
<b>Privatization Receipts</b>	<b>11,291.8</b>		<b>7,727.6</b>	(31.6)	
<b>Others and Residuals</b>			<b>485.0</b>		
	<b>(6,608.0)</b>		<b>(6,802.7)</b>	<b>2.9</b>	

**Source:** Ministry of Finance and Economic Development

## VII. Investment

The Ethiopian Investment Agency (EIA) and Regional Investment Offices licensed a total of 407 projects in 2014/15. All of which entered operational stage. The projects started operation with investment capital of Birr 4.1 billion showing 173.5 and 640 percent annual growth in total investment capital and number of projects, respectively.

All the investment projects were private. Out of the total private investment projects for the year, 362 (89 percent) were domestic

with a capital of Birr 1.5 billion; whereas 45 projects were foreign having Birr 2.6 billion as capital.

The average capital per project for domestic investment projects was Birr 4.2 million and that of foreign was Birr 57.9 million; implying that foreign investment projects were more of capital intensive than domestic investment projects.

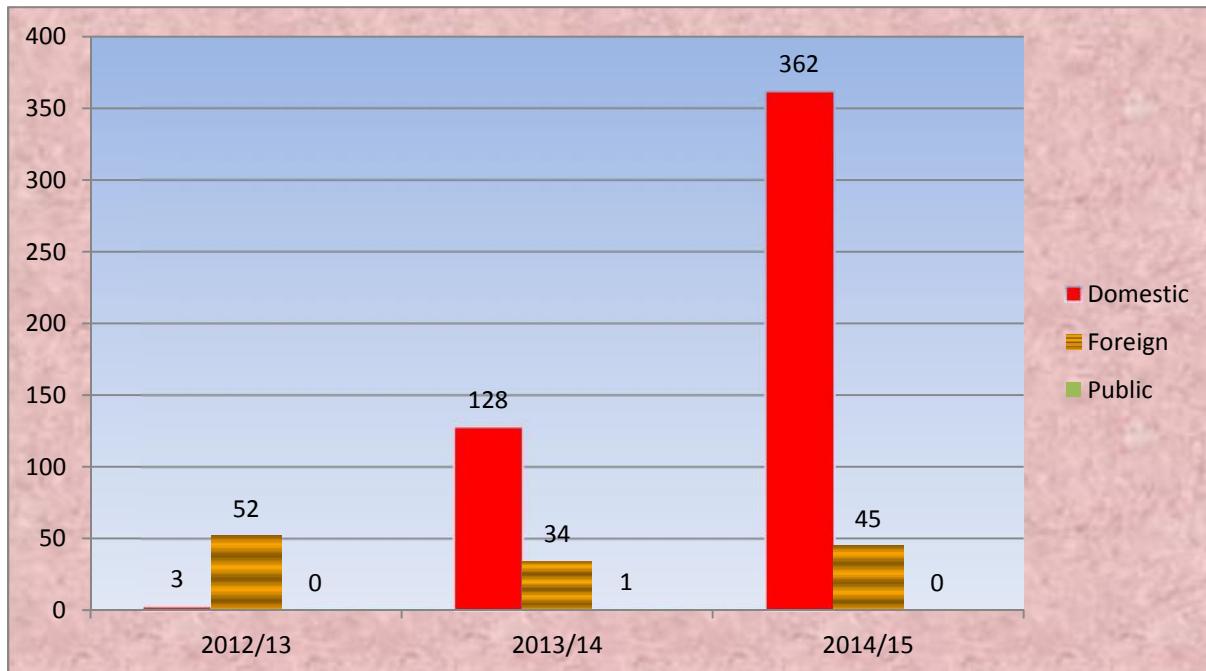
The investment projects have created job opportunities for about 11,227 permanent and 10,505 casual workers (Table 7.1).

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

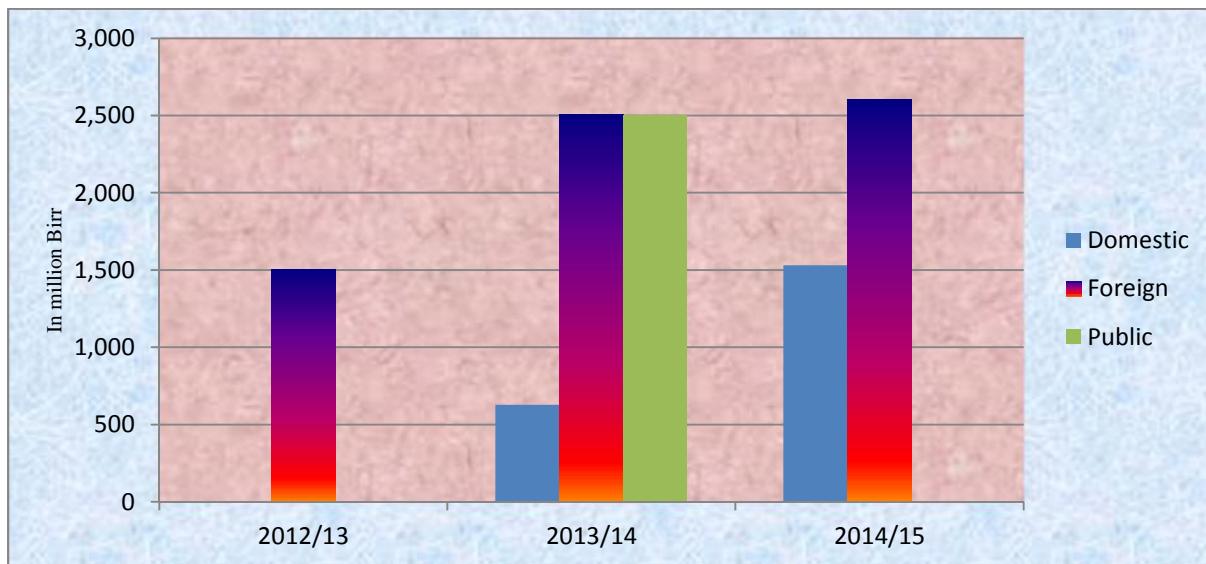
		2012/13	2013/14	2014/15	Percentage change	
		A	B	C	C/A	C/B
1. Total Investment	Number	55	163	407	<b>640.0</b>	<b>149.7</b>
	Capital	1,512	5,636.2	4,135.0	<b>173.5</b>	<b>(26.6)</b>
	Permanent Workers	1,861	3,936	11,227	<b>503.3</b>	<b>185.2</b>
	Temporary Workers	1,221	6,425	10,505	<b>678.7</b>	<b>63.5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

Source: Ethiopian Investment Agency

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



**Source:** Ethiopian Investment Agency.

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

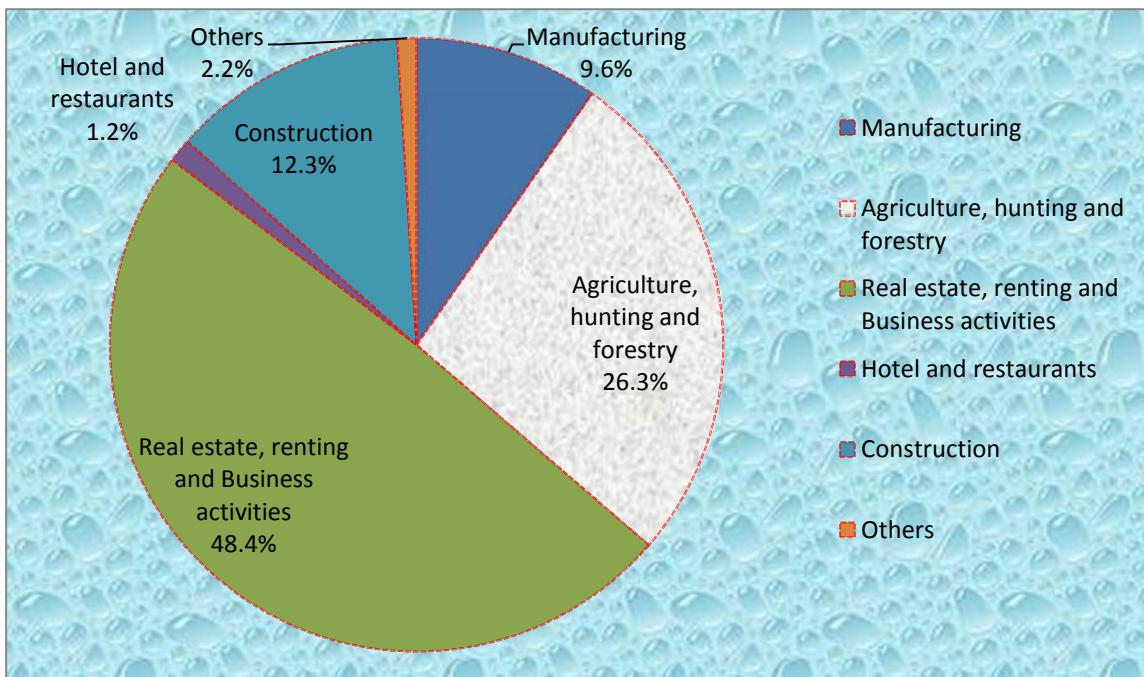
**Source:** Ethiopian Investment Agency

## 7.1 Investment by Sector

Of the total number of investment projects in 2014/15, about 48.4 percent were in real estate, renting & business activities, 26.3 percent in agriculture, hunting & forestry, 12.3 percent in construction, 9.6 percent in manufacturing, 1.2 percent in hotel and restaurants and the other sectors constituted 2.2 percent.

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

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



**Source:** Ethiopian Investment Agency.

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

(Capital in millions of Birr)

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

**Source:** Ethiopian Investment Agency.

## 7.2 Distribution by Region

Out of the total 407 investment projects that went in to operation in 2014/15, about 304 projects (74.7 percent) with Birr 1.4 billion capital were established in Oromia, followed by 49 projects (12.0 percent) with Birr 207.3 million capital were in Tigray, 31 projects (7.6 percent) with investment capital of Birr

2.4 billion in Addis Ababa; 15 projects (3.7 percent) with Birr 97.5 million capital in Afar, and 4 projects with investment capital of Birr 10 million in Amhara regional state (Table 7.3).

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

*(Capital in millions of Birr)*

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

**Source:** Ethiopian Investment Agency.

## VIII. International Developments

### 8.1 International Economic Developments

#### 8.1.1 Overview of the World Economy<sup>8</sup>

Global growth in 2014 was a modest 3.4 percent, reflecting a pickup in growth in advanced economies relative to the previous year and a slowdown in emerging market and developing economies. Despite the slowdown, emerging market and developing economies still accounted for three-fourths of global growth in 2014. Complex forces that affected global activity in 2014 are still shaping the outlook. These include medium- and long-term trends, such as population aging and declining potential growth; global shocks, such as lower oil prices; and many country- or region-specific factors, such as crisis legacies and exchange rate swings triggered by actual and expected changes in monetary policies.

In the first quarter of 2015, the starting point for this update of the IMF's global economic forecasts, world growth at 2.2 percent fell some 0.8 percentage point short of the forecasts in the April 2015 WEO.

The shortfall reflected to an important extent an unexpected output contraction in the United States, with attendant spillovers to Canada and Mexico. One-off factors, notably harsh winter weather and port closures, as well as a strong downsizing of capital expenditure in the oil sector contributed to weakening U.S. activity.

Outside North America, positive and negative surprises were roughly offsetting. Growth in output and domestic demand in emerging market and developing economies broadly weakened, as expected.

Oil prices have rebounded more than expected in the second quarter of 2015, reflecting higher demand and expectations that oil production growth in the United States will slow faster than previously forecast. Nevertheless, the average annual oil price expected for 2015 USD 59 a barrel is in line with the oil price assumption in the April 2015 WEO, with a somewhat smaller increase forecast for 2016 and beyond, as global oil supply is running well above 2014

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<sup>8</sup> Excerpted from European Central Bank report monthly reports through January to June, 2015 and World Economic Outlook, April and July 9, 2015

levels and global oil inventories are still rising. The reduction in oil investment may, however, lead to a somewhat weaker boost to activity in North America from lower oil prices than expected earlier.

Growth in the United States was stronger than expected, averaging about 4 percent annualized in the last three quarters of 2014. Consumption the main engine of growth has benefited from steady job creation and income growth, lower oil prices, and improved consumer confidence. The unemployment rate declined to 5.5 percent in February, more than 1 percentage point below its level of a year ago.

In Japan, after a weak second half of the year, growth in 2014 was close to zero, reflecting weak consumption and plummeting residential investment.

In the euro area, activity was weaker than expected in the middle part of 2014 but showed signs of a pickup in the fourth quarter and in early 2015, with consumption supported by lower oil prices and higher net exports.

Although activity was broadly in line with the forecast, investment growth in China declined in the second half of 2014, reflecting a correction in the real estate

Sector and high-frequency indicators point to some further slowdown.

Growth in Latin America in the second half of 2014 was modest, reflecting weak activity in Brazil, lower- than-expected growth in Mexico, and weakening momentum in other economies in the region.

Economic performance in Russia was a bit stronger than expected in the second half of 2014, but the increase in geopolitical tensions, declining confidence, and the repercussions of the oil price decline point to a more severe weakening of the outlook in the Commonwealth of Independent States (CIS) as a whole at the start of the year.

**Table 8.1: Overview of World Economic Outlook and Projection**

(Annual Percentage Change)

Particulars	2013	2014	Projection	
			2015	2016
<b>World Output</b>	<b>3.4</b>	<b>3.4</b>	<b>3.3</b>	<b>3.8</b>
Advanced Economies	1.4	1.8	2.1	2.4
United States	2.2	2.4	2.5	3.0
Euro Area	-0.4	0.8	1.5	1.7
Japan	1.6	-0.1	0.8	1.2
Emerging Market & Developing Economies	5.0	4.6	4.2	4.7
<b>World Trade Volume (goods &amp; services)</b>	<b>3.3</b>	<b>3.2</b>	<b>4.1</b>	<b>4.4</b>
<b>Imports</b>				
Advanced Economies	2.1	3.3	4.5	4.5
Emerging Market & Developing Economies	5.2	3.4	3.6	4.7
<b>Exports</b>				
Advanced Economies	3.1	3.3	3.2	4.1
Emerging Market & Developing Economies	4.6	3.4	5.3	5.7
<b>Commodity Prices (U.S. dollars)</b>				
Oil	-0.9	-7.5	-38.8	9.1
Non- oil	-1.2	-4.0	-15.6	-1.7
<b>Consumer Prices</b>				
Advanced Economies	1.4	1.4	0.0	1.2
Emerging Market & Developing Economies	5.9	5.1	5.5	4.8

**Source:** IMF, World Economic Outlook, April and July 9, 2015

### 8.1.2 Inflation and Commodity Prices

Headline inflation has declined in advanced economies, reflecting the decline in oil prices, softer prices for other commodities, and a weakening of demand in a number of countries already experiencing below-target inflation, such

as the euro area and Japan. This decline in inflation, together with changes in the growth outlook and announcements by the Bank of Japan in October and the European Central Bank (ECB) in January of larger than expected asset purchase

programs, has strengthened expectations of a protracted divergence in monetary policy stances across the main advanced economies, widening long-term interest rate differentials. With regard to emerging markets, lower prices for oil and other commodities (including food, which has a larger weight in the consumer price index of emerging market and developing economies) have generally contributed to reductions in inflation, with the notable exception of countries suffering sizable exchange rate depreciations, such as Russia.

On the other hand, global inflation is projected to decline in 2015 in both advanced economies and most emerging market and developing economies, reflecting primarily the impact of the decline in oil prices. The pass-through of lower oil prices into core inflation is expected to remain moderate, in line with recent episodes of large changes in commodity prices.

In advanced economies, inflation is projected to rise in 2016 and thereafter, but to remain generally below central bank targets.

In the euro area, headline inflation turned negative in December 2014, and medium-term inflation expectations have dropped substantially since mid-2014, although they have stabilized somewhat after the ECB's recent actions. The projected modest pickup in economic activity, together with the partial recovery in oil prices and the impact of the euro depreciation, is assumed to imply an increase in both headline and core inflation starting in the second quarter of 2015, but both measures of price increases are expected to remain below the ECB's medium-term price stability objective.

In Japan, the projected modest pickup in growth and the waning downward pressure on prices from lower commodity prices as well as higher real wage growth on tight labor market conditions are expected to help push up underlying prices next year, but under current policies and constant real exchange rates, inflation is projected to rise only gradually to about 1½ percent in the medium term.

In the United States, annual inflation in 2015 is projected to decline to 0.4 percent, increasing gradually beginning in midyear as the effects of the oil price decline wear off, while the effects of dollar appreciation and

muted wage dynamics act as a headwind. Inflation is then projected to rise gradually toward the Federal Reserve's longer-term objective of 2 percent.

Inflation is projected to remain well below target in a number of other smaller advanced economies especially in Europe. Consumer prices are projected to decline in both 2015 and 2016 in Switzerland, following the sharp appreciation of the currency in January, and to remain subdued elsewhere, notably in the Czech Republic and Sweden.

In emerging market economies the decline in oil prices and a slowdown in activity are expected to contribute to lower inflation in 2015, even though not all the decline in the price of oil will be passed on to end-user prices. Countries that experienced large nominal exchange rate depreciations are a notable exception to this trend. In subsequent years the effect of lower oil prices is expected to be phased out, but this effect is projected to be offset by a gradual decline in underlying inflation toward medium-term inflation targets.

In China, consumer price index inflation is forecast to be 1.2 percent in 2015, reflecting the decline in commodity prices, the sharp appreciation of the renminbi, and

some weakening in domestic demand, but to increase gradually thereafter.

In India, inflation is expected to remain close to target in 2015. In Brazil, inflation

is expected to rise above the ceiling of the tolerance band this year, reflecting an adjustment of regulated prices and exchange rate depreciation, and to converge toward the 4.5 percent target over the following two years. In contrast, inflation is projected to spike to about 18 percent in 2015 in Russia, reflecting the large depreciation of the ruble, and to decline to about 10 percent next year.

A few emerging markets, especially some in Europe, are projected to experience headline inflation well below target in 2015, with modest increases in 2016. These economies include Poland and a number of smaller countries whose currencies are tightly linked to the euro.

### 8.1.3 Exchange Rate

In currency markets, the dollar has depreciated by some 2 percent in real effective terms relative to the baseline values assumed for the April 2015 WEO, while the euro has appreciated by about 1

percent. But compared to average levels in 2014, the euro and the yen are still at depreciated levels and will, therefore, continue to support the recovery in the euro

area and Japan in 2015/16. Given the constraints on monetary policy in these economies because of the zero lower bound on policy interest rates, this is expected to be a net positive for the global economy, as discussed in the April 2015 WEO. Bond yields and risk premiums in emerging market economies have risen broadly in line with those on advanced economy instruments. But capital flows to those economies are estimated to have decreased in 2015 compared to the second half of 2014, and many have seen further currency depreciation.

## 8.2 Implications for Ethiopia

Despite the gradual recovery of the global economy, export fell by 8.5 percent. The fall in these export earnings was in turn partly a

result of a decrease in international price registered during the report period.

On the other hand, the fall in international oil prices resulted in the decline of fuel import bill by 20.7 percent in 2014/15.

Net services payments stood at USD 341.4 million due to decline in net travel services partly as result of decline in travel from oil producing countries owing to the decline in their income following international fuel price decline. However, official long-term capital, other public sector long-term capital and foreign direct investment rose by 11.1 percent, 571.3 percent and 50.1 percent, respectively.

On the other hand, as a result of low trading partners head-line inflation and relatively higher domestic price, REERI appreciated by 11.9 during 2014/15.