

I. OVERALL ECONOMIC PERFORMANCE

1.1 Economic Growth

During fiscal year 2006/07, real GDP grew by 11.4 percent. This high growth was achieved for the fourth time in a row (i.e. 11.7 percent in 2003/04, 12.6 percent in 2004/05, and 11.6 in 2005/06), which places Ethiopia among the top performing economies in Sub-Saharan Africa. Although all sectors contributed to this

relatively high economic growth performance, agriculture bets first growing by 9.4 percent with its share of contributing about 45.9 percent of the 11.4 percent overall real GDP growth. Industry and service sectors also grew by 11.0 and 11.5 percent, respectively. Real GDP is projected to grow by 10.8 percent in 2007/08.

Table 1.1: Sectoral Contribution to GDP and GDP Growth

(In million birr unless indicated otherwise)

Items		Year					
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Sector	Agriculture & Allied Activities	33,424	29,920	34,990	39,729	44,063	48,226
	Industry	8,765	9,331	10,420	11,402	12,561	13,944
	Services	26,226	27,799	29,536	33,312	37,770	42,877
Total		68,415	67,050	74,946	84,443	94,394	105,047
<i>Less FISM</i>		403	463	549	639	898	868
Real GDP		68,012	66,587	74,397	83,804	93,496	104,179
Growth in Real GDP		1.6	-2.1	11.7	12.6	11.6	11.4
Real GDP per capita		1026	977	1061	1163	1263	1,369
Share in GDP (in %)	Agriculture & Allied Activities	48.9	44.6	46.7	47.0	46.7	45.9
	Industry	12.8	13.9	13.9	13.5	13.3	13.3
	Services	38.3	41.5	39.4	39.4	40.0	40.8
Growth in Real GDP per capita		-1.2	-4.8	8.7	9.6	8.6	8.4
Agriculture & Allied Activities	Absolute Growth	-1.9	-10.5	16.9	13.5	10.9	9.4
	Contribution to GDP growth	-0.9	-4.7	7.9	6.4	5.1	4.3
	Contribution in %	-57.3	223.3	67.4	50.4	44.0	38.0
Industry	Absolute Growth	8.3	6.5	11.7	9.4	10.2	11.0
	Contribution to GDP growth	1.1	0.9	1.6	1.3	1.4	1.5
	Contribution in %	66.6	-42.9	13.8	10.1	11.7	12.8
Services	Absolute Growth	3.3	6.0	6.2	12.8	13.4	13.5
	Contribution to GDP growth	1.3	2.5	2.5	5.0	5.4	5.5
	Contribution in %	79.1	-118.7	21.0	39.9	46.3	48.3

Source: Ministry of Finance and Economic Development and Staff Computation

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

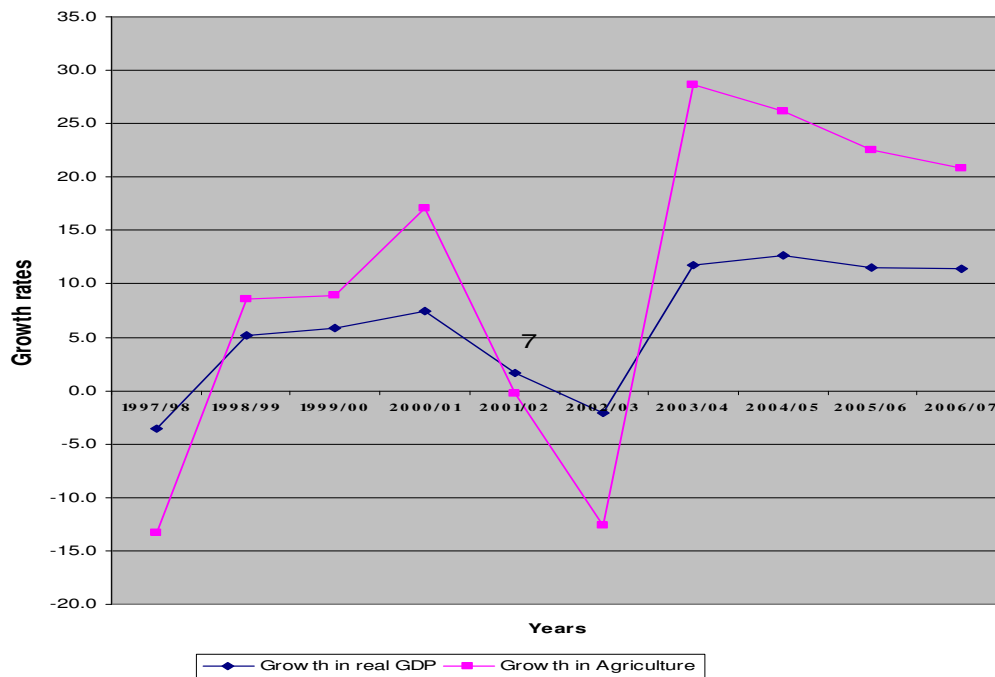
1.2 GDP by Sector

In terms of sectoral distribution, agriculture has remained the major constituent of the economy having about 45.9 percent share in the country's GDP followed by services and industry sectors each accounting for 40.8 and 13.3 percent in the review year.

Generally, overall economic growth in Ethiopia has been highly associated

with the performance of the agricultural sector. However, the dependence of the agricultural sector on unpredictable rainfall and the influence of exogenous factors such as drought has made its performance erratic in the overall GDP growth (Figure 1.1).

Fig. I.1: Growth in GDP and Agriculture



The increase in the 2006/07 agricultural outputs can largely be attributed to improved farmers' productivity achieved through better

use of modern agricultural inputs and the favorable weather condition in the year as well as to a 3.5 percent expansion in cultivated land.

Looking into the sub-components of agriculture, the crop sub-sector has always been the major driving element

in the sector's growth. Production of major crops including cereals, pulses and oilseeds grew by about 15.8 percent in 2006/07 compared to 12.3 percent a year earlier.

Table 1.2: Estimates of Agricultural Production and Cultivated Areas of Major Crops for Private Peasant Holdings- Meher Season

(Area and production are in thousand of hectares and quintals, respectively)

Agricultural Production	2003/04		2004/05		2005/06		2006/07	
	Cultivated Area	Total Production	Cultivated Area	Total Production	Cultivated Area	Total Production	Cultivated Area	Total Production
Cereals	6,994.00	90,007	7,643	100,365	8,081.0	116,243.00	8,576.7	136,583.5
(Annual % Change)	0.0	41.9	9.3	11.5	5.7	15.8	6.1	17.5
Pulses	1,100	10,373.1	1,349.10	13,495.80	1,292.0	12,712.00	1,200.4	13,289.4
(Annual % Change)	3.3	26.0	22.6	30.1	-4.2	-5.8	-7.1	4.5
Oilseeds	570.8	3,128.6	824	5,264.00	797	4,866.00	749.6	5,073.1
(Annual % Change)	20.3	59.2	44.4	68.3	-3.3	-7.6	-5.9	4.3
Total	8,664.8	103,508.7	9,816.1	119,124.8	10,170.0	133,821.0	10,526.7	154,946
(Annual % Change)	1.5	40.6	13.3	15.1	3.6	12.3	3.5	15.8

Source: Central Statistical Agency

Note: Starting from 2004/05 the following items have been included as others:

Oilseeds, Vegetables, Root crops

The non-agricultural sector of the economy altogether showed 12.9 percent expansion during the review year. This was the combined effect of the 11.0 and 13.5 percent increase achieved in the industry and service sectors.

The recorded 11.0 percent growth of the industry sector mainly came from the electricity and water sub-sector which rose by 13.6 percent. The huge

investment in hydroelectric power generating stations and expansion activities by the Ethiopian Electric and Power Corporation (EEPCo) has contributed to the growth in electricity.

Manufacturing, which accounts for about 43 percent of the industry sector value added, is largely dominated by food, beverage and textile industries. Output from this sub-sector, which consists of cottage and handicrafts, small, medium and large-scale

enterprises, went up by 10.9 percent in the review year.

The performance of the mining & quarrying as well as construction sub-sector was also good each registering growth rates of 6.0 and 10.5 percent, respectively.

The share of the service sector has been growing up steadily in recent years reaching 40.8 percent in the review year from its level of 36 percent

in 1996/97. This was mainly the result of the fast growth of education; real estate, renting and business activities; whole sale and retail trade; and hotels and restaurants sub-sectors, which in the last five years registered annual average growth rates of 11.6, 10.2, 11.3 and 13.7 percent, respectively. The performance of these sub-sectors in the review year continued to excel all other service activities each growing by 13.9, 15.0, 17.7, and 25.1 percent.

1.3 GDP by Expenditure Component

In the review year, the share of total consumption expenditure slightly declined to 94.4 percent of GDP from about 96.3 percent in 2005/06. This was because of marginal reduction of both private and government consumption expenditures. The share of government consumption expenditure was about 10.6 percent while 83.8 percent was taken up by the private sector, the remaining balance being gross domestic savings.

On the other hand, gross domestic savings remained modest (amounting to 5.6 percent of GDP) although it showed a slight improvement (1.9 percent) over that of the year (3.7

percent). As gross domestic savings continued to be low compared to investment, the resource gap remained wide at 19.4 percent of GDP.

Table: 1.3: Expenditures on GDP and Gross Domestic Savings (As percentage of GDP)

Year	Domestic Absorption	Consumption Expenditure			Gross Capital Formation	Resource Balance	Exports of Goods & Services	Imports of Goods & Services	Gross Domestic Savings
		Total	Govt.	Pvt.					
1996/97	109.8	90.0	8.0	82.0	19.8	(6.7)	11.4	18.1	10.0
1997/98	109.2	88.0	9.8	78.2	21.2	(7.6)	12.8	20.5	12.0
1998/99	113.9	92.0	15.6	76.4	21.9	(12.4)	11.6	24.0	8.0
1999/00	111.3	91.0	17.9	73.1	20.3	(11.9)	12.0	23.9	9.0
2000/01	111.5	90.0	14.6	75.4	21.5	(11.7)	12.0	23.7	10.0
2001/02	117.9	94.0	14.8	79.2	23.9	(14.0)	12.6	26.6	6.0
2002/03	117.8	96.0	13.4	82.6	21.8	(14.1)	13.3	27.4	4.0
2003/04	120.5	95.0	13.1	81.9	25.5	(16.7)	14.9	31.6	5.0
2004/05	120.0	97.0	12.3	84.8	23.0	(20.4)	15.1	35.5	3.0
2005/06	120.6	96.3	12.1	84.3	24.2	(22.7)	13.8	36.5	3.7
2006/07	119.3	94.4	10.6	83.8	25.0	(19.4)	12.8	32.2	5.6
Average:									
1996/97-2006/07	115.6	93.1	12.9	80.1	22.5	-14.3	12.9	27.3	6.9

Source: Ministry of Finance and Economic Development
Based on the Newly Revised Series