

V. MONETARY AND FINANCIAL DEVELOPMENTS

5.1 Monetary Developments and Policy

Ethiopia's monetary policy continued to be geared towards maintaining price and exchange rate stability. Accordingly, the National Bank of Ethiopia has been closely monitoring monetary developments in such away that the economic growth recorded in the last three successive years is sustained in 2006/07. As a means of monitoring monetary developments in line with the objective of price stability, growth in broad money is anchored to be in tandem with nominal GDP growth. Accordingly, broad money supply grew by 22.2 percent during fiscal year 2006/07 compared with last year, reflecting an increase in the transaction demand for money. This growth rate was lower than the 29.8 percent nominal GDP growth registered in 2006/07 showing prudent monetary policy.

In spite of the prudent monetary policy pursued by the government, FY 2006/07 witnessed continued build-up in inflationary pressures amidst remarkable economic growth that put Ethiopia among the ranks of fast growing economies in sub-Saharan Africa.

In order to address the inflationary pressure and give signals to economic agents, the NBE has raised the reserve requirement from 5 to 10 percent and the minimum interest rate on savings and time deposits from 3 to 4 percent towards the end of 2006/07

5.1.1 Developments in Monetary Aggregates

As at end 2006/07 broad money supply (M2) reached Birr 56.7 billion, indicating a growth rate of 22.2 percent compared with the same period of last year, owing to respective increases in both domestic credit and net foreign assets by 25.5 percent and

10.2 percent. Of the components of domestic credit, credit to the central government increased by 20.1 percent and reached Birr 30.3 billion by end June, 2007. Similarly, credit to the non-government sector rose by 31.1 percent to Birr 31.5 billion from Birr 24.0 billion a year ago,

largely reflecting the policy of the government to encourage private investment activities.

The expansion in domestic credit particularly to the private sector is the result of favorable interest rate and high economic activities observed in all of the sectors.

On the liability side, all components of broad money rose by 24.4 percent as a result of 20.0 and 28.4 percent increases in currency outside banks and demand deposits reflecting growing economic activities and the surge in transactions demand for money. Similarly, quasi-money that comprises of both savings and time deposits went up by 19.8 percent and reached Birr 27.0 billion, showing better financial intermediation by banks and preference of savings to current consumption by the public.

Table 5.1 Components of Broad Money

(In Millions of Birr)

Particulars	Year ended June 30			Annual Percentage Change		
	2004/05	2005/06	2006/07	2004/05	2005/06	2006/07
1. Narrow Money Supply	21,289.8	23,811.9	29,617.7	18.0	11.8	24.4
. Currency outside banks	10,021.4	11,422.9	13,708.4	27.8	14.0	20.0
. Demand Deposits (net)	11,268.4	12,389.0	15,909.3	10.6	9.9	28.4
2. Quasi-Money	18,922.3	22,565.5	27,034.2	21.4	19.3	19.8
. Savings Deposits	17,310.5	20,485.5	23,715.2	20.5	18.3	15.8
. Time Deposits	1,611.8	2,080.0	3,319.0	32.1	29.1	59.6
3. Broad Money Supply	40,212.1	46,377.4	56,651.9	19.6	15.3	22.2

Fig. V.1 Major Components of Broad Money (1981/82 - 2006/07)

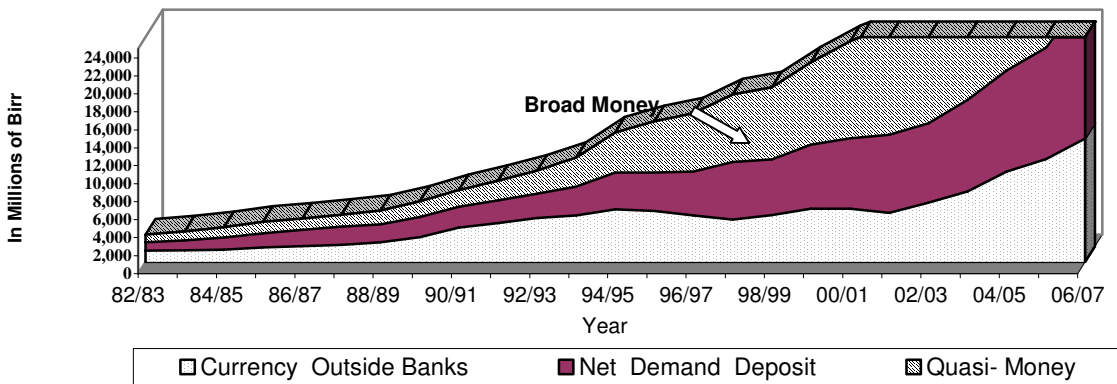
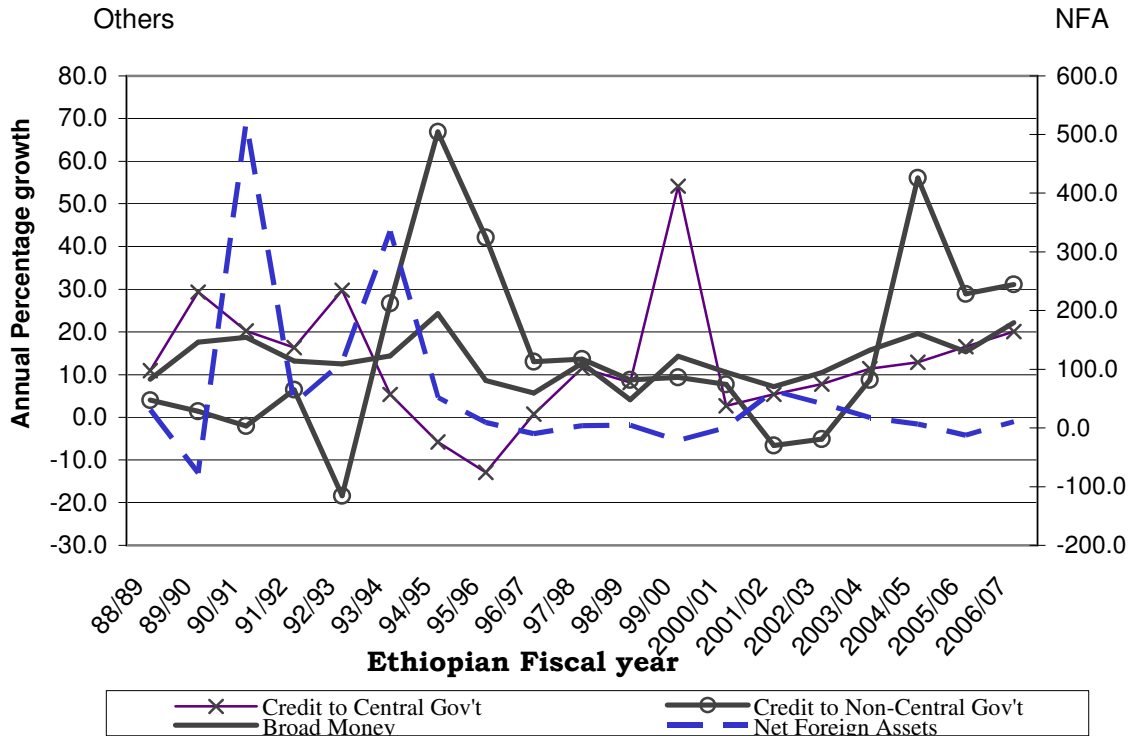


Table 5.2 Factors Influencing Broad Money

(In Millions of Birr)

Particulars	Year ended June 30			Percentage Change		
	2004/05	2005/06	2006/07	2004/05	2005/06	2006/07
1. External Assets (net)	13,868.0	12,109.6	13,340.4	6.7	-12.7	10.2
2. Domestic Credit	40,305.8	49,296.0	61,844.2	29.4	22.3	25.5
. Claims on Central Gov't (net)	21,663.8	25,266.4	30,337.6	12.8	16.6	20.1
. Claims on Non-Central Gov't	18,642.0	24,029.6	31,506.6	56.1	28.9	31.1
3. Other Items (net)	13,961.8	15,028.1	18,532.7	47.3	7.6	23.3
4. Broad Money (M2)	40,212.1	46,377.5	56,651.9	16.0	15.3	22.2

Fig V.2 Major Determinants of Monetary Growth



5.1.2. Developments in Reserve Money and Monetary Ratios

Reserve money or base money, which comprises of both currency in circulation and deposits of commercial banks at the

NBE, amounted to Birr 27.3 billion in 2006/07, exhibiting a growth rate of 28.9 percent over the previous year. Both

currency in circulation and commercial banks' deposits at NBE grow by 20.8 percent and 40.8 percent, respectively, thereby contributing to the observed expansion in reserve money. This partly reflects the growing transaction demand for money in line with the expanding economy and partly the improved performance of the commercial banks in resource mobilization compared with their lending activities.

reserves of commercial banks grew to Birr 9.1 billion in 2006/07 from Birr 6.3 billion a year ago.

The ratio of M2/GDP, an indicator of financial deepening went down by 5.9 percent to 33.1 against the previous year reflecting the tight monetary policy measures pursued during the period despite the strong demand for money in line with the expansion of the economy.

Since the resource mobilization of banks exceeded their lending, the excess

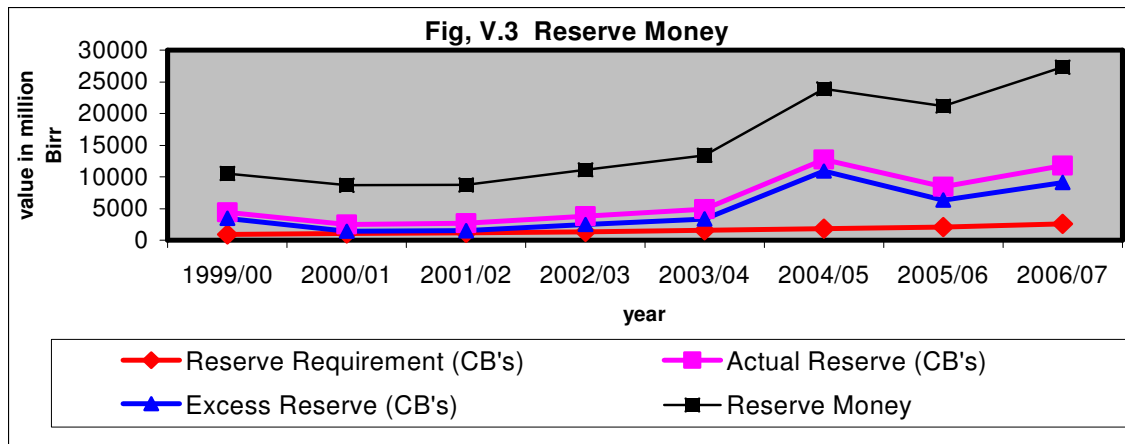
Table 5.3 Reserve Money and Monetary Ratios

(In Millions of Birr)

Particulars	Year ended June 30			Percentage Change		
	2004/05	2005/06	2006/07	2004/05	2005/06	2006/07
1. Reserve Requirement (CB's)	1,828.4	2,120.9	2,592.5	18.0	16.0	22.2
2. Actual Reserve (CB's)	12,855.6	8,452.1	11,734.0	161.8	-34.3	38.8
3. Excess Reserve (CB's)	11,027.2	6,331.2	9,141.5	228.0	-42.6	44.4
4. Reserve Money	24,029.2	21,181.9	27,313.6	66.5	-11.8	28.9
. Currency in Circulation	10,961.7	12,560.2	15,175.2	14.2	14.6	20.8
. Bank Deposits	13,067.5	8,621.7	12,138.4	170.3	-34.0	40.8
5. Money Multiplier (Ratio):						
. Narrow Money to Reserve Money	0.9	1.1	1.1	-29.1	26.9	-3.5
. Broad Money to Reserve Money	1.7	2.2	2.1	-28.2	30.8	-5.3
6. Other Monetary Ratios (%):						
. Currency to Narrow Money	51.5	52.7	51.2	-3.3	2.4	-2.8
. Currency to Broad Money	27.3	27.1	26.8	-1.3	0.7	-1.1
. Narrow Money to Broad Money	52.9	51.3	52.3	-3.8	-3.0	1.8
. Quasi Money to Broad Money	47.1	48.7	47.7	1.5	3.4	-1.9
7. M2/GDP ratio*	37.8	35.2	33.1	-2.7	-6.7	-5.9

Source: National Bank of Ethiopia

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



5.2. Developments in Interest Rate

The review year witnessed no significant change in the interest rate structure of commercial banks. Average interest rate on savings deposit rate remained at 3.08 percent which was close to the minimum deposit rate of 3.0 percent. Similarly, the average interest rate on demand deposits stood at the previous year level of 0.06 percent in 2006/07. Meanwhile, the weighted annual average interest rate on time deposit slightly increased to 4.08 percent from 3.97 percent last year.

Average lending rate of commercial banks also remained unchanged at 10.5 percent as the minimum and maximum

lending rates stood at 7 and 14 percent, respectively.

Compared with the annual core (non-food) inflation of 15.2 percent in 2006/07, all deposit and lending rates including average weighted yields on T-bills were negative in real terms. However, the National Bank of Ethiopia, cognizant of the macroeconomic developments in the country, decided towards the end of the fiscal year to raise minimum deposit rate from 3 to 4 percent, which will be effective starting from July 4, 2007.

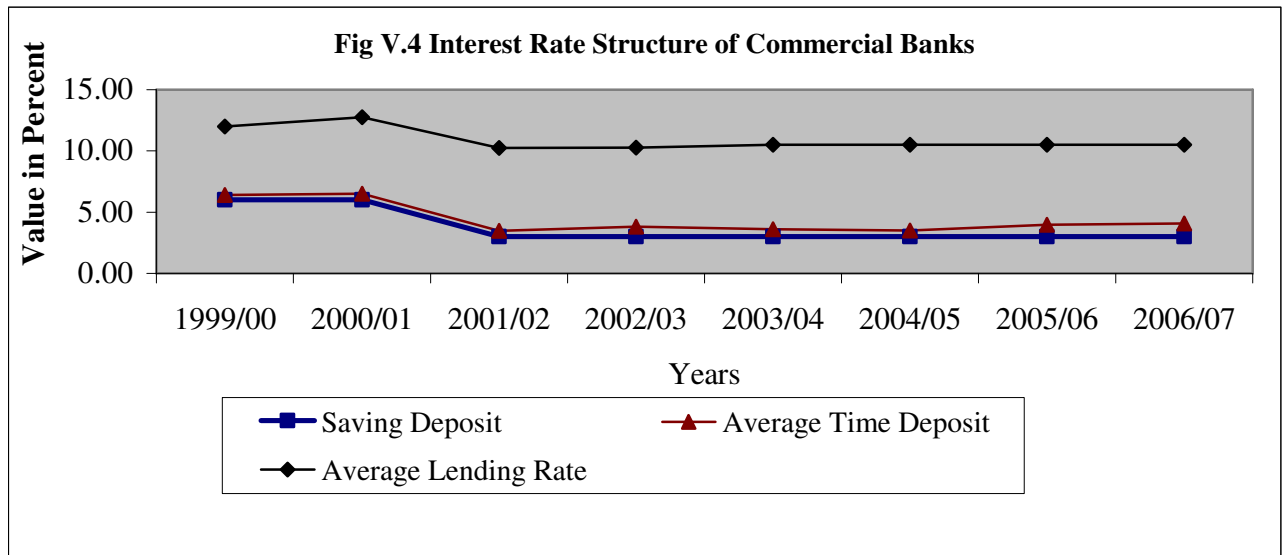
Table 5.4 Interest Rate Structure of Commercial Banks

(In percent per annum)

Rates	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
1. Deposit Rate								
Savings Deposit								
Minimum	6.00	6.00	3.00	3.00	3.00	3.00	3.00	3.00
Maximum	6.00	6.00	3.15	3.15	3.15	3.15	3.15	3.15
Average	6.00	6.00	3.08	3.08	3.08	3.08	3.08	3.08
Time deposit								
Up to 1 year	6.28	6.36	3.30	3.35	3.40	3.47	3.60	3.64
1 -2 years	6.54	6.67	3.51	3.62	3.64	3.71	4.01	4.11
Over 2 years	6.69	6.80	3.57	3.82	3.84	3.94	4.30	4.49
Average	6.50	6.61	3.46	3.60	3.62	3.71	3.97	4.08
Demand Deposit	-	-	0.04	0.04	0.05	0.05	0.06	0.06
2. Lending Rate								
Minimum	10.50	10.50	7.50	7.00	7.00	7.00	7.00	7.00
Maximum	13.50	15.00	14.00	14.00	14.00	14.00	14.00	14.00
Average	12.00	12.75	10.75	10.50	10.50	10.50	10.50	10.50
3. Real Rate of Interest								
Deposit 1/	-0.2	11.2	10.2	-12.1	-5.6	-3.8	-9.3	-14.6
Deposit 2/	3.6	4.1	2.1	2.5	0.2	-2.2	-5.0	-12.1
Lending/1	4.3	18	17.5	-4.9	1.9	3.7	1.8	-7.2
4. T-bills (Nominal)	1.11	0.61	0.95	0.62	0.53	0.09	0.04	0.53

1/ Real deposit interest rate and real lending rates computed based on headline inflation

2/ Real deposit interest rates computed based on core inflation



5.3 Developments in the Financial Sector

The financial sector in Ethiopia mainly consists of the banking system, insurance companies and micro-finance institutions. With the establishment of a new bank, Lion International Bank in 2006/07, the number of banks operating in the country (excluding the NBE) rose to 11 in the review period from 10 a year earlier. In terms of ownership, three banks, namely Commercial Bank of Ethiopia, Development Bank of Ethiopia and Construction and Business Bank are state-owned while the rest are privately owned.

Fiscal year 2006/07 marked significant branch expansion by commercial banks. Accordingly, 66 additional bank branches have been opened in 2006/07 raising the total number of bank branches to 487 at the close of 2006/07. As a result, the total number of population served by a bank branch declined to 158,372 persons from 178,306 persons a year earlier. Though it is an encouraging development, the still high number of population served by one bank branch shows that Ethiopia is one of the under-banked countries in sub-Saharan Africa. Significant branch expansion was made by Commercial bank of Ethiopia (19

branches) followed by Lion International bank (12 branches), Awash International Bank (7 branches), Wegagen Bank (6 branches) and Dashen Bank, United Bank, Nib International Bank and Cooperative Bank of Oromiya (5 branches each). Out of the total number of bank branches, Commercial Bank of Ethiopia alone took the lion's share, namely, 196 branches (40.3 percent) while all private banks accounted for 232 branches (47.6 Percent).

The spatial distribution of bank branches indicate that 38 percent (185 branches) were located in Addis Ababa, the capital and business center of the country.

Total capital of the banking system increased by 171 percent and reached Birr 9.3 billion at the end of June 2007, largely ascribed to the rise in the paid-up capital of the Commercial Bank of Ethiopia. Mirroring this development, the share of state-owned banks from total capital of the banking system rose to 68.5 percent from 64.8 percent a year earlier, notwithstanding the surge in the capital of private banks by Birr 1 billion in the review period.

In the meantime, the number of insurance companies remained at the previous year level of 9, though the number of branches increased by 8 to 146 by the close of the fiscal year. The state-owned Ethiopian Insurance Corporation (EIC) accounted for 24.7 percent of the total branches. Branches of Insurance companies also tended to concentrate in Addis Ababa, as 71 branches

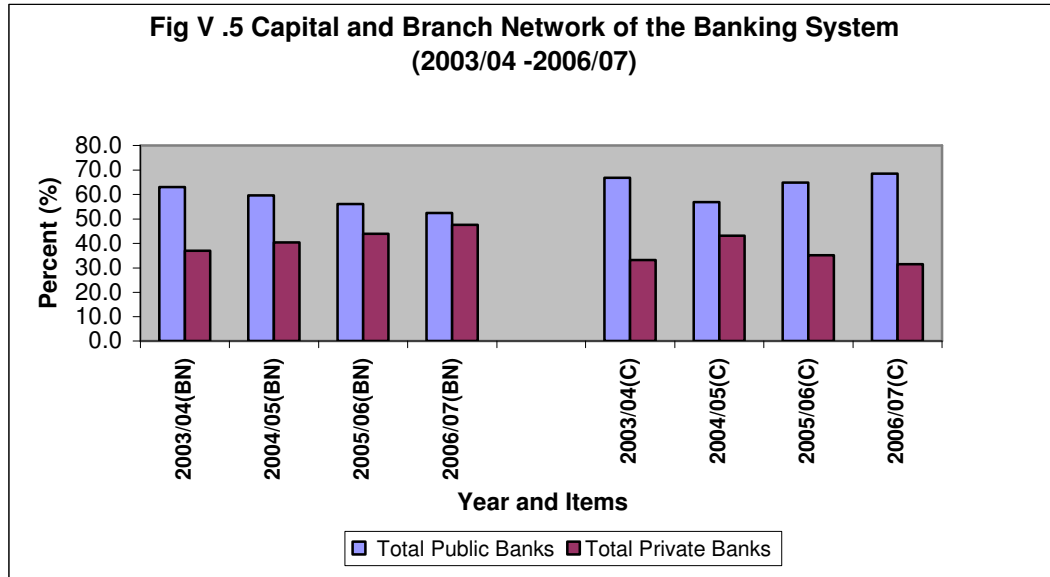
(48.6 percent of the total) were located in it. The total capital of the insurance industry also grew by 3.5 percent to Birr 522.0 million from Birr 504.4 million a year ago. EIC accounted for 40.6 percent of the total capital distantly followed by Nile Insurance (11.5 percent).

Table 5.5.A: Capital and Branch Network of the Banking System

(Branches in Number and Capital in Million Birr)

Banks	Branch Network							Capital			
	2005/06			2006/07				2005/06		2006/07	
	Regions	Total	% Share	Regions	Addis Ababa	Total	% Share	Total Capital	% Share	Total Capital	% Share
1. Public Banks											
Commercial Bank of Ethiopia	141	177	42.0	147	49	196	40.2	1,505.3	27.8	4,220.0	45.6
Construction & Business Bank	15	27	6.4	26	1	27	5.5	179.0	3.3	257.0	2.8
Development Bank of Ethiopia	31	32	7.6	20	12	32	6.6	1,822.0	33.6	1,865.0	20.1
Total Public Banks	187	236	56.0	193	62	255	52.4	3,506.3	64.7	6,342.0	68.5
2. Private Banks											
Awash International Bank	16	36	8.6	19	24	43	8.8	304.3	5.6	434.0	4.7
Dashen Bank	15	37	8.8	19	23	42	8.6	311.1	5.8	612.0	6.6
Abyssinia Bank	12	26	6.2	12	16	28	5.7	406.8	7.5	419.0	4.5
Wegagen Bank	21	33	7.8	22	17	39	8.0	256.8	4.7	401.0	4.3
United Bank	7	22	5.2	9	18	27	5.5	193.2	3.6	359.0	3.9
Nib International Bank	4	20	4.8	7	18	25	5.1	313.4	5.8	426.0	4.6
Cooperative Bank of Oromiya	11	11	2.6	14	2	16	3.3	122.7	2.3	131.0	1.4
Lion International Bank				7	5	12	2.5			134.0	1.4
Total Private Banks	86	185	44.0	109	123	232	48	1,908.3	35.3	2,916.0	31.5
3. Grand Total Banks	273	421	100	302	185	487	100.0	5,414.6	100.0	9,258.0	100.0

Source: Commercial Banks



Note: BN =Branch Network

C =Capital

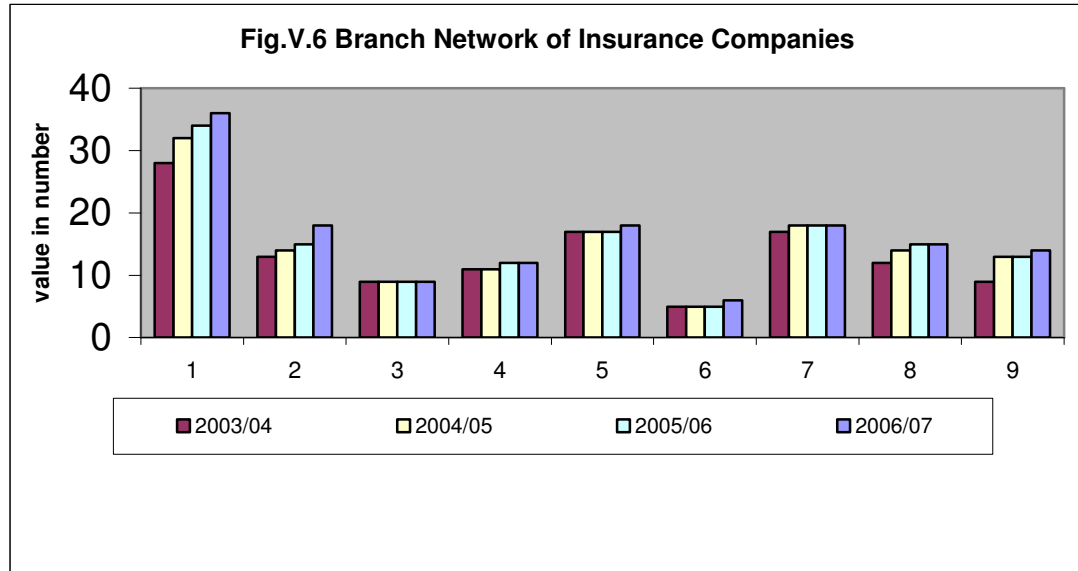
Table 5.5.B: Capital and Branch Network of Insurance Companies

(Branches in Number and Capital in Million Birr)

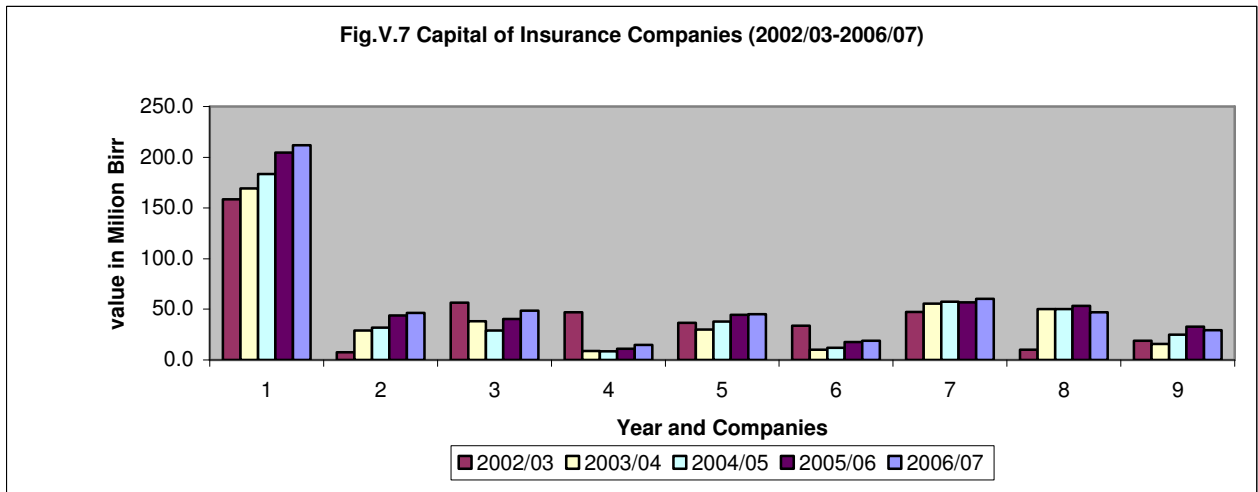
No.	Insurance Companies	Branch				Capital		
		2005/06	2006/07			2005/06	2006/07	% Change
		Total	A.A	Regions	Total	A	B	B/A
1	Ethiopian Ins. Cor.	34.0	11.0	25.0	36.0	204.5	211.7	3.5
2	Awash Ins.Com.S.C.	15.0	11.0	7.0	18.0	43.9	46.3	5.5
3	Africa Ins.Com S.C.	9.0	2.0	7.0	9.0	40.3	48.6	20.6
4	National Ins. Co. of Eth.	12.0	7.0	5.0	12.0	11.0	14.8	34.5
5	United Ins.Com. S.C	17.0	12.0	6.0	18.0	44.3	45.2	2.0
6	Global Ins. Com.S.C	5.0	3.0	3.0	6.0	17.8	18.9	6.2
7	Nile Ins.Com.S.C	18.0	9.0	9.0	18.0	56.7	60.2	6.2
8	Nyala Ins.Com.S.C	15.0	7.0	8.0	15.0	53.2	46.9	-11.8
9	Nib Ins. Com.S.C	13.0	9.0	5.0	14.0	32.7	29.4	-10.1
TOTAL		138.0	71.0	75.0	146.0	504.4	522.0	3.5

Source: Insurance Companies

Note: A.A= Addis Ababa



- Insurance Companies**
- | | |
|---|--|
| <ol style="list-style-type: none"> 1. Ethiopian Insurance Corporation 2. Awash Insurance Company S.C. 3. Africa Insurance Company S.C. 4. National Insurance Co. of Ethiopia 5. United Insurance Company S.C | <ol style="list-style-type: none"> 6. Global Insurance Company S.C 7. Nile Insurance Company S.C 8. Nyala Insurance Company S.C 9. Nib Insurance Company S.C |
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- Insurance Companies**
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| <ol style="list-style-type: none"> 1. Ethiopian Insurance Corporation 2. Awash Insurance Company S.C. 3. Africa Insurance Company S.C. 4. National Insurance Co. of Ethiopia 5. United Insurance Company S.C | <ol style="list-style-type: none"> 6. Global Insurance Company S.C 7. Nile Insurance Company S.C 8. Nyala Insurance Company S.C 9. Nib Insurance Company S.C |
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With regard to Microfinance Institutions, the number of Micro-Finance Institutions (MFIs) operating through out the country increased by 2 in the review period and reached 28 at the end of 2006/07. The two newly established MFIs are Harar MFI and Lefayeda and Saving MFI. The total capital of MFIs stood at Birr 979.3 million and their total assets at Birr 3.5 billion depicting annual growth of 23.2 percent and 34.6 percent, respectively. They mobilized deposits to the tune of Birr 1.0 billion and advanced loans amounting to Birr 2.7 billion by the end of the review fiscal year. Both total deposits and loans increased by 45.3

and 39.5 percent vis-à-vis the preceding year, respectively. The performance of MFIs reveals that they continued to play a significant role in contributing to poverty reduction by providing loans to and mobilizing savings from the low income groups. About 81.0 percent of the deposits of MFIs were mobilized by the three largest MFIs namely, Amhara Credit & Saving Institution, Dedebit Credit and Savings Institution and Oromia Credit & Saving S.C. The shares of these three MFIs from the total capital, asset and credit of MFIs were 65.2, 76.8 and 78.0 percent, respectively.

Table 5.6: Micro Finance Institutions Operating in Ethiopia as of June 2007

(Amount in Thousands of Birr)

No.	Micro-Financing Institutions	Regions	Total Capital		Saving		Credit		Total Assets	
			Amount	%	Amount	%	Amount	%	Amount	%
			1	Amhara Credit & Saving Ins.	Amhara	268,251.0	27.39	447,649.0	43.04	874,160.00
2	Dedebit Credit & Saving Ins.	Tigray	234,840.2	23.98	261,329.6	25.13	853,259.60	31.19	1,134,615.3	32.58
3	Oromia Credit & Saving S.C	Oromia	135,878.7	13.88	135,087.8	12.99	407,271.30	14.89	495,427.0	14.23
4	Omo Credit & Saving Ins.	SNNP	21,255.0	2.17	62,768.8	6.04	135,418.50	4.95	178,958.6	5.14
5	Specialized Finan. & Pro.Ins.	A.A	11,988.3	1.22	10,691.0	1.03	24,602.80	0.90	30,322.9	0.87
6	Gasha Micro-fin. Ins.	A.A	4,557.9	0.47	5,128.2	0.49	13,448.20	0.49	18,645.0	0.54
7	Wisdom Micro-financing Ins.	A.A	22,732.6	2.32	14,374.0	1.38	57,194.00	2.09	69,277.6	1.99
8	Sidama Micro-finance Ins.	SNNP	11,865.9	1.21	7,096.8	0.68	20,781.40	0.76	29,922.7	0.86
9	Aser Micro-financing Ins.	A.A	366.2	0.04	245.2	0.02	311.4	0.01	651.5	0.02
10	Africa Village Financial Service	A.A	7,207.1	0.74	2,458.0	0.24	7,924.40	0.29	11,922.5	0.34
11	Bussa Gonofaa Micro-fin. Ins.	Oromia	10,374.5	1.06	3,379.0	0.32	18,474.00	0.68	24,446.2	0.70
12	Peace Micro-finance Ins.	A.A	9,382.8	0.96	7,091.2	0.68	30,024.80	1.10	32,002.2	0.92
13	Meket Micro-financing Ins.	Amhara	2,069.3	0.21	507.8	0.05	2,165.10	0.08	2,935.6	0.08
14	Addis Credit & Saving Ins.	A.A	158,183.0	16.15	51,529.0	4.95	166,037.00	6.07	238,188.0	6.84
15	Meklit Micro-financing Ins.	A.A	4,743.6	0.48	4,948.0	0.48	14,181.90	0.52	16,219.4	0.47
16	Eshet Micro-financing Ins.	Oromia	11,447.0	1.17	3,554.5	0.34	33,004.60	1.21	36,662.5	1.05
17	Wasasa Micro-financing Ins.	Oromia	9,956.6	1.02	6,487.7	0.62	29,809.80	1.09	32,603.1	0.94
18	Benishangul-Gumz MFI	Banishing	18,015.9	1.84	7,687.8	0.74	25,004.40	0.91	32,778.8	0.94
19	Shashemene Idir Yelmat Agar MFI	Oromia	2,939.7	0.30	819.1	0.08	2,581.10	0.09	3,784.5	0.11
20	Metemamen MFI	A.A	6,004.0	0.61	820.1	0.08	4,984.70	0.18	6,847.1	0.20
21	Dire MFI	Dire Dawa	16,199.5	1.65	1,457.9	0.14	4,295.70	0.16	23,801.4	0.68
22	Agar MFI	A.A	3,097.2	0.32	1,720.3	0.17	3,807.10	0.14	5,659.9	0.16
23	Harbu MFI	Oromia	1,200.0	0.12	1,612.0	0.16	3,849.0	0.14	4,383.7	0.13
24	Ghion MFI	Amhara	242.9	0.02	310.6	0.03	348.1	0.01	555.3	0.02
25	Leta MFI	Oromia	754.1	0.08	57.5	0.01	464.2	0.02	815.1	0.02
26	Digaf MFI	A.A	218.8	0.02	778.5	0.07	583.4	0.02	1,078.1	0.03
27	Harar MFI		5,493.2	0.60	372.2	0.03	1,673.9	0.06	5,897.0	0.17
28	Lefayeda and Saving Institution*									
	Total		979,265.0	100.0	1,039,961.6	100.0	2,735,660.4	100.0	3,482,657.0	100.0

Source: Micro-finance Institutions

Note: AA: Addis Ababa

SNNP: Southern Nations Nationalities and Peoples

* Recently established and hence data was not available

5.3.1 Resource Mobilization

Basically, the banking system mobilizes resources in the form of deposits, collection of loans and borrowings. Accordingly, total resources mobilized by the banking system grew by 41.2 percent and reached Birr 23.3 billion in 2006/07 from Birr 16.4 billion a year earlier. This was mainly due to 58.6, 41.2 and 42.1 percent increases in net deposit, borrowing and loan collection, respectively.

Deposit liabilities of the banking system reached Birr 53.9 billion at the end of June 2007, 21.2 percent higher than the preceding year. Significant increases were registered in time deposits (43.3 percent) followed by demand deposits (23.5 percent) and savings deposits (15.8 percent). Demand deposits accounted for 48.8 percent of total deposits, followed by savings deposits (44.0 percent) and time deposits (7.2 percent). Of the total deposits of the banking system, state-owned banks accounted for 67.7 percent, down from 70.6 percent a year earlier. The share of Commercial Bank of Ethiopia, also declined from 67.0 percent to 64.6 percent. In contrast, the share of

private banks in deposit mobilization increased from 29.4 percent in 2005/06 to 32.3 percent in 2006/07. This development largely reflects the expansion of branch networks by private banks including the new entrants.

Borrowing is not an important source of mobilizing resources as most of the banks have sufficient liquidity. As a result, only two state-owned banks, namely, the Development Bank of Ethiopia and Construction & Business Bank raise funds through this scheme. Accordingly, total outstanding borrowing of these two banks stood at 2.4 billion at the end of 2006/07, 19.4 percent higher than a year earlier. Only 17.8 percent of the borrowing came from foreign sources. Development Bank of Ethiopia accounted for about 96.4 percent of the total borrowing (Table V.8).

Loan collection by the banking system increased by 32.5 percent to Birr 13.5 billion in 2006/07. More than half (51 percent) was collected by public banks and the rest by private banks (Table V.7).

Table 5.7: Annual Resource Mobilizing & Disbursing Activities of Commercial Banks and Development Bank of Ethiopia (Specialized Bank) (In millions of Birr)

Particulars	2005/06			2006/07			Percent Change
	Public Banks	Private Banks	Total (A)	Public Banks	Private Banks	Total (B)	B/A
1. Deposits (net change)	2,655.20	3,273.40	5,928.60	5,073.90	4,332.40	9,406.30	58.66
Demand	1,477.60	853.70	2,331.30	3,737.70	1,265.90	5,003.60	114.63
Savings	1,328.10	1,847.10	3,175.20	1,375.10	1,855.50	3,230.60	1.74
Time	-150.50	572.60	422.10	-38.90	1,211.00	1,172.10	177.68
2. Borrowing (net change)	280.80	-	280.80	396.60	-	396.60	41.24
Local	225.80	-	225.80	301.70	-	301.70	33.61
Foreign	55.00	-	55.00	95.00	-	95.00	72.73
3. Collection of Loans	5,143.80	5,034.30	10,178.10	6,822.66	6,666.00	13,488.66	32.53
4. Total Resources Mobilized (1+2+3)	8,079.80	8,307.70	16,387.40	12,293.16	10,998.40	23,291.56	42.13
5. Disbursement	5,118.50	7,283.50	12,401.90	6,306.30	9,252.70	15,559.00	25.46
6. Change in Liquidity (4-5)	2,961.30	1,024.20	3,985.50	5,986.86	1,745.70	7,732.56	94.02
Memorandum Item:							
7. Outstanding Credit*	28,396.30	11,235.00	39,631.20	29,792.24	14,525.29	44,317.53	11.82

NB. * Government borrowing is excluded from loans disbursed and collected

Table 5.8: Deposits and Borrowings of Commercial Banks and Specialized Bank

(In Millions of Birr)

	CBE	DBE	CBB	AIB	DB	BOA	WB	UB	NIB	CBO	LIB	2004/05	2005/06	2006/07	Percentage change	
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	N/L	N/M
A. Deposits																
-Demand	21,323.4	18.3	182.6	603.3	1,360.9	510.7	1,231.5	399.0	423.0	166.2	48.6	17,778.1	21,264.1	26,267.6	47.8	23.5
-Savings	13,147.0	3.6	722.3	2,223.5	2,842.9	1,898.1	802.9	854.7	1,084.6	86.1	53.2	17,312.7	20,488.2	23,718.8	37.0	15.8
-Time	302.0	551.9	231.4	285.8	656.8	312.2	711.2	420.2	371.4	25.0	11.1	2,284.6	2,706.8	3,878.9	69.8	43.3
Total	34,772.4	573.8	1,136.3	3,112.6	4,860.6	2,721.0	2,745.6	1,673.9	1,879.0	277.3	112.9	37,375.4	44,459.1	53,865.3	44.1	21.2
B. Borrowings																
-Local	-	1,605.0	103	-	-	-	-	-	-	-	-	1,482.3	1,708.0	2,009.6	35.6	17.7
-Foreign	-	339.3	0	-	-	-	-	-	-	-	-	284.3	339.3	434.3	52.8	28.0
Total	-	1,944.3	103.0	-	-	-	-	-	-	-	-	1,766.6	2,047.3	2,443.9	42.6	19.4

Source: Commercial Banks & Staff Computation

NB

CBE = Commercial Bank of Ethiopia
 DBE= Development Bank of Ethiopia
 CBB= Construction & Business Bank
 DB= Dashen Bank
 BOA= Bank of Abyssinia
 WB= Wegagen Bank
 UB= United Bank
 NIB= Nib International Bank
 AIB= Awash International Bank
 CBO = Cooperative Bank of Oromia

5.3.2 New Lending Activities

Total fresh loans by the banking system amounting to Birr 15.6 billion in 2006/07, up by 25.5 percent vis-à-vis last year reflecting the existence of excess liquidity and mobilization of a significant amount of deposits.

The lion's share of fresh loan disbursements (59.3 percent) was that of private banks.

With regard to the beneficiaries of new loans, 28 percent went to international trade followed by domestic trade (19 percent), agriculture (16.9 percent) and housing & construction (10.8 percent). Another major beneficiaries were industry and transport sectors which received 9.8 and 9.2 percent of the total disbursement, respectively.

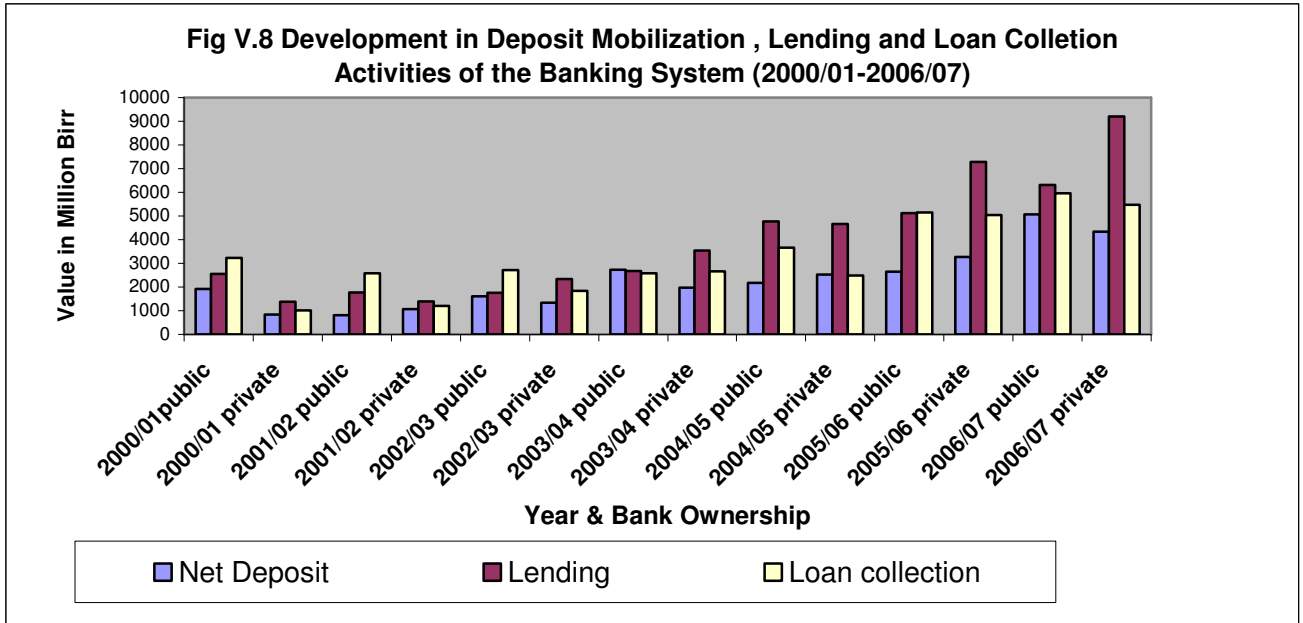


Table 5.9: Loans and Advances by Lender Banks 1/

(in Million Birr)

Borrowing Sector	2005/06			2006/07			Percentage change		
	D*	C*	O/S*	D*	C*	O/S*			
	A	B	C	D	E	F	D/A	E/B	F/C
A. Public Banks									
1. Commercial Bank of Ethiopia	4115.9	4375.8	21881.1	5231.7	5755.2	22766.2	27.1	31.5	4.0
2. Development Bank of Ethiopia	572.0	576.0	5465.2	724.0	779.0	5865.5	26.6	35.2	7.3
3. Construction & Business Bank of Ethiopia	430.5	192.0	1050.0	350.6	288.5	1160.6	-18.6	50.3	10.5
Sub-Total	5118.4	5143.8	28396.3	6306.3	6822.7	29792.3	23.2	32.6	4.9
B. Private Banks									
4 Awash International Bank	1409.5	813.9	2069.9	1807.3	1191.5	2512.3	28.2	46.4	21.4
5. Dashen Bank	1676.4	938.6	3154.0	1935.8	1284.6	3980.5	15.5	36.9	26.2
6. Bank of Abyssinia	885.9	554.0	1944.0	982.5	794.9	2505.0	10.9	43.5	28.9
7. Wegagen Bank	1997.3	1646.2	1593.5	2399.3	2019.1	2155.1	20.1	22.7	35.2
8. United Bank	629.8	419.8	855.5	688.9	359.9	1239.4	9.4	-14.3	44.9
9. Nib International Bank	469.7	409.3	1475.4	994.5	540.0	1817.3	111.7	31.9	23.2
10. Cooperative Bank of Oromia	214.9	252.5	142.6	388.0	470.4	240.3	80.5	86.3	68.5
11. Lion International Bank				56.4	5.5	75.3	-		
Sub-Total	7283.5	5034.3	11234.9	9252.7	6666.0	14525.2	27.0	32.4	29.3
Grand Total	12401.9	10178.1	39631.2	15559.0	13488.7	44317.5	25.5	32.5	11.8

Source: Commercial Banks

1/ Outstanding credit includes lending to central government, over draft and inter bank lending

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

Table 5.10: Percentage Share of Loans and Advances by Lender Banks

Borrowing Sector	2005/06			2006/07			Percentage change		
	D*	C*	O/S*	D*	C*	O/S*	D/A	E/B	F/C
	A	B	C	D	E	F			
A. Public Banks									
1. Commercial Bank of Ethiopia	33.2	43	55.2	33.7	42.7	51.4	1.5	-0.8	-6.9
2. Development Bank of Ethiopia	4.6	5.7	13.8	4.7	5.8	13.2	1.9	1.3	-4.1
3. Construction & Business Bank of Ethiopia	3.5	1.9	2.6	2.3	2.1	2.6	-33.7	12.6	0.7
Sub-Total	41.3	50.6	71.6	40.7	50.6	67.2	-1.4	0.0	-6.1
B. Private Banks									
4 Awash International Bank	11.4	8.0	5.2	11.7	8.8	5.7	2.9	10.4	9.0
5. Dashen Bank	13.5	9.2	8	12.5	9.5	9.0	-7.5	3.5	12.3
6. Bank of Abyssinia	7.1	5.4	4.9	6.3	5.9	5.7	-11.8	9.1	15.4
7. Wegagen Bank	16.1	16.2	4	15.5	15.0	4.9	-3.8	-7.6	21.6
8. United Bank	5.1	4.1	2.2	4.4	2.7	2.8	-13.4	-34.9	27.1
9. Nib International Bank	3.8	4.0	3.7	6.4	4.0	4.1	69.0	0.1	10.8
10. Cooperative Bank of Oromia	1.7	2.5	0.4	2.5	3.5	0.5	44.3	40.6	50.7
11. Lion International Bank				0.4	0.0	0.2			
Sub-Total	58.7	49.4	28.4	59.3	49.4	32.8	0.97	0.1	15.6
Grand Total	100.0	100.0	100.0	100.0	100.0	100.0	0.0	0.0	0.0

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

5.3.3 Outstanding Loans

Total outstanding credit of the banking system (including credit to the government) increased by 11.8 percent and reached Birr 44.3 billion as at end June 2007.

Of the total outstanding credit, claims on the private sector (including cooperatives) accounted for 62.3

percent followed by claims on central government (29.9 percent).

Sectoral distribution of outstanding loans reveals that credit to trade (i.e. both international and domestic) accounted for 23.1 percent while claims on industry and agriculture were 15.8 and 9.5 percent, respectively.

Table 5.11: Loans & Advances by Economic Sectors

(In Millions of Birr)

Economic Sectors	2005/06			2006/07			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			12,880.10			13,214.90			2.6
Agriculture	2,188.80	1,409.30	3,418.00	2,621.00	2,254.6	4,218.4	19.7	60.0	23.4
Industry	1,301.90	1,153.40	6,320.10	1,524.90	1,442.6	6,996.5	17.1	25.1	10.7
Domestic Trade	2,458.10	1,838.80	3,345.70	2,986.40	2,518.9	3,821.4	21.5	37.0	14.2
International Trade	3,542.20	3,515.50	5,250.10	4,377.00	4,032.2	6,500.3	23.6	14.7	23.8
Export	1,657.80	1,656.50	1,580.70	2,233.80	1,795.4	2,334.5	34.7	8.4	47.7
Import	1,884.40	1,859.00	3,744.20	2,143.20	2,236.7	4,165.9	13.7	20.3	11.3
Hotels and Tourism	92.40	104.70	316.60	165.00	131.21	675.54	78.57	25.32	113.37
Transport and Communication	1,007.00	509.70	1578.00	1431.50	843.24	2369.67	42.15	65.44	50.17
Housing and Construction	1,167.00	727.00	3,206.90	1,674.90	975.8	3,790.7	43.5	34.2	18.2
Mines, Power and Water resource	-	-	31.1	13.3	-	40.9			31.4
Others	503.4	735.5	2,842.00	585.1	1,116.2	2,316.4	16.2	51.8	-18.5
Personal	141.2	104.1	92.9	179.7	112.7	147.2	27.3	8.3	58.4
Interbank Lending	-	80.1	274.9	-	61.2	225.7		-23.6	-17.9
Total	12,401.90	10,178.1	39,631.20	15,559.00	13,488.7	44,317.5	25.5	32.5	11.8

Source: Commercial Banks

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

Table 5.12: Percentage Share of Loans & Advances by Economic Sectors

Economic Sectors	2004/05			2005/06			2006/07		
	D*	C*	O/S*	D*	C*	O/S*	D*	C*	O/S*
Government Deficit Financing			25.1			32.5			29.8
Agriculture	16.5	11.9	7	17.6	13.8	8.6	16.9	16.7	9.5
Industry	11.5	11.1	17.7	10.5	11.3	15.9	9.8	10.7	15.8
Domestic Trade	20.2	22.6	9.2	19.8	18.1	8.4	19.1	18.7	8.6
International Trade	31.2	31.2	15.9	28.6	34.5	13.2	28.1	29.9	14.7
Export	13.2	16	5	13.4	16.3	4	14.3	13.3	5.3
Import	18	15.1	10.8	15.2	18.3	9.4	13.8	16.6	9.4
Hotels and Tourism	0.5	1.8	1.1	0.7	1	0.8	1.1	1.0	1.5
Transport and Communication	3.9	5.3	3	8.1	5	4	9.2	6.3	5.3
Housing and Construction	6.6	7.1	7.6	9.4	7.1	8.1	10.8	7.2	8.6
Mines, Power and Water	-	0.8	0	-	-	0.1	0.1		0.1
Others	8.6	5.9	11.9	4.1	7.2	7.2	3.8	8.3	5.2
Personal	0.9	1	0.4	1.1	1	0.2	1.2	0.8	0.3
Interbank Lending	-	1.3	1.2	-	0.8	0.7	-	0.5	0.5
Total	100	100	100	100	100	100	100	100.0	100.0

Source: Commercial Banks and Staff Computation

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

Fig V 9: Sectoral Breakdown of Bank Credit (1990/91-2006/07)

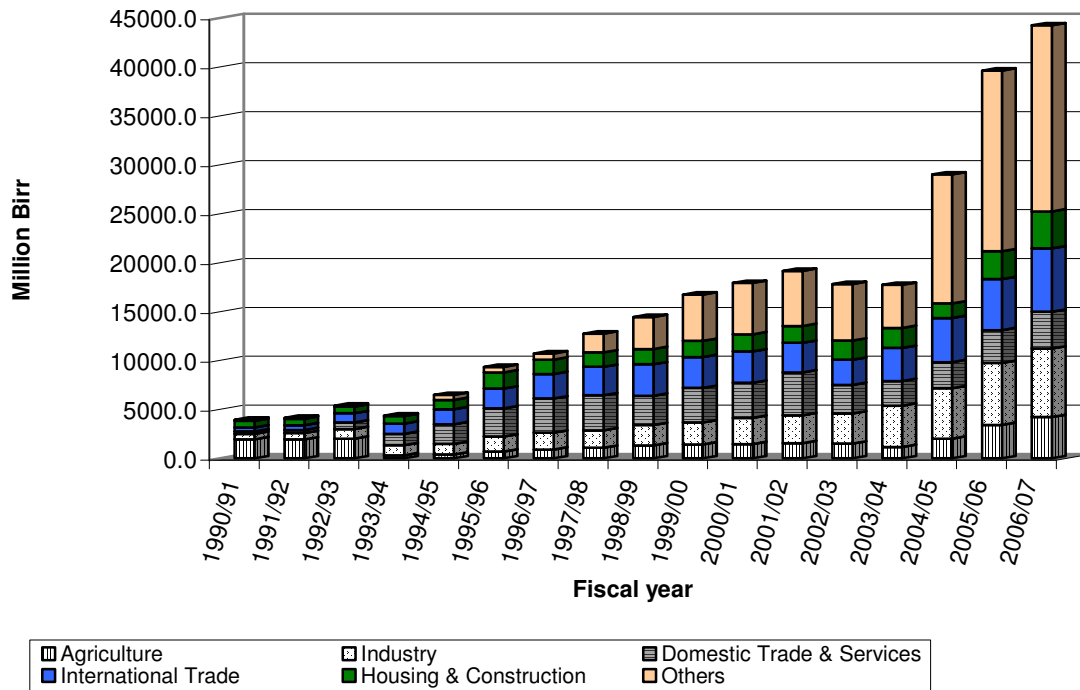


Table 5.13: Loans & Advances by Borrower

(In Millions of Birr)

Borrowing Sector	2004/05	2005/06	2006/07			Percentage change	
	O/S	O/S	Disbursed	Collected	O/S	E/A	E/B
	A	B	C	D	E		
Central Government	7,277.50	12,880.10			13,214.9	81.6	2.6
Public Enterprises	3,175.30	3,017.40	935.5	1,231.9	3,263.1	2.8	8.1
Cooperatives	1,081.20	1,848.80	2,533.40	2,559.2	2,025.0	87.3	9.5
Private & Individuals	17,152.40	21,610.00	12,090.10	9,639.3	25,588.8	49.2	18.4
Inter-bank Lending	340.2	274.9	0	58.1	225.7	-33.6	-17.9
Total	29,026.60	39,631.20	15,559.00	13,488.7	44,317.5	52.7	11.8
Total less Inter-bank Lending	28,686.40	39,356.30	15,559.00	13,430.52	44,091.77	53.7	12.0

Source: Commercial Banks

N.B.1. O/S = Outstanding balance

5.4. Financial Activities of the National Bank of Ethiopia

Total claims of NBE on the central government increased by 28.2 percent and reached Birr 33.5 billion at the end of 2006/07, driven by a 46.2 percent rise in direct advances which reached Birr 23.56 billion. Meanwhile government bonds tended to decline.

Similarly, government deposits at the NBE increased by 23 percent to Birr 8.7

billion in 2006/07. Deposits of financial institutions (deposits of banks and insurance companies) at NBE also increased by 41.1 percent from Birr 8.8 billion to Birr 12.4 billion in 2006/07, on account of improved operations of the commercial banks in deposit mobilization and loan collections.

Table 5.14 Financial Activities of the National Bank of Ethiopia

(In Millions of Birr)

Particulars	2004/05	2005/06	2006/07	% Change	
	A	B	C	C/A	C/B
1. Loans and Advances	25,236.5	26,132.8	33,513.4	32.8	28.2
1.1 Claims on Central Gov't	24,842.2	26,132.8	33,513.4	34.9	28.2
Direct Advance	14,754.0	16,113.0	23,562.0	59.7	46.2
Bonds	10,088.2	10,019.8	9,951.4	-1.4	-0.7
1.2. Claims on Development Bank of Ethiopia	394.3	0	0	-100	-100
2. Deposit Liabilities	18,527.6	15,824.2	21,053.6	13.6	33.0
2.1. Government	5,302.2	7,037.0	8,657.8	63.3	23.0
2.2. Financial Institutions	13,225.4	8,787.2	12,395.8	-6.3	41.1

Source: National Bank of Ethiopia and staff Computation

5.5 Developments in Financial Markets

A Treasury bills market, in which bills are auctioned fortnightly, is the only regular market where securities are transacted. 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.

5.5.1 Treasury Bills Market

The amount of Treasury-bills supplied to the fortnightly auction market amounted to Birr 69.5 billion in 2006/07, 45.4 percent higher than last year. The total demand for T-bills also increased by 30.2 percent and reached Birr 78.9 billion. On the other hand, the amount of T-bills sold during the period was Birr 65.3 billion (slightly lower than the supply) depicting an annual increase of 36.7 percent vis-à-vis the preceding year. As a result, the amount of T-bills sold covered about 82.8 percent of the demand.

bills sold, 89.7 percent was purchased by commercial banks which was slightly lower than their share of 93.0 percent a year ago.

The total outstanding T-bills stood at Birr 11.5 billion at the close of 2006/07, almost the same as Birr 11.6 billion outstanding registered last year.

After dipping to low levels for the last two years, the yield on T-bills started to pick up during 2006/07. The simple average yield for all types of bills rose to 0.527 percent in 2006/07 compared to 0.036 percent a year earlier. Existence of large excess reserves in the banking system was the main reason for low yield on T-bills.

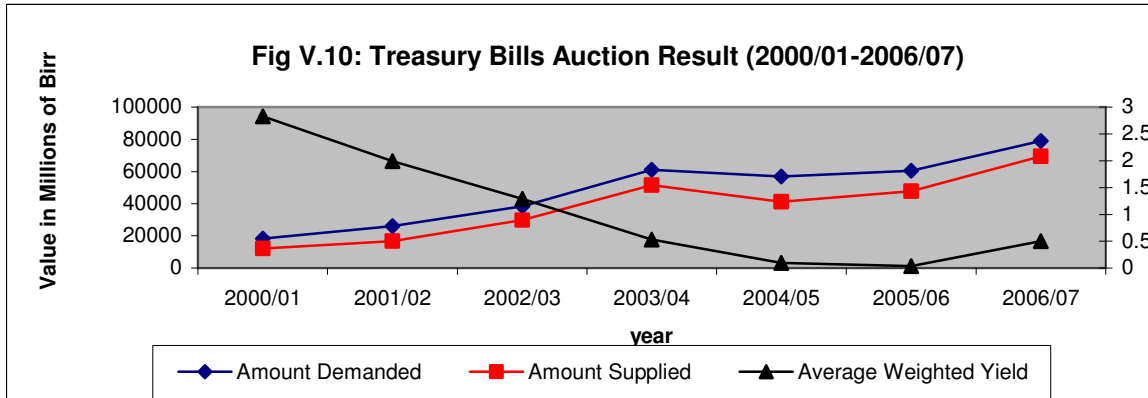
The dominance of commercial banks in the T-bills auction market has continued throughout the fiscal year. Of the total

Table 5.15: Treasury Bills Auction Result (2004/05 – 2006/07)

(In Millions of Birr)

Particulars	2004/05	2005/06	2006/07	Percentage change	
	A	B	C	C/A	C/B
Number of Bidders	242	187	168	-30.6	-10.2
Amount Demanded(Mn.Birr)	56,896.2	60,603.5	78,922.0	38.7	30.2
28-day bill	30,645.0	34,863.5	38,601.5	26.0	10.7
91-day bill	17,236.0	18,330.0	32,163.5	86.6	75.5
182-day bill	9,015.2	7,410.0	8,157.0	-9.5	10.1
Amount Supplied(Mn.Birr)	41,262.5	47,793.5	69,487.0	68.4	45.4
28-day bill	22,314.0	26,859.5	34,257.5	53.5	27.5
91-day bill	13,054.5	14,740.0	28,135.5	115.5	90.9
182-day bill	5,894.0	6,194.0	7,094.0	20.4	14.5
Amount Sold(Mn.Birr)	41,065.0	47,793.5	65,315.0	59.1	36.7
Banks	37,783.9	44,465.6	58,599.6	55.1	31.8
Non-Banks	3,281.1	3,327.9	6,715.4	104.7	101.8
Average Weighted Price for					
Successful bids(Birr)	99.983	99.993	99.898	-0.09	-0.096
28-day bill	99.989	99.997	99.968	-0.021	-0.029
91-day bill	99.979	99.989	99.857	-0.122	-0.132
182-day bill	99.973	99.988	99.704	-0.269	-0.284
Average Weighted Yield for					
Successful bids(%)	0.095	0.036	0.527	454.7	1363.9
28-day bill	0.146	0.040	0.417	185.6	942.5
91-day bill	0.086	0.044	0.574	567.4	1,204.5
182-day bill	0.053	0.025	0.600	1032.1	2,300.0
Outstanding bills at the end					
of Period (Mn.Br.)	6,395.0	11,638.5	11,546.0	80.55	-0.8
Banks	4,995.0	10,612.3	9,135.0	82.9	-13.9
Non-Banks	1,400.0	1,026.2	2,411.0	72.2	134.9

Source: National Bank of Ethiopia and Staff Computation



5.5.2. Bonds Market

There is no formal market for government bonds. The last auction for government bonds was held in November 2000 in which commercial banks purchased bonds with a two-year maturity. However, there were bonds issued by the government without auction on various occasions for specific

reasons. During fiscal year 2006/07, the outstanding bond holdings of commercial banks went up by Birr 1.9 billion. Hence, the stock of bonds held by commercial banks rose to Birr 4.1 billion at the end of the review fiscal year.

5.5.3. Inter-bank Money Market

Inter-bank money market was relatively active during fiscal year 2006/07, for five inter bank transactions were effected. Since the introduction of the inter-bank money market in September 1998, merely seventeen transactions worth of Birr 259 million were transacted with interest rates ranging between 7 and 8 percent. The maturity

period of these loans widely spanned from over night to 5 years.

Persistent excess reserves in the banking system and lack of collateral in the case of private banks have mainly contributed to the poor performance of the inter bank money market in Ethiopia.

Table V. 16: Inter-bank Money Market Transactions Up to June 2007

No.	Borrower	Lender	Amount Borrowed (In Mn. Birr)	Interest Rate (%)	Date of Transaction	Maturity Period
1	Nib International Bank	Awash International Bank	7.00	11.0	16/11/00	Overnight
2	Wegagen Bank	Commercial Bank of Ethiopia	10.00	8.0	3/1/2001	5 years
3	Nib International Bank	„	10.00	8.0	3/31/2001	3 months
4	Wegagen Bank	„	10.00	8.0	3/22/2001	1 year
5	Nib International Bank	„	3.60	8.0	5/31/2001	6 months
6	Nib International Bank	„	3.70	8.0	06/31/01	6 months
7	Nib International Bank	„	0.78	8.0	11/30/01	6 months
8	Nib International Bank	Bank of Abyssinia	29.00	7.0	31/12/02	3.5 months
9	Nib International Bank	Bank of Abyssinia	19.05	7.0	31/01/03	3.5 months
10	Nib International Bank	Bank of Abyssinia	20.31	7.0	28/02/03	3.5 months
11	Nib International Bank	Bank of Abyssinia	28.99	7.0	31/03/03	3.5 months
12	Nib International Bank	Commercial Bank of Ethiopia	25.00	7.5	7/7/2003	5.2 months
13	Nib International Bank	Bank of Abyssinia	0.05	7.5	26/03/2005	Overdraft
14	Nib International Bank	Bank of Abyssinia	0.05	7.5	26/03/2005	Overdraft
15	Wegagen Bank	Awash International Bank	19.74	7.5	December, 2006	21/05/07
16	Wegagen Bank	Awash International Bank	19.87	7.5	January, 2007	21/05/07
17	Wegagen Bank	Awash International Bank	10.94	7.5	February, 2007	21/05/07
18	Wegagen Bank	Awash International Bank	10.93	7.5	March, 2007	21/05/07
19	Awash International Bank	Nib International Bank	30.00	7.5	February, 2007	18/08/07
		Total/ Average	259.00	7.7		