

## **5.1 Monetary Policy**

NBE's monetary policy continued to focus on maintaining price and exchange rate stability, achieving international reserve targets and ensuring economic growth during the fiscal year 2004/05. Although, broad money supply grew by 19.6 percent, which was slightly higher than the 16 percent target and 14.6 percent nominal GDP growth rate, the headline inflation has been declining to reach 6.8 percent at June 30, 2005 compared to 8.6 percent a year earlier. Velocity of money (the ratio of nominal GDP to quantity of money) declined to 2.4 in 2004/05 from 2.5 in 2003/04. The Bank's monetary policy instruments continued to comprise sale of treasury bills and government bonds, setting reserve requirement ratio, determining the minimum deposit interest rate, limits on the central government's bank finance and rediscount facilities. Yet transmission mechanisms of monetary policy remained weak.

### **5.1.1 Developments in Monetary Liability**

Domestic liquidity (defined as broad money supply) reached Birr 40.2 billion in 2004/05, indicating a 19.6 percent growth rate over the preceding year. This was attributed to 29.5 percent and 6.7 percent growth rates in domestic credit and net foreign assets of the banking system, respectively. Net claims on government grew by 12.9 percent and credit to the non-government sectors by 56.1 percent. Other items net increased by 32.9 percent thereby reining to a certain extent the growth in domestic liquidity. Financial deepening, as measured by broad money to GDP ratio, was also strong as it went up from 39.8 percent to 41.5 percent during the fiscal year.

Component wise, narrow money surged by 18.0 percent to reach Birr 21.3 billion at the close of 2004/05. This came mainly due to the growth in currency outside banks by about 27.8 percent and demand deposits by 10.5 percent. Similarly, quasi-money, which comprises savings and time deposits, went up by 21.4 percent. Savings deposit rose by 20.5 percent and time deposits by 32.1 percent. It is important to note that despite the downward revision of the minimum deposit interest rate in March 2004 and less than 1 percent average interest rate paid on demand deposits, there has been no clear indication of decline in the level of deposits during the past three years partially suggesting that interest rate is not the only factor that determines financial savings in Ethiopia.

**Table V.1 Components of Broad Money**

(In Millions)

Particulars	Year ended June 30			Annual Percentage Change		
	2002/03	2003/04	2004/05	2002/03	2003/04	2004/05
<b>1. Narrow Money Supply</b>	<b>15,416.8</b>	<b>18,036.0</b>	<b>21,291.1</b>	<b>8.9</b>	<b>17.0</b>	<b>18.0</b>
. Currency outside banks	6,582.0	7,843.9	10,026.0	20.5	19.2	27.8
. Demand Deposits (net)	8,834.8	10,192.1	11,265.1	1.7	15.4	10.5
<b>2. Quasi-Money</b>	<b>13,643.4</b>	<b>15,590.0</b>	<b>18,920.7</b>	<b>12.4</b>	<b>14.3</b>	<b>21.4</b>
. Savings Deposits	12,502.7	14,369.6	17,308.9	13.2	14.9	20.5
. Time Deposits	1,140.7	1,220.3	1,611.8	4.1	7.0	32.1
<b>3. Broad Money Supply</b>	<b>29,060.2</b>	<b>33,626.0</b>	<b>40,211.7</b>	<b>10.5</b>	<b>15.7</b>	<b>19.6</b>

Table V.2 Factors Influencing Broad Money

(In Millions of Birr)

Particulars	Year ended June 30			Percentage Change		
	2002/03	2003/04	2004/05	2002/03	2003/04	2004/05
<b>1. External Assets (net)</b>	<b>11,049.1</b>	<b>12,997.8</b>	<b>13,868.0</b>	<b>41.2</b>	<b>17.6</b>	<b>6.7</b>
<b>2. Domestic Credit</b>	<b>28,202.3</b>	<b>31,138.8</b>	<b>40,312.9</b>	<b>2.4</b>	<b>10.4</b>	<b>29.5</b>
. Claims on Central Gov't (net)	17,229.8	19,199.2	21,673.8	7.8	11.4	12.9
. Claims on Non-Central Gov't	10,972.6	11,939.6	18,639.0	-5.1	8.8	56.1
<b>3. Other Items (net)</b>	<b>10,191.3</b>	<b>10,510.7</b>	<b>13,969.1</b>	<b>12.2</b>	<b>3.1</b>	<b>32.9</b>
<b>4. Broad Money (M2)</b>	<b>29,060.2</b>	<b>33,626.0</b>	<b>40,211.7</b>	<b>10.5</b>	<b>15.7</b>	<b>19.6</b>

### 5.1.2. Developments in Reserve Money and Monetary Ratios

Monetary base, which consists of currency in circulation and banks' reserve holdings at the National Bank of Ethiopia, increased 78.4 percent in 2004/05 compared to 20.6 percent growth rate observed in the preceding year. This significant annual increase in reserve money was reflected by rises in currency in circulation by 27.9 percent and banks' deposits at NBE by 167.9 percent. During fiscal years 2002/03 and 2003/04 the shares of banks' reserves (deposits) in monetary base were 35.2 and 36.1 percent, respectively. The rise in the share of banks' reserves to 54.2 percent in 2004/05 was mainly due to the redemption of T-bills holdings of commercial banks to the tune of more than Birr 6 billion to enable banks to lend more to the economy.

In Ethiopia banks are required to hold 5 percent of their deposits as reserve requirement. In fact, banks' actual reserves at the National Bank of Ethiopia has steadily increased over the years registering 159.4 percent rise in 2004/05 compared to 28.7 percent last year to reach Birr 12.74 billion at the end of June 2005. Consequently, excess reserve holdings of commercial banks bloated up by 224.6 percent

and reached Birr 10.91 billion during the same period. Though lending activities of commercial banks steadily rose during the fiscal year, they didn't match the faster pace of deposit mobilization and, hence, causing piling up of excess reserves of commercial banks which continued to threaten the effectiveness of monetary policy instruments in Ethiopia.

**Table V.3 Monetary Aggregates and Ratios**

(In millions of Birr)

Particulars	Year ended June 30			Percentage Change		
	2002/03	2003/04	2004/05	2002/03	2003/04	2004/05
<b>1. Reserve Requirement (CB's)</b>	1,320.3	1,549.4	1,827.6	13.4	17.3	18.0
<b>2. Actual Reserve (CB's)</b>	3,816.9	4,911.3	12,739.7	41.6	28.7	159.4
<b>3. Excess Reserve (CB's)</b>	2,496.6	3,362.0	10,912.1	62.9	34.7	224.6
<b>4. Reserve Money</b>	11,117.9	13,404.1	23,913.1	27.4	20.6	78.4
. Currency in Circulation	7,203.7	8,569.5	10,961.7	20.1	19.0	27.9
. Bank Deposits	3,914.2	4,834.5	12,951.4	43.5	23.5	167.9
<b>5. Money Multiplier (Ratio):</b>						
. Narrow Money to Reserve Money	1.4	1.3	0.9	-14.5	-3.0	-33.8
. Broad Money to Reserve Money	2.6	2.5	1.7	-13.3	-4.0	-33.0
<b>6. Other Monetary Ratios (%):</b>						
. Currency to Narrow Money	46.7	47.5	51.5	10.3	1.7	8.4
. Currency to Broad Money	24.8	25.5	27.3	8.7	2.8	7.0
. Narrow Money to Broad Money	53.1	53.6	52.9	-1.4	1.1	-1.3
. Quasi Money to Broad Money	46.9	46.4	47.1	1.7	-1.2	1.5
<b>7. M<sub>2</sub>/GDP ratio (%)</b>	41.7	39.8	41.5	1.2	-4.4	4.3
<b>8. Velocity of money (GDP/M<sub>2</sub>)</b>	2.4	2.5	2.4	-1.2	4.6	-4.2

Source: National Bank of Ethiopia

## 5.2. Developments in Interest Rate

During 2004/05, generally no significant changes have been observed in the interest rate structure of the banking system compared to 2003/04. This was mainly due to the prevalence of excess liquidity in commercial banks. As a result, the simple average savings deposits rate remained at 3.08 percent per annum just 0.08 percentage points above the 3 percent minimum set by the NBE. Interest rate on time deposits, however, ranged between 3.47 percent for a maturity period of less than one year to 3.94 percent for those loans extending above two years. On the average, banks paid 3.71 percent interest per annum on time deposits, compared to 3.59 percent in the preceding year.

Average interest rate on demand deposits remained at 0.05 percent as only three banks namely Dashen, United and Wegagen banks paid interest. The minimum and maximum lending rates also remained at 7.0 and 14.0 percent, respectively, averaging 10.5 percent.

In general, both time and savings deposits rates were negative in real terms taking into account the 6.8 percent average annual headline inflation and 5.2 percent core inflation. Lending interest rate, however, was positive 3.7 percent in real terms. It is true that in a market economy interest rates could play a significant role on serving as a transmission mechanism of monetary policy. In Ethiopia, NBE refrained from changing interest rate to counter the negative real rate of interest in deposits and/or yields of Treasury bills because such an intervention was regarded to have no desirable effect on output and imported inflation.

**Table V.4 Interest Rate Structure of Commercial Banks**

Rates	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
<b>1. Deposit Rate</b>							
<b>Saving Deposit</b>							
Minimum	6.00	6.00	6.00	3.00	3.00	3.00	3.00
Maximum	6.00	6.00	6.00	3.15	3.15	3.15	3.15
<b>Average</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>	<b>3.08</b>	<b>3.08</b>	<b>3.08</b>	<b>3.08</b>
<b>Time deposit</b>							
Up to 1 year	6.27	6.28	6.36	3.30	3.35	3.40	3.47
1 -2 years	6.36	6.54	6.67	3.51	3.62	3.64	3.71
Over 2 years	6.43	6.69	6.80	3.57	3.82	3.84	3.94
<b>Average</b>	<b>6.35</b>	<b>6.50</b>	<b>6.61</b>	<b>3.46</b>	<b>3.60</b>	<b>3.62</b>	<b>3.71</b>
Demand Deposit	-	-	-	0.04	0.04	0.05	0.05
<b>2. Lending Rate</b>							

Minimum	10.50	10.50	10.50	7.50	7.00	7.00	7.00
Maximum	13.00	13.50	15.00	14.00	14.00	14.00	14.00
<b>Average</b>	<b>11.75</b>	<b>12.00</b>	<b>12.75</b>	<b>10.75</b>	<b>10.50</b>	<b>10.50</b>	<b>10.50</b>
<b>3. Real Rate of Interest</b>							
Deposit 1/	1.2	-0.2	11.2	10.2	-12.1	-5.6	-3.8
Deposit 2/	7.3	3.6	4.1	2.1	2.5	0.2	-2.2
Lending/1	5.7	4.3	18	17.5	-4.9	1.9	3.7
<b>4. T-bills (Nominal)</b>	<b>4.88</b>	<b>1.11</b>	<b>0.61</b>	<b>0.95</b>	<b>0.62</b>	<b>0.53</b>	<b>0.09</b>

**Note:**

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

At the end of 2004/05, the number of banks increased by one to reach ten, with the establishment of the Cooperative Bank of Oromia. Of the ten banks, three are government owned. At the same time, the number of insurance companies stood at nine, of which one is state owned. No foreign entry into the financial sector business is allowed.

At the close of 2004/05, the number of bank branches increased by thirty-one to reach 389 branches, of which 174 (or about 44.7 percent) belonged to the Commercial Bank of Ethiopia, which is the largest public bank in the country. Despite such a move in branch expansion, Ethiopia remains one of the under-banked economies even at Sub-Saharan African countries' standard.

The bank branch to population ratio for Ethiopia stood at 1:185,000 in 2004/05, compared to 1: 227,797 in 2001/02.

Likewise, total capital of the banking system reached Birr 3,486 million at the end of June 2005, of which Birr 1,979.0 million (56.8 percent) was held by the three government owned banks. The total capital of the seven private banks stood at Birr 1,507 million (or 43.2 percent). Commercial Bank of Ethiopia accounted for about 41 percent of the total capital of the banking system (excluding NBE). However, it is worth to note that the share of private banks both in bank branches and capital has tended to increase over the years (refer Table V.5A) as it went up from 37.2 percent and 33.2 percent in 2003/04 to 40.4 and 43.2 percent respectively in 2004/05.

At the same time, total branches of insurance companies went up by 12 to reach 133 at the end of the fiscal year under review. Out of these total branches the public owned Ethiopian Insurance Corporation constituted 32 branches (or 24 percent) and 42 percent of the total capital of the industry. At present there are 9 insurance companies of which 8 are private. The share of the 8 private banks in total insurance branches was more pronounced as they accounted for about 76 percent compared to 73 percent in

2001/02. Yet, geographical distribution of bank and insurance branches is highly skewed to major towns and cities as well as few regions. Nearly 46 percent of insurance and 30 percent of bank branches are located in Addis Ababa, the commercial and business center of the economy. Similarly, 59.6 percent

of bank and 43.2 percent of insurance branches are found in four of the regional states (see Oromia, Amhara, Tigray & SNNP).

**Table V.5.A: Capital and Branch Network of the Banking System**

(Branches in Number and Capital in Million Birr)

Banks	Branch Network						Capital in Million Birr			
	2003/04		2004/05				2003/04		2004/05	
	Total	% Share	Regions	Addis Ababa	Total	% Share	Total Capital	% Share	Total Capital	% Share
<b>1. Public Banks</b>										
Commercial Bank of Ethiopia	172	48.0	138	36	174	44.7	1,495.4	47.4	1,427.0	40.9
Construction & Business Bank	21	5.9	15	11	26	6.7	87.9	2.8	115	3.3
Development Bank of Ethiopia	32	8.9	31	1	32	8.2	524.4	16.6	437	12.5
<b>2. Total Public Banks</b>	<b>225</b>	<b>62.8</b>	<b>184</b>	<b>48</b>	<b>232</b>	<b>59.6</b>	<b>2,107.70</b>	<b>66.8</b>	<b>1,979.00</b>	<b>56.8</b>
<b>3. Private Banks</b>										
Awash International Bank	31	8.7	14	19	33	8.5	177.5	5.6	225	6.5
Dashen Bank	31	8.7	15	18	33	8.5	229.9	7.3	324	9.3
Abyssinia Bank	19	5.3	10	12	22	5.7	208.6	6.6	269	7.7
Wegagen Bank	25	7.0	19	10	29	7.5	145.6	4.6	187	5.4
United Bank	14	3.9	4	13	17	4.4	96.1	3.0	125	3.6
Nib International Bank	13	3.6	3	14	17	4.4	189.5	6.0	265	7.6
Cooperative bank of Oromiya	-	-	6	-	6	1.5	-	-	112	3.2
<b>4. Total Private Banks</b>	<b>133</b>	<b>37.2</b>	<b>51</b>	<b>67</b>	<b>157</b>	<b>40.4</b>	<b>1,047.2</b>	<b>33.2</b>	<b>1,507.0</b>	<b>43.2</b>
<b>5. Total Banks</b>	<b>358</b>	<b>100.0</b>	<b>235</b>	<b>115</b>	<b>389</b>	<b>100</b>	<b>3,154.90</b>	<b>100</b>	<b>3,486.00</b>	<b>100</b>

Note: *BN* =Branch Network

*C* =Capital

**Table V.5.B: Branch Network of Insurance Companies**

(Branches in Number and Capital in Million Birr)

No.	Insurance Companies	Branch				Capital (Thousands of Birr)		
		2003/04	2004/05		Total	2003/04	2004/05	% Change
			A.A	Regions				
1	Ethiopian Ins. Cor.	28	9	23	32	169,178.0	183,386.0	8.4
2	Awash Ins. S.C.	13	7	7	14	28,959.0	31,835.0	9.9
3	Africa Ins. S.C.	9	2	7	9	38,046.0	28,931.0	-24.0
4	National Ins. Co. of Eth.	11	6	5	11	8,828.0	8,440.0	-4.4
5	United Ins.Com. S.C	17	11	6	17	29,841.0	37,739.0	26.5
6	Global Ins. Com.S.C	5	3	2	5	10,010.0	12,047.0	20.3
7	Nile Ins.Com.S.C	17	9	9	18	55,630.0	57,320.0	3.0
8	Nyala Ins.Com.S.C	12	6	8	14	50,175.0	50,218.0	0.1
9	Nib Ins. Com.S.C	9	8	5	13	15,797.0	24,918.0	57.7
<b>TOTAL</b>		<b>121</b>	<b>61</b>	<b>72</b>	<b>133</b>	<b>406,464.0</b>	<b>434,834.0</b>	<b>7.0</b>

Source: Insurance Companies

Note: A.A= Addis Ababa

- 1.Ethiopian Insurance Corporati
- 3.Africa Insurance Company S.C.
- 5.United Insurance Company S.C
- 7.Nile Insurance Company S.C
- 9.Nib Insurance Company

- 2.Awash Insurance Company
- 4.National Insurance Co. Of Ethiopia
- 6.Global Insurance Company S.C
8. NYala Insurance Company S.C

- 1.Ethiopian Insurance Corporati
- 3.Africa Insurance Company S.C.
- 5.United Insurance Company S.C
- 7.Nile Insurance Company S.C
- 9.Nib Insurance Company

- 2.Awash Insurance Company
- 4.National Insurance Co. Of Ethiopia
- 6.Global Insurance Company S.C
8. NYala Insurance Company S.C

The number of Micro-Finance Institutions (MFIs) that operate in the country has reached 25 at the end 2004/05. Their total capital stood at Birr 568.2 million and their total asset Birr 1.9 billion.

They mobilized deposits to the tune of Birr 509.6 million and advanced loans amounting to Birr 1.48 billion by the end of the review period. Of the total MFIs, 13 were operating in Addis Ababa.

The two biggest MFIs namely, Amhara and Dedebit Credit and Savings institutions alone accounted for





25	Dire MFI	Dire Dawa	7,660.70	1.3	1,274.5	0.3	3,814.6	0.3	10,203.8	0.5
	<b>Total</b>		<b>568,200.0</b>	<b>100.0</b>	<b>509,585.5</b>	<b>100.0</b>	<b>1,482,153.9</b>	<b>100.0</b>	<b>1,904,256.9</b>	<b>100.0</b>

Source: *Micro-finance Institutions*

Note: AA: Addis Ababa

SNNP: Southern Nations Nationalities and Peoples'

### 5.3.1 Resource Mobilization

Total resources mobilized by the banking system grew by 32.8 percent from Birr 10.1 billion in 2003/04 to reach Birr 13.3 billion at the end of 2004/05. This came due to the rise in net borrowing and collection of loans by 189.6 percent and 36.6 percent, respectively. Net deposits increased by 24.3 percent.

Deposit liabilities of the banking system (including DBE and excluding the Cooperative Bank of Oromia) climbed to Birr 38.5 billion by end June 2005, showing an annual growth rate of 17.9 percent compared to Birr 32.7 billion a year earlier. Demand, savings and time deposits (including Development Bank of Ethiopia) went up by 15.5, 20.5 and 18.4 percent, respectively. Demand deposits constituted 49.1 percent of the total deposits followed by savings deposits (44.5 percent). Deposit concentration in the Commercial Bank of Ethiopia declined from 73.6 percent last fiscal year to 70.1 percent by end 2004/05. The three public banks held about 74.7 percent of the total deposits. The share of private banks in deposit mobilization has increased from 19.6 percent in 2002/03 to 25.3 percent in 2004/05.

With reference to loan collections, the banking system recovered loans amounting to Birr 7.1 billion during the reporting period, exhibiting annual growth rate of 36.6 percent. Looking at the loan recovery rate by ownership, public banks collected Birr 3.7 billion, 37.6 percent higher than that of last year. Private banks in total managed to collect Birr 3.5 billion or 48.8 percent more than the amount they collected during 2003/04.

**Table V.7: Annual Resource Mobilizing & Disbursing Activities of Commercial Banks and DBE (Specialized Bank)**

(In millions of Birr)

Particulars	2002/03			2003/04			2004/05			Percent Change	
	Public Banks	Private Banks	Total (A)	Public Banks	Private Banks	Total (B)	Public Banks	Private Banks	Total (C)	C/A	C/B
1. Deposits (net change)	<b>1,613.40</b>	<b>1,335.00</b>	<b>2,948.50</b>	<b>2,948.00</b>	<b>1,747.80</b>	<b>4,695.80</b>	<b>3,308.23</b>	<b>2,529.30</b>	<b>5,837.53</b>	<b>98.0</b>	<b>24.3</b>
Demand	1,032.80	352.4	1,385.30	2,317.90	474.9	2,792.9	1,835.3	707.8	2,543.1	83.6	-8.9
Savings	629.8	829.1	1,458.90	653.4	1,213.50	1,866.9	1,441.1	1,498.1	2,939.2	101.5	57.4
Time	-49.2	153.5	104.3	-23.3	59.4	36	31.8	323.4	355.2	240.6	886.7
2. Borrowing (net change)	0	-62.3	-62.3	127.3	0	127.3	368.7	0	368.7	-691.8	189.6
Local	0	-69.2	-69.2	96.1	0	96.1	368.7	0	368.7	-632.8	283.7
Foreign	0	6.9	6.9	31.2	0	31.2	0	0	0	-100	-100
3. Collection of Loans	2,721.40	1,831.30	4,552.70	2,657.90	2,574.60	5,232.5	3,656.9	3,489.20	7,146.10	57	36.6
4. Total Resources Mobilized (1+2+3)	4,334.80	3,104.00	7,438.80	5,733.20	4,322.40	10,055.6	6,207.8	6,017.80	13,352.33	79.49	32.8
5. Disbursement	1,761.70	2,336.20	4,097.90	2,676.60	3,535.10	6,211.70	4,775.1	4,657.90	9,433.00	130.2	51.9
6. Change in Liquidity (4-5)	2,573.10	767.80	3,340.90	3,056.60	787.30	3,843.90	1,432.7	1,359.90	2,792.60	94.9	105.4
Memorandum Item:											
7. Outstanding Credit*	25,248.90	3,150.2	28,399.1	25,248.90	6,348.70	31,597.60	21,494.4	7,612.00	29,106.40	2.5	-7.9

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

**TableV.8: Deposits and Borrowings of Commercial Banks and Specialized Bank**

(In Millions of Birr)

Particulars	2004/05									TOTAL			% Change	
	CBE	DBE	CBB	AIB	DB	BOA	WB	UB	NIB	2002/03	2003/04	2004/05	C/A	C/B
										A	B	C		
A. Deposits														
-Demand	15,965.1	14.5	329.5	422.5	788.3	333.3	555.6	218.3	292.3	13585.2	16376.3	18919.4	39.3	15.5
-Savings	10,642.8	2.5	524.4	1,436.9	1,897.0	1,183.3	518.0	397.1	709.4	12505.2	14372.2	17311.4	38.4	20.5
-Time	406.6	665.0	203.1	81.5	142.9	111.1	180.3	271.8	222.3	1887.0	1929.4	2284.6	21.1	18.4
<b>Total</b>	<b>27,014.5</b>	<b>682.0</b>	<b>1,057.0</b>	<b>1,940.9</b>	<b>2,828.2</b>	<b>1,627.7</b>	<b>1,253.9</b>	<b>887.2</b>	<b>1,224.0</b>	<b>27,977.4</b>	<b>32,677.9</b>	<b>38,515.4</b>	<b>37.8</b>	<b>17.9</b>
B. Borrowings														
-Local	-	1,348.2	134.1	-	-	-	-	-	-	1017.5	1113.6	1482.3	45.7	33.1
-Foreign	-	284.3	0	-	-	-	-	-	-	253.1	284.3	284.3	12.3	0.0

<b>Total</b>	-	<b>1,632.5</b>	<b>134</b>	-	-	-	-	-	-	<b>1,270.6</b>	<b>1,397.9</b>	<b>1,766.6</b>	<b>39.0</b>	<b>26.4</b>
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**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

### 5.3.2 New Lending Activities

Total new loans granted during 2004/05 by the banking system reached Birr 9,443.0 million, reflecting respective growth rates of 130.0 and 51.9 percent over the fiscal years 2002/03 and 2003/04. More than 73.0 percent of the fresh loans were extended to the private sector (See Table V.12).

International trade was the major beneficiary of bank credit (31.1 percent) followed by domestic trade (20.2 percent) during the year. Agriculture and industry each took up 16.5 and 11.5 percent, respectively (See Table V.11).

Private banks together granted Birr 4.7 billion or 49.4 percent of the total fresh loans disbursed during the year, while their share was about 57 percent during the preceding year.

**Table V.9: Loans and Advances by Lender Banks 1/  
(In Million Birr)**

Name of Banks	2003/04			2004/05			Percent Change		
	Disbursed	Collected	O/S	Disbursed	Collected	O/S	E/B	F/C	G/D
	B	C	D	E	F	G			
<b>A. Public Banks</b>									
1 Commercial Bank of Ethiopia	2,285.4	2,336.1	20,978.4	3,972.2	3,150.4	16,420.8	73.8	34.9	-21.7
2. Development Bank of Ethiopia	290.3	223.2	3,529.0	219.9	127.7	4,094.9	-24.3	-42.8	16.0
3. Construction & Business Bank	100.8	98.6	741.5	583.0	378.8	899.1	478.4	284.2	21.3
<b>Sub-total</b>	<b>2,676.5</b>	<b>2,657.9</b>	<b>25,248.9</b>	<b>4,775.1</b>	<b>3,656.9</b>	<b>21,494.8</b>	<b>78.4</b>	<b>37.6</b>	<b>-14.9</b>
<b>B Private Banks</b>									
4. Awash International Bank	654.4	561.4	1,283.5	1,050.4	718.2	1,524.8	60.5	27.9	18.8
5. Dashen Bank	940.8	557.7	1,979.7	1,181.2	752.6	2,218.5	25.6	34.9	12.1

6. Bank of Abyssinia	215.5	229.5	1,121.0	424.2	346.5	1,217.5	96.8	51.0	8.6
7. Wegagen Bank	1,187.4	718.5	737.9	1,284.6	1,034.5	1,002.3	8.2	44.0	35.8
8. United Bank	218.0	245.5	360.1	342.5	266.4	513.2	57.1	8.5	42.5
9. Nib International Bank	319.0	262.1	866.4	375.0	370.9	1,135.4	17.6	41.5	31.0
<b>Sub-total</b>	<b>3,535.1</b>	<b>2,574.7</b>	<b>6,348.6</b>	<b>4,657.9</b>	<b>3,489.1</b>	<b>7,611.7</b>	<b>31.8</b>	<b>35.5</b>	<b>19.9</b>
<b>T o t a l</b>	<b>6,211.6</b>	<b>5,232.6</b>	<b>31,597.5</b>	<b>9,433.0</b>	<b>7,146.0</b>	<b>29,106.5</b>	<b>51.9</b>	<b>36.6</b>	<b>-7.9</b>

Source: Commercial Banks

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

\* O/S = Outstanding

**Table V.10: Percentage Share of Loans and Advances by Lender Banks**

Name of Banks	2003/04			2004/05			Annual Percentage Changes		
	Disbursed	Collected	O/S	Disbursed	Collected	O/S	D/A	E/B	F/C
	A	B	C	D	E	F			
1 Commercial Bank of Ethiopia	36.8	44.6	66.4	42.1	44.1	56.4	14.4	-1.1	-15.1
2. Development Bank of Ethiopia	4.7	4.3	11.2	2.3	1.8	14.3	-51.1	-58.1	27.7
3. Construction & Business Bank	1.6	1.9	2.3	6.2	5.3	3.1	287.5	178.9	34.8
4. Awash International Bank	10.5	10.7	4.1	11.1	10.1	5.2	5.7	-5.6	26.8
5. Dashen Bank	15.1	10.7	6.3	12.5	10.5	7.6	-17.2	-1.9	20.6
6. Bank of Abyssinia	3.5	4.4	3.5	4.5	4.8	4.2	28.6	9.1	20.0
7. Wegagen Bank	19.1	13.7	2.3	13.6	14.5	3.4	-28.8	5.8	47.8
8. United Bank	3.5	4.7	1.1	3.6	3.7	1.8	2.9	-21.3	63.6
9. Nib Int. Bank	5.1	5	2.7	4	5.2	3.9	-21.6	4.0	44.4
<b>T o t a l</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

### 5.3.3 Outstanding Loans

Outstanding loans of the banking system stood at Birr 29.1 billion at the end of 2004/05, registering a 7.9 percent decline compared to its balance at the close of the previous year. Gross outstanding claims on central government declined by 47.5 percent, while that of public enterprises, private sector and cooperatives surged by 42.6, 17.5 and 110.6 percent, respectively. Inter-bank loans outstanding fell by 17.9 percent.

The lion's share (Birr 21.5 billion) of the total outstanding loans was claimed by public banks whose share declined from 79.9 percent in 2003/04 to 73.8 percent in 2004/05.

This trend clearly indicates that private banks are becoming increasingly competitive in the banking business. Loans to the government for deficit financing witnessed a 47.5 percent decline over the last

year while outstanding loans to agriculture, foreign trade and transport & communication registered annual growth rates of 73.7, 33.9 and 12.9 percent, respectively (See Table V.12).

**Table V.11: Loans & Advances by Economic Sectors**  
(In Millions of Birr)

Economic Sectors	2003/04			2004/05			Percent Change		
	Disbursed	Collected	O/S	Disbursed	Collected	O/S	Disbursed	Collected	O/S
	A	B	C	D	E	F	D/A	E/B	F/C
Government Deficit Financing	-	-	13,847.6	-	-	7,277.5	0.0	0.0	-47.5
Agriculture	583.0	572.4	1,162.1	1,560.2	851.7	2,018.2	167.6	48.8	73.7
Industry	729.0	508.2	4,207.6	1,080.4	796.2	5,135.6	48.2	56.7	22.1
Domestic Trade	1463.6	1,406.8	2,192.6	1,907.7	1,615.2	2,660.2	30.3	14.8	21.3
International Trade	1655.8	1,419.6	3,396.5	2,938.7	2,226.1	4,608.0	77.5	56.8	33.9
Export	795.7	581.7	944.8	1,241.4	1,143.6	1,459.5	56.0	96.6	54.5
Import	867.2	838.0	2,451.7	1,697.2	1,082.5	3,148.1	95.7	29.2	28.4
Hotels and Tourism	32.9	86.3	322.9	48.9	127.6	316.7	48.6	47.9	-1.9
Transport and Communication	490.6	404.6	773.1	371.6	381.2	873.2	-24.3	-6.2	12.9
Housing and Construction	372.5	304.4	2,038.7	626.5	506.5	2,218.3	68.2	65.9	-27.2
Mines, Power and Water Resource	0.0	0.0	13.6	0.0	53.0	13.6	0.0	-86.5	0.0
Others	807.0	418.4	3,170.7	815.4	424.1	3,449.9	19.5	478.6	8.8
Personal	70.1	73.3	58.2	83.8	70.6	115.5	0.0	0.0	88.3
Interbank Lending	0.0	38.4	414.2	0.0	93.9	340.2	0.0	0.0	-17.9
<b>Total</b>	<b>6,211.7</b>	<b>5,232.5</b>	<b>31,597.6</b>	<b>9,433.0</b>	<b>7,146.1</b>	<b>29,106.5</b>	<b>51.9</b>	<b>36.6</b>	<b>-7.9</b>

Source: *Commercial Banks*

N.B. 1. Disbursements & Collections do not include overdraft facilities

2. Disbursement to & collection from the central government are excluded.
3. O/S = Outstanding balance included inter-bank lending

**Table V.12: Percentage Share of Loans & Advances by Economic Sectors**

Economic Sectors	2001/02			2002/03			2003/04			2004/05		
	Disbursed	Collected	O/S	Disbursed	Collected	O/S	Disbursed	Collected	O/S	Disbursed	Collected	O/S
Central Gov't			32.2			37.2			43.8			25.3
Agriculture	18.6	11.0	8.2	10.9	12.1	5.3	9.4	10.9	3.7	16.5	11.9	6.9
Industry	11.2	27.0	16.0	12.4	9.5	10.8	11.7	9.7	13.3	11.5	11.1	17.6
Domestic Trade	29.6	17.3	11.8	29.6	25.0	6.9	23.6	26.9	6.9	20.2	22.6	9.1
International Trade	24.3	5.2	19.2	23.8	22.7	9.0	26.7	27.1	10.7	31.2	31.2	15.8
Export	11.6	12.1	5.6	13.2	13.9	3.0	12.8	11.1	3.0	13.2	16.0	5.0
Import	12.7	3.7	13.6	10.6	8.8	6.0	14.0	16.0	7.8	18.0	15.1	10.8
Hotels and Tourism	1.7	10.1	2.6	1.0	1.8	6.9	0.5	1.6	1.0	0.5	1.8	1.1
Transport and Communication	3.7	7.2	5.1	3.7	9.2	2.1	7.9	7.7	2.4	3.9	5.3	3.0
Housing and Construction	4.4	3.5	10.6	9.6	9.4	1.3	6.0	5.8	6.5	6.6	7.1	7.6
Mines, Power and Water Resource	0.0	5.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.7	0.0
Others	5.6	0.9	23.0	8.0	7.0	0.2	13.0	8.0	10.0	8.6	5.9	11.9
Personal	1.0	2.2	0.2	1.1	0.9	20.1	1.1	1.4	0.2	0.9	1.0	0.4
Interbank Lending	0.0	0.0	3.3	0.0	2.4	2.0	0.0	0.7	1.3	0.0	1.3	1.2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Commercial Banks and Staff Computation

**Table V. 13: Loans & Advances by Borrower**

(In Millions of Birr)

Borrowing Sector	2002/03	2003/04	2004/05			Percentage change	
	O/S	O/S	Disbursed	Collected	O/S		
	A	B	C	D	E	E/A	E/B
Central Government	10,577.60	13,847.60			7277.5	-31.2	-47.4
Public Enterprises	1,364.20	2,227.20	1,313.10	604.4	3,175.30	132.8	42.6
Inter-bank Lending	456.6	414.2	-	93.9	340.2	-25.5	-17.9
Cooperatives	738.5	513.5	1,231.40	661.9	1,081.20	46.4	110.6
Private & Individuals	15,262.30	14,595.20	6,888.50	5,785.90	17,152.40	12.4	17.5
<b>Total</b>	<b>28,399.10</b>	<b>31,597.60</b>	<b>9,433.00</b>	<b>7,146.10</b>	<b>29,106.5</b>	<b>2.2</b>	<b>-7.9</b>
Total less Inter-bank Lending	<b>27,942.50</b>	<b>31,183.40</b>	<b>-</b>	<b>7,052.30</b>	<b>28,766.3</b>	<b>2.7</b>	<b>-7.8</b>

Source: Commercial Banks

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

2. Outstanding credit includes overdraft facilities and government borrowing.

## 5.4 Financial Activities of the National Bank of Ethiopia

At the end of 2004/05, outstanding claims of NBE on the central government reached Birr 24.8 billion, reflecting a growth rate of 66.1 percent compared to the preceding year's balance. This came largely due to the rise in borrowings through direct advances, which escalated by about 206.0 percent offsetting the slight decline in government bonds by 0.5 percent. Deposits of international institutions, correspondent banks, central government and domestic financial institutions with the Bank also grew by 77.5 percent to reach Birr 18.5 billion at the end of 2004/05. The increase in deposit liabilities of the Bank was mainly attributed to rises in reserves of financial institutions by 171.6 percent, offsetting a decline in government deposit by 4.8 percent.

**Table V. 14 Financial Activities of the National Bank of Ethiopia**  
(In Millions of Birr)

Particulars	2002/03	2003/04	2004/05	% Change	
	A	B	C	C/A	C/B
<b>Loans and Advances</b>	<b>16,058.7</b>	<b>15,011.0</b>	<b>24,842.2</b>	<b>54.7</b>	<b>65.5</b>
1. Claims on Central Gov't	<b>15,664.4</b>	<b>14,957.30</b>	<b>24,842.2</b>	<b>58.6</b>	<b>66.1</b>
Direct Advance	5,480.0	4,821.0	14,754.0	169.2	206.0
Bonds	10,184.4	10,136.3	10,088.2	-0.9	-0.5
<b>2. Claims on Development Bank of Ethiopia</b>	<b>394.3</b>	<b>53.7</b>	<b>0</b>	<b>-100.0</b>	<b>-100.0</b>
<b>Deposit Liabilities</b>	<b>10,240.2</b>	<b>10,437.2</b>	<b>18,527.6</b>	<b>80.9</b>	<b>77.5</b>
1. Government	6,276.8	5,568.0	5302.2	-15.5	-4.8
2. Financial Institutions	3,963.4	4,869.0	13,225.4	233.7	171.6

Source: National Bank of Ethiopia, staff Computation

## 5.5 Financial Markets

Treasury bills market continues to be the only active primary securities market in Ethiopia although secondary market doesn't exist. Long-term securities such as bonds are not widely used and traded, although government bonds are occasionally issued to finance government expenditure and/or to absorb excess liquidity in the banking system.

### 5.5.1 Treasury Bills

In 2004/05, the total face value of T-bills offered to the bi-weekly T-bills auction market run by the NBE

was Birr 41,262.0 million, exhibiting annual decline of 20.1 percent. The reduction was observed in both the 28 -day and 91-day bills by 2.6 percent and 43.3 percent, respectively, while moderate rise (3.5 percent) was seen in that of the 182-day bill.

Total demand for T-bills reached Birr 56,896.2 million in 2004/05, down by 6.9 percent compared to the amount offered during 2003/04. This was reflected in demand fall for both 91-day and 182-day bills that declined by 38.7 percent and 2.6 percent, respectively, offsetting the rise in the demand for 28-day bills by 28.9 percent.

The total supply, therefore, satisfied about 72.5 percent of the total demand compared to 84.5 percent last year. Commercial banks are the major institutional investors in T-bills which are risk and tax free. Accordingly, of the total bills supplied, banks bought T-bills worth Birr 37,783.9 million (or 92.0 percent). At the end of the fiscal year, outstanding bills stood at Birr 6,395.0 million, of which banks held 78.1 percent.

The average weighted yield on successful bids dropped for all types of T-bills significantly. For example, yields on 28-day, 91-day and 182-day bills declined by 62.7 percent, 79.9 percent and 93.1 percent, respectively in 2004/05. (Table V. 15). Hence, given the 6.8 percent headline and 5.2 percent core inflation rate, average weighted yields of T-bills were negative in real terms. Yields on T-bills remained suppressed largely due to the prevalence of excess reserves of banks.

**Table V.15: Treasury Bills Auction Result (2002/03 – 2004/05)**

(In Millions of Birr)

Particulars	2002/03	2003/04	2004/05	Percentage Change	
	A	B	C	C/A	C/B
<b>Number of Bidders</b>	293.0	293.0	242.0	-17.4	-17.4
<b>Amount Demanded (Mn. Br.)</b>	<b>38,478.6</b>	<b>61,143.2</b>	<b>56,896.2</b>	<b>47.9</b>	<b>-6.9</b>
28-day	8,958.0	23,778.0	30,645.0	242.1	28.9
91-day	20,869.7	28,105.5	17,236.0	-17.4	-38.7
182-day	8,650.9	9,259.7	9,015.2	4.2	-2.6
<b>Amount Supplied (Mn. Br.)</b>	<b>29,668.0</b>	<b>51,645.0</b>	<b>41,262.5</b>	<b>39.1</b>	<b>-20.1</b>
28-day	7,100.0	22,905.0	22,314.0	214.3	-2.6
91-day	17,218.0	23,044.0	13,054.5	-24.2	-43.3
182-day	5,350.0	5,696.0	5,894.0	10.2	3.5
<b>Amount Sold (Mn. Br.)</b>	<b>29,668.0</b>	<b>51,632.0</b>	<b>41,065.0</b>	<b>38.4</b>	<b>-20.5</b>
Banks	26,874.6	47,921.8	37,783.9	40.6	-21.2
Non-banks	2,793.4	3,710.2	3,281.1	17.5	-11.6
<b>Average Weighted Price for Br 100</b>					
<b>For Successful Bids (Br.)</b>					
28-day	99.990	99.970	99.990	-0.001	0.019
91-day	99.640	99.890	99.980	0.340	0.089



182-day	98.890	99.610	99.970	1.095	0.364
<b>Average Weighted Yield on</b>					
<b>Successful Bids (%)</b>					
28-day	0.197	0.391	0.146	-25.9	-62.7
91-day	1.440	0.425	0.086	-94.0	-79.9
182-day	2.246	0.785	0.054	-97.6	-93.1
<b>Outstanding Bills at the end of the Period (Mn. Br.)</b>	<b>9,100.0</b>	<b>12,485.0</b>	<b>6,395.0</b>	<b>-29.7</b>	<b>-48.8</b>
Banks	8,094.3	11,418.0	4,995.0	-38.3	-56.3
Non-banks	1,005.7	1,067.0	1,400.0	39.2	31.2

Source: National Bank of Ethiopia, Staff Computation

### 5.5.2. Government Bonds

No additional government bonds were auctioned since a two-year bond was issued in November 2000, which matured and was redeemed in November 2002. However, government bonds amounting Birr 322.1 million were issued to Commercial Bank of Ethiopia outside the auction since then. In general, at the end of fiscal year 2004/05, the outstanding bond holding by banks amounted to Birr 2,519.62 million while the non-bank public held Birr 348.6 million.

### 5.5.3. Inter-bank Money Market

Only one transaction was conducted in the inter-bank money market in 2004/05. Since the introduction of the inter-bank money market in September 1998, merely 13 transactions involving Birr 207.4 million were effected in the market with an average inter-bank rate of 7.8 percent. 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 2003

No	Borrower	Lender	Amount	Interest	Date of	Maturity
			Borrowed	Rate	Transaction	Period
			(In Mn. Br.)	(%)		
1	Nib Int. Bank	Awash Int. Bank	7	11	16/11/00	Overnight
2	Wegagen Bank	Commercial Bank of Eth.	10	8	3/01/01	5 years
3	Nib Int. Bank	..	10	8	31/03/01	3 months
4	Wegagen Bank	..	10	8	22/03/01	1 year
5	Nib Int. Bank	..	3.6	8	31/05/01	6 months
6	Nib Int. Bank	..	3.7	8	30/06/01	6 months
7	Nib Int. Bank	..	0.8	8	30/11/01	6 months
8	Nib Int. Bank	Bank of Abyssinia	29.0	7	31/12/02	3.5 months

9	Nib Int. Bank	Bank of Abyssinia	19.0	7	31/01/03	3.5 months
10	Nib Int. Bank	Bank of Abyssinia	20.3	7	28/02/03	3.5 months
11	Nib Int. Bank	Bank of Abyssinia	29.0	7	31/03/03	5.2 months
12	Nib Int. Bank	Commercial Bank of Eth.	25.0	7.5	07/07/03	5.2 month
13	Nib Int. Bank	Bank of Abyssinia	20.0	7.5	26/3/05	Over draft
14	Nib Int. Bank	Bank of Abyssinia	20.0	7.5	26/3/05	Over draft
	<b>Total/Average</b>	-	<b>207.4</b>	<b>7.8</b>		