

MONETARY AND FINANCIAL DEVELOPMENTS

5.1 Monetary Policy

Maintenance of price and exchange rate stability and creating conducive macroeconomic environment for economic growth continued to be the focus of monetary policy. Monetary aggregates which are important indicators of the trajectory of inflation, increased at rates consistent with expansion of domestic economy. Broad money supply rose 15.3 percent compared with 16.1 percent growth in nominal GDP. As the expansion of broad money was lower than the increase in nominal GDP, financial deepening (measured by broad money to GDP ratio) slightly declined to 41.3 percent from 41.6 percent in the preceding fiscal year.

Notwithstanding the price hike in the international price of fuel and other imported commodities, the monetary policy stance adopted by the Bank helped to contain the headline inflation at 12.3 percent and core inflation at a single digit level of 8 percent.

Sale of Treasury bills, setting of minimum deposit rate and reserve requirements remained the main operating tools for the implementation of monetary policy. As a result of continued sale of Treasury bills in

the auction market, the excess liquidity of commercial banks declined by 42 percent in the review year, igniting the glimmer of hope for the future effective operation of monetary policy.

5.1.1 Developments in Monetary Aggregates

Broad money supply (M_2) reached Birr 46.4 billion at the end of 2005/06, indicating a growth rate of 15.3 percent compared with the same period of last year. This monetary expansion was solely attributable to a 22.3 percent increase in domestic credit, which more than offset a 12.7 decline in net foreign assets. The exhibited increase in domestic credit was driven by higher net credit to government and credit to the non-government sector.

Notwithstanding the 2.3 percent decline in NBE's net claims on the government, credit to the central government increased by 16.6 percent and reached Birr 25.3 billion by the end of 2005/06 reflecting a significant surge in government's borrowing from commercial banks through sale of Treasury bills. Similarly, credit to the non-government sector rose by 28.9

National Bank of Ethiopia Annual Report 2005/06

percent to Birr 24 billion from Birr 18.6 billion a year ago.

Looking at the liabilities side, narrow money rose by 11.8 percent as a result of 14.0 and 9.9 percent increases in currency outside banks and demand deposits,

reached Birr 22.6 billion. The share of narrow money in broad money supply declined from 52.9 percent in 2004/05 to 51.3 percent in 2005/06, while that of quasi-money increased from 47.1 percent to 48.7 percent.

respectively. Similarly, as savings and time deposits went up by 18.3 and 29.1 percent, quasi-money surged by 19.3 percent and

Table 5.1: Components of Broad Money

(In Millions of Birr)

Particulars	Year ended June 30			Annual Percentage Change		
	2003/04	2004/05	2005/06	2003/04	2004/05	2005/06
1. Narrow Money Supply	18,036.0	21,289.8	23,811.9	15.9	18.0	11.8
. Currency outside banks	7,843.9	10,021.4	11,422.9	16.6	27.8	14.0
. Demand Deposits (net)	10,192.1	11,268.4	12,389.0	15.4	10.6	9.9
2. Quasi-Money	15,590.0	18,922.3	22,565.5	14.3	21.4	19.3
. Savings Deposits	14,369.6	17,310.5	20,485.5	14.9	20.5	18.3
. Time Deposits	1,220.3	1,611.8	2,080.0	7.0	32.1	29.1
3. Broad Money Supply	33,626.0	40,212.1	46,377.4	15.2	19.6	15.3

**Fig V.1 Major Components of Broad Money
(1980/81 - 2005/06)**

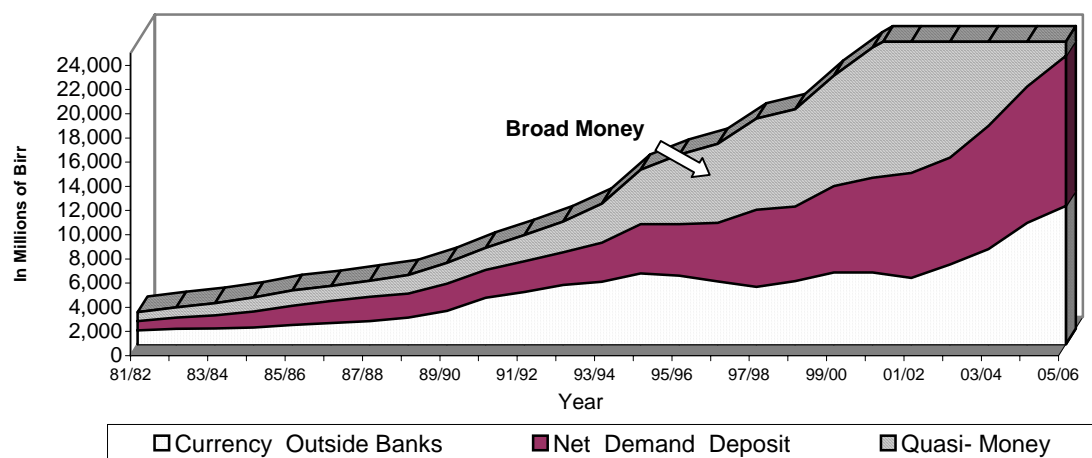
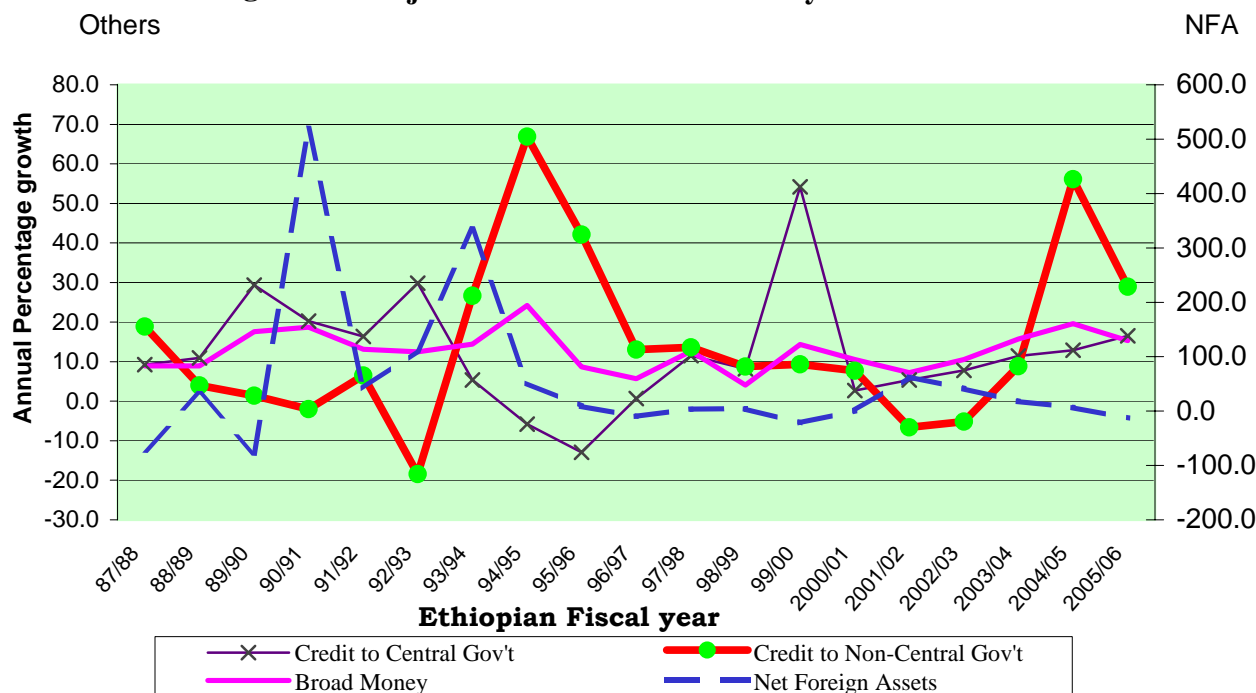


Table 5.2: Factors Influencing Broad Money

(In Millions of Birr)

Particulars	Year ended June 30			Percentage Change		
	2003/04	2004/05	2005/06	2003/04	2004/05	2005/06
1. External Assets (net)	12,997.8	13,868.0	12,109.6	17.7	6.7	-12.7
2. Domestic Credit	31,138.8	40,305.8	49,295.9	10.4	29.4	22.3
. Claims on Central Gov't (net)	19,199.2	21,663.8	25,266.4	11.4	12.8	16.6
. Claims on Non-Central Gov't	11,939.6	18,642.0	24,029.6	8.8	56.1	28.9
3. Other Items (net)	9,480.7	13,961.8	15,028.1	3.5	47.3	7.6
4. Broad Money (M2)	33,626.0	40,212.1	46,377.4	15.2	19.6	15.3

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, slowed down to Birr 21.2 billion at the end of 2005/06 from Birr 24 billion a year earlier. This was largely owing to 34.0 percent decline in commercial banks' reserves at the NBE

due to increased purchase of T-bills. Currency in circulation, however, went down by 14.6 percent.

In line with the decline in commercial banks' reserves at the NBE, their excess reserves plummeted by 42.6 percent in the review period to Birr 6331.2 million.

Table 5.3: Reserve Money and Monetary Ratios

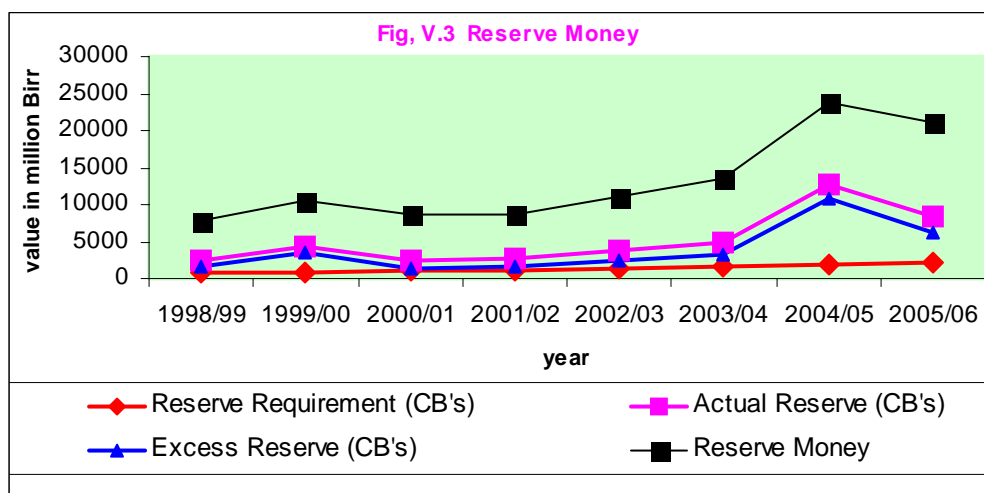
(In Millions of Birr)

Particulars	Year ended June 30			Percentage Change		
	2003/04	2004/05	2005/06	2003/04	2004/05	2005/06

National Bank of Ethiopia Annual Report 2005/06

1. Reserve Requirement (CB's)	1,549.4	1,828.4	2,120.9	17.3	18.0	16.0
2. Actual Reserve (CB's)	4,911.3	12,855.6	8,452.1	25.5	161.8	-34.3
3. Excess Reserve (CB's)	3,362.0	11,027.2	6,331.2	29.8	228.0	-42.6
4. Reserve Money	14,434.0	24,029.3	21,181.9	18.8	66.5	-11.8
. Currency in Circulation	9,599.4	10,961.7	12,560.2	16.6	14.2	14.6
. Bank Deposits	4,834.5	13,067.5	8,621.7	23.5	170.3	-34.0
5. Money Multiplier (Ratio):						
. Narrow Money to Reserve Money	1.2	0.9	1.1	-7.1	-29.1	26.9
. Broad Money to Reserve Money	2.3	1.7	2.2	-4.0	-28.2	30.8
6. Other Monetary Ratios (%):						
. Currency to Narrow Money	53.2	51.5	52.7	0.6	-3.3	2.4
. Currency to Broad Money	28.5	27.3	27.1	1.2	-4.5	-0.7
. Narrow Money to Broad Money	53.6	52.9	51.3	0.5	-1.3	-3.0
. Quasi Money to Broad Money	46.4	47.1	48.7	-0.7	1.5	3.4
7. M2/GDP ratio	40.1	41.6	41.3	-6.0	3.8	-0.7

Source: National Bank of Ethiopia



5.2. Developments in Interest Rate

Fiscal year 2005/06 witnessed no significant change in the interest rate structure of the banking system. Interest rate on savings deposit ranged between 3.0 and 3.15 percent, remaining

unchanged since 2001/02. Interest rate on time deposits, however, ranged between 3.6 percent and 4.3 percent depending on the maturity period. Thus, average annual interest rate on time

National Bank of Ethiopia Annual Report 2005/06

deposit increased to 3.97 percent from 3.71 percent last year.

Three commercial banks have continued to pay interest on demand deposits since 2001/02. Accordingly, average interest rate on demand deposits slightly rose to 0.06 percent from 0.05 percent during the preceding fiscal year.

Meanwhile, average lending rate of commercial banks remained at 10.5

percent with minimum lending rate at 7.0 percent and maximum at 14.0 percent.

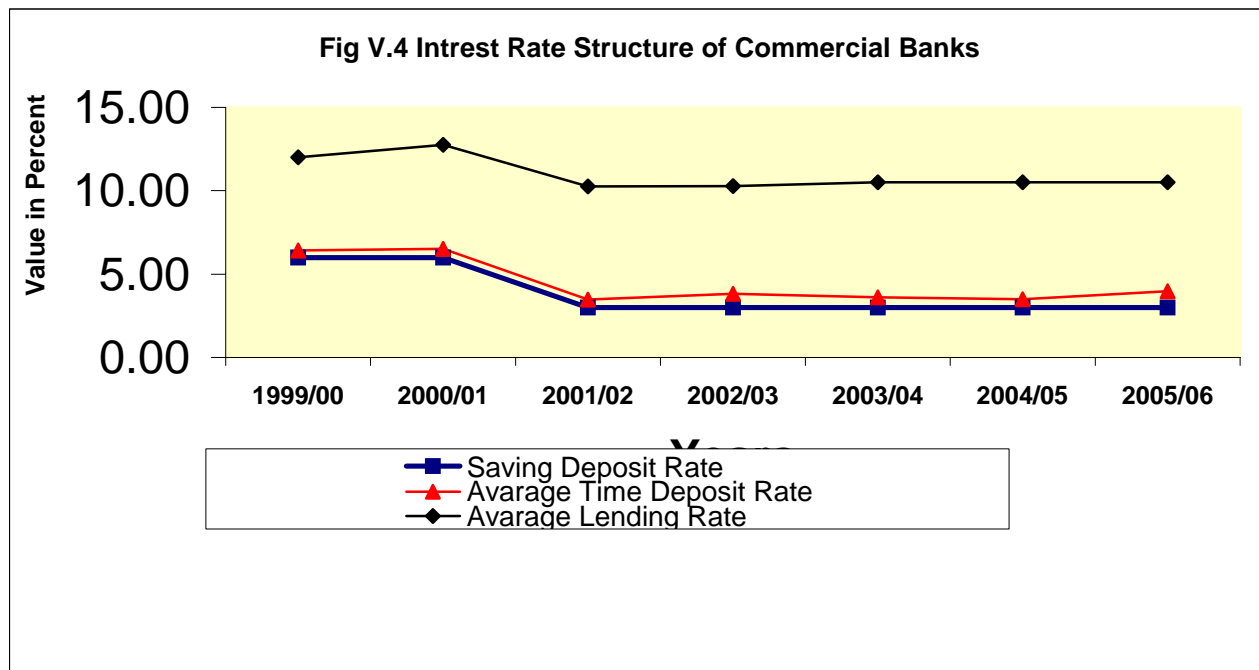
Compared with the average annual headline inflation of 12.3 percent in 2005/06, all deposit rates and the average lending rates were negative in real terms.

Table 5.4: Interest Rate Structure of Commercial Banks (1998/99-2005/06)
(In percent per annum)

Rates	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
1. Deposit Rate								
Savings Deposit								
Minimum	6.00	6.00	6.00	3.00	3.00	3.00	3.00	3.00
Maximum	6.00	6.00	6.00	3.15	3.15	3.15	3.15	3.15
Average Time deposit	6.00	6.00	6.00	3.08	3.08	3.08	3.08	3.08
Up to 1 year	6.27	6.28	6.36	3.30	3.35	3.40	3.47	3.60
1 -2 years	6.36	6.54	6.67	3.51	3.62	3.64	3.71	4.01
Over 2 years	6.43	6.69	6.80	3.57	3.82	3.84	3.94	4.30
Average	6.35	6.50	6.61	3.46	3.60	3.62	3.71	3.97
Demand Deposit	-	-	-	0.04	0.04	0.05	0.05	0.06
2. Lending Rate								
Minimum	10.50	10.50	10.50	7.50	7.00	7.00	7.00	7.00
Maximum	13.00	13.50	15.00	14.00	14.00	14.00	14.00	14.00
Average	11.75	12.00	12.75	10.75	10.50	10.50	10.50	10.50
3. Real Rate of Interest								
Deposit 1/	1.2	-0.2	11.2	10.2	-12.1	-5.6	-3.8	-9.3
Deposit 2/	7.3	3.6	4.1	2.1	2.5	0.2	-2.2	-5.0
Lending/1	5.7	4.3	18	17.5	-4.9	1.9	3.7	2.5
4. T-bills (Nominal)	4.88	1.11	0.61	0.95	0.62	0.53	0.09	0.04

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 of Ethiopia mainly consists of the banking system, insurance companies and micro-finance institutions. Concerning the banking sector, the number of banks operating in the country (excluding the NBE) remained at ten, with no new entrants. Out of the ten banks, 9 were commercial banks and one was a development bank. In terms of ownership, Commercial Bank of Ethiopia, Development Bank of Ethiopia and Construction and Business Bank are the three state-owned banks while the rest are privately owned.

As for branch networks, with the opening up of 32 additional branches in the review year, the number of bank branches reached 421 at

the end of 2005/06. A significant branch expansion was made by United Bank and the Cooperative Bank of Oromiya (5 branches each) followed by Abysinia, Dashen and Wegagen Banks (4 branches each) and Awash International Bank and Commercial Bank of Ethiopia (3 branches each).

Out of the total branches, 177 (42.0 percent) belong to the Commercial Bank of Ethiopia and the share of private banks was 43.9 percent with 185 branches.

Looking at the regional distribution, 35.2 percent (148 branches) were located in Addis Ababa, the capital city and commercial center of the country.

National Bank of Ethiopia Annual Report 2005/06

Total capital of the banking system increased by 13.4 percent and reached Birr 5.4 billion at the end of June 2006. State-owned banks accounted for about 65.0 percent of the total capital. Yet, the capital share of private banks rose to 35.0 percent from 30.0 percent a year earlier, indicating a steady increase in profitability and competitiveness of private banks over the last few years.

With regard to insurance companies, the number of insurance companies remained at the previous year level of 9, though their number of branches increased by 5 and reached 138 at the end of the fiscal year 2005/06. The state-owned Ethiopian

Insurance Corporation (EIC) accounted for 24.6 percent of the total branches (34 branches). Similar to the banking system, branches of insurance companies also tended to concentrate in Addis Ababa, the capital city, as 66 branches (47.8 percent of the total) were located in it.

On the other hand, the total capital of the insurance industry grew by 17.3 percent and reached close to Birr 500.0 million at the end of 2005/06. Ethiopian Insurance Corporation accounted for 39.3 percent of the total capital distantly followed by Nile insurance(11.1percent).

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

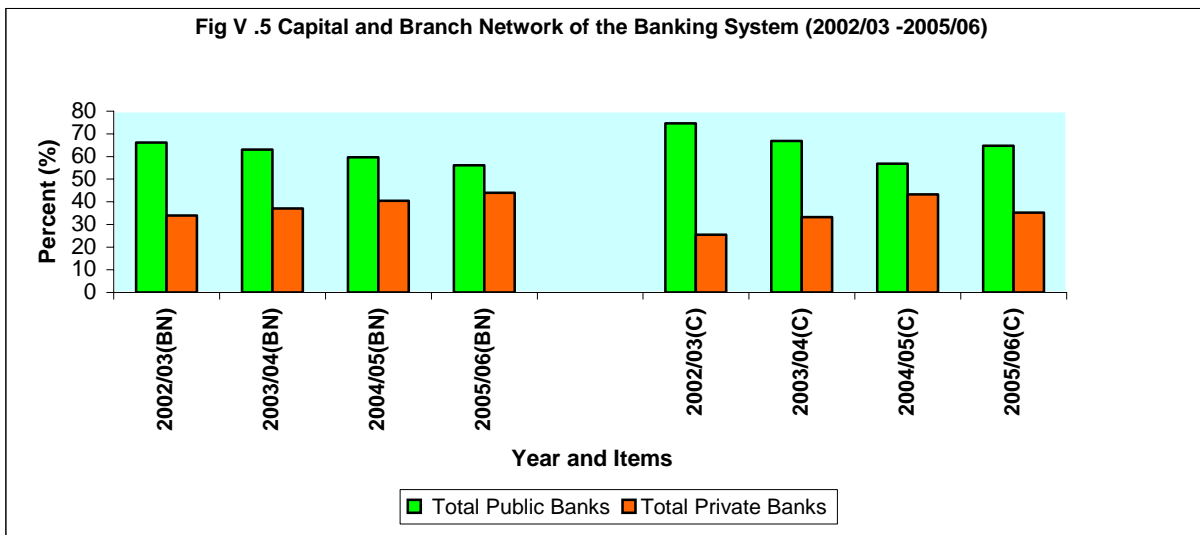
(Branches in Number and Capital in Million Birr)

Banks	Branch Network							Capital			
	2004/05			2005/06				2004/05		2005/06	
	Region	Total	% Share	Region	Addis Ababa	Total	% Share	Total Capital	% Share	Total Capital	% Share
1. Public Banks											
Commercial Bank of Ethiopia	138	174	44.7	141	36	177	42.0	1,427.0	29.9	1,505.3	27.8
Construction & Business Bank	15	26	6.7	15	12	27	6.4	115.0	2.4	179.0	3.3
Development Bank of Ethiopia	31	32	8.2	31	1	32	7.6	1,806.	37.8	1,822.0	33.6
Total Public Banks	184	232	59.6	187	49	236	56.1	3,348.	70.1	3,506.3	64.8
2. Private Banks											
AwashInternational Bank	14	33	8.5	16	20	36	8.6	226.8	4.75	304.3	5.6
Dashen Bank	15	33	8.5	15	22	37	8.8	242.3	5.07	311.1	5.7
Bank of Abyssinia	10	22	5.7	12	14	26	6.2	268.4	5.62	406.8	7.5
Wegagen Bank	19	29	7.5	21	12	33	7.8				

National Bank of Ethiopia Annual Report 2005/06

								189.3	3.96	256.8	4.7
United Bank	4	17	4.4	7	15	22	5.2	125.0	2.62	193.2	3.6
Nib International Bank	3	17	4.4	4	16	20	4.8	265.0	5.55	313.4	5.8
Cooperative Bank of Oromia	6	6	1.5	11	0	11	2.6	112.1	2.35	122.7	2.3
Total Private Banks	71	157	40	86	99	185	43.9	1,429	29.9	1,908.3	35.2
3.Grand Total	255	389	100	273	148	421	100.0	4,777	100.0	5,414.6	100.0

Source: Commercial Banks



Note: BN =Branch Network

C =Capital

Table 5.5.B: Branch Network of Insurance Companies

(Branches in Number and Capital in Thousand Birr)

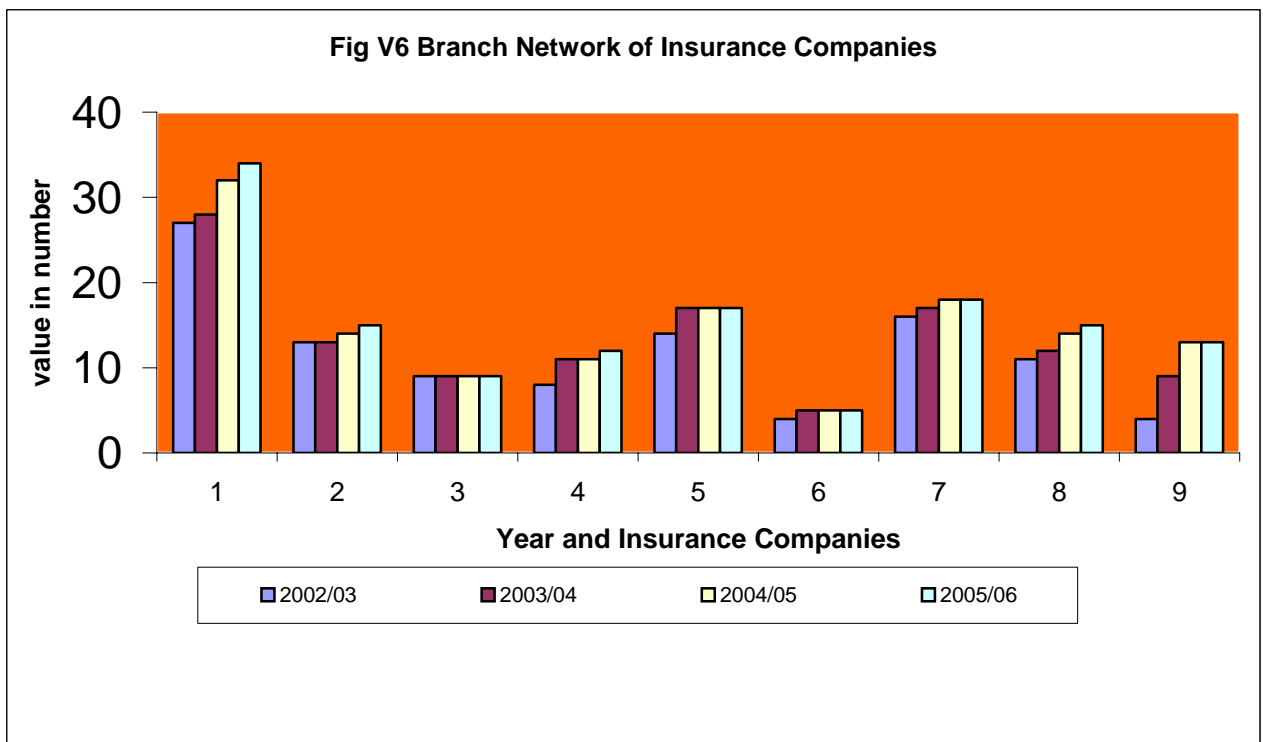
No.	Insurance Companies	Branch				Capital		
		2004/05	2005/06			2004/05	2005/06	% Change
		Total	A.A	Regions	Total	A	B	B/A
1	Ethiopian Ins. Cor.	32	11	23	34	183,386.0	196,677.0	7.2
2	Awash Ins. Com. S.C.	14	8	7	15	31,835.0	39,740.0	24.8
3	Africa Ins.Com. S.C.	9	2	7	9	28,931.0	52,035.0	79.9
4	National Ins. Co. of Eth.	11	7	5	12	8,440.0	9,953.0	17.9

National Bank of Ethiopia Annual Report 2005/06

5	United Ins. Com. S.C	17	11	6	17	29,104.0	47,169.0	62.1
6	Global Ins. Com. S.C	5	3	2	5	12,047.0	16,624.0	38.0
7	Nile Ins. Com. S.C	18	9	9	18	57,320.0	55,666.0	-2.9
8	Nyala Ins. Com. S.C	14	7	8	15	50,218.0	55,163.0	9.8
9	Nib Ins. Com.S.C	13	8	5	13	24,918.0	26,869.0	7.8
TOTAL		133	66	72	138	426,199.0	499,896.0	17.3

Source: Insurance Companies

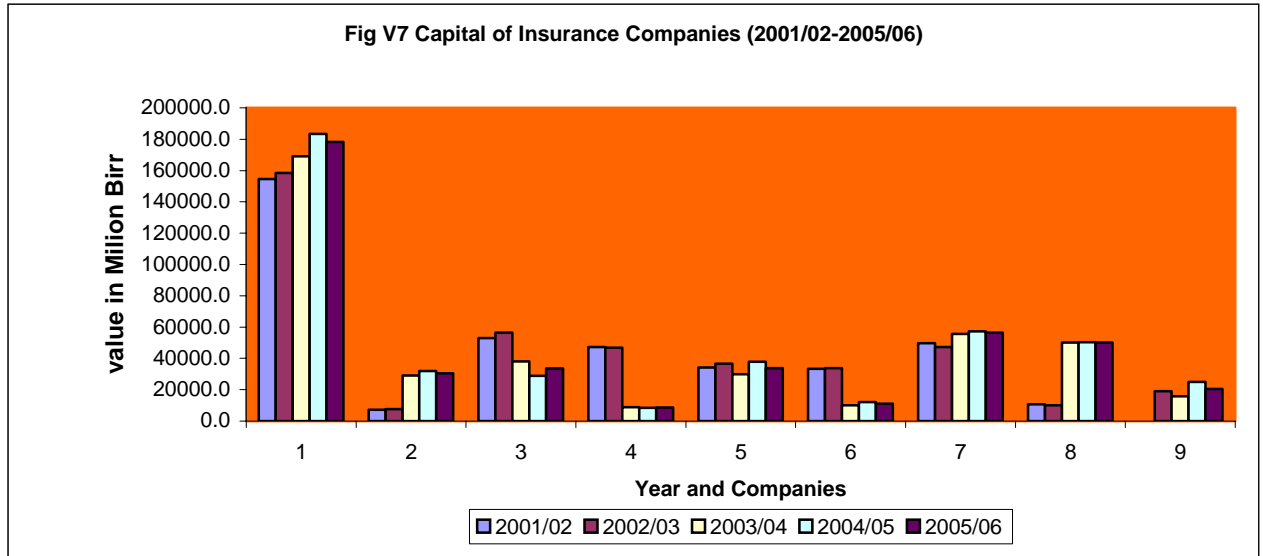
Note: A.A= Addis Ababa



Insurance Companies

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
6. Global Insurance Company S.C
7. Nile Insurance Company S.C
8. Nyala Insurance Company S.C

9. Nib Insurance Company S.



Insurance Companies

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
6. Global Insurance Company S.C
7. Nile Insurance Company S.C
8. Nyala Insurance Company S.C
9. Nib Insurance Company S.C

As Ghion and Digaf MFIs started operation and Meqedela MFI terminated operation, the number of micro-finance institutions (MFIs) operating throughout the country increased by 1 and reached 26 at the end of 2005/06. Their total capital stood at Birr 794.6 million

and their total assets valued at Birr 2.6 billion. They mobilized deposits to the tune of Birr 716.0 million and advanced loans amounting to Birr 2.0 billion at the end of the review period. Of the total MFIs, 11 were operating in Addis Ababa. About 80.0

National Bank of Ethiopia Annual Report 2005/06

percent of the deposits of MFIs were mobilized by 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 in total capital, asset and credit of MFIs were 66.3, 78.4 and 77.2 percent, respectively.

Table 5.6: Micro Finance Institutions Operating in Ethiopia as of June 2006
(Amount in Thousands of Birr)

No.	Micro-finance institutions	Regions	Total Capital		Saving		Credit		Total Assets	
			Amount	%	Amount	%	Amount	%	Amount	%
			1	Amhara Credit & Saving Ins.	Amhara	190,204.0	23.94	301,929.0	42.17	590,226.0
2	Dedebit Credit & Saving Ins.	Tigray	228,184.6	28.72	193,014.7	26.96	725,506.2	37.0	990,421.9	38.83
3	Oromia Credit & Saving S.C	Oromia	108,225.8	13.62	80,256.8	11.21	220,571.7	11.3	247,467.9	9.70
4	Omo Credit & Saving Ins.	SNNP	14,211.1	1.79	43,645.4	6.10	96,653.6	4.9	131,707.3	5.16
5	Specialized Finan. & Pro.Ins.	A.A	11,234.2	1.41	6,933.6	0.97	17,348.8	0.9	21,990.5	0.86
6	Gasha Micro-fin. Ins.	A.A	4,505.8	0.57	6,156.5	0.86	13,616.1	0.7	19,077.5	0.75
7	Wisdom Micro-financing Ins.	A.A	22,153.9	2.79	11,115.7	1.55	43,064.5	2.2	50,626.2	1.98
8	Sidama Micro-finance Ins.	SNNP	13,087.3	1.65	5,267.3	0.74	15,390.9	0.8	24,935.6	0.98
9	Aser Micro-financing Ins.	A.A	648.9	0.08	273.1	0.04	566.3	0.0	958.2	0.04
10	Africa Village Financial Service	A.A	5,173.2	0.65	2,037.3	0.28	7,325.2	0.4	8,980.9	0.35
11	Bussa Gonofaa Micro-fin. Ins.	Oromia	8,353.3	1.05	1,511.8	0.21	9,524.8	0.5	12,232.9	0.48
12	Peace Micro-finance Ins.	A.A	6,205.9	0.78	4,658.2	0.65	21,610.1	1.1	24,079.6	0.94
13	Meket Micro-financing Ins.	Amhara	1,861.9	0.23	404.3	0.06	1,478.0	0.1	2,619.0	0.10
14	Addis Credit & Saving Ins.	A.A	127,220.0	16.01	40,239.0	5.62	123,932.0	6.3	178,037.0	6.98
15	Meklit Micro-financing Ins.	A.A	2,932.8	0.37	1,921.2	0.27	7,825.9	0.4	9,420.8	0.37
16	Eshet Micro-financing Ins.	Oromia	7,163.7	0.90	2,094.8	0.29	18,434.9	0.9	22,937.3	0.90
17	Wasasa Micro-financing Ins.	Oromia	6,768.0	0.85	3,579.2	0.50	17,011.4	0.9	20,288.9	0.80
18	Benishangul-Gumz MFI	Benishangul-Gumuz	19,127.1	2.41	4,893.0	0.68	15,540.2	0.8	25,648.4	1.01
19	Shashemene Idir Yelmat Agar MFI	Oromia	1,764.8	0.22	1,758.4	0.25	2,122.4	0.1	3,584.7	0.14
20	Metemamen MFI	A.A	2,924.3	0.37	13.4	0.00	1,761.2	0.1	2,947.1	0.12
21	Dire MFI	Dire Dawa	8,260.9	1.04	922.4	0.13	5,249.9	0.3	12,859.4	0.50
22	Agar MFI	A.A	3,282.5	0.41	1,922.4	0.27	3,399.1	0.2	6,011.5	0.24
23	Harbu MFI	Oromia	283.5	0.04	765.4	0.11	1,430.3	0.1	1,779.8	0.07
24	Ghion MFI	Amhara	186.7	0.02	308.0	0.04	331.8	0.0	501.0	0.02
25	Leta MFI	Oromia	464.0	0.06	12.6	0.00	251.9	0.0	478.0	0.02
26	Digaf MFI	A.A	172.4	0.02	319.8	0.04	296.1	0.0	549.4	0.02
	Total		794,600.6	100.0	715,953.3	100.0	1,960,469.3	100	2,550,962.8	100.0

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 through deposits, borrowing and loan collection grew by 43.6 percent and reached Birr 17.5 billion in 2005/06 from Birr 12.2 billion in 2004/05. This was mainly due to 50.6 and 42.4 percent increases in net deposit and loan collection, which offset a 23.8 percent decline in net borrowing.

At the end of June 2006, deposit liabilities of the banking system reached Birr 44.5 billion, 19.0 percent higher than the same period of last year. All components of deposits, namely, demand, savings and time deposits, expanded with respective growth rates of 19.6, 18.3 and 18.5 percent. Demand deposits accounted for 47.8 percent of total deposits followed by savings deposits (46.1 percent) and time deposits (6.1 percent). Of the total deposits of the banking system, state-owned banks accounted for 70.7 percent, down from 73.8 percent a year earlier. The share of the largest state-owned commercial bank, the Commercial Bank of Ethiopia, also declined from 69.2 percent to 67.0 percent. In contrast, the share of private banks in deposit mobilization increased from 25.3 percent in 2004/05 to 29.4 percent in 2005/06.

As most of the banks have sufficient liquidity, borrowing is not an important source of mobilizing resources. In fact, only two state-owned banks, namely, the Development Bank of Ethiopia and Construction & Business Bank borrow funds. Accordingly, total outstanding borrowing of these two banks stood at 2.0 billion at the end of 2005/06, 15.9 percent higher than a year earlier. Only 16.6 percent of the borrowing came from foreign sources. Development Bank of Ethiopia accounted for about 95.0 percent of the total borrowing.

Loan collection by the banking system amounted to Birr 10.2 billion, 42.4 percent higher than last year. Of the total loan collection, public banks collected 50.5 percent and private banks the rest.

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

(In millions of

Birr)

NO.	Particulars	2004/05			2005/06			Percent Change
		Public Banks	Private Banks	Total (A)	Public Banks	Private Banks	Total (B)	B/A
1.	Deposits (netchange)	2,170.4	2,531.8	4,702.2	3,797.9	3,285.8	7,083.7	50.6
	Demand	691.1	709.0	1,400.1	2,620.2	865.8	3,486.0	149.0
	Savings	1,441.2	1,499.4	2,940.6	1,328.1	1,847.4	3,175.5	8.0
2.	Time	38.2	323.4	361.6	-150.4	572.6	422.2	16.7
	Borrowing (net change)	368.7	-	368.7	280.8	-	280.8	-23.8
	Local	368.7	-	368.7	225.8	-	225.8	-38.8
3.	Foreign	-	-	-	55.0	-	55.0	-
	Collection of Loans	3,656.9	3,489.2	7,146.1	5,143.8	5,034.3	10,178.1	42.4
4.	Total Resources Mobilized(1+2+3)	6,196.1	6,021.0	12,217.0	9,222.5	8,320.1	17,542.5	43.6
5.	Disbursement	4,775.1	4,657.9	9,433.0	5,118.5	7,283.5	12,401.9	31.5
6.	Change in Liquidity (4-5)	1,421.0	1,363.1	2,784.1	4,104.0	1,036.6	5,140.6	84.6
7.	Memorandum Item Outstanding Credit*	21,494.4	7,612.0	29,106.4	28,396.3	11,235.0	39,631.2	36.2

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

Table5.8: Deposits and Borrowings of Commercial Banks and Specialized Bank

(In Millions of Birr)

Particulars	2005/06										TOTAL			% Change	
	CBE	DBE	CBB	AIB	DB	BOA	WB	UB	NIB	CBO	2003/04	2004/05	2005/06	M/K	M/L

National Bank of Ethiopia Annual Report 2005/06

	A	B	C	D	E	F	G	H	I	J	K	L	M		
A. Deposits															
-Demand	17,616.7	8.3	161.8	574.8	1,039.1	403.2	732.6	336.2	327.3	64.1	16,378.0	17,778.1	21,264.1	29.8	19.6
-Savings	11,869.0	2.7	626.1	1,833.9	2,343.2	1,548.3	722.8	683.4	836.6	22.2	14,372.1	17,312.7	20,488.2	42.6	18.3
-Time	320.4	618.8	185.1	160.1	309.3	225.4	330.9	257.4	287.9	11.5	1,923.0	2,284.6	2,706.8	40.8	18.5
Total	29,806.1	629.8	973.0	2,568.8	3,691.6	2,176.9	1,786.3	1,277.0	1,451.8	97.8	32,673.2	37,375.4	44,459.1	36.1	19.0
B. Borrowings															
-Local	-	1,605.0	103	-	-	-	-	-	-	-	3,972.3	1,482.3	1,708.0	-57.0	15.2
-Foreign	-	339.3	0	-	-	-	-	-	-	-	284.3	284.3	339.3	19.3	19.3
Total	-	1,944.3	103.0	-	-	-	-	-	-	-	4,256.6	1,766.6	2,047.3	-51.9	15.9

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

.3.2 New Lending Activities

The banking system disbursed new loans amounting to Birr 12.4 billion during 2005/06, 31.5 percent higher than the amount disbursed during the preceding fiscal year. More than 97.0 percent of the new loans were disbursed to the private sector.

Sector wise, disbursement to international trade took the largest share (28.6 percent) followed by domestic trade (19.8

percent), agriculture (17.6 percent) and industry (10.5 percent). Housing and construction and transport and communication sectors also received 9.4 and 8.1 percent of the new loans.

Of the total fresh loan disbursements, the share of private banks increased from 49.4 percent in the preceding fiscal year to 58.7 percent in the review period.

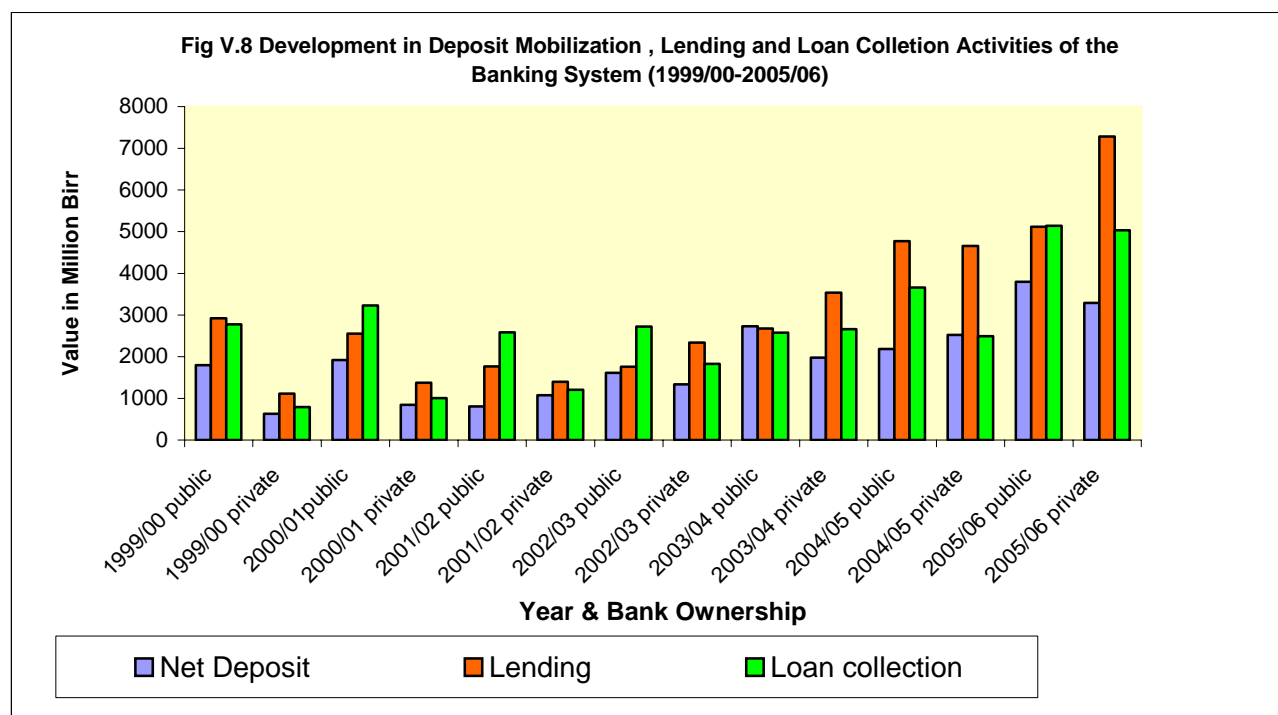


Table 5.9: Loans and Advances by Lender Banks 1/

(in Million Birr)

Borrowing Sector	2004/05			2005/06			Percentage change		
	Disbursed	Collected	O/S	Disbursed	Collected	O/S	D/A	E/B	F/C
	A	B	C	D	E	F			
A.Public Banks									
1.Commercial Bank of Ethiopia	3,972.2	3,150.4	16,420.8	4115.9	4375.8	21,881.0	3.6	38.9	33.3
2..Development Bank of Ethiopia	219.9	127.7	4,094.9	572.0	576.0	5465.2	160.1	351.1	33.5
3. Construction & Business Bank	583.0	378.8	899.1	430.5	192.0	1050.0	-26.2	-49.3	16.8
Sub-Total	4,775.1	3,656.9	21,414.8	5,118.5	5,143.8	28,396.3	7.2	40.7	32.6
4.AwashInternational Bank	1,050.4	718.2	1,524.8	1409.5	813.9	2069.9	34.2	13.3	35.8
5. Dashen Bank	1,181.2	752.6	2,218.5	1676.4	938.6	3154.0	41.9	24.7	42.2
6. Bank of Abyssinia	424.2	346.5	1,217.5	885.9	554.0	1944.0	108.8	59.9	59.7
7. Wegagen Bank	1,284.6	1,034.5	1,002.3	1997.3	1646.2	1593.5	55.5	59.1	59.0
8. United Bank	342.5	266.4	513.2	629.8	419.8	855.5	83.9	57.6	66.7
9. Nib International Bank	375.0	370.9	1,135.4	469.7	409.3	1475.4	25.2	10.4	29.9
10. Cooperative Bank	-	-	-	214.9	252.5	142.6		-	

National Bank of Ethiopia Annual Report 2005/06

of Oromia							-		-
Sub-Total	4,657.9	3,489.1	7,611.7	7283.5	5,034.3	11,235.0	56.4	44.3	47.6
Grand Total	9,433.0	7,146.0	29,026.5	12,401.9	10,178	39,631.2	31.5	42.4	36.5

Source: Commercial Banks

Note: 1- outstanding credit includes lending to central government, over draft and inter- bank lending

O/S=Outstanding Balance

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

Borrowing Sector	2004/05			2005/06			Percentage change		
	Disb.	Coll.	O/S	Disb.	Coll.	O/S	D/A	E/B	F/C
	A	B	C	D	E	F			
A. Public Banks									
1.Commercial Bank of Ethiopia	42.1	44.1	56.6	33.2	43.0	55.2	-21.2	-2.5	-2.4
2.Development Bank of Ethiopia	2.3	1.8	14.1	4.6	5.7	13.8	97.8	216.7	-2.2
3. Construction & BusinessBank	6.2	5.3	3.1	3.5	1.9	2.6	-43.8	-64.4	-14.5
Sub-Total	50.6	51.2	73.8	41.3	50.5	71.7	-18.5	-1.2	-2.9
4 Awash International Bank	11.1	10.1	5.3	11.4	8.0	5.2	2.1	-20.4	-0.6
5. Dashen Bank	12.5	10.5	7.6	13.5	9.2	8.0	7.9	-12.4	4.1
6. Bank of Abyssinia	4.5	4.8	4.2	7.1	5.4	4.9	58.8	12.3	16.9
7. Wegagen Bank	13.6	14.5	3.5	16.1	16.2	4.0	18.3	11.7	16.4
8. United Bank	3.6	3.7	1.8	5.1	4.1	2.2	39.9	10.6	22.1
9. Nib International Bank	4.0	5.2	3.9	3.8	4.0	3.7	-4.7	-22.5	-4.8
10. Cooperative Bank of Oromia				1.7	2.5	0.4	-	-	-
Sub-Total	49.4	48.8	26.2	58.7	49.5	28.3	18.9	1.3	8.1
Grand Total	100.0	100.0	100.0	100.0	100.0	100.0	0.0	0.0	0.0

5.3.3 Outstanding Loans

At the end of June 2006, outstanding loans of the banking system (including holdings of government bonds and T-bills) reached Birr 39.6 billion, which was 36.5 percent higher than Birr 29.02 billion in the same period last year.

Total credit to the central government surged by 77.0 percent while credit to the private sector grew by 26 percent. On the other hand, lending to public enterprises declined by 5.0 percent.

National Bank of Ethiopia Annual Report 2005/06

The share of private banks in total outstanding loans of the banking system increased from 26.2 percent in 2004/05 to 28.3 percent at the end of 2005/06.

Table 5.11: Loans & Advances by Economic Sectors

(In Millions of Birr)

Economic Sectors	2004/05			2005/06			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	-	-	7,277.5	-	-	12,880.1	0.0	0.0	-77.0
Agriculture	1,560.2	851.7	2,018.2	2,188.8	1,409.3	3,418.0	40.3	65.5	69.4
Industry	1,080.4	796.2	5,135.6	1,301.9	1,153.4	6,320.1	20.5	44.9	231
Domestic Trade	1,907.7	1,615.2	2,660.2	2,458.1	1,838.8	3,345.7	28.8	13.8	25.8
International Trade	2,938.7	2,226.1	4,608.0	3,542.2	3,515.5	5,250.1	20.5	57.9	13.9
Export	1,241.4	1,143.6	1,459.5	1,657.8	1,656.5	1,580.7	33.5	44.8	8.3
Import	1,697.2	1,082.5	3,148.1	1,884.4	1,859.0	3,744.2	11.0	71.7	18.9
Hotels and Tourism	48.9	127.6	316.7	92.4	104.7	316.6	88.9	-18.0	0.0
Transport and Communication	371.6	381.2	873.2	1,007.0	509.7	1,578.0	171.0	34.3	80.7
Housing and Construction	626.5	506.5	2,218.3	1,167.0	727.0	3,206.9	86.3	44.0	44.6
Mines, Power and Water Resource	0.0	53.0	13.6	-	-	31.1	-	-	128.1
Others	815.4	424.1	3,449.9	503.4	735.5	2,842.0	-38.3	73.4	-17.6
Personal	83.8	70.6	115.5	141.2	104.1	92.9	68.6	47.3	-19.5
Inter-bank Lending	0.0	93.9	340.2	-	80.0	274.9	-	-14.8	-19.2
Total	9,433.0	7,146.1	29,106.5	12,401.9	10,178.1	39,631.2	31.5	42.4	36.5

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 5.12: Percentage Share of Loans & Advances by Economic Sectors

Economic Sectors	2002/03			2003/04			2004/05			2005/06		
	Dis b.	Coll.	O/S	Dis b.	Coll.	O/S	Dis b.	Coll.	O/S	Disb.	Col l.	O/S
Government Deficit Financing			46.6			43.8			25.1			32.5
Agriculture	10.8	12.1	4.1	9.7	10.9	3.7	16.5	11.9	7.0	17.6	13.8	8.6
Industry	12.4	9.5	9.4	11.7	9.7	13.3	11.5	11.1	17.7	10.5	11.3	15.9

National Bank of Ethiopia Annual Report 2005/06

Domestic Trade	29.6	25.0	6.7	23.6	26.9	6.9	20.2	22.6	9.2	19.8	18.1	8.4
International Trade	24.2	22.7	8.8	26.7	27.1	10.7	31.2	31.2	15.9	28.6	34.5	13.2
Export	13.2	13.9	2.9	12.8	11.1	3.0	13.2	16.0	5.0	13.4	16.3	4.0
Import	10.6	8.8	5.9	14.0	16.0	7.8	18.0	15.1	10.8	15.2	18.3	9.4
Hotels and Tourism	1.0	1.8	1.1	0.5	1.6	1.0	0.5	1.8	1.1	0.7	1.0	0.8
Transport and Communication	3.7	9.2	2.1	7.9	7.7	2.4	3.9	5.3	3.0	8.1	5.0	4.0
Housing and Construction	9.6	9.4	6.5	6.0	5.8	6.5	6.6	7.1	7.6	9.4	7.1	8.1
Mines, Power and Water resource	-	-	0.0	-	-	0.0	-	0.8	0.0	-	-	0.1
Others	1.2	0.9	12.9	1.1	1.4	10.0	0.9	1.0	11.9	1.1	1.0	7.2
Personal	-	2.4	1.6	-	0.7	1.3	-	1.3	0.4	-	0.8	0.2
Interbank Lending	8.0	7.0	0.2	12.7	8.0	0.2	8.6	5.9	1.2	4.1	7.2	0.7
Total	100	100	100	100	100	100	100	100	100.0	100.0	100	100

Source: Commercial Banks and Staff Computation

Fig V 9: Sectoral Breakdown of Bank Credit (1999/2000-2005/06)

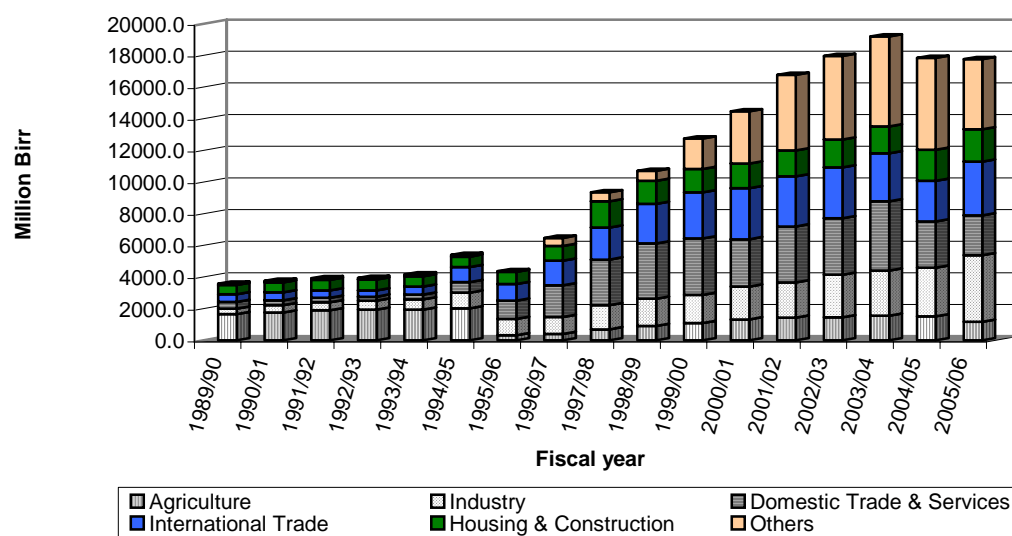


Table 5.13: Loans & Advances by Borrower

(In Millions of Birr)

Borrowing Sector	2003/04	2004/05	2005/06			Percentage change	
	O/S	O/S	Disbursed	Collected	O/S	E/A	E/B
	A	B	C	D	E		
Central Government	13,847.6	7,277.5			12,880.1	-7.0	77.0
Public Enterprises	2,227.2	3,175.3	307.4	821.3	3,017.4	35.5	-5.0

National Bank of Ethiopia Annual Report 2005/06

Cooperatives	513.5	1,081.2	1,965.1	1,630.8	1,848.8	260.0	71.0
Private & Individuals	14,595.2	17,152.4	10,129.4	7,646.0	21,610.0	48.1	26.0
Inter-bank Lending	414.2	340.2	0.0	80.0	274.9	-33.6	-19.2
Total	31,597.7	29,026.6	12,401.9	10,178.1	39,631.2	25.4	36.5
Total less Inter-bank Lending	31,183.5	28,686.4	12,401.9	10,098.1	39,356.3	26.2	37.2

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

Total claims of NBE on the central government grew by 6.5 percent and reached Birr 26.5 billion at the end of 2005/06, spurred by 11.4 percent increase in direct advances.

At the same time, government deposits at the NBE increased from Birr 5.3 billion in 2004/05 to Birr 7.0 billion in 2005/06

showing a growth rate of 32.7 percent. In contrast, deposits of financial institutions plummeted by 33.6 percent from Birr 13.2 billion to Birr 8.8 billion largely due to the increased purchase of T-bills by commercial banks, especially during the second half of the year, thereby reducing their reserve holdings at the NBE.

Table 5.14: Financial Activities of the National Bank of Ethiopia

(In Millions of Birr)

Particulars	2003/04	2004/05	2005/06	% Change	
	A	B	C	C/A	C/B
1. Loans and Advances	15,351.6	24,842.2	26,462.8	72.4	6.5
1.1. Claims on Central Gov't	14,957.3	24,842.2	26,462.8	76.9	6.5
Direct Advance	4,821.0	14,754.0	16,443.0	241.1	11.4
Bonds	10,136.3	10,088.2	10,019.8	-1.1	-0.7

1.2. Claims on Development Bank of Ethiopia	394.3	0.0	0.0	-	-
2. Deposit Liabilities	10,437.0	18,527.6	15,824.2	51.6	-14.6
2.1. Government	5,568.0	5,302.2	7,037.0	26.4	32.7
2.2. Financial Institutions	4,869.0	13,225.4	8,787.2	80.5	-33.6

Source: National Bank of Ethiopia, Staff Computation

5.5 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

The total face value of T-bills put up for auction during 2005/06 amounted to Birr 47.8 billion, which was 15.8 percent higher than last fiscal year. The demand also increased by 6.5 percent and reached Birr 60.6 billion with the supply satisfying about 79.0 percent of the demand. Commercial banks remained

the dominant buyers of T-bills purchasing 93.0 percent of the total bills sold. At the end of the fiscal year, total outstanding T-bills stood at Birr 11.6 billion, 82.0 percent higher than last year.

The yield on T-bills remained low compared to other interest rates. The average weighted yield for all types of bills was 0.036 percent, compared to 0.095 and 0.534 percent in the preceding two years. Existence of large excess reserves in the banking system and narrow market were some of the reasons for the low yield on T-bills.

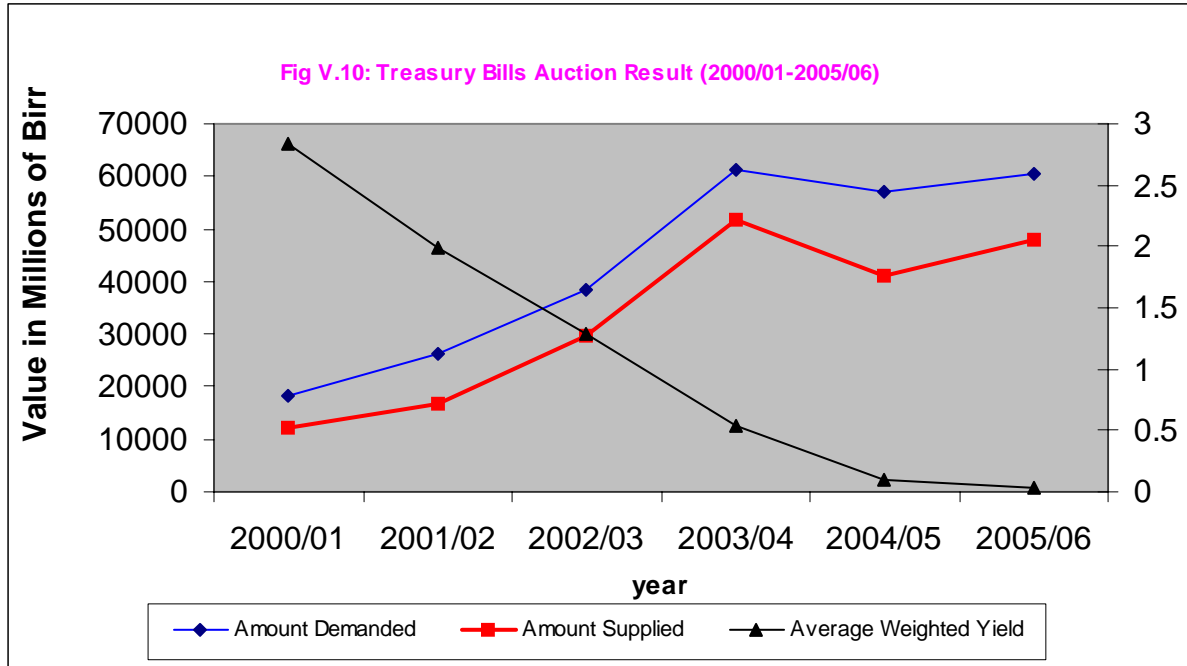
Table 5.15: Treasury Bills Auction Result (2003/04 – 2005/06)

(In Millions of Birr)

National Bank of Ethiopia Annual Report 2005/06

Particulars	2003/04	2004/05	2005/06	Percentage Change	
	A	B	C	C/A	C/B
	Number of Bidders	293	242	187	-36.2
Amount Demanded (Mn. Br.)	61,143.2	56,896.2	60,603.5	-0.9	6.5
28-day	23,778.0	30,645.0	34,863.5	46.6	13.8
91-day	28,105.5	17,236.0	18,330.0	-34.8	6.3
182-day	9,259.7	9,015.2	7,410.0	-20.0	-17.8
Amount Supplied (Mn. Br.)	51,645.0	41,262.5	47,793.5	-7.5	15.8
28-day	22,905.0	22,314.0	26,859.5	17.3	20.4
91-day	23,044.0	13,054.5	14,740.0	-36.0	12.9
182-day	5,696.0	5,894.0	6,194.0	8.7	5.1
Amount Sold (Mn. Br.)	51,632.0	41,065.0	47,793.5	-7.4	16.4
Banks	47,921.8	37,783.9	44,465.6	-7.2	17.7
Non-banks	3,710.2	3,281.1	3,327.9	-10.3	1.4
Average Weighted Price for Br 100 For Successful Bids (Br.)					
28-day	99.970	99.990	99.997	0.0	0.0
91-day	99.890	99.980	99.989	0.1	0.0
182-day	99.610	99.970	99.988	0.4	0.0
Average Weighted Yield on Successful Bids (%)	0.534	0.095	0.036	-93.19	-61.89
28-day	0.391	0.146	0.040	-89.7	-72.4
91-day	0.425	0.086	0.044	-89.7	-49.2
182-day	0.785	0.054	0.025	-96.9	-54.4
Outstanding Bills at the end of the Period (Mn. Br.)	12,485.0	6,395.0	11,638.5	-6.8	82.0
Banks	11,418.0	4,995.0	10,612.3	-7.1	112.5
Non-banks	1,067.0	1,400.0	1,026.2	-3.8	-26.7

Source: National Bank of Ethiopia, Staff Computation



5.5.2. Government Bonds

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 two-year

maturity. The stock of bonds declined from Birr 2.9 billion at the end of the preceding fiscal year to Birr 2.4 billion in 2005/06, reflecting the absence of new bond issued.

5.5.3. Inter-bank Money Market

No transaction was conducted in the inter-bank money market during 2005/06. Since the introduction of the inter-bank money market in September 1998, merely 14 transactions involving Birr 167.5 million were effected with an average inter-bank rate of 7.8 percent.

Persistent excess reserves in the banking system has mainly contributed to the poor performance of the inter-bank money market in Ethiopia.

Table 5.16: Inter-bank Money Market Transactions Up to June 2006

No	Borrower	Lender	Amount Borrowed (In Mn. Br.)	Interest Rate (%)	Date of Transaction	Maturity Period
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.	0.05	7.5	07/07/03	5.2 month
13	Nib Int. Bank	Bank of Abyssinia	0.05	7.5	26/3/05	Over draft
	Total/Average	-	167.5	7.8		