

## 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, amidst inflationary pressures. To mitigate inflationary pressures witnessed in recent years, the National Bank of Ethiopia (NBE) implemented the following monetary policy measures. It raised the reserve requirement ratio from 5 to 10

percent and then to 15 percent (for the second time since July 2007) and liquidity requirement ratio from 15 to 25 percent effective from April 7, 2008. Interest rate was also increased from 3 to 4 percent. These measures together with other fiscal and administrative actions are envisaged to contribute towards slowing down the pace of inflation and inflationary expectations.

#### 5.1.1 Developments in Monetary Aggregates

Broad money supply (M2) grew by 20.4 percent and reached Birr 68.1 billion by the end of 2007/08, compared with the same period last year, wholly driven by the expansion of domestic credit, which more than offset the 12.6 percent decline in net foreign assets. Credit to the central government increased by 9.0 percent to Birr 33.1 billion while credit to the non-government sector grew over last year by 48.8 percent to Birr 46.9 billion and June , 2008.

Net foreign assets, on the other hand, declined by 12.6 percent and reached Birr 11.7 billion mainly reflecting the continued widening of the current account deficit.

The fiscal year 2007/08 witnessed a surge in all components of broad money. Narrow money rose by 19.4 percent to Birr 35.4 billion, driven by 28.8 and 11.2 percent increases in currency outside banks and demand deposits reflecting the growing economic activities and improvements in transactions demand for money. Similarly, quasi-money that comprises both savings and time deposits went up by 21.4 percent

and reached Birr 32.8 billion, owing to improved financial intermediation by banks

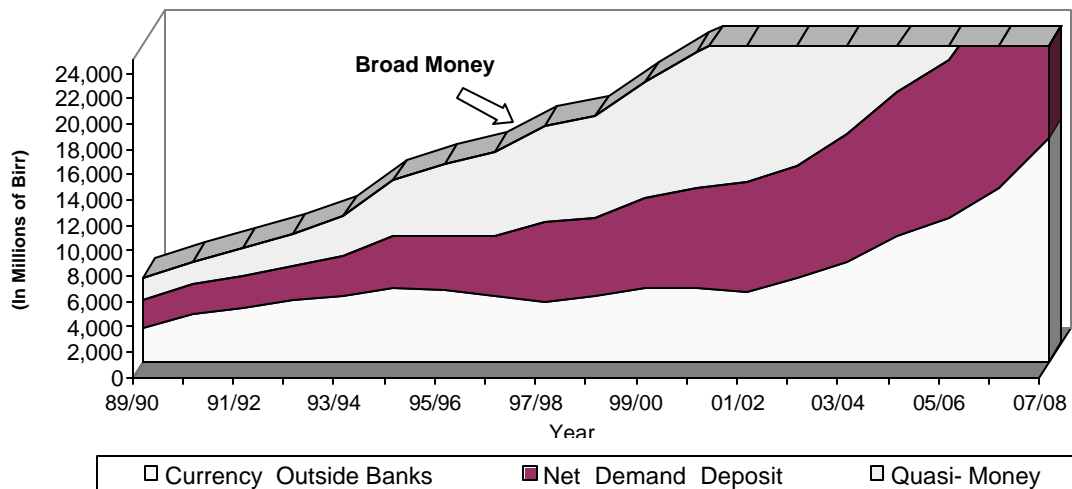
through opening up of new branches.

**Table 5.1: Components of Broad Money**

Particulars	(In Millions of Birr)			Annual Percentage Change		
	Year Ended June 30			2005/06	2006/07	2007/08
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08
<b>Narrow Money Supply</b>	<b>23,811.9</b>	<b>29,617.7</b>	<b>35,350.4</b>	<b>11.8</b>	<b>24.4</b>	<b>19.4</b>
. Currency Outside Banks	11,422.9	13,708.4	17,654.1	14.0	20.0	28.8
. Demand Deposits (net)	12,389.0	15,909.3	17,696.3	9.9	28.4	11.2
<b>Quasi-Money</b>	<b>22,565.5</b>	<b>27,034.2</b>	<b>32,831.8</b>	<b>19.3</b>	<b>19.8</b>	<b>21.4</b>
. Savings Deposits	20,485.5	23,715.2	29,477.6	18.3	15.8	24.3
. Time Deposits	2,080.0	3,319.0	3,354.1	29.1	59.6	1.1
<b>Broad Money Supply</b>	<b>46,377.4</b>	<b>56,651.9</b>	<b>68,182.1</b>	<b>15.3</b>	<b>22.2</b>	<b>20.4</b>

Source: National Bank of Ethiopia (NBE)

**Fig V.1: Major Components of Broad Money (1989/90 - 2007/08)**



Source: NBE

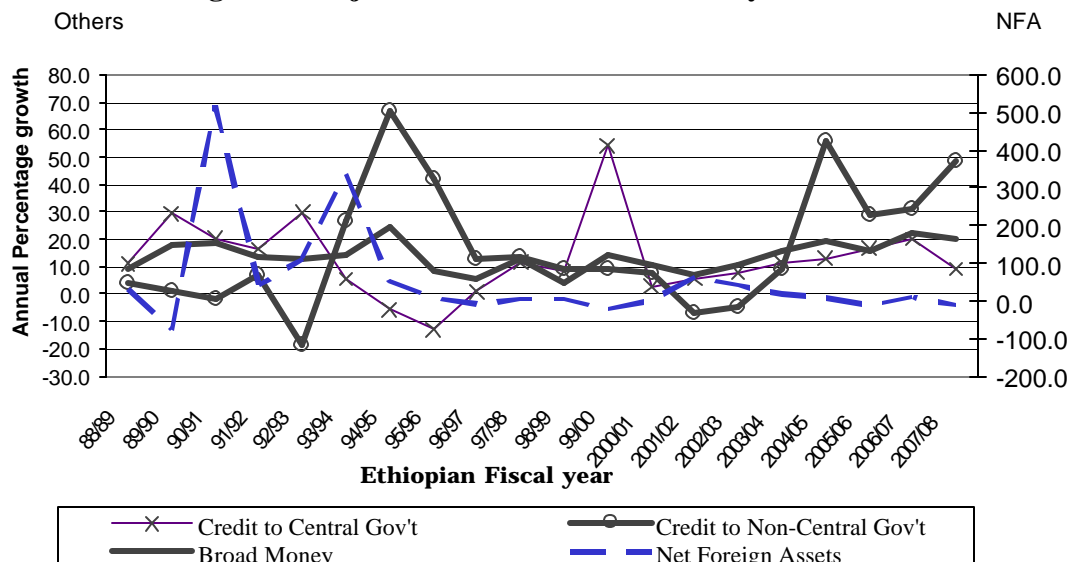
**Table 5.2: Factors Influencing Broad Money**

(In Millions of Birr)

Particulars	Year Ended June 30			Percentage Change		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08
<b>External Assets (net)</b>	<b>12,109.6</b>	<b>13,340.4</b>	<b>11,665.6</b>	<b>-12.7</b>	<b>10.2</b>	<b>-12.6</b>
<b>Domestic Credit</b>	<b>49,295.9</b>	<b>61,844.2</b>	<b>79,969.3</b>	<b>22.3</b>	<b>25.5</b>	<b>29.3</b>
. Claims on Central Gov't (net)	25,266.4	30,337.6	33,075.7	16.6	20.1	9.0
. Claims on Non-Central Gov't	24,029.6	31,506.6	46,893.6	28.9	31.1	48.8
<b>Other Items (net)</b>	<b>15,028.1</b>	<b>18,532.7</b>	<b>23,452.7</b>	<b>7.6</b>	<b>23.3</b>	<b>26.5</b>
<b>Broad Money (M2)</b>	<b>46,377.4</b>	<b>56,651.9</b>	<b>68,182.1</b>	<b>15.3</b>	<b>22.2</b>	<b>20.4</b>

Source: NBE

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



Source: NBE

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

Reserve money or base money rose by 30.2 percent to Birr 35.6 billion by the end June, 2008 spurred by increases in both currency in circulation and deposits of banks at the NBE. Currency in circulation grew by 33.2 percent owing to the surge in transactions demand for money associated with the growth in real

income. Similarly, deposits of banks at the NBE edged up by 26.3 percent partly reflecting the revision of reserve requirement ratio from 5 to 15 percent between July 2007 and April 2008.

Mirroring this development, the excess reserves of commercial banks dropped to

Birr 6.1 billion from Birr 9.1 billion last year.

At the same time, the ratio of M2/GDP, an indicator of financial deepening, showed a tendency to decline over the

past two years and reached 32.9 percent in 2007/08, partly reflecting the tight monetary policy measures taken so as to mitigate the inflationary pressures witnessed in recent years.

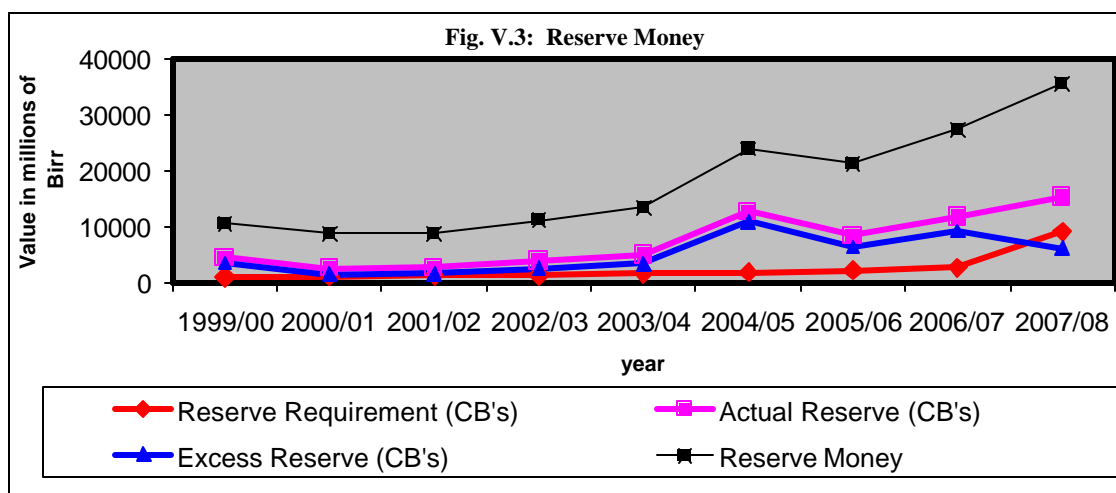
**Table 5.3: Reserve Money and Monetary Ratios**

(In Millions of Birr)

Particulars	Year Ended June 30			Percentage Change		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08
<b>Reserve Requirement (CB's)</b>	2,120.9	2,592.5	9,112.9	16.0	22.2	251.5
<b>Actual Reserve (CB's)</b>	8,452.1	11,734.0	15,233.0	-34.3	38.8	29.8
<b>Excess Reserve (CB's)</b>	6,331.2	9,141.5	6,120.1	-42.6	44.4	-33.1
<b>Reserve Money</b>	21,181.9	27,313.6	35,551.1	-11.8	28.9	30.2
. Currency in Circulation	12,560.2	15,175.2	20,216.4	14.6	20.8	33.2
. Bank Deposits	8,621.7	12,138.4	15,334.7	-34.0	40.8	26.3
<b>Money Multiplier (Ratio):</b>						
. Narrow Money to Reserve Money	1.1	1.1	1.0	26.9	-3.5	-8.3
. Broad Money to Reserve Money	2.2	2.1	1.9	30.8	-5.3	-7.5
<b>Other Monetary Ratios (%):</b>						
. Currency to Narrow Money	52.7	51.2	57.2	2.4	-2.9	11.6
. Currency to Broad Money	27.1	26.8	29.7	-0.7	-1.1	10.7
. Narrow Money to Broad Money	51.3	52.3	51.8	-3.0	1.8	-0.8
. Quasi Money to Broad Money	48.7	47.7	48.2	3.4	-1.9	0.9
<b>M2/GDP Ratio*</b>	35.2	33.1	32.9	-6.7	-5.9	-0.8

Source: NBE

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



Source: NBE

## 5.2. Developments in Interest Rate

In response to NBE's upward revision of the minimum interest rate on savings and time deposits from 3 to 4 percent effective from July 4, 2007, commercial banks revised their minimum deposit interest rates on saving and time deposits upward by one percentage point. The minimum and maximum lending rates of commercial banks also increased by the same percentage point. Accordingly, average interest rate on savings deposit rate rose to 4.08 percent from 3.08 percent in the

preceding year. The weighted annual average interest rate on time deposits also increased to 5.16 percent from 4.08 percent while that of demand deposit fall to 0.041 percent from 0.062 percent.

The average lending rate of commercial banks reached 11.5 percent from 10.5 percent a year earlier. Given high inflation, all deposit rates and average weighted yields on T-bills were negative in real terms.

**Table 5.4: Interest Rate Structure of Commercial Banks**

(In % per annum)

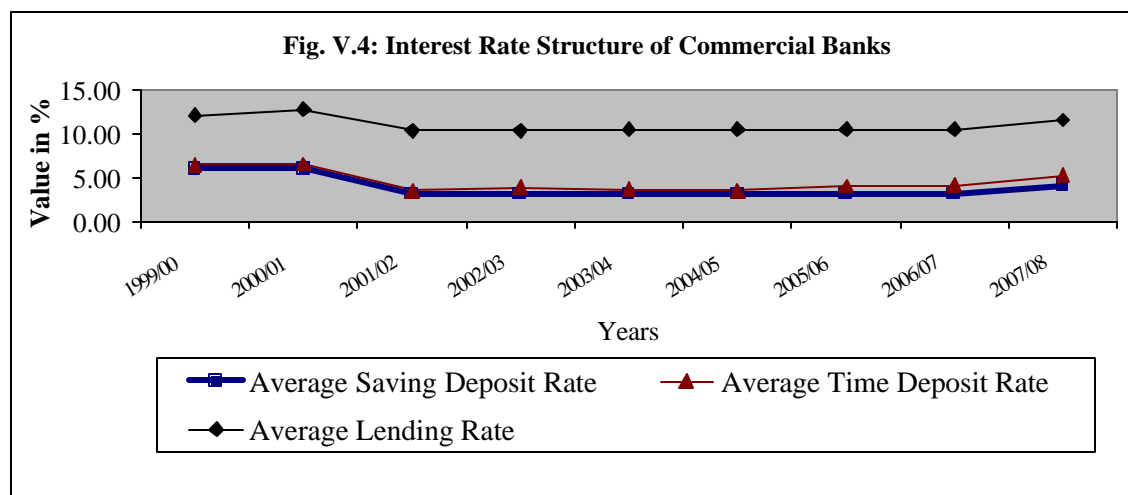
Rates	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
<b>Deposit Rate</b>								
<b>Savings Deposit</b>								
Minimum	6.000	3.000	3.000	3.000	3.000	3.000	3.000	4.000
Maximum	6.000	3.150	3.150	3.150	3.150	3.150	3.150	4.150
Average*	<b>6.000</b>	<b>3.075</b>	<b>3.075</b>	<b>3.075</b>	<b>3.075</b>	<b>3.075</b>	<b>3.075</b>	<b>4.075</b>
<b>Time deposit</b>								
Up to 1 year	6.177	3.302	3.349	3.398	3.471	3.604	3.639	4.666
1 -2 years	6.360	3.513	3.617	3.640	3.710	4.005	4.112	5.228
Over 2 years	6.383	3.566	3.822	3.836	3.939	4.297	4.490	5.588
Average*	<b>6.307</b>	<b>3.461</b>	<b>3.596</b>	<b>3.625</b>	<b>3.707</b>	<b>3.969</b>	<b>4.080</b>	<b>5.161</b>
<b>Demand Deposit (Average*)</b>	-	0.041	0.039	0.045	0.049	0.058	0.062	0.041
<b>Lending Rate</b>								
Minimum	10.500	7.500	7.000	7.000	7.000	7.000	7.000	8.000
Maximum	15.000	14.000	14.000	14.000	14.000	14.000	14.000	15.000
Average*	<b>12.750</b>	<b>10.750</b>	<b>10.500</b>	<b>10.500</b>	<b>10.500</b>	<b>10.500</b>	<b>10.500</b>	<b>11.500</b>
<b>Real Rate of Interest</b>								
Deposit 1/	6.347	13.647	-7.849	-4.272	-3.051	-7.502	-12.748	-21.225
Deposit 2/	4.582	2.786	2.923	0.839	-1.277	-4.073	-10.419	-8.425
Lending/1	13.097	21.322	-0.424	3.153	4.374	-0.077	-5.323	-13.800
<b>T-bills (Nominal)</b>	<b>2.829</b>	<b>1.982</b>	<b>1.311</b>	<b>1.052</b>	<b>0.133</b>	<b>0.039</b>	<b>0.495</b>	<b>0.673</b>

Source: NBE

1/ Real saving deposit interest rates and real lending rates are computed based on headline inflation.

2/ Real saving deposit interest rates are computed based on core inflation.

\* It is simple average for saving deposit and lending rates, while weighted mean for time and demand deposits. As a result, the movements in the average interest rate on time and demand deposits reflect the change in the proportion of commercial bank deposits that would pay higher interest rate on time and demand deposits, rather than the change in interest rate.



Source: NBE

### 5.3 Developments in Financial Sector

Banks, insurance companies and micro-finance institutions are the major financial institutions in Ethiopia. The number of banks operating in the country in 2007/08 reached 11, of which eight were private and the remaining three state owned.

All the banks, except Development Bank of Ethiopia and Construction and Business Bank, expanded their branch network during the review year. As a result, 67 new branches were opened raising the total number of branch banks across the country to 562.

Noticeable expansion of branch banks was carried out by Bank of Abyssinia and Nib International Bank (14 branches each), followed by Commercial Bank of Ethiopia (9 branches), Awash International Bank (8 branches) and Dashen Bank and United Bank (6 branches each). Reflecting the significant branch expansion by private banks, the share of private banks grew to 53 percent by the end of 2007/08 from 48.5 percent last year.

Some 38 percent of the branch banks were located in Addis Ababa in 2007/08.

Spurred by significant growth in the capital of private banks, particularly that of Wegagen Bank, Awash International Bank and Lion International Bank, the total capital of the banking industry increased by 12.2 percent and reached Birr 9965 million by the end of June 2008. Accordingly, from the total capital of the banking system, the share of private banks rose to 33.8 percent from 29.7 percent a year ago.

With the launching of a new insurance company - Lion Insurance Company, the number of insurance companies in the country rose to 10 in 2007/08 from 9 a year earlier. In terms of ownership, all insurance companies, except Ethiopian Insurance Corporation, are privately owned.

Following the opening up of 26 additional branches in 2007/08, the total branches of insurance companies climbed to 172. Significant expansion of branches was undertaken by Lion Insurance Share Company (10 branches) followed by Africa Insurance Company (4 branches) and Awash Insurance Company (3 branches).

Of the total branch insurance companies, 51.2 percent were located in Addis Ababa. Branch share of private insurance companies in the country rose to 78.5 percent in 2007/08 from 75.3 percent a year ago.

Meanwhile, the total capital of the insurance companies grew by 11.5 percent and reached Birr 582.1 million in 2007/08, mainly due to 53.4 and 24.6 percent rise in the capital of Nib and United Insurance Companies, respectively.

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

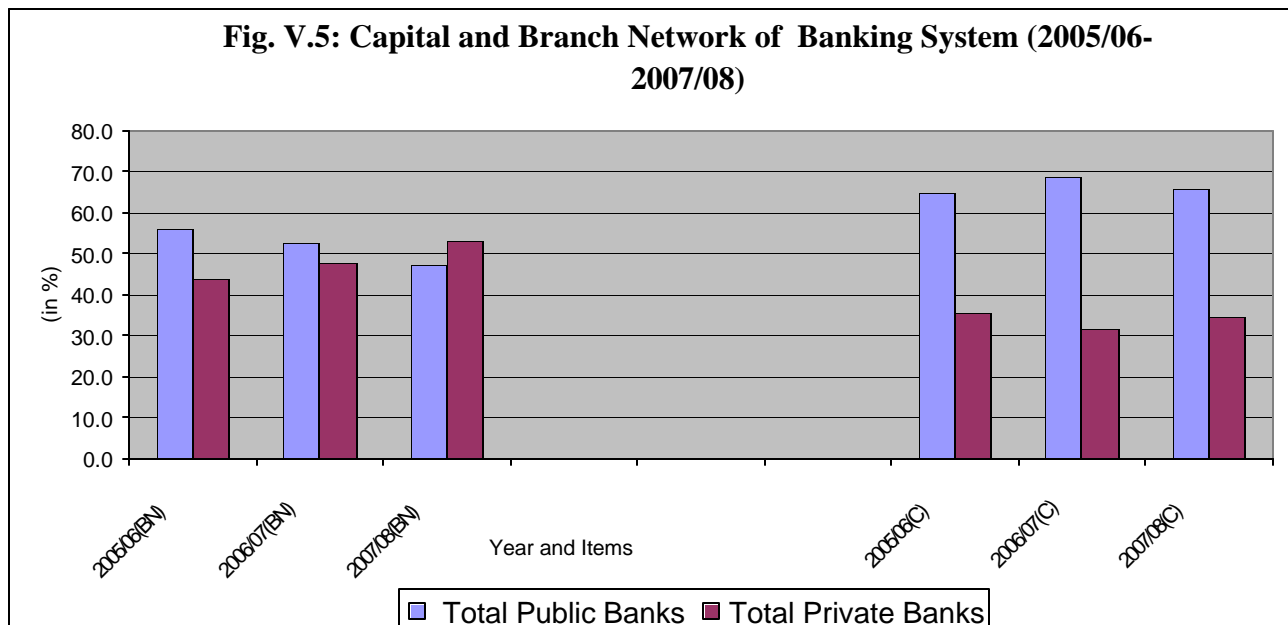
(Branches in Number and Capital in Millions Birr)

Banks	Branch Network							Capital*			
	2006/07			2007/08				2006/07		2007/08	
	Regions	Total	% Share	Regions	Addis Ababa	Total	% Share	Total Capital	% Share	Total Capital	% Share
<b>Public Banks</b>											
Commercial Bank of Ethiopia	147	196	39.6	156	49	205	36.5	4,220.0	47.5	4,561.0	45.8
Construction & Business Bank	26	27	5.4	15	12	27	4.8	156.0	1.8	175.0	1.8
Development Bank of Ethiopia	20	32	6.5	31	1	32	5.7	1,865.0	21.0	1,865.0	18.7
<b>Total Public Banks</b>	<b>193</b>	<b>255</b>	<b>51.5</b>	<b>202</b>	<b>62</b>	<b>264</b>	<b>47.0</b>	<b>6,241.0</b>	<b>70.3</b>	<b>6,601.0</b>	<b>66.2</b>
<b>Private Banks</b>											
Awash International Bank	20	45	9.1	24	29	53	9.4	327.0	3.7	480.0	4.8
Dashen Bank	19	42	8.5	24	24	48	8.5	612.0	6.9	731.0	7.3
Abyssinia Bank	12	28	5.7	19	23	42	7.5	357.0	4.0	416.0	4.2
Wegagen Bank	22	39	7.9	22	18	40	7.1	292.0	3.3	467.0	4.7
United Bank	10	30	1.6	13	23	36	6.4	359.0	4.0	467.0	4.7
Nib International Bank	8	28	5.7	16	26	42	7.5	426.0	4.8	489.0	4.9
Cooperative Bank of Oromiya	14	16	3.2	18	2	20	3.6	131.0	1.5	137.0	1.4
Lion International Bank	7	12	2.4	11	6	17	3.0	134.0	1.5	177.0	1.8
<b>Total Private Banks</b>	<b>112</b>	<b>240</b>	<b>48.5</b>	<b>147</b>	<b>151</b>	<b>298</b>	<b>53</b>	<b>2,638.0</b>	<b>29.7</b>	<b>3,364.0</b>	<b>33.8</b>
<b>Grand Total Banks</b>	<b>305</b>	<b>495</b>	<b>100</b>	<b>349</b>	<b>213</b>	<b>562</b>	<b>100.0</b>	<b>8,879.0</b>	<b>100.0</b>	<b>9,965.0</b>	<b>100.0</b>

Source: Commercial Banks

\* Excludes provision for profit/loss





Source: Commercial Banks

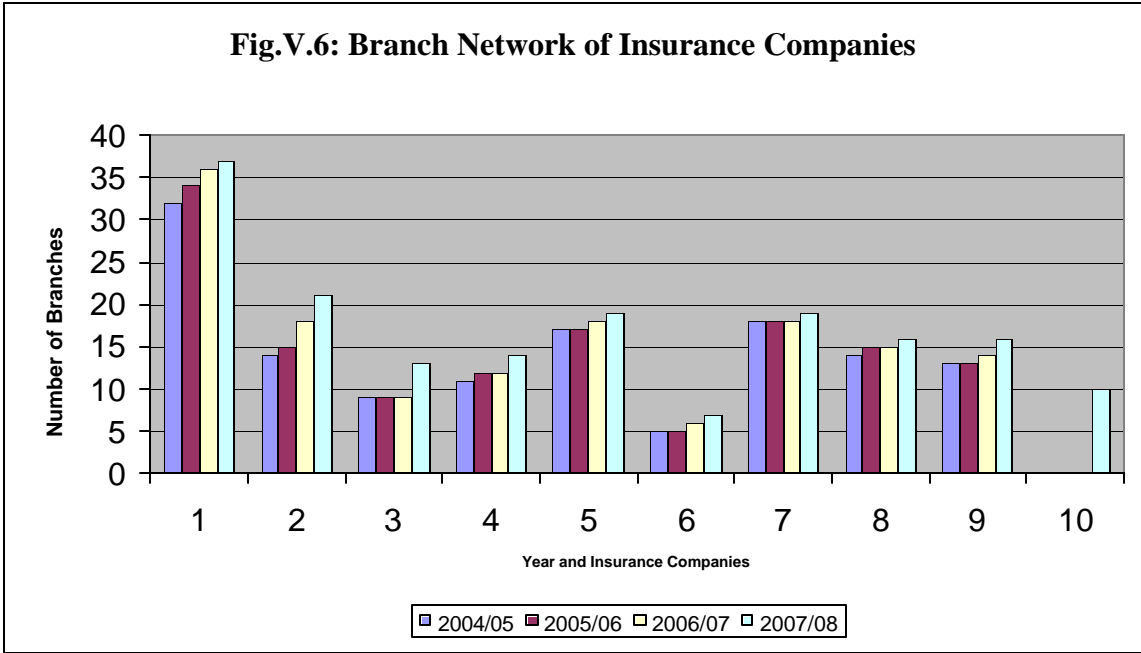
**Table 5.5.B: Branch Network of Insurance Companies**

(Branches in Number and Capital in Millions of Birr)

Insurance Companies	Branch				Capital		
	2006/07	2007/08			2006/07	2007/08	Percentage Change
	Total	Addis Ababa	Regions	Total	A	B	B/A
Ethiopian Ins. Cor.	36	11	26	37	211.7	229.3	8.3
Awash Ins.Com.S.C.	18	12	9	21	46.3	51.5	11.2
Africa Ins.Com S.C.	9	6	7	13	48.6	46.1	-5.1
National Ins. Co. of Eth.	12	8	6	14	14.8	13.4	-9.5
United Ins.Com. S.C	18	13	6	19	45.2	56.3	24.6
Global Ins. Com.S.C	6	4	3	7	18.9	20.3	7.4
Nile Ins.Com.S.C	18	10	9	19	60.2	53.1	-11.8
Nyala Ins.Com.S.C	15	8	8	16	46.9	56.1	19.6
Nib Ins. Com.S.C	14	10	6	16	29.4	45.1	53.4
Lion Ins. Com.S.C	-	6	4	10	-	10.9	-
<b>TOTAL</b>	<b>146</b>	<b>88</b>	<b>84</b>	<b>172</b>	<b>522.0</b>	<b>582.1</b>	<b>11.5</b>

Source: Insurance Companies

**Fig.V.6: Branch Network of Insurance Companies**

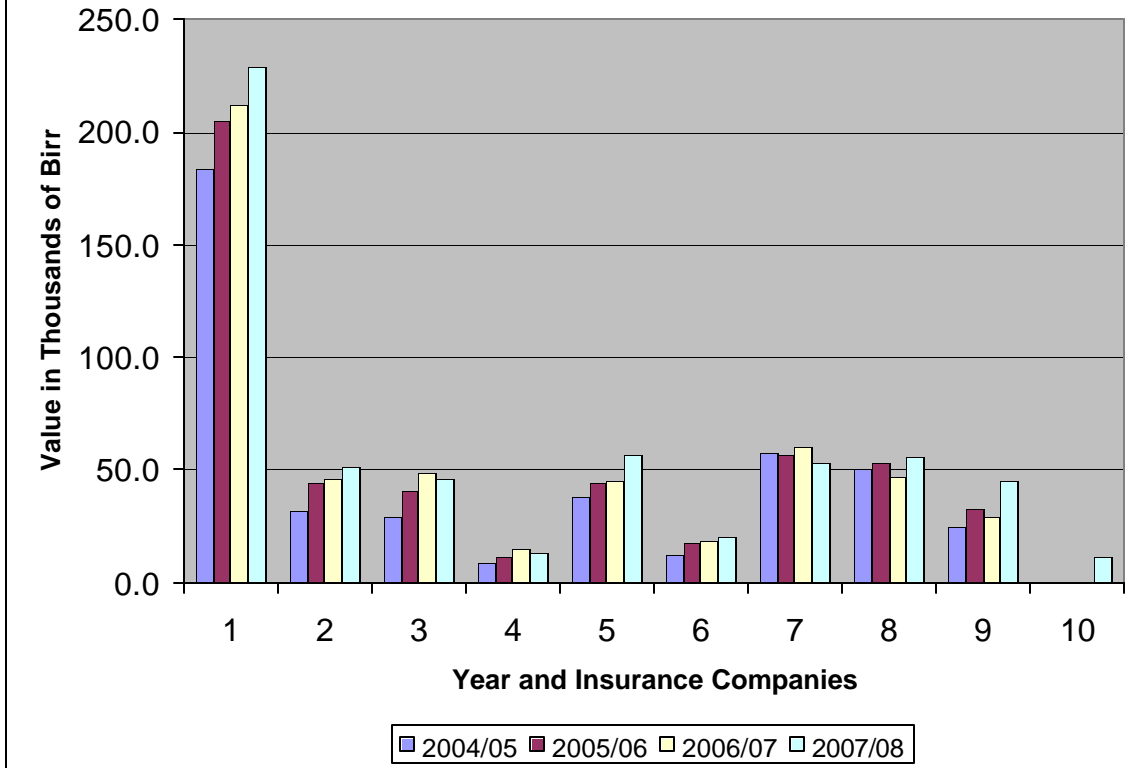


Source: Insurance Companies

***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
10. Lion Insurance Company S.C

**Fig. V.7: Capital of Insurance Companies (2004/05-2007/08)**



**Source :** Insurance Companies

***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
10. Lion Insurance Company S.C

The number of Microfinance Institutions (MFIs) operating in the country stood at 28 by the end of 2007/08 as one MFIs was liquidated and a new micro-finance was licensed.

The total capital of MFIs was Birr 1.3 billion and their total asset reached Birr 5.3 billion. They also mobilized deposits to the tune of Birr 1.6 billion and advanced loans amounting to Birr 4.5 billion by the end of the review period.

Of the total MFIs, 12 were operating in Addis Ababa. The two largest MFIs, the Amhara and Dedebit Credit and Savings institutions, alone accounted for 54.1 percent of the total capital, 67.2 percent of savings, 64 percent of credit and 64.2 percent of total assets of MFIs by the end 2007/08.

**Table 5.6: MFIs Operating in Ethiopia as of June 2008**

(Amount in Thousands of Birr)

	Micro-Financing Institutions	Regions	Total Capital	Saving*	Credit	Total Assets
1	Amhara Credit and Savings Ins.	Amhara	382726	695472.0	1466180	1666097
2	Dedebit Credit and Savings Ins.	Tigray	342716.8	352901.2	1396903.2	1761486.1
3	Oromiya Credit and Savings Ins.	Oromia	182467.7	232183.2	664554	770677.5
4	Omo Credit and Savings Ins.	SNNP	37681.1	105841.0	292985.5	355529.3
5	Specialized Fina.& Prom. ins.	A.A	16272.4	13485.6	33092.9	38931
6	Gasha Micro-financing Ins.	A.A	5099.2	5976.8	16006.4	21155.9
7	Wisdom Micro-financing Ins.	A.A	31974.1	19550.2	81021.4	89597.9
8	Sidama Micro-financing Ins.	SNNP	12174.1	6144.7	24230.9	31243.4
9	African Village Financial Serv.	A.A	9252.2	3494.3	9913.1	15332.8
10	Buussa Gonof.Micro-financing Ins.	Oromia	15527.2	5363.3	31682.7	35178.7
11	PEACE Micro-financing Ins.	A.A	13186.9	8682.3	35044.3	41083.1
12	Meket Micro-financing Ins.	Amhara	2419.8	564.1	2414.5	3340.9
13	Addis Credit and Savings Ins.	A.A	188822	61815.0	238170	276779
14	Meklit Micro-financing Ins.	A.A	5138.1	5892.4	18103.6	18971.4
15	Eshet Micro-financing Ins.	Oromia	11111.3	5640.1	36493.1	42195.4
16	Wassassa Micro-financing Ins..	Oromia	14426.4	11306.7	43922.5	50328
17	Ben. Gum Micro-financing Ins.	Benishagul Gumuz	20228	11643.3	33108.2	44991.7
18	Sha.Idi.ye.Ag. Micro-financing Ins..	Oromia	3266.2	913.5	3263.3	4665.2
19	Metemamen Micro-financing Ins.	A.A	9209	1896.5	8517.9	11209.6
20	Dire Micro-financing Ins.	Dire Dawa	19758.5	4351.4	20476.8	33378.6
21	Agar Micro-financing Ins.	A.A	3182.3	2491.7	4804.9	6644.6
22	Harbu Micro-financing Ins.	Oromia	3853.1	3634.2	7168.6	10435.4
23	Ghion MFI	Amhara	130.3	32.3	93.6	169.9
24	Leta MFI	Oromia	937.9	78.2	724.1	1021.9
25	Digaf MFI	A.A	267.7	655.6	853	968.5
26	Harar MFI	Harar	7972.8	949.4	5190.8	9019.5
27	Lefayda Credit and Savings Ins.	A.A	150.4	12.3	57.5	176.4
28	Tesfa Micro-Finance	-	NA	NA	NA	NA
	<b>Total</b>		<b>1339951.5</b>	<b>1560971.3</b>	<b>4474976.8</b>	<b>5340608.7</b>

**Source:** Microfinance Institutions**Note:** AA: Addis Ababa

SNNP: Southern Nations Nationalities and Peoples'

### **5.3.1 Resource Mobilization by Banks**

The total resource mobilized by the banking system in the form of deposits, collection of loans and borrowings grew by 32.6 percent to Birr 28.1 billion by the end of 2007/08. This was solely attributed to a 64.4 percent surge in loan collections which more than offset the decline in net deposits and borrowings.

Deposit liabilities of the banking system rose to Birr 62.9 billion at the end of June 2008, showing an annual growth rate of 16.9 percent compared to Birr 53.9 billion a year earlier. Component wise, savings deposits registered a significant increase of 24.3 percent followed by demand deposits (13.2 percent) while time deposits moderately declined by 3.8 percent. Demand deposits accounted for the lion's share of total deposits (47.2 percent) followed by savings deposits (46.8 percent) and time deposit (6.0 percent).

Mirroring a significant branch network expansion by private banks, the share of government-owned banks in total deposits declined to 64.8 percent from 67.7 percent last year; whereas that of

private banks increased to 35.2 percent from 32.3 percent a year ago.

Borrowing is an important source of resource mobilization for two state-owned banks; namely the Development Bank of Ethiopia and Construction and Business Bank. As a result, the total outstanding borrowing of the two banks showed a 9.7 percent rise and reached Birr 2.7 billion by the end of June, 2008 from Birr 2.4 billion a year earlier. Of the total borrowing, domestic sources accounted for 81.1 percent, while foreign sources constituted 18.9 percent.

With regard to loan collections, the banking system collected loans amounting to Birr 18.8 billion in the review year indicating an annual growth rate of 64.4 percent. Both public and private banks collected about 50 percent of the loans each.

**Table 5.7: Annual Resource Mobilizing & Disbursing Activities of Commercial Banks and DBE (Specialized Bank) (In Millions of Birr)**

Particulars	2006/07			2007/08			Percent Change
	Public Banks	Private Banks	Total (A)	Public Banks	Private Banks	Total (B)	B/A
<b>Deposits (net change)</b>	<b>5,073.9</b>	<b>4,332.4</b>	<b>9,406.3</b>	<b>4,283.1</b>	<b>4,808.0</b>	<b>9,091.1</b>	<b>-3.4</b>
Demand	3,737.7	1,265.9	5,003.6	2,054.3	1,420.2	3,474.5	(30.6)
Savings	1,375.1	1,855.5	3,230.6	2,308.3	3,455.1	5,763.4	78.4
Time	(38.9)	1,211.0	1,172.1	(79.5)	(67.3)	(146.8)	(112.5)
<b>Borrowing (net change)</b>	<b>396.6</b>	<b>-</b>	<b>396.6</b>	<b>269.4</b>	<b>-</b>	<b>269.4</b>	<b>(32.1)</b>
Local	301.7	-	301.7	197.6	-	197.6	(34.5)
Foreign	95.0	-	95.0	71.8	-	71.8	(24.4)
<b>Collection of Loans</b>	<b>5,954.6</b>	<b>5,473.0</b>	<b>11,427.6</b>	<b>9,493.0</b>	<b>9,296.2</b>	<b>18,789.2</b>	<b>64.4</b>
<b>Total Resources Mobilized (1+2+3)</b>	<b>11,425.1</b>	<b>9,805.4</b>	<b>21,230.5</b>	<b>14,045.4</b>	<b>14,104.2</b>	<b>28,149.7</b>	<b>32.6</b>
<b>Disbursement</b>	<b>6,306.3</b>	<b>9,252.7</b>	<b>15,559.0</b>	<b>15,447.5</b>	<b>11,807.0</b>	<b>27,254.5</b>	<b>75.2</b>
<b>Change in Liquidity (4-5)</b>	<b>5,118.8</b>	<b>552.7</b>	<b>5,671.6</b>	<b>(1,402.1)</b>	<b>2,297.2</b>	<b>895.2</b>	<b>(84.2)</b>
Memorandum Item							
<b>Outstanding Credit*</b>	<b>29,792.2</b>	<b>14,450.0</b>	<b>44,242.2</b>	<b>31,666.6</b>	<b>16,575.2</b>	<b>48,241.8</b>	<b>9.0</b>

Source: Commercial Banks and DBE

\* Includes Government borrowing

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

(In Millions of Birr)

Particulars	2007/08											Total		Percentage Change
	CBE	DBE	CBB	AIB	DB	BOA	WB	UB	NIB	CBO	LIB	2006/07	2007/08	M/L
	A	B	C	D	E	F	G	H	I	J	K	L	M	
<b>Deposits</b>														
-Demand	23,174.1	126.0	278.5	825.3	1,616.8	785.0	1,156.7	684.9	670.8	281.3	142.6	26,267.6	29,742.0	13.2
-Savings	15,274.0	4.6	902.6	2,791.5	3,841.9	2,411.5	1,094.2	1,364.4	1,435.0	185.4	177.1	23,718.8	29,482.2	24.3
-Time	327.7	369.9	308.2	252.7	692.8	281.0	681.5	391.6	362.4	23.2	41.0	3,878.9	3,732.0	(3.8)
<b>Total</b>	<b>38,775.8</b>	<b>500.6</b>	<b>1,489.3</b>	<b>3,869.5</b>	<b>6,151.5</b>	<b>3,477.5</b>	<b>2,932.4</b>	<b>2,440.9</b>	<b>2,468.2</b>	<b>489.9</b>	<b>360.7</b>	<b>53,865.2</b>	<b>62,956.3</b>	<b>16.9</b>
<b>Borrowings</b>														
-Local	0	2,102.2	72.3	0	0	0	0	0	0	0	0	2009.6	2,174.5	8.2
-Foreign	0	506.1	0	0	0	0	0	0	0	0	0	434.3	506.1	16.5
<b>Total</b>	<b>-</b>	<b>2,608.3</b>	<b>72.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,443.90</b>	<b>2,680.57</b>	<b>9.7</b>

**Source:** Commercial Banks and DBE

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

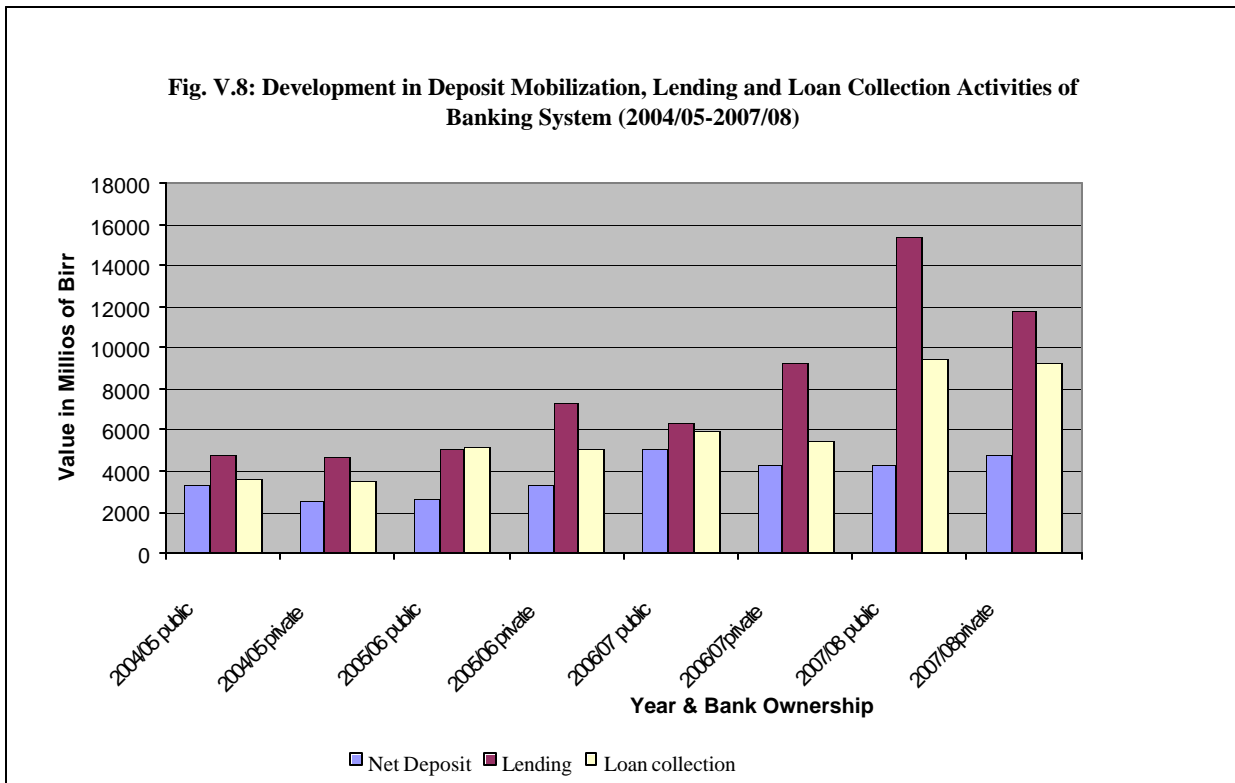


### 5.3.2 New Lending Activities

The fiscal year 2007/08 marked a substantial increase in fresh loan disbursements by banks, exhibiting high economic growth. Accordingly, new loan disbursements surged by more than half (75.2 percent rise) over the previous year and reached Birr 27.3 billion. Of the total new loans disbursed by the banking system, 56.7 percent was provided by

public banks, while the remaining 43.3 percent by private banks.

Concerning the beneficiaries of the new loans, some 33.8 percent was channeled to international trade followed by agriculture (19.7 percent). Domestic trade and industry each took 18.4 and 10.1 percent of the new loans respectively (Table 5.11).



Source: Commercial Banks and DBE

**Table 5.9: Loans and Advances by Lender Banks 1/**

(In Millions of Birr)

Name of Bank	2006/07			2007/08			Percentage Change		
	D	C	O/S	D	C	O/S	Percentage Change		
	(1)	(2)	(3)	(4)	(5)	(6)	7=(4/1)	8=(5/2)	9=(6/3)
<b>Public Banks</b>									
Commercial Bank of Ethiopia	5231.7	5043.2	22,766.2	14418.2	8508.2	23,850.1	175.6	68.7	4.8
Development Bank of Ethiopia	723.9	708.0	5,865.5	233.8	315.5	6,611.9	-67.7	-55.4	12.7
Construction & Business Bank of Ethiopia	350.6	203.4	1,160.6	795.5	669.4	1,204.6	126.9	229.2	3.8
<b>Sub-Total</b>	<b>6,306.3</b>	<b>5,954.6</b>	<b>29,792.2</b>	<b>15,447.5</b>	<b>9,493.0</b>	<b>31,666.6</b>	<b>145.0</b>	<b>59.4</b>	<b>6.3</b>
<b>Private Banks</b>									
Awash International Bank	1807.3	853.6	2512.3	1547.0	1078.7	2867.9	-14.4	26.4	14.2
Dashen Bank	1935.8	984.8	3980.5	2145.7	1793.5	4382.4	10.8	82.1	10.1
Bank of Abyssinia	982.4	748.5	2504.1	1934.3	1576.3	2822.7	96.9	110.6	12.7
Wegagen Bank	2399.3	1890.6	2155.1	2754.1	2707.8	2346.8	14.8	43.2	8.9
United Bank	688.9	344.1	1240.3	746.8	257.5	1515.6	8.4	-25.2	22.2
Nib International Bank	994.5	480.1	1817.3	1144.1	893.2	2108.9	15.0	86.0	16.0
Cooperative Bank of Oromia	388.0	167.6	240.3	1337.6	872.5	323.9	244.8	420.6	34.8
Lion International Bank	56.4	3.6	73.3	197.3	116.8	207.1	249.9	3145.2	182.6
<b>Sub-Total</b>	<b>9,252.7</b>	<b>5,473.0</b>	<b>14,523.3</b>	<b>11,807.0</b>	<b>9,296.2</b>	<b>16,575.2</b>	<b>27.6</b>	<b>69.9</b>	<b>14.1</b>
<b>Total</b>	<b>15,559.0</b>	<b>11,427.6</b>	<b>44,315.5</b>	<b>27,254.5</b>	<b>18,789.2</b>	<b>48,241.8</b>	<b>75.2</b>	<b>64.4</b>	<b>8.9</b>

Source: Commercial Banks and DBE

1/ Outstanding credit includes lending to central government

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

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

Name of Bank	2006/07			2007/08			Percentage Change		
	D*	C*	O/S*	D*	C*	O/S*	Percentage Change		
	(1)	(2)	(3)	(4)	(5)	(6)	7=(4/1)	8=(5/2)	9=(6/3)
Commercial Bank of Ethiopia	33.6	44.1	51.4	52.9	45.3	49.4	57.3	2.6	-3.8
Development Bank of Ethiopia	4.7	6.2	13.2	0.9	1.7	13.7	-81.6	-72.9	3.6
Construction & Business Bank of Ethiopia	2.3	1.8	2.6	2.9	3.6	2.5	29.5	100.2	-4.7
Awash International Bank	11.6	7.5	5.7	5.7	5.7	5.9	-51.1	-23.1	4.9
Dashen Bank	12.4	8.6	9.0	7.9	9.5	9.1	-36.7	10.8	1.1
Bank of Abyssinia	6.3	6.6	5.7	7.1	8.4	5.9	12.4	28.1	3.5
Wegagen Bank	15.4	16.5	4.9	10.1	14.4	4.9	-34.5	-12.9	0.0
United Bank	4.4	3.0	2.8	2.7	1.4	3.1	-38.1	-54.5	12.3
Nib International Bank	6.4	4.2	4.1	4.2	4.8	4.4	-34.3	13.2	6.6
Cooperative Bank of Oromia	2.5	1.5	0.5	4.9	4.6	0.7	96.8	216.6	23.8
Lion International Bank	0.4	0.0	0.2	0.7	0.6	0.4	99.7	1873.7	159.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Commercial Banks and DBE

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

### 5.3.3 Outstanding Loans

The outstanding loan of the banking system (including credit to government) stood at Birr 48.2 billion by the end of 2007/08, recording a 8.9 percent increase over the previous year. Gross outstanding claims on central government declined by 47.8 percent, while that of public enterprises, private sector and cooperatives surged by 167.6, 14.7 and 56.1 percent, respectively (Table 5.13).

Meanwhile, sectoral distribution of loans indicated that credit to trade (both domestic and international) accounted for 36.1 percent; while to that of industry and agriculture were 16.4 and 11.4 percent, respectively. Loans to housing and construction sector also rose to 10.1 percent from 8.6 percent a year earlier (Table 5.12).

**Table 5.11: Loans & Advances by Economic Sectors**

(In Millions of Birr)

Economic Sectors	2006/07			2007/08			Percentage Change		
	D*	C*	O/S*	D*	C*	O/S*	D*	C*	O/S*
	(1)	(2)	(3)	(4)	(5)	(6)	7=(4/1)	8=(5/2)	9=(6/3)
Government Deficit Financing			13,214.9			6,902.0			(47.8)
Agriculture	2,621.0	1,638.7	4,218.4	5,371.6	4,443.4	5,481.2	104.9	171.2	29.9
Industry	1,524.9	1,389.4	6,996.5	2,739.4	1,587.3	7,897.0	79.6	14.2	12.9
Domestic Trade	2,986.4	2,021.4	3,821.4	5,012.1	3,424.5	5,219.2	67.8	69.4	36.6
International Trade	4,377.0	3,867.7	6,500.3	9,210.4	5,685.3	12,205.0	110.4	47.0	87.8
Export	2,233.8	1,785.2	2,334.5	3,116.3	2,526.8	2,973.8	39.5	41.5	27.4
Import	2,143.2	2,082.5	4,165.9	6,094.1	3,158.6	9,231.2	184.3	51.7	121.6
Hotels and Tourism	165.0	113.0	675.5	243.6	201.7	722.7	47.6	78.5	7.0
Transport and Communications	1,431.5	599.2	2,369.7	1,337.7	1,075.5	2,779.9	(6.6)	79.5	17.3
Housing and Construction	1,674.9	925.3	3,790.7	2,017.0	1,431.9	4,865.1	20.4	54.8	28.3
Mines, Power and Water Resource	13.3	-	40.9	59.3	0.4	4.2	344.9	-	(89.8)
Others	585.4	691.2	2,316.4	997.5	733.0	1,819.7	70.4	6.1	(21.4)
Personal	179.5	101.6	147.2	265.8	120.6	169.3	48.1	18.6	15.0
Interbank Lending	-	79.965	225.7	-	85.5	176.5	-	6.9	(21.8)
<b>Total</b>	<b>15,559.0</b>	<b>11,427.6</b>	<b>44,317.5</b>	<b>27,254.5</b>	<b>18,789.2</b>	<b>48,241.8</b>	<b>75.2</b>	<b>64.4</b>	<b>8.9</b>

**Source:** Commercial Banks and DBE

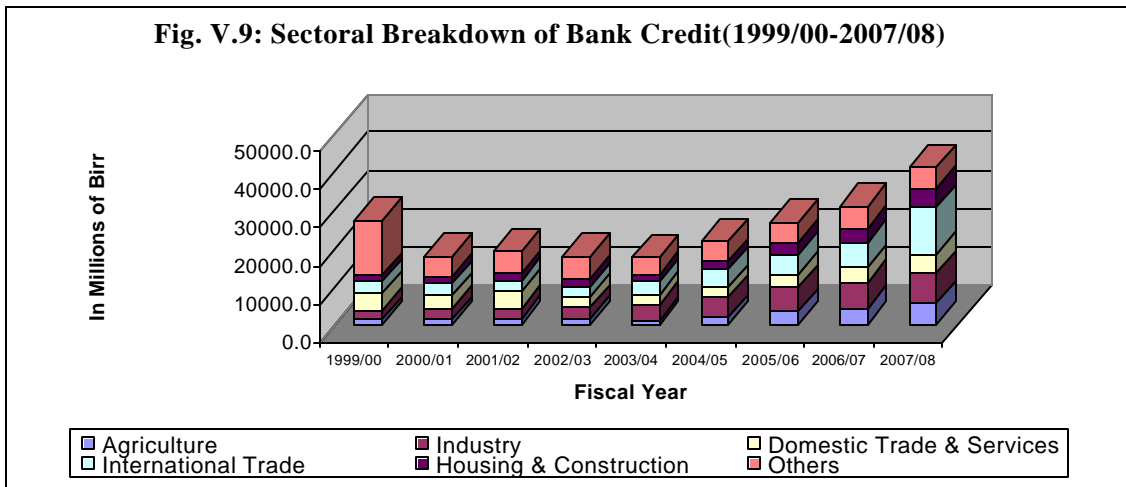
\* D = Disbursement, C = Collection, O/S = Outstanding Credit

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

Economic Sectors	2005/06			2006/07			2007/08		
	D*	C*	O*/S*	D*	C*	O/S*	D*	C*	O/S*
Central Gov't			32.5			29.9			14.3
Agriculture	17.6	13.8	8.6	16.9	14.3	9.5	19.7	23.6	11.4
Industry	10.5	11.3	15.9	9.8	12.2	15.8	10.1	8.4	16.4
Domestic Trade	19.8	18.1	8.4	19.1	17.7	8.5	18.4	18.2	10.8
International Trade	28.6	34.5	13.2	28.1	33.8	14.6	33.8	30.3	25.3
Export	13.4	16.3	4.0	14.3	15.6	5.3	11.4	13.4	6.2
Import	15.2	18.3	9.4	13.8	18.2	9.4	22.4	16.8	19.1
Hotels and Tourism	0.7	1.0	0.8	1.1	1.0	1.5	0.9	1.1	1.5
Transport and Communications	8.1	5.0	4.0	9.2	5.2	5.4	4.9	5.7	5.8
Housing and Construction	9.4	7.1	8.1	10.8	8.1	8.6	7.4	7.6	10.1
Mines, Power and Water Resource	-	-	0.1	0.1	-	0.1	0.2	0.0	0.0
Others	4.1	7.2	7.2	3.8	6.1	5.2	3.7	3.9	3.8
Personal	1.1	1.0	0.2	1.2	0.9	0.3	1.0	0.6	0.4
Interbank Lending	-	0.8	0.7	-	0.7	0.5	-	0.5	0.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Commercial Banks and DBE

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



Source: Commercial Banks and DBE

**Table 5.13: Loans & Advances by Borrower**

(In Millions of Birr)

Borrowing Sector	2005/06	2006/07	2007/08			Percentage change	
	O/S*	O/S*	D*	C*	O/S*	E/A	E/B
	A	B	C	D	E		
Central Government	12,880.1	13,214.9	-	-	6,902.0	-46.4	-47.8
Public Enterprises	3,017.4	3,263.1	5,174.5	686.4	8,732.6	189.4	167.6
Cooperatives	1,848.8	2,025.0	5,390.0	5,024.5	3,161.1	71.0	56.1
Private & Individuals	21,610.0	25,513.4	16,690.0	12,996.1	29,269.6	35.4	14.7
Interbank Lending	274.9	225.7	0.0	82.2	176.5	-35.8	-21.8
<b>Total</b>	<b>39,631.2</b>	<b>44,242.2</b>	<b>27,254.5</b>	<b>18,789.2</b>	<b>48,241.8</b>	<b>21.7</b>	<b>9.0</b>
Total Less Inter-bank Lending	<b>39,356.3</b>	<b>44,016.4</b>	<b>27,254.5</b>	<b>18,707.0</b>	<b>48,065.3</b>	<b>22.1</b>	<b>9.2</b>

**Source:** Commercial Banks and DBE

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

## 5.4. Financial Activities of NBE

Outstanding claims of NBE on the central government reached Birr 41.6 billion, in 2007/08 about 2.4 percent higher than last year. This was attributed largely to 35.0 percent rise in direct advances which reached Birr 31.8 billion or 76.6 percent of total claims. NBE's holdings of government bonds was Birr 9.7 billion (or 23.4 percent).

Concerning the liabilities of NBE, deposits of the central government and domestic financial institutions grew by 3.1 percent and reached Birr 21.7 billion by

the end of 2007/08. This was mainly attributed to 25.5 percent rise in the deposits of financial institutions offsetting a 28.9 percent decline in government deposit.

The surge observed in the deposits of financial institutions with NBE partly reflects the upward revision of the reserve requirement ratio and partly improvements in economic transactions that require large balances for settlement purposes.

**Table 5.14: Financial Activities of NBE****(In Millions of Birr)**

Particulars	2005/06	2006/07	2007/08	% Change	
	A	B	C	C/A	C/B
<b>Loans and Advances</b>	<b>26,461.8</b>	<b>33,513.4</b>	<b>41,563.1</b>	<b>57.1</b>	<b>24.0</b>
<b>Claims on Central Gov't</b>	<b>26,461.8</b>	<b>33,513.4</b>	<b>41,563.1</b>	<b>57.1</b>	<b>24.0</b>
Direct Advance	16,442.0	23,562.0	31,818.0	93.5	35.0
Bonds	10,019.8	9,951.4	9,745.1	-2.7	-2.1
<b>Claims on Development Bank of Ethiopia</b>	-	-	-	-	-
<b>Deposit Liabilities</b>	<b>15,824.2</b>	<b>21,053.6</b>	<b>21,710.9</b>	<b>37.2</b>	<b>3.1</b>
Government	7,037.0	8,657.8	6,157.3	-12.5	-28.9
Financial Institutions	8,787.2	12,395.8	15,553.6	77.0	25.5

Source: NBE

## 5.5 Developments in Financial Markets

The only regular primary market where securities are transacted on a fortnightly auction basis is the Treasury bills market. There is no secondary market in the country. 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 49.3 billion in 2007/08 which was 29.1 percent lower than that of last year. The total demand for T-bills also declined by 24.1 percent and reached Birr 59.9 billion.

Similarly, the amount of T-bills sold during the stated period was Birr 47.8 billion, depicting an annual decline of 26.9 percent. All in all, the amount of T-

bills sold during the reported time covered about 80 percent of the demand.

The dominance of commercial banks in the T-bills auction market tended to diminish in the review year due to enhanced participation of non-bank institutions in the T-bills market.

The total outstanding T-bills stood at Birr 8.6 billion at the close of 2007/08,

about 25.4 percent lower than the preceding year. Of the total outstanding bills, the non-bank institutions held 68.2 percent against 20.9 percent last year.

The average weighted yield for all types of bills went up by 27.8 to 0.68 percent in 2007/08 from 0.53 percent a year earlier.

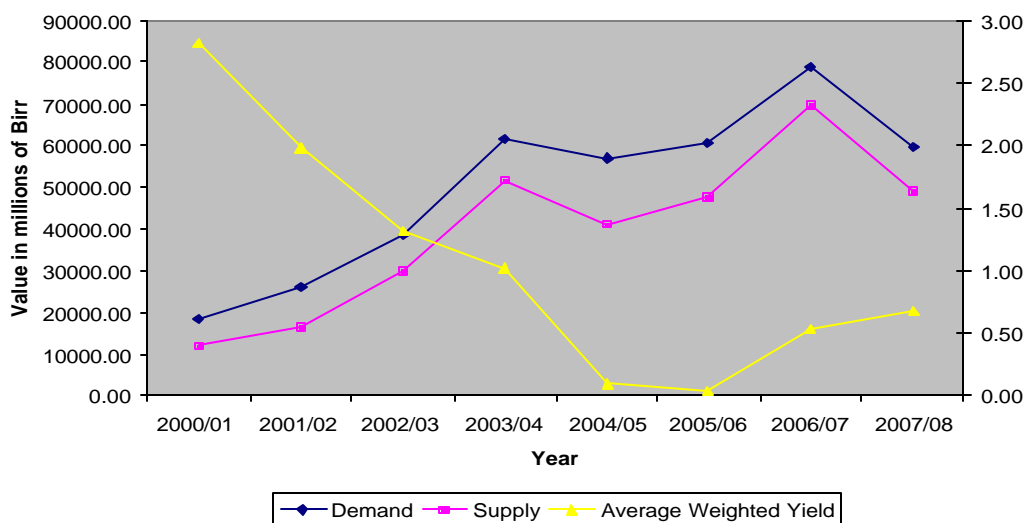
**Table 5.15: Treasury Bills Auction Result (2005/06 – 2007/08)**

**(In Millions of Birr)**

Particulars	2005/06	2006/07	2007/08	Percentage Change	
	A	B	C	C/A	C/B
<b>Number of Bidders</b>	<b>187</b>	<b>168</b>	<b>182</b>	<b>-2.7</b>	<b>8.3</b>
<b>Amount Demanded (Mn.Birr)</b>	<b>60,603.50</b>	<b>78,922.00</b>	<b>59,938.51</b>	<b>-1.1</b>	<b>-24.1</b>
28-day bill	34,863.50	38,601.50	20,587.51	-40.9	-46.7
91-day bill	18,330.00	32,163.50	17,829.00	-2.7	-44.6
182-day bill	7,410.00	8,157.00	21,522.00	190.4	163.8
<b>Amount Supplied (Mn.Birr)</b>	<b>47,793.50</b>	<b>69,487.00</b>	<b>49,249.00</b>	<b>3.0</b>	<b>-29.1</b>
28-day bill	26,859.50	34,257.50	12,680.00	-52.8	-63.0
91-day bill	14,740.00	28,135.50	15,394.00	4.4	-45.3
182-day bill	6,194.00	7,094.00	21,175.00	241.9	198.5
<b>Amount Sold (Mn.Birr)</b>	<b>47,793.50</b>	<b>65,315.00</b>	<b>47,766.51</b>	<b>-0.1</b>	<b>-26.9</b>
Banks	44,465.60	58,599.60	35,838.00	-19.4	-38.8
Non-Banks	3,327.90	6,715.40	11,928.51	258.4	77.6
<b>Average Weighted Price for Successful Bids(Birr)</b>	<b>99.99</b>	<b>99.843</b>	<b>99.820</b>	<b>-0.17</b>	<b>-0.02</b>
28-day bill	99.997	99.968	99.947	-0.050	-0.021
91-day bill	99.989	99.857	99.825	-0.164	-0.033
182-day bill	99.988	99.704	99.688	-0.300	-0.016
<b>Average Weighted Yield for Successful Bids(%)</b>	<b>0.036</b>	<b>0.530</b>	<b>0.678</b>	<b>1765.3</b>	<b>27.8</b>
28-day bill	0.040	0.417	0.700	1649.7	67.8
91-day bill	0.044	0.574	0.705	1503.1	22.9
182-day bill	0.025	0.600	0.628	2411.8	4.7
<b>Outstanding Bills by End of Period(Mn.Br.)</b>	<b>11,638.50</b>	<b>11,546.00</b>	<b>8,609.51</b>	<b>-26.0</b>	<b>-25.4</b>
Banks	10,612.30	9,135.00	2,739.00	-74.2	-70.0
Non-Banks	1,026.20	2,411.00	5,870.51	472.1	143.5

Source: NBE

**Fig. V. 10: Treasury Bills Auction Result (2000/01 -2007/08)**



Source: NBE

### 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

an auction on various occasions for specific reasons. In contrast, there was strong demand for corporate bonds. As a result, corporate bond holdings of the Commercial Bank of Ethiopia increased to Birr 13.2 billion from 8 billion a year ago.

### 5.5.3. Interbank Money Market

The interbank money market is underdeveloped in Ethiopia, mainly due to the existence of excess reserves in the banking system. As a result, four small transactions involving a total amount of Birr 169 thousand were conducted in 2007/08. Since the introduction of the

interbank money market in September 1998, merely twenty three transactions worth Birr 259.2 million were carried out with interest rates ranging between 7 and 11 percent. The maturity period of these loans widely spanned from overnight to 5 years.



**Table 5. 16: Interbank Money Market Transactions up to June 2008**

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

Source : NBE