

IV. MONETARY DEVELOPMENTS

NBE's monetary policy continued to be geared towards ensuring price stability and maintaining conducive macroeconomic environment for economic growth. Excess liquidity of commercial banks continued to pose a challenge to the effectiveness of the Bank's monetary policy instruments during the second quarter of 2004/05.

4.1. Money Supply and Credit

At the close of the second quarter of 2004/05, domestic liquidity as measured by broad money supply, reached Birr 35.9 billion, reflecting quarterly and annual growth rates of 3.6 and 13.8 percent, respectively. The quarterly growth in broad money came mainly due to a rise in domestic credit to non-government sectors, which grew by 21.7 percent and growth in net foreign assets (NFA). Year-on-year basis, the growth was largely attributable to the expansion of domestic credit by 18.8 percent, which offset the 3.1 percent draw down in net foreign assets.

Table IV. 1: Factors Influencing Broad Money*

(In Millions of Birr)

Particulars	2003/04	2004/05		Percentage Change	
	Qtr.II	Qtr.I	Qtr.II		
	(Dec. 03)	(Sept. 04)	(Dec. 04)		
	A	B	C	aC/A	C/B
1. External Assets (net)	12,749.0	11,851.3	12,359.6	-3.1	4.3
2. Domestic Credit	28,909.1	33,397.7	34,343.4	18.8	2.8
. Claims on Central Gov't (net)	17,418.0	20,852.5	19,076.5	9.5	-8.5
. Claims on Non-Central Gov't	11,491.0	12,545.2	15,266.8	32.9	21.7

. Financial Institutions	113.7	53.7	53.7	-52.8	0.0
. Others	11,377.4	12,491.5	15,213.1	33.7	21.8
3. Other Items (net)	10,135.8	10,613.3	10,820.9	6.8	2.0
4. Broad Money (M2)*	31,522.2	34,635.7	35,882.0	13.8	3.6

*Birr 1232.5 million net claim of CBE on Bank of Eritrea and old notes of Birr 1036.5 million redeemed in Eritrea and unclaimed in Ethiopia are excluded from the September and December balances.

Regarding components of broad money supply, narrow money (currency outside banks and net demand deposits) showed a marginal quarterly growth of 3.1 percent to reach Birr 18.7 billion as a result of 13.1 percent rise in currency outside banks which offset the 3.8 percent fall in demand deposits. On the other hand, quasi-money (time and savings deposits) surged by 4.2 percent during the same period. Year-on-year basis, narrow money and quasi money supply have surged by 10.1 percent and 18.1 percent, respectively, resulting in a 13.8 percent expansion in broad money supply.

Table IV.2: Components of Broad Money

(In Millions of Birr)

Particulars	2003/04	2004/05		Percentage Change	
	Qtr.II	Qtr.I	Qtr.II		
	(Dec. 03)	(Sept. 04)	(Dec. 04)		
	A	B	C	C/A	C/B
1. Narrow Money Supply	16,945.7	18,107.1	18,662.9	10.1	3.17

. Currency outside banks	7,910.8	7,314.3	8,274.5	4.6	13.1
. Demand Deposits (net)	9,034.9	10,792.8	10,388.4	15.0	-3.8
2. Quasi-Money	14,576.5	16,528.6	17,219.2	18.1	4.9
. Savings Deposits	13,352.3	15,273.8	15,849.0	18.7	3.8
. Time Deposits	1,224.2	1,254.8	1,370.2	11.9	9.2
3. Broad Money Supply	31,522.2	34,635.7	35,882.1	13.8	3.6

4.2 Developments in Reserve

Money and Monetary Ratios

At the end of the second quarter of 2004/05, reserve money, which is composed of currency in circulation and deposits of commercial banks at the National Bank of Ethiopia (NBE), reached Birr 22.7 billion indicating 59.9 percent and 76.9 percent significant growth rates over its balance at the close of the preceding quarter and the same quarter of the preceding year.

Commercial banks' reserve with the NBE largely contributed both to annual and quarterly growth rates in reserve money.

Table IV. 3: Monetary Aggregates and Ratios
(In millions of Birr unless otherwise indicated)

Particulars	2003/04	2004/05		Percentage Change	
	Qtr.II	Qtr.I	Qtr.II		
	(Dec. 03)	(Sept. 04)	(Dec. 04)	C/A	C/B
	A	B	C		
1. Reserve Requirement (CB's)	1,410.2	1,593.4	1,638.9	16.2	2.9
2. Actual Reserve (CB's)	4,232.4	5,849.7	13,528.1	219.6	131.3
3. Excess Reserve (CB's)	2,822.2	4,256.2	11,889.2	321.3	179.3
4. Reserve Money	12,833.6	14,197.2	22,705.6	76.9	59.9
. Currency in Circulation	8,592.3	8,137.7	8,986.0	4.6	10.4
. Banks deposits at NBE	4,241.4	6,059.4	13,719.5	223.5	126.4
5. Money Multiplier (Ratio):					
. Narrow Money to Reserve Money	1.3	1.3	0.8	-37.8	-35.6
. Broad Money to Reserve Money	2.5	2.4	1.6	-35.7	-35.2
6. Other Monetary Ratios (%):					
. Currency to Narrow Money	50.7	44.9	48.1	-5.0	7.1
. Currency to Broad Money	27.3	23.5	25.0	-8.1	6.6
. Narrow Money to Broad Money	53.8	52.3	52.0	-3.2	-0.5

. Quasi Money to Broad Money	46.2	47.7	48.0	3.8	0.6
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Commercial banks' actual reserves at the National Bank of Ethiopia increased by 131.3 percent during the second quarter of 2004/05. Consequently, their excess reserves went up significantly by 179.3 and 321.3 percent on quarterly and annual basis, respectively.

Hence the problem of excess liquidity remains due to the steady growth in deposits and financial flows to the banking system outweighing the growth in credit disbursements to the economy.

4.3 Interest Rate Developments

During the second quarter of 2004/05, interest rate structure of commercial banks didn't register considerable changes. Simple average savings deposit rate stood at the previous quarter's level of 3.1 percent and the weighted interest rate on demand deposits remained at 0.90 percent. Average interest rate on time deposits, however, went up slightly and reached 3.61 percent compared with 3.59 percent in the first quarter of 2004/05. At the same time, simple average lending interest rate stood at 10.50 percent per annum remaining unchanged since March 2003. Due to 3.9 percent average annual core (non-food) inflation rate, saving deposit rate and weighted average yields on T-bills were negative in real terms by the end of the second quarter of 2004/05. Average real cost of borrowing (real lending rate), however, was positive 6.6 percent.

Table IV.4: Interest Rate Structure of Commercial Banks

(In Percent per Annum)

	2002/03		2003/04				2004/05	
1.Saving Deposit Rates	Mar.	June.	Sep.	Dec.	Mar.	June	Sep.	Dec.
Minimum	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Maximum	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15
Average Saving Rate	3.10	3.10	3.10	3.10	3.10	3.10	3.10	3.10
2.Time Deposit (Weighted)								
Up to 1 year	3.36	3.35	3.38	3.36	3.39	3.39	3.36	3.39
1 - 2 years	3.64	3.72	3.65	3.61	3.63	3.64	3.60	3.64
Over 2 years	3.84	3.82	3.86	3.80	3.83	3.8	3.81	3.80
Average Time Dep. Rate	3.61	3.63	3.63	3.59	3.62	3.61	3.59	3.61
3. Weighted Demand Deposit Rate	0.94	0.93	0.93	0.93	0.94	0.93	0.90	0.90
4. Lending Rate								
Minimum	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Maximum	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Average Lending Rate	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
5. Weighted Ave. T-bills Rate	1.26	1.48	1.37	0.88	0.69	0.59	0.25	0.201

6. Inter-bank Rates	7.00	7.00	7.50	-	-	-	-	-
7. Average Bond Yield*	3.91	3.91	3.91	3.91	3.90	3.90	3.90	3.90

Source: Commercial Banks and National Bank of Ethiopia

NB: *Shows average bond yield on outstanding government bonds

4.4 Activities of the Banking System

4.4.1. Resource Mobilization

Total resources mobilized by the banking system namely, collection of loans, net changes in deposits and banks net borrowing, reached Birr 2,848.1 million, reflecting a quarterly growth rate of 27.7 percent. This was attributed to the increase in net deposit by 126.3 percent that offsets the decrease in collection by 2.5 percent and net borrowing by 98.7 percent

A) Deposit Mobilization

Deposit liabilities of the banking system (including the Development Bank of Ethiopia) reached Birr 34.6 billion, reflecting quarterly and annual growth rates of 4.0 and 16.5 percent, respectively.

Component wise, all types of deposits tended to pick up. Demand deposits, which accounted for 48.2 percent of the total deposits, grew by 4.1 percent over its balance at the close of the previous quarter and by 15.8 percent vis-à-vis the same quarter of last year. Saving deposits, which comprise about 45.8 percent of total deposits, picked up by 3.8 percent and 18.7 percent on quarterly and annual basis, respectively. Likewise, time deposits, with a 6.0 percent share, rose by 4.9 percent on quarterly and 6.6 percent on annual basis.

Of the total deposit liabilities held by banks, Commercial Bank of Ethiopia (CBE) claimed over 71.8 percent while the six private banks altogether accounted for 23.9 percent. The remaining balance constitutes deposit liabilities of the two other public banks, namely Construction and Business Bank (CBB) and Development Bank of Ethiopia (DBE).

B) Collection of Loans

Loan collection by the banking system totaled to Birr 1,513.3 million, indicating a quarterly decline of 2.5 percent. Domestic and international trade sub-sectors accounted for 58.4 percent of the loan settlement followed by industry (12.2 percent). In terms of collecting banks, CBE collected about 44.1 percent of the total loan collection meanwhile all the six private banks jointly collected 47.9 percent. In the meantime, Construction & Business Bank and Development Bank of Ethiopia, jointly, collected 8.0 percent.

C) Borrowing

At the end of December 2004, outstanding borrowing of the banking system stood at Birr 2,653.6 million, reflecting quarterly growth of 0.5 percent and annual growth rate of 104.4 percent. About 89.3 percent of the outstanding borrowing was mobilized from domestic sources while the balance 10.7 percent was obtained from external sources. Development Bank of Ethiopia accounted for 94.1 percent of the outstanding borrowing and the balance constituted claims on Construction and Business Bank.

Table IV 5: Summary of Resource Mobilization & Disbursement of the Banking System
(In Millions of Birr)

Particulars	Total Public Banks			Total Private Banks			Grand Total		
	(1)			(2)			(3) =(1)+(2)		
	Qtr. I	Qtr. II	% Change	Qtr. I	Qtr. II	% Change	Qtr. I	Qtr. II	% Change
1. Deposits (net change)	59.0	815.5	1282.0	524.4	504.9	-3.7	583.4	1,320.4	126.3
-Demand	-478.9	578.9	-220.9	113.0	80.6	-28.7	-365.9	659.5	-280.3

-Saving	468.3	258.0	-44.9	435.5	317.3	-27.1	903.8	575.3	-36.3
-Time	69.6	-21.5	-130.9	-24.1	107.0	-544.0	45.5	85.5	88.0
2. Borrowing (net change)	139.4	14.4	-89.7	0.0	0.0	0.0	139.4	14.4	-89.7
-Local	139.4	14.4	-89.7	0.0	0.0	0.0	139.4	14.4	-89.7
-Foreign	0.0	0.0		0.0	0.0	0.0	0.0	0.0	
3. Collection of Loans	855.4	788.7	-7.8	652.5	724.6	11.0	1,551.6	1,513.3	-2.5
4. Total Resources Mobilized									
(1+2+3)	1053.8	1618.6	53.6	1176.9	1229.5	4.5	2,230.7	2,848.1	27.7
5. Disbursement	1501.6	1285.5	-14.4	818.8	1336.3	63.2	2,320.3	2,621.8	13.0
6. Change in Liquidity (4-5)	-447.8	333.1	-174.4	358.2	-106.9	-129.8	-89.6	226.2	-352.5
Memorandum Item:									
A. Outstanding Credit	26413.6	19196.3	-27.3	6529.8	7230.1	10.7	32,943.5	26,426.4	-19.8
B. Outstanding Inter-bank Lending	381.1	378.5	-0.7				381.1	378.5	-0.7

Source: Commercial Banks

Table IV 6: Quarterly changes in Deposits as at end of December 31, 2004

(In Millions of Birr)

Types of Deposit	2004/05		% Change
	Quarter I	Quarter II	
Demand Deposit	16,010.4	16,670.0	4.1
Saving Deposit	15,276.0	15,851.3	3.8
Time Deposit	1,974.9	2,060.4	4.9
Total	33,261.3	34,581.7	4.0

Source: Commercial Banks

4.4.2 Disbursement of Fresh Loans

The banking system disbursed a total of Birr 2,621.8 million fresh loans to different sectors of the economy during the second quarter of 2004/05. This was 13.0 percent higher than the amount disbursed during the previous quarter and 74.1 percent over that of the corresponding quarter of 2003/04. Basically, the private sector, including cooperatives, was the main beneficiary taking up about 84.4 percent of the total new loans disbursed during the quarter. Sector-wise, the largest share (35.1 percent) of the quarterly fresh loans went to finance international trade followed by domestic trade (25.5 percent).

4.4.3 Outstanding Credit

The stock of outstanding credit (including inter-bank lending of Birr 378.5 million) reached Birr 26.4 billion at the end of the second quarter of 2004/05, indicating a quarterly and annual declines of 19.8 and 11.4 percent, respectively. Of the total outstanding credit, claims on the private sector (including cooperatives) were 63.9 percent, claims on central government 23.3 percent and public enterprises nearly 11.4 percent. In terms of specific sectors, industry took 17.6 percent, international trade 15.1 percent, domestic trade 9.2, transport & communication 5.7 percent and housing and construction 5.3 percent. The residual constituted claims on other sectors such as hotels, tourism, power and mining.

Table IV 7: Summary of Loans and Advances by Banks and Receiving Sectors During October- December 2004

(In Millions of Birr)

Borrowing Sector	Total Public Banks			Total private Banks			Grand Total private & Public Banks		
	(1)			(2)			(3) =(1+2)		
	Disbursed	Collected	O/S	Disbursed	Collected	O/S	Disbursed	Collected	O/S
Central Government	-	-	5,478.7	-	-	677.9	-	-	6,156.6
Agriculture	335.0	74.7	1,733.0	16.8	6.9	131.6	351.9	81.6	1,864.7
Industry	99.9	104.0	3,416.3	171.3	80.5	1,244.3	271.3	184.6	4,660.6
Domestic Trade	200.7	130.2	779.0	467.8	250.6	1,642.7	668.4	380.9	2,421.7
International Trade	494.7	311.0	2,024.6	425.1	192.1	1,965.4	919.8	503.1	3,990.0
Export	110.6	109.8	556.6	230.6	70.4	740.4	341.2	180.1	1,297.0
Imports	384.1	201.2	1,468.0	194.6	121.7	1,225.1	578.6	322.9	2,693.0
Hotels and Tourism	10.7	18.1	293.6	2.2	3.8	30.1	12.9	21.8	323.7
Transport & Communication	37.7	40.9	1,022.6	64.4	58.9	480.8	102.1	99.8	1,503.4
Housing & Construction	74.8	77.2	728.7	118.8	54.7	662.9	193.5	131.9	1,391.6
Mines, Power & Water Res.	-	-	13.6	-	-	-	-	-	13.6

Personal	14.0	12.8	3,284.4	58.9	70.4	366.6	72.9	83.2	3,651.0
Others	18.1	16.8	43.2	10.0	6.6	27.7	28.1	23.4	71.0
Inter-Bank Lending	-	3.1	378.5	1.0	-	-	1.0	3.1	378.5
Total	1,285.5	788.7	19,196.3	1,336.3	724.6	7,230.1	2,621.8	1,513.3	26,426.4

Table IV. 8 Breakdown of Loans & Advances of Banking System by Ownership

for Second quarter of 2004/05

(In Millions of Birr)

Particulars	Disbursement	Collection	Outstanding*
Public Banks	1,285.5	788.7	19,196.3
Central Government	-	-	5,478.7
State Enterprises	408.6	177.1	2,992.9
Cooperatives	249.4	58.3	1,073.7
Private Enterprises	627.5	549.7	9,272.5
Inter-bank Lending	-	3.1	378.5
Private Banks	1,336.3	724.6	7,230.1
Central Government	-	-	677.9
State Enterprises	-	0.5	19.8

Cooperatives	9.8	0.1	10.0
Private Enterprises	1,326.5	724.0	6,522.3
Inter-bank Lending	-	-	-
Grand Total	2,621.8	1,513.3	26,426.4

* **At the end of December 2004**

4.5 Financial Activities of the

National Bank of Ethiopia

During the second quarter of 2004/05, National Bank of Ethiopia's claims on the central government in the form of direct advance and bonds reached Birr 22.8 billion, indicating a quarterly and annual growth rate of 47.9 and 44.4 percent, respectively.

On the other hand, the Bank's net claims on the Development Bank of Ethiopia remained at Birr 53.7 million. NBE'S deposit liabilities to government and domestic financial institutions reached Birr 18,453.8 million, reflecting quarterly and annual growth rates of 67.4 and 78.3 percent, respectively. This came due to the increase in deposits of domestic financial institutions (mainly banks) by 125.4 percent on quarterly and 221.7 percent on annual basis contributing the decline in government deposits.

**Table IV.9: Financial Developments of the National Bank of Ethiopia
During the First Quarter of 2004/05**

(In Millions of Birr)

	2003/04	2004/05			
Particulars	Qtr.II	Qtr.I	Qtr.II	% Change	
	A	B	C	C/A	C/B
1.Loans and Advances	15,779.10	15,406.9	22,779.9	44.4	47.9
1.1. To Central Government	15,665.40	15,353.2	22,726.2	45.1	48.0
· Direct Advance	5,481.00	5,265.0	12,638.0	130.6	140.0
· Bonds	10,184.40	10,088.2	10,088.2	-0.9	0.0
1.2. To Development Bank of Ethiopia	113.7	53.7	53.7	-52.8	0.0
2.Deposit Liabilities	10,348.70	11,022.2	18,453.80	78.3	67.4
2.1. Government	6,051.60	4,888.5	4,629.90	-23.5	-5.3
2.2. Financial Institutions	4,297.10	6,133.7	13,823.90	221.7	125.4
-Banks		6,104.6	13,785.60	223.1	125.8
-Insurance Companies	4266.8	29.1	38.30	26.4	31.6

4.6 Developments in Financial Markets

a) Treasury Bills Market

During the second quarter of 2004/05, Treasury bills with total face value of Birr 6,082.0 million were offered for sale. This amount was 68.7 percent and 45.5 percent lower than the amount supplied in the preceding quarter and the same quarter of the preceding fiscal year, respectively. Similarly, T-bills worth Birr of 8,861.5 million were demanded, of which, about 68.6 percent was satisfied. The total demand for Treasury bills declined by 65.3 percent and 35.4 percent on annual and quarterly basis, respectively.

The average annual weighted yield for 28-day bills slightly dropped from 0.35 percent during the first quarter of 2004/05 to 0.30 percent in the second quarter of 2004/05 and that of 91-day declined from 0.30 to 0.21 during the same period. The average annual weighted yield for 182-day bills also declined both on quarterly and annual bases by 0.11 percent and 0.10 percent, respectively.

The stock of outstanding T - bills dropped to Birr 4.6 billion at the end of December 2004, witnessing declines of 51.0 percent, and 63.9 percent compared to the previous quarter and the same quarter of last fiscal year, respectively. Of the total outstanding bills, about 79.8 percent was held by banks and the balance (20.2 percent) by non-bank public. The reduction of outstanding T-bills was due to the conversion of maturing T-bills worth of about Birr 7.0 billion to direct advance during the quarter under review.

Table IV 10: Results of Treasury Bills Auction

Particulars	2003/04	2004/05		% Change	
	Qtr.II	Qtr.I	Qtr.II	C/A	C/B
	A	B	C		
Number of Bidders	81	78	50	-38.3	-35.9

Private	53	52	37	-30.2	-28.8
Public	28	26	13	-53.6	-50.0
Amount Demanded (Mn.Birr)	13,707.50	25,507.0	8,861.5	-35.4	-65.3
28-day bill	3,645.00	12,705.0	5,017.0	37.6	-60.5
91-day bill	7,298.00	9,678.0	2,414.5	-66.9	-75.1
182-day bill	2,764.50	3,124.0	1,430.0	-48.3	-54.2
Amount Supplied (Mn.Birr)	11,150.00	19,440.0	6,082.0	-45.5	-68.7
28-day bill	3,900.00	10,787.0	3,441.0	-11.8	-68.1
91-day bill	5,700.00	6,847.0	1,600.0	-71.9	-76.6
182-day bill	1,550.00	1,806.0	1,041.0	-32.8	-42.4
Amount Sold (Mn.Birr)	11,137.00	19,440.0	5,884.0	-47.2	-69.7
Banks	10,536.00	18,791.0	5,071.0	-51.9	-73.0
Non-Banks	601	649.0	813.0	35.3	25.3
Average Weighted Price for					
Successful bids(Birr)					
28-day bill	99.954	99.97	99.98	0.03	0.01
91-day bill	99.728	99.92	99.95	0.22	0.03

182-day bill	99.153	99.94	99.96	0.81	0.02
Average Weighted Yield for					
Successful bids(%)					
28-day bill	0.60	0.35	0.30	-49.83	-13.01
91-day bill	1.09	0.30	0.21	-81.17	-32.24
182-day bill	1.71	0.11	0.10	-94.34	-7.62
Outstanding bills at the end					
of Period (Mn.Br.)	9,486.30	12,875.0	4,649.5	-51.0	-63.9
Banks	8,179.30	11,850.0	3,711.0	-54.6	-68.7
Non-Banks	1,307.00	1,025.0	938.5	-28.2	-8.4

b) Inter- Bank Money Market

No inter-bank money market transaction was effected during the second quarter of 2003/04 as virtually all banks carried excess liquidity. Since its introduction some five years ago, merely twelve transactions involving Birr 166.7 million were held among few commercial banks with an interest rate ranging between 7 and 11 percent. The maturity period of these loans widely ranged from overnight to 5 years.

Table IV. 11: Inter-bank Money Market Transactions

No.	Borrower	Lender	Amount Borrowed	Interest Rate charged	Transaction Date	Maturity
			(In Mn.Br.)	(%)		Period
1	Nib International Bank	Awash International Bank	7.0	11	16/11/00	Overnight
2	Wegagen Bank	Commercial Bank of Ethiopia	10.0	8	03/01/01	5 years
3	Nib International Bank	„	10.0	8	31/03/01	3 months
4	Wegagen Bank	„	10.0	8	22/03/01	1 year
5	Nib International Bank	„	3.6	8	31/05/01	6 months
6	Nib International Bank	„	3.7	8	31/06/01	6 months
7	Nib International Bank	„	0.8	8	30/11/01	6 months
8	Nib International Bank	Bank of Abyssinia	29.0	7	31/12/02	3.5 months
9	Nib International Bank	„	19.0	7	31/01/03	3.5 months
10	Nib International Bank	„	20.3	7	28/02/03	3.5 months
11	Nib International Bank	„	28.3	7	31/03/03	3.5 months
12	Nib International Bank	Commercial Bank of Ethiopia	25.0	7.5	07/07/03	5.2 month

Source: Commercial Banks