

IV. MONETARY DEVELOPMENTS

Rising inflation continued to be the major challenge for monetary policy during the second quarter of 2006/07. NBE continued its attempt to curb this inflationary pressure primarily by limiting its lending to the central government and continuing

its sale of T-bills. Nevertheless, inflationary pressures witnessed during recent periods are mainly associated with structural factors rather than monetary phenomenon.

4.1. Money Supply and Credit

Broad money supply (M_2) reached Birr 49.8 billion at the end of the second quarter of 2006/07, indicating quarterly and annual growth rates of 2.1 and 18.3 percent, respectively. The major factor behind quarterly monetary expansion was credit to the non-government sector, which grew by 11.2 percent offsetting an 8.3 percent decline in credit to the government. Another contributing factor was a modest

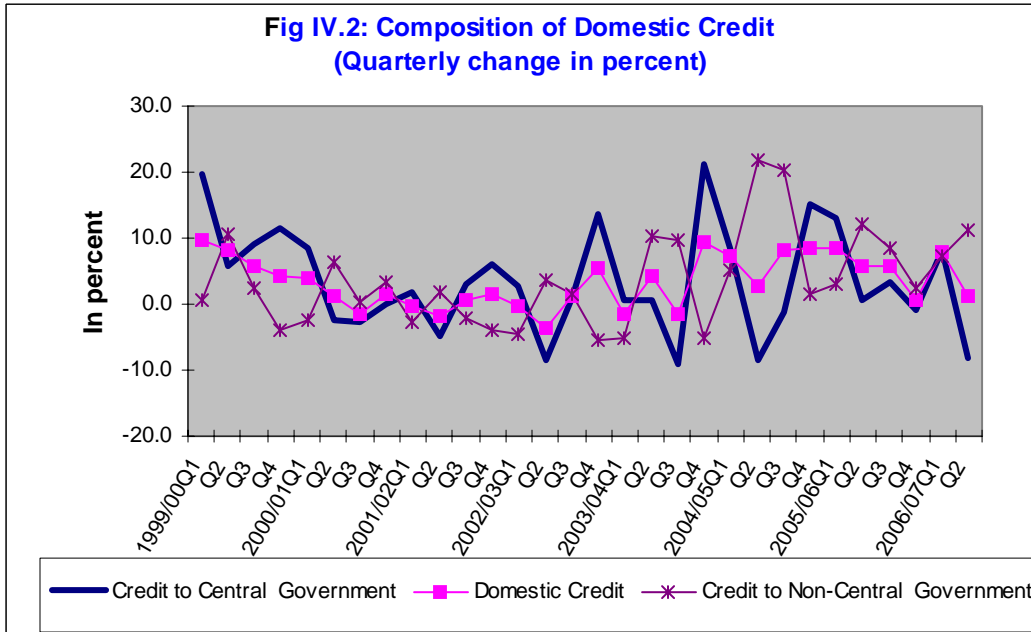
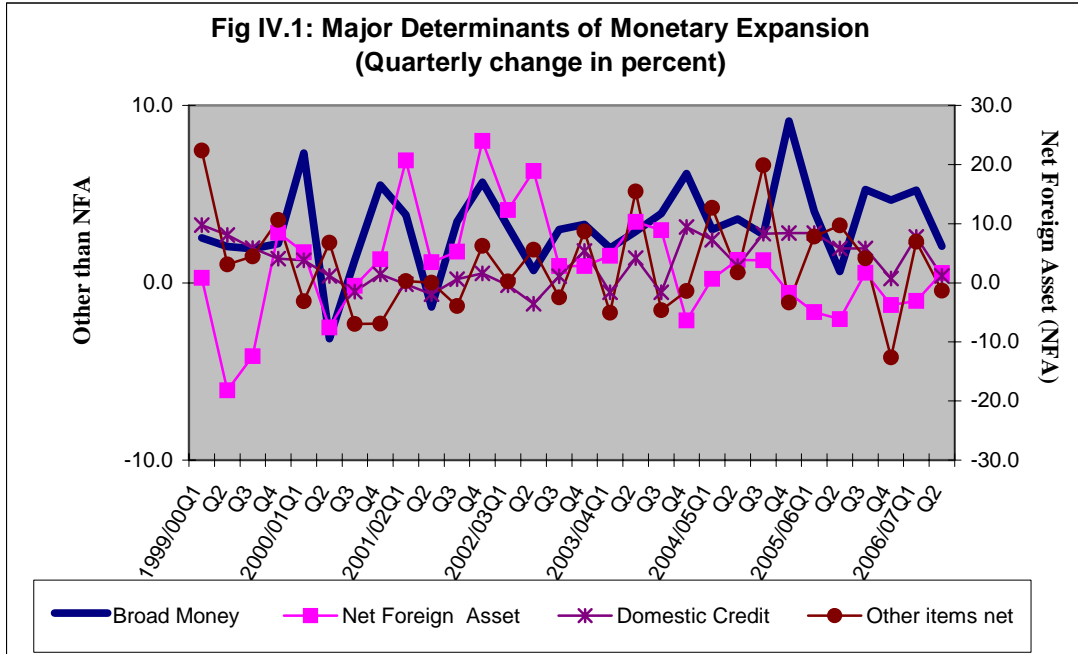
increase in net foreign assets of the banking system (1.6 percent). On annual basis, however, domestic credit was the sole factor for monetary growth offsetting a decline in net foreign assets. In particular, credit to the non-government sector expanded by 32.8 percent, reflecting the on going private investment activities and improved business environment.

Table IV. 1: Factors Influencing Broad Money

(In Millions of Birr)

Particulars	2005/06	2006/07		Percentage Change	
	Qtr. II	Qtr. I	Qtr. II	C/A	C/B
	(Dec. 05)	(Sept. 06)	(Dec. 06)		
	A	B	C		
1. External Assets (net)	12,371.1	11,736.3	11,929.2	-3.6	1.6
2. Domestic Credit	46,249.3	53,135.1	53,739.3	16.2	1.1
. Claims on Central Gov't (net)	24,665.2	27,342.9	25,065.3	1.6	-8.3
. Claims on Non-Central Gov't	21,584.1	25,792.2	28,674.1	32.8	11.2
. Financial Institutions	0.0	0.0	0.0		
. Others	21,584.1	25,792.2	28,674.1	32.8	11.2
3. Other Items (net)	16,521.5	16,071.8	15,857.2	-4.0	-1.3
4. Broad Money (M_2)	42,098.9	48,799.6	49,811.3	18.3	2.1

Source: National Bank of Ethiopia



From the liability side, the quarterly growth in broad money was due to increases in currency in circulation, saving deposits and time deposits by 6.3, 0.7 and 9.3 percent

respectively, while demand deposits marginally went down by 0.3 percent. On annual basis, all components of broad money revealed strong increases.

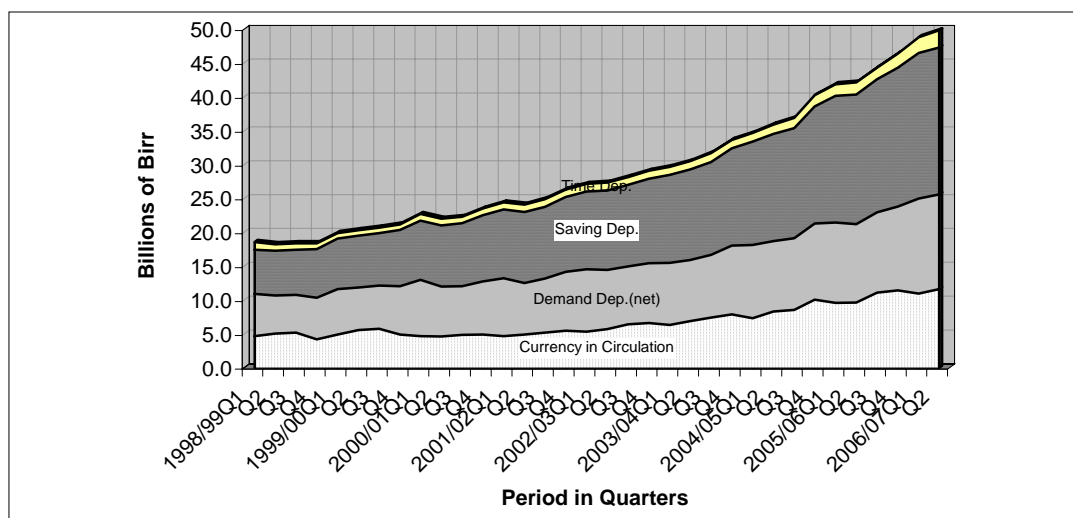
Table IV. 2: Components of Broad Money

(In Millions of Birr)

Particulars	2005/06	2006/07		Percentage Change	
	Qtr. II	Qtr. I	Qtr. II	C/A	C/B
	(Dec. 05)	(Sept. 06)	(Dec. 06)		
	A	B	C		
1. Narrow Money Supply	21,205.8	24,946.3	25,592.7	20.7	2.6
. Currency outside banks	9,623.3	10,916.9	11,606.4	20.6	6.3
. Demand Deposits (net)	11,582.5	14,029.4	13,986.4	20.8	-0.3
2. Quasi-Money	20,893.1	23,853.3	24,218.6	15.9	1.5
. Savings Deposits	19,122.9	21,529.1	21,677.1	13.4	0.7
. Time Deposits	1,770.2	2,324.3	2,541.5	43.6	9.3
3. Broad Money Supply	42,098.9	48,799.6	49,811.3	18.3	2.1

Source: National Bank of Ethiopia

Fig. IV. 3: Composition of Monetary Stock (Second Quarter of FY 2006/07)



4.2 Developments in Reserve Money and Monetary Ratios

Reserve money grew by 5.0 percent on quarterly basis and reached Birr 22.2 billion at the end of the quarter under review on account of 4.5 and 5.8 percent increases in currency in circulation and commercial banks' reserves at the NBE, respectively. On

yearly basis, however, reserve money slowed down by 8.4 percent, reflecting a 30 percent decline in commercial banks' reserves at NBE, offsetting an 18.5 percent increase in currency in circulation.

Table IV. 3: Reserve Money and Ratios

(In millions of Birr unless otherwise indicated)

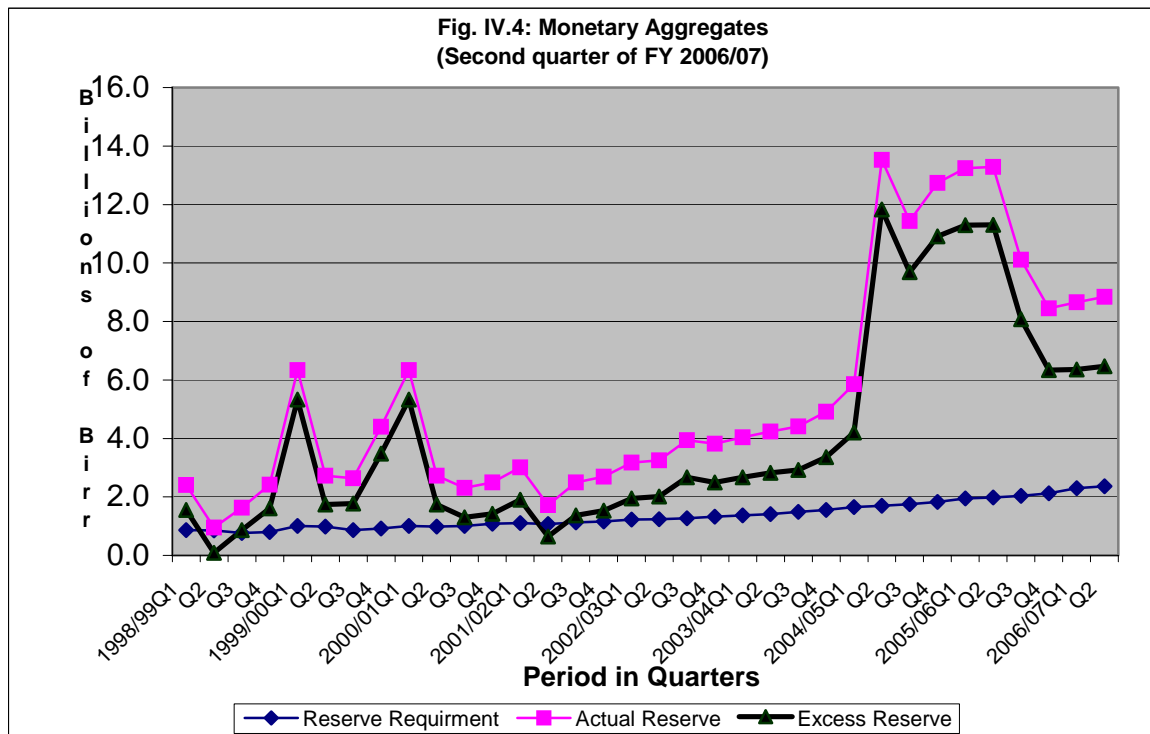
Particulars	2005/06	2006/07		Percentage Change	
	Qtr. II	Qtr. I	Qtr. II		
	(Dec. 05)	(Sept. 06)	(Dec. 06)	C/A	C/B
	A	B	C		
1. Reserve Requirement (CB's)	1,979.3	2,296.0	2,367.9	19.6	3.1
2. Actual Reserve (CB's)	13,288.3	8,654.6	8,839.6	-33.5	2.1
3. Excess Reserve (CB's)	11,309.0	6,358.7	6,471.7	-42.8	1.8
4. Reserve Money	24,269.2	21,164.4	22,222.8	-8.4	5.0
. <i>Currency in Circulation</i>	10,826.6	12,278.0	12,825.2	18.5	4.5
. <i>Banks deposits at NBE</i>	13,442.7	8,886.4	9,397.6	-30.1	5.8
5. Money Multiplier (Ratio):					
. <i>Narrow Money to Reserve Money</i>	0.9	1.2	1.2	31.8	-2.3
. <i>Broad Money to Reserve Money</i>	1.7	2.3	2.2	29.2	-2.8
6. Other Monetary Ratios (%):					
. <i>Currency to Narrow Money</i>	51.1	49.2	50.1	-1.8	1.8
. <i>Currency to Broad Money</i>	25.7	25.2	25.7	0.1	2.3
. <i>Narrow Money to Broad Money</i>	50.4	51.1	51.4	2.0	0.5
. <i>Quasi Money to Broad Money</i>	49.6	48.9	48.6	-2.0	-0.5

Source: National Bank of Ethiopia

Commercial banks' excess reserves reached Birr 6.5 billion at the end of the quarter, slightly picking up by 1.8 percent from its preceding quarter level. Year-on-year basis, however, it dropped by 43 percent owing to large purchases of Treasury bills by commercial banks.

The composition of broad money slightly shifted from quasi-money to narrow money during the second quarter of 2006/07. The ratio of narrow money to broad money was 51.4 percent at the end of the quarter compared to 51.1 percent at the end of the

preceding quarter and 50.4 percent during the same period of last year. Mirroring this development, the ratio of quasi-money to broad money declined to 48.6 percent in the review period from 48.9 percent at the end of the preceding quarter and 49.6 percent during the same period of last year. On the other hand, both narrow and broad money multipliers tended to increase with narrow money multiplier rising from 0.9 to 1.2 and broad money multiplier from 1.7 to 2.2 compared with last year.



4.3 Interest Rate Developments

There was no significant change in the interest rate structure of commercial banks. Interest rate on savings deposit continued to hover around the minimum rate of 3.0 percent. The weighted demand deposit rate also remained at its preceding quarter level of 0.06 percent while the weighted time deposit rate marginally went up from 4.0 percent to 4.01 percent. Average lending rate of commercial

banks remained unchanged at 10.5 percent since March 2003 with the highest rate reaching up to 14.0 percent and minimum rate at 7.0 percent.

Compared with annual core (non-food) inflation of 11.5 percent at the end of the review quarter, all interest rates, including weighted average yields on T-bills and government bond yields and average real cost of borrowing (real lending rate) remained negative in real terms.

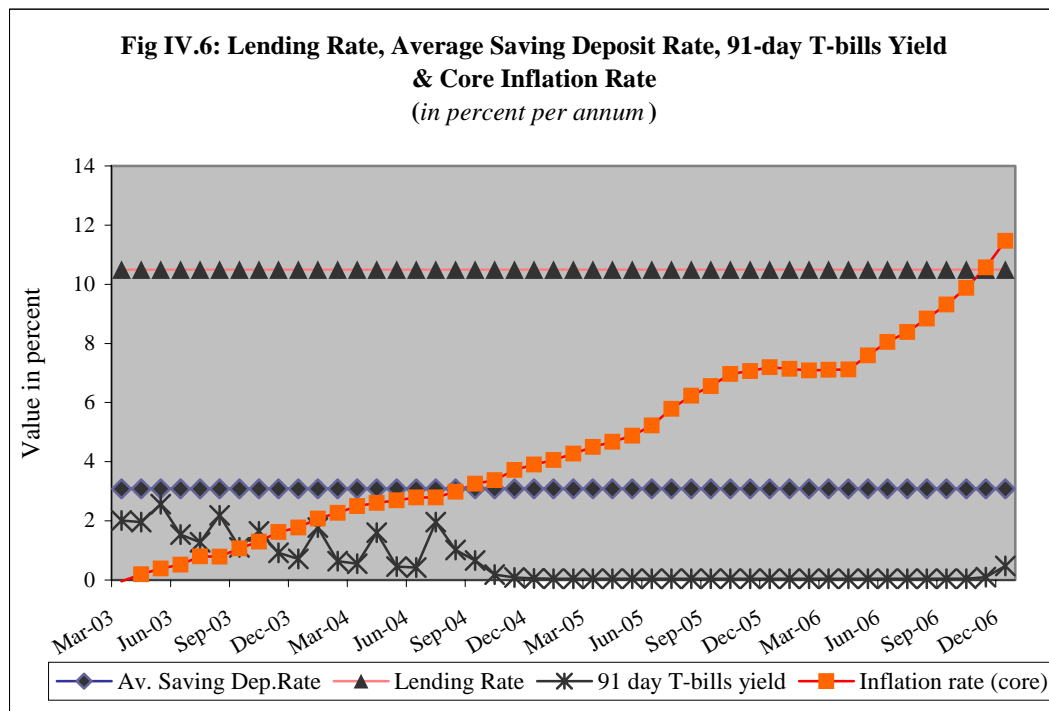
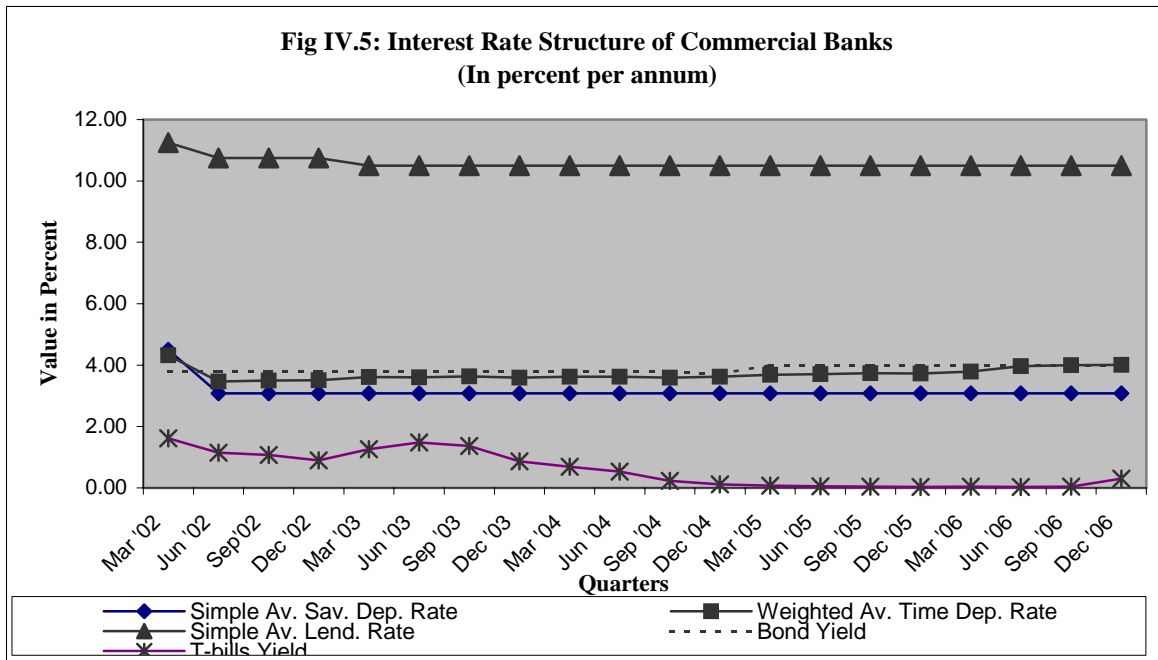
Table IV.4: Interest Rate Structure of Commercial Banks

(Percent per Annum)

Particulars	2004			2005				2006			
	Mar.	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.
1. Saving Deposit Rates											
• Minimum	3.00	3.00	3.00	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	3.15	3.15	3.15
Average Saving Rate	3.08	3.08	3.08	3.08	3.08	3.08	3.08	3.08	3.08	3.08	3.08
2. Time Deposit											
• Up to 1 year	3.39	3.36	3.38	3.45	3.47	3.49	3.49	3.52	3.60	3.58	3.59
• 1 - 2 years	3.63	3.60	3.64	3.69	3.71	3.74	3.74	3.79	4.01	4.01	4.02
• Over 2 years	3.83	3.81	3.86	3.92	3.94	3.99	3.99	4.06	4.30	4.40	4.42
Average Time Dep. Rate	3.62	3.59	3.63	3.69	3.71	3.74	3.74	3.79	3.97	4.00	4.01
3. Demand Deposit Rate (Weighted)			0.02	0.05	0.05	0.06	0.05	0.06	0.06	0.06	0.06
4. Lending Interest Rate											
• Minimum	7.00	7.00	7.00	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	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	10.50	10.50	10.50
5. Weighted Average T-bills Rate	0.69	0.23	0.12	0.07	0.05	0.04	0.04	0.04	0.04	0.04	0.30
6. Average Bond Yield			3.71	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00

Source: Commercial Banks and National Bank of Ethiopia

NB: *Shows average bond yield on outstanding government bonds



4.4 Developments in the Financial Sector

A new private commercial bank, Lion International Bank, began operation in October 2006, increasing the total number of banks operating in the country (excluding the NBE) to eleven of which eight are private commercial banks. With twenty-six additional bank branches opened during the second quarter of 2006/07, the total number of bank branches through out the country rose to 453. Thus, the ratio of bank branches to total population reached 165,560. Addis Ababa, the capital city, accounted for about 37.0 percent of the total branch network of the banking industry. The share of private banks in the total number of bank branches was 46.6 percent compared to 44.7 percent a year earlier.

On the other hand, the total capital of the banking system increased by 9.2 percent to Birr 6.5 billion at the end of the second quarter of 2006/07 over the preceding quarter. Of the total capital of the banking system, private banks accounted for 34.3 percent in contrast to 29.7 percent a year ago.

Meanwhile, the number of insurance companies remained nine although two more branches were opened during the review quarter, increasing the number of branches to 143. About 48.0 percent of the insurance branches were located in Addis Ababa. Private insurance companies accounted for 75.5 percent of the total branches compared to 76.1 percent last year.

The total capital of the insurance industry also grew from Birr 576.2 million at the end of the first quarter of 2006/07 to Birr 712.1 million in the review period. The share of private insurance companies in total capital was 44.5 percent, vis-à-vis 55.5 percent a year ago. The number of MFIs in the country reached 27 out of which 11 (or 40.7 percent) were located in Addis Ababa. The amount of savings mobilized by the MFIs increased by 6.8 percent from Birr 770.2 million at the end of the first quarter to Birr 822.3 million in the second quarter of 2006/07. Similarly, the amount of loans given out by the MFIs grew by 5.9 percent on quarterly basis and reached Birr 2.1 billion at the end of the quarter. These institutions serve about 1.5 million households in their constituencies.

Table IV. 5: Capital and Branch Network of the Banking System at the End of December 31, 2006
(Branch in Number and Capital in Million Birr)

No.	Bank	Branch Network						Capital		
		Qtr. I		Qtr. II				2006/07		
		2006/07		2006/07				Qtr. I	Qtr. II	% Share
		Total	% Share	Regions	Addis Ababa	Total	% Share			
I. Public Banks										
1	Commercial Bank of Ethiopia	177	41.5	141	42	183	40.4	1,801.9	2,146.9	33.2
2	Construction & Business Bank	27	6.3	15	12	27	6	185.7	225.0	3.5
3	Development Bank of Ethiopia	32	7.5	31	1	32	7.1	1,880.6	1,880.1	29.0
	Total Public Banks	236	55.3	187	55	242	53.4	3,868.2	4,252.0	65.7
II. Private Banks										
4	Awash International Bank	38	8.9	17	23	40	8.8	361.7	409.3	6.3
5	Dashen Bank	37	8.7	17	22	39	8.6	358.0	470.4	7.3
6	Bank of Abyssinia	26	6.1	12	16	28	6.2	412.8	364.7	5.6
7	Wegagen Bank	34	8	22	15	37	8.2	286.4	322.2	5.0
8	United Bank	23	5.4	8	16	24	5.3	228.5	231.2	3.6
9	Nib International Bank	22	5.2	6	16	22	4.9	288.5	298.8	4.6
10	Cooperative bank of Oromiya	11	2.6	13	2	15	3.3	124.6	127.3	2.0
11	Lion International Bank			3	3	6	1.3			
	Total Private Banks	191	44.7	98	113	211	46.6	2,060.5	2,223.9	34.3
	Total All Banks	427	100	285	168	453	100	5,928.7	6,475.9	100.0

Source

Table IV.6: Branch Network & Capital of Insurance Companies as at December 31, 2006

(Branch in number and Capital in Million Birr)

No.	Insurance Company	Branch				Capital	
		Qtr I	Qtr II			Qtr I	Qtr II
		2006/07	2006/07			2006/07	2006/07
		Total	A.A	Region	Total		
1	Ethiopian Ins. Cor.	36	11	24	35	250.5	395.1
2	Awash Ins.Com.S.C.	15	10	7	17	46.1	48.1
3	Africa Ins.Com S.C.	9	2	7	9	59.6	54.2
4	National Ins. Co. of Eth.	13	7	5	12	10.1	11.4
5	United Ins.Com. S.C	17	12	6	18	46.8	43.1
6	Global Ins. Com.S.C	5	3	3	6	17.8	16
7	Nile Ins.Com.S.C	18	9	9	18	58.8	61.1
8	Nyala Ins.Com.S.C	15	7	8	15	60.6	54.2
9	Nib Ins. Com.S.C	13	8	5	13	25.9	28.9
	TOTAL	141	69	74	143	576.2	712.1

Table IV.7: Capital, Saving and Credit of Microfinance Institutions as of December 31, 2006

(In Million Birr)

No.	Micro-Financing Institution	Regional Location	Total Capital	Saving	Credit	Total Assets
1	Amhara Credit & Saving Ins.	Amhara	226.2	365.8	678.6	842.4
2	Dedebit Credit & Saving Ins.	Tigray	218.9	201.0	719.3	1,039.6
3	Oromia Credit & Saving S.C	Oromia	122.8	93.0	226.6	274.9
4	Omo Credit & Saving Ins.	SNNP	17.1	51.2	106.9	144.0
5	Specialized Finan. & Pro.Ins.	A.A	11.4	7.3	19.6	23.2
6	Gasha Micro-fin. Ins.	A.A	4.4	5.1	11.8	17.6
7	Wisdom Micro-financing Ins.	A.A	22.1	12.9	47.3	54.3
8	Sidama Micro-finance Ins.	SNNP	12.6	6.0	17.9	25.2
9	Aser Micro-financing Ins.	A.A	0.5	0.3	0.3	0.7
10	Africa Village Financial Service	A.A	4.7	2.4	7.0	12.1
11	Bussa Gonofaa Micro-fin. Ins.	Oromia	9.9	2.4	10.1	14.9
12	Peace Micro-finance Ins.	A.A	7.9	6.0	27.1	29.2
13	Meket Micro-financing Ins.	Amhara	1.9	0.4	2.1	2.7
14	Addis Credit & Saving Ins.	A.A	147.9	43.7	140.6	222.8
15	Meklit Micro-financing Ins.	A.A	3.5	4.6	10.3	14.4
16	Eshet Micro-financing Ins.	Oromia	9.8	2.9	24.7	31.1
17	Wasasa Micro-financing Ins.	Oromia	8.6	5.6	18.4	26.0
18	Benishangul-Gumuz MFI	Benishangul Gumuz	17.9	6.0	19.8	25.8
19	Shashemene Idir Yelmat Agar MFI	Oromia	2.9	0.7	2.1	3.7
20	Metemamen MFI	A.A	4.9	0.1	3.5	5.1
21	Dire MFI	Dire Dawa	10.7	1.2	4.5	15.7
22	Agar MFI	A.A	3.2	1.5	3.4	5.6
23	Harbu MFI	Oromia	1.4	1.5	3.0	4.1
24	Ghion MFI	Amhara	0.3	0.3	0.3	0.6
25	Leta MFI	Oromia	0.7	-	5.0	0.8
26	Digaf MFI	A.A	0.2	0.4	0.5	0.6
27	Harar MFI*	Harari	NA	NA	NA	NA
	Total		872.4	822.3	2,110.7	2,837.1

* This MFI is a newly established and hence data is not available

4.5 Activities of the Banking System

4.5.1. Resource Mobilization

During the second quarter of 2006/07, the banking system mobilized Birr 4.7 billion through deposits, collection of loans and borrowings. This sum was 21.9 percent lower than the amount mobilized during the preceding quarter but 66.3 percent higher than the same quarter of last year. About 50 percent drop in net change in deposits was the sole factor behind the quarter-on-quarter

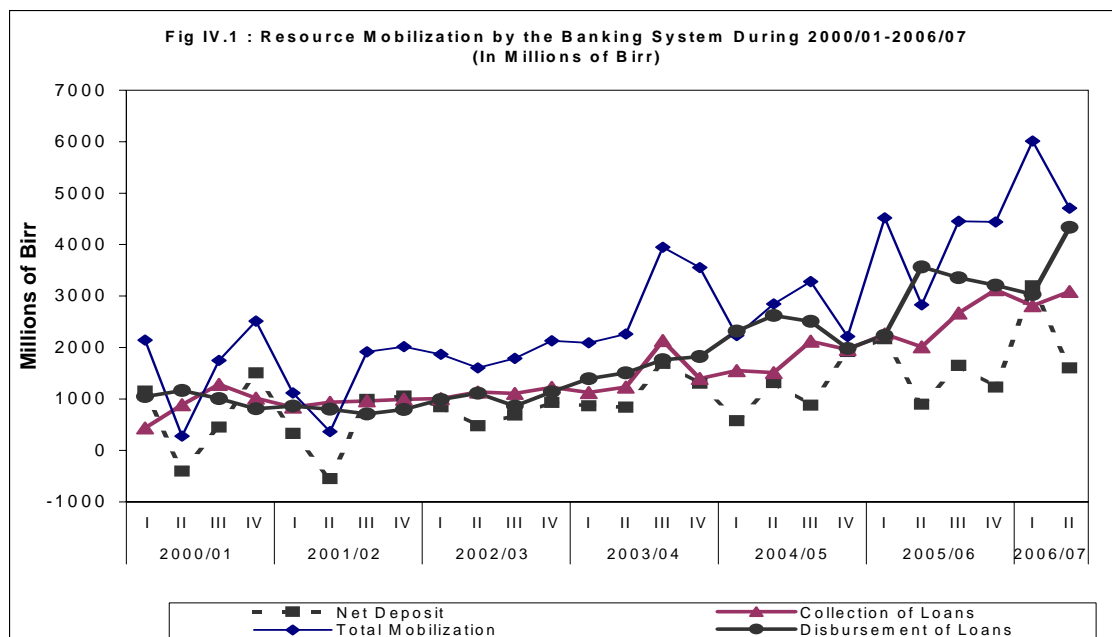
decline in resource mobilization, despite 225.8 and 9.2 percent increases in net change in borrowings and loan collections, respectively. On the other hand, 78.8 and 51.3 percent increases in net deposits and loan collection were the major factors for the year-on-year growth in resource mobilization offsetting a 119.2 percent decline in net borrowings.

Table IV.8: Summary of Resource Mobilization & Disbursement of the Banking System During the Second Quarter of 2006/07 ended on December 31, 2006

(In Million Birr)

Particulars	Public Banks		Private Banks		Grand Total			% Change	
	(1)		(2)		(3) = (1) + (2)				
	Qtr.I	Qtr.II	Qtr.I	Qtr.II	Qtr.II	Qtr.I	Qtr.II		
	2006/07	2006/07	2006/07	2006/07	2005/06	2006/07	2006/07		
				A	B	C	C/A	C/B	
1. Deposits (net change)	2,151.5	905.6	1,047.2	697.4	896.4	3,198.7	1,603.0	78.8	-49.9
-Demand	1,574.9	1,086.5	384.3	144.4	421.1	1,959.2	1,230.9	192.3	-37.2
-Saving	615.1	-193.4	429.3	341.9	416.2	1,044.4	148.5	-64.3	-85.8
-Time	-38.6	12.5	233.6	211.1	59.1	195.0	223.6	278.4	14.7
2. Borrowing (net change)	6.2	0.5	0.0	19.7	-105.2	6.2	20.2	-119.2	225.8
-Local	-20.4	1.3	0.0	0.0	-79.6	-20.4	1.3	-101.6	-106.4
-Foreign	26.7	-0.8	0.0	0.0	-25.6	26.7	-0.8	-96.9	-103.0
3. Collection of Loans	1,433.7	1,490.0	1,391.4	1,596.3	2,040.4	2,825.1	3,086.3	51.3	9.2
4. Total Resources Mobilized (1+2+3)	3,591.4	2,396.1	2,438.6	2,313.4	2,831.7	6,030.0	4,709.5	66.3	-21.9
5. Disbursement	789.5	1,350.4	2,255.4	2,984.7	3,601.7	3,045.0	4,335.1	20.4	42.4
6. Change in Liquidity (4-5)	2,801.9	1,045.7	183.1	-671.3	-770.0	2,985.0	374.4	-148.6	-87.5
Memorandum Item:									
A. Outstanding Credit	28,620.5	28,048.7	12,281.4	13,776.7	32,068.7	40,895.5	41,825.4	30.4	2.3
B. Outstanding Inter-bank Lending	253.5	250.8	0.0	0.0	278.5	253.5	250.8	-9.9	-1.1

Source: Commercial Banks and Staff Computation



A) Deposit Mobilization

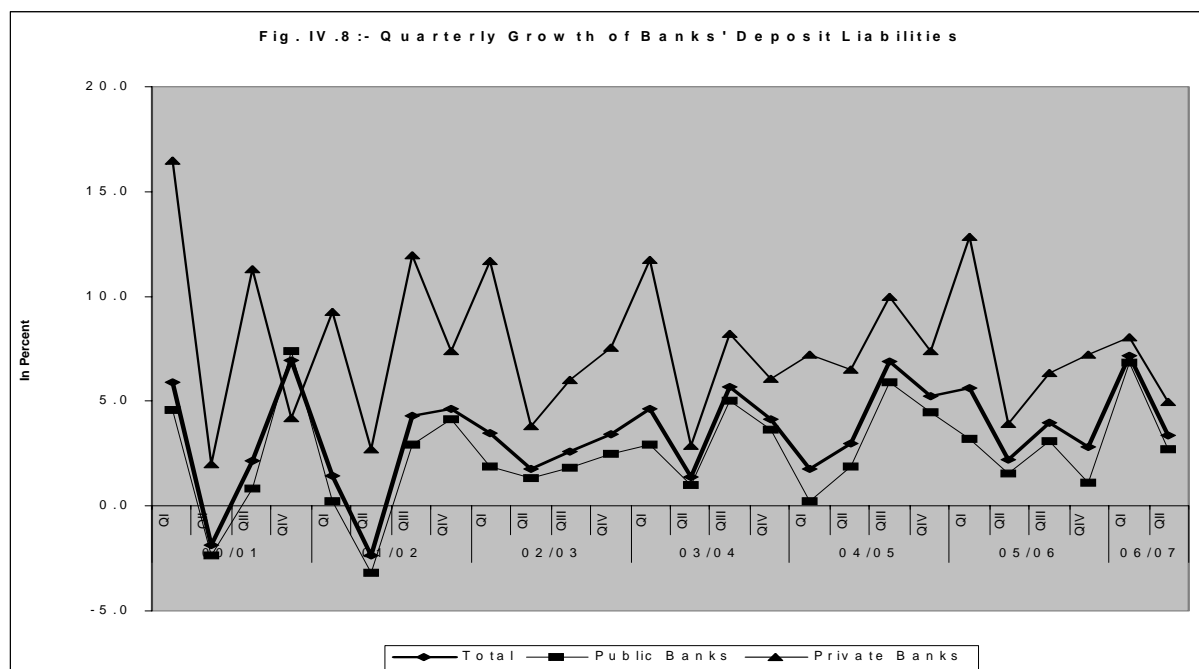
At the end of the second quarter of 2006/07, deposit liabilities of the banking system

reached Birr 49.3 billion, reflecting quarterly and annual growth rates of 3.4 and 18.5 percent, respectively.

**Table IV.9- Stock of Deposits Mobilized by the Banking System as at end of December, 2006
(In Millions of Birr)**

Types of Deposits	2005/06		2006/07				% Change	
	Quarter II A	% Share	Quarter I B	% Share	Quarter II C	% Share	% Change	
							C/A	C/B
Demand Deposit	20,006.5	48.1	23,224.6	48.7	24,454.1	49.6	22.2	5.3
Saving Deposit	19,125.7	46.0	21,532.8	45.2	21,681.1	44.0	13.4	0.7
Time Deposit	2,450.0	5.9	2,903.9	6.1	3,125.4	6.3	27.6	7.6
Total	41,582.2	100.0	47,661.3	100.0	49,260.6	100.0	18.5	3.4

Source:



All types of deposit contributed to the rise in total deposits. Demand deposits, which accounted for 49.6 percent of the total deposits, reached Birr 24.5 billion, showing quarterly and annual growth rates of 5.3 and 22.2 percent, respectively. Saving deposits, with 44.0 percent share from total deposits increased by 0.7 and 13.4 percent on quarterly and annual basis and reached Birr 21.7 billion. Similarly, time deposits, which constituted 6.3 percent of the total deposit

B) Collection of Loans

Loan collections by the banking system amounted to Birr 3.1 billion during the second quarter of 2006/07, 9.2 and 51.3

liabilities of the banking system, rose by 7.6 and 27.6 percent over the preceding quarter and the same quarter of last year.

The share of government owned banks from total deposits declined to 70.0 percent at the end of December 2006 from 72.5 percent last year while that of private commercial banks increased from 27.5 percent to 30.0 percent.

percent higher than the amount they collected during the preceding quarter and the same quarter last year, respectively.

Loan collection by private banks increased by 14.7 percent quarter-on-quarter basis while that of public banks rose by 3.9 percent. Of the total loan collection, Birr 1.6 billion (51.7 percent) was collected by

private banks and the balance by public banks. About 80.0 percent of the total loan collection was from the private sector.

C) Borrowing

Total outstanding borrowing of the banking system reached Birr 2.1 billion at the end of the second quarter of 2006/07, up by 15.7 percent compared with the same quarter last year. Domestic borrowing grew by 16.0 percent and foreign borrowing by 14.2

percent. Of the total borrowing, Birr 1.7 billion (82.3 percent) was domestic borrowing while the remaining Birr 365.2 million (17.7 percent) was borrowing from foreign sources.

Table IV. 10: Outstanding Borrowing of the Banking System by Sources at the End of December 2006

(In Million of Birr)

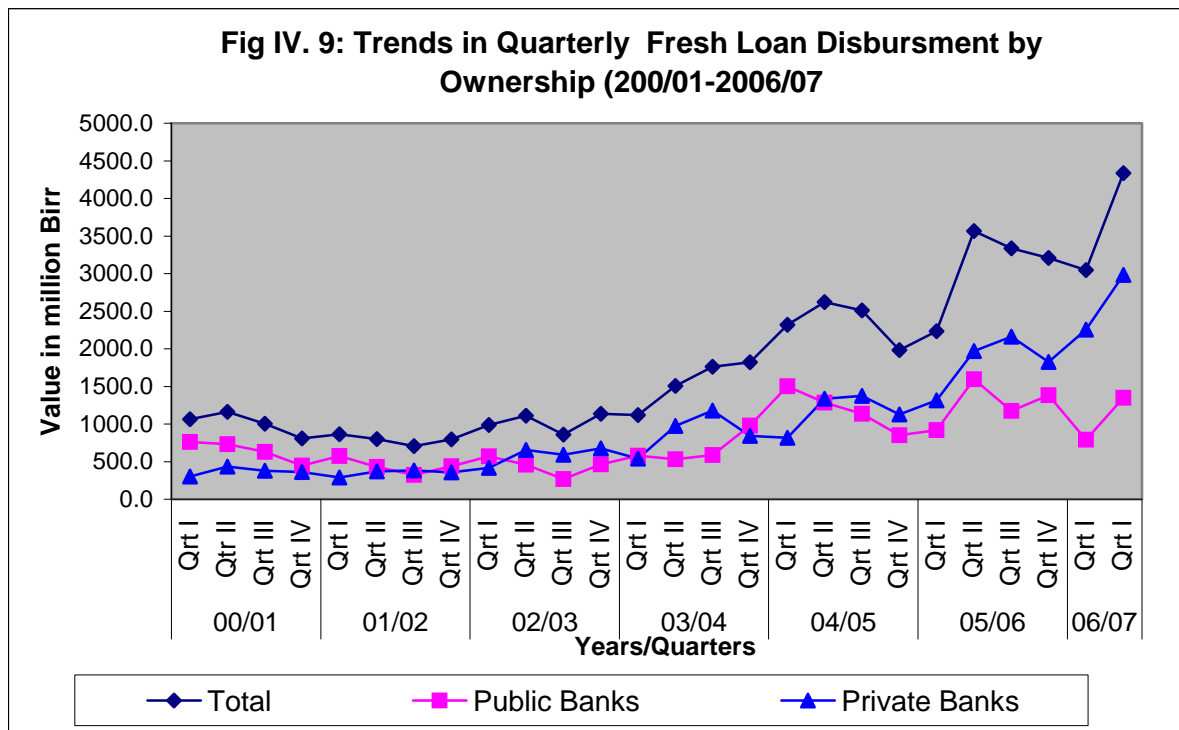
	2005/06	2006/07		Percentage Change	
	Qtr. I	Qtr. I	Qtr. II		
	A	B	C	C/B	C/A
Domestic Borrowing	1,466.3	1,686.3	1,701.3	0.9	16.0
Foreign Borrowing	319.9	362.2	365.2	0.8	14.2
Total	1,786.2	2,048.5	2,066.5	0.9	15.7

Source: Commercial Banks and Staff Computation

4.5.2 Disbursement of Fresh Loans

The amount of new loans disbursed by the banking system reached Birr 4.3 billion, depicting growth rates of 42.4 and 20.4 percent on quarterly and yearly basis, respectively. Both public and private banks boosted their loan disbursement with quarterly growths of 71.0 percent for public banks and 32.3 percent for private banks. Of the total new loans disbursed by the banking

system, 68.8 percent was disbursed by private commercial banks. About 28.0 percent of the new loans were taken up by domestic trade followed by international trade (26.5 percent), transport & communication (11.6 percent) and housing & construction (11.0 percent). Other major recipient sectors included agriculture (10.8 percent) and industry (7.9 percent).



4.5.3 Outstanding Credit

Total outstanding credit of the banking system (including credit to the government) reached Birr 41.8 billion at the end of December 2006, 2.3 and 30.4 percent higher than its levels at the end of September 2006 and December 2005, respectively. The share of the private sector from total outstanding credit grew from 58.6 percent at the end of the preceding quarter to 63.1 percent while that of the central government went down from 33.0 percent to 29.6 percent. Credit to

public enterprises accounted for 6.6 percent of the total outstanding loans.

As for the sectoral distribution of credits, credit to industry stood first (15.7 percent) followed by international trade (14.8 percent), domestic trade (9.8 percent) and housing & construction (8.9 percent). The share of agriculture from total bank credit was 8.5 percent while that of transport & communication stood at 5.1 percent.

Table IV.11: Summary of Loans and Advances by Banks and Receiving Sectors During October - December 2006

(In Millions of Birr)

Borrowing Sector	Public Banks			Private Banks			Total		
	(1)			(2)			(3)		
	Disbursed	Collected	O/S	Disbursed	Collected	O/S	Disbursed	Collected	O/S
Central Government			12,274.7	-	-	101.0	-	-	12,375.7
Agriculture	279.3	163.9	2,907.6	188.8	93.5	632.1	468.0	257.5	3,539.7
Industry	118.7	174.3	4,365.0	222.1	135.7	2,207.3	340.8	310.0	6,572.3
Domestic Trade	301.3	131.0	959.6	907.6	460.8	3,119.6	1,208.9	591.8	4,079.2
International Trade	241.1	276.6	2,535.0	906.1	603.0	3,648.9	1,147.2	879.6	6,183.8
Export	216.0	71.6	611.0	397.6	199.9	1,448.7	613.7	271.5	2,059.7
Imports	25.1	204.9	1,924.0	508.4	403.2	2,314.6	533.5	608.1	4,238.6
Hotels and Tourism	28.5	18.0	304.2	30.1	6.5	71.4	58.6	24.5	375.6
Transport & Communi.	198.5	44.9	570.6	302.8	129.7	1,569.3	501.3	174.6	2,139.9
Housing & Construction	127.4	111.0	1,699.5	349.5	117.7	2,030.8	476.9	228.8	3,730.3
Mines, Power & Water Res.	-	-	31.6	-	-	4.0	-	-	35.6
Others	33.1	552.2	2,084.0	56.2	38.3	233.0	89.2	590.5	2,317.1
Personal	22.6	15.0	66.1	17.4	11.0	44.9	40.0	26.0	111.0
Inter-Bank Lending	-	3.1	250.8	4.1	-	-	4.1	3.1	250.8
Total	1,350.4	1,490.0	28,048.7	2,984.7	1,596.3	13,776.7	4,335.1	3,086.3	41,825.4

Source: Commercial Banks and Staff Computation

Notes: *Refers to government bonds and treasury bills holdings

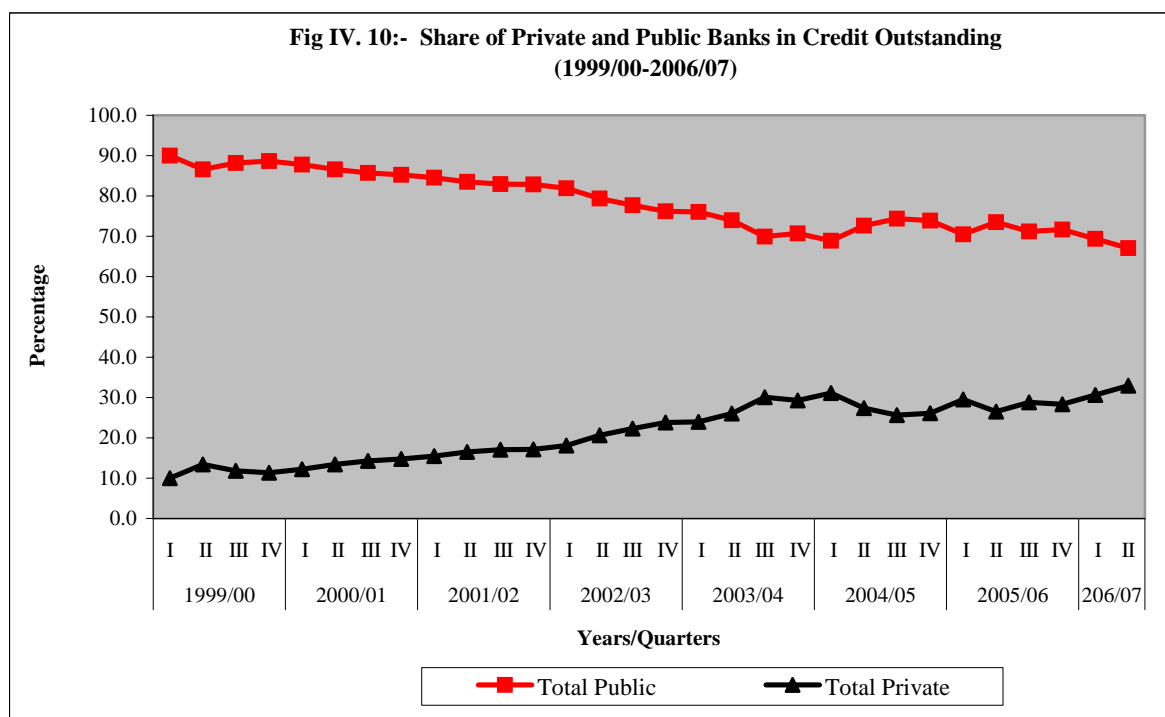
**Table IV.12:- Breakdown of Loans & Advances of the Banking System by Clients,
for the Second Quarter of 2006/07 ended on December, 31 2006**

(In Millions of Birr)

Particulars	Loan Disbursement	% Share	Loan Collection	% Share	Outstanding Loan	% Share
Public Banks	1,350.4	31.2	1,490.0	48.3	28,048.7	67.1
Central Government*	0.0	-	0.0	-	12,274.7	29.3
State Enterprise	188.0	4.3	627.2	20.3	2,768.0	6.6
Cooperatives	211.2	4.9	212.0	6.9	1,590.7	3.8
Private Enterprise	951.2	21.9	647.8	21.0	11,164.6	26.7
Inter-bank Lending	0.0	-	3.1	-	250.8	-
Private Banks	2,984.7	68.8	1,596.3	51.7	13,776.7	32.9
Central Government*	-	-	-	-	101.0	0.2
State Enterprise	0.0	-	0.0	-	19.3	0.0
Cooperatives	125.2	2.9	77.3	2.5	182.1	0.4
Private Enterprise	2,859.5	66.0	1,518.9	49.2	13,474.3	32.2
Inter-bank Lending	0.0	-	0.0	-	0.0	-
Grand Total	4,335.1	100.0	3,086.3	100.0	41,825.4	100.0

Source: Commercial Banks and Staff Computation

Notes: *Refers to government bonds and Treasury bills holdings



4.6 Financial Activities of the National Bank of Ethiopia

At the end of December 2006, total claims of NBE on the central government reached Birr 28.2 billion which was almost equal to the same period of last year but 3.1 percent higher than the claims at the end of the preceding quarter. The major means of government borrowing from NBE remained to be direct advances that amounted to Birr 18.2 billion (64.5 percent), showing quarterly and annual increases of 4.9 and 0.5 percent, respectively. On the other hand, NBE's holdings of government bonds slightly declined by 0.7 percent compared to a year earlier and reached to Birr 9,967.7

million. Meanwhile, deposits of the central government and financial institutions at the NBE scaled up to Birr 16.9 billion, 8.8 percent higher than the preceding quarter level but 16.6 percent lower than a year ago. Of the total deposits, 43.1 percent was deposit of the central government which increased by 12.1 and 28.1 percent on quarterly and annual basis, respectively. Deposits of financial institutions (banks and insurance companies) grew by 6.0 percent on quarterly basis but declined by 33.3 percent on annual basis.

Table IV.13: Financial Activities of the National Bank of Ethiopia During the Second Quarter of 2006/07

(In Millions of Birr)

Particulars	2005/06	2006/07		% Change	
	Qtr. II	Qtr. I	Qtr. II	C/A	C/B
	A	B	C		
1.Loans and Advances	28,151.1	27,323.7	28,165.7	0.1	3.1
1.1. To Central Government	28,151.1	27,323.7	28,165.7	0.1	3.1
Direct Advance	18,111.0	17,352.0	18,198.0	0.5	4.9
Bonds	10,040.1	9,971.7	9,967.7	-0.7	0.0
1.2.To Development Bank of Ethiopia	0.0	0.0	0.0	-	-
2.Deposit Liabilities	18,671.6	15,565.2	16,934.8	-16.6	8.8
2.1. Government	5,058.6	6,480.5	7,304.4	28.1	12.7
2.2. Financial Institutions	13,613.0	9,084.7	9,630.4	-33.3	6.0
O/W:					
-Banks	13,582.7	9,053.1	9,597.9	-33.3	6.0
-Insurance companies	30.3	31.6	32.5	4.3	2.8

Source: National Bank of Ethiopia

4.7. Developments in Financial Markets

a) Treasury Bills Market

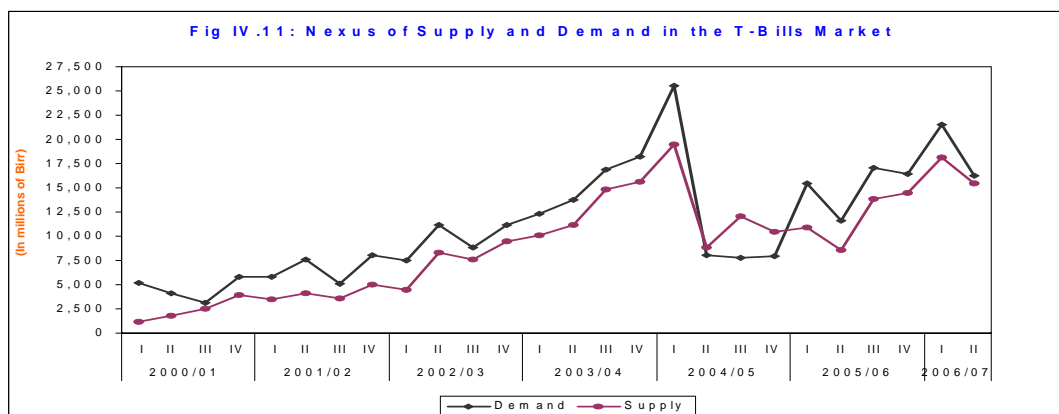
The amount of Treasury bills supplied to the fortnightly auction market in the second quarter of 2006/07 amounted to Birr 15.2 billion, lower by 15.1 percent compared to Birr 18.2 billion supplied during the preceding quarter. Compared to the same period of last year, however, it rose by 80.1 percent. Meanwhile, T-bills worth Birr 16.3 billion were demanded during the quarter, indicating a decline of 24.3 percent vis-a-vis the preceding

quarter. Thus, the amount of excess demand for T-bills which was Birr 3.4 billion during the first quarter of 2006/07 declined to Birr 876.0 million during the second quarter. Commercial banks continued to dominate the T-bills market purchasing about 93.2 percent of the bills sold owing to their excess reserve holdings.

Table IV. 14:- Results of Treasury Bills Auction

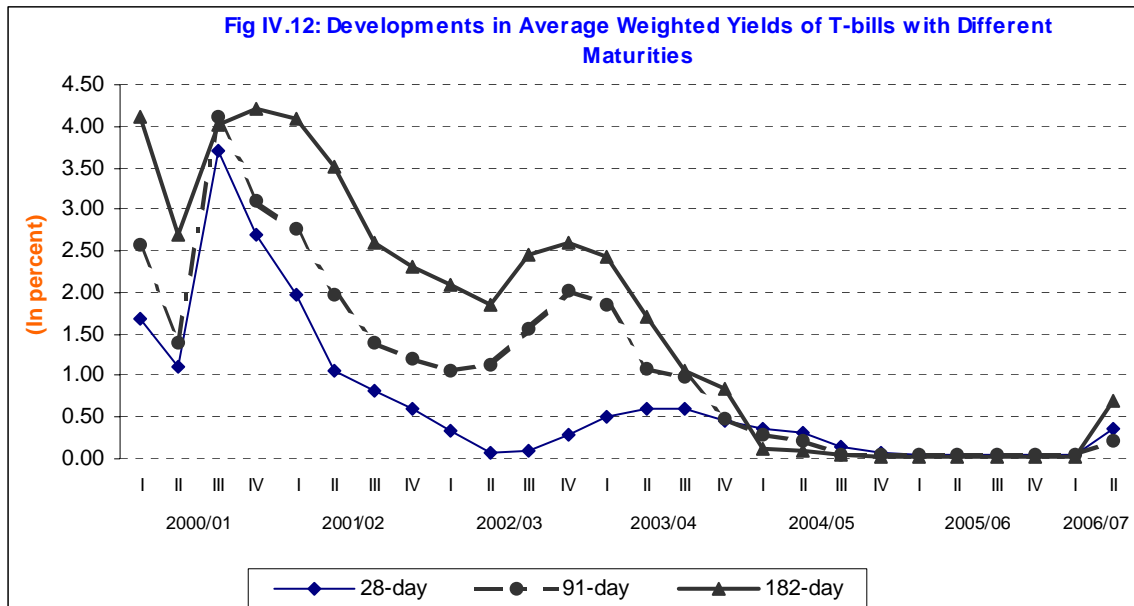
	2005/06	2006/07		Percentage Change	
	Qtr.II	Qtr.I	Qtr.II	C/B	C/A
	A	B	C		
Number of Bidders	45	35	33	-5.7	-26.7
Number of Bids Accepted	45	35	36	2.9	-20.0
Amount Demanded(Mn.Birr)	11,642.5	21,520.5	16,291.5	-24.3	39.9
28-day bill	7,676.5	10,173.5	8,686.5	-14.6	13.2
91-day bill	2,515.0	8,593.0	7,270.0	-15.4	189.1
182-day bill	1,451.0	2,754.0	335.0	-87.8	-76.9
Amount Supplied (Mn.Birr)	8,560.5	18,150.5	15,415.5	-15.1	80.1
28-day bill	5,314.5	8,829.5	7,859.5	-11.0	47.9
91-day bill	2,205.0	7,215.0	6,515.0	-9.7	195.5
182-day bill	1,041.0	2,106.0	1,041.0	-50.6	0.0
Amount Sold (Mn.Birr)	8,560.5	18,150.5	15,249.5	-16.0	78.1
Banks	8,015.5	16,891.2	14,219.5	-15.8	77.4
Non-Banks	545.0	1,259.3	1,030.0	-18.2	89.0
Average Weighted Price for Successful bids(Birr)					
28-day bill	99.997	99.997	99.972	0.0	0.0
91-day bill	99.989	99.989	99.948	0.0	0.0
182-day bill	99.988	99.988	99.658	-0.3	-0.3
Average Weighted Yield for Successful bids(%)					
28-day bill	0.039	0.043	0.369	758.9	844.5
91-day bill	0.044	0.045	0.207	357.7	370.3
182-day bill	0.024	0.024	0.693	2,757.4	2,781.8
Outstanding bills at the end of Period (Mn.Br.)	7,083.5	12,838.5	11,972.5	-6.7	69.0
Banks	5,778.5	11,353.6	10,294.5	-9.3	78.2
Non-Banks	1,305.0	1,484.9	1,678.0	13.0	28.6

Source: National Bank of Ethiopia



Yields on T-bills went up sharply during the quarter under review as a result of the slow down in demand for T-bills. The annual weighted yield for the 28-day bills, which was just 0.043 percent during the first quarter, went up to 0.369 percent. Similarly, the yield on the 91-days bill rose from 0.045 percent to 0.207 percent while that of the 182-days bills increased from 0.024 percent to 0.693 percent. Nevertheless, T-bills yield still remained well below the 3.0 percent minimum interest rate for saving deposits.

The stock of outstanding Treasury bills reached Birr 12.0 billion at the end of the second quarter of 2006/07, indicating a decline of 6.7 percent and an increase of 69.0 percent vis-à-vis the preceding quarter and the same quarter of last year, respectively. About 86.0 percent of the outstanding bills was held by commercial banks.



b) Inter- Bank Money Market

No inter-bank money market transaction was effected during the quarter under review as virtually all commercial banks have had excess reserves. Since the introduction of inter-bank money market, merely thirteen transactions

worth Birr 187.4 million were transacted 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.15:- Inter-bank Money Market Transaction

No.	Borrower	Lender	Amount Borrowed (In Mn.Br.)	Interest Rate Charged (%)	Transaction Date	Maturity Period
1	NIB Int'l 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 Int'l Bank	"	10.0	8	31/03/01	3 months
4	Wegagen Bank	"	10.0	8	22/03/01	1 year
5	NIB Int'l Bank	"	3.6	8	31/05/01	6 months
6	NIB Int'l Bank	"	3.7	8	31/06/01	6 months
7	NIB Int'l Bank	"	0.8	8	30/11/01	6 months
8	NIB Int'l Bank	Bank of Abyssinia	29.0	7	31/12/02	3.5 months
9	NIB Int'l Bank	"	19.0	7	31/01/03	3.5 months
10	NIB Int'l Bank	"	20.3	7	28/02/03	3.5 months
11	NIB Int'l Bank	"	29.0	7	31/03/03	3.5 months
12	Nib Int'l Bank	Commercial Bank of Eth.	25.0	7.5	07/07/03	5.2 month
13	Nib Int'l Bank	Bank of Abyssinia	20.0	7.5	26/03/05	Over draft
	Total/ Average		187.4	7.8		

Source: Commercial Banks