

IV. MONETARY DEVELOPMENTS

During the fourth quarter of 2006/07, inflation continued to be the major challenge for monetary policy, largely associated with structural factors. In order

to curb the inflationary pressure, NBE has continued to limit its lending to the central government and mop-up excess liquidity of commercial banks through sale of T-bills.

4.1. Money Supply and Credit

Broad money supply (M_2) reached Birr 56.7 billion at the end of the fourth quarter of 2006/07, depicting a quarterly and annual growth rate of 6.3 percent and 22.2 percent, respectively. This was driven by both domestic credit expansions and build-up in net foreign assets. On annual basis,

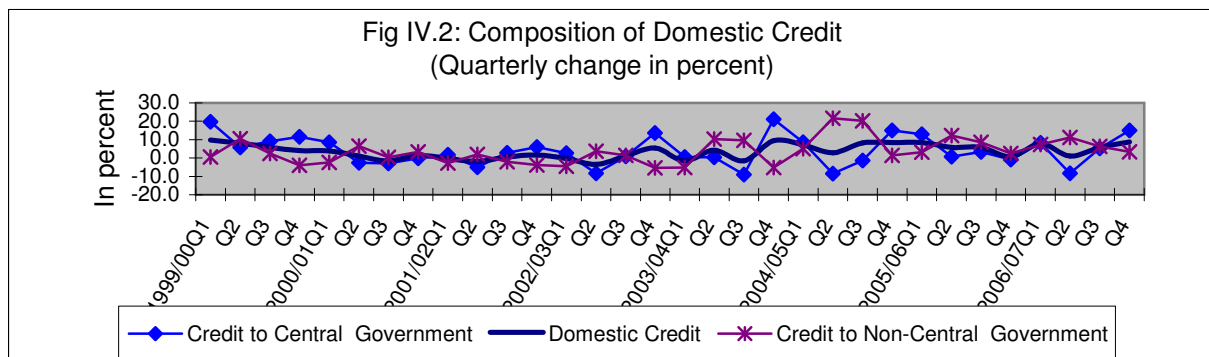
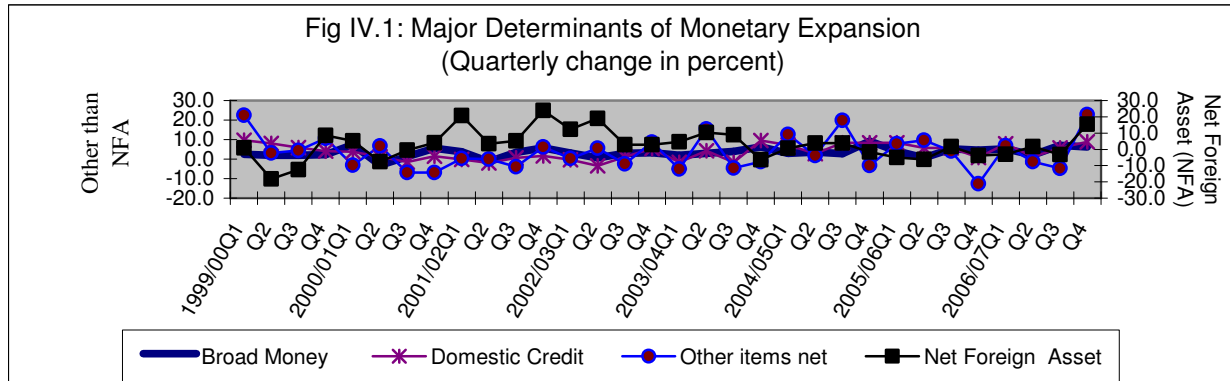
domestic credit expanded by 25.5 percent, mainly due to 31.1 percent increase in credit to the non-government sector, which was in line with the policy of the government to encourage private investment activities.

Table IV. 1: Factors Influencing Broad Money

(In Millions of Birr)

Particulars	2005/06	2006/07		Percentage Change	
	Qtr. IV	Qtr. III	Qtr. IV	C/A	C/B
	(June 06)	(Mar. 07)	(June 07)		
	A	B	C		
1. External Assets (net)	12,109.6	11,547.8	13,340.4	10.2	15.5
2. Domestic Credit	49,295.9	56,850.5	61,844.2	25.5	8.8
. Claims on Central Gov't (net)	25,266.4	26,363.7	30,337.6	20.1	15.1
. Claims on Non-Central Gov't	24,029.6	30,486.8	31,506.6	31.1	3.3
. Financial Institutions	0.0	0.0	0.0	0.0	0.0
. Others	24,029.6	30,486.8	31,506.6	31.1	3.3
3. Other Items (net)	15,028.1	15,090.5	18,532.7	23.3	22.8
4. Broad Money (M_2)	46,377.4	53,307.8	56,651.9	22.2	6.3

Source: National Bank of Ethiopia



On the liability side, the fourth quarter of 2006/07 witnessed increases in all component of broad money. Narrow money, that comprises of both currency in circulation and net demand deposits, grew by 24.4 percent. Quasi-money that includes both savings and time deposits also showed an annual growth rate 19.8 percent. Significant growth was registered in time

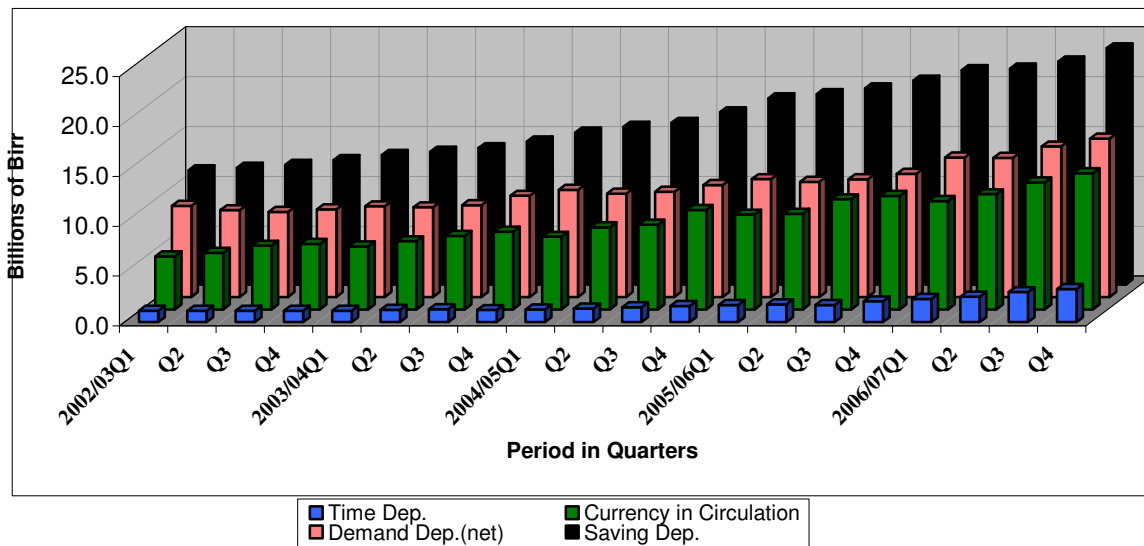
deposits (59.6 percent) followed by demand deposits (28.4 percent), presumably reflecting the higher interest rates paid by banks on time deposits as compared to saving deposits and the surge in transactions demand for money. Average time deposit rate was one percentage point higher than that of savings deposit by end 2006/07.

Table IV. 2:- Components of Broad Money

(In Millions of Birr)

Particulars	2005/06	2006/07		Percentage Change	
	Qtr. IV	Qtr. III	Qtr. IV	C/A	C/B
	(June 06)	(Mar. 07)	(June 06)		
	A	B	C		
1. Narrow Money Supply	23,811.9	27,909.5	29,617.7	24.4	6.1
. Currency outside banks	11,422.9	12,775.0	13,708.4	20.0	7.3
. Demand Deposits (net)	12,389.0	15,134.5	15,909.3	28.4	5.1
2. Quasi-Money	22,565.5	25,398.3	27,034.2	19.8	6.4
. Savings Deposits	20,485.5	22,389.8	23,715.2	15.8	5.9
. Time Deposits	2,080.0	3,008.5	3,319.0	59.6	10.3
3. Broad Money Supply	46,377.4	53,307.8	56,651.9	22.2	6.3

Source: National Bank of Ethiopia

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

4.2 Developments in Reserve Money and Monetary Ratio

Reserve money reached Birr 27.4 billion at the end of the fourth quarter of 2006/07,

expanding by 11.1 percent on quarterly basis and 29.4 percent annually. The expansion in

reserve money was largely related to increases in commercial banks' deposits at the NBE by 15.6% over the previous quarter and by 41.8% annually. Currency in

circulation also grew but at a relatively moderate rate of 7.7% and 20.8%, on quarterly and annual basis, respectively.

Table IV. 3:- Reserve Money and Ratios

(In millions of Birr unless otherwise indicated)

Particulars	2005/06	2006/07		Percentage Change	
	Qtr. IV	Qtr. III	Qtr. IV		
	(June 06)	(Mar. 07)	(June 07)	C/A	C/B
	A	B	C		
1. Reserve Requirement (CB's)	2,120.9	2,498.1	2,592.5	22.2	3.8
2. Actual Reserve (CB's)	8,452.1	10,171.5	11,734.0	38.8	15.4
3. Excess Reserve (CB's)	6,331.2	7,673.4	9,141.5	44.4	19.1
4. Reserve Money	21,181.9	24,667.7	27,402.1	29.4	11.1
. <i>Currency in Circulation</i>	12,560.2	14,092.1	15,175.2	20.8	7.7
. <i>Banks deposits at NBE</i>	8,621.7	10,575.7	12,226.9	41.8	15.6
5. Money Multiplier (Ratio):					
. <i>Narrow Money to Reserve Money</i>	1.12	1.13	1.08	-3.9	-4.5
. <i>Broad Money to Reserve Money</i>	2.19	2.16	2.07	-5.6	-4.3
6. Other Monetary Ratios (%):					
. <i>Currency to Narrow Money</i>	52.7	50.5	51.0	-2.9	1.5
. <i>Currency to Broad Money</i>	27.1	26.4	26.7	-1.1	1.3
. <i>Narrow Money to Broad Money</i>	51.3	52.4	52.4	1.8	-0.1
. <i>Quasi Money to Broad Money</i>	48.7	47.6	47.6	-1.9	0.2

Source: National Bank of Ethiopia

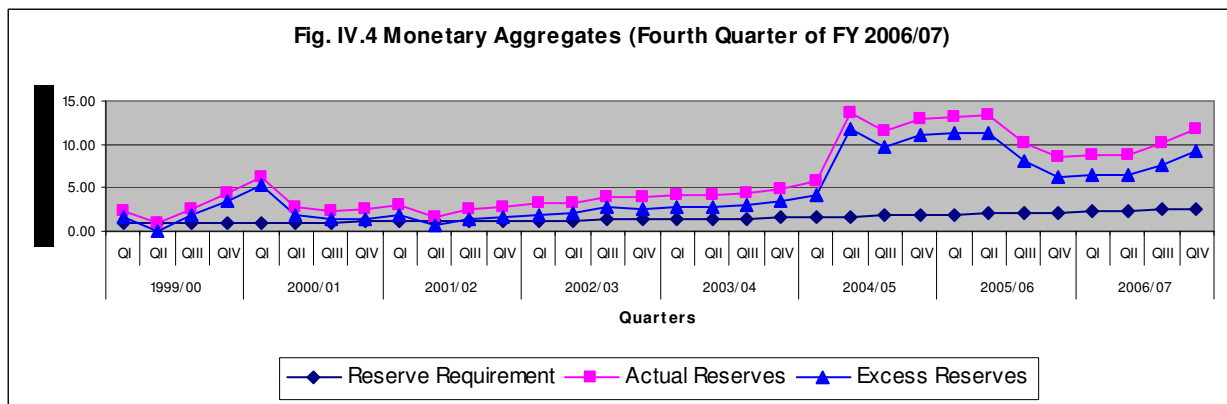
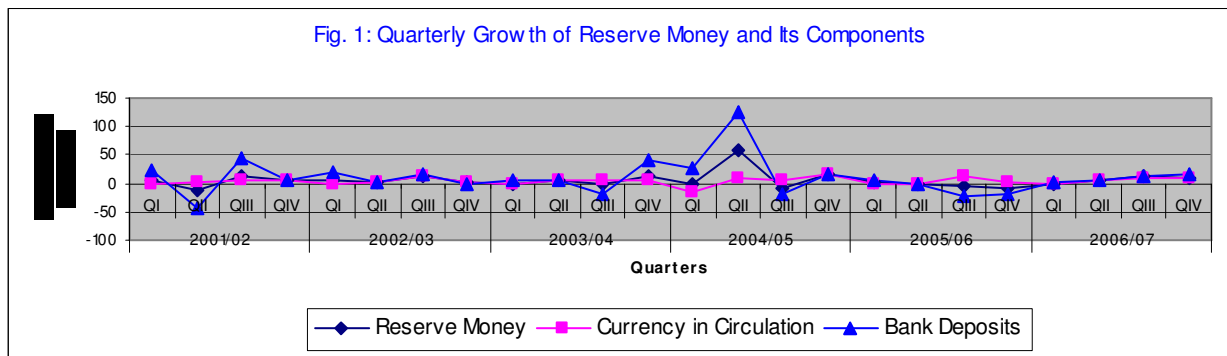
Excess reserve of commercial banks stood at Birr 9.1 billion at the end of the review quarter, up by 19.1 and 44.4 percent vis-à-vis the preceding quarter and the same period of last year mainly due to higher collection of loans (over 40 percent

increase) and decline in Treasury bills outstandings of commercial banks.

During the review quarter, the composition of broad money remained stable except marginal change compared with the same

period of last year. Accordingly, ratio of narrow money to broad money rose from 51.3 percent in the same period of last year to 52.4 percent in the review quarter. Mirroring this development, the ratio of quasi-money to broad money declined to 47.6 percent from 48.7 percent last year. Reflecting the surge in excess reserves of

commercial banks and currency in circulation, money multiplier tended to decline in the review quarter. Narrow money multiplier declined to 1.08 from 1.13 in the previous quarter. Similarly, broad money multiplier slowed down to 2.07 from 2.16 in the previous month.



4.3 Interest Rate Developments

The review quarter witnessed no significant changes in the interest rate structure of commercial banks. Average savings deposit rate remained at 3.08 percent which was close to the minimum deposit rate of 3.0 percent. Meanwhile, weighted demand deposit rate and weighted time deposit rate slightly increased from 0.05 and 4.05 percent in the preceding quarter to 0.06 percent and 4.08 percent in the review quarter, respectively. Average lending rate of

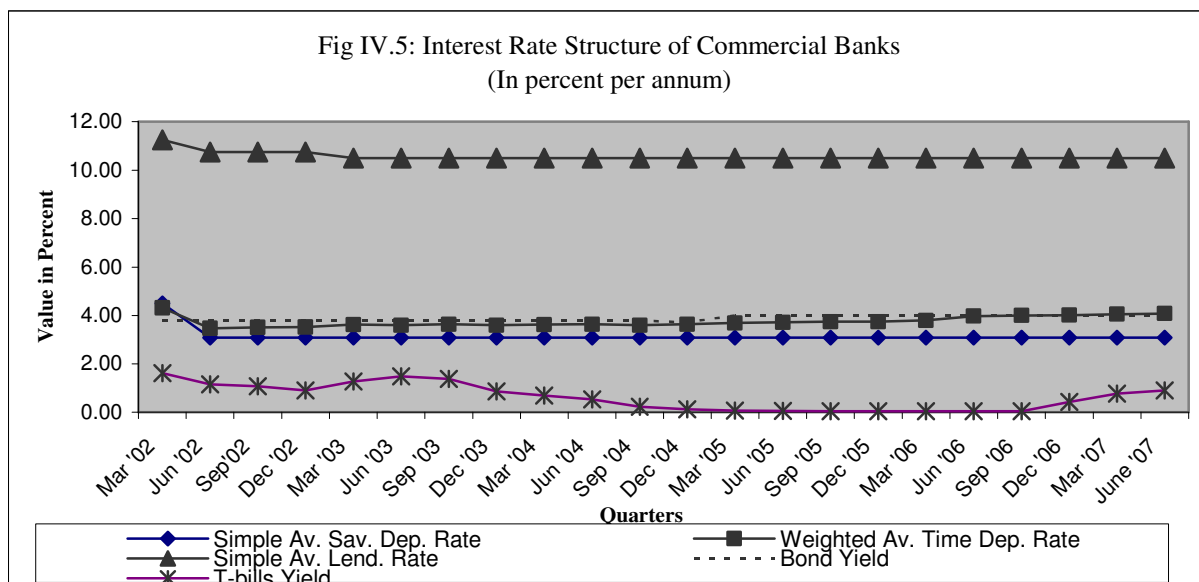
commercial banks also remained unchanged at 10.5 percent, as the maximum and minimum lending rates stood at 14 and 7 percent, respectively.

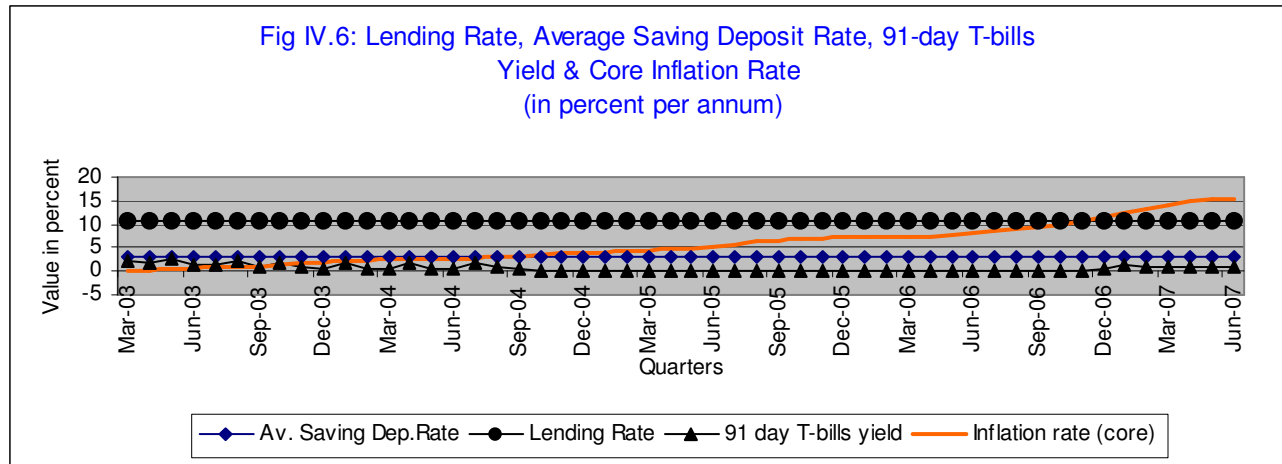
Compared with annual core (non-food) inflation of 15.2 percent at the end of the review quarter, all interest rates, including weighted average yields on T-bills, government bond yields and average real cost of borrowing (real lending rate) remained negative in real terms.

Table IV.4: - Interest Rate Structure of Commercial Banks

(Percent per annum)

Particulars	2005			2006				2007	
	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June
1. Savings Deposit Rate									
• Minimum	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
Average Savings Rate	3.08	3.08	3.08	3.08	3.08	3.08	3.08	3.08	3.08
2. Time Deposit Rate									
• Up to 1 year	3.47	3.49	3.49	3.52	3.60	3.58	3.59	3.63	3.64
• 1 - 2 years	3.71	3.74	3.74	3.79	4.01	4.01	4.02	4.07	4.11
• Over 2 years	3.94	3.99	3.99	4.06	4.30	4.40	4.42	4.44	4.49
Average Time Dep. Rate	3.71	3.74	3.74	3.79	3.97	4.00	4.01	4.05	4.08
3. Demand Deposit Rate (Weighted)	0.05	0.06	0.05	0.06	0.06	0.06	0.06	0.05	0.06
4. Lending Rate									
• Minimum	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
Average Lending Rate	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
5. T-bills Rate (Weighted Ave.)	0.05	0.04	0.04	0.04	0.04	0.04	0.42	0.89	0.88
6. Bond Yield (Simple Average)*	4.00	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

The financial sector in Ethiopia mainly consists of the banking system, insurance companies and micro finance institutions. There are eleven banks operating in the country of which eight are private commercial banks. A total of seventeen additional bank branches have been opened during the fourth quarter of 2006/07, raising the total number of bank branches throughout the country to 487. Consequently, the ratio of bank branches to total population reached 158,372 which still shows that Ethiopia is one of the under banked countries in Sub-Saharan Africa. The

distribution of bank branches indicate that 38 percent are located in Addis Ababa, the capital city. Out of the total number of bank branches, the share of private banks was 47.6 percent compared to 43.9 percent a year earlier.

At the end of the fourth quarter of 2006/07, the total capital of the banking system reached Birr 9.3 billion, indicating a quarterly growth of 30.2 percent. The share of private banks went down to 31.5 percent compared with 35.2 percent a year ago, largely reflecting the substantial rise in the

paid-up capital of the Commercial Bank of Ethiopia.

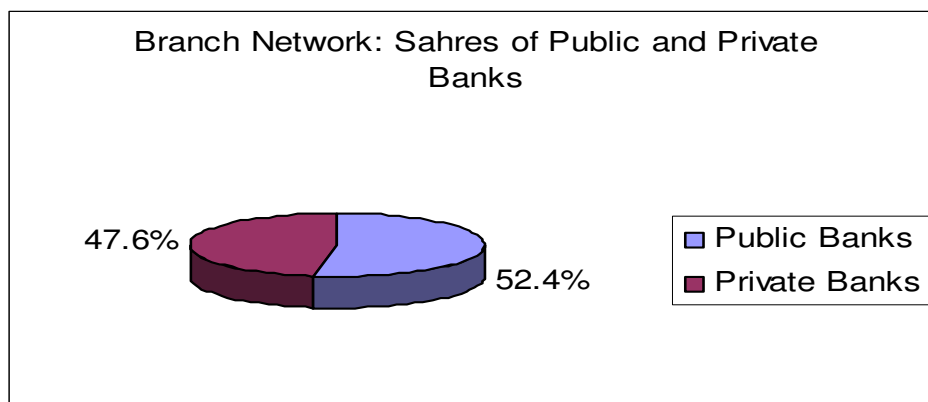
In the meantime, the number of insurance companies remained at the previous quarter level of nine while the number of their branches increased by 3 to 146 by the end of the fourth quarter of 2006/07. This means that in Ethiopia one insurance branch serves over 520,000 people. Of the total, 48.6 percent of the insurance branches were located in Addis Ababa. Private insurance companies accounted for 75.3 percent of the total branches.

The total capital of the insurance industry grew by 3.5 percent over the previous year to Birr 522 million. The share of private insurance companies in total capital remained at 59.4 percent in the review period, almost similar to their share a year ago.

With the establishment of a new MFI, Lefayeda and Saving Institution, the number of MFIs in the country reached 28 out of which 11 (or 39.3 percent) were located in Addis Ababa. MFIs mobilized a total deposits of Birr 1.04 billion, which was 12.9 percent higher than the amount mobilized in the previous quarter. Similarly, the outstanding loans of the MFIs grew by 17.3 percent on quarterly basis and reached Birr 2.74 billion at the end of the fourth quarter. The number of clients served by these institutions reached 1.6 million. Their total assets also reached Birr 3.48 billion by the end of the same period. MFIs are increasingly playing a role in contributing to poverty reduction by providing loans to and mobilizing savings from the low income groups. Four MFIs alone accounted for 81.4 percent of the total capital, 86.1 percent of savings, 84.1 percent of credit, and 83.6 percent of total assets of the MFIs.

Table IV. 5: - Capital and Branch Network of the Banking System at the End of June 30, 2007
(Branch in Number and Capital in Million Birr)

Banks	Branch Network							Capital	
	2006/07							2006/07	
	Quarter III			Quarter IV				Quarter III	Quarter IV
	Regions	Total	% Share	Regions	Addis Ababa	Total	% Share		
1. Public Banks									
Commercial Bank of Ethiopia	143	190	40.4	147	49	196	40.2	2,504.4	4,220.0
Construction & Business Bank	15	27	5.7	26	1	27	5.5	264.0	257.0
Development Bank of Ethiopia	31	32	6.8	20	12	32	6.6	1,880.1	1,865.0
Total Public Banks	189	249	53.0	193	62	255	52.4	4,648.5	6,342.0
2. Private Banks									
Awash International Bank	17	41	8.7	19	24	43	8.8	390.1	434.0
Dashen Bank	19	41	8.7	19	23	42	8.6	538.0	612.0
Abyssinia Bank	12	28	6.0	12	16	28	5.7	391.1	419.0
Wegagen Bank	22	37	7.9	22	17	39	8.0	371.7	401.0
United Bank	8	25	5.3	9	18	27	5.5	276.5	359.0
Nib International Bank	6	22	4.7	7	18	25	5.1	365.0	426.0
Cooperative bank of Oromiya	14	16	3.4	14	2	16	3.3	129.0	131.0
Lion International Bank	6	11	2.3	7	5	12	2.5	115.9	134.0
Total Private Banks	104	221	47.0	109	123	232	47.6	2,461.35	2,916.00
3. Grand Total Banks	293	470	100	302	185	487	100.0	7,109.83	9,258.00



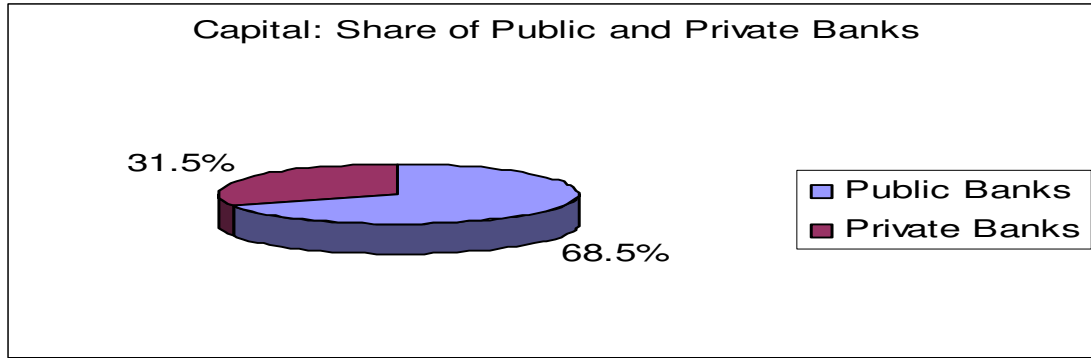
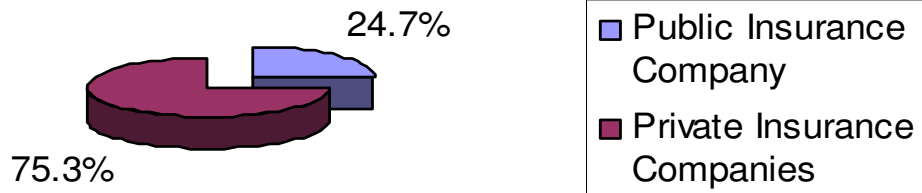


Table IV.6: - Branch Network & Capital of Insurance Companies as at June 30, 2007
(Branch in number and Capital in Million Birr)

No.	Insurance Companies	Branch				Capital	
		Quarter III 2006/07	Quarter IV 2006/07			Quarter III 2006/07	Quarter IV 2006/07
			Total	A.A	Regions		
1	Ethiopian Ins. Cor.	35	11	25	36	204.5	211.7
2	Awash Ins.Com.S.C.	17	11	7	18	43.9	46.3
3	Africa Ins.Com S.C.	9	2	7	9	40.3	48.6
4	National Ins. Co. of Eth.	12	7	5	12	11	14.8
5	United Ins.Com. S.C	18	12	6	18	44.3	45.2
6	Global Ins. Com.S.C	6	3	3	6	17.8	18.9
7	Nile Ins.Com.S.C	18	9	9	18	56.7	60.2
8	Nyala Ins.Com.S.C	15	7	8	15	53.2	46.9
9	Nib Ins. Com.S.C	13	9	5	14	32.7	29.4
TOTAL		143	71	75	146	504.4	522

Branch Network: Share of Public and Private Insurance Companies



Capital: Share of Public and Private Insurance Companies

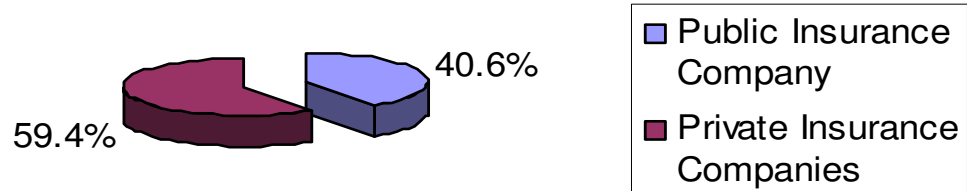


Table IV.7: - Capital, Saving and Credit of Micro Finance Institutions as of June 30, 2007

(In Thousands of Birr)

No.	Micro-Financing Institutions	Regions	Total Capital	Saving	Credit	Total Assets
1	Amhara Credit & Saving Ins.	Amhara	268,251.0	447,649.0	874,160.0	1,044,256.0
2	Dedebit Credit & Saving Ins.	Tigray	234,840.2	261,329.6	853,259.6	1,134,615.3
3	Oromia Credit & Saving S.C	Oromia	135,878.7	135,087.8	407,271.3	495,427.0
4	Omo Credit & Saving Ins.	SNNP	21,255.0	62,768.8	135,418.5	178,958.6
5	Specialized Finan. & Pro.Ins.	A.A	11,988.3	10,691.0	24,602.8	30,322.9
6	Gasha Micro-fin. Ins.	A.A	4,557.9	5,128.2	13,448.2	18,645.0
7	Wisdom Micro-financing Ins.	A.A	22,732.6	14,374.0	57,194.0	69,277.6
8	Sidama Micro-finance Ins.	SNNP	11,865.9	7,096.8	20,781.4	29,922.7
9	Aser Micro-financing Ins.	A.A	366.2	245.2	311.4	651.5
10	Africa Village Financial Service	A.A	7,207.1	2,458.0	7,924.4	11,922.5
11	Bussa Gonofaa Micro-fin. Ins.	Oromia	10,374.5	3,379.0	18,474.0	24,446.2
12	Peace Micro-finance Ins.	A.A	9,382.8	7,091.2	30,024.8	32,002.2
13	Meket Micro-financing Ins.	Amhara	2,069.3	507.8	2,165.1	2,935.6
14	Addis Credit & Saving Ins.	A.A	158,183.0	51,529.0	166,037.0	238,188.0
15	Meklit Micro-financing Ins.	A.A	4,743.6	4,948.0	14,181.9	16,219.4
16	Eshet Micro-financing Ins.	Oromia	11,447.0	3,554.5	33,004.6	36,662.5
17	Wasasa Micro-financing Ins.	Oromia	9,956.6	6,487.7	29,809.8	32,603.1
18	Benishangul-Gumz MFI	Benishangul	18,015.9	7,687.8	25,004.4	32,778.8
19	Shashemene Idir Yelmat Agar MFI	Oromia	2,939.7	819.1	2,581.1	3,784.5
20	Metemamen MFI	A.A	6,004.0	820.1	4,984.7	6,847.1
21	Dire MFI	Dire Dawa	16,199.5	1,457.9	4,295.7	23,801.4
22	Agar MFI	A.A	3,097.2	1,720.3	3,807.1	5,659.9
23	Harbu MFI	Oromia	1,200.0	1,612.0	3,849.0	4,383.7
24	Ghion MFI	Amhara	242.9	310.6	348.1	555.3
25	Leta MFI	Oromia	754.1	57.50	464.2	815.1
26	Digaf MFI	A.A	218.8	778.5	583.4	1,078.1
27	Harar MFI	Harari	5,493.2	372.2	1,673.9	5,897.0
28	Lefayeda and Saving Institution*	"Ethiopia"	N.A	N.A	N.A	N.A
	Total		979,265.0	1,039,961.6	2,735,660.4	3,482,657.0

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

4.5 Activities of the Banking System

4.5.1. Resource Mobilization

During the fourth quarter of 2006/07, resources mobilized by the banking system, which consist of deposits, collection of loans and borrowings, reached Birr 6.9 billion, 34.2 percent higher than the amount mobilized during the preceding quarter and 54.7 percent over the same quarter of last year. About 64

percent rise in collection of loans and Birr 340.2 million increase in net borrowings were the factors behind the quarterly growth in resource mobilization, offsetting the 12.4 percent reduction in net deposits. Year-on-year basis, resources mobilized by the banking system surged by 54.8 percent.

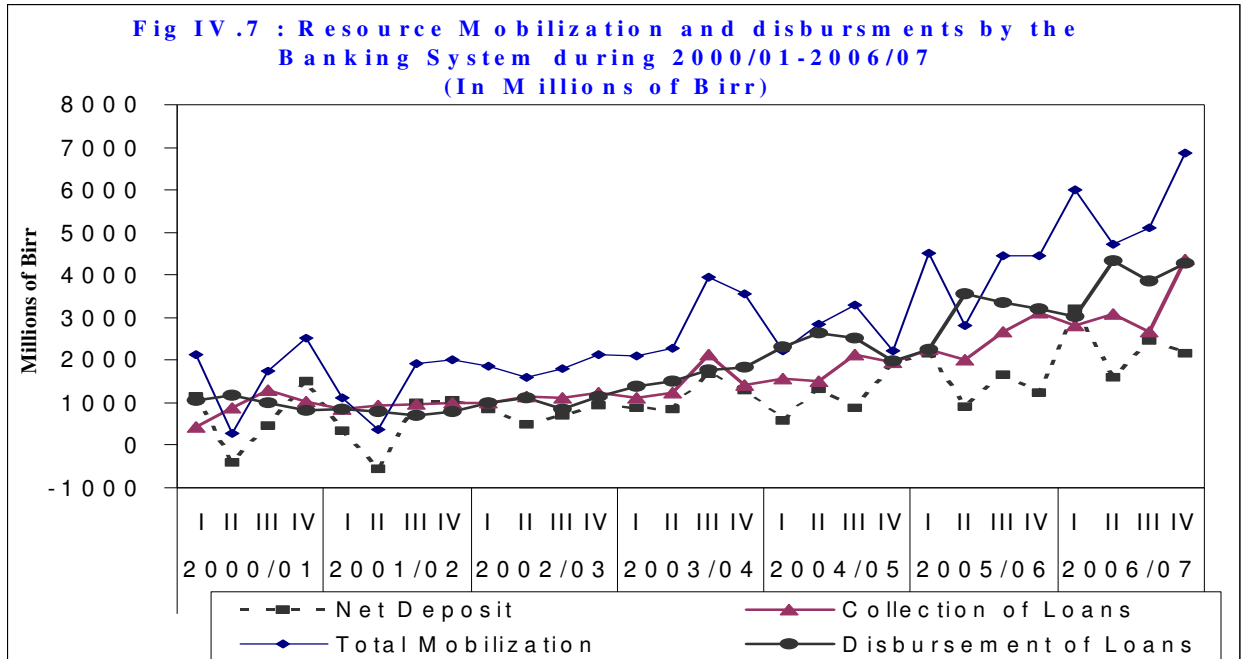
Table IV.8: - Summary of Resource Mobilization & Disbursement of the Banking System During the Fourth Quarter of 2006/07 ended on June 30, 2007

(In Million Birr)

Particulars	Public Banks		Private Banks		Grand Total				
	(1)		(2)		(3) = (1) + (2)				
	Qtr.III 2006/07	Qtr.IV 2006/07	Qtr.III 2006/07	Qtr.IV 2006/07	Qtr.IV 2005/06	Qtr.III 2006/07	Qtr.IV 2006/07	% Change	
					A	B	C	C/A	C/B
1. Deposits (net change)	1,258.70	758.2	1,195.9	1,391.9	1,224.8	2,454.6	2,150.0	75.5	-12.4
-Demand	972.0	104.3	310.1	427.1	111.2	1,282.1	531.4	377.7	-58.6
-Saving	250.5	703.0	461.6	622.7	796.7	712.0	1,325.7	66.4	86.2
-Time	36.2	-49.1	424.3	342.0	316.9	460.5	292.9	-7.6	-36.4
2. Borrowing (net change)	-23.1	380.2	10.3	-40.0	85.9	-12.8	340.2	295.9	-2766.6
-Local	-21.0	307.8	10.3	-40.0	93.6	-10.7	267.8	186.0	-2602.4
-Foreign	-2.1	72.4	0.0	0.0	-7.7	-2.1	72.4	-1041.5	-3621.4
3. Collection of Loans	1,396.8	2,361.2	1,272.6	2,013.2	3,124.8	2,669.4	4,374.3	40.0	63.9
4. Total Resources Mobilized (1+2+3)	2,632.4	3,499.5	2,478.8	3,365.0	4,435.5	5,111.2	6,864.5	54.8	34.3
5. Disbursement	1,821.2	2,345.1	2,037.5	1,972.6	3,208.6	3,858.7	4,317.7	34.6	11.9
6. Change in Liquidity (4-5)	811.2	1,154.4	441.3	1,392.4	1,226.9	1,252.5	2,546.8	107.6	103.3
Memorandum Item:									
A. Outstanding Credit*	28,199.2	29,792.2	14,443.6	14,525.3	40,453.3	42,642.8	44,317.5	9.6	3.9
B. Outstanding Interbank Lending	228.5	225.7	30.0	0.0	274.9	258.5	225.7	-17.9	-12.7

Source: Commercial bank and staff computation

NB: * Excludes corporate bonds amounted to Birr 7,971 million



A) Deposit Mobilization

The total deposit liabilities of the banking system reached Birr 53.9 billion at the end

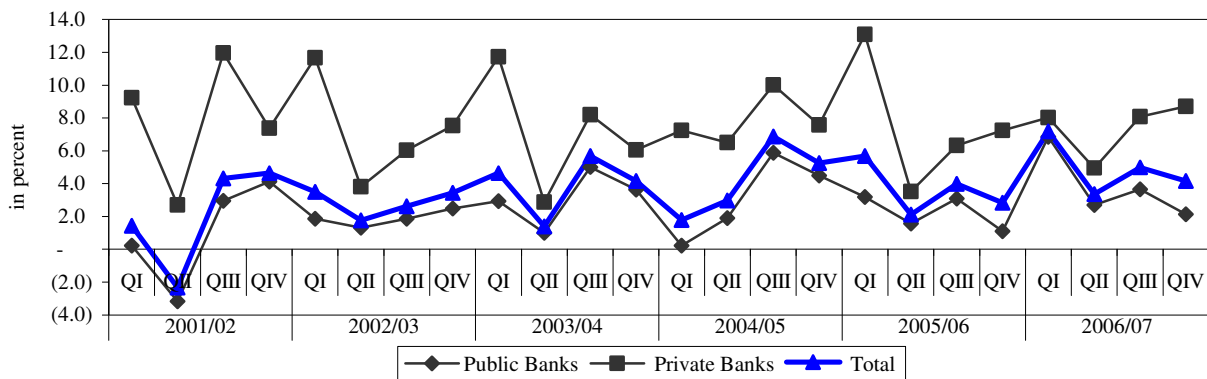
of the fourth quarter of 2006/07, indicating a quarterly and annual growth rates of 4.2 and 21.2 percent, respectively.

Table IV.9- Stock of Deposits Mobilized by the Banking System as at end of June 2007

(In Millions of Birr)

Types of Deposits	2005/06		2006/07				% Change	
	Quarter IV	% Share	Quarter III	% Share	Quarter IV	% Share	C/A	C/B
	A		B		C			
Demand Deposit	21,264.0	47.8	25,736.2	49.8	26,267.6	48.8	23.5	2.1
Saving Deposit	20,488.2	46.1	22,393.1	43.3	23,718.8	44.0	15.8	5.9
Time Deposit	2,706.8	6.1	3,585.9	6.9	3,878.9	7.2	43.3	8.2
Total	44,458.9	100.0	51,715.2	100.0	53,865.2	100.0	21.2	4.2

Fig. IV.8:-Quarterly Movement of Banks' Deposit Liabilities by Ownership



All types of deposits contributed to the rise in total deposits. Demand deposits, which accounted for 48.8 percent of the total deposits, reached Birr 26.3 billion, showing quarterly and annual growth rates of 2.1 and 23.5 percent, respectively. Saving deposits, with 44.0 percent share in total deposits increased by 5.9 and 15.8 percent on quarterly and annual basis to Birr 23.7 billion. Similarly, time deposits, which constituted 7.2 percent of the total deposit liabilities of the banking system, increased

by 8.2 and 43.3 percent during the same period. The surge in all types of deposit presumably reflect improvements in the income level of the population and the increased financial intermediation.

The share of government owned banks in total deposits declined to 67.7 percent at the end of June 2007 from 70.6 percent last year, while the share of private commercial banks increased from 29.4 percent to 32.3 percent

B) Collection of Loans

Collection of loans by the banking system amounted to Birr 4.4 billion during the fourth

quarter of 2006/07, up by 63.7 and 39.9 percent vis-à-vis the preceding quarter and

same quarter of last year, respectively. The upward trend in loan collection largely reflects increasing repayment and collection efforts on the part of creditors and debtors as the economy showed steady growth. On quarterly basis, loan collection of both private and public banks increased by 58.0 and 69.0 percent, respectively. Of the total

loan collection, private banks collected Birr 2.0 billion (46 percent) while public banks collected the remaining balance. About 74 percent of the total loan collection was from the private sector, followed by cooperatives (22.3 percent).

C) Borrowing

Total outstanding borrowing of the banking system reached Birr 2.4 billion at the end of the fourth quarter of 2006/07, registering a quarterly and annual growth rates of 19.0 and 19.4 percent, respectively. On quarterly basis, both domestic and foreign borrowings increased by 18.8 percent and 20.0 percent,

respectively while the corresponding annual growth rates were 17.7 and 28.0 percent. Of the total borrowing, Birr 2.0 billion (82.2 percent) was domestic borrowing while the remaining Birr 434.3 million (17.8 percent) was from foreign sources.

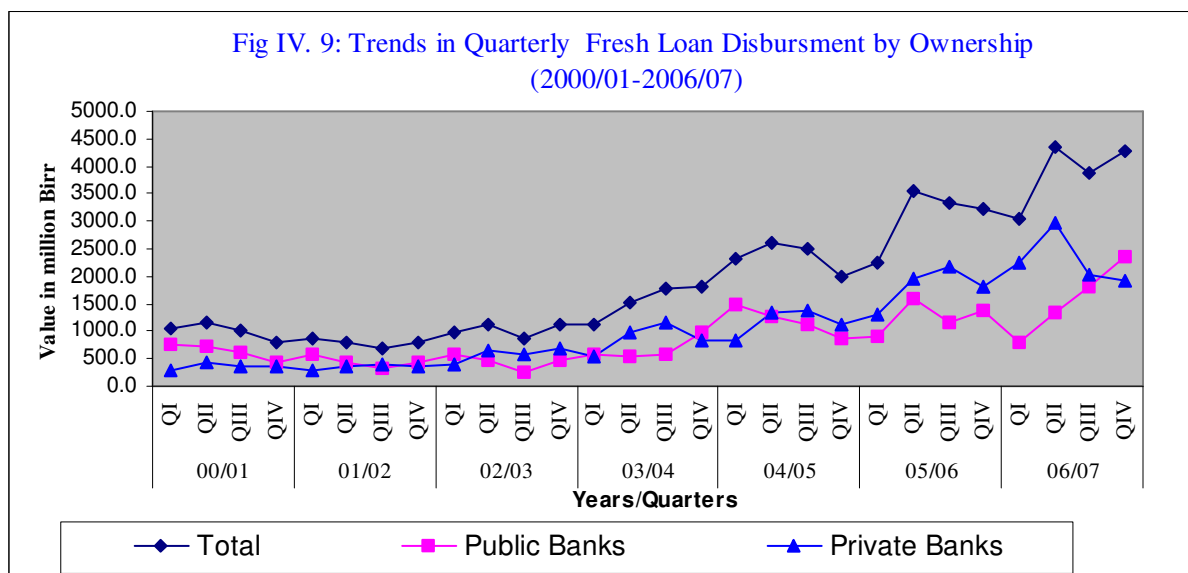
Table IV-10: - Outstanding Borrowing of the Banking System by Sources at the End of June 2007
(In Millions of Birr)

Banks	2005/06	2006/07		Percentage change	
	Quarter IV	Quarter III	Quarter IV	C/B	C/A
	A	B	C		
Domestic Borrowing	1,707.9	1,691.8	2009.6	18.8	17.7
Foreign Borrowing	339.3	361.9	434.3	20.0	28.0
Total	2,047.3	2,053.7	2,443.9	19.0	19.4

4.5.2 Disbursement of Fresh Loans

During the fourth quarter of 2006/07, total disbursement of fresh loans by the banking system amounted to Birr 4.3 billion, registering respective quarterly and annual growth rates of 10.6 and 33.0 percent. Compared with the same quarter of last year, loan disbursements by both public and private banks increased by 69.8 and 5.2 percent, respectively. Meanwhile, on quarterly basis, loan disbursements by public banks increased by 28.8 percent while that of private banks declined by 5.6 percent. Of the total new loans

disbursed by the banking system, 45.1 percent was disbursed by private commercial banks. With regard to the beneficiaries of new loans, about 28.2 percent went to agriculture followed by international trade (27.4 percent), domestic trade (12.2 percent), industry (9.0 percent) and housing & construction (8.5 percent). Another major beneficiary was transport and communication sector, which received about 7.8 percent of the total fresh loan.



4.5.3 Outstanding Credit

Total outstanding credit of the banking system (including credit to the government) reached Birr 44.3 billion at the end of June 2007, which was 3.8 and 11.6 percent higher than that of the preceding quarter and the same period of last year, respectively. Of the total outstanding credit, credit to the private sector accounted for 62.2 percent, followed by credit to central

government (29.9 percent) and credit to public enterprises (7.4 percent).

As sectoral distribution, credit to trade, both international and domestic, stood first at 23.1 percent followed by industry (15.8 percent), agriculture (9.5 percent) and housing & construction (8.6 percent) and transport and communication (5.4 percent).

Table IV.11: - Summary of Loans and Advances by Banks and Receiving Sectors During April - June 2007

(In Millions of Birr)

Borrowing Sector	Public Banks			Private Banks			Total		
	(1)			(2)			(3)		
	D**	C**	O/S**	D**	C**	O/S**	D**	C**	O/S**
Central Government*			13,014.7			200.2			13,214.9
Agriculture	1,077.1	625.3	3,578.3	127.4	142.2	640.1	1,204.5	767.6	4,218.4
Industry	165.2	361.1	4,518.0	220.5	173.6	2,478.5	385.7	534.7	6,996.5
Domestic Trade	129.8	280.4	778.4	390.1	481.6	3,003.3	519.9	762.0	3,781.7
International Trade	444.8	684.8	2,551.3	715.0	823.4	3,846.7	1,159.8	1,508.2	6,472.0
Export	164.6	386.5	754.2	350.6	465.8	1,569.7	515.1	852.4	2,323.9
Imports	280.2	298.2	1,797.1	375.4	357.6	2,350.9	655.6	655.8	4,148.0
Hotels and Tourism	31.6	23.8	546.3	3.7	6.7	129.3	35.2	30.5	675.5
Transport & Communication	169.5	59.4	696.4	163.1	186.0	1,673.3	332.7	245.4	2,369.7
Housing & Construction	165.3	228.0	1,682.4	197.7	134.7	2,100.9	363.0	362.7	3,783.4
Mines, Power & Water Res.	-	-	32.1	3.3	-	8.7	3.3	-	40.9
Others	127.6	81.3	2,083.4	78.5	53.8	233.0	206.0	135.1	2,316.4
Personal	34.3	14.1	85.2	12.6	7.5	62.0	46.9	21.6	147.2
Inter-Bank Lending	-	3.0	225.7	-	-	-	-	3.0	225.7
Total	2,345.1	2,361.2	29,792.2	1,972.6	2,013.1	14,525.3	4,317.7	4,374.3	44,317.5

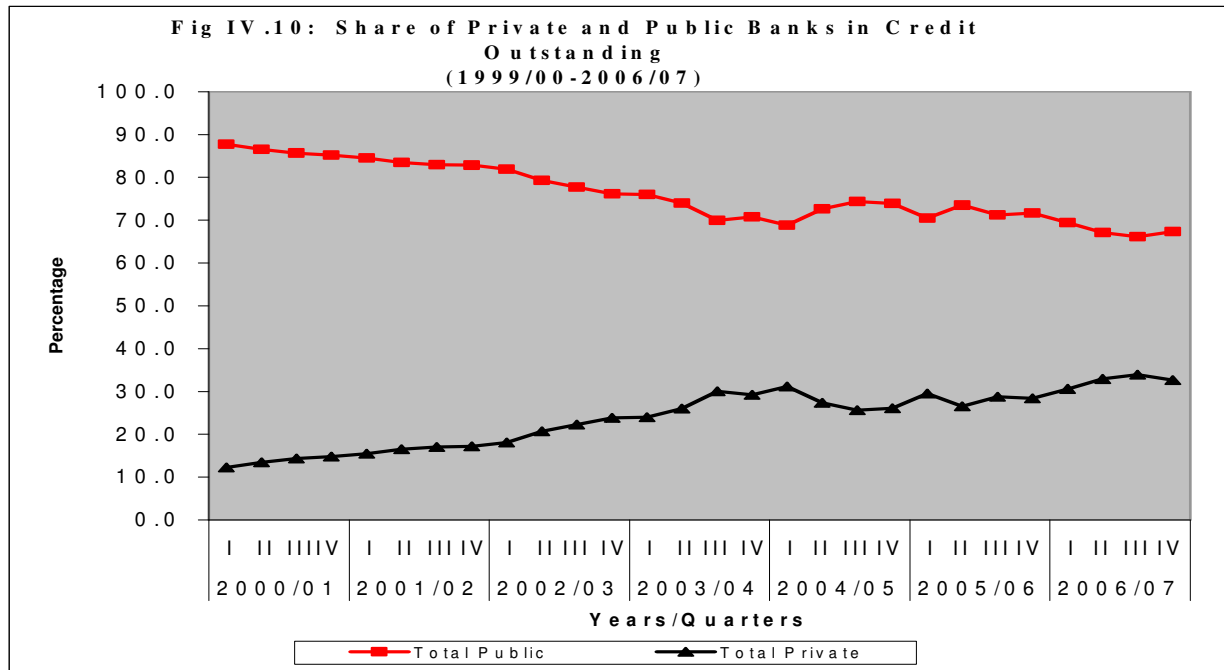
Source: Commercial Banks and staff Computation**Notes:** *Refers to government borrowing in the form of bonds and treasury bills from commercial banks and other sectors other than NBE

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

Table IV.12: - Breakdown of Loans & Advances of the Banking System by Clients,
for the Fourth Quarter of 2006/07 ended on June 30, 2007
(In Millions of Birr)

Particulars	Loan Disbursement		Loan Collection		Outstanding Loan	
		% Share		% Share		% Share
Public Banks	2,345.1	54.3	2,361.2	54.0	29,792.2	67.2
Central Government*					13,014.7	
State Enterprises	557.3	12.9	161.3	3.7	3,246.6	7.3
Cooperatives	1,066.9	24.7	878.9	20.1	1,846.0	4.2
Private Enterprises	720.9	16.7	1,320.9	30.2	11,459.2	25.9
Inter-bank Lending	-				225.7	
Private Banks	1,972.57	45.69	2,013.12	46.0	14,525.3	32.8
Central Government*					200.2	
State Enterprises	-		1.2	0.0	16.5	0.0
Cooperatives	105.7	2.4	98.7	2.3	179.0	0.4
Private Enterprises	1,866.9	43.2	1,913.3	43.7	14,129.5	31.9
Inter-bank Lending	-		-		-	
Grand Total	4,317.7	100.0	4,374.3	100.0	44,317.5	100.0

Notes: *Refers to government bonds and Treasury bills holdings



4.6 Financial Activities of the National Bank of Ethiopia

At the end of the fourth quarter of 2006/07, total claims of NBE on the central government reached Birr 33.5 billion, 13.2 and 28.2 percent higher than the preceding quarter and the same period of last year, respectively. Direct advances amounted to Birr 23.6 billion (or 70.3 percent of the total claims), showing quarterly and annual growth rates of 20.0 and 46.2 percent, respectively. In contrast, NBE's holdings of government bonds slightly declined by 0.7 percent compared to the balance a year earlier to reach Birr 9,951.4 million at the end of the review quarter. Meanwhile,

deposits of the central government and financial institutions at the NBE reached Birr 21.0 billion, 19.7 percent and 11.0 percent higher than the preceding quarter and the balance a year ago, respectively. Of the total deposits, 41.1 percent was deposit of the central government which increased by 26.5 percent on quarterly basis but dropped by 2.7 percent annually. Deposits of financial institutions registered quarterly and annual growth rates of 15.3 and 21.9 percent, respectively, largely due to 15.4 and 22 percent increase in commercial bank deposits at NBE.

Table IV.13: - Financial Activities of the National Bank of Ethiopia During the Fourth Quarter of 2006/07
(In Millions of Birr)

Particulars	2005/06	2006/07		% Change	
	Qtr.IV	Qtr.III	Qtr.IV	C/A	C/B
	A	B	C		
1.Loans and Advances	26,132.8	29,604.7	33,513.4	28.2	13.2
1.1. To Central Government	26,132.8	29,604.7	33,513.4	28.2	13.2
Direct Advance	16,113.0	19,637.0	23,562.0	46.2	20.0
Bonds	10,019.8	9,967.7	9,951.4	(0.7)	(0.2)
1.2.To Development Bank of Ethiopia	-	-	-		-
2.Deposit Liabilities	15,855.0	17,595.4	21,053.6	11.0	19.7
2.1. Government	7,037.0	6,845.5	8,657.8	(2.7)	26.5
2.2. Financial Institutions	8,818.0	10,749.9	12,395.8	21.9	15.3
O/W:					
-Banks	8,787.2	10,716.9	12,362.4	22.0	15.4
-Insurance companies	30.8	33.0	33.4	7.1	1.2
3.Net Claims of NBE	10,277.7	12,009.3	12,459.8	21.2	3.8

4.7 Developments in Financial Markets

a) Treasury Bills Market

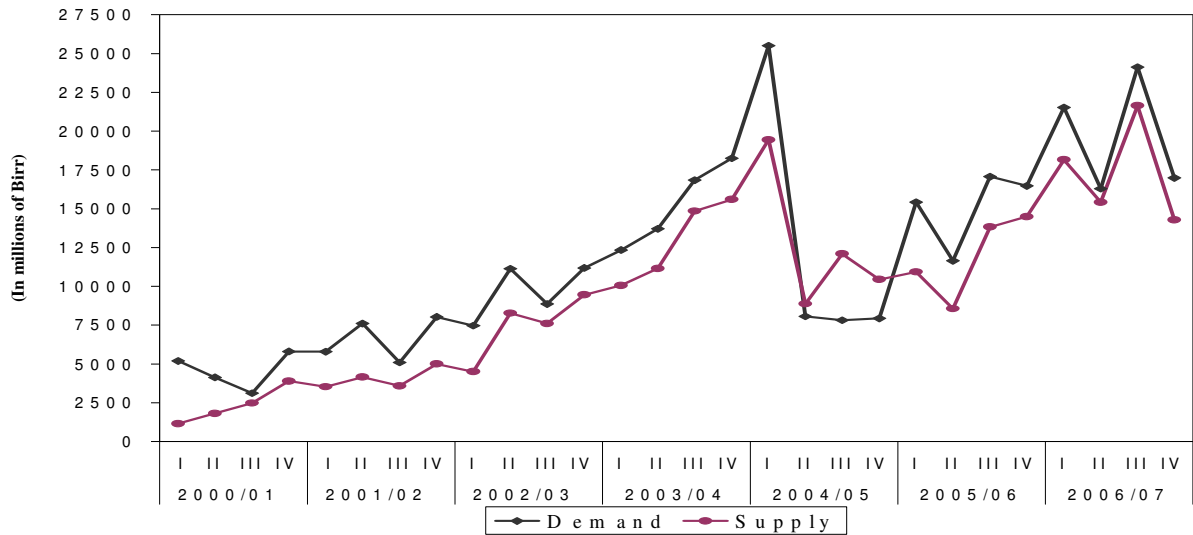
During the fourth quarter of 2006/07, the amount of Treasury bills supplied to the fortnightly auction market amounted to Birr 14.3 billion, lower by 34.0 and 1.4 percent against the preceding quarter and same period last year, respectively. Meanwhile, T-bills worth Birr 17 billion were demanded during the quarter, down by 29.6 percent vis-à-vis the preceding

quarter but rose by 3.1 percent compared to the corresponding period of last year. Thus, in the review quarter, the amount of T-bills sold satisfied about 84 percent of the demand. Commercial banks continued to dominate the T-bills market by purchasing about 79.1 percent of the bills auctioned owing to their excess reserve holdings.

Table IV. 14:- Results of Treasury Bills Auction

Particulars	2005/06	2006/07		% Change	
	Qtr.IV	Qtr.III	Qtr.IV	C/A	C/B
	A	B	C		
Number of Bidders	35	42	44	25.71	4.76
Private	28	41	39	39.3	-4.9
Public	7	1	5	-28.6	400
Number of Bids Accepted	35	44	47	34.29	6.82
Private	28	42	40	42.9	-4.8
Public	7	2	7	0.0	250.0
Amount Demanded (Mn.Birr)	16,472.50	24,124.00	16,986.00	3.12	-29.59
28-day bill	8,290.50	11,473.50	8,268.00	-0.3	-27.9
91-day bill	7,141.00	9,481.50	6,819.00	-4.5	-28.1
182-day bill	1,041.00	3,169.00	1,899.00	82.4	-40.1
Amount Supplied (Mn.Birr)	14,485.50	21,640.00	14,281.00	-1.41	-34.01
28-day bill	7,429.50	10,670.50	6,898.00	-7.2	-35.41
91-day bill	6,015.00	8,481.50	5,924.00	-1.5	-30.2
182-day bill	1,041.00	2,488.00	1,459.00	40.2	-41.4
Amount Sold (Mn.Birr)	14,485.50	17,634.00	14,281.00	-1.41	-19.01
Banks	13,495.60	15,478.50	12,236.00	-9.3	-20.9
Non-Banks	989.90	2,155.50	2,045.00	106.6	-5.1
Average Weighted Price for Successful bids (Birr)					
28-day bill	99.997	99.950	99.954	-0.043	0.005
91-day bill	99.989	99.742	99.750	-0.239	0.008
182-day bill	99.988	99.602	99.567	-0.421	-0.034
Average Weighted Yield for Successful bids (%)					
28-day bill	0.039	0.634	0.598	1429.12	-5.61
91-day bill	0.043	1.038	1.003	2208.60	-3.33
182-day bill	0.024	0.802	0.872	3521.78	8.64
Outstanding bills at the end of Period (Mn.Br.)	11,638.50	11,846.00	11,546.00	-0.79	-2.53
Banks	10,612.30	9,723.50	9,135.00	-13.92	-6.03
Non-Banks	1,026.20	2,122.50	2,411.00	134.94	13.59

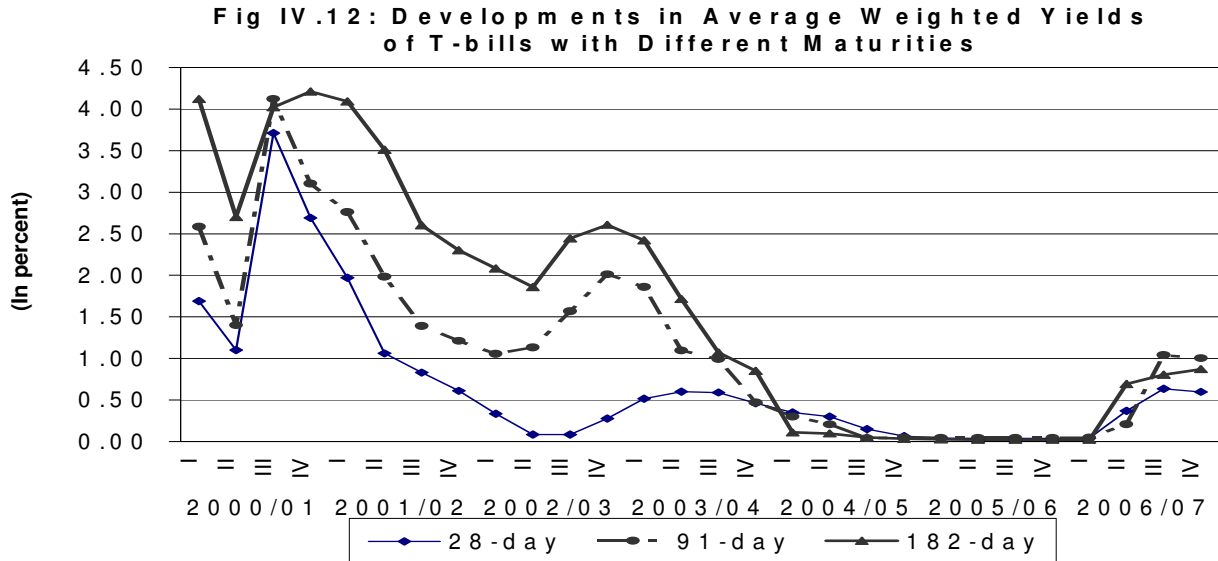
Fig IV .11: Nexus of Supply and Demand in the T-Bills Market



The average weighted yield on T-bills of different maturities showed a significant increase during the quarter under review vis-à-vis the corresponding period of last year. The annual weighted yield for 28-day bills, which was 0.039 percent last year, went up to 0.598 percent. Similarly, the yield on the 91-day bill rose from 0.043 percent to 1.003 percent while that of the 182-day bills increased from 0.024 percent to 0.872 percent. However, on quarterly

basis, the yield for 28-day and 91-day bills slowed down by 5.6 and 3.3 percent, respectively while the yield for 182-day bills rose by 8.6 percent.

The stock of outstanding Treasury bills reached Birr 11.5 billion at the end of the review quarter, registering quarterly and annual declines of 2.5 and 0.8 percent, respectively. About 79.1 percent of the total outstanding bills were held by commercial banks compared to 82.0 percent in the preceding quarter.



b) Inter- Bank Money Market

No inter-bank money market transaction was held during the fourth quarter of 2006/07. However, there were three transactions during 2006/07 involving Birr 49.87 million with average interest rate of 7.5 percent. Since the introduction of the

inter-bank money market, merely seventeen transactions worth Birr 217.4 million were transacted with an interest rate ranging between 7 and 11 percent (average 7.8 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. Birr)	Interest	Date of Transaction	Maturity Period
				Rate (%)		
1	Nib International Bank	Awash International Bank	7.00	11.0	16/11/00	Overnight
2	Wegagen Bank	Commercial Bank of Ethiopia	10.00	8.0	3/1/2001	5 years
3	Nib International Bank	„	10.00	8.0	3/31/2001	3 months
4	Wegagen Bank	„	10.00	8.0	3/22/2001	1 year
5	Nib International Bank	„	3.60	8.0	5/31/2001	6 months
6	Nib International Bank	„	3.70	8.0	06/31/01	6 months
7	Nib International Bank	„	0.78	8.0	11/30/01	6 months
8	Nib International Bank	Bank of Abyssinia	29.00	7.0	31/12/02	3.5 months
9	Nib International Bank	Bank of Abyssinia	19.05	7.0	31/01/03	3.5 months
10	Nib International Bank	Bank of Abyssinia	20.31	7.0	28/02/03	3.5 months
11	Nib International Bank	Bank of Abyssinia	28.99	7.0	31/03/03	3.5 months
12	Nib International Bank	Commercial Bank of Ethiopia	25.00	7.5	7/7/2003	5.2 months
13	Nib International Bank	Bank of Abyssinia	0.05	7.5	26/03/2005	Overdraft
14	Nib International Bank	Bank of Abyssinia	0.05	7.5	26/03/2005	Overdraft
15	Wegagen Bank	Awash International Bank	19.74	7.5	December, 2006	21/05/07
16	Wegagen Bank	Awash International Bank	0.13	7.5	January, 2007	21/05/07
17	Awash International Bank	Nib International Bank	30.00	7.5	February, 2007	18/08/07
		Total/ Average	217.39	7.8		