

V. MONETARY DEVELOPMENTS

During the fourth quarter of 2007/08, NBE took various policy measures that would help to mitigate inflationary pressures witnessed in recent years. Accordingly, it raised the reserve requirement ratio from 10 to 15 percent (for the second time since July 2007) and liquidity requirement from

15 to 25 percent effective from April 7, 2008.

These additional measures coupled with other fiscal and administrative actions are envisaged to contribute towards slowing down the pace of inflation and inflationary expectations.

5.1. Money Supply and Credit

By the end of the fourth quarter of 2007/08, broad money supply (M_2) depicted quarterly and annual growth rates of 3.8 and 20.4 percent, respectively and reached Birr 68.2 billion, wholly driven by the expansion of domestic credit, which more than offset the 12.6 percent decline in net foreign assets. Year-on-year basis, domestic credit went up by 29.3 percent largely due to 48.8 percent rise in the credit

channeled to the non-government sector as well as the 9.0 percent rise in claims on central government.

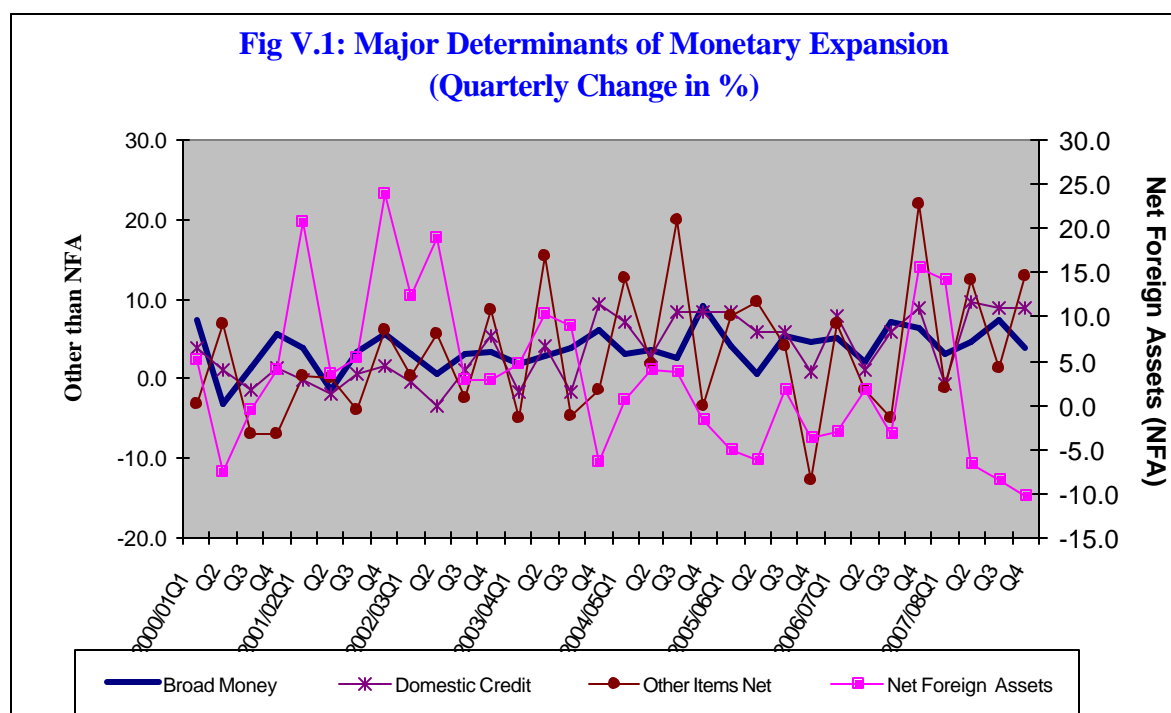
Net foreign assets, on the other hand, declined by 12.6 and 10.3 percent on yearly and quarterly basis, respectively, to Birr 11.7 billion, reflecting a continued widening of the current account deficit.

Table 5.1: Factors Influencing Broad Money

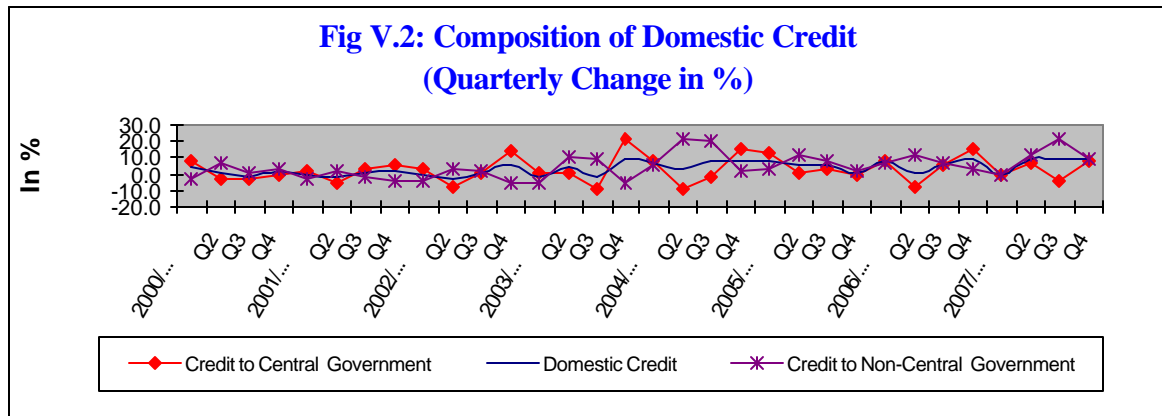
(In Millions of Birr)

Particulars	2006/07	2007/08		Percentage Change	
	Qtr. IV	Qtr. III	Qtr. IV		
	(June 07)	(Mar. 08)	(June 08)		
	A	B	C	C/A	C/B
External Assets (net)	13,340.4	13,000.1	11,665.6	-12.6	-10.3
Domestic Credit	61,844.2	73,476.1	79,969.3	29.3	8.8
. Claims on Central Gov't (net)	30,337.6	30,718.4	33,075.7	9.0	7.7
. Claims on other sectors	31,506.6	42,757.7	46,893.6	48.8	9.7
. Financial Institutions	0.0	0.0	0.0		
. Others	31,506.6	42,757.7	46,893.6	48.8	9.7
Other Items (net)	18,532.7	20,761.7	23,452.7	26.5	13.0
Broad Money (M2)	56,651.9	65,714.4	68,182.1	20.4	3.8

Source: National Bank of Ethiopia (NBE)



Source: NBE



Source: NB

On the liability side, both narrow and quasi money witnessed substantial increments thus registering growth rates of 19.4 and 21.4 percent over the same period of last year and 3.3 and 4.3 percent against the preceding quarter. Component wise,

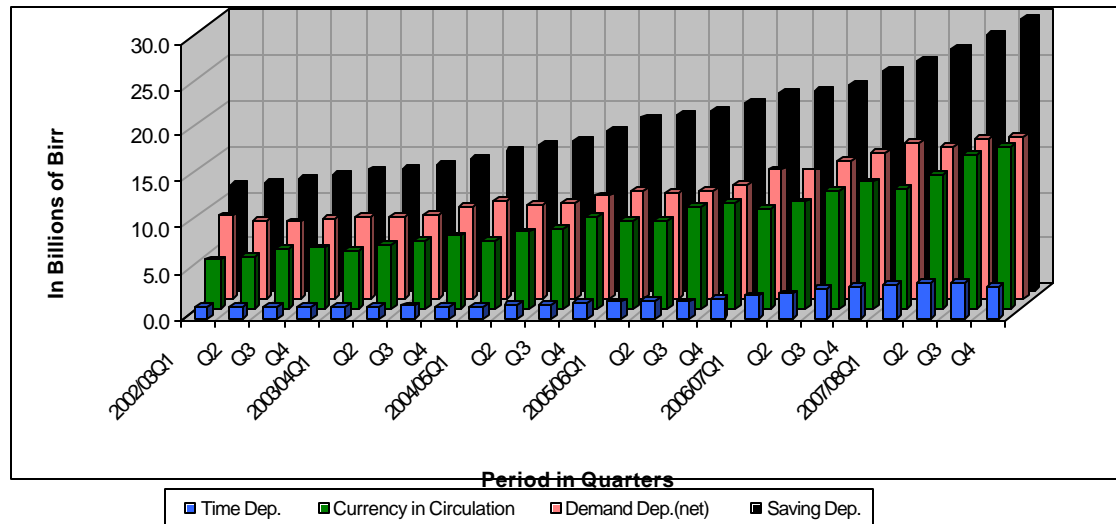
currency outside banks and net demand deposits grew by 28.8 and 11.2 percent, respectively. Similarly, savings and time deposits showed respective annual growth rates of 24.3 and 1.1 percent.

Table 5.2: Components of Broad Money

(In Millions of Birr)

Particulars	2006/07	2007/08		Percentage Change	
	Qtr. IV	Qtr. III	Qtr. IV		
	(June 07)	(Mar. 08)	(June 08)		
	A	B	C	C/A	C/B
Narrow Money Supply	29,617.7	34,235.3	35,350.4	19.4	3.3
. Currency outside Banks	13,708.4	16,772.6	17,654.1	28.8	5.3
. Demand Deposits (net)	15,909.3	17,462.8	17,696.3	11.2	1.3
Quasi -Money	27,034.2	31,479.1	32,831.8	21.4	4.3
. Savings Deposits	23,715.2	27,829.8	29,477.6	24.3	5.9
. Time Deposits	3,319.0	3,649.3	3,354.1	1.1	-8.1
Broad Money Supply	56,651.9	65,714.4	68,182.1	20.4	3.8

Source: NBE

Fig. V. 3: Composition of Monetary Stock

Source: NBE

5.2 Developments in Reserve Money and Monetary Ratio

During the fourth quarter of 2007/08, reserve money showed an annual and quarterly growth rates of 30.2 and 18.9 percent, respectively due to the increase in both currency in circulation and deposit of banks at NBE. Currency in circulation grew by 33.2 and 6.6 percent on yearly and quarterly basis, respectively. This was presumably owing to the surge in

transactions demand for money associated with the growth in real income.

Similarly, the deposits of banks at NBE grew significantly both in annual and quarterly terms partly due to the increase in reserve requirement ratio from 5 to 10 percent effective July 20, 2007 and then from 10 to 15 percent effective from April 7, 2008.

Table 5.3: Reserve Money and Ratios

(In Millions of Birr Unless Otherwise Indicated)

Particulars	2006/07	2007/08		Percentage Change	
	Qtr. IV	Qtr. III	Qtr. IV		
	(June 07)	(Mar. 08)	(June 08)	C/A	C/B
	A	B	C		
Reserve Requirement (CB's)	2,592.5	5,952.8	9,112.9	251.5	53.1
Actual Reserve (CB's)*	11,734.0	10,277.6	15,233.0	29.8	48.2
Excess Reserve (CB's)	9,141.5	4,324.8	6,120.1	-33.1	41.5
Reserve Money	27,313.6	29,909.7	35,551.1	30.2	18.9
. <i>Currency in Circulation</i>	15,175.2	18,958.5	20,216.4	33.2	6.6
. <i>Banks Deposits at NBE**</i>	12,138.4	10,951.2	15,334.7	26.3	40.0
Money Multiplier (Ratio):					
. <i>Narrow Money to Reserve Money</i>	1.1	1.1	1.0	-8.3	-13.1
. <i>Broad Money to Reserve Money</i>	2.1	2.2	1.9	-7.5	-12.7
Other Monetary Ratios (%):					
. <i>Currency to Narrow Money</i>	51.2	55.4	57.2	11.6	3.3
. <i>Currency to Broad Money</i>	26.8	28.8	29.7	10.7	2.8
. <i>Narrow Money to Broad Money</i>	52.3	52.1	51.8	-0.8	-0.5
. <i>Quasi Money to Broad Money</i>	47.7	47.9	48.2	0.9	0.5

Source: NBE and commercial banks

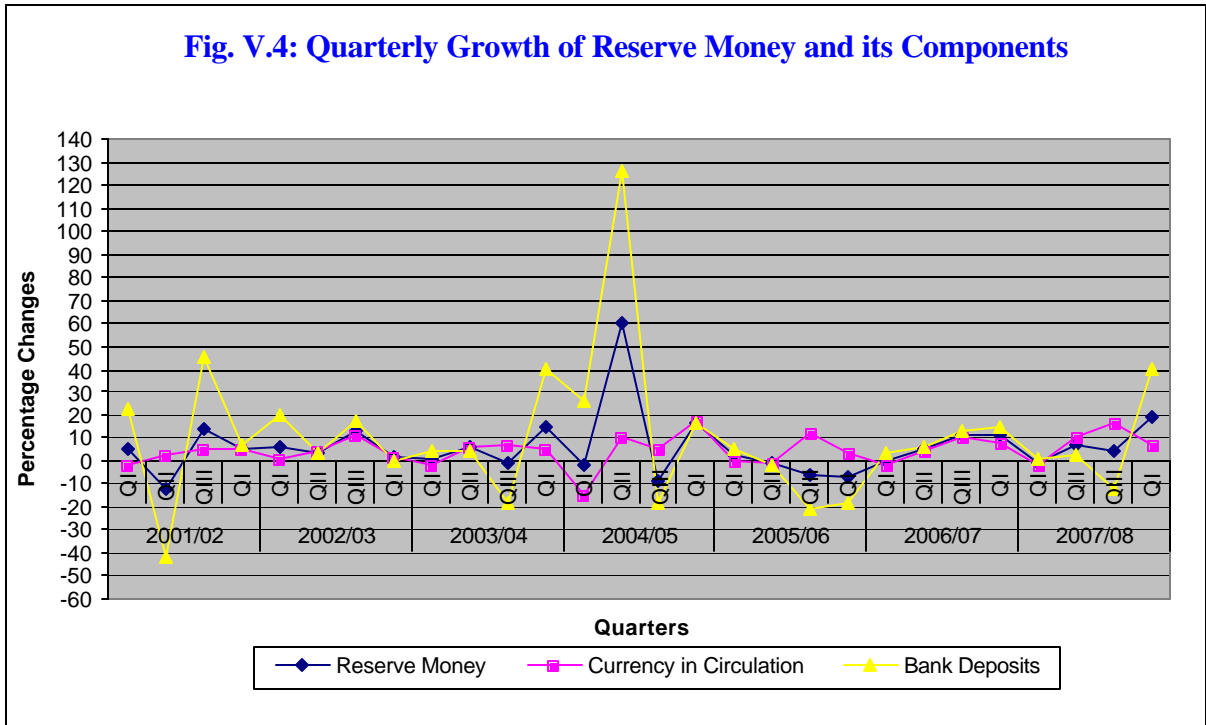
* Data obtained from commercial banks balance sheet

** Data obtained from NBE balance sheet

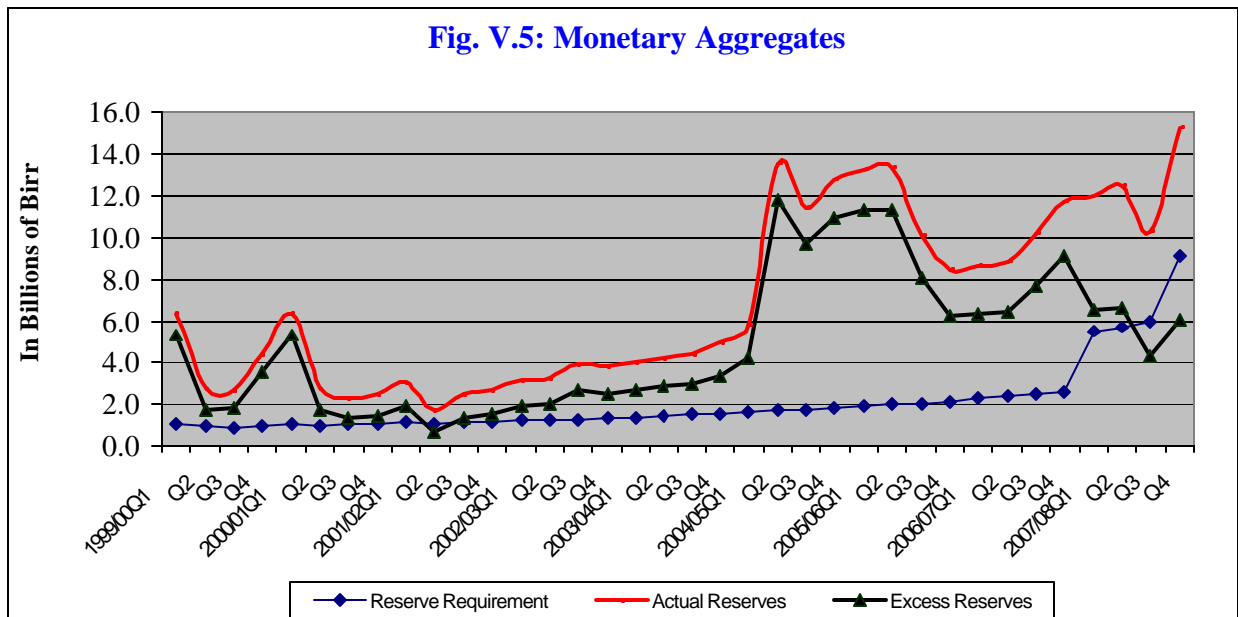
As a result, excess reserves of commercial banks slowed down to Birr 6.1 billion at the end of the review quarter from Birr 9.1 billion in the corresponding period last year.

The ratio of narrow money to broad money and quasi money to broad money almost remained at the preceding quarter and last

year same quarter level of 52 and 48 percent, respectively. On the other hand, the ratio of currency in circulation to narrow money and currency to broad money increased marginally, largely reflecting the surge in transactions demand for money.



Source: NBE



Source: NBE

5.3 Interest Rate Developments

Average saving deposit rate and average lending rates of commercial banks remained stable at the preceding quarter level of 4.08 and 11.5 percent, respectively. On the other hand, the weighted demand deposit rate rose from 0.037 to 0.041 percent while weighted time deposit rate marginally declined from 5.18 percent in the previous quarter to 5.16 percent. In contrast, weighted average yields

on T-bills rose to 0.6 percent from 0.5 percent in the preceding quarter.

All deposit interest rates, weighted average yields on T-bills and government bond yields remained negative in real terms during the review quarter as a result of higher inflation.

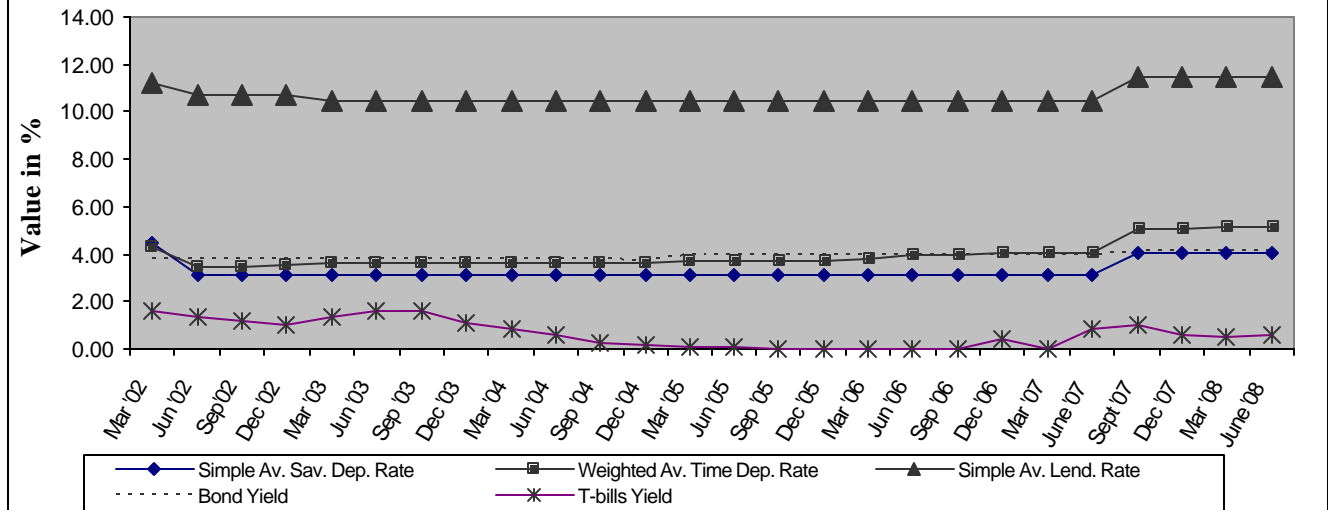
Table 5.4: Interest Rate Structure of Commercial Banks (In % per annum)

Particulars	2005		2006				2007				2008	
	Sept	Dec.	Mar	Jun	Sep	Dec	Mar	Jun	Sept	Dec.	Mar	June
Savings Deposit Rate												
? Minimum	3	3	3	3	3	3	3	3	4	4	4	4
? Maximum	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15	4.15	4.15	4.15	4.15
Average Savings Rate	3.08	3.08	3.08	3.08	3.08	3.08	3.08	3.08	4.08	4.08	4.08	4.08
Time Deposit Rate												
? Up to 1 year	3.49	3.49	3.52	3.6	3.58	3.59	3.63	3.64	4.61	4.59	4.68	4.67
? 1 - 2 years	3.74	3.74	3.79	4.01	4.01	4.02	4.07	4.11	5.16	5.13	5.25	5.23
? Over 2 years	3.99	3.99	4.06	4.3	4.4	4.42	4.44	4.49	5.52	5.47	5.61	5.59
Average Time Dep. Rate	3.74	3.74	3.79	3.97	4.00	4.01	4.05	4.08	5.1	5.1	5.18	5.16
Demand Deposit Rate (Weighted)	0.06	0.05	0.06	0.06	0.06	0.06	0.05	0.06	0.04	0.04	0.04	0.04
Lending Rate												
? Minimum	7	7	7	7	7	7	7	7	8	8	8	8
? Maximum	14	14	14	14	14	14	14	14	15	15	15	15
Average Lending Rate	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	11.5	11.5	11.5	11.5
T-bills Rate (Weighted Ave.)	0.04	0.04	0.04	0.04	0.04	0.42	0.81	0.79	1.0	0.5	0.5	0.6
Bond Yield (Simple Average)*	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.14	4.14	4.14	4.14

Source: NBE and commercial banks

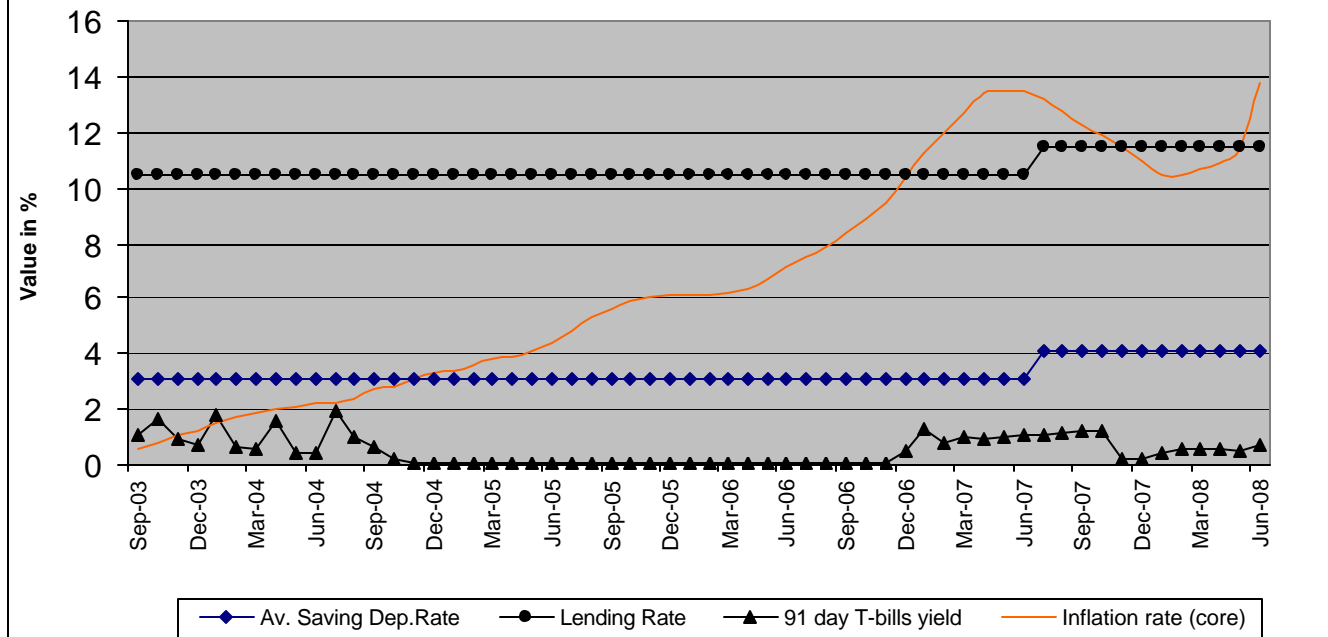
NB: * average bond yield on outstanding government and public enterprise bonds.

**Fig V.6: Interest Rate Structure of Commercial Banks
(In % per annum)**



Source: NBE

**Fig V.7: Lending Rate, Average Saving Deposit Rate, 91-day T-bills Yield & Core Inflation Rate
(In % per annum)**



Source: NBE

5.4 Developments in Financial Sector

The major financial institutions operating in Ethiopia constitute banks, insurance companies and microfinance institutions. There are eleven banks in the country of which eight are private commercial banks and, the remaining three public banks.

During the reported period, 16 new bank branches banks were opened raising the total number of bank branches across the country to 562. Consequently, the ratio of bank branch to total population dropped from 140,097 during the third quarter to 136,108. However, the country still remains one of the under-banked nations in sub-Saharan Africa.

About 38 percent of the total bank branches are located in Addis Ababa, which is the major business and capital city of the country. During the review quarter, regional distribution of bank branches in

absolute terms indicated a slight improvement as more than half (9) of the newly launched were established outside Addis Ababa.

Out of the total number of bank branches, the share of private banks increased to 53.0 percent compared to 51.6 percent a quarter earlier.

By the end of the fourth quarter of fiscal year 2007/08, the total capital of the banking system almost reached Birr 10.0 billion, which was 8.7 percent higher than the preceding quarter. Of the total capital of the banking system, 33.8 percent was the share of private banks.

Meanwhile, the number of insurance companies stood at 10, same as in the pervious quarter, while their branches rose

to 172, following the opening up of 2 additional branches during the stated period.

By the end of the review period, one branch insurance company is estimated to serve almost 448,412 people. Of the total insurance branches 51.2 percent were situated in Addis Ababa. Private insurance companies accounted for 78.5 percent of the total branches.

The number of Microfinance Institutions (MFIs) operating in the country declined by one to 28 in the review quarter due to liquidation of one of the MFIs. Out of the total MFIs, 11 (or 39.3 percent) are found in the metropolis.

Total deposits mobilized by MFIs amounted to Birr 1.56 billion, 14.7 percent higher than the previous quarter. Likewise, credit outstanding of the MFIs grew by 21.6 percent on quarterly basis to Birr 4.5 billion and their total assets increased to Birr 5.3 billion by the end of the quarter, signifying their growing role in poverty reduction and asset building of low-income groups.

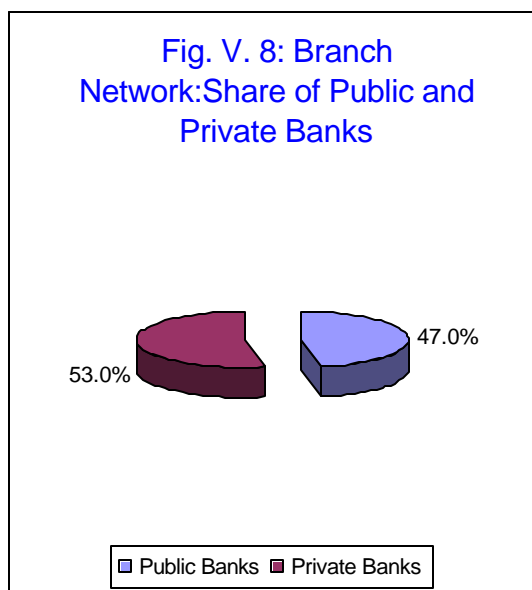
According to recent information obtained from the institutions, five large MFIs, namely, Amhara, Dedit, Oromia, Omo and Addis Credit and Savings Institutions accounted for 84.7 percent of the total capital, 92.8 percent of savings, 90.7 percent of credit, and 90.5 percent of total assets of the MFIs operating in the country.

**Table 5. 5: Capital and Branch Network of Banking System by End of June 30, 2007
(Branch in Number and Capital in Millions of Birr)**

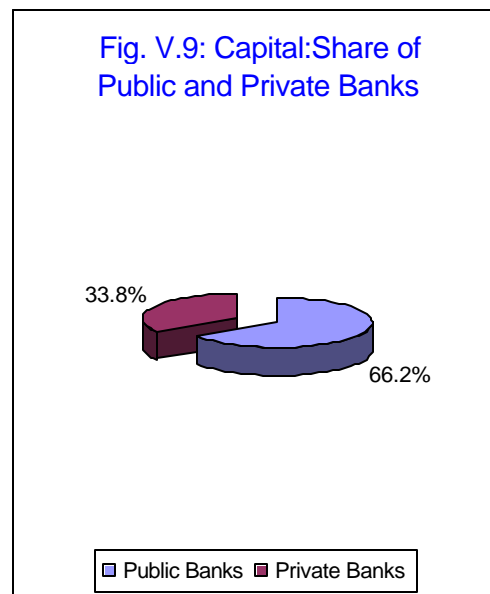
Particulars	Branch Network							Capital *	
	2007/08							2007/08	
	Quarter III			Quarter IV				Quarter III	Quarter IV
	Regions	Total	% Share	Regions	Addis Ababa	Total	% Share		
Public Banks									
Commercial Bank of Ethiopia	156	205	37.5	156	49	205	36.5	4216	4556
Construction & Business Bank	15	27	4.9	15	12	27	4.8	175	175
Development Bank of Ethiopia	31	32	5.9	31	1	32	5.7	1865	1865
Total Public Banks	202	264	48.4	202	62	264	47.0	6256	6596
Private Banks									
Awash International Bank	21	47	8.6	24	29	53	9.4	399	480
Dashen Bank	22	46	8.4	24	24	48	8.5	484	731
Abyssinia Bank	19	41	7.5	19	23	42	7.5	403	416
Wegagen Bank	22	39	7.1	22	18	40	7.1	446	467
United Bank	12	34	6.2	13	23	36	6.4	392	467
Nib International Bank	14	39	7.1	16	26	42	7.5	483	489
Cooperative Bank of Oromiya	17	19	3.5	18	2	20	3.6	135	137
Lion International Bank	11	17	3.1	11	6	17	3.0	168	177
Total Private Banks	138	282	51.6	147	151	298	53.0	2910	3364
Grand Total Banks	340	546	100.0	349	213	562	100.0	9166	9960

Source: NBE

* Excludes provisions for profit/loss



Source: NBE



Source: NBE

**Table 5.6: Branch Network & Capital of Insurance Companies by June 30, 2007
(Branch in number and Capital in Millions of Birr)**

Particulars	Branch				Capital	
	Quarter III 2007/08	Quarter IV 2007/08			Quarter III	Quarter IV
	Total	A.A	Regions	Total	2007/08	2007/08
Ethiopian Ins. Cor.	37	11	26	37	223.1	229.3
Awash Ins.Com.S.C.	21	12	9	21	42.1	51.5
Africa Ins.Com S.C.	13	6	7	13	41.2	46.1
National Ins. Co. of Eth.	14	8	6	14	13.2	13.4
United Ins.Com. S.C	19	13	6	19	48.9	56.3
Global Ins. Com.S.C	7	4	3	7	20.3	20.3
Nile Ins.Com.S.C	19	10	9	19	42.7	53.1
Nyala Ins.Com.S.C	16	8	8	16	47.1	56.1
Nib Ins. Com.S.C	16	10	6	16	32.6	45.1
Lion Ins. Com.S.C	8	6	4	10	13.5	10.9
TOTAL	170	88	84	172	524.9	582.1

Source: NBE

5.5 Activities of Banking System

5.5.1. Resource Mobilization

Resource mobilization (consisting of deposits, collection of loans and borrowings) by the banking system reached Birr 7.4 billion during the fourth quarter of 2007/08, up by 8.9 and 7.9 percent vis-à-vis the preceding quarter and same quarter last

year, respectively. The good performance in the resource mobilization was solely attributed to the surge in loan collection which more than offset the significant decline in net deposits and borrowing.

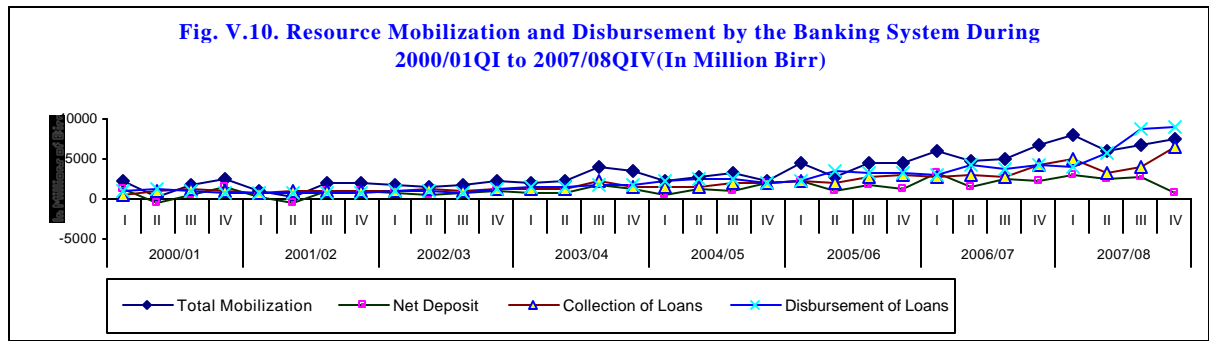
Table 5.7: Summary of Resource Mobilization & Disbursement of Banking System During Fourth Quarter

(In Millions of Birr)

Particulars	Public Banks		Private Banks		Grand Total			Percentage Change	
	1		2		(3) = (1) + (2)				
	Qtr.III 2007/08	Qtr.IV 2007/08	Qtr.III 2007/08	Qtr.IV 2007/08	Qtr.IV 2006/07	Qtr.III 2007/08	Qtr.IV 2007/08	C/A	C/B
					A	B	C		
Deposits (net change)	1,249.3	-329.3	1,576.8	1,193.4	2,150.0	2,826.2	864.1	-59.8	-69.4
-Demand	837.6	-1,010.3	591.7	516.5	531.4	1,429.4	-493.8	-192.9	-134.5
-Saving	485.3	705.0	1,043.7	943.3	1,325.7	1,529.1	1,648.3	24.3	7.8
-Time	-73.6	-24.0	-58.6	-266.4	292.9	-132.3	-290.4	-199.1	119.6
Borrowing (net change)	49.8	-1.1	0.0	0.0	340.2	49.8	-1.1	-100.3	-102.3
-Local	1.5	-1.8	0.0	0.0	267.8	1.5	-1.8	-100.7	-225.3
-Foreign	48.3	0.7	0.0	0.0	72.4	48.3	0.7	-99.0	-98.6
Collection of Loans	1,327.4	3,664.6	2,595.7	2,878.2	4,374.3	3,923.1	6,542.8	49.6	66.8
Total Resources Mobilized (1+2+3)	2,626.5	3,334.2	4,172.6	4,071.6	6,864.5	6,799.1	7,405.8	7.9	8.9
Disbursement	5,041.0	6,120.4	3,641.6	2,755.2	4,317.7	8,682.6	8,875.6	105.6	2.2
Change in Liquidity (4-5)	-2,414.4	-2,786.3	531.0	1,316.4	2,546.8	-1,883.5	-1,469.8	-157.7	-22.0
Memorandum Item:									
A. Outstanding Credit*	34,905.7	31,666.6	16,970.5	16,575.2	44,398.3	51,876.2	48,241.8	8.7	-7.0
B. Outstanding Inter-bank Lending	179.2	176.5	0.0	0.0	225.7	179.2	176.5	-21.8	-1.5

Source: Commercial Banks and NBE staff computation

* Excluding corporate bonds outstanding balance



Source: NBE

A) Deposit Mobilization

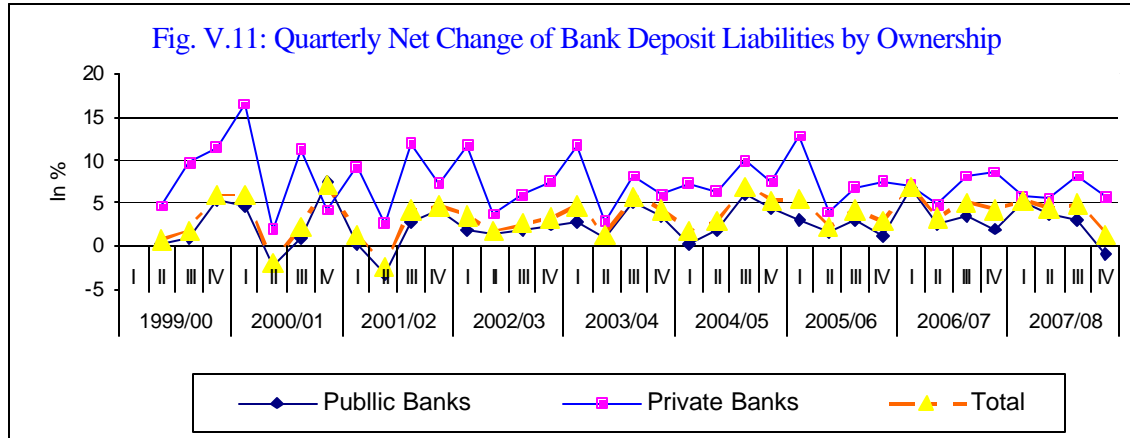
Total deposit liabilities of the banking system registered a quarterly and annual growth rates of 1.4 and 16.9 percent, respectively and reached Birr 62.9 billion by the end of the fourth quarter of 2007/08.

Table 5.8 Stock of Deposits Mobilized by Banking System by end of June 2008

(In Millions of Birr)

Particulars	2006/07		2007/08				Percentage Change	
	Quarter IV	%	Quarter III	%	Quarter IV	%	C/A	C/B
	A	Share	B	Share	C	Share		
Demand Deposit	26,267.6	48.8	30,235.9	48.7	29,742.0	47.2	13.2	-1.6
Savings Deposit	23,718.8	44.0	27,833.9	44.8	29,482.2	46.8	24.3	5.9
Time Deposit	3,878.9	7.2	4,022.4	6.5	3,732.0	5.9	-3.8	-7.2
Total	53,865.3	100.0	62,092.2	100.0	62,956.2	100.0	16.9	1.4
Share of Public Banks	67.7		66.2		64.8		-4.4	-2.2
Share of Private Banks	32.3		33.8		35.2		9.2	4.2

Source: NBE



Source: NBE

Component wise, demand deposits showed a marginal quarterly decline of 1.6 percent while registering annual growth rate of 13.2 percent. On the other hand, saving deposits went up by 5.9 percent on quarterly and 24.3 percent on annual basis to Birr 29.5 billion. Time deposits slowed down by 7.2 and 3.8 percent on quarterly and annual basis, respectively.

B) Collection of Loans

Collection of loans by the banking system also continued to surge in the review quarter. Accordingly, it reached Birr 6.5 billion, up by 66.8 and 49.6 percent over the preceding quarter and same quarter last year, respectively.

The share of government owned banks in the total deposits declined to 64.8 percent from 67.7 percent a year earlier, where as that of private commercial banks grew to 35.2 percent, from 32.3 percent last year.

Of the total loan collected, the share of private banks was Birr 2.9 billion (43.9 percent) and the balance of public banks. About 63.6 percent of the total loan was collected from the private sector followed by cooperatives (34.3 percent) and public enterprises (2.1 percent).

C) Borrowing

Total outstanding borrowing of the banking system reached Birr 2.7 billion at the end of the fourth quarter, registering annual growth of 11.2 percent, and a quarterly marginal increase of 0.2 percent. On annual

basis, domestic and foreign borrowing rose by 10 and 16.5 percent, respectively. Of the total borrowing, Birr 2.2 billion (81.1 percent) was from domestic sources, while the remaining Birr 506.1 million (18.9 percent) was from foreign sources.

Table 5. 9: Outstanding Borrowing of Banking System by Sources

(In Millions of Birr)

Particulars	2006/07	2007/08		Percentage Change	
	Quarter IV	Quarter III	Quarter IV	C/B	C/A
	A	B	C		
Domestic Borrowing	1,976.9	2,170.2	2,174.5	0.2	10.0
Foreign Borrowing	434.3	505.4	506.1	0.1	16.5
Total	2,411.2	2,675.6	2,680.6	0.2	11.2

Source: NBE

5.5.2 Disbursement of Fresh Loans

The fourth quarter of 2007/08 was marked by a substantial surge in fresh loan disbursements by banks. New loan disbursements more than doubled and reached Birr 8.9 billion as compared to same period last year.

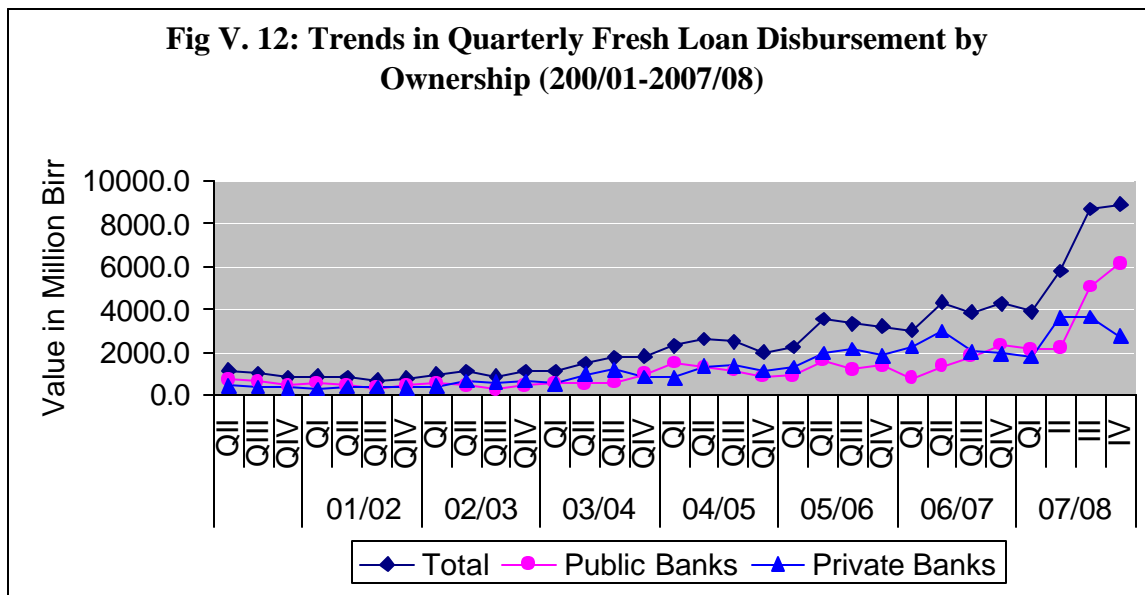
Despite the rise in reserve requirement from 5 to 15 percent, loan disbursements

of both public and private banks grew by 160.9 percent and 39.7 percent, respectively, reflecting booming economic activities. Compared to the preceding quarter, however, loan disbursements of private banks went down by 24.3 percent, while that of public banks increased 21.4 percent. Of the total new loans disbursed by the banking

system, 31.0 percent was provided by private commercial banks.

Regarding the beneficiaries of the new loans, some 41.6 percent went to international trade followed by agriculture (21.5 percent), industry (10.4 percent), domestic trade (10.1 percent) and housing

& construction (8.2 percent). The other major beneficiary was the transport and communications sector, receiving about 3.9 percent of the total fresh loans disbursed during the stated time.



Source: NBE

5.5.3 Outstanding Credit

By end June 2008, total outstanding credit of the banking system (including credit to government) reached Birr 48.2 billion, 7.0 percent lower than that of preceding quarter but 8.7 percent higher than same period last

year. Of the total outstanding credit, the private sector made up 60.7 percent, followed by public enterprises (18.1 percent) and central government (14.3 percent).

Sector wise, credit to international trade ranked first accounting for 25.3 percent of the total credit, followed by industry (16.4 percent), agriculture (11.4 percent), domestic trade (10.8 percent), housing and construction (10.1 percent), as well as transport and communications (5.7 percent)

Table 5.10: Summary of Loans and Advances by Banks and Receiving Sectors During Fourth Quarter of 2007/08

(In Millions of Birr)

Particulars	Public Banks			Private Banks			Total		
	(1)			(2)			(3)		
	D**	C**	O/S**	D**	C**	O/S**	D**	C**	O/S**
Central Government *			6771.7			130.3			6902.0
Agriculture	3	1,349.1	4,886.5	58.0	105.8	594.7	1,912.6	1,454.9	5,481.2
Industry	341.6	179.0	5,137.0	580.3	316.0	2,760.1	921.8	495.0	7,897.0
Domestic Trade	247.9	458.7	1,521.9	652.7	705.8	3,697.3	900.6	1,164.5	5,219.2
International Trade	2,654.7	1,309.8	7,369.5	1,041.5	1,137.7	4,835.5	3,696.2	2,447.5	12,205.0
Exports	136.8	342.2	1,088.2	415.7	657.1	1,885.6	552.4	999.4	2,973.8
Imports	2,517.9	967.5	6,281.3	625.8	480.6	2,949.9	3,143.7	1,448.1	9,231.2
Hotels and Tourism	41.0	27.6	494.8	15.2	16.9	227.9	56.2	44.5	722.7
Transport & Communications	257.8	80.9	1,382.6	87.5	207.9	1,397.3	345.3	288.7	2,779.9
Housing & Construction	548.8	174.9	2,543.5	180.7	212.3	2,321.5	729.5	387.2	4,865.1
Mines, Power & Water Res.	31.3	0.0	0.0	0.0	0.4	4.2	31.3	0.4	4.2
Others	113.1	56.8	1,285.6	130.6	167.0	534.1	243.7	223.8	1,819.7
Personal	28.2	24.8	97.1	8.7	8.4	72.2	36.9	33.2	169.3
Inter-Bank Lending	1.5	3.1	176.5	0.0	0.0	0.0	1.5	3.1	176.5
Total	6,120.4	3,664.6	31,666.6	2,755.2	2,878.2	16,575.2	8,875.6	6,542.8	48,241.8

Source: Commercial banks and staff computation

* Government borrowing in the form of bonds and Treasury bills from commercial banks and other sectors other than NBE

** D = disbursement, C = collection and O/S= outstanding credit

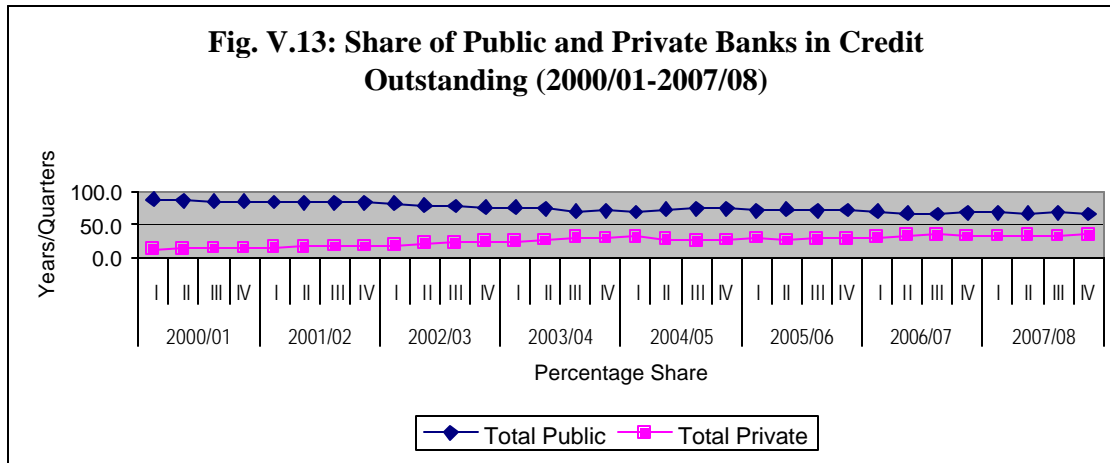
Table 5.11: Breakdown of Loans & Advances of Banking System by Clients During Fourth Quarter of 2007/08

(In Millions of Birr)

Particulars	Loan Disbursement	% Share	Loan Collection	% Share	Outstanding Loan	% Share
Public Banks	6,120.4	69.0	3,664.6	56.0	31,666.6	65.6
Central Government*	0.0	0.0	0.0	0.0	6,771.7	21.4
State Enterprises	3,033.7	49.6	140.3	3.8	8,719.8	27.5
Cooperatives	2,025.8	33.1	2,166.0	59.1	3,028.8	9.6
Private Enterprises	1,061.0	17.3	1,358.2	37.1	12,969.9	41.0
Inter-bank Lending	0.0	0.0	0.0	0.0	176.5	0.6
Private Banks	2,755.2	31.0	2,878.2	44.0	16,575.2	34.4
Central Government*	0.0	0.0	0.0	0.0	130.3	0.8
State Enterprises	0.0	0.0	0.3	0.0	12.9	0.1
Cooperatives	201.9	7.3	77.7	2.7	132.4	0.8
Private Enterprises	2,553.3	92.7	2,800.2	97.3	16,299.7	98.3
Inter-bank Lending	0.0	0.0	0.0	0.0	0.0	0.0
Grand Total	8,875.6	100.0	6,542.8	100.0	48,241.8	100.0

Source: NBE

- Refers to government bonds and Treasury bill holdings



Source: NBE

5.6 Financial Activities of NBE

The total claims of NBE on the central government reached Birr 41.6 billion, 22.5 and 24.0 percent higher than that of the

preceding quarter and same period last year. Direct advances to the government reached Birr 31.8 billion (or 76.6 percent of

total claims), showing a quarterly and annual increment of 32.5 and 35.0 percent, respectively. In contrast, NBE's holdings of government bonds declined by 2.1 percent compared to a year earlier to reach Birr 9,745.1 million by the end of the review quarter.

Meanwhile, the deposits of the central government and financial institutions at the NBE reached Birr 21.7 billion, up by 27.1 percent against the preceding quarter and

3.1 percent vis-à-vis the corresponding period of last year. Of the total deposits, 28.4 percent was that of the central government which declined annually by 28.9 percent but increased quarterly by 3.2 percent. Deposits of financial institutions, however, registered annual and quarterly increment of 25.5 and 40.0 percent, respectively partly due to the revision in the reserve requirement.

Table 5. 12: Financial Activities of NBE

(In Millions of Birr)

Particulars	2006/07	2007/08		Percentage Change	
	Qtr.IV	Qtr.III	Qtr.IV	C/A	C/B
	A	B	C		
Loans and Advances	33,513.4	33,917.3	41,563.1	24.0	22.5
To Central Government	33,513.4	33,917.3	41,563.1	24.0	22.5
Direct Advance	23,562.0	24,018.0	31,818.0	35.0	32.5
Bonds	9,951.4	9,899.3	9,745.1	-2.1	-1.6
To Development Bank of Ethiopia	0.0	0.0	0.0	0.0	-
Deposit Liabilities	21,053.6	17,076.6	21,710.9	3.1	27.1
Government	8,657.8	5,966.5	6,157.3	-28.9	3.2
Financial Institutions	12,395.8	11,110.1	15,553.6	25.5	40.0
O/W					
-Banks	12,362.4	11,073.1	15,516.2	25.5	40.1
-Insurance Companies	33.4	37.0	37.4	12.0	1.1
Net Claims of NBE	12,459.8	16,840.7	19,852.2	59.3	17.9

Source: NBE

5.7 Developments in Financial Markets

A) Treasury Bills Market

During the fourth quarter of 2007/08, the amount of Treasury bills supplied to the fortnightly auction market amounted to Birr 9.4 billion, down by 8.4 and 34.1 percent compared to the preceding quarter and same period last year, respectively. Similarly, the demand for the T-bills slowed down to Birr 8.2 billion, from Birr 13.1 billion in the preceding quarter and Birr 17.0 billion same period last year. All the T-bills supplied to auction market were sold.

Yet, the share of commercial banks in T-bills market tended to diminish in the review period due to the efforts made by

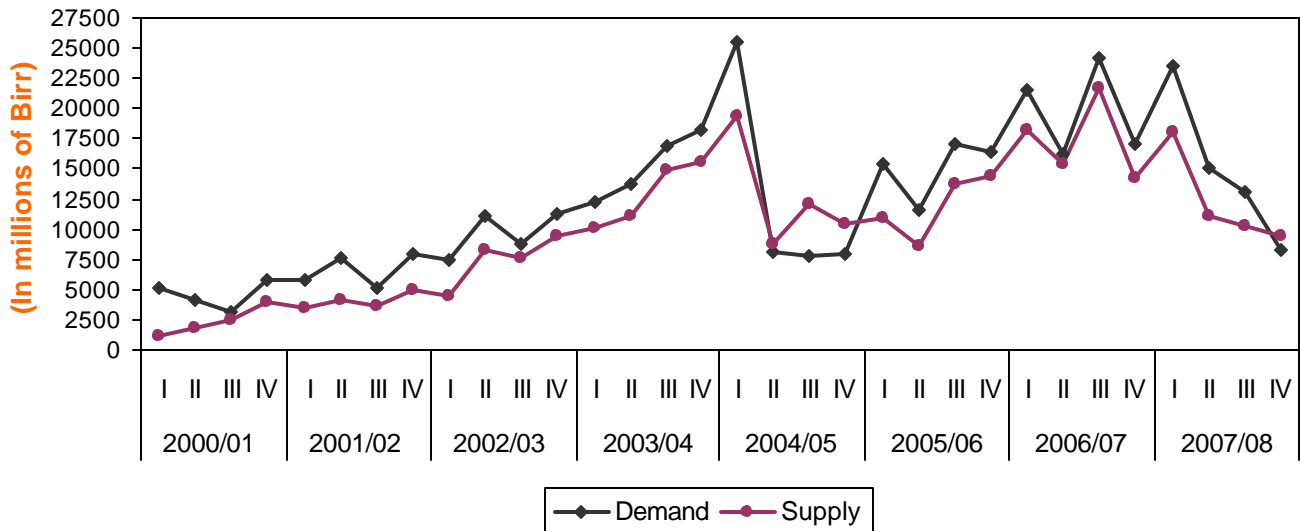
the government to finance the budget deficit through non-inflationary methods.

The average weighted yield on T-bills of different maturities, except for the 182-day bills, tended to rise in the review quarter, vis-à-vis the preceding quarter. Year-on-year basis, yields of all types of T-bills except that of 28-day bills exhibited a tendency to decline.

Table 5.13: Results of Treasury Bills Auction

Particulars	2006/07	2007/08		Percentage Change	
	Qtr.IV	Qtr.III	Qtr.IV	C/A	C/B
	A	B	C		
Number of Bidders	44	40	42	-4.55	5.00
Public	39	30	41	5.13	36.67
Private	5	10	1	-80.00	-90.00
Number of Bids Accepted	47	54	44	-6.38	-18.52
Public	40	42	42	5.00	0.00
Private	7	12	2	-71.43	-83.33
Amount Demanded (Mn.Birr)	16,986.00	13,117.00	8,226.51	-51.57	-37.28
28-day bill	8,268.00	3,640.00	1,612.51	-80.50	-55.70
91-day bill	6,819.00	4,095.00	3,300.00	-51.61	-19.41
182-day bill	1,899.00	5,382.00	3,314.00	74.51	-38.42
Amount Supplied (Mn.Birr)	14,281.00	10,263.00	9,406.00	-34.14	-8.35
28-day bill	6,898.00	2,100.00	1,320.00	-80.86	-37.14
91-day bill	5,924.00	2,800.00	2,770.00	-53.24	-1.07
182-day bill	1,459.00	5,363.00	5,316.00	264.36	-0.88
Amount Sold (Mn.Birr)	14,380.76	10,419.86	8,226.51	-42.80	-21.05
Banks	12,236.00	6,476.00	4,219.00	-65.52	-34.85
Non-Banks	2,045.00	3,844.00	4,007.51	95.97	4.25
Average Weighted Price for Successful bids(Birr)	99.76	99.86	99.85	0.097	-0.005
28-day bill	99.954	99.964	99.940	-0.01	-0.02
91-day bill	99.750	99.866	99.850	0.10	-0.02
182-day bill	99.567	99.747	99.771	0.20	0.02
Average Weighted Yield for Successful bids(%)	0.824	0.504	0.623	-17.433	25.211
28-day bill	0.598	0.467	0.805	34.61	72.38
91-day bill	1.003	0.536	0.604	-39.80	12.69
182-day bill	0.872	0.509	0.461	-47.12	-9.43
Outstanding bills at the end of Period (Mn.Br.)	11,546.00	12,153.00	8,327.00	-27.88	-31.48
Banks	9,135.00	8,129.00	2,739.00	-70.02	-66.31
Non-Banks	2,411.00	4,024.00	5,588.00	131.77	38.87

Source: NBE

Fig V.14: Nexus of Supply and Demand in T-Bills Market

Source: NBE

The stock of outstanding Treasury bills reached Birr 8.3 billion at the end of the review quarter, recording a quarterly decline of 31.5 percent. About 67.1 percent of the total outstanding bills were held by non-bank institutions compared to 33.1 percent the previous quarter. On the other

hand, the outstanding T-bill holdings of commercial banks went down by 66.3 and 70.0 percent on quarterly and annual basis, respectively, in line with the enhanced participation of the non-bank institutions in T-bills market.

B) Inter-Bank Money Market

During the stated time, only one inter-bank money market transaction was conducted that involved Birr 17,000 with

an average interest rate of 8.5 percent.

