

## 4. MONETARY DEVELOPMENTS

### 4.1. Money Supply and Credit

Broad money supply ( $M_2$ ) reached Birr 297.7 billion at the end of the fourth quarter of 2013/14, revealing 8.9 percent quarterly and 26.5 percent annual growth. The annual expansion in broad money was mainly driven by 28.4 percent rise in domestic

credit. The annual growth in domestic credit was attributed to 29.2 percent increase in credit to non-central government and 21.2 percent in net credit to central government (Table 4.1).

**Table 4.1 : Factors Influencing Broad Money**

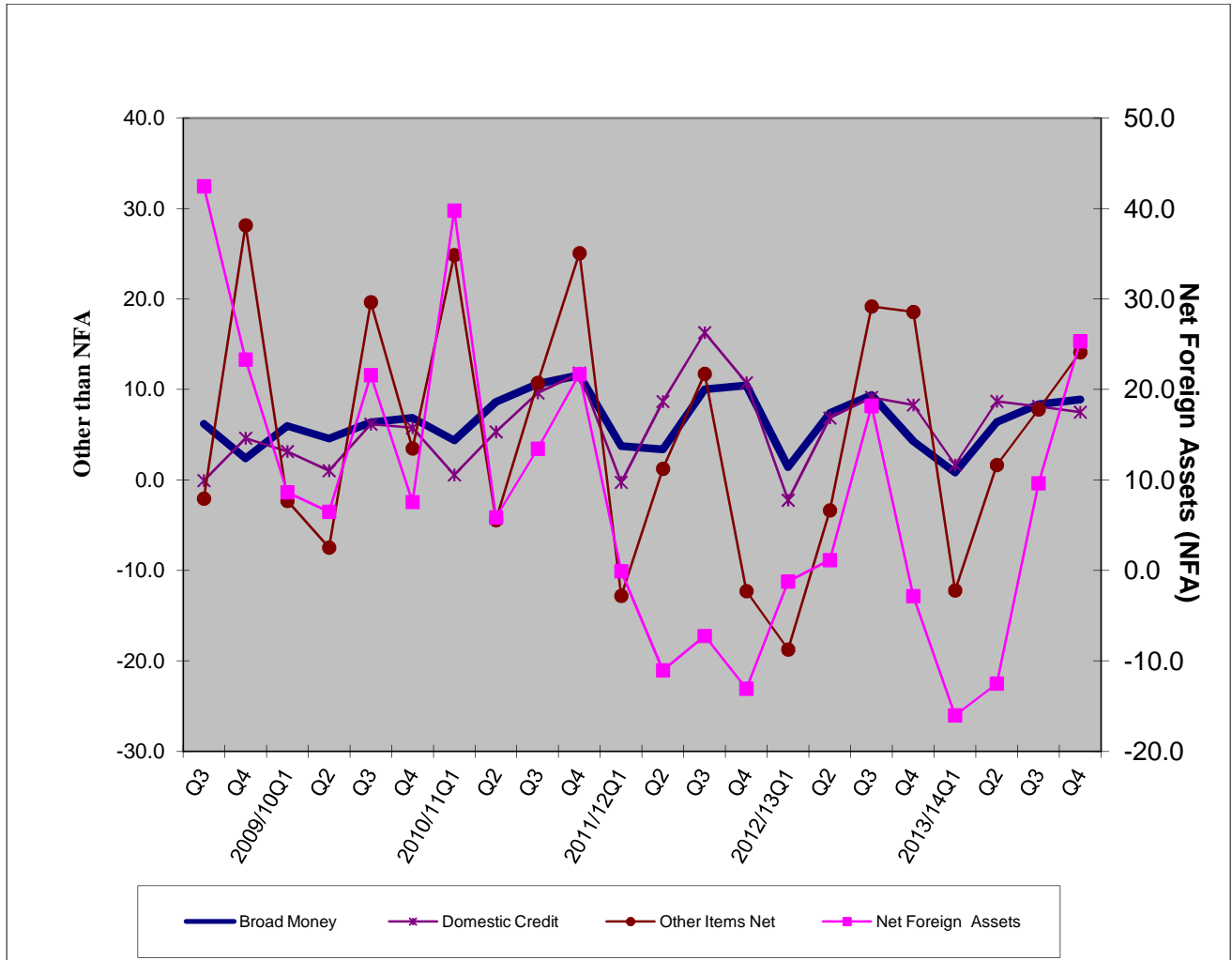
(In Millions of Birr)

Particulars	2013		2014		Percentage Change		Contributions of each Component to Broad Money Growth	
	Qtr. IV	Qtr. III	Qtr. IV					
	(June.13)	(March.14)	(June.14)	D=C/A	E=C/B	Annual	Quarterly	
	A	B	C					
1. External Assets (net)	45,648.5	37,407.2	46,079.4	0.9	23.2	0.7	35.7	
2. Domestic Credit	233,404.3	278,617.9	299,727.6	28.4	7.6	106.3	87.0	
. Claims on Central Gov't (net)	21,965.5	20,630.0	26,630.8	21.2	29.1	7.5	24.7	
. Claims on Non-Central Gov't	211,438.8	257,987.9	273,096.8	29.2	5.9	98.8	62.3	
. Financial Institutions	16,507.0	17,507.0	20,257.0	22.7	15.7	6.0	11.3	
. Others	194,931.8	240,480.9	252,839.8	29.7	5.1	92.8	50.9	
3. Other Items (net)	43,739.3	42,556.1	48,075.0	9.9	13.0	6.9	22.7	
4. Broad Money ( $M_2$ )	235,313.6	273,469.0	297,732.0	26.5	8.9	100.0	100.0	

Source: NBE, Staff computation

Fig IV.1: Major Determinants of Monetary Expansion

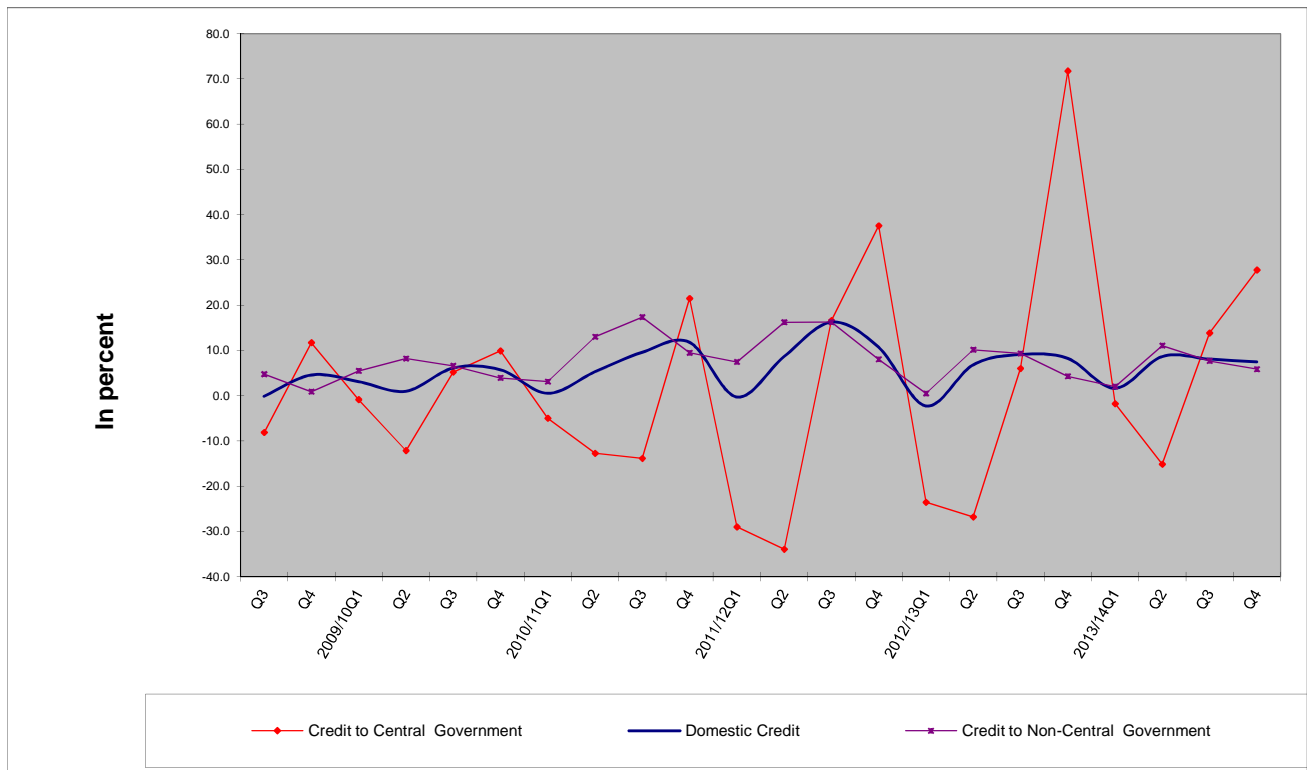
(Quarterly Change in Percent)



Source: Staff computation, NBE

Fig IV.2: Composition of Domestic Credit

(Quarterly Change in Percent)



Source: NBE Staff computation

The fourth quarter of 2013/14 witnessed an annual and quarterly rise in all components of broad money. Accordingly, narrow money (currency outside banks plus net demand deposits) grew by 16.8 percent on annual and 10.8 percent on quarterly bases. Quasi-money, that constitutes saving and time deposits also depicted a 35.8 percent annual and 7.4 percent quarterly increment. Year-on-year basis, both narrow money and quasi-money had 30.9 and 69.1 percent share in the annual broad money growth rate (Table 4.2).

The surge in quasi-money was the result of a successful effort made by banks in expanding

their branch network to augment deposit mobilization and improve their service outreach. This also reflects improving savings culture and NBE’s policy stimulus to mobilize savings from the general public.

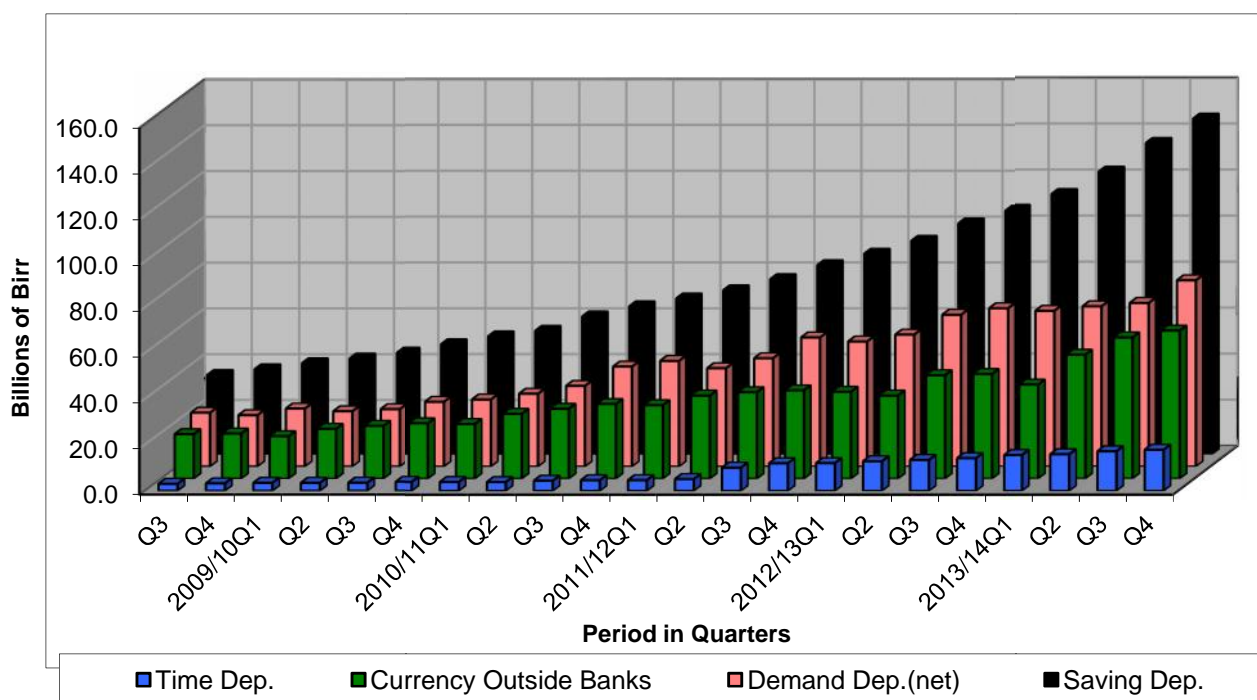
Table 4.2: Components of Broad Money

(In millions of Birr)

Particulars	2013	2014		Percentage Change		Contributions of each Component to Broad Money Growth	
	QIV	QIII	QIV	C/A	C/B	Annual	Quarterly
	(June. 13)	(March.14)	(June. 14)				
	A	B	C				
<b>1. Narrow Money Supply</b>	<b>114,745.7</b>	<b>121,022.2</b>	<b>134,049.2</b>	<b>16.8</b>	<b>10.8</b>	<b>30.9</b>	<b>53.7</b>
. Currency outside banks	45,671.0	49,975.3	53,161.4	16.4	6.4	12.0	13.1
. Demand Deposits (net)	69,074.7	71,046.9	80,887.8	17.1	13.9	18.9	40.6
<b>2. Quasi-Money</b>	<b>120,567.9</b>	<b>152,446.8</b>	<b>163,682.8</b>	<b>35.8</b>	<b>7.4</b>	<b>69.1</b>	<b>46.3</b>
. Savings Deposits	106,276.2	135,254.2	145,810.5	37.2	7.8	63.3	43.5
. Time Deposits	14,291.7	17,192.6	17,872.3	25.1	4.0	5.7	2.8
<b>3. Broad Money Supply</b>	<b>235,313.6</b>	<b>273,469.0</b>	<b>297,732.0</b>	<b>26.5</b>	<b>8.9</b>	<b>100.0</b>	<b>100.0</b>

Source NBE: Staff Computation

Fig. IV. 3: Composition of Monetary Stock



Source: NBE Staff computation

## 4.2. Developments in Reserve Money and Monetary Ratio

Reserve money reached Birr 89.0 billion at the end of the fourth quarter of 2013/14, depicting an annual increment of 18.7 percent and a quarterly growth of 5.2 percent. Similarly, excess reserves of commercial banks increased by 5.9 and 0.6 percent respectively during the same period.

The money multiplier, measured by the ratio of broad money to reserve money, grew by 3.1

percent on annual terms signifying increased monetization of the economy. On the other hand, the ratio of narrow money to reserve money showed a 4.4 percent annual decline owing to expansion of banking services that resulted in higher mobilization of quasi-money deposits (Table 4.3).

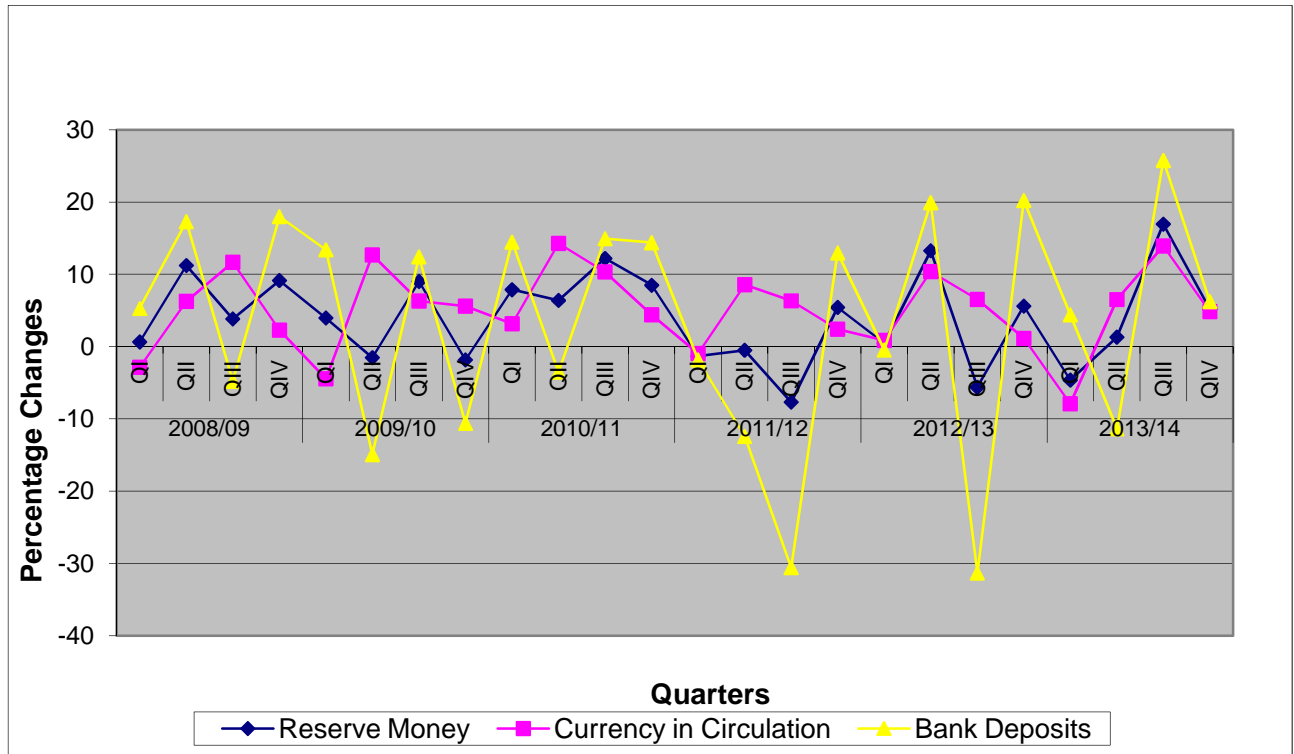
**Table 4.3: Monetary Aggregates and Ratios**

(In Millions of birr unless otherwise indicated)

Particulars	2013		2014		Percentage Change	
	Qtr. IV	Qtr. III	Qtr. IV			
	(Jun. 13)	March. 14)	(Jun. 14)			
	A	B	C	C/A	C/B	
<b>1. Reserve Requirement (CB's)</b>	11,708.8	13,574.6	14,479.4	23.7	6.7	
<b>2. Actual Reserve (CB's)</b>	21,160.9	23,524.6	24,493.3	15.7	4.1	
<b>3. Excess Reserve (CB's)</b>	9,452.1	9,950.0	10,013.9	5.9	0.6	
<b>4. Reserve Money</b>	74,942.3	84,536.9	88,951.0	18.7	5.2	
. Currency in Circulation	54,917.7	61,372.5	64,340.5	17.2	4.8	
. Banks deposits at NBE	20,024.6	23,164.4	24,610.5	22.9	6.2	
<b>5. Money Multiplier (Ratio):</b>						
. Narrow Money to Reserve Money	1.5	1.4	1.5	-1.6	5.3	
. Broad Money to Reserve Money	3.1	3.2	3.3	6.6	3.5	
<b>6. Other Monetary Ratios (%):</b>						
. Currency to Narrow Money	47.9	50.7	48.0	0.3	-5.4	
. Currency to Broad Money	23.3	22.4	21.6	-7.4	-3.7	
. Narrow Money to Broad Money	48.8	44.3	45.0	-7.7	1.7	
. Quasi Money to Broad Money	51.2	55.7	55.0	7.3	-1.4	

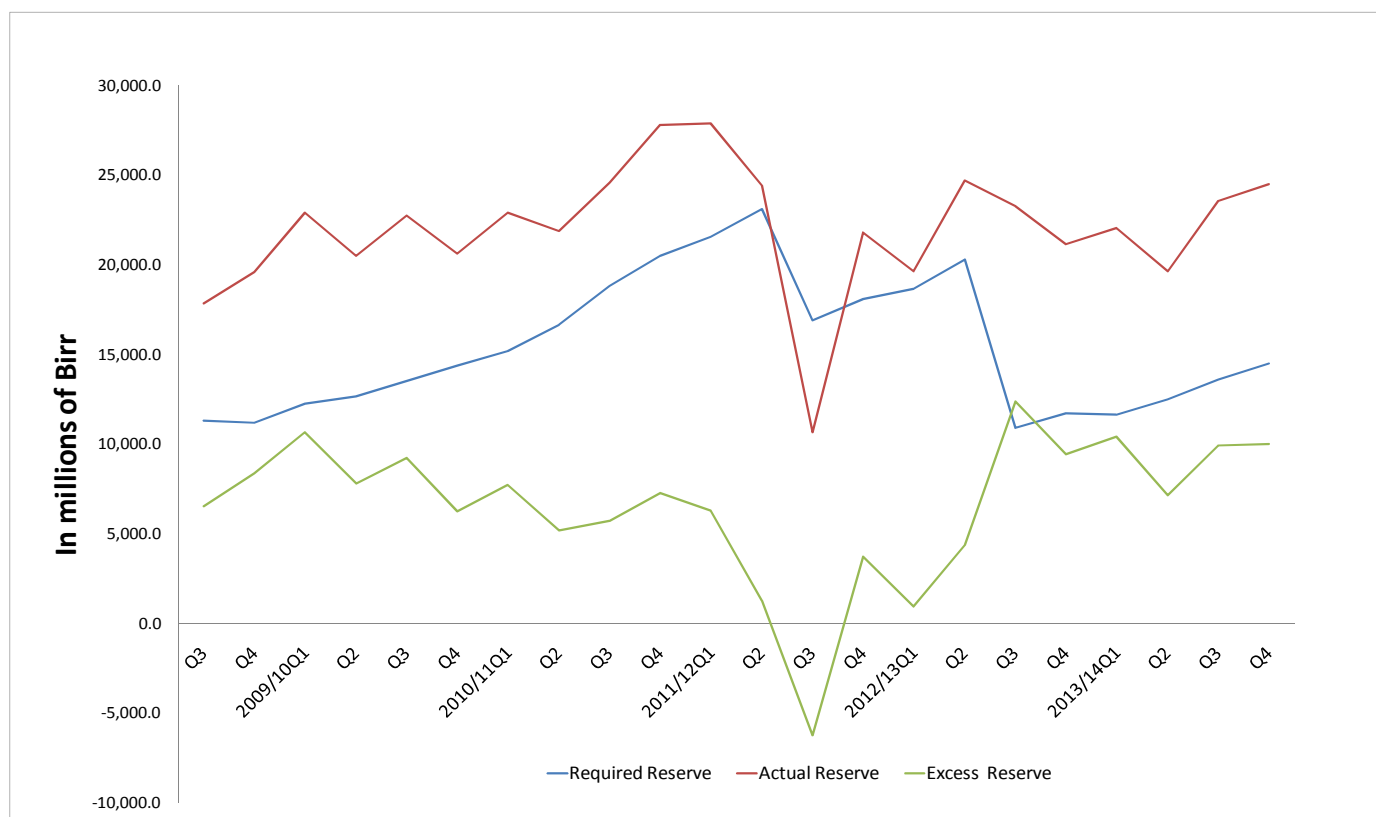
Source: NBE, and Commercial Banks

Fig. IV.4: Quarterly Growth of Reserve Money and Its Components



Source: NBE, Staff Computation

Fig IV.5: Monetary Aggregates



Source: NBE, Staff Computation

### 4.3. Interest Rate Developments

Average savings deposit and lending rates remained unchanged at 5.4 and 11.88 percent, respectively. Weighted average time deposit rate, however, slightly fell by 0.1 percentage points on annual bases.

On the other hand, weighted average yield on T-bills decreased to 1.33 percent from 1.86 percent a year ago.

Considering annual headline inflation of 8.5 percent in June 2014, all deposit rates and T-bills yield remained negative while average lending rate was positive in real terms.(Table 4.4)

Table 4.4: Interest Rate Structure of Commercial Banks

(Percent per annum)

Particulars	2012/13	2013/14		Changes	
	QIV	QIII	QIV	Annual	Quarterly
<b>1. Savings Deposit Rate 1/</b>					
Minimum	5.00	5.00	5.00	0.0	0.0
Maximum	5.75	5.75	5.75	0.0	0.0
<b>Average Saving Rate</b>	<b>5.38</b>	<b>5.38</b>	<b>5.38</b>	<b>0.0</b>	<b>0.0</b>
<b>2. Time Deposits</b>					
Up to 1yr	5.57	5.80	5.55	-0.3	-4.3
1-2 years	5.68	5.92	5.68	-0.1	-4.1
Over 2 yrs	5.74	5.97	5.74	0.1	-3.9
<b>Average Time Dep. Rate (Weighted)</b>	<b>5.66</b>	<b>5.90</b>	<b>5.66</b>	<b>-0.1</b>	<b>-4.1</b>
<b>3. Demand Deposit (Weighted)</b>	<b>0.03</b>	<b>0.02</b>	<b>0.03</b>	<b>10.0</b>	<b>23.5</b>
<b>4. Lending Rate 2/</b>					
Minimum	7.50	7.50	7.50	0.0	0.0
Maximum	16.25	16.25	16.25	0.0	0.0
<b>Average Lending Rate</b>	<b>11.88</b>	<b>11.88</b>	<b>11.88</b>	<b>0.0</b>	<b>0.0</b>
<b>5. T-bills Rate (Weighted)</b>	<b>1.86</b>	<b>1.26</b>	<b>1.33</b>	<b>-28.7</b>	<b>5.0</b>
<b>6. GERD Bond Yield 3/</b>					
6.1 Maturity within 5 Years	5.50	5.50	5.50	0.0	0.0
6.1 Maturity above 5 Years	6.00	6.00	6.00	0.0	0.0
<b>7. Headline Inflation (Year-on-year)</b>	<b>7.40</b>	<b>8.80</b>	<b>8.50</b>	<b>14.9</b>	<b>-3.4</b>
<b>8. Food Inflation (Year-on-year)</b>	<b>3.70</b>	<b>6.10</b>	<b>6.20</b>	<b>67.6</b>	<b>1.6</b>
<b>9. Core/non-food Inflation (Year-on-year)</b>	<b>11.90</b>	<b>11.80</b>	<b>11.00</b>	<b>-7.6</b>	<b>-6.8</b>

1/ Minimum interest rate on saving bond is set by NBE, where as the maximum indicates the highest rate some banks are paying voluntarily.

2/ NBE has no control on lending rates and the minimum & maximum rates presented here are determined by the market.

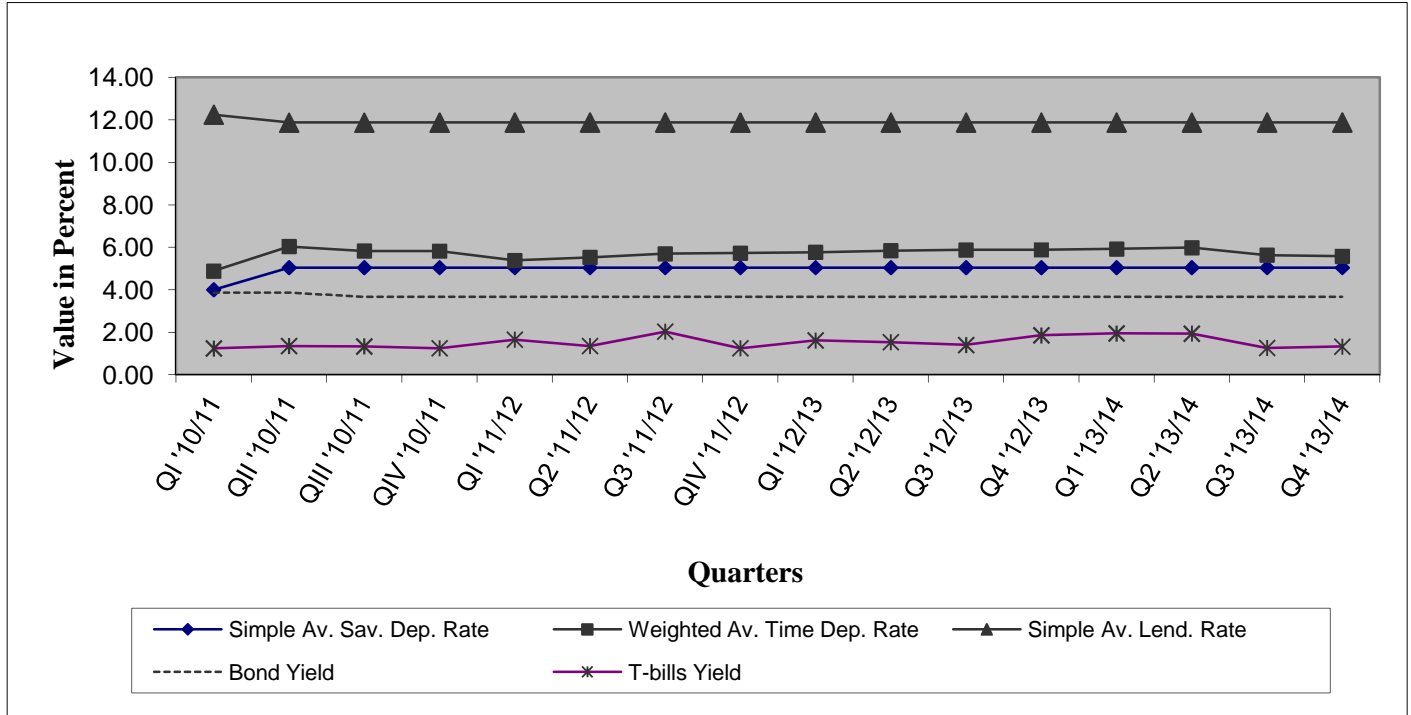
3/ GERD stands for Grand Ethiopian Renaissance Dam

Source: NBE, Staff Computation



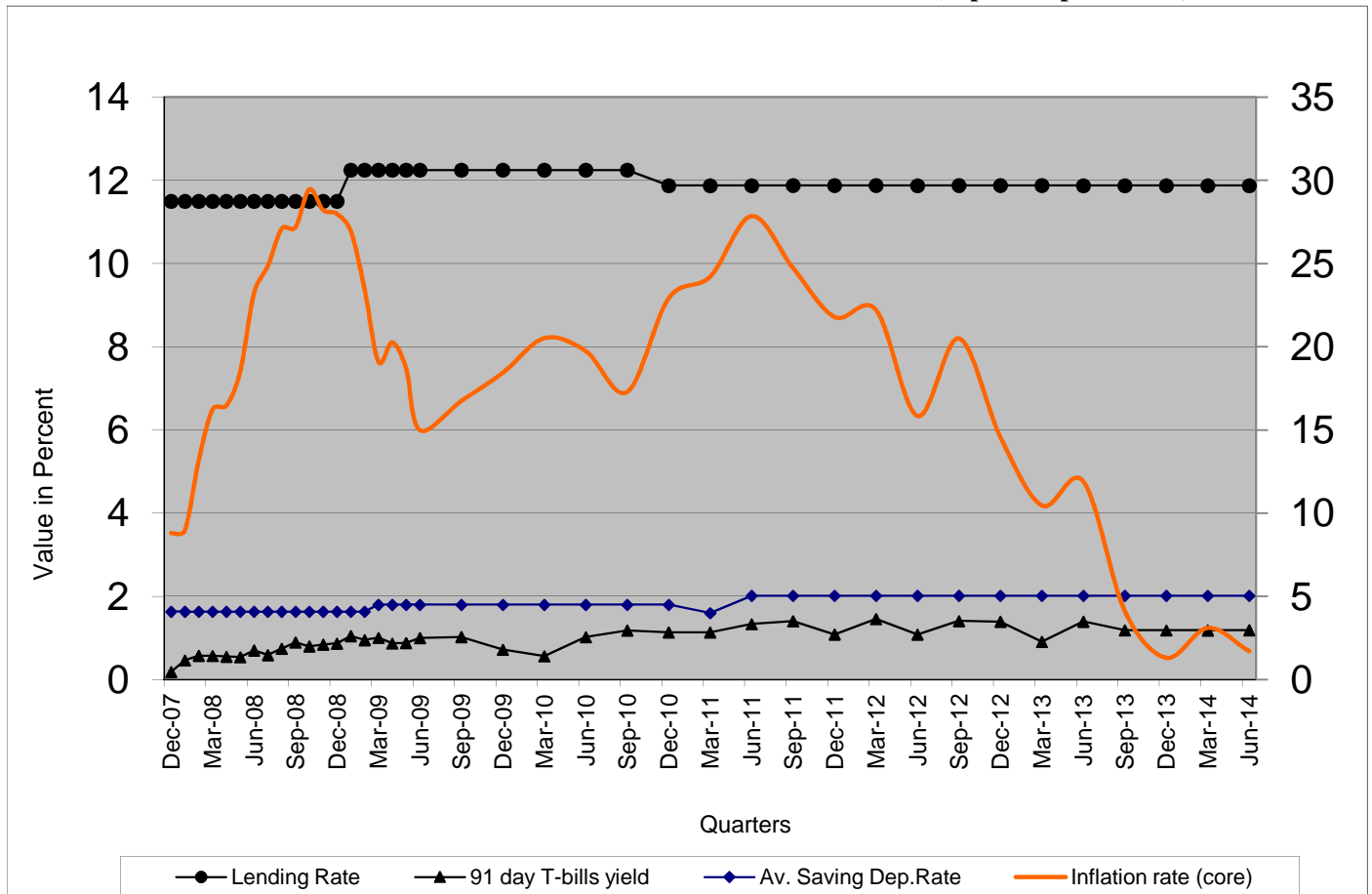
Fig IV.6: Interest Rate Structure of Commercial Banks

(In percent per annum)



Source: NBE and Commercial Banks

Fig IV.7: Average Lending Rate, Average Saving Deposit Rate, 91-day T-bills Yield & Core Inflation Rate (in percent per annum)



\*While the inflation rate (core) is depicted on the right axis, lending rate, 91 day T-bills yield and average saving deposit rate are shown on the left axis

Source: NBE, Staff computation

#### **4.4. Developments in the Financial Sector**

Banks, insurance companies and microfinance institutions are the main financial institutions operating in Ethiopia. The number of banks in the country reached 19 as at end June 2014, of which 16 were privately owned.

During the review quarter, 100 new bank branches were opened, raising the total number of bank branches to 2,208. As a result, the ratio of total bank branches to population went down to 39,834<sup>3</sup> from 49,674.8 in the previous year, reflecting a significant annual improvement in financial service outreach.

About 34.1 percent of the total bank branches were located in Addis Ababa. Of the total bank branches, the share of private banks increased marginally to 55 percent from 54 percent in the preceding quarter due to the opening of 70 new branches by private banks surpassing 30 new branches opened by public banks during the review quarter.

Meanwhile, the total capital of the banking system increased by 3.2 percent over last quarter and reached Birr 26.4 billion of which 55.3 percent was that of private banks. Commercial Bank of Ethiopia, the biggest state owned bank, alone accounted for 34.2 percent of the total capital of the banking system, the remaining balance (10.5 percent) being attributed to Development Bank of Ethiopia and Construction & Business Bank (Table 4.5).

The number of insurance companies operating in the country was 17, of which 16 were private. The number of insurance branches increased to 332 from 323 during the preceding quarter. Of the total branches, about 54.8 percent were situated in Addis Ababa.

During the review quarter, the total capital of the insurance industry increased by 9.6 percent on quarterly basis and reached Birr 2.0 billion. The share of private insurance companies stood at 79.0 percent against 78.0 percent in the preceding quarter (Table 4.6).

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<sup>3</sup> Total population is a CSA estimation of 87,953,030.4 as of 2013/14 FY.

On the other hand, there were 31 micro-finance institutions (MFIs) operating in the country. These MFIs mobilized a total saving deposit to the tune of Birr 11.8 billion, which was 15.9 and 54.8 percent higher than the preceding quarter and last year same period, respectively. Similarly, outstanding credit of the MFIs scaled up by 18.8 percent and 31.9 percent during the same period and reached Birr 16.9 billion. As a result, their total assets increased by 8.5 percent on quarterly and 38.6 percent on annual bases and reached Birr 24.5 billion by end June 2014 (Table 4.7). Given

their intended purpose, MFIs in the country are showing a significant role in poverty reduction, asset building and mobilization of savings from low-income groups of the population.

The top five largest MFIs (Amhara, Dedebeit, Oromia, Omo and Addis Credit and Savings Institutes) accounted for 84.6 percent of the total capital, 94.2 percent of the savings, 90.1 percent of the credit and 90.5 percent of the total assets of the industry.

**Table 4.5: Capital and Branch Network of the Banking System**

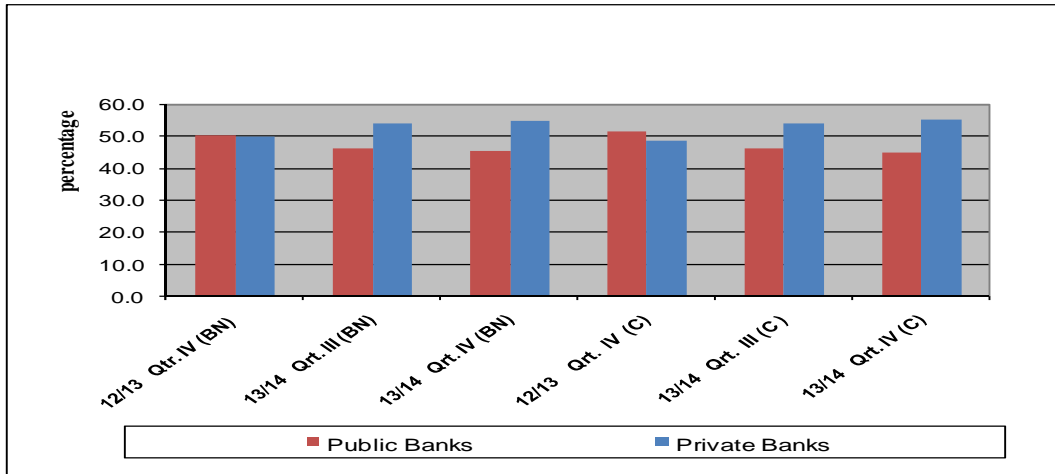
(Branch in Number & Capital in Millions of Birr)

Banks	Branch Network												Capital			
	2012/13				2013/14								2012/2013	2013/2014		
	Quarter IV				Quarter III				Quarter IV				Quarter IV	Quarter III	Quarter IV	
	Reg	A.A	Total	%	Reg.	A.A	Total	%	Reg.	A.A	Total	%				
<b>1. Public Banks</b>																
Commercial Bank of	595	137	732	85	680	147	827	39	700	156	856	39	9,027.0	9,045	9,045	
Construction &	63	42	105	12	68	46	114	5	68	47	115	5	465.0	642	642	
Development Bank of	31	1	32	4	31	1	32	2	31	1	32	1	2,554.0	2,134	2,135	
<b>Total Public Banks</b>	<b>689</b>	<b>180</b>	<b>869</b>	<b>50</b>	<b>779</b>	<b>194</b>	<b>973</b>	<b>46</b>	<b>799</b>	<b>204</b>	<b>1,003</b>	<b>45</b>	<b>12,046.0</b>	<b>11,821</b>	<b>11,822</b>	
<b>2. Private Banks</b>																
Awash International	47	67	114	13	54	87	141	7	62	90	152	7	1,628.0	1,968	1,979	
Dashen Bank	59	53	112	13	67	65	132	6	69	73	142	6	1,493.0	1,832	1,994	
Abyssinia Bank	41	45	86	10	52	53	105	5	55	54	109	5	909.0	1,208	1,326	
Wegagen Bank	38	41	79	9	49	47	96	5	51	49	100	5	1,570.0	1,807	1,826	
United Bank	30	45	75	9	39	54	93	4	44	55	99	4	951.0	1,256	1,334	
Nib International Bank	30	42	72	8	39	54	93	4	39	55	94	4	1,453.0	1,652	1,731	
Cooperative Bank of	62	12	74	9	83	21	104	5	84	21	105	5	549.0	608	740	
Lion International Bank	23	22	45	5	34	26	60	3	35	27	62	3	415.0	487	514	
Oromia International	44	21	65	8	70	26	96	5	80	29	109	5	490.0	585	594	
Zemen Bank	3	5	8	1	3	6	9	0	3	6	9	0	400.0	527	529	
Buna International Bank	20	13	33	4	39	20	59	3	41	22	63	3	321.0	410	447	
Berhan International	11	11	22	3	17	20	37	2	22	26	48	2	340.0	410	489	
Abay Bank	37	10	47	5	54	16	70	3	54	16	70	3	300.0	382	395	
Addis Interational Bank	2	9	11	1	5	13	18	1	5	16	21	1	205.0	253	278	
Debub Global Bank	10	4	14	2	12	7	19	1	12	7	19	1	114.0	166	177	
Enat Bank S.C	0	2	2	0	-	3	3	0	-	3	3	0	162.0	251	262	
<b>Total Private</b>	<b>457</b>	<b>402</b>	<b>859</b>	<b>50</b>	<b>617</b>	<b>518</b>	<b>1,135</b>	<b>54</b>	<b>656</b>	<b>549</b>	<b>1,205</b>	<b>55</b>	<b>11,300</b>	<b>13,802</b>	<b>14,615</b>	
<b>3.Grand Total</b>	<b>1,146</b>	<b>582</b>	<b>1,728</b>	<b>100</b>	<b>1,396</b>	<b>712</b>	<b>2,108</b>	<b>100</b>	<b>1,455</b>	<b>753</b>	<b>2,208</b>	<b>100</b>	<b>23,346</b>	<b>25,622</b>	<b>26,437</b>	

Source: NBE Bank Supervision Directorate,

Reg. Stands for Region

FigIV.5: Capital and Branch Network of Banking System



Source: NBE Staff computation

Table 4.6: Branch Network & Capital of Insurance Companies

(Branch in Number & Capital in Millions of Birr)

S.No.	Insurance Companies	Branch									Capital		
		2012/13			2013/14						2012/13	2013/14	
		Quarter IV			Quarter III			Quarter IV			Quarter IV	Quarter III	Quarter IV
		A.A	Reg	Total	A.A	Reg	Total	A.A	Reg	Total	Capital	Capital	Capital
1	Ethiopian Insurance Corporation	11	38	49	18	44	62	18	44	62	376.0	399	434
2	Awash Insurance Company	20	12	32	21	12	33	21	12	33	145.7	167	183
3	Africa Insurance Company	6	7	13	6	7	13	8	7	15	106.5	136	135
4	National Insurance Corporation of Ethiopia	9	10	19	9	11	20	9	12	21	54.9	60	73
5	United Insurance Company	16	8	24	18	10	28	18	10	28	88.9	188	203
6	Global Insurance Company	6	5	11	6	5	11	6	5	11	44.2	59	67
7	Nile Insurance Company	11	12	23	14	14	28	14	14	28	158.9	185	182
8	Nyala Insurance Company	12	9	21	12	9	21	12	9	21	163.0	193	206
9	Nib Insurance Company	15	8	23	16	8	24	17	8	25	151.8	191	207
10	Lion Insurance Company	11	5	16	14	6	20	14	6	20	52.7	83	83
11	Ethio-Life Insurance Company	3	0	3	6	1	7	6	1	7	25.9	19	20
12	Oromia Insurance Company	12	8	20	14	11	25	14	11	25	76.6	91	119
13	Abay Insurance Company S.C.	3	4	7	7	5	12	7	7	14	12.1	34	49
14	Berhan insurance S.C	6	1	7	6	1	7	6	1	7	15.5	14	22
15	Tsehay Insurance S.C.	5	0	5	6	1	7	6	2	8	7.9	19	24
16	Lucy	0	0	0	2	1	3	2	1	3	8.4	9	17
17	Bunna Insurance S.C.	0	0	0	2	-	2	4	-	4	0.0	8	9
	<b>TOTAL</b>	<b>146</b>	<b>127</b>	<b>273</b>	<b>177</b>	<b>146</b>	<b>323</b>	<b>182</b>	<b>150</b>	<b>332</b>	<b>1,489</b>	<b>1,856</b>	<b>2,034</b>

Source: NBE, Insurance Supervision Directorate

**Table 4.7: Microfinance Institutions Performance as of June 30, 2014**

(In Thousands of Birr)

Particulars	2012/13		2013/14		% Change	
	Qtr.IV		Qtr.III	Qtr.IV	C/A	C/B
	A	B	C			
Total Capital	4,536,577.6	5,448,886.0	5,652,005.70		24.6	3.7
Saving	7,611,397.0	10,168,201.8	11,784,059.60		54.8	15.9
Credit	12,781,816.6	14,183,767.8	16,855,556.80		31.9	18.8
Total Assets	17,700,416.3	22,622,154.3	24,535,850.00		38.6	8.5

Source: NBE, Microfinance Supervision Directorate

## 4.5. Activities of the Banking System

### 4.5.1. Resource Mobilization

Total resources mobilized by the banking system went up by 9.9 percent over the preceding quarter due to an increase in net change in borrowing and loans collected which offset the quarterly fall in net change of deposits. Similarly, year-on-year basis, total resources mobilized by the banking

system increased by 21.7 percent due to higher net change in deposits and loan collections by 23.7 percent 26.0 percent, respectively, (Table 4.8).

**Table 4.8: Summary of Resource Mobilization & Disbursement of the Banking System**

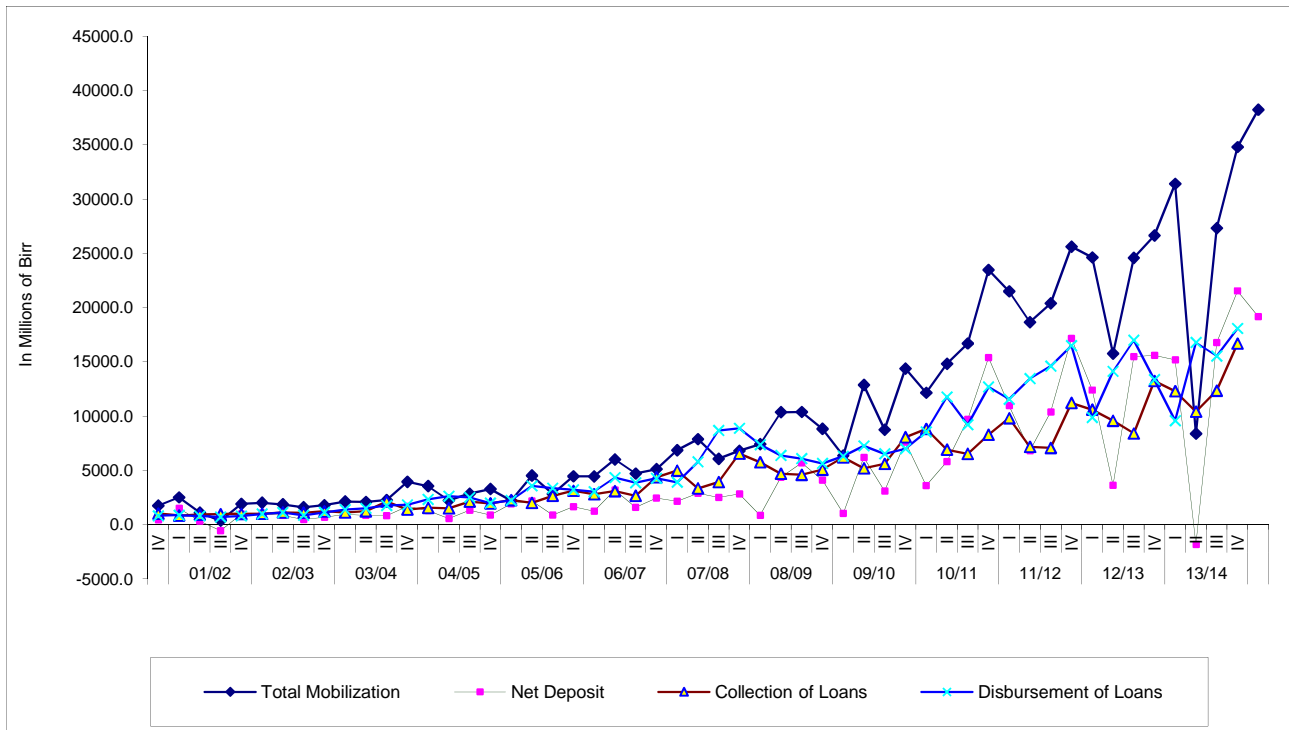
(In Millions of Birr)

Particulars	Public Banks		Private Banks		Grand Total			% Change	
	1		2		(3) = (1) + (2)				
	Qtr.III	Qtr.IV	Qtr.III	Qtr.IV	Qtr.IV	Qtr.III	Qtr.IV		
	2013/14	2013/14	2013/14	2013/14	2012/13	2013/14	2013/14	C/A	C/B
1. Deposits (net change)	15,032.3	11,766.2	6,507.4	7,397.3	15,486.6	21,539.6	19,163.5	23.7	-11.0
-Demand	6,257.2	4,953.4	1,829.8	2,974.8	8,300.0	8,087.0	7,928.2	-4.5	-2.0
-Saving	8,959.9	6,799.5	3,536.9	3,756.1	6,450.3	12,496.8	10,555.6	63.6	-15.5
-Time	-184.8	13.3	1,140.6	666.3	736.2	955.8	679.7	-7.7	-28.9
2. Borrowing (net change)	903.5	2,381.6	0.0	0.0	2,674.4	903.5	2,381.6	-10.9	163.6
-Local	401.7	2,077.9	0.0	0.0	2,144.4	401.7	2,077.9	-3.1	417.2
-Foreign	501.8	303.7	0.0	0.0	530.0	501.8	303.7	-42.7	-39.5
3. Collection of Loans	5,965.5	8,828.7	6,380.5	7,856.7	13,242.5	12,346.0	16,685.5	26.0	35.1
4. Total Resources Mobilized (1+2+3)	21,901.3	22,976.5	12,887.8	15,254.0	31,403.5	34,789.1	38,230.5	21.7	9.9
5. Disbursement	10,907.9	11,622.8	4,622.5	6,453.5	13,363.1	15,530.5	18,076.3	35.3	16.4
6. Change in Liquidity (4-5)	10,993.4	11,353.7	8,265.3	8,800.5	18,040.4	19,258.7	20,154.2	11.7	4.6
Memorandum Item:									
A. Outstanding Credit*	111,181.7	114,598.1	51,777.5	53,691.1	135,829.9	162,959.2	168,289.1	23.9	3.3
B. Outstanding Interbank Lending	0.0	65.9	0.0	0.0	0.0	0.0	65.9	0.0	0.0

Source: Commercial Banks and staff computation

Notes: \*Excludes bonds and treasury bills holding of commercial banks and Development Bank of Ethiopia (DBE)

Fig IV.9: Trends in Resource Mobilization and Disbursement of Loans



Source: NBE, Staff computation

#### 4.5.1.1. Deposit Mobilization

Total deposit liabilities of the banking system reached Birr 292.8 billion at the end of the fourth quarter, indicating a 7.0 percent quarterly and 23.5 percent annual growth rates. The growth in deposit mobilization was partly attributed to an expansion in the number of bank branches and improvements in economic activities.

Component wise, demand deposits, which accounted for 44.0 percent of total deposits, reached Birr 128.8 billion showing a 6.6 percent quarterly and 10.9 percent annual

growth rates. Similarly, saving deposits increased by 7.8 percent and 37.2 percent respectively, and constituted 49.8 percent of total deposits of the review period. Time deposits, which constituted 6.2 percent in total deposit liabilities, went up by 3.9 percent and 23.5 percent compared to the previous quarter and same period of last year, respectively.

The share of public banks in total deposit outstanding was 68.5 percent while the private banks constituted the remaining balance (Table 4.9).



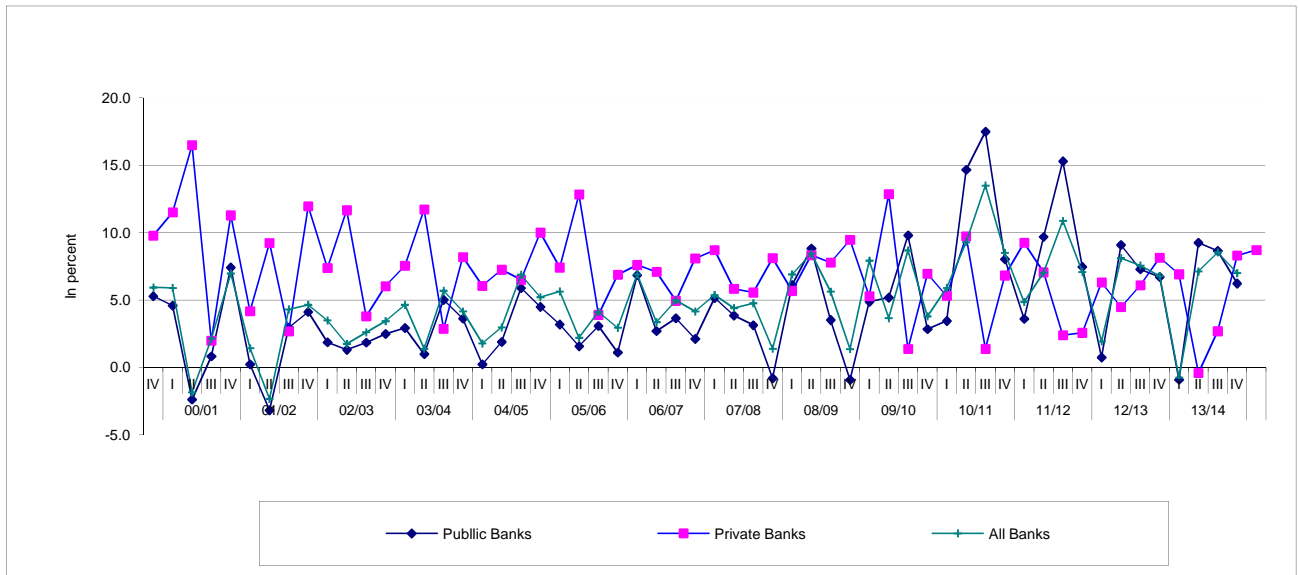
Table 4.9: Stock of Deposits Mobilized by the Banking System

(In Millions of Birr)

Deposit by types	Quarter IV 2012/13	% Share	Quarter III 2013/14	% Share	Quarter IV 2013/14	% Share	C/A	C/B
	A		B		C			
Demand Deposit	116,143.6	49.0	120,859.9	44.2	128,788.1	44.0	10.9	6.6
Saving Deposit	106,288.6	44.8	135,268.7	49.4	145,824.3	49.8	37.2	7.8
Time Deposit	14,769.2	6.2	17,555.7	6.4	18,235.4	6.2	23.5	3.9
<b>Total</b>	<b>237,201.3</b>	<b>100.0</b>	<b>273,684.4</b>	<b>100.0</b>	<b>292,847.9</b>	<b>100.0</b>	<b>23.5</b>	<b>7.0</b>
Share of Public Banks	67.7		69.0		68.5			
Share of Private Banks	32.3		31.0		31.5			

Source: Commercial Banks and DBE

Fig IV.10: Quarterly Net Change of Banks Deposit Liabilities by Ownership



Source: NBE, Staff Computation

#### 4.5.1.2. Collection of Loans

During the review period, the banking system collected Birr 16.7 billion, which was 35.1 percent higher than the preceding quarter and 26.0 percent against last year same period (Table 4.8). Of the total loan collection, private banks collected Birr 7.9

billion (47.1 percent) while public banks collected Birr 8.8 billion (52.9 percent) (Table 4.11). Of the total loan collection, 88.9 percent was from private sector (including cooperatives) (Table 4.12).

#### 4.5.1.3. Borrowing

Outstanding borrowing of the banking system reached Birr 27.3 billion, showing a 17.3 percent annual growth due to 48.2percent surge in foreign borrowings

.Of the total borrowing, Birr 23.9 billion (87.5 percent) was from domestic sources and the remaining Birr 3.4 billion (12.5 percent) from foreign sources (Table 4.10).

**Table 4.10: Public Outstanding Borrowing of the Banking System by Sources**

(In Millions of Birr)

Banks	2012/13	2013/14		Percentage change	
	Quarter IV	Quarter III	Quarter IV		
	A	B	C	C/B	C/A
Domestic Borrowing	20,974.8	21,822.9	23900.8	9.5	13.9
Foreign Borrowing	2,301.2	3,105.7	3409.4	9.8	48.2
<b>Total</b>	<b>23,276.1</b>	<b>24,928.5</b>	<b>27,310.1</b>	<b>9.6</b>	<b>17.3</b>

Source: Commercial Banks and Development Bank of Ethiopia

#### 4.5.2. Disbursement of Fresh Loans

Disbursement of fresh loans by the banking system reached Birr 18.1 billion, indicating a 16.4 percent quarterly and 35.3 percent annual growth, (Table 4.8). Public banks disbursed Birr 11.6 billion (64.3 percent) while that of private banks was Birr 6.5 billion (or 35.7 percent) (Table 4.12). The lion share (about 79 percent) of the new loan disbursement went to finance private sector (Table 4.12)

Sector wise, industry was the largest beneficiary accounting for Birr 6.9 billion (37.9 percent) followed by agriculture (Birr 3.39 billion or 18.7 percent), international trade (Birr 2.2 billion or 11.9 percent) domestic trade (Birr 2.1 billion or 11.7 percent), and housing and construction (Birr 1.9 billion or 10.8 percent) (Table 4.11).

**Table 4.11: Summary of Loans and Advances by Banks and Receiving Sectors**

(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 *	-	-	2,967.5	-	-	2.0	-	-	2,969.5
Agriculture	3,308.3	4,427.0	15,015.5	80.8	117.5	799.5	3,389.1	4,544.5	15,815.0
Industry	5,780.6	1,926.9	60,464.4	1,070.0	752.4	6,755.0	6,850.66	2,679.3	67,219.45
Domestic Trade	195.5	441.2	1,343.3	1,928.2	2,611.3	15,055.9	2,123.71	3,052.5	16,399.21
International Trade	510.7	851.7	17,792.6	1,640.8	2,718.8	14,787.0	2,151.53	3,570.5	32,579.60
Export	79.9	104.1	5,856.0	635.1	1,566.0	7,455.9	715.06	1,670.1	13,311.97
Imports	430.8	747.7	11,936.6	1,005.7	1,152.7	7,331.1	1,436.47	1,900.4	19,267.63
Hotels and Tourism	79.8	76.8	846.9	218.9	230.8	2,715.9	298.68	307.6	3,562.79
Transport & Communication	24.8	130.5	2,249.6	557.2	372.2	3,029.2	581.97	502.7	5,278.81
Housing & Construction	1,149.3	767.9	11,644.4	803.9	808.3	8,157.7	1,953.17	1,576.3	19,802.02
Mines, Power & Water Res.	171.8	10.7	458.8	2.6	13.3	87.9	174.45	24.0	546.71
Others	394.6	192.5	4,489.6	99.5	163.3	1,544.0	494.06	355.9	6,033.54
Personal	7.4	3.4	293.1	51.6	68.8	758.9	58.98	72.1	1,052.00
Inter-Bank Lending	0.0	0.0	65.9	0.0	0.0	0.0	-	0.0	65.94
<b>Total</b>	<b>11,622.9</b>	<b>8,828.7</b>	<b>117,631.5</b>	<b>6,453.5</b>	<b>7,856.7</b>	<b>53,693.1</b>	<b>18,076.3</b>	<b>16,685.5</b>	<b>171,324.6</b>

Notes: \*Refers to government borrowing in the form of bonds from commercial banks and DBE, other than NBE

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

### 4.5.3. Outstanding Credit

Outstanding credit of the banking system (excluding credit to government) increased to Birr 168.4 billion as of end June 2014, reflecting a 3.3 percent quarterly growth (Table 4.8).

About 67 percent of outstanding loan was a claim on private sector (including cooperatives) (Table 4.12).

Sector wise, credit to industry stood first with Birr 67.2 billion (39.2 percent) followed by international trade (Birr 32.5 billion or 19.0

percent), housing & construction (Birr 19.8 billion or 11.6 percent), domestic trade (Birr 16.4 billion or 9.6 percent), agriculture (Birr 15.8 billion or 9.2 percent) and the remaining balance was a claim on other sectors (Table 4.11).

The share of private banks in total outstanding loans and advances (excluding corporate bond purchases and credit to government) stood at 31.9 percent showing a marginal increase of 0.1 percentage points over the preceding quarter.

**Table 4.12: Breakdown of Loans & Advances of the Banking System by Clients**

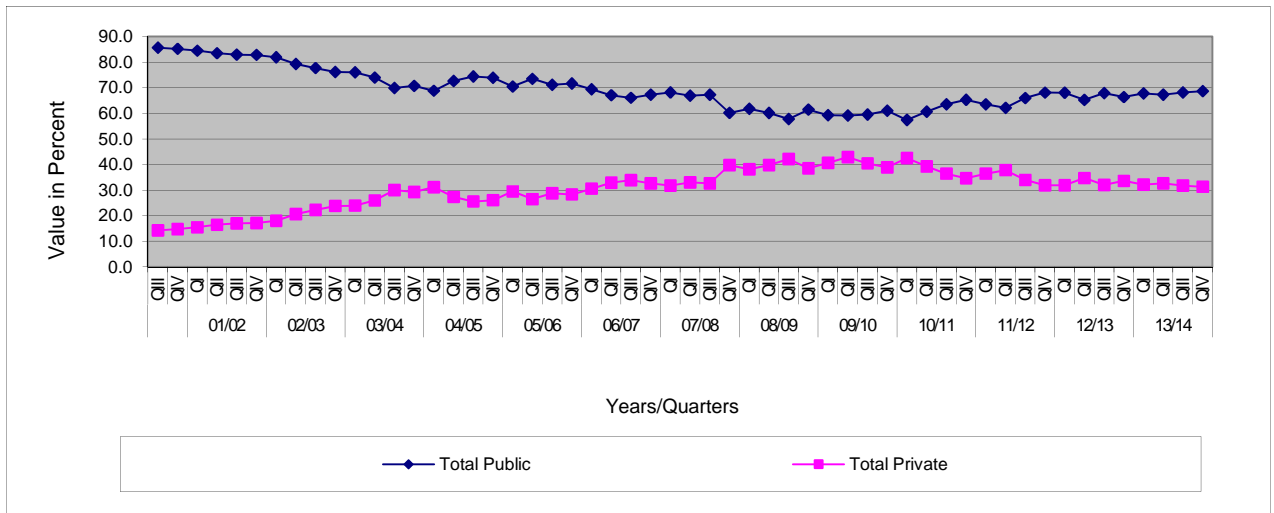
(In Millions of Birr)

Particulars	Loan Disbursement		Loan Collection		Outstanding Loan	
		% Share		% Share		% Share
<b>Public Banks</b>	<b>11,622.8</b>	<b>64.3</b>	<b>8,828.7</b>	<b>52.9</b>	<b>117,631.5</b>	<b>68.7</b>
Central Government*	0.0	0.0	0.0	0.0	2,967.5	2.5
State Enterprises	3,750.7	32.3	1,839.0	20.8	53,637.4	45.6
Cooperatives	2,907.8	25.0	4,186.4	47.4	11,892.7	10.1
Private Enterprises	4,964.3	42.7	2,803.3	31.8	49,068.0	41.7
Inter-bank Lending	0.0	0.0	0.0	0.0	65.9	0.1
<b>Private Banks</b>	<b>6,453.5</b>	<b>35.7</b>	<b>7,856.7</b>	<b>47.1</b>	<b>53,693.1</b>	<b>31.3</b>
Central Government*	0.0	0.0	0.0	0.0	2.0	0.0
State Enterprises	10.0	0.2	7.9	0.1	66.3	0.1
Cooperatives	24.4	0.4	39.1	0.5	772.1	1.4
Private Enterprises	6,419.1	99.5	7,809.7	99.4	52,852.7	98.4
Inter-bank Lending	0.0	0.0	0.0	0.0	0.0	0.0
<b>Grand Total</b>	<b>18,076.3</b>	<b>100.0</b>	<b>16,685.5</b>	<b>100.0</b>	<b>171,324.6</b>	<b>100.0</b>

Source: Commercial Banks and staff computation

Notes: \*Refers to government borrowing in the form of bonds from commercial banks.

Fig IV.12: Share of Public and Private Banks in Credit Outstanding



Source: NBE, Staff computation

#### 4.6. Financial Activities of NBE

As at June 30, 2014, total claims of NBE on the central government reached Birr 73.3 billion, showing a 13.6 percent increase over the same period last year. Of the credit to the central government, direct advance accounted for 87.7 percent, and bonds 12.3 percent. Direct advance increased by 16.3 percent while NBE's holdings of government bonds dropped by 2.2 percent during the same period.

Meanwhile, deposits of the central government and financial institutions at

NBE stood at Birr 34.4 billion, depicting a 6.7 percent quarterly decline and 16.7 percent annual increase. Of the total deposits, 26.4 percent was deposit of the central government which went down by 30.2 percent on quarterly and 0.4 percent annual terms (Table 4.13). On the other hand, deposits by financial institutions expanded by 24.3 percent and 6.2 percent as compared to last year same period and the preceding quarter, respectively.

**Table 4.13: Financial Activities of NBE during the Fourth Quarter of 2013/14**

Particulars	2012/13	2013/14		% Change	
	Qtr.IV	Qtr.III	Qtr.IV	C/A	C/B
	A	B	C		
<b>1.Loans and Advances</b>	<b>81,017.3</b>	<b>90,888.3</b>	<b>93,561.3</b>	<b>15.5</b>	<b>2.9</b>
1.1. To Central Government	64,510.3	73,381.3	73,304.3	13.6	-0.1
Direct Advance	55,264.9	64,264.9	64,264.9	16.3	0.0
Bonds	9,245.4	9,116.4	9,039.4	-2.2	-0.8
1.2. To Development Bank of Ethiopia	16,507.0	17,507.0	20,257.0	22.7	15.7
<b>2.Deposit Liabilities</b>	<b>29,464.1</b>	<b>36,834.4</b>	<b>34,374.1</b>	<b>16.7</b>	<b>-6.7</b>
2.1. Government	9,133.0	13,022.0	9,092.4	-0.4	-30.2
2.2. Financial Institutions	20,331.1	23,812.4	25,281.7	24.3	6.2
O/W:					
-Banks	20,295.4	23,764.8	25,230.7	24.3	6.2
-Insurance companies	35.7	47.5	51.0	42.7	7.3
<b>3.Net Claims of NBE</b>	<b>51,553.2</b>	<b>54,054.0</b>	<b>59,187.2</b>	<b>14.8</b>	<b>9.5</b>

Source: NBE

## **4.7. Developments in Financial Markets**

### **4.7.1. Treasury Bills Market**

During the fourth quarter of the fiscal year 2013/14, the amount of T-bills supplied to the weekly auction market was Birr 18.8 billion, reflecting a 25.0 percent annual contraction while demand for T-bills expanded by 14.0 percent to reach Birr 30.7 billion (Table 4.14).

Of the total T-bills sold, the share of commercial banks dropped to zero during the period under review as non-bank institutions were allowed to purchase the

whole amount.

In the meantime, outstanding T-bills at the end of the fourth quarter reached Birr 32.3 billion, reflecting a 24.0 annual growth.

The annual average weighted yield of T-bills during the review quarter was 1.326 percent which was 28.6 percent lower than a year earlier (Table 4.14).

Table 4.13: Results of Treasury Bills Auction

(In Millions of Birr)

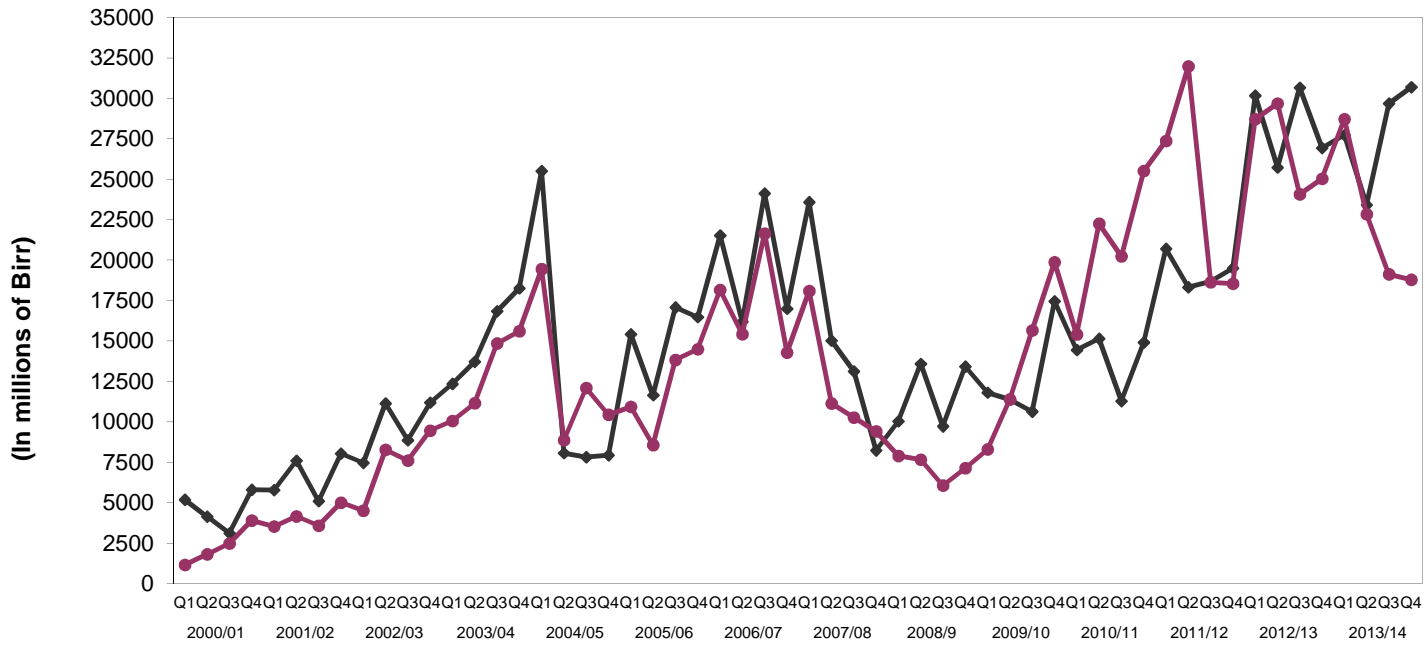
Particulars	2012/13		2013/14	% Change	
	Qtr.IV	Qtr.III	Qtr.IV	C/A	C/B
	A	B	C		
<b>Number of Bidders</b>	<b>147</b>	<b>102</b>	<b>77</b>	<b>-47.6</b>	<b>-24.5</b>
Public	65	51	54	-16.9	5.9
Private	82	51	23	-72.0	-54.9
<b>Number of Bids Accepted</b>	<b>269</b>	<b>192</b>	<b>113</b>	<b>-58.0</b>	<b>-41.1</b>
Public	78	68	70	-10.3	2.9
Private	191	124	43	-77.5	-65.3
<b>Amount Demanded (Mn.Birr)</b>	<b>26,930.9</b>	<b>30,378.4</b>	<b>30,695.9</b>	<b>14.0</b>	<b>1.0</b>
28-day bills	11,270.0	4,622.0	600.0	-94.7	-87.0
91-day bills	11,308.9	19,545.4	24,657.9	118.0	26.2
182-day bills	2,656.0	1,411.0	3,391.0	27.7	140.3
364-day bills	1,696.0	4,800.0	2,047.0	0.0	-57.4
<b>Amount Supplied (Mn.Birr)</b>	<b>25,028.1</b>	<b>19,118.9</b>	<b>18,782.4</b>	<b>-25.0</b>	<b>-1.8</b>
28-day bills	9,798.0	963.0	300.0	-96.9	-68.8
91-day bills	10,370.1	13,245.9	15,130.4	45.9	14.2
182-day bills	3,064.0	1,610.0	1,656.0	-46.0	2.9
364-day bills	1,796.0	3,300.0	1,696.0	0.0	-48.6
<b>Amount Sold (Mn.Birr)</b>	<b>26,930.9</b>	<b>19,820.4</b>	<b>22,551.9</b>	<b>-16.3</b>	<b>13.8</b>
Banks	10,920.0	0.0	0.0	-100.0	0.0
Non-Banks	16,010.9	19,820.4	22,551.9	40.9	13.8
<b>Average Weighted Price for Successful Bids(Birr)</b>	<b>99.209</b>	<b>99.257</b>	<b>99.227</b>	<b>0.0</b>	<b>0.0</b>
28-day bills	99.777	99.934	99.934	0.2	0.0
91-day bills	99.654	99.705	99.704	0.1	0.0
182-day bills	99.476	99.667	99.547	0.1	-0.1
364-day bills	97.930	97.721	97.721	0.0	0.0
<b>Average Weighted Yield for Successful Bids(%)</b>	<b>1.857</b>	<b>0.888</b>	<b>1.326</b>	<b>-28.6</b>	<b>49.4</b>
28-day bills	2.908	0.855	0.859	-70.5	0.4
91-day bills	1.395	1.184	1.189	-14.7	0.5
182-day bills	1.059	0.670	0.913	-13.8	36.4
364-day bills	2.067	0.842	2.342	13.3	178.1
<b>Outstanding bills at the end of Period (Mn.Br.)</b>	<b>26,044.9</b>	<b>28,492.4</b>	<b>32,286.9</b>	<b>24.0</b>	<b>13.3</b>
Banks	3,436.0	0.0	0.0	-100.0	0.0
Non-Banks	22,608.9	28,492.4	32,286.9	42.8	13.3

Source: NBE



Fig IV.14: Developments in T-Bills Market

(In Millions of Birr)

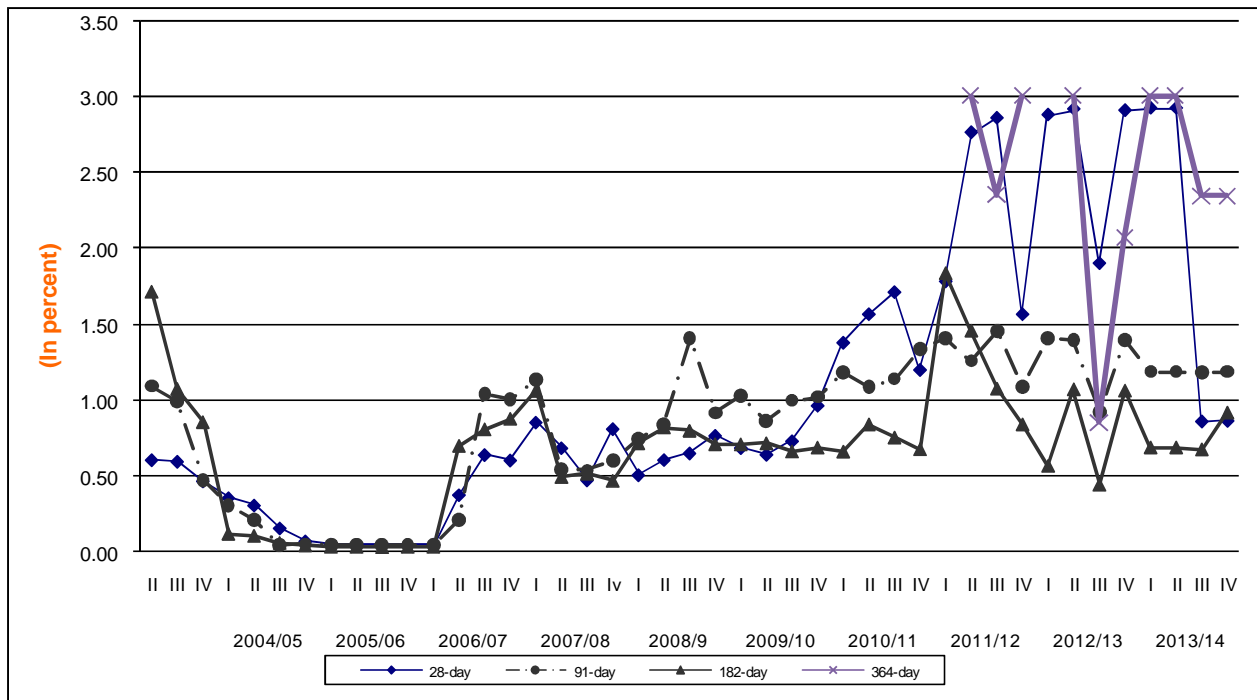


Source: NBE



Fig IV.14: Developments in Average Weighted Yields of T-bills with Different Maturities

(In Percent)



Source: NBE

#### **4.7.2. Inter- Bank Money Market**

There has been no inter-bank money market transaction conducted during the quarter under review (Table 4.12).

#### **4.7.3. Corporate Bond Market**

The big players in the corporate bond market are few public institutions and regional governments with Commercial Bank of Ethiopia (CBE) being the sole purchaser of these bonds.

During the quarter under review, CBE purchased corporate bonds worth Birr 8.4 billion, of which 60.7 percent was issued by public enterprises and the balance by regional governments.

At the end of June 30, 2014, the stock of corporate bonds held by CBE stood at Birr 109.1 billion, of which 83.8 percent was claims on public enterprises and the remaining balance on regional governments (Table 4.15). Corporate bonds issued by EEPCO accounted for 94.4 percent of the total bonds issued by public enterprises and 79.1 percent of the entire outstanding corporate bond balance.

Table 4.15: Corporate Bond by holders

(In Millions of Birr)

Issuer of the Bond	2012/13			2013/14					
	QIV			QIII			QIV		
	NP	Red	O/S	NP	Red	O/S	NP	Red	O/S
<b>1. Puplic Enterprises</b>	<b>4,200.0</b>	<b>0.0</b>	<b>65,788.7</b>	<b>7,000.0</b>	<b>24.0</b>	<b>86,964.7</b>	<b>5,100.0</b>	<b>632.3</b>	<b>91,443.4</b>
EPCO	4200.0	0.0	65100.0	7000.0	0.0	83200.0	3100.0	0.0	86300.0
Railways Corporation	0.0	0.0	0.0	0.0	0.0	3100.0	2000.0	0.0	5100.0
DBE	0.0	0.0	688.7	0.0	24.0	664.7	0.0	632.3	43.4
<b>2. Regional Governments</b>	<b>1,899.0</b>	<b>1,059.2</b>	<b>13,670.8</b>	<b>825.0</b>	<b>746.8</b>	<b>13,711.2</b>	<b>3,300.0</b>	<b>766.6</b>	<b>17,694.6</b>
Oromia	0.0	427.7	1392.7	0.0	72.2	852.6	0.0	58.0	794.6
Amhara	0.0	19.7	0.2	0.0	0.0	0.2	0.0	0.0	0.2
Tigray	0.0	76.9	580.4	0.0	126.6	284.0	0.0	11.7	272.3
SNNPRS	0.0	201.7	476.5	0.0	12.1	329.0	0.0	22.9	306.2
Dire Dawa	0.0	2.5	199.1	0.0	28.9	79.8	0.0	55.7	24.1
Harari	0.0	84.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Addis Ababa	1899.0	246.1	11021.8	825.0	507.0	13615.5	3300.0	618.3	16297.2
<b>3. Grand Total (1+2)</b>	<b>6,099.0</b>	<b>1,059.2</b>	<b>79,459.5</b>	<b>7,825.0</b>	<b>770.8</b>	<b>100,675.9</b>	<b>8,400.0</b>	<b>1,398.9</b>	<b>109,138.0</b>

Source: NBE

Note: NP= New Purchase, Red. = Redemption, O/S= outstanding