

4. MONETARY DEVELOPMENTS

4.1. Money Supply and Credit

Broad money supply (M₂) reached Birr 325.8 billion during the second quarter of 2014/15, indicating a quarterly growth rate of 7.0 percent and annual expansion of 29.1 percent. The annual expansion in broad money was mainly driven by 30.0 percent

and 17.5 percent rise in domestic credit and NFA, respectively. The annual growth in domestic credit was due to a 30.0 percent increase in credit to non-central government and 28.8 percent rise in net credit to central government (Table 4.1).

Table 4.1: Factors Influencing Broad Money

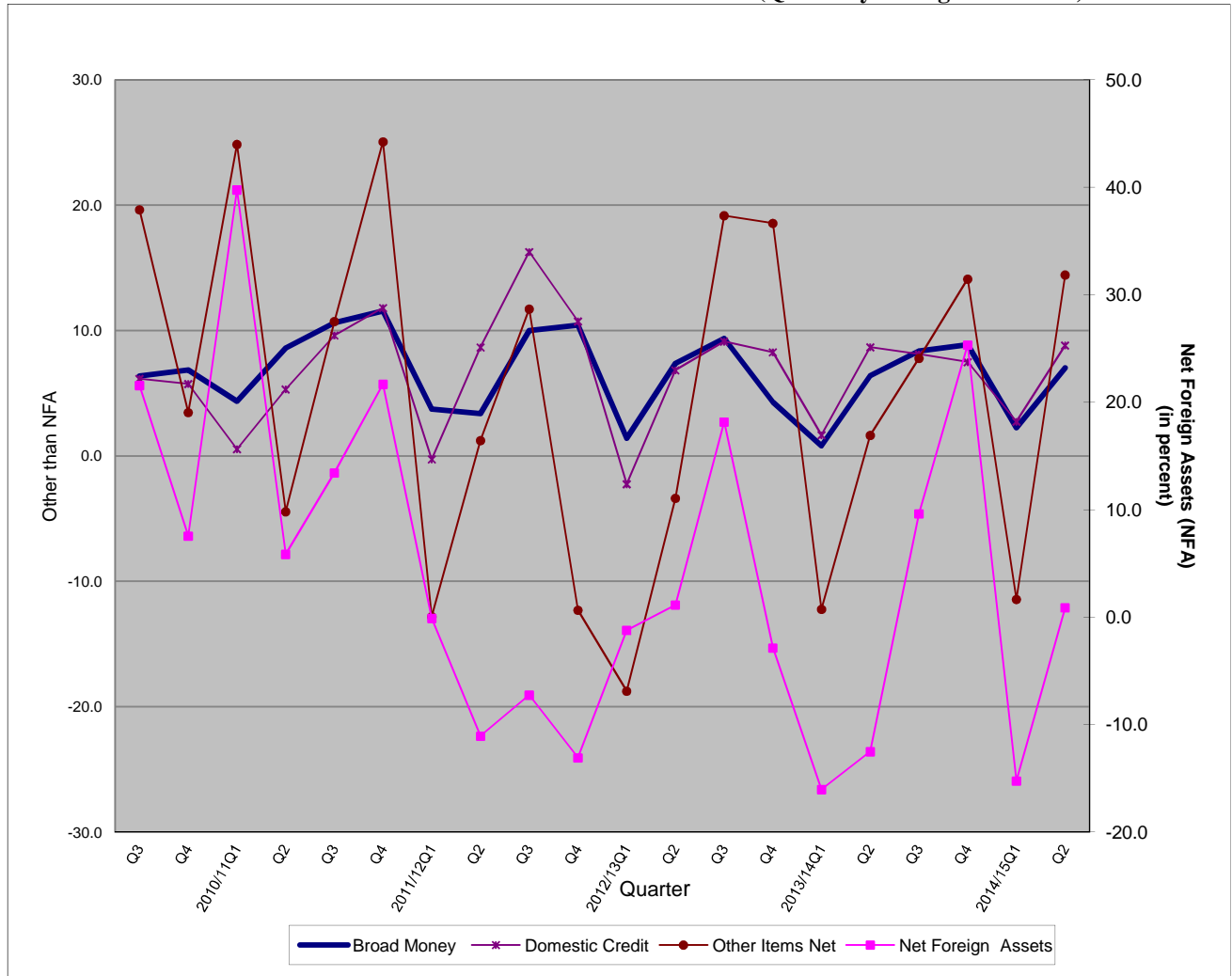
(In Millions of Birr, unless specified)

Particulars	2013		2014		Percentage Change		Contributions of each Component to Broad Money Growth	
	Qtr. II	Qtr. I	Qtr. II	D=C/A	E=C/B	Annual	Quarterly	
	(Dec.13)	(Sept.14)	(Dec.14)					
	A	B	C					
1. External Assets (net)	33,534.5	39,063.2	39,409.4	17.5	0.9	8.0	1.6	
2. Domestic Credit	257,897.0	307,971.8	335,149.9	30.0	8.8	105.1	127.2	
. Claims on Central Gov't (net)	18,308.9	25,470.0	23,581.2	28.8	-7.4	7.2	-8.8	
. Claims on Non-Central Gov't	239,588.1	282,501.8	311,568.7	30.0	10.3	98.0	136.0	
. Financial Institutions	17,207.0	21,957.0	22,157.0	28.8	0.9	6.7	0.9	
. Others	222,381.1	260,544.8	289,411.7	30.1	11.1	91.2	135.1	
3. Other Items (net)	39,079.9	42,581.0	48,733.1	24.7	14.4	13.1	28.8	
4. Broad Money (M ₂)	252,351.5	304,454.1	325,826.3	29.1	7.0	100.0	100.0	

Source: Staff computation, NBE

Fig IV.1: Major Determinants of Monetary Expansion

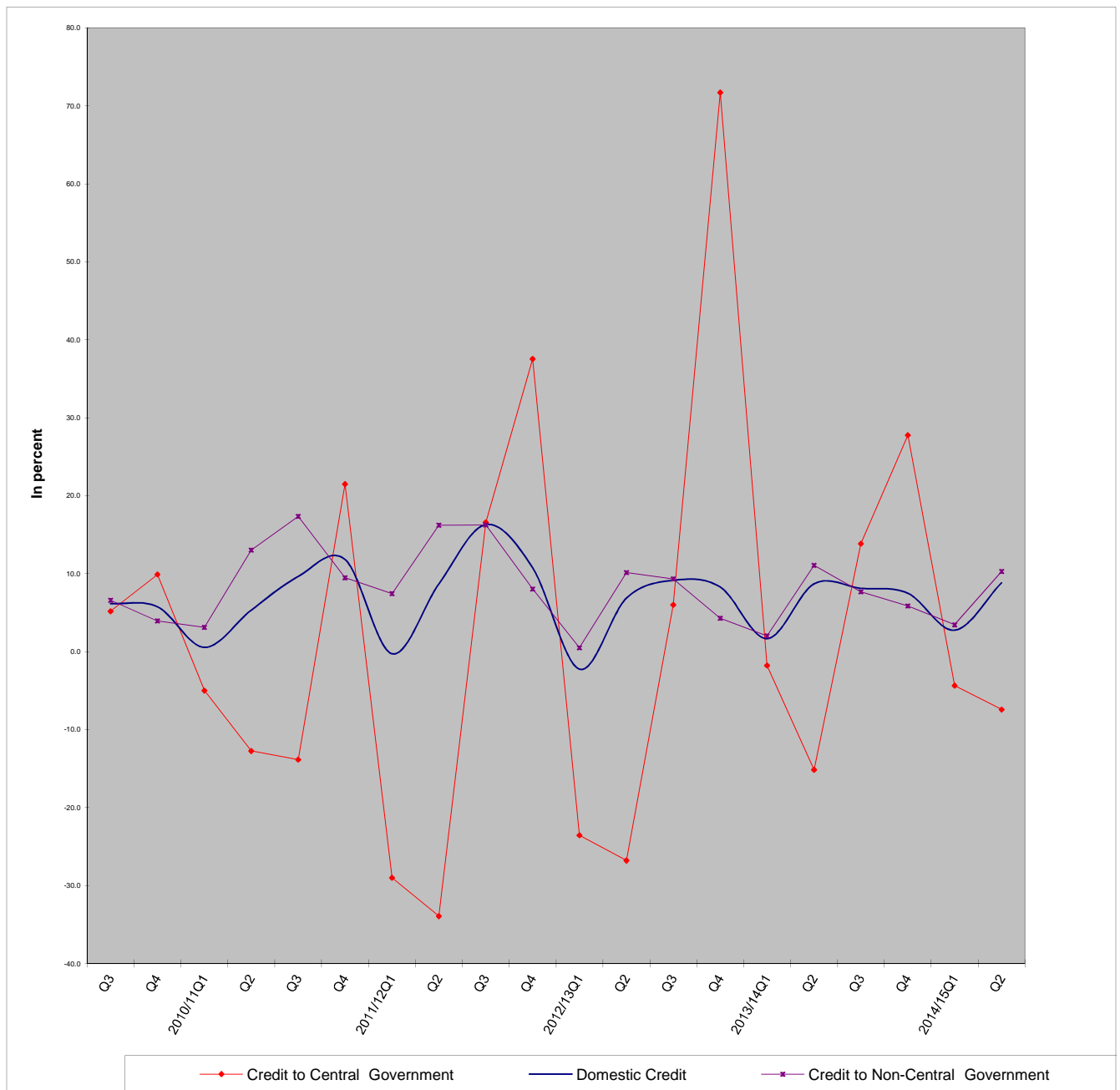
(Quarterly Change in Percent)



Source: Staff Computation, NBE

Fig IV.2: Composition of Domestic Credit

(Quarterly Change in Percent)



Source: Staff computation, NBE

The second quarter of 2014/15 witnessed an annual and quarterly expansion in all components of broad money. Accordingly, narrow money that comprises currency outside banks and net demand deposits, grew by 23.4 percent on annual and 7.7 percent on quarterly basis. Quasi-money, which constitutes saving and time deposits, also depicted a 33.8 percent annual and 6.5 percent quarterly rise. Year-on-

year basis, both narrow money and quasi-money contributed 36.1 and 63.9 percent share to the annual broad money growth rate (Table 4.2).

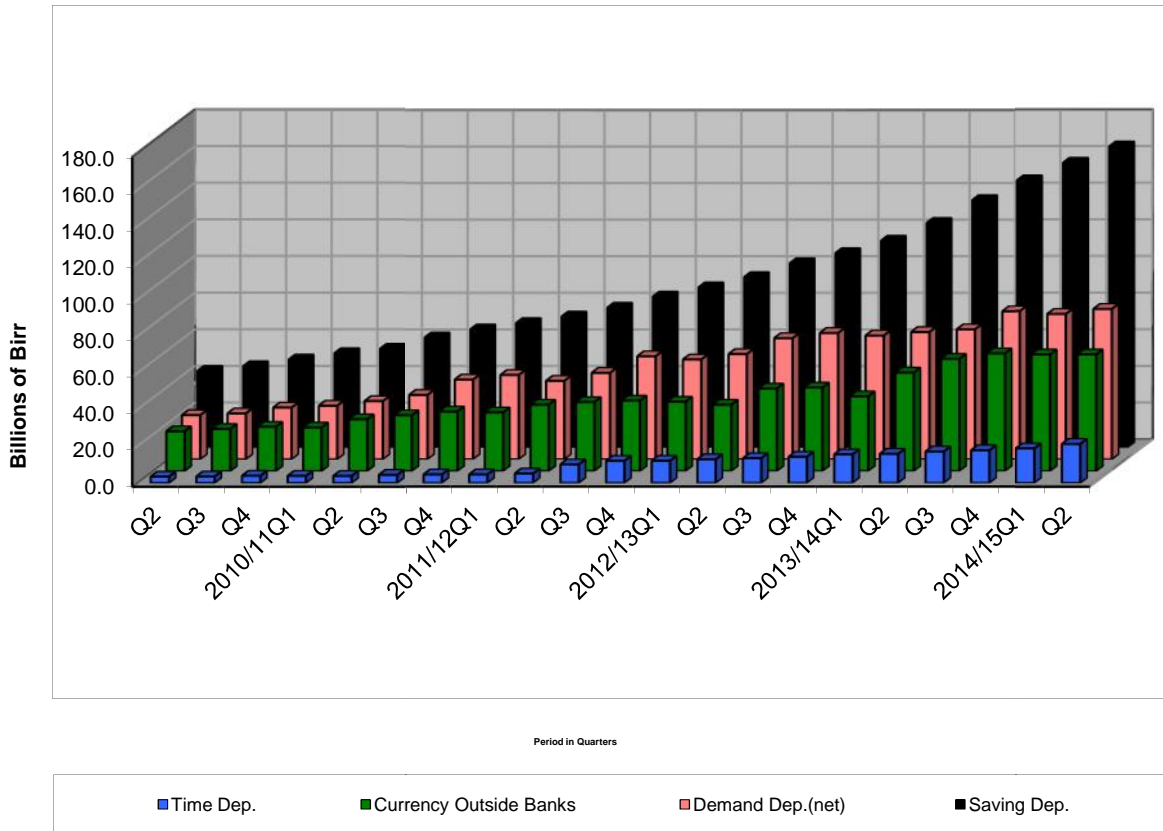
The surge in quasi-money was the result of efforts made by banks to expand their branch network largely to augment their deposit mobilization and improve service outreach.

Table 4.2: Components of Broad Money**(In millions of Birr, unless specified)**

Particulars	2013	2014		Percentage Change		Contributions of each Component to Broad Money Growth	
	QII	QI	QII	C/A	C/B	Annual	Quarterly
	(Dec. 13)	(Sept. 14)	(Dec. 14)				
	A	B	C				
1. Narrow Money Supply	113,665.3	130,138.2	140,210.4	23.4	7.7	36.1	47.1
. Currency outside banks	44,085.7	50,782.7	58,128.9	31.9	14.5	19.1	34.4
. Demand Deposits (net)	69,579.6	79,355.5	82,081.5	18.0	3.4	17.0	12.8
2. Quasi-Money	138,686.3	174,315.9	185,615.9	33.8	6.5	63.9	52.9
. Savings Deposits	122,757.5	155,437.5	164,291.2	33.8	5.7	56.5	41.4
. Time Deposits	15,928.7	18,878.4	21,324.7	33.9	13.0	7.3	11.4
3. Broad Money Supply	252,351.5	304,454.1	325,826.3	29.1	7.0	100.0	100.0

Source: Staff Computation, NBE

Fig.IV. 3: Composition of Monetary Stock



Source: Staff computation, NBE

4.2. Developments in Reserve Money and Monetary Ratio

Reserve money reached Birr 90.7 billion at the end of the second quarter of 2014/15, depicting an annual expansion of 25.5 percent and quarterly growth of 5.1 percent. Excess reserves of commercial banks, however, decreased by 4.9 percent on annual and 38.3 percent on quarterly basis.

The money multiplier measured by the ratio of broad money to reserve money, increased by 2.9 percent on annual terms implying the increased monetization of the economy. On the other hand, the ratio of narrow money to reserve money showed a 1.7 percent annual decline exhibiting an expansion of banking services that resulted in increased mobilization of quasi-money deposits (Table 4.3).

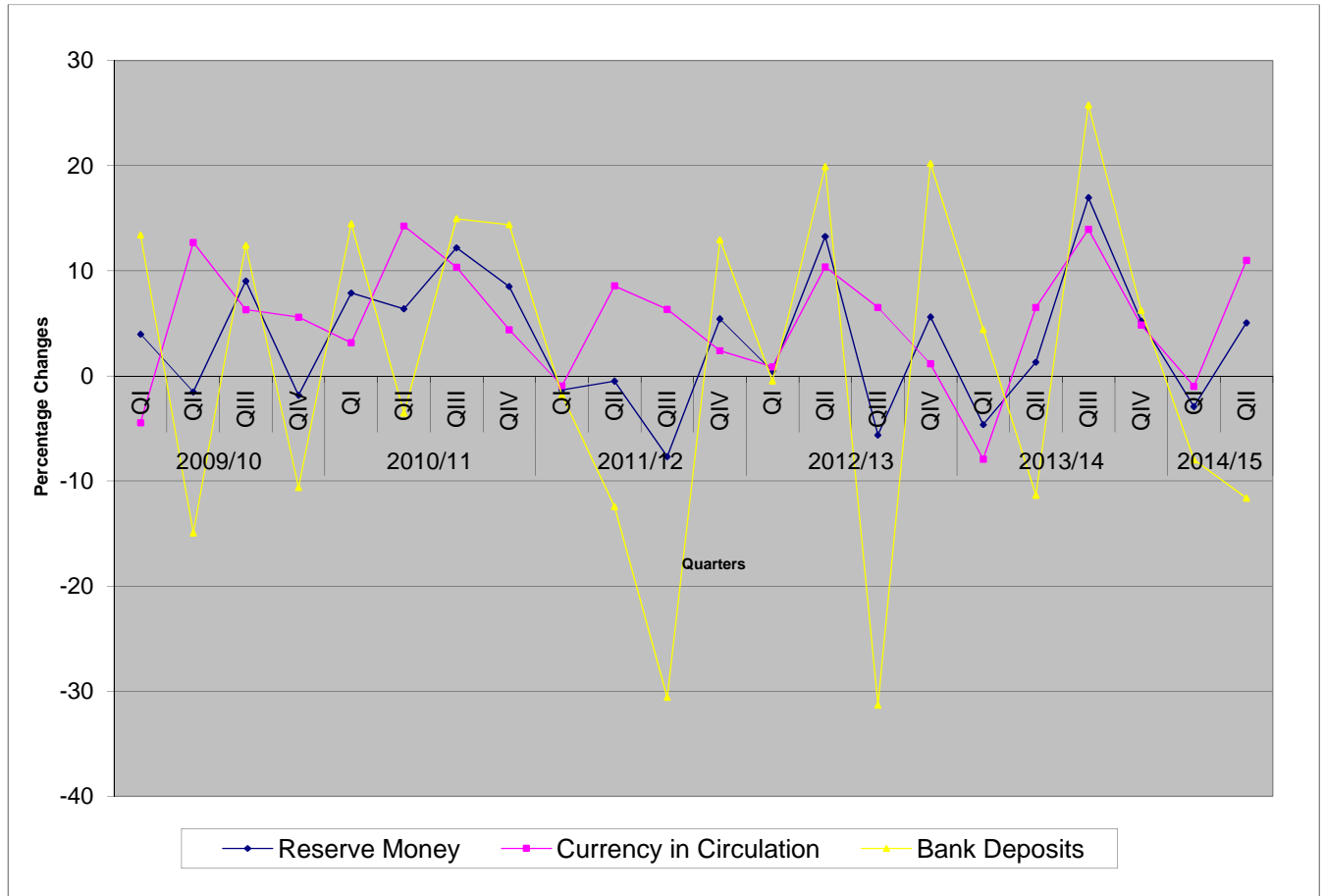
Table 4.3: Monetary Aggregates and Ratios

(In Millions of birr unless otherwise indicated)

Particulars	2013	2014		Percentage Change	
	Qtr. II	Qtr. I	Qtr. II		
	(Dec. 13)	(Sept. 14)	(Dec. 14)	C/A	C/B
	A	B	C		
1. Reserve Requirement (CB's)	12,467.2	14,711.8	15,751.2	26.3	7.1
2. Actual Reserve (CB's)	19,634.8	25,759.2	22,568.6	14.9	-12.4
3. Excess Reserve (CB's)	7,167.6	11,047.4	6,817.4	-4.9	-38.3
4. Reserve Money	72,283.3	86,360.0	90,726.2	25.5	5.1
. <i>Currency in Circulation</i>	53,864.1	63,714.2	70,709.1	31.3	11.0
. <i>Banks deposits at NBE</i>	18,419.2	22,645.8	20,017.1	8.7	-11.6
5. Money Multiplier (Ratio):					
. <i>Narrow Money to Reserve Money</i>	1.6	1.5	1.5	-1.7	2.6
. <i>Broad Money to Reserve Money</i>	3.5	3.5	3.6	2.9	1.9
6. Other Monetary Ratios (%):					
. <i>Currency to Narrow Money</i>	47.4	49.0	50.4	6.4	3.0
. <i>Currency to Broad Money</i>	21.3	20.9	21.7	1.7	3.7
. <i>Narrow Money to Broad Money</i>	45.0	42.7	43.0	-4.5	0.7
. <i>Quasi Money to Broad Money</i>	55.0	57.3	57.0	3.7	-0.5

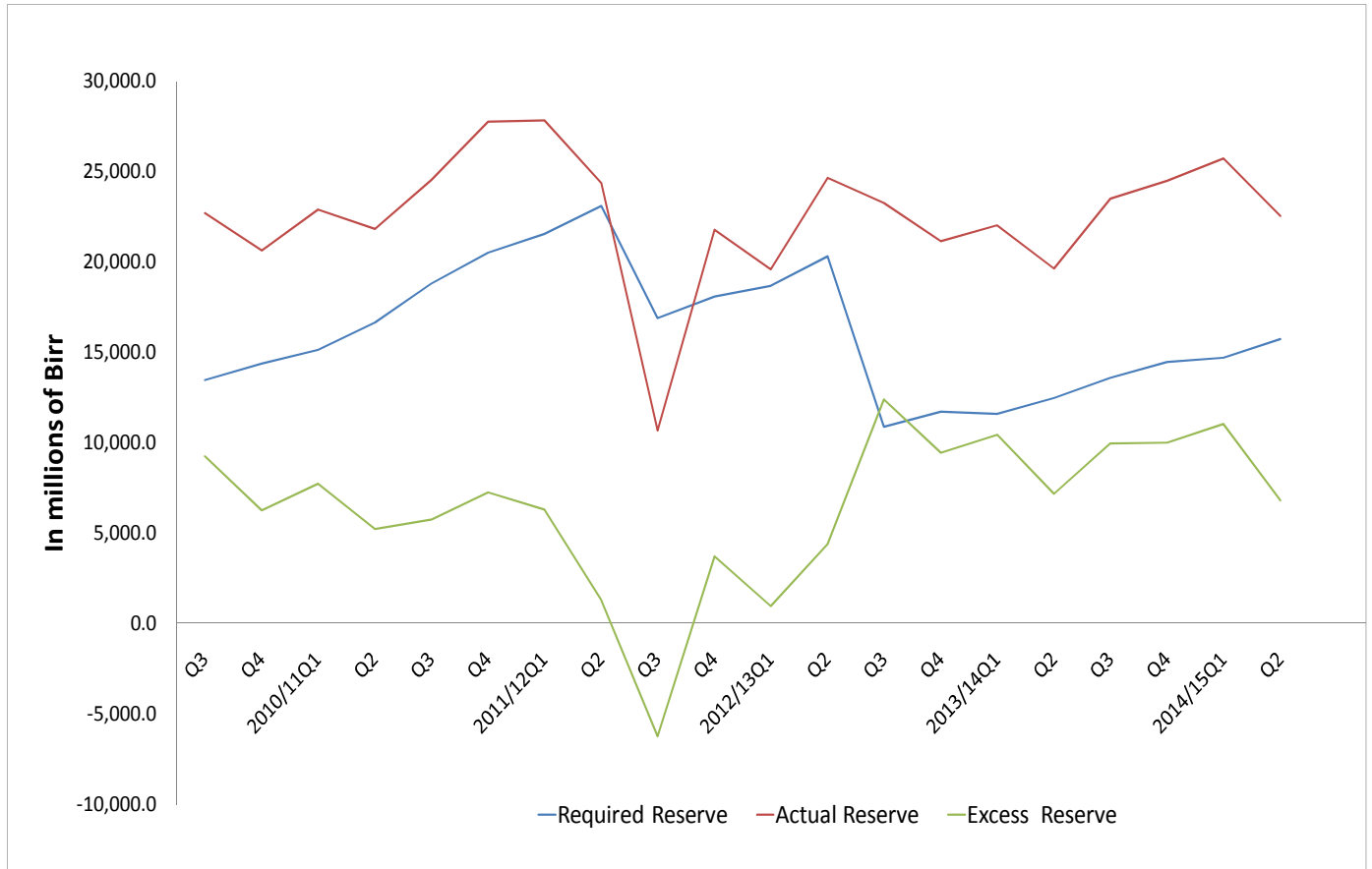
Source: NBE and Commercial Banks

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



Source: Staff Computation NBE

Fig IV.5: Monetary Aggregates



Source: Staff Computation NBE

4.3. Interest Rate Developments

Average savings deposit and lending rates remained unchanged at 5.4 and 11.88 percent, respectively, throughout the quarter. Weighted average time deposit rate, however, slightly rose by 0.7 percentage points on annual basis. On the other hand, weighted average yield on T-bills decreased to 1.5 percent

during the second quarter from 2.28 percent a year ago.

Considering annual headline inflation of 7.7 percent in December 2014, all deposit rates and the 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)

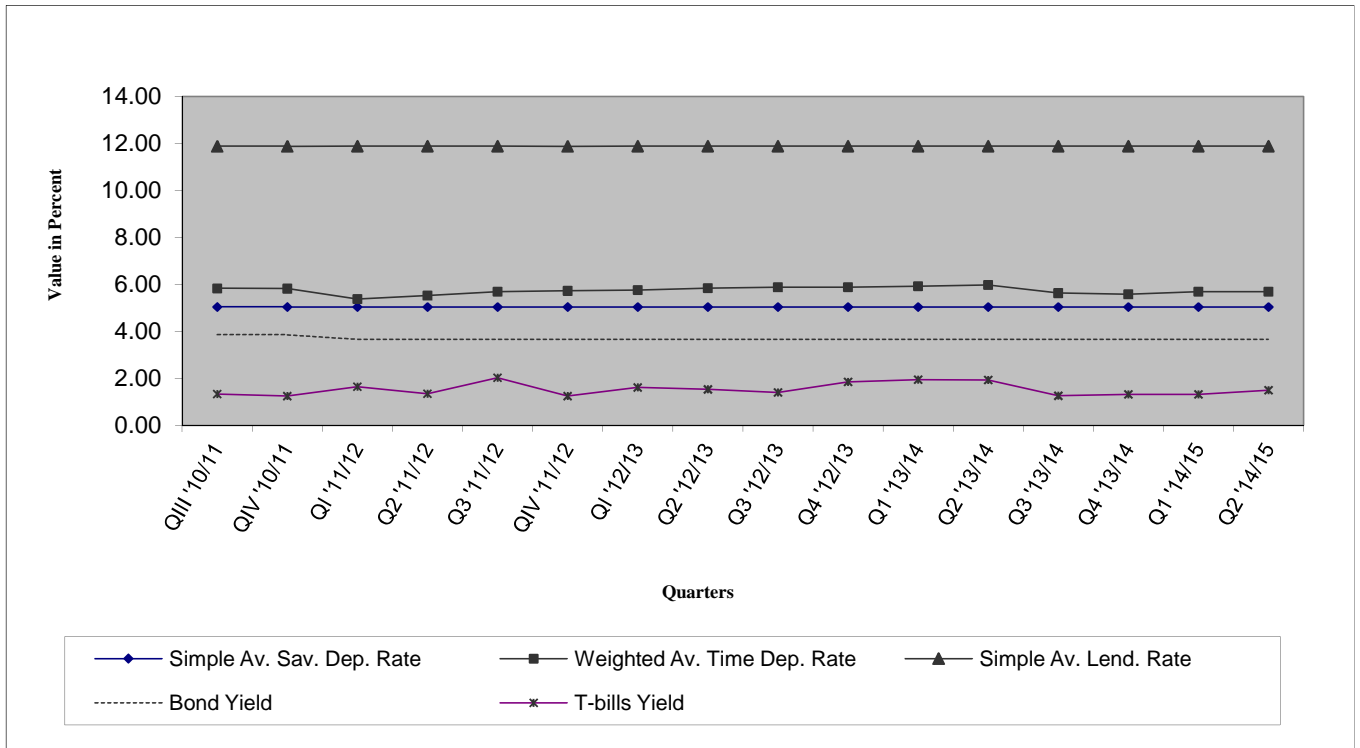
Table IV: - Interest Rate Structure of Commercial Banks (Percent per annum)

Particulars	2013/14	2014/15		Changes	
	QII	QI	QII	Annual	Quarterly
1. Savings Deposit Rate 1/					
Minimum	5.00	5.00	5.00	0.0	0.0
Maximum	5.75	5.75	5.75	0.0	0.0
Average Saving Rate	5.38	5.38	5.38	0.0	0.0
2. Time Deposits					
Up to 1yr	5.57	5.59	5.59	0.4	0.0
1-2 years	5.68	5.72	5.72	0.8	0.1
Over 2 yrs	5.73	5.77	5.78	0.9	0.1
Average Time Dep. Rate (Weighted)	5.66	5.69	5.70	0.7	0.1
3. Demand Deposit (Weighted)	0.03	0.03	0.03	10.0	0.0
4. Lending Rate 2/					
Minimum	7.50	7.50	7.50	0.0	0.0
Maximum	16.25	16.25	16.25	0.0	0.0
Average Lending Rate	11.88	11.88	11.88	0.0	0.0
5. T-bills Rate (Weighted)	2.28	1.68	1.50	-34.5	-11.0
6. GERD Bond Yield 3/					
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
7. Annual Headline Inflation	7.71	5.56	7.08	-8.2	27.4
8. Annual Food & non alcoholic beverages Inflation	5.87	3.64	6.38	8.7	75.4
9. Annual Non-food Inflation	9.78	7.70	7.84	-19.9	1.8

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

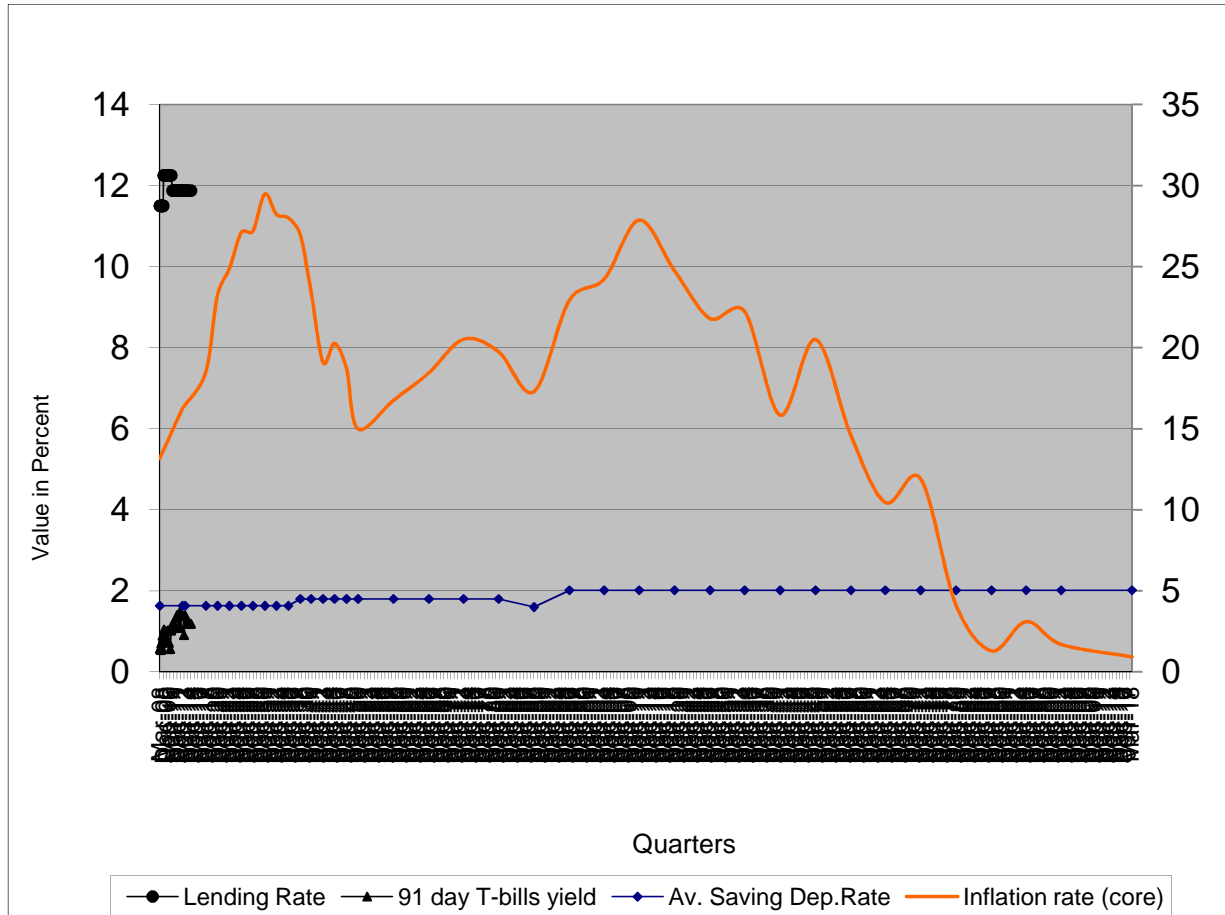
Source: Staff Computation NBE

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)



Source: Staff computation, NBE

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

4.4. Developments in the Financial Sector

Banks, insurance companies and microfinance institutions are the main financial institutions functioning in Ethiopia. The number of banks operating in the country reached 19 in December 2014, of which 16 are owned privately.

Compared to the second quarter of 2013/14, 487 new bank branches were opened, raising the total number of bank branches to 2,502. As a result, bank branch to population ratio went down to 1:35,956.83³ from 1:42,977.7 in the last year, reflecting improvements in financial service outreach.

About 34.9 percent of the total bank branches were located in Addis Ababa. Of the total bank branches, the share of the private banks increased considerably to 56.7 percent from 52.5 percent last year due to their opening of additional 361 new branches compared to 126 new branches by public banks in a year.

Meanwhile, the total capital of the banking system increased by 20.9 percent compared to last year and reached Birr 30.2 billion.

³ Total Population estimated by CSA for 2015 is 90 million

Private banks together took 55 percent of the total capital. Commercial Bank of Ethiopia, the state owned bank, alone accounted for 36 percent of the total capital of the banking system while the two other banks namely Development Bank of Ethiopia and Construction & Business Bank jointly held 10.0 percent (Table 4.5).

The number of insurance companies reached 17 during the review quarter, of which 16 were privately owned. Their branches increased to 359 from 337 during the preceding quarter. Of the total branches, about 53.2 percent were situated in Addis Ababa.

During the review quarter, the total capital of the insurance industry increased by 31.9 percent on annually basis and reached Birr 2.3 billion. The capital share of private insurance companies increased marginally by 2.3 percentage point as compared to the same period last year and stood at 79.7 percent (Table 4.6).

On the other hand, there were 32 microfinance institutions (MFIs) operating in the country. These MFIs mobilized a total saving deposit of around Birr 13.0 billion, which was 9.9 percent and 50.1 percent

higher than the amount mobilized during the preceding quarter and last year same period, respectively. Similarly, outstanding credit of the MFIs scaled up by 3.1 percent and 31.3 percent on quarterly and annual basis, respectively, and reached Birr 18.0 billion. Their total assets also expanded by 6.6 percent on quarterly and 31.1 percent on annual basis, and reached Birr 26.7 billion by the end of December 2014 (Table 4.7). In a nutshell, MFIs are contributing to

poverty reduction and asset building through by provision of loans to and mobilization of savings from the low-income segments of the population.

The top five largest MFIs (Amhara, Dedebit, Oromia, Omo and Addis Credit and Savings Institutes) accounted for 84.5 percent of the total capital, 93.6 percent of the savings, 90.0 percent of the credit and 90.3 percent of the total assets of the MFIS sector.

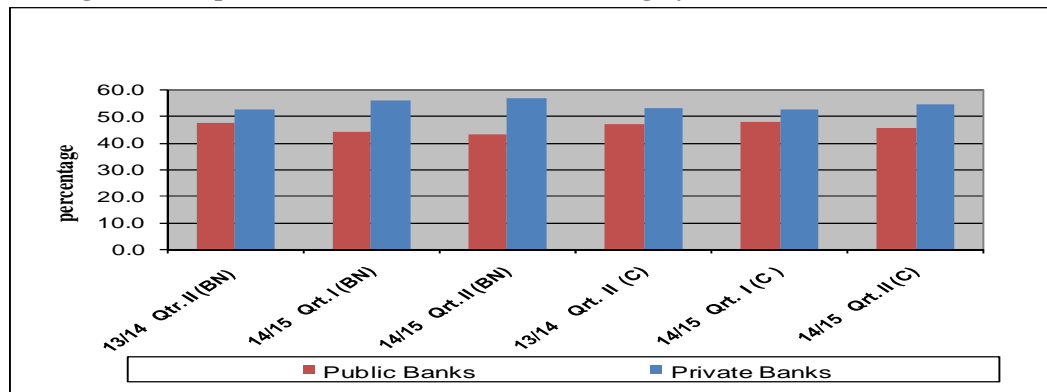
Table 4.5: Capital and Branch Network of the Banking System

(Branch in Number & Capital in Millions of Birr)

Banks	Branch Network												Capital			
	2013/14				2014/15								2013/14		2014/15	
	Quarter II				Quarter I				Quarter II				Quarter II	Quarter I	Quarter II	
	Reg.	A.A	Total	%	Reg.	A.A	Total	%	Reg.	A.A	Total	%	Quarter II	Quarter I	Quarter II	
1. Public Banks																
Commercial Bank of Ethiopia	669	147	816	40.5	716	163	879	38	755	178	933	37	9,045	10,703	10,716	
Construction & Business	65	44	109	5.4	68	47	115	5	68	50	118	5	556	731	732	
Development Bank of	31	1	32	1.6	31	1	32	1	31	1	32	1	2,134	2,269	2,269	
Total Public Banks	765	192	957	47.5	815	211	1,026	44	854	229	1,083	43	11,735	13,704	13,717	
2. Private Banks																
Awash International Bank	53	78	131	6.5	67	93	160	7	86	100	186	7	1,942	1,987	2,230	
Dashen Bank	67	63	130	6.5	69	76	145	6	73	81	154	6	1,828	2,010	2,184	
Abysinia Bank	45	50	95	4.7	58	54	112	5	62	62	124	5	962	1,334	1,503	
Wegagen Bank	49	47	96	4.8	51	49	100	4	56	51	107	4	1,710	1,918	2,060	
United Bank	36	52	88	4.4	47	58	105	5	57	63	120	5	1,230	1,339	1,396	
Nib International Bank	37	45	82	4.1	40	55	95	4	43	60	103	4	1,644	1,731	1,840	
Cooperative Bank of Oromiya	75	15	90	4.5	88	28	116	5	93	33	126	5	608	756	1,036	
Lion International Bank	34	26	60	3.0	39	31	70	3	43	34	77	3	472	538	561	
Oromia International Bank	68	24	92	4.6	87	36	123	5	89	38	127	5	574	561	757	
Zemen Bank	3	6	9	0.4	5	6	11	0	6	6	12	0	513	670	561	
Buna International Bank	38	19	57	2.8	44	26	70	3	46	29	75	3	375	484	526	
Berhan International Bank	16	17	33	1.6	24	29	53	2	31	35	66	3	372	499	516	
Abay Bank	51	12	63	3.1	66	18	84	4	66	18	84	3	360	425	486	
Addis Interational Bank	2	11	13	0.6	7	19	26	1	9	20	29	1	222	294	312	
Dehub Global Bank	11	6	17	0.8	12	7	19	1	12	8	20	1	165	182	191	
Enat Bank S.C	-	2	2	0.1	2	6	8	0	3	6	9	0	242	282	297	
Total Private Banks	585	473	1058	52.5	706	591	1,297	56	775	644	1,419	57	13,220	15,010	16,457	
3. Grand Total Banks	1,350	665	2,015	100	1,521	802	2,323	100	1,629	873	2,502	100	24,955	28,714	30,174	

Source: Bank Supervision Directorate, NBE

Reg. Stands for Region

Fig. IV. 8: Capitals and Branch Network of Banking System

Source: Staff computation, NBE

Table 4.6: Branch Network & Capital of Insurance Companies

(Branch in Number & Capital in Millions of Birr)

S.No.	Insurance Companies	Branch									Capital		
		2013/14			2014/15						2013/14	2014/15	
		Quarter II			Quarter I			Quarter II			Quarter II	Quarter I	Quarter II
		A.A	Reg	Total	A.A	Reg	Total	A.A	Reg	Total	Capital	Capital	Capital
1	Ethiopian Insurance Corporation	14	38	52	18	44	62	18	48	66	393.7	452.1	466.4
2	Awash Insurance Company	21	12	33	21	12	33	22	12	34	157.1	193.6	195.3
3	Africa Insurance Company	6	7	13	8	8	16	9	8	17	127.3	152.5	183.1
4	National Insurance Corporation of Ethiopia	9	10	19	9	12	21	9	12	21	71.4	73.8	64.6
5	United Insurance Company	16	9	25	18	10	28	18	10	28	179.2	211.2	227.7
6	Global Insurance Company	6	5	11	6	5	11	6	5	11	53.5	71.3	79.8
7	Nile Insurance Company	12	14	26	14	15	29	14	17	31	155.4	192.4	153.7
8	Nyala Insurance Company	12	9	21	12	9	21	13	9	22	175.8	239.3	272.3
9	Nib Insurance Company	15	8	23	17	8	25	17	8	25	179.7	226.6	229.9
10	Lion Insurance Company	14	5	19	14	7	21	14	8	22	64.1	97.0	91.0
11	Ethio-Life Insurance Company	5	0	5	6	2	8	7	4	11	22.2	19.3	18.9
12	Oromia Insurance Company	14	9	23	14	11	25	14	12	26	92.2	118.3	103.1
13	Abay Insurance Company S.C.	6	4	10	7	8	15	7	9	16	20.8	60.0	90.2
14	Berhan insurance S.C	6	1	7	6	1	7	6	1	7	19.2	25.0	34.5
15	Tsehay Insurance S.C.	6	0	6	6	2	8	6	2	8	13.7	35.3	37.9
16	Lucy	0	0	0	2	1	3	3	2	5	8.7	22.1	35.1
17	Bunna Insurance S.C.	0	0	0	4	-	4	8	1	9	7.9	8.0	13.4
	TOTAL	162	131	293	182	155	337	191	168	359	1,742	2,198	2,297

Source: Insurance Company Directorate, NBE

Table 4.7: Microfinance Institutions Performance as of December 31, 2014

(In Thousands of Birr)

Particulars	2013/14	2014/15		% Change	
	Qtr.II	Qtr.I	Qtr.II	C/A	C/B
	A	B	C		
Total Capital	5,067,786.4	5,932,660.8	6,273,497.90	23.8	5.7
Saving	8,656,854.1	11,820,095.8	12,995,646.30	50.1	9.9
Credit	13,730,150.5	17,480,448.3	18,025,726.80	31.3	3.1
Total Assets	20,406,718.8	25,091,780.8	26,746,975.60	31.1	6.6

Source; Microfinance Supervision Directorate, NBE

4.5. Activities of the Banking System

4.5.1. Resource Mobilization

Total resources mobilized by the banking system surged by 64.0 percent against the preceding quarter and 26.4 percent over last year same period due to an increase in deposit (net change) in terms of quarterly

changes or on account of higher borrowing (net change), deposit (net change) and loan collections on yearly basis (Table 4.8).

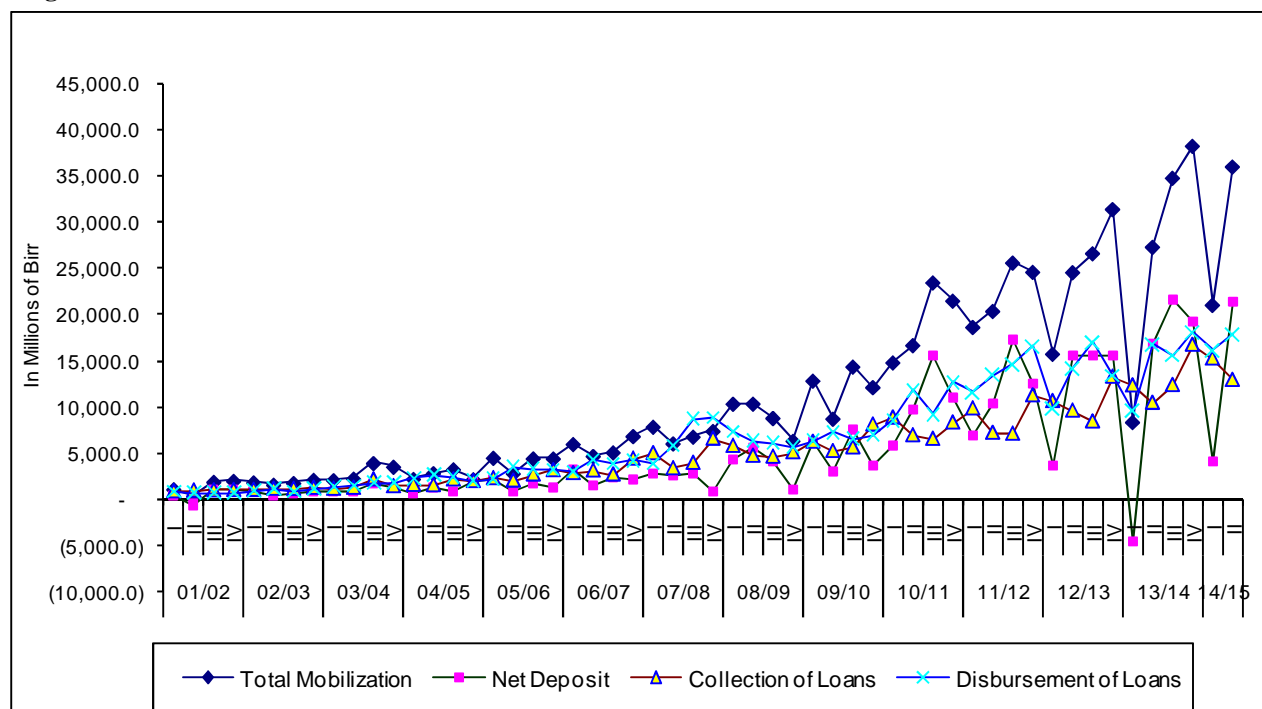
Table 4.8: Summary of Resource Mobilization & Disbursement of the Banking System

(In Millions of Birr)

Particulars	Public Banks		Private Banks		Grand Total				
	1		2		(3) = (1) + (2)				
	Qtr.I 2014/15	Qtr.II 2014/15	Qtr.I 2014/15	Qtr.II 2014/15	Qtr.II 2013/14	Qtr.I 2014/15	Qtr.II 2014/15	% Change	
					A	B	C	C/A	C/B
1. Deposits (net change)	(985.4)	16546.9	5019.6	4751.7	16773.0	4034.2	21298.6	27.0	427.9
-Demand	(6719.1)	9162.3	116.7	839.3	6575.8	(6602.4)	10001.6	52.1	(251.5)
-Saving	5177.6	6280.9	4452.9	2569.8	9694.7	9630.5	8850.7	(8.7)	(8.1)
-Time	556.1	1103.7	450.0	1342.6	502.5	1006.1	2446.3	386.8	143.1
2. Borrowing (net change)	1814.3	336.1	0.0	0.0	133.3	1814.3	336.1	152.2	(81.5)
-Local	1601.9	187.9	0.0	0.0	(99.0)	1601.9	187.9	(289.7)	(88.3)
-Foreign	212.3	148.3	0.0	0.0	232.3	212.3	148.3	(36.2)	(30.2)
3. Collection of Loans	7438.8	5298.8	7764.4	7593.1	10415.0	15203.2	12891.9	23.8	(15.2)
4. Total Resources Mobilized (1+2+3)	8267.7	22181.8	12784.0	12344.8	27321.3	21051.7	34526.6	26.4	64.0
5. Disbursement	7521.9	7387.2	8537.6	10477.6	16786.0	16059.4	17864.8	6.4	11.2
6. Change in Liquidity (4-5)	745.8	14794.6	4246.5	1867.2	10535.3	4992.2	16661.8	58.2	233.8
Memorandum Item:									
A. Outstanding Credit*	114306.6	124452.6	57993.7	67582.3	151205.4	172300.3	192034.9	27.0	11.5
B. Outstanding Interbank Lending	61.9	61.9	0.0	0.0	75.8	61.9	61.9	(18.3)	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: V.9: Trends in Resource Mobilization and Disbursement of Loans

Source: Staff computation, NBE

4.5.1.1. Deposit Mobilization

Total deposit liabilities of the banking system reached Birr 318.2 billion at the end of second quarter of fiscal year 2014/15, indicating a 7.2 percent quarterly and 26.2 percent annual growth rates. The growth in deposit mobilization was partly attributed to bank branch expansion and improvements in economic activities.

Component wise, demand deposits, accounted for 41.5 percent of the total deposits, and reached Birr 132.2 billion showing a 8.2 percent quarterly and 17.2 percent yearly growth. Saving deposits, with 51.6 percent

share in total deposits increased by 5.7 percent and 33.8 percent as compared to the previous quarter and the same period last year respectively. Similarly, time deposits, which constituted 6.8 percent of the total deposit liabilities, went up by 12.7 percent and 30.7 percent over the same period.

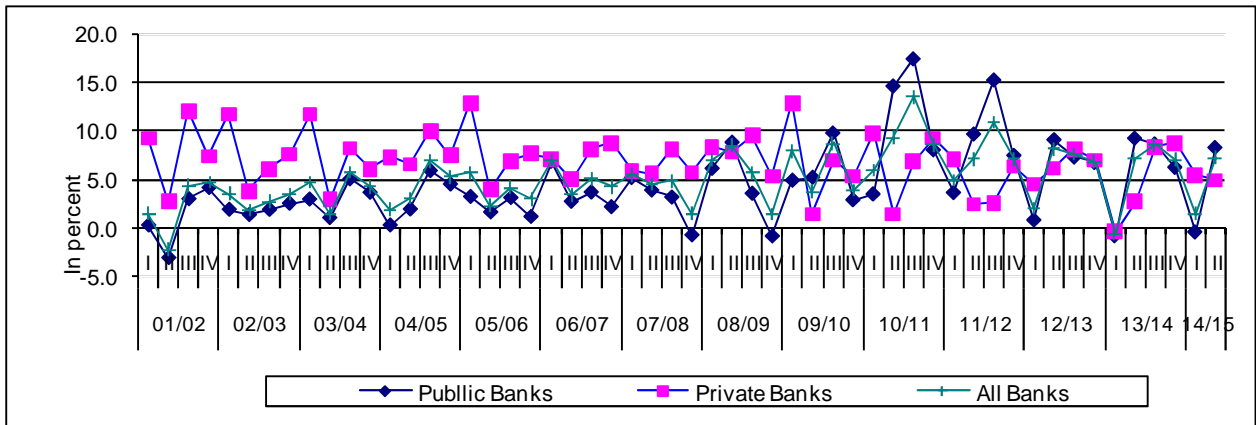
The share of public banks in total deposit mobilization fell by 1.0 percentage points compared to the preceding year. However, it marginally increased by 0.7 percentage point against the preceding quarter and accounted for 67.9 percent while the share of private banks was 32 percent (Table 4.9).

Table 4.9: Stock of Deposits Mobilized by the Banking System

(In Millions of Birr)

Deposit by types	Quarter II 2013/14	% Share	Quarter I 2014/15	% Share	Quarter II 2014/15	% Share	C/A	C/B
	A		B		C			
Demand Deposit	112,772.91	44.7	122,185.7	41.2	132,187.31	41.5	17.2	8.2
Saving Deposit	122,771.92	48.7	155,454.8	52.4	164,305.52	51.6	33.8	5.7
Time Deposit	16,599.93	6.6	19,241.5	6.5	21,687.85	6.8	30.7	12.7
Total	252,144.76	100.0	296,882.1	100.0	318,180.69	100.0	26.2	7.2
Share of Public Banks	68.92		67.2		67.93			
Share of Private Banks	31.08		32.8		32.07			

Source: Commercial Banks and DBE

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

Source: Staff Computation, NBE

4.5.1.2. Collection of Loans

During the review period, the banking system collected Birr 12.9 billion, down by 15.2 percent against the preceding quarter but 23.8 percent higher than last year same period (Table 4.8). Of the total loan collection, Birr 7.6 billion or 58.9 percent was collected by private banks and Birr 5.3

billion (41.1 percent) by public banks (Table 4.11). Of the total loan collection, 79.8 percent was from private enterprises followed by public enterprises (11.6 percent) and cooperatives (8.5 percent) (Table 4.12).

4.5.1.3. Borrowing

Total outstanding borrowing of the banking system reached Birr 29.4 billion, showing a 22.6 percent annual increase due to 44.8 percent surge in foreign and 19.9 percent in domestic borrowings. Of the total

borrowing, Birr 25.7 billion (87.2 percent) was from domestic sources while the remaining Birr 3.7 billion (12.8 percent) was from foreign sources (Table 4.10).

Table 4.10: Public Outstanding Borrowing of the Banking System by Sources
(In Millions of Birr)

Banks	2013/14	2014/15		Percentage change	
	Quarter II	Quarter I	Quarter II		
	A	B	C	C/B	C/A
Domestic Borrowing	21,421.1	25,502.71	25,690.57	0.7	19.9
Foreign Borrowing	2,603.9	3,621.73	3,769.99	4.1	44.8
Total	24,025.0	29,124.4	29,460.6	1.2	22.6

Source: Commercial Banks and Development Bank of Ethiopia

4.5.2. Disbursement of Fresh Loans

During the second quarter of the fiscal year, fresh bank loans reached Birr 17.8 billion, indicating a 12.2 percent quarterly and 6.4 percent annual growth (Table 4.8). Public banks disbursed Birr 7.4 billion (41.4 percent) while the remaining balance was disbursed by private banks (Table 4.12).

About 97.8 percent of new loan by private banks and 61.9 percent by public banks went to finance the private sector (Table 4.12).

Sector wise, domestic trade was the largest beneficiary accounting for Birr 6.0 billion (33.9 percent) followed by industry (Birr 4.9 billion or 27.4 percent), international trade (Birr 2.3 billion or 13.2 percent), housing and construction (Birr 1.7 Billion or 9.4 percent) and agriculture (Birr 1.0 billion or 5.7 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 *	-	-	14,368	-	-	12	-	-	14,380
Agriculture	811	1,167	12,582	200	103	1,058	1,011	1,269	13,641
Industry	3,661	2,233	67,836	1,225	885	9,029	4,886	3,118	76,866
Domestic Trade	1,031	287	2,000	5,020	2,358	21,523	6,051	2,645	23,522
International Trade	399	243	20,317	1,967	2,541	17,867	2,367	2,784	38,184
Export	189	113	5,441	1,019	1,284	8,739	1,208	1,397	14,180
Imports	211	130	14,876	948	1,257	9,135	1,159	1,387	24,010
Hotels and Tourism	246	105	1,030	266	261	2,371	512	367	3,401
Transport & Communication	64	136	2,406	574	464	3,484	638	601	5,889
Housing & Construction	771	890	11,870	900	803	9,133	1,671	1,693	21,003
Mines, Power & Water Res.	15	9	620	7	10	77	21	19	696
Others	375	224	5,469	180	107	2,081	555	331	7,549
Personal	15	4	324	138	62	953	153	66	1,277
Inter-Bank Lending	-	-	62	-	-	-	-	-	62
Total	7,387	5,299	138,882	10,478	7,593	67,594	17,865	12,892	206,477

Notes: *Refers to government borrowing in the form of bonds and treasury bills from commercial banks and DBE

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

4.5.3. Outstanding credit

Total outstanding credit of the banking system (excluding credit to government and interbank lending) increased to Birr 192.0 billion at the end of December 2014, up by 11.5 percent on quarterly basis (Table 4.8).

About 99.9 percent of outstanding loan of private banks was claims on private sector, including cooperatives, 0.1 percent on public enterprises. In contrast, 49.3 percent of the outstanding loan of public banks (excluding credit to government and inter-bank lending) was claims on public enterprises and the rest on private sector (Table 4.12).

Sector wise, credit to industry stood first with Birr 76.8 billion (40 percent) followed by international trade (Birr 38.2 billion or 19.9 percent), domestic trade (Birr 23.5 billion or 12.2 percent), housing & construction (Birr 21.0 billion or 10.9 percent), agriculture (Birr 13.6 billion or 7.1 percent) and the remaining balance on other sectors (Table 4.11).

The share of private banks in total outstanding loan stood at 32.7 percent showing an increase of 1.5 percentage points against the preceding quarter.

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

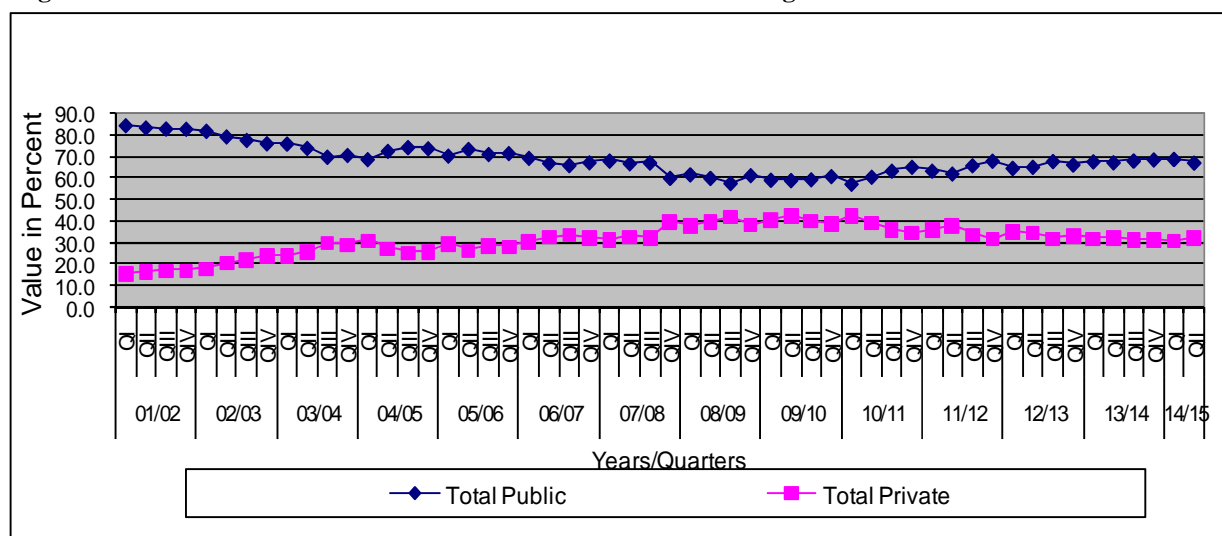
(In Millions of Birr)

Particulars	Loan Disbursement	% Share	Loan Collection	% Share	Outstanding Loan	% Share
Public Banks	7,387.2	41.4	5,298.8	41.1	138,882.5	67.3
Central Government*	0.0	0.0	0.0	0.0	14,368.0	10.3
State Enterprises	2,180.7	29.5	1,499.5	28.3	61,409.5	44.2
Cooperatives	633.6	8.6	1,090.5	20.6	9,280.9	6.7
Private Enterprises	4,572.9	61.9	2,708.8	51.1	53,762.1	38.7
Inter-bank Lending	0.0	0.0	0.0	0.0	61.9	0.0
Private Banks	10,477.6	58.6	7,593.1	58.9	67,594.3	32.7
Central Government*	0.0	0.0	0.0	0.0	12.0	0.0
State Enterprises	0.0	0.0	2.2	0.0	70.1	0.1
Cooperatives	230.1	2.2	11.2	0.1	916.7	1.4
Private Enterprises	10,247.5	97.8	7,579.7	99.8	66,595.6	98.5
Inter-bank Lending	0.0	0.0	0.0	0.0	0.0	0.0
Grand Total	17,864.8	100.0	12,891.9	100.0	206,476.8	100.0

Source: Commercial Banks and staff computation

Notes: *Refers to government borrowing in the form of bonds and treasury bills from commercial banks and DBE

Fig: IV.11: Share of Public and Private Banks in Credit Outstanding



Source: Staff computation, NBE

4.6. Financial Activities of NBE

As at December 31, 2014, gross claims of NBE on the central government reached Birr 78.1 billion, increasing by 21.4 percent vis-à-vis the same period last year. Of the credit to the central government, direct advance accounted for 88.6 percent and bonds 11.4 percent. Direct advance increased by 25.3, while, NBE's holdings of government bonds declined by 2.3 percent as compared to a year earlier.

Meanwhile, deposits of the central government and financial institutions at

NBE reached Birr 39.2 billion showing a 2.7 percent annual increase but 9.5 percent decline on quarterly basis. Of the total deposits, 40.6 percent was deposit of the central government which decreased by 3.6 percent and 3.2 percent as compared to the preceding quarter and last year same period respectively (Table 4.13). On the other hand, deposits by financial institutions increased by 7.1 percent as compared to last year same period but declined by 13.1 percent over the preceding quarter.

Table 4.13: Financial Activities of NBE during the First Quarter of 2014/15

(In millions Birr)

Particulars	2013/14	2014/15		% Change	
	Qtr.II	Qtr.I	Qtr.II	C/A	C/B
	A	B	C		
1.Loans and Advances	81,588.33	95,132.34	100,332.34	23.0	5.5
1.1. To Central Government	64,381.33	73,175.34	78,175.34	21.4	6.8
Direct Advance	55,264.95	64,264.95	69,264.95	25.3	7.8
Bonds	9,116.39	8,910.39	8,910.39	-2.3	0.0
1.2.To Development Bank of Ethiopia	17,207.00	21,957.00	22,157.00	28.8	0.9
2.Deposit Liabilities	33,318.93	37,786.01	34,207.90	2.7	-9.5
2.1. Government	14,339.95	14,407.98	13,882.20	-3.2	-3.6
2.2. Financial Institutions	18,978.98	23,378.03	20,325.70	7.1	-13.1
O/W:					
-Banks	18,939.21	23,327.02	20,279.90	7.1	-13.1
-Insurance companies	39.77	51.0	45.8	15.2	-10.2
3.Net Claims of NBE	48,269.4	57,346.3	66,124.4	37.0	15.3

Source: NBE

4.7. Developments in Financial Markets

4.7.1. Treasury Bills Market

During the second quarter of the fiscal year 2014/15, the amount of T-bills supplied to the weekly T-bills auction market reached Birr 27.8 billion, reflecting a 21.8 percent annual expansion. Similarly, the demand for T-bills expanded by 64.0 percent relative to a year earlier and reached Birr 38.4 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 bought the entire amount.

Thus, the share of non-bank institutions in outstanding T-bills reached 100 percent compared to a 93.5 percent a year earlier.

The total outstanding T-bills at the end of the quarter reached Birr 36.9 billion, reflecting a 29.5 percent yearly increase.

The annual average weighted yield of T-bills during the review quarter was 1.496 percent about 22.6 percent lower than a similar quarter of 2013/14 (Table 4.14).

Table 4.14: Results of Treasury Bills Auction

(In Millions of Birr)

Particulars	2013/14	2014/15		Percentage Change	
	Qtr.II	Qtr.I	Qtr.II	C/A	C/B
	A	B	C		
Number of Bidders	102	68	69	-32.4	1.5
Public	60	53	58	-3.3	9.4
Private	42	15	11	-73.8	-26.7
Number of Bids Accepted	195	106	95	-51.3	-10.4
Public	76	74	77	1.3	4.1
Private	119	32	18	-84.9	-43.8
Amount Demanded (Mn.Birr)	23,409.9	41,426.3	38,396.9	64.0	-7.3
28-day bill	6,214.0	520.0	260.0	-95.8	-50.0
91-day bill	13,405.9	34,846.3	30,275.9	125.8	-13.1
182-day bill	2,120.0	3,310.0	5,191.0	144.9	56.8
364-day bill	1,670.0	2,750.0	2,670.0	0.0	-2.9
Amount Supplied (Mn.Birr)	22,834.9	21,724.9	27,819.4	21.8	28.1
28-day bill	5,009.0	240.0	260.0	-94.8	8.3
91-day bill	11,699.9	17,284.9	19,633.4	67.8	13.6
182-day bill	3,256.0	1,450.0	5,256.0	61.4	262.5
364-day bill	2,870.0	2,750.0	2,670.0	0.0	-2.9
Amount Sold (Mn.Birr)	23,199.9	24,746.4	29,293.4	26.3	18.4
Banks	5,674.0	0.0	0.0	-100.0	0.0
Non-Banks	17,525.9	24,746.4	29,293.4	67.1	18.4
Average Weighted Price for Successful Bids (Birr)	99.063	99.045	99.058	0.0	0.0
28-day bill	99.78	99.887	99.941	0.2	0.1
91-day bill	99.70	99.698	99.702	0.0	0.0
182-day bill	99.67	99.500	99.495	-0.2	0.0
364-day bill	97.10	97.095	97.095	0.0	0.0
Average Weighted Yield for Successful Bids (%)	1.934	1.676	1.496	-22.6	-10.7
28-day bill	2.891	1.480	0.768	-73.4	-48.1
91-day bill	1.186	1.214	1.197	1.0	-1.4
182-day bill	0.660	1.010	1.020	54.6	1.0
364-day bill	3.000	3.000	3.000	0.0	0.0
Outstanding bills at the end of Period (Mn.Br.)	28,510.86	35,294.4	36,907.4	29.5	4.6
Banks	1863.0	0.0	0.0	-100.0	0.0
Non-Banks	26647.9	35294.4	36907.4	38.5	4.6

Source: NBE

Fig IV.12 : Developments in T-Bills Market

(In Millions of Birr)

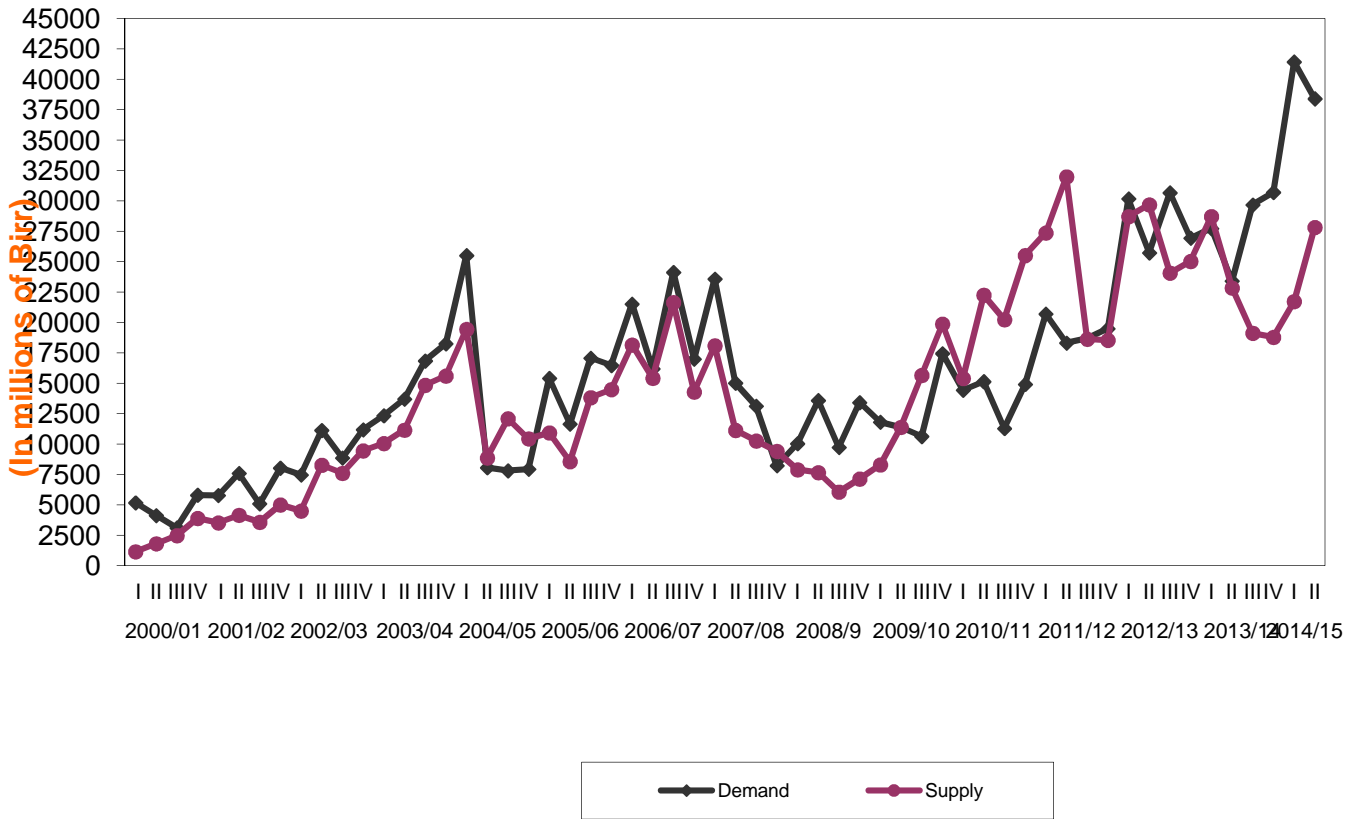
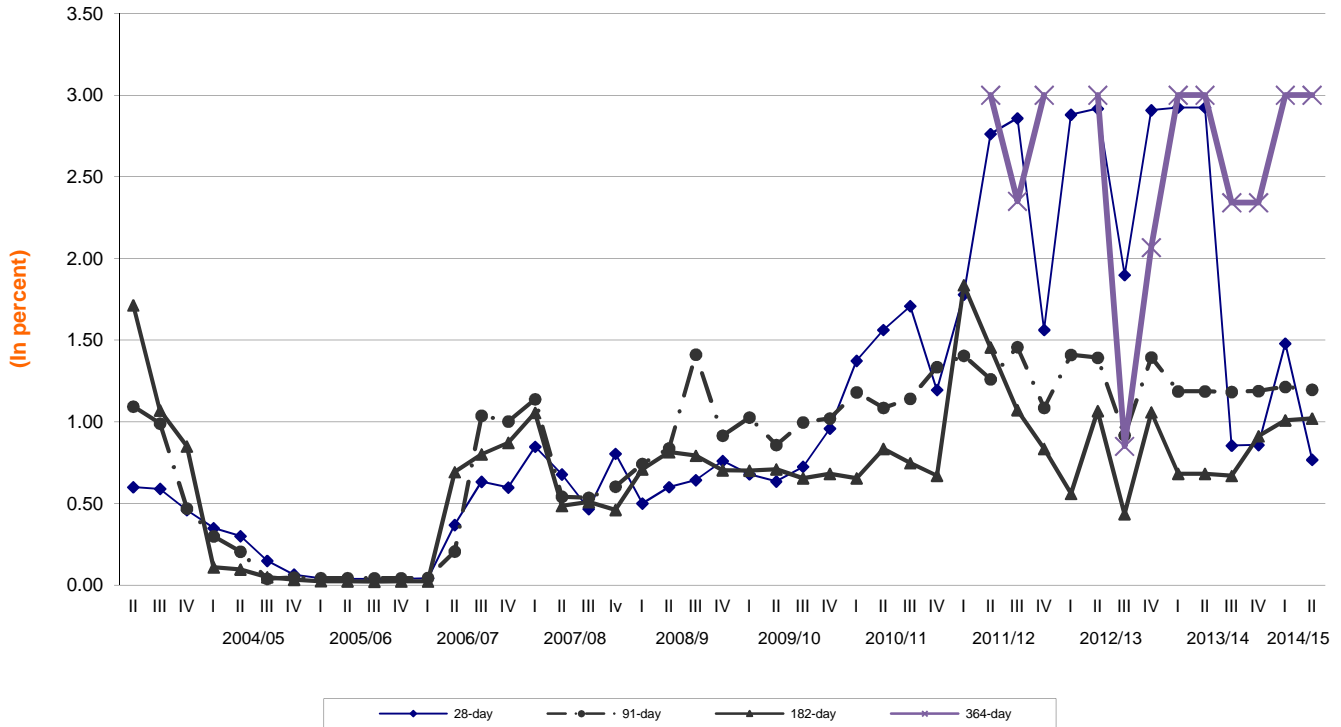


Fig IV.13: Developments in Average Weighted Yields of T-bills with Different Maturities (In Percent)



Source: NBE

4.7.2. Inter- Bank Money Market

No inter-bank money market transaction was conducted during the quarter under review (Table 4.12).

4.7.3. Corporate Bond Market

The major players in corporate bond market are few public institutions and regional governments while the sole purchaser is Commercial Bank of Ethiopia (CBE).

During the quarter under review, CBE purchased corporate bonds worth of Birr 8.4 billion, of which Ethiopian Electric Power (EEP) accounted for 81 percent (Birr 6.8 billion) and Railways Corporation (19 percent or Birr 1.6 billion). At the end of December, 2014, the stock of corporate bonds held by CBE

stood at Birr 124.8 billion, of which 85.3 percent was claims on public enterprises and the remaining balance on regional governments (Table 4.15). Corporate bonds issued by EEPSCO accounted for 92.5 percent of the bonds issued by public enterprises and 78.9 percent of the entire outstanding corporate bond balance.

Table 4.15: Corporate Bond by holders

(Millions of Birr)

Issuer of the Bond	2013/14			2014/15					
	QII			QI			QII		
	NP	Red	O/S	NP	Red	O/S	NP	Red	O/S
1. Public Enterprises	6,700.0	799.8	57,988.7	5,400.0	0.0	96,843.4	8,400.0	0.0	105,243.4
EEP	6,700.0	-	57,300.0	5,400.0	-	91,700.0	6,800.0	-	98,500.0
Railways Corporation	-	-	-	-	-	5,100.0	1,600.0	-	6,700.0
DBE	-	799.8	688.7	-	-	43.4	-	-	43.4
2. Regional Governments	1,876.0	657.9	11,847.9	325.0	532.8	17,486.8	2,350.0	266.4	19,570.3
Oromia	-	58.2	1,889.7	-	101.7	692.9	-	15.3	677.6
Amhara	-	304.5	145.2	-	-	0.2	-	-	0.2
Tigray	-	13.9	695.0	-	44.6	227.7	-	5.9	221.8
SNNPRS	-	8.3	748.6	-	7.8	298.4	-	3.4	294.9
Dire Dawa	-	2.2	202.9	-	10.8	13.3	-	13.3	-
Harari	-	-	94.7	-	-	0.0	-	-	-
Addis Ababa Housing Development Agency	1,876.0	270.8	8,071.8	325.0	367.9	16,254.3	2,350.0	228.5	18,375.8
3. Grand Total (1+2)	8,576.0	1,457.7	69,836.6	5,725.0	532.8	114,330.2	10,750.0	266.4	124,813.7

Source: NBE

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