

## IV. MONETARY DEVELOPMENTS

### 4.1. Money Supply and Credit

Broad money supply ( $M_2$ ) reached Birr 155.9 billion at the end of the second quarter of 2011/12, depicting annual growth rates of 32.3 percent. The yearly growth was driven by both domestic credit expansion and build-up in net foreign assets.

On annual basis, domestic credit expanded by 32.9 percent, spurred by 60.4 percent increase in credit to the non-central

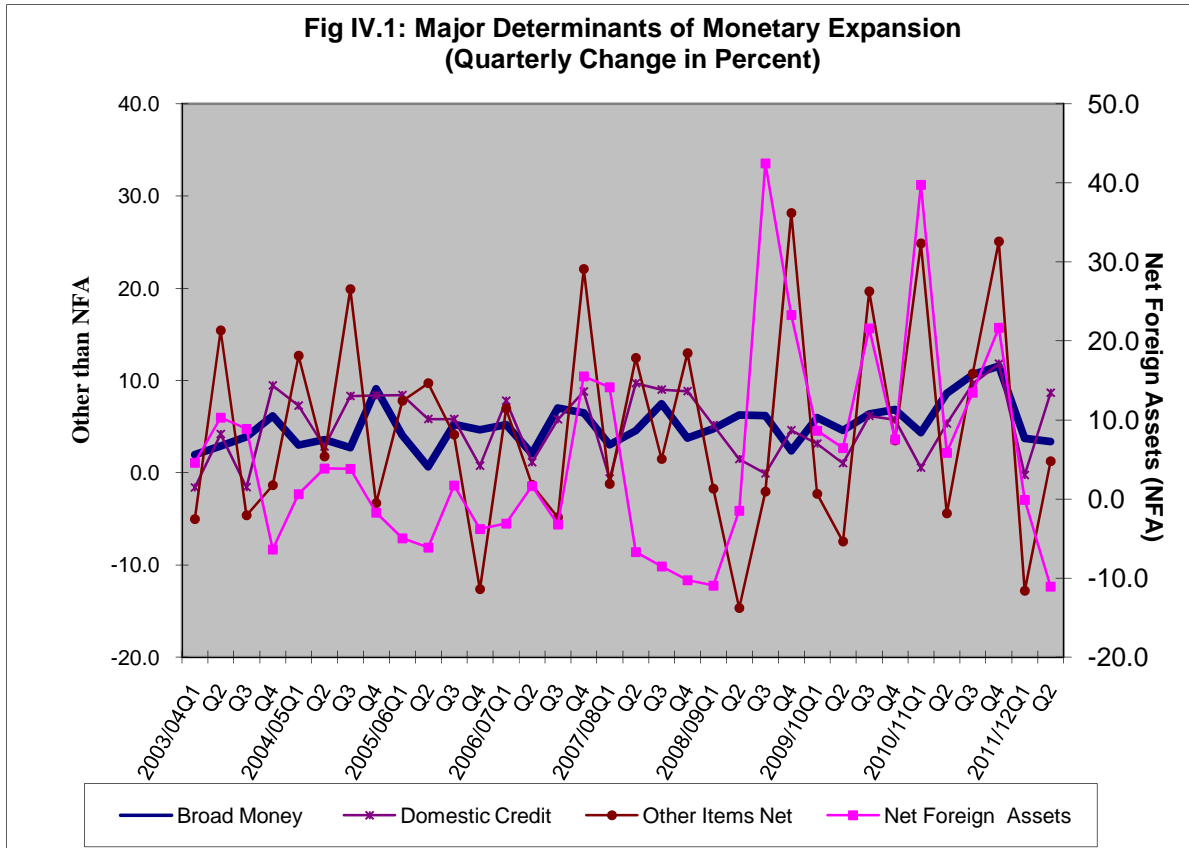
government sector. Claims on central government plummeted by 50.9 percent. Meanwhile, net foreign assets surged by 22.7 percent annually to reach Birr 49.3 billion at the end of the second quarter of 2011/12 (Table 4.1).

**Table 4.1: Factors Influencing Broad Money**

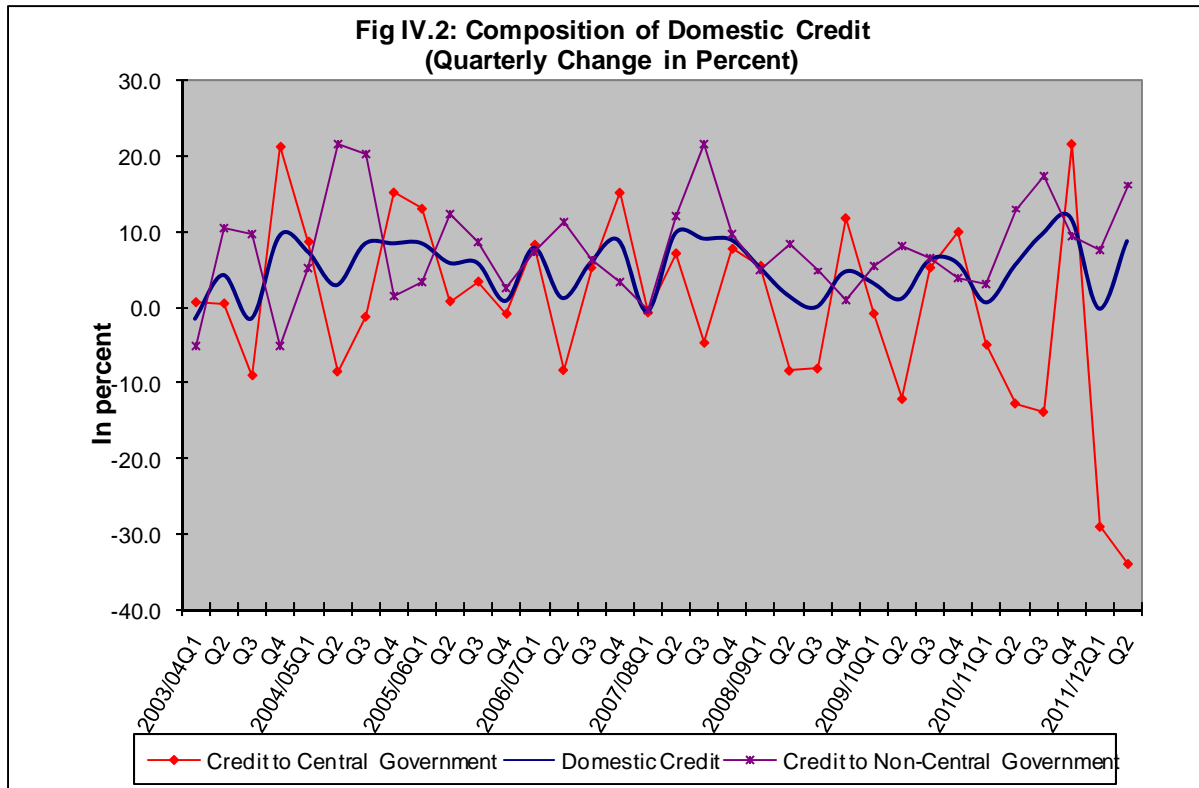
(In Millions of Birr)

Particulars	2010/11	2011/12		Percentage Change		Contributions of each Component to Broad Money Growth	
	Qtr. II	Qtr. I	Qtr. II				
	(Dec. 10)	(Sep. 11)	(Dec. 11)	C/A	C/B	Annual	Quarterly
	A	B	C				
1. External Assets (net)	40,230.9	55,479.8	49,345.6	22.7	-11.1	23.9	-120.6
2. Domestic Credit	110,514.0	135,111.2	146,828.0	32.9	8.7	95.3	230.3
. Claims on Central Gov't (net)	27,374.2	20,343.1	13,443.6	-50.9	-33.9	-36.6	-135.6
. Claims on Non-Central Gov't	83,139.7	114,768.0	133,384.4	60.4	16.2	131.9	365.9
. Financial Institutions	0.0	7,400.0	10,070.0	-	36.1	26.4	52.5
. Others	68,601.1	83,139.7	97,638.0	42.3	17.4	76.2	284.9
3. Other Items (net)	83,139.7	107,368.0	123,314.4	48.3	14.9	105.5	313.4
4. Broad Money ( $M_2$ )	117,800.2	150,809.9	155,898.2	32.3	3.4	100.0	100.0

Source: NBE



Source: NBE



Source: NBE

The second quarter of 2011/12 also witnessed an annual surge in all components of broad money. Narrow money that comprises currency outside banks and net demand deposits grew by 31.8 percent on annual basis. Similarly, quasi-money that includes both saving and time deposits depicted 32.9 percent increase. Both narrow money and quasi-money contributed 50.1

and 49.9 percent share to the annual broad money growth rate (Table 4.2).

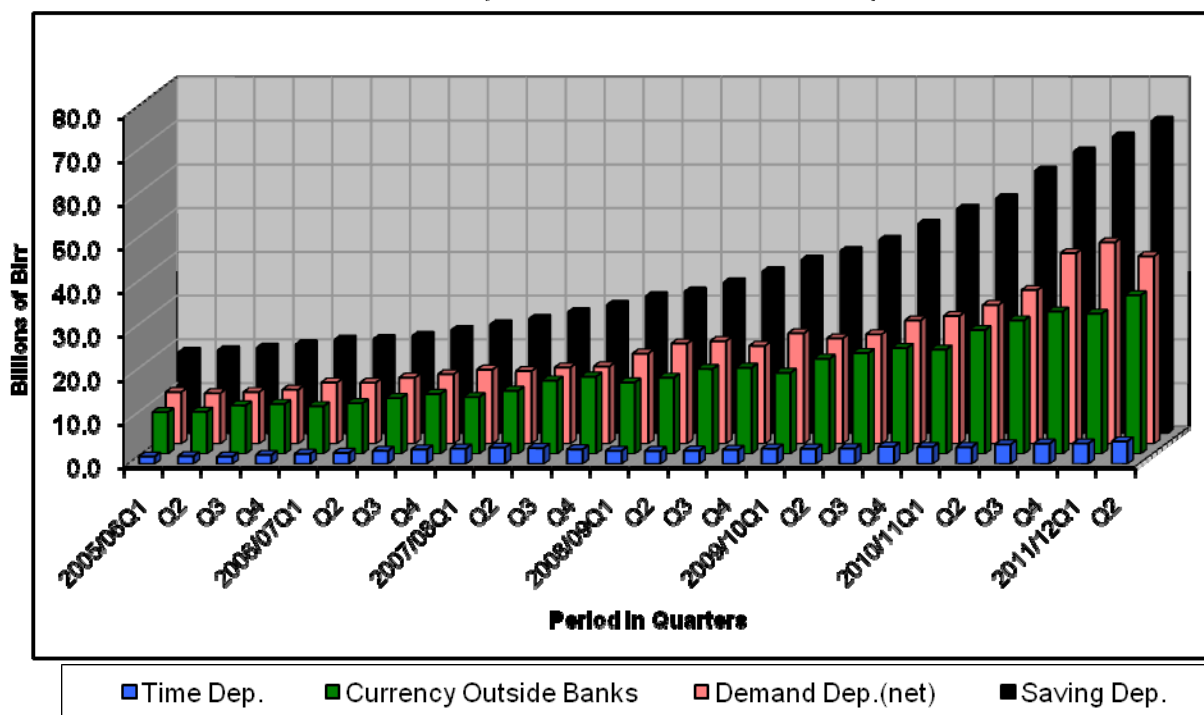
The rise in currency outside banks reflects the continuous rise in income and public preference to hold cash. Similarly, the surge in quasi-money highlights the efforts being made by both public and private banks to expand their branch network to augment their deposit mobilization and improve their service outreach.

Table 4.2: Components of Broad Money

(In Millions of Birr)

Particulars	2010/11	2011/12		Percentage Change		Contributions of each Component to Broad Money Growth	
	Qtr. II (Dec. 10)	Qtr. I (Sep. 11)	Qtr. II (Dec. 11)	C/A	C/B	Annual	Quarterly
	A	B	C				
<b>1. Narrow Money Supply</b>	<b>60,064.2</b>	<b>78,142.2</b>	<b>79,154.6</b>	<b>31.8</b>	<b>1.3</b>	<b>50.1</b>	<b>19.9</b>
. Currency outside banks	28,312.3	32,073.6	36,274.6	28.1	13.1	20.9	82.6
. Demand Deposits (net)	31,751.8	46,068.6	42,880.0	35.1	-6.9	29.2	-62.7
<b>2. Quasi-Money</b>	<b>57,736.1</b>	<b>72,667.7</b>	<b>76,743.7</b>	<b>32.9</b>	<b>5.6</b>	<b>49.9</b>	<b>80.1</b>
. Savings Deposits	53,876.0	67,987.8	71,578.4	32.9	5.3	46.5	70.6
. Time Deposits	3,860.1	4,679.9	5,165.3	33.8	10.4	3.4	9.5
<b>3. Broad Money Supply</b>	<b>117,800.2</b>	<b>150,809.9</b>	<b>155,898.2</b>	<b>32.3</b>	<b>3.4</b>	<b>100.0</b>	<b>100.0</b>

Source: NBE

Fig. IV. 3: Composition of Monetary Stock  
(Second Quarter of FY 2011/12)

Source: NBE

## 4.2. Developments in Reserve Money and Monetary Ratio

Reserve money reached Birr 67.8 billion at the end of the second quarter of 2011/12, depicting an annual growth of 19.5 percent. Mainly due to the fall in banks deposits at NBE. Excess reserves of commercial banks also sharply declined by 75.3 percent and reached Birr 1.3 billion.

The money multiplier measured by the ratio of broad money to reserve money, grew by 10.7 percent on annual basis implying the

increased monetization of the economy. Similarly, the ratio of narrow money to reserve money increased by 10.3 percent on annual basis.

Concerning other monetary ratios, narrow-money to broad money decreased by 0.4 percent from the preceding year while quasi-money to broad money increased by 0.4 percent, (Table 4.3).

**Table 4.3: Reserve Money and Ratios**

(In millions of Birr)

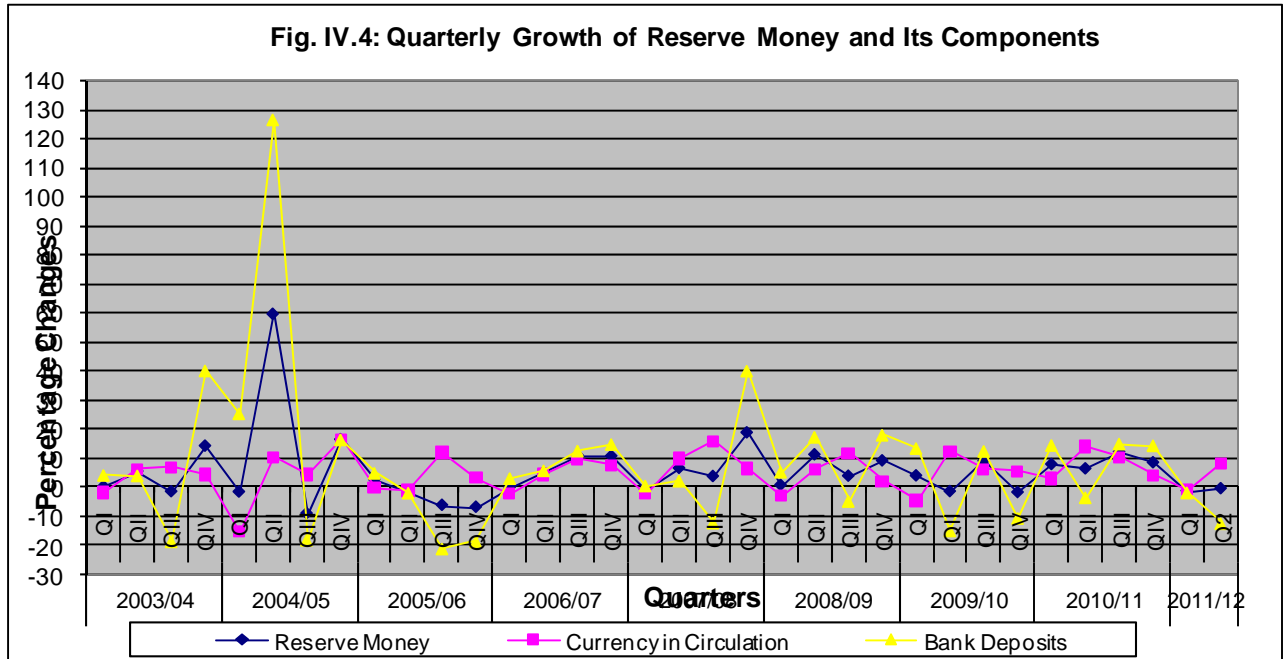
Particulars	2010/11	2011/12		Percentage Change	
	Qtr. II	Qtr. I	Qtr. II		
	(Dec. 10)	(Sep. 11)	(Dec. 11)	C/A	C/B
	A	B	C		
<b>1. Reserve Requirement (CB's)</b>	16,638.2	21,564.4	23,095.7	38.8	7.1
<b>2. Actual Reserve (CB's)*</b>	21,850.2	27,855.4	24,381.0	11.6	-12.5
<b>3. Excess Reserve (CB's)</b>	5,212.1	6,291.0	1,285.2	-75.3	-79.6
<b>4. Reserve Money</b>	56,721.1	68,122.6	67,786.3	19.5	-0.5
. Currency in Circulation	33,949.0	38,732.6	42,048.1	23.9	8.6
. Banks deposits at NBE**	22,772.1	29,390.0	25,738.2	13.0	-12.4
<b>5. Money Multiplier (Ratio):</b>					
. Narrow Money to Reserve Money	1.1	1.1	1.2	10.3	1.8
. Broad Money to Reserve Money	2.1	2.2	2.3	10.7	3.9
<b>6. Other Monetary Ratios (%):</b>					
. Currency to Narrow Money	47.1	41.0	45.8	-2.8	11.7
. Currency to Broad Money	24.0	21.3	23.3	-3.2	9.4
. Narrow Money to Broad Money	51.0	51.8	50.8	-0.4	-2.0
. Quasi Money to Broad Money	49.0	48.2	49.2	0.4	2.2

Source: NBE and Commercial Banks.

\* The data is obtained from commercial banks balance sheet.

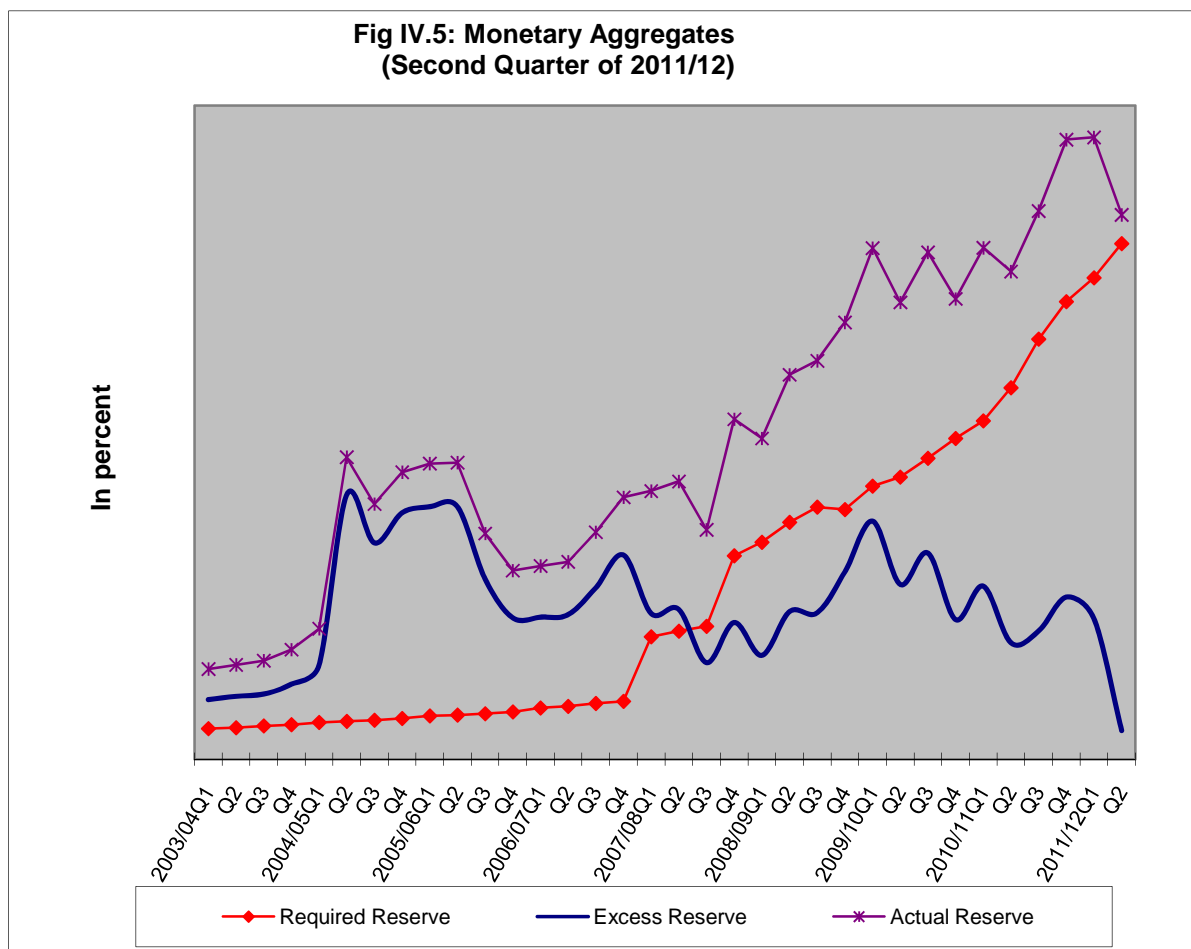
\*\* The data is obtained from NBE balance sheet.

This implies a decline in demand for cash and checkable deposits for transaction purposes in the quarter under review and presumably due to slowdown in inflation.



Source: NBE

**Fig IV.5: Monetary Aggregates  
(Second Quarter of 2011/12)**



Source: NBE

### 4.3. Interest Rate Developments

Average saving deposit rate and average lending rates were unchanged at 5.4 and 11.88 percent respectively both on quarterly and annual basis. Weighted average time deposit rate, however, registered annual decline of 8.5 percent and marginal increase of 2.7 percent on quarterly basis. Similarly, the weighted

average yield on T-bills increased from 1.35 to 1.53 percent on annual terms. On the other hand, considering annual average headline inflation of 33.2 percent during the quarter under review, all deposit rates, lending rates and yields remained negative in real terms (Table 4.4).

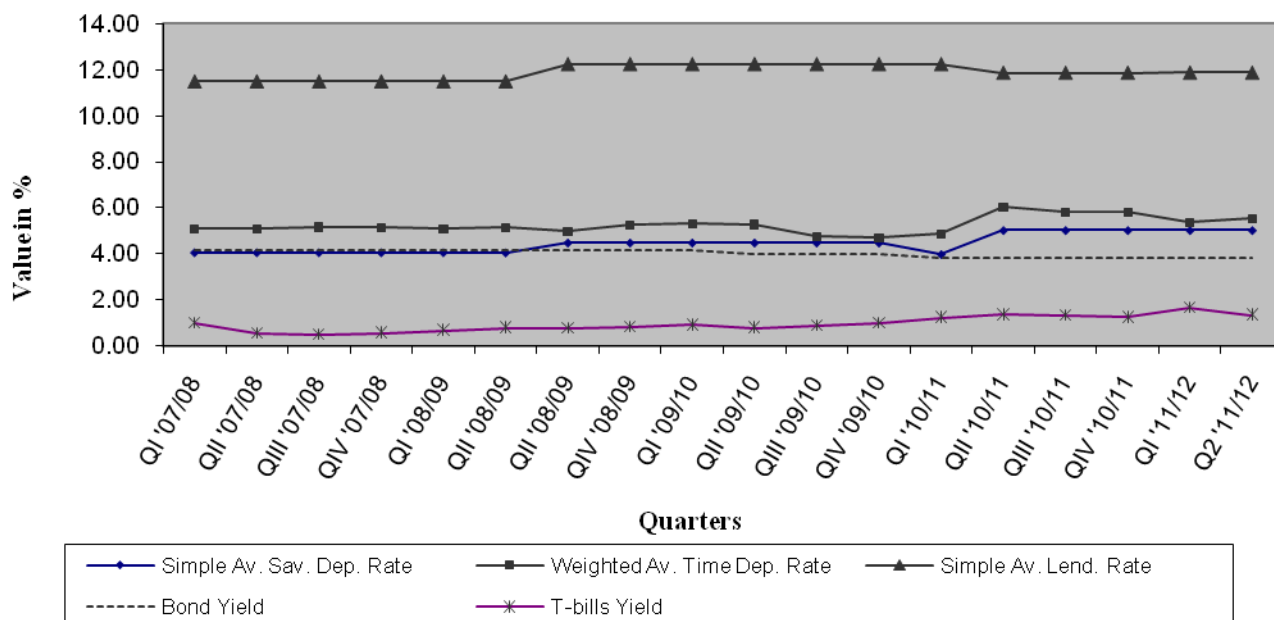
**Table 4.4: Interest Rate Structure of Commercial Banks (Percent per annum)**

	2010/11	2011/12		Percentage Change	
	QII	QI	QII	Annual	Quarterly
<b>1. Savings Deposit Rate</b>					
Minimum	5	5	5	0.0	0.0
Maximum	5.75	5.75	5.75	0.0	0.0
<b>Average Saving Rate</b>	<b>5.4</b>	<b>5.4</b>	<b>5.4</b>	<b>0.0</b>	<b>0.0</b>
<b>2. Time Deposits</b>					
Up to 1yr	5.89	5.26	5.40	-8.3	2.6
1-2 years	6.07	5.41	5.55	-8.5	2.7
Over 2 yrs	6.15	5.47	5.62	-8.6	2.8
<b>Average Time Dep. Rate (Weighted)</b>	<b>6.04</b>	<b>5.38</b>	<b>5.52</b>	<b>-8.5</b>	<b>2.7</b>
<b>3. Demand Deposit (Weighted)</b>	<b>0.04</b>	<b>0.03</b>	<b>0.03</b>	<b>-19.7</b>	<b>7.3</b>
<b>4. Lending Rate</b>					
Minimum	7.5	7.5	7.5	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 Ave.)</b>	<b>1.353</b>	<b>1.652</b>	<b>1.53</b>	<b>13.1</b>	<b>-7.4</b>
<b>6. Bond Yield (Simple Average)</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>0.0</b>	<b>0.0</b>
<b>7. Headline Inflation</b>	<b>8.1</b>	<b>26.6</b>	<b>33.2</b>	<b>309.9</b>	<b>24.8</b>
<b>8. Food inflation</b>	<b>1.5</b>	<b>28.4</b>	<b>39.2</b>	<b>2513.3</b>	<b>38.0</b>
<b>9. Core Inflation Rate</b>	<b>19.1</b>	<b>24.2</b>	<b>24.9</b>	<b>30.4</b>	<b>2.9</b>

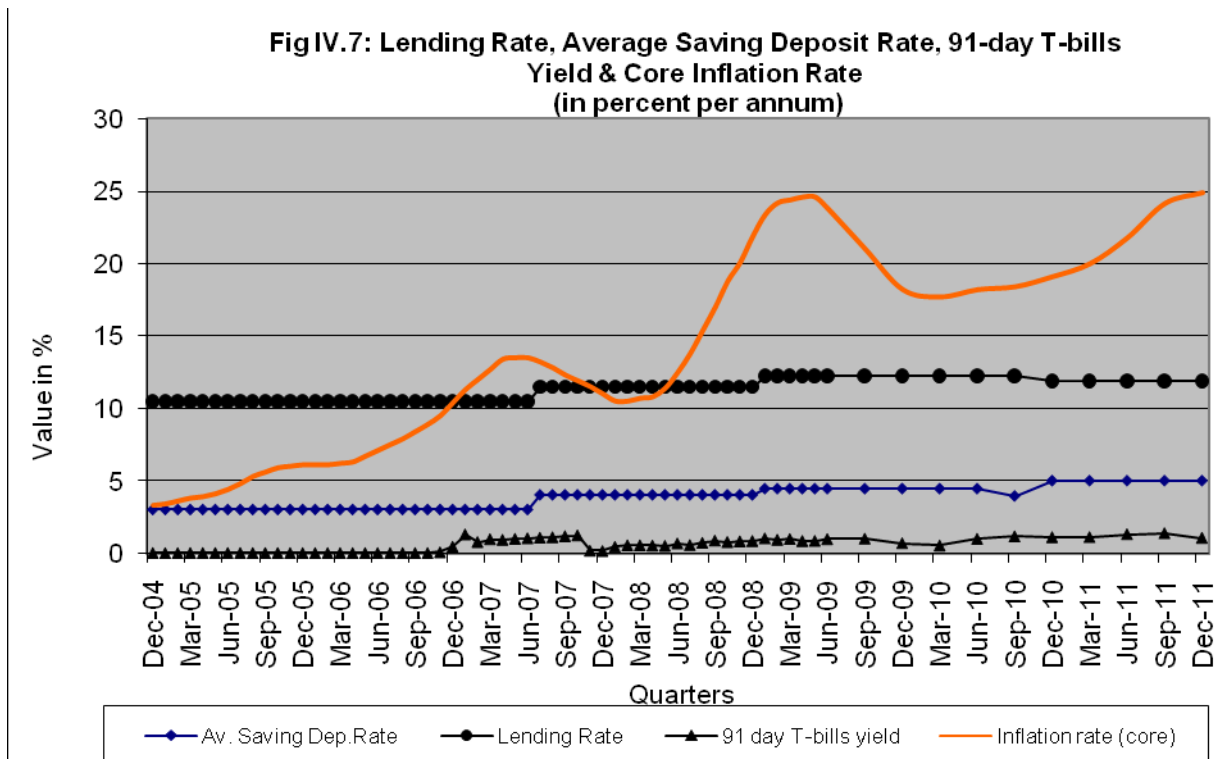
Source: NBE and commercial banks



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



Source: NBE and Commercial Banks



Source: NBE staff compilation

#### 4.4. Developments in the Financial Sector

Banks, insurance companies and microfinance institutions are the main financial institutions in Ethiopia. The number of banks operating in the country reached 17 at the end of December 2011 of which 14 banks were privately owned.

During the review quarter, 110 new bank branches were opened, thereby raising the total number of bank branches to 1126. As a result, the ratio of total bank branch to total population was about 71,048\* from

78,740 in the preceding quarter, reflecting an improvement in financial service outreach.

About 33.7 percent of the total bank branches were located in Addis Ababa reflecting a decline in concentration of branches in the capital from 34.6 percent in the preceding quarter. Of the total bank branches, the share of the private banks declined to 47.4 percent from 48.8 percent in the preceding quarter due to the opening of 72 new branches by public banks during the review quarter.

\* Computed based on the assumption that total population was 80 million

Meanwhile, the total capital of the banking system reached Birr 16.9 billion at the second quarter of 2011/12, of which private banks together accounted for 48 percent. Commercial Bank of Ethiopia, the biggest state owned bank, accounted for 36.9 percent of the total capital of the banking system.

The total number of insurance companies operating in the country remained unchanged (14) during the reviewed quarter, of which 13 were privately owned. The number of branches, however, increased to 227 from 213 compared to the same period last year. About 52 percent of the branches were located in Addis Ababa. Compared to the banking business, the outreach of insurance companies is very low as one insurance branch served about 352 thousand people.

During the review quarter, the total capital of the insurance industry increased by 0.4 percent over the previous quarter to Birr 970.5 million. The share of private insurance companies stood at 69.5 percent against 68.6 percent in the preceding quarter.

On the other hand, there were 31 micro-finance institutions (MFIs) operating in the country. These MFIs mobilized deposits to the tune of Birr 4.3 billion, which was 41.1 percent higher than last year. Similarly, credit outstanding of the MFIs scaled up by 18.8 percent on annual basis to reach Birr 7.3 billion. Likewise, their total assets increased by 24.3 percent and reached Birr 10.9 billion by the end of December 2011 (Table 4.7). Given their intended purpose, MFIs in the country are contributing to poverty reduction by providing loans to and mobilizing savings from the low-income segments of the population.

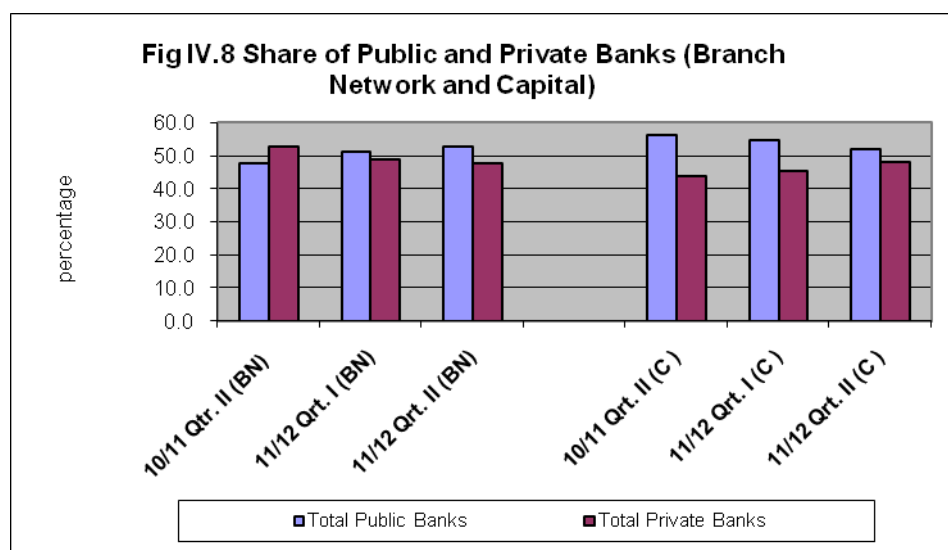
The top five largest MFIs (Amhara Credit & Saving Institute, Dedebit Credit & Saving Institute, Oromia Credit & Saving Institution, Omo Credit & Saving Institution And Addis Credit & Savings Institution) alone accounted for 86.1 percent of the total capital, 93.6 percent of the savings, 89.5 percent of the credit and 89.8 percent of the total assets of the industry, revealing a very high concentration ratio in the sector.

**Table 4.5: Capital and Branch Network of Banking System as at December 31, 2011**

(Branch in Number and Capital in Millions of Birr)

Banks	Branch Network												Capital			
	2010/11				2011/12								2010/11	2011/12		
	Quarter II				Quarter I				Quarter II				Quarter II	Quarter I	Quarter II	
	Reg.	A.A	Total	% Share	Reg.	A.A	Total	% Share	Reg.	A.A	Total	% Share				
<b>1. Public Banks</b>																
Commercial Bank of Ethiopia	255	79	334	39.8	358	96	454	44.7	395	103	498	44.2	5,528.0	6,231.0	6,231.0	
Construction & Business Bank	17	15	32	3.8	17	17	34	3.3	40	22	62	5.5	251.0	307.0	285.0	
Development Bank of Ethiopia	31	1	32	3.8	31	1	32	3.1	31	1	32	2.8	2,014.0	2,253.0	2,254.0	
<b>Total Public Banks</b>	<b>303</b>	<b>95</b>	<b>398</b>	<b>47.4</b>	<b>406</b>	<b>114</b>	<b>520</b>	<b>51.2</b>	<b>466</b>	<b>126</b>	<b>592</b>	<b>52.6</b>	<b>7793</b>	<b>8791</b>	<b>8770</b>	
<b>2. Private Banks</b>																
Awash International Bank	32	33	65	7.7	37	35	72	7.1	37	40	77	6.8	928.0	1,112.0	1,249.0	
Dashen Bank	31	32	63	7.5	31	34	65	6.4	33	36	69	6.1	939.0	1,157.0	1,157.0	
Abyssinia Bank	22	30	52	6.2	25	32	57	5.6	26	32	58	5.2	483.0	532.0	648.0	
Wegagen Bank	28	23	51	6.1	29	24	53	5.2	33	26	59	5.2	999.0	1,095.0	1,264.0	
United Bank	17	29	46	5.5	18	32	50	4.9	23	33	56	5.0	537.0	731.0	784.0	
Nib International Bank	18	32	50	6.0	19	32	51	5.0	19	33	52	4.6	898.0	989.0	1,083.0	
Cooperative Bank of Oromia	36	5	41	4.9	38	5	43	4.2	42	5	47	4.2	174.0	217.0	243.0	
Lion International Bank	13	11	24	2.9	17	13	30	3.0	17	13	30	2.7	287.0	323.0	328.0	
Oromia International Bank	23	8	31	3.7	26	11	37	3.6	26	11	37	3.3	232.0	281.0	290.0	
Zemen Bank	0	3	3	0.4	0	3	3	0.3	0	3	3	0.3	163.0	200.0	351.0	
Buna International Bank	2	5	7	0.8	3	7	10	1.0	6	9	15	1.3	180.0	224.0	229.0	
Berhan International Bank	3	5	8	1.0	4	8	12	1.2	5	8	13	1.2	115.0	145.0	155.0	
Abay Bank	2	0	0	0.0	12	1	13	1.3	14	2	16	1.4	145.0	178.0	192.0	
Addis International Bank	0	0	0	0.0	0	1	0	0.0	0	2	2	0.2	0.0	120.0	123.0	
<b>Total Private Banks</b>	<b>227</b>	<b>216</b>	<b>441</b>	<b>52.6</b>	<b>259</b>	<b>238</b>	<b>496</b>	<b>48.8</b>	<b>281</b>	<b>253</b>	<b>534</b>	<b>47.4</b>	<b>6,080.0</b>	<b>7,304.0</b>	<b>8,096.0</b>	
<b>3. Grand Total Banks</b>	<b>530</b>	<b>311</b>	<b>839</b>	<b>100.0</b>	<b>665</b>	<b>352</b>	<b>1016</b>	<b>100.0</b>	<b>747</b>	<b>379</b>	<b>1126</b>	<b>100.0</b>	<b>13,873.0</b>	<b>16,095.0</b>	<b>16,866.0</b>	

Source: Bank Supervision Directorate, NBE  
Reg. stands for regions



Source: Bank Supervision Directorate, NBE

**Table 4.6: Branch Network and Capital of Insurance Companies as at December 31, 2011**

(Branch in number and Capital in Millions of Birr)

Insurance Companies	Branch									Capital		
	Quarter II 2010/11			Quarter I 2011/12			Quarter II 2011/12			Quarter II	Quarter I	Quarter II
	A.A	Reg	Total	A.A	Reg	Total	A.A	Reg	Total	2010/11	2011/12	2011/12
Ethiopian Insurance Corporation	11	30	41	11	30	41	11	30	41	283.0	303.4	295.9
Awash Insurance Company	16	11	27	19	11	30	19	11	30	77.0	94.9	102.5
Africa Insurance Company	6	7	13	6	7	13	6	7	13	68.0	83.3	84.8
National Insurance Corporation of Ethiopia	8	8	16	9	8	17	9	8	17	21.0	15.2	18.4
United Insurance Company	15	8	23	15	8	23	15	8	23	66.0	89.5	93.7
Global Insurance Company	6	4	10	6	4	10	6	4	10	23.0	27.1	26.3
Nile Insurance Company	11	9	20	11	10	21	11	10	21	91.0	92.5	105.1
Nyala Insurance Company	8	8	16	9	8	17	9	8	17	80.0	96.0	94.9
Nib Insurance Company	12	8	20	14	8	22	14	8	22	77.0	88.2	75.2
Lion Insurance Company	6	5	11	6	5	11	6	5	11	10.0	22.5	24.7
Ethio-Life Insurance Company	0	0	-	0	0	0	0	0	0	22.0	5.3	5.3
Oromia Insurance Company	7	8	15	8	8	16	8	8	16	4.0	26.3	21.2
Abay Insurance Company S.C.	0	1	1	1	2	3	1	2	3	10.0	11.7	11.1
Berhan insurance S.C	-	-	-	3	0	3	3	0	3	0.0	10.9	11.3
<b>TOTAL</b>	<b>106</b>	<b>107</b>	<b>213</b>	<b>118</b>	<b>109</b>	<b>227</b>	<b>118</b>	<b>109</b>	<b>227</b>	<b>832.0</b>	<b>966.7</b>	<b>970.5</b>

Source: Insurance Supervision Directorate, NBE

Reg. stands for regions

**Table 4.7: Microfinance Institutions Performance as at December 31, 2011**

(In Thousands of Birr)

Particulars	2010/11	2011/12		% Change	
	Qtr.II	Qtr.I	Qtr.II	C/A	C/B
	A	B	C		
Total Capital	2,642,669.8	3,046,358.0	3269346	23.7	7.3
Saving	3,071,395.8	3,943,802.0	4334544	41.1	9.9
Credit	6,193,729.5	7,130,180.0	7355089	18.8	3.2
Total Assets	8,811,706.1	10,193,248.0	10953137	24.3	7.5

Source: Microfinance Supervision Directorate, NBE

## 4.5. Activities of the Banking System

### 4.5.1. Resource Mobilization

Total resources mobilized by the banking system (as measured by the sum of net change in deposit, loans collected and net change in borrowings) went up by 9.3 percent to Birr 20.4 billion at the end of the second quarter from Birr 18.6 billion in the preceding quarter due to the surge in net deposit and net borrowing by 52 and 40.7

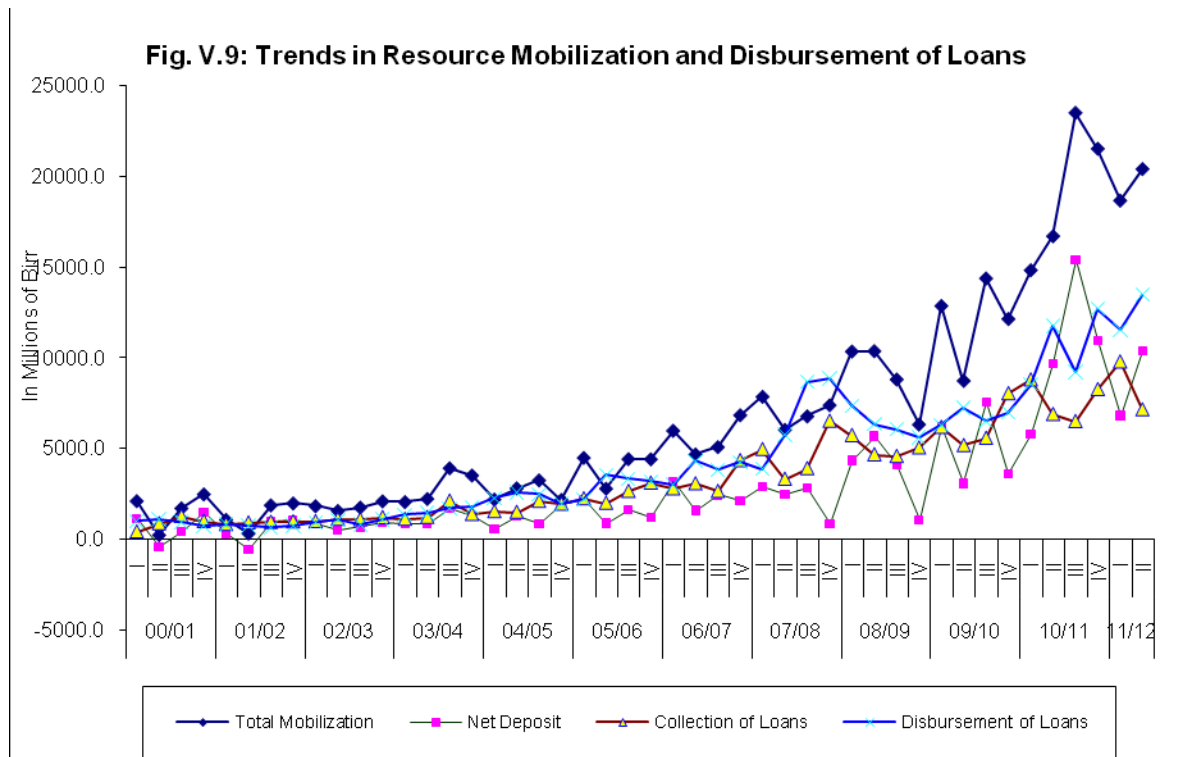
percent respectively (Table 4.8). Similarly, year-on-year basis, total resources mobilized by the banking system scaled up by 22.1 percent due to the significant surge in net borrowing.

**Table 4.8: Summary of Resource Mobilization and Disbursement of Banking System during Second Quarter of 2011/12**  
(In Millions of Birr)

Particulars	Public Banks		Private Banks		Grand Total			% Change	
	1		2		(3) = (1) + (2)				
	Qtr. I	Qtr. II	Qtr. I	Qtr. II	Qtr. II	Qtr. I	Qtr. II		
	2011/12	2011/12	2011/12	2011/12	2010/11	2011/12	2011/12		
				A	B	C	C/A	C/B	
1. Deposits (net change)	<b>3,300.4</b>	<b>9,095.3</b>	<b>3,526.1</b>	<b>1,278.5</b>	<b>9,711.8</b>	<b>6,826.5</b>	<b>10,373.8</b>	<b>6.8</b>	<b>52.0</b>
-Demand	1,991.2	6,133.2	1,442.1	71.8	7,336.8	3,433.3	6,205.0	-15.4	80.7
-Saving	1,442.8	2,954.0	1,947.9	719.2	2,414.2	3,390.7	3,673.2	52.2	8.3
-Time	-133.6	8.1	136.1	487.5	-39.2	2.5	495.6	1,364.3	19,656.8
2. Borrowing (net change)	<b>2,016.6</b>	<b>2,838.2</b>	<b>0.0</b>	<b>0.0</b>	<b>70.2</b>	<b>2,016.6</b>	<b>2,838.2</b>	<b>3,944.9</b>	<b>40.7</b>
-Local	2,062.9	2,838.2	0.0	0.0	146.1	2,062.9	2,838.2	1,842.1	37.6
-Foreign	-46.2	0.0	0.0	0.0	-76.0	-46.2	0.0	-100.0	-100.0
3. Collection of Loans	5,598.8	3,435.8	4,210.5	3,735.2	6,911.7	9,809.3	7,171.1	3.8	-26.9
4. Total Resources Mobilized (1+2+3)	<b>10,915.9</b>	<b>15,369.4</b>	<b>7,736.5</b>	<b>5,013.8</b>	<b>16,693.7</b>	<b>18,652.4</b>	<b>20,383.1</b>	<b>22.1</b>	<b>9.3</b>
5. Disbursement	5,136.3	7,331.8	6,415.3	6,126.5	11,767.3	11,551.6	13,458.3	14.4	16.5
6. Change in Liquidity (4-5)	<b>5,779.6</b>	<b>8,037.5</b>	<b>1,321.3</b>	<b>-1,112.7</b>	<b>4,926.4</b>	<b>7,100.8</b>	<b>6,924.8</b>	<b>40.6</b>	<b>-2.5</b>
Memorandum Item:									
A. Outstanding Credit*	53,782.6	55,547.3	30,865.1	33,812.4	67,291.3	73,632.4	89,359.7	32.8	21.4
B. Outstanding Interbank Lending	42.6	98.5	0.6	0.0	223.2	43.2	98.5	-55.9	127.7

Source: Commercial Banks and staff computation

Notes: \*Excludes government borrowing in the form of bonds and treasury bills from commercial banks and other sectors other than NBE



#### 4.5.1.1. Deposit Mobilization

Total deposits liabilities of the banking system reached Birr 157.7 billion at the end of the second quarter of 2011/12, indicating annual growth of 38.2 percent. The growth in deposit mobilization was partly attributed to the rise in the number of bank branches and improvements in economic activities.

All types of deposit have contributed to the rise in total deposits. Demand deposits, which accounted for 51 percent of total deposits, reached Birr 80.5 billion, showing annual growth rate of 43.9 percent. Similarly, saving deposits, with 45.4 percent share in total

deposits increased by 32.9 percent during same period. Time deposits, which constituted 3.6 percent of the total deposit liabilities, went up by 30.2 percent during the same period last year.

The share of public owned banks in total deposits increased marginally to 65.3 percent from 62.5 percent last year, while the share of private banks decreased from 37.5 to 34.7 percent (Table 4.9).

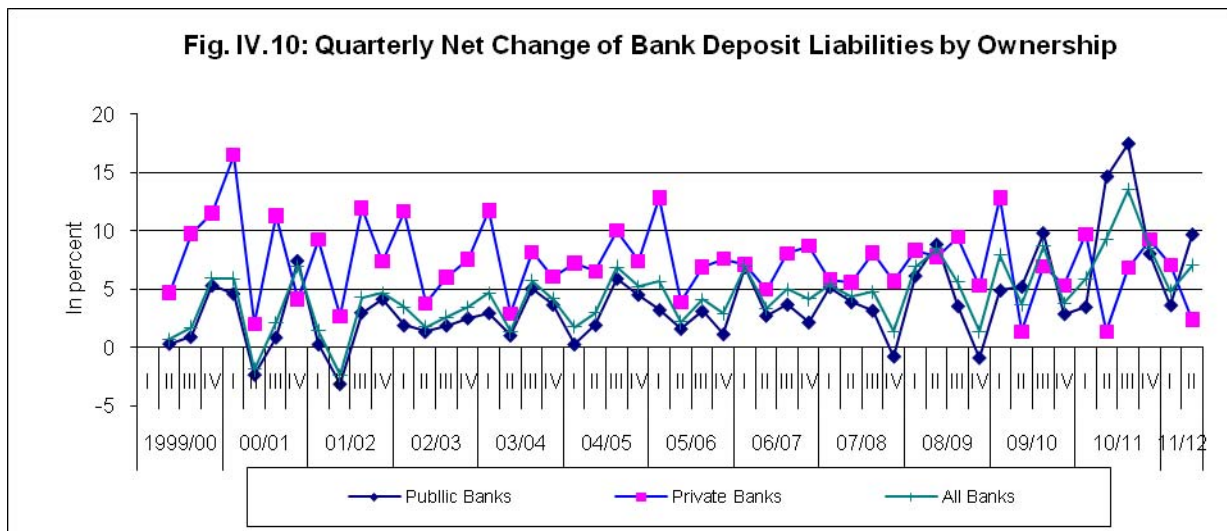


**Table 4.9: Stock of Deposits Mobilized by Banking System as at December 31, 2011**

(In Millions of Birr)

Types of Deposits	2010/11		2011/12				% Change	
	Quarter II	% Share	Quarter I	% Share	Quarter II	% Share	C/A	C/B
	A		B		C			
Demand Deposit	55,915.7	49.0	74,275.7	50.4	80,480.7	51.0	43.9	8.4
Saving Deposit	53,880.8	47.2	67,919.4	46.1	71,592.6	45.4	32.9	5.4
Time Deposit	4,345.2	3.8	5,163.1	3.5	5,658.7	3.6	30.2	9.6
<b>Total</b>	<b>114,141.6</b>	<b>100.0</b>	<b>147,358.3</b>	<b>100.0</b>	<b>157,732.1</b>	<b>100.0</b>	<b>38.2</b>	<b>7.0</b>
Share of Public Banks	62.5		63.7		65.3			
Share of Private Banks	37.5		36.3		34.7			

Source: Commercial Banks and DBE



Source: Commercial Banks and DBE

#### 4.5.1.2. Collection of Loans

During the review period, the banking system collected Birr 7.2 billion, which showed a 3.8 percent annual increase. Of the total loan collection, private banks collected Birr 3.7 billion (52.1 percent) while public banks collected the remaining balance. About 71.8 percent of the total

loan collection was from the private enterprises followed by state enterprises (19 percent) and cooperatives (9.1 percent) (Table 4.8 and 4.12).

### 4.5.1.3. Borrowing

Total outstanding borrowing of the banking system reached Birr 14.5 billion at the end of the second quarter of 2011/12, registering 146.4 percent surge over last

year. Of the total borrowing, Birr 13.6 billion (93.3 percent) was domestic borrowing while the remaining Birr 973.2 million (6.7 percent) was from foreign sources (Table 4.10).

**Table 4.10: Outstanding Borrowing of Banking System by Sources as at December 31, 2011**  
(In Millions of Birr)

Banks	2010/11	2011/12		Percentage change	
	Quarter II	Quarter I	Quarter II	C/A	C/B
	A	B	C		
Domestic Borrowing	4,991.3	10,729.4	13,567.6	171.8	26.5
Foreign Borrowing	909.0	973.2	973.2	7.1	0
<b>Total</b>	<b>5,900.3</b>	<b>11,702.6</b>	<b>14,540.8</b>	146.4	24.3

Source: Commercial banks and DBE

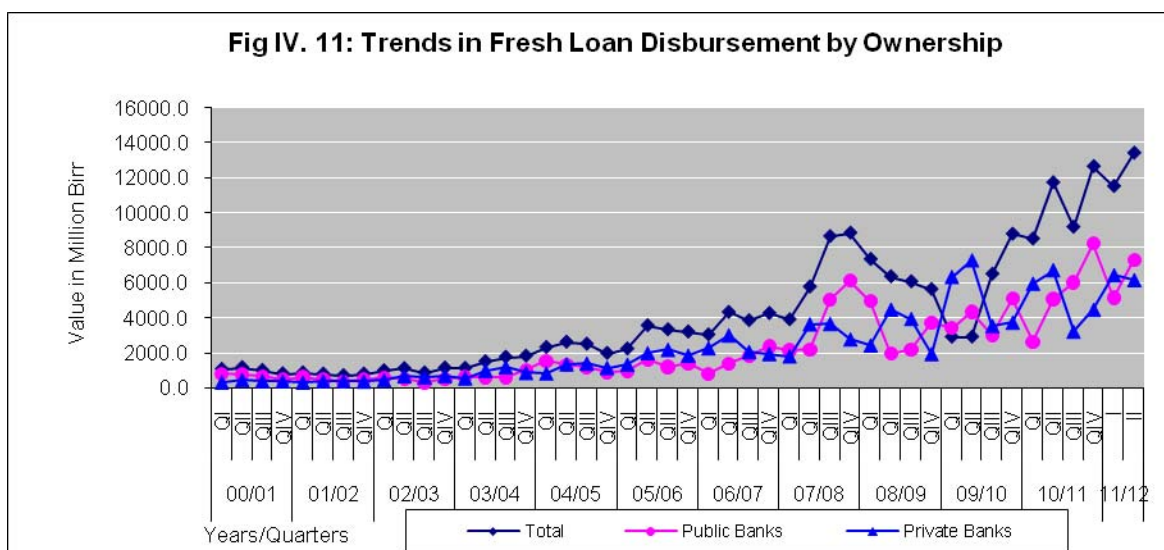
### 4.5.2. Disbursement of Fresh Loans

During the second quarter of 2011/12, total disbursement of fresh loans by the banking system reached Birr 13.5 billion, indicating an increase of 14.4 percent compared with the same period of last year. Public Banks disbursed Birr 7.3 billion or 54.5 percent while the balance was made by private banks (Table 4.11).

About 98 percent of new loan disbursement by private banks went to private enterprise while 56.3 and 30.4 percent of the loan by public banks disbursed to private enterprises

and state enterprises, respectively (Table 4.12).

Sector wise, loans to industry was the largest beneficiary (30.7 percent), followed by domestic trade (25.3 percent) and agriculture (14.8 percent) (Table 4.11).



Source: Commercial banks and DBE

**Table 4.11: Summary of Loans and Advances by Banks and Receiving Sectors during the Second Quarter of 2011/12**

(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 *	0.0	0.0	2571.6	0.0	0.0	436.0	0.0	0.0	3007.6
Agriculture	1,940.0	693.3	9563.4	54.3	49.1	629.7	1994.3	742.4	10193.2
Industry	3,526.1	1,119.5	20918.0	609.4	431.4	4739.7	4135.5	1550.9	25657.7
Domestic Trade	540.7	76.1	1058.4	2868.9	1203.0	10526.6	3409.6	1279.1	11584.9
International Trade	171.1	781.5	12181.8	1472.4	1210.6	9090.4	1643.5	1992.0	21272.1
Export	103.8	67.0	3602.1	731.3	488.7	3755.1	835.1	555.7	7357.2
Imports	67.3	714.5	8579.7	741.1	721.9	5335.3	808.4	1436.4	13914.9
Hotels and Tourism	25.3	35.0	510.4	96.4	66.0	992.6	121.7	100.9	1503.0
Transport & Communication	189.9	143.3	2483.2	175.6	239.3	1856.7	365.5	382.6	4339.9
Housing & Construction	531.2	414.5	5558.2	757.3	442.8	5160.6	1288.5	857.3	10718.8
Mines, Power & Water Res.	0.0	0.0	0.0	9.7	9.5	36.7	9.7	9.5	36.7
Others	345.6	160.4	3060.8	30.2	50.2	509.3	375.8	210.6	3570.1
Personal	3.4	8.0	114.7	52.1	33.4	270.2	55.5	41.4	384.9
Inter-Bank Lending	58.5	4.3	98.5	0.0	0.0	0.0	58.5	4.3	98.5
<b>Total</b>	<b>7,331.8</b>	<b>3,435.8</b>	<b>58,119.0</b>	<b>6,126.5</b>	<b>3,735.2</b>	<b>34,248.4</b>	<b>13,458.3</b>	<b>7,171.1</b>	<b>92,367.4</b>

Source: Commercial Banks and staff computation

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

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

### 4.5.3. Outstanding Credit

Total outstanding credit of the banking system (excluding credit to government) increased to Birr 89.4 billion at the end of December 2011, up by 32.8 percent against last year (Table 4.8).

Of the total outstanding loan, Birr 61.9 billion or 67.1 percent was a claim on the private enterprises while state enterprises and cooperatives accounted 21.8 and 7.8 percent, respectively (Table 4.12).

Sector wise, credit to industry stood first with 27.8 percent share followed by international trade 23 percent, domestic

trade 12.5 percent, housing & construction 11.6 percent and agriculture 11 percent (Table 4.11).

The share of private banks in total outstanding loan stood at 37.1 percent showing a marginal increase from 36.5 percent in the preceding quarter.

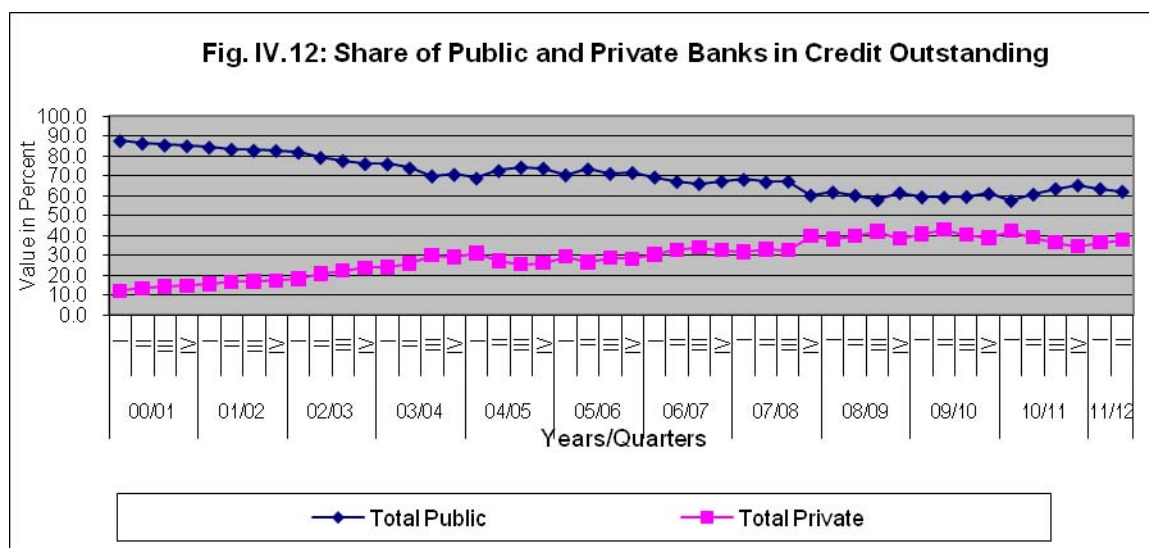
**Table 4.12: Breakdown of Loans & Advances of Banking System by Clients, during Second Quarter of 2011/12**

(In Millions of Birr)

Particulars	Loan Disbursement	% Share	Loan Collection	% Share	Outstanding Loan	% Share
<b>Public Banks</b>	<b>7,331.8</b>	<b>54.5</b>	<b>3,435.8</b>	<b>47.9</b>	<b>58,119.0</b>	<b>62.9</b>
Central Government*	0.0	0.0	0.0	0.0	2,571.6	4.4
State Enterprises	2,225.6	30.4	1,357.1	39.5	20,046.5	34.5
Cooperatives	921.6	12.6	622.3	18.1	6,953.0	12.0
Private Enterprises	4,126.1	56.3	1,452.1	42.3	28,449.3	49.0
Inter-bank Lending	58.5	0.8	4.3	0.1	98.5	0.2
<b>Private Banks</b>	<b>6,126.5</b>	<b>45.5</b>	<b>3,735.2</b>	<b>52.1</b>	<b>34,248.4</b>	<b>37.1</b>
Central Government*	0.0	0.0	0.0	0.0	436.0	1.3
State Enterprises	0.0	0.0	6.2	0.2	48.3	0.1
Cooperatives	124.4	2.0	33.2	0.9	281.4	0.8
Private Enterprises	6,002.1	98.0	3,695.9	98.9	33,482.7	97.8
Inter-bank Lending	0.0	0.0	0.0	0.0	0.0	0.0
<b>Grand Total</b>	<b>13,458.3</b>	<b>100.0</b>	<b>7,171.1</b>	<b>100.0</b>	<b>92,367.3</b>	<b>100.0</b>

Source: Commercial banks and DBE

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



Source: Commercial Banks and DBE

#### 4.6. Financial Activities of NBE

As at December 31, 2011/12, total claims of NBE on the central government reached Birr 55.6 billion, up by 10 percent vis-à-vis same period last year. Direct advances amounted to Birr 46.3 billion (83.3 percent of the total claims), showing annual increase of 12.7 percent. In contrast, NBE's holdings of government bonds slightly declined by 1.4 percent to Birr 9.3 billion at the end of the review quarter.

Meanwhile, deposits of the central government and financial institutions at the NBE reached Birr 43.4 billion, up by 30.2 percent against the balance in the same quarter of last year. Of the total deposits, 39.8 percent was deposit of the central government which increased by 84.7 percent on annual terms. (Table 4.13).

**Table 4.13: Financial Activities of NBE during Second Quarter of 2011/12**

(In Million of Birr)

Particulars	2010/11	2011/12		% Change	
	Qtr. II	Qtr. I	Qtr. II	C/A	C/B
	A	B	C		
<b>1.Loans and Advances</b>	<b>50,488.6</b>	<b>62,966.5</b>	<b>65,632.5</b>	<b>30.0</b>	<b>4.2</b>
1.1. To Central Government	50,488.6	55,566.5	55,562.5	10.0	0.0
Direct Advance	41,062.0	46,264.9	46,264.9	12.7	0.0
Bonds	9,426.6	9,301.5	9,297.5	-1.4	0.0
1.2.To Development Bank of Ethiopia		7,400.0	10,070.0	-	-
<b>2.Deposit Liabilities</b>	<b>33,357.7</b>	<b>49,029.6</b>	<b>43,442.8</b>	<b>30.2</b>	<b>-11.4</b>
2.1. Government	9,369.8	19,133.3	17,307.1	84.7	-9.5
2.2. Financial Institutions	23,987.9	29,896.3	26,135.8	9.0	-12.6
O/W:					
-Banks	22,950.6	29,890.9	26,130.2	13.9	-12.6
-Insurance companies	54.6	5.4	5.5	-89.9	1.6
<b>3.Net Claims of NBE</b>	<b>17,130.9</b>	<b>13,936.8</b>	<b>22,189.7</b>	<b>29.5</b>	<b>59.2</b>

Source: NBE

## 4.7. Developments in Financial Markets

### 4.7.1. Treasury Bills Market

During the second quarter of 2011/12, the amount of T-bills supplied to the weekly auction market amounted to Birr 32 billion. It went up by 43.7 percent against the same period last year. Meanwhile, T-bills worth Birr 18.3 billion were demanded during the quarter, 21 percent higher than last year (Table 4.14).

Of the total T-bills sold the share of commercial banks dropped to 32.6 percent

from 52.8 percent last year. As a result, the share of non-bank institutions increased to 96.9 percent from 84.4 percent last year.

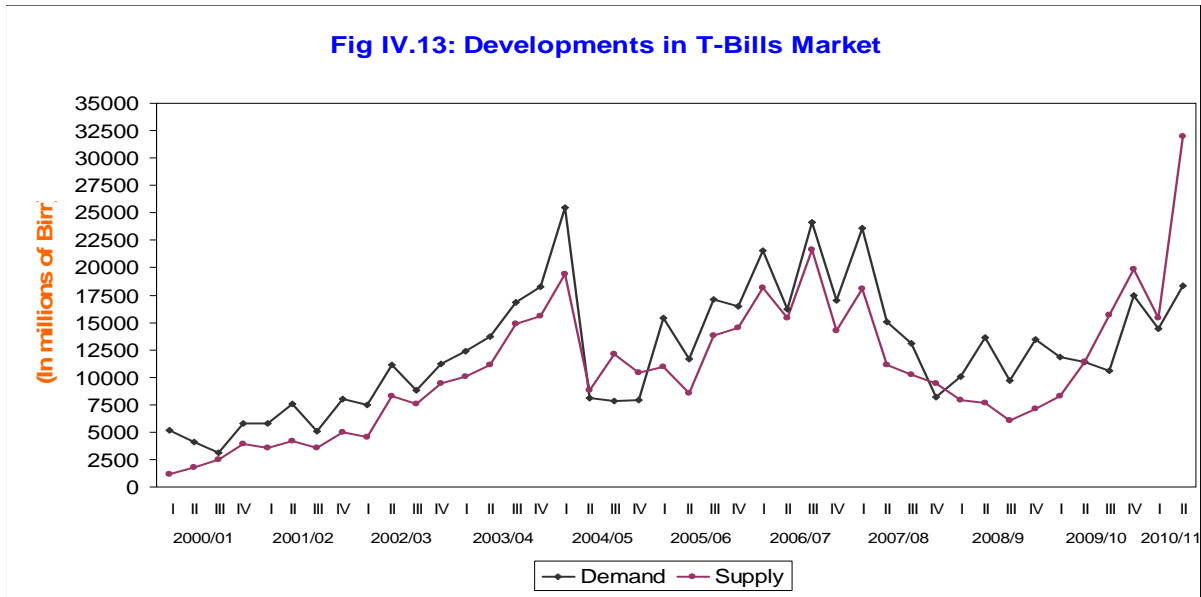
The stock of T-bills at the end of the quarter reached Birr 14 billion reflecting 65.7 percent growth over the same period last year.

The average weighted yield surged by 55.8 percent on annual basis and reached 2.12 percent (Table 4.14).

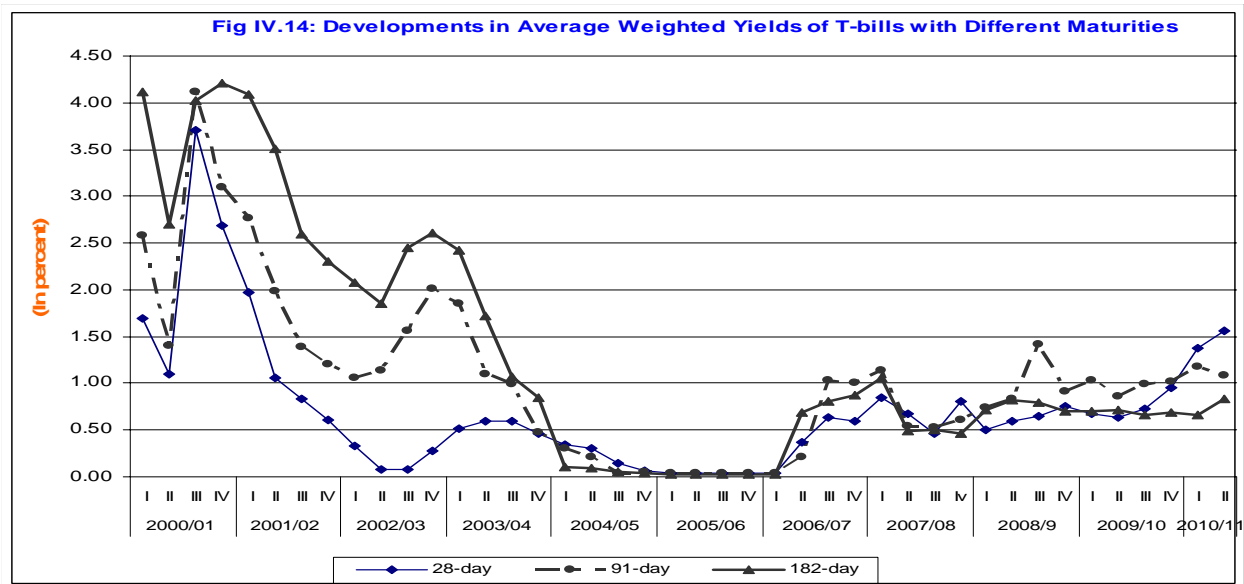
Table 4.14: Results of Treasury Bills Auctions

Particulars	2010/11	2011/12		% Change	
	Qtr. II	Qtr. I	Qtr. II	C/A	C/B
	A	B	C		
<b>Number of Bidders</b>	<b>67</b>	<b>53</b>	<b>102</b>	<b>52.2</b>	<b>92.5</b>
Public	43	41	51	18.6	24.4
Private	24	12	51	112.5	325.0
<b>Number of Bids Accepted</b>	<b>82</b>	<b>71</b>	<b>113</b>	<b>37.8</b>	<b>59.2</b>
Public	49	48	51	4.1	6.3
Private	33	23	62	87.9	169.6
<b>Amount Demanded (Mn. Birr)</b>	<b>15,136.25</b>	<b>20,701.36</b>	<b>18,316.31</b>	<b>21.0</b>	<b>-11.5</b>
28-day bill	8,845.00	11,940.00	7,214.95	-18.4	-39.6
91-day bill	5,963.36	6,541.36	6,727.36	12.8	2.8
182-day bill	327.89	2,220.00	2,704.00	724.7	21.8
364-day bill	0.00	0.00	1,670.00	0.0	0.0
<b>Amount Supplied (Mn. Birr)</b>	<b>22,249.71</b>	<b>27,366.90</b>	<b>31,977.90</b>	<b>43.7</b>	<b>16.8</b>
28-day bill	10,150.00	11,640.00	15,775.63	55.4	35.5
91-day bill	10,292.87	9,305.90	11,094.97	7.8	19.2
182-day bill	1,806.84	6,421.00	3,307.30	83.0	-48.5
364-day bill	0.00	0.00	1,800.00	0.0	0.0
<b>Amount Sold (Mn. Birr)</b>	<b>13,867.25</b>	<b>18,201.36</b>	<b>16,646.31</b>	<b>20.0</b>	<b>-8.5</b>
Banks	7,320.84	5,010.00	5,424.95	-25.9	8.3
Non-Banks	6,546.41	13,191.36	11,221.36	71.4	-14.9
<b>Average Weighted Price for Successful Bids(Birr)</b>	<b>99.732</b>	<b>99.536</b>	<b>98.963</b>	<b>-0.15</b>	<b>0.05</b>
28-day bill	99.880	99.864	99.789	-0.09	-0.08
91-day bill	99.730	99.651	99.687	-0.04	0.04
182-day bill	99.586	99.095	99.282	-0.30	0.19
364-day bill	0.000	0.000	97.095	0.00	0.00
<b>Average Weighted Yield for Successful Bids(%)</b>	<b>1.161</b>	<b>1.674</b>	<b>2.120</b>	<b>55.8</b>	<b>8.1</b>
28-day bill	1.563	1.779	2.763	76.8	55.3
91-day bill	1.086	1.405	1.261	16.1	-10.2
182-day bill	0.835	1.837	1.456	74.4	-20.8
364-day bill	0.000	0.000	3.000		
<b>Outstanding bills at the end of Period (Mn.Br.)</b>	<b>8,467.25</b>	<b>10,796.62</b>	<b>14,026.36</b>	<b>65.7</b>	<b>29.9</b>
Banks	1,320.84	900.00	435.00	-67.1	-51.7
Non-Banks	7,146.41	9,896.62	13,591.36	90.2	37.3

Source: NBE



Source: NBE



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

Corporate bond market is not a well developed market in Ethiopia and the big players are few public institutions and regional governments. The over purchaser of this bond is the Commercial Bank of Ethiopia (CBE).

During the quarter under review, CBE purchased corporate bonds worth Birr 5.7 billion, of which about 92 percent was issued

by public enterprises and the rest by Addis Ababa City Administration.

At the end of December 2011, the stock of corporate bonds held by the CBE stood at Birr 49 billion, of which 81 percent was claims on public enterprises (of which 77.3 percent was held by EEPCO) while the remaining balance, was a claim on regional states (Table 4.15).

**Table 4.15: Corporate and Coupon Bonds by Holders (In millions birr)**

Issuer of the Bond	2010/11			2011/12					
	Q. II			Q. I			Q. II		
	NP	Red	O/S	NP	Red	O/S	NP	Red	O/S
<b>1. Public Enterprises</b>	1450.0	0.0	23944.6	3100.0	0.0	34500.0	5200.0	0.0	39700.0
EEPCO	1300.0	0.0	19500.0	3100.0	0.0	32700.0	5200.0	0.0	37900.0
ETC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DBE	150.0	0.0	4444.6	0.0	0.0	1800.0	0.0	0.0	1800.0
<b>2. Regional Governments</b>	<b>1285.0</b>	<b>225.5</b>	<b>7731.8</b>	<b>751.0</b>	<b>274.6</b>	<b>9344.7</b>	<b>450.0</b>	<b>472.7</b>	<b>9322.0</b>
Oromia	180.0	22.3	1745.8	0.0	10.9	1993.3	0.0	0.0	1993.3
Amhara	260.0	82.2	1330.2	0.0	0.0	1393.1	0.0	100.0	1293.1
Tigray	55.0	8.2	706.4	40.0	26.7	787.4	0.0	29.1	758.2
SNNPRS	100.0	22.6	943.4	0.0	114.8	874.0	0.0	14.7	859.3
Dire Dawa	20.0	13.7	190.5	11.0	1.1	223.6	0.0	2.8	220.8
Harari	20.0	1.4	147.4	0.0	13.4	145.5	0.0	23.2	122.3
Addis Ababa	650.0	75.0	2668.0	700.0	107.7	3927.9	450.0	302.9	4075.0
<b>3. Grand Total(1+2)</b>	<b>2735.0</b>	<b>225.5</b>	<b>31676.4</b>	<b>3851.0</b>	<b>274.6</b>	<b>43844.7</b>	<b>5650.0</b>	<b>472.7</b>	<b>49022.0</b>

Source: NBE

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