THE STRUCTURE AND PERFORMANCE OF ETHIOPIA'S FINANCIAL SECTOR IN THE PRE AND POST REFORM PERIOD: WITH SPECIAL FOCUS ON BANKING

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1. INTRODUCTION

1.1. Brief Overview

One of the main objectives of financial institutions is mobilizing resources (in particular domestic saving) and channeling them to the would-be investors. This intermediation role of financial institutions takes different forms in different economic systems. Ethiopia's history of the last three decades clearly shows the validity of this statement.

Under 'State Socialism' (1974 to 1991) financial institutions were basically executing the economic plans outlined by the central planning organ. In such set-up regulation and supervision were not critical since the national plan was believed to regulate and direct the activities of the financial institutions. Moreover, financial institutions were directed to finance some public projects that may not pass proper financial appraisal simply based on either ideological ground or 'merit wants' argument. Such a system was running in Ethiopia until 1991 that witnessed the overthrow the "Socialist State".

In terms of economic policy 1991 witnessed a marked departure from the previous "Socialist' System", popularly referred in Ethiopia as the "*Derge*[1] Regime". Its difference lies on openly adopting a market-oriented economic policy. In fact much of the policies adopted by the new government in Addis in 1991 has been proposed by the *Derge* regime virtually at the end of its reign.

In terms of the financial sector this new change in policy requires an enormous change in its activity. Not only it is going to serve the private sector, which hitherto had been demonized, but also new private financial institutions were emerging. Equally the role of the Ethiopia's central bank (named National Bank of Ethiopia, NBE henceforth) needs to be reformulated again. Thus, financial sector reconstruction was the top item in the government's agenda.

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[1] An Amharic term meaning "the committee" (of solders).

In undertaking this task the Ethiopian government adopted a strategy of (a) gradualism: gradual opening up of private banks and insurance companies alongside the public ones, gradual liberalization of the foreign exchange market etc and (b) strengthening domestic competitive capacity before full liberalization: restrict the sector to domestic investor, strengthening the regulatory and supervision capacity of the NBE, providing autonomy to banks as well as opening up inter-bank money market etc. In line with this strategy various proclamations and regulations were passed since 1992. In this study an attempt to understand this transitions will be made

The rest of the paper is organized as follows. This section will conclude after a brief overview of recent macro trends (in section1.2), banking history in Ethiopia (in section 1.3) is made. Section II will be devoted to the analysis of the financial sector in the pre and post reform periods.

1.2. Recent Macroeconomic Trends: A Brief Observation

As a predominantly agriculture based economy (where agriculture employs more than 85% of the population and contributing nearly half to GDP), the economic performance in Ethiopia is largely determined by what happens in the agricultural sector. Table 1.2 shows some of the main macroeconomic aggregates in recent past.

As can be read from Table 1.2 the GDP growth is quite erratic. This is the direct result of the extreme dependence of the Ethiopian economy on rain-feed agriculture. The GDP registers the highest figure when there is good rain and the lowest (sometimes negative) when it is not. However, other sectors performed relatively well. For instance if we take the year 1997/98 the industrial sector grew by 10%, the distributive sector (trade, transport etc) by 8.2% and other services (bank, insurance, public administration and social service) grew by 7.9%. Thus, total GDP grew only by 0.5% percent owing to the poor performance in the agricultural sector which has declined by 7.6% (See MEDaC, 1998).

Price levels are very stable in Ethiopia. In the pre-reform period this is partly attributed to the regulated nature of market prices. The post-reform period price stability, which was a one digit figure as can be read from Table 1.2, is attributed chiefly to conservative monetary and fiscal policy and the performance of the agricultural sector. The latte was particularly important, as 'the food item' weight in the CPI is nearly 50%. Obviously there are exception such as the year 1990/91 when there was a change of government and general disruption in economic activity and years such as 1994 where there was poor harvest.

Ethiopia had a fixed exchange rate of Birr 2.07/US$ for nearly two decades before the 1992 reform. At the beginning of the reform period it devalued its currency to 5 Birr/US$ and subsequently introduced an auction-based exchange rate system. This is a clear indication of the government's policy of gradualism. Since the introduction of the auction-based exchange rate system in 1993 (discussed at length in section 4.3 below), the foreign exchange market is showing a remarkable stability. Table 1.2 shows that the premium between the auction based exchange rate (which is the official rate) and that of the parallel (unofficial or illegal market rate) is increasingly declining. These annual figures actually hide a lot of details. However, a more elaborated data shows that there are periods of even an alignment between the two rates.

In its external sector the balance of trade is worsening owing to the growth in imports which is way ahead of the growth in exports as can be read form Table 1.2. This obviously had adverse effect on the balance of payment and the level of debt. Although the debt data in the country is quite unreliable (different source give different values), the debt GNP ratio (which doesn't include the ruble denominated Russian debt which is estimated to be closer to US $ 4 billion) shows an alarming figure.

1.3. Brief Banking History

One can trace the history of using modern money in Ethiopia to more than 2000 years (Pankhrust in Belay, 1990). This had flourished in what is called the Axumite era which can stretch from 1000BC to around 975 AD. Leaving that long history aside, modern banking in Ethiopia started in 1905 with the establishment of *Abysinian Bank* based on a 50 years agreement with the Anglo-Egyptian National Bank. On top of this, in 1908 a new development bank (named *Societe Nationale d'Ethiope Pour le Development de l' Agriculture et du Commerce*) and two other foreign banks (*Banque de l'Indochine and the Compagnie de l' Afrique Oreintale*) were also established (Pankhrust (1968) cited in Befekadu, 1995). These banks were criticized for being wholly foreign owned. In 1931 the Ethiopian government purchased the *Abysinian Bank,* which was the dominant bank, and renamed it the 'Bank of Ethiopia' – the first nationally owned bank on African continent (Belay, 1990: 83; Befekadu, 1995: 234).

During the five-years of Italian occupation there was an expansion of banking activity. In particular the Italian banks were active. Table 1.3(a) shows banks that were in operation during this period.

After independence from Italy's brief occupation (of 1933-1941) where the role of British was paramount owing to its strategic consideration in World War II, Barclay's bank had established and was in business in Ethiopia from 1941 to 1943 (See Belay 1990; Befekadu, 1995). Following this period the Ethiopian government established the 'State Bank of Ethiopia' in 1943. The establishment of this Bank by Ethiopia was a painful process since Britain was against it (See Befekadu (1995) for an interesting neo-colonial story). This bank was operating both as commercial and central bank until 1963 when it was dissolved into today's National Bank of Ethiopia (the central bank, re established in 1976) and 'The Commercial Bank of Ethiopia', CBE henceforth. After this period many other banks were established. Just before the 1974 revolution the following banks (See Table 1.3(b)) were in operation.

Table 1.2. Major Macro Trends

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Real GDP growth rate %	-3.6	12.0	1.6	5.2	12.7	5.6	0.5	9.4
Inflation %	21.0	10.0	1.2	13.3	0.9	0.8*	2.3*	na
Exchange Rate, Birr/US$ (Ave. Marginal rate)		5.01	5.77	6.25	6.32	6.47	6.80	na
Exchange Rate, Birr/US$ (Ave. Parallel Market rate)		7.6	7.05	7.30	7.64	7.16	7.23	na
Export to GDP, %	4.51	8.33	11.38	14.32	13.08	15.53	15.02	na
Import to GDP, %	10.69	16.95	21.5	24.06	25.62	26.34	28.38	na
Debt to GDP, %	44	44.7	78.08	108.15	na	na	na	na

* Are based on the new country level general CPI (otherwise the Addis Ababa retail price index is used).
Source: *Alemayehu and Daniel (1998), Alemayehu (1999) and MEDaC (1997, 1998).*

Table 1.3(a): Banks in Operation During the Period of Italian Brief Occupation (1993-1938)

Year of Establishment (European year)	Name of the Bank	Number of Branches
1914	Banco di Italia	9
1914	Banco di Roma	18
1939	Banco di Napoli	4
1939	Banco Nacionale (De's Voro)	4
1939	Casa de Creito....	1
1939	Society Nacionale di Ethiopia	1
Total		37

Source: Belay (1990).

Table 1.3(b). Banks Inn Operation before the 1974 Revolution

Year of Establishment (G.C.)	Name of the Bank	Number of Branches	Capital at the Date of Establishment (in millions Birr)
nd	Banco di Napoli	1	2.0
1963	Imperial Saving and Home Ownership Public Association	1	0.6
1963	National Bank of Ethiopia, NBE	4	10.0
1963	Commercial Bank of Ethiopia, CBE	65	35.0
1963	Addis Bank Share Co.	26	5.0
1964	Ethiopian Saving and Mortgage S. Co.	2	3.0
1964	Ethiopian Investment Corporation S.C.	1	20.0
1966	Banco di Roma (Ethiopia) S.C.	8	4.0
1969	Agricultural and Industrial Dev't Bank	5	100.0

Source: Belay (1990).

All privately owned financial institutions including three commercial banks, thirteen insurance companies and two non-bank financial intermediaries were nationalized on 1 January 1975. The commercial banks were Addis Ababa Bank, *Banco di Napoli and Banco di Roma*. The insurance companies were African Solidarity, Ethio-American life, Blue Nile, Ethiopian General, Imperial, Afro-Continental, Pan-African, Union, Ras, and Ethiopian Life and Rasi. The non-bank financial intermediaries were the Imperial Saving and Home Ownership Public Association and the Mortgage Corporation (Befekadu, 1995: 273).

During the 'socialist regime' (1974-1990) the nationalized banks were reorganized and one commercial bank (the Commercial Bank of Ethiopia), a National Bank (recreated in 1976), two specialized banks (the Agricultural and Industrial Bank – renamed recently as the Development Bank of Ethiopia and Housing and Saving Bank – renamed recently as the Construction and Business Bank) as well as one insurance company – Ethiopian Insurance Company were formed. After the 1992 reform these financial institutions are being reorganized to work on market oriented policy framework. Besides, new privately owned financial institutions are also being allowed to work along the publicly owned ones. The discussion about these financial institutions is the subject of the rest of this paper.

2. THE STRUCTURE AND PERFORMANCE OF THE FINANCIAL SYSTEM IN THE PRE/POST REFORM PERIOD

Following the Mckinnon (1973) and Sahw's (1973) paradigm, financial liberalization has been high on the agenda of developing countries. The financial repression school - as it is sometimes referred to - argues that government intervention in the sector (in particular through subsidized interest rate and (favored) credit allocation) not only distorts the financial market but depresses saving and leads to inefficient investment. The policy prescription that follows is liberalization. This has been endorsed by international financial and development institutions (such as the World Bank and IMF) and had been high on the agenda of reform packages that came with name of Structural Adjustment Programs.

Many developing countries that went through this agonizing reform process are unable to enjoy what is promised in this package in general and the financials sector prosperity in particular. Vos (1993) noted that the major factors that could explain the failure of financial liberalization in Latin America and its success in Asian developing countries (such as Korea and Taiwan) lies in the control and intervention by state to address structural problems without disregarding market-oriented performance criteria. Thus, for Vos gradualism and addressing some of the setbacks in the financial sector reform, such as lack of sensible prudential and supervisory capacity in place before the on set of the financial sector reform, are crucial.

2.1. Describing the Pre-Reform Financial Sector

The pre-reform period here refers to the period 1974 to 1991, which I noted as the *Derge* regime before. During this period all private banks (described in section 1.3) were nationalized. The National Bank of Ethiopia (NBE) was at the apex of the banking structure and was engaged in all the functions of a central bank. As noted earlier, CBE, AIDB (DBE), HSB (CBB) were in operation. In addition to these banks, there were also two other financial institutions: Ethiopian Insurance Corporation (EIC) and the Pension and Social Security Authority (PSSA).

As can be read from Table 1 the CBE, followed by the DBE, are the most dominant banks in the country. On the average the CBE alone comprises more than 90% of total deposit (while DBE's share is 1.3%), and 71% of the total loans advanced (DBE's share being 16%). Owing to the dominant position of these two banks, the major activities and performance of these two banks is outlined below. This will provide us with a good picture of banking activity in the country both before and after the 1992 reform.

2.1.1. The Commercial Bank of Ethiopia (CBE)

The Commercial Bank is established in its present form by a merger of the nationalized private bank (Addis Bank) with that of the publicly owned commercial bank by proclamation No. 184, 1980. It is directed by a board and managed by three mangers (one General and two Deputies) appointed by the government. The management is supported by detailed monthly and quarterly reports of the various banks.

a) Mobilization of Deposit

Table 2.2.1(a) shows the mobilization of deposit by CBE from 1988 to date. The period after 1992 is the post-reform period. The Table shows that the CBE is the dominant bank that accounts more than 90% of the total deposit mobilized in the country. This share is the highest for demand deposit followed by saving deposit. Thus, to study the CBE is basically to study the banking sector in Ethiopia.

In general the deposit mobilized by CBE has been on the average 83% in the pre-reform periods and picked up to 94% in the post-reform period. In Table 2.1.1(a) the sharp decline in total CBE's deposit (as percent of national total) observed in 1997 is primarily due to the performance of the new private banks, in particular Awash and Dashen Banks. The share of the CBB and DBE has also increased.

Clearly there is evolving structural shift when deposit is observed by institutions. In general the tendency is to move form a dominant public sector towards a financial structure where the role of the private sector is becoming increasingly important. On the average, during the two periods (before and after the reform), demand deposit by the private sector and individuals increased from 19% to 24%. The share of

Table 1. Structure of Banks in Ethiopia (1985-1990) (in millions of Birr)

Bank	Date of Establishment (GC)	No of Branches	Initial Capital (Paid Up	Total Assets		Total Deposit in		Lending (claims on gov't and non gov't)	
		1999		1992	1998	1992	1998	1992	1998
NBE	1963	2	42.0	8166.4	13984.9*	2050.9	5090.5*	3389.8	9095.0
CBE	1963	162	40.6	7778.0	24104.0*	4993.9	15518.1*	3956.0	11287.7
AIDB/DBE	1969	31	250.0		2738.1		23.9		1903.8
HSB/CBB	1975	18	50.4					171.1 [1]	225.4
Private Banks	Since 1994								
AIB	1994	9	24.2	N I.O.		165.4^	350.0	154.7 [1]	442.4
DB	1995	14	14.9	N I.O.	432.6	197.8^	374.6	86.4 [1]	121.4
BA	1996	5	18.8	N I.O.		44.6^^	143.6	9.7 [1]	190.6
WB	1997	10	30.0	N I.O.		1.8^^	118.3	0	39.8
UB	1998	1	20.8	N I.O.		–	–	–	–

Source: NBE Annual and Quarterly Bulletins, MEDaC (1998), Various Annual Reports of CBE.
Note: AIB = Awash International Bank, DB = Dashen Bank, BA = Bank of Abyssinia,
WB = Wegagen Bank, UB = United Bank
*1997/98 First Quarter. ^ year 1995/96 and ^^ 1996/97 (Operation started in these years)
[1] = year 1996/97, N.I.O = Not in Operation.

cooperatives declined form 12% to 5%. The share of the public enterprises and agencies declined form 43% to 35%. Financial agencies share declined from 13% to 7% while the central government's share has increased from 6% to 10%. In terms of saving and time deposits the private sector has the lion share (more than 95%) in both periods. This is attributed to the government's rule that restricts public enterprise and agencies form holding such deposit.

b) Outstanding Loans

Tables 2.1.1(b) and 2.1.1(c) show the outstanding loans of the CBE by sectoral and institutional (social) disaggregation. In the pre-reform period the average outstanding loans of the CBE was the highest in the import sector (20%) following by the export (17%), industrial (15.7%) and domestic trade (14%) sectors. In the post-reform period the outstanding loans with domestic trade sector grew enormously (reaching on the average more than 35%). This is followed by imports (17.4%), exports (14.2) and the industrial (11.8%) sectors. Despite the expansion of the construction sector in the post-reform period, outstanding loan with this sector has shown a marked decline, from 15% to nearly 4% on the average. It is interesting to point out that the CBE needs to examine the problem that is being cropping up in the trade sector. Another important point in Table 2.1.1(b) is that outstanding loans with the government is enormously declining (from an average figure of 60% in the pre-reform period to 35% in the post-reform period). This perhaps shows the discipline the government is exercising in its fiscal and monetary polices.

When the outstanding loans by institutional break down is examined (see Table 2.1.1 (c)) outstanding loan to the public enterprises remained fairly stable in the post-reform and the last five years of the pre-reform period (at around 20%). The share of the private sector, however, has increased from 11.8% to 37%. This is attributed to the on going liberalization program which resulted in the increasing exposure of the CBE to the private sector. As to the government, as noted above, CBE's outstanding loans with government has dropped by half.

c) Loan Collection

The most important sectors from which loan collection is made are domestic trade, followed by import and exports, and the industry (in the order of importance). In terms of institutional disaggregation, loan collection from the private sector was significant which constitutes nearly 40 % in the pre-reform period and jumped to an average figure of nearly 65% in the post-reform period. Loan collection from the public sector had been falling steadily in the pre-reform period. This trend has also continued in the post-reform period. This shows the bad financial shape in which the public sector found itself. In which particular sector the loan collection in the public or private sector was/is important can be read from the details provided in Table 2.1.1(d).

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In general total collection has shown a marked improvement in the post-reform period. The growth figure, which was generally negative in the pre-reform period, changed to a positive one in the post-reform period. Thus, the performance of the CBE in this regard is quite commendable. This pinpoints to the important point that existing public banks, with proper regulation and policy environment, can enormously improve their performance. Hence, privatization, as argued by IMF, is not the only solution to bring about efficiency in the banking sector.

d) Asset Quality

Table 2.1.1(e) shows the quality of assets at CBE. The liquidity ratio in both periods is quite impressive - being well above the statutory requirement of 20% in all periods. These figures show an improved performance in the post-reform period. This good quality asset of the bank can also be inferred form the 'loan to deposit ratio' that is increasingly showing a declining percentage (notwithstanding the increase in credit) which in turn shows that the bank has strong resource base. By 1997 the loan to deposit ratio has the lowest figure of 60%. Moreover, the post-reform period witnessed a positive development both in the ratio of non-performing assets to total assets as well as provisions to bad debt. It should be noted however that this analysis is based on officially given figures. My observation and discussion with some researchers is that non-performing loan figures need to be cautiously taken[2]. However, the main conclusion that can be made from the analysis of the bank's asset quality (as reported in the books) is that the CBE has quite impressive record in this regard. One may contrast this finding with the IMF's and Bank's recommendation of either privatizing or dividing the CBE. On asset quality ground there is no (official) justification for such policy proposal. The IMF's and Bank's argument could be on competition ground. I will comeback on this issue at the end of the paper.

As can be read form Table 2.1.1(e), total assets of the CBE had a modest growth rate before the reform. In the post-reform period the assets of the bank has grown annually by double digit figures. In particular the unprecedented growth of nearly 50% in 1992/93 is clearly associated with the reform process. According to the CBE's Annual Report, this highest growth is attributed to growth in net loans and advances, customers' liability for Letter of Credit (LC), cash with foreign banks and deposit with NBE (in their order of importance). In particular loans and advance in 1992/93 increased by nearly 125 percentage points (constituting nearly 25% of the total assets of the bank, for the first time in two decades). This is attributed to the growing demand for credit (and hence to satisfy that demand) owing to liberalization. The availability of foreign exchange and the devaluation that took place at this period (devaluation by 240%) has also contributed to the growth. Throughout the subsequent years loans and advances to the private sector has shown sustained increment.

[2] There are unconfirmed reports that put this figure as high as 40% in the last four to five years and now (currently) dropping close to 15%.

In sum, the CBE is the dominant bank in the country. Both the quality and structure of assets and various performance indicators of the bank show that the bank is by and large in a good shape. There are certain areas such as non-performing assets where the CBE need to work hard. Even on the issue of non-performing loans the bank is moving in the right direction. The relevant policy prescription seems to intensify the on going restructuring and accompany that by prudential regulations. It seems extremely difficult, unlike that of the World Bank and IMF, to extract a policy prescription of privatization from an examination of the existing data.

2.1.2. The Development Bank of Ethiopia (DBE)

The mobilization of deposit by DBE was fairly stagnant in the five years period before the reform. However, it dropped sharply just before the reform period and the first two years of the post-reform period. Currently its level is picking up and reaching the level registered in the pre-reform period. In terms of sectors a good share of the loan goes to the agricultural sector. In terms of loan by social sectors, Table 2.1.2 (a) shows that the bias against the private sector that was witnessed in the pre-reform period is reversed in the post-reform period. This reversal shows the success of redirecting the emphasis from public to private sector.

In terms of loan collection, the performance of DBE is not impressive (see Table 2.1.2 (b)). However, in the post-reform period the DBE has made a good effort to collect its outstanding loans, in particular, from the cooperative and private sectors.

Outstanding loan was a serious problem in the pre-reform period. This problem has eased in the post-reform period although currently its value is becoming close to 2 billion Birr. A good part of this outstanding loan is with the public and private sectors. The rather recent phenomenon of high level of outstanding loan with private sector needs closer attention. Although I couldn't find complete data on arrears, the level of arrears in the pre-reform period (in particular in the agricultural sectors – where the role of state farms was crucial) had reached an alarming level (see Table 2.1.2(d)). The arrears which were on the average above 75% of total principal outstanding in the pre-reform period has declined sharply to nearly 40% in the first two years of the post-reform period owing to the rescue effort by the government.

Other performance indicators of the DBE were not impressive. Table 2.1.2(e) shows that for the entire period the DBE is operating at loss and had a bad financial shape, as can be read from the change in working capital. Its total asset was by and large stagnant in the pre-reform period and declined thereafter. In general since the DBE was operating under the auspices of central planning and relatively exposed to loss making sectors (such as state farms) its performance epitomized the inefficiency of public sector. This should be contrasted with CBE, which is a public sector, but relatively performed good even on financial ground. Thus, it makes sense to make the interesting conclusion that probably what matters most is not ownership but exposure to loss making clients or not.

Table 2.2.1 (a). Commercial Bank of Ethiopia: Mobilization of Deposit by Sector

	Before Reform					After Reform				
Year@	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
Demand Deposits										
Private and individuals	393.1	417.4	476.9	528	700	761.6	1082.9	1426.83	1568.63	1568.51
Cooperatives	286.5	282.1	301.6	275.3	230	207.6	195.65	209.1	243.52	326.34
Public Ent. And Agencies	935.9	988.3	1131.9	1073.1	1258	1313.4	1540.57	1908.00	1690.66	2241.44
Central Government	124.5	144.6	163.9	159.9	235	307.2	443.02	568.90	823.92	798.06
Domestic Banks and other	321.5	253.8	281.3	374.3	268	312.4	304.51	341.23	471.68	278.84
Foreign Banks, their acct.	59.6	44.7	42.7	46.7	45	224.7	362.00	646.09	840.47	1315.69
Non Residents	99.9	93.4	107.2	128.3	106	202.2	244.77	377.65	308.68	353.39
Total Demand Deposits [1]	2221	2224.3	2505.5	2585.6	2842	3132.61	3811.36	5448.4	5107.09	5578.21
Total Demand Deposits [2]					2887	3357.31	4173.36	6094.49	5947.56	6893.9
% of National total [3]	**98.7%**	**98.6%**	**100%**	**99.3%**	**99%**		**99.1%**	**98.8%**	**99.2%**	**96.7%**
Saving Deposits										
Private and individuals	1190.7	1351.9	1558.6	1661.9	1983.8	2229		3611.59	4523.46	5019.88
Cooperatives	16.1	15	15.9	14.8	15.2	17.8		29.82	72.98	–
Public Enterprises and Agencies	1.2							–	–	0.158
Domestic Banks and other								18.18		
Total Saving Deposits	1208	1366.9	1574.5	1676.7	1999	2246.8	2844.3	3660.9	4596.44	5106.42**
% of National total[3]	**95.3%**	**95.4%**	**96.1%**	**95.7%**	**95.8**		**94.64**	**95.08**	**95.45**	**89.5%**
Time Deposits										
Private and individuals	102.3	110	122.4	129.9	148.1	307.4		459.68	466.37	456.24
Cooperatives	7.1	8.9	7.7	4.2	4.2	1.2		0.996	1.82	4.26
Public Enterprises and Agencies								7.82	95.02	25.84
Domestic Banks and other	2.4	36.4	0.7	0.7	0.6	0.6		0.580	30.04	75.65
Total Time Deposits	111.8	155.3	130.8	134.8	152.9	309.2	381.2	444.5	593.25	562.01
% of National total [3]	*19.8%*	*23.3%*	*18.2%*	*17.6%*	*21.4%*		*49.1%*	*62.5%*	*75.8*	*64.6%*
Total Deposits	3540.8	3746.5	4210.8	4397.1	4993.9	5885.1	7375.9	9553.8	11200	12613.2*

Source: *Annual Reports of CBE, various years.*

Notes: @ *To get the fiscal year write one year less followed by / Eg. 1988 on this table is 1987/88 fiscal year and 1997 is 1996/97.* *Total doesn't add up. This is attributed to deposits of foreign banks (1315.69) and trust funds, external finance, (50.87) which are foreign currency balances converted at the ruling exchange rate of the balance sheet date. In 1997 in the demand deposit total includes Resident account of 11.64.

** includes government deposit of 86.38.

[1] values after and including 1993 here are given as reported on the balance sheet. The Demand deposit figures reported in the text of the Annual Reports are very close to the sum which includes foreign Banks, their account (probably this is assumed as demand deposit).

[2] is the balance sheet figure plus foreign banks.

[3] The percentages are computed from NBE Annual and Quarterly Reports. There are minor differences between the figures given by CBE and NBE about the deposit of CBE (although this difference for demand deposits is relatively high). I have used CBE's actual report in the table.

Table 2.2.1(b). Outstanding Balances of Loans and Advances by Type of Beneficiaries and Sectors at June of each year:(in millions of Birr, Excluding Advances to Government)

	Before Reform					After Reform				
Sector/Year	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
Agriculture	71.6	58.9	49.5	49.6	43.6	25.7	55.82	147.42	200.46	318.11
Cooperatives	16.1	11.8	4.5	5.2	4.7	5.3				
Private and Individuals	42	41.3	35.9	35.7	33.1	19.0				
Share of total	5.3%	4.5%	4.0%	4.3%	3.3%	1.0%	1.7%	2.9%	2.9%	3.9%
Industry/Manufacturing	164	211.1	189.2	198.4	234.3	511.6	489.43	444.27	568.63	695.40
Public Enterprises. & Agencies	146	195	169	172	207.1	407				
Cooperatives	0.4	1.1	0.5	0.4	0.2	0.1				
Private and Individuals	17.6	15	19.7	26	27	104.5				
Share of total	12.2%	16.1%	15.4%	17.1%	17.7%	19.8%	14.9%	8.8%	8.1%	8.6%
Domestic Trade	247.4	172.5	158.4	136.6	183.7	446.1	1148.1*	2154.8*	2957.0*	3250.6*
Public Enterprises & Agencies	128.8	99.3	70.5	57.2	85.8	158.3				
Cooperatives	3.8	8.9	7.7	4.1	17.3	27.6				
Private and Individuals	114.8	64.5	80.2	75.3	80.6	260.2				
Share of total	18.4%	13.1%	12.9%	11.8%	13.9%	17.3%	34.9%	42.8%	42.4%	40.0%
Export	156.7	235.4	173.7	211.6	296.7	403.7	548.79	732.68	922.89	902.76
Public Enterprises & Agencies	121.8	180.1	132	175.4	242.9	321.3				
Private and Individuals	34.9	55.3	41.7	36.2	53.8	82.4				
Share of total	11.6%	17.9%	14.2%	18.3%	22.4%	15.6%	16.7%	14.6%	13.2%	11.1%
Import	329.3	278.4	296.1	184.1	199.1	533.7	540.03	815.34	1093.30	1451.92
Public Enterprises & Agencies	284.3	251.3	269.2	164.5	166.9	340.9				
Private and Individuals	45	27.1	26.9	19.6	32.2	192.8				
Share of total	24.5%	21.2%	24.1%	15.9%	15.0%	20.7%	16.4%	16.2%	15.7%	17.9%
Hotels and Tourism	11	10.7	11.2	13.9	17.5	43.8				
Public Enterprises & Agencies	5	0.9	0.6	0.8	0.8	0				
Private and Individuals	6	9.8	10.6	13.1	16.7	43.8				
Share of total	0.8%	0.8%	0.9%	1.2%	1.3%	1.7%				

Table 2.2.1 (b) Continued

Transport and Communication	117.9	85.5	68.5	66.5	66.1	133.3				
Private and Individuals	73.7	24.5	28.8	42.4	33.8	97.6				
Share of total	8.8%	6.5%	5.6%	5.7%	5.0%	5.2%				
Building and Construction	178.8	194.1	205.5	213	204.4	216.8	140.65	203.58	240.34	305.13
Public Enterprises & Agencies	85.8	97.7	106.2	107.2	102.3	107.7				
Private and Individuals	93	96.4	99.3	105.8	102.1	109.1				
Share of total	13.3%	14.8%	16.7%	18.4%	15.4%	8.4%	4.3%	4.0%	3.4%	3.8%
Personal loans	11	10.9	10.6	13.1	12.6	16.6	12.24	11.78	13.45	14.04
Share of total	0.8%	0.8%	0.9%	1.1%	1.0%	0.6%	0.4%	0.2%	0.2%	0.2%
Other Services	14.5	11.7	14.2	14.8	9.5	8.8				
Total	1302.2	1269.2	1176.9	1101.6	1267.4	2154.2	2935.06	4509.87	5996.07	6937.96
Advance to the Government	1497.8	1868.5	2239.3	2629.6	2629.7	2682.94	2617.3	2573.7	2691.7	2073.7
(share of grand total)	53.49%	59.55%	65.55%	70.48%	67.48%	55.47%	47.14%	36.33%	30.98%	23.01%
Total, Incl. advances to gov't	2800	3137.7	3416.2	3731.2	3897.1	4837.14	5552.36	7083.57	8687.77	9011.66

** include services*

Source: *Annual Reports of CBE, Various Years and Statistica Review of CBE. The data is based on Balance Sheer figures before deduction for bad debts.*
Note: *The disaggregation from 1988 to 1993 is based on the 1992 Annual Report of CBE. CBE has stopped reporting such data after that.*

Table 2.1.1 (c) 6e. Outstanding Balances of Loans and Advances at June of each year: by Institutional Disaggregation (in millions of Birr).

	Before Reform					After Reform				
Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Public Enterprise and Agencies	829	880.9	796.2	710.0	843.8	1372.3	1521.3	1474.28	1342.85	1928.8
Share of total	29.61%	***28.07%***	***23.31%***	***19.03%***	***21.65%***	***28.49%***	***27.80%***	***20.94%***	***14.53%***	***20.78%***
Private and Individuals	452.5	366.2	367.9	381.9	401.4	934.8	1425.0	2725.18	4476.15	5072
Share of total	**16.2%**	***11.67%***	***10.77%***	***10.24%***	***10.30%***	***19.41%***	***26.04%***	***38.70%***	***48.43%***	***54.65%***
Cooperatives	20.7	22.1	12.8	9.7	22.2	33.0	65.6	178.7	575.5**	142.87
Share of total	0.74%	***0.70%***	***0.37%***	***0.26%***	***0.57%***	***0.69%***	***1.20%***	***2.54%***	***6.23%***	***1.54%***
Sub-total [1]	**1302.2**	**1269.2**	**1176.9**	**1101.6**	**1267.4**	**2340.1**	**3011.9**	**4467.5***	**6394.5**	**7143.6**
Advances Made to Central government	1497.8	1868.5	2239.3	2629.7	2629.7	2683.0	2617.2	2573.8	2699.2	2089.8
Share of total	**52.7%**	**58.7%**	**64.6%**	**69.4%**	**66.5%**	**50.9%**	**44.3%**	**33.8%**	**27.9%**	**20.5%**
Grand Total [2]	2843.1	3183.4	3466.8	3787.4	3954.8	5267.14	5906.6	7607.7	9669.4	10194.8

Source: CBE, Annual Reports, Various years and Statistic Review of CBE.

[1] Shares are computed from this figure which is loans and advances (excluding central government) after provision for bad debts is made.

[2] Total may not add due to the provision for bad debts in sub-total section.

* Total do not add because local banks have a share of 2%; ** including local banks.

Table 2.1.1(d). Loan Collection by Sector and Beneficiaries (in millions of Birr)

	Before Reform					After Reform					
Sector	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Agriculture	**62.2**	**39.5**	**20.8**	**5.0**	**4.8**	**3.5**	**31.94**	**214.14**	**295.38**	**258.3**	**282.0**
Public Enterprises and Agencies	0.9		0.0		0.1	0.0					
Cooperatives	54.0	37.3	12.6	2.5	0.9	0.0					
Private and Individuals	7.3	2.2	8.2	2.5	4	3.5					
	15.4%	9.1%	5.4%	1.5%	1.5%	0.7%	2.4%	10.5%	11.9%	9.7%	12.7%
Industry	**43.9**	**43.1**	**66.5**	**59.3**	**43.4**	**133.2**	**355.8**	**254.8**	**220.9**	**184.7**	**152.3**
Public Enterprises and Agencies	24.2	30.6	50.1	42.6	30.4	104.1					
Cooperatives	1.0	1.3	0.9	0.4	0.3	0.1					
Private and Individuals	18.7	11.2	15.5	16.3	12.7	29					
	10.8%	9.9%	17.3%	17.7%	13.2%	24.8%	26.6%	12.5%	8.9%	6.9%	6.9%
Domestic Trade	**85.6**	**147**	**106.2**	**132.3**	**131.6**	**217**	**522.85**	**974.12**	**999.03**	**1132.8**	**810.9**
Public Enterprises and Agencies	41.1	55.4	20.5	14.8	3.8	4.1					
Cooperatives	11.6	16.2	22.9	36.8	10.9	49.1					
Private and Individuals	32.9	75.4	62.8	80.7	116.9	163.8					
	21.1%	33.8%	27.6%	39.4%	39.9%	40.4%	39.2%	47.8%	40.2%	42.6%	36.6%
Export	**12.1%**	**12.3%**	**20.0%**	**8.3%**	**11.0%**	**8.7%**	**9.4%**	**4.4%**	**8.2%**	**6.6%**	**7.0%**
Public Enterprises and Agencies	25.2	43.1	48.5	18.3	31.8	25.8					
Private and Individuals	23.9	10.4	28.2	9.6	4.6	21					
	12.13%	12.31%	20.02%	8.33%	11.06%	8.73%					
Import	**100.3**	**71.4**	**31.1**	**39.6**	**14.2**	**33.8**	**67.77**	**166.11**	**230.52**	**275.3**	**246.5**
Public Enterprises and Agencies	78.3	62.2	23.3	30.5	6.5	5.9					
Private and Individuals	22.0	9.2	7.8	9.1	7.7	27.9					
	24.8%	16.4%	8.1%	11.8%	4.3%	6.3%	5.1%	8.1%	9.3%	10.4%	11.1%

Table 2.1.1(d). Loan Collection by Sector and Beneficiaries (in millions of Birr)

	Before Reform					After Reform					
Sector	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Agriculture	**62.2**	**39.5**	**20.8**	**5.0**	**4.8**	**3.5**	**31.94**	**214.14**	**295.38**	**258.3**	**282.0**
Public Enterprises and Agencies	0.9		0.0		0.1	0.0					
Cooperatives	54.0	37.3	12.6	2.5	0.9	0.0					
Private and Individuals	7.3	2.2	8.2	2.5	4	3.5					
	15.4%	9.1%	5.4%	1.5%	1.5%	0.7%	2.4%	10.5%	11.9%	9.7%	12.7%
Industry	**43.9**	**43.1**	**66.5**	**59.3**	**43.4**	**133.2**	**355.8**	**254.8**	**220.9**	**184.7**	**152.3**
Public Enterprises and Agencies	24.2	30.6	50.1	42.6	30.4	104.1					
Cooperatives	1.0	1.3	0.9	0.4	0.3	0.1					
Private and Individuals	18.7	11.2	15.5	16.3	12.7	29					
	10.8%	9.9%	17.3%	17.7%	13.2%	24.8%	26.6%	12.5%	8.9%	6.9%	6.9%
Domestic Trade	**85.6**	**147**	**106.2**	**132.3**	**131.6**	**217**	**522.85**	**974.12**	**999.03**	**1132.8**	**810.9**
Public Enterprises and Agencies	41.1	55.4	20.5	14.8	3.8	4.1					
Cooperatives	11.6	16.2	22.9	36.8	10.9	49.1					
Private and Individuals	32.9	75.4	62.8	80.7	116.9	163.8					
	21.1%	33.8%	27.6%	39.4%	39.9%	40.4%	39.2%	47.8%	40.2%	42.6%	36.6%
Export	**12.1%**	**12.3%**	**20.0%**	**8.3%**	**11.0%**	**8.7%**	**9.4%**	**4.4%**	**8.2%**	**6.6%**	**7.0%**
Public Enterprises and Agencies	25.2	43.1	48.5	18.3	31.8	25.8					
Private and Individuals	23.9	10.4	28.2	9.6	4.6	21					
	12.13%	12.31%	20.02%	8.33%	11.06%	8.73%					
Import	**100.3**	**71.4**	**31.1**	**39.6**	**14.2**	**33.8**	**67.77**	**166.11**	**230.52**	**275.3**	**246.5**
Public Enterprises and Agencies	78.3	62.2	23.3	30.5	6.5	5.9					
Private and Individuals	22.0	9.2	7.8	9.1	7.7	27.9					
	24.8%	16.4%	8.1%	11.8%	4.3%	6.3%	5.1%	8.1%	9.3%	10.4%	11.1%

Table 2.1.1 (e). Asset Quality of the Commercial Bank of Ethiopia at the End of the fiscal period , June of each year (In Millions of Birr)

	Before Reform					After Reform					
Year @	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Liquid Asset to net deposit ratio in % [1]	40.7%	34.8%	33.1%	29.8%	37.2%	42.3%	53.4%	51.4%	35.8%	40.%	44%
Excess Liquidity (over the 20% requirement)	723.9	539.9	540.0	428.3	854.3	1334.9	2319.7	2842.6	1668.9	2938.0	4286.9
Liquidity Ratio in % [2]	63.87%	60.26	63.56	50.79	68.42	86.37	87.86	79.68	57.59	59.09	63.11
Loan to Deposit Ratio	79.27	83.88	82.12%	85.33%	78.46%	83.62%	78.57%	78.81%	85.9% %	79.82%	71.13%
Loan to Deposit Ratio (including loans to government)	37.51	34.65	29.08	26.08	26.29	42.07	43.75	52.15	61.92	63.46	57.14
Non-Performing Assets to Total Assets			4%*	3.9%*	3.9%	2.6%	1.8%	1.5%			
Credit Quality in % [3]	18.2	20.7	23.9	27.4	26.1	15.8	14.2	25.4	8.4	12.1	10.9
Provision to Bad Debt Ratio			150%*	152%*	150%*	155%*	230.3%	264%			
Total Assets in Millions of Birr	4825.72	5021.4	5199.98	5363.6	6090.29	9060.84	11217.4	14273.1	15858.0	16549.4	
Annual growth of Assets		4.1%	3.6%	3.1%	13.5%	48.8%	23.8%	27.2%	11%	4.4%	

Source: Commercial Bank of Ethiopia, *Annual Reports*, Various Years and Statistical Review of the CBE.

Notes: *[1] Liquid Asset which is {cash (local or foreign) + Reserve with NBE+Demand balance with other domestic banks + Deposit with Eritrea Bank+Treasury bill +Demand balance with foreign banks} divided by net deposit balance which is {Total deposits – Uncleared checks paid (local) – unlceared effects (foreign)}.*

[2] is {Reserve with NBE+ Cash on hand in local currency +net foreign assets [Foreign Asset – short term liabilities]} divided by net demand deposit [Total demand deposit – Uncleared Checks], expressed in %.

[3] Provision for bad and doubtful debts to total deposit ratio.

@ To get the fiscal year write one year less followed by /. E.g. 1988 on this table is 1987/88 fiscal year and 1997 is 1996/97.

* are figures read from the graphs given on the *Annual Reports*.

Table 2.1.1(d) Cont'd

Hotels and Tourism	8.9	8.6	11.8	12.6	17.3	30.9	64.6	101.4	166.8	101.9	83.9
Public Enterprises and Agencies	1.2	0.6				0.0					
Private and Individuals	7.7	8	11.8	12.6	17.3	30.9					
	2.2%	2.0%	3.1%	3.8%	5.2%	5.8%	4.8%	5.0%	6.7%	3.8%	3.8%
Transport and Communication	20.2	45.9	37	26.5	25.8	24.4	68.15	98.4	201.7	258.5	253.2
Public Enterprises and Agencies	6.4	20.1	17.7	15.8	12.6	16.1					
Cooperatives	0.2	0.2	0.1	0.1		0					
Private and Individuals	13.6	25.6	19.2	10.6	13.2	8.3					
	5.0%	10.5%	9.6%	7.9%	7.8%	4.5%	5.1%	4.8%	8.1%	9.7%	11.4%
Building and Construction	18.3	12.7	11.8	5.9	27.4	8.33	19.15	13.9	14.35	22.14	27.29
Public Enterprises and Agencies	7.7	4.8	3.7	2.5	24.5	3.3					
Private and Individuals	10.6	7.9	8.1	3.4	4.1	5.8					
	4.5%	2.9%	3.1%	1.8%	8.3%	1.6%	1.4%	0.7%	0.6%	0.8%	1.2%
Personal (Private)	12	7.2	14.4	18.1	11.6	18.2	28.7	32.5	32.75	32.46	31.57
	2.97%	1.66%	3.76%	5.40%	3.52%	3.39%					
Other Services	4.2	5.6	6.9	7.7	15.3	19.3	48.97	93.66	116.69	164.29	127.1
	1.0%	1.3%	1.8%	2.3%	4.6%	3.6%	3.7%	4.6%	4.7%	6.2%	5.7%
Total	404.8	435.4	384.2	335.8	329.9	537.1	1335.4	2039.96	2483.05	2659.82	2212.86
Annual growth rate		7.6%	-11.8%	-12.6%	-1.8%	62.8%	148.6%	52.8%	21.7%	7.1%	-16.8%
Private	152.9	162.7	182.9	170.6	207.4	326.9	856.4	1517.0		+13%	
Public	185.0	216.8	163.5	124.5	109.7	160.1	422.2	282.6		+15%	
Cooperatives	66.8	55.0	36.5	39.8	12.1	49.2	36.0	239.4			
Private (Share, % of Total)	37.78%	37.45%	47.73%	50.94%	63.00%	60.97%	65.15%	74.40%			
Public (Share, % of Total)	45.71%	49.90%	42.67%	37.18%	33.32%	29.86%	32.12%	13.86%			
Cooperatives (Share, % of Total)	16.51%	12.66%	9.53%	11.88%	3.68%	9.18%	2.74%	11.74%			

Source: *Annual Reports of CBE, Various Years and Statistical Review of CBE.*
Note: *The CBE has stopped reporting such data after its 1992/93 Annual Report.*

Table 2.1.2 (a). Loan Disbursement of DBE (in millions of Birr)

Year		By Sectoral Disaggregation			By Institutional Disaggregation		
Pre-Reform	Total	Agriculture	Industry	Others	Public	Cooperatives	Private
1987/88	382.9	318.5	43.5	20.9	298.7	78.99	5.2
1989	306.6	189.99	90.9	26.7	212.9	87.7	6.9
1990	309.5	219.3	67.1	23.1	212.8	83.4	13.3
1991	156.6	640.4	82.9	9.7	93.2	47.5	15.9
1992	167.6	115.8	41.5	10.4	112.2	37.2	18.3
Post-Reform							
1993	178.8	124.2	39.1	15.6	74.5	63.98	40.4
1994	181.0	324.9	126.1	22.3	24.6	21.2	135.2
1995	358				43.7	136.2	178.1
1996	538.6				43.3	187.8	307.5
1997							

Source: DBE Annual Reports (various years) and DBE (1996).

Table 2.1.2 (b). Loan Collection /Repayment of DBE (in millions of Birr)

Year		By Sectoral Disaggregation			By Institutional Disaggregation *		
Pre-Reform	Total	Agriculture	Industry	Others	Public	Cooperatives	Private
1987/88	188.17	147.47	35.35	5.35	68.9	53.4	2.1
1989	137.65	111.52	16.34	9.79	35.2	63.95	2.4
1990	157.55	119.24	23.23	15.08	56.2	66.4	3.7
1991	149.72	82.62	45.75	21.35	40.2	54.7	4.0
1992	88.99	53.25	11.91	18.83	50.95	14.5	3.6
Post-Reform							
1993	129.4	61.72	42.04	25.68	82.1	25.0	22.3
1994	131.6	32.8	63.2	35.0	96.8	27	7.8
1995	228.9				55.2	128.8	44.9
1996	314.6				88.7	156.0	69.9
1997							

* For lack of data, the pre-reform institutional disaggregation is based on Principal repayment only.
Source: DBE Annual Reports (various years) and DBE (1996).

Table 2.1.2 (c). Loan Outstanding (in millions of Birr)

Year		By Sectoral Disaggregation			By Institutional Disaggregation		
Pre-Reform	Total	Agriculture	Industry	Others	Public	Cooperatives	Private
1987/88							
1989							
1990							
1991	2965.1	2323.8	456.5	184.7			
1992	3195.3	2494.2	514.1	187.1			
Post-Reform							
1993	987.3	259.9	538.4	188.95	648.7	201.0	137.6
1994	1113.5	281.4	648.8	183.4	591.5	250.5	271.5
1995	1355.7				616.9	288.2	450.6
1996	1719.2				608.4	333.8	777.0
1997							

Source: DBE Annual Reports (various years) and DBE (1996).

Table 2.1.2 (d). Loan Principal Arrears by Sector (in millions of Birr)

Year	By Sectoral Disaggregation			Total	As % of Principal Outstanding
Pre-Reform	Agriculture	Industry	Others		
1987/88	1233.0	64.9	41.9	1329.8	70.1%
1989	1487.2	58.5	34.1	1579.8	75.3%
1990	1648.7	85.9	33.2	1767.8	76.9%
1991	1683.1	95.1	45.2	1823.4	77.6%
1992	1713.5	125.7	57.2	1896.5	77.2%
Post-Reform					
1993	130.99	146.98	61.9	339.9	41.6%
1994	206.5	158.36	53.3	418.2	45.4%
1995					
1996					
1997					

Source: DBE (1996).

Table 2.1.2 (e). Asset and Profits of DBE (In millions of Birr)

Pre-Reform	Profit (Loss) After Taxation	Total Assets	Change in Working Capital
1987/88	(10.8)	2282.1	(7.0)
1989	(1.13)	2484.6	(26.3)
1990	(66.42)	2731.96	41.2
1991	(22.01)	2847.1	3.96
1992	(80.34)	2848.7	(48.8)
Post-Reform			
1993	(113.98)	923.8	(174.3)
1994	(10.73)	1148.4	(52.2)
1995			
1996			
1997			

Source: DBE (1996).

3. THE POLICY REGIME IN THE PRE-REFORM FINANCIAL SECTOR: FINANCIAL SECTOR AND IDEOLOGY

The regime that was in power from 1974-1991 can be characterized as a controlled regime where all economic activities were to be carried based on the directives that came from the central (national) planning organ. To facilitate this, the NBE is reorganized, as noted in section 1.3 above, by the 1976 reorganization proclamation where the role of NBE as a developmental organ is clearly emphasized by the famous article 6 in the proclamation, which expressed the objective of NBE as 'to foster balanced and accelerated development ...'.

In this period, the NBE was actively involved in direct controlling of all financial institutions by (a) fixing both deposit and lending interest rates, (b) directly controlling the foreign exchange and credit allocation in a discriminatory manner, by favoring the public sector, and (c) by directly financing government deficit (NBE, 1998). Bank supervision/regulation has been largely limited to on and off inspection on a few number of branches.

The pre-reform period (1974-91) is characterized by an economic policy largely informed by the ideology of 'socialism'. The *sin qua non* of such set-up is the prominent role accorded to the socialized (public sector included) sectors by discriminating against the private sector. During this time indirect ways of regulating the financial sector was not important since it can be controlled directly. The most important financial instruments used to directly control the sector were (1) interest rate and (2) discriminatory allocation of foreign exchange and credit.

The interest rate is deliberately set at a very low level (repressed) and depending on the degree of socialization, different sectors did face different interest rates. The ruling interest rates for each sector in both (pre and post reform) periods are given in Tables 3(a) to (c).

Like that of the interest rate policy the socialized sectors were accorded priority in credit as well as foreign exchange allocation. All foreign exchange earning were surrendered to the NBE. The latter will ration this limited supply of foreign exchange to sectors that were accorded priority in the national plan. In general the priority is for the socialized sectors - the private sector being the least preferred.

Similarly, credit allocation was informed by the same ideological considerations. In consultation with the Ministry of Finance and the Planning Ministry, the NBE projects the financial planning of the economy. It identifies the financial needs of different sectors through surveys and data obtained form credit institutions. Based on such information it determines the distribution of credit favoring priority investments and aiming at keeping internal and external purchasing power of the national currency unaltered. In credit allocation financial institutions used credit policy as a factor of strengthening and expanding the socialized sector and encouraging the socialization of others (See Antonio, 1988: 71-72). This favoring of the socialized sector is shown by the fact that a good part of the banks resources were directed to the socialized sector (for instance 68% of ADB resources were allocated to State farms) and that the state farms and cooperatives were not required collateral security when granted loans (Ibid.,: 74). As noted by Antonio (1988), this restrictive policy has resulted in excess liquidity in the banking sectors in the 1980 chiefly because of (a) the biased credit policy, (b) the collateral requirement on the private sector, (c) seasonal trends and the (then) existing economic condition as well as (d) the CBE's inefficiency. The latter two factors are identified by a 'Liquidity Appraisal Committee' set by CBE to understand the excess liquidity problem (See Antonio, 1988: 80).

Table 3.1.2. Lending Rate Policy in the Pre and Post Reform Period

	Pre-Reform Through Sept. 30, 1992			Post-Reform		
Lending Rate (all banks) Sector	**Cooperatives**	**Public**	**Private**	**Oct 1, 1992-Aug 31, 1994**		**Sept 1, 1994-Jan 1, 1995**
Agriculture	5	6	7	11.0-12	Lending to all sectors	14-15
Industry *	6	8	9	13.0-14		
Domestic Trade	6	8	9.5	14.0-15	Lending to central government	12-13
Transport and Communication	6	8	8	13.0-14		
Export Trade	6	6	6	13.0-14		
Import Trade (agricultural inputs)	5	6	7	14.0-15	NBE Lending to:	
Import trade (others)	6	8	9.5	14.0-15	CBE's**	10.5
Hotels and Tourism	6	8	9	14.0-15	Other Financial Institutions.	10.5
Construction	6	8	9	11.0-12		
House: (1) Purchase	6	6	8.0	11.0-12	Inter Bank Lending	10
(2) Construction	4.5	4.5	7.0	11.0-13		
Central Government	--	3.0-5.0	--	10.0		
Banks and Financial Institutions	--	2.5-4.5	--	14.0-15		
Personal loans	--	--	10.0			

Source: NBE, Quarterly Bulletin, Vol 13, No. 1, First Quarter, 1997/98.

* Includes mining, power, and water resources.

** Discount Rate.

Table 3.2.1(b). Deposit and Lending Rates Policy in the Pre and Post Reform Period

	Pre-Reform Through Sept. 30, 1992	Post-Reform Period	
		Oct 1, 1992- Aug 31, 1994	Sept 1, 1994- Jan 1, 1995
Time Deposit			
30 Days Notice	–	10.5	10.5
3 months to less than 6 months	–	10.5	10.5
6 months to less than 12 months	–	11.0	11.0
1 year to less than 2 years	Differ by ownership and maturity [1]	11.5	11.5
2 years and above		12.0	12.0
Savings Deposit	Differ by ownership and maturity [2]	10.0	10.0

Source: NBE, Quarterly Bulletin, Vol 13, No. 1, First Quarter, 1997/98.
Note:

[1] Rate differentials for 1 year and over (Through September 30, 1992) Financial Institutions and Government owned undertakings (1year): 1.0 Individuals, savings and credit cooperatives self help organizations:

1 year	6.0
2 years	6.5
3 years	7.0
5 years	7.5
Others: 1 year	4.0
2 years	0.8
3 years	5.0
5 years	5.5

[2] Rate differentials for (Through September 30, 1992) Individuals, savings and credit cooperatives self help organizations

Up to Br 100,000	6.0
In excess of Br. 100,000	2.0
Other	Not allowed to maintain savings account

Table 3.2.1(c): Deposit Rate Policy in the Pre and Post Reform Period: The Recent Past

	Jan 2, 1995- Nov 30, 1995	Dec. 1, 1995 - May 30, 1996	June 1 1996 – Sep 25, 1996	Sep. 16, 1996 to date*
Minimum interest rate on Time and Savings Deposit	10.0	11.0	10.0	7.0
Maximum lending rate by commercial banks and other institutions, except for central government	15.0	16.0	15.0	10.5
Central Government loan	12.0	12.0	12.0	12.0

Source: NBE, Quarterly Bulletin, Vol 13, No. 1, First Quarter, 1997/98.
* **Note:** Since January 1998 the lending rare is fully liberalized while deposit rate floor is set at 6%.

4. THE STRUCTURE OF THE FINANCIAL SYSTEM IN THE POST-REFORM PERIOD

4.1. The New Financial Sector

Proclamation No. 84/1994 that allows the private sector (owners have to be Ethiopian nationals, however) to engage in the banking and insurance businesses marks the beginning of a new financial sector in Ethiopia. Following this proclamation the country witnessed a proliferation of private financial institutions. Today there are 5 new private banks and 8 insurance companies in operation. This took place in a matter of 4 years. Table 4.1 shows the list of these financial institutions.

Table 4.1. Private Banks and Insurance e Companies

Private Banks			
	Date of License	No. of Branches (including main)	Capital (paid up)* Millions of Birr
1. Awash International Bank	10/11/94	9	24.2
2. Dashen Bank S.C.	20/09/95	14	14.9
3. Bank of Abyssinia	15/02/96	5	18.8
4. Wegagen Bank	30/04/97	10	30.0
5. United Bank S.C.	10/9/1998	1	20.8
Total		39	108.7

Private Insurance Companies		
	Date of License	Number of Branches (including main)
1. Africa Insurance Co.	22/12/94	6
2. Awash Insurance Co	1/10/94	5
3. Global Insurance	14/1/97	1
4. Lion Insurance	(in the process)	
5. National Insurance Co.	23/9/94	4
6. Nile Insurance Co.	11/4/95	7
7. Nyala Insurance	27/9/95	11
8. United Insurance Co.	9/11/94	8
Total		42

* For comparison the paid up capital of CBE, DBE and CBB are 40.6, 250, and 42 millions, respectively.

4.2. Performance of the New Private Banks

Despite the proliferation of such privately owned companies, their relative share is extremely small. This can be read from the Tables given in this section. The performance of the new banks can be inferred from their relative role in deposit mobilization and disbursement of loans (credit).

Table 4.2(a) shows the percentage share of banks both in the mobilization of deposit (saving) and disbursement of credit. The actual values of the deposit and loans in a rather disaggregated form are given on Table 4.2(b) and Table 4.2(c). Table 4.2(a) basically shows the dominant position of the CBE. It also shows that this dominant position has a declining trend, small by small leaving its place to the emerging private banks. The tables also reveal the relatively less significant role of time deposit. Similar pattern is observed in terms of disbursement of loans. However, the private banks are catching up relatively faster in this frontier. The disaggregation of the disbursed credit by institutional category also shows the increasing role of the private sector that can chiefly be attributed to the on going liberalization.

Tables 4.2(b) and (c) provide a rather detailed picture of the summary Table discussed above. Table 4.2(a) revealed the increasing importance of only one of the public banks–the CBE. The Table also shows a very high level of growth in mobilization of deposit by the emerging private banks. Similar trend can be read from the data on disbursement of credit given on Table 4.2(c). We already noted in Table 4.2(a) that the CBE has dominant position in this regard and that the private banks are catching up quickly. Table 4.2(c) shows which of the private banks are playing the leading role in this regard. Accordingly, the most important private banks are: the Awash International Bank followed by Abyssinia and Dashen Banks. In fact the share of Awash International Bank is even larger than one of the public banks (CBB). Clearly the trend of the existing data shows that the share of the private banks both in deposit mobilization and lending could increase significantly in the years ahead. It is also worth noting in Table 4.2(c) that the share of credit extended to the private sector has jumped from 72% to 84% in the last three years while that of the public sector's share has declined from 15% to 3.6% (the share of cooperatives remaining fairly stable). This is a clear demonstration of the impact of the liberalization scheme pursued by the government.

Table 4.2(a). Percentage Share of Different Types of Deposits

Distribution of Deposits							
End of Fiscal Year	Percentage Share			Percentage Share banks (of the total deposit)			
	DD	SD	TD	CBE	DBE	CBB	Privt. Banks
1995/96	52	42	6	93.2	0.1	3.65	3.0
1996/97	53	41	6	91.6	0.3	4.0	4.2
1997/98	54	37	9	87.6	3.6	3.2	5.6

Disbursement of Total Loans							
End of Fiscal Year	Percentage Share			Percentage Share banks (of the total loans)			
	Public Ent.	Cooperatives	Private	CBE	DBE	CBB	Privtate Banks
1995/96	15	13	72	83.9	10.9	5.12	0.0
1996/97	3.6	13	79	73.7	15.7	4.3	6.3
1997/98	3.6	13	84	56.3	21.3	4.9	17.3

Source: MEDaC (1998).
Note: DD = Demand Deposit TD = Time Deposit SD = Saving Deposit
CBE = Commercial Bank of Ethiopia DBE = Development Bank of Ethiopia
CBB = Construction and Business Bank Privt Banks = All Private banks listed in Table 4.1(a) above

Table 4.2(b). Deposit Mobilization by Commercial Banks (In millions of Birr)

	End of Fiscal Year			Growth (In %)	
	1995/96	1996/97	1997/98	1996/97	1997/98
Commercial Bank of Ethiopia	**11193.5**	**12704.8**	**15518.1**	**13.5**	**22.1**
Demand Deposit	6038.2	7067.9	9197.5	17.1	30.1
Saving Deposit	4584.8	5090.2	5623.1	11.0	10.5
Time Deposit	570.5	546.7	697.5	-4.2	27.6
Development Bank of Ethiopia	**9.7**	**38**	**632**	**291.8**	**1563.2**
Demand Deposit	9.4	35.8	29.6	280.9	-17.3
Saving Deposit		2.1	2	-66.7	-4.8
Time Deposit	0.3	0.1	600.4	26.9	
Construction & Business Bank	**438.5**	**556.6**	**568.1**	**-2.9**	**2.1**
Demand Deposit	37.8	36.7	26.8	19.4	-27.0
Saving Deposit	218.5	260.8	256.0	42.2	-1.8
Time Deposit	182.2	259.1	285.3	65.1	10.1
Awash International Bank (AIB)	**165.4**	**273.1**	**350.3**	**78.6**	**28.3**
Demand Deposit	36	64.3	82.1	51.9	27.7
Saving Deposit	122.3	185.8	242.7	223.9	30.6
Time Deposit	7.1	23	25.5	33.0	10.9
Dashen Bank (DB)	**197.8**	**263**	**374.6**	**-3.7**	**42.2**
Demand Deposit	138.7	133.5	153.6	102.9	15.1
Saving Deposit	58.4	118.5	186.5	157.3	57.4
Time Deposit	0.7	11	34.5		213.6
Abyssinia Bank S.C. (AB)	**0**	**44.6**	**143.6**		**222.0**
Demand Deposit	0	7.7	26		237.7
Saving Deposit	0	30	93.8		212.7
Time Deposit	0	6.9	23.8		244.9
Wegagen Bank (WB)	**0**	**1.8**	**118.3**		**6472.2**
Demand Deposit	0	1.4	30.6		2085.7
Saving Deposit	0	0.4	79.6		19800.0
Time Deposit	0	0	8.1		
All Banks	**12004.9**	**13374.2**	**17705**	**15.6**	**27.6**
Demand Deposit	6260.1	7369.6	9546.2	17.7	29.5
Saving Deposit	4984	5664.4	6483.7	13.7	14.2
Time Deposit	760.8	899.9	1675.1	10.4	99.4

Source: MEDaC (1998).
Note: minor gaps with Table 2.2.11a may be attributed to differences in data compilation procedure by CBE and MEDaC.

Table 4.2(c). Disbursement of Credit by Commercial Banks (In millions of Birr)
(Values in square brackets are percentage shares)

	End of Fiscal Year		
	1995/96	1996/97	1997/98
Distribution by Institutional category (Total)	**4093.6**	**4002.0**	**4581.3**
Public Enterprises	621.0 [15.2]	339.7 [8.5]	163.9 [3.6]
Cooperatives	524.7 [12.8]	510.6 [12.8]	550.3 [12.0]
Private	2947.9 [72.0]	3151.7 [78.8]	3867.1 [84.4]
Disbursement by Source (Total)	**4093.6**	**4002.0**	**4581.3**
CBE	3436.5 [83.9]	2951.2 [73.7]	2586.2 [56.5]
DBE	447.7 [10.9]	628.9 [15.7]	975.3 [21.3]
CBB	209.4 [5.1]	171.1 [4.3]	225.4 [4.9]
AIB	0	154.7 [3.9]	442.4 [9.7]
DB	0	86.4 [2.2]	121.4 [2.6]
AB	0	9.7 [0.2]	190.6 [4.2]
WB	0	0	39.8 [0.9]
Share of all the Private Banks		**6.3%**	**17.3%**

Source: MEDaC (1998) and own computation.

4.3. Other Financial Liberalization Schemes

Two other important liberalization schemes pursued by the Ethiopian government in the post-reform period are (a) the exchange rate policy and (b) the inter-bank money market. As discussed in section three above, the pre-reform period was characterized by discriminatory interest rate, foreign exchange as well as credit allocation policies. Currently the interest rate is fairly liberalized and the NBE has set only a floor for deposit rate, leaving all other rates to be determined by market forces. Banks are now allowed to set any rate within that range. Moreover, pursuant to the strategy of gradualism, the NBE has implemented this policy step-by step. The latest interest rate policy is given on Table 3.2.1(c) in section three.

(a) The Exchange Rate Policy

A related policy of regulation adopted by the government is the introduction of the 'auction-based exchange rate' determination scheme and the introduction the inter-bank money market. Again the principle of gradualism is at the heart of this policy development.

The exchange rate reform is commenced by devaluing the currency that was fixed nearly for two decades at Birr 2.07 per 1 USD by 140%, to 5 Birr per US$ in October 1992. Such massive devaluation was partly justified by the premium on the parallel market that was close to 238%. In 1993 the NBE introduced the auction-based exchange rate system. This was used to be conducted on fortnight basis and takes the form of the 'Dutch Auction' system (discriminatory price), where the marginal rate, which clears the market, is taken as the ruling rate for the coming two weeks. The supply of funds for this market comes from export earnings and loans & grants. The auction-based exchange rate system was initially working side by side with the official exchange rate. The system has been overseen by committee composed of the NBE, Ministry of Finance, Ministry of Economic Development and External Cooperation (MEDaC) and two representatives of the private sector.

In the course of its implementation more liberalization efforts (such as reducing the bid cover requirement, abolishing of negative import list, the ceiling on demand for foreign exchange etc) were made. Moreover, after the 86th auction (in July 1996), the NBE introduced a weekly auction replacing the previous auction which used to be held on fortnight basis. By August 1995 the official or fixed exchange rate (that was used for importation of fertilizer, petroleum and pharmaceutical products as well as Ethiopia's contribution to international organization and external debt-service payments) is also unified with the auction rate (Table 4.3.2 below shows the evolution of the official, the parallel and the auction rates). Moreover, the NBE has also replaced the retail auction system by a wholesale auction system where banks are taken as wholesale bidders (This issue is discussed below).

(b) The Inter-Bank Foreign Exchange and Money Markets

The NBE has issued directives aimed at establishing inter-bank foreign exchange and money markets (Directives No. IBM/01/1998 and IBM/02/1998, and other related documents). The establishment of this market is primarily motivated by the recognition that the foreign exchange supply by NBE through the auction system is not sufficient to satisfy the demand of banks. The 'inter-bank foreign exchange market' (IBFEM) is a wholesale market, where the amount traded is large and the spread between buying and selling rates is narrower than the norms for commercial transaction. It is an exclusive market for banks to trade foreign exchange with each other (NBE Directive No. IBM/01/1998).

The directive sets various specificity of the market. For instance the minimum amount to be traded is USD 50,000, banks shall not charge each other any fees, all transaction should be conducted in strictest confidentiality etc. Banks are also required to report to the NBE about their foreign exchange operation. Thus, the NBE uses this as one instrument of regulation. It is also gradually liberalizing the market because all these functions were used to be handled by the NBE itself.

A related liberalization policy pursued is the establishment of the 'inter-bank money market' (IBMM). The IBMM describes the borrowing and lending of funds between banks, micro financing institutions, and non-bank financial institutions at the interest rate that are freely determined by borrowers and lenders themselves (NBE Directive No. IBM/02/98). The directive specifies how this market should function. For instance, transaction should be for a minimum of Birr 300,000, there are specific times at which deals and request for deal should be made, the nature of collateral required etc. The directive also requires banks to report all their activities in this market on a daily basis to NBE. The NBE uses this information to regulate and monitor the banking activity. Moreover, the NBE has also issued a code of conduct, which has an extensive regulatory content (see NBE Code of conduct for IBMM).

Table 4.3.1. Performance Rating for Commercial Banks

Score	Rating	Capital Adequacy	Asset Quality	Earning	Liquidity	Composition Rate
5	Strong	Over 15%	0-5%	Over 3%	Over 20%	4.5-5.0
4	Satisfactory	8.1-14.9%	5.1-10%	2-2.9%	16-20%	3.5-4.4
3	Fair	7.1-8%	10.1-15%	1-1.9%	15%	2.5-3.4
2	Marginal	5-6.9%	15.1-20%	0-0.9%	9-14%	1.5-2.4
1	Unsatisfactory	Below 5%	Over 20%	Net loss	Under 9%	1.0-1.4

Source: NBE (1996) P. 25.

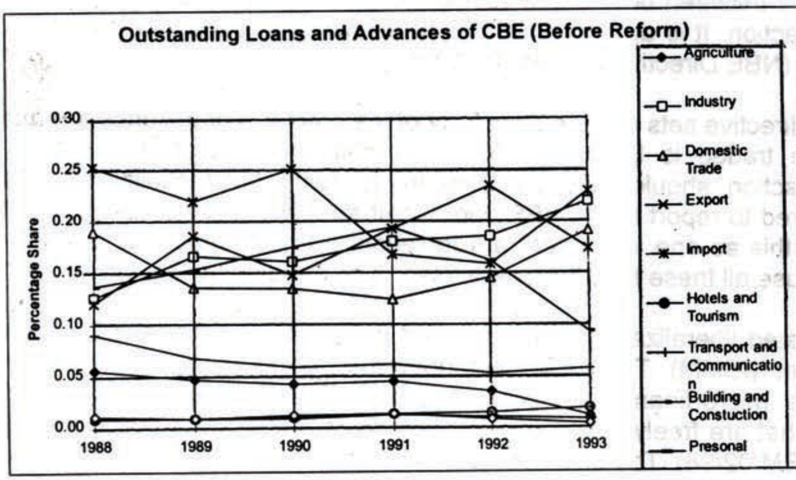
Note:

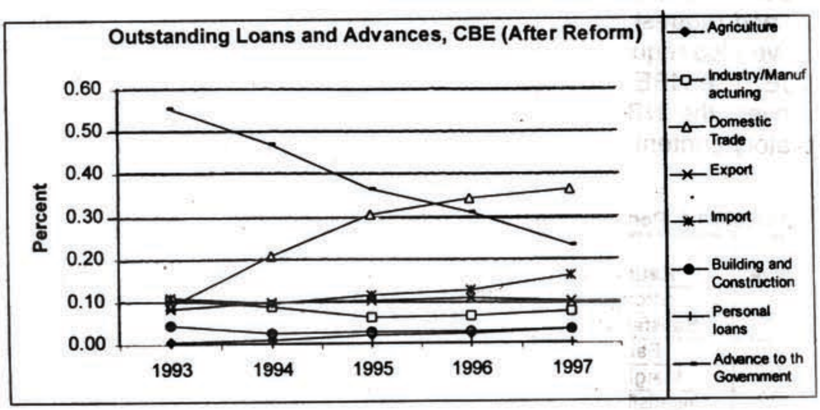
Capital Adequacy = Paid up capital plus unimpaired reserves as a ratio of risk weighted assets
Asset Quality = Non performing loans as a ratio of total advances and loans
Earnings = Net profit as the ratio of total assets
Liquidity = The ratio of liquid asset to total net current liability

Table 4.3.2. The Different Exchange Rates (Birr per US$)

Annual Average, Birr/US$	1993/94	1994/95	1995/96	1996/97	1997/98 (Qrt I)
1. Official Rate	5.09	5.86	6.32	6.47	6.80
2. Marginal Rate	5.77	6.25	6.32	6.47	6.80 (Sept.)
3. Divergence = [1-2]	Birr 0.68	Birr. 0.39	unified		
4. Parallel Market	7.05	7.30	7.64	7.16	7.23

Source: NBE, Quarterly Bulletin, 1997/98.





5. SOME CONCLUDING REMARKS

Since 1992 Ethiopia has carried out various liberalization efforts in the financial sector as discussed in this paper. The hallmark of the strategy is gradualism. The approach is not without problems, however. International institutions, which sponsor and financially support the liberalization scheme, especially the IMF, are not satisfied with the pace at which the liberalization is being carried. This has, at times, reached at a point where the IMF has temporarily suspended its support. The various policy framework papers jointly authored by the Ethiopian government and the staffs of the two Bretton Wood institutions are quite comprehensive embracing almost all major polices.

Examination of such policy framework papers reveals that (a) first since the on-set of the structural adjustment program in Ethiopia, the performance is by and large in line with the target set in document. There are occasional years where the performance is both above and below the target. The latter is highly correlated with the weather condition. Second (b), when we compare the time schedule set in the policy framework papers and the actual implementation of policies, the Ethiopian government is behind the schedule in many instances. However, it is interesting to note that this by and large had not led to disagreement between IMF and Ethiopia.

There are occasions when the IMF suspended its help. However, an examination of the time schedule set in the policy matrix of various policy framework papers and the performance of Ethiopia reveals that if this is the sole cause of disagreement, the IMF should have suspended the program long a go. This obviously points to possibility of having other explanations that may lurk behind the screen. An informed guess points to at least the following areas of disagreement. First, the World Bank and IMF might have disagreement with the Ethiopian government's strategy of gradualism. Second, the Ethiopian government's implicit belief in pragmatic mix between the public and private sector might have been unacceptable to IMF and World Bank and, third the IMF's and Bank's insistences on the need for competition by doing something about the alleged monopoly position of the CBE is cautiously seen by Ethiopia. The last point is quite sensitive because Ethiopia may not be in a good shape to compete in the future if it does something about the supposed monopoly power of CBE and allow foreign banks to come at the same time. Moreover, the performance of the CBE doesn't warrant its privatization even unrealistically assuming that privatization is a panacea for such problems.

In general, it is my opinion that given the recent nascent level of development in using market mechanisms in the country, given the relatively good shape in which the existing financial institutions find themselves, given that supervision and regulation activity of NBE is new and characterized by low level of capacity (in terms of human resource), the government's strategy of gradualism and its over all reform direction need to be appreciated and be supported by World Bank, IMF and relevant institutions.

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