

ETHIOPIA

Ethiopia, unlike the majority of African countries, has had virtually no colonial past and thus has been able to confront the 20th century as an independent nation. The country, an upland plain, lies in East Africa. Area: 1,221,900 km². Population (June 1968 estimate): 23,900,000. An essentially agricultural country whose people are great herdsman, but whose chances of development are handicapped by lack of cohesion among the ethnical groups which make up the population.

ORIGINS OF THE CENTRAL BANK

Ethiopia's first issuing bank was the Bank of Abyssinia, set up in 1905. It was a private company, controlled by foreign interests (National Bank of Egypt). It was liquidated and replaced, in 1931, by the Bank of Ethiopia, a bank of issue whose capital was almost entirely provided by the state. But the Bank of Ethiopia was short-lived, for it came to an end with the Italian conquest in 1936.

During the Italian occupation, the bank notes of the Bank of Italy were the country's legal tender. When the British came, Ethiopia became for a short while part of the area of the East African Currency Board¹.

¹ See under the heading KENYA.

There followed, in 1943, the foundation of the State Bank of Ethiopia, with two separate departments exercising, respectively, the functions of an issuing bank and those of a commercial bank. A final reorganization in 1963 created the Central Bank in its present shape. By virtue of the Proclamation No. 207, of 7 July 1963, the State Bank of Ethiopia was discontinued as of the end of 1963 and its assets and liabilities were taken over by two separate banks, the National Bank of Ethiopia and the Commercial Bank of Ethiopia. In this functionally more specialized banking system, the National Bank of Ethiopia has since then exercised the typical functions of a Central Bank.

The country's currency is now the Ethiopian dollar, with a par value of 0.355468 grams of fine gold, and 0.40 U.S. dollars.

ORGANIZATION OF THE CENTRAL BANK

The National Bank of Ethiopia began its activities on 1 January 1964. It is incorporated under public law, and has a capital of 10 million Ethiopian dollars.

Its highest administrative body is the Board of Directors, all of whose five members are appointed by the Emperor, though two of them indirectly. Under Art. 17 of the constituent law, as modified by Ordinance No. 39/1965, the Finance Minister and the Governor of the Bank are *ex officio* members of the Board, but those appointments are in turn made by the Emperor. The law lays down no limit for the members' term of office, though in the case of the two *ex officio* members their tenure obviously depends on their holding the office concerned.

The Board of Directors, which is the nation's highest authority in matters of monetary, credit and foreign exchange policy, is required to meet at least twice a month.

The Governor is the Central Bank's chief executive officer and chairman of the Board of Directors, and exercises also the functions normally incumbent upon a General Manager, a post which does not exist in the National Bank of Ethiopia. The Governor is assisted by the Vice-Governor, who in case of absence or disability takes over his functions. The Vice-Governor, too, is appointed by the Emperor, for an indeterminate term of office.

As regards organizational structure, the Bank has the following departments: bank supervision; note issue; exchange control; general accountancy; foreign relations; economic study; legal affairs; administration; domestic operations; cash transactions.

The bank supervision, economic study and domestic operations departments are directly responsible to the Governor.

FUNCTIONS OF THE CENTRAL BANK

The constituent law assigned to the National Bank of Ethiopia the following basic purposes: "to foster monetary stability and such credit and exchange conditions as are conducive to the balanced growth of the economy". These are obviously very general principles, which reflect the clear intention of the law not to deviate from the previous overriding policy of the State Bank of Ethiopia, which was to prevent a decline in the value of money. It is not by accident that this purpose is named ahead of the promotion of economic development.

For the pursuit of these two objectives, the Central Banks has wider powers than most, as follows:

- (a) it has the monopoly of issuing bank notes and coin;
- (b) it collaborates with the government in determining monetary, credit and foreign-exchange policies, and is responsible for

implementing them with the help of a wide range of policy instruments at its disposal;

(c) it takes such steps as it deems necessary to adapt the structure and functions of intermediary credit activities to the country's specific requirements, and to this end has powers of prior authorization and supervision with respect to credit and the mobilization of the nation's savings;

(d) it acts as the bank of the state;

(e) it is the lender of last resort in the banking system.

As regards the issue of notes and coins, the original law was amended on several points by Proclamation No. 206, in 1963. The chief innovation concerned the minimum gold and foreign exchange reserves to back the money issue and sight liabilities; this was fixed at 25 per cent of the total of these two liabilities. Silver, which used to be held in the reserves of the State Bank of Ethiopia, was excluded, the rate of coverage was reduced from 30 to 25 per cent, and the computation base of the reserve was widened in so far as in the past it included only the money issue.

On 31 March 1970, the outstanding note issue amounted to 322.3 million Ethiopian dollars, plus 54.6 million in coin. At the same date, the cash reserves of ordinary banks added up to 31.7 million, so that the amount of notes and coin actually in circulation was 345.2 million Ethiopian dollars, that is, 74.2 per cent of the outstanding circulation.

THE CENTRAL BANK'S RELATIONS WITH THE STATE

The National Bank of Ethiopia inherited from its predecessor, the State Bank of Ethiopia, the functions of fiscal agent of the government and state bank. It is responsible, in the first place, for handling the Treasury's cash transactions in Addis Ababa and

Asmara; elsewhere, where it has no branch of its own, it has powers to designate another bank to perform this function.

The Bank assists the Treasury in the implementation of financial policy, both by extending direct credit to the state and by open market operations. State borrowing is subject to a series of restrictions. Advances and overdrafts on current account are permissible only for bridging brief deficits in the Treasury's cash position as a result of time lags between public expenditure and revenue during the financial year. In any event, the Treasury's total debt under these headings may never exceed 20 per cent¹ of the previous financial year's ordinary revenue. The law furthermore lays down that the Treasury must repay its debt not later than six months after the end of the financial year in which the debt was incurred. In case of non-compliance with this requirement, there is an absolute prohibition on the Central Bank to lend any further sums to the Treasury in this technical form.

However, the Bank does its best to promote a market for government stock. It has been rather successful in this respect with its policy of keeping bond prices stable mainly through open market operations, and also through advances on public bonds.

But there are restrictions of two kinds also on this type of operations in support of the government's financial policy. First of all, there is a limit on the maturity of government paper the Bank buys: this may not exceed 2 months in the case of Treasury Bills and 10 years in that of government stock. Secondly, the law lays down quantitative limits both for Treasury Bills and government bonds.

For Treasury Bills, the law requires that their total amount held by the Central Bank, whether acquired directly from the

¹ Under the 1963 Proclamation, the limit was 15 per cent, but this was raised to 20 per cent by Decree No. 54 in 1969.

Treasury, bought on the market or accepted as collateral for advances, may not at any time exceed 12.5 per cent of the preceding financial year's ordinary budget revenue¹.

For government bonds, their total amount in the Bank's portfolio may not exceed four times the combined value of capital and the general reserve fund.

MONETARY AND CREDIT POLICY

By virtue of the law of 27 July 1963, the National Bank of Ethiopia exercises supreme control and supervision of the Ethiopian banking system. It has powers to licence banks and to establish rules concerning the conditions required for obtaining such a licence. In this matter, the Bank is not bound by existing regulations; it can judge on merit, in the light of the general usefulness of setting up a new bank. Prior approval of the Central Bank is also required for any bank's geographical expansion in terms of the opening of new branches, as well as for concentration by mergers or take-overs.

The National Bank of Ethiopia has at its disposal a wide range of policy instruments for monetary and credit control, both quantitative and qualitative.

Quantitative credit control works mainly through the Central Bank's refinancing of the commercial banks. The techniques chiefly employed are: (a) changes in the official rates for discounts and secured advances; (b) changes in the conditions which make bills bankable and in the maturities of public securities acceptable as collateral for advances; (c) the establishment of refinancing ceilings, which affects the volume of credit without changes as under

¹ Prior to Decree No. 54 of 1969, the limit was one half of the sum of capital and the general reserve fund.

(a) and (b). Although it is authorized to do so, the Bank does not, in practice, engage in open market operations for the purposes of monetary policy.

On the other hand, it relies heavily on the manipulation of liquidity requirements through two types of measures: (a) changes in the proportions of compulsory reserves to be deposited with the Central Bank, and (b) changes in the required liquidity ratios.

Qualitative control rests on the same rules which govern quantitative controls. For example, changes in the official rediscount rate and rate for advances on securities can serve both purposes if they are diversified according to different types of operations. Refinancing ceilings, too, can be manipulated for purposes of qualitative control, and the same applies to reserve requirements.

In addition, the Central Bank has many means of selective control through regulations governing bank credit. The Bank may, for instance, (a) establish differential minimum rates of interest applicable to credit operations depending on their technical characteristics and destination; (b) prohibit commercial bank credits to certain classes of borrowers, establish conditions for such credits or ration them; (c) establish time limits restricting the duration of particular types of credit.

The Bank may, finally, establish the percentage of import deposits on the part of importers applying for foreign exchange¹.

THE BANKING SYSTEM

Ethiopia's banking system only recently acquired its present shape. The vicissitudes of the country's past have had their repercussions on the banking system, in so far as Italian, French and

¹ For non-essential imports, a rule issued in 1968 required the c.i.f. price to be covered 100 per cent, but in 1969 the proportion was reduced to 25 per cent.

British banks in turn had their branches in Ethiopia for periods of varying length. In Eritrea, things were different, since its territory was under Italian rule for more than half a century and its banks were for a long time part of the Italian banking system.

At present, eight credit and financial intermediaries operate in Ethiopia, four of them ordinary commercial banks. These are the Commercial Bank of Ethiopia, the Addis Ababa Bank, the *Banco di Roma (Etiopia)* and the *Banco di Napoli (Etiopia)*.

The Commercial Bank of Ethiopia, whose origin has already been mentioned, is a state bank. The other three are private banks subject to the banking law, which requires that a licence to exercise banking activities may not be granted to any bank other than one incorporated under Ethiopian law either as a joint stock company or a partnership, with at least 51 per cent of its capital in the hands of natural or juridical persons of Ethiopian nationality. Contrary to what happened in other African countries, the degree of concentration of firms in the Ethiopian banking system has diminished in recent years, even though the state commercial bank handles the great bulk of domestic business and has a dense branch network covering all the provinces of the Empire.

The country has, furthermore, four credit and financial intermediaries not concerned with ordinary credit. These are the Development Bank of Ethiopia, the Ethiopian Investment Corporation, the Imperial Saving and Home Ownership Association, and the Savings and Mortgage Corporation of Ethiopia.

When the Development Bank of Ethiopia was founded in 1951, it took over the Agricultural and Commercial Bank of Ethiopia. Its capital is wholly state-owned. It is managed by a Board of Directors consisting of seven members, all appointed by the Emperor. Although the bank is also authorized to acquire equity holdings, it has in practice so far limited itself to providing

finance for agriculture and industry in the form of 5- to 10-year loans, whenever possible secured by a mortgage. In addition to the endowment fund it gets through budget appropriations, the bank has raised resources by taking up loans from commercial banks in Ethiopia, from foreign banks and the International Bank for Reconstruction and Development.

The Ethiopian Investment Corporation, which was founded in 1963, is a development bank in the true sense of the word. Its capital was entirely provided by the state. It carries out and finances development projects in line with the economic plan, providing both venture capital and loans. Apart from budget appropriations, its funds come from deposits and borrowing abroad. By Decree No. 55 of 1970 the Ethiopian Investment Corporation and the Development Bank of Ethiopia were merged to form the Agricultural and Industrial Development Bank, which were given the joint functions of a development bank and state holding company.

The Imperial Saving and Home Ownership Association was set up in 1961 on the model of the savings and loan associations in the United States, to finance housing construction and promote home ownership. It draws its funds from the savings deposits of the members. The Association occupies a marginal position in the Ethiopian credit system.

The Savings and Mortgage Corporation of Ethiopia was founded in 1965 under the name of Mortgage Company of Ethiopia, to carry on the housing credit business hived off by the Commercial Bank of Ethiopia. Following a technical assistance agreement with the *Cassa di Risparmio delle Provincie Lombarde*, it transformed itself into a savings bank in 1970, and on that occasion assumed its present name. Its capital is entirely in the hands of the state-owned Commercial Bank of Ethiopia. It accepts

deposits in various forms and grants mortgage credits to finance residential building. The new statute also makes provision for the Corporation to handle agricultural credit.

BANKING REGULATIONS

The functional regulations governing banks in Ethiopia rest on the banking law of 27 July 1963 and on the rules established by the National Bank of Ethiopia since 1964, under the powers vested in it by that law.

Any bank's own capital must amount to at least 10 per cent of its total debts, and in any case may not be less than 2 million Ethiopian dollars.

As regards assets, the Central Bank has issued a whole series of rules which prohibit or restrict certain types of operations. Investment in foreign securities is prohibited, and so are loans to foreigners and direct loans to the public administration. Commercial banks may, on the other hand, lend to public enterprises and purchase government securities on the market. Banks are, furthermore, not allowed to invest in real estate, with the exception of buildings for their own offices or housing for their staff. Some other operations are not prohibited, but subject to quantitative restrictions. Credits to any one borrower may not exceed 10 per cent of the bank's own resources.

Apart from the law against usury, the Central Bank has powers to fix the lending and borrowing rates of banks.