ATLAS COMPREHENSIVE HIGH SCHOOL

ECONOMICS 2012 E.C. Gr-12

CHAPTER – 7

SUMMERY NOTE

Monetary Policy And Financial Sector In Ethiopia

- **Monetary policy refers to the management of the money supply and its links to**
  -price
  -interest rate and
  -other economic variable
- **More generally, monetary policy is a bundle of action and regulatory stances taken by The National Bank of Ethiopia/NBE/.**
- **The principal objective of the National Bank of Ethiopia is to:-**
  -maintain price stability
  -foreign exchange rate stability and
  -support sustainable economic growth.
- **The role and functions of National Bank of Ethiopia are:-**
  -exclusive right to issue national currency (coins and paper notes)
  -issuing government debt instrument or securities like bonds, treasury bills /T-bill/ And promissory notes
  -promoting balanced and accelerated economic growth.
  -reducing unemployment and inflation.
  -encouraging the formation, supervision and regulation of microfinance, insurance Companies and commercial banks.
  -acting as banker of government: depositing government money and advancing credit for the government.
  -lending for government and private commercial banks and others
- **The roles and functions of commercial banks are:-**
  -encouraging households to save money.
  -accepting deposits of different kinds
  -advancing loans, credits, overdrafts and other services.
  -conducting supervision and follow-up on credits that it advances.
  -selling and purchasing foreign currencies.
  -issuing letter of credit (LC).
  -accelerate the process of monetization in the economy & other

- **The Financial sector policies and reforms in Ethiopia**

  Pre-1974

  - **The Imperial regime financial policy was in line with the pro-market system and allowed the participation of the private sector in the financial sector as a result there were both foreign as well as local private banks and insurances.**

  Derg

  - **During the Military government, all private banks and insurance companies were nationalized and converted into institutions organized along socialist lines.**

  Post 1991

  - **The new government EPRDF allowed active participation of the private sector. It also abolished discriminatory lending rates and capital ceiling rate.**
  - **The government has also envisaged ensuring the availability and expansion of credit to the growing private sector and has made some adjustments to interest rate**

- **Money, narrowly defined in the Ethiopian context, includes currency in circulation outside the banking sector and demand deposit. In contrast, broad money supply is defined as narrow money plus savings and time deposits. Saving and time deposits together are known as quasi money.**
- **Problems and possible remedies for the financial sector in Ethiopia**

  Problems

  - **a good part of the economy is not monetized**
  - **private and public enterprise fail to repay back loans at maturity date in the required amount.**
  - **Lack of weak competition in the sector**
  - **Maintenance of large amounts of financial resources by some banks due to high collateral**
  - **Shortage of trained and efficient human resources in the sector and other**

  Remedies

  - **Spreading small-scale financial institutions.**
  - **Mobilizing large amount of local and foreign savings.**
  - **Expanding the financial service provision of the existing financial institutions.**
  - **Strengthening the policy frame work and regulatory body of the government to avoid unfair practices in the banking and insurance sector**
  - **Introducing new technologies and innovations in financial products and service and the likes**

ECONOMIC'S CHAPTER-7 SELF-TEST WORK SHEET FOR SOCIAL SCIENCE GRADE 12 STUDENTS

I-Multiple Choice

1. **What is the role of the National Bank of Ethiopia?**
   - A. **Provision of loans to the individual farmers**
   - B. **Collecting interest income**
   - C. **Regulations of the financial sector**
   - D. **Taxing the private sector**
2. **One of the post 1992/93 reforms undertaken in the financial sector of Ethiopia is:;**
   - A. **Allowing foreigners to establish financial institutions in Ethiopia**
   - B. **Introduction of Open Market Operations(OMO)**
   - C. **Limiting the participation of private sector in the financial sector.**
   - D. **Nationalization of private insurance companies.**
3. **One of the following is not role and responsibilities of the Commercial banks in Ethiopia?**
   - A. **Provide loans to investors**
   - B. **Accept deposits from households**
   - C. **Control money supply**
   - D. **Put legal reserves in national banks**
4. **One of the major changes that took place in the financial sector in Ethiopia by Derg regime was---------?**
   - A. **Establishment of private banks**
   - B. **Establishment of micro financial institutions**
   - C. **Nationalization of all private financial institutions**
   - D. **Reorganization of financial institutions to work in a market oriented policy framework**
5. **Narrow money supply does not include?**
   - A. **Currency in circulation**
   - B. **Demand deposits**
   - C. **Time deposits**
   - D. **Both demand and currency in circulation**
6. **Which one of the following is not the responsibility of the National Bank of Ethiopia?**
   - A. **To control inflation**

B. To regulate interest rates
C. To regulate money supply
D. To issue Letter of credit /LC/

7. A key structural bottleneck for the development of the formal financial sector in Ethiopia is that:-
   A. Only a few private commercial banks exist
   B. A good part of the economy is not monetized
   C. Government owned commercial banks are profitable
   D. The government has failed to liberalize it for entry of foreign competitive firm
8. Which bank enjoy monopoly power of Note issue?
   A. Industrial Bank
   B. Commercial Bank
   C. National Bank/Central Bank/
   D. None of these
9. Which bank deals with short term credit?
   A. Agricultural Bank
   B. Commercial Bank
   C. Industrial Bank
   D. None of these
10. Which of the following is not correct about financial sector policy during the Imperial period?
   A. The financial sector policy of the government allows the participation of the private sector
   B. There was capital limit in the financial sector
   C. There were both foreign and local private banks
   D. The monitoring and regulating capacity of the National Banks of Ethiopia was limited

II-Say 'True' or 'False'

11. Issuing Letter of Credit (LC) is the duty and responsibility of NBE.
12. Huge government borrowing from domestic banks is the feature of Post 1991 regime.
13. Nationalization of all private commercial banks is the feature of financial sector policy of the EPRDF government.
14. The dominant commercial bank in terms of paid up capital and branch establishment in Ethiopia is Dashen Bank.
15. A good part of the economy is not monetized in Ethiopian financial sector.

III-Say Fill in the blanck space

16. **Issuing Letter of Credit (LC) is the duty and responsibility of _____.**
17. **Formulating the monetary policy frame work of Ethiopia is the duty and responsibility of _____.**
18. According to Ethiopian narrow money is the sum of ……&……
19. According to Ethiopia, money is broadly defined as the sum of …… &……
20. Quasi money is the sum of ……

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