

The Short Life of the Bank of Ethiopia

Professor Arnaldo Mauri, PhD
Università degli Studi di Milano, Italy

arnaldo.mauri@unimi.it

Abstract: The Bank of Abyssinia, established in 1905, was given a 50-years concession by the Emperor Menelek II. This institution was engaged in issuing notes as well as in any kind of commercial banking business. Haile Sellassie, after acceding to the throne in 1930, could not accept that the country's issuing bank was a foreign-owned share company and decided for nationalization. The change was implemented, however, in a soft way, providing an adequate compensation to shareholders, and in agreement with the main foreign shareholder, the National Bank of Egypt. The Bank of Abyssinia went, therefore, into liquidation and a new institution, the Bank of Ethiopia, was established in 1931. The new bank, although under full Government control, retained management, staff, premises and clients of the ceased financial institution. Italian occupation of the country, in 1936, brought the liquidation of the Bank of Ethiopia.

Keywords: African Banking History; Ethiopian Banking; Bank of Ethiopia

JEL Classification: G 21; G 33; N 27

1. Introduction

Most of the contemporary qualified economic literature emphasizes the relevance of financial innovations, embodied both in financial institutions and in financial technologies, in promoting and speeding up economic development. Basic changes and convenient arrangements conducive to economic development were brought up in Ethiopia also in the financial sector during the first decades of XX century. Ethiopian banking history, in fact, goes as far back as 1905, when the first bank, the Bank of Abyssinia was established in the country. The second relevant event was the nationalisation of issuing banking decided by Haile Sellassie with the establishment of the Bank of Ethiopia. The third event was Italian colonization in 1936, when, following liquidation of the Bank of Ethiopia, a broad banking network, extended to encompass all Italian possessions in the Horn of Africa and closely linked with the metropolitan financial system, was set up.

The paper concentrates on the period of the banking history of Ethiopia (1930–1936), marked by significant changes in the institutional features of this industry in the country. The remainder of the paper is organised as follows. Section 2 gives a necessary background by summarizing the main phases for the implementation of the Bank of Abyssinia’s project. Section 3 deals with the first step adopted in the path for the crucial institutional financial innovation: the liquidation of the previous bank. Section 4 reports on the establishment of the Bank of Ethiopia and evaluates the results achieved by this institution during its short life. Section 5 concludes with the liquidation of this bank enforced by Italian authorities in 1936.

2. The project for an Ethiopian bank implemented by Menelek II

Emperor Menelek II wanted to establish a bank in the country, at that time called Abyssinia (Sellassié, 1932). For understandable motives of national pride he gave preference to a financial institution at least formally independent rather than to a much easier solution represented by opening a branch office of an expatriate bank. The Emperor contacted envoys from a number of European countries asking all of them for assistance in carrying out the project for a bank (Caselli & Mauri, 1986). While political and financial aspects of the project were being discussed in some European continental countries, the prompt British answer reached Addis Ababa. London was ready to provide assistance in this venture and felt it was best to entrust the task to the National Bank of Egypt, a private bank, under British control registered in Egypt as a limited company (Mauri, 1997).

An agreement was reached and, on March 11th, a convention for establishing the bank was signed in Addis Ababa by the two parties: the Emperor of Ethiopia and the National Bank of Egypt.¹ The new bank was established in Cairo as a joint-stock company according to the Egyptian commercial law at the end of May 1905. The statute was drawn up bearing in mind all the clauses contained in the Convention of Addis Ababa. The share capital of Bank of Abyssinia was set at pound sterling 500,000, divided into 5-pound shares. Of this authorized capital a 25 per cent was to be paid-in at the time of the constitution. Cairo was chosen for the registered office of the institution and consequently as the forum for Board of Directors' and Shareholders' meetings.

The statute called for the adoption of the pound sterling as the unit of account of the Bank of Abyssinia, even though most bank transactions would be carried out, as usual in Ethiopia, in Maria Theresa's thalers. This feature was not to have unimportant consequences for the Bank management, since the money of account

¹ The convention, known as “Charter for the Bank of Abyssinia”, drawn in a twin-language text (English and Amharic), had provisions which covered the main features to be conferred to the Bank and listed some privileges guaranteed to this institution by the Ethiopian government for 50 years (Mauri, 1967).

was on gold standard, while the specie normally used for payments in Ethiopia was based on silver standard. The Governor of National Bank of Egypt was to be the Board's ex-officio Chairman; he was to be a voting member as were the Governor of Bank of Abyssinia (Vice Chairman of the Board) and an additional eight ordinary members. The latter were to be nominated by the Shareholders' meeting; at least three of them were to be chosen among Board members of the Egyptian bank and two among Ethiopian notables.¹

The 100,000 shares of Bank of Abyssinia were assigned as follows: 50,000 shares to an Anglo-Egyptian Group, 25,000 shares each to an Italian Group and a French Group. However all the shares were to be placed in a common account administered by National Bank of Egypt, which had pledged to take up 29,000 shares for itself and for the eight directors; parallel pledges were made by the French and Italian groups for 13,000 shares each. In order to offer the remaining 45,000 shares for public subscription, a banking syndicate, located in Paris at the headquarters of the Société Générale de Credit Industriel et Commercial, was formed, in which British banking group held 50 per cent and French and Italian groups 25 per cent each. Placing of Bank of Abyssinia shares, as expected, had a considerable success. In fact, 610,000 shares, i.e. more than thirteen times the total amount offered, were subscribed (Mauri, 1997).

The opening ceremony for the Addis Ababa head office of Bank of Abyssinia was held on February 15th, 1906 in the presence of the Emperor and his retinue of court dignitaries and diplomatic envoys (Pollera, 1926). From the beginning of its activity Bank of Abyssinia made conscious efforts to build up its administrative organization and lay out a network of branches in the country.

The management of Bank of Abyssinia from the very start of the Bank's operations continued Menelek's cause of spreading the use of national currency throughout the country.² Efforts were made to establish confidence on the exchangeability of the notes issued by the Bank and to familiarize the public with its services (Duggar, 1967). The widening of the monetary area of the Ethiopian economy was a chief objective strongly pursued, although with differing ends, both by the Government and the Bank of Abyssinia: the former aimed at the country's progress, the latter at gaining the confidence of the public for the expansion of its notes. It could be thought that the Bank could have full control of the money supply in Ethiopia, given that it minted coins for the State, issued notes under monopoly and was the only depository institution in the country. In truth the Bank's powers were greatly

¹ Thanks to the casting vote of the Board Chairman, the control over the bank was guaranteed to the British even in the unlikely event of a coalition among all other Board members, European and Ethiopian. (Mauri, 1967). According to Schaefer (1992) "from 1906 to 1909 the bank acted as a tool of British imperialism".

² Lowering interest rates was also one of the targets pursued by Menelek II in contemplating the establishment of a bank in the country (Schaefer, 1992).

limited, since national specie and bank notes had a very narrow circulation, which did not reach, in most instances, beyond the major urban centres. At the same time, the Maria Theresa silver thaler, a full value commodity money, was in use everywhere not only in Ethiopia but also in the countries of the Red Sea Littoral (Tschoegl, 2001). Coming back to the issue of notes by Bank of Abyssinia, it has to be underlined that these notes had to be fully covered by silver coins. Last, no reserve requirements were asked on deposits, but disappointedly for the Bank, current accounts held only a marginal position among the kinds of money used for payments in the country. Bank notes and bank deposits, in fact, are to be regarded as interchangeable forms of bank liability for payments, but their use depends on public's choices.

Because of the country's backwardness, which made transfer of money quite difficult and expensive, large cash balances in specie were needed in branches. It is not therefore too surprising to find out that earning assets represented less than half of the Bank's total assets. In part loans and investments were made in Egypt, primarily during the Bank's early years. The usual lending of Bank of Abyssinia in Egypt was made by advances on securities, a type of transaction unknown in Ethiopia, where guaranteed loans, overdraft facilities and advances on goods, often stored in warehouses, were granted.

Since the first days of this venture a great part of bank credit was channelled to financing international trade. In particular, the Bank was involved on the one hand in financing the collection and export of the primary commodities, such as coffee and on the other in financing distribution of imports of consumer goods. Investments in British Government bonds were also important, as a second line reserve. Deposit operations were not as successful as had been hoped. In particular, the inflow of savings deposits was scarce because of a number of factors such as the modest branch network, the low level of per capita income, the early stage of monetary development of the country (very low monetisation ratio of the economy), the lack of confidence on the part of the public and the unattractive interest rate offered to depositors. Current account deposits recorded better levels, since they were used by foreign businessmen and rich Ethiopian clients more accustomed to banking services and to the use of drawing cheques. The Bank of Abyssinia drew in considerable proceeds from exchange operations and imported huge quantities of Maria Theresa thalers, which were placed in the domestic market. Transfer of funds within the country was also a good source of revenue, but international transfers were even more profitable for the Bank.

A glance at Bank of Abyssinia series of Profit and loss statements and an investigation of performance determinants reveals considerable variability of results due both to business climate changes (connected chiefly with Ethiopian exports) and fluctuations in the price of silver and, consequently, in the exchange rate Ethiopian thaler / pound sterling. Losses were recorded during the first years of

operation, but starting from 1909, profits are recorded. However caution dissuaded directors from paying dividends until 1918 in order to recover preceding losses registered in the take-off stage and because of uncertainties during the war period. For two years after dividends to shareholders were paid until a three-year slump of the Ethiopian economy (1921-1923). Payment of dividends recommenced in 1924 and continued without interruptions until 1930 (Mauri, 1967). At the end of 1930 the total amount of notes in circulation was 1,740,000 thalers (evaluated £. 88,549 12 s. 4.d in the Balance Sheet of Bank of Abyssinia) fully covered in the assets side by an equivalent amount of silver coins. Cash on hand in specie was almost £. 164 thousand and overall deposits more than £. 250 thousand.

3. The Liquidation of Bank of Abyssinia

When Zawditu, whose sole qualification, according to prominent Ethiopian historians (Bahru Zewde, 1991), was her birth, as the daughter of Menelek II, was proclaimed Empress, Tafari Makonnen was designated regent of the empire and heir to the throne. Ras Makonnen had an impressive lineage and an extraordinary talent. He was open to foreign culture and very ambitious: since the beginning it was clear his climb to the throne. This goal was attained only after the death of Empress Zawditu, in 1930. The coronation of Ras Tafari Makonnen, under the style of Haile Sellassie, brought, once again after Menelek II, an outstanding personality to rule Ethiopia.

Haile Sellassie continued Menelek's policy aiming at independence, modernization and progress of the country. He had once been a member of the Board of Directors of Bank of Abyssinia and, following this line, gave priority to the reform of the Ethiopian monetary and banking system. Managers of the Bank, in a context of an "anti-foreign" movement, were blamed by a public opinion grown around the court in Addis Ababa (Schaefer, 1992) to have preconceptions about the conduct of banking business, which were the result of their cultural background. These criticisms were not unfounded, but it should be underlined that these foreign bankers brought in banking business good standards of integrity and incorruptibility. The people's criticisms did not influence, nevertheless, the Emperor's decisions on this matter and the managers of the Bank were not dismissed. In conclusion we can state today the opinion that Bank of Abyssinia had been of undeniable utility to the Ethiopian economy, but in 30's times and views had changed and the Emperor thought that it was no longer possible for Ethiopian government to accept the fact that the only issuing bank operating in the country was owned and controlled by foreigners. He wanted a purely Ethiopian institution (Konczacki, 1962). Without delay Haile Sellassie made his decision known to the National Bank of Egypt and, since the Egyptian bank was not particularly reluctant

to withdraw from Ethiopia, provided an adequate compensation, negotiations began in Cairo for Bank of Abyssinia liquidation.

The legitimate and long standing Ethiopian aspiration of creating a truly national bank of issue did not necessarily imply the liquidation of the existing Bank of Abyssinia. It would have been sufficient to cancel the Abyssinian bank's privileges of issuing currency, of banking monopoly and of exclusive right to act as fiscal agent for the Government. At the same time, a new financial institution, an Ethiopian state bank, could have been created. Nevertheless, both parties' interests laid in liquidating Bank of Abyssinia. On the one hand, National Bank of Egypt was not so much interested to continue doing business in the country under the less favourable conditions brought about by the change in the political setting and, on the other hand, the Ethiopian Government strongly wanted to make use of the existing organization (assets, liabilities, management, personnel and premises) of the Bank of Abyssinia in order to speed up implementation of the project for the establishment of a State bank. The solution of liquidation of the Bank of Abyssinia, in fact, would make possible to establish the new bank without delay.¹ Negotiations were concluded on April 16th, 1930 with an agreement calling for (Zervos, 1936):

- a) revocation of concession and privileges granted to the Bank of Abyssinia in the 1905 convention;
- b) the winding up of the Egyptian joint-stock company "Bank of Abyssinia";
- c) liquidation of Bank of Abyssinia through conveyance en bloc of its assets and its liabilities to the Ethiopian Government;
- d) payment by the Ethiopian Government of a sum of 40,000 pounds to Bank of Abyssinia shareholders as a compensation for terminating the concession nearly 25 years before it was scheduled to end and for the Bank's goodwill.

In accordance with agreed conditions, the Ethiopian Government paid up to shareholders a total of £ 203,807. 7 s. 6 d. in instalments until July 1931. This amount was calculated by summing up the adjusted book value of Bank of Abyssinia, the above mentioned compensation of 40,000 pounds for terminating in advance the concession and the interest (at a rate of 6% per annum) on the debt of the Ethiopian Government from the end of 1930 to July 16th, 1931, the day on which the last instalment was paid. An important agreement was signed with the Ethiopian authorities on July 13th, 1932 regarding the notes issued by Bank of Abyssinia. The liquidators transferred to the new Ethiopian bank the specie reserves in Maria Theresa silver thalers, which covered issues of notes by the Abyssinian bank depositing them in a specific account entitled "Trustee for Redemption of Bank of Abyssinia in voluntary liquidation notes". The new bank agreed to provide the conversion service for these notes free of charge (possibly by

¹ Three liquidators were appointed: Sir Bertrand Hornsby, governor of the National Bank of Egypt, J.C. Sidley from Cairo and C.S. Collier, governor of the Bank of Abyssinia. Later, on request of the Ethiopian government, Hornsby was replaced by Mr. Johan Crawford from Cairo (Schaefer, 1992).

means of replacement with its own notes) and to make, as a guarantee, a deposit in South Australia 5% bonds with an overall face value of 5,000 pounds with National Bank of Egypt in Cairo. The guarantee deposit was to be freed gradually as Bank of Abyssinia notes were redeemed by the new Ethiopian bank and destroyed under the control of the Egyptian consulate in Addis Ababa.

4. The Bank of Ethiopia

The new bank was chartered as Bank of Ethiopia by the Imperial Decree issued on August 29th, 1931 and this act represented the first banking law ever passed in the country (Pellegrineschi, 1936). A regime of ex-ante authorization for banking industry was established and this provision was justified by attributing the qualification of public interest to banking operations.

The Bank of Ethiopia was set up as a joint-stock company, with an authorised capital of £ 750,000 divided into 30,000 shares of 25 pounds each. Private Citizens were supposed to become shareholders since two different needs had to be met. On the one hand, given the important functions assigned to the Bank of Ethiopia, the Government was to have full control over the Bank's management. On the other hand private contribution to the share capital could have made Government contribution less burdensome. The two objectives were not irreconcilable and it was deemed that the best solution would be to differentiate shares into two classes. Class A shares, 18,000 in number, would have been meant for the Government, while class B shares, 12,000 in number, would have been placed by public subscription. The two above-mentioned classes would have enjoyed equal rights, the only relevant difference lying in the appointment of the Bank's directors. The holders of the two classes of shares would have met separately: holders of class A shares (i.e. Government) to appoint six members of the Board and holders of class B shares to appoint the remaining four members. This formula would have ensured the Government's control over the Bank even with a minority stake in the equity capital. At the time of constitution, only half of the share capital, however, was paid up. At the closing of subscriptions, a total of 18,877 shares of the 30,000 offered had been subscribed. The results did not come up to expectations as the public showed no interest in the operation. In particular, the subscription failed to attract foreign capital that had greatly contributed to the success of the Bank of Abyssinia stock subscription. The Ethiopian Government held 18,003 shares, nearly 95.4 per cent of the company capital, and another 874 shares were in the hands of the public. The paid-up capital of Bank of Ethiopia turned out to be £ 235,692 10 s. 0 d. instead of the expected £ 375,000. The sum paid by the Government included the purchase price paid to the shareholders of Bank of

Abyssinia because of its contribution in kind by conferring the assets and liabilities of the liquidated bank.¹

Bank of Ethiopia notes, according to the Imperial Decree, were to be fully covered by reserves including: minted and ingot gold, foreign currencies (provided they were payable in gold), bank bills and acceptances in gold currency, Ethiopian and foreign short-dated government bonds and other assets of a similar nature. The various assets backing notes were not however perfectly fungible and ceilings had been established for some types of reserve-assets. The Bank of Ethiopia was made the depository of public funds and was to provide other normal banking services, as fiscal agent, to the Government.

The institution began operations in November 1931 retaining the Governor Mr. Collier (a Canadian banker), appointed chief executive, and taking over management, staff and premises of the ceased Bank of Abyssinia (Deguefe, 1965). Since only the name of the institution had changed, most of the public were unaware of the event, which nevertheless represented a very important step on the way toward the county's emancipation (Pankhurst, 1963). Bank of Ethiopia however came into being with a more favourable position than Bank of Abyssinia. Relations with Ethiopian authorities were in fact much smoother than they had been for the former bank since all Bank of Ethiopia Board members were appointed by the Government itself. The powers of the Board of Directors were wide-ranging, encompassing also the main aspects of monetary management in the country. The Board was entrusted with fixing borrowing and lending rates applied by the Bank. Bank notes coverage in specie was only partial and not full as for Bank of Abyssinia. Eventually Bank of Ethiopia could have been considered a central bank, since, besides enjoying the sole right of note issue and acting as financial agent of the Government, it was providing refinancing facilities to other financial intermediaries. The Bank of Ethiopia gained, since its establishment the full central banking status and may be placed, therefore, among the first indigenous central banks set up in the whole of Africa (Ahoaja, 1965).

The Bank of Ethiopia in its ability to pursue an independent monetary policy and a credit supply policy could foster the economic development of the country. The Bank however was run conservatively on the one hand because had to face a number of constraints and on the other hand because the management, taken over from Bank of Abyssinia, preferred to keep on with the customary cautious policy of the previous bank. The pound sterling was maintained as unit of account even though in transactions with customers the use of Maria Theresa's silver thalers prevailed by far. The branch network took over by the Bank of Abyssinia was extended and encompassed the transit office in Djibouti and 6 branch-offices:

¹ According to Schaefer (1992), many deposit accounts were unclaimed and could have been distributed to the Bank of Abyssinia's shareholders. However the Bank was involved in enquiring on depositors and their heirs.

Debre Tabor, Dessie, Dire Dawa, Gambela, Gore, Harar. Efforts to spread the use of national currency throughout the country were eventually unsuccessful, but it should be mentioned that the main causes, which prevented the achievement of this ambitious goal were external and out of control of the Bank. It was decided to replace the silver standard of Bank of Abyssinia (full coverage of notes circulation in silver coins) with a gold exchange standard system, based on British pound sterling, even though only silver coins were circulating in the country. Frequent and sharp fluctuations in the value of silver (high volatility of prices in the past experience) had suggested to abandon the silver standard and to adopt a monetary system based on gold; therefore minted silver was to be allowed to continue circulating, but only as token money. There was no circulation of minted gold and the new Ethiopian golden thaler was in fact to be only a virtual monetary unit.

Just less than a month after the Imperial decree was promulgated, an international crisis of the gold standard occurred. Bank of Ethiopia had to adapt to the new situation while its notes were covered by minted silver (Maria Theresa thalers) and foreign currency. Maria Theresa thalers served to maintain internal convertibility and thus to permit continued contacts with a domestic economy dominated by the Austrian silver coins as well as the settlement of trade balance's with a number of neighbouring countries. Conditioned by its political and economic international ties, Ethiopia sought to remain linked to British sterling even after this currency interrupted convertibility into gold on September 21st, 1931. The dual reserve system of Bank of Ethiopia, due to the desire to link simultaneously the Ethiopian monetary unit to pound sterling and to silver, while silver prices underwent considerable fluctuations, was a cause of serious problems for the Bank. In facing these disturbances the Ethiopian bank tried to stabilize the silver thaler / pound sterling exchange rate. In other words efforts of Bank of Ethiopia were directed to neutralize effects on the domestic market of fluctuations of silver prices on the London market. This policy caused a growth of smuggling on the borders of the country, mainly during periods marked by maximum divergence between the market price of silver and the Bank's official price (Bertone, 1936). The Bank of Ethiopia made efforts to pursue the objective of increasing the use of national currency in the country and to enlarge its sphere of influence on the economy. Another objective of the Bank's monetary policy was to avoid disturbances due to seasonal movements.

Attempts were made in the first place to safeguard what little progress had been achieved by Bank of Abyssinia. The new bank notes therefore had format, languages and appearance similar to that of the previous ones. Issue of notes, under the new legislation, began in May 1932 in the following denominations: 5, 10, 50, 100 and 500 Eth. thalers. In June 1933 notes in 2 Eth. thalers denomination were also issued (Zervos, 1936). As the new notes were issued the Bank of Abyssinia old notes were withdrawn from circulation. At the end of 1933 nearly 94% of the

outstanding circulation of Bank of Abyssinia notes had been redeemed. While the note substitution went on smoothly, it proved much harder job to expand the circulation of paper money to other segments of domestic economy. Curiously enough, in some instances Bank of Ethiopia notes seem to have been accepted only at discounted value (Farago, 1935). Table 1 shows the circulation of notes issued by Bank of Ethiopia, figures refer to the end of month. The table indicates that he overall circulation of Bank of Abyssinia notes had been surpassed in October 1932, but reveals a standstill the following year. The peak was reached in February 1935 and from the following month began to shrink owing to impending war. The table enlightens another interesting phenomenon still visible in Ethiopia today: the seasonal fluctuations of money supply due to exports which usually make an inflow of foreign currency during the first quarter of the year, creating monetary base.

Table 1. Outstanding Notes of Bank of Ethiopia

End-of-Month Circulation (unit: *Eth. thalers*)

Month	Year			
	1932	1933	1934	1935
January	-	2,282,680	2,336,531	2,989,977
February	-	2,459,305	2,541,601	3,143,080
March	-	2,519,270	2,530,424	2,374,173
April	-	2,358,320	2,625,174	2,709,780
May	123,905	2,148,920	2,708,029	2,401,797
June	976,580	2,127,145	2,728,366	2,306,276
July	1,287,395	2,108,520	2,800,274	2,439,442
August	1,327,155	2,194,560	2,785,261	2,001,235
September	1,616,425	2,155,630	2,859,505	1,925,300
October	1,858,500	2,209,479	2,591,692	1,658,243
November	1,839,305	2,288,418	2,791,465	1,741,746
December	2,065,135	2,121,632	2,890,620	1,804,322

Source: Bank of Ethiopia, Annual Reports

In order to evaluate correctly the results achieved by Bank of Ethiopia in developing bank notes circulation in the country it is necessary to take into

consideration the circulation of foreign-minted silver coins during the same period of time. At this point it should be added that monetary reform also involved token coins by establishing a decimal based fractional currency system of nickel and bronze coins, fully backed by Maria Theresa thalers in the Bank's vaults. The official figures on the stock of money within the country, at that time, show slightly less than 6.4 million thalers, made up approximately as follows: bank notes 44 per cent, token coins 11 per cent, bank checking deposits 45 per cent. Alongside this official money supply circulated theoretically a mass of full value commodity money (i.e. Maria Theresa silver thalers) estimated at 40 - 50 million pieces.

The Bank of Ethiopia co-existed with other financial institutions, each catering to the needs of different types of customers and with little overlap of functions. The Bank was engaged in collecting deposits in domestic currency as well as in a number of foreign currencies. There were no provisions for reserve requirements in respect to this liability similarly as it were with the Bank of Abyssinia. Demand deposits, chiefly made up with public funds, were not interest bearing and savings deposits accounted for one fifth of total deposits. Savings passbooks earned a modest rate, which did not reflect market conditions. This fact, together with a lack of a savings promotion campaigns, explains the unsatisfactory growth rate of deposit balances.

Earning assets were limited by the need to keep high idle cash balances in branch offices. Investment portfolio held Ethiopian and foreign Government bonds and bills. In addition the above mentioned South Australia 5% bonds were deposited as security for notes redemption with National Bank of Egypt. In lending operations a very important role had discounting of international and national bills and promissory notes. Advances on securities and merchandise, whose term almost never exceeded six months, were also granted. Merchandise was stored in the Bank's warehouses while precious metals were held in the Bank's vaults. An interest rate of 8 -10% was applied to these transactions. In addition Bank of Ethiopia granted loans to Ethiopian individuals covered by personal guarantees. Mortgage loans developed at a very modest rate. In conclusion it is undeniable that lending by the Ethiopian bank during the first years of operations was excessively prudent and that this institution did not take full advantage of its leading position to implement a lending policy conducive to speeding up economic development. However the judgement should not be too severe because of the short life of this institution. In fact the Italian invasion of Ethiopia interrupted the take off of this bank.

5. Conclusion

The Italian authorities, after the fall of Addis Ababa in their hands, on May 5th, 1936, initially allowed normal activities of Bank of Ethiopia to be continued

because some time was needed to make decisions on the Bank's future. They were faced in fact with two alternatives equally viable, but each tied to different views on the target structure of the banking system of the Horn of Africa. On the one hand there was the opportunity of keeping the Bank alive, changing its ownership (class A registered shares being transferred from the Ethiopian Government to the Italian Government), name, management and, partially, staff. This line of action, which had been successfully followed dealing with Société Nationale d'Ethiopie, nonetheless entailed the adoption of an autonomous stance in the monetary and credit field which had not been taken in the past in the former colonies of Eritrea and Somalia, but which did not lack prominent supporters among Italian economists. On the other hand the view calling for a complete integration of Ethiopia as well as other Italian possessions in East Africa into the metropolitan monetary and banking system necessarily implied the liquidation of the Bank of Ethiopia. The second alternative, mainly based on political issues of the Fascist regime, finally prevailed.¹

6. References

- Ahooia, K. (1965). The Bank of Abyssinia: a Portrait. *Ethiopia Observer*, no 4.
 Bank of Ethiopia, *Annual Reports*.
- Bertone, M. (1936). Il problema monetario dell'Etiopia italiana. *Il Sole*, 25th and 26th July 1936.
- Caselli, C. & Mauri, A. (1986). *Moneta e banca in Etiopia*. Milano: Giuffrè.
- Deguefe, T. (1965). Credit Institutions in Ethiopia: an Historical Outline. *Ethiopia Observer*, no. 4.
- Duggar, J. W. (1967). The Development of Money Supply in Ethiopia. *Middle East Journal*. Vol. 21, n. 2.
- Farago, L. (1935). *Abyssinia on the Eve*. London: Putnam.
- Great Britain High Court of Justice (1937). Bank of Ethiopia v. National Bank of Egypt and Liguori. *The American Journal of International Law*. Vol. 31, no. 4.
- Konczaeki, Z.A. (1962). Currency and Banking in Ethiopia. *The South African Journal of Economics*. Vol. 30, 1963, no. 3.
- Mauri, A. (1967). *Il mercato del credito in Etiopia*. Milano: Giuffrè.
- Mauri, A. (1997). The Rise of Banking in Ethiopia. *African Review of Money, Finance and Banking*, no. 1-2.
- Pankhurst, R. (1965). The History of Currency and Banking in Ethiopia and the Horn of Africa from the Middle Ages to 1935. *Ethiopia Observer*, no. 4.
- Pellegrineschi, A.V. (1936). *Etiopia, aspetti economici*. Milano: Principato.

¹ Following the liquidation decree issued by the Italian colonial government, a litigation arose before the English courts, where effect was given to the Italian decree on the basis that Great Britain had recognised Italy as being in *de facto* control of the conquered country; see "Bank of Ethiopia v. National Bank of Egypt and Liguori", *The American Journal of International Law*, 1937.

Sellassie'G. (1932). *Chronique du Règne de Ménélik II, Roy des Roys d'Ethiopie*. Paris: Librairie Orientale et Americaine G. Maisonneuve.

Schaefer, C. (1992). The Politics of Banking: the Bank of Abyssinia, 1905-1931. *International Journal of African Historical Studies*, no. 2.

Tschoegl, A.E. (2001). Maria Theresa's Thaler: a Case of International Money. *Eastern Economic Journal*, no. 4.

Zervos, A. (1936). *L'Empire d'Ethiopie: le miroir de l'Ethiopie modern*. Athens.

Zewde, B. (1991). *A History of Modern Ethiopia 1855 – 1974*, James Currey, London. Athens Ohio: Ohio University Press.