

This Month in Regulation: Ethiopia

Financial and Economic Updates – December 2024

Grant Thornton Ethiopia

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NBE raises Credit Cap from 14% to 18% allowing banks to lend more

During its inaugural meeting on December 31st, 2024, the Monetary Policy Committee (MPC) recommended raising the annual credit growth ceiling from 14% to 18%, allowing banks to lend more. The Committee which was established under the newly approved NBE Proclamation, recommended and received approval on from NBE on the following monetary policy actions:

Major points addressed by the MPC

- As of November 2024, inflation stands at a five-year low of 16.9%.
- GDP growth surged to 8.1% in the fiscal year 2023/24
- The policy rate remains at 15%, with reserve requirements and facility rates unchanged.
- Liquidity constraints persist in the banking sector, with high loan-to-deposit ratios and limited excess reserves.
- MPC recognized the disinflationary trend in the latest monthly inflation data (-0.8 percent for Nov. 2024), the unusually tight liquidity and credit conditions prevailing in the banking system, and the sharp real decline in monetary aggregates relative to nominal GDP.

Decisions made

- First, Current NBE Policy rate remains unchanged at 15% aiming to address the still elevated inflation rate and stabilize exchange rate expectations.
- Second, moderate adjustment was made on the credit growth rate from 14% to 18%.
- Third, NBE's existing rates for Standing Deposit Facility, Standing Lending Facility, and reserve requirements on bank deposits remain unchanged.

Next MPC meeting is scheduled for March 25th, 2025.

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Ratification of the new NBE Proclamation No. 1359/2017

On December 17, 2024, the House of Peoples Representatives ratified the National Bank of Ethiopia (NBE) Proclamation No. 1359/2024, a landmark reform that redefines the central bank's role, focusing on price stability.

The proclamation outlines:

- **Regulatory framework** that allows for the licensing, supervision and setting of minimum capital requirements, compliance standards for local and foreign banks in Ethiopia.
- Conditions under which foreign banks may operate in Ethiopia, including **licensing requirements** and **compliance** with local regulations.
- **Penalties and Compliance** for non-compliance
- Authority of the NBE in its role as the **resolution authority**, including its powers to develop resolution strategies that ensure financial stability.
- Provisions that empower NBE to **conduct examinations** of banks to ensure adherence to laws and regulations.

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Banking Business Proclamation revised
No. 1360/2017

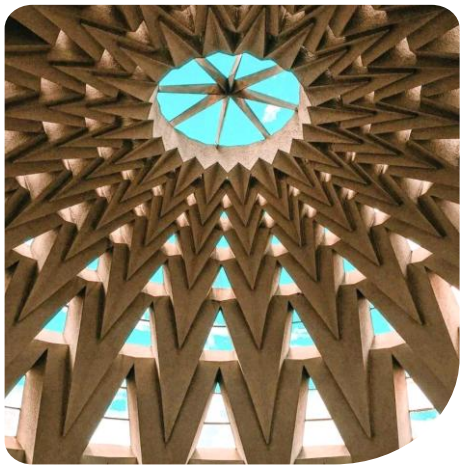
The revised proclamation has been ratified by the FDRE House of People's representatives (HoPR) aiming to strengthen and modernize the banking sector in Ethiopia.

The proclamation seeks to enable the sector to leverage modern technology and knowledge, enhance its global market integration, and improve its competitiveness, efficiency, and effectiveness.

Key provisions of the proclamation include:

1. Setting requirements and conditions for licensing of new entrants
2. Implementing robust risk-based supervision
3. Provide a legal framework that would allow opening the banking sector to foreign investment
4. Establishing effective resolution regime that enables bank resolution in times of financial crisis and orderly exit from the market if recovery is not possible - minimizing risks to both the banking sector and the broader economy.

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Ethiopia opens door for foreign banks to enter local financial market

FDRE House of Peoples' Representatives (HoPR) has passed a new banking law that liberalizes the Ethiopian financial sector allowing foreign banks to **establish subsidiaries, open branches (commercial representative offices), and acquire shares in local banks**. And under special circumstances, NBE may exceptionally allow foreign banks to partially or fully acquire existing local banks.

The Draft Proclamation also defines a regulatory framework for bank mergers for two types of bank mergers: **Statutory and Voluntary mergers.**

The law mandates that total shareholding of foreign nationals and foreign-owned Ethiopian organizations in a local bank **shall not exceed 49%** of the bank's subscribed shares. The remaining 51% must be retained under Ethiopian ownership to ensure local control of financial institutions.

All foreign investments must be made in **foreign currency**, and the number of foreign banks allowed to enter the sector will be determined by NBE.

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NBE launches platform for customer complaints

The National Bank of Ethiopia (NBE) has launched an online platform (www.nbe.gov.et/fcpe/) and a dedicated hotline (7230) to support customers in filing complaints against financial institutions.

This platform provides consumers with a means to escalate complaints that remain unresolved by their financial institutions within 10 business days.

This plays a vital role in ensuring a safe, transparent, and fair financial ecosystem, protects financial consumers' rights, promotes ethical market conduct, and enhances financial safety across Ethiopia.

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EIH adds 8 key SOEs to its portfolio

The Ethiopian Investment Holdings (EIH), one of Africa's largest sovereign wealth funds, was established with a broad mandate to improve the performance of Ethiopian State-Owned Enterprises (SOEs) and attract private investors.

EIH, as of December 4th, 2024, has added **eight large SOEs** formerly under the Public Enterprises Holding and Administration, brining the total SOEs it manages to **thirty-nine.**

The new additions are:

1. Development Bank of Ethiopia (DBE)
2. Industry Parks Development Corporation (IPDC)
3. Ethiopian Electric Power Corporation
4. Ethiopian Railway Corporation
5. Ethio Post
6. Ethio Engineering Group
7. Ethiopian Industrial Inputs Development Enterprise
8. Subsidiaries of Ethio Pharma Group - National Veterinary Institute and ShieldVax Enterprise

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Chebera Elephant Paw Lodge, Ethiopia

ECMA licenses the first securities exchange

The Ethiopian Securities Exchange (ESX) has received the first-ever securities exchange license from the Ethiopian Capital Market Authority (ECMA). As the nation's sole securities exchange, ESX will provide businesses with access to sustainable financing and offer investors opportunities to grow their wealth.

ESX has also been granted a license for an Over-The-Counter (OTC) market, creating a more inclusive and accessible platform for smaller companies and a wider range of securities.

This development highlights Ethiopia's commitment to fostering innovation, transparency, and economic growth, paving the way for greater investment and financial modernization in the sector.

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ESX Academy launched

The Ethiopian Securities Exchange (ESX) has launched ESX Academy, a new initiative aimed at advancing investor education, financial literacy, and capacity building of market participants in Ethiopia's capital market.

The academy, supported by FSD Ethiopia and developed with Miella Technology plc, offers a range of courses designed for various expertise levels—Beginner, Intermediate, and Advanced. The digital platform offers structured and continuous education on capital market concepts by offering a comprehensive range of courses that cater to various levels of expertise.

The launching of the academy aligns with ESX's planned market debut next month, marking a key aspect in expanding financial education and trading opportunities in Ethiopia.

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ESX Rulebook

As part of its mandate of organizing an orderly, transparent, and efficient market, the Ethiopian Securities Exchange (ESX) is required to have in place rules and procedures necessary for the proper and efficient regulation, operation, management and control of the exchange and securities market it operates.

Therefore, ESX issues a Rulebook that serves as a detailed framework and ultimate guide for understanding formal securities exchange in Ethiopia.

This 252 pages rulebook covers five volumes:

A. General operations
B. **Membership rules:** Trading members and compensation fund
C. **Listings rules:** Equity shares, fixed income securities, exchange traded funds, Sharia compliant securities, continuing listing obligations and listing schedules
D. **Trading rules:** Client management, trading, direct economic access, settlement of transactions, and trading conduct
E. **Disciplinary actions:** Disciplinary procedures, dispute resolution rules and complaints management procedures

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Real Estate Development and Real Property Marketing and Valuation Proclamation No.1357/2017

FDRE House of Peoples' Representatives (HoPR) has ratified the Real Estate Development and Property Marketing and Valuation Proclamation No. 1357/2017, a crucial law intended to update property valuation procedures, increase transparency of real estate transactions, seeking to protect the interests of all parties involved, in long-term growth in the real estate industry.

This proclamation sets out clear regulations for:

1. Issuance Of Qualification Licenses and Proof of Ownership of Real Estate Developers, Duties of Real Estate Developers, Home Buyers, Warranty and Support Provision
2. Real property valuation system and licensing
3. Real property marketing and urban land grade classification
4. Duties and responsibilities of the ministry, regional states
5. Complaints, tip-offs, and petition presentation procedures establishing a complaint committee

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NBE mandates National ID for opening bank accounts

The National Bank of Ethiopia has issued a directive requiring all financial institutions to make the Fayda National Identification card a mandatory document for opening bank accounts across the country. This requirement also extends to digital or remote customer onboarding, allowing banks to use the national ID for customer registration, provided they gather all necessary information according to relevant regulations and guidelines.

To ensure smooth implementation, the National Bank has set a phased timeline for the new policy. As of today, **January 1st, 2025,** bank branches located in Addis Ababa will be requiring Fayda National Identification card as a mandatory document for opening of new bank accounts.

In the second phase, starting July 1, 2025, the requirement will be enforced for bank branches in other major cities across Ethiopia. By January 1, 2026, the requirement will be applicable to all bank branches nationwide, ensuring uniformity across the country. Finally, for existing bank accounts, the new regulation will be mandatory by December 31, 2026, requiring current account holders to provide their national ID cards.

The regulatory body has emphasized that banks must strictly adhere to the designated timeline for each phase to ensure full compliance with the directive.

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New Draft Property TAX Proclamation

The Property Tax Proclamation in Ethiopia applies to urban real estate, including land, buildings, and improvements.

It establishes a legal framework that defines essential terms such as property, property tax, and property market value, and outlines the scope and guiding principles of the tax. Regional governments have the authority to enact specific regulations based on the proclamation.

The guiding principles include sustainability, equity, transparency, and efficient administration. Property tax is levied in accordance with the proclamation, with supervision from the Ministry of Finance and the Ministry of Revenues, which oversee tax collection and require regular reports.

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Sources

1. NBE raises Credit Cap from 14% to 18% allowing banks to lend more: NBE
2. Ratification of the new NBE Proclamation: NBE
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4. Ethiopia opens door for foreign banks to enter the local financial market : NBE
5. NBE launches platform for customer complaints: NBE
6. EIH adds 8 key SOEs to its portfolio : EIH
7. ECMA licenses the first securities exchange: ECMA
8. ESX Academy Launched : ESX
9. ESX Rulebook : ESX
10. Real Estate Development and Real Property Marketing and Valuation Proclamation: FDRE - HoPR
11. New Draft Property TAX Proclamation : FDRE - HoPR
12. NBE mandates National ID for opening bank accounts : Fayda - National ID

In case you missed last month's edition:

- Click Here to view new and updated regulations from November 2024.

Disclaimer: Please note that this report is solely prepared for informational purposes only and does not constitute as professional or legal advice. It does not provide exhaustive information but rather a summary of new and updated regulations, proclamations, circulars, etc. passed by government entities in the FDRE Ethiopia and other institutions in December 2024. It is often necessary and wise to gather comprehensive information by referring to the sources provided above and other publicly available published resources, and consulting with subject-matter experts.

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Audit and Assurance

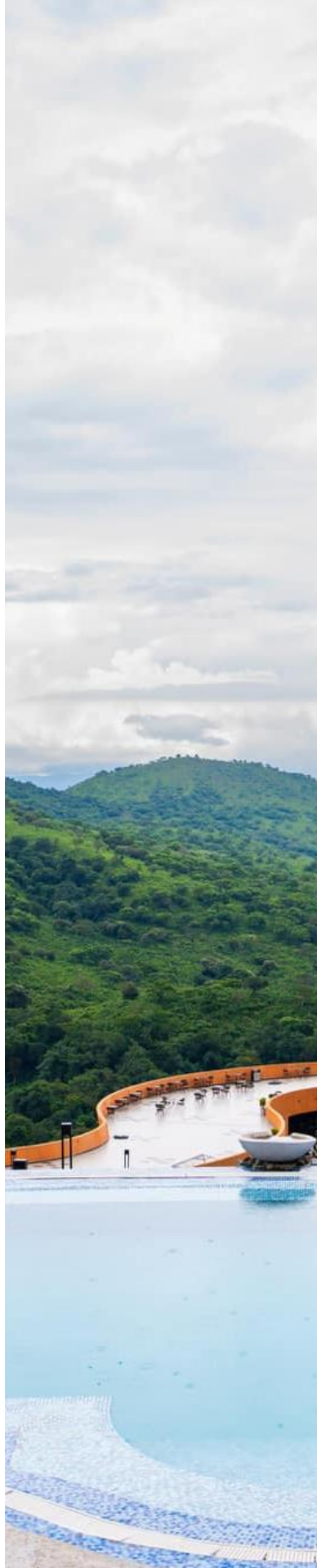
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- Internal audit
- Project audit
- Compliance audit
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- Investigation audits

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- Legal advisory service
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- Capital markets, finance, banking, leadership, and executive development.
- Training impact assessment



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How can Grant Thornton assist you?

Given the dynamic nature of the Ethiopian regulation and policy landscape; businesses, investors, international organizations, etc. must be pro-active across all relevant sectors.

We stand by our clients, helping them seize potential opportunities, mitigate risk, and succeed in their endeavours in Ethiopia.

For further debriefing on these new regulations or any other concerns you may have in the business, finance, investment, and tax space, please do contact us.

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