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NATIONAL BANK OF ETHIOPIA

EMERGENCY LIQUIDITY ASSISTANCE DIRECTIVE NO.NBE /ELA/001/2024

WHEREAS, the National Bank has the powers and duties to regulate and determine the supply and availability of money and credit as well as the applicable interest rates for the purpose of maintaining price and financial stability that is also conducive to the balanced growth of the Ethiopian economy;

WHEREAS, the National Bank has the powers and duties to make short term and long-term financing facilities available to banks; and issue its own debt and payment instruments for this purpose;

WHEREAS, banks may face unforeseen liquidity shortages arising from external or internal shocks, which could potentially threaten the stability of solvent banking system;

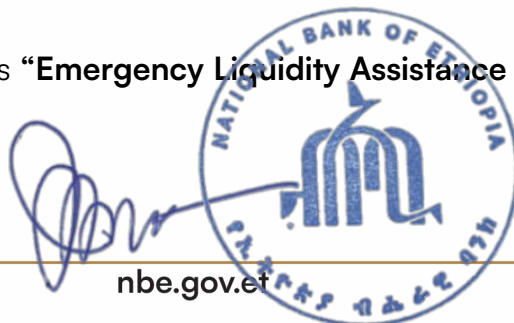
WHEREAS, the Emergency Liquidity Assistance (ELA) loan is intended to provide temporary liquidity to solvent banks facing such liquidity strains in a manner that protects the National Banks balance sheet, under strict conditions of solvency, collateralization, and supervisory oversight to ensure transparency and accountability;

“WHEREAS, it has become necessary to establish Emergency Liquidity Assistance loan as a crisis management framework, enabling National Bank to mitigate the risk of temporary illiquidity in one or more banks that could otherwise lead to broader banking business instability;

NOW, THEREFORE, in accordance with Article 5 (4) and Article 5(11), Article 15(1(d)) and Article 27(2) of the National Bank of Ethiopia Establishment (as amended) Proclamation No. 591/2008, the National Bank has issued this Directive as follows”.

1. Short title

The Directive may be cited as **“Emergency Liquidity Assistance Directive No NBE/ELA/001/2024”**.



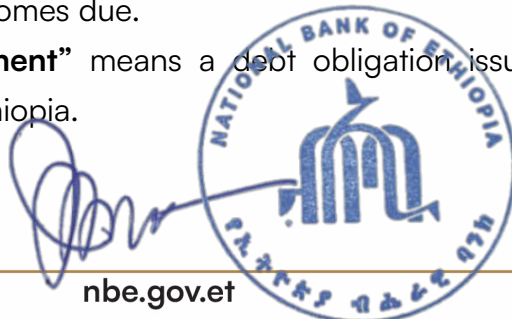


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2. Definitions

For the purpose of this Directive, unless the context provides otherwise:

- 2.1. **“Bank”** means a bank licensed by National Bank of Ethiopia to undertake banking business or a bank owned by the Government.
- 2.2. **“Bilateral agreement”** means an Emergency Liquidity Assistance loan agreement between a bank and National Bank.
- 2.3. **“Capital adequacy ratio (CAR)”** means a measure of how much capital a bank has available, reported as a percentage of a bank's total risk-weighted assets.
- 2.4. **“Eligible collateral”** is a public debt instrument or the National Bank of Ethiopia debt instrument, corporate bond, federal government guaranteed bond and other collaterals as determined by the National Bank to be eligible.
- 2.5. **“Emergency liquidity assistance (ELA)”** means a temporary advance provided by National Bank to solvent and viable bank that experiences a temporary liquidity problem.
- 2.6. **“Eligible Banks”** means a bank that is eligible to access Emergency Liquidity Assistance as per the requirements of this directive.
- 2.7. **“Public debt instrument”** means a debt obligation issued by the government of Federal Democratic Republic of Ethiopia.
- 2.8. **“Government Guaranteed Bond”** means a debt obligation issued by corporations or public sector entity but the government guarantees the bond.
- 2.9. **“Haircut”** means in the context of Emergency Liquidity Assistance (ELA) is the percentage by which a National Bank reduces the value of collateral to safeguard against potential losses when providing emergency liquidity to banks.
- 2.10. **“Margin call”** in an Emergency Liquidity Assistance means request for additional collateral from a bank receiving liquidity support, triggered when the value of the original collateral falls below the agreed amount.
- 2.11. **“Maturity date”** means the date on which the Emergency Liquidity Assistance loan becomes due.
- 2.12. **“NBE debt instrument”** means a debt obligation issued by the National Bank of Ethiopia.





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- 2.13. “**Liquidity Contingency Plan (LCP)**” means a comprehensive strategy plan that outlines how a bank addresses the temporary liquidity challenges.
- 2.14. “**National Bank**” means National Bank of Ethiopia.
- 2.15. “**Standing Lending Facility rate**” means the interest rate applicable on overnight standing lending facility from National Bank.
- 2.16. “**Related Party**” to an eligible participant means;
- A shareholder, a director, a chief executive officer, or a senior officer of the eligible participant and/or the spouse or relation in first degree of consanguinity or affinity of the shareholder, director, chief executive officer, or senior officer of the eligible bank; or
 - Any legal entity in which the shareholder, director, chief executive officer, senior officer, or a partner of the eligible bank and or the spouse or relative in first degree of consanguinity or affinity of the shareholder, director, chief executive officer, senior officer, or a partner of the eligible bank has a business interest as shareholder, director, chief executive officer, senior officer and owner or partner.
- 2.17. “**Settlement date**” means the date on when the emergency liquidity assistance loan is to be settled.
- 2.18. “**Solvent and Viable Bank**” A Bank that meets the prescribed minimum capital adequacy ratio (CAR) on a forward-looking basis, is viable and is capable of meeting its long-term obligations.
- 2.19. “**Systemic importance**” refers to a bank whose failure could trigger significant disruptions in the banking system and broader economy due to its size, interconnectedness, or critical functions.

3. Scope of Application

- 3.1. This directive shall be applicable to all banks operating in Ethiopia.





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4. General Provision

4.1. The ELA loan shall be only in Ethiopian Birr.

5. Eligible Participants

- 5.1. A solvent bank with eligible collateral may access the ELA provided by the National Bank. The provision of ELA is at the discretion of NBE and will be decided on a case-
- 5.2. The National Bank reserves the right to amend this directive and adjust the eligibility criteria as necessary. Any changes will be communicated to eligible banks no less than five working days before they take effect.
- 5.3. To get the approval for ELA loan requesting bank should sign a bilateral ELA agreement with the National Bank.

6. Assets eligible as Collateral

- 6.1. Assets eligible as collateral shall meet the following conditions, cumulatively, as appropriate:
 - a. The value of eligible collateral provided as collateral shall fully cover the loan granted plus a haircut, and interest payable;
 - b. Eligible collateral is broad including government debt instruments, National Bank of Ethiopia's debt instruments, corporate bonds, government guaranteed bonds or any other collateral available for covering its risk exposure as determined by National Bank as eligible collateral;
 - c. be the property of the eligible participant;
 - d. shall not be pledged or unencumbered;
 - e. have a later maturity than the maturity of the ELA;
 - f. shall not be issued, owed or guaranteed by the eligible participant or by a Related Party to the eligible participant.
 - g. Notwithstanding sub-article 6 (f) of this article, public debt instrument and National Bank debt instrument are eligible collaterals.





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7. Valuation and Management of collateral

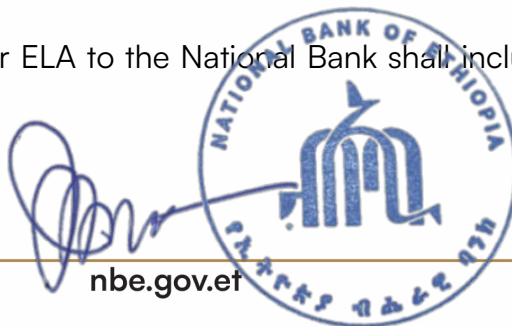
- 7.1. To safeguard against a broad range of risks, the National Bank shall apply a haircut on collateral.
- 7.2. In the absence of a market value, the valuation of an eligible marketable collateral will be determined by the present value of the future cash flows of the collateral, whereby the discount factor(s) will be determined by the National Bank. Other collateral will be valued using appropriate valuation models.

8. Minimum requirement criteria for ELA application

- 8.1. An eligible participant to qualify for ELA must satisfy the following criteria's;
- be solvent, viable on a forward-looking basis and have credible prospects of capital to be maintained, or restored above, the prudential minima within a reasonable period.
 - be experiencing temporary liquidity challenges;
 - demonstrate that it has exhausted all possible options for addressing its temporary liquidity challenges, from the interbank market or the National Bank
 - provide clear evidence that it has implemented its Liquidity Contingency Plan but has subsequently failed to remedy the situation;
 - have eligible collateral to adequately secure the exposure;
 - Provide evidence that significant shareholders, directors, and key management of the institution are fit and proper in accordance with relevant directive of the National Bank.
 - In addition, the NBE may apply other conditions as it deems necessary.

9. ELA Application Process and Requirements

9.1 An eligible bank request for ELA to the National Bank shall include at least the following:





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- a) Submit a written request to the National Bank for ELA, signed by the Banks's Board Chair;
- b) The request shall be accompanied by signed board minutes where the need for ELA was discussed and approved;
- c) Include the list of all maturing debt obligations and customer deposits;
- d) Demonstrate that it is currently solvent but experiencing temporary liquidity pressures;
- e) Indicate the causes of the liquidity challenges, how long the situation has persisted, and how it intends to resolve the liquidity challenges going forward;
- f) Include the applicant's Board-approved Liquidity Contingency Plan and how it was activated to address the liquidity stress;
- g) Include a weekly liquidity gap analysis spanning the period for which the ELA is being requested. The analysis must indicate a credible and viable exit strategy (liquidity restoration plan) under different plausible assumptions;
- h) Include a detailed daily ELA utilization plan covering the duration of the liquidity assistance; and
- i) Evidence of the applicant's attempts to raise liquidity from its parent or shareholder(s) and the inability of same to provide the liquidity
- j) Ensure able to implement corrective measures required by the National Bank;
- k) Other requirements will be requested by NBE as it deems necessary;
- l) The borrower should willing to agree the NBE's conditionality requirements (the detailed could be covered in an internal procedures)





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10. ELA Approval Process

10.1. The ELA directive shall be governed by the following core principles that support the ELA’s objectives and minimize risks to the National Bank’s balance sheet.

- a) A bank shall not be eligible for ELA if it is deemed either non-viable or likely to become non-viable, with no reasonable prospect of future viability.
- b) To mitigate credit and liquidity risks to the National Bank, ELA shall be provided against eligible collateral, as specified in Article 6 of this directive.
- c) The National Bank shall ensure transparency and accountability in the provision of ELA to maintain public confidence in its operations in line with NBE’s ELA disclosure policy.
- d) The National Bank shall ensure that the provision of Emergency Liquidity Assistance (ELA) does not compromise the National Bank’s objective of maintaining price stability.
- e) If the National Bank rejects the ELA request, it shall inform the applicant via a formal letter.

11. Application of Haircuts:

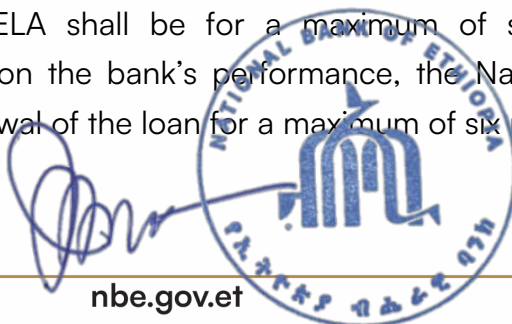
11.1. The National Bank shall determine the amount of the haircut to be applied on the eligible collateral for ELA.

12. Margin calls

12.1. In the case of a decrease in the value of the collateral, the National Bank shall call (margin call) for an additional collateral to meet the shortfall in the form of eligible collateral.

13. Tenure, amount and interest rate of ELA

13.1. The tenure for ELA shall be for a maximum of six months. However, based on the bank’s performance, the National Bank may, allow a renewal of the loan for a maximum of six months.





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- 13.2.** The maximum amount that may be approved by the NBE shall be based on the identified liquidity gap, the applicant's ability to repay, the adequacy of eligible collateral made available, the receipt banks' ability to implement remedial measures required by the National Bank and by considering impact of the ELA on financial stability and monetary policy objectives.
- 13.3.** The National Bank ELA loan rate shall be overnight standing lending facility rate plus two percentage points.

14. Rollover of ELA

- 14.1.** Under exceptional circumstances, the National Bank may allow rollover for a maximum of six months under the following pre-conditions:
- a) NBE receipt a signed application for rollover from the Board Chair which includes justification for the rollover;
 - b) attached signed Board minutes authorizing the rollover;
 - c) application reaching the National Bank at least ten working days before maturity of the loan;
 - d) banks remain solvent and viable on a forward-looking basis and have credible prospects of capital to be maintained, or restored above, the prudential minima within a reasonable period and
 - e) provision of adequate eligible collateral to cover the exposure.
 - f) Bank shall show improvement from its status of first ELA request in terms of solving its liquidity shortage.
 - g) The borrower should willing to agree the NBE's conditionality requirements (the detailed could be covered in an internal procedures)





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15. ELA Monitoring

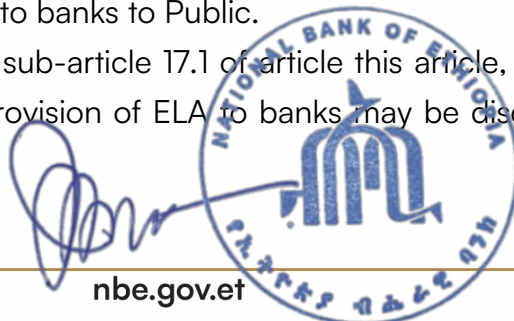
- 15.1. The borrowing bank will be subject to enhanced supervisory oversight and monitoring for the duration of the time which the ELA provision has remained outstanding.
- 15.2. The enhanced oversight in sub article 15.1 of this article shall include more frequent reporting and monitoring to ensure compliance with the Liquidity Restoration Plan.
- 15.3. Additional supervisory requirements, on the discretion of the National Bank, may also be applied until the ELA is fully repaid.

16. Settlement of ELA

- 16.1. Where ELA is approved, the loan shall be disbursed after following requirements are satisfied:
 - a) Borrower has provided the underlying collateral related to the ELA;
 - b) Duly signed agreement shall be received by responsible directorate of the lender.
- 16.2. Emergency Liquidity Assistance loan shall settle on the first business day following the maturity date
- 16.3. In the event the maturity date is on a non-business day, the disbursement shall occur on the following business day.
- 16.4. On the maturity date the borrower shall pay the principal amount borrowed plus the interest accrued.
- 16.5. In case a bank wants to settle its ELA borrowing, it can settle before maturity period partially or in a lump sum amount.

17. ELA Disclosure Policy

- 17.1. The National Bank shall not disclose information regarding the provision of ELA to banks to Public.
- 17.2. Notwithstanding sub-article 17.1 of article this article, information relating to the provision of ELA to banks may be disclosed on a





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delayed basis if there are legal or strong public interest grounds for such disclosure.

- 17.3.** When assessing the timing and extent of disclosure, the National Bank will take into account the implications of such disclosure on financial stability and benefits of doing so in line with NBE's ELA disclosure policy.

18. Prohibited Actions and Obligations of Participants in ELA

- 18.1.** The borrowing bank is not allowed to engage in prohibited activities that could compromise the integrity or efficiency of the ELA objectives and principles.
- 18.2.** The prohibited activities will be stipulated under a bilateral agreement.

19. Penalty

- 19.1.** In the event of a bank defaulting on its obligations, it shall be subject to an administrative penalty as follows:
- The defaulting bank shall incur a charge equivalent to the National Bank's ELA lending rate plus a five percent penalty rate, applicable for a maximum period of thirty days.
 - Should the bank fail to meet its loan repayment obligations within thirty days from the maturity date, the National Bank reserves the right to immediately foreclose the underlying collateral belonging to the defaulting borrower.

20. Effective Date

This Directive shall enter into force as of 15th day of October 2024


Mamo Esmelealem Mihretu
Governor

