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NATIONAL BANK OF ETHIOPIA

## Keynote Speech by H.E. Mamo Mihretu, Governor of the National Bank of Ethiopia

### *Delivering vibrant capital markets*

It gives me a great pleasure to be here today to take part in one of—hopefully- the many upcoming capital market summits.

It is evident that Ethiopia is a latecomer when it comes to capital markets.

Yet, we have recently made substantial progress to catch up very quickly. This has only been possible thanks to a dedicated commitment to establish a capital market ecosystem over the past few years as a core part of our broader Home-Grown Economic Reform agenda.

**Access to finance is one of the most binding constraints to the growth of our private sector and more broadly, to the growth of our national economy.**

Our financial system has in the past focused heavily on bank-based forms of financing and also prioritized funding to the public rather than the private sector. These entrenched financing patterns have started to change gradually in the past few years—but it is really only now, with the soon to be established Ethiopian Stock Exchange, that these long-standing patterns will fundamentally change and evolve.

### **The Journey towards Capital Markets**

**The journey to establish a capital markets ecosystem in Ethiopia has been several years in the making and I am proud to say that NBE—with many close partners—has played a pivotal role in this regard.**



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To mention just a few of the many milestones we have passed on this journey:

- About four years ago, the National Bank of Ethiopia spearheaded various foundational initiatives that involved preparation of a Capital Market Proclamation as well as the establishment, for the first time, of a full-fledged industry regulator in the form of the Ethiopian Capital Market Authority.
- Two years ago, through the initial coordination and investment of Ethiopian Investment Holdings (EIH), work was started on putting together the Ethiopian Stock Exchange, initially with a project team but eventually through the formation of a newly formed entity named the Ethiopian Securities Exchange (ESX).
- About a year ago, NBE launched a program to set up a dedicated Central Securities Depository, which is a core infrastructure element needed for the recording and trading of securities such as equities and bonds. After much hard work, this work is now coming to a conclusion and will be ready for operations in the next month.
- And now, as we meet here today, we are on the cusp of launching in just a matter of weeks a full-fledged stock market in the form of the Ethiopian Securities Exchange! We are thus gathered here today on the eve of what will be the very first modern organized securities exchange in our country's history. This marks a truly momentous occasion and a genuine turning point in Ethiopia's financial history.



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Ladies and gentlemen  
Invited guests

**Capital markets provide multiple benefits to multiple segments of our economy and society and it is worth reflecting on just how significantly they can make a difference for individuals, for firms, and for governments. To highlight just a few of the most important benefits:**

- For companies, capital markets in the Ethiopian context will be a key source of **LONG-TERM** financing both in debt and equity form, both of which have been a scarce form of funding in the current market.
- For individuals, capital markets in the Ethiopian context will offer a much wider and more attractive menu of **SAVINGS OPTIONS** with different risk, liquidity, and maturity preferences for placing their funds
- For Government and policy makers, capital markets offer a reliable source of domestic financing that can help address long-term public investment needs and short-term deficit financing needs.

**For all these reasons, building a vibrant capital market ecosystem is not a luxury for Ethiopia—it is an essential need and one that has in many ways long over-due.**



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**Ladies and gentlemen**

**Invited guests**

**The start of capital markets at this particular point in time is also turning out to be well-timed and very much aligned with Ethiopia's wide-ranging macro-economic reforms**

**As many of you will be aware, the Government of Ethiopia has embarked on a comprehensive reform program** that is seeking to restore macroeconomic stability while also modernizing our monetary and financial systems, strengthening our fiscal capabilities, improving our foreign exchange positions, and reducing our debt vulnerabilities. In addition, Ethiopia's has fundamentally revamped its foreign exchange regime in recent months, which addresses yet another major binding constraint that had been holding back many segments of the private sector and which we expect will pave the way for a much more dynamic and favourable business environment over the coming years

**This alignment of the timing of macro reforms and the start of capital markets brings many synergies. I see particularly strong synergies in three areas:**

- First, access to debt financing via bond issued on the Ethiopian Securities Exchange gives Government a whole new avenue for raising domestic financing, and this perfectly complements our efforts at the central bank to avoid providing monetary financing of the deficit.



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By avoiding central bank financing of the deficit, which is a major macro objective this year, we will be able to make further progress in reducing inflation while at the same time the Government is able to secure its funding from the capital markets.

- Second, our banks themselves stand to be major beneficiaries of the parallel initiatives taking place both on the macro side and on the capital markets side.

As you may know, the central bank has recently moved to a price-based monetary framework, where we use central bank policy rate to affect monetary and liquidity conditions in the banking system. In this context, commercial banks will need to more actively manage their liquidity positions on a regular basis and they may occasionally run into liquidity challenges in this regard.

With the launch of a money market THROUGH an online platform administered by ESX, banks from here on will be able to lend to and borrow from each other on a modern electronic platform.

**Indeed, this scheme has already been piloted in just the past week and we have seen over Birr 5bn in overnight and 7-day maturities transactions among banks in just less than three days... so we have in some ways already launched real live transactions on the Ethiopian Securities Exchange and I want to especially applaud and appreciated the ESX and NBE teams involved in this path-breaking exercise.**

- Third, our recent foreign exchange reforms explicitly allow for the entry of foreign investment into the securities market. While the implementing Directives for this are not yet out, this



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will allow FDI to provide a NET NEW source of funding to the financial system and to do so in foreign currency terms. This is of immense benefit to the beneficiary stocks or bonds but also to the wider macroeconomy. So again, there is much synergy that I see between the broader macro reforms and the specific capital market players ( firms, brokers, investment banks) that stand to also benefit from these complementary reforms.

**Ladies and gentlemen**

**Invited guests**

**Let me close by emphasizing that while we have laid a strong foundation so far, the ultimate objective of ensuring a deep, liquid, and truly active capital market still requires a lot of hard work by all stakeholders in the months and years ahead.**

Indeed, there is plenty more to do to ensure that our aspirations of developing a vibrant capital market are successful.

- **First, we will need a robust regulatory environment** that fosters transparency, trust, and investor confidence; and in this regard I am happy that we have a strong and well-established regulator in the form of ECMA. As this space is new to us, however, we need to be vigilant about establishing clear, consistent policies and enforcing them effectively—so as to promote fairness as well as market integrity without compromising the dynamic nature of the capital markets



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- **Second, we will also need high quality talent—and it is thus indispensable that we invest not just in human capital development but in the right type of human capital development.** By empowering professionals and stakeholders with the knowledge and skills they need, we can create a well-informed workforce that supports the growth and maturation of the market.
- **Third, and as important, we need to ensure WIDESPREAD MARKET ACCESS TO ALL, to make the capital markets meaningful to the day-to-day lives of ordinary Ethiopians, whether they be individual savers, SME owners, company shareholders or others.** We should aim to make our markets as accessible as possible both to those on the saving side and to those on the fund-raising side. In this respect, it is noteworthy that the first IPO issue underway right now—namely that of Ethio Telecom—has been designed to be as accessible as possible to the ordinary Ethiopian. I hope this spirit and special effort to be as inclusive as possible also helps guides future issuers and other capital market participants.

I am hopeful this summit will tackle many of the issues raised above so that we can all see the capital markets ecosystem in Ethiopia growing, expanding, and serving to its maximum potential.

I wish you a successful summit.

Thank you for your attention.