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NATIONAL BANK OF ETHIOPIA

PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING NO. 2

25 March 2025 | Addis Ababa, Ethiopia

The National Bank of Ethiopia's Monetary Policy Committee (MPC) held its second meeting on March 25, 2025. In line with its roles and responsibilities set out in the NBE Establishment Proclamation 1359/2025, Article 23, the MPC proposes monetary policies for adoption by the NBE Board and consistent with the central bank's primary objective of maintaining price stability while supporting growth. In this context, the MPC reviews Ethiopia's latest inflation dynamics, developments in the monetary, financial, fiscal, and external sectors, as well as global conditions that have a substantive impact on the domestic economy. Based on a thorough assessment of these developments as well as the near-term outlook, the Committee recommends the appropriate monetary policy stance to be adopted for the period ahead.

The Committee reviewed major developments in the following areas:

- **Inflation:** The Committee noted that the February 2025 inflation rate of 15 percent marks a welcome decline since the last MPC meeting of December 2024. The on-going moderation in inflation rates over the past few months was judged by the Committee to be driven by the tight stance of monetary policy, the improvement in agricultural production, and the gradual nature of adjustments in key administered prices. Looking at specific components, the MPC observed that food inflation has fallen to 14.6 percent, a substantial drop from the 31 percent rate prevailing a year ago. Non-food inflation, at 15.6 percent, is also well below year-ago levels though it has shown a slight uptick over the last few months due in part to exchange rate pass-through effects. At the same time, the most recent month-on-month inflation rate for February 2025 dropped to 0.5 percent, which marks the fourth consecutive reading of low monthly inflation and points to a significant easing of new price pressures in the economy.

- **Growth and Economic Activity:** The Committee noted that economic activity indicators continue to show strong growth momentum, as captured by NBE's latest Composite Index of Economic Activity (CIEA), which tracks high-frequency data in various segments of the economy. A favorable 'meher' rainy season in most parts of the country and multiple supply-side initiatives in agriculture suggest a record harvest is likely for the current crop harvest season. Other activity indicators indicate robust growth taking place in key parts of the industrial sector (aided in part by the easing of fx constraints), in export of goods (particularly coffee and gold), and in services such as air transport and tourism.

- **Monetary developments:** Monetary aggregates have been expanding at a faster pace since the last meeting of the MPC, reflecting the moderate easing of credit policies as well as fiscal and external developments. Growth in broad money and base money stood at 22.8 percent and 42.0 percent, respectively, as of January 2025, while growth in domestic credit remains relatively unchanged at 19.8 percent. The much faster growth rate of reserve money reflects NBE's recent gold-related foreign exchange accumulation and the corresponding injection of local currency liquidity into the banking system.

- **Interest rate developments:** The Committee noted that short-term market interest rates have for the first time turned positive in real terms. In the Treasury Bills market, the weighted average yield on 364-day T-bills rose to 17.7 percent in February 2025, from 15.9 percent at end-December 2024. In the inter-bank money market, where banks lend to and borrow from each other, the weighted average rate as of February 2025 stood at 16.7 percent, which was well within the NBE's interest rate corridor of 15 percent plus-or-minus three percent. Transaction volumes in the inter-bank money market continue to grow steadily and stood at Birr 338.8 billion as of end-February 2025.

- **Banking and Financial Sector:** The banking sector remained safe and sound, with low NPLs and adequate capital. However, some segments of the banking sector continue to face liquidity challenges, given their high loan-to-deposit ratios. The introduction of an inter-bank money market and a Standing Lending Facility at the NBE has been helping to alleviate the short-term liquidity challenges faced by some banks.

- **Fiscal position:** The fiscal policy stance continued to be prudent. Strict fiscal discipline has allowed for zero monetary financing of the deficit so far in the fiscal year and been highly supportive of the central bank's monetary policy stance.

- **External sector:** The Committee recognized the major improvements taking place in the external sector, as revealed by continued strong growth in export of goods and services, increased remittances, as well as higher capital account inflows linked to the exchange rate reforms of July 2024. These developments have resulted in a current account surplus for the first half of the fiscal year and substantially boosted FX reserve levels.

- **Global environment:** Per the IMF's January 2025 projections, global growth is expected to remain steady at 3.3 percent both in 2025 and 2026, while global inflation is forecast to decline gradually from 4.2 percent in 2025 and to 3.5 percent in 2026. However, reflecting recent geo-political developments, uncertainties have subsequently arisen on the outlook for global tariffs and trade flows, which may adversely affect inflationary developments. Trends in global commodity prices remain broadly favorable for the Ethiopian economy, as oil prices have declined by 9.0 percent since the start of the fiscal year while prices for Ethiopia's largest exports (coffee and gold) remain at or close to record highs, contributing to a strong balance of payments improvement.

MPC Assessment and Decision

While the on-going progress in reducing inflation is encouraging, the Committee noted that the inflation rate remains above the intended target of reaching single-digit inflation over the medium term. Accordingly, the Committee agreed that a disinflationary monetary policy stance remains appropriate and should remain in place until there is still further progress in reducing inflation. The Committee also noted that the management of recent foreign exchange inflows required close attention and a cautious approach to ensure that the associated monetary injections do not create an unintended loosening of the monetary policy stance. In light of these considerations, the Committee judged that the current prudent stance of monetary policy should be maintained.

Consistent with this view, the MPC recommended and the NBE Board approved the following monetary policy actions:

- First, the MPC agreed to leave the current 15 percent National Bank Rate (NBR) unchanged, given the need to reduce the still elevated inflation rate and the importance of anchoring exchange rate expectations.
- Second, as the move to an interest rate-based monetary policy regime remains in a transitional phase, the MPC recommended keeping unchanged the prevailing 18 percent cap on annual credit growth.
- Third, the Committee decided to keep existing rates applicable for NBE's Standing Deposit Facility, Standing Lending Facility and reserve requirements on bank deposits.

The Committee noted that its future monetary policy decisions will be heavily dependent on inflation outturns and broader economic developments over the coming months. The Committee decided that its next meeting shall take place at the end of June 2025.

Monetary Policy Committee
National Bank of Ethiopia
March 25, 2025