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NATIONAL BANK OF ETHIOPIA

7th Annual East Africa Finance Summit
May 9, 2024, 8:30AM, Ethiopian Skylight Hotel
Opening speech by NBE Governor

Ladies and gentlemen, distinguished guests, and esteemed colleagues from across the financial sector throughout East Africa.

I am deeply honoured to be with you today at a summit dedicated specifically to so many of the aspirations, challenges, and opportunities that we all share in the financial arena, both here in Ethiopia and across the region.

I would like to highlight in my talk a number of major themes that are currently shaping Ethiopia's financial landscape and by extension, influencing our activities and collaborations within the greater East African community:

- First, I want to talk about the global and regional dynamics affecting Ethiopia's financial sector.
- Second, the policy and regulatory responses by NBE, especially in the context of our new Strategy Plan.
- Third, our proactive agenda to prepare for the constantly evolving and increasingly digital world of finance.

I want to start with major global trends impacting our financial sector.

In our interconnected world, the ripples of global financial, economic, and geo-political movements are increasingly felt far and wide.

- **Consider, for instance, the U.S. Federal Reserve's aggressive interest rate hikes over the past two years**, which have influenced global borrowing costs including for emerging markets, not least our own.
 - The Fed's rate hikes have reduced foreign investor appetite for African country sovereign bonds leading to a total collapse of such private capital funding until just a few months ago. And even when such markets re-opened, it has come at a much higher cost.
 - Consider also the sharp drop in official lending by traditional donors as well as by China—something the IMF has called the great funding squeeze. Such bilateral flows have dropped sharply for most African countries, requiring a greater reliance on borrowing from the domestic financial sector—including from central

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banks—and thus putting great pressure on domestic debt markets and leading to the use of highly inflationary forms of financing.

- **In the broader economic sphere, the COVID-19 pandemic has brought many far-reaching consequences that many of us are still dealing with today.** Most notably, we have seen a sharp rise in government debt across the developed and developing world, a disruption in global supply chains, as well as a more aggressive use of trade and industrial policies to address domestic interests. In many cases, domestic financial systems have had to deal with the consequences of such global shocks. However, the post-pandemic years have also brought opportunities, by accelerating positive trends—such as the shift towards digital finance—that might have otherwise taken much longer to take root.
- **In the geopolitical arena,** shifting alliances and the emergence of new groupings such as the BRICS (and I will return to the BRICS in a second) are creating risks and opportunities, especially for the financial sector.

All of these global shifts necessitate a robust and responsive financial framework within our regional economies to cope with and manage these shocks effectively.

In the Ethiopian context, and by the very nature of its roles and responsibilities, the NBE is very closely involved in navigating such shocks and their associated complexities.

In this regard, allow me to share with you today some of the ways that we are going about this work, and to also give you a sense of **how**, rather than just reacting to external and internal shocks, we are instead actively setting an ambitious and hopeful agenda focused on financial stability, inclusion, and modernization.

NBE's policy and regulatory responses—A New Strategy Plan

Beginning in late 2023, NBE has set for itself a new Strategy Plan that aims to build upon the positive trends and successes of recent years, but while also tackling head-on some of the major gaps and well-known shortcomings seen in our financial sector.

What are the positive trends of recent years?

- The financial sector has witnessed tremendous growth in terms of access to finance, mix of products provided, and adoption of digital technologies and modern risk management systems. Services such as mobile banking, mobile wallets, internet banking, ATMs, POS,



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as well as new digital savings and credit schemes are all increasingly becoming the norm rather than the exception.

- In terms of numerical metrics, the financial sector’s strong and steady growth in recent years has delivered—as of early 2024—a total of 121 financial institutions, with assets of 3.4 trillion, deposits of 2.4 trillion, and loans of 2.3 trillion.
- With respect to the soundness of our financial system, the key ratios for non-performing loans, capital adequacy, and liquidity are all within NBE’s thresholds, although some individual financial institutions temporarily fail to comply with some of these ratios. Recently, we are paying particularly close attention to issues of financial stability, concentration, and access—as seen in the publication of our first-ever Financial Stability Report—and working to ensure any gaps and weaknesses in these areas are addressed in a pro-active manner. Considering all of the above, we can say our banking system is safe and sound.

While our starting point is thus broadly positive and promising, our new Strategy Plan recognizes the need to further accelerate and deepen many of these trends, while also **re-orienting NBE’s policy priorities towards the key central bank responsibilities of maintaining price stability and financial stability.**

Without ensuring stability in these two key areas, we know that we cannot lay a proper foundation for sustained economic growth and development. Moreover, alongside our key stability goals, we are also embarking on fundamental internal and operational improvements to provide us with the analytical capabilities, supervisory capacities, and institutional resources to deliver on our key goals.

What can we expect from all of the above strategic initiatives?

In short, we hope to see very soon a more open, diversified, and competitive financial system that fosters innovation, inclusion, and operates in line with international best practice. Such a fundamentally transformed financial sector will bring with it many new elements, and I would like to draw attention to three in particular :

- First, **the opening of Ethiopia’s financial sector to foreign investors will be a potentially transformative agenda that can help accelerate innovation and competition within the financial sector.** This policy shift will allow reputable foreign investors to operate within Ethiopia, bringing in fresh new capital, innovative products, and global best practices. We expect consumers to benefit from this reform, but also the



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- system as a whole since everyone involved will need to step up their game in what will be a more competitive and dynamic playing field.
- Second, beyond the openness to foreign investors, **Ethiopia’s financial sector is also being fundamentally transformed by the imminent launch of capital markets.** As many of you will be familiar, the Ethiopian Securities Exchange is expected to become operational later this year, and a totally new ecosystem of financial firms—investment banks, advisory companies, brokerage firms, and mutual funds—are expected to emerge very shortly and indeed are doing so already. The launch of ESX will provide an alternative means of mobilizing and allocating the public’s savings while providing a safer and more efficient platform for trading the shares and debts of Ethiopian companies. Moreover, with a planned focus on SMEs, growth-stage companies, and crowd-funding platforms, we expect the ESX to benefit from of its late-comer advantage and offer a more inclusive and encompassing exchange than has been the norm so far in many African countries.
 - Third, **Ethiopia’s financial sector reforms are taking place alongside its entry into the BRICS-plus grouping and this promises to unlock potentially significant new economic partnerships and funding avenues.** Access to larger capital pools, diversified investment opportunities, and collaborative developmental projects are just a few advantages we foresee. Needless to say, to maximize these benefits, our financial institutions must enhance their operational standards, adopt international best practices, and prepare for both the opportunities and challenges that such global exposure entails.

Future Vision

Looking ahead, and to bring myself to a close, NBE will be championing financial innovation and financial inclusion to position Ethiopia as a leader in this space and in this region and we will be doing so to improve financial access for all categories of businesses and for all segments of society.

This is where events such as this summit come in: they serve as a critical platform for fostering dialogue, sharing innovative ideas, and building partnerships. It is through gatherings like this that we can forge a united path forward, leveraging collective expertise and insights for the realization of our common goals.

Thank you for your attention, and I look forward to a series of productive discussions and outcomes

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