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NATIONAL BANK OF ETHIOPIA

**INTERBANK MONEY MARKET (As Amended)  
DIRECTIVE NO.MFAD/IBM/03/2024**

**Whereas**, the National Bank of Ethiopia has the powers and duties to regulate and determine the supply and availability of money and credit as well as establish modernize, conduct and monitor, regulate and supervise payment, clearing and settlements systems;

**Whereas**, there is a need that banks utilize and manage effectively their funding and liquidity demand using the existing liquidity in the banking system;

**Whereas**, it becomes important to have an interbank money market through which commercial banks manage their funding and liquidity through borrowing and lending from and to each other and also enhance efficiency of price based monetary policy framework;

**Whereas**, it found important that National Bank of Ethiopia wants to deepen interbank money market to enhancing the intermediation process in the market;

**Now, therefore**, in accordance with Article 5 (sub article 4 & 11), Article 15 sub article 1(a(2)), and Article 27(2) of the National Bank of Ethiopia Establishment Proclamation No. 591/2008 (as amended), the National Bank of Ethiopia, (hereafter the NBE) has issued this Directive.”

**1. Short title**

This Directive may be cited as “Interbank Money Market Directive as amended No.MFAD/IBM/03/2024”.





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## 2. Definition

For the purpose of this directive, unless context provided otherwise,

- 2.1 **“Bank”** means a Commercial Bank licensed by the National Bank to undertake banking business or a commercial bank owned by the government.
- 2.2 **“Central Securities Depository”** (CSD) refers to a system for the central handling of immobilized or dematerialized securities and held in custody by registered in the name of the company or its nominee company and in respect of these securities without the physical delivery of certificates it facilitates registration, clearing and settlement of securities transactions or dealings.
- 2.3 **“Day Count Convention”** means a system for calculating interest accruals over time for investments in any financial instruments, which in this Directive is the number of actual days divided by 365.
- 2.4 **“Eligible Assets”** means debt instruments issued by the Government, debt instruments issued by the National Bank, government guaranteed securities Development Bank Bonds, used as eligible collateral for trading.
- 2.5 **“Eligible Parties”** means the parties listed under article 5 of this directive.
- 2.6 **“Government Securities”** means a debt obligation issued by the Government of the Federal Democratic Republic of Ethiopia.
- 2.7 **“Haircut”** means a risk control measure applied to underlying assets used in interbank- transactions when granting collateralized loans, implying that banks calculate the value of underlying assets as the value of the assets reduced by a certain percentage (haircut) to mitigate market and credit risk.
- 2.8 **“Interbank Money Market”** It is a market in which market participants extend loans to one another for a specified term. In this directive it is a maturity of overnight or seven day. It is the borrowing or lending of funds between market participants at interest rate that are freely determined by borrowers and lenders themselves.
- 2.9 **“Maturity Date”** means the date on which the interbank money market trade becomes due.

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- 2.10. **“Market Participants”** here after participant means all commercial banks that are licensed by National Bank of Ethiopia and a commercial bank owned by the government.
- 2.11. **“National Bank”** means National Bank of Ethiopia, which is the Central Bank of the Country.
- 2.12. **“Overnight transaction”** means a transaction in which the funds are repaid back at or before 10:00AM of the next business day.
- 2.13. **“RTGS”** means Real Time Gross Settlement system (RTGS) that processes real time settlement of payments, transfer of instruction or other obligations individually on a transaction-by-transaction basis, which includes customer to customer payment (MT103), Financial institution to financial institution (MT202), participant debit and credit (MT204 and MT 205);
- 2.14. A **“Secured Interbank Transaction”** is one in which a liquidity-deficient market participant receives loan from a liquidity-surplus market participant with collateral that is worth at least the equivalent of the short-term loan, subject to a haircut depending on the type of collateral the liquidity-deficient participant has.
- 2.15. **“Trade Date”** means the date on which the transaction is concluded.
- 2.16. **“Related Party”** to an eligible participant;
- a) 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 participant
  - b) A partnership, a common enterprise, a private limited company, a share company, a joint venture, a corporation or any other business in which the shareholder, director, chief executive officer or senior officer of the eligible participant and or the spouse or relation in in first degree of consanguinity or affinity of the shareholder director, chief executive officer, or senior officer of the eligible participant has a business interest a shareholder, director, chief executive officer, senior officer and owner or partner.

  
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2.17. An "Unsecured Interbank Transaction" is one in which a liquidity-deficient market participant receives a loan from a liquidity-surplus market participant without collateral.

### 3. Scope of Application

3.3. All commercial banks that have obtained an operating license from the National Bank and commercial bank owned by the government.

### 3. General Provisions

4.1. All interbank money market participants should abide with this interbank money directive.

4.2. All transactions conducted in the interbank money market shall be in Ethiopian Birr.

### 4. Eligible Participants

5.1. All commercial banks that maintain a reserve requirement with the National Bank are eligible to participate in the interbank money market.

5.2. Notwithstanding sub article 5.1 of article 5 in this directive all interbank money market participants are obliged to agree in writing to abide by the terms of the Code of Conduct governing the interbank money market.

5.3. A commercial bank wishing to participate in the interbank market, according to this directive shall submit a written letter to express their interbank money market membership request to the Monetary and Financial Analysis Directorate of the National Bank. The Monetary and Financial Analysis Directorate will send a written response to the request within five working days after receiving the membership request.

5.4. The National Bank may revise the eligibility criteria as it deems necessary from time to time. The National Bank will inform the eligible participants about such changes at least five working days before the changes come into force.

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## 5. Trading Hours

6.1. The interbank money market trading hours run from 8:30 A.M to 4:00 P.M daily from Monday to Friday except for Public Holidays or unless otherwise communicated by the National Bank.

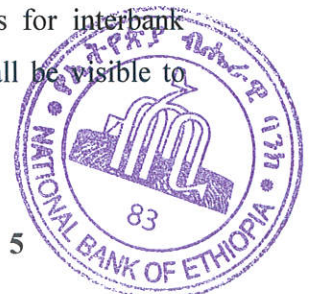
## 7. Quotes and Trading

- 7.1. A liquidity-surplus market participant shall publish its quote to the electronic trading platform (Dealing Platform) on the trading day of the amount available for interbank lending, interest rate as well as the tenors for lending in the interbank money market transaction. Likewise, a liquidity-deficient market participant shall use the same platform to find the cheapest financial source available in the market;
- 7.2. Only trading platforms approved by NBE shall be used by market participants to trade with each other.
- 7.3. Notwithstanding the provision of sub article (7.1) of this article, at the moment the NBE will introduce a manual book-entry system to facilitate the processing of interbank market trading and custody until of an electronic trading system is in place.
- 7.4. During the transition period, physical certificates may be used instead of dematerialized securities.
- 7.5. Market participants are required to send binding quotes for their borrowing and lending rates when requested by National Bank. The quotes shall include the tenor, interest rate and amount in Birr.
- 7.6. The minimum amount per deal in interbank money market is Birr 25 million and a multiple of a million can trading starting from the minimum amount.
- 7.7. Market participants shall quote overnight or seven days tenors.
- 7.8. A deal shall be confirmed and settled when the amount and the interest rate are agreed upon by both parties for a specified tenor.

## 8. Interest Rate Quotes for Lending- or Borrowing

8.1. Market Participants shall update their binding interest rate quotes for interbank lending and borrowing rates. These binding interest rate quotes shall be visible to

  
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both the National Bank and the market participants' on the trading platform stated in article 7(2) in this directive.

#### **9. Interest Rate Calculation**

- 9.1. The interest rate shall be calculated using a simple interest rate based on the Day-Count Convention.
- 9.2. Quotes shall be presented with simple interest rates.
- 9.3. In the event the maturity date is on a non-business day, the settlement shall occur on the following business day.

#### **10. Communication**

- 10.1. In preparing agreements on borrowing and lending, the parties agreed interest rates; total amount, settlement and maturity dates should be stated and reported to the National Bank.

#### **11. Loan Repayments**

- 11.1. The CSD system shall generate payment instruction slips with repayment details to RTGS account at National Bank Using SWIFT format messages.
- 11.2. The payment instructions with payment details including authorized signature should be sent to RTGS of the National Bank to effect transactions according to the instructions on a gross basis.
- 11.3. At maturity date the amount borrowed plus interest shall be credited to lender's fund account maintained at National Bank through RTGS.

#### **12. Collateral**

- 12.1. The value of eligible assets provided as collateral shall fully cover the loan granted plus a haircut, interest payable and other related payments.
- 12.2. Eligible collateral shall be Government securities, National Bank of Ethiopia's securities and Development Bank Bonds.
- 12.3. Assets eligible as collateral shall meet the following conditions, cumulatively, as appropriate:
  - a) Be the property of the eligible participant;
  - b) Shall not be pledged or unencumbered;

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- c) Have a later maturity than the maturity of the operation performed;
  - d) Shall not be issued, owed or guaranteed by the eligible participant or by a Related Party to the eligible participant.
- 12.4. Notwithstanding article 12 sub articles 3(d) of this article, government securities, National Bank securities and Development Bank of Ethiopia bond are eligible collateral.
- 12.5. Collateral shall be released on loan maturity date and upon funds being credited to lenders' account maintained at NBE.
- 12.6. Notwithstanding Sub- Article (12.1), (12.2) and (12.3) of this article, after the CSD system and electronic trading system are being developed, participants may conduct unsecured transactions with notification to NBE.

### **13. Risk management**

- 13.1. A Market Participant shall establish robust risk management practices to mitigate risks associated with interbank transactions, including but not limited to credit, liquidity, and operational risks.

### **14. Reporting Requirements**

- 14.1. During the transitional period of the development of the electronic trading system and the CSD, participants are required to submit a daily report to the National Bank of Ethiopia before 4:30 P.M, using the annex format (use Appendix 1).
- 14.2. Whenever the National Bank requests, participants shall provide or deliver all information related to the interbank market trading that the National Bank considers necessary to obtain so as to implement these Rules.

### **15. Termination of Participation**

- 15.1. A Market Participant that intends to cancel its interbank market membership in accordance with this directive shall provide written statement that explains the reason for market membership cancellation to the National Bank with a minimum of 10 days in advance.
- 15.2. The National Bank will approve the request of membership cancellation if the bank doesn't have any obligation towards other market participants.

  
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- 15.3. If the National Bank considers that a participant has not fulfilled its obligations pursuant to these rules, the National Bank may immediately revoke that participant's market membership.
- 15.4. In cancellation of a Market Participant from interbank money market membership, in either form of article 15.1 or 15.3, the decision shall be announced to all participants.
- 15.5. After cancellation of membership quotes and transactions in the interbank market shall no longer be considered valid interbank market transactions.

## 16. Events of Default on Payment

- 16.1. For the purposes of this Directive, default shall be considered to have occurred if one or more of the following happened:
- License revocation by the National Bank.
  - Liquidation, placement of the eligible participant under receivership by the National Bank, or adoption of other similar procedures intended to safeguard or restore the financial situation of the participant as well as to avoid the approval of the decision indicated in article 16 sub article 16.1(a);
  - Submission to the lender bank a written declaration by the participant regarding its inability to fulfill its obligations pertaining to interbank money market participations;
  - Suspension or loss of the status of participant to Ethiopia Automated Transfer Settlement or the Book Entry System;
  - Failure by the participant to honor payment obligations on settlement date;
  - Suspension from RTGS participation.
- 16.2. Participant is obliged to notify the National Bank of any occurrence of an event of default referred to in the sub-article 16.1, as soon as the participant becomes aware of the facts.







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## 17. Transaction Ethics

- 17.1. All Market Participants in the interbank market shall share a common interest in ensuring that the highest possible levels of professionalism and standards of business are applied.
- 17.2. A market participant must ensure that all transactions are conducted fairly and honestly, without favoritism or discrimination towards any participant.
- 17.3. All market participants of the interbank market shall not engage in the following unfair actions or seek to profit themselves or their customers:
- Perpetrating rumors that may reflect adversely on professionalism;
  - Abusing market practices;
  - Attempting to obtain and using non-public information from other interbank market members illegitimately that may affect market prices;
  - Exploiting illegitimately obtained information.

## 18. Prohibition

- 18.1. A Market Participant is not allowed to engage in prohibited activities that could compromise the integrity or efficiency of the interbank money market that are listed under the interbank money market code of conduct.

## 19. Penalties

- 19.1. A person who contravenes the provisions of this directive shall be punished in accordance with Article 26 (2/d/) of the National Bank of Ethiopia Establishment (as Amended) Proclamation No. 591/2008.
- 19.2. Notwithstanding to the criminal penalty that provides under sub-article 19.1 of this article, the member who defaults to satisfy their obligations is liable for administrative penalty that will be:
- Charged the agreed interest rate plus a five percent penalty rate for the first time;
  - Charged their maximum lending interest rate for the second time.
- 19.3. If market participants are unable to settle the agreed trade transactions at the settlement date the failing party will be penalized based on agreed interest rate plus a five percent penalty rate

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19.4. Without prejudice to sub-article 19.2 of this article a market participant that violates the directive may be suspended from the interbank market for a minimum period of six months.

## 20. Transitional Provisions

- 20.1. During the transition phase until CSD will go live interbank money market participants will use unsecured transactions but starting from CSD go live it is allowed to use unsecured transactions with notification to NBE.
- 20.2. During the transition period NBE will introduce a manual book-entry system to facilitate the processing of interbank market trading and custody.
- 20.3. Only trading platforms approved by NBE shall be used by market participants to trade with each other.

## 21. Repeal

NBE directive NO.IBM/02/98 is hereby repealed and replaced by this directive.

## 22. Effective Date

This Directive shall enter into force as of the 24 day of July, 2024.

  
Mamo Esmelealem Mihretu  
Governor





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**Appendix 1: Reporting Format for Interbank Money Market (unsecured transaction for the interim phase)**

Issue date	Participant ID (lender)	Counter party ID (borrower)	Participant account	Counter party account	Interest rate	Maturity Date	Total amount

Prepared By: \_\_\_\_\_ Checked By: \_\_\_\_\_ Approved by \_\_\_\_\_

