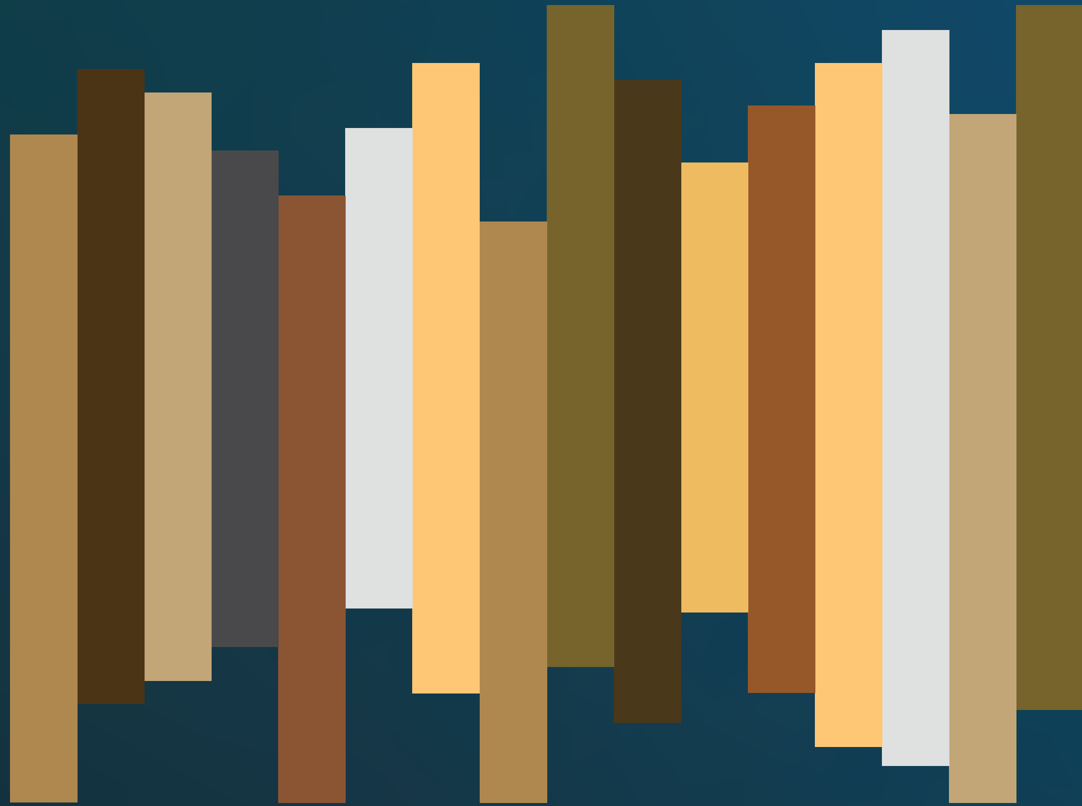

FINANCIAL STABILITY REPORT

NOVEMBER 2024

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NATIONAL BANK OF ETHIOPIA

Financial Stability Report
November, 2024

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Sudan Street, Addis Ababa, Ethiopia

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ABBREVIATIONS

ACH — Automated Clearing House
ATM — Automated Teller Machine
CAR — Capital Adequacy Ratio
CBE — Commercial Bank of Ethiopia
CRS — Credit Reporting System
DBE — Development Bank of Ethiopia
DER — Debt Equity Ratio
DFS — Digital Financial Services
EATS — Ethiopian Automated Transfer System
ETB — Ethiopian birr
GDP — Gross Domestic Product
HGER 2.0 — Second Homegrown Economic Reform
IFRS — International Financial Reporting Standards
IMF — International Monetary Fund
LAMC — Liability and Asset Management Corporation
MFI — Micro-Finance Institution
NBE — National Bank of Ethiopia
NFIS-II — National Financial Inclusion Strategy-II
NPLs — Non-Performing Loans
P2P — Person-to-Person
PAR — Portfolio at Risk
PoS — Point of Sale
RoA — Return on Assets
RoE — Return on Equity
RTGS — Real-Time Gross Settlement System
SACCOs — Savings and Credit Cooperatives
US$ — United States dollar

EXECUTIVE SUMMARY

National Bank of Ethiopia (NBE) issues this second Financial Stability Report in accordance with its responsibility to uphold a sound financial system in Ethiopia. The report aims to promote financial stability in the country by examining developments and risks in the financial sector as well as the broader economy during the course of the past year. It is the second annual Financial Stability Report to be published by NBE and covers the period to June 2024 [1], but it also addresses some major reforms and their effects in the period July to September 2024. In addition, it provides an outlook on issues potentially affecting the stability of Ethiopia's financial system in the remainder of 2024 and 2025.

The report examines external developments and risks to the economy and financial sector posed by the wars in Ukraine and the Middle East and other global shocks. It also highlights domestic factors, including the potential impacts of droughts and conflicts in parts of Ethiopia, and risks emanating from the financial industry's structure. In addition, the report assesses the limitations and contributions of the financial sector's infrastructure to its overall stability. The report provides a comprehensive analysis of the risks and resilience of Ethiopia's banking sector, which still accounts for 96 percent of the financial sector's total assets as of June 2024.

According to the latest forecast by the Ministry of Planning and Development, following growth of 8.1 percent in 2023-24, the Ethiopian economy is expected to grow by 8.4 percent in 2024-25. The continued implementation of various macroeconomic, structural, and supply-side reforms under the second Homegrown Economic Reform (HGER 2.0) is expected to support higher growth and ease inflation over the medium term. Likewise, a significant expansion in social and capital spending by government is envisaged over the coming year, without much deterioration in the fiscal deficit, thanks to considerably improved revenue collections and a resumption in the influx of donor grants and loans. On the inflation front, continued tight monetary policies as well as strong agricultural output are anticipated to lead to gradually declining inflation over the course of 2025, despite a moderate and temporary spike that is likely over the coming months due to exchange rate pass-through effects. On the balance of payments front, a significant improvement in the external position — including much improved foreign exchange reserves — is anticipated due to the recent exchange rate adjustment, a declining

[1] The report is based on official data for Ethiopia's fiscal year up to the end of June 2024, but it incorporates, where appropriate, more recent data up to October 2024.

trade deficit, increased remittances, and rising capital inflows from official and private sector sources. Taken together, while the macroeconomic environment has shown broadly improving trends over the past year and is expected to show ongoing improvement over the course of 2025, potential headwinds are possible from policy efforts to reduce still-high inflation, security risks, and commodity price volatility.

Ethiopia's banking sector remains stable and resilient. Risks in the reporting period were mostly moderate and stable, although the outlook overall points to increasing risk levels for financial institutions due to external and domestic developments; nevertheless, the systemic risk-level remains limited. *Credit risk* is lower than the high credit concentration suggests, because loans to the private sector are relatively diversified. In addition, the credit risk stress test shows that even a severe shock would not pose a systemic threat. The banking industry as a whole is also found to exhibit low *liquidity risk* and shows resilience to short-term liquidity shocks, despite some downside risks. Conversely, *operational risks* are significant in the banking industry and are expected to rise further in the short and medium term, with incidents of fraud, social engineering, insider threats and third-party risks on the rise.

With respect to *market and foreign exchange risks*, except for a few heavily affected financial institutions, the banking sector has also performed well during the adjustment of the birr exchange rate reform in July 2024.

Considering these various threats to financial stability, NBE directives have been issued in 2024 to reduce observed risks and to improve the resilience of banks to shocks in a number of areas. In particular, beyond the system-wide risks, directives put in place recently by NBE have sought to prevent and contain risks in key areas such as governance, asset classification, lending to individuals with significant influence, large exposures, and related party lending. NBE also continues to work with individual banks that are more exposed to these challenges, and struggle to cope with bank-specific risks.

In the microfinance sector, the capital adequacy ratio, and liquidity ratio are all well within NBE's parameters and have improved over the course of the review period. The capital goods finance sector's risk rating is moderate, with low capital risk and moderate ratings for asset quality and systemic risk.

The insurance sector also remains resilient overall, but earnings and concentration risks are rated as high and may call for regulatory actions. Tighter regulatory standards on credit and deposit concentration risks are necessary, as indicated by the high concentration of loans and deposits. NBE intends to mitigate market risks by implementing prudent measures and enhancing governance standards and practices. These measures will also address the discrepancy between the proportion of fixed rate assets and variable rate deposits.

The Ethiopian financial sector's infrastructure is developing, but it requires further improvements in structural, operational, and technical efficiencies. A more refined and explicit standard for risk measurement in keeping with the rapidly evolving landscape of digital financial technologies is one of the key policy developments anticipated to address the operational and technological threats that currently exist.

NATIONAL

1. INTRODUCTION

This 2024 Financial Stability Report is the second such document produced by NBE in line with its mandate to maintain a healthy financial system in the country. [2] The report discusses trends in and risks to Ethiopia's economy and financial sector, focusing on developments in the reporting year 2023-2024 — but it also addresses important issues that have occurred up to September 2024, and details how and to what extent the financial sector has been resilient, and whether it is expected to remain so. It also outlines recent policy and legal developments, as well as trends in the financial system's infrastructure that are expected to enhance the sector's stability in the remainder of 2024 and 2025.

The report is based on official data for Ethiopia's fiscal year to the end of June 2024[3] and incorporates, where appropriate, IMF data released in October 2024.

The stability of Ethiopia's financial system is affected by multiple factors, from global to domestic ones. These include real economy factors, the structure and operation of the financial sector and its sub-sectors, and the financial system infrastructure.

The following primary report chapters address each of these three groups:
Chapter 2 addresses projected developments and those recorded in recent years, both in the global and local Ethiopian economies, drawing conclusions on how these developments constitute risks or stabilizing factors for the country's financial system;
Chapter 3 analyzes Ethiopia's financial sector and its sub-sectors, identifying inherent risks to systemic stability; and
Chapter 4 analyzes the financial system's infrastructure and related policy developments, as well as financial inclusion and consumer protection, and their links with the stability of the country's financial system. Each major section ends with a summary risk assessment of the stability of Ethiopia's financial system.

[2] See Article 4 of Proclamation No. 591/2008.

[3] Ethiopia's fiscal year starts on the 8th of July and ends on the 7th of July, but this report bases its analyses on data up to the 30th of June of each year.

2.

ECONOMIC AND FINANCIAL CONDITIONS

2. ECONOMIC AND FINANCIAL CONDITIONS

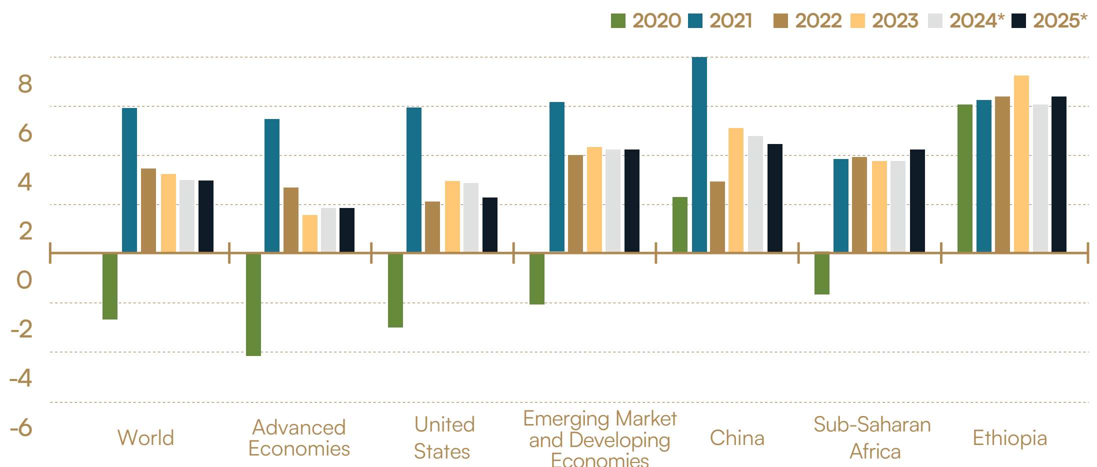
2.1. GLOBAL ECONOMIC CONDITIONS

2.1.1 Economic Growth

The IMF's most recent projections, released in October 2024, estimate global growth to decline slightly from 3.3 percent in 2023 to 3.2 percent in 2024 and remain at that latter rate in 2025. Economic activity has not yet returned to its pre-pandemic growth path. Advanced economies are anticipated to experience only slightly higher growth in 2024 and 2025, at 1.8 percent, compared to 1.7 percent in 2023. The United States shows stronger consumption and nonresidential investment while growth in the euro area improves due to better export performance, in particular of goods. Growth in emerging markets and developing economies is projected to decrease from 4.4 percent in 2023 to 4.2 percent in 2024 and remain at that level in 2025 owing to persistent weakness in the real estate sector and low consumer confidence in China (Figure 1).

In Sub-Saharan Africa, growth is expected to remain at 3.6 percent in 2024, the same as in 2023, and increase to 4.2 percent in 2025, as the adverse impacts of prior weather shocks abate, and supply constraints gradually ease. According to IMF projections, Ethiopia's growth of 6.1 percent in 2024 [4] and 6.5 percent in 2025 is lower than in 2023 (7.2 percent), but it nonetheless still positions the country among the 20 fastest-growing economies in the world (Figure 1).

Figure 1: Annual GDP Growth, World and Selected Economies, 2020-2025 (percent)



Source: IMF World Economic Outlook Database: October 2024 Edition; *Projections

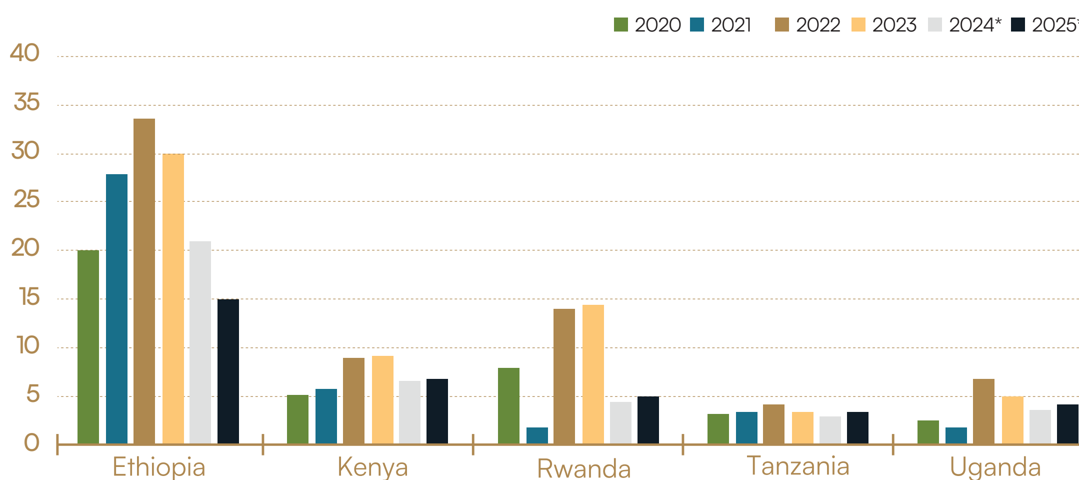
[4] Government projects a growth rate of 8.2 percent for 2024; see section 2.2.1 below.

2.1.2 Monetary Developments

According to the IMF, global annualized headline inflation is set to fall further, from an average of 6.7 percent in December 2023 to 5.8 percent in December 2024 and 4.3 percent in December 2025, with advanced economies leading this decline. Headline inflation in emerging markets and developing economies is projected to decline from 8.1 percent in December 2023 to 7.9 percent in December 2024, and then fall at a faster pace to 5.9 percent in December 2025. In contrast, inflation forecasts for Sub-Saharan Africa remain in double-digit territory because of high inflation in some large economies, driven by the pass-through of currency depreciation and administrative price adjustments.

Except for Rwanda, which recorded 14 percent inflation year-on-year in December 2023, annual inflation in most East African countries apart from Ethiopia remained in single digits in 2023, despite the shock to commodity prices following the wars in Ukraine and the Middle East, and other factors. Ethiopia's inflation, which peaked in 2022, is projected to decline further, from 30.2 percent in December 2023 to 21 percent and 15 percent by the end of 2024 and 2025, respectively (Figure 2).

Figure 2: Annual inflation rate in East African Countries, 2020-2025, December (percent)



Source: IMF; *Projections

Box 1:
Transition to a market-based monetary policy regime

On July 9th, 2024, NBE announced the launch of a new monetary policy framework. Most notably, the NBE's mandate has been clearly defined to prioritize price stability relative to other goals. The framework contains the following four measures:

- NBE is using its policy interest rate (known as the national bank rate or NBR) as the primary means of signaling its policy stance and influencing broader

monetary and credit conditions. NBE is setting its initial policy interest rate at 15 percent.

- NBE is conduct a monetary policy-related auction every two weeks.
- NBE has also introduced overnight lending and overnight deposit facilities for banks that might need to manage their liquidity positions over just a one-day time horizon.

Setting a benchmark policy rate, the start of open market auctions, and the introduction of overnight facilities for banks are important initiatives to help NBE fulfill the vital responsibilities — most notably to ensure price stability — set for it in its own strategic plan and NBE establishment proclamation.

Ethiopia's monetary policy reforms are helping to improve financial stability in several ways by curbing inflation, modernizing the financial sector, developing financial market infrastructures among others.

Interest rate developments in 2024 mostly showed declining trends, reflecting reduced inflation and continued attempts to stimulate economic growth. For example, the European Central Bank and the US Federal Reserve cut policy rates from 4.5 percent and 5.375 percent in December 2023 to 3.5 percent and 4.875 percent in September 2024, respectively, with most of the cuts coming after June 2024 (Table 1). Most emerging economies also cut rates. Among the fewer countries increasing policy rates are Russia and Türkiye, while India held its policy rate constant. Russia’s central bank raised its benchmark interest rate from 16 percent to 19 percent as the government’s military spending strains the economy. Türkiye’s rate increased from 42.5 percent in December 2023 to 50.0 percent in September 2024 as the Central Bank of Türkiye aims to tackle inflation. In Ethiopia, NBE has set its initial policy interest rate at 15 percent on July 9, 2024, due to the introduction of the new monetary policy framework on July 9th, 2024, to align its policy tools with global best practices.

Table 1: Policy (Benchmark) Interest Rates of Selected Countries, 2020-2024 (end of year) (percent)

		2020	*2021*	*2022*	*2023*	*2024 (Jun)*	*2024 (Sep)*
Developed economies	Euro area	0	0	2.5	4.5	4.25	3.5
	United States	0.125	0.125	4.375	5.375	5.375	4.875
Original BRICS	Brazil	2	9.25	13.75	11.75	10.5	10.75
	China	3.85	3.8	3.65	3.45	3.45	3.35
	India	4	4	6.25	6.5	6.5	6.5
	Russia	4.25	8.5	7.5	16	16	19
	South Africa	3.5	3.75	7	8.25	8.25	8
Other developing economies	Morocco	1.5	1.5	2.5	3	2.75	2.75
	Saudi Arabia	1	1	5	6	6	5.5
	Türkiye	17	14	9	42.5	50	50
	Ethiopia						15

Source: Bank for International Settlements (2024); for Ethiopia — NBE

2.1.3 Conclusion: Effects for Financial System Stability in Ethiopia

Overall, Ethiopia's financial institutions, and the financial system at large, face a variety of risks due to reduced global economic growth and multiple macroeconomic and geopolitical shocks. These have contributed to double-digit inflation at home and affected the Ethiopian economy's external position by driving up import costs and stifling domestic economic activity and exports, thereby raising risks for financial institutions in the country. Developments in the various foreign exchange markets and policy interest rates continue to constitute risks that financial institutions face in Ethiopia, although the risk level has been reduced as a result of the exchange rate reform undertaken in July 2024.

Positively, though, global growth has proven remarkably resilient in the face of recurring shocks, rising geopolitical tensions, and violent conflicts.

2.2 DOMESTIC ECONOMIC CONDITIONS [5]

Domestic factors impact on the health of the Ethiopian financial system much more directly and significantly than global conditions. According to NBE's analysis, certain factors raise risks while others support stability and resilience.

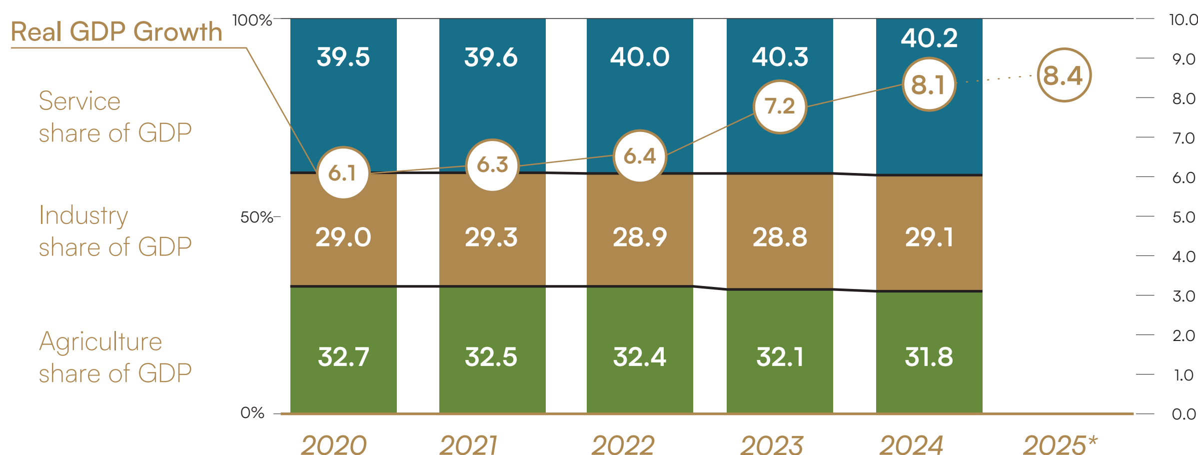
2.2.1. Economic Growth

Over the last five years, Ethiopia's economy has registered high growth, which is projected to continue in the coming years. Real GDP grew at above 6 percent each year, higher than the average growth for Sub-Saharan Africa (which is projected at 3.6 percent in 2024 by IMF). Real GDP has grown by 8.1 percent in the year to the end of June 2024 and is anticipated to grow by 8.4 percent in 2024-25, driven equally by services, agriculture, and industry from the supply side, and by personal spending and investment from the demand side (Figure 3).

The composition of GDP continued to change gradually. The share of services in GDP in 2024 decreased slightly for the first time in years to 40.2 percent, from 40.3 percent in 2023, but it still surpasses the level of 39.5 percent recorded in 2020, which contracted as a result of COVID-19. The share of industry increased slightly — for the first time since 2021 — from 28.8 percent in 2023 to 29.1 percent in 2024. The share of agriculture declined steadily from 32.7 percent in 2020 to 31.8 percent in 2024.

[5] Data for domestic economic conditions are all based on Ethiopian fiscal year which ended in June.

Figure 3: Ethiopia's GDP by Sector and Economic Growth, 2020-2025 (percent)



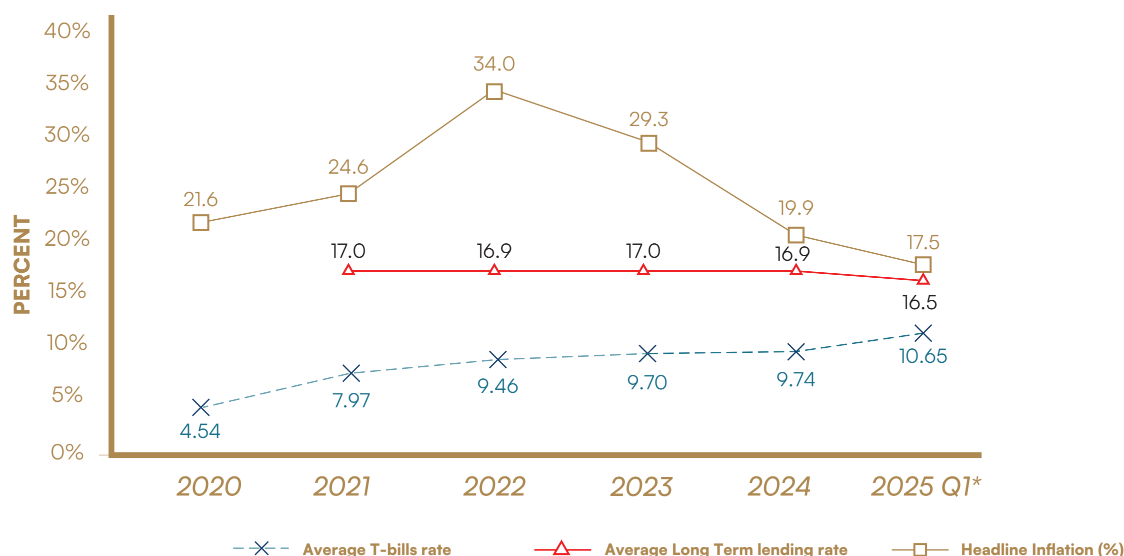
Source: Ministry of Planning and Development

2.2.2 Inflation, Interest Rate, and Yields

Over the last five years inflation has remained high. However, notwithstanding a number of unfavorable factors, such as inflation expectations, shortage of foreign currency, instability in parts of the country, and the rise in commodity prices, year-on-year inflation fell from 29.3 percent in June 2023 to 19.9 percent as of June 2024 (Figure 4). Inflation continued to fall even after the adoption of a market-determined exchange rate in July 2024, reaching 17.5 percent at the end of September 2024. In addition to the time lags involved to allow for the exchange rate effects to pass through to domestic prices, a large share of consumer prices followed the parallel market exchange rate and limited percent of imports in private consumption spending occurred at the official exchange rate. Following the exchange rate reform, and taking into account anticipated pass-through effects, the IMF projects annual inflation will be around 24 percent in June 2025 and then fall to 12 percent in June 2026.

The domestic interest rate has remained stable and the yield on treasury bills has slightly increased. Commercial banks' average long-term lending interest rates have been around 17 percent over the last four years (Figure 4). This has remained stable even after the monetary and exchange rate reforms. However, the yearly weighted average yield on government treasury bills was 9.74 percent in 2024, slightly up from 9.7 percent in 2023 and more than double the 4.54 percent recorded in 2020. The yield has increased to 10.65 percent in the first quarter of fiscal year 2024-25, which ended in September 2024. Both the long-term lending rate and yield have remained below inflation.

Figure 4: Inflation, Interest Rates and Yields, 2020-2025 (percent)



Source: NBE and *Projections by the IMF Current Account Balance and Exchange Rate

While the current account deficit has been declining — relative to GDP — over the past few years, there was a widening gap (of nearly 100 percent as of June 2024) that emerged between the official and parallel market exchange rates. To address this major distortion that was segmenting the foreign exchange market and substantially reducing foreign currency flows into the banking system, an extensive reform of Ethiopia's foreign exchange regime was initiated on July 29th, 2024. This reform aimed to fundamentally address Ethiopia's balance of payments vulnerabilities in a comprehensive and sustainable manner (see Box 2), and it has since allowed the official exchange rate to move steadily towards a market-determined exchange rate.

Box 2:
Ethiopia's 2024 Reform of the Foreign Exchange Regime

On July 29th, 2024, NBE issued the **Foreign Exchange Directive (FXD/01/2024)** with immediate effect. Besides the move to a market-based determination of the exchange, this new directive included many other far-reaching measures, including:

- Removal of foreign exchange surrender requirements to NBE.
- Removal of more than 30 import restrictions.
- Improved foreign exchange account retention rules for exporters.
- Opening the sector to independent foreign exchange bureaus.
- Allowing foreign exchange accounts for qualifying residents and simplification of foreign exchange account rules.
- Allowing Ethiopian companies and banks easier access to foreign loans.
- Enabling foreign participation in the upcoming Ethiopian Securities Exchange.

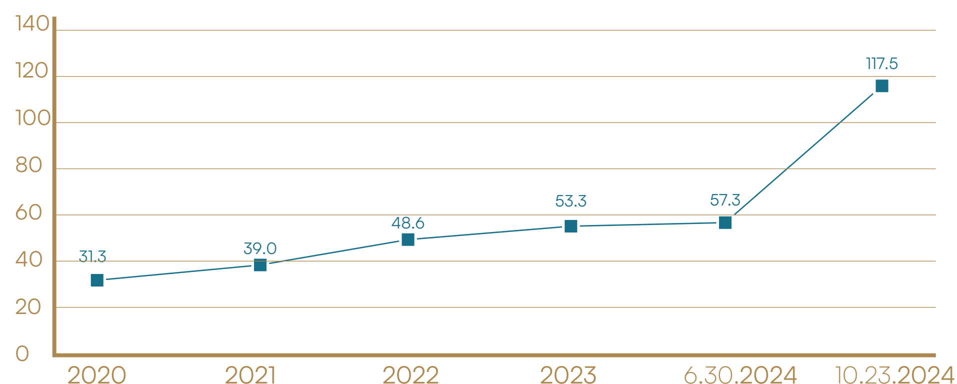
- Granting special foreign exchange privileges to companies operating in special economic zones.

By adopting a comprehensive approach, the foreign exchange reform is expected to address acute foreign exchange shortages, enhance export competitiveness, attract foreign direct investment, and complement multiple other macroeconomic reforms being put in place to enhance conditions for private sector enterprises to grow and thrive in the Ethiopian economy.

Although a full-scale assessment of the foreign exchange regime's reform would still be premature, the early results are positive and encouraging. The bank and parallel market exchange rates have largely converged (with the gap at or below 5 percent), allowing for a significant shift of trading and foreign exchange activity towards the formal banking sector. Exports for the first quarter are up 81 percent year-on-year while private remittances are up by 26 percent over the same period. Foreign exchange transaction volumes have risen steadily in the three months since the foreign exchange reform was introduced, with banks now making— on average —around US$500 million in monthly foreign exchange purchases and US$713 million in monthly foreign exchange sales from/to their customers. Foreign exchange reserve levels at the central bank have risen by more than 240% at the end of October 2024 as compared to June 2024 levels, while foreign exchange reserves at commercial banks are also up substantially and stood at US$2.4 billion as of the end of October 2024. Higher foreign exchange reserves have allowed banks to significantly reduce their net foreign exchange obligations (net short positions) and make increasingly greater allocations to business and consumers over the past few months. Reflecting these developments, and particularly a shrinking trade deficit, the balance of payments is showing systemic improvement, with the current account balance in the first quarter of the fiscal year (July-September 2024) turning into a surplus of US$573 million compared to a deficit of US$1.258 billion in the same period last year.

Figure 5: Exchange Rate, 2020-2025 (percent of GDP, ETB/US$)

Official Exchange Rate (ETB / US$)

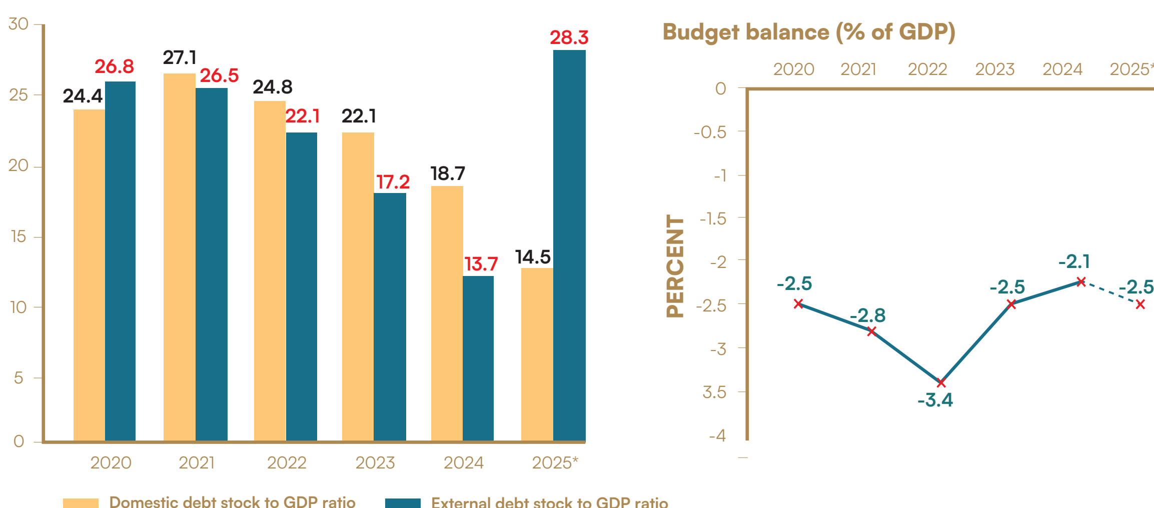


Source: NBE and *Projections by the IMF World Economic Outlook: October 2024 Edition

2.2.3 Fiscal Operations and Public Debt

Both public debt and the budget deficit decreased in 2024 (Figure 6). Public external debt significantly reduced from 17.2 percent of GDP in 2023 to 13.7 percent in 2024 while public domestic debt decreased from 22.1 percent of GDP in 2023 to 18.7 percent in 2024. The IMF projects external debt to reach 28.3 percent of GDP in 2025, in response to the depreciation of the birr, and domestic debt to decline to 14.5 percent of GDP, assuming that fiscal financing through direct advances by NBE has been eliminated. Likewise, the budget deficit decreased from 2.5 percent of GDP in 2023 to 2.1 percent in 2024, as a result of significant improvements in revenue growth, the implementation of the fiscal consolidation strategy, and the resumption of the influx of donor funds. The IMF also predicts the budget deficit to further decrease to 1.7 percent of GDP in 2025.

Figure 6: Public Debt and Budget Balance, 2020-2025



Source: Ministry of Finance and *Projections by the IMF Country Report: July 2024 and African Economic Outlook, 2024

2.2.4 Conclusion: Effects for Financial System Stability in Ethiopia

Overall, with major fiscal, monetary, and exchange rate reforms put in place in recent months, there is a broadly positive macroeconomic outlook for 2024-25. Moreover, the adopted macroeconomic stabilization measures have been put in place in a manner that minimizes adverse effects thanks to the inclusion of extensive mitigating measures (especially subsidies for fuel, fertilizers, edible oil and medicine as well as higher allocations for civil service salaries and safety net benefits). The banking system should also benefit from growth momentum, given expectations of record crop output, a jump in government social and capital spending, rising mining developments, and continued expansion in private sector services and tourism. While the macro-outlook is thus generally favorable for the year ahead, some potential risks to the Ethiopian financial sector may arise from the impact of tightening monetary policies, from domestic security risks, and from external factors such as commodity price volatility or shocks to global trade movements. Finally, the recently introduced NBE directives, which are intended to strengthen the financial sector's long-term viability, may impact financial positions reported by banks in the short term, to the extent the new standards are significantly different from the past practices of banks.

3.

FINANCIAL SECTOR STABILITY AND RISK

3. FINANCIAL SECTOR STABILITY AND RISK

This chapter analyzes [6] stability and risks in the Ethiopian financial sector across the banking, microfinance and capital goods financing, and insurance sectors, which are all regulated and supervised by NBE. Policy actions taken by the government and the regulator remain supportive to the sector's resilience and financial stability.[7]

Ethiopia's primary and secondary financial markets are still in the early stages of development: the Capital Market Authority was established in June 2021, and the Ethiopian Securities Exchange is currently finalizing preparations to launch before the end of 2024.

3.1 OVERVIEW OF THE FINANCIAL SECTOR

At the end of June 2024, total assets of the financial sector amounted to just over 3,409 billion birr, 15.1 percent higher than a year earlier (Table 2). These assets constituted 29.5 percent of nominal GDP, compared with 37.6 percent at the end of June 2023. The banking sector continued to dominate the financial sector, with its total assets accounting for 96.1 percent of total financial sector assets at the end of June 2024 (similar to a year before). This implies that the stability of the Ethiopian financial system largely depends on the health and stability of the banking sector. As a result, the banking sector is analyzed in more detail in the following sections.

Table 2: Total Assets of the Financial System and the GDP, 2023-2024 (billions of birr and percent)

Sector/Assets/GDP	June 2023	Share in total assets (%)	June 2024	Share in total assets (%)	June 2024 vs. June 2023 (%)
Banks	2,845.9	96.1	3,277.3	96.1	15.2
Commercial banks	2,689.1	90.8	3,095.1	90.8	15.1
Development bank	156.8	5.3	182.2	5.3	16.2
Microfinance	61.7	2.1	60.1	1.8	-2.6
Capital goods finance	5.4	0.2	6.4	0.2	18.5
Insurance	49.7	1.7	65.6	1.9	32.0
Total financial system assets	2,962.7	100	3,409.4	100	15.1
Nominal GDP	8,722.0		11,574.7		46.9
Total assets (%) of GDP	37.6		29.5		-8.1

Source: NBE Database

[6] All financial data used in this chapter is provisional (not audited).
[7] The report does not provide a detailed analysis of savings and credit cooperatives and pension funds.

3.2 BANKING SECTOR

By the end of June 2024, 32 banks (all of them domestic) operated in Ethiopia. Of these, the Development Bank of Ethiopia (DBE), a development finance institution, accounted for nearly 5 percent of the banking sector's assets. The other institutions are made up of four fully-fledged interest-free banks, six former microfinance institutions (MFIs) that graduated to commercial banks[8], and 22 conventional commercial banks, including the country's largest bank, the Commercial Bank of Ethiopia (CBE). Except for the DBE and CBE, all are private banks. As the following sections show, the banking sector is assessed as safe, sound, and stable as of the end of June 2024.

3.2.1 Commercial Banking Industry

3.2.1.1 Role in the Economy

The banking sector is very important to the Ethiopian economy. Total deposits at the end of June 2024 reached nearly 2.5 trillion birr, and total loans and bonds of banks amounted to just under 2.2 trillion birr (Table 3). Both deposits and loans increased in the year to June 2024, albeit at lower rates than a year earlier: Total bank deposits grew by 15.4 percent, driven in particular by growth in demand for time deposits, compared to 24.6 percent in the year to June 2023. Similarly, loans and bonds grew by 16.1 percent to June 2024, down from the 24.3 percent annual growth rate recorded to June 2023.

GDP increased at a faster rate than deposits and loans in the reporting period. As a result, the share of deposits in GDP decreased to 21.6 percent from 24.8 percent at the end of June 2023, and that of loans and bonds from 21.7 percent to 19.0 percent. The share of loans in GDP is low by international comparison, and the objective is to increase it significantly in the medium term, thereby also reducing credit concentration risk (see Section 3.2.1.3 below). A related positive development in this regard is the shift in the loan portfolio. Since 2021, total outstanding loans to the private sector have exceeded loans to the public sector.

Total assets of commercial banks reached 3.3 trillion birr at the end of June 2024 — an increase of 15.2 percent from the previous year; the growth rate is less than the 19.9 percent recorded in June 2023. The major contributors to total assets growth were loans and advances, and bonds, which together accounted for the largest share (66.9 percent) of total assets.

[8] Of which one is full-fledged interest-free bank, thus also included among the four interest free banks.

Table 3: Banks' Major Balance Sheet Items (billion Birr)

Particulars	June 2020	June 2021	Growth (%)	June 2022	Growth (%)	June 2023	Growth (%)	June 2024	Growth (%)
Total Assets (net)	1,462.4	1,843.2	26.0	2,374.1	28.8	2,845.9	19.9	3,277.3	15.2
Loans & Bonds	1,085.8	1,317.3	21.3	1,521.1	15.5	1,890.3	24.3	2,194.0	16.1
Loans and Advances (net)	559.0	766.9	37.2	986.7	28.7	1,247.5	26.4	1,440.9	15.5
Bonds	526.8	550.4	4.5	534.4	-2.9	642.8	20.3	693.1	7.8
Total Deposits	**1,041.9**	**1,360.1**	**30.5**	**1,735.3**	**27.6**	**2,162.2**	**24.6**	**2,494.7**	**15.4**
Saving deposits	622.5	855.8	37.5	1,085.3	26.8	1,370.1	26.2	1,524.3	11.3
Demand deposits	356.4	439.6	23.3	567.1	29.0	679.9	19.9	813.2	19.6
Time deposits	63.1	64.7	2.5	83.0	28.3	112.2	35.2	157.1	40.0
Regulatory Capital	105.2	121.9	15.9	168.9	38.5	212.4	25.7	258.3	21.6
GDP	3,374.7	4,341.0	28.6	6,157.0	41.8	7,881.6	41.7	11,574.7	10.7
Shares (%)									
Loans in GDP	16.6	17.7		16.0		14.3		12.4	
Deposits in GDP	30.9	31.3		28.2		24.8		21.6	
Loans & Bonds in GDP	32.2	30.3		24.7		21.7		19.0	
Loans & Bonds in Total Assets	74.2	71.5		64.1		66.4		66.9	
Loans & Bonds to Total Deposits	104.2	96.9		87.7		87.4		87.9	

Source: NBE Database & Monetary and Financial Analysis Directorate of NBE

In line with international trends, Ethiopia established a deposit insurance scheme in 2021. By reducing the likelihood of a "run" on the banks and microfinance institutions, this is expected to contribute significantly to stability in the banking and microfinance sectors and, hence, to the overall financial system. Beyond the traditional banking and MFI sub-sectors, Ethiopia's financial sector is set to be transformed in its size and scope with the imminent launch of the first organized securities exchange, the Ethiopian Securities Exchange (See Box 3).

Box 3:
Capital Market Developments and the Launch of the Ethiopian Securities Exchange (ESX)

The development of the capital market's ecosystem has recorded significant strides since 2019 when NBE began spearheading it through various foundational initiatives. NBE played the primary role in introducing the Ethiopian Capital Market Proclamation 1248/202, and established a dedicated project team that was tasked with laying down the basis to create the Ethiopian Capital Market Authority and the Central Securities Depository (CSD). The government, through Ethiopian Investment Holdings, also championed the establishment of the Ethiopian Securities Exchange (ESX), which is expected to be formally launched soon.

The capital market's establishment plays an indispensable role in achieving development goals by providing the public and private sectors with access to long-term financing. Its presence enhances financial avenues and introduces innovative instruments that improve access to finance and promote savings and investment. For the private sector, these markets offer risk-based, patient, long-term capital, fostering growth and development. This process also significantly elevates the standards of financial reporting, corporate governance, and disclosure practices, enhancing the overall financial and accounting capacity of the nation. Equally important is the role of the capital market in bolstering

domestic financing for the public sector. Access to debt financing via bonds issued on the domestic capital market gives the government of Ethiopia efficient avenues for raising domestic financing, which complements NBE's monetary policy reforms.
The Ethiopian Capital Market Authority has, to date, played an active role in laying down the relevant legal and regulatory framework to establish a safe, transparent, and efficient capital market. The introduction of directives regulating the manner with which securities are issued and traded, the licensing of capital market service providers, securities exchanges, and over-the-counter platforms, play a critical role in introducing order, transparency, and efficiency in the operation of the nation's capital market.

Most importantly, the imminent launch of the ESX marks a pivotal milestone in the Ethiopian capital market ecosystem's development. As the first organized securities exchange in the nation, established through a partnership between the public and private sectors, ESX is poised to play a crucial role in advancing the government's economic reform agenda. Its formation signifies a transformative step towards enhancing the resilience and inclusivity of the financial sector, positioning Ethiopia on a new trajectory of financial modernization and integration.

ESX will be a fully electronic and modern market from its launch. The exchange's modern Automated Trading System, which is integrated with NBE's CSD, will transform the hitherto manual securities trading environment into a high-speed, efficient electronic marketplace. The introduction of modern broker-back office and order management systems that include mobile trading applications will allow Ethiopians across the country to directly participate in the market, there by democratizing the capital market ecosystem.

The multifaceted significance of the ESX for the financial sector is evidenced by the fact that, ahead of its launch, the exchange is currently serving as the market infrastructure and technology platform for the interbank money market — which was launched by NBE and commercial banks in November 2024. The introduction of this electronic interbank money market is expected to play a pivotal role in enhancing the transparency, reliability and efficiency of the money market, thereby boosting the financial sector's overall liquidity. With the launch of a money market through an online platform administered by ESX, banks can now lend to and borrow from each other on a modern electronic platform. Within the first three weeks of its operation the market transacted more than 20 billion birr, signifying its immense potential.

3.2.1.2 Industry Structure and Systemic Risk

Of the 31 commercial banks registered by the end of June 2024 in Ethiopia, one is a state-owned bank; four are private interest-free banks; [9] six are MFIs transformed into commercial banks; and the rest are conventional private commercial banks.

Based on asset size, NBE distinguishes three types of commercial banks: large, medium, and small banks. Their respective roles in, and share of, the market (Table 4) are as follows:

[9] One of these is majority-owned by a regional government.

Large Bank: The only large bank in the country is the state-owned CBE. Although its market share declined from the previous year, CBE still remains a systemically important bank. At the end of June 2024, its total assets and deposits constituted just under half (47.9 percent and 47.1 percent, respectively) of the whole banking sector. However, its total capital accounted for just less than a quarter (24.2 percent) of the total.

Medium Banks: The combined share of the five medium-sized banks [10] in the industry increased for all key balance sheet items in the year to the end of June 2024 compared to a year earlier: combined assets went from 28.0 percent to 28.9 percent of the sector's total assets, total deposits from 29.4 percent to 30.3 percent of the sector's total, and capital from 31.0 percent to 33.0 percent. Nevertheless, no medium-sized bank is currently regarded as a systemically important bank, despite the growing market share.

Small Banks: At the end of June 2024, the combined assets and deposits of the 25 small banks [11] accounted for 23.3 percent and 22.7 percent, respectively, of the whole banking sector — an annual increase of 0.8 percentage points each. Likewise, their combined total capital share increased from 41.6 percent of the sector's total capital in 2023 to 42.8 percent at the end of June 2024. The growth of the small banks' aggregate market share can be explained by their increasing number over the years and the rapid initial expansion of the newly established banks. However, with an individual share in assets, deposits, and loans, and bonds of less than two percent, none of the small banks can be considered a systemically important bank.

Table 4: Banking Industry Market Shares, June 2024 versus June 2023 (percent)

	Total Assets		Total Loans & Bonds		Total Deposits		Total Capital	
Type of bank	**June 2023**	**June 2024**	**June 2023**	**June 2024**	**June 2023**	**June 2024**	**June 2023**	**June 2024**
By size class								
Large	49.5	47.9	46.7	45.2	48.7	47.1	27.5	24.2
Medium	28.0	28.9	30.5	31.1	29.4	30.3	31.0	33.0
Small	22.5	23.3	22.9	23.7	21.9	22.7	41.6	42.8
By ownership								
Public	49.5	47.8	46.7	45.2	48.7	47.1	27.5	24.2
Private	50.5	52.2	53.4	54.8	51.3	52.9	72.6	75.8

Source: NBE Database and Off-site Reports

[10] Awash Bank, Bank of Abyssinia, Cooperative Bank of Oromia, Dashen Bank, Hibret Bank.

[11] Abay Bank, Addis International Bank, Ahadu Bank, Amhara Bank, Berhan Bank, Bunna Bank, Enat Bank, Gadaa Bank, Global Bank, Goh Betoch Bank, Hijra Bank, Lion International Bank, Nib International Bank, Omo Bank, Oromia Bank, Rammis Bank, Shabelle Bank, Sidama Bank, Siinqee Bank, Siket Bank, Tsedey Bank, Tsehay Bank, Wegagen Bank, ZamZam Bank, Zemen Bank.

Assessment of Systemic Risk Stemming from Industry Structure

As indicated above, CBE is a systemic bank in the Ethiopian banking system and can therefore entail systemic risk. The CBE has withstood a number of recent negative domestic and external shocks, including local conflicts and droughts/landslides, global inflation, disruptions to the supply chain brought on by the war in Ukraine and the Middle East, changes in the price of oil and other commodities, climate change and other impactful developments.

The CBE has a high cushion of regulatory capacity as its capital adequacy ratio (CAR) is significantly above NBE's 8 percent minimum capital requirement, and its liquidity position is also high, above the 15 percent minimum requirement. While CBE's CAR remains above the regulatory minima at all levels of risk stress, its liquidity position could fall below the regulatory minimum in the (unlikely) event of a sudden withdrawal by its 10 most important depositors (see Section 3.2.1.5).

Moreover, because the majority of the bank's paid-up capital is a government-issued promissory bond (Proclamation No. 994/2017 Government Bond) that has not yet been fully paid for in cash, CBE's capital position requires targeted policy and regulatory attention in the event of unfavorable circumstances. CBE's exposure to government-guaranteed but nonperforming exposures to Liability and Asset Management Company (LAMC) and Ethiopia Electric Power (EEP) are being replaced with government bonds resulting in the removal of these items from CBE balance sheet and restructuring of its balance sheet accordingly. NBE will be following up the proper implementation of this in due course.

Box 4:
Commercial Bank of Ethiopia's Resolution

Accounting for around 50 percent of Ethiopia's banking industry in terms of market share of its assets and deposit base, Commercial Bank of Ethiopia (CBE), with its wide geographical coverage and presence, is systemically important and the longest serving bank in the country. CBE has played a central role in Ethiopia's economic growth and development since its establishment. However, its past overexposure to projects run by public sector organizations has put the bank under stress.

Cognizant of the need to address its problems and ensure a sustainable business model that best supports economic growth and development, the Ethiopian government embarked on a major reform program at CBE. To support its reform agenda, the government is also working with the World Bank to effectively implement and realize these necessary changes under the auspices of a financial sector strengthening project (FSSP).

The FSSP, which is spearheaded by the Ministry of Finance and the National Bank of Ethiopia (NBE), and financed by the World Bank, is designed to a large extent to ensure the successful restructuring, recapitalization and reform of CBE. The restructuring aims to reduce CBE's exposure to nonperforming state-owned enterprise assets by transferring the stock of loans owed by the Liability and Asset Management Company (LAMC) and Ethiopian Electric Power (EEP) to the government. In addition, a subsequent recapitalization exercise aims to increase CBE's capital in line with its systemic importance in the sector. Accordingly, the House of People's Representatives approved a government-proposed bill to issue bonds worth 900 billion birr to CBE. This was to ensure the assumption of these state enterprises' debts by the government and the injection of additional capital to CBE. The transfer of the debts from LAMC and EEP to the government does not change the public sector's total exposure to debt, as this is not a new obligation. Instead, it makes the debt the government's responsibility rather than the two public enterprises'.

To support the implementation of this reform program, the World Bank is expected to approve concessional financing worth US$700 million to further strengthen the banking sector's supervision framework and its regulations. The funds will also support the recapitalization of CBE and the various reform activities that each of the implementing agencies (i.e., NBE, CBE and DBE) will undertake. Meanwhile, as part of the reform activities, CBE will redefine its governance and operating model in a way that ensures its commercial mandate, conduct its future operations in a prudent and sustainable manner, ensure compliance with applicable NBE regulations (including on corporate governance and risk management), implement recommendations of an asset quality review, and pursue various cost optimization measures.

In short, the implementation of the CBE reforms is expected to ensure the bank's improved financial soundness and sustainability and further cement the contribution it makes towards supporting private sector-led economic growth and development going forward.

Overall, the risk stemming from the concentration of the industry's structure has continued to gradually decline in the reporting year, as the market share of the one systemically important bank further decreased.

3.2.1.3 Credit Concentration

A. Credit Concentration by Economic Sector

As with the year before, manufacturing accounted for Ethiopian banks' largest share of loans and advances (23.0 percent) at the end of June 2024, followed by domestic trade and services, with 20.1 percent (Table 5). However, both showed lower growth than total banking loans. However, the largest changes in the composition of credit over the year were around the decline in credit to the export sector — a drop by 1.6 percentage points, and almost stagnation in terms of loan value — and the increases in loans to consumers (plus 1.3 percentage points) and the building and construction

sector (plus 1.0 percentage points), which indicates a shift towards domestically-oriented economic activities and away from exports.

Overall, as a result of the sectoral shifts, the concentration of the loan portfolio across sectors — which had already been relatively diversified in the year to June 2023 — decreased further during the reporting period.

Table 5: Banking Loans by Sector (billion birr)

Sector	June 2023		June 2024		2024 vs. 2023	
	Amount (billion birr)	Share (%)	Amount (billion birr)	Share (%)	Change in value (%)	Change in share (percentage points)
Agriculture	83.7	6.4	95.1	6.3	13.6	-0.1
Building & Construction	132.3	10.1	167.0	11.1	26.2	1.0
Manufacturing	304.6	23.2	345.3	23.0	13.4	-0.2
Import	99.3	7.6	122.1	8.1	23.0	0.5
Export	205.4	15.7	212.1	14.1	3.3	-1.6
Domestic Trade & Services	270.9	20.7	302.1	20.1	11.5	-0.6
Staff & Consumers	138.2	10.5	176.8	11.8	27.9	1.3
Other Business	76.5	5.8	80.5	5.3	5.2	-0.5
Total	**1,311.0**	**100.0**	**1,500.9**	**100**	**14.5**	

Source: NBE Database

B. Credit Concentration by Borrowers

The banking sector's loans and advances are relatively concentrated due to the past practice of large-scale lending to major state enterprises and regional governments. If including such large state-owned enterprises, the top 10 borrowers in the banking industry held 14.7 percent of its total loans and advances at the end of June 2024, a significantly lower share than a year earlier (23.5 percent). However, excluding state-owned enterprises, concentration ratios are much lower, with the top 10 private borrowers making up 3.5 percent of bank loans and advances. Large borrowers, defined as those with credit exposure of above 10 million birr, constituted only 0.5 percent of the total, but they held almost three quarters (74.8 percent) of the entire banking sector loans. This is a higher share than the year before. A significant number of loans at the end of June 2024 was held by borrowers from urban areas.[12]

Looking ahead, as banks work to comply with the credit granting conditions in the revised NBE directives, it is expected that credit concentration risk in the banking sector will be gradually reduced. The relevant regulatory changes in this respect include accurate mapping of connected borrowers and compliance with the corresponding quantitative prudential limits stipulated in the Large Exposures Directive. In addition, the changes involve the application of revised criteria to identify related parties and their compliance with the corresponding quantitative prudential limits as stipulated in the Related Party Transaction Directive (for more detail, see Section 3.2.3 below).

[12] Urban areas are those settlements with a population of 20,000 and above or regional and zonal capitals.

3.2.1.4 Soundness Indicators

The commercial banking industry in Ethiopia is considered sound and resilient based on an assessment of these financial soundness indicators — capital adequacy ratio, liquidity position, and non-performing loans (NPLs).

A. Asset Quality Indicators

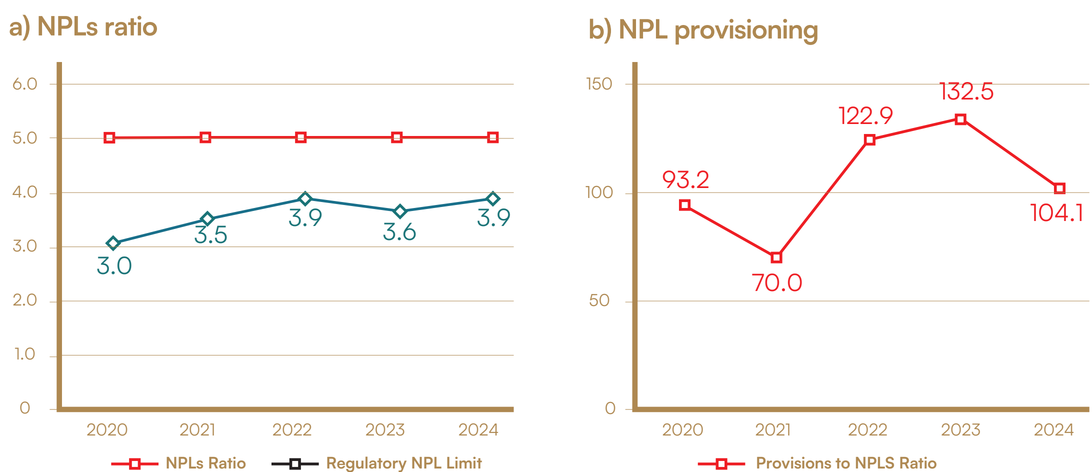
As a result of low NPLs and adequate provisioning for them, the quality of assets in the Ethiopian commercial banking industry was generally sound at the end of June 2024, despite indicators preforming slightly worse compared to a year earlier.

The ratio of NPLs to gross loans increased slightly in the year to the end of June 2024 to 3.9 percent, from 3.6 percent for the same period in 2023 (Figure 7a), still substantially below the regulatory maximum of 5 percent. Nevertheless, in a few banks NPLs rose above this minimum. As a result, NBE is working with them to address the underlying challenges.

Furthermore, provisioning decreased from 132.5 percent of NPLs at the end of June 2023 to 104.1 percent at year later (Figure 7b), though still fully covering all reported NPLs. Given the reported level of NPLs, banks have provided adequate provisions to cover their impaired loans.

It should be noted that the revised directive on asset classification and provisioning, issued by NBE in June 2024, will lead to improved and more prudent measures in terms of asset classification and the maintenance of the required provisioning (see Section 3.2.3 below). This is expected to further improve the banking system's classification and NPL reporting.

Figure 7: Banks' Non-Performing Loans to Gross Loans and Non-Performing Loans Provisioning, 2020-2024 (percent)

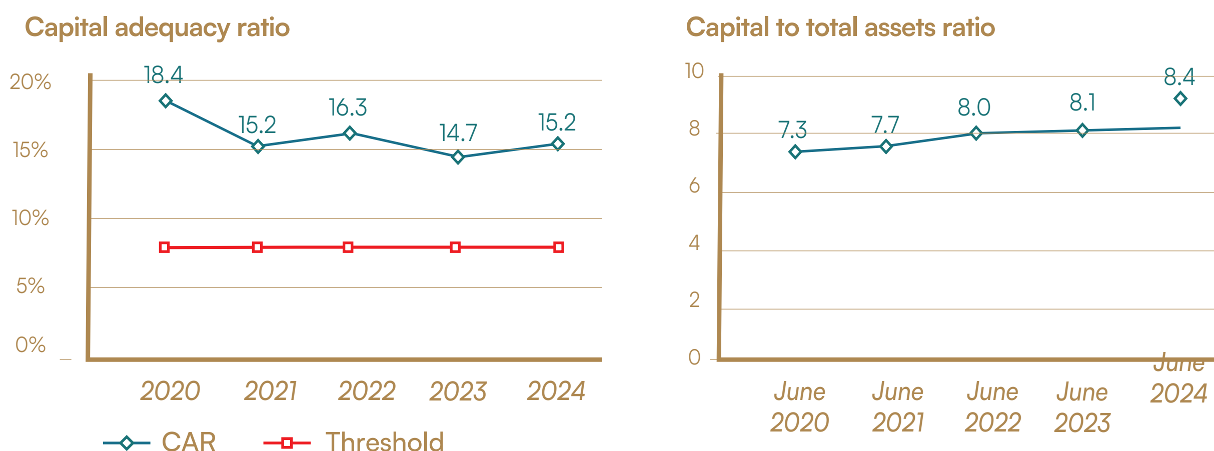


Source: NBE Database

B. Capital Adequacy Indicators

The regulatory capital to risk-weighted assets ratio for the banking sector slightly increased from 14.7 percent at the end of June 2023 to 15.4 percent in June 2024, comparing favorably with the regulatory minimum of 8 percent. Meanwhile, the leverage ratio (capital to total assets) continued its steady positive trend, increasing from 8.1 percent to 8.4 percent (Figure 8).

Figure 8: Banking Industry Capital Adequacy Indicators, 2020-2024 (percent)



Source: NBE Database

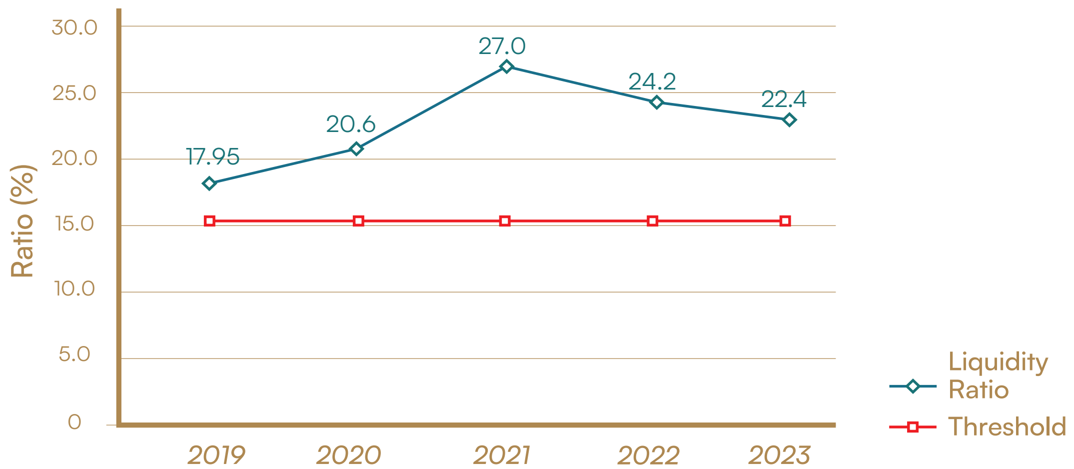
C. Liquidity Indicators

Although the liquid assets to deposits ratio of the banking sector decreased from 24.2 percent at the end of June 2023 to 22.4 percent a year later, it still compared favorably with the regulatory minimum of 15 percent (Figure 9).

During the same period, the ratio of loans to deposits remained stable, dropping by only 0.4 percentage points to 60.2 percent, while the ratio of loans and bonds to deposits increased slightly to 87.9 percent, from 87.4 percent in the previous year (Table 3 above). These ratios are still very high, though, and suggest that nearly all deposits are held up by borrowers, leaving limited room for large and unexpected deposit withdrawals. Nevertheless, the high ratios result in relatively low liquid assets, which could lead to a liquidity problem under unfavorable circumstances.

The decrease in the liquidity ratio may have been caused by increased lending, particularly to the building and construction, import, and households' sectors (see Table 5 above). Although the increased lending is in line with the general policy to encourage lending to the economy's key sectors, NBE continues to caution going above a loan to deposit ratio of 85 percent to ensure the sector remains resilient to adverse liquidity shocks.

Figure 9: Banking Industry Liquidity Indicators (percent)



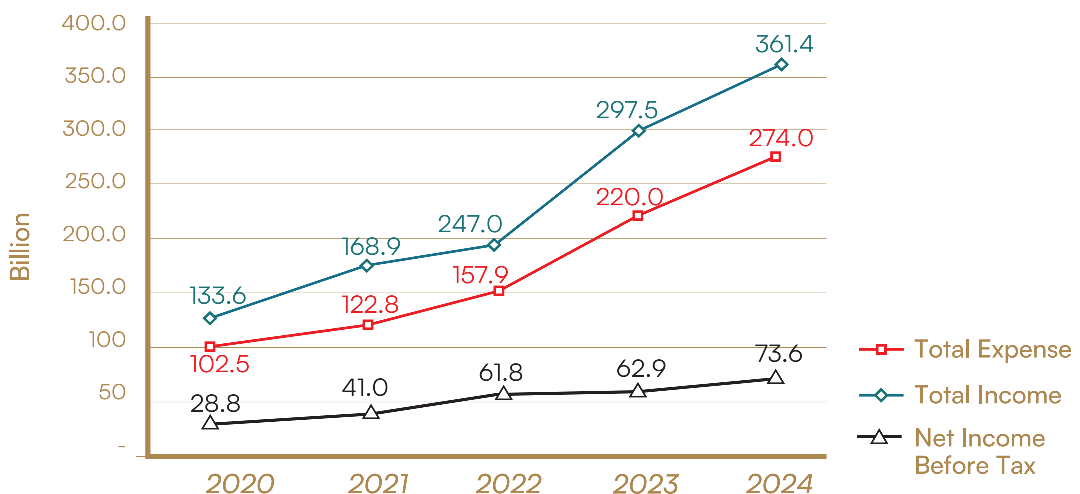
Source: NBE Database

A high concentration of deposits and the difference in maturities between deposits and loans may create a liquidity risk in the banking sector despite the existing above-the-minimum liquidity ratio: At the end of June 2024, 58.5 percent of the total banking sector deposits was held by only 0.4 percent of the sector's depositors. However, similar to credit concentration, state-owned enterprises are among the largest depositors, so the concentration of private sector deposits is considerably smaller. The liquid assets of banks only incorporated a small share of high-quality liquid assets (cash). As a result, some banks were facing real-time transaction-level liquidity shortages. This is analyzed further as part of the liquidity risk stress test in Section 3.2.1.5.

D. Profitability Indicators

The total income of the banking sector was 361.4 billion birr for the year to the end of June 2024, up from 297.5 billion birr in the previous year (Figure 10). Expenses also grew with the expansion of activities, and the total number of bank employees rose by 2.9 percent to 192,843 people. Net income before tax increased by 18.4 percent to 57.9 billion birr at end of June 2024, against 48.9 billion birr a year earlier.

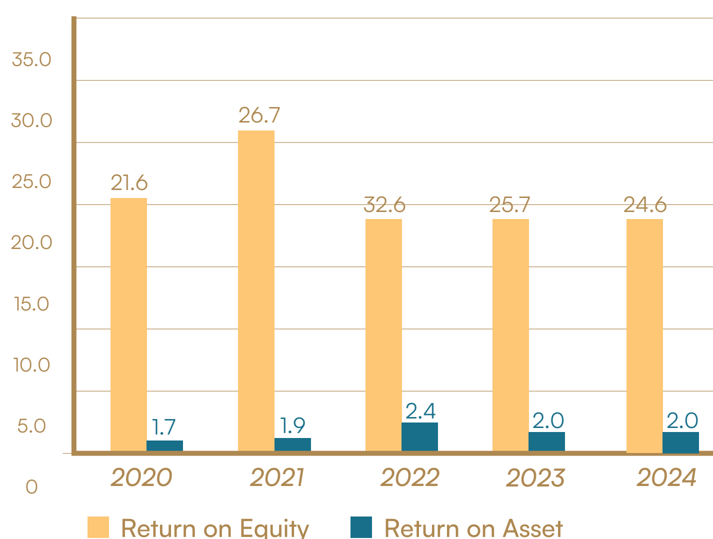
Figure 10: Banking Industry Income, Expenses and Net Income Before Tax, 2020-2024



Source: NBE Database

The profitability of the banking industry decreased slightly but is considered sufficient. Return on equity and return on assets were 24.6 percent and 2.0 percent at the end of June 2024 respectively, compared to 25.7 percent and 2.0 percent a year earlier (Figure 11). Return on equity was marginally lower than that of the previous year primarily because of an increase in bank provisioning.

Figure 11: Banking Industry's Profitability Indicators, 2020-2024



Source: NBE Database

3.2.1.5 Risk Stress Tests

A. Credit Risk Stress Test

NBE performed a banking sector credit risk stress test at end of June 2024 for the 12 months ahead under baseline, moderate and severe scenarios. The scenarios were calibrated according to domestic and international shocks that could negatively impact the recovery and, eventually, the credit risk of the banking industry. [13]

The ***baseline scenario (pre-shock)*** assumes that the NPL ratio will not change from the current 3.9 percent level, anticipating that the economy will grow according to the IMF's forecast, with international and domestic conditions improving, and the country free of droughts and conflicts. The ***moderate scenario*** assumes that NPLs in the banking industry will increase to 10.0 percent. In principle, this could happen as a result of deteriorating domestic and/or external circumstances, such as drought and heightened conflict or increasing foreign currency shortages. The ***severe scenario*** assumes that NPLs will increase to 30.0 percent.

[13] A preliminary assessment had established that capital to total risk-weighted assets ratio (regulatory CAR) of all banks was higher than the 8.0 percent minimum statutory requirement. Thus, all banks were included in the stress test.

The credit risk stress test results (Table 6) provide an assessment of banks' capital erosion following assets quality impairment under the moderate and severe scenarios. The results indicate that all banks have sufficient capital to withstand a moderate shock. Under the severe scenario, the aggregate CAR of the banking sector would still remain well above the regulatory minimum of 8.0 percent, at 12.3 percent. However, four banks would fail the stress test due to an increase in NPLs under this scenario, requiring additional capital equal to 6.5 billion birr (4.8 percent of risk-weighted assets). This is a marked improvement compared to the situation a year earlier, when 12 banks would have fallen below the regulatory minimum CAR. The systemic bank — and the majority of MFIs that converted to banks, in the small banks class — have more capital and would not require capital injections under the severe scenario. Therefore, there is no systemic credit risk for the banking sector as a whole, even under the severe scenario.

Table 6: Results of Credit Risk Stress Test (increase in non-performing loans)

	Baseline Scenario (Pre-shock)*	Moderate Scenario	Severe Scenario
Assumed level of NPL (%)	3.9	10.0	30.0
Impact of NPL shock on CAR			
Resulting Regulatory Capital Ratio (%)	15.4	15.3	12.3
Number of banks below minimum regulatory CAR	-	-	4

*based on Data as of June 2024

Source: Developed from NBE Database and Off-site Reports

B. Liquidity Risk Stress Test

The liquidity risk stress test considers the aggregate impact on the banking sector's liquidity if the top 10 depositors in each bank suddenly withdraw all their money. This is an extreme scenario because, as mentioned in section 3.2.1.3, state-owned enterprises are among the largest depositors and would be highly unlikely to fully withdraw deposits simultaneously.

The results of the stress test (Table 7) suggest that the Ethiopian commercial banking sector is highly sensitive to liquidity risk from sudden withdrawals by a few big depositors. The banking industry had also become more sensitive by the end of June 2024 than the previous year. Exposed to the same shock, 18 banks would have failed to meet the minimum liquidity requirements of June 2023; this has now increased to 20.

Table 7: Result of Liquidity Risk Stress Test (withdrawal of top 10 depositors)

	Stress Test Based on June 2023 Data		Stress Test Based on June 2024 Data	
	Baseline Scenario (Pre-Shock)	Top 10 Depositors Withdrawal Scenario	Baseline Scenario (Pre-Shock)	Top 10 Depositors Withdrawal Scenario
Size of the Shock	Br 524.7 billion liquid assets	Withdrawal of Br 288.8 billion	Br 559.6 billion liquid assets	Withdrawal of Br 359.9 billion
Impact of shock on liquidity				
Resulting Regulatory Liquidity Ratio (%)	24.0	13.0	22.4	9.4
Number of Banks Below minimum Regulatory Liquidity Ratio	-	18	-	20

Source: Developed from NBE Database and Off-site Reports

At the same time, as already noted in Section 3.2.1.3, the revised NBE directives that aim to reduce credit concentration in the banking sector will also gradually reduce liquidity risk. Measures to enhance accurate mapping of large borrowers and compliance with the corresponding quantitative limits stipulated in the Large Exposures Directive will reduce banks' exposure to large depositors (see Section 3.2.3 below). So too will the application of revised criteria on the identification of related parties and compliance with the corresponding quantitative limits as stipulated in the Related Party Transaction Directive.

C. Foreign Exchange Stress Test

Following the reform of the foreign exchange regime undertaken in late July 2024, the value of the birr against the US dollar decreased by more than 100 percent, from about 57 birr per dollar to about 117 birr per dollar. With few exceptions, the banking system weathered this shock well. As a further depreciation of the birr is possible under adverse conditions, NBE undertook a foreign exchange rate stress test. This analyses the effects of a further increase in the exchange rate by 10 percent, 20 percent, and 30 percent. Considering the birr exchange rate has already adjusted following the introduction of the foreign exchange regime reform, a further depreciation during the year ahead under the latter two scenarios must be considered as unlikely.

The results of the stress test indicate the banking industry CAR will remain above the minimum regulatory requirement of 8.0 percent under all scenarios. Although one bank would fail to meet the minimum CAR requirement under the 30.0 percent increase scenario (Table 8).

Table 8: Result of Foreign Exchange Stress Test, September 2024

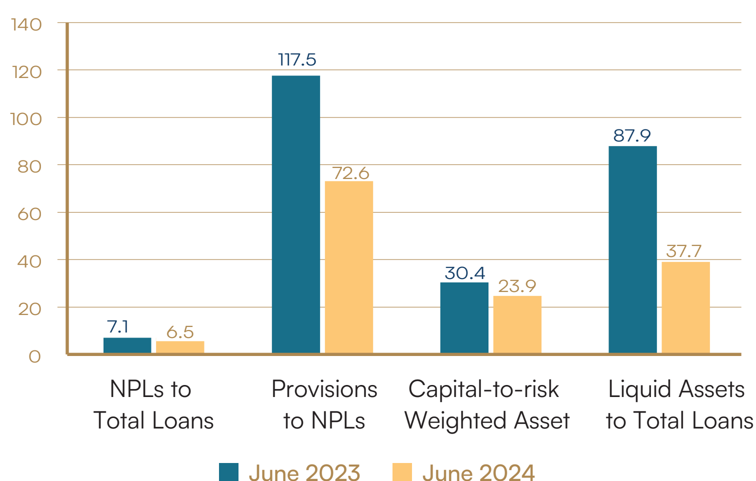
	Baseline Scenario (Pre-Shock)	Moderate Scenario	Severe Scenario	Highly Severe Scenario
Size of the Shock: Assumed Increase in Foreign Exchange Rate	-	10.0	20.0	30.0
Impact of shock on CAR				
Post-shock Regulatory Capital Ratio (%)	17.9	15.4	13.0	10.5
Number of Banks Below Minimum Regulatory CAR	-	-	-	1

Source: Developed from NBE Database

3.2.2 Development Finance Institution

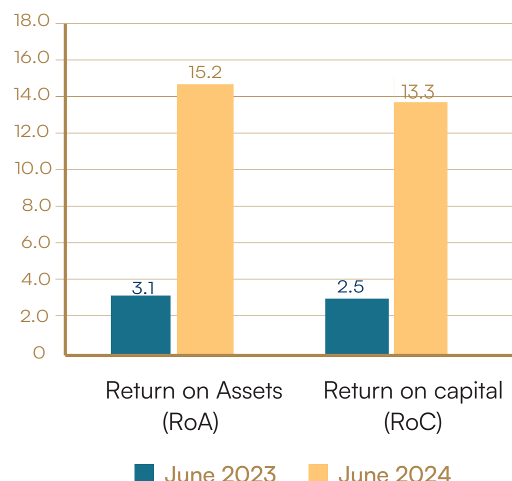
The total assets [14] of the DBE grew by 15.5 percent from the previous year to 182.2 billion birr at end of June 2024. The increase was largely because of the growth in bonds by 131.3 percent. Total regulatory capital increased by 6.5 percent from the previous year's 31.0 billion birr to 33.0 billion birr (see Annex A). Deposit liabilities decreased significantly by 56.3 percent, the regulatory capital ratio fell to 23.9 percent, and the ratio of provisions to NPLs also fell by 45.0 percent by the end of June 2024, compared with the same period a year earlier. The ratio of NPLs to total loans decreased, from 7.1 percent to 6.5 percent (Figure 12). Profitability also marginally decreased, with a return on assets of 2.5 percent, and a return on capital of 13.3 percent (Figure 13).

Figure 12: DBE Balance Sheet-Based Soundness Indicators, June 2023 and June 2024 (percent)



Source: Annex A

Figure 13: DBE Profitability Indicators, June 2023 and June 2024 (percent)



Overall, the vulnerability of DBE to risks decreased substantially during the review period.

[14] All data used in this analysis are provisional (not audited).

3.2.3 Regulatory Enhancements in the Banking Sector

In June 2024, NBE issued five revised directives on banking business, as informed by international best practice, mainly embodied in the Basel Framework, as well as in response to developments in the banking industry. The directives are also meant to address specific corporate governance and risk management weaknesses existing in some banks. Such weaknesses involve poor objectivity and insufficient competence at board level, including a lack of independent directors and the under-estimation of credit risk concentration due to the poor identification of connected borrowers. In addition, there is an under-estimation of insider lending due to the exclusion of relationship through ownership: for example, the relationship between state-owned banks and enterprises. Lastly, there is inadequate prudential provisioning for loan losses, leading to the overstatement of profits, due to the improper grading of exposures.

To ensure that operations of affected banks are not disrupted in a bid to comply with the revised directives, NBE has allowed transitional arrangements for each of the five directives as appropriate.

Overall, the revised directives are expected to lead to a significant improvement in the safety and soundness of the banking sector and the banks' intermediary role in the economy, enhanced financial stability, and ultimately provide a boost to economic prosperity in Ethiopia

3.2.3.1 Directives on Corporate Governance

In a bid to strengthen its supervisory framework, NBE revised directives on bank corporate governance and requirements for persons with significant influence in a bank.

1. Bank Corporate Governance Directive. To enhance corporate objectivity, accountability and transparency, banks are now required to have independent directors. The process to nominate and elect directors has also been streamlined to make it more efficient. Lastly, in recognition of inclusion and diversity, a bank board of directors should have at least two women directors.

2. Requirements for Persons with Significant Influence in a Bank Directive. To ensure the banking sector's integrity as well as its stable and long-term institutional success, NBE tightened the fitness and propriety requirements for banks' directors and management. The revised requirements include limiting the number of directorships; ensuring senior bankers make the necessary time commitment, are independence of mind, and manage conflict of interest; and seeking higher qualifications and relevant experience for the chief executive officer of a bank and directors.

3.2.3.2 Directives on Credit Risk Management

As part of guidance to banks in the management of credit risk, concentration risk, and conflict of interest, NBE revised directives on large exposures, asset classification and provisioning; and related party transactions.

1. **Large Exposures Directive.** To reduce vulnerabilities due to concentrated lending, banks are required to observe limits when lending to an individual borrower or group of connected borrowers, as well as maintaining internal mechanisms to monitor such concentration risk. In this directive, NBE clarified the criteria for identifying connected borrowers, and stipulated exempted categories of borrowers, to ensure that concentration risk is accurately determined.

2. **Asset Classification and Provisioning Directive.** To ensure that credit risk arising from loans and other assets is accurately measured, and provided for in a timely manner consistent with accepted international accounting principles and regulatory standards, NBE tightened the conditions for how banks grade loans and treat and report restructured loans and NPLs. The directive also sets maximum limits for loan iteration and the treatment of NPLs, including the maintenance of provisions for off-balance sheet exposures.

3. **Related Party Transactions Directive.** Related parties are persons connected with the bank either through control and/or employment. This directive limits the sum of all exposures directly or indirectly held by a bank to any single related party, and forbids a bank to conduct any transactions with a related party on preferential terms compared to conditions normally applied to unrelated parties.

3.2.3.3 Other banking business regulatory and supervisory reforms

In addition to monitoring the implementation of the above-mentioned five directives, NBE is currently working on other reforms aimed at strengthening its banking regulatory and supervision processes to align them with international best practice and ensure their continuous improvement.

3.2.4 Summary Assessment of Risks for Financial System Stability Emanating from the Banking Sector

In the review period, the banking sector remained stable and resilient against the backdrop of strong domestic economic growth, effective monetary and financial policies, but also conflicts and droughts in some parts of the country. Overall, the outlook for 2024/2025 is also positive. Underpinned by sufficient capital and profitability, the sector will remain stable and resilient, which is also confirmed by the

latest banking sector risk stress test results. However, there are some downside risks associated with potential domestic and external shocks.

A. Credit Risk

The banking industry's credit risk remained moderate during the review period but is expected to increase in 2024/2025. Credit risk could increase because of conflicts in some parts of the country. In addition, a deterioration in the external sector — the implication of the global monetary policy on domestic interest rates, the exchange rate and capital flows; and the impact of the wars in Ukraine and the Middle East on trade and other transactions — could also increase credit risk. This risk appears to be accentuated at face value by the high levels of credit concentration. However, it is lower in practice when the role of state-owned enterprises in the banking system's loan portfolio is considered. Also, NBE is closely monitoring this situation through supervisory tools contained in the revised directives on large exposures and related party transactions, issued in June 2024.

Since loans, advances, and bonds constitute the lion's share of bank assets, credit risk remains one of the most important and inherent risks that banks need to effectively manage. Therefore, it is imperative to follow prudent, principle-based lending and financing practices that are in line with a bank's risk strategy and appetite, as well as applicable legal requirements. In this regard, the asset quality of Ethiopia's banking system as a whole and of most banks is deemed satisfactory as their NPL ratio is below NBE's 5.0 percent maximum. However, in light of the aforementioned systemic risks and the less than satisfactory performance of some banks, NBE is closely monitoring financial institutions with relatively higher NPLs to reduce this category so they can maintain acceptable exposure to these loans and credit portfolios. NBE will also closely monitor banks' compliance with its recently issued directive on asset classification and provisioning to ensure, among other things, they cease using collateral as a factor to determine whether a loan is non-performing or not. They must also take into consideration forward-looking and qualitative factors, including "unlikely pay" conditions while determining non-performing status, the reclassification of loans from non-performing to performing, banks' compliance to the maximum-allowed loan iterations/restructuring as provided in the directive, the reporting of restructured loans, the reconciliation of differences between accounting and regulatory provisions, and the charging of provisions for off-balance sheet exposures.

B. Liquidity Risk

Liquidity risk to the banking industry remained moderate and stable during the review period, although exposure to sudden withdrawals by large depositors is high and has increased, based on a severe shock scenario assumption. The

liquidity risk is expected to increase in the short and medium terms. The banking industry is expected to maintain a robust liquidity position and resilience to short-term liquidity shocks. However, downside risks persist, including a failure to meet weekly liquidity requirements, real-time gross settlement system (RTGS) payment requirements, asset and liability mismatches and funding gaps at the short-term maturity buckets, and high deposit concentrations. Although the latter are lower when considering deposits by the private sector only, they may suggest the need for tighter regulatory standards on deposit concentration risks.

As banks mobilize short-term deposits and invest same in long-term assets, they normally face an asset-liability time mismatch on their books. To this end, it is critical for banks to manage their liquidity risk and maintain adequate liquidity that will enable them to proactively and effectively meet their obligations at all times. Most banks in Ethiopia comply with NBE's 15 percent minimum liquidity ratio requirement and have a proven track record of meeting payment obligations in the RTGS. NBE is closely monitoring banks with liquidity challenges and weaker liquidity risk management practices. It also engages with such banks to ensure that corrective and remedial actions for addressing the observed liquidity issues are implemented to prevent any negative spillovers to the overall financial system.

Going forward, NBE will take the necessary measures to ensure that banks implement sound and comprehensive liquidity management supported by adequate liquidity risk management tools. These include actively engaging in the interbank money market, utilizing the NBE short-term liquidity facilities, and improving their internal liquidity management governance, stress tests, contingency planning, and cash flow projections.

C. Market and Foreign Exchange Rate Risk

Market risk is moderate but increasing. In a rising domestic interest rate environment, banks' funding costs may increase since deposit liabilities are at variable rates, while a large amount of assets — corporate bonds held by CBE and DBE, and treasury bonds held by private banks — are at fixed rate. As a result, banks' profitability may deteriorate.

The banking system has well coped with the birr's depreciation following the foreign exchange regime reform of July 2024. The results of the foreign exchange stress test furthermore indicate that the banking industry CAR will remain above the minimum regulatory requirement of 8 percent under all scenarios, showing an overall high degree of resilience, although the systemic bank has a relatively higher degree of exposure.

D. Operational Risk

There is significant operational risk in the Ethiopian commercial banking industry, and it is expected to rise further in the short to medium term. Incidents of social engineering, insider threats and third-party risks are on the rise. The gross cost of bank fraud and forgeries increased to 1.3 billion birr from 1.0 billion birr a year ago. These cases occurred at 28 banks (almost every bank), mainly through the use of fake cash notes and cheques, embezzlement, the issuance of unauthorized bank guarantees, withdrawals using stolen ATM cards, and false calls or texts.

Commercial banks are introducing new technology-based products and services that enhance efficiency and financial inclusion but entail significant operational risks. Moreover, an increasing number of banks are applying to introduce digital micro credit and savings services that are provided through partnerships with third parties. As a consequence, incidences of fraud and embezzlement could increase. In that regard, policies for banks and effective strategies for measuring and mitigating operational risks need to put in place. In addition, this would pose an elevated cyber risk to the banking system more than ever before.

3.3 MICROFINANCE AND CAPITAL GOODS FINANCE BUSINESS SECTORS

This section focuses on the stability and vulnerability to risks of the MFI and the capital goods finance business sectors. Given their share of its monetary value, these sectors are not expected to pose a significant risk to Ethiopia's overall financial system, but institutions have a big social impact for a number of beneficiaries. They totaled 829,078 loan clients and 5,586,302 savers at end of the review period.

At the end of June 2024, all MFIs together accounted for 1.8 percent of the financial sector's total assets, and all capital goods finance companies for 0.2 percent (see Table 3 in section 3.1 above). Therefore, the analysis in this section is limited, as it is focused on financial stability when compared to that of the banking sector. More details are provided in this report's annexes.

At the end of June 2024, 56 microfinance institutions [15] (with a total of 1,138 branches) and six capital goods finance companies [16] (with a total of 56 branches) were operating in Ethiopia.

[15] The analysis for the microfinance sector excludes data for the microfinance institutions that have been transformed into banks from the end of June 2019 to the end of June 2023 (Amhara Credit and Saving Institution, Oromia Credit and Saving Institution, Omo MFI, Somali MFI, Addis Credit and Saving Institution, and Sidama MFI).

[16] Waliya Capital Goods Finance Business S.C, Oromia Capital Goods Finance Business S.C, Addis Capital Goods Finance Business S.C, Debub Capital Goods Finance S.C, Kaza Capital Goods Finance Business S.C, and Ethio Lease Ethiopia Goods Finance Business S.C.

3.3.1 Microfinance Sector

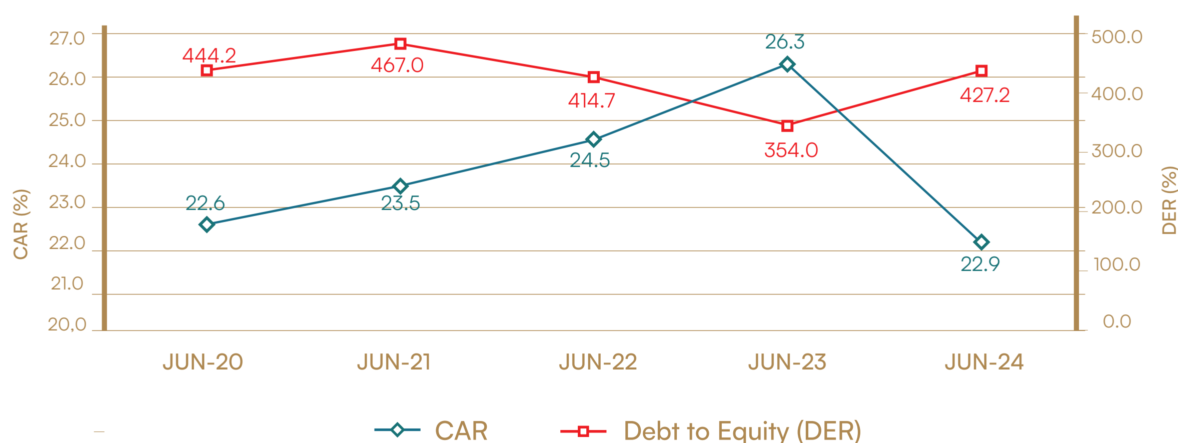
The microfinance sector's balance sheet grew strongly and remained sound and stable in the year to the end of June 2024. Total assets increased by 21.6 percent (from 49.4 billion birr to 60.1 billion birr) and total deposits by 29.2 percent (from 24.3 billion birr to 31.4 billion birr), respectively. Liquid assets and net loans also increased by 28.4 percent and 26.9 percent, respectively, while NPLs increased much more moderately, at 6.3 percent (Table 9). Capital increased by 4.7 percent, and a further increase is anticipated because each microfinance institution is required to reach a minimum of 75 million birr within seven years.[17] Also, 54 microfinance institutions with new injections of capital were under formation at the end of June 2024.

Table 9: Major Balance Sheet Items of the Ethiopian Microfinance Institution Sector, 2020-2024 (billion birr)

	Major items	June 2020	June 2021	June 2022	June 2023	June 2024	Change 2024 vs. 2023 (%)
A	**Assets**						
	Total liquid assets	5.5	6.7	7.8	9.5	12.1	28.4
	Gross loans	17.4	20.2	25.3	31.5	39.7	26.0
	Provisions	1.0	1.3	1.4	1.1	1.1	1.1
	Net loans	16.4	18.9	23.9	30.4	38.6	26.9
	Gross NPLs (PAR>90 days)	1.1	2.0	2.2	1.3	1.4	6.3
	Total assets	24.4	28.7	36.9	49.4	60.1	21.6
B	**Liability and Capital**						
	Total deposits	14.4	16.9	18.9	24.3	31.4	29.2
	Borrowings	2.3	3.3	8.0	10.3	11.0	6.6
	Total capital	4.5	5.1	7.2	10.9	11.4	4.7

Source: NBE Database

Figure 14: Capital Adequacy and Debt Equity Ratios in the Microfinance Sector, 2020-2024 (percent)

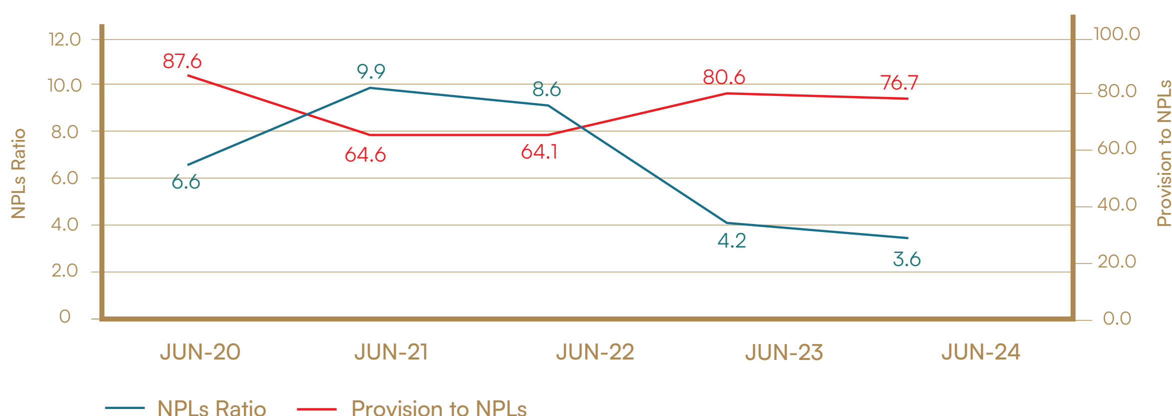


Source: NBE Database

[17] This applies to MFIs established in 2023 and later; already existing MFIs must reach the 75 million birr by the end of January 2028; see NBE Directive No. MFI/36/2023.

Loans remain the biggest component of total assets, accounting for 66 percent of them at the end of June 2024. Since the end of COVID-19, asset quality has significantly improved, indicating a recovery from the pandemic period. In the year to the end of June 2024, the NPL ratio decreased further to 3.6 percent from 4.2 percent a year earlier, meeting NBE's requirement of less than 5 percent for the second time in five years (Figure 15).This again indicates a low risk level for the sector. The sector maintained strong bad debt coverage, as reflected by a provisions-to-NPLs ratio of 76.7 percent at the end of June 2024, slightly lower than the 80.6 percent recorded a year earlier.

Figure 15: Asset Quality Ratios of the Microfinance Sector, 2020-2024 (percent)

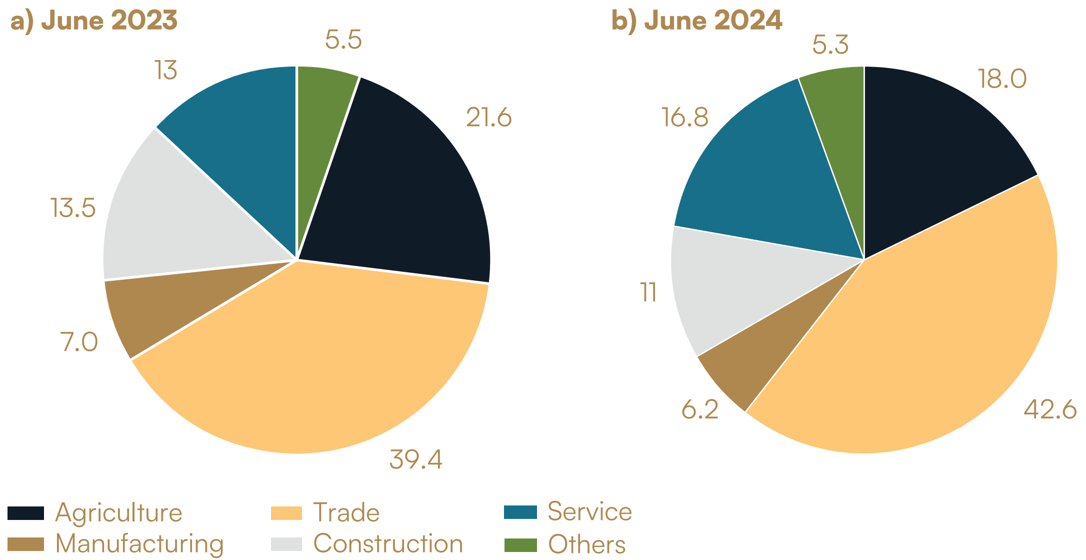


Source: NBE Database

The sectoral distribution of MFI loans shifted in the year to June 2024 (Figure 16): Loans to agriculture decreased from 21.6 percent of total microfinance loans in the year to June 2023 to 18.0 percent in the year to June 2024, whereas loans to the trade sector increased from 39.4 percent to 42.6 percent for the same period, indicating a strong shift away from rural area/agriculture loans.

With regards to NPLs, loans to agriculture accounted for the highest share, 38.2 percent, which may have contributed to MFIs' decisions to shift away from agricultural loans (see Figure 28 in Annex B).

Figure 16: Distribution of Microfinance Loans by Sector, June 2023 and June 2024 (percent)

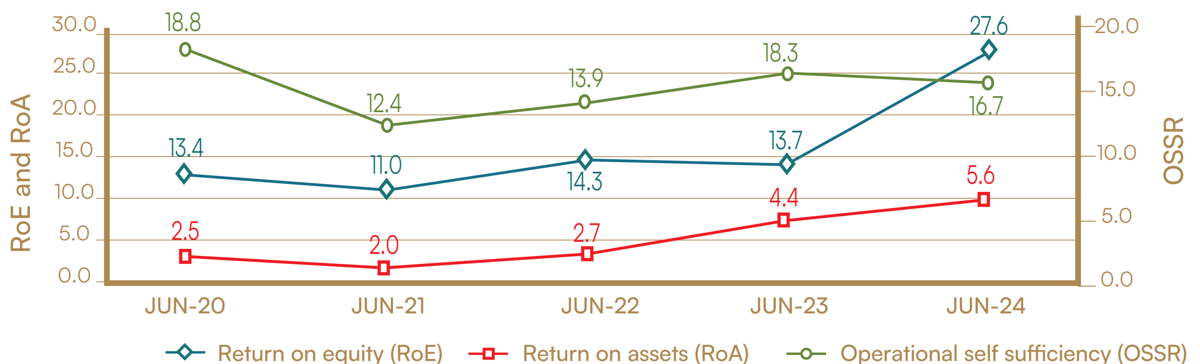


Source: NBE Database, see, Annex B

The MFI sector's profitability continued in an overall positive trend in the year to the end of June 2024: total income increased by 39.4 percent to 8.9 billion birr while total expenses were only recorded at 13.4 percent to 5.9 billion birr. This resulted in a net income of 3.0 billion birr, 148.5 percent higher than a year earlier (see Table 19 in Annex B). Notably, the sector registered the highest profitability ratio ever for the measures, return on assets (RoA) and return on equity (RoE), recording 5.6 percent and 27.6 percent respectively at the end of June 2024 (Figure 17).

Considering individual MFIs, although some generated higher profits than small banks or insurance companies in Ethiopia, others are still loss makers/weak institutions even after several years of operation. This situation is mainly attributable to the absence of digitized services, which would increase efficiency and reduce costs, and a lack of strategic leadership and weak governance practices. This may require policy measures aimed at consolidating the weak MFIs to create stronger institutions.

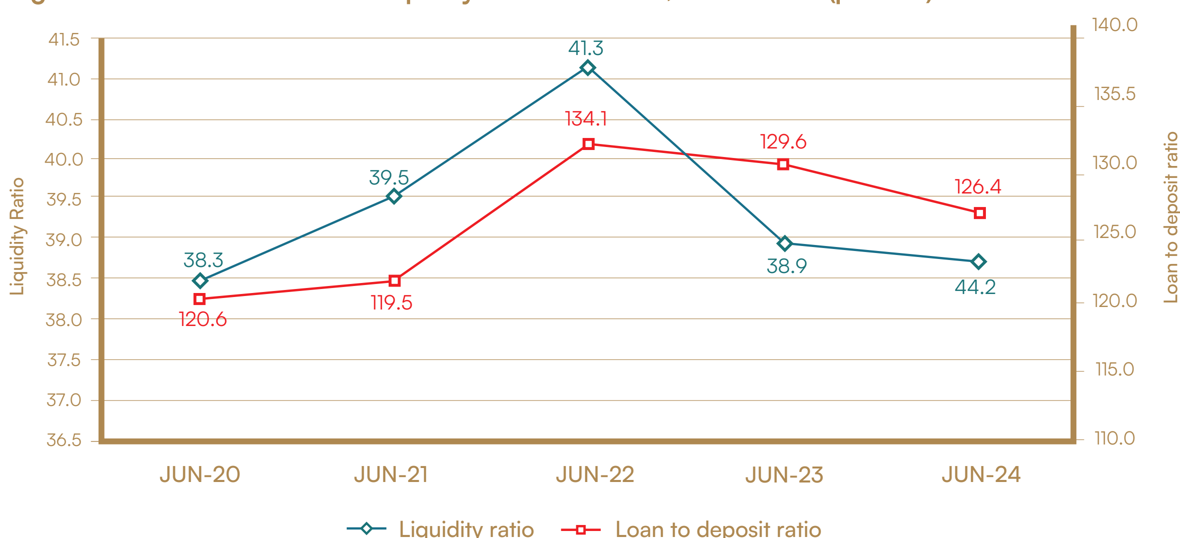
Figure 17: Major Earning Ratios of the Microfinance Sector, 2020-2024 (percent)



Source: NBE Database

Finally, although the microfinance sector has met its liquidity requirements, it remains highly interconnected with and reliant on commercial banks: 87 percent of the sector's liquid assets are held at domestic banks. The liquidity ratio remained relatively stable at 38.7 percent, well above NBE's 20.0 percent minimum requirement (Figure 18). However, the loan-to-deposit ratio of 126.4 percent indicates — despite reductions for two years in a row from 134.1 percent at the end of June 2022 — that the sector's financing in addition to deposits is still heavily dependent on borrowing from domestic banks and international organizations, such as the International Fund for Agricultural Development's Rural Financial Intermediation Program.

Figure 18: Microfinance Sector Liquidity Ratio Indicators, 2020-2024 (percent)



Source: NBE Database

3.3.2 Capital Goods Finance Business Sector

The capital goods finance business sector's loans grew by 35.3 percent to over 3.7 billion [18] birr in the year to June 2024, from nearly 2.8 billion birr a year earlier (Table 10). Total assets also increased by 18.4 percent to 6.4 billion birr, but total liquid assets declined by 45 percent to 416 million birr. NPLs more than doubled in the year to the end of June 2024, also implying an increase in the NPL ratio to 7.5 percent for the same period, up from 5.1 percent a year earlier. This is 50 percent higher than the regulatory maximum of 5 percent, reflecting a high credit risk.

[18] This excludes lease financing provided by DBE.

Table 10: Major Balance Sheet Items of the Capital Goods Finance Sector, 2020-2024 (million birr)

No	Major items	June 2020	June 2021	June 2022	June 2023	June 2024	Change 2024 vs. 2023 (%)
A	**Assets**						
1	Liquid assets	775.5	972.3	891.4	756.7	416.0	(45.0)
2	Loans	981.8	1,550.0	2,173.1	2,767.4	3,745.0	35.3
3	Gross NPLs	84.8	82.3	60.2	140.1	282.0	101.3
4	Total assets	3,906.7	4,563.5	4,936.5	5,438.3	6,438.0	18.4
	Gross NPLs/Loans (%)	8.6	5.3	2.9	5.1	7.5	2.4
B	**Liability and Capital**						
5	Borrowings	1,611.8	2,145.0	2,470.5	3,167.2	4,143.0	30.8
6	Capital	2,218.8	2,300.3	2,349.7	2,582.3	2,245.0	(13.1)

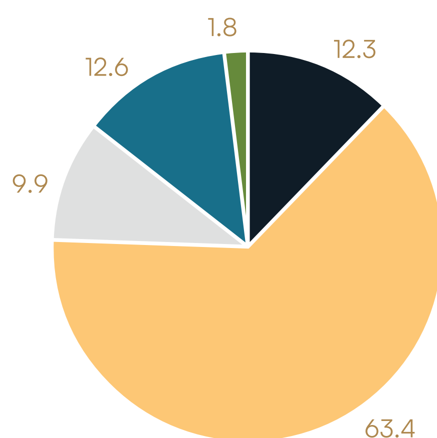
Source: NBE Database

Capital goods finance companies do not accept deposits and rely on banks for a significant portion of their financing. This exposes the sector to the risk of contagion from adverse shocks in banking. Moreover, a lack of diversified sources for stable financing and a high dependence on borrowing hinders the sector's operational expansion.

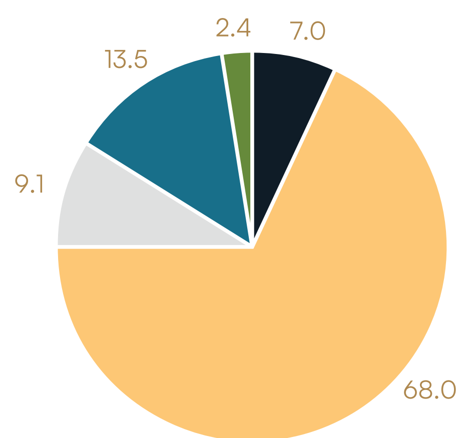
The sectoral concentration of loans granted by capital goods finance companies was high and it increased in the year to the end of June 2024 — the share of loans to the manufacturing sector grew from 63.4 percent to 68 percent (Figure 19) due to the nature of the business. This implies a high credit concentration risk from exposure to the manufacturing sector.

Figure 19: Capital Goods Finance by Client Sector, June 2023 and June 2024 (percent)

a) June 2023



b) June 2024

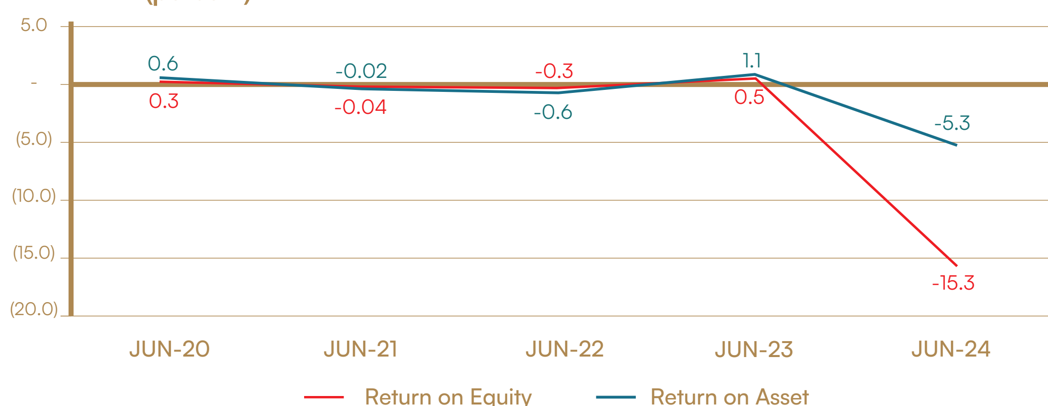


Agriculture
Manufacturing
Service
Construction
Others

Source: NBE Database, see Annex C

In terms of profitability, the capital goods finance sector has incurred losses in three out of the last five years, with the highest loss experienced during the period under review, mainly due to one private leasing company under liquidation proceedings. The return on capital and return on assets measurement stood at near zero in previous years, but they were clearly negative in the year to the end of June 2024, at -15.3 percent and -5.3 percent respectively (Figure 20). The number of leasing companies and their branches has remained the same over the last five years. This indicates there is a structural problem and a high risk for the sustainability of operations, which calls for corresponding policy measures to help the sector return to profitability.

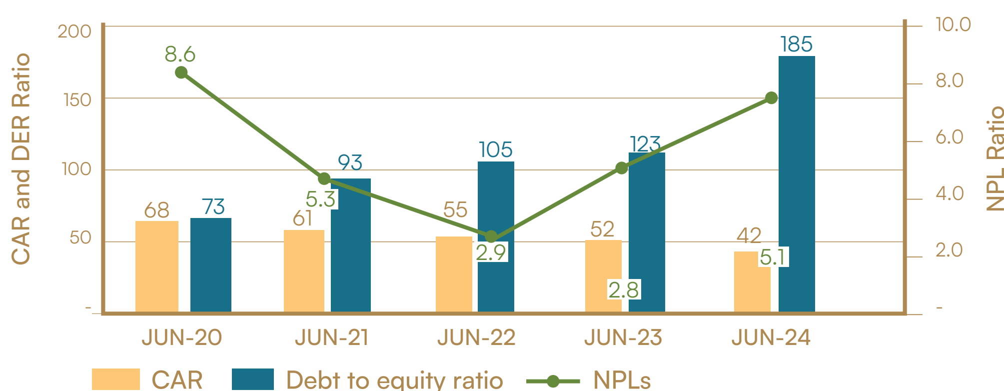
Figure 20: Major Profitability Indicators of the Capital Goods Finance Sector, 2020-2024 (percent)



Source: NBE Database, see Annex C

With respect to financial soundness, the sector is considered secure on the basis of capital adequacy. Although it is facing limited risk, it is increasing mainly due to earnings and asset quality (Figure 21). At the end of June 2024, the capital-to-risk weighted asset ratio was 41.9 percent, the lowest since 2020, while the debt-to-equity ratio reached 184.5 percent, the highest since 2020 — but still far below the threshold debt-to-equity ratio of 7:1, which signals that the sector is still significantly below its maximum borrowing capacity.

Figure 21: Capital Goods Companies Soundness Indicators, 2020-2024 (percent)



Source: NBE Database, see Annex C

3.3.3 Summary Assessment of Risks for Financial System Stability Emanating from the Microfinance and Capital Goods Finance Sectors

Neither the microfinance sector nor the capital goods finance sector poses a risk to the Ethiopian financial system's stability. This is not only a result of the relatively limited size of these two sectors in the system, but also because they are assessed as sound overall.

The overall risk to the microfinance sector is considered low and stable: The capital adequacy, NPL, and liquidity ratios are all well within NBE's parameters and have improved over the review period. There is also remarkable growth in sector-wide profitability, although with large variances across individual MFIs, which may call for policy measures aimed at consolidating the sector. Close links to banking also make the microfinance sector vulnerable to potential spillovers from the sector in terms of liquidity and borrowing. This risk may need to be addressed through appropriate policy measures.The capital goods finance business sector's risk is rated as moderate but increasing. This is because capital risk is assessed as low, and systemic risk is rated as moderate. However, earnings, asset quality, and concentration risks are rated as high, and may require regulatory measures to reduce the risk levels.

3.4 INSURANCE SECTOR

As of June 30th, 2024, the number of insurance companies operating in the Ethiopian market stood at 18, of which one is state owned. The sector consists of 14 composite insurance companies transacting both long-term and general insurance businesses, and four general insurance companies trading only non-life/short-term insurances. The companies carry different licenses based on the main lines of insurance business they conduct. So far, no company has exclusively conducted a long-term business. Moreover, one locally incorporated reinsurance company (Ethio-Re) is operating as a local reinsurer. Besides, 2,894 insurance agents, 62 insurance brokers, 117 loss assessors and three surveyors operate in the sector. Africa-Re and PTA-Re (ZEP-RE), two overseas reinsurance companies with considerable presence in the sector, have local contact offices in Ethiopia. The companies accept Ethiopian birr as their trading currency. In addition, five insurance companies are authorized to provide non-conventional, Sharia-compliant insurance (takaful) as "window operators[19]"; while one full-fledged takaful operator (Amana Takaful) is under formation.

NBE issued a directive on motor insurance's minimum premium rate to try and bring the lingering practice of premium undercutting in the industry to an end. It also has drafted amendments on the Requirements for Persons with Significant Influence in an Insurer, Financial Reporting, and Licensing of Insurance Broker Directive. In addition, NBE carries out on-site inspections and off-site surveillance of insurance companies and monitors the implementation of supervisory concerns to strengthen the resilience of insurance companies

[19] Window operators are conventional insurance service providers that also provide sharia compliant services through a dedicated window operation.

3.4.1 Performace of the Sector

The total assets of the sector stood at 65.6 billion birr at end of June 2024, up 32.0 percent from the previous year (Table 12). The general insurance business accounted for 93.2 percent of the sector's total assets during the period under review. Sector assets were offset by liabilities of 43.2 billion birr, up 29.3 percent from the previous year (33.4 billion birr). This resulted in net assets of 22.4 billion birr, up 37.4 percent from the previous year (16.3 billion birr).

The 32 percent growth of total assets was financed by an increase in liabilities (by 9.8 billion birr, or 61.6 percent of the total asset increase) and equity (by 6.1 billion birr, or 38.4 percent of the total asset increase). The increase in capital is mainly attributable to operational results, which are partly due to an increase in paid-up capital. This is attributable to NBE's directive that requires insurers to increase their paid-up capital to 0.4 billion birr by the end of June 2027.

Table 11 : Financial Performance of the Insurance Sector (billion birr)

Item	June 2020	June 2021	June 2022	June 2023	June 2024	Change 2023-2024 (%)
Assets						
Total Assets	29	39.1	40.8	49.7	65.6	32.0%
Total Investment	15	19	22	28.9	36.4	26.0%
Equity Investment	2.8	3.6	4.9	5.9	7.3	23.7%
Bank Deposits	10.3	13.3	14.4	19.4	24.5	26.3%
Current Assets	20.3	29.1	28.3	35.1	46.4	32.2%
Liability and Capital						
Total Liability	19.4	28	27.4	33.4	43.2	29.3%
Total Equity	9.5	11.1	13.4	16.3	22.4	37.4%
Current Liability	18.9	27.3	26.7	32.5	42.1	29.4%
Paid-up Capital	5.0	5.9	7.1	9.0	11.7	30.0%
Net profit/loss Before tax	**2.3**	**2.7**	**3.3**	**4.1**	**6.9**	**68.3%**

Source: NBE Database

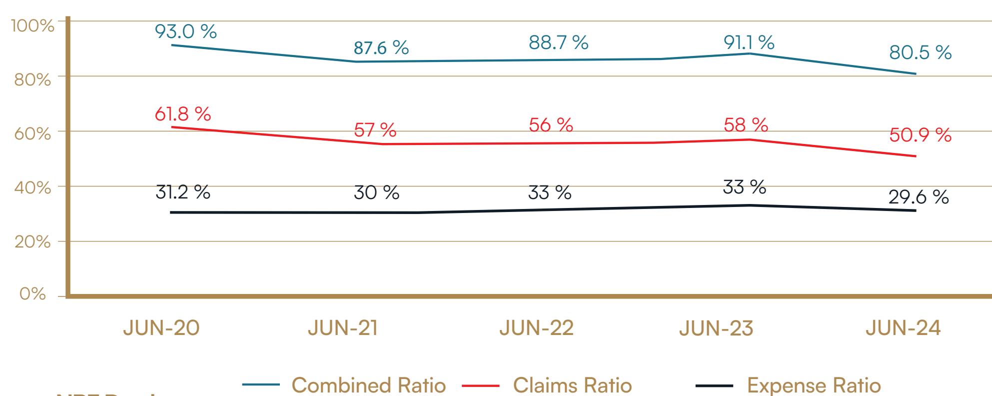
Stronger underwriting resulted in improved sector profitability, which is considered sound. Insurers generated a net income before tax of 6.5 billion birr and 0.4 billion birr from the general and long-term insurance businesses, respectively. This corresponds to a return on equity of 31.5 percent for general and 21.9 percent for long-term classes of business. However, inflation led to losses on insurers' fixed income holdings of bank deposits. The five-year average return on investment in the general insurance class of business was 9.6 percent.

The insurance sector registered a record gross premium of 28.7 billion birr at the end of June 2024, 23.7 percent higher than a year earlier and above the inflation rate of 19.9 percent. The general class of business accounted for 92.0 percent (26.4 billion birr) of the sector's gross written premium, while the long-term business and takaful

insurance accounted for the remaining 8.0 percent (Figure 29 in Annex D). In terms of products, 54.7 percent of the general insurance business is motor related, and 87.7 percent of the long-term business is term and permanent health insurance, which are technically short-term policies of one year.

Net earned premium and net claims incurred for the general class of business was 16.9 billion birr and 8.6 billion birr respectively at the end of June 2024. The respective growth of the net earned premium and net claims incurred was 44.5 percent and 26 percent. Underwriting expense for the general business was 5 billion birr, a 30.7 percent increase from the previous period of 3.7 billion birr. The resulting claims ratio and expense ratios were 50.9 percent and 29.6 percent, respectively (Figure 22). The performance of the general insurance business, as measured by the combined ratio of the loss and expense ratios, stood at 80.5 percent at the end of June 2024, better than the 91 percent recorded in the previous year and the best in five years. The minimum motor insurance premium rate that was issued by NBE in August 2023 might have partly contributed to the improved performance in this regard.

Figure 22: General Insurance Business Operational Performance

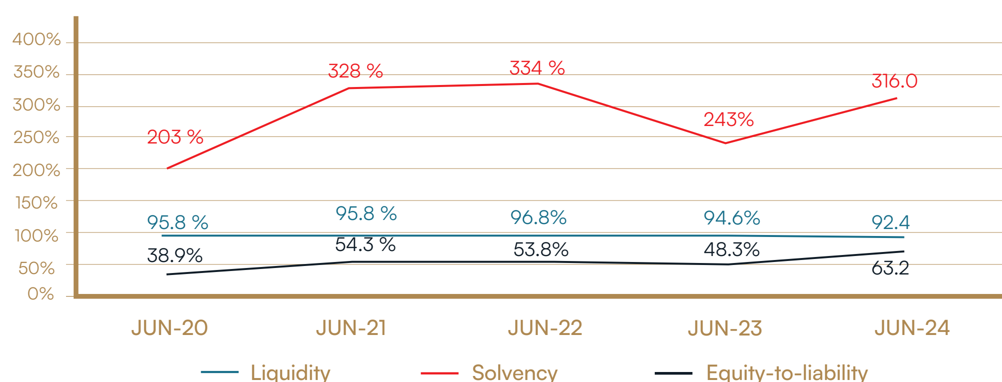


Source: NBE Database

The sector solvency, equity to liability, and liquidity positions have improved in 2024 (Figure 23). Equity as a percentage of liability stood at 63.2 percent, which is well above the 20 percent minimum prudential requirement. The industry maintained a solvency ratio (statutory capital compared to required capital) of 316 percent, showing a 73 percentage-point increment from the last reporting period. In addition, the sector is liquid with a liquidity ratio — this measures the percentage of an insurers' liability against the available liquid assets — that stood at 92.6 percent in June 2024. This was a marginal improvement over last year's result of 94.6 percent. [20] There were no significant changes in the investment portfolio composition. Even though general insurers are required to invest a minimum of 60 percent of their total assets in liquid assets, mainly in bank deposits and government securities, the actual result in this regard is 48 percent, which signifies a material shortfall.

[20] Liquidity is measured as current liability divided by current assets. The maximum standard is 105 percent. The lower the ratio, the lower the liquidity risk. A decreasing ratio is therefore an indication of a decreasing liquidity risk.

Figure 23: Key Soundness Indicators in the General Business, 2020—2024



Source: NBE Database

3.4.2 Summary Assessment of Risks for Financial System Stability Emanating from the Insurance Sector

The main risks faced by the insurance sector are due to changes in macroeconomic policies and risks related to insurance, operations, markets, and the sector's concentration of players. Pressing concerns are market penetration, specifically in the life class of the business; a shortage of insurance professionals, such as actuaries; and inadequate IT infrastructure in the industry and regulatory body.

Operational Risk: A lack of technical expertise in insurance is a real constraint. Most insurance companies' operations remain underdeveloped and unautomated. There are hurdles to overcome to implement IFRS 17[21] due to the unavailability of data and a lower level of automation for the industry's core business. The implications of this will be seen in the financial reporting period for the year to the end of June 2024.

Insurance Risk: This refers to the risk that inadequate or inappropriate underwriting, product design, pricing and claims settlement expose an insurer to financial losses and a consequent inability to meet its liabilities. Ethiopia's insurance sector is known for its stiff price competition in all classes of business. Insufficient premiums could leave industry players unable to meet their obligations from claims.

Concentration Risk: The government-owned insurance corporation accounts for 32 percent of the market share. In addition, Ethiopian Reinsurance Company receives 25 percent of treaty cession and 5 percent of each policy insurers underwrite. Moreover, 55 percent of the general class of business is motor insurance, which needs to be diversified going forward.

[21] IFRS 17 is the newest IFRS standard for insurance contracts and replaced IFRS 4 on January 1st, 2022. It states which insurance contracts items should by on the balance and the profit and loss account of an insurance company, how to measure these items, and how to present and disclose this information.

Market Risk: The investment portfolio of insurers is restricted to bank deposits by law. Such provisions could inhibit insurers from earning higher returns that could enable the further development of the sector.

Despite the potential financial stability headwinds, the sector outlook remains positive in terms of growth, stability and resilience. Technology development and automation are necessary to tackle operational risks. The sector also needs to build its capacity to expand the pool of insurance professionals. Furthermore, focus should also be given to the implementation of risk-based capital and IFRS 17.

3.5 HIGHLIGHTS ON SAVINGS AND CREDIT COOPERATIVES AND PENSION FUNDS

Savings and Credit Cooperatives

Ethiopia has a large network of savings and credit cooperatives (SACCOs)[22] — over 21,000 in total — which play an important role in financial inclusion, especially in the underserved rural areas. Nevertheless, SACCOs have limited capacity to increase their market share and become truly competitive financial institutions due to limitations in size, skills, products, use of technology, and operational models. From the point of view of the financial system's stability, SACCOs pose no systemic risk due to the limited size of the sector.

Pension Funds

Pension funds in Ethiopia are administered by two agencies, the Public Employees Social Security Administration Agency as per provisions of Proclamation No.1267/2022, and the Private Organization Employees Social Security Fund Administration Agency as per provisions of Proclamation No. 1268/2022.

[22] Cooperative societies in Ethiopia are established and administered in accordance with Proclamation No. 985/2016.

4. FINANCIAL SYSTEM INFRASTRUCTURE DEVELOPMENT AND RISKS

4. FINANCIAL SYSTEM INFRASTRUCTURE DEVELOPMENT AND RISKS

This chapter discusses developments and risks for the stability of Ethiopia's financial system related to its infrastructure. The infrastructure comprises currency management, the payment and settlement system, credit market infrastructure, and financial inclusion and consumer protection.

4.1 NATIONAL PAYMENT SYSTEMS DEVELOPMENT

Payment systems in Ethiopia were radically modernized in 2011 after NBE launched the Ethiopian Automated Transfer System (EATS), an interbank payment system comprising both the real time gross settlement (RTGS) system [23] and the automated clearing house (ACH). [24] NBE owns and manages the EATS, which provides facilities for the final settlement of payments between financial institutions and clearing and netting services for bulk payments. Before 2011, all payments in the country, including bank-to-bank transfers, were made through the exchange of letters; as a result, a single interbank transfer took days to settle.

The financial sector's dependency on the RTGS infrastructure has increased over time, and the EATS is the only financial market infrastructure designated as a systematically important payment system in Ethiopia. To ensure its safety, efficiency, and reliability, NBE has established a robust regulatory framework. (Box 5) Due to effective oversight and administration, the EATS operated at 99.9 percent reliability during the year to June 2024.

Box 5: Payment System Regulatory Framework and Developments

The digital payments ecosystem has seen significant growth over the last few years. As of June 2024, there are over 198 million digital accounts, including more than 110 million mobile money accounts and 47 million mobile banking accounts. Additionally, more than 35 million debit cards are in circulation. These advancements are promoting financial inclusion for many Ethiopians. On average, the digital payments ecosystem processes over 7.5 million transactions daily, with a total transaction value exceeding 26.5 billion birr. These figures highlight the country's increasing reliance on digital platforms and the impact of technology on its financial landscape.

[23] The RTGS is an electronic form of funds transfer for high value or sensitive payments, where money transfer takes places from one participant to another in real-time and on an individual basis. All participants maintain a payment and settlement account in RTGS for final settlement of the transactions between them.

[24] ACH is a system where low value large volume transactions (bulk transactions) are cleared and a net settlement instruction is produced. It is an electronic clearing house for cheque, Credit Transfer (CT) and Direct Debit (DD) instruments. In ACH, settlement does not happen; rather, it produces net settlement instructions and sends them to RTGS for final settlement. Each instrument, which is cleared in the ACH, requires a separate rule and arrangement.

In the coming years, the country's digital payments landscape is expected to undergo a significant transformation, and further enhancing the growth and accessibility of this type of technology. The shift will position the payments infrastructure as a key enabler of financial inclusion and economic growth. Several strategic initiatives are driving this progress. They include:

- Building secure and efficient digital public infrastructure. By integrating the instant payments infrastructure that is currently implemented by the national switch, with the national ID system (Fayda), NBE aims to create a more secure, efficient, inclusive, and interoperable digital payments landscape that promotes financial inclusion and economic development.
- Expanding the instant payments system's services. These services will allow consumers to conduct transactions in real-time, which is essential for fostering a dynamic economy.
- Creating a more enabling regulatory framework. This framework will ensure the digital payments industry operates smoothly, securely, and in compliance with regulations. Learning from the implementation of the National Digital Payment Strategy (NDPS) 1.0, the National Bank of Ethiopia (NBE) is set to launch NDPS 2.0 in early 2025. This new strategy aims to establish a robust digital payments ecosystem that provides a strong foundation for the country's financial system and economic growth.

The newly introduced QR code standard for digital payments in Ethiopia is also set to simplify transaction processes for merchants across the country. This standard will enhance security and make payments more straightforward for customers and merchants, thereby expanding access to digital payments platforms for both retail and wholesale merchants.

The swift advance of digital payments systems in Ethiopia, complemented by strategic initiatives proposed by NBE, will significantly improve access to diverse financial services for the population. The expansion of a secure and interoperable digital payments ecosystem not only provides individuals and businesses with a greater range of options for making payments, but it also fosters financial inclusion, economic growth, and a growing confidence among the public.

4.1.1 Payment Systems Performance

4.1.1.1. Ethiopian Automated Transfer System

At the end of June 2024, 35 financial institutions participated in EATS, of which three were MFIs. No major EATS interruption was reported in the year under review. The system processed more than 3.5 million transactions (down by 8.5 percent from the previous year) with a value of more than 4 trillion birr (an annual decrease of 17 percent). The decline in both volume and value of RTGS transactions is mainly due to the rise of other interoperable digital payment channels, such as mobile banking.

Table 12: Ethiopian Automated Transport System Performance, 2020-2024 (transactions: number and value)

Description	June 2020	June 2021	June 2022	June 2023	June 2024
Total number of RTGS transactions	720,666	1,734,409	2,739,763	3,901,069	3,575,343
Total Value of RTGS transactions (in billion Birr)	1,814.1	2,598.2	3,754.8	4,863.2	4,020.6
Total number of cheque transactions	886,456	461,237	414,869	355,566	245,709
Total Value of cheque transactions (in billion Birr)	54.0	48.9	52.1	43.9	40.3

Source: NBE Database

4.1.1.2. Digital Financial Services (DFS)

Following a recent NBE directive, domestic and foreign non-bank payment service providers are allowed to issue electronic money instruments and/or obtain a payment system operator's license to provide payment and remittance services.

As of June 30th, 2024, 11 non-bank entities were licensed under the new regulatory framework. This includes one national switch, six licensed payment systems operators, and four licensed payment instrument issuers. Table 13 shows the development of digital financial services' (DFS) access points since 2020.

Table 13: Digital Financial Services Access Points (channels and instruments), 2020-2024 (number)

Year Ending	ATM Terminals	Point of Sale (PoS) Terminals	Debit Cards (million)	Mobile Banking accounts (million)	Internet Banking accounts (million)	Mobile Money accounts (million)	Mobile Money Agents
June 2020	6,259	9,780	16.0	9.1	1.5	8.0	22,725
June 2021	6,343	9,208	21.2	11.9	2.3	15.3	35,964
June 2022	6,902	11,760	30.7	16.3	4.4	43.3	156,876
June 2023	7,858	12,016	38.4	27.3	6.8	68.7	233,036
June 2024	10,551	14,030	45.5	39.6	12.2	107.5	415,084
Change 2024 vs 2023 (%)	*34.2%*	*16.7%*	*18.5%*	*39.6%*	*81.3%*	*56.6%*	*78.1%*

Source: NBE Database

Important developments include the following:

The number of **ATMs** throughout the country grew by 34.2 percent to 10,551 at the end of June 2024 over the previous year. The number of **PoS** terminals deployed within financial institutions and at merchant locations also increased by 16.7 percent to 14,030 at the end of June 2024 from a year earlier. This is due to the commercialization of some non-bank PoS operators during the year. The number of

PoS devices at merchant locations is expected to increase further in the coming years as many non-bank payment service providers enter the market.

The number of **debit cards** in circulation rose by 18.5 percent to 45.5 million by the end of June 2024 from the previous year.

Mobile banking is the most widely used digital payment channel in Ethiopia. This is due to the services provided by many commercial banks, with 18 banks currently offering mobile banking at different scales. Consequently, the number of registered accounts increased by 45 percent to 39.6 million by the end in June 2024 from a year earlier. The number of **mobile money/wallet** users also increased by 56.6 percent from June 2023 to 107.5 million by the end of June 2024. The rapid growth was largely attributed to the expansion of Telebirr mobile money services and the operationalization of M-Pesa by Safaricom Ethiopia PLC and Kacha Digital Financial Services S.C.

Internet banking in Ethiopia is still in its infancy relatively speaking, with 12.2 million users by the end of June 2024, but it is growing rapidly. The number of **mobile money agents** increased by 78.1 percent at the end of June 2024 compared to the previous year, reaching 415,084 agents. The increase is mainly attributed to the expansion of Telebirr in the market.

Digital payments are growing at an exponential rate (Table 14). In the year to June 30th, 2024, payments worth more than 9.6 trillion birr were processed digitally, an increase of more than 50 percent compared to the previous year. This growth is the result of the successful implementation of the National Digital Payment Strategy and NBE's reform activities.

Table 14: Transactions Processed Through Digital Financial Services, 2020-2024 (number of transactions in million and value in billion birr)

Year ending	ATM		PoS		Mobile Banking		Internet Banking		Agent Banking		Mobile Money		Aggregate DFS	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
June 2020	153.19	142.07	1.36	4.85	11.62	68.38	0.53	22.55	4.24	1.40	4.24	2.96	175	242.20
June 2021	225.60	236.09	2.95	7.44	39.56	326.18	2.41	26.59	23.00	8.94	7.25	5.94	301	611.18
June 2022	171.07	197.54	2.34	62.18	88.01	163.57	1.09	129.57	34.39	23.01	48.50	24.36	345	1,600.24
June 2023	356.38	478.32	6.60	40.84	474.92	3,442.58	5.80	358.14	101.95	76.54	298.83	380.30	1,244	4,776.72
June 2024	437.98	728.51	10.15	24.24	1,114.81	6,717.58	15.12	749.05	130.35	446.00	764.88	1,028.59	2,473	9,693.97

Source: NBE Database

4.1.2 Interoperability

Interoperability is key to a stable, successful, and inclusive digital payments ecosystem. The vast majority of countries worldwide have recognized the importance of a local switch that enables interoperability and has optimal infrastructure for banks to connect to and allows real-time payments 24/7.

Through its national switch, Ethswitch, Ethiopia has successfully implemented a comprehensive digital payments framework, achieving full-scale interoperability for various payment methods, including person-to-person (P2P) payments, ATM cash withdrawals, PoS transactions, and the use of quick response (QR) codes for seamless financial exchanges. As a result, the number and value of transactions have grown exponentially (Table 15).

The smooth and efficient functioning of the national switch is vital for the growth of the digital payment landscape in the country. Recognizing this importance, NBE has provided extensive support to enhance the capabilities of the national switch. This support is not only aimed at ensuring that the system operates at its maximum capacity, it also focuses on developing the necessary infrastructure to facilitate the widespread adoption and integration of digital payments solutions throughout Ethiopia.

Table 15: Interoperability Performance Through ATM, Point of Sale and Person-to-Person Transactions, 2020-2024

	June 2020	June 2021	June 2022	June 2024	June 2024
ATM transactions					
Number	15,044,699	24,166,034	39,894,113	71,433,041	94,030,684
Value (billion birr)	12.78	26.56	44.9	89.7	119.24
POS transactions					
Number	1,107	109,506	361,317	970,434	2,345,444
Value (billion birr)	1.02	0.2	0.3	2.6	5.51
P2P transactions					
Number	0	29,881	2,067,710	14,140,881	55,204,745
Value (billion birr)	0	0.2	19.9	113.3	283.01

Source: NBE Database

4.1.3 Summary Assessment of Payment System Risks and Outlook

Payment systems risk includes potential losses to entities or individuals, such as a bank's customers or third parties, that send or receive payments. Accordingly, it is important for a bank's risk management practices and internal controls to evolve and keep up with changes in the bank's payment systems, products, and services. Like any other system globally, developments in the country's payment system are exposed to several risks, including operational, liquidity, compliance, reputation, systemic, fraud, and settlement.

Liquidity risk refers to the potential for participants to lack sufficient funds to meet their settlement obligations. This leads to disruptions in the smooth functioning of the system and settlement failure, which reduces the efficiency and reliability of the payment system, affecting peer participants and their clients. Short-term liquidity problems were seen on the system by a few participants during the period. The recently established Standing Lending Facility should serve as a safety net for participants during times of unexpected liquidity shortages in the period ahead.

Compliance risk refers to the potential for adverse consequences arising from a failure to comply with relevant laws, regulations, and industry standards, leading to increased exposure to other risks such as operational, credit, and liquidity risks. No major failures to comply with NBE regulatory requirements were seen from the payment service providers during the period, as NBE has established robust regulatory frameworks to reduce the likelihood of non-compliance, and it maintains a strong reputation for adherence to legal and regulatory standards.

Reputation Risk refers to the potential for adverse consequences arising from the public's negative perception of, or damage to, the payment system's reputation. This can occur when a payment system fails to perform as expected, leading to loss of trust among participants, the public and customers. In the review period no issues were seen on the system that led to a loss of trust among its participants and customers. Regular monitoring and oversight of the payments system can mitigate the potential risks.

Settlement Risk refers to the potential for adverse consequences arising from the failure of one party to fulfill its settlement obligations, leading to financial losses or disruptions in the settlement process. Continuous monitoring of the system, prudent liquidity management, establishing collateral requirements for participants with intraday credit exposure, and ensuring the finality and irrevocability of settlement can enhance the resilience of its processes, reduce the likelihood of settlement risk, and contribute to the system's overall stability and reliability.

Systemic Risk refers to the potential for widespread disruptions across the financial system that can occur due to the failure of a major payments system participant or a systemic failure in the payments' infrastructure. Such disruptions can have cascading effects, impact on multiple participants and undermine the system's overall financial stability. To mitigate systemic risks, it is crucial to implement a variety of measures. These include enhanced monitoring and stress testing of the payments system, and the establishment of strong contingency plans and robust coordination among regulatory authorities, financial institutions, and payment system operators.

Fraud Risk involves the potential for fraudulent activities that can compromise the integrity of payment systems and lead to financial losses for participants. Fraudulent activities can include unauthorized transactions, identity theft, and the manipulation of

payment data. Effective fraud risk management requires the implementation of advanced fraud detection systems, regular monitoring for suspicious activities, and strong authentication protocols. Additionally, educating users about security best practices and ensuring compliance with industry standards can further reduce the risk of fraud within the payments system.

Cyber Security Risk: Globally, attacks on information and communications technology systems (cyber-attacks) are increasing, targeting mostly the financial sector. It poses significant threats to the integrity, confidentiality, and availability of financial transactions, leading to data breaches, the disruptions of services, fraudulent transactions and reputational damage. No cyber security threats were reported to NBE from participants of EATS and DFS providers during the period. Strong security controls (like multifactor authentication), vendor security assessments, establishing redundant and backup systems to improve reliability, and collaboration with law enforcement bodies can enhance its cyber security posture and better protect against potential threats.

Overall, the national payments system is expected to remain safe, efficient, and trusted among users in 2025. The performance of EATS and DFS products is expected to show continuous growth both in value and volume terms, and they will continue to evolve and contribute to the country's overall financial stability.

4.2 CREDIT MARKET INFRASTRUCTURE

Ethiopia's Credit Reference Bureau (initially called the Credit Information Centre) was first established in 2004. Its main purpose was to lessen the difficulty of getting adequate and timely credit information that enables the satisfactory assessment of banking sector borrowers' credit worthiness. This will improve the loan portfolio and the stability of the financial system.

Initially, credit information was manually made available to lending banks, which were mandated to grant loans and advances of 200,000 birr or more, only after first obtaining information from the Credit Information Centre. The system was upgraded and expanded in 2012 and again in 2019, incorporating MFIs and capital goods financing companies as subscribers, data providers, and users.

In summary, the expansion in the credit reporting system's (CRS) coverage has contributed substantially to ensuring an adequate loan portfolio in the banking and MFI industries. Going forward, the modernization of the CRS — including the upgrade of IT infrastructure, the modernization and streamlining of databases, and updating the service-level agreements — will ensure that CRS's operational risk remains stable.

Table 16: Credit Market Infrastructure Data

	June 2020	June 2021	June 2022	June 2023	June 2024
Number of subscribers to the CRS	19	19	23	28	30
Total number of borrowers listed in the CRS	131,167	170,456	208,090	263,790	336,549
Individual borrowers	120,728	157,541	193,542	247,317	316,928
Non-Individual borrowers	10,439	12,915	14548	16,473	19,621
Total number of credit accounts in the CRS	312,037	388,329	456,439	553,445	669,711

Source: NBE Credit Reference Bureau

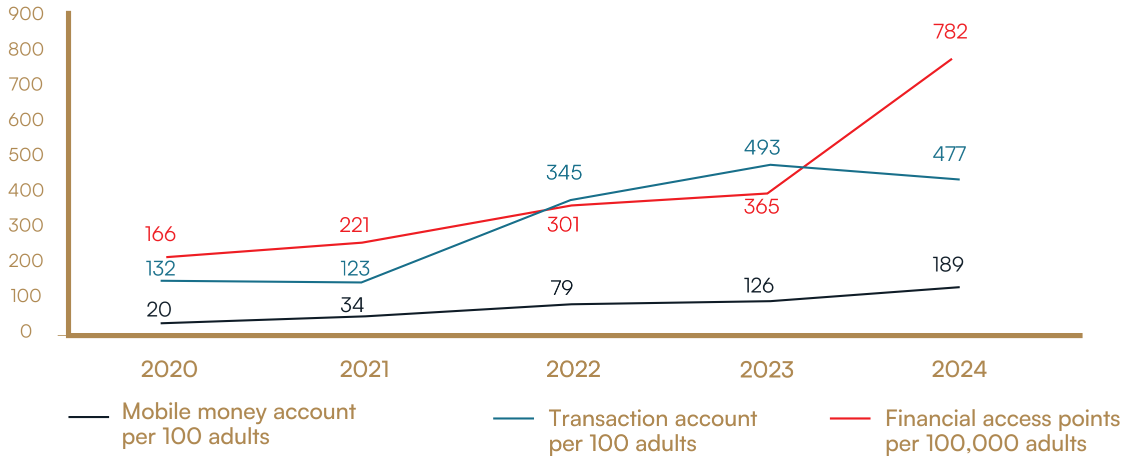
4.3 FINANCIAL INCLUSION AND CONSUMER PROTECTION

Financial inclusion is an essential prerequisite for sustainable development, and it plays a key role in stabilizing the country's financial system, job creation, digital transformation, and Ethiopia's continued economic growth. It allows financial institutions to access diversified funding sources and improve their ability to manage their liquidity risks. Expanding financial access and use in severely underserved areas is a national priority and NBE's long-standing target. In response to these policy objectives, the National Financial Inclusion Strategy II was developed and is now in the process of being implemented. In support of this, a comprehensive regional financial inclusion framework has been developed and launched during the year for nine regional states. The framework is mainly prepared to aggressively expand financial access to underserved areas, narrow the regional financial inclusion disparity and accommodate the regional context.

Over the past five years, the number of transaction accounts [25] has increased at an average annual rate of 31 percent, reaching 272 million at the end of June 2024. Of these, the total number of interest-free deposit accounts accounted for 23.7 million. Accordingly, the number of transaction accounts per 100 adults reached 477 at the end of June 2024, compared to 365 a year before and the National Finance Inclusion Strategy II's (NFIS-II) headline target of 286 (Figure 24). The number of traditional and digital financial access points has expanded significantly. Their combined number increased by 64.4 percent from 271,203 at the end of June 2023 to 445,856 a year later. In terms of access points per capita, 782 financial access points served 100,000 adults during 2024, compared with 493 access points per 100,000 adults in 2023.

[25] This includes regular deposit accounts and mobile money wallets of commercial banks and other payment instrument issuers.

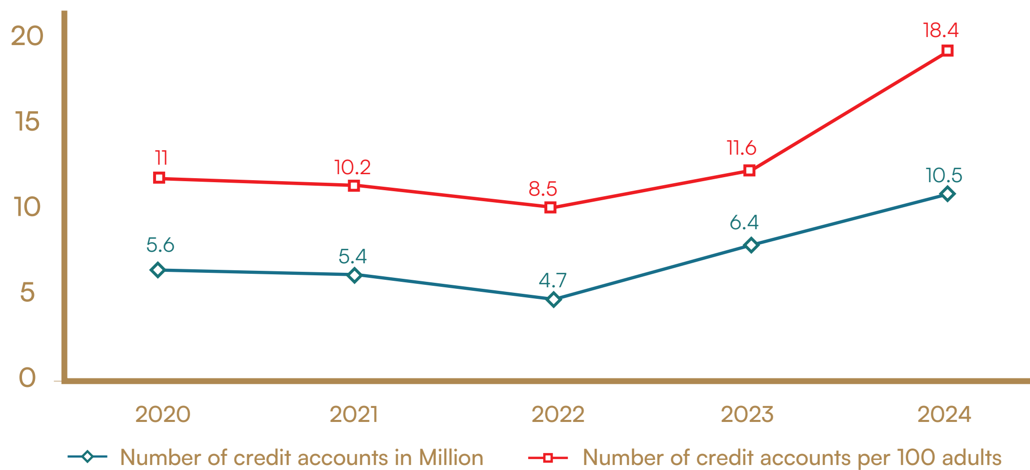
Figure 24: Financial Access Points and Usage, 2020- 2024



Source: NBE Database

Furthermore, the total number of credit accounts in the financial sector increased from 6.4 million at the end of June 2023 to 10.5 million at the end of June 2024 — a growth rate of 64.3 percent (Figure 25). During the year, there were a total of 4.1 million new digital credit users. As a result, the total number of credit accounts per 100 adults increased to over 18 at the end of June 2024 against 11.6 at the end of June 2023 and far above the NFIS-II's headline target of 12.8.

Figure 25: Number and Density of Credit Accounts, 2020-2024



Source: NBE Database

Financial consumer protection is another important intervention area for NBE, which aims to enhance the trust and confidence of the general public by ensuring transparency, fairness, and consumer rights. Accordingly, NBE issued the relevant Financial Consumer Protection Directive and established a directorate dedicated to the supervision of the market, dispute resolution, and ensuring financial consumer rights are fully protected, and market confidence is maintained. During the year, a total of 3,345 financial consumer complaints related to transaction failure, unauthorized transactions, data misuse, and fraud were received by financial institutions. Of these, 48 percent are related to transaction failures. The financial institutions resolved 90 percent of the complaints reported during the year.

ANNEX

A. SELECTED FINANCIAL DATA FOR THE COMMERCIAL BANKS

Table 17: Commercial Banks Loans and Advances by Sector (In millions of birr) As of June 2024

S/N	Economic Sector	Amount	% share
1	Agriculture	95,080.22	6.33
2	Manufacturing	345,343.58	23.01
3	Domestic Trade	261,669.43	17.43
4	International Trade	334,208.74	22.27
4.1	Export	212,097.35	14.13
4.2	Import	122,111.39	8.14
5	Hotel & Tourism	42,433.80	2.83
6	Buliding & Construction	166,931.82	11.12
7	Mines, Power & water	641.52	0.04
8	Financial Institutions	4,706.55	0.31
9	Transport & Communication	40,400.81	2.69
10	Health & Education	6,891.09	0.46
11	Consumer and staff loans	176,757.22	11.78
12	Other Sectors	25,842.40	1.72
	Total	**1,500,907.21**	100.00

Source: NBE Database

Table 18: Consolidated Balance Sheet of Commercial Banks In Millions of Birr

Assets	Jun-23	Mar-24	Jun-24	% Share of Total Assets	% Change	
	A	B	C	D	E= (C-B)/B	F=(C-A)/A
CASH ON HAND (2.1+2.2)	**45,372.71**	**51,856.91**	**53,635.37**	1.64	3.43	18.21
Domestic banks deposits (3.2.1+3.2.2)	49,176.44	54,442.25	47,913.06	1.46	-11.99	-2.57
Deposits with NBE(sum 3.1.1-3.1.4)	224,871.53	194,429.42	215,639.41	6.58	10.91	-4.11
Foreign banks deposits(3.3.1+3.3.2)	62,888.05	60,611.43	81,370.25	2.48	34.25	29.39
INVESTMENTS (4.1+4.2)	795,445.64	828,304.34	874,017.91	26.67	5.52	9.88
Securities (sum 4.2.1.1 - 4.2.1.5)	642,771.53	680,395.54	693,130.69	21.15	1.87	7.83
Treasury bills	142,336.75	132,963.35	161,001.57	4.91	21.09	13.11
DBE Bonds	21,291.56	65,188.76	65,970.70	2.01	1.2	209.84
NBE bills	17,393.40	13,113.78	17,364.48	0.53	32.41	-0.17
Government Bonds	78,637.58	78,473.01	86,516.78	2.64	10.25	10.02
Corporate Bonds	523,235.31	520,723.22	520,723.22	15.89	0	-0.48
Equity participation (4.2.2.1 + 4.2.2.2)	9,724.39	14,538.97	15,295.21	0.47	5.2	57.29
Loans and Bonds	1,953,180.92	2,156,811.24	2,194,038.31	66.95	1.73	12.33
Total Loans & Advances (5.1.1+5.1.2+5.1.3)	1,310,409.39	1,476,415.70	1,500,907.62	45.8	1.66	14.54
Provisions for loans and advances (5.2.1+5.2.2)	62,949.02	68,754.96	59,990.27	1.83	-12.75	-4.7
LOANS AND ADVANCES (NET) (5.1-5.2)	1,247,460.36	1,407,660.74	1,440,917.34	43.97	2.36	15.51
OTHER FINANCIAL ASSETS (Net) [(sum 6.1-6.4) -(6.5)]	314,697.94	418,580.07	433,713.56	13.23	3.62	37.82
Suspense accounts	**8,815.36**	**11,542.91**	**18,899.22**	0.58	63.73	114.39
FIXED ASSETS (Net) (8.1— 8.2)	68,092.38	83,795.33	87,222.10	2.66	4.09	28.09
SUPPLIES STOCK ACCOUNT	6,619.65	9,066.50	9,008.96	0.27	-0.63	36.09
OTHER NON-FINANCIAL ASSETS	25,948.89	28,194.26	27,752.62	0.85	-1.57	6.95
INTANGIBLE ASSET(Net) [(11.1+11.2)-(11.3)]	5,295.04	5,554.22	6,099.06	0.19	9.81	15.18
Total assets	**2,845,868.64**	**3,142,495.47**	**3,277,289.64**	100	4.29	15.16
Liabilities	**2,567,918.54**	**2,834,743.32**	**2,937,191.91**	89.62	3.61	14.38
Deposits	**2,162,188.90**	**2,392,021.80**	**2,494,718.46**	76.12	4.29	15.38
Demand/current deposits (sum 14.1.1-14.1.14)	679,893.95	743,034.58	813,298.42	24.82	9.46	19.62
Savings deposits (sum 14.2.1-14.2.7)	1,370,109.29	1,497,506.40	1,524,318.95	46.51	1.79	11.26
Time/fixed deposits (sum 14.3.1-14.3.7)	112,185.66	151,480.82	157,101.09	4.79	3.71	40.04
Local borrowings (sum 15.1.1-15.1.3)	124,255.01	120,312.41	118,931.53	3.63	-1.15	-4.28
Foreign borrowings(sum 15.2.1-15.2.3)	0	1,167.39	1,177.03	0.04	0.83	
Borrowings from NBE	119,415.69	114,631.01	113,508.41	3.46	-0.98	-4.95
DEBT SECURITIES ISSUED	0	0	0	0		
State dividend payable	87.14	235.9	120.83	0	-48.78	38.66
SUNDRY CREDITORS	40,769.01	106,208.01	95,114.20	2.9	-10.45	133.3
Provision for taxation & other	4,437.20	17,387.13	28,431.02	0.87	63.52	540.74
OTHER ACCOUNTS (sum 20.1-20.3)	236,181.29	197,410.68	198,698.83	6.06	0.65	-15.87
Capital & Reserves A/C	**220,839.02**	**262,930.21**	**270,882.97**	8.27	3.02	22.66
Paid up capital	165,289.60	192,993.47	197,298.79	6.02	2.23	19.37
Shares premium	397.53	459.21	774.76	0.02	68.72	94.89
Legal reserves	44,322.63	56,723.76	56,728.49	1.73	0.01	27.99
General reserves	6,123.85	8,611.22	9,255.06	0.28	7.48	51.13
Retained Earnings	4,705.42	4,142.55	6,825.86	0.21	64.77	45.06
Provisional profit/loss A/C	57,111.06	44,821.94	69,214.75	2.11	54.42	21.19
Total liabilities & capitals	**2,845,868.62**	**3,142,495.47**	**3,277,289.63**	100	4.29	15.16

Source: NBE Database

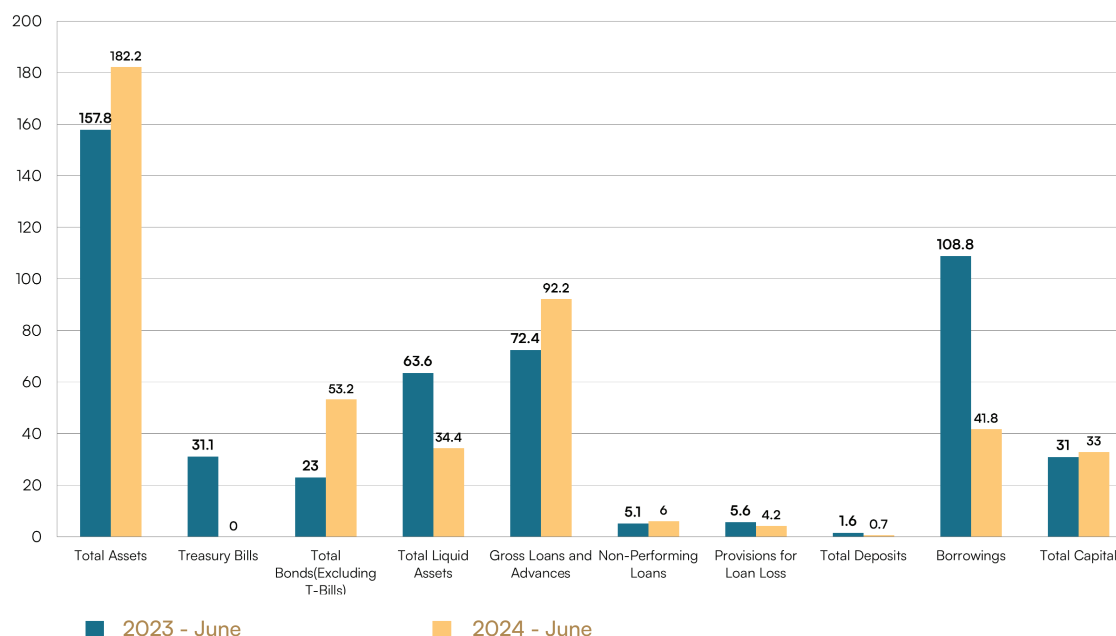
B. SELECTED FINANCIAL DATA FOR THE DEVELOPMENT BANK OF ETHIOPIA

Table 19: Development Bank of Ethiopia's Key Balance Sheet Items/Ratios, June 2023-2024 (billion birr)

Items	June 2023	June 2024	% Change
Total Assets	157.8	182.2	15.5
Treasury Bills	31.1	0	-100.0
Total Bonds (Excluding T-Bills)	23	53.2	131.3
Total Liquid Assets	63.6	34.4	-45.9
Gross Loans and Advances	72.4	92.2	27.3
Non-Performing Loans	5.1	6	17.6
Provisions for Loan Loss	5.6	4.2	-25.0
Total Deposits	1.6	0.7	-56.3
Borrowings	108.8	41.8	-61.6
Total Capital	31	33	6.5
Ratios (percent)			Change (percentage points)
NPLs to Total Loans	7.1	6.5	-0.6
Provisions to NPLs	117.5	72.6	-44.9
Capital-to-Risk Weighted Asset	30.4	23.9	-6.5
Net worth to Risk weighted Assets	38.2	29	-9.2
Liquid Assets to Total Deposits	4015	5049	1034
Liquid Assets to total loans	87.9	37.7	-50.2

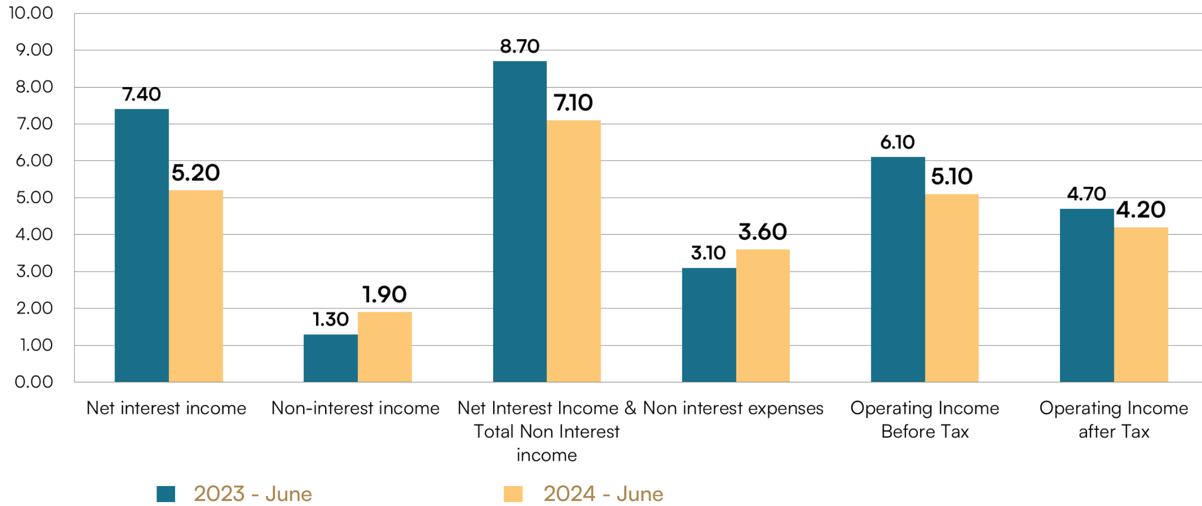
Source: DBE

Figure 26: DBE Major Balance Sheet Items, June 2022-2023 (billion Birr)



Source: DBE

Figure 27: DBE Major Balance Sheet Items, June 2022-2023 (billion Birr)



Source: DBE

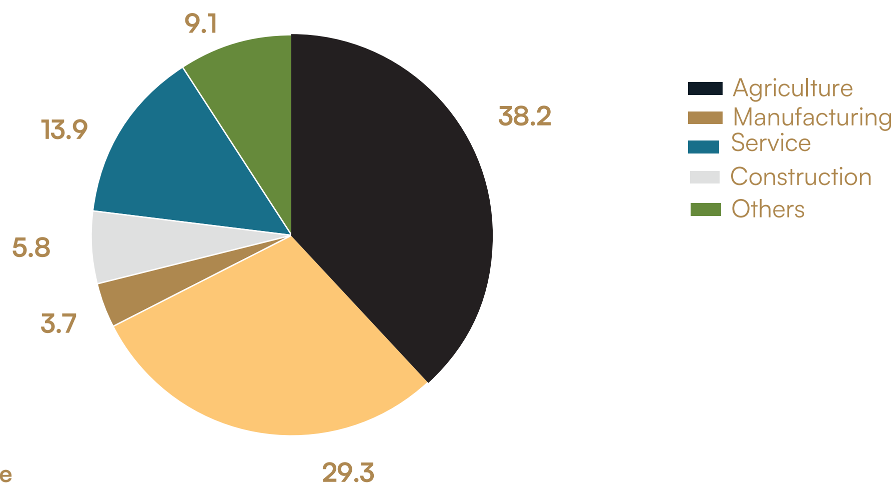
C. SELECTED FINANCIAL DATA FOR THE MICROFINANCE SECTOR

Table 20: Microfinance Loan Distribution by Sector, 2020-2024 (billion birr)

Year to	Agriculture	Trade	Manufacturing	Construction	Service	Others	Total
June 2020	5.1	4.8	0.8	4.1	1.2	1.4	**17.5**
June 2021	5.8	5.4	1.0	4.4	2.0	1.6	**20.3**
June 2022	6.7	7.6	1.6	4.5	3.4	1.6	**25.4**
June 2023	6.8	12.4	2.2	4.2	4.1	1.7	**31.4**
June 2024	7.1	16.9	2.5	4.4	6.7	2.1	**39.7**

Source: NBE Database

Figure 28: Distribution of Microfinance Institutions' Non-Performing Loans by Borrowing Sector, June 2024 (percent of total)



Source: NBE Database

Table 21: Major Profitability Items of the Microfinance Sector, 2020-2024 (billion birr)

No	Major items	June 2020	June 2021	June 2022	June 2023	June 2024	Change 2024 vs. 2023 (%)
1	Total income	3.5	2.9	4.0	6.4	9.0	39.4
	O/w interest income	2.7	2.1	3.0	4.8	7.2	52.4
2	Total expense	2.9	2.3	3.1	5.2	5.9	13.4
	O/w interest expense	1.1	0.8	1.0	2.3	3.2	39.8
3	Net income before tax	0.5	0.5	0.9	1.2	3.0	148.5

Source: NBE Database

D. SELECTED FINANCIAL DATA FOR THE CAPITAL GOODS FINANCE BUSINESS SECTOR

Table 22: Capital Goods Finance by Sector, 2020-2024 (million birr)

Items	June 2020	June 2021	June 2022	June 2023	June 2024	Change 2023 - 2024 (%)
Agriculture	151.1	370.3	506.7	341.1	263.7	(22.7)
Manufacturing	608.0	799.5	1,050.7	1,754.3	2,545.3	45.1
Construction	82.9	107.0	251.3	274.8	340.8	24.0
Services	96.7	221.0	312.7	347.4	506.7	45.9
Others	43.0	52.1	51.7	49.7	88.1	77.3
Total	**981.7**	**1,549.9**	**2,173.1**	**2,767.3**	**3,744.6**	**35.3**

Source: NBE Database

Table 23: Profitability of the Capital Goods Finance Sector, 2020-2024 (million birr)

Items	June 2020	June 2021	June 2022	June 2023	June 2024	Change 2023 - 2024 (%)
Total Income	248.1	397.1	371.8	537.7	529.3	(1.6)
Total Expense	239.7	398.1	389.1	509.2	872.3	71.3
Net income/loss before tax	8.3	(1.0)	(17.5)	28.6	(343.0)	(1,299.3)
Return on equity (%)	0.6	-0.02	(0.6)	1.1	(15.3)	(1,490.9)
Return on assets (%)	0.3	-0.04	(0.3)	0.5	(5.3)	(1,160.0)

Source: NBE Database

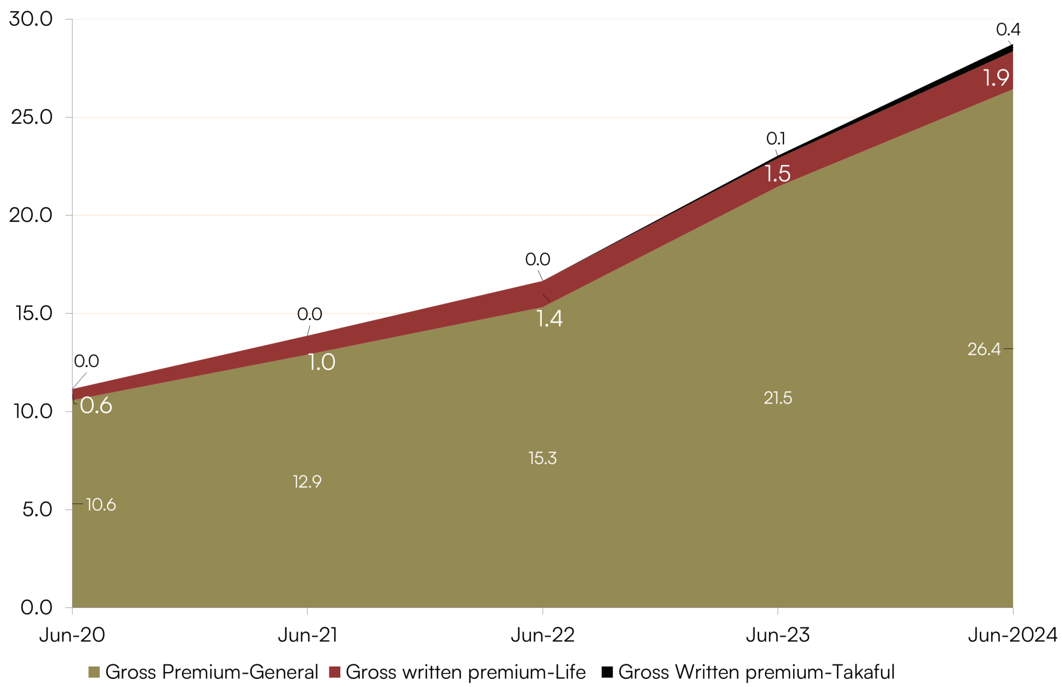
Table 24: Capital Goods Companies Soundness Indicators, 2020-2024 (percent)

No	Major items	June 2020	June 2021	June 2022	June 2023	June 2024	Change 2023 - 2024 (%)
1.	**Capital Adequacy**						
	CAR	67.7	60.7	55.1	52.0	41.9	(10.1)
	Debt to equity ratio	72.6	93.2	105.0	122.6	184.5	61.9
2.	**Asset quality**						
	NPLs	8.6	5.3	2.9	5.1	7.5	2.4

Source: NBE Database

E. SELECTED FINANCIAL DATA FOR THE INSURANCE SECTOR

Figure 29: Gross Premium by Class of Business, 2020-2024 (million birr)



Source: NBE Database

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NATIONAL BANK OF ETHIOPIA