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NATIONAL BANK OF ETHIOPIA

PRESS RELEASE

MONETARY POLICY COMMITTEE INAUGURAL MEETING

31 December 2024 | Addis Ababa, Ethiopia

The Monetary Policy Committee (MPC) of the National Bank of Ethiopia held its inaugural meeting on December 31, 2024. In line with its roles and responsibilities set out in the NBE Establishment Proclamation, the MPC proposes monetary policies for adoption by the NBE Board and consistent with the central bank's primary objective of maintaining price stability while supporting growth. In this context, the MPC reviews Ethiopia's latest inflation developments, trends in the fiscal, external, and financial sectors, broader economic activity indicators, and global conditions that have a material impact on domestic conditions. Based on a thorough assessment of these developments as well as the near-term outlook, the Committee recommends the appropriate monetary policy stance—as well as a specific package of monetary policy actions—to be adopted for the period ahead.

In its deliberations on Ethiopia's most recent macroeconomic conditions, the Committee reviewed major developments in the following areas:

- **Inflation:** The Committee noted that year-on-year inflation has continued its downward trajectory and stood at a five-year low of 16.9 percent as November 2024, helped by the tightened stance of monetary policy adopted in August 2023. Food inflation, though still elevated at 18.5 percent, has been on a broadly moderating trend for over a year. Non-food inflation showed a slight increase to 14.4 percent in November 2024, reflecting in part recent exchange rate effects and increases in some administered prices. At the same time, the most recent monthly inflation outturn for November 2024 was marked by a substantial decline in month-on-month inflation to -0.8 percent, in line with seasonal norms and indicative of limited exchange rate pass-through effects to date.

- **Growth and Economic Activity**: Following real GDP growth of 8.1 percent in 2023-24, activity indicators point to continued strong growth momentum so far this fiscal year. A favorable rainy season in most parts of the country and multiple supply-side initiatives in agriculture suggest a record harvest is likely for the current crop season. Quarterly production data on electricity, iron and steel suggest strong year-on-year output growth in the industrial sector, while service activity also appears supported by increases in air transport and tourism arrivals. Overall, most activity indicators suggest a continued strong growth for the 2024-25 fiscal year.

- **Monetary developments**: The Committee noted that developments in key monetary aggregates were marked by a sharp slowdown in growth rates in 2023-24, which helped reduce inflationary pressures and expectations last year. At the same time, somewhat higher growth rates have been observed for all key monetary aggregates since the start of the current fiscal year: growth in broad money and base money stood at 20 percent and 17 percent, respectively, as of November 2024, while growth in domestic credit was similarly strong at 19 percent on a year-on-year basis. However, despite the recent pick-up in monetary growth rates, the Committee noted that there has been a sharp reduction in key monetary aggregates relative to the size of the economy—with growth rates of broad money, base money, and domestic credit all well below growth in nominal GDP—and that a gradual reversal of this real decline would be welcome to support growth over the medium-term.

- **Banking and Financial Sector**: The banking system was assessed to be safe and sound, with low NPLs, high provisions, and adequate capital. At the same time, significant liquidity strains were noted in some segments of the banking system, which was reflected in high loan-to-deposit ratios and a low ratio of excess reserves to deposits for the private banking system. These liquidity challenges are being mitigated somewhat by the recent availability of both an inter-bank money market and a Standing Lending Facility at the NBE.

- **Fiscal position**: Budgetary developments have been broadly favorable given on-going fiscal consolidation. This has allowed for zero monetary financing of the deficit so far in the fiscal year and thus been highly supportive of the central bank's monetary policy stance.

- **External sector**: Helped by the exchange rate reform of July 2024, the external position is showing significant improvement, including strong growth in exports and remittances, modest import compression, and substantial capital inflows from private and official sources. These developments have generated a current account surplus in the first quarter of the fiscal year and also boosted FX reserves to record highs at both commercial banks and at the NBE.

- **Global environment**: Commodity price developments—which are the primary channel through which the global economy affects domestic conditions—have been broadly favorable. Global oil prices have declined by 15 percent since the start of the fiscal year while prices for Ethiopia's largest exports (coffee and gold) have risen to record highs, contributing to a strong balance of payments improvement. While some parts of the global economy (including in Ethiopia's major trading partners) have experienced a growth slowdown, this has not yet had a material impact on exports or FDI. At the same time, some of the more positive turns in the world economy—such as the easing of monetary policies in advanced economies and the strengthening recovery in some economies—have had relatively limited impacts to date, reflecting Ethiopia's still low level of trade and financial integration with the outside world.

MPC Assessment and Decision

The MPC noted that while recent inflation outturns have been encouraging and show a generally disinflationary direction, it nonetheless remains important to maintain a prudent monetary stance. In particular, the Committee noted that the inflation rate remains elevated and is well above the intended target of reaching single-digit inflation over the medium term. In addition, in the Committee's view, two aspects of the macroeconomic outlook call for a cautious monetary stance: the expected easing of fiscal conditions over the coming months (given the normal budgetary execution cycle as well as increases in salaries, social spending, and safety nets) and the moderately expansionary impulse likely from increased net foreign exchange inflows. Set against these considerations, the Committee recognized the disinflationary trend in the latest monthly inflation data (-0.8 percent for November 2024), the unusually tight liquidity and credit conditions prevailing in the banking system, and the sharp real decline in monetary aggregates relative to nominal GDP. In balancing these considerations, the Committee judged that the current prudent stance of monetary policy should be maintained, albeit with modest modifications.

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

- First, the MPC decided to leave unchanged the current National Bank Policy Rate (NPR) of 15 percent, given the need to reduce the still elevated inflation rate and also the importance of anchoring exchange rate expectations.
- Second, as the move to an interest-based monetary policy regime remains in a transitional phase, the MPC recommended the continued use of a credit growth target but with a moderate adjustment in the targeted credit growth rate from 14 percent to 18 percent.
- Third, the Committee maintained unchanged the existing rates applicable for NBE's Standing Deposit Facility, Standing Lending Facility, and reserve requirements on bank deposits.

The Committee noted that its future monetary policy decisions will be heavily dependent on inflation outturns over the coming months. The Committee decided that its next meeting shall take place on March 25, 2025.

Monetary Policy Committee
National Bank of Ethiopia
December 31, 2024