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NATIONAL BANK OF ETHIOPIA

PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING NO.5

30 December 2025 | Addis Ababa, Ethiopia

The National Bank of Ethiopia's Monetary Policy Committee (MPC) held its 5th meeting on December 22, 2025. In line with its roles and responsibilities set out in the NBE Establishment Proclamation 1359/2025, Article 23, the MPC regularly proposes monetary policies for approval by the NBE Board. In its 5th meeting, the MPC reviews latest real sector development, inflation dynamics, external sector performance and developments in the monetary, financial and fiscal sectors, as well as global situations that have impact on the Ethiopian economy. Based on a thorough review of these developments, and the near-term outlooks, the Committee recommends appropriate monetary policy measures to be endorsed by the Board.

The Committee reviewed major developments in the following areas:

- **Inflation:** The Committee noted that the November 2025 inflation rate at 10.9 percent shows a continuous downward trend indicating NBE's eventual single digit headline inflation objective is on the right track, albeit not yet attained. The on-going slowdown in inflation rates over the past months was judged by the Committee to be driven by the continued tight stance of monetary policy, the improvement in agricultural production, and the gradual nature of adjustments in key administered prices. Looking at specific components, food inflation has fallen to 10.6 percent, a substantial drop from 18.5 percent a year earlier. Non-food inflation at 11.4 percent has also shown a significant drop vis-a-vis last year same period. Month-on-month deflation rate at 1.4 percent in November 2025 shows a significant and continued easing of price pressures in the economy.

- **Growth and Economic Activity:** The Committee noted that Ethiopia's economy has maintained a robust growth movement. Real GDP grew by 9.2 percent in FY 2024/25, higher than 7.5 percent last eight years average growth. The service sector's contribution to economic growth remained steady at 3.1 percent whereas the industrial sector contribution to growth rose from 2.7 percent in 2024 to 3.7 percent in 2025 strongly supported by mining and quarrying sector particularly gold production with contribution surged to 1.0 percent in FY 2024/25 from 0.1 percent in 2024. Agriculture's contribution has also seen a steady rise, slightly from 2.2 percent in 2023/2024 to 2.3 percent in 2024/25. Economic activity indicators continue to show strong growth momentum, as captured by NBE's latest Composite Indicators of Economic Activity (CIEA), which tracks high-frequency data in various segments of the economy. Accordingly, multiple supply-side initiatives in agriculture, robust growth taking place in key parts of the industrial sector supported in part by the easing of FX constraints and government targeted support through the National Council of Manufacturing. Improvements in services such as air transport, and tourism are experiencing noticeable growth over the period as well. However, declines were observed in some areas including export items (oilseed, pluses and flowers), import value of raw materials, and import volume of petroleum compared to the same period last fiscal year.

- **Monetary Developments:** Monetary aggregates have been expanding at a faster pace, reflecting a moderate easing of credit policies together with fiscal and external developments. As of November 2025, y-o-y growth in broad money and base money stood at 38.8 percent and 67.3 percent, respectively, the highest growth in both cases recently. Compared with their June 2025 balances, broad money and base money increased by 10.7 percent and 7.8 percent, respectively. Growth in outstanding credit of banks reached 44.5 percent (y-on-y) by end November 2025, while also expanded by 18.3 percent compared to June 2025 balance. The much faster growth rate of reserve money mainly has been driven by NBE's gold-related foreign exchange accumulation and the corresponding injection of local currency liquidity into the banking system. Though the reserve money growth appeared to be expansionary, the credit cap policy had influenced the multiplier which in turn limited the expansion of broad money despite end of November 2025 annual growth is the highest recent years and also much higher than the nominal GDP growth. This trend, therefore, has been gauged as a concerning trajectory going forward.

- **Interest Rate Developments:** The Committee noted that market interest rates have shown remarkable development and remained positive in real terms except the saving rate. In the Treasury Bills market, the weighted average yield of 91-day T-bills has been showing an increasing trend and reached 16.2 percent in November 2025 from 14.3 percent last year same period. In the local currency inter-bank money market, the 7-day weighted average rate as of November 2025 stood at 17.3 percent, which was within the NBE's interest rate corridor of 15 percent plus-or-minus three percent. The cumulative traded volumes in local currency inter-bank money market has continued to grow steadily and stood at Birr 1.26 trillion since operational late October 2024.

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

- **Fiscal Sector:** Fiscal policy in the review period appeared to be prudent and more disciplined and aligned with the NBE's tight monetary policy stance. During the first five months of FY 2025/26, the government continued to be refrained from borrowing from the NBE which has been highly supportive of the NBE's monetary policy stance. Instead, T-bill market is being used to finance government budget deficit where more than Birr 70 billion has been mobilized during the firs five months of FY 2025/26.

- **External Sector:** The Committee realized that, following the comprehensive reform in July 2024, Ethiopia's balance of payments registered a surplus, signalling resilience in external accounts. During the first five months of FY 2024/25, strong growth trajectory in export of goods driven by particularly growth in gold and coffee exports, including encouraging growth in remittances, growth in net services trade and capital flows. These developments have maintained current account surplus and overall balance of payment remained positive, which have played a significant role in the NBE's international reserve build up to the highest level ever.

- **Global environment:** As per IMF's October 2025 outlook, global growth is projected to slow down from 3.3 percent in 2024 to 3.2 percent in 2025 and further to 3.1 percent in 2026. The modest deceleration reflects stubborn headwinds from uncertainty and rising trade barriers, even though the increase in tariff and its effect has been smaller than originally announced. Inflation is projected to vary significantly across regions. Global Inflation is expected to decline to 4.2 percent in 2025 and to 3.7 percent in 2026.

MPC Assessment and Recommendations

The Committee noted that NBE's tight monetary stance has been indispensable to the on-going disinflation process and agreed that this policy stance should remain in place and/or strengthened until the envisioned target of reaching single-digit inflation is adequately realised.

Accordingly, the MPC recommended and the NBE Board approved the following monetary policy measures:

- **First**, the Board decided to maintain the National Bank Rate at 15 percent while also keeping unchanged existing rates applicable for NBE's Standing Deposit Facility and Standing Lending Facility.

- **Second**, the committee recommend and NBE Board approved to maintain the credit cap policy (24 percent y-o-y growth) until next MPC meeting. This is on account of the following facts; (i) the highest credit expansion in November 2025 (44.5 percent) (ii) NBE's policy rate has yet to develop a strong transmission mechanism, and additional time is required before it can serve as an effective anchor alone, (iii) given a substantial liquidity improvement within the banking system, it is indispensable to ensure that liquidity injection into the economy is managed in a gradual and orderly manner so as to avoid any unintended expansionary effects going forward.

- **Third**, as the committee realized that there is excess liquidity in the system reflected by big surge in new disbursement during the first five months and significant outstanding loan growth y-on-y in November 2025, which in turn led to the highest annual growth in broad money supply, the MPC recommended and the Board approved an increase in the reserve requirement ratio to 10 percent on monthly average with the daily reserve requirement remain at 5 percent. The Banks will be given three to six months to fulfil the requirement.

- **Fourth**, as the NBE has adopted a price based monetary policy framework and introduced NBE policy rate since July 2024, it is essential to focus on making its policy rate effective to affect the cost of money in the economy indirectly through affecting market rates for its final objective of price stability. Accordingly, removing the current minimum saving rate shall enhance saving from general public and maintain policy consistency. Therefore, the MPC recommended and the Board approved the termination of NBE's setting minimum deposit interest rate leaving it to negotiation between depositors and banks and/or other financial institutions. In addition to these policies, NBE will use any policy instruments in its disposable whenever it comprehends that its primary objective is at risk based on in-depth analysis of monetary conditions.

In closing, the Committee decided that its next meeting shall take place at the end of March 2026 or at any earlier date as may be warranted.

Monetary Policy Committee
National Bank of Ethiopia
30 December 2025