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NATIONAL BANK OF ETHIOPIA

PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING NO.7

13 July 2026 | Addis Ababa, Ethiopia

The National Bank of Ethiopia's Monetary Policy Committee (MPC) has conducted its 7th regular meeting in line with its roles and responsibilities set out in the NBE Establishment Proclamation 1359/2025, Article 23, to propose monetary policies for approval by the NBE Board. In its 7th meeting, the MPC reviewed latest real sector development, inflation dynamics, external sector performance and developments in the monetary, financial and fiscal sectors, along with global developments affecting the Ethiopian economy. Based on a comprehensive review of these developments, and the near-term outlooks, the Committee recommend appropriate monetary policy measures to be endorsed by the Board.

The Committee's 7th report covers developments in the following areas:

- **Inflation:** The committee noted a distinct decline in inflation following the July 2024 reform compared to the pre reform period, highlighting that it dropped significantly to reach single digits by December 2026 after a long period of high rates. However, following the Middle East conflict that resulted in fuel supply disruptions, headline inflation has rebounded to double digits starting from April 2026. The continuous disinflation trend before the Middle East war has been driven by tight monetary policy, ongoing fiscal consolidation efforts and the effects of enhancement in real sector productivity. Headline inflation rose to 13.4 percent in May 2026 up from 11.7 percent in April and 9.7 percent in December 2025, driven by increases in both food (15.0 percent) and non-food inflation (11.1 percent). Driven by higher transportation costs from fuel supply disruptions during the Middle East conflict, May's reading marks a nine months high. Furthermore, month-on month inflation stood at 2.3 percent in April and 1.69 percent in May. These figures are significantly higher than the five-year historical average for these months as well as the average monthly inflation for the current fiscal year, signalling renewed inflationary pressures from the oil price shock. Looking ahead, the Committee noted that while inflation is projected to moderate by December 2026, it will likely remain in the double-digits over the six months forecast horizon.
- **Growth and Economic Activity:** The Committee noted that the Ethiopian economy has sustained growth momentum over the past eight years, with real GDP growth averaging 7.5 percent. The composition of GDP continued to evolve, supported by macroeconomic reforms aimed at achieving robust growth under stable conditions. In FY 2024/25, real GDP grew by 9.2 percent, with the industrial sector contributing 3.7 percentage points, services contributing a steady 3.1 percentage points, and agriculture adding 2.3 percentage points. Similarly, real GDP growth is projected to reach 10.2 percent in FY 2025/26, driven by ongoing macroeconomic reforms and progress in key sectors. The NBE's Composite Indicators of Economic Activity (CIEA), which monitors high-frequency data across various sectors of the economy signals robust growth momentum. Within Industry, strong performance in cement production, electricity generation, and iron & steel output point to vibrant manufacturing activity. The services sector has also exhibited remarkable



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performance, led by significant upward swings in tourist inflows and both passenger and freight air transport. However, declines were observed in some indicators, including coffee and oilseed export volumes, as well as the import volumes of raw materials and petroleum compared to the same period last fiscal year.

- **Monetary Developments:** Reserve money has registered a decelerating trend and signs of temperance, though it remains elevated. In FY 2025/26, reserve money growth slowed to 43.0 percent Y/Y, down from 66.4 percent during the same period last year. The growth in reserve money is primarily driven by a significant rise in Net Foreign Assets (NFA) accumulation, stemming from gold operations. Similarly, broad money growth trended slightly downward to 32.7 percent y/y compared to 35.2 percent same period last year. Unlike the pre reform period- when domestic credit was the dominant factor-current broad money growth was being driven by both NFA and domestic credit.
- **Interest Rate Developments:** The Committee noted that short term market interest rates have exhibited significant development and remained positive in real terms. In May 2026, monthly weighted average yield for all T-bill declined from 15.5 last year same period to 12.3 percent. Similarly, a 91-day bill yield declined to 11.0 percent, from 16.1 percent last year same period. During the review period, the T-bill market witnessed strong demand particularly for the short-term tenors (28, 91, and 182-days), leading to huge oversubscription of about Birr 667.8 billion. The increased participation of individual investors facilitated through newly established investment banks has also broadened participation in the T-bill market. Similarly, the 7-day interbank weighted average rate declined to 14.6 percent in May 2026 from about 18.0 percent in March 2026, reflecting excess liquidity in the market, albeit concentrated to few banks. As of May 2026, the overall interbank money market transaction volume surpassed Birr 3.0 trillion, of which the 7-day maturity accounts for 51 percent (Birr 1.5 trillion) while overnight transactions constituted 49 percent (Birr 1.48 billion).
- **Banking and Financial Sector:** The banking sector maintained its resilience during the review period, deposit mobilization and loans collection have shown encouraging trend, safety and soundness measured by asset quality, non-performing loans (NPLs), and capital buffers witnessed healthy trajectory. The loan to deposit ratio of private banks reduced to 72.7 percent compared to 90.3 percent in 2022/23, reflecting an improvement in banks' liquidity management behaviour.
- **Fiscal Sector:** Fiscal policy remained prudent and disciplined during the review period, continuing to support the NBE's tight monetary policy stance and the broader macroeconomic reform agenda. Since the reform measures introduced in July 2024, the government has maintained its commitment to refraining from direct advances from the NBE, which has significantly contributed to moderating base money growth. During the first ten months of FY 2025/26, the overall budget deficit to GDP ratio declined to 0.9 percent, compared to 2.1 percent in FY 2023/24, pre reform period. The T-bill market has played a key role in financing the budget deficit with net financing amounting to Birr 206.5 billion during FY 2025/26.



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- **External Sector:** Following the comprehensive reforms introduced in July 2024, Ethiopia's external sector has shown substantial improvement. Performance strengthened markedly during FY 2025/26, with the balance of payments registering an overall surplus—a significant reversal from the deficit recorded in the pre-reform period. The improvement was mainly driven by a threefold increase in goods export earnings and an improvement in private and official transfers. These gains offset the rising merchandise imports, narrowing the current account deficit from USD 6.2 billion in 2023/24 to USD1.8 billion in 2025/26, while the capital account surplus also expanded. Consequently, the NBE's foreign exchange reserves increased significantly, reaching 20 times the pre-reform period. These developments underscore the positive impact of ongoing economic reforms aimed at enhancing external competitiveness, boosting foreign exchange earnings, and strengthening the overall sustainability of the external sector.
- **Global Environment:** According to the IMF's July 2026 *World Economic Outlook*, the Middle East conflict has disrupted what was previously expected to be a stable global economic trajectory. Compared with earlier assumptions of a short-lived conflict and average oil prices, global growth is now projected to decelerate slightly to 3.0 percent in 2026, while the 2027 forecast slightly up to 3.4 percent from the previous forecast. Recent developments, including the signing of a memorandum of understanding between the United States and Iran aimed at ending the conflict, suggest that downside risks to the outlook may have eased somewhat, although uncertainty remains. Meanwhile global headline inflation is expected to increase to 4.7 percent in 2026 before declining to 3.9 percent in 2027.

MPC Assessment and Recommendations

The Committee noted that the NBE's tight monetary policy stance has been an essential policy direction given the inflationary pressure from international oil price shocks. The committee re-affirmed its commitment that the tight monetary policy stance should be maintained to achieve NBE's goal of maintaining a single-digit inflation in the medium term. Accordingly, MPC recommended and the NBE Board approved the following monetary policy actions:

- **First:** The NBE originally implemented the credit cap as a temporary transition instrument until NBE fully moves to an interest rate-based monetary policy framework through indirect policy instruments. As the credit cap has already achieved its objective, the Committee recommended and the NBE Board approved full removal of the credit cap. The removal of the credit cap is a result of a successful transition to an interest-based policy framework with full implementation of indirect monetary policy instruments. It is not a change in NBE's monetary policy stance. NBE will keep its tight monetary policy stance by using all indirect monetary policy instruments as its disposal effectively.
- **Second:** As the removal of the credit cap requires a counter tightening measure, and to re-affirm the NBE's commitment to tight monetary policy stance, the Committee proposed an increase in NBE's policy rate. Accordingly, the Committee proposed and the NBE Board approved to raise the NBE policy rate by 1.0 percentage point while maintaining the +/- 3 percentage point band unchanged.



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- **Third:** The Committee recommended and the NBE Board approved that the NBE will implement targeted reserve requirement (additional reserve requirement) based on a regular assessment on individual bank's loan to deposit ratio development in case credit expansion poses pressure on inflation path.
- **Fourth:** To reduce import-related costs, contain inflationary pass-through, and to promote a more efficient FX market, the Committee proposed and the NBE Board approved the NBE's FX commission rate to be reduced from 2.5 percent to 1.5 percent (a reduction of 1 percentage point).
- **Fifth:** To enhance export competitiveness and build market confidence, thereby deepening the FX market and improving price discovery, the committee proposed and the NBE Board approved to reduce the foreign exchange surrender requirement on goods export from 50 percent to 30 percent.

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

Monetary Policy Committee
National Bank of Ethiopia
13 July 2026