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**MAJOR CHANGES THE
NEW BANKING BUSINESS**

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Major Changes the New Banking Business

It is evident that banks play a critical role in the country by mobilizing funds domestically/internationally and channeling towards investment and development by facilitating payment systems and transmission of monetary policy. Because of this banks are uniquely subjected to stringent supervision & regulation.

Banking regulation origins from microeconomic concerns over the ability of bank creditors (depositors), to monitor the risks originating on the lending side and from micro & macroeconomic concerns over the stability of the banking sector in the case of a bank crisis.

In this light , Banks are subjected to widespread “informal” regulation .i.e the government use of its discretion’s , outside formalized legislation, to influence banking sector outcomes (for example to bailout insolvent banks , to decide on the bank mergers or maintain significant State ownership)

The most important rationale to for regulation in banking is to address concerns over the safety and stability of financial institutions, the financial sector without regulation; banks will be free to engage in risky behavior that could lead to bank failure and financial crisis. To prevent this, regulators must monitor banks’ activities to ensure that they are sound and stable

The Ethiopian House of Peoples Representatives has approved the draft banking proclamation. This new law numbered 1360/2017, sanctioned by the House on the 18th of December, 2024, has brought various changes to the previous law.



This bill is approved by the House of Peoples Representatives of Ethiopia to :_



- Support and enable the banking sector with modern knowledge & technology.
- Strengthen the Sector's linkage with the global market.
- Enhance the sector's effectiveness, competitiveness and efficiency.
- Ensure availability of financial resources including foreign currency.
- Contribute to sustainable growth.



Opening the banking sector to foreigners is the first landmark alteration the approved bill brought to the banking sector. Foreigners can now invest in the banking sector in two forms.



The first form of foreign investment in the banking industry is a foreign bank legally registered abroad can open its branch or foreign bank subsidiary in Ethiopia. But, the bill provided additional requisites for foreign banks investment in Ethiopia. Only foreign banks that are proved to be financially sound, well established and reputable are going to qualify to open a branch or foreign subsidiary of their bank in Ethiopia. That being the case, not all foreign banks is allowed to invest in the Ethiopian banking sector.



Buying shares from Ethiopian banks is the second form by which a foreigner an individual or a business can invest its capital in the banking business of Ethiopia.



Limiting the amount of money the government can borrow from the banks is the remarkable achievement of the new banking proclamation 1360/2017. Previously, as a nation, we didn't have any restriction on the amount of money the government was borrowing from the Central bank , which allegedly were causing the flow of huge amount of the money into the economy exacerbating the inflation.



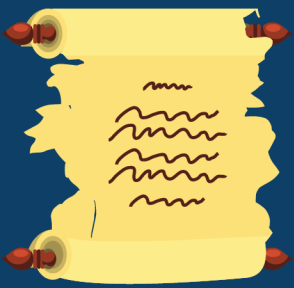
Empowering the National bank of Ethiopia to act as the resolution authority, to take necessary actions when a bank is considered no longer viable and lacks a reasonable prospect of recovery is the other transformation the new bill come up with. Likewise, the National bank is conferred with wider powers with a view to enable it implement various measures to ensure the feasibility of the banking sector.

The bill aim to improve the competitiveness and efficiency of the banking sector by opening the banking sector to foreign investment is believed to, which can contribute to sustainable economic growth.



The other major changes in the new banking proclamation are :-

1. **Short-term debt instruments:-** it allowed NBE to issue its own short-term debt instruments as part of open market operations.
2. **Regulatory Sandbox:-** the proclamation establishes and implement a regulatory sandbox framework to facilitate the new testing & introduction of new & innovative financial services in the market.
3. **Authorized Capital:** the authorized capital of NBE is set at 20 billion birr, with a minimum paid up capital of 10 billion birr, an increase from the previous half a billion birr.
4. **General Reserve Fund:-** The net profit will be transferred to the general reserve fund, until it equals 5% of the monetary liabilities of NBE .
5. **Board Composition:-**The board of the National bank will expand from 7 to 10 members.
6. **Financial Stability Committee:-** a Financial Stability Committee with 7 members will be established under the NEBE to regularly asses, analyze systemic risks to the financial system , propose micro & micro prudential policies and , recommend policies related to the lender of last resort & other crisis management tools.
7. **Monetary Policy Committee:** - A Monetary Policy Committee with seven members will also be established under the NBE, responsible for preparing and proposing monetary policy.
8. **Central Bank Digital Currency:-**The board may issue directives regarding the operation of Central bank digital currency.



The ratified proclamation, upon its implementation is , expected to achieve the following:-



Out in place requirements and conditions in the licensing of new entrants.



Implement strong risk-based supervision in a continuous and sustainable manner.



Provide a legal framework that would allow opening of the banking sector for foreign investment, enabling foreign banks and investors to contribute to the economic development of the country.



Provide effective resolution regimes that enables a resolution of a bank experiencing financial crisis to recover, if recovery is not possible, to facilitate the bank's orderly exit from the market using various resolution tools& options without causing instability in the banking sector and in the broader economy.

Finally the Banking Proclamation is expected to ensure the continued soundness and stability of the banking sector over the next years , & thereby for the banking sector to continue significantly contributing to sustainable economic growth.