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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

PRESS RELEASE

In its meeting on August 27, 2021, the Board of Directors of the National Bank of Ethiopia (Board) reviewed recent economic and financial sector developments, and decided to modify the reserve requirement, the interest rate on individual banks' lending facility, the forex surrender requirement, and the forex retention rights.

Reserve requirement. Outstanding credit to the private sector grew at 40.8% (yoy) in July, and disbursement during the month grew at about 125%, compared to the same period of last year. Such a rapid growth of credit poses significant risks to price and financial stability, in the context of a rising inflation which reached 26.4% (yoy) in July. Consequently, the Board has decided to raise the reserve requirement on Birr and foreign currency deposit liabilities held by commercial banks to 10% (ten percent), from the current level of 5% (five percent), effective on September 1st, 2021. Banks are given a transition period of 3 months to meet the 10% reserve requirement as per Directive No.SBB/80/2021.

Interest rate on banks' individual lending facility. While the purpose of the individual banks' lending facility is to help commercial banks meet unexpected liquidity needs by borrowing from the NBE, some banks are seen repeatedly accessing the facility to finance their aggressive lending. Hence, the Board has decided to increase the interest rate on facility to 16% (sixteen percent), from its current level of 13% (thirteen percent) to discourage overutilization of the facility for lending purposes.

The above measures are expected to contain banks' ability to lend aggressively, bring the growth of credits to a healthy level, and help control inflation. The NBE Board will continue to closely monitor economic and financial developments and stands ready to utilize all available policy tools at its disposal to ensure price and financial stability consistent with its legal mandate.

Forex surrender requirement and retention rights. Upon reviewing the current forex surrender requirement and retention rights, the NBE Board decided to make the following modifications with a view to encourage forex inflows.

- Remove forex flows from foreign direct investment and diaspora accounts from the surrender requirements to the NBE. This would allow foreign investors and diaspora account holders to retain a 100% of their forex.
- Increase the surrender requirement on the remaining forex flows to 50%, from the current 30%, to offset the impact of removing foreign direct investment and diaspora accounts on the amount of forex surrendered to the NBE.
- Allow producer exporters, as defined in Directive No. FXD/73/2021, and duty-free shop owners to retain 40% of their forex, which is an increase from the current retention right of 31.5%.
- The remaining forex earners are allowed to retain 30% of their forex.

The Board of Directors of the National Bank of Ethiopia
August 27, 2021