MONTHLY LEGAL UPDATE

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September, 2025

*This month's update commemorates **World Tourism Day**, observed on September 27th, highlighting tourism's role in promoting cultural exchange, sustainability, and inclusive economic growth.*

Top Update

NBE Adjusts Credit Growth Ceiling

NBE has raised the credit growth ceiling from 18% to 24% for 2025/26 to boost lending in key sectors while keeping inflation in check. Banks can expand loans but must manage risks to avoid liquidity and price pressures.

What's Covered this Month?

Welcome to the September 2025 edition of the TSA Legal Update! This newsletter brings you key legal developments to help you stay informed and navigate the evolving legal landscape.

In this issue, we cover:

1. Ministry of Finance Issued a Directive on VAT Registration Requirements
2. Federal Supreme Court Issued Directive No. 26/2017 on the Execution of Judgments
3. VAT Treatment of Over-the-Counter Medicines – Regulatory Developments and Temporary Suspension
4. Ethio Telecom Issues Notice to Telebirr Microcredit Borrowers in Default
5. NBE Adjusts Credit Growth Ceiling

1. Ministry of Finance Issued a Directive on VAT Registration Requirements

The Ministry of Finance, on 2 September 2025, issued Directive No. 1104/2025, entitled "Registration for Value Added Tax Directive," in accordance with Article 12(2) of the Value Added Tax Proclamation No. 1341/2023. This Directive supplements the statutory framework by clarifying the registration obligations of taxpayers.

The Directive is grounded in the legislative mandate provided under Article 12 of the VAT Proclamation, which stipulates that any person conducting taxable transactions and meeting the registration criteria under the proclamation shall be obligated to register for VAT.

Under the Directive, the following persons are required to register for VAT:

a) First, taxpayers classified as Category "A" under the Income Tax Proclamation No. 979/2008 as amended (Income Tax Proclamation), which includes bodies (company, partnership, public enterprise or public financial agency, or other body of persons whether formed in Ethiopia or elsewhere), and those individual taxpayers with an annual turnover exceeding ETB 2,000,000;

b) Second, taxpayers who are obligated to maintain books of account, including those taxpayers who are engaged in the provision of technical services under the Income Tax Proclamation, regardless of their turnover; and

c) Those taxpayers who voluntarily maintain such books.

Taxpayers falling within any of the above categories are required to register for VAT within thirty (30) days from the effective date of the Directive. Upon registration, they must start collecting VAT on taxable goods and services supplied to the market.

2. Federal Supreme Court Issued Directive No. 26/2017 on the Execution of Judgments

The Federal Supreme Court issued Directive No. 26/2017 (the Directive) to regulate the execution of judgments, decisions, and orders within the federal court system. The Directive was adopted in the wake of the institutional restructuring that elevated the enforcement function from a Directorate to the Federal Courts Judgement Execution Office (the Office). Its mandate is to ensure that judicial outcomes are not left on paper but are carried out with fairness, transparency, and efficiency. At the same time, the Directive seeks to reinforce the authority of the judiciary by securing compliance with judicial orders and fostering public trust in the courts.

Scope of Responsibilities

The Office is entrusted with the following responsibilities:

a) Enforcement of monetary judgments through attachment, seizure, valuation, and auction sale of property.

b) Presentation and reconciliation of parties pursuant to court orders.

c) Verification of information concerning property titles, debts, and government taxes from relevant authorities.

d) Collection of service fees and various public revenues.

e) Utilization of technology to improve service delivery and collaboration with stakeholders.

Initiating Execution

Execution proceedings commence when a judgment creditor (or creditors) presents to the court with jurisdiction the judgment and an application for enforcement. The Office then opens an execution file. A fee of ETB 50 is payable for opening the file. Prior to opening, the Office must verify that the orders submitted are authentic, valid, and enforceable.

Valuation and Division of Property

a) Valuation: Property valuation for execution purposes must be conducted using scientific methods and supported by appropriate evidence. Parties must be present during the valuation. If a property has been valued but remains unsold for more than one year, it may be revalued.

b) Division: Where division of property in kind is ordered by a court, parties are first given a reasonable time to settle by agreement. If no settlement is reached, the head of the Office will establish a three-member committee to divide the property by lot. Where division in kind results in inequality, adjustments will be made in monetary terms.

Auction Procedures

General Rules: Auctions must comply with the Civil Procedure Code. Judicial decisions must be respected. Participants are required to present identification (or renewed business licenses in the case of entities). Auction announcements must be supported by video and photographic evidence for public transparency.

Preconditions: Before sale by auction, the Office must ensure that no prior encumbrances or priority disputes exist on the property. It must also confirm that the property rightfully belongs to the judgment debtor at the time of sale. Notices for an auction must be published, and the property made available for inspection for three consecutive days with written confirmation.

The successful bidder must make payment within the timeframe set by law. Failure to comply will result in forfeiture of rights under the auction.

3. VAT Treatment of Over-the-Counter Medicines – Regulatory Developments and Temporary Suspension

In accordance with Regulation No. 575/2025, the Ministry of Revenues introduced a Value Added Tax (VAT) on Over-the-Counter (OTC) medicines, which had previously been exempt. This change was implemented pursuant to the revised VAT Proclamation No. 1341/2023 and Regulation No. 570/2025, specifically Article 58, which reclassifies certain supplies, formerly exempt under the previous VAT regime, as taxable. OTC medicines are among the newly taxable items under this framework.

Following a formal request from the Ministry of Revenues, the Ethiopian Food and Drug Authority (EFDA) prepared an official list of OTC medicines that would no longer benefit from VAT exemption. For a detailed breakdown of the affected products and the regulatory basis for their reclassification, check out the August edition of our Monthly Legal Update.

However, a recent communication from the MoF to the Ministry of Revenues indicates a reconsideration of this policy. The Ministry of Health has formally expressed concern regarding the VAT imposition on OTC medicines, emphasizing their widespread use and essential role in public health. The Ministry of Finance acknowledged these concerns, noting that many of the listed OTC products are critical to maintaining public health, including medicines essential for child development (such as mineral supplements) and contraceptive products used in family planning programs.

In its letter, the MoF stated that the nature and purpose of these medicines align with the exemption objectives outlined in the VAT Proclamation, particularly those provisions intended to safeguard access to essential health services. Furthermore, the Ministry emphasized that taxing such products may undermine national health and family planning policies.

Accordingly, the MoF has submitted draft legislation to the Council of Ministers proposing the reinstatement of VAT exemption for the specified OTC medicines. Pending review and final decision by the Council, the Ministry has instructed that the execution of VAT on these products be temporarily suspended.

4. Ethio Telecom Issues Notice to Telebirr Microcredit Borrowers in Default

Telebirr, Ethio Telecom's mobile-based financial platform, was launched to promote financial inclusion by offering digital payment and microcredit services. The microcredit feature provides small, short-term loans to individuals and businesses without traditional banking access, aiming to support economic participation and convenience.

Current Challenge: Loan Defaults

As Telebirr's microcredit service scaled rapidly, Ethio Telecom has faced a surge in borrower defaults, raising concerns about the program's sustainability and its ability to continue offering affordable credit.

Scale of Lending

- Since its launch in 2021, Telebirr has disbursed over ETB 25.8 billion in microloans to 11.9 million customers, making it one of Ethiopia's largest digital lending platforms.
- In the 2024/25 fiscal year alone, 6.88 million borrowers accessed loans totalling ETB 13.2 billion, reflecting aggressive growth in credit distribution.

Default Risk Indicators

- Borrower complaints and social media reports indicate widespread financial distress, with some users abandoning SIM cards to avoid repayment.
- While official default rates are undisclosed, patterns suggest non-performing loans (NPLs) significantly above the banking sector benchmark of 5%.

Official Notice Issued

On 15 Meskerem 2018 E.C. (25 September 2025), Ethio Telecom issued an official public notice that circulated through different social media channels addressed to borrowers who have failed to repay their loans. The notice emphasizes:

a) Borrowers are legally obligated to repay amounts received under the Telebirr microcredit service.

b) Ethio Telecom reserves the right to pursue legal remedies, including court proceedings, to recover unpaid debts.

5. NBE Adjusts Credit Growth Ceiling

On September 29, 2025, the Monetary Policy Committee (MPC) of the National Bank of Ethiopia (NBE) announced a moderate adjustment to the credit growth ceiling, raising it from 18% to 24% for the fiscal year 2025/26. This decision marks a cautious step toward a market-based monetary policy framework while maintaining safeguards against inflationary risks.

Background and Policy Context

The credit growth ceiling was introduced in 2022 as part of NBE's tight monetary policy to curb inflation, which had exceeded 30% at its peak. By limiting banks' annual loan growth, the measure aimed to control liquidity expansion and stabilize prices. Previous adjustments from 14% to 18% reflected gradual easing as inflation declined and liquidity conditions improved. However, inflation remains above the single-digit target, prompting the MPC to opt for incremental liberalization rather than full removal of the ceiling.

Policy Rationale

The decision to raise the credit growth ceiling from 18% to 24% reflects NBE's cautious approach to monetary liberalization. By allowing banks greater lending capacity, the policy aims to stimulate economic activity in priority sectors such as agriculture, manufacturing, and services, which are critical for Ethiopia's growth agenda. At the same time, retaining the ceiling ensures that regulatory oversight remains strong, preventing excessive credit expansion that could reignite inflationary pressures. This adjustment signals NBE's intent to gradually transition toward a market-driven monetary system while safeguarding financial stability and price control.

Implications for Financial Institutions

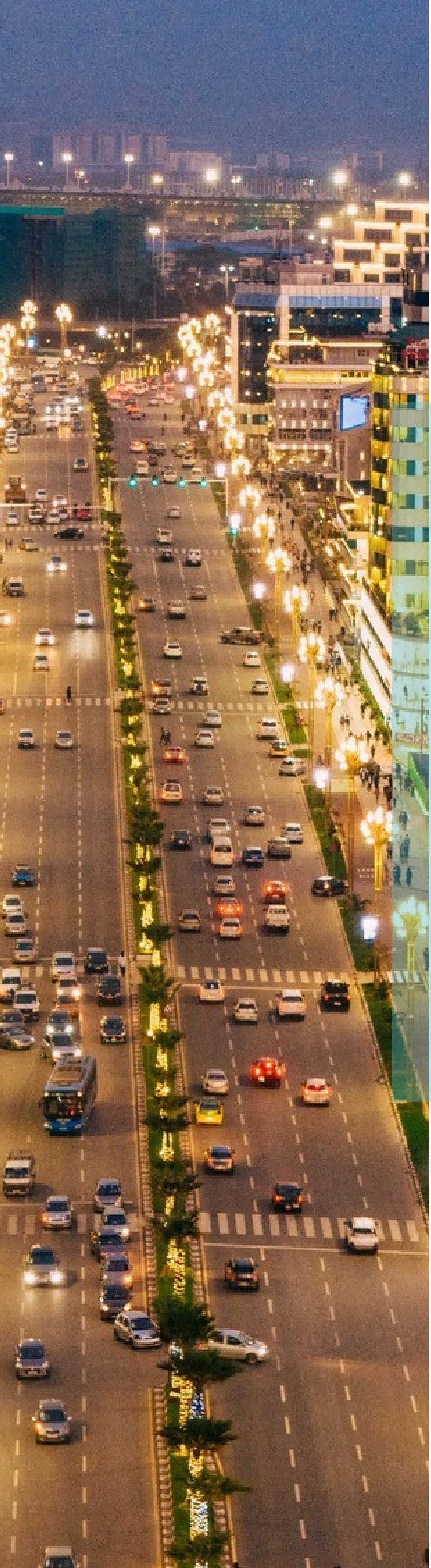
For banks, the higher ceiling opens opportunities to expand loan portfolios and finance productive investments, potentially boosting profitability and sectoral growth. However, compliance with the ceiling remains a binding obligation under NBE's supervisory framework, meaning institutions must carefully manage credit allocation within the new limit. Interest rates remain unchanged at 15%, so the expansion of credit will depend on improved liquidity rather than cheaper borrowing costs. This creates a scenario where banks must balance aggressive lending strategies with prudent risk management to avoid exposure to inflationary and liquidity risks.

Broader Economic Impact

The adjustment is expected to support Ethiopia's economic recovery by increasing access to credit for businesses and households, thereby stimulating consumption and investment. However, the move comes at a time when inflation, though declining, remains above target levels. This underscores the delicate balancing act NBE faces, promoting growth without undermining monetary stability. If managed effectively, the policy could accelerate structural transformation and job creation, but unchecked lending could lead to renewed inflationary pressures and financial sector vulnerabilities.

Key Considerations and Risks

While the higher ceiling may support growth, aggressive lending could amplify inflation or strain banks' balance sheets. NBE's approach reflects a balancing act, stimulating credit availability without undermining monetary stability. The Committee continues to monitor inflation (currently around 13.6%), liquidity indicators, and external vulnerabilities to guide future policy shifts.



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