MONTHLY LEGAL UPDATE

TSA TSEGAMLAK SOLOMON & ASSOCIATES

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Top Update

NBE Upholds Tight Monetary Policy and Introduces Key Regulatory Adjustments

The NBE has abolished the mandatory 7% interest floor, transitioning Ethiopia to a market-driven system where rates are determined by consumer and banks negotiation rather than decree.

As years change, so do the laws that govern us and the environments in which we operate.
This edition marks the close of the year and our 12th Monthly Legal Update, reflecting on a year shaped by reform, change, and adaptation.

What's Covered this Month?

Welcome to the December 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. NBE Upholds Tight Monetary Policy and Introduces Key Regulatory Adjustments
2. Reserve Requirements- (9th replacement) Directive no. SBB/97/2025
3. NBE Ends Obligation on Banks to Invest in Development Bank of Ethiopia Bonds
4. NBE Lifts Mandatory DBE Bond Investment Requirement for Insurance and Ethiopia re-insurance company
5. Ministry of Revenue Clarifies Excise Tax Rules for Tailoring Factories
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7. Mandatory Asset Registration Notice for Civil Society Organizations

1. NBE Upholds Tight Monetary Policy and Introduces Key Regulatory Adjustments

Overview of the Policy

On December 30, 2025, the National Bank of Ethiopia (NBE) issued a major update following the fifth meeting of its Monetary Policy Committee (MPC) held on December 22, 2025. The Bank made it clear that it will continue with a “tight” monetary policy to help reduce inflation and keep it stable in the long run. Although inflation has already fallen to 10.9% in November 2025, the NBE stressed that more consistency is needed to ensure this positive trend continues.

Key Resolutions

1. **Policy Rate Held Steady at 15%:** One of the key decisions in this briefing is the NBE’s choice to keep the National Bank Rate at 15%. The rates for the Standing Deposit Facility and Standing Lending Facility also remain unchanged. Maintaining these rates helps keep the financial system stable while Ethiopia gradually moves toward a modern system where interest rates, instead of money supply controls, guide borrowing and spending across the economy.
2. **Higher Reserve Requirements for Banks:** has raised the monthly average reserve requirement for banks from 7% to 10%, while maintaining the daily reserve requirement at 5%. The adjustment is intended to address excess liquidity in the banking system and to contain the rapid expansion of broad money and credit. The decision has been further reinforced through a directive issued by the NBE, which is set out and discussed in the subsequent part of this update.
3. **Credit Growth Limit Maintained:** NBE also decided to maintain the existing 24% annual cap on credit growth, a limit that has been in place for some time. This decision comes even though actual credit growth reached 44.5% in November, far above the NBE’s target. The Bank noted that Ethiopia’s interstate-based tools are still developing and aren’t yet strong enough to regulate lending on their own. Until these tools mature, NBE believes keeping this cap is essential to prevent fast credit expansion from pushing inflation back up.
4. **Minimum Saving Rate Removed:** In a historic shift toward a market-driven economy, NBE has officially removed the 7% minimum interest rate on deposits, allowing banks and customers to set savings rates through direct negotiation. By terminating this mandatory interest-rate floor, which previously set a fixed interstate floor that banks were required to pay on savings accounts. NBE expects this shift to promote competition among banks and strengthen the impact of its own policy rate on the wider economy.

Next Review in March 2026

The MPC will meet again in late March 2026 to evaluate how these new measures are performing and decide whether further adjustments are needed to maintain price stability.

2. Reserve Requirements- (9th replacement) Directive no. SBB/97/2025

Following the Monetary Policy Committee meeting held on December 22, 2025, and with a view to enforcing the committee's decision, NBE has enacted Directive No. SBB/97/2025, repealing Directive No. SBB/84/2022 and providing comprehensive procedures for the management of statutory reserve requirements. The Directive details specific requirements for banks, establishing a modernized framework for liquidity management, prudential regulation, and the stability of short-term interest rates.

Key Provisions

1. **Scope and Coverage**: The Directive applies to all banks that collect deposits and operate within Ethiopia. This inclusive coverage ensures that the rules for liquidity and safety are applied consistently to domestic banks, foreign bank subsidiaries, international banking entities established as subsidiaries and foreign branch banks.
2. **Monthly Average Requirement**: Banks are also required to maintain in their Payment and Settlement Account an average reserve of 10% of their previous month's average reserve base, which was 7% at a minimum in the previous directive by the end of the maintenance period.
3. **Daily Minimum Requirement**: Banks must maintain a minimum daily reserve balance of 5% of their average reserve base from the previous calendar month.

By raising the monthly average target to 10% while keeping the daily floor at 5%, NBE envisions "mopping up" excess cash from the banking system to fight inflation, while still giving banks the operational flexibility they need to manage daily cash fluctuations.

Transition Period

A phased implementation schedule has been introduced, dividing banks into two distinct compliance categories. Banks placed into Category 1 are required to reach the full 10% by March 2026 and Category 2 by June 2026, while the 5% daily floor remains mandatory throughout the entire transition period. NBE will formally communicate with each bank via circular to clarify its specific classification, with the transition period officially beginning on January 1, 2026. This dual-track approach aims to ensure that while the "safety floor" is always active, the larger goal of stabilizing the economy is achieved in a steady, predictable manner.

Reporting

Licensed banks must now adhere to a rigorous three-pillar reporting schedule: monthly reserve base reports, statutory reserve compliance reports, and automated submissions through the Ethiopian Automated Transfer System.

Enforcement and noncompliance

Under the Directive, NBE has established a strict enforcement system for banks that fail to meet statutory reserve requirements. Any shortfall from the 5% daily minimum or the 10% monthly average including the phased transition benchmarks results in financial penalties calculated at the Standing Lending Facility rate plus three 3% for the entire period of deficiency. Continued or serious non-compliance may lead to broader administrative sanctions such as suspending lending and investment activities, restricting dividends and branch expansion, and limiting access to NBE credit facilities. Despite these firm measures, the Directive allows the NBE to waive sanctions at its discretion, providing flexibility in appropriate cases.

3. NBE Ends Obligation on Banks to Invest in Development Bank of Ethiopia Bonds

Effective December 31, 2025, the National Bank of Ethiopia (NBE) issued Directive No. SBB/98/2025 to repeal Investment on DBE Bonds Directive No. SBB/81/2021 and ending the standing obligation on commercial banks to make new mandatory investments in Development Bank of Ethiopia bonds. While the repeal removes the forward-looking requirement.

Transition:

- It introduces a tightly framed transitional compliance window, obliging banks that failed to meet the 1% investment threshold, based on their audited outstanding loans as of June 30, 2025, to fully regularize their DBE bond positions by 31 January 2026, unless expressly exempted.
- Existing DBE bond investments, as well as catch-up investments made during the transition, remain governed by the repealed directive for purposes of administration and governance**.**

Implications

The Directive signals a material shift in Ethiopia's bank-directed development finance policy, easing compulsory allocation pressures while preserving regulatory continuity for legacy exposures to the Development Bank of Ethiopia.

4. NBE Lifts Mandatory DBE Bond Investment Requirement for Insurance and Ethiopia re-insurance company

Effective December 31, 2025, the National Bank of Ethiopia (NBE) issued Directive No. SBB/61/2025 to repeal Investing in Development Bank Bond Directive No. SBB/54/2021 and ending the standing obligation on insurance or Ethiopian reinsurance company to undertake compulsory investments in Development Bank bonds. The repealed directive had required insurer to invest equivalent to 15 % of their net income in Development Bank Bond., thereby serving as a mechanism for indirect monetary control and budget financing.

Transition:

- It requires insurers that had not met the 15% net income investment benchmark as of 30 June 2025 to fully clear any shortfall by 31 January 2026.
- Bonds already acquired, together with investments made to remedy past non-compliance, remain governed by the previous directive, notably retaining the three-year tenor and an interest rate set at least two percentage points above the prevailing minimum savings deposit rate, payable annually.

Implications

Insurance and Ethiopian reinsurance companies are no longer required to make new mandatory investments in Development Bank of Ethiopia (DBE) bonds ending the previous rule that obligated them to invest 15% of their net income while companies that fell short of the 1% investment threshold based on their audited outstanding loans as of June 30, 2025, must regularize their DBE bond positions by January 31, 2026, unless exempted; additionally, all existing DBE bond investments, including any made during the transition, will continue to be managed under the repealed directive for administrative and governance purposes.

5. Ministry of Revenue Clarifies Excise Tax Rules for Tailoring Factories

The Ministry of Revenue has issued updated guidance to ensure consistent application of the Excise Tax Proclamation No. 1186/2012 (as amended) within the textile and garment industry. Under the Proclamation, all textile products and garments falling under HS Codes 50.07 to 63.04 are classified as excisable goods, meaning that excise tax applies to manufacturing activities carried out at the factory level. The Ministry emphasized that the tax regime is designed to apply to organized production processes rather than isolated or small-scale tailoring services, reflecting the law's focus on preserving the domestic tax base and ensuring administratively efficient taxation.

Historically, a 2014 explanatory letter distinguished between factory level manufacturing which is taxable and tailoring services, which are not. Tailoring activities conducted outside factory structures, where a customer provides fabric and receives a finished garment, were identified as non-excisable because they constitute service activities. However, the Ministry later observed that some licensed manufacturers began recharacterizing factory scale operations as “tailoring services” to avoid excise obligations. This prompted a request for further clarification, and, in 2018, the Ministry of Finance confirmed that excise liability is determined by the nature and scale of production, not by contractual labels or ownership of the fabric used. Organized production processes, supported by investment and business licenses, are treated as manufacturing for excise tax purposes.

As a result, enterprises engaged in garment production within structured industrial facilities regardless of whether the customer supplies the fabric or whether the arrangement is contractually framed as a service are legally deemed manufacturers and must register, declare, and pay excise tax on all excisable goods produced. Only genuine tailoring activities carried out outside factory level settings remain non-taxable. Subsequent administrative guidance reaffirmed that manufacturers cannot rely on the earlier tailoring clarification to avoid compliance and that regulatory bodies must reject attempts to reclassify factory production as non-taxable service work during assessments and audits.

6. Oromia Regional State Introduces 5% Tax on Coffee Purchased for Export

The Oromia Regional State has introduced a 5% levy on coffee purchased for export, imposed through a directive of the regional Trade Bureau and applied to coffee bought from farmers by exporters. The levy is calculated on benchmark prices set by the Ethiopian Coffee & Tea Authority and applies to more than 4,000 producers operating in a region that supplies roughly 79% of Ethiopia's coffee exports. This measure materially alters the cost structure of the export supply chain and represents a clear assertion of regional fiscal intervention in a federally regulated export sector. While framed as a value-chain correction, the levy effectively shifts part of the sector's financing burden upstream to producers and exporters without resolving underlying productivity and infrastructure constraints. Given coffee's status as Ethiopia's top foreign-exchange earner, the directive raises immediate questions on competitiveness, price transmission, and legal coherence between regional taxation measures and national trade policy. Its practical impact will ultimately depend on enforcement consistency, market absorption capacity, and whether the additional cost translates into tangible productivity gains rather than higher transaction friction.

7. Mandatory Asset Registration Notice for Civil Society Organizations

The Authority for Civil Society Organizations (ACSO) has issued an important administrative notice requiring all civil society organizations registered under Proclamation No. 1113/2011 to complete a formal asset registration process. This notice is not a standalone “directive” and does not introduce new law. Instead, it is an enforcement measure grounded in the existing legal framework specifically Article 61(4) of the Civil Society Organizations Proclamation.

Article 61(4) recognizes that civil society organizations possess full legal personality. In practical terms, this means that an organization can own property in its own name, manage that property, and transfer it when necessary. However, with this right comes an equally important responsibility: any assets acquired using public resources, donor funds, or contributions collected in the organization’s name must be used strictly for lawful and public benefit purposes. ACSO, as the regulatory authority, has a duty to ensure that this legal obligation is respected.

Thus, ACSO is now requiring every registered organization to formally declare and register its assets using standardized forms provided by the Authority. These forms cover all major asset categories, including immovable property, vehicles, office equipment, and other fixed assets.

Compliance

Organizations must submit their asset registration forms to ACSO by **05/05/2018 E.C.**, a firm compliance deadline, and this requirement though administrative on its face serves a wider goal of strengthening public trust through transparent, accountable management of resources. By preparing early, coordinating internally, and seeking legal support where needed, CSOs help reinforce responsible governance and uphold their obligations under Proclamation No. 1113/2011 while contributing to a more credible and trusted civil society sector.

8. Equity Investment by Foreign Nationals and Foreign Owned Ethiopian Organizations draft Directive No. SBB/XXX/2025

Following the enactment of the new Banking Business Proclamation No. 1360/2025, the National Bank of Ethiopia (NBE) has issued a draft directive that will repeal Directive No. SBB/73/2020 and providing comprehensive procedures for equity investment by foreign nationals and foreign-owned Ethiopian organizations. This directive details specific requirements for foreign nationals and foreign-owned Ethiopian organizations to acquire, hold, transfer shares, and disposal of shares.

Eligible Investors

1. Foreign nationals are individuals who are not Ethiopian citizens and seek to invest in banks.
2. Foreign nationals of Ethiopian origin.
3. Foreign-owned Ethiopian organizations are Ethiopian-registered legal entities with significant foreign ownership intending to acquire shares in banks**.**

Investment Limits:

- Strategic investors may acquire in domestic banks up to 40% of the total subscribed shares of a bank.
- Aggregate shareholding by foreign nationals and foreign-owned Ethiopian organizations in a bank is capped at 49% of the total subscribed shares of a bank.
- Natural persons are limited to 7% direct, and 15% aggregate (direct and indirect) ownership (excluding strategic investors).
- Juridical persons are limited to 10% direct, and 20% aggregate (direct and indirect) ownership.
- Aggregate share holdings by natural and juridical persons cannot exceed 20% of the total subscribed shares of a bank.

Acquisition of Shares and mode of payment

Acquisition of Shares

A foreign national may acquire shares in a bank, directly or indirectly and whether as a natural or juridical person, subject to compliance with the eligibility, fit-and-proper requirements, source-of-funds verification, and the prior approval of the National Bank of Ethiopia, in accordance with this Directive**.**

Foreign nationals are allowed to acquire shares in Ethiopian banks through purchase or transfer, including succession under applicable inheritance laws. Ethiopians who subsequently acquire foreign nationality and preferred to be treated as foreign investors may continue holding their existing shares and may pay for existing subscribed shares in Ethiopian Birr (ETB) however, any subscription of new shares must be made in an acceptable foreign currency. Shares held by Ethiopian nationals, foreign nationals of Ethiopian origin, or enterprises fully owned by these individuals who preferred to be treated as domestic investors may be transferred to foreign nationals through sale, provided that such transfers are conducted in foreign currency at a price not less than the par value. Foreign nationals of Ethiopian origin who elect to be treated as domestic investors may acquire shares using Ethiopian Birr (ETB) but proceeds from the sale of such shares may not be transferred abroad in foreign currency. **Conversely,** acquisition of shares through donation is strictly prohibited.

Mode of payment

Foreign nationals are permitted to purchase shares in Ethiopian banks in acceptable foreign currencies, which shall be limited to United States Dollar, Euro, and Pound Sterling, and such payments must be made through the formal banking system and transferred to the foreign currency account maintained by the bank. In a joint shareholding situation, the portion of the purchase price attributable to foreign nationals must be paid in foreign currency, while the remaining balance may be paid in Ethiopian Birr (ETB). Foreign nationals of Ethiopian origin who elect to be treated as domestic investors shall pay for share purchases in Ethiopian Birr (ETB).

Dividend Distribution and Repatriation

Repatriation is the process of returning funds, profits, or capital earned abroad to an investor's home country, allowing foreign investors to transfer proceeds from investments like dividends or share sales in compliance with applicable laws and regulations. The draft Directive on equity investment by foreign nationals and foreign-owned Ethiopian organizations addresses this by requiring payments for bank shares to be made in foreign currency and transferred to designated foreign currency accounts, ensuring safe and regulated repatriation of capital.

Dividends or other proceeds realized by foreign nationals may be repatriated in full to the investor's country of origin. In the case of jointly held shares, the repatriation of proceeds will be proportionate to the shareholding percentage initially paid in foreign currency.

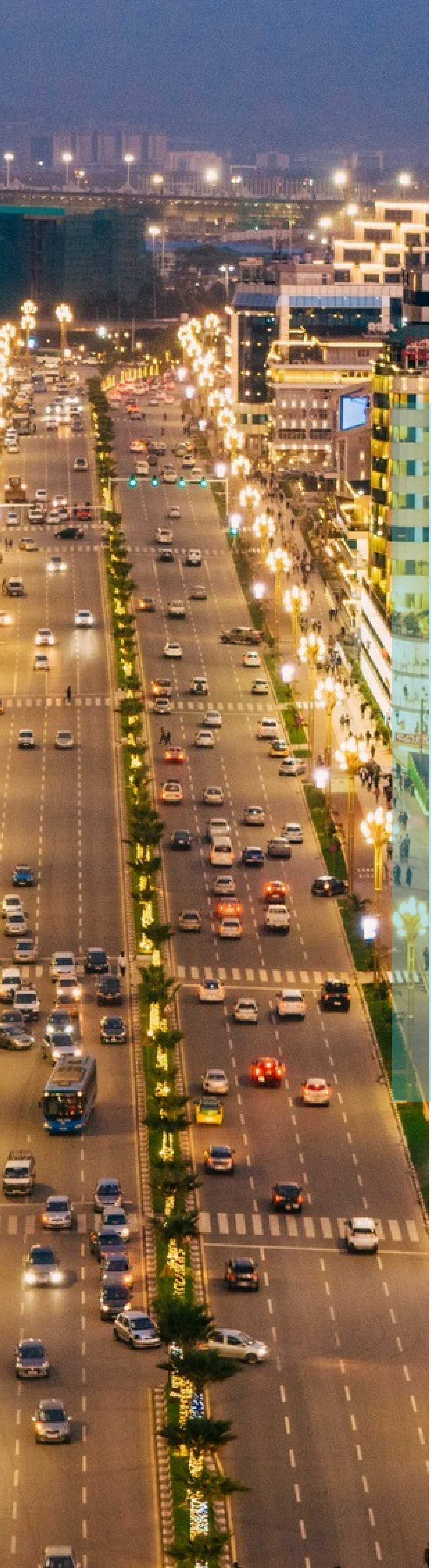
Role of NBE and ECMA in Bank Share Investment

NBE

The National Bank of Ethiopia (NBE) is the primary regulatory oversight for foreign equity investment in banks, it shall grant prior approval for share acquisitions by foreign nationals and foreign-owned organizations in banks, ensuring that such acquisitions comply with the ownership limits, acceptable modes of payment, and reporting requirements prescribed under the draft directive.

Ethiopia Capital Market Authority

ECMA oversees the capital market functions including the issuance, offering, listing, disclosure, reporting, and trading of bank shares once they are in the capital market, as well as the licensing of intermediaries facilitating those transactions.



Contact **Us**

www.tsegasolomon.com

+251-926 354 220

tsolomon@tsegasolomon.com

Africa Avenue, Getu Commercial Center, 6th Floor

Addis Ababa