DADIMOS & PARTNERS LLP

LEGAL NEWSLETTER

MAY-JUNE 2024, VOL. 2

Second Edition

We are pleased to present the second edition of our newsletter. We apologize for the delay in its publication. There were several noteworthy legal developments, especially in June, and we wanted to ensure we provided you with a thorough and comprehensive update.

This newsletter is our way of staying connected with you, our valued clients, and partners, and ensuring you have the information and insights you need to navigate the ever-evolving Ethiopian legal landscape.

Welcome to the Second Issue of Our Newsletter!

In this edition, we have compiled a legal update featuring key legislative developments that may impact your business.

Contents:

Legal Updates

This legal update provides a concise overview of key legislative changes enacted in May and June 2024. This are:

A. Banking Business Proclamation
B. Asset Classification and Provisioning Directive
C. Persons with Significant Influence in a Bank Directive
D. Bank Corporate Governance Directives
E. The Excise Stamp Management Directive
F. Adjustments to Specific Rates of Excise Tax Directive
G. New Monetary Policy Framework
H. Price Adjustment of Gold Directive
I. National Bank of Ethiopia Establishment Draft Proclamation

Stay Tuned for our July-August newsletter featuring updates on the Foreign Exchange Directive, the new VAT Proclamation, and more.

We value your feedback, so please don't hesitate to reach out to us with any suggestions or topics you would like us to cover in future editions.

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A. Ethiopia Opens Banking Sector to Foreign Investment

Background

Ethiopia's financial sector is undergoing a significant change with the introduction of the draft Banking Business Proclamation ("Draft Proclamation"). The Draft Proclamation aims to replace the existing Banking Business Proclamation (Amendment) No. 1159/2019. The Council of Ministers approved the draft Banking Business Proclamation on June 14, 2024, but it still requires approval from the House of People's Representatives. . The Draft Proclamation marks a significant step forward for the Ethiopian economy by opening the banking sector to foreign investment. Previously, only Ethiopians and Foreign nationals of Ethiopian origin could participate in the banking industry. By opening the banking sector to foreign investment, The Draft Proclamation aims to foster economic development by attracting foreign expertise and capital.

Key Points of The Proclamation

Licensing Process: Applicants must submit a formal application with a business plan, supporting documents, and a designated fee to the NBE. Moreover, applicants must meet strict financial and ownership requirements, including minimum capital deposit and disclosing major shareholders. After a 90-day review, the NBE issues the license, allowing the bank to operate after establishing internal controls and within 12 months.

Banking Business by Foreign Nationals: The Draft Proclamation marks a significant shift by al-lowing foreign entities to participate in Ethiopia's banking sector. Reputable foreign banks can enter the market by setting up subsidiaries, branches, or acquiring shares in existing banks. However, total foreign ownership, including shares held by foreign-owned Ethiopian businesses, is capped at 40%. Without exceeding such a limit, ownership by strategic foreign investors is allowed up to 30%, ownership by individual foreign investors is capped at 5%, and non-strategic foreign companies limited to a maximum of 10% ownership in any Ethiopian bank. However, the NBE may exceptionally allow well established, reputable and financially sound foreign banks to partially or fully acquire existing domestic banks through acquisition.

Shareholding Limitations: The Draft Proclamation relaxes the shareholding limit in a bank by domestic investors. Individuals can directly own up to 5% of a bank's prescribed shares while the maximum limit on aggregate direct and indirect shareholding is to be determined by a future NBE directive. The Maximum shareholding limit of companies is set to be 10% of a bank's prescribed shares. The exceptions made for the Federal government and regional governments transforming micro-finance institutions into banks are maintained.

Merger and Acquisition: The Draft Proclamation provides detailed merger and acquisition modalities and procedures. Banks cannot engage in voluntary mergers without NBE approval. The NBE may, however, mandate mergers to address troubled banks or create stronger bank. Acquisitions by other banks, including foreign banks, may be allowed to promote financial system stability. Further, NBE has the authority to block any merger or acquisition deemed harmful to financial stability, consumer rights, or competition.

NBE Approval of Asset transfer: Banks cannot transfer assets or liabilities to another bank, or sell their business, without prior NBE approval, except for normal business activities. The NBE will reject such transfers if they pose a risk to the involved banks, financial system stability, or consumer interests.

Establishment of a Subsidiary by a bank: Unlike prior proclamations, The Draft Proclamation grants the establishment of subsidiaries by banks, with the specific conditions and requirements to be determine in a forthcoming NBE directive.

Establishment of Specialised Bank: The Draft Proclamation expressly permits the establishment or conversion from/to specialised banks (import export, mortgage, agriculture, industry, etc.)) with the approval of the NBE. The framework for their operation, licensing, and supervision will be further defined in a forthcoming NBE directive.

Appointment of Official Administrator: The Draft Proclamation authorises the NBE to appoint official administrator where a bank experiences severe financial difficulties, is undercapitalised, refuses to cooperate with the NBE or engages in illegal activities. The administrator's primary objective is to safeguard the bank's assets and implement a NBE-approved rehabilitation plan.

Liquidation Process: When a bank is insolvent a formal liquidation process commences to safeguard depositors and creditors. The NBE appoints a qualified liquidator, who, under its oversight, undertakes a comprehensive effort to maximise the value of the bank's assets, and pay insured depositors, creditors and shareholders in order of priority.

B. Asset Classification and Provisioning (6th Replacement)

Background

The National Bank of Ethiopia (NBE) has issued an amendment Directive, titled “Licensing and Supervision of Banking Business Asset Classification and Provisioning (6th Replacement) Directive No. SBB/90/2024” (the “Directive”). This amendment replaces the previous “Asset Classification and Provisioning (5th Replacement) Directive No. SBB/69/2018” (“Previous Directive”). The primary objective of the Directive is to establish a standardised and comprehensive framework for loan and advance management. It seeks to achieve this through a loan review and classification system that aligns with international regulatory best practice.

Key Changes

Enhanced Loan Review: The Directive significantly enhances loan review practices. The Board of Directors now have a more proactive role in overseeing loan classification and monitoring. To improve asset quality, banks must establish robust loan review systems, including processes for grading, classifying, and monitoring all credit exposures. Detailed records justifying loan loss provisions based on IFRS 9 standards are mandatory. The loan review function must conduct regular and ongoing assessments of all loans, including those on non-accrual status.

For banks transitioning from microfinance, a sample-based review of microfinance client loans is permitted. Additionally, loans below the 5% threshold not placed on non-accrual status require portfolio-level review. Notably, banks with a non-performing loan ratio exceeding 5% must submit detailed action plans to the National Bank, outlining strategies to reduce these loans through various initiatives including provisioning, write-offs, or restructuring. It requires quarterly reviews of the entire loan portfolio, with a particular focus on high-risk loans. Banks must also maintain detailed records to justify loan loss provisions based on IFRS 9 standards. Additionally, banks with a concerningly high percentage of non-performing loans are required to submit action plans to the NBE outlining strategies to improve asset quality.

Stricter Non-Accrual Status: Previously lenient criteria which allowed for excluding certain loans from non-accrual status, such as well-secured loans in the collection process, have been eliminated. Banks now face stricter requirements for reclassifying loans from non-performing to performing status. These stricter criteria include a mandatory 90-day delinquency period, at least six consecutive on-time repayments for term loans, and a demonstrable improvement in the borrower's financial situation.

Additionally, the Directive has expanded reporting requirements for restructured and recovered loans, including individual reporting for larger loans. Banks must now report restructured loans and those restored to accrual status on a quarterly basis to the National Bank, with individual reporting for loans exceeding 5% of total capital. Furthermore, the scope of non-accrual classification has been broadened to include all loans to a borrower if a significant portion, non-performing loan exceeding 20% of their total loan portfolio from a bank, becomes non-performing. This change aims to address situations where a borrower's overall financial health is deteriorating despite some performing loans. This change is particularly notable as it shifts from a loan-by-loan assessment to a borrower-centric approach.

Revised Loan Classifications: The Directive broadens the scope from loans and advances to encompass all loan arrangements, termed "exposures," which include off-balance sheet items. The definition of "Pass" loans has been broadened to include exposures with minimal credit risk. To strengthen credit risk management, the Directive imposes stricter limits on loan

restructuring, allowing only three iterations for short and medium-term loans (previously five) and four for long-term loans (previously six).

Furthermore, the Directive introduces specific criteria for managing restructured exposures, mandating a minimum one-year continuous repayment period and resolution of the borrower's financial difficulties before exiting the restructured status. Forbearance restructuring is permitted, but it cannot be used to circumvent classification and provisioning standards. Non-performing exposures under forbearance must remain classified as such for at least six months.

Strengthened Provisioning Requirements: The Directive has significantly enhanced provisioning regulations, particularly for off-balance sheet exposures. While banks continue to adhere to existing provisioning rules for on-balance sheet exposures, the Directive introduces a new framework for off-balance sheet items. This includes mandatory provisioning for previously unaccounted items such as letters of credit, guarantees, and loan commitments. The Directive establishes specific provisioning percentages based on the risk profile of various off-balance sheet exposures. For instance, guarantees without counter-guarantees require a 2% provision, while those backed by foreign banks or insurance companies with an A rating demand a 1% provision. Similar provisions are outlined for commitments to loan and advance, letters of credit, and other off-balance sheet items.

Additionally, the Directive mandates heightened provisions for non-performing off-balance sheet exposures, requiring an extra 2% provision, and for those involved in legal disputes, which necessitate a 5% additional provision. To effectively manage these risks, banks are required to implement robust monitoring systems, regularly assess their provisioning levels, and ensure they adequately reflect potential losses associated with off-balance sheet exposures.

Rigorous Collateral Management: Banks are now required to conduct comprehensive evaluations of collateral for loans categorized as sub-standard or worse. To qualify as eligible collateral, assets must fulfil strict criteria: they must be legally sound with clear ownership, properly registered, adequately insured, and independently valued by a qualified appraiser. The Directive mandates a rigorous valuation process. Banks must select valuers from a pre-approved list determined by the competent authority, ensuring their expertise in relevant property sectors. Valuation reports must be detailed, outlining valuation methodologies, key assumptions, property descriptions, location, legal status, and potential factors affecting value. In addition, Banks are expected to scrutinize these valuations for clarity, reasonableness, and alignment with market conditions. The Directive also imposes stringent independence requirements on Valuers to mitigate conflicts of interest. The Valuers must be unrelated to the loan process, free from borrower influence, and rotated regularly. Additionally, their compensation structure must prevent any incentives to inflate valuations. Further, Banks are tasked with monitoring valuer performance to assess the accuracy of their appraisals. By implementing these measures, the Directive aims to enhance the quality of collateral assessment and protect banks from credit losses.

Alignment with IFRS 9: The Directive mandates that banks calculate expected credit losses based on applicable International Financial Reporting Standards (IFRS). If the IFRS-determined expected credit losses exceed the minimum prudential provisions set by the directive, these IFRS-based losses are deemed sufficient. However, if the Directive's minimum provisions surpass the IFRS-calculated losses, the difference must be allocated to a non-distributable reserve.

Review of Financial Statements: The Directive has increased the loan threshold for mandatory financial statement review. Previously, banks were required to review audited financial

statements for borrowers with a loan amount of Birr 5 million or above. The Directive raises this threshold to Birr 10 million, exempting smaller loans from this requirement.

Write-off Policy: The Directive emphasizes the importance of timely write-offs for irrecoverable loans. Banks are required to develop and implement well-defined write-off policies to ensure these losses are removed from the books in a timely manner.

Reporting Obligations: The Directive introduces new reporting requirements for banks. Financial institutions are now obligated to submit quarterly reports to the Banking Supervision Directorate on provisioning for off-balance sheet exposures, restructured loans, and loans recategorized from non-accrual to accrual status. The specific reporting formats and templates are outlined in the Annex of the Directive.

Conclusion

The Directive signifies a substantial stride towards enhanced financial reporting practices within the Ethiopian banking sector. Recognizing the importance of internationally aligned standards, the Directive mandates the adoption of recovery expectations grounded in IFRS 9 principles. This critical shift is expected to rectify the past practice of potentially inflated profit reporting due to unrealistic assumptions of full loan repayment. In addition, the Directive ensures transparency by requiring the classification and reporting of non-performing exposures, alongside the prohibition of interest accrual on such loans. It also emphasizes the significance of timely and accurate provisions and write-offs that reflect realistic prospects of future losses.

C. Requirements for Persons with Significant Influence in Ethiopian Banks

Introduction

The National Bank of Ethiopia ("NBE") has issued an amendment Directive titled "Requirements for Persons with Significant Influence in a Bank Directive No. SBB/89/2024" ("The Directive"), in June 2024. This amendment replaces the previous "Requirements for Persons with Significant Influence in a Bank Directive No.79/2021" ("Previous Directive"). The Directive aims to ensure banks are led by qualified and trustworthy individuals, fostering a stable, effective, and trusted banking sector by tightening the criteria for leadership positions within Ethiopian banks.

Scope of Application

The Directive applies to all banks operating in Ethiopia and focuses on persons with significant influence, including directors, CEOs, deputies, other senior executive officers including chief internal auditors, and chief risk and compliance officers, and shareholders.

Key Changes

Fit and Proper Criteria: The Directive has significantly strengthened the fit and proper criteria for directors and chief executive officers.

Qualifications and Experience:

- **Board of Directors**: The Previous Directive stipulated a minimum requirement of a bachelor's degree from a recognized institution for board members. In contrast, the current Directive has introduced additional qualifications, requiring at least seven years of experience in business management, banking, or finance. Moreover, the Directive prohibits individuals from concurrently serving on the boards of more than four other organizations. Further, the Directive requires mandatory training and continuous professional development for directors. Notably, the Directive has eliminated the age requirement for directors and introduced a gender diversity mandate, requiring at least two female directors on the board. The emphasis on continuous professional development for board members underscores the regulator's commitment to enhancing board competency and effectiveness.
- **Independent Directors**: The Directive has newly introduced the concept of independent directors[1], a requirement not previously stipulated. To ensure objectivity and accountability, the Directive requires that at least one-third of a bank's board must consist of independent directors. These directors must be free from any familial ties, business relationships, or operational involvement with the bank, enabling them to exercise impartial judgment. . The directors must meet specific qualifications, including holding a master's degree or equivalent in a relevant field and possessing a minimum of ten years of professional experience in the financial sector, teaching/consulting in relation to the financial sector, auditing, risk management or any other relevant field. Notably, persons who are not Ethiopian by nationality can be elected to serve as independent directors.

[1] Article 2(8) of The Directive defines an independent director as a non-executive director who is free from any familial ties, business relationships, or operational involvement with the bank. Such a director must be able to exercise objective judgment without undue influence. Individuals who are shareholders, directors, or executives of the bank or related entities, involved in legal disputes with the bank, have recent business relationships with the bank, or have significant financial obligations to the bank are generally considered ineligible to serve as independent directors.

- **Chief Executive Officer**: Unlike the Previous Directive, which only stipulated a first degree, the Directive requires a minimum of a master's degree from a recognized higher learning institution.

Integrity: The Directive has expanded the integrity criteria compared to the Previous Directive. It now mandates assessments of whether an individual or an associated businesses have faced investigations, disciplinary actions, or legal penalties related to breach of trust, fraud, or other financial crimes. For chief executive officers and senior executive officers, the Directive specifically requires a check for any history of fraud, embezzlement, or related financial misconduct.

Financial Soundness: The Directive has introduced more stringent financial soundness criteria for persons with significant influence. Unlike the Previous Directive, it now requires assessing whether an individual or an associated legal person has carried non-performing loans within the last two years. Additionally, the directive mandates a check on whether an individual's share purchase in a financial institution was funded by a person with a history of bankruptcy or financial misconduct.

Conflicts of Interest and Independence of Mind: The Directive, unlike the Previous Directive, requires that persons with significant influence, directors, chief executive officers, and senior executive officers, must maintain independence of mind and avoid conflicts of interest. The Directive outlines specific criteria to assess independence of mind, such as courage, character, and ability to challenge decisions. To identify potential conflicts of interest, the Directive mandates a comprehensive evaluation of various relationships, including family, business, and financial ties to the bank, its shareholders, clients, and competitors. Appointees must disclose detailed information about their current and past family, business, professional or commercial relationship with influential shareholders, significant persons, bank clients, suppliers or competitors, legal proceedings, and financial obligations to the bank.

Time Commitment: The Directive requires directors to allocate sufficient time to fulfil their bank-related duties. This commitment will be assessed on a case-by-case basis, considering factors such as the number of other directorships, the size and complexity of those roles, and the director's overall professional and personal obligations. The Directive outlines a comprehensive framework for assessing time commitment, including considering the bank's expectations, the director's workload across different roles, and the specific demands of each position. Directors are required to provide detailed information about their time allocation and commitments.

Fit and Proper Policy: The Directive mandates that banks establish and maintain a comprehensive fit and proper policy. This policy must outline procedures for assessing the suitability of persons with significant influence, including the criteria to be applied, information to be gathered, and the assessment process. Banks are required to maintain comprehensive records of these assessments and take appropriate actions if individuals are deemed unsuitable. The policy must be periodically reviewed and approved by the board of directors to align with the bank's evolving risk profile and business strategy.

Whistleblowing: The Directive requires banks establish policies to encourage and support employees in reporting concerns about the bank's operations or employees. These policies must outline clear reporting procedures, both internally and to the National Bank, and ensure protection for whistleblowers from retaliation.

Conclusion

The Directive represents a significant step forward in strengthening oversight of bank leadership. By establishing a framework for ongoing assessments, encouraging whistleblowing, and requiring stricter disclosure, the NBE aims to ensure that Ethiopian banks are led by individuals who are not only qualified and experienced, but also of the highest standards of integrity and ethical conduct.

D. National Bank Revamps Ethiopian Bank Governance Framework

Background

The National Bank of Ethiopia (NBE) has issued an amendment directive, titled "Bank Corporate Governance Directive No. SBB/91/2024" (the "Directive"). This amendment replaces the previous "Bank Corporate Governance Directives No. SBB/71/2019" ("Previous Directive"). The Directive will have a significant impact on how Ethiopian banks operate. The Directive aims to establish a strong corporate governance framework for banks by adopting a two-pronged approach. First, it seeks to promote sound and responsible banking practices that contribute to the overall health and stability of the Ethiopian economy. Second, it prioritises the protection of stakeholders, particularly depositors in retail banks. Further, by outlining clear roles and responsibilities for key players such as directors, board committees, company secretary, and senior management, the Directive empowers effective oversight and risk management.

Scope of Application

The Directive applies to all Ethiopian banks, with some exceptions for government-owned banks regarding board composition, appointment, and duties.

Key Changes

Board of Director's Composition: The Directive has significantly altered the composition of bank boards. Previously, non-influential shareholders held a minimum of one-third of board seats if they owned at least 30% of the bank's capital and at least one-fourth if they owned less. Now, the Directive mandates a more balanced representation: one-third of directors are nominated and elected separately by non-influential shareholders, another third by all shareholders, and the final third are independent directors. Unlike the Previous Directive, the Directive stipulates that one-third of the board members must be independent. These independent directors are nominated by the existing board but elected by all shareholders. This change is a substantial step towards improving board independence, as independent directors are expected to provide unbiased oversight and challenge management decisions.

Mandatory Inclusion of Female Board Members: The Directive mandates a significant shift towards gender diversity on bank boards. Unlike the Previous Directive, which focused on female representation contingent on shareholder availability, the Directive explicitly requires at least two female directors on every bank board. Furthermore, the Directive broadens diversity beyond gender to encompass academic qualifications, expertise, relevant industry knowledge, and experience. This comprehensive approach aims to create more balanced and effective boards, departing from the previous emphasis solely on female representation.

Inclusion of Executive and Non-Executive Directors: The Directive also permits bank employees to serve on the board. A maximum of two bank employees including the chief executive and senior executive officers, but excluding the company secretary, can be board members. Notably, no bank employee is permitted to hold the position of board chairperson.

Restrictions on Proxy voting and Board Nomination: Unlike the Previous Directive, the Directive prohibit sitting board members or bank employees, including the CEO, from acting as proxies for other shareholders in shareholder meetings. Additionally, to be considered for a board nomination, a shareholder must have a registered shareholding for at least two consecutive years prior to the shareholder meeting. These measures aim to enhance shareholder representation and board independence.

Expansion of Board Committees: The Directive significantly expands the role and responsibilities of board committees. Previously classified as sub-committees, the Audit Committee, Risk Management and Compliance Committee, Nomination and Remuneration Committee, and Credit Committee have been elevated to formal committee status. This enhancement empowers these committees to play a more critical role in supporting the board's oversight functions and decision-making processes.

Supervision: The Directive enhances the National Bank's supervisory role in corporate governance. The National bank will now conduct comprehensive evaluations, interact regularly with boards and management, and assess banks' risk cultures. It can also issue additional guidelines to support good governance practices. Banks, in turn, are mandated to treat the National Bank's examination reports confidentially, implement its recommendations, and submit shareholder meeting minutes to the National Bank for approval. This increased oversight aims to strengthen corporate governance practices within the Ethiopian banking sector.

Conflict of Interest: Unlike the Previous Directive which contained only a general rule prohibiting banks, directors, and employees from carrying out any transaction under conflict of interest, the Directive provided extended rules and procedures on the regulation of conflict of interest. The board must adopt a policy to manage conflict of interest and must maintain a register of declared interest. The board chair should call up on all directors to declare any direct or indirect interest that conflicts or may conflict with interests of the bank ahead of every board meeting. A director must avoid any situation that may involve a conflict of interest and declare to the board any situation that raises or may give rise to conflict of interest as soon as it is known, and the nature and extent of the conflict of interest.

Conclusion

The Directive establishes a comprehensive framework for robust corporate governance practices within Ethiopian banks. This framework promotes sound banking governance practices, protects stakeholders, and fosters public trust in the financial system. By outlining the roles and responsibilities of key players such as directors, committees, and senior management, the Directive ensures effective oversight, risk management, and transparency in bank operations. This, in turn, is likely to contribute to the long-term sustainability of the Ethiopian banking sector and promotes a healthy financial environment for all stakeholders.

E. The Excise Stamp Management Directive No. 1004/2024

Introduction

The Ministry of Finance has introduced a new "Excise Stamp Management Directive No 1004/2024" ("The Directive") in June 2024. The Directive fills a legislative gap as there was previously no specific regulation governing excise stamp management. This Directive is intended to improve excise tax collection practices and prevent illegal commerce. It requires the use of excise stamps on various goods to ensure tax compliance and transparency in the manufacturing and distribution of excisable products.

Key Provisions:

- **Regulated Goods**: The Directive applies to goods such as alcoholic beverages, tobacco products, carbonated beverages, bottled water, and other specific items enumerated in the Directive.
- **Excise Stamp Requirements:** The Directive outlines different requirements that need to be fulfilled in the affixation of the excise stamp. For instance, Stamps must have a Unique Identifier (UI) that meets international standards and is certified by the Tax Authority.
- **Application and Fees:** Manufacturers and importers must apply for excise stamps through the Tax Authority and pay the applicable fees at least 15 days before the stamp is issued.
- **Management System:** A fully excisable goods management system is required, which includes track-and-trace capabilities, and production accounting systems.
- **Responsibilities:** Manufacturers and importers must maintain records, facilitate system installation, and ensure system security. Non-compliance constitutes an offense under excise tax laws, with penalties enforced by the Tax Authority.

Conclusion

The Directive aims to enhance revenue collection while promoting greater transparency in the handling of excisable products. It also highlights the role of private companies in developing and managing secure systems, emphasizing the importance of technological integration in modern tax enforcement.

F. Adjustments to Specific Rates of Excise Tax Directive No. 1007/2024

Background

The Ministry of Finance ("MoF") has enacted a new directive titled as "Adjustments to Specific Rates of Excise Tax Directive No. 1007/2024" ("The Directive") on 26 June 2024 to adjust specific excise tax rates. The Directive was necessitated by the requirement under Article 10(2) of the Excise Tax Proclamation No. 1186/2020 (as amended) to annually adjust excise tax rates based on inflation. The MoF used the annual national gross product deflator data from the 2020 to 2023 fiscal years, as issued by the Ministry of Planning and Development, to determine the new tax rates for alcoholic beverages, tobacco and tobacco products, and plastic bags.

Specific Adjustments

The Directive replaces the specific excise tax rates previously outlined in the Excise Tax Proclamation No. 1186/2020 (as amended) with the new rates detailed in this Directive. The Directive outlines specific adjustments to excise tax rates, categorized into two groups: alcoholic beverages and plastic bags, and tobacco and tobacco products.

1. Alcoholic Beverages and Plastic Bags

Excise duty on alcoholic beverages varies according to the type of beverage. Beer made solely from malt is subject to a tax of either 40% of its value or 28 Ethiopian birr per litre, whichever is higher. Beer produced exclusively from Ethiopian barley attracts a 35% or 23 Ethiopian birr per litre tax. Further, Beer with at least 75% local ingredients is taxed at 30% or 21 Ethiopian birr per litre. Fermented beverages, such as cider and perry, and ready-to-drink beverages with up to 7% alcohol content are subject to a tax of 40% or 28 Ethiopian birr per litre. Additionally, Shopping plastic bags are taxed at 103 Ethiopian birr per kilogram.

2. Tobacco and Tobacco Products

Excise duties on tobacco products vary based on the product type. Cigars, cheroots, and cigarillos containing tobacco are subject to a 30% tax plus a fixed fee of 644 Ethiopian birr per kilogram. Cigarettes, including those with tobacco substitutes, are taxed at a rate of 30% plus 20 Ethiopian birr per pack of 20 sticks. A broader category of tobacco products, including smoking tobacco (with or without substitutes), homogenized or reconstituted tobacco, snuff, tobacco extracts, and essences, is taxed at a rate of 30% plus 644 Ethiopian birr per kilogram.

Conclusion

The Directive introduces revised excise tax rates for alcoholic beverages, tobacco and tobacco products, and plastic bags in Ethiopia. The changes are based on an annual inflation adjustment as mandated by the Excise Tax Proclamation. The new rates aim to align excise taxes with economic conditions and ensure fair taxation.

G. The National Bank of Ethiopia Announces the Launch of a New Monetary Policy Framework

Introduction

The National Bank of Ethiopia ("NBE") is mandated to regulate and determine applicable interest rates. On 9 July 2024, the NBE announced the launch of a new monetary policy framework with a view to ensuring low and stable inflation. The framework aims to influence monetary and credit conditions across the financial system to achieve the desired economic stability and growth.

Scope of Application

The new Monetary Policy Framework applies to monetary transactions made between financial institutions. These institutions include commercial banks, microfinance institutions, and other financial entities regulated by the NBE.

Key Measures Implemented in the new Monetary Policy Framework:

Interest-Rate Based Monetary Policy Regime: The Framework provides for an interest-rate based monetary policy regime, using the National Bank Rate ("NBR") as the primary means of signaling its policy stance and influencing broader monetary and credit conditions. The rate will be adjusted based on prevailing inflationary and monetary conditions.

Initial Policy Interest Rate: The NBE has set its initial policy interest rate at 15 percent. The policy rate aligns with the rates at which banks currently lend to each other and is slightly below commercial bank lending rates.

Monetary Policy Auctions: The NBE will conduct Open Market Operations (OMOs) every two weeks to manage liquidity in the banking system. These auctions will ensure that interbank market interest rates remain close to the NBR. The first OMO auction took place on 11 July 2024.

Overnight Lending and Deposit Facilities: The Policy Framework has introduced an Overnight Lending Facility and an Overnight Deposit Facility for banks to manage their liquidity positions over a one-day horizon. These facilities will be offered at the NBR rate plus or minus 3 percent.

Electronic Money Market Platform: The NBE is expected to introduce an electronic platform to facilitate an active and functional interbank money market, allowing liquidity-surplus banks to lend to liquidity-short banks on a continuous basis. This platform aims to ensure that interbank interest rates align with the NBR.

H. Price Adjustment of Gold purchased through the National Bank and Commercial Bank of Ethiopia Directive No. 1/2016

Introduction

The National Bank of Ethiopia (NBE) revised the existing gold price on 17 June 2024, amending the Price Adjustment for Gold Directive No. 3/2015. The Directive aims to address challenges within the traditional gold production sector by improving incentives for gold suppliers, thereby enhancing the country's foreign currency earnings, and curbing illegal market activity within the sector.

Adjustments

Suppliers offering gold to the bank in quantities ranging from 50 grams to 3 kilograms will receive a 60% markup on the global market price. Those supplying between 3.01 kilograms and 30 kilograms will receive a 67% markup, while aggregators providing quantities exceeding 30.01 kilograms will benefit from a 72% markup on the global market price.

A payment of 60%-72% above the international gold price for suppliers of gold is indeed a huge incentive.

I. National Bank of Ethiopia Draft Proclamation

Introduction

The Ethiopian Federal Government introduced a new draft bill, titled "National Bank of Ethiopia Proclamation xx/2024," ("The Draft Proclamation") to the Parliament on June 20, 2024. The Proclamation proposes amendments to Proclamation No. 591/2008, which has governed the National Bank of Ethiopia ("NBE") for the past sixteen years. The Draft Proclamation aims to enhance the NBE's regulatory and supervisory credibility, redefine its powers and functions and promote financial stability.

Key Changes

Powers and Duties of the NBE: The Draft Proclamation expands NBE's powers and duties, thereby enhancing its regulatory and supervisory roles. These includes setting price stability targets in consultation with government bodies, determining monetary policy instruments, issuing short-term debt instruments for open market operations, and licensing foreign exchange dealers in line with recent liberalization of the regulations concerning foreign exchange.

Capital and Reserve: The Draft Proclamation sets the NBE's capital at 20 billion Birr, with a minimum paid-up capital of 10 billion Birr, a substantial increase from the previous 500 million Birr minimum paid-up capital requirement. A structured profit distribution and reserve management approach is introduced, enhancing financial stability and governance.

Governance Structure: The Draft outlines detailed procedures for appointing the Board of Directors, Governor, Vice Governors, Auditors, and Committees of the NBE. It introduces academic and professional qualifications, limits on terms of service, and procedures for removal or resignation.

Relations with the Government: The Draft Proclamation marks a significant shift by prohibiting direct or indirect loans to the government, except for temporary overdraft and force majeure. It also restricts the NBE from purchasing any government's bills, bonds, or securities on the primary market.

Franco-Valuta Imports: The Draft transfers oversight of franco-valuta imports to the NBE, which was previously managed by the Ministry of Finance ("MoF").

Conclusion

The Draft National Bank of Ethiopia Proclamation represents substantial changes including expansion of power and responsibility, enhanced capital and reserve management, and improved audit functions aligned with international standards.

ABOUT US

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