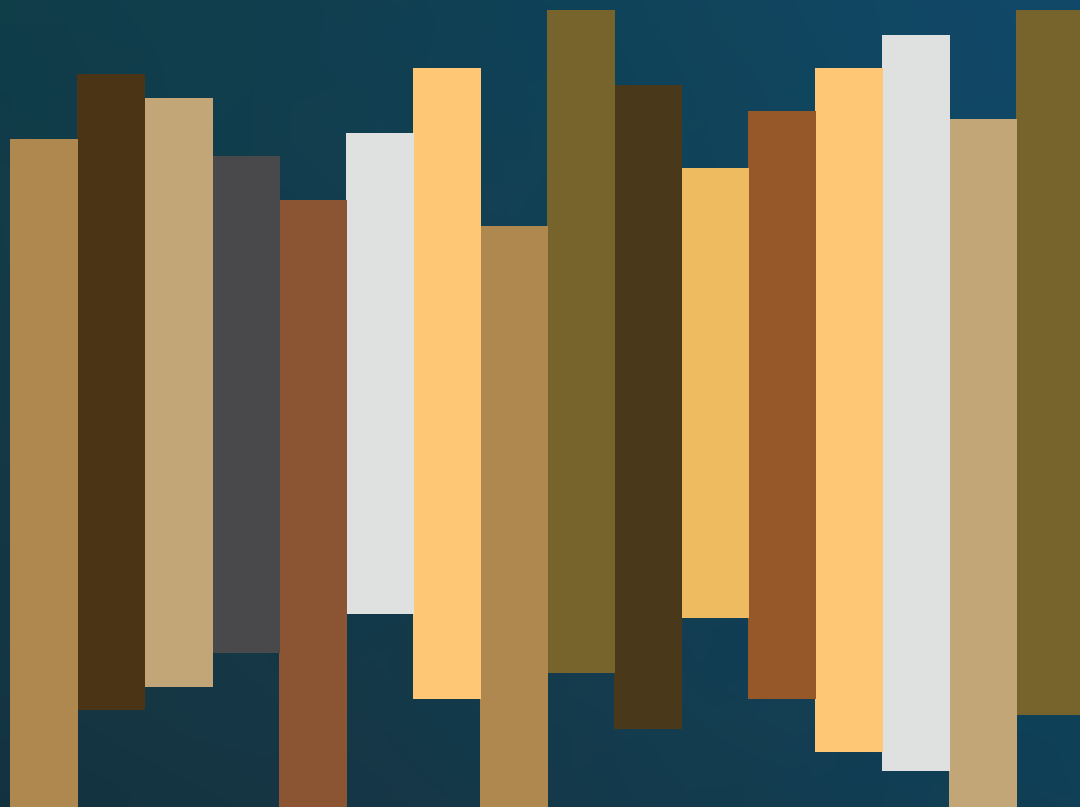




FINANCIAL STABILITY REPORT

NOVEMBER 2024

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ብሔራዊ ባንክ
NATIONAL BANK
OF ETHIOPIA

D. Operational Risk

There is significant operational risk in the Ethiopian commercial banking industry, and it is expected to rise further in the short to medium term. Incidents of social engineering, insider threats and third-party risks are on the rise. The gross cost of bank fraud and forgeries increased to 1.3 billion birr from 1.0 billion birr a year ago. These cases occurred at 28 banks (almost every bank), mainly through the use of fake cash notes and cheques, embezzlement, the issuance of unauthorized bank guarantees, withdrawals using stolen ATM cards, and false calls or texts.

Commercial banks are introducing new technology-based products and services that enhance efficiency and financial inclusion but entail significant operational risks. Moreover, an increasing number of banks are applying to introduce digital micro credit and savings services that are provided through partnerships with third parties. As a consequence, incidences of fraud and embezzlement could increase. In that regard, policies for banks and effective strategies for measuring and mitigating operational risks need to put in place. In addition, this would pose an elevated cyber risk to the banking system more than ever before.

3.3 MICROFINANCE AND CAPITAL GOODS FINANCE BUSINESS SECTORS

This section focuses on the stability and vulnerability to risks of the MFI and the capital goods finance business sectors. Given their share of its monetary value, these sectors are not expected to pose a significant risk to Ethiopia's overall financial system, but institutions have a big social impact for a number of beneficiaries. They totaled 829,078 loan clients and 5,586,302 savers at end of the review period.

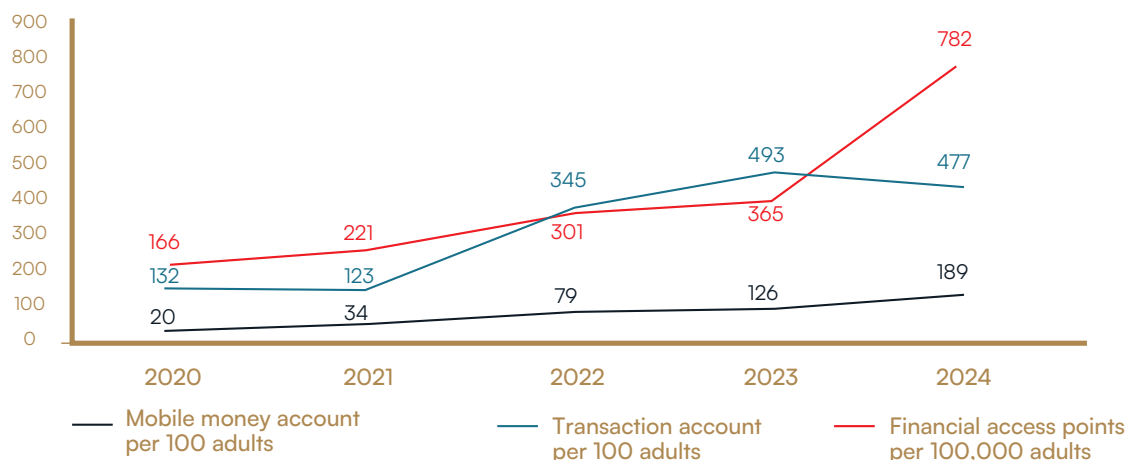
At the end of June 2024, all MFIs together accounted for 1.8 percent of the financial sector's total assets, and all capital goods finance companies for 0.2 percent (see Table 3 in section 3.1 above). Therefore, the analysis in this section is limited, as it is focused on financial stability when compared to that of the banking sector. More details are provided in this report's annexes.

At the end of June 2024, 56 microfinance institutions ¹⁵ (with a total of 1,138 branches) and six capital goods finance companies ¹⁶ (with a total of 56 branches) were operating in Ethiopia.

¹⁵ The analysis for the microfinance sector excludes data for the microfinance institutions that have been transformed into banks from the end of June 2019 to the end of June 2023 (Amhara Credit and Saving Institution, Oromia Credit and Saving Institution, Omo MFI, Somali MFI, Addis Credit and Saving Institution, and Sidama MFI).

¹⁶ Waliya Capital Goods Finance Business S.C, Oromia Capital Goods Finance Business S.C, Addis Capital Goods Finance Business S.C, Debub Capital Goods Finance S.C, Kaza Capital Goods Finance Business S.C, and Ethio Lease Ethiopia Goods Finance Business S.C.

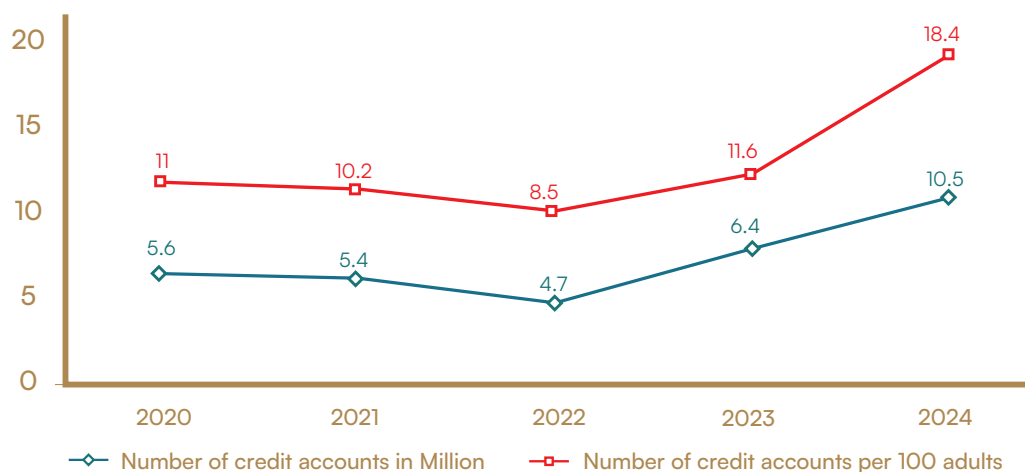
Figure 24: Financial Access Points and Usage, 2020-2024



Source: NBE Database

Furthermore, the total number of credit accounts in the financial sector increased from 6.4 million at the end of June 2023 to 10.5 million at the end of June 2024 — a growth rate of 64.3 percent (Figure 25). During the year, there were a total of 4.1 million new digital credit users. As a result, the total number of credit accounts per 100 adults increased to over 18 at the end of June 2024 against 11.6 at the end of June 2023 and far above the NFIS-II's headline target of 12.8.

Figure 25: Number and Density of Credit Accounts, 2020-2024



Source: NBE Database

Financial consumer protection is another important intervention area for NBE, which aims to enhance the trust and confidence of the general public by ensuring transparency, fairness, and consumer rights. Accordingly, NBE issued the relevant Financial Consumer Protection Directive and established a directorate dedicated to the supervision of the market, dispute resolution, and ensuring financial consumer rights are fully protected, and market confidence is maintained. During the year, a total of 3,345 financial consumer complaints related to transaction failure, unauthorized transactions, data misuse, and fraud were received by financial institutions. Of these, 48 percent are related to transaction failures. The financial institutions resolved 90 percent of the complaints reported during the year.