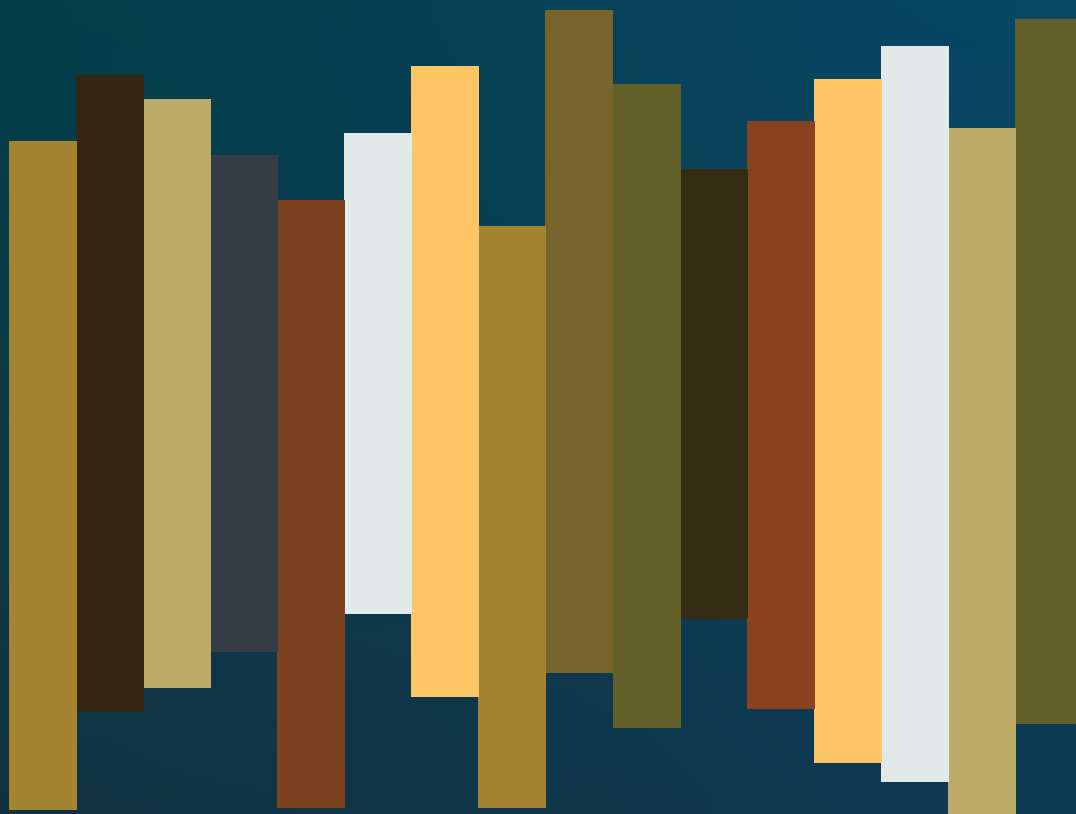




FINANCIAL STABILITY REPORT

MARCH 2026

nbe.gov.et



የኢትዮጵያ
ብሔራዊ ባንክ
NATIONAL BANK
OF ETHIOPIA

Similarly, capital goods finance companies exhibited sound financial conditions, with low credit risk and adequate capital and liquidity buffers, supporting the assessment that the sector is safe and stable.

The insurance sector recorded a sound performance over the 12 months to June 2025. Liquidity strengthened and profitability increased, supported by premium growth and improved underwriting results, despite some pressure on solvency and equity ratios. Overall, the sector remained stable and resilient.

Other pillars of the financial sector, particularly the capital market and the social security sector, play an increasingly important role in the financial system. Regarding the former, the launch of the Ethiopian Securities Exchange in January 2025 and the subsequent development of the Interbank Money Market have strengthened financial sector stability through improved liquidity management, reduced borrowing costs, and enhanced transparency in short-term funding markets. Social security institutions held nearly one-tenth of total financial system assets by June 2025, with most invested in government Treasury Bills. While this supports market liquidity, it also creates interlinkages that could transmit shocks across sectors, highlighting the need for close monitoring of systemic and liquidity spillover risks.

Digital financial services expanded rapidly during the review period, with transaction values nearly doubling to over ETB 18.5 trillion. While this growth supports financial inclusion and efficiency, it also increases exposure to operational, cyber, and fraud-related risks. Strengthening technological infrastructure, human capacity, and risk management frameworks is therefore becoming increasingly urgent.

Finally, a survey conducted for this report showed that financial sector stakeholders consider exchange rate movements and inflation as the most significant short-term risks. Respondents emphasized the importance of continued macroeconomic discipline, strong financial regulation and supervision, enhanced stress testing, and sustained efforts to build foreign exchange reserves. They also highlighted the need to invest in technology, manage emerging digital risks proactively, and promote domestic production and import substitution to support long-term financial stability.

fiscal and monetary policy measures. One of the major indicators of asset quality, NPLs ratio, was at its best position versus the preceding years, and it will continue to fall in line with favourable economic conditions and measures. The NPLs ratio, one of the major indicators of was at its best position compared to the preceding years. The NPLs ratio was 3.1 percent by the end of June 2025, which was much better than the 5 percent maximum set by NBE. The provisions coverage ratio of 80 percent also reflects a better credit risk mitigation status. Yet, there are a few banks with NPL ratios of more than 5 percent that need close monitoring and follow-up by NBE using supervisory and regulatory tools. Regular credit stress testing is also required to manage credit risk effectively, and to design recovery plans in a timely manner.

B. Liquidity Risks

The liquidity risk for commercial banking industry was low during the fiscal year.

The liquidity of Commercial banks at 30.4 percent was at its best position compared to preceding years, recording twice the minimum regulatory threshold. The number of banks that failed a liquidity stress test using the top 10 depositor withdrawal scenario, was reduced to 16 compared to 20 banks in previous fiscal year. Accordingly, some policy measures have been taken by NBE, during liquidity stress, to enhance the sector's liquidity included setting the policy interest rate, fostering interbank lending, creation of a standing liquidity facility (deposits and lending), and establishing an emergency liquidity assistance facility.

Those Banks' which failed the liquidity stress test, need to develop recovery action plan to maintain their liquidity position under such scenario. In addition, banks need to minimize gaps between assets and liabilities and strengthen other internal liquidity management tools and contingency planning.

C. Foreign Exchange Rate Risk

NBE has undertaken various reforms to increase foreign currency earnings and narrow the premium between the parallel and official foreign currency exchange market. Accordingly, these reform measures have led to moderate foreign currency exchange rate risk for the banking system. As highlighted in Box 1 above, these reforms include the introduction of a market-based exchange rate, the removal of foreign currency surrender requirements for banks, an increase in the share and period to hold foreign currency for exporters, and the licensing of independent foreign currency exchange bureaus. All these measures have contributed to boost foreign currency earnings for financial institutions, traders, and the economy at general.

As a result, the aggregated banks' capital adequacy ratio remains above the regulatory requirement of 8 percent under all three stress test scenarios, and only one bank would fail to maintain the minimum capital adequacy ratio in the highly severe scenario. All in all, the foreign currency exchange rate risk remains moderate.

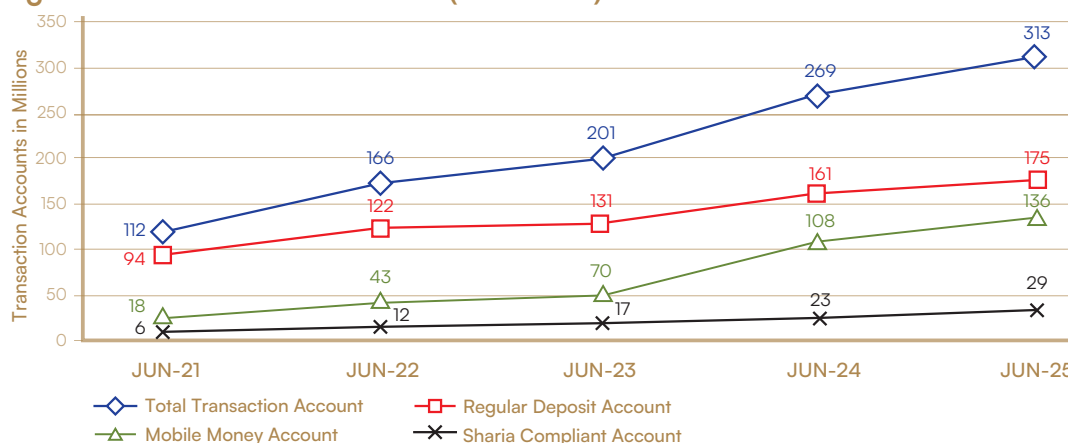
D. Operational Risk

Operational risk remained moderate but is increasing considering financial frauds and crimes, cyber security threats, technology disruption, and loose regulatory compliance, as observed during the fiscal year under review. Banking sector digital fraud, embezzlement, forgeries, cyber risk, fake cash notes and cheques, stolen ATM cards, and other third-party risks were increasing. On the other hand, the banking sector is intensively moving to technology-based and digital financial services for efficiency purposes. Given the dangers, it is important to invest in technology, enhance employee capacity, uphold the integrity of bank staff, design and implement a risk management framework, strengthen cyber security and introduce AI based online tracking systems like Sup Tech and Reg Tech to mitigate and balance downside risks.

4.2.2. Financial Inclusion Landscape

As of June 2025, nearly 63 percent of Ethiopian adults had a financial account⁶ while the remaining 37 percent of adults are still excluded from formal financial services. The regulatory reforms of the last three years, particularly in digital finance and Sharia-compliant financial systems, have played a pivotal role in expanding access and driving account usage. Accordingly, 44 million new transaction accounts were opened, bringing the total number of transaction accounts to 313 million by end June 2025. **In other words, such huge transactions need strong and continuous risk assessment by players to manage DFS and digital fraud risks** (Figure 25).

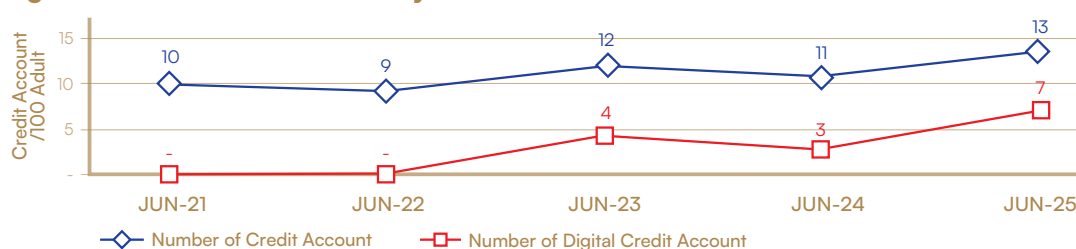
Figure 25: Transaction Accounts (In Millions)



Source: NBE Database

In addition, the total number of credit accounts rose from 6.15 million at the end of June 2024 to 7.54 million a year later in 2025, reflecting a notable expansion in credit access. The number of credit accounts per 100 adults climbed from 11 in June 2024 to 13 in June 2025, signalling steady progress in financial inclusion through the provision of credit (Figure 26).

Figure 26: Number and Density of Credit Accounts



Source: NBE Database

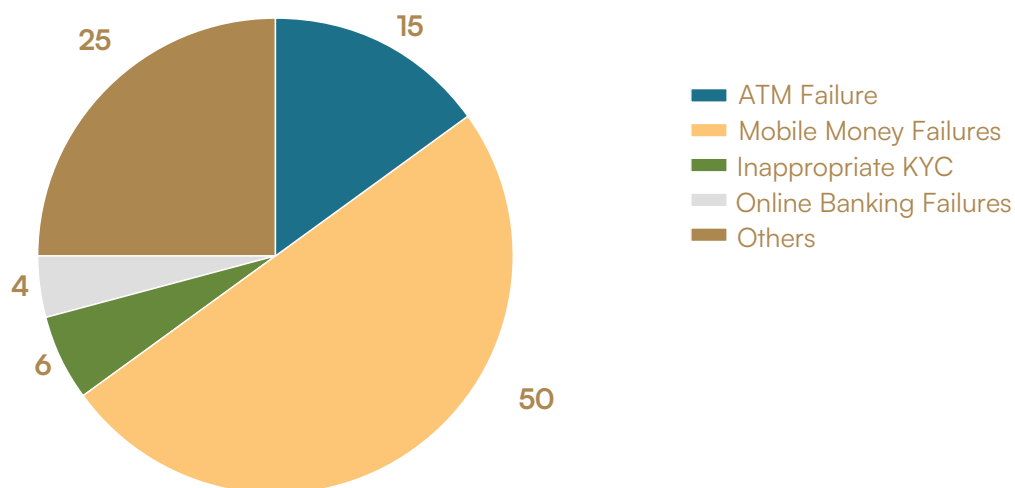
4.2.3. Financial Consumer Protection

During the fiscal year, financial institutions successfully resolved 90 percent of consumer complaints within 10 working days — well above the mid-term benchmark of 59 percent. A total of 13,626 complaints were received, primarily concerning transaction failures and issues related to know-your-customer (KYC) procedures. Notably, nearly half of the complaints were linked to mobile banking transaction failures, highlighting a critical area for service improvement. **This shows that strong digital oversight is required to manage such continuously increasing technological digital risks and operational risks** duly supported by prudential liquidity management of financial institutions.

⁶ Demand side triangulation forecast made in consultation with Boston Consulting Group.

To this effect, the NBE has officially introduced multiple channels for lodging complaints. These include a toll-free call centre (6230), a dedicated website, and an email platform — ensuring accessible and streamlined communication for all consumers seeking support or resolution, that is, to reduce financial system risk (Figure 27).

Figure 27: Financial Consumer Complaints, June 2025, (In Percent)



Source: NBE Database