

## BANKING SECTOR IN ETHIOPIA: ORIGIN AND PRESENT STATE

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### Abstract

Ethiopia's formal (regulated and controlled) financial sector comprises banks, insurers, microfinance institutions, and capital goods finance companies. The banking sector in Ethiopia is an integral part of the financial sector in particular and the economy as a whole. Its contribution to the country's macroeconomic stability and growth objectives is evident. This research paper aims to provide insight into the origin and development of the banking sector in Ethiopia, as well as its current structure, regulatory framework, performance, and status quo. The study is entirely based on the review of literature from various secondary sources. The paper concludes that even if the banking sector has witnessed a sea change during the past three decades, its overall achievement lags far behind that of several other Sub-Saharan African countries, the rest of the world, and international standards. However, the paper indicates that there is a huge growth potential for the banking business in Ethiopia.

**Keywords:** Ethiopian banking sector, origin and development, performance, regulatory framework.

## 1. INTRODUCTION

The banking sector is the fundamental part of the financial sector and the backbone of the national economy, especially in developing countries where the capital market is not strong enough or nonexistent. It plays a key role in any country's economic growth through intermediation services, ensuring efficient allocation of resources, and transmission of monetary policy to the entire economic system (Allahham, 2015; Odewole et al., 2016). The banking sector is the leading sector in modern economies and even becomes the criterion for measuring the safety of a country's economy. There is a consensus in the literature that a well-functioning and sound banking sector in a country contributes to the health and vitality of the country's economy, whereas a malicious banking sector cripples the entire economy. As a result, regulatory bodies have heavy regulations and standards governing the financial well-being of the banking sector (Sibindi, 2018).

Ethiopia, which is one of the least developing countries located on the African continent, shares the foregoing. In Ethiopia, the banking sector is the pillar of the financial sector and a critical member of the country's economy. It constitutes approximately 93 percent of the financial sector's total capital and contributes 4.2 percent to the national economy in 2022 (NBE, 2022; MoF, 2022). According to Proclamation 592 of 2008, banks in Ethiopia play a crucial role in the country's economic development by mobilizing funds within and outside the country and channeling such funds to various sectors of the economy. Nevertheless, the way how a banking sector is structured and how it functions are fundamental to the financial stability and economic growth of any country (Bhole, 1999). As such, having a financially sound and healthy banking sector has become a policy imperative and among the top priorities of the policymakers and finance regulators in Ethiopia. This paper explicates the main aspects of the origin and development of modern banking sector in Ethiopia, as well as its structure, regulatory framework, and current state.

## 2. Objectives of the Study

This study aims to address the following specific objectives:

- To shed light on the origin and development of the banking sector in Ethiopia through the different phases.
- To provide insight into the current structure and regulatory framework of the banking sector in Ethiopia.
- To examine the performance and present state of Ethiopia's banking sector in comparison to some selected African banking sectors and global standards.

## 3. Research Methodology

To attain the aforementioned objectives, the study employed a review-based approach. As a result, it is entirely based on secondary data, which was primarily gathered from relevant laws (i.e., proclamations, regulations, and standards), audited annual financial reports of banks operating in the country (various issues), and annual bulletins of NBE and official sources of MoF. Besides, relevant journals, articles, magazines, and websites were consulted for the data collection.

## 4. The Origin and Development of Modern Banking in Ethiopia

Modern banking was first traced to Florence city of Italy in 1397, but it had spread over all of Europe by the year 1700 (Bhatt, 2020). Various credible sources documented that the introduction of modern banking in Ethiopia was traced back to the reign of Emperor Menelik II (1844-1913), precisely in 1905 (Mauri, 1997, 2003; Pankhurst, 1963). Since then, the Ethiopian banking sector has exhibited different structures because of the changes in the political structure (government) and economic system in the country. Given the different forms of the political and economic structure in the country, the history of Ethiopia's modern banking can be explained more meaningfully by categorizing its birth and development into three distinct phases: the imperial regime phase, the Socialist State phase, and the liberalization phase. The imperial regime phase (1905-1974) can be distinguished as the birth of modern banking in Ethiopia and the time of wholly foreign-owned banks, state-owned banks, and private banks jointly owned by indigenous and expatriates. On the other hand, the Socialist State phase (1974-1991) can easily be identified as the time of nationalized state-owned banks, whose basic role was to ensure the realization of the national economic plans outlined by the central government. In contrast, the liberalization phase (1991 to date) can be recognized as the time for the prevalence of state-owned banks and indigenous private-sector banks, whose operations are largely directed by market forces. These realities are briefly explained next.

### i) Imperial Regime Phase (1905-1974)

Modern banking business in Ethiopia began in 1905 when the Bank of Abyssinia (BoA) was constituted in Ethiopia on 10<sup>th</sup> March 1905 by the British-owned National Bank of Egypt (Mauri, 1997; Pankhurst, 1963; Shaefer, 1992). BoA was wholly owned and managed by the National Bank of Egypt, which itself was owned by the British Bank. BoA was formally inaugurated and started operation on February 15, 1906, with an authorized share capital of 500,000 Pounds Sterling (Ifeanyi, 2015; Mauri, 2010; Pankhurst, 1963). The Ethiopian government granted BoA an absolute right to monopolize the Ethiopian banking sector for fifty years, during which time the establishment of any other bank in the Kingdom of Ethiopia was prohibited (Pankhurst, 1963). BoA was also given a fifty-year sole right to issue currency notes (legal tender in the country), mint silver coins, and act as the financial agent of the Ethiopian government (Mauri, 1997; Pankhurst, 1963; Shaefer, 1992).

The 1905 convention guaranteed BoA the country's banking monopoly for fifty years, but this pledge was not long maintained by the government of Ethiopia (Mauri, 1997, 2003). On May 10, 1908, the Ethiopian government founded a kind of development bank called Societe Nationale d'Ethiopie Pour le Development de Agriculture et du Commerce (SNEPDAC) in Addis Ababa (the capital city of Ethiopia), with a paid-up capital of 200,000 Ethiopian Maria Theresa dollars (Eth.\$) (Geda, 2006; Pankhurst, 1963; Shaefer, 1992). This bank was not a competitor of BoA, because of its much smaller size and concentration on a market segment neglected by BoA. The SNEPDAC failed as a bank and became a commercial bank named Societe Nationale d'Ethiopie (SNE) in 1928 with a capital of one million Ethiopian dollars, of which 60 % was subscribed by a French bank. SNE was closed during the Italian invasion (Mauri, 1997, 2003; Shaefer, 1992). Two other Italian banks named Compagnie de l'Afrique Orientale and Banque de l'Indochine were reputed to have been established in 1915, but neither one started operation in Ethiopia (Shaefer, 1992).

In the era when banking services were in an inchoate stage, BoA played an undeniable role in introducing the modern banking system in Ethiopia. BoA issued Ethiopia's first currency notes in denominations of 5-, 10-, 50-, and 100-pound sterling. BoA also introduced the financial services of bank notes, payment instruments like checks, import and export financing, savings and current accounts deposits, etc., which were earlier unknown in the country. However, its coverage was largely confined to Addis Ababa and its clients were largely foreign businessmen and wealthy Ethiopians. On top of that, BoA faced enormous pressure for being purely profit-oriented, discriminatory against indigenes in extending loans, and inefficient in meeting the development financing needs of the country. In general, BoA played an ill-defined role to serve the British interests in Ethiopia. More precisely, BoA was not up to the expectation of the government of Ethiopia (Mauri, 1997, 2003; Shaefer, 1992). As a result, an agreement was reached with the Bank of Egypt, and BoA was formally liquidated in 1931 shortly after Emperor Haile Selassie acceded to the imperial throne in 1930 (Mauri, 1997; Pankhurst, 1963).

Following the liquidation of BoA, the Bank of Ethiopia (BoE) was founded in August 1931 as a joint-stock company, with an authorized capital of 750,000 pounds Sterling and a paid-up capital of 375,000 pounds Sterling. Out of its paid-up capital at the time of establishment, the government of Ethiopia owned 95.4%, whereas members of the Ethiopian aristocracy of the time owned 4.5% (Mauri, 1997, 2003, 2010). Hence, BoE was the first nationally-owned Ethiopian bank and the first indigenous state-owned bank in the continent of Africa (Mauri, 2003). BoE was authorized to engage in all types of commercial banking business in the country, issue currency notes in Maria Theresa thalers, and act as the fiscal agent of the Ethiopian government. Thus, BoE had the dual role of a commercial bank and a central bank in the country. BoE continued its dual operations until it was interrupted by the Italian invasion of Ethiopia (Harvey, 1996). Alongside BoE, Banque Del Indochine of France opened its commercial banking branch in Ethiopia in 1934 and operated until it ceased to exist in 1936 and its shares were sold to an Italian financial group (Mauri, 1997, 2003).

The five years of the Fascist Italian occupation (1936-1941) brought a different direction in the history of the banking sector in Ethiopia. During the five years, banking activities in Ethiopia were expanded, but only the banks of Italy were working in the country's banking market. The invader country liquidated BoE in 1938 and replaced its operations with the subsidiaries of six Italian parent banks, namely Banca d'Italia, Banco di Napoli, Banco di Roma, Banca Nazionale del Lavoro, Societe Nationale di Ethiopia, and Casa de Creito (Geda, 2006). However, they all ceased to exist soon after liberation except Banco di Napoli and Banco di Roma which remained operational in the state of Eritrea under the British administration. Eritrea was the confederated province of the Ethiopian empire until it got its independence in 1991 (Harvey, 1996, 2010; Mauri, 2008).

Following the Ethiopian victory over Fascist Italy in 1941, the Barclays Bank of British was set up in 1941 to provide banking services in Addis Ababa, but its presence was short-lived as the State Bank of Ethiopia (SBE) took over its activities in 1943. SBE was established as a corporate entity in August 1942 by the government of Ethiopia which came back to power after liberation (Mauri, 2008). SBE, which commenced its full operation in April 1943, was granted the exclusive right to issue currency notes and transact in foreign currencies. SBE was also the principal provider of all commercial banking services in the country until it was liquidated in 1963. Hence, over the period 1942 to 1963, SBE had dual fundamental banking functions in the country: acting as the country's central bank as well as a main commercial bank (Addison & Geda, 2001). Over the same period, the two Italian bank branches, Banco di Roma and Bank of di Napoli, operating in the state of Eritrea were placed under the supervision of the SBE (Harvey, 1996; Mauri, 2008).

The year 1963 witnessed a landmark in the modern banking history of Ethiopia. It was the time for the country to lay the ground for a new banking system better suited to meeting the needs of the increased domestic economy. To move on to the system, it was necessary to split the SBE into two independent institutions, that is, a pure central bank and a pure public commercial bank (Mauri, 2008). Subsequently, the imperial government promulgated the first comprehensive banking law (Monetary and Banking Proclamation 207/1963) in 1963 to legitimately split the two fundamental functions of the SBE. The new law liquidated SBE and gave birth to two new state-owned banks, namely the National Bank of Ethiopia to serve as a central bank and the Commercial Bank of Ethiopia to serve as a commercial bank. On top of that, the birth of the 1963 banking legislation, which contained provisions for the regulation of banking operations in Ethiopia, marked the beginning of the era of regulated banking as well as a two-tier banking system in Ethiopia. The law

also opened the Ethiopian banking market both to private indigenous banks and foreign banks (Addison & Geda, 2001; Mauri, 2008).

The National Bank of Ethiopia (NBE) was constituted in December 1963 to take over the central bank activities of the former SBE and started its function on 1<sup>st</sup> January 1964, with a capital of Eth.\$ 10 million. Similarly, the Commercial Bank of Ethiopia (CBE) was incorporated as a share company in December 1963 by taking over the commercial banking functions of the earlier SBE and started its operation on 1<sup>st</sup> January 1964, with a paid-up capital of Eth.\$ 20 million (Ifeanyi, 2015; www.nbe.gov.et).

The year 1964 witnessed another landmark in the modern banking history of Ethiopia. The 1963 banking law permitted Ethiopian nationals and expatriate banks to operate in the country's banking market as a joint stock banking company, specifying the maximum share capital ownership of foreign banks to 49 percent and the minimum share capital ownership for Ethiopian nationals to 51 percent (Mauri, 1997, 2008). Accordingly, the first local private commercial bank, named Addis Ababa Bank S.Co., was established in 1964 as a joint venture with Grindlays Bank (British-owned). The Bank's initial paid-up capital was Eth.\$ 2 million, and the foreign Grindlays Bank, foreign individuals living in Ethiopia, and Ethiopian nationals had 40, 9, and 51 percent ownership of the total share capital, respectively. The two existing Italian bank branches, Banco di Napoli (Ethiopia) S.Co. and Banco di Roma (Ethiopia) S.Co., were also licensed to operate under the new banking law in Addis Ababa and Eritrea, each with a paid-up capital of Eth.\$ 2 million (Harvey, 1996; Mauri, 2008).

The imperial reign also witnessed fully state-owned specialized development banks established in the country. In 1945, the imperial government set up the Agricultural Bank of Ethiopia intending to finance the agricultural sector and rural economy of the country. But the Bank was incorporated in 1951 as the Development Bank of Ethiopia S.Co. Similarly, the government founded the Investment Bank of Ethiopia in 1963, whose mandate was to buy and sell corporate and government securities. Later, the name of the bank was changed to Ethiopian Investment Corporation S.C. in 1965. In 1970, the Agricultural and Industrial Development Bank (AIDB) S.Co. was inaugurated, by taking over the assets and liabilities of the former Development Bank of Ethiopia S.Co. and Ethiopian Investment Corporation S.Co. The Bank's primary motive was to provide loans to the agricultural and industrial sectors (Harvey, 1996; Mauri, 2008).

The imperial regime of Ethiopian banking history also saw housing finance intermediaries that were operating in the country. One of them was the Imperial Savings and Home Ownership Public Association, which was established in 1963 to provide loans for the construction of residential houses and to individuals using their savings as collateral. The other specialized institution was the Savings and Mortgage Corporation of Ethiopia S.Co., which was established in 1965 to accept both savings and trust deposits and provide loans for the construction, repair, and improvement of residential houses and commercial and industrial buildings (Harvey, 1996; Mauri, 2008).

In general, the banking sector of Ethiopia during the imperial or pre-socialist period constituted a central bank, Ethiopian state commercial bank, foreign commercial banks, private commercial banks jointly owned by indigenous and expatriates, mortgage bank, house financing bank, agricultural bank, investment bank, industrial bank, and development bank. Table 1 below shows the list of banks that were in existence in Ethiopia during the imperial regime.

**Table 1: Banks Existed in Ethiopia during the Imperial Period (1905-1974)**

Name of the Bank	Estab. Year	Name of the Bank	Estab. Year
Bank of Abyssinia	1905	State Bank of Ethiopia	1942
d'Ethiopie Pour le Development de Agriculture ...	1908	Agricultural Bank of Ethiopia	1945
		Development Bank of Ethiopia S.C.	1951
Societe Nationale d'Ethiopie	1928	Imperial Saving & Home Ownership Public Association	1963
Bank of Ethiopia	1931	Investment Bank of Ethiopia S.C.	1963
Banque de Indochine	1934	National Bank of Ethiopia	1963
Banca d'Italia	NA	Commercial Bank of Ethiopia S.C.	1963
Banco di Roma	NA	Addis Ababa Bank S.C.	1964
Banco di Napoli	1939	Banco di Napoli (Ethiopia) Share Co.	1964
Societa Nazionale d'Etioipia	1939	Savings & Mortgage Corporation of Ethiopia S.C.	1965
Banca Nazionale del Lavoro	1939	Ethiopian Investment Corporation S.C.	1965
Casa de Creito	1939	Banco di Roma (Ethiopia) Share Co.	1966
Barclays Bank	1941	Agricultural & Industrial Development Bank S.Co.	1970

Source: Compiled from Pankhurst (1963); Shaefer (1992); Harvey (1996); Mauri (2003, 2008, 2010); Geda (2006); National Bank of Ethiopia: <https://nbebank.com/history-of-banking/>

## ii) Socialist State Phase (1974-1991)

The dismissal of the imperial government by the 1974 Peoples' Revolution led to a change of government and economic strategy in Ethiopia. The new military government that came to power in September 1974 declared Ethiopia to be a socialist state that followed a centrally controlled economic system on the Soviet model. To suit its socialist economic ideology, the government had to bring those resources that were crucial for economic development or that provided indispensable service to the community exclusively under the control and ownership of the government (Harvey, 1996).

Accordingly, the government took complete ownership and control of the banking sector, thereby becoming the country's sole player in the banking business. Consequently, all private banks operating in the country at that time were first nationalized in early 1975. Then, the nationalized banks along with the state-owned banks were restructured and merged to create stronger banking institutions by merging those performing similar functions. To facilitate this, the socialist government issued a new banking law (Monetary and Banking Proclamation 99/1976) in September 1976. Besides, the proclamation replaced the former “Ethiopian Dollar” with a new legal currency called “Ethiopian Birr (ETB)” (Ifeanyi, 2015; Mauri, 1997; Harvey, 1996).

As part of nationalization, the three private commercial banks, namely Addis Ababa Bank S.Co., Banco di Roma (Ethiopia) S.Co., and Banco di Napoli (Ethiopia) S.Co., were merged in 1976 to form Addis Bank. Following the merger, Addis Bank became the second largest state-owned commercial bank in the country with a capital of ETB 20 million and 34 branches. Nevertheless, Addis Bank became defunct and merged with the Commercial Bank of Ethiopia in 1980, retaining the latter name. This merger created a monopoly of commercial banking business in the country until private commercial banks re-emerged in 1994 (Ifeanyi, 2015; Geda, 2006).

Similarly, the two housing finance institutions, namely the Imperial Savings and Home Ownership Public Association and the Savings and Mortgage Corporation S.Co., were also merged in 1976 to form a new state-owned bank called the Housing and Savings Bank (HSB). The establishment capital of the HSB was ETB 6 million. The Bank's major business was accepting savings and trust deposits and providing loans for the purchase, extension, renovation, and construction of residential houses and commercial buildings (Harvey, 1996).

On the other hand, the Agricultural and Industrial Development Bank (AIDB), which was formed in 1970 with complete state ownership, continued under the same name until 1994 when it was renamed the Development Bank of Ethiopia (DBE). AIDB was authorized to finance the economic development of the agricultural and industrial sectors of the national economy by extending credits of medium- and long-term nature as well as short-term agricultural production loans (Harvey, 1996).

The National Bank of Ethiopia (NBE) continued to serve as the central bank of the country during the Socialist government's reign. However, the role of NBE was reformulated according to the socialist economic ideology that the country adopted. Accordingly, Proclamation 99 of 1976 authorized NBE to directly fix both deposit and loan interest rates, administer the allocation of foreign exchange and credit by favoring the public sector in support of the government's development plans, finance the government fiscal deficit, and coordinate, supervise and control the entire financial sector of the country (Addison & Geda, 2001; Geda, 2006).

In general, the banking sector of Ethiopia that the socialist-oriented military government left over at the end of its reign constituted only four state-owned banks, and each of them was a monopoly in its respective market. These were the NBE, which served as the supervisory and regulatory body; the CBE, which was tasked with providing commercial banking services; the HSB, whose specialty was the provision of loans for the construction and purchase of housing buildings; and the AIDB, which specialized in providing loans to the agricultural sector and industries. NBE was at the apex of the banking sector structure (i.e., first tier), and CBE, HSB, and AIDB were placed under the umbrella of the NBE (i.e., second tier). Furthermore, the banking system during the socialist period (1974 to 1991) was highly controlled and restrictive, which had a devastating effect on the economic development of the country.

### **iii) Liberalization Phase (Post-1991)**

Following the overthrow of the Socialist military government in 1991, the new government declared that Ethiopia has adopted a market-oriented economic system to accelerate the economic growth of the country through private sector development. In line with this new economic policy, the country started liberalizing its financial sector in 1994, after three years of adopting the market-based economic policy (Addison & Geda, 2001). Ethiopia adopted a gradual financial liberalization approach.

Regarding the banking sector liberalization, the Ethiopian government restructured the state-owned commercial and development banks, re-established the country's central bank, and introduced new banking laws to suit the needs of the market-based economic system. Despite their restructuring, the government of Ethiopia retained complete state ownership of all those banks (Bezabeh & Desta, 2014; Geda, 2006).

The CBE was reorganized in 1994 to operate in line with the new market-based economic policy. Consequently, CBE was given more autonomy in its operating and lending decisions. CBE was once again restructured and signed a contract with the Royal Bank of Scotland for management consultancy services (Ifeanyi, 2015). Following this, CBE aspires to be a world-class commercial bank by 2025. The Africa Business Magazine (2022), which ranks Africa's leading banks based on capital, ranked CBE as the largest bank in Ethiopia, the third-largest bank in East Africa, and the 32<sup>nd</sup>-largest bank in Africa in 2022.

The HSB, which was a state mortgage bank during the Socialist regime, converted itself into a state commercial bank in 1994 by Proclamation 203/1994 (Harvey, 1996; Ifeanyi, 2015). At the same time, it changed its name to the

Construction and Business Bank (CBB). Historically, CBB provided long-term loans for the acquisition, extension, renovation, and construction of houses for individuals and cooperatives, and financed industrial construction and real estate developments (Harvey, 1996). Following its re-establishment, CBB expanded its scope to all commercial banking services such as deposits, loans, import and export financing, mortgages, and money transfer services. However, CBB became defunct through an acquisition by the country's giant state-owned CBE in 2016.

Similarly, the AIDB, which was earlier a state development bank, became a commercial bank in 1994 by Proclamation 200/1994, changing its name to the Development Bank of Ethiopia (DBE). The initial setup and preparations made by DBE to become a commercial bank proved to be inadequate to attract deposits from sources other than the public sector (Ifeanyi, 2015; Harvey, 1996). As a result, DBE has been restructured again as a specialized bank in project financing and is no longer a deposit-taking institution (Gashayie & Singh, 2019). Currently, DBE finances agricultural and industrial undertakings, which are crucial in the economic development of the country.

As part of the reform process, the government passed a new Monetary and Banking Proclamation 83 in 1994 that endorsed NBE as the country's central bank and strengthened its operational autonomy in terms of a market-oriented economic policy. The law reconstituted NBE as a judicial body with full government ownership and detailed its primary functions that signify the central bank and the financial sector regulator of the country. In the 1994 proclamation, the role of NBE was redefined to foster monetary stability, a sound financial system, and other credit and exchange conditions that are conducive to the balanced growth of the country's economy.

The government found it necessary to reconstitute NBE again in a way that would be able to support the rapid economic growth of Ethiopia that existed in the 2000s. Subsequently, the government enacted Proclamation 591 in 2008, which broadened the operational autonomy and regulatory role of NBE. Under the amended law, NBE has the mandate to maintain a stable price and foreign exchange rate, foster a robust financial system, and undertake other related activities that support the country's rapid economic growth. The law also provides NBE with wide-ranging powers to license, supervise, and control all financial institutions operating in the country. Recently, the World Bank recommended reconstituting the NBE's current role and operations in light of the country's recent reforms (World Bank, 2019).

As one step towards liberalizing the banking sector, the government passed the Licensing and Supervision of Banking Business Proclamation 84 in 1994. This law laid down the legal basis for licensing indigenous private sector banks to operate in the country's banking market, which was completely prohibited by the defunct Socialist government. Soon after the promulgation, local private banks emerged to operate alongside state-owned banks, and more banks have been licensed than in any other period in the banking history of Ethiopia.

Awash Bank was the first private commercial bank exclusively established and operated by Ethiopian nationals in 1994, followed by Dashen Bank set up in 1995, Bank of Abyssinia (1996), and Wegagen Bank (1997). Other 13 new private commercial banks joined the market in the period 1998 to 2012. According to the official sources of NBE, the most recent private commercial bank entrant received its license in 2022. Zam-Zam Bank was the first full-fledged interest-free bank (Islamic bank) in the banking history of Ethiopia, whereas Siinqee Bank became the first bank to transform its status from a microfinance institution to a full-fledged commercial bank in 2021.

The most recent annual report (2021/22) and other official sources of NBE revealed that the total number of banks operating in Ethiopia reached 25 by the end of June 2022. Five new private banks have already received their license, and 11 more are in the pipeline to join the industry, which will bring the total number of operational banks to 41. Other 13 new banks in the process of share subscription (selling shares to the public) failed because they could not meet the new minimum establishment paid-up capital threshold within the allocated time. Table 2 gives the list of operating banks in Ethiopia along with their year of establishment, establishment paid-up capital, and ownership status.

**Table 2: Banks operating in Ethiopia at the end of June 2022**

S. No.	Name of Bank	Year of Establishment	Establishment Capital in ETB	Ownership of Business
1	Development Bank of Ethiopia	May 1908	0.2 million	State
2	Commercial Bank of Ethiopia	December 1963	20.0 million	State
3	Awash International Bank S.C.	November 1994	24.2 million	Private
4	Dashen Bank S.C.	September 1995	14.9 million	Private
5	Bank of Abyssinia S.C.	February 1996	17.8 million	Private
6	Wegagen Bank S.C.	June 1997	30.0 million	Private
7	Hibret (United) Bank S.C.	September 1998	20.9 million	Private
8	Nib International Bank S.C.	May 1999	27.6 million	Private
9	Cooperative Bank of Oromia S.C.	October 2004	112.0 million	Private
10	Lion International Bank S.C.	October 2006	108.2 million	Private
11	Oromia International Bank S.C.	September 2008	279.2 million	Private
12	Zemen Bank S.C.	October 2008	99.7 million	Private
13	Bunna International Bank S.C.	June 2009	156.0 million	Private

14	Berhan International Bank S.C.	June 2009	95.7 million	Private
15	Abay Bank S.C.	July 2010	125.8 million	Private
16	Addis International Bank S.C.	January 2011	106.3 million	Private
17	Debub Global Bank S.C.	April 2012	138.9 million	Private
18	Enat Bank S.C.	November 2012	120.0 million	Private
19	Zam-Zam Bank S.C.	October 2020	872.0 million	Private
20	Hijira Bank S.C.	September 2021	700.0 million	Private
21	Goh Betoch Bank S.C.	October 2021	521.5 million	Private
22	Siinqee Bank S.C.	April 2021	7.1 billion	Private
23	Tseday Bank S.C.	January 2022	7.75 billion	Private
24	Shebele Bank S.C.	February 2022	--	Private
25	Amhara Bank S.C.	June 2022	4.8 billion	Private

**Source:** Compiled from NBE Annual Report (2021/22) and Annual Reports of Banks (Various Issues); Official Websites of Banks

## 5. The Current Structure of Banking Sector in Ethiopia

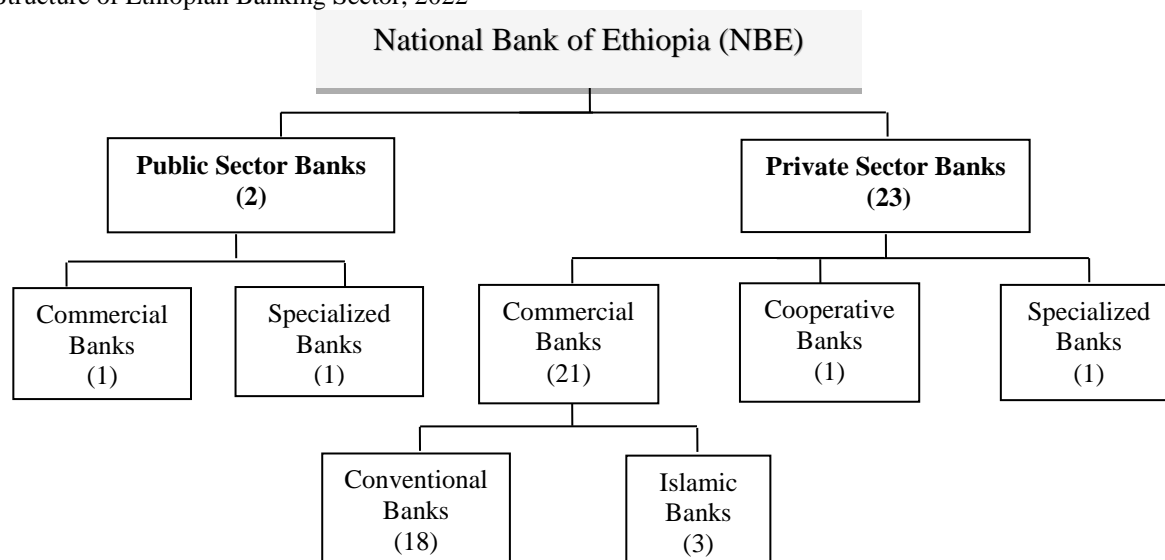
Even though the banking sector of Ethiopia currently permits private sector banks to operate in the country, the sector remains closed to foreign banks insisting on the gradual liberalization strategy adopted by the country. There is however a strong intention to open up the sector to foreign banks and foreign ownership shortly as the Ethiopian government pursues extensive reforms in the financial sector as per the 15-year Growth and Transformation Plan (GTP) implemented in 2010/11 and the 10-Year Development Plan implemented in 2020/21.

Ethiopia currently has a banking sector made up of both public- and private-sector banks. Banks in the public sector are those that are entirely owned by the Government of Ethiopia. In contrast, private sector banks are those whose share capital is solely owned by private individuals and corporates. Despite this, Ethiopia’s banking sector currently has a small market size as compared to many other low-income Sub-Saharan African countries and is incompatible with international world experiences (Menza & Eshete, 2018).

After nearly thirty years of liberalization, the banking sector of Ethiopia constitutes a central bank (National Bank of Ethiopia or NBE), 2 public-sector banks, and 23 private-sector operating banks by the end of June 2022 (NBE, 2022). The public sector banks include one state-owned commercial bank and one state-owned specialized (development) bank. The private sector banks are further categorized into commercial, cooperative, and specialized banks. As of June 2022, a total of 21 commercial banks, 1 cooperative bank, and 1 specialized bank were in operation in the private banking sector. The private sector commercial banks are further divided into conventional commercial banks and Islamic commercial banks. In June 2022, a total of 18 conventional commercial banks and 3 Islamic commercial banks were in operation. NBE is the sole regulator and supervisor of the banking sector.

Till this time, there are no foreign banks (whose registration and head offices are in a foreign country), investment banks, licensed foreign exchange (forex) offices, or licensed money remittance providers that are operating in Ethiopia. Figure 1 below depicts the structure of banking sector in Ethiopia as of June 30, 2022.

**Fig. 1:** Structure of Ethiopian Banking Sector, 2022



**Source:** Compiled from the NBE Annual Report, 2021/22

## 6. The Regulatory Framework of Banking Sector in Ethiopia

The banking sector in many countries is put under strict scrutiny through regulations due to the nature of its operations. Perhaps there may be no other sector that is as heavily regulated as the banking sector. The reasons for its stringent control are in many cases clear. First, banks as an intermediary have the power to create excessive money, which can lead to inflation and overall financial crisis in the economy if unregulated. Second, there may be a need to allocate funds

to vital sectors of the economy, and banks may not allocate funds to such sectors in the absence of regulation. Third, banks need to be regulated to eliminate monopolistic tendencies which may stifle competition and efficiency of the banking sector. Fourth, bank regulation contributes to maintaining public confidence in the banking system. Depositors must be protected in a way that allows them to convert their deposits to cash when needed without suffering any losses. Like other countries of the world, the banking sector in Ethiopia has been subject to regulations through statutory laws (proclamations) and the regulator's regulations (directives). The Banking Business Proclamation 84 of 1994 unlocked the gates of the Ethiopian banking sector to the private sector banks. Since then, the banking sector has progressively occupied a central place in the economic growth and development of Ethiopia. This necessitated a more comprehensive banking legal framework that could ensure the safety, soundness, and stability of the banking system in the country. Consequently, the government of Ethiopia came up with a new Banking Business Proclamation 592/2008 in 2008, revoking the earlier Proclamation 84 of 1994. Later, the 2008 proclamation was amended by Proclamation 1159 of 2019. The foregoing implies that reforms are an integral part of the Ethiopian banking sector.

Currently, the banking business proclamation 592 of 2008, the amended proclamation 1159 of 2019, and the NBE establishment proclamation 591 of 2008 are the principal legislation that constitutes the banking regulatory framework of Ethiopia. Indeed, a set of directives issued by the banking sector regulator are the subordinate legislation that forms the banking regulatory framework of Ethiopia. These include, among others, directives for the minimum establishment capital requirement, reserve requirement, liquidity requirement, restriction on investment of banks, and single borrower loan limit. The proclamations together with a suite of directives govern all banking business activities in the country.

To enhance the safety, soundness, and stability of the banking system, the current banking legislations (statutory regulations and central bank's directives) have brought stringent preventive regulations like requirements for capital adequacy, restrictions on the types of businesses that banks may engage, requirements for statutory reserves and liquidity, restrictions on entry into the banking business through licensing and entry capital basis, and imposition of limits on the credit to be extended to a single borrower. The most noteworthy provisions of the current banking legislation are briefly addressed next.

### **6.1 Regulatory Body**

The Monetary and Banking Proclamation 99 that came into force in 1976 empowered NBE for the first time to regulate and supervise the banking sector in Ethiopia. The NBE remained to be the regulatory and supervisory authority of the banking market in Ethiopia by the Monetary and Banking Business Proclamation 83 of 1994, shaping the Bank's role in line with the market-oriented economic policy adopted by the country in 1992. The NBE is once again designated as the policymaker, regulator, and supervisor of the banking sector in Ethiopia by the NBE Establishment (amended) Proclamation 591 of 2008. The Proclamation broadens the NBE's core functions based on the market-oriented economic policy and the rapid economic development of the country that existed in the early 2000s.

As per the 2008 proclamation, the core regulatory mandate of NBE concerning the banking sector is to ensure the safety, soundness, and stability of the sector through the efficient and effective application of banking legislation of the country and international standards. To achieve this, NBE formulates and enforces policies, standards, and guidelines for the conduct and expansion of the banking business in the country. NBE licenses banks and supervises all banks operating in the country. NBE has the mandate to monitor compliance by banks with the banking law. NBE is accountable to the Prime Minister of Ethiopia.

NBE is criticized in that it lacks operational independence as required by the Basel Core Principles for Effective Banking Supervision (2012), which is the benchmark for banking supervision functions. According to Basel, a banking regulator should have, among others, "operational independence, adequate resources ..., and is accountable for the discharge of its duties" (Mekonnen, 2017). In Ethiopia, it is the government and not the NBE that determines the monetary policy and foreign exchange objectives and targets (World Bank, 2019).

### **6.2 Licensing Requirement**

The banking law prohibits undertaking banking business in Ethiopia without first obtaining a valid license from the regulator, i.e., NBE. NBE grants a license to any applicant fulfilling the licensing requirements set out in the banking law. It also has the right to revoke the license issued to a bank if it is proven that the licensing of the bank was based on fraudulent information or if the licensed bank failed to start its operation within 12 months of receiving the license. The licensing requirement prevents the free entry of banks into the market and ensures that all banks operating in Ethiopia are regulated. This enhances public confidence in the country's banking system.

### **6.3 Appointment of Directors and Officers**

Under the current banking law, the statutory regulator is armed with the power to approve and monitor the appointment of any director and chief or senior executive officer of a bank at the time of licensing or at any subsequent time. The law laid down this provision to ensure that banks are prudently managed and directed by persons with the necessary qualifications and appropriate motives, which in turn supports long-term institutional success in the banking sector and public confidence in the financial system of the country.



#### **6.4 Corporate Form of Organization**

To obtain a license and undertake banking business in Ethiopia, a bank must be a state-owned entity or a private-owned entity formed as a share company with its headquarters in Ethiopia. In other words, any private bank in Ethiopia must be a public company incorporated in Ethiopia. In Ethiopian relevant law, a share company is defined as a company whose capital is fixed in advance and divided into shares and whose liabilities are met only by the assets of the company. The relevant law further specifies that the shares must be a class of ordinary shares.

#### **6.5 Restriction on Foreign Ownership**

The law that regulates the country's banking sector imposes restrictions on the ownership of private-sector banks regarding the nationality of its shareholders. According to the most recent law, only Ethiopian citizens, foreign nationals of Ethiopian origin, and institutions owned fully by Ethiopian citizens, foreign nationals of Ethiopian origin, or jointly by them can own banking companies in Ethiopia or acquire shares of Ethiopian banks.

The same law expressly forbids foreigners of non-Ethiopian origin and organizations fully or partially owned by foreign nationals of non-Ethiopian origin to own banks, engage in the banking business, operate branches or subsidiaries of foreign banks in Ethiopia, or acquire shares of Ethiopian banking companies. To be precise, Ethiopia blocks international banks and shareholders from entering its banking sector.

The law implies that Ethiopia has not yet fully liberalized its banking sector as the ruling party considers foreign banks as threats to the financial crisis and macroeconomic instability in the country. The Ethiopian government insists that the government currently lacks a strong capacity to regulate and supervise multinational banks and domestic banks are still developing to compete with more advanced and better-capitalized foreign banks (Bezabeh & Desta, 2013).

#### **6.6 Minimum Establishment Capital Requirement**

In the banking history of Ethiopia, the minimum share capital requirement to establish a private bank was introduced in 1963 by the first monetary and banking proclamation, which was 2 million Ethiopian dollars at that time. The minimum establishment capital requirement was reinstated after 41 years by Proclamation 84 of 1994, which set the minimum required paid-up capital for establishing a bank at ETB 10 million. This entry capital however was short-lived. In 1999, the banking regulator issued a new law and jerked up the minimum entry capital for banks to ETB 75 million. In 2011, the regulatory authority again revised the minimum paid-up capital requirement for undertaking banking business and significantly boosted it from ETB 75 million to ETB 500 million. A decade-old minimum capital requirement was revised once again in 2021, which requires all banks in Ethiopia, including those to be established as well as those already in operation, to have a minimum paid-up capital of ETB 5 billion (USD 100 million at ETB 50/US\$) each as per the Directive of SBB/78/2021.

The rationale of the regulatory body to raise the minimum paid-up capital threshold for banks to ETB 5 billion was to create well-capitalized banks that foster competitiveness among banks and fulfill the financing needs of the growing national economy, thereby increasing the soundness and stability of the country's banking sector.

Nevertheless, Eshete et al. (2013) and Kiyota et al. (2007) argued that opening the participation of foreign banks in Ethiopia would bring more contestability rather than merely legislative changes. Lelissa and Kuhil (2018) and Menza and Eshete (2018) also argued that despite the regulator's intention to foster competition in the banking sector by creating strong capital-based banks, it seems apparent that an entry capital increase may deter new banks to enter the sector and weaken competition. This claim is further strengthened by the fact that out of 24 new private banks that were under share subscription (share selling) before the release of SBB/78/2021, 13 failed as they were unable to fulfill the new minimum establishment capital requirement in the allotted time. There is still a further argument that the latest minimum capital base for banks in Ethiopia appears to be onerous compared to the East African community. For instance, commercial banks must have a minimum share capital of USD 50 million in Kenya, USD 40 million in Uganda, USD 25 million in Rwanda, USD 10 million in Tanzania, USD 25 million in Sudan, and USD 30 million in South Sudan.

#### **6.7 Risk Management**

Due to the unique nature of the banking business, banks are exposed to many potential risks such as credit, liquidity, market, and operational risks. As a result, both shareholders and depositors should be legally protected. More crucially, the health of the entire financial system and the overall economy is highly correlated with the stability of the banking sector (Oyetade et al., 2021). Hence, governments keep a close eye on the operations and directions of banks and implement various prudential policies and regulations to prevent bank failures and maintain the healthiness of the banking system. This is also true in the Ethiopian banking system.

In Ethiopia, banks are legally obligated to hold an adequate level of core capital (state/paid-up capital and reserve funds), legal reserve, liquid assets, provisions for non-performing loans, and provisions for any other unexpected losses to resist business risks and keep the financial soundness and stability of individual banks and the banking system.

Accordingly, each bank must hold at all times a minimum core capital equal to 8% of its risk-weighted assets and minimum liquid assets equal to 15% of its net current liabilities. Any bank must also accumulate every year at least 25% of its annual net profits as a legal reserve and deposit every month 7% of its total deposit liabilities into the reserve

account opened with the NBE. Furthermore, every bank must calculate and maintain a minimum provision for non-performing loans as per the requirements specified in the directive SBB/69/2018. The banking law still mandates banks to keep a special reserve account as a guarantee for losses that might arise from negligent and dishonest actions of their directors or staff and any other losses caused by any other unexpected events or circumstances. NBE monitors the banks' adherence to each of these regulations.

Apart from the above main prudential regulatory requirements, the statutory regulator requires each bank to put in place a risk management committee, an asset and liability management committee, a loan review system, and comprehensive risk management policies with robust and effective guiding principles (procedures) to prevent and manage the bank's exposure to risk. Considering the risk profile of each bank, NBE is responsible for determining the minimum regulatory capital and reserve requirements that banks must meet. If the regulatory capital falls below the minimum requirement, banks must inject the necessary additional capital within a specified period.

## **7. The Performance and Current State of Banking Sector in Ethiopia**

With the liberalization of the financial sector in 1994, the Ethiopian banking sector has witnessed a sea change during the past three decades. It brought the banking sector, among other things, a new regulatory framework, new private sector banks, increased competition, new financial system technologies, the creation of job opportunities, increased demand for banking services among individuals and institutions, and improvement in GDP contribution. Nevertheless, its achievement lags far behind Sub-Saharan African and global standards.

To provide an insight into the performance and status quo of the Ethiopian banking sector during the liberalized economy, a brief analysis using key indicators, which include banking access, financial position (asset size, capitalization, deposit mobilization, and loan disbursements), and financial soundness (capital adequacy and liquidity) are presented below.

### **7.1 Banking Access (Branch Network Coverage)**

Banking access is a key indicator of the strength of a country's banking sector. Regarding this, the Ethiopian banking sector has been expanding considerably in branches (banking service accessibility) across the country ever since the sector was reopened to private sector banks. This is verified by the fact that the number of bank branches, which was only 192 in 1994, reached 8,944 in total by the end of 2022. Of the total branches, 76.1% belong to private sector banks and 32.7% were found in Addis Ababa. Individually, CBE leads in banking service accessibility by holding 23.0% of all branches, while Bank of Abyssinia comes in second with a 9.0% share (Fanta, 2012; NBE, 2022).

The above statistics indicate that the private sector banks have expanded their banking service accessibility more than the public sector, despite CBE having the biggest percentage in branch networks. Besides, even though the geographical distribution of bank branches is highly skewed towards the regional states of the country, they are still heavily concentrated in the capital city, Addis Ababa, where the majority of the country's business activities are executed.

One of the indicators for assessing banking access (banking development) in a country is the proportion of bank branches to adult population of the country. Even if Ethiopia's bank branches-to-adult population ratio was 2.9:100,000, Ethiopia is one of the under-banked countries compared to Sub-Saharan African countries' standard of 4.52 per 100,000 adults and world countries' standard of 10.78 per 100,000 adults (IMF, 2021). The statistics on the other hand indicate that there is still huge potential for the existing banks to expand their branch networks and for new banks to enter the market.

### **7.2 Bank Assets**

The asset of banks is another key indicator of the strength of a country's banking sector. Since private sector banks came into existence in 1994, the banking sector is one of the fastest-growing sectors in Ethiopia in terms of assets. To highlight this fact, the Ethiopian banking sector has grown its total assets from ETB 12.0 billion in 1994 to ETB 1.8 trillion (about USD 36 billion at ETB 50/US\$) in 2021 (Fanta, 2012; Banks' Annual Reports, 2021-22). CBE takes the leading asset position and disproportionate share in the Ethiopian banking industry with total assets of ETB 991.4 billion (USD 19.8 billion). Awash Bank is at the top among private sector banks with total assets of ETB 128.7 billion (USD 2.6 billion).

As per the banks' published annual reports (2022), CBE shared 55.1% of the total bank assets, while Awash, DBE, Abyssinia, and Dashen banks shared 7.1, 6.8, 5.8, and 5.4 percent, respectively. Those five banks dominate the country's banking sector with approximately 80.2% of the total bank assets. When it comes to the sub-sector, the public banking sector outperformed the private sector banks. In 2022 alone, the public banking sector assets were 56.2% of the total assets, while the private banking sector constituted 43.8%.

Despite the sector's tremendous growth in assets over the past three decades, the value of bank total assets in Ethiopia is by far low when compared to other top-performing economies in Africa. For instance, in the year 2022, the total industry assets for banks operating in South Africa, Egypt, and Nigeria amounted to around USD 448.4, 510.5, and 168.9 billion, respectively. China is the largest banking market in the world with USD 41.5 trillion in bank assets or 26.9% of the world's bank assets (<https://www.statista.com>).

### **7.3 Bank Capital**

Bank capital is also a key measure of the strength of a country's banking system. After the adoption of a market-based economic policy and the advent of private banks in 1994, Ethiopia's banking sector recorded an impressive capital expansion over the last three decades. This is demonstrated by the fact that the total capital of the country's banking sector jumped from ETB 275 million in June 1994 to ETB 199.04 billion (about USD 3.98 billion at ETB 50/US\$) in June 2022, witnessing robust growth of 20.8% year on year (Fanta, 2012; NBE, 2022).

The lion's share of the sector's capital growth stemmed from the capital injected by the private sector banks. In 2022, the share of all private sector banks in total capital exhibited about 58.5%. Nevertheless, CBE alone shared 26.3% of the total capital, followed by DBE and Awash Bank with 15.1% and 7.1% in capital share (NBE, 2022).

Even if the sector has seen significant growth in capital, Ethiopia's banking industry is under-capitalized when compared to many other African countries. For instance, the total capital for banks operating in South Africa, Egypt, and Nigeria reached USD 57.2, 35.2, and 63.5 billion, respectively in 2022. China dominates the banking sector globally with USD 3.4 trillion in bank capital or 32.5% of the world's bank capital (<https://www.statista.com>).

### **7.4 Deposit Mobilization**

Before liberalization, CBE was the only commercial bank in the country permitted to mobilize deposits; and the total customer deposits mobilized by CBE in 1994 were ETB 3.8 billion (Fanta, 2012). After the participation of private sector banks in the country, the total outstanding deposit liabilities of the sector reached ETB 1.7 trillion (about USD 34 billion at ETB 50/US\$) in 2022, growing at an average annual growth rate of 13.9% (NBE, 2022).

The share of private sector banks in total deposit mobilization accounted for 46.2%, whereas CBE alone mobilized 53.8% of the total deposits due to its wide-ranging branch network. Awash Bank leads private sector banks in deposit mobilization with a 7.9% market share, followed by Abyssinia Bank with a 6.5% deposit share of the market.

Customer deposits in the Ethiopian banking system are at a low point when compared to other Africa's top-performing economies. For instance, Egypt's total deposits were reported at USD 391.4 in 2022, while South Africa's, Algeria's, and Nigeria's reported USD 312.8, 92.0, and 84.2 billion in deposits, respectively, in the same year (<https://www.ceicdata.com>).

### **7.5 Loan Disbursements**

During the socialist reign, all banks in Ethiopia were instructed by the central government to lend in support of the country's development plans. Following the adoption of an economic policy driven by market forces, the credit delivery environment has undergone significant changes, giving banks more discretion in making credit decisions using their commercial criteria. As a result, the banking sector's credit disbursements were significantly improved.

To emphasize the fact, the banking sector extended a total loan of ETB 7.2 billion in the year 1994 (Fekadu, 2010), but all commercial banks in the sector disbursed ETB 427.9 billion (about USD 8.6 billion at ETB 50/US\$) in loans in 2022 (NBE, 2022). The private banking sector has a larger loan disbursement share in the Ethiopian banking sector. Of the total loans, private sector banks disbursed about 56.6%, while public sector banks disbursed about 43.4%. Among private sector banks, Abyssinia Bank is at the top in loan disbursement with an 11.1% market share, followed by Abyssinia Bank with 8.4% (NBE, 2022).

The loan disbursements in the Ethiopian banking system are remarkably lower than a large number of other African countries. For instance, South Africa, Egypt, and Morocco reported loan disbursements of USD 299.9, 189.7, and 98.3 billion, respectively in June 2022. Besides, Ethiopia had a very low bank borrower rate of 2.1 per 1,000 adults compared to Sub-Saharan Africa, where the rate of bank borrowers was 48.1 (<https://www.ceicdata.com>).

### **7.6 Capital Adequacy**

The capital adequacy ratio is an internationally applicable key indicator of the financial soundness of the banking sector. Capital adequacy measures the ability of a bank's capital to absorb any unanticipated losses that the bank may experience, thereby minimizing the incident of bank insolvency and failure (Mekonnen, 2015). Ethiopia applies the Basel I capital adequacy requirements to banks, which is an outdated international standard that required banks to hold core capital equal to 8% of their risk-weighted assets.

In consistency with this, the capital adequacy ratio (Tier 1 capital to risk-weighted assets) of all banks in Ethiopia was measured at 15.1% in June 2022. The public banking sector was in a better position with a capital adequacy ratio of 19.5%, while the private sector had a ratio of 14.5%. In the same year, CBE is the highest-capitalized bank with a capital adequacy ratio of 24.0%, followed by Addis Bank and Berhan Bank with 20.0% and 18.0%, respectively (Banks' Annual Reports, 2022).

The majority of African nations have slightly better-capitalized banking sectors than those in Ethiopia. According to CEIC data (2022), South Africa, Egypt, Kenya, and Ghana reported capital adequacy ratios of 17.7, 20.9, 19.5, and 19.4 percent, respectively in 2022.

## 7.7 Liquidity

The liquid assets ratio is another internationally applicable key indicator of the health of a country's banking system. The liquid assets ratio, which is the share of liquid assets on total assets, shows a bank's overall ability to withstand a liquidity shock. As a general rule, the higher the ratio, the greater the capacity to absorb liquidity shock.

The liquid assets ratio of the banking sector in Ethiopia stood at 27.1% in June 2022. The public banking sector is in a better position with a liquid asset ratio of 35.2%, while the private sector had a ratio of 18.9%. CBE has a stronger liquidity status among the banks with a liquid assets ratio of 38.8%, while Dashen Bank has a better capacity to absorb liquidity shock from the private sector with a ratio of 30.3 (Banks' Annual Reports, 2022).

The liquid assets ratio of the Ethiopian banking system is significantly lower than that of many other African countries. For instance, the liquid asset ratios of Kenya, Zambia, Malawi, Egypt, and Nigeria stood at 49.6, 44.7, 37.2, 36.9, and 32.5 percent, respectively in the fiscal year 2022 (<https://www.ceicdata.com>).

The foregoing discussions lead to the conclusion that despite the country's decision to permit domestic private banks to participate in the country's banking market, CBE, which is the sole state-owned commercial bank, continues to be the dominant market leader in the Ethiopian banking sector in terms of bank branch network coverage, capitalization, asset size, deposit mobilization, and loan disbursements. More concisely, CBE holds the majority of the country's banking marketplace. Hence, CBE is classed as a quasi-monopoly in the banking sector of Ethiopia.

## 8. Concluding Remarks

This paper looked at the evolution, regulatory framework, performance, and current state of the banking sector in Ethiopia, which is the largest segment of Ethiopia's financial sector. It has undergone a series of structural changes that can be seen in three distinct phases. The first phase started in 1905 with the formation of the Bank of Abyssinia by a foreign bank. The first indigenous bank was founded in 1931, and the first banking law was passed in 1963. The second phase was from 1974 to 1991 when the banking sector was reformed to fit the socialist ideology and the private sector banks were completely prohibited from operating in the country. The third phase began in 1991 when the picture of Ethiopia's banking sector was drastically changed as the new government reformed the banking sector to suit the free-market economic system. The reform permitted private-sector banks to operate in the country, leading to the existence of 28 new banks by the end of 2022. Nevertheless, the 30-year reform journey is gradual and has not yet permitted foreign banks to operate in the banking market of Ethiopia.

Currently, the NBE is the apex body in the financial sector structure and the regulator of all banks operating in the country. NBE imposes restrictive regulations that have kept the banking sector financially sound while limiting competitiveness. Apart from the regulatory framework, the incomparability of bank branch networks, capital, and resource mobilization makes the country's banking sector uncompetitive. The sole state-owned commercial bank alone represents more than 40 percent of the banking sector in many aspects of banking performance indicators like branch networks, assets, capitalization, and resource mobilization. As a result, CBE is classed as a quasi-monopoly in the banking sector of Ethiopia.

Overall, the banking statistics clearly show that the banking sector of Ethiopia has achieved commendable growth in expanding banking service accessibility, capitalization, and resource mobilization during the partial liberalization era. Nevertheless, in light of other banking sectors operating in the continent, Ethiopia's banking sector is currently characterized by its small market size, closed entry to foreign competitors, restrictive regulatory framework, cumbersome bank licensing requirements, undiversified ownership structure, non-modernized banking services, infancy level of competition, a large market share of state-owned banks, and one of the least banked nations in the world. Despite the foregoing problems, the Ethiopian banking sector still has a huge market unexplored.

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