



Federal Democratic Republic of Ethiopia
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Keynote Remarks by H.E. Eyob Tekalegn (Ph.D)

State Minister of Finance

East Africa Finance Summit

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Good Morning,

I want to thank i-Capital for continuing to organize such platforms to convene financial sector actors and policymakers to discuss industry trends and opportunities. I am pleased to be with you this morning.

We all agree that this year's gathering is special. It is a pivotal time in Ethiopia—both politically and economically— and I presume the discussions during these two days will be more stimulating and vital to the country's transformation. In line with the broad-based reforms Prime Minister Abiy is leading in the political and economic sphere, we have launched a focused three-year Home-grown Economic Reform agenda to sustain our rapid growth and attain a middle income status economy. We are refocusing our development aspirations to ensure that our double-digit growth during the past decades is bolstered with quality and sustainability to improve the lives of all Ethiopians.

The Home-grown Economic Reform agenda serves as a blueprint for the immediate reform measures we must take to address the headwinds the economy is facing as well as seize new growth opportunities. The agenda – as I am sure many of you have followed keenly – identified interlinked challenges at the macro, sectoral, and structural levels. The macro-economic imbalances the country is facing are prioritized as the most detrimental to the wellbeing of our economy today and are afforded the highest priority in the reform agenda. These imbalances – including inflation, debt stress, and forex shortage - force us to focus our efforts on financial sector reforms.

The Ethiopian financial sector has indeed come a long way during the past decades. It's is one of the sectors – if not the only one – where the private sector has blossomed to play its crucial role in the economy. Yet, we know too well that we have much more to do to bring the sector up to the level of our peers and to meet international standards. We are now at a critical juncture to transform the economy, and I am confident that the current reforms will be a turning point for the financial sector as well.

In the next three years, the reforms in the financial sector will be at the backbone of the economic reform agenda and will be critical to meet the country's aspirations. The sector suffers from capacity and regulatory deficiencies that we must correct today.

- The regulatory environment has been too focused on controlling rather than nurturing the sector.
- There is a significant mismatch between the demand and supply of financial products; the system relies on high collateralization. It is too risk-averse to serve the needs of the burgeoning private sector.
- We are still only banking 35 percent of the bankable population and have left behind 65 percent of the agrarian population in the rural areas.
- Financial repression and government interference have constrained the development and competitiveness of the sector.

The home-grown economic reform agenda recognizes all of the above-mentioned challenges, and the government is keen to work with the financial industry actors to build a financial sector that would support a vibrant private sector, create jobs and propel the country to a middle-income economy.

- As a primary step, we are looking to improve the capacity of the national bank and overhaul the regulatory environment. The national bank will upgrade the regulatory framework to international standards and focus on managing risk and assuring resilience in the financial sector. It will modernize the monetary policy framework and its institutional capacity to support the middle-income economy we aspire to build.
- We will take measures to restructure the state-owned Commercial Bank of Ethiopia and Development Bank of Ethiopia to meet the industry's best practice and ensure that they operate on a level playing field with the private actors.
- We will develop financial and capital markets to mobilize savings and improve access to finance. A competitive and well-functioning T-bills market; facilitating the development of inter-bank money markets, establishing secondary bond markets, and a stock exchange market will also be priorities.
- We are looking to develop a forex reform roadmap to guide our efforts to move towards a market-determined exchange rate and eliminate forex shortages.

I am pleased to say we have made some strides in reforming the sector during the past few months.

- The government has been easing the closed economic sector and has opened up the finance sector for Ethiopian born foreign citizens.
- The requirement for private banks to purchase bonds at 27 percent of loans extended has been lifted. We all know this is a huge milestone, and it demonstrates the government's seriousness on the reform agenda.
- The establishment of the primary debt market is already underway.
- Directives have been issued to enhance transparency on foreign exchange management and allocation, and other reforms will follow suit.

Yet, in addition to improving the regulatory environment and facilitating the development of the finance sector, the sector should also work to backstop the national development aspirations fully.

- At the center of the economic reform efforts is the need to ensure the economy's transition to a private sector-led economy, and this primarily entails improving access to finance. Many of the reforms mentioned above in the finance sector will improve access to funding.
- The private sector's access to finance has shown notable improvements during the past years. Private sector access to finance increased from 22.5 percent in June 2018 to 34 percent in June 2019. Total new credit extended to the economy during the first three months of 2019/20 amounted to Birr 47.1 billion, which is a 44.3 percent increase from the previous year. The private sector received 82.7 percent of the total credits, whereas the remaining 17.3 percent was channeled to public sector projects. The lifted NBE bill requirement, which took place in the past weeks, will have an even greater impact on

improving access to finance in the coming months. I would like to take this opportunity to thank banks that have already started to reduce interest rates and ask others to follow suit.

- Another area, we must work on is on adopting modern financial technologies to gain a competitive edge, improve financial inclusion, and serve the country's digital economy.
- Mobile technology and banking is very important to ensure financial inclusion. The liberalization and reforms in the telecom sector opens the door to enable mobile banking to bank the unbanked 70 percent of the population. The financial industry must prepare to take advantage of the improvements in the telecom sector. The government is also launching a financial education strategy, which is expected to be launched this month. Our goal is to increase access to finance by the adult population to 60 percent. The financial inclusion will also support our digital economy aspirations.
- We must also be ready to finance ideas, innovation, and technology, and enable E-commerce. Ethiopia has a large youth population that is brimming with innovative ideas, and it's critical that the financial industry adapts to serve their needs. As you may have followed, last week, the Prime Minister signed an MoU with the Alibaba group to launch the world's 5th electronic World Trade Platform in Addis Ababa. Such flagship projects require the financial industry to step up and adapt to electronic and technology-based banking systems.
- In 2018, Ethiopia raised around \$11.3M in tech investment, and was the 7th largest tech investment destination in Africa, with some 76 percent of the funding going to Fintech. This is a good indicator of our potential in Fintech.

In the medium and long-term, we need a financial system that is able to backstop a middle-income economy and support regional integration and the globalization of our economy. In the next three years, the government will focus on strengthening the regulatory environment and putting in place a domestic system that is able to compete on international standards. The industry actors must also gear up in building the requisite human capital and technology to meet international standards. One avenue where I think the banking sector can be strengthened is through mergers. Mergers will boost the capital and lower the risk profile of our banks, thereby allow these banks to improve and diversify their services.

In closing, let me reiterate that Ethiopia is on the march, and the financial sector must not only keep up but lead the economic transformation. We have a rapidly growing population, and the economy is expanding fast – we must capitalize on the positive changes in the country and challenge each other to step up our efforts.

The banking community and policymakers must be attuned to new opportunities and work together to seize opportunities. The government is keen to work with all actors to deliver on our shared development aspirations for a prosperous and inclusive Ethiopia. Platforms such as the East Africa Finance Summit play a key role in facilitating the engagement of industry actors and policymakers to share ideas and knowledge. I would like to thank i-Capital again for its superb organization of this platform and hope to engage with you more on such platforms.

I wish you a fruitful deliberation in the coming days and look forward to engaging with you to build the economy we envision.

Thank you!