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NATIONAL BANK OF ETHIOPIA  
አዲስ አበባ / ADDIS ABABA

**Establishment and Operation of Treasury Bonds**

**Directive No. MFAD/TRBO/001/2022**

**Whereas**, the National Bank of Ethiopia has the powers and duties to regulate and determine the supply and availability of money and credit as well as the applicable interest rates for the purpose of maintaining price and financial stability that is conducive to the balanced growth of the Ethiopian economy;

**Whereas**, the National Bank has the power and duties to act as banker, fiscal agent and financial Advisor to the Government;

**Whereas**, it has become necessary to establish and operate Treasury Bond on behalf of Ethiopian Government with objective of enhancing the participation of banks in supporting the balanced growth of the Ethiopian Economy;

**Now, therefore**, in accordance with Article 5(4), Article 5(14), Article 12(2), Article 15(1), and Article 27(2) of the National Bank of Ethiopia Establishment Proclamation No. 591/2008 (as amended), the National Bank of Ethiopia, (hereafter the NBE) has issued this Directive.”

**1. Short title**

This Directive may be cited as “Treasury Bond Purchase Directive No.MFAD/TRBO/001/2022”.

**2. Definitions**

For the purpose of this directive, unless the context provides otherwise:-

- 2.1 “**Treasury Bond**” means a long-term obligation of the Government of Ethiopia having a maturity period of 5 (five) years and sold to all banks excluding Development Bank of Ethiopia.
- 2.2 “**Government**” means the Government of the Federal Democratic Republic of Ethiopia.
- 2.3 “**National Bank**” means National Bank of Ethiopia.



- 2.4 “**Bank**” means a company licensed by the National Bank to undertake banking business or a bank owned by the government.
- 2.5 “**Advance on import bills**” means a provisional Account opened to record values of letter of credit documents received less margin paid until such time that importers settles the bill and collects documents to clear the good from customs or ports.
- 2.6 “**Allotment**” means the determination or the decision as to what amount of Treasury Bonds a bank should buy.
- 2.7 “**Disbursement of loan and advances**” means release of funds in the form of loans and advances including overdraft facilities during a specific period of time by banks to all borrowers except the government and state owned enterprises’.
- 2.8 “**State owned enterprises**” means government owned enterprises for those domestic credit is allocated by policy direction (NBE) through Commercial bank of Ethiopia.
- 2.9 “**Face value**” means apparent worth, or the nominal value that appears on the face of the Treasury bond.
- 2.10 “**Issue date** ”means the date on which the Treasury bond is issued.
- 2.11 “**Loan and Advances**” means any financial asset of a bank as defined under article 2(8) of National Bank of Ethiopia directive No. SBB/69/2018.
- 2.12 “**Maturity date**” means the date on which Treasury Bonds becomes due. If the maturities fall on weekend and/or holidays a bond shall be redeemed on the next working day.
- 2.13 “**Merchandize loans**” means advance against stock of merchandize or raw materials under dual controls of the lending bank and the borrower or stock list or list of stocks in transit.
- 2.14 “**Overdraft disbursement**” means average of every Tuesday’s overdraft outstanding balance over a given period of time; say a month, a quarter, or a year;
- 2.15 “**Pre-shipment Export Loans**” means advances against export contracts or export letters of credit, or Development Bank of Ethiopia’s guarantees or other collaterals based on export contracts.
- 2.16 “**Revolving Credit Facility**” means a loan usually used for operating purposes and has a high turnover within a given period of time depending on the customer’s current



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cash flow need. It includes pre-shipment export loans, merchandize loans and advance on import bills.

- 2.17 **“Roll over”** means Treasury bonds renewal request to be made before maturity date.
- 2.18 **“Settlement date”** means the deadline by which a purchaser of the Treasury Bond must pay for what has been bought and the seller must deliver the certificate for the Treasury Bond that has been sold.
- 2.19 **“Settlement”** means completion of a transaction by delivering required Bond and/or funds.
- 2.20 **“Short-term Loans”** means a loan extended by a bank to finance working capital needs and /or to address other short-term financial constraints of a borrower’s business having a maximum maturity period of one year.

### **3. Scope of Application**

- 3.1 This directive shall apply to all banks operating in Ethiopia except Development Bank of Ethiopia.

### **4. Supply of Treasury Bonds and Eligibility Criteria**

- 4.1 A bank shall buy the treasury Bonds allotted as per **Article 5** of this Directive.
- 4.2 The volume of Treasury Bonds to be supplied shall depend solely on the amount of new loans and advances disbursed by a bank during the month and shall be calculated as per **Article 5(5.2)** of this directive.
- 4.3 In case of the overdraft disbursements, the allotment shall be computed on the difference of two consecutive months balance using **Annex 2**.
- 4.4 In case of revolving credit disbursements, the allotment shall be computed on the difference of two consecutive month balance using **Annex 3**.

### **5. Purchase of Treasury Bonds**

- 5.1 Every month each bank shall notify the National Bank in writing its own respective allotment amount using the report form in **Annex 1** of this directive within 10 days after the end of the reference month.
- 5.2 Each bank shall calculate its own allotment based on its monthly loans and advance disbursement. The applications ratios for the allotment shall be 20 percent of disbursements. However the ratios may be revised by the National Bank of Ethiopia when necessary.



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- 5.3 A bank shall report disbursements and outstanding balance related to revolving credit facility every month using **Annexes 3, 4, 5 & 6** attached to this directive.
- 5.4 The settlement date for the purchase of Treasury Bonds shall be within 15 days after the end of the reference month. If the settlement date falls in the weekends or holidays, settlement shall be effected on the next working day.
- 5.5 A bank shall submit a letter of authorization permitting the National Bank debit its payment and settlement account for the balance of the purchased Treasury Bonds by the bank.

#### **6. Limit on Portfolio Share of Short-term Loan**

- 6.1 Total outstanding balance of short-term loans of a bank shall not be less than 25 percent of its total outstanding loans and advances excluding Treasury Bonds outstanding balance at any given time.

#### **7. Limit on Portfolio Share of Revolving Credit Facility**

- 7.1 Total outstanding balances of revolving credit facility shall not exceed 15 percent of total outstanding loans and advances of the bank at any given time.

#### **8. Tenure of the Treasury Bond**

- 8.1 The Treasury Bonds shall have a maturity period of 5 years.
- 8.2 The interest rate for each Treasury bond shall be 2 (two) percentage points higher than the minimum saving deposit rate.
- 8.3 The Government shall pay the interest accrued on the Treasury Bonds on annual basis.

#### **9. Issue and Transferability of Treasury Bonds**

- 9.1 The Treasury Bonds shall be issued to each bank on monthly basis.
- 9.2 A bank may transfer its treasury bonds to another bank by endorsement on the back of the Treasury bond itself.
- 9.3 Notwithstanding sub-article 9.2 of this article, endorsement must be evidenced by the authorized signature(s) of the holders and the full name of the transferee clearly stamped, typed or written in block letters.
- 9.4 A bank may use the Treasury bond as collateral for any agreement to be made with banks including the National Bank.



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9.5 A bank may arrange with National Bank to hold the bond in safe custody on its behalf.

## 10. Redemption

- 10.1 On the maturity date as specified on the Treasury bond itself, the bond shall be redeemed and credited to the Payment and Settlement Account of the bank at the National Bank.
- 10.2 The National bank shall verify the Treasury bond before redemption.
- 10.3 Holders other than those who have previously lodged their Treasury bonds with the National bank at the time of issue in accordance with **Article 9(9.4)** above shall present their bonds for verification to the National Bank two days before the date of maturity.
- 10.4 Maturing Treasury bond presented shall be signed with the authorized signature(s) of the last holder and clearly endorsed with the name and other particulars of the Payment and Settlement Account into which the redemption money should be credited

## 11. Rollover Instruction

- 11.1 A bank may authorize the National Bank to rollover its Treasury Bonds at the maturity date.
- 11.2 Pursuant to **Article 11(11.1)** of this Directive herein above, the National bank may issue new Treasury Bonds within two days upon receiving rollover instruction from banks.
- 11.3 The principal amount of the Treasury Bonds shall be paid at the end of the maturity period if no rollover instruction is obtained within 10 (ten) working days before the maturity date of the Treasury Bonds.

## 12. Loss of the Treasury Bonds

- 12.1 In the event of a Treasury Bonds being stolen, lost, mislaid, defaced or damaged, the holder shall inform the National Bank in writing with full statements of the circumstances immediately after the loss is discovered. If theft or malpractice is known or suspected, it shall also inform the police immediately.



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12.2 No duplicate of the Treasury Bonds shall be issued. But a copy may be issued where the National Bank is satisfied, after due inquiry and in its sole discretion, the deposit with it of sworn statement and /or a suitable and acceptable form of indemnity against any other bank establishing a claim to be the rightful holder of the Treasury bond, it may pay the redemption money due on the bond to the bank whom it considers, after such inquiry, to be the rightful holder.

### **13. Tax on Treasury Bonds**

13.1 Interests or premiums received by the holder of the Treasury Bonds shall be exempted from income tax, in accordance with Article 7 of the Government Bonds Proclamation No.262, 1969.

13.2 The NBE reserves the right to change the provisions of this article at any time based on government revenue proclamation and without giving any notice to holders of the bond.


### **14. Penalty**

14.1 A bank failing to purchase the Treasury Bond as required under this directive by any means shall be subjected to a penalty; and the penalty shall be assessed at a maximum lending interest rate on loans and advances charged by the bank, computed on the allotment amount the bank shall buy and multiplied by the number of days over which the bank delayed the purchase up to a maximum of ten working days following the final day of the settlement date.

14.2 Notwithstanding the provision of sub article 14.1 of this directive, any bank engaging in any fraudulent activities when reporting the fresh loan disbursement amount or the allotment amount or in transferring Treasury Bonds or any other activities against this Directive shall be punishable in accordance with the circumstance of the case **Article 26** of the National Bank Establishment (as Amended) proclamation No.591/2008.

### **15. Effective date**

These Directives shall enter into force as November 1<sup>st</sup>, 2022.

  
**Yinager Dessie (PhD)**  
**Governor** 6



**Annex 2: Reporting format for overdraft Disbursement**

Name of the Bank: \_\_\_\_\_

Reporting Period : XX to XX, XXXX

(In million of Birr)

Preceding Month's Average	Tuesday's Overdraft Outstanding Balance					Current Month's Average	Overdraft Disbursement
	Week 1	Week 2	Week 3	Week 4	Week 5		
1	2	3	4	5	6	(7)=(2 to 6)/4 or 5	(8)=(7-1)

1/4(5) refer to the number of tuesdays during the month under consideration

Prepared by: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Approved by: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_



**Annex 3: Reporting Format for Outstanding Balance of Revolving Credit Facilities**

Name of the Bank: \_\_\_\_\_  
 Reporting Period : XX to XX, XXXX

(In million of Birr)

Actual Outstanding Balance for the Preceding Month	Actual Outstanding Balance for the Current Month	Outstanding Balance of Revolving Credit
1	2	3=2-1

Prepared by: \_\_\_\_\_  
 Signature: \_\_\_\_\_  
 Date: \_\_\_\_\_

Approved by: \_\_\_\_\_  
 Signature: \_\_\_\_\_  
 Date: \_\_\_\_\_


**Annex 4: Reporting Format for Outstanding Balance of Revolving Credit Facilities given by Banks during the Month**

Name of the Bank: \_\_\_\_\_

Reporting Period : XX to XX, XXXX

(In million of Birr)

No.	Name of the Customer	Amount of the Loan	Date of the Loan Signed	Expiry date of the Loan	Duration of the Loan (In Months)	Type of the Loan
1						
2						
3						

Prepared by: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Approved by: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_



**Annex 5: Reporting Format for Outstanding Loans and Advances by Component**

Name of the Bank: \_\_\_\_\_

Reporting Period : XX to XX, XXXXX

*(In million of Birr)*

Total Outstanding Loan and Advances			
Short-term Loans and Advances	Other Loans and Advances	Total Loans and Advances	Share of Short-term Loan and advances

Prepared by: \_\_\_\_\_

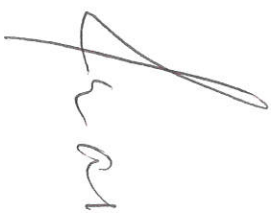
Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Approved by: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_




**Annex 6: Reporting Format for Total Outstanding Short-term Loans and Advances by Component**

Name of the Bank: \_\_\_\_\_

Reporting Period : XX to XX, XXXX

*(In million of Birr)*

Outstanding Short-term Loan and Advances			Share of Revolving Loans and Advances
Revolving Loans and Advances	Overdraft Loans and Advances	Other Short-term Loans and Advances	

Prepared by: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Approved by: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

