

# Ethiopia's New Banking Business Proclamation No. 1360/2025: Key Legal and Regulatory Implications

## Description

By DMR Law Firm

## Introduction

Ethiopia has taken a decisive step in reforming its financial sector with the enactment of Banking Business Proclamation No. 1360/2025. The new Proclamation repeals and replaces the former banking legal framework and introduces a modernized regulatory regime aligned with international banking standards. Most notably, it lays the legal foundation for opening Ethiopia's banking sector to foreign participation, while strengthening prudential regulation and supervisory powers of the National Bank of Ethiopia (NBE).

This article highlights the major features of the Proclamation and its implications for investors, financial institutions, and other stakeholders.

## Objectives of the Proclamation

The Proclamation is designed to:

- Promote a stable, competitive, and efficient banking system
- Enhance financial inclusion and innovation
- Strengthen risk management and corporate governance
- Align Ethiopian banking regulation with international best practices
- Support broader macro-economic and financial-sector reforms

## Opening the Banking Sector to Foreign Participation

One of the most significant reforms introduced by Proclamation No. 1360/2025 is the legal recognition of foreign bank participation in Ethiopia's banking industry. The Proclamation empowers the NBE to license:

- Foreign banks
- Subsidiaries or branches of foreign banks
- Joint ventures between foreign and domestic investors

While detailed modalities are left to subsequent directives, this reform marks a departure from Ethiopia's long-standing closed banking system and creates new opportunities for foreign direct investment, technology transfer, and enhanced competition .

### **Enhanced Licensing and Capital Requirements**

The Proclamation introduces a more robust and flexible licensing framework. It grants the NBE clear authority to determine:

- Minimum paid-up capital requirements
- Ownership thresholds and shareholding limits
- Fit-and-proper criteria for shareholders and management

These provisions aim to ensure that only financially sound and professionally managed banks operate in the Ethiopian market, thereby safeguarding depositors and the financial system as a whole .

### **Strengthened Corporate Governance and Risk Management**

The new law places significant emphasis on corporate governance, internal controls, and risk management systems. Banks are required to:

- Establish effective boards and board committees
- Implement risk-based internal control mechanisms
- Comply with governance standards set by the NBE

Directors and senior officers are subject to stricter accountability standards, reflecting the regulator's focus on institutional integrity and prudent management .

### **Expanded Supervisory and Enforcement Powers of the NBE**

Proclamation No. 1360/2025 substantially strengthens the supervisory and enforcement powers of the National Bank of Ethiopia. The NBE is empowered to:

- Conduct on-site and off-site supervision
- Issue binding directives and prudential standards
- Impose administrative sanctions and corrective measures
- Intervene in or restructure troubled banks when necessary

This shift toward risk-based supervision enhances the regulator's ability to prevent systemic risks and respond promptly to financial distress .

### **Consumer Protection and Market Conduct**

The Proclamation also introduces provisions aimed at protecting banking customers. These include obligations relating to:

• Transparency of banking services

• Fair treatment of customers

• Confidentiality of customer information

Such measures are intended to improve public confidence in the banking system and promote responsible market conduct .

### **Transitional Arrangements and Implementation**

Existing banks are required to align their operations with the new legal framework within timelines to be specified by the NBE through directives. As a result, banks, investors, and financial-sector participants should expect additional secondary legislation that will clarify implementation details, particularly regarding foreign bank entry .

### **Conclusion**

Banking Business Proclamation No. 1360/2025 represents a landmark reform in Ethiopia's financial-sector regulation. By opening the door to foreign participation, strengthening governance and supervision, and modernizing the legal framework, the Proclamation signals Ethiopia's commitment to building a resilient and competitive banking system.

For domestic banks, foreign investors, and other stakeholders, the new law presents both significant opportunities and compliance challenges. Early legal and regulatory planning will be essential to navigate the evolving banking landscape.

For tailored legal advice on banking regulation, foreign bank entry, or regulatory compliance under Proclamation No. 1360/2025, our firm's financial-services team is available to assist, contact us at [info@dmethiolawyers.com](mailto:info@dmethiolawyers.com)

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dmethiol\_admin