The Establishment and Operation of Government of Ethiopia Treasury Bills Market (Directive No. 296/2020)

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National Bank of Ethiopia

October 13, 2011

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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

Ref: M&FAD/163/11

October 13, 2011

To: Presidents
All Banks
Addis Ababa

Dear Sirs:

As per the agreement reached with Ethiopian Bankers Association on October 12, 2011, I would like to urge all banks to participate in the purchase of Government of Ethiopia Treasury Bills. Accordingly, each bank is expected to submit the Treasury Bills purchase amount and buying rate the latest by Tuesday October 18, 2011. The bid document is available at any time at the Payment and Settlement System Directorate.

Herewith we have attached the newly issued Treasury Bills Directives No. 296/2020 In addition to the three short term Bills, Directives No. 296/2020 introduces a 364-day maturity Treasury Bills. Moreover, the frequency of auctions has been increased to a weekly one to be held every Wednesday, replacing fortnightly auction.

Regards,

Yohannes Ayalew
Chief Economist & V/Governor
of Monetary Stability

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NATIONAL BANK OF ETHIOPIA
V.G. MS

CC:

- ✓ H.E. The Governor
- ✓ Vice Governor – Financial Institutions Supervision
- ✓ Vice Governor – Corporate Services
- ✓ Monetary and Financial Analysis Directorate
- ✓ Payment and Settlement System Directorate
- ✓ Corporate Planning and Finance Directorate

National Bank of Ethiopia

THE ESTABLISHMENT AND OPERATION OF GOVERNMENT OF ETHIOPIA TREASURY BILLS MARKET

(Directives No. 296/2020)

Whereas, developing a monetary instrument with flexible rates is main task of the National Bank of Ethiopia;

Whereas, the purchase and sale of such bills forms a key part of monetary policy, fiscal policy and financial sector development;

Whereas, the National Bank of Ethiopia is fiscal agent of the Government pursuant to the power vested in the Bank under Article 5(14) of the National Bank of Ethiopia Establishment Proclamation No. 591/2008 and issues the Treasury bills;

Now, therefore, the National Bank of Ethiopia, (hereafter the NBE), hereby issues directives for the Establishment and Operation of the Treasury Bills Market in consultation with the Government of Ethiopia and the International Monetary Fund.

Article 1
Definitions

For the purpose of these directives, unless the context provides otherwise:-

1.1 Treasury bills: A short-term obligation of the Government of Ethiopia having a maturity period of 28, 91, 182 and/or 364 days and sold on regular basis at a discount from face value.

1.2 Allotment: The determination or the decision as to who gets the securities and how much they receive based on the discount the bidder(s) provided on the tender form.

1.3 Bid (purchase) price: The quoted price, at which a particular market participant is willing to buy, say, a security, currency, commodity or any instrument.

1.4 Bidder: A market participant who quotes a price.

1.5 Closing date: A date on which the tender closes to the public, i.e. when all the tenders must be submitted and beyond which tenders cannot be accepted.

1.6 Dealer: Trader in securities, currencies, commodities or financial instruments.

1.7 Discount rate: A rate that equates the future value (nominal amounts) to the equivalent value at present or an interest rate which a central bank will discount government paper or lend money against government paper as collateral.

1.8 Discount: The difference between present and maturity value, or the action of buying financial paper at less than par value before maturity.

1.9 Face value: Apparent worth, or the nominal value that appears on the face of a document recording an entitlement, generally a certificate or bond.

1.10 Instrument: A type of financial debt paper.

1.11 Issue date: The date on which a security is issued.

1.12 Liquidity: Depth of a market (e.g. security or commodities) and its ability to absorb sudden shifts in supply and demand without excessive price fluctuations.

1.13 Settlement: Completion of a security transaction by delivering required stock certificates and/or funds.

1.14 Settlement date: The deadline by which a purchaser of a stock must pay for what has been bought and the seller must deliver the certificate for the security that has been sold. Settlement date usually coincides with the issue date.

Article 2

Institutional Arrangement

2.1 Two committees shall be established for the conduct of the auction: Policy and Auction Committees.

2.1.1 The Policy Committee is chaired by the Vice Governor of Monetary Stability and is mainly responsible for policy related maters such as deciding on the amount of bills to be issued in a specific auction date, and fix, if necessary, the cut-off price. Members of this committee include higher officials from the Ministry of Finance and Economic Development (hereafter MOFED) and the NBE.

2.1.2 The Auction Committee is a technical committee which is responsible for the follow-up of the auction process. The weekly auction is handled by this committee. The committee is also responsible for follow-up and monitoring of auction results vis-à-vis monetary targets of the government and the regular preparation of a proposal to the policy committee. Members of this committee include officials from the MOFED and NBE.

2.2 The chairman of the Auction Committee shall be a member of the Policy Committee in order to facilitate decision making during the auction process.

2.3 If need arises following the introduction of additional bills and the increase in the frequency of sales, independent unit shall be formed by MOFED and NBE.

Article 3

Supply of Bills

3.1 The volume of T-bills to be-supplied should depend on three factors:

3.1.1 Amount of bills maturing on the date of auction;

3.1.2 Government demand for credit as presented by the MOFED; and

3.1.3 The liquidity situation in the market as forecasted by the NBE.

Article 4

Eligibility Criteria

4.1 The bills may be purchased by any person resident in Ethiopia including individuals, firms, companies, corporate bodies, banks and financial institutions.

4.2 No remittance of the gains from such portfolio investment is allowed for foreign "residents".

Article 5

Authorized Dealers

5.1 All commercial banks are designated as authorized dealers for the sale of the Treasury Bills. The NBE, however, reserves the right to delete any commercial bank from the list of authorized dealers without assigning any reason for the same.

5.2 The authorized dealers will be eligible to submit tenders for their own account and for the account of their customers, namely individuals, firms, companies, corporate bodies, etc.

5.3 Eligible persons, if they wish so, can directly submit their tender(s) to the NBE.

Article 6

How to Purchase

6.1 The Treasury bill will be issued by the NBE and repaid at the Bank's office at Addis Ababa.

6.2 Every week NBE will issue notices indicating the amount for tender, the date of auction, the last date for the submission of tenders and the procedure of application.

6.3 The Bills would be issued every Wednesday.

6.4 The tenders for the relevant issue would be received up to 2:00 PM on the last working day preceding the date of auction.

6.5 Tenders must be made on a prescribed tender form (TRB/1) which will be available at the Treasury Bills Office in the Payment and Settlement Systems Directorate of the NBE.

6.6 The tender form (TRB/1), which is shown in Annex 1, consists of three parts:-

Part I – Consists of the Tenderer's offer;

Part II – reiterates the authority of the NBE to debit the account of the tenderer (or his bank) at the NBE on the day of issue with the purchase money due on any Treasury bills issued to him pursuant to the tender; and

Part III – deals with an allotment and Debit Advice. This is completed by the Treasury Bills Office of the NBE as soon as the results of the tender are conveyed to that office by the Secretary of the Treasury Bills Auction Committee.

6.7 Tenders made on the prescribed tender form should be placed in a sealed envelope marked "TENDER for 28-day Treasury Bills" or "TENDER for 91-day Treasury Bills" or "TENDER for 182-day Treasury Bills" or "TENDER for 364-day Treasury Bills" and deposited in the tender box exclusively kept for the purpose in the Payment and Settlement Systems Directorate at the NBE (or in branch offices of commercial banks to be designated) before 2:00PM on the specified last date.

6.8 An investor can submit several tenders, that is, one for each price and tender for all the four types of Treasury bills simultaneously.

6.9 Tenderers other than commercial banks will have to submit their tender(s) along with an evidence for a deposit of 5% of the face value of the bids with the NBE and a letter of authority permitting the National Bank of Ethiopia to debit their account with their banks for the balance of the discounted price if the bid is accepted.

6.10 If it is in cash, the accepted bidder should settle the balance with in 24 hours after the date of auction. If the day after the auction day is a holiday payments for the T-bills will be settled on the next working day.

6.11 Authorized dealers should submit separate tenders for bids which are made by them for the account of their customers. Such tenders should also be accompanied by an evidence for a deposit of 5% of the face value of the bids with NBE and letter of authority permitting the NBE to debit the respective bank's account with the NBE for the balance of the discounted price if the bids are accepted.

6.12 If the accepted bidder failed to settle the balance as stipulated in Article 6.10, he/she shall surrender the 5% deposit to NBE.

Article 7

Acceptance of Tenders

7.1 In consultation with MOFED, the NBE will determine the amount of the tender it proposes to issue through auction.

7.2 The Auction Committee shall have the full discretion to accept or reject any or all bids as it deems fit without assigning any reason for same.

7.3 Tenderers, if they wish so, may witness the opening of the tenders.

7.4 In the case of accepted tenders, bills will be issued at the price quoted by the bidder in the relevant application.

7.5 Copy of the tender form (TRB/1) shall be given to tenderers after part III of the form is completed by the Treasury Bills Office. At the same time, the bills themselves will be available for collection at the Treasury Bills Office by an authorized representative of the party signing part II of the tender form (TRB/1). Alternatively, the tenderer may arrange with the NBE to hold them in safe custody on his behalf.

7.6 The results of the auction containing the amount of the tender, the number and value of bids received and also accepted, the weighted price and weighted yield of each maturity category shall be displayed on Notice Board at the New NBE Building at the NBE on the date of auction of the tenders.

Article 8

Auction Process

8.1 As stipulated in Article-2 and 3 above, the Auction Committee prepares and submits a proposal to the Policy Committee based on the amount of bills maturing, borrowing requirements of MOFED and NBE liquidity forecasts.

8.2 The Policy Committee shall review and pass decisions on the total amount of bills to be issued, the date of the auction, and the cut-off price (if necessary). All these should be done at least three working days before the auction. Then, the approved proposal shall be handed over to the Payment and Settlement Systems Directorate of NBE for press release on the same date.

8.3 The press release should be made at least three working days ahead of the auction date.

8.4 Bidders are, therefore, expected to submit their bids by the deadline specified in Article 6.4 above.

Article 9

Auction Date

9.1 On the date of the auction at 9:00 A.M., the Auction Committee shall convene at the Conference Room where the chairman of the committee opens the Box in front of at least three members of the committee.

9.2 Accepted bids would be processed using a computer.

9.3 Based on the computer print out the committee announces the minimum bid price and weighted yield for successful bids, and total demand observed in the auction the latest by 11:00 AM on the auction date.

Article 10

Tenure of Bills

10.1 Beginning from the date of October 10, 2011, four types of bills shall be introduced with maturity periods of 28, 91, 182 and 364 days.

10.2 Treasury bills of Birr 5,000 and in multiple thereof will be issued at a discount from a par value of 100.

10.3 The rate of discount and the corresponding issue prices will be determined through auction.

10.4 The quoted price, the discount and the yield on the Treasury bills of different maturities shall be prepared following the illustration in Annex 2.

Article 11

Periodicity

11.1 All the four types of bills will be sold through a weekly auction on Wednesday of each week.

11.2 The periodicity may be changed by National Bank of Ethiopia as deemed necessary.

Article 12

Issue and Transferability of Treasury Bills

12.1 Treasury bills will be issued to all successful tenderers as set out in the schedule A of form TRB/1.

12.2 The purchase/sale has to be for a minimum amount of Birr 5,000 (Birr five thousand) and a multiple thereof.

12.3 No bills will be issued to "Bearer" or in bank.

12.4 An investor can transfer his investments to another eligible investor by endorsement on the back of the Bill itself. Such endorsement must be evidenced by the authorized signature (s) of the tenderer(s) or holders (as the case may be) and the full name of the transferee clearly stamped, typed or written in block letters.

Article 13

Repayment

13.1 On the expiry date of a Treasury bills, the Bill shall be redeemed at the NBE in accordance with the provisions of Article 4 of Treasury Bill Proclamation of 1969.

13.2 Treasury bills shall be verified before being passed for redemption.

13.3 Tenderers and holders (other than those who have previously lodged their Bills with the NBE at the time of issue in accordance with Article 7.5 above) will be required to present their Bills for verification to the NBE two days before the date of maturity.

13.4 Maturing bills so presented must be signed with the authorized signature(s) of the last holder and clearly endorsed with the name and other particulars of the bank account into which the redemption money should be credited.

Article 14

Treasury Bills Maturing on Weekends and or/Holidays

14.1 If maturities fall on weekend and/or holidays Treasury bills will be redeemed on the next working day.

Article 15

Loss of Treasury Bills

15.1 In the event of a Treasury bill being stolen, lost, mislaid, defaced or damaged the tenderer or the holder (as the case may be) must inform the Treasury Bills Office in writing with a full statement of the circumstances, within 24 hours of the loss being discovered. If theft or malpractice is known or suspected, he should also inform the police immediately.

15.2 No duplicate of such Treasury bills will be issued. But where the NBE is satisfied, after due enquiry and (in its sole discretion) the deposit with it of sworn statements and/or a suitable and acceptable form of indemnity against any other person establishing a claim to be the rightful holder of the Bill, it may pay (on or after the maturity date) the redemption money due on the Bill to the person whom it considers, after such enquiry, to be the rightful holder.

Article 16

Taxes on Treasury Bills

16.1 In accordance with the provisions of Article 7 of the Treasury Bills proclamation of 1969, any income or profit derived from Treasury Bills or on any operations or dealings there in is exempt from any form of tax.

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

Article 17

Rediscount, Loans and Advances Facilities by NBE

17.1 Holdings of Treasury Bills by commercial banks and financial institutions may be eligible for rediscounting at the NBE, or for use as collateral for short-term loans and advances form the NBE subject to the policies, rules, terms and conditions laid down for such facilities from time to time by the NBE.

17.2 The NBE reserves the right to change the policies, rules, terms and conditions for these facilities at any time and without giving any notice to the banks.

Article 18

Transfer of Unsold Treasury Bills among Maturities

18.1 In cases where there are unsold bills of whichever maturities, the Auction Committee can cross-subsidize the unsold bill amount to the types of bills where there are excess demand on the basis of descending order of prices.

Article 19

Repeal

Any directive which contravenes with these directives shall have no legal force on matters provided for in these directives

Article 20

Effective Date

These amendments shall enter into force as of the 10th day of October 2011.

TEKLEWOLD ATNAFU
GOVERNOR

Annex 1

Form TRB/1

ETHIOPIAN GOVERNMENT TREASURY BILLS

Combined Form for Tender, Allotment and Payment of Treasury Bills Issued Pursuant to the Treasury Bills Proclamation, 1969

Part I: Form to Tender for Treasury Bills
To: The Ministry of Finance, through the National Bank of Ethiopia, (NBE) Addis Ababa.

We hereby apply for an issue of Treasury Bills in the name of the Tenderer specified in the Schedule A below up to the amount (s) set out in that Schedule and at the price (s) set out against such amount (s) and subject to the terms and conditions set out in the Minister of Finance's memorandum TRB/2 including any amendments thereto and to the terms and conditions of any Regulations promulgated by the Minister pursuant to Article 10 of the Treasury Bills Proclamation 1969.

. . . . (date) . . . .

Authorised signature (s) of or for the Tenderer named in Schedule A.

SCHEDULE A

Name of Tenderer (to be entered on the face of the Bills)		
Address of Tenderer (for record purposes)		
Name and telephone number of person for contact purposes		
Date of Issue	Date of Maturity	
Face Value of Bills tendered for	Unit Price offered per Birr 100.00c	Total Purchase Money offered for total Face Value

Part III: Form of Advice of Allotment
To: The Tenderer and the Signature to Part II (if different)

You are hereby advised that Treasury Bills have been allotted pursuant to this Tender as set out in Schedule B below and that the Purchase Money payable thereon, as shown in that Schedule Should be deposited to the account at the NBE not later than 10:00 a.m. on the second day following the Date of Issue, failure to do so will result in cancellation of the sale.

The Treasury Bills so allotted should be presented to the National Bank before mid-day on the second working day prior to the Date of Maturity, endorsed with the authorised signature (s) of the holder, and with instructions as to the bank account to which the redemprion money should be credited on the morning of the Maturity Date.

. . . . (date) . . . .

Authorised Signature(s) for the National Bank of Ethiopia, Treasury Bills Office.

SCHEDULE B

Particulars of Bills allotted and Purchase Money Payable		
Face Value of Bills allotted	Purhase Money payable	Initials of authorized officer of NBE

Part II: Form of Agreement for the Transfer of Funds in respect of the Purchase money Due

We hereby confirm our agreement for the transfer of fund from our account to the NBE in respect of the Purchase Money Due for Treasury Bills which may be issued pursuant to this Tender, as set out in that part of Schedule B headed "Purchase Money payable" when Part III and Schedule B have been completed, signed and initialled by an authorised officer of the NBE.

For and on behalf of ____________________

Authorised Signature (s)

(date)

Annex 2.1

FORM TRB/2

NATIONAL BANK OF ETHIOPIA
AUCTION OF _______ DAY GOVERNMENT OF ETHIOPIA TREASURY BILLS
Auction No. ________

Held on XXXXXXXX **Maturity Date** XXXXXXXX

1. Face value of Bills outstanding as on the auction date: XXXXXXXXX
2. Face value of maturing Bills on the date of this auction: XXXXXXXXX
3. Tender Amount on the Date of this Auction : XXXXXXXXX

SERIAL NO. OF BID	NAME OF INVESTOR	(A) OFFER PRICE	(B) IMPLICIT YIELD (%)	(C) FACE VALUE OF BILLS	(D) CUMMULATIVE FACE VALUE OF BILLS	(E) OFFER VALUE OF BILLS	(F) CUMMULATIVE OFFER VALUE OF BILLS	(G) WEIGHTED PRICE	(H) WEIGHTED YIELD (%)
1	XXXXXXXX	XX	XX	XX	XX	XX	XX	XX	XX
2	XXXXXXXX	XX	XX	XX	XX	XX	XX	XX	XX

Annex 2.2

Auction No. ______
Page 1 of 1
Maturity Date XXXXXXXX

ETHIOPIAN GOVERNMENT TREASURY BILLS
SCHEDULE OF TENDERS AND ALLOTMENTS
Auction No. ______ Held on XXXXXXXX

Tender amount: XXXXXXXXX

Tender of Bills ______ days

Serial No. of Bills	NAME OF INVESTOR	AMOUNT TENDERED FOR			AMOUNT ALLOTTED AND ISSUED		
		Face value	Price tendered per Birr100 face value	Discounted Value	Face Value	Discounted Value	Discounted Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	XXXXXXXXXXX	XX	XX	XX	XX	XX	XX
2	XXXXXXXXXXX	XX	XX	XX	XX	XX	XX
Total		**XX**		**XX**	**XX**	**XX**	**XX**

Members of Auction Committee

(Signature)	Chairman - Auction Committee	(Date)
(Signature)	Member	(Date)
(Signature)	Member	(Date)
(Signature)	Member	(Date)
(Signature)	Secretary	(Date)
(Signature)	Controlling Staff	(Date)

C H E C K E D BY

Annex 2.3

______ - Days

Form No. TRB/4

Auction No. ________

Held on XXXXXXXX

1.	Total Number of Bids Accepted	XX
2.	Total Number of Bids Rejected	XX
3.	Total Number of Bids Received	XX
4.	Number of Successful Bids	XX
5.	Number of Unsuccesful Bids	XX
6.	Tender Amount on the date of Auction (Birr)	XX
7.	Total Face value of Bids received (Birr)	XX
8.	Total Amount of Bills Sold (Birr)	XX
9.	The highest price offered for Birr 100.0	XX
10.	The lowest price offered for Birr 100.0	XX
11.	The weighted average price for successful bids (for Birr 100)	XX
12.	The annual weighted yield for successful bids	XX
13.	The weighted average price for the total bids accepted (for Birr 100)	XX
14.	The annual weighted yield for the total bids accepted	XX