Highlights of Foreign Currency Allocation: NBE Directive

Description

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Introduction

The National Bank of Ethiopia pursuant to the authority vested to it by Article 20(3) &27(2) of the National Bank of Ethiopia Establishment Proclamation no.591/2008, has issued a new directive concerning transparency in foreign currency allocation and foreign exchange management. The Foreign Currency Allocation and Foreign Exchange Management Directive No FXD/77/2021 has entered into force on December 1/2021. The main objectives of this Directive is in order ensure efficient and proper allocation of foreign exchange. And in order to ensure that foreign exchange is allocated in a transparent and sound manner to priority and other economic sectors without opening a room for rent seeking behavior and malpractice. The Directive requires each bank to have transparent and sound foreign currency allocation and foreign exchange management guidelines or procedure manual which shows the accountability of each employee of a bank involved in the foreign exchange transaction. For effective implementation, the Directive stipulated powers and functions of different organs. A brief look into responsibilities of different organs of a bank and foreign currency allocation priority areas shall be made here below.

Responsibility of Board of Directors of a Bank

Responsibilities of the board of directors of a bank are stipulated under Article.3 of the Directive. Among these responsibilities, the board is responsible to develop a foreign exchange operation management guideline in line with the NBEs directives. The board is also responsible to review the bank's overall foreign exchange exposure at least once a month in order to ensure that it is maintained at prudent levels and is consistent with available resources. In evaluating and controlling these operations the board has the responsibility to ensure that adequate resources, both technical and human are available. The board also has the responsibility to create reporting and compliance mechanisms to establish rules.

Responsibility of Executive Management of a Bank

The executive management of a bank is responsible to maintain records which are sufficient to determine at all times the bank's compliance with its own internal foreign exchange transaction policies and procedures. The management should avail any information and documentation when requested by National Bank. The executive management should also maintain a daily record showing close of business in foreign exchange. It should also ensure that proper reporting procedures are put in place between the head office and its branches on daily foreign exchange operations. Regarding the bank's foreign currency open position and outstanding balances, the executive management should reconcile foreign exchange transaction accounts at least every month diligently and with due consideration to the need to provide timely information to the National Bank. Generally the executive management should establish effective internal controls to monitor and control the overall foreign exchange operation.

Responsibility of Internal Audit

The internal audit in each bank shall conduct at least one audit semi-annually and make surprise checks when necessary to test compliance with the foreign exchange operations guidelines. The auditor shall report the findings to the respective bank's board as well as senior management of the bank and a copy of the internal report shall be submitted to the Foreign Exchange Monitoring and Reserve Management Directorate of the National Bank at the same time of the submission of the report to the board of management.

Foreign Exchange Allocation and Priorities

The Directive laid out foreign exchange allocations and priorities in three categories. The Directive also stipulated import items and payments are to be served on a first come first served basis.

The directive put a first priority to pharmaceutical items, medicine, input for manufacturing of pharmaceuticals and laboratory reagents. It also adds input for manufacturing of edible oil and liquefied petroleum gas that has not been listed in the previous directive. The reason for listing pharmaceutical inputs, edible oil inputs and fuels in the first priority is in order to mitigate shortage of foreign currency in those sectors.

As second priority, inputs for agriculture and inputs for manufacturing including fertilizer, seed, pesticide and chemicals shall follow.

Third priority includes motor oil and lubricants, agricultural inputs and machineries, pharmaceutical products, manufacturing industries request for procurement of machineries, equipment, spare parts, and accessories, import of nutritious food for babies, spare part for construction machineries for own use by construction companies whose total values not exceeding USD 50,000 and educational materials. Profit or dividend transfer, transfer of excess sales of foreign airlines and sales from share and liquidation of companies by FDI are also categorized under the third priorities.

The Directive also stipulated that the total foreign currency allocated for imports listed in the three categories shall not be less than 50 percent of the total foreign currency allocated for all imports of goods and services at any time. In this case the bank is obliged to surrender the difference to the National Bank every month within the first working days of the next month.

Conclusion

The NBE Directive No FXD/77/2021 has been anticipated to enable the NBE to carefully manage its scarce reserve in foreign exchange and ensure its efficient and proper allocation. To do that the Directive laid core responsibilities to management of each bank. For easier implementation and management, priority sectors have been identified in line with the economic wheel of the country.

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