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MAJOR FOREIGN EXCHANGE REFORM: THE GREEN FOREX DIRECTIVE

Description

By DMLF

The National Bank of Ethiopia (NBE) introduced a historical major change in the administration and regulation of foreign exchange by a new directive namely Foreign Exchange Directive Number FXD/01/2024, effective as of July 29/2024.

Key foreign exchange reforms elaborated by televised address by NBE Governor Mr.Mamo Mehertu and summarized by the NBE press release as follows:

1. A shift to a market-based exchange regime, whereby banks are henceforth allowed to buy and sell foreign currencies from/to their clients and among themselves at freely negotiated rates, and with the NBE making only limited interventions to support the market in its early days and if justified by disorderly market conditions.

2. The end of surrender requirements to the NBE, allowing foreign exchange to be retained by exporters and commercial banks and thus substantially boosting FX supplies to the private sector.

3. The removal of import restrictions that previously prohibited 38 product categories and the broader liberalization of the foreign exchange market for the imports of goods and services, while capital account outflows remain restricted as before.

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4. The improvement of retention rules allowing exporters to retain 50 percent of their foreign exchange proceeds vs 40 percent previously.

5. The complete removal of rules governing banks' allocation of foreign exchange that was based on a waiting list system for different categories of imports.

6. The introduction of non-bank foreign exchange bureaus that are henceforth free to engage in the buying and selling of foreign currency cash notes at market rates.

7. The removal of restrictions on franco valuta imports, to be implemented shortly through an upcoming regulation.

8. The simplification of rules governing foreign currency accounts, especially those currently held by foreign institutions, FDI companies, and the Diaspora.

9. The allowance for residents to open foreign currency accounts, based on remittance inflows, transfers from abroad, FX-based salary or rental income, and for other specified cases, as well as the ability to use such foreign currency accounts for foreign service payments.

10. The removal of interest rate ceilings that previously applied to private sector companies or banks when borrowing from abroad.

11. The opening of Ethiopia's securities market to foreign investors, with the terms and conditions to be specified further in the near future.

12. The granting of special foreign exchange privileges to companies within Special Economic Zones, including the ability to retain 100 percent of their foreign exchange earnings.

13. The relaxation of various rules on the amount of foreign currency cash notes travelers may carry when traveling into or out of Ethiopia.

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