NAVIGATING THE GREEN DIRECTIVE: FREQUENTLY ASKED QUESTIONS

Guiding you through ...

Q: What significant shift is the National Bank of Ethiopia implementing with its recent directive?

The National Bank of Ethiopia (NBE) is moving towards a market-based exchange rate system with its new directive, Directive No. FXD/01/2024, commonly referred to as the "Green Directive."

Q: What is the primary objective of the Green Directive?

The Green Directive aims to overhaul the foreign exchange system by introducing market based exchange regime, and providing clear guidelines on permissible and restricted transactions. It also aims to consolidate the numerous directives issued by the National Bank of Ethiopia. It had become quite challenging to understand what laws were still in effect and what laws have been repealed due to the fragmentation of foreign exchange regulations. The Green Directive is a much needed consolidation of all foreign exchange regulations of the National Bank.

Q: What are the limitations on transactions under the new Directive?

The Directive permits foreign exchange purchases and cross-border payments for current account transactions unless restricted, but it imposes limitations on capital account transactions unless specific exemptions are granted.

Q: What change has been made to the exchange rate regime under the new Directive?

The Directive shifts to a market-based exchange regime, allowing banks to buy and sell foreign currencies at freely negotiated rates, with limited interventions from the NBE.

Q: Can Ethiopians hold accounts offshore?

Yes, Ethiopians may hold accounts offshore subject to getting authorization from the NBE.

Q: Is it now permissible to hold foreign currency freely in Ethiopia?

No, the new directive and Article 346 of the FDRE Criminal Code impose strict prohibitions and criminal penalties on unauthorized foreign currency transactions, holding, and payments without prior NBE authorization.

Q: Can Expats hold foreign currency accounts in Ethiopia?

Yes, expats employed of FDI Companies, International Organizations, Foreign Embassies and consulates as well Foreign Non-Government Organizations have been permitted to hold foreign currency accounts in accordance with the Green Directive.

Q: Are foreign NGO's permitted to open Non-Resident foreign currency account?

Previously, Foreign NGOs were limited to holding Non Resident Non Transferable account (NR-NT) unless exempted through a host country or framework agreement. Under the new Directive, Foreign NGOs are allowed to open foreign currency accounts. This change permits Foreign NGOs to hold and manage funds in foreign currencies, providing greater flexibility in managing international donations and transactions. The Directive provides that NR-NT Accounts shall no longer be credited with new inflows following the date of this Directive and shall be closed upon the full usage of any balances.

Q: Who can now participate in the foreign exchange market under the new Directive?

Banks and non-bank entities, including independent foreign exchange bureaus, can participate in specific market segments, provided they obtain the necessary authorization from the NBE.

Q: What restrictions have been lifted by the new Green Directive?

The Green Directive lifts restrictions on foreign currency approvals for 38 product categories considered luxury items, although restrictions remain on completely built-up fuel-powered automobiles and three-wheelers.

Q: What role do banks play in facilitating exports and imports under the new Directive?

Banks issue export and import permits, ensure export proceeds are repatriated, and align payments with the agreed mode of payment. They also manage Franco-Valuta imports under the new regulations.

Q: What changes have been made regarding interest rates on foreign borrowings?

The Directive removes the all-in-cost interest rate ceiling on foreign borrowings by banks and companies, allowing more flexible financing options, although loan agreements must still be registered and approved by the NBE.

Q: Who can offer international remittance services under the new Directive?

Banks and Authorized Remittance Service Representatives can offer remittance services in collaboration with International Remittance Service Providers (IRSPs), subject to NBE approval.

Q: What conditions must banks meet to issue international debit or prepaid cards?

Banks must install card personalization terminals, establish secure telecommunications infrastructure, and ensure the card's validity does not exceed two years.

Q: What requirements must local merchants meet to accept international credit or debit cards?

Local merchants must have agreements with authorized banks, maintain transparent payment processes, and adhere to licensing conditions, among other guidelines.

Q: What framework does the new directive establish for foreign currency accounts?

The directive outlines eligibility criteria, documentation requirements, permissible uses, and transitional provisions for foreign currency accounts, simplifying rules for various account holders.

Q. What changes have been made to the rules on carrying and converting foreign currency for travelers?

The Directive relaxes rules on the amount of foreign cash travelers can carry and sets specific time limits for holding and converting foreign currency.

Q: What responsibilities do banks have under the new Directive?

Banks must obtain NBE authorization to operate foreign accounts, hold foreign exchange, issue permits for trade-related transactions, adhere to restrictions on forward exchange transactions, and develop an Internal Foreign Exchange Policy Manual.

Q: How are foreign exchange rates determined under the new Directive?

Banks and authorized dealers set their own rates for transactions, which must be reported to the NBE daily. The NBE then publishes an Indicative Daily Exchange Rate as a reference.

Q: What changes have been made regarding exporters and their earnings?

Exporters can now retain 50% of their export earnings in foreign currency for up to 30 days before selling to the transacting bank at a negotiated rate.

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