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CLIENT INSIGHT

Ethiopia's Evolving Forex Regime:

What FX Amendment Directive No. FXD/04/2026 Means for Investors and Lenders

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Executive Overview

The National Bank of Ethiopia has issued FX Amendment Directive No. FXD/04/2026, advancing the country’s foreign-exchange reform agenda through a series of targeted, adjustments. The Directive builds on the framework established under FX Directive No. 01/2024 and reflects a continued policy preference for incremental liberalisation—enhancing flexibility, decentralising execution, and reducing administrative friction—while preserving macro-prudential safeguards.

Importantly, the Amendment Directive introduces refinements across dividend repatriation, external borrowing, service-export earnings retention, bank-issued FX loan guarantees, and forward exchange rate usage. It does not, however, introduce changes to the treatment of capital account transactions, including repatriations of liquidation proceed and sale of shares.

Collectively, the newly introduced changes improve process efficiency, predictability, and bank-level discretion, although a system-wide foreign-exchange availability may remain the principal constraint. The overall effect is to shift day-to-day FX interactions closer to the banking interface, reducing regulatory layering and allowing transactions to be processed within commercially familiar structures.

1. Dividend Repatriation

For foreign investors, dividend repatriation remains a central consideration. Under the Amendment Directive, authorised commercial banks may now process dividend remittances without prior approval from the National Bank of Ethiopia, provided standard documentation—such as audited financial statements, tax clearance certificates, and proof of investment registration—is in place.

This change meaningfully improves procedural certainty and should, in many cases, shorten processing timelines. Notwithstanding the removal of prior approval requirements, the ability to remit dividends remains contingent on a number of operational and commercial variables at the bank and system level. In practice, these include:

- *Foreign-exchange liquidity at the executing bank*, which continues to be the principal binding constraint and may vary materially across institutions and over time;
- *Internal bank prioritisation policies*, including sectoral focus, customer segmentation, and competing FX demands; and
- *Compliance and documentation review timelines,* particularly where ownership structures, intercompany arrangements, or past filings require enhanced scrutiny.

As a result, while FXD/04/2026 materially improves procedural certainty, execution outcomes may continue to depend on the choice of banking partner and prevailing market conditions, rather than on regulatory permission alone.

2. Capital Repatriation Remain Subject to NBE Approval

The Amendment Directive does not alter the foreign-exchange regime applicable to capital account transactions. The repatriation of liquidation proceeds, sale-of-shares consideration, and return of invested capital continues to be governed by the capital account provisions of Foreign Exchange Directive No. FXD/01/2024.

Accordingly, such transactions continue to require approval by the National Bank of Ethiopia, in addition to compliance with investment registration, transaction documentation, and bank-level processing requirements.

In practical terms, while FXD/04/2026 simplifies the remittance of investment income, exit-related capital flows remain subject to a more controlled approval framework. This distinction underscores the importance of early structuring, accurate registration of foreign investments, and realistic timing assumptions for investors contemplating future exits.

3. External Borrowing: Decentralised Approval with Prudential Anchors

One of the more structurally notable reforms under FXD/04/2026 is the delegation of authority to approve and register external loans and supplier credits to authorised commercial banks. Banks may now approve, register, and process external borrowing and associated repayments, subject to prudential limits in the form of debt-to-equity ratio not exceeding 60:40 per FXD/01/2024 and ongoing reporting obligations.

This adjustment materially reduces regulatory bottlenecks and aligns Ethiopia's FX administration more closely with market-oriented models. Bank-level approval facilitates compliance and execution; however, it should not be interpreted as an assurance of FX availability for debt service. Rather, the reform reallocates execution responsibility to banks while leaving liquidity risk unchanged at the system level.

4. Private Foreign-Exchange Loan Guarantees by Commercial Banks

The Amendment Directive expressly permits authorised commercial banks to offer private foreign-exchange loan guarantees, subject to a cap of 10% of the bank's total capital. Importantly, such guarantees are deemed loans for regulatory purposes and are therefore governed by single-borrower and large-exposure limits.

This provision creates a formal legal basis for bank-issued FX guarantees, enabling banks—where commercially and prudentially feasible—to provide credit enhancement to external lenders. At the same time, the regulatory design ensures that guarantees remain selective and balance-sheet-constrained.

Looking forward, the main constraint on issuing large foreign exchange loan guarantees is likely to be the limited number of banks with the necessary financial strength, established relationships with foreign creditors, and access to correspondent banking networks. Currently, only a handful of well-capitalized institutions possess the credibility and capacity to support substantial FX loan guarantees.

5. Forward Exchange Rates

FXD/04/2026 permits commercial banks to apply forward exchange rates in specific transactions. This allows banks to price or reference transactions on a forward basis, thereby assuming exchange-rate risk where contractually agreed.

Crucially, however, the use of a forward exchange rate does not constitute a guarantee of foreign-exchange availability or convertibility and transfer of risks. Accordingly, any resulting liability exposure for a bank arises solely from its private contractual undertakings to the extent that such undertakings do not include carve-out provisions.

6. Foreign-Currency Retention: A Differentiated Approach

The Amendment Directive introduces full and continuous foreign-currency retention for exporters of services, allowing 100% of service export earnings to be retained without conversion or surrender obligations. This represents a significant liberalisation and reflects the net FX-positive nature of service exports.

This treatment does not extend to exporters of goods, who remain subject to mandatory conversion and time-bound retention rules under FXD/01/2024. The differentiated approach balances FX-earning incentives with broader trade-balance management objectives.

7. Practical Takeaways

Taken together, FXD/04/2026 should be experienced by investors and lenders as a material improvement in process quality and transactional clarity, while FX availability remains the binding variable. The reforms reduce uncertainty at the approval and execution stages, empower banks to engage more actively with clients, and introduce targeted flexibility where risk can be managed on private commercial bank balance sheets.