Hirko and Associates (HALO) Legal Update

The Next Phase of Ethiopia's Foreign Exchange Transformation

A Comprehensive Analysis of the Further Liberalization of Ethiopia's Foreign Exchange Regime: Directive No. FXD/04/2026 (February 2026)

On February 12, 2026, the National Bank of Ethiopia issued Foreign Exchange Directive No. FXD/04/2026 (the February 2026 Directive), amending the principal Foreign Exchange Directive No. FXD/01/2024 (the July 2024 Directive). Issued under Proclamation No. 1359/2025, the directive further liberalizes Ethiopia's foreign exchange regime by delegating approval powers to banks, expanding foreign currency account access, easing retention rules, and permitting outward transactions. All amendments are effective immediately. We have summarized the major changes as follows.

1. FOREIGN EXCHANGE MARKET OPERATIONS

1.1. Forward Contracts. Banks may now offer forward exchange contracts without National Bank approval. Transacting parties freely choose between spot and forward rates. This enables currency risk hedging for the first time.

1.2. Domestic Forex Payments. Forex bureaus (including Independent Forex Bureaus) may sell foreign currency cash for payment of visa fees, immigration fees, and license fees locally upon presentation of payment evidence. This creates a limited exception to the general prohibition on domestic FX cash transactions.

2. EXPORT PROCEEDS AND RETENTION ACCOUNTS

2.1. Service Exporters – 100% Indefinite Retention. Service exporters are entirely exempt from the 50% immediate conversion requirement and the 30 day use or sell rule. They may hold 100% of export proceeds in retention accounts indefinitely.

2.2. Expanded Retention Account Use. Account holders may use retention funds for foreign service payments of their spouse and children, upon proof of relationship and underlying invoices.

2.3. Advance Payments from Third Parties. Exporters may obtain permits for advance payments sent by any party abroad, provided the sender and buyer present an agreement that the payment is made on the buyer's behalf. This removes the previous "remitter only" restriction.

2.4. Simplified Advance Payment Recognition. A transfer marked "Advance payment for future export" (or import) qualifies as an advance payment without any National Bank approval. The alternative route requiring National Bank approval for specifying commodity, invoice, or contract numbers remains available.

3. FOREIGN CURRENCY ACCOUNTS

3.1. FDI Companies – No NBE Approval. Foreign direct investment companies may open foreign currency accounts with only an application letter, investment license, and TIN certificate. The National Bank approval letter is no longer required.

3.2. Profit Making Institutions Eligible. Banks may open foreign currency accounts (current, saving, time deposit) for profit making entities receiving foreign currency from abroad as grants, gifts, or other non export sources. Export proceeds cannot be credited to these accounts.

3.3. No Minimum Deposit. The USD 100 minimum account opening requirement is abolished; banks set their own minimums.

3.4. No Customs Declaration for Cash Deposits. Deposits of foreign currency cash exceeding USD 10,000 no longer require a customs declaration. Anti money laundering obligations remain.

3.5. Expanded FCY Account Use. Account holders may use funds for foreign service payments of their spouse and children, mirroring the retention account expansion.

4. CAPITAL ACCOUNT LIBERALISATION

4.1. Dividend Repatriation. Banks are authorised to approve dividend and profit remittances from registered foreign investments, subject to verification of documents (audited accounts, tax receipts, board minutes, etc.) and a customer undertaking that the amount does not exceed total profits earned during the period. Banks must report approved remittances to the National Bank monthly.

4.2. External Loans and Suppliers Credits. Banks now handle the entire lifecycle of external borrowing: approval of loan agreements, registration, and repayment approvals. No National Bank approval is required at any stage. The 60:40 debt equity ratio is enforced through a borrower's undertaking. Banks must report all approvals and repayments monthly.

4.3. Bank Guarantees for Private FX Loans. Banks may issue guarantees for private foreign exchange loans, capped at 10% of the bank's total capital. Guarantees count toward the single borrower limit. Government guarantees remain prohibited.

4.4. Outward Investment. Ethiopian entities may invest abroad on a case by case basis with National Bank approval. This establishes a clear legal basis for outbound investment.

5. IMPORTS AND SERVICES

5.1. Import Permit Extensions. Import applications are valid for 120 days. Banks may extend validity for good cause without the previous 30 day maximum cap.

5.2. Medical and Education Advance Payments. Banks may authorize advance payments up to USD 20,000 per case for medical or education services without visa or ticket requirements, based on a foreign provider's proof letter and the customer's application.

6. CURRENCY CONTROLS

6.1. Customs Declaration Removed. The requirement to declare foreign currency exceeding USD 10,000 upon entry, for deposit into FCY accounts, or for exchange at forex bureaus is abolished. Time limits for conversion and deposit (30/90 days) remain in force.

6.2. Independent Forex Bureaus – Security Deposit Release. The Birr 30 million security deposit is fully released after one year of operation (previously two years). IFBs operational for at least six months receive half (Birr 15 million) immediately.

6.3. IFB Cash Holding Limit. IFBs may hold foreign currency cash up to 25% of their paid up capital at month end. Excess must be sold to banks within five working days.

7. OUTWARD INDIVIDUAL REMITTANCES

The February 2026 Directive introduces an entirely new entitlement previously absent from Ethiopia's foreign exchange framework. Resident Ethiopians are now permitted to transfer abroad up to USD 3,000 or its equivalent in other convertible currencies for the purpose of subsistence family support, upon submission of an application adequately justifying the need.

This reform addresses a longstanding gap in the regulatory regime. Under the July 2024 Directive and all preceding instruments, no express provision existed authorizing residents to remit funds abroad for personal family maintenance. Such transfers were not generally available, compelling families to rely on informal channels or to structure support through indirect and often legally uncertain mechanisms.

The directive establishes several key parameters. The maximum permissible amount per transfer is USD 3,000 or its equivalent, though the directive does not prescribe any limitation on frequency, leaving such determinations to bank policies and the merits of each application. The permitted purpose is subsistence family support, a term sufficiently broad to encompass maintenance of dependents studying abroad, elderly parents residing overseas, spouses, children, and other relatives requiring financial assistance.