InfoPlate Brief

MONETARY POLICY · FX REFORM SPECIAL EDITION

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FOR BUSINESS

What the NBE's Forex Overhaul Really Means

FXD/ 04/2026	**100%**	**155 ETB**	**12-15%**
DIRECTIVE	**FX RETENTION**	**OFFICIAL RATE**	**PARALLEL PREMIUM**
Effective Feb 12, 2026	*Service exporters, indefinite*	*Per USD, mid-Feb 2026*	*Target: 5-8% by mid-2026*

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KEY INDICATORS AT A GLANCE

~155 Official Rate (ETB/USD) *Mid-Feb 2026*	**12-15%** Parallel Premium *Down from 100%+ pre-reform*	**$4.7B** FX Reserves *2.3 months import cover*	**15%** Policy Rate *NBE, unchanged*
$32.1B Total FX Revenue FY25 *+30% YoY, record high*	**~3% GDP** Current Account Deficit *Narrowed from 4.4%*	**140%+** Birr Depreciation *Since July 2024 float*	**$500M** NBE Auction Allocated *Monthly, private sector*

01 THE REFORM IN CONTEXT

From Scarcity Logic to Market Logic: 18 Months of FX Reform

For decades, Ethiopia operated a foreign exchange regime built on scarcity and suspicion. Every dollar was treated as though it were trying to escape. The result was not discipline. It was distortion. The February 2026 directive is the second major step in a structural reset that began in July 2024.

- **JULY 2024 FOUNDATION** The NBE's landmark FXD/01/2024 floated the Birr, unified the official and parallel rates, and introduced market-based exchange rate determination. The Birr depreciated immediately from ETB 57 to ETB 114 per USD, a near-100% adjustment. The move unlocked the IMF's Extended Credit Facility and restarted stalled debt restructuring negotiations.
- **FEB 2026 UPDATE** Directive FXD/04/2026, signed by Governor Eyob Tekalign and effective February 12, 2026, is the operational upgrade. It addresses the friction that remained after July 2024: rigid retention rules, NBE approval bottlenecks, absent hedging instruments, and restricted personal FX access. Analysts at Capital Ethiopia described it as a system moving from gatekeeping to competition.
- **REFORM TRAJECTORY** Key milestones between the two directives include: the banking sector opened to foreign participation in December 2024; retail, wholesale, and import-export trade liberalised in early 2025; new investment laws enacted; and FX reserves more than doubled to USD 4.7 billion by June 2025. FDI inflows have grown from approximately USD 12 million in 1990 to USD 3.9 billion in 2024.
- **MACRO CONTEXT** The current account deficit narrowed from approximately 4.4% to around 3% of GDP in the second half of 2024, supported by stronger gold and coffee exports, rising remittance inflows, and programme financing. Total foreign revenue for FY 2024/25 reached a record USD 32.1 billion, up 30% year-on-year.

02 WHAT FXD/04/2026 ACTUALLY CHANGES

Nine Provisions, One Direction: Toward a Functioning Market

The directive makes nine substantive changes to how foreign currency is earned, held, transferred, and hedged. Taken together, they represent a systematic effort to channel informal FX flows into the banking system and raise the usability of official channels.

FXD/01/2024 vs FXD/04/2026: KEY CHANGES

PROVISION	BEFORE (FXD/01/2024)	AFTER (FXD/04/2026)
Service exporter FX retention	50%, mandatory conversion within 28 days	100% retention, indefinite period
FDI account opening	Required NBE approval letter	Banks approve directly, no NBE letter needed
Profit repatriation	Required NBE approval	Banks process directly on document presentation
Forward FX contracts	Prohibited	Banks may offer without NBE approval
External loan approval	Routed through NBE	Fully delegated to commercial banks
International debit cards	Restricted; visa documents required	Issued to all FX account holders, no visa required
Cash FX above USD 10,000	Customs declaration required	Declaration requirement abolished
Outbound remittances	Not permitted for personal support	Up to USD 3,000 for family support, with documents
FX bureau cash holding limit	10% of capital	25% of capital; excess sold to banks

GOVERNOR'S SIGNAL

The directive, signed by NBE Governor Eyob Tekalign, removes the approval layer that has historically made Ethiopia's formal FX market unusable for businesses and investors. Each change targets a specific friction point that drove participants to the parallel market.

03 WHAT IT MEANS FOR BUSINESS AND INVESTORS

Three Groups, Three Sets of Implications

The directive extends liberalisation beyond corporations to individuals and the diaspora. The implications differ significantly depending on whether you are a foreign investor, an exporter, a bank, or a household.

- **FOREIGN INVESTORS** The removal of the dividend repatriation bottleneck is the single most significant change for foreign capital. Companies including international airlines, Chinese construction firms, Dangote, and Heineken had accumulated Birr-denominated profits they could not repatriate. The directive provides a resolution pathway, though analysts at Capital Ethiopia warn that a surge of repatriation requests could strain bank FX liquidity and create prioritisation conflicts with essential import financing.
- **SERVICE EXPORTERS AND STARTUPS** Software developers, consultants, BPO firms, and digital agencies can now retain 100% of their dollar earnings indefinitely and link corporate FX cards directly to global platforms such as AWS and GitHub. For Ethiopia's

nascent tech ecosystem, this removes the principal deterrent to venture capital: the inability to repatriate returns.

- **IMPORTERS AND MANUFACTURERS** Forward foreign exchange contracts are now permitted without NBE approval. This gives importers a tool to hedge currency risk when opening Letters of Credit, addressing the hidden losses that have arisen since the Birr's 140% depreciation from the July 2024 float. However, analysts caution that Ethiopian banks have a significant capacity gap in forward markets and external loan analysis.
- **DIASPORA AND HOUSEHOLDS** Ethiopians can now legally send up to USD 3,000 abroad for family support. Cash declaration requirements above USD 10,000 are abolished. International debit cards are available to all FX account holders. These changes aim to reduce reliance on hawala and informal remittance channels and bring diaspora dollars into the formal banking system.
- **FOREX BUREAUS** Security deposit requirements are eased, and cash holding limits raised to 25% of capital. The intent is to capitalise bureaus sufficiently to compete with parallel market operators on liquidity, narrowing spreads through competition rather than enforcement.

04 THE RISKS AND UNRESOLVED TENSIONS

Liberalisation Is Necessary but Not Sufficient

The reform direction is broadly right. However, structural vulnerabilities remain that could undermine the directive's objectives, and the IMF has flagged several of these explicitly.

- **BANK LIQUIDITY** Being allowed to withdraw USD is categorically different from banks actually having the physical cash. As of mid-2025, the formal FX market was characterised by low interbank liquidity and a 2.5% transaction commission that distorted pricing. The NBE's bi-weekly auctions, which allocated a record USD 500 million in one round, are a stabilisation tool, but sustained supply depends on export performance rather than policy design alone.
- **PARALLEL MARKET PERSISTENCE** Despite the July 2024 reforms, the parallel premium reached 40% by August 2025 before receding to the low teens by early 2026. The IMF has warned that strict capital account controls and unattractive real returns on Birr-denominated assets continue to push investors toward informal channels. The NBE's stated target is a 5 to 8% premium by mid-2026. Meeting that target requires positive real interest rates and deeper financial sector competition, not just directive changes.
- **REPATRIATION PIPELINE RISK** The backlog of trapped profits from multinational firms represents a concentrated demand shock if released rapidly. Analysts recommend a tiered repatriation strategy to avoid forcing banks to choose between corporate dividend payments and life-saving medicine imports.
- **BANK CAPACITY** Ethiopian banks have operated in a closed economy for approximately 50 years. Capacity gaps in forward market dealing, external loan analysis, and FX risk management are significant. Governor Eyob Tekalign acknowledged this directly: capacity building is required from senior leadership down to frontline staff.
- **POLITICAL RISK** The IMF notes that confidence in currency reform erodes when the security environment deteriorates. Election-period volatility, insurgency activity in Oromia and Amhara, and unresolved tensions with Eritrea are all wildcards that could trigger flight back to the parallel market regardless of directive quality. The Birr's stability ultimately depends on export earnings and political stability, two variables the NBE cannot control through regulation alone.

IMF WATCH

> The Fund stresses that real reforms are needed to reduce residual demand for unofficial currency channels, including phased removal of remaining current account restrictions and positive real interest rates to make Birr-denominated assets more attractive to savers.
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> Ethiopia's situation is compared by the IMF to Angola's FX liberalisation experience. Egypt and Nigeria, by contrast, saw parallel premiums collapse following their own reforms, through sustained policy credibility and sufficient reserve buffers.

05 INVESTMENT AND POLICY IMPLICATIONS

Signals to Watch in the Coming Quarters

The February 2026 directive is a structural positive for Ethiopia's investment climate. Its impact will be determined by implementation quality, bank readiness, and the macroeconomic trajectory over the remainder of FY 2025/26.

- **BIRR TRAJECTORY** Analysts project the Birr to stabilise in the 160 to 165 ETB per USD range by June 2026. This level, though significantly weaker than pre-reform rates, enhances the competitiveness of Ethiopian exports including coffee and gold. A stable, predictable depreciation path is considerably better for the economy than the erratic parallel market swings of 2024 and 2025.
- **VC AND PRIVATE EQUITY** The repatriation unlock is the critical signal for venture capital. The inability to exit has been the primary deterrent for international VC in Ethiopia. Firms with existing exposure should assess whether the new framework is sufficient for fund structure compliance; new entrants should watch the first six months of implementation for practical evidence of repatriation processing.
- **BANKING SECTOR** Commercial banks now carry significantly expanded responsibilities in FX approvals, forward contract issuance, and external loan management. Investors in Ethiopian bank equity should factor in both the revenue opportunity from expanded services and the execution risk from a capacity gap that will take time to close.
- **DIASPORA REMITTANCES** The USD 3,000 outbound remittance allowance and the removal of cash declaration requirements are designed to channel diaspora dollars through formal banks. If successful, this could meaningfully increase formal remittance inflows, supplementing the current account and building reserves. Ethiopia receives an estimated USD 5 billion or more in annual remittances; formalising a larger share would materially improve the reserve position.
- **IMF PROGRAMME CONTINUITY** The third review of Ethiopia's Extended Credit Facility is expected in mid-2026. Sustained adherence to FX reform commitments, including a declining parallel premium and improving interbank market liquidity, is a prerequisite for continued disbursements. Programme continuity, in turn, underpins debt restructuring credibility and sovereign risk pricing.

EDITOR'S OUTLOOK

> **THE BOTTOM LINE**
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> FXD/04/2026 is the most consequential piece of financial sector reform Ethiopia has

issued since the July 2024 float. It addresses the right problems: trapped profits, inaccessible hedging tools, exclusionary registration rules, and a parallel market that thrived because the formal system was unusable. For investors, the signal is clear: the direction of travel is toward openness.

The caveat is execution. A directive is only as effective as the banks implementing it and the reserves backing it. The parallel premium, bank liquidity, and the pace of dividend repatriation processing in the first quarter after the directive are the metrics to watch. If the premium holds below 10% through June and FX reserves approach three months of import cover, the reform will have delivered its headline promise. If political turbulence or export softness widens the premium again, the credibility dividend will erode quickly.

Sources: NBE, Mondaq, BusinessDay NG, Capital Ethiopia, The Reporter Ethiopia, Africa Practice, Addis Insight, IMF, Daba Finance, Techish Kenya | Published March 3, 2026