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NATIONAL BANK OF ETHIOPIA

# FOREIGN EXCHANGE MARKET GUIDELINE

## 1. Short title

This Guideline may be cited as “**Foreign Exchange Market Guideline**”

## 2. Definitions

In this guideline, unless the context provides otherwise, the following terms shall have the meanings described below:

- 2.1 **Authorized banks** shall mean any bank in accordance with the law and authorized by the National Bank to undertake banking business and foreign exchange transactions;
- 2.2 **Bid Rate** is the exchange rate with which a market participant is prepared to buy foreign currency;
- 2.3 **Counterfeits** shall mean a note printed illegally and/or which doesn't bear all the original characteristics and security features of legal tender money issued by countries, whose currencies are acceptable under the Ethiopian banking system.
- 2.4 **Counterpart** refers to a market participant requesting forex trading from other market participants;
- 2.5 **Customer** refers to a person or an organization having foreign currency earnings from different foreign sources and also demanding foreign currency from market participants to make different authorized/permitted foreign payments.
- 2.6 **Foreign currency** means any currency other than Ethiopian legal tender which is legal tender in any country outside Ethiopia as to which the National Bank has declared it to be acceptable for payment in Ethiopia;





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- 2.7 **Foreign Exchange** means any foreign currency, cheques, bills of exchange, promissory notes, drafts, securities, and other negotiable instruments, expressed in foreign currency as well as bank balances in account held in foreign currency or assets in the form of foreign account crediting or set-off arrangements, expressed or payable in foreign currencies provided they are acceptable by the National Bank;
- 2.8 **Foreign exchange bureaus** refers a window of authorized bank where buying and selling of foreign currency from and to the public is conducted, or an independent (non-bank) company authorized by the National Bank to conduct specific foreign exchange transactions similar to that of a commercial banks' forex bureau. They shall also engage in spot transactions only, with immediate delivery of currencies bought or sold;
- 2.9 **Foreign exchange market** shall mean a wholesale and retail forex market where a spot foreign currency transaction is conducted;
- 2.10 **Market participant** refers to authorized banks and Foreign Exchange Bureaus as per Foreign Exchange Directive No. FXD/01/2024;
- 2.11 **National Bank** shall mean the National Bank of Ethiopia;
- 2.12 **Offer Rate** (or Ask Rate) is the exchange rate with which a market participant is prepared to sell foreign currency.
- 2.13 **Spot Transaction** is a foreign currency transaction where settlement for both parties is made with in two working days (T+2) after conclusion of the transaction;
- 2.14 **Wholesale/inter-bank forex market** is a forex market where a spot foreign currency transaction is conducted among authorized banks;
- 2.15 **Retail forex market** refers to a forex market where a spot foreign currency transaction is conducted between market participants and their customers;

### 3. Scope of Application



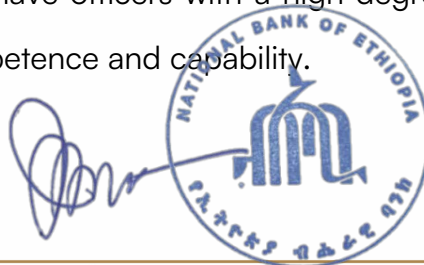


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This guideline applies to all foreign exchange market participants.

#### 4. General Provision

- 4.1. Buying and selling of foreign currency is prohibited unless at least one of the parties to the transaction is a market participant.
- 4.2. All market participants should agree to abide by the principles of forex market code of conduct governing foreign exchange market operation.
- 4.3. Market participants should consult the National Bank before they introduce a new FX market product into the forex market.
- 4.4. Market participants should exert maximum effort to ensure “Know Your Customer” principle at all times.
- 4.5. Market participants should exercise caution to ensure that cross-border payments are not connected with illegal financial transactions and appropriate money laundering policies should be adopted by all market participants.
- 4.6. Foreign currency transactions should be a spot transaction and conducted at freely determined exchange rate.
- 4.7. All foreign exchange dealings by market participants should be for their own account.
- 4.8. Market participants shall deal with each other in a spirit of fair play, mutual trust and confidence.
- 4.9. Market participants shall establish, where non-existent, a Foreign Exchange Dealing Desk and appoint designated staffs who have the necessary authority to conduct foreign exchange transactions on behalf of them.
- 4.10. Market participants shall have “fit and proper” foreign exchange dealers (staff) i.e. they must have officers with a high degree of honesty, integrity and reputation, competence and capability.





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- 4.11. The dealing desk should be staffed throughout the official forex market hours and should have the necessary equipment and resources.
- 4.12. Each market participant shall establish its own internal regulations and manuals for handling foreign exchange transactions. These regulations and manuals should be submitted to the National Bank for information.

## 5. Forex Markets and Rules

### 5.1. Wholesale/Inter-Bank Forex Market

5.1.1. Authorized banks should keep their open forex positions in accordance with the Open Foreign Currency Position Directive.

5.1.2. Any authorized bank that seeks to sell or buy forex should:

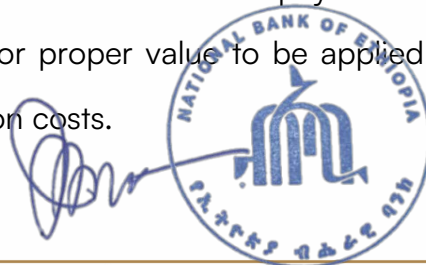
- i) Provide quote for US Dollars transaction against Birr to any other market participant. Banks can also undertake transactions in other foreign currencies subject to mutual agreement. All quotation rates for all forex transactions are required to be made in four digits after decimal points;
- ii) Trade a minimum amount of USD 50,000 (fifty thousand) per transaction at the specified quoted rate. However, for a higher amount, a bank is only obliged to disclose the amount but need not state whether the intention is to buy or sell;
- iii) Quote both offer and bid rate only but not specify the amount of forex for transaction. Any bank that seeks to transact forex is obliged to transact at least the minimum amount per single transaction at the quoted rate. However, a higher amount from





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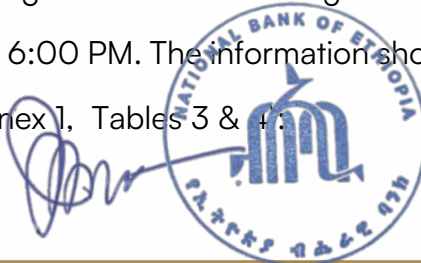
- the minimum transaction, banks should quote two-way rates but are free to transact at negotiated bid or offer rate;
- iv) Not charge any fees or commissions on foreign exchange market transactions. All costs should be reflected in the spread.
  - v) Avoid engaging in speculative transactions that tend to mislead the other participants in the market and must also avoid misuse of any privileged information;
  - vi) Disclose to each other and to the National Bank the names of front office authorized personnel who deal forex transaction on behalf them. Authorized banks shall regularly update the name of authorized personnel, at least yearly or in case of new recruitment or change of dealing personnel.
  - vii) The minimum trade amount of USD 50,000 may be changed from time to time by the NBE.
- 5.1.3. The National Bank may intervene into the interbank forex market to buy forex whenever the market remains with excess forex liquidity.
- 5.1.4. Forex market hours
- The interbank foreign exchange market shall be open from 8:00 AM to 5:00 PM daily from Monday to Friday except on public holidays.
- 5.1.5. Electronic Forex Trading Platform
- An electronic forex trading platform approved by the National Bank shall be used for the interbank FX market transactions.
- 5.1.6. Late Payment Charges
- Banks that have failed to make a payment on a settlement date have to arrange for proper value to be applied (back valuation) or pay compensation costs.





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- i) Compensation for a late receipt in foreign currency is the higher amount of;
    - a) Interest calculated on the amount and duration of the late payment based on the policy rate of the central bank of the respective foreign currency plus two percentage points and the number of days late payment in proportion of 360 days, or
    - b) The effective cost of financing the shortfall until the funds have been delivered, subject to the bank being able to give proper evidence substantiating this amount.
  - ii) Compensation for a late receipt in Birr is the higher amount of;
    - a) Interest calculated on the amount and duration of the late payment using the National Bank's policy rate plus two percentage points and the number of days late payment in proportion of 360 days, or
    - b) The effective cost of financing the shortfall until the funds have been delivered, subject to the bank being able to give proper evidence substantiating this amount.
- 5.1.7. In the event of a dispute between market participants, which cannot be resolved amicably, the National Bank shall be the arbiter of last resort.
- 5.1.8. Reporting Requirements
- i) All authorized banks should report daily their inter-bank foreign exchange transaction activities to the Foreign Exchange Monitoring and Reserve Management Directorate at National Bank by 6:00 PM. The information should include the following (Use Annex 1, Tables 3 & 4:





የኢትዮጵያ ብሔራዊ ባንክ  
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- a. Name of the reporting bank;
  - b. Date of the transaction;
  - c. Forex amount of the transaction;
  - d. Exchange rate of the transaction;
  - e. Name of the counterparty (bank name);
- ii) All authorized banks should provide any other information on inter-bank forex activities during the day to the National Bank upon request.

## 5.2. Retail Forex Market

5.2.1. All market participants should:

- i) Set both the buying and selling rates for foreign currency against Birr on a daily basis. All quotations are required to be made in four decimal points;
- ii) Display their counter exchange rates obviously and in locations within their premises convenient to the public. They must have an exchange rate display board and issue a receipt for each foreign exchange transaction;

5.2.2 Banks may conduct their buying and selling transactions on the basis of freely negotiated rates with their customers.

5.2.3 All market participants should be governed by the National Bank Foreign Exchange Directive FXD/01/2024.

5.2.4 Forex market hours

- i. The retail foreign exchange market shall be open from 8:00 AM to 5:00 PM in all business day.
- ii. Notwithstanding 5.2.4(i), any forex bureau can be engaged in forex transaction business for 24 hours in all business day.





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- iii. Any transaction carried out by forex bureaus after 5:00 PM should be reported with the next day's daily FX report.

#### 5.2.5 Reporting Requirements

- i) All market participants must report to the Foreign Exchange Monitoring and Reserve Management Directorate at National Bank by 6:00 PM on each retail transaction above the amount of 1000 in any foreign currency transaction including the following information(Use Annex 1, Tables 1& 2):
  - a. Name of the reporting bank;
  - b. Date of the transaction;
  - c. Forex amount of the transaction;
  - d. Exchange rate of the transaction;
  - e. Name of the counterparty (customer);
- ii) Authorized banks should provide any other information on their forex activities during the day to the National Bank upon request.

## 6 Amendment

The National Bank reserves the right to make amendments to any rules and regulations governing the operations of the foreign exchange market guideline.

## 7 Effective date

This Guideline shall enter into force as of 29 July, 2024.

  
Mamo Esmelealem Mihretu  
Governor







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**ANNEX 1: DAILY FX TRANSACTION VOLUME AND EXCHANGE RATE REPORTING FORMAT**

NAME OF BANK: \_\_\_\_\_

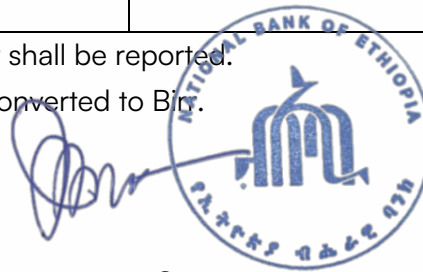
DATE OF TRANSACTION: \_\_\_\_\_

**TABLE 1: FX BUYING TRANSACTIONS (RETAIL MARKET TRANSACTION)**

CURRENCY TYPE (CODE)	FX AMOUNT	EXCHANGE RATE (BIRR PER CURRENCY)	COUNTER PARTY/CUSTOMER

**Note:** 1/ Any FX transactions above 1,000 in any currency shall be reported.

2/ FX buying transaction shall be reported when converted to Birr.





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NAME OF BANK: \_\_\_\_\_

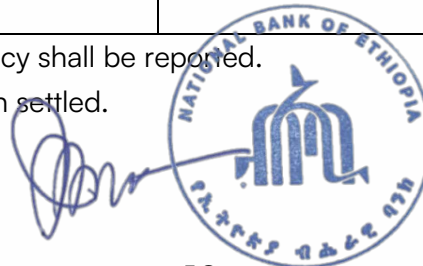
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TABLE 2: FX SELLING TRANSACTIONS (RETAIL MARKET TRANSACTION)

CURRENCY TYPE (CODE)	FX AMOUNT	EXCHANGE RATE (BIRR PER CURRENCY)	COUNTER PARTY/CUSTOMER

**Note:** 1/ Any FX transactions above 1,000 in any currency shall be reported.

2/ FX selling transactions shall be reported when settled.







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NAME OF BANK: \_\_\_\_\_

DATE OF TRANSACTION: \_\_\_\_\_

**TABLE 3: FX INTER-BANK BUYING**

CURRENCY TYPE (CODE)	FX AMOUNT	EXCHANGE RATE (BIRR PER CURRENCY)	COUNTER PARTY/ BANK NAME



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NAME OF BANK: \_\_\_\_\_

DATE OF TRANSACTION: \_\_\_\_\_

**TABLE 4: FX INTER-BANK SELLING**

CURRENCY TYPE (CODE)	FX AMOUNT	EXCHANGE RATE (BIRR PER CURRENCY)	COUNTER PARTY/ BANK NAME

