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NATIONAL BANK OF ETHIOPIA
 ADDIS ABABA

Licensing and Supervision of Banking Business
Directives for Foreign Currency Intermediation by Banks
Directives No. SBB/77/2020

“Whereas, the National Bank of Ethiopia is vested with the power to determine the terms and amount of external indebtedness of banks and other financial institutions and further to grant permission for transactions taking place in Ethiopia in currencies other than the Ethiopian Legal Tender Currency;

Whereas, it has become necessary to facilitate access to foreign exchange to foreign currency generating activities by allowing banks to intermediate in foreign currency through borrowing from external lenders and lending in foreign currency to such activities, accordingly;

Whereas, the National Bank of Ethiopia is responsible to ensure that banks are properly managing their foreign exchange and credit risks;

Now, therefore, in accordance with Article 5 (9 and 10), Article 17 (3) and 27 (2) of the National Bank of Ethiopia Establishment (as Amended) Proclamation No. 591/2008, the National Bank has issued this Directive”.

1. Short Title

These Directives may be cited as “Foreign Currency Intermediation by Banks Directives No. SBB/77/2020”.

2. Definitions

For the purpose of this Directive, the term:

- 2.1 “All-in-cost” means rate of interest, other fees and expenses in foreign currency excluding commitment fee and pre-payment fee.
- 2.2 “Bank” means a company licensed by the National Bank to undertake banking business or a bank owned by the Government.

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- 2.3 **“Current assets”** means cash and other assets of a bank that are expected to be converted to cash within one year of the date of reporting.
- 2.4 **“Current liabilities”** means short-term financial obligations of a bank that are due within one year of the date of reporting.
- 2.5 **“Debt Service Coverage Ratio”** means the ratio of net operating income of the borrower in a particular period to its total debt service obligations during the same period.
- 2.6 **“External loan”** means loan acquired from a foreign or non-resident entity and registered as such at the National Bank.
- 2.7 **“External borrowing”** means borrowing from a foreign or non-resident entity and which is registered as such at the National Bank.
- 2.8 **“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 to be acceptable for payment in Ethiopia for the purpose of this Directive.
- 2.9 **“Foreign currency generating activity”** means any legal business that generates foreign currency revenue.
- 2.10 **“Foreign currency intermediation”** refers to the act of borrowing in foreign currency, including from foreign lenders, and granting credit to local borrowers in foreign currency as well as collecting the repayment of the credit in foreign currency.
- 2.11 **“Loan-to-Equity Ratio”** means the ratio of the total loan amount divided by the equity of the project or net worth of the business to which the loan is granted.
- 2.12 **“National Bank”** means the National Bank of Ethiopia.
- 2.13 **“Net operating income”** means net earning (operating revenue less operating expense) before interest and taxes.

3. Scope of the Directive

This Directive shall be applicable to all banks operating in Ethiopia.

4. General Provisions

- 4.1 A bank may engage in foreign currency intermediation.
- 4.2 For the purpose of sub-article 4.1 of this Article, when a bank engages in foreign currency intermediation, it shall be exempted from acquiring a separate permission from the National Bank for the transactions to be expressed in foreign currency.
- 4.3 A bank shall be eligible to acquire external loan in foreign currency provided that the loan meets the following terms and conditions:
- 4.3.1. grace period for principal payment of at least 3 (three) years;
- 4.3.2. repayment period of at least 6 (six) years (including grace period);



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- 4.3.3. the all-in-cost of the loan shall not exceed 6 (six) months respective currency LIBOR plus 5%; US Dollar LIBOR shall be used when the loan currency does not have LIBOR rate;
- 4.3.4. the loan is denominated in US Dollar or Pound Sterling or Euro or Chinese Yuan or Canadian Dollar or Japanese Yen; and
- 4.3.5. no prepayment (repayment ahead of original schedule) of external loans shall be made without approval by the National Bank.
- 4.4 Foreign currency acquired through external borrowing pursuant to sub-article 4.3 of this Article shall be utilized only for:
- 4.4.1. extending credits in foreign currency to foreign currency generating activities in Ethiopia; or
- 4.4.2. depositing at the National Bank or at a foreign correspondent bank, in foreign currency.
- 4.5 Foreign currency acquired through external borrowing pursuant to sub-article 4.3 of this Article may not be subject to the foreign exchange surrender requirement pursuant to Directives No. FXD/50/2018.
- 4.6 When extending credit in foreign currency to foreign currency generating activities pursuant to sub-article 4.4.1 of this Article, a bank shall ensure that:
- 4.6.1 the loan does not exceed 70% (seventy percent) of the total cost of the project or net worth of the business to which the credit is extended to and the borrower contributes the remaining 30% (thirty percent), in any currency, in the form of equity;
- 4.6.2 the borrower shall have a projected annual debt-service-coverage ratio in foreign currency of at least 1 (one) throughout the repayment period of the credit;
- 4.6.3 it disburses the foreign currency loan with strict follow-up of project execution and loan utilization;
- 4.6.4 disbursements are made based on specific foreign currency needs of the projects for which the foreign currency credit is obtained and directly to the supplier of the borrower which requires foreign currency payments; and
- 4.6.5 the borrower opens a foreign currency debt services reserve account, with the lending bank, where it maintains, at all times, a minimum deposit balance equivalent to the following 6 (six) months debt services.
- 4.7 The minimum required foreign currency deposit balance in the debt services reserve account in line with sub-article 4.6.5 of this Article shall be on top of, and shall not count towards, the 30% (thirty percent) retention right (Account A) of the borrower pursuant to Directives No. FXD/48/2017.
- 4.8 Prior to engaging in foreign currency intermediation, the board of directors of a bank shall ensure that the bank has developed and put in place required policies and mechanisms needed to closely manage foreign exchange risks arising from foreign currency intermediation.



- 4.9 A bank may buy debt service insurance in foreign currency against its external debt service obligations.
- 4.10 The premium of the debt service insurance referenced in Article 4.9 shall be included in the all-in-cost of the external loan.
- 4.11 A bank acquiring an external loan shall register the loan with the Foreign Exchange Monitoring and Reserve Management Directorate of the National Bank by submitting a copy of the signed contract, including term sheet, of the loan within 5 (five) business days of the date on which the loan contract was signed.

5. Prudential Requirements

- 5.1 Any bank acquiring external loan shall open a foreign currency reserve account with the National Bank and at all times maintain, in the reserve account, 5% (five percent) of the outstanding balance of its external loans.
- 5.2 Notwithstanding sub-article 5.1 of this Article, the National Bank may introduce additional reserve requirements at any time which shall be applied on future external loans.
- 5.3 The reserve account under sub-article 5.1 of this Article shall have a remuneration equivalent to the 1 month US Dollar LIBOR rate. Foreign currency deposit of a bank in excess of the required reserves as per sub-articles 5.1 and 5.2 of this Article shall not receive a remuneration.
- 5.4 Any bank acquiring external loan shall maintain a weekly average balance of foreign currency current assets not less than 15% (fifteen percent) of its foreign currency current liabilities. Any foreign currency deposit at the National Bank, including the deposit towards the reserve requirement under sub-articles 5.1 and 5.2 of this Article shall count towards a bank's foreign currency current assets.
- 5.5 For each foreign currency and time band (shown in Annex V), a bank shall maintain its cumulative maturity mismatch for foreign currency borrowing and lending within a maximum of 1% (one percent) of the bank's total capital.

6. Reporting Requirements

- 6.1 Any bank engaged in foreign currency intermediation shall submit a **foreign currency reserve report** and a **foreign currency liquidity report**, using the format prescribed under **Annexes I and II**, for each week ending **Wednesday** to the National Bank. The report shall be submitted latest by **Tuesday** of the following week.
- 6.2 A bank engaged in foreign currency intermediation shall also submit the following report, within 10 (ten) days after the end of each month, to Banking Supervision Directorate of the National Bank.



- 6.2.1. For each external borrowing (**in line with Annex-III**):
- a) loan amount expressed in the original loan currency, including disbursed and undisbursed commitments;
 - b) terms of the borrowing (grace period, repayment period excluding the grace period, all-in-cost in percent);
 - c) projected annual debt service amount for the repayment (in a separate format);
 - d) if the debt service is insured, the premium on the insurance;
 - e) outstanding amount; and
 - f) past due amount (if any)

- 6.2.2. For each domestic credit in foreign currency (**in line with Annex-IV**):
- a) credit amount expressed in the credit currency, including disbursed and undisbursed commitments;
 - b) loan-to-equity ratio of the project to which the credit is extended;
 - c) foreign currency deposits maintained in the debt service reserve account of the borrower;
 - d) loan status;
 - e) outstanding amount; and
 - f) past due amount (if any)

6.3 Maturity report for foreign currency borrowing and lending (**in line with Annex-V**)

7. Administrative Measures

- 7.1. Any bank contravening with sub-article 4.3 of Article 4 shall be subject to a penalty equivalent to 10% (ten percent) of the amount of the loan acquired through such contravention. The penalty shall be paid in the same currency in which the external loan is denominated.
- 7.2. Any bank contravening with sub-article 4.4 of Article 4 shall be subject to a penalty equivalent to 20% (twenty percent) of the amount of foreign currency not utilized in accordance with sub-article 4.4 of Article 4. The penalty shall be paid in the same currency in which the external loan is denominated.

8. Effective Date

This Directive shall enter into force as of the **18 day of August 2020**.




Yinager Dessie (PhD)
Governor

Annex-II

FOREIGN CURRENCY LIQUIDITY REPORT
(Amount in Thousands)

NAME OF BANK: _____ TO _____
FOR THE WEEK COVERING FROM _____ TO _____

No	FX	Foreign Currency Current Liabilities (maturing up to less than one year		Total	15% of the FX	Foreign Currency Current Assets #	Excess (shortage) in liquidity
		External Borrowings	FX Other than External Loans				
1	In USD	A	B	C=(A+B)	D= 15%*C	E	F=(E-D)
2	In Euro						
3	In Pound Sterling						
4	Chinese Yuan						
5	Canadian Dollar						
6	Japanese Yen						

includes foreign currency on hand; reserve A/C with NBE, foreign currency at local and foreign banks and any foreign currency denominated current assets.

Prepared by: _____
Signature: _____

Approved by: _____
Signature: _____



Free

EXTERNAL BORROWING REPORT
(For Each Foreign Currency)

(Amount in Thousands)

NAME OF BANK: _____
FOR THE MONTH ENDED _____

No	Name of the Lender	Disbursement Date	Borrowed Amount		Terms of the Borrowing			The premium on the insurance ¹	Outstanding Amount	Past Due (if any)
			Disbursed	Undisbursed	Total	Grace period	Repayment period ²			
1										
2										
3										
4										
5										
.										
.										
.										
Total										

Prepared by: _____
Signature: _____

Approved by: _____
Signature: _____



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¹ If the debt service is insured

² Excluding the grace period

FOREIGN CURRENCY LOAN REPORT (Granted to Domestic Borrowers)
(For Each Foreign Currency)

(Amount in Thousands)

NAME OF BANK: _____

FOR The MONTH ENDED _____

No	Name of the Borrower	Disbursement Date	Loan Amount		Repayment period	Loan-to-equity ratio	Loan status	Outstanding Amount	Past Due (if any)
			Disbursed	Undisbursed					
1									
2									
3									
4									
5									
.									
.									
.									
Total									

Prepared by: _____
 Signature: _____

Approved by: _____
 Signature: _____



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MATURITY REPORT FOR FOREIGN CURRENCY BORROWING AND LENDING

(Amount in Thousands)

NAME OF BANK: _____
 FOR THE MONTH ENDED _____

Time Bands	Amount in Thousands	Time Bands																		
		0-7 days	8-15 days	16-30 days	1-3 months	3-6 months	6-12 months	1-3 years	3-6 years	Over 6 years										
FX Assets (lending)																				
- In USD																				
- In Euro																				
- In Pound Sterling																				
- Chinese Yuan																				
- Canadian Dollar																				
- Japanese Yen																				
FX Liabilities (borrowing)																				
- In USD																				
- In Euro																				
- In Pound Sterling																				
- Chinese Yuan																				
- Canadian Dollar																				
- Japanese Yen																				
Mismatch																				
- Net mismatch in USD																				
- Cumulative mismatch in USD																				
- Net mismatch in Euro																				
- Cumulative mismatch in Euro																				
- Net mismatch in Pound																				
- Cumulative mismatch in Pound																				
- Net mismatch in Chinese Yuan																				
- Cumulative mismatch in Chinese Yuan																				
- Net mismatch in Canadian Dollar																				
- Cumulative mismatch in Canadian Dollar																				
- Net mismatch in Japanese Yen																				
- Cumulative mismatch in Japanese Yen																				



Approved by: _____
 Signature: _____

Prepared by: _____
 Signature: _____