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Assessment of Ethiopia's Foreign Exchange Reform Policies: Successes, Challenges and Opportunities

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Declaration

I, the undersigned declare that this project work intitled “An assessment of Ethiopian foreign exchange reform policy: Success, challenges and opportunities, is my original work prepared under the supervision of Dakito Alemu (PhD). All sources and information used while working on this paper have been duly acknowledged. And also, I would like to confirm that the thesis directly on this title has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any Degree certificate.

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Date: -June 03/2025

APPROVAL

This is to certify that the thesis entitled "An Assessment of Ethiopian foreign exchange reform policy: success, Challenges and Opportunities" submitted to Addis Ababa University, school of commerce, for the award of Degree of Master of Science in corporate finance specialty in investment management is a bona-fide work that has been carried out by Jebessa Merga under my guidance and supervision.

Advisor: - Dr. Dakito Alemu

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Examiners' Approval

This is to certify that the research prepared by Jebessa Merga on the "An Assessment of Ethiopian foreign exchange reform policy: success, Challenges and Opportunities" and submitted to Addis Ababa university school of commerce for the partial fulfillment of the requirements for the Master of Science in Corporate finance with specialty in investment management complies the universities regulations and accepted with respect to originality.

Dr. Mengistu Bogale ________________ ____________

Internal Examiner Signature Date

Dr. Tesfa Nega ________________ ____________

External Examiner Signature Date

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List of Abbreviation/Acronym

Abbreviation	Description
AFCFTA.	African Continental Free Trade Area
NBE	National Bank of Ethiopia
IMF	International Monetary Fund
UNECA	United Nations Economic Commission for Africa
PPP	purchasing power parity
FDI	Foreign Direct Investment
EIC	Ethiopian Investment Commission
ERPT	Exchange rate pass-through
OLI	Ownership Location Internalization
BOP	Balance of Payments
WB	World Bank
HGER	Homegrown economic reform

Abstract

This study An Assessment of ethiopian foreign exchange reform policy evaluates the recent foreign exchange reform policies adopted in Ethiopia, focusing on its successes, challenges, and potential opportunities. The reform was introduced in July 2024, aiming to equalize the official exchange rate with black-market exchange rates, improving foreign currency reserves, and enhancing export competitiveness and attracting foreign direct investments (FDI). The study adopted A qualitative and descriptive research methods, the primary data for this study were collected through structured questionary from key stakeholders like, Importers/Exporters investors and National bank of ethiopia (NBE) employees based on their relevance's and experiences on foreign exchange reforms, and secondary data were collected from institutional reports and macroeconomic indicators published by the National Bank of Ethiopia and international agencies., the study compared the trends of a key economic indicator before and after the reforms to measure the impact of the reforms. The data analysis after the implementation of reform shows a significant improvement in foreign currency reserves, Similarly, there was a tangible reduction in the gap between the official and Black-market exchange rates, Foreign direct investment shows dramatical change which nearly doubled. However, the reform implementation also faced substantial challenges. including, initial foreign currency shortages, limited access to foreign currency for importers and weak institutional capacity which undermine the reforms' effectiveness. In addition to the challenges, the study also identified potential Opportunities that help long term economic transformation including leveraging digital financial technologies to modernize foreign currency transactions and expanding public-private partnerships to boost export diversification are among the opportunities. The study concludes that whereas the reform shows significant improvements in all aspects, its sustainability depends on complementary actions, including strengthening institutional capacities, enhanced export diversification, adopting digital financial technologies and strengthened financial sector governance.

Key words: *Foreign exchange reform policy, export diversification, exchange rate unification, foreign currency reserves, foreign direct investment, AfCFTA.*

CHAPTER ONE

1. Introduction

Foreign exchange policies play a golden role in shaping a one country's economic stability, trade competitiveness at an international level, and in enhancing the overall financial health. For Ethiopia, like a country working to achieve and realizing sustainable economic growth and aiming to integrate into the global economy, effective management of foreign exchange reserves and policies is essential. Since 1991, Ethiopia's foreign currency policy has evolved significantly. Initially, the Ethiopian People's Revolutionary Democratic Front (EPRDF) introduced a managed float exchange rate regime, by permitting some flexibility but still maintaining under the government control. Over the years, the country faced several challenges with exchange rate misalignments, leading to chronic foreign currency shortages, Black-market dominances, weakening in international trade and structural bottlenecks continued. Moreover, in recent years, a growing external debt, the internally war-affected economy, and other problems makes under questions about the reforms' effectiveness and sustainability of reform policies.

Following those challenges, The Recent Stabilization actions by NBE and supported by the IMF included the significant exchange rate reforms as part of a major stabilization program. Both the IMF and the World Bank have frequently recommended that to Adopt a market-based exchange rate regime that will bring the official exchange rate with a more dominant Black-market rates. By offering a loan package and other several financial accommodations to address the major micro economic imbalances will face the economies during the implementation of the Reforms.

Starting from July 28,2024, Ethiopia took a bold step by shifting her Managed floating foreign currency administration to a market-driven exchange regime, by allowing bank to freely negotiate exchange rate and easing a restrictions /requirement for businesses and banks. Considering this reform as part of its broader economic liberalization efforts under the Homegrown Economic Reform Plan (HGER). These reforms aiming to resolve chronic foreign currency shortages, stabilizing the exchange rate, and attracting foreign direct investments. The Key measures include the gradual unification of the official and Blac-market exchange rates, partially liberalizing the financial sectors, and easing restrictions on access to foreign currency for traders/investments. Additionally, the government has introduced policies to encourage remittance inflows through formal channels and promote export-oriented industries to enhance foreign currency earnings from export. While these reforms have been welcomed as bold steps to a market-driven economy and also significant results are observed in overall aspect, challenges such as persistent foreign currency shortages specially for importers, organizational inefficiency, and the continuing influence of the Black-market activities continued to hinder the effectiveness and sustainability of the reforms. The long-term success of the reforms depends on sustained policy implementation, improving exports and competing in the international markets, also the ability to attract foreign direct investment.

Since the ethiopian foreign currency reforms is introduced only nine months prior to this study, and the study covers the six months (July-December,2024) outcome of the reforms, the findings is the beginning/Pilot and may not fully reveals the long-term impacts of the reforms. And it indicates only the short period effects of the reforms; the long-term effect of the reform remains uncertain and needs additional research. The findings indicate pilot outcomes and may not fully reflect the long-term outcome of the reforms, so future researchers should revisit these reforms once sufficient time has intervened to evaluate the comprehensive impact of the reforms on all over the economy

This study seeks to Assess the Ethiopia's foreign exchange reform policies by examining its successes, challenges, and identifying potential opportunities. by analyzing both primary data from key stakeholders, such as experts from the National Bank of Ethiopia and importers/exporters and investors those their business dependent on foreign currency, as well as secondary data from existing literatures and reports by National bank of ethiopia, Ministry of trade and industry and Ethiopian investment commission. And generally, this study tried to Evaluate the positive outcome of the reforms on all economic aspects, identified challenges encountered during the implementation since the introduction of the reforms, and also identified the potential opportunities that will enhance the effectiveness of the reforms and sustain the positive outcome of the reforms realized with in the short period of time. Finally, this study offered actionable recommendations that will enhance the effectiveness of foreign exchange managements that support the country's Home-grown economic policies (HGER).

1.1. Statement of the Problem

The Ethiopia's foreign currency management has Generally been marked by structural obstacles for a long period of time, such as chronic trade deficits (-15.3 Billion USD in 2023) due to limited export earnings and highly dependent on imports, persistent foreign currency shortages, despite gradually devaluating ETB and introducing some measures under the managed exchange rate regime to attract remittance inflows and boost export diversification, foreign currency reserve remains critically low and covering for only less than two months of essential imports (IMF,2023), a dominance of black-market activities: exceeding by 110% against the official exchange rate and also more than 40% of the foreign currency transaction occurred through the black market in ethiopia and because of that, the annual inflation risen to 33% in ethiopia (IMF,2023), And limited access to external financing, which has limited the economy's capacity to meet the demand for essential imports and exports. All these problems have usually undermined the overall economic stability, discouraged foreign investment, and hindered basic imports like industrial inputs (raw materials), pharmaceuticals, and other basic needs (IMF,2022). The government's pre-reform policies, having focused on centralized distribution and strict controls over foreign currency had often failed to address systemic inefficiencies within the system, thereby leading to misallocation of resources and inflationary pressures (NBE,2022).

While the government is trying to resolve those challenges under the recent 2020 managed floating currency regime, still ethiopia has a problem, like the chronic lack of foreign currency has hindered the private sector, and particularly exporters and importers, and has exacerbated inflationary pressures. (Alemayehu G,2020) At the same time, the overall effects of the reforms vary across different industries, and there is insufficient attention to their implications for macroeconomic stability and international competitiveness. In addition, Diaspora remittance and exporter channels enjoy incentivized rates, whereas import-based industrialists and micro-enterprises remain constrained by foreign currency availability. Meanwhile, Ethiopia's increasing external debt over $28 billion in 2023. (African development bank,2023) and worldwide economic headwinds such as inflationary pressures and geo-political tensions in addition to the war affected economy make it difficult to sustain the ethiopian managed floating currency reforms.

Following those challenges happened in the reform ethiopia introduced a significant foreign exchange reform policy on July 29,2024 transitioning from a managed to more flexible and market driven exchange rates that will stabilize the overall macro economy, attract foreign direct investments, enhance export diversification and improve trade balances, and overall foster inclusive growths. So, this research attempts to critically evaluate the success of ethiopian foreign exchange reform policies in stabilizing the macroeconomic environments, resolving structural issues, and ensuring equitable opportunities for sustainable growths. Through unveiling between policy objectives and the studies results.

1.2. Research Questions

To evaluate the Ethiopian foreign currency reform policy in terms of its success, challenges and opportunities, the study attempts to answer the following basic questions.

I. What are the major successes of Ethiopia's foreign exchange reform policies in enhancing Import/export sectors, attracting Foreign direct investments and Reducing the Black-market activities

II. What are the challenges Ethiopia has faced in implementing foreign exchange reform policies?

III. What opportunities exist to further optimize its foreign exchange reform policies to enhance economic resilience and attract global investors?

1.3. Objectives of the Study

1.3.1. General Objective:

The general objective of this study is to Evaluate the Ethiopian foreign exchange reform policies by accessing the measurable success achieved, identifying the key challenges encountered during the implementation period, and identifying potential opportunities and to enhancing the policy effectiveness.

1.3.2. Specific Objectives:

Following the main objectives outlined above, this research is designed to achieve the following specific objectives.

I. To assess the successes of Ethiopia's foreign exchange reform policies in enhancing Import/export sectors, attracting Foreign direct investments and Reducing the Black-market activities

II. To identify the key challenges Ethiopia has encountered in implementing of foreign exchange reforms.
III. To identify potential opportunities that further optimize the foreign exchange reform policies to enhance economic resilience and attract global investors

1.4. Significance of the Study

An assessment of Ethiopian foreign exchange reform policies success, challenges, and opportunities is particularly significant as it tackles one of the countries' most urgent economic challenges. This study is crucial in examining how the newly adopted foreign exchange reform policies contribute to microeconomic stabilization, drive export-oriented growth, and promote a more efficient allocation of limited foreign currency resources. By evaluating these policies effectiveness in maintaining foreign currency shortages, attracting foreign investments, improving foreign currency reserves and correcting trade imbalances, the research directly addresses critical constraints to Ethiopian economic development. Moreover, the study aims to provide evidence-based insights that identify both strengths and areas requiring improvements and finally offering actionable recommendations to optimize the foreign currency regimes.

1.5. Scope of the Study

The study concentrated on Evaluating Ethiopia's foreign exchange reform policies adopted in July 2024, with a specific emphasis on its success, challenges, and opportunities. Geographically, the research is limited to Addis Ababa, where the key stakeholders such as National bank of ethiopia, Ministry of Trade and industry, Ethiopian Investment commission and also Importers/Exporters and investors directly engaged or affected by the foreign currency reforms are located. The temporal scope covers the period from July,2022 to December 2024 for the secondary data enabling a comparative analysis of pre and post reform phases.

1.6. Limitation of the study

While this study tried to Evaluate the Ethiopian foreign exchange reform policies in terms of its success, challenges, and opportunities, it faced some difficult challenges in carrying out this study. One of the challenges was related to the lack of organized data availability, inaccessibility of previously conducted studies and the short evaluation period since the foreign exchange reform was implemented in July 2024. Only six months of post reform data (up to December 2024) were officially accessible for researchers. This short period evaluation makes it challenging to fully understand the long-term impact of the policy and the study is one of the first in ethiopia to directly assess the ethiopian foreign exchange reforms polices. To minimize these gaps, international case studies and theoretical frameworks were used in literature review. Furthermore, lack of detailed data on a critical indicator to evaluate the reforms success like foreign currency reserves and remittance inflow data was restricted by the National bank of ethiopia and confidential to the public.

1.7. Definition of Key Concepts and Terms

The definition of basic concepts and terms provides an understanding of the scope and dimensions of the foreign exchange reform policy in Ethiopia, about its successes, challenges, and opportunities, and its broader economic implications.

Foreign Exchange Reform:

Foreign Exchange reform refers to a strategic policy adjustment in the foreign exchange regime Aiming to improve the efficiency, Transparency, and flexibility of a one countries foreign exchange management system. This includes liberalizing foreign currency controls, adopting Market-driven exchange rates and resolving economic challenges, such as foreign currency shortages, trade imbalances and improving central bank operations. (IMF) Monitory policy framework: choice of exchange rate arrangements.

Managed floating exchange rate.

A managed floating exchange rate is an exchange rate system where the currency value is primarily determined by market force but a country's central bank to intervene in foreign exchange markets regularly to shift the direction of the currency's float and/or minimize currency volatility. Jeffrey Frankel (2011): Choosing an Exchange Rate Regime, Harvard Kennedy School.

Exchange Rate Regime: A floating exchange rate is a regime where the currency price of a nation is set by the forex market based on supply and demand relative to other currencies. This is contrary to a fixed exchange rate, in which the government entirely or generally decides the rate.

Macroeconomic Stability:

Macroeconomic stability refers to a state of an economy characterized by low inflation rate, sustainable fiscal and external balances, and steady economic growth, minimizing volatility and uncertainty. (World Bank), Global Economic Prospects reports.

Foreign direct investment FDI

Foreign direct investment (FDI) is a type of cross-border investment in which an investor resident in one country establishes a lasting interest in and a significant degree of influence over an enterprise resident in another country.

Competitiveness: The ability of a country to compete effectively in global markets, often influenced by exchange rate policies.

Trade balance: - is the difference between a one country's total imports and exports over a period of time. A country that exports more than its imports runs a trade surplus, while taking in more imports than exports results in a trade deficit.

Foreign exchange reserves: - include foreign currency and other reserve assets that a central bank or a monetary authority of a country keeps as deposits on its account for defending its national currency, facilitating international trade, and meeting the country's external financial obligations.

1.8. Organization of the Study

The study is organized into five distinct chapters; each chapter has been designed to addressed a specific aspect of the research problem in a coherent and systematic manner of the Ethiopian foreign currency reforms. Chapter One presents the introduction, by providing in-depth background of the study, statement of the problem, basic research questions, research objectives, the significance of the study, hypothesis of the study, definition of terms, scope and limitations of the study. This chapter sets the stage by highlighting the context and relevance of the ethiopian foreign exchange reform policy. Chapter Two offers a comprehensive review of related literature. Covering theoretical perspectives on foreign exchange reform, empirical studies from other countries and Ethiopia, as well as the conceptual framework and identified research gaps. The literature review is customized to reflect the dynamics of foreign exchange management in developing economies, with a particular emphasis on the Ethiopian context.

Chapter Three describes the research methodological frameworks, describing the research design, data sources, data collection methods, and analytical techniques. It emphasizes the use of secondary data and comparative analysis to evaluate the reform’s impact on selected macroeconomic indicators.

Chapter Four presents, analyzes, and interprets the data collected from both primary and secondary sources, focusing on key variables such as FDI inflows, trade performance, foreign currency reserves, official and black-market exchange rates, and remittance inflows before and after the reform. This chapter used tables, graphs, and narrative analysis to illustrate trends and draw evidence-based insights. **Chapter Five** summarizes the major findings, conclusions, and provides practical policy recommendations based on the results. It also highlights areas for further research. Each chapter is carefully structured to align with the specific objectives of the study and to ensure the research remains focused, relevant, and contextually grounded.

CHAPTER TWO

2. REVIEWS OF RELATED LITERATURE

Both Theoretical and empirical literature results which have a relevant to this research topic were reviewed under this chapter. In other words, this chapter provides theoretical discussions in detail on the general term and definitions of foreign exchange reforms for each variable, and Emprical result that are more important and focus on specific to ethiopia with evidence-based data to the areas of ethiopian foreign exchange managements. So, the relevant literature related to this study is reviewed both from theoretical and empirical

2.1. Theoretical Review

A Theoretical review examines and synthesizes the existing theories that are relevant to the Ethiopia's foreign exchange reforms. This type of review helps to identify theoretical gaps, create foundations for the research methodology. A well-structured theoretical review should aim to Analyze the past to prepare for future, emphasizing the importance of building on established knowledge to advance scholarly understandings. Webster and Watson (2002). So relevant theoretical review related to the studies success, challenges and opportunities are reviewed separately.

2.1.1. Success of Foreign Exchange Reform Policies

I. Exchange Rate Alignment and Export Competitiveness

The theory of purchasing power parity (PPP) supports the arguments for the alignment of exchange rates with the market fundamentals in order to enhance export competitiveness. According to Balassa (1964) a competitive real exchange allows economies to increase exports by making goods cheaper in the international markets. Edwards (1989) extends these arguments by stating that reforms in the exchange rate, especially local currency devaluation, can restore overvalued currencies and thus improve export performance. The success of these reforms is, therefore, linked to the elasticity of demand for exports and the responsiveness of domestic producers to price signals, underlining the theoretical basis for targeting exchange rate alignment to stimulate export growth. Literature

II. Macroeconomic Stability Through Managed Floats

Mundell-Fleming's Trilemma IS-LM-BP model provides theoretical support to the managed float exchange rate regime on the contention that flexible exchange rate systems would enable an economy to be protected from external shocks. In this context Williamson (1990) introduced the concept of “exchange rate bands” arguing that partial flexibility, combined with macroeconomic adjustments, can optimize trade balances and maintain investor confidences. This framework is particularly applicable for countries like Ethiopia which do not want to experience the instability of fully free-floating regimes but are keen to use managed floats as a means of gradually attaining stability.

III. Competitiveness and Structural Transformation

The Harrod-Balassa-Samuelson effect indicates that the reform of foreign exchange can promote competitiveness which aligns domestic costs to international standards and facilitate structural transformation. Rodrik (2008) cited the supportive role of competitive exchange rates in the development of labor-intensive industries, especially in developing countries. Such reforms create an enabling environment for industrialization through a reduction in the cost of imported production inputs and increasing the profitability of exports. The Theoretical models indicate that this process can catalyze economic transformation by promoting industrial growth and reducing dependency on primary commodities.

IV. Incentivizing Investment and Capital Inflows

Foreign exchange reforms are associated with a rise in foreign direct investment (FDI) due to their role in minimizing currency risk and boosting investor confidence. Dunning`s OLI (ownership-location-internalization) framework highlights that stable and predictable exchange rates serve as an essential location advantage for attracting FDI. Asiedu (2006) supports this idea, arguing that liberalizing exchange rates diminishes uncertainties and eases profit return, which is vital for successfully drawing in foreign investments.

V. Strengthening Balance of Payments

The absorption approach to balance of payments adjustment suggests that when a currency is devalued or depreciated, it can lead to an improved trade balance by lowering import demand and boosting exports, as long as the Marshall-Lerner condition is contented (Meade, 1951). This theory highlights how effective foreign exchange reforms can undertake external imbalances by making domestic goods more competitively priced. In nations facing substantial trade deficits, like Ethiopia, this framework reinforces the idea that such reforms can help ease balance of payments challenges.

VI. Enhancing Remittance Flows

Reforms in the foreign exchange system can improve the volume of remittances sent home when the official exchange rate is more in adjusted with the market. A formal modeling conducted by Freund and Spatafora (2008) demonstrates that use of formal remittance channels' increases with the level of cross–currency exchange. This is consistent with the theories on migrants' behaviors which suggest that the larger the return in terms of foreign currency remittances, the more the use of official systems will be to enhance remittance inflows, promote foreign reserves and enhance economic stability.

VII. Promoting Regional and Global Trade Integration

According to the theory of comparative advantage (Ricardo, 1817) exchange rate policies play a significant role in determining the trade potential of a country. Foreign exchange reforms allow economies to align their exchange rates with trade partners, therefore improving competitiveness in regional and global markets. This view is supported by the gravity model of trade, which argues that a stable exchange rate ensures smoother trade flows between countries. These theories highlight the role of exchange rate reforms in intra-regional trade within the framework of regional integration efforts, such as the AfCFTA.

VIII. Stabilizing Inflation and Boosting Confidence

The quantity theory of money explains how managing inflation can be done through effective foreign exchange policies. According to Friedman (1956) controlling the stable exchange rate can reduce imported inflation, especially in countries that depend on imported goods. This theory is further proved by the expectations hypothesis that states instead that reliable foreign exchange reforms increase confidence amongst the public and investors, thereby discouraging speculative activities and bringing about stable markets.

2.1.2. Challenges of Foreign Exchange Reform Policies

I. Inflationary Pressures and Exchange Rate Pass-Through

A key issue in foreign exchange reforms, especially when the local currency gets weaker, is something called exchange rate pass-through (ERPT). According to Dornbusch (1987), when a local currency weakens, it makes imported goods more expensive, which can lead to higher inflations, especially in countries that depend on more imports. According to this theory, people will always buy basic imported goods like food and other basic needs even if they cost more and which makes inflation worse, resulting in further expensive imports. This can reduce the purchasing power of the people (PPP) and cancel out the benefits of making exports cheaper and competent in international markets. This problem is often larger in countries that have a lack of good monetary management, as Taylor J. (2000) found that ERPT is stronger in developing countries that have less stable monetary systems.

II. Risk of Black-Market Growth

It is common to find in theoretical literature the worry that markets may develop parallel or black-market exchange from incorrect exchange rates. For Dornbusch and Fischer (1980), when governments artificially set the rate of exchange, an imbalance between the demand and supply for foreign currency occurs and encourages illegal foreign currency transactions to take place. This theory highlights the challenges of regulating the official foreign exchange market in nations that are under significant stress in terms of foreign currency reserves. The existence of 'parallel currencies' does not support the success of reforms to the exchange policies applied, by promoting dual exchange rate systems that distort economic incentives.

III. Structural Dependency on Imports

The theory of structural dependency, introduced by Prebisch (1950) and Singer (1950), points out a significant issue for developing countries that are implementing foreign exchange reforms. Those countries frequently depend on imported goods and intermediate inputs, which makes them especially vulnerable to the negative impacts of devaluation. This reliance results in increased production costs for industries that depend on imported machinery and raw materials, thereby limiting their ability to achieve export-led growth. Additionally, the Prebisch-Singer hypothesis indicates that disadvantages in terms of trade may offset any competitive advantages gained from currency reforms.

IV. Capital Flight and Investor Uncertainty

According to some theory on financial crises, currency instability brought on by foreign exchange liberalization may lead to capital flight. Because exchange rate fluctuations are unpredictable, investors frequently shift their money to safer markets, which hinders domestic investment and economic expansion. Businesses and investors decrease their exposure in economies experiencing uncertain currency changes, which exacerbates economic volatility. This is explained by the risk-return trade-off, which is at the heart of contemporary portfolio theory (Markowitz, 1952).

V. Adverse Social Impacts and Income Inequality

Theoretical literature highlights the social challenges that come with foreign exchange reforms. Kuznets (1955) notes that economic adjustments, such as changes in exchange rates, can initially worsen income inequality, as lower-income households often face a greater burden from rising costs. This observation aligns with the political economic theory of policy reform, which emphasizes the challenges in reaching societal agreement on reforms that impose immediate costs on vulnerable groups (Rodrik, 2008). Such social challenges can lead to resistance against reforms, hindering their implementation and long-term effectiveness.

VI. Institutional and Policy Coordination Challenges

The theory of the institutional economy stated by North D. (1990) and also Rodrik (2008) on regulatory requirement and compliance, verified that strong institutions would be key drivers of successful reforms. However, poor institutional frameworks, uncoordinated policies, and governance challenges usually undermine the effectiveness of foreign exchange reforms. Also, with weak regulations to define and govern market expectations, speculative attacks would occur as currency reforms deteriorate economic stability. As mentioned by Williamson (1990), The coordination problem has been aggravated in economies characterized by exhausted fiscal and monetary policy frameworks.

VII. Trade Imbalance challenges

Theoretical models, such as the J-curve theory (Magee, 1973), suggest that foreign exchange reforms may make worse the trade balances in the short period before achieving any potential benefits after the currency devaluation and while the volume of export adjustment takes a time to balance import and export. The elasticity pessimism theory (Krugman 1978) further asserts that in case of countries with low elasticity of demand for exports and imports, the desired trade balance improvements may never materialize, leading to prolonged economic instability.

VIII. External Debt Burden

Devaluation of currency increases the local currencies cost of services for external debts. By posing substantial financial challenges. When a country’s external debt exceeds its capacity to repayment, it acts as a hindrance to investment and economic growth. Because potential returns from a new investment are perceived to be taxed away by future debt repayment, in this manner it will discourage both domestic and foreign investments. Some theoretical models suggests that High level of external debt can lead to instability of macroeconomies, decrease public investments in productive sectors. Moreover, the uncertainties surrounding debt sustainability can wear away investor's confidence and drawback long term development plans. Theories like Karagol (2004) suggest that the empirical relationship between external debt and economic growth is complex and context dependent

2.1.3. The potential Opportunities for Foreign Exchange Reform Policies

I. Enhancing Export Competitiveness

According to the theory of comparative advantage (Ricardo, 1817) it noted that foreign exchange reforms such as currency devaluation or a floating exchange rate improve the country's export competitiveness. By aligning the local currency value with the market dynamics, reducing the price of domestic goods in international markets. Edwards (1989) indicates that competitive exchange rates improve trade balances through increases in exports, particularly in economies with elastic demand for their export products. This theory proves the possibilities for developing countries to improve foreign exchange earnings and allows economic growth.

II. Promoting Export Diversification

The strongly managed foreign exchange reforms will be an opportunity for countries to diversify their exports both in volume and destination, as suggested by structural transformation theories by (Lewis, 1954). Competitive exchange rates facilitate investments in non-traditional sectors- e.g. manufacturing, textiles, and services, thereby reducing excessive reliance on conventional exports. According to Rodrik (2008), currency devaluation provides a conducive environment for emerging industries because they increase profitability of their industries in international markets. This theoretical view has important for countries like Ethiopia because structural transformation is the way of long-term economic development.

III. Attracting Foreign Direct Investment (FDI)

According to the Dunnings Ownership-Location-Internationalization (OLI) theory, stable and predictable exchange rates are the main critical considerations in attracting foreign direct investments. Exchange rate reforms reduce uncertainties related to currency instability and a great facilitator on enhancing investment opportunities. Along Asiedu (2006), improves this argument, foreign exchange liberalization improves the certainty of return on investment and reduces barriers to entry for foreign investors. Thus, it takes a theoretical position in favor of well-designed exchange rate policies as an opportunity for economies to attract foreign capital, create new jobs, and transfer technology.

IV. Supporting Economic Resilience

According to The Mundell-Fleming model, flexible exchange rate regimes allow economies to absorb external shocks and fluctuations caused by changes in the international commodity in prices or demand by allowing currencies to adjust to external pressures and it creates opportunities for microeconomic stability. And following this model, Williamson (1990), further argued a managed float system where adjustments in exchange rates are made within pre-defined bands offer a desirable balance between flexibility and stability. This arrangement avails developing economies with the resilience needed to navigate volatile global economic conditions.

V. Increasing Foreign Exchange Reserves

Foreign exchange reforms create potential to increase foreign currency reserves by aligning the value of the currency with its true market level. According to the absorption theory (Meade, 1951), currency adjustments can improve trade balances through reducing imports and increasing exports, thereby resulting in enhanced foreign currency reserves. And also, foreign currency exchange rate competition promotes remittances pass through formal channels, thereby increasing reserves (Freund and Spatafora, 2008). This theoretical framework emphasizes that through such foreign exchange reforms; a country can contribute to its financial stability while at the same time boosting its capacity to meet external obligations.

VI. Fostering Regional Trade Integration

The foreign exchange reforms can enhance trade integration at the regional level through the harmonization of currency values among trading partners. The gravity model of trade predicts that lower trade costs, including those associated with exchange rate stability, increase trade volumes to favor neighboring countries. this theory supports the objectives of the African Continental Free Trade Area (AfCFTA) objectives. where exchange rate alignment is seen as a critical factor for success (UNECA, 2018). The reforms, which therefore foster regional economic integration, create opportunities through which countries would access larger markets and benefit from the economies of scale.

VII. Facilitating Industrialization and Structural Transformation

According to the Big Push discussion theory reforms of the exchange rate play a role in the support of industrialization. Competitive exchange rates considerably lower the cost of imported inputs for industries, which can boost their investment in labor-intensive activities or manufacturing. The

Harrod-Balassa-Samuelson effect further theorizes that real undervaluation of exchange rates helps in growth in transformation-driving sectors. This fact becomes particularly relevant for countries that aim at transforming from agrarian economies to industrialized ones. because exchange rate reform may perform some functions toward this end.

VIII. Strengthening Economic Policy Credibility

The hypothesis of expectations indicates that realistic foreign exchange reforms will draw greater public and investor confidence in the country's economic policies. Lucas (1972) highlighted rational expectations as the moving force of economic outcomes, where clear and consistent reforms indicate a commitment toward long-term stability. This creates opportunities for better domestic and foreign investments, since people view it as a reliable growth-oriented economy.

IX. Enhancing Financial Market Development

Foreign exchange reforms create incentives for financial market development by encouraging the use of formal banking systems to facilitate trade and remittances. According to the monetary perspective (Friedman, 1956), exchange rate stability reduces uncertainties, leading to more financial intermediation and investment in capital market developments. This theory implies that reforms aim to integrate economies within the global financial architecture, thereby creating opportunities for financial investments.

2.2. Empirical Review

An empirical review in research implies a critical examination and synthesis of previously conducted studies that are based on observed and measured trends. It focuses on analyzing data-based research, typically implying survey, or observation to identify patterns, trends and gaps in the existing literature. This type of review boosts to establish a base for new research by emphasizing what is already known and still needs to improve

2.2.1. The Success of Foreign Exchange Reform Policies

I. Enhanced Export Competitiveness

Empirical studies confirmed that foreign exchange reforms, particularly currency devaluation, would improve the competitive position of export due to the harmonization of real exchange rates and equilibrium with competitive market fundamentals. El Badawi, I. A. (1999). analyzed that real exchange rate adjustments applied in sub-Saharan Africa, and he concluded that these reforms significantly improved export performance, especially in agricultural-oriented economies. Countries such as Ethiopia saw an increase in agricultural exports such as coffee and oilseeds due to the price reduction in international markets Wondimu, K. (2016). "Exchange Rate Policies and Export Performance: Evidence from Ethiopia." It states that this was contingent on desiring that exchange rates would be more favorable to misalignment since that was a key policy objective of the Ethiopian government.

II. Improved Balance of Payments

Most of the researchers attribute the importance of foreign exchange reforms in improving the balance of payments. Edwards, S. (1989). It reflects the effect of exchange rate adjustment in developing countries and concludes that realignments often result in a shrinking in current account deficits, and export performance must be responsive to price changes. Similarly, Alemayehu G (2020). discovered that the current state of Ethiopia's external exchange economies transformed into limited improvements in the current account balance, as depreciation of the Ethiopian birr led to a rise in revenue generation from exports, thereby constraining the expansion of demand for imports. And the findings suggested that further success would require fundamental reforms in terms of the economy, like reducing reliance on imported goods.

III. Attracting Foreign Direct Investment (FDI)

Some studies have demonstrated extensive evidence that foreign exchange reforms create a conducive environment that helps to boost foreign direct investment by reducing exchange rate uncertainty and facilitating the repatriation of capital. Asiedu, E. (2006). Pointed out that the liberalization of exchange rates in sub-Saharan Africa led to higher Foreign direct investment inflows, particularly in countries that benefited from stable micro economic environments. Gebregziabher, H. (2019). showed that investment and foreign exchange liberalization policy significantly improved investors' confidence, especially in the manufacturing and agricultural sectors. Also, the study highlights that availability of foreign currency for profit repatriation is a crucial factor for securing sustainable FDI growth.

IV. Encouraging Export Diversification

Most foreign exchange reforms are linked to export diversification as the competitive exchange rate encourages investment in non-traditional export sectors. A study by Ndulu, B., et al. (2007). indicate that " job Creation and Inclusive Growth on the Continent which explored the role of exchange rate adjustments supported by macroeconomic policies in boosting value-added exports like textiles and processed foods in Tanzania and Kenya. In ethiopia, a study by "Kebede

B. (2021). Indicating that investment in floriculture and textiles is increased following the currency devaluation, these interpretations show that foreign exchange reforms are the ways to reduce primary commodity dependency and stabilize export revenues

V. Boosting Remittance Inflows

There are strong empirical grounds of remittance inflow visibility from foreign exchange reforms. as favorable exchange rates increase the value of remittances relative to the local currency value. Freund.C and Spatafora N. (2008) found that competitive exchange rates increase the volume of the remittance flows formally by reducing reliance on informal channels. in Ethiopia, study by deferent researchers indicates that remittances had increased after the reform by the government to narrow down the existing gap between official and parallel exchange rates. These findings underscore the importance of aligning exchange rates with market dynamics to maximize remittance inflows.

VI. Strengthening Regional Trade Integration

Some studies have flagged the importance of foreign exchange reforms in expanding regional trade. UNECA. (2018). noted that flexible exchange rate regimes enhanced intra-regional trade competitiveness in African economies. Studies In Ethiopia, on "Exchange Rate Reforms and Regional Trade Integration: Ethiopia's AfCFTA Experience." demonstrated that reforms aligning the Ethiopian birr with regional currencies facilitated smoother trade flows under the African Continental Free Trade Area (AfCFTA). The study points to the potential of foreign exchange reforms to become deeper regional integration and expand trade volumes.

2.2.2. The Challenges of Foreign Exchange Reform Policies

I. Inflationary Pressures and Exchange Rate Pass-Through

The most critical challenges of foreign exchange reforms, especially devaluation, are the inflationary impact of the exchange rate pass-through (ERPT) effect. Aron J. Muellbauer J. and Smit B. (2014) studied ERPT in sub-Saharan Africa, highlighted that currency depreciation strongly increases domestic prices particularly for economies heavily dependent on imported goods. In Ethiopia, some studied suggest all devaluations of the Ethiopian birr significantly increase the cost of vital import goods like, fuel, pharmaceuticals, and machinery. This inflationary pressure is not only wearing away (erodes) household purchasing power, but it also weakens the competitiveness gains that the reform policies intended to achieve.

II. Growth of Parallel Markets

Empirical evidence indicated that a major problem in parallel market growth is When official exchange rates does not satisfy demand, informal or parallel currency markets emerges, studies by Levine Ross. (1997). Highlighted In their exhaustive examination of African economies, they established that black market premiums are a common phenomenon in countries suffering from foreign exchange shortages. The situation widely undermines the policy's effectiveness. Derrese, D. (2001). noted that in Ethiopia, The Impact of Parallel Market Activities on Ethiopia's the continued disparity between the official exchange rate and parallel market rates encouraged people to do illegal currency trading. These distortions not only shrink the government's revenues but also reduce the public confidence in the official financial system.

III. Balance of Payments Vulnerabilities

Despite the theoretical possibility of foreign exchange reforms to improve current account balances, empirical studies show that success is often limited in economies with structural dependencies. Alemayehu, G. (2020). "Ethiopia's External Sector: Problems and Policy Options." examined Ethiopia's external accounts and said that currency devaluation slightly increases export earnings in dollars, but its benefits were offset by the growing cost of imports. This is in line with the findings by Anne O. Krueger (1977), who pointed out that in import-dependent economies, currency devaluation tends to increase trade deficits in the short term because import demand is inelastic at these price levels.

IV. Weak Institutional Capacity

The Lack of institutional capacity is frequently cited as a main challenge to successful foreign exchange reforms. North D. (1990). "Institutions, Institutional Change, and Economic Performance" underlined that the successful implementation of economic policies depends on the continuation of transparency and credibility of economic institutions. in Ethiopia Alemayehu, G. (2020). found that poor regulatory frameworks and lack of institutional capacity hampered the effective management of foreign exchange policies. Weak enforcement mechanisms have similarly allowed speculative activities to erode the stated reform objectives.

V. Social and Economic Inequities

Empirical studies suggest that foreign exchange reforms have consequently an outsized impact on low-income populations by increasing the cost of basic goods. studies by Taylor J. (2000) Indicates that the social impact of country level exchange rate adjustment and identified that price shocks of devaluation increase income inequalities. Research in Ethiopia by Beakal T. (2019). pointed out that especially rural communities especially those dependent on imported inputs like, fertilizers, suffered serious economic difficulties following currency devaluations. Such inequities can increase social unrest and undermine the achievement of foreign exchange reform policies.

VI. Limited Export Diversification

The success of foreign exchange reforms is constrained by limited export diversification, according to evidence. The Prebisch-Singer dependency theory is still relevant, with developing countries still dependent on low-value primary commodities Alemayehu, G. (2017). discovered that, Ethiopia heavily dependent on coffee exports; that means currency devaluation has little effect on countries overall economy, since the world demand for inelastic products like that is constant. This finding proves the Rodrik, D. (2008) theory, who stated that the benefit of exchange rate policies would only be meaningful if complimented by structural transformations.

VII. Capital Flight and Investor Uncertainty

Foreign exchange reforms, especially during transitional periods, create ambiguity for investors and hence encourage capital flight. Reinhart C. (2004). found that poorly managed currency reform led countries to face outflows of capital as investors hedge against exchange rate risk. In Ethiopia, Gebregziabher, H. (2019). "The Case of Foreign Exchange Liberalization and Investment in Ethiopia." found the reduced investor confidence when exchange rates were highly volatile, as firms tried to survive with unpredictable currency fluctuations

VIII. Policy Implementation Challenges

Some empirical evidence pointed out that in countries that have deep-rooted structural problems, the feasibility of exchange rate reforms is further diminished. Williamson, J. What Washington means by Policy Reform. highlighted the significance to sequence more reforms to improve the institutional capacity and confidences in the market. In ethiopia, studies by Deresse, D. (2001). said that the Impact of Activities of Parallel Markets noting that the fast implementation of currency devaluation led to economic shocks, since adequate supply-side and monetary policy response measures were not prepared

2.2.3. The Potential Opportunities of Foreign Exchange Reform Policies

I. Stimulating Export Growth

Foreign exchange reforms, especially through currency devaluation or flexible exchange rate regimes, create opportunities to boost the growth of exports. Elbadawi, I. A. 1999. highlighted that linkage of exchange rates to market forces significantly improves the competitiveness of nontraditional sub-Saharan African countries exports. In Ethiopia, Wondimu, K. (2016). stated that currency devaluation policies strengthened the competitiveness of agricultural exports such as coffee and oilseeds, increasing earnings in foreign currency. These reforms encourage exporters' positions by guaranteeing higher returns in terms of local currency and potentially creating a more dynamic export sector.

II. Promoting Export Diversification

The importance of government policies underlies this improvement, especially in the case of foreign exchange reforms policy, that can both give economies an encouragement to diversify their export base and avoid excessive dependence on limited commodities. Ndulu, et al. (2007). examined African economies' exchange rate adjustments and noted that competitive exchange rates encourage investments engaging into non-traditional exports like textiles, horticulture, and others. In Ethiopia, Kebede B. (2021). found that investment in Horticulture and textiles increased after the government adopted exchange rate reforms. Such reforms gave confidence to investors to engage in new investment sectors and create the way for long-term economic transformation.

III. Attracting Foreign Direct Investment (FDI)

Competitive exchange rates are formed through foreign exchange reform policies which create an attractive environment for FDI. Asiedu, E. (2006). showed that exchange rate liberalization in sub-Saharan Africa led to the more FDI inflows, especially in countries with stable macroeconomic policies. Similarly, Gebregziabher, H. (2019 confirmed that the gradual foreign exchange liberalization implemented in Ethiopia boosted investor confidence, specifically in areas such as manufacturing, and agriculture, through strengthening the predictability of access to foreign currency profits/return. The study also noted that stable reforms could help in increasing FDI growth, which, in turn, could generate jobs and facilitate technology transfer.

IV. Enhancing Regional Trade Integration

Foreign exchange reforms create significant opportunities for regional trade cooperations as they create competitiveness in cross-border trade. UNECA. (2018). highlighted that foreign exchange reform policies are significant in promoting trade among African countries and determined that countries adopting competitive exchange rates reported higher regional trade volumes. As a member of the African Continental Free Trade Area (AfCFTA), Ethiopia has adjusted its foreign exchange reforms to bring the currency in line with trading neighbors to allow a smooth trade flows and improved exports. Dirk Willem (2011). "Exchange Rate Reforms and Regional Trade Integration in the AfCFTA Context: Ethiopia Experience.

V. Increasing Remittance Inflows

Some empirical studies show that foreign exchange reforms make opportunities to increase remittance inflows by making formal channels more attractive. Freund C. & Spatafora N. (2008). proved that competitive exchange rates tend to motivate the diaspora to remit through formal channels and increasing foreign currency reserves. In Ethiopia, a study by deferent authors "Remittance Flows and Exchange Rate Reforms in Ethiopia." stated that the most recent foreign exchange reforms have narrowed the margin between official and parallel market rates, encouraging diaspora remittances through formal banking systems. This in turn has bridged the gap in foreign currency availability, this has strengthened the availability of foreign currency and contributes to economic stability.

VI. Supporting Economic Transformation

Reforms in the foreign exchange policy can act as a powerful mechanism for wider economic transformation through incentivizing industrialization and structural change. Rodrik D. (2008). Said that a competitive exchange rate crates the foundation for the development of labor-intensive manufacturing for under developing countries. in Ethiopia Alemayehu G. (2021). Proved that local currency adjustments minimize the cost of production inputs for growing industries, stimulating job creation and export growth in industries such as textiles and Agro-processing. Also, the findings aligned with the government's industrialization program endorsed under the Growth and Transformation Plan.

VII. Strengthening Foreign Exchange Reserves

According to some imperial evidence, successful foreign exchange reforms can boost foreign currency reserves by raising export earnings and remittances in flows. Reinhart C. (2004). Mentioned that exchange rate management in developing countries and pointed out that market fundamental adjustment would have led to better accumulation of foreign currency reserves. In ethiopia, Alemayehu G. (2021). stated that exchange rate reforms led to slow but stabilize growth in foreign exchange reserves, strengthening the country's capacity to meet external debts as well as stabilizing the economy in response to any shocks.

VIII. Creating Fiscal Space

Primarily, foreign exchange reforms will increase fiscal space by decreasing public subsidy spending on an overvalued currency. Anne O. Krueger (1977) points out that realigning exchange rates with market dynamics reduced fiscal burdens in several African countries. In ethiopia. Beakal T. (2019) reported that implementation of foreign exchange reforms enables the government to reallocate resources towards infrastructure and social programs, which create opportunities for broader economic development.

2.3. Experiences from other countries

I. Nigeria: -Foreign exchange market reform (2016 and 2023)

In 2016, Nigeria introduced a flexible exchange rate system to address a critical foreign exchange crisis caused by falling oil prices. The Central Bank of Nigeria (CBN) allowed the Naira to float more freely against the dollar. And also, **The Central Bank of Nigeria** announced a shift in its foreign exchange market towards a market-based approach in 2023 Because of the huge gap between the official and black-market rates caused severe foreign currency shortages by discouraging supply to the official market. As the most foreign exchange transactions in Nigeria are through the black-market. Basically, the naira depreciated by around 100% against the U.S. dollar moving from 461 in May 2023 to 900 naira/US dollar at the end of 2023 after the exchange rate regime adopted by Nigerian government. And The exchange rate further depreciated by another 40% in January/February 2024. Hence, the headline inflation surged to 32% in February 2024, due to the poor agricultural production, higher energy, and transportation costs after the depreciation of Naira.

IMF, 2024. Available at https://www.elibrary.imf.org/view/journals/002/2024/102/article-A001-en.xml.

in addition, the gross international reserves declined on a relatively weak external payment position, the financial account worsened under continued pressures of capital outflows, and level of FDI remained low. In result of this, The IMF recommended a package of policies that restores macroeconomic stability by tightening policies to bring inflation under control and take pressure off the naira and structural reforms that cut trade barriers, strengthen the business environment and incentivize job creation. And despite those short-term challenges, the reform had positive impacts particularly improving investor confidence through a reduction in uncertainty and more predictable foreign market environment along with improved fiscal positions, according to the World bank report that fiscal deficit reduced from 6.2% of GDP in the previous year to 4.4% in the same period in 2023. Indicating a strengthening fiscal position in part following the foreign market reform.

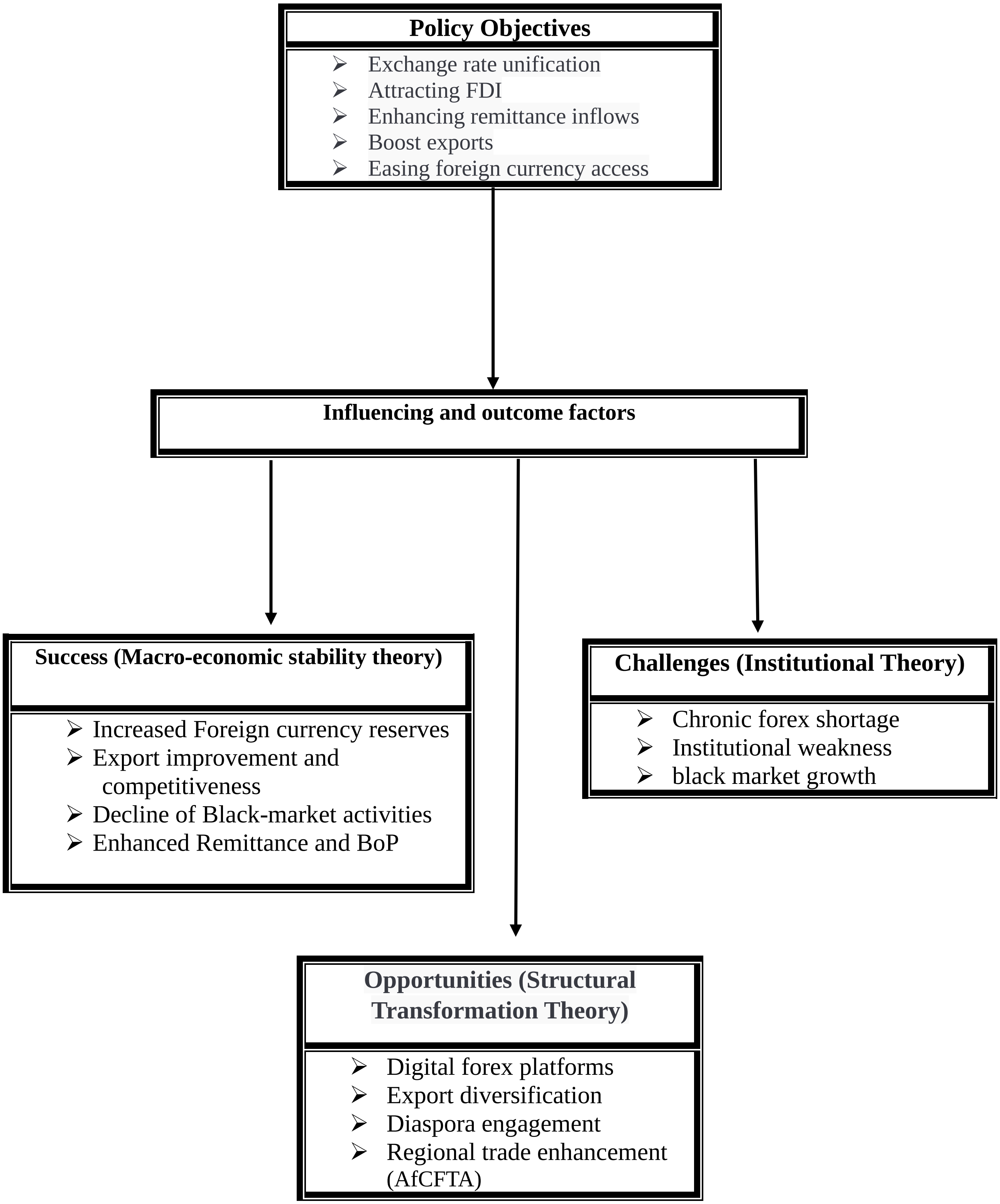
Central Bank of Nigeria Forex Policy Reforms
https://www.cbn.gov.ng/Out/2016/CCD/Forex%20Policy%20Reforms.pdf

2.4. Conceptual Framework:

A conceptual framework represents the researcher's synthesis of the reviewed literature on how to explain phenomenon and how the variables in this study connected in evaluating the ethiopian foreign exchange reform policies.

The conceptual framework sets the stage/hierarchy to present the study question that drives investigation being reported based on the statement of the problem, the statement of the problem gives the context and issues that cause the researcher to conduct the study. So, in this context, the dependent variables

A conceptual framework provides a high-level view of the key components, relationships, and drivers that matter when evaluating Ethiopia's foreign exchange reform policies. Here is a conceptual framework for concluding Ethiopia's foreign exchange reforms


Policy Objectives
Exchange rate unification
Attracting FDI
Enhancing remittance inflows
Boost exports
Easing foreign currency access
Influencing and outcome factors
Success (Macro-economic stability theory)
Increased Foreign currency reserves
Export improvement and competitiveness
Decline of Black-market activities
Enhanced Remittance and BoP
Challenges (Institutional Theory)
Chronic forex shortage
Institutional weakness
black market growth
Opportunities (Structural Transformation Theory)
Digital forex platforms
Export diversification
Diaspora engagement
Regional trade enhancement (AfCFTA)

CHAPTER THREE

3. Research Methodology

This chapter presents the research design and method employe in undertaking of the actual research works. Research method is the main plan that guides on how to approach a specific research topic and set of methods and procedures used in collecting, analyzing and interpreting data stated in the research problem part of the study. In this section the researcher approach, research design, the sources of data, targeted population, sampling techniques and data analysis are compiled in order to access and identify the recently adopted Ethiopian foreign exchange reform policies Successes, challenges and opportunities.

3.1. Research Design

Descriptive qualitative research design was used for this study. because the major objective of descriptive research design as Kothari (2004) explained is the description of the state of affairs as it exists at present and concerned with describing the characteristics of a particular individual and groups. A research design also refers to the overall approach that one may decide to integrate the different components of the study in a clear and logical way

Therefore, explanatory research design is designed to describing the wide-ranging and detail descriptions of the success, challenges, and opportunities that emerged from early adopted of ethiopian foreign exchange reform policies, the study aimed to illuminate the nuanced dynamics that evaluate policy outcomes in Ethiopia for the Ethiopian foreign exchange reforms.

3.2. Research Approach

A research Approach refers to the overall strategies guiding the entire research process, it determines the type of data collected, how it is analyzed and interprets. A qualitative Research approach purpose is to explore phenomena in detail, focusing on understanding underlying reasons and meanings behind behaviors/experiences. Qualitative approach is sued if the methods of data collection include interviews, case studies, anthography and content analysis and also, if the data type it uses is not numeric, descriptive data, often in the form of words, images or observations (Creswell,2013)

So that This research adopted a qualitative research approach to provide an in-depth examination of Ethiopian foreign exchange reforms within their ethiopian real contexts. And to provide contextual factors influencing the reforms Success, challenges and opportunities.

3.3. Population and Sampling Technique

Sampling design, which is the definite plan of the research to obtain a sample of a population being studied, Nonprobability sampling which are very suitable for different researchers according to the availability and objectives of sources

From the most utilized nonprobability sampling techniques, the researcher used nonprobability or purposive sampling techniques to ensure the participants have the most relevant experience or knowledge related to the research topics and provide meaningful insights to the study objectives. A non-probability sampling technique is used where the researcher deliberately selects specific individuals or groups based on their unique characteristics, relevance, or expertise to the field of foreign exchange reforms are deliberately asked to fill the questionary and participate in an interview.

3.3.1. Sample Size considerations

Considering as this research study is the first assessment of ethiopian foreign exchange reform policy: success, challenges and opportunities, necessitating a planned descriptive approach to collect pilot understandings from key stakeholders (Importers/Exporters, Investors and NBE employees). The research functions as a pilot study to identify critical themes and methodological challenges for future large-scale analyses. The findings are triangulated with secondary data from published reports by NBE, Ethiopian investment commission, ministry of trade and industry and other International financial institutions (IMF, World bank) and also unpublished data but officially collected from concerned government institutions, this approach prioritizes depth over size, ensuring productive, context-specific insights that indicate the reforms early-stage dynamic. According to the data from Ministry of trade & industry, there are about 1,085 licensed importers and 889 exporters operating in Ethiopia, from this pool, 35 representatives from both imports and exports were selected using purposive sampling. Selection criteria focused on their relevance and experience in trade before and after the reform. And also 10 key Experts from NBE are invited to fill the questionary. Totally primary data are collected from 41importers/exporters and NBE employees to provide a comprehensive overview of the policy success, challenges and opportunities.

3.4. Types and Source of Data

This study will employ both primary and secondary data to achieve its objective. but mainly focus on secondary data.

3.3.1 Primary Data:

Questionnaires and interviews were employed to collect primary data to obtain in-depth information from respondents directly involved in or affected by the foreign exchange reforms. The key actors included Experts from the concerned departments of the National Bank of Ethiopia and business players such as importers/exporters and investors were invited

3.3.2. Secondary Data:

Mainly this study was focused on secondary data. because evidenced and quantitatively supported data can be obtained by comparing the pre- and post-reform positions of the reforms to achieve aforementioned objectives and to answer the research question. The secondary sources of data were mainly accessed from, The Ethiopian foreign exchange reform policy documents and reports from Ethiopian national bank of Ethiopia: - mainly data on exchange rate reserves before and after the reforms, Government statistical reports like from Ministry of trade and industry and Ethiopian investment commission, mainly to access data on import and export earnings and volumes and level of Foreign direct investment inflows, International financial institution reports (IMF, World Bank) on Ethiopian economic performance and foreign exchange policy after the reform, mainly comparative data on foreign exchange policies in other countries, Compare Ethiopia’s foreign exchange reform outcomes with those in similar countries, which have adopted market-based exchange rate policies are analyzed. And it provided context in understanding the successes and limitations of Ethiopia's reforms.

3.5. Methods of Data Collection

Questionary/Semi-structured interviews were employed in collecting the primary data from key participants from concerned department of the National Bank of Ethiopia (NBE), stakeholders, and individuals directly affected by the Ethiopia's foreign exchange reform policies. These provided richer insights into institutional practices, operational issues, and stakeholder perceptions regarding the reform policies. But more In-depth studies were carefully analyzed focusing on the Quarterly and annual report of the NBE and International institutions report (IMF and WB) and Policy documents related to foreign exchange reform in Ethiopia is also analyzed.

3.6. Method of Data Analysis

The study employed Descriptive qualitative analysis to systematically explain the primary and secondary data. responses from the questionnaires and interviews were transcribed, coded, and organized in thematic themes (e.g., policy success, institutional challenges and reform opportunities) through thematic analysis. Secondary data like NBE quarterly and annual reports on (Trade performances, Trade balance, Remittance, Foreign direct investment.), IMF/World Bank assessments to cross check with NBE report on key economic indicators, Ministry of trade and industries (data on Import and export specially after the reform), Ethiopian investment commission (data on FDI after the reform) and policy documents on the reform were analyzed using content analysis in a bid to analyze patterns, trends, and contextual factors influencing the reforms. Data triangulation confirmed cross-validation against stakeholder opinions (primary data) and official reports (secondary data). Descriptive narratives were then synthesized to achieve the research objectives, avoiding over interpretation but emphasizing stakeholder opinions and policy realities.

3.7. Ethical Considerations

Ethical guidelines were followed during the data collection and analysis phase of this assessment. All respondents, i.e., Importers/exporters, investors and NBE staff were informed the purpose of the study, and any of their verbal or written information emphasizing voluntary participation. For the purpose of the confidentiality, the key respondents were ordered not to tell any information about their names and other personal information while answering the questions. And also, the gathered data was only used for the study called "Assessment of Ethiopian foreign exchange reform policy: Success, challenges and Opportunities". Following that, the Primary data was securely collected through google form and accessible to the researchers only, secondary data from officially published and unpublished sources were ethically sourced with proper attribution to original authors and institutions. The study compiled with institutional guidelines for data integrity and minimized risks of bias by cross-verifying primary findings with secondary evidence.

CHAPTER FOUR

4. Data Analysis presentation and interpretation

4.1. Introduction

This chapter dealt with data presentation, analysis, and interpretation. The research is conducted to evaluate the Ethiopian foreign exchange reform policy in terms its success, challenges, and opportunities. The first part of this chapter describes the response rates, demographic characteristics of the respondents both from NBE employee and Import/Export and investors. And the next part of this chapter covers descriptive statistics and analysis with respect to success, challenges and opportunities compiled from the respondents of deferent sectors and secondary data. And finally, discussion of the results is also presented in this chapter.

4.2. Response rate

Table 1: Response rate of the respondents

Participant Category	Questionnaires Distributed	Questionnaires Returned	Response Rate
NBE Employees	10	10	100.00%
Importers/Exporters & Investors	35	31	88.57%
Total	45	41	91.11%

Source: own data analysis

A total of 45 questionnaires were distributed both through google forms and hard copies to sample respondents to collect the primary data. Of the total 45 questionnaires 41 were returned while 4 were not returned at all. Therefore, 91.11% response rate is acceptable as indicated in various literatures.

4.3. Demographic profile of the respondents

The study required to find the selected of the key stakeholders from importers/Exporters and investors and also National bank of ethiopia employees concerned departments. Their Age group, business sector, their Experience both on trade and in NBE and their positions of the participants are separately compiled. Just to clarify the source of the primary information and not the part of the study objectives.

Table 2: Demographic profile of the respondents from the Import/Export sector

Demographic Category		Frequency	Valid %age	Cum. %
Respondents Age	26 - 35	6	19.4	19.4
	36 - 45	15	48.4	67.7
	46 - 65	10	32.3	100.0
	Total	31	100.0	
Sex	Male	29	93.5	93.5
	Female	2	6.5	100.0
	Total	31	100.0	
Occupation	Trader / Businessperson	21	67.7	67.7
	Private sector employee	10	32.3	100.0
	Total	31	100.0	
Year of Experience in import/export or other business	1-2 years	2	6.5	6.5
	3-5 years	8	25.8	32.3
	6-10 years	14	45.2	77.4
	More than 10 years	7	22.6	100.0
	Total	31	100.0	
Business Sector	Importer/Exporter	20	64.5	64.5
	Investor	11	35.5	100.0
	Total	31	100.0	

Source: - Compiled by own based on respondents' demographic profile

The respondents' demographic data provides a clear picture of the sample population involved in the study. The age distribution shows that the majority of respondents (48.4%) are between 36 and 45 years old, followed by 32.3% who are between 46 and 65 years old, and 19.4% who are between 26 and 35 years old. This indicates that the respondents are predominantly middle-aged, which may reflect a mature and experienced business community.

Regarding The gender distribution, 93.5% of respondents are Male and the left 6.5% of them are Females.

In terms of occupation, 67.7% of respondents are traders or engaged in business (importers/exporters or investors by itself) and also 32.3% employes or representatives or employees of the private sectors. This indicates that the majority of respondents are directly involved in trading and business activities, which is relevant to the study's focus on import/export and investment.

The respondents have significant experience in their respective fields, from all over the respondents the majority 45.2% have 6-10 years of experience and 22.6% have more than 10 years' experience in the business sector. This suggests that the respondents are well-experienced in the business environment and can provide informed insights into the impact of the reform.

The business sector shows that 64.5% of respondents are importers/exporters, and the left 35.5% of them are investors.

Table 3: Demographic profile of respondents from NBE

Question	Measurement	Frequency	Valid Percent	Cum. Percent
Respondents Role/position in NBE	Research officer	1	10	10
	Chief Economist	1	10	20
	Chief Researcher	1	10	30
	Data Analyst	1	10	40
	Research officer	6	60	100
	Total	10	100.0	
	1-5 Years	6	60	60
	5-10 Years	4	40	100.0
Year of Experience	Total	10	100.0	

Source: compiled by own based on the demographic profile of the respondents from NBE

The table provides demographic information about the respondents' roles/position and years of experience at the National Bank of Ethiopia (NBE). The majority of respondents (60%) of them are Research Officers, and the remaining roles are Chief Economist, Chief Researcher, and Data Analyst, each representing 10% respectively. Regarding their years of experience, 60% of respondents have 1-5 years of experience in NBE, and 40% of them have 5-10 years' work experience. This indicates a relatively balanced mix of experience levels among the respondents, with a significant representation of Research Officers.

Both respondents profile i.e., their experience in the deferent business sector, their familiarities with the ethiopian foreign exchange reform, their participation in import and exports supported to provide insights regarding the impact of the reforms on macro-economic statuses.

4.4. Descriptive statistical analysis to evaluate the Success of the Ethiopian foreign exchange reform policies.

Descriptive Statistical Analysis is a method used in research study to Organize, Summarize and interpret the data in a meaningful way. So, depending on the data collected from the respondents, descriptive statistics of the study from both sectors are analyzed and interpreted as follows: In order to evaluate the positive outcomes/success of the ethiopian foreign exchange reform policy, Participants engaged in importers/exporters/investors asked 5 questions and also respondents from National bank of ethiopia were asked 7 questions that assesses the success of the reforms. The result of both respondents is tabulated hereunder the table below separately.

Table 4: Descriptive analysis to evaluate the success of the reforms

Question	Measurement	Frequency	Valid %	Column %
Has the policy improved the access to foreign currency for your business under the current reform?	Yes, significantly	4	12.9%	12
	Yes, But only slightly	21	67.7%	80.6
	No	6	19.4%	100
Has the reform contributed to the growth and expansion of your business?	Significantly contributed	2	6.5%	6.5
	Moderately contributed	21	67.7%	74
	No impact	6	19.4%	93.4
	Moderately hindered	2	6.5%	100
What has been the effect of the reform on your revenue and profitability?	Significantly increase	1	3.2%	3.2
	Moderately Increase	20	64.5%	67.7
	No change	9	29.0%	96.7
	Moderately decrease	1	3.2%	100
How has the reform influenced your decision to invest in Ethiopia?	Significantly increase	1	3.2%	3.2
	Moderately Increase	14	45.2%	48.4
	No change	15	48.4%	96.8
	Moderately decrease	1	3.2%	100
How transparent do you find the current foreign exchange allocation process? (to assess (Financial Market Efficiency)	Transparent	14	45.2%	45.2
	less transparent	4	12.9%	58.1
	Neutral	13	41.9%	100

Source: compiled by own based on data from respondents from Importers/exporters

The success of the ethiopian forex reform is evaluated based on several criteria's, which includes the level of Access to foreign currency for traders and investors, business growth, the level of revenue and profitability on their business since the reform is introduced, their investment decisions post the reforms, and transparency in the foreign exchange allocation process are evaluated to access the success of the reforms.

Based on the respondents' data, regarding access to foreign currency for their business, 67.7% reported that the policy has slightly improved their access to foreign currency, and 12.9% of them believed it had significantly improved their access to foreign currency. A total of 80.6 percent of the respondents believe that because of the reform, their access to foreign currency is increased. However, 19.4% did not see any improvement in their access to hard currency for their business after the reform. This suggests that, while the reform has had a positive impact on access to foreign currency, there is still room for improvement.

Regarding the reform's contribution to their business growth and expansion, 67.7% of respondents said that there is a moderate contribution, and 6.5% of them believe that the reform is significantly contributed to their business growth. A total of 73.2% of the respondents' feedback shows that the reforms contribution to their business expansion and growth are improved. And 19.4% realized the reforms are not contributed or have no impact on their business growth. also 6.5% felt the reform had moderately hindered their business growth, because of the increased import cost. This indicates that the reform has had a mixed impact on business growth, with most respondents 73.2% realizing a moderate contribution to their business growth.

In terms of the effect of the reform on enhancing revenue and profitability, the majority (64.5%) respondents believed it was moderately increased, but only 3.2% saw significant increases on their revenues and profitability. An important 29% of the respondents reported no that there is no change/impact on their revenue and profitability since the reforms, and the list 3.2% said their revenue and profits are moderate decreased. Generally, this indicates that while the reform has had a positive impact on revenue and profitability, at least 32.2% realized that the impact of the reform has a negative impact/ did not see any changes on their business revenue/profit due to the highly increased process cost and export costs are significantly increased.

The reform's influence on additional or expansion of investment decisions in Ethiopia was also moderate, with 48.4% of respondents reported, their willingness to invest either additionally or expansion of their business is moderately increased. while 48.4% saw no change, and 3.2% of the respondents reported even their willingness to invest is moderately decreased after the ethiopian forex reform. This indicates that the reform has had a positive impact in attracting people to invest in new projects and expand their present projects but has also had a limited impact on investment decisions in this new foreign currency reform era.

Transparency in the foreign exchange allocation process was perceived as neutral by 41.9% of respondents, with 45.2% of the respondents believe that the forex allocation process is transparent. and 12.9% of them consider it less transparent. This finding indicates that while the foreign currency allocation process is generally seen as transparent, there are still concerns about its efficiency and fairness. The findings result on ethiopia foreign exchange reform in evaluating its success, reveal mixed perception among businesses, Aligning with theoretical expectation in key areas of the success indicators. A majority (67.5%) of the respondents agreed on **slight improvements in access to foreign currency,** consistent with literature emphasizing that, while limited foreign currency access can limit import dependent sectors, gains are observed within the short period, but not resolved the chronic structural bottlenecks, studies by (Ndulu et al, 2007) suggests that complimentary polices like export diversification to sustain foreign currency liquidity. Regarding the reforms influence on investment decisions was

Table 5: Descriptive analysis to evaluate the reforms' success

Question	Response Category	Freq	Valid Percent	Cumul percent
To what extent do you believe the foreign currency reform policy has achieved its objectives?	Fully Achieved	1	10%	10
	Partially Achieved	9	90%	100
	Total	10	100	
How effective are the current policies in addressing foreign currency shortages?	Very Effective	1	10%	10
	Somewhat Effective	9	90%	100
	Total	10	100	
How effective are digital platforms in improving transparency?	Very Effective	3	30%	30
	Moderately Effective	7	70%	100
	Total	10	100	
How has the policy impacted Ethiopia's balance of payment?	Positively	5	50%	50
	Negatively	2	20%	70
	Not Sure	3	30%	100
	Total	10	100	
Has the policy improved access to foreign currency for businesses?	Yes, significantly	4	40%	40
	Yes, but only slightly	6	60%	100
	Total	10	100	
How has the reform impacted foreign direct investment (FDI) inflows?	Significantly Increased	1	10%	10
	Moderately Increased	9	90%	100
	Total	10	100	

Source: compiled by own based on the data from the respondents from NBE employees.

This Analyzed data provides insights into importers/exporters perceptions on the Ethiopian foreign exchange reform policy across key areas of success indicators, so based on the participants response, 90% of respondents believe that the policy has partially achieved its objectives in all aspects, and only 10% think it has been fully achieved. This suggests that while the reform has made measurable progress within a short period of time, still critical gaps remain challenging like shortage of foreign currency, organizational inefficiency/approval process and etc. needs incremental improvements to fully realize the reforms objectives in the long run.

Regarding the effectiveness of the reform policies in addressing foreign currency shortages, 90% of the respondents believe it is somewhat effective, and 10% of them said it is very effective. This reflects the challenges in stabilizing foreign currency availability to meet the needs of foreign currency due to low export diversification and continued black market dominances highlight the needs for complimentary measures to alleviate the foreign currency shortages.

Theoretically, The Mundell-Fleming Trilemma (Mundell,1993) argues that a country cannot at maintain the same time, like stabilizing exchange rates, enhancing free capital movements and independent or market driven monitory policies. And then ethiopia focus on stabilizing foreign currency reserves and reducing black market dominances likely prioritizes exchange rate stability and monetary control.

Concerning the effectiveness of digital platforms' transparency improvement level, 70% of the respondents recognized it as slightly effective, and the left 30% said digital platform in improving transparency is very effective. This suggests that digitalizing e.g., Automated foreign currency allocation system has enhanced allocation transparency, the moderate result may indicate from the technical /institutional capacity limitations. To fully improve the effectiveness of the digital platforms in enhancing transparency on foreign currency allocation transparency, the government should invest in user friendly platforms specially for traders.

In terms of the policy's impact on Ethiopia's balance of payments, 50% of respondents viewed positive impact and 20% of them negative impact on the balance of payments and 30% of the respondents remain Not sure. The responses suggest mixed outcomes of the reform policy on the Balance of payments: for some, the reform policies have minimized trade deficit or increased their revenues, but especially import dependent sectors, faced challenges in access to foreign currency. Theoretical views by Prebish R, (1950) on foreign exchange reform and balance of payment, argues developing countries like ethiopia, face chronic trade deficit due to reliance on limited exports and highly dependent on imports. Foreign exchange reforms by itself such as devaluating local currency may temporarily stabilize balance of payments (BoP) but not sustain it without structural changes like industrialization and export diversification to stabilize balance of payments.

Accessibility of foreign currency for businesses has significantly improved for 40% of respondents and slightly improved for 60% of the respondents. This suggests that the reform policy has been partially successful in making foreign currency easy to access.

The reform's impact on foreign direct investment (FDI) inflow perception, a majority of the respondents (90%) confirmed that the impact of reform has moderately increased in attracting FDI inflows, 10% of them believe significantly increased. This indicated that the reforms have increased investors' confidence by stabilizing the foreign exchange policies and reducing black market dominance. But not fully transformative

Theoretical links by North D. (1990) institutional theory on FDI argues that Formal institutions shape investor confidence, make them stable, reduce institutional risks and reduce transaction costs & attract Foreign direct investments. FDI inflows/growth depends on institutional quality, not on foreign currency reform policy.

The finding indicates that even if the policy has had some positive impacts in FDI inflows, achieving a full objective of the reforms in enhancing FDI inflows will require some improvements

Table 6: Descriptive analysis to evaluate the reforms specific outcome.

Question	**Response Category**	**Frequency**	**Valid Percent**	**Cumulative Percent**
What specific outcomes indicate the success of the policies? (select all that apply)	Improved foreign currency reserves	8	25 %	25
	Increased transparency in foreign allocation	7	22 %	47
	Reduced black market forex activities	9	28 %	75
	Enhanced ease of doing business for importers /exporters	8	25 %	100

Source: compiled by own based on the data from the respondents from NBE employees.

The data evaluates the perceived outcomes of the specific policies based on the listed outcome indicators, from the respondents, 25% of them are agreed the policy is successful in improving foreign currency reserves, 22% of the respondents believe foregoing currency allocation process is transparent under this new forex reforms, the most frequently cited outcome selected by 28% of the respondents indicates that The black market activities is reduced, and the National bank of Ethiopia and IMF report on the comparison of Official and parallel market rate also supports this result the rate variance before the reform 110% is reduced to 15% after the reforms, and the left 25% of the respondents observed one of the positive outcomes of the reforms is enhanced easy of doing businesses for importers/exporters.

Overall, the data underlines the positive outcomes on both macroeconomic stability (in reducing black-market activities) and operational efficiencies (making easy of businesses) . the prominent of reducing black market dominance and improving foreign currency reserves indicates that the ethiopian foreign currency reserves are perceived as partially successful, and the picture of policy success are founded on tangible economic improvements and regulatory effectiveness

4.5. Descriptive statistical analysis to evaluate the challenges encountered in ethiopian foreign exchange reform policies.

In order to Access the challenges faced during the implementation the newly adopted foreign exchange reform policies, respondents from importers/exporters/investors are asked 5 questions and participants from National bank of ethiopia were asked 3 questions that evaluate the challenges encountered under the reforms. The result of both respondents is tabulated hereunder the table below separately.

Table 7: Descriptive statistical analysis to evaluate the challenges faced under the reforms

Question	Measurement	Frequency	Valid Percent	Cumulative Percent
How challenging has it been to access foreign currency for your business needs since the reform?	Very challenging	4	12.9	12.9
	Challenging	21	67.7	80.6
	Neutral	4	12.9	93.5
	Easy	2	6.5	100.0
	Total	31	100.0	
What challenges do importers/exporters face in accessing foreign currency?	High transaction cost	4	12.9	12.9
	Delay in approval process	9	29.0	41.9
	Insufficient foreign currency allocation	18	58.1	100.0
	Total	31	100.0	
How difficult has it been to comply with the new regulatory requirements under the reform?	Very easy	2	6.5	6.5
	Easy	6	19.4	25.8
	Neutral	5	16.1	41.9
	Difficult	15	48.4	90.3
	Very difficult	3	9.7	100.0
	Total	31	100.0	
How have transaction costs been affected by the reform?	Significant Increase	5	16.1	16.1
	Moderate Increase	20	64.5	80.6
	No Change	3	9.7	90.3
	Moderate Decrease	3	9.7	100.0
	Total	31	100.0	
Has the reform reduced your reliance on the black market for foreign currency?	significantly reduced	2	6.5	6.5
	Moderately reduced	20	64.5	71.0
	No Change	6	19.4	90.3
	Moderately increased	3	9.7	100.0
	Total	31	100.0	

Source: compiled by own based on data from Respondents from Import/Export & investors

The respondents highlighted several challenges associated with the ethiopian foreign exchange reforms. Accessing foreign currency remains a significant issue, with 67.7% of the respondents reported accessing foreign currency for their business is challenging. Only 6.5% of them said it was easy to access foreign currency since the reforms were adopted, while 12.9% were neutral, and another 12.9% found it very challenging. This indicates that despite the reform, accessing foreign currency for many businesses specifically is still a major challenging and approved by 80.6% of the respondents.

Regarding the specific challenges faced with importers/exporters and investors include, 12.9% of the respondents stated that there is high transaction costs, 29% of them complained, as there is a delay in the approval process, and 58.1% of the respondents agreed on insufficient foreign currency allocation. These challenges highlight the need for further improvements in the foreign currency allocation process to support business effectiveness. And Theoretical evidence by, Ndulu et al. (2007) highlights institutional bottlenecks in foreign currency distribution, especially if it is controlled at the central levels leads to the dalliance the approval processes and inequitable access, disproportionately affecting SMEs.

Compliance with new regulatory requirements has also been difficult for many respondents. While 19.4% reported meeting the compliance requirement was easy and 6.5% found it very easy, a majority of the respondents (48.4%) believe it is difficult, and the left 9.7% said it was very difficult. Generally, 58.1% believe the new regulatory requirement is difficult complying with the new regulations. This finding suggests that the new regulations may be complex and difficult for business owners. Theoretical evidence by Rodric (2016) suggests that poorly designed forex regulations can raise compliance costs and discouraging formal sector participation. And the ethiopian history reveals these dynamics, approximately half of businesses challenge with forex regulatory requirements/hurdles.

Regarding Transaction costs, After the reform, generally the transaction costs is moderately to significantly increased after the reform and reported by 80.6% of the respondents. With (64.5% experiencing moderate increases and 16.1% observed significant increases.) Only 9.7% of the respondents reported as no change in transaction costs in accessing foreign currency, and an additional 9.7% of them said the transaction cost is moderately decreased. This indicates that the reform has led to higher transaction costs for most businesses, which could collapse their profitability range. Theoretical evidence by the World bank (2020), reveals that forex reforms, with lack of complimentary infrastructure like, Digital payment systems often increase the operational costs. Also, dependance on manual processes likely aggravates the transaction costs.

After the introduction of the reforms to access the foreign currency, reliance on the black markets has reduced and observed by 64.5% of respondents. But 19.4% observed no change, and 9.7% of the respondents reported their reliance on the black markets has moderately increased.

This advocates that whereas the reform has had some success in reducing black market activities, still there is a need for further measures to address the reliance's of the business on black market activities.

Responses by the National bank of ethiopia in order to evaluate the challenges are analyzed in the table below

Table 8: Descriptive statistical analysis to evaluate the challenges faced in implementing the reforms

Question	Response category	Frequency	Valid %	Cumul %
What are the major challenges in implementation of the foreign currency reform policy (select all that apply)	Lack of sufficient foreign currency reserves	10	66.67	66.67
	Insufficiencies in foreign allocation mechanisms	2	13.33	80.0
	Limited compliance from stakeholders	3	20.00	100.0
	Total	15	100.0	
How has the Policy affected the Black market for foreign currency	Reduced black market activities	10	100.0	100.0
What operational challenges do licensed Forex providers face under the new policy	High competition	3	30.0	30.0
	Limited access to foreign currency	6	60.0	90.0
	Regulatory hurdles	1	10.0	100.0
	Total	10	100.0	

Source: compiled by own based on the data from the NBE employee

This data captures the most relevant concerns on the reforms policy implementation performances. The most significant challenge, identified by 67.67% of respondent states, lack of sufficient foreign currency reserves, is the main challenge. The limited foreign currency reserves hinder the government's ability to meet demands. The other most mentioned challenge by 13.33% of the respondents is Insufficiencies in foreign allocation mechanisms, this means, while foreign currency allocation system exists in place, only policies approach or implementation may not be primary bottlenecks. And 20% of the respondents said limited compliance from the stakeholders is among the major challenges in implementation of the forex policy. This means resistance among businesses and institutions inefficiencies in following policy guidelines potentially weaken the reforms effectiveness. Regarding the reform policies on Black market activities, all 100% of the respondents reported the policy has reduced the black-market dominance against the official rate. And the NBE report also revealed the black-market dominance has reduced from 110% variance to 18% after the reforms. Licensed foreign currency providers face operational difficulties like access to foreign currency (60%), regulatory hurdles (10%), and high market competition (20%).

These findings indicate that while some levels of black-market activities have reduced from 110 % to 18% by the policy, there are still complex constraints in foreign currency reserves, and the allocation system continues to challenge the effectiveness of the reform policies.

4.6. Descriptive statistical analysis to identify the potential opportunities of the Ethiopian foreign exchange reform policies

In order to Assess the potential opportunities that would enhance the effectiveness of the ethiopian foreign exchange reforms, The respondents from Import/export sectors and also from National bank of ethiopia were asked to complete the questionary related to the impact of the reforms created opportunities under this adopted reforms created opportunities under this adopted reforms to expand their businesses and engage in new projects under the ethiopian foreign currency regime, and then the result is analyzed in the table below.

Table 9: Descriptive analysis of the potential opportunities of the reforms

Question	Measurements	Frequency	Valid %	Cumul %
Has the reform created new opportunities for your business expansion?	Yes, significant opportunities	4	12.9	12.9
	Yes, Some opportunities	16	51.6	64.5
	No change	9	29.0	93.5
	No, less opportunities	2	6.5	100.0
	Total	31	100.0	
How has the reform affected your willingness to invest in new projects or ventures?	Increased willingness	13	41.9	41.9
	No change	16	51.6	58.1
	Decreased willingness	2	6.5	100.0
	Total	31	100.0	
How can the policy be improved to better support your investment or import and export?	Increase foreign currency allocation	23	74.2	74.2
	Provide training on foreign currency management	2	6.5	80.6
	Simplify approval process	6	19.4	100.0
	Total	31	100.0	

Source: compiled by own based on the data from the respondents to evaluate the opportunities

This finding provides insights into the impact of a reform on business expansion opportunities, willingness to invest in new projects under the era of the ethiopian foreign currency reforms, and suggestions for policy improvement.

Firstly, regarding the creation of new opportunities for business expansion, 12.9% of respondents reported significant opportunities, and 51.6% observed some opportunities. Totally 64.5% of the respondents believe the reform created opportunities to expand their business and engage in new projects and realized the positive change of the reforms.   However, 29% of respondents noted no change, and 6.5% felt that the reform has led to low opportunities for business expansion. This indicated that the reforms may not comprehensively resolve all barriers for businesses e.g., infrastructure, political instability, insufficient foreign currency access and operational challenges). The theoretical evidence by Asiedu (2006) critically highlights for sustainable investment inflows

In terms of the reform's effect on willingness to invest in new projects or ventures, 41.9% of respondents reported an increased willingness to invest, whereas 51.6% observed no change in their willingness to invest under this reform. Interestingly, 6.5% of respondents indicated their willingness to invest has decreased post the reforms. This highlights, there is a persistent gap in attracting Investments like Technology, capital and operational challenges. Theoretically, Asiedu and OLI (ownership-location-internalization) frameworks support the ideas that to boost the investors' confidence /willingness to invest, liberalizing exchange rates that diminish uncertainty and enhancing technology are a vital for successful investments.

Regarding policy improvements to better support investment or import and export activities, 74.2% of respondents suggested that increasing foreign currency allocation as the primary improvement. Additionally, 19.4% recommended simplifying the approval process, and 6.5% proposed providing training on foreign currency management. These suggestions reflect the key areas where businesses feel the policy could be enhanced to better support their operations. Theoretically, the demand for Enhancing foreign currency allocation and simplifying the approval processes align with Asiedu (2006) theory focus on reducing bureaucratic problems and ensuring access to foreign currency resources could improve the reforms' reliability.

In general, in Assessing the potential opportunities that enhance the effectiveness of the reforms, The findings from the data reveal that the reform has created new opportunities for business expansion for a majority of businesses, but still majority have not yet seen significant changes.

The impact on willingness to invest in new projects is mixed, with a notable portion of businesses feeling less inclined to invest. To better support business operations, respondents suggested increasing foreign currency allocation, simplifying the approval process, and providing training on foreign currency managements are highly recommended to better support investments and import/exports. These insights highlight the areas where policy adjustments could potentially improve the business environment and foster greater investment and growth

Table 10: Descriptive analysis to identify potential opportunities under the ethiopian forex reform

Question	Response Category	Frequency	Valid %	Cumul %
What opportunities does the foreign currency reform policy present for Ethiopian economy (please select all that apply)	Improved economic stability	6	50.0	50.0
	Increased foreign investment	6	50.0	100.0
	Total	12	100.0	
How can the policy be improved to better support importers and exporters	Increase foreign currency allocation	7	70.0	70.0
	Simplify approval process	1	10.0	80.0
	Provide training on foreign currency management	2	20.0	100.0
	Total	10	100.0	
What role can technology play in improving the implementation of the policy	Digital Forex allocation platform	9	90.0	90.0
	Block chain for transparency	1	10.0	100.0
	Total	10	100.0	
What additional measures should be the national bank of Ethiopia take to ensure the success of the policy	Increase foreign currency reserves	6	60.0	60.0
	Enhance stakeholders' engagement	2	20.0	80.0
	Strengthening monitoring and evaluation	2	20.0	100.0
	Total	10	100.0	

Source: compiled by own based on data from the NBE employee to identify potential opportunities

The table highlights, the respondents' perceptions on the created opportunities by the ethiopian foreign currency reform policy. So, according to the analyzed data on opportunities presented by the foreign currency reform policies to ethiopian economy is 50% of the respondents identifies as the Improved economic stability and the other 50% of them as Increased foreign investments.

Theoretically evidence by (North D, 1990) highlights that sound reforms enhance investor confidence and improve macroeconomic stability by reducing uncertainties.

To better support importers and exporters, the foreign currency allocation proportion can be suggested by 70% of respondents, and 20% respondents think that it is conducive to simplify the approval process. and 10% of respondents propose providing capacity building training to stakeholders.

Regarding to the role of technology in improving the implementation of the reform policy to strengthen the foreign exchange management. 90 % of the respondents suggest the role of technology to help better implement and improve the policies which support a digital forex allocation platform. And the left 10% of the respondents suggest focusing on blockchain to ensure transparency.

To ensure the success of the policies, Additional measures that the National Bank of Ethiopia should take are from the respondents, 60% of them suggests on increasing foreign currency reserves to meet the demands and stable the macroeconomies, the Structural economic theory by (Prebisch, 1950) highlights, foreign currency reserves as a safeguard against trade deficits in limited export dependent economies like ethiopia. and 20% of them suggests enhancing stockholders' engagement and the left 20% of the respondents suggests strengthening monitoring and evaluations. These insights suggest that the policy presents significant opportunities for economic growth and stability, with technology having a crucial role in its successful implementation.

Table 11: Descriptive analysis to identify potential opportunities

	Measurement	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	Total
To what extent do you agree that the following measures could attract more Foreign Direct Investment (FDI) under Ethiopia's current foreign exchange policy framework?	Tax Incentives	1	7	2	0	0	10
	Simplified Regulatory Processes	4	6	0	0	0	10
	Improved Forex Access	8	2	0	0	0	10
	Enhanced Infrastructure	7	2	1	0	0	10
	Political Stability	7	2	1	0	0	10

Source: compiled by own based on the data from NBE employee

The data to assess the extent to which various measures could attract more Foreign Direct Investment (FDI) under Ethiopia's current foreign exchange policy framework. Tax incentives are strongly agreed by 10% and agreed upon by 70% of the respondents. This implies that tax incentives as a primary tool for the attraction of FDI is agreed by the respondents with 80%. But concerning fiscal sustainability where tax incentives minimize public revenues without guaranteeing the long-term investment. Regarding the simplifying forex regulatory process to attract the FDI, it is strongly agreed by 40% and agreed by 60% of the respondents, that means all respondents fully agreed on simplifying the regulatory processes. Aligning with global FDI trends where easiness of doing business directly correlates with FDI attractiveness by reorganization regulations from the ridge to flexible, digitalizing licensing process, and reducing strict precondition could improve the attractiveness for FDI.

Improving access to foreign currency to attract Foreign direct investment is strongly agreed by 80% and agreed by 20% of the respondents. Means all respondents fully agree in enhancing accessibility to foreign currency to attract FDI. Lack of foreign currency allocation and dalliance in Approval process at central level are identified as a basic challenge by investors and traders under this policy framework. This indicates that liberalizing foreign currency policy, ensuring smoother currency transformation, and assuring investor access to foreign currency could bring immediate improvement in FDI attractions.

From the respondents, 70% of them fully agree, 20% of them agree and 10% preferred to be neutral. generally, 90% of the respondents are agreed in Enhancing infrastructure to attract Foreign direct investments. This indicates that, to make it more attractive for investors and export-oriented investments. A well-organized Infrastructure development like Transportation, electricity supply, technological supplies /digital connectivity/ and others will reduce the operational costs of the investors and improve their efficiency. And political stability is strongly agreed by 70% and agreed by 20%, with 10% remaining neutral. This means, Identifying and mitigating potential risks associated with the forex policy unpredictability, like currency instability, inflation and other critical risks makes attracts and stable the foreign direct investors.

In general, the Analysis shows that, the Ethiopian foreign direct investment challenges are complex. While tax incentives are present historical, respondents highlight creating structural reforms that simplify the regulatory processes, liberalizing the foreign currency, improving infrastructures and stabilizing the politics as a more critical issue. So, to more attract the FDI, policy makers should adopt a holistic approach that increases investors' confidence. By giving priority to foreign currency accessibility and simplifying regulatory processes can create a more attractive destination for Foreign direct investors.

4.7. Ethiopian Trade performance before and post reforms

The Ethiopian foreign exchange reform has significantly increased the ethiopian exports and minimized the imports and impacted the trade balance. Before the reform, Ethiopia experienced a huge trade deficit, which increased from $13,503.30 billion in 2015/2022/23 E.C. to $14,661.80 billion in 2016 E.C./2023/24. This indicates that our exports are significantly lower than imports. However, After the reform data shows an interesting improvement. In 2017 E.C./2024/24, exports significantly increased, in Q1 of this FY exports increased by 81% compared to Q1 in 2016/2022/23 and Q2 exports post the reform is increased by 134% compared to Q2 in 2023/24. Imports also showed better fiscal improvements, with a 20% decline in Q2 2024/25 compared to Q2 in 2023/24. Accordingly, following the increase in exports and minimization in imports after the reform, the trade deficit also significantly improved, particularly in Q2 of 2024/25, which saw a 49% reduction compared to Q2 in 2016 or 2023/24.

Table 12: Ethiopia's Quarterly Trade Performance Before and After the Forex Reform (in Millions of USD)

Year (E.C/G.C)	Period	Export	Import	Trade Balance
2015 (2022/23) – Before the Reform	QI	977.0	4,552.8	(3,575.8)
	QII	778.0	4,504.5	(3,726.5)
	QIII	873.5	4,163.1	(3,289.6)
	QIV	995.8	3,907.2	(2,911.4)
	Year Total	**3,624.3**	**17,127.6**	**(13,503.3)**
2016 (2023/24) – Before Reform	QI	813.9	4,126.9	(3,313.0)
	QII	770.8	4,863.6	(4,092.8)
	QIII	927.2	4,376.3	(3,449.1)
	QIV	1,267.4	5,074.3	(3,806.9)
	Year Total	**3,779.3**	**18,441.1**	**(14,661.8)**
2017 (2024/25) – After Reform	QI	1,472.85	4,747.05	(3,274.20)
	QII	1,800.15	3,883.95	(2,083.80)

Source: NBE Quarterly and Annual report

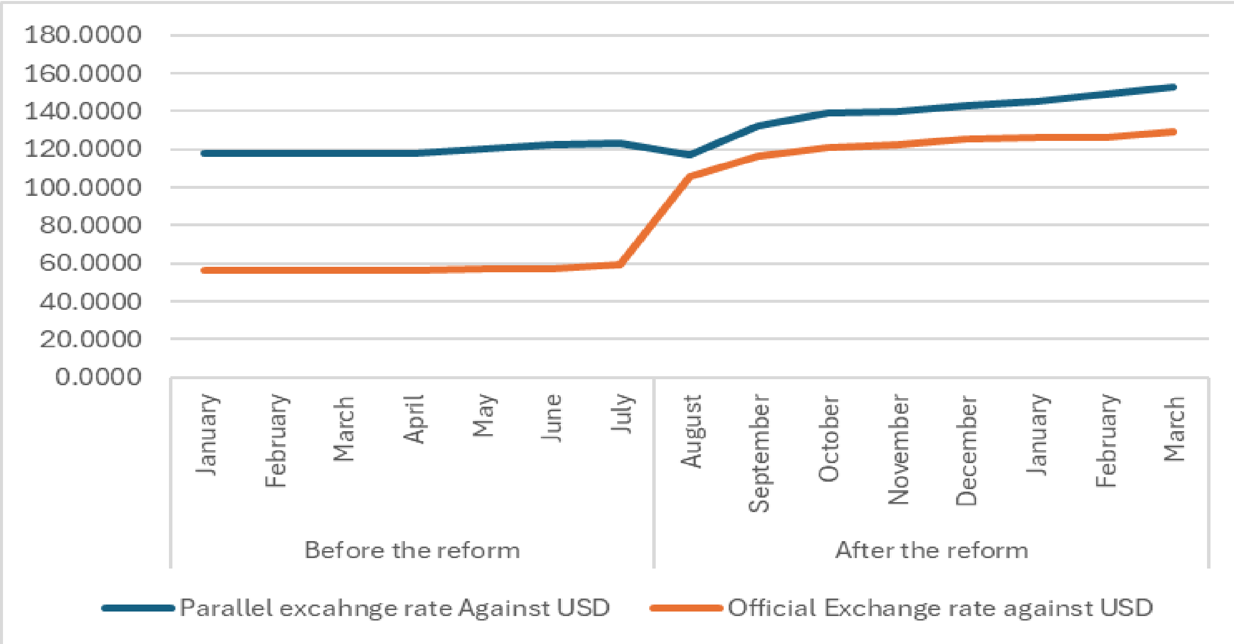
The data indicates that Exports performance after the reform showed dramatical progresses from 3.779 billion USD all over the year in 2023 to 3.273 billion USD only with in Two quarter 9August to December 2024) after the reforms, import also decreased when compared to the previous time, and at the same time trade balance marks significant improvements post the reforms. Following the Foreign currency reform, the results in improved trade balance can be directly linked to the objectives of the Homegrown reform (HGER) programs, especially which prioritize export competitiveness, emphasizing structural adjustment to reduce external imbalances and dependent on imports. So, the increased Exports and minimized imports suggest the reforms immediate success in supporting the reforms policy with HGERs goal.

And When compared with other similar countries like Nigeria, the ethiopian significant growth in export and decreased imports by 4% is the same with Nigeria's trade performance after the reforms like, the depreciation of Naira transitioned the Nigeria export more competitive in international market and oil and non-oil exports are more benefited from the more market based exchange rates, and contributed to the increasement in external trade value from ₦66.8 trillion before the reform 2023 to ₦138 trillion in 2024 QIII -After the reform (the Central bank of Nigeria QIII,2024, economic report) the ethiopian export grown 3.62billion USD annual export to 3.27 billion USD with in half year and import decreased from 8.99 billion USD to 8.63 in the same period.

4.8. The Foreign exchange reform effect in Reducing the Balack-market activities

The data from the NBE for the official exchange rate and from Black market platform indicates that, Before the reform, the official exchange rate ranged averagely from 56.1758 to 59.7632 ETB/USD compared to the same period after the reform, whereas the black-market rate ranged from 117.5900 to 122.9336 ETB/USD at the same time, indicating a Gap of 110% over when compared to official exchange rates. But following the adoption of foreign currency reform policy in July 29/2024, the official exchange rate increased to 129.1284 ETB/USD in March 2025, and at the same time the black- market exchange rate also increased to 152.8902 ETB/USD in March,2025, and then the gap is significantly reduced from 110% before the reform to 18%. After the reform. This data suggests that there is greater confidence in the official market and dependency on the black-market activities to assess foreign currency are also reduced.

Figure 1: Black-market and Official exchange rate trend before and after the reform



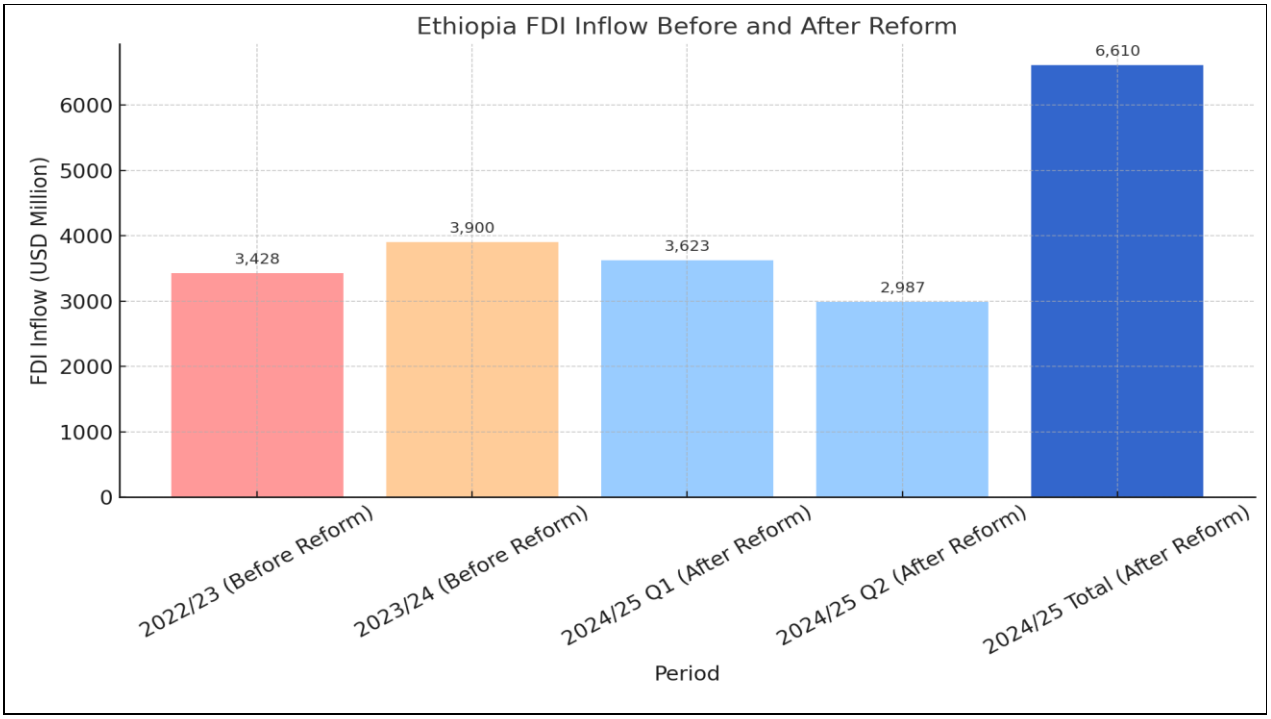
Source: National bank of ethiopia and Black-market website

Also, this result directly aligns with the goal of ethiopian Homegrown agendas which aims to efficient foreign exchange markets by limiting the black-market dominance over the official exchange rates, so following the introduction of ethiopian forex reform the gap between official and black-market exchange rate has reduced from 110% before the reform to 18% after the reforms which realizes the HGER objectives in enhancing the formal economy's competitiveness and increase investor confidences.

4.9. Foreign Direct Investment Inflows (FDI)

The foreign direct investment (FDI) inflows data shows a significant increase after the foreign currency reform. Before the reform, in 2015 EC/ 2022/23, the ethiopian FDI inflows were $3,428.00 billion, and in 2016 EC./2023/24 it is increased to $3,899.70 billion 13.8% when compared to the previous year. However, after the reform, FDI inflows saw a dramatic improvement, with $3,623.00 billion in Q1 of 2017 E.C./2024/25 and $2,987.00 billion in Q2 of 2017 E.C./2024/25. Totaling $6,610.00 billion in the two quarters after the reform or 69% increase compared to the annual average of pre reform 2023/24. This significant increase indicates that the reform has made Ethiopia a more attractive destination for foreign direct investments.

Figure 2: Foreign direct investment inflow before and after the ethiopian foreign exchange reform



Source: - ***before the reform NBE annual report & after the reform, Ethiopian investment commission (EEC)***

The tangible improvements in FDI suggest the forex reforms success in enhancing the countries investment surroundings, like by measures such as deregulations, selected sectoral liberalization (Ethio telecom) and also enhanced legal frameworks under the Ethiopian homegrown economic reform agendas (HGER 2) adopted to address the macroeconomic imbalances and also stimulate the private -sector led growth, HGER goal of attracting FDI is to economic diversification, reduce foreign currency shortages and create jobs for citizens. So, the after-forex reform of FDI inflow results aligns with the ethiopian HGER goals, through creating jobs, adopting technology transfer, improving export capacity and contributing to economic stability.

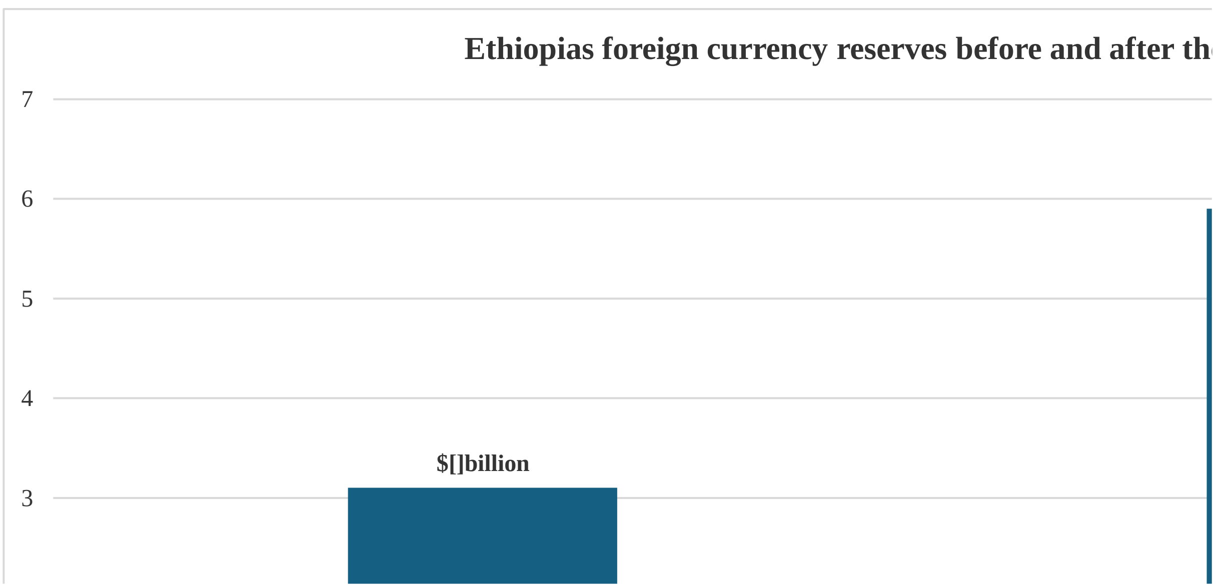
Also, when compared the impact of ethiopian forex reform on attracting FDI with other countries reform like Nigerian, both countries are similar in exchange reform unification and improved transparency in allocation of foreign currency, which has previously discouraged the foreign investors and the investors' confidence has restored after the introduction of the foreign currency reform

4.10. Foreign currency reserve growth (since July 2024)

According to the National bank of Ethiopia press release (https://nbe.gov.et/fx/) Before the reform, As of July,2024 before the introduction of ethiopian foreign exchange reform policy, the ethiopian total foreign currency reserves were approximately 3.1 billion USD, however, After the reform (as of November 2024) the foreign currency reserves doubled to nearly 5.9 billion USD, according to NBE report. (https://nbe.gov.et/publications-statistics/statistics/#) this means Resrves at National bank of ethiopia (NBE) is 3.4 billion USD and at commercial banks has increased to 2.5 billion USD.

And both the IMF, Ministry of Finance, and NBE report (press release in November) realizes that reserve levels have dramatically increased since the forex policy reforms of July 2024. this The immediate impact of the reform is mainly due to a reduction in the black-Market dominance against official exchange rates, which were reduced from more than 110 percent before the reform to nearly five percent after the reforms. (NBE, the Governor Report- https://www.thereporterethiopia.com/42774/)

Figure 3: Foreign currency reserves



Source: - National bank of Ethiopia press release (https://nbe.gov.et/fx/)

This doubling of foreign currency reserves directly addresses the HGERs priority objectives to increase foreign currency reserves, the increased reserves enhance the NBEs capacity to finance critical imports like fuel, fertilizer, medicines and other raw materials. And safeguard the country against the external shocks. And also, the increased foreign currency reserves in Commercial banks (USD 2.5 billion) further indicates the improved forex liquidity in the bank sectors, by making easy access to foreign currency for Importers and other investments to support their businesses, and the key mechanisms for the revival of investments like manufacturing sectors is directly link to the ethiopian Homegrown economic reform (HGER)s industrialization and job creation targets/objectives. Moreover, the foreign exchange reforms successfulness in attracting remittance inflows through formal channel/Banking aligns with the ethiopian Homegrown economic reform objectives on enhancing Diaspora remittances for productive investment rather than using to cover other basic expenses.

Generally, the ethiopian foreign exchange reform policy in increasing foreign currency reserves have brought immediate and measurable progresses under the HGER 2, by transforming the ethiopian foreign currency reserves from vulnerability to strengthen (assessable at least for basic imports and selected investments which support the country's export).

4.11. The Ethiopian foreign exchange reform effect in enhancing Remittance inflows

According to (UNDP report constructed based on the data from National bank of ethiopia), The private individual remittances through banks grow by 23% reaching 1.83 billion USD from July to December 2024 up from 1.48 billion USD in the same period of 2023. This increase is because of Improved financial sector regulations, diaspora engagement programs and high trust in formal banking channels. And also, foreign currency sales by bank have risen significantly with the daily average foreign exchange sales increasing from 22 million USD in august to 42.9 million USD in January 2025. This sharp rise suggests easing foreign exchange shortages

After the introduction of the Ethiopian foreign exchange reform, the private/individual remittance inflows through banks were significantly increased by 23%, reaching USD 1.83 billion with in two quarters (July and December 2024) when compared to 1.48 billion USD in the same period of 2023. This indicates, the reforms contributed in the increasing the confidence of ethiopian diaspora in the official financial systems, guided by targeted reforms under the ethiopian Homegrown Economic Reform Agenda (HGER). This alignment realized the short-term objectives of the reforms in resolving the chronic foreign currency shortages, improving the financial sector regulations, such as modernizing and efficient remittance processes, reducing transaction costs, and the implementation of diaspora-friendly products (e.g., high-profit savings accounts or diaspora bonds), were incentivized the diaspora to use through formal channels. At the same time, proactive diaspora engagement programs, like awareness creation campaigns, have played a critical role in increasing the foreign currency inflows.

And also, the parallel increase in daily average foreign currency sales by banks from USD 22 million in August 2024 to USD 42.9 million as of January 2025. This indicates a tangible change in addressing the foreign currency shortages. This increase can be attached to reforms under HGER, including the gradual liberalization of the foreign currency regime and the National bank's work to minimize the gap of official and black-market exchange rates. By improving transparency in foreign currency allocation and minimizing restrictions during access to foreign currency for businesses, this the collective effect of increasing remittances inflows and foreign currency sales realizes the partial success of Ethiopia's strategy to prioritize structural reforms that attract diaspora investment and rebuild trusts.

Strengthening linkages between diaspora remittance inflows and investments (e.g., small-business financing or infrastructure bonds) could further increase diaspora contributions with HGER's long-term goals of industrialization and export diversification

Generally, the findings presented in this chapter comprehensively address the general and specific objectives of the study. The results clearly evaluate the Ethiopian foreign exchange reform policies by presenting measurable successes such as increased foreign currency reserve levels, improvements in formal remittance inflows, and shifts in export and import performance. Furthermore, the study identifies key implementation challenges, including limited access to foreign currency for the private sector, organizational inefficiencies and the continued of black-market activity. In addition, the analysis highlights potential opportunities created by the reform, such as increased investor interest, greater financial system transparency, and the foundation for long-term macroeconomic stability. Therefore, the study successfully fulfills its intended purpose by assessing the effects of the foreign exchange reform and exploring its overall effects on trade performance, investment, and foreign exchange market in Ethiopia.

CHAPTER FIVE

5. Conclusion and Recommendations

5.1. Conclusion

The study was conducted to access the Ethiopian foreign exchange reform policies adopted in July,2024 in terms of its successes, challenges and identifying the potential opportunities which enhances and sustains the effectiveness of the reforms. The main objectives of the ethiopia foreign exchange reform were, by shifting the ethiopian forex policy from managed floating exchange rate to a more flexible and market-based exchange rate regimes by allowing bank to freely negotiate exchange rate and removing the restrictions or surrenders requirements for exporters and investors and also for banks on foreign currency. aiming to address chronic foreign currency shortages, stabilizing the exchange rates, and attract foreign direct investment. Key measures include the gradual unification of the official and parallel market exchange rates, partial liberalization of the financial sectors, and easing restrictions on access to foreign currency for importers and exporters.

To analyze and interpret the stated objective, the data for this study was collected directly from Importers/Exporters and investors and NBE employees who are familiar with the reforms and more affected by the reforms, And the government quarter and annual reports. The intended determinants of the reform variables to evaluate the success, challenges of the reforms and to identify the potential opportunities included in the data were classified into success, challenges and opportunities. Here are the summaries and conclusions of the findings both from primary and secondary data to evaluate the reforms putted separately.

5.1.1. The foreign exchange effect on improving Trade Balance

The Ethiopian Exports performance after the reform showed dramatical progresses from 3.779 billion USD in the full year of 2023 to 3.273 billion USD only with in Two quarter (August to December 2024) after the reforms, import also decreased by 4% when compared to the previous time ($8.99 billion to $8.63 billion from July to December,2024) and at the same time trade balance marks significant improvements post the reforms. Generally, the reform has incentivized exports and contributed its portion in minimizing trade gaps or improving trade balances.

5.1.2. The foreign exchange reform effect on minimizing the gap between official and Black- market rate.

The Foreign currency reform has been partially successful in reducing the Dominance of Black-markets activities over the official exchange rate after the reform. Following the introduction of the reform policies the gap over the official rate is significantly reduced from 110% before the reform to 18% after the reform, this indicates the reform has had a measurable impact in the improvement of market confidence in the official exchange rates and improving access to foreign currency through formal channels. However, the continued gap of 15-20% after the reform indicates there are still ongoing structural vulnerabilities on the official exchange rates, such as lack of foreign currency reserves to meet the needs for importers and investments, operational challenges, Delay in the forex approval process, poor export diversification, and limited confidence in the banking system's ability to meet the demand for foreign currency.

5.1.3. The foreign exchange reform effect on Attracting Foreign Direct Investment Inflows.

The ethiopian foreign exchange reform has been highly effective in attracting foreign direct investment, as evidenced by the high increase in FDI inflows post-reform (6,660 billion with in two quarters). This significant improvement is because of The alignment of official and black-market exchange rates that increases the investors' confidence, increased foreign currency availability, and improved regulatory processes and other created investment incentives have contributed to a more favorable foreign direct investment. This short-term success of the reform in Attracting Foreign direct investment within a short period of time is more encouraging, but the sustainability to attract more FDI will depend on the continued efforts to address foreign currency shortages, diversifying the investments and simplifying forex approval processes specially for export-oriented investments.

5.1.4. The reform impact on Improving Foreign currency reserves.

Following the adoption of the ethiopian foreign exchange reform policy, the country's foreign currency reserve was dramatically increased from $3.1 billion before the reform (As of July,2024) to $5.9 billion after the reform Double incremental within Four months (as of November 2024) when compared to the previous full year.

The immediate impact of the reform is mainly due to a reduction of the black-Market dominance on official exchange rates, which were reduced from more than 110 percent before the reform to nearly 15 percent after the reforms.

5.1.5. The foreign currency reform in Increasing remittance inflows.

Following the ethiopian foreign currency reform policy, the private individual remittances inflow through banks were significantly increased by 23% reaching $1.83 billion with in two quarter (July to December 2024) up from $1.48 billion in the same period of 2023. This achievement is due to Improved financial sector regulations, diaspora engagement programs and high trust in formal banking channels. And also, foreign currency sales by bank have significantly increased from $22 million in August to $42.9 million in January 2025.

5.1.6. The Success of the Ethiopian foreign exchange reform policies.

The reform has generally had a positive impact on various aspects of business operations. The majority of respondents (67.7%) reported slight improvements in access to foreign currency for their business and the recently adopted foreign currency reform played moderate contributions in their business growth and expansion by (67.5% of the respondents), and their revenue and profitability ranges are also moderately increased after the reforms (confirmed by 64.5% of the respondents). and the influence of the ethiopian forex reform is moderately increased the decision or willingness to more invest with in the short period of time after the reform are adopted. and also, the majority of the respondents agreed on the transparency of the reforms in all aspects. Overall, these findings suggest that while the reform has been beneficial and on the right track, there is still room for further enhancement to maximize its impact.

5.1.7. The Challenges encountered during the implementation of the Reform policies

Regardless of the positive outcomes, several challenges still remain after the ethiopian foreign exchange reform is adopted. Like, accessing foreign currency for their business continues to be a critical issue for many import/Exports and investors (67.7%) of the respondents are still complaining, and also high transaction costs to access the foreign currency is also identifies as a challenge, dalliance in the approval process, and insufficient foreign currency allocation are among the major challenges. Also, fulfilling the new regulatory requirements is also challenging for a substantial number of Importers/exports and investors. So further measures are needed to address these listed persistent challenges regarding the foreign currency reform.

5.1.8. The potential Opportunities created by the foreign exchange reforms.

The Ethiopia foreign exchange reform policy has created new opportunities (suggested by 64.5% of the respondents) that will enhance the effectiveness of the reforms specially in creating positive changes on importers/Exporters and investors to expand their business and engage in new projects. The willingness to invest in a new project has significantly increased, approved by (41.9% of the respondents). Importers/exporters and investors are suggested that, to better support their investment and import/export activities increase the foreign currency allocation (recommended by 74.2% of the respondents) and simplifying the approval process (19.4%) to reduce reliance on black-market activities are among the suggestions. These recommendations highlight the areas where policy improvements could further improve the positive impact of the reforms in the future to sustain and contribute to overall economic aspects.

5.2. Recommendations

The Ethiopian foreign currency reform policy has set a foundational framework for improving access to foreign currency, attracting FDI, increasing foreign currency reserves, enhancing trade balances, and gradually improving economic stability. And also, data from the official government and international financial institutions also the respondents approved that the reform is going on the right track when comparing the current status of the reforms with the stated objectives. However, it still requires additional strategic modifications/ operation mechanisms to fully meet the stated goal of the forex reforms and align with broader objective of the Homegrown economic reform agendas (HGER). The HGER is working on stabilizing the macroeconomies, enhancing export lead growth, empowering the private sectors that provide a strong and healthy framework to resolve the systematic challenges in foreign currency managements in ethiopia. However, to guarantee and sustain the success of the reforms observed within a short period of time and to address the identified challenges a comprehensive approach is required.

The following recommendations might be worth with regard to the effectiveness and sustainability of the ethiopian foreign exchange reform policies in enhancing the overall aspect of the economy.

- Improving foreign currency allocation is critical. Despite incremental improvements in foreign currency allocation, a significant portion of businesses still face difficulties in accessing sufficient foreign currency for their businesses, which hinders the growth and operational efficiency of their businesses. The Forex reform aligns with the ethiopian (HGER) pillar through shared objectives in stabilizing macroeconomies, enhancing export lead growths and empowering the private sectors, and improve foreign currency availability specially for export oriented businesses, so to resolve this identified challenges by Importers/exporters and to realize the reforms policy objectives pillared with HGER, the National Bank of Ethiopia (NBE) should prioritize on increasing foreign currency reserves by developing strong strategic partnerships with international financial institutions (IMF, WB) and more encouraging and subsidizing the export-oriented business sectors to boost foreign exchange earnings and improving the foreign currency allocations.

- Enhancing Transparency and building trusts on foreign currency allocation mechanisms must be established, the newly adopted foreign currency reform policy objective with the ethiopian Homegrown economic reform pillar (HGER) through its foreign currency management and transparency approach aims to eliminate the black-market activities and improving trust on formal transactions. By taking measurable actions including Digitalizing the foreign currency allocation processes, like blockchain-based tracking for traders to minimize operational challenges and bureaucracies in accessing hard currencies, giving priority for export-oriented businesses, Adopting automated forex Approval process by integrating with banks just to reduce the operational challenges and dalliance in approval processes. and then this step will rebuild the stakeholder trust, discourage the black-market activities and align the foreign currency reforms with broader HEGRs transformation goal.
- Dalliance in foreign currency approval processes and fulfilling regulatory compliance are still the identified challenges for Import exporters and investors. That moderately challenge businesses processes, particularly importers. So, Modernizing the foreign currency approval processes through digitization, like establishing an online approval platform for real-time application tracking and computerized approvals will reduce administrative challenges and dalliances. And additionally, encouraging a more cooperative environment between foreign currency policymakers and the traders by capacitating importers on navigating a new regulatory requirement will improve the regulatory compliance issues.
- Technology must be leveraged to modernize the foreign exchange system. like blockchain-supported platforms to enhance transparency and reduce any operational challenges during the approval process. Realizing a centralized digital foreign currency allocation mechanism by itself would not improve efficiency. Adopting technology to modernize the foreign currency managements, will align with the Ethiopian HGER objectives on digitalizing business-oriented economies, that increases trusts in formal channels, attracts Foreign direct

investments, and improves the foreign currency liquidity. so, to realize the ethiopian forex reform's goal, supporting with technology is better to more modernize the foreign currency reform policies and to integrate with global sustainable growths

- Creating partnership with the African continental free trade area (AfCFTA) create opportunities in intensifying Access to market and increase foreign currency availabilities and also promote agreements in trading by local currency between the AfCFTA members and will reduce the dependency on volatile global markets. this mechanism aligns with one of the ethiopian home growth economy (HGER`s) objective of enhancing intra Africa continent trading. By giving a priority foreign currency allocation for value added exports to regional markets. and this mechanism will support in diversifying exports, improve foreign currency earnings and reduce Dollar transaction costs (by encourage payment by local currency). This action realizes the HGER`s plan and ethiopian forex reforms by improving economic integration between African region, attracting FDI and build stable foreign currency reserves through regional trade.
- To attract FDI, the government should implement financial incentives exclusively for foreign investors and exporter-oriented businesses for those realize a measurable growth in Volume of exports, create jobs for a citizens and Transfer technologies. The incentives/subsidies must be tied to predefined performance benchmarks, e.g. Annual export growth in % to safeguard the national priorities. By satisfying the high-impact investments and highly export oriented business, ethiopia can incentivize reinvestment of profits, attract FDI, and enhance foreign currency reserves, that directly support the Homegrown economy (HGER's) goals sated on industrialization and Export lead growth and to stabilize the macroeconomies.

Generally, whenever the ethiopian foreign currency reform policy has shown positive impacts on various aspects since it is introduced, the success of the foreign currency reforms should be integrated with the ethiopian Homegrown economy (HGER) all-inclusive pillars, to sustaining a positive outcome of the reform requires prioritizing the exchange flexibilities, diversifying exports, improving foreign currency accessibility, efficiency and technological revolution. By addressing operational challenges, adopting technology which enhances the reform policies, and collaboration with all stakeholders at all levels, makes ethiopia to transform its foreign exchange regime into a greater achievement that realizes the comprehensive economic growth of the countries.

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APPENDIX

Part I. Questionary for Importers/Exporters & Investors

The purpose of this questionnaire is to gather a crucial insight on the assessment of Ethiopian foreign exchange reform policies, focusing on their successes, challenges, and opportunities. Your responses are vital in helping us understand the effectiveness of these reforms and identify areas for improvement. The information you provide will directly contribute to shaping better policies and strategies, ensuring that the goals of the reforms are met effectively. I highly value your participation and appreciate your time and honest feedback.

Confidentiality:

Your responses will remain confidential and will be used solely for research purposes. No personally identifiable information will be disclosed or published.

Instructions

Please answer all questions by selecting the appropriate answer in the space provided [X].

Section One: - Demographic Information

Age_________________________

Gender______________________

Occupation ____

Year of Experience in import/export or other business_______________

Sector (investor, importer/Exporter) ____________________________

Section Two: - Assessment of Success

1. Has the policy improved the access to foreign currency for your business under the current reform?
   - [ ] Yes, Significantly
   - [ ] Yes, But only slightly
   - [ ] No
   - [ ] Not sure
2. Has the reform contributed to the growth and expansion of your business?
   - [ ] Significantly contributed
   - [ ] Moderately contributed

[ ] No impact
[ ] Moderately hindered
[ ] Significantly hindered

3. What has been the effect of the reform on your revenue and profitability?
   [ ] Significantly increase
   [ ] Moderately Increase
   [ ] No change
   [ ] Moderately decrease
   [ ] Significantly decrease

Section Three: - Challenges

1. How challenging has it been to access foreign currency for your business needs since the reform?
   [ ] Very challenging
   [ ] Challenging
   [ ] Neutral
   [ ] Easy
   [ ] Very easy
2. What challenges do importers/exporters face in accessing foreign currency?
   [ ] Delay in approval process
   [ ] Insufficient foreign currency allocation
   [ ] High transaction cost
   [ ] Others (please specify
3. How difficult has it been to comply with the new regulatory requirements under the reform?
   [ ] Very difficult
   [ ] Difficult
   [ ] Neutral
   [ ] Easy
   [ ] Very easy
4. How have transaction costs been affected by the reform?

   [ ] Significant Increase

   [ ] Moderate Increase

   [ ] No Change

   [ ] Moderate Decrease

   [ ] Significant Decrease

Section Four: - Opportunities

1. Has the reform created new opportunities for your business expansion?
   - [ ] Yes, significant opportunities
   - [ ] Yes, Some opportunities
   - [ ] No, less opportunities
   - [ ] No change
2. How does the reform affect your willingness to invest in new projects or ventures?
   - [ ] Increased willingness
   - [ ] No change
   - [ ] Decreased willingness
   - [ ] If decreased Why (please specify)____________________________________
3. How can the policy be improved to better support your investment or import and export?
   - [ ] Increase foreign currency allocation
   - [ ] Simplify approval process
   - [ ] Provide training on foreign currency management
   - [ ] Others (please specify)

Section Five: - Open-ended questions

1. What specific changes would you recommend improving the foreign exchange system for investors and importers/exporters?
   ____
   ____
   ____
   ____
2. Do you have any additional comments or suggestions regarding the foreign currency reform policy?
   ____
   ____
   ____

Part II. Questionary for NBE employees

The purpose of this questionnaire is to gather a crucial insight on the assessment of Ethiopian foreign exchange reform policies, focusing on their successes, challenges, and opportunities. Your responses are vital in helping me to understand the effectiveness of these reforms and identify areas for improvement. The information you provide will directly contribute to shaping better policies and strategies, ensuring that the goals of the reforms are met effectively. I highly value your participation and appreciate your time and honest feedback.

Confidentiality:

Your responses will remain confidential and will be used solely for research purposes. No personally identifiable information will be disclosed or published.

Instructions

Please answer all questions, by selecting all the appropriate answers in the space provided [X]

Section One: - Demographic Information

I. Your Role/position in NBE (please specify) ____

II. Year of Experience

Less than 1-year ______________

1-5 Years____________________

5-10 Years___________________

More than 10 Years____________

Section Two: - Assessment of Success

4. To what extent do you believe the foreign currency reform policy has achieved its objectives?
   - [ ] Fully Achieved
   - [ ] Partially Achieved
   - [ ] Not Achieved
   - [ ] Not Sure
5. What specific outcomes indicate the success of the policies? (select all that apply)
   - [ ] Improved foreign currency reserves

[ ] Increased transparency in foreign allocation

[ ] Reduced black market Forex activities

[ ] Enhanced ease of doing business for importers /exporters

[ ] Other (please specify)

6. How effective are the current policies in addressing foreign currency shortages?

   [ ] Very effective

   [ ] Somewhat effective

   [ ] Neutral

   [ ] Very insufficient

7. How the policy impacted Ethiopia balance of payment?

   [ ] Positively

   [ ] Negatively

   [ ] No significant impact

   [ ] Not sure

   [ ] Others (please specify)

8. Has the policy improved access to foreign currency for businesses?

   [ ] Yes, significantly

   [ ] Yes, but only slightly

   [ ] No

   [ ] If "No" why?

   [ ] Not sure

Section Three: - Challenges

5. What are the major challenges in implementation of the foreign currency reform policy? (select all that apply)

   [ ] Lack of sufficient foreign currency reserves

   [ ] Insufficiencies in foreign allocation mechanisms

   [ ] Limited compliance from stakeholders

   [ ] Corruption or mis management

   [ ] Others (please specify)

6. How has the Policy affected the Black market for foreign currency?

[ ] Reduced black market activities

[ ] No significant impact

[ ] Increased black-market activities

[ ] Not sure

7. What operational challenges do Forex bureaus face under the new policy?

   [ ] Limited access to foreign currency

   [ ] Regulatory hurdles

   [ ] High competition

   [ ] Others (please specify)

Section Four: - Opportunities

4. What opportunities does the foreign currency reform policy present for Ethiopian economy? (please select all that apply)

   [ ] Increased foreign investment

   [ ] Improved economic stability

   [ ] Strengthened financial sectors

   [ ] Others (please specify)

5. How can the policy be improved to better support importers and exporters?

   [ ] Increase foreign currency allocation

   [ ] Simplify approval process

   [ ] Provide training on foreign currency management

   [ ] Others (please specify)

6. What role can technology play in improving the implementation of the policy?

   [ ] Digital Forex allocation platform

   [ ] Block chain for transparency

   [ ] Automated compliance checks

   [ ] Others (please specify)

7. What additional measures should be the national bank of ethiopia take to ensure the success of the policy?

   [ ] Strengthen monitoring and evaluation

   [ ] Enhance stakeholders' engagement

[ ] Increase foreign currency reserves

[ ] Others (please specify)

Section Five: - Open-ended questions

3. In your opinion, what are the most critical factors for the success of Ethiopian foreign currency reform policy?

   ____
   ____
   ____
   ____

4. What are the major challenges faced in implementing these reforms?

   ____
   ____
   ____

5. What measures have been taken to ensure compliance with foreign exchange regulations?

   ____
   ____
   ____
   ____

6. Do you have any additional comments or suggestions regarding the foreign currency reform policy?

   ____
   ____

Secondary data collection checklist

I. Ethiopian Investment Commission (EIC): Focus on FDI Inflows

Subject: Request for Secondary Data on FDI Inflows Before and After Foreign Exchange Reform

The purpose of this questionnaire is to assess the trend, volume, and sectoral distribution of Foreign Direct Investment (FDI) before and after the Ethiopian foreign exchange reform policies, focusing on their successes, challenges, and opportunities. The data is vital in helping me to understand the effectiveness of these reforms and identify areas for improvement. The information you provide will directly contribute to shaping better policies and strategies, ensuring that the goals of the reforms are met effectively. I highly value your participation and appreciate your time and honest feedback.

1. Quarterly/Annual FDI inflow for three years before and after the currency reform. (2015-Tesas 2017).
2. Major challenges or opportunities noticed in attracting FDI after the foreign exchange reform?
3. Any noticeable change in investor registration, license renewal, or project implementation post-reform?

II. Ministry of Trade and Industry (MoTI): Focus on Import/Export Performance

Subject: Request for secondary data on Import and export performances covering from 2015 to Tesas, 2017 To evaluate the ethiopian trade performance trends and identify shifts in trade volume or structure pre- and post-foreign exchange reform.

The purpose of this questionnaire is to collect relevant data on Ethiopia's import and export performance before and after the implementation of foreign exchange reform policies. This includes analyzing trade volume, trade balance trends, and sector-specific impacts. The information is essential in evaluating how the reforms have influenced the country's trade dynamics and competitiveness. Your input will help identify the success, challenges and opportunities faced by the trade sector in the post-reform period, I sincerely appreciate your time, cooperation, and valuable insights.

Key Questions/Data Points:

1. Quarterly and Annual export and import volumes (2015–2017EC/ 2022/23-2024/25 GC), by its:
    - ❖ Product category (e.g., coffee, oilseeds, machinery)
    - ❖ Trade partners (by country) and
    - ❖ Value in USD
2. Trade balance for each year (exports – Imports) covering from (2015-2016)
3. Top 5 exported and imported commodities before and after the reform.
4. Observed impact of exchange rate reform on export competitiveness or import dependency.

III. **National Bank of Ethiopia (NBE): Focusing on Foreign Currency Indicators**

Purpose: To assess the Key macroeconomic indicators linked to the success and challenges of the Ethiopian foreign exchange reform policy.

This data collection aims to assess the impact of Ethiopia's foreign exchange reform policies on key macroeconomic indicators such as foreign currency reserves, remittance inflows, and official exchange rate trends. Understanding these financial metrics before and after the reforms is vital to determine the effectiveness and sustainability of the policy shifts. Your contributions are crucial for providing a comprehensive view of the monetary outcomes of the reforms, supporting evidence-based evaluation. I truly value your participation and thank you for your cooperation.

1. Foreign currency reserves (monthly/quarterly/annual) from 2015 EC to Tesas 2017 EC (2022/23 to 2024/25GC).
2. Remittance inflows from 2015-March 2017 EC (2022/23-2024/25)
3. Monthly Official exchange rate (USD/ETB)
4. Black-market exchange rate estimates (if monitored or reported).
5. Volume of Foreign currency reserves (2015-Tesas 2017 EC).
6. Volume of remittance inflows (2015-Tesas 2017 EC)