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FLASH NOTE
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Central Bank tightens grip over international trade flows

Broad majority of imports will be made using letters of credit

A. DESCRIPTION

1| The Angolan central bank (BNA) has changed the procedures used in foreign exchange operations for the process of liquidating imports and exports of goods. The new rules tighten control over these foreign exchange transactions; the new rules will come into force on the 31st of August, 60 days following their publication. **Note that these changes are not applicable to the oil and diamond sectors, which observe specific rules for foreign currency operations.**

2| In particular, the main changes observed are, among others:

- Use of Letters of Credit is required for importing goods worth more than EUR 100,000 (or equivalent amount in another currency), allowing for a maximum of 10% of the amount as a down payment;
- Angolan banks intermediating the Letter of Credit process have the responsibility of verifying that the transactions are in compliance with the legislation regarding the Prevention and Combat of Money Laundering and Terrorism Financing;
- Exporters must sell 50% of the forex resulting from exports to the bank with whom they do business; in addition, exporters who proceed to imports should use the foreign exchange resulting from exports to settle imports, buying forex from the retail banks only after exhausting their own foreign currency funds.

B. ANALYSIS

1| Although these are simple changes, they have a significant reach. In fact, forcing importers to use letters of credit also implies more demanding requirements regarding process paperwork. Even if, in comparison with an importing process prior to this legislation, no additional documents are requested (invoice, import license, transport document), the intermediary bank now has **a burden of verifying the "truth, (...) conformity (...) and consistency with the nature of the operation" of the provided documents.**

2| On the other hand, there is a greater focus on controlling the use of traders and offshores. Although trade with involving traders and offshores is not forbidden, the need for separate reporting of these operations will lead to a closer surveillance and more accountability on the side of banks.

3| Moreover, regarding foreign exchange operations in general, the central bank recently forced a change in governance from retail banks, requiring the creation of a Foreign Exchange Control Department, which concentrates the reporting to BNA of all relevant information regarding these operations.

4| Taken together, these changes should hamper fraudulent practices and the unlawful use of foreign exchange transactions, in particular over-invoicing of imports.[1]

5| These change are expected to create some bureaucratic challenges in the execution of international trade operations. It will be necessary to notice whether the increase in red tape and logistics costs will only be temporary (during the adaptation period) or more permanent. It is important to note that there are other changes in the opposite direction, which will make international trade less bureaucratic, such as the simplification of customs clearance procedures - described in our Flash Note No 5/2018 on exports. However, in the interim period of adaptation to the new rules, both factors will certainly contribute to temporary difficulties for the various stakeholders involved. Moreover, the obligation of exporters to provide foreign currency to the banks may encourage the use of informal channels to export.

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[1] Over-invoicing of imports may, for example, lead to unlawful repatriation of capital to a parent company (when the importer is a subsidiary), by charging prices above market balance, among other unlawful purposes.

Box - Other changes made by BNA in 2018

In general, the central bank has been more vigilant and enforcing regarding financial entities, particularly in the regulation and surveillance of foreign currency allocation. In addition, there have been other changes in the scope of financial regulation:

1| Introduction of positive and negative limits to the foreign exchange position of banks, at 10% of Regulatory Own Funds.

2| Increase in the minimum capital requirements of banks, to AOA 7,500 million, to be met by the end of 2018.

3| Publication of an Implementation Guide for future Stress Tests to be conducted.

C. CONCLUSION

1| The new rules on imports are the first step towards a regulatory environment that makes it harder to pursue fraud. In fact, these changes are part of a firmer and more supervising approach by the BNA, which has been broadly felt by the various banks in the system; however, this policy places a very significant burden of self-regulation for banks.

2| In the short term, the period of adaptation and the new bureaucratic requirements could become an barrier to international trade in goods. In particular, legitimate transactions through traders and offshores may face greater scrutiny that may interfere with their normal due course, even if only temporarily. However, the entry into force of the new customs tariff (which lowers tariffs on some goods while and exempting others) together with the reduction of customs clearance red tape may lead to a larger volume of imports in the medium term.