

The New Exchange Rate Reforms and Internally Generated Revenue in Nigeria

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June 2023

The new foreign exchange market reforms

On Wednesday, June 14, 2023, the Central Bank of Nigeria, introduced key operational changes to the foreign exchange market in Nigeria.

Some key changes highlighted in the press release include:

- Introduction of a willing buyer willing seller model.
- Cancellation of the Naira4dollar scheme and RT200 rebate scheme.
- Collapse of all the foreign exchange market segments into the Investors and Exporters (I&E) window (official market).
- More transparency in terms of FX orders in the market.

How did we get here?

Naira firms to N157.25 on offshore investors' dollar flow

The Naira firmed against the US dollar on the interbank market on Wednesday, supported by dollar inflow from offshore investors buying local debt and waning ... [Continue reading](#)

By Channels Television



Updated October 10, 2012

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By Maram Mazen

19 November 2012 at 08:00 GMT

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NEWS

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Published on November 26, 2014

By Daily Post Staff

CBN warns Nigerian government on depletion of Excess Crude Account, foreign reserves

By Bassey Udo — January 22, 2014 Reading Time: 3 mins read

10



As at Dec 2013

External Reserves was – \$42bn

Balance in the excess crude oil account – \$11bn

How did we get here?

Nigerian economy slips into recession

31 August 2016



ARTICLE / 19 DEC 2014

Global fall in oil prices affects Nigerian naira

By Staff Reporter

Naira plummets to all-time low of 472/dollar

29th September 2016

WORLD ECONOMY

Oil is not Nigeria's future: Finance Minister

PUBLISHED WED, JUN 25 2014-1:35 AM EDT | UPDATED WED, JUN 25 2014-AT 3:43 EDT

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Nigeria “technically in recession” – Finance Minister

By Taiwo-Hassan Adebayo — July 21, 2016 Reading Time: 2 mins read

Nigeria is in technical recession, the finance minister, Kemi Adeosun, said Thursday.

Nigeria + Add to myFT

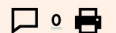
Oil concerns drive slide in Nigerian naira

Stocks also suffer as currency drops to record low against the US dollar



© Bloomberg

Robin Wigglesworth NOVEMBER 20 2014



How did we get here?

CYCLICAL CONSUMER GOODS FEBRUARY 21, 2012 / 7:45 AM / UPDATED 11 YEARS AGO

UPDATE 2-Shoprite sees scope for 700 stores in Nigeria

Shoprite exits Nigeria retail market after 15 years

Business

Shoprite finally leaves Nigeria for good

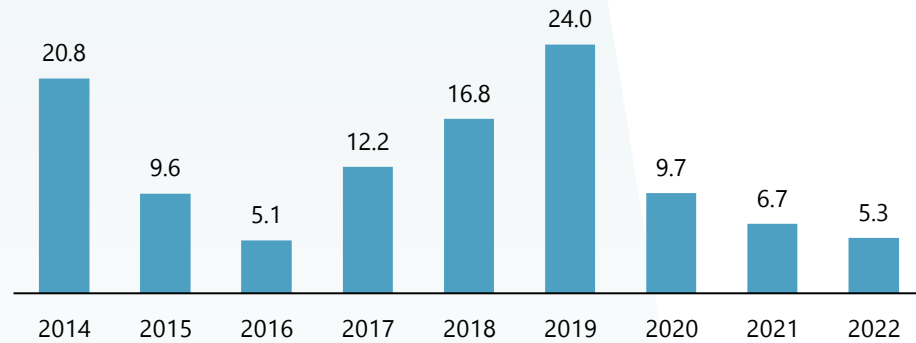
JUDE EGBAS | June 2, 2021 11:18 AM



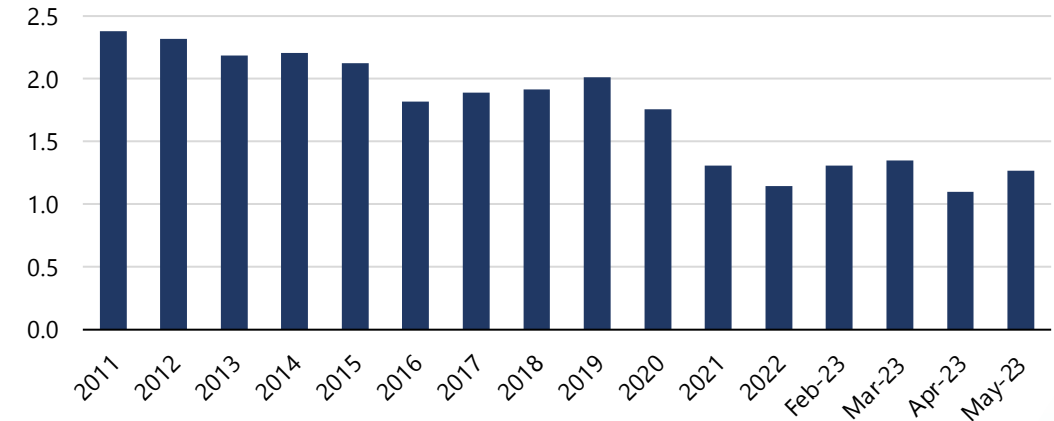
Africa's biggest retailer bids Nigeria farewell.

Investment inflows has declined since 2019

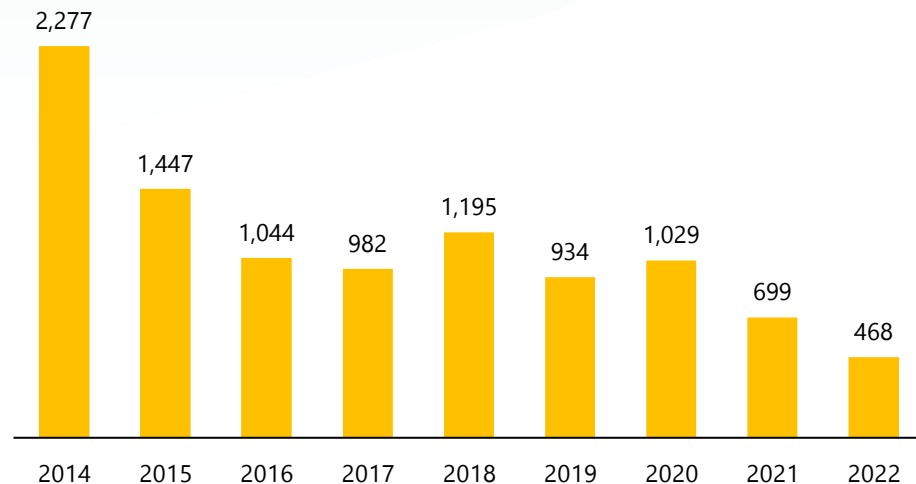
Nigeria's Foreign Investment Inflows (US\$ Billion)



Nigeria's Crude Oil Production (mbpd)



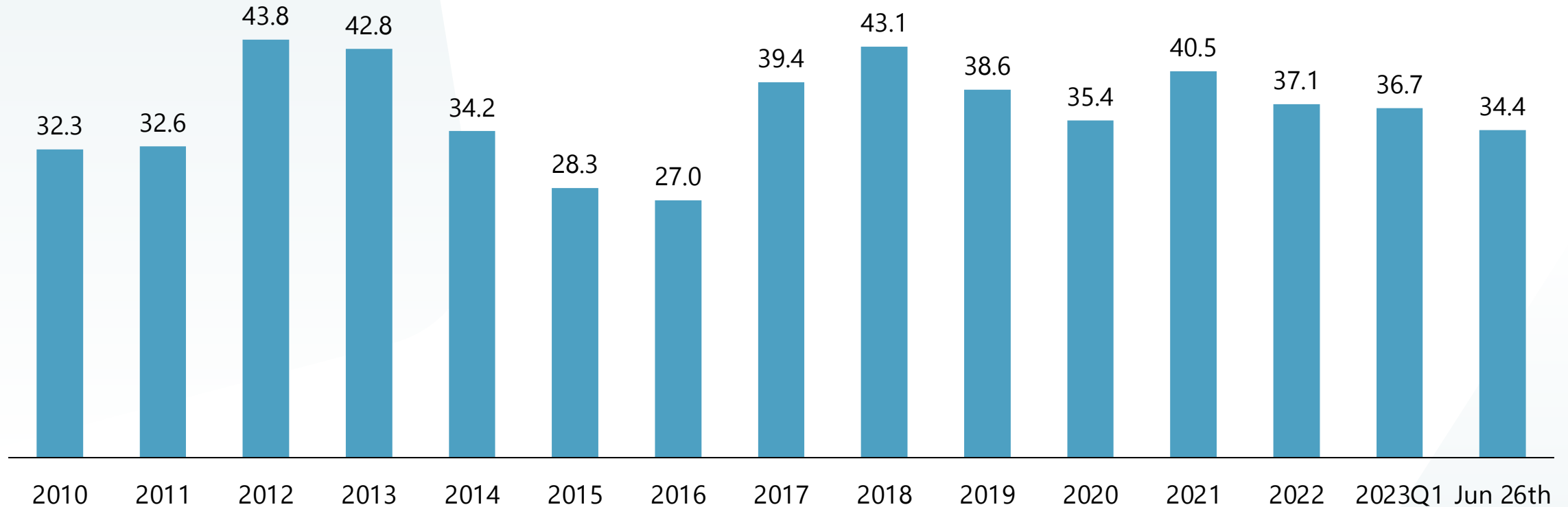
Nigeria's Foreign Direct Investment Inflows (US\$ million)



- Inflows from crude oil has dwindled.
- Poor FPI and FDI inflow signals weak investor confidence in the economy.
- FDI inflow into South Africa was US\$37.6bn in 2021; Egypt +US\$5 billion; US\$31.1 in Indonesia.

Reserves yet to reach its year-end peak since 2012

Nigeria's External Reserves (Billion US\$) (End-period)



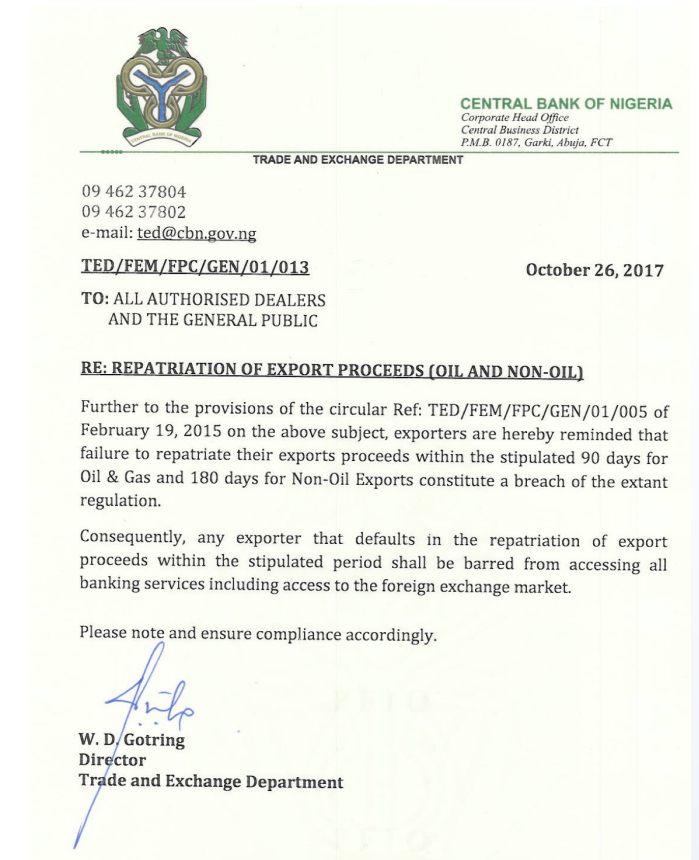
- Reserves can finance about 5-7 months of imports

What did we do?

- Address supply constraints? NO
- Provide clearer policies? NO
- Improve oil production and exports? NO
- Support remarkable growth of non-oil export in total export? NO
- Created the I&E window ✓

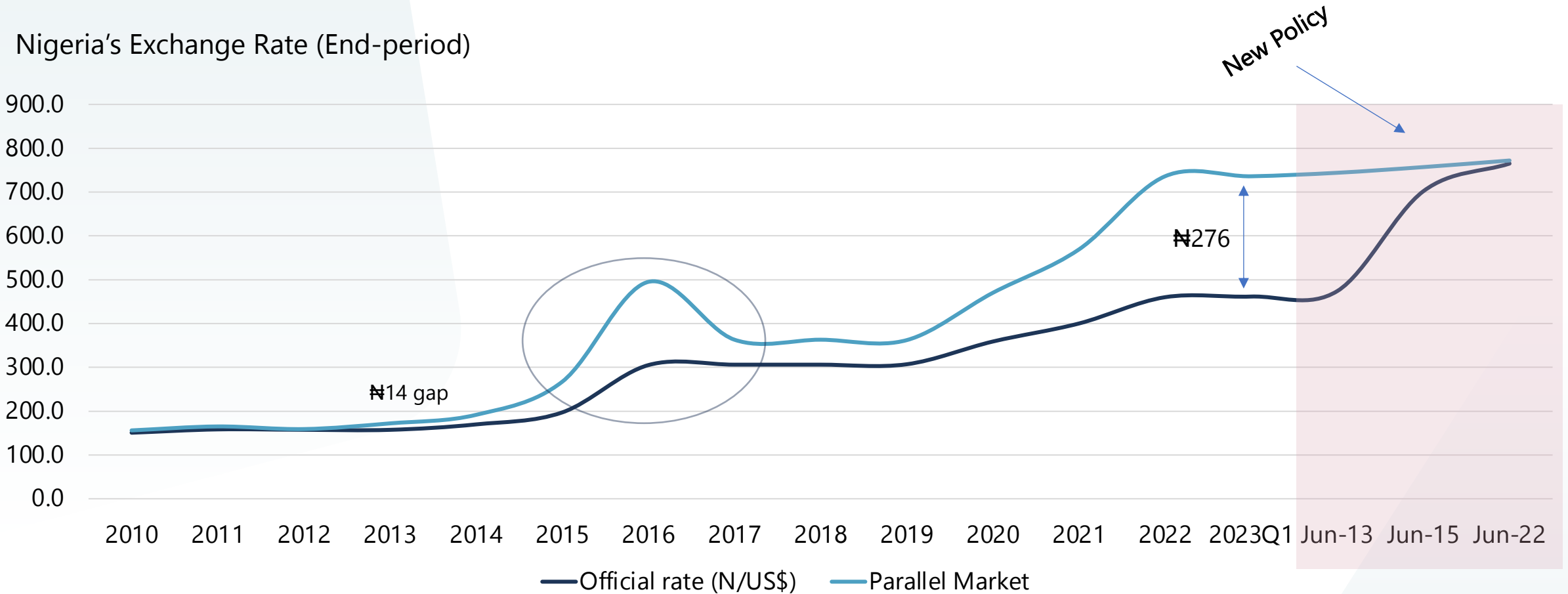
Instead, we:

- “Fought” Aboki FX.
- Refused to accept the significance of the parallel market.
- Introduced RT200 rebate scheme: N65 for every \$1 of repatriated to the I&E window.
- Cut “trees where black market vendors worked in the capital”¹.
- Banned anything that can be banned.
- Released frequent FX circulars –Over 15 in 2017.



¹ <https://www.aljazeera.com/economy/2023/6/14/the-downfall-of-nigerias-all-powerful-central-bank-governor>

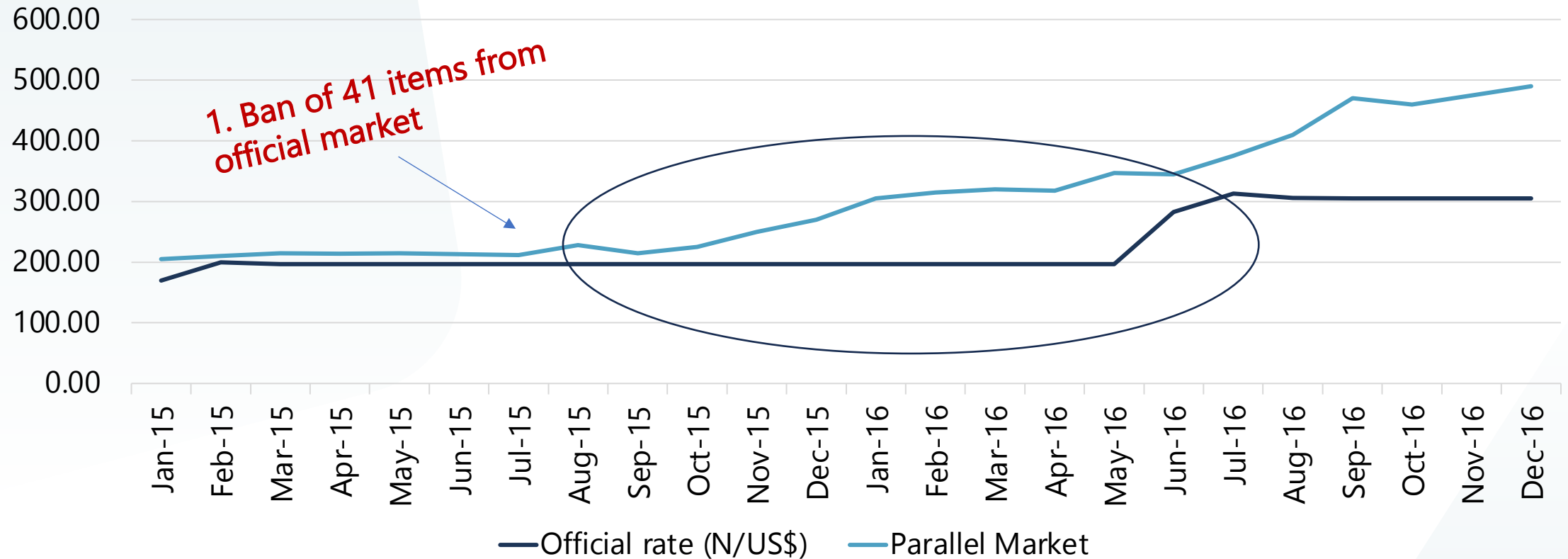
Exchange rate gap widened overtime



- Limited reserve accretion, unstable exchange rate policies, economic recessions, tough business environment are some factors that have led to significant depreciation of the Naira vis-à-vis other currencies.

Three key factors were responsible for the FX problems

Nigeria's Exchange Rate (End-period)



2. FX Restrictions
3. Low net foreign exchange inflows into the market – fall in oil price, oil production, capital outflows, rising import bills etc.

"the moment you ban anything from the official market, you have indirectly legalised the black market" ~ Wilson Erumebor

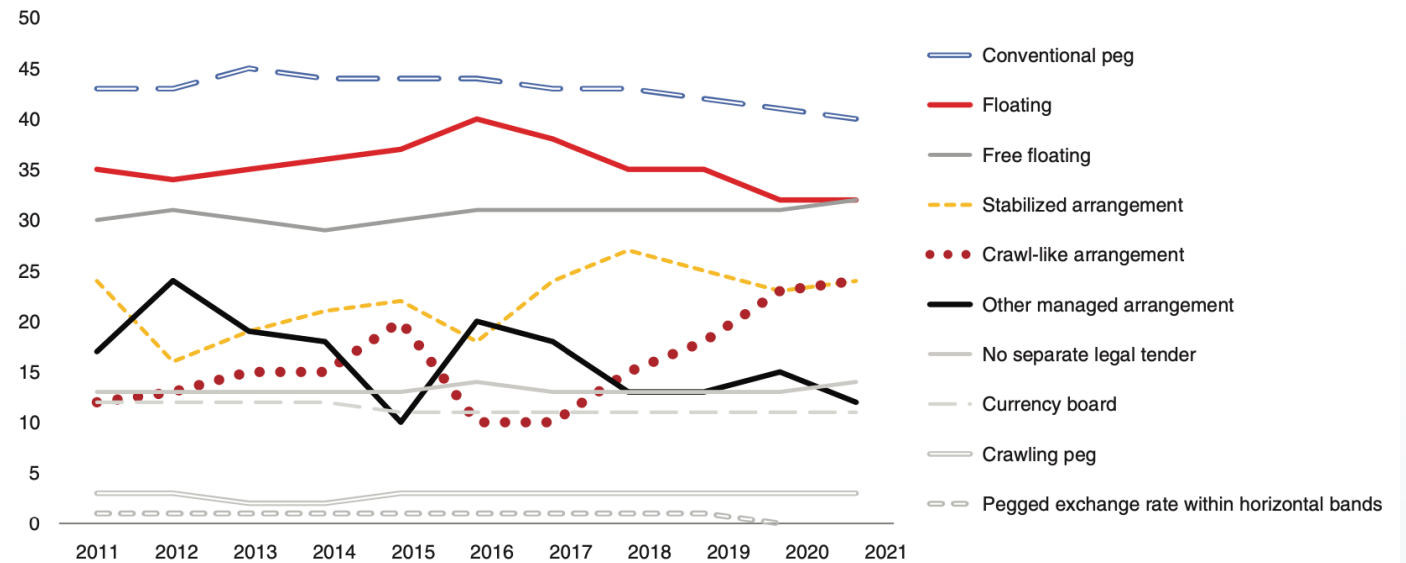
Exchange Rate regimes and their features

Classification of Exchange Rate Arrangements

Hard pegs	Soft pegs	Floating regimes (market-determined rates)	Residual
Exchange arrangement with no separate legal tender	Conventional pegged arrangement	Floating	Other managed arrangement
Currency board arrangement	Pegged exchange rate within horizontal bands	Free floating	
	Stabilized arrangement		
	Crawling peg		
	Crawl-like arrangement		

Exchange Rate Arrangements

(Number of countries as at April 30)



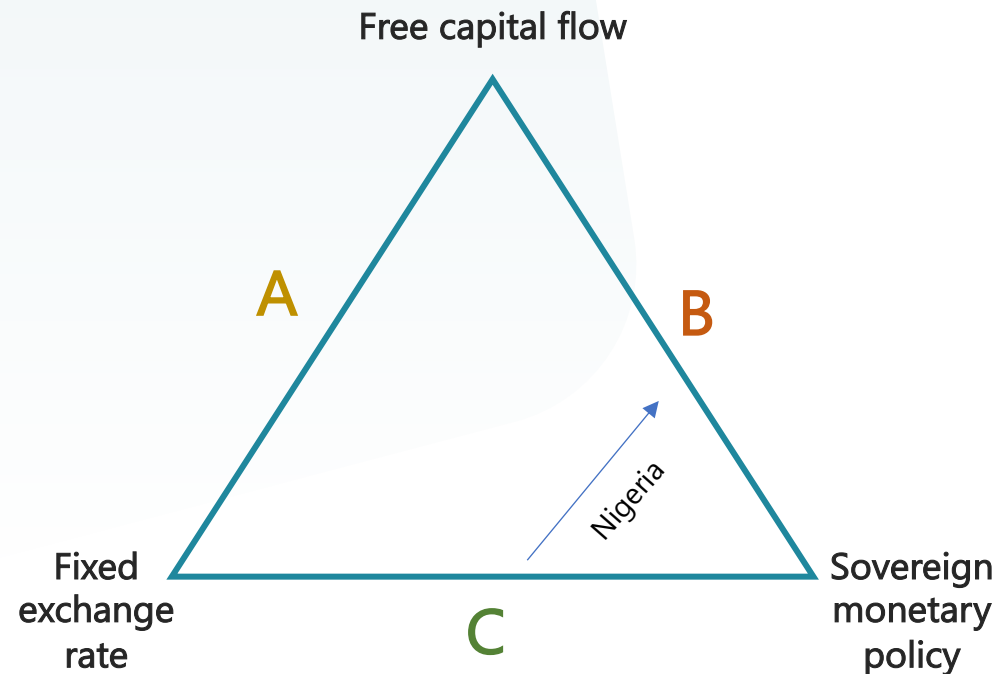
Select exchange rate regimes and countries as at 2021

	Key feature	Countries
Free floating	Influenced by demand and supply.	Australia, Canada, Chile, Czech Republic, Japan, Mexico, Norway, Poland, Russia, Sweden, United Kingdom, Somalia, United States, EMU, Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Portugal, Slovak Rep., Slovenia, Spain.
Managed Floating	Allowed to fluctuate. Occasional Central bank intervention to moderate the rate of change and prevent undue fluctuations in the exchange rate.	Angola, Belarus, Madagascar, Yemen, Albania, Armenia, Brazil, Colombia, Georgia, Hungary, Iceland, India, Indonesia, Israel, Jamaica, Kazakhstan, Korea, Moldova, New Zealand, Paraguay, Peru, Seychelles, Sri Lanka, South Africa, Thailand, Turkey, Uganda, Ukraine, Uruguay, Malaysia, Mauritius, Pakistan.
Crawl-like arrangement	ER must remain within a margin of 2% relative to a statistically identified trend for six months or more	Vietnam, Afghanistan, Burundi, China, Democratic Rep. of the Congo, Ethiopia, Guinea, Rwanda, Costa Rica, Dominican Republic, Ghana, Philippines, Romania, Uzbekistan, Argentina, Malawi, Mauritania, Mozambique, Switzerland, Solomon Islands, South Sudan, Tunisia, Zambia.
Conventional Peg	Formally pegs its currency at a fixed rate to another currency. Heavy central bank intervention to maintain a particular exchange rate $\pm 1\%$.	Aruba, The Bahamas, Bahrain, Barbados, Belize, Eritrea, Iraq, Jordan, Oman, Qatar, Saudi Arabia, Turkmenistan, United Arab Emirates, Cabo Verde, Comoros, Denmark, São Tomé and Príncipe, WAEMU, Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo, Cameroon, Central African Rep., Chad, Rep. of Congo, Equatorial Guinea, Gabon, Fiji, Libya, Bhutan, Eswatini, Lesotho, Namibia, Nepal, Samoa.
Currency Board	Extreme form of fixed exchange rate	Djibouti, Hong Kong, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Bosnia and Herzegovina, Bulgaria, Brunei.

Strong Reserves/
control of imports

The new exchange rate regime needs clarity!

*The impossible trilemma provides some useful context:
Only two of the three goals can be achieved at a time.*



Will the CBN MPC raise interest rate to attract foreign capital as recently argued by foreign fund managers?

Features of the new regime



Movement towards convergence.



High level of volatility:

- June 13 – ₦474/\$
- June 14 – ₦664/\$
- June 15 – ₦702.19
- June 21 – ₦732.79
- June 22 – ₦765.13



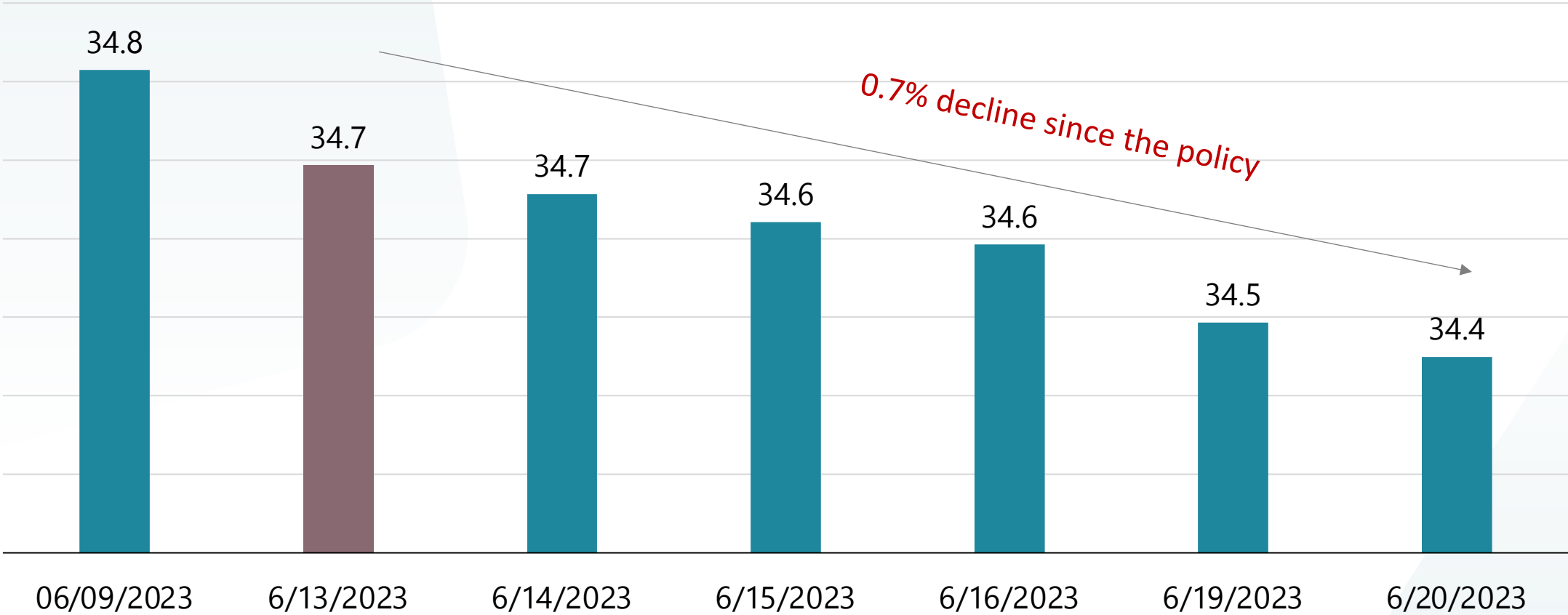
Fragmented rates across outlets.



Depleting reserves?

Reserves has trended downwards in the last few days. Where is the FX supply?

Gross External Reserves (Billion \$)



The new exchange rate regime needs even more clarity!

- The new exchange rate regime aims to:
 - ?
- What role will the CBN play in the new arrangement?
- By how much will the CBN intervene?
- Can Nigeria manage a free-float regime, given the low FX supply?
- Will the new regime attract FX inflows into Nigeria?
- What are the complementary trade, fiscal and industrial measures to support the country's exchange rate policy?
- What is the CBN's next policy move? The CBN MPC?
- Who is in charge? SA on monetary policy?

How will the exchange rate dynamics affect state governments?

	Positive	Negative	Note
Increase in foreign currency debt		✗	Debt will be valued at the new rate. Inflows for many states are majorly in Naira.
Higher debt servicing costs		✗	Cost of servicing foreign debts will increase.
Higher FAAC allocations	✓		A weaker Naira means that FAAC allocations to state governments are likely to increase.
Remittances	✓		High consumer spending and increased VAT.
High VAT	✓		Higher prices means higher VAT inflows. However, this could be offset by lower demand.
Investment inflows	✓		Largely dependent on business environment reforms
High cost of doing business		✗	Companies could down-scale. Implications on PAYE.

Some implications of current exchange rate reforms

- Functional markets – play the role of allocation.
- Implication on foreign reserves are still unclear.
- Impact on inflation will be huge:
 - Prices of imported goods will trend upwards.
 - Petrol prices – No more subsidies.
 - Inflation expectation: Advance purchases, hoarding, high wage demand and speculation.
- Potential for Nigeria to improve exports.
 - Oil and non-oil exports.
 - Services exports.
- Diaspora remittances will increase.
- Nigeria is no longer likely to be the largest economy in Africa by the end of 2023.

Some urgent actions to take

- Provide clarity! Policy signalling is crucial.
- **The goal must be to ensure stable rates.** Stability will provide confidence. Nigeria needs more (net) inflows to ensure stability.
- **The market must be decentralised.** Allow FX to be sold by licenced operators at airports, shopping malls, etc. Not every individual will fill form A or M to get FX in the I&E window, at a rate close to the parallel market rate.
- **There is need for complementary policies to attract inflows of foreign exchange into Nigeria.** Fiscal and trade authorities must incentivize growth - production of goods and services for both the local and export market.
- Implement supply-side policies to cushion the effect of inflationary expectations.
- Ease of doing business and welfare reforms are also crucial.



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Thank You!



The views in this report are those of the author and do not represent the views of the organizations he is affiliated to.

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