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Renewed CBN Commitments, Strategies and Actions So Far

February 2024



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Key Highlights

- ❖ CBN Governor's Briefing to National Assembly (5th Feb)
 - Global Landscape in 2023
 - Domestic Economic Performance
 - 2024 Outlook
 - CBN Strategies to Success
- ❖ Implementations so far
- ❖ Implications and Sustainability



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Global Context

An overview of the challenges in the global economy

1. Dampened international trade
2. High global debt
3. Rising geopolitical tensions
4. Disruptions to supply chains
5. Capital outflows from emerging markets
6. Impact of Russia-Ukraine conflict on energy prices
7. Inflationary pressures
8. Worldwide monetary authorities raising policy interest rates



Domestic Economic Performance

Despite headwinds, Nigeria recorded positive growth;

Real GDP grew by 2.54% in Q3'23

Anticipated sustainable growth in 2024 includes:

- Foreign exchange reforms
- Redirection of funds from subsidy removal to support activities in critical sectors
- Sustained rally in crude oil prices

Insights on 3 macro-variables below



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1. Inflationary Pressures

- Past Trajectory: UPWARDS

Oct'23 - 27.33% | Dec'23 - 28.92% || MoM: Oct - 1.73% from 2.2%

- Main Drivers: food and non-alcoholic beverages
- Other Drivers:
 - Housing
 - Water
 - Electricity
 - Gas and other fuels

- Contributing Factors
 - Deregulation of the downstream fuel sector
 - Exchange rate depreciation
 - Rapid expansion in money supply

CBN PROJECTION: Reversal in trajectory over the short-term

Trajectory Reversal Factors

- Tighter monetary policy stance
- Inflation-targeting regime
- Agriculture supports

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Inflation Management _ MPR Raised by 400bps

To curb inflation and stabilize the economy, the CBN has significantly increased the monetary policy rate (MPR) by 400 basis points. This adjustment sets the MPR at an unprecedented 22.75%, up from its previous level of 18.75%. (see Figure).

Given the nation's steadily rising inflation rate, high cost of production, increased energy cost, and depreciating FX, **the big questions are:**

1. How effective will the new increase be in reducing inflation?
2. What are its immediate effects on the larger economy?



As evident in the trend graph, there were 2 observed situations on effectiveness;

- In 2021, with MPR held steady, the economy naturally tended to recover from the COVID-19-induced high inflation.
- From May 2022, when MPR changed in a bid to reduce inflation to pre-COVID-19 level, it has failed to achieve its set goals and attempts to curb inflation has been unsuccessful.

While **money supply may reduce** as a result of the high interest rates, resulting in reduced borrowing, the MPR increase could also potentially result in:

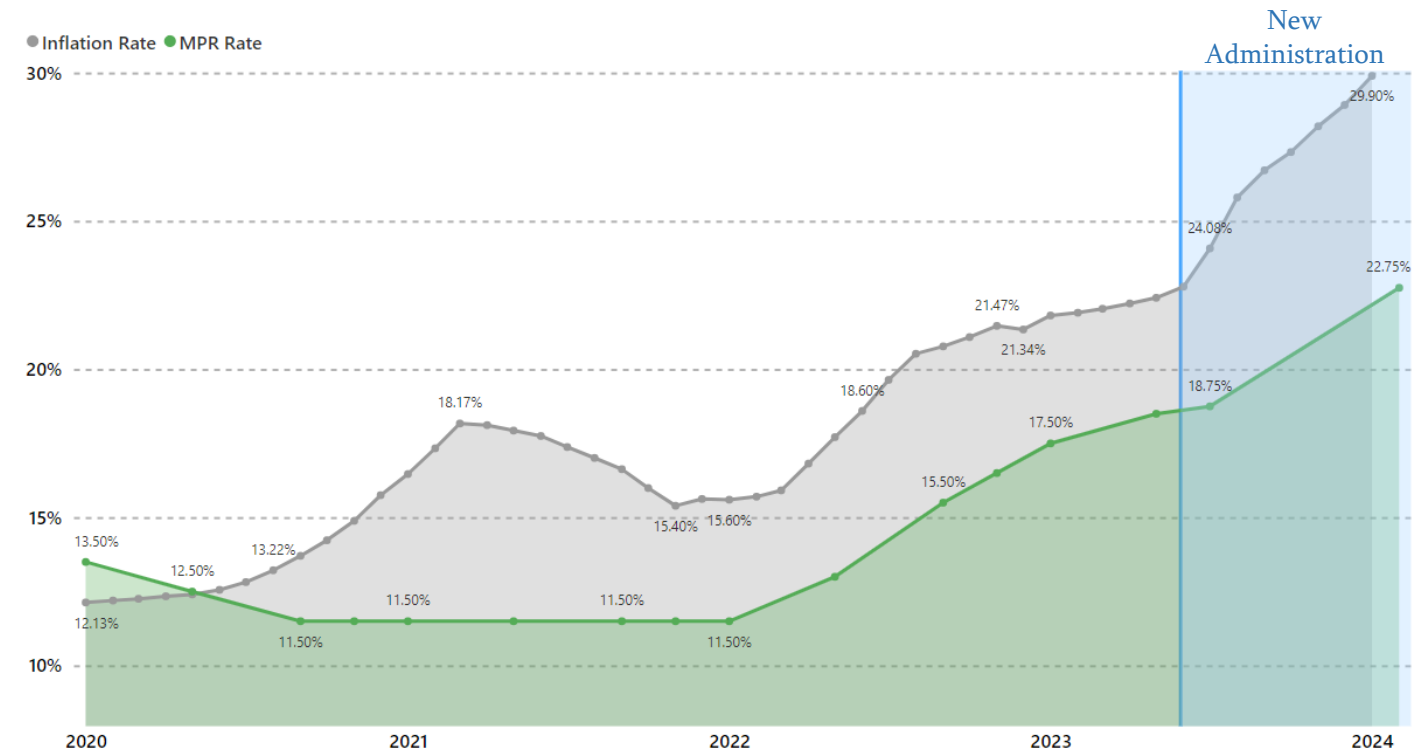
- slowing down in economic activities,
- increasing debt servicing cost
- impacting operating costs and reducing profitability
- move from stock to the now more attractive debt instruments, and
- decrease in real estate demand as interest rates increase

Monetary Policy Rate (MPR)



CENTRAL BANK OF NIGERIA

Trend of Inflation Rate vs MPR



2. Foreign Exchange Management

- Past trajectory after Exchange Rate Unification: **UPWARDS**

Jul – Dec 2023: N758.02 to N849.5/\$

- Aims of Exchange Rate Unification
 - Reduce arbitrage
 - Reduce rent-seeking behavior, and
 - Reduce speculation and increase market predictability

CBN PROJECTION: Strengthening of the naira over the long-term

Strengthening Factors

- Increase in Trade from AfCFTA
- CBN clearing of FX backlogs
- Investments into the manufacturing sector
- Directive for banks to sell excess dollar holdings
- Revamping of International Money Transfer Operations

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ACIOE Insights - Aggressive FX Unification Efforts

1. Directive for banks to sell excess US dollar holdings
2. Ban on banks and FinTech from direct engagement in international money transfer but permitted involvement as AGENTS
3. Increase in license fee by 1900% to an N10M annual renewal fee for IMTOs*
4. Suspension of US dollar withdrawal in cash, mandating that Personal and Basic Travel Allowances be paid only electronically
5. Devaluation of naira to equalize parallel market rate (>N1,500)

Concerns

- Sustainability

The sustainability of CBN policies without actual growth output is inefficient. It may further accelerate depreciation.

- Export Growth

Devaluation can spur export growth, but a lack of cash dollars may reduce liquidity for cash-reliant exporters, undercutting the devaluation's benefits.

- Inflation Surge

Inflation rate may surge due to higher import costs post-depreciation

- Re-emergence of the Parallel Rate

Restrictions on cash dollar withdrawal and international money transfers could revive the parallel market.

* International Money Transfer Operators (IMTOs)



ACIOE Insights - Aggressive FX Unification Efforts

The Central Bank of Nigeria (CBN) has implemented new measures affecting International Oil Companies (IOCs) operating in Nigeria.

The move addresses the practice of "cash pooling," where proceeds from crude oil exports by IOCs are immediately transferred offshore to fund parent accounts, impacting liquidity in the domestic foreign exchange market.

IOCs are now allowed to repatriate only 50% of their forex proceeds immediately, with the remaining 50% to be repatriated 90 days from the date of inflow.

Reasons for CBN's Action

- Enhance Liquidity Management
- Forex Market Reforms
- Promoting Local Currency Use
- Clearing Forex Obligations owed by IOCs.
- Market Stability

Concerns

- Operational challenges for IOCs on the new repatriation schedule impact their cash flow management and overall operations.
- Concerns among foreign investors about the ease of repatriating profits, potentially affecting Nigeria's attractiveness as an investment destination.
- Potential Exit of other Multinationals



3. Oil Market and Revenue Projection

- Positive trajectory in the short-term

Price: Nov'23 - \$82.6 per barrel || Output: OPEC Quota- 1.8mbpd. Actual Output (Q3'23) - 1.35mbpd

- Main Driver:
 - OPEC's steady rise in global crude oil demand

PROJECTION: Decline in the 2024 oil export revenue

- Factor:
 - Low production levels despite OPEC's higher limit than the 2024 budget assumption

Considerations for Upward Trajectory

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- Potential sustained cut or new cut in OPEC output quotas by March review
- Continued Middle East tension
- Increasing national production volumes; increased to 1.4M bpd in Jan-24 from 1.34M bpd in Dec-23



CBN Strategies and Outlook

Governor Cardoso expects a positive outlook for the domestic economy, anticipating robust positive trajectories in 2024

He also articulated some critical strategies of the CBN to support the expectations.



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CBN Policy Strategies

Charged with its Price Stability mandate, the CBN is implementing various reforms this year to rebuild confidence and ensure price stability.

Policy Actions

1. Transitioning to an inflation-targeting regime
2. Aggressive liquidity management mop-up through open market operations (OMO)
3. Strengthening coordination with the Fiscal Authority
4. Foreign exchange market reforms
 - settling outstanding obligations to build confidence
 - implementing measures to reduce pressure and speculation
5. Fine-tuning monetary policy tools:
 - improving liquidity management effectiveness and
 - enhancing communication with the public
6. Demand management measures
 - Tightening monetary policy stands
 - Utilizing forward guidance and transparency
7. Temporarily halt the monetary financing of fiscal deficits, such as **halting Ways & Means advances**, until the existing debt by the Federal Government (FG) is repaid.
8. Other measures
 - Dismantling administrative bottlenecks, and
 - Aggressive recovery of overdue loans

The CBN Governor is optimistic about the reversal of the low performance in 2023 caused by the reforms undertaken by the new administration

2024 Projections

- While short-term pressure may persist, inflation is expected to decline in 2024
- Exchange rate pressure will subside
- Improvement in market ratings and foreign portfolio investments, following CBN new monetary policies
- Sovereign rating improvement; Moody and FIT Ratings



Conclusion

Governor Olayemi Cardoso emphasized the CBN's commitment to ensuring a sound and stable financial sector.

The aim is to encourage investors, create an enabling environment for economic activities, generate employment, and positively impact the livelihoods of ordinary Nigerians.



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