CSEA
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Weekly SNAPSHOT

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CBN adopts a free-floating exchange rate regime

Following the new government's plan to unify multiple exchange rates in the foreign exchange (forex) market, the Central Bank of Nigeria (CBN) has taken the monetary policy decision of floating the Naira. In its latest press release, the apex bank declared some operational changes in the forex market. This includes the abolishment of segmentation and collapsing of all segments in the market into the Investors & Exporters (I&E) window, thus, granting commercial banks and other authorised dealers the green light to sell forex at free, market-determined rates. Accordingly, the supply and demand dynamics in the currency market would control exchange prices. Despite having an immediate effect on the national currency, the strategy represents a desirable long-term solution to the nation's ongoing FX crisis. Nigeria's population is expanding quickly, and the country's consumers are becoming more sophisticated; thus, supply from reserves can no longer meet rising import and foreign exchange demands sustainably. The policy is anticipated to, among other things, encourage healthy market competition and provide a level playing field for both buyers and sellers in terms of transactions. Putting an end to currency arbitrage can slow down the shortage of foreign exchange, as well as the over- and under-invoicing of imports and exports. It can also address the inefficiency of using up foreign reserves to meet forex demands and attract foreign investments that are good for the economy. The anticipated results from the new exchange rate policy must be immediately pursued since these are not gains that will accrue of their own accord. The market needs stronger regulation to combat informalities, such as excessive demand brought on by speculative buying. Possible collusive overshooting of exchange rates among dealers can be controlled using an efficient monitoring and compliance structure. To lessen its sensitivity to outside shocks, particularly those from the oil sector, the government must also increase its efforts to promote exports and minimise its reliance on imports.

Federal government decentralizes power supply

The electricity bill, approved by the national assembly in July 2022 during the previous administration, has been signed into law by the President of the Federal Republic of Nigeria (FRN), Bola Tinubu. The Act, which started with a constitutional amendment under the previous administration to establish a thorough legal and institutional framework that would direct the Nigerian Electricity Supply Industry (NESI), aims to de-monopolize electricity generation, transmission, and distribution at the federal level. The power to produce, transfer, and distribute electricity is granted. States might also authorise the operation of mini-grids and power plants by private investors, including businesses and individuals, to encourage investment and give consumers an alternative to the nation's grids. Nigeria has had limited access to electricity, especially for those living in distant, impoverished areas, with more than 44 per cent of the population living without it. This lack of access has been primarily attributed to inefficiency in the distribution and transmission channels, despite a relatively high generation capacity. By decentralising power supply, the Electricity Act 2023 promises to ensure improved electricity distribution, which can boost economic activities across the country. Not only is the Act anticipated to address issues about electricity access, but it also is a step that leans towards a manifestation of the country's federal system by expanding the power and hence the role of sub-national governments in advancing citizens' welfare. Nevertheless, ensuring that the target outcomes are achieved means that state governments must begin enacting their respective electricity laws and map out clear power generation and distribution strategies. It is also essential for governments to pursue efficiency by adopting alternative sources of energy, especially solar, biogas, or wind, depending on their natural endowments. Furthermore, these constitutional amendments in the bill would enhance sustainable energy throughout the country, stifle bottlenecks in the form of bureaucracy with the current system and give rise to more private sector participation. Hence, the government must ensure that the adoption of best practices prevails and that the decentralisation of this sector does not lead to inequality between rich and poor states.

Rail transport revenue slumps significantly in Q1 2023

The rail transport data released by the National Bureau of Statistics (NBS) for the first quarter (Q1) of 2023 shows that 441,725 passengers travelled by the rail system. This represents a decline of 53.65 percent and 67.03 percent compared to 953,099 passengers and 1.34 million passengers recorded in Q1 2022 and Q4 2022, respectively. The decline in the number of passengers can be attributed to some challenges the sector has experienced recently, including attacks from terrorists and kidnappers, train breakdowns and other related accidents, which have created fear among passengers and affected patronage of the transport system. The increase in ticket costs, cash scarcity and economic hardship caused by the Naira redesign policy in the first quarter of the year also contributed to a fall in general economic activities and hence, the operation of the rail transport sector. Consequently, revenue generation from passengers slumped by 33.45 percent to N768.44 million in Q1 2023 from N1.15 billion in Q4 2022 and by 63.02 percent from Q1 2022. Although the volume of goods transported increased from 39,379 tons in Q1 2022 to 59,966 tons in the period under review, the massive decline in many passengers led to a considerable fall in the total revenue generated by the sector during this period. The railway system has the potential to serve as a fulcrum for Nigeria's economic transformation, solving the enduring transport problems in many parts of the country, but only if existing inefficiencies are addressed decisively. With fuel subsidies now removed, rail could become a cost-cutting alternative for transportation, and patronage could rise. It is important, therefore, to beef up the security network for the sector, leverage public-private partnerships to improve facilities in the sector and ensure the expansion of routes to more states across the country.

ECONOMIC SNAPSHOT	+	
Quarterly Indicators	**‘22Q3**	**‘22Q4**
GDP Growth Rate (%)	2.25	3.52
Oil GDP Growth Rate (%)	-22.67	–13.38
Non-oil GDP Growth Rate (%)	4.27	4.44
Unemployment Rate (%)	NA	NA
Foreign Direct Investment (US $ Million)	81.72	84.23
Portfolio Investment (US $Millions)	442.08	285.26
Other Investment (US $Million)	635.87	691.23
External Debt (FGN & States- N’Trillion)	17.15	18.70
Domestic Debt (FGN + States & FCT N’Trillion)	26.92	27.55
Manufacturing Capacity utilization (%)	NA	NA
Monthly Indicators	**Jan ’22**	**Jan ’23**
Headline Inflation (%)	15.60	21.82
Food Sub-Index (%)	17.13	24.32
Core Sub-Index (%)	13.87	19.16
External Reserves (End Period) (US$ Billion)	40.04	36.99
Official Rate Approx. (N/US$)	414.11	461.00
BDC Rate Approx. (N/US$)	NA	NA
Manufacturing PMI	51.4	NA
Non-Manufacturing PMI	49.01	NA
Average Crude Oil Price (US$/Barrel)	88.71	84.78
Petrol (PMS-N/litre)	166.40	257.12
Diesel (AGO -N/Litre)	288.09	828.82
Kerosene (HHK -N/Litre)	437.11	1,153.40
Liquefied Petroleum Gas (Cooking Gas) (N/5Kg)	3,657.57	4,588.75
MPR (%)	11.50	17.50
CRR (%)	27.5	NA
T-Bill Rate (%)	2.49	1.39
Savings Deposit Rate (%)	1.25	4.29
Prime Lending (%)	11.68	27.63
Maximum Lending (%)	27.65	NA
Narrow Money (N’Trillion)	18.59	20.96
Broad Money (N’Trillion)	45.09	52.97
Net Domestic Credit (N’Trillion)	50.09	68.90
Credit to the Government (Net) (N’Trillion)	14.90	24.65
Credit to the Private Sector (N’Trillion)	35.18	42.25
Currency in Circulation (N’Trillion)	3.288	1.386
FAAC (N’Billion)	766.47	NA

NA: Not Available

1. CBN (2023). Operational Changes to the Foreign Exchange market. Wednesday, June 14, 2023. Retrieved from Operational Changes to FX Market.pdf (cbn.gov.ng)

2. BusinessDay (2023). 35th OPEC and non-OPEC Ministerial Meeting. Retrieved from Tinubu assents landmark electricity bill - Businessday NG

3. World Bank Development Indicators (2023). Access to electricity (% of population) - Nigeria. Retrieved from https://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?locations=NG

4. NBS (2023). Rail Transportation Data (Q1 2023). Retrieved from Nigerian Railway Transport Data Q1 2023.xlsx (live.com)