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Nigeria (Bi-monthly) Economic Outlook

Impact of global economic trends on Nigeria's foreign exchange and the way forward

pwc

October 2023

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Content

Macroeconomic dashboard

GDP Growth Rate

2.5%

Period	Q-o-Q% ▲	Previous
Q2	**8.7%**	2.3%

Exchange Rate- Official

₦769.3/$

Period	M-o-M%▲	Previous*
Sept 29	**-0.35%**	₦772/$

Exchange rate- Parallel

₦1,008/$

Period	M-o-M%▲	Previous*
Sept 29	**9.5%**	₦920/$

Monetary Policy Rate

18.75%

Period	M-o-M% ▲	Previous*
July	**1.4%**	18.5%

Oil Production

1.4mbpd

Period	M-o-M% ▲	Previous
Aug	**7.7%**	1.3mbpd

FX Reserves

$33.2bn

Period	M-o-M% ▲	Previous*
Sept 29	**-1.5%**	$33.7bn

Market Capitalisation

₦36.3tn

Period	M-o-M% ▲	Previous
Sept 29	**2.2%**	₦36.4tn

Inflation

25.8%

Period	M-o-M% ▲	Previous
Aug	**7.1%**	24.1%

Source: NBS, CBN, FMDQ, NGX, Aboki FX, PwCAnalysis

NB: The cut off date is as of September 29, 2023

Setting the context (1/2)

Macro dynamics

- The marginal growth in GDP by 2.5% in Q2 2023 from 2.3% in Q1 2023 was caused by the lingering effect of the cash crunch. **PwC projects 2.8% growth rate** for Nigeria in 2023 and 3% in 2024. This marginal growth projection may be due to the emerging effects of the implementation domestic fiscal reforms by the ministerial and economic management team of the country
- The fastest growing sectors were utilities (31.8%), financial services (26.8%), information & communication (8.6%), and construction (3.4**%). The growth in the activities of the utility sector may be partly attributed to the increase in the number of metered customers by 3.1% to 5.47 million people while increase in interest income, digital transactions and forex revaluation gains may be responsible for the growth in financial services**

Prices and markets development

- Inflation rose to 25.8% in August from 24.1% in July fueled by both food (29.3%) and transportation inflation rates (27.1%)**. We expect that the full effect of the PMS subsidy removal will continue to be a key driver of inflation in the short to medium term**
- **FTSE Russell downgrade of Nigeria from frontline to unclassified market due to low FX liquidity, triggered sell-offs which drove the decline in the All Share Index (ASI) by 1.2% or $1.4 billion (N463.7billion) in market capitalisation on September 13th.** Further downgrades may continue to weigh negatively on investor sentiment
- **To reduce food inflation, wheat import bill and enhance improve food security**, the Federal Government secured $163m AfDB loan for domestic wheat production

Consumer and demand

- **Real income still under pressure** as inflation (25.8% as of August 2023) continues to rise and national minimum **wage remains unchanged in the short-term**. In addition, **input costs (including the Y-o-Y increase of 216% in PMS from January to September) will continue to pass through to consumer prices** further worsening the affordability of goods and services in the economy in the short to medium term
- **Provisional increase in wages of N35,000 to all Federal workers for a period of 6 months. The temporary increase is aimed at alleviating the impact of subsidy removal in the short-term**

Regulatory and policy development (1)

- **Meter prices reviewed upwards by the National Electricity Regulatory Commission (NERC).** The price of single-phase and three-phase meters were raised by 39.7% and 31.1% respectively. The increase is aimed at ensuring balance between reasonable cost recovery for Meter Asset Providers (MAPs) and affordable pricing for consumers, ensuring sustainable meter provision
- **Implementation of the Finance Act 2023 from September 1st, 2023.** The Act introduces key reforms for expansion of the tax base:
- VAT withholding and collection: VAT must be remitted by appointed persons to the FIRS no later than the 14th of the month following collection (e.g., VAT collected in August 2023 should be remitted by September 14, 2023)
- Revised building definition: Certain structures like masts, transmission lines, caravans, and trailers are no longer exempt and are now subject to VAT starting from September 1, 2023

Source: NBS, CBN, PwC Analysis

Setting the context (2/2)

Regulatory and policy development (2)

- Increased Tertiary Education Tax (TET) rate: The TET rate has been raised from **2.5% to 3%** of a company's assessable profits for accounting periods ending on or after September 1, 2023
- Repealed tax benefits: The Companies Income Tax Act (CITA) no longer provides benefits for investment allowances, rural investment allowances, and tax exemptions on income earned in convertible currencies by hotels from September 1, 2023 onwards
- Imposition of a **0.5% levy on goods imported into Nigeria from outside Africa**

Fiscal dynamics

- Public debt rose by 4.6% Q-o-Q to $113bn in Q2 2023 from $108bn in Q1 2023. The rise in public debt is attributed to the securitisation of ways and means (N22.7tn), **a 67% depreciation of the naira which resulted in the increase of total debt by $5bn** *(see Page 6)*
- **Manufacturing, finance & insurance activities and information and communication accounted for 45% of total collection of CIT & VAT.** It implies that revenue collection is not well diversified across the 21 sectors of the economy. This may have implications for reaching the targeted tax to GDP of 18% by 2026 and government revenue generation capacity in the short to medium term

Monetary dynamics

- **Foreign suppliers may not accept letters of credit amid unsettled $7 billion FX obligations to domestic lenders.** This may lead to less imports of the much-needed inputs and goods for manufacturing and retail/wholesale trade which may heighten inflationary pressures and negatively impact GDP growth

CBN Introduced new directives:

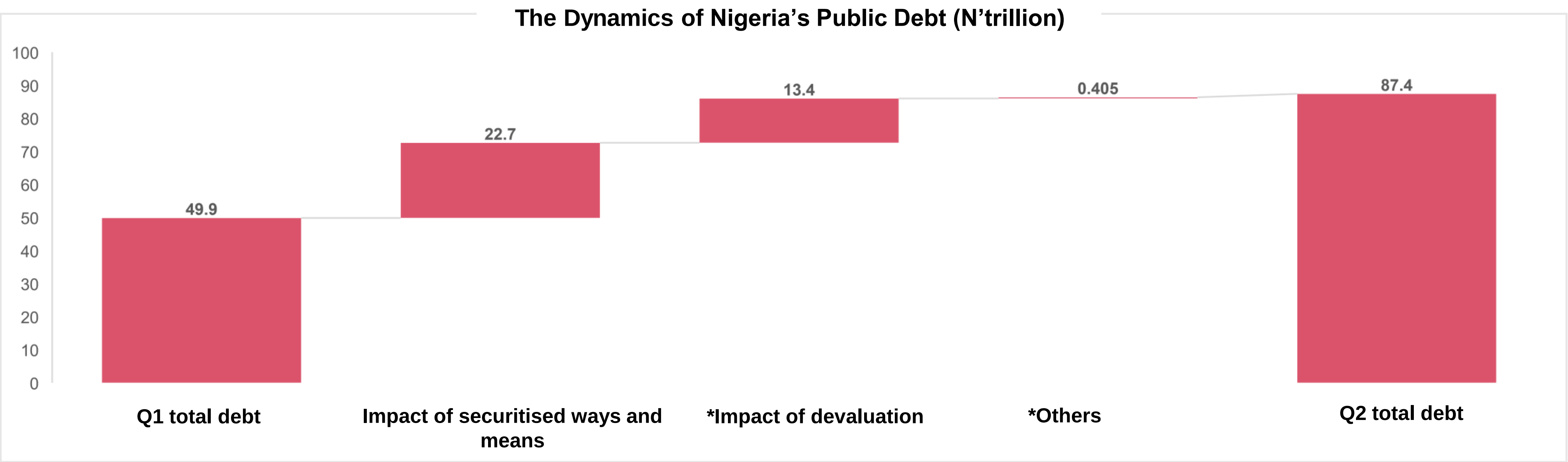
- **Directives to banks to cease from utilising their FX revaluation gains for dividends and operational expenditures.** This is to enable banks to set **aside FX revaluation** gains for counter-cyclical buffers to mitigate potential unfavourable fluctuations in FX rates
- **Directives to all International Money Transfer Operators (IMTOs) operating within the country to strictly follow the allowable limit of -2.5% to +2.5% foreign exchange guideline**. This enables the IMTOs to sell forex above the 2.5% of the preceding day's NAFEX rates. However, there are still compliance concerns on the ability of the CBN to enforce the directive. **Enforcing this directive may help narrow the gap between the official exchange rate and the parallel exchange rate, therefore fostering stability within the foreign exchange (FX) market *(see Page 27 for recommendations on closing the gap)***

CBN introduces new policies:

- The reintroduction of Bureau De Change to increase the supply of foreign exchange, reduce the divergence between the forex markets and strengthen the Naira in the medium to long-term. This raises concerns over the absence of long-term planning by the monetary policy authority.
- The launch of a Foreign Exchange (FX) Price Verification System (PVS) to enable importers gain access to forex. **This may help regularise and standardise the prices of goods and services that people wish to import, potentially reducing the demand for the dollar within the economy**

Source: NBS, CBN, NGX, Proshare, PwCAnalysis

The rise in Nigeria's public debt to N87.4trillion in Q2 2023 could be attributed to the impact of securitisation of ways & means, and the naira devaluation



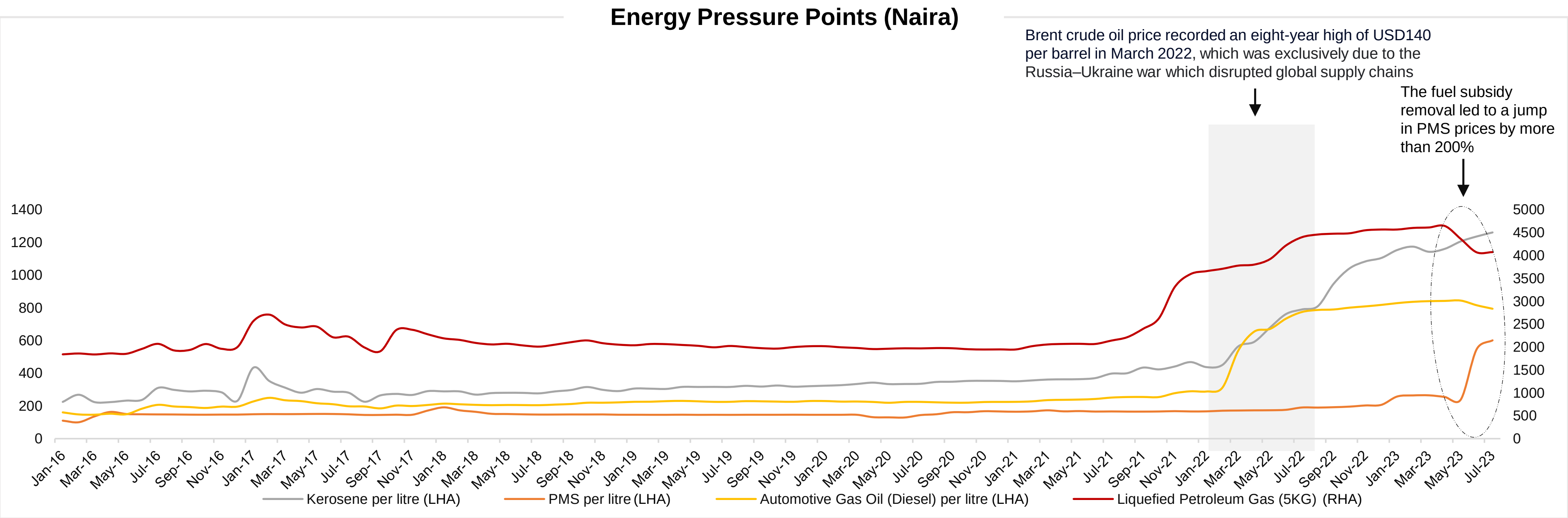
**External debt as of Q2 2023 was $43.2billion at an exchange rate of N770.38/$ while the exchange rate as of Q1 2023 was 460.35*
**The impact of devaluation was calculated using the difference in official exchange rates in Q1 and Q2 2023 multiplied by the external debt in Q2 2023 to obtain the revaluation gain*
**Others are estimated and may include new borrowings*

Source: DMO, PwC Analysis

Insights

- The securitisation of ways and means, and the impact of the devaluation of the naira accounted for 59.1% and 34.9% respectively of the rise in public debt in Q2 2023. A sustained rise in public debt may negatively affect the country's credit ratings, subsequently increasing the cost of borrowing

The rise in all energy pressure points may further squeeze consumer's purchasing power



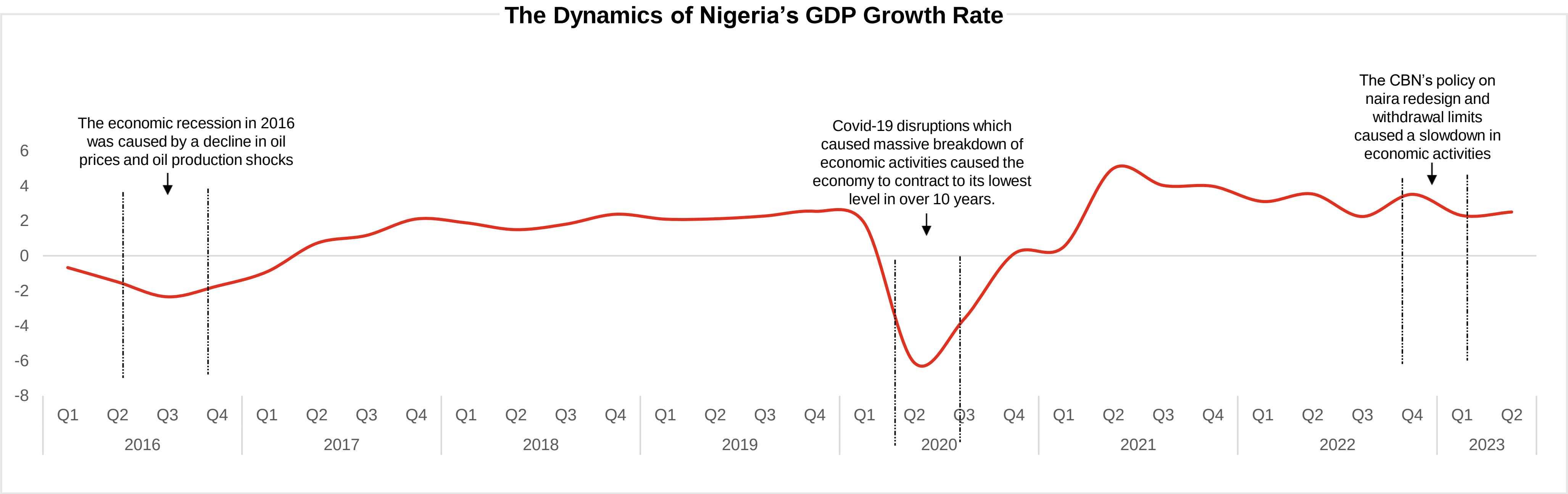
LHS – Left Hand Side, RHS – Right Hand Side

Source: NBS, PwC Analysis

Insights

- All identified energy pressure points which include kerosene, PMS, Automotive Gas Oil, and Liquified Petroleum Gas have been **deregulated by the government. This implies that they may likely move in the same direction with the trends in the international oil price.**
- The rise in energy pressure points due to increases in international oil price will **further squeeze consumer's purchasing power**
- **Although the prices of petroleum products may possibly be moving in the same direction, the price of PMS may not be on par with the other products** due to the likelihood of partial subsidy being reintroduced to cushion the effect of a rise in PMS price, in the absence of increase in the minimum wage for the labour force and palliative measures for the poor

Slowdown of GDP growth in Q2 2023 to 2.5% was attributed to continued effect of naira redesign policy



Source: NBS, PwC Analysis

Insights

- The marginal growth in GDP by **2.5%** in Q2 2023 from **2.3%** in Q1 2023 was caused by the lingering effect of the cash crunch and the emerging effect of domestic reforms (**subsidy removal and FX liberalisation**)
- GDP is expected to grow marginally in Q3 2023 due to slowdown of economic activities occasioned by prevailing macroeconomic headwinds. **PwC projects 2.8% growth rate for Nigeria in 2023 and 3% in 2024**
- Transportation **(-50.6%)** and Mining & quarrying **(-12.2%)** sectors recorded growth contractions while agriculture (**1.5%**), real estate (**1.9%**), and manufacturing (**2.2%**) recorded slow growth. The negative growth in the mining and quarrying sector is due to **business contractions in the oil and gas sector, while the increase in PMS prices accounts for the contraction in the transportation sector**

Information & communication sector is the only fast growing dominant sector

Dominant sectors

Fast growing

01

- Information & communication – 8.6%

Slow growing

02

- Trade – 2.4%
- Manufacturing – 2.2%
- Agriculture – 1.5%

03

- Financial & insurance – 26.8%
- Construction – 3.4%
- Accommodation & food services – 3.4%

Fast growing

04

- Transportation & storage – (-50.6%)
- Mining & quarrying – (-12.1%)
- Arts, entertainment & recreation – 2.5%
- Professional, scientific & technical services – 2.9%

Slow and contracting

Small sectors

Key insights

- The information and communication sector is the only **dominant sector with a fast growth of 8.6%**. The growth in the sector may be attributed to the increase in consumption of data services and subscriber number
- Financial and insurance sector **growth of 26.8% may be attributed to the rise in interest income, digital transactions and forex revaluation gains**
- The transportation and storage sector in Nigeria **experienced a significant contraction primarily due to the Federal Government's removal of the PMS subsidy.** This decision resulted in higher PMS prices, prompting many private car owners to opt for public transportation especially those with lower income to reduce their travel. As a result, **transportation fares for both local and inter-state journeys have risen**, deterring many from commuting and impacting their personal and business activities

***Assumptions**

1. Sectors with more than or equal to N1trillion activity are classified as dominant economy while sectors below N1trillion are small sectors
2. Fast growing sectors are sectors with growth rate more than 3% while slow growth rate are below 3%

Economic context and outlook

Key Assumption Drivers

Prices and markets development

- **Inflation is expected to rise** in the short to medium-term on the basis of increased petroleum prices and a devalued naira on food, transport and non-food prices
- Petroleum products expected to rise on the back of the rise in the international oil price. This will impact the food, transport and core inflation

Consumer and demand

- Consumers are **expected to be pressured by higher prices** causing demand to slow down
- **Wage adjustments unlikely to be on par with inflation simultaneously and proportionately**

Fiscal dynamics

- **Newly installed ministerial cabinet** to drive economic direction and fiscal policy management
- **Implementation of the Finance Act 2023** from September 1st. The Act introduces key reforms for expansion of the tax base
- Brent crude oil price rose to $94/b on September 13, the highest since November 2022. Goldman Sachs predicts that oil prices will reach $107/b by end of 2024

Monetary dynamics

- Lack of forward guidance on FX policy and **unsettled backlog of FX obligations** may continue to impact investor sentiment
- Reintroduction of **BDCs** to provide relief from the continued devaluation of the naira in the short to medium term
- The appointment of a new CBN governor and management team will shape the direction of the monetary policy

Likely Impacts

Growth

- Continued inflationary growth and rise in the cost of living **may lead to marginal real economic growth in the medium term**
- **PwC projects 2.8% growth rate** for Nigeria in 2023 and 3% in 2024

Investment

- Capital reallocation from the Nigeria's economy may continue to impact foreign investment flows in the short to medium term
- Investors may adopt a wait and see approach due to lack of forward guidance on FX policy ***(see Page 21-25)***
- **The unsettled FX backlogs may lead to scarcity of goods and inputs for manufacturing and trade leading to further increase in prices**

Government Spending

- Government spending will rise but continue to be constrained by debt servicing obligations and huge fiscal deficit

Consumer Demand

- Rise in energy, food, transportation and import costs may **dampen consumer spending on non-discretionary items**
- S&P projects 2.8% growth in consumption demand in 2023 and 2.9% in 2024

Production

- High FX rates may **drive up cost of goods & services and impact negatively on firm performance**
- **Businesses may likely incur losses due to the impact of increased interest rates, devaluation losses, among other challenges**
- The reintroduction of BDCs and adoption of the FX Price Verification System to improve accessibility and accountability in the long term. In the short-term we expect that FX will still be in short supply
- S&P projects -1.6% in industrial production in 2023 and growth of 6.7% in 2024

Net Exports

- Net exports will continue to be pressured given FX unavailability

Source: S&P, PwC Analysis

Framing the relationships between global trends and Nigeria FX market

Five global trends

- Tightening monetary environment to curtail inflation
- Concerns on debt sustainability
- Heightened geopolitical risk
- Weakening global trade
- Slowing GDP growth

- Cost of funding
- Capital reallocation
- Trade balance
- Remittances
- Confidence

FX Market

Supply dynamics

Net flows

Demand dynamics

Investors + market confidence

Market Mechanisms and Governance: Access, Friction, Transparency, Market Debt and Financial Instruments, Price Discovery

Monetary+ FX Market Strategy + Policy

Local trends

- Fiscal policy + development (fiscal balance, debt)
- Local economy growth/ performance (exports and Imports, inflation etc.)

Financial and capital market activities

FX Outcomes

- Stability + volatility
- Price evolution
- Flexibility to shocks

Key global trends

Tightening monetary environment to curtail inflation

- Monetary policy tightening to curtail inflation led to the US Fed and ECB raising rates 11 and 10 consecutive times respectively. **The ECB raised policy interest rate by 25 basis points to 4% in September. On the other hand, the Federal Reserve and BoE held the interest rate steady in September. But the Federal reserve stiffened its hawkish stance by projecting further rate increase by the end of the year**
- As the fight to bring inflation back to target continues, the IMF expects global interest rates to remain high for quite some time

Concerns on debt sustainability

- In 2022, global public debt – comprising general government domestic and external debt – reached a record $92 trillion. Developing countries owe almost 30% of the total, of which roughly 70% is attributable to China, India and Brazil
- Economies already susceptible to weaknesses may encounter additional rises in borrowing expenses. Several nations, **including Zambia, Sri Lanka, Ghana, Pakistan, and Tunisia, face mounting challenges in servicing their debts**

Heightened geopolitical risk

- Elevated levels of global energy and commodity (oil, uranium and grain) supply risks from political tensions in Gabon, Niger and the Russia-Ukraine conflict. These geopolitical challenges is coupled with the coalition of voluntary supply cuts led by Saudi and Russia
- Fueled by the pandemic and Russia's war in Ukraine, **the IMF foresees an increasingly fragmented world For instance, FDI is now increasingly driven by geopolitical preference**

Weakening global trade

- **China's trade performance showed a 8.8% (y/y) decrease in exports and a 7.3% drop in imports in August**. While the United State' recorded a slow growth in import and export (y/y) by 1.7% and 1.6% respectively
- Due to supply chain disruptions and national security concerns trade restrictions by countries have increased significantly. These trade policy actions could pose a serious threat to global prosperity

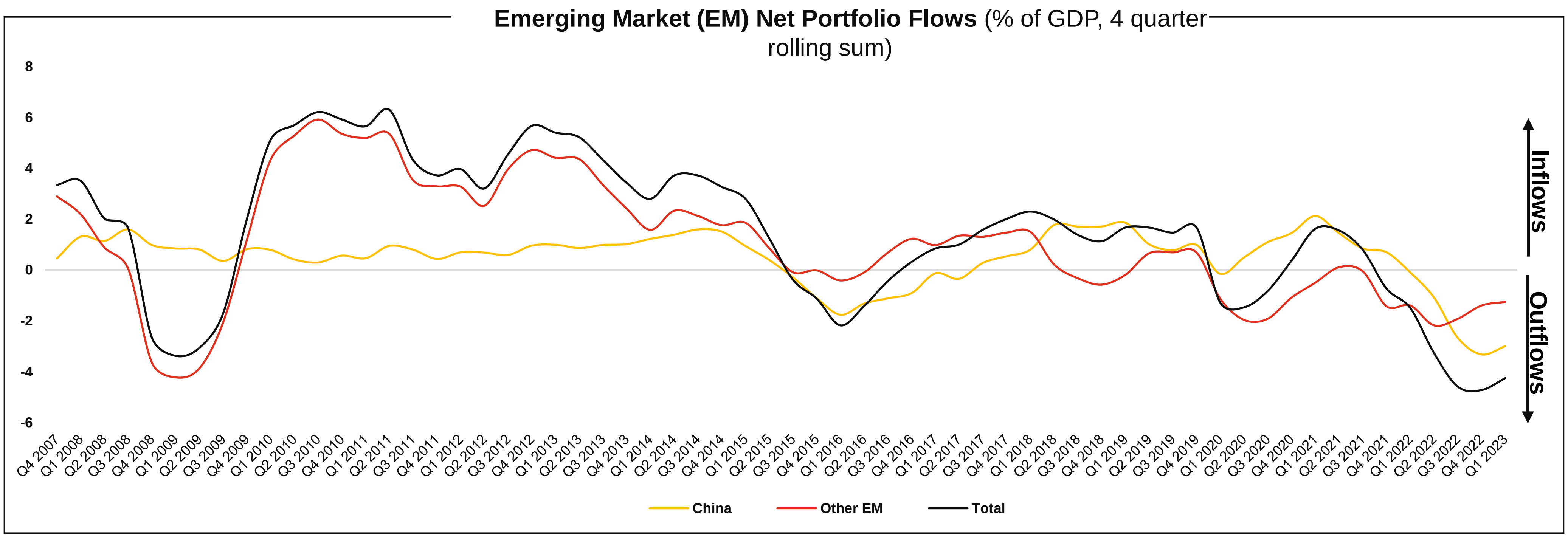
Slowing GDP growth

- Global GDP growth is expected to slow down with economic projections falling short of historical growth
- **IMF projects that GDP growth in the United States, the EU and the UK is expected to decline to 1.8%, 0.9% and 0.4% respectively in 2023**

The impact of the global transmission mechanisms on price discovery, liquidity, and friction in forex access in Nigeria

Transmission Mechanism		Assessing the transmission mechanism on price discovery, liquidity, and friction in forex access
1	Cost of funding	Increase in debt concerns which has led to **lowering of credit ratings** may lead to increase in the cost of international fund. This may increase the demand pressure on forex to meet future FX debt service obligations. This is evident in the **decline in capital importation from $24 billion in 2018 to $5.3 billion in 2022**
2	Capital reallocation	• The increase in global Central Bank's policy rate may lead to capital reallocation away from Nigeria financial market to other markets with more attractive yields on investment. This may reduce FX flows to the economy • **The Nigeria MSCI index recorded a significant decline of 113%, from 23.5% in 2020 to -3.02% in 2022**, reflecting capital reallocation to other economies
3	Trade balance	A marginal trade surplus may lead to an increased pressure on FX threatening liquidity in the forex market. In Q2 2023, Nigeria recorded a positive balance of trade of $2.3 billion. The positive trade balance could be attributed to the **growth of total export by 9% (y/y) to $12.5 billion**
4	Remittances	A weak global economic growth may negatively affect remittance flows into the economy. The decline in remittance flows may reduce FX flows to the economy. Though **remittances to Nigeria accounted for 38% of the total flows to the region, it increased by only 3.3% to $20.1 billion**
5	Confidence	Lower credit ratings due to Nigeria's widening fiscal deficit, debt service to revenue ratio may reduce confidence in the Nigeria economy. **This may lead to reallocation of funds from the Nigerian economy and reduction in FX flows**

The global financial landscape is more challenging (1/2)



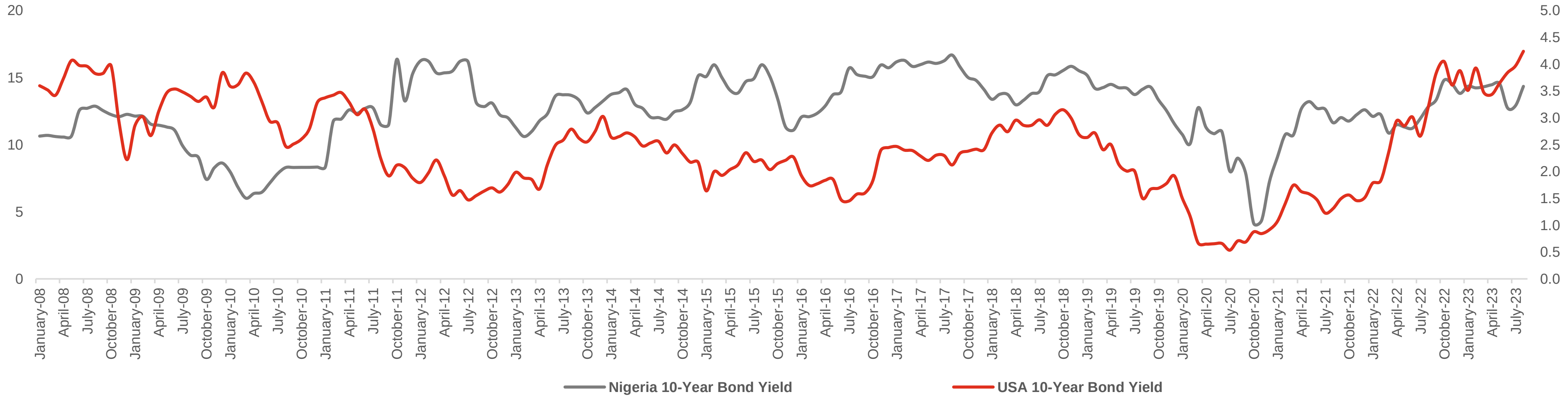
Sources: IMF, 2023 External Sector Report and IMF staff calculations

Insights

- Since the U.S. began its tightening cycle 18 months ago, EM dollar bond yields rose by roughly 200 basis points, foreign currency bond issuance fell significantly, and portfolio flows to major EMs sharply declined

The global financial landscape is more challenging (2/2)

Sovereign Bond Yields
(%, US$ denominated)

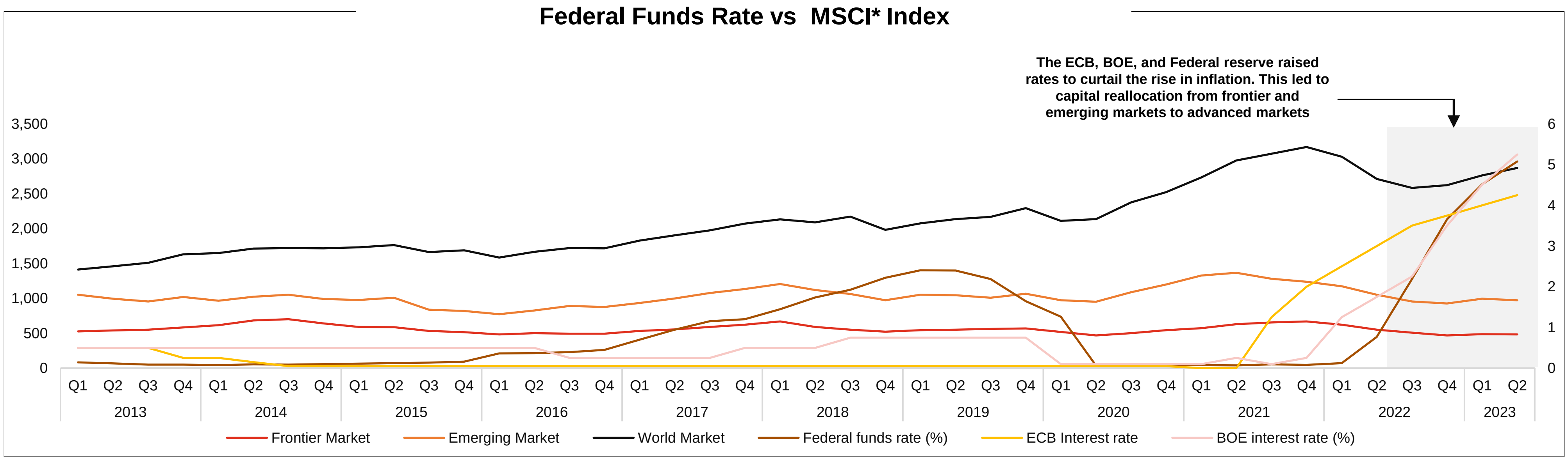


Source: DMO, Investing.com, PwC Analysis

Insights

- The nominal yields on 10-year US Treasury bonds have risen above 4%, reaching their highest point since the Global Financial Crisis

Increase in interest rates may lead to reallocation of capital from frontier markets



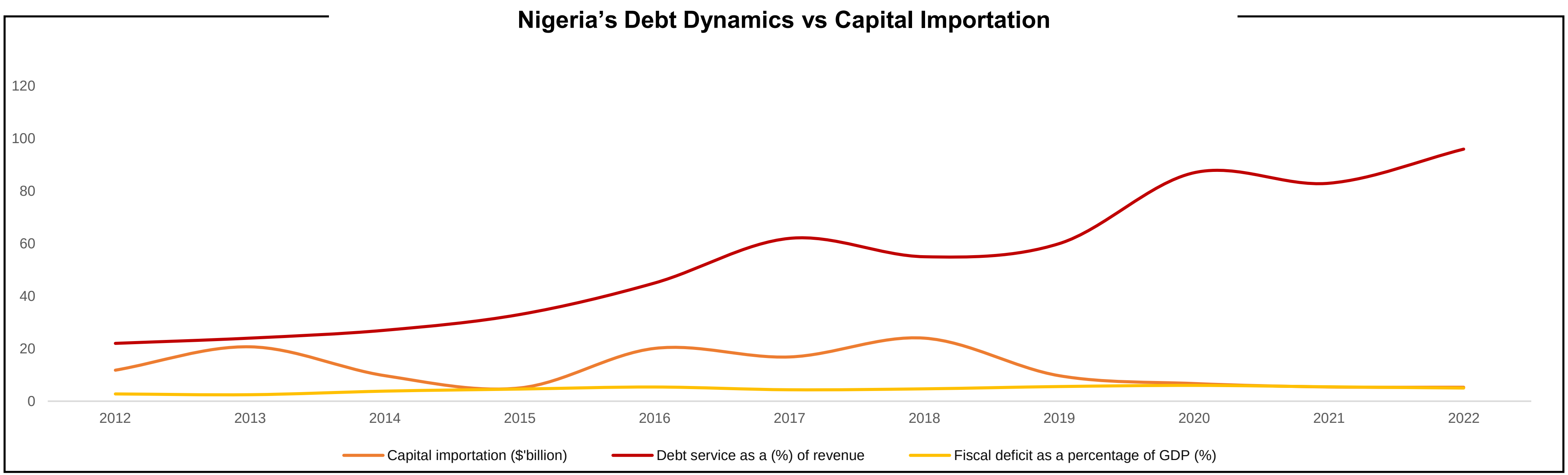
Source: NBS, MSCI, PwC Analysis

Insights

- Following the increase in the fed funds rate to a target range of **5.25%-5.5%,** there has **been a rise the MSCI index of the developed markets** as **investors** move capital from the frontier markets to take advantage of higher attractive yields
- The Nigeria MSCI index outperformed both the MSCI frontier index **(23.52% vs. 1.43%)** and the ACWI index **(23.52% vs. 16.25%).** However, between 2020 and 2022, the Nigeria MSCI index experienced **a significant decline of 113% to -3.02% in 2022**. This suggests a **notable capital fligh**t from Nigeria during that period

- Frontier Markets countries include: Bahrain, Bangladesh, Burkina Faso, Benin, Croatia, Estonia, Guinea-Bissau, Iceland, Ivory Coast, Jordan, Kenya, Lithuania, Kazakhstan, Mauritius, Mali, Morocco, Niger, Nigeria, Oman, Pakistan, Romania, Serbia, Senegal, Slovenia, Sri Lanka, Togo, Tunisia and Vietnam.
- MSCI is an acronym for Morgan Stanley Capital International*

Rising debt service to revenue ratio has led to the reallocation of capital away from the economy



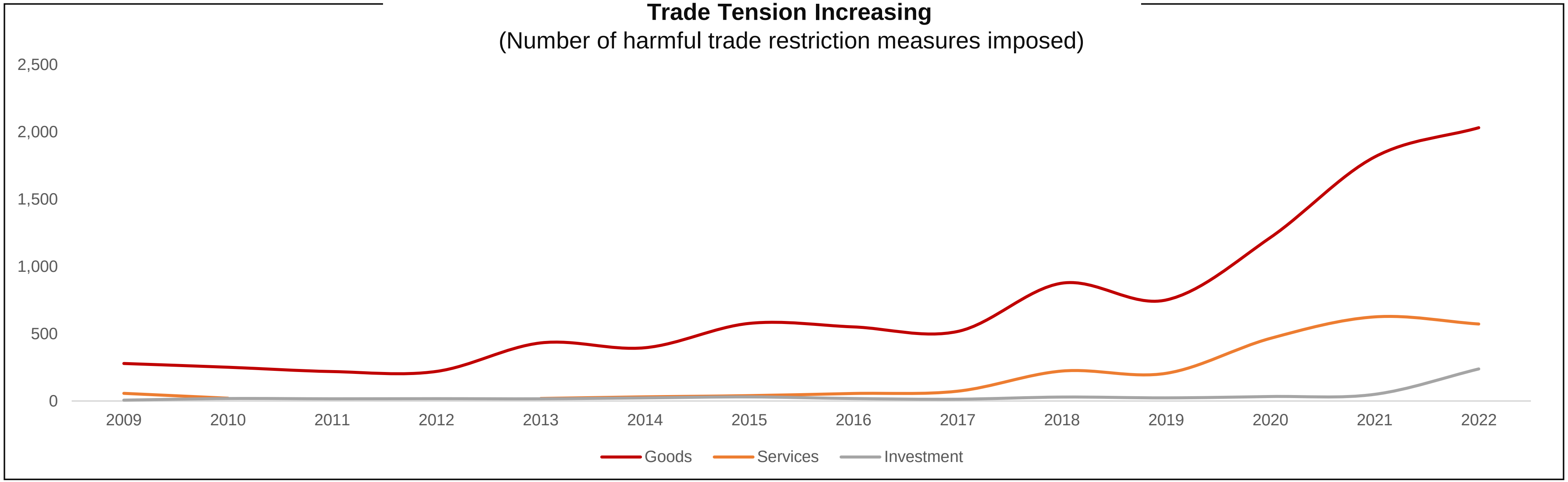
Source: NBS, World Bank, PwC Analysis

Insights

- **Nigeria debt service to revenue ratio increased to 96% in 2022 raising concerns about its** widening fiscal deficit, high debt servicing to revenue and rising debt to GDP ratios**. This led to l**ow credit rating (Moody, Fitch) which implies access to international funding will be costly and investors are likely to rea**l**locate funds to other attractive and stable markets

- This is evident in the decline in capital importation from **$24 billion in 2018 to $5.3 billion in 2022**

The prevalence of geoeconomic disintegration is on the rise



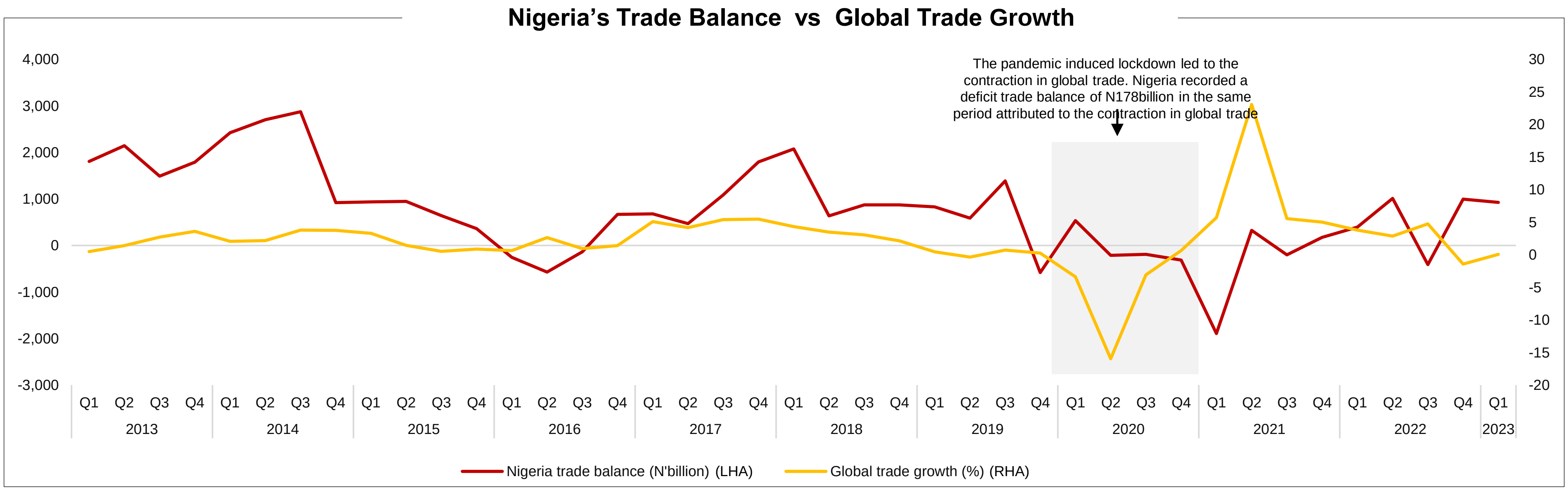
Sources: Global Trade Alert; IMF World Economic Outlook (April 2023)

Insights

- **Around 3,000 trade restrictions were imposed last year—nearly 3 times the number imposed in 2019**. The pandemic and Russia-Ukraine war has led to the rise in trade restriction because of the supply chain disruptions and national security concerns it caused

- For example, Nigeria currently produces only **10% of the wheat it consumes**, making it highly dependent on imports (import stood at **$2.1 billion in 2022, 4% of total import**). Therefore, Russia's exit from the Black Sea grain deal is affecting Nigeria's effort to become self-reliant in industries that rely on wheat as a key input in local production. The country was already facing challenges in growing wheat because of climate change and insecurity

Decline in global trade growth may adversely affect Nigeria's trade balance and FX inflows



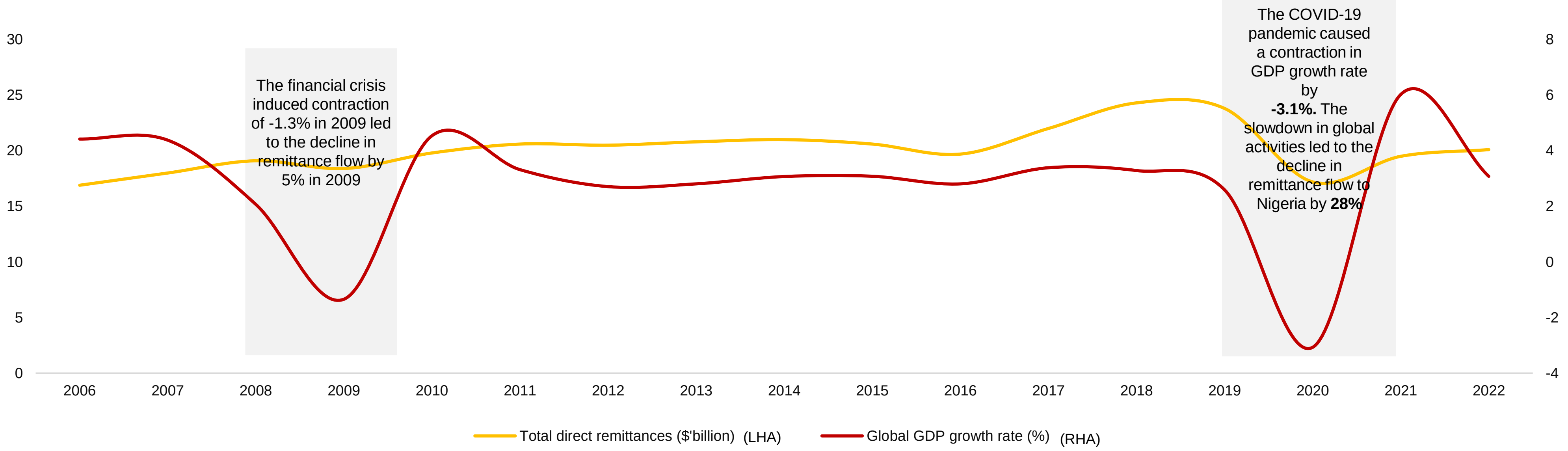
Source: NBS, World Bank, PwC Analysis

Insights

- After two quarters of decline, global trade improved in Q1 2023 by about **2% compared to Q1 2022**. This was due to **China's economic resurgence** after lifting lockdown measures. However, UNCTAD predicts **weak growth in Q2 2023** due to persistent inflation, financial vulnerabilities, the Ukraine conflict, and geopolitical tensions, all negatively impacting global trade. Overall, the outlook for global trade in the latter half of 2023 is pessimistic due to these prevailing negative factors
- In line with the above trade projections, China's July exports dropped by double digits. According to the Country's customs data, exports fell to $281.8 billion. Demand for Chinese exports cooled after the Federal Reserve and Central Banks in Europe and Asia started raising interest rates last year to cool inflation that was at multi-decade highs

Weakening global growth may decelerate remittance flows to the country

Nigeria's Total Direct Remittances vs Global GDP Growth Rate

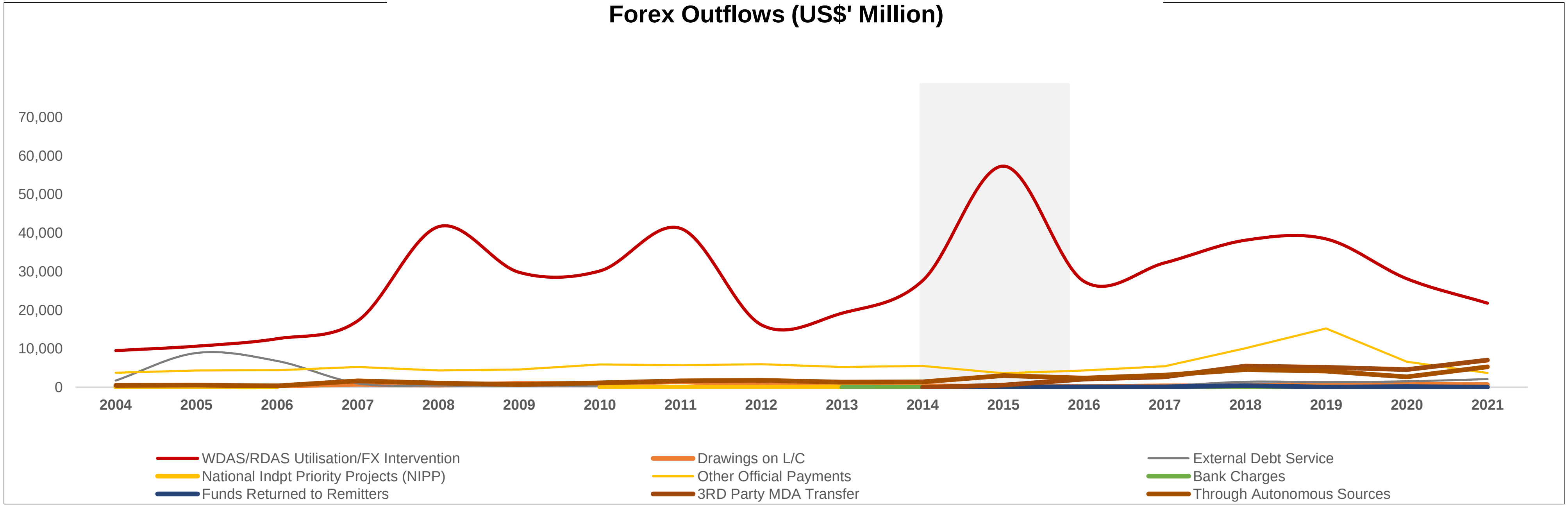


Source: CBN, World Bank, PwC Analysis

Insights

- Remittance flows to low and middle-income countries is expected to remain resilient but slow to **$656 billion (2022: $647 billion)**, which represents growth of **1.4% by 2023** compared to **8% growth in 2022**
- The slow growth is due to the softening of economic activity in remittance source countries, limiting employment and wage gains for migrants. Remittance flows to Sub-Saharan Africa in 2022 was largely driven by strong remittance growth in **Tanzania (25%), Rwanda (21%), Uganda (17%), Ghana (12%), and Kenya (8.5%).** Though remittances to Nigeria accounted for **38%** of the total flows to the region, it increased by only 3.3% to $20.1billion
- **In 2023, growth in remittances to SSA is expected to ease to 1.3%. Sending $200 to the region cost on average 8% in the fourth quarter of 2022, up from 7.8% a year ago (World Bank)**

WDAS/RDAS utilisation and FX intervention accounted for 70% of FX outflows between 2004 and 2021

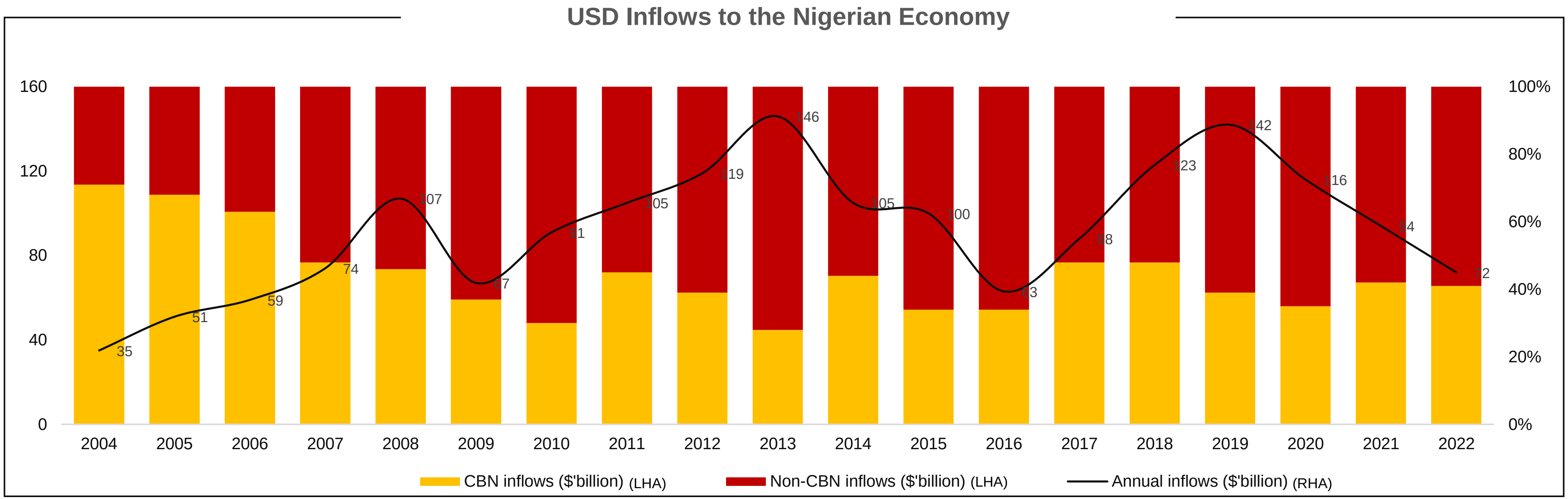


Source: CBN, PwC Analysis

Insights

- WDAS/RDAS utilisation and FX Intervention accounted for **70% of all FX outflows between 2004 and 2021**. This was closely followed by other official payments which accounted for **15%** of the total outflows within the same period
- External debt service has been on a rise as a result of an imbalance in dollar supply. External debt grew from **1% in 2015 to 37% in 2021**

59% of annual FX inflows were from autonomous sources in 2022

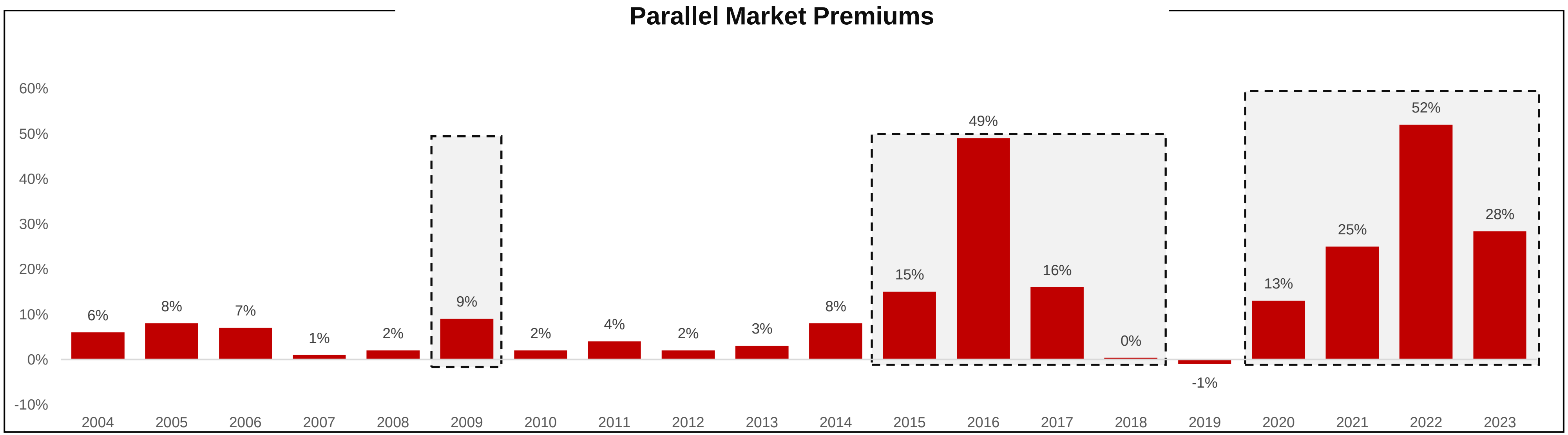


Source: CBN, PwC Analysis

Insights

- Over time, there has been a rise in the inflows of FX from autonomous or non-CBN sources, which has led to the widening divergence between the official and parallel market rates. Since 2007**, the FX inflows from autonomous sources exceeded inflows from the CBN**
- The implication official interventions may not accurately reflect the market demand and supply dynamics as annual inflows is skewed towards unofficial sources

Parallel market premium widened in 2023 with the rise in import bills and the decline in crude oil exports



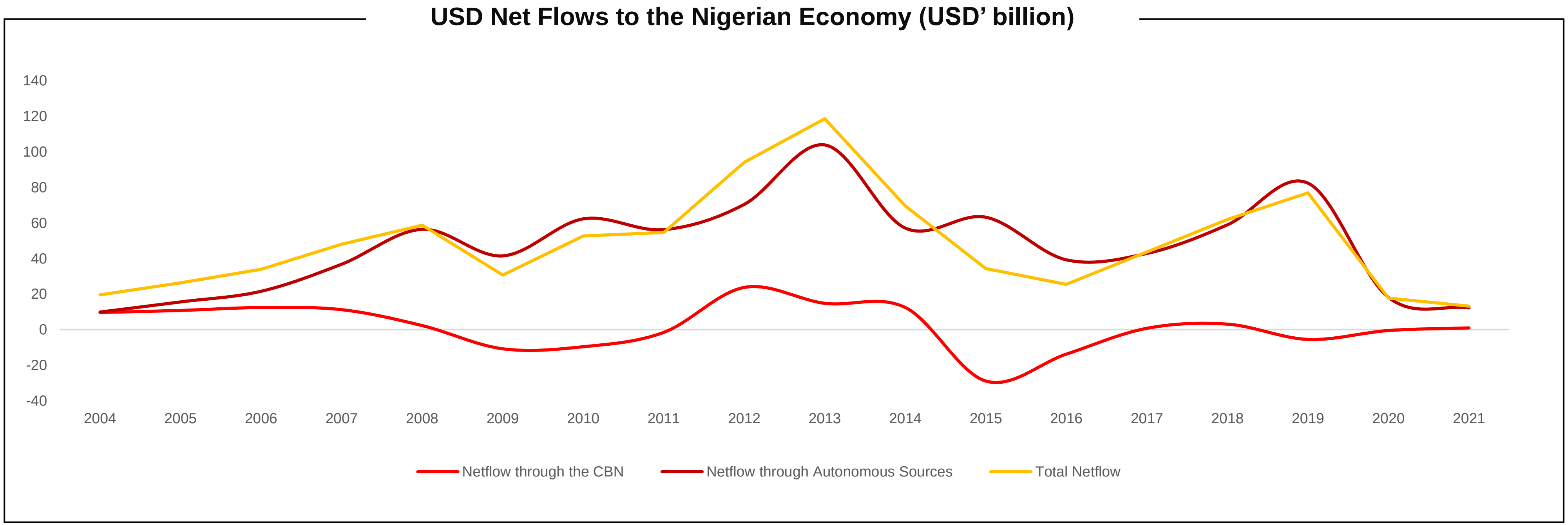
Source: CBN, PwC Analysis

Note: The data for 2023 is as of September 25

Insights

- The Central Bank of Nigeria (CBN) maintained control over the official foreign exchange (FX) market by offering a more favourable exchange rate and using the threat of sanctions. This allowed them to finance over 60% of USD import demand from 2005 to 2013, giving them significant influence over FX rates for goods and services.
- However, Nigeria's external accounts were changing due to an artificially strong exchange rate. Non-tradable services in the import basket grew, driven by increased consumption of foreign transportation, education, health, and financial assets**. The other big shift in dollar demand composition was in oil imports which rose from 10-15% in 2005 to 20-22% of total imports at end of 2022**
- The rise in Nigeria’s import basket and the decline in crude oil exports relative to autonomous flows widened the gap between the parallel market and the official rate

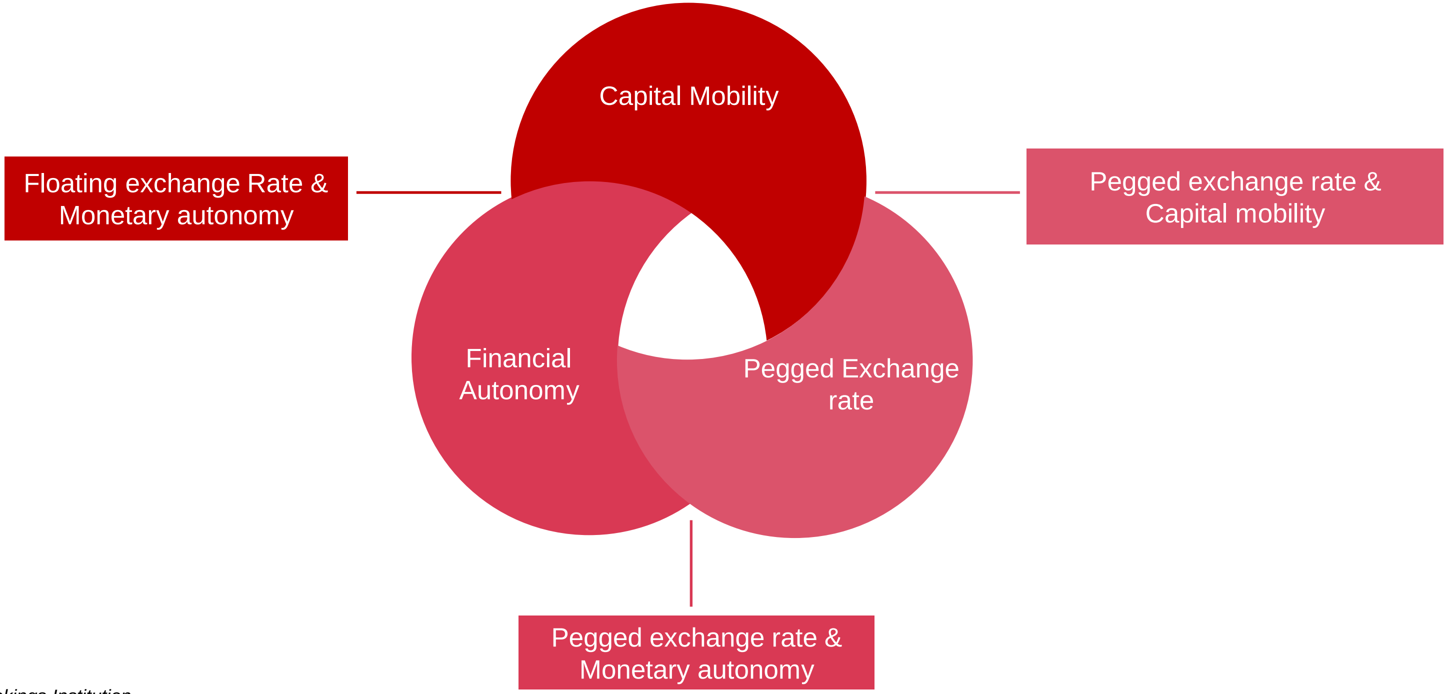
Total net flows through the CBN and autonomous sources has been declining



Insights

- Net flow through the CBN is negative, indicative of the decline in both oil sector receipts and non-oil sector inflows from autonomous sources. Since 2007 more USD came into the market via autonomous sources peaking at $103 billion in 2013
- The gap between the official and parallel market rate widened abnormally in 2016Q1 as a result of a fall in oil price to $35/barrel toward the end of February 2016 accompanied by a depreciation of the naira in 2016

Trade-offs in exchange rate policy trilemma



Source: The Brookings Institution

Insights

- More exchange-rate flexibility is associated with greater monetary-policy autonomy, so there is some rounding of that corner of the policy trilemma; but temporary, narrowly targeted capital controls do not enable a country with a fixed exchange rate to have greater monetary-policy autonomy than it has under full capital mobility
- Widely applied, **longstanding capital controls break the link between domestic and foreign interest rates under a fixed exchange-rate system**

Framing the relationships between global trends and Nigeria FX market

preliminary, not exhaustive

Five global trends

- Tightening monetary environment to curtail inflation
- Concerns on debt sustainability
- Heightened geopolitical risk
- Weakening global trade
- Slowing GDP growth

2

- Cost of funding
- Capital reallocation
- Trade balance
- Remittances
- Confidence

3 FX Market

Supply dynamics

5 Net flows

Demand dynamics

1 Investors + market confidence

2 **Market Mechanisms and Governance:** Access, Friction, Transparency, Market Debt and Financial Instruments, Price Discovery

Monetary+ FX Market Strategy + Policy

Local trends

Fiscal policy + development (fiscal balance, debt) 4

Local economy growth/ performance (exports and Imports, inflation etc.) 4

Financial and capital market activities

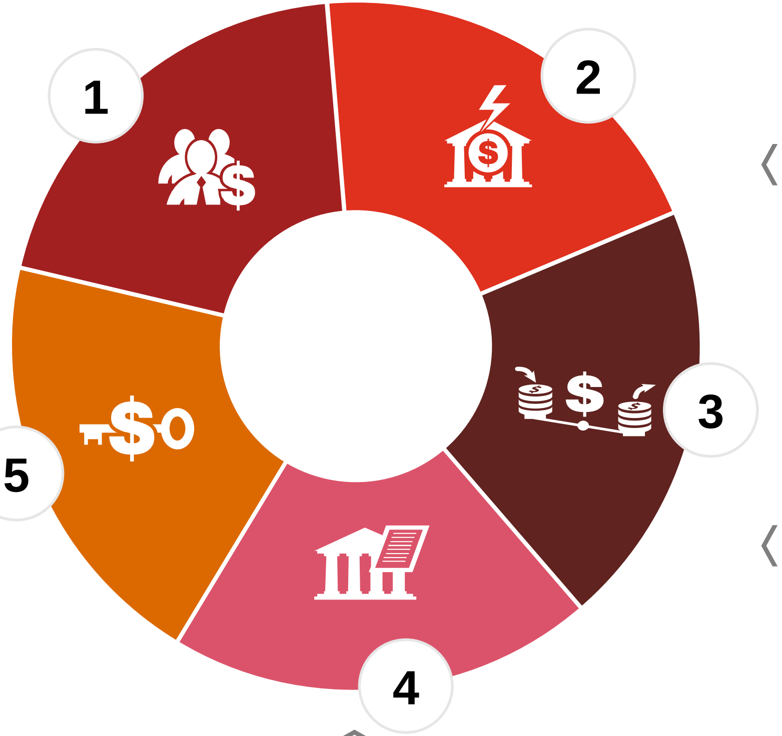
FX Outcomes

- Stability + volatility
- Price evolution
- Flexibility to shocks

X See next slide

Way forward

Boosting of Investors' Confidence - Clear Nigeria FX Management Story.



Manage for flexibility and shocks – withstand external shocks with a pocket of sequenced policy execution

Short-term fix to enhance foreign exchange liquidity .

Deepening of financial markets

Longer term sectorial policy to maximise exports or deepen domestic consumption

PwC Economics team proposition

Measure and assess our client's impact on the economy, competition and markets

01

Help our client make decision on investment and risk

02

Help our client plan for future macroeconomic, mega trend and sustainability scenarios

03

01

- Economic Impact Assessment (EIA)/Socio-Economic Impact Assessment (SEIA)
- Regulatory Impact Analysis (RIA)
- Competition economics
- Policy analysis and development

02

- Macroeconomic and political research
- Market entry and sectoral analysis
- Country and industry risk assessments

03

- ESG scenario planning
- Economic and political scenario planning
- Industry and macroeconomic modelling

strategy&

Part of the PwC network

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