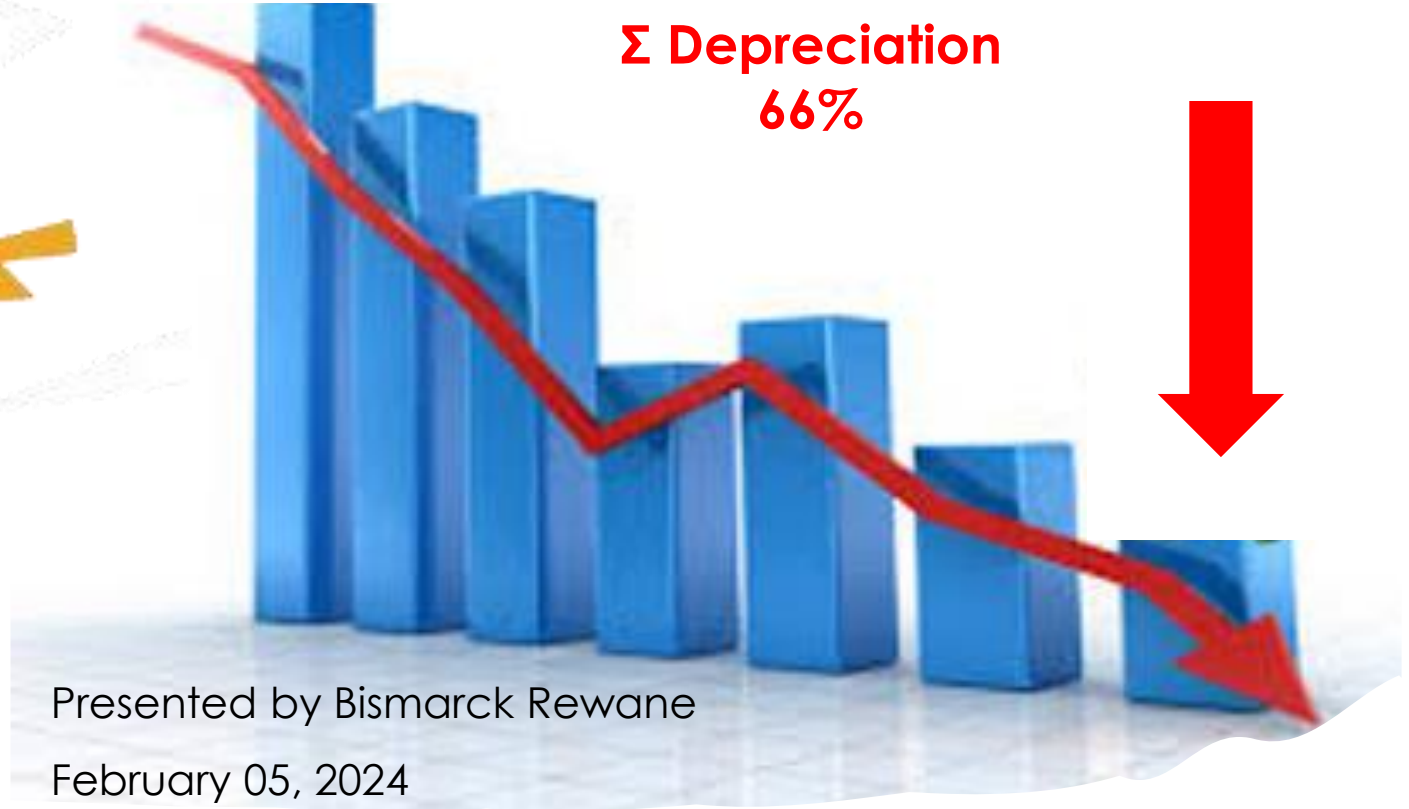


IS THE NAIRA JINXED?

2016:
N490/\$

2024:
N1450/\$

Σ Depreciation
66%



Presented by Bismarck Rewane

February 05, 2024

AN EXCHANGE RATE IS.....

The price of one currency in terms of another

Of the 135 currencies in the world

e.g

2004

\$1.70 = £1

*Currency
values are not
static*

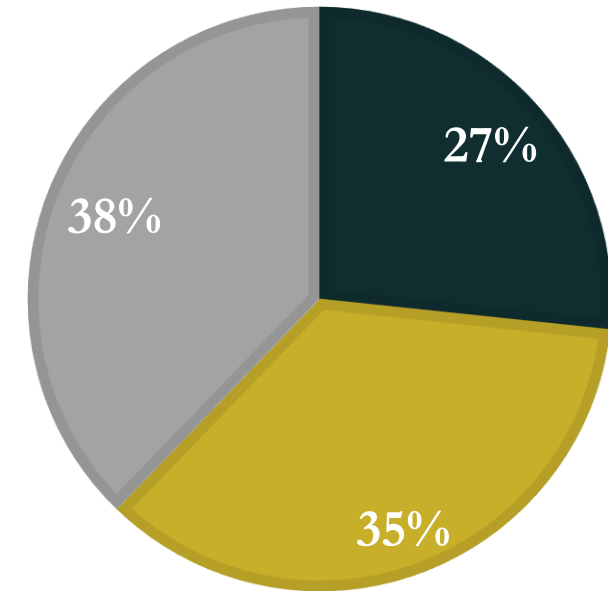
2024

\$1.29 = £1

Types of Exchange Rate Systems

- Fixed
 - Flexible
 - Floating (managed)
- A currency market is an example of a perfect market
 - It is volatile in nature
 - Participants include
 - Buyers, Sellers, Investors & Speculators

■ Floating ■ Managed-Float ■ Fixed



FOUR TYPES OF CURRENCIES

- Reserve
- Convertible
- Frontier
- Non-convertible

Reserve Currencies



75% of the world transactions are settled in US dollars

Convertible Currencies



currencies that can be easily bought or sold without restrictions

Frontier Currencies



currencies of developing countries & emerging markets

Non-convertible Currencies



Heavy restrictions and exchange rate controls

DETERMINANTS OF CURRENCY VALUE



The more positive, the higher the value of the currency

Balance of Trade



A country's export prices relative to its import prices

Terms of Trade



External Reserves



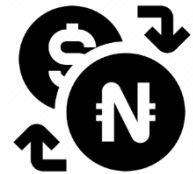
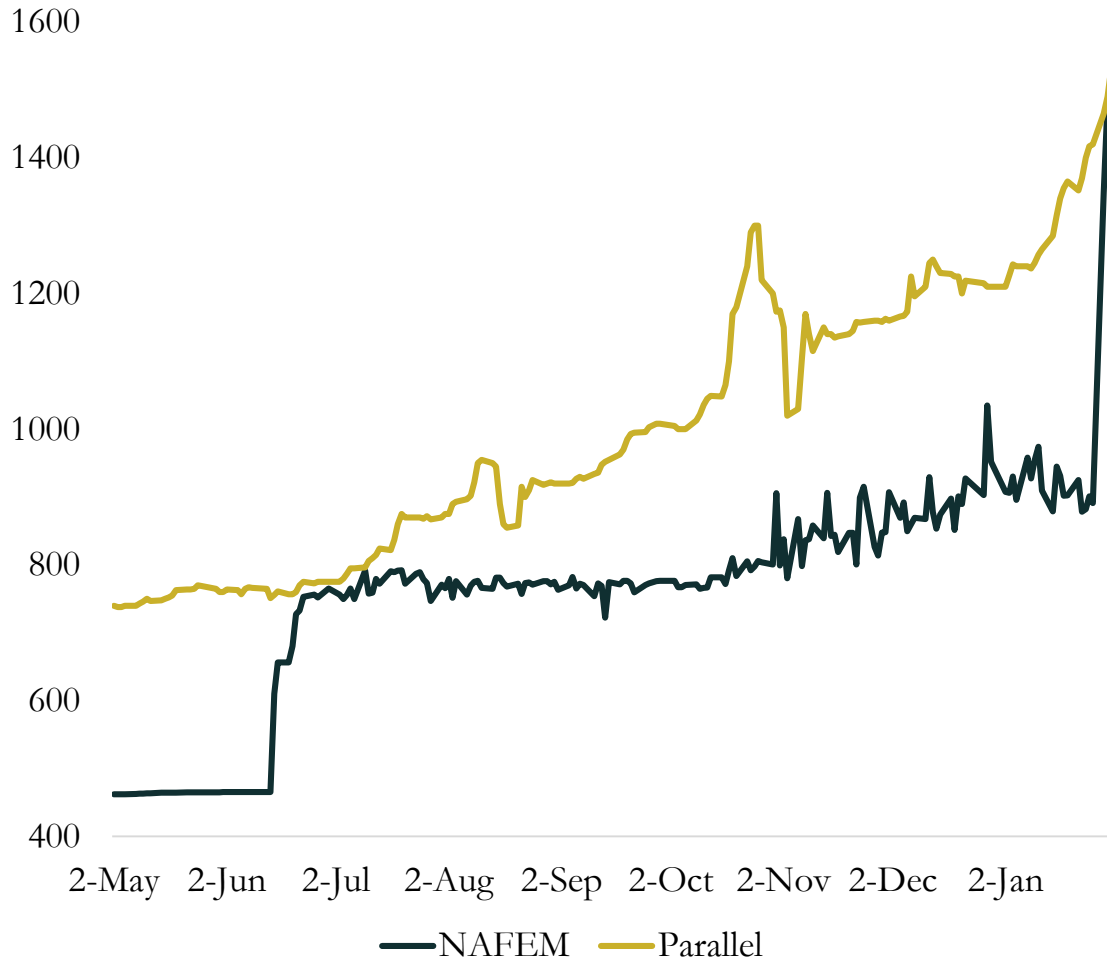
Level of inflation



Interest Rates

NAIRA – GOING! GOING! ??????!!

Exchange Rate (N/\$)



YTD LOSS

2022	2023	2024
23.38%	39%	17%



WHY IS THE NAIRA FALLING?

- Low forex supply
- Loss of confidence as a store of value
- Increased naira speculation and fear
- Restrictions and exchange rate control
- Negative real interest rates



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TRUE VALUE OF THE NAIRA

Parallel
Market Rate



N1450/\$

NAFEM



N1435.53/\$

PPP



N878.91/\$

HAMBURGER

N7,700

\$5.38



N1431.23/\$

TRUE VALUE OF THE NAIRA - OTHER CRUDE METHODS

Nigeria as a Liquidated Entity

Total Money Supply
External Reserves

$$\frac{\text{N78trn}}{\$33\text{bn}} = \text{N2363}/\$$$



Nigeria as a Going Concern

Total Money Supply
Total Exports

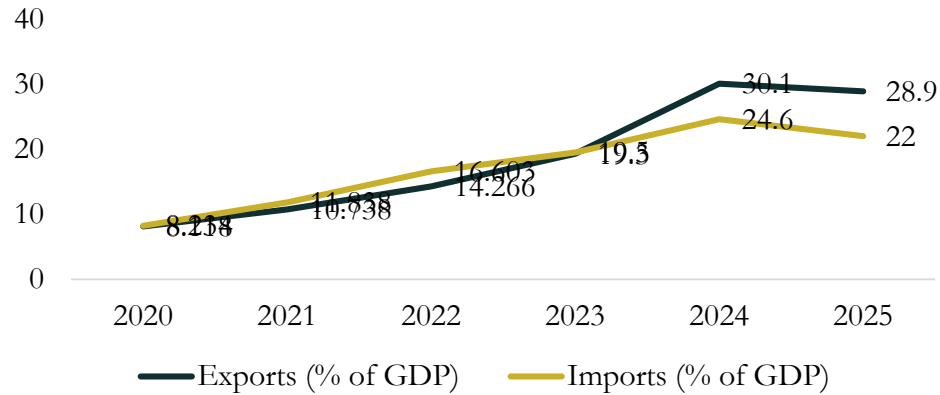
$$\frac{\text{N78trn}}{\$64\text{bn}} = \text{N1218}/\$$$



FOREX SUPPLY IS A FUNCTION OF.....

Exports

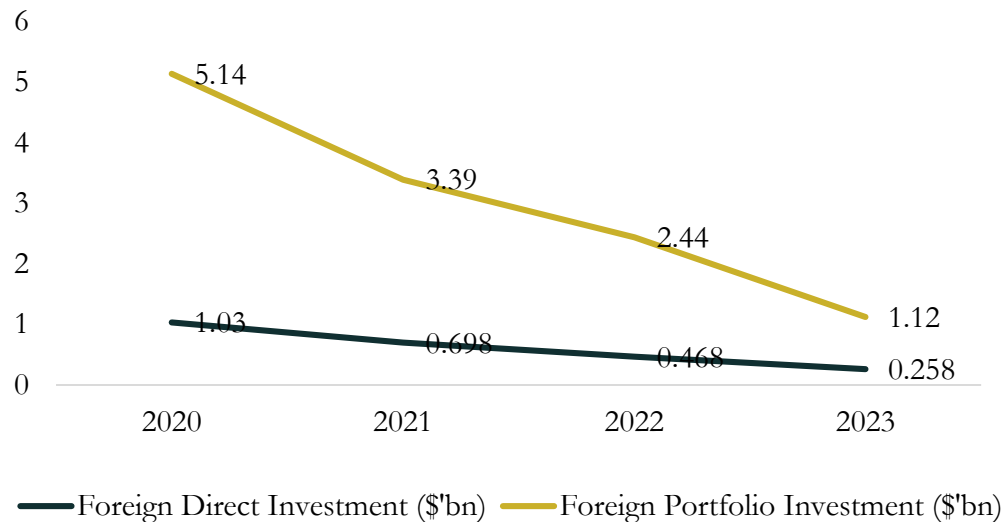
Exports vs Imports



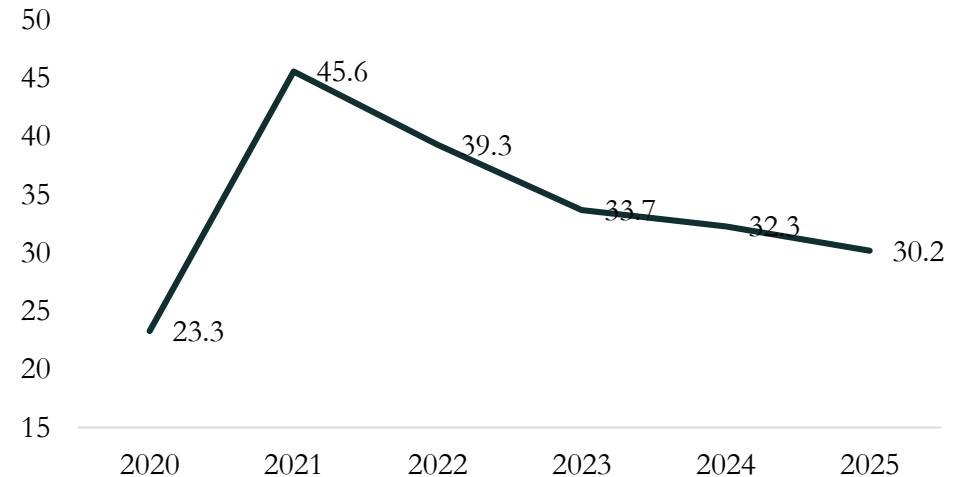
Diaspora remittances (\$'bn)



Investment flows



Terms of Trade (1990=100)



FOREX DEMAND IS A FUNCTION OF.....



Naira Liquidity

Money supply rose by **51%** to **N78trn** in December 2023



Domestic Inflation

Headline inflation at an 18-year high of **28.92%**



Domestic Interest Rates

Nominal (1-year t/bill): **11.54%p.a**
Real Interest rate: **-17.38% p.a**



Import Dependence

Marginal propensity to import: **0.28**



Restrictions

Capital controls & restrictions



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IMPACT ON YOU



**Exchange rate
pass-through**



Import Duty



**International
Airline Ticket**











**Medical
Tourism**



**Education Tourism
& International
School Fees**



MOST AFRICAN CURRENCIES UNDER PRESSURE

	YTD Depreciation (%)	
 South Africa (Rand/\$)	2.63 	<i>BRICS</i>
 Ghana (GHC/\$)	3.49 	<i>IMF Program</i>
 Kenya (KHS/\$)	1.86 	<i>IMF Program</i>
 Nigeria (N/\$)	17 	<i>No IMF Program</i>

- Nigeria is not alone
- But the magnitude of naira depreciation is high compared to its peers

WHAT NEXT?



Open Auction System

- *With CBN as a major participant*
- *Auction results published*
- *CBN will increase supply whenever the Naira is under pressure*



Discussions with the IMF

- *Debt rescheduling – extending maturities*
 - *New money*
 - *Additional borrowing*
- (Total External debt - \$97.05bn)*



MPC meets this month – Feb 26/27

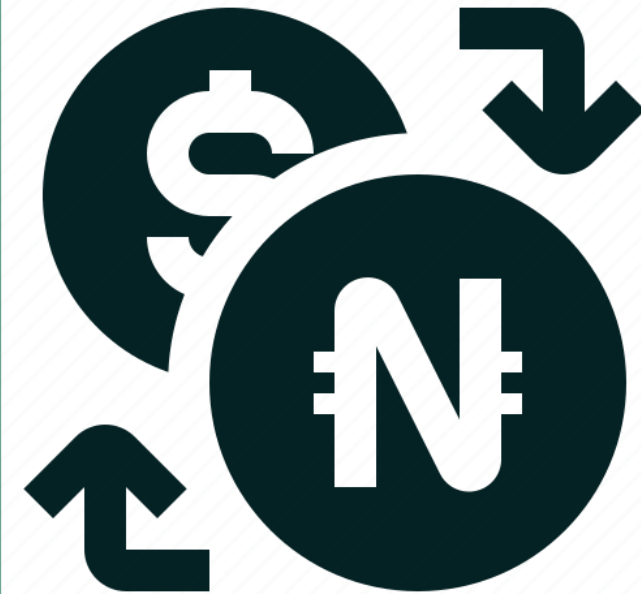
- *Expected to increase MPR by 200bps*
- *Effective lending rates to increase by 500bps*

WHAT NEXT? - EXCHANGE RATE OUTLOOK

Naira to fall - N1500/\$ - N1650/\$

Before Appreciating - N1200/\$ - N1350/\$

- **IF** the CBN does
 - Increase domestic interest rates by 200bps
 - Mop-up excess liquidity
 - Begins an open auction system
- Initially naira to depreciate towards N1500/\$ – N1650/\$
- Before appreciating to N1200/\$ – N1350/\$ over the easter period





**THANK
YOU**