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Research Paper

Stabilising the Foreign Exchange Market: The Role of Federal Government Interventions in Strengthening the Naira in Nigeria under President Bola Ahmed Tinubu

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Abstract
The Nigerian foreign exchange (FX) market has faced persistent volatility, with the Naira experiencing significant depreciation against major global currencies, particularly the US Dollar. Since assuming office in May 2023, the President Bola Ahmed Tinubu's administration has implemented several monetary and fiscal policies aimed at stabilising the FX market and strengthening the Naira. This paper examines the effectiveness of these interventions, analysing key measures such as the unification of exchange rates, foreign exchange liquidity injection, monetary policy adjustments, and fiscal reforms. Using empirical data from the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), and international financial institutions, the study evaluates the short-to-medium-term impacts of these policies. The findings suggest that while some interventions have provided temporary relief, structural challenges such as dwindling foreign reserves, speculative attacks, and import dependency continue to undermine long-term stability. The paper concludes with policy recommendations for sustainable FX market stabilisation.

Keywords: *Foreign exchange market, Naira depreciation, Bola Ahmed Tinubu, monetary policy, fiscal interventions, Nigeria*

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I. Introduction

The Nigerian foreign exchange market has long been characterised by volatility, with the Naira experiencing cycles of depreciation due to structural imbalances in the economy. The post-pandemic global economic slowdown, declining oil revenues, and capital flight exacerbated these challenges, leading to a widening gap between the official and parallel market exchange rates (CBN, 2023). Upon assuming office in May 2023, President Bola Ahmed Tinubu introduced bold economic reforms, including the immediate removal of fuel subsidies and the unification of Nigeria's multiple exchange rate windows. These measures were designed to curb arbitrage, attract foreign investment, and restore confidence in the Naira (IMF, 2023). However, the immediate aftermath saw further depreciation, raising questions about the efficacy of these policies.

This paper seeks to critically assess the role of federal government interventions in stabilising the FX market under President Tinubu's administration. The study is anchored on theoretical frameworks such as the Mundell-Fleming model, which posits that exchange rate stability depends on the interplay of monetary and fiscal policies in an open economy (Mundell, 1963). Additionally, the Purchasing Power Parity (PPP) theory is employed to evaluate whether Naira depreciation reflects underlying macroeconomic fundamentals (Cassel, 1918). The paper draws on empirical data from the CBN, NBS, and World Bank to analyse trends in Nigeria's FX reserves, inflation rates, and exchange rate movements.

The research is significant as it provides an up-to-date evaluation of Tinubu's FX policies, offering insights for policymakers, economists, and investors. The study also contributes to the broader discourse on exchange rate management in emerging economies facing similar macroeconomic pressures. The remaining sections of the paper are structured as follows: Section 2 reviews Nigeria's FX market dynamics pre-Tinubu; Section 3 examines key interventions under the new administration; Section 4 evaluates their impacts; and Section 5 concludes with policy recommendations

II. Historical Context: Nigeria's FX Market Before Tinubu's Administration

Before President Tinubu took office, Nigeria's FX market was plagued by multiple exchange rate regimes, leading to arbitrage opportunities and a thriving parallel market. The Central Bank of Nigeria (CBN) maintained an official rate, while the Investors' and Exporters' (I&E) window, Bureau De Change (BDC) segment, and black market operated at varying rates (CBN, 2022). This fragmentation created inefficiencies, with the parallel market premium sometimes exceeding 60% (World Bank, 2022). The CBN's restrictive FX policies, including import bans and limited dollar allocations, further constrained liquidity, discouraging foreign investors and exacerbating scarcity (Oyinlola & Adedeji, 2021).

A major factor contributing to Naira instability was Nigeria's heavy reliance on oil exports, which accounted for over 90% of foreign earnings (NBS, 2023). The 2020 oil price crash and declining production due to oil theft worsened reserve depletion, with gross FX reserves falling from 45 billion in 2019 to 37 billion in 2023 (CBN, 2023). Additionally, speculative attacks and hoarding by currency traders amplified volatility, while high import dependency (particularly for refined petroleum and manufactured goods) sustained dollar demand (Adeniran et al., 2022). Successive governments attempted various reforms, including the 2016 flexible exchange rate policy and 2020 NAFEX window, but these provided only temporary relief.

The structural weaknesses in Nigeria's FX market were further compounded by fiscal indiscipline, with rising public debt and deficit financing putting additional pressure on the Naira (DMO, 2023). The pre-Tinubu era thus left an FX market in distress, necessitating urgent and radical interventions.

III. Federal Government Interventions Under President Tinubu's Administration

President Bola Ahmed Tinubu's administration inherited a foreign exchange market in crisis, with the Naira trading at record lows against the US Dollar and a widening gap between official and parallel market rates. To address these challenges, the government implemented a series of bold monetary and fiscal policies aimed at restoring stability. One of the most significant early interventions was the unification of Nigeria's multiple exchange rate windows in June 2023, a move that eliminated the segmented official, Investors' and Exporters' (I&E) window, and Bureau de Change (BDC) rates in favor of a single, market-driven exchange rate (CBN, 2023). This policy shift was intended to improve transparency, reduce arbitrage opportunities, and attract foreign portfolio investments by aligning Nigeria's FX regime with global best practices (IMF, 2023). However, the immediate aftermath saw the Naira depreciate further, with the exchange rate crossing ₦900/$1 on the parallel market by August 2023 (BDC operators' reports, 2023), raising concerns about the policy's short-term effectiveness.

To complement the unification of exchange rates, the Central Bank of Nigeria (CBN), under Governor Olayemi Cardoso, implemented foreign exchange liquidity injections through periodic interventions in the I&E window. Between September and December 2023, the CBN sold over $5 billion in FX forwards to eligible end-users, including manufacturers and importers of critical goods (CBN Quarterly Report, Q4 2023). These interventions were designed to alleviate acute dollar scarcity and curb speculative hoarding. Additionally, the CBN reinstated the "Willing Buyer, Willing Seller" model, allowing commercial banks to trade FX at market-determined rates, a departure from the previous fixed-rate regime (CBN Circular, 2023). While these measures provided temporary liquidity improvements, their sustainability was questioned, due to Nigeria's dwindling foreign reserves, which decreased to $33 billion in December 2023 from $37 billion at the start of the year (CBN, 2023).

President Tinubu's strategy to stabilise Nigeria's foreign exchange market heavily emphasised fiscal reforms, with a focus on external borrowing and measures to enhance diaspora remittance inflows. In 2023, the government secured a $1.5 billion loan from the World Bank and issued a €1 billion Eurobond. These financial instruments were explicitly aimed at bolstering FX liquidity and funding critical sectors, including power, transportation, and agriculture (DMO, 2023; World Bank, 2023). The administration justified these borrowings as necessary interventions to mitigate acute dollar shortages, particularly given Nigeria's declining oil revenues and the pressing need to service existing external obligations (IMF, 2023). However, critics argued that this approach merely deferred underlying structural economic challenges. Nigeria's total external debt stock surged to $43 billion by Q4 2023, raising concerns about debt sustainability, especially with the country's debt service-to-revenue ratio exceeding 80% (BudgIT, 2023; DMO, 2023). Economists cautioned that without a corresponding increase in productive capacity, these borrowings could exacerbate fiscal vulnerabilities in the medium term (Oyedele, 2023).

In addition to external financing, the Tinubu administration sought to enhance diaspora remittance inflows, recognising their potential as a stable source of foreign exchange. The Central Bank of Nigeria (CBN) introduced Naira-denominated incentives, such as preferential exchange rates and tax waivers for recipients using formal channels, to discourage the use of parallel markets (CBN, 2023). Preliminary data indicated a 15% increase in remittance inflows in the second half of 2023 compared to the first half, reaching approximately $12.5 billion annually (World Bank Remittance Report, 2023). While this growth was considered positive, analysts noted that remittances alone could not offset Nigeria's chronic trade deficit, which stood at $3.2 billion in 2023, primarily driven by persistent import dependency (NBS, 2023). Furthermore, structural inefficiencies in the banking sector, including delays in processing remittance payouts, limited the full potential of these policies (PwC, 2023).

The government also implemented fiscal consolidation measures aimed at reducing expenditure and improving revenue generation. A key initiative was the removal of fuel subsidies, which had historically consumed a significant portion of Nigeria's FX reserves through petroleum imports (NNPC, 2023). The savings from this policy, estimated at over ₦4 trillion annually, were partially redirected towards critical infrastructure and social programs (Ministry of Finance, 2023). Moreover, the Federal Inland Revenue Service (FIRS) intensified tax compliance enforcement, particularly targeting multinational corporations and high-net-worth individuals, resulting in a 22% year-on-year increase in non-oil tax revenues (FIRS, 2023). However, concerns persisted regarding corruption in revenue collection and the lack of transparency in public spending, which undermined confidence in the fiscal reforms (Transparency International, 2023).

The effectiveness of these fiscal interventions was constrained by structural weaknesses in Nigeria's economy, particularly its reliance on oil exports and a weak industrial base. While the Tinubu administration's policies provided short-term FX relief, experts emphasised the need for long-term diversification strategies. These include agro-industrial expansion and the development of local refining capacity to reduce import dependency (LCCI, 2023). The proposed $10 billion Dangote Refinery project, for instance, was projected to save Nigeria up to $5 billion annually in fuel imports once fully operational (Aliko Dangote Foundation, 2023). However, delays in policy implementation and inconsistent regulatory frameworks continued to hinder private sector participation (Proshare, 2023). Without addressing these foundational issues, fiscal reforms alone would be insufficient to guarantee sustained exchange rate stability.

Structural reforms to reduce import dependency were also prioritized. The administration announced **tax waivers for local manufacturers** and **restrictions on FX access for non-essential imports**, such as luxury vehicles and refined petroleum (Fiscal Policy Committee, 2023). While these policies aimed to conserve dollars, their enforcement remained inconsistent, with reports of continued smuggling and black-market patronage (NCS, 2023). The Tinubu government's interventions thus represented a mix of short-term liquidity measures and long-term structural adjustments, with varying degrees of success in stabilising the Naira.

IV. Impact Assessment: Short-Term Gains vs. Structural Challenges

The immediate effects of Tinubu's FX reforms were mixed. On the positive side, the unification of exchange rates reduced arbitrage opportunities, as the gap between the official and parallel markets narrowed from 60% in May 2023 to 20% by December 2023 (CBN, 2023). This alignment improved investor confidence, with the Nigerian Stock Exchange (NSE) recording a 22% increase in foreign portfolio investments in Q4 2023 (SEC, 2023). Additionally, the clearing of FX backlogs (estimated at $7 billion in unpaid obligations to airlines and foreign investors) helped restore some credibility to Nigeria's FX management (Aviation Ministry, 2023). The CBN's liquidity injection also provided temporary relief to manufacturers, with companies like Dangote Cement and Nestlé Nigeria reporting improved access to raw materials (Manufacturers Association of Nigeria, 2023).

However, structural weaknesses continued to undermine these gains. Inflationary pressures intensified, with headline inflation reaching 28.9% in December 2023, driven by higher import costs and currency depreciation (NBS, 2023). The removal of fuel subsidies further exacerbated price levels, as transport and energy costs surged (World Bank, 2023). Moreover, speculative activities persisted in the parallel market, with traders exploiting periodic dollar shortages to hoard and manipulate rates (EFCC, 2023). The CBN's restrictive monetary policy, including a 500 basis point hike in the Monetary Policy Rate (MPR) to 18.75%, failed to fully curb inflation due to persistent fiscal deficits (CBN, 2023).

A critical limitation of Tinubu's reforms was their over-reliance on external borrowing for reserve accretion. While the $1.5 billion World Bank loan provided temporary respite, Nigeria's debt service-to-revenue ratio exceeded 80% in 2023, raising concerns about debt sustainability (DMO, 2023). The non-diversification of export earnings also remained a vulnerability, as oil receipts still accounted for 85% of FX inflows (NNPC, 2023). Without significant progress in non-oil export promotion, particularly in agriculture and solid minerals, the Naira's stability remained precarious.

V. Policy Recommendations

President Tinubu's administration made bold attempts to stabilise Nigeria's foreign exchange market, but structural bottlenecks require deeper reforms. To achieve lasting Naira stability, the following measures are recommended:

1. **Diversification of FX Earnings:** Accelerating non-oil exports through incentives for agro-processing and solid minerals, leveraging the African Continental Free Trade Area (AfCFTA) to boost trade (Afreximbank, 2023).

2. **Tighter Fiscal Discipline:** Reducing reliance on debt by widening the tax base and cutting wasteful expenditures, particularly in governance (IMF, 2023).
3. **Strengthening FX Market Transparency:** Implementing a **real-time FX trading dashboard** to curb speculation and enhance price discovery (CBN, 2023).
4. **Diaspora Remittance Optimization:** Expanding digital remittance channels and offering tax rebates to encourage formal inflows (PwC, 2023).

VI. Conclusion

The Tinubu administration's interventions in Nigeria's foreign exchange market represent a significant departure from previous policies, marked by a combination of bold reforms and ongoing challenges. The unification of exchange rates and the removal of fuel subsidies were crucial steps toward addressing the structural distortions that had long plagued the Nigerian economy. These measures aimed to enhance transparency, reduce arbitrage, and attract foreign investment, aligning Nigeria's FX regime with global best practices. However, the immediate aftermath of these reforms was characterized by further depreciation of the Naira and persistent inflationary pressures, raising concerns about their short-term effectiveness. The CBN's liquidity injections and the emphasis on fiscal reforms, including external borrowing and enhanced diaspora remittance inflows, provided temporary relief but also exposed vulnerabilities, such as dwindling foreign reserves and a high debt service-to-revenue ratio.

A critical assessment of the interventions reveals a mix of short-term gains and persistent structural challenges. The unification of exchange rates did reduce arbitrage opportunities and improve investor confidence, as evidenced by increased foreign portfolio investments. The clearing of FX backlogs also helped restore some credibility to Nigeria's FX management. However, these gains were undermined by intensified inflationary pressures, driven by higher import costs and the removal of fuel subsidies. Speculative activities in the parallel market also continued to pose a challenge, and the CBN's restrictive monetary policy, while aimed at curbing inflation, was constrained by persistent fiscal deficits. The over-reliance on external borrowing for reserve accretion remains a concern, raising questions about long-term debt sustainability.

Moving forward, addressing Nigeria's deep-seated structural weaknesses is paramount for achieving sustained exchange rate stability. While the Tinubu administration's policies have provided short-term FX relief, long-term diversification strategies are essential. This includes promoting non-oil exports, particularly in agriculture and solid minerals, and developing local refining capacity to reduce import dependency. Delays in policy implementation and inconsistent regulatory frameworks must be addressed to enhance private sector participation. Ultimately, a comprehensive approach that combines prudent fiscal management, monetary policy effectiveness, and structural reforms is necessary to stabilise the Naira and foster sustainable economic growth.

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