

UNDERSTANDING THE OFFICIAL FOREIGN EXCHANGE (FX) WINDOWS IN NIGERIA



The Foreign Exchange market is regulated by the Central Bank of Nigeria (CBN) by virtue of the Foreign Exchange Act and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act. The Apex Bank is also responsible for implementation of the Exchange Rate Policy. There are two official FX windows available in the Nigerian Market. The window represents the available avenue for accessing foreign exchange for commercial transactions. These windows include.

- The Investors and Exporters (I & E) Window and
- Secondary Market Intervention Sales Window



INVESTORS' & EXPORTERS' (I &E) FX WINDOW

This window applies as an independent channel where users of FX can access FX Inflows from **Portfolio Investor** and **Exporters** at a rate that is market determined (based on the forces of demand and supply). Portfolio investors could also access the window to buy FX to repatriate capital and/or dividends from their investments in Nigeria. The window can only be accessed by Authorized Dealers who may take buy or sell positions on behalf of their customers for Eligible Transactions (eligible transaction on this window include Invisible Transactions such as loan or interest repayment, dividend or income remittances, capital repatriation, payment of service/consultancy fees, bills for collection or any other trade related payment obligation set out in memorandum 15 of the Foreign Exchange Manual.

Who can use the window?

Any person transacting an eligible transaction though all trades are transacted through an Authorised Dealers (FMDQ Dealing Member i.e. Banks).

What rate is used for I&E?

Nigerian Autonomous Foreign Exchange RATE (NAFEX)



CBN SECONDARY MARKET INTERVENTION SALES (SMIS) WINDOW

The SMIS Window is a specialized CBN window through which the Apex Bank intervenes in the market to boost liquidity through the sale of FX to Authorized Dealers for their own use (Wholesale) or for End Users who are dealing through them (Retail like SMEs). All retail sales must be for eligible transactions for which appropriate documentation has been provided. These trades could be FX Spot or Forwards. In Wholesale trades, Authorized Dealer post bids for FX which they have the autonomy to trade on the Inter-Bank market to other Authorized Dealers or to other End Users who need FX for eligible transactions.

Who can use the window?

Authorized Dealers

- Small & Medium Enterprises window

This is a special intervention provided under the SMIS for Small and Medium Enterprises (SMEs) to gain priority access to FX for eligible transactions (in this case import of eligible finished or semi – finished items), SMEs are also restricted to a maximum cap of USD\$20,000 per quarter. Similar to the I&E window, SMEs may only transact through an Authorized Dealer who access FX for SMEs as part of the retail trade under the SMIS window.

Who can use the window?

Qualified SMEs seeking to access FX for the importation of eligible finished and semi-finished items.

What rate is used for SMIS and SME?

Nigerian Inter-bank Foreign Exchange Rate Fixing (NIFEX) Rate



THE RATES NIGERIAN AUTONOMOUS FOREIGN EXCHANGE RATE (NAFEX)

NAFEX is the reference rate for Spot FX trade in the autonomous FX Market, primarily used in the I&E window where rates are market driven.

Who publishes the rate?

FMDQ OTC Securities

How is the rate computed?

NAFEX is rated based on the submissions of ten (10) contributing banks and calculated using a trimmed arithmetic mean. The lowest and highest two (2) quotes are eliminated from the ranked rates leaving only the middle six (6) rates. The arithmetic mean of the remaining rates are then calculated to two (2) decimal places and disseminated as the NAFEX Rate.



NIGERIAN INTER-BANK FOREIGN EXCHANGE FIXING (NIFEX)

NiFEX is the reference rate for Spot FX operations in the CBN Official Window i.e. the CBN Secondary Market Intervention Sales (SMIS) Window. This rate is the lowest applicable rate in the FX market, however funds from this window is typically insufficient to cover market demands, the rate is also disadvantageous to a Party who is taking a sell position. Authorised Dealers therefore utilize both SMIS and I& E windows to meet their demand.

Who publishes the rate?

The Central Bank of Nigeria

How is the rate computed?

NIFEX is an arithmetic mean of the bid and offer quotes received from Reference Banks. The bid and offer quotes are ranked separately and sorted in descending order. The top and bottom 25% quotes are removed cut off from both rankings (bids and offers) to eliminate outliers, leaving only the mid 50%. The arithmetic mean of the bid and offer rates shall then be calculated and these will represent Spot NIFEX. The resultant figures are published as NIFEX in four (4) decimal places.



PROPOSED UNIFICATION OF RATES BY THE CBN

The Central Bank of Nigeria is under pressure to unify the current multiple exchange rate regime in Nigeria in the face of weakening external conditions and scarcity in the Exchange Rate market especially on account of the impact of the Covid19 pandemic which has impaired FX capital flow. It is expected that a unified rate will promote transparency, effective resource allocation and attraction of foreign investment. The Apex Bank took steps to align the exchange rate across the windows in line with market realities and the need to discourage speculative activities. It recently adjusted the NIFEX Rate from NGN307/USD1 to NGN360/USD1 triggering a corresponding adjustment in the NAFEX Rate applicable in the I&E window to NGN380/USD1.