Forex Crisis in Nigeria and the Role of Binance and Bureau De Change (BDC)Operators and the Nigerian Economy

Duruji, Moses M.
Associate Professor
Covenant University, Ota

I. Introduction

The foreign exchange (forex) market plays a critical role in the economic stability of any nation, including Nigeria. Over the past decades, Nigeria has faced significant challenges in managing its forex reserves, leading to recurring forex crises. The Central Bank of Nigeria (CBN) and the government have tried several policies to manage the volatility in the exchange of Naira, the country's currency, but nothing seems to work (Nairametrics,2023). Apart from the CBN's inability to meet Forex's demands, the exchange rate of the naira has continued to plummet against significant currencies (Ugwu, 2024). But a parallel market with a wide disparity between its rate and the official rate encourages round tripping, which is getting Forex cheaper at CBN and selling higher at the parallel market (CBN,2024). The floating of the Naira by the Bola Ahmed Tinubu administration was an attempt to bring parity in the exchange rate regime. But rather than bringing parity, it led to an over 200 percent crash in the value of the Naira against major currencies, spiking off inflationary pressure that has brought untold hardship to Nigerians. As measures taken by the CBN have defiled the solution, contrary to the views of the CBN (CBN,2024). The latest measure is the clamp down on Binance and Bureau De Change (BDC) operators (businesses licensed by the Central Bank to operate the forex market), the majority of whom have unlicenced agents in the streets of major urban centers selling and buying forex referred to as 'black market.' CBN sees these operators as responsible for the volatility in the forex market due to their unethical behavior. This article delves into the forex crisis in Nigeria; it examines the causes and effects on the economy, responses from the CBN and government, and implications of the clampdowns on Binance and BDC operators.

Figure 1: Picture of naira and dollar and trend of naira exchange (Source: Guardian NG and Researchgate, 2024).

II. Cause of the Forex Crisis

Nigeria's forex crisis stems from various factors, including overdependence on oil revenue and the inability to diversify the revenue base of the economy. In recent years, Nigeria's oil production has consistently dropped due to oil theft and vandalization of oil facilities, culminating in a drop in forex revenue. Another factor is the inconsistent monetary policies of the CBN and the government, which have stifled importers' access to forex. According to the Manufacturers Association of Nigeria (MAN), 767 companies closed down, and 365 became distressed in 2023 alone (Ita, 2024). Another 50 closed down directly from the forex crisis (Anudu,2024). Foreign companies in the country see their profits trapped as they cannot repatriate due to the CBN's inability to meet their request for forex. This lingering challenge has led to a good number of companies folding up their operation in the country (Ita, 2024). The forex crisis in Nigeria has also been exacerbated by dwindling foreign reserves, external shocks like fluctuating oil prices and global economic downturns, rampant corruption, capital flight, and speculative activities. The practice of governors who convert their Federal Account Allocation Committee (FAAC) allocation to dollars for storage also contributes to the crash of the naira (Olawoyin, 2024). Data as confirmed by Mr. Muda Yusuf, chief executive officer of the Centre for Promotion of Private Enterprises (CPPE), indicates that there is a correlation between the release of FAAC allocation and the depreciation in the exchange rate, especially in the parallel market due largely to corruption component of naira liquidity (Baily, 2024). Nigeria runs a system where federally collected revenues, mainly from the sale of crude oil, are shared among the three tiers of government at the end of each month. The governors who also control the share of the local governments exploit the weak institutions of the Nigerian state level to benefit themselves (Tukur, 2024). Mr. Ikemesit Effiong, head of research at SBM Intelligence, condemns this practice of governors, 'it is terrible to pack your states' wealth away for your benefit," (Baily,2024). Though most of these politicians escape justice because they instal successors who do their biddings, the same cannot be said of Abdulahi Ganduje, former governor of Kano state who is currently been prosecuted by his successor Abba Yusuf over a viral video where he was stuffing bundles of dollars given to him by a contractor in the state (Bello,2024)

Figure 2: Images of CBN and Binance (Source: Vanguard NGR and Businessday NGR).

III. Effects on the Nigerian Economy

The forex crisis has severe ramifications for Nigeria's economy. It has impeded the importation of essential goods, including raw materials, machinery, and pharmaceuticals, leading to inflationary pressures and supply chain disruptions. Businesses need help accessing Forex for transactions, hindering economic growth and investment. Furthermore, the devaluation of the Naira has eroded purchasing power, exacerbating poverty and income inequality in the country (Nelson, 2023). The consequences are severe economic hardship, leading to spontaneous hunger protests nationwide and the breaking and looting of warehouses and trucks carrying food items on the highways (Ugwu, 2024).

The effects of the forex crisis and inflation on households in Nigeria are significant and multifaceted, impacting various aspects of daily life. The fact that Nigeria's economy is heavily dependent on imports makes inflationary pressures inevitable; the implication is the rising cost of living reflected in the cost of food, housing, transportation, and healthcare. The shutting down of businesses due to low patronage leads to unemployment and income losses (Anudu, 2024). There is also limited access to imported items as importers have scaled down on electronics, machinery, foods, and pharmaceutical imports. The forex crisis and inflation have significantly eroded the value of savings and investments, making it harder to build wealth or plan for the future.

IV. CBN Response to Forex Crisis

In response to the forex crisis, the CBN has implemented various contradictory measures to stabilize the exchange rate and conserve foreign reserves. These measures include forex rationing introduced in third quarter of 2022 to ensure that every bank bidding for forex gets a portion of what it demands from CBN. The policy led to 13 per cent fall in forex utilization to $7.3bn in third Quarter of 2022. Manufacturers resorted to black market sources to make up the difference, leading to devaluation of naira exchange rates. (Ogunwusi ,2023). That policy was reversed on June 14, 2023 what they called willing buyer, willing seller, in which what banks get is determined by the availability of forex (Nairametrics, 2023). The restriction of 43 items from accessing forex from CBN in June 2015 was to reduce pressure on forex and encourage local production of such goods (Ibemere, 2023). Importers of such items resorted to the parallel market, which contributed to creating the disparity between the official and parallel market rates. The reversal of the policy on October 12, 2023 coincided with the floating of the naira on June 14, 2023 abolishing of the multiple exchange rate (Nairametrics, 2023; Olowogboyeg,2023). These two policies contributed to the volatility in naira exchange with major currencies, as naira exchange fell from N450 to N700 and from there began a steady rise that peaked at $1 to N1,920. The Manufacturers Association of Nigeria rightly complained that lifting of the restriction on 43 items was dangerous to the economy (Jimoh,2023). To stop the uncontrolled volatility, CBN on July 7, 2024 discontinued sales of forex to BDCs and also introduced prudential measures for banks to curb the forex crisis all to no avail (Ndusuisi, 2024). However, on March 25, 2024 CBN resumed sell of forex to BDCs but with strict directive to them not to sell at above 1.5% profit margin. Though some analysts refeed this as reversal of the policy on floating, the CBN sees it as guided floating of forex. Ever since then significant forex from sources such as Foreign Reserve, income from crude oil and portfolio investment are continuously sold to BDCs, sparking off steady appreciation of the naira to other currencies. As at April 18, 2024 the naira rate to the dollar that peaked at N1,940 was sold at N1,040.

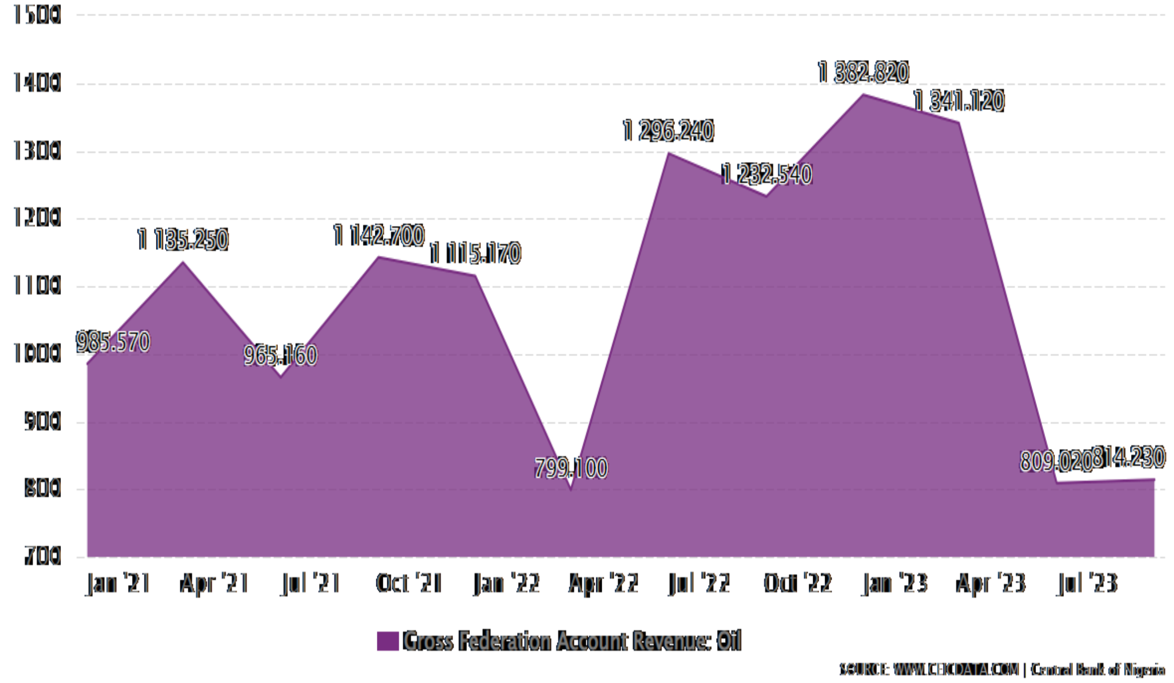

Figure 4; Nigeria Crude Oil Sales and Revenue

V. Government Clampdown on Binance and BDCs

Clampdown on Binance, a digital asset platform and Bureau De Change (BDC) operators in the country, is one of the measures adopted by the government to stop volatility in the naira exchange. Binance enjoys huge patronage in Nigeria through its ‘peer-to-peer’ scheme, which is a platform where individuals engaged in crypto-currency business meet directly to buy and sell their crypto-currency. The government accuses Binance of allowing the use of their platform for a “sophisticated heist against the Nigerian economy” (Fergie001,2024).

According to the government, Binance is used by speculators simultaneously to open buy and sell windows for a single user, then manipulators often fake interest to sell dollars, which they buy at a speculated rate to themselves through the buy window, thus giving the dollar a fake value against the naira, thereby causing frenzy and misleading the market (Fergie001,2024). This naira-dollar rate on Binance is then quoted by BDCs who raise their prices to meet the Binance benchmark even without any corresponding demand in that segment (Fergie001,2024). Telecommunication companies were directed to block Binance and other cryptocurrency platforms to stop this trend. The Economic and Financial Crime Commission (EFCC), the country's anti-graft organization, also carried out raids against BDC operators in the streets, which the government sees as illegal (SOJ Worldwide,2024). The government claims that in the last two years, $26 million has passed through Binance (Jayeola,2024). Two company officials who flew into the country to negotiate with the federal government were detained when they could not accept the condition of providing data of most Nigerian users on the platform (Olawoyin,2024). By February 27, 2024, Binance deactivated the naira P2P platform, which is the Binance page where USDT, a cryptocurrency with the same value as US dollars, is exchanged with the naira by two individuals who have verified Binance accounts (Ruvic,2024). Though this led to a temporary rise in the exchange rate of naira to N1,100 against the dollar, within hours, the rate went back to N1,600 to the dollar (Moses-Ashike, 2024).

Besides the clampdown on Binance, the CBN has also gone after BDC operators by announcing new rules that it hoped would create stability for the naira and transparency of the foreign exchange market.

One of the rules is the ban on street trading by BDCs. The CBN also stated that BDCs are not allowed to take deposits from or grant loans to members of the public in any guise (Inemere, 2024). Furthermore, forex sellers above $10,000 are mandated to disclose the source of the forex, and cash payments to customers for forex above $500 were banned (Inemere, 2024). CBN also raised the cautionary deposit fees for BDCs from N 35 million to N 200,000 million, while the license fee was increased from N 250,000 to N5 million. These measures led to the revocation of the licenses of 4,173 BDC operators leaving about 1,500 operators in the system (Ahmed, 2024). With this, the CBN announced the resumption of selling forex directly to BDCs but fixed the upper margin they can sell to customers at 1.5% (Itsibor &Aro-Lambo, 2023; Ripple Nigeria, 2023).

VII. Implication of the Clampdown on Binance and BDCs

The clampdown on Binance and BDCs was aimed to achieve sanity in the forex market. In reaction, Binance deactivated naira on the Binance P2P platform (Partz, 2024). Consequently, naira made temporary gains in the parallel market, falling from N1,900 to N1,100 to $1, but the rate has quickly went up to N1,600 but yet to get to the peak of N1,900 against the dollar which caused panic that it may exceed the N2,000 mark against the dollar.

Moreover, the clampdown may affect investor confidence and dampen foreign investment inflows into the country as a result of the manner Nigerian officials are handling the distension of Binance executive. The detention of US citizen Tigran Gambaryan, Binance's head of financial crime compliance, and British-Kenyan citizen Nadeem Anjarwaila, Binance regional manager for Africa, both of whom flew into the country, following the decision to block cryptocurrency trading platforms has raise furore (Dzirutwe, 2024). This is because of restricted access to their families and diplomatic channels, as well as keeping them without charges for weeks against the 48 hours rule in the country. The calls for their release abroad and use of expert motion in the Nigerian court to compel them release data of their Nigerian users, undermines Nigeria's efforts to attract capital and foster economic growth (Aro, 2024; Olabinta, 2024; Uti, 2024).

While the regulation of BDCs may help address regulatory concerns and mitigate risks associated with informal forex trading, it could also lead to unintended consequences such as driving these activities underground, reducing market liquidity, and hampering financial innovation.

VIII. Conclusion

In conclusion, the forex crisis in Nigeria poses substantial challenges to the economy. While the government and the CBN have taken steps to address the situation through regulatory measures and interventions, the effectiveness of these efforts is not been very significant in naira exchange rate even though the crash in value of the naira was halted by the guided floating policy of CBN sale of forex to BDCs with a caveat on limited profit margin. The clampdown on Binance and BDCs shows desperation on the part of the government. However, what is essential is the need for holistic reforms to address the root causes of the crisis. To build a more resilient and prosperous Nigeria, policymakers must adopt comprehensive strategies that promote sustainable forex management, economic diversification, and financial inclusion.

References

Ahmed, Oluwasanjo **(2024)** CBN revokes licences of 4,173 BDC operators, Vanguard NGR, March 1, 2024. [CBN revokes licences of 4,173 BDC operators - Vanguard News (vanguardngr.com)]

Anudu, Odinaka (2024) Over 50 companies shut down over forex, power crises – Investigation Punch NG May, 2 Over 50 companies shut down over forex, power crises – Investigation (punchng.com)

Aro, Busola (2024) Report; Binance regional manager for Africa fell ill in Nigeria detention.TheCable, March 12. Report: Binance regional manager for Africa fell ill in Nigerian detention (thecable.ng)

Bailey , Bunmi (2024) Data links naira weakness to FAAC disbursements, Businessday, February 13 Data links naira weakness to FAAC disbursements - Businessday NG

Bello, Bashir (2024) Dollar saga: Kano govt files fresh legal suit against Ganduje, wife, six others , Vanguard News, April 24 Dollar saga: Kano govt files fresh legal suit against Ganduje, wife, six others - Vanguard News (vanguardngr.com)

CBN (20240 CBN policies to stabilize foreign exchange rates are working – Cardoso. Central Bank of Nigeria February 9, CBN UPDATE November 2023.cdr

Dzirutwe, Macdonald (2024) Nigeria seeks to prolong detension of Binance executive. Reuters, March14. Nigeria seeks to prolong detention of Binance executives | Reuters

fergie001(2024) Forex Crisis: FG Plans Clampdown on Binance, other Crypto Firms . Nairaland February 25. **Forex Crisis: FG Plans Clampdown On Binance, other Crypto Firms - Premium Times**

Ibemere, Dave (2023) "We Need To Worry": Experts React to CBN's Decision To Lift Forex Ban on 43 Items After 8 Years Legit.NG October 13, https://www.legit.ng/business-economy/money/1558304-experts-react-cbn-lifting-forex-restriction-43-items-banned-8-years/

Inemere, David (2024) CBN Releases New Guidelines for BDCs Operation, Bans Street Trading, 22 Other Activities Legit NG, February 24, : https://www.legit.ng/business-economy/money/1580484-cbn-stop-sell-dollar-street-releases-guidelines-bdc-operators/

Itsibor, Mark & Bukola Aro-Lambo (2023) CBN Begins Forex Sales To BDCs, Fixes 1.5% Selling Band …As Naira gains to N1,408/$ at NAFEM CBN Begins Forex Sales To BDCs, Fixes 1.5% Selling Band (leadership.ng)

Ita Precious(2024) 767 manufacturers shut down in 2023 – MAN The Times March 3 767 Manufacturers Shut Down In 2023 – MAN (thetimes.com.ng)

Jaiyeola, Temidayo (2024) $26bn flowed through Binance Nigeria in one year — CBN, Businessday NG, February 27, 2024 $26bn flowed through Binance Nigeria in one year — CBN - Businessday NG

Jimoh, Adekunle **(2023)** Reversal of 43 prohibited items by CBN dangerous for economy, **The Nations Newspaper,** October 25 https://thenationonlineng.net/reversal-of-43...

Moses-Ashike, Hope (2024) CBN formalises dollar sales to BDCs as naira gains, Bussinessday NG February 27, CBN formalises dollar sales to BDCs as naira gains - Businessday NG

Nairametrics (2023) OFFICIAL: CBN announces unification of all exchange rate windows Nairametrics June 14, OFFICIAL: CBN announces unification of all exchange rate windows - Nairametrics

Ndubuisi, Essential (2024)CBN Implements Measures to Curb FX Crisis, Issues Prudential Guidelines for Banks I-Witness.NG February 1, 2024 CBN Implements Measures to Curb FX Crisis, Issues Prudential Guidelines for Banks - i-Witness Media Group

Nelson, Bayo (2023) Naira Falls to An All-Time Low, Exchanges at N1,210/$1 At the Parallel Market - Gistmania Gistmania October 23 Naira Falls To An All-Time Low, Exchanges at N1,210/$1 At The Parallel Market - Gistmania

Ogunwusi,Bamidele (2023) CBN, Banks' Rationing Of Forex Drags FX Utilization Down By 13%. Independent NG, February 16 https://independent.ng/cbn-banks-rationing-of.

Olabinta, Bolanle (2024) Court orders Binance to release comprehensive data of all Nigerian users to EFCC, The Cable, March 18. Court orders Binance to release comprehensive data of all Nigerian users to EFCC | TheCable

Olawoyin, Oladeinde(2024) Exclusive - Inside Details of How Nigerian Govt Detained Binance Executives,Premium Times , February 29 Exclusive - Inside Details of How Nigerian Govt Detained Binance Executives (msn.com)

Olowogboyega, Olumuyiwa (2023) CBN floats the Naira as banks offer $1 for N700. Tech Cabal, June 14 CBN floats the Naira as banks offer $1 for N700 | TechCabal

Onna, David (2024) Protesters take over NASS; "Nigerians are dying of hunger" — Ajaero tells NASS members Gistreel.Com February 27 Protesters take over NASS; "Nigerians ardying of hunger" — Ajaero tells NASS members (gistreel.com)

Partz, Helen (2024) Binance to cease all Nigerian naira transactions by March 8. Contelegraph.Com, March 5 Binance to cease all Nigerian naira transactions by March 8 (cointelegraph.com)

Ripples Nigeria (2023) CBN releases new guidelines for forex sale by BDCs two years after ban. Ripple Nigeria August 18, CBN releases new guidelines for forex sale by BDCs two years after ban - Ripples Nigeria

Ruvic, Dado (2024)Binance to stop services in Nigerian Naira amid crackdown on crypto exchanges Reuters, March 5 Binance to stop services in Nigerian Naira amid crackdown on crypto exchanges | Reuters

SOJ Worldwide (2024) FG Applies Sledge-Hammer to Stabilize the Naira-Blocks Online Crypto Trading, February 21 https://www.sojworldnews.com/just-in-fg-applies-sledge-hammer-to-stabilize-the-naira-blocks-online-crypto-tradings

Tukur (2024) Dollar video: Release report of Muntari, Ganduje's probe, Kano tells EFCC. PunchNG.Com April 18 Dollar video: Release report of Ganduje's probe, Kano tells EFCC (punchng.com)

Ugwu, Chris (2024) Naira hits record low of N1960 /EUR1 at the black market. Nairametrics, February, 22 Naira hits record low of N1960 /EUR1 at the black market - Nairametrics

Ugwu, Frances(2024) 'Looting warehouses bad omen for Nigeria' – Stakeholders warn of looming danger Daily Mail March 6 'Looting warehouses bad omen for Nigeria' – Stakeholders warn of looming danger (msn.com)

Uti, Aghogho (2024) US group calls on President Biden to secure release of detained Binance officials in Nigeria. Nairametrics, March 17 U.S group calls on President Biden to secure release of detained Binance officials in Nigeria - Nairametrics