KPMG

Macroeconomic Snapshot

Research & Insights | KPMG in Nigeria

Tuesday 12 December 2023

Crude Oil Price

$74.48 6.83%

$79.94 Previous

FX Reserve

$32.88b 0.26%

$32.97b Previous

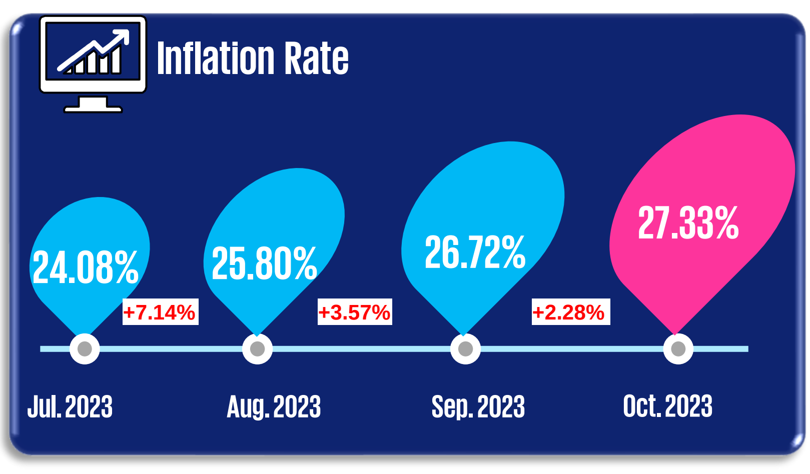
Market Capitalization

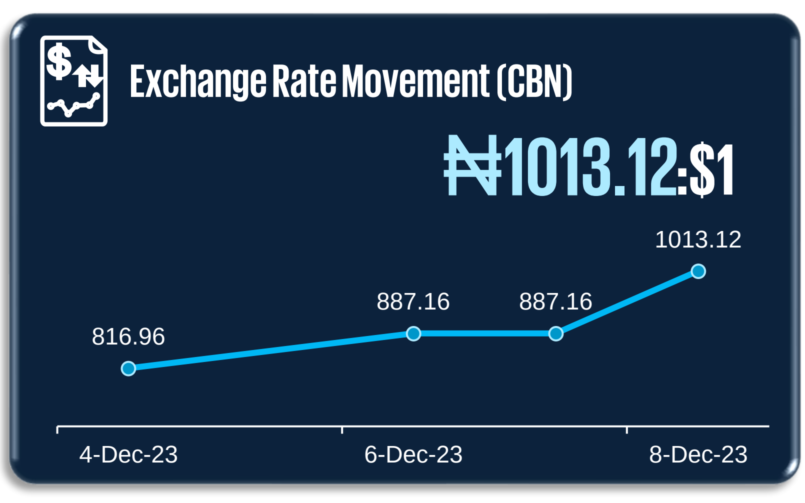
N39.15tr 0.18%

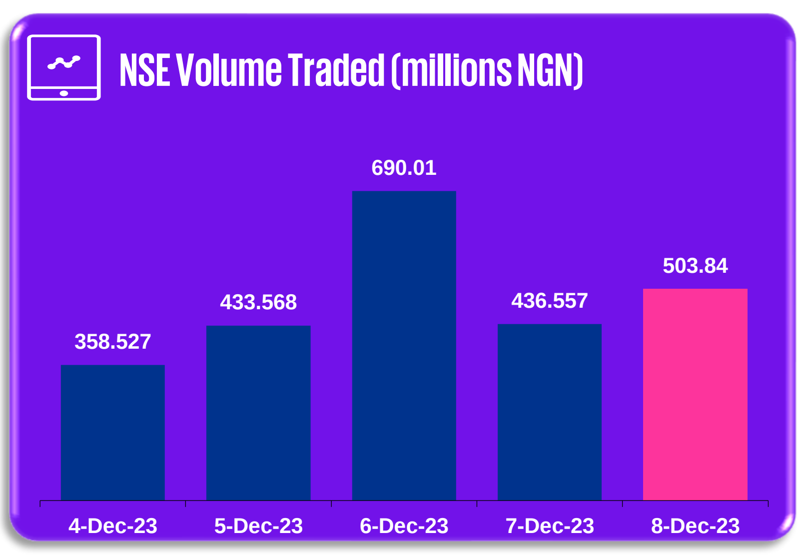
N39.08tr Previous

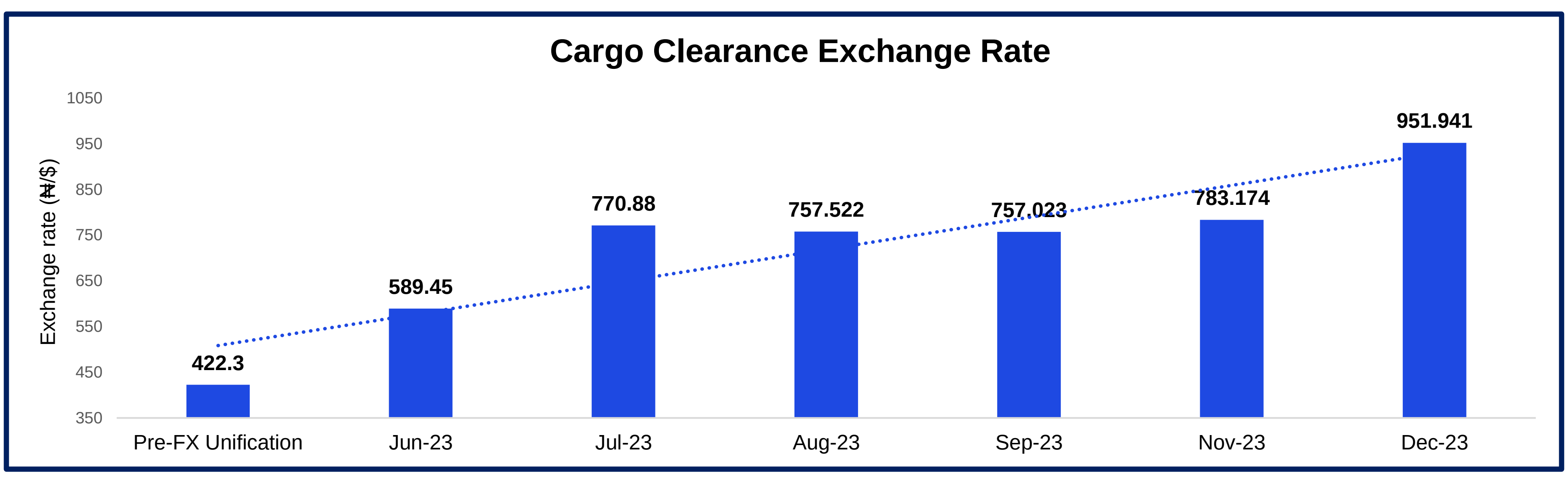
N87.4tr Debt Stock

$113.4bn









KPMG Analysis: Adjustments in Cargo Clearance Exchange Rate by Nigeria Customs Service

This week, we highlight the recent upward adjustments to the exchange rate for cargo clearance by 21.5% to ₦951.94 per dollar by the Nigeria Customs Service in December 2023, the fifth major adjustment since the transition to a managed currency float regime by the CBN. Although this development is expected to boost government revenue and switch local demands to locally produced goods for some components, we note that the increase in cargo clearance rate also comes with potential fallouts.

Premised on the significant contributory role played by imported inflation in Nigeria's inflation experience, we anticipate that the upward adjustment of the exchange rate on import duties may cause inflation, which stood at 27.3% in October 2023, to rise even further as the burden of the higher clearing costs ultimately trickle down to final consumers. This may cause further cuts in discretionary spending due to weaker consumers' purchasing power as importers and related businesses raise prices to offset their higher costs.

Also, we note that this trend may also further constrict the access of import-dependent industries to critical machinery, raw materials, and intermediate goods, with the possibility of further dampening the growth of an already fragile economy at a large scale.

Additionally, with uncompetitive clearing costs and operational bottlenecks historically making Nigerian ports less attractive compared to hub ports in countries like Togo, Ghana and Cameroon with lower costs, there are fears that these episodes of rising cargo clearance exchange rate could further drive importers to these destinations. Consequently, the revenue gains recorded from remittances to official channels may dwindle in the long term as result of rise in cargo abandonment, preference for lower settlements outside official channels enabled by systemic corruption and weak controls, and the incentives provided for smuggling.

Therefore, we submit that the government should prioritise boosting the cost-effectiveness and seamlessness of operations in Nigerian ports by making major strategic investments in port infrastructure, state-of-the-art port technology, and human capacity development. In addition, to create more stability and minimize associated risks that come with the frequent adjustment of cargo clearance rate, we opine that authorities consider engaging stakeholders in setting a feasible concessionary rate for cargo clearance. We are confident that this will deliver greater revenue mobilization that can significantly close the government's reoccurring fiscal deficits without worsening domestic inflation linked to importation or amplifying other economic distortions.

Sources: CBN, NGX, NBS, DMO & KPMG Research

Other Stories

- Nigeria customs adjusts exchange rate for cargo clearance by 22.8% to N952/$
- Petrol truck cost has risen from N7 million in May to N25 million
- Dangote refinery gets first crude supply
- Nigeria's Central Bank Chief Cardoso Approves New CBN Service Charter
- FX unification boosted Nigeria's trade surplus in Q3 – Report
- Senate asks FG to stop tax waivers
- Nigeria spends N970.22 billion on wheat import in 12months – NBS
- Report reveals 90% of businesses were negatively affected by fuel subsidy removal
- EFCC proposes N76.59bn 2024 budget
- Forex inflow hits $11bn in two months – CBN

For further information, contact:

Dr Yemi Kale
Partner & Chief Economist
KPMG West Africa
E: oyeyemi.kale@ng.kpmg.com

Contributors:

- **Kalu Eke**
  E: eke.kalu@ng.kpmg.com
- **Busayo Olanrewaju-Afuye**
  E: busayo.olanrewaju-afuye@ng.kpmg.com
- **Fatai Shuaib**
  E: fatai.shuaib@ng.kpmg.com
- **Festus Ogunbayo**
  E: festus.ogunbayo@ng.kpmg.com

home.kpmg/ng
home.kpmg/socialmedia