KPMG

Macroeconomic Snapshot

Research & Insights | KPMG in Nigeria

Monday 30 October, 2023

Crude Oil Price

$93.13 ↑ 0.76%

$92.43 Previous

FX Reserve

$33.33b ↑ 0.06%

$33.31b Previous

Market Capitalization

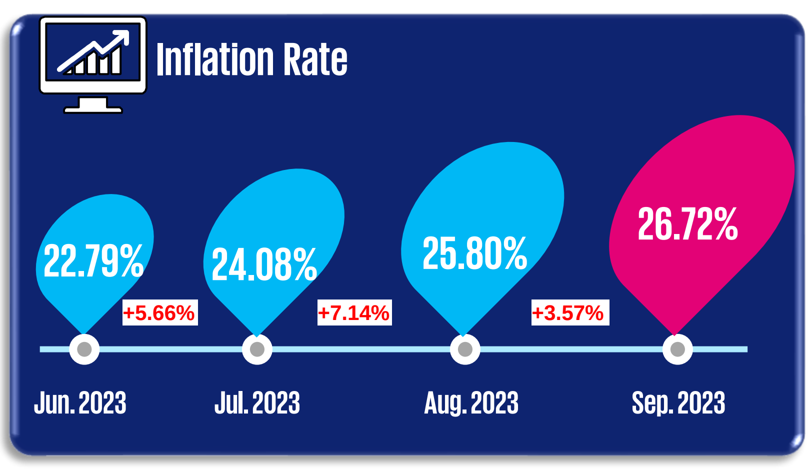
N36.89tr ↑ 0.35%

N36.76tr Previous

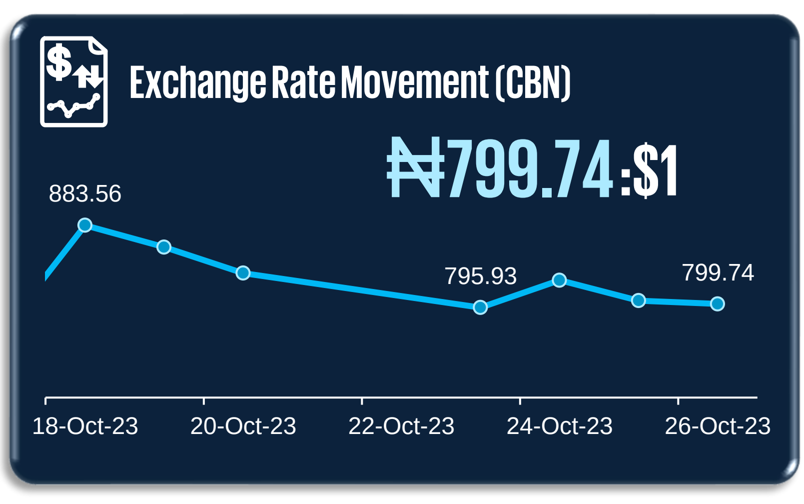
18.75% Monetary Policy Rate

18.5% Previous

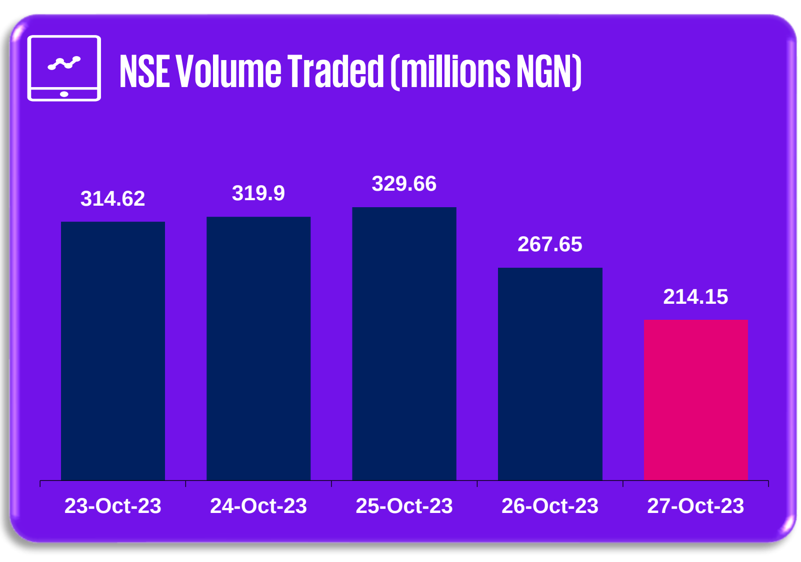
Inflation Rate



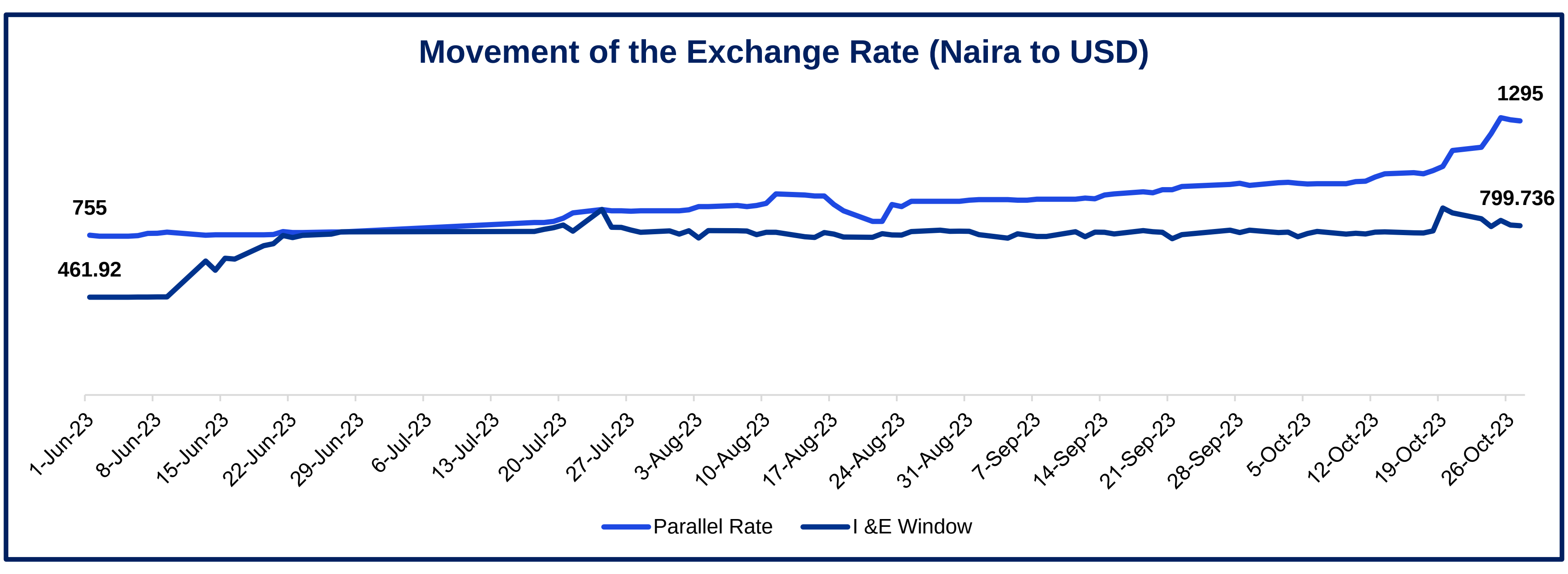
Exchange Rate Movement (CBN)



NSE Volume Traded (millions NGN)



Movement of the Exchange Rate (Naira to USD)



KPMG Analysis: Proposed Excise Tax on FX Parallel Market

This week, we highlight the implications of the proposed imposition of taxes on foreign exchange transactions contained in a recent report presented by the Presidential Fiscal Policy and Tax Reforms Committee to the Federal Government of Nigeria (FGN). The committee was set up by the Federal Government to review and advise on reforms to reshape Nigeria's fiscal policy and tax system, focusing on fiscal governance, revenue transformation and the facilitation of economic growth. Notable among the recommendations of the committee are the proposed taxation of foreign currency denominated transactions in Naira for Nigerian businesses and imposition of excise tax on foreign exchange transactions outside the official market.

Since the transition to a managed float, the Naira has depreciated against the Dollar by more than 80% between June and October 2023 in which the Naira reached an unprecedented high of N1,200/$1 in the parallel market. The CBN has also had to grapple with the daunting task of defending the Naira through regular interventions at the cost of a reduction in its external reserves position. Although, Nigeria's currently weak market fundamentals are also culpable, most of the challenges recorded in the management of Nigeria's foreign exchange market have been blamed on the dominance of speculation over real enterprise. To put this in check and simultaneously improve the revenue performance of the government, the committee on tax reforms has proposed the imposition of taxes on foreign exchange transactions outside the official market.

We believe that this action is more likely to further widen the gap in the fx market and therefore lead to more fx transactions done via cash and outside official channels. Imposing excise tax on transactions that are unofficial can further drive BDCs operators to operate more unofficially, making it difficult to track and monitor foreign exchange flows as anticipated by the tax reforms committee.

In addition, the effectiveness of the policy can also be dampened by the interlinkages between asset markets in Nigeria. Since currency trading is only one of the many items in the sleeves of speculators, the imposition of a foreign exchange transactions tax on spot currency exchanges alone can potentially trigger a portfolio reallocation as stakeholders may likely switch to assets like bonds, stocks, shares and securities, thereby raising the volatility and instability of these asset classes.

Furthermore, there have already been different tax and other reforms introduced since the beginning of the year which have been putting pressure on businesses and households. Therefore, another tax imposition which may potentially increase costs may merely further squeeze business margins and reduce their competitiveness in the international markets and may be passed to final consumers further constraining household consumption expenditures and reducing demand for goods and services. Accordingly, these higher transaction costs and uncertainties in the fx market may further reduce FDI inflows, affect remittances, hinder economic growth and lead to unintended consequences that may further disrupt the economy.

In conclusion, we like to emphasize that the revenue generation drive of the government should not be allowed to overshadow the rigorous technical considerations of the policy and that tackling Nigeria's already fragile foreign exchange system challenges would require that major and potentially disruptive changes of this nature be complemented with efforts by the government targeted at closing the fx gap through robust imports management strategies, promoting exports and making official channels attractive and seamless for inflow of remittances to supply more fx into the country. It is also very crucial that the design and implementation of any excise taxes should be carefully considered to balance the desired policy outcomes with potential economic and social impacts.

Sources: CBN, NBS, NGX & KPMG Research

Other Stories

- FX Crisis: FG may impose excise tax on parallel market transactions – Nairametrics
- Tinubu Vows To Clear FX Backlog, Says $1tn Economy Feasible By 2026
- Nigeria needs $3trn investment to sustain economic growth — AfDB
- Nigeria Moves to Securitise NLNG Dividends for $7bn Cash
- Inflation may hit 30% by December, says Stears
- Money supply in Nigeria rises to N66.4 trillion in September
- Nigeria's Senate Moves to Bar CBN Governor, Deputies from Partisan Politics
- FG, Chinese consortium sign $463m power development deal
- EU Reinforces Ties With Nigeria To Bridge Russia-Induced Gas Supply Gap
- Nigeria Records 33.58% Drop in Daily Petrol Consumption, Says NMDPRA
- FG to implement telecoms tax, may raise VAT rate
- Tinubu presents 2024 Budget to N'Assembly in November - Senate

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