An Explanatory Note on the CBN'S Suspension of Time Extension for the Repatriation of Export Proceeds

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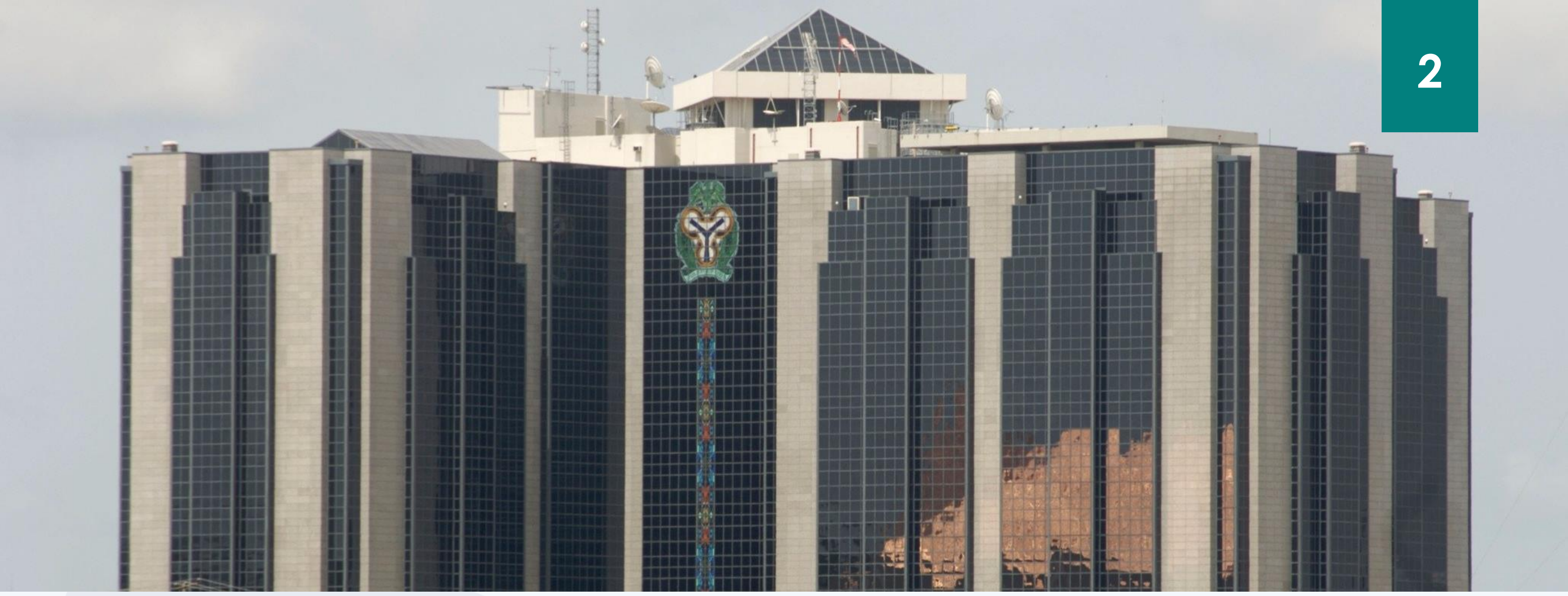

Introduction

The Central Bank of Nigeria (CBN) recently issued a circular on 8th January, 2025 (the "circular"), announcing the immediate suspension of approvals for extending the timeline for repatriating export proceeds. Consequently, the CBN will no longer approve requests by authorized dealers on behalf of their customers to extend the timeframe for the repatriation of export proceeds. The directive equally mandates proceeds from non-oil exports and oil exports to be repatriated and credited into the exporters' domiciliary account within 180 days and 90 days respectively from the date on the Bill of Lading. While this policy represents a significant step towards enhancing forex liquidity and ensuring accountability, it is essential to critically assess its effectiveness and impact on the export market.

The Objectives of the CBN Circular

A critical look at the letters of the circular exposes the intention of the CBN to clamp down on the notorious acts by exporters of delaying the repatriation of export proceeds in anticipation of a favourable forex rate even when the stipulated timeline has elapsed knowing fully well that there is a window to seek an extension of time to repatriate such funds. This has, in turn, affected the inflow of foreign exchange and has hampered Nigeria's external reserve.

Similarly, exporters can use their forex revenues to exploit the system and create arbitrage within the system, if there is no stipulated window for the repatriation of export proceeds. Therefore, sanctioning authorized dealers will drive compliance from the exporters knowing that authorized dealers will not accept such proceeds upon the effluxion of the stipulated time without the authorized dealers being punished.

Through this circular, the CBN aims to stabilize the Naira and enhance forex liquidity by ensuring the timely inflow of export proceeds.

Lastly, the circular emphasizes enhancing regulatory compliance by tightening control over forex inflows and ensuring exporters adhere more strictly to existing regulations.

Previous Actions by the CBN to Ensure the Repatriation of Export Proceeds

Over the years, the CBN has employed several measures to ensure the timely flow of funds from export proceeds, and this circular is only a part of the CBN's broader strategy to regulate export proceeds and remove clogs on the repatriation of funds. In February 2024, the CBN through a circular restricted the immediate remittance by International Oil Companies of 100% of their forex proceeds to their parent company abroad allowing IOCs to immediately repatriate only 50% of their proceeds while the other 50% will be repatriated 90 days from the day of inflow. Further to this, the CBN introduced rules to guide cash pooling by IOCs thereby requiring the CBN's approval and an agreement with the CBN before IOCs can engage in cash pooling activities.

Additionally, in May 2024, the CBN clarified its policy on the utilization of export proceeds by IOCs , allowing 50% of pooled export proceeds to address local financial obligations like petroleum profit taxes, cash calls, royalties, etc. during the 90-day retention period. After this period, the remaining funds could be sold to authorized dealers. To ensure compliance, exporters who fail to meet repatriation deadlines faced penalties, including restricted access to forex for future transactions.

Commentaries

There is no doubt that Nigeria has constantly faced foreign exchange issues. This has led to a weak currency and a relatively low forex reserve. The speculative acts of non-oil and oil exporters in delaying the repatriation of export proceeds in anticipation of a favourable exchange rate or trading export proceeds in the parallel market to take advantage of a higher exchange rate further exacerbates the lingering forex issues. The circular issued by the CBN shows the CBN's awareness of these acts by exporters and its response to the same.

While the circular is a commendable effort by the CBN to put an end to forex issues caused by the intentional delay by exporters to remit export proceeds into their domiciliary account, the circular may hamper regular business interaction between exporters and their customers.

According to the circular, non-oil export proceeds must be repatriated and credited to the exporter's domiciliary account within 180 days from the Bill of Lading date without an avenue to extend the timeframe. However, the circular did not make room for regular business interaction between exporters and their customers based on mutual business relationships to defer payment for a period that may exceed the statutory timeline for remittance. Deferred payments may also be an offshoot of prevailing market practices that market participants have come to accept.

Further, the circular neglected situations where business partners may enter a contract to receive goods to be imported in exchange for exported goods which may in turn delay the proceeds to be repatriated. More so, payments by buyers could also be delayed due to unforeseen trade disputes or sanctions put in place by foreign governments.

We propose that the CBN addresses these market complexities in subsequent policies, circulars, or guidelines. Additionally, it is agreeable that exporters may perceive the stringent measures as punitive, leading to reduced trust in regulatory frameworks, discouraging new entrants into the export market, and lowering overall export volumes which undermines the broader goal of increasing Nigeria's forex reserves.

Comments

The CBN's suspension of time extension for the repatriation of export proceeds demonstrates a strong commitment to enforcing compliance with foreign exchange regulations and strengthening Nigeria's forex reserves by sanctioning authorized dealers. It will also drive compliance from exporters when dealing with authorized dealers regarding the repatriation of export proceeds. While this policy aims to curb the delays of speculative practices by exporters, the strict tone of the circular regarding the timeline for repatriation may hamper the mutual business relationship between exporters and their customers and may go against accepted commercial practices. It is recommended that the CBN provides further guidance or clarification on the highlighted market complexities in subsequent policy updates.

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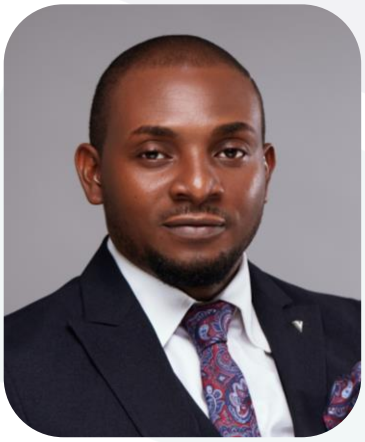

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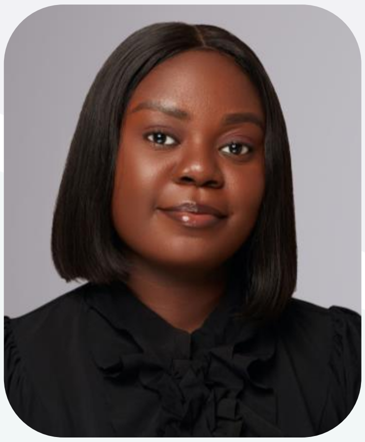

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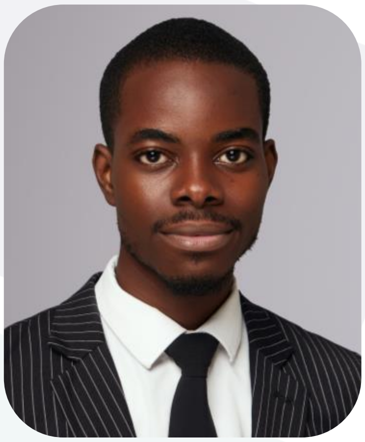

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