Chapter 10
Using eNaira CBDC to Solve Economic Problems in Nigeria

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ABSTRACT

This chapter discusses how the eNaira central bank digital currency (CBDC) might be used to solve some economic problems in Nigeria. It presents the eNaira as a payment option, a monetary policy tool, and a financial stability tool to solve some economic problems in Nigeria. The author shows that the eNaira can be instrumental in solving fiscal revenue challenges, controlling inflation, increasing foreign exchange accretion, managing exchange rate, addressing food insecurity, reducing financial stability risks, reducing poverty level, and recovering from a recession. The implication is that the eNaira can support the monetary, fiscal, and regulatory authorities in preserving macroeconomic stability. However, a trade-off might arise among policy objectives if the eNaira cannot achieve multiple policy objectives at the same time.

INTRODUCTION

This paper discusses how the eNaira central bank digital currency (CBDC) might be used to solve some economic problems in Nigeria.

The recent COVID-19 pandemic plunged many countries into a recession including Nigeria. The pandemic led to growing interest in private digital currencies which many individuals used as safe haven assets during the pandemic. This trend led central banks around the world to monitor the developments in private digital currencies and study their economic implications.

Many central banks have recently gained some interest in a digital currency that is issued by the central bank, commonly known as a central bank digital currency (CBDC). A CBDC is the digital equivalent of physical money and is a liability of the central bank. A CBDC has the potential to enlarge access to central bank reserves so that both commercial banks and the general public would be able to use central bank money to transact and save (Minesso, et al, 2022). A BIS survey suggests that 80 percent of central

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banks around the world are working on a CBDC (Barontini and Holden, 2019). Only few countries have issued a CBDC, such as Nigeria and the Bahamas, while other countries are still researching CBDCs to determine the economic benefits, risks and the best use case of a CBDC.

The motivations for the growing interest in CBDC are due to the need to ensure adequate central bank money for the public; preserve central bank seigniorage revenue; reduce the lower bound on interest rates; support unconventional monetary policy; reduce financial stability risks; increase contestability in payments; promote financial inclusion; inhibit criminal activity associated with physical cash; and to counteract the growing influence of private digital currencies in the domestic economy (Engert and Fung, 2017; Barontini and Holden, 2019; Obiora, 2022).

These motivations, although relevant to most countries, are not enough reasons for a central bank to issue a CBDC in a country. Each central bank need to identify the domestic macroeconomic and financial implications of issuing a CBDC, and also identify a pressing economic need or problem which a CBDC can help to solve. Therefore, an important question that arises for central banks in developing countries and poor countries is whether a CBDC can assist in solving their most pressing economic challenges.

In this article, I focus on Nigeria, and discuss how the eNaira can be used to solve some economic problems in Nigeria. The discussion in the article contribute to the monetary economics literature that examine the economic implications of a CBDC. This discussion paper contributes to existing studies that examine the monetary and financial implications of issuing a CBDC such as Bindseil (2019), Kumhof and Noone (2021), Davoodalhosseini (2022), and Agur, Ari and Dell'Ariccia (2022). This study also contributes to on-going policy debates about country-specific CBDC design and implementation, and how it affects the economy.

The rest of the paper is organised as follows. Section 2 presents the literature review. Section 3 describes how the eNaira can solve a number of economic problems such as the fiscal revenue challenges, inflation, economic recession, foreign exchange accretion, food insecurity, financial instability, and rising poverty. Section 4 presents the conclusion of the study.

LITERATURE REVIEW

Several studies examine how central bank digital currencies can be used to solve some economic problems. But these studies have not analysed how the eNaira CBDC can be used to solve economic problems in Nigeria. Bordo and Levin (2017) show that a central bank digital currency (CBDC) can transform the monetary system and facilitate the transparent conduct of monetary policy by serving as a practically costless medium of exchange, secure store of value, and stable unit of account. They emphasize that, to achieve these benefits, the CBDC should be account-based and interest-bearing in order for CBDCs to bring price stability benefits. Kwon, Lee and Park (2022) show that a CBDC can significantly reduce tax evasion which is carried out in cash transactions. CBDCs will improve welfare by discouraging tax evasion and rewarding tax payments, but this beneficial effect of the CBDC depends on whether the central bank is permitted to perform a fiscal role in the economy. Ozili (2023a) shows that the Nigeria CBDC can increase financial inclusion by (i) offering an easy account opening process for greater financial inclusion, (ii) enabling digital access to diverse financial services in the financial system, (iii) offering lower cost of financial products and services, (iv) eliminating excessive bank charges that causes banked adults to exit the formal financial sector, and (v) attracting people who have lost confidence in banks. Ozili (2023b) shows that CBDCs have the potential to preserve financial stability because cen-