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**ABOUT THE COMPANY**

DaMina is a preeminent independent frontier markets risk research, due diligence and Africa M&A transactions consulting firm.

With a special focus on African capital and commodities markets, DaMina provides exclusive, highly-tailored, 360-degree and around-the-clock regulatory, political risk advisory, due diligence and M&A consulting services to a range of marquee global firms.

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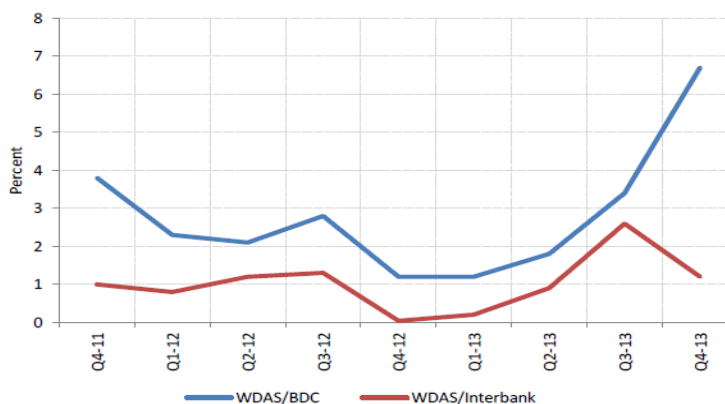
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**DaMina Advisors Alert:** Rejecting devaluation, Nigeria's central bank poised to hike bank cash reserve requirements and interest rates to prevent a 50% depletion of forex reserves by late 2014.

Ahead of the May 19 monetary policy committee meeting of the Nigerian Central Bank, the committee's nine members are poised to hike bank cash reserve requirements and domestic interest rates instead of an outright devaluation of the overvalued currency. Both measures are aimed to slow down the rapid ongoing \$1.6 billion monthly depletion of the country's \$38 billion forex reserves. If current trends continue, by late 2014, the country will have less than 3 months' worth of import cover at \$15 billion of FX reserves.

While most members of the MPC remain opposed to an outright devaluation of the Naira, a plurality of members, who are bank insiders, favor hiking high interest rates to defend the currency. Outside academics on the MPC, however, favor raising bank reserve requirements from the current 15% level for private deposits and completely sterilizing government deposits by hiking the current 75% cash reserve requirement for government deposits to 100. A vote against devaluation will naturally lead to a combination of the remaining two options, as the hopes of increasing fiscal revenues to the FX account are unlikely to be immediately forthcoming.

**Growing divergence between Central Bank & Private Bureau de Change Naira auction rates**



Source: Nigeria CBN

Acting governor, Sarah Alade, the leader of the hawkish wing favors an interest rate rise over devaluation. Alade however, prefers the government increasing the excess crude account to add to existing forex reserves and increasing fiscal buffers. Deputy Governor Barau Suleiman, like Alade favors raising domestic interest rates, and is opposed to devaluation. Suleiman will prefer a gradual market driven depreciation. Another deputy governor Kingsley Moghalu joins Suleiman and Alade in calling for a near-term increase in interest rates, over devaluation. Yet, Moghalu's believes that other external factors such as the abrupt leadership change at the bank, and other extraneous domestic political events should be factored into the MPC's analysis of the state of the Naira. The internationalization of the Boko Haram crisis is therefore likely to negatively impinge on portfolio and investment inflows into Nigeria in the short-to-medium term. Anastasia Daniel-Nwaobia, permanent secretary at the ministry of finance, and a member of the MPC, unlike the hawks, favors using other monetary policy tools and closer coordination with fiscal authorities to ward off the currency problems. Daniel-Nwaobia's position is shared by other professional academics on the MPC, professors Abdul Ganiyu-Garba, Adedoyin Salami, Yahaha Shehu and Uche Chibuike.

**For more in-depth analysis on Nigeria, kindly reach out to us at the contact addressees provided on the masthead**

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