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Nigeria's central bank set for 180-degree turn as oil cash runs out and corporate debt defaults loom

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"Give me control of a nation's money and I care not who makes its laws" - M.A Rothschild

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With the fiscal authorities resolutely unresolved, and a relatively inexperienced finance minister seemingly at sea and set to be removed soon, Nigeria's central bank has almost no choice but to announce a dramatic 180° change at its May 23/24 monetary policy meetings if it is to stave off a full blown fiscal/financial and economic meltdown. While Nigeria's oil sector accounts for only 10% of GDP, the sector accounts for over 70% of government revenues. Therefore with the nearly 50% recent drop-off in oil production in the Niger Delta, the government's cash revenues for May/June are almost depleted. More than 20 of the country's 36 states are struggling to pay April back salaries and are staring into the fiscal abyss for May/ June.

With the growing diversion between the country's official currency rate and the unofficial black market rate, the central's bank's monetary policy transmission mechanisms to the broader economy is broken.

Nigeria's current fiscal mess has only 4 possible solutions – (1) a massive multibillion dollar Ukraine-type IMF program (including a major donor aid package from western allies), (2) a multibillion dollar credit line from non-western allies such as China or Saudi Arabia, or (3) a quick accelerated decentralized improvement in domestic tax collection, (4) or a massive central bank inflationary monetization policy which will dramatically expand the monetary base, lower interest rates and stave a deepening of the current fiscal crisis.

Of the four main options, Buhari remains undecided on an IMF bailout and has been unable to get any tangible financial aid package form China or Saudi Arabia. The Eurobond market remains skittish about a jumbo Nigerian Eurobond due to the Nigerian central banks FX controls and maintenance of an overvalued currency rate. And while there are ongoing attempts to raise more domestic revenues from taxes and in the local Treasury bond market, domestic interest rates have not fallen low enough to make government treasuries attractive and tax revenues systems remain porous and not easily fixed overnight. Thus inevitably unless the central bank dramatically alters its policy stance, the country could slid into serious instability in coming weeks.

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