

Nigeria central bank to make another U-turn on promised flexible currency policy

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June 2, 2016

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After the 23/24 May monetary policy meetings which we accurately forecasted will see the adoption of a dramatically new policy framework for a relaxed FX policy, Nigeria's central bank seems rather stumped in implementing the new policy. The bank is constrained by two critical factors – the lack of political support for a devaluation of the local currency, which is a sine qua non of any FX policy adjustment process within a fixed currency framework in light of the nearly 60% fall in oil prices. Nigeria can NOT credibly adopt a "flexible" FX policy under the present circumstances without an official devaluation/depreciation of the Naira. Secondly with vastly diminished FX reserves, approaching just 3 months of import cover, the central bank can no longer sustainably support domestic demand for dollars.

168 hours (7 days) since the promised policy details, the central bank is yet to announce a coherent FX policy. The bank is internally deadlocked and likely to backtrack on its promised commitment to adopt a flexible regime and will simply tweak the current illiquid managed fixed peg regime in an attempt to narrow the divergence between the official currency rate and the black market currency rate which is over 40% and growing. Governor Godwin Emefiele and his colleagues will postpone the day of reckoning.

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