

Nigerian Exchange Rate Policy Dilemma



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Outline



- Concept definition: exchange rate vs. exchange rate policy
- Exchange rate regimes at a glance
- Does Nigeria have an exchange rate policy?
- History of exchange rate management in Nigeria
- Oil price shock and the exchange rate
- What are the options??

Exchange Rate Policy vs Exchange Rate



What is an exchange rate?

Exchange rate is the price of a currency relative to another currency

Price at which external and internal economic factors are aligned

Exchange Rate Policy vs Exchange Rate

What is an Exchange Rate Policy?

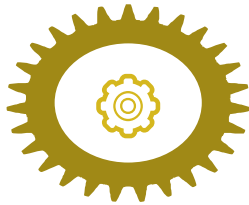
- Exchange rate policy is the process used to determine an exchange rate

Types of exchange rate policy regimes:



Floating Exchange Rate

Value of currency is allowed to fluctuate in response to forex market dynamics- demand and supply



Fixed exchange rate

A currency's value is pegged against either the value of another single currency (dollar), to a basket of other currencies, or to another measure of value, such as gold

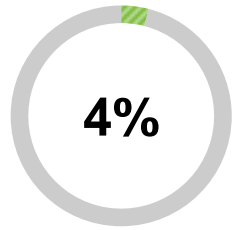


Managed floating exchange rate

a type of floating exchange rate regime in which the central bank intervenes frequently

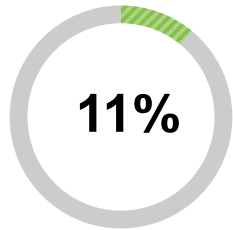
Exchange Rate Regimes

1970s



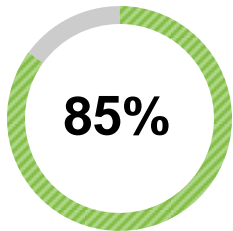
4%

Free Floating



11%

Managed Float



85%

Fixed Exchange Rate

2016



34%

Free Floating

53%

Managed Float

13%

Fixed Exchange Rate

Nigeria moving forward or backward?

Africa... United by One Bank



We know our way around finance in Africa

United Bank for Africa Plc is one of Africa's leading financial institutions offering banking services to more than 7.5 million customer accounts across 750 business offices in 19 African countries.
With presence in New York, London and Paris, UBA is connecting people and businesses across Africa through consumer and corporate banking, innovative cross-border payments, trade finance and e-banking.

■ Africa

● New York

● London

● Paris

At a Glance

Free Floating (Size of GDP, US\$'bn)	Managed Float	Fixed Exchange Rate
United States (17,419)	China	Bulgaria
Europe - E.U. (18,514)	Indonesia	Cuba
Japan (4,601)	Egypt	Qatar
Australia (1,455)	Tunisia	Saudi Arabia
Canada (1,785)	Singapore	Central African Republic

Exchange Rate Determinants



Balance of trade



External Reserves



Foreign Direct Investment



Interest rate movements



Inflation



Purchasing Power Parity



Oil price shocks

Peer Comparison - Oil Producing Countries

Countries	Net FDI (\$'bn)	Trade Balance (\$'bn)	External Reserves (\$'bn)	Currency Adjustment (%)	GDP growth (%)	Inflation (%)	Exchange Rate Regime
Russia	2.64	9.11	371.56	17.4	2.3	9.8	Managed Floating
Saudi Arabia	1.96	21	616.39	-	3.4	2.3	Fixed
Kazakhstan	3.68	1.19	26.9	48.3	1.5	14.4	Managed Floating
Nigeria	1.8	-3.3	27.92	15.6	2.7	9.6	Multiple exchange rate
Angola	16.54	1.42	21.5	33.2	3.8	14.27	Fixed
Venezuela	0.12	-0.78	16.36	69	-5	108	Multiple exchange rate

Does Nigeria have an Exchange Rate Policy?

Obsession with a number (exchange rate) rather than the process (exchange rate policy)

- Divide 310 by 7

(a) 40.65

(b) 42.55

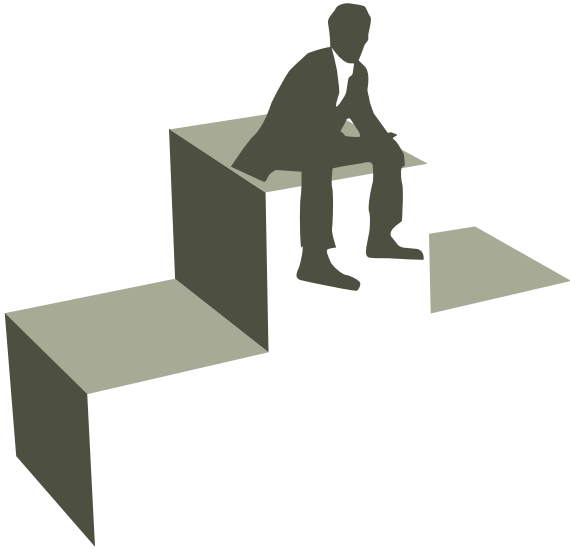
(c) 44.29

(d) 43.35

	44.285						
7	310						
		28					
			30				
				28			
					20		
						14	
							60

Does Nigeria have an Exchange Rate Policy?

- 01 Knowing the process is required to understand and answer the question
- 02 What Nigeria needs is a process that leads to a number
- 03 Not a number leading to a process



FOR LEASE

MARIYA COURT

Location: 2B, Probyn Close, Ikoyi, Lagos

Amenities:

1. All rooms fitted with new air conditioners
2. Intercom system
3. Equipped kitchen with electrical cooker/oven, fridge, deep freezer and washing/drying machine.

Other Facilities:

1. Gym, squash court, steam bath, sauna, swimming pool with bar and barbeque stand
2. 24hrs power supply
3. 24hrs security/CCTV/Alarm system
4. 24hrs Technician on duty
5. Fully equipped play area for children



RHAMA GARDEN

Location: 28, Gerard Road, Ikoyi, Lagos

Amenities:

1. All rooms fitted with new air conditioners
2. Intercom system
3. Equipped kitchen with electrical cooker/oven, fridge, deep freezer and washing/drying machine.

Other Facilities:

1. Gym, squash court, steam bath, sauna, swimming pool with bar and barbeque stand
2. 24hrs power supply
3. 24hrs security/CCTV/Alarm system
4. 24hrs Technician on duty
5. Fully equipped play area for children



History of the falling Naira

Exchange Rate Regime/Method of Exchange Rate Determination	Date
Fixed (Pegged to British pound sterling/US Dollars)	1960-1972
Dutch Auction System (DAS) of bidding	April 1987
Creation of Interbank Foreign Exchange Market (IFEM)	January 1989
Autonomous Foreign Exchange Market	1995
Wholesale Dutch Auction System (wDAS)	Feb 2006 - Oct 2013
Retail Dutch Auction System (rDAS) of foreign exchange management	Oct 2-31, 2013
Interbank Foreign Exchange Market (Closure of Official Window)	February 2015

Arbitrary and Derived Exchange Rate Policy

- Policy should be dynamic
- It will be a cocktail of variables
 - Reserves (a)
 - Inflation (b)
 - Oil price (c)
 - Oil production (d)
 - PMI (e)
 - Interest Rates (f)
- $\sum(a+b+c+d+e+f) = \mathbb{N}$
 - If \mathbb{N} improves, exchange rate appreciates
 - If \mathbb{N} weakens, exchange rate depreciates

Sources and Uses of Foreign Exchange

Exports

	Percentage
Barrel of oil	85%
Liquefied Natural Gas	10%
Others such as cocoa,rubber	5%

Invisible receipts

	US\$Bn
FDI	1.4
Diaspora Remittances	21.6
FPI	6.0

Imports

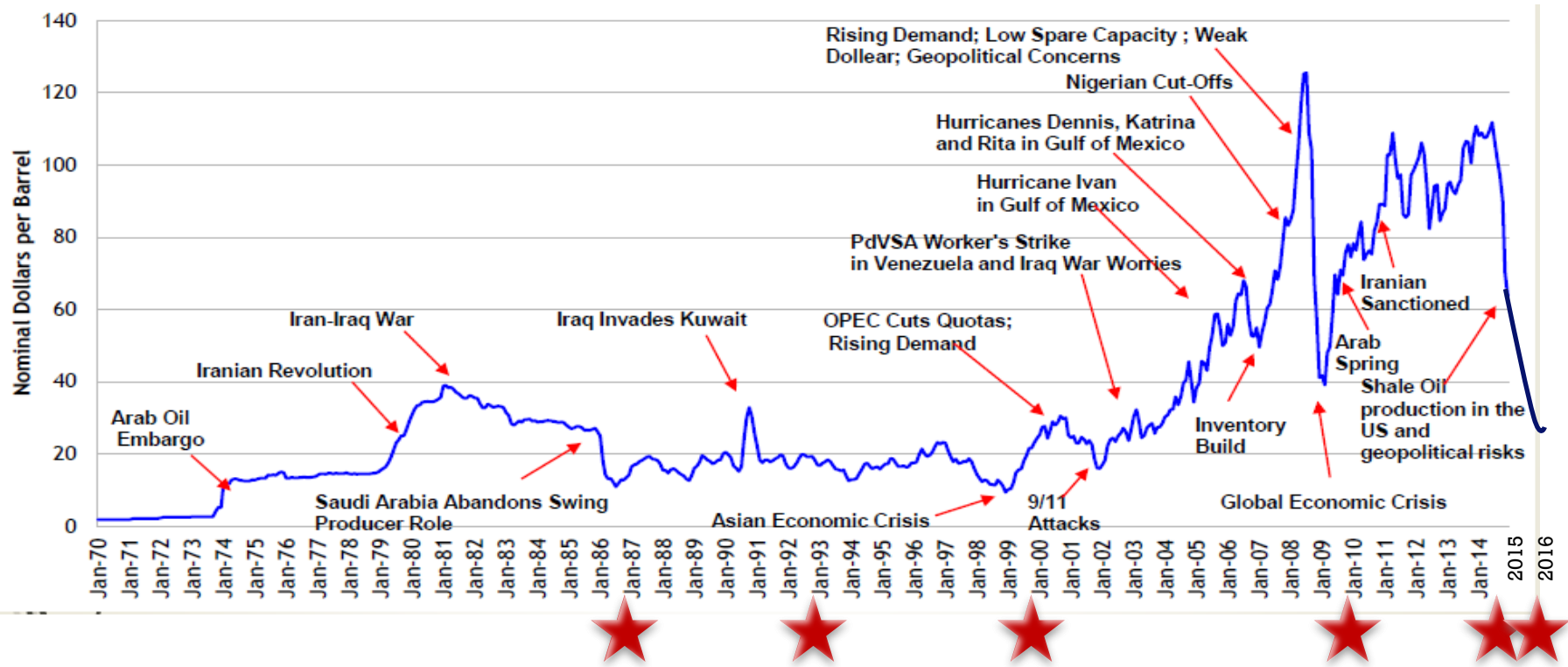
▪Payments

- Machinery & Transport equipment (26.4%)
- Manufactured goods (13.9%)
- Chemicals (11.0%)
- Others (48.7%)

▪Other payments include

- Airline remittances
- Dividends
- Medical Tourism
- Education
- Insurance

Naira Jinx and Barbarians at the Gate



Rich Man, Poor Man



30.4million



10.1mb/d



180million



1.9mb/d



22.4million



1.7mb/d

Population

Crude oil
production (barrel
per day)

Persons per barrel

Oil revenue per
capita at \$30pb

External reserves
per capita

3

95

13

US\$10

32cents

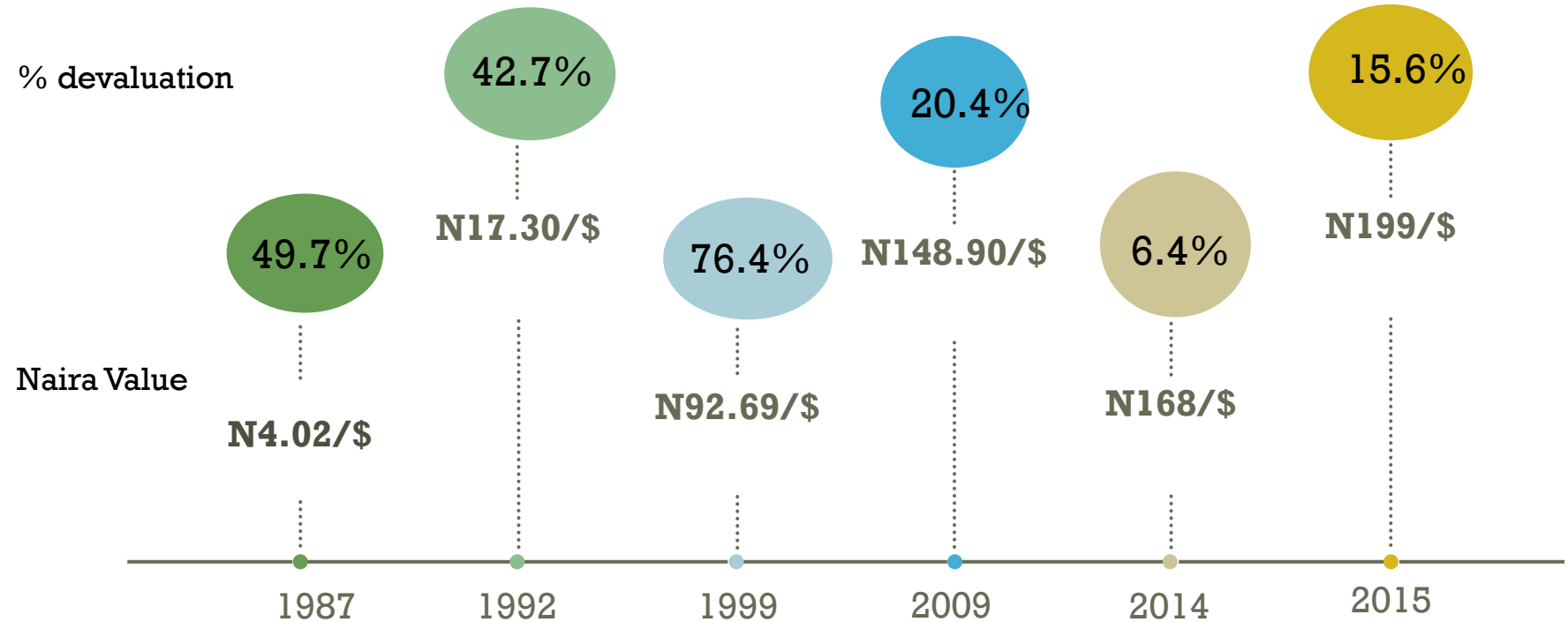
US\$2.3

US\$20,533

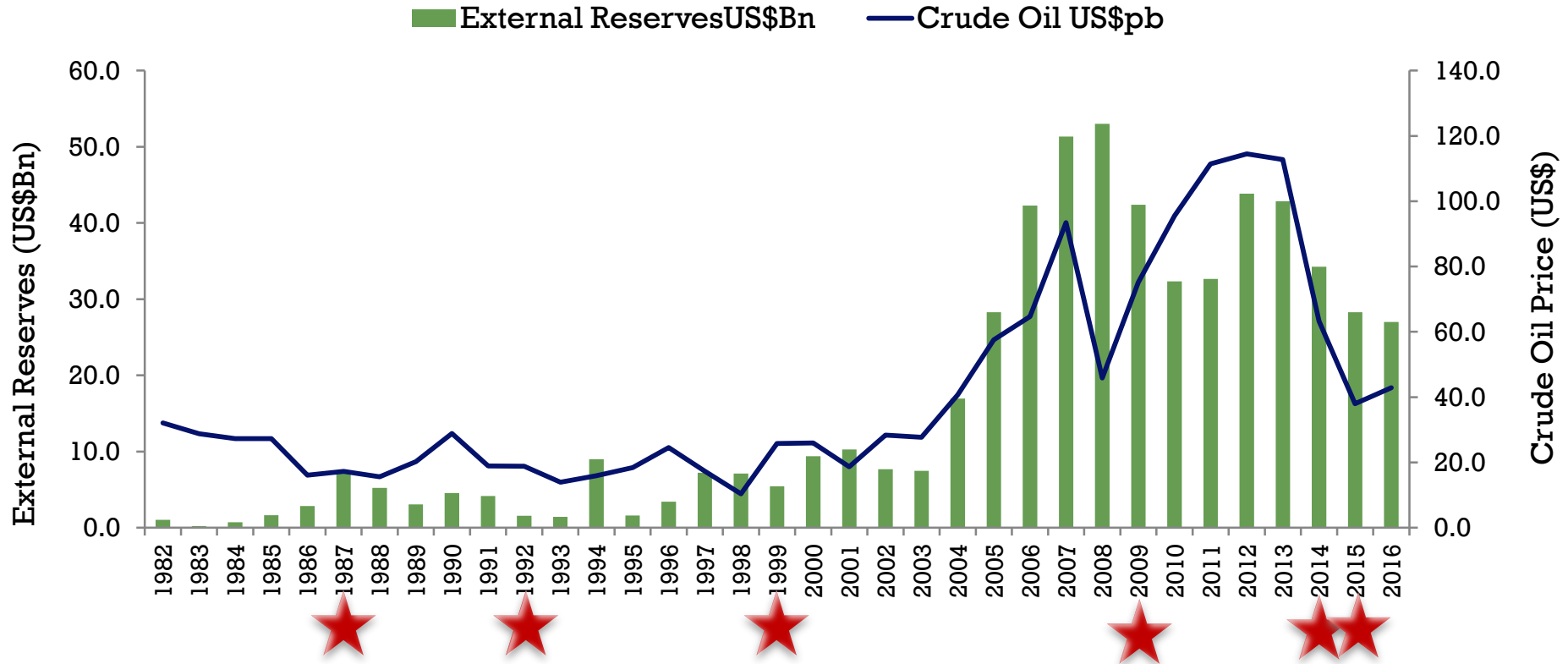
US\$156

US\$1,000

Naira going going gone



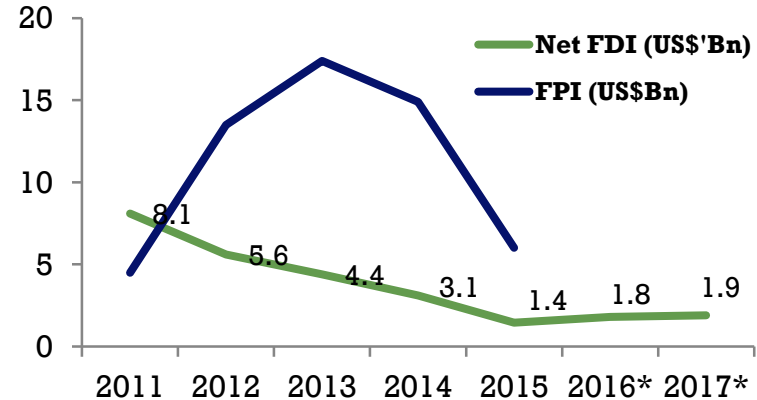
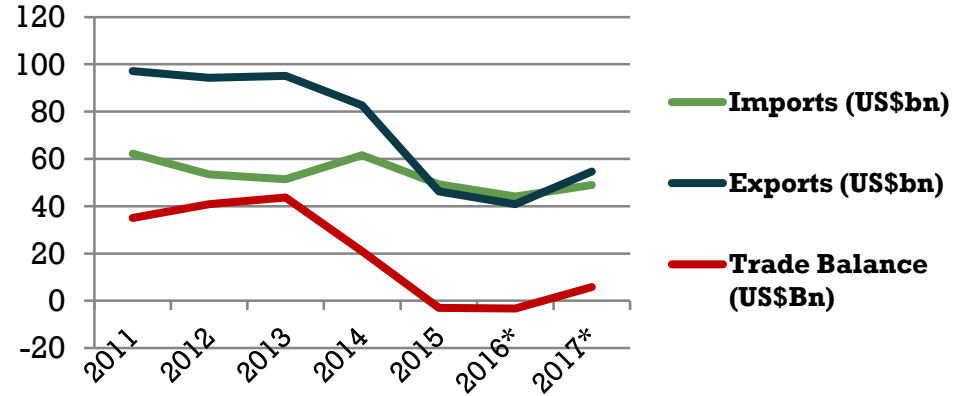
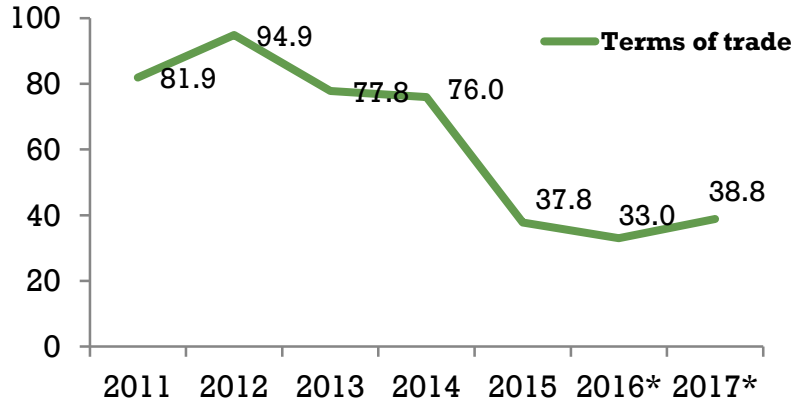
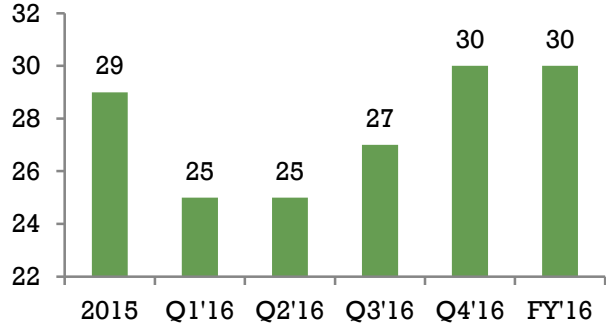
Saving for the Rainy Day



Denotes periods of devaluation following oil price shocks

Naira Misalignment

External Reserves (US\$Bn)



What are the Options??

Schools of thought

A



More restrictions



Hold rates and ensure no round tripping



Export supply inelastic



Import demand inelastic



Allocate funds to targeted sectors



Anybody who wants Forex, search for it



Block leakages and Forex reserves will build up

A The Address Homes

Femi Okunnu, Lekki



30 Beautiful contemporary, 4 Bedroom Luxury Semi-detached Homes, with 1 Bedroom BQ on 3 floors, where intelligent design meets aesthetics to create the perfect backdrop for the modern lifestyle. Located at Femi Okunnu Estate, close to the new Shoprite, Lekki, Lagos.

Come home to exceptional quality living with designs to maximize comfort and convenience, specifications that include: Master Bedroom on 2 floors with Wardrobe in Alcove and beautiful staircase with Lovely overlooking gallery; modern and contemporary fully fitted kitchen with Breakfast Island; Interior Spaces with Sun lit space all day long, modern interiors, height windows bringing in lots of natural light and ventilation, floor to ceiling Doors, Double/triple volume spaces, Bridges, Split-level ceilings, Atrium creating an interior lantern for ventilation and lighting, Galleries and interconnecting levels, Smart Technology for intelligent living; Integrated music system pre-wiring; Integrated CCTV pre-wiring; Intercom system in all functional rooms pre-wired; DSTV in all rooms; Mood lighting, 4-parking spaces; Outdoor energy efficient lighting on building and more.

Inclusive of Communal Swimming Pool, Club House, Mini Event Centre, Children Play Area, 24Hrs Power Supply, Adequate Security, Central Sewage Disposal System, Good Drainage and Landscaping. Fully serviced Estate.

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Eddy - 08033047772



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(Beside RCCG Olive Tree Parish),
Off Onikoyi Street, Banana Island,
P.O. Box 55500, Ikoyi, Lagos.
0806 940 2201, 0909 040 6925, 0903 885 9470
info@theaddresshomes.com
www.theaddresshomes.com

Schools of thought

B



Allow market determine fair value



20% adjustment: N240 – N250



No controls, borrowing will be easier



Demand will fall



Investment flows will increase

Schools of thought

C



Shift currency by 5-10%



Strengthen controls



Block leakages



Reduced demand from petroleum imports



Reduce waste

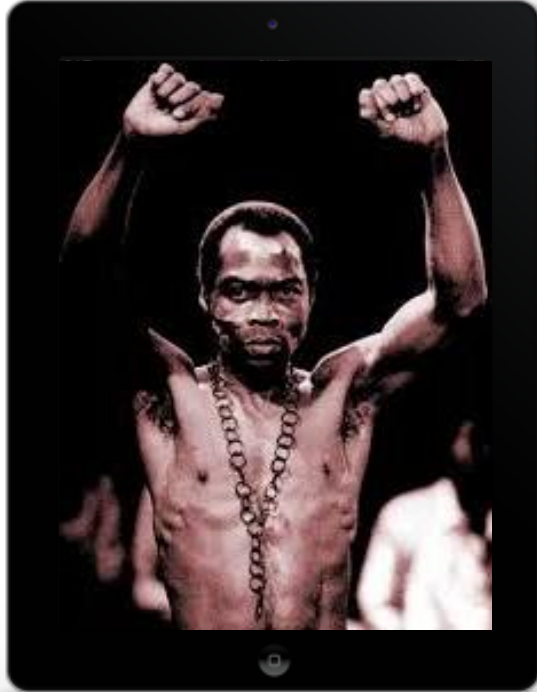


Economy in equilibrium

Outcome

Option A – Do nothing

FELA (Palaver)



Tenant lost him job,
Him sit down for house,
Him dey think of job,
Mr. Landord come wake am up,
He say, “Mister, pay me your rent”
Wetin he dey find

PALAVAR, HE DEY FIND
Palaver, he go get-e o
PALAVAR, HE GO GET
Palaver

Outcome

Option B – Currency Adjustment R.Kelly (Storm is Over)



Now in the midst of my battle
All hope was gone
Downtown in a rushed crowd
And felt all alone
And every now and then
I felt like I would lose my mind
I've been racin' for years
And still no finish line, oh

The storm is over
(The storm is over now)
And I can see the sunshine
(Somewhere beyond the clouds)
I can feel Heaven, yeah
(Heaven is over me)

Thank you