



**FOREX MARKET  
STRUCTURAL CHANGE WILL  
SUSTAIN NAIRA VALUE**

# POLICY FRAMEWORK

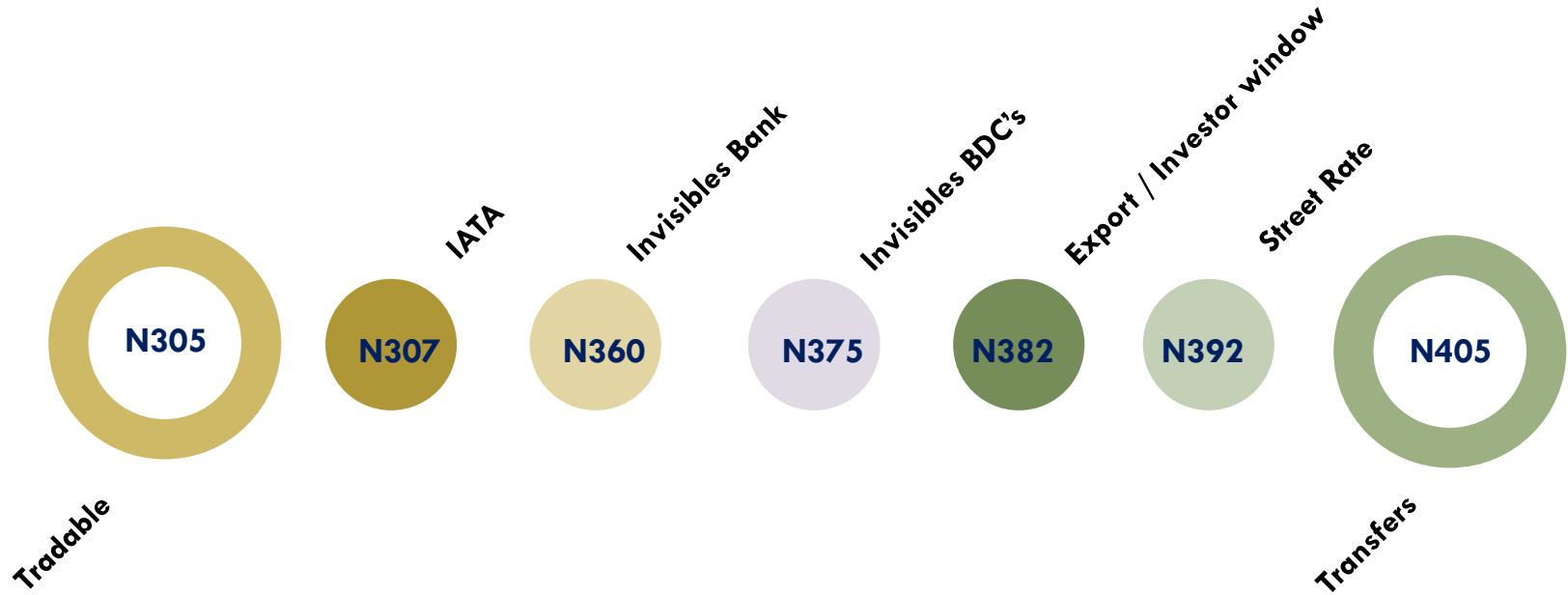
Flexible exchange rate policy

In theory, floating exchange rate

De facto managed fixed rate

Market structure: Price discriminating monopoly

# MULTIPLE EXCHANGE RATES



Spread between high and low = N100

# INDICATORS

- Balance of trade  \$3.8bn in 2017 (-\$0.5bn in 2016)
- Terms of trade (2005=100)  15.9 in 2017 (14.0 in 2016)
- Net FDI  \$3.3bn in 2017 (\$3.1bn in 2016)
- Loans availed: \$1.5bn (Eurobond)
- Export credit expected: \$6bn (Chinese)
- Power sector support: \$1.2bn (World Bank)
- Inflation/interest rate differential: 3.19%

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# WHAT HAPPENED IN Q1 2017



# PEER GROUP COMPARISON



## Angola

## Russia

## Venezuela

## Brazil

Growth (FY'16)

-0.5

-0.5

-18.60\*

-3.6

Inflation

36.52 ↓

4.30 ↓

741 ↓

4.57 ↓

Currency

(movement Jan'16 – Present)

18.49% ↓

21.34% ↑

37.04% ↑

24.99% ↑

Interest Rate Policy (%)

16 ↔

9.25 ↓

21.78 ↑

11.25 ↓

External Reserves (\$'bn)

20.89 ↓

397.91 ↑

10 ↓

370.01 ↑

Corruption Index Rank

164

131

166

77

IMF Package

N/A

N/A

N/A

N/A

# FOREX STABILITY & APPRECIATION

- Markets accept the appreciation and stability with cautious optimism
- Investors know that market structure is imperfect
- Oil price is now 11.8% lower than February levels
- Production is believed to be up 33.3% to 2mbpd
- Revenue profile is good enough to stop currency hemorrhage
- Not adequate to support further appreciation



# FOREX STABILITY & APPRECIATION

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- Naira needs to strategically crawl towards N360 at IFEM
- The fundamentals today can support the naira in a band of N350-375/\$
- Oil companies should be allowed to sell at least 50% of cash calls to Banks



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# MPC MEETING THIS MONTH



- Naira interest rates may be allowed to slide by 100-150bps- T/Bills
- Policy rate to remain unchanged at 14% pa
- CRR could be shaved from 22.5% to 20%
- If inflation declines to 16.8%

# OUTLOOK

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- 2017 budget will be passed and signed into law
- MPC meeting will consider a token movement towards an accommodative stance
- Q1 GDP data will be released May 30 – estimates are for 0.5% growth
- Meaning a possible exit from Recession