

Press Briefing by the Governor of the Central Bank, Professor Charles C. Soludo, on the Programme for Further Liberalization of the Foreign Exchange Market in Nigeria; March 27, 2006

Ladies and Gentlemen of the Press

You will recall that the Central Bank of Nigeria, on February 20, 2006 started the Wholesale Dutch Auction (WDAS) in the effort to make the foreign exchange management more efficient and more effective. The WDAS is an inter-bank foreign exchange market and it is organized around authorized dealers, and sometimes assisted by brokers, with some dealers behaving as market-makers to maintain liquid and continuous market.

An inter-bank foreign exchange market represents a form of market structure where a decentralized allocation of foreign exchange is determined by market participants. Competition in the market is fostered by ensuring that participants are free to establish buying and selling exchange rates for transactions with their customers and among themselves by providing for efficient dissemination of information on bids and offers.

From the operations of the Forex market in the past one month, it is evident that the major objective of WDAS namely, greater efficiency of the Forex market and convergence of the interbank and official exchange rate has been achieved. Both interbank and official rates have converged.

However, another key problem has arisen: the increasing divergence between the interbank/official rate and the bureau de Change/parallel market rates. While the official market has witnessed appreciation of the Naira against major currencies, the parallel/bureau de change rates have been depreciating. The behaviour of the parallel market rates is mostly as a consequence two interrelated factors: completion of the banking sector consolidation and hence the exit of the marginal banks that used to round-trip forex and increase supply to the parallel market. Thus supply to the parallel market has drastically reduced as the existing banks largely comply with the forex regulations. Second, the demand pressure in the parallel market continues to rise due to two major reasons. The existence of a long list of banned items for imports means that those insistent on smuggling these goods patronize the parallel market. Also the continued existence of series of restrictions and requirements for heavy dose of

documentation impose a constraint on those intending to use the formal market.

The current situation of more than 10 percent premium in the parallel market rates compared to the official rates is simply unacceptable. While we hope that some of the structural constraints (especially relating to the trade policy and practices) will be eliminated over time, the CBN has resolved to take some concrete steps to further liberalize the market--- to ensure greater efficiency of the market and drastic reduction in the premium between the official/interbank rates under WDAS, and the Bureau de change/parallel market rates. Our strategy is to ensure increased supply of Forex to all markets and also reduce the demand pressure in the parallel market by reviewing or eliminating many of the restrictions imposed on users of the official market. This will make many of the hitherto ineligible transactions in the official market eligible, thereby reducing the pressure on the parallel market.

It needs to be stressed that the structure of Forex inflows into the economy is such that further liberalization is warranted and is sustainable. Currently, we have stock of reserves to meet over 30 months of imports, and increasingly the CBN is a marginal player in the market--- currently supplying less than 40 of the market. The projections of forex supply to the economy over the next few years show that we can sustain adequate supply to the market to ensure greater efficiency.

The specific details of the liberalization are as follows:

The Supply Strategy

- During 2005, the CBN used the special intervention as a supply strategy to direct the exchange rate. This was to fast track the move towards inter-bank market operation which has culminated in the operation of WDAS.
- The WDAS as mentioned also allows the involvement of brokers provided it is handled within the inter-bank framework.
- Consequently, the Bureaux de-change (BDCs) operators are now allowed to serve as brokers within the inter-bank frame work.
- The BDCs are empowered by allowing them to transact business with Authorised dealers. In other words, BDCs will be allowed to buy foreign exchange from the official market (from and through the

commercial banks). Further details on how this will operate will be released to the market by the CBN within the next seven days.

- The BDCs will be allowed to effect transfers of forex through their domiciliary accounts with the commercial banks
- Commercial banks, Travelex, Amex and other authorized dealers will be allowed to import foreign exchange and supply to the market subject to the guidelines to be released soon.

The Demand Strategy

- For over 20 years we have moved gradually towards deregulation of the foreign exchange market.
- The WDAS is a signal for liberalization of the market.
- The restrictions imposed on the demand for foreign exchange in the areas of eligible transactions has reduced the effective flows of capital.
- Now that the country is having several key fundamentals moving in the right direction, we are liberalizing the demand side of the forex market to promote greater efficiency. Consequently, regulations and prudential controls that guide the operations in the inter-bank market should not unduly restrict or impede the effective rate setting. Exchange control liberalization is often an integral part of establishing the inter-bank foreign exchange market. This is a necessary complement to the financial sector reforms and macroeconomic consolidation.
- Further liberalization of the forex market is as detailed below:

FURTHER LIBERALISATION OF FOREIGN EXCHANGE POLICIES

S/N	FOREX TRANSACTION	NEW/LIBERALISED POLICY
1	BTA/PTA	100% increase in the amount of BTA to \$5,000 per quarter and PTA to \$4,000 per quarter, i. e. annual BTA of \$20,000 and PTA of \$16,000.
2	FOREIGN	The restrictive requirements of section 8 of Circular No.

	BORROWING FOR ON-LENDING	BSD/DO/CIR/VOL.I/2001/22 dated November 29, 2001 is waived; hence funds for the repayment of the loans are eligible to be sourced from the forex market subject to provision of evidence of utilization of the borrowing in Nigeria, supported with the Certificate of Capital Importation (CCI) issued at the time of inflow of the proceeds of the loan.
3	UTILIZATION OF CCI	The requirement of CBN prior approval for utilization of CCI issued by one bank and transferred to another is removed. The latter bank should utilize the CCI based on guidelines provided. (The format of CCI is to be restructured to capture the nature of capital inflows; whether for portfolio investment, foreign direct investment or others.)
4.	TRAVELS TO ECOWAS SUB-REGION	BTA and PTA to be issued in ECOWAS Travellers' Cheques in addition to other currencies.
5	FOREIGN TRADE FINANCE FACILITY	The overseas trade finance facility is a reflection of the level of confidence foreign financial institutions have in the Nigerian banking sector and so it is liberalized.
6	FOREIGN GUARANTEES/ CURRENCY DEPOSITS AS COLLATERAL FOR NAIRA LOANS	The CBN prior approval requirement is waived. However, banks are required to do due diligence on the transaction
7	SECURITIES PAYABLE IN	The use of funds in the inter-bank forex market is allowed subject to repatriation of earnings which should be credited to

	FOREIGN CURRENCY	domiciliary account.
8	MODIFICATION OF EXPORT DOMICILIARY ACCOUNT OPERATIONS	The requirement that funds deposited in exports domiciliary accounts shall be sold to the dealing bank or any other bank or be utilized only for eligible transactions subject to prescribed documentation is now liberalized. Accordingly, exporters may now sell their export proceeds to any bank, withdraw for own use, issue instructions to the bank to transfer to any beneficiary and utilize the proceeds for transactions subject to prescribed documentation requirements.
9	TRANSPORT MODE OF EXPORT	The transport mode for exports can now be executed on Free-on-Board (FOB) or Cost and Freight (CFR) basis, depending on the choice between the Nigerian exporter and the overseas importer.
10	OVERSEAS MEDICAL TREATMENT	The documentation requirements have been reduced to include only: <ul style="list-style-type: none"> (i) Form 'A' (ii) A valid passport and visa (iii) A letter issued by the overseas specialist doctor stating the cost of treatment, maintenance, etc.
11	SCHOOL FEES	The documentation requirements have been reviewed to include only: <p>A. <u>UNDERGRADUATE STUDIES</u></p> <ul style="list-style-type: none"> (i) Form 'A' (ii) Letter of admission/course programme (iii) Current school bill

		B. <u>POST-GRADUATE STUDIES</u>
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Same as (i) to (iii) above plus first degree certificate or statement of result evidencing completion of first degree.

Ladies and Gentlemen of the press, I want to thank you for your time and attention.

Professor Charles C. Soludo
Governor