

# **RECENT DEVELOPMENTS IN CRUDE OIL PRICES AND NIGERIA'S FOREIGN EXCHANGE MARKET**

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**A PRESENTATION AT A BREAKFAST MEETING WITH CAPTAINS OF  
INDUSTRY AND CRITICAL STAKEHOLDERS AT INTERCONTINENTAL  
HOTEL, VICTORIA ISLAND, LAGOS ON TUESDAY 27<sup>TH</sup> JANUARY 2015**

# PRESENTATION OUTLINE

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## I. INTRODUCTION

- I. Global Macroeconomic Developments

## II. SPILLOVERS TO NIGERIA

- I. Crude Oil Prices, Exchange Rates and FX Reserves

## III. POLICY RESPONSES

- I. Reactive and Proactive

## IV. OUTLOOK

- I. Resilient Economy. Expect Oil Price Rebound

## V. CONCLUSION

- I. Cooperation Needed. No need for panic

# I. INTRODUCTION

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## Global Macroeconomic Developments (January 2014—Date)

- Weak global economic recovery
- Sustained fall in global commodity prices, including oil
- Geopolitical tensions and conflicts
- Rising unemployment in many countries
- End of US Fed's Quantitative Easing Programme
- Weak external demand



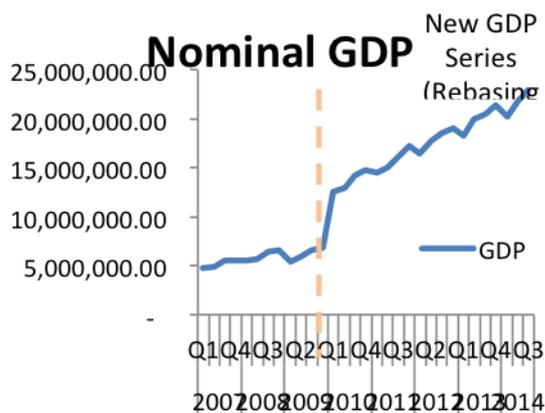
# Spillovers to Nigeria—Positive Outcomes

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1

**Robust GDP Growth at 6.35% in 2014**



**HOWEVER**

*KEY MACRO  
ECONOMIC  
INDICATORS*

2



**Inflation stabilized at 8.0 as at end-Dec., 2014**

3



**Budget Deficit decreased to N680.32 billion as at Nov. 2014, from N1,153.5 billion in 2013**



# Spillovers to Nigeria—Negative Outcomes

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Between Jun.30, 2014 and Dec.31, 2014 price of Bonny Light by 50.7% (\$112.78/b to \$55.57/b)  
Recorded 15% decline between Dec.31,2014 and Jan.23,2015 (\$55.57 /b to \$42.22/b)



Foreign Reserve dropped by 12.3% from US\$39.07 billion (Jul, 2014) to US\$34.26 billion (Jan.22, 2015)

2

3



Naira depreciated by 8% and 13% at the Official and Interbank Markets in 2014 and by 5.6% at the Interbank Markets as at Jan.23, 2015

KEY MACRO  
ECONOMIC  
INDICATORS

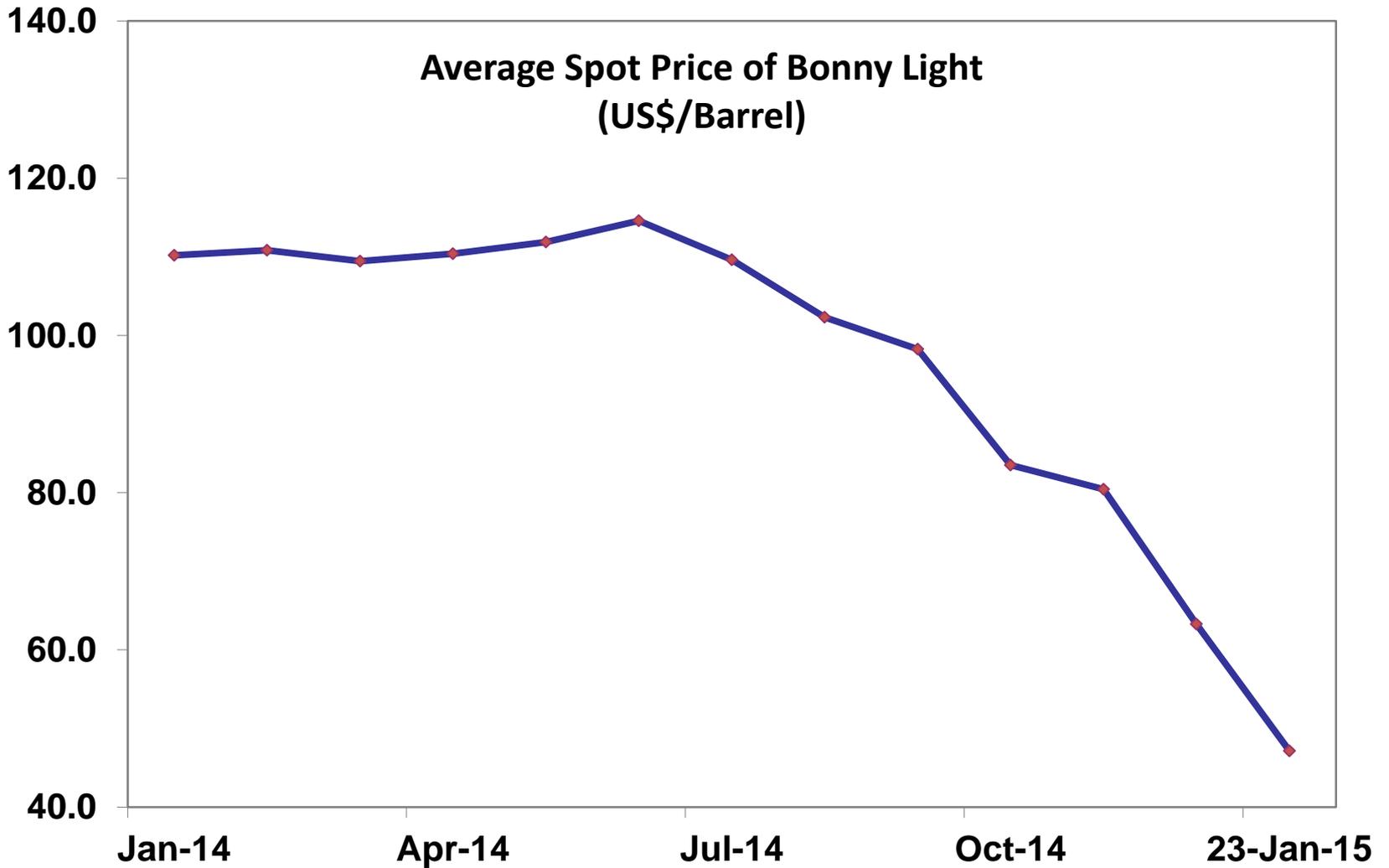
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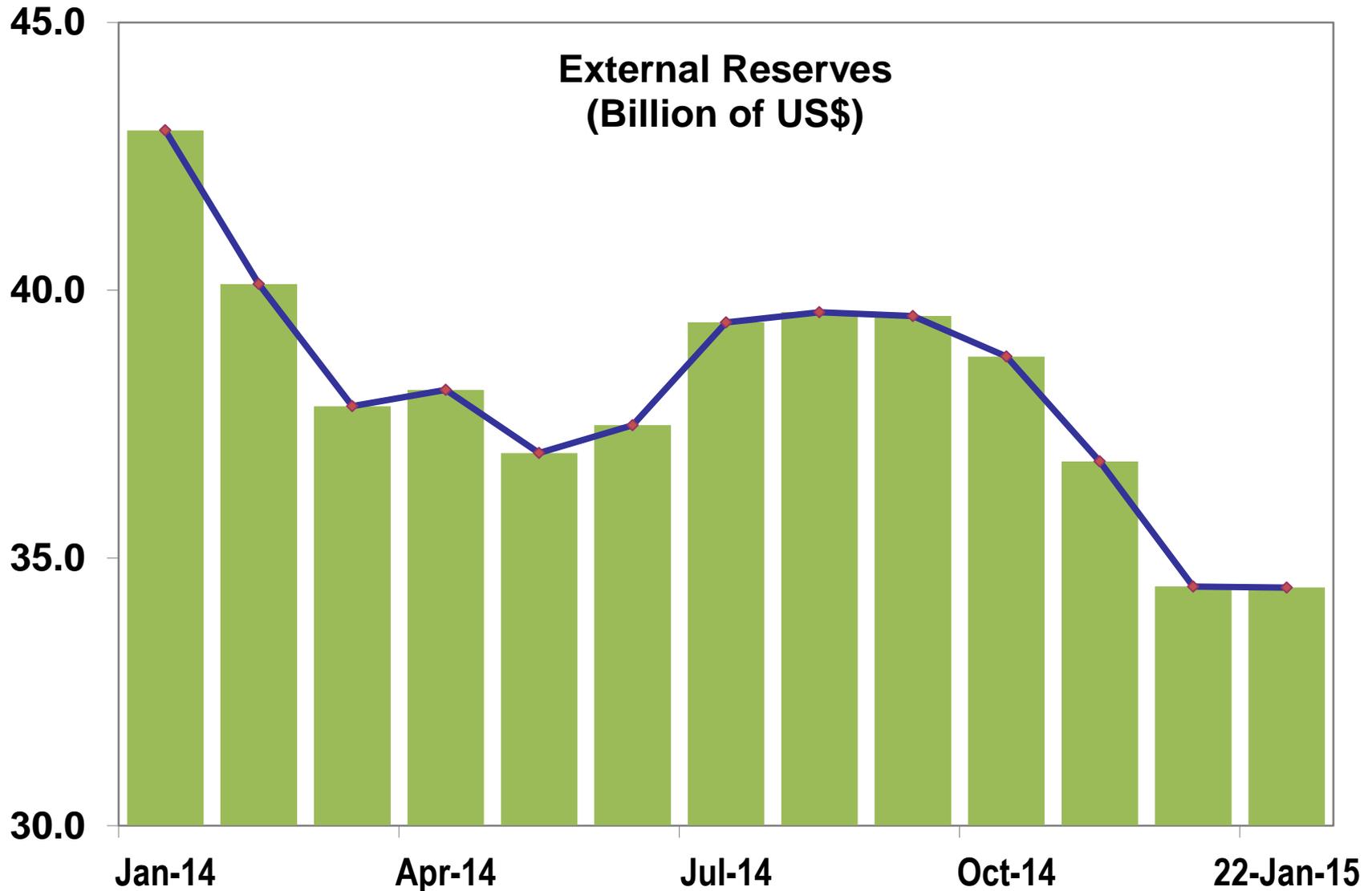
NSE ASI closed at 43,657, a decline of 15.9% in 2014 and 29,687 as at Jan.22, 2015

# Trend in Global Oil Prices (2014—Date)

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# Spillovers to Domestic Economy: Foreign Exchange Reserves

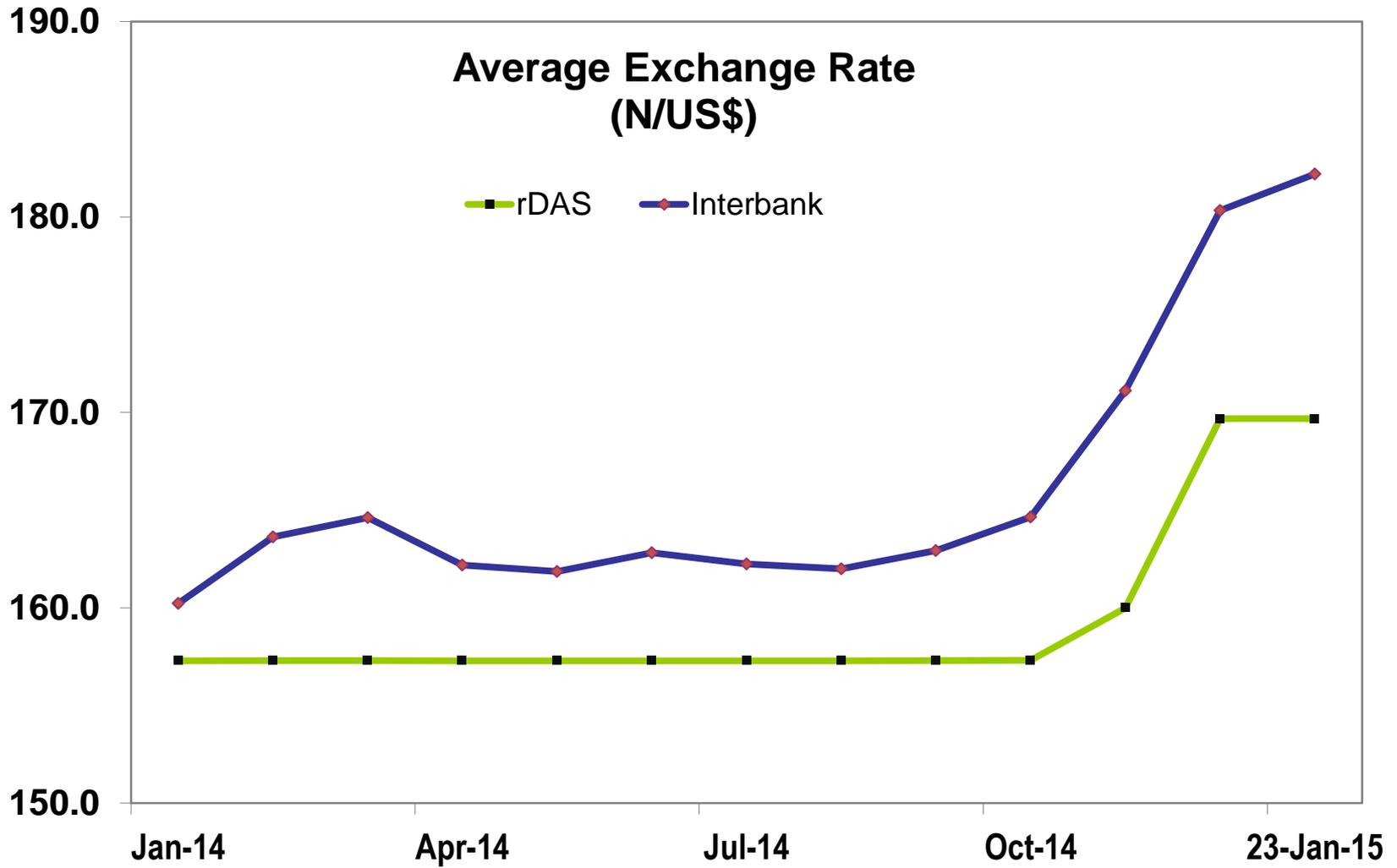


Central Bank of Nigeria



# Spillovers to Domestic Economy: Exchange Rate Movements

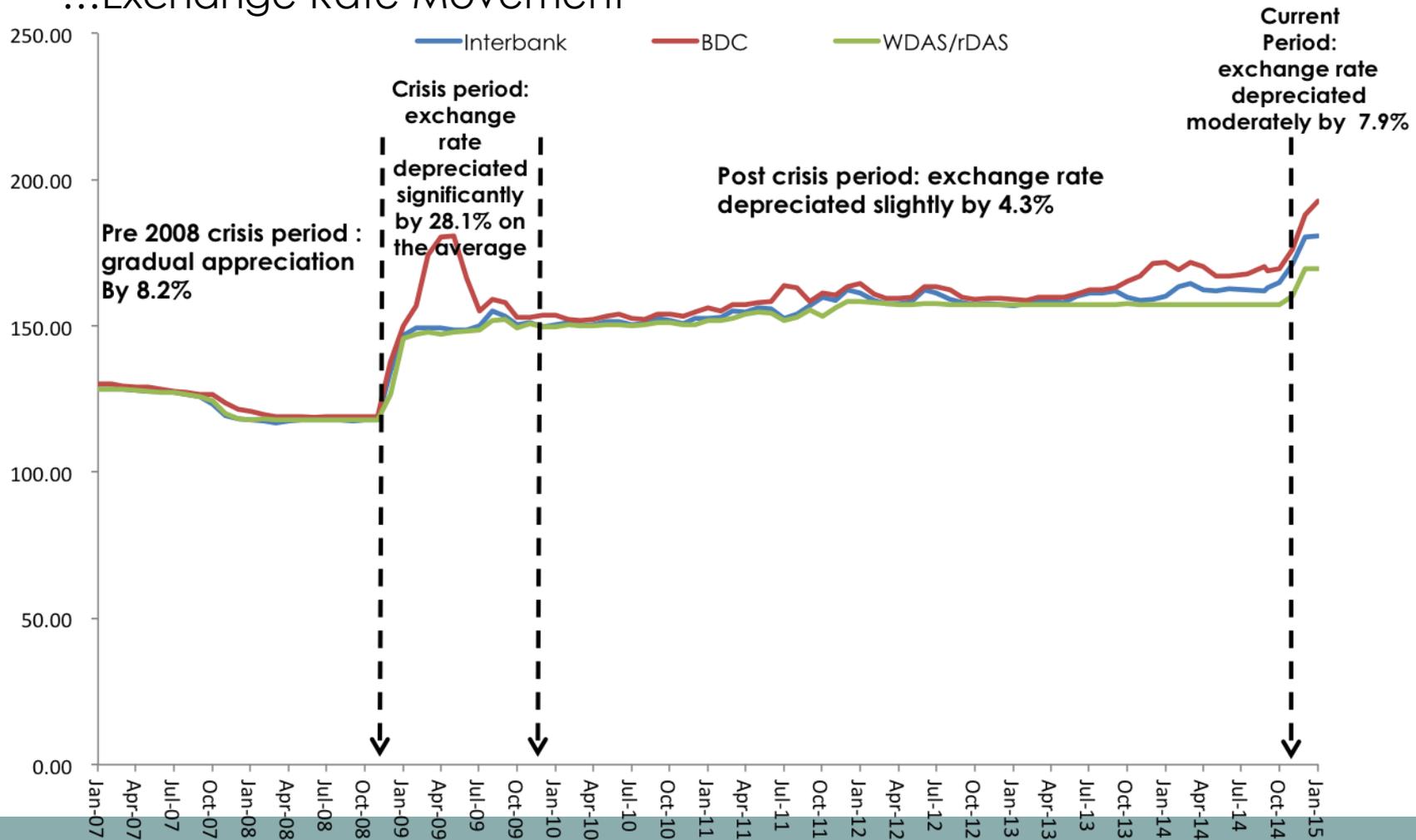
Central Bank of Nigeria



# ...What does history teach us? (1)

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## ...Exchange Rate Movement

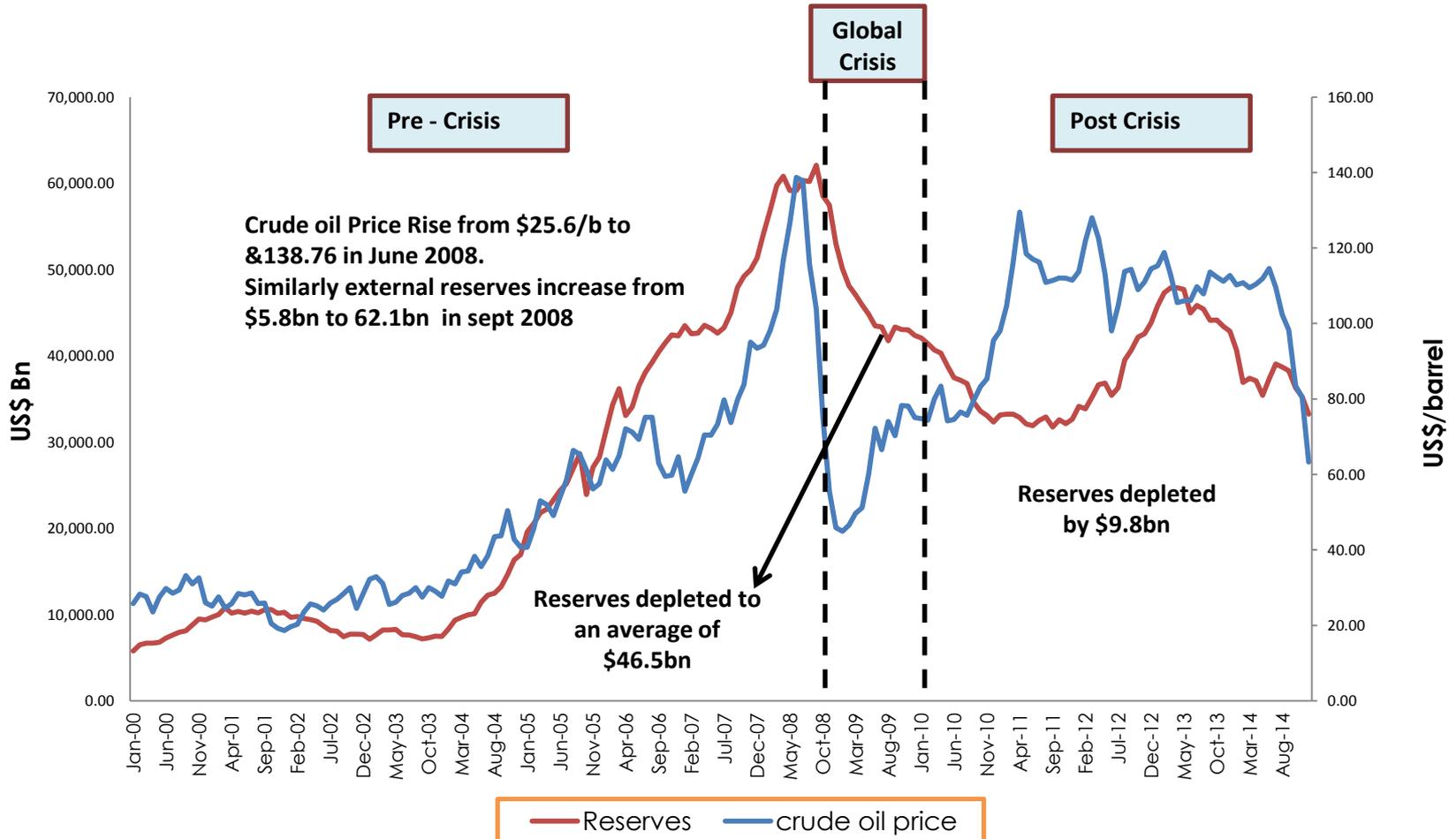


Central Bank of Nigeria



# ...What does history teach us? (2)

## ...Oil Price and External Reserves Movement ( 2000 - 2014)



Central Bank of Nigeria



# ...What does history teach us? (3)



## ...Crude Oil Price, Exchange Rate and Reserves

- As crude oil price rises, external reserves increase
- Exchange rate appreciates with increase in external reserves
- Similarly, external reserves dwindle as crude oil prices decline, which may lead to depreciation.

# Spillovers to Rest of the World: Exchange Rate Movements

## Emerging Markets Exchange Rate Movements Against the US Dollar

S/N	Country	Currency Unit	Currency Unit/US Dollar			% Appreciation/(Depreciation)	
			31-Dec-13	31-Jan-14	31-Dec-14	(4)/(6)	(5)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Brazil	Real	2.36	2.43	2.66	(11.12)	(8.65)
2	Chile	Peso	526.50	551.73	607.66	(13.36)	(9.20)
3	China	Yuan/Renminb	6.05	6.06	6.21	(2.47)	(2.35)
4	Columbia	Peso	2,026.00	2,012.00	2,378.00	(14.80)	(15.39)
5	Czech Republic	Koruna	19.91	20.32	22.82	(12.75)	(10.98)
6	Egypt	Pound	6.95	6.96	7.15	(2.82)	(2.63)
7	Ghana	Cedi	2.35	2.40	3.22	(27.02)	(25.54)
8	Hungary	Forint	216.03	231.52	259.59	(16.78)	(10.81)
9	India	Rupee	61.77	62.69	63.04	(2.02)	(0.56)
10	Indonesia	Rupiah	12,180.00	12,215.00	12,390.00	(1.69)	(1.41)
11	Kenya	Shilling	86.55	86.60	90.80	(4.68)	(4.63)
12	Korea	Won	1,056.20	1,082.26	1,090.84	(3.18)	(0.79)
13	Malaysia	Ringgit	3.28	3.35	3.50	(6.29)	(4.29)
14	Mexico	Peso	13.09	13.44	14.70	(10.97)	(8.57)
15	Morocco	Dirham	8.17	8.29	9.05	(9.76)	(8.41)
16	Peru	Nuevo sol	2.80	2.82	3.00	(6.62)	(5.91)
17	Philippines	Peso	44.42	45.43	44.87	(0.99)	1.25
18	Poland	Zloty	3.02	3.14	3.52	(14.41)	(10.92)
19	Russia	Ruble	32.85	35.31	59.28	(44.59)	(40.43)
20	South Africa	Rand	10.48	11.34	11.55	(9.32)	(1.88)
21	Taiwan	Dollar	29.83	30.37	31.68	(5.86)	(4.14)
22	Tanzania	Shilling	1,581.00	1,628.00	1,740.00	(9.14)	(6.44)
23	Thailand	Baht	32.76	33.02	32.90	(0.43)	0.36
24	Tunisia	Dinar	1.65	1.60	1.86	(11.64)	(14.12)
25	Turkey	Lira	2.14	2.29	2.33	(8.13)	(1.84)
26	Nigeria <sup>1.</sup>	Naira	159.90	162.50	183.10	(12.67)	(11.25)

1. Inter-bank rate



# Exacerbating Pressures on the Exchange Rate

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## Demand pressure on the domestic currency

- Lopsided dependence on imports
  - Toothpicks, tomatoes paste, furniture, rice, fish, sugar, etc
- Speculative and rent-seeking activities
- Increased foreign exchange outflows
  - repatriation of capital and interest on capital invested
- Excess liquidity arising from election year spending

# Policy Responses to Ongoing Economic Developments

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## ... Current Policy Responses to Oil Related External Shocks

- Reclassification of eligible goods and services at the rDAS Window.
- Conduct of special intervention in the foreign exchange market to stabilize rates.
- Pre-qualification of customer FX bid applications to forestall frivolous demand.



# Policy Responses to Ongoing Economic Developments

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## ... Current Policy Responses to Oil Related External Shocks

- Re-capitalization of BDC sector to streamline its operation and enhance transparency
- Reduction in the amount of weekly forex cash sales to BDCs but recently increased to US\$30,000 weekly
- Temporary downward review of banks' foreign currency trading position limit to 0% but adjusted at 0.5% of shareholders funds unimpaired by losses to prevent speculative activities
- Introduction of maximum utilization period of 72 hours for interbank funds to prevent hoarding of Foreign exchange



# Expectations from Critical Stakeholders

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## Stakeholders' Role

- Need to moderate demand. No need to panic and frontload demand for foreign exchange. The CBN stands ready to meet genuine demand.
- Stop speculative demand for foreign exchange.
- CBN will not hesitate to suspend dealership licenses of banks fueling speculative demand and involved in forex malpractices as well as infractions.



# Outlook for 2015—Domestic

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## ... Outlook – Domestic

- UN, WESP 2015 projected Nigeria's growth at 6.1 and 5.9% in 2015 and 2016
- GDP growth rate projected at 5.5% (FGN 2015 Budget), and 7.3% (WEO Oct. 2014)
- Continuing deterioration in oil prices would have negative impact on Nigeria's oil export earnings and public revenue
- Volatility in other commodity prices could weaken resource inflows needed to promote financial stability and inclusive growth
- Inflation is expected to be under control in 2015



# Outlook for 2015—Global

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## Outlook for Real Output

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	2012	2013	2014	2015F
<b>World Output</b>	3.1	3.0	3.1	3.0
<b>Advanced Econ.</b>	1.2	1.3	1.7	2.7
United States	2.8	1.9	2.6	3.4
Euro Area	-0.7	-0.5	0.7	1.4
Japan	1.4	1.5	-0.3	1.6
<b>Emerging and Dev. Econs</b>	5.0	4.7	4.3	4.1
Russia		1.3	0.0	-5.4
China	7.7	7.7	7.4	6.7
India	4.7	4.4	5.6	6.5
Sub-Saharan Africa	4.9	4.9	NA	NA
Nigeria	6.58	6.87	6.35	5.5*

Source: IMF , NBS & Staff Forecast



# Outlook for 2015—Challenges

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## ... Global Headwinds in 2015

- Weak global economic recovery and demand in major advanced and emerging economies- such as UK, Euro Area, Japan, Russia and China,
- Global output has been projected at 3.0% in 2015 as growth declined from 3.1% in 2012 to 3.0% in 2013, while it slightly increased to 3.1% in 2014 from the projected 3.5%
- Increased global supply of crude oil culminated in oil price fall;
  - Non-OPEC member effects, and
  - The production of shale oil in the US
- Volatile commodity prices



# Conclusion

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- Unfolding scenario is not new to the Bank as a similar development was witnessed during the GFC
- The Bank calls on all stakeholders to join hands with the CBN to address the threats and risks
- The Bank will continue to monitor developments and respond appropriately as the need arises
- Successful management of the current situation requires effective collaboration among all stakeholders
- **NO NEED TO PANIC**



**Thank You for Your  
Kind Attention**

