CENTRAL BANK OF NIGERIA

PRESS RELEASE

Further Explanation On Selective Forex Restriction: CBN Replies *The Economist*

The attention of the Central Bank of Nigeria (CBN) has been drawn to your recent article titled "Toothpick Alert" in the print edition of The Economist Magazine of July 4th 2015. First, the article seems to ignore the fact that the exchange rate is simply a price that is essentially determined by the forces of supply AND demand. The CBN believes that the 48% decline in oil prices may not be transitory and made bold policy changes including closure of the subsidized Official FX Window, which resulted in a 22% depreciation in the currency, the Naira. Because the Nigerian economy is heavily dependent on imports and the exchange rate pass-through to inflation is high, we believe that this adjustment is optimal at this time.

Contrary to the article's argument, adjustments to a sharp decline in supply of US Dollars cannot all be borne by an indeterminate depreciation, without considering the full impact on the Nigerian economy. The demand side also has to be considered, not just in response to the pressure on the Naira but as an opportunity to change the economy's structure, resuscitate local manufacturing, and expand job creation for our citizens. Take rice imports, for example: why should we keep allocating scarce FX to rice importers when vast amounts of paddy rice of comparable quality produced by poor hardworking local farmers across the rice belts of Nigeria are wasted, and farmers are falling deeper into poverty while we export their jobs and income to rice producing countries? Few decades ago, Nigeria was one of the world's largest producers of palm oil but today we import nearly 600,000 Metric Tonnes while Indonesia and Malaysia combine to export over 90 percent of global demand. Under these circumstances, the CBN will do the little it can to protect the jobs and incomes of local farmers, using some of the same principles Western Economies use to justify the protection of their farmers through huge subsidies.

More also, if the article believes the CBN should adjust to reflect the current parallel market rate, why was this suggestion not made in the week following the inauguration of President Buhari when the same rate fell sharply to under ₦190 per Dollar? The CBN does not panic and will not take desperate measures to satisfy few misguided interests in the market.

The CBN believes that Nigeria cannot attain its full potentials by importing anything and everything. For far too long, this trend has significantly weakened the operating capacities of our industries, but now is a good opportunity to begin a reversal. Although the article hastily derides this idea as lacking in economic foundations, it is the same principles upon which many other countries do not allow importation of certain products.

Furthermore, it appears condescending to suggest that the list of items seemed "to have been drawn up by someone wandering around a house and a building site". On the contrary, items were only included after thorough and exhaustive discussions at the highest policymaking body of the Bank, with the strategic national interest of Nigeria.

Like other oil-exporting countries, Nigeria is grappling with its share of the aftermath of the oil price decline. Despite this, our economic fundamentals remain strong. Inflation is still within the CBN's single-digit band, the exchange rate has stabilized around ₦197 per US Dollar for the last 5 months, GDP expanded by 4 percent in the first quarter of 2015, and 469,070 new jobs were created in the same quarter. With ingenuity and productiveness, we believe that Nigerians will seize this opportunity and use it for the greater good of the country. As we transition into a new administration in Nigeria, we must continue to ensure policy stability at all times.

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