



CENTRAL BANK OF NIGERIA

PRESS STATEMENT ON FOREIGN EXCHANGE DEPOSITS IN COMMERCIAL BANKS AND SALES TO BDCs BY GOVERNOR GODWIN I. EMEFIELE—JANUARY 2016

1. Good afternoon ladies and gentlemen and welcome to the Central Bank of Nigeria (CBN). The Management of the Bank has called this Press Conference to give you updates on recent developments in our Foreign Exchange Market as well as the decisions we have taken to ensure that we continue to strive to attain our mandates as set out in the CBN Act of 2007. In order to do so, let me first give you a brief overview of both the global and domestic contexts.

2. As we all know by now, Nigeria has been dealing with the effects of three serious and simultaneous global shocks, which began around the third quarter of 2014. These include:

- The over 70 percent drop in the price of crude oil, which contributes the largest share of our Foreign Exchange Reserves;
- Geopolitical tensions along critical trading routes in the world including between Russia and Western Powers, Saudi Arabia and Iran, etc; and
- Normalization of Monetary Policy by the United States' Federal Reserve Bank.

3. In the aftermath of these shocks, growth in the global economy in the first two quarters of 2015 was less than envisaged thereby leading to a weak outlook for the rest of the year. Indeed, estimates of global growth for 2015 have been revised from almost 4 percent to 3.1 percent. The challenges of these global developments are having lopsided effects in many emerging and developing countries. Within this context, and especially when juxtaposed with comparable countries, the Nigerian economy remains moderately robust. Nonetheless, these strong global headwinds are impacting the domestic

economy considerably. In 2015, GDP growth decelerated from 3.9 percent in the first quarter to 2.4 percent in the second quarter. However, it has increased slightly to 2.8 percent in the third quarter.

4. Although headline inflation remained single digit, it stayed slightly above the Bank's tolerance range of 6—9 percent, having risen marginally from 9.3 percent in October to 9.4 percent in November 2015. A breakdown of the inflation dynamics indicates that the underlying pressure derives largely from the lingering base effects of unfavourable energy prices and exchange rate pass-through, which may have been exacerbated by delayed harvests.

5. Following the drop in crude prices from a peak of US\$114 barrel in July 2014 to as low as US\$33/barrel in January 2016, the country's reserves has suffered great pressure from speculative attacks, round tripping and front loading activities by actors in the FX market. This fall in oil prices also implies that the CBN's monthly foreign

earnings has fallen from as high as US\$3.2 billion to current levels of as low as US\$1 billion. Yet, the demand for foreign exchange by mostly domestic importers has risen significantly. For example, the last we had oil prices at about US\$50 per barrel for an extended period of time was in 2005. At that time, our average import bill was ₦148.3 billion per month. In stark contrast, our average import bill for the first nine months of 2015 is ₦917.6 billion per month, even though oil prices are now less than US\$35 per barrel. The net effect of these combined forces unfortunately is the depletion of our foreign exchange reserves. As of June 2014, the stock of Foreign Exchange Reserves stood at about US\$37.3 billion but has declined to around US\$28.0 billion as of today.

6. To avoid further depletion in the reserves, the CBN took a number of countervailing actions including the prioritization of the most critical needs for foreign exchange. In this regard, and in order of priority, we decided to provide the available but highly limited foreign exchange to meet the following needs:

- Matured Letters of Credit from Commercial Banks
- Importation of Petroleum Products
- Importation of critical Raw Materials, Plants, and Equipment, and
- Payments for School Fees, BTA, PTA, and related expenses

7. In total disregard of the difficulties that the Bank is facing in meeting its mandate of “maintaining the country’s foreign exchange reserves to safeguard the value of the Naira”, we have continued to observe that stakeholders in some of the subsectors have not been helpful in this direction. In particular, we have noted with grave concern that Bureau de Change (BDC) operators have abandoned the original objective of their establishment, which was to serve retail end users who need US\$5,000 or less. Instead, they have become wholesale dealers in foreign exchange to the tune of millions of dollars per transaction. Thereafter, they use fake documentations like passport

numbers, BVNs, boarding passes, and flight tickets to render weekly returns to the CBN.

8. Despite the fact that Nigeria is the only country in the world where the Central Bank sells dollars directly to BDCs, operators in this segment have not reciprocated the Bank's gesture to help maintain stability in the market. Whereas the Bank has continued to sell US Dollars at about N197 per dollar to these operators, they have in turned become greedy in their sales to ordinary Nigerians, with selling rates of as high as N250 per dollar. Given this rent-seeking behaviour, it is not surprising that since the CBN began to sell foreign exchange to BDCs, the number of operators have risen from a mere 74 in 2005 to 2,786 BDCs today. In addition, the CBN receives close to 150 new applications for BDC licenses every month.

9. Rather than help to achieve the laudable objectives for which they were licensed, the Bank has noted the following unintended outcomes:

- Avalanche of rent-seeking operators only interested in widening margins and profits from the foreign exchange market, regardless of prevailing official and interbank rates;
- Potential financing of unauthorized transactions with foreign exchange procured from the CBN;
- Gradual dollarization of the Nigerian economy with attendant adverse consequences on the conduct of monetary policy and subtle subversion of cashless policy initiative; and
- Prevailing ownership of several BDCs by the same promoters in order to illegally buy foreign currencies multiple times from the CBN.

10. More disturbing, though, is the financial burden being placed on the Bank and our limited foreign exchange. The CBN sells US\$60,000 to each BDC per week. This amount translates to US\$167 million per week, and about US\$8.6 billion per year. In order to curtail this reserve

depletion, we have reduced the amount of weekly sales to US\$10,000 per BDC, which translates into US\$28.4 million depletion of the foreign reserve per week and US\$1.476 billion per annum. This is a huge hemorrhage on our scarce foreign exchange reserves, and cannot continue especially because we are also concerned that BDCs have become a conduit for illicit trade and financial flows.

11. In view of the above, the Management of the Central Bank of Nigeria has reached the following decision, which take immediate effect:

- a) The Bank would henceforth discontinue its sales of foreign exchange to BDCs. Operators in this segment of the market would now need to source their foreign exchange from autonomous source. They must however note that the CBN would deploy more resources to monitoring these sources to ensure that no operator is in violation of our anti-money laundering laws;

b) The Bank would now permit commercial banks in the country begin accepting cash deposits of foreign exchange from their customers.

12. In closing, let me note very importantly that these measures are not intended to be punitive on anyone or any group. Rather it is meant to ensure that the CBN is better able to carry out its mandate in an effective and efficient manner, which guarantees preservation of our scarce commonwealth, and that our hard-earned financial system stability remain intact to the benefit of all Nigerians.

Thank you and let me take questions.