



## **CENTRAL BANK OF NIGERIA PRESS STATEMENT**

### **RE: ANXIETY OVER INCREASED DEMAND FOR FOREX**

The Central Bank of Nigeria (CBN) has noted with concern the above captioned story published in one of the national dailies over the weekend and, has, therefore, decided to correct the misrepresentation of the facts contained therein, which is capable of creating unnecessary panic in the foreign exchange market because of the sensitivity of financial markets to news/information. The analysis as contained in that story clearly demonstrates either a lack of an in-depth ability to properly analyse the data or a deliberate attempt to misinform or misrepresent the facts and, consequently create unnecessary panic/confusion in the market place.

First, the corollary drawn by the publication between falling interest rates and the reluctance of banks to grant credit to the real sector and the upsurge in the demand for foreign exchange is at best conjectures that are not supported by empirical facts. Indeed, the author himself acknowledged this in his write-up, as the series of interviews conducted by him failed to produce any concrete evidence to support his claim.

Second, for the avoidance of doubt, the CBN has sufficient foreign exchange reserve to meet the demand at the foreign exchange market and, indeed, has been doing so, except in a few cases where such demands have been adjudged to be speculative, as the attached table on weekly auctions in the first quarter of 2010 shows (see Table 1). There is, therefore, no justification whatsoever to raise any alarm where none exists. CBN has US\$40.48 billion in foreign exchange reserves as at April 1, 2010, which is sufficient to finance 17 months of import, far in excess of the internationally-accepted three (3) months requirement.

**TABLE 1: WDAS SALES FOR THE PERIOD JANUARY 1 TO April 7,**

2010

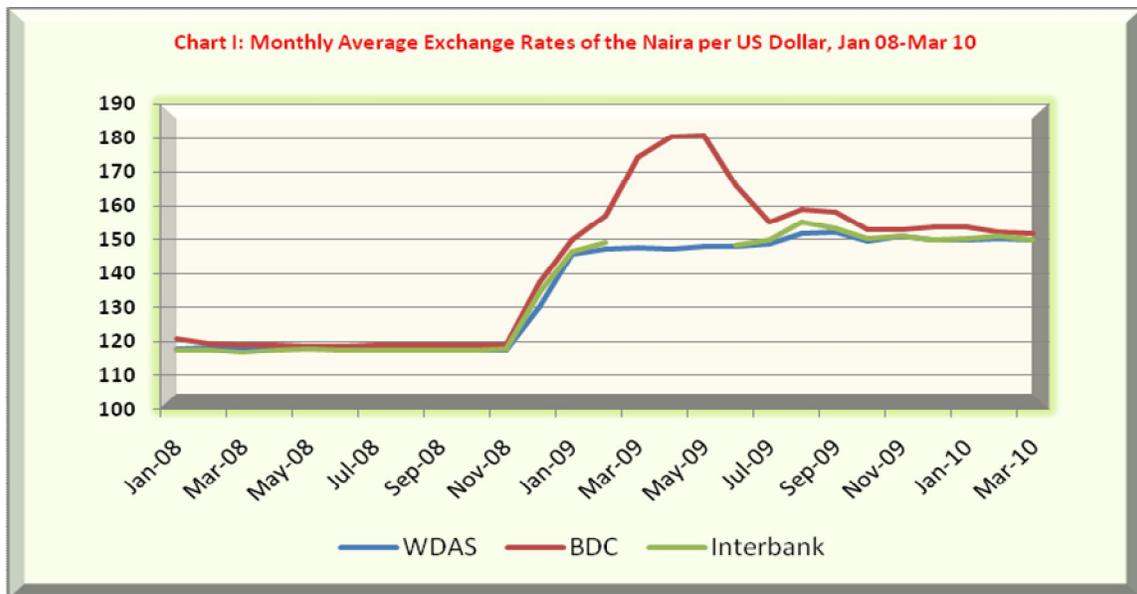
S/N	Date	Amount offered (US\$)	Amount Demanded (US\$)	Actual Sales at WDAS	Closing Rate
1	WDAS No. 01 of 04/01/2010	200,000,000.00	122,046,621.26	122,046,621.26	147.6000
2	WDAS No. 02 of 06/01/2010	100,000,000.00	153,813,880.00	100,000,000.00	147.9100
3	WDAS No. 03 of 11/01/2010	150,000,000.00	313,720,606.69	150,000,000.00	148.4100
4	WDAS No. 04 of 13/01/2010	250,000,000.00	333,506,899.64	250,000,000.00	148.8300
5	WDAS No. 05 of 18/01/2010	350,000,000.00	356,350,053.65	350,000,000.00	148.0300
6	WDAS No. 06 of 20/01/2010	150,000,000.00	182,405,154.96	150,000,000.00	148.1300
7	WDAS No. 07 of 25/01/2010	150,000,000.00	318,924,124.09	150,000,000.00	148.6300
8	WDAS No. 08 of 27/01/2010	250,000,000.00	418,383,840.65	250,000,000.00	148.8300
9	WDAS No. 09 of 01/02/2010	250,000,000.00	280,551,010.97	250,000,000.00	149.0000
10	WDAS No. 10 of 03/02/2010	300,000,000.00	316,273,773.54	300,000,000.00	148.9400
11	WDAS No. 11 of 08/02/2010	250,000,000.00	257,276,534.96	250,000,000.00	148.9400
12	WDAS No. 12 of 10/02/2010	250,000,000.00	218,048,165.79	218,048,165.79	148.6000
13	WDAS No. 13 of 15/02/2010	250,000,000.00	206,304,724.53	206,304,724.53	148.4800
14	WDAS No. 14 of 17/02/2010	150,000,000.00	271,862,956.05	150,000,000.00	148.7100
15	WDAS No. 15 of 22/02/2010	250,000,000.00	289,210,489.60	250,000,000.00	148.6000
16	WDAS No. 16 of	250,000,000.00	271,240,257.08	250,000,000.00	148.6100

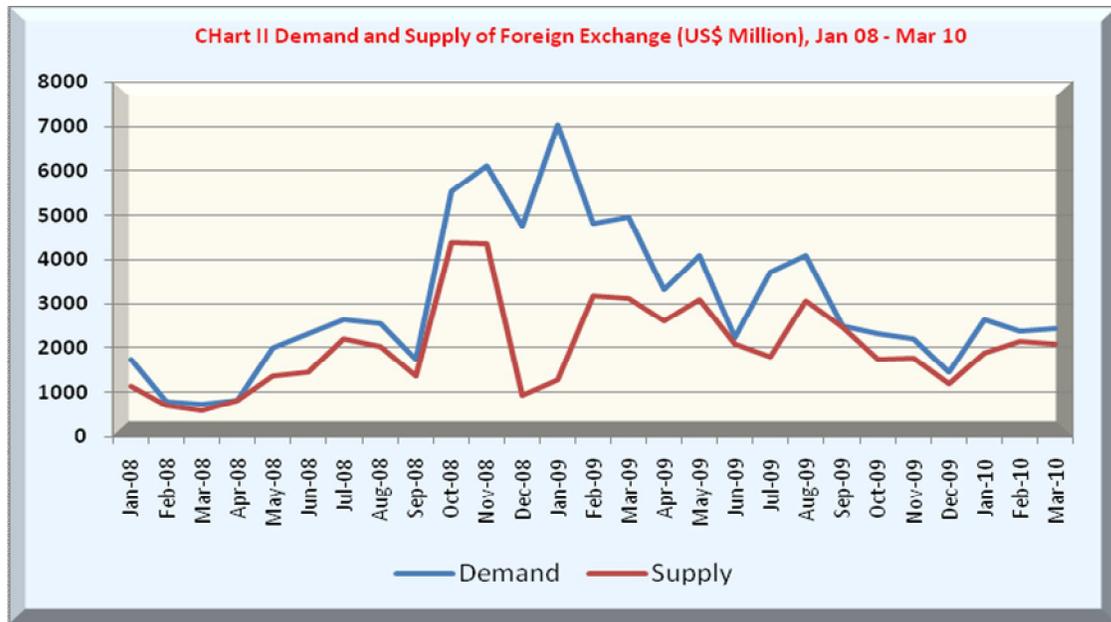
	24/02/2010				
17	WDAS No. 17 of 01/03/2010	250,000,000.00	176,633,828.18	176,633,828.18	148.4100
18	WDAS No. 18 of 03/03/2010	200,000,000.00	243,406,406.97	200,000,000.00	148.3100
19	WDAS No. 19 of 08/03/2010	250,000,000.00	242,183,471.29	242,183,471.29	148.3100
20	WDAS No. 20 of 10/03/2010	250,000,000.00	174,307,534.58	174,307,534.58	148.2500
21	WDAS No. 21 of 15/03/2010	200,000,000.00	278,471,911.86	200,000,000.00	148.3500
22	WDAS No. 22 of 17/03/2010	200,000,000.00	267,810,550.81	200,000,000.00	148.4000
23	WDAS No. 23 of 22/03/2010	200,000,000.00	182,110,626.54	171,850,626.54	148.3100
24	WDAS No. 24 of 24/03/2010	200,000,000.00	106,090,106.25	70,040,106.25	148.3000
25	WDAS No. 25 of 29/03/2010	150,000,000.00	252,450,315.88	150,000,000.00	148.5100
26	WDAS No. 26 of 31/03/2010	250,000,000.00	157,770,035.74	157,770,035.74	148.3000
27	WDAS No. 27 of 7/04/2010	250,000,000.00	209,830,594.64	209,830,594.64	148.2500

For anyone to draw the kind of conclusions reached by the author of the article, it is important to examine trends and indicators of the operations in the foreign exchange market. These key trends and indicators include:

- The demand profile at the foreign exchange market over a period of time;
- Exchange rate movement during the same period; and
- Exchange rate premium between the WDAS rate and the rates in the other two segments of the foreign exchange market.

When the impact of the global financial crisis on the Nigerian economy became manifest during the last quarter of 2008, the foreign exchange market witnessed severe pressure as capital repatriation by institutional foreign investors rose sharply and consumers of foreign exchange began to speculate against the backdrop of declining crude oil prices, declining foreign exchange inflow and falling reserves, among other factors. For instance, in a single auction on December 3, 2008, the demand for foreign exchange shot up to US\$1.5billion to reflect the demand pressure at that point in time. As a consequence, the exchange rate also depreciated sharply during the last quarter of 2008 from N117.72/\$ as at October 3, 2008 to N132.56/\$ as at December 10, 2008. The demand pressure continued into early 2009 and to moderate the pressure, the CBN had to reintroduce the Retailed Dutch Auction System (RDAS) in February 2009; this along with other policy measures substantially moderated demand in the first quarter of 2009.



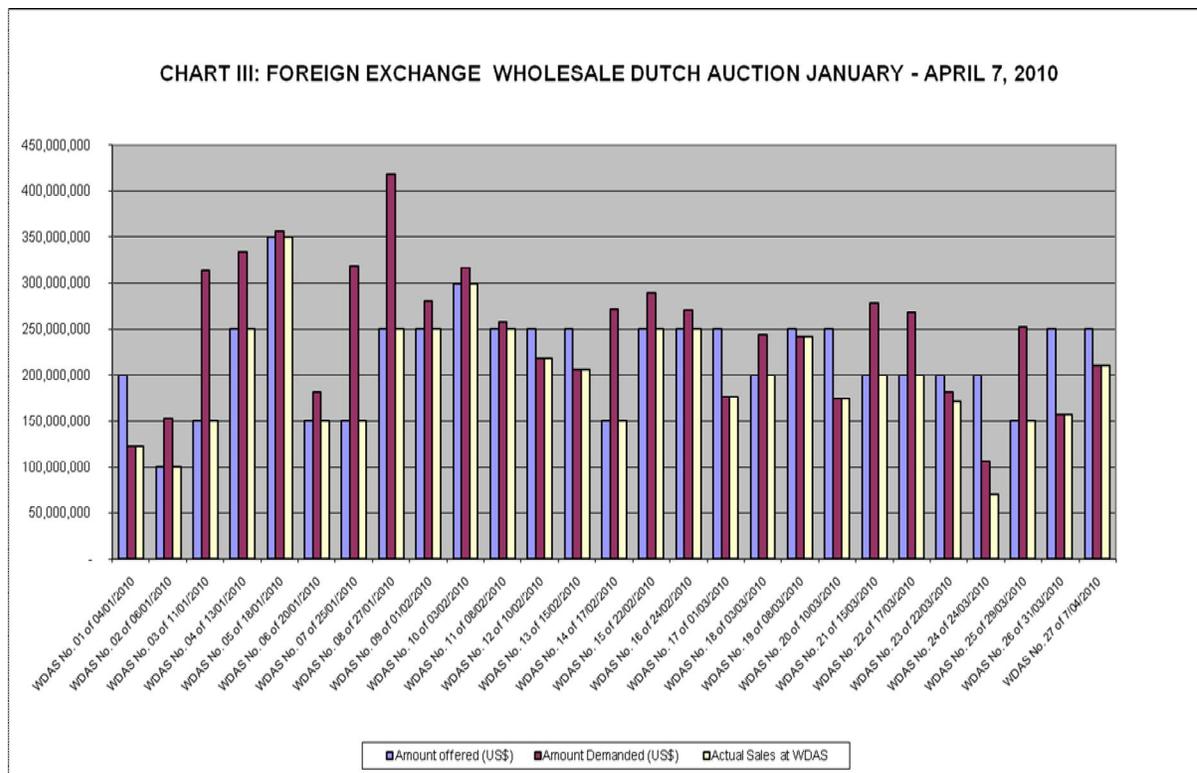


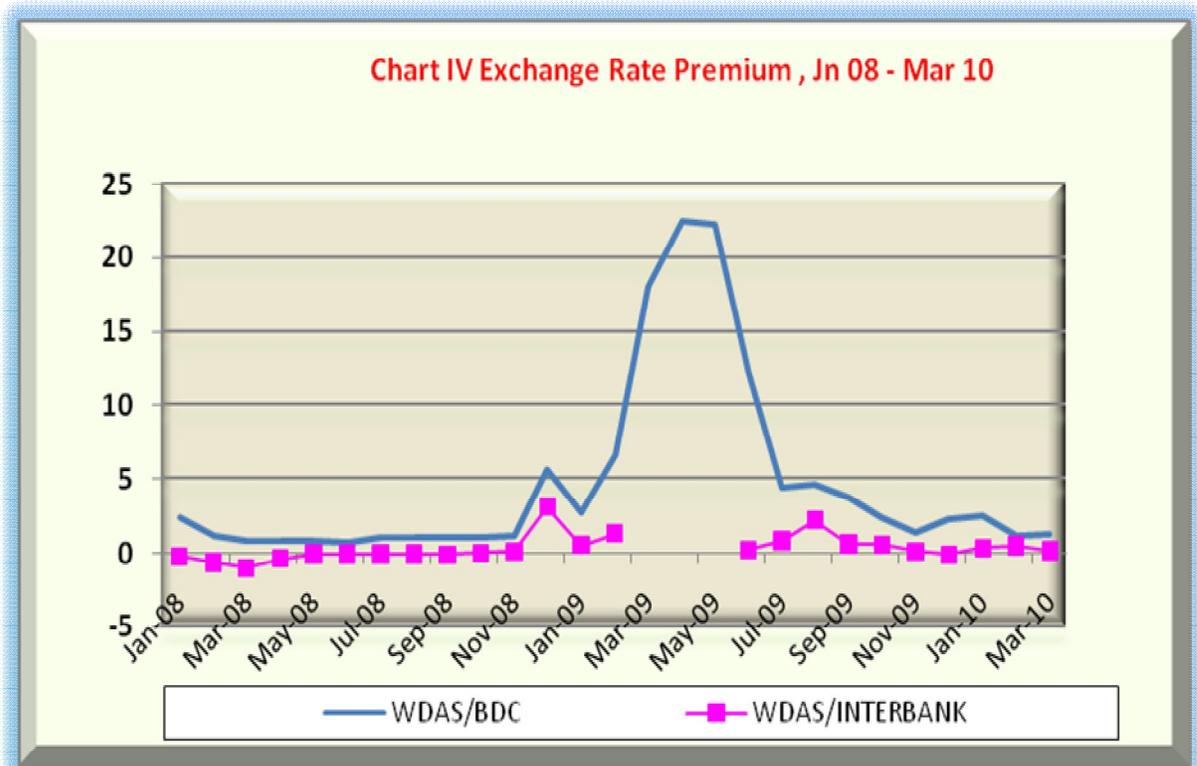
At the height of the demand pressure, the amount demanded in the first quarter of 2009 was US\$15,436.25 million (average demand of US\$441.04 million for the 35 auction sessions), while actual sales amounted to US\$6,642.11 million (average sales of US\$255.47 million for the 35 auction sessions). On the other hand, the demand in the first quarter of 2010 amounted to US\$6,391.15 million (average demand of US\$245.81 million for the 26 auction sessions), while actual sales were US\$5,139.19 million (average demand of US\$197.66 million for the 26 auction sessions). The corresponding average exchange rate for the first quarter of 2009 was N145.41/\$ while that of the first quarter of 2010 was N148.45/\$, largely reflecting the continued confidence and clarity in expectation engendered by the stability in the foreign exchange market and stability of the exchange rate itself. The marginal depreciation that was witnessed between the first quarter of 2009 and first quarter 2010 confirms the relative stability in the market contrary to the impression which the publication attempted to portray.

Indeed, a cursory examination of the exchange rate trend in the various auction sessions between the first quarter of 2009 and the first quarter 2010 further buttresses this point. Even if a comparison is made between the fourth quarter 2009 data and the first quarter 2010 data as the author of the article did, the figures actually shows an appreciation of the exchange rate from an average of N148.58/\$ to N148.45/\$, notwithstanding the

comparatively lower demand, usually a seasonal pattern, in quarter 4, 2009 relative to the demand in quarter 1, 2010.

Furthermore, if indeed, there is anxiety in the foreign exchange markets, such anxiety would have been transmitted immediately to the Bureaux-de-Change (BDCs) and the inter-bank segments of the foreign exchange market. The exchange rates would have depreciated sharply in the two markets while the premium between the WDAS rate and the rates posted in the two markets would have widened significantly. Thus, far, the two markets have remained relatively stable while the premium in both segments of the market had either narrowed or remained low. For instance, the average exchange rate at the inter-bank depreciated marginally from N150.35/\$ in the fourth quarter of 2009 to N150.43/\$ in the first quarter of 2010 while that of the BDCs actually appreciated from N153.16/\$ in Q4 2009 to N152.47/\$ in Q1 2010. In the same vein, the premium between the WDAS average exchange rate and the inter-bank market rate remained low at N1.98 (1.31%) in Q1 2010 from N1.77 (1.17%) in Q4 2009 while that between the WDAS rate and the BDCs rate narrowed from N4.58 (3.0%) in Q4 2009 to N4.02 (2.63%) in Q1 2010.





It is imperative to underscore the fact that stability in the rate of exchange remains the most relevant and consistent gauge for measuring pressure or otherwise in any market. Thus far, since the beginning of 2010, the foreign exchange rate has remained relatively stable in all segments of the foreign exchange market and has not shown any significant fluctuation to warrant any commentary that is capable of disturbing the equilibrium in the market. This fact is very much collaborated by the same data employed by the report.

The subsisting trend in the market during the first quarter of 2010 indicates that the market will continue to remain calm with increased confidence engendered by the banking system reforms. With obvious signs of recovery in the global economy and increased oil output and increasing crude oil price which would further boost the nation’s external reserves, there is no compelling reason to believe that the exchange rate of the Naira will not remain stable for the rest of the year. The CBN will like to reiterate its commitment to ensuring adequate supply of foreign exchange to meet all genuine demand in the short-to-medium term.

In conclusion, analysts are advised to always exercise caution when analyzing sensitive issues as the exchange rate, less they send the wrong

signals to the market or encourage speculative activities with dire consequences for the economy. The CBN is always available to provide relevant information or clarify any grey area on any issues bothering on its operations, mandate and functions.

Signed:

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April 7, 2010