



FEDERAL MINISTRY OF FINANCE



DEBT MANAGEMENT OFFICE  
NIGERIA

## **NIGERIA'S RESPONSE TO J.P. MORGAN'S ANNOUNCEMENT ON GBI-EM INDEX**

The attention of the Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), and the Debt Management Office (DMO) has been drawn to today's announcement of the decision by J. P. Morgan to phase out Nigeria from its Government Bond Index for Emerging Markets (GBI-EM). While we respect the right of the J.P. Morgan to make this decision, we would like to strongly disagree with the premise and conclusions upon which the decision rests.

It would be recalled that Nigeria was included in the index in October 2012, based on the existence of an active domestic market for FGN Bonds supported by a Two-Way Quote System, dedicated Market Makers and diverse investors. However, in January 2015, J.P. Morgan placed Nigeria on an Index Watch as a result of their concerns in the operations of our Foreign Exchange (FX) Market, namely: 1) lack of liquidity for transactions; 2) lack of transparency in the determination of the exchange rate; and 3) lack of a fully functional two-way FX Market.

In our continuous bid to strengthen the Nigerian financial market and enhance our status as a preferred destination for investors, we took measures to improve the market. Despite the fact that oil prices have fallen by nearly 60 percent in one year, which should expectedly reduce the amount of liquidity in the market, the CBN ensured that all genuine and effective demand were met, especially those from foreign investors. On transparency, the CBN mandated that all FX transactions were posted online in the Reuters Trading Platform so that all stakeholders can easily verify all transactions in the market. In addition, the Official FX Window at the CBN was closed to ensure a level-playing field in the pricing of foreign exchange.

It is important to note that a functional two-way FX market already exists in Nigeria. However, given the high propensity for speculation, round tripping, and rent-seeking in the market, it became imperative that participants are not allowed to simply trade currencies but are only in the market to fulfil genuine customer demands to pay for eligible imports and other transactions. In the light of this, we introduced an order-based, two-way FX market, which has resulted in the stability of the exchange rate in the interbank market over the past 7 months and largely eliminated speculators from the market.

Despite these positive outcomes, the J. P. Morgan would prefer that we remove this rule; even though it is obvious that doing so would lead to an indeterminate depreciation of the Naira. With dwindling oil prices, we believe that an order-based two-way market best serves Nigeria's interest at the moment.

While we would continue to ensure that there is liquidity and transparency in the market, we would like to note that the market for FGN Bonds remains strong and active due primarily to the strength and diversity of the domestic investor base. For the avoidance of doubt, the Federal Government sees Nigeria and the interest of Nigerians as paramount. It will therefore only continue to take economic decisions that will impact positively in the lives of all Nigerians.



-----  
**Ibrahim Mu'azu**  
Director, Corporate Communications, CBN  
For and on Behalf of the FMF, CBN, and DMO