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NIGERIA FLASH-NOTE

Monetary policy at sixes and sevens

1) While Wednesday's decision to maintain the dysfunctional status quo came as no surprise, the MPC Communique was **a farrago of staggering incoherence**. Among the most egregious examples:

- *"The Committee underscored the necessity of improving the supply of foreign exchange to the market, especially from autonomous sources."* **(Who needed convincing?)**

- *"(T)he imperative for consistently sound and coordinated macroeconomic policy has become inevitable."* **(Perilously circular)**

- *"The Bank is finetuning the framework for foreign exchange management with a view to ensuring a more effective and liquid foreign exchange market, taking into account Nigeria's strategic development priorities; with the policies being designed within an environment of regularly ensuring consistency with monetary and fiscal policies."* **(Extensive disclaimer nullifies the main clause)**

- *"Finally, the Committee reiterated its unyielding commitment towards achieving a stable exchange rate regime to ensure more flexibility for sustainable inclusive economic growth in the medium to long term."* **(Spot the oxymoron?)**

2) This linguistic and conceptual mish-mash betrays the total inadequacy of **the muddling-through strategy that the Governor has tried to pass off as a "framework for foreign exchange management"**.

A propos, it was remarkable to see the Communique draw a curtain of **complete silence over the flurry of desperate measures introduced by the Central bank over the preceding fortnight**[1]. Ditto, the public warning by the Comptroller of Customs that the CBN's currency controls are adversely impacting customs revenues[2].

3) So, with no near-term prospect of a rebound in oil prices, **Nigeria will continue to burn through its limited external buffers** until the collision with reality forces President Buhari[3] to concede that the N197 peg is unsustainable.

In the interim, those able to purchase USD at the official rate will continue exploit **the 55% premium that the Greenback now commands on the parallel market**[4].

[1] On Jan. 14th, the central bank announced that it was ending USD sales to the bureau de change, citing the monthly burden of USD 1.5 billion on its dwindling external reserves. Exactly a week later, the CBN declared that it would be discontinuing USD sales to the banks – the principal mechanism by which the USD peg is maintained. Although communicated to the press (see *ThisDay* and *Guardian*), this arguably momentous decision was never posted on the CBN web-site and the relevant sales have continued.

[2] *'We are going to be talking to CBN first to see what can be done in terms of review of policy …. If you remember CBN policy on 41 items; when we did our analysis, the policy has denied us money to the tune of N240 billion. […] So that is the downside of why we were not able to meet the target in 2015.'* Remarks during interview with News Agency of Nigeria, quoted in "*Customs to consult CBN on possible review of forex policy",* in *The Vanguard*, January 21, 2016.

[3] It will be recalled that President Buhari has been one of the most ardent champions of the 'strong' Naira.

[4] i.e. N305=USD, as at today's close. [In the vernacular of the local market, this particular arbitrage trade is known as 'round-tripping'.]