

# CHART OF THE WEEK

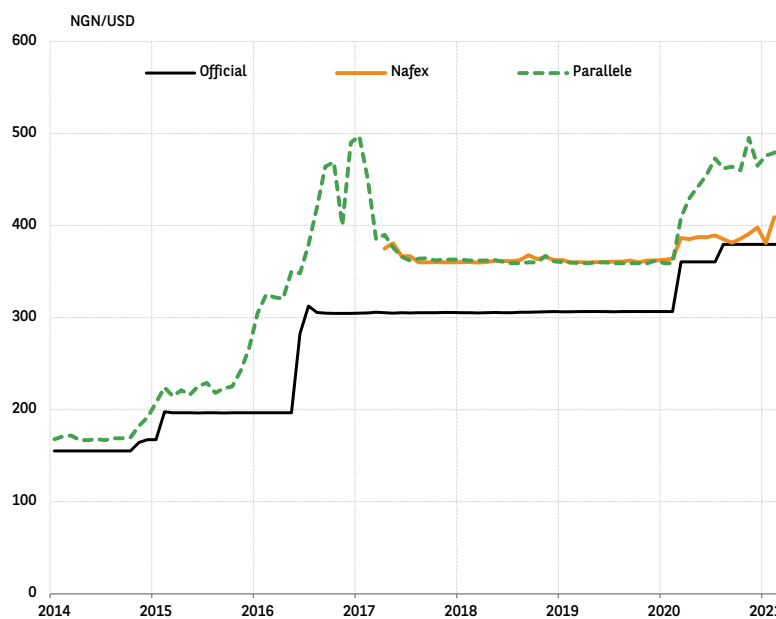


14 April 2021

## NIGERIA: EXCHANGE RATE REGIME UNDER PRESSURE

Stéphane Alby

### Exchange rate



Sources: Central Bank, Bloomberg, AbokifX

Nigeria's economy contracted by 1.8% in 2020 due to the pandemic and the downturn in oil prices. The prospects of a rebound are slim, with growth expected at 2.5% in 2021 according to the IMF. The lack of visibility over the evolution of exchange rate regime is one of the main factors curbing growth.

The Finance Minister recently declared that the government was going to use the Nafex rate, the market's benchmark exchange rate, implying a 7.5% devaluation of the official exchange rate. The Governor of the Central Bank denied this announcement, but pressure is growing. Unifying various exchange rates is one of the conditions for unlocking financial aid, which would ease the external liquidity pressures generated by the drop-off in oil exports. Foreign reserves held steady at USD 35 bn in 2020, but thanks to a considerable tightening of foreign-currency allocations to the private sector. Moreover, current account is expected to remain in deficit in 2021, despite the upturn in oil prices. A significant currency adjustment will also be necessary to address external imbalances. There is still a spread of nearly 30% between the official and parallel exchange rates, despite two devaluations in 2020.

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