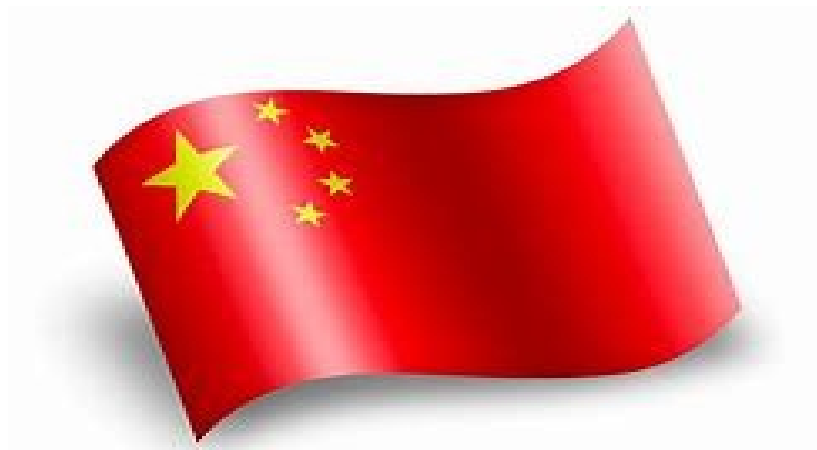


**BILATERAL CURRENCY SWAP
AGREEMENT (BCSA) BETWEEN
THE PEOPLE'S BANK OF CHINA
(PBOC) AND THE CENTRAL BANK
OF NIGERIA (CBN)**



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INTRODUCTION

► In 2011, CBN made a policy decision to hold a portion of its external reserve in Chinese Renminbi (CNY) for the following reasons:

1. The Renminbi was becoming an internationally significant currency. In October 2016, the Renminbi was included in the basket of currencies that constitute the Special Drawing Right (SDR) by the International Monetary Fund (IMF);
2. China is Nigeria's largest trading partner accounting for about 22% of imports into the country;
3. Only 4.4% of Nigeria's external reserve is denominated in Renminbi while over 90% is in US dollar, thus creating an inherent need to involve the USD as a third currency in trade relations between Nigeria and other countries.

WHAT IS A CURRENCY SWAP?

- ▶ A Currency Swap is an agreement between two parties to exchange a given amount of one currency for another and after a specified period, return the original amount of currency.
- ▶ When such an agreement is consummated between two Countries, it is called a Bi-lateral Currency Swap.
- ▶ A Currency Swap is beneficial because it promotes trade and investment between two nations by facilitating the direct access to a currency of choice without conversion to a third currency, thereby reducing transaction costs.

BCSA BETWEEN PBOC AND CBN

- ▶ Execution Date- Friday 27th April 2018.
- ▶ Nigeria became the 3rd African country after Egypt and South Africa, to have a BCSA with PBOC.
- ▶ Duration- Three years, extendable subject to mutual consent of both countries
- ▶ Amount- CNY 15 Billion (about US \$2.5 Billion) in exchange for NGN 720 Billion.
- ▶ Exchange Rate is to be based on Parity if CNY/USD and NGN/USD as published on the China Foreign Exchange Trading System and the Thomas Reuter on the drawing date.
- ▶ Interest Rate in the BCSA is calculated using SHIBOR plus 150bps payable only on Renminbi amount drawn or if Naira is used, NITTY rate for deposits. Late payment attracts a penalty of 300 basis point above the interest rate set out above.

COVENANTS BETWEEN CBN AND PBOC

- ▶ CBN covenants to notify PBOC of any intention to create security over its assets
- ▶ Parties covenant not to implement measures on current and capital account transactions that will impede parties' ability to meet their obligations under the BCSA

TERMINATION OF THE BCSA

- ▶ The BCSA terminates automatically after 3 years of the effective date of the Agreement i.e., 27th April 2021
- ▶ Parties may extend tenor for another period as may be agreed in writing by them
- ▶ Parties may also terminate the BCSA by giving a 30-day notice in writing.

BENEFITS OF THE BCSA

- ✓ reduce the use and/or influence of a third currency transactions.
- ✓ the pressure on the Naira exchange rate.
- ✓ effectively increase speed, volume and convenience of business transactions between Nigeria and China.
- ✓ boost Nigeria's exports to China and vice versa.
- ✓ safeguard Nigerian businesses from unfavorable exchange rate fluctuations by guaranteeing financial market stability.
- ✓ engender foreign portfolio investment by Chinese entities.
- ✓ boost the external reserve of Nigeria as the Renminbi now constitutes part of it.



HOW IT ACTUALLY WORKS



- To initiate a swap, a requesting party must give 2 days notice to the providing party specifying the amount of the requested drawing
- China would make a certain amount of Renminbi available to CBN and vice versa.
- CBN would then make the Renminbi available to the authorized dealers, i.e., deposit money banks, and merchant banks.
- The authorized dealers would be required to open Renminbi Letters of Credit for interested Nigerians.

HOW IT ACTUALLY WORKS

- CBN may at its discretion, hold bi-weekly special FX auctions for Nigerian Importers via authorized dealers to purchase Renminbi (**for only trade-backed transactions**).
- Funds from the bi-weekly FX auction conducted by CBN must be utilized by authorized dealers within 72 hours from the value date.
- Authorized dealers may earn not more than 50 Kobo on a customer's bid.
- A **Form M** shall be established by an importer alongside all necessary regulatory documentation to participate in the CBN auction.

EXEMPTIONS FROM THE BCSA

- ▶ Crude Oil Transactions- Crude Oil is priced internationally in USD therefore all crude oil related transactions shall continue to be in USD.
- ▶ Dollar Denominated Domiciliary Accounts.
- ▶ Transactions outside the currency swap system (i.e., non-trade-backed transactions like school fees, medicals bills, etc.).

IMPLEMENTATION OF THE BCSA

- ▶ To protect Nigerians, CBN would collaborate with the Nigerian Customs, National Agency for Food and Drugs Administration and Control, Standard Organisation of Nigeria and other agencies, to forestall the dumping of substandard goods, food and drugs into Nigeria.
- ▶ CBN is currently in the process of signing a Memorandum of Understanding (MoU) with the PBOC in order to become a direct participant in the Cross-border Inter-Bank Payment System (CIPS). CIPS is a payment system which offers clearing and settlement services for its participants in cross-border RMB payments and trade.

IMPLEMENTATION OF THE BCSA

- ▶ On 6th June 2018, CBN issued a circular via the Financial Markets Department titled “Regulations for Transactions with authorized Dealers in Renminbi”. This publication identifies the core purposes of the BCSA, defines who authorized dealers are and summarises the procedure for obtaining Renminbi under the BCSA.
- ▶ Frequently asked Questions (FAQ’s) were also posted on the CBN website to educate and enlighten authorized dealers and the public in general.

THANK YOU FOR YOUR ATTENTION

