CENTRAL BANK OF NIGERIA

KEYNOTE ADDRESS
BY
GOVERNOR GODWIN I. EMEFIELE, CON
AT THE
ANNUAL BANKERS' DINNER
HARBOUR POINT, LAGOS
(18TH NOVEMBER 2016)

Keynote Remarks
For
Gov. Godwin Emefiele, *CON*
During the Annual Bankers' Dinner
Lagos, 18th November 2016

Opening Pleasantries — Good evening ladies and gentlemen. The story was once told of a man who has been married to his wife for over 20 years and was very proud of how delicious his wife's food always tastes. Wherever he went and whenever he could, this man would not miss an opportunity to boast about the cooking skills of his wife. One day, seeking to proof his many boasts, he invited some of his colleagues to dinner and asked the wife to make a meal.

2. Everyone arrived as expected, settled into couches, and were patiently chatting and waiting

for the food. When dinner was eventually ready and served, they were invited up to the dinning table. This man was still boasting and talking about how nice the food would be. But to the disappointment of the guests and to the humiliation of the man, the meal was way too salty and the meat was not well cooked.

3. While the visitors were still making derisive and jeering comments at the man's boastfulness, he angrily confronted his wife to explain why she could not make a nice meal this time around. Everyone held their breadths and waited for a logical explanation. But to their utter disbelieve, the wife simply said, "Sorry my husband, it is because of the CBN policy on the exchange rate!" As we speak, right now, many financial analysts and market participants are running

regressions to find out exactly how the exchange rate made her use too much salt!

4. On a more serious note, Ladies and Gentlemen, it is my deep honour and privilege to be with you this evening to address a gathering of what is undoubtedly the best and brightest people in our country's Financial Industry. Indeed, this event is so special to me that I have always found a way to accommodate it and as such, I have not missed it for 3 years in a row.

5. I would like to specially thank Professor Segun Ajibola, Mr. Oluseye Awojobi, and their team at the Chartered Institute of Bankers of Nigeria (CIBN) for their untiring efforts in promoting the welfare and interest of Nigerian Bankers, and for organizing this event. Let me appreciate the presence of Managing Directors/Chief Executive

Officers of our banks and other financial institutions who have all made time to be here today. I would also like to acknowledge and appreciate all my colleagues from the Central Bank of Nigeria (CBN), especially the Deputy Governors, Directors, Special Advisers, Special Assistants, and Senior Management of the Bank. And to everyone else present at this gathering, I thank you for coming.

6. In my remarks this evening, which I have titled "**Policy Options for Reversing Nigeria's Economic Downturn",** I would like to share my understanding of the present economic situation of our country, and then proffer solutions that I believe can set us on the path of recovery. Let me make clear from the outset that the ideas I would present here are solely mine and should not be interpreted as those of the Board or

Management of the CBN or those of the Monetary Policy Committee of the Bank.

7. Over the last couple of months, Nigerians have added to new word to their lexicon: “**Recession”.** We have even been treated to controversial definitions, and implications of this word. Yet, as with many things in Nigeria today, the diagnosis of our current economic situation, which led to this argument is wrong. Yet, as it is in the medical sciences, if you cannot diagnose properly, your recommendations would be wrong as well.

8. In reality, Nigeria’s economy is currently facing a classical case of “stagflation”. This situation largely occurs when a country’s Gross Domestic Product (GDP) is falling or stagnant, while unemployment and inflation are rising, all simultaneously. As recent data from the National

Bureau of Statistics (NBS) indicate, Nigeria's GDP growth decelerated by 0.36 percent and 2.1 percent in the first and second quarters of 2016, respectively. More also, the rate of price inflation for the months of September and October 2016 were 17.9 percent and 18.3 percent, respectively, while official statistics also indicate that the country's unemployment rate increased to 12.1 percent and 13.3 percent during the first and second quarters of 2016.

9. Under these circumstances, what then can policymakers do and to whom should they turn? One logical place to look would be to ask economists. Yet, the problem with this profession if you ask 5 economists for a solution, you are likely to get 5 answers! Or in fact, ten, if they are all two-handed Economists! I believe that this was the frustration of former U.S. President Harry

Truman when he quipped, “Give me a one-handed economist! All my economists keep saying, ‘on the one hand...on the other hand!”

10. Yet, if there is one thing all economists agree with, it is that stagflation is a difficult condition for policymakers to deal with. In fact, some argue that no single macroeconomic policy can address rising inflation and slow growth simultaneously, because fighting inflation may require implementing policies that might, in the short term, be inimical to economic growth, whereas expansionary policies to stimulate growth usually worsen inflation.

11. But how did we get here? As we all know by now, Nigeria has been dealing with the effects of three serious and simultaneous global shocks, which

began around the third quarter of 2014. These include:

- The over 70 percent drop in the price of crude oil, which contributes the largest share of our Foreign Exchange Reserves and Federal Government Revenues;
- Geopolitical tensions along critical trading routes in the world including between Russia and Western Powers, Saudi Arabia and Iran, etc; and
- The end of Quantitative Easing and Normalization of Monetary Policy by the United States' Federal Reserve Bank.

12. In the aftermath of these shocks, global growth diminished significantly while here at home, we suffered the incipient spillovers from these exogenous occurrences. Given the sharp drop in oil prices, Federation Account Allocations to States have dropped by an average of about N2 billion monthly per State, which partly explains

their inability to meet some basic recurrent expenditures including payment of workers' salaries. Similarly, average inflows of foreign exchange into the CBN have fallen by over US$2.3 billion every month over the last 26 months.

13. In view of the ongoing difficulties in the economy, one question that seems reasonable would be: could we have been better prepared to deal with this downturn? I guess my answer is a resounding yes! Every economy goes through phases of booms and bursts, peaks and valleys, highs and lows, prosperity and difficulty. Contrary to correct policy prescriptions during times of boom, we opened up our economy to "all-comers" and dropped all capital controls. At some point, we received more than US$23 billion in "hot money" FPIs in the country in a particular

year. Monies that could easily evaporate at the slightest hint of an economic slowdown. Recall that in September 2008, Nigeria's FX Reserves hit a whopping US$62 billion, even after we had spent about US$12 billion settling our external debt obligations. What did we do with the money?

14. We set up BDCs and started giving out FX cash to them. At some point, we even had Class A BDCs that could collect as much as US$1 million per week. On average, we sold about US$6 billion per year for frivolous reasons. Over the 11 years that we were practicing this, we sold more than US$66 billion. None of these monies were used to build factories or to create jobs in Nigeria. None of these were used to build hospitals or schools in Nigeria. Imagine what this money

would have meant to us if we had that amount in our FX Reserves today.

15. Rather than build on the one-time burgeoning base of agricultural production and manufacturing we had, we invested less in power, infrastructure, education, and health. As our schools began to dilapidate and teachers went on incessant strikes, we sent our children overseas even for primary school education. As doctors preferred to practice in the US and UK and hospitals lacked even hand gloves, we embarked on a medical exodus abroad even for basic diagnosis. As our manufacturing companies started closing especially for lack of power, we gladly substituted them with seemingly cheap imports while inadvertently exporting jobs and importing poverty to our country.

16. Contrary to what I have heard some commentators and “arm-chair” policy analysts assert, the size of our FX Reserves and the value of the Naira critically depend on our lifestyles and on the value and types of imports we allow into this country. Imagine for a minute that 90 percent of the things you buy in Shoprite stores across the country are imported: the eggs and avocado peers are from South Africa, the meat is from Zambia, and Moet Champagne is from France. In fact, Shoprite revealed in June 2013 that it believes Nigeria has space for up to 800 Shoprite stores, and that the seven outlets it already had then sold more Moët & Chandon champagne in 2012 than its South African stores combined!

17. Furthermore, Zambia-based Zambeef, which operates Shoprites meat outlets here in Nigeria, recently agonized that the firm’s biggest worry

was the growing demands on its managers. According to the owner, the company had just sent about four of its top managers to Nigeria, saying, “We cannot ignore a market of nearly 180 million people! Which country grows like this? Show me one economically advanced nation that attained that exalted position importing everything, and I will build you a bridge to the Queen’s Palace. People can complain about electricity, good roads, security, etc and that is understandable. But what does it say about our mentality as Nigerians if our foreign friends can come here, find a way to get around these difficulties, and outcompete us?

18. Let me note at this juncture that every one of these developments has a direct impact on our FX Reserves. When I assumed office in June 2014, our FX Reserves had fallen from the

aforementioned high of US$62 billion in 2008 to only US$37 billion! Yet, demand for FX has reached an all-time high of over US$1.2 billion per week or US$4.8 billion per month. What then can we do to remedy this situation? Is it our inflexible destiny or collective decision to rely so much on other countries for her basic needs? What kind of future do we really want as a people? I do not think that one policy decision from any arm or agency of government can answer all these questions. But in the ensuing paragraphs, I will proffer my suggestions and present a vigorous defense of the Bank's current policies, which are geared towards engendering growth and curbing inflation.

POLICY OPTIONS

19. **Rebuild our Infrastructure:** Investing in basic infrastructure including roads, bridges, airports, railways, and information technology is not only good in terms of immediate job creation; it acts as a catalyst to the movement of goods and services across the country. A recent World Bank study estimates that Sub-Saharan Africa's Infrastructure deficit especially in power and transportation is costing us about 2 percentage points of GDP growth per annum. This study also indicates that about US$93 billion per year would be needed to tackle the region's infrastructural challenges. Although Nigeria has relatively better infrastructure than many of her African peers, our core stock of infrastructure is estimated at about 25 percent of GDP. Given that most middle-income countries of Nigeria's size have core infrastructure of about 70 percent of GDP, the African Development Bank estimates that we

have an infrastructure-funding gap of US$300 billion.

20. Obviously, our fiscal resources alone would be inadequate to finance this gap. Therefore, it is critical that we begin to consider innovative mechanisms and ideas to do so. For example, we need to attract private capital into this space. I recall that sometime in 2012, the Federal Government signed an MOU with General Electric to develop power, rail, and healthcare infrastructure. This included the construction of power plants that can generate up to 10,000 Megawatts over a decade, some specialist hospitals and diagnostics medical centers, and 200 locomotives to expand our rail systems. We need to explore opportunities for Public Private Partnerships for similar opportunities in infrastructure projects that could offer lucrative

returns to investors and help drive economic growth across the country.

21. **Pursue Growth-enhancing Fiscal Policy:** More than ever before, it is now critical to concentrate our best efforts on ensuring that fiscal policy is targeted at improving productivity of labour, increasing disposable incomes for workers, and deploying resources to creating an enabling environment for investors. We need to look at how fiscal policy can help household consumption and business investments. These two make up more than 85 percent of Nigeria's GDP by expenditure. For example, we need to consider how to increase disposable income for households, cut red tape for businesses, create incentives for new investors, etc. In this regard, I am happy to note that the 2016 budget addresses some of these but urgency of implementation is now doubly important.

22. **Pay Closer Attention to Agriculture and Agribusiness:** Whatever we do to jumpstart growth in Nigeria, we just cannot afford to ignore this sector at all. Agriculture remains the largest employer of labour in Nigeria and contributes about 24.2 percent of our GDP. In addition, a good share of the demand for FX today go directly to importing agricultural produce. So the CBN has both a direct and indirect rationale to ensure that this sector is revived in a significant way. In this regard, we are gratified that the CBN's Anchor Borrowers' Programme, together with other initiatives like the Commercial Agriculture Credit Scheme and NIRSAL, are proving to be successful in several states. To date, the Bank has committed close to N23 billion in the Anchor Borrowers' Programme with active participation across 14 States of the Federation.

In Kebbi State, over 78,000 smallholder farmers are now cultivating about 100,000 hectares of rice farms. It is expected that over one million metric tonnes of rice will be produced in that State alone this year. When considered against the backdrop that Nigeria consumes about 6.1 million tonnes annually and only produces 2.5 million metric tonnes, this will go a long way to make rice available on our tables. The CBN remains committed to do more in the identified crops such as rice, maize, sorghum, tomatoes, cassava, cocoa, cotton, dairy, and groundnut. Following Mr. President's directive, the Honourable Minister of Agriculture and Rural Development, the Governor of Kebbi State, and I have been on an assessment tour of wet season rice output across the country. We have so far visited Anambra, Niger, Jigawa, Kebbi, and Cross Rover States. This tour will continue across other states, after which, a report will be presented to

Mr. President. I am delighted to note that so far, we have witnessed very good output across the country.

23. In addition to the actions of the CBN, we also have to consider attracting selected private sector leaders who will commit themselves to invest in certain agricultural produce on a large scale while government may need to give some incentives to encourage them to invest. We also need to find ways to make land titling much easier especially for smallholder farmers. This can immediately result in converting "dead" land assets of these farmers into valuable, tradable and exchangeable assets that will unlock the flow of finance to the rural agricultural economy that absorbs 60—70 percent of Nigeria's population including largely the youth. In this regard, the Nigeria Incentive-based Risk Sharing System for

Agricultural lending (NIRSAL) can assist with technical knowledge and deployment of relevant GIS and Satellite imaging that will realize this within a short period of time.

24. **Explore Opportunities for More Revenue:** There are several ways we can raise additional revenue to finance the increased expenditure that is needed to engender fast and sustainable growth in the economy. I think we can consider introducing a negligible telecom surcharge to be entirely borne by the initiator of a call. In order to protect the poor and vulnerable amongst us, we could structure it to only take effect after the third minute of talk. Some analyses have indicated that the government could earn about N100 billion per annum from this alone. Obviously this surcharge will mainly be borne by middle and upper class people since I do not know many

poor people who make calls for more than 3 minutes! We could also consider introducing minimal property taxes across the country. This not only raises money for the government but also could be a veritable weapon against corruption since it creates a database of who really owns homes in this country. Another option to consider would be to fully implement the 2003 Cabotage Act. This is Act stipulates that all cargoes and passengers in the inland and coastal waters be transported by ships and ferries built, owned, crewed and manned by Nigerians. Contrary to the requirement of this Act, there are several foreign-owned vessels providing shipping services locally. Out of about 600 ships that operate within our waters, only about 60 of them are owned by Nigerians and are mostly idle, in violation of the Act. Industry sources suggest Nigeria may be losing as much as ₦2 trillion annually from this anomaly. In addition to raising revenue, a full implementation of the Act could also spur job creation, capacity building, and significant backward integration.

25. **Pursue Non-oil Exports:** From preliminary analyses of global trade trends and discussions with potential trade partners, it is now increasingly evident that Nigeria can benefit significantly from tapping into the market for certain goods, which are in high demand. For example, the demand for Halal meat and sesame across the Gulf Cooperation Council (GCC) Countries is huge. In fact, we have credible information that the Saudis may need up to 120,000 heads of frozen goat/sheep per week from Nigeria. Similarly, the demand for cashew nuts and shea-nut butter across the world is rising. Nigeria has comparative advantage in all

these products and can quickly tap into the vacuum created from the sharp fall in supply of these products from their erstwhile major suppliers. From these, we can earn foreign exchange to bolster our Reserves while also creating jobs and engendering broad based economic growth.

26. **Pursue Import-Reducing Policies:** In view of the fact that oil prices would remain low for a long period, it is clear to us that FX revenue inflows will remain low, with relatively low FX Reserves, for a while. Given this scenario, we need to take bold and decisive actions at fundamentally changing the structure of our economy. Of course, Monetary Policy alone cannot achieve this but it must do its part. Throughout this speech, I have talked about the damaging effects of Nigeria's unsustainable propensity to import. In

line with Winston Churchill's admonition to "never let a good crisis go to waste", the CBN believes that it is high time we started looking inwards and stopped supporting the importation of items that we can produce locally using Nigeria's hard-earned Foreign Exchange. This implies that importers who may want to bring in such goods or services will have to source their Foreign Exchange outside banks or BDCs. It is important to remind everyone that the exchange rate is simply a price that is determined by the forces of demand and supply. Having adjusted the currency in response to supply shortfalls, we believe that it is critical to ensure that the demand side bears some burden of the adjustment.

27. In this regard, I must hasten to add that while they may seem controversial, variants of this policy have proven to be highly effective in other

climes and even here in Nigeria. For example, throughout the early days of South Korea’s economic renaissance, the government intermittently used excessively stiff tariffs, quantitative restrictions and prohibitive inland taxes to effectively ban many items with potential for high imports, and simultaneously, offered generous and subsidized loans to firms for export promotion causes. In fact, at some point, about 93 percent of total imports into South Korea were subject to one or more such restrictions.

28. In the case of Taiwan, the government applied a range of non-tariff barriers including the tying of import licenses to export performance, strict restrictions on which countries can bring in good into Taiwan, and which companies (local or foreign) can import them. Although other policies must have helped, it is not a coincidence that

both South Korea and Taiwan experienced the fastest growth and development surge in the history of capitalism between 1960 and 1990. In the Western Hemisphere for example, the U.S. prohibits imports of generic Canadian drugs that are way cheaper but just as effective as those locally made in the U.S. Those of you who followed the just-concluded Presidential election must have seen that the major reason Donald Trump won is his consistent vow to protect American manufacturing and jobs against China and Mexico.

29. On 11th June 2011, taxi drivers across major European cities from Madrid to Milan, and from London to Paris, staged coordinated and highly-disruptive demonstrations against the new, less costly, and more efficient American taxi company, Uber, a service that uses a smartphone app to

get users taxis from the comfort of their locations. In London, for example, over 5,000 taxi drivers blockaded the city centre in a protest with the flimsy excuse that Uber's drivers lack "the knowledge" of London's Streets! More worryingly, the otherwise progressive mayor of London, supported the protesting drivers and suggested that Uber drivers could be made to pass language and geography tests.

30. For almost a decade now, Indian retailers (India!, with citizens and business men everywhere!) have been waging a war against their government's proposal to open up the retail sector to more efficient global players like Wal-Mart. In fact, on 20th September 2012, neighborhood shopkeepers across India went on strike and took to the streets to protest the government's decision to allow in foreign

retailers. Most of them blocked major roads and climbed on trains demanding that the government rescind its decision.

31. And here at home, variants of this policy were used to achieve significant sufficiency in cement, a product whose importation could have been costing us over US$3.2 billion in FX Reserves annually. In effect, therefore, this policy needs to be supported not just in response to the pressure on the Naira but as an opportunity to change the economy's structure, resuscitate local manufacturing, and expand job creation for our citizens. Take rice imports, for example: why should we keep allocating scarce FX to rice importers when vast amounts of paddy rice of comparable quality produced by poor hardworking local farmers across the rice belts of Nigeria are wasted, and farmers are falling

deeper into poverty while we export their jobs and income to rice producing countries abroad? Few decades ago, Nigeria was one of the world's largest producers of palm oil but today we import nearly 600,000 Metric Tonnes while Indonesia and Malaysia combine to export over 90 percent of global demand. Under these circumstances, I believe it is appropriate, and in fact, expected, that the CBN contributes to protecting the jobs and incomes of local farmers, using some of the same principles Western Economies use to justify the protection of their farmers through huge subsidies.

32. IMPLICATIONS FOR A CHANGING WORLD: You will all agree with me that recently there were two major unexpected outcomes in two countries that are clearly globally dominant both economically and militarily. These countries are also strong supporters of free trade and

Globalization . The first was the BREXIT vote while the second is the outcome of the recently concluded elections in the United States. These two events and the trends of public discuss raging in France and Germany are bound to change or alter trade policies and international economic cooperation between the countries and the world at large.

Two very key issues in the British referendum and the USA elections were Immigration and economy ; particularly Free trade. The outcome of the referendum and elections centered around the desire of the citizens to take back their sovereignty ; which they believe had been been concessioned away by their past leaders . As for the USA election, the President elect promised to be tough on immigration and to protect US industries to ensure that US jobs are no longer exported to other countries; while , for those industries that had left the US, they would be given incentives and encouraged to return the industries back to the US. Also the Chair of the US FED yesterday, signaled that interest rate hike will come sooner than later on the back of a strong US economic report. These two countries have no doubt set a tone which may be followed by other countries. The main issue for us as a country is to examine the implications of these actions on not only Free trade and dumping in Emerging and Frontier markets but also on the entire world order. For Nigeria , the question is how prepared are we to shield our teaming masses and our country to manage the ultimate fallout. Let me state that we must critically analyse the implications of the anticipated changes and prepare strategies as to the best ways to tap into the opportunities that may be thrown up or minimize the challenges that may arise therefrom.

33. **Curb Inflation**: In order to tackle inflation, we must first understand what kind of inflation we have in Nigeria. Is it demand-pull, with too much money chasing few goods, or cost-push where supply constraints result in few goods in marketplace? Our analyses at the CBN suggest that we have cost-push inflation in Nigeria. Indeed, we currently have several supply constraints that can be christened "Three Problematic Fs":

- **FOOD:** Low harvest, disease outbreak, northeast crisis, etc
- **FUELS:** High electricity, PMS, and Kerosene prices
- **FOREIGN EXCHANGE:** High demand and low supply of FX

34. Given this analyses, it is easy to see why the CBN is doing a lot to ease these supply constraints. In response to recent calls by notable persons and groups on the Central Bank to reduce the country's high lending rates, I think it is important that I share my views on this issue. Let me first state that I have long been a believer in low interest rates. In fact, when I unveiled my vision for the CBN on resumption as Governor in June 2014, reducing interest rates was one of my cardinal missions. Yet, it is important that we discuss this issue based on facts, rather than politics and/or emotions.

35. First, interest rates are a veritable tool for curtailing inflation and with inflation at over 18 percent; the CBN would be abjectly failing on one of its cardinal objectives if it cuts interest rates at

this time. Second, for those who say we need a rate cut to spur growth, we need to remind that high inflation is highly inimical to economic growth. Indeed, many empirical studies have estimated the threshold level at which inflation becomes significantly growth retarding to be 11 percent for developing countries. With ours at 18.3 percent, one must question the judgment of cutting interest rates at this time. Finally, I think it is important to underscore that interest rates reflects not just the cost of capital but also the cost of doing business, and so we need to also look at interest rates from the perspective of the lender. Given that most banks have to individually provide security, power, and other infrastructure, it is not surprising that some of these costs are passed on to customers in the form of high interest rates. Notwithstanding these facts, we will continue to use moral suasion to encourage commercial banks to be more considerate in interest charges on customers.

36. Let me note at this juncture that one of the reasons the CBN ventured into development banking was to minimize the effects of high interest rates on customers. This push started in 1977 with the Agricultural Credit Guarantee Scheme, and since then, the Bank has intervened through various developmental programmes, all at single digit interest rates. To date, the CBN has disbursed about N393 billion in 490 projects under the Commercial Agriculture Credit Scheme. The CBN has also disbursed N23 billion under the Anchor Borrowers Programme, N79.8billion under the MSME Scheme, and N236.4billion under the Power and Aviation Intervention Fund. Combined, these schemes

have created over 6.7million direct jobs and a lot more indirect jobs.

37. **Strong policy coordination:** Finally, in times like this, there is usually the need for strong policy coordination between the key aspects of economic policymaking space. In Nigeria, this would include fiscal, monetary, exchange, and trade policies, which must be targeted at protecting farmers, companies and industries that are committing resources to support government's drive to diversify the economy away from oil and fossil fuels.

38. Ladies and Gentlemen, I am not unaware of the short-term pains we are all going through right now. But I urge you all to use it as an opportunity for us to look inwards, diversify our economy,

produce locally, and create jobs for our unemployed youths. We are a resilient and hardworking people. Since gold only glitters after it has gone through enormous heat, I am confident that out of these difficulties would come our very best ideas and decisions. We definitely cannot survive as a people by importing everything and anything. Even when we disagree about the way forward, we need to treat each other with respect and fairness. We cannot keep suspecting one another and impugning motives for people's actions. This reminds me of a story about Adam and Eve, who you recall, were alone in the Garden for quite some time. One morning, Adam left their home throughout the day and this made Eve very worried.

39. When Adam returned very late in the evening, Eve threw a barrage of questions at him. Despite

Adam’s insistence that he just went strolling, Eve was not convinced. As they lay in bed later that night, Adam woke up around 3am and noticed that Eve was restless and fiddling with his stomach area and trying to turn him on his side. When he asked, “What are you doing?” Eve retorted in a calm but stern voice, “you better lay up straight and allow me finish counting your ribs!”

40. Thank you for your attention. And thank you once again, for being here today.

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18th November 2016