



## **CENTRAL BANK OF NIGERIA**

**ACCEPTANCE SPEECH  
BY  
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**AT THE**

**VANGUARD NEWSPAPER AWARDS DINNER  
ABUJA  
(11 MARCH 2017)**



Acceptance Speech  
by  
**Gov. Godwin Emefiele, CON**  
At the Vanguard Newspaper Award Dinner  
Abuja, 11 March 2017

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**Opening Pleasantries** — Good evening ladies and gentlemen. I am profoundly honoured and privileged to be here this evening, as it avails me an opportunity to present my views on certain contemporary issues that are important to our economy.

2. Before I proceed, let me specially thank the organizers of this event, for the recognition and distinction they have accorded me. No one really deserves these awards because we are all working for and on behalf of the masses but I gladly accept it on their behalf and assure us all

that this recognition will encourage me to keep doing my best in the future.

3. Over the last couple of months, Nigerians have added a new word to their lexicon: “**Recession**”. We have even been treated to controversial definitions, and implications of this word. We have also seen many so-called former policymakers come up with holier-than-thou analyses and prescribe dangerous corrective policies to our situation. Yet, as it is in the medical sciences, incorrect diagnosis will always and everywhere beget wrong prognosis and inapt treatment.
4. In my remarks this evening, I would like to briefly share my understanding of the present economic situation of our country. In particular, I would offer

my explanations of certain macroeconomic and policy issues, including the following:

- Exchange Rate Policy
- Interest Rate
- Inflation
- Policy on 41 Items

5. **Exchange Rate Policy:** What exactly is the exchange rate? In the broadest possible terms, it is the relative price of two currencies. In Nigeria, one can reduce this definition to simply be the price of US Dollars. Like every product, therefore, the exchange rate is supposed to be determined by the forces of demand and supply in a fair, competitive, and open market. Shortly before I assumed the position of Governor in June 2014, the monthly FX inflows into the CBN was about US\$3.6 billion. For 5 straight years preceding June 2014, crude price averaged over \$110 per

barrel and indeed in September 2008 specifically, Nigeria's external reserves stood at US\$62 billion after the country had spent US\$12 billion in settling the Paris club debt. It is quite surprising and disingenuous that some of the people talking today about how we can manage our exchange rate were the same persons who frittered away these reserves such that when I assumed office, I met only US\$37 billion in FX reserves. To make matters worse, in the aftermath of the sharp drop in oil price, made worse by falling production volumes in Nigeria, the monthly FX inflows into the Bank dropped precipitously to less than US\$700 million per month. Yet, the demand for FX from the market has continued to be about US\$4.8 billion monthly.

6. Given this situation, the CBN dealt with the supply side of the problem by allowing

commensurate depreciation of the currency several times. Having done this, and bearing in mind the devastating effects of significant depreciations on inflation, purchasing power, government debt service, financial system stability, fuels and energy prices, unbiased and reasonable people would agree that we also needed to do something with the demand side of the problem. Why exactly should we spend scarce FX resources paying for things we can produce here in Nigeria? I believe that only entrenched interests, who do not have the interests of ordinary Nigerians at heart, would want us to do so.

7. Let me take a moment to address the gap between the interbank and parallel market exchange rates. As aforementioned, the exchange rate is simply a relative price between

two currencies. There are well known and widely accepted methodologies for assessing what this price should be. We have seen the results of independent estimates of our exchange rate and we have also conducted in-house analyses of the appropriate rate. None of these results are anywhere near the rates in the parallel market. Even a simple Purchasing Power Parity analysis will confirm that the Naira is not as weak as the rate in the parallel market is suggesting. Even if one were to allow for risk pricing and other uncertainties, it does appear that there is no basis in our economic fundamentals to support the prevailing exchange rate at the parallel market. The only logical explanation to the high rates in that market therefore is that a lot of illegal and criminal activities are being carried out there.

8. Given this scenario, the CBN cannot sit idly by and allow such faceless and criminally minded people to destroy the currency under the guise of a free float as is being canvassed by some so-called experts. In fact, I have always had one simple question for this group of persons: name me just one country in the whole world that practices a freely floating exchange rate regime? Just one. I have heard commentators suggest we should follow Egypt's example and free the Naira. What they do not tell you is that following their currency adjustments; inflation today in Egypt is over 30 percent. Is that what we want in Nigeria?
9. **Inflation:** And this brings me to our own bout of inflation.. As with most economic problems, we need to understand the kind of inflation we have in Nigeria. Is it demand-pull (where too much money is chasing few goods) or cost-push (where supply constraints lead to few goods in



marketplace)? In Nigeria, I believe we have cost-push inflation, exacerbated by supply shortages in food, fuels, and FX. And that is why the CBN is supporting farmers across the country through various schemes to increase food supply. We are also very responsive to the needs of fuel importers to ensure availability. And we continue to respond as much as possible to FX supply shortages in the market.

10. In view of the fact that our current episode of inflationary pressure is coinciding with contracting economic growth, we have to recognize that the dilemma it poses to policymaking. This is because 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, adopting expansionary policies to stimulate growth usually worsen inflation. This is the reason the Monetary Policy Committee has , rather than concede to reducing rates, decided to HOLD its position through the adoption of tight monetary policy and this is also the reason we have seen a deceleration in the rate of month-on-month inflation in the last couple of months. Like all other Nigerians, the Committee is conscious of the adverse impact of inflation and rising prices on the lives of ordinary; hence the posture it currently adopt.

11. **Interest Rate:** First, I sympathize with people when I hear the call on the CBN to reduce interest rates. I share their goal of a reduced single digit interest rate regime in Nigeria. But many people do not seem to understand that in times of high inflation, reducing interest rates

make inflationary pressures much worse, with a second round effect of making economic growth even less possible. It is also important to note that interest rates reflect both cost of capital as well as cost of doing business. If we can approximate cost of capital as the average saving interest rate, which is about 6 percent, what then accounts for lending rates at 25 or more percent? It is cost of doing business. For example, a typical Nigerian Bank must employ the services of policemen and other security people deployed constantly to protect its branches. The bank must also provide a significant amount for reliable electricity and broadband Internet services to keep its systems running. These expenditures only further increase costs of doing business for lenders, a cost they must pass on to borrowers. This is why the CBN's fight to bring inflation down

is strongly connected to our quest to ensure that lending rates also come down in due course.

12. Let me also take this opportunity to speak on the Bank's policy on the so-called 41 items. As I have hinted in previous paragraphs, this policy was basically borne out of necessity to conserve foreign exchange. I know that no policy is cast in stone and hence; we may have no need for it someday in this country. But, policymakers across this country need to pay attention to global trends and ensure that they reflect upon our strategy and thinking. Given the new realities of nationalist and populist sentiments sweeping across the world (Brexit in the UK, election of Donald Trump in the US, rise of Marine Le Pen in France, and Geert Wilders' encouraging poll numbers in the Netherlands, etc), the calls from

certain quarters for a reversal of this policy is quite saddening.

13. It is on record that 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.

14. 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 goods 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.

15. 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. Those of you who followed last year's Presidential election in the U.S. must have seen that the major reason Donald Trump won is his consistent vow to protect American manufacturing and jobs specifically against China and Mexico.

16. And here at home, this policy have been 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.
  
17. 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? It just does not make sense at all.

18. 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 all to look inwards, diversify our economy, produce locally, and create jobs for our unemployed youths. We are a resilient and hardworking people. 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, and realize that together we are greater. Let me assure everyone listening that the CBN is acting in the best interests of ordinary Nigerians, regardless of the noise from the few entrenched interests whom our policies may be hurting. Let me also reiterate the central bank's

willingness, determination, and capacity to continue to meet all legitimate transaction-based FX demands in the market. I obviously cannot be of help to people or businesses who are into speculative FX demand. My promise instead to this group, whether foreign or local, is that the CBN will make sure they lose money!

19. Distinguished guests, I thank you very sincerely for your attention.

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11 March 2017