



CENTRAL BANK OF NIGERIA

KEYNOTE ADDRESS

BY

GOVERNOR GODWIN I. EMEFIELE, CON

AT THE

**ANNUAL BANKERS' DINNER
HARBOUR POINT, LAGOS
(10 NOVEMBER 2017)**



Keynote Remarks
For
Gov. Godwin Emefiele, *CON*
During the Annual Bankers' Dinner
Lagos, November 10, 2017

Opening Pleasantries — Good evening ladies and gentlemen. I am truly delighted to once again be given the honour to address this eminent gathering of the very best people in our country's Financial Industry. It is profoundly dignifying for me, not just for the opportunity to address this eminent gathering, but fundamentally because you have found it worthy to attend and listen to me despite your very busy schedules. Indeed, this event is so special to me that my team and I have always accommodated it in my schedule since I became the Governor of the Central Bank.

2. Let me specially thank the brains and brawns behind this dinner, Professor Segun Ajibola, Mr. Seye Awojobi, and their team at the Chartered Institute of Bankers of Nigeria (CIBN) for their relentless efforts at ensuring that the event is successful. I would like to recognize and appreciate the presence of the Managing Directors/Chief Executive Officers of our banks and other financial institutions who have all made time to be here today. The presence of my colleagues from the Central Bank of Nigeria (CBN), especially the Deputy Governors, Directors, Special Advisers, Special Assistants, and Senior Management of the Bank are also respectfully acknowledged and appreciated. And to everyone else present at this gathering, I welcome you heartily and thank you for coming.

3. Distinguished guests, in my address this evening, which I have titled “**Policy Options for Sustaining Nigeria’s Economic Upturn**”, I would provide updates on the developments within the Nigerian economy, share some insight into CBN’s current efforts at macroeconomic and financial policies, and provide a glean of my thoughts, based on my personal understanding of the present economic situation of our country. I will thereafter discuss some solution to sustaining our exit from recession.
4. When I spoke at last year’s dinner, the general aura in the hall was fretful, uncertain and anxious given the precarious position of the macroeconomy at that time and the recession that beleaguered the Nigeria in 2016. Key macroeconomic and financial metrics for October 2016 which were available as at last year’s event

were worrisome. At that time, GDP had, for the third consecutive quarter, contracted by 2.3 percent with further contractions expected in the fourth quarter. Inflation rate had doubled to 18.3 percent in October 2016 from 9.6 percent in January 2016. Persistent depletion of FX reserves seemed irreversible with a balance of US\$23.6 billion at end-October 2016 while downward exchange rate pressures intensified. Plummeting stock market indicators, sustained net capital outflows and poor doing business indicators all characterized our economy when I gave my speech last year.

5. At that time, as many of you would recall, I sounded a few strings of hope for impending recovery dependent on us, collectively and individually, doing the right things. Though many, at that time, thought I was being overly-optimistic or politically-correct. Today, we all are glad to see

that the hitherto unpleasant conditions have largely reversed. We, as resilient people and responsible organisation, have collectively surmounted the worst and have hurdled the unwelcome recession. There is today a fresh and resurgent glimmer of reassurance in the horizon. But what has changed since last year's dinner? What did we do right and how do we sustain these policies?

A Quick Recap of Background

6. Distinguished guests, as you would recall, there has been three major exogenous shocks over the last couple of years, namely: oil price fall, geopolitical tensions, global growth slowdown, and US Monetary Policy Normalization. These shocks have had significant adverse effects on Nigeria's economy including:

- Depressed GDP growth, which culminated in a recession with five consecutive quarters of GDP contraction bottoming at -2.3 percent in 2017Q3, having grown by nearly 7 percent in previous years;
- Rising Inflation, peaking at over 18 percent in Jan. 2017, from as low as 9 percent in January 2016;
- Persistent increase in unemployment rate to 14.23 percent in 2016Q4 from 6.41 percent as at 2014Q4;
- Significant depreciation of the exchange rate, reaching N520/US\$1 in February 2017, from as low as N155/US\$1 in June 2014;
- Depletion of FX Reserves, bottoming at about US\$23.6 billion in October 2016 from as high as US\$40 billion in January 2014;

- Substantial decline in average inflows of foreign exchange into the CBN by over US\$2.3 billion every month over a three-year period;
- Strain on the financial markets with declines in key money market, capital market and foreign exchange market indicators;
- Weakening resilience of the Nigerian banking sector (though the industry remained largely robust) as:
 - NPLs deteriorated in line with the difficulties of the macroeconomy; and
 - Banking system exposure to foreign loans threatened to undermine their health;
- Constrained fiscal space leading to larger fiscal deficit and rising debt profile. Though the debt to GDP ratio remains significantly robust and below the 30 percent threshold debt service to revenue ratio is comparatively unsustainable.

- 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.

7. Why was Nigeria so adversely affected by the exogenous shocks? Ladies and Gentlemen, it is because we drained our buffers by an excessive dependence on imports of mostly frivolous goods. It is not surprising that we were so heavily affected because oil accounts for over 90 percent of our exports and nearly 70 percent of fiscal revenue. So, given a more than 60 percent decline in oil price and its attendant effects on foreign exchange and fiscal earnings it is not surprising that our economy suffered so gravely. Besides, the structural imbalance of the Nigerian

economy with over reliance on imported goods added to the problem. While growth declined, the rise in inflation was inevitable as falling exchange rate and rising foreign prices passed through directly to domestic prices.

8. 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 had more than US\$23 billion in foreign portfolio inflows, otherwise called “hot money”, 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?

9. 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.

CBN Policy Responses

10. How did we tackle these problems? What was the role of the CBN during those difficult times? Distinguished guests, based on our understanding of the developments and traverse of the future as shown by exhaustive scenarios from our in-house macroeconomic simulations and analysis, the Bank took a number of proactive measures many of which were, at the time, vigorously criticized. These policy measures include:
11. **Monetary policy.** We embarked on a cycle of tightening to rein in inflation, with MPR hiked in July 2016 from 12 percent to the prevailing 14 percent, and maintained there since then. We have also used Open Market Operations to support our restrictive policy stance. I must inform you that members of the Bank's MPC, in arriving at these decisions, critically juxtaposed objective of price stability with the benefits of

growth recovery. Based on balance of evidence, expert judgment and boldness, the consensus of the committee was that the welfare gains of rapidly achieving price stability outstripped the benefits of an overriding focus on output stabilisation. Nonetheless, considerations of output recovery were always embedded in every MPC decisions;

12. **External Reserves Management:** As a means to controlling the drain on reserves, we adopted demand management through the restriction of FX for imports of goods that can be produced in Nigeria. We established a decisive withdrawal of the de facto subsidy for the importation of 41 non-essential commodities with unfolding successes;

13. **Exchange rate management.** As regards exchange rate management, the CBN took a number of actions to stabilize the exchange rate

amidst escalated pressures from speculators, bettors, round-trippers and rent-seekers. The CBN encouraged increased FX inflows from remittances by licensing International Money Transfer Organizations (IMTOs). More FX sales into the Interbank Market as well as establishment of the Investors-Exporters Window in April 2017. The introduction of the NAFEX and the Investors-Exporters FX Window increased the transparency of market and has helped stabilise the rates. We have seen improved sentiments as Nigeria becomes a hub of investment in Africa and among emerging market economies.

14. **Development finance.** Aimed at diversifying the economy away from over-dependence on oil revenues for financing the budget and source of FX inflows and consistent with the development agenda, the Bank continued its development

finance activities. Targeted interventions at specific high-impact sectors like agriculture, including introducing the Anchor Borrower Programme (ABP). To date, the Bank has committed close to N45.5 billion under the Anchor Borrowers' Programme with active participation across 30 States of the Federation. In Kebbi State alone, over 78,000 smallholder farmers are now cultivating about 100,000 hectares of rice farms in 2016. It is expected that over two million metric tonnes of rice will be produced in that State alone annually. We remain committed to do more in the targeted crops such as rice, maize, palm oil, sorghum, tomatoes, cassava, cocoa, cotton, dairy, and groundnut. To consolidate on the gains of the Anchor Borrowers program, and reach more deserving small holder farmers nationwide, the CBN is forming strategic partnerships with Agricultural commodity

associations. These strategic partnerships have already started yielding results with the commencement of the Rice Farmers association of Nigeria (RIFAN) Anchor Borrowers program where about three hundred thousand rice farmers across 20 states will be supported under the upcoming dry season cultivation. An additional 2 million metric tons of paddy rice is expected to be produced under the RIFAN Anchor Borrowers program. This is in addition to the various private sector and state governments collaborative initiatives being implemented.

Results: Current Position

15. In light of these and other policy responses, we are delighted that the economy has turned a corner with our worst days clearly behind us. For example:

■ **GDP:** After five quarters of continuous contraction of the GDP (beginning from 2016Q1), the economy recorded a positive growth of 0.55 percent in 2017Q2 vis-à-vis the negative outcomes of -1.73 percent and -0.91 percent in 2016Q4 and 2017Q1, respectively, signalling an exit from the recession;

■ **Inflation:** From a peak of 18.72 percent in January 2017, headline inflation recorded eight straight months of disinflation, with the rate declining to 15.98 in September. During this period, core inflation and imported food inflation, similarly fell from 17.90 percent and 20.95 percent, respectively, to 12.12 percent and 14.83 percent. Food inflation, however, rose from 17.82 percent to 20.32 percent. The inertia exhibited by food prices inflation reflected, among other things, the rising prices of farm inputs and supply shortages, intermittent clashes between farmers and herdsman, as well as the lingering problems in the

Nigerian northeast region which affected agricultural output.

■ **Exchange Rate:** We have also seen a significant appreciation of the Naira from over N500/US\$1 to about N360/US\$1. In addition, we have seen stability in the rate for over six months now. I am glad to note that the exchange rate is not only stable, it is also converging across various windows and segments of the market.

■ **FX Supply:** Since the establishment of the I&E Window, we have recorded about US\$10 billion in autonomous inflows through this window alone. This reflected the effect of the increased transparency which that window accorded the FX market and its benign impact of improving investor confidence and business sentiments;

■ **FX Reserves:** Our reserves have recovered significantly from a low of just over US\$23 billion in October 2016 to over US\$34.3 billion as of

November 3, 2017. The accretion in reserves does not only reflect increased inflow but also our shrewd FX demand management strategy. When we introduced a policy restricting 41 items from our FX markets, we were called all manners of names. Today ladies and gentlemen, among the benefit of that policy is the considerable decline in our import bills. From an average of about US\$5.5 billion, our monthly import bill has fallen consistently to US\$2.1 billion in 2016 and US\$1.9 billion by half year 2017. This is indeed commendable.

■ **Improvements in the capital market metrics:**

All-Share Index (ASI) and market capitalisation recorded 32.10 and 32.30 per cent, respectively, to 35,504.62 and ₦12.24 trillion as at August 31, 2017 from the end-December 2016 levels.

■ **Improvement in the “doing business indicators”:** The World Bank’s ease of doing business indicator for 2018 showed that Nigeria,

with a score of 52.03, improved 24 places to rank 145 out of 190, standing above the regional average score of 50.43 recorded for sub-Saharan Africa. I must note that the CBN efforts reinforced the Presidential initiatives to improve ease of doing business in Nigeria. The establishment, nurturing and administration of the Credit Bureau and the National Collateral Registry contributed in no small measure at improvement of access to credit and enhancing the ease of doing business in Nigeria. In addition, the introduction of the transparent I&E FX Window which boosted investor's confidence and eased market sentiments also buoyed our doing business indicator.

■ **Boost in Local Production:** Due to the dogged implementation of our FX restriction on certain items, we have recorded spectacular improvements in domestic production of most of these items. Local manufacturers are reporting

major boosts to their revenue and profit due to the policy. To give some examples, Psaltry International Limited (PIL), an agro-allied manufacturing company based in Oyo, produces starch. Before the policy, it had few customers and plenty of backlogged inventory. Today, PIL boasts over 50 multinational clients including Nestle and Unilever. The company has saved Nigeria \$7 million in foreign exchange drawdown over the two years of the policy. This policy has even freed Nigeria from a perennially embarrassing import: toothpicks. Baton Nigeria has also taken advantage of the policy and is now producing high-quality, competitive toothpicks that is 25 percent cheaper than their Chinese competition. As most of you know may know, Unilever moved its blue band production facility to Ghana some years ago, which means that we have to import this product from that country, with scarce FX. But as part of the

gains from our policy and in line with an agreement we reached with Unilever, the company will be commissioning a new Blue Band Factory in Agbara, Ogun State early next month. We have also seen a sharp drop in imports of rice from several countries. To give one example, data from the Thailand's Rice Exporters Association indicate that in 2012, about 1.2 million Metric Tonnes of rice was exported to Nigeria. However, in 2016, which was the first full year of implementation of our policy, rice exports to Nigeria had fallen by 99 percent to only 784 Metric Tonnes. This significant reduction in imports of rice from Thailand represents a saving of over US\$600 million to Nigeria in 2016 alone. It is heart-warming to note that this fall in imports have been largely filled by a boost in local rice production. For example, employees at Labana Rice Mills in Kebbi State are trying to keep pace with demand, processing 320

tons of a rice a day, a 250 percent increase from the previous year. From Kano, UMZA rice has expanded its milling capacity substantially to the extent that with the recent bumper paddy harvest, the company today takes delivery of over 100 trucks of paddy rice daily. These are clearly verifiable successes of government's attempts to create jobs locally, improve the wealth of our rural population, improve industrial capacities and ultimately attain economic growth in Nigeria.

Comparative Assessment: Looking at other Emerging Markets

16. The exogenous global shocks which affected Nigeria beginning from 2014 also impacted a number of comparator emerging markets economies. In assessing our recovery efforts and current outcomes the Nigerian economy fared comparably well when Juxtaposed with peers. Similar to key markets like Brazil, Russia and

South Africa, Nigeria exited recession in 2017. A quick analysis indicated that Nigeria's recovery, measured by annualized GDP acceleration at 2.04 percentage points, was fourth largest among emerging markets. This shows that from a contraction of 1.49 percent in 2016Q2 Nigerian economy expanded by 0.55 percent in 2017Q2. The best recovery in terms of GDP was observed in Argentina whose GDP growth improved 4.0 percentage points, from -3.7 percent in 2016Q2 to 0.3 percent in 2017Q2. This was followed by Brazil and Russia. South Africa's recovery index, at 0.8 percentage points, was seventh in the ranking. In terms of inflation moderation among emerging markets our performance with disinflation was also comparable, although the rate remained double digits. Nigeria's inflation rate fell from 17.6 percent in August 2016 to 16.0 percent in August 2016. Thus, annualized rate of

disinflation, at -1.6 percentage points, compares favourably with other emerging markets economies. In terms of rate of disinflation, while we lagged behind Brazil and Russia we outperformed South Africa, Chile and China.

Outlook for 2018

17. Ladies and gentlemen, I must be quick to remind us that though the current developments in macroeconomy are welcome, we as leaders and policymakers must neither become complacent nor over-confident. We must strive to improve and sustain the pace of recovery. For one, our import bill may have fallen but our manufacturing and agriculture sectors still have a long way to go if we must attain self-sufficiency in those sectors. We must not be quick to discard the restrictive measures which aided our recovery simply because the metrics have improved. At the CBN we will continue to fine-tune our policies and

strategies based on our understanding of evolving developments and supported by in-house technical analysis and simulations. We will remain proactive in ensuring that the welfare of Nigerians is optimised at any point in time.

18. In my personal understanding of current developments and my assessments of the traverse of future outcomes I expect that barring any unforeseen shocks:

■ **Inflationary pressure will continue to ease:** I believe that it may return to very low double digit or high single digit levels during the next year. Though the base effect had diminished, I expect that as the socio-economic factors that are driving food inflation are resolved the inertia therein would dissipate and the pace of headline disinflation will grow;

■ **FX Reserves will continue to grow.** Over the last 12 months Nigeria's FX reserves grew by over

US\$10 billion from just over US\$23 billion in October 2016 to over US\$33 billion in October 2017. It is my belief that if we remain resolute with our efforts, policies and actions we can attain an FX reserve position of about US\$40 billion by end 2018;

■ **Economic Recovery will consolidate.** As the sentiments improve in the macroeconomy and supported by proactive monetary, trade, industrial and fiscal policies, I expect a continued uptick in GDP growth with a positive spillover to improved unemployment rate. As policies to strengthen the agricultural and industrial sectors become more emergent, growth in these sectors will rise, further bolstering overall economy;

■ **Exchange Rate stability will continue.** As we entrench and sustain the transparency in the FX market, as FX reserves accretion continues, and market confidence and improved sentiments

remain, I expect that the exchange rate will not only be stable but would begin to appreciate against major currencies. The adverse competitiveness outcome which such appreciation may entail would be adequately mitigated by proactive policies to ensure that our balance of payments position is not undermined.

■ **Monetary policy stance could change** when the underlying fundamentals become supportive. If the pace of disinflation becomes adequate and we see inflation at predicted levels, I am very optimistic that MPC may begin to see strong justification for an easing of monetary policy, which may further accelerate the recovery process.

■ **Strong policy coordination:** Finally, I expect a re-doubling of strong policy coordination, collaboration and cooperation which flourished during the very difficult times. To sustain our recovery the need is greater now than ever for a

robust 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 to boost agricultural outputs, support local companies and enhance manufacturing and industrial capacities, with a view to diversifying the economy away from oil and fossil fuels.

19. Ladies and gentlemen, while we still have much work to do, I am delighted that some of the pains that were associated with some of the CBN's policies have become major gains in our economy. We have seen many manufacturers bounce back from near comatose to running shifts. We have seen many farmers smiling to the bank and going back to their farmlands in due seasons. We have seen some young Nigerians

entering the rice-farming sphere rather than wait for “white-collar” jobs. And we have seen palm-oil corporations declare unprecedented profits because of the CBN’s policies. On these and other bases, I believe we can build the Nigeria of our dreams. I call on all of us, this evening, to set aside our complaints and differences and distractions, and let us work together to create this Nigeria, where balanced growth and shared prosperity is guaranteed for all.

20. I thank you very much for your attention. And thank you once again, for being here today.

GODWIN I. EMEFIELE, *CON*
Governor, Central Bank of Nigeria
10 November 2017