PRESS STATEMENT ON THE OCCASION OF NACCIMA NATIONAL CONFERENCE ON TRANSFORMING THE NIGERIAN ECONOMY

BY HENRY OLUJIMI BOYO

CBN'S MONOPOLY IN FOREX MARKET (POISON IN THE ECONOMY)

The monopolistic control of any market is seen everywhere as a great source of distortion, anti-people pricing and extortionist market practices.

It is for this reason, for example, that there is general agreement that the petroleum downstream sector would be better run without NNPC's monopoly. It is curious, however, that while the authorities clamour particularly for deregulation of the petrol market, they have kept unusually silent on the need to maintain a level playing field in the forex market, where the Central Bank, CBN, supplies over 80% of the dollars sold in that market, as opposed to NNPC's monopoly of 50% of fuel imports.

The product of CBN's forex monopoly is poison in the economy and is the causative factor of the following plagues in the economy:

- High interest rats
- High production cost
- Uncompetitive local products
- High cost of fuel
- Contracting industrial space
- Rising unemployment
- Insecurity
- Increasing national debt

Thus, CBN's forex monopoly inevitably creates a *naira tsunami* in the market, whenever CBN captures the monthly dollar revenue and prints/creates hundreds of billions of naira as allocations to the three tiers of government. This substitution of naira for dollar revenue creates the eternal curse of too much money (excess liquidity) simultaneously with a market shortage of loanable funds for the real sector! It is also responsible for the continuously depreciating naira value such that naira rate depreciates with increasing dollar revenue!!

In fact, this obtuse payment system has boxed our economy into a framework that ensures that our people become poorer with increasing dollar revenue! Indeed, this became starkly evident in 2007 – 8, when Nigeria started being listed amongst the world's poorest nation at a time we garnered our best-ever dollar reserves of about $60bn!!

CBN's stranglehold on the dollar market is also responsible for the paradox of an exchange rate of N80=$1 with $4bn reserves (4 months' imports cover) in 1996, and an exchange rate of N120=$1 in 2007 – 8 with $60bn reserves and 30 – 40 months' imports cover!!

Nigerians do not readily recognize that the dilemma of fuel subsidy is also tightly knotted to the issue of exchange rate. So long as the CBN's forex monopoly remains intact, it would be an uphill task to stop fuel price from rising as the naira depreciates, even in the face of rapidly increasing reserves!!

The galloping domestic debt level is also the product of CBN's mop up of excess liquidity caused by its monthly *naira tsunami*, when monthly dollar revenue is substituted with hundreds of billions of freshly created money.

On the industrial/real sector front, the CBN's creation of naira in replacement of dollar is directly responsible for high interest rates that cripple industrial enterprise and ultimately increase production costs and make made-in-Nigeria goods uncompetitive. Indeed, CBN consciously instigates high lending rates in spite of the reality of a depressed economy in need of cheap/easy access to loans for industrial regeneration.

Thus, the spectre of continuously rising rate of unemployment (over 30 million Nigerians jobless as at October 2011), poverty and consequent insecurity in the land can all be traced to CBN's substitution of naira for dollar revenue as monthly allocations.

In what appears to be a desperate suicidal bid, the CBN also consciously funds the requirement of Bureau De change for dollars, this is in spite of the recognition that the major patrons of the $2bn or more sold monthly to BDCs are looters of the public treasury and smugglers of contrabands, which weaken the possibility of industrial growth in the country.

The Monetary Policy Thrust statement in the Vision 202020 document recognises the veracity of the above observations and notes as follows:

"Monetary Policy Thrust:- Dealing with excess liquidity challenge requires innovative approaches, in view of the source of the problem. One potentially enduring solution, which would avoid the creation of new money and boost the naira value in the foreign exchange market, relates to the allocation of foreign exchange earned from oil to the three tiers of government rather than monetizing it. But this may be a recipe for capital flight. Therefore, the Central Bank would need to develop capacity for liquidity forecasting and programming" *(Nigeria Vision 2020 blueprint, pg. 31, para. 2).*

Now that the CBN has felt compelled to increase its Monetary Policy Rate to an industrially debilitating high of 12%, while inflation continues to rage above 10%, it should be clear to the Economic Management Team that the strategy of liquidity/inflation targeting has failed woefully!!! In this event, the CBN should be directed to do the needful by dismantling its monopoly of the foreign exchange market and henceforth adopt the instrument of dollar certificates (strictly not cash) for the payment of dollar derived revenue in monthly allocations.

Under this arrangement, the three tiers of government, who are the beneficiaries of dollar certificates, would be expected to approach the money deposit banks to convert their dollar certificates to naira before spending. In this event, the CBN does not have to embark on suicidal money creation every month and consequently, the erstwhile perennial ghost of excess liquidity and its attendant poisonous aftermath will be dispelled. This arrangement would reverse all the negative effects of naira substitution for dollar revenue; in its train would also come other beneficent products such as the following:

- No increased money supply
- No need for eternal liquidity mop up
- Lower interest rates
- Reduced crowding out of real sector by erstwhile government unending borrowings
- Enhanced revenue for infrastructural/human capacity development
- Improved security
- Reduction of debt accumulation
- Increasingly stronger naira
- Cheaper fuel prices
- Lower production cost
- Cheaper products
- Lower inflation
- Increasing demand
- Increased capacity utilization
- Higher employment

The above positive stimuli to reviving and sustaining growth in the economy is without prejudice to savings of most of the current estimate of over N500bn for debt service charges annually for monies, which were primarily borrowed and kept sequestered for the object of liquidity control, in spite of the crying need for development funds in the economy!

In addition, in place of payment of fuel subsidies in excess of N1,000bn as predicted for 2011, this amount will become readily available for infrastructural and human capacity enhancement, as fuel prices fall as the naira rate of exchange improves! Indeed, there could be an additional opportunity to levy a sales tax on every litre of the reported 30 million litres sold daily. Ultimately increasing tax revenue will become available to all governments as industrial/commercial activities resonate across the land.

Like an ostrich, the CBN can hide its head in the sand and pretend that all is well in its domain, while it points accusing fingers at other sectors of public administration for the diminishing level of social welfare of our people, but the truth is that a framework, which accommodates CBN monopoly of the forex market has seriously damaged our economy over the past thirty years and it is clear that the sustenance of this poisonous framework will continue to pulverize our economy without let-up and deepen our social poverty.

It is time for CBN to wake up and do the right thing. Indeed, it is anomalous that while the law allows ordinary Nigerians everywhere to own and operate domiciliary accounts, the CBN on the other hand, usurps the right of the three tiers of government and MDAs to run foreign exchange accounts domiciled, of course, with the CBN (as government banker).

Public authorities, who are beneficiaries of the federation account should not condone the CBN's capture of their dollar allocations and the substitution of naira at CBN's unilaterally determined rate, only for the same public authorities to be forced to buy back the same dollars at a higher price from a third party; i.e. the money deposit banks, to which the CBN had sold the same dollars earlier captured by CBN from the dollar revenue belonging to the three tiers of government.

In any event, the Nigerian economy will only be resuscitated and positioned for rapid sustainable growth when the foreign exchange market is truly liberalized.

SAVE THE NAIRA, SAVE NIGERIANS!!