

PRIVATE SECTOR PERSPECTIVE ON BURNING ECONOMIC ISSUES AFFECTING THE NATION

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5. Complimentary policy directions

1. **PREREQUISITES FOR ECONOMIC GROWTH AND DEVELOPMENT**

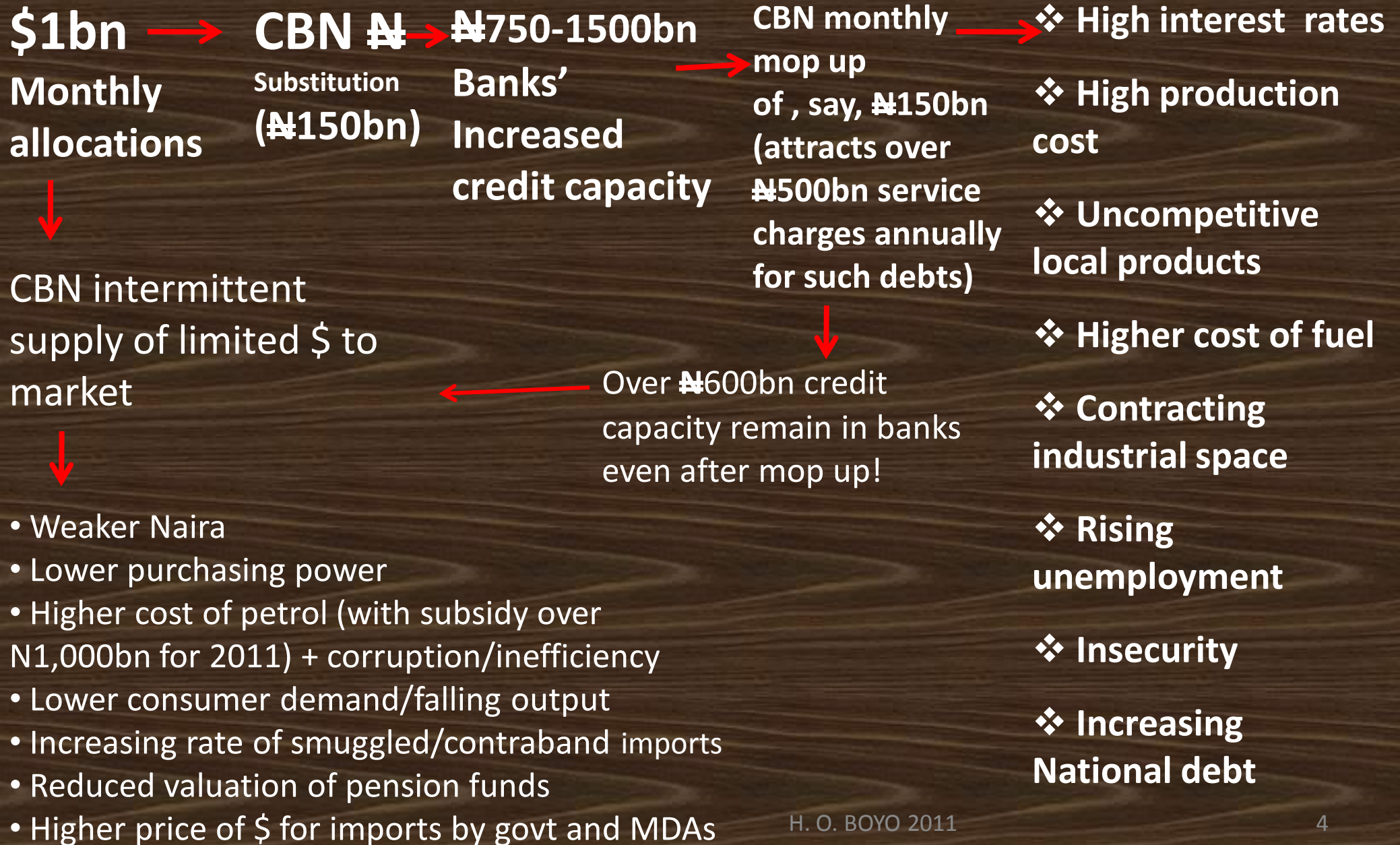
- Conducive cost of borrowing
(middle single digit interest rate structure)
- Minimal inflation climate (2 – 3%)
- Large demand base with spending power
- Stronger and stable exchange rate regime
- Enhanced infrastructural base (especially readily available and reasonably priced cost of power)
- Reasonable pool of mineral and human resources
- Supportive fiscal policies (including tariffs & taxes)

2. FACTORS RESPONSIBLE FOR THE FAILURE OF OUR ECONOMY

- High Interest Rates
- Continuously Depreciating Naira
- Easy BDC Dollar
- High Rate of Smuggling/Capital Flight
- Low Capacity Utilisation
- Minimal Added Value in Industrial & Agricultural Processes.
- Low Employment and contracting spending power.
- Inflation (over 10%)

*** Above Factors are Triggered & Sustained by a Faulty Monetary Framework**

3a **NEGATIVE IMPACT OF FAULTY MONETARY FRAMEWORK** (SUBSTITUTION OF ₦ FOR \$ REVENUE) **ON REVITALISATION OF THE REAL/PRODUCTIVE SECTOR**



3b **NEGATIVE IMPACT OF FAULTY MONETARY FRAMEWORK**

(SUBSTITUTION OF ₦ FOR \$ REVENUE)

ON REVITALISATION OF THE NIGERIAN REAL/PRODUCTIVE SECTOR

\$5bn
Monthly
allocations



CBN ₦
Substitution
₦750bn
bank
deposits



₦3,750 to
7,500bn
expanded
credit
position of
banks



CBN mop up
of , say,
₦1,000bn
with annual
interest/servic
e charges of
over N1000bn



- ✓ Much higher interest rates
- ✓ Much higher raw materials cost
- ✓ Much higher production cost
- ✓ Increasingly uncompetitive local products



CBN intermittent supply
of limited \$ to market



- ✓ Weaker Naira
- ✓ Lower purchasing power
- ✓ Higher cost of petrol (with subsidy over N1000bn for 2011) + corruption/inefficiency
- ✓ Lower consumer demand/falling output
- ✓ Increasing rate of smuggled/contraband imports
- ✓ Reduced valuation of pension funds
- ✓ Higher cost of \$ to constitutional beneficiaries

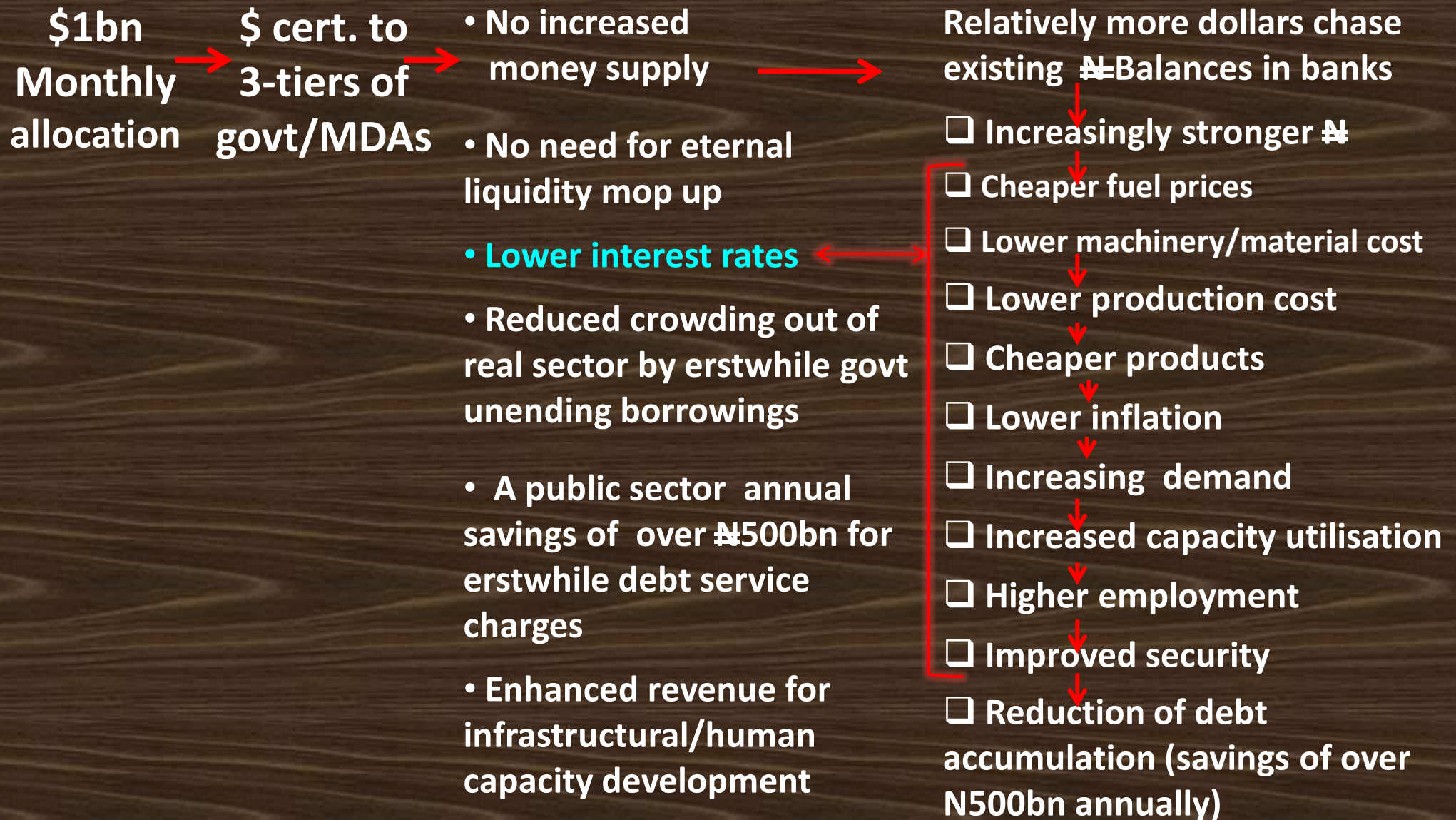


₦2,750 –
7,500bn
credit capacity
in banks

- ✓ Contracting industrial space
- ✓ Decreased capacity utilisation
- ✓ Decreasing demand
- ✓ Higher petrol price
- ✓ Spiralling inflation
- ✓ Spiralling unemployment
- ✓ Insecurity
- ✓ Higher debt burden

4a REQUISITE PROCESS FOR REVITALISATION OF THE NIGERIAN ECONOMY

(POSITIVE IMPACTS OF \$ CERTIFICATES FOR PAYMENTS OF \$ REVENUE)



4b REQUISITE PROCESS FOR REVITALISATION OF THE NIGERIAN ECONOMY

(POSITIVE IMPACTS OF \$ CERTIFICATES FOR THE PAYMENTS OF \$ REVENUE)

\$5bn
Monthly
allocation



\$ cert. to
3-tiers of
govt /MPDA



• No increased
money supply



Dollars chase existing ₦
Balances in banks

- No need for eternal liquidity mop up
- Reduced crowding out of real sector by erstwhile govt unceasing borrowings
- A public sector annual savings of over ₦500bn for erstwhile debt service charges
- Enhanced revenue for infrastructural/human capacity development
- Lower interest rates

- Increasingly stronger ₦
- Cheaper fuel prices
- Much lower machinery/material cost
- Much lower production cost
- Much cheaper products
- Lower inflation
- Rapidly Increasing demand
- Increased capacity utilisation
- Higher employment rate
- Vastly improved security
- Reduction of debt accumulation
- Savings of over N500bn annually

4ai

NIGERIA VISION 2020

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- **MONETARY POLICY THRUSTS**

Dealing with the **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 MONETISING IT..** But this may be a recipe for capital flight. Therefore, the Central Bank would need to develop capacity for **LIQUIDITY FORECASTING AND PROGRAMMING.**

4b

THE GOOD NEWS **WHAT THE CONSTITUTION SAYS ABOUT REVENUE ALLOCATIONS**

162. (1) The Federation shall maintain a special account to be called **“THE FEDERATION ACCOUNT”** into which shall be paid **ALL REVENUES COLLECTED BY THE GOVERNMENT OF THE FEDERATION**, except the proceeds from the personal income tax of the personnel of the armed forces of the Federation, the Nigeria Police Force, the Ministry or department of government charged with responsibility for Foreign Affairs and the residents of the Federal Capital Territory, Abuja.

4bi

WHAT THE CONSTITUTION SAYS ABOUT REVENUE ALLOCATIONS (cont'd)

(2) The President, upon the receipt of advice from the Revenue Mobilisation Allocation and Fiscal Commission, shall table before the National Assembly proposals for revenue allocation from the Federation Account, and in determining the formula, the National Assembly shall take into account, the allocation principles especially those of population, equality of States, internal revenue generation, land mass, terrain as well as population density;

4bii

WHAT THE CONSTITUTION SAYS ABOUT REVENUE ALLOCATIONS (cont'd)

Provided that the principle of derivation shall be constantly reflected in any approved formula as being not less than thirteen per cent of the revenue accruing to the Federation Account directly from any natural resources.

(3) Any amount standing to the credit of the Federation Account shall be distributed among the Federal and State Governments and the Local Government Councils in each State **ON SUCH TERMS AND IN SUCH MANNER AS MAY BE PRESCRIBED BY NATIONAL ASSEMBLY.**

4c. CENTRAL BANK OF NIGERIA ACT 2007

2. The Principal objects of the Bank shall be to
 - a) **ensure monetary and price stability;**
 - b) issue legal tender currency in Nigeria;
 - c) maintain external reserves to safeguard the international value of the legal tender currency;
 - d) promote a sound financial system in Nigeria; and
 - e) act as banker and provide economic and financial advice to the Federal Government

16. **The exchange rate of the naira shall be determined, from time to time, by a suitable mechanism devised by the Bank for that purpose.**

5. COMPLEMENTARY POLICY DIRECTIONS

- Payment of \$ allocations in place of ₦ substitution as per constitution
- Abolish \$3bn sales to BDCs monthly & weekly \$ auctions by the CBN
- Control of Future Foreign Direct Investment into the real sector as opposed to speculative and unstable hedge funds
- Abolition of further incestuous margin trading in the capital market
- Improved banking regulation/resident CBN auditors in banks.
- Government bond borrowing for specific infrastructural projects, especially power, housing, transportation
- Constitutional review to allow federating units to partner with private investors to meet power needs (i.e. generation, transmission & distribution)

**SAVE
THE #AIRA
SAVE NIGERIANS!!**

THANK YOU!!

