

AN OPEN LETTER TO CENTRAL BANK OF NIGERIA GOVERNOR, GODWIN EMEFIELE, REQUESTING HIS RESIGNATION

Dear Mr. Godwin Emeziele,

Nigeria is a country with multi-faceted challenges. However, in the past year, one challenge has stood out like a sore thumb – **The Nigerian Economy**.

All the metrics released over the last two years by the Nigerian Bureau of Statistics (NBS) have shown a consistent decline, with negative growth of -2.24% by Q3 2016. Inflation had also risen to 18.55% by December 2016, evidently felt in the streets as the prices of commodities soar. It is also very clear that the monetary policies currently driven by the Central Bank of Nigeria, under your leadership, Mr. Godwin Emeziele, have contributed significantly to our economic woes and from all indications, our economy is in shambles.

We know that oil prices, which are outside your control, have collapsed and this means Nigeria's biggest supply of dollars has shrunk. However, this is not a problem that should grind an economy to a halt, assuming you had the appropriate skill set to foresee, understand and manage the situation.

From Q3 2014, with the slump in oil prices, pending elections and the attendant effect this is known to have on emerging markets, we needed a CBN Governor with foresight, strong economic understanding of our terrain, and above average knowledge of how financial markets work – locally and internationally. Unfortunately, your response has been to ban things, fix rates, "float" and "unfloat" thus giving the impression of deep policy instability and lack of know-how. The result is that the problem keeps worsening, which would imply that you are not equipped for this role.

Some of the disastrous actions the Central Bank has taken under your leadership include:

1. **Ban Forex Sales for Certain Items:** At an elementary level, it does make sense to reduce FX sales to shore up FX supply. However, ALL the financial markets experts strongly disagreed with your decision because the entire FX market is like a bubble; you only shift the pressure from one part to another and timely liquidity injection is what relieves the pressure, not a ban on sales.

2. **Conflicting Messaging on Execution of Foreign Exchange Policy:** In June 2016, you announced to the world that you were floating the Naira to allow the forces of demand and supply to determine the exchange rate while also reducing the spread between the official and parallel market rates. Within a few weeks, you began doing the complete opposite. The gap between the official rate and parallel market went from 35% in June 2016 to almost 60% in December 2016 and 65% as at February 2017.

3. **Restriction of Domiciliary Account Deposits:** This action sent the worst signals to those with US Dollars thereby substantially restricting the supply of US Dollars into the Nigerian system.

4. **Federal Government Overdrawing their Legal Limits:** CBN seems to have violated a rule stipulated in the Central Bank Act of 2007, which caps Central Bank financing of the Federal Government's budget deficit at 5% of the last fiscal year's revenue. Estimates show CBN financing of the FG budget surged to about 50% of the previous year's revenue, both in 2015 and as at October 2016. Though, the Federal Government states it is borrowing against the Treasury Single

Account (TSA) balances, the processes and use of funds have not been transparent.

5. **Endorsing Force to Control Exchange Rates:** Last year, you announced to the world that the Central Bank endorsed the actions of the Directorate of Security Services (DSS) to enforce a controlled dollar exchange rate; thereby making dollars more scarce and worsening the situation. However, the DSS forgot to force down the rate of other currencies like the sterling and euro which ended up creating another distortion in the market for people to exploit.

If using force to drive down exchange rates was a winning tactic, everybody would be doing it. It is bad enough to be doing such a thing in a democracy, but it is shameful for the Central Bank Governor to endorse it.

NAIRA/DOLLAR EXCHANGE RATE(S) IN NIGERIA

Pilgrims Rate	N197/\$
PPPRA Model	N285/\$
Budget 2017 Rate	N305/\$
Interbank Rate	N315/\$
International Bank Rate	N319/\$
Travelex Rate	N345/\$
Special Funds Airlines	N355/\$
Western Union	N375/\$
School Fees/BTA	N378/\$
Bureaux De Change	N380/\$
Black Market	N520/\$

Date: 21/02/2017

Consequences

The result of your actions is that the problem continues to get worse and no, it isn't sabotage! It is just beyond your grasp to understand the inter-relationship between the laws of economics, trade and financial markets. We do not believe you have the solutions for the Nigerian economy at this critical point in time and even with your best intentions, you and your team are doing more harm than good.

a. We operate in a global economy and the US Dollar is the reserve currency of the world. Therefore, to participate in the global economy, it is imperative that Nigerians have consistent access to US Dollars. **Your actions have led to panic in the market, loss of confidence in the country's economic stability and serious questions about your ability to act as an unbiased regulator.** All this has exasperated local and international investors and driven the demand for dollars to unprecedented levels.

b. **Credit worthiness of Nigerian businesses is at an all-time low** with our country risk premium sitting in the ranks of Uganda, Senegal, Serbia etc. (at least we can pride ourselves that we are slightly better than war-torn Iraq). Many Nigerian banks have had their trade lines either completely withdrawn or reduced to levels that make supporting local businesses impossible.

c. The current design of the Nigerian economy makes it necessary to obtain dollars for the importation of all types of items: refined petroleum products, pharmaceuticals, online software, basic household items, etc. **Our inability to source for raw materials, pay for services provided by partners abroad; purchase resources through global vendors is affecting our ability to compete and in some cases, operate.** This is in addition to the overwhelming burden of generating our own power and providing other social services. As you would see from the NBS data, the negative impact is across various sectors – ICT, agriculture, manufacturing etc.

d. Just so we are clear, the issue of access to the US Dollar is **NOT** an elite problem. Yes, there are those who need dollars to travel, pay school fees, see foreign doctors – things the current administration has classified as luxury expenses. However, the ability of businesses to survive affects jobs (NBS estimates that unemployment has increased from 7.5% at the beginning of 2015 to 13.9% as at the Q3 2016, while youth unemployment is almost at 50%), purchasing power and the trickle-down effect of a productive society – the ability of employed citizens to spend and buy from the tomato seller that we talk about incessantly.

So, yes, the tomato seller doesn't need dollars but if an IT firm can't pay a developer in Croatia; business shrinks and staff are laid off, who will buy tomatoes?

e. While the Federal Government has sterilized public sector deposits through the TSA, the CBN has encouraged bad behaviour by rapidly expanding credit to the FG in a tough macroeconomic environment for private businesses. Credit to the FG stands at N7.436tn as at December 2016. This is a 66.18% jump over the December 2015 figure while credit to the private sector expanded by only 16% within the same period. Narrow Money grew by 34.4% from N8.57tn in December 2015 to N11.52tn at the end of 2016, largely driven by credit to government. This is a critical cause of inflation, due to rapid printing of currency without asset backing.

Nigeria now looks like an unserious and incompetent country that continues to pursue policies that damage its own economy.

There are no painless or easy steps out of a foreign exchange crisis especially coupled with high and rising inflation, high unemployment and decreasing productivity. However, confidence, stability and predictability are indispensable. Even if the exchange rate is higher, the predictability is crucial because individuals and businesses can plan.

What seems to be happening is that decisions on how much to sell, to who, when and at what rate are opaque, left to the discretion of individuals and not an organized market system. How does one plan under such conditions?

Way Forward

The experience of other countries show that the best way to return to normalcy is to allow market forces determine the exchange rates. Yes, there will be an initial period of pain, but it will settle when the manipulation is removed.

Your actions have demonstrated that you are unable to make difficult, independent decisions and therefore, there is no way to achieve any of these under your leadership. International investors and journalists have consistently stated that the Central Bank's actions do not elicit the requisite confidence in the markets and therefore cannot play any role in our path to recovery which consequently, remains bleak.

The largest economy in Africa needs an unbiased Central Bank Governor without affiliations to institutions he is supposed to regulate; a deep understanding of principles and practices of financial markets; the inter-relationships between markets and trade; a team player who listens and understands market sentiments and psychological barriers; sound understanding of the role and boundaries of economic policies

Sir, you'd well agree that over your career, these aren't your core competences. We certainly need a better Central Bank Governor.

We, the undersigned, representing millions of Nigerians who only see the opportunities and potential to put our great country on the pedestal it belongs, but have been negatively affected by the ailing economy which your policies have worsened, therefore ask that for the greater good of our country, you resign your position as Governor for someone whose competencies and disposition would more efficiently run the Central Bank.

Sincerely,

Feyi Fawehinmi, Financial Analyst
Oluseun Onigbinde, ED, Budget
O O Nwoye, Tech Entrepreneur
Agboola Bamidele, Agribusiness Entrepreneur

Nweke C.I., Tech Entrepreneur
Yemi Adamolekun, ED, EiE Nigeria
Tunji Andrews, Lead Economist TTAC AFRICA
14 entrepreneurs who have asked to be anonymous for fear of reprisals.

cc :

Prof. Yemi Osinbajo, Acting President, Federal Republic of Nigeria
Dr. Bukola Saraki, Chairman, National Assembly
Mrs. Kemi Adeosun, Minister of Finance
Dr. Okey Enelamah, Minister of Trade and Investment

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