RECENT CHANGES OF GUARDS AT THE CENTRAL BANK OF NIGERIA
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1. Is Nigeria developing a Single-Term Syndrome?
The appointment of a new governor to lead the Central Bank of Nigeria (CBN) from June 2014 to June 2019 brings the number of persons so appointed since 29 May 1999 to four, although only the last two appointments were made after the 2007 CBN Act was signed into law on 28 May 2007. Joseph Sanusi (1999-2004) and Charles Soludo (2004-2009) had been appointed by President Olusegun Obasanjo, while Lamido Sanusi (2009-2014) was nominated by President Umar Yar’adua and confirmed by the Senate, and President Goodluck Jonathan has lately nominated Godwin Emefiele for 2014-2019. He has since been confirmed by the Senate and has assumed duty on the 4th of June 2014. The occasion affords us the opportunity to reflect on what our lessons from the preceding three regimes can teach us about the next five years. It is instructive to note that while the CBN Act had always allowed for a possible maximum of two terms of five years each, none of the three persons to occupy the office so far had been deemed fit for second terms in office, each tending to assume office with seemingly very high credibility only for such credibility to be eroded before the first five-year term is up. This raises a lot of questions: Is Nigeria developing a Single-Term Syndrome? Or, why do Nigeria’s CBN Governors find it so difficult to succeed? Why do they end up failing so catastrophically? Why is it that Nigeria (specifically the President and the 109-member strong Senate specifically) do not know how to appoint CBN Governors who will be successful (at least in their first five years). Will Mr. Emefiele now break the jinx?

2. Joseph Sanusi’s Tenure
President Obasanjo dramatically named Mr. Joseph Sanusi at the Governor of CBN as soon as he was sworn in as President at the Eagle Square on 29 May 1999, cutting short the tenure of the incumbent Mr. Paul Ogwuma. Mr. Sanusi was then the Managing Director of First Bank, the largest commercial bank in the country at the time, and he was Deputy Governor at the Central Bank before that. Unfolding events over the next four years were to expose Mr. Sanusi’s poor grasp of the main economic issues confronted in President Obasanjo’s first term (often relying on one of his Deputy Governors at the time, the LSE-trained economist, Dr. Shamusudeen Usman, to answer the difficult economic questions), notably depreciation of the Naira and concomitant increases in inflation and interest rates, coupled with Mr. Sanusi’s indecisive approach to the resolution of weak banks throughout his tenure, especially his infamous ‘life boat arrangement’ in which healthy banks were asked by the CBN to lend to the not-so-healthy ones with CBN’s guarantee, meant that the President needed a more competent person to take charge on the expiration of his tenure.

3. Charles Soludo’s Tenure
President Obasanjo also dramatically named Professor Charles Soludo as Mr. Joseph Sanusi’s replacement a few weeks to the end of the latter’s tenure. Dramatic because Soludo had been the Chief Economic Adviser to the President in the eleven month period before his new appointment, and he appeared to have been doing a good job of redefining medium term economic reform priorities and galvanizing popular support for same across the country. He arrived the CBN with this favourable image, announced a gigantic bank consolidation project that eventually meant that the 89 banks in the country were forced to merge into about 23 within a couple of years, with too much emphasis on high equity base. This coincided with the strongest upsurges in global commodity prices and global liquidity in recent decades. The Naira appreciated at an annual average
of about 4% from 2004 to 2007 and the 91-day Treasury bill rate fell steadily from 15 percent in 2004 to five percent by 2009. But the banks herded into the stock market and some financial institutions started booking huge loans just to buy their own shares. Just when the consolidation thing seemed to be working wonders, the global economic and financial meltdown and the stock market contraction of 2008 hit the banks hard, and it became widely suspected that the CBN under Soludo was not saying all that needed to be said about the true state of health of the Nigerian banking system; the Soludo-led CBN even opened an infamous ‘expanded discount window’ that enabled some illiquid banks easy access to CBN funds to paper up the cracks.

4. Lamido Sanusi’s Tenure
President Yar’adua, with the confirmation of the Senate, named Mallam Lamido Sanusi, a highly reputed institutional risk management expert, who was then Managing Director of First Bank, as Soludo’s replacement. It wasn’t long before Sanusi uncovered the rot that the Soludo regime had been papering over, to the applause of almost everyone. The procedure adopted for the resolution of the crisis some of the banks however created grey areas that the courts are still trying to resolve beyond Lamido’s tenure, and Lamido’s foray into overly hawkish monetary policy activism one and a half years into his tenure seems largely responsible (sub-optimal oil price benchmarks on the fiscal side is also responsible) for the deterioration of Nigeria’s unemployment rate from about 15% when he took over in 2009 to about 30% when he left in 2015, although Lamido will prefer to be remembered for overseeing the improvement in the inflation record from 15% when he arrived in 2009 to 7.5% when he left in 2015.

5. Global Economic and Financial Realities
Now that President Goodluck Jonathan has, with confirmation of the Senate, named Mr. Godwin Emefiele, as Lamido’s replacement, the Emefiele regime is inheriting a strong record of exchange rate and price stability, with high real growth from the Lamido regime, but the new regime will have to worry about how to conduct monetary policy in such a way that Nigeria’s superlative growth and stability will translate to a lower rate of unemployment. Fortunately for Emefiele, the global economy and the global financial environment seem to have strongly recovered from the contractions that put the Soludo reforms to test, and commodity prices have returned to the pre-crisis summit, while global liquidity conditions have become sufficiently strong for the United States to start cutting down on its monthly asset repurchases. Even the Nigerian stock market capitalization has reached and surpassed the pre-crisis peak of N12.5 trillion, and it is reasonable to expect that beyond the next quarter or two, Nigeria’s external reserves should resume its pre-crisis path. Mr. Emefiele’s tenure might see a repeat of the 2004-2007 situations, in which growing reserves will exert pressures on the Naira to appreciate, with concomitant steady declines in the rate of inflation and interest rates. Emefiele will have to be careful not to repeat the Soludo-era errors of misinterpreting global cyclical surges in commodity prices and liquidity as indication of the success of domestic policy reforms and should not allow banks to get too exposed to commodity price and stock price ‘bubbles’. Lamido had banned margin loans in his tenure but stock market operators have been quick to call on Emefiele to lift the ban. While economic realities rarely warrant bans on risky but legitimate activities, Emefiele should seek to find the optimal size of margin lending and ways of insuring the lenders against the likelihood of an eventual cyclical contraction in the market.

6. Focusing Monetary Policy on the Big Picture
The biggest challenge will be how to keep the good components of Lamido’s approach to monetary policy while overcoming weaknesses that became glaring in the last three years. The proceedings of the Monetary Policy Committee (MPC) became more transparent in the Lamido era (communiqués, accompanied with individual statements, and so on). That transparency is worth keeping. The problem with the Lamido era was that beyond the transparency, the striking features of monetary policy deliberations were their lack of depth, breadth, or intellectual rigour. Real activity crept out of
the MPC deliberations, which became two narrowly focused on money flows between the CBN, banks and Government. The economy should first be about consumer spending, especially in the 170-million-strong, world’s seventh most populous economy, before it is about business spending, and ten government, banks, and finally the CBN. For so many years, monetary policy deliberations have had nothing to say about supply side issues of employment, unemployment rate, wages and incomes, or the practical implications of labour market conditions for monetary policy decisions. The deliberations have also had nothing to say about the demand side issues of growth of consumer spending or investment spending, or the practical implications of households and corporate sector balance sheets for monetary policy decisions.

7. **Filling the Yawning Economic Data Gaps**

It seems the latest detailed spending and employment data available as Emefiele assumes office are for 2011. Meaning that availability of data required to gauge the supply side or demand side vulnerabilities that monetary policy decisions must be sensitive to cannot be taken for granted. CBN has partnered with the National Bureau for Statistics (NBS) to ensure reasonably up-to-date collection of data on consumer price index and real production data. But these do not provide enough information for growth and employment supporting monetary policy decisions. Demand-side weaknesses revealed from household or business spending data can help to gain a clearer picture of the likely future path of output, inflation, or even employment than quarterly GDP figures can do. Just as supply-side weaknesses revealed from employment and productivity data are vital for validating thinking about the underlying strength and sustainability of economic growth. It is hoped that the CBN will broaden its partnership with the NBS to ensure that these yawning data gaps are filled so that MPC can be adequately informed of these key aspects of the economy before vital policy decisions are taken.

8. **Economic Policy Management by Non-Economists as a Risk Factor**

Finally, we must not shy away from the fact that Mr. Emefiele, a dedicated banker, both by training and nearly three decades of assiduous professional practice, is being made to lead a CBN Board on which there is currently no economist, and an MPC on which only a couple of the part-time members are economists. While one cannot question the collective wisdom of President Goodluck Jonathan and the 109-member Nigerian House of Senate in nominating and confirming the amiable gentleman for the role, one must point out that the technical expertise required for the Board of the CBN and the MPC to confront contemporary global economic and financial complexities and translate them to growth, employment, price, exchange rate and financial stability outcomes for Nigeria cannot be currently assumed to exist within the CBN. Both the Board of the CBN and the MPC are now populated by lawyers, accountants, bankers and/or stockbrokers. None of the current members of the Board of the CBN or the full-time members of the MPC has any track record of writing to publicly articulate any aspect of monetary policy. Indeed, none has the technical capacity to do so now. As Mr. Emefiele’s vision statement of 5 June 2014 seem to have shown, the new Governor is most likely going to waste the next couple of years trying to convince us/himself that he can learn economics on the job, that he understands what the issues are, and hopefully that he knows what actions to take. Unlike Mr. Joseph Sanusi, he has no full-time qualified economists on either the CBN board or on the MPC. These must be borne in mind as a major risk factor Nigeria might have to mitigate as Emefiele serves out his first five-year tenure.
Ayodele Olalekan TERIBA - Profile

Ayo is the CEO of Economic Associates (EA) where he provides strategic direction for ongoing research and consulting on the outlook of the Nigerian economy, focusing on: global, national, regional, state, and sector issues. He was a Member of the National Economic Intelligence Committee (NEIC) from April 2009 to April 2012, where he conducted periodic reality checks on macroeconomic, fiscal and monetary developments in Nigeria.

Ayo is well known for articulating his views on Nigeria’s economic policy imperatives through articles, interviews and comments in the mass media. Most notably, from 1996 to 1998, he spearheaded the advocacy for re-denomination of Naira notes and coins that led to the successful introduction of N100, N200, N500 and N1000 between December 1999 and October 2005. N50 note was the highest denomination prior to the policy advocacy. His current advocacy research is on what could be done to ensure democratic effectiveness in achieving desired economic outcomes in Nigeria.

Before becoming the CEO of EA in 2004, Ayo worked as Chief Economist and Member of Editorial Board at ThisDay Newspaper Group (2001-2004), Faculty Member at the Lagos Business School (1995-2001), Head of Research at the Lagos Chamber of Commerce (1993-1995), and Company Economist at UAC of Nigeria (1992-1993). He has served as Consultant to a long list of blue chip companies, Federal Ministry of Information, Senate Committee on Banking and Finance, several State Governments, DfID, USAID, World Bank, and was a Visiting Scholar to the IMF Research Department in Washington DC.

He has received grants from Ford Foundation and Rockefeller Foundation, and chaired the steering committee of the Money, Macroeconomic and Finance Research Group of the Money Market Association of Nigeria. His prolific research output has included a 400-page annual economic, fiscal and sectoral report on the 36 states & the FCT, plus numerous scholarly publications resulting from his doctoral thesis, research grants, policy advocacy, and consultancy projects.

Ayo earned B.Sc. in Economics from the University of Ibadan with Sir James Robertson Prize and Medal, UAC Prize in Economics, and Economics Departmental Prize as the all-round best economics graduate in 1988, M. Sc. Economics from Ibadan in 1990, M. Phil. Economics of Developing Countries as a Cambridge-DfID Scholar at the University of Cambridge in 1992, and Ph.D. in Applied Econometrics and Monetary Economics from University of Durham in 2003.