INTERNATIONAL MONETARY FUND, CENTRAL BANK OF NIGERIA AND THE NAIRA OVER VALUATION DEBATE: A CRITICAL ANALYSIS

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Abstract

This paper critically analyzes the International Monetary Fund (IMF) article IV Consultation on Nigeria's economy. The executive board of the International Monetary Fund (IMF) met on February 11, 2011 to conclude the funds 2010 Article IV Consultation on Nigeria. The report which was incisive and generally positive, highlighted a few policy areas that in the view of the fund needed to be addressed by the Nigerian authorities. Specifically, the IMF, has recommend for the Naira to be devalued and for interest rates to be allowed to increase in order to fight inflationary pressures. The IMF also expressed concern over the rapid depletion of the external or foreign exchange reserves and the excess crude account (now sovereign wealth fund). The Central Bank of Nigeria (CBN) was reported to have faulted the observation and recommendation in the IMF report on Nigeria that the naira was overvalued and hence should be devalued. According to the CBN, the observed decline in foreign exchange reserve over the year 2010 was due partly to the high imports of capital goods to support and build infrastructure relating to power plants, rehabilitation of oil wells and the dedicated national independent power projects (NIPP). Besides, capital outflow, as a result of the global financial crisis, contributed significantly to the draw down in the reserves. The paper also critically analyses the IMF recommendations and CBN defence and comes to the conclusion that just as IMF policies are not sensitive to the social context, the institution also fails to take cognizance of the structure of economies, the foreign trade characteristics, and other peculiarities before recommending devaluation of national currencies. Otherwise, it would have been clear to the fund that the efficacy of devaluation in achieving external adjustment in Nigeria is rather limited. The conditions for devaluation to be effective are hardly satisfied. One of these conditions is that assuming infinite supply elasticities, foreign demand for Nigeria's exports has to be elastic while Nigeria's demand for imports also has to be elastic. The paper concludes that the Nigerian government should raise the interest rates to reduce the prevalent inflationary pressure resulting from the massive injection of liquidity into the system particularly general election related experiences. Finally, the government should replenish the foreign exchange reserves and excess crude account (sovereign wealth fund) to support the naira exchange rate by diversifying the economy to agriculture, solid mineral, gas development, manufacturing and having the political will to tackle the general insecurity and poor infrastructure.

The executive board of the International Monetary Fund in its recent Article IV Consultation report on the Nigerian economy made some noteworthy observations which deserve critical analysis to provide alternative perspectives for the managers of the economy before they take what one might consider ill-informed decisions based on such recommendations. The Article IV Consultation report is a routine report which the IMF makes following its routine annual Consultations with member countries. This, to all intents and purposes, is a state of the health report on the economy during which the IMF draws attention to issues which it thinks should engage the attention of policy formulators. And usually because of what the body represents, policy makers hanker for a pass mark report from this body as stakeholders who have one thing or another to do with the economy would normally take the content of this report seriously. Usually this report draws a passing attention from most analysts and commentators in the economy but for the fact that the IMF in its recent report has advanced reasons based on which it has made some far-reaching and startling recommendations which if we do

not begin to raise issues might end up being implemented as the authorities crave to be in the good books of such multilateral financial bodies. Specifically, the IMF noted that the naira was overvalued and recommended for the naira to be devalued, frowned at the pro-cyclical fiscal operations of government and the accommodative monetary policy stance which was said to have resulted in high inflation and drawdown in external reserves and the excess crude account and thus stressed the urgent need to address these problems. The board also considered the objectives of monetary policy to be potentially conflicting and therefore, advised that the policy framework should focus more clearly on price stability. In addition, the executive board decried a situation where CBN preferred to sell reserves rather than raise interest rates or depreciates the exchange rate.

On the issue of whether or not the naira is overvalued, the first pertinent question here is when is currency overvalued? A currency is said to be over-valued if the purchasing power of the currency in terms of foreign goods (and service) is greater than in terms of local goods. This means that a unit of the domestic currency can buy a greater quantity of imported commodity than domestically produced commodities. In terms of rate of exchange, the overvalued currency changes at low rate for foreign currency. (Obadan, 2011)

The substantial depletion of external foreign exchange reserves which occurred in the wake of the global financial crisis from 2009 has to some extent been arrested, thanks to the current upward surge in the oil prices in the world market as a result of North Africa and Arab crises.

The observed decline in foreign exchange reserve over the year 2010 according to the CBN, was due partly to the high import of capital goods to support and build infrastructures relating to power plants, rehabilitation of oil wells and the dedicated National Independent Power Project (NIPP). Besides, capital outflow, as a result of the global financial crisis, contributed significantly to the drawdown in the reserves.

The funding of the wholesale dutch auction system foreign exchange market (WDAs) has been on the increase as a result of persistent increase in import demand due to low production domestically. As an import dependent economy, the management of the exchange rate is critical to the attainment of price stability. The stability of the exchange rate therefore, is the imperative to stop speculators. The increase funding has led to the relative stability in the naira exchange rate that has been experienced so far. Efforts should be made to address the structural rigidities in the Nigerian economy to increase production locally and reduce import of goods and services.

On the need to increase interest to fight inflationary pressure arising from massive injection of liquidity into the system especially from politicians and the government funding of the Independent Electoral Commission (INEC), inflation in Nigeria is not a monetary phenomenon but as a result of structural rigidities. We also do not think that it makes sense, if the IMF is concerned about inflation, to ask a country that is import-dependent to devalue its currency. So the advice given by the IMF, frankly, is not based on sound economic logic. The link between monetary policy and inflation is at best tenuous, it is theoretical. The reality is that the bulk of inflation is being pushed by structural forces.

It is the objective of this paper to critically appraise the IMF report and recommendations and the CBN defence. To achieve this, the paper is organized as follows: section two explores the theoretical and conceptual framework. Section three examines the Central Bank of Nigeria response to the IMF report. Section four discusses the criticism of the IMF report. Section five analyses IMF past policy recommendations and third world nation. Section six focuses on strategies for survival while the final section is devoted to conclusion.

2.0 Literature Review

2.1 International Monetary Fund (IMF)

The International Monetary Fund (IMF), also called the fund, is an international monetary institution established by forty-four nations under the Bretton Woods Agreement of July 1944. The

principal aim was to avoid the economic mistakes of the 1920s and 1930s. The attempts of many countries to return to the old gold system after the First World War failed miserably. The world depression of the thirties forced every country to abandon the gold standard. This led to the adoption of purely nationalistic policies whereby almost every country imposed trade restrictions, exchange controls and resorted to exchange depreciation in order to encourage its exports. This further brought decline in world trade and extension of depression. It was against this background that forty-four (44) nations assembled at the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire (USA) from July 1 to July 22, 1944. Thus the IMF was established to promote economic and financial co-operation among its members in order to facilitate the expansion and balanced growth of world trade (Jhingan, 2003).

The IMF has been severely criticized in recent years for mishandling financial crisis in East Asia, Latin America and the current global financial crisis, aggravating poverty in developing countries, encouraging bad policies by governments and favouring the developed countries.

2.2 Devaluation

Devaluation is referred to as an expenditure switching policy because it switches expenditure from imported to domestic goods and services. Devaluation means a reduction in the external value of a currency in terms of other currencies. But there is no change in the internal purchasing power of the country. Thus when a country with balance of payment deficit devalues its currency, the domestic price of its imports increases and foreign price of its exports falls. This makes its exports cheaper and imports dearer. Now the foreigners can buy more goods by paying less money than before devaluation. This encourages exports. This causes expenditures to be switched from foreign to domestic goods as the country's exports increase and the country produces more to meet the domestic and foreign demand for goods. On the other hand, with imports becoming dearer than before, they decline. Thus with the rise in exports and fall in imports, BOP deficits are corrected. Devaluation also arrests depletion in external reserves and also increases capital inflow.

Assumptions: This analysis is based on the following assumptions:

a. The elasticity of demand for exports and imports is elastic
b. The supply of exports is sufficient to meet the increased demand for exports after devaluation
c. The internal price level remains constant after devaluation
d. The other country does not devalue its currency simultaneously
e. The other country does not adopt such counter-devaluation measures as levying tariff duties on the exports of the devaluating country (Jhingan, 2003).

2.3 The Establishment and Growth of the Central Bank of Nigeria

A Central Bank stands at the apex of the banking system of every country. It is the government representative in the banking sector and acts mainly as banker to the government. It has a very close association with both the government and the banking sector of the economy, advising the government on monetary policy and implementing the policy on behalf of the government.

The banking failure of the early 1950s led to the power of control of banking being vested in the financial secretary. This triggered off two opposing camps. The Nationalists who were of the view that a Central Bank was needed to perform this and other traditional central banking functions, and the colonialists who believed that it was premature to introduce a Central Bank in a country where there was no financial system. To resolve the opposing views, a total of three studies were commissioned:

i. J.C. Fisher's Report, 1953
ii. I.B.R.D. Mission Report, 1955
iii. J.B. Loyne's Report, 1957.

One of the most important institutional changes in the evolution of monetary and financial system in Nigeria was the establishment of the Central Bank on the 17th of March 1958 but it did not start operation until July 1st 1959.

The Functions of the Central Bank of Nigeria

The 1958 banking ordinance spelt out in specific terms in section four the main functions of the Central Bank of Nigeria as follows:

a. To issue legal tender currency in Nigeria,
b. To maintain external reserves in order to safeguard the international value of the currency
c. To promote monetary stability and sound financial structure in Nigeria
d. To act as a banker and financial adviser to the federal government
e. To control and supervise all banking operations in Nigeria

3.0 The CBN Response to the Report of the 2010 IMF Article IV Consultation on Nigeria

The Central Bank of Nigeria (CBN) has considered the report and conclusion of executive board of the IMF on the 2010 Article IV Consultation mission to Nigeria. The bank observes that the IMF Article IV Consultations report covered a very critical period in the global economy recovery from a great depression arising from a global financial crisis CBN responded under the following areas.

3.1 The Focus of Monetary Policy

The CBN has a key mandate of ensuring price stability. However, the Bank as a regulator of the banking industry and the Act establishing it also has the mandate of maintaining financial stability and the external value of the Naira.

During the global financial and economic crisis most central banks subordinated the price stability objective to achieving financial stability and initiating growth which had been arrested, but it still kept a critical eye on price developments as evidenced in all communiqués of monetary policy committee during the period. The focus on price stability according to the CBN is not necessarily inconsistent with financial stability and economic growth objectives. Thus the CBN was not oblivious to the possibility at certain times of the existence of tension and conflicts that need to be reconciled, but policy decisions will in such cases have to be made on the balance of risk factors. In the period covered by the consultation, the risk of financial crisis produced by the banking system far outweighs the risks of inflation to the economy. For this, the CBN had to maintain an accommodating policy up to the point at which it was deemed appropriate to unwind extraordinary measures, and this process commenced in September 2010.

The issue therefore is not one of if the CBN should tighten money in the face of inflation risk, but whether this should be done at the risk of escalating a banking crisis. Despite this fantastic defence, the CBN on Tuesday, March 22, 2011 following the meeting of Monetary Policy Committee (MPC), the monetary policy rate (MPR) was increased by 100 basis points from 6.5 to 7.5 percent; and from 7.5 percent to 8 percent in May 2011, 8.7 percent to 9.25 percent in August 2011 and 9.25 percent to 12 percent in November, 2011 an unprecedented level of increase. It is difficult to recall the last time the extent of increase was witnessed in the MPR in one fell swoop. This sort of increase can of course only be witnessed in the developing country environment such as Nigeria as it would be tumultuous and definitely destabilizing if that level of increase were to be contemplated in a developed economy with cost of capital at the lower single digit level!

The MPC has explained that it took the decision to increase the rate because of the prevalent inflationary pressures resulting from massive injection of liquidity into the system particularly from general election related expenditures. It also cited the recently passed 2010 budgetary estimates which are very expansionary and the feared upfront loading of expenditure as a result of the election in view and rising cost due to the increasing costs of imported items and products.

The average cost of credit had remained for a long time now as we observed above in the region of 18 to 22 percent except for the really blue chip companies. On the other hand, interest rate on deposit is between 1 and 2 percent in Nigeria, what a paradox. In the circumstances, a more appropriate policy response would have been to intensify the open market operations of the central

bank to mop up the excess liquidity in the system instead of adhering to the IMF call for interest to be increased.

The CBN should do everything possible to see that they reduce the inflation to a single digit. If they do that, they will make our bond to be more attractive to both local and foreign investors in particular. If inflation can be addressed to single digit, we believe that will make our bond market attractive and the activities in the fixed income securities will be higher because it is adding value to those that hold the bond. Nigeria's inflation is largely structural in nature. A weak non-oil export base imposed on a culture of import dependency has created strong prize inelasticity constraints due to structural rigidities. Structural inflation undermines the potency of monetary policy to achieve price stability. However, despite the fundamental structural rigidities in the Nigerian economy, the CBN generally aims at a single digit inflation and remains committed to the price stability objective.

3.2 Management of Exchange Rate and Reserves

As an import dependent economy, the management of the exchange rate is critical to the attainment of price stability. The stability of exchange rate therefore, is the imperative to stop speculators. The CBN is truly committed to exchange rate stability as it is critical for price stability and economic growth. However, the maintenance of price stability will be approached from demand and supply management angle as the CBN does not support devaluation or conscious lowering of the value of the naira.

The observed decline in foreign exchange reserves over the year 2010 was due partly to the high imports of capital goods to support and build infrastructure relating to power plants, rehabilitation of oil wells and dedicated National Independent Power Project (NIPP). Besides, capital outflow, as a result of the global financial crisis, contributed significantly to the drawdown in the reserves. It should be stated that the funding of the foreign exchange market through wholesale dutch auction system (WDAs) has been on the increase. The foreign reserve has been falling until the recent increase in that price of crude oil as a result of Middle East and northern Africa crisis.

4.0 Criticisms of the IMF Report

The debate whether the naira was overvalued or not started in the early 1980s during the period of economic recession and crisis, negative economic growth, drastic falls in export earnings, serious balance of payment deficits and highly depleted foreign exchange reserves. By 1985, the stock of foreign exchange reserves was sufficient to buy only 2.5 months of import, (Obadan, (2011). The feeling then was that the naira was overvalued. The official policy embarked on a strategy of gradual depreciation of the naira which turned out to be inadequate.

One of the conditionalities that Nigeria was asked to fulfil before the IMF could grant the loan was that the naira should be devalued by 25 – 30 percent initially, followed by quarterly review until the element of overvaluation was eliminated. Their argument was that devaluation would increase the naira content of oil export earnings, encourage domestic production for exports, especially agricultural products, discourage importation, and remove the hidden subsidies on imports which benefit largely the importer.

Rather unfortunately, the empirical evidence does not support the achievement of these objectives except, perhaps, the first one of more naira revenue from oil sales abroad. It should be realized that first and foremost, exchange rate adjustment in the form of devaluation/depreciation or revaluation/appreciation, is essentially an instrument for managing the external sector. The aim of devaluation, for example, is to remedy a balance of payments deficit and arrest any depletion of external reserves. Persistent balance of payments deficit in a country signifies very expensive exports in relation to imports.

Consequently, the objectives of lower exports prices may be achieved by devaluing the national currency. This is expected to make the exports of the country cheaper in terms of foreign

currency and imports dearer in terms of domestic currency. In this way, devaluation encourages exports and discourages imports and hence improves the balance of payments position. Devaluation is also expected to encourage capital inflow and discourage outflow. But why the arguments for devaluation, in terms of its positive effects on the balance of payments, are theoretically sound, they are beset with empirical difficulties in the context of many developing countries, Nigeria included. As the conditions for the beneficial effects of devaluation to be realized are often not met. Its positive impacts tend to be very limited while the negative impacts are magnified.

In Nigeria's case, right from the structural adjustment programme period, the exchange rate policy instrument has tended to be used by successive government more as an instrument for balancing the budget than managing the external sector. Devaluation/depreciation of the naira has become a very seductive measure for boosting government revenue through the monetization of oil export earnings. The more the naira is devalued in terms of dollar, that is, more and more naira exchange of each dollar of oil earned, the more naira revenue that goes into the federation account, the more naira revenue that goes to the federation account for sharing to the different tiers of government.

In the past, top government officials tended to deny the primacy of revenue consideration in the incessant depreciation of the naira in the context of a managed float exchange rate regime. They grudgingly accepted that generating revenue to fund the budget happened to be one of the fallouts of the devaluation/depreciation. Also, one of the benefits was having greater accruals to the budget; the federation account. Funding the budget with exchange rate depreciation revenue is an aberration and it detracts from the effective use of the exchange rate instrument for macro-economic adjustments. It also makes the government highly nonchalant about effective revenue mobilization from non-oil tax sources. Very importantly, the resulting increase in domestic liquidity arising from the monetization of oil receipts has posed a serious problem for macro-economic management. It is the source of wasteful and unproductive public spending that is mired in corruption. (Obadan, 2011)

The issue of expansionary fiscal and monetary policies is one that cannot be separated from the oil based fiscal management stance. The solution to this is high quality public spending which will not require the huge amount of money currently being spent through the annual budget. Persistent and strong inflationary pressures may be an indication of overvaluation. But devaluation itself compounds inflations. Devaluation results in an increase in import prices in the devaluing country and this tends to lead to an increase in the general price level. The increase in the price level has secondary effects. For example, as the price of imported input increases, cost of production goes up and hence other product prices may also rise. As the price level increases labour unions may press for high wages, thereby spreading inflation to other sectors of the economy.

Theoretically, devaluation aimed at improving the balance of trade must meet two conditions to be effective: (a) Exports in each country must be priced and denominated in the originating country's currency and (b) the sum of the price elasticities of demand of the depreciating country's exports and imports must exceed unity. Neither of these conditions is met in Nigeria. Exports are denominated in USA dollars and the country is a price taker since its exports are commodities. This makes exports price inelastic. Furthermore, imports are price inelastic due to structural constraints. What the country therefore needs is to reduce dependence on imports by deeping reforms of petroleum, power, agricultural sector and adopting appropriate industrial, trade and tariff policies. Exchange rate cannot compensate for the lack of reforms in these areas.

The balance of payments on goods and service will improve only if this condition is satisfied. It is not in Nigeria's case. Empirical evidence from various studies shows that Nigeria's imports and exports have low price elasticities demand. Secondly, Nigeria's export structure is dominated by crude oil and agricultural commodities that are hardly responsive to price changes occasioned by devaluation. Nigeria is not an industrialized country and has no meaningful manufactured exports. This contrasts with the developed and newly industrializing developing countries whose sizable manufactured exports can be very responsive to devaluation.

Also, in Nigeria where the capital goods industry is comatose, import of capital goods and raw materials constitutes a very high proportion of total imports. The demand for them is price ineslastic. Thirdly, Nigeria is still a member of the Organisation of Petroleum Exporting Countries (OPEC) and she complies with OPEC quota restriction. This means that even if the price of crude oil becomes attractive to foreigners and they demand more oil, Nigeria cannot supply without infringing OPEC regulations. The impact of devaluation then may actually be to reduce foreign exchange earnings. And considering Nigeria's foreign trade experience vis-à-vis the massive depreciation of the naira from 1986 till date, it is clear that devaluation has not had meaningful impact. (Obadan, 2011).

5.0 IMF Past Policy Recommendations and Third World Nations: Case Studies

According to the false paradigm model theory in development economics, underdevelopment in third world countries is due to faulty and inappropriate advice provided by well-meaning but often uninformed or ill-informed international "expert advisers" from agencies of advanced countries and international donor organisation. These so-called experts present sophisticated model, elegant theoretical structures and complex econometric models which often lead to inappropriate or wrong policies which often serve vested interest of the existing power groups, both domestic and international.

The present poor state of the naira exchange rate started in the early 1980s during the period of economic recession and crisis, negative economic growth, drastic falls in export earnings, serious balance of payment's deficits and highly depleted foreign exchange reserves through corruption and massive importations. The inability of austerity measures put in place by the Buhari's administration to solve the problems led to Babangida coup of 1985 and subsequent debate on the desirability or otherwise of the country taking an IMF loan facility. One of the conditionalities that Nigeria was asked to fulfill before the IMF could grant the loan was that the naira should be devalued. Their argument was that devaluation would increase the naira content of oil export earnings, encourage domestic production for exports, especially agricultural products, discourage importation, and remove the hidden subsidies on imports which benefit largely the importers. Rather unfortunately, the empirical evidence does not support the achievement of these objectives. The depreciation of the naira in the past did not show any lasting positive impact on the economy and external sector viability was not promoted through the sharp drop in the value of the naira. Through the policy support instrument (PSI) implemented by the IMF/World Bank as supernumerary conditionality for Nigeria's external debt exit in 2006, the fiscal and monetary authorities committed undiscerningly to employ both the wholesale Dutch auction system (WADS) for determining the naira exchange rate and bureau De Change (BDCs) for disbursing unrestricted volumes of official foreign exchange. The CBN operates pseudo-foreign exchange market that encourages spurious demand. The excess demand over supply of foreign exchange and dutch auction give rise to winning bids which successively over-depreciate the naira, but they are termed extreme and rejected with consequential incremental naira overvaluation. It was the IMF/World Bank promotion of Bureau De Change as agents for disbursing foreign exchange already in the banking system that facilitated wholesale smuggling as well as accelerated depletion and dissipation of available foreign exchange on activities that destroy domestic production, the very factors cited by IMF for proposing devaluation of the naira.

In 1977, Egypt went to the IMF for assistance, part of the conditionalities included stopping food subsidies, and reduction of fuel and clothing subsidies. The result was two days of rioting, which led to the death of 80 Egyptians in the hands of police and the army bullets, and the arrest of 2,000 citizens. For Peru, from 1975 – 77, private international banks, and world bank, etc pushed her leaders into bringing multi-billion dollar debt on the country. When IMF aid was sought, the conditionalities shot up food prices within one year to about 40 percent. Public subsidies were cancelled, wages were frozen and restrictions were left on multinational companies.

The IMF blunder during the East Asian financial crisis of 1997/1998, compounded the crisis of economies in that region. According to the Nobel laureates, Joseph Stiglitz in his book, *Globalisation and its Discontents*, the IMF policies imposed during the East Asian crisis worsened the

situation. The IMF policies not only exacerbated the downturns but were partially responsible for the outset. Excessively rapid financial and capital market liberalization was probably the single most important cause of the crisis. Most IMF policies fail to be sensitive to the broader social context.

The IMF has been severely criticized in recent years for mishandling financial crises in Latin American countries, aggravating poverty in developing countries, encouraging bad policies by governments and financial investors and favouring the developed countries. (Jhingan, 2003). The most recent global financial and economic crisis is a strong indictment of the Bretton Wood institution's policies that are predicated on market fundamentalism. The list of victim nations is endless, including Columbia, Sudan, Turkey, Greece, Zaire, Mexico, Chile etc.

From the foregoing, it is indisputable that the character of relationship between the IMF and the third world is that of the hunter and hunted, of the loin and the antelope, with the IMF being the hunter with typical capitalist and imperialistic instruments of scientific nature aiming, shooting, killing and butchering and distributing to the interested parties. As a result, third world nations that do not want to be hunted down, must adopt strategies of movement, dodging, and survival.

6.0 Conclusion

This paper has critically analysed the International Monetary Fund, Central Bank of Nigeria and the naira overvaluation debate. The paper also examined the outcome of previous devaluation of the naira and found out that the depreciation of the naira in the past did not show a lasting positive impact on the economy and external sector viability was not promoted through the sharp drop in the value of the naira. The naira had also experienced speculative attacks and rapid depreciation and the government has not been able to achieve a realistic exchange rate. Thus, other than boosting government naira revenue from oil and non-oil export, a further devaluation of the naira as recommended by the IMF will not be of much value as it may not confer significant benefits in terms of improving the balance of payments positions by reducing imports, increasing export earnings, encouraging capital inflow and discouraging outflow as suggested by economic theory. The incessant deprecation of the naira over the past years cannot be said to have yielded significant real benefits. The Central Bank of Nigeria is thus right to rebuff the IMF's call for a devaluation of the naira.

On interest rate increase, did the IMF, for instance, factor in the fact that lending rates in Nigeria are of the order of 20 percent before making this recommendation? Or the fact that interest rates paid on deposits and savings accounts are so negligible as to make it very unattractive for economic agents to embrace such investment options and the implications for financial intermediation and the mobilization of long term funds which is critical for enhancing investment in the real sector and hence engendering economic growth and development. We also do not think that it makes sense, if the IMF is concerned about inflation, to ask Nigeria to increase interest rate to the detriment of the real sector growth. On the replenishment of the external reserves, the Nigerian economy need diversification to increase foreign exchange earnings.

All said and done, the IMF needs not be seen solely as a frightful bogy just out there to destroy a nation at a glance. If a country's leadership does not ruin her economy, if the rulers are honest and patriotic, if they have foresight and good plans properly directed, there will be no need ceteris paribus to go to the IMF begging for loans or policy recommendations that are harmful. Therefore, the major source of economic problems for third world nations is not IMF, it is their political leaders, and that is where the calculations of strategies for third world survival must start in any honest analysis.

The IMF should talk more on trade issues and other structural reforms that have not been ongoing rather than trying to compel or push Nigeria into an unnecessary round of devaluation.

7.0 Recommendations

To be able to see strategies for survival and development, one must think first of the key sources of the problems confronting the economy of Nigeria. These include poor leadership, poor

infrastructures, general insecurity, political instability, widespread mismanagement of both human and material resources, excessive elite appetite for metropolitan living styles and condition, smuggling and currency trafficking with the protection of some quisling government officials, ineffective and inefficient central banking system coupled with collusion of nationals with foreigners to siphon away national foreign resources, unrestrained heights of corruption.

The first strategy for the survival and development is finding and putting good leaders in government. The greatest problem facing Nigeria is irresponsible leadership. We have many rulers suffering from morbid craze for extravagant and squandermanic, plannlessness and direction. It is such leaders that mismanage national resources, hoping to rush to the IMF later. Thus, the need is very urgent for a strategic leadership that is creating vision, mission and value; evolving strategies for attainment of vision and caving a niche; trail blazing; and influencing a change. People leadership is identifying qualities in people; motivating people, achieving result through people, people's developers, showing the way, good team player and role model.

The world's leading economies have floated their currencies since 1974 with phenomenal GDP growth records to show. By simply floating the naira in like manner, by injecting and converting export earnings through the banks, actual fiscal deficits could fall within the tolerable limits set in the yearly appropriation act and the fiscal responsibility act with the naira attaining a realistic and stable exchange rate that would put the CBN in a position to maintain monetary and price stability. The right thing will begin to happen effortlessly to the economy including, one, an enabling investment environment (characterized by near zero inflation and mid-single digit real lending rates) to anchor a private sector-driven economy that boasts of full employment. That ambience enables the private sector, relying solely on ample and cheap bank credit, to outdo the public sector in undertaking infrastructural projects that engender enhanced productivity and international competitiveness.

According to Petroleum Pricing Regulating Agency (PPRA), Nigeria spent N207 billion on petroleum products importation between January and April 2011. The Nigerian government sees the vehicle of deregulation as the only viable instrument for attaining reasonable economic price for the product and thereby, making it available throughout the country. In this regard, the four moribund refineries should be repaired and sold to the private sector for efficient management. The multinational oil companies should be mandated to build refineries as a condition for operating in Nigeria. The petroleum industry bill should be passed immediately to bring transparency and accountability to the industry.

The national domestic debt, over 90 percent of which comprises mopped-up inflationary hot money that cannot be invested but which at present totals over N4 trillion and requires over N500 billion to service annually, will practically stop growing because only genuine bonds authorized by the National Assembly may subsequently be issued to non-inflation causing funds for public sector investment.

Wasteful use of foreign exchange would be checked as public sector and autonomous supplies of foreign exchange to be transacted through deposit money banks would be sold for eligible imports that are consistent with duly specified national economic objective. Qualified national imports would automatically attract appropriate tariffs thereby simultaneously shielding local industries and boosting non-oil revenue. Inflows of pooled public sector and autonomous foreign exchange exceeding demand for eligible transactions would be sold by deposit money banks to the CBN to grow external reserves.

The recommendation to allow the rate of foreign exchange to depreciate in response to mounting pressure of demand is problematic. The only available window would be to increase autonomous sources for the supply of foreign exchange to the market reducing in the process the dominant suppliers status currently enjoyed by the Central Bank of Nigeria.

On interest rate increase, which the CBN adopted by increasing interest rates from 6.5% - 7.5% on 22/3/11, 7.5% to 8.0% on 24/5/11, 8.0 percent to 8.75 percent on 10/8/2011 and from 9.25 percent to 12 percent on 28/10/2011(Boniface, 2011) to reduce excess liquidity that put pressure on

the naira and inflation, such increase has reduced the expansion of credit to the private sector. A more appropriate response would have been to intensify the open market operations of the Central Bank to mop up the excess liquidity in the system instead of adhering to the IMF call for interest to be increased such increase will not attract capital inflow but will increase the cost of borrowing fund by the private sector..

Rather than devaluing the naira, the federal government should have a zero tolerance for corruption, mismanagement, improved on the social and economic infrastructures, security, create conducive atmosphere for inflow of private direct foreign investment, diversify the economy to agriculture, manufacturing, solid minerals, gas development, etc.

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