

**.THE REMARKS OF THE CBN GOVERNOR,  
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**A PARLEY WITH MEDIA EXECUTIVES**

**on...**

**FRIDAY, OCTOBER 31, 2008**

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**THE CIVIC CENTER, VICTORIA-ISLAND, LAGOS,  
SOUTH-WEST NIGERIA.**

Let me welcome all of you to this interactive session. I start by thanking all of you who have been able to make it especially making it on time for us to start as quickly as possible and not have to delay. I thank you very much. Today is Friday and I don't think it is in the interest of anybody to stay here and extend the time.

The global economy has for the last couple of months been having or experiencing financial crisis. It has now become economic crisis with the possibility of having a global recession and there have been all manner of speculations and debates going on as to whether it affects us, how it can affect us and whether we could respond if indeed there are ways in which it affects us. I want to say right away and that was one of the messages I gave yesterday at my inaugural lecture at the

University of Nigeria, that the global economy more than any other time in our history has become much more integrated and giving the globalization of financial and economic activities, it is really difficult for you to have a major global shock and not have any effect. It is difficult for any country not to be affected in the light of the interconnectedness of global economies. The question is not whether they would be affected? The question is to what extent and how would they react to it?

Already, there are different channels through which this would affect us. The first channel is through Trade. If there is a slowing down of aggregate demand globally, obviously we have seen major prices coming down and as major prices are coming down, some of it will not be so beneficial to us, but some of these will be beneficial. If prices are coming down, obviously the cost of import, demand for raw materials, and inputs into our production process will also be coming down significantly. For example, freight charges have come down, that is a positive one. The negative one is the price of oil collapsing relative to the peak that it reached in the last few months, but if you scaled it to where it was sometimes in the past, it is about 60, 62 but relative to an all time high of 140 something it has crashed

significantly. And that will have its own effect via the fiscal side and therefore, the level of aggregate demand of the economy.

The second channel is Finance. Capital flows, resource flows; we are in an interconnected world and we have already seen the effect of that when as a result of the credit crunch in several of the industrial countries, the institutional investors who have invested, I think the estimate of the account is about 12% of investment in the capital market, decided to divest out of our capital market, part of their investment, the move of their investment from equity side into the bond market and some actually cash out their investment to be able to service their loans in their own countries.

Once this happened, the market prices really came down and once market prices came down, our own investors a lot of who themselves have gone into the market to speculate, panicked. Actually, two kinds of panics took place. The first, the investors themselves who have never experienced the market melt down, they are new to the market and many actually borrowed to go into the market, panicked and started selling to get out. The second was that the banks tried to minimize their own risks and their own exposures by curtailing their

lending to the market and also calling back some of the loans that they had given.

I have heard people, I have seen all manners of write-ups in the papers; may be CBN stopped margin trading; there was never any such thing. And this will be part of my plea as part of the whole distraction namely, that please and please, I am not a Journalist, I never trained as one, The only little thing I know about is what I heard from the Late Nnamdi Azikiwe who said he knew as a journalist that in journalism, facts are sold but comments are free but a situation where part of the fact is that now you not only manufactured the facts but you also manufactured the facts and start commenting on your own manufactured facts. I think that is the aspect of it that becomes very dangerous but not only to the practice of journalism but even more so to our national development. Because once people write about what they don't know about or they conjure things and even put out numbers, they say: *"a highly placed official told me."* And I think particularly in a time like this, it is better for us to watch and be careful what we say and what we don't say but I will return to this point later. Even after we issued a statement that says there was never such a thing. We don't dictate to banks on whom they lend to. That time is over, CBN does not prescribe which sector or whatever;

that was the old regime of monetary policy which ended in the 1980s when there used to be sectoral allocation of credit. That is no longer operational. While people were busy looking under their mattresses as to what is causing that, it is like for me what happened in several months. Whether you are in the media or in the wider public discourse, it did show that most analysts did not understand what is going on in the rest of the world and the linkage is to our own national economy.

If it was not margin trading, it was going to be common-year-end. And the major lesson I learnt personally from all this is that most people did not know what was going on and what was happening to the national economy. The truth is that the shock, once it happened globally and having large-scale institutional investors in our own market, they were bound to act and once they acted, there were reactions from Nigerians in the bid to manage their risks.

On the part of the investors, they were trying to minimize their own risk by wanting to sell. On the part of the banks, they were trying to minimize their own risks by literally stopping further lending to people to invest in shares and call-in the existing loans that they had given to people and in a combination where there was less of a supply

of resources for people to continue to buy shares and whereas more people wanted to sell. And therefore there is only one direction the price has to go namely, going downward. And that is the dynamics of it and that explains why. People said it is margin trading; we issued a circular that nobody ever said such a thing and for us we were wondering how people arrived at that and may be stockbrokers woke up and banks were calling back their facilities and the only way they could explain it is whether CBN told them.

CBN does not tell banks who to lend to and who not to lend to. Some people say it was common-year-end. We postponed it and the following day, the market still kept going down. They said the postponement was too near and that was the reason why the market was crashing. We cancelled the common end year and between the days we cancelled it till the day when the Presidential Committee began its meeting, the market lost more than 2 trillion. Just to prove that these things people were looking for here and there has nothing to do with the market.

The global melt down has it own effect via our capital market. Many other countries had it via not only the capital market but also through their banking sector. Iceland for example woke one morning and

discovered they did not have any more banks because several of their banks were actually lending with the money they borrowed from elsewhere and when those other ones were calling in their own money, these banks had to go under. In the United States and several other countries, the banks that were heavily exposed too were making losses and writing-off their capital and their governments were watching these banks make losses and as they were making losses, they were making provisions, *Lehman Brothers* had to write-off 16 billion dollars or thereabout in a few months.

In our own case, this is the channel through which it gets into our own national economy. More recently and what I found fascinating in the entire discussion, if you look literarily was that what countries have done have been mostly in the area of liquidity injection by the Central Banks all over the world and that is what we have done. We did ours in a pre-emptive manner. They did them after the liquidity and credit crunch. The liquidity crunch metamorphosed into wide-scale credit crunch. In our own case, as at the time we were injecting liquidity, the credit to the banking sector, the credit to the private sector on an annualised basis as at the end of August was about 71%. As at end of September, it was about 70%, which means even by the end of

August, our banks did not extend any kobo as credit. They had already exceeded the annual target growth rate of 30%.

I can tell you that the report by the IMF was that the credit was growing too fast. Whereas others were experiencing a credit crunch, we are experiencing a credit boom but we decided to act in a pre-emptive manner. We just didn't want to wait and as a result, we decided to liquefy the system by bringing down our liquidity ratio from 40% to 30%. By reducing the liquidity ratio from 40% to 30% potentially by August, it increased the total deposit in the banking system as at the end of August. Potentially, we let free potentials of about 1.7 trillion because the aggregate liquidity assets of our banks as at the end of August stood at 3.9 trillion whereas 30% was based on the total deposit as at end of August. We should give you about 2.2 trillion and that left a potential in excess liquidity of about 1.7 trillion and we opened our lending windows to be able to give them cash if they should turn in those instruments to us and also open our lending window. *The CBN is the lender of last resort.* We opened our lending window to be able to lend to banks up to 360 days long-term lending.

On the liquidity fund, we acted proactively. On the credit side, we are not experiencing credit crunch. We are experiencing credit boom. The



response by the rest of the world was the recapitalization of their banks because their banks were collapsing. These banks were making huge losses, wiping out their capital and so government needed to come in. If they had gone to the market to raise money, they would not have succeeded. So, government went in massively and you could see especially in Europe and America coming to more than 3.3 trillion dollars. The recapitalization programme we have done three years earlier. Whereas most of these banking systems were operating capital adequacy ratio in the range of about 8%, our own system operates about 22%. In terms of capital adequacy ratio, our own banking system happened to be one of the most robust of all the banking systems in the world today.

I think at the outset, it does seem to me when I pick some newspapers and read that either some people had expected the roof to come down and so, if it is not happening, they say how can Nigeria stand even when other economies are going down? Nigeria is standing, How? Can anything good come out of Nigeria? The banks are declaring profit, paying dividends, giving bonuses. On the other hand, in many other parts of the world, the banks are making losses, wiping out their losses and therefore requiring capitalization.

The point is if we did not do the consolidation programme three years ago, what the rest of the world is doing today is what Nigeria did three years ago. We have finished our own; we did not wait for the banking system to collapse before embarking on our own capitalization programme. What is going on in the rest of the world is that they waited until the banks started going under. There are many people who believe that if the U.S. government had stopped Lehman brothers from collapsing, this thing shook confidence across the globe and I think one of the lessons that have also emerged is that in acting on the financial system, you don't wait until the roof comes down. Once you have seen some early warning signals, you act *and that is the Nigerian model*. We acted in a pre-emptive manner years ago. If we did not do what we did then, our banking system would have been wiped out now.

That brings me to how that potentially affected our banking system. You have seen the capital market melt down and people speculate banking sector stocks dominate the stock exchange to the extent that about 65% of the market capitalization happened to be the banking system shares. The melt down of that in and of itself would have little or no effect on the banks. If the bank is making profit, if the company is making profit, sound and growing invariably, no matter

how it is going, it will surely over time go up because people will find value in their investments.

The key channel that many people talked about is through the bank exposure to the capital market by way of facilities that they have given to people, either given to the stockbrokers or given to individuals to buy shares. There is the speculation that perhaps most of those loans that they have given out, individuals that received those loans may not be able to pay back because they took the loans in first instance to speculate in the market. Now that the market has gone down, they will not be able to service the loans and these loans could eventually go bad. You see the analysis as well?

In some other societies with much more larger financial and economic literacy, first and foremost, their Journalists won't write anything that is not the fact to start with. Before they put down a number or start using figures, you must have a way of confirming figures before you throw them up. First and foremost, that number is outlandish. You are talking about 1.5 trillion and what's your source, stockbrokers estimate, I don't think that is fair. While it may help to sell you newspaper, you may cause an incalculable damage to the system.

This NDIC 2007 annual report is the situation of things as at end of December, somebody goes with a *screaming* headline: **NDIC verdict on meltdown: Only 4 Banks are Safe and Sound.** Whoever was writing this knew in his heart of hearts that he was lying to the public. You should know that you are reporting 2007 annual report. That is the report you are holding in your hand. The NDIC never talked about safety. You ask what have you benefited from that? That is now what the report said. I want to plead and plead with all of us. This is our country except if anyone has got another one. We can't deliberately run ourselves down. This thing you are putting down is being read all over the world. It is on the internet but when you are putting that down, you know it is a lie, it is not the true and that is why only two newspapers reported it.

This is serious and I want to say in a time of potential crisis, we have come from the era where people wake up each day not knowing which bank was out of clearing, which one was alive and which one was dead to a time when people put in their money in a bank and go to sleep. It is at this time that we are beginning to script headlines that could cause crisis intentionally. And I don't want to believe that somebody putting that kind of thing does not know. No, I can't believe that the person does not know. They just decided to make some sensation that

does no good because it doesn't help the society to move forward. It is just causing mischief everywhere.

The truth remains that even today, as at end of September, the total shareholders funds in the Nigerian banking sector stood at 2.7 trillion. When we started consolidation, the 89 banks had 293 billion as total shareholders funds. Today, what we have is about 2.7 trillion. What we are talking about is that even with the entire exposure of the banks, all of them were to go bad and they were to write them off as bad loans, you would still be having shareholders funds of almost about 2 trillion compared to 293 billion. If you still do the capital adequacy ratio, you will still be getting 15, 16 or so percent compared to 8% which is what is required. The banking sector will still be more than two times adequately capitalized relative to international best practice.

A bank is like many other institutions. You can lie about the state of a bank and it will show up one way or the other. We will see it because you cannot hide it since you are dealing with money. The only commodity you deal with is money. If it not there, it is not there; you can't go and manufacture it.

I want to say finally, there are challenges ahead but if you read today's papers, I was looking at the headlines, I think it was *Thisday* talking about the *expanded windows option*; that if you want to borrow from us, it is just to be sure that that is part of the blocks we have put in place to assure Nigerians and assure the banks that we are ready to stand behind our banks and whatever happens, we must ride over this. Nigerians, we need to appreciate and understand the magnitude of what is going on. **The economy today and tomorrow will principally be driven by the banking sector.** This is the truth! The aggregate credit given by the banking sector to the private sector from January from February stood at about 2.2 trillion that is for the first nine months from the end of 2007.

The point I am making is that this sector is the sector that will be driving this economy out of whatever may be the impact of the global financial and economic crisis. If we also pull it down, that is where the ramifications of the crisis will come from because I said from January to September, it is 2.2 trillion, that is more than what the federal government had spent and I bet you in years ahead, the aggregate credit by the banking sector to the private sector will continually be in excess of what the federal government is going to be spending.

Today our banking sector has become the factor; *they are our own multinational corporations today*. Our banks in about 18 to 22 African countries and are also expanding massively in Europe, They now have their presence in **France** and in the **Middle East**. That is our own multinational corporation. So what you write about these banks reverberates around the world. Whether **Gambia** is going to give license to our banks coming in, whether **Tanzania** is going to approve that, whether **Botswana, Namibia** and so on and so forth. You come and script a headline and say only four banks are healthy and you start getting calls from all over the world like... "***This bank is applying to us, is it one of the four?***"

It is important for us to appreciate the weight of every sentence or numbers we throw out carelessly. They are not just as trivial as you may think when you are putting those things down. Why I needed to emphasize the role of the banks going forward in the national economy is to underscore the fact that we all know that there is going to be a challenge on the fiscal side, oil prices are coming down and with oil prices coming down, the benchmark price for next year's budget has also significantly come down from 59% to 45% and if you calculate the percent change, it is at least 20% in the benchmark

price of the oil and what does this mean? It means if you look at the projected numbers for next year at the federal side that means you can have larger side of deficit, a large chunk of that is going to be borrowed from the public and where is the public to do this? *It will be from the banks.* Who is going to give the credit to continue to oil the economy? *It is going to be the banks.*

Let us not manufacture the fact and then blow it that is the point I am trying to make. And finally I want to assure you that we are ready to do whatever it takes to make sure that none of our banks will fail. Whatever facility, credit, whatever thing that any bank needs, we will be able to extend this and I have talked about the centrality of our banking system to the economy going forward. It is the engine and the locomotive and we are not going to see to it that the system does not get faulty. We also stand ready to play our role as lender of last resort. Nigeria cannot afford that luxury; the economy cannot contain the luxury of allowing any one of them fail. We cannot afford to go back to the time when innocent people go to the bank and put their money and they get that trapped there permanently. We must make that history and that is part of the fallout of the consolidation program.



The economy going forward next year will continue to be led by the non-oil sector. And indeed since the oil boom began in terms of contribution to the growth of the GDP, it has been the oil sector; in fact the non-oil sector has been contributing negatively to GDP. The key driver of the expenditure is the earning from the oil sector.

*On External Reserves*, I have said it before and I will say it again that our external reserves remain safe and sound and all the banks where they are, part of the lessons people have learnt from this crisis is the whole issue of this blanket guarantee of deposit in the industrial world because when some guaranteed deposits and some did not, it was taking the advantage of your neighbour as it were, you guarantee your own. *No depositor will loose his money.*

In spite the fact that our reserves are usually put in triple A rated institutions, albeit that what happened to *Lehman* and others, you cannot take that for granted now but the greatest insurance of it all is this full scaled guarantee that has been given but even more, we are on 24-hour alert watching each of these institutions that have our resources. We are watching them and one of them, we are not quite sure of its state, once we have any doubt, we move out before

they start telling us: "*we are sorry.*" It is just to tell you that our foreign reserves are safe and sound.

I heard somebody saying that the US dollar is depreciating and so on and so forth. I want to say that is untrue. *Part of the good news about the current global crisis is that it has not yet metamorphosed into a currency crisis.* It would be a totally different ball game if in the light of the crisis, the US is tumbling, then, that would have plunged the world not into only a financial crisis but into currency crisis and the ramification of that would have been grave. What would have happened is that there would have been confidence in the US *dollar* as a reserve currency and if it did and people start to migrate out of the *dollar*, the significant number into *euro* for example, then the crisis will deepen.

For the United States economy in the short to medium term becomes beneficial because that would help their current account. It will make it very expensive for you to export goods into the US and make it very cheap for them to export to the rest of the world. The Chinese and so on of this world, their growth process is going to be halted because it is principally led by America which is their major market. The good news is that the *dollar* has been gaining strength against

other world currencies in the last few weeks. In terms of the purchasing power of our foreign reserves I think that has improved over the last few weeks.

Thank you very much.