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Central Bank of Nigeria

Press Release

Re: Matters of Urgent Attention

The attention of the Central Bank of Nigeria (CBN), has been drawn to a recent press release titled "**Matters of Urgent Attention**" by the Nigerian Economic Summit Group (NESG), which calls into question some of the measures taken by the CBN to support the stability of our financial system and enable faster recovery of our economy, following the negative impact of the COVID-19 pandemic on Nigeria.

As we all are aware, the impact of COVID-19 on countries across the world resulted in a significant downturn in the global economy. Consequently, countries including Nigeria were forced to impose lockdown measures in order to contain the spread of the pandemic. This action resulted in depressed economic activity in the first half of the year. Except for China and Vietnam, advanced, emerging and frontier market economies, all experienced significant negative growth in the first half of 2020, and some are currently in a recession.

In response to these unfortunate events across the globe, central banks have embarked on measures aimed at stabilizing their respective economies by reducing lending rates, which declined to negative territory in several advanced economies, in addition to increasing the scale of their asset purchase programmes. Indeed, after reducing its Federal Funds rate to 0 percent, the US Federal Reserve Bank implemented a huge securities purchase programme, which included purchase of corporate bonds (including those below investment grades). The Reserve Bank also provided credit facilities to non-bank institutions which included, money market funds and corporations. The balance sheet of the US Federal Reserve in support of these activities increased by over $3 trillion, while the European Central Bank expanded its balance sheet by over $1 trillion. Furthermore, the Bank of England in an unusual move gave an open check to the UK Government in order to fund its recovery efforts.

It is therefore pertinent to state that the Nigerian economy is not immune from these crises given the over 65 percent drop in commodity prices; disruptions in global supply chains and the unprecedented outflow of over $100bn of debt and equity funds from emerging markets between March and May 2020; in addition to the impact of the lockdown on economic activities. These activities resulted in an over 60 percent reduction in revenues due to the Federation Account, a significant drop in foreign currency inflows, which led to downward adjustments in the naira/dollar exchange rate and a rise in inflation due to the exchange rate pass through effect of imported inflation.

The Central Bank of Nigeria like other Central Banks across the world had to embark on extraordinary measures in order to stabilize the economy from an extraordinary shock. We took steps to increase the flow of credit to critical sectors of the economy, in order to enable faster recovery of the economy. We also sought to prevent the economic crisis from spilling into a major financial crisis by taking the following actions;

i. A 1-year extension of a moratorium on principal repayments for CBN intervention facilities;
ii. Strengthening of the Loan to Deposit ratio policy, which has resulted in a significant rise in loans provided by financial institutions to banking customers. Loans given to the private sector, have risen by over 21 percent over the past year.
iii. Creation of NGN 50 billion target credit facility for affected households and small and medium enterprises through the NIRSAL Microfinance Bank;
iv. Creation of a NGN100 billion intervention fund in loans to pharmaceutical companies and healthcare practitioners intending to expand and strengthen the capacity of our healthcare institutions;
v. Creation of a research fund, which is designed to support the development of vaccines in Nigeria.
vi. A N1 trillion facility in loans to boost local manufacturing and production across critical sectors;
vii. Regulatory Forbearance was granted to banks to restructure loans given to sectors that were severally affected by the pandemic
viii. Mobilization of key stakeholders in the Nigerian economy, which led to the provision of over N23bn in relief materials to affected households, and the set-up of 39 isolation centers across the country.

The effect of these measures which included provision of palliatives to individuals affected by the pandemic, increase in access to credit to critical sectors of the economy that are either high employers of labor or have the ability to create jobs at a fast pace, helped to contain a significant decline in GDP growth in the 2nd quarter of the year. Analysts expected GDP growth to decline by 7.4 percent but the impact of the measures by the monetary and fiscal authorities helped to reduce this decline to 6.1 percent. This decline was less severe than the decline experienced in other economies such as the United States, South Africa, and India which saw significant declines in growth by 32 percent, 52 percent and 23 percent respectively. We do expect that with the phase out of the lockdown measures, GDP growth in the 3rd quarter will be much better than that of the 2nd quarter, due to the impact of the measures being implemented by the Monetary and Fiscal Authorities.

The CBN also feels compelled to let Nigerians know that in spite of the cordial and open relations between both organizations, the NESG could have raised its allegations directly with us but never did. Instead they chose to release a Press Statement, having leaked its content to a leading Business Newspaper in the country. Let us now turn to the specifics of their diatribe.

On the CBN's development finance activities, we are comforted by the NESG's reluctant admission that many Central Banks around the world are also engaging in similar actions. The CBN engaged in development finance in order to address the credit needs of the sectors critical to improving livelihoods, reducing poverty, and promoting inclusive growth. These goals have become doubly important in light of the significant shocks to the economy following the ongoing COVID-19 pandemic. In pursuit of transparency, the CBN usually publishes disbursements made under these activities in our Economic Reports.

Although the bourgeoises atop the NESG may not feel the impact of the Bank's development finance activities, many ordinary Nigerians, including smallholder farmers, households, and medium-scale entrepreneurs across the country know better. As encapsulated in our most recent monthly economic report published on the Bank's website, a total of N38.11 billion was disbursed as loans to 44,458 beneficiaries through the NIRSAL Microfinance Bank (NMFB). This number has risen to N59.12 billion; supporting to 103,189 beneficiaries as of August 2020.

It is important for the NESG to note that our intervention programmes in the agricultural sector were a key contributor to the resilience of the agricultural sector during the crisis, as the sector experienced positive growth of 1.6 percent in the second quarter of the year despite the lockdown. As the NESG may be aware, as a result of the COVID-19 pandemic, Vietnam, Cambodia, India, and Thailand placed export restrictions on the exports of critical food items, including rice and eggs. With these disruptions, the Nigerian economy could have faced a major food crisis, but for the government's intervention programmes in the agriculture sector.

Furthermore, by alluding to the fact that money cannot address constraints in the agriculture sector, the NESG failed to realize that access to credit is listed among the three major challenges faced by farmers and businesses in Nigeria. While the Federal Government is seeking to address issues such as access to electricity and logistic constraints faced by businesses, it was vital for the CBN to address an area that we had sufficient ability to impact upon, given the nature of the crisis we faced, which is improving the flow of credit to critical sectors of the economy.

Contrary to the NESG's allegation that our lending process is devoid of a proper framework, it is important to note that recipients of intervention funds from CBN go through an expansive due diligence process through participating financial institutions (PFI), following which an additional assessment process is embarked upon by the CBN before disbursements are provided. The PFIs expend extensive due diligence on these intervention loans as the risk of default lies with them.

On the revisions to the BOFIA Act, there are many reasons why we see a total ignorance or malicious intent on the part of the NESG. First, the provision they refer to as being currently conceived as part of the new BOFIA already exists as Section 53 in the old Act, which is now Section 51 in the amended Act passed by the National Assembly. The current bill has not proposed any changes to that section at all. Second, contrary to their misleading anxiety and associated reportage, the provision of Section 51 does not purport to confer immunity on the Governor of the Central Bank of Nigeria like that which obtains for State Governors. Rather, this provision protects the Federal Government, the Central Bank of Nigeria and their respective officials against adverse claims for actions or omission in good faith exercise of powers under BOFIA and other specified statutes including the Central Bank of Nigeria Act and regulations made thereunder.

The import of the said provision is to set a threshold against which suits against public officers must be filtered, such that for a suit to be maintainable it must scale that threshold by proving bad faith on the part of the pubic officer. It is not a bar against action.

Indeed, a review of the legislative history of BOFIA will readily show that the said provision also appeared as Section 49(1) of the then BOFIA of 1991. Further digging also readily show that the same law is employed in other legislations including the extant:

a. Central Bank of Nigeria Act 2007 (Section 52),
b. the NDIC Act 2006 (Section 55) and
c. the Investments and Securities Act 2007(Section 302)

A similar provision is in the AMCON (Amendment) Act 2020, as it had been noticed that debtors and the like simply rush to court, obtain injunctions and stop orderly resolution of cases and proper implementation of the law.

The false alarm raised by the Nigerian Economic Summit Group raises serious credibility questions on the actions of the group, as its comments, which have been circulated across the globe, significantly harmed the credibility of the Governor and the CBN as an institution.

On border closure, we are disappointed that the NESG has not shown any tendency to deeply interrogate the real reasons for the closure. While the CBN is not opposed to its reopening, we must never forget the real reason why that border was shut in the first place: significant economic sabotage involving smuggling of many fake products, drugs, small arms, and other goods. How can a Nigerian farmer struggle for months to plant, cater, and harvest their crops only to find that those crops cannot attract good prices because of smuggled products from across our borders? Does the NESG know that according to the International trade Center, Benin Republic imports as much as rice as China and nearly as much frozen chicken as the U.K.? In which country does the NESG think all these rice and chicken end up? How then can a Nigerian rice farmer or poultry owner survive?

While the Federal Government is doing its best to tackle these issues and reopen the border, we must bear in mind that border issues require cooperation by other countries. But if these countries, given their huge benefits from a rigged system, deny there is even a problem, how can Nigeria reopen the border without resolving these matters?

With respect to foreign exchange, the CBN operates two windows: wholesale and retail. In the wholesale window, banks are allocated FOREX weekly, which is meant to be allocated to their customers at their discretion, reflecting customer size and distributive efficiency, for final sale to parents paying school fees, patients settling medical bills abroad, SME traders importing small-scale inputs and raw materials, and general travelers for business and personal trips. The CBN also allocates a certain amount of FX to licensed BDCs per week, who resell to small-scale users. In both categories, the CBN does not know the final buyers of this FX.

In the retail window, banks submit a detailed list of applicants who are then allocated foreign exchange based on availability. Given that these submissions are first scrutinized by the banks and are accompanied by the provision of significant documentation, we do not understand the extra transparency being called for by the NESG.

Based on very limited information and cross-country exposure, the NESG refers to the CBN's recent directive, which simply sets a floor on saving rates as "price fixing". Given that in an ideal economic textbook/theory, saving should be equal to investment, we expected total deposits should closely mirror total loans. Yet, over the past several months, we have noticed an increasingly large gap between total deposits in the banking system and total credit to the economy. While total deposits stood at about N25 trillion in January 2020, total loans stood at N17 trillion. As of August 2020, while total deposits have increased to N29.7 trillion, total loans were only N19 trillion.

Many rich cooperates have simply been content with saving their cash balances and collecting huge interest payments, rather than expanding their investment, which should lead to hiring more people and producing more goods. In other to forestall a continuation of this trend, the CBN had to act to discourage these practices for the good of the economy. In other words, the rationale for moving to reduce the saving rates by banks is actually to encourage more lending. We also need to note in light of COVID-19 and to encourage more investments, many Central Banks have cut their saving rates to nearly zero. In fact, some Central Banks, including the European Central Bank, the Bank of Japan, Denmark's Central Bank and the Swiss National Bank, are now operating "negative interest rates", which means customers pay banks to keep their deposits.

Although the NESG, under its current leadership, has fallen short of its own standards and become a shadow of its old self, we believe there are better ways to resuscitate the Group's brand other than through cheap popularity and tarnished attention using ambushed press statements made up of contrived allegations. Given that the NESG should know better, we believe that these allegations are reflective of sinister motives and malicious intent.

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