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# The Global Banking Crisis: an African banker's response

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# The Global Financial Crisis and the Nigerian Economy: The Central Bank of Nigeria's Response

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**Presented at the Sir Patrick Gillam Annual Lecture, Sheikh Zayed Theatre, New Academic Building, London School of Economics and Political Science (LSE), London, United Kingdom, 23 January, 2012**

## Outline

- Introduction
- Trends in the Nigeria Economy since the Crisis
- The Nigeria Banking System Before the Global Financial Crisis
- The Global Financial Crisis
- Impact of the Crisis on Nigeria
- Intervention Measures/Reforms
- Intervention Measures - AMCON
- Concluding Remarks

## Introduction…

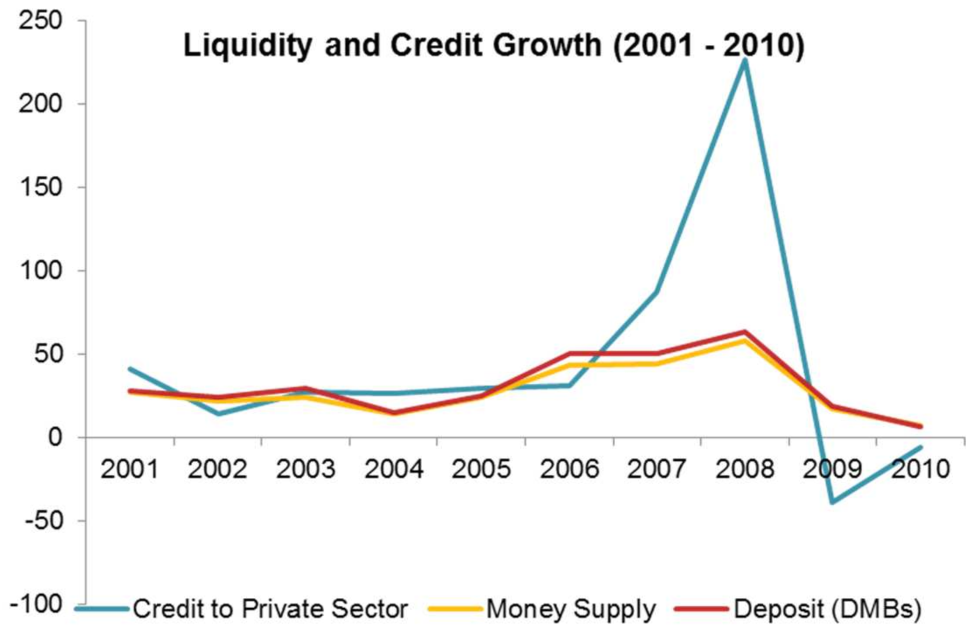
- The global financial crises brought to the fore the vulnerabilities of the banking systems and increased the need for appropriate reform measures towards closer surveillance of financial transactions and activities

- Consequently, governments across the world, took variety of measures to safeguard their financial systems and strengthen financial system stability

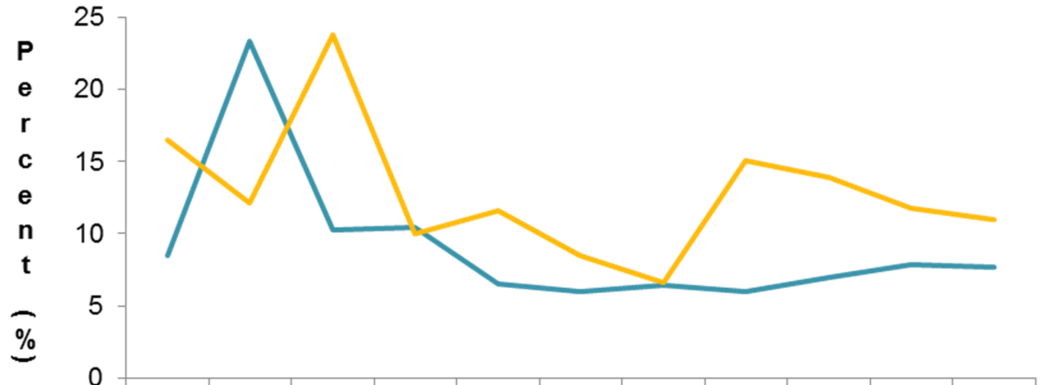
- The Nigerian financial system was not immune from the second round effects of the global adjustments to the crisis. While the external sector was vulnerable, developments in the domestic economy mitigated the severity of the impact

## Trends in the Nigerian Economy since the crisis

- A review of major external and domestic macroeconomic indicators reveal that:
- While credit expansion in the banking sector grew unsustainably, domestic prices remain relatively stable and output growth rose
- Government spending rose - as deficit increased – but inflation rate maintained a moderate downward trend since 2009
- While external balances deteriorated as export growth declined and oil prices fell, exchange rate volatility moderated in relative terms
- Rising oil prices since 2009 has not resulted in significant build up in external reserves nor increased exports – explained by significant drawdown on receipts and structural leakages in the oil sector

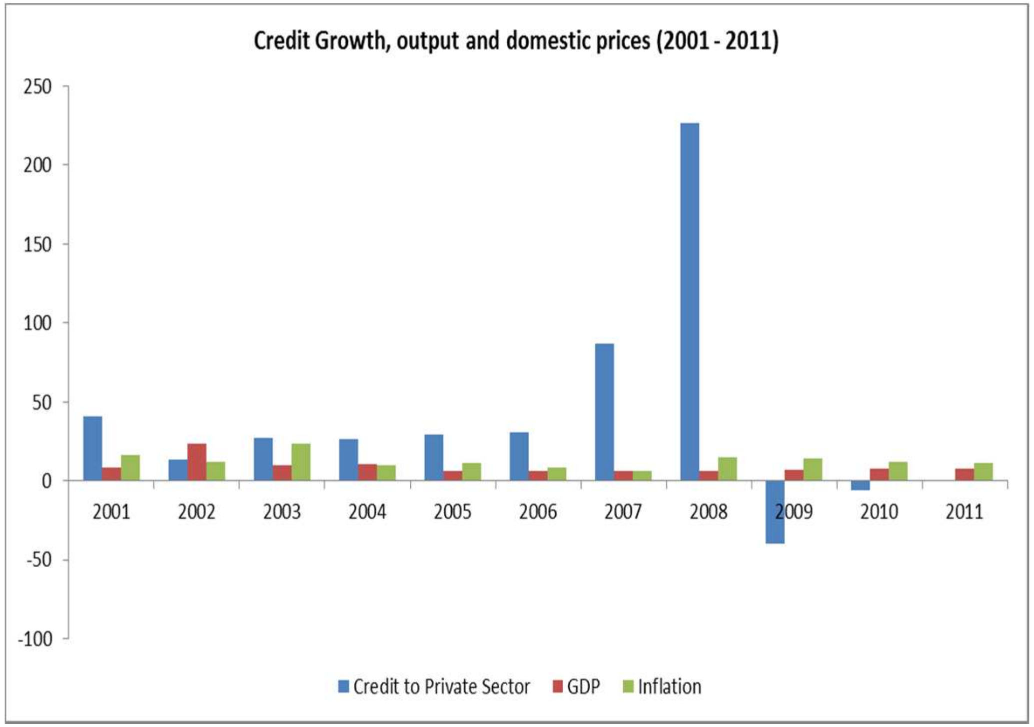



**Output growth and Inflation rate (2001 - 2011)**

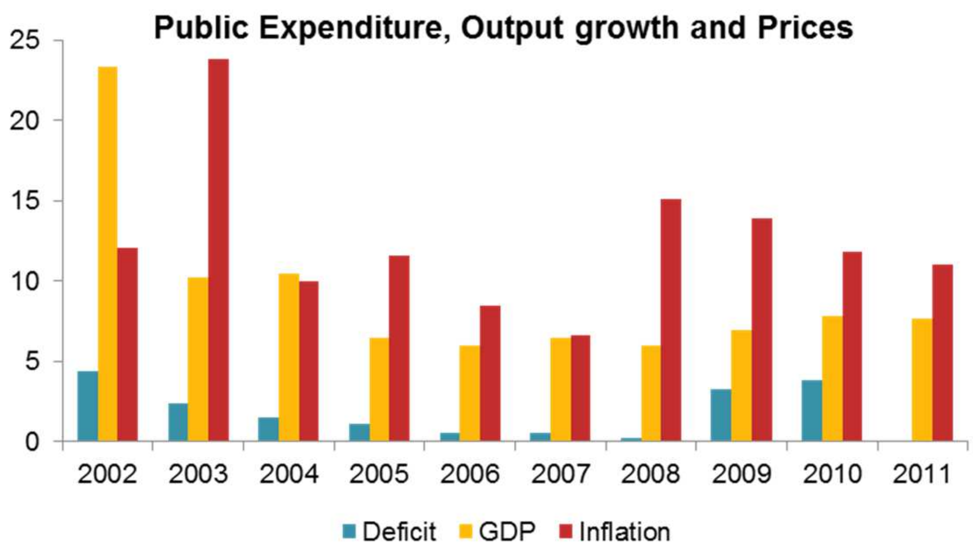



| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| GDP | 8.45 | 23.35 | 10.23 | 10.48 | 6.51 | 6.03 | 6.45 | 5.98 | 6.96 | 7.85 | 7.69 |
| Inflation | 16.5 | 12.1 | 23.8 | 10 | 11.6 | 8.5 | 6.6 | 15.1 | 13.9 | 11.8 | 11 |

GDP Inflation

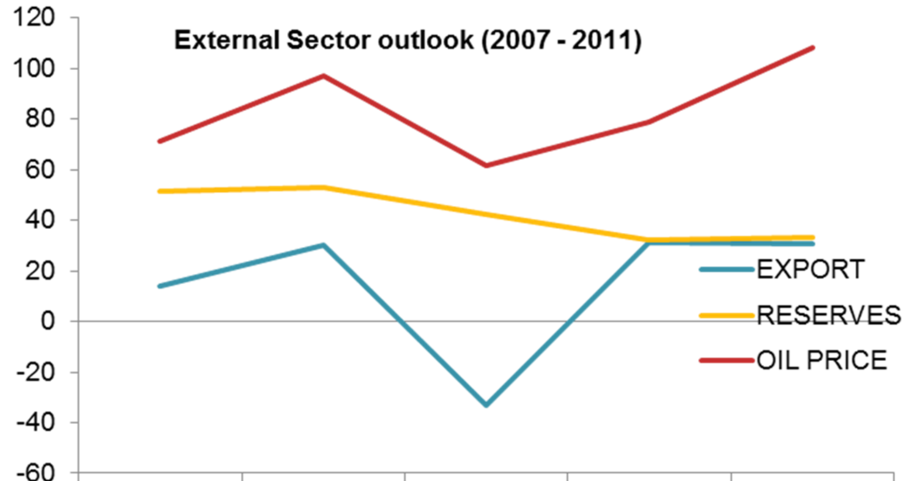


Credit Growth, output and domestic prices (2001 - 2011)
250
200
150
100
50
0
-50
-100
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
Credit to Private Sector
GDP
Inflation

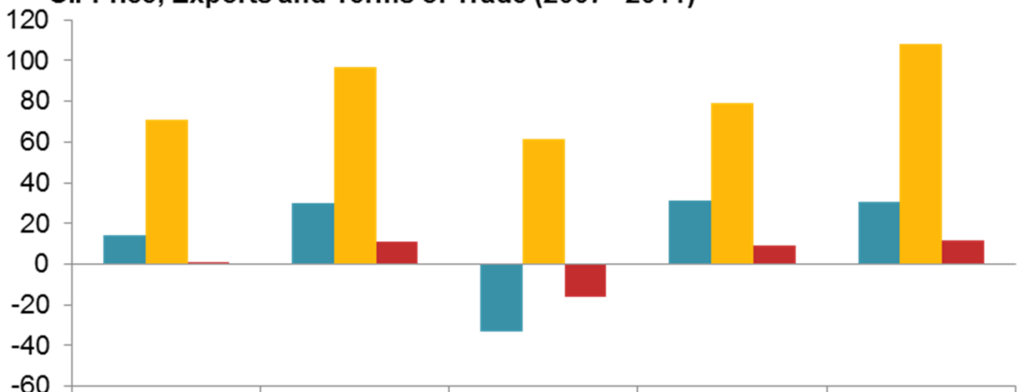
Public Expenditure, Output growth and Prices
25
20
15
10
5
0
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
Deficit
GDP
Inflation

**External Sector outlook (2007 - 2011)**




| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| EXPORT | 13.9 | 30.1 | -33.4 | 31.2 | 30.8 |
| RESERVES | 51.3 | 53 | 42.4 | 32.3 | 33.4 |
| OIL PRICE | 71.1 | 97 | 61.8 | 79 | 108.1 |

**Oil Price, Exports and Terms of Trade (2007 - 2011)**




| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| EXPORT | 13.9 | 30.1 | -33.4 | 31.2 | 30.8 |
| OIL PRICE | 71.1 | 97 | 61.8 | 79 | 108.1 |
| TOT | 0.7 | 11.3 | -16.2 | 9.3 | 11.5 |

# The Nigeria Banking Sector before the Crisis

Prior to 2004 Consolidation Exercise

- 89 banks with 3,282 branches nation - wide
- Most of the banks had low capital base and weak asset quality
- Most banks were highly insolvent and illiquid
- There were severe cases of non-adherence to professional ethics in the conduct of banking businesses – poor corporate governance
- Low credit creation and dependence on public sector funds
- Generally, the banking sector lack the capacity to effectively support the real sector and facilitate economic growth

## The Global Financial Crisis (GFC)

What Went Wrong?

- Excess liquidity in the system and the increased credit expansion induced excessive household consumption and bad loans build-up

- Accumulation of un-secured credit Assets in banks portfolio and high leverage to the equity and real estate sectors, including the oil sector (in the case of Nigeria) - proliferation of toxic assets in bank books – such as margin loans (in the case of Nigeria)

- Weakened financial system regulation and deplorable internal control processes in financial transactions – eroded good corporate governance and ethical value system

- Complexity in financial instruments and sophistication of financial products allowed for professionally concealed frauds and high level manipulation of financial activities

# The Global Financial Crisis: The Beginning

- Major financial institutions and Investment firms in the US began to collapse as bank assets wiped out and capital are eroded
- Severe run on banks and credit contraction in the US necessitated the need to recall credit lines (both foreign and domestic) and scale down operations
- The contagion effect spread to other economies of the world - Europe, Asia and Africa with varying implications
- Economic recession begin to set in as global demand and trade dropped, unemployment grew sharply and government deficit rose

# Impact of the Crisis on Nigeria

- The impact of the first round effect of the crisis was relatively mild for Nigeria and many other developing African economies

- However the second round effect was quite challenging for financial system stability

  - Declining commodity and oil prices, fall in export demand, drop in international remittances, decline in capital inflows and FDI, all combined to affect revenue inflows and availability of funding in the economy

  - The depleting external reserves and threats to domestic prices further threatened exchange rate stability and current account balances

  - The significant exposure of the banks to the capital market - margin loans and equity - threatened banking sector stability, as some banks ( including some with substantial market share) had their capital completely eroded and became insolvent

  - The banks were also heavily exposed to the oil industry. They extended huge credit facilities to operators in the oil and gas sector and as prices and demand tumbled many of such facilities went bad – leave a huge portfolio of non performing loans (NPLs) in the banks balance sheets

## Impact of the Crisis on Nigeria…

- The combined effects of asset price (stock market) crash, revenue decline, credit crunch, illiquidity, declining foreign capital inflows, increasing capital flight, severe regulatory lapses and corporate governance issues launched the banking system crisis and threatened financial system and macroeconomic stability

- All these posed a huge challenge to the Central Bank of Nigeria (CBN) and other regulators in the economy

## Intervention Measures/Reforms

### What We Did

- The CBN (in collaboration with the NDIC)in 2009 launched a comprehensive special examination and auditing of the books of all the banks –
- The examination and audit report revealed:

- Concealment of a substantial volume of unsecured and non-performing loans in the books of some banks

- Evidence of gross neglect of internal control mechanism and due diligence in financial transactions and activities by banks

- Severe lapses in regulatory oversight and surveillance by regulatory authorities
- Poor corporate governance principles and unethical conduct by banks top executives
  - Illiquidity and severe insolvency in some banks – distress signals

## Intervention Measures/Reforms…

### What We Did…

- The challenge before the CBN was to embark on strategies that would ensure the strengthening of the industry, guarantee the safety of depositors funds and investments, restore public confidence in the market and boost the credibility of the Central Bank of Nigeria

- Measures:

  Corporate Governance

  - Sack, replaced and prosecuted erring chief executives and top management personnel of mis-managed banks. Publish name of major loan defaulters
  - Review the tenure of bank chief executives and credentials of Management Boards/ audit firms
  - Establish mechanism for capacity building and re-training of top management personnel of banks, including executive and non-executive directors

- Distress banks

  Initial injection of N620billion ($3.9 billion) by the CBN

to resuscitate the 8 distressed banks

Establishment of the Asset Management Company (AMCON) to absorb

the toxic assets of the banks and recapitalize others

# Intervention Measures/Reforms…

Banking sector and Financial System Stability:

The CBN launched a banking system reform agenda aimed at:

- Enhancing the quality of banks
  - By providing an industry-wide remedial measures to address the key causes of the crisis, facilitate the implementation of risk based supervision, and enhance the capacity in professionalism in banking practices
- Establishing Financial Stability

  By providing the necessary financial system infrastructure, including strengthening the Financial Stability Committee in the CBN and the implementation of a macro-prudential and risk based supervisory rules
- Enabling healthy Financial Sector Evolution

  By providing a comprehensive review of the existing banking model to allow for specialization of banking products and services that reflect competences and efficiency – including non-interest banking

## Intervention Measures/Reforms…

- Ensuring that the Financial Sector Contributes to the Real Economy

By providing low cost funds for the Agricultural sector and SMEs. Provide long term low cost funds for the development of key sectors of the economy (Power, Transport, Aviation and Manufacturing) these include:

- N500 billion ($3.2 billion) – Critical Infrastructure Fund ( of which N200 billion ($1.3 billion) is for refinancing/restructuring of existing SME loans)
- N300 billion ($1.9 billion) long term fund for Power and Aviation (of which $1.6 billion is for the Power sector and $300 million for the Aviation sector)
- N200 billion ($1.3 billion) for Commercial Agriculture Credit Scheme
- The Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)
- Small and Medium Enterprise Equity Investment Scheme (SMEEIS), Small and Medium Enterprise Credit Guarantee Scheme (SMECGS)

Other initiatives Championed in collaboration with the Banker's Committee are:

- Automation of the payment and clearing system infrastructure – cash-less Scheme, RTGS, Mobile banking, ATM, POS etc

## The Reforms Measures - AMCON

- AMCON as a resolution vehicle absorbed the toxic assets of intervened banks and provided liquidity to facilitate the re-capitalization of the banks – *AMCON is to be sustained by a contributing fund from the banks and not from the public purse*

- Three banks were liquidated and replaced by bridge banks which were fully recapitalized by AMCON :

- AMCON injected N739.0 billion to recapitalize the three banks and thus, depositors' funds are secured – no bank collapsed and no deposit lost

- As at end of 2011, in series of tranches, AMCON has issued 3-year bonds valued at N4.7 trillion ($29.71 billion) towards the purchase of toxic assets, liquidity and recapitalization of banks

- The CBN has purchased AMCON bonds valued at N1.8 trillion ($11.42 billion)

## Concluding Remarks

- Banking system reforms adopted in Nigeria in response to the global finance crisis have yielded positive results as the reforms were carried out without depositors losing their money nor public purse depleted

- All the Nigerian banks have been fully recapitalized and relative stability has been restored to the financial system

- No bank has been allowed to fail so far

- Various legal, institutional and governance measures have been articulated with the resolute passion to put the financial system on the path of long-term stability and efficiency

*Thank you for your attention*

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