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Address at the 13th Annual CIBN Banking and Finance Conference

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(Protocols)

It is indeed a pleasure to once again address the banking community at the 13th Annual Banking & Finance Conference, being organized by the Chartered Institute of Bankers of Nigeria (CIBN). I always look forward to speaking at CIBN events because it presents a significant opportunity to address critical stakeholders in the banking and finance community on events that are shaping our economy, and the policy measures being embarked on by the Central Bank of Nigeria to support greater economic growth and continued stability of our financial system.

I wish, at this juncture, to specially thank the leadership of the Chartered Institute of Bankers of Nigeria led by its President, Mr. Bayo Olugbemi, for their relentless efforts in ensuring the success of today's event. I want to also extend my profound gratitude to the Managing Directors/Chief

Executive Officers of our banks and other financial institutions who have found time to attend the conference despite their very busy schedules.

Likewise, I welcome my colleagues from the CBN, especially the Deputy Governors who are here present. And to everyone attending this event in person or virtually: I would like to thank you for attending.

The theme of today's conference **"Facilitating a Sustainable Future: The role of Banking and Finance",** is apt when we take into account recent events such as the COVID-19 pandemic, which began in Wuhan China, in December 2019. COVID-19 has had a profound effect on the Nigerian economy in the 1st and 2nd quarter of the year, as it created a dual challenge for policy makers. We had to address a public health challenge, while trying to reverse a significant downturn in economic activities.

In my remarks today, I hope to address the important role the banking community can play in restoring stability to sectors significantly impacted by the virus, while also supporting investments in key sectors of the economy that could have a multiplier effect on growth.

**COVID 19 and the Nigerian Economy**

Prior to the onset of the corona virus in Nigeria, the Nigerian economy had been on a positive growth trajectory. We had witnessed 12 consecutive quarters of positive growth following the 2016 – 2017 recession, along with significant foreign capital inflows due to improved fundamentals of the economy. GDP growth for 2019 stood at 2.29 percent, supported by strong growth of 2.55 percent in the 4$^{th}$ quarter of 2019, and capital inflows of $3.8bn in the same quarter.

The onset of the COVID-19 pandemic in the 1$^{st}$ half of 2020, and the measures put in place to contain the spread of the virus, caused a significant shock to our economy. The downturn in economic activity which was particularly significant in the 2$^{nd}$ quarter of the year, was driven by a series of external factors in addition to the lockdown measures imposed, in order to curtail the spread of the virus.

Consequently, the Nigerian economy contracted by 6.1 percent in the 2$^{nd}$ quarter of 2020, down from a positive growth of 1.87 percent recorded in the 1$^{st}$ quarter of 2020. While these results were not positive, it was well below the forecast of many analysts, who had projected a steeper contraction of 7.4 percent. It was also better than contractions witnessed in other advanced and emerging market countries, such as Great Britain (-20 percent), India (-24 percent) and South Africa(-51 percent) in the 2$^{nd}$ quarter of 2020. The less than expected downturn in the economy was due to collaborative efforts between the monetary and fiscal authorities.

## Impact Assessment of COVID-19

From a sectoral perspective, the COVID-19 pandemic along with the restrictions on movement had a significant effect on a wide number of sectors. I would like to elaborate on its impact on a few sectors.

## Impact of the Lockdown

First, the closure of schools, hotels and restrictions on movement led to contractions in the Transportation (-49%), Accommodation(-40%), Construction(-32%) and Education (-24%) sectors. Other sectors such as financial services and telecommunications grew by 28 and 18 percent, respectively. These sectors which have the ability to leverage on digital channels witnessed strong growth, as Nigerians relied on these tools to communicate, and to conduct business and financial transactions. The Agricultural sector continued to record positive growth (1.6%), supported by productivity gains in the sector, interventions by the government, and improved demand for local produce.

## Crude Oil Prices

Restrictions on global travel by land and air; along with the slowdown in commercial activities, led to a significant reduction in the demand for crude oil. These factors contributed to the 65 percent decline in crude oil prices between January and May 2020.This decline in prices, along with OPEC reduction of  our production quota led to a significant decline in our foreign exchange earnings, along with a more than 60 percent decline in revenues due to the federation account. Today, crude oil prices have recovered from its low of $19 in April 2020, but it is yet to return to pre-pandemic levels of over $60 in January 2020.

**Global Supply Chains**

Significant disruptions in domestic and global supply chains as a result of lockdown measures in key markets in Asia and Europe between March and May 2020, affected delivery of inputs and machinery to firms in Nigeria and this contributed to a slowdown in manufacturing activities (-8.8 percent).

**Capital Flows**

The impact of the pandemic and the resulting slowdown in economic activity, led to a significant outflow of funds from emerging market economies. Uncertainties on the scale at which the virus could spread, and the impact it could have on economic activity, in the absence of a vaccine, led investors to withdrew over $100bn worth of funds from emerging markets between February and April 2020. These funds were subsequently invested in safe haven assets such as US treasury bills and the Japanese Yen. The drop-in flows between February and April 2020 was unprecedented and surpassed the decline in flows witnessed during the Global Financial Crisis in 2008.

Nigeria was not exempted from the drop-in flows, as capital importation into the country declined from $6bn in Q2 of 2019 to $1.2bn in Q2 of 2020.

**Exchange Rate**

The drop in crude oil earnings as well as the drop in foreign portfolio inflows significantly affected the supply of foreign exchange into Nigeria. In order to adjust for the decrease in supply of foreign exchange, the naira depreciated at the official window from N305/$ to N360/$ and to N380/$. These adjustments along with increased efforts to restrict undue speculative activities, has led to a growing unification of rates across all the fx market segments. In addition, the band between the parallel market and the official exchange rate over the past month, has narrowed recently due to some of the measures taken by the CBN to curb illegal fx transactions.

**Foreign Reserves**

With the decline in our foreign exchange earnings and subsequent adjustments in the value of the naira vis-à-vis the US dollar, the CBN has continued to implement a demand management framework, which is designed to support improved production of items that can be produced in Nigeria, and further conservation of our external reserves. These measures have helped to prevent a significant decline in our reserves. Our external reserves currently stand at $36 billion and are sufficient to cover 8months of import of goods and services.

**Inflation**

Inflationary pressure persisted in the 1st and 2nd quarter of the year due to several factors. In addition to the disruption to global and domestic supply chains as a result of COVID-19, inflation was exacerbated by the increase in VAT rate, exchange rate adjustment and seasonal food supply shocks due to the onset of the farming season and other structural bottlenecks. Inflation in July 2020 stood at 12.8 percent. We however expect inflation to begin to moderate towards the end of the 4th quarter, as we approach the harvest season, along with the phased withdrawal on the restrictions of movement and other restrictions imposed as a result of COVID-19.

**Response by the Monetary and Fiscal Authorities**

Given the impact of COVID-19 on key economic variables earlier mentioned, the fiscal and monetary authorities took unprecedented measures to prevent the economy from going into a tailspin. Our first objective was to restore stability to the economy by providing assistance to individuals, SMEs and businesses that had been severely affected by the pandemic, as well as by the lockdown measures. Some of the measures we took include;

i. A 1-year extension of the moratorium on principal repayments for CBN intervention facilities;
ii. Regulatory Forbearance was granted to banks to restructure loans given to sectors that were severally affected by the pandemic
iii. Reduction of the interest rate on CBN intervention loans from 9 to 5 percent
iv. 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.
v. Creation of NGN 100 billion target credit facility for affected households and small and medium enterprises through the Nirsal Microfinance Bank;
vi. 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;

vii. A N1 trillion facility in loans to boost local manufacturing and production across critical sectors;

The impact of these measures helped to prevent larger contraction in 2nd Quarter GDP growth as projected by analysts. With the phased withdrawal of the lockdown measures; resumption of travel by land and air; improvements in crude oil prices from $19 in April 2020 to an average of $44 in August 2020; and continued implementation of our interventions in the agricultural and manufacturing sectors, we expect that GDP growth for the 3rd quarter will reflect a significant recovery relative to the 2nd quarter.

**Financial System Stability**

Some of the measures instituted by the CBN in the banking system, were taken to prevent an economic crisis from spilling over into a financial crisis. We protected the interest of depositors by ensuring that;

I. Banks made adequate capital provisions to cover for unexpected losses
II. We were able to support viable businesses that had been affected by the pandemic through access to our intervention funds
III. We also enabled banks to restructure loans granted to sectors affected by the pandemic.

While these measures will help to provide stability to our economy, restoration of full economic activities remains uncertain until a cure or relevant treatment option is found to contain the spread of COVID-19.

Nonetheless we have seen the resilience of the Nigerian economy as stakeholders have adopted new business models to adapt to the pandemic. Restaurants have begun to implement take away options as an additional revenue line item, and hotels, entertainment centres and airlines have developed new safety protocols in order to provide some sense of comfort to prospective and current customers.

**Stimulating Growth**

While the news of the continued growth in the banking and finance sector in the 2nd quarter of the year was encouraging, the ultimate strength of our financial system would depend on three key factors;

I. Ensuring that banks have adequate capital buffers to withstand similar pandemics.
II. Developing adequate internal controls that will be able to identify potential risks and putting in place measures to contain that risk.
III. Being able to adapt your business model to changes taking place in the business environment.

This last point is vital as COVID-19 has demonstrated the impact externally induced disruptions could have on the Nigerian economy. Supply chain disruptions and concentration of production in particular countries has highlighted the difficult challenges countries could face in the event of a major pandemic. It is therefore imperative from an economic as well as a security perspective, that our banking and financial system works to support growth in sectors that have significant growth potential, and can enhance the resilience of the Nigerian economy, in the face of external shocks.

**Agriculture**

A key area of focus that the banking sector should increase its support for is the agriculture sector. We have witnessed the disruptions COVID-19 has had on global supply chains and food supply. In some cases, countries like Vietnam, Cambodia and India imposed restrictions on exports of agricultural produce. If measures had not been taken earlier to improve cultivation and processing of staple crops in Nigeria prior to the onset of the pandemic, we would have had to deal with a major food crisis in the country. The banking sector therefore has a significant role to play as a facilitator of growth through its intermediation function. Over the next 4 years, the banking sector should consider ways under which it could increase its loans to the agriculture sector from 4 percent to 10 percent by 2024.

Some of the opportunities in the agriculture sector that banks should explore include addressing some of the existing gaps in the agriculture value chains, such as storage centers, transport logistics, and technology platforms, that can enable rural farmers to sell their produce directly to the markets.

More importantly, our agricultural sector also offers significant opportunity for the nation to earn foreign exchange through the exports of processed agricultural products. With declining foreign exchange earnings from crude oil, banks should consider supporting agro processing companies that are export oriented.

These measures would help to improve productivity of farmers, increase our foreign exchange earnings, reduce post-harvest losses, while supporting the growth of other sectors of our economy such as manufacturing, and transportation.

**Information Communication Technology**

Another sector which has emerged as a significant source of resilience in mitigating the impact of Covid-19 on the economy, is Information and Communications Technology (ICT). In the second quarter of 2020, the ICT sector made contributions of over 17.8 percent to GDP growth, 20 percent higher than its contributions a year earlier. It is

important that we leverage ICT as an enabler for growth in key sectors of the economy. ICT start-ups are emerging to support SMEs, farmers, and in providing quality learning to students affected by the shutdown in schools. It is important that the banking sector consider viable IT firms in these areas that have the potential to not only serve the needs of the local market but are also able to export ICT related services to countries across the world.
India for example exports close to a $100bn worth of ICT related services every year and I believe that our ICT industry has the potential to make significant contributions to our export earnings.

**Infrastructure Finance**

Another critical area that the banking sector ought to consider for stable growth of our economy is Infrastructure finance. With the decline in revenues due to federal and state government as a result of the drop in crude oil prices, alternative ways of funding infrastructure are critical if we are to generate sustained growth of our economy. As we are all aware, the cost of logistics is often seen as a significant impediment to the growth of businesses in the country. A well-built infrastructure system, comprising hard infrastructure such as roads and ports, and soft infrastructure such as broadband penetration, can have a multiplier effect on growth by enabling the expansion of business activities in the country.

In this regard, I am pleased to announce that President Muhammadu Buhari has approved the establishment of a CBN led Infrastructure Company. Working in partnership with the African Finance Corporation and the Nigerian Sovereign Investment Authority, Infra-Corp would enable the use of private and public capital to support infrastructure investment that will have a multiplier effect on growth across critical sectors. This entity would also be able to raise fund from the capital markets and mobilize long term finance to address some of our infrastructure needs, while providing reasonable returns to investors. We believe this well-structured fund can act as a catalyst for growth in the medium and the long run. The support of the banking community will be important in achieving this objective.

## Conclusion

Distinguished ladies and gentlemen, In concluding my remarks, let me add that while COVID-19 has brought on several challenges to our economy and indeed the banking sector, it offers a unique opportunity for us to build a more resilient economy that is better able to contain external shocks, whilst supporting growth and wealth creation in key sectors of our economy. Proactive steps on the part of stakeholders in the banking and financial system in supporting the growth of sectors such as Agriculture, ICT and Infrastructure, will strengthen our ability to deal with the challenges that have been brought on by COVID-19, and stimulate the growth of our economy.

I thank you for your attention.

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Governor
Central Bank of Nigeria
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