Economic and Financial Review

Volume 6 | Number 2 Article 1

12-1968

An address by the Governor of the Central Bank of Nigeria, Dr C.N. Isong to the Local Centre of the Institute of Bankers

C. N. Isong
Central Bank of Nigeria

AN ADDRESS BY THE GOVERNOR OF THE CENTRAL BANK OF NIGERIA, DR. C. N. ISONG, TO THE LOCAL CENTRE OF THE INSTITUTE OF BANKERS, LAGOS

ON 21ST FEBRUARY, 1969

Mr. President, distinguished guests, ladies and gentlemen:

Once again it is my privilege to speak to you on the occasion of the Annual Dinner of your Organisation. It is a privilege that I particularly welcome because it gives me an opportunity to express my appreciation of the role that the banking community played in the progress that the economy made last year. I sincerely hope that we can continue to count on your co-operation in the future, particularly when the time comes for us to embark on the stupendous task of rebuilding our war-torn economy.

Mr. President, you will recollect that when last I addressed this distinguished body, I enumerated a number of difficulties which confronted us at the time as a financial community. While we are not out of the woods yet, I am happy to state that these difficulties have been courageously tackled and that it is possible now to face the new year with a greater degree of optimism. We have heard much in the past about the remarkable resilience of the Nigerian economy, but have never had any occasion to test it. The present crisis has no doubt convinced even the chronic sceptic of the basic strength of our economy. It is an open secret that at the onset of the war, the rebels stated categorically that the Nigerian economy would collapse under the strain of the war and that the Federal Military Government would thereby be forced to modify its terms for settlement with them. While it is true that the war has imposed a tremendous strain on our economy, I am sure you will all agree with me that the rebels have once again misplaced their expectations, for the pressure of economic factors which they expected to force the Federal Military Government to change its terms for settlement has failed to materialize. On the contrary, our economy has remained strong and the Federal Government's objective of reuniting the country remains unchanged.

In the past year, far from collapsing, the performance of the economy was most encouraging. A rise in domestic food production contributed immensely to the relative price stability achieved during the year. Although the volume of agricultural exports declined marginally as compared with that of 1967, yet this was due largely to an act of God over which no one had any control. Poor rains during the planting season adversely affected the output of groundnuts. As local industries took advantage of the increased protection stemming from measures to restrict imports, output of manufactured goods increased substantially during the year; and whereas at its lowest point the production of crude petroleum had dropped to barely 10% of the pre-war level, before the end of the year it had risen to over 50% of the pre-war mark. The projection is that the pre-war output will be exceeded before the end of this year.

As was to be expected, credit to Government from the banking system increased markedly during the year. But, unlike experiences in countries in similar situations, the increase in government borrowing did not produce any undue strains on the monetary system. During the year, while the price index for the middle-income group in Lagos rose by 3.2%, the all-cities consumer price index for the lower-income group actually declined by 0.1%. This remarkable price stability may be attributed to a number of factors, the most important one being the fact that most of our foodstuffs are locally produced and the output has continued to increase in spite of the crisis. In addition, we have observed that credit to the private sector actually fell as a result of an understandable slowdown in business activity. These two factors, in our view, jointly produced the moderating effect on consumer prices.

In the field of monetary policy, 1968 saw a reduction in the Central Bank's discount rate which was necessitated by a number of considerations. In the first place, we found ourselves in a situation where the Government was the largest single borrower. In order to keep down its cost of borrowing, it was necessary to reduce the Bank's discount rate. Moreover, on account of the slow-down in economic activity the commercial banks had become extremely liquid; by making the cost of borrowing a little cheaper to the business community, it could be induced to borrow more. As is now customary, as soon as the reduction in the Bank's discount rate was announced, there was a downward adjustment in the commercial banks' prime rates.

During the period under review, we were able to check the rapid deterioration in the balance of payments position. As opposed to the sharp fall in foreign exchange reserves in 1967, the level of reserves was kept more or less stable in 1968. In my address last year I made particular reference to our balance of payments position because, as our reserves were falling rapidly, we observed that there was vicious campaign against the Nigerian £. As you will recall, Mr. President, the international value of the Nigerian £ was put to the test initially by the rapid depletion of our foreign exchange reserves which was the direct consequence of the current national crisis. This situation was further aggravated by the hawking of the Nigerian £ in international financial markets by the rebels for their purchase of arms. Speculative pressures against the Nigerian £ assumed alarming proportions when sterling was devalued and the Federal Government rightly refused to follow suit. A number of speculators even went to the extent of naming the exact date that the Nigerian £ would be devalued. Consequently, holders of the Nigerian £ did their best to get rid of it, not only because they gained by exchanging the Nigerian £ for sterling but, more importantly, because they believed that the Nigerian £ would be devalued at a higher rate than sterling.

I used this very forum last year to announce that it was not the intention of the Federal Government to devalue the Nigerian £; a whole year has passed since I made that pronouncement and I want to repeat it here tonight that the Federal Government's policy in this respect has remained unchanged. It is now left to the business community to stop being nervous and show more confidence in the strength of our currency. When it is recalled that last year we succeeded in raising our quota in the I.M.F. to $100 million, and that we are yet to avail ourselves of our right to draw on the vast resources of that body, there should be no genuine cause to continue to be nervous.

Mr. President, my brief review of the events of last year will not be complete if I fail to make mention of the currency exchange exercise which is still occupying much of our time today. It is no secret that the currency exchange exercise was deemed necessary as war strategy, since the rebels were using our currency to purchase arms. Although as of January 23rd, 1968 the major part of the exchange exercise had ended (thanks to the magnificent co-operation we received from the banking community), a substantial part of it, and in fact the most difficult part, still remains to be carried out. By this I mean the exchange exercise to be conducted in the three eastern states. During the initial phase of the exercise in the South-Eastern State, we discovered that a substantial part of the old notes which the rebels had taken out of the country had illegally found its way back into the country and the amount of notes actually collected was more than double the amount estimated to be in circulation in that area. People who may have paid as little as 5/- or even less for a one £N note wanted the Government to exchange it for them at its full face value. Mr. President, the rest of the story is now quite familiar. After the initial payment of up to £N50 per person and £N500 per company had been made, the Government had to freeze all bank accounts in the area and all deposits outstanding with the exchange teams. A panel was then set up to investigate the legitimacy of every bank account and team deposit. It is hoped that all cases of fraud, especially the big ones, will be detected by the panel and all those involved in them will be handed over to the law enforcement agencies for prosecution, while the innocent ones should not be made to suffer in any way. While our method of fraud detection in the remaining areas of the eastern states had greatly improved, the running battle between us and the criminals who want to get rich overnight has continued unabated. We are prepared to fight them on all fronts.

Mr. President, as you are well aware, several of the policy developments that took place in the financial sector during 1968 were tailored to the long-range needs of the economy. One such development was the introduction of treasury certificates in the money market. For some time we had felt the need to introduce to the money market a medium-term instrument longer than the treasury bills but shorter than the 5-Year Development Stocks. The obvious candidate in this field was the treasury certificate, which, we are pleased to announce, has proved to be very popular. As we continue to develop our money and capital markets, it is our hope that more instruments of borrowing will be introduced in order to give the market both the breadth and depth that are necessary if it is fully to serve the growing needs of our economy.

The past year also saw a number of far-reaching amendments to the Central Bank of Nigeria Act. Among these, Decree No. 50 has several significant implications in the long-term development of the financial system and therefore deserves special mention. An important change introduced by this Decree was the complete take-over by the Central Bank of the financing of marketing boards' crops. We fully recognise that crop financing is of immense importance to the conomy and the change in this respect was dictated by circumstances, the facts of which are well known to all concerned. In any event, it is our belief that the take-over will free commercial banks' resources to be used in other areas such as small-scale industries, which are in dire need of funds for expansion.

The Decree also gave the Central Bank the power to fix the minimum percentage of commercial bank loans that must go to indigenous companies. Quite frankly, we believed that this type of legislation was long overdue, considering the extent of complaints from indigenous businesses that commercial banks discriminated against them. It is our belief that the very existence of such a law on our statute books will be enough to spur the banks to action, and the Central Bank, as experience has shown elsewhere, may not have to use the big stick at all. Up to now, the cordial relationship between the Central Bank and the commercial banks has not depended on the exercise of legal powers. By and large, we have received the utmost co-operation from the banks. It is our hope that this co-operation will continue. I have no reason to think otherwise.

An important development in banking legislation, which I should mention tonight, is the repeal of the Banking Act 1958 (as amended in 1962) and its replacement by Decree No. 1 cited as the Banking Decree 1969, which came into effect on 7th Feburary 1969. Although the Decree retains all the provisions of the old law, it has added and amplified further certain regulatory powers of the Central Bank over the commercial banks. Most important, however, is that conditions for the issue of a banking licence have been brought in line with Section 10 of the Companies Decree 1968. The Banking Decree for the first time also applies to discount and acceptance houses, building societies and all other forms of financial institutions.

There is of course Decree No. 51 which, among other things, requires all foreign companies operating in the country to register as Nigerian concerns. When the Decree was first issued, most foreign companies — including commercial banks — expressed concern about its effect on their operations. I am sure that commercial banks, after a more careful study of the implications of Section X of that Decree have now realised that it will not in any way interfere with the smooth running of their companies.

CONCLUSION

Mr. President, I am happy to note that in the past year the deterioration in the economy was successfully arrested. In fact, from now on, unless the extremely unexpected happens, conditions will continue to improve. While I do not wish to minimise the magnitude of the tasks that lie ahead of us, I feel confident that the worst is over.

I wish to thank the members of your organisation for their contribution in laying a solid foundation for a lasting financial structure in Nigeria. That our financial system has withstood the national crisis is at once a worthy testimony to the noble profession of banking and an acknowledgment of your devotion to the delicate art of banking management. I would like to end on the note with which I began this address: Now that we have passed through the strains and stresses of yet another year, honesty and devotion to duty must continue to be our watch word.

PRIVATE FOREIGN INVESTMENT IN 1966

This paper presents the results of the latest annual survey of private foreign investment in Nigeria. As in previous years, the enquiry was confined to companies which were wholly or partly owned by foreign nationals. The survey covered 594 selected establishments, of which 54 per cent responded, on the basis of which estimates were made. This compared with 57 per cent response in the survey for 1965. The low rate of response was due to the political crisis in the country in 1967, when the survey was conducted. The worsening of political conditions, as was to be expected, seem to have affected the small business establishments more adversely than the big ones: the ratio of response for the former group was lower than that for the latter category. However, the low ratio of response from the small enterprises does not very materially affect the result of the survey since the bigger enterprises account for the bulk of the capital flows.

Flow of private foreign capital

The upward movement in gross inflow of private foreign capital which occurred between 1962 and 1965 was reversed in 1966—see Table A. Gross private capital inflow in 1966, estimated at £N86.9 million, was £N16.1 million or 15.6 per cent below the 1965 level. It should be noted that even with this fall, gross capital inflow in 1966 was higher than in 1961, 1962 or 1963. Gross outflow of private foreign capital also declined. The estimated outflow of £N37.5 million compares with a gross outflow of £N47.8 million in 1965. This is the first time, since 1961 when this survey started, that gross outflow has declined.

With gross capital inflow declining by £N16.1 million and gross capital outflow, by £N10.3 million, net capital inflow declined in 1966 by £N5.6 million. In Table A are presented data on capital movements by origin. It will be noted that most of the drop in net capital inflow is accounted for by the sharp drop in the gross inflow of capital from the United States. With gross capital inflow from the United States dropping from £N19.8 million in 1965 to £N8.1 million in 1966 and gross outflow declining only marginally from £N1.1 million to £N0.9 million, net inflow declined by £N11.5 million from the 1965 level of £N18.7 million. Net inflow of capital from "others" also declined from £N4.7 million in 1965 to £N3.0 million in 1966. Net inflows from the two other sources — the United Kingdom and Western Europe — increased but by not enough to make up for the drop in the inflows from the United States and "others".

Net private capital inflow from the United Kingdom which had declined from £N28.0 million in 1964 to £N21.0 million in 1965, increased in 1966 to £N25.6 million. The pattern of the movement of net capital inflow originating in Western Europe between 1964 and 1966 is the same as that of United Kingdom origin. Having declined from £N15.3 million in 1964 to £N10.8 million in 1965, net capital inflow from Western Europe increased by 2.8 to £N13.6 million in 1966.

On the whole, the United Kingdom continued to be the single most important source of foreign capital in Nigeria. The net inflow from this source — £N25.6 million — was 52 per cent of total net inflow in 1966. The 1966 net inflow from Western Europe of £N13.6 million was 27 per cent of the total inflow during the year. The United States, which in 1964 and 1965 looked as if it might displace Western Europe as the second most important source of net capital inflow to Nigeria, recorded a