**KEYNOTE ADDRESS BY OKWU JOSEPH NNANNA, *PHD*, DEPUTY GOVERNOR (FINANCIAL SYSTEM STABILITY), CENTRAL BANK OF NIGERIA, AT A ROUND TABLE SESSION TITLED "ECONOMIC OUTLOOK 2016: IMPLICATIONS FOR BUSINESS IN NIGERIA" ORGANISED BY CHARTERRED INSTITUTE OF BANKERS OF NIGERIA AT ORIENTAL HOTEL, VICTORIA ISLAND, LAGOS ON THURSDAY, 28 JANUARY, 2016**

**Protocol,**

## 1.0 INTRODUCTION

1.1 Distinguished Fellows of the Institute, invited Guests, Ladies and Gentlemen, I am delighted to present this keynote address at this Round Table Session on Economic Outlook for 2016 and its implication for Business in Nigeria. I consider this event both important and timely. Important because it offers us all the opportunity to exchange ideas on how to address the economic challenges that we currently face and timely, because it came at a period the cacophony of voices on policy choices and strategies to address current economic challenges need to be properly streamlined and given purpose.

1.2 However, it is important to note that current economic challenges are not completely new or peculiar to Nigeria as a nation. Indeed, the consensus is that it is a global phenomenon. On our part, we recognize that we have been through this road before as we recall that in the mid 1980's oil price declined to as low as $12 per barrel. During that period the economy experienced twin deficits as budgets collapsed due to fiscal contraction and the balance of payments went into deficits as exports also declined. We saw our economic growth plummet as spiraling inflation and unemployment worsened poverty in our land. Notwithstanding the enormity of the challenges in those years, we successfully pulled through mainly, on account of the resilience of the Nigerian spirit and our resolve to learn the right lessons and chart a proactive course of action. Current challenges demands no less from us as we review global and domestic macroeconomic conditions necessary for our discussion.

## 2.0 DEVELOPMENTS IN THE GLOBAL ECONOMY

2.1 There is no gainsaying that Nigeria, like many other frontier markets is not immune to adverse global economic conditions. In fact, given the speed and impact of Globalization, economic threats in any part of the world are quickly transmitted to the domestic economy in a matter of months, if not days as a result of interlinkages in global financial markets and unfettered capital and trade flows. This explains why current global economic developments are impacting our domestic economy in more profound ways than we ever imagined in the past. It is, therefore, inappropriate for us to always think about solutions to domestic economic challenges in isolation of its external root causes.

2.2 Current review of the global macroeconomic trends suggests that the year 2015 presented a "mixed grill" in global economic conditions as global growth declined from 3.4 percent in 2014 to a projected 3.1 percent in 2015. However, IMF recently revised its growth outlook for 2016 to 3.4 percent on account of slowdown in China and persistent decline in oil prices. Advanced economies with its modest and uneven growth are expected to lead global growth in 2016. Specifically, the United States recorded 2.8 percent growth in 2015, largely driven by improved household expenditure, increase in fixed investment expenditure and low energy prices. However, current monetary policy normalization in the US and its implication for higher interest rates and strengthening of the dollar may become a source of instability for global financial markets and trade going forward.

2.3 On the other hand, growth in the Euro Area remained anemic at 1.5 percent in 2015, but projected to slightly improve to 1.7 percent in 2016, due to low interest rates and low energy prices, both of which will likely offset the negative impact of weakening net exports on growth. In Japan, recovery is expected to pick up albeit, sluggishly with a projected increase in growth from o.6 percent in 2015 to a projected 1.0 percent in 2016. This is predicated on Japan’s recent successful anti-deflationary policies, growing fiscal stability and improving exports.

2.4 However, commodity exporting emerging market economies remains the weak link in global growth, as Brazil grapples with recession at a negative -3.8 percent growth in 2015, largely driven by exchange rate misalignments and decline in commodity exports, especially oil. In China, the aftershocks of growth rebalancing is unraveling with less than expected growth of 6.7 percent in 2015 as against 7.3 percent recorded in 2014. The decline in growth was driven by declining investment, decreasing export trade and sustained financial market vulnerabilities. The implication of the foregoing on the global economy remained uncertain as inflation is on the decline, and fragilities in global financial markets and declining oil prices fuel worries about global recession in the medium term.

## 3.0 IMPLICATION FOR THE DOMESTIC ECONOMY?

3.1 At the Domestic front, global economic uncertainty is impacting domestic macroeconomic variables in substantial ways. Whether it is the free fall of oil prices, fragile money and capital markets, or sluggish and sticky product and labour markets, its impact on domestic macroeconomic stability and by extension, the business climate in Nigeria is quite obvious judging from the less than stellar performance of domestic macroeconomic trends in recent times.

3.2 Data from the National Bureau of Statistics indicated that growth has been on a sustained decline from 6.23 percent in 2014 to 2.8 percent in Q3 in 2015. This was largely driven by slowdown in the growth of non-oil sector which declined to 3.03 percent in third quarter of 2015 from 7.51 percent in corresponding period in 2014. Expectedly, poor growth performance was mirrored by declining industrial capacity utilization which decreased from 60.5 percent in Q1 of 2015 to 59.5 percent and 54.9 percent in Q2 and Q3 respectively. The impact on unemployment was predictable as it increased from 7.5 percent in Q2 of 2014 to 8.2 percent in corresponding quarter of 2015. The overall unemployment rate in Nigeria today is about 25 percent, with the youth accounting for the majority of the job seekers.

3.3 However, it is hardly surprising that Headline inflation has been on a creeping upward trend from 9.2 percent in June and July, 2015 to 9.4 and 9.6 percent in November and December, 2015 respectively, mainly driven by rising imported food inflation which increased from 10.13 percent in October to 10.35 percent in

December 2015. These developments clearly underscore the need for increased domestic food production and infrastructure development to bridge the domestic output gap that impact relative prices in the economy.

3.4 The implication of persistent decline in oil prices on our reserves is indeed manifest given the level of contribution of oil receipts to our reserves. With nearly 80 percent of reserves coming from oil receipts, it is not surprising that when the oil sector sneezes, our reserves catch cold. Consequently, reserves have declined from $34.25 billion as at end-December, 2014 to $28.41 billion at end-December 2015 on account of oil price decline. This explains why we at the Central bank embarked on demand management strategies to stabilize our forex markets because of the severe shock on our reserves accretion.

## 4.0 DEVELOPMENTS IN THE FINANCIAL SERVICES SECTOR

4.1 Over the years, the financial services sector has played important roles in mitigating the impact of economic downturns in the economy through its intermediation functions. During periods of economic crises, the financial system serves as bulwark to the economy by the provision of credit that business need to survive and thrive. However, this does not suggest that the banking system is completely immune to the commodity and asset price shock and the financial instability currently impacting the global economic landscape.

4.2 For instance, recent monetary policy normalization in the United States and its consequent hike in interest rates coupled with fragilities in emerging market financial markets provided window for capital reversals, especially portfolio investments. The bearish trend in the Nigerian stock market since 2014 is traceable to both the US monetary policy stance and the exchange rate management strategy of the CBN. This is attested to by the sustained decline in All Share Index (ASI) from 34,657 in 2014 to 28,642.25 as at end- December 2015. Also Market Capitalization trended downwards from 11.48 percent in end- December 2014 to 9.85 percent as at end-December, 2015, thus shading 14.2 percent during the period under review**.**

4.3 In the money market, interest rate movements were mainly driven by liquidity surfeit in the banking system which averaged N747.73 billion per day, in addition to Statutory Revenue Allocation through monthly FAAC disbursements of about N870.00 billion coupled with the liquidity impact of the reduction in CRR from 25 percent to 20 percent during the period under review. The impact of these liquidity injections can be assessed from the downward trend of the average interbank call and OBB rates which decreased from 1.00 and 1.50 percent respectively to 0.85 and 0.94 percent respectively as at end-December 2015.

4.4 The combination of the impact of liquidity surfeit and the oil price induced decline on foreign reserves triggered sustained speculative attack on the Naira that subsists till date. The pressure on the forex market also led to the widening spread between the interbank rate and BDC segments of the forex market in recent times. While the interbank rates widened from N165/ $US to N197/$US as at end- December 2015, the BDC rates depreciated to N237/US$ and closed at N267/US$, as at mid-January 2016. The delisting of 41 items by the CBN and its recent decision to stop the sale of forex to the BDCs are measures aimed at conserving Nigeria's dwindling foreign reserves. The impact of these two policy measures has temporarily halted the hemorrhage in the reserves in recent times. Let me add that the delisting of the 41 items represents a temporary measure.

4.5 Notably, an important indicator of the role of the financial system in supporting growth is in the area of sectorial credit distribution by the banking system. Currently, sectoral credit allocation clearly shows that oil and gas sector lead other sectors at 49.7 percent of total banking sector credit, while services and industry are equally strong beneficiaries at 44.0 percent and 34.6 percent respectively. While the increased credit to industry and services are welcome developments, the persistent decline in oil prices coupled with high banking industry exposure to that sector portends a strong downside risk to the financial system if the trend continues. Although, it is important to note that notwithstanding the developments in the oil and gas sector, new banking loans to the sector still grew by 9.65 percent as at end- December 2015.

4.6 Notwithstanding the impact of the global economic uncertainty on our financial system and its exposure to oil and gas, other measures of our financial system health remain strong. The Capital Adequacy Ratio (CAR) of banks stood at 17. 66 percent, as at December, 2015- this is well above the prudential requirement of 10 percent. Non-performing loans stood at 4.88 percent representing a 2 percentage point increase, but remains below the prudential requirement of 5 percent during the review period.

These suggest the ability of the Nigeria financial system to withstand current economic challenges going forward.

## 5.0 IMPLICATION FOR THE FUTURE OF BUSINESS IN NIGERIA?

5.1 It goes without saying that every challenge comes with

opportunities. I therefore believe that our current economic challenges have thrown up fresh opportunities that our business leaders need to explore for growth. First, already our forex demand management policies have started yielding results as businesses are bracing up to take up the challenge of domestic production of hitherto imported commodities, thus reducing the demand pressure on the forex market. Second, with the appropriate pricing of petroleum products underway, opportunities for local refining of crude oil are brighter than ever before and this will provide investment opportunities in the down and upstream segments of the oil value sector chain. We also expect our banks to re-discover the agricultural sector, as lending to this sector will free the economy from the strangle hold which the oil and gas sector has long had on the economy.

5.2 The critical area of infrastructure development is another opportunity to attract foreign and domestic investments into our economy. The programs in power, transportation development, especially rail, roads and aviation provide investment opportunities all by themselves, in addition to bridging infrastructure deficit that will ultimately drive down cost of doing business in Nigeria and improve returns for local and international investors willing to take advantage of the Nigerian market.

5.3 The challenge of easy access to investment capital and low interest rates are being addressed headlong by the Central bank of Nigeria through its special intervention programs. These programs are targeted at substantially de-risking some sectors and providing credit support to private investors to boost local investment on a sustainable basis. These programs include commercial agriculture (CACS), Medium and Small Scale Business Development Funds (MSMDF), and Real Sector Support Facilities (RSSF) etc.

Recently, the central bank of Nigeria reduced the cash reserve requirement(CRR) for banks and a programme is being put in place to encourage banks to access this funds and on- lend them to real sector investors at concessionary interest rates. I urge our local investors and businesses to quickly take advantage of these opportunities to grow their businesses and by extension our economy.

## 6.0 CONCLUSION.

Ladies and Gentlemen, despite the challenging domestic and external macroeconomic environment which we currently face, we are convinced that it offers us the much needed opportunity for introspection. I do hope that this event will enable us pay adequate attention on how to deepen structural reforms and enhance the transformation of the economy on a sustainable basis. I wish you a very successful deliberation.

**THANK YOU FOR LISTENING**