Central Bank of Nigeria

GROWTH PROSPECTS IN AFRICA AFTER THE CRISIS

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Protocol

1. I am very delighted to be in your midst at this dinner, and to present the keynote address of this conference. I consider this address on the topic, **'Growth Prospects in Africa after the Crisis'** very timely, particularly, now that various countries are still smarting from the negative effects of the recent global financial and economic crisis. The conference will no doubt provide an opportunity to share some thoughts on the future of African economies after the crisis. Compared to the previous crises, the speed, magnitude and spread of the recent crisis and the synchronisation of its impact in different countries had been remarkable. The global nature of the crisis and its widespread impact meant that a national solution was not enough, and that international and multilateral actions were imperative.

2. The genesis of the crisis was the bursting of the housing bubble in the US in August 2007, which reflected the interplay of several factors. As in the previous times of financial turmoil, the pre-crisis period was characterized by (i) surging asset prices that

proved unsustainable; (ii) a prolonged credit expansion leading to accumulation of debt; (iii) the emergence of new types of financial instruments; and (iv)the inability of regulators to track the sophistication of the operators. There was also the rapid expansion of securitization (not in itself a new phenomenon), which changed incentives for lenders and lowered credit standards.

3. Cross-border spillovers intensified after the crisis broke because financial institutions and markets across borders were closely linked and risks highly correlated. Consequently, the world economy faced a deep downturn. It was a vicious circle of negative interactions between financial markets, product markets, trade, and labour markets. Job losses led to lower consumption, lower industrial confidence, and lower investment, which resulted in more job losses, and so on. With the help of monetary and fiscal stimuli and slowly improving financial conditions, growth is resuming gradually in 2010.

4. The consequences of the crisis on our economies was not as catastrophic as the previous ones due to the low integration of African financial institutions/markets with the global financial markets and the sustained economic reforms that many of our economies had pursued since the mid-1980s. As the least integrated region into the global economy with a share of 2 per cent of total world trade, Africa was spared some of the initial

effects of the financial crisis; it was instead hit by the aftershock (or second-round effects) and the resulting global recession. At that stage, the crisis had already clearly shifted from a problem in the financial markets to a global economic downturn.

5. Africa had experienced fast and steady economic growth in the past 12 years and in 2008, for the first time in three decades, sub-Saharan Africa economies were, on the average, growing at the same pace as the rest of the world. Consequently, the crisis affected African economies through multiple channels: reduced trade flow, decline in commodity prices, reduced liquidity and tightening of credit markets that affected the private and public sectors, reduced inflows of remittances, drop in foreign direct investment (FDI), exchange rate depreciation and uncertainty, and declining flows of Official Development Assistance (ODA).

6. The impact varied across countries depending on their production and export structure, exposure to the international financial system, as well as capacity to cushion the negative effects of the crisis. Furthermore, the existence of varieties of exchange controls and the lack of exposure to the sub-prime market in developed countries limited systemic risk in the region. In larger African economies such as South Africa and Nigeria, where stock markets have some degree of exposure to the international financial system, the impact was more pronounced, especially during the second-round impact. Economic growth in Africa

began to slow in the second half of 2008, with the average growth rate falling from nearly 7 per cent in 2007 to under 5.5 per cent.

7. Improved economic management, progress in governance, rising commodity prices, reduction in armed-conflicts, and increased international support for most African countries created hopes of a brighter future for the region before the recent financial and economic crises. Evidence indicates that remarkable progress has been made in the African continent economic space since 2000. After decades of low economic growth, Africa achieved impressive rates of economic expansion as average GDP growth rate rose to 5.2 percent between 2001 and 2009. The average annual growth rate in sub-Saharan Africa increased from 3.7 per cent in 1996-2000 to 6.3 per cent in 2003-2007. The latest edition of the *World Economic Outlook 2010* put sub-Saharan Africa growth for 2008 and 2009 at 5.5 and 2.1 per cent, respectively, and latest projected growth rates of 5.0 and 5.5 per cent for 2010 and 2011, respectively. Inflation declined from an average of 26.3 per cent during 1992-2001 to 9.4 per cent during 2002-2009. The recent crisis has, however, reversed most of these gains.

8. Several efforts had been made by developed countries, international financial institutions and African governments to address the impact of the crisis on Africa. These included the agreements reached by member states of the Group of 20 (G-20) at its summit in London in April 2009, to inject $1 trillion into the world economy, part of which would support growth in emerging markets and developing economies. The World Bank, African Development Bank (AfDB) and the IMF have all stepped up lending to the region since the onset of the financial crisis. These institutions have also reformed several of their existing loan and assistance programs, or created new facilities, to target their efforts to the current crisis. These include: the IMF's Exogenous shock facility, the World Bank's new Financial Crisis Response Fast-Track Facility and Infrastructure Crisis Facility, and the AfDB's new Emergency Liquidity Facility and Trade Finance Initiative.

9. Ladies and gentlemen, permit me to dwell a bit more on some of the factors that make our region vulnerable to shocks, constrain our ability to effectively partake in international trade and, attract a fair share of global investments.

- Most countries in Africa depend on very few primary agricultural and mining commodities for their exports and mainly imported manufactured goods. For example, in 2008, crude petroleum, natural gas, etc. accounted for 60 per cent of total goods exported from Africa (ADB 2010).

- Efforts at diversifying the economies away from primary produce have remained largely unsuccessful for a variety of reasons.
- The state of critical economic and social infrastructure is poor and cannot support robust growth on a sustainable basis. Consequently, while Asia, Middle East and North Africa and Europe achieved real GDP growth rates of 3.5, 2.4 and 4.0 per cent in 2009, sub-Saharan Africa recorded a real GDP growth rate of 2.1 per cent. Sub-Saharan Africa (SSA) is projected to grow at 4.7 and 5.9 per cent by 2010 and 2011, compared with the projected growth rates of 6.9, 4.5, 1.3 per cent and 7.0, 4.8, 1.9 per cent for Asia, Middle East and North Africa and Europe in 2010 and 2011, respectively (WEO 2010).
- The financial systems are shallow and incapable of financing long-term growth required for economic transformation. Consequently, the productive sector is starved of investible capital. The money and capital markets are also not sufficiently developed and internationalized. This issue would further be addressed in the latter part of my speech.
- The industrial base is weak and largely dependent on imported raw materials and technology, thereby, compromising competitiveness.
- Government revenue, accruing mainly from exports remains pro-cyclical in tandem with the movements of commodity

prices and often resulted in fiscal deficit. In 2009, aggregate fiscal balance for Africa grew above the accepted benchmark (3.0 per cent of GDP) by 1.4 per cent.

- Efficiency in public spending is low due to pervasive corruption and sometimes, political instability.
- The balance of trade is often negative as the share of Africa and the Middle East in global trade is less than 5.0 per cent. For example, in 2009, 36 out of the 44 countries that made up SSA recorded negative balance of trade (WEO 2009). This development is due partly to protectionism against goods originating from Africa and the Middle East.
- A comparison of the level of external reserves, which measures the credit worthiness of countries, between sub-Saharan Africa, the Middle East and North Africa with Asia on the other is quite revealing. Between 2002 and 2009, average reserves for sub-Saharan Africa and the Middle East and North Africa stood at US$97.0 and US$577.6 billion compared with US$1,552.6 billion for Asia. This is projected at US$176.2 and US$1,124.6 billion for sub-Saharan Africa and the Middle East and North Africa by 2011, while that of Asia is projected at US$3,865.6 billion (WEO 2010). The implication of this is that the Asian economies would engender more confidence and, hence, attract more foreign investments relative to Africa and the Middle East and North Africa. Little wonder, therefore, that on average, Africa's share of global

FDI was a mere 5.3 per cent compared with Asia's 23.7 per cent between 2008 and 2009 (UNCTAD 2010).

10. It is worthy to note that financial crisis have occurred in the past, the world economy is recovering from one now and another one will likely occur in the future. The challenge, therefore, is the ability to manage one when it shows up. In that regard, it becomes important to utilize the lessons learnt from the recent crisis as the building blocks for the development of policies and strategies that would ensure sustainable economic growth.

11. At this point, I would like to share some experiences we have had in Nigeria which I believe would provide a useful pointer to the rest of Africa as we seek to chart a path for sustainable long-term growth. This choice of Nigeria seems quite appropriate, as it is Africa's 2nd largest economy, its most populous country and accounts for up to 60% of West African GDP.

12. Nigeria has just recently come out from a banking crisis which was caused largely as a result of risk management and governance issues, which have been well documented. This crisis however reflects a deeper problem of the financial system in Nigeria, which is symptomatic of financial systems across Africa. This problem can be attributable to some fundamental issues such as;

- Total disconnect between the allocation of savings and the structure of the real economy. In Nigeria, Agriculture accounts for 42% of the GDP, however the sector attracts only 1% of bank lending. Also the SMEs while responsible for 70% of total employment attract only 3% of bank lending.

- A banking system which relies on short-term current and savings deposits accounts which constrains long-term funding. Development requires long-term financing for critical infrastructure such as power, energy, telecoms and transport infrastructure. Even where there is a seeming market for the development of long-term funding through the capital market, a significant part of both Financial Institution and Equity issues in Nigeria come from the balance sheet of banks, either from proprietary positions or using depositors' funds.

- There is a general failure to recognize the limitations of the banking system when it comes to delivering economic development. The banking system as a whole is only useful in the context of good economic policies that promote the production of real goods and services especially in agriculture and manufacturing. Emphasis on Financial sector reform and Financial stability while important, can only make sense in the context of structural transformation that unlocks the potential in sectors such as agriculture from a present state of being dominated by primary production, into one that develops a value chain that is commercially viable and capable of absorbing finance on a commercial scale and also industrial policy that improves the competitiveness of manufacturing and its ability to take advantage of the market.

13. It is important that the industrialisation of the African economies be accorded high priority. This is because there is no region that can attain greatness without a solid industrial base. Industrialisation will enhance diversification of the economic base of Africa away from primary commodity exports. Specifically, there is need to intensify diversification, both within the commodity sector into the production of non-traditional items with growing markets, or into further processing of commodities and in manufacturing and service activities. Emphasis should therefore be placed on promoting value-chain agricultural, industrial and information and communication technology activities.

14. In light of the above fundamental challenges faced by the Nigerian economy, the Central Bank of Nigeria (CBN) has undertaken some initiatives to drive activities that would spur the growth process of the economy. These initiatives which focus on those sectors identified to be the major drivers of growth in the near-to-long-term include:

- The review of the Universal Banking guidelines to refocus banks on their core mandate.

- Another initiative is recent amendment to the Prudential Guidelines, the first time in the last 20 years. The purpose of which is facilitate the channelling of bank resources towards the real sector.

- The CBN is also playing a more activist role in its engagement with policy makers to create a proper policy environment in the power sector, downstream petroleum sector and the agricultural sector.

- We have recently together with the banking industry commenced the designing of a new agricultural financing framework, the Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL), in collaboration with the Alliance for a Green Revolution in Africa (AGRA) and the United Nations Industrial Development Organization (UNIDO). NIRSAL is expected to: (i) stimulate innovations in agricultural lending, (ii) encourage banks that are lending to the sector; (iii) eliminate state dependency by banks for deploying loanable funds to agriculture; (iv) leverage banks' balance sheets for lending to agriculture; and (v) ensure risk sharing approach that will build a business approach where banks share in the risk of lending to the sector.

15. In order to unlock these value-chain activities, efforts must be directed at tackling structural rigidities, infrastructural deficiency, building human capacity and improving business environment through good governance, transparency and accountability. The CBN sees its role as being a value chain manager, but also as an institution that should take calculated risks with its balance sheet in order to reposition the Nigerian economy. Some of the ways which we have started to do that include;

- The establishment of a ₦300 billion fund for financing power infrastructure in industrial clusters, through the Bank of Industry at concessionary interest rate. The initiative is expected to boost power supply, reduce operating cost of manufactures, increase profit and promote employment;
- the setting up of a ₦200 billion facility for refinancing and restructuring bank loans for the SMEs, manufacturing firms and the aviation sector;
- the setting up of a ₦200 billion Small and Medium Scale Enterprises Guarantee Scheme Fund, which is expected to catalyse adequate flow of finance to the SME manufacturers by the deposit money banks. The programme, which guarantees loans by banks to the SMEs, is to absorb some of the risks which inhibit banks from lending

to the real sector and also limit collateral impediments to borrowing;

- the ₦200 billion Commercial Agriculture Credit Scheme which, is expected to fast-track the development of large scale agriculture and agricultural processing activities, by providing credit at concessionary interest rates;.

16. These interventions by the Central Bank of Nigeria should however not be seen as a panacea to tackle the major challenges faced by the Nigerian economy as complementary reforms are required in other sectors of the economy to achieve long-term sustainable development.

17. Efforts at making infrastructure to work should be top on the development agenda. This would require massive investment through public-private partnership, while the governments should provide the enabling environment to attract foreign investment inflow to the infrastructure sub-sector. Moreover, there is need to reform the institutional machinery for the delivery of infrastructural services including, an extensive review of legal requirements with a view to jettisoning those laws that are anti-infrastructure development.

18. The development of virile human capital through the provision of qualitative and well focused education should be vigorously pursued. Areas of emphasis would include engineering and technology, ICT, business management and other fields that will catalyze the effective unlocking of the economic potentials of Africa. This will require adequate funding and equipping of educational facilities and institutions across the continent.

19. Promoting regional trade between Africa and the rest of the world is one of the channels through which its economies can achieve higher economic growth, reduce unemployment and poverty, and attain the Millennium Development Goals (MDGs) by 2015. This is because increased trade is associated with technology transfer, new ideas and higher inflows of foreign capital. In order to promote regional trade, there is need to improve on the productive base of the economy through efficient allocation of resources, resolve the incessant conflicts that have hindered free flow of labour, goods and services, guarantee of security as well as provision of functional and efficient infrastructural network.

20. Africa must also rise up to the challenge of equipping the continent with competent and highly trained technocrats. For example, trade technocrats must be able to efficiently marshal the need for improved market access; make special and

differential treatment more operational to effectively meet African countries' peculiarities; address the concerns of African countries on the implementation of WTO agreements; ensure that future multilateral negotiations in new areas support and make contributions to the African development processes. In addition, they must ensure that the development dimension is at the centre of negotiations in new areas of benefit; liberalization is carried out in a sustainable fashion; enhance capacity building and support participation of the African countries in the multilateral negotiations. African countries are currently under-exploiting their trading opportunities and have witnessed disintegration over time, a trend that is most pronounced in their trade with advanced countries.

21. To reduce the adverse effects of these crises and the dependence on external funding, African countries must develop and implement sound macroeconomic policies to ensure strong and stable economies. In this regard, the policy package should have flexible fiscal and monetary policies that will promote job creation and sustainable growth. Improving the efficiency of public finances is desirable for cushioning the declining growth trend in the region.

22. We also need to focus on the labour market and social safety nets in order to mitigate the effects of unemployment. Lastly, the multilateral institutions should have a clear message on

the role of the private sector in managing the crisis operationally with them as partners. While business cannot eradicate poverty, poverty will never be eradicated without business or sufficient jobs created in a sustainable way.

23. Financial markets all over the world are, known to have inherently high transaction costs which tend to exclude the poor. Empirical studies in many countries have shown that poor people use a combination of formal and informal, market and non-market financial products depending on their needs and access. Against this background, the challenge for African governments is not only to creatively fashion policies that would promote financial inclusiveness particularly for the poor, but also, to ensure that undue instability is not triggered in the financial system.

24. In doing these, we should realize that it was policies of the past that got the world into the recent mess, so solution to the crisis should not just try to apply the same prescriptions. The crisis is an opportunity for rethinking the approaches and paradigms, and to re-balance policy packages. I wish to reiterate that higher growth rates and development are achievable in the continent, but it will take the determination of everyone to do things right.

25. It is pertinent at this juncture to mention that though the barriers to economic transformation in our economies may appear daunting, they are by no means insurmountable. Policy

makers should commit themselves to sound economic management and be prepared to stand courageous in making hard decisions for the long-term benefit of our people. Africa should seek partnerships with other economic blocks that would be mutually beneficial. It is in this light that I commend the organizers of this conference because the issues being brought under focus are at the centre of the growth aspirations of our regions.

26. It is only through collective efforts that Africa can conveniently overcome the multiple obstacles preventing the realization of increased trade and sustainable economic development in the medium-to-long term.

27. Thank you all for your attention.

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