

IMF Representative Endorses CBN Intervention in Some Banks As Essential to Long Term Growth and Development

Press Release
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1. The following statement was issued today in Abuja by the IMF country chief and representative in Nigeria, David Nellor:
2. Mr. Nellor said that he "endorses the CBN's intervention in some banks as essential to building a sound financial sector that can promote long term growth and development consistent with the goals being set for the Vision 2020."
3. "A core principle of an effective banking system is public trust – trust that deposits will be safe, trust that banks allocate financial resources to productive activities, and trust that banks will manage risk. Underlying this trust is a public expectation that sound governance practices are employed in the banking system. These fundamental tenets enable the banking system to promote sound economic growth and development. To that end, the central bank as regulator has the responsibility to ensure that the principles of banking enshrined in legislation and the CBN's mandate are preserved."
4. "Like many countries during the crisis, the central bank has followed a systematic process of examining the banks. Special examinations of bank balance sheets by the CBN and NDIC were launched. The purpose of the examinations was to verify asset quality and examine related party transactions. This process is and should continue to be conducted for all banks in the system."
5. "Based on the findings of these initial examinations, the CBN appropriately required additional provisioning in all banks and in others it was essential for it to intervene by replacing management and injecting funds into the bank balance sheets. In the latter cases, various combinations of severe loan delinquency, undercapitalization, systematic liquidity shortfalls, and serious governance problems justify such action based on the mandate given the central bank."
6. "We support the central bank's public commitment to protect depositors and creditors. The immediate goals are to stabilize the banks, seek full recapitalization through loan recovery and new investors, and to strengthen the corporate governance and credit practices in the banks. Over time these actions should enable the central bank to remove itself from both the management and balance sheets of the banks in a manner consistent with financial stability."

Office of the IMF Representative
International Monetary Fund
Abuja, Nigeria