# How Safe Is Nigeria’s Foreign Reserve?

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A statement credited to Timothy Geithner, US treasury secretary, on the health of some banks in the country has heightened the concerns of Nigerians about the safety of their country’s reserve in foreign banks

How safe is Nigeria’s foreign reserve in American and European banks? This question arose following a statement by Timothy Geithner, United States treasury secretary, recently that the US government had set aside some funds to bail out some ailing banks and other financial institutions bruised by the global economic meltdown. The statement has generated concern among many Nigerians on the status of Nigeria’s foreign reserve stashed in some banks in the United States and other European countries. Mobolaji Aluko, a Nigeria-born University don in Burtonsville, USA, and son of Sam Aluko, a renowned economist also shared this concern in his paper titled: “The Global Financial Meltdown; Impact on Nigeria’s Capital Market and Foreign Reserves.” According to Aluko, as at October 1, 2008, Nigeria’s foreign reserve was $62 billion. He said 67 percent of it was denominated in US dollars while 24 percent was in Euros. Other currency denominations were British Pound Sterling, 3.7 percent, Japanese Yen, 3.6 percent, Swiss Franc 0.1 percent with the remaining 1.6 percent denominated in currencies of many other countries. Many banks in America and Europe are said to be under stress. Nigerians want to know where the foreign reserve is and whether it is safe. Their concern is fuelled by the fact that most banks in the US have been hit by the economic meltdown which first came to light with the collapse of investment banking giants like Lehman Brothers, Merrill Lynch, Morgan Stanley and JP Morgan Chase as well as government- backed mortgage giants like Fannie Mae and Freddie Macafter. Their problem started with inability to meet their financial obligations to their clients. To help stave off the problem, the United States Treasury on October 14, 2008, announced a bail out package of $250 billion for US banks with $25 billion going to each of the four largest banks. Newswatch gathered that in order to facilitate effective disbursement of the funds, the nine big banks in the US were summoned for a meeting to intimate them of the relief package which they agreed. The banks were Morgan Stanley, JP Morgan, Goldman Sachs, Merrill Lynch, Citigroup, Wells Fargo, Bank of New York Mellon, Bank of America and State Street. Based on this information, Nigerians concluded that if financial institutions in America and Europe where the reserve is domiciled are having some trouble managing themselves, then it was not difficult to draw the conclusion that the Nigerian reserve in some foreign banks is not safe. It was on the basis of this apprehension that Charles Soludo, governor of the Central Bank of Nigeria, CBN, recently assuaged the concern expressed by Nigerians on the state of Nigeria’s foreign reserve. He said the reserve is safe and is enough to finance imports for one year. But Soludo’s re- assuring statement has done little to soothe the feelings of those Nigerians still nursing the notion that the country’s reserve which is said to have dipped to $48 billion as at February 2009, from $62 billion in October 2008, may have withered with the global meltdown that hit the banking sector. Festus Odoko, the CBN spokesman, was not forthcoming with information when Newswatch sought to know the American banks managing Nigeria’s foreign reserve. He said pointedly that asking for the identity of the asset managers was like asking for the account numbers of the banks holding funds for us. In his words: “You want to go to verify what sum is in the account.” But reminded that in 2006, the apex bank had advised Nigerian banks to go into partnership with foreign asset managers so that they would be allowed to manage a slice of the reserve, and that the Nigerian banks and their foreign partners approved to manage the funds were public knowledge, Odoko did not shift his stand. He insisted that the foreign managers should not be something of public knowledge. On October 3, 2006, the CBN had approved 14 Nigerian banks to partner with foreign counterparts to manage a part of the nation’s foreign reserve. The banks and their foreign partners were; Zenith Bank and J.P. Morgan(USA); Union Bank of Nigeria and Black Rock (UK); First Bank of Nigeria and H.S.B.C (UK); Intercontinental Bank and BNP Paribas(France); IBTC Chartered Bank and Credit Suisse (Switzerland); Guaranty Trust Bank and Morgan Stanley(USA); Ecobank Plc and Bank of New York; Fidelity Bank and ABN Amro(Netherlands). Others who benefited from the CBN gesture were United Bank for Africa/ UBS (Switzerland), Bank PHP and Fortis (Benelux) and Access Bank and Cominvest of Germany. Before the CBN gesture to Nigerian banks, the management of the country’s foreign reserve had been the exclusive preserve of foreign asset managers. To qualify for consideration, Nigerian banks were advised to up their capital base to one billion dollars or N100 billion. A total of $7 billion of the reserve as at that year was apportioned to the banks. Newswatch gathered that each asset manager was given $500 million to manage with J.P.Morgan of USA appointed the global custodian. Findings also indicate that some of the banks spread across the Western hemisphere that have custody of parts of Nigeria’s reserve have not been spared the turbulence of the economic meltdown. Even here in Nigeria, the banking sector is also facing the rough edges of the meltdown. Soludo even hinted on this when he said recently that, but for the banking consolidation of 2005, no bank would exist in Nigeria today. Otio Nathaniel, a banker, argues that until the CBN makes a definite statement on how safe the foreign banks holding the nation’s reserve are, Nigerians would still be asking questions. His argument becomes valid in the light of recent developments in some of the foreign banks managing Nigeria’s reserve. Newswatch gathered that in October 2007, a year after becoming asset managers of Nigeria foreign reserve, Fortis, ABN Amro and BNP Paribas witnessed changes in their ownership structures. In the case of Fortis, it went into alliance with Banco Satander of Spain and Royal Bank of Scotland to acquire ABN Amro, another asset manager. Nathaniel believes that with the economic meltdown, a lot of changes might have occurred in some of the banks holding Nigeria’s funds.