

# CBN 2004 Annual Report

Prof. Charles C. Soludo  
Governor

May 10, 2005



Central Bank of Nigeria

# Outline

- Introduction
- Monetary Policy and Surveillance Activities
- Currency Management
- External Reserve & Exchange Rate Management
- Banker and Adviser to Govt.
- CBN Financial Operations and Other Issues
- CONCLUSIONS



# Introduction

- Overview of CBN operations.
  - Major institutional changes in 2004 (Governance, Restructuring, and Efficiency)
  - 2004: Major changes in CBN Governance
- Major outcomes of the economy.
  - First year of NEEDS: Monetary Policy delivered unprecedented results



# Outline

- Introduction
- Monetary Policy and Surveillance Activities
- Currency Management
- External Reserve & Exchange Rate Management
- Banker and Adviser to Government
- CBN Financial Operations and Other Issues
- CONCLUSIONS



# Monetary Policy and Surveillance Activities

Central Bank of Nigeria

- Monetary Policy Framework remained unchanged in 2004
  - Broad Money Targeting within Medium term framework (15% growth)
- Targeted monetary aggregates consistent with **NEEDS**.
- **NEEDS** sets out medium term macroeconomic framework for management of the economy.



# Monetary, Financial and Other Indicators

Central Bank of Nigeria



	2003		2004	
	Target	Actual	Target	Actual
<b>M2 (%)</b>	15.0	24.1	15.0	14.0
<b>M1(%)</b>	13.8	29.5	10.8	8.6
<b>Aggregate Credit (net) (%)</b>	25.7	29.1	24.5	12.0
<b>Credit (net) to Federal Government (%)</b>	-150.3	58.4	29.9	-17.9
<b>Credit to Private Sector %)</b>	32.3	18.4	30.0	26.6

# Monetary Policy and Surveillance Activities

## Monetary Targeting in 2004

- Significant success was achieved.
- Growth in monetary aggregates was within the programmed targets.

	Target	Actual
M2(%)	15.0	14.0
M1(%)	10.8	8.6

## Reason:-



- Tight monetary policy complemented prudent fiscal operations of the FGN.

# Monetary Policy and Surveillance Activities

Central Bank of Nigeria

- Aggregate Bank credit (Net) to the economy increased by 12.0% arising from increase in credit to the private sector.
- Credit to the private sector grew by 26.6% compared with the target of 30%.
- Net claims on the FGN declined by 17.9% as against 58.4% increase in 2003





# Monetary, Financial and Other Indicators

Central Bank of Nigeria



	2003		2004	
	Target	Actual	Target	Actual
Inflation rate (Dec-over-Dec)(%)	9.0	23.8	10.0	10.0
Inflation rate (12-MMA) (%)	9.0	14.0	10.0	15.0
Growth in GDP (%)	5.0	10.2	5.0	6.1
Accretion/Depletion of External Reserves (US \$ million) *	-300	213.3	-500.0	-9,487.2
Stock of External Reserves (US \$ billion)	7.19	7.47	7.69	16.96
Exchange rate N/US\$1.00 (end-period) **		137.0		132.9

\* (+) = depletion of reserves, (-) = accretion to reserves

\*\* Market Determined

# Other Policy Outcomes

Central Bank of Nigeria

- Domestic output grew by 6.1% compared with 10.2% in 2003. Growth of 6.1% exceeded target of 5.0% in NEEDS for 2004
- Growth was non-oil sector driven in 2004 (7.5%).
- Inflation rate decelerated to 10% from 23.8% in 2003.



# Monetary Policy and Surveillance Activities

Central Bank of Nigeria

## Interest Rate Developments

- Deposit and lending rates declined in response to the low public sector demand for bank credit and banking sector consolidation.
- Spread between deposit and lending rates remained high.



# Monetary Policy and Surveillance Activities

Central Bank of Nigeria

## Surveillance Activities

- Performance of Banks since 2001 exhibited a deteriorating trend.
- Mixed developments in 2004.
- Rating of licensed Banks using “CAMEL”:

■ Sound	–	10
■ Satisfactory	-	51
■ Marginal	-	16
■ Unsound	-	10



# Ratings of Banks Using the "CAMEL" Parameters

Central Bank of Nigeria



Category	Number			
	2001	2002	2003	2004
<b>Sound</b>	10	13	11	10
<b>Satisfactory</b>	63	54	53	51
<b>Marginal</b>	8	13	14	16
<b>Unsound</b>	9	10	9	10

# Monetary Policy and Surveillance Activities

Central Bank of Nigeria

- Banking Sector Reforms: To Build Africa's Financial Centre.
- 13-point banking sector reform agenda.
  - Consolidation of banking sector;
  - Minimum capital base of =N=25billion by Dec.2005
- 9 groups indicated intention towards consolidation by end of 2004; about 7 banks had N25 b by end Dec as against 2 by July 6.



# Monetary Policy and Surveillance Activities

Central Bank of Nigeria

## Payments System:-

- Introduced new clearing and settlement system.
- Appointed 7 settlement banks to clear negotiable instruments
- Sub-committee of Bankers' Committee submitted report on payments system reform



# Outline

- Introduction
- Monetary Policy and Surveillance Activities
- Currency Management
- External Reserve & Exchange Rate Management
- Banker and Adviser to Government.
- CBN Financial Operations and Other Issues
- CONCLUSIONS





# Currency Management

- CBN take-over of NSPM Plc. granted by FGN.
- CBN's share capital increased from 2.3% to 77%
- Management consultant appointed in Nov. 2004.
- Process of issuing ₦1,000 banknote commenced Q4, 2004.



# Outline

- Introduction
- Monetary Policy and Surveillance Activities
- Currency Management
- External Reserve & Exchange Rate Management
- Banker and Adviser to Government
- CBN Financial Operations and Other Issues
- CONCLUSIONS



# External Reserve & Exchange Rate Management

Central Bank of Nigeria

- Performance of the external sector improved significantly.
- Overall balance of payments position swung from a deficit of =N=162.8 billion (2.3% of GDP) in 2003 to a surplus of =N=1,128.4 billion in 2004 (13.7% of GDP).
- Level of external reserves rose from US\$7.47 billion in 2003 (8.5 months of imports) to US\$16.96 billion at end-Dec. 2004 (18.4 months of imports).



# External Reserve & Exchange Rate Management

Central Bank of Nigeria

- Autonomous inflow (US\$10.1bn) surpassed DAS sales (US\$9.5bn) – first time in years.
- The end-period naira exchange rate, vis-à-vis the US\$ appreciated by 3.1% (from N137.0 / US\$ to N132.9 / US\$).
- The average naira exchange rate depreciated by 3.1% in 2004 at the DAS but appreciated by 0.8% at BDC.



# Outline

Central Bank of Nigeria

- Introduction
- Monetary Policy and Surveillance Activities
- Currency Management
- External Reserve & Exchange Rate Management
- Banker and Adviser to Govt.
- CBN Financial Operations and Other Issues
- CONCLUSIONS



# Fiscal Operations of Government

Central Bank of Nigeria

- Participated in Drafting the NEEDS Agenda (Macro Framework)
- Key part of Economic Management Team
- Created new Economic Policy Department – to signal Emphasis on policy
- Total federally collected revenue increased by 51.5% to =N=3,901.5 billion.
- Oil revenue accounted for 86% and non-oil accounted for the balance.
- FGN retained revenue was =N=1,234.6 billion while its expenditure was =N=1,377.3 billion
- Fiscal operations thus resulted in a deficit of =N=142 billion or 1.7% of GDP.
- No deficit financing by CBN at end 2004.



# Fiscal Operations of Government

Central Bank of Nigeria

- Consolidated public (Fed, State, LG) debt - =N=6,260.6 billion (75.8% of GDP).
- Debt Service - =N=442.5 billion (5.4% of GDP)
- Debt stock remains high and unsustainable.



# Outline

Central Bank of Nigeria

- Introduction
- Monetary Policy and Surveillance Activities
- Currency Management
- External Reserve & Exchange Rate Management
- Banker and Adviser to Government.
- CBN Financial Operations and Other Issues
- CONCLUSIONS





# Income and Appropriation

■ Revenue	-	=N=87.6 billion
■ A decline of 28.6%		
■ Expenditure	-	=N=74.5 billion
■ A decline of 20.8%		
■ Operating surplus	-	=N=9.2 billion
■ A decline of 63.3%		
■ Transfer to FGN	-	=N=7.6 billion
■ Balance to Reserves	-	=N=1.6 billion



# Project EAGLES



- E - Efficiency
- A - Accountability
- G - Goal Orientation
- L - Leadership
- E - Effectiveness
- S - Staff Motivation
  
- Implementation Phase
  - Procurement Reforms
  - Staff Rationalisation
  - Outsourcing non-core functions
  - Process Re-design
- New Organisational Structure – from 23 to 17 Depts
- Enterprise IT Initiatives

# Corporate Social Responsibility

Central Bank of Nigeria

- Grants to universities for Capacity building.
  - Projects commissioned in 6 universities
- Grant to EFCC for ICT Project
- Grant to Investment and Securities Tribunal for Library Project.
- Grant to National Assembly Committees for capacity building and logistics support.



# CONCLUSIONS

- Major institutional changes at CBN—  
Governance and Restructuring
- For First time in decades, CBN met its  
programmed M2 Growth target
- Fiscal Policy was generally prudent
  - (Savings of Excess Crude \$5.9b)
  - FGN deficit (1.7% GDP) not CBN financed
- **CREDIT to Private Sector grew to 26.6%**
- Hence: Non-oil sector grew much faster than  
the oil sector (7.5% compared to 4.5% in 2003)



# CONCLUSIONS

- Stock of RESERVES at unprecedented level
- NEEDS Implementation outcomes (Macro aggregates largely on target)
- Authorised to take majority shares in NSPM, Plc.

## ■ CHALLENGES FOR 2005

- Potentially Expansionary Fiscal Policy/ late passage of the 2005 Federal Budget



# CONCLUSIONS

- Monetary Policy Response?
- Monetary Framework unchanged--- target M2
- Exchange Rate Band (+/- 3%)

Retain RETAIL DAS until end 2005

- Drive towards Zero Ways and Means Financing
- More Active Monetary Policy Regime----
- CONSOLIDATION, CONSOLIDATION, CONSOLIDATION



- Restructuring of the NSPM, Plc
- Project EAGLES continued.