CBN 2004 Annual Report

Prof. Charles C. Soludo
Governor

May 10, 2005
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
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Monetary Policy and Surveillance Activities

- 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

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target</td>
<td>Actual</td>
</tr>
<tr>
<td><strong>M2 (%)</strong></td>
<td>15.0</td>
<td>24.1</td>
</tr>
<tr>
<td><strong>M1(%)</strong></td>
<td>13.8</td>
<td>29.5</td>
</tr>
<tr>
<td>Aggregate Credit (net) (%)</td>
<td>25.7</td>
<td>29.1</td>
</tr>
<tr>
<td>Credit (net) to Federal</td>
<td>-150.3</td>
<td>58.4</td>
</tr>
<tr>
<td>Government (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit to Private Sector %)</td>
<td>32.3</td>
<td>18.4</td>
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</table>
Monetary Policy and Surveillance Activities

Monetary Targeting in 2004

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

<table>
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<tr>
<td>M2(%)</td>
<td>15.0</td>
<td>14.0</td>
</tr>
<tr>
<td>M1(%)</td>
<td>10.8</td>
<td>8.6</td>
</tr>
</tbody>
</table>

Reason:

- Tight monetary policy complemented prudent fiscal operations of the FGN.
Monetary Policy and Surveillance Activities

- 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

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<tr>
<td></td>
<td>Target</td>
<td>Actual</td>
</tr>
<tr>
<td>Inflation rate (Dec-over-Dec)(%)</td>
<td>9.0</td>
<td>23.8</td>
</tr>
<tr>
<td></td>
<td>9.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Inflation rate (12-MMA) (%)</td>
<td></td>
<td></td>
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<tr>
<td>Growth in GDP (%)</td>
<td>5.0</td>
<td>10.2</td>
</tr>
<tr>
<td>Accretion/Depletion of External Reserves (US $ million) *</td>
<td>-300</td>
<td>213.3</td>
</tr>
<tr>
<td>Stock of External Reserves (US $ billion)</td>
<td>7.19</td>
<td>7.47</td>
</tr>
<tr>
<td>Exchange rate N/US$1.00 (end-period) **</td>
<td></td>
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</tr>
</tbody>
</table>

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

** Market Determined
Other Policy Outcomes

- 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

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

Surveillance Activities

- Performance of Banks since 2001 exhibited a deteriorating trend.
- Rating of licensed Banks using “CAMEL”:
  - Sound – 10
  - Satisfactory - 51
  - Marginal - 16
  - Unsound - 10
<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
<th>2001</th>
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<th>2003</th>
<th>2004</th>
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<td>Sound</td>
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<td>Satisfactory</td>
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<td>Marginal</td>
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<td>13</td>
<td>14</td>
<td>16</td>
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<tr>
<td>Unsound</td>
<td></td>
<td>9</td>
<td>10</td>
<td>9</td>
<td>10</td>
</tr>
</tbody>
</table>
Monetary Policy and Surveillance Activities

- 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

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
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Currency Management

- CBN take-over of NSPM Plc. granted by FGN.
- CBN’s share capital increased from 2.3% to 77%
- Process of issuing =N=1,000 banknote commenced Q4, 2004.
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Performance of the external sector improved significantly.

Overall balance of payments position swung from a deficit of \(\text{N}=162.8 \ \text{billion (2.3\% of GDP)}\) in 2003 to a surplus of \(\text{N}=1,128.4 \ \text{billion in 2004 (13.7\% of GDP)}\).

Level of external reserves rose from \(\text{US} 7.47 \ \text{billion in 2003 (8.5 months of imports)}\) to \(\text{US} 16.96 \ \text{billion at end-Dec. 2004 (18.4 months of imports)}\).
External Reserve & Exchange Rate Management

- 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.
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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 $3,901.5 billion.

Oil revenue accounted for 86% and non-oil accounted for the balance.

FGN retained revenue was $1,234.6 billion while its expenditure was $1,377.3 billion.

Fiscal operations thus resulted in a deficit of $142 billion or 1.7% of GDP.

No deficit financing by CBN at end 2004.
Fiscal Operations of Government

- 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.
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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

- 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.