STATE OF THE MACROECONOMY: OUTLOOK FOR MONETARY, BANKING AND EXCHANGE RATE REGIMES

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 Presentation at the First Quarterly Review of the State of the Nigerian Economy at Stakeholders’ Forum; April 4, 2006
OUTLINE

- The Goals for 2006?
- Key OUTCOMES for FIRST Quarter
- Major Policy: Forex Liberalization
- Challenges Ahead and Pressure Points
Goals for 2006?

- Broad-based GDP growth of 10% or more
- Increased employment and poverty reduction
- Progress with Privatization; Sectoral development (Power; transportation; solid minerals; agriculture; education; etc)
- Single-digit inflation
- Stable Exchange Rate
- Structural and institutional reforms
- Etc, etc
OUTCOMES FOR 1ST QUARTER?

- Quarterly GDP, employment, capacity utilization, investment, etc?
- Inflation for January and February (largely about 10% for year-on-year; MRR anti-inflation at 13%)
- Stock of external reserves ($36 billion, up from $28 bn at end of December)
- Balance of payments: strongly positive
- Index of stock exchange--- strong!
- Fitch; and Standard and Poor’s sovereign credit rating of BB-
- Monetary Policy on course: target base money on course (N772b)
- M2 annualized growth rate = 14% against (15-17%)
OUTCOMES …

- Interest rates downwards (18% and below)
- Supply of Forex: CBN now marginal player
  - January ($2.1 bn) while CBN (261m or 11%)
  - February ($1.67bn) while CBN (188m) or about 11%
  - Exchange rate (US$1= N128.5); while parallel market depreciated at N149 as at 27th March 06
- Credit to the Private Sector and Agriculture on target
OUTCOMES....

- Banking sector getting stronger
  - 25 strong and reliable banks
  - Some banks raised more funds from the market
  - 4 banks already signed JVs with foreign fund managers/banks for Reserve Magt.
  - Road show for banks in London and further investment inflows

- On course to attaining the medium term vision of being among the top 100 banks in the world, and Africa’s financial centre.
Policy Outlook for 2006

- New policy on Forex Liberalization:
  - Feb 20, Whole Dutch Auction system
  - March 27– Liberalization of capital controls and forex market
  - Impacts on Efficiency, Convergence and Value of the Naira
  - “Those who store forex, too bad you will continue to lose money for next 5-10 years”
  - We are prepared for any contingencies!
Details of Forex Liberalization

- Supply side policy?
  - CBN directly supply BDCs and Banks
  - Banks, authorized banks to import forex
  - Banks to obtain BDC licenses
  - BDCs can effect transfers through their dorm accts

- Demand side policy?
  - BTA/PTA rates
  - Trade financing
  - Liberalization of capital controls (without compromising KYC and AML principles.

- Naira will strengthen again: the currency to hold
POLICY OUTLOOK 2006

- Monetary Policy committed to anti-inflation
- Exchange rate stability
- Currency restructuring
- Strengthening the Banking system
- etc
CHALLENGES/ PRESSURE POINTS

- Drop in oil output and appreciation of exchange rate: challenge to the 2006 budget implementation.
- Increasing credit to agriculture given low demand
- Containing Inflation to single digit
- Bringing down the premium in exchange rates: further liberalization of the market
- Liquidation of failed banks and settlement of Depositors
CHALLENGES/ PRESSURE POINTS

- Strengthening banking supervision and regulation
- Process and systems integration in consolidated banks
- Currency Restructuring and currency reforms
- Payments system reforms--- promoting e-payments
- Deepening the bond/capital markets
- Revolutionarizing the Mortgage system
CHALLENGES…

☐ Brainstorm on how to effectively deploy PART of the ‘Excess’ crude earnings to key national priorities--- Power; Security; jump-start real sector for employment generation, etc

☐ THANK YOU FOR LISTENING