



Update on CBN and Reforms

BY

CHARLES C. SOLUDO

GOVERNOR

CENTRAL BANK OF NIGERIA

May 17, 2006

Outline

- Recap on CBN Vision and Mission
- Focus on Goals; Activities and Outcomes of Reforms and Challenges
 - Issuance and Management of Legal Tender Currency
 - Management of External Reserves
 - Maintenance of Price and Monetary Stability
 - Sound Financial and Payments System
 - Financial Adviser and Banker to Government
 - Project EAGLES
- Conclusion

Recap of our Vision and Mission

Vision

"To be one of the most efficient and effective world's Central Banks in promoting and sustaining economic development."

Mission

"To be proactive in providing a stable framework for the economic development of Nigeria through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial sector."

a) Issuance and Management of Legal Tender Currency

- Objective:
 - To promote efficient payments system through CLEAN, COST-EFFECTIVE, SECURE, AND RESPONSIVE currency Notes and Coins
 - Promote the Use of Coins in the payments system

Context:

- On the average, central banks review the currency structure every 5 – 8 years.
- No restructuring of the Nigerian currency since 1984.
- The CBN carried out a comprehensive review of Nigeria's currency structure in 2005.

Currency Management...

Activities/Outcomes?

- Redesign of the lower banknote denominations (N5, N10, N20 & N50), new coin series (50k & N1) and introduction of a N2 coin.
- N20 to be introduced in Polymer substrate
- Effective cost of currency notes down by 41- 58%
- Effective cost of coins down by about 60%
- New banknotes and coins will be issued by the end of 2006.

- The CBN will outsource currency processing and distribution to free the Bank from non-core currency management functions

Currency Management...

- Reforming Nigerian Security Printing and Minting, Plc:
- Context:
 - Loss making as at 2004; owed about N8.5b
 - Only country with Mint but importing banknotes
 - NSPM, Plc never produced up to 1 billion notes in any year in over 10 years
 - Employed about 1800 workers, but needed about 900
- Objectives?
 - A world-class MINT to meet banknote and security documents requirements of Nigeria and West Africa in medium term
 - To stop importation of currency notes by December 31, 2006

Currency Management....

■ Activities/Outcomes?

- CBN's shareholding increased from 2.35% to 77.0% in February 2005
- New Board constituted in March 2005
- New 5-member Magt replaced 14-member team in June, 2005
- Retrenched about 800 staff in Sept 2005
- Output increased by over 30% by Dec. 2005 (1.27b notes--- first time since over 10 years)
- Company was profitable in 2005
- Comprehensive plant restructuring and heavy investment to meet targets of self-reliance
- New Corporate Governance and Procurement Systems
- On Course for Mint Privatization early 2006

Currency Management...

(iii) Promotion of Clean Notes Policy:

To improve the quality of banknotes in circulation

- Embarked on a campaign to stop the abuse of the naira.
- Ratio of issuable notes increased from an average of 10% in the previous years to 30% in 2005.

b) Management of External Reserves

- Goal: To safeguard the international value of the nation's currency--- (safety, return, and build-up of reserves)
- Embarked on a new framework for reserves management: vision to leapfrog and create Nigerian mega banks that compete internationally--- Partnerships a requirement!
- Activity/Outcomes?
 - Level of reserves currently US\$33 billion
- a global Custodian (JP Morgan) has been appointed
- External Fund Managers will be appointed in June 2006
- staff have been trained and will continue to be trained in funds management
- a modern dealing room is being set up.
- Jointed the World Bank RAMP Program

c) Price and Monetary Stability

- Focus on price stability as the core function
- New Monetary Policy Dept– to signal change
- Moving towards inflation targeting
- Improved statistics for policy: Increased the frequency of CBN's analytical balance sheet data from monthly to daily series:
 - Enables CBN to capture the current growth rate of reserve money
 - Monetary policy actions promptly taken to bring the growth of reserve money within target
 - Setting up a system to obtain the money supply (M2) data on weekly basis
 - Commenced the process of generating quarterly GDP in collaboration with NBS

Price and Monetary stability...

Effective Liquidity management framework being developed

- MPC meets quarterly
- MPIC meets every other day
- Outcomes?
 - Met monetary targets in 2004 and 2005
 - Inflation stable around 10%
 - Pro-active monetary management

Price and monetary stability....

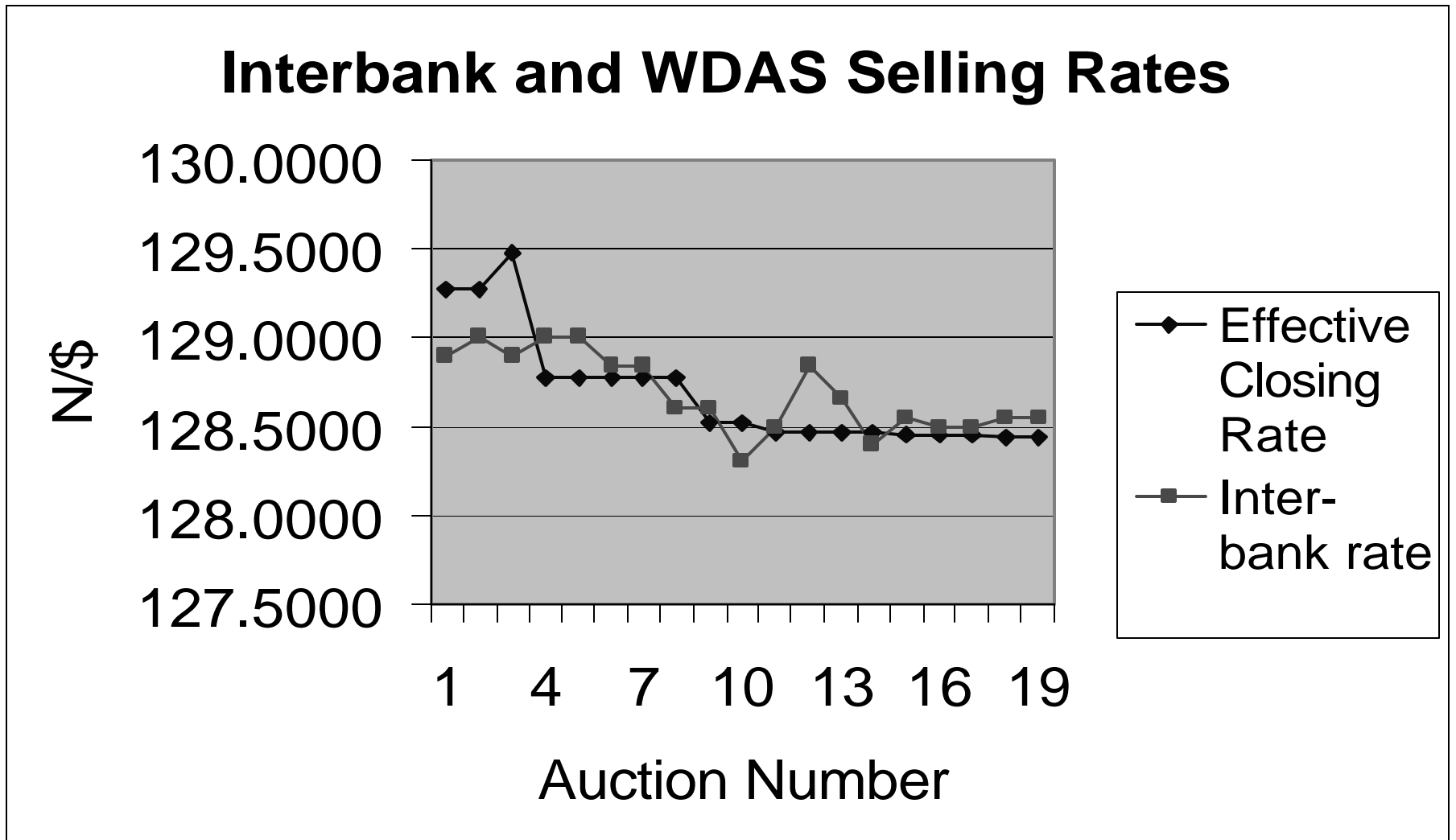
- Challenges?
 - Liquidity surfeit
 - Fiscal federalism (Fiscal Responsibility)
 - Measurement of prices---
 - Food prices dominate (63%)--- depends on vagaries of weather/agriculture
 - Non-food (core) inflation only 37%
- Availability of intervention securities for effective liquidity management, particularly excess reserves.
- Adequate forecasting of liquidity
- Cost of Monetary Operations very High

Exchange rate and Forex Management

Focus on maintaining a stable exchange rate

- Exchange rate has remained stable for the past two years
- Exchange rate stability was maintained around the pre-determined exchange rate band of plus/minus 3% in 2005
- WDAS system introduced in Feb. 2006 to further stabilize the exchange rate and eliminate the gap between the official window and the inter-bank rate

Convergence of WDAS and Inter-bank rates



Exchange rate and Forex Management

- Further liberalisation of foreign exchange market on March 27, 2006 as parallel market rate diverged significantly from official rate (N151 = \$)
 - Bureau de change brought into the official foreign exchange market as brokers
 - CBN sells forex to BDCs twice weekly
 - Maximum disbursement for BDCs per transaction reviewed upwards from US\$2500 to US\$5000
 - Sale of forex to the BDCs is decentralised to allow branches of the CBN to sell to BDCs within their areas of operation
 - OUTCOME?: Parallel Market now trending downwards and will continue

d) Sound Financial and Payments System

- “Nigeria as Africa’s Financial centre, and CBN as one of the best in the world”
 - Within 10 years, Nigerian bank(s) should be among the top 50—100 banks in the world.
- A New Banking System that depositors can trust, and investors can rely upon: to usher in a new economy
 - Recall the 13- Point Reform Agenda on July 6, 2004

Sound Financial and Payments System

- Consolidation of the banking system to ensure efficient and healthy financial environment
- 25 banks consolidated including 4 foreign banks
- Receiving inquiries from foreign banks that want to come in
- Road shows to show-case the success of consolidation—U.K, US, Singapore

- African Finance Corporation (AFC) under formation to boost investment and infrastructure financing in Nigeria and the rest of Africa
 - Technical Committee working to realise the AFC by the end of 2006
 - Strong interests on the AFC from within and outside Nigeria

- CBN had carried out a post consolidation due diligence on banks to ensure the absence of bubble capital
- Post consolidation integration, people, processes, system etc being monitored by the CBN
- New code of corporate governance had been issued on march 1, 2006
- Moving to Risk-based supervision and re-training/re-orientation of banking supervision Department
- Microfinance policy and SME financing
- On Course as Least Cost Consolidation in the World (less than 1% of GDP)

- Challenges
- Concluding liquidation of the 14 failed banks
 - NDIC has obtained final court order to wind up only four banks- Allstates, Lead bank, Assurance bank and Trade bank
 - Provisional order had been obtained for two banks- Afex bank and Fortune bank
- Training for Commercial banks staff and Directors of Banks

- Private depositors of Allstates bank (in liquidation) taken over by Ecobank under the purchase & assumption arrangement
- Lead Bank, Assurance Bank and trade Bank will follow next
- Other banks that are not involved in litigation would follow very soon
- Compiling various infractions and wrongdoings of the Boards/Management of the Failed Banks for possible prosecution

- A group of eight banks (which call themselves the Alliance bank group) has gone to court to challenge the revocation of their licences
- Apparent delay caused by court actions of failed banks
- Expeditious passage of Asset Management Corporation of Nigeria (AMCON) law
- Need to amend the CBN and BOFI Acts to strengthen CBN supervision

Payments System Reforms

- Started the reform of the payments system: Inaugurated the National Payments System Committee
- Commenced implementation of enhanced cheque clearing system; developed cheque standards; approved Nigerian Cheque Printers Accreditation Scheme; extended Nigeria Automated Clearing System infrastructure to Abuja.
 - Achieved
 - increased speed in clearing and payments
 - improved processing of Inward and Outward instruments, leading to effective daily reconciliation of CBN main clearing account.
- Promotion of Electronic Modes of Payment
 - 20% increase in use of debit cards in 2005
 - 40% increase in use of cheques in 2005
 - 41% increase in inter-bank transfers in 2005

■ Challenges

- Facilitation of a safe, sound and efficient payments system.
- Promotion of non-cash payments mode
- Integration of the Nigerian Payment System into the West African Sub-region and the global economy at large.
- Speed up exchange and settlement of funds and securities through the operation of the RTGS and Temenos T24 to levels that will completely eliminate float.
- Bring efficiency to government receipts and payments and leverage them for financial deepening of the economy.

Project EAGLES

- Only an Effective, Efficient, Goal-oriented CBN can deliver on the above:
- CBN has redesigned processes, SBUs and work tools
- Carried out a Budget process restructuring and aligned the budget with the strategic objectives of the Bank.
- Outsourcing of non-core services
 - facility management, courier services, primary school, printing, etc.
- Implements performance driven operations

Project EAGLES:

- Implemented the staff selection and deployment exercise to ensure round pegs in round holes
(10,003 in 1999) to 4,836 in 2006

No. of Departments down from 23 to 16

Project EAGLES

- Deployed several IT infrastructure:
 - The Electronic Financial Analysis and Surveillance System (eFASS)
 - The Temenos T24 Core Banking Software
 - The Real Time Gross Settlement (RTGS) System
 - Enterprise Resource Planning (Oracle ERP)
 - Enterprise Management and Security (EMS)

■ Training

- 2,742 staff trained on the use of the new software since November 2005

■ Procurement

- Reforming the procurement processes to ensure greater value for money

- Challenge: Staff Motivation and review of staff welfare
 - Need to put in place a reward system that is capable of retaining the present crop of efficient and dedicated employees and also to attract top rate manpower

CONCLUSION

- Thanks for Listening!