


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

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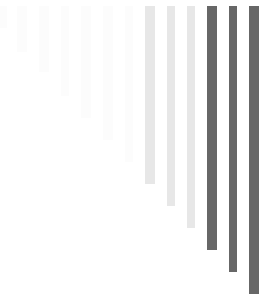
OUTLINE

- The Goals for 2006?
 - Key OUTCOMES for FIRST Quarter
 - Major Policy: Forex Liberalization
 - Challenges Ahead and Pressure Points
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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
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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%)
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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
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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.
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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!
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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
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POLICY OUTLOOK 2006

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