



50 YEARS OF CENTRAL BANKING IN NIGERIA

The Journey So Far and The Road Ahead



By Professor Chukwuma C. Soludo, CFR, Governor, Central Bank of Nigeria
Conference on the 50th Anniversary of the CBN, 4th May, 2009





50 YEARS OF CENTRAL BANKING IN NIGERIA



Outline



The Journey So Far



**Evolution of CBN
& Its Mandate**



The Road Ahead
Central Banking in the next 50 years



50 YEARS OF CENTRAL BANKING IN NIGERIA



The Journey So Far





50 YEARS OF CENTRAL BANKING IN NIGERIA



Introduction

- At 50, the Central Bank of Nigeria has come a very long way, and has evolved with the Nigerian economy and the financial system
- With the Central Bank Ordinance passed on 17th March, 1958; the first Governor of CBN (Mr. Fenton) assuming duty on July 24, 1958; first meeting of Board of Directors held on 30th July, of the same year, and the 1958 Act coming into full effect on September 15, 1958, the CBN was ready to commence operations, which it actually did on 1st July, 1959
- In 1959, the Nigerian economy was powered mainly by the three regional economies and dominated by groundnuts, palm produce, and cocoa



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Our Operating Environment: Then and Now

Parameters	1960	2009
Population	50.4 million	149 million
GDP (current prices)	N2.2 billion	N24 trillion
External Reserves	US\$602.8 million	US\$47 billion
Banking Sophistication	99 PMIs; 1,407 Bureaux de Change; 866 Microfinance Banks; 8,138 ATMs	
Banking Infrastructure	12 Banks 160 Branches	24 Banks 5,134 Branches
Banking Density (number of persons to 1 Bank branch)	1:315,000	1:27,000
Currency Outside Bank (% of money supply)	54%	9.7%
Credit to Private Sector	5% of GDP	40% of GDP



50 YEARS OF CENTRAL BANKING IN NIGERIA



Acknowledgements

- The Executive and Legislative Arms of Government
- 14 Heads of State; 9 Governors of the Central Bank;
- 126 Directors; 19,563 Staff (5,028 staff serving)
- 5,356 Pensioners
- The Ministries and Agencies connected with economic and financial policies and regulation (Ministries of Finance, National Planning, and Justice; SEC, NDIC, DMO, OAGF)
- CEOs of banks and other financial institutions; money market operators
- Nigerian Stock Exchange; operators of the capital market
- Nigeria's Development partners– the IMF, World Bank, UNDP; UKDFID, USAID, EU, etc.



50 YEARS

OF CENTRAL BANKING IN NIGERIA

CBN Governors (1958 – 2008)

S/N	NAME	TENURE
1	Mr. Roy Pentelow Fenton	1958 - 1963
2	Alh. Aliyu Mai-Bornu	1963 – 1967
3	Dr. Clement Nyong Isong	1967 – 1975
4	Mallam Adamu Ciroma	1975 – 1977
5	Mr. Ola O. Vincent, OFR	1977 – 1982
6	Alh. Abdulkadir Ahmed	1982 – 1993
7	Dr. Paul A. Ogwuma, OFR	1993 – 1999
8	Chief (Dr.) Joseph Sanusi, CON	1999 – 2004
9	Prof. Chukwuma C. Soludo, CFR	2004 – Date





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Evolution of the CBN & Its Mandate





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Evolution of the CBN

- In 50 years, the CBN has had three major Acts (1958, 1991, and 2007) with some amendments. There have been periodic interruptions of the Bank's operational independence, but the 1991 Act (as amended) clearly spelt out the Bank's operational independence
- However, it has remained relatively stable in relation to its governance and mandate
- With 9 Governors in 50 years, the CBN has been spared the volatility in Nigeria's political history and remained one of the most stable Central Banks in the world
- The CBN has evolved in terms of its organizational structure, complexity, skill pool, efficiency and effectiveness



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Evolution of the CBN

- Since the 1958 Act, the mandates of the CBN (with modifications) have included:
 - Ensure monetary and price stability (2007 Act)
 - Issue legal tender currency in Nigeria
 - Maintain external reserves to safeguard the international value of the legal tender currency
 - Promote a sound financial system in Nigeria
 - Act as a banker and provide economic and financial advice to the Federal Government
 - In essence, the CBN is:
 - The Monetary Authority of Nigeria
 - A Regulatory Institution for Banks and Others
 - The Banker and Adviser to the Federal Government of Nigeria



50 YEARS

OF CENTRAL BANKING IN NIGERIA



The CBN Mandate

Monetary & Price
Stability

Issuance of Legal
Tender

Management of
External Reserves &
Exchange Rate

Sound Financial
System

Banker and Adviser
to Government

Developmental
Responsibilities



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Evolution of Monetary Policy in Nigeria

1959 – 1973: **Exchange Rate Targeting**



1974 – 1992: **Direct Monetary Control**

Fixed Interest Rate, Sectoral Credit Targets;
Moral Suasion; Issuance of Stabilisation Securities



1993 to present day: **Indirect Monetary Control**

Moral Suasion, Forex Swap, Special
Sales and Standing Facilities

Open Market Operations, Reserve
Requirements, Discount Window
Operations, Minimum Rediscount

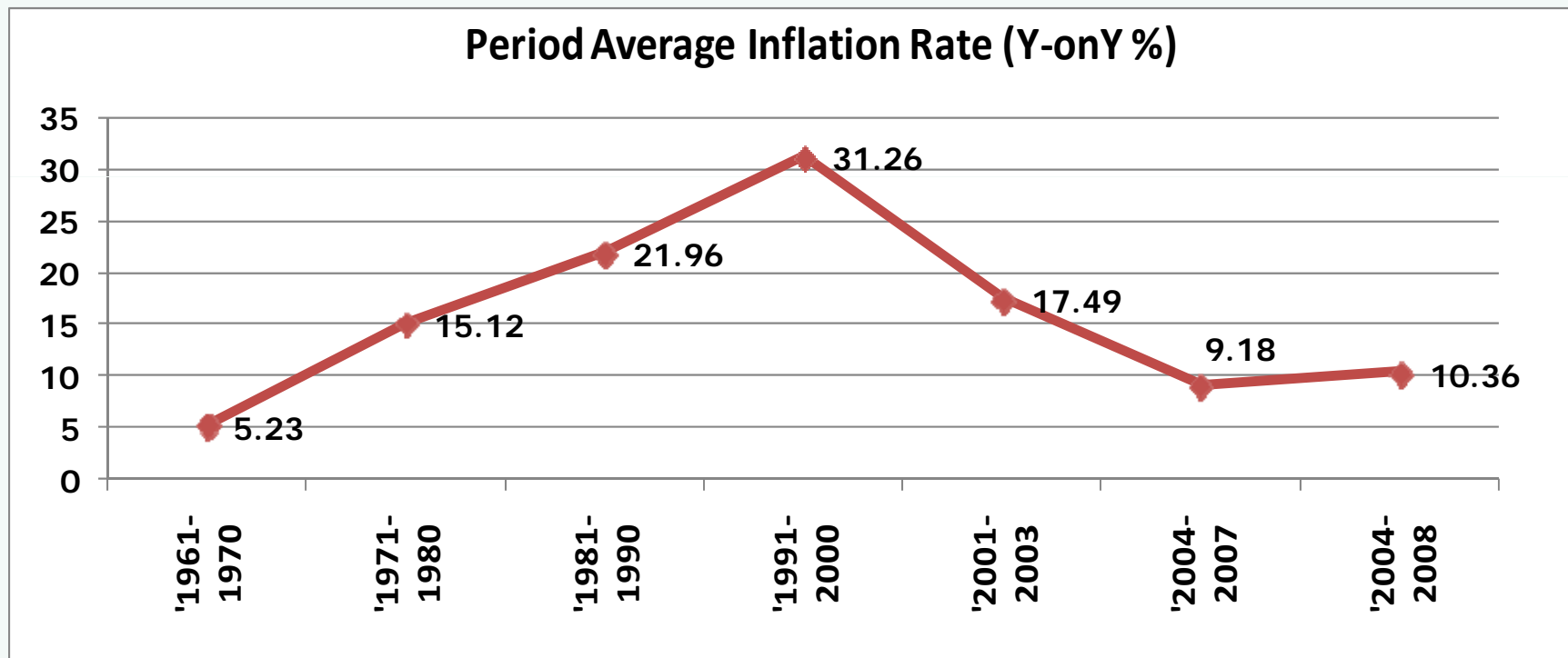
Plans to adapt a form of Inflation Targeting framework



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Outcome: Monetary & Price Stability



- *1970s, 80s: Improved monetary management*
- *90s: Higher Inflation (fiscal dominance)*
- *2004-2007: Single digit inflation, effective monetary and fiscal coordination*

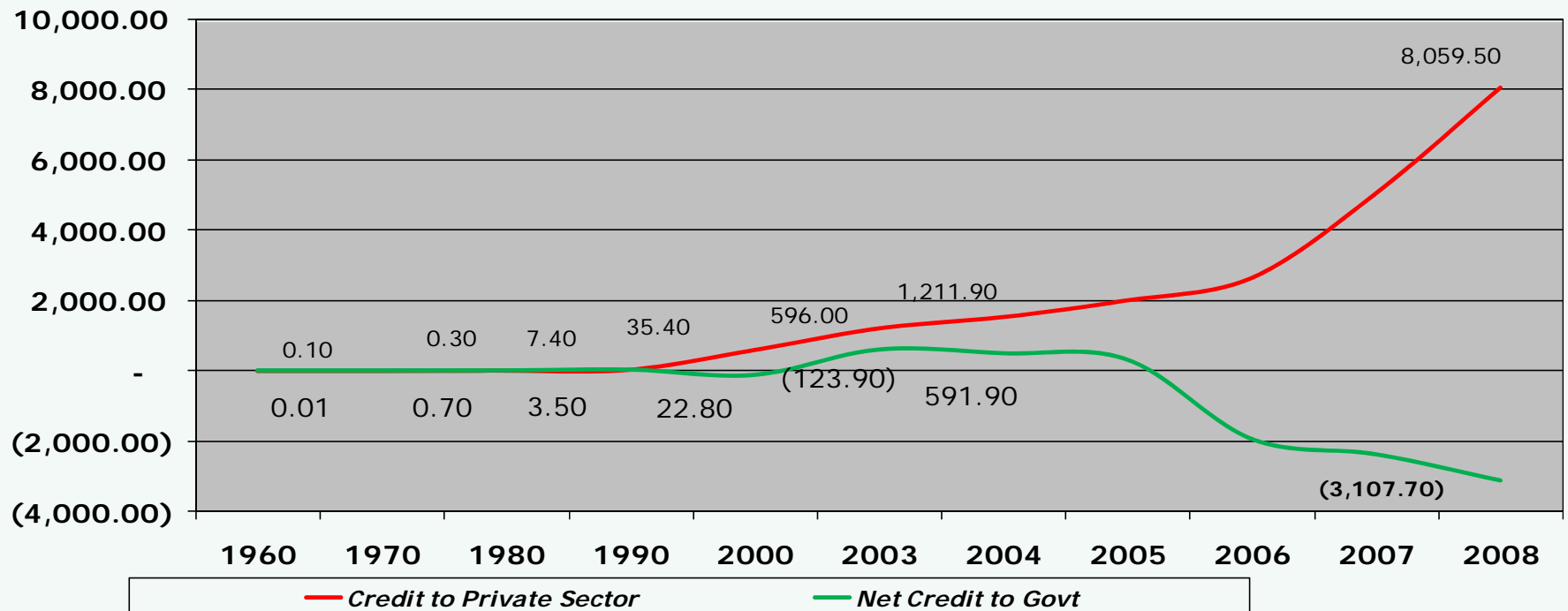


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Outcome: Increased Credit to Private Sector (N'b)

N'billion





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Issuance of Legal Tender and Transformation of the Payment System

- CBN moved from issuance of Nigerian Pounds (July 1959) to issuance of Nigerian Naira since 1973
 - Denominations issued in response to changing economy
 - Promoted the transformation of the payment system from a predominantly cash to an increasingly sophisticated electronic system



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Year Issued	Denomination (s)	Remarks
1946 – 1959		Currency notes & coins issued by the West African Currency Board
1 st July 1959	£1, 10/- and 5/-	First Nigerian Currency issued
1 st July, 1965	£5, 10/- , 5/-	Re-issued to commemorate the country's Republican status
1968	£5, £1, 10/-, 5/-	Re-issued currency to forestall the usage of illegally withdrawn notes from CBN Enugu, Port Harcourt and Benin Branches during the civil war
1973	₦10, ₦5, ₦1, 50k Notes & 25k, 10k, 5k, 1/2k Coins	Decimalization of currency. Pounds & Shillings replaced with Naira and Kobo
1977	₦20	Banknote with portrait of late Head of State
1979	₦10, ₦5, ₦1	Banknote with portrait of other eminent Nigerians
1984	Currency Exchange by Colour Swap	Currency exchange by colour-swap to render hoarded banknotes useless



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Year Issued	Denomination (s)	Remarks
1991	₦50 Notes & ₦1, 50k Coined	Coin series became 1k, 10k, 25k, 50k, ₦1, while 5k & 1/2k were demonetized
December, 1999	₦100 Note	Banknote with portrait of other eminent Nigerians
November, 2000	₦200	Banknote with portrait of other eminent Nigerians
April, 2001	₦500 Note	Banknote with portrait of other eminent Nigerians
October 2005	₦1,000 Note	Banknote with portrait of first two indigenous CBN Governors
February , 2007	₦5, ₦10, ₦20 (polymer) & ₦50 notes redesigned. ₦1 & 50k coins redesigned, ₦2 coin introduced	₦5, ₦10, ₦20(polymer) & ₦50 notes redesigned. ₦1 & 50k coins redesigned, ₦2 coin introduced



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Year	Activities
1959	■ Issuance of Nigeria pound note by CBN
1961	■ Established a clearing house in Lagos
1973	■ Issuance of decimal currency in Naira and kobo
1993	■ Implementation of MICR
1994	■ Establishment of NIBSS
1996 - 1997	■ Setting up of Technical Committee and appointment of consultants for NACS
2002	■ Live operation of NACS in Lagos Clearing Zone ■ Reduction of the clearing cycle to T+3 and T+5 for local and upcountry instruments respectively
2003	■ Guidelines on e - banking
2004	■ Establishment of switching companies and interoperability of /shared ATM/POS



50 YEARS OF CENTRAL BANKING IN NIGERIA



Year	Activities
2005	<ul style="list-style-type: none">■ Reconstituted National Payments System Committee and the set up of the technical sub – committee■ Deployment of NACS to Abuja Clearing Zone
2006	<ul style="list-style-type: none">■ Cheque Standard and Cheque Printer Accreditation Scheme■ Live run of CBN Inter – Bank Funds Transfer System (CIFTS) and T24 system
2007	<ul style="list-style-type: none">■ MICR upgrade and testing its interface with T24■ Further reduction of the clearing cycle to T+3 for upcountry instruments while that of local instruments remain at T+2■ Development of Payments System Vision 2020■ Inauguration of Payments System Work Group for the implementation the Payments System Vision 2020■ Payments Infrastructure and Strategy Committee (PISC) for coordinating the activities of the work group
2008	<ul style="list-style-type: none">■ Harmonization of clearing cycles (upcountry and local) at T+2 (Three working days)■ Development of NACS to Port Harcourt Clearing Zone

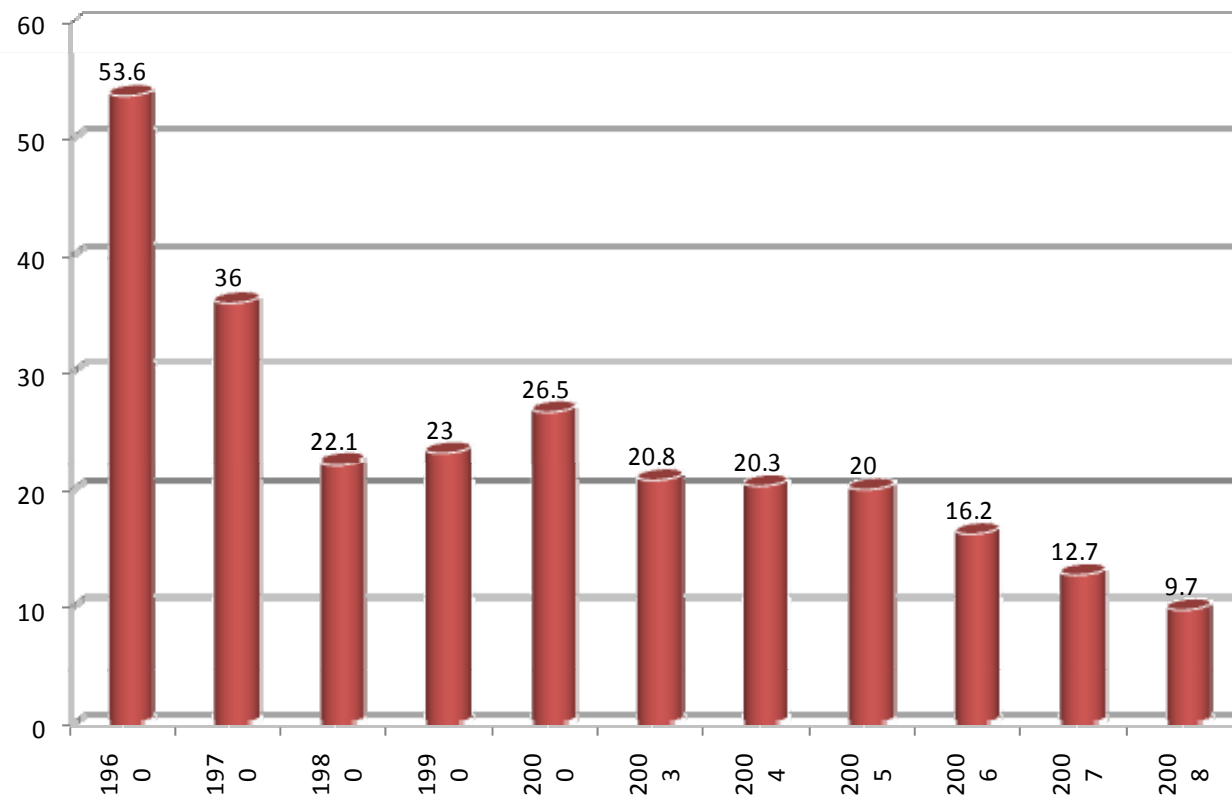


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Issue Legal Tender Currency & Payment System

Declining Ratio of Currency Outside Banks to M2





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Management of External Reserves

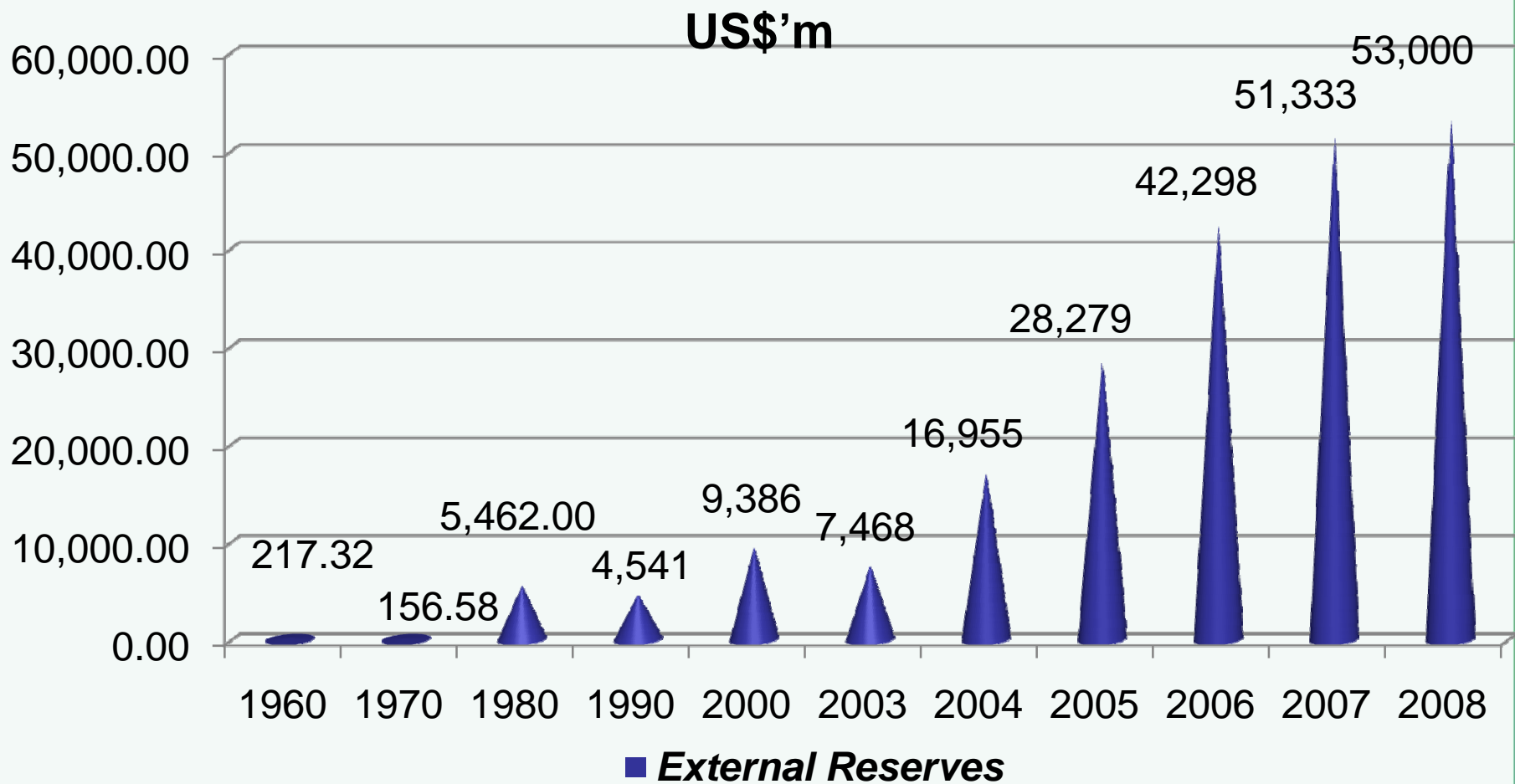
- Changes in practice have reflected changes in the CBN Act and improvements in the capacity of CBN Staff
 - Framework has moved from passive to active reserve management
 - Collaborated with the World Bank on Reserves Advisory and Management Program (RAMP) in 2003
 - Established a modern Dealing Room
 - Appointed External Asset Managers to manage a portion of the external reserves
 - Diversified assets portfolio of external reserves in 2007



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Management of External Reserves (US\$'m)





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Reforms in Exchange Rate Management

- Moved from fixed regime to flexible (market-determined) in 1986
- From Retail Dutch Auction System (RDAS) to Wholesale Dutch Auction System (WDAS) in 2006
- Deepened Interbank Forex transactions
- Liberalised the Forex market



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Reforms in Exchange Rate Management (Contd)

Outcomes:

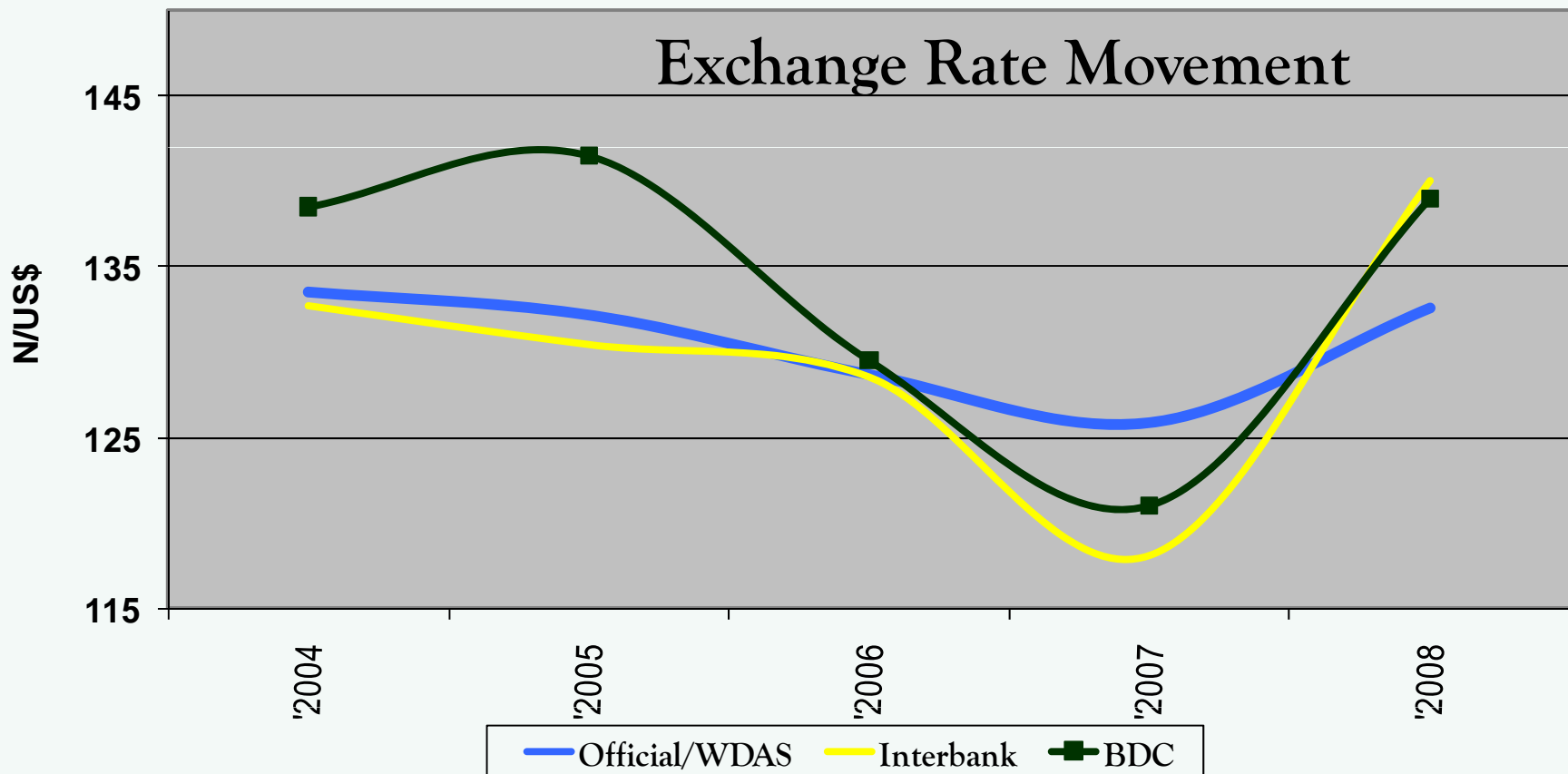
- More Efficient Forex market
- Higher accumulation of Reserves
- Convergence of Rates (2006-2008)
- The deliberate maintenance of undervalued real effective exchange rate (REER) regime helped to avoid the 'Dutch Disease' phenomenon of the 1970s and hence ensuring accumulation of higher levels of reserves and promoting higher growth



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Outcome: Exchange Rate Convergence





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Nigeria setting pace
for the world

2006 to date: Post-
Consolidation

Banking Sector
Consolidation

2004-2005



Financial Sector
Liberalisation

1986 – 2003

No Formal
Supervision

1892 – 1951



Shared Banking
Supervision with
Min. of Finance

1960 – 1965



Full Banking
Supervision

1966 to date



Evolution
of Banking
Supervision

Nigeria
following
the
World



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Sound Financial System

End Dec. '03: Pre-Consolidation (Where We Were)

89 banks with 3,282 branches characterised by structural and operational weaknesses such as:

- Low capital base & poor asset quality
- Oligopolistic structure; insolvency and illiquidity
- Weak corporate governance; poor rating of a number of banks
- Overdependence on public sector funds and income from foreign exchange trading
- Lack of capacity to support the real sector of the economy



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New Regulatory Landscape

Tightening of Regulation and Supervision

- Greater emphasis on enforcement of Code of Corporate Governance
- Resident Examiners have been deployed to banks since January 2009
- Standby teams of target examiners being deployed to any bank at any time to ensure timely regulatory actions if necessary
- Review of Contingency Planning Framework for Systemic Distress in Banks
- Introduction of Credit Bureau
- Strengthening of institutional coordination through the Financial Sector Regulatory Coordinating Committee (FSRCC)
- Adoption of common accounting year end for all banks with effect from end-Dec. 2009, aimed at improving data integrity and comparability
- Adoption of the International Financial Reporting Standards (IFRS)



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Sound Financial System: Post- Consolidation

- Initially 25 (now 24) well capitalized banks *owned by the Private Sector*
- Asset Base grew by 439.4% between 2003 and March 2009
- Capital adequacy ratio was 22% by end December 2008
- Ratio of non-performing loans to total loans down from 22% in 2003 to 6% in 2008
- About 10 Nigerian banks in top 1,000 banks in the world, and 3 in top 2,000 companies in the world (none in 2003)
- Nigerian banks as Nigeria's leading multinationals
 - Branch Expansion outside Nigeria - 37 in Africa and 9 outside Africa
- More effective supervision (24 rather than 89)
- Microfinance Banks - 866 licensed (104 under AIP)



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The Nigerian Banking Sector Pre and Post Consolidation

Parameters	Pre-Consolidation (As at Dec. 2003)	Post-Consolidation (Latest Figures)	% Increase
Banks' Total Assets (Naira Billion)	2,767.78	14,932.00	439
Number of Bank Branches	3247	5,407	67
Number of Bank Shareholders	5,901,565	10,033,625	70
Number of Bank Depositors ('000)	13,649	34,553	153
Total Bank Deposits (Naira Billions)	1,409	8,693	517
Employment in the Banking Sector	60,227	85,591	42
Credit to the Industrial Sector (N=billions)	619.52	3,760.84	507
Credit to the Agric Sector (N= billions)	62.10	114.30	84
Credit to the Telecoms Sector (N=billions)	293.70	1,107.38	277



50 YEARS Outcome OF CENTRAL BANKING IN NIGERIA



- In spite of the Global Crises and the banks' exposure to the capital market:
 - Banks total exposure to the Capital market as at end January 2009 was N784 billion or about 10% of total loans
 - Amount banks are prepared to turn over to an Asset Management Company (AMCON) if such were set up by end of the year is between ~~N~~350 and ~~N~~400 billion or approx 4 - 5% of loans as at Feb. 2009
 - About 15 banks would have no need for AMCON
 - Total Non-performing loans as percentage of total as at Feb. 28, 2009 = 6.2% (Estimated non-performing loans as at end of December 2009 = about 7.4%)
 - CAMELS rating of the banks as at end-December 2008, showed an average composite score of 62 per cent and average industry rating is satisfactory
 - Average capital adequacy ratio of 22 per cent, among the highest in the world



50 YEARS

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Banker and Adviser to Government

- CBN is always a key partner in the development of Government Economic Policies and the National Development Plans since inception
- The Bank provides periodic Economic and Financial advice to Government
- As Banker to the Federal Government – deployed first rate IT infrastructure to ensure e-payment



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Developmental Activities

- Targeted Funding Facilities
 - CBN funding contributions for the establishment of DFIs: NEXIM; BOI; FMBN; NACRDB; AFC
 - Agricultural Credit Guaranteed Scheme Fund (ACGSF)
 - Microcredit Fund (N50 billion)
 - Small and Medium Enterprises Loans Scheme (1&11)
 - Small and Medium Enterprises Equity Investment Scheme (SMEEIS)
 - Recent N200 billion Fund for Large Scale Commercial Agriculture
- Entrepreneurship Development Centres (EDCs) in 3 Zones since 2008 (trained 9,000 people so far, and expected to create about 525,000 jobs in 3-5 years)
- Active foundation role in establishment of NDIC and SEC



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Corporate Social Responsibility

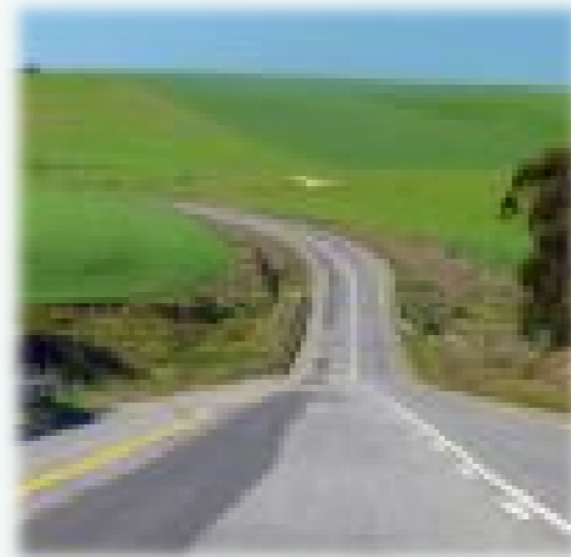
- Support to tertiary institutions
- Provides technical and financial support to the National Bureau of Statistics
- Support for Government and professional institutions in capacity development and strengthening



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The Road Ahead





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Effect of the Current Global Economic Crises

- The current economic crises will reshape the global competitive landscape but CBN will continue to do her best to ensure that our monetary policies are in line with global best practices and reflective of our peculiarities, and that our regulations support the Nigerian economy to achieve her full potential



50 YEARS OF CENTRAL BANKING IN NIGERIA



The Road Ahead

- **Context: Key Drivers of the Environment for Central Banking in the next 50 Years?**
 - Financial globalization will deepen, with intensified cross-border regulation and supervision
 - Globalization with weak governance structures and hence increased uncertainties and vulnerabilities to more devastating future financial crises
 - Regionalism: common currencies and regional central banks (Nigeria just signed an MOU with AUC granting Nigeria hosting right to African Central Bank (ACB). If monetary unions succeed in Africa, there may be no Central Bank of Nigeria in the next 50 years
 - Central Banks increasingly being required to make “financial system stability” an explicit goal, and potentially increasing role in financial system regulation and supervision
 - Increasing integration of financial markets and difficulty of measuring and controlling domestic monetary aggregates



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The Road Ahead

- Continue to maintain macro stability – price stability consistent with long term economic development
- Amend BOFIA to strengthen regulation/supervision
- Other Legal Reforms – to fast-track markets/institutions for efficient credit system
- Increasing investment in production & processing of timely & robust data for economic management
- Mortgage and Consumer Credit reforms
- Deepen and mainstream microfinance system
- Continued strengthening of Corporate Governance
- Capacity Building for Financial System staff professionalism (Knowledge, skills)



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The Financial Systems Strategy (FSS 2020) as Medium Term Strategy

- To make Nigeria Africa's Financial Centre of choice by 2020 through:
 - Developing Nigeria's financial sector & engineering Nigeria's evolution into the International Financial Community
 - Strengthening domestic financial markets
 - Enhancing integration with external financial markets
 - Building an International Financial Centre
 - Providing enabling environment & infrastructure
 - Establishing the financial system as a growth catalyst





50 YEARS OF CENTRAL BANKING IN NIGERIA



Conclusion

- The Past is behind us, and the Future ahead is full of uncertainties and challenges.
- 50 years is only a beginning, not an end for the Central Bank
- As Nigeria aspires to claim the 21st Century, the CBN in the next 50 years must be proactive in leapfrogging the financial system to ensure success
- Your contributions during this Conference could put us on this sure path!





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Thank you so much
as you join us in ...

