CENTRAL BANK OF NIGERIA

MONETARY, CREDIT, FOREIGN TRADE AND EXCHANGE POLICY GUIDELINES FOR FISCAL 2004/2005

(MONETARY POLICY CIRCULAR NO. 37)

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1.0 INTRODUCTION

In 2002, the Central Bank of Nigeria (CBN), adopted a medium term framework for conduct of monetary policy. That was in recognition of the fact that monetary policy impacts on the ultimate objectives with a substantial lag. Furthermore, the shift was designed to free monetary policy from the problem of time inconsistency and over-reaction, owing to temporary shocks. In order to further enhance the efficacy of monetary policy implementation, the medium term framework has been retained in 2004/2005. Thus, the present programme is designed for a two-year period, beginning January 2004 to December 2005.

The purpose of this Circular is, therefore, to outline the Monetary, Credit, Foreign Trade and Exchange Policy Guidelines applicable to banks and other financial institutions in Nigeria in 2004/2005. As usual, the guidelines are subject to amendments in the light of developments in the financial markets and performance of the economy during the programme period. Such amendments would be conveyed to the relevant institutions in supplementary circulars as necessary. This circular is structured into four major sections and four appendices. Following the introduction, which is Section 1, Section 2 reviews the developments in the economy and policy environment in 2003, as a background to policy measures for 2004/2005. Section 3 outlines the monetary and credit policy measures and guidelines for implementation by banks and other financial institutions in fiscal 2004. The foreign trade and exchange policy measures are highlighted in Section 4. The appendices contain prudential guidelines and reporting formats for licensed banks.

SECTION TWO

2.0 REVIEW OF MACROECONOMIC AND POLICY ENVIRONMENT IN 2003

2.1 Macroeconomic Developments

The overall macroeconomic developments in 2003 were mixed. While compliance with monetary and external policy targets fell short of expectation, domestic inflation remained largely subdued, especially in the first half of the year. The problems of liquidity overhang and excessive demand pressure for foreign exchange however remained, particularly in the last four months of the year. The rapid monetisation of crude oil receipts and the expansionary fiscal operations of the three tiers of government were the main causes. Thus, the problem of fiscal dominance continued to pose serious challenges for monetary management. As a result, the growth in monetary aggregates exceeded the targets for the year by wide margins, while the external reserves level declined from US$7.99 billion in December 2002 to US$7.5 billion as at November 28, 2003. That however, could still finance about 6.0 months of imports as required under the West African Monetary Zone (WAMZ) convergence criteria. Bank deposit and lending rates moderated generally in 2003, influenced by the downward review of the CBN's Minimum Rediscount Rate (MRR) and the liquidity condition in the banking system. Except in the last quarter of 2003, the exchange rate of the naira remained relatively stable since July 2002 when the Dutch Auction System

(DAS) was re-introduced. Crude oil production and prices improved, while electricity consumption recorded a marginal increase. Nigeria's overall compliance with the primary convergence criteria under the WAMZ protocol was mixed in 2003, as progress was made in meeting some indicators, while slippages occurred in others.

In the first eleven months of 2003, the growth in monetary aggregates exceeded the programmed targets by wide margins, reflecting the expansionary fiscal operations of the three tiers of government. Available data as at November 2003, indicated that broad money supply (M_2) rose by 32.3 per cent to ₦2,116.2 billion, as against the set target of 15.0 per cent for the whole year. Similarly, narrow money supply (M_1) grew by 41.2 per cent to N1,336.3 billion, as against the 13.8 per cent growth, programmed for fiscal 2003. The main expansionary factors of money supply were the significant increase in aggregate bank credit to the domestic economy, mainly to the Federal Government, and the moderate growth in the "other" assets (net) of the banking system**.**

Aggregate bank credit to the domestic economy rose significantly by 33.7 per cent, as against the growth target of 25.7 per cent for fiscal 2003. The growth was accounted for by claims on both the Federal Government and the private sector, with the former accounting for 55.7 per cent of the total. Further analysis indicated substantial increase in the Central Bank's claims on the Federal Government in 2003. Credit to the private sector rose by 25.2 per cent during the period, as against the programmed target of 32.3 per cent for fiscal 2003. Banks' deposit and lending rates moderated generally in 2003. The spread between the weighted average deposit and maximum lending rates narrowed from 12.95 percentage points in December 2002 to 10.0 percentage points in October 2003, while that between the average savings and maximum lending rates remained very wide at 18.6 percentage points. In response to the relative macroeconomic stability occasioned largely by the continued moderation in inflation rate, particularly during the first half of the year, and the need to stimulate output and employment growth, the Minimum Rediscount Rate (MRR) was reviewed downward from 16.5 per cent to 15.0 per cent during the year under review.

In 2003, growth in real Gross Domestic Product (GDP), was estimated at 3.5 per cent, as against the 5.0 per cent targeted. The modest performance reflected, largely, the effects of infrastructural deficiencies and other structural rigidities in the economy. The rate of inflation, however, showed further deceleration from 12.9 per cent in 2002 to 10.7 per cent by September 2003. The moderation in inflationary pressure reflected the dampening effect of the fall in food prices, resulting from favourable agricultural harvest.

The external sector of the economy was under pressure, despite the improved performance of the oil sector during the year. The overall performance, however, was an improvement over the preceding year's performance, owing largely to increased earnings from crude oil exports. The average price of crude oil increased by 25.8 per cent, from US$23.06 in the first half of 2002 to US$29.0 per barrel in November 2003. As a result of the buoyancy in the goods account, the overall balance of payments deficit declined from ₦315.41 billion (US$3.41 billon) in the first half of 2002 to ₦153.28 billion (US$1.66 billion) in the first half of 2003, while the current account swung from a deficit of ₦65.91 billion (US$0.71 billion) to a surplus of ₦71.74 billion (US$0.78 billion) during the same period. The capital and financial account recorded a deficit of ₦218.61 billion (US$2.37 billion), down from the ₦242.07 billion (US$2.62 billion) deficit recorded in 2002. At the Dutch Auction System (DAS) segment of the foreign exchange market, a total of US$8.99 billion was sold from January through November, 2003. This represented an increase of 21.6 per cent over the amount sold in the corresponding period of 2002. The naira exchange rate under the DAS averaged ₦128.67 per US$1.00 in the eleven-month period compared with ₦120.23 per dollar at the IFEM/DAS in the corresponding period a year earlier, indicating a depreciation of 6.6 per cent. At the bureaux de change and parallel market, the naira depreciated by 1.9 and 1.7 per cent to ₦140.03 and N139.37 per dollar, respectively over the same period. The depreciation in all segments of the market reflected the persistent demand pressure for foreign exchange.

2.2 Outstanding Macroeconomic Problems and Policy Challenges for Fiscal 2004/2005

The performance of the domestic economy in 2003 was characterised by the same problems as in the previous year. Monetary expansion was excessive, giving rise to high demand pressure in the foreign exchange market and persistent depreciation of the naira in all segments of the market. Besides, the continued structural bottleneck in the economy frustrated the high expectation of a strong economic recovery during the year.

The demand for foreign exchange increased persistently, while the substantial allocation to raw materials importation did not reflect in improved performance of the industrial sector. Furthermore, the depressed economy has continued to worsen the problem of unemployment, particularly of high school and university graduates. The continued excessive reliance on crude oil as the nation's main foreign exchange earner has subjected the external sector, and indeed, the whole economy to the vagaries of developments in the international oil market. For example, unanticipated slump in the international market price of crude oil, without corresponding moderation in expenditure growth, had resulted in large budget deficit that elicited excessive borrowing from the CBN with adverse implications for monetary and price stability.

The high cost of inputs for agricultural production has been persistent over the years. They included fertilizers, agro-chemicals, fishing nets, outboard engines and poultry feeds, among others. In particular, with the collapse of the National Fertilizer Company of Nigeria (NAFCON), the bulk of the fertilizer used in the country was imported and often received late after the planting season. The commodity markets in the country have remained weak and unorganised. Since the scraping of the Commodity Boards, the problem of price fluctuations and poor quality control have intensified, especially for export crops, which have encountered a number of problems, including frequent world price fluctuations, and persistent terms of trade loss. In addition, the aggregate consumer purchasing power remained weak.

Against this background, monetary, financial and external policy measures have been formulated to focus on the achievement of price and exchange rate stability while continued support will be given to the government in achieving non-inflationary real output growth and poverty reduction.

SECTION THREE

3.0 MONETARY AND CREDIT POLICY MEASURES IN 2004/2005

3.1 Objectives and Strategy of Policy

The primary objective of monetary policy in 2004/2005 is the maintenance of price and exchange rate stability. Specifically, monetary policy shall seek to maintain a single digit inflation rate during the period, through effective control of the growth of monetary aggregates. To this end, sustained efforts will be made to address the persistent problem of excess liquidity in the banking system and its adverse effects on inflation and exchange rate. In addition, the CBN will continue to ensure banking soundness and financial sector stability in order to enhance the efficiency of the payments system and effective transmission of monetary policy to the real sector. In particular, the Bank shall seek to ensure effective enforcement of the market rules to engender the right market expectation. As in previous years, the broad measure of money supply (M_2), shall continue to be the intermediate target of monetary policy. Thus, during the two-year period, an average growth in M_2 of 16.25 per cent shall be maintained, which translates to a maximum increase of 16.0 per cent in 2004 and 16.5 per cent in 2005.

3.2 Policy Measures

The conduct of monetary policy shall continue to be market-based, involving the discretionary management of the CBN's balance sheet, in order to ensure that the operating variables are within programme targets. The primary instrument of policy shall be Open Market Operations (OMO), supported by reserve requirements and discount window operations for enhanced effectiveness. The CBN's own intervention security would be issued, as the need arises, to ensure uninterrupted conduct of OMO and its effectiveness in liquidity control. Private initiated instruments such as the Bankers Acceptances (BAs) and Certificates of Deposits (CDs) would continue to be eligible at the CBN's discount window, pursuant to the Bank's role as the lender of last resort.

3.2.1 Open Market Operations (OMO)

The conduct of OMO would continue to be by the Dutch Auction System in the secondary market, for short-term government securities, appropriately tenored to provide for various preferences in the market. OMO shall be conducted daily and Discount Houses will continue to act as intermediaries, although deposit money banks will be eligible to participate directly in the market. The daily OMO auction is expected to smoothen flow of liquidity in the market and enhance efficiency in its management. In this regard, the conduct of OMO shall be by outright sales and purchases, complemented by the repo/reverse repo transactions. The CBN would announce, daily, the shortage/ surplus in aggregate liquidity while appropriate marketing strategy would be employed to achieve equilibruim in the system. Continued efforts shall thus, be made to conduct OMO more proactively to achieve efficient liquidity management.

3.2.2 Reserve Requirements

Reserve requirements shall continue to serve prudential and liquidity management policy objectives.

3.2.2.1 Cash Reserve Requirement (CRR)

The cash reserve requirement shall continue to complement OMO towards the achievement of monetary stability. It would be recalled that a dual CRR was introduced in July 2002 to provide a lower cash reserve ratio of 9.5 per cent to banks that increased their credit allocation to the real sector of the economy by 20.0 per cent or more, over the level at end-June, 2002 while 12.5 per cent was retained for other banks that failed to attain that level of performance. While the incentive of a lower CRR for banks that support the real sector is laudable, the policy of dual CRR created distortions in implementation and monitoring because of the tendency of some banks to window-dress their returns to the CBN in order to qualify for the concessionary rate. Given the fact that most banks were already enjoying the lower CRR, and for ease of implementation, it has become necessary that a uniform CRR be applied to all banks. It is expected that banks would respond favourably to this gesture, as they continue to extend credit to the productive sectors of the economy. In this regard, effective 2nd January, 2004, the subsisting ratio of 12.5 per cent is hereby reduced to a uniform 9.5 per cent for all banks. As in 2003, the calculation of the CRR will be based on individual banks' total deposit liabilities (i.e. demand, savings and time deposits), certificates of deposits (CDs), promissory notes held by the non-bank public, and other deposit items. The CBN will continue to ensure the effective administration of the CRR through timely application of this instrument, not exceeding the two weeks maintenance period. It is essential to underscore the importance of timely rendition of monthly returns to the CBN by banks, in order to enhance the efficient administration of the cash reserve requirement. For this purpose, the mid-month returns by banks will complement the monthly returns, while a robust mechanism for projecting banks' total deposit base will be put in place in the course of 2004, to facilitate a speedy and effective implementation of the CRR. The CBN will continue to impose strict sanctions for non-compliance. The current policy of interest payment on reserves in excess of 8.0 per cent shall be retained.

3.2.2.2 Liquidity Ratio

The minimum liquidity ratio currently fixed at 40.0 per cent is retained. The rate shall, however, be systematically reduced as the problem of excess liquidity in the banking system abates. The base for calculating the liquidity ratio (LR) requirement will comprise all deposit liabilities (demand, savings and time) as well as certificates of deposits (CDs), promissory notes held by the non-bank public and other deposit items. As in the previous year, placements with and takings from Discount Houses shall be offset against each other and any surplus of assets or liabilities shall be applied, as the case may be, in computing the LR requirement. Only inter-bank placements, which are fully collateralised by eligible instruments and readily rediscountable at the CBN, shall qualify as eligible liquid assets. For the avoidance of doubt, all collateral security lodgement under the new clearing settlement arrangement, shall qualify as eligible assets for the computation of liquidity ratio of the settlement banks, while uncollateralised placements and money-at-call shall not qualify as liquid assets, but shall continue to qualify as loans and advances. The mandatory deposits with the CBN to meet the CRR and REPO transactions undertaken within 7 days of any statutory return date shall not qualify for inclusion as liquid assets in computing the LR. The requirement that discount houses should invest at least 60.0 per cent of their total deposit liabilities in treasury bills will continue in fiscal years 2004 and 2005. Similarly, the ratio of individual bank's loan to deposit ratio is retained at 80.0 per cent.

3.2.3 Discount Window Operations

In pursuit of the objective of maintaining monetary stability and the need to promote the development of the money market, the discount window operations shall continue to be administered in accordance with the CBN's role as the lender-of-last-resort and to signal the direction of interest rate policy. To this end, transactions at the window shall be in the form of short-term, largely overnight facility, backed by borrower's holdings of government debt instruments and other eligible instruments approved by the CBN. Changes in the rediscount rate will continue to be made in a dynamic manner in accordance with market dictates, to complement other policy initiatives to forestall the emergence of excess liquidity in the system.

3.2.4 Interest Rate Policy

As in the previous years, interest rates shall continue to be market-driven in fiscal years 2004 and 2005. To this end, the level and direction of interest rate movements shall continue to be influenced indirectly by the CBN through proactive adjustment to its Minimum Rediscount Rate (MRR), to reflect the prevailing market conditions. The spread between banks' deposit and lending rates had remained unacceptably wide, with adverse implications for savings and investment growth. In this regard, the CBN would continue to promote a competitive financial environment, in order to encourage savings and investment growth. In particular, the Bank shall intensify its enlightenment campaign to sensitise the investing public on alternative investment opportunities in the financial market, including the newly introduced National Savings Certificate (NSC). The on-going efforts by the CBN shall be further intensified to revitalize and strengthen the community banks, finance houses and development finance institutions (DFIs), with a view to enhancing the efficiency and public confidence in these institutions for the promotion of growth in financial savings and investment.

The procedures for interest rate determination by banks in 2004 are as follows:

(a) Banks shall continue to pay interest on current account deposits at rates of interest negotiated between them and their customers. Where deposits for special purposes are held for more than seven days, banks shall pay interest on such deposits at a rate agreed between the banks and their customers.

(b) The reducing balance method shall continue to be used for calculating interest charges on loans repayable instalmentally. The use of any other method, whatsoever, for loans payable in agreed instalments, such as the discount method or the simple interest straight line method that would result in a higher effective rates than the contracted rate, is disallowed.

(c) Statements of account shall be rendered promptly, to each current account holder, on monthly basis and shall include the following:

(i) Commission on turnover (COT); and

(ii) Rate of interest on over-drawn accounts, the amount and the period.

(d) Interest on savings accounts shall continue to be calculated on the customer's account as at the end of each quarter and any accrued interest paid shall be reflected at the time of calculation.

(e) The amount of deposits in a personal savings account on which interest is payable shall not be subject to any ceiling.

(f) Banks shall continue to design their pass books in such a way that the following information will be clearly shown when calculating the interest earned on savings deposits: interest rate applied, the amount of savings on which the calculation is based and the period for which interest is calculated.

(g) The Inspectorate Department of each bank shall continue to have the responsibility for cross-checking bank charges and interest rates payable on deposit accounts. Where the Inspectorate Department of a bank discovers non-payment or under-payment of interest on deposits or other entitlement or excessive interest and bank charges, a return thereon shall be made to the Central Bank. Under-payment and/or excessive interest and other charges shall be refunded with interest at the prevailing CBN minimum rediscount rate, along with a letter of apology to the customer within two weeks. Any bank which fails to refund excess charges or under-payment of interest on deposits within two weeks of the discovery of such error shall, in addition to the refund to the customer, be liable to a penalty amounting to 100.0 per cent of the amount involved.

(h) Banks shall, in accordance with the provisions of BOFI Act No. 25 of 1991, as amended, and amendments to Monetary Policy Circular No. 30 of 1996, continue to display at their offices their current lending and deposit rates, as well as publish such rates weekly in the national newspapers.

3.2.5 Remittance of VAT and Duty Collections

The requirement that banks should remit VAT and custom duties collected on behalf of the Federal Government to the CBN within seven days is retained during the programme period. As in the preceding year, banks, which keep these deposits for more than the stipulated seven days, shall pay interest on such as directed by the CBN. Also, such deposits, which are not remitted within the stipulated period, shall form part of banks' deposit base for the purpose of computing both their Cash Reserve Requirement (CRR) and Liquidity Ratio (LR).

3.2.6 Framework for Determining Banks' Cost of Funds

As in the previous year, banks shall, in computing their cost of funds, employ the weighted average cost of funds computation framework. The cost items in this framework will include banks' interest cost on the different types of deposit liabilities, borrowings from the inter-bank funds market, payments in respect of deposit insurance premium and costs due to reserve requirement. For the avoidance of doubt, overhead costs are excluded in this framework.

3.2.7 National Savings Certificate

With the approval granted by the Federal Government in 2003 for the issuance of the National Savings Certificate (NSC), as a medium to long-term financial instrument of between 3-12 years, it is envisaged that the instrument would provide alternative savings medium to the general public, particularly the low and medium income groups. This would also complement CBN's efforts in promoting growth in domestic savings and addressing the problem of excess liquidity in the banking system on a sustainable basis. Banks are enjoined to support the smooth operation of this scheme by providing necessary assistance to their customers willing to invest in the instrument.

3.2.8 Federal Government Development Stocks

The floatation of Federal Government long term bonds which was introduced in 2003, shall continue to be explored during the year. The use of this instrument would deepen the financial market and encourage the government to source its long term financing needs from the capital market.

3.2.9 Minimum Balances on Personal Savings and Current Accounts

The minimum amount required for savings account by most banks has remained unduly high and inconsistent with the desired macroeconomic objective of promoting savings and investment growth. The observed trend has the potential to discourage savings and banking habit in Nigeria. Although the CBN has since discontinued with the policy of stipulating a mandatory minimum amount for opening a savings deposit account in line with the prevailing deregulated financial environment, banks are enjoined to give active and meaningful encouragement to small savers by avoiding the stipulation of unduly high minimum amounts for opening and maintaining savings accounts. In this regard, banks are encourage to limit their minimum savings deposit requirement to N5,000 in 2004, in order to promote small and household savings in Nigeria.

3.2.10 The Payments System

(i) Promoting the use of cheques and E-money

The CBN will continue to encourage the use of cheques towards enhancing the efficiency of the payments system. To complement this effort, Government and public institutions should lead in popularising the use of this instrument, by accepting cheques for debt settlements. In this regard, the CBN will, in consultation with the Accountant-General of the Federation (AGF), encourage government agencies to accept cheques for services rendered as practiced all over the world.

To further improve the efficiency of the payment system, the CBN has issued the broad guidelines on electronic banking (e-banking). E-banking practice in Nigeria will continue to be promoted in line with global trend. The Bank will continue to encourage banks to install ATM machines for cash withdrawals. Also, in order to encourage the use of electronic money (e-money), in line with international best practices, the Bank will in due course issue specific guidelines on the standards and use of e-money products such as credit cards, debit cards, digital cash, etc. With the recent revolution in the telecommunications sector, the environment for efficient e-banking service delivery has been laid.

2(ii) Automation of the Payments System

The CBN will continue to promote the automation of the payments system to: reduce delays in the clearing of payment instruments; reduce cash transactions; and enhance the transmission mechanism of monetary policy. In order to deal with large-value payments and settlements, the CBN has embarked on the implementation of the Real Time Gross Settlement (RTGS) system. The RTGS will eliminate the risk in large-value payments, and increase the efficiency of the payments system.

(iii) Settlement and Clearing Banks

Settlement accounts for banks that meet the prescribed criteria for clearing and settlement operations shall be maintained by the CBN. This would foster a safe, stable and smooth-functioning banking system, devoid of collateral shocks and disruptions, as well as ensure settlement finality at the CBN. To this end, the following are the minimum requirements for maintaining Settlement Accounts with the CBN.

- Capacity to provide the clearing collateral of not less than N15.0 billion worth of treasury bills, which will be reviewed from time to time.
- Ability to offer agency facilities to other banks and to settle on their behalf, nationwide.

- Branch network in all the CBN locations.
- Meet the volume and value criteria, which will not be less than 2.5 per cent of the volume and the value of cleared items.

Banks that meet the specified requirements shall be designated as “Settlement Banks”. Other banks that fail to qualify shall do their clearing through the Settlement Banks under agency arrangement and shall be known as “Clearing Banks”. The terms of agency arrangements shall be mutually agreed between the Settlement Banks and the associated Clearing Banks.

All banks shall continue to maintain a single account with the CBN. While the single account to be maintained by a Settlement Bank shall be known as a **“SETTLEMENT ACCOUNT”**, the single account to be maintained by a non-settlement (clearing) bank shall be known as **“OPERATIONS ACCOUNT”.** The clearing balances as well as the up-country transfers of the clearing banks shall be posted into the accounts of the settlement banks at the CBN, under agency arrangements. The operations accounts (which shall be maintained in credit at all times) shall be used by the clearing banks for all their transactions with the CBN.

3.2.11 Publication of Financial Statements

In accordance with Section 27 of BOFI (1991), as amended, a bank is required, subject to the written approval of the CBN, to publish not later than 4 months after the end of its financial year, its audited financial statements (balance sheet, and profit and loss account) in a daily newspaper printed and circulated in

Nigeria. It has been observed that some banks have not been complying with these requirements. To ensure greater commitment by the Boards and Management of banks to the compliance with this mandatory requirement, the CBN shall hold the Board Chairman and Managing Director of any defaulting bank directly responsible for the breach and impose appropriate sanctions which including the following:

a) Barring the MD or his/her nominee from participation in the Bankers' Committee and disclosing the reason for such suspension.

b) Suspension of foreign exchange dealership license and the bank's name sent to the Nigerian Stock Exchange in the case of a Plc.

c) Removal of the Chairman and Managing Director from office if the accounts remain unpublished twelve months after the bank's financial year.

3.2.12 Other Policy Measures

(a) Financing the Development of SMEs

In recognition of the role of Small and Medium Scale Enterprises (SMEs) in the promotion of economic growth and employment generation, the Government has put in place various measures and schemes to assist the SMEs, including the establishment of sector specific development finance institutions (DFIs) such as the Bank of Industry (BOI) and the Nigeria Agricultural, Cooperative and Rural Development Bank

(NACRDB). In addition, the initiative of the Bankers' Committee to finance and promote SMEs through the introduction of Small and Medium Industries Equity Investment Scheme (SMIEIS) in 2001 should facilitate the growth and diversification of the economy. It is anticipated that as banks get involved in SMEs funding and management, confidence in the sub-sector will improve, such that international financial institutions will be encouraged to provide needed financial support for SMEs in Nigeria. The CBN shall continue to facilitate, monitor and encourage the effective implementation of SMIEIS. In this regard, banks are required to continue to render to the CBN, their investment report under the scheme, on monthly basis.

(b) Small and Medium Industries Equity Investment Scheme (SMIEIS)

In pursuance of the objectives of the SMIEIS in facilitating improved funding of the small and medium industries, as a vehicle for generating output and employment growth, as well as the development of indigenous technology, measures aimed at accelerating the pace of utilisation of banks' set-aside resources under the scheme shall be rigorously pursued by the monetary and fiscal authorities in 2004.

The CBN will effect the withdrawal of all overdue and un-invested set-aside funds under the Scheme from affected banks as from fiscal year 2004, and invest such funds in the Nigerian Treasury Bills until suitable investment projects are found by the banks or the funds are transferred to the Bank of Industry for investment on behalf of the banks. In addition, the CBN will continue to support the banks through capacity building by providing free training workshops and seminars to develop their skill in equity investment management in order to facilitate speedy utilisation of set-aside funds under the Scheme. The CBN will also continue to carry out enlightenment campaigns to create public awareness of the Scheme. In order to assist both the investing banks and potential entrepreneurs to identify suitable projects for equity investment, the Central Bank of Nigeria has commissioned comprehensive base-line studies to be compiled as a compendium of bankable projects, ideas and potential raw materials available in each state and geographical zones of the country. The CBN will effectively disseminate the information to all stakeholders.

(c) National Credit Guarantee Scheme for SMEs (NCGS)

A major constraining factor to bank financing of the SMEs has been the inability of promoters of such enterprises to provide required collaterals to reduce the risk of defaults in repayment. In this regard, a National Credit Guarantee Scheme would be established in 2004, to mitigate the risks associated with lending to the sector. The scheme is expected to encourage financial institutions, particularly, deposit money banks to lend to small businesses, which have viable projects and good prospects of success, but are unable to satisfy the lender's collateral requirements. Eligible beneficiaries of the scheme would be micro, small and medium scale enterprises in manufacturing activities or related service industries, as officially defined by the National Council on Industry. Furthermore, the scheme is intended to complement the SMIEIS in channeling funds to the real sector of the economy, particularly SMEs. In this regard, a bank would be compensated under the scheme on the condition that it extends credit to SMEs. The details on the modalities of the scheme would be provided in due course.

(d) CBN Rediscounting and Refinancing Facility (RRF) for Medium to Long-Term Credit

It would be recalled that the Re-financing and Re-discounting Facility (RRF) established to encourage banks to lend on medium-long-terms to the productive sectors, elicited only a modest response from banks. Accordingly, a review of the Guidelines on RRF will be undertaken in fiscal years 2004 and 2005, in collaboration with all stakeholders, in order to regenerate interest in the use of the facility and make it more attractive to banks.

(e) Revitalizing the Community Banks (CBs)

All community banks shall continue to render quarterly statutory returns to the Director of Other Financial Institutions Department, Central Bank of Nigeria, Lagos or the Liaison Office, Abuja not later than 14 days after the end of each quarter. Any late submission or non-rendition would attract appropriate sanctions in line with the provisions of the Revised Guidelines on community banks.

The CBN has meanwhile approved the participation of community banks in the Agricultural Credit Guarantee Scheme. The minimum paid-up capital of a community bank shall be N5.0 million. In addition, following the removal of the restrictive shareholding structure of 5.0 per cent for individuals and 30.0

per cent for Community Development Associations (CDAs), each shareholder, individual or corporate bodies can hold any percentage share of the equity of a community bank.

(f) Orderly Development of the Banking System

Efforts will continue to be made to facilitate the orderly development of the financial sector, as well as ensure banking soundness and financial sector stability. Towards this end, the following measures shall apply in 2004 fiscal year:

(i) Minimum Paid-up Capital Requirement

In view of the need to strengthen the operational capacity of deposit money banks and minimize the risk of distress, new banks were required to provide a minimum paid up capital of N2.0 billion effective 2001, while the existing banks were required to raise their capital base to N1.0 billion by end-2002. In order to ensure a strong financial base for banks and enhance public confidence in the banking industry, all existing banks are encouraged to raise their minimum paid-up capital to N2.0 billion by end-2005.

(ii) Transparency in Banking Operations

The CBN will in fiscal years 2004 and 2005, continue to closely monitor the operations of banks, in order to ensure the adoption of international best practices, compliance with regulations and sound banking system. In this regard, the CBN will continue to consult and dialogue with stakeholders in the industry to foster better understanding. Furthermore, the Bank will continue to encourage self-regulation and promote high ethical standards in the banking industry. It is hoped that the issuance of guidelines on risk management and e-banking will help to ensure bank ing soundness and financial sector stability.

(iii) Moral Suasion

The CBN will continue to use moral suasion, through regular dialogue and consultations with banks and other financial institutions, under the aegis of the Bankers' Committee and through other communication channels, to promote enhanced efficiency in the banking industry, and high ethical standard and professionlism in interest and exchange rate management.

(g) Public Sector Deposits

Movement of public sector deposits in and out of the banking system by the monetary/fiscal authorities is an important instrument of monetary management that could be used during the programme period, if the need arises. Accordingly, deposits of key government parastatals and overhead of core ministries could be moved from deposit money banks to the CBN, depending on the liquidity conditions of the system. In this regard, deposit money banks shall receive prior notice before public sector deposits are withdrawn or re-injected into the system, as dictated by monetary conditions.

3.2.13 *Existing Monetary Policy Measures Retained/ Modified in Fiscal Years 2004 and 2005*

(i) Bank Credit Expansion

Only banks, which meet the following criteria, shall be permitted to grant new credit facilities in 2004:

(a) Specified cash reserve requirement;

(b) Specified liquidity ratio;

(c) Prudential Guidelines;

(d) Statutory minimum paid-up capital requirement;

(e) Capital adequacy ratios; and

(f) Sound management.

The position of each bank shall continue to be examined on a monthly basis with respect to these criteria and every bank that meets them, would be duly notified. Banks, which fail to meet the requirements, shall not be allowed to grant further credit until the situation is normalized. In the event that a bank, which has all along met the criteria, suddenly reverses and becomes unhealthy, such a bank will be precluded from granting further credit until the situation is normalized, to the satisfaction of the supervisory authorities.

(ii) Grace Periods on Loans to Agriculture

Despite the prevailing deregulated financial market environment, there is need for financial institutions to continue to observe appropriate grace periods on agricultural loans, in recognition of the differences in gestation periods of various agricultural products. In this regard, banks are enjoined to always allow borrowers adequate grace periods for repayment spread on agricultural loans.

(iii) Prudential Guidelines for Licensed Banks

The existing prudential guidelines on early recognition of losses and adequate provisioning for bad and doubtful debts are retained in 2004. Accordingly, deposit money banks are required to strictly observe the prudential guidelines outlined in CBN Circulars No. BSD/DO/23/VOL.1/11 of 7th November 1990, and No. BSD/CS/23/VOL.1/8 of 15th May, 1991. Similarly, the provisioning requirement on credit accommodation to all tiers of government (by which banks are required to make 50.0 per cent provision on performing credits and 100.0 per cent for classified credits) as contained in CBN Circular No. BSD/DO/CIR/VOL.1/2001/13 of 10th July 2001, is retained.

(iv) Capital Fund Adequacy

In keeping with international standards, the minimum ratio of capital to total risk-weighted assets has been increased from 8.0 per cent in the preceeding year to 10.0 per cent with effect from 1st January 2004. Furthermore, at least 50.0 per cent of a bank's capital shall comprise paid-up capital and reserves, while every bank shall maintain a ratio of not less than one to ten (1:10) between its adjusted capital funds and total credit net of provisions.

(v) Foreign Guarantees/Currency Deposits as Collateral for Naira Loans

The abolition of foreign guarantees for Naira denominated loans as contained in the Monetary Policy Circular No.23, April 1989 (by which deposit money banks were prohibited from granting loans denominated in Naira on the security of foreign bank guarantees and/or foreign deposits held abroad and/or domiciliary accounts with Nigerian banks), that was lifted in 2002 remains lifted in 2004. However, any request for such guarantees shall be subject to prior approval by the CBN.

(vi) Rules for Currency Transactions

Pursuant to the provisions of Section 21 of Foreign Exchange (Monitoring and Miscellaneous Provisions) Act No.17, 1995, persons who import foreign currency in excess of US$5,000.0 by cash and lodge such money in a domiciliary account with an authorized dealer, can only make cash withdrawals from the account. Also, by virtue of Section 22 of the same legislation, no person in Nigeria shall make or accept cash payment, whether denominated in foreign currency or not, for the purchase and acquisition of landed property, stocks, shares, debentures, all forms of negotiable instruments and motor vehicles. Payments for those items shall be made by means of bank transfers or cheques drawn on banks in Nigeria. In order to ensure full compliance with this regulation, all banks are required, as in the previous year, to appoint Compliance Officers whose duty shall be to ensure that the provisions are complied with. The Compliance Officers shall report all breaches of the regulation to the CBN, through the Chief Executive Officer of each bank, in such a manner as the CBN may prescribe.

(vii) Responsibilities of Banks' External Auditors to the Supervisory Authorities

Existing Central Bank of Nigeria's directives to all banks to instruct their external auditors to forward two copies of their audit reports to the CBN not later than three months after the end of banks' financial year shall remain in force in fiscal years 2004/2005. In addition, reports on frauds and forgeries committed during the accounting year shall accompany the audited reports. Furthermore, each bank shall continue to communicate the appointment, re-appointment, termination and resignation of the bank's external auditors to the CBN, stating the reason for such action. Where a bank fails to comply with this requirement, the CBN reserves the right to withhold the approval of such appointments, thereby attracting the stipulated penalty for non-compliance. In recognition of the complementary role of external auditors, banks are required to ensure that their external auditors are in attendance at the presentation of Bank Examination Reports by the Supervisory Authorities to their Board of Directors. Furthermore, external auditors shall devote a portion of their report to the review of the bank's implementation of prior year's audit recommendations.

(viii) Banks Operating Subsidiary Companies Offering Financial Services

Banks with subsidiary companies offering financial and related services shall continue, as in the previous years, to report on the operations of such companies along with their Monthly Returns to the Central Bank of Nigeria.

(ix) Public Complaints Desk at the Central Bank of Nigeria

The CBN shall continue to maintain a Public Complaints Desk at its Head Office and each of its branches to enable the public to lodge any complaints they may have against their banks. Where the case against any bank is proved, the bank shall be required to make necessary amends and pay appropriate penalties. This measure is aimed at encouraging banking habit and promoting efficiency in the delivery of financial services, in order to boost public confidence in the system.

(x) Agricultural Credit Guarantee Scheme (ACGS)

The developmental role of the CBN will continue to be vigorously pursued in 2004/2005. To ensure improved supply of credit to agriculture, the Scheme shall improve performance on settlement of claims to the lending banks to encourage them to increase their participation under the Scheme. The amendment of the original law, which allows the guarantee of larger amounts of loans (N1.0 million for individual secured loans and N10.0 million for corporate bodies and cooperative societies), will also be pursued in 2004.

Participation in the operation of the ACGS has been expanded to include Community Banks (CBs) with effect from 2004. Thus, CBs will be eligible to participate in lending under the ACGS and such lending shall qualify for guarantee under the Scheme with effect from 2004.

(xi) Interest Drawback Programme (IDP)

Concerns over the prevailing high interest rates, especially, for borrowers in the agricultural sector, necessitated the establishment of an Interest Drawback Programme (IDP) in 2003. The IDP moderates the effective borrowing rate to farmers by providing those who repay their loans as and when due a refund of 40.0 per cent of what they paid as interest on such loans. In fiscal years 2004 and 2005, eligible beneficiaries under the programme will be entitled to a refund of 40.0 per cent of interest paid on eligible bank loans after liquidating the underlining credits. This incentive is to encourage timely loan repayment by farmers and attract more banks to lend under the ACGS.

(xii) Returns from Banks

All banks in the country are required to report accurately, faithfully and promptly, on their activities in the prescribed format for the mid-month, monthly, quarterly and semi-annually returns. Such designated returns (diskette and hard copy) shall be forwarded to the regulatory/supervisory authorities, not later than 5 days after the 15th day of each month for mid-month returns, 10 days after the end of each reporting month in the case of monthly returns, and 14 days after the end of each quarter in the case of quarterly and semi-annual returns. Copies of the returns duly signed, as applicable to the relevant departments, shall be forwarded to the Directors of Banking Supervision, Research, and Bank Examination Departments of the CBN and the Director, Off-Site Supervision Department of the NDIC. Banks are also enjoined to send monthly and mid-month returns on public sector account balances with them to the Director of Banking Operations.

(xiii) Other Financial Institutions

It is mandatory for finance companies, discount houses, mortgage institutions, development banks, community banks and bureaux-de-change operating in the country to render regularly to the CBN, accurate and timely returns on their operations, and any other information as may, from time to time, be required by the CBN. The supervisory framework for these institutions will be further streamlined and strengthened, while other complementary measures necessary to enhance the effectiveness of CBN surveillance activities, and the orderly development of the financial market, shall be further pursued in 2004. The institutions are also to submit their audited accounts to the CBN for approval before publication, in accordance with the provisions of the CBN and BOFI Acts and other existing or revised operating guidelines. All regulatory requirements for each of the institutions in this regard as contained in Monetary Policy Circular No. 36 of 2002/2003 are retained. Specifically, the specified deadlines for the submission of returns should be met, while all institutions are enjoined to adhere to all existing and revised guidelines issued on their operations in 2004/2005 to facilitate the achievement of desired objectives.

(xiv) Penalties for Default

As in the previous years, the CBN shall, in 2004/2005 continue to enforce all the stipulated penalties for non-compliance with the regulatory guidelines as well as provisions of the CBN Act, 1991 and Banks and Other Financial Institutions Act, 1991, as amended. Any financial institution that fails to comply with the existing and revised guidelines issued by the CBN as well as other directives as the Bank may issue from time to time, or fails to furnish within the stipulated time any statistical and other returns as the CBN may, from time to time prescribe, shall be liable to appropriate fines as determined by the CBN or such other penalties as provided for by the enabling law. In serious cases of default, the CBN may suspend or revoke any licence issued to the defaulting institution. The Bank shall sustain its surveillance activities during the two-year programme period and invoke the relevant provisions of the existing laws, as deemed appropriate, in order to enhance the safety, soundness and efficiency of the financial system. All sanctions stipulated in the Monetary Policy Circular No. 36 of 2002/2003 shall be applied.

(xv) Policy on Transparency in Financial Transactions

In line with the recommendation of the Basle Committee on Banking Regulations and Supervisory Practices, all financial institutions are required to continue to observe the following standards to promote transparency in financial transactions.

(a) Customer Identification

Financial institutions are enjoined to intensify efforts to determine the true identity of all customers requiring their services. In particular, financial institutions should not, as a matter of policy, conduct business transactions with customers who fail to provide evidence of their identity. The principle of "know your customer" (KYC) should be strictly adhered to in 2004/2005 fiscal years.

(b) Compliance with the Law

Licensed banks and other financial institutions shall observe high ethical standards as well as the laws and regulations governing their operations. In particular, banks are required to ensure full compliance with the Guidance Notes and other relevant circulars on money laundering surveillance, issued by the CBN, in order to ensure the enforcement of the provisions of the Money Laundering Act, 1995. Efforts should be made to ensure full compliance in terms of disclosure of relevant information of depositors as stipulated in the Act, including strict observance of the "know your customer" principle, to ensure that illegally acquired funds are prevented from being injected into the financial system. Appropriate sanctions have been put in place for breaches of this law.

(c) *Co-operation with Law Enforcement Authorities*

Banks and other financial institutions are required to cooperate fully with law enforcement authorities within the limits of the rules governing confidentiality. In particular, where financial institutions are aware of facts which lead to a reasonable presumption that the funds lodged in an account or transactions being entered into, derived from criminal activity or intention, they should observe the stipulated procedures for disclosure of the suspicious transactions in reporting to the law enforcement authorities.

Any contravention of the above-stated guidelines by any financial institution shall attract penalties as stipulated in the Banks and Other Financial institutions Act, 1991, as amended, or the Money Laundering Act, 1995, as appropriate.

SECTION FOUR

4.0 FOREIGN TRADE & EXCHANGE POLICY MEASURES

4.1 New Policy Measures for 2004/2005

4.1.1 Foreign Exchange Market

(i) Bill of lading/Airway bill/Way bill required for imports to Nigeria shall be claused “shipped on Board” or “clean on Board” and shall be issued by the **Master of the carrying vessel or his agent or the Carrier or his agent**

(ii) It shall be the responsibility of Authorised Dealers to ensure that documentations on transactions, including documents forwarded to the Central Bank of Nigeria for approvals-in-principle are authenticated and certified genuine.

(iii) Authorised Dealers shall be free to deal in autonomous funds in their own right, subject to compliance with advised Open Position Limits. However, no bank shall purchase autonomous funds, including inter-bank funds, in the market on behalf of a customer without a valid, duly documented underlying transaction from the customer.

(iv) The maximum amount which bureaux de change can sell is US$2,500.00 per transaction.

4.1.2 Consultant's Verification of NOTAP Certifications

There has been significant rise in foreign exchange transfers under the invisible category in recent times. In particular, requests for *technical fees* have risen very sharply, without the commensurate level of transfer/acquisition of technology by the country. Consistent with the policy of transparency, a consultant's verification of National Office for Technology Acquisition and Promotion (NOTAP) certification would be required for foreign exchange disbursements for technical fees and royalties, with effect from January, 2004. Details of documentation requirements in this regard shall be communicated to the banks in due course.

4.1.3 Ex-Post Inspection of Imported Goods

Pending the introduction of the BXB2 project, the ex-post inspection of import will now cover a wider range of items. Details can be obtained from the Director of Trade and Exchange, Central Bank of Nigeria, Abuja.

4.2 Existing Policy Measures Retained/Amended in 2004/2005

4.2.1 Foreign Exchange Market

(i) Dutch Auction System

In a continued effort to stabilize the exchange rate for the Naira, as well as enhance the efficiency of the foreign exchange allocation through a market-based exchange rate determination, the Dutch Auction System re-introduced in July 2002, shall be retained in 2004/2005.

(ii) The Foreign Exchange Market (FEM) shall continue to operate freely. However, no individual or organisation shall deal in foreign exchange, except as provided for by the relevant laws and regulations.

(iii) Foreign exchange purchased from the CBN shall be used for eligible transactions and shall not be transferable in the foreign exchange market.

(iv) Mixing of funds purchased from the CBN with any other acquired from autonomous sources shall be allowed, provided they are duly segregated and properly recorded to ease reconciliation. Consequently, banks shall continue to render appropriate returns on sources of funds and utilisation to the CBN.

(v) Holders of ordinary domiciliary account shall continue to have unfettered access to funds in their accounts. In other words, the instructions of the account holder shall be sufficient to access funds in the account irrespective of the payment mode required.

(vi) Payment in foreign exchange for products and services provided by a Nigerian company to another Nigerian company or subsidiaries shall not be allowed in the foreign exchange market. However, where the payer accepts to pay in foreign exchange, the funds shall be from his ordinary domiciliary account or offshore sources.

(vii) Utilisation of funds in the Non-oil Export domiciliary accounts shall continue to be subject to eligible transactions.

(viii) All oil and oil services companies shall continue to sell their foreign exchange brought into the country to meet their local expenses to any bank of their choice including the CBN. Monthly returns shall be rendered to the CBN by both the oil companies and banks on such sales and purchases, using the approved format.

(ix) All applications, whether or not valid for foreign exchange, visible or invisible trade transactions, shall continue to be approved by banks subject to stipulated documentation requirements before remittance of funds.

(x) Current transactions involving the use of bills for collection shall be allowed, provided relevant documents are passed through Authorised Dealers. Transactions executed on private sector initiative, shall carry no government guarantee or obligations. The remittances may be made through the foreign exchange market, subject to the prevailing conditions for payment. For the avoidance of doubt, the use of Open Account remains abolished.

(xi) The payment of Bills for collection transactions shall continue to be limited to 180 days from the date of Bill of Lading.

(xii) Payment of interest in respect of (xi) above shall continue to be on the tenor of the Bill but not exceeding 180 days at a maximum of 1.0 per cent above the prevailing prime lending rate in the country of the beneficiary (e.g LIBOR in the UK).

(xiii) Foreign exchange transactions shall continue to be subject to minimum documentation requirements, largely for statistical purposes.

(xiv) All requests for foreign exchange by the public sector shall continue to be processed by the CBN in accordance with existing guidelines.

(xv) Funding of Business Travel Allowance (BTA) and Personal Travel Allowance (PTA) shall be eligible in the foreign exchange market, subject to the maximum of US$2,500.00 per quarter for BTA and US$2,000.00 per six months (twice a year) for PTA. Relevant documents (i.e passport and ticket of beneficiary) shall be endorsed accordingly. For travels to countries in the ECOWAS sub-region, BTA and PTA should be issued in ECOWAS Travellers' Cheques.

4.2.2 Form 'M' Procedure

(i) The initial validity of Form 'M' established in respect of **plant and machinery** made to specification shall be one year subject to extension for another 180 days by the processing bank without recourse to the CBN. Thus, the maximum life span of an approved Form 'M' for importation of machinery, plant and equipment is one and half years .

(ii) The initial validity of an approved Form 'M' for **general merchandise** shall be for 180 days. The validity of approved Form 'M' and related Letters of Credit may be extended more than once by Authorised Dealers provided that, with the extension, the validity of the Form 'M' does not exceed the maximum life span of 360 days.

(iii) Charges for services rendered by non-resident experts in respect of the design, installation and commissioning of projects shall continue to be treated as an integral part of the total cost of such projects and the prescribed procedures for Form 'M' shall apply. They shall also be subject to verification by the National Office for Technology Acquisition and Promotion (NOTAP). No direct or separate remittances on Form 'A' in respect of such charges shall be allowed.

4.2.3 Pre-shipment Inspection

(i) All goods, except personal effects, used motor vehicles and perishables, i.e day-old chicks, human eyes, human remains, vaccines, yeast, periodicals/magazines, imported into the country shall be subject to pre-shipment inspection in the country of supply and issuance of an appropriate Clean Report of Inspection (CRI).

(ii) Whether exempted from pre-shipment inspection or not, importation of all goods into the country shall require the completion of Form 'M'.

(iii) To minimise price variations, Authorised Dealers and importers are to ensure that the invoices submitted at the time of registration of the Form 'M' are "valid" and remain so as at the date of shipment of goods.

4.2.4 Import Duty Payment Procedures

(i) Import duty payable on all registered Form 'M' transactions, whether or not valid for foreign exchange, shall be calculated on the basis of the CBN prevailing rate in the Foreign Exchange Market on the day preceding the inspection of goods.

(ii) Approval for duty exemption shall be obtained before shipment of relevant consignment to avoid unnecessary delay and transit of goods at the ports.

(iii) Payment of import duty and other charges shall be made through the processing bank provided that it is a designated bank.

(iv) The banks designated to receive import duty payments shall continue to be used for that purpose on confirmation of the completion and registration of Form 'M' for the imports.

(v) Payment of import duty shall be by bank cheque/draft duly issued by the importer's bank and made payable to the "**Federal Government Import Duty Account"**. All such cheques and drafts shall, in the first instance, be paid to any of the designated banks and cleared before receipt, evidencing payment, is issued and other relevant shipping documents are released to the importers.

(vi) The designated banks are required to transfer all Customs revenue collected by them to the nearest CBN Branch or Currency Centre on the Monday following the week collection was made, using CBN cheques.

4.2.5 Export Trade and Promotion

(i) Repatriated non-oil export proceeds and other inflows shall be held in Domiciliary Accounts maintained with Authorised Dealers. Banks shall continue to maintain two types of Domiciliary Accounts, namely, Exports Domiciliary Accounts and Ordinary Domiciliary Accounts. Holders of Domiciliary Accounts shall continue to have easy access to the funds maintained therein subject to the observance of existing guidelines.

(ii) Exporters and other foreign exchange earners are permitted to sell their export proceeds and other foreign currencies to Authorised Dealers at mutually agreed rates. Moreover, exporters are allowed to sell their export proceeds to banks other than those where they maintain Exports Domiciliary Accounts.

(iii) Payment for exports from Nigeria shall continue to be by means of Letters of Credit or any other approved international mode of payment. However, whatever the mode of payment adopted, the relevant proceeds shall be repatriated within 90 days of the date of shipment of the goods to a stated Exports Domiciliary Account.

(iv) Efforts at enhancing non-oil receipts through the use of incentive schemes like the New Manufacture-in-Bond and the Negotiable Duty Credit Certificate (NDCC) shall be sustained.

4.2.6 Invisible Trade Transactions

(i) The remittable fees for licences (trademarks, patent, etc) or technical services agreements shall range between 1.0 and 5.0 per cent of net sales value or profit before tax where net sales value is not applicable. Similarly, permissible management service fees in respect of projects where no profit is anticipated during the early years shall range from 1.0 to 2.0 per cent net of sales during the first three to five years only. In the case of Hotel service, a basic fee or lump sum not exceeding 3.0 per cent of net sales plus an incentive fee not exceeding 12.0 per cent of Gross Operating Profit (GOP) shall be applicable. The certificate of registration issued by NOTAP shall be included in the documentation requirements for the purpose of procuring foreign exchange for such transactions.

(ii) Remittable consultancy fees shall be a maximum of 5.0 per cent of project cost and limited to projects of very high technology content for which indigenous expertise is not available. Service agreements for such high technology joint ventures shall continue to include a schedule for the training of Nigerian personnel for eventual take-over. In addition, Nigerian professionals shall be involved in the project implementation from inception.

(iii) Permissible royalty in respect of know-how, patents and other industrial property rights shall range from 1.0 to 5.0 per cent of net sales.

(iv) Remittance in the Foreign Exchange Market shall be allowed in respect of bona-fide Nigerian students pursuing courses of GCE 'A' level and above in overseas institutions, based on the prescribed documentation, including the Embassy/High Commission letter.

(v) Authorised Dealers are required to exercise prudence and scrutinise all requests for Personal Travel Allowance by residents and Business Travel Allowance by companies incorporated in Nigeria and ensure that only valid transactions are entertained.

(vi) Foreign nationals may remit 100.0 per cent of their income net of tax as Personal Home Remittance (PHR) subject to the usual documentation requirements.

4.2.7 Miscellaneous Policy Measures

(i) The declaration on Forms TM & TE of foreign currency imports and exports, respectively, of US$5,000.00 (Five thousand US Dollars) and above or its equivalent is required for statistical purposes only.

(ii) Travellers entering and leaving Nigeria are required to declare any amount above ₦10,000.00 (Ten thousand Naira only) in their possession at the time of arrival in or departure from the country.

(iii) All contracts entered into in Nigeria shall continue to be denominated in Naira only.

(iv) Only hotels registered as Authorised Buyers shall accept foreign currency from visitors in settlement of hotel bills. However, payment of such bills in foreign currency shall be optional and at the discretion of the foreign visitors making the payment.

(v) Appropriate sanctions shall continue to be imposed on Authorised Dealers who release funds on the basis of forged documents, engage in fraudulent transactions, fail to transfer customs revenue to the CBN in accordance with the laid down procedures, default in furnishing accurate returns on due dates and/or fail to report defaulting customers, etc.

(vi) Appropriate sanctions shall also be imposed on bank customers who breach any of the foreign exchange operational guidelines.

(vii) All Authorised Dealers are required to refer policy issues in respect of foreign trade and exchange, of which, they are in doubt, to the Trade & Exchange and Foreign Operations Departments of the Central Bank of Nigeria for clarification.

CHIEF (DR.) JOSEPH O. SANUSI, CON
GOVERNOR
CENTRAL BANK OF NIGERIA
ABUJA

2ND JANUARY, 2004

APPENDICES

APPENDIX I

REF: BSD/DO/23/VOL.1/11 7th November, 1990

PRUDENTIAL GUIDELINES FOR LICENSED BANKS

Without prejudice to the requirements of the Statements of Accounting Standard on Accounting by Banks and Non-Bank Financial Institutions (Part I) to be issued by the Nigerian Accounting Standards Board (NASB) in the near future, all licensed banks shall be required to adhere to the prudential guidelines enunciated in this circular for reviewing and reporting their performances, with immediate effect. In view of the international nature of banking, the guidelines are based on practices endorsed by reputable international financial institutions and regulatory authorities. These guidelines should be regarded as minimum requirements and licensed banks, which already have more stringent policies and practices in place, are encouraged to continue with them.

2. Credit Portfolio Classification System

2.1 Licensed banks should review their credit portfolio continuously (at least once in a quarter) with a view to recognizing any deterioration in credit quality. Such reviews should systematically and realistically classify banks' credit exposures based on the perceived risks of default. In order to facilitate comparability of banks' classification of their credit portfolios, the assessment of risk of default should be based on criteria which should include, but are not limited to, repayment performance, borrower's repayment capacity on the basis of current financial condition and net realizable value of collateral.

2.2 Credit facilities (which include loans, advances, overdrafts, commercial papers, bankers' acceptances, bills discounted, with a bank's credit risks) should be classified as either "performing" or "non-performing" as defined below:

(a) a credit facility is deemed to be performing if payments of both principal and interest are up to date in accordance with the agreed repayment terms.

(b) a credit facility should be deemed as non-performing when any of the following conditions exists:

(i) interest on principal is due and unpaid for 90 days or more.

(ii) interest payments equal to 90 days interest or more have been capitalized, rescheduled or rolled over into a new loan (except where facilities have been reclassified in 2.3 below).

2.3 The practice whereby some licensed banks merely renew, reschedule or roll-over non-performing credit facilities without taking into consideration the repayment capacity of the borrower is objectionable and unacceptable. Consequently, before a credit facility already classified as "non-performing" can be reclassified as "performing", the borrower must effect cash payment such that outstanding unpaid interest does not exceed 90 days.

2.4 Non-performing credit facilities should be classified into three categories namely, sub-standard, doubtful or lost on the basis of the criteria specified below:

(a) Sub-standard

The following objective and subjective criteria should be used to identify sub-standard credit facilities:

(i) *Objective criteria:* facilities as defined in 2.2(b) on which unpaid principal and/or interest remain outstanding for more than 90 days but less than 180 days.

(ii) *Subjective criteria:* credit facilities which display well defined weaknesses which could affect the ability of borrowers to repay – such as inadequate cash flow to service, under-capitalisation or insufficient working

capital, absence of adequate financial information or collateral documentation, irregular payment of principal and/or interest, and inactive accounts where withdrawals exceed repayments or where repayments can hardly cover interest charges.

(b) Doubtful

The following objective and subjective criteria should be used to identify doubtful credit facilities:

(i) *Objective criteria:* facilities on which unpaid principal and/or interest remain outstanding for at least 180 days but less than 360 days and are not secured by legal title to leased assets or perfected realizable collateral in the process of collection or realisation.

(ii) *Subjective criteria:* facilities which in addition to the weakness associated with sub-standard credit facilities reflect that full repayment of the debt is not certain or that realisable collateral values will be insufficient to cover bank's exposure.

(c) Lost Credit Facilities

The following objective and subjective criteria should be used to identify lost credit facilities:

(i) *Objective criteria:* facilities on which unpaid principal and/or interest remain outstanding for 360 days or more and are not secured by legal title to leased assets or perfected realizable collateral in the course of collection or realisation.

(ii) *Subjective criteria:* facilities which in addition to the weaknesses associated with doubtful credit facilities, are considered uncollectible and are of such little value that continuation as a bankable asset is unrealistic such as facilities that have been abandoned, facilities secured with unmarketable and unrealisable securities and facilities extended to judgement debtors with no means of foreclosable collateral to settle debts.

2.5 Banks are required to adopt the criteria specified in paragraphs 2.1 to 2.4 to classify their credit portfolios in order to reflect the true accounting values of their credit facilities. Licensed banks should note that the Central Bank of Nigeria reserves the right to object to the classification of any credit facility and to prescribe the classification it considers appropriate for such credit facility.

3. **Provision for Non-performing Facilities**

3.1 Licensed banks are required to make adequate provisions for perceived losses based on the credit portfolio classification system prescribed in paragraph 2 in order to reflect their true financial condition. Two types of provisions (that is specific and general) are considered adequate to achieve this objective. Specific provisions are made on the basis of perceived risk of default on specific credit facilities while general provisions are made in recognition of the fact that even performing credit facilities harbour some risk of loss no matter how small. Consequently, all licensed banks shall be required to make specific provisions for non-performing credits as specified below:

(i) For facilities classified as Sub-standard, Doubtful or Lost:

— interest overdue by more than 90 days should be suspended and recognized on cash basis only.

— principal repayments that are overdue by more than 90 days should be fully provided for and recognized on cash basis only.

1. For principal repayments not yet due on non-performing credit facilities, provision should be made as follows:

a. *Sub-standard Credit Facilities:* 10.0 per cent of the outstanding balance.

b. *Doubtful Credit Facilities:* 50.0 per cent of the outstanding balance.

c. *Lost Credit Facilities:* 100.0 per cent of the outstanding balance.

3.2 For prudential purpose, provisioning as prescribed in 3.1 should only take cognisance of realisable tangible security (with perfected legal title) in the course of collection or realisation. Consequently, collateral values should be recognised on the following basis:

(i) For credit exposure where the principal repayment is in arrears by more than six months, the outstanding unprovided principal should not exceed 50.0 per cent of the estimated net realizable value of the collateral security.

(ii) For credit exposure where the principal repayment is in arrears by more than one year, there should be no outstanding unprovided portion of the credit facility irrespective of the estimated net realizable value of the security held.

(iii) For a credit exposure secured by a floating charge or by an unperfected or equitable charge over tangible security, it should be treated as an unsecured credit and no account should be taken of such security held in determining the provision for loss to be made.

3.3 General Provision

Each licensed bank is required to make a general provision of at least 1.0 per cent of risk assets not specifically provided for.

4. Credit Portfolio Disclosure Requirement

(i) Each licensed bank is required to provide in its audited financial statements, an analysis of its credit portfolio into “performing” and “non-performing” as defined in paragraphs 2.2 and 2.4.

(ii) The amount of provision for deterioration in credit quality (that is, losses) should be segregated between principal and interest.

(iii) A maturity profile of credit facilities based on contracted repayment programme, should be provided along with the maturity profile of deposit liabilities in the financial statement.

5. Interest Accrual

5.1 It is the responsibility of bank management to recognise revenues when they are earned or realised and make provision for all losses as soon as they can be reasonably estimated. However, experience revealed a wide diversity amongst licensed banks on income recognition. While few banks cease accruing interest on non-performing credit facilities after three months, some after six months or one year, some do not appreciate the need to suspend interest on such facilities.

5.2 In order to ensure the reliability of published operating results, the following criteria should be adopted by all licensed banks for the treatment of interest on non-performing credit facilities:

(i) All categories of non-performing credit facilities should automatically be placed on non-accrual status, that is, interest due thereon should not be recognised as income.

(ii) All interest previously accrued and uncollected but taken into revenue should be reversed and credited into suspense account specifically created for this purpose which should be called "interest in suspense account" unless paid in cash by the borrower. Future interest charges should also be credited into same account until such facilities begin to perform.

(iii) Once the facilities begin to perform, interest previously suspended and provisions previously made against principal debts should be recognized on cash basis only. Before a "non-performing facility" can be re-classified as "performing", unpaid interest outstanding should not exceed 90 days.

6.0 Classification of Other Assets

6.1 The term “Other Assets” relate to those asset items not shown separately in the balance sheet of a bank. Those items include, Impersonal Accounts (of various descriptions), Suspense Accounts such as frauds and cashiers’ shortages, Cheque Purchased, Uncleared Effects and Inter-branch Items. More often than not, the accounts usually grouped together as “Other Assets” contain fictitious or intangible assets. The accounts could contain many long outstanding items, the origins of which had been long forgotten, untraceable as well as unreconciliable. In situations like these, the items if not material should be written off and where material (i.e. at least 10.0 per cent of aggregate balance of Other Assets) should be classified as below. It should be noted that items enumerated below are by no means exhaustive:

(a) Sub-standard

- Cheques purchased and uncleared effects outstanding after the permissible clearing period.
- Fraud cases of up to 6 months old and under police investigation regardless of the likely outcome of the cases.
- Inter-branch items of between 2 months to 3 months.
- All other intangible suspense accounts existing in the books for up to 3 months.

A minimum provision of 10.0 per cent should be made for “Other Assets” items classified as sub-standard.

(b) Doubtful

The above listed features must have been aggravated and are likely to result in losses higher than recommended for sub-standard items. Items for doubtful classification should include, but are not limited to the following:

— Cheques purchased of between 3 to 6 months old but which had been withdrawn or cancelled and substituted with new ones. Similar treatment should be accorded to uncleared effects for which values had been given.

— Outstanding fraud cases of 6 to 12 months old and with slim chances of full recoveries.

— Inter-branch items outstanding for between 3 to 6 months.

— All other intangible suspense accounts outstanding for between 6 months and 12 months.

— A minimum of 50.0 per cent provision should be made for “Other Assets” items classified as doubtful.

(c) Lost

Items for lost classification should include, but are not limited to the following:

— Cheques purchased and uncleared effects over 6 months old and for which values had been given.

— Outstanding fraud cases over 12 months and involving protracted litigations.

— Inter-branch items over 6 months old whether or not the origins are known.

— All other intangible suspense accounts over 12 months old.

Full provision (i.e. 100.0 per cent) should be accorded to items classified lost.

7.0 Off-balance Sheet Engagements

7.1 A proper appraisal of off-balance sheet engagements should be undertaken with a view to determining the extent of loss a bank may likely sustain. Off-balance sheet items include letters of Credit, Bonds, Guarantees, Indemnities, Acceptances, and Pending or Protracted Litigations (the outcome of which could not be easily determined).

7.2 The following factors should be taken into consideration in recognising losses on off-balance sheet engagements:

— Date liability was incurred

— Expiry date

- Security pledged
- Performance of other facilities being enjoyed by the customer, e.g. loans and advances.

Full provisions must be made for any loss that may arise from off-balance sheet transa ctions.

7.3 Off-balance sheet engagements should not form part of balance sheet totals while their disclosure in note form should distinguish between:

- direct credit substitutes, such as guarantees, acceptances and standby letters of credit serving as guarantees;
- transaction-related contingencies, such as bid bonds, performance guarantees and standby letters of credit related to particular transactions;
- short-term self-liquidating trade related contingencies resulting from the movements of goods; and
- other contingencies.

APPENDIX II

BANK RETURNS

(a) Monthly Returns

(i) Profit on Interest Rates;

(ii) Statement of Assets and Liabilities;

(iii) Break-down of “Other” Liabilities;

(iv) Break-down of “Other” Assets;

(v) Report on External Assets and Liabilities;

(vi) Schedule of Placement with Other Banks;

(vii) Schedule of Takings with Other Banks;

(viii) Schedule of Negotiable Certificates of Deposit (NCDs) Held;

(ix) Schedule of Negotiable Certificates of Deposit (NCDs) Issued;

(x) Statement of Maturity Profile of Assets and Liabilities;

(xi) Report on Total Credit Granted;

(xii) Report on Credit Allocation by Sectors, Borrowers and Interest Rates;

(xiii) Report on Cost of Funds;

(xiv) Report on Deposit Ownership;

(xv) Report on Lending Above the Statutory Limit;

(xvi) Schedule of Foreign Exchange Purchases from Other Banks;

(xvii) Schedule of Foreign Exchange Sales to Other Banks;

(b) Quarterly Returns

(xviii) Profit and Loss Account;

(xix) Report on Total Credit Granted;

(xx) Report on Structure of Deposits;

(xxi) Report on Non-Performing Credits;

(xxii) Report on Non-Performing "Other" Assets;

(xxiii) Report on Non-performing Off-Balance Sheet Engagements;

(xxiv) Report on Non-performing Credit by Sector;

(xxv) Report on Credits to Officers, Directors, Principal Shareholders and their related interests;

(xxvi) Report on top Users of Funds;

(xxvii) Foreign Exchange Interest Repatriation and Distribution;

(xxviii) Report on Distribution of Naira Proceeds of Interest Repatriated;

(xxix) Foreign Exchange Holdings by Authorised Dealers.

(c) Semi-Annual Returns

(xxx) Report on Investment in Shares;

(xxxi) Report on Corporate Profile;

(xxxii) Report on Branch Network;

(xxxiii) Report on Bank's Directors;

(xxxiv) Report on Bank's shareholders; and

(xxxv) Report on Management and Top Officers.

APPENDIX III

MID-MONTH RETURNS ON ASSETS AND LIABILITIES

FORM MMBR 100

BANK NAME:

BANK CODE:

AS AT CODE	DETAILS	N'000	₦'000
92000	**TOTAL LIQUID ASSETS** (as in Liquidity Ratio)		
92100	Vault Cash		
92200	Total Balances at CBN:		
92210	Cash Reserve Requirement		
92220	Shortfall/Excess Credit		
92230	Other Balance with CBN		
92300	Other Liquid Assets		
92400	**TOTAL DEPOSIT LIABILITIES**		
92410	Private Sector Deposits		
92411	Demand		
92412	Savings		
92413	Time		
92414	Others (including Deposit Certificates, Notes, etc.)		
92420	Government Sector Deposit		
92421	Demand Deposits of:		
92422	Federal Government		

APPENDIX III(Cont'd)

AS AT CODE	DETAILS	N'000	N'000
92423	State Governments		
92424	Local Governments		
92425	Time and Savings Deposits of:		
92426	Federal Government		
92427	State Governments		
92428	Local Governments		
92429	Domiciliary Deposit		
92430	Demand		
92431	Others		
92510	**TOTAL LOANS & ADVANCES**		
92520	Bills Discounted		
92530	Investment		
92531	Treasury Bills		
92532	Treasury Certificates		
92533	Eligible Developments Stocks		
92534	Other Investments		
92540	Money at Call Outside Banks, Term Loan, Leases & Overdrafts		
92600	**FOREIGN ASSETS & LIABILITIES POSITION**		
92610	Foreign Assets (Gross)		
92620	Foreign Liabilities (Gross)		

APPENDIX IV

MID-MONTH REPORT ON INTEREST RATES

FORM MMBR 200

BANK NAME:

BANK CODE:

AS AT:
Details
Prime Lending Rate
Maximum Lending Rate
Deposit Rates
Savings
Call
Time/Term
7 Days Notice
30 Days Maturity
3 Months Maturity
6 Months Maturity
12 Months Maturity
Over 12 Months Maturity
Demand Deposit (Current Account)
Other Deposit Certificates/Notes
7 Days Notice
30 Days Maturity
3 Months Maturity
6 Months Maturity
12 Months Maturity
Over 12 Months Maturity