PRESS STATEMENT

LOCAL BANKS TO PARTNER GLOBAL CUSTODIAN

The Governor, Central Bank of Nigeria, (CBN) Professor Charles Soludo has said that any Global Custodian wishing to manage Nigeria's external reserves in 2006 must be ready to partner with one or more local banks to develop them into world class players.

Prof Soludo disclosed this in an end of year address he delivered to the staff of the Bank, titled 'Towards a Stronger Monetary Authority and Financial System'. He explained that the appointment of Global Custodian for reserves management will be concluded early 2006 and that the decision to ensure local participation was in fulfillment of one of the incentives under the Banking Sector Consolidation Guidelines adding that any bank with US$1 billion in capital base will receive at least US$500 million reserves to manage.

The Governor also stated that the envisaged amendment to the CBN Act will under reserve management provide flexibility in eligible asset classes, which will in addition allow for more diversification and higher returns. He also expects the completion of the Dealing Room Project by next year in order to develop in-house asset management competency.

Appraising the performance of the institution in the past one year, Prof Soludo stated that the apex Bank has lived up to the goals it set out to achieve within the year. These include:

*taming the excess liquidity, due to expansionary fiscal policy;

*restoring stability to the Naira exchange rate, which was maintained around the pre-determined exchange rate band of plus/minus 3 per cent?

*implementing the banking sector reforms.

*Implementing the final phase of Project Eagles, including staff realignment and installation of IT infrastructure

On liquidity management, the CBN, according to the Governor commenced the use of CBN bills for liquidity management. He said the Bank issued =N=60 billion 182-Day, non-rediscountable CBN bills and also introduced the 2-year and 3-year FGN Bonds while the Treasury Bills were restructured into longer tenors.

The Bank also commenced the withdrawal of parastatals deposits from deposit money banks. While a total of =N=88.7 billion was withdrawn in the 1st batch, =N=75.28 billion was the sum withdrawn on behalf of the NNPC. The MRR was also revised and the CBN balance sheet realigned. In addition the Bank has been able to increase the frequency of the production of its analytical balance sheet from monthly to daily series and this has enabled the Bank to capture the current growth rate of reserve money, while monetary policy actions were promptly taken to bring the growth of reserve money below the Policy Support Instrument (PSI) Target. He also said that a system has been set up to obtain the broad money supply (M2) data on a weekly basis.

As at June 2005, M2 growth was 18.9 per cent but projected to fall to 15-16 per cent by end 2005. Prof Soludo pointed out that

Reserves money dropped to =N=714biilion as at December 16, 2005 compared to target of =N=764 billion for end 2005.

The economy as a whole, he stated experienced a GDP growth rate of 5.85 per cent in the first half of the year, led by the non-oil sector with 8.2 per cent, agriculture at 6.8 per cent and oil with a negative 2.26 percent. Also he said the Bank was able to reduce the inflation rate which jerked up to 28.2 per cent in August to 18.6 per cent in October. Measures have also been intensified he added to bring it down to between 12 and 15 per cent by year end.

Reviewing the banking sector reforms, Prof Soludo told the staff that the reforms have led to a larger capital base from under US$3billion to over US$5billion. About =N=350.2 billion new investment was recorded representing the largest amount in non-oil sector in one year while Foreign Direct Investment (FDI) inflows stood at about US $500 million. He said that at the end of this first phase of consolidation a total of between 24 to 25 banks are likely to emerge.

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