

Central Bank of Nigeria

Annual Report and Statement of Accounts

**For the Year Ended
31st December, 2001**

Mission

To be proactive in providing a stable framework for the economic development of Nigeria through transparent implementation of monetary policy and achievement of price stability for a sound management of the financial system.

Vision

To be one of the world's most efficient and effective central banks in promoting and sustaining economic development.

Central Bank of Nigeria
Annual Report
And Statement Of Accounts For The Year Ended
31st December 2001

EXECUTIVE SUMMARY

1. In accordance with statutory requirements, this Report provides an overview of the operations of the Central Bank of Nigeria (CBN) in 2001.
2. The Report which consists of eight chapters is presented in three parts. The highlights of the report are as follows: Part 1 contains the activities of the Bank in 2001, while the Economic Report on Nigeria is in Part II. International Economic Developments, which impacted on Nigeria during the year, are highlighted in Part III.

Part One

Activities Of The Central Bank Of Nigeria

Chapter 1:

3. In line with the provisions (Part viii, sec.4(2)) of the Central Bank of Nigeria (CBN) Act 1991, as amended, the Bank pursued its core mandate of ensuring price stability in 2001. The Bank also implemented the provisions in the Banks and Other Financial Institutions (BOFI) Act 1991, as amended, which aims at ensuring high standards of banking practice and financial stability through its surveillance activities and maintenance of efficient payments system. The Bank's monetary and foreign exchange policy was designed to maintain internal and external balance as well as contribute to the achievement of balance of payments viability. The Bank performed other developmental functions through its contributions to small and medium scale enterprises and agricultural development. In addition, it rendered other services to

third parties, participated in collaborative research studies with other agencies and provided grants to some Nigerian universities.

Chapter 2:

Appraisal of Monetary,

Financial and Other Policy Outcomes.

4. The financial system continued to face the problem of excess liquidity, which was further aggravated by the expansionary fiscal policy stance of the three tiers of government. Thus, growth in monetary aggregates remained excessive relative to targets. The broad measure of money supply (M2) rose by 27.0 per cent as against the 12.2 per cent stipulated for fiscal 2001 and the 48.1 per cent increase recorded in 2000, reflecting the increases in both narrow money (M1) and quasi-money. M1 rose by 28.1 per cent relative to the target of 4.3 per cent and the increase of 62.2 per cent in 2000.

Bank deposit and lending rates generally rose in 2001, reflecting the effect of monetary policy actions taken by the authorities to stem liquidity expansion, coupled with the relative uncompetitiveness and oligopolistic structure of the banking system. The spread between deposit and lending rates remained wide, while deposit rates were negative in real terms.

5. Overall, the macroeconomic performance was mixed as reflected by the following: The real gross domestic product (GDP) grew by 3.9 per cent compared with the target of 5.0 per cent and 3.8 per cent recorded in 2000.

The external sector experienced renewed pressure, resulting in a reduced balance of payments surplus relative to the position in 2000.

The demand pressure at the Inter-bank Foreign Exchange Market (IFEM) persisted, resulting in the depreciation of the naira exchange rate.

The rate of inflation rose from a single digit of 6.9 per cent in the preceding year to 18.9 per cent at the end-December, 2001.

6. The operational environment for banks was further liberalised in 2001 with the introduction of universal banking, while the supervisory framework of the financial system was enhanced with the establishment of a new department in the CBN: the Other Financial Institutions Department (OFID) to oversee the activities of financial institutions other than the banks. The Bank examined 63 deposit money deposit banks and 3 discount houses in 2001. In addition, 48 investigations were conducted while follow-up examination of 56 banks was completed. Overall, 57 banks were penalised for various offences. The Bank's surveillance report also revealed that an average of 42 banks (46 per cent) of the licensed banks were net takers of funds from the banking system, indicating pressure on their liquidity. Another feature of banks' activities during the year was overtrading in the credit market. Sixty-six (66) out of the ninety (90) banks in operation recorded very high net loan to deposit ratios (in some cases as high as 120 per cent) compared with the prudential maximum of 47.5 per cent.
7. In pursuit of its developmental activities, the Bank, in collaboration with the Bankers' Committee, established the Small And Medium Industries Equity Investment Scheme (SMIEIS). The Bank also extended grants to some Nigerian Universities. It also

organised seminars, conferences and participated in collaborative research with other agencies in the economy.

8. The financial activities of the CBN resulted in an operating surplus of ₦63.3 billion showing an increase of 23.6 per cent over the surplus of ₦51.2 billion in 2000.

In accordance with the provisions of Part II, Section 5 (3) of the CBN Act, 1991, as amended, the sum of ₦10.6 billion was transferred to the general reserve while the balance of ₦52.7 billion was transferred to the Federal Government as per the provision of the same Act.

Part Two Economic Report

Chapter 3:

General Survey of the Economy

9. This chapter provides a general overview of developments in the various sectors of the economy in 2001 with details in the subsequent chapters.

Chapter 4:

The Financial Sector

10. The growth in monetary aggregates accelerated further in 2001 and was substantially in excess of prescribed targets.
 - ▶ Monetary growth was influenced mainly by the substantial increase in aggregate bank credit to the domestic economy, which grew by 75.8 per cent. The growth was reinforced by the rise in foreign assets (net) of the banking system. The expansion was induced by the monetisation of excess crude oil receipts, the proceeds of the GSM licensing fees, savings from the previous year and the monetary financing of the Federal Government's fiscal deficit.
 - ▶ Activities in the money market were influenced by the liquidity profile of the

banking system and the various control measures adopted to stem the excessive growth of domestic liquidity. In response to the seemingly intractable liquidity overhang in the banking system, the CBN introduced its own money market instrument, the CBN certificate, in February 2001.

11. There was a remarkable improvement in the capital market activities during the year, as most indicators exhibited upward trends. The volume, values and number of transactions in the secondary market increased, while market capitalisation and value index rose substantially.

Chapter 5:

Fiscal Operations

12. Developments in the international oil market impacted positively on Government finances in 2001. Federal Government retained revenue increased by 33.4 per cent in 2001 owing to increased earnings from both oil and non-oil sectors. Similarly, aggregate expenditure rose by 45.2 per cent and was over the budget target by 8.7 per cent. Consequently, the fiscal operations of the Federal Government resulted in an overall deficit of ₦221.1 billion or 4.0 per cent of GDP compared with a deficit of ₦103.8 billion or 2.1 per cent of GDP in 2000. The deficit was financed entirely from domestic sources, including excess crude oil receipts of the year 2000 and borrowing from the banking system.
13. The outstanding public debt of the Federal Government at the end of December, 2001 stood at ₦4,193.3 billion, representing an increase of 4.9 per cent over the level in 2000. Total outstanding public debt as a proportion of GDP, however, declined to 76.4 per cent from 82.5 per cent in the preceding year.

Chapter 6:

The Real Sector

14. The performance of the real sector improved in 2001, with the real gross domestic product (GDP) growing by 3.9 per cent, compared with 3.8 per cent in 2000. The major sources of growth were agriculture, especially crop production, manufacturing, merchandise, transportation, finance and insurance, and government services. The growth in the manufacturing sector was driven by the restoration of regular supply of petroleum products throughout the year, modest improvements in electric power supply and the introduction of comprehensive inspection of imports at the ports. Also, industrial relations were relatively cordial during the year. However, inflationary pressures accelerated as a result of the liquidity surfeit fuelled by the expansionary fiscal operations and the lingering structural bottlenecks which increased production costs in the economy.
15. In recognition of the important roles of infrastructure, the Government invested massively on them. As a result the capital expenditure grew by 83.2 per cent over the level of year 2000. In particular, the power sector received noticeable attention while the telecommunications sector was substantially improved through the operationalisation of the global system of mobile telecommunications (GSM).

Chapter 7:

The External Sector

16. Nigeria's external sector witnessed renewed pressure in 2001, resulting in a reduced balance of payments surplus of ₦29.2 billion or 0.5 per cent of GDP, down from ₦314.1 billion or 8.0 per cent of GDP in 2000. This development was attributed to the substantial decline in the current account surplus. The deficit in the capital

and financial account narrowed during the year. The current account surplus declined by 61.9 per cent while the capital and financial account deficit fell by 39.5 per cent.

17. Total stock of the nation's reserves increased by 5.5 per cent from US\$9.9 billion to US\$10.45 billion, which was much lower than the increase of 81.8 per cent in 2000. At the current level of import commitments, the reserves could finance 12 months of import compared with 13.6 months in 2000.
18. The performance of the non-oil export sector, in terms of foreign exchange earnings, improved marginally. The value of non-oil exports in 2001 increased by 12.9 per cent to ₦28.0 billion but accounted for only 1.3 per cent of total, the same proportion as in 2000.

Part Three

The International Economy

Chapter 8:

International Economic And Financial Developments

- 19 The pace of expansion of the world economy was weak in 2001 with growth in most regions remaining sluggish. World output grew at an estimated rate of 2.4 per cent during the year, indicating a 2.3 percentage points decline from the level in the preceding year. This was traceable to the delayed recovery in the United States of America (U.S.), continued recession in Japan, weak demand in Europe and Asia, deteriorating financial conditions in the emerging markets and generally weak commodity prices. Price Inflation, however, moderated to 2.2 per cent from its 2.3 per cent level in 2000. Also, interest rates were low following persistent cuts, especially in the industrialised countries, as a device to

stimulate economic activities. Global macroeconomic stability was, however, threatened by political uncertainties and policy slippages, especially in developing countries.

20. The authority of Heads of State and Government of the Economic Community of West African States (ECOWAS) at its 25th session in December, 2001 in Dakar, Senegal:
 - a. Adopted the recommendation for the incorporation of a private Regional Airline "ECOAIR" and a coastal shipping line "ECOMARINE",
 - b. Commended the adoption of the New Partnership for Africa's Development (NEPAD),
 - c. Mandated the Secretariat to harmonise its policies with NEPAD's,
 - d. Urged immediate implementation of the ECOWAS Trade Liberalisation Scheme (TLS), adopted the ECOWAS passport and introduced the ECOWAS Common External tariff (CET), and
 - e. Noted with satisfaction the establishment of the ECOWAS Court of Justice and the ECOWAS Parliament.

The Authority also:

- f. Adopted recommendations for the implementation of West Africa monetary zone (WAMZ) agreements;
- g. Adopted Statutes of the West African Central Bank (WACB) and ECOWAS Stabilisation and Cooperation Fund; and
- h. Adopted decisions on the establishment of an Exchange Rate Mechanism for WAMZ, Development of National Payment Systems, establishment of efficient Cross-Border Payment Arrangements, and the establishment of a National Sensitisation Committee in

member States.

21. Nigeria held bilateral Joint Commission Sessions with several countries in 2001 including Angola, China, Congo, Iran, Tunisia and Turkey. The sessions centred on implementation of existing bilateral agreements, negotiation and signing of new pacts in the areas of science and technology, culture, education, trade and investment.

Overall, the performance of the Nigerian economy in 2001 was generally mixed. This is because, the modest growth in GDP

was marred by the double-digit inflation rate recorded during the period. Similarly, the external sector experienced renewed pressure, resulting in a reduced overall balance of payments position and a marginal increase in external reserves.

Furthermore, the fiscal dominance arising from the budgetary operations of the three tiers of government impacted negatively on the economy, resulting in an excess liquidity problem and its concomitant implications on exchange and interest rate management.

Central Bank of Nigeria
April 29, 2002.

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**Members Of The Board Of Directors Of The
Central Bank Of Nigeria As At 31st December, 2001**

1.	Chief (Dr.) Joseph O. Sanusi	-	Governor (Chairman)
2.	Mr. Oluwole. S. Oduyemi	-	Deputy Governor, General Administration
3.	Dr. Shamsuddeen Usman	-	Deputy Governor, Domestic Monetary and Banking Policy
4.	Mr. Ernest C. Ebi	-	Deputy Governor, International Operations
5.	Alhaji Mahey R. Rasheed	-	Deputy Governor Domestic Operations
6.	Prof. M. O. Kayode	-	Director
7.	Mallam Bashiru Tukur	-	Director
8.	Apostle H. I. Alile, OFR	-	Director
9.	Dr. (Mrs.) Uche Azikiwe, MFR	-	Director
10.	Mr. Samson Inie Akono	-	Director
11.	Mrs. Thelma A. Iremiren, MFR (Perm. Secretary, Federal Ministry of Finance)	-	Director
	A. Omoruyi, Esq.	-	Secretary

**Members Of The Committee Of Governors
Of The Central Bank Of Nigeria As
At 31st December, 2001**

1.	Chief (Dr.) Joseph O. Sanusi	-	Governor
2.	Mr. Oluwole S. Oduyemi	-	Deputy Governor, General Administration
3.	Dr. Shamsuddeen Usman	-	Deputy Governor, Domestic Monetary and Banking Policy
4.	Mr. Ernest C. Ebi	-	Deputy Governor, International Operations
5.	Alhaji Mahey R. Rasheed	-	Deputy Governor, Domestic Operations
6.	Anthony Omoruyi, Esq.,	-	Secretary

**PRINCIPAL OFFICERS OF THE BANK AS
AT 31ST DECEMBER, 2001**

A. Departmental Directors

1.	Alhaji M. A. Sadiq	-	Currency Operations
2.	Alhaji I. G. Garba	-	Agricultural Finance
3.	Dr A. Z. Musa	-	Organisation & Method
4.	A. Omoruyi, Esq	-	Secretary's
5.	Mr. V. U. Omoike	-	Banking Operations
6.	Mr. J.I. O. Afiamo	-	Special Duties
7.	Alhaji M. S. Garba	-	Finance and Accounts
8.	Mrs. O. A. Demuren	-	Trade & Exchange
9.	Mr. G. B. Sowunmi	-	Security Services
10.	Alhaji M. A. Bamiro	-	Bank Examination
11.	Mr. O. I. Imala	-	Banking Supervision
12.	Dr G. E. Ukpong	-	International Economic Relations
13.	Mr. M. O. Adediran	-	Legal Unit

14.	Dr. S. O. Aladesulu	-	Information Technology
15.	Engr B. G. Issa	-	Building & Engineering Services
16.	Mr. P. A. H. Ataman	-	Human Resources
17.	Mr. P.I. C. Anene	-	Branch Operations
18.	Dr. M.A.O. Olubodun	-	Medical Services
19.	Mr. U.B. Girei	-	Administration*
20.	Mrs. W. B. Mshelia	-	Internal Audit*
21.	Mr. A. S. Bamisile	-	Other Financial Institutions*
22.	Dr. O. J. Nnanna	-	Research*
23.	Mr. L.A. Atoyebi	-	Foreign Operations*
24.	Mr. E. U. Kalu	-	Debt Management*
25.	-	-	Governor's Office

B. Zonal Controllers

26.	Alhaji O. O. Mohammed	-	Bauchi
27.	Mr. A. O. Agholor	-	Enugu
28.	Mr. E. N. Agorua	-	Ibadan
29.	Alhaji S. El-Yakub	-	Kano*

* In an acting capacity.

STATEMENT BY THE GOVERNOR

1. I have the honour and privilege to present the Central Bank of Nigeria (CBN) 2001 Annual Report and Statement of Accounts. The Report, as in the past, reviews the operations of the Bank in its efforts at discharging its mandate. It covers not only the core mandate of the Bank but also the sectoral developments in the economy and the international developments that impacted on the Nigerian economy.
2. The performance of the Nigerian economy in 2001 was mixed. The real gross domestic product (GDP) grew by 3.9 per cent compared with the target of 5.0 per cent and the growth of 3.8 per cent recorded in 2000. The level of external reserves improved modestly, owing mainly to favourable price developments in the international oil market in the first three quarters of the year. The performance of the non-oil exports improved marginally, while demand pressures in the foreign exchange market persisted, precipitating further depreciation of the Naira exchange rate during the year. The fiscal operations of the Federal Government resulted in a substantial deficit equivalent to approximately 4.0 per cent of the GDP; while inflationary pressures were exacerbated as the inflation rate moved from a single digit of 6.9 per cent at end-December 2000 to 18.9 per cent at end-December, 2001. The growth in monetary aggregates exceeded the programmed targets for the year by substantial margins due largely to the expansionary fiscal operations of the three tiers of government and the growth in net foreign assets of the banking system.
3. In pursuit of its mandate of conducting monetary policy and maintaining domestic price and exchange rate stability, the major challenge that faced the Bank in 2001 was the problem of excess liquidity in the economy. The CBN adopted a number of measures in the course of the year to address this problem. Among these were: the introduction of the CBN certificate (in two tranches of 180-day and 360-day tenor) at competitive rates to supplement existing federal government securities; upward review of the cash reserve requirements and the statutory minimum liquidity ratio for the deposit money banks, as well as increases in the minimum rediscount rate (MRR). Furthermore, the accounts in respect of capital votes of the Federal Government ministries and agencies were transferred back to the CBN. In view of the high risk of default, all licensed banks were required to make a provision of 50.0 per cent on their performing credits and 100.0 per cent for classified loans granted to all three tiers of government and their agencies to enhance the stability of the banking system.
4. The Bank contended with the intense demand pressures in the inter-bank foreign exchange market (IFEM). As part of the efforts geared toward stabilizing the exchange rate of the Naira as well as reducing the arbitrage premium, all genuine demands for foreign exchange were met. The Bank intensified its surveillance of the operations of the deposit money banks (DMBs), particularly their foreign exchange operations and imposed appropriate sanctions for violations of the stipulated guidelines.
5. Nigeria's efforts towards securing debt relief necessitated the implementation of the twelve-month Stand-By Arrangements (SBA) with the International Monetary

- Fund (IMF), which ended in June, 2001. Though an informal agreement between Nigeria and the Fund subsisted between July and December, 2001, performance during the period was mixed and, thus, the benefits associated with the programme could not be exploited.
6. The CBN continued with its efforts to enhance transparency in monetary policy formulation during the year. In this regard, the Bank held three seminars under the auspices of the Monetary Policy Forum in 2001, which it introduced, to brain-storm on topical economic issues with key stakeholders in the economy, particularly, banking practitioners, members of the National Assembly and the academia. In addition, the maiden edition of the Annual Monetary Policy Conferences, with the theme “Growing the Nigerian Economy”, was organized in November, 2001. Furthermore, the Monetary Policy Committee (MPC) embarked on the monthly publication of key monetary and exchange rate policy decisions, in line with the general principles of the Code of Good Practices on Transparency in Monetary and Financial Policies. The publication was aimed at informing all stakeholders of the policy objectives of the Bank, including the rationale for its decisions, in order to sustain the credibility of monetary policy.
 7. As part of efforts to promote economic integration, particularly in the West African sub-region, the Bank contributed significantly to the establishment and funding of the West African Monetary Institute (WAMI). The Bank also worked assiduously with the Financial Action Task Force on Money Laundering, an international organisation based in Italy.
 8. In furtherance of the currency reform efforts of the Bank and to enhance the efficiency of Nigeria’s payments system, the N500 Naira note was introduced in April, 2001. MICR equipment were also installed in most of the CBN branches during the year for effective and efficient processing of payments instruments, thereby reducing clearing cycles and the incidence of large floats.
 9. The liberalization of the financial system was enhanced during the year with the commencement of universal banking. Also, new procedures including a contingency plan introduced for combating distress/crisis in the banking industry, was approved during the year for implementation.
 10. Conscious of government’s developmental role in promoting sustainable economic growth and development, through the CBN the stakeholders increased the capital base of the Agricultural Credit Guarantee Scheme Fund (ACGSF) from N1.0 billion as at end-December, 2000 to N3.0 billion in 2001. Correspondingly, loan guarantee limits under the Scheme were raised for all categories of borrowers. The Bank also played a pivotal role in the decision of the Bankers’ Committee to redirect resources to the small and medium scale industries (SMIs) under the Small and Medium Industries Equity Investment Scheme (SMIEIS). Under the Scheme, the operating banks were expected to set aside 10.0 per cent of their profits before tax for equity investment in small and medium scale industries. As at end-December, 2001, over N 6.2 billion had been set aside towards the realization of the broad objectives of the Scheme.
 11. The Bank’s re-engineering/restructuring

exercise continued in the year with the undertaking of a job evaluation exercise by the Job Evaluation Committee and the Project EAGLES.

12. It is my hope that this Annual Report and Statement of Accounts will provide useful information and acquaint the public with the Bank's operations and the challenges it faced in the pursuit of its mandate.
13. In conclusion, I wish to express my

appreciation to the Management and staff of the Bank for their contributions towards propelling the Bank to greater heights in the discharge of its statutory responsibilities during the year.



Chief (Dr.) Joseph O. Sanusi,
Governor,
Central Bank of Nigeria,
Abuja.
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