Part One

Activities of the Central Bank of Nigeria

CHAPTER 1

CBN's Mandate, Developmental Objectives And Policy Stance In 2001

In line with the provisions 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 continued to perform other developmental functions through its contributions to small and medium scale enterprises and agriculture. In addition, the Bank rendered other services to third parties, including collaborative research studies with other agencies and grants to some Nigerian universities as part of its civic responsibilities.

1.1 Core Mandate Of The CBN

The core mandate of the CBN, which is spelt out in the Central Bank of Nigeria (CBN) Act (1991) as amended, includes:

- issuance of legal tender currency notes and coins in Nigeria;
- maintenance of Nigeria's external reserves to safeguard the international value of the legal tender currency;
- promotion and maintenance of monetary stability and a sound and efficient financial system in Nigeria;
- acting as banker and financial adviser to the Federal Government; and
- acting as lender of last resort to banks.

In accordance with the above mandate, the Bank implemented the provisions of 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 an efficient payments system. The Bank performed its functions through its various departments, which are shown in the organogram (Fig. 1.1).

1.2 Monetary And Financial Policy Stance

The major objectives of monetary policy for 2001 were spelt out in the Bank's Monetary Policy Circular No. 35. The policy measures were designed to maintain internal and external balance as well as contribute to the achievement of sustainable output growth and poverty reduction. The specific objectives were:

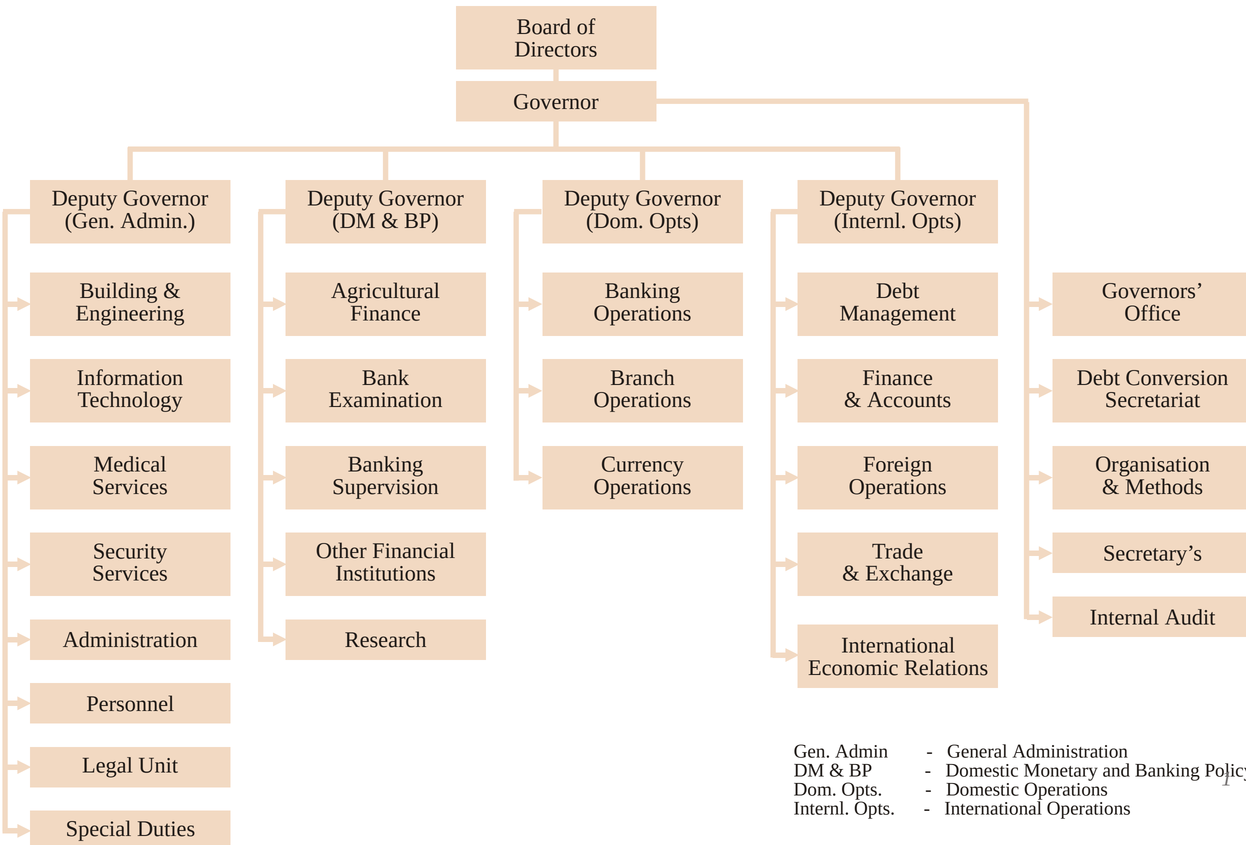
- Reduction of excess liquidity in the banking system;
- Sustenance of a single digit inflation rate;
- Maintenance of exchange rate stability;
- Sustenance of a market-based interest rate regime;
- Promotion of non-inflationary growth;
- Achievement of balance of payments viability; and
- Maintenance of financial sector stability.

Consistent with these objectives, quantitative targets for key macroeconomic, monetary and credit aggregates were set for the year as follows:

Table 1.1
Key Policy Targets

	2000 (%)	2001
(i) Growth in broad money (M2)	14.6	12.2
(ii) Growth in narrow money (M1)	9.8	4.3
(iii) Growth in aggregate bank credit	27.8	15.8
(iv) Growth in bank credit (net) to Government	37.8	2.6
(v) Growth in bank credit to the private sector	21.9	22.8
(vi) Inflation rate	9.0	7.0
(vii) Growth in GDP	3.0	5.0

Figure 1.1
Organisational Structure of the CBN, 2001



Furthermore, in pursuit of its developmental objectives, the Bank provided guarantees for agricultural loans under the Agricultural Credit Guarantee Scheme (ACGS) during the year, as well as supervised the recovery of outstanding balances on the Small and Medium Enterprises loan scheme (SME II). Similarly, the Small and Medium Industries Equity Investment Scheme (SMIEIS) was launched under the auspices of the Bankers' Committee. The Bank also engaged in collaborative efforts with other agencies in economic research and financial matters, and sustained its efforts at improving the quality and dissemination of financial information in the economy. The policy measures applied to achieve the above objectives are outlined below:

1.2.1 Liquidity Management

The liquidity management strategy in 2001 was geared towards maintaining an optimum level of liquidity, consistent with non-inflationary growth through the use of market-based techniques. Open Market Operations (OMO) conducted solely in Nigerian Treasury Bills (NTBs) remained the primary instrument of monetary management during the year. This was complemented by a cash reserve requirement, which was reviewed upwards by 250 basis points to 12.5 per cent between February and April 2001; Minimum Liquidity Ratio, which was reviewed upwards from 35.0 to 40.0 per cent in April, 2001; and Discount window operations including repurchase agreements (repos), which allowed banks and discount houses to access the CBN window for short-term financial accommodation. The CBN Certificate was issued in two tranches of 180 and 360 days tenor from February 2001 to complement the traditional instruments in addressing the persistent problem of excess liquidity in the banking system. In addition, the Bank worked assiduously with the Federal Government to ensure that the National Savings Certificate (NSC) came on stream in 2001. However, the issuance of the NSC, a medium to long-term instrument that would promote financial savings and address the problem of excess liquidity on a more permanent basis, did not materialise during the year.

1.2.2 Interest Rate Policy

The Bank maintained a flexible interest rate policy through its proactive adjustments of the Minimum Rediscount Rate (MRR) to influence the direction of interest rate changes during the year. Thus, the MRR was reviewed upwards progressively in January from 14.0 to 15.5 per cent and further to 16.5, 18.5 and 20.5 per cent in April, June and September, respectively.

1.2.3 Surveillance Activities

The design and implementation of surveillance activities of the CBN over banks and non-bank financial institutions focused on:

- ensuring sound management;
- maintaining healthy balance sheets; and
- avoiding abuse of standards.

1.2.4 Payments and Clearing System

The policy thrust of the Bank to enhance the efficiency of the payments system was strengthened in 2001 with the issuance of the N500 bank note in April 2001 and the encouragement of wider use of currency sorting machines by deposit money banks.

The efforts at maintaining clean notes by routine withdrawal of dirty notes and re-issuance of new ones was intensified in 2001. Also, the automation of the clearing system received strong support while the use of electronic money (e-money) was encouraged.

1.3 External Sector Policy Guidelines

The major objectives of external sector policy in 2001 were the maintenance of a stable exchange rate and the achievement of balance of payments viability. Some of the measures adopted to achieve these objectives were as follows:

- The Inter-bank Foreign Exchange Market (IFEM) introduced in October 1999 was retained in 2001. The oil and oil service companies were permitted to sell the foreign exchange meant for their domestic expenses to any bank of their choice, including the CBN.
- Payments in foreign exchange for services rendered by a Nigerian company to another Nigerian company were not allowed in the IFEM. However, where the payer accepted to pay in foreign exchange, the funds were sourced from domiciliary accounts or off-shore sources.
- Authorized dealers were required until September, 2001 to sell/purchase foreign exchange from autonomous sources, subject to a margin of plus or minus 0.5 per cent of the central IFEM rate.
- All payments on the basis of bills for collection were to be made within the tenor of the bills and not exceeding 180 days from the date of receipt of goods.
- Transactions involving the use of bills for collection and open accounts were allowed while Form 'M' continued to be the main instrument for all import transactions, regardless of whether or not the item of import was exempted from inspection.
- The maximum amount of foreign exchange which bureaux de change could sell was retained at US$ 5,000.00 per transaction.
- All goods imported into the country, except personal effects, used motor vehicles and perishables were subject to pre-shipment inspection in the country of origin and issuance of an appropriate Clean Report of Inspection (CRI).
- Foreign nationals were allowed to remit 100 per cent of their net income as personal home remittance (PHR), subject to the usual documentation requirements.
- Repatriated non-oil export proceeds and other inflows were to be held in Domiciliary Accounts maintained with the Authorized Dealers. Banks were required to maintain two types of Domiciliary Accounts namely, Export and Ordinary Domiciliary Accounts. Holders of Domiciliary Accounts were allowed easy access to the funds subject to the existing guidelines.
- Exporters and other foreign exchange earners were permitted to sell their export proceeds and other foreign currencies to Authorized Dealers at the prevailing market rates. Similarly, exporters were allowed to sell their export proceeds to banks other

than those in which they maintained Export Domiciliary Accounts.

- Payments for exports from Nigeria continued to be by means of Letters of Credit (L/Cs) or any other approved international mode of payment. The proceeds were to be repatriated within 90 days of the date of shipment of the goods to a stated Export Domiciliary Account.
- Efforts at enhancing non-oil receipts using incentive schemes, such as manufacture-in-bond and negotiated duty credit certificates, were retained.
- Travellers entering and leaving Nigeria were required to declare any amount above N10,000.00 (ten thousand naira only) in their possession at the time of arrival or departure from the country.
- All contracts entered into in Nigeria were to be denominated in naira only.

1.4 Developmental Functions

The Bank supported economic growth and development by fostering accessibility and availability of credit to farmers as well as small and medium scale enterprises through:

i. Agricultural credit guarantees under the Agricultural Credit Guarantee Scheme Fund (ACGSF);

ii. Supervision of the utilization of credit facilities under the ACGSF and loan recovery under the SME II; and

iii. The facilitation of the Small and Medium Industries Equity Investment Scheme (SMIEIS).

1.5 Services To Third Parties

As in the previous years, the Bank rendered other services to third parties in 2001. These services were in the areas of :

- Economic and financial data management and dissemination;
- Research and technical assistance;
- Grants to Nigerian universities and other agencies;
- Library services; and
- Collaborative studies with relevant agencies.

CHAPTER 2

Appraisal of Monetary, Financial and Other Policy Outcomes

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. Consequently, growth in monetary aggregates remained excessive relative to targets. Bank deposit and lending rates showed increases in 2001 following various monetary policy actions taken by the authorities to stem liquidity expansion, coupled with the relative uncompetitiveness and the oligopolistic structure of the banking sector. The spread between deposit and lending rates remained wide, while deposit rates were negative in real terms. The Bank sustained its surveillance activities over banks and non-bank financial institutions to ensure efficiency and compliance with regulations.
The external sector experienced renewed pressure in 2001, resulting in a reduced balance of payments surplus relative to the position in 2000. The demand pressure at the inter-bank foreign exchange market persisted and induced further depreciation of the Naira exchange rate. The growth in real Gross Domestic Product (GDP) stood at 3.9 per cent in 2001, compared with the 3.8 per cent growth in 2000. Inflation rate, which was 6.9 per cent in December 2000 rose sharply to 18.9 per cent at the end of 2001, owing largely to excessive monetary growth and high costs of domestic production. The operational environment for banks was further liberalized 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 to supervise other financial institutions.
In pursuit of its developmental efforts, the Bank, in collaboration with the Bankers' Committee, established the Small And Medium Industries Equity Investment Scheme (SMIEIS). The Bank was also involved in other activities, such as seminars, conferences and collaborative research with other agencies in the economy.

Table 2.1
Outcomes Of Monetary, Financial And Other Targets

	2000		2001	
	Target	Actual	**Target**	Actual 1/
	(in percent unless otherwise stated)			
M2	**14.6**	48.1	**12.2**	27.0
M1	**9.8**	62.2	**4.3**	28.1
Aggregate Bank Credit	**27.8**	-23.1	**15.8**	75.8
Credit (net) to Federal Government	**37.8**	-162.3	**2.6**	79.7
Credit to Private Sector	**21.9**	30.9	**22.8**	43.5
Inflation Rate	**9.0**	6.9	**7.0**	18.9
Growth in GDP	**3.0**	3.8	**5.0**	3.9
Accrued to External Reserves (US' million)	**500.0**	4,460.4 2/	**500.0**	545.4
₦/$ Exchange Rate (end-period)	-	110.05	-	113.5

1/ The monetary aggregates were substantially overshot because the assumptions on which they were predicated did not materialise. In particular, the size of the budget deficit was significantly above the level agreed by the monetary and fiscal authorities.

BOX 1
CBN Monetary Targeting Process And Outcomes

The responsibility for monetary policy formulation rests with the Central Bank of Nigeria (CBN). The major objective of policy is to maintain price stability and to promote non-inflationary growth. The primary means adopted to achieve this objective is to set aggregate money supply targets and to rely on the open market operations (OMO) and policy instruments to achieve the target.

Monetary targeting framework starts with a comprehensive review of the prevailing economic conditions, as well as the anticipated problems, by the fiscal and monetary authorities. The objective of the review is to set realistic target growth paths for inflation, exchange rate, GDP and external reserves. Given the pre-determined targets, the demand for money can be forecast for any given period.

It is not unusual for the targets and the actual levels of monetary aggregates to differ, sometimes by substantial margins, even in developed economies.

The experience of the CBN with monetary targeting in recent years has been that of target overshooting. This development is of serious concern especially as the divergence between targets and actual values had been persistently wide in recent years. For example, outcome for narrow money supply (M1) exceeded targets by 13.9, 52.4 and 23.8 percentage points respectively for fiscal 1999, 2000 and 2001. Similarly, outcome for broad money supply (M2) exceeded targets by 21.7, 33.5 and 14.8 percentage points respectively during the same time frame.

Major factors responsible for the overshooting of monetary targets in Nigeria in recent times include: fiscal dominance, particularly the inability of the fiscal authorities to adhere strictly to expenditure targets, lack of credibility and untimely rendition of data and terms of trade shock, especially oil price volatility and the instant monitization of oil receipts.

2.1 Monetary And Credit Developments

Monetary aggregates grew substantially in 2001, exceeding policy targets by wide margins (Tables 2.1 and 2.2). The growth in broad money (M2) reflected the sharp increase in bank credit to the domestic economy, reinforced by a modest increase in net foreign assets.

Table 2.2
Credit Developments (₦million)

	2000	2001
Aggregate Credit	472,011.7	829,790.9
Credit (net) to Fed. Gov.	(123,989.8)	(25,208.5)
Of which:		
Central Bank	(343,003.2)	(178,982.3)
DMBs	219,013.4	153,773.8
Credit to Private Sector	596,001.5	854,999.4
of which:		
Central Bank	8,001.6	10,513.4
DMBs	587,999.9	844,486.2

Figure 2.1
Growth In Monetary Aggregates, Output and Prices

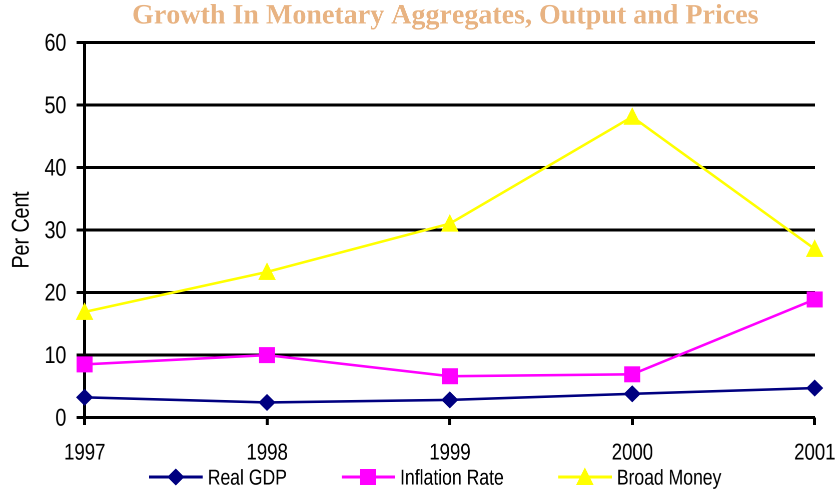
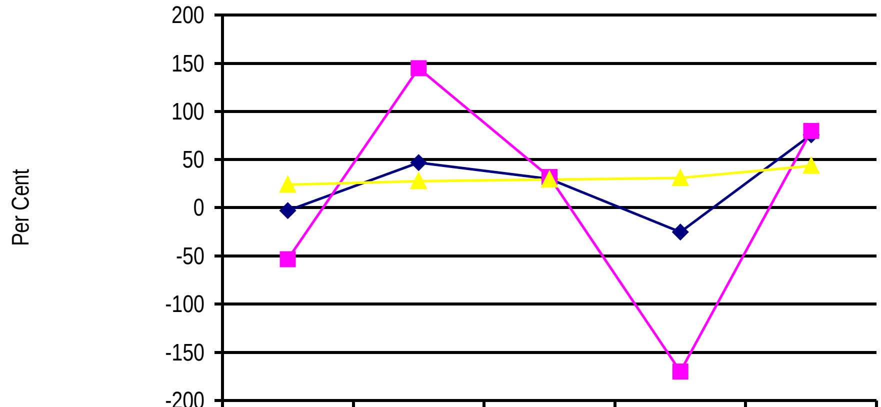


Figure 2.2
Growth In Domestic Credit

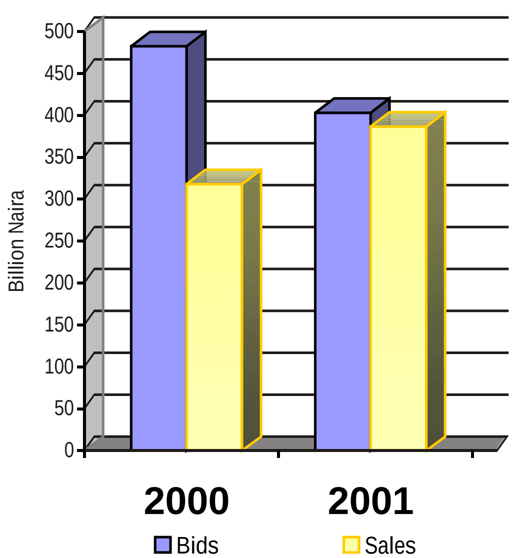


	1997	1998	1999	2000	2001
Economy	-2.83	46.84	29.97	-25.3	75.8
Government	-53.49	144.93	32.01	-170.1	79.7
Private Sector	23.85	27.44	29.19	30.93	43.5

2.1.1 Open Market Operations (OMO)

In 2001,fifty-two (52) OMO sessions were held, compared with forty - seven (47) in the preceding year. Although total bids fell below the preceding year's level, owing to demand pressure at the inter-bank foreign exchange market (IFEM), higher sales of the intervention securities were recorded than in the preceding year, reflecting largely the liquidity surfeit in the banking system.

Figure 2.3
Open Market Operations

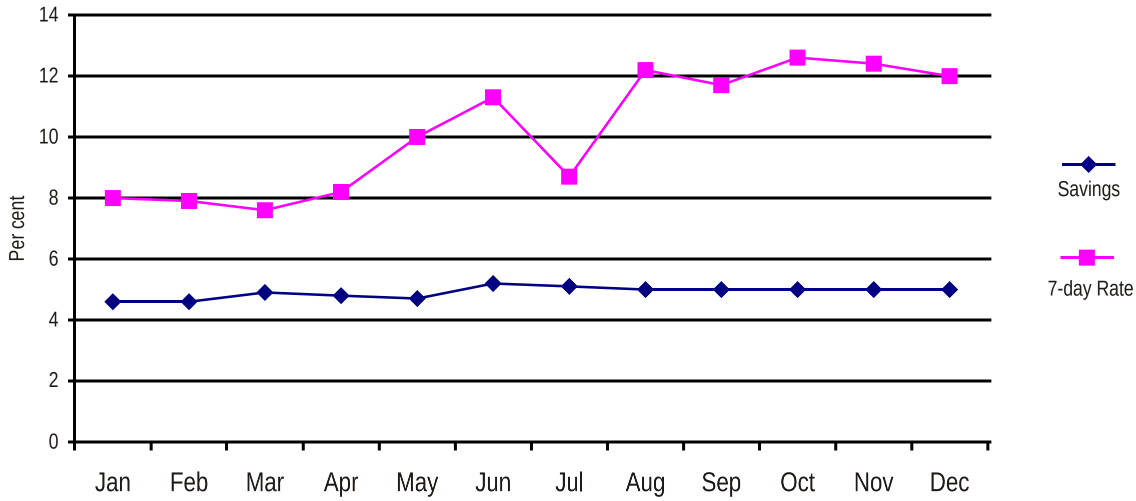


2.1.2 Interest Rate Developments

Bank deposit and lending rates generally showed increases in 2001, reflecting the effect of monetary policy actions taken by the CBN to stem liquidity expansion in the economy, and the influence of the relative uncompetitiveness and oligopolistic structure of the banking sector. Available data indicated that banks' average savings deposit rate, which was 4.9 per cent at the end-December 2000, fluctuated upwards to 5.2 per cent in June, but fell to 5.0 per cent in August and remained at that level for the rest of the year. The average rates on time deposits of various maturities maintained an upward movement from a range of 7.9 to 12.8 per cent in December 2000 to 12.0 to 18.4 per cent at the end-December, 2001.

Banks' average lending rates exhibited a similar pattern during the year. The average prime and maximum lending rates rose respectively from 21.0 and 25.8 per cent in December 2000 to 23.5 and 28.4 per cent in June 2001 and further to 26.0 and 31.2 per cent in December 2001. Thus, the spread between banks' weighted average deposit and maximum lending rates stood at 14.7 percentage points in December 2001, while

Figure 2..4
Savings and 7-day Rate



the margin between the average savings deposit and maximum lending rates was 26.2 percentage points (Table 2.8). With the inflation rate at 18.9 per cent in December 2001, all the deposit rates were negative in real terms. The average inter-bank call rate also increased sharply from 15.4 per cent in January to 37.6 per cent in May and moderated to 24.6 per cent in December 2001. The CBN raised its minimum rediscount rate (MRR) from 14.0 per cent in January to 20.5 per cent in September, while the NTB issue rate rose progressively from 13.0 per cent in December 2000 to 20.5 per cent in December 2001. The yield on CBN Certificate of 180-day maturity was raised from 19.0 per cent in February to 19.5 per cent in August and 20.5 per cent in November, while that on the 360-day tenor was adjusted upwards from 20.0 per cent in February to 21.5 per cent in April, in line with the prevailing market conditions.

2.2 Institutional Developments

The liberalization of the financial sector received a further boost in 2001 with the introduction of universal banking. In order to effectively supervise the non-bank financial institutions, the CBN established

* This and many other tables cited in the Report are found on pages 75 to 146.

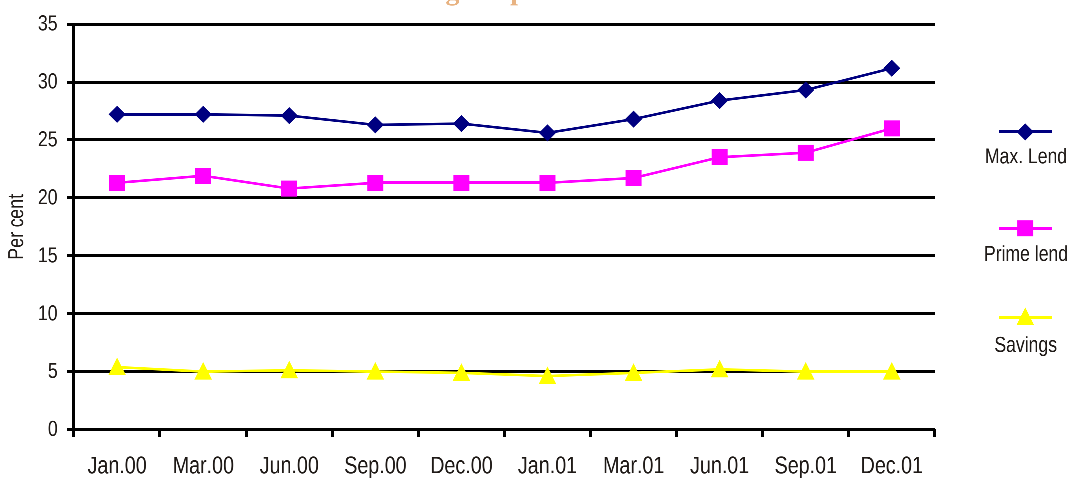
a new department, the Other Financial Institutions Department (OFID), to oversee the activities of this category of financial institutions. The department has the mandate to carry out on-site and off-site surveillance on community banks (CBs), finance companies, primary mortgage institutions (PMIs), bureaux de change (BDCs), and development finance institutions. The Bank supervised the management of the Credit Risk Management System (CRMS) which was established to strengthen credit appraisal procedures of banks and monitor over-exposure to borrowers. As at 31st December 2001, 90 banks and 3 development banks rendered returns to the CRMS. The database had 17,861 borrowers with outstanding loan balances of a minimum of N1.0 million while the outstanding credit reported in the system amounted to N505.96 billion as at 31st December 2001.

(a) Growth and Structural Changes

The number of banks in operation remained at 90 as at end-December, 2001. Although one banking licence was issued, the bank (Guardian Express Bank Plc) could not commence operations during the year while 21 outstanding applications were at different stages of processing. The branch network of banks rose from 2,444 in 2000 to 2,944 at end-December 2001,while the representative offices of Nigerian banks abroad rose to 9 from 5 in 2000. During the year, 23 banks changed their names for various reasons, including conversion to public liability companies, adoption of universal banking, and the need to portray a new identity. The full list of such banks is provided on page 10 of this Report.

In the Other Financial Institutions (OFIs) sub-sector, operating licences were issued to three non-bank financial institutions, namely: Folu Finance & Securities Limited, Blue-Wall BDC Limited, and Yobe Savings & Loans Limited. Approval-in-principle was granted to two institutions during the year, namely: Provident Savings and Loans, to operate as a primary mortgage institution (PMI) and Infinix Capital Limited to operate as a finance company. The restructured Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) and the Bank of Industry (BOI) took off during the year with an authorized capital of N1.0 billion and N50.0 billion respectively. While the authorized capital of the NACRDB was fully paid, that of the BOI was yet to be paid. Also the management and board of directors of the NACRDB had been inaugurated while that of the BOI was yet to be inaugurated. The proposed merger of the Federal Mortgage Finance Limited with the Federal Mortgage Bank of Nigeria to form the Nigerian National Mortgage Bank (NINAMBANK) was yet to receive the final approval from the government.

Figure 2.5
Deposit Money Banks' Average Maximum and Prime Lending Rates, and Savings Deposit Rate



(b) *Legislative and Regulatory developments.*

The revision of the Central Bank of Nigeria (CBN) Act and the Banks and Other Financial Institutions (BOFI) Act, both of 1991, progressed in 2001. The revisions were aimed at further strengthening the regulatory and supervisory framework to enhance the effectiveness of monetary and financial policies. The guidelines for universal banking became fully operational in 2001. The guidelines allow banks to engage in any or a combination of the

Banks Which Changed Their Names in 2001

Former name	New name
NAL Merchant Bank Plc	NAL Bank Plc
First Interstate Merchant Bank Plc.	First Interstate Bank Plc
Stanbic Merchant Bank Limited	Stanbic Bank Nigeria Limited
Metropolitan Merchant Bank Limited	Metropolitan Bank Limited
Centre Point Merchant Bank Limited	Centre Point Bank Plc
Devcom Merchant Bank Limited	Devcom Bank Limited
Intercontinental Merchant Bank Limited	Intercontinental Bank Limited
Merchant Banking corporation	MBC International Bank Limited
Gateway Bank of Nigeria Plc.	Gateway Bank Plc.
City Express Bank Limited	City Express Bank Plc.
Regent Bank Limited	Regent Bank Plc
Global Investment Bank Limited	Global Bank Plc.
Gamji Bank Nigeria Limited	International Trust Bank Plc.
Commercial Bank(Credit Lyonnaise) Ltd.	Capital Bank International Limited
Nigerian Universal Bank Limited	NUB International Bank Limited
Owena Bank Limited	Omegabank Limited
New World Merchant Bank	Trust Bank of Africa
First City Merchant Bank Limited	First City Monument Bank Limited
Lead Merchant Bank Limited	Lead Bank Plc.
Fountain Trust Merchant Bank Limited	Fountain Trust Bank Limited
Prudent Merchant Bank Limited	Prudent Bank Plc.
African Continental Bank Limited	ACB International Bank Plc
Orient Bank of Nig. Plc	African Express Bank Plc

following: money market activities, including clearing, capital market activities, and insurance services. Under a consolidated arrangement, banks will be regulated under specific guidelines by one of the relevant institution in the chosen area(s): the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), or the National Insurance Commission (NAICOM) as the case may be, with the CBN acting as the lead regulator. The CBN also embarked on the review of the operational guidelines of the bureaux de change in order to enhance their effectiveness.

(c) *Monitoring Banking Sector Soundness*

The Bank carried out surveillance activities to monitor soundness in the banking sector during the year through analysis and review of banks' periodic returns, routine examinations, as well as spot and special investigations. Overall, 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 positions. Another feature of banks' activities during the year was overtrading in the credit market. Sixty-six (66) 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.

2.3 Surveillance Report On The Activities Of Financial Institutions

To ensure a healthy banking system, the Bank carried out on-site and off-site supervision of licensed banks and non-bank financial institutions through the Banking Supervision, Bank Examination, and Other Financial Institutions Departments. During the year, the Bank carried out routine examination of 63 deposit money banks and 3 discount houses. In addition, 48 investigations were conducted while follow-up examination of 56 banks was completed. Overall, 57 banks were penalized for various offences. Similarly, Money Laundering Surveillance was carried out to determine the level of compliance by banks with the provisions of the Money Laundering Act 1995. Some of the lapses discovered in the course of the verification exercise included incomplete and irregular renditions of returns and improper customer identification procedures, among others.

The minimum paid-up capital requirement for new banks was raised from N 1.0 billion to N2.0 billion in 2001, while that of existing banks remained at N500.0 million. All the existing banks had fully met the minimum capital requirement of N500.0 million. In anticipation of the increase in minimum capital requirement and the need to beef - up capital to face the challenges of universal banking, many banks increased their capital base through capitalisation of reserves and rights issues, while others approached the capital market through public offers for subscription. In order to ensure compliance with the minimum paid - up capital requirement of the OFIs, the OFID carried out the inspection of community banks, finance companies, bureaux de change, and primary mortgage institutions during the year to determine their level of compliance. The examination revealed that 65 PMIs out of 75 visited were operational. As at end-December, 2001, only 18 PMIs had met the capitalization requirements of N100 million, while 80 out of 261 BDCs were functional. Of this number, only 16 had met the prescribed minimum paid-up capital requirement of N10.0 million. Out of 98 finance companies, 46 had met the N20.0 million minimum paid-up capital while 52 were yet to comply. In furtherance of its surveillance activities, the OFID examined NEXIM during the period under review while target examinations spot checks were conducted on other institutions.

2.3.1 *Fraud and Forgery*

In 2001, there were 908 reported cases of fraud and forgery involving N2.53 billion, US $60.94 million and £ 5,289.44. Of the cases reported, 402 resulted in the loss of N 931.40 million, $83,250 and £5,289.44.

2.3.2 *Public Complaints Desk*

Complaints by bank customers increased in 2001. During the year, 286 complaints were received as against 241 in 2000. Most of the complaints were on excess charges by banks, fraudulent clearing of customers' instruments by banks, illegal and unauthorized withdrawals from customers' accounts by bank employees, unilateral application of interest rates and other charges outside the terms negotiated with customers.

2.4 The Payments And Clearing System

(a) *Issue of Legal Tender*

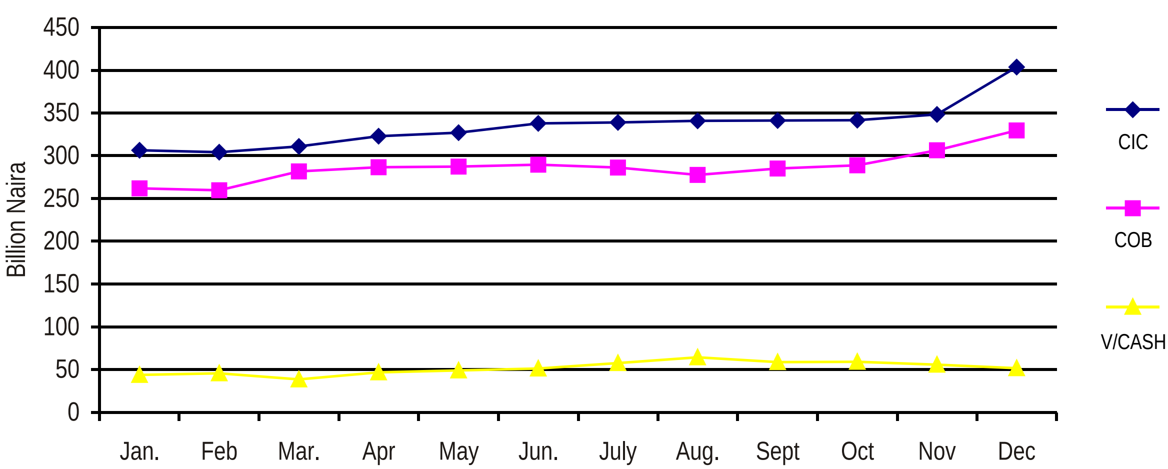
The Bank issued the ₦500 currency note in April 2001 in pursuance of the goal of improving the payments system. The value of the currency in circulation rose from N310.5 billion in 2000 to ₦ 403.5 billion in 2001, an increase of 30.0 per cent. The currency structure is as shown in Table 2.3.(a) *(b) Cheque Clearing*

The volume and value of cheques cleared through the system rose by 21.6 and 8.9 per cent to 11,058,042 and ₦3,055.43 billion respectively in 2001, reflecting increased economic activities and some improvement in banking habit. Similarly, the volume and value of cheques cleared through the Lagos Clearing House rose by 18.1 and 24.9 per cent respectively over their levels in 2000 to 6,590,007 and ₦1,488.4 billion respectively, representing 59.6 and 48.7 per cent of the volume and value

Table 2.3 (a)
The Currency Structure

	2000		2001	
Coins (₦' million)	Value	Volume	Value	Volume
₦1	1,051.9	1,051.9	24,327.6	24,327.6
50k	524,8	1,049.6	12,084.7	24,169.4
25k	106.5	426.0	2,416.9	9,667.6
10k	**31.5**	**315.0**	**700.2**	**7,002.0**
1k	**0.4**	**40.0**	**27.6**	**27.6**
TOTAL	**1,715.1**		**39,557.0**	
Notes				
₦500	-	-	101,541.8	203.1
₦200	27,971.7	139.9	75,701.4	378.5
₦100	74,828.7	748.3	64,782.9	647.8
₦50	117,079.1	2,341.6	68,786.4	1,375.7
₦20	81,416.5	4,070.8	47,313.4	2,365.7
₦10	5,099.4	509.9	3,639.5	364.0
₦ 5	2 386.2	477.2	2,183.6	436.7
TOTAL	**308, 781.6**		**363,949.0**	
GRAND TOTAL	**310,496.7**	**-**	**403,506.0**	**-**

Figure 2 . 6
Currency in Circulation



respectively of cheques cleared in the system (Table 2.3b).

2.5 The Stand-by Arrangement (SBA)

The agreement reached between the Federal Government and the International Monetary Fund (IMF) to implement a twelve-month, staff-monitored Stand-By Arrangement (SBA) commenced in July 2000 and ended in June 2001. Subsequently, an informal agreement between Nigeria and the Fund subsisted between July and December 2001. Both the Net Foreign Assets (NFA) and the Net Domestic Assets (NDA) constituted the quantitative performance benchmarks of the programme, while net claims on government and the reserve money were the indicator variables. Performance during the second half of the SBA, which ended in June 2001, was generally satisfactory as all the benchmarks (with the exception of reserve money) were met. During the six-month informal programme that expired in December 2001, performance was mixed. While the two performance benchmarks were met as at end-September, 2001, the two indicator variables (net claims on government and reserve money) were missed. However, by end-December, 2001, all the benchmarks, with the exception of reserve money, were met (Table 2.4).

2.6 Foreign Operations

During the year, the CBN took steps to ensure orderly transactions in the Inter-bank Foreign Exchange Market (IFEM). Following the persistent pressure in the IFEM and sharp practices by some market operators, the Bank introduced measures to ensure stability in the market. The measures taken included: setting up a committee to monitor the utilization of IFEM funds; direct debit of banks' current accounts with the naira equivalent of funds purchased; prohibition of the use of IFEM funds to finance bills for collection approved in 1993 and 1994; and limiting of Business Travel Allowance (BTA) to a maximum of US$10,000 per quarter and Personal Travel Allowance (PTA) to a maximum of US $5,000 per half year.

The Bank appropriately sanctioned defaulting authorized dealers, in some cases by withdrawing their dealership licences and/or suspension from participation in the market. The Bank funded the IFEM adequately during the year, meeting all genuine demands made by the end-users. A total of 8,704 deals were transacted in 249 IFEM sessions. The total amount demanded stood at US $ 9.87 billion while the amount

Table 2.3 (b)
Volume and Value of Cheques Cleared

	2000		2001	
	Volume	Value (₦' Billion)	Volume	Value (₦' Billion)
Clearing System	9,092,949	2,806.1	11,058,042	3,055.4
Lagos Clearing House	5,577,756	1,192.0	6,590,007	1,488.4

sold was US$9.68 billion, representing a daily average sale of US$38.86 million. Total purchases by the CBN amounted to US $59.14 million, resulting in net sale of US $9.62 billion. Furthermore, total sales represented an increase of 33.3 per cent over the amount sold in 2000. Between end-January and end-December 2001, the naira exchange rate (selling rate) depreciated by ₦3.40 or 3.09 per cent to ₦113.45=US $ 1.00.

In the Travellers' Cheques (TCs) segment of the foreign exchange market, sales amounted to £1.4 million and US$23.5 million as against £0.7 million and US$17.8 million in the preceding year. Similarly, total sales of Saudi Riyal increased by 24.9 per cent to SR205.4 million from SR164.4 million in the preceding year.

Transactions under Documentary Credit showed that 165 Letters of Credit (L/Cs) valued at US$377.4 million were established in 2001, compared with 20 L/Cs valued at US$126.8 million in the preceding year. All the L/Cs established, except one, were valid for foreign exchange. Forty-five (45) L/Cs, valued at US $512.9 million, were extended during the year, compared with 60 valued at US $492.2 million in year 2000. Total value of transactions through the West African Monetary Agency (WAMA) during the year was WAUA 0.16 million (₦22.9 million), compared with WAUA 0.663 million (₦26.798 million) in 2000.

The CBN received a total of 358 correspondences on advance fee fraud from different parts of the world. Of these, 45 per cent or 162 cases were reported to the Nigeria Police for investigation and prosecution. This resulted in the arrest of 238 suspects, all of whom were Nigerians. During the year, 19 of the suspects were charged to court but none was convicted. Properties valued at ₦22.6 million were impounded, while cash worth ₦8.3 million and US$7.5 million were also recovered from the suspects. Total losses sustained by different nationals in the reported cases were ₦189.8 million, $32.3 million, DM 0.6 million and £ 0.13 million.

In response to these developments, the CBN during, the year under review sent staff to a number of courses aimed at developing the necessary capacity for handling advance fee fraud. Also, to create the necessary awareness, the Bank disseminated information on the menace of these fraudsters to the Nigerian public and to overseas correspondents.

The Bank, in its current pro-active external reserve management stance, ensured that idle funds were deployed into foreign investment and securities. Consequently, the level of investment increased by 53.2 per cent from US6.2 billion in 2000 to US9.5 billion.

2.7 Other Developmental Functions Of CBN

(a) *The Small And Medium Industries Equity Investment Scheme (SMIEIS)*

Following the decision to channel 10.0 per cent of banks' profit before tax into equity investment in small and medium industries, the Bankers' Committee launched the Approved Operational Guidelines for SMIEIS on August 1, 2001 in a ceremony which was presided by the President of the Federal Republic of Nigeria. Under the scheme, banks are required to invest 10 per cent of their profit before tax in small and medium scale industries of their choice in a partnership effort aimed at improving the flow of funds to re-vitalize the real sector of the economy. Appreciable progress was made to facilitate the take-off of the scheme during the year. Efforts made so far included:

- Setting up of an Inter-departmental Committee within the CBN to collaborate with the Bankers' Committee in drawing up the implementation plan;
- Organizing workshops to educate and sensitize the stakeholders on the programme at nine industrial cities: (Lagos, Ibadan, Benin, Aba, Calabar, Maiduguri, Jos, Kano and Kaduna);
- Compilation and circulation to banks of a list of moribund industries from the records of NIDB, NEXIM, NBCI and NERFUND;
- Establishment of two venture capital companies by the banks to manage the pooled funds. In addition, some banks incorporated wholly owned subsidiaries to serve as the channel for their investment funds; and
- The inauguration of an Advisory Committee on SMIEIS with the following membership: the CBN (Chairman), the Bankers' Committee (3), the Organized Private Sector (3), the Federal Ministry of Industry (1), the Office of the Secretary to the Government of the Federation (OSGF) (1), with the Agricultural Finance Department of the CBN serving as the Secretariat. The Committee was charged with the responsibility of advising the Government on SMIEIS and submitting periodic assessment on the Scheme.

In addition, as a consequence of the CBN’s initiative, a total of ₦6.2 billion was set aside by 68 banks for investment in the scheme.

(b) Agricultural Credit Guarantee Scheme Fund (ACGSF)

Pursuant to the resolution of the shareholders of the ACGSF to raise its authorized and called-up share capital to ₦3.0 billion, the CBN paid additional ₦1.0 billion in March 2001, bringing its share of the paid-up capital to ₦1.2 billion. The Federal Government also paid an additional ₦ 250.0 million in June 2001, bringing its share of the paid-up capital to ₦301.3 million. Furthermore, the Federal Government released the mandate for further payment of ₦750.0 million in December 2001,to shore up its shareholding to ₦1.05 billion. Following the increase in the paid-up capital of the Scheme, the guarantee limits for loans under the ACGSF were raised during the year. The limit for collateralized loans to individuals was raised from ₦500,000 in the previous year to ₦1.0 million, while that for co-operative societies and corporate bodies was increased from ₦5.0 million to₦10.0 million. Non-collateralized loans to individuals remained at ₦20,000. The increase in guarantee limits became necessary as a result of an upward inflationary trend, with its implications on the purchasing power of the naira. In order to give legal backing to the increased guarantee limits for the ACGSF loans and introduce other changes that would enhance the operational efficiency of the Scheme, a draft Amendment Bill was forwarded to the Office of the Attorney General of the Federation for processing and submission to the National Assembly.

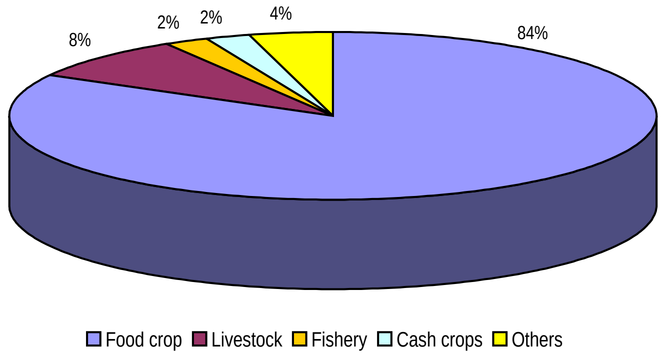
The number and value of loans guaranteed under the ACGSF in 2001 stood at 20,298 and ₦728.5 million respectively compared with 14,102 and ₦361.4 million respectively in the preceding year, representing increases of 43.9 and 101.5 per cent respectively. The improved performance recorded in the year was due to the higher guarantee limits and increased awareness by the public. In addition, the various strategies adopted by the Scheme, such as the Self Help Group Linkage Programme, and the Trust Fund Model involving the state and local governments helped to boost the Scheme. The cumulative number and value of loans guaranteed under the Scheme from its inception stood at 314,403 and ₦3.3 billion respectively. As in the preceding year, however, the number of participating banks remained at six.

The distribution of loans by size showed that unlike in the previous years, borrowing by medium-scale farmers' of between ₦20,001 and ₦100,000 dominated the other categories of borrowers, accounting for 51.4 and 65.8 per cent of the volume and value of loans respectively. In the preceding year, borrowing by small-scale farmers' of between ₦5,000 and ₦20,000 dominated the Scheme. This shift could be attributed to the upward trend in inflation rate, which rendered smaller amounts inadequate for the operations of the small-scale farmers. Furthermore, individual borrowers dominated the Scheme as they accounted for 98.2 and 91.4 per cent of the number and value respectively of loans guaranteed. The Food Crop sub-sector maintained its dominance in the lending activities of the ACGSF, accounting for 85.5 and 84.0 per cent of the total number and value respectively of loans guaranteed in the year. The 'other crops' sub-sector accounted for 5.6 and 4.0 per cent of total number and value respectively, while the number and value for livestock, fisheries and cash crops sub-sectors accounted for 5.3 and 8.0; 1.8 and 2.0; and 1.8 and 2.0 per cent respectively.

(c) Rural Finance Policy:

- In furtherance of CBN's commitment to its developmental functions, and in collaboration with the World Bank, the CBN established an inter-departmental committee, designated as the Micro Finance Policy and Programme Development Committee (MPPDC), with membership drawn from the bank's Agricultural Finance Department, Other Financial Institutions Department (OFID), and the Research Department. The mandate of the MPPDC includes the following:

Figure: 2.7
Distribution of Loans Granted by the ACGSF in 2001



- To identify the rural and micro-finance institutions in Nigeria affected directly or indirectly by government policies;
- Work out the legal, self-regulatory, and supervisory framework under which rural and micro finance institutions will operate in Nigeria;
- Advise the Management of the Bank on the method of integrating the informal micro finance institutions (MFIs) in the country with the formal financial sector; and
- Recommend appropriate strategies for mobilizing funds from rural areas and the MFIs.

The Committee successfully developed a database on rural finance in Nigeria; and identified and listed 160 MFIs located in 28 out of the 36 states of the Federation. In addition, it conducted a baseline survey of rural and micro finance institutions in Nigeria.

2.8 Overview Of Macroeconomic Performance

The performance of the Nigerian economy was mixed in 2001. The real gross domestic product (GDP) increased by 3.9 per cent, compared with 3.8 per cent in 2000. The external sector experienced renewed pressure, resulting in a lower overall balance of payments surplus relative to the level in the preceding year. Inflationary pressure was exacerbated as the inflation rate rose from a single digit in 2000 to 18.9 per cent at end-December, 2001. The growth in monetary aggregates exceeded targets by wide margins, due largely to expansionary fiscal operations of the three tiers of government. Interest rates trended upwards while the naira depreciated in all the segments of the foreign exchange market. The deteriorating macroeconomic indicators underscored the need to tighten monetary policy during the period.

2.9 Services To Third Parties

In 2001, the Bank collaborated with other institutions, notably the Nigerian Institute for Social and Economic Research (NISER) and the Federal Office of Statistics (FOS) in undertaking studies in the following areas:

- The informal manufacturing sector in Nigeria;
- The parallel foreign exchange market;
- The development of quarterly GDP for the Nigerian economy; and
- The development of a new base year for the computation of the Consumer Price Index (CPI).

The Bank also extended grants to some Nigerian Universities. It was also involved in organizing policy seminars, including the 2001 Federal Government Budget, in collaboration with the National Centre for Economic Management and Administration (NCEMA) and the Nigerian Economic Society (NES).

2.10 Other Activities Of The Bank

(a) *Board of Directors*

In 2001, the Board of Directors held seven (7) regular and two (2) extra-ordinary meetings, while the Committee of Governors held twelve (12) regular and ten (10) extra-ordinary meetings within the same period. The Monetary Policy Committee (MPC) met thirty-seven (37) times, including two (2) extra-ordinary meetings during 2001 to discuss issues relating to monetary, banking, interest and exchange rate policies. In keeping with the Bank's policy on transparency in monetary and exchange rate policies, the MPC embarked on a monthly publication of its proceedings, including policy decisions and the rationale thereof, with effect from June 2001. The Governor's Consultative Committee held twelve (12) regular meetings while the Committee of Departmental Directors held eleven (11) regular meetings and one (1) extra-ordinary meeting during the same period.

(b) *Restructuring of the Central Bank of Nigeria (Project EAGLES)*

The phase II of the restructuring programme of the Bank recorded substantial progress during the year. There was a retreat in Kaduna between 6th and 8th April 2001 to discuss the redesign of the processes, which set the platform for the implementation stage. Progress was made on the Human Resource (HR) issues while the Information Technology (IT) issue was delayed by court proceedings instituted against the Bank by SAP on the procurement of applications software for the Enterprise Resource Planning (ERP), Banking and Real Time Gross Settlement processes. Specifically, major achievements in the area of HR included:

- Completion of the final job description in line with the approved structure;
- Development of the Human Resource Policy Manual;
- Training of a core team in the Human Resources Department on the new Staff Performance Management System (PMS);
- Training of a core team selected across the Bank as a Standing Committee on job evaluation;
- Job evaluation and grading for the new structure; and
- Compensation survey to establish compensation review process.

(c) *Monetary Policy Forum*

The Monetary Policy Forum was established in 2000 to enhance public dialogue and cross-fertilization of ideas between the monetary authorities and other stakeholders. It organized three (3) seminars on topical issues in 2001. on the following themes:

- Exchange Rate Determination and Foreign Exchange Management in Nigeria;
- Achieving More Effective Coordination of Fiscal and Monetary Policies in Nigeria; and
- Interest Rate Management and Its Implications for the Nigerian Economy.

Top Government functionaries, members of the National Assembly, the organized private sector and the academia participated at the seminars.

In November 2001, the Bank organized its first Monetary Policy Conference on the theme "Growing the Nigerian Economy". The conference, which was well attended, drew participants and facilitators from across the country as well as from the World Bank and the African Development Bank.

(d) *Staff*

In 2001, the Bank employed 20 persons and lost the services of 95 members of staff for the following reasons: retirement (57); termination (12); dismissal (4); and death (22). Thus, the staff strength of the Bank at end-December 2001 stood at 7,634. Four hundred and fifty-five (455) members of staff were appointed/promoted to various cadres. One thousand, and fifty-six (1056) members of staff qualified and received the Long Service Awards. During the year, one thousand and forty-nine (1,049) National Youth Service Corps (NYSC) members served with the Bank.

(e) *Training*

In the efforts to improve capacity building in the Bank, the Management sponsored eleven thousand, seven hundred and thirteen (11,713) training slots within and outside the country, including participation in seminars, workshops, and conferences. The breakdown of the courses showed that 492 slots were overseas programmes while slots at the CBN Training Centre, local courses organized by consultants and one-day seminars were 1179, 4852 and 5190 respectively. Nineteen members of staff were on study leave with pay for one academic session of which six (6) were outside Nigeria and the remaining thirteen (13) were in institutions within Nigeria.

(f) *Welfare Schemes: Sports*

During 2001, the Bank sustained its efforts to promote sports within and outside the Bank through competitions in soccer and lawn tennis tournaments. The Finals of the 23rd Edition of the CBN Open Tennis Championship were held on 5th May 2001 at the National Stadium Complex, Lagos. The Finals of the 17th Edition of All Financial Institutions' Football Competition were played at the Main Bowl of the National Stadium on 29th September 2001. The Central Bank of Nigeria Football Club (FC) won the Gold Medal while the Football Clubs of the Securities and Exchange Commission (SEC) and the Ministry of Finance won the Silver and Bronze medals respectively. Furthermore, all the 22 Branches and Currency Centres of the Bank, including Abuja Head Office, took part in the Governor's Cup Competition. In the finals, which were played between Abuja Head Office and Ibadan Branch at the Liberation Stadium, Port Harcourt on 1st December 2001, Abuja Head Office won the Gold medal while the Silver and Bronze medals went to Ibadan and Enugu Branches respectively. Furthermore, the 18th Annual CBN Primary School Inter-House Sports competition was held on 11th December 2001.

(g) *The CBN Primary School*

Pupil enrolment in the school stood at 896 compared with 745 in the preceding year. This showed an increase of 20.3 per cent and was due partly to the downward review of school fees in the 2000/2001 academic session. However, the number of teaching staff declined to 39 from 44 in the previous year, owing to staff deployment and retirement. Thus, the pupil/teacher ratio rose to 23 compared with 17 in 2000.

(h) *Human Resources Management System (HRMS)*

The development of the HRMS has reached an advanced stage and it is expected to go into operation in the second quarter of 2002. The HRMS (Payroll) help-desk functions were transferred during the year to the Information Technology Department (ITD) for prompt response to user offices and staff complaints. Staff demographic data, including those of Branches, were verified and updated. In addition, HRMS Operator Security Document was prepared for use by the ITD and training was organized for staff of the Internal Audit and Information Technology Departments. Furthermore, the HRMS Office commenced the preparation of the Data Entry Procedure Manual for the new system.

(i) *Development of CBN Headquarters and Branch Offices, and the Movement of Departments to Abuja.*

Construction work at the Bank's Head Office building, Abuja progressed during the year. Work on the extension of Enugu and Kano branch offices also progressed, while the final drawings for the extension of the Port Harcourt branch office was completed during the year. Similarly, renovation work on the Training Centre at Lagos as well as on the staff housing estate in Port Harcourt, Benin-City and Calabar was completed. During the year, the departments which had been operating from Lagos, namely: Finance and Accounts, Banking operations, Currency operations, Branch operations and part of Internal Audit, finally relocated to Abuja.

(j) *Computerization Programme*

Installation of the Banking Operations Software (BANKOS) was completed in all the branches during the year. Similarly, the Medical System was installed at the Bank's clinics to improve the efficiency of health care delivery to staff. Furthermore, the Library System software, which would facilitate referencing, became operational in 2001. The completion of Local Area Networks (LAN) in branches during the year paved the way for Wide Area Networks (WANs), which reached an advanced stage in 2001. Moreover, all the CBN branches were provided Internet access accounts at their respective locations to increase Internet accessibility for members of staff. Also, the development of the Bank's web site reached an advanced stage during the year.

(k) *Library Operations*

The CBN Library improved on its services during the year with the operation of the Graphical Library Automation System and Docuware Document Management Solution. It acquired 1,084 books and formats, excluding gifts and exchange materials, subscribed to 385 periodicals and journal titles, received 20,075 copies of newspapers (local and foreign) and 9,925 copies of newspapers (local and foreign).

The total number of books borrowed or consulted were 26,152 compared with 25,642 in the preceding year. Similarly, services rendered by other service points at the CBN Training Centre, Lagos and the four zonal libraries rose to 45,355 from 42,244 in 2000. Also the Head Office Library, Abuja received 1,499 visitors (researchers and students) during the year. In terms of size, the total number of books in Abuja (after weeding) stood at 67,000 volumes, periodicals stood at 96,000 volumes and current journal titles were 385

2.11 Statement Of Accounts For 2001

(i) *Income and Appropriation*

The activities of the CBN in 2001, as presented in the audited financial statements, resulted in an operating surplus of ₦63.3 billion. This showed an increase of 23.6 per cent over the ₦51.2 billion recorded in 2000.The increase in operating surplus was attributed to the ₦14.3 billion rise in income, which more than offset the ₦6.3 billion rise in expenditure. The appropriation account showed that ₦10.6 billion was transferred to general reserves in accordance with the provisions of Part II, Section 5(3) of the Central Bank of Nigeria Act, 1991 as amended, while the balance of ₦52.7 billion was transferred to the Federal Government as per the provision of the same Act.

(ii) *Assets*

Total assets of the Bank rose by 15.8 per cent to ₦2,075.4 billion, reflecting largely the increase in government securities holding. While total external reserves rose by ₦91.5 billion during the year, “other assets”, rediscount and advances, and exchange differences on promissory notes fell by ₦18.7 billion, ₦37.9 billion and ₦9.8 billion, respectively.

(iii) *Liabilities*

At end-December 2001, currency in circulation stood at ₦403.5 billion, showing an increase of 30.0 per cent over its level a year ago. Total deposit liabilities increased by 13.5 per cent to ₦1131.7 billion. Government deposits rose by ₦67.3 billion to ₦343.0 billion at end-December, while banks' deposits with the CBN rose by ₦42.8 billion to ₦142.4 billion during the period. Other deposit liabilities amounted to ₦646.2 billion compared with ₦622.0 billion in 2000.