



**CENTRAL BANK OF NIGERIA**

**Annual Report  
and  
Statement of Accounts**

**FOR THE YEAR ENDED  
31<sup>ST</sup> DECEMBER, 2002**

## **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.



## **Members Of The Board Of Directors Of The Central Bank Of Nigeria As At 31<sup>st</sup> December, 2002**

1. Chief (Dr.) Joseph O. Sanusi (CON)	-	Governor (Chairman)
2. Mr. Oluwole S. Oduyemi	-	Deputy Governor
3. Dr Shamsuddeen Usman	-	Deputy Governor
4. Mr Ernest C. Ebi	-	Deputy Governor
5. Alhaji Mahey R. Rasheed	-	Deputy Governor
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	-	Director

## **Members Of The Committee Of Governors Of The Central Bank Of Nigeria As At 31<sup>st</sup> December, 2002**

1. Chief (Dr.) Joseph O. Sanusi (CON)	-	Governor (Chairman)
2. Mr. Oluwole S. Oduyemi	-	Deputy Governor (Corporate Services)
3. Dr Shamsuddeen Usman	-	Deputy Governor (Financial Sector Surveillance)
4. Mr Ernest C. Ebi	-	Deputy Governor (Policy)
5. Alhaji Mahey R. Rasheed	-	Deputy Governor (Operations)

## **Principal Officers Of The Bank As At 31<sup>st</sup> December, 2002**

### **A. Departmental Directors**

1. Alhaji I.G. Garba	-	Development Finance
2. Mr V.U. Omoike	-	Banking Operations
3. Alhaji M.S. Garba	-	Finance
4. Mrs O.A. Demuren	-	Trade & Exchange
5. Mr O.I. Imala	-	Banking Supervision
6. Dr G.E. Ukpong	-	International Economic Relations
7. Dr S.O. Aladesulu	-	Information Technology
8. Engr. B.G. Issa	-	General Services
9. Mr M.O. Adediran	-	Legal Services
10. Mr P.I.C. Anene	-	Branch Operations
11. Alhaji U.B. Girei	-	Administrative Services
12. Mrs W.B. Mshelia	-	Internal Audit
13. Mr A.S. Bamisile	-	Other Financial Institutions
14. Dr O.J. Nnanna	-	Research
15. Mrs O.O. Akanji*	-	Performance Improvement
16. - -	-	Secretary's
17. - -	-	Human Resources
18. - -	-	Governor's Office

- |     |   |   |   |                     |
|-----|---|---|---|---------------------|
| 19. | - | - | - | Foreign Operations  |
| 20. | - | - | - | Corporate Strategy  |
| 21. | - | - | - | Bank Examination    |
| 22. | - | - | - | Currency Operations |

## **B. Special Advisers To The Governor**

- |    |                    |   |                              |
|----|--------------------|---|------------------------------|
| 1. | Mr J.O. Aderibigbe | - | Economic Matters             |
| 2. | Alhaji A. Sadiq    | - | Domestic Operations          |
| 3. | Mr P.A.H. Ataman   | - | Personnel and Admin. Matters |

*\* In an acting capacity*

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**Central Bank of Nigeria**  
**Annual Report and Statement of Accounts**  
**For The Year Ended 31<sup>st</sup> December, 2002**

**EXECUTIVE SUMMARY**

1. This Report provides an overview of the operations of the Central Bank of Nigeria (CBN) in 2002, in accordance with statutory requirements.
2. The Report is in three parts. Part 1 contains the activities of the Bank in 2002, including its monetary policy stance, while the Economic Report on Nigeria is in Part II. International Economic Developments, which impacted on Nigeria in 2002, are highlighted in Part III. The Report contains 8 chapters. They are highlighted as follows:

**Part 1**

**ACTIVITIES OF THE CENTRAL BANK OF NIGERIA IN 2002**

3. The Central Bank of Nigeria (CBN) in 2002 pursued its primary policy objective of achieving and sustaining price and exchange rate stability, in line with its statutory mandate, by taking actions aimed at fostering a stable macroeconomic environment. In addition, it performed developmental functions by playing a pivotal role in the promotion of the Small and Medium Industries Equity Investment Scheme (SMEIS) and maintained its catalytic role in the promotion of food security, through the financing of agriculture under the Agricultural Credit Guarantee Scheme Fund

(ACGSF). It also rendered services to third parties as part of its corporate social responsibility and engaged in collaborative applied research projects with the Nigerian Institute for Social and Economic Research (NISER) and the Federal Office of Statistics (FOS).

4. The conduct of monetary policy faced daunting challenges in 2002, as the problem of excess liquidity in the banking system and inflationary pressure persisted. Developments in the money market were generally mixed. During the first half of the year, bank lending rates remained high and sticky downwards, while savings rates were generally depressed, resulting in the widening of the gap between the lending and savings rates to 22.0 percentage points. The minimum rediscount rate (MRR) was reduced by 400 basis points during the year, in tandem with the improved macro-economic condition, in order to stimulate investment in the productive sector and aggregate demand. The external sector was under severe pressure and the draw down of external reserves resulted in a balance of payments deficit position, as against the modest surplus recorded in 2001. The CBN consequently adopted the Dutch Auction System (DAS) of exchange rate determination in July, 2002, which engendered relative stability in the foreign exchange market and stemmed the depletion of external reserves during the second half of the year.

5. The growth in real gross domestic product (GDP) remained weak at 3.3 per cent, compared with the 4.2 per cent achieved in 2001. However, the inflation rate, which was 18.9 per cent in December 2001, dropped to 12.9

per cent at the end of 2002, owing to a proactive monetary stance and good agricultural harvest. In order to enhance transparency in the conduct of monetary policy-making and guide rational expectations, the Bank organized interactive monetary policy conferences.

6. The summary of the CBN operations, as contained in the audited financial statements, resulted in an overall surplus of ₦35.7 billion, representing a 43.6 per cent fall from the ₦63.3 billion recorded in 2001. The sum of ₦29.7 billion or 83.2 per cent of the surplus was transferred to the Federal Government, while the balance (₦5.9 billion) was transferred to general reserve, in accordance with the provisions of Part II, section 5(3) of the *CBN Act, 1991* as amended.

## **Part 2**

### **ECONOMIC REPORT**

7. This section provides a general overview of the developments in the various sectors of the economy in 2002, and outlined in the subsequent discussions as follows:

#### **The Financial Sector**

8. The financial sector was characterized by a persistent liquidity overhang, induced largely by the expansionary fiscal operations of the three tiers of the government. Consequently, the growth in monetary aggregates exceeded the programme targets by wide margins. Specifically, broad money (M2) increased by 21.5 per cent as against the growth target

of 15.3 per cent for fiscal 2002 and the 27.0 per cent increase recorded in 2001. Narrow money stock (M1) rose by 15.9 per cent, compared with the target of 12.4 per cent for the year and the increase of 28.1 per cent recorded in 2001. Bank credit to the domestic economy rose by 56.6 per cent as against the 57.9 per cent targeted and the 79.9 per cent growth rate observed in 2001. Credit expansion to the private sector remained low, relative to programme target. Bank deposit and lending rates declined generally, influenced by the downward review of the MRR as well as the impact of moral suasion by the authorities for moderation in banks' lending rates. In order to ensure a sound and efficient financial system, the CBN imposed appropriate penalties on errant institutions for various infractions; adopted a contingency framework for distress resolution in the banking system; and initiated an inter-bank 'lifeboat' facility, which was accessed by banks facing a temporary liquidity problem.

### **Fiscal Operations of Government**

9. The fiscal operations of the Federal Government resulted in an overall deficit of ₦301.4 billion or 5.1 per cent of GDP, compared with ₦221.1 billion or 4.0 per cent of GDP deficit in 2001. Federal Government-retained revenue amounted to ₦716.8 billion as against the total expenditure of ₦1,018.2 billion. The fiscal operations of government reflected developments in the international oil market and the effect of the landmark judgement of the Supreme Court on revenue allocation delivered in April 2002. The Court declared as unconstitutional the deduction of first

line charges as well as allocations to the Federal Capital Territory from the Federation Account.

## **The Real Sector**

10. The gross domestic product (GDP) recorded a modest growth in 2002. The real GDP grew by 3.3 per cent, down from 4.2 per cent in 2001. The growth reflected the improved performance of all the major sub-sectors except mining, which declined. Agricultural production was given a boost by the new pragmatic agricultural policy, which assigned only promotional and supporting roles to the government, leaving actual investments in real production to the private sector. The improved performance of the agricultural sub-sector was also attributable to the adoption of new strategies of credit delivery, which reduced the risks banks faced in agricultural lending. One of the strategies was the Trust Fund Model, which included the Micro Credit Scheme for Agricultural Development (MICSAD) of the Shell Petroleum Development Corporation Unlimited (SPDC), the Green Card of the Nigerian Agip Oil Company Limited, and the Jigawa State Trust Fund for Agricultural Development. The CBN also encouraged medium to long-term lending to the productive sector of the economy through its Rediscounting and Refinancing Facility (RRF) for medium to long-term credit. Four applications valued ₦ 818.59 million were received under the programme in 2002, out of which ₦314.59 million was approved. Manufacturing activities recorded a modest improvement, buoyed by improved macroeconomic stability, the improvement in electricity power



supply, uninterrupted supply of petroleum products, and enhanced efficiency in the communications sub-sector. Inflationary pressure abated, owing largely to the moderating effect of good agricultural harvest on food prices. Unemployment remained a serious national problem, while industrial relations suffered a setback with frequent strike actions in the education and health sectors.

### **The External Sector**

11. The external sector was under severe pressure in 2002, as the overall balance of payments swung to a deficit of ₦526.2 billion or 8.9 per cent of GDP, from a surplus of ₦24.7 billion or 0.4 per cent of GDP in 2001. The current account recorded a modest surplus of ₦232.9 billion, which was more than offset by the increased deficit on the capital and financial account from ₦211.2 billion in 2001 to ₦749.4 billion in 2002. The naira exchange rate depreciated from an average of ₦111.90 per US\$1.00 in 2001 to ₦120.5 in 2002. The level of external reserves fell by 23.3 per cent to US\$7.99 billion, while the deferred external debt service totalled US\$1.94 billion. The level of external reserves could support 6.4 months of current foreign exchange disbursements as against the 8.0 months attained in 2001.

### **Part 3**

### **THE INTERNATIONAL ECONOMY**

12. The world economy experienced a slight rebound in 2002 as the downturn recorded in 2001 was reversed. The world output grew by 2.8 per

cent, compared with the 2.2 per cent in 2001, reflecting increased industrial production and enhanced growth in world trade. Globally, inflationary pressure continued to trend downwards, helped by the effectiveness of stabilization policies in both the industrial and developing economies. The OPEC's policy of production cut stabilized the average crude oil prices at a level above the Federal Government's budget estimates. At the West African sub-regional level, the focus was on: the need to maximize the benefits from the New Partnership for Africa's Development (NEPAD), the deferment of the date to launch the single currency till July 2005, and the efforts made by the West African Monetary Zone (WAMZ) member countries to meet the primary convergence criteria.



## **STATEMENT BY THE GOVERNOR**

1. Pursuant to section 44, sub-section (2) and (3) of the *Central Bank of Nigeria Act, 1991* as amended, I have the honour to present the report on the operations of the Central Bank of Nigeria (CBN) during 2002, including the Bank's Statement of Accounts for the year ended 31<sup>st</sup> December 2002. In addition, the report reviewed the domestic economy and analysed financial developments in the international environment that impacted on the Nigerian economy.

2. Developments in the domestic economy during the year posed various challenges for monetary management and, despite the improved performance of the non-oil sector, the overall GDP growth rate slowed, compared with the preceding year. Influenced by the sharp contraction in oil-sector production, the real output growth rate declined to 3.3 per cent from the 4.2 per cent achieved in 2001. Although higher than the single digit targeted, the rate of inflation decelerated to 12.9 per cent in December 2002, down from 18.9 per cent at end-2001.

3. The Bank has, with effect from fiscal 2002, adopted a medium-term perspective monetary policy framework. Beginning January 2002 to December 2003, CBN monetary/financial programming will be for a two-year period rather than the one-year period used hitherto. This is consistent with empirical findings that monetary policy actions affect the ultimate objectives of policy with a substantial lag. The shift will thus free monetary

policy implementation from the problem of time inconsistency and minimize over-reaction due to temporary shocks.

4. The stance of monetary policy was mixed during the year, informed by the prevailing economic conditions. In the first half, monetary policy remained tight, but was relaxed in the second half of the year, mainly to stimulate the weak economic performance. Specifically, the minimum rediscount rate (MRR) was reduced from 20.5 per cent in June 2002 to 18.5 per cent in July, and further to 16.5 per cent in December, while the cash reserve ratio was reduced by 300 basis points to 9.5 per cent for banks which increased their lending to the real sector by a minimum of 20 per cent over the level at the end of June 2002. Moreover, the Bank introduced the Rediscounting and Refinancing Facility (RRF) at concessionary interest rates to encourage medium to long-term lending by banks to the productive sectors of the economy.

5. The Small and Medium Industries Equity Investment Scheme (SMIEIS), launched in August 2001, received a further boost, as the amount set aside by 80 banks for equity investment in industrial ventures under the scheme rose to ₦13.1 billion as at end-December 2002, from ₦6.2 billion by 68 banks in 2001. Of this amount, ₦2.4 billion had been invested in 36 projects by 23 banks. Efforts to accelerate investment under the scheme is being intensified, as the institutional framework and entrepreneurial development training programmes have been put in place.

6. The problem of excess liquidity in the banking system persisted, although there was some moderation when compared with the preceding year. Accounting mainly for the liquidity surfeit was the expansionary fiscal operations of the three tiers of government. Consequently, the growth in monetary aggregates exceeded the programmed targets for the year, although the expansion rates showed some moderation compared with year 2001.

7. The external sector was under severe pressure during the year, culminating in the re-emergence of an overall balance of payments deficit, and substantial depletion of gross external reserves. Concomitantly, the naira depreciated in all segments of the foreign exchange market leading to the re-introduction of the Dutch Auction System (DAS) in July as a more transparent and market-based mechanism for determining the naira exchange rate. With the introduction of the DAS, a realistic and relatively more stable naira exchange rate was achieved, while the weekly average demand for foreign exchange moderated. In addition, the rapid depletion of external reserves was stemmed and the wide exchange rate arbitrage premium was substantially reduced. Moreover, in order to broaden the foreign exchange market and facilitate access to foreign exchange, particularly by international travellers, the direct sale of travellers' cheques by Travellex (Thomas Cook) and Standard Chartered Bank Limited was introduced.

8. The CBN regulatory/supervisory framework was streamlined and further strengthened for enhanced efficiency and effectiveness during the year. In particular, a contingency plan for distress resolution in the banking system was adopted. In this endeavour, increased emphasis has been placed on good corporate governance, high ethical standards, and professionalism in the banking industry. During the year sanctions, including suspension of foreign exchange dealership, were imposed on errant institutions for non-compliance with operating guidelines and other malpractices. The operating licence of a bank was revoked, having been found to be illiquid and insolvent. A “Lifeboat” Liquidity Support arrangement was introduced to facilitate inter-bank borrowing among banks experiencing a temporary liquidity problem, thereby ensuring that the CBN will intervene only as a “lender of last resort”. Moreover, banks’ minimum clearing collaterals in treasury bills was revised upwards to ₦250 million to reduce the abuse of the clearing system.

9. In the continued effort to promote efficiency of the payments and settlements system, further progress was made in the use of the Magnetic Ink Character Recognition (MICR) technology in the clearing system. Also, adoption of the Automated Clearing System (ACS) in Nigeria reached the final stage of implementation, with the live run of the Nigeria Automated Clearing System (NACS) in the Lagos Clearing Zone, which was taken over by the Nigeria Inter-Bank Settlement System (NIBSS) Plc.

10. The Bank's re-engineering/restructuring exercise continued in 2002 with the take-off of the Performance Improvement Department to ensure the effective implementation of the change plans envisaged under the "Project EAGLES". Furthermore, the Bank's website [www.cenbank.org](http://www.cenbank.org) became operational during the year, thereby enhancing the Bank's information dissemination.

11. I sincerely hope that this *Annual Report and Statement of Accounts*, as in the past, will continue to serve as a valuable source of information on developments in the Nigerian economy, the operations of the Bank, and the challenges it faced in the course of discharging its mandate.

12. In conclusion, I wish to use this opportunity to commend and thank the Management and the entire staff of the CBN for their contributions to the success achieved by the Bank during 2002 in the discharge of its statutory responsibilities.

Chief (Dr.) J.O. Sanusi, (CON)  
April, 2002





Figure 1.1  
Organizational Structure of the CBN

