CENTRAL BANK OF NIGERIA

Annual Report And Statement of Accounts

FOR THE YEAR ENDED 31ST DECEMBER, 2003

ISSN 1597 - 2976

CENTRAL BANK OF NIGERIA

Annual Report
and
Statement of Accounts

FOR THE YEAR ENDED
31ST DECEMBER, 2003

Vision

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

Mission

To be proactive in providing a stable framework for the economic development of Nigeria through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial sector.

ISSN 1597 - 2976

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AS AT 31ST DEC., 2003

CHIEF (DR.) JOSEPH O. SANUSI, CON
Chairman of the Board

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Director

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Deputy Gov. Corporate Services

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2.	Mr.Oluwole S. Oduyemi	-	*Deputy Governor*
3.	Dr.Shamsuddeen Usman, OFR	-	*Deputy Governor*
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11.	Dr.Haruna Sanusi	-	*Director*
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Members Of The Committee Of Governors Of The Central Bank Of Nigeria As At 31st December, 2003

1.	Chief (Dr.)Joseph O. Sanusi, CON	-	*Governor (Chairman)*
2.	Mr.Oluwole S. Oduyemi	-	*Deputy Governor*
3.	Dr.Shamsuddeen Usman, OFR	-	*Deputy Governor*
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A. Departmental Directors

1.	Alhaji M.S. Garba	-	*Finance*
2.	Mrs. O.A. Demuren	-	*Tradeand Exchange*
3.	Mr.O.I. Imala	-	*Banking Supervision*
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16.	Mr.M. Nda	-	*ForeignOperations*
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18.	Mr.G.E.Ukpabio	-	*Development Finance **
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20.	Alhaji G. Ahmed	-	*Branch Operations **
21.	Mr.A.O. Olatujoye	-	*Legal Services **
22.	-	-	*Banking Operations*
23.	-	-	*Lagos Office*

B. Special Advisers to the Governor

1.	Mr.J. O. Aderibigbe	-	*Economic Matters*
2.	Mr.P.A. H. Ataman	-	*Personnel and Admin. Matters*
3.	-	-	*Operations*

* On acting appointment

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CHIEF (DR.) JOSEPH O. SANUSI, CON

Governor, Central Bank of Nigeria

STATEMENT BY THE GOVERNOR

1. It is my pleasure and honour to present the Central Bank of Nigeria's (CBN) Annual Report and Statement of Accounts for 2003. As usual, the Report highlights the major macroeconomic and international financial and economic developments that impacted on the Nigerian economy during the period.

2. The overall performance of the economy in 2003 was mixed. Real gross domestic product (GDP), measured at 1990 constant basic prices, grew by 10.2 per cent in 2003, compared with the 3.5 per cent growth recorded in the previous year. The improved performance reflected the growth in both oil and non-oil production. The rate of inflation, which was subdued during the first eight months of the year, assumed a rapid upward movement in September, accelerating to 14.0 per cent by end-December 2003, compared with 12.9 per cent at end-December 2002. The acceleration was attributable to the rapid build-up in aggregate demand, reinforced by the unintended impact of the deregulation of the downstream sector of the petroleum industry, which increased the pump prices of petroleum products, and the consequent high transportation and production costs.

3. The external sector was under pressure in 2003. The demand pressure in the foreign exchange market intensified during the fourth quarter of the year, resulting in the depreciation of the naira exchange rate against the US dollar, in contrast to the relative stability which characterized the exchange rate of the naira during the first three quarters of the year. Reflecting the favourable developments in the world oil market, the current account of the balance of payments recorded a substantial surplus, while the overall balance of payments deficits declined from US $4.7 billion by end-2002 to US $1.3 billion in 2003.

4. The persistence of excess liquidity in the banking system arising from fiscal dominance, posed serious challenges to the conduct of monetary policy during the year. The expansionary fiscal operations of the Federal and State governments induced excessive growth in bank liquidity and influenced the rapid acceleration in monetary growth.

Specifically, broad money supply (M_2) increased sharply by 24.1 per cent in 2003, as against the target of 15.0 per cent and the 21.6 per cent growth recorded in 2002. Consistent with the deceleration in the rate of inflation during the first half of the year, the CBN reduced its minimum rediscount rate (MRR) by 150 basis points, from 16.5 to 15.0 per cent in July, in order to stimulate investment and output growth.

5. To further enhance the effectiveness of monetary policy, the CBN increased the frequency of the open market operations (OMO) from bi-weekly to daily basis in November, 2003. Approval for the issuance of the National Savings Certificate (NSC), aimed at enhancing a savings culture was granted by the Federal Government during the year. To give teeth to the scheme, the Board of the NSC was inaugurated in November.

6. The Bank's efforts towards enhancing transparency in monetary policy formulation was sustained during the year as two seminars, under the auspices of the Monetary Policy Forum, were held, while the 3rd Annual Monetary Policy Conference, with the theme, "Issues in Fiscal Management: Implications for Monetary Policy in Nigeria," was held in December. The Bank's Monetary Policy Committee (MPC) met nineteen times, after which communiqués on major policy decisions were issued.

7. The Bank enhanced the capacity of its surveillance departments by employing additional professional accountants to complement its staff strength, while steps were taken to ensure close monitoring of deposit money banks and other financial institutions. To this end, the framework on Contingency Planning for Systemic Crisis, consisting of policy actions and measures necessary for the prevention, management and containment of bank crisis, was adopted in July 2003. Some banks were penalized for contravening the foreign exchange rules and regulations, while the operating licence of one bank was revoked and the Board and Management of another bank were replaced. Efforts at sanitizing the non-bank financial institutions sub-sector were also sustained in order to ensure the soundness and stability of the financial system. Towards that end, a training programme was organized for the Directors of Community Banks to prepare

them for the effective discharge of their oversight responsibilities. The licences of 97 primary mortgage institutions were revoked for failure to meet the minimum requirements for their operations..

8. Substantial progress was recorded during the year in the reform of the payments system in the country. Two daily clearing sessions were introduced in the Lagos area, which reduced the local clearing cycle of cheques from four to three days. Work also commenced on the installation of the Real Time Gross Settlement System (RTGS) to facilitate large value transfers. The project is expected to be completed in the second quarter of 2004. To drive the payments system and interface with RTGS, the GLOBUS system a banking operations application, with on-line securities trading was being put in place. The Bank also issued guidelines on electronic banking to market operators. A major quality service improvement is the electronic funds transfer between all CBN locations. This has enabled the Bank to provide same-day funds transfer service to its customers. This should help to considerably ameliorate the constraints imposed on the efficient conduct of monetary policy. In the continued effort to promote efficiency of the payments and settlements system as well as ensure a smooth-functioning banking system devoid of collateral shocks and disruptions, some banks were appointed "Settlement Banks" and will perform clearing and settlement functions under the new clearing system with effect from the second quarter of 2004.

9. Consistent with its developmental mandate, the Bank encouraged deposit money banks (DMBs) to increase the rate of investments under the Small and Medium Industries Equity Investment Scheme (SMIEIS), in order to boost the performance of the real sector.

10. On the international scene, efforts were geared at the establishment of a second single monetary zone in the West African sub-region. The CBN also participated actively in the articulation of an African Monetary Cooperation Programme of the Association of African Central Banks (AACB). Under the programme, regional monetary and economic unions would constitute the foundation for continental monetary policy coordination and eventually the establishment of an African Central Bank.

11. The Bank's re-engineering/rest-

ructuring programme embarked upon in October 1999 and code named "Project EAGLES", aimed at promoting professionalism and efficiency in the Bank's operations, gathered momentum in 2003. In this regard, the Bank commenced the development of the Strategic Business Units (SBU), implementation of the enterprise-wide applications, with resource management and security to drive the re-engineered business processes.

12. A significant development in the history of the CBN was the successful completion and commissioning of the Bank's corporate Head Office Building in October 2003. All Head Office staff have moved into the building, thus relieving the Bank of the inconvenience of multiple locations and the use of temporary structures. It is expected that the new working environment would ensure closer interaction among staff and better coordination of the activities of the Bank.

13. Developments in the first quarter of 2004 indicated relative stability in the macroeconomic environment. The growth in monetary aggregates contracted, while the pressure at the foreign exchange market moderated, resulting in an increase in the external reserves over the level at end-December, 2003. The naira exchange rate also appreciated in all segments of the foreign exchange market. However, the spread between deposit and lending rates continued to be of concern for macroeconomic management. Also, the general price level continued to increase, with the downside risk of overheating the macroeconomy during the year. This calls for further fiscal restraint on the part of government, in order to engender the attainment of the targeted single-digit inflation in 2004.

14 Finally, it is my expectation that this Report will continue to be a valuable source of credible information on the operations and challenges facing the Bank, as well as the developments in the Nigerian economy.

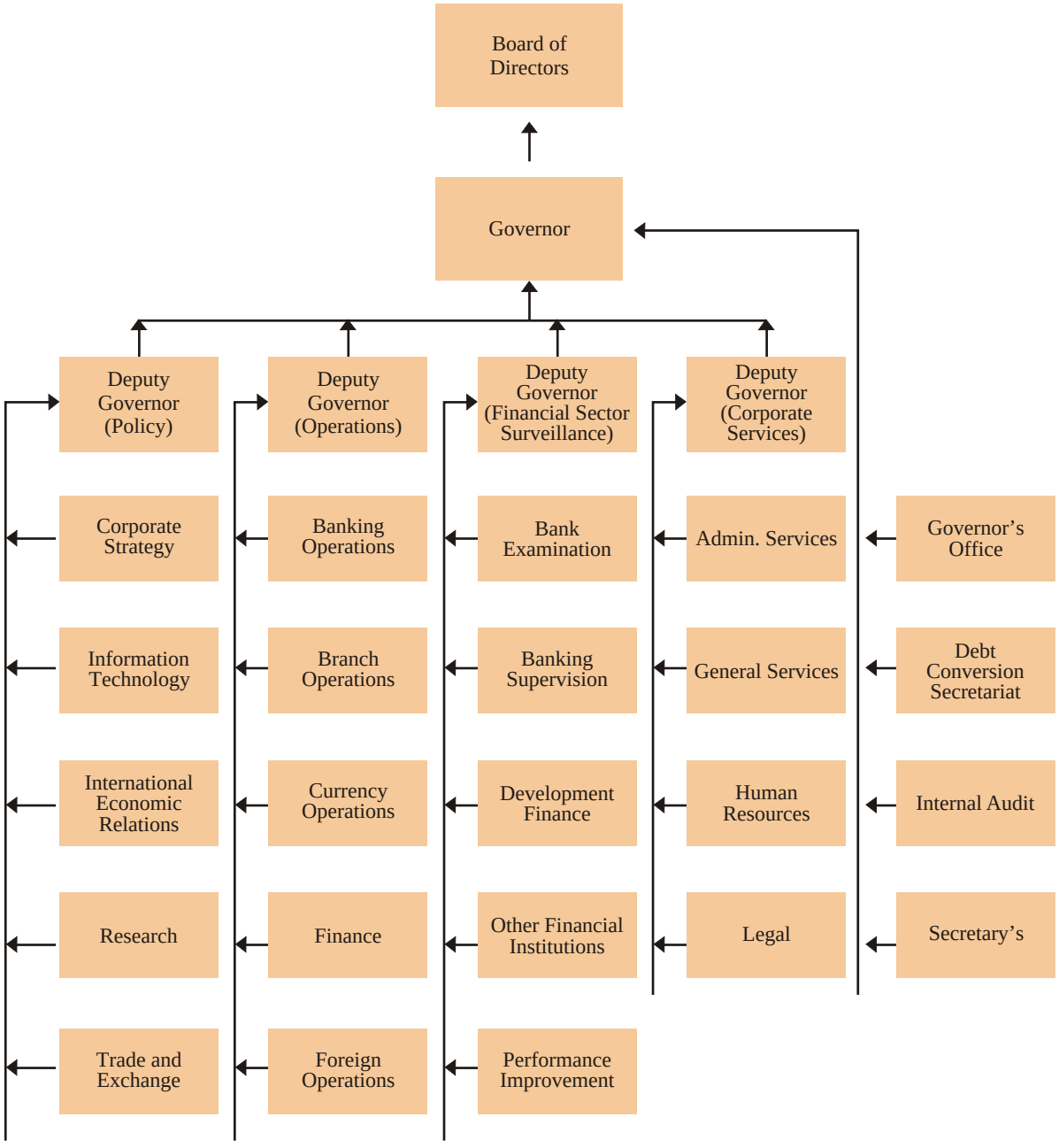
15 Let me conclude by commending and thanking the Board, Management and staff of the CBN for their continued loyalty and support, which contributed to the good performance of the Bank in 2003.

***Chief (Dr.) Joseph O. Sanusi**, CON,*
GOVERNOR

April, 2004

Figure 1.1

Organisational Structure of the CBN



CENTRAL BANK OF NIGERIA
ANNUAL REPORT AND STATEMENT OF ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 2003

Executive Summary

1. This Report presents an overview of the operations of the Central Bank of Nigeria (CBN), in 2003, in accordance with the *CBN Act, 1991* (as amended).

2. The Report is structured in three parts and contains eight chapters. Part I contains a review of the activities of the CBN in 2003, including its monetary, financial and other policy stance, while the Economic Report on Nigeria is in part II. International Economic and Financial Developments, which impacted on the Nigerian economy during the year, are reviewed in Part III. The contents of the three parts are highlighted as follows:

PART I

ACTIVITIES OF THE CENTRAL BANK OF NIGERIA IN 2003

3. During the year, the CBN, in line with its core mandate, took measures to achieve price stability and financial sector soundness. In this regard, the policy measures adopted by the CBN were aimed at promoting a stable macroeconomic environment to achieve a non-inflationary output growth rate of 5.0 per cent, in line with government's broad economic objective. Monetary policy for 2002/2003 was designed to support real sector activities, while liquidity and exchange rate management was market-based. The CBN also performed its developmental functions through the facilitation of credit delivery to agriculture and small and medium scale enterprises. To this end, the CBN sustained its efforts towards the promotion of the Agricultural Credit Guarantee Scheme Fund (ACGSF) and the Small and Medium Industries Equity Investment Scheme (SMIEIS). It also lowered the cash reserve requirement (CRR) for those banks that increased their credit allocation to the real sector by 20 per cent or more. The CBN rendered services to third parties as part of its corporate social responsibility and engaged in collaborative applied research projects with other government agencies.

4. Notwithstanding the relative stability in the financial sector in 2003, the effectiveness of monetary policy was dampened by the problem of excess liquidity in the banking system, as growth in

monetary aggregates exceeded targets by substantial margins. The excess liquidity in the banking system, which was largely attributed to the expansionary fiscal operations of the Federal and State governments, accentuated the demand pressure in the foreign exchange market, leading to the depreciation of the naira exchange rate especially, during the second half of the year. Interest rate developments were mixed in 2003. Deposit rates recorded a marginal increase while lending rates generally declined. This followed the downward adjustment in the minimum rediscount rate (MRR) by 150 basis points from 16.5 to 15.0 per cent, as well as the moral suasion by the CBN for banks to reduce interest rates. However, the structure of the banking system remained generally oligopolistic and continued to sustain the wide spread between deposit and lending rates. The pressure on the balance of payments moderated as the overall deficit fell from 10.3 per cent of GDP in 2002 to 2.2 per cent in 2003. The naira exchange rate to the US dollar depreciated in the foreign exchange market by 6.5 per cent as a result of the persistent demand pressure caused by market exuberance and excess liquidity in the banking system.

5. Provisional data from the Federal Office of Statistics (FOS) indicate that the economy recorded a substantial real growth rate of 10.2 per cent compared with 3.5 per cent in 2002. The increase in output growth was attributed to the contributions of the oil and agricultural sectors. However, the inflation rate, which was 12.9 per cent in December 2002, and 10.1 per cent in October 2003, increased to 14.0 per cent in December 2003, owing partly to the unintended effects of government economic reforms in the down-stream petroleum industry and the concomitant increase in transportation costs. In order to enhance transparency in the conduct of monetary policy, the CBN published the decisions of its monetary policy committee meetings and organised seminars on topical economic issues during the year.

6. The audited financial statements of the CBN showed that its operations in 2003, resulted in an overall surplus of N25.1 billion, representing a fall of 42.2 per cent from the level in 2002. The sum of N20.9 billion was transferred to the Federal Government, while the balance (N4.2 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 II

ECONOMIC REPORT

7. This section provides a general overview of the developments in the various sectors of the economy in 2003 as outlined in the subsequent subsections.

The Financial Sector

8. The growth in monetary aggregates exceeded the programmed targets for 2003 by substantial margins as a result of a persistent liquidity overhang, induced largely by the expansionary fiscal operations of the Federal and State governments. Consequently, broad money (M_2) increased by 24.1 per cent as against the growth target of 15.0 per cent for fiscal 2003 and the 21.6 per cent increase recorded in 2002. Narrow money stock (M_1) grew by 29.5 per cent, compared with the target of 13.8 per cent for the year and the increase of 15.9 per cent in the preceding year. Aggregate bank credit to the economy rose by 32.7 per cent as against the target of 25.7 per cent and the 64.6 per cent growth recorded in 2002. Credit expansion to the private sector, though significant at 27.1 per cent, was lower than the target of 32.3 per cent for fiscal 2003. Banks' lending rates declined in response to the downward adjustment of the MRR and the moral suasion by the CBN authorities. However, the gap between deposit and lending rates remained high. In its continued efforts to ensure a sound and efficient financial system, the CBN intensified its surveillance activities aimed at preventing distress in the banking sector. It imposed appropriate penalties on errant institutions for various acts amounting to a breach of standards. In order to further improve the payments system, the CBN issued broad guidelines on electronic banking in 2003, made substantial progress on the guidelines on the standard and use of e-money, and embarked on the implementation of the Real Time Gross Settlement (RTGS) system.

Fiscal Operations of Government

9. The significant increase in the price of crude oil in the world market and the removal of subsidy on the domestic sale of crude oil to the Nigerian National Petroleum Corporation (NNPC) boosted government revenue in 2003 and reduced its overall fiscal deficit. The fiscal operations of the federal government resulted in an overall deficit of N202.7 billion or 2.8 per cent of GDP, compared with N301.4 billion or 5.5 per cent in 2002. The deficit was financed entirely from domestic sources,

particularly the banking system. Federal government retained revenue amounted to ₦1,023.2 billion as against the total expenditure of ₦1,226.0 billion. The states recorded an overall deficit of ₦66.2 billion while the reporting local governments recorded a surplus of ₦8.4 billion in their fiscal operations. Public debt increased by 15.8 per cent over the stock at end-2002.

The Real Sector

10. Provisional data indicate that the real GDP, based on 1990 prices, grew by 10.2 per cent, up from 3.5 per cent in 2002. The growth reflected the improved performance of all the major sectors especially crude oil and agriculture. Agricultural production was boosted by the temporary import prohibition of some agricultural produce, a price support policy, and favourable weather conditions. The improved performance of the mining sub-sector was also attributable to increases in the country's OPEC quota and condensate production. While crude oil accounted for 98.9 per cent of the total output of the mining sub-sector, it is worthy of note that gas output recorded a significant increase of 11.3 per cent during the year. Manufacturing activities improved in 2003 relative to 2002, underpinning the positive outcomes of various supportive policy measures for the sub-sector. Such measures include: the temporary prohibition of the importation of certain goods that could be produced locally; the increased utilization of SMIEIS funds by manufacturers; the surveillance activities of the National Agency for Food, Drugs Administration and Control (NAFDAC) and the Standards Organisation of Nigeria (SON), and the lowering of CRR to banks that funded real sector activities. Notwithstanding the improved performance of the manufacturing sub-sector, it was faced with some challenges, including poor infrastructure, high cost of energy especially gas and other petroleum products, and rising transaction costs. Inflationary pressure was largely contained for most part of the year but in the last quarter of the year, inflation rate rose steadily to 14.0 per cent in December, 2003. The rise in inflation was partly attributed to excess liquidity in the banking system, and partly to the unintended effects of the economic reforms of the government, particularly the deregulation of the downstream segment of the petroleum industry. The number of trade disputes declared declined by 2.0 per cent. However, unemployment remained a serious national problem.

The External Sector

11. The external sector witnessed a moderate pressure. However, the improved foreign exchange earnings from crude oil exports in 2003 had a salutary effect on the external sector. The current account surplus rose from 0.7 per cent of GDP in 2002 to 6.9 per cent in 2003. The overall balance of payments resulted in a deficit of N162.84 billion or 2.2 per cent of GDP, down from N565.35 billion or 10.3 per cent of GDP in 2002. The deficit was financed through the drawdown of external reserves and partial deferment of scheduled external debt service. The deficit in the capital and financial account, however, increased by 10.5 per cent to N658.96 billion in 2003. The naira exchange rate, under the Dutch Auction System (DAS), depreciated from an average of N120.97 to US$1.00 in 2002 to N129.36 in 2003. The level of external reserves fell by 2.8 per cent to US$7.47 billion as at end-December 2003. The level of external reserves could finance 6.5 months of imports, compared with the 7.8 months in 2002.

PART III
THE INTERNATIONAL ECONOMY

12. Growth in world output was estimated at 3.2 per cent during the year compared with the 3.0 per cent recorded in the preceding year. Further growth was, however, constrained by the initial economic slowdown in industrial countries of Western Europe during the first half of the year. Following the global efforts to contain inflation, monetary policies were eased to support economic recovery in most regions. The issues that dominated discussions and deliberations in international economic conferences and summits in 2003 were: sustenance of global economic recovery; strengthening the international financial architecture; improving crisis resolution; and promoting macroeconomic stability. The G-24 Ministers of developing countries in their meeting maintained that trade protectionism in industrial countries had continued to constrain global growth and poverty reduction. They called for reforms that would allow for market access, boost growth prospects and reduce poverty as envisaged in the Millennium Development Goals (MDG). The 5th Ministerial Conference of the World Trade Organisation (WTO) was held in Cancun, Mexico in 2003 to launch a new round of multilateral trade negotiations and to review developments since the 4th Conference in Doha, Qatar. The Conference was, however, stalled

as a result of a number of disagreements between the advanced economies and the developing countries. At the sub-regional level, the Authority of Heads of State and Government of West African Monetary Zone (WAMZ) decided to site the Headquarters of the West African Central Bank in Accra, Ghana.

PART ONE

ACTIVITIES OF THE CENTRAL BANK OF NIGERIA

CHAPTER 1

MONETARY, FINANCIAL AND OTHER POLICY MEASURES IN 2003

Consistent with its core mandate, the Central Bank of Nigeria (CBN) in 2003 pursued the goal of achieving price stability and financial sector soundness. In this regard, the policy measures adopted by the CBN were aimed at promoting a stable macroeconomic environment to achieve a non-inflationary output growth rate of 5.0 per cent. Monetary policy was designed to support real sector activities while liquidity and exchange rate management was market-based. The Bank's developmental function was also geared towards promoting growth of the real sector through the financing of agriculture and the small and medium scale industries. In particular, credit delivery to the real sector was encouraged through the Small and Medium Industries Equity Investment Scheme (SMIEIS) and an incentive of a lower cash reserve requirement (CRR) regime prescribed for those banks that increased their credit allocation to the real sector by 20 per cent or more.

1.1 Monetary And Financial Policy Measures

The policy measures outlined in the Monetary Policy Circular No. 36 for fiscal 2002/2003 were aimed at consolidating the gains of 2002. Specifically, the policy measures were designed to achieve a non-inflationary growth of 5.0 per cent through the mobilisation and prudent use of resources; achieve a single digit inflation; sustain stability in the exchange rate; promote financial sector soundness and; achieve an external reserve stock that could support at least 6 months of current import cover. Consistent with these objectives, monetary and credit targets were set for the fiscal year (Table 1.1).

The CBN sustained its efforts towards the promotion of small and medium scale enterprises, through the Small and Medium Industries Equity Investment Scheme (SMIEIS). Consistent with the growth objective and its developmental function, the CBN provided guarantees for agricultural loans under the Agricultural Credit Guarantee Scheme (ACGS). In addition, the CBN engaged in collaborative research projects in economic and financial matters as well as compiled and published economic and financial data..

A number of policy measures were put in place to facilitate the achievement of the specified objectives and policy targets, as described below:

Table 1.1

Key Policy Targets

		2002	2003
		(In Per Cent)	
(i)	Growth in broad money (M_2)	15.3	15.0
(ii)	Growth in narrow money (M_1)	12.4	13.8
(iii)	Growth in aggregate bank credit	57.9	25.7
(iv)	Growth in bank credit (net) to Government	96.6	-150.3
(v)	Growth in bank credit to private sector	34.9	32.3
(vi)	Inflation rate	9.3	9.0
(vii)	Growth in real GDP	5.0	5.0

1.1.1 Liquidity Management

Consistent with the objective of maintaining price and exchange rate stability, the CBN in 2003 retained market-based liquidity management tools. Thus, the primary instrument for liquidity management in 2003 was open market operations (OMO), which was conducted mainly in short-term government securities of varying tenors. Beginning from the second half of the year, the conduct of OMO was modified from bi-weekly to daily basis, to further rein in on liquidity surfeit in the system and enhance the effectiveness of the instrument. The OMO was complemented by cash reserve requirements (CRR) and discount window operations, including repurchase agreements (repos), with discount houses playing the role of principal dealers in the market. The dual CRR which had been adopted in 2002 was sustained in 2003, with a lower CRR of 9.5 per cent prescribed for banks that increased their credit to the real sector by 20 per cent or more, using end-June 2002 as base. The deposit money banks, whose credit to the real sector was lower than the prescribed minimum were subjected to a 12.5 per cent CRR. The minimum liquidity ratio of 40 per cent for all banks was, however, retained.Furthermore, the Federal Government approved the issuance of the National Savings Certificate (NSC), which was designed to broaden investment options and promote a savings culture.

1.1.2 Interest Rate Policy

The interest rate policy in 2003 was market-based and anchored on the discretionary adjustment of the Minimum Rediscount Rate (MRR) to signal the direction of interest rate movement as dictated by monetary conditions. As the nominal anchor of CBN's interest rate policy, the MRR was

reviewed downwards from 16.5 to 15.0 per cent in July 2003 and remained unchanged till the end of the year. As part of its efforts to reduce the persistently wide spread between banks' deposit and maximum lending rates, the CBN in 2003 pursued a policy of enhancing the competitiveness of the financial market, in order to promote savings and investment growth.

The Interest Drawback Programme (IDP), which was introduced in 2002 to mitigate the high cost of borrowing by farmers under the ACGS, was sustained in 2003.

1.1.3 Financial Sector Surveillance

In line with the objective of maintaining the banking system's soundness and stability, the CBN, during the year, increased its surveillance activities to prevent distress in the banking sector. The minimum paid-up capital requirement for existing and new banks was pegged at ₦1.0 billion and ₦2.0 billion, respectively. However, existing banks were encouraged to raise their minimum paid up capital to ₦2.0 billion by 2005.

1.1.4 Payments and Clearing System Policy.

To further improve the efficiency of the payments system, the CBN issued broad guidelines on electronic banking. Further progress was made on the issuing of specific guidelines on the standards and use of e-money products, such as credit cards, debit cards, digital cash, etc. In addition, the CBN encouraged banks to install automated teller machines (ATM) for cash withdrawals and related activities.

In order to deal with large value payments and settlements, the CBN embarked on the implementation of the Real Time Gross Settlement (RTGS) system. Meanwhile, banks that met the specified requirements for clearing and settlement operations were designated as "Settlement Banks" This was aimed at fostering a safe, stable and smooth-functioning banking system, devoid of collateral shocks and disruptions, as well as ensure settlement finality at the CBN.

1.2 External Sector Policy Measures

The major objectives of the external sector policy in 2003 were the maintenance of a stable exchange rate regime and the achievement of balance of payments viability. Following the relative stability achieved in the foreign exchange market, the Dutch Auction System (DAS) was retained as the main mechanism for foreign exchange management and exchange rate determination in 2003. Other measures adopted to manage foreign exchange in 2003 were as follows:

- The initial validity of Form 'M' established in respect of plant and machinery made to specification was put at one year, subject to an extension for another 180 days by the processing bank without recourse to the CBN. Thus, the maximum life span of an approved Form 'M' for importation of machinery, plant

and equipment was one and half years (540 days);

- Approval for duty exemption was required to be obtained before shipment of relevant consignment to avoid delays and transit of goods at theports;· Payment of import duties and other charges was required to be made through the processing bank, provided that it was a designated bank;
- Importers of finished pharmaceutical products/drugs were required to obtain a permit and product registration certificate from the National Agency for Food, Drugs Administration and Control (NAFDAC), as part of the documentation requirements for such transactions;·

A reduction in the margin of the rate at which Travelex sold Thomas Cook TCs to the public, from 5 per cent above the CBN DAS rate to 3.75 per cent, and·

Retention of the 100.0 per cent physical inspection of goods at the ports.

1.3 Other Policy Measures

The CBN promoted/supported development-oriented sche-mes in 2003, as part of the policy of facilitating non-inflationary growth and enhancing access and availability of credit to farmers and the small and medium scale enterprises, through:

- The Agricultural Credit Guarantee Scheme Fund (ACGSF);
- The supervision/monitoring of the utilization of credit to beneficiaries under the ACGSF and SME II;
- The Small and Medium Industries Equity Investment Scheme (SMIEIS); and
- The Rediscounting and Refinancing Facility (RRF) at concessionary interest rates to encourage Deposit Money Banks (DMBs) to extend medium-to long-term loans to the real sector.

1.4 Corporate Social Responsibilities

As in the previous years, the CBN rendered services to third parties in 2003 in a number of areas. These services comprised:

- Grants to Nigerian universities and other agencies;
- Economic and financial data management and dissemination to interested stakeholders.
- Library services;
- Research and technical services;
- Collaborative studies with relevant agencies; and
- Sponsorship of sporting activities in the country.

CHAPTER 2

APPRAISAL OF MONETARY POLICY AND OPERATIONS OF THE CBN

The expansionary fiscal operations of the Federal and State governments constrained the relative effectiveness of monetary policy during 2003, as growth in monetary aggregates exceeded targets by substantial margins. The problem of persistent excess liquidity accentuated the demand pressure in the foreign exchange market, which led to the depreciation of the naira exchange rate. Following the downward movement of inflation rate in the first eight months of the year, the downward adjustment of the MRR, as well as the moral suasion by the CBN for banks to reduce interest rates, banks' lending rates fell, particularly during the last quarter of the year. This notwithstanding, the structure of the banking system remained generally oligopolistic and encouraged the wide spread between deposit and lending rates. During the year, the CBN's surveillance on banks and non-bank financial institutions was enhanced. In furtherance of its resolve to improve the payments system, the CBN incorporated the electronic funds transfer modules into the banking operations system (BANKOS) in all its branches, thereby automating the execution of standing orders and allowing timely consolidation of clearing balances of banks. The CBN also commenced the implementation of enterprise-wide applications, including Oracle Enterprise Resource Planning (ERP), Globus banking application and Real Time Gross Settlement (RTGS). The CBN organized monetary policy seminars in order to promote policy transparency and awareness.

2.1 Monetary And Credit Developments

The growth in monetary aggregates was excessive relative to the prescribed targets for 2003, due largely to the impact of the expansionary fiscal operations of the Federal and State governments. While the growth in broad money supply (M_2) was 24.1 per cent, representing 9.1 percentage points above the programmed target of 15.0 per cent, narrow money (M_1) grew by 15.7 percentage points above the prescribed target of 13.8 per cent. The growth in M_2 and M_1 was higher in 2003 compared with the outcomes of 21.6 and 15.9 per cent, respectively, in 2002. The growth in broad money was due largely to an increase in aggregate banking system credit to the domestic economy, especially net credit to government and foreign assets (net) of the banking system.

2.1.1 Open Market Operations (OMO)

The CBN conducted one hundred and three (103) OMO sessions in 2003, compared with forty-nine (49) in the

Table 2.1

Outcomes Of Monetary, Financial And Other Targets

	2002 1/		2003	
	Target	Actual	Target	Actual
	(in per cent unless otherwise stated)			
M2	15.3	21.6	15.0	24.1
M1	12.4	15.9	13.8	29.5
Aggregate Bank Credit	57.9	64.6	25.7	32.7
Credit (net) to Fed. Government	96.6	6320.6	-150.3	47.9
Credit to Private Sector	34.9	19.7	32.3	27.1
Inflation rate	9.3	12.9	9.0	14.0
Growth in GDP 1/	5.0	3.5	5.0	10.2
Accretion/depletion of External Reserves (US $ million)2/	-300	2,734.5	-300	213.3
Exchange rate N/$ (end-period)		126.9		137.0

1/Revised
2/(+) sign indicates depletion,
(-) sign indicates accretion to reserves.

Table 2.2

Credit Developments (N billion)

	2002	2003
Aggregate Credit	1,397.4	1,854.1
Credit (net) to Fed. Gov. Of which:	373.6	552.6
Central Bank	-41.2	254.1
DMBs	414.9	298.4
Credit to Private Sector	1,023.8	1,301.6
of which:		
Central Bank	7.3	8.8
DMBs	948.5	1,292.8

preceding year. The substantial increase in the number of OMO sessions was due to the introduction of daily OMO, which commenced on November 26, 2003. Total bids and sales rose substantially above their levels in the preceding year. This reflected the persistent excess liquidity in the banking system, and the increased number of sessions held by the CBN.

Figure 2.1
Growth in Monetary Aggregates, Output and Prices

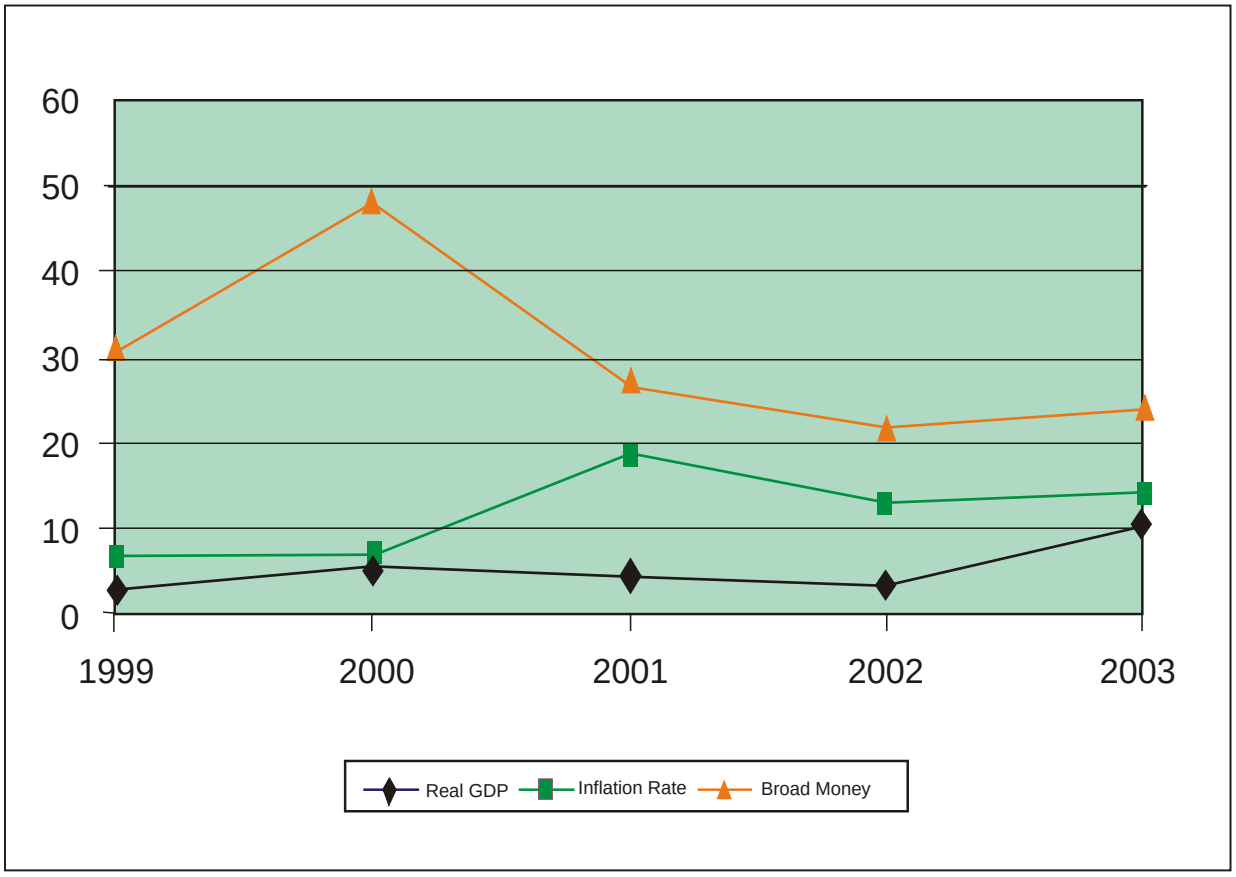


Figure 2.2
Growth in Domestic Credit

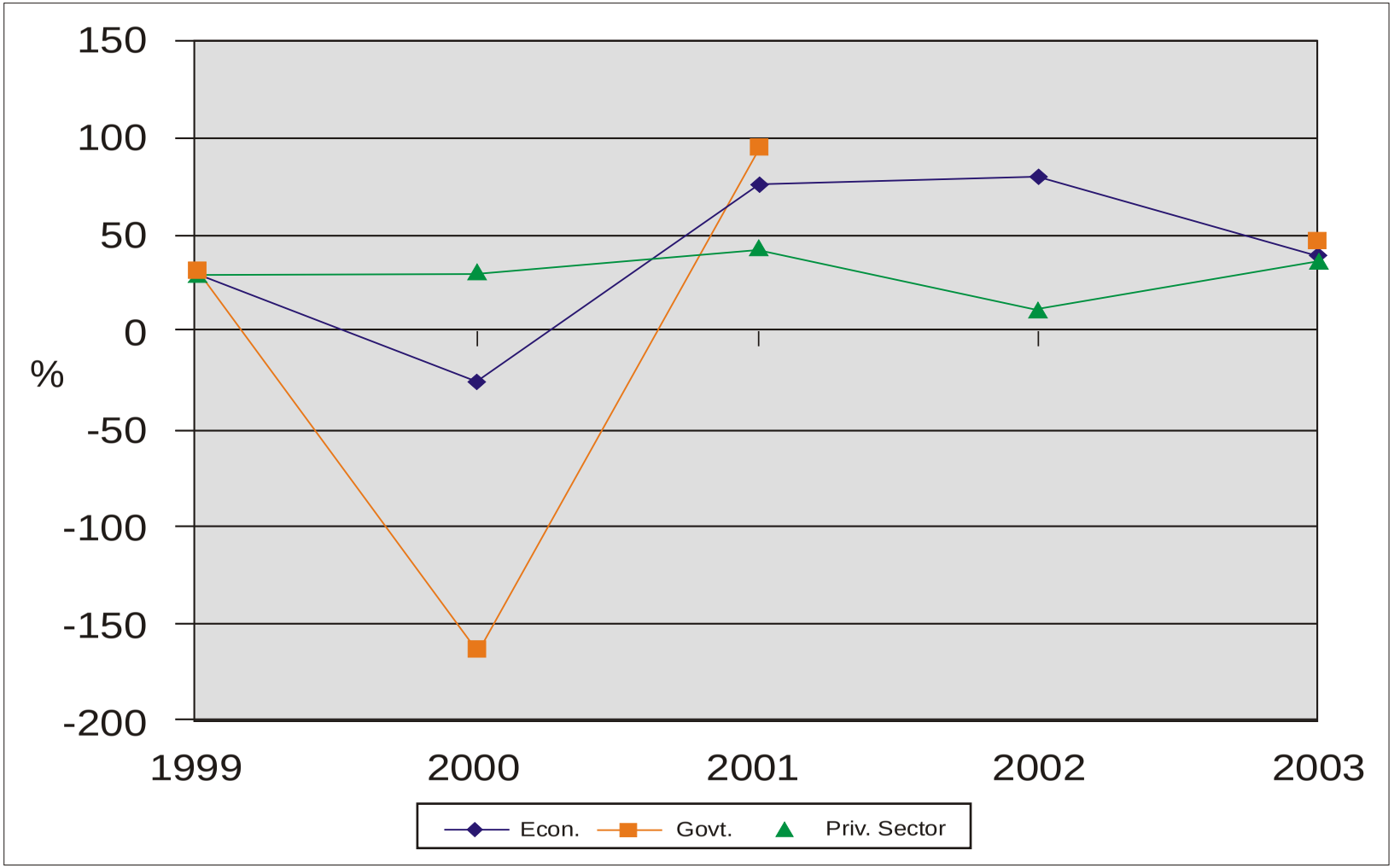
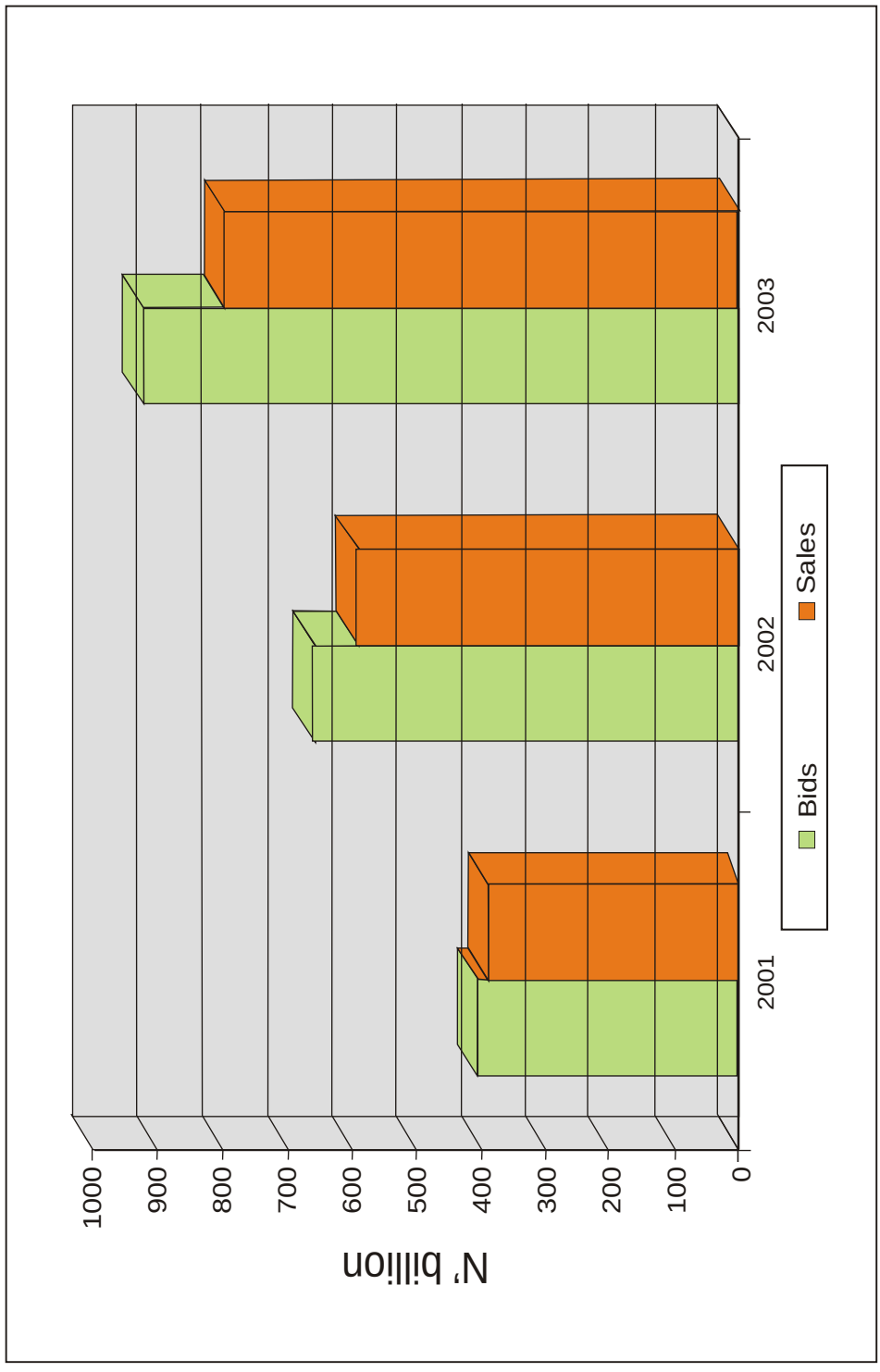


Figure 2.3
Open Market Operations



2.1.2 Interest Rate Developments

Banks' deposit rates rose marginally, while lending rates declined during the year. Available data indicated that the average savings deposit rate, which stood at 3.7 per cent in December 2002, fell to 3.6 per cent in June 2003 and fell further to 3.2 per cent at the end of the year. However, the average rate on time deposits of various maturities, which declined from a range of 8.8-14.4 per cent in December 2002 to 7.8-12.7 per cent in the first half of the year, rose to a range of 8.8-14.8 per cent at end-December 2003. Reflecting the downward review of the MRR by 150 basis points in July, the average prime and maximum lending rates declined from 20.6 and 25.7 per cent respectively in December 2002 to 19.6 and 21.6 per cent respectively at end-December 2003. Consequently, the spread between the weighted average deposit and maximum lending rates narrowed to 10.8 percentage points at end-December 2003 from 12.9 percentage points at the end of 2002. Similarly, the margin between the average savings and maximum lending rates contracted to 18.4 percentage points as against 22.0 percentage points at end-December 2002. With the inflation rate at 14.0 per cent in December 2003, most deposit rates were negative in real terms, while lending rates were generally positive in real terms.

The average inter-bank call rate, which stood at 12.10 per cent in December 2002, fluctuated upwards in 2003 and peaked at 21.11 per cent in December 2003. The rise in the inter-bank call rate reflected, largely, developments in the foreign exchange market and the liquidity condition in the banking system.

The average NTB issue rate, which stood at 13.8 per cent at end-December 2002, rose steadily during the first half of the year to 15.9 per cent in June 2003. However, following the downward review of the MRR at end-July, the NTB issue rate dropped in the second half, averaging 14.5 per cent in December 2003 (Table 2.6).

2.2 Institutional Developments

There was no new application for banking license in 2003. However, the CBN revoked one banking licence. Thus, the number of deposit money banks in operation reduced by one (1) to eighty-nine (89) from 90 banks in the preceding year. The number of bank branches increased to 3,247 from 3,010 branches in 2002, following the opening of 237 additional bank branches and cash offices.

The Bank managed the Credit Risk Management System (CRMS) in its effort to strengthen the credit appraisal procedures and monitor over-exposure in banks. As at 31st December 2003, sixty-nine (69) banks rendered returns to the CBN. Overall, 28,886 borrowers with outstanding loan balances of ₦1.0 million and above were recorded in the CRMS. The database has a total of 42,146 outstanding credits, worth ₦1,147.16 billion as at 31st December 2003.

The CBN awarded the contract for the development of the new

Enhanced Banking Analysis System (EBAS), a web-enabled application software that will incorporate all institutions submitting statutory returns to the CBN/NDIC for easy processing and analysis.

During the year, the CBN sustained its reform efforts aimed at sanitizing the other financial institutions (OFIs) sub-sector. Consequently, the operating licences of 97 primary mortgage institutions (PMIs) were revoked for failure to render statutory returns. Approval-in-principle was granted to three (3) community banks (CBs) to commence operations. They are: Zion Community Bank in Makurdi, Benue State; Covenant Community Bank, Otta, Ogun State; and Alliance Community Bank, Abuja. In order to further strengthen their managerial capacity, the CBN organised courses and workshops for the directors and staff of community banks at different times in different locations of the country. Furthermore, the CBN approved an operational manual in 2003 to enhance the operational performance of the CBs. Two (2) Bureaux-de-change (BDCs) - Travelex Retail BDC and Valueline BDC were - granted licences to commence business, while 14 BDCs were approved to commence the purchase and sale of Travellers' cheques from Travelex Global Financial Services Limited.

2.2.1 Growth and Structural Changes

Eighty-nine (89) banks operated in the country in 2003, compared with 90 banks in the preceding year, following the revocation of the banking licence of Peak Merchant Bank Limited. In addition, an approval was granted by the CBN for Standard Trust Bank to acquire Continental Trust Bank. Two hundred and thirty-seven (237) additional bank branches and cash offices were approved for banks in the country during the year. Three banks changed their names for various reasons, including conversion to public liability companies as well as the need to portray a new identity. The list of the banks is provided below.

Change of Names in 2003

Former name	New name
Triumph Merchant Bank Limited	Triumph Bank Plc.
Global Bank Limited	Global Bank Plc
INMB Bank Limited	Indo-Nigerian Bank Limited

In an effort to sanitize the other financial institutions (OFIs) sub-sector, the CBN withdrew the operating licences of 97 PMIs for non-rendition of statutory returns. Consequently, the number of PMIs that operated in the country in 2003 was eighty-one (81). Similarly, one community bank was licensed during the year, thereby bringing the number of licensed community banks to two hundred and eighty-three (283). The number of community banks, finance companies, bureaux-de-change and development finance institutions in operation stood at 774, 104, 274 and 6, respectively in 2003. The number of institutions that rendered statutory returns to the Bank rose from 316, 63 and 28 in 2002 to 564,

72 and 75 in 2003 for community banks, primary mortgage institutions and finance companies respectively. However, only 85 out of the 274 BDCs reported on their activities.

2.2.2 Legal and Regulatory Developments

The proposed revision of the *CBN Act* (1991) and the *Banks and Other Financial Institutions (BOFI) Act*, continued to receive attention at the National Assembly. The joint CBN/NDIC Committee on the new Capital Accord continued its work on encouraging operators to comply with the new international capital requirement. In order to make the Committee more focused, five working groups were formed to handle different aspects of its assignments, namely: Minimum Capital Requirement, Asset Securitization, External Rating Agencies, Market Discipline, and Supervisory Review. Furthermore, the comprehensive review of the operational guidelines for the discount houses embarked upon since 2002 reached an advanced stage during the year.

2.2.3 Monitoring Banking Sector Soundness

The CBN increased the tempo of its surveillance activities on the operations of the banking sector during the year. Various approaches, including regular appraisal and review of banks' periodic returns, spot checks and monitoring of the payments system were employed. Furthermore, special/target investigations were conducted, with the aim of enhancing the stability of the banking system. An analysis of the performance of banks revealed that while the performance of some banks improved, others showed serious signs of weakness. The rating of licensed banks using the CAMEL parameters, revealed that eleven (11) banks were "sound" fifty-three (53) were "satisfactory" while fourteen (14) and nine (9) banks were rated "marginal" and "unsound" respectively. Further analysis of the activities of the banks as at end-December 2003 revealed an over-reliance on the inter-bank funds market, as 40 banks or 45 per cent were net takers of funds from the banking system.

2.3 Surveillance Report on the Activities of Financial Institutions

The CBN carried out on-site and off-site supervision of licensed banks and other financial institutions through its surveillance departments, namely, Banking Supervision, Bank Examination and Other Financial Institutions. The CBN carried out a wholesale examination of sixty (60) deposit money banks, five (5) discount houses and a special examination of two (2) banks during the year. The CBN also undertook the examination of two (2) offshore branches of a bank. In addition, the CBN conducted follow-up examinations of forty-five (45) banks and one (1) discount house. The examinations revealed various lapses in some of the institutions, including: poor management, weak internal control

systems, under-capitalization, inadequate collateralisation of facilities granted, and violation of the single obligor limit. Appropriate sanctions were imposed on the errant institutions.

Analysis of banks' prudential status showed that eleven (11) banks failed to meet the required minimum capital of ₦1.0 billion as at end-December 2003. Furthermore, twelve (12) banks failed to meet the prescribed minimum capital adequacy ratio (CAR) of 8.0 per cent. However, a total of seventy-seven (77) banks had CARs above 8.0 per cent. Twenty-one (21) banks failed to meet the prescribed minimum liquidity ratio of 40.0 per cent. Indeed, four (4) banks had negative liquidity ratios ranging between 113.0 and -6.0 per cent.

The CBN maintained the policy of a dual cash reserve requirement (CRR): 12.5 per cent and a lower 9.5 per cent for banks that increased their lending to the real sector by 20.0 per cent or more with end-June 2002 as base. It is noteworthy that by the end of 2003, thirty-five (35) banks had benefited from the incentive of a lower CRR.

During the year, some banks exceeded the prescribed loan-to-deposit ratio of 80.0 per cent. Forty (40) banks recorded a loan to deposit ratio of over 100.0 per cent but less than 200.0 per cent. Two (2) recorded ratios of over 200.0 per cent but less than 300.0 per cent and three (3) banks had ratios of over 300.0 per cent.

The CBN adopted the contingency mechanism for systemic distress with a view to preventing contagion and systemic distress in the banking system. In this regard, fifteen (15) banks were identified and isolated and various supervisory actions were recommended and implemented. These actions included recapitalization, special monitoring, and collateral requirement for CBN exposure and verification of deposit for shares, among others.

The CBN also carried out an examination of the foreign exchange operations of authorized dealers to ensure compliance with foreign exchange rules and regulations. The lapses observed included: disbursement of foreign exchange without complete documentation; non-repatriation and distribution of interest earned on cash collateral accounts to eligible letters of credit (LC) customers; debiting LC customers with charges in excess of the provisions in the bankers' tariff; and failure to render Schedule XI returns in respect of customers who had failed to submit complete shipping documents within 90 days after negotiation of their LCs. All defaulting banks were penalized for these infractions.

The CBN also conducted surveillance to ascertain the level of compliance by banks with the provisions of the *Money Laundering Act No. 3 of 1995*, as amended. The effort revealed some lapses on the part of banks. They included: non-disclosure of reportable transactions; late, incomplete or non-rendition of returns; and inadequate or poor customer identification.

2.3.1 Fraud and Forgery

The incidence of fraud and forgeries persisted in 2003. There were

1,036 reported cases of fraud and forgery involving ₦3.6 billion, US$3.5 million, DM120 and Euro 895.0. Out of this number of incidents, 369 cases of fraud were successfully perpetrated and resulted in losses to banks amounting to ₦1.5 billion, US$271,882, and Euro 895.0.

2.3.2 Public Complaints Desk

As in the preceding years, the ethics and professionalism sub-committee of the Bankers' Committee handled complaints among banks and between banks and their customers. Most of the complaints centred around excess charges by banks, manipulations, and fraudulent practices on customer accounts, as well as conversion of investment funds. Others were irregular clearing of customer cheques and non-refund of wrong debit to customer accounts.

2.4 Payments And Clearing System

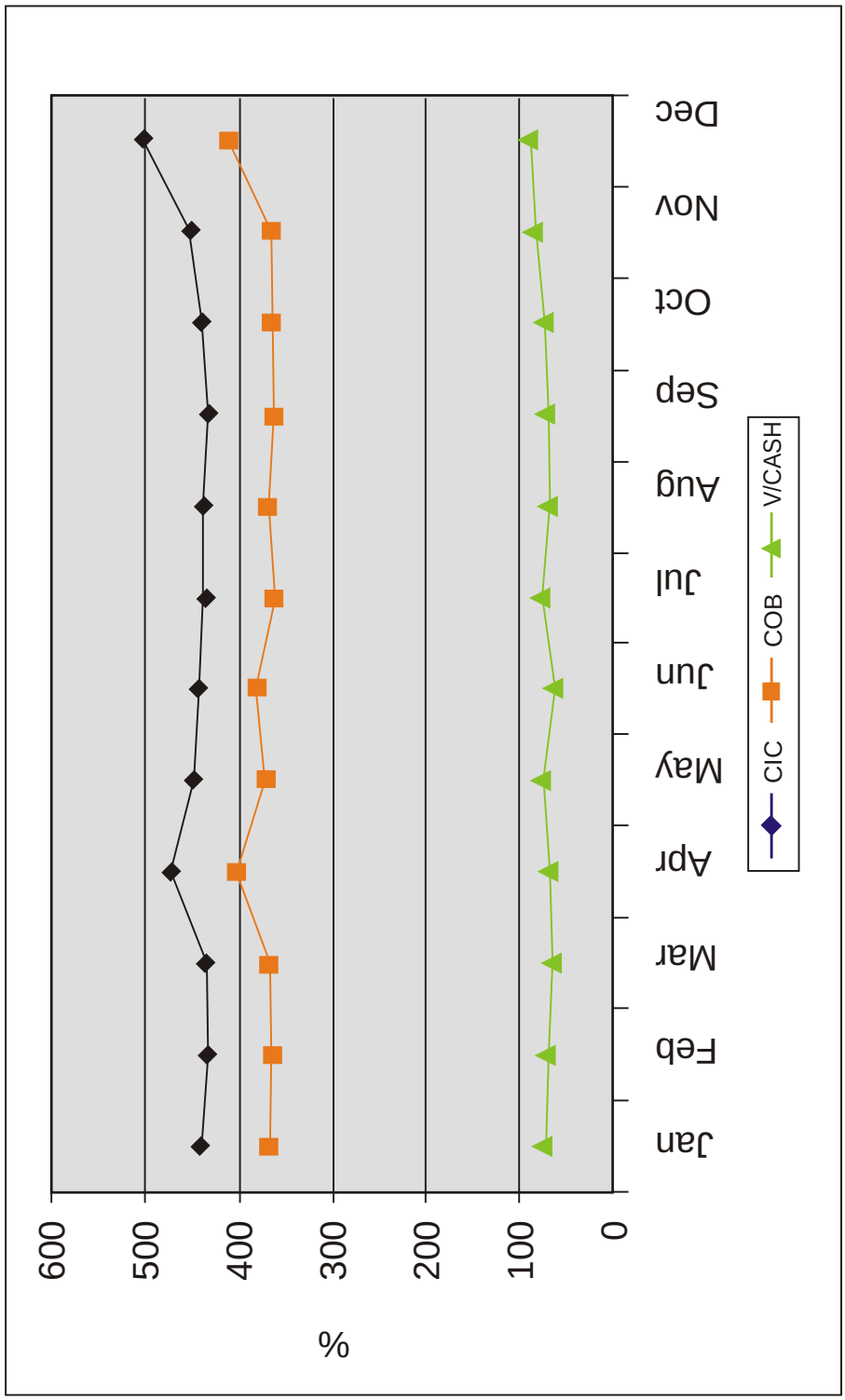
2.4.1 Issue of Legal Tender

In line with the policy of maintaining clean notes, the CBN withdrew dirty notes and issued new ones in 2003. Currency notes of various denominations worth ₦69.4 billion were issued. Thus, the value of currency in circulation at end-December 2003 stood at ₦502.6 billion, representing an increase of 8.5 per cent over the level in 2002. The currency structure is shown in Table 2.3.

Table 2.3
Currency Structure

Type	2002		2003	
Coins	Value (N'million)	Volume (Million)	Value (N 'million)	Volume (million)
N1	440.6	440.6	443.4	443.4
50K	217.7	435.4	218.23	436.46
25K	43.3	173.2	43.27	173.08
10K	12.6	126.0	12.6	126.0
1K	0.4	40.0	0.4	40.0
Sub-Total	714.60		717.90	
Notes				
N500	186,077.59	372.16	252,500.53	505.0
N2 00	113,691.88		127,378.55	636.89
N1 00	69,353.61		63,618.44	636.18
N 50	47,394.31	568.46	23,021.69	460.4
N 20	39,849.75	693.54	26,096.42	1,304.82
N 10	4,083.77	947.88	6,582.97	658.3
N 5	2,232.68	1,992.48	2,665.41	533.08
Sub-Total	**462,683.59**	408.38	**501,864.00**	
Total	463,398.19	446.54	502,581.91	

Figure 2.4
Currency in Circulation 2003



2.4.2 Cheque Clearing

Clearing activities increased in 2003. This was as a result of improvements in the payments system's infrastructure, banking habits as well as public confidence. The volume and value of cheques cleared through the system rose by 12.2 and 125.3 per cent respectively in 2003 to 12,526,643 and ₦8,928.5 billion respectively. Similarly, the volume of cheques cleared through the Lagos Clearing House rose by 1.0 per cent over the level in 2002 to 6,679,654, while the value rose substantially by 271.2 per cent to ₦5,132.8 billion. The volume and value of cheques cleared through the Lagos Clearing House represented 53.2 and 57.5 per cent respectively of total, while cheques cleared through Abuja accounted for 6.7 and 13.0 per cent respectively of the total volume and value of cheques cleared in the system.

Table 2.4
Volume and Value of Cheques Cleared

	2002		2003	
	Volume	Value (N' billion)	Volume	Value (N' billion)
Clearing System	**11,169,380**	**3,963.1**	**12,526,643**	**8,928.5**
Lagos Clearing House	**6,612,337** (59.2%)	**1,382.7** (34.9%)	**6,679,654** (53.2%)	**5,132.8** (57.5%)
Abuja Clearing House	**820,492** (7 . 3 %)	**1,130.6** (28.5%)	**842,088** (6.7%)	**1,156.5** (13.0%)
Others	**3,736,551** (33.5%)	**1,449.8** (36.6%)	**5,004,901**	**2,639.2**

Figures in bracket represent percentage of total

2.4.3 Use of E-money Products

Available data on smartcard transactions indicated increased patronage of electronic money (e-money) products in 2003. For instance, the volume of transactions effected using smartcards increased from 630,754 in 2002 to 887,741 in 2003. In like manner, the value of transactions rose from ₦20.1 billion to ₦49.6 billion during the same period.

2.5 Foreign Operations

The CBN in 2003 retained some of the policies that were put in place in 2002 to ensure the efficient management of foreign exchange. Demand pressure intensified in the foreign exchange market, as ninety-six (96) Dutch Auction sessions were held in the year. Total sales amounted to US$9,643.55 million, representing a daily average of US$37.10 million, compared with US$8,139.07 million and a daily average of US$31.22 million recorded in the preceding year. The CBN bought a total of US$38.03 million from the market resulting in net sales of US$9,605.52 million. This represented an increase of 18.4 per cent over the net sales in 2002. The increased demand pressure in the foreign exchange market was attributed to the speculative activities of market operators in the last quarter of the year. Between January and December 2003, the marginal exchange rate at the DAS depreciated by 6.5 per cent to ₦129.3565 per US dollar. Similarly, the exchange rates in the bureaux de change depreciated by 2.7 per cent to ₦141.9946 per US dollar, from ₦137.7901 per US dollar in 2002.

Sales of Travellers' Cheques (TCs) through the two authorised dealers amounted to US$242.93 million. The average exchange rate in the TCs segment in 2003 depreciated from ₦127.65 and ₦127.64 per US dollar for Travelex and AMEX to ₦137.34 and ₦137.29 respectively.

Ninety-three (93) letters of credit (LCs) valued at US$178.8 million (₦25,607.7 million) were opened in transactions under the Documentary Credit in 2003, compared with 171 LCs valued at US$406.5 million in the preceding year. One hundred and fourteen (114) LCs valued at US$487.9 million (₦42,315.5 million) were extended during the year, compared with one hundred and twenty-eight (128) LCs valued at US $427.2 million in 2002. Total drawings on LCs amounted to US $168.9 million (₦21,715.7 million), compared with US $453.1 million in the preceding year.

Between January and December 2003, transactions valued at WAUA 0.13 million (₦22.5 million) passed through the West African Monetary Agency (WAMA), the same as in 2002. There was no inflow from other central banks within the region. A total of WAUA 1.97 million (₦331.16 million) in convertible currencies was paid to other banks as settlements for transaction passing through the WAMA, while WAUA 0.10 million (₦17.9 million) was received for the same purpose.

Twenty banks (20) were involved in the sale of ECOWAS travellers' cheques. The total amount of ECOWAS

TCs received was WAUA 50.37 million. Of this amount, WAUA 26.93 million was disbursed while WAUA 27.3 million was sold and WAUA 669,610.0 million was for encashment. The balance with the CBN was WAUA 20.78 million.

2.6 Other Developmental Functions of the CBN

2.6.1 The Small and Medium Industries Equity Investment Scheme (SMIEIS)

The Small and Medium Industries Equity Investment Scheme (SMIEIS) recorded further improvements in its operations during the year. The sum of ₦7.1 billion was invested by banks compared with ₦6.87 billion in 2002, representing an increase of 2.5 per cent. As at end-December 2003, a total of ₦19.7 billion had been set aside by banks, of which ₦7.1 billion had been invested in 137 projects. Similarly, 85 investments valued at ₦4.66 billion, representing increases of 163 per cent and 194 per cent respectively over the figures in 2002 were made during the year. The significant increase in the number of investments under the scheme was attributed to increased awareness, following enlightenment campaigns launched by the CBN.

An analysis of the sectoral distribution of the investments made by the participating banks showed that since the inception of the scheme, 95 investments (valued at ₦4.89 billion), representing 64.6 per cent of total, had been recorded in the real sector, while 42 investments (35.4 per cent) had been made in the services sector. A further breakdown showed that 60 investments in the manufacturing sub-sector (including printing and publishing) accounted for 43.8 per cent of the total, while the services and agro-allied sub-sectors accounted for 18.3 per cent and 17.5 per cent respectively.

The unutilized funds as at end-December 2003 stood at ₦12.66 billion, compared with N5.9 billion in the preceding year. Also, funds set aside and overdue for utilization stood at ₦2.2 billion.

In order to encourage more viable investment of the SMIEIS funds, the Bankers' Committee approved a micro-credit window for micro-entrepreneurs under the SMIEIS. Under this arrangement, 10 per cent of funds set aside by the participating banks under the SMIEIS would be earmarked for micro-credit investment which would be disbursed through micro-finance institutions and other participating institutions to be approved for that purpose.

2.6.2 The SME II Loans Scheme

In 2003, the repayment of SME loans to the World Bank amounted to US$9.92 million or ₦1,286.2 million compared with US$8.99 million or ₦1,091.72 million in 2002. The sum of ₦5.2 million was received from one participating bank in debt servicing, compared with ₦38.0 million in the preceding year. The substantial decline in receipts for loan repayment was due to the fact that some of the projects/banks had fully amortized their loans in 2002. As at end-December 2003, SME funds

invested in Treasury Bills stood at N 458.5 million.

2.6.3 TheAgricultural Credit Guarantee Scheme Fund (ACGSF)

The paid up share capital of the Fund at end 2003 stood at ₦2.25 billion. While the CBN had fully paid up its share of ₦1.2 billion, the Federal Government was yet to pay the balance of its own share. In 2003, the Board of the ACGSF ratified the participation of fully licensed community banks to operate under the Scheme, with effect from January 1, 2004.

During the year, 24,303 loans valued at ₦1.2 billion were guaranteed under the ACGSF, compared with 23,681 and ₦1.1 billion in the preceding year, representing an increase of 2.6 and 10.7 per cent respectively. The increase during the year was attributable to the effect of the enlightenment campaigns adopted by the CBN to improve credit delivery. Since the inception of the Scheme in 1978 to end-December 2003, a total of 362,387 loans amounting to ₦5.5 billion had been guaranteed.

Analysis of the distribution of loans by size showed that farmers borrowing "₦20,000 and below" were dominant in 2003 and accounted for 41.6 per cent of total. Table 2.5 shows the categories, volume and value of loans under the ACGSF.

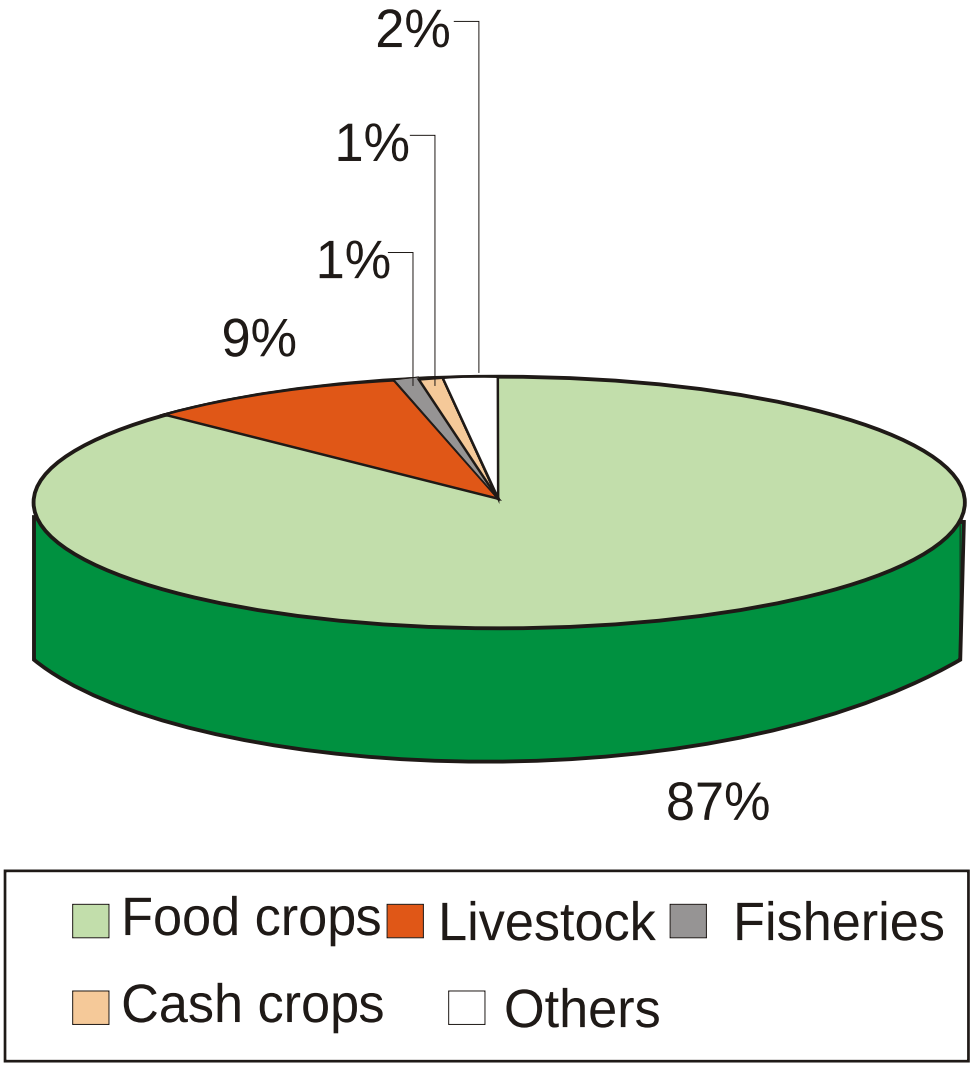
Table 2.5
Distribution of Loans under the ACGSF in 2003

Category	Volume	Value in N'million
N20,000 and below	9,848 *(41.6)*	209.6 *(14.9)*
N20,001- N50,000	*7,904 (32.5)*	*298.4 (25.6)*
N50,001 - N100,000	4,776 *(19.7)*	393.9 *(33.8)*
Above N 100.000	1,1495 *(6.2)*	298.11 *(25.6)*

Figures in parenthesis represent percentages of total

Further analysis revealed that, the food crops sub-sector, as in the past, maintained its lead with 22,520 loans, accounting for 92.7 per cent of total lending. The value of loans to this sub-sector, at ₦1.0 billion, represented 87.2 per cent of total. Livestock followed with the volume and value of loans amounting to 1,178 and ₦106.87 million or 4.8 per cent and 9.2 per cent of total respectively. In terms of types of borrower, individuals borrowed more under the Scheme as in the previous years. The number of loans to this category of borrowers was 23,995 and valued at ₦1.1 billion. This represented 98.6 per cent and 95.0 per cent of the total volume and value respectively.

Figure 2.5
Distribution of Loans under the ACGSF in 2003



The total number and value of fully repaid loans in 2003 stood at 21,652 and ₦910.14 million, representing an increase of 16.6 and 46.6 per cent respectively above the levels in the preceding year.

The sustained improved performance since 1989 has been attributed to better project appraisal and monitoring as well as the intense loan recovery drive embarked upon by field officers of the Bank and participating banks' staff.

The cumulative number and value of fully repaid loans from inception to end-December 2003 stood at 251,896 and ₦3.4 billion, representing 43.9 per cent and 63.9 per cent respectively of totals.

In 2003, the lending banks filed a total of 506 default claims across the country amounting to ₦9.2 million. Of this number, 168 claims valued at ₦3.4 million were settled, compared with 124 claims valued at ₦3.2 million in the preceding year.

2.7 Other Activities of the Bank

2.7.1 Board of Directors and Other Committees

In 2003, the CBN's Board of Directors held 7 regular and 4 extra-ordinary meetings. Similarly, the Committee of Governors held 11 regular and 15 extra-ordinary meetings, while the Governors' Consultative Committee held 12 regular meetings and 1 extra-ordinary meeting. The Committee of Departmental Directors held 12 regular meetings while the Internal Audit Committee held 4 regular meetings.

The Monetary Policy Committee (MPC) met nineteen (19) times while the Financial Sector Surveillance Committee (FSSC) met twenty-four (24) times in 2003 to deliberate on issues relating to monetary, banking, interest and exchange rate policies. The MPC issued monthly communiqués on its deliberations and policy decisions.

2.7.2 Restructuring of the Central Bank of Nigeria (Project EAGLES)

The CBN continued the implementation of its re-engineering project during the year, with information and communication technology (ICT), and human resources (HR) driving the change management in the restructuring process.

The three-tier performance management system (PMS) commenced in 2003. The CBN adopted the balanced scorecard framework for measuring a three-tiered performance. Some of the challenges in the development of a PMS include:

- Developing a PMS that is functional;
- Conducting a stakeholder analysis, and
- Developing scorecards at all levels of the organization.

2.7.3 The Monetary Policy Forum

In 2003, the CBN sustained its effort at providing a forum for stakeholders in the economy to deliberate on topical economic policy issues. This was achieved through the instrumentality of the Monetary Policy

Forum (MPF). The CBN organized two (2) seminars on contemporary economic issues on the following themes: 'Management of Nigeria's Domestic Debt', and 'Developing the Non-oil Sector in Nigeria'.

In December 2003, the CBN also organized the Third Annual Monetary Policy Conference on the theme, "Issues in Fiscal Management: Implications for Monetary Policy in Nigeria". The Conference identified many factors constituting a serious challenge to monetary management. They include fiscal shocks, over-reliance of the economy on oil revenue, debt accumulation, fiscal federalism, and unsustainable fiscal deficits. The following are some of the suggestions which emerged from the conference:

- Budget reforms and an intensified non-oil revenue mobilization;
- Enhancing expenditure efficiency;
- Improving the management of the oil revenue cycle;
- Strengthening institutional arrangements for fiscal policy coordination between the three tiers of government;
- Adoption of a fiscal rule to curb expenditure volatility; and
- Elimination of inflation tax.

2.7.4 Staff

The CBN employed one hundred and fifty-five (155) additional professional accountants, fifty-six (56) drivers, and nine (9) treasury assistants, bringing the total employed in the year to 221. The Bank lost the services of 24 members of staff through death, in the following categories: 13 senior staff and 11 junior staff. The staff strength of the Bank rose from 5,708 in 2002 to 5,873 in 2003.

2.7.5 Training

The Bank sponsored training programmes within and outside the country, including participation at seminars, workshops, and conferences. Four thousand, five hundred and six (4,506) participants benefited from the various training programmes. Out of this number, 260 were executives, 2,825 were senior staff while 1,421 were junior staff.

2.7.6 Corporate Social Responsibilities

The CBN sponsored special capital projects in some federal universities through matching grants. As at 31st December 2003, the CBN had approved grants totalling ₦435.0 million to twenty-four federal universities. One project each was commissioned at the University of Ibadan and University of Nigeria, Nsukka during the year.

2.7.6.1 Sports

The CBN sponsored various competitions in its efforts at promoting sports within the country. Such competitions included football and lawn tennis tournaments. The finals of the 25th edition of the CBN Open Tennis Championships were played on the 28th of June 2003 at the National Stadium,

Lagos. The Championships, which attracted a large number of players from within and outside the country, were played in four categories, namely, Men's Singles, Men's Doubles, Ladies Singles, and Ladies Doubles. The finals of the 19th edition of the All Financial Institutions' Football Competition were played at the U.J. Esuene Stadium, Calabar on the 29th of November 2003. The gold medal was won by the Central Bank of Nigeria Football Club, the First Bank of Nigeria Football Club won the silver, and Union Bank Football Club won the bronze medal. Similarly, the Governor's Cup Competition in football for all CBN Branches was held during the year. At the finals played at the MKO Abiola Stadium, Abeokuta on the 6th September 2003, CBN Sokoto Branch won the gold medal, while Ilorin and Abuja Branches won the silver and bronze medals respectively. The CBN Primary School's 20th Annual Inter-house Sports Competition was successfully held on 16th December 2003.

2.7.7 The CBN Primary School

Pupils' enrolment at the CBN Primary School rose from 745 in 2002 to 870 in 2003, representing an increase of 3.4 per cent. However, the number of teaching staff fell from 41 in 2002 to 32 due to staff deployment and retirements. The pupil/teacher ratio, therefore, deteriorated as it increased from 18 : 1 in 2002 to 27 : 1 in 2003. The JETS Club of the school qualified for the finals of the Lagos JETS competition.

2.7.8 Development of the CBN Headquarters and Branch Offices

The construction of the Head Office Building of the CBN, located in the Central Business District of Abuja, was completed and commissioned in 2003. However, work on the telecommunications system, partitioning and furnishings was still ongoing, due to the changes introduced by the Management as a result of the re-engineered structure of the Departments. The relocation of the Departments to the new Head Office building commenced in the last quarter of the year.

The project on the extension of the Enugu branch reached 60 per cent completion at the end of the year. Completion of all outstanding work on the project has been re-scheduled for May 2004. A similar project at the Kano branch had reached 85 per cent completion at the end of the year. The foundation work for the extension of the Port Harcourt branch commenced in 2003 and is scheduled to be completed in 2004, while the detailed design for the construction of the Katsina and Uyo branches was at various tender processing stages.

2.7.9 The Computerization Programme

The CBN made good progress in the use of information and communication technology (ICT) to enhance the efficiency of its operations.

During the year, the CBN commenced implementing the Enterprise-wide Applications and the Enterprise Management and Security (EMS) system projects to drive its re-engineered business processes. The enterprise-wide applications project consists of four major applications, namely: the Oracle Enterprise Resource Planning (ERP), the Globus Banking System, the Real Time Gross Settlement (RTGS) System, and the Enhanced Banking Analysis System (eBAS). The Oracle ERP automates most of the core re-engineered processes, including: human resources, financial, inventory, currency and assets management, etc, while the Globus application will handle all banking related activities of the CBN. The RTGS will handle the processing of large value payments on a real-time basis. The eBAS, which was developed for the CBN and the Nigeria Deposit Insurance Corporation (NDIC), will help to strengthen the supervisory process of the financial institutions. The EMS has seven (7) components including e-mail, system services, directory services, network security, etc. The Proof of Concept (POC) phase of the EMS project was concluded during the year. The CBN also improved on its in-house applications software, the BANKOS. The transfer module of BANKOS automates the transfer of the standing order instructions on bank balances, federal government revenue accounts, the CBN expenditure and income accounts from all CBN branches to Lagos and Abuja, and was successfully incorporated in the application. The development of the Performance Management System (PMS) component to automate the staff appraisal process commenced during the year.

The installation of Local Area Networks (LAN) and the Wide Area Network (WAN) was completed in all the branches of the CBN and commissioned. With this development, all the branches of the CBN can consolidate their balances in the Head Office on a real time basis. Moreover, a voice function was also added to the network to facilitate communication among the branches and between the branches and the Head Office.

In addition to providing a wider Internet access to staff, limited access to corporate electronic mail service was provided for a limited number of staff to prepare them for the implementation of the e-mail facility in the EMS project. These achievements testify to Management's commitment to and support for an envisioned ICT environment for a new-look CBN.

2.7.10 Library Operations

The Library remained focused throughout the year in the pursuit of its primary objectives, namely, to meet the research and information needs of the CBN and to provide easy access to professional literature. In 2003, the breakdown of its performance indicators showed that the Library procured 2,707 books as against 2,568 in 2002, and subscription to journal titles rose to 403 as against 394 in the previous year. The total number of magazines (local and foreign) received was 13,825 as against 13,800 in the preceding year. In an effort

to preserve and refurbish its collections, the Library has rebound 383 books and 400 journal titles.

The number of books consulted rose to 28,112 compared with 27,055 in 2002. Similarly, 1,150 relevant articles on various subjects were downloaded from the Internet. Greater use of library services in electronic form was encouraged by the procurement of upgrades for the library's applications software, the Graphical Library Software (GLAS) and Docuware.

2.8 Income and Appropriation

The audited financial statements of the CBN for 2003 showed that its operations recorded a surplus of ₦25.1billion. This represented a decrease of 42.2 per cent from the ₦35.7 billion recorded in 2002. The decrease in operating surplus was largely attributed to increased provisioning for contingent liabilities. The appropriation account showed that ₦20.9 billion was transferred to the Federal Government, while the balance of ₦4.2 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.

2.8.1 Assets

2.8.1.1 Central Banking

Changes in the factors driving base money on the uses and sources sides of the CBN balance sheet in 2003 indicated a further increase in the growth of base money. It increased by 10.8 per cent to ₦675.9 billion, compared with the 8.3 per cent growth in the previous year, reflecting the increases in both currency and bank reserves.

2.8.1.2 Total Assets

Total assets of the CBN increased by 2.9 per cent to ₦1,864.4 billion as against the increase of 17.6 per cent in the previous year. The rise reflected increases in both the domestic and foreign assets of the CBN in 2003, particularly external reserves and rediscounts and advances which increased by 5.1 per cent and 309.0 per cent respectively. The rise in total assets was, however, moderated by declines in federal government securities, particularly the substantial decline of 40.9 per cent in treasury bills, as well as other assets which fell by 7.4 per cent to ₦29.3 billion (Appendix A1).

2.8.2 Total Liabilities

The corresponding increase in the total liabilities of the CBN was reflected in the increase of 6.7 per cent and 8.4 per cent in deposits and currency in circulation to ₦749.1 billion and ₦502.3 billion respectively. The increase in deposit liabilities reflected the 45.3 per cent rise in banks' deposits with the CBN. The effects of the increase were, however, moderated by the decline in other liabilities and trade debts. The CBN's paid-up capital, however, remained unchanged at ₦3.0 billion while general reserves rose by 10.3 per cent to ₦44.7 billion.

PART TWO

ECONOMIC REPORT

CHAPTER 3

GENERAL SURVEY OF THE ECONOMY

The performance of the economy improved substantially in 2003. Data from the Federal Office of Statistics (FOS) revealed that real output (GDP) increased by 10.2 per cent, compared with 3.5 per cent in 2002. Inflationary pressure persisted, as the inflation rate rose to 14.0 per cent at end-December from 12.9 per cent in the preceding year. Banks' lending rates trended downwards while deposit rates recorded a marginal increase. The fiscal operations of the Federal Government resulted in an overall deficit of N202.7 billion or 2.8 per cent of GDP. The external sector experienced moderate pressure, resulting in a drawdown of the external reserves and a balance of payments deficit of N162.8 billion (2.3 per cent of GDP). Consequently, the Naira exchange rate depreciated in all the segments of the foreign exchange market. The level of external reserves at US$7.47billion could finance 6.5 months of imports compared with 7.8 months in the preceding year.

3.1 Domestic Output

Data from the Federal Office of Statistics revealed that the Gross Domestic Product (GDP), measured at 1990 basic prices, rose by 10.2 per cent. All the major sectors, namely, mining (crude oil), agriculture, industry, utilities, communications, building and construction and services contributed to the substantial improvement in the aggregate output.

The performance surpassed both the growth rate of 3.5 per cent recorded in 2002 and the 5.0 per cent target growth set for fiscal 2003. Agricultural output increased by 6.1 per cent, compared with the 4.0 per cent achieved in 2002 and exceeded the 5.8 per cent growth target set in the 2002 - 2003 National Rolling Plan for the sector. Industry grew by 0.96 per cent above the level in 2002 due, largely, to the 9.6 and 1.1 per cent increases in mining and manufacturing production respectively.

The agricultural sector, comprising crops, livestock, forestry and fisheries accounted for 35.8 per cent of total GDP, while the industrial sector, consisting of crude petroleum, mining and quarrying, and manufacturing accounted for 36.2 per cent. The share of the services sector was 12.6 per cent, while the other sectors accounted for the balance of 15.3 per cent.

3.2 Domestic Prices

Data from the Federal Office of Statistics (FOS) indicated that the inflation rate, as measured by the change in the average all-item composite consumer price index (May, 2003 = 100) for the twelve month period ended December 2003, was 14.0 per cent compared with 12.9 per cent in 2002.

The contributory factors were excess liquidity fuelled by the expansionary fiscal operations of the three tiers of government, depreciation of the naira and the increase in the pump-price of petroleum products which triggered higher costs in transportation and domestic production.

3.3 Federal Government Fiscal Operations

The fiscal operations of the Federal Government resulted in an estimated overall deficit of ₦202.7 billion or 2.8 per cent of GDP, compared with the overall deficit of N301.4 billion or 5.5 per cent of GDP in 2002. The deficit was financed entirely from the domestic banking and non-bank sectors. The retained revenue of the Federal Government was N1,023.2 billion, representing an increase of 42.7 per cent over the level in 2002. It comprised the Federal Government share of the Federation Account (N889.2 billion), VAT (N20.0 billion), Independent Revenue (N54.2 billion), share of excess crude (N53.3 billion), loans recovered from States (N0.08 billion) and other receipts (N6.6 billion). The aggregate expenditure of the Federal Government was N1,226.0 billion, representing a 20.4 per cent increase over the expenditure in the preceding year and surpassed the budgeted total expenditure by 3.1 per cent. The increased expenditure level reflected higher domestic debt service payments, which exceeded the budget target, as well as non-debt expenditure. Recurrent expenditure amounted to N984.3 billion or 80.3 per cent of the total, while capital expenditure was N241.7 billion or 19.7 per cent. The total debt outstanding as at end-December 2003 was N5,808.0 billion, representing an increase of 15.8 per cent over the stock at the end of 2002. As a proportion of GDP, the total debt outstanding was 79.2 per cent, compared with 83.6 per cent in the preceding year.

3.4 Monetary Developments

The growth in monetary aggregates in 2003 exceeded the programmed targets for the year by substantial margins. Broad money (M_2) increased by 24.1 per cent, compared with the target of 15.0 per cent and the 21.6 per cent rise recorded in 2002. Similarly, narrow money (M_1) grew by 29.5 per cent, compared with the target of 13.8 per cent and the increase of 15.9 per cent recorded in the preceding year. The expansion in monetary aggregates was largely caused by the expansionary fiscal operations of the Federal and State governments and the growth in foreign assets (net). Aggregate bank credit to the domestic economy rose by 32.7 per cent, compared with the stipulated target of 25.7 per cent for the year. Domestic credit expansion in 2003 reflected increased lending to both public and private sectors of the economy. Claims on the private sector grew by 27.1 per cent, while claims on the government (net) increased by 47.9 per cent.

Interest rate developments were mixed in 2003. Deposit rates recorded a marginal increase while lending rates declined. The decline in lending rates reflected the downward review of the MRR by 150 basis points in July 2003 and the effect of moral suasion on the

DMBs not to raise their lending rates for the interest of the economy. Consequently, banks' average savings deposit rate, which was 3.7 per cent in December 2002, fell to 3.6 per cent in June 2003 and further to 3.2 per cent at the end of the year.

However, the average rate on time deposits of various maturities, which declined from a range of 8.8-14.4 per cent in December 2002 to 7.8 - 12.7 per cent in the first half of the year, rose to a range of 8.8 - 14.8 per cent at the end of the year. The average prime and maximum lending rates declined from 20.6 and 25.7 per cent in December 2002to 19.6 and 21.6 per cent respectively in December, 2003.

3.5 External Payments Position

The pressure on the external sector in 2003 moderated remarkably as the overall balance of payments deficit narrowed to ₦162.84 billion or 2.2 per cent of GDP from ₦563.01 (10.3 per cent of GDP) in 2002. The outcome was occasioned by the favourable developments in the international oil market as the average price of crude oil rose from US$25.04 per barrel in 2002 to US$29.61 per barrel in 2003. However, as a result of the demand pressure caused by expansionary fiscal operations and market exuberance, there was a drawdown in external reserves. Consequently, the level of external reserves fell by 2.8 per cent from US$7.68 to US$7.47 billion. The external reserves could finance 6.5 months of imports cover, compared with the 7.8 months achieved in 2002.

3.6 Exchange Rate Movements

The naira exchange rate was very stable during the first half of the year. However, the stability was disrupted during the fourth quarter of 2003 as a result of market exuberance and speculative activities. Consequently, the naira's average exchange rate at the Dutch Auction System (DAS) depreciated by 6.5 per cent, having traded on the average at ₦129.36 per US dollar during the year. In the bureaux-de-change (BDC) segment of the market, the exchange rate depreciated from ₦137.79 to N141.99 per US dollar. The premium between the DAS and BDC rates narrowed from 14.8 per cent in 2002 to 9.8 per cent in 2003.

3.7 International Economic and Financial Developments

The world economy improved marginally by 0.2 per cent in 2003 as the industrial countries of Western Europe experienced an economic slow-down during the first half of the year. Global output grew by 3.2 per cent, compared with the 3.0 per cent achieved in 2002. The marginal improvement was traceable to reduced inflationary pressure which led to the easing of macroeconomic policies in order to support economic recovery during the second half of the year.

Other contributory factors were increased exports as well as the financial and economic responses introduced by various countries during the year. OPEC's production policy, which was

dictated by market considerations, helped to maintain an average basket price of US$28.14 per barrel, representing a 15.5 per cent increase over the level in 2002.

IMF facilities totalling SDR 76.5 billion were granted to members in 2003, while SDR 69.8 billion or 91.2 per cent was sourced from the General Resources Account (GRA). African countries purchased GRA totalling SDR 6.7 billion while total repurchases was SDR 1.9 billion. The World Bank Group's total commitment to developing countries in 2003 was US$18.5 billion, representing a 5.4 per cent decline from the level recorded in the preceding year.

The Authority of Heads of State and Government of the West African Monetary Zone (WAMZ), at its Sixth Summit in Accra, Ghana, in December 2003, agreed that member countries should redouble their efforts to comply with the convergence criteria. The Authority also decided that the proposed Headquarters of the West African Central Bank (WACB) be sited in Ghana and that all WAMZ member countries would be eligible to express interest to host the Headquarters of the proposed ECOWAS Central Bank. The Committee of Governors of the Central Banks of ECOWAS member states, at its 13th meeting in Accra, Ghana, in December 2003, agreed, among others, to transfer the management of the ECOWAS Travellers' Cheque Scheme to a private sector operator in order to improve the operations of the West African Monetary Agency (WAMA).

TABLE 3.1
Selected Macroeconomic Indicators

Indicator	1999	2000	2001	2002 [1]/	2003 [2]/
Domestic Output and Prices					
Real GDP Growth (Growth Rate %)	0.9	5.4	4.6	3.5	10.2
Oil Sector	-7.5	11.3	5.2	-5.7	23.9
Non-oil Sector	4.4	2.9	4.3	7.9	4.5
Oil Production (mbd)	2.0	2.2	2.2	2.1	2.3
Manufacturing Capacity Utilisation	35.9	36.1	39.6	44.3	46.2
Gross National Savings (% of GDP)	21.6	23.1	19.3	19.5	25.7
Gross Fixed Capital Formation (% of GDP)	11.0	12.2	8.8	10.2	8.8
Inflation Rate (%) (Moving average)	6.6	6.9	18.9	12.9	14.0
Inflation Rate (%) (Year-on-Year)	0.2	14.5	16.5	12.2	23.8
Federal Government Finance (% of GDP)					
Overall Fiscal Balance	-8.9	-2.3	-4.3	-5.5	-2.8
Primary Balance	6.6	3.0	4.2	0.4	0.5
Retained Revenue	20.7	13.1	15.4	13.1	13.9
Total Expenditure	29.7	15.4	19.6	18.6	16.7
Domestic Debt Stock	24.8	19.8	19.6	21.3	18.1
External Debt Stock	80.5	68.1	61.2	72.0	61.1
Money and Credit (Growth Rate %)					
Net Domestic Credit	30.0	-25.3	79.9	64.6	32.7
Net Credit to Government	32.0	-170.1	95.2	6,320.6	47.9
Credit to Private Sector	29.2	30.9	43.5	19.7	27.1
Narrow Money (M1)	18.0	62.2	28.1	15.9	29.5
Broad Money (M2)	31.7	48.1	27.0	21.6	24.1
External Sector					
Overall Balance (% of GDP)	-10.2	6.9	0.5	-10.3	-2.2
Current Account Balance (% of GDP)	1.4	15.7	4.7	0.7	6.9
Capital and Financial Account Balance (% of GDP)	-11.5	-8.6	-4.1	-10.9	-9.0
External Reserves (US $ million)	5,450.0	9,910.4	10,415.6	7,681.1	7,467.8
Average Crude Oil Price (US$/barrel)	18.0	28.6	24.5	25.0	29.2
Average AFEM/DAS Rate (N/$1.00)	92.3	101.7	111.9	121.0	129.3
Average Bureau de Change Exchange Rate (N/$)	99.3	111.1	133.0	136.9	141.4
Social Indicators					
GDP per Capita (N)	1,038.8	1,046.8	1,062.5	1,065.4	1,028.5
Population Growth Rate (%)	2.83	2.83	2.83	2.83	2.83
Life Expectancy at Birth (Years)	54.0	54.0	54.0	54.0	54.0
Adult Literacy Rate (%)	57.0	57.0	57.0	57.0	57.0
Human Development Index [3]/	0.4	0.4	0.4	0.4	0.4

1/Revised
2/Provisional
3/Nigeria's position on a scale of 1.0

CHAPTER 4

THE FINANCIAL SECTOR

The financial system was relatively sound and stable in 2003. The problem of reported distress in the banking system was not systemic and was promptly addressed by the CBN. Broad money supply (M_2) increased by 24.1 per cent, compared with the target of 15.0 per cent set for fiscal 2003. Banks' lending rates declined following the downward review of the MRR by 150 basis points in July, and the effect of moral suasion on banks to reduce their lending rates in the interest of the economy. The CBN strengthened its surveillance of the financial sector and ensured good management and good corporate governance in the system. Overall, the Nigerian financial system in 2003 comprised the CBN, the Nigeria Deposit Insurance Corporation (NDIC), 89 deposit money banks, and other financial institutions (OFIs) made up of 774 community banks, 104 finance companies, 85 bureaux-de-change, 118 insurance companies, 1 stock exchange, 1 commodity exchange, 5 discount houses, 81 primary mortgage institutions and 6 development finance institutions.

4.1 Monetary and Credit Developments

4.1.1 Monetary Developments

The growth in monetary aggregates in 2003, exceeded the prescribed targets for the year by substantial margins. The expansion was induced by the rapid monetisation of crude oil receipts and the expansionary fiscal operations of the Federal and State governments. The broad measure of money supply (M_2) increased by 24.1 per cent, compared with the target of 15.0 per cent set for fiscal 2003 and the 21.6 per cent rise in 2002. The expansion in M_2 reflected the increase in both narrow money supply (M_1) and quasi-money. M_1 grew by 29.5 per cent, compared with the target of 13.8 per cent and the increase of 15.9 per cent recorded in the preceding year (Table 4.1).

The main expansionary factors of M_1 were the increase in aggregate credit to the domestic economy and foreign assets (net) of the banking system. The decline in other assets (net) of the banking system and the significant increase in quasi-money, however, exerted a moderating influence on M_1 growth. Quasi-money rose by 16.3 per cent to ₦759.6 billion, compared with the increase of 30.9 per cent in the preceding year. The demand deposits component of M_1 increased significantly by 45.4 per cent to ₦813.4 billion, representing 66.4 per cent of M_1, compared with 59.1 per cent in 2002.

Similarly, the currency component increased substantially by 33.6 per cent from 40.9 per cent in 2002 (Table 4.1)

4.1.2 Banking System Credit

Aggregate bank credit to the domestic economy rose by 32.7 per cent to ₦1,854.1 billion, compared with the programmed target of 25.7 per cent for the year and the substantial increase of 64.6 per cent in the corresponding period of 2002. Domestic credit expansion during the year reflected an increase in claims on both the government and private sectors, the latter accounting for 70.2 per cent of the total. Net claims on the Federal Government stood at ₦552.6 billion, representing an increase of 47.9 per cent above the level at end-December 2002, compared with the significant increase observed in the corresponding period of 2002.

The increase in 2003 was attributable to the drawdown of federal government deposits with the CBN which was, however, moderated by the decline in the treasury bills holdings by the deposit money banks. Consequently, deposit money banks' claims on the Federal Government declined by 28.1 per cent to ₦298.4 billion in contrast to the 130.6 per cent rise in the preceding year. Banking system credit to the private sector grew sluggishly, particularly in the first half of the year. However, following the monetary authority's incentive of a lower CRR of 9.5 per cent for banks exceeding the set lending target of 20.0 per cent or more to the real sector of the economy over the level in June 2002, credit to the private sector improved markedly from the third quarter of the year. Overall, bank credit to the private sector increased by 27.1 per cent, compared with the target growth rate of 32.3 per cent for fiscal 2003. Banking system's claims on state and local governments declined during the first half of the year, the same trend as in the preceding year. The trend reflected the impact of the CBN's directive to banks in 2001 which had emphasized exceptional provisioning by banks for loans and advances to all tiers of government and their agencies. However, by end-December 2003, bank credit to state and local governments had increased by 16.8 per cent, in contrast to the decline of 35.3 per cent in the preceding year. Credit to the"core" private sector, which accounted for 98.4 per cent of the total credit to the private sector, rose by 27.3 per cent to ₦1,281.1 billion. The increase reflected, largely, deposit money banks' claims on the sector which rose by 27.4 per cent to ₦1,272.5 billion. The proportion of the CBN's contribution to the sector remained at 0.7 per cent as in the preceding year.

Figure 4.1 (a)
Movements in Monetary Aggregates

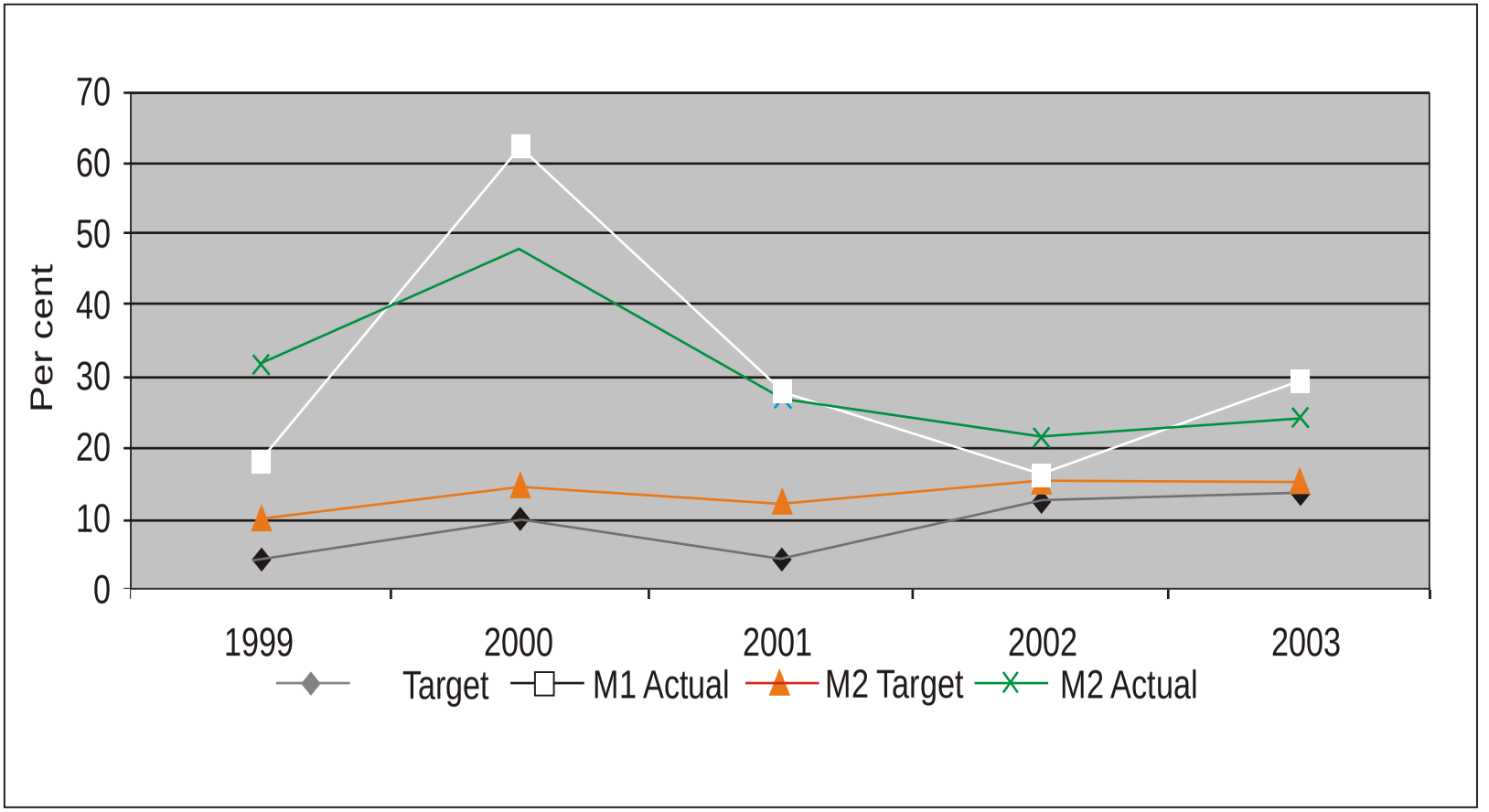
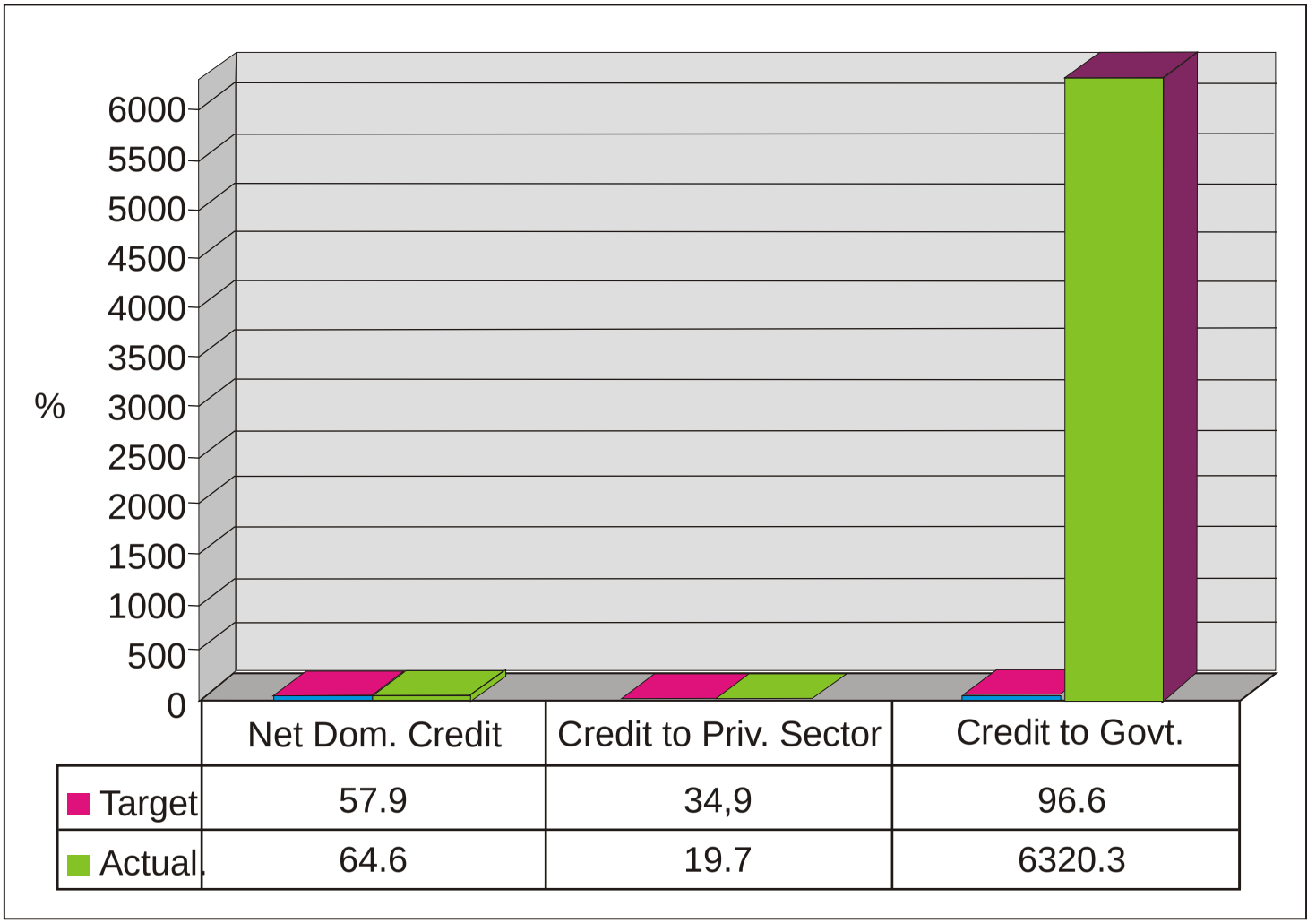
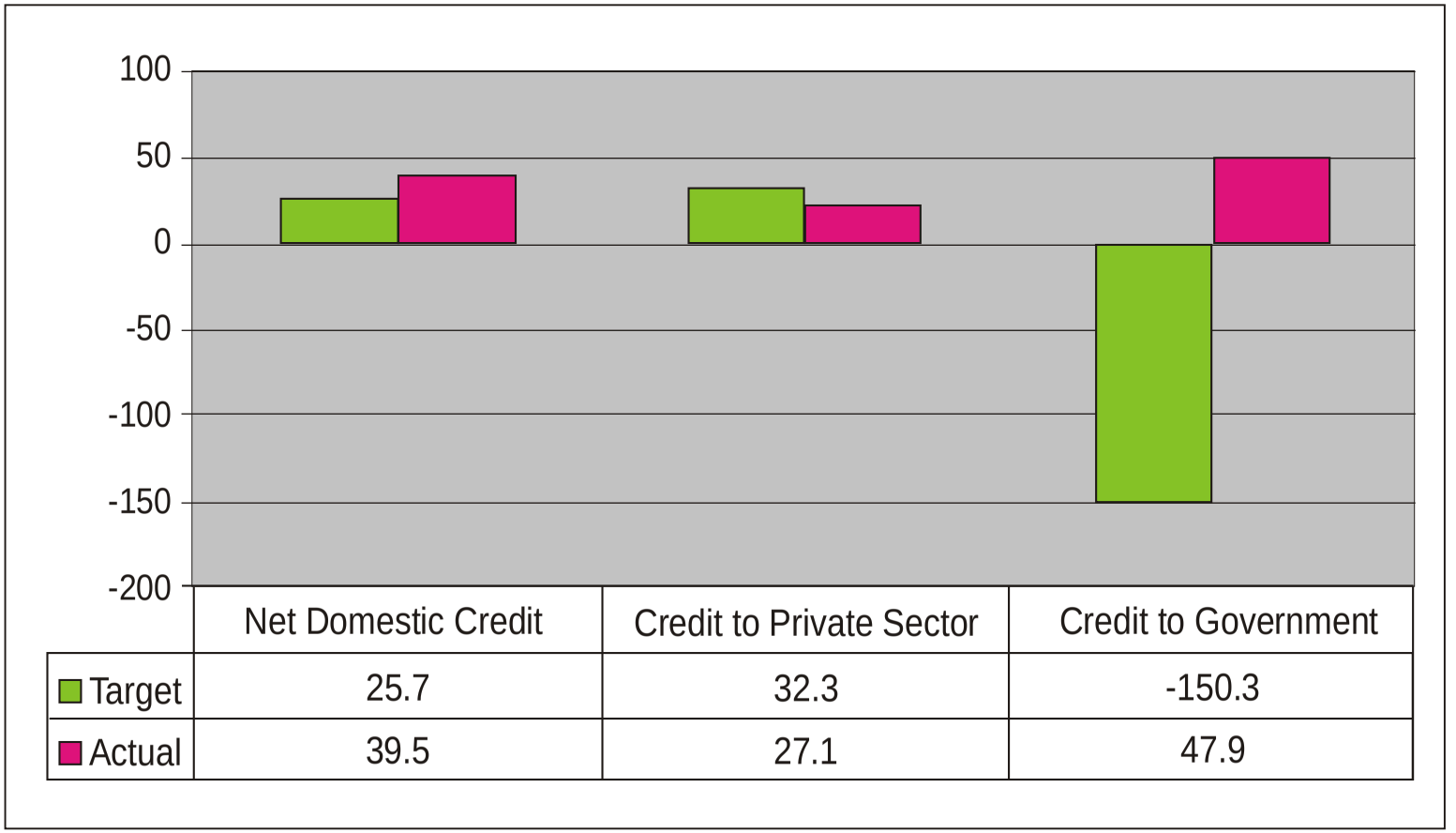


Figure 4.1 (b):
Movements in Domestic Credit in 2002



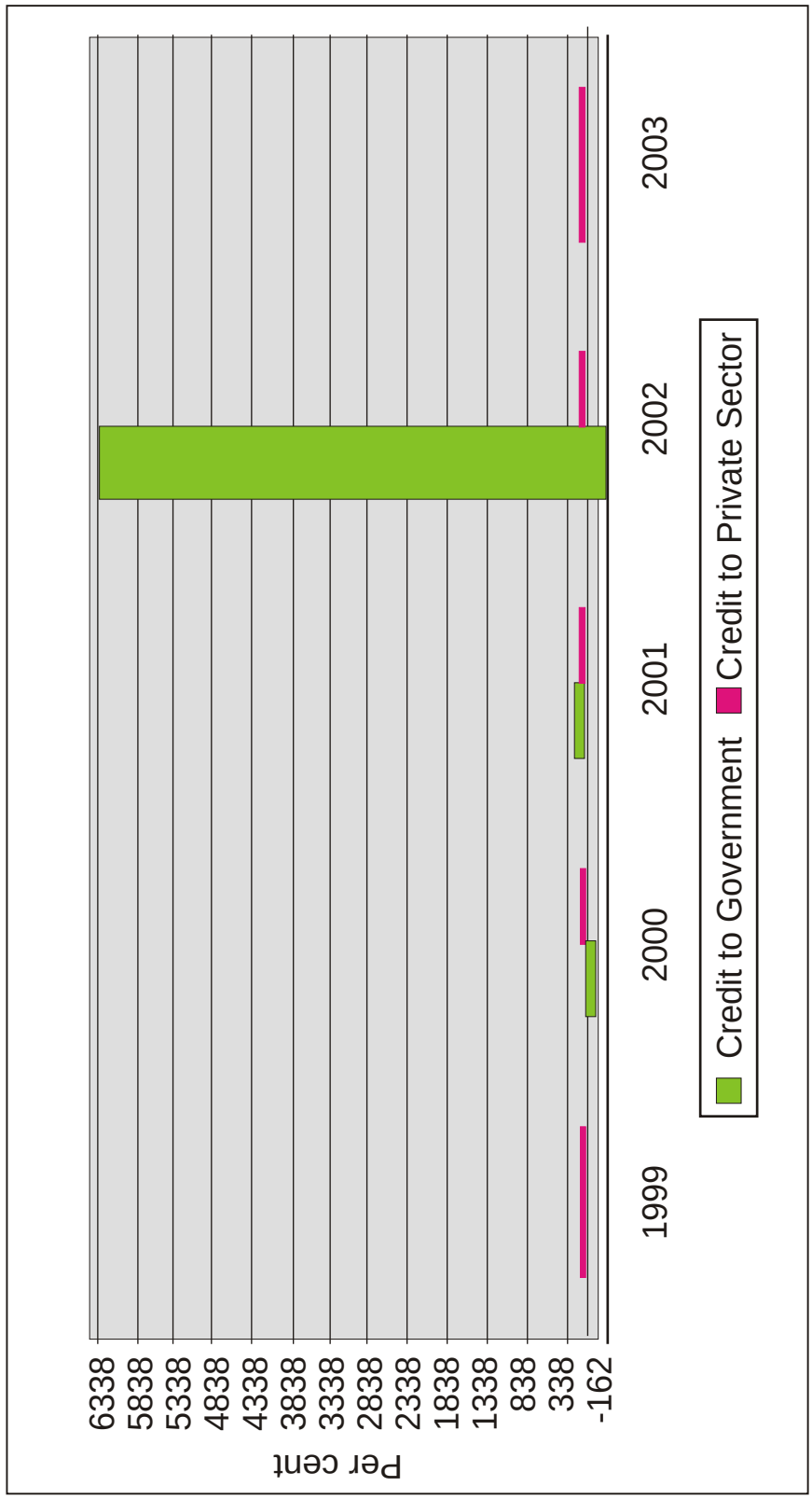
	Net Dom. Credit	Credit to Priv. Sector	Credit to Govt.
Target	57.9	34,9	96.6
Actual	64.6	19.7	6320.3

Figure 4.1 (c):
Movements in Domestic Credit in 2003



	Net Domestic Credit	Credit to Private Sector	Credit to Government
Target	25.7	32.3	-150.3
Actual	39.5	27.1	47.9

Figure 4.2
Movements in Agregate Credit



4.1.3 Deposit Money Banks

The oligopolistic structure of the banking system persisted, with only ten banks out of the eighty-nine (89) in operation accounting for 55.3 per cent of total assets, 56.2 per cent of the total deposit liabilities, and 44.3 per cent of total credit, compared with 54.5, 52.4 and 46.1 per cent respectively in 2002. At ₦3,047.9 billion, the aggregate assets/liabilities of deposit money banks rose by 12.6 per cent over the level at end-December 2002. During the year, total funds available to the banks amounted to ₦370.3 billion, compared with ₦548.8 billion in the preceding year. The funds were sourced mainly from a reduction in claims on government (₦28.2 billon), an increase in deposit liabilities (₦180.2 billion), and an enhanced capitalization (₦97.6 billion), among others. Funds were utilized mainly to increase reserves (₦40.9 billion), foreign assets holdings (₦39.4 billion), claims on the private sector (₦251.8 billion), claims on the other financial institutions (₦21.6 billion), and acquisition of other assets (₦13.6 billion), among others. The structure of banks' deposit liabilities showed that demand deposits accounted for 43.2 per cent while savings and time deposits as well as foreign currency deposits constituted 56.8 per cent, compared with 56.5 and 43.5 per cent in 2002 (Tables 4.3 and 4.4).

Aggregate credit to the domestic economy by deposit money banks amounted to ₦1,501.6 billion, indicating an increase of ₦199.4 billion or 15.3 per cent over the level at end-December 2002. The breakdown showed that credit to the private sector rose by ₦251.8 billion or 27.0 per cent, while claims on the federal government declined by ₦125.3 billion or 15.6 per cent, reflecting the divestment of holdings in government securities as well as the increase in government deposits with banks during the year. Banks' total loans and advances increased by ₦196.0 billion or 23.2 per cent to ₦1,041.7 billion during the year. Analysis of the sectoral allocation of deposit money banks' credit showed that the less productive sectors of the economy continued to be favoured as only 40.2 per cent of the total credit granted in 2003 went to agriculture, solid minerals, exports and manufacturing, compared with 40.9 per cent in 2002. As at end-December 2003, the computed average liquidity ratio for deposit money banks stood at 49.7 per cent, compared with the stipulated minimum of 40.0 per cent. However, twenty-one (21) banks failed to meet the minimum liquidity ratio as at end-December 2003. The average loan to deposit ratio was 70.0 per cent, compared with the prudential limit of 80.0 per cent. As at end-December 2003, forty-five banks (45) or 50.6 per cent of the banks in operation, however, recorded a net loan to deposit ratio of 100 per cent and above.

Overall, the rating of licensed banks, using the CAMEL parameters, revealed that 11 banks were rated "sound", 53 were "satisfactory" while 14 and 9 banks were rated "marginal" and "unsound" respectively.

4.2 Community Banks (Cbs)

The total number of community banks (CBs) in operation increased from 769 in 2002 to 774 at end-December 2003. Of this number, 564 community banks reported on their operations to the CBN during the year, compared with 316 in the preceding year. Only one (1) additional community bank was licensed, bringing the total number of licensed CBs to 283 at end-2003. The CBN conducted a pre-licensing inspection on 442 community banks, while three Approvals-In-Principle (AIP) were granted during the year. The total assets/liabilities of the 564 reporting community banks amounted to ₦28.7 billion, representing an increase of 85.5 per cent over the level in 2002.

The capital and reserves of the CBs increased by ₦3.2 billion or 83.3 per cent from ₦3.8 billion in the preceding year to ₦7.0 billion in 2003. Loans and advances granted by the reporting community banks increased by 130.9 per cent to ₦10.0 billion, compared with the increase of 228.1 per cent in 2002 while investment, which stood at ₦0.9 billion in 2002, increased to ₦2.3 billion in 2003. A sectoral analysis of the loans portfolio of the reporting CBs showed that general commerce lost its dominance to the "Others" category of credit recipients. Loans and advances to "Others" represented 34.4 per cent of the total assets, while trade and commerce; and transportation/communications received 27.5 per cent and 17.4 per cent respectively. The average loan/deposit ratio of the banks increased to 55.1, from 44.4 per cent in 2002 (Table 4.5).

4.3 Other Financial Institutions

4.3.1 Discount Houses

The level of activities of discount houses declined in 2003, relative to 2002, as their total assets/liabilities fell by 7.9 per cent to ₦52.7 billion. Total funds available to discount houses fell by 46.3 per cent to ₦15.4 billion. These funds were sourced mainly through divestment of treasury securities (₦6.6 billion), increased miscellaneous liabilities (₦3.9 billion), and accretion to capital and reserves (₦1.2 billion), among others. The funds were utilized for the settlement of claims to banks (₦5.2 billion), repayment of other amounts owed to banks and non-bank customers (₦7.7 billion) as well as call-money placements, among others. Discount houses' investments in federal government securities of less than 91 days maturity amounted to ₦23.7 billion at end-December 2003, representing 73.7 per cent of their total deposit liabilities. This was 13.7 percentage points higher than the prescribed minimum of 60.0 per cent for fiscal 2003 (Table 4.6).

4.3.2 Finance Companies (FCs)

Finance companies recorded modest growth in their operations in 2003. The number of finance companies reporting on their activities to the CBN increased from 28 to 75 in 2003. Total assets/liabilities of the reporting companies increased by 153.0 per cent from ₦11.7 billion in 2002 to ₦29.6 billion at end-December 2003. Total investible funds available to the FCs

during the year amounted to ₦18.2 billion, compared with ₦3.7 billion in the preceding year. The funds were sourced mainly from borrowings (₦12.2 billion), addition to capital and reserves (₦4.0 billion), and other liabilities (₦2.3 billion), among others. The funds were utilized in boosting equipment on lease (₦10.9 billion), acquisition of miscellaneous assets (₦2.3 billion) and repayment of loans and advances (₦2.1 billion), among other uses. Loans and advances by the finance companies increased by 279.5 per cent to ₦14.8 billion from the ₦4.1 billion recorded in the preceding year, while investments increased by 95.5 per cent to ₦4.3 billion. Also, the fixed assets of the companies increased by 71.4 per cent to ₦2.4 billion during the period. On the liabilities side, the FCs recorded an increase in capital and reserves of 211.1 and 109.9 per cent to ₦4.2 billion and ₦2.2 billion respectively, while funds due to other finance companies declined by ₦44.7 billion or 63.9 per cent to N25.2 billion (Table 4.7).

4.3.3 Primary Mortgage Institutions (PMIs)

The performance of the primary mortgage institutions (PMIs) improved in 2003 relative to the preceding year. Out of eighty-one (81) PMIs in operation, seventy-two (72) rendered statutory returns to the regulatory authorities, compared with 63 in the preceding year. Total assets /liabilities of the PMIs stood at ₦64.4 billion, representing an increase of 17.0 per cent over the level in the preceding year. Investible funds available to the PMIs were ₦36.7 billion, compared with ₦21.5 billion in 2002. The funds were sourced mainly from increased deposit liabilities (₦32.8 billion) and accretion to capital and reserves (₦2.7 billion), among others. The major uses of funds included a reduction in long-term liabilities (₦23.3 billion), placements with banks (₦2.4 billion), acquisition of miscellaneous assets (₦1.8 billion), and fixed assets (₦1.5 billion).

4.3.4 Development Finance Institutions (DFIs)

The performance of the development finance institutions was mixed in 2003. The operations of the Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) generally improved, while those of the Urban Development Bank (UDB) and the Bank of Industry (BOI) were weak. The total assets of the three development finance institutions reporting in 2003 indicated an increase of ₦6,278.0 million or 24.3 per cent over the level in the preceding year. The increase reflected largely more loans granted by NACRDB, which grew by ₦1,913.0 million or 38.1 per cent over the level in 2002. The distribution of the asset base among the three development institutions showed that the NACRDB dominated with ₦25,005.8 million or 78.0 per cent of the total, while the share of BOI and UDB was ₦6,467.4 million or 20.2 per cent and ₦602.4 million or 1.9 per cent respectively. Also, loans granted by NACRDB constituted 96.1

per cent of the total loans granted by the reporting institutions.

The reserves of the three institutions increased from ₦4,387.8 million to ₦8,473.6 million, representing an increase of 93.1 per cent. The bigger reserves reflected largely the 71.3 per cent increase in the reserves of NACRDB. The reserves of UDB and BOI, on the other hand, fell by 10.1 and 6.0 per cent respectively.

4.4 Financial Savings

At ₦797.6 billion, aggregate financial savings at end-December 2003 increased by ₦102.7 billion or 12.9 per cent from the ₦694.9 billion recorded in the preceding year. The ratio of financial savings to GDP rose by 0.1 percentage point to 11.9 per cent, indicating a marginal improvement over the level in 2002. As in the preceding years, deposit money banks maintained their dominance as the major depository institutions within the financial sector. The DMBs accounted for 95.2 per cent of the total financial savings, compared with 94.0 per cent in 2002. Other depository institutions, including the PMIs, life insurance funds, the Nigerian Social Insurance Trust Fund (NSITF) and community banks held the balance of 4.8 per cent.

4.5 Money Market Developments

Activities in the money market in 2003 were influenced largely by the liquidity in the banking system, the prevailing interest rate policy and developments in the foreign exchange market. The tempo of activities in both the primary and secondary markets for treasury bills increased relative to the level in the preceding year. The inter-bank funds market also witnessed increased activity as banks sourced for funds to meet their foreign exchange obligations. In order to boost the activities in the secondary market as well as enhance the effectiveness of OMO in managing the liquidity in the banking system, the CBN, in 2003, introduced the bi-weekly and, later, daily sessions in the market. At end-December 2003, the value of money market assets outstanding increased by 14.3 per cent over the level in the preceding year. Treasury bills outstanding increased by 12.4 per cent to ₦825.1 billion in December 2003, while rediscounts of treasury bills amounted to ₦96.0 billion, compared with ₦23.5 billion in 2002. The increase in money market assets was also driven by transactions in Eligible Developments Stocks (EDS) and Commercial Papers (CPs). In all, NTBs constituted the dominant instrument in the market, accounting for 88.5 per cent of the total value of money market assets outstanding in 2003.

4.5.1 Inter-bank Funds Market

The tempo of activities in the inter-bank funds market heightened relative to the volume of transactions in the preceding year. This was due largely to the compelling need for banks to source funds to meet their foreign exchange transactions. The total value of transactions increased by 1.7 per cent to

₦918.7 billion, averaging ₦83.5 billion monthly, compared with ₦75.3 billion in the preceding year. Transactions in overnight call money increased by 4.2 per cent to ₦602.8 billion from ₦578.3 billion in the previous year. Reflecting the downward review of MRR by 150 basis points to 15.0 per cent in July 2003, the average rate on overnight funds declined from 17.6 per cent in January to 14.4 per cent in October. However, the rate rose thereafter to 25.7 per cent in December, reflecting the liquidity conditions in the market. Transactions in overnight call money continued to dominate activities in the market, constituting 65.6 per cent of the total. Average rates on placements of various maturities exhibited a similar pattern except that on 90-day maturity which showed a decline. Specifically, the average rate on 30-day maturity rose from 22.0 per cent in January to 26.6 per cent in December 2003, while that on 90-day maturity declined from 25.4 per cent to 22.5 per cent.

4.5.2 Treasury Bills

At ₦3,026.3 billion, aggregate primary issues of treasury bills, including roll-overs, increased by 25.0 per cent over the level in the preceding year. The increase reflected the effect of additional issues of N91.3 billion to refinance the CBN's Ways and Means Advances outstanding to the federal government at end-December 2003. Thus, treasury bills outstanding increased to ₦825.1 billion in December, 2003 from ₦733.8 billion in December 2002. Public subscriptions amounted to ₦2,237.7 billion, representing 73.9 per cent of total primary issues, compared with ₦1,492.0 billion or 61.6 per cent in the preceding year.

Out of this amount, the DMBs' subscriptions amounted to ₦1,338.1 billion while the non-bank public

Figure 4.3
Movements in Inter-Bank Call Rate

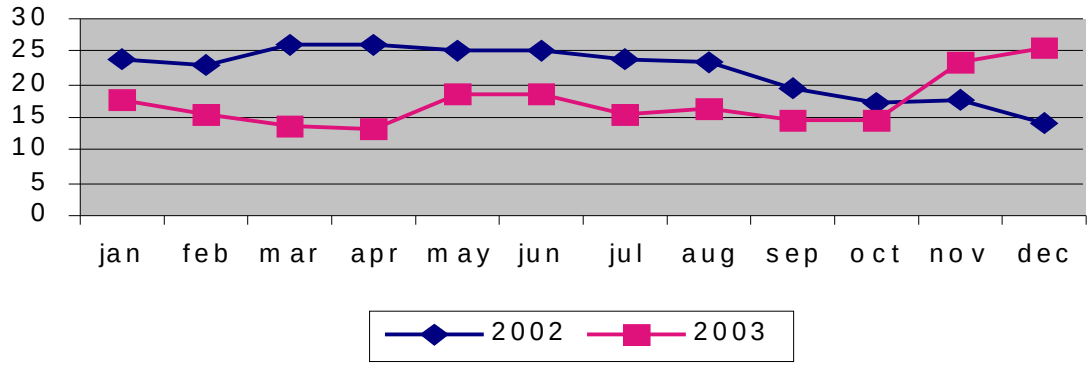
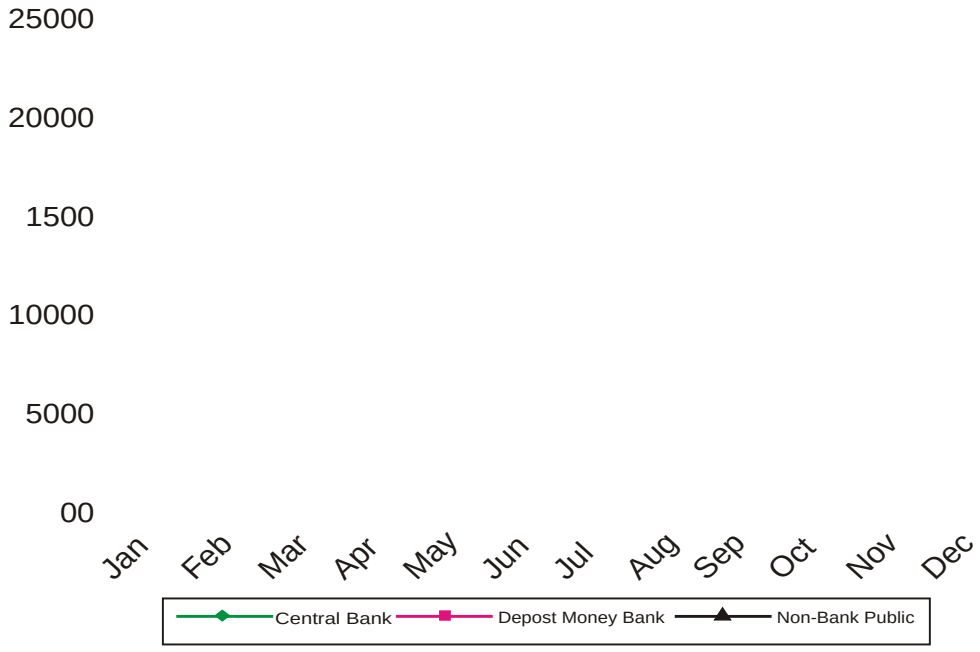
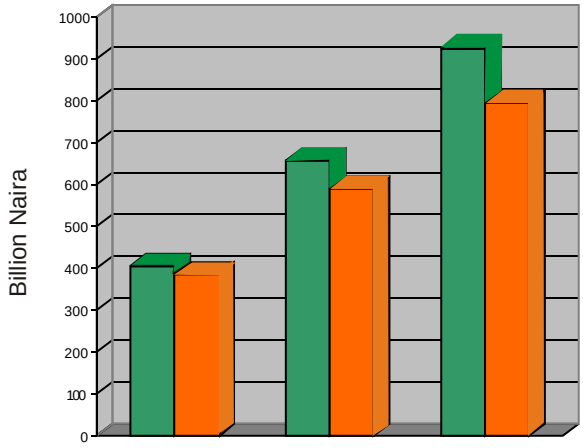



Figure 4.4
Demand for Treasury Bills in the Primary Market, 2003