CENTRAL BANK OF NIGERIA
REPORT FOR THE FIRST HALF OF 2007

1.0 INTRODUCTION

Monetary targeting remained the main strategy for monetary policy implementation in the first half of 2007. The CBN adopted various policy measures aimed at containing the growth of monetary aggregates in order to achieve monetary and price stability, including reserve money target under the Policy Support Instrument (PSI). Open Market Operations (OMO) remained the major tool of liquidity management. Other policy measures included increased issuance of treasury securities in the primary market to mop-up excess liquidity; use of deposit and lending facilities to encourage inter-bank transactions as well as sales of foreign exchange, including swaps.

Table 1: Monetary Policy Targets (Growth in % except otherwise stated)

	Key Policy Target	2003	2004	2005	2006	2007
(i)	Broad Money Growth (M2)	15.00	15.00	15.04	15-17	10.00
(ii)	Narrow Money (M1)	13.80	10.80	11.38	13.30	
(iii)	Base Money (under PSI)	-	-	-	N800 billion*	N860 billion*
(iv)	Aggregate credit to the domestic economy	25.70	24.50	22.54	22.50	-29.96
(v)	Credit to Government	150.30	29.90	14.01	-57.2	-54.94
(vi)	Credit to the private sector	32.30	30.00	25.24	30.00	30.00
(vii)	Inflation rate	9.00	10.00	10.00	9.00	9.00
(viii)	GDP	5.00	5.00	6.00	7-10	10.00

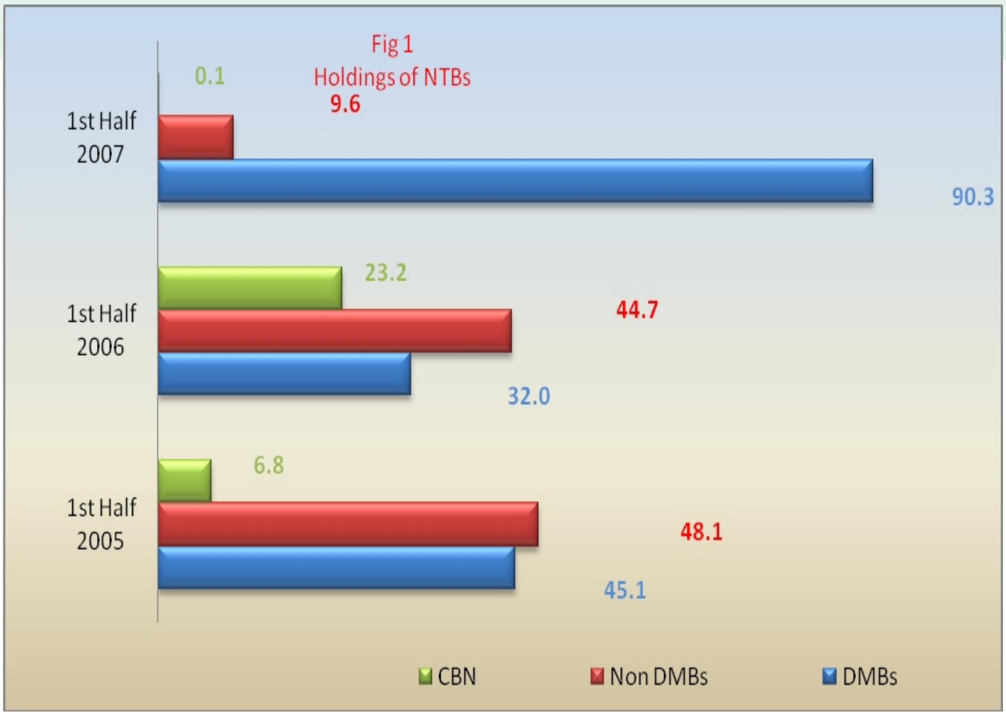
*Targets for half year

2.0 OPERATIONS OF THE CENTRAL BANK OF NIGERIA

2.1 Liquidity Management

Liquidity management efforts of the Central Bank of Nigeria (CBN) yielded the expected results as the reserve money target for the first half of the year was met. Analysis of OMO transactions showed that total bids and sales of intervention securities amounted to N411.80 billion and N1,051.00 billion, respectively, compared with N1,207.00 billion and N895.60 billion in the corresponding period of 2006. Nigerian Treasury Bills (NTBs) of various tenors (91-, 182- and 364-days) amounting to N765.50 billion were issued during the period.

With the introduction of the new Monetary Policy Rate (MPR) and the adoption of the CBN standing facilities, the volatility in the inter-bank rates was contained with rates hovering within the standing facility's interest rate corridor. The sums of N101.54 billion and N145.68 billion Cash Reserve Requirement (CRR) invested on behalf of the banks following the reduction in required reserves from 5.0 to 3.0 per cent in December 2006 were released at maturity on March 29 and April 13, 2007, respectively.



2.2 Payments and Clearing System

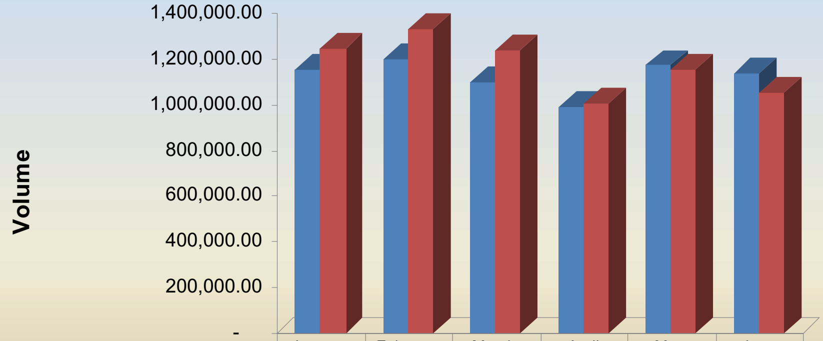
The reform in the payments system was sustained. The effectiveness of Cheque Clearing and Settlement arrangement was further enhanced with the full implementation of the cheque standardization policy as well as the approval of Oceanic Bank as a settlement bank, bringing the number of settlement banks to eleven. Also, arrangements were concluded towards the reduction in the up-country cheque clearing cycle form 5 3 days, while electronic bulk payments of salaries of 7 Ministries, Departments and Agencies (MDAs) of the Federal Government commenced. The CBN also finalised actions to commence the payment of staff and pensioners emoluments through electronic bulk payment system. The National Payments System Vision 2020 was presented to stakeholders at a National Payments System Stakeholders' Forum in order to harvest ideas to improve the strategy. The development would further aid the implementation of the initiatives outlined in the Payments System Vision 2020. The new CBN Act empowers the Central Bank of Nigeria to regulate electronic payments and settlement. As part of the effort to transform Nigeria into an international financial the Financial System Strategy (FSS-2020) which was initiated by the CBN in 2006 was given further impetus during the period. An international conference was held from June 18 to 20, 2007 with the objective of sensitizing stakeholders and harvesting of ideas that would facilitate the realization of the strategy.

2.2.1 Retail Payments System

2.2.1.1 Cheque

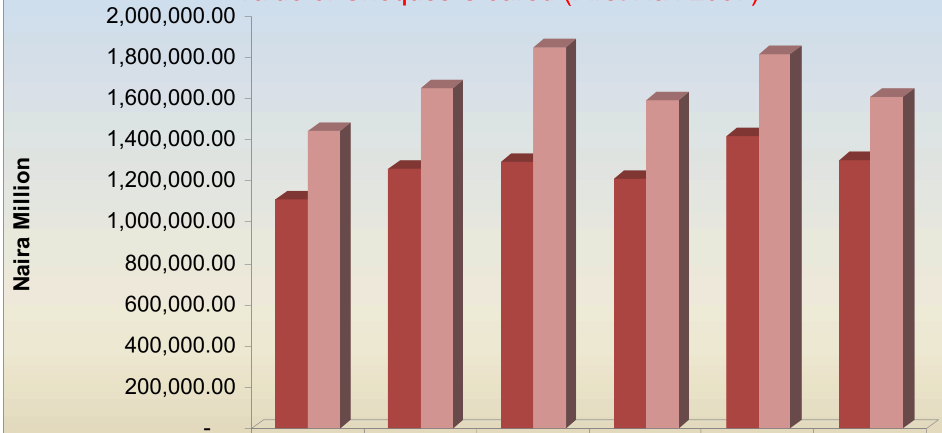
The aggregate volume and value of cheques cleared increased by 5.58 and 33.26 per cent, respectively. A total of 7.12 million instruments worth N10,128.87 billion were cleared, compared with 6.74 million worth N7,601.12 billion in the corresponding period of 2006. The development indicated the increasing use of cheque for large value transactions in the country.

Fig. 2
Volume of Cheques Cleared (First Half 2007)



	January	February	March	April	May	June
2006	1,151,813.00	1,196,266.00	1,097,038.0	989,264.00	1,171,396.00	1,138,300.00
2007	1,244,819.00	1,327,881.00	1,237,956.0	1,005,623.0	1,152,709.00	1,051,547.00

Fig. 3
Value of Cheques Cleared (First Half 2007)



	January	February	March	April	May	June
2006	1,110,681.0	1,258,225.0	1,294,447.0	1,210,702.0	1,421,775.0	1,305,287.0
2007	1,441,810.0	1,651,724.0	1,849,271.0	1,596,257.0	1,820,297.0	1,607,595.0

In terms of the volume of the cheques cleared, the Lagos Clearing Zone maintained its lead with 54.87 per cent, followed by Abuja, Port Harcourt and Benin with 9.98, 6.09 and 4.56 per cent, respectively.

2.2.1.1 Electronic Payments

The increase in the use of electronic payments continued during the period was attributed to the aggressive marketing strategy of the banks and increased public awareness. Available data on various e-payment channels indicated that Automated Teller Machine (ATM) was the most patronized, accounting for over 93 per cent of the total, while mobile phone payments was the least with about 0.20 per cent.

Table 2	Channel of Transaction	Per cent
Volume Terms	ATM	93.66
	Web (Internet)	4.36
	POS	1.79
	Mobile	0.19
Value Terms	ATM	94.51
	Web (Internet)	3.31
	POS	2.17
	Mobile Phone	0.02

ATM's patronage was fuelled by the dominance of cash in settling transactions within the country.

2.2.1.1.1 ATM Transactions

The upward trend in ATM transactions was sustained. At 4,765,467 and N41.28 billion as at end -June 2007, the volume and value of ATM transactions increased by 32.08 and 118.32 per cent, respectively, over the figures in the corresponding period of 2006. The increased usage of ATMs could be attributed to a number of factors, including increased number of ATMs in the country, enhanced public awareness and the ease of service delivery.

Fig. 4
Volume of ATM transactions (Jan - June) 2006 - 2007

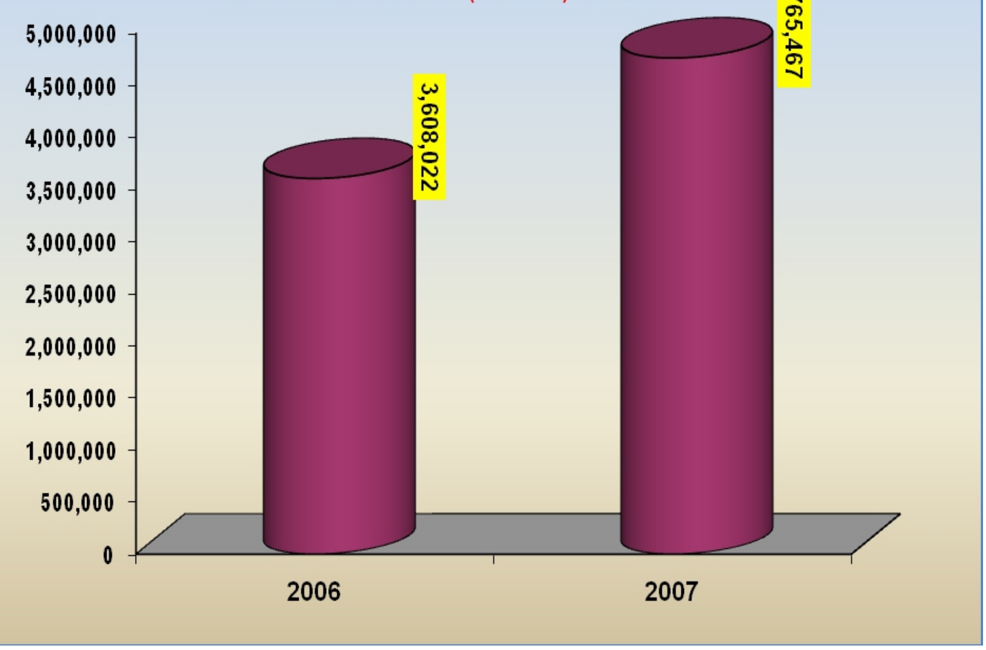
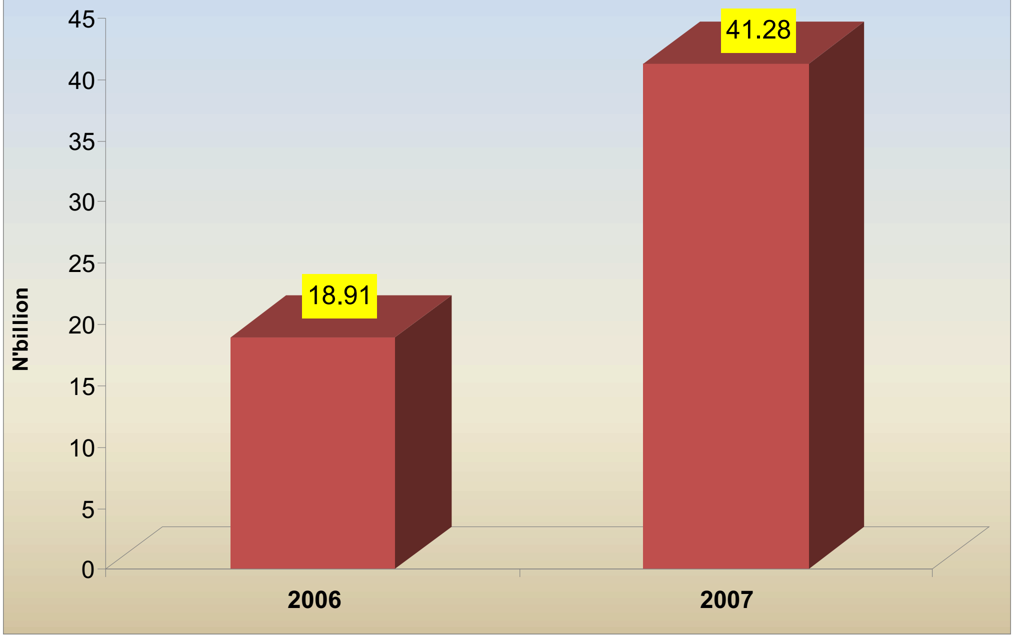


Fig. 5
Value of ATM transactions (Jan - June) 2006-2007



2.2.1.1.1 Web Transactions

Transactions involving the use of Internet increased significantly. In terms of volume and value, the use of Internet for payment for goods and services increased by 119.8 and 50.9 per cent to 221,537 and N1.55 billion, respectively. The development was attributable to the growing number of merchants that accept the use of payment cards on such sites and the issuance of international prepaid cards by some banks.

2.2.1.1.2 Point of Sale (POS) Transactions

The volume and value of online POS transactions increased significantly from 19,769 and N90.19 million to 91,211 and N946.22 million, respectively. The development was attributable to the increasing connectivity of POS terminals via General Packet Radio Service (GPRS) and the widespread use of debit cards.

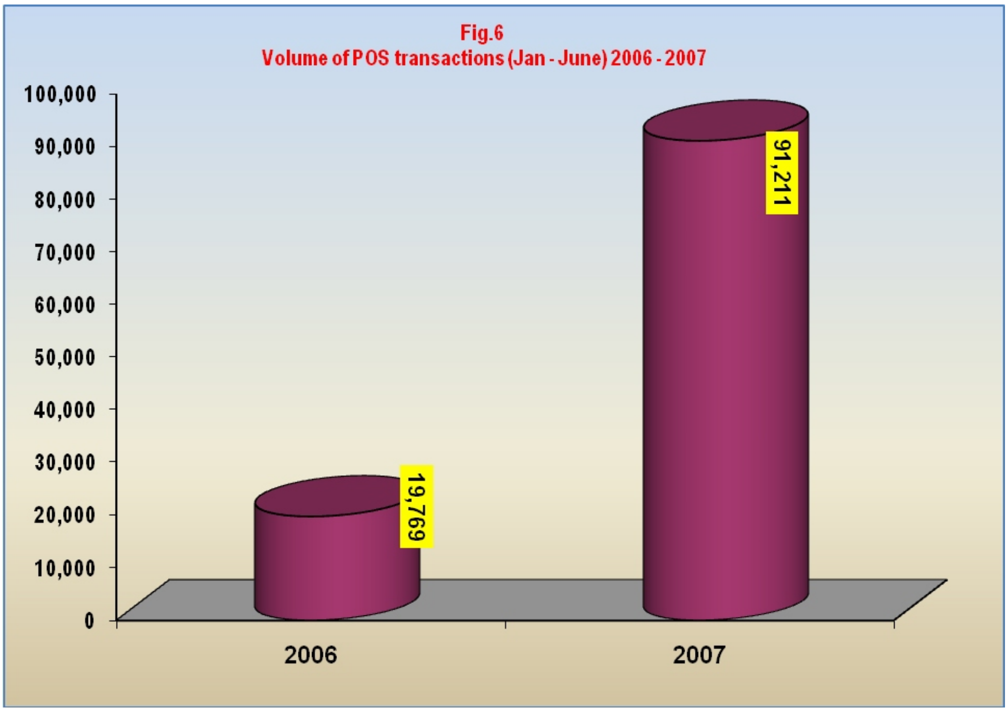


Fig.6
Volume of POS transactions (Jan - June) 2006 - 2007
100,000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
19,769
91,211
2006
2007

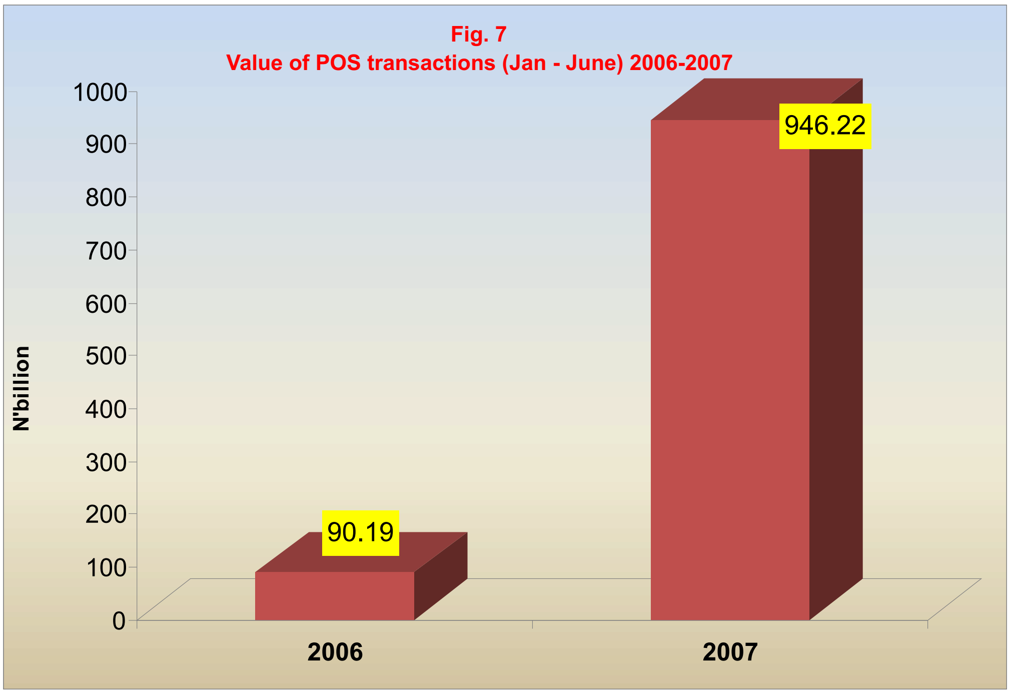


Fig. 7
Value of POS transactions (Jan - June) 2006-2007
N'billion
1000
900
800
700
600
500
400
300
200
100
0
90.19
946.22
2006
2007

2.2.1.1.1 Dollar Denominated Card Transactions

The use of Dollar denominated Cards grew significantly during the review period. The volume and value of transactions increased by 73.94 and 70.51 per cent to 88,891 and US$22.46 million, respectively, over the levels in the corresponding period of 2006. The development was due to the growing public awareness of the scheme and the ease of transactions.

2.2.2 Wholesale Payments System

The volume and value of transactions through inter-bank transfers rose by 28.79 and 96.14 per cent to 57,772 and N27,372.29 billion, respectively. The rise was buoyed by the Real Time Gross Settlement (RTGS) system. The guidelines for the intra-day facility as well as additional modules were introduced during the period to ensure the efficiency of the RTGS system

Fig. 8

Volume of Large Value Transfers (First Half 2007)

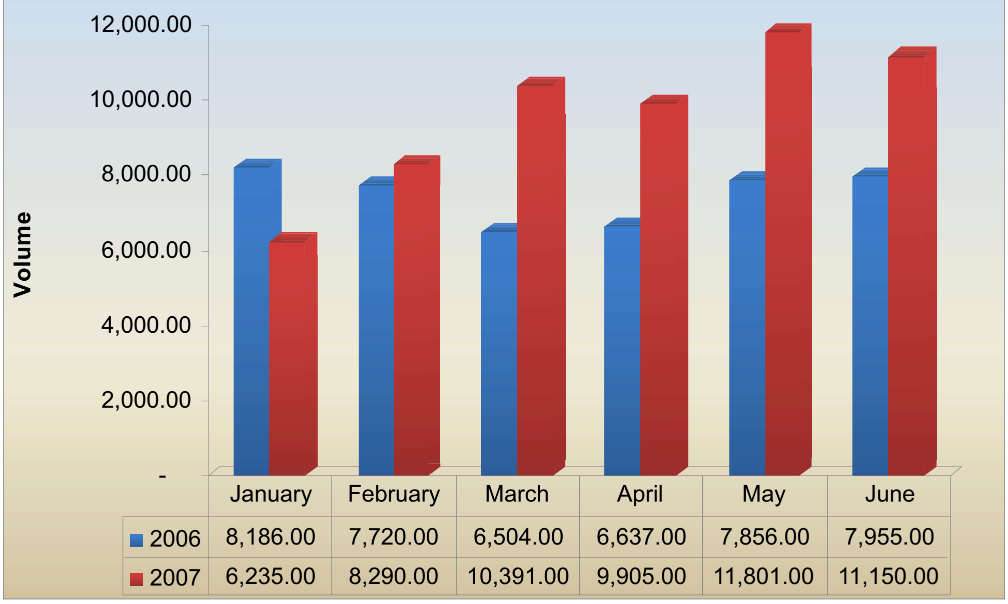
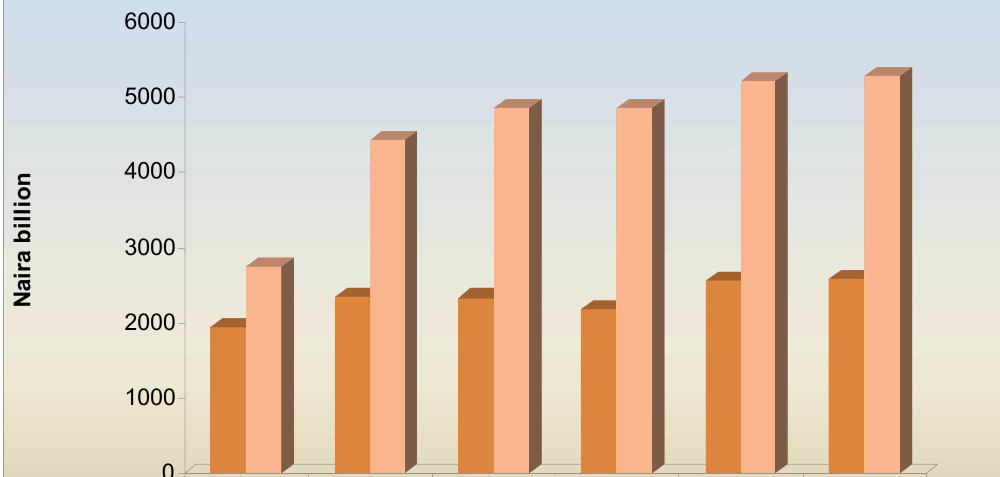


Fig. 9
Value of Inter-bank Transfers (First Half 2007)



	January	February	March	April	May	June
2006	1939.35	2347.91	2338.32	2181.55	2566.71	2581.9
2007	2743.76	4437.75	4857.87	4854.4	5205.29	5276.22

2.3 Financial Sector Surveillance

2.3.1 Banking Supervision

The CBN intensified its supervisory and surveillance activities on the financial institutions through regular appraisal and review of banks' periodic returns, spot checks, monitoring and special investigations, among others. Post-consolidation on-site verification of the deposit money banks' integration processes, as contained in their strategic business plans were also conducted. The exercise revealed that eighteen (18) banks, excluding the six (6) banks that were not involved in mergers and acquisitions during the consolidation exercise had attained 80 per cent compliance level as at end-June 2007.

In line with the decision of the CBN that no private sector deposits in the fourteen banks that failed to meet the recapitalization requirement would be lost, the NDIC invited the healthy banks to assume the private sector liabilities of ten (10) banks for which final court order for their liquidation had been obtained and to cherry-pick their assets under the Purchase and Assumption (P&A) model of bank liquidation. Thus far, the private sector liabilities of seven banks had been assumed by three healthy banks as indicated below:

S/N	FAILED BANK	ASSUMED BY
1	Allstates Trust Bank	Ecobank Plc
2	Assurance Bank	Afribank Plc
3	Lead Bank	Afribank Plc
4	Trade Bank	UBA Plc
5	Metropolitan Bank	UBA Plc
6	City Express Bank	UBA Plc
7	Hallmark Bank	Ecobank Plc

Of the four (4) outstanding banks that could not recapitalize, the NDIC had obtained provisional court order to liquidate one (1), while the remaining three (3) banks are still undergoing court processes.

The implementation of the electronic Financial Analysis and Surveillance System (e-FASS) was further boosted with the deployment of the Data Security System (DSS) in all the banks. With this development, all the banks now render returns in absolute figures through the e-FASS. All the bureaux-de-change (BDCs) have effectively connected to the DSS and were expected to commence the rendition of their returns through the system, while the finance companies, primary mortgage institutions (PMIs) and the development finance institutions (DFIs) would be similarly connected within the year.

As part of the efforts to promote safe and sound financial system, the CBN issued a number of circulars to the banks which included:

- Waiver of tax on interest earnings from agricultural lending by banks
- Reporting of suspicious or unusual transactions involving terrorism to the Nigerian Financial Intelligence Unit (NFIU); and
- Submission of returns through the e-FASS

A total of 741 cases of attempted fraud and forgery, involving N5.4 billion, US$35,406.1, €150.00 and £60.0 were reported, up from 597 cases in the corresponding period of 2006. The 438 cases that were successfully executed resulted in the loss of N1.4 billion, US$13,938, €150.0 and £60.0 to the banks, compared with 295 cases and the loss of N1.2 billion, US$455,549.0, and £10,000.0 during the corresponding period in 2006. The development was attributable to the weaknesses in the internal control systems of the banks and the delay to fully integrate their systems and processes.

2.3.2 Prudential Examination

Income audits, verification of capital and special investigations were conducted on some banks to check the authenticity of reports/returns to the CBN. The examination focused on the level of income and profits reported in the audited accounts, the liquid assets, and the legitimacy of funds used for recapitalisation. Further examination revealed that 88.0 per cent of the banks in the system met the specified minimum capital adequacy ratio (CAR) of 10.0 per cent, compared with 96.0 per cent in the corresponding period of 2006. With respect to the liquidity ratio (LR), 72.0 per cent of the banks met the stipulated minimum of 40.0 per cent, compared with 92.0 per cent in the corresponding period of 2006. The defaulting banks were penalized accordingly.

2.3.3 Banking Sector Soundnes

An assessment of the banking sector soundness using the CAMEL parameters revealed that as at end-June 2007, six (6) banks were rated sound, sixteen (16) satisfactory, and three (3) banks were rated marginal. No bank was rated unsound, reflecting the positive results of the consolidation exercise. The non-performing loans of the banks rose from N209.0 billion at end-June 2006 to N254 0 billion, reflecting a deterioration in the quality of loan facilities. The ratio of non-performing credit to industry total credit was 7.7 per cent as at end-June, 2007 as against 9.7 per cent recorded at end-June, 2006. The ratios were below the acceptable contingency threshold of 20.0 per cent for the industry.

2.3.4 Routine Examinations

Routine examinations were also conducted on some of the deposit money banks and the discount houses. The examinations covered prudential regulations, foreign exchange operations, anti-money laundering controls and know-your-customer (KYC) directives. The examination on foreign exchange operations of the banks revealed various infractions, including poor record keeping, incomplete documentation, non-compliance with the foreign exchange rules and regulations, among others. The errant banks were appropriately sanctioned for each of the offences.

An examination of the extent of compliance with the anti-money laundering controls and the Know-Your-Customer (KYC) principle in banks and other financial institutions revealed the following: non-uniformity with regard to the documentation of customers' identity; difficulty in obtaining information on politically exposed persons; difficulty in obtaining uniform means of identification of customers; lack of continuous training for staff; and low adoption of self regulation by the institutions, among others.

2.3.5 Financial Crime Surveillance

The CBN embarked on a number of measures on Anti-Money Laundering/Combating Financing Terrorism (AM/CFT) in compliance with the Financial Action Task Force (FATF) requirements. In this regard, the CBN organized various public enlightenment and training programmes on money laundering in collaboration with other stakeholders. It also placed advertisements in newspapers and magazines as well as co-operated with and shared information with local and foreign law enforcement agencies in the arrest and prosecution of persons involved in financial crimes.

2.3.6 Compliance with the Code of Corporate Governance for Banks in Nigeria

Verification exercise on compliance with the provisions of the code of corporate governance for banks issued in April 2006 was conducted. Appraisal of the banks' monthly reports as well as periodic on-site verification by examiners to confirm the claims in their reports revealed that four (4) banks had government equity holdings above 10 per cent, while no bank had complied with the appointment of independent directors.

2.3.7 Examination of Other Financial Institutions

On-site examinations on 1,351 Other Financial Institutions (OFIs), comprising 757 community banks (CBs), 16 microfinance banks (MFBs), 113 finance companies (FCs), 91 primary mortgage institutions (PMIs), 368 bureaux de change (BDCs), and 6 development finance institutions (DFIs) were conducted. The major regulatory issues that emerged from the examinations included deep erosion of shareholders' funds through poor quality of risk assets, poor loan recovery effort and weak discharge of oversight functions by the Boards of Directors.

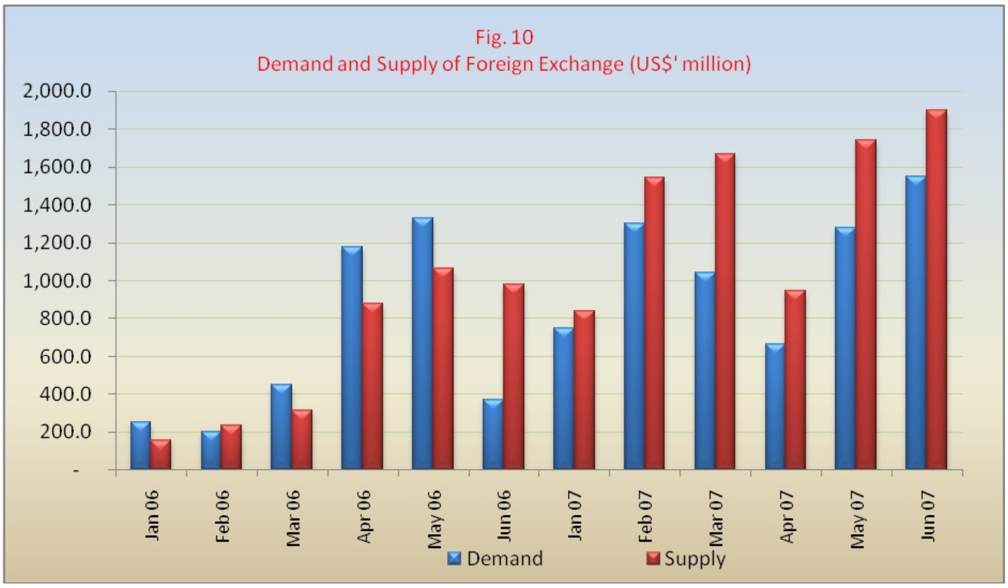
Off-site review of the activities of the OFIs revealed improvement in their operations. The total assets of the community banks, primary mortgage institutions and finance companies grew by 1.9, 5.7 and 6.0 per cent, respectively, over the levels at end-December 2006.

The development finance institutions defaulted in the timely rendition of their statutory returns which constituted a major impediment to effective supervisory process. In order to address the recent resurgence of illegal finance houses that were involved in questionable activities, the CBN embarked on a verification exercise as a prelude to publishing the names of licensed active FCs. The exercise revealed that seventy-six (76) FCs were in operation, while thirty-seven (37) had ceased operations. The names of the seventy-six licensed active FCs were subsequently published in the national dailies to guide members of the general public.

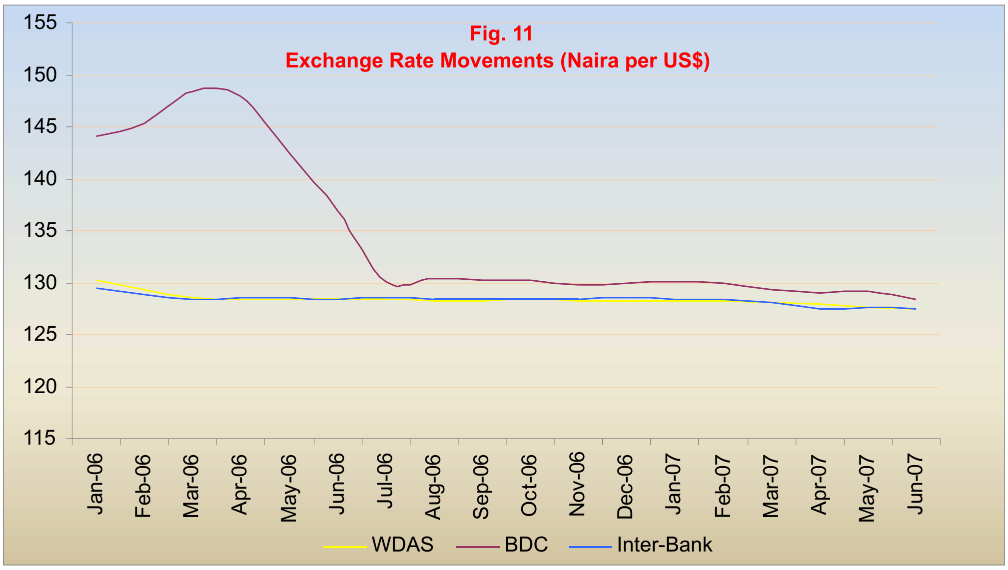
One hundred and ten (110) fresh applications for BDC licences were received in the first half of the year, out of which sixteen (16) operating licences were approved and sixty-six (66) Approvals-In-Principle granted, while twenty-eight (28) others were at various stages of processing. Inspite of the publication of the names of eighty (80) BDCs that could not be located during the on-site examination in the first quarter of 2006, only 23 of the BDCs were located by the CBN, with 57 outstanding as at end of June 2007.

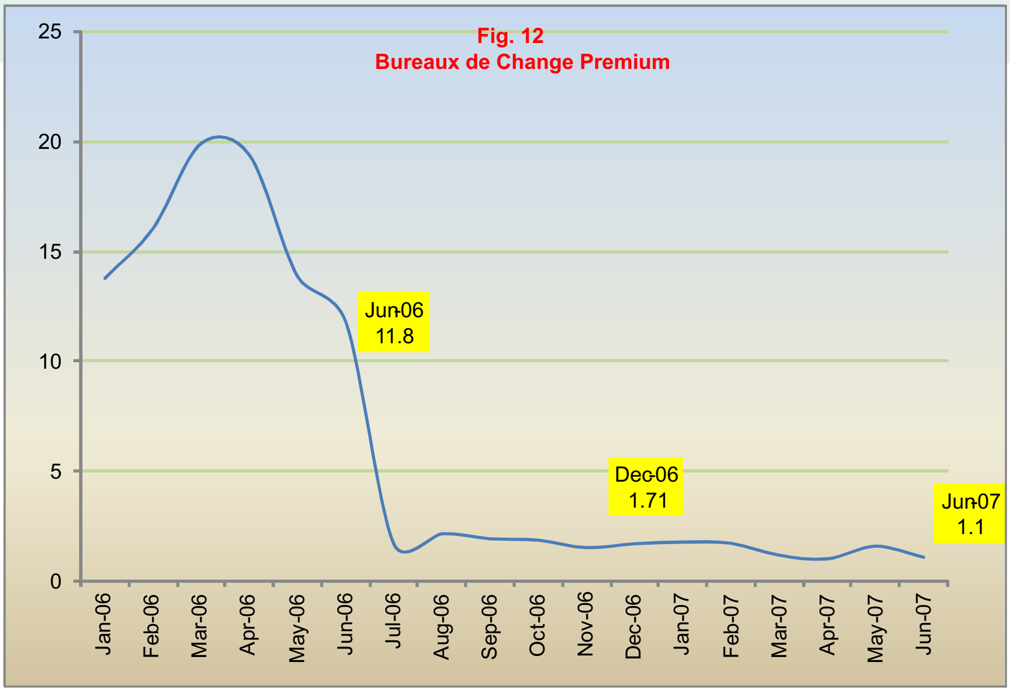
2.4 Foreign Exchange Management

The official segment of the foreign exchange market under the Wholesale Dutch Auction System (WDAS) held 47 auctions as against 44 in the corresponding period of 2006. In aggregate, the market witnessed a surge in demand amounting to US$6.59 billion, up from US$3.78 billion in the first half of 2006. This development was occasioned by the bid to pay for new oil blocks, importation of petroleum products and the rise in the repatriation of dividend at the end of the first quarter. Consequently, the value of foreign exchange sold by the CBN to the authorized dealers increased by 137.6 per cent to US$8,73 billion.



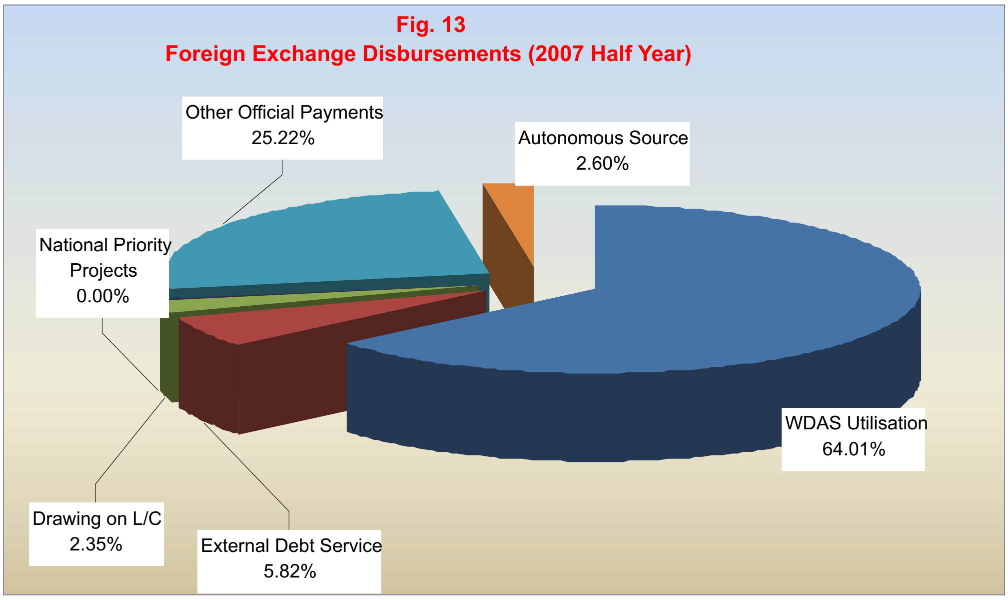
At N127.94, the exchange rate of the naira vis-à-vis the US dollar appreciated by 0.8 per cent over the level in the corresponding period of 2006. In the bureaux de change (BDC) segment of the market, the naira also appreciated, by 11.5 per cent, and traded at an average of N129.32 per US dollar. Consequently, the wide parallel market premium of 11.8 per cent in the first half of 2006 crashed to a remarkable low of 1.1 per cent.





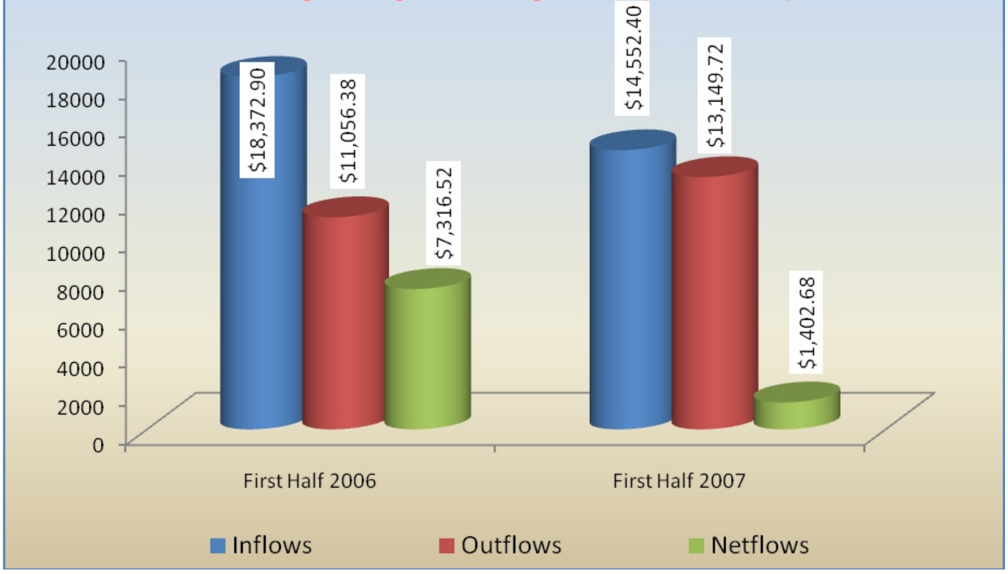
2.4.2 Foreign Exchange Flows

Foreign exchange flows into the economy increased by 1.0 per cent over the level in the corresponding period of 2006 to US$29.49 billion. Total receipts from the oil sector (US$12.53 billion) accounted for 42.5 per cent, while the autonomous sources (US$14.94 billion) and non-oil public sector inflows (US$2.02 billion) accounted for 50.7 and 6.9 per cent, respectively. The huge autonomous inflows which surpassed the oil receipts were driven by the increase in receipts from invisibles and non-oil exports. Total foreign exchange outflow increased by 20.2 per cent to US$13.50 billion during the period. This development was attributed to the increase in the frequency and sales at the WDAS, drawings on letters of credit, as well as other official and autonomous payments.



Transactions through the CBN resulted in a net inflow of US$1.30 billion, compared with US$7.32 billion in the corresponding period of 2006. The inflows and outflows were US$14.55 billion and US$13.24 billion, respectively, compared with US$18.37 billion and US$11.06 billion in the corresponding period of 2006.

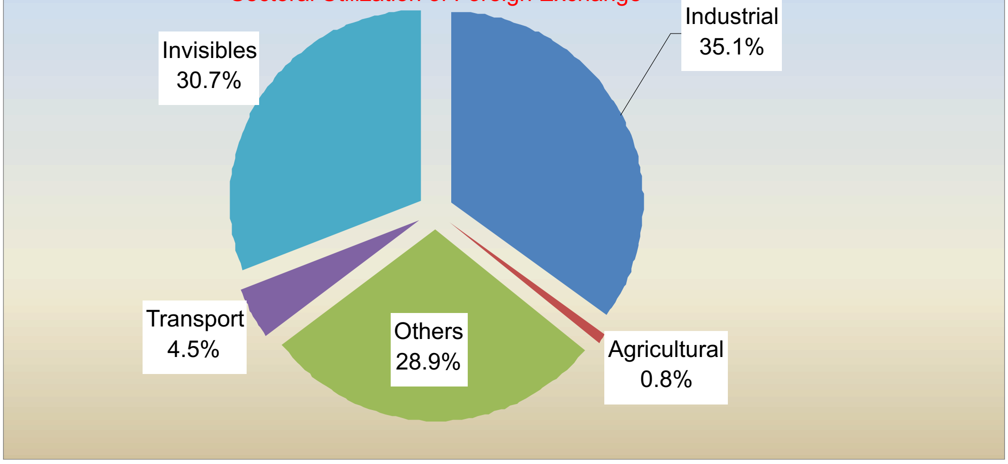
Fig. 14
Foreign Exchange Flows through the CBN (First Half 2007)



2.4.3 Sectoral Utilization of Foreign Exchange

Utilization of official foreign exchange was estimated at US$12,647.1 million, representing an increase of 59.0 per cent over the level in the first half of 2006. An analysis of the foreign exchange utilization showed that industrial and agricultural sectors accounted for 35.1 and 0.8 per cent, respectively, compared with 45.6 and 1.0 per cent in the corresponding period of 2006. The share of finished goods, transport and invisibles were 28.9, 4.5 and 30.7 per cent, respectively, compared with 30.6, 4.9 and 17.9 per cent in the corresponding period of 2006.

Fig. 15
Sectoral Utilization of Foreign Exchange

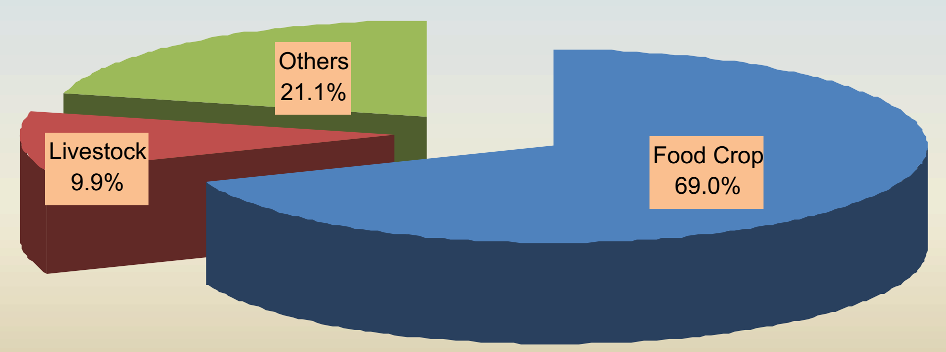


2.5 Development Finance Operations

2.5.1 Agricultural Credit Guarantee Scheme Fund (ACGSF)

The authorized and called-up share capital of the ACGSF as at end-June 2007 was N3.0 billion, while the paid-up capital remained N2.25 billion. Total resources available under the scheme as at end-June 2007 was N4.790 billion. A total of 11,374 loans valued at N1.002 billion were guaranteed under the scheme, compared with 12,188 loans, valued at N801.1 million in the corresponding period of 2006. This represented a decline of 6.6 per cent in volume and an increase of 25.1 per cent in value of loans guaranteed, compared with the levels attained in the corresponding period of 2006. The total number of loans repaid stood at 15,993 valued at N1.252 billion. The cumulative volume and value of ACGSF loans from inception in 1978 to end-June 2007 stood at 509,066 and N15.92 billion. The number and value of applications for claims settled under the scheme rose by 124.8 and 108.5 per cent over the levels in the corresponding period of 2006 to 517 and N31.79 million, respectively.

Fig. 16
Sectoral Distribution of ACGSF Loans (Nmillion)



2.5.2 Interest Drawback Programme (IDP)

The number and value of settled IDP claims rose by 38.8 and 152.6 per cent over the levels in the corresponding period of 2006 to 8,214 and N44.17 million, respectively. The increase was attributed to the incentive offered under the IDP which encouraged farmers to payback their loans more promptly.

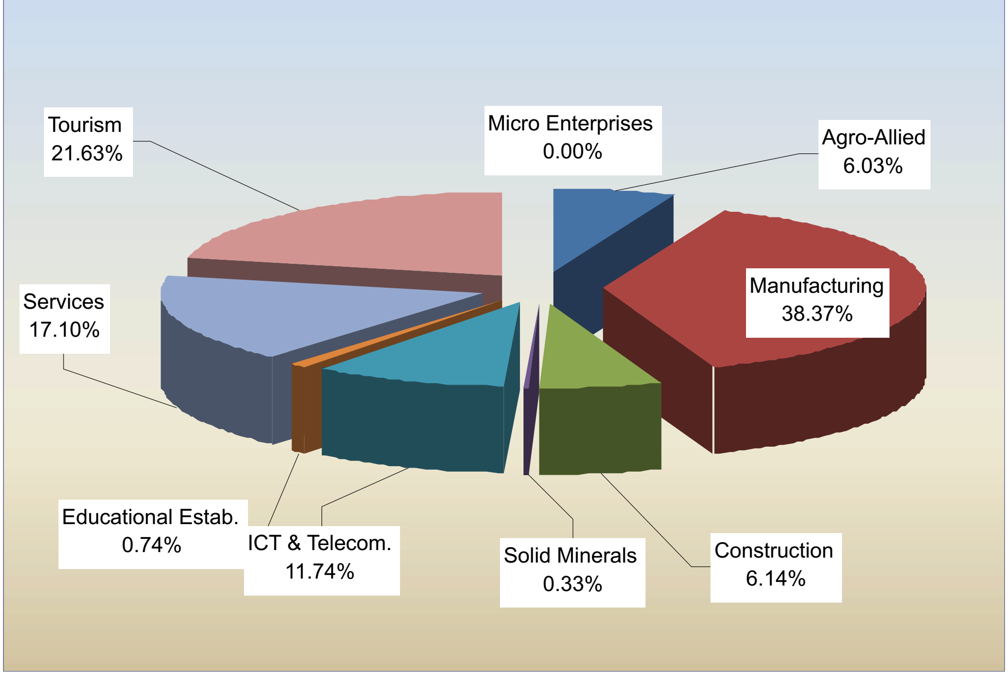
2.5.3 The Trust Fund Model (TFM)

The total number of MOU signed under the TFM remained at 16 as at end-June 2007, as no new MOU was signed during the first half of 2007.

2.5.4 Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

The cumulative sum set aside by banks under the SMEEIS as at end June, 2007 was N37.42 billion, which represented a decrease of 2.1 and 8.2 per cent relative to the levels in the preceding half year and the corresponding period of 2006, respectively. The sum of N18.13 billion was invested by banks in 258 projects, representing an increase of 6.4 and 21.6 per cent over the levels in the preceding half year and the corresponding period of 2006, respectively.

Fig. 17
Sectoral Distribution of Investments by Banks as at June 2007



A sectoral breakdown of the investments as at end-June, 2007, showed that the real sector received N9.2 billion (50.79 per cent) for 163 projects, while the services sub-sector accounted for the balance valued at N8.9 billion (49.21 per cent) invested in 95 projects. Further analysis revealed that the manufacturing sub sector dominated, accounting for 46.9 and 38.3 per cent of the total number and value of projects, respectively. Services followed with 21.3 and 17.1 per cent of the total number and value of projects, respectively. Tourism & Leisure, and Information and Communication Technology (ICT) & Telecommunications accounted for 21.6 and 9.8 per cent of the total amount invested, respectively, while construction, agro-allied, educational establishment and solid minerals sub sectors accounted for 6.1, 6.0, 0.7 and 0.3 per cent, respectively.

2.5.4 Microfinance

Forty (40) additional applications for microfinance bank (MFB) licenses from new investors were received, while eleven (11) final licenses, and thirty-two (32) approvals-in- principle (AIPs) were granted. Also, five (5) final licences and one hundred and forty (140) provisional approvals were granted to existing CBs to convert to MFBs. Twenty-three (23) other new applications for MFB licences were at various stages of processing. However, the implementation of the conversion plans submitted by the community banks that were yet to meet the minimum shareholders' funds of N20 million was hampered by their failure to adhere to the programmes and timelines contained in their conversion plans.

Efforts to build the skills and competencies of the executives of microfinance banks were given a boost with the CBN's approval of the certification programme for directors and management staff of microfinance banks as well as other regulators. Following the approval, steps are being taken to finalize the Terms of Reference for the Technical Service Providers, establish a Supervisory Board, and set up an Administrative Secretariat.

2.6 CBN Assets and Liabilities

Provisional data showed that the total assets of the CBN as at end-June 2007 increased by 23.68 per cent to N6,492.8 billion when compared with the level in the corresponding period of 2006. This reflected the increase of 31.14, 29.31, 23.89 and 10.56 per cent in total external reserves, rediscount and advances, fixed assets and other securities, which more than offset the decrease of 49.33 and 22.21 per cent in Federal Government securities and other assets.

The corresponding increase of 23.55 per cent in total liabilities relative to the first half of 2006 was accounted for by deposits (29.0 per cent), currency in circulation (19.43 per cent), and other liabilities (14.0 per cent). The increase of 47.36 and 21.67 per cent in other deposits and the federal and state governments' deposits more than offset the decline in banks' deposits.