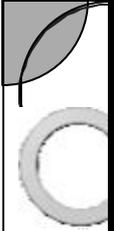




Banks and the National Economy: Progress, Challenges and the Road Ahead

By
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Governor
Central Bank of Nigeria



Outline

- I. Introduction
- II. What Drives Real Sector Development?
 - Macro Environment
 - Micro Environment
- III. How Does Banking/Financial System Matter?
- IV. Banks and the Nigerian Economy: Recent Evidence
 - Nigerian Banks as Fastest Growing in Africa
 - Banks and the Real Sector
 - We Still Have a Long Way To Go
- V. Challenges to Efficient and Effective Banking and the Road Ahead
 - Challenges
 - The Road Ahead
- VI. Conclusion

1. Introduction

- This presentation x-rays the progress thus far with respect to the contributions of banks to the Nigerian economy post consolidation, the challenges faced by them and the prospects in the medium to long term.

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II. What Drives Economic (Real Sector) Development?

Macroeconomic Environment

	2003	2004	2005	2006	2007
Inflation Rate – Year on Year (%)	23.80	10.00	11.60	8.50	6.60
Interest Rate – Prime Lending Rate (%)	19.60	18.91	17.78	17.33	16.46
Exchange Rate (=N=/USD) (End period)	137.0	132.86	130.29	128.27	117.97
External Debt (US\$' Billion)	32.92	35.94	20.48	3.54	3.63
Credit to Private Sector (N' Billion)	1,191.55	1,507.89	1,950.38	2,490.38	4,941.48
Net Domestic Credit (N' Billion)	1,803.94	2,020.17	2,313.39	753.81	2,212.67

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II. What Drives Economic (Real Sector) Development?

Microeconomic Environment

- Security of Lives and Property
- Property Rights
- Rule of Law
- Hard Infrastructure – Transportation, Power, Water
- Soft Infrastructure – Human Capital, Legal, Institutional
- Regulatory and Supervisory Capacity
- Land and Mortgage Reforms
- Trade Policy – Efficiency of Ports/Customs System

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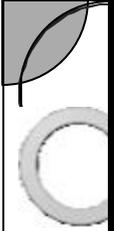
II. What Drives Economic (Real Sector) Development?

Nigeria's Rankings in the World Doing Business Reports

Indicators	2006	2007
Ease of Doing Business	108	108
Starting a Business	77	80
Dealing with Licenses	170	161
Employing Workers	30	30
Registering Property	172	173
Getting Credit	80	84
Protecting Investors	49	51
Paying Taxes	105	107
Trading Across Borders	135	138
Enforcing Contracts	92	93
Closing a Business	86	89

Note: Ranking out of 178 Countries.

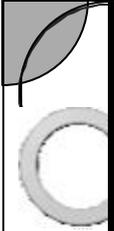
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III. How Does Banking/Financial System Matter?

- Banks play intermediation role—deposit taking/lending
- Resource allocation—from surplus units to deficit units
- Facilitate risk sharing—spreads/reduces risk faced by economic agents
- The financial system generates wealth in the economy
- Facilitates the exchange of goods and services

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III. How Does Banking/Financial System Matter?

- There is a substantial body of literature on the link between finance and economic growth (King and Levine, 1993), (Levine and Zervos, 1998), (Rajan and Zingales, 1998) and (Levine, Loayza and Beck, 1999).
- Calomiris and Mason (2003) estimated an elasticity of real state income growth to bank loan supply growth of 45% where a one standard deviation decrease in loan growth over three years (17.9%) reduces output growth over three years by about 7 percentage points.
- Strong correlation between output and credit.

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III. How Does Banking/Financial System Matter?

Correlation Between Nominal GDP and Domestic Credit

	AC	CPS	AC 1/	CPS 1/
	2003-2006	2003-2006	2003-2006	2003-2006
South Africa	0.9903	0.9930	--	--
Nigeria	0.3776	0.9879	0.3807	0.9982
Egypt	0.9792	0.9893	--	--
India	0.9990	0.9999	--	--
Brazil	0.9652	0.9663	--	--
Malaysia	0.9806	0.9941	--	--
UK	0.9982	0.9964	--	--
US	0.9976	0.9999	--	--

Source: CBN, IMF, IFS

1/Using Non-oil GDP at constant basic prices

AC= Aggregate banking system credit to the economy.

CPS=Banking system credit to private sector.

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III. How Does Banking/Financial System Matter?

DMBs Credit and Non-oil GDP

Year	Nominal Non-oil GDP (N billion) & Growth Rate	DMBs Total Credit (N billion)	Credit to Core Private Sector (N billion)	Total Credit/Non-oil GDP (%)	Credit to Private Sector/Non-oil GDP (%)
2003	5,799.6 (5.2%)	1,203.2	1,191.5	20.7	20.5
2004	7,163.4 (7.8%)	1,519.2	1,507.9	21.2	21.0
2005	8,907.4 (8.6%)	1,991.1	1,950.4	22.4	21.9
2006	11,581.7 (9.4%)	2,524.3	2,490.4	21.8	21.5
2007	15,747.6 (9.8%)	4,813.5	4,941.5	30.6	31.4

Figures in parenthesis are real GDP growth rates.

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IV. Banks and the Nigerian Economy: Recent Evidence

Nigerian Banking Sector

- Asset Base grew by approx. 277% between 2003 and 2007
- About 11 banks with over \$1 billion in Tier 1 capital, by end February, 2008.
- Microfinance Banks – 716 and more
- Branch Expansion outside Nigeria – 16 in Africa of which 9 are new branches; 5 outside Africa.
- Share of Banks in NSE most capitalized companies rose substantially – 30% (2003); 65% (2007)

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IV. Banks and the Nigerian Economy: Recent Evidence

Banking System Indicator (BSI)

BSI	Countries
D	Benin, Bulgaria, China, Columbia, Costa Rica, Croatia, El Salvador, Georgia, Hungary, India, Indonesia, Israel, Kazakhstan, Lebanon, Lithuania, Morocco, Nigeria , Panama, Peru, Philippines, Poland, Romania, Taiwan, Thailand, Turkey, Ukraine, Venezuela, Russia
E	Argentina, Armenia, Azerbaijan, Belarus, Bolivia, Dominican Republic, Ecuador, Egypt, Iran, Sri Lanka, Tunisia, Uruguay, Vietnam

Source: Fitch Ratings: Bank Systemic Risk Report, September 2007
BSI measures system quality or strength: D indicates low while E indicates very low.

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IV. Banks and the Nigerian Economy: Recent Evidence

Macro-Prudential Indicator (MPI)

MPI	Countries
1	Argentina, Austria, Benin, Bermuda, Bolivia, Chile, China, Cyprus, Dominican Republic, Ecuador, Egypt, El Salvador, Germany, Hong Kong, Hungary, Indonesia, Israel, Japan, Lebanon, Malaysia, Mexico, Morocco, Nigeria , Oman, Panama, Peru, Philippines, Poland, Singapore, Sri Lanka, Taiwan, Thailand, Tunisia, Uruguay
2	Armenia, Bahrain, Belarus, Belgium, Brazil, Bulgaria, Colombia, Costa Rica, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Greece, India, Ireland, Italy, Kazakhstan, Kuwait, Latvia, Lithuania, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, Qatar, Romania, San Marino, Spain, Slovakia, Slovenia, Switzerland, UK, US, Saudi Arabia, Sweden, Turkey, UAE, Ukraine,
3	Australia, Azerbaijan, Canada, Iceland, Iran, Korea, Russia, South

Source: Fitch Ratings: Bank Systemic Risk Report, September 2007
 MPI measures vulnerability to systemic crises: 1 indicates low risk; 2 indicates moderate risk; 3 indicates high risk.

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IV. Banks and the Nigerian Economy: Recent Evidence

Bank Credit to Private Sector as % of GDP

COUNTRY	2002	2003	2004	2005	2006	2007
BENIN	11.4	14.2	14.6	16.3	17.0	16.9
EGYPT	52.1	50.7	50.7	48.3	45.9	42.4
MOROCCO	48.5	49.3	50.3	54.4	59.4	60.7
NIGERIA 1/	18.4	20.5	21.0	21.9	21.5	31.4
TUNISIA	64.2	66.7	65.1	65.0	64.2	63.0
SOUTH AFRICA	62.4	69.1	69.0	75.2	84.2	92.1

Source: Fitch Ratings: Bank Systemic Risk Report, September 2007

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IV. Banks and the Nigerian Economy: Recent Evidence

Other Indicators of Financial Deepening

Year	M2/GDP Ratio (%)	CIC/M2 Ratio (%)	COB/M2 Ratio (%)	CIC/GDP Ratio (%)	CIC/Non-oil GDP Ratio (%)	COB/GDP Ratio (%)	COB/Non-oil GDP Ratio (%)
2003	20.0	25.3	20.8	5.1	8.7	4.2	7.1
2004	19.8	24.1	20.3	4.8	7.6	4.0	6.4
2005	19.3	22.8	20.0	4.4	7.2	3.9	6.3
2006	19.8	21.2	18.8	4.2	6.7	3.7	6.0
2007	21.0	20.0	15.2	4.2	6.1	3.2	4.6

M2 is broad money stock (end period)

GDP at current basic prices.

CIC is Currency in Circulation (end period)

COB is Currency Outside Banks (end period)

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IV. Banks and the Nigerian Economy: Recent Evidence

Banking System: Key Facts (Data for 2006-2007)

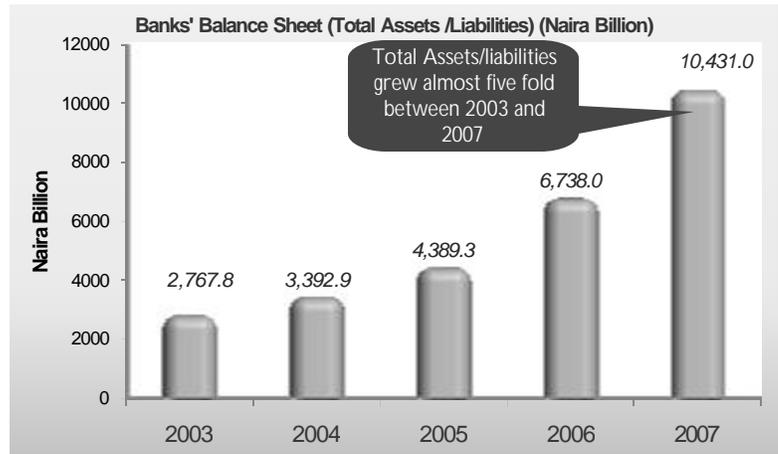
COUNTRY	Performing Loan Ratio (%)	weighted capital ratio (%)	Ownership as % Assets	Ownership as % Assets
BENIN	12	8	90	n.a
EGYPT	20	10	58	14
MOROCCO	16	12	24	16
NIGERIA 1/	8.4	20.3	5	6.3
TUNISIA	19	12	42	26
SOUTH AFRICA	2	13	0	30

1/ CBN data.

Source: Fitch Ratings: Bank Systemic Risk Report, September 2007

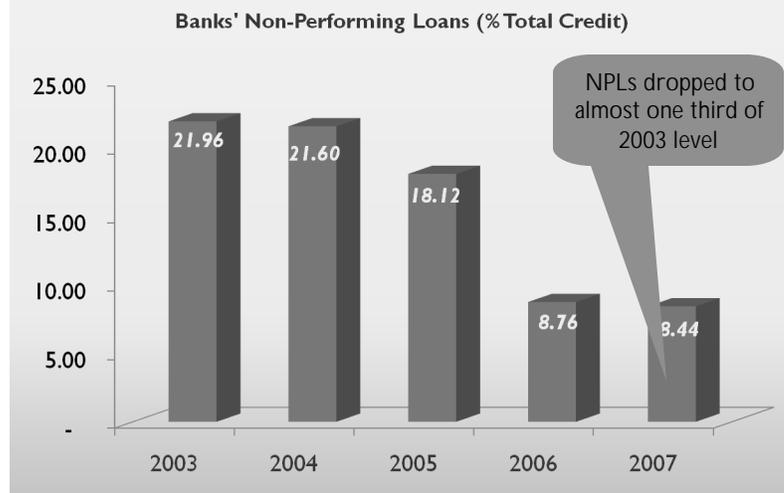
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IV. Banks and the Nigerian Economy: Recent Evidence



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IV. Banks and the Nigerian Economy: Recent Evidence

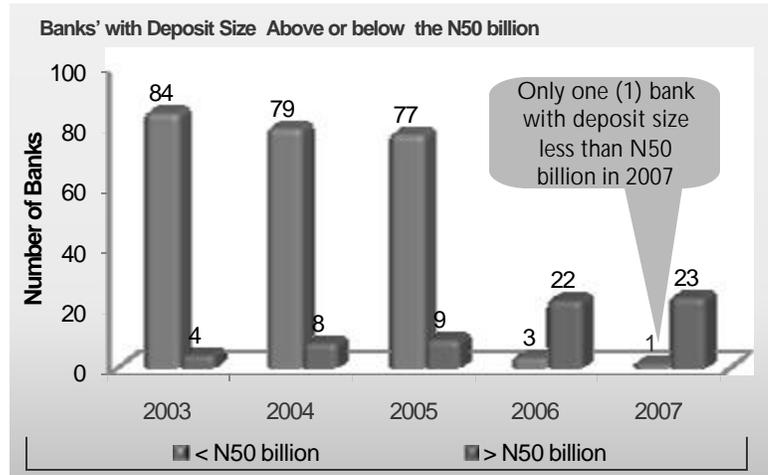


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Slide 17

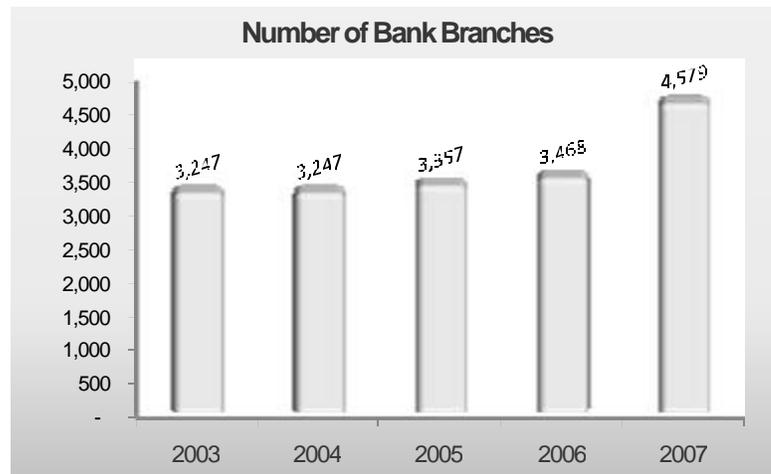
u1 Total assets/liabilities grew almost five fold from 2003 level
user, 2/11/2008

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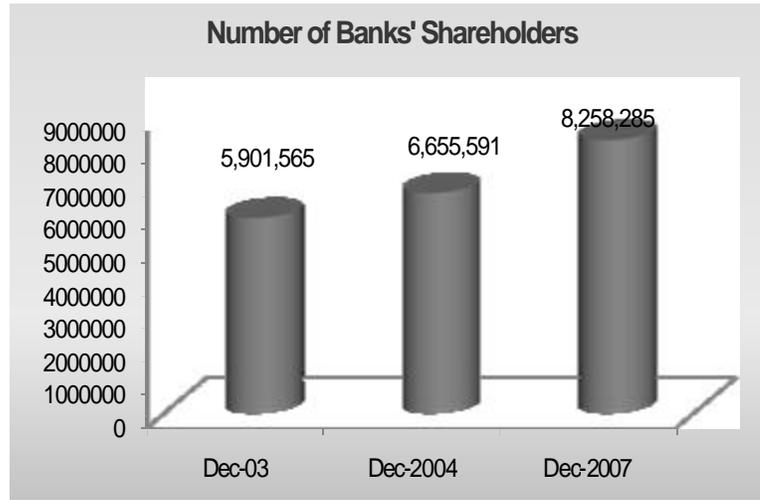
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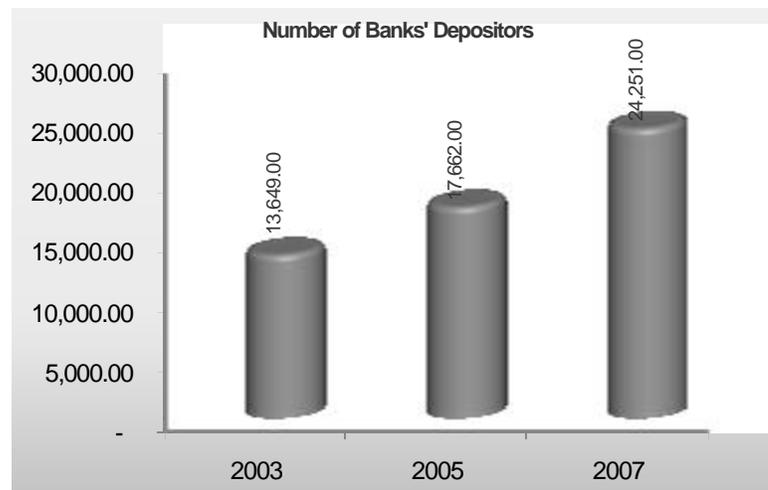
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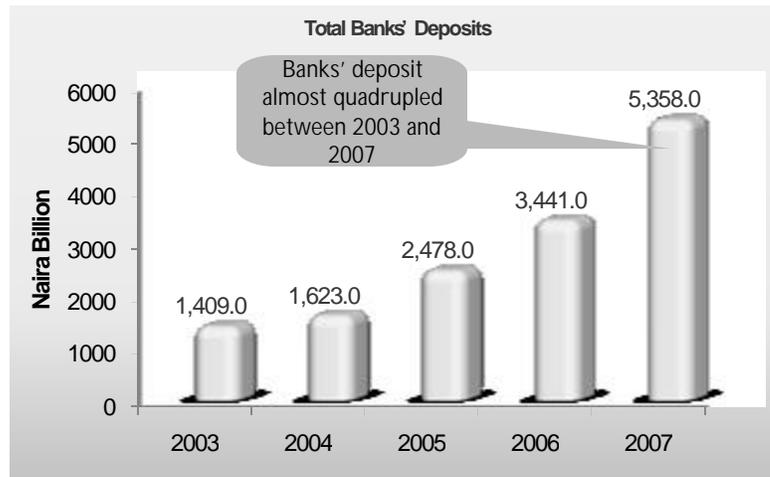
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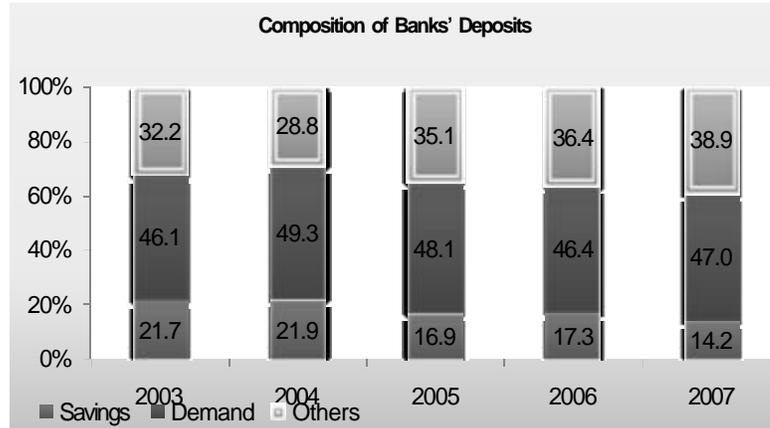
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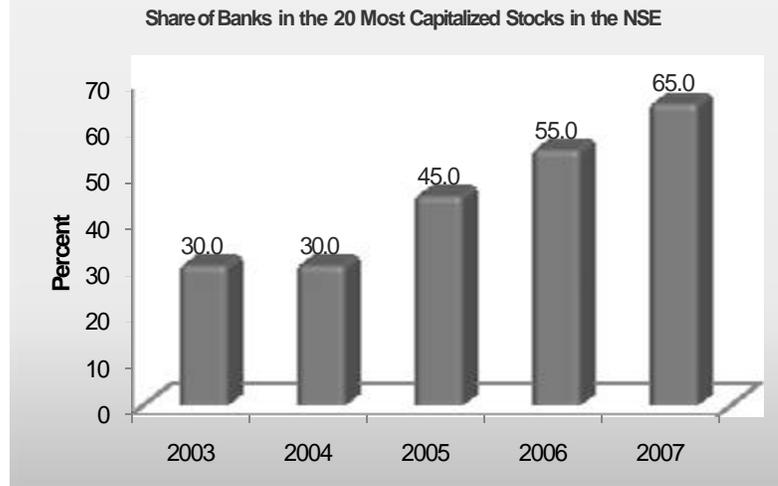
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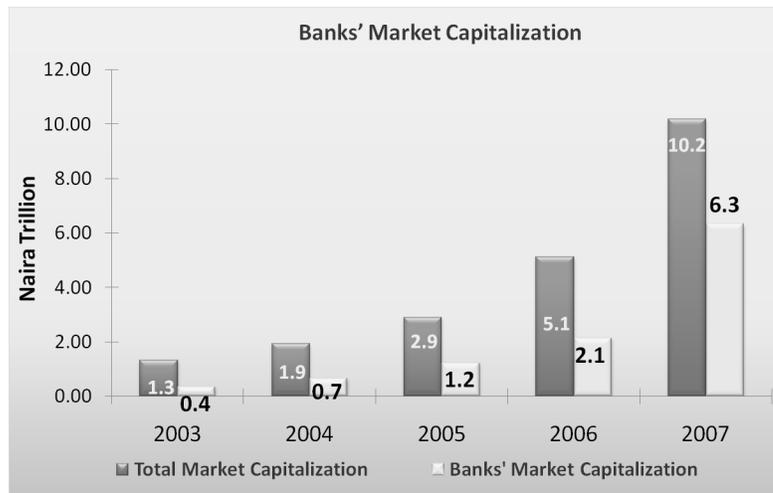
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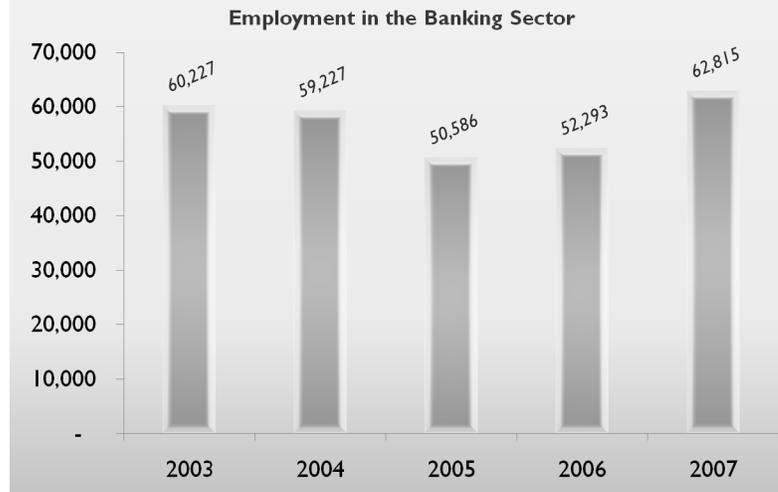
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IV. Banks and the Nigerian Economy: Recent Evidence



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IV. Banks and the Nigerian Economy: Recent Evidence

Sectoral Share in Total Real GDP and in Private Sector Credit

Sectors	2003	2004	2005	2006	2007
Agriculture	41.01 (5.16)	40.98 (4.46)	41.19 (2.44)	41.72 (1.96)	42.21 (3.11)
Min. & Quarry	0.25 (7.98)	0.26 (8.63)	0.27 (8.66)	0.28 (9.96)	0.29 (10.19)
Manufacturing	3.57 (24.46)	3.68 (21.86)	3.79 (17.68)	3.91 (17.66)	4.04 (10.13)
Communication	1.06 (24.41)	1.27 (25.19)	1.53 (18.87)	1.91 (19.82)	2.38 (24.06)
Oil & Gas	26.53 (19.05)	25.72 (18.27)	24.26 (21.67)	21.85 (23.23)	19.38 (26.32)
Others e.g Trade, Services, Tourism, etc	27.58 (18.94)	28.09 (21.59)	30.84 (30.68)	34.25 (27.37)	38.09 (26.19)

Note: Figures in parenthesis are share of credit to the private sector (%)

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IV. Banks and the Nigerian Economy: Recent Evidence

Credit to Private Sector by Activity (N' Billion)

Sectors	2003	2004	2005	2006	2007
Agriculture	62.10	67.74	48.56	49.39	149.58
Min. & Quarry	95.98	131.06	172.53	251.48	490.71
Manufacturing	294.31	332.11	352.04	445.79	487.58
Communication	293.70	382.76	375.73	500.24	1,158.10
Oil & Gas	229.23	277.53	431.39	586.48	1,266.67
Others	227.89	328.04	610.89	690.92	1,260.85
TOTAL	1,203.20	1,519.24	1,991.15	2,524.30	4,813.49

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IV. Banks and the Nigerian Economy: Recent Evidence

Loan for Share Purchase As Percent of Credit to Core Private Sector

Period	Advances for Shares (N' Billion)	Credit to Core Private Sector (CPS) (N' Billion)	Advances for Shares as % of CPS
Jan. 07	7.55	2,519.32	0.30
Feb. 07	105.46	2,817.61	3.74
Mar. 07	103.90	2,931.54	3.54
Apr. 07	172.05	3,125.82	5.50
May 07	171.50	3,364.09	5.10
Jun. 07	285.56	3,412.04	8.37
Jul. 07	172.23	3,778.20	4.56
Aug. 07	150.68	3,900.89	3.86
Sept. 07	416.33	4,085.58	10.19
Oct. 07	430.10	4,287.77	10.03
Nov. 07	35.84	4,538.13	0.79
Dec. 07	32.17	4,941.48	0.65

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IV. Banks and the Nigerian Economy: Recent Evidence

Growth Rate of Sectoral Real GDP (%)

Sectors	2003	2004	2005	2006	2007
Agriculture	6.64	6.50	7.06	7.40	7.67
Min. & Quarry	5.44	10.85	9.53	10.28	10.51
Manufacturing	5.66	10.00	9.61	9.39	9.90
Communication	35.87	27.77	28.38	32.45	32.85
Oil & Gas	23.90	3.30	0.50	-4.51	-5.61
Others	2.13	8.56	9.80	11.04	11.22

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IV. Banks and the Nigerian Economy: Recent Evidence

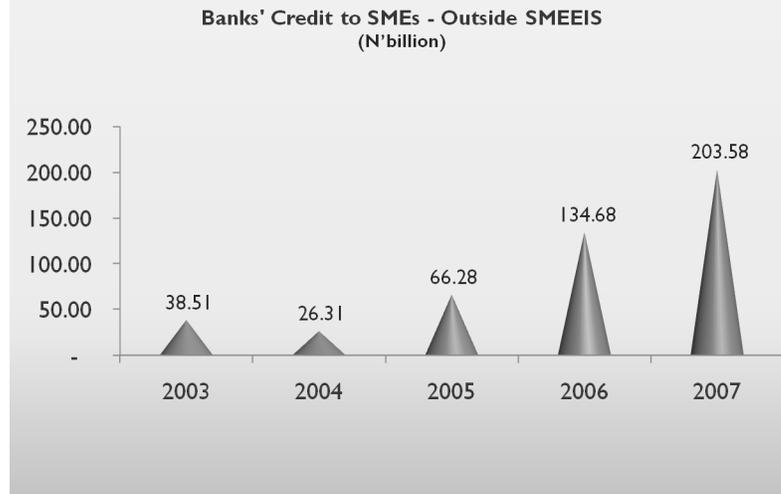
Average Time Deposit Rate, Lending Rates and Inflation Rate

	2003	2004	2005	2006	2007	2008*
Average Time Deposit Interest Rate (%)						
One Month	13.72	11.76	9.14	9.99	10.18	9.83
Three Months	14.79	12.80	9.10	10.25	10.29	10.19
Six Months	13.75	11.65	8.72	9.93	9.53	10.03
Twelve Months	13.52	12.71	8.77	7.45	7.92	9.80
Over Twelve	12.26	10.67	6.13	8.53	9.67	9.62
Lending Rates (%) – Prime	19.58	18.91	17.78	17.33	16.46	16.48
Lending Rates (%) – Maximum	21.61	20.42	19.54	18.66	18.21	18.24
Inflation Rate (%) – Year on Year						
Headline	23.80	10.00	11.60	8.50	6.60	7.70
Core	34.80	5.90	2.40	17.30	3.60	5.70

* Estimate (January 2008)

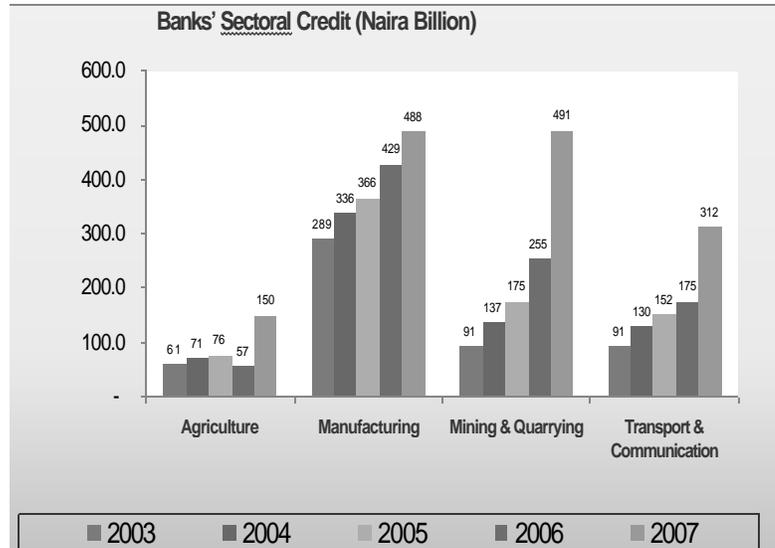
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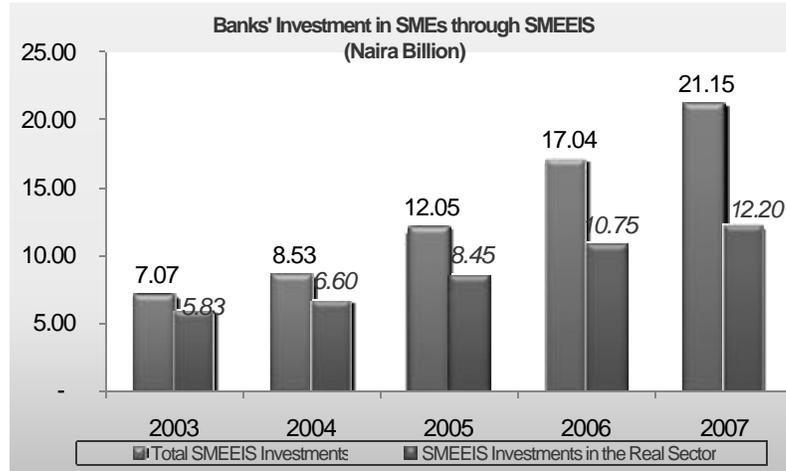
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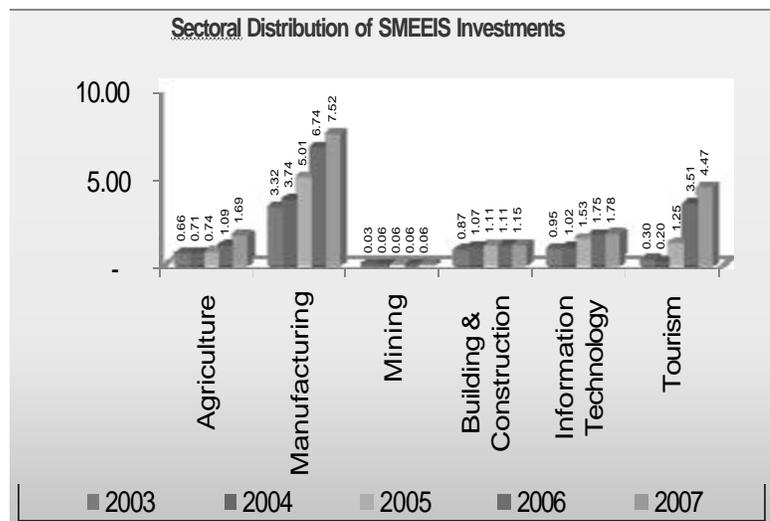
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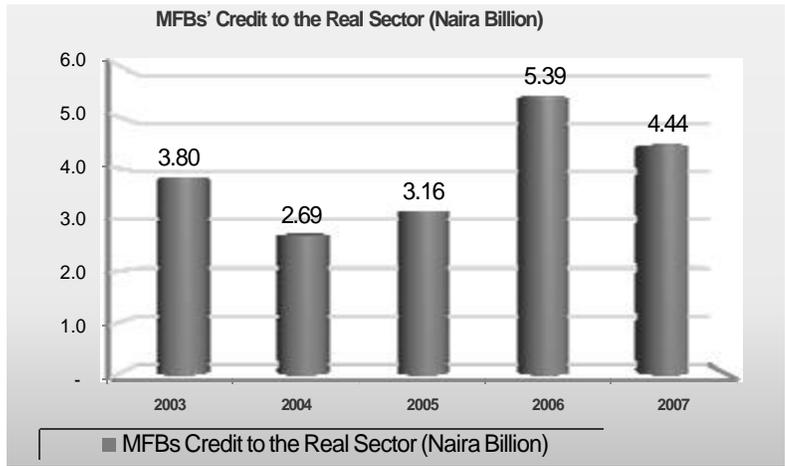
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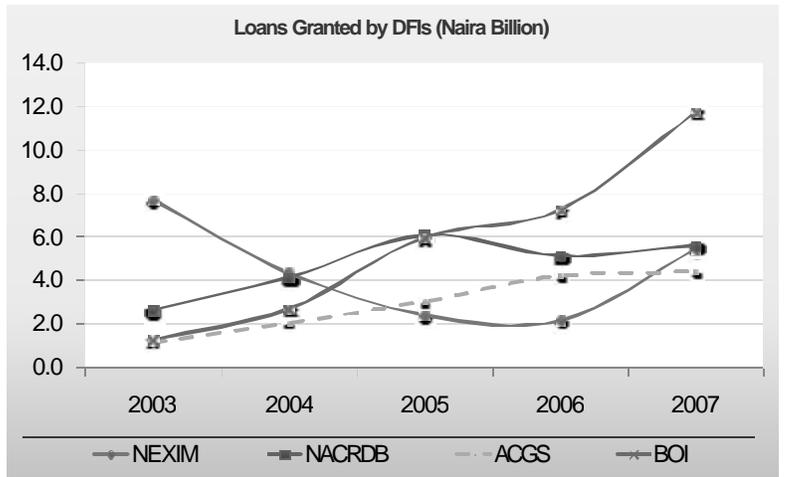


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IV. Banks and the Nigerian Economy: Recent Evidence



IV. Banks and the Nigerian Economy: Recent Evidence



IV. Banks and the Nigerian Economy: Recent Evidence

DMBs' Credit to SMEs As Percent of Total Credit

Year	Credit to SMEs (N'Bn)	DMB Total Credit (N'Bn)	Credit to SMEs as % of DMBs Total Credit (%)
2003	38.51	1,203.20	3.20
2004	26.31	1,519.24	1.73
2005	66.28	1,991.15	3.33
2006	134.68	2,524.30	5.34
2007	203.58	4,813.49	4.23

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V. Challenges to Efficient and Effective Banking and the Road Ahead

V.1 Challenges

- Shortage of qualified and experienced manpower
- Poor corporate governance and risk management framework in an era where the regulator has become stricter
- Risk- averse operator, regulator-led market
- Total credit as % of Non-Oil GDP just about 31%
- Total credit to SME about 4.2 % of total
- Low savings rate – see slide 41 below
- Formal banking only covers about 40% of the bankable public
- Mortgage system largely absent – Land/Legal Reforms

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V. Challenges to Efficient and Effective Banking and the Road Ahead

Financial Savings Ratio

Year	GDP (N billion) 1/	Non-oil GDP (N billion) 1/	Total Bank Deposit (N billion)	TD/GDP Ratio (%)	TD/Non-oil GDP Ratio (%)
2003	9913.52	5,799.60	1337.3	13.49	23.06
2004	11411.07	7,163.40	1661.5	14.56	23.19
2005	14572.24	8,907.40	2036.1	13.97	22.86
2006	18564.59	11,581.70	2852.0	15.36	24.63
2007	22907.31	15,747.60	4010.5	17.51	25.47

1/ GDP at Current basic prices

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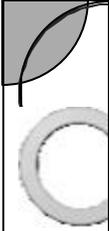
V. Challenges to Efficient and Effective Banking and the Road Ahead

V. 1 Challenges Cont'd

WHY ARE LENDING RATES STILL "HIGH"?

- Cost of Funds for Banks Still High (See Deposit rates)
- In a risky business environment, banks price risks differently for different borrowers
- Uncertainty about future inflationary trends
- Poor Infrastructure means that banks' operating costs are very high
- High overhead costs of banks - emoluments
- Financing of budget deficits – crowds out private sector

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V. Challenges to Efficient and Effective Banking and the Road Ahead

V.1 Challenges Cont'd

ARE BANKS MAKING "TOO MUCH" PROFIT?

- No!
- Return on Equity still relatively small
- Still huge potential for significant growth

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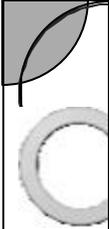


V. Challenges to Efficient and Effective Banking and the Road Ahead

V.2 The Road Ahead

- FSS 2020 as Road Map to the Future
 1. Continue to maintain macro stability – low price inflation
 2. Amend BOFIA to strengthen regulation/supervision
 3. Legal Reforms – to fast-track markets/institutions for efficient credit system
 4. Address critical infrastructure – power, transport, ports, water – to also reduce cost of funds for banks
 5. Mainstream a Commercial Court System throughout Nigeria

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V. Challenges to Efficient and Effective Banking and the Road Ahead

V.2 The Road Ahead Cont'd

6. Mortgage and Consumer Credit Reforms
7. Deepen and Mainstream Microfinance System
8. Continued Strengthening of Regulatory and Supervisory capacity
9. Capacity Building for bank staff

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VI. Conclusion

- Banking and Telecoms as the fastest growing sectors of the economy
 - ? They are driving the emergence of a new economy and growth is showing
 - ? Credit to private sector grew by 97% in 2007
 - ? Credit to SMEs grew by 51.2% in 2007
 - ? Non Oil GDP grew by 9.8% in 2007
- Need to deepen and sustain the momentum of growth
- Need wide ranging reforms under the FSS 2020
- Finance ALONE will not see Nigeria to 20:2020: Need to fast-track other reforms- infrastructure, security, judiciary, education, etc.

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