CHAPTER 1

ACTIVITIES OF THE CENTRAL BANK OF NIGERIA

The CBN continued its re-engineering initiatives under project "EAGLES", as the implementation of the Business Continuity and Integration Strategy (BCIS,) under Phase IV, peaked in 2008. The Bank embarked on the construction of new branches and currency centres as well as the renovation of some of its existing branches. The construction of new currency centres in six (6) locations, namely, Asaba, Awka, Gombe, Lokoja, Oshogbo and Umuahia progressed, while new Bank branches were being constructed in Port Harcourt, Katsina and Uyo. The renovation of the existing facilities progressed in Kaduna, Maiduguri, Ibadan and Benin branches and at the Learning Centre in Lagos. The Bank also awarded the contract for the re-building of the Lagos Office which was expected to be completed in October 2010. The integration of the enterprise applications of the Bank, namely Oracle ERP, Temenos T24, electronic Financial Analysis and Surveillance System (e-FASS) and the Central Bank Inter-bank Funds Transfer System (CIFTS) was also improved. The CBN sustained its corporate and staff social responsibilities of promoting knowledge through conferences and financial assistance to organizations, as well as providing facilities to the less privileged in Nigerian society.

1.0 CORPORATE ACTIVITIES OF THE CBN

1.1 ADMINISTRATION

1.1.1 Board of Directors and Other Committees

The structure of the Board of Directors of the Central Bank of Nigeria (CBN) remained unchanged. The Board comprised the Governor, Chukwuma C. Soludo (Chairman); four Deputy Governors, namely, Ernest C. Ebi (Corporate Services), Sarah O. Alade (Economic Policy), Tunde Lemo (Financial Sector Surveillance) and Suleiman A. Barau (Operations); and seven non-executive Directors five of whom had their appointments renewed for another term of four years, following the expiration of their tenure in November 2008. The non-executive Directors include Stephen Oronsaye (Permanent Secretary, Federal Ministry of Finance) who replaced Ama I. Pepple, following her appointment as the Head of the Civil Service of the Federation in July, 2008, Ibrahim H. Dankwambo (Accountant-General of the Federation), Akpan H. Ekpo, Juliet A. Madubueze, Dahiru Muhammad, Samuel O. Olofin and Joshua O. Omuya. The Board held six (6) regular meetings and one (1) emergency meeting in 2008. The Committee of Governors held twelve (12) meetings while the Governors' Consultative Committee held eleven (11) regular meetings and one (1) emergency meeting. The Committee of Departmental Directors held twelve (12) regular meetings, while the Audit Committee of the Board held three (3) meetings. The Investment Committee of the Board met twice (2) while the Financial Sector Surveillance Committee held six (6) meetings.

1.1.1.1 Monetary Policy Committee (MPC)

The MPC held five (5) meetings and one (1) special meeting at which major domestic and international macroeconomic developments were reviewed and appropriate monetary policy decisions taken. The decisions of the Committee were promptly communicated to the public.

The MPC reviewed the Monetary Policy Rate (MPR) thrice during the year. The Committee's decisions were based on an assessment of the inflationary path and other economic factors. The Bank's transparent conduct of monetary policy engendered a favourable outcome in 2008 as evident in the stability of interest and exchange rates for most parts of the period under review.

Table 1.1: MPC Decisions on MPR in 2008

Date	Rate (%)	Decision
February 5, 2008	9.50	Unchanged
April 1, 2008	10.00	Raised by 50 basis points
June 2, 2008	10.25	Increased by 25 basis points
August 5, 2008	10.25	Unchanged
September 18, 2008	9.75	Reduced by 50 basis points
December 11, 2008	9.75	Unchanged

1.1.2 Development of CBN Branch Offices

The Bank continued its construction of new branches and currency centres, as well as extensive renovation of some of its existing branches in 2008. This was to improve access to central banking services in the country. The construction of new currency centres in six (6) locations, namely, Asaba, Awka, Gombe, Lokoja, Oshogbo and Umuahia was completed in 2008, while new Bank branches were being constructed in Port Harcourt, Katsina, Uyo, Awka, Asaba, Gombe, Lokoja, Oshogbo and Umuahia. The renovation of existing facilities continued in Kaduna, Maiduguri, Ibadan and Benin branches as well as at the Learning Centre in Lagos. The Bank also continued with the re-building of the Lagos Office and is expected to be completed in October 2010. Other developments included the upgrade or replacement of central air-conditioning systems at Akure, Minna, Bauchi, Owerri and Makurdi.

1.1.3 The Computerisation Programme

The Bank continued to fine-tune and enhance its enterprise applications through the various Information Technology (IT) initiatives, namely, Oracle ERP, Temenos T24, electronic-Financial Analysis and Surveillance System (e-FASS) and the Central Bank Inter-bank Funds Transfer System (CIFTS). The integration of the enterprise applications was improved to facilitate the timely and more accurate generation of the daily Analytical Balance Sheet (ABS). Also, IT systems were successfully deployed to the six new currency centres while a fibre optic connectivity between the Lagos Office and the Head Office was provided. The deployment of bank-wide IT has improved the operational efficiency of the Bank and transformed the internal processes.

1.1.4 Library Operations

The total volume of books in the library system after weeding out of the old titles, was 92,102 compared with 89,325 in 2007. The volume of books, journals and periodicals consulted by staff rose by 3.7 per cent to 51,239 in 2008. Also, the number of library users increased by 10.0 per cent to 5,750. Online access to relevant information improved through the use of EBSCO and other databases.

1.1.5 Legal Services

In the course of the year, the Bank was involved in a number of activities and projects aimed at strengthening its legal and regulatory framework as well as enhancing the overall effectiveness of the financial system. These activities included: the push for the re-enactment of the BOFI Act; submission of a draft bill for an Act to establish the Asset Management Corporation of Nigeria (AMCON) for the acquisition, management, restructuring and disposal of the risk assets of banks; the draft of the legal and regulatory framework for the establishment of a Credit Bureau in Nigeria; the review of draft agreements to ensure the effective management of Nigeria's external reserves; and the prosecution of cases involving the Bank and third parties. Of all the cases decided, thirty-five (35) were given in favour of the Bank, one (1) against, while two (2) cases were settled out of court. In furtherance of the efforts to ensure a financial crime-free environment and a robust anti-money laundering regime in banks, the CBN organized sensitization workshops on the CBN Act and an anti-money laundering legislation.

1.1.6 Internal Audit

Eighteen (18) departments and autonomous units in the Head Office and twenty-eight (28) branches and currency centres were audited in 2008. In addition, twenty-nine (29) spot checks, based on the risk profile of process areas, were carried out during the year, compared with only five (5) in 2007. Having regard to the scope and coverage of the audit activities within the period and in the absence of no material or significant irregularities or cases of fraud uncovered, a reasonable assurance opinion was expressed by the internal auditors to the effect that no major weaknesses in the overall systems of risk control and governance existed in the Bank. Also, eighty-six (86) currency disposal operations requiring an audit witness were carried out, compared with eighty-three (83) in 2007.

1.1.7 Restructuring of the CBN (Project EAGLES)

The Bank continued its re-engineering initiatives under project "EAGLES". The implementation of the Business Continuity and Integration Strategy (BCIS), under Phase IV, peaked in 2008. The development of the BCIS and subsequent campaigns conducted in the year created the much-needed awareness on operational risks. Extensive training to enhance the Bank's capacity on Business Continuity and

Knowledge Management (BCKM) as well as Service Oriented Architecture were conducted. At the end of the training, the Bank produced twenty (20) BCKM professionals, ten (10) Knowledge Management and twelve (12) Service Oriented Architecture specialists.

Under the Process Improvement and Redesign (PIR) initiatives within the implementation phase (Phase III), the Bank continued its review, documentation and implementation of the Strategic Business Units' (SBU) processes. Comprehensive process reviews and implementation covering Branches as well as Foreign Operations, Banking Operations, Currency & Branch Operations, and Finance Departments were carried out. Workshops were organized to familiarize all stakeholders with key changes, to enhance process owner buy-in and to act as a preliminary preparation for the implementation of the processes. Process redesign activities were also completed at the Statistics, Internal Audit, Trade & Exchange, Procurement & Support Services, and Strategy & Performance Departments. As part of the Integrated Document Management System (IDMS) initiative, a record management policy that streamlined the Bank-wide identification, classification, processing and storage of records was implemented in 2008.

1.1.8 Communications

The CBN website witnessed a significant improvement. The number of hits during on-line visits to the website increased by 150.1 per cent to 1,567,428 compared with 626,763 in 2007. Also, returning visitors rose by 129.8 per cent to 790,767 compared with 344,056 in 2007. This development was attributable to the improved business processes which included the upgrade of web servers and the software hosting the website.

The Bank also sustained its efforts at improving the transparency of monetary policy through regular interactions with stakeholders and the public. These included publicizing the decisions of the Monetary Policy Committee and the Bankers Committee. The Twelfth (12th) edition of the Monetary Policy Forum was also held. The Management of the Bank briefed the Senate at a plenary session in addition to several appearances before some Committees of the two chambers of the National Assembly to provide information on the state of the economy. Regular interactions with stakeholders and the general public through media briefings and organising luncheons with media executives, the Manufacturers Association of Nigeria (MAN) and other agencies were sustained.

In line with the Bank's determination to foster learning and strengthen the capacity of the media practitioners to appropriately report the Bank's policies, programmes and contemporary financial and economic issues, two versions of the Seminar for Finance Correspondents and Business Editors were held. The first was in Kano with the theme: “Microfinance: Reducing Poverty through Better Credit Delivery, while the second, held in Asaba, had the theme: “Achieving Price Stability in Nigeria: The Place of an Inflation Targeting Framework.

1.1.9 Staff

The Bank recruited one hundred and twenty nine (129) staff, comprising IT professionals and other categories in 2008. However, the Bank lost the services of twenty-six (26) staff through death, one hundred and twenty three (123) through voluntary retirement, and twenty five (25) through mandatory retirement, respectively. Furthermore, one (1) staff was reinstated, while thirteen (13) staff had their appointments terminated and eleven (11) were dismissed. Consequently, the staff strength of the Bank declined to 5,027 from 5,111 at end-December 2007. As part of the incentives to boost morale and enhance performance, the Bank promoted two hundred and eight (208) members of staff in 2008, comprising of 10 executives, 149 senior and 49 junior staff.

1.1.10 Medical Services

In order to sustain a virile and healthy workforce, the CBN undertook various medical interventions. These included the successful immunisation of six hundred and twelve (612) staff and their dependants against yellow fever, hepatitis B and typhoid. A significant cure rate was achieved for staff suffering from major illnesses, thus promoting employees’ health status. Also, the CBN sponsored medical screening for executives, drivers and staff working in hazardous areas.

1.1.11 Training

The CBN intensified efforts at capacity building, through staff development and skills enhancement programmes. As a result, it sponsored staff training programmes, including seminars, workshops, conferences and courses within and outside Nigeria. The staff benefited from a total of five hundred and forty-two (542) training slots covering specialized and generic programmes.

1.1.12 Recreational Activities

The CBN sponsored various sporting competitions in 2008, including football, lawn tennis and golf tournaments. The second edition of the CBN Junior Tennis Championship took place at the Lagos Tennis Club, Race Course, Lagos on May 13, 2008 while the 30th edition of the CBN Senior Open Lawn Tennis Championship was held at the National Stadium, Lagos on 24th May, 2008. The 29th edition of the Governor’s Cup Football Competition for all CBN branches was successfully staged at various centres. At the finals played at the Ahmadu Bello Stadium, Kaduna on 4th August, 2008, Abuja branch won the gold medal, while Maiduguri and Sokoto branches won the silver and bronze medals, respectively. The CBN also sponsored the second edition of the CBN Governor's Golf Cup Tournament, which took place at the Ibrahim Badamasi Babangida (IBB) International Golf and Country Club, Abuja, from 14th -16th November, 2008. In addition, the Bank's workplace gymnasium at the Corporate Head Office in Abuja continued to be patronized by staff.

1.1.13 Corporate Social Responsibility

The CBN continued to perform its corporate social responsibility function by promoting knowledge through conferences, seminars, workshops, etc, which were of strategic national interest as well as providing financial assistance to organizations and activity groups. These included:

- The Nigerian Economic Society,
- The Nigerian Statistical Association,
- The Nigerian Bar Association,
- The National Centre for Women Development,
- Finance Correspondents of Nigeria,
- The Association of Corporate Affairs Managers of Banks,
- Regulators/External Auditors Committee,
- The Yeye Orphanage,
- The Albino Foundation,
- The National Defence College,
- The Children Development Centre,
- The Society of Women Accountants of Nigeria,
- The Nigeria Accounting Standards Board,
- The Financial Institutions Training Centre, and
- The Chartered Institute of Bankers of Nigeria

1.1.14 Staff Social Responsibility

The staff of the CBN sustained their support for the less privileged in society through regular contributions to the Alms Collection Scheme of the Bank. The monetary contributions by staff were primarily designed to keep beggars off the streets of metropolitan cities. The total amount collected under the scheme amounted to ₦15.4 million, bringing the Bank's cumulative contributions since its inception in 2003 to ₦45.72 million at end 2008. Under the Scheme, the construction of the Alheri Leprosarium at Yangoji-Koroko, Kwali, Abuja and Owotu Clinic for destitutes, situated at Ikorodu,Lagos State that commenced in 2004 and 2006, respectively, were completed during the year. Two new projects, a boys' hostel for the St Mary and Al-Ansaar Orphanages, both in Abuja, were initiated under the Scheme in 2008, and construction is expected to commence in 2009.

1.2 RESEARCH AND COLLABORATIVE ACTIVITIES

The Bank conducted research, in line with its core mandates and functions, and disseminated data and information on key issues relating to the management of the economy. The process of constructing a Macroeconometric Model of the Nigerian Economy that would be proactive and would take into consideration the expectations of rational economic agents by being both backward and forward-looking, progressed satisfactorily. A preliminary draft report on the Model was submitted to the Management, and was subjected to a critical review by experts in a one-day seminar. The Bank was also involved in a number of empirical studies which culminated in published works, notable among which was "Promoting the Export Potential of Cassava, Sesame Seed and Rubber in Nigeria". An international seminar on Monetary Policy and Inflation-targeting was held on January 19, 2008. The Bank continued the collaborative arrangement with the National Bureau of Statistics (NBS) for generating a series of economic indicators, through the conduct of the *2007 National Economic Survey*. The regular publications of the CBN in 2008 included: the *2007 Annual Report; the 2008 Half–Year Economic Report*; the *Quarterly Journal*, and *the CBN Economic and Financial Review*. Furthermore, eight (8) seminar papers on topical issues were presented, some of which were published in the Bank's journal after being subjected to thorough peer review and editorial processes. Other papers earmarked for publication and at various stages of review include: 'Inflation Rate under an Inflation-targeting Framework'; 'Monetary Policy Transmission Mechanism in Nigeria'; 'Determinants of Capital Flows and Challenges of Macroeconomic Stability in Nigeria'; 'Determinants of Demand Pressure in Nigeria's Foreign Exchange Market'; 'Enhancing the Flow of Investment to the Real Sector of the Nigerian Economy'; 'A Preliminary Study on Workers' Remittance Environment in Nigeria'; and 'A Study on the Long-term Prospects of the Nigerian Rice Economy: Evidence from Niger and Kebbi States'. The Bank also initiated a series of publications for public educational on key macroeconomic concepts.

The Bank organised the annual Executive Policy Seminar with the theme, "Financial Sector Development: Challenges for Risk-based Supervision and Effectiveness of Monetary Policy Implementation". The proceedings of the seminar were being edited for publication. During the year, the process of selecting scholars for the CBN-initiated Diaspora/Visiting Scholar Programme continued. The programme is aimed at encouraging international scholarly research in the core areas of the Bank's activities. In recognition of the existence of a pool of expertise in various disciplines in the CBN, the Bank received and honoured requests for the presentation of lecture papers from various institutions, including regional organizations, such as the West African Institute for Financial and Economic Management (WAIFEM). Staff papers were also presented at organized professional conferences and workshops of the Nigerian Economic Society (NES), the Nigerian Statistical Association (NSA) and the Farm Management Association of Nigeria (FAMAN), among others.

1.3 CBN BALANCE SHEET

1.3.1 Income and Appropriation

The audited financial statements of the CBN for the year ended 31st December, 2008 indicated that total income was ₦307.0 billion, a decline of 0.7 per cent from the level in 2007. The decline in income largely reflected the decline in interest income, specifically from external sources. Operating cost increased by 69.7 per cent in 2008, thus, bringing the operating surplus before provisions to ₦8.8 billion, compared with ₦32.8 billion in 2007.

In accordance with the provisions of Part II, Section 5 (3) of the CBN Act, 2007 (as amended), the sum of ₦6.2 billion was due to the Federal Government while the balance accrued to general reserve.

1.3.2 Assets and Liabilities

The size of CBN's balance sheet increased in 2008 as total assets/liabilities rose by 14.7 per cent to ₦8.8 trillion. The assets position reflected the increase in external reserves (12.0 per cent), Nigerian government securities (222.4 per cent), loans and advances (41.8 per cent), investments (172.6 per cent) and fixed assets (5.8 per cent). The increase in total assets was compensated for on the liability side by the rise in deposits (31.8 per cent), notes and coins in circulation (20.2 per cent), IMF allocation of Special Drawing Rights (9.6 per cent), and other financial liabilities (5.5 per cent). The paid-up capital of the Bank remained at ₦5.0 billion while the general reserve increased by 3.5 per cent to ₦60.9 billion.

CHAPTER 2

MONETARY POLICY, SURVEILLANCE ACTIVITIES AND OPERATIONS OF THE CBN IN 2008

The challenges to monetary management in 2008 were the excess liquidity from huge fiscal injections, particularly the monetization and distribution of part of the excess crude oil receipts in the second quarter and the impact of the global financial crisis on the domestic economy, which manifested in the third quarter. Monetary policy was tightened in the second quarter, but relaxed in the third quarter to pre-empt the effects of the global financial crisis. In that regard, open market operations (OMOs) together with other complementary tools, including issuance of treasury bills, standing facilities and foreign exchange sales were used but could not effectively rein in the liquidity surge. Consequently, the indicative benchmarks for major monetary aggregates were missed.

The Monetary Policy Rate (MPR) was reviewed twice in the second quarter, owing to inflationary pressure. The tight monetary policy, coupled with the global credit crunch in late 2008, pushed interest rates generally above the levels in the preceding year. Also, the yields on fixed income securities across the various maturities were higher than in 2007. The Bank sustained the effective monitoring of the money market and appointed five new Money Market Dealers (MMDs) to replace the five others whose licences were revoked after careful review of their performance.

The Wholesale Dutch Auction System (WDAS) remained the main mechanism for foreign exchange management and stabilizing the exchange rate. Overall, the naira remained generally stable notwithstanding the depreciation in the last two months of the year. The Bank sustained the efforts to improve the payments and settlement landscape by harmonizing the clearing cycle to T + 2. During the year, deposit money banks (DMBs) deployed more ATMs and increased the number of Points of Sale (POS), thus, boosting public confidence in e-payments in Nigeria. Furthermore, the CBN continued the campaign for clean naira notes through various media and commenced initial processes for outsourcing three currency processing function for greater efficiency and cost effectiveness. The Bank sustained its developmental functions through the Agricultural Credit Guarantee Scheme Fund (ACGSF)and the microfinance programme, among others.

2.1 MONETARY OPERATIONS

2.1.1 Monetary and Credit Developments

Monetary management was challenging in 2008 as a result of the liquidity surfeit experienced in the second quarter and the tight liquidity condition occasioned by the impact of the global financial crisis on the domestic economy in the third and fourth quarters of the year. The major sources of the excess liquidity in the second quarter included the monetization of part of the excess crude oil receipts and the enhanced statutory allocations to the three-tiers of government, arising from the favourable crude oil price in the international market, as well as the payment of matured treasury bills. The financial markets, particularly the inter-bank segment, experienced relatively tight liquidity from end-August 2008, owing to the outflow of portfolio investment, occasioned by the global credit crunch. In order to ensure the stability of the financial system, the Central Bank of Nigeria undertook a number of monetary policy measures in mid-September 2008 to ensure adequate liquidity in the banking system.

Base money, the Bank's operating target for monetary policy, at ₦1,549.3 billion, exceeded the indicative benchmark of ₦1,445.0 billion for 2008. Provisional figures indicated that the growth in broad money (M_2) was 57.8 per cent at end-December 2008, compared with 44.2 per cent at end-December 2007 and the indicative benchmark of 45.0 per cent for fiscal 2008. Narrow money (M_1) also grew by 55.9 per cent at end-December 2008. The rise in money stock was attributable largely to the significant increase in the domestic credit (net) of the banking system. Aggregate bank credit to the domestic economy (net) increased by 84.2 per cent, compared with the growth of 276.4 per cent at end-December 2007. The expansion in net domestic credit reflected the significant increase of 59.4 per cent in credit to the private sector. Credit to the Federal Government declined by 31.2 per cent, compared with a decline of 22.3 per cent at the end of the preceding year, thus sustaining the government position as a net creditor to the system during the review period.

Table 2.1: Key Policy Targets and Outcomes (Per cent)

	2005		2006		2007		2008 2/	
	Target	Outcome	Target	Outcome	Target	Outcome	Target	Outcome
Growth in base money	6.5	4.2	7.5	5.5	3.3	48.6	20.8	**29.6**
Growth in broad money (M2)	15.0	24.4	27.0	43.1	24.1 1/	44.2	45.0	**57.8**
Growth in narrow money (M1)	11.4	29.7	n.a.	32.2	-	36.6	-	**55.9**
Growth in aggregate bank credit	22.5	14.5	-72.3	-69.1	-29.9	276.4	65.96	**84.2**
Growth in bank credit to private sector	22.0	30.8	30.0	32.1	30.0	90.8	54.7	**59.4**
Inflation rate	10.0	11.6	9.0*	8.5	9.0	6.6	9.0	**15.1**
Growth in real GDP	**5.0**	**6.5**	**7.0***	**6.0**	**10.0**	**6.5**	**7.5**	**6.4**

1/ Revised during the year from 21.0 per cent originally programmed at the beginning of the year

2/Provisional.

Table 2.2: WAMZ Convergence Criteria

	Target	Achievement		
		2006	2007	**2008**
Inflation rate	< 5.0 per cent	8.5	6.6	**15.1**
Ways & Means Advances	≤ 10.0 per cent of retained revenue of the Government	Nil	Nil	**Nil**
Deficit to GDP Ratio	≤ 4.0 per cent	0.6	0.5	**0.2**
Gross Official Reserve	≥ 6 Months of import cover	16.7	19.3	**13.8**

2.1.2 Liquidity Management

The liquidity condition was mixed in 2008. Liquidity in the money market was relatively high in the second quarter of 2008. The development arose mainly from the enhanced statutory allocations to the three tiers of government, following the phenomenal increase in crude oil prices in the international market and the monetization of part of the proceeds of the excess crude account. At ₦1,247.2 billion, the Bank met the September reserve money indicative benchmark of ₦1,358.7 billion. The reserve money for March, June and December, at ₦1,200.0 billion, ₦1,517.7 billion and ₦1,549.3 billion, however, exceeded their respective benchmarks of ₦1,155.2 billion, ₦1,124.8 billion and ₦1,445.0 billion, respectively. In order to ensure an optimum banking system liquidity, a number of monetary policy measures were undertaken. The measures included a review of the Monetary Policy Rate (MPR) and the cash reserve requirement (CRR) as well as the issuance of treasury bills. In the second quarter, when the system faced a liquidity surfeit, contractionary policy measures were implemented, including an aggressive utilization of open market operations (OMO) as the main tool for managing liquidity and the upward review of the Monetary Policy Rate (MPR) from 9.5 per cent in January to 10.0 and 10.25 per cent in April and June, respectively. In addition, treasury bills were issued for liquidity management, while the cash reserve requirement (CRR) was increased by 100 basis points, from 3.0 per cent to 4.0 per cent in June 2008. By September 2008, when liquidity tightness manifested and it became necessary to pre-empt the effects of the global liquidity and credit crunch on the domestic financial markets, a special meeting of the Monetary Policy Committee (MPC) was held at which the monetary policy stance was relaxed. The major monetary policy decisions taken to ensure money market liquidity were the reduction in the MPR by 50.0 basis points from 10.25 to 9.75 per cent; a reduction of CRR from 4.0 to 2.0 per cent; and a reduction of the liquidity ratio from 40.0 to 30.0 per cent. Furthermore, repo transactions were allowed against eligible securities for up to 360 days as against the hitherto over-night lending policy. Moreover, the CBN commenced the buying and selling of securities through the two-way quote trading platform. In addition, the discount window operations were expanded to accomodate private sector securities other than Federal Government instruments. Although the banking system remained liquid, the measures, impacted negatively on the foreign exchange market as the naira depreciated sharply in November and December 2008. This development led to a reduction of banks' foreign exchange net open position from 20.0 to 10.0 per cent of shareholders' fund and the CBN's active participation in the daily inter-bank foreign exchange market by buying and selling through the two-way quote in December 2008.

2.1.3 Interest Rate Policy and Developments

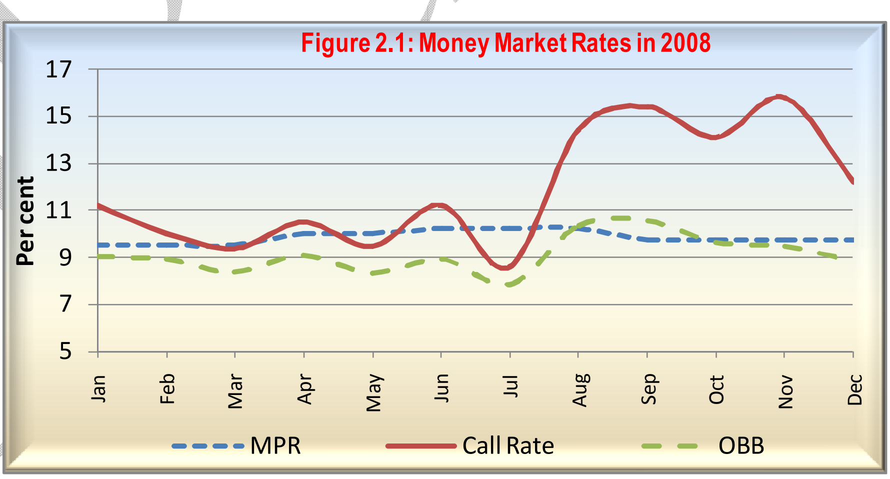
The Bank retained its policy of a market-based interest rates regime in 2008. The MPR remained the operating instrument to influence the direction of interest rate. In order to influence the direction of interest rate, in line with monetary conditions, the MPR was reviewed upward by 50 and 25 basis points in April and June 2008, respectively. The Rate was, however, reviewed downward by 50 basis points in September 2008 to minimize the contagion effect of the global financial crisis.

2.1.3.1 Money Market Rates

Money market interest rates were relatively high in 2008, following the tight liquidity condition in the market. The development was due to the low level of matured treasury bills and the relatively low inflow of liquidity. With the continued rise in inflation, which led to the upward review of the MPR in April and June, rates were generally higher than in the preceding year. The weighted average inter-bank call rate, tenored rate and open-buy-back rate were 11.86, 14.32 and 9.11 per cent, respectively, compared with 8.15, 12.10 and 7.91 per cent in 2007. In line with the trend at the inter-bank market, the Nigerian Inter-bank Offered Rate (NIBOR), the 7-day and 30-day tenors averaged 12.47 and 14.32 per cent, respectively, up from 8.47 and 12.1 per cent in 2007.

Table 2.3: Money Market Rates (Per cent)

		Weighted Average			
Month	MPR	Call Rate	OBB	NIBOR 7-days	NIBOR 30-days
Average 2007	**9.13**	**8.15**	**7.91**	**8.47**	**12.10**
Jan-08	9.50	11.22	9.01	11.02	12.99
Feb-08	9.50	10.04	8.91	10.72	12.76
Mar-08	9.50	9.37	8.36	10.06	12.12
Apr-08	10.0	10.51	9.07	10.82	12.78
May-08	10.0	9.47	8.34	10.73	13.15
Jun-08	10.25	11.23	8.92	11.36	13.46
Jul-08	10.25	8.61	7.84	10.41	13.06
Aug-08	10.25	14.45	10.36	14.05	15.34
Sep-08	9.75	15.42	10.56	15.80	16.76
Oct-08	9.75	14.09	9.64	14.67	15.63
Nov-08	9.75	15.77	9.47	16.68	17.98
Dec-08	9.75	12.17	8.83	13.35	15.85
Average 2008	**9.85**	**11.86**	**9.11**	**12.47**	**14.32**



2.1.3.2 Deposit Rates

With the exception of the average savings rate, which fell slightly by 0.4 percentage point to 3.6 per cent at end-December 2008, other rates on deposits of various maturities rose to a range of 12.4 – 12.9 per cent at end-December 2008, from a range of 7.9 – 10.0 per cent at end-December 2007. The average term deposit rate also rose to 11.96 per cent from 8.8 per cent at end-December 2007. The increase in banks' deposit rates was attributable to the upward review of the MPR in the latter part of the year, as well as the tight liquidity condition in the banking system.

2.1.3.3 Lending Rates

The weighted average maximum lending rate rose slightly by 2.97 percentage points to 21.18 per cent at end-December 2008. The spread between the average term deposits and maximum lending rates narrowed to 9.2 percentage points in 2008, from 9.5 percentage points in 2007. The relatively narrow spread between the deposit and lending rates implied improved efficiency in banks' intermediation process. The weighted average prime lending rate, however, declined from 16.46 per cent in 2007 to 16.08 per cent.

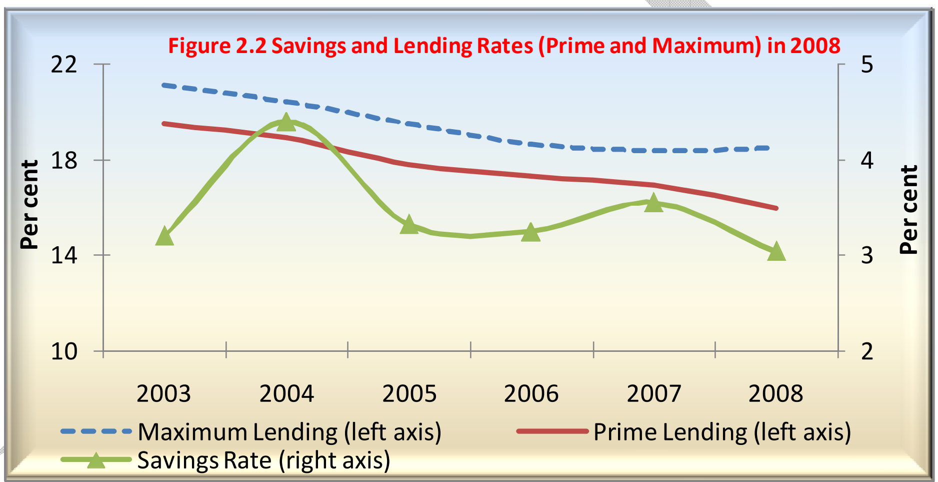


Figure 2.2 Savings and Lending Rates (Prime and Maximum) in 2008

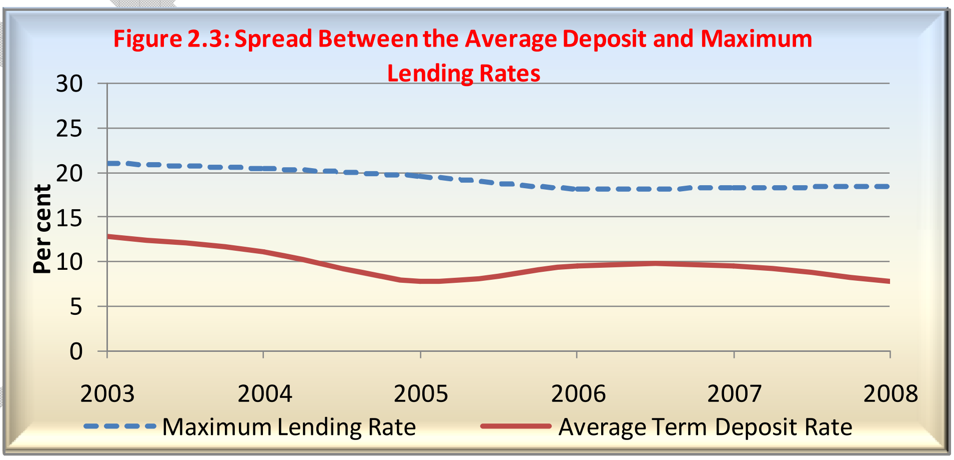


Figure 2.3: Spread Between the Average Deposit and Maximum Lending Rates

With the actual year-on-year inflation rate at 15.1 per cent in December 2008, deposit rates were all negative, while lending rates were positive, in real terms.

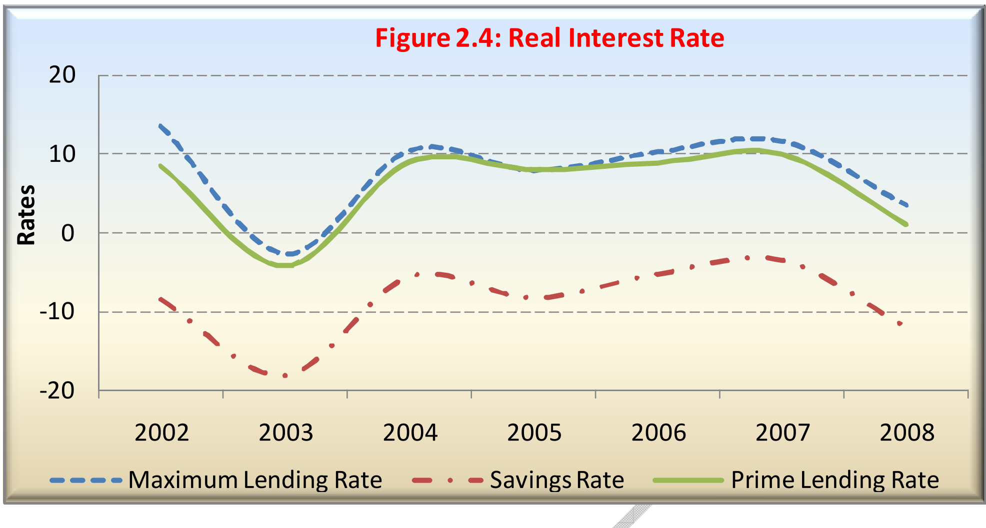


Figure 2.4: Real Interest Rate

2.1.3.4 Return on Fixed Income Securities - The Yield Curve

Primary dealership and the two-way quote trading platform continued in the fixed income securities market in 2008. Analysis of the daily movement of the yield on various maturities revealed that the shorter maturities recorded more volatility than the longer maturities in 2008. The yield on long-term bonds, being essentially an average of a series of current and expected future yields, typically exhibited greater stability. Furthermore, yields, particularly on medium-to-longer maturities, were relatively higher than the return in the preceding year. However, the yields on shorter maturities were lower in the last quarter of the year, reflecting increased demand.

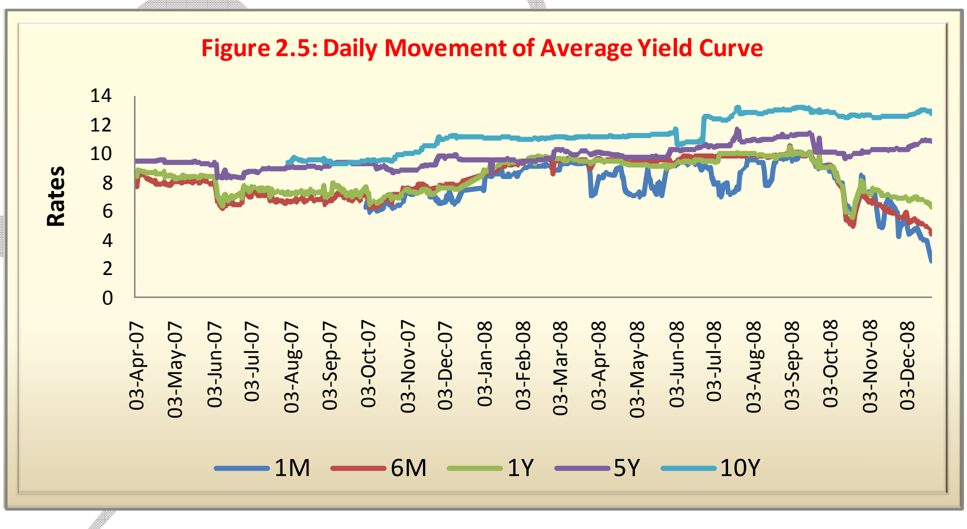
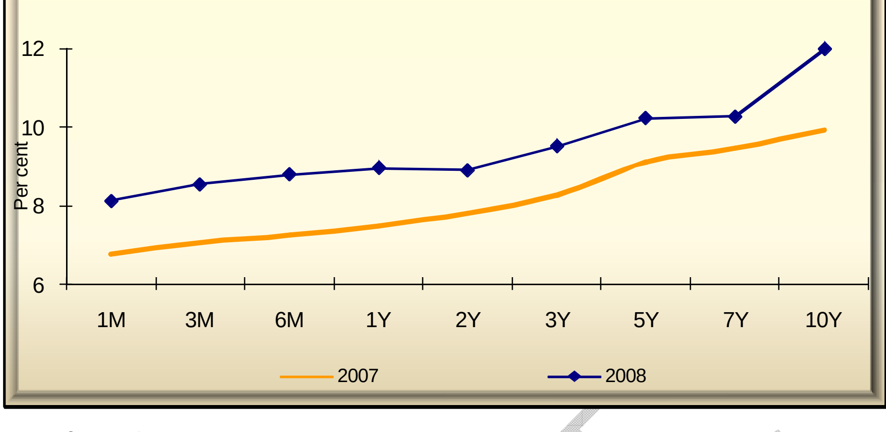


Figure 2.5: Daily Movement of Average Yield Curve

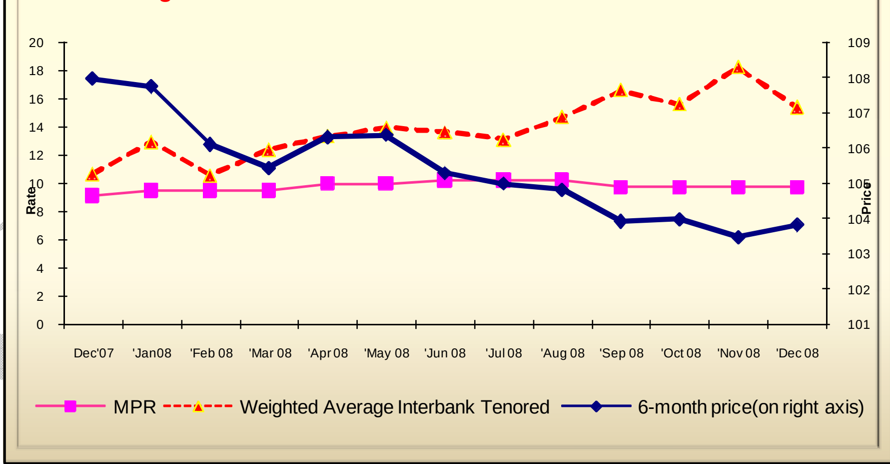
The yield curve on fixed income securities was upward-sloping in 2008. On average, the par yield curve and the Theoretical Spot Rate Curve (TSR-curve) were positively sloped. The development showed that the term structure of interest rates was positively sloped. Typically, the yield on each maturity was less than the corresponding spot rate across the entire yield curve. There was an upward parallel shift of the yield curve in 2008, relative to the preceding year, although with a higher pull at the medium-to-long end. The development reflected the effects of the upward review of the MPR and the rise in nominal short-term rates.

Figure 2.6: Government Bonds: Annual Average Yield



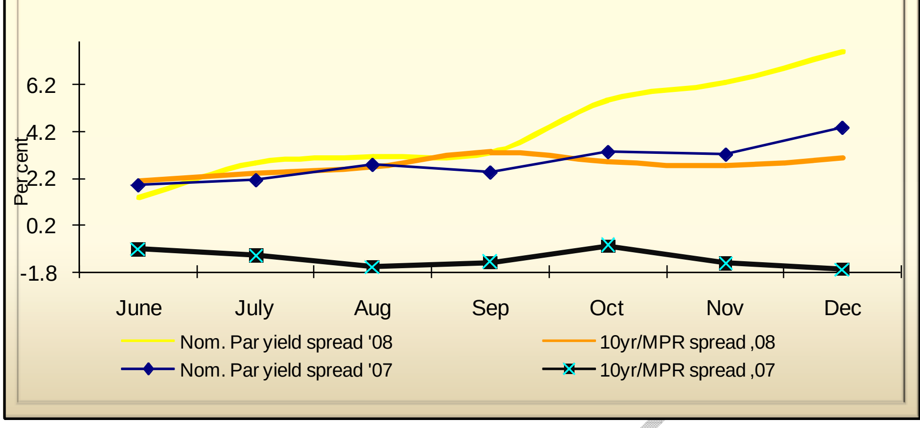
A plot of the price of the 6-month maturity and weighted average inter-bank tenored rates showed that bond price and interest rate typically moved in opposite directions, especially between June and December 2008. The development reflected the upward adjustments in the Monetary Policy Rate in April and June and the tight liquidity condition in the market in September through November, which influenced the upward movement of rates in the money market and the yield on short-term maturity.

Figure 2.7: Interest Rate and Price of 6-Month Bond



The slope of the yield curve was steeper in 2008 than in the preceding year, as the annual average yield spread (the difference between the yield on longest and shortest maturities) widened to 7.62 percentage points, from 3.14 percentage points in the preceding year. The development signalled the expectation of increased economic activities in the near future. Also, the steeper yield curve indicated that investors expected higher inflation and interest rates in the future. With respect to the long-term yield and MPR, the slope of the yield curve widened, as the yield spread stood at 3.1 percentage points in 2008, up from 0.43 percentage point in 2007.

Figure 2.8: Yield Spread in 2007 and 2008



2.1.4 Payments, Clearing and Settlement Developments

The development of the payments system continued in 2008 with the harmonisation of the clearing cycle, which effectively reduced the clearing cycle to T + 2. Furthermore, the CBN established six (6) new clearing centres, bringing the number of clearing centres in the country to twenty-eight (28). The development boosted cheque usage as the volume of cheques cleared in the system grew significantly by 51.7 per cent, compared with 33.3 per cent in 2007. Also, the DMBs continued to deploy more Automated Teller Machines (ATMs), even in some remote locations, to further enhance public awareness and confidence in the use of card payments.

2.2 CURRENCY AND BRANCH OPERATIONS

2.2.1 Issue of Legal Tender

In its effort to ensure a customer-focused and proximate service delivery, the Bank opened six (6) new currency centres at Awka, Asaba, Umuahia, Lokoja, Osogbo and Gombe. The Bank commenced preparations for the out-sourcing of currency processing and distribution, in order to improve and sustain its clean notes policy, achieve efficiency and cost-effectiveness in currency processing and management, as well as conform to best practice. Thus, the CBN issued guidelines, sensitized key stakeholders and the general public and invited bids for the scheme. Furthermore, media campaigns to sensitize the public on the sanctions against the abuse of the naira was sustained throughout the year.

The continued restructuring of the Nigerian Security Printing and Minting (NSPM) Plc produced satisfactory outcomes in 2008 as the volume of banknotes printed by the company rose significantly. At 2,650.28 million pieces, the banknotes printed increased by 58.2 per cent over the volume in the preceding year. The increase in output was attributable to the installation of new machines and the upgrading of equipment at both the Abuja and Lagos factories, staff motivation and training, as well as the strengthening of rapport with stakeholders in the industry.

2.2.2 Currency in Circulation (CIC)

At end-December 2008, CIC stood at ₦1,155.1 billion, an increase of 20.3 per cent over the level at end-December 2007. The development was due largely to the monetization of large foreign exchange inflows from crude oil sales in the first half of 2008, as well as the seasonal demand for currency for the purchase of goods and services for end-of-year festivities. The growth in CIC in 2008 was, however, lower than the growth of 23.3 per cent in the preceding year.

Table 2.4: Currency Structure

Coins	2007		2008	
	Value (₦ billion)	Volume (million)	Value (₦ billion)	Volume (million)
₦2	0.184	92.0	0.210	104.49
₦1	0.615	615.4	0.532	532.20
50k	0.390	728.0	0.233	466.00
25k	0.005	19.0	0.060	240.65
10k	0.0002	2.2	0.024	235.06
1k	0.0	0.0	0.001	51.22
Sub	**1.1900**	**1,456.6**	**1.060**	**1,629.62**
Notes				
₦1000	264.4	264.4	572.91	572.91
₦500	353.6	707.2	400.93	801.86
₦200	251.2	1,256.0	114.32	571.62
₦100	49.5	494.9	32.38	323.80
₦50	17.6	351.3	11.4	228.04
₦20	16.5	823.0	16.55	827.29
₦10	3.6	355.9	2.83	283.20
₦5	2.9	579.0	2.67	533.07
Sub	**959.3**	**4,831.7**	**1,153.99**	**4,141.79**
Total	**960.490**	**6,288.3**	**1,155.050**	**5,771.41**

Figure 2.9: Ratio of Currency in Circulation to M2

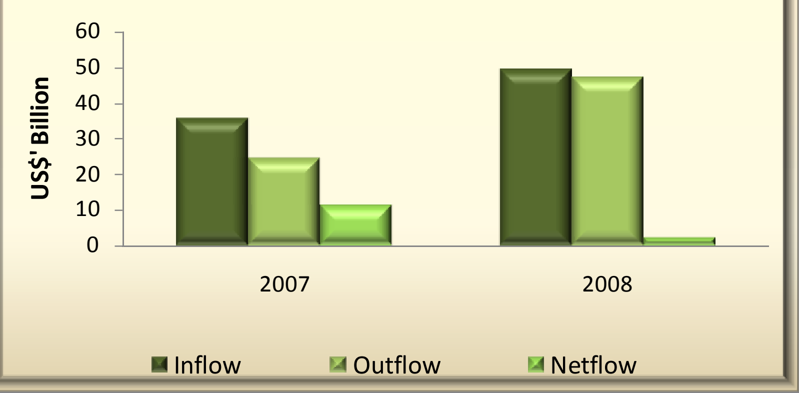
2.3 FOREIGN EXCHANGE MANAGEMENT

2.3.1 Foreign Exchange Flows

The inflow and outflow of foreign exchange through the economy stood at US$106.8 billion and US$47.2 billion, respectively, representing an increase of 44.2 and 81.1 per cent over the levels in the preceding year. Consequently, a net inflow of US$59.6 billion was recorded in 2008, compared with US$48.0 billion in 2007. A disaggregation of the total foreign exchange inflow showed that receipts through the CBN and autonomous sources increased by 38.7 and 49.4 per cent to US$49.3 billion and US$57.5 billion, respectively. The increase in autonomous inflows was accounted for by the rise in invisibles by 49.5 per cent over the preceding year to US$55.9 billion. This resulted from the sustained growth in the inflow of home remittances. The total foreign exchange outflow through the economy from autonomous sources, which was mainly for imports of goods and services, amounted to US$1.1 billion, reflecting a decline of 37.2 per cent below the preceding year's level.

Total inflow of foreign exchange, through the CBN,increased by US$13.8 billion or 38.7 per cent to US$49.3 billion in 2008. The oil sector accounted for US$44.7 billion or 90.6 per cent of the total, compared with US$29.3 billion or 82.5 per cent in 2007. The increased inflow was attributable to the favourable crude oil prices in the international market up till the third quarter of the year. Total foreign exchange outflow through the CBN, which accounted for 99.7 per cent of the total outflow through the economy, increased significantly by 93.1 per cent to US$47.0 billion over the level in the preceding year.

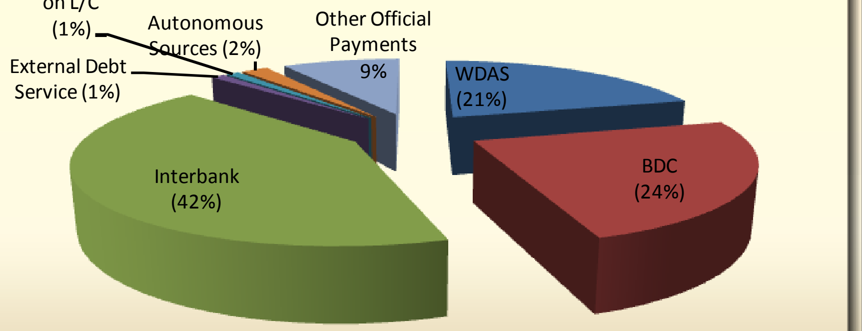
Figure 2.10: Foreign Exchange Flows Through the CBN



Analysis of the outflow showed that sales by the CBN under the Wholesale Dutch Auction System (WDAS) accounted for 88.6 per cent, other official payments 9.3 per cent, while both drawings on letters of credit and external debt service accounted for the balance of 2.1 per cent. Under the WDAS utilization, the CBN increased funding to meet the foreign exchange demand in the economy, particularly during the last quarter of the year. As a percentage of total foreign exchange utilization, the WDAS sales accounted for 24.2 per cent, inter-bank 27.4 per cent, and direct cash sales to independent and bank-owned BDCs, 48.4

per cent. As a result, the net inflow through the Bank declined sharply to US$2.3 billion in 2008 from US$11.2 billion in 2007.

Figure 2.11: Foreign Exchange Disbursements in 2008

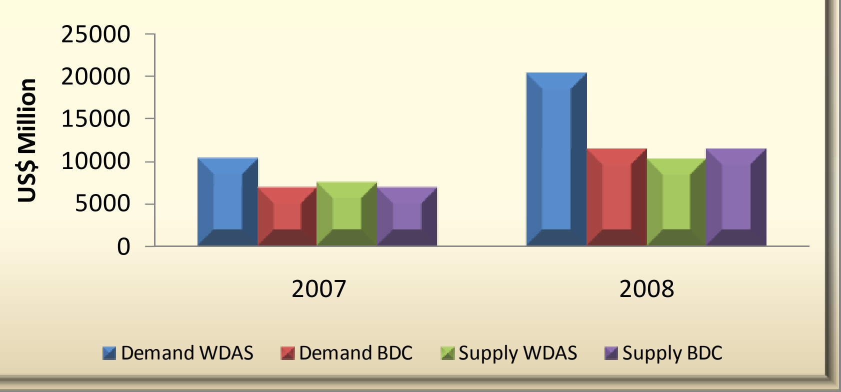


2.3.2 Demand for and Sales of Foreign Exchange Under the Wholesale Dutch Auction System (WDAS)

The Wholesale Dutch Auction System (WDAS) remained the main mechanism for the management of foreign exchange to achieve exchange rate stability.

Ninety-three (93) trading sessions were held under the WDAS during 2008, compared with ninety-four (94) in 2007. At US$31.7 billion, the demand for foreign exchange at the WDAS and BDC segments increased significantly by 84.6 per cent over the level in the preceding year. The demand pressure was exacerbated in the fourth quarter by the repatriation of the proceeds of the divestment of portfolio investments and dividends by foreign investors as the global financial and economic crisis deepened.

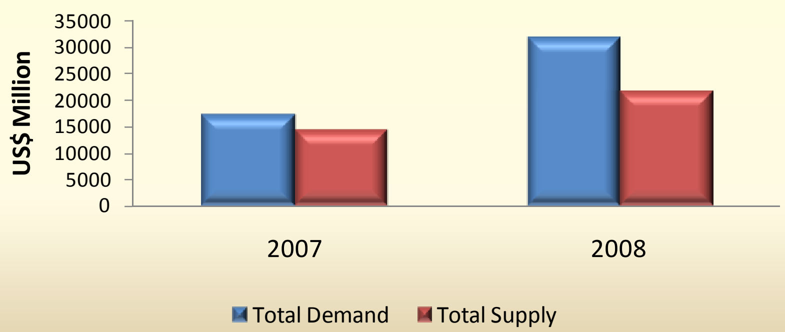
Figure 2.12: Demand for and Supply of Foreign Exchange by WDAS and BDC



Other contributory factors were purchases of foreign exchange by some oil companies for the importation of premium motor spirit (PMS), as well as the panic purchases at the foreign exchange market that ensued after the initial depreciation of the naira in the last quarter of 2008. Consequently, foreign exchange sold by the CBN at the WDAS and the BDC windows amounted to US$10.1 billion and US$11.4 billion, respectively, compared with US$7.5 billion and US$6.8 billion in the preceding year. The aggregate amount of foreign exchange sold at the WDAS window and cash sales to independent and bank-owned BDCs stood at US$21.5 billion, indicating an increase of 50.0 per cent over the level in 2007.

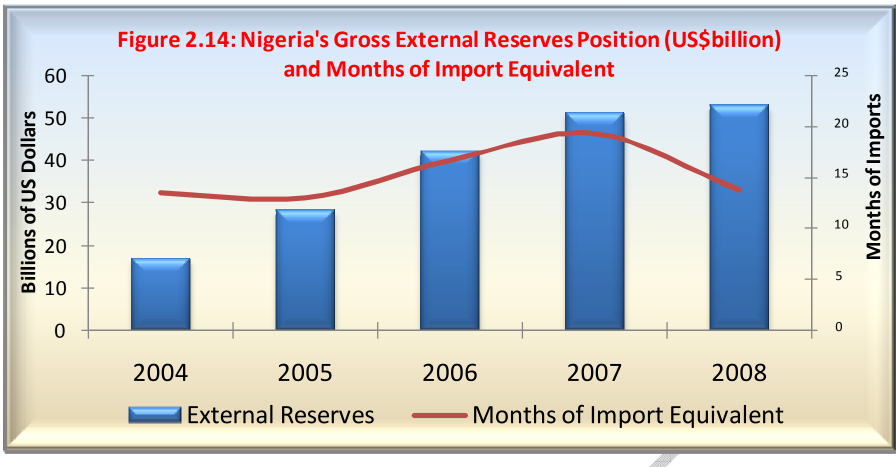
Foreign exchange inflow to the inter-bank market was relatively high from January through September 2008. Consequently, sales under the WDAS during the period was relatively low. In order to maintain exchange rate stability, the CBN intervened to purchase and sell foreign exchange in the market at various times during the year. This resulted in sales of US$20.2 billion, compared with US$1.8 billion in 2007. The Bank also purchased the sum of US$0.9 billion, compared with the purchase of US$2.4 billion in 2007. Under the swap transactions, the CBN exchanged a total sum of US$1.0 billion, compared with US$0.6 billion in 2007.

Figure 2.13: Demand for and Supply of Foreign Exchange



2.3.3 External Reserves Management

Nigeria's gross external reserves as at 31st December, 2008 stood at US$53.0 billion, an increase of 3.2 per cent over the level of US$51.3 billion at end-December, 2007. The amount of reserves could support 13.8 months of import cover, compared with 19.3 months in the preceding year. In 2008, seven (7) additional asset managers were funded, thus bringing the total funded to thirteen (13). The net asset value of the externally managed portfolio as at December 31, 2008 increased by US$0.4 billion or 4.5 per cent from the initial funding of US$8.8 billion to US$9.2 billion.



The Bank took some major decisions in 2008 in order to ensure a more efficient external reserves management. These included the diversification of external reserves to include US agencies and supra-national securities, while special guidelines for deposit placement with subsidiaries or offshore branches of Nigerian banks were issued. The global financial crisis in 2008 resulted in a decrease in returns on the Bank's reserves. However, the principal remained intact.

In line with the Bank's policy on a Partnership Agreement between local and foreign banks on the management of external reserves, the capacity of staff of local banks was enhanced through various training programmes, including attachments. Technical support was also provided in the areas of research, special reports, product news, position and risk reports relating to the CBN portfolio, among others. This resulted in some landmark achievements, including the offering and listing on the London Stock Exchange of Guaranty Trust Bank's (GTB's) US$824.0 million Global Depository Receipts (GDRs). In addition, a number of foreign banks have extended credit lines to Nigerian banks for trade finance.

2 .4 SURVEILLANCE REPORT ON THE ACTIVITIES OF FINANCIAL INSTITUTIONS

2.4.1 Banking Supervision

The CBN intensified its supervisory and surveillance activities in the banking sector in 2008. It adopted various approaches, including a regular appraisal and review of banks' periodic returns, spot checks, monitoring and special investigations, the adoption of Risk-based Supervision/Compliance Examination (Hybrid), among others. As at end-December 2008, the web-enabled Credit Risk Management System (CRMS) database had an outstanding balance of ₦3.1 trillion, involving 60,273 borrowers, as against ₦2.1 trillion and 51,696 borrowers in the preceding year. The development reflected the growing public confidence in the banking system, despite the global financial meltdown.

Table 2.5: Borrowers from the Banking Sector				
Description	2007	2008	Absolute Change	% Change
Total No. of Borrowers	51,696	60,273	8,577	**16.59**
No. of Borrowers with credits	23,626	26,327	2,707	**11.43**
No of Credits/facilities	28,825	32,693	3,868	**13.42**
Total outstanding balance (N'000)	**2,127,799,205**	**3,110,905,923**	**983,106,718**	**46.20**
Derived from the CRMS				

The Bank issued a number of circulars and guidelines to the DMBs as part of its efforts to promote a safe and sound financial system. These included:

- A public notice on the payment of private sector depositors of the 14 banks that had their licences revoked on January 16, 2006;
- A circular to all banks and discount houses on a common accounting year-end;
- Rescheduling of specific debts;
- A circular to all banks on off-shore expansion;
- Reform of discount houses in Nigeria;
- A directive to forward the account details of illegal fund managers or wonder banks to the CBN;
- The de-marketing of banks by other banks;
- The exclusivity clauses in the agreements signed by Nigerian banks with international money transfer operators;
- Returns on interest rates on deposits and loans; and
- The deployment of resident examiners to banks.

As part of its on-going efforts to improve efficiency in its supervisory process, the CBN created a Supervisory Methodology Group Unit in 2008. The Group was charged with the responsibility for further developing and supporting the implementation of the Risk-based Supervision Framework adopted in 2007. In that regard, the Group reviewed the existing supervisory framework and developed three guidance notes, namely, Risk Assessment Summary (RAS), Knowledge of Business (KoB), and identification of significant activities. In addition, it developed a supervisory strategy to provide support and understanding of the framework.

On-site verification of the banks' post-consolidation integration status indicated improved performance over the preceding year. The exercise revealed that sixteen (16) banks, out of the nineteen (19) that required integration, made substantial progress, while the remaining three (3) achieved an appreciable level of integration, compared with twelve (12) and six (6), respectively, in the preceding year.

An Inter-agency Committee comprising of the CBN, the Security and Exchange Commission (SEC), the Nigeria Deposit Insurance Corporation (NDIC), the Corporate Affairs Commission (CAC), the Economic and Financial Crimes Commission (EFCC), and the Nigeria Police Force (NPF) was inaugurated in February 2008 with a view to adopting a common framework in addressing the menace of illegal fund managers or wonder banks. Following publications in the national newspapers by the Committee requesting members of the public to submit claims against any illegal fund manager or wonder bank, 417 companies operating illegally were identified, with about ₦100.0 billion funds trapped in those companies. Through the collaborative efforts of the Committee, the SEC has charged and obtained judgment against 30 out of the 417 illegal fund managers or wonder banks at the Investments and Securities Tribunal (IST), while the remaining were being investigated.

2.4.2 Prudential Examination

Income audits, verification of capital and special investigations were conducted on some banks to check the authenticity of statutory reports and returns to the CBN. The examination focused on the level of income and profits in their audited accounts, liquid assets, as well as the legitimacy of funds used for recapitalisation.

Available data from the banks revealed that two (2) banks failed to meet the statutory minimum Capital Adequacy Ratio (CAR) of 10.0 per cent at end-December 2008, compared with three (3) at end-December 2007. Two (2) banks defaulted on the prescribed minimum liquidity ratio (LR) of 30.0 per cent at end-December 2008. The same number of banks defaulted on the prescribed minimum liquidity ratio (LR) of 40.0 per cent at end-December 2007. The defaulting banks were appropriately penalized.

Pre-licensing inspections were conducted on three finance companies that were operating with approvals-in-principle. Out of the three (3), two (2) were granted final licences to operate as finance companies. The process of adopting new prudential requirements or standards for the regulation of Development Finance Institutions (DFIs) received a boost with the issuance of the final copy of the "Prudential Standards and Guidelines for African Development Banks and Finance Institutions" and the selection of Nigeria's Bank of Industry (BOI) as one of the African DFIs for the pilot scheme on the rating of DFIs. The document which has been drawn up under the aegis of the Association of African Development Finance Institutions

(AADFIs), is expected to serve as the basis for regulating these institutions for enhanced operational sustainability and greater efficiency.

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

The CBN continued to monitor compliance with the provisions of the "Code of Corporate Governance for Banks in Nigeria" in 2008, through the appraisal of DMBs' monthly reports of their compliance status as well as periodic on-site verification. The exercise revealed that most of the banks complied with a number of the provisions, while those that failed to comply were sanctioned. In order to address the observed problems and challenges encountered in implementing the provisions of the code, the Bank commenced its review in 2008.

2.4.4 Financial Crime Surveillance/Money Laundering

The CBN carried out a number of examinations on Anti-Money Laundering/Combating Financing Terrorism (AML/CFT). Some of the problems observed while carrying out the money laundering examinations included difficulty in obtaining information on Politically Exposed Persons (PEP), lack of transparency by operators and lack of continuous training for staff.

2.4.5 Routine Examination

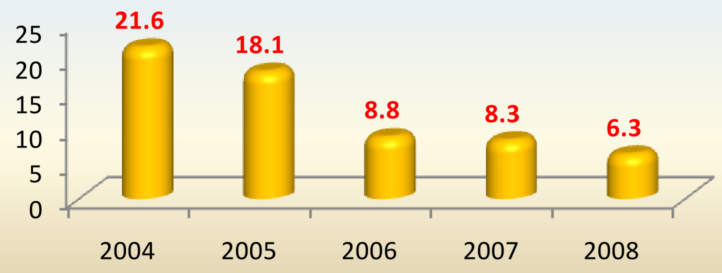
Routine examinations were conducted on banks to ascertain, among other things, the deposit trends, facilities granted in respect of mortgage, consumer items, share purchase as well as the level of performing and non-performing loans to all sectors. Following the recent upsurge in the demand for foreign exchange, the Bank also conducted both target and routine examinations on some financial institutions to ascertain the level of utilization of foreign exchange disbursed to them. The examination of the foreign exchange operations of the institutions revealed various infractions, including improper record-keeping, incomplete documentation by banks, and wrong use of unconfirmed letters of credit. The errant banks were appropriately sanctioned.

2.4.6 Banking Sector Soundness

An assessment of the health of the banking sector indicated that the banks were generally sound. The assessment indicated that the banks did not exhibit serious weaknesses as to cause supervisory concern, despite the ravaging effects of the global financial crisis.

The average Capital Adequacy Ratio (CAR) of the banks was consistently high and above the stipulated minimum of 10.0 per cent. However, two (2) banks could not meet the stipulated minimum ratio, compared with three (3) at end-December 2007. The asset quality of the banks as measured by the ratio of non-performing loans to industry total loans improved in 2008 at 6.3 per cent, reflecting a 2.0 percentage points decline from the preceding year's level. The industry liquidity ratio was above the 30.0 per cent minimum requirement, with only two (2) banks failing to meet the stipulated ratio, as in the preceding year.

Figure 2.15: Banks' Non-Performing Loans (% Total Credit)



2.4.7 Examination of Other Financial Institutions

The CBN conducted on-site examination of 430 Microfinance Banks (MFBs), 67 Primary Mortgage Institutions (PMIs), 77 Finance Companies (FCs), and 4 Development Finance Institutions (DFIs).

The examination of the MFBs was conducted to ascertain the extent of compliance of the newly converted or licensed MFBs with the terms of their business plans and the extant rules and regulations as well as ensure a greater focus on core microfinance business. The exercise revealed a generally poor asset quality and weak corporate governance. On the average, however, the institutions were reasonably well capitalized above the prescribed minimum level of ₦20.0 million.

The examination of the PMIs revealed, among others, the continued preponderance of commercial assets over mortgage assets in their loan portfolios, which is an indication that the operational focus of the PMIs was at variance with their mandate of promoting housing finance/mortgage banking. Regular prudential returns were received from eighty (80) PMIs, compared with seventy two (72) in 2007, while fifteen (15) PMIs were penalized for late and non-rendition of returns and audited accounts.

Routine examination conducted on seventy-seven (77) FCs indicated that fifty-five (55) were actively involved in finance company business, while the remaining twenty-two (22) had either ceased operations, were undergoing restructuring, or mainly engaged in capital market activities. Other issues of regulatory concern, which the affected institutions were directed to address, were issues of under-capitalization, poor corporate governance, and unskilled and/or incompetent staff.

On-site examination was carried out on four (4) out of the five (5) DFIs. These included the Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB), the Federal Mortgage Bank of Nigeria (FMBN), the Bank of Industry (BOI), and the Nigerian Export-Import Bank (NEXIM). The exercise revealed a deterioration in asset quality and poor corporate governance in most of the DFIs, among other things. There was, however, an improvement in the shareholders' fund of all the institutions except the FMBN.

Spot checks conducted on selected 182 BDCs indicated that most of the institutions breached operational guidelines, particularly with regard to the mark-up margins and the utilization of foreign exchange allocations. Appropriate sanctions were imposed on the erring institutions.

2.5 DEVELOPMENTAL FUNCTIONS OF THE CBN

2.5.1 The Agricultural Credit Guarantee Scheme (ACGS) Fund

The CBN guaranteed a total of 52,787 loans valued at ₦6.7 billion in 2008, thus bringing the cumulative loan from the inception of the Scheme in 1978 to 593,712 loans valued at ₦26.1 billion. Analysis of loans guaranteed by states showed that Zamfara State had the highest volume and value of 9,472 loans (17.9 per cent) and ₦0.8 billion (11.3 per cent), followed by Katsina State with 6,821 loans or 12.9 per cent valued at ₦0.5 billion or 7.1 per cent of total. Benue State placed third with 6,452 loans or 12.22 per cent valued at ₦0.4 billion or 5.6 per cent of the total.

A sub-sectoral analysis of the loans guaranteed indicated that food crops got the highest volume of 46,753 loans valued at ₦5 billion, followed by livestock with 3,643 loans valued at ₦1.1 billion and fisheries at 932 loans valued at ₦0.4 billion. Cash crops had 893 loans valued at ₦0.2 billion. Mixed farming had no loans while others had 575 loans valued at ₦0.6 billion.

The number and value of recovered loans in the review period stood at 31,171 valued at ₦ 3.1 billion, bringing the total number and value of fully repaid loans since the inception of the Scheme to 408,426 and ₦14.4 billion, respectively. Further analysis of the repaid loans in terms of states showed that Kwara State had the highest number of repaid loans of 4,367 or 14.0 per cent valued at ₦331.5 million (10.8 per cent). Jigawa State came second with 2,855 loans (9.2 per cent) valued at ₦235.2 million, followed by Adamawa State with 2,403 loans (7.7 per cent) valued at N477.2 million (15.6 per cent) of the total repaid loans. In terms of claims settlement, 44 claims under the ACGSF valued at ₦2.0 million were settled in 2008, indicating a decrease of 73.3 and 91.4 per cent, respectively, compared with 2007. A breakdown of guaranteed loans by banks showed that nine (9) DMBs granted 48,670 loans valued at ₦6.3 billion while 4,117 loans valued at ₦0.4 billion were granted by MFBs.

Table 2.6: Distribution of Loans under the ACGSF by Value of Loans in 2008		
Category	**Volume**	Value in ₦' million
₦20,000 and below	1,809	**33.15**
₦20,001- ₦50,000	23,180	**919.24**
₦50,001 – ₦100,000	12,180	**1.04**
Above ₦100,000	15,097	**4.72**
Total	**52,266**	**958.15**

2.5.2 The Trust Fund Model (TFM)

The Bank signed thirty-eight (38) TFM and pledges in 2008, thus, bringing the number of MoUs signed under the TFM as at 31st December, 2008 to fifty-one (51). The total sum pledges under the programme as at December 2008 was ₦4.9 billion.

Table 2.7: Funds Placement under the Trust Fund Model (TFM) end–December, 2008

S/No	Type of Stakeholder	Amount (N)	Partner Banks	Remarks
1	Multinationals/Oil Companies	₦0.430b	FBN, Finbank & UBA	4 Multinationals signed MoU between 2001 & 2008
2	SGs/LGAs/Ministries	₦2.361b	FBN, Bank PHB, Spring Bank, Unity Bank, UBA, Union Bank, Finbank, Skye, Intercontinental Bank & 14 Microfinance Banks (MFBs)	16 States, 16 LGAs and 3 Ministries & 1 Federal Government outfit (The National Food Reserve Agency – NFRA) all partnered with CBN between 2002 and 2008
3	Individuals/Organizations	₦2.096b	Fidelity, Zenith, Oceanic, 3 MFBs	11 Individuals/Organizations – (2) First Ladies-owned organizations also, bought into the TFM concept between 2005 and 2007
TOTAL		₦4.895b	15 Deposit Money Banks (DMBs) & 17 MFBs are partnering banks	51 Stakeholders

2.5.3 Operations of the Agricultural Credit Support Scheme (ACSS)

Returns from the DMBs showed that two applications valued at ₦1,380 million were received by the banks in 2008 and were approved. No project was verified during the year. Thus, the number of projects verified since the inception of the Scheme remained at 22, valued at ₦0.2 billion, and the cumulative number of projects qualified for verification remained at 46. The Bank paid the sum of ₦297.0 million to participating banks at 6.0 per cent interest rebate on 29 large-scale agricultural projects under the Scheme during the year. Cumulatively, the number of applications received as at end-December 2008 was 185, valued at ₦36.3 billion, and the number of applications approved by banks was 142, valued at ₦27.4 billion, while the number of disbursements since the Scheme's inception was 109, valued at ₦17.2 billion.

2.5.4 Microfinance and Commodity Development in Nigeria

The CBN established three (3) Entrepreneurship Development Centres (EDCs) in Kano (North West), Onitsha (South East) and Lagos (South West). Thus far, 7,393 graduates have been produced, including, 1,373 women. Furthermore, 3,964 EDC graduates have received counselling and business advisory services. The Bank also organized the 24th Development Finance Officers (DFOs) Conference in 2008, in Asaba, Delta State. There were 700 attendees drawn from the States' Houses of Assembly, Deposit Money Banks, Insurance Companies, State Ministries, the organized private sector and the academia. Eight (8) state governors were enlightened, through campaigns mounted by the Bank in 2008, to market development finance products. Over ninety three thousand (93,000) National Youth Service Corps (NYSC) members were sensitized at the various NYSC orientation camps. Further talks were also held between the CBN and the Intercontinental Bank Plc on the modalities for partnership under the CBN/NYSC Youth Empowerment Programme. The CBN also received the financing agreement between the Federal Government of Nigeria and the International Fund for Agricultural Development (IFAD) on the 2009 -2015 Rural Finance Institutions Project.

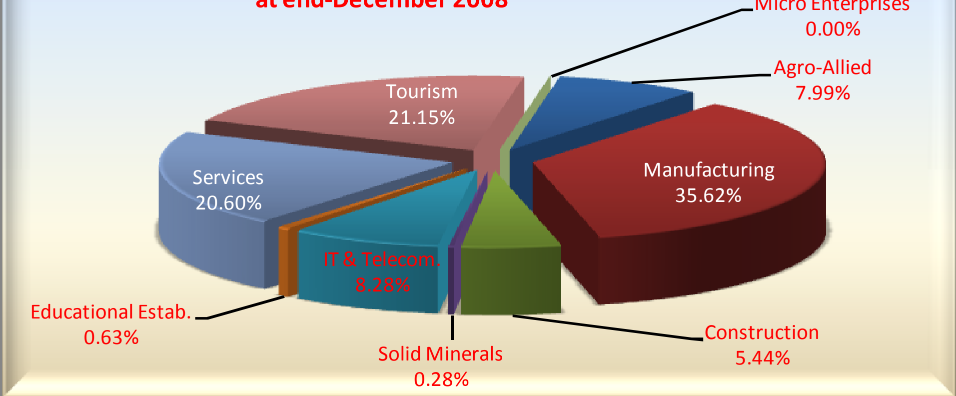
2.5.5 Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

The cumulative sum set aside by banks, as at end-December 2008, was ₦42.0 billion, compared with a revised figure of ₦37.4 billion in 2007. This represented an increase of ₦4.6 billion (12.3 per cent). The sum of ₦28.2 billion or 67.1 per cent of the sum set aside was invested, as against ₦21.2 billion or 56.5 per cent of the sum set aside in 2007. The investments were in 333 projects out of which the real sector accounted for 205 projects, and the service-related sector, excluding trading, accounted for 128 projects, while micro-enterprises did not attract any investment.

Figure 2.16: Performance of the SMEEIS

In terms of the geographical spread of the investments, Lagos State received the highest of 41.3 per cent or 205 projects, followed by Ogun State with 6.8 per cent or 26 projects and Oyo State with 1.6 per cent or 18 projects. Abia, Edo and Kano states collectively accounted for 6.1 per cent or 9 projects. The remaining states accounted for 23.9 per cent in 75 projects. Meanwhile, twelve (12) states were yet to record any investment under the Scheme.

Figure 2.17: Sectoral Distribution of SMEEIS Investments by Banks at end-December 2008



CHAPTER 3

THE GLOBAL ECONOMY

The global economy experienced serious turmoil in 2008 as a result of the global financial crisis, which culminated in an economic recession in major industrialized countries, including the US, UK, Germany, and Japan, among others. World economic output growth was projected at 3.9 per cent in 2008, down from 5.2 per cent in the preceding year. The modest growth was occasioned by the increase in economic activities in emerging and developing countries that outweighed the decline in economic activities in the advanced economies. Global inflation rates, on the other hand, were accentuated by the surge in food and fuel prices. Global trade declined in 2008 while the foreign exchange market experienced instability as major currencies experienced weaknesses.

3.1 OUTPUT AND GROWTH

Global output growth was projected to have expanded by 3.9 per cent in 2008, compared with 5.2 per cent in 2007. The deceleration in growth was provoked by the decline in economic activities in the advanced economies. The weak global economic performance, which was initially undermined by high food and energy prices, was aggravated by the financial crisis and the severe strains on banking systems and credit conditions worldwide. The impact of the financial crisis was felt across the world's financial markets. In response, remedial fiscal and monetary actions were taken by countries across the globe, particularly in the US, European and Asian countries to stabilize their financial institutions and markets.

Output growth for the US was projected at 1.5 per cent in 2008, following continuing financial and economic crisis. The economic downturn in the US induced policy measures aimed at supporting activity and breaking the negative feedback loops between the macro economy and financial institutions. The US Treasury intervened to purchase real estate assets and some financial institutions to redress the decline and stabilize the economy. Other measures applied by the US Treasury to stabilize the financial markets included large injections of liquidity and the reduction in policy rates.

Similarly, Japan experienced a decline in output growth which was projected at 0.7 per cent, down from the 2.1 per cent recorded in the previous year. Industrial production fell with declining exports and weak domestic demand.

In the euro area, weak export demand, coupled with the slowdown in developing countries caused the decline in growth rate to 1.3 per cent from 2.6 per cent. Concerted and coordinated action was taken by various governments to deal with systemic problems. The issues dealt with included toxic assets, rebuilding of bank capital and restoring liquidity in financial markets, while being mindful of tax payers' interest and moral hazards associated with such measures.

Growth in the Western Hemisphere region was projected at 4.6 per cent, down from 5.6 per cent in the previous year. The countries of the region were faced with economic slowdown, difficult external conditions and high inflation as the strong growth experienced in the previous year eased due to moderation in exports. The turbulent financial markets of the advanced economies affected countries in the region triggering a fall in equity prices, widening interest rate spreads, tightening access to funds and exchange rate pressures. The slow growth in the U.S. also impacted on home remittances, trade and tourism in the region, hence, the general decline in output among the countries, except Argentina, Colombia, Peru and Uruguay.

Growth in output in emerging Europe was projected at 4.5 per cent; this represented a slowdown following a prolonged period of economic expansion. The decline in demand by the countries of Western Europe and tighter financing conditions, impacted negatively on investment and exports. Similarly, private consumption weakened in the face of soaring food and energy prices. The growth rates of output in the Baltic states, especially in Latvia and Estonia were negative.

Output growth in emerging Asia witnessed a downturn and was projected at 7.8 per cent in 2008. The slowing demand by advanced countries and the strains in the financial markets affected the two largest economies of China and India. China recorded a growth rate of 9.7 per cent, driven by a steady investment growth and accelerated consumption. This was, however, lower than the 11.7 per cent achieved in 2007. The deceleration in the rate of growth was largely due to the weak demand for exports in the advanced countries and strains in the regional financial markets. In India, output growth declined from 9.3 to 7.9 per cent due to weak investment although private consumption and exports increased. Similarly, other newly industrializing economies within the region experienced deceleration. Domestic demand softened largely due to rising food and energy prices. Financial markets became weak because of the global concern and a declining investor risk appetite. The current account balances of some countries in the region came under pressure due to rising imports and a slowdown in export growth, while capital account and exchange rate developments varied. Capital inflows to China remained strong, evidenced by robust reserves, while other countries in the region were volatile.

The growth in output in most countries in the Commonwealth of Independent States (CIS) was strong and projected at 7.2 per cent. This was due to a domestic demand boosted by positive terms of trade. However, growth prospects were affected by the global financial turmoil, notably in Kazakhstan and Russia, which were confronted by loss of confidence and a reversal in capital flows. High international commodity prices boosted the trade balances of net commodity exporters (Russia, Azerbaijan, Kazakhstan, etc), while net commodity importers (Armenia, Moldova, Tajikistan) worsened. Trade balance for the net food importers deteriorated significantly, with deficits reaching precarious levels in some countries.

At the regional level, Africa showed some resilience to the global slowdown as many countries benefited from terms of trade improvement. Oil and other commodity exporters gained from the surge in prices and net capital inflows in the region remained steady. The region was projected to have grown by 5.9 per cent, with sub-Saharan Africa growing by 6.1 per cent. Most countries in the region recorded positive output growth rates, except Zimbabwe which recorded a negative growth rate. Also, the Great Lake region recorded high output growth rates from the high commodity prices, despite civil wars in the region. Nigeria recorded an output growth rate of 6.4 per cent.

3.2 WORLD PRICES

Global inflation rates accelerated due to the surge in food and fuel prices. Consumer price increase was particularly strong in emerging and developing countries. Policymakers in these economies responded to the rising inflation with eclectic measures. Some central banks raised interest rates, while others relied more on increasing reserve requirement and other credit tightening policies.

The US headline inflation and core inflation peaked at 4.6 and 2.6 per cent, respectively, before they declined following lower oil prices. Similarly, in Western Europe, headline inflation was in the range of 3.0 to 4.0 per cent, while core inflation was generally below 2.0 per cent in the euro area and the United Kingdom. Central banks focused generally on providing liquidity to the financial markets in order to achieve financial stability. However, the deteriorating global economic conditions moderated inflationary expectations while the tight monetary and financial conditions provided the scope for monetary easing, both in the euro area and the UK.

In the Western Hemisphere, headline inflation rose to 8.0 per cent, the highest in five years. It was, however, moderated by the softening of international commodity prices, tighter monetary policies and the slow growth in demand. Inflation remained in double-digit in Bolivia, Paraguay and Venezuela, among others. For the inflation-targeting countries (Brazil, Chile, etc) where inflation rose above the target range, policy rates were raised as part of the efforts to contain the pressures.

Among the emerging Asian economies, excluding China, headline inflation soared in a number of countries. In India, inflation rose to 9.0 per cent, while the underlying inflation pressure increased as high resource utilization created second round effects. The response to rising inflation varied: while some countries tightened monetary policy by hiking interest rate (India, Indonesia, etc), others sterilized accumulated foreign exchange reserves through issuance of bonds and an increase in reserve requirements, to contain the build-up of liquidity. However, in China, inflation steadily declined from a peak of 8.5 per cent as the food supply conditions normalized.

For the Commonwealth of Independent States (CIS), inflation was higher than 15.6 per cent, reflecting price pressures amidst persistently high commodity prices and low spare capacity. Governments in the region resorted to a variety of fiscal and trade measures to contain inflation and alleviate the social impact of rising prices.

In Africa, inflation was accentuated in sub-Saharan African (SSA) countries, where it rose from 7.1 per cent to 11.9 per cent. Food price increases constituted a large component of the inflation rate. The inflationary pressure in the SSA was predicated on the strong dependence on imported food and fuel. Many countries in the region reduced import tariffs and value-added tax on food or imposed export taxes or other restrictions to reduce inflationary pressures.

3.3 GLOBAL COMMODITY PRICES

Global commodity prices, on average, plunged in the third quarter of 2008 after rising for some years. With the exception of zinc, all other commodities experienced price gains in the first quarter of 2008. Prices began to fall in the second quarter and deepened in the third quarter. Crude oil prices represented by the West Texas Intermediate (WTI) rose sharply to US$145.3 in early July 2008 in response to high demands and the falling value of the US dollar against major currencies, but eased thereafter, closing at US41.4 in December.

Agricultural commodities, such as soyabean oil, rice, maize and sugar recorded price gains up to June, but declined in September through December 2008. Palm oil and wheat, however, began a downward trend in the first quarter. All the minerals monitored entered 2008 on a bountiful note, but began to decline in the second quarter. The sharp and widespread decline in the prices of commodities was explained by the significant slowdown in the global economy.

Food prices declined in the second quarter of 2008 as a consequence of improved supply prospects, particularly for oil seeds and grains in major producing countries. Metal prices declined further in the third through the fourth quarter of 2008 reflecting a weak construction demand in the OECD countries and some improvement in supply, especially in China. The strengthening value of the US dollar, and the weak demand in jewellery continued to weigh in on metal prices.

Box 1: The Impact of the Global Financial Crisis and Responses by Authorities

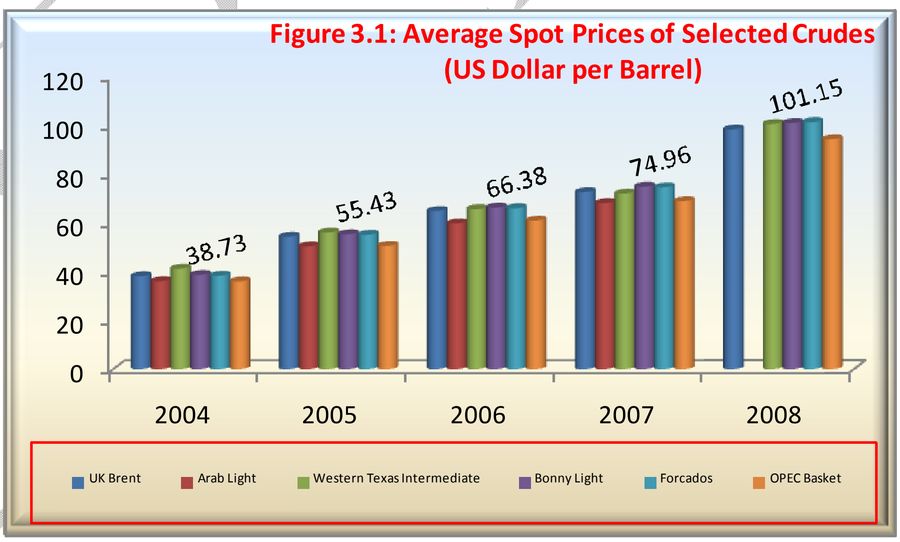
The global financial crisis that began in July 2007 with the loss of confidence by investors in securitized mortgages in the United States (the US sub-prime mortgage lending crisis) deepened in 2008. The financial contagion that resonated world-wide due to the inter-linkages of the world financial system, led to the tumbling of stocks of all major trading markets across Europe, Asia and other emerging economies as a substantial drop in major global stock market indices was recorded world-wide. For instance, equity prices crashed in most Exchanges such that the global stock market gains of the previous years were wiped out. Some stock exchanges were closed for days in order to avoid a big plunge. An estimated $14.0 trillion share values were wiped off world-wide as many stock markets around the globe suffered their worst experience in 12 months of trading.

The crisis led to the insolvency of America's largest securities firms, Merrill Lynch and Lehman Brothers as well as the bankruptcy and eventual collapse of the third largest mortgage institution in the US. Other mortgage institutions affected, particularly in the United States, were Indy-Mac Bank, Freddie Mac, Fanny Mae, and the UK's fifth largest mortgage institution, Northern Rock. The seriousness of the economic crisis led various governments, especially in the developed economies, to initiate unprecedented financial bail-outs coupled with subsequent proposals of massive fiscal stimuli to reverse the trend and bring the world economies out of the doldrums. The policies adopted varied from interest rate cuts, bail-out packages, nationalization of financial institutions, swaps arrangements, coordinated rate cuts among central banks, etc. In the United States, for instance, temporary swaps of treasury bills for mortgage-backed securities and a ban on short selling of 799 financial stocks were also adopted. Others policy measures included the sale of Bear Stearns, the bail-out of the American International Group (AIG), Fannie Mae and Fredie Mac, and Citigroup, among others. In the Euro zone, the European Central Bank (ECB) injected about US$84.0 billion into the economy to ease liquidity problems. It engaged in coordinated rate cuts with six major central banks (the Federal Reserves, the Bank of England, the Bank of Japan, the Reserve Bank of Australia, the Bank of China, and the Swiss National Bank). It also used swap lines from the Fed to support its US dollar operations, among other measures. In emerging Asian economies, the People's Bank of China reduced its interest rate on October 8, 2008 by 0.27 per cent to 6.93 per cent from 7.2 per cent to reduce borrowing costs, while the Government created a stimulus plan in November 2008. The Bank of Japan injected 2 trillion yen (£11.67 bn) into the money market. Indonesia, in line with the move adopted by several countries, reduced its overnight repo rate by two percentage points to 10.25 percent. Government also introduced safety net regulations that allowed it and the central bank to quickly address financial sector weakness. It revised the year's budget to reduce financing needs, pledged to respect the free movement of capital and also set up a task force to manage the crisis.

African economies that were considered relatively insulated from the contagion became as vulnerable as other regions. The South African Stock Exchange lost 27.0 per cent and the rand slipped by almost 30.0 per cent, while in Nigeria, the impact of the global financial crisis manifested in the Nigerian stock market from the second quarter of the year.

Summary of Monetary/Financial Policy Responses to Recent Global Financial/ Economic Crisis: Selected Countries	
Country	**Key Policy Measures**
Nigeria	• MPR was reduced by 50 basis point (bps) from 10.25 per cent to 9.75 per cent on September 18, 2008. • CRR was reduced by 2.0 percentage points from 4 per cent to 2 per cent on September 18, 2008. • The liquidity ratio was reduced from 40 per cent to 30 per cent. • Repo transactions allowed against eligible securities were extended from overnight to 90 days, 180 days and 360 days. • Admission of state, local government and private sector securities into the money market. • CBN commenced buying and selling securities through the two-way quotes. • Reduced banks' foreign exchange net open position from 20.0 to 10.0 percent of shareholders funds, effective from December 15, 2008. • CBN commenced active participation in the daily inter-bank foreign exchange market by buying and selling through the 2-way quotes. • Presidential Advisory Committee on capital market was set up. • Market Makers were appointed to provide liquidity in the Nigerian capital market.
United States	• Federal funds rate target was reduced by 50 basis points (bps) each on October 8 and 29, 2009 to 1.0 per cent. • Federal funds rate target was further reduced to the range of 0 to 0.25 per cent on December 16, 2008. • Term funds were auctioned through new channels (TAF, TSLF, and PDSLF). • Eligible list of collaterals and counterparties was expanded. • Temporary Liquidity Guarantee Programme (TLGP) was created on October 14, 2008 to restore market confidence. • Three liquidity facilities: the Asset-backed Commercial Paper Money Market Fund Liquidity Facility; the Primary Dealer Credit Facility (PDCF); and the Term Securities Lending Facility (TSLF) were extended up to April 2009. • Foreign exchange swaps were established with major central banks for providing dollar liquidity. • Commercial Paper Funding Facility (CPFF) was created to provide backstop to CP issuers. • Short selling in specific stock exchanges was temporarily banned and market-to-market rules were eased.
ECB	• Cut policy rate thrice by a total of 225 bps between October and December 2008 to 2.0 per cent. • Conducted a special term refinancing operation. • Enhanced the provision of liquidity through long-term refinancing. • Provided US dollar liquidity through foreign exchange swaps.
United Kingdom	• Official bank rate was reduced thrice by a total of 300 bps between October and December 2008 to 2.0 per cent. • Extended eligible collaterals for the long-term repo operations on October 3, 2008. • Reciprocal currency arrangements (swap lines) were established with major central banks on September 18 and 26, 2008. • Shot selling in specific stocks in the stock exchange was temporarily banned.

Australia	• Policy rate was reduced four times by a total of 300 bps to 4.25 per cent between September and December, 2008. • Guaranteed all bank deposits for three years. • Relaxed collateral norms. • Announced a domestic term deposit facility to further enhance domestic liquidity. • Announced foreign exchange swap facility with the Federal Reserve System. • Short-selling in specific stocks was banned.
India	• Cut repo rate under the liquidity adjustment facility (LAF) by a cumulative 350 bps from 9.0 to 5.5 per cent from mid-October 2008. • Cut reverse repo rate by a cumulative 200 bps from 6.0 to 4.0 per cent since December 8, 2008. • Cut in cash reserve ratio (CRR) by a cumulative 4 percentage points of net demand and time liabilities (NDTL) from 9.0 to 5.0 per cent from October 10, 2008. • Reduction in statutory liquidity ratio (SLR) by 1.0 percentage point from 25.0 to 24.0 per cent of NTDL. • Introduction of a special refinance facility at the LAF repo rate up to a maximum period of 90 days, on October 24, 2008 to encourage banks to extend finance to micro and small enterprises. The facility continues till June 2009. • Reserve Bank of India (RBI) to continue selling foreign exchange through agent banks to augment supply in the domestic foreign market or intervene directly to meet any demand-supply gap. • RBI instituted special market operations to meet the foreign exchange requirements of public sector oil marketing companies against oil shocks.
South Africa	• Reduced the repurchase rate by 50 basis points to 11.5 per cent per annum with effect from 12th December, 2008.
Other Countries	• Central banks in the Euro area, Canada, Sweden, Japan, Switzerland, Korea and China lowered their policy rates in October, 2008.
Source: Websites of respective central banks.	



3.4 World Trade

Global trade declined by 4.9 per cent in 2008. Total world trade was projected at $31,594 billion. Advanced economies accounted for 62.1 per cent of the global trade while emerging economies and developing countries accounted for 37.9 per cent. Terms of trade were very favourable to the fuel exporting emerging countries until the financial crisis which affected many industrial countries led to the collapse of oil prices in the third quarter of the year.

3.5 FINANCIAL MARKETS

The turmoil faced in the financial market in 2008 transcended from credit and money markets to the global financial systems and resulted in the collapse and massive loss of assets by financial institutions worldwide. This was further pronounced as the pressure on financial markets mounted with the credit spreads widening to record levels and equity prices crashing to historic lows, resulting in widespread volatility across the market spectrum. The development hit hardest at the OECD countries, the contagion spread worldwide affecting developing countries as well. This systemic crisis had spread beyond the financial markets to affect the economies of several nations that had since declared a recession. As a result, authorities in several countries embarked upon an unprecedented wave of policy initiatives to contain the systemic risk, arrest the plunge in asset prices and shore up confidence in the international banking system.

3.5.1 Money Markets

Bank lending standards tightened sharply in the United States and the euro area as the stress in the credit market heightened, reflecting soaring spreads in the interbank market. The central banks worldwide intensified collaborative efforts to ensure liquidity in the money market and address the ongoing pressures. The central banks took several initiatives to revive money markets, including substantive easing of monetary policy and the provision of term funding, through the introduction of new facilities. Exceptional measures were also taken to improve funding conditions to credit markets.

New swap facilities were established by the US Federal Reserve (Fed) with the Bank of Japan, the Bank of England, and the Bank of Canada as well as the Euro area. In the second quarter of 2008, aggregate turnover in the euro money market decreased by comparison with the second quarter of the previous year for the first time since 2004. The most notable decrease in activity took place in the secured market segment, which nonetheless, remains the largest segment of the euro money market. In the same period, turnover in interest rate swaps, excluding Overnight Index Swap, increased sharply. Transaction volumes in the foreign exchange swaps and short-term securities markets remained broadly unchanged between the second quarter of 2007 and the second quarter of 2008.

3.5.2 Equity Markets

In 2008, equity prices plummeted across the major economies affecting all major industrial sectors. Individual stock markets around the world recorded extreme market volatility. The forty-six global equity markets that comprised the Standard and Poor (S & P) Global Broad Market Indices lost a combined US$17.0 trillion as developed markets and emerging markets fell 42.7 and 54.7 per cent, respectively, for the year.

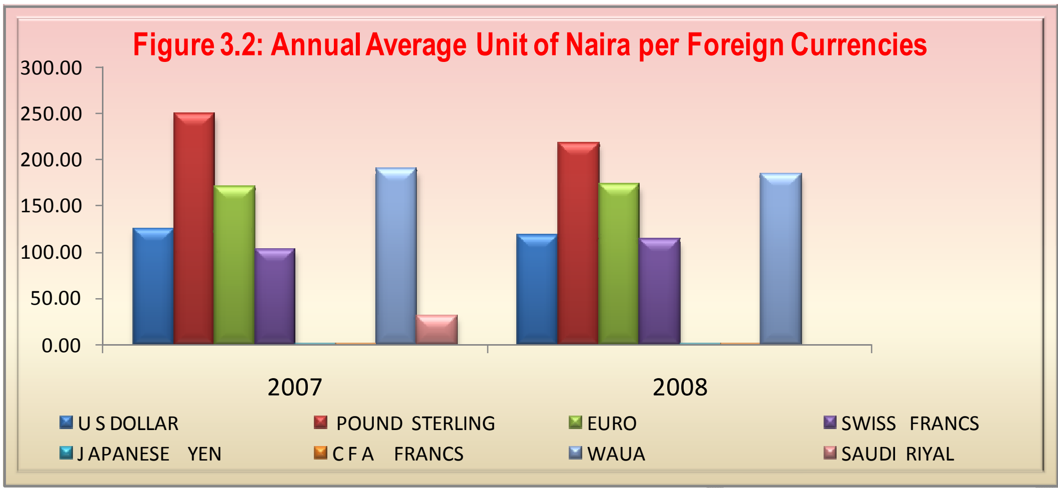
In the developed economies, equity prices in the United States declined by 38.7 per cent during the year thereby placing its performance as the third best among developed countries and fifth in global equity markets. Japan came in second with a loss of 29.2 per cent and Switzerland suffered a 30.6 per cent drop. Also, Greece recorded a loss of 66.5 per cent, Norway 66.1 per cent and Ireland 70.0 per cent.

The equity markets of emerging economies were also severely affected. Among the worst hit countries were Brazil, Russia, India, China (the BRIC countries): Brazil lost 57.4 per cent, Russia 73.7 per cent, India 64.5 per cent, and China 53.2 per cent. Tunisia, with a gain of 10.0 per cent, was adjudged the best performed stock market in 2008, while Morocco had a drop of 15.85 per cent, followed by Israel at 34.7 per cent.

3.5.3 The International Foreign Exchange Market

Developments in the international foreign exchange markets were mixed. The markets were, as usual, influenced by the behaviour of the United States dollar. The US dollar generally appreciated against other currencies during the year. This was traceable to the repartriation of money by US investors who were liquidating their positions in overseas equity and bond markets.

Thus, compared with its value at end-2007, the US dollar gained 13.9 per cent and 10.8 per cent against the Japanese Yen and the Swiss Francs, respectively. It appreciated by 9.5 per cent, 8.0 per cent and 7.0 per cent *vis-à-vis* the Chinese Yuan, British Pound Sterling and the Euro, respectively.



Relative to other major currencies, the naira appreciated against the US dollar by 5.8 per cent, the pound sterling by 14.3 per cent, the Saudi Riyal by 7.8 per cent and the WAUA by 2.5 per cent, while it depreciated against the euro by 1.4 per cent, the Swiss franc by 8.6 per cent, the Japanese yen by 7.5 per cent and the CFA Francs 3.2 per cent.

3.5.4 Interest Rate Developments

Central banks around the world generally eased monetary policy through cuts in policy rates in order to breathe life into embattled financial markets and ensure liquidity in the respective economies in 2008. Coordinated interest rate cuts were undertaken by the US Federal Reserve, the European Central Bank, the Bank of England, the Bank of Canada, the Swiss National Bank and the Swedish Central Bank in order to support their economies.

The average interest rate of the G-7 central banks, for instance, fell from 3.70 per cent to 1.25 per cent. The Fed closed at 0.25 per cent from 3.0 per cent in January 2008. The policy rate of the Bank of England fell from 5.25 per cent in February to 2.0 per cent at year-end. The Bank of Japan closed at 0.1 per cent and in China, the rate dropped from 4.0 per cent at the beginning of the year to close at 1.5 per cent by year-end. In the euro area, Denmark and Norway closed at 3.75 and 3.0 per cent, respectively, from highs of 5.5 and 5.75 during the year. Short-term interest rates in the advanced economies eased considerably, moving in tandem with cuts in the policy rates as a result of recession concerns. In the U.S., the U.K., Japan and Euro area, short-term interest rates declined from 2.26, 6.01, 0.75 and 4.72 per cent at end-March 2008 to 0.44, 2.73, 0.62 and 2.97 per cent, respectively, at end-December 2008.

3.6 The Impact of International Economic and Political Developments on the Nigerian Economy

The impact of the world economic and political developments on the domestic economy was mixed in 2008. First, the global food shortage induced by the use of food crops for energy generation raised the price of food crops as the main driver of a high rate of domestic inflation which rose from 6.6 per cent in 2007 to 15.1 per cent in 2008, year-on-year. The global financial meltdown led to a bear run on the Nigerian capital market from March to December, wiping away about 40.0 and 45.0 per cent of market capitalisation and value index, respectively. The global financial crisis also exacerbated the demand pressure at the foreign exchange market, arising from divestment and the repatriation of capital and dividends by foreign investors. Also, some lines of foreign credit enjoyed by Nigerian banks were called in, precipitating a high demand on available scarce foreign exchange. The increase in the price of crude oil in the first seven months of the year, however, boosted foreign exchange earnings and the build-up of external reserves, despite the price decline in the rest of the year, characterised by low crude output and export. Deriving from the increased earnings from crude oil exports, public revenue received a boost. Furthermore, Nigeria's external sector remained robust throughout the year, despite the exchange rate depreciation witnessed in the last two months of the year.

CHAPTER 4

THE FINANCIAL SECTOR

Despite of the challenges posed by the global economic crisis in 2008, the Nigerian financial sector remained relatively strong and stable, as evidenced by the outcomes of the various indicators. Financial deepening continued as the ratio of broad money supply to nominal GDP increased to 38.6 per cent, from 28.1 per cent in the preceding year. The banking system's capacity to finance real activity grew stronger as the ratio of claims on the core private sector to non-oil GDP grew by 37.9 percentage points to 54.4. Moreover, banking habit and efficiency of intermediation improved further as the proportion of currency outside banks to broad money supply fell to 9.7 per cent from 12.7 per cent at end-2007, reflecting the increased use of cheques and electronic forms of payment. In addition, the money market grew deeper with the introduction of the 20-year FGN bond. Consequently, the ratio of money market assets outstanding to GDP stood at 11.7 per cent, from 10.8 per cent at end-December 2007. However, the capital market performed poorly due to the effects of the outflow of portfolio funds, arising from the global credit crunch and waning investors' confidence which resulted in a sharp decline in the All Share Index of the Nigerian Stock Exchange. Also, total market capitalization, as a ratio of GD,P fell to 40.0 per cent from 56.0 per cent in the preceding year.

Monetary policy implementation faced huge challenges during 2008, arising from the excess liquidity from fiscal injections in the second quarter and the impact of the global financial crisis on the domestic economy which manifested in the third quarter. Notwithstanding, monetary policy actions produced modest outcomes. Growth in broad money (M_2) at the end of the year stood at 58.0 per cent, exceeding both the indicative benchmark for the year and the outcome in the preceding year. Similarly, reserve money exceeded the indicative benchmark for the year. The risk-free yield curve for treasury securities (treasury bills and bonds) remained typically upward-sloping with a steeper slope than in the preceding year. Furthermore, the yields for all the maturities were higher than in 2007.

At end-December 2008, the Nigerian formal financial system comprised the CBN, the Nigeria Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM), the National Pension Commission (PENCOM), 24 deposit money banks (DMBs), 5 discount houses (DHs), 840 microfinance banks (MFBs), 113 finance companies (FCs), 99 primary mortgage institutions (PMIs), 5 development finance institutions (DFIs), 1,264 bureaux-de-change (BDC), 1 Stock Exchange, 1 Commodity Exchange and 73 insurance companies.

4.1 INSTITUTIONAL DEVELOPMENTS

4.1.1 Growth and Structural Changes

The number of deposit money banks in the industry remained at the preceding year's level of twenty-four (24), but the number of branches grew by 12.1 per cent, from 4,579 in 2007 to 5,134.

At end-December 2008, the Nigerian formal financial system comprised five regulatory institutions, comprising the CBN, the Nigeria Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM), and the National Pension Commission (PENCOM); 24 deposit money banks (DMBs), 5 discount houses (DHs), 840 microfinance banks (MFBs), 113 finance companies (FCs), 99 primary mortgage institutions (PMIs), 5 development finance institutions (DFIs), 1,264 bureaux-de-change (BDCs), 1 Stock Exchange, 1 Commodity Exchange and 73 insurance companies.

The resolution of the cases involving fourteen (14) failed banks, whose operating licences were revoked by the CBN in January 2006 continued in 2008. Following an order of the Federal High Court, Abuja, to the

CBN in April 2008 to return the operating licence of Société Générale Bank of Nigeria (SGBN), provided it met the minimum capital requirement as stipulated by the Bank, the number of banks that had their licences revoked dropped from 14 to 13. As at end-December 2008, the NDIC had obtained final court orders to wind-up eleven (11) banks. The cases of the remaining two (2) banks were still pending in courts. The NDIC continued with the policy of asset cherry-picking, under the Purchase and Assumption (P&A) arrangement, for the resolution of the insolvent banks. This entailed inviting the healthy banks to assume the private sector deposit liabilities of the banks for which final court orders had been obtained for their liquidation and to cherry-pick their assets under the P & A model of bank liquidation. The total private sector deposits for the eleven (11) banks in liquidation assumed by the healthy banks stood at ₦80.6 billion, out of which ₦65.5 billion had been paid out.

In the other financial institutions (OFIs) sub-sector, the Bank, in collaboration with the NDIC, drew up an exit strategy for the community banks (CBs) that had failed to make the conversion programme by December 31, 2007. A total of 229 CBs failed to convert to MFBs, made up of the 91 CBs that submitted their records of assets and liabilities in response to CBN's letters and advertorials and a second category comprising the 89 CBs for which no financial records were available as a result of their failure to respond to the call for returns. The third category was made up of the 49 CBs that had ceased to operate since 2001.

Of the 607 CBs that had successfully converted to MFBs, 308 had obtained final licences, while 299 were operating with provisional approval. The development was attributed largely to the delays in meeting the capital and other regulatory requirements. Also, one hundred and twenty-seven (127) new investors applied for MFB licences, bringing the total number since the MFB policy was launched in December 2005 to 249. Out of the 249 applications, 138 had received final licences, 95 had been granted approvals-in-principle (AIPs), while sixteen (16) were at various stages of processing. Accordingly, the number of approved MFBs at end-December 2008 stood at 840, comprising 308 converted MFBs with final licences, 138 new MFBs with final licences, 299 converted MFBs with provisional approvals, and 95 new MFBs with AIPs status. Three (3) DMBs were granted approval to establish microfinance bank subsidiaries or associated companies. Thus, the total number of DMBs with microfinance subsidiaries/windows increased to 10.

Final licences were granted to three (3) new PMIs, bringing the total to 99. The number of PMIs undergoing restructuring, however, remained at 14. The private placement and listing of the shares of two (2) PMIs on the Nigerian Stock Exchange was concluded. Approval was granted for the injection of €2.5 million hybrid foreign capital into one of the newly listed PMIs by a Dutch development finance company.

4.1.2 Fraud and Forgery

There were a total of 1,974 reported cases of attempted fraud and forgery, involving ₦24.5 billion, US$1.4 million, €451,075.0 and £2,635.0, compared with 1,553 reported cases, involving ₦8.8 billion, US$591,487.8, €35,390.8 and £12,410.0 in 2007. Out of this number, 746 cases were successfully executed by the perpetrators and resulted in losses to the banks amounting to ₦6.4 billion, US$175,594.3 and £2,585.0, compared with 825 cases involving ₦2.7 billion, US$238,621.50, €390.0 and £12,410.0 in 2007.

4.1.3 The Public Complaints Desk

The ethics and professionalism sub-committee of the Bankers' Committee handled complaints among banks, as well as between banks and their customers. As in preceding years, most of the complaints were in respect of excessive charges by banks, manipulation and fraudulent practices on customers' accounts, conversion of invested funds, irregular clearing of customers' cheques, and non-refund of wrong debits to customers' accounts, among others. The erring banks were penalized appropriately.

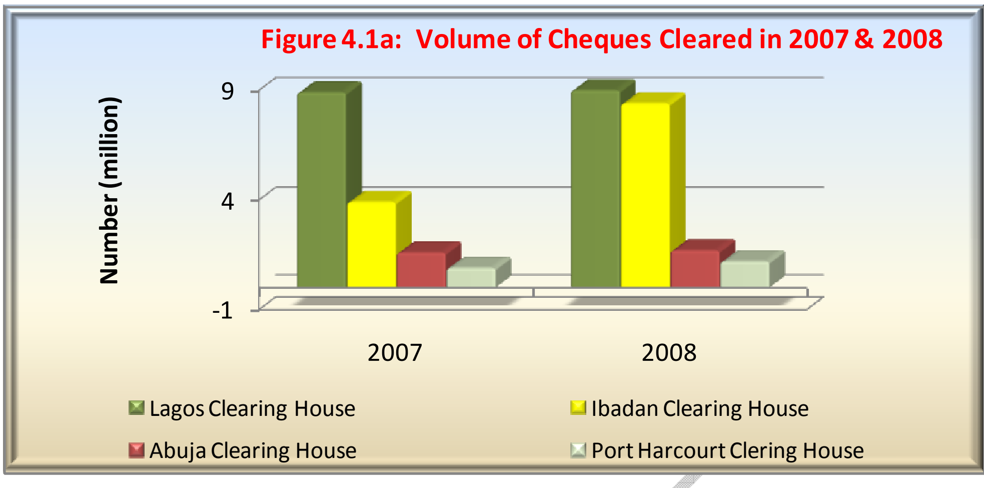
4.1.4 Cheque Clearing

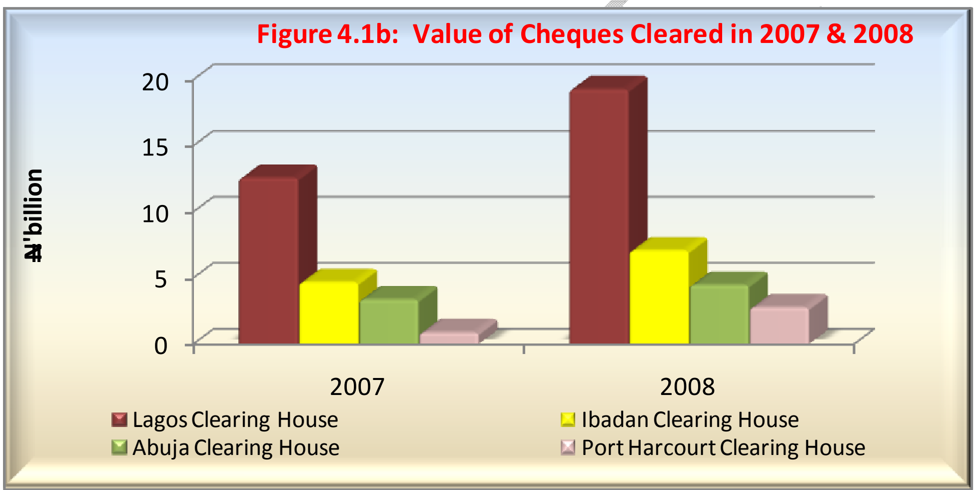
The performance of the cheque clearing system improved further in 2008, following the harmonization of the clearing cycle, which effectively reduced the up-country clearing cycle to T + 2. Furthermore, the number of clearing centres increased with the commencement of clearing activities in Awka, Asaba, Umuahia, Lokoja, Oshogbo and Gombe. Consequently, the volume and value of cheques cleared rose significantly by 51.6 and 54.2 per cent above the levels in the preceding year to 30.2 million and ₦43,357.4 billion, respectively. Lagos, Ibadan, Abuja and Port Harcourt clearing centres maintained their lead in respect of cheques cleared in the system, accounting for 42.0, 27.8, 5.5 and 4.0 per cent and 44.5, 16.4, 10.3 and 6.0 per cent, respectively, of the total volume and value.

Table 4.1: Volume and Value of Cheques Cleared

	2007		2008	
	Volume	Value (N'billion)	Volume	**Value (N'billion)**
Clearing System	19,895,613	28,111,190.42	30,172,925	**43,357,416.23**
Lagos Clearing House	8,865,357 (44.6)	12,565,276.01 (44.7)	12,686,663 (42.0)	**19,313,680.69 (44.5)**
Ibadan Clearing House	3,904,945 (19.6)	4,784,383.16 (17.0)	8,377,183 (27.8)	**7,107,648.93 (16.4)**
Abuja Clearing house	1,556,290 (7.8)	3,402,510.12 (12.1)	1,658,042 (5.5)	**4,454,888.77 (10.3)**
Port Harcourt	933,533 (5.0)	969,321.28 (3.0)	**1,158,566 (4.0)**	**2,800,798.08 (6.0)**
Others	4,635,488 (23.0)	6,397,700.00 (23.0)	6,292,471 (21.0)	**9,680,400.00 (22.0)**

Figures in parenthesis are in per cent





4.1.5 Inter-bank Funds Transfer (IFT)

The volume of transactions at the inter-bank market increased significantly in 2008. This was evident in the volume and value of inter-bank transfers through the CBN Inter-bank Funds Transfer System (CIFTS), which increased by 53.2 and 12.9 per cent to 220,326 and ₦73,076.4 billion, respectively. Third party transfers accounted for 67.4 per cent of the total volume of transfers, compared with 53.5 per cent in the preceding year. The development was due to the use of CIFTS for Federal Inland Revenue Services (FIRS), remittances by DMBs, and BDCs for their transactions. The proportion of inter-bank transfers to the total CIFTS transactions declined to 30.2 per cent from 41.6 per cent in the preceding year. The development was attributable to the tight liquidity condition in the banking system, especially in the last quarter of 2008.

4.1.6 Use of e-Money Products

The e-payment horizon grew further in 2008 as all its segments recorded significant improvements. The volume and value of transactions stood at 66.1 million and ₦441.6 billion, showing an increase of 273.0

and 196.9 per cent, respectively, relative to the levels in the preceding year. The development was traceable to a number of factors, including the deployment of more ATMs by the DMBs, the adoption of bulk salary payments by many institutions, an increased usage of debit cards and increased public awareness. ATM, Web-based (internet), POS and mobile payment accounted for 90.5, 5.7, 3.7 and 0.2 per cent, respectively, of the total e-payments transactions in value terms. Similarly, in volume terms, ATM, mobile, Web-based (internet) and POS payment accounted for 91.0, 4.8, 2.4, and 1.8 per cent, respectively.

The foreign currency-denominated card transactions permeated the e-payment market in Nigeria. The growth of this segment of the market resulted from the strong competition between VISA and Mastercard companies. The volume and value of transactions in the dollar denominated card transactions increased significantly by 110.3 and 85.5 per cent to 490,445 and US $117.9 million, respectively, relative to the levels in the preceding year. Activities in the ATM segment similarly increased in the review year. At 60.1 million and ₦399.7 billion, the volume and value of ATM transactions represented an increase of 282.3 and 203.8 per cent above the levels in 2007. The development reflected the increase in the number of ATM machines and the policy of some banks to limit the amount customers could withdraw over the counter to a maximum of ₦60,000.

Table 4.2: Market Share in e-Payment Market in 2007 and 2008

e-Payment Segment	Volume (per cent)		Value (per cent)	
	2007	2008	2007	2008
ATM	15.7 (88.9)	60.1 (91.0)	131,562.7 (88.5)	399,712.6 (90.5)
Web (Internet)	0.9 (5.1)	1.6 (2.4)	10,622.6 (7.1)	25,054.5 (5.7)
POS	0.4 (2.4)	1.2 (1.8)	6,442.1 (4.3)	16,115.3 (3.7)
Mobile	0.7 (3.8)	3.2 (4.8)	95.6 (0.1)	697.8 (0.2)

Figures in brackets are percentage share of total

At 1,194,600 and ₦16.1 billion, POS transactions increased in both volume and value terms by 183.1 and 150.2 per cent, respectively, above the levels in the preceding year. The growth of this segment of the market was attributable to the increase in the number of institutions and merchants using the POS network for services, such as lottery tickets, airtime vending, bill payments, and funds transfer, among others.

In the same vein, the number and value of payments through the mobile telephone in 2008 stood at 3.2 million and ₦697.8 million, up by 378.1 and 630.3 per cent. The development was due to the increase in the number of banks offering the service, as well as the growing public confidence in e-payments. Web-based (internet) transactions also increased significantly in volume and value terms by 77.3 and 135.8 per cent to 1.6 million and ₦25.0 billion as a result of the increase in the number of banks offering the service and the number of merchants accepting such payments.

Figure 4.2a: Volume of Electronic Card-based Transactions in 2008

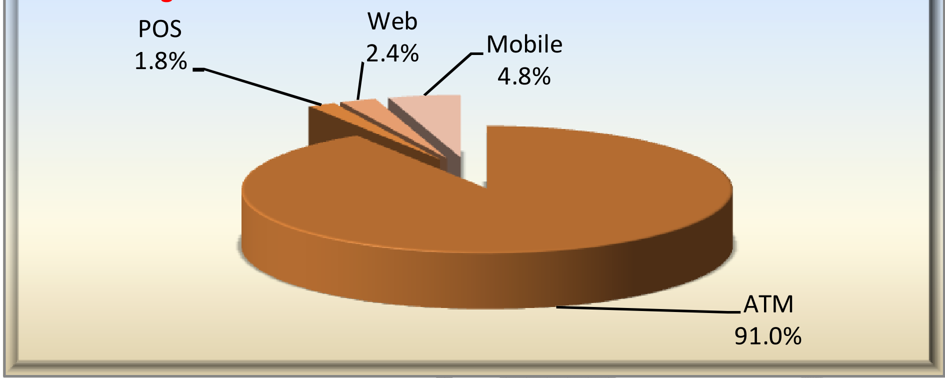
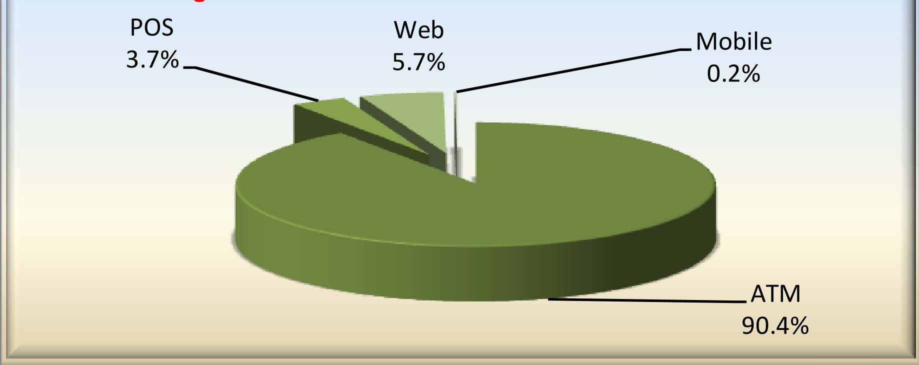


Figure 4.2b: Value of Electronic Card-based Transactions in 2008



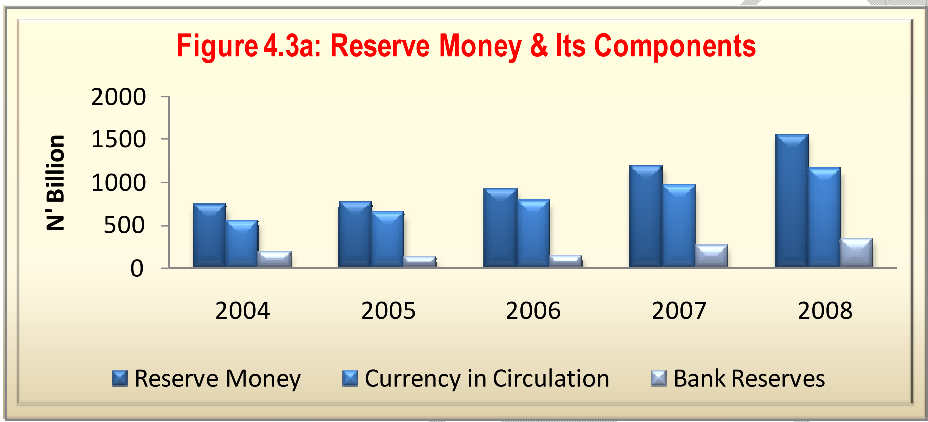
4.1.7 Institutional Savings

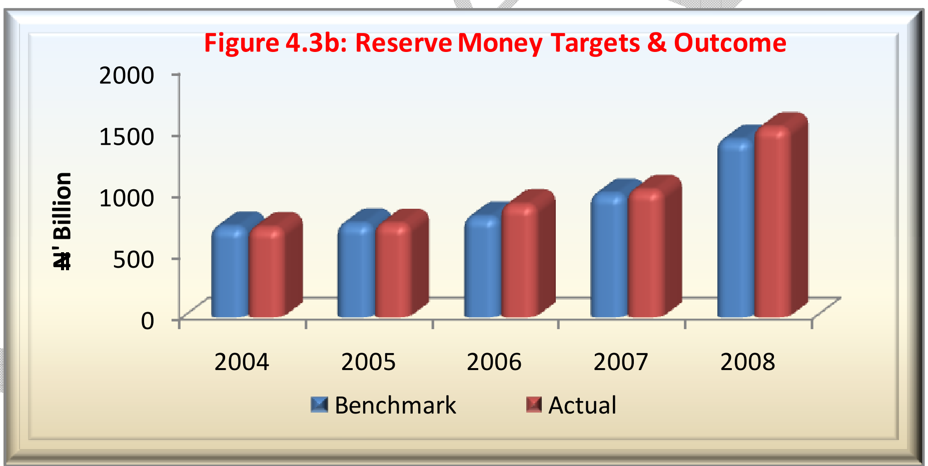
Aggregate financial savings rose by ₦2,599.1 billion or 88.1 per cent to ₦5,548.9 billion, compared with ₦2,949.8 billion at the end of the preceding year. The ratio of financial savings to GDP was 23.1 per cent, compared with 14.1 per cent in 2007. The DMBs maintained their dominance as the major depository institutions within the financial sector. It accounted for 77.6 per cent of the total financial savings, compared with 76.0 per cent in the preceding year. Other savings institutions, including the PMIs, Life Insurance Funds, the Pension Fund Commission, the Nigerian Social Insurance Trust Fund, and Community/Microfinance Banks held the balance of 22.4 per cent.

4.2 MONETARY AND CREDIT DEVELOPMENTS

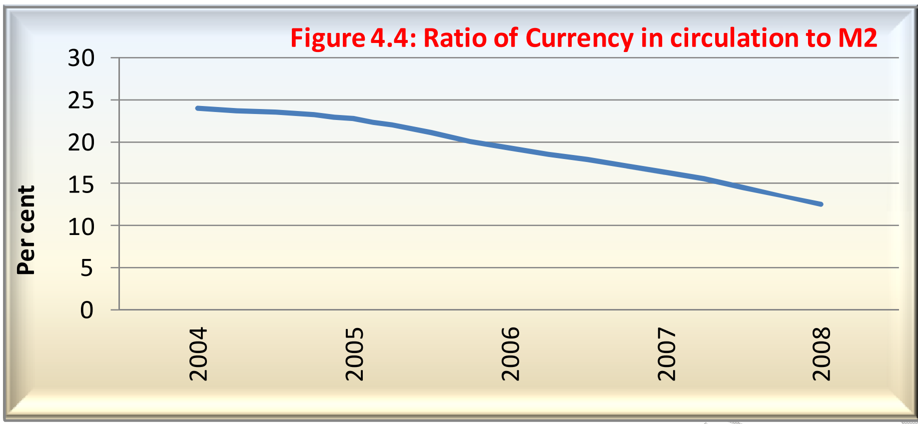
4.2.1 Reserve Money (RM)

At ₦1,549.3 billion, RM grew by 29.6 per cent, relative to the level at end-December 2007 and exceeded the indicative benchmark of ₦1,445.0 billion for fiscal 2008 by 7.2 per cent. The growth in monetary base was accounted for by the rapid growth of currency in circulation (CIC) which increased by 20.3 per cent on an annual basis, following its seasonal upward movement during the end-of-year festivities.





The currency component of reserve money, relative to the end-2007 level, declined by 7.2 and 4.4 per cent, respectively, in the first two quarters, but increased by 1.6 and 20.3 per cent in the third and fourth quarters of 2008, respectively. Similarly, the DMBs' reserve balances at the CBN increased by 67.9 per cent in December 2008, reflecting, largely, the increase in DMBs' demand deposits with the Bank. Correspondingly, the increase in the sources of base money was accounted for largely by the increase in the net domestic assets of the CBN, particularly claims on government and other items net. The increase in the net domestic assets more than offset the decline in the net foreign assets of the CBN.



4.2.2 Broad Money (M_2)

Broad money supply (M_2) grew by 57.8 per cent at end-December 2008 to ₦9,167.1 billion, compared with the end-year indicative benchmark growth of 45.0 per cent. The main factor responsible for the growth in M2 was the expansion in net domestic credit, complemented by the increase in foreign and other assets (net) of the banking system. Correspondingly, the growth in total monetary liabilities, M2, was driven by the expansion in both narrow money and quasi-money.

The analysis of the composition of the total monetary liabilities (M_2) showed that it was fairly distributed between the highly liquid M_1 and semi-liquid quasi-money, but as in the preceding year, skewed towards the former. The skewness reflected the need for liquidity to finance increased economic activities. However, the shift from physical currency-holding to demand deposit continued in 2008 as COB was 9.7 per cent of M2, down from 12.7 per cent at end-December 2007. Foreign currency deposits remained a significant component of M2 at a ratio of 10.1 per cent, up by 1.8 percentage point from the ratio at end-2007.

4.2.3 Drivers of Growth in Broad Money

4.2.3.1 Net Foreign Assets (NFAs)

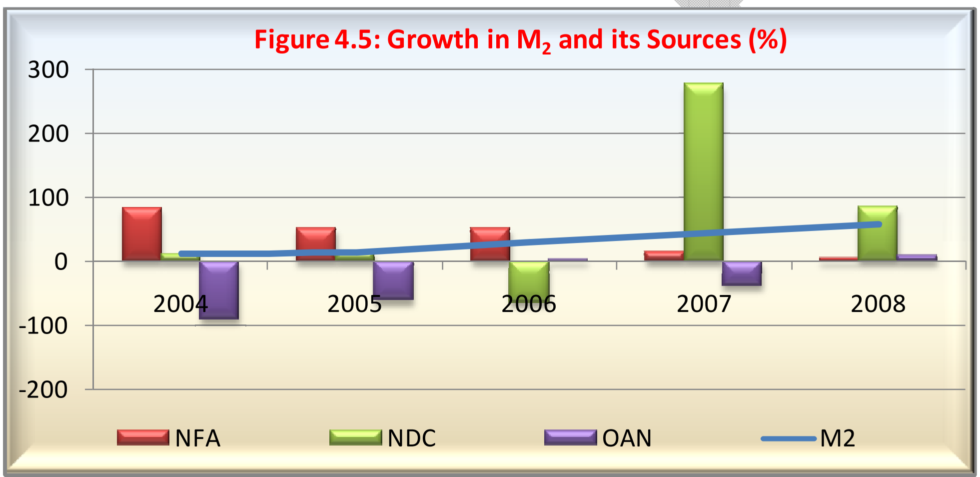
The net foreign assets of the banking system at ₦8,550.4 billion, grew by 17.7 per cent at end-December 2008, compared with 15.2 per cent at the end of the preceding year. The growth in 2008 was as a result of the increase in the net foreign assets holdings of the CBN and deposit money banks. As a share of M_2, NFA was 93.3 per cent at end-December 2008, compared with 125.1 per cent at end-December 2007, thus maintaining its dominance in the last five years.

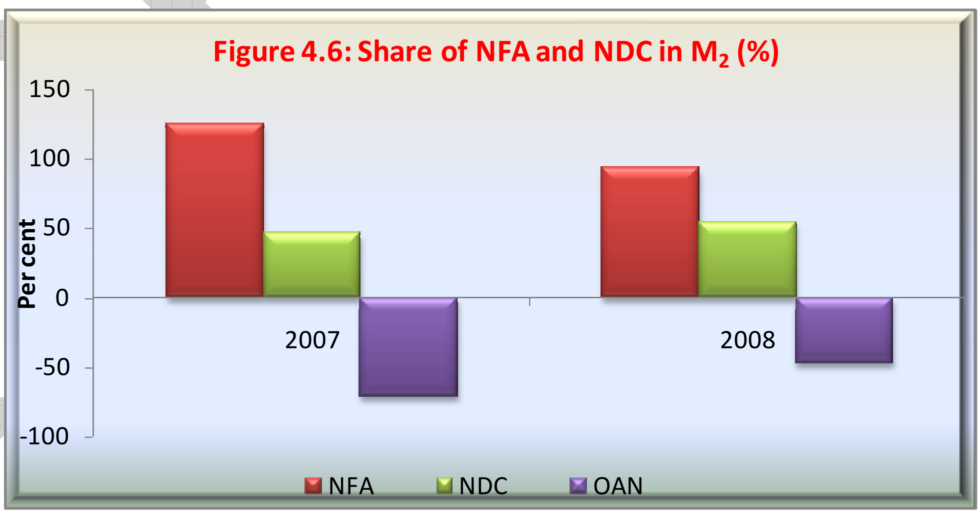
4.2.3.2 Net Domestic Credit (NDC)

Credit to the domestic economy (net) grew by 84.2 per cent at end-December 2008 and exceeded the indicative benchmark of 66.0 per cent. However, this was a deceleration when compared with the growth of 276.4 per cent at end-December 2007. The development reflected, largely, the growth of 59.4 per cent in credit to the private sector, which exceeded the benchmark growth rate of 54.7 per cent, but lower than the growth of 90.8 per cent recorded at end-December 2007. Net domestic credit to the economy constituted 54.0 per cent of the total monetary assets (M2).

4.2.3.3 Credit to the Government (CG)

Net credit to the Federal Government (CG) fell by 31.2 per cent, compared with the indicative benchmark decline of 41.9 per cent for fiscal 2008 and the decline of 22.3 per cent at end-December 2007. Thus, the Federal Government remained a net creditor to the banking system in 2008.





4.2.3.4 Credit to the Private Sector (CP)

Credit to the private sector (including the state and local governments and non-financial public enterprises), grew by 59.4 per cent, exceeding its indicative benchmark of 54.7 per cent for fiscal 2008. However, its growth decelerated when compared with the 90.8 per cent recorded at end-December 2007. Credit to the core private sector, which excludes state and local governments, grew by 59.2 per cent. The expansion in credit to the private sector outweighed that of the decline in net credit to government, thus leading to an increase in net domestic credit.

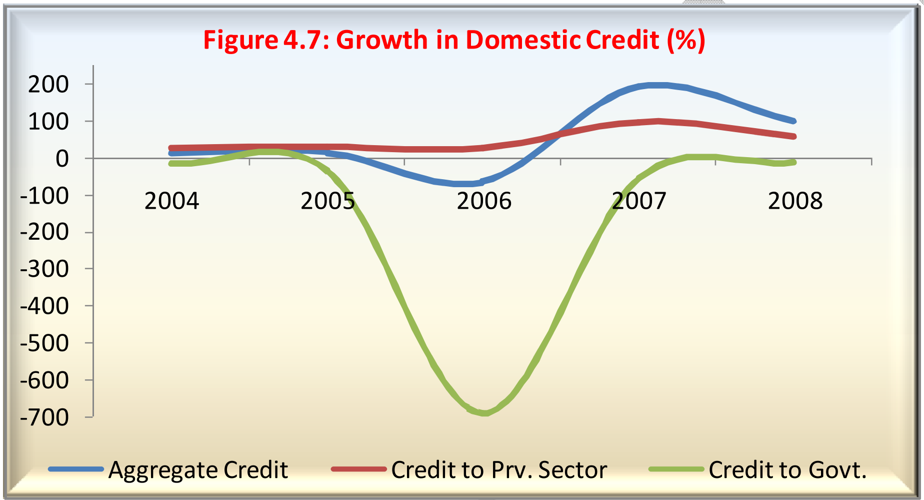


Figure 4.7: Growth in Domestic Credit (%)

4.2.3.5 Other Assets (Net) (OAN)

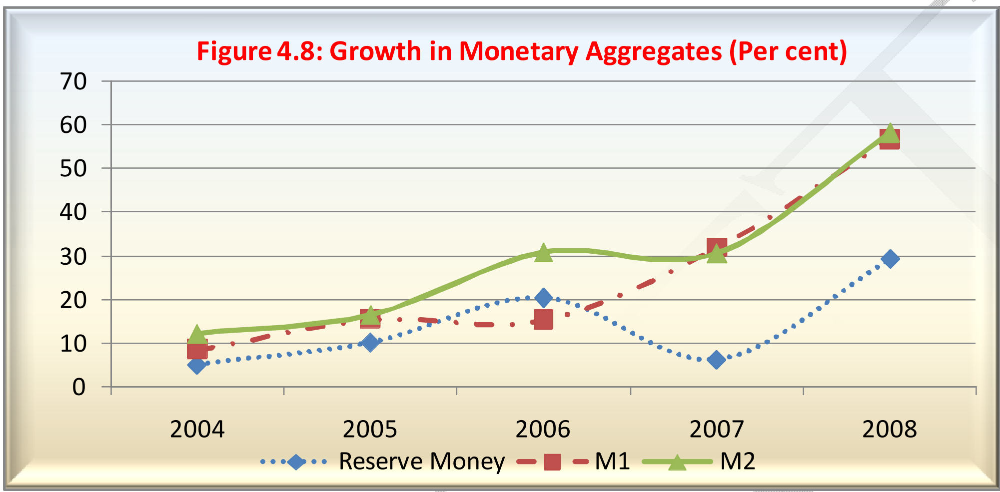
Other Assets (net) of the banking system declined by 4.6 per cent, compared with a decline of 38.4 per cent at end-December 2007. OAN contributed negative 3.3 percentage points to the growth in M_2 at end-December 2008, compared with negative 28.6 percentage points at end-December 2007.

Table 4.3: Contribution to the Growth in M_2 (2007 – 2008) Per cent

	2007	**2008**
Net Foreign Assets (NFA)	23.8	22.1
Net Domestic Credit (NDC)	49.0	39.0
Other Assets (net) (OAN)	-28.6	-3.3
M_2	**44.2**	**57.8**
Narrow Money (M_1)	20.7	30.0
Quasi Money	23.5	27.8
M_2	**44.2**	**57.8**

4.2.3.6 Narrow Money (M1)

Narrow money supply (M_1), grew by 55.9 per cent at end-December 2008, compared with the growth of 36.6 per cent at end-December 2007. The currency component increased by 21.0 per cent, while demand deposits grew by 67.0 per cent. As a proportion of M_1, COB was 18.4 per cent, compared with 23.7 per cent at the end of 2007. In relation to nominal GDP, COB increased marginally by 0.2 percentage point to 3.7 per cent at end-December 2008.



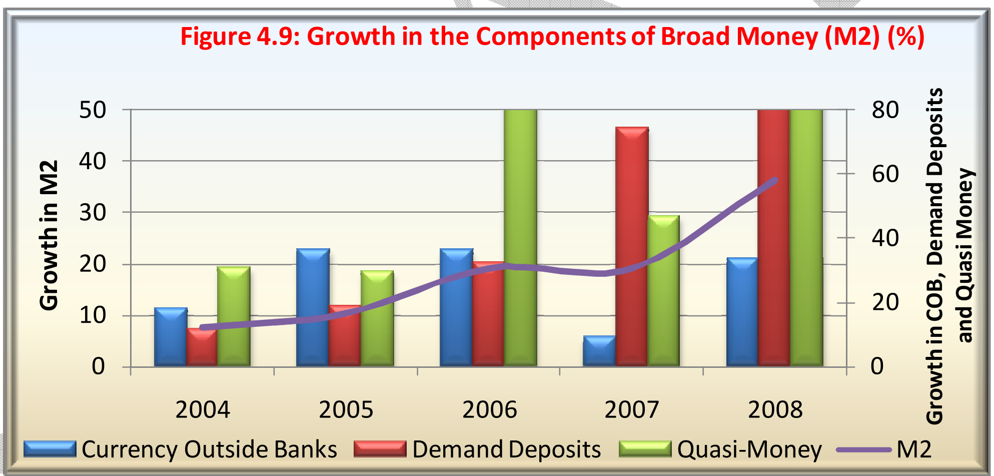


Table 4.4: Composition of Total Monetary Aggregate (M_2) (Per cent)	2007	2008
Net Foreign Assets	**125.1**	**93.3**
Net Domestic	**46.3**	**54.0**
Net Credit to Government	- 40.8	- 33.9
Credit to Private Sector	87.0	87.9
Other Assets (Net)	**-71.3**	**- 47.3**
Total Monetary Assets	**100.0**	**100.0**
Money Supply (M_1)	**53.6**	**53.0**
Currency Outside Banks	12.7	9.7
Demand Deposit	40.9	43.2
Quasi Money	46.4	47.0
Time & Savings Deposit	38.2	47.0
Foreign Currency Deposit (FCD)	8.2	10.1
Total Monetary Liabilities (M_2)	**100.0**	**100.0**

4.2.3.7 Quasi-Money

Quasi-money grew by 60.0 per cent, compared with 54.2 per cent at end-December 2007. The growth in quasi-money reflected, largely, the growth in time deposits which grew by 60.0 per cent to ₦4,309.5 billion at end-December 2008. The development reflected the outcome of the aggressive competition for deposits by DMBs in the deposit market.

4.2.4 Maturity Structure of DMB Loans and Advances and Deposit Liabilities

Analysis of the structure of DMBs' outstanding credit at end-December 2008 indicated that short-term maturity remained dominant in the credit market. Outstanding loans and advances maturing one year and below accounted for 75.4 per cent of the total, compared with 75.8 per cent at end-December 2007, while the medium-term (between 1 – 3 years) and long-term (3-year and above) accounted for 14.5 and 10.1 per cent, respectively, compared with 13.5 and 10.7 per cent, at end-December 2007. Similarly, analysis of DMBs' deposit liabilities showed a similar trend with short-term deposits of below one year, constituting 94.8 per cent of total. Indeed, 72.7 per cent of the deposits had a maturity of less than 30 days, while long-term deposits of more than three (3) years declined to 0.03 per cent at end-December 2008, compared with 3.3 per cent at end-December 2007. The structure of DMBs' deposit liabilities clearly explains the short-termism in banks' claims on the economy.

Table 4.5: Maturity Structure of DMBs: Loans and Advances and Deposits (per cent)				
Tenor/Period	Loans and Advances		Deposits	
	2007	2008	2007	2008
0-30 days	49.2	46.6	74.1	72.7
31-90 days	11.3	13.4	12.3	13.1
91-181 days	5.8	7.8	4.3	6.2
181-365 days	9.5	7.5	2.6	2.7
Short term	**75.8**	**75.4**	**93.3**	**94.8**
Medium term(above I year and below 3 years	**13.5**	**14.5**	**3.3**	**5.2**
Long term (3 years and above)	**10.7**	**10.1**	**3.3**	**0.03**
Total	**100.0**	**100.0**	**100.0**	**100.0**

Figure 4.10a: Maturity Structure of DMBs Loans and Advances at End-December 2008

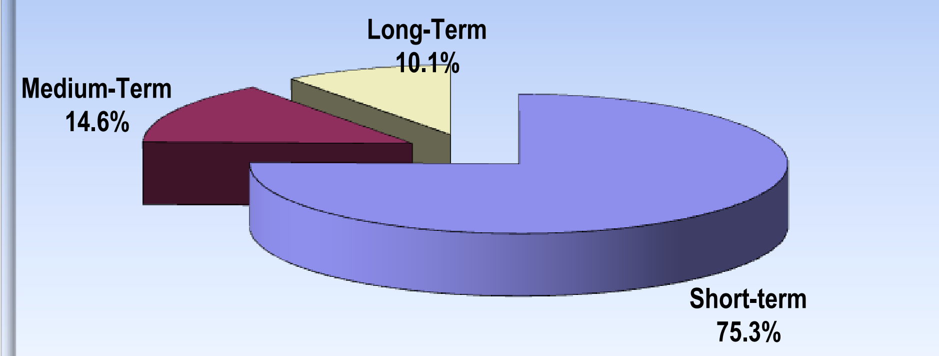
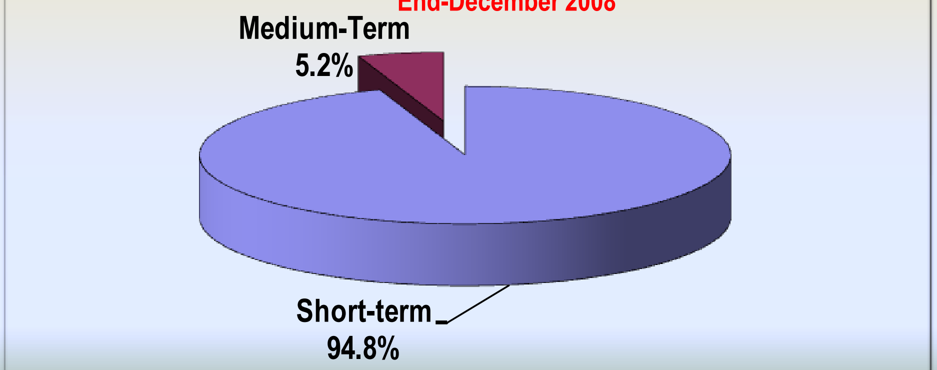


Figure 4.10b : Maturity Structure of DMBs Deposits at End-December 2008



4.2.5 Sectoral Distribution of Credit

At end-December 2008, credit to the core private sector by the DMBs grew by 59.2 per cent. Of the amount outstanding, DMBs' credit to priority sectors constituted 26.2 per cent, of which 1.4, 11.3, 1.0 and 12.5 per cent, respectively, went to agriculture, solid minerals, exports and manufacturing. The less priority sectors accounted for 42.0 per cent of outstanding credit, while the unclassified sectors accounted for the balance of 31.9 per cent.

Table 4.6: Credit to the Core Private Sector, 2006 - 2008

	Share in Outstanding (Per cent)		
	2006	**2007**	**2008**
1. Priority Sector	**30.3**	**25.9**	**26.2**
Agriculture	2.2	3.2	1.4
Solid Minerals	10.1	10.7	11.3
Exports	1.2	1.4	1.0
Manufacturing	16.9	10.4	12.5
2. Less Preferred Sectors	**46.0**	**41.2**	**42.0**
Real Estate	5.9	6.2	6.2
Public Utilities	0.9	0.6	0.6
Transp. & Comm.	7.6	6.8	7.2
Finance & Insurance	4.6	9.4	9.5
Government	4.5	3.7	1.9
Imports & Dom. Trade	22.5	14.5	16.4
3. Unclassified	**23.7**	**32.9**	**31.8**
Total (1+2+3)	**100.0**	**100.0**	**100.0**

Figure 4.11a: Share in Outstanding Credit to the Core Private Sector in 2008

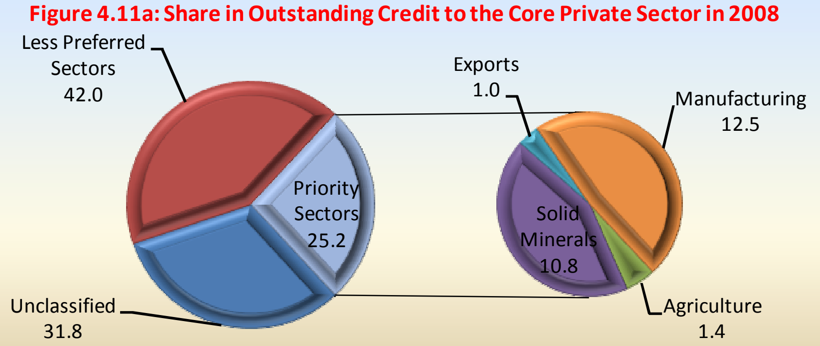
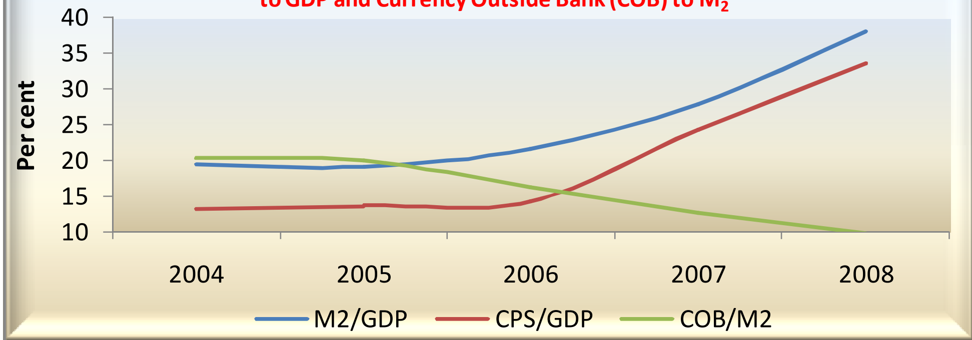


Figure 4.11b: Share in Outstanding Credit to the Core Private Sector (2006-2008)

4.2.6 Measures of Financial/Banking System Development

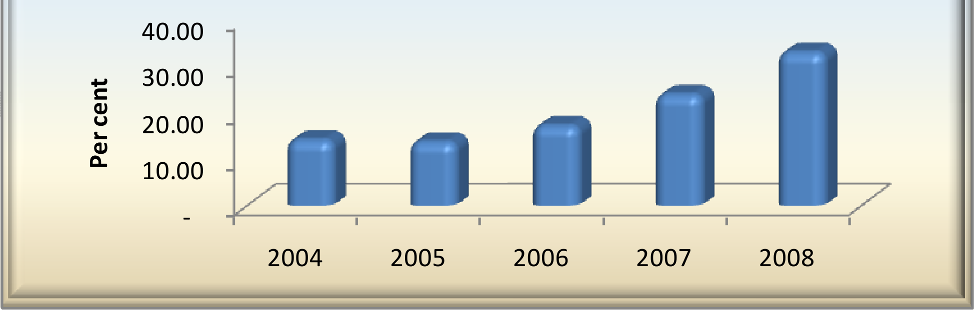
The depth of the financial sector, as measured by the ratio of M_2 to GDP, stood at 38.1 per cent at end-December 2008.This indicated a significant improvement when compared with 27.9 per cent at end-December 2007. Thus, the banking system showed a greater capacity to provide liquidity for the exchange of goods and services during the year. Bank financing of the economy, measured by CP/GDP stood at 33.5 per cent at end-December 2008, compared with 24.2 per cent at end-December 2007. Furthermore, the intermediation efficiency indicator, as measured by the ratio of currency outside banks to broad money supply, improved modestly to 9.7 per cent at end-December 2008 from 12.7 per cent at end-December 2007, reflecting the impact of the increased use of electronic forms of payment, particularly the use of ATM and other card products, as well as an improved banking habit. Also, the ratio of currency in circulation to M_2, fell to 12.6 per cent in 2008, from 16.5 per cent in the preceding year.

Figure 4.12a: Ratio of Broad Money (M_2) and Credit to Private Sector (CPS) to GDP and Currency Outside Bank (COB) to M_2



The ratio of financial savings (quasi-money) to GDP improved to 17.9 per cent from 12.9 per cent in the preceding year. The moniness of the economy, as measured by the ratio of CIC to GDP, increased slightly to 4.8 per cent from 4.6 per cent a year ago. The size of the banking system, relative to the size of the economy, indicated by the ratio of DMBs assets to GDP, showed improvement in 2008. It increased from 52.7 per cent at end-December 2007 to 66.2 per cent. The ratio of the CBN assets to GDP also increased slightly from 41.7 per cent at end-December 2007 to 42.4 per cent.

Figure 4.12b: Ratio of DMBs Total Deposit to GDP (%)



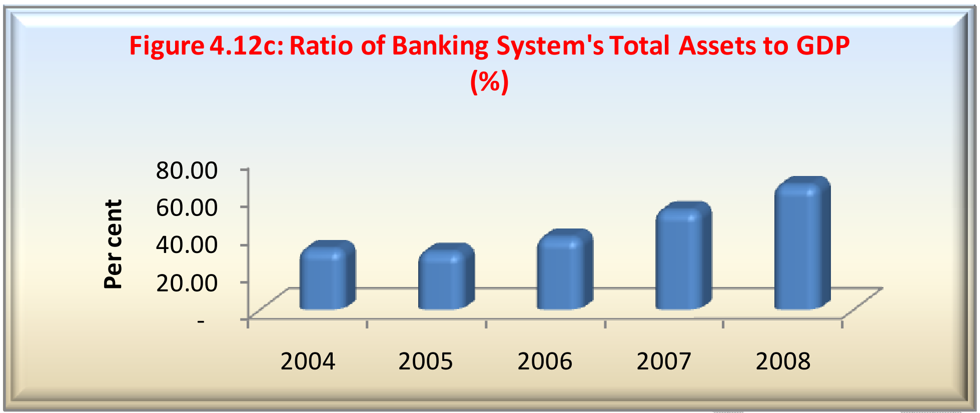


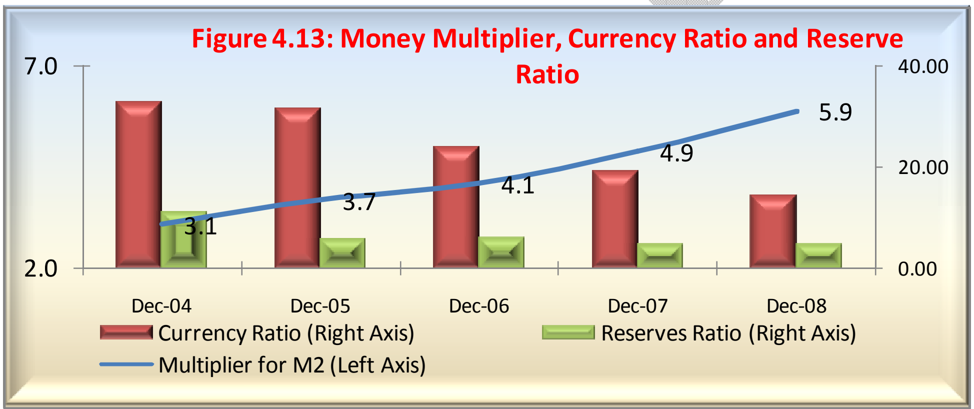
Table 4.7: Monetary Aggregates and Measures of Financial/Banking Development		
Aggregates (₦' billion)	**2007**	**2008**
Nominal GDP	20,853.6	24,048.5
Broad money (M_2)	5,809.8	9,167.1
Quasi Money (Savings)	2,693.6	4,309.5
Currency in circulation	960.6	1,155.6
Currency Outside banks	737.9	892.9
Credit to Private Sector	4,968.96	8,059.5
DMBs Assets	10,981.7	15,919.6
CBN Assets	8,689.0	10,203.4
Banking System Assets	19,670.7	26,123.6
Monetary Ratio (per cent)		
M_2/GDP	27.9	38.1
CIC/ M_2	16.5	12.6
COB/ M_2	12.7	9.7
Quasi Money/ M_2	46.4	47.0
CIC/GDP	4.6	4.8
Cp/GDP	24.2	33.5
Cp/Non-Oil GDP	37.9	54.4
DMBs Assets/GDP	52.7	66.2
CBN's Assets/GDP	41.7	42.4
Banking System's Assets/GDP	94.3	108.6

4.2.7 Money Multiplier and Velocity of Money

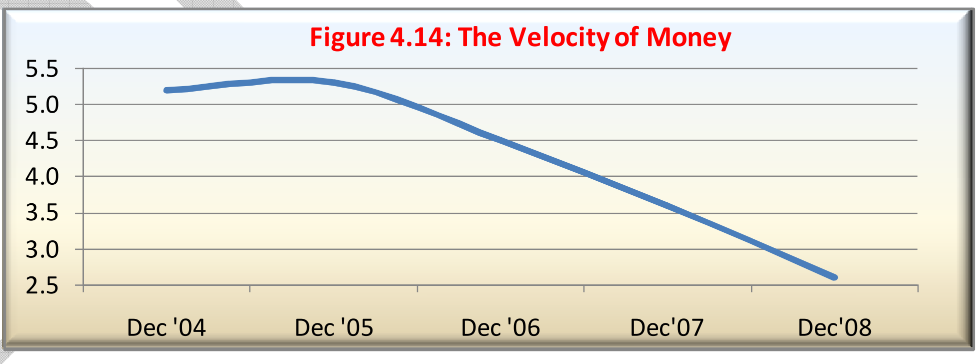
The broad money multiplier at end-December 2008 rose to 5.9, compared with the 5.8 programmed for the year and 4.9 at end-December 2007. The increase in the multiplier reflected a decline in currency deposit ratio, following an increased use of electronic money. Currency-deposit ratio declined from 19.2 per cent at end-December 2007 to 14.5 per cent at end-December 2008, reflecting the substantial increase in the total deposit liabilities of the DMBs. However, reserve-to-deposit ratio increased from 4.7 per cent at end-December 2007 to 4.8 per cent at end-December 2008.

Table 4.8: Money Multiplier and Velocity of M_2

	2004	2005	2006	2007	2008
Currency Ratio	32.8	31.6	24.0	19.2	14.5
Reserve Ratio	11.2	5.9	6.0	4.7	4.8
M_2 Multiplier	3.1	3.7	4.1	4.9	5.9
Velocity of M_2	5.2	5.3	4.5	3.6	2.6



The velocity of circulation of broad money remained unstable at end-December 2008. The M_2 velocity which stood at 3.6 at end-December 2007, fell to 2.6. This development reflected an improvement in financial deepening in the economy.



4.3 OTHER FINANCIAL INSTITUTIONS

4.3.1 Development Finance Institutions (DFIs)

The four (4) reporting DFIs are the Bank of Industry (BOI), the Federal Mortgage Bank of Nigeria (FMBN), the Nigerian Agricultural, Co-operative and Rural Development Bank (NACRDB), and the Nigeria Export

Import Bank (NEXIM). The aggregate assets of the four DFIs indicated an increase of 24.0 per cent over the level in the preceding year. Further analysis of the asset base of the four institutions indicated that FMBN accounted for 31.3 per cent of the total. BOI; NACRDB and NEXIM accounted for 30.2, 25.3, and 13.2 per cent of the total, respectively.

Cumulative loan disbursements by the four institutions increased by 35.7 per cent to ₦78.0 billion. The share of each institution in the total loan was 41.3, 29.1, 16.7 and 12.9 per cent for FMBN, NACRDB, NEXIM and BOI, respectively. The combined share-capital of the four institutions was ₦35.2 billion, while their combined shareholders' fund was ₦27.1 billion.

4.3.2 Microfinance Banks (MFBs)

The total assets/liabilities of all MFBs increased by 62.4 per cent to ₦122.8 billion in 2008. Similarly, their paid-up capital increased by 152.7 per cent to ₦28.3 billion, while their shareholders' fund increased by 69.7 per cent to ₦37.0 billion. The development was attributed to the injection of fresh capital by the new investors as well as the higher level of retained earnings by the existing institutions. Investible funds available to the sub-sector was ₦49.1 billion, compared with ₦20.8 billion in the preceding year. The funds were sourced from an increase in deposits (₦20.4 billion), paid-up capital (₦17.1 billion), other liabilities (₦7.3 billion), long-term loans (₦2.5 billion), and placements from other banks (₦1.8 billion). The funds were used to increase loans and advances (₦19.9 billion), other assets (₦6.3 billion), fixed assets (₦6.0 billion), bank balances (₦5.7 billion), placements with other banks (₦4.9 billion) and investments (₦3.6 billion).

4.3.3 Maturity Structure of MicroFinance Banks (MFBs) Loans and Advances and Deposit Liabilities

The activities of Microfinance Banks (MFBs) mirrored those of DMBs in 2008, where short-termism was dominant in the sources and application of funds. Short-term loans, maturing below one (1) year at end-December 2008, accounted for 83.8 per cent of the total, while loans maturing above one (1) year accounted for 16.2 per cent. Similarly, the short-term liabilities by these institutions remained dominant as deposits of less than one year maturity accounted for 92.8 per cent, while deposits of above one (1) year accounted for 7.2 per cent at end-December 2008. Indeed, deposits of less than 30 days maturity constituted 60.0 per cent of the total.

Table 4.9: Maturity Structure of Assets and Liabilities of Microfinance Banks (MFBs) (Per cent)		
	Loans and Advances	**Deposits**
Tenor/Period	**2008**	**2008**
0-30 days	17.5	60.0
31-60 days	8.0	9.7
61-90 days	12.2	7.5
91-180 days	16.3	7.7
Short term	**83.8**	**92.8**
Above I80 days and below 1 year	**29.7**	**7.8**
Long term (Above 1 year)	**16.2**	**7.2**
Total	**100.00**	**100.00**

4.3.4 Discount Houses

Analysis of the activities of the five discount houses indicated improved performance. Total assets/liabilities of the discount houses increased by 39.9 per cent to ₦417.2 billion, while the total funds sourced amounted to ₦209.5 billion, compared with ₦68.6 billion in 2007. The funds were sourced from money-at-call (₦114.7 billion) and borrowings (₦65.2 billion), among others. The funds were utilized mainly in the extension of credit to non-bank customers (₦44.9 billion) and claims on banks (₦21.9 billion). Discount houses' investments in Federal Government securities of less than 91 days maturity amounted to ₦45.6 billion, representing 12.8 per cent of their total current liabilities. This was 47.2 percentage points below the prescribed minimum of 60.0 per cent for fiscal 2008.

4.3.5 Finance Companies (FCs)

The total assets/liabilities of the FCs increased significantly by 104.0 per cent to ₦134.2 billion. Loans and advances increased by 88.1 per cent to ₦50.4 billion, while total borrowings increased by 107.8 per cent to ₦83.1 billion. Shareholders' funds increased by 69.1 per cent to ₦25.2 billion. Investible funds that accrued to the sub-sector was ₦68.4 billion, compared with ₦57.6 billion in the preceding year. The funds were sourced from an increase in borrowings (₦43.2 billion), other liabilities (₦7.9 billion), long-term liabilities (₦7.1 billion), paid-up capital (₦5.8 billion) and reserves (₦4.5 billion), among others. The funds were utilised mainly to increase loans and advances (₦23.6 billion), investments (₦21.7 billion), placements with other FCs (₦10.3 billion), other assets (₦7.4 billion), fixed assets (₦3.2 billion) and balances with banks (₦2.2 billion).

4.3.6 Primary Mortgage Institutions (PMIs)

The total assets of the PMIs, which stood at ₦202.8 billion at end-December 2007, increased by 62.6 per cent to ₦329.8 billion. The development was attributed, largely, to the capital injection that led to the increase in the balance sheet of the PMIs that were acquired by twelve (12) DMBs. Investible funds available to the PMIs totalled ₦154.2 billion. The funds were sourced from increases in deposits (₦42.1 billion), shareholders' fund (₦37.3 billion), disposal of other assets (₦26.6 billion), long-term loans/NHF loans (₦22.9 billion), and other liabilities (₦22.2 billion). The funds were utilized to increase loans and advances (₦69.1 billion), investments (₦41.3 billion), bank balances (₦38.2 billion) and the acquisition of fixed assets (₦5.5 billion).

4.3.7 Bureaux-de-Change (BDC)

A total of five hundred and eighty-nine (589) fresh applications for BDC licences were received, in addition to the sixty-four (64) others that were at various stages of processing at end-December 2007. The number of final licences granted during the year stood at 345, while 216 AIPs and 92 other applications were at various stages of processing. Overall, the number of approved BDC increased from 703 in 2007 to 1,264.

4.4 MONEY MARKET DEVELOPMENTS

Activities in the money market were largely driven by the implementation of monetary and fiscal policies with the OMO as the main monetary policy tool for liquidity management. This was complemented with the utilization of the CBN Standing (deposit and lending) facilities and cash reserve requirements. The relatively tight liquidity conditions engendered by the CBN's extensive liquidity mop-up to meet the Reserve Money target in December 2007 spilled over to the first quarter of 2008. Consequently, banks continued to access the CBN's lending facility in the review period. At the open market, two-way quote trading and reverse repurchase transactions were used along with direct auctions. There was a surge in subscription at the primary market auctions for NTBs and FGN Bonds, as investors substituted money market assets, especially Government securities, for equities in a flight to safety. The 20-year FGN Bond was introduced and subscription was high due to the attractive and stable yield on the security. To further enhance securities trading and deepen activities in the money market, five (5) new Money Market Dealers (MMDs) were appointed to replace five (5) others whose licences were revoked after a careful appraisal of their activities.

4.4.1 Inter-bank Funds Market

Activities at the inter-bank funds market increased in 2008 relative to the preceding year. In value terms, trading activities increased by 7.3 per cent to ₦20,403.6 billion. The development was traceable to the huge transactions at the open-buy-back segment, occasioned by the volatile liquidity conditions arising from fiscal actions.

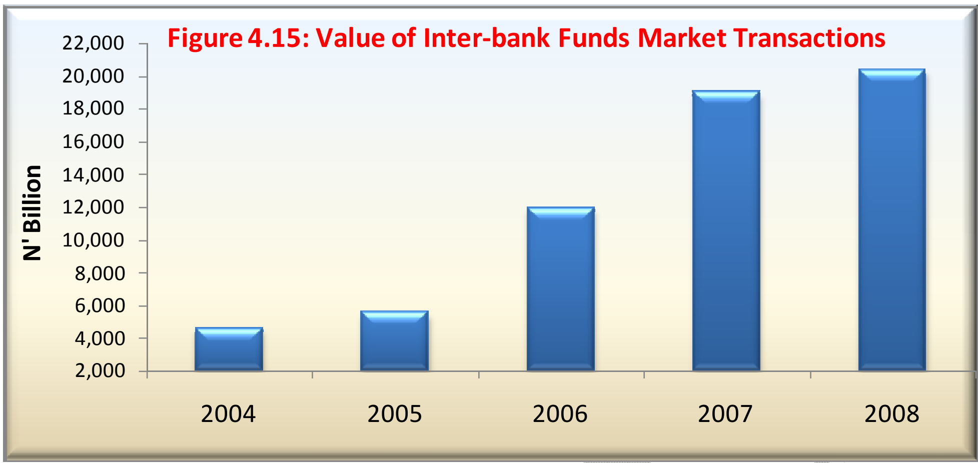


Figure 4.15: Value of Inter-bank Funds Market Transactions

Relative to the outcomes in 2007, the value of transactions at the inter-bank call placement segment by 16.8 per cent to ₦5,797.5 billion, while investment shot up by 21.2 per cent to ₦14,606.2 billion at the open-buy-back segment. As a proportion of the total value of transactions, the inter-bank call and the open-buy-back segments accounted for 28.4 and 71.6 per cent, respectively, compared with 36.6 and 63.4 per cent, respectively, in 2007.

4.4.2 Money Market Assets Outstanding

Total money market assets outstanding, at end-December 2008, stood at ₦2,807.1 billion, showing an increase of 27.2 per cent, compared with the value at end-December 2007. The development was due to the increase in the value of commercial papers (CPs) and FGN Bonds outstanding, which more than offset the decline in outstanding treasury bills.

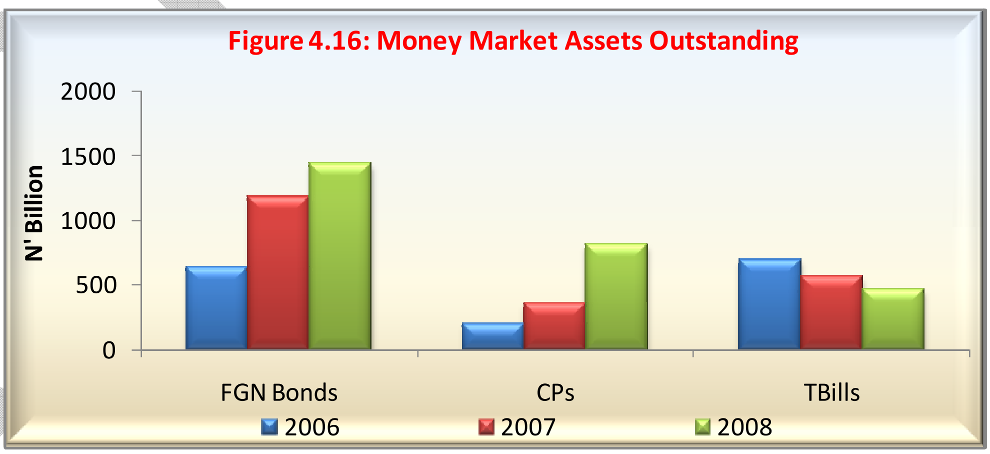


Figure 4.16: Money Market Assets Outstanding

Government remained the dominant player in the Nigerian money market, as government securities constituted 68.0 per cent of money market assets outstanding at end-December 2008, while private sector issued securities (certificates of deposits, commercial papers and bankers' acceptances) accounted for 32.0 per cent. As a proportion of GDP, money market assets outstanding stood at 11.5 per cent.

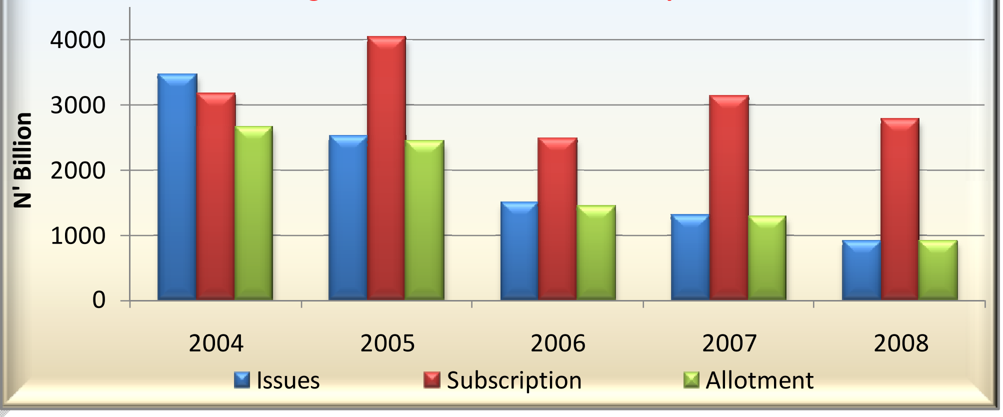
Table 4.10: Composition of Money Market Assets Outstanding in 2008

Asset	Share in Total (%) in 2007	Share in Total (%) in 2008
Treasury Bills	26.05	**16.81**
Treasury Certificates	0.00	**0.00**
Development stocks	0.03	**0.02**
Certificate of Deposit	0.00	**0.00**
Commercial papers	16.47	**29.31**
Bankers' Acceptances	3.70	**2.37**
FGN Bonds	53.75	**51.50**
Total	**100**	**100**

4.4.2.1 Nigerian Treasury Bills (NTBs)

Nigerian Treasury Bills worth ₦916.3 billion were issued during 2008, compared with ₦1,304.2 billion in 2007, showing a decline of 29.7 per cent. The decline in the issued amount was as a result of the restructuring of the NTBs to longer tenors, in line with the policy of deepening the money market and reducing government's exposure to short-term interest rate risks, as well as enhancing the ability of financial institutions to effectively manage their liquidity. Public subscription and allotment of the securities stood at ₦2,787.8 billion and ₦916.3 billion, respectively, compared with ₦3,141.0 billion and ₦1,281.4 billion, in 2007.

Figure 4.17: NTB Issues, Subscription & Allotment

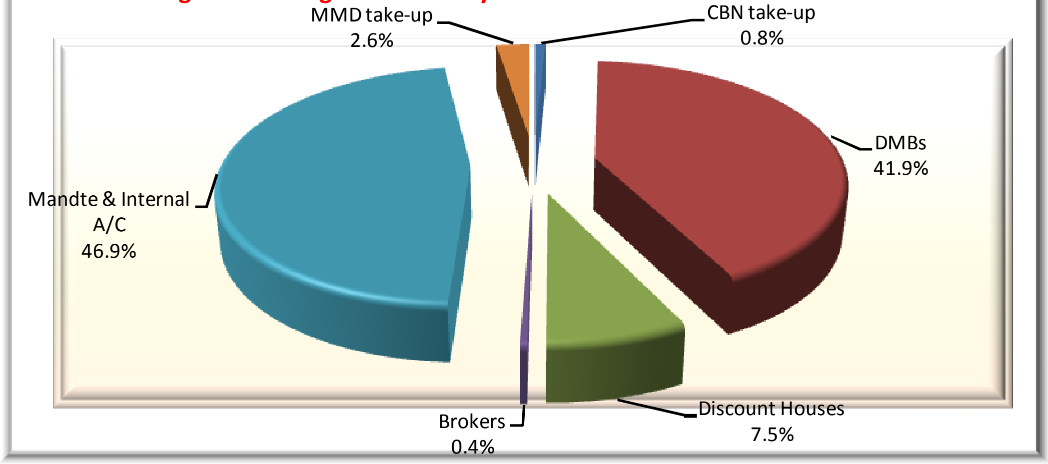


A breakdown of the allotment of NTBs showed that the banks had a total of ₦383.7 billion (41.9 per cent), Mandate and Internal Fund Customers ₦429.3 billion (46.9 per cent), Discount Houses ₦69.1 billion (7.5

per cent), and Brokers ₦3.2 billion (0.4 per cent), compared with the previous year's levels of ₦587.3 billion, ₦556.3 billion, ₦133.8 billion and ₦1.8 billion, respectively.

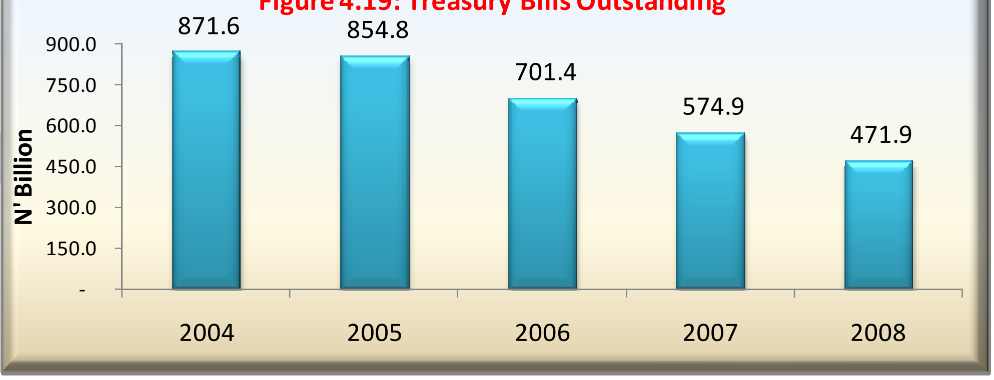
Table 4.11: Allotment of NTBs (₦'Billion)		
	2007	**2008**
DMBs	587.3	383.7
Mandate and Internal Fund	556.3	429.3
Discount Houses	133.8	69.1
MMD Take up	21.1	23.4
CBN Take up	6.0	7.6

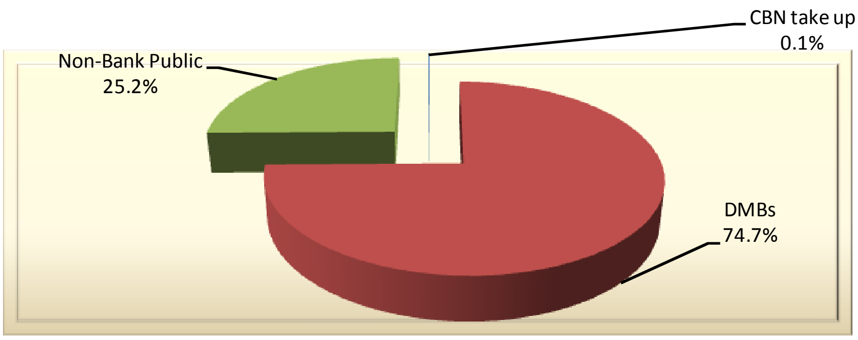
Figure 4.18: Nigerian Treasury Bills: Breakdown of Allotment in 2008



Patronage remained appreciable, as a result of the combined effects of the varying levels of repayments and roll-overs, as well as the smoothening of issue amounts. During the review period, the sum of ₦1,019.3 billion matured NTBs was repaid. Consequently, the total outstanding Nigerian Treasury Bills declined from ₦574.9 billion at end-December 2007 to ₦471.9 billion.

Figure 4.19: Treasury Bills Outstanding





4.4.2.2 Commercial Papers (CPs)

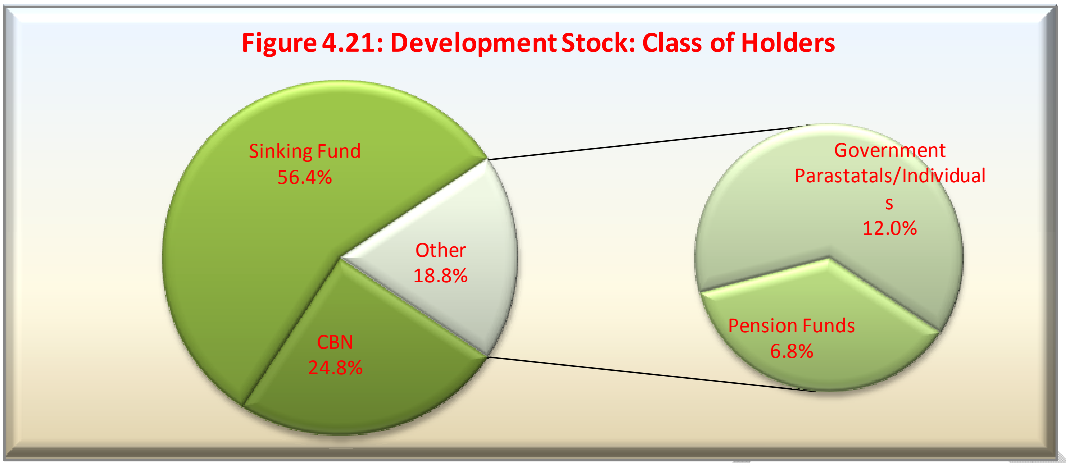
Investment in Commercial Papers (CPs), as a supplement to bank credit to the private sector, increased in 2008. The value of CPs held by DMBs surged by 126.4 per cent to ₦822.7 billion at end-December 2008, relative to the level at the end of the preceding year. Thus, CPs constituted 29.3 per cent of the total value of money market assets outstanding, compared with 16.47 per cent at the end of the preceding year.

4.4.2.3 Bankers' Acceptances (BAs)

Holdings of BAs by DMBs fell by 18.9 per cent to ₦66.4 billion, as against an increase of 4.3 per cent in 2007. The fall reflected the decline in investments by deposit money banks and discount houses. Consequently, BAs accounted for 2.4 per cent of the total value of money market assets outstanding, compared with 3.7 per cent in 2007.

4.4.2.4 Federal Republic of Nigeria Development Stocks (FRNDS)

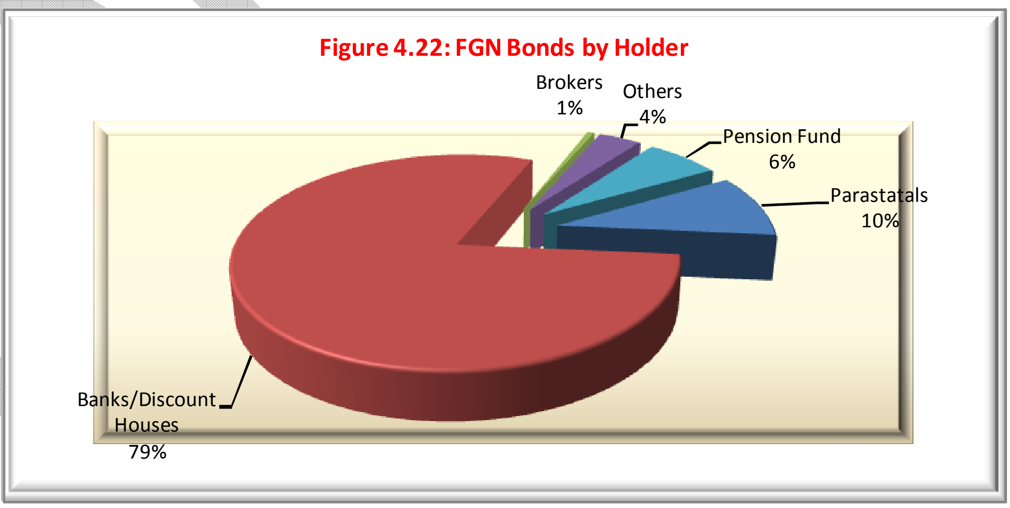
A total of ₦0.52 billion development stock was outstanding at end-December 2008, down by 16.1 per cent from the level recorded in 2007. The decline was accounted for by the redemption of the 9.75 per cent FRN22DS 2008 that matured during the year. Of the amount outstanding at end-December 2008, the CBN held a total of ₦0.13 billion, compared with ₦0.14 billion in the preceding year. Holdings on the account of sinking funds stood at ₦0.3 billion, down from ₦0.4 billion in the preceding year. Holdings by other institutions was ₦0.1 billion, the same as in the preceding year.



4.4.2.5 FGN Bonds

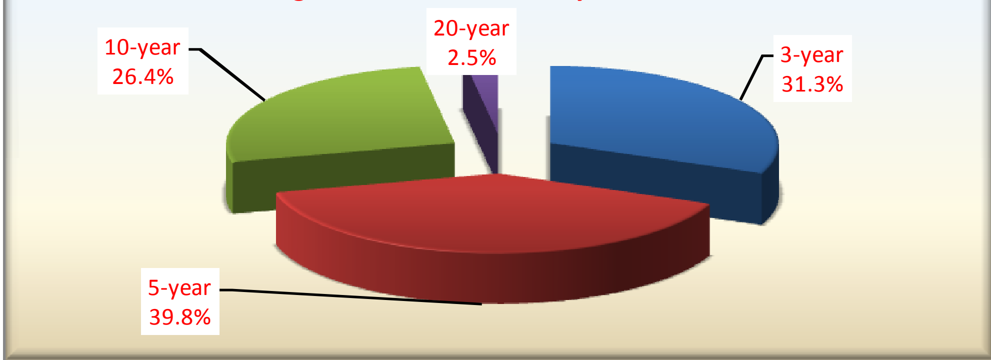
In continuation of the efforts of the Federal Government to restructure its domestic debt profile, develop the bond segment of the capital market, and promote economic growth, FGN Bonds of 3-, 5-, and 10-year tranches were re-opened, while the 20-year tranche was issued. The successful introduction of the 20-year bond further boosted confidence in the Nigerian economy. The total issue and allotment of all the series was ₦495.7 billion, indicating a decline of ₦186.3 billion from the ₦682.0 billion issued in 2007. The CBN acted as the registrar and issuing house for all the issues.

A breakdown of the allotment of FGN Bonds showed that the banks and discount houses took 79.4 per cent, parastatals (9.8 per cent), Pension Fund (6.5 per cent), Brokers (0.6 per cent) and others 3.7 per cent.



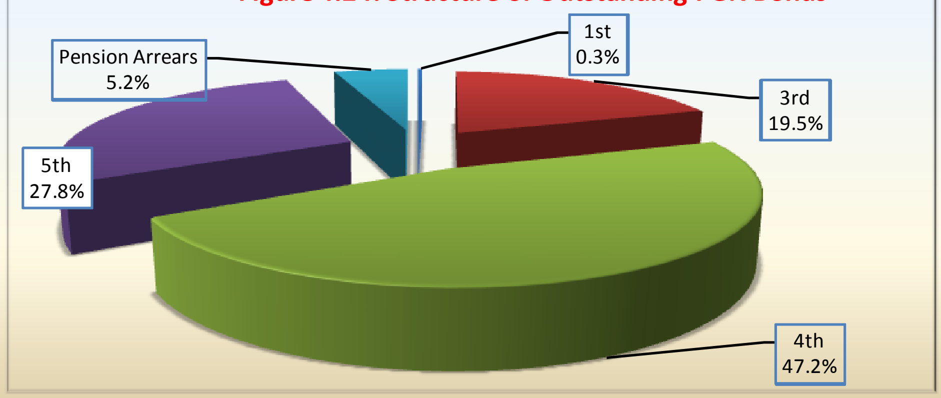
Out of the total of ₦402 billion allotted, 31.3 per cent was for the 3-year tenor, 39.8 per cent for the 5-year tenor, 26.4 per cent for the 10-year tenor, while the balance of 2.5 per cent was for the 20-year tenor. The coupon rates for all the issues in 2008 ranged from 9.65 to 15.0 per cent, compared with 7.00 to 13.5 per cent in 2007.

Figure 4.23: FGN Bonds by Tenor



The total outstanding FGN Bonds increased to ₦1,446.0 billion from ₦1,186.2 billion at end-December 2007. Out of the total outstanding bonds, the 1st FGN Bond constituted 0.3 per cent, the 3rd FGN Bond (19.5 per cent), the 4th FGN Bond (47.2 per cent), and the 5th FGN Bond (27.8 per cent), while the balance of 5.2 per cent was for the special FGN Bond issued to settle outstanding pension arrears. The 2nd FGN Bond was fully liquidated in 2008.

Figure 4.24: Structure of Outstanding FGN Bonds



4.4.2.6 Over-the-Counter Transactions in FGN Bonds

In order to enhance the liquidity in the Bonds secondary market, FGN Bonds were actively traded in the secondary market at the Nigerian Stock Exchange, with final settlement at the CBN. Total transactions by Primary Dealer Market Makers in 2008 stood at ₦10,090.2 billion in 80,135 deals, an increase of 155.6 and 165.0 per cent in value and volume respectively, compared with ₦3,947.3 billion and 30,241 deals in 2007.

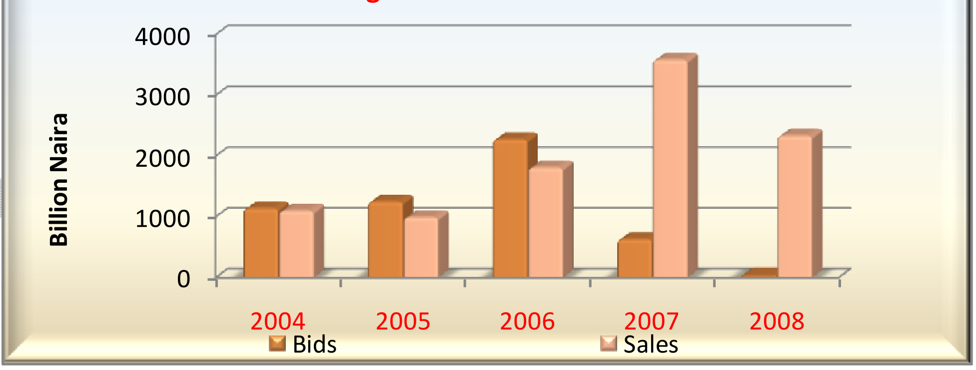
4.4.3 Open Market Operations (OMOs)

Open Market Operations subsisted as the main tool of liquidity management in 2008. Direct OMO auction were conducted only when there was need for intervention in the market, in line with the new policy. In that regard, it was aimed at mopping up specific amounts of excess liquidity. Direct OMO auctions were conducted at the open market to target the huge injection of liquidity into the system after the payments of statutory revenue and excess crude oil proceeds. The OMO activities were also conducted at the two-way quote trading and reverse repurchase transactions. At the two-way quote trading, the Bank did not only sell NTBs, it also bought bills from the deposit money banks in a bid to moderate rates at the auctions.

The total subscription and sales of the intervention securities was ₦34.0 billion and ₦2,331.4 billion, respectively, compared with ₦627.4 billion and ₦3,156.1 billion in 2007. The breakdown of sales indicated that ₦858.1 billion was sold at the two-way quote trading using the Reuters; ₦16.0 billion was sold at the direct auction; ₦669.2 billion was issued as part of the primary market auction and was solely for liquidity management; and ₦788.1 billion was sold through reverse repurchase transactions. The issue rates were from 5.9558 to 9.55 per cent in the review year, compared with between 5.7558 and 9.23 per cent in 2007. In the same vein, the sum of ₦13.0 billion was purchased by the Bank from deposit money banks through the two-way quote trading platform. The transactions were consummated at the rates of between 8.50 and 8.60 per cent for the various maturities.

The decline in sales at the open market relative to the preceding year was attributable to the liquidity unease that pervaded the banking system, especially in the first and fourth quarters of 2008; absence of underwriting of unsubscribed portion of bills by the Money Market Dealers (MMDs); and the suspension of the liquidity mopping exercise by September 2008 in order to curtail the contagion effect of the global financial crisis, among others.

Figure 4.25: OMO Issues and Sales



4.4.4 Discount Window Operations

4.4.4.1 CBN Standing Facilities

The CBN retained the use of standing facilities in 2008. The review of the monetary policy stance through changes in MPR which served as the repo and lending rates had a direct impact on the lending and deposit facilities. Interest payment on overnight deposits by DMBs remained suspended. No deposit money bank used the CBN deposit facility during the period under review as the facility was not remunerated. The lending facility remained open daily and DMBs constantly accessed the facility in order to square up their positions. Due to the relative tight liquidity conditions in the banking system in 2008, the volume of lending to the DMBs remained high as the banks and discount houses accessed the facility on a daily basis. Total lending to DMBs and discount houses under the facility was N29,644.0 billion, compared with N3,430.7 billion in the preceding year.

4.4.4.2 Repurchase Agreement (Repo)

Repurchase agreement (Repo) complemented other liquidity management tools employed to achieve the core mandates of the Bank. In line with the Bank's initiative to engender a more efficient and effective resource flow and intermediation, the Bank introduced tenored repurchase transactions at the discount window for up to 360 days.

The Bank also expanded the list of eligible financial instruments as collateral at the discount window to include private sector instruments, including Bankers' Acceptances (BAs), guaranteed Commercial Papers (CPs), and promissory notes, etc. Consequently, DMBs accessed the discount window for various tenors ranging from 7- to 90-days at rates ranging from 10.0 to 17.25 per cent. The total amount that was injected through this medium, as at 31st December 2008, was ₦879.1 billion. Out of this, the sum of ₦592.7 billion had matured, while the total outstanding at end-December 2008 was ₦286.5 billion.

4.4.4.3 Over-the-Counter Transactions (OTCs) in NTBs

Over-the-counter transactions in NTBs continued in 2008 in order to deepen the market. The total value of transactions settled in 2008 was ₦8,580.8 billion compared with ₦1,256.1 billion in 2007.

4.4.4.4 Open-Buy-Back (OBB) Transactions

Open Buy-Back transactions conducted in 2008 increade by 38.8 per cent to ₦27,105.9 billion in value terms, compared with ₦19,528.1 billion in 2007. The increase was attributed to the ease of transacting business on-line among market players.

4.5 CAPITAL MARKET DEVELOPMENTS

4.5.1 Institutional Developments in the Nigerian Capital Market in 2008

In an effort to enhance liquidity in the Nigerian Capital Market, the Securities and Exchange Commission (SEC) appointed four companies as market makers. The SEC guidelines provided that a market maker shall be a company duly registered with the Corporate Affairs Commission (CAC) and shall have a minimum paid-up capital of ₦2.0 billion, and maintain sufficient liquid assets that would cover their current indebtedness. The obligations of the market makers include the following: stabilizing the market by ensuring continuous liquidity, and synchronizing the buy and sell transactions spread (bid/offer spread), which shall be a maximum limit of 3.0 per cent and subject to review from time to time. Besides, market makers must have the capacity for continuous two-way quotes in the relevant stocks at a trading session in a minimum quote size of 100,000 units of shares and must settle transactions within the prescribed cycle of T+3. They must equally have the capacity to lend and borrow the designated securities at any time, with a view to ensuring stability in the market.

Furthermore, two insurance companies were reclassified to the "Other Financial Institutions" sub-sector, reflecting the expansion of their operations beyond insurance business, while one company graduated from the Second-tier market to the First-tier and was reclassified to the Engineering Technology sector. The name of 'IBTC-Chartered Bank' was changed to 'Stanbic IBTC Bank Plc', following the acquisition of a majority shareholding by the Standard Bank Group. The Exchange commenced the up-grade of its trading software, the Horizon, to the latest version with improved functionalities that would impact positively on its trading activities, especially with regard to its future derivatives and bond trading. The Exchange commissioned two (2) new trading floors in Ilorin and Abeokuta, bringing the number of trading floors to eleven (11). In an effort to further deepen the market, the Exchange introduced three (3) new products, namely, Exchange Traded Funds, Mortgage-backed Securities and Assets-backed securities. On cross-border listing, a Nigerian bank, for the first time, was listed on the Professional Securities Market (PSM) of the London Stock Exchange (LSE).

Box 2: Developments in the Nigerian Capital Market in 2008 and Government's Response

The market capitalization of the Nigerian Stock Exchange (NSE) fell from ₦15.3 trillion in the first quarter of 2008 to ₦13.0 trillion in the third quarter, while the All-Share Index declined from 63,147.04 in the first quarter to 48,738.14 in the third quarter. The volume and value of traded securities also declined from 68.6 billion shares and ₦990.40 billion in the first quarter to 48.1 billion shares and ₦494.8 billion, respectively. The development was attributed to wrong expectations of price movement which led to panic dumping of shares and assets switching, particularly into real estate and money market security investments. Speculations and perceived uncertainties were some of the key factors that led to divestment by many foreign portfolio investors from the country, as the global financial crunch continued to deepen.

Worried by the sustained recession that beset the capital market, the Federal Government, on August 26 2008, announced some short and long-term measures to boost the market, including the following: that the CBN would take appropriate measures to ensure adequate liquidity in the market; that banks would restructure the existing facilities being extended to licensed stockbrokers; that institutional and individual investors would allow for longer repayment periods; that a reduction of transactions cost by the regulators in the market would take effect; that quoted companies would be allowed to buy-back up to 20.0 per cent of their shares; that the Securities and Exchange Commission (SEC) would release guidelines for market makers on the Exchange; that modalities for the establishment of a capital market stabilisation fund would be worked out; that the authorities would take administrative measures to stem the rate of new issues until the market stabilised; and that reduction of the maximum downward limit on daily price movements would be pegged at 1.0 per cent, while the existing 5.0 per cent limit on upward movements would be retained. Consequently, the NSE announced a reduction in its application fee from 0.6 per cent to 0.3 per cent, while its fees on secondary market transactions were reduced from 0.5 per cent to 0.3 per cent. The Securities and Exchange Commission (SEC) and other market operators followed suit. On August 27, 2008, it was further announced that the new temporary limits would curtail negative price movements to a 1.0 per cent fall from the previous 5.0 per cent. Prior to this announcement, the market had recorded a decline in its All-share Index to 43,199.47 on August 26, 2008, representing a 34.9 per cent fall from 49,263.87 in March. Following the announcement and the subsequent implementation of some of these measures, the market's initial reaction was quite positive as the NSE All-share Index rose by 15.5 per cent to 49,897.86 on September 2, 2008. However, the Index later continued its slide and eventually dropped by 45.8 per cent to close at 31,450.78 at end-December 2008. Also, market capitalization fell from ₦13.3 trillion as at end-December 2007 to ₦9.5 trillion at end-December, 2008, reflecting the divestment of many foreign portfolio investors from the country, as a result of the global financial crunch and the quest to meet up with obligations in their home countries. These developments have, however, been attributed by market watchers to the underlying factor of "market correction" as many of the stocks were perceived to have been highly overvalued, given the excess demand that followed the market at the conclusion of the consolidation exercise. To that end, the market correction was expected to continue and it was hoped that shortly after, the market would recover fully and confidence restored.

4.5.2 The Nigerian Stock Exchange (NSE)

Activities on the floor of the NSE indicated mixed developments. The aggregate volume and value of traded securities rose, while aggregate market capitalization of the 301 listed securities declined by 28.3 per cent to close at ₦9.5 trillion, compared with ₦13.3 trillion recorded in 2007. The market capitalization of the 213 listed equities dropped from ₦9.0 trillion in 2007 to close at ₦7.0 trillion. The highest equity capitalization of ₦12.6 trillion was attained on May 3, 2008 while the lowest of ₦6.2 trillion was recoreded on December 16, 2008, due largely to the price depreciation recorded by the equities, the delisting of 19 companies and the maturing of outstanding bonds. This was accentuated by the exit of many foreign portfolio investors from the country, due largely to the global financial crunch.

Market capitalization as a percentage of GDP was 39.7 per cent, compared with 56.0 per cent in 2007. The ratio of the value of stocks traded to GDP stood at 10.0 per cent, compared with 8.9 per cent in 2007, while the turnover value as a percentage of market capitalization was 25.2 per cent, compared with 15.8 per cent in 2007. The annual turnover value (measured as the ratio of the total value of stocks traded to the total value of stocks listed on the domestic market) increased by 14.3 per cent, down from 346.5 per cent in 2007.

Figure 4.26: Trends in Market Capitalization and NSE Value Index

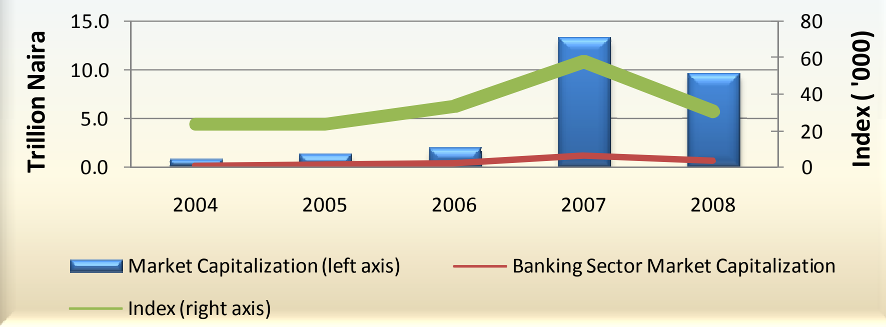


Table 4.12: Indicators of Capital Market Development (NSE)	2004	2005	2006	2007	2008
Number of Listed Securities	277	288	288	310	301
Volume of Stocks Traded (Turnover Volume) (Billion)	19.2	26.7	36.5	138.1	193.1
Value of Stocks Traded (Turnover Value) (Billion Naira)	225.8	262.9	470.3	2,100.0	2,400.0
Value of Stocks/GDP (%)	1.9	1.8	2.5	9.2	10.0
Market Capitalisation (Billion Naira)	1,925.9	2,900.1	5,120.9	13,294.6	9,535.8
Of which: Banking Sector (Billion Naira)	*662.7*	*1,212.1*	*2,142.7*	*6,432.2*	*3,715.5*
Market Capitalisation/GDP (%)	16.5	19.5	28.1	56.0	39.7
Of which: Banking Sector/GDP (%)	*5.7*	*8.1*	*11.8*	*27.1*	*15.5*
Insurance Sector/GDP (%)	0.2	0.2	0.3	2.0	1.3
Banking Sector Cap./Market Cap. (%)	34.4	41.8	41.8	41.8	39.0
Insurance Sector Cap./Market Cap. (%)	1.3	1.2	1.0	3.2	3.3
Annual Turnover Volume/Value of Stock (%)	8.5	10.1	7.8	6.6	8.0
Annual Turnover Value/Market Capitalisation (%)	11.7	9.1	9.2	15.8	25.2
NSE Value Index (1984=100)	23,844.5	24,085.8	33,358.3	57,990.22	31,450.78
Growth (In per cent)					
Number of Listed Securities	4.5	4.0	0.0	5.8	-2.6
Volume of Stocks	44.4	38.8	36.8	276.3	39.8
Value of Stocks	87.6	16.4	78.9	343.7	14.3
Market Capitalisation	45.4	50.6	76.6	159.6	28.3
Of which: Banking Sector	*87.1*	*82.9*	*76.8*	*200.2*	*-42.2*
Insurance Sector	2.0	1.4	1.2	3.7	-25.1
Annual Turnover Value	87.6	16.4	78.9	346.5	14.3
NSE Value Index	18.5	1.0	38.5	74.7	-45.8
Share of Banks in the 20 Most Capitalised Stock in the NSE (%)	30.0	45.0	55.0	65.0	70.0

Source: Nigerian Stock Exchange (NSE).

4.5.2.1 The Secondary Market

The secondary market segment of the NSE recorded mixed developments. The performance of the market was hampered by the paucity of fresh funds as a significant level of cross transactions (deals) was recorded towards the end of the year. A total turnover volume of 193.1 billion shares was recorded, indicating an increase of 39.8 per cent over the 138.1 billion shares in 2007. Similarly, a market turnover of ₦2.4 trillion was recorded, representing an increase of 14.3 per cent over the level in 2007. The bulk of the transactions was in equities, which accounted for ₦2.4 trillion or 99.85 per cent of the turnover value, compared with the 99.86 per cent in 2007. The banking sub-sector accounted for 65.8 per cent of the total volume of transactions, as investors re-aligned their portfolios after the consolidation exercise. Transactions in the industrial loans sub-sector accounted for ₦3.5 billion, representing 0.2 per cent of the total, while the Preference Stocks sub-sector was inactive in the review period.

Despite the huge outflow from the stock market, especially as a result of panic divestments, foreign investments worth ₦151.2 billion were recorded.

4.5.2.2 The NSE Value Index

The Nigerian Stock Exchange's (NSE) All-Share Index fell significantly by 45.8 per cent to close at 31,450.78, compared with 57,990.22 in the preceding year. The Index attained its highest level of 66, 371.20 on March 5, 2008 before falling to its year-end low level of 31,450.78. The development reflected the decline in share prices of the capitalized stocks on the Exchange, following the turmoil in the global financial system and waning investors' confidence following losses incurred by them.

4.5.2.3 New Issues Market

There was improved activity in the primary market as indicated by the increased number of applications received, reflecting an increased recourse to the stock market by companies and governments. This segment of the market was, however, active in terms of issues offered for public subscription up till the third quarter of the year, as activities were limited in the last quarter due to liquidity constraints arising from the economy-wide slowdown. The Exchange considered and approved 70 applications for both new issues and mergers/acquisitions valued at ₦2.2 trillion, compared with 65 applications valued at ₦2.4 trillion in 2007. The non-bank corporate issues accounted for 51.6 per cent of the total new issues approved, with 59 applications valued at ₦1.1 trillion, while the banking sub-sector accounted for 35.8 per cent, with 10 applications valued at ₦779.8 billion. The FGN Bond issue amounted to ₦275.0 billion, representing 12.6 per cent of the total. Of the non-bank applications, foreign listings and insurance sub-sectors accounted for ₦295.0 billion or 13.5 per cent and ₦150.5 billion or 6.9 per cent of the total, respectively.

Further analysis of the new issues approved showed that the sum of ₦608.0 billion was raised through initial public offerings (IPOs) and supplementary issues; ₦376.5 billion through rights issues; and ₦279.0 billion through bonds issue, including the Lagos State Government Bond. Listing by Introduction accounted for ₦368.9 billion, in addition to eleven applications for supplementary listings valued at ₦277.4 billion, while shares placing accounted for ₦91.4 billion. Also approved was one (1) application for merger and acquisition, valued at ₦3.8 billion and five applications by Unit Trusts for memorandum listings valued at ₦15.4 billion. The Exchange approved new tradable instruments – Exchange Traded Funds (ETFs) with one (1) application valued at ₦2.0 billion.

Figure 4.28: New Issues by Sector

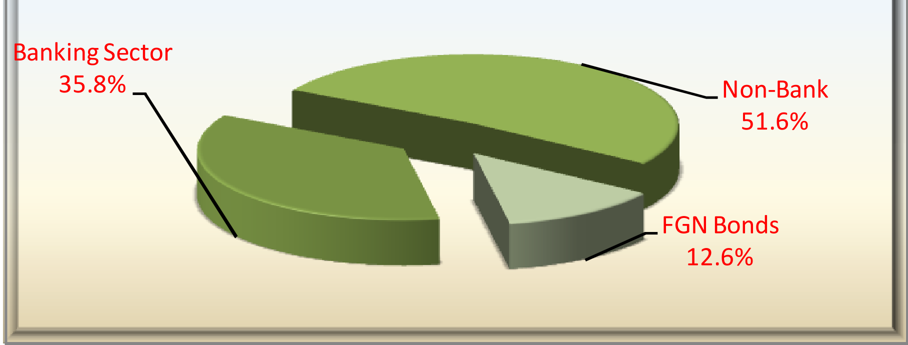


Figure 4.29: New Issues by Type