A KEYNOTE ADDRESS BY CHIEF (DR.) J.O. SANUSI (CON) GOVERNOR, CENTRAL BANK OF NIGERIA, AT THE NATIONAL WORKSHOP ON "MONETARY AND FINANCIAL POLICY MANAGEMENT" ORGANISED BY THE CHARTERED INSTITUTE OF BANKERS OF NIGERIA (CIBN) AT THE BANKERS HOUSE, VICTORIA ISLAND, LAGOS ON FEBRUARY 5, 2004

President, The Chartered Institute of Bankers of Nigeria,
Past Presidents,
Captains of Industry,
Distinguished Participants,
Ladies and Gentlemen.

1.0 I am greatly delighted to be here today as the Special Guest of Honour and as usual, to deliver the Keynote Address at this very important workshop on, "Monetary and Financial Policy Management". The theme of the workshop is of great interest to me in view of the opportunity it provides both participants and the public at large, to familiarize themselves with the provisions of the 2004/05 CBN Monetary Policy measures and the implications for key macroeconomic indicators. I wish to, therefore, commend the Chartered Institute of Bankers of Nigeria (CIBN) for the initiative in organising this Annual forum aimed at creating awareness among stakeholders and in appreciating the challenges of ensuring an effective policy implementation.

2.0 You will recall that effective fiscal 2002, the CBN adopted a medium-term monetary policy framework. This was in recognition of the fact that monetary policy impacts on its ultimate goals with a substantial lag and also the need to avoid the problem of time-inconsistency and over-reaction to temporary shocks. This strategy, which has been operated for two years, provides a more proactive approach to the conduct of monetary policy in Nigeria.

3.0 Distinguished Ladies and Gentlemen, let me briefly appraise the 2002/3 policy implementation and the overall performance of the Nigerian economy in order to put the discussion on the 2004/5 CBN monetary policy guidelines in proper perspective. The performance of macroeconomic indicators in 2003 was mixed, as compliance with monetary and external policy targets fell short of expectation. Also, the exchange rate of the naira remained relatively stable until the last quarter of the year. Real output growth however, remained weak. The persistent liquidity overhang, arising mainly from the expansionary fiscal operations of the three tiers of government, induced excessive growth in monetary aggregates relative to targets. Specifically, broad money stock (M_2) increased substantially by 26.2 per cent in 2003, as against the programmed target of 15.0 per cent for the year. The need for exceptional effort to mop-up the excess liquidity in the system led to the introduction of the bi-weekly and later daily conduct of Open Market Operations (OMO) during the last quarter of the year, which was continued to be complemented by cash reserve requirements and discount window operations.

4.0 Despite the policy slippages, domestic inflation remained largely subdued, especially in the first half of the year, while the naira exchange rate was relatively stable until the last quarter of the year. The lack-luster growth performance of the real sector persisted due mainly to structural factors. The external sector of the economy was under pressure, despite the improved performance of the oil sector during the year. The overall macroeconomic performance, however, was an improvement over the preceding year’s outcome, owing largely to increased earnings from crude oil exports.

5.0 In response to the relative macroeconomic stability, particularly the moderation in inflation rate and, in order to stimulate investment growth and output growth, the Minimum Rediscount Rate (MRR) was reviewed downward from 16.5 to 15.0 per cent in August, 2003. Consequently, there was a general downward movement in the levels of bank deposit and lending rates.

6.0 The Nigerian banking system remained generally stable, despite the public apprehension about the health of the industry, which followed the regulatory action taken against some banks. However, some outstanding problems continued to pose serious challenges to the soundness and stability of the sector. In particular, while significant progress has been made to eliminate the distress syndrome that characterised the banking industry in the 1990s, there still exist pockets of problem institutions in the financial sector. To address the problem, the contingency plan for distress resolution and a private sector funded “lifeboat” facility was established to assist banks in temporary liquidity problems.

7.0 At this juncture, It is pertinent to highlight some of the outstanding constraints to the effective conduct of monetary and financial policies in Nigeria. Notable among them is the problem of fiscal dominance, which has persistently induced the surge in excess liquidity in the banking system and accelerated growth in money supply. Besides, the oligopolistic character of the financial sector, is largely responsible for the unacceptably wide spread between the deposit and lending rates, which impair the transmission mechanism of monetary policy. It is, therefore, important to state that the 2004/5 CBN monetary policy guidelines was formulated against the background of the high demand pressure in the economy manifested in inflation resurgence and naira exchange rate depreciation in the last quarter of fiscal 2003, as well as the continued weak growth performance of the economy.

8.0 Mr. President, Distinguished Ladies and Gentlemen, consistent with the CBN's mandate, the primary objective of monetary policy in the 2004/2005 guidelines is the maintenance of price and exchange rate stability as the precondition for sustainable growth and external sector viability. In this regard, the 2004/5 monetary policy measures seek to achieve a single digit inflation rate during the period, through the effective control of growth in monetary aggregates. To this end, sustained effort will be made to address the persistent problem of excess liquidity in the banking system, and its adverse effects on domestic prices and the exchange rate. In addition, the CBN will continue to ensure banking soundness and financial sector stability, in order to enhance the efficiency of the payments system and effective transmission of monetary policy to the real sector.

9.0 As in previous years, the broad measure of money supply (M2) will continue to be the intermediate target of monetary policy. Thus, during the two-year period, broad money (M2) shall grow by an average of 16.25 per cent, which translates to a maximum increase of 16.0 per cent in 2004 and 16.5 per cent in 2005.

10.0 The mechanism for the conduct of monetary management shall continue to be market-based. In this regard, Open Market Operations (OMO) shall remain the primary instrument of policy, and be complemented by reserve requirements and discount window operations to enhance its effectiveness. The conduct of OMO shall be in the secondary market for Nigerian Treasury Bills (NTBs). In the event of a shortage of NTBs or alternative treasury instruments in the CBN portfolio, the Bank shall issue its own security for the conduct of OMO. Should the problem of excess liquidity become intractable, the Bank shall, resort to the temporary transfer of major treasury accounts from deposit money banks to the CBN and vice versa when illiquidity of the system is the problem. In this regard, deposit money banks shall receive prior notice before such withdrawals or re-injections are undertaken.

11.0 In addition to these measures, interest rates would continue to be market-driven in fiscal 2004/2005. Consequently, the level and direction of interest rate movement shall continue to be influenced by the CBN through adjustments of its Minimum Rediscount Rate (MRR).

12.0 The CBN would, in addition to strengthening its oversight capacity and streamlining the regulatory/supervisory framework, continue to emphasize, efficient management and good corporate governance in banks as key to banking soundness and financial sector stability. In particular, the CBN will ensure compliance with prudential guidelines by deposit money banks, as well as encourage greater transparency, professionalism and accountability in their operations.

13.0 In order to give a fillip to the development of Small and Medium Scale Industries (SMIs) as a vehicle for generating output and employment growth, the implementation of the Small and Medium Industries Equity Investment Scheme (SMIEIS) will be vigorously pursued. Banks will be encouraged to accelerate the utilization of their set-aside funds under the Scheme in 2004. Meanwhile, the unutilized funds, amounting to about ₦2.1 billion in the first phase of the Scheme, is being withdrawn from non-compliant banks, in accordance with the SMIEIS guidelines. In addition, the report of the CBN sponsored study on Small and Medium Industries in Nigeria, being undertaken by seven Universities is being expected by the end of this quarter. Also, a National Credit Guarantee Scheme would be established in 2004 to encourage bank lending to the Small and Medium Scale Enterprises (SMEs). This scheme is intended to complement the SMIEIS and the development of SMEs in Nigeria.

14.0 Permit me, Distinguished Ladies and Gentlemen to note that, relevant economic and financial indicators reveal that the Nigerian economy remains weak and below its potentials. As principal players, we have major roles to ensure its early recovery. In this regard, we should improve on the quality of our financial intermediation, promote the efficiency of the payments system and facilitate the effective transmission of monetary policy to the real economy. I enjoin all stakeholders, particularly deposit money banks, to regard the challenges of building a strong and stable economy as a collective responsibility, which must be accepted by all of us as part of our contributions to the management of the economy. It is also important to re-emphasise that the effectiveness of monetary policy in fiscal years 2004 and 2005 depends largely on the complementarity between monetary and fiscal policies and the extent to which structural policies are supportive.

15. In conclusion, it is my hope that this workshop will examine the intricacies of the 2004/5 Monetary Policy Guidelines and agree on the modality for its effective implementation. Let me assure all participants that the CBN will consider the conclusions and recommendations that will emanate from this workshop, in its implementation of the monetary and financial policies.

16.0 It is, therefore, my honour and privilege to declare this workshop open.

17.0 I thank you for your kind attention and wish you a most rewarding deliberation.

CHIEF (DR.) J.O. SANUSI, FCIBN, CON
GOVERNOR,
CENTRAL BANK OF NIGERIA
ABUJA

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