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# Central Bank of Nigeria, monetary, credit, foreign trade and exchange policy guidelines for 1997 fiscal year.

Central Bank of Nigeria Central Bank of Nigeria
*Central Bank of Nigeria*

# CENTRAL BANK OF NIGERIA

# MONETARY, CREDIT, FOREIGN TRADE AND EXCHANGE POLICY GUIDELINES FOR 1997 FISCAL YEAR

## (Monetary Policy Circular No. 31)

**INTRODUCTION**

This circular outlines the monetary, credit, foreign trade and exchange policy guidelines for banks and other financial institutions in Nigeria during fiscal 1997. The guidelines are subject to changes and amendments during the fiscal year, in the light of the periodic review of policy implementation and the performance of the economy. Such amendments, if and when they occur, will be conveyed to the relevant institutions in supplementary circulars as necessary. The circular is structured into three sections and an Appendix. Section One reviews developments in the economy and the policy environment in 1996 and thus provides the background to the policy measures for 1997. Section Two outlines the monetary and credit policy measures and guidelines for banks and other financial institutions while the foreign trade and exchange policy measures for 1997 are highlighted in Section Three. A list of prohibited import and export items is provided in the Appendix.

## SECTION ONE

## REVIEW OF MACROECONOMIC AND POLICY ENVIRONMENT

**Macroeconomic Developments**

Major economic indicators suggest that the Nigerian economy responded positively to the policy measures adopted during the 1996 fiscal year. In particular, real output growth strengthened, inflation moderated significantly, while reasonable stability was achieved in interest and exchange rate movements. Although monetary aggregates recorded increases relative to 1995, the growth rates were largely within stipulated targets. The pressure on the balance of payments position, however, persisted despite the surplus recorded on the external sector current account.

In 1996, growth in real Gross Domestic Product (GDP) was estimated at 3.3 per cent compared with the 5.0 per cent targeted and the 2.2 percent achieved in 1995. The growth in output reflected increased production in the major sectors of the economy. The manufacturing and agricultural sectors grew by 0.7 and 3.8 per cent, respectively, compared with -5.5 and 3.4 per cent in 1995, respectively. The mining sub-sector grew by 3.4 per cent in 1996 - an improvement over 2.6 per cent in 1995. Capacity utilisation which was 29.3 per cent in 1995 increased to 32.5 per cent in 1996. Inflationary pressures abated significantly with the rate declining to 28 per cent at the end of December, compared with 72.8 per cent by December, 1995.

As in the previous year, the external sector continued to be under pressure, with the overall balance of payments position for the first half of 1996 recording a deficit of \$336.7 million. This, however, represented an improvement when compared with the much larger deficit of \$572.7 million recorded in the corresponding period of 1995. The overall deficit during the period under review was traceable wholly to the capital account where the substantial deficit more than offset the surplus recorded on the current account. In sharp contrast to the trend in the earlier periods, the current account swung into a surplus of \$587.8 million from deficits of \$1,320.7 and \$2,294.4 million in the first and second halves of 1995, respectively. This improvement was attributable to the substantial rise in the merchandise trade account and reflected largely the increase in oil exports and the drop in import bills, coupled with the improved surplus in the unrequited transfers account. The relative exchange rate stability achieved in the Autonomous Foreign Exchange Market (AFEM) in 1995 was sustained throughout 1996 as the premium between the AFEM and the parallel market rates remained well within the benchmark of 5.0 per cent.

After the persistent cumulative decline in monetary aggregates during the first quarter of 1996, monetary growth accelerated in the second quarter, as against the sustained moderation observed in the comparable period of 1995. The growth in monetary aggregates, however, fluctuated thereafter. During the first ten months of 1996, the narrow measure of money supply (M1) increased by 28.3 per cent as against the 5.1 per cent decline observed in the corresponding period of 1995 and was above the 14.5 per cent target maximum for fiscal 1996. The major expansionary factor was the increase in foreign assets (net) of the banking system. The rise in M1, reinforced by the sharp increase in quasi-money, influenced the rapid growth of broad money (M2) during the ten-month period. Thus, M2 rose by 28.4 per cent compared with the 3.0 per cent increase observed in the corresponding period of 1995 and the 16.8 per cent maximum target for 1996.

The growth rate of aggregate bank credit was in line with the policy target. At the end of October, the system's credit to the domestic economy increased by 9.7 per cent compared with the 7.5 per cent rise in the corresponding period of 1995 and the target growth rate of 12.0 per cent for fiscal 1996. Net claims on the government sector increased by 4.2 per cent, in contrast to the fall of 5.2 per cent in the corresponding period of 1995 and the targeted zero borrowing requirement envisaged for fiscal 1996. Attributable largely to the lull in economic activities and the banks' reluctance to accommodate customers with low credit ratings, credit to the private sector had, by end-October, increased by barely 18.4 per cent, compared to the sharp increase of 31.0 per cent in the corresponding period for 1995 and the 29.5 per cent growth target for 1996.

Reported interest rate movements indicated that banks, in general, continued to comply with the prescribed ceiling on lending rates. However, some banks failed to observe the required maximum spread of 7.5 percentage points between their savings and maximum lending rates. Despite the observed stability in interest rates movements during the review period, the levels remained substantially negative in real terms in the face of relatively high inflation rate.

**Objectives of Monetary, Credit and External Sector Policies in 1997**

Despite the improved performance observed in 1996, the economy remained weak. In particular, government effort to foster early economic recovery was constrained by a number of problems which included structural bottlenecks, high inflationary pressures as well as low savings and investment levels.

Consequently, monetary, financial and external sector policies, in conjunction with other economic policy measures in 1997 have been formulated to bring inflation down further, stimulate growth and employment as well as strengthen external sector performance. In this regard, monetary policy stance will continue to be restrained but would accommodate the financing needs of the private sector of the economy for productive activities. It is envisaged that the effective implementation of the recently-announced deregulated interest rate regime would ensure efficiency in resource mobilization and utilisation to boost private sector-led growth, in the context of the general thrust of economic liberalization. Specifically, therefore, the objectives of monetary policy in 1997 include:

(i) further reduction in the inflation rate;
(ii) stimulating output and employment growth; and
(iii) strengthening external sector performance and ensuring continued Naira exchange rate stability.

The monetary and credit targets for 1997 are as follows:

(i) growth in narrow money supply (M1) - 13.5 per cent
(ii) growth in broad money (M2) - 15.7 per cent
(iii) growth in domestic credit - 20.0 per cent
(iv) Inflation rate - 15.0 per cent

The main instruments for achieving the above-stated objectives are outlined in Sections Two and Three below.

## SECTION TWO

## MONETARY AND CREDIT POLICY MEASURES IN 1997

### A. BANKS

The transition process from direct to indirect techniques of monetary control shall be further strengthened. In particular, Open Market Operations shall continue to be the major instrument of monetary policy and shall be complemented by other statutory requirements.

### 1. Open MarketOperations

In 1997, Open Market Operations (OMO) shall be conducted mainly in government securities. As in the previous year, OMO will be conducted in the secondary market for treasury bills and complemented by the use of a reserve requirements and discount window operations, including repurchase agreement (repo). In this regard, the repo agreement which has proved to be an effective mechanism for liquidity management by Discount Houses shall, in 1997, be extended to commercial and merchant banks. The Discount Houses shall continue to act as the principal dealers in the conduct of OMO intervention by the Central

Bank of Nigeria (CBN) in co-operation with banks and other market participants.

**2. Reserve Requirements:**

**(a) Cash Reserve Requirement**

As in the previous year, cash reserve requirement shall complement the use of OMO in order to enhance the effectiveness of monetary control. However, effective 1st August 1996, merchant banks were exempted from the cash reserve requirement in an attempt by the CBN to ensure a level playing field for this category of banks. As in the previous year, commercial banks shall continue to observe the cash reserve requirement of 8.0 per cent in 1997. While the cash ratio shall remain at its 1996 level, the base to which it is related is hereby expanded to include total deposit liabilities (i.e. demand, savings and time deposits), certificates of deposit (CDs) and promissory notes held by the non-bank public.

**(b) Liquidity Ratio**

The statutory liquidity ratio currently fixed at 30 per cent for both commercial and merchant banks is retained in fiscal 1997. Up till the end of 1996, the liquidity ratio was defined as the ratio of liquid assets to total deposit liabilities. However, consistent with the provision on cash reserve requirement, the base on which the 30 per cent liquidity ratio is applied shall, in 1997, include total deposit liabilities, (demand, savings and time), certificates of deposit (CDs) and promissory notes held by the non-bank public. As in the preceding year, bank's net placements with the Discount Houses shall continue to count as part of the banks' liquid assets for the purpose of meeting the statutory liquidity ratio. Also, only inter-bank placements which are fully collateralised by eligible instruments and are readily rediscountable at the CBN shall count as part of the a bank's liquid assets. For the avoidance of doubt, the underlisted compulsory deposits with the Central Bank shall not qualify for inclusion in computing the statutory liquidity ratio:

(i) excess credit by banks that are still subject to aggregate credit ceiling; and

(ii) cash deposits to meet the cash reserve requirement.

The requirement that Discount Houses should invest a minimum of 70 per cent of their total deposit liabilities in treasury bills shall remain in force in 1997.

**3. Stabilization Securities**

Consistent with the sustained movement to the use of market-based instruments of monetary policy, the Central Bank of Nigeria discontinued the issuance of stabilization securities in 1995 and commenced the phasing out of outstanding securities in 1996. So far, the CBN has refunded a significant portion of merchant banks' investments in stabilization securities and has since December, 1996, embarked on the phased refund of holdings by commercial banks. This exercise will be continued in 1997, subject to prevailing monetary conditions.

**4. Discount Window Operations**

In line with the objective of maintaining monetary stability as well as promoting the development of the money market, the discount window shall, in 1997, continue to be used strictly in line with CBN's function as lender-of-last resort. Consequently, transactions shall be geared towards the facilitation of OMO and will be in the form of short-term, largely overnight loans, collateralised by the borrowing institution's holdings of government debt instruments and other eligible first class securities approved by the CBN, up to a maximum quota related to the capital base of each institutions.

**5. Moral Suasion**

The CBN shall, in 1997, continue to engage in moral suasion through regular dialogue with banks and other financial institutions, on monetary and financial policy measures, in order to enhance the efficiency of the financial system.

**6. Interest Rate Policy**

In pursuance of CBN's shift from the use of direct to market-based instruments of monetary management and the need to realign interest rate determination with the policy of financial market deregulation, the cap on interest rates which was imposed since 1994 was removed with effect from 1st October, 1996. The removal of administrative control on interest rates shall remain in force in 1997. The removal of administrative control on interest rates shall remain in force in 1997. It is expected that a flexible interest rate policy in which rates are largely determined by the forces of supply and demand for funds will facilitate the deepening and broadening of the financial markets, which is an essential ingredient for a successful transition to market-based policy intervention and provide an efficient mechanism for liquidity management in the banking system.

As in 1996, the CBN shall continue to influence interest rates through its intervention with various market instruments. Meanwhile, the Minimum Rediscount Rate (MRR) which is the nominal anchor of CBN's interest rate policy shall be maintained at 13.5 per cent and the treasury bill issue rate retained at 12.0 per cent, and shall be adjusted from time to time in the light of prevailing monetary conditions.

In order to address the problem of the unacceptably wide spread between rates on deposit and bank lendings that characterized the earlier liberal interest rate regime in Nigeria, particularly in the early 1990s, a more competitive banking environment shall be established. Specifically, yields on financial assets, including deposits with banks, investments in treasury securities, which should be channelled through commercial and merchant banks as well as licensed brokers, shall be made more attractive to the non-bank public. The mechanism for popularizing and simplifying the procedure for non-bank public investment in government securities shall be worked out by the CBN in collaboration with other relevant institutions, including the mass media, during the year.

Other requirements on interest rates to be observed by banks in 1997 are as follows:

(a) Banks shall continue to pay interest on current account deposits at rates of interest negotiated between them and their customers. Where deposits for special purposes are held for more than seven days, banks shall pay interest on such deposits and the rate of interest shall also be subject to negotiation between them and their customers.

(b) The reducing balance method shall continue to be used for calculating interest charges on loans repayable instalmentally. The use of any other method whatsoever for loans payable in agreed instalments (for example, the discount method or the simple interest straight line method) that would result in a higher effective rate than the contracted rate is disallowed.

(c) Statements of account to each current account holder shall be rendered promptly on monthly basis and shall include the following:
   (i) rate of charges on turnover (COT); and
   (ii) rate of interest on overdrawn accounts, the amount and the period.

(d) (i) Interest on savings accounts shall be calculated on the balances on the customer's account as at the 15th day of each month and accrued interest paid shall be reflected at the time of calculation
   (ii) The amount of deposits in a personal savings account on which the interest is payable shall not be subject to any ceiling.
   (iii) Banks shall continue to design their pass books in such a way that the following information will be clearly shown when calculating the interest earned on savings deposits: interest rate applied, the amount of savings on which the calculation is based and the period for which interest is calculated.

(e) The Inspectorate Department of each bank shall continue to have the responsibility for cross-checking bank charges and interest rates payable on deposit accounts. Where the Inspectorate Department of a bank discovers non-payment or under-payment of interest on deposits or other entitlement or excessive interest and bank charges, a return thereon shall, be made to the Central Bank. Under-payment and/or excessive interest and charges shall be refunded with interest at the minimum lending rate, along with a letter of apology to the customer within two weeks. Any bank which fails to refund excess charges or under-payment of interest on deposits within two weeks of discovery of the error shall in addition to the refund to the customer be liable to a penalty amounting to 100 per cent of the amount involved which shall be credited to the Consolidated Revenue Fund of the Federal Government.

(f) Banks shall, in accordance with the provisions of BOFI Decree No. 25 of 1991 as amended and amendments to Monetary Policy Circular No. 30 of 1996, continue to display at their offices their current lending and deposit rates, as well as publish such rates in the national newspapers.

## 7. Promotion and Development of the Money Market

The use of market-based instruments of monetary policy requires an active and responsive inter-bank market. The key conditions for such market development would include the establishment of an interest rate regime free from direct control, availability of liquid and low risk market instruments and a sound and competitive banking environment.

In order to encourage increased activity in the inter-bank market and enhance efficiency in financial intermediation, the deposits of banks subject to cash reserve requirement shall, as in the previous year, continue to exclude banks' collateralised placements (net) in the inter-bank market, including Discount Houses. Such collateralised deposits (net) shall also count as part of the depositing bank's specified liquid assets for the purpose of meeting the statutory liquidity ratio requirement. Inter-bank trading in outstanding stabilization securities, for which operating guidelines have since been issued by the CBN, should assist in restoring and increasing confidence in the inter-bank market.

### 8. Resolving Financial Sector Distress

Efforts shall continue to be made in 1997 by the regulatory authorities to deal with defaults and distress in the financial sector in order to restore public confidence. In this connection, a more robust and proactive supervisory stance will be adopted in dealing with terminally distressed institutions with a view to effectively resolving their problems in a timely manner. Accordingly, all distressed banks that are not recapitalised before 31st March, 1997 shall be put into liquidation. Appropriate contingency arrangements will be put in place to minimise the adverse systemic repercussions of such a shock therapy.

### 9. Improved Banking Policy Environment for Merchant Banks

In 1996, the CBN reviewed the operations of merchant banks and adopted a regulatory framework aimed at enhancing their viability and effectiveness in carrying out their specialized functions. In the effort to ensure a level playing field for this category of banks the following liberal policy measures introduced in 1996 for merchant banks shall continue:

(a) abolition of the requirement that a minimum of 20 per cent of merchant banks' loans and advances should be of medium and long-term nature. However, merchant banks, like commercial banks, are enjoined to structure their assets freely taking into consideration the need to abide by prior commitments to their customers before this shift in policy;

(b) exemption from the cash reserve requirement and mandatory allocation of credit to small and medium-scale enterprises;

(c) phased refund of outstanding investments in stabilization securities; and

(d) the minimum deposit which merchant banks could receive, reduced to N10,000 since January 1994, shall continue to apply in 1997.

### 10. Bank Credit Expansion

As has been the case since September 1992, only banks which meet the following criteria shall be permitted to grant new credit facilities in 1997:

(a) Specified cash reserve ratio;

(b) Specified liquidity ratio;

(c) Prudential Guidelines;

(d) Statutory minimum paid-up capital requirement;

(e) Prescribed capital adequacy ratio; and

(f) Sound management.

The position of each bank shall be examined on a monthly basis with respect to the above criteria and banks which meet the requirements shall be duly notified. Banks which fail to meet the requirements shall maintain their credit levels as at end-December, 1992. In the event that a bank which all along met the criteria becomes unhealthy, such a bank will be stoped from any further credit expansion until the situation is normalised to the satisfaction of the Central Bank.

### 11. Sectoral Allocation of Credit

The abolition of the requirement of mandatory credit allocations by commercial and merchant banks, which came into effect on October 1, 1996 shall remain in force in 1997. In addition, mandatory credit allocation to rural borrowers and small-scale enterprises remains abolished. Neverthe-less, banks are enjoined to continue to provide adequate credit to the growth sectors of the economy, including loans to rural borrowers and small-scale enterprises.

### 12. Grace Periods on Loans to Agriculture

In recognition of the differences in gestation periods within each category of agricultural projects, the grace periods on agricultural loans in 1997 are further streamlined as follows:

**(a) CROPS:**

(i) 12-18 months for seasonal staple and cash crops e.g. cotton, groundnut, and cassava. The same grace period shall apply to loans for the construction of on-farm storage structures requiring small capital outlay and short period of construction.

(ii) 5-7 years for tree crops including palm oil, cocoa, citrus, kolanut and other tree and fruit plants.

(iii) the grace period for rubber shall not be less than 7 years.

**(b) LIVESTOCK:**

(i) 6 months for Broilers (poultry).

(ii) 24 months for layers (poultry).

(iii) 24 months for swine breeding.

(iv) 12 months for swine production

(v) 24-30 months for sheep and goat breeding

(vi) 6 months for sheep, goat and cattle fattening.

(vii) 12 months for rabbitry.

(viii) 7 years for cattle ranching/dairy production.

**(c) FISHERIES:**

12-18 months for aquaculture.

**(d) FORESTRY AND WILD LIFE:**

(i) 8-10 years for short, long fibre pulpwood production and sawn timber production.

(ii) 8 years for fuel wood/ firewood production.

(iii) 1-2 years for wild honey production.

(iv) 1-2 years for wild-life domestication.

For loans in respect of large-scale seasonal crops, fish and poultry farming with extensive capital outlays, the grace period shall be five years. Furthermore, for all loans, a borrower may choose to start repayment before the stipulated grace period expires.

### 13. Prudential Guidelines for Licensed Banks

All the existing prudential guidelines on early recognition of losses and adequate provisioning for bad and doubtful debts are retained in 1997. Accordingly, commercial and merchant banks are enjoined to continue to strictly observe the prudential guidelines outlined in CBN Circulars No. BSD/DO/23/VOL.I/II of 7th November, 1990, and No BSD/CS/23/VOL.1/8 of 16th May, 1991.

### 14. Capital Funds Adequacy

In keeping with international standards, the minimum ratio of capital to total risk-weighted assets shall remain at 8.0 per cent in 1997. Furthermore, at least 50 per cent of the components of a bank's capital shall comprise paid-up capital and reserves, while every bank shall maintain a ratio of not less than one to ten (1:10) between its adjusted capital funds and its total credit net of provisions.

### 15. Increase in Minimum Paid-up Capital Requirement of Banks

The minimum paid-up capital requirements of banks were last fixed in mid-1991 at N50 million and N40 million for commercial and merchant banks, respectively. In the light of naira exchange rate depreciation, the persistence of inflationary pressures, the erosion of the capital funds of banks by non-performing credits, as well as the need to ensure consistency with international standards, the minimum paid-up capital requirement of both commercial and merchant banks is hereby increased to a uniform level of N500 million. Existing banks are required to meet this requirement over a transitional period of two years, expiring 31st December, 1998. For the avoidance of doubt, banks which fail to meet the requirement by that date shall have their licences revoked while new banks shall comply fully with that condition before they are licensed.

Any merchant bank seeking to convert to a commercial bank must first comply with the new minimum paid-up capital requirement of N500 million.

### 16. Appointment of Compliance Officers By Banks

In accordance with the provisions of Section 21 of Foreign Exchange (Monetary and Miscellaneous Provisions) Decree No. 17 of 1995, a person who imports currency in excess of US$10,000 by cash and deposits such money into the domiciliary account with an authorized dealer, shall only make cash withdrawals from that account. Also, by virtue of the provision of Section 22 of the same Decree no person in Nigeria shall make or accept cash payment whether denominated in foreign currency or not for the purchase and acquisition of landed properties, stocks, shares, debentures, all forms of negotiable instruments and motor vehicles. Payments for those items must be made by means of bank transfers or cheques drawn on banks in Nigeria

In order to ensure full compliance with the law, all banks are henceforth required to appoint Compliance Officers whose duty shall be to ensure that the provisions of the law are complied with. The Compliance Officers shall report through the Chief Executive of the bank to the CBN all breaches of the law in such a manner as the CBN may prescribe.

**17 Restriction on Banks Serving as Issuing Houses**

The CBN reiterates its policy of not allowing commercial banks to serve as Issuing Houses, in view of the need for a level-playing field for merchant banks and in order not to put this category of banks at competitive disadvantage. Accordingly, commercial banks are required, in 1997, to continue to adhere strictly to the provisions of CBN circular Ref. BSD/DO/CB/ Vol.1/29 of 5th January, 1995, on this issue.

**18. Responsibilities of Banks' External Auditors to the Supervisory Authorities**

Existing Central Bank directives to all banks to instruct their External Auditors to forward directly to it copies of their domestic reports not later than three months after completing each audit exercise shall remain in force in 1997. Furthermore, each bank shall continue to communicate promptly to the Central Bank the appointment, termination and resignation of the bank's External Auditors, stating the reason for such action.

**19. Banks' Equity Holding in Companies**

Equity investments by commercial and merchant banks shall continue to be subject to the provisions of Section 21 of the Banks and Other Financial Institutions Decree 25, 1991 as amended.

**20. Banks Operating Subsidiary Companies Offering Financial Services**

Commercial and merchant banks with subsidiary companies offering financial and related services shall continue in 1997 to report on the operations of such companies along with their Monthly Returns to the Central Bank.

**21. Public Complaints Desk at the Central Bank of Nigeria**

To promote the banking habit and efficiency in the delivery of banking services and thereby enhance confidence in the system, the Central Bank shall continue to maintain a Public Complaints Desk in its Head Office and each of its branches to enable the public to lodge any complaints they may have against their banks. Where a case against any bank is proved, the bank shall be required to make necessary amends and pay appropriate penalties.

**22. Bank Returns**

Commercial and merchant banks in the country are enjoined to report accurately, and faithfully and promptly on their activities on the prescribed mid-month, monthly, quarterly and semi-annual formats. Such designated returns should be forwarded to the Banking Supervision, Bank Examination, and Research Departments of CBN, as well as the Nigeria Deposit Insurance Corporation (NDIC) as stipulated, not later than 10 days after the 15th day of each month for mid-month returns, the 28th day after the end of each reporting month in the case of monthly returns and 28 days after the end of each quarter in the case of quarterly returns. Such returns include:

**(a) Mid-Month Returns**

(i) Mid-month Report on Assets and Liabilities;

(ii) Mid-month Report on Interest Rates;

**(b) Monthly Returns**

(iii) Report on Interest Rates;

(iv) Statement of Assets and Liabilities;

(v) Break-down of "Other" Liabilities;

(vi) Break-down of "Other" Assets;

(vii) Report on External Assets and Liabilities;

(viii) Schedule of Placements with Other Banks;

(ix) Schedule of Takings from Other Banks;

(x) Schedule of Negotiable Certificates of Deposits (NCD)

(xi) Schedule of Negotiable Certificates of Deposits (NCD) Issued;

(xii) Statement of Maturity Profile of Assets and Liabilities;

(xiii) Report on Total Credit Granted;

(xiv) Report on Credit Allocation by Sectors, Borrowers and Interest Rates;

(xv) Reports on Cost of Funds;

(xvi) Report on Deposit Ownership;

(xvii) Report on Lending Above the Statutory Limit;

(xviii) Schedule of Foreign Exchange Purchases from Other Banks;

(xix) Schedule of Foreign

Exchange Sales to Other Banks;

**(c) Quarterly**

(xx) Profit and Loss Account (Quarterly);

(xxi) Quarterly Report on Total Credit Granted;

(xxii) Quarterly Report on Structure of Deposits;

(xxiii) Quarterly Report on Non-performing Credits;

(xxiv) Quarterly Report on Non-performing "Other" Assets;

(xxv) Quarterly Report on Non-performing Off-Balance Sheet Engagements;

(xxvi) Quarterly Report on Non-performing Credits by Sector;

(xxvii) Quarterly Report on Credits to Officers, Directors, Principal Shareholders and their related interests;

(xxviii) Quarterly Report on Top Users of Funds;

(xxix) Foreign Exchange Interest Repatriation and Distribution (quarterly);

(xxx) Quarterly Report on Distribution of Naira Proceeds of Interest Repatriated;

(xxxi) Foreign Exchange Holdings by Authorised Dealers (Quarterly);

**(d) Semi-Annual Returns**

(xxxii) Semi-Annual Report on Investment in Shares;

(xxxiii) Semi-Annual Report on Corporate Profile;

(xxxiv) Semi-Annual Report on Branch Network;

(xxxv) Semi-Annual Report on Bank's Directors;

(xxxvi) Semi-Annual Report on Bank's Shareholders; and

(xxxvii) Semi-Annual Report on Management and Top Officer

Copies of the returns, duly signed, as applicable to the relevant departments, shall be submitted to the following officers:-

(i) Director,
Banking Supervision Dept.,
Central Bank of Nigeria,
Abuja Head Office or
Lagos Liaison Office

(ii) Director,
Research Department,
Central Bank of Nigeria,
Abuja Head Office or
Lagos Liaison Office.

(iii) Director,
Bank Examination Dept.,
Central Bank of Nigeria,
Lagos.

(iv) Director,
Off-Site Supervision Dept,
Nigeria Deposit Insurance Corporation,
Abuja Head Office or
Lagos Liaison Office.

## 23. Penalties for Default

As in previous years, the CBN shall enforce in 1997 all the stipulated penalties for non-compliance with the Bank's guidelines and provisions of the CBN Decree No 24, 1991 and Banks and Other Financial Institutions Decree No 25, 1991 and their amendments. In aggravated cases, the CBN may suspend or revoke any licence issued to the defaulting bank. The Bank shall intensify its surveillance over commercial and merchant bank operations as well as those of other financial institutions during the year and invoke the provisions of the Failed banks (Recovery of Debts) and Financial Malpractices in Banks Decree, as deemed appropriate, in order to enhance the safety, soundness and efficiency of the banking system.

For the avoidance of doubt, sanctions shall be applied in the following cases:

(i) Commercial and merchant banks which, in 1997, do not meet the criteria for the expansion of credit (vide item 10 of these guidelines) and expand their credit beyond the specified level as at 31st December 1993, or beyond the current level in the case of erstwhile healthy banks, shall in each case deposit an amount equivalent to the excess with the CBN. Such deposits shall earn no interest and shall not be eligible for inclusion in the defaulting banks' liquid assets holdings for the purpose of meeting the cash reserve and the statutory liquidity ratios. Such funds shall be lodged on quarterly basis and held with the CBN for a minimum period of three months, and shall thereafter remain with the Bank for as long as the default lasts.

(ii) A commercial bank with cash reserve below the stipulated minimum ratio as well as any commercial or merchant bank whose liquidity ratio falls short of the prescribed minimum shall be liable to appropriate sanctions under the CBN Decree No. 24, 1991 and the Banks and Other Financial Institutions Decree No. 25, 1991 as amended. Where a bank increases its loans and advances or credit facilities without the approval of the Central Bank during the period of deficiency in the respective ratios, such a bank shall pay a fine as determined by the CBN within the provisions of the relevant Decrees.

(iii) A commercial or merchant bank shall be liable to appropriate fines as determined by the CBN or such other penalties as provided under the CBN Decree No. 24, 1991 and Banks and Other Financial Institutions Decree No. 25, 1991 as amended for:

(a) failure to display at its offices and publish in the national newspapers its current lending and deposit rates or render information on such rates as specified from time to time by CBN;

(b) failure to send its returns to the CBN 10 days after the 15th day of each month for mid-month returns, 28 days after the last day of each month in the case of monthly returns, and 28 days after the end of each quarter in the case of quarterly returns;

(c) failure, without good reason, to supply information within the prescribed period in such form as the CBN may from time to time direct relating to or concerning matters affecting the economy of Nigeria;

(d) supplying false information or supplying information recklessly without regard for its accuracy on the Nigerian economy; and

(e) publication of audited accounts by the Chief Executive of a bank without prior authorisation by the CBN.

## B. OTHER FINANCIAL INSTITUTIONS

In view of the importance attached to current data and information on financial intermediaries in monitoring and performance of the economy, and in accordance with the provisions of the CBN Decree No. 24, 1991 and Banks and Other Financial Institutions Decree No. 25, 1991 as amended, as well as other existing and revised operating guidelines, it is mandatory for finance companies, discount houses, insurance companies, mortgage institutions, development banks, community banks, People's banks and bureaux de change in the country to render to the CBN timely and accurate returns on their operations and any other information as may, from time to time, be required by the CBN. Specific guidelines that apply to these institutions are outlined below:

### 24. Finance Companies

Efforts geared at monitoring the performance of licensed finance companies shall be sustained in 1997 with a view to checking further spread of distress in the financial sector and ensuring the overall effectiveness of CBN's monetary and financial policies. Accordingly, all licensed finance companies in the country shall continue to submit to the CBN quarterly returns on their operations, including statements of assets and liabilities; total credit granted, with sectoral allocation details; investments and money market transactions; non-performing credits; and interest rate structure. A copy each of such returns must reach the CBN Director of Banking Supervision and the CBN Director of Research in Abuja or their Lagos Liaison Offices not later than 28 days after the end of each quarter. Bi-annual returns shall also be sent to the CBN Director of Bank Examination in Lagos not later than 28 days following the end of each half year. The directive to the effect that finance companies shall display their daily rates of interest in conspicuous places in the head office and branches will remain in force in 1997. Furthermore, finance companies are enjoined to comply with the prudential guidelines as contained in the Revised Guidelines of July 1993 and December 1994.

### 25. Discount Houses

As in the preceding year, Discount Houses shall continue in 1997 to render daily, weekly and monthly returns on their operations to the CBN, in line with existing operational guidelines as well as provisions of the CBN Decree No 24, 1991 and the Banks and Other Financial Institutions Decree No 24, 1991 and their amendments. As with finance companies, every Discount House shall display its daily rates of interest in conspicuous positions in all its offices.

### 26. Insurance Companies and Development Banks

Insurance companies and development banks shall continue to render to the CBN their quarterly balance sheet statements as well as returns on their credit operations and interest rates. These returns, which should be furnished accurately and in a timely manner

ix) Both importers and exporters shall continue to be responsible for the payment of service charge for the Comprehensive Import Supervision Scheme (CISS) and the Nigerian Export Supervision Scheme (NESS), respectively at rates to be determined and advised by the Federal Ministry of Finance.

x) Repatriated non-oil export proceeds and other inflows shall be held in Domiciliary Accounts maintained with Authorised Dealers in Nigeria. The banks shall continue to maintain two types of Domiciliary Accounts, namely Exports Domiciliary Accounts and Ordinary Domiciliary Accounts. The holders of the Domiciliary Accounts shall continue to have easy access to the funds maintained therein subject to the existing guidelines.

xi) All exports, oil and non-oil, from Nigeria shall be subject to pre-shipment inspection by Government-appointed Inspection Agents.

xii) Exporters and other foreign exchange owners are permitted to sell their export proceeds and other foreign currencies to Authorised Dealers at autonomous rates. Moreover, exporters, are allowed to sell their export proceeds to banks other than those where they maintain Export Domiciliary Accounts.

xiii) All applications in respect of transactions not valid for foreign exchange shall continue to be approved by banks. Similarly, applications relating to the underlisted transactions shall be processed and approved by Authorised Dealers subject to the prescribed documentation requirements: remittance of profit and dividend, external borrowing and repayment of external loans by the private sector, educational expenses, contract services as well as leasing, charter and/or outright purchase of aircraft and marine vessels.

xiv) Payment for exports from Nigeria shall continue to be by means of letters of credit or any other approved international mode of payment. However, whatever the mode of payment adopted, the relevant proceeds must be repatriated within 90 days from the date of shipment of the goods.

xv) The initial validity of an approved Form 'M' shall be 180 days. The validity of such an approved Form 'M' and related letters of credit may be extended more than once by Authorised Dealers provided that with the extension, the validity of the Form 'M' does not exceed its maximum life span of 360 days. In the case of machinery, plant and equipment made to specification, the initial validity shall be one year subject to extension for another six months on application to and approval by the CBN. Thus, the maximum life span of an approved Form 'M' for importation of machinery, plant and equipment is one and half years (540 days) and one year (360 days) in respect of other imports

xvi) Import duty payable on all registered Form 'M' transactions whether or not they are valid for foreign exchange shall be calculated on the basis of the prevailing average exchange rate in the AFEM as at the end of the week preceding the registration or revalidation of the Form 'M' as advised weekly by the CBN.

xvii) The banks designated to receive import duty payments shall continue to be used for that purpose.

xviii) Payment of import duty is on the basis of bank cheque/draft duly issued by the importer's bank and made payable to the "Federal Government Import Duty Account". All such cheques, drafts shall in the first instance be paid to any of the designated banks and cleared before receipts evidencing payment, and other relevant shipping documents are released to the importers.

xix) The designated banks are required to transfer all customs revenue collected by them to the nearest CBN Branch or Currency Centre on the last working day of every week using CBN cheques.

xx) Shipping companies shall ensure that IDR numbers are always quoted on the shipping manifests in respect of all import shipments into the country. In respect of air-cargo, the airline must similarly ensure that the IDR number for the relevant goods being carried is stated on the airway bill.

xxi) The remittable limits/ fees for licence or Technical services agreements shall range between 1.0 percent and maximum of 5.0 per cent of net sales value. Similarly, permissible management service fee shall range from 2.0 per cent to 5.0 per cent of the company's net profit before tax. Management service fees in respect of projects where no profit is anticipated during the early years shall range from 1.0 per cent to 2.0 per cent net of sales during the first three to five years only. The certificate of registration issued by the National Office for Technology Acquisition and Promotion (NOTAP) shall be one of the documentation requirements for the purpose of procuring foreign exchange for this type of transaction. The initial duration of such agreements shall be 3 years except for hotel industries and agro-allied enterprises where duration of 10 years and 5 years respectively shall be allowed.

xxii) Remittable consultancy fees allowed shall be a maximum of 20.0 per cent, thereof and limited to projects of very high technology content for which indigenous expertise is not available. Service agreements for such high technology joint ventures shall continue to include a schedule for the training of Nigerian personnel for eventual take-over. In addition, Nigerian professionals shall be involved in the project implementation from inception.

xxiii) Permissible royalty in respect of know-how, patents and other industrial property rights shall range from 1.00 per cent to 5.0 per cent of net sales.

xxiv) Charges for services rendered by non-resident experts in respect of the design, installation and commissioning of projects shall continue to be treated as an integral part of the total cost of such projects and the prescribed procedures for Form 'M' and the CISS shall apply. They shall also be subject to verification by NOTAP. No direct or separate remittances on Form 'A' in respect of such service charges shall be allowed.

xxv) Approved Forms 'M' must be submitted to the respective Pre-shipment Inspection Agents' Liaison Offices within 30 days of their registration. Registered/approved Forms 'M' not so submitted shall neither be accepted for execution in the AFEM nor be eligible for revalidation.

xxvi) The importation and exportation of the naira remain prohibited. However, Nigerian residents are allowed to hold on them maximum amount of N1,000.00 for settlement of local expenses immediately on their return to Nigeria from an overseas trip.

xxvii) The declaration on Form TM of foreign currency imports of US$5,-000.00 (Five thousand US dollars) and above or it equivalent is required for statistical purposes only.

## 3. GENERAL POLICY GUIDELINES

i) The prescribed minimum documentation requirements for all visible and invisible trade transactions shall continue to be in force.

ii) All Authorised Dealers shall continue to render promptly, accurate and co-ordinated returns on foreign exchange transactions on the prescribed schedules. Sanctions shall be imposed on defaulting banks and/or banks that render inaccurate returns.

iii) Bureaux de change and hotels licensed as Authorised Buyers shall also continue to submit monthly returns in respect of their operations on the prescribed schedules not later than 15 days after the months to which the returns relate to the Director, Trade and Exchange Department, Central Bank of Nigeria, Abuja.

iv) Appropriate sanctions shall continue to be imposed on Authorised Dealers which release funds on the basis of forged documents, engage in fraudulent transactions, fail to transfer customs revenue to CBN in accordance with the regulations, default in furnishing accurate returns on due dates and/or fail to report defaulting customers etc.

v) Appropriate sanctions shall also be imposed on bank customers who breach any of the foreign exchange regulations.

vi) All Authorised Dealers are required to refer policy issues in respect of which they are in doubt to Trade and Exchange and Foreign Operations Departments of the Central Bank of Nigeria for clarification.

vii) The lists of prohibited import and export items are attached to this circular.

## APPENDIX

### I. IMPORT PROHIBITION LIST - 1997

1. Live or dead poultry, ie. fowls, ducks, geese, turkeys, and guinea fowls excluding day-old chicks, grand parent and foundation stocks for research and multiplication purposes (H.S50105.1200-0105.9990 and 0207.1100-0207 3600); Eggs in the shell, including those for hatching (0407.0000).
2. Mosquito repellant coils (Hs Code 3808.1110).
3. Domestic articles and wares made of plastic materials excluding babies' feeding bottles (3922.1000 - 3922.9000, 3924.1000 and 3924.9000)
4. Evian and similar waters, (2201.1000 - 2202.9000) - beer and stout (2203.0000) barley and malt (1003.0000 and 1107.1000 - 1107.2000)
5. Gaming machines (9504.1000 - 9504.3000)
6. Kaolin
7. Gypsum (2520.1000)
8. Maize (1005.1000 to 1005.9000)
9. Vegetable oils excluding linseed and castor oils used as industrial raw materials (1515.1100, 1515.1900 and 1515.3000)
10. Retreaded/used tyres (4012.1000 - 4012.9000).
11. Barytes and Bentonites (2511.1100 - 2511.2000, 2508.1100).
12. Used vehicles and motor-cycles over eight years old, and buses/lorries/heavy duty vehicles over ten years old, from the date of manufacture. (8702.1100 - 8702.9900, 8703.1000 - 8703.9000, 8704.1000 - 8704.9900. 8711.1000 - 8711.9000)
13. Sorghum (1007.0000)
14. Millet (1008.2000).
15. Wheat flour (1101.0000).

### II. EXPORT PROHIBITION LIST

1. Raw hides and skin.
2. Timber (rough or sawn)
3. Scrap metals
4 Unprocessed rubber latex and rubber lumps
5. Rice
6. Yams
7. Maize
8. Cassava
9. Beans