

CENTRAL BANK OF NIGERIA

ECONOMIC REPORT FOR THE FIRST HALF OF 2005

NOVEMBER 18, 2005

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CENTRAL BANK OF NIGERIA

REPORT FOR THE FIRST HALF OF 2005

Executive Summary

The CBN Monetary Policy framework remained unchanged in the first half of 2005. The targeting of monetary aggregates and management of the exchange rate system through the retail Dutch Auction System (DAS) were sustained. The CBN also intensified its developmental function through the implementation of the Small and Medium Enterprises Equity Investment Scheme Fund (SMEEIS), the Agricultural Credit Guarantee Scheme Fund (ACGSF) and facilitating a stable macroeconomic environment for growth and sustained development.

The Financial Sector

Monetary aggregates trended upwards in the first half of 2005 relative to the targets for the year. Broad money supply (M2) increased by 19.2 per cent over the level at end- December, 2004 indicating an annualised growth rate of 38.4 per cent, in contrast to the stipulated target of 15.0 per cent for 2005. Similarly, narrow money supply (M1), rose by 9.8 per cent, representing an annualised growth rate of 19.6 per cent in contrast to the 11.4 per cent target for 2005. Aggregate banking system credit (net) to the domestic economy grew by 8.0 per cent, as against a decline of 0.4 per cent in the first half of

2004 and the target of 23.4 per cent for 2005. The CBN claims (net) on the Federal Government declined significantly, as a result of the increase in government deposits, while DMBs credit to the private sector increased by 20.0 per cent. Thus, the annualised growth in credit to the private sector, (40.0 per cent), was higher than the target of 35.4 per cent for 2005.

Banks' deposit and lending rates generally trended downward. Financial savings increased by 10.0 per cent over the level at end-December, 2004. Transactions on the Nigeria Stock Exchange were bearish as all the major indicators trended downward.

The CBN total assets increased by 35.6 per cent over the level at end-December 2004, reflecting the 41.2 and 0.8 per cent increase in total external reserves, and rediscount and advance, respectively. A similar pattern was observed in the assets/liabilities of the DMBs and discount houses, following an increase of 17.0 and 93.8 per cent over the levels as at end-December 2004, respectively.

The Government Sector

At ₦2,354.3 billion, total federally collected revenue in the first half of 2005 exceeded both

the proportionate budget estimate and the corresponding period of 2004 by 18.2 and 34.6 per cent, respectively.

Federal Government retained revenue for the period was ₦713.7 billion, while its aggregate expenditure amounted to ₦728.6 billion. Recurrent and capital expenditures accounted for 73.5 and 21.3 per cent, respectively. The fiscal operations of the Federal Government resulted in an overall deficit of ₦14.9 billion. The deficit was financed by borrowings from the banking system. The state and local governments received ₦484.9 billion and ₦359.3 billion, respectively from the Federation and Value-Added Tax Pool Accounts.

The securitised domestic debt of the Federal Government stood at ₦1,364.4 billion as at end-June 2005, up by 3.1 per cent from the level as at end-June, 2004. External debt service payments in the first half of 2005 amounted to US \$0.73 billion. The stock of external debt stood at \$34.23 billion as at end-June, 2005.

The Real Sector

Domestic output, measured in 1990 prices grew by 5.9 per cent in the first half of 2005 compared with a target of 6.0 per cent for the year. The growth was driven by the non-oil sector which grew by 8.2 per cent as oil sector production declined by 2.3 per cent. Agricultural and industrial production indices rose by 7.3 and 2.2 per cent, respectively, over the levels in the corresponding period of 2004. The weighted

average manufacturing capacity utilization rate declined from 55.7 per cent, recorded in the first half of 2004 to 52.9 per cent during the period under review. Crude oil prices increased significantly, while the delivery of social services recorded some improvements, particularly in the health and water sub-sectors. Despite these salutary developments, inflationary pressures intensified, as the year-on-year inflation rate increased from 10.0 per cent in December 2004 to 18.6 per cent in June 2005, depicting an increase of 4.5 percentage points over the level in June 2004. However, the 12-month moving average inflation rate moderated to 12.9 per cent, compared with 19.4 per cent in June 2004. The Sahelian drought in neighbouring Niger Republic which impacted on domestic food price was the major factor which drove inflation.

External Sector

The performance of the external sector was impressive in the first half of 2005, with an estimated overall balance of payments surplus of ₦870.3 billion (US\$6.6 billion), up by 101.4 per cent from the level in the first half of 2004. This outcome was attributed to the buoyant current account surplus, occasioned by the remarkable increase in receipts from oil exports. The current account surplus increased by 180.3 per cent and overwhelmed the deficit in the capital and financial accounts. The end-June stock of external reserves, at US\$24.37 billion could finance 18.6 months of current import

commitments, compared with 12.2 months in the corresponding period of 2004.

To meet the demand pressure in the foreign exchange market, the CBN increased the amount of foreign exchange sold through the authorized dealers. Thus, the naira appreciated by 1.0 and 1.1 per cent at the official and bureaux-de-change segments of the market from the levels in the corresponding period of 2004.

Global output growth was estimated at 4.3 per cent, down from 5.5 per cent in the corresponding period of 2004. The modest growth was driven by the US, China and some emerging markets. High oil prices and the faltering growth in Japan and Europe had a dampening effect on growth.

Economic Outlook for the Rest of 2005

Economic management in the second half of the year is expected to pose serious challenges. Inflationary pressure may moderate given the prospect of good harvest with the attendant lower prices of food products. The problem of excess liquidity however, may likely worsen due to the bunching of capital releases. Furthermore, the absence of alternative viable investment outlets would continue to pose serious challenges to monetary policy management.

Selected Macroeconomic Indicators

Item	June-01	June-02	June-03	June-04 1/	June-05 2/
Domestic Output and Prices					
Index of Agricultural Production (1960=100) Growth Rate (%)	2.1	3.7	4.2	5.0	7.3
Manufacturing Capacity Utilisation Rate (%)	41.4	43.7	45.5	55.7	52.9
Inflation Rate % (12-Month Moving Average)	16.1	16.4	10.1	19.4	12.9
Inflation Rate % (Year-on-Year)	16.1	12.2	14.0	14.1	18.6
Federal Government Finance (Billion Naira)					
Overall Fiscal Balance	153.49	119.51	107.4	136.56	-14.96
Primary Balance	-101.5	-25.96	73.46	58.3	178.15
Retained Revenue	334.67	284.91	-501.41	574.48	713.7
Total Expenditure	488.16	404.42	608.81	711.04	728.62
Domestic Debt Stock	898.25	1,016.97	-	-	1,364.38
External Debt Stock (US\$ Billion)	27.97	29.04	31.11	33.03	34.23
Money and Credit (Growth Rate %)					
Net Domestic Credit	32.4	28.5	23.6	-22.3	8.0
Net Credit to Government	-17.2	602.1	47.0	-108.2	-29.7
Credit to Private Sector	26.2	11.9	15.1	14.4	20.0
Narrow Money (M ₁)	26.1	6.8	13.8	-0.1	9.8
Broad Money (M ₂)	28.0	14.1	16.9	7.7	19.2
External Sector					
Overall Balance (Billion Naira)	51.1	-394.5	-84.3	432.1	870.3
Current Account Balance (Billion Naira)	150.5	-82.4	218.7	689.3	1,434.4
Capital and Financial Account Balance (Billion Naira)	-92.0	-302.7	-296.1	-53.5	-508.8
External Reserves (US\$ Billion)	10.6	8.7	7.7	11.4	24.4
Average Crude Oil Price (US\$/barrel)	28.03	24.03	27.94	33.04	49.95
Average AFEM/DAS Rate (₦/\$1.00)	111.4	1,115.5	126.9	133.7	132.85
Average Bureau de Change Exchange (₦/\$1.00)	130.1	133.9	138.6	140.7	139.9

1/ Revised

2/ Provisional

CENTRAL BANK OF NIGERIA

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1.0 Introduction

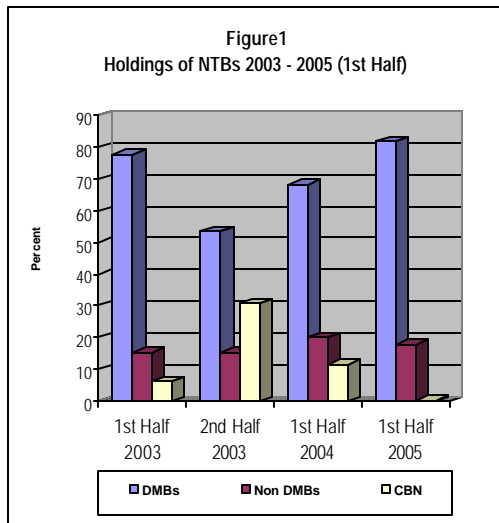
Monetary policy framework remained unchanged during the first half of 2005. However, following the emergence of excess liquidity, the Bank adopted additional policy measures aimed at containing the growth in money supply (m2) within the prescribed target of 15 per cent. This included the upward review of the cash reserve requirement (CRR) to 10.0 per cent from 9.5 percent and the withdrawal/re-injection of public sector deposits with the DMBs.

Transactions at the Open market operation (OMO) were higher relative to the preceding half year and the corresponding half of 2004. Total bids and sales of the intervention securities rose substantially to ₦915.7 billion and ₦733.1 billion, compared with ₦565.3 billion and ₦551.3 billion in the preceding half year, and ₦571.0 billion and ₦555.8 billion in the corresponding period of 2004, respectively. Similarly, activities in the primary market increased relative to the preceding half year. The increased transactions reflected the preponderance of liquidity in the banking system occasioned by the monetization of oil revenue and FDI flows into the banking sub-sector. NTBs worth ₦1,443.2 billion were issued during the period, compared with ₦1,650.1 billion in the first half of 2004. Total subscriptions and sales amounted to ₦2,382.3 billion and ₦1,408.5 billion, respectively, compared with, ₦1,274.3 billion and ₦1,174.8 billion in the corresponding period of 2004. Thus, total treasury bills outstanding at end-June 2005 rose to ₦871.6 billion from ₦825.1 billion in the corresponding period of 2004. Of this amount, CBN held ₦2.2 billion or 0.25 per cent, compared with 8.54 per cent and 11.4 per cent at end-December and end-June 2004, respectively.

Key Policy Target		2003	2004	2005
(i)	Broad Money Growth (M2)	15.00	15.00	15.04
(ii)	Narrow Money (M1)	13.80	10.80	11.38
(iii)	Aggregate credit to the domestic economy	25.70	24.50	22.54
(iv)	Credit to Government	150.30	29.90	14.01
(v)	Credit to the private sector	32.30	30.00	25.24
(vi)	Inflation rate	9.00	10.00	10.00
(vii)	GDP	5.00	5.00	6.00

2.0 OPERATIONS OF THE CENTRAL BANK OF NIGERIA

2.1 Liquidity Management



The value of transactions at the inter-bank fund market during the period amounted to ₦2,757.8 billion, representing an increase of 16.4 per cent over the ₦2,369.5 billion traded in the corresponding period of 2004. The increased level of activities was attributed to portfolio adjustment, following the banking sector consolidation programme.

Call placement remained the dominant portfolio, accounting for 92.8 per cent, while open-buy-back and private sector placements accounted for 6.8 and 0.4 per cent, respectively.

Inter-bank rates in all segments of the market consistently trended downward during the first half of 2005, owing to the liquidity surfeit and the restraint on lending by banks that faced banking sector consolidation negotiations involving mergers and acquisitions.

2.2 Payments and Clearing System

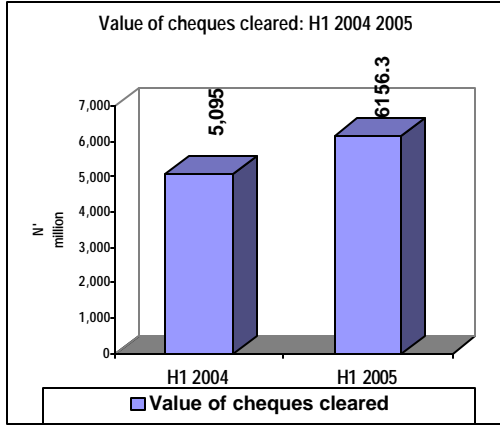
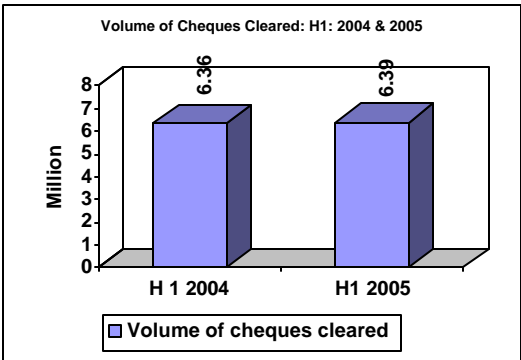
The reconstituted National Committee on Payments System (NCPS) was inaugurated by

the CBN Governor on 31st May, 2005. The Bank also introduced the codified cheque standard; cheque printer accreditation scheme and; the extension of the national automated clearing system (NACS). Furthermore, the draft document on the Nigerian Cheque Printers Accreditation Scheme (NICPAS), designed to stem the high reject rate currently encountered during processing was presented to the Bankers' Committee for consideration and approval. Progress was also made to operationalize the Real Time Gross Settlement (RTGS) system. At the retail segment of the payments system, the volume and value of cheques cleared rose by 0.4 and 20.9 per cent to 6,390,755 and ₦ 6,156.3 billion respectively, relative to the levels in the corresponding period of 2004. The significant increase in the value of cheques cleared reflected the increasing use of cheques for high value transactions. Three of the settlement banks namely; First Bank of Nigeria Plc, Union Bank of Nigeria plc and United Bank for Africa Plc. dominated retail payments, as they accounted for over 60.0 per cent of the total volume and value of cheques cleared.

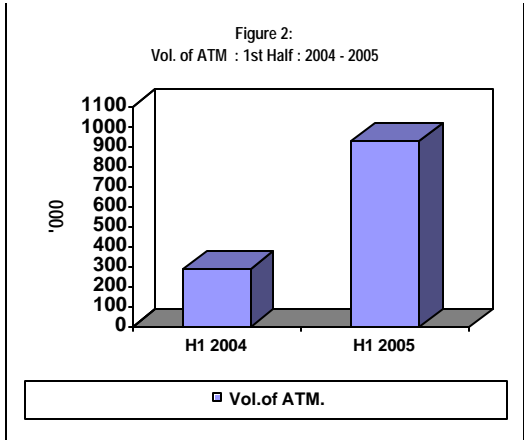
**Table 3:
Distribution of Volume and Value of Cheques
Cleared by the Settlement Banks
(Jan – June 2005)**

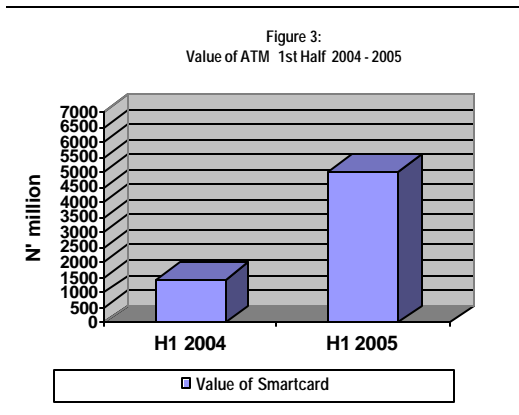
Settlement Bank	Volume (%)	Value (%)
First Bank Plc	29.3	27.4
U.B.A. Plc.	14.3	13.5
Union Bank Plc.	21.9	20.6
G T B Plc.	10.5	11.4
S TB Plc.	7.2	9.1
Afribank Plc.	6.6	5.1
Zenith Int. Bank	10.2	12.9
All Banks	100.0	100.0

At 14.2 million, the volume of in-house cheques rose by 30.2 per cent relative to the level in the corresponding period of 2004. However, in value terms, it was 20.6 per cent lower. The volume of in-house cheques remained relatively high largely due to the high incidence of dud cheques.



The number of automated teller machines (ATMs) stood at 352, compared with 193 in the corresponding period of 2004. In volume and value terms, transactions through ATMs at 931,991 and ₦5.0 billion, showed increase of over 100.0 per cent respectively, above the levels in the same period of 2004. The increased use of this mode of payment was attributed to increased public awareness, the introduction of shared ATMs and, confidence in the system as well as higher number of ATMs in use.





The volume of card transactions increased by 19.1 per cent to 556,529 from the level in the same period of 2004. In value terms however, it fell to ₦23.1 billion from ₦ 29.8 billion in the corresponding period of 2004. While the higher volume of transactions reflected increase in points-of-sale terminals, introduction of new products, public awareness and increase in the number of banks that adopted the scheme, the decline in the value of transactions reflected consumers' preference for use of cards for retail payments.

2.3 Financial Sector Surveillance

Regular appraisal and review of banks' periodic returns, spot checks, routine monitoring and special investigations were carried out on some banks to verify the authenticity of statutory returns made to the CBN and ascertain their compliance with stipulated guidelines.

Furthermore, the CBN, held several meetings with the Boards and Managements of some banks to discuss and resolve issues of supervisory concern, particularly with regard to the on-going consolidation programme. The total number of banks in operation remained

eighty-nine (89) as at end-June 2005 with 3,128 branches. Three new branches were approved, while no branch of any bank was closed down during the reporting period. Following the on-going consolidation programme, the number of requests for new branches was very low. No application for banking license was received during the period.

Most of the banks in the system met the specified minimum capital adequacy ratio (CAR) and liquidity ratio (LR) of 10.0 and 40.0 per cent, respectively, in the first half of 2005. Fifteen (15) banks failed to attain the minimum CAR, while ten (10) had negative CAR, compared with thirteen (13) and eight (8), respectively, in the corresponding period of 2004. Similarly, seventeen (17) banks failed to meet the prescribed minimum liquidity ratio, compared with fourteen (14) at end-December 2004. The affected banks were penalized in accordance with statutory requirements. The uniform cash reserve requirement of 9.5 per cent that subsisted in 2004 was reviewed upward to 10.0 per cent in the first quarter of 2005.

Analysis of asset quality showed that the total net credit portfolio of DMBs at end-June 2005, stood at ₦1,758.0 billion, out of which 18.4 per cent was non-performing. The non-performing credit increased by 2.5 per cent compared with 21.6 per cent at end-December 2004. Of the total industry credit portfolio, loans to the government sector accounted for 4.2 per cent,

an increase of ₦12.0 billion when compared with the figure at end-December 2004.

The web-enabled Credit Risk Management System (CRMS) database had an outstanding balance of ₦1,345.8 billion to 33,317 borrowers as at end-June 2005, compared with ₦1,147.16 billion to 49,791 borrowers at end-December 2004. Twenty-six (26) banks failed to render returns on the CRMS due to difficulties encountered with the dial-up application system.

The end-user test of the electronic Financial Analysis and Surveillance System (e-FASS) took place during the period with all the banks participating. The application is designed to provide online access to the supervised institutions and to facilitate integration with other operating softwares in the Central Bank of Nigeria, including the CRMS.

The CBN issued several circulars during the first half of 2005 as part of its pro-active efforts at enhancing a safe and sound financial system. The circulars issued were;

- Global Terrorists: Al-Faqih and Batterjee,
- Unprofessional Roles of Banks in Funds Transfer;
- Extension of the Period for Submitting Schedule of Allotment;
- Designated Global Terrorists; Sulyaman Kahlid Darwish and Majid Abu Samiya (aka FADHLI);
- Staff Share Acquisition Loan Scheme;

- Revised Procedures Manual for Processing Application for Bank Mergers/Takeover;
- Know-Your-Customer Manual for Banks and Other Financial Institutions in Nigeria;
- Branch Expansion and Other Capital Projects during the Period of Consolidation;
- Rendition of Returns through the DSS of e-FASS; and
- Preservation of Banks' Assets.

A total of 389 cases of frauds and forgeries, involving ₦4,410.7 million and US\$397,121.6 were reported in the Nigerian banking industry in the first half of 2005. The sum of ₦1,769.3 million and US\$121,230.4 were reported as the actual losses, due to incidences of armed robbery attacks, cash pilfering, stealing, suppression and conversion of cash deposits, defalcations, teeming and lading, and funds transfers.

There were further improvements in the operations of the Other Financial Institutions (OFIs) in the first half of 2005. Final operating licenses were granted to three (3) community banks (CBs) namely; Omu Community Bank Limited, Infinity Community Bank Limited, and Gwarinpa Community Bank Limited, while approvals-in-principle were granted to Umuchinedu Community Bank Limited and Kubwa Community Bank Limited. The number of CBs at the end of the period remained at 754, out of which 667 rendered returns to the

CBN. A total of sixty-seven (67) CBs were examined during the period. Analysis of CBs' returns in the period showed that their loans to deposit ratio increased while their liquidity ratio fell.

The number of primary mortgage institutions (PMIs) in operation remained 83 at the end of the period. Of this number, 75 rendered returns to the CBN, 20 complied with the prescribed minimum mortgage assets to total assets of 30.0 per cent, 48 satisfied the minimum liquidity ratio of 20.0 per cent, while 70 met the prescribed capital adequacy ratio of 10.0 per cent.

2.4 Foreign Exchange Management

The sum of US\$5.1 billion was sold to authorized dealers during the period, compared with US\$4.94 billion in the corresponding period of 2004. This represented an increase of US\$0.06 billion or 1.2 per cent. Despite the marginal increase in the amount sold, the demand pressure in the foreign exchange market persisted.

Total foreign exchange inflow for the first half of 2005 stood at US\$14.21 billion (₦1,881.9 billion). This represented an increase of 36.2 per cent over the US\$10.44 billion (₦1,390.4 billion) in the corresponding period of 2004. Of this, receipts from crude oil sales and other related sources amounted to US\$11.91 billion (₦1,574.8 billion), compared with US\$8.53 billion (₦1,139.5 billion) in the corresponding period of 2004, and represented an increase of US\$3.38 billion or 39.6 per cent.

Non-oil receipts amounted to US\$0.16 billion (₦21.48 billion), up by 14.3 per cent from US\$0.14 billion (₦19.04 billion) in the corresponding period of 2004. Inward Money Transfers paid to banks stood at US\$0.3 billion while special payments stood at US\$0.03 billion, compared with US\$0.23 billion and US\$0.02 billion in the corresponding period of 2004.

A total payment of US\$1.57 billion was made on behalf of the public sector during the period compared with US\$1.58 billion recorded in the same period of 2004, representing a decrease of 0.63 per cent.

The gross external reserves as at end-June 2005 stood at US\$24.37 billion, compared with US\$11.41 billion in the corresponding period of 2004. The rise was attributed to the favourable prices of crude oil at the international market.

2.5 Development Finance Operations

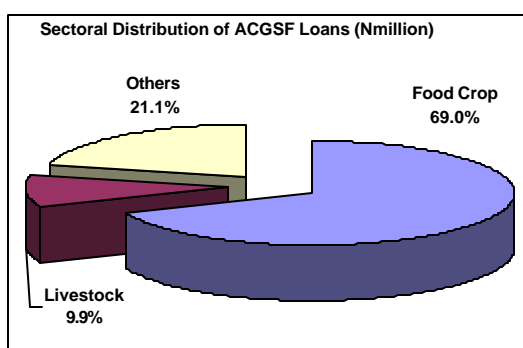
2.5.1 Agricultural Credit Guarantee Scheme Fund (ACGSF)

The ACGSF's authorized and called-up share capital as at the end-June 2005 was ₦3.0 billion, while the paid-up capital remained at ₦2.25 billion.

Total resources available under the scheme at end-June 2005 stood at ₦4.7 billion. This included accrued earnings from previous investment of ₦2.3 billion in NTBs. A total of 6,464 loans, valued ₦332.1 million were guaranteed under the scheme during the half year, compared with 2,130 loans, valued

₦123.7 million guaranteed in the corresponding period of 2004.

Sectoral analysis of loans showed that the food crop sub-sector as in the corresponding period of 2004 dominated as 5,549 loans valued ₦229.02 million were guaranteed, representing 85.8 and 69.0 per cent of the volume and value of loans, respectively. The livestock sub-sector followed with 329 loans (5.1 per cent), valued at ₦33.0 million (9.9 per cent).



A breakdown of loans by size showed that 2,426 (37.5 per cent) loans of “₦20,000 – ₦50,000” category dominated lending. Small sized loans of “₦5,000 – ₦20,000” category followed with 2,162 loans (33.4 per cent) while loans of between “₦50,000 and ₦100,000”; and “above ₦100,000” were granted to 963 farmers (14.7 per cent), and 910 farmers (14.1 per cent), respectively. Loans valued below ₦5,000 accounted for 0.2 per cent of the total number of loans.

Further analysis by category of borrowers showed that individuals were the major borrowers under the scheme, accounting for 6,370 loans, valued ₦313.94 million, representing 98.5 percent and 94.5 per cent of

the number and value of loans guaranteed, respectively.

The total volume and value of loans fully repaid stood at 15,037, valued ₦727.7 million, representing an increase of 106.3 per cent in volume and 80.9 per cent in value, compared with 7,287 and ₦402.3 million, in the corresponding period of 2004, respectively.

Since the inception of the Scheme in 1978 to June, 2005, a total of 403,886 loans valued ₦7.9 billion have been guaranteed, while a total of 293, 141 loans, valued ₦5.3 billion had been fully repaid, representing a repayment rate of 72.6 per cent, by number and 66.4 per cent by value.

2.5.2 Interest Drawback Programme

The total resources of the Interest Drawback Programme Fund (IDPF) as at end-June 2005 stood at ₦1.1 billion. The sum included the accrued earnings from previous investments of ₦800.0 million in NTBs.

2.5.3 The Trust Fund Model (TFM)

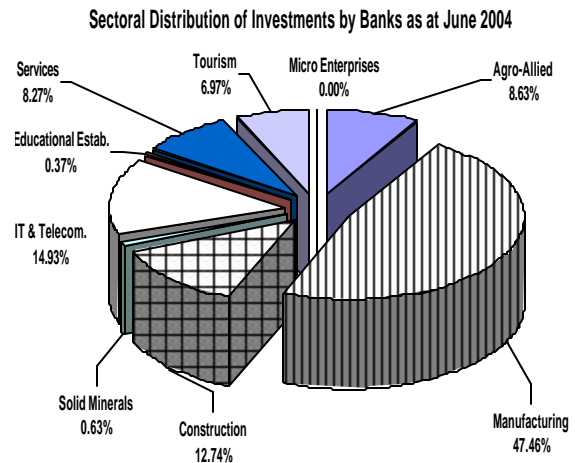
The Board of ACGSF directed the CBN's Development Finance Department to standardize the MOUs signed under the Trust Fund Model to guard against the politicizing of the product by the state governments. The Department was also directed to review the scheme in order to ascertain the factors responsible for the unsatisfactory performance of the scheme. Two states namely; Kaduna and Benue adopted the TFM while two states, Katsina and Kogi increased their commitment under the programme. Cumulatively, the

number of state governments and oil companies that had adopted the TFM as at end-June 2005 was ten (10). The amounts placed ranged from ₦5.0 million to ₦1.0 billion.

2.5.4 Small and Medium Enterprise Equity Investment Scheme (SMEEIS)

The review of the guidelines on the Small and Medium Industries Equity Investment Scheme (SMIEIS) which commenced in 2004 was completed during the period. The new guidelines were approved by the Bankers Committee and the scope of the scheme was expanded in March 2005 to include non-industrial enterprises. The scheme was thus renamed as: Small and Medium Enterprises Equity Investment Scheme.(SMEEIS)

As at end-June 2005, the total amount set aside by eighty three (83) banks under SMEEIS was ₦31.0 billion, compared with ₦24.1 billion recorded as at end-June 2004. The cumulative investment at end June 2005 was ₦10.3 billion in 192 projects by 83 banks, compared with ₦9.8 billion in 177 projects by 56 banks in the corresponding period of 2004. The real sector (manufacturing, agro-allied, construction and solid minerals) dominated investments as it accounted for 66.6 per cent of the total value in 128 projects, followed by the service related activities which accounted for 33.4 per cent in 64 projects. One hundred and twenty-four (124) of the 192 projects were located in Lagos with investments, valued ₦6.3 billion or 61.4 per cent, compared with 106 investments valued ₦5.55 billion in 2004.



2.5.5 Microfinance

The United Nations (UN), in 2004, launched the International Year of Micro-credit as part of its efforts to improve the accessibility of the poor and low income people to financial services. Consequently, the CBN undertook a microfinance study tour of some countries to gain practical experience on micro finance administration. Furthermore, the Federal Government assigned the CBN the responsibility of developing a micro finance policy as well as the coordination of events to mark the UN Micro Finance Programme. The Bank constituted and inaugurated a National Organizing Committee (NOC) to define an all-embracing programme of activities that would create awareness and involvement of stakeholders.

2.6 Project EAGLES

The implementation of the CBN change programme, which commenced in 1999, reached its critical phase in the first half of

2005. The CBN adopted a policy of strategic alignment and completed the strategic business unit plans for the period 2004-2009. The balanced scorecard and the three-tier performance management system, which would facilitate performance measurement and management at enterprise (Bank), process (departmental) and individual (staff) levels were completed. Also, the Code of Business Conduct and Ethics specification document was completed and packaged for Bank-wide deployment. The job specifications for all roles in the Bank were also developed, and a Bank-wide staff deployment exercise was initiated.

Furthermore, the Bank completed arrangements preparatory to deploying the Oracle Enterprise Resource Planning (ERP) comprising electronic Financial Analysis and Surveillance System (e-FASS); Temenos T-24 banking system and Real Time Gross Settlement System (RTGS).

It also commenced installation of a state-of-the-art computer and communications infrastructure for the deployment of the enterprise applications, which would work real-time, online. External stakeholders in the financial and public sectors were involved in determining the nature and infrastructure required for the new relationships and transaction types that the new applications would facilitate.

As part of its efforts to outsource non-core business processes, the Bank completed arrangements for the closure of its printing

press and primary school. It also commenced arrangements to outsource facility management and courier services.

A total of twelve (12) staff, comprising four (4) Economic Writers and eight (8) personal staff were employed during the period. The CBN, however, lost the services of twenty (20) members of staff through death. Also, a total of thirty (30) staff left the CBN through mandatory retirement and dismissal. The staff strength of the Bank, therefore, was five thousand seven hundred and twenty two (5722) by end-June 2005.

2.7 CBN Assets and Liabilities

Total assets of the CBN at end-June 2005 stood at ₦4,240.54 billion, representing an increase of 34.6 per cent at end-December 2004. This reflected largely, the increase of 41.2 and 0.8 per cent in total external reserves, and rediscount and advances, respectively, which more than off-set the decline of 67.5 per cent in federal government securities.

On the liability side, total deposits rose by 31.7 per cent over the level at end-December 2004 to ₦2,762.3 billion. The increase in deposits was largely accounted for by the 'other deposits', which constituted 69.5 per cent. General reserves rose to ₦174.9 billion from the level of ₦46.2 billion at end-December 2004.

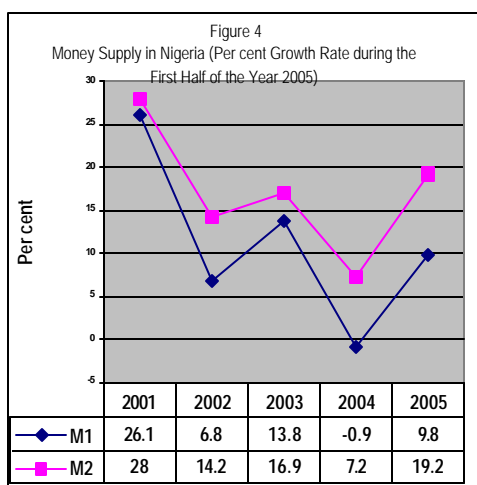
ECONOMIC REPORT

3.0 DEVELOPMENTS IN THE FINANCIAL SECTOR

3.1 Monetary and Credit Developments

3.1.1 Money Supply

Growth in monetary aggregates exceeded targets in the first half of 2005. At ₦2,697.6 billion, broad money supply (M₂) increased by 19.2 per cent over the level at end-December, 2004, representing an annualised growth rate of 38.4 per cent, compared with the target of 15.0 per cent for 2005. Similarly, narrow money supply (M₁), rose by 9.8 per cent to ₦1,460.5 billion, representing an annualized growth of 19.6 per cent when compared with the programme target of 11.4 per cent prescribed for 2005. The development reflected the rise in foreign assets (net) and domestic credit (net) of the banking system, which expanded by 29.3 and 8.0 per cent, respectively. The decline in “other assets” (net) of the banking system, however moderated the growth in M₂.

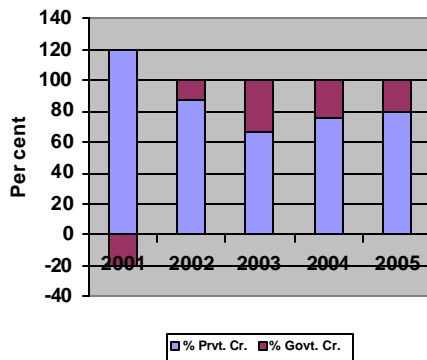


3.1.2 Banking System Credit

At ₦2,182.5 billion, net domestic credit by the banking system increased by 8.0 per cent, in contrast to the decrease of 0.4 per cent in the first half of 2004 and the target of 23.4 per cent for the year. The rise reflected largely the increase in claims on the private sector. Net credit to the Federal Government declined by 29.7 per cent from the level at end-December 2004, compared with the programme target of minus 14.4 per cent for the year. The fall reflected the significant increase in Federal Government deposits with the CBN.

Credit to the private sector increased by 20.0 per cent to ₦1,840.8 billion, compared with the target of 35.34 per cent for 2005 and the 7.1 per cent recorded in the corresponding period of 2004. Similarly, claims on non-financial public enterprises increased by 86.0 per cent, compared with the 47.7 per cent rise in the first half of 2004. Also, credit to the “other” private sector (non-governmental establishments) increased by 20.5 per cent, compared with an increase of 7.2 per cent in the first half of 2004, while credit to state and local governments fell by 16.8 per cent, in contrast to an increase of 1.2 per cent in the corresponding period of 2004.

Figure 6:
Share of Govt and Private Sector in Banking System's
Credit to the Economy



3.1.3 Money Market Developments

Activities in the money market improved in the first half of 2005, reflecting largely the liquidity in the banking system and the competitive yield on securities. Available data indicated that the level of money market instruments outstanding at end-June, 2005 stood at ₦1,114.6 billion, representing an increase of 11.1 per cent over the level at end-December 2004, compared with the increase of 4.8 per cent recorded in the first-half of 2004. The development reflected the increased transactions in Bankers Acceptances (BAs) and Commercial Papers (CPs). The CPs increased substantially by 105.8 per cent to ₦182.8 billion, while BAs rose by 4.5 per cent to ₦43.5 billion. The NTBs continued to dominate transactions in the market, as it accounted for 80.1 per cent of the total value of money market assets outstanding at end-June 2005.

Nigeria Treasury Bills worth ₦246.6 billion were issued to replace maturing ones,

compared with ₦240.1 billion in the corresponding period of 2004. Of this amount, subscriptions by DMBs/discount houses and non-bank public, jointly accounted for 93.2 per cent of the total, compared with 94.3 per cent in the first half of 2004. The decline in treasury investment was attributed largely to the paucity of intervention securities. The CBN absorbed 6.8 per cent of the total issues, compared with 5.7 per cent in the corresponding period of 2004.

At ₦871.60 billion, Treasury bills outstanding as at end-June 2005, was 5.6 per cent higher than the level at end-June 2004. Of this amount, DMBs and discount houses held 81.9 per cent while the non-bank public held 17.9 per cent. The CBN absorbed the balance of 0.2 per cent, compared with 8.24 per cent in the corresponding period of 2004.

3.1.4 Inter-Bank Funds Market

The inter-bank funds market recorded a sharp decline in the value of transactions in the first half of 2005. At ₦238.1 billion, the value of transactions declined substantially by 79.2 per cent below the level in the corresponding period of 2004. This was also 79.2 per cent lower than the level at end-December 2004. Transactions in overnight call money, which constituted the dominant maturity (57.9 per cent), fell significantly to ₦138.1 billion from the level in the preceding half-year. The inter-bank call rates, which averaged 15.3 per cent in December 2004 declined to an average of 9.5

per cent in June 2005, reflecting the liquidity surfeit in the banking system.

3.1.5 Interest Rates

Available data indicated a general decline in banks' deposit and lending rates in the first half of 2005. The weighted average savings deposit rate fell by 0.3 percentage point below the level at end-December 2004 to 4.0 per cent, while other rates on deposits of various maturities declined from a range of 7.0 – 12.8 per cent in December 2004 to a range of 5.1 – 11.0 per cent in June, 2005. Similarly, the weighted average prime and maximum lending rates declined from 18.9 and 20.4 per cent in December 2004 to 17.8 and 19.2 per cent, respectively, in June 2005. The spread between banks' weighted average deposit and maximum lending rates stood at 11.4 percentage points in June 2005, while the margin between the weighted average savings deposit and maximum lending rates was 15.1 percentage points. With the year-on-year inflation rate of 18.6 per cent in June, all of the term deposit rates were negative in real terms. The CBN minimum rediscount rate (MRR) was reduced by 200 basis points to 13.0 per cent during the period. The NTB rate was market-driven in line with the deregulation policy stance. Consequently, the NTB rate declined from a range of 12.5 - 16.0 per cent in December 2004 to 4.5 – 8.0 per cent.

3.1.6 Financial Savings

Financial savings at end-June, 2005 amounted to ₦1,136.7 billion, indicating an increase of 10.0 per cent over the level in December, 2004. Deposit money banks (DMBs) maintained their dominance as the major depository institution in the economy. The DMBs accounted for 89.1 per cent of total institutional savings at end-June 2005, compared with 90.3 per cent at end-December 2004. Other institutions, including the primary mortgage institutions (PMIs), life insurance funds, the Nigerian Social Insurance Trust Fund (NSITF), and community banks (CBs) held the balance of 10.9 per cent.

3.1.7 Capital Market Developments

Transactions on the Nigerian Stock Exchange (NSE) were bearish in the first half of 2005 relative to the corresponding period of 2004. Aggregate volume and value of traded securities fell by 5.2 and 15.4 per cent to 9.9 billion shares and ₦106.1 billion, respectively, from 10.4 billion shares and ₦125.4 billion in the corresponding period of 2004. A sectoral analysis of developments in the market showed that the banking sub-sector remained the most active on the Exchange as in the preceding year. Three banks were listed on the Exchange during the review period, bringing the number of companies listed in the banking sub-sector to 37. There were twenty-two supplementary/capitalisation issues by quoted companies in the first half of 2005, comprising

public offer, private placements, rights and bonus issues.

Similarly, market capitalisation and value index fell by 8.1 and 7.0 per cent, respectively, to close at ₦1.9 trillion and 26,877.92 (1984=100) in June 2005, compared with ₦2.1 trillion and 28,887.4 (1984=100) in June 2004. Although the market was boosted by foreign portfolio investment which constituted 35.0 per cent of the initial public offers (IPOs) during the period, it was not sufficient to check the slide. The development was attributable largely to price declines in the equities sector, occasioned by the upswing in the primary market segment as well as the recall of funds by banks from the borrowers, following the ongoing banking industry consolidation programme.

Thirty-two (32) new issues, involving 152.85 billion shares, valued ₦264.9 billion were recorded. These were made up of twenty (20) offers for subscription (₦208.9 billion), three (3) supplementary offers (₦11.3 billion), four (4) rights issue (₦19.3 billion) and five (5) private placements (₦25.4 billion). The number of securities quoted on the NSE fell from 277 at end-December 2004 to 276.

In the bonds segment of the market, transactions in the Federal Government Development Stocks and State Government Bonds sector resulted in a turnover of ₦2.09 billion in the first half of 2005. These included the 4.1 million units of Cross River State 1st Floating Rate Redeemable Ranch

Development Bonds worth ₦351.81 million; and the 2.4 million units of 1st Delta State Floating Rate Bonds, valued ₦240.0 million. Also, in the Federal Government Bonds sub-sector, 1.5 million units of Federal Government Bond 2006, valued ₦1.5 billion and the 1,000 units of 1st Federal Government Bond 2008 valued ₦1.0 billion were issued. The number of outstanding State Government Bonds stood at six (6) as two new bonds were admitted to the daily official list. The two new listings made in the State Government Bonds sector included the second tranche of the "1st Ekiti State ₦1.5 billion Floating Rate Redeemable Bond 2002/2005" and the 1st Akwa-Ibom State ₦6.0 billion Floating Rate Redeemable Bond 2005/2007. The only issue made during the period in the preference shares sub-sector was the 2.04 million units of Crusader Insurance Preference shares worth ₦1.3 billion.

The NSE initiated arrangements towards the operation of Asset, Mortgage- and Infrastructure- backed securities in the country in the first-half of the year, with the objective of providing funds for specified long-term projects that required huge capital outlay.

In its bid to protect investors and further boost confidence in the market, the Exchange and the Central Securities Clearing System Limited (CSCS) in March 2005, launched the Trade Alert (an automated stockholder alert system), which can notify investors of movements in their CSCS accounts as they occur. It can also provide investors with a tool for independent

monitoring and policing of their investment accounts at the CSCS via mobile telephone, among others.

3.1.8 Deposit Money Banks' Activities

Deposit money banks' total assets/liabilities stood at ₦4,390.8 billion as at end-June 2005, representing an increase of 25.6 and 17.0 per cent over the levels at end-June and end-December 2004, respectively. The oligopolistic structure of the system remained, with 10 out of 89 banks accounting for 51.8 per cent of total assets, 57.2 per cent of total deposits liabilities, 42.0 per cent of loans and advances, and 58.0 per cent of capital and reserves. Total funds sourced by the DMBs in the first half of 2005 amounted to ₦911.8 billion, compared with ₦158.6 billion in the corresponding period of 2004. The funds were sourced mainly from deposit liabilities (₦596.9 billion); accretion to capital accounts (₦249.4 billion); and unclassified liabilities (₦41.0 billion), among others. The funds were used mainly to advance credits to both the Central Government and private sector (₦712.9 billion); acquisition of unclassified assets (₦93.2 billion); and increase in reserves (₦51.4 billion).

Aggregate credit to the domestic economy by the DMBs rose by 26.9 per cent over the level at end-December 2004 to ₦2,635.7 billion. A breakdown showed that the banks' credit to the private sector and the Central Government rose by 24.1 and 61.6 per cent to ₦1,803.1 billion and ₦682.6 billion,

respectively, over their levels in the corresponding period of 2004.

The liquidity ratio of banks averaged 51.1 per cent, compared with the stipulated minimum ratio of 40.0 per cent for 2005. Average loans/deposit ratio of banks at end-June, 2005 was 80.6 per cent, compared with 68.6 per cent in the corresponding period of 2004 and the target of 80.0 per cent.

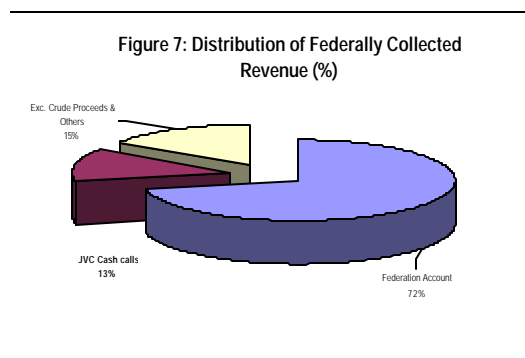
3.1.9 Discount Houses

Total assets/liabilities of discount houses increased by 93.8 per cent to ₦127.7 billion at end-June 2005, compared with 37.3 per cent in the corresponding period of 2004. Total funds sourced by the discount houses amounted to ₦61.8 billion as at June 2005, compared with ₦14.8 billion as at June 2004. The funds were sourced largely from the recovery of "other amounts owing" (₦30.9 billion); and recall of placements on money-at-call (₦27.0 billion), among others. The funds were utilised mainly for investment in Federal Government securities (₦55.4 billion). Discount houses generally complied with the guidelines on the structure of assets. Their investments in Federal Government securities of less than 91 days maturity at end-June 2005 stood at ₦95.6 billion, representing 89.1 per cent of their total deposit liabilities, compared with the stipulated minimum of 60.0 per cent for 2005. The discount houses' gearing ratio was 5.0:1, compared with the stipulated maximum target of 50:1 for the year.

3.2 Fiscal Operations and Developments

3.2.1 Federation Account Operations

Provisional data indicated that total federally-collected revenue in the first half of 2005 stood at ₦2,354.3 billion, of which oil revenue accounted for 88.1 per cent, while non-oil revenue accounted for the balance of 11.9 per cent. This amount was 18.2 and 34.6 per cent higher than the budgeted estimate for the period and the actual revenue during the corresponding period of 2004, respectively. At ₦2,075.1 billion, oil revenue increased by 26.2 per cent over the budgeted estimate; while non-oil revenue fell by 19.4 per cent to ₦279.2 billion. The higher oil revenue reflected the continued upward swing in world crude oil prices, reaching as high as US\$60 per barrel during the period. The lower non-oil revenue, relative to target, was due to the weakness in tax administration. Of the federally-collected revenue, the sum of ₦1,366.7 billion (58.1 per cent) was transferred to the Federation Account, while the balance went to Joint Venture Cash Call (11.8 per cent); and Excess Crude Oil proceeds and others (30.1 per cent).



3.2.2 Federal Government Finances

The Federal Government's retained revenue for the period, at ₦713.7 billion, was higher than the level in the corresponding period of 2004 by 24.2 per cent, but was lower than the budgeted estimate by 4.3 per cent.

Total expenditure stood at ₦728.6 billion and was 19.0 per cent lower than the budgeted estimate. The expenditure was however, higher than the level in the corresponding period of 2004 by 2.5 per cent. A breakdown of the total expenditure showed that recurrent expenditure accounted for 73.5 per cent, capital expenditure, 21.3 per cent and transfers, 5.2 per cent.

The fiscal operations of the Federal Government in the first half of 2005 was estimated to have resulted in a deficit of ₦14.9 billion, compared with a budgeted deficit of ₦154.0 billion and the actual of ₦136.6 billion in the corresponding period of 2004. The deficit was financed by Ways & Means Advances.

3.2.3 Statutory Revenue Allocation to State Governments

Statutory revenue allocation to State Governments from the Federation and VAT Pool Accounts in the first half of 2005 amounted to ₦486.6 billion, up by 15.9 per cent relative to the level in the corresponding period of 2004. A breakdown of the amount showed that statutory revenue allocation from the federation account (including 13.0 per cent derivation revenue allocation to oil producing states) amounted to ₦441.7 billion, while

allocation from VAT Pool Account was ₦44.9 billion. The receipts from both sources were higher than their levels in the corresponding period of 2004 by 15.6 and 18.8 per cent, respectively.

3.2.4 Statutory Allocations to Local Governments

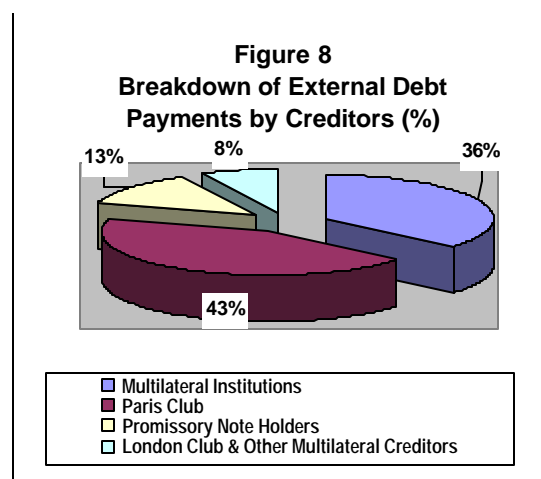
Statutory allocation to the 774 Local Governments from the Federation and VAT Pool Accounts amounted to ₦262.7 billion in the first half of 2005. This was 9.0 per cent higher than the amount received in the corresponding period of 2004. A breakdown of the receipts showed that ₦231.3 billion (88.0 per cent) came from the Federation Account while ₦31.5 billion (12.0 per cent) came from the VAT Pool Account (Table 4). The receipts from both sources were higher than their levels in the corresponding period of 2004 by 7.8 and 18.9 per cent, respectively.

3.2.4 Public Debt

The Federal government's outstanding securitised domestic debt stood at ₦1,364.4 billion as at end-June 2005, representing an increase of 3.1 per cent over the level at end-June 2004. The increase was due to the issuance of new treasury bills at the end of 2004 to part-finance government's fiscal deficit. The banking system remained the dominant holder with 79.3 per cent, while the balance of 20.7 per cent was held by the non-bank public. Debt service payments on domestic debt in the first half of 2005 amounted to ₦60.3 billion,

which was lower than the budget estimate for the period and the level in the corresponding period of 2004.

Available data showed that the stock of external debt of the Federal Government as at end-June 2005 was US\$34.23 billion. External debt service payments amounted to US\$0.74 billion. A breakdown of the external debt service payments showed that 33.3 per cent went to multilateral institutions while 40.6, 8.5 and 17.1 per cent were paid to the Paris Club of creditors, promissory notes holders and other creditors, and London Club, respectively.



3.3 REAL SECTOR DEVELOPMENTS

Domestic output, measured in 1990 basic constant prices grew by 5.9 per cent in the first half of 2005, compared with the target of 6.0 per cent for the year. The growth was driven by the non-oil sector which grew by 8.2 per cent. The oil sector GDP declined by 2.3 per cent. Provisional data indicated that the agricultural production index rose by 7.3 per cent,

compared with 5.0 per cent in the first half of 2004. Similarly, the index of industrial production, rose by 2.2 and 2.9 per cent over the levels in the corresponding period of 2004 and the preceding half-year, respectively. Also, crude oil production and prices increased in the first half of 2005. Furthermore, the delivery of social services improved, particularly in the health and water sub-sectors.

Inflationary pressures, however, intensified as the year-on-year inflation rate increased from 10.8 per cent in December 2004 to 18.6 per cent in June 2005, depicting an increase of 4.5 percentage points over the level in June 2004. On the other hand, the 12-month moving average inflation rate was 12.9 per cent, compared with 19.4 per cent in June 2004.

3.3.1 Agricultural Production and Prices

The increase in agricultural output observed in the recent years was sustained in the first half of 2005. At 178.9 (1990=100), the agricultural production index rose by 7.3 per cent, compared with 5.0 per cent in the first half of 2004. All the sub-sectors contributed to the observed growth (Table 12). The output of staples increased by 7.3 per cent compared with 5.4 per cent recorded in the first half of the preceding year. Livestock, fishery and forestry production also rose by 7.4, 5.3 and 5.9 per cent, respectively. The improvement in agricultural output was largely attributed to continued good weather conditions, especially the early rains, which were adequate and

widely distributed across the nation. Other factors were the official initiatives, including the Special Programme on Food Security (SPFS), jointly implemented with the Food and Agricultural Organization (FAO); subsidy on fertilizer and zero tariffs on imported agro-chemicals; and the tightening of controls on illegal import of agricultural products, for example, poultry products and rice.

A survey conducted by the CBN showed that the domestic retail prices of all selected food items, except palm oil and vegetable oil, recorded significant rise, compared with the levels in the first half of 2004. The increase ranged from 4.8 per cent for groundnut oil to 45.0 per cent for yellow maize. The increase in prices was attributable largely to high cost of transportation and increased exportation, especially to neighbouring countries (Niger Republic) whose agricultural sector was adversely affected by the invasion of locusts and drought. In order to mitigate the impact of these developments on prices, the Federal Government, in May, 2005, ordered the release of 66,000 tonnes of grains for sale at subsidized prices to consumers.

The prices of Nigeria's major agricultural export commodities, at the London Commodities Market, declined in the first half of 2005. At 88.4 (1990 = 100), the dollar-based all-commodities price index fell by 1.2 per cent below the level in the first half of 2004. Further analysis showed that of the six commodities monitored, the price indices of four, namely

copra, cotton, palm oil and soyabean fell by 2.1, 22.1, 19.3 and 19.7 per cent, respectively, due mainly to weak international demand. However, the price indices of cocoa and coffee increased by 3.7 and 33.2 per cent, respectively, reflecting largely supply shortages in the international market. In Naira terms, the all commodity price index at 8,114.09 (1990 = 100), fell by 3.9 per cent, relative to the level in the first half of 2004. The price developments of the monitored commodities followed a similar pattern as observed in dollar terms.

3.3.2 Industry

Aggregate industrial output increased modestly in the first half of 2005. The index of industrial production at 155.1 (1985=100) rose by 2.2 and 2.9 per cent over the levels in the corresponding period of 2004 and the preceding half year, respectively. The rise in output relative to the second half of 2004 was attributable to the increase of 0.4, 10.8 and 2.2 per cent in manufacturing output, mining production and electricity consumption, respectively.

3.3.2.1 Manufacturing

The index of manufacturing production rose by 0.4 per cent to 148.6 (1985=100) relative to the preceding half. The weak performance of the sub-sector during the half year has been attributed largely to high cost of production and weak demand for local manufactures. High cost of production was traceable to the

increases in the price of petroleum products, which raised production and transportation costs; and higher tariffs imposed on imported raw materials. Stiff competition from cheap imports, some which are banned but still found their way into the country, was also a major constraint on manufacturing production. Furthermore, inadequate funding from the banking sector impacted negatively on the operations of the sub-sector.

The weighted average capacity utilization rate in the manufacturing sub-sector declined from 55.7 per cent recorded in the first half of 2004 to 52.9 during the period under review. The value of sales of the respondents fell by 5.3 per cent when compared with the preceding half, while export sales rose by 24.11 per cent over the level in the preceding half. The level of employment in the sector rose by 3.4 and 7.6 per cent when compared with the levels in the preceding and corresponding halves, respectively.

3.3.2.2 Crude Oil

Nigeria's crude oil production, including condensates, averaged 2.43 million barrels per day (mbd) or 440.72 million barrels in the first six months of 2005, representing an increase of 1.3 per cent, compared with 2.4 mbd in the first half of 2004. Total output of Oso condensate was estimated at 11.5 million barrels, compared with 13.9 million barrels in the corresponding period of 2004. The increase in Nigeria's output was partly

attributed to the effort made by OPEC member countries to increase output in order to meet the growing global demand and contain rising oil prices. Total export of crude oil during the period averaged 1.98 mbd or 358.4 million barrels, compared with 1.94 mbd or 353.08 million barrels during the first half of 2004. A total of 81.5 million barrels of crude oil was supplied to the Nigerian National Petroleum Corporation (NNPC) for domestic consumption, compared with 80.9 million barrels in the corresponding period of 2004.

Prices of crude oil at the international oil market were generally high in the first half of the year, reflecting the high demand for crude oil from the USA and China, as well as supply disruptions in some producing countries, especially Iraq and Mexico.

The average price of Nigeria's reference crude, the Bonny Light (37^o API), rose by 46.2 per cent to US\$49.99 a barrel, compared with US\$34.19 a barrel in the first half of 2004. The average prices of the Forcados and UK Brent also rose by 47.0 and 46.7 per cent to US\$49.82 and US\$49.36 a barrel, respectively. The average price of OPEC's basket of seven crude was US\$47.50 a barrel compared with US\$32.78 a barrel in the corresponding period of 2004.

3.3.2.3 Gas

Output of natural gas declined from 38,552 million cubic metres (MMm³) recorded in the first half of 2004 to 30,321 (MMm³) during the

review period, despite significant investment. The fall in production of non-associated gas accounted for the decline in output. Of the total gas produced, 62.2 per cent was utilized for various purposes while 37.8 per cent was flared, compared with 67.9 and 32.1 per cent in the same period of 2004, respectively. The decrease in gas utilization was attributed largely to a fall in the volume of gas re-injected into the wells to enhance output. Gas sold to industries however, increased from 2,825 MMm³ to 5,888 MMm³ during the period.

3.3.2.4 Solid Minerals

Solid mineral production was estimated at 13.0 million tonnes, representing 191.8 per cent increase over the level in the corresponding period of 2004. This development was accounted for by the rise in the production of marble, limestone and coal. The upward trend in the production of limestone was occasioned by high demand by local cement manufacturers.

3.3.2.5 Electricity Generation

At 2,545.4 mega-watts per hour (MW/H), total electricity generation in the country fell by 7.9 per cent below the 2,763.6 mega-watts per hour (MW/H) attained at the end of 2004. The decline in electric power generation during the first half was attributed largely to the fall in the water level at the hydro power stations in the country.

3.3.2.6 Electricity Consumption

At 1,907.6 Mw/h, total electricity consumption in the country rose by 29.7 and 18.4 per cent

over its levels in the corresponding half of 2004 and the preceding half year, respectively. All the components of electricity contributed to the increase. Residential consumption accounted for 63.2 per cent of the total, while commercial consumers accounted for 26.2 per cent, industrial and street lighting consumption accounted for only 9.7 and 0.3 per cent of total, respectively. The relative improvement in electricity consumption was attributable largely to the improved performance of the transmission and distribution network, resulting from huge investments in the sector and the improved service delivery of the various business units of the Power Holding Company of Nigeria (PHCN).

However, the share of industrial consumption decreased from 21.0 per cent in the first half of 2004 to 9.7 per cent in the first half of 2005. This was attributed to the migration of many companies, especially in the Lagos area, to direct use of natural gas to run their machines, given continued epileptic power supply.

3.3.3 Industrial Sector Financing

3.3.3.1 National Economic Reconstruction Fund (NERFUND)

The National Economic Reconstruction Fund (NERFUND) received 30 applications out of which five (5) projects, worth N205.0 million were approved in the first half of 2005. The sum of ₦123.0 million or 60.0 per cent of the amount approved was disbursed for working capital; purchase of raw materials and

installation of plants; and machineries with a view to increasing capacity utilization and boosting employment.

3.3.3.2 Nigeria Export Import Bank (NEXIM)

Total disbursement by the Nigeria Export Import Bank (NEXIM), to various beneficiaries decreased by 72.5 per cent to ₦792.8 million relative to the level in the first half of 2004. Of the total, ₦167.0 million was disbursed under Trade Finance Rediscounting and Refinancing Facility for the exportation of cotton yarn and insecticides. Furthermore, the sum of ₦515.0 million was disbursed under the Stocking Facility for the storage of cashew nut kernels, cocoa butter, palm kernel oil and plantain flour. In addition, the sum of ₦11.0 million and ₦100.0 million were disbursed under the Project Finance Direct Loans and Project Finance Local Input Facility, respectively, for the importation of crust leather for tannery industry.

3.3.3.3 Bank of Industry (BOI)

The bank received a total of 83 applications valued at ₦13,207.58 million during the first half of 2005 as against 23 applications valued at ₦26,061.76 million received in the corresponding half of 2004. The total value of projects approved by the bank during the period increased by 34.14 and 138.63 percent to ₦3,039.12 million from ₦1,212.12 million and ₦681.35 million approved in the preceding half and the corresponding half of 2004, respectively.

Total disbursement by the Bank of Industry (BOI) to various beneficiaries in the first half of 2005 amounted to ₦4,178.72 million. The disbursement was made for the production of various items which included metal sheets, electrical/aluminium service cables, foam/mattresses, plastics, textile materials, polythene products, toilet rolls, solid minerals, nail/wire products and iron casting with a total expected output valued at ₦77,080.25 million.

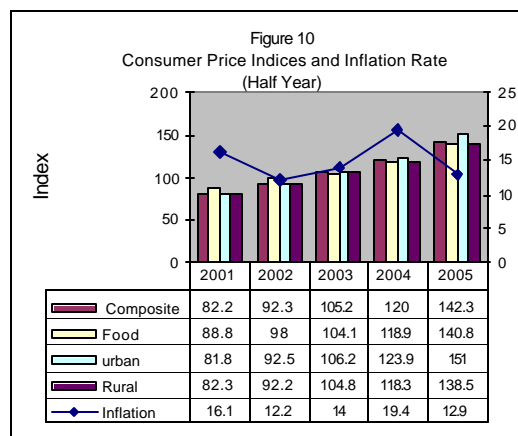
3.3.4 Telecommunications

The telecommunications sector continued its growth momentum in the period. Available data from the Nigerian Communications Commission (NCC) indicated that the number of connected telephone lines increased by 41.35 per cent, from 10.2 million lines in December 2004 to 14.42 million lines as at June 15, 2005. The teledensity consequently rose from 8.50 per cent in the preceding half to 11.44 per cent as at June 15, 2005. The expansion in the sector was attributed to developments in the mobile telephone sub-sector in which the number of lines rose by 45.15 per cent, from 9.17 million lines in December 2004 to 13.32 million lines as at June 15, 2005. The number of fixed telephone lines, however, declined by 7.39 per cent to 1.10 million lines.

3.3.5 Consumer Prices

The decline in consumer prices witnessed in the last quarter of 2004 continued up till March 2005. Thereafter, prices surged. Available data showed that the all-item composite

Consumer Price Index (CPI) trended upward from 120.0 (May 2003 = 100) in March 2005 to 142.3 in June 2005. The development was attributable to the components of food; food and non-alcoholic beverage; restaurant and hotel; and miscellaneous items. Consequently, the year-on-year inflation rate rose from 10.0 per cent as at end-December 2004 to 18.2 per cent in June 2005. The 12-month moving average rate of inflation, however, fell from 14.1 per cent in June 2004 to 12.9 per cent in June 2005. The persistent inflationary pressure was largely attributed to the drought in neighbouring Niger Republic, which diverted huge stock of food to the lucrative export market

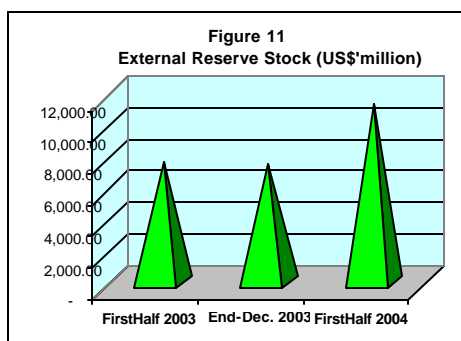


3.4 External Sector Developments

3.4.1 Balance of Payments

Developments in the external sector were favourable in the first half of 2005 as the estimated overall balance of payments surplus increased further from ₦432.1 billion (US\$3.2 billion) in the first half of 2004 to ₦870.3 billion (US\$6.6 billion). This compared favourably

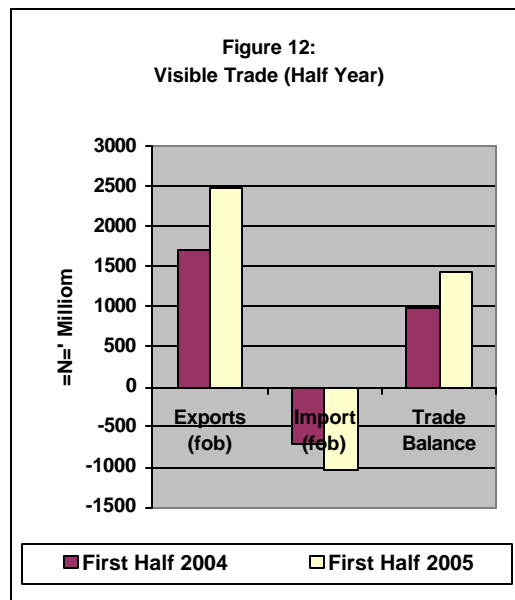
with the surplus of ₦695.0 billion (US\$5.2 billion) recorded in the second half of 2004. This outcome was attributed to the huge surplus recorded in the current account, arising from the significant increase in receipts from oil exports. The current account surplus which increased by 180.3 per cent over the level in the first half of 2004, overwhelmed the deficit in the capital and financial accounts. The stock of external reserves, which stood at US\$16.96 billion at end-December, 2004, increased by 43.7 per cent to US\$24.37 billion and could finance 18.6 months of current import commitments, compared with 12.2 months in the corresponding period of 2004.



3.4.1.1 The Current Account

At ₦1,387.7 billion (US\$10.4 billion), the current account surplus rose by 180.3 per cent relative to the level in the first half of 2004, reflecting substantial earnings from crude oil exports occasioned by higher price of crude oil. The average international price of crude oil increased to US\$49.95, compared with US\$33.04 per barrel in the first half of 2004. The trade (goods) balance, improved from a surplus of ₦689.3 billion (US\$3.7 billion) in the corresponding period of 2004 to ₦1,434.4

billion (US\$10.8 billion). The combined deficit in the services and income accounts narrowed to ₦338.7 billion (US\$2.5), while the surplus in the current transfer account increased by 68.9 per cent to ₦292.1 billion (US\$2.2 billion), as a result of higher home remittances by Nigerians living abroad.



3.4.1.2 Goods Account

Total export receipts increased by 71.6 per cent over the level in the first half of 2004 to ₦2,477.2 billion (US\$18.6 billion). Of this, the oil sector exports which accounted for 98.3 per cent increased by 75.5 per cent to ₦2,434.7 billion (US\$18.3 billion) while the non-oil exports declined by 23.7 per cent to ₦42.5 billion (US\$0.32 billion), accounting for 1.7 per cent. The poor performance of the non-oil exports reflected the continued over-dependence of the economy on the oil sector. Analysis of non-oil export proceeds by top 100 exporters, during the first half of 2005,

indicated an inflow of US\$313.73 million. Of this amount, agricultural sector accounted for US\$175.06 million or 55.8 per cent of the total. Items exported included cocoa product, shrimps, rubber products, yarn etc. Manufactured exports such as Leather, Textiles, Poly product, Aluminium etc accounted for 32.1 per cent of the total inflow. The upsurge in the value of non-oil exports was attributable to the rise in world prices of some commodities and quantity traded at the international commodity market.

At ₦1,042.8 billion (US\$7.8 billion) , total imports increased by 38.3 per cent, reflecting 16.2 and 43.8 per cent rise in the oil and non-oil sector components, respectively. The surge in the total imports was traceable to the increase in demand for imported raw materials, as well as capital goods for the rehabilitation of infrastructure, especially, in the power and telecommunications sub-sectors.

3.4.1.3 Services and Income

Services and income accounts deficits narrowed to ₦338.7 billion (US\$2.5 billion) from ₦367.0 billion (US\$2.7 billion) in the first half of 2004. The persistent deficit in this account was traceable to large payments in respect of transport services ₦159.8 billion (US\$1.2 billion), professional and technical services ₦93.2 billion (\$0.7 billion), and operational leasings ₦70.6 billion (\$0.53 billion) as well as interest payments on scheduled debt service ₦33.5 billion (\$0.25 billion).

3.4.1.4 Current Transfers

The surplus in the current transfers account (net) rose from ₦172.9 billion (US\$1.3 billion) in the first half of 2004 to ₦292.1 billion (US\$2.2 billion) in the first half of 2005. The rise was influenced by private sector inflows, particularly, transfer to "other sectors" and personal home remittances by Nigerians living abroad, which offset the deficit recorded in the general government accounts in respect of foreign embassy expenses, payments to international organisations and remittances of foreigners in the country.

3.4.1.5 Capital and Financial Account

Capital and financial account deficit widened to ₦508.8 billion (US\$4.2 billion) during the period, from ₦53.5 billion (US\$0.4 billion) in the first half of 2004. However, portfolio investment increased over the corresponding period of 2004 by 287.7 per cent to ₦1,103.6 billion (US\$8.3billion). This development was attributable to the steady rise in the foreign assets of DMBs resulting from equity participation in the on-going consolidation in the banking sector. In addition, the scheduled debt due increased from ₦1.4 billion to ₦1.6 billion in the first half of 2005.

3.4.2 External Assets

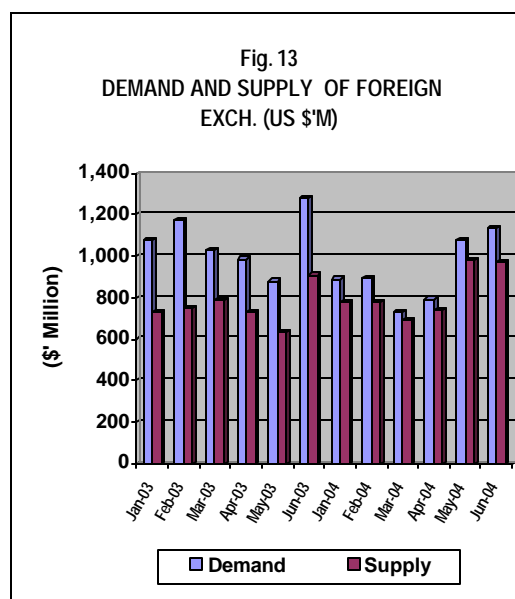
Provisional data indicated that Nigeria's external assets at end-June, 2005 stood at N4,079.7 billion (US\$30.7 billion), representing an increase of 49.1 and 107.1 per cent, over the levels at end- December and end-June, 2004, respectively. This was as a result of increased oil sector inflow, arising from the

improvement in international price of oil during the review period. The CBN's holdings accounted for 85.8 per cent of the total external assets, up from 82.3 and 77.1 per cent in the preceding half and corresponding period of 2004, respectively. The net foreign assets of the DMBs, which stood at ₦447.78 billion (US\$3.4 billion) at end-June, 2004 and ₦481.3 billion (US\$3.6 billion) at end-December 2004, rose to ₦577.55 billion (US\$4.3 billion).

3.4.3 Developments in the Foreign Exchange Market

3.4.3.1 Demand and Supply

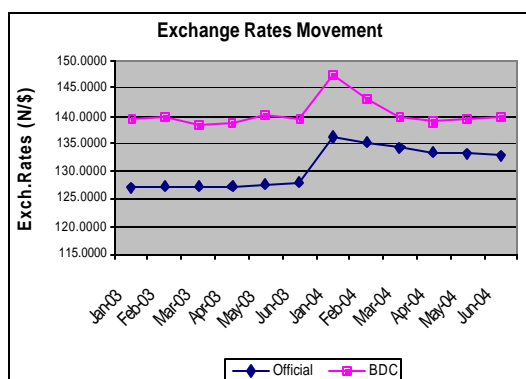
Forty seven trading sessions were held under the Dutch Auction System (DAS) as against fifty in the corresponding period of 2004. The demand pressure in the foreign exchange market persisted, as aggregate demand rose from US\$5,515.8 million in the first half of 2004 to US\$5,930.2 million. Consequently, the value of foreign exchange sold by the CBN through the authorized dealers, increased by 3.5 per cent to US\$5,113.6 million. The demand pressure was traced, partly to increased economic activities, as well as liquidity surfeit in the system.



3.4.3.2 Exchange Rate Movement

At ₦132.85 to the US dollar, the average exchange rate of the naira in the first half of 2005 appreciated by 1.0 per cent at the official segment of the market relative to the level in the corresponding period of 2004. In the bureaux de change (BDC) segment, the naira traded at an average of ₦139.92 per dollar in the review period, compared with ₦141.50 in the corresponding period of 2004. Consequently, the premium between the official and BDC rates at end-June 2005, increased to 6.5 per cent from 5.5 per cent in the corresponding period of 2004. (Chart 14)

Figure 14

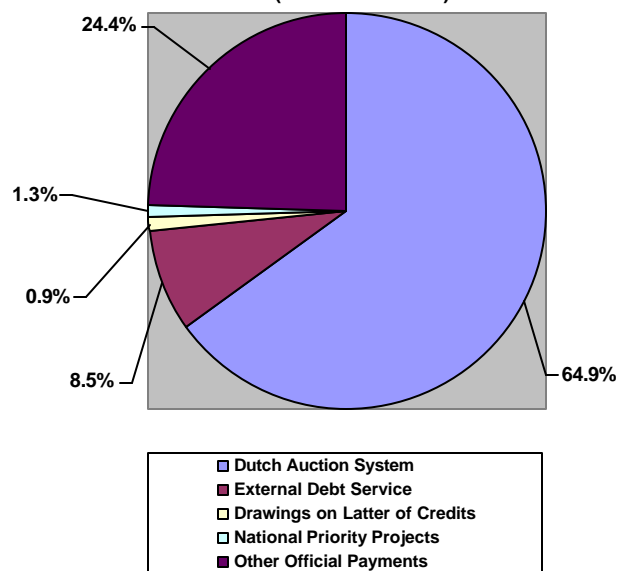


3.4.4 Foreign Exchange Outflow through the CBN

Analysis of foreign exchange outflow through the Central Bank of Nigeria during the first half of 2005, indicated that funding of the Dutch Auction System (DAS); external debt services; and 'other official payments; accounted for 62.2, 9.2 and 26.6 per cent, respectively, compared with 65.0, 8.5 and 24.4 per cent in first half of 2004. The share of drawings on Letters of Credit (LCs) in total foreign exchange utilization was 2.0 per cent, while no disbursement was made on National Priority Projects. This was against 0.9 per cent and 1.3 per cent disbursements for these expenditure items in the corresponding period of 2004, respectively.

Fig 15

OUTFLOW OF FOREIGN EXCHANGE THROUGH THE CBN (2005 HALF-YEAR)



3.4.4.5 Sectoral Utilization of Foreign Exchange under the Dutch Auction System (DAS)

Sectoral utilization of foreign exchange during the first half of the year totaled \$6,897.12 million, representing an increase of 34.5 per cent over the level in the comparable period of 2004. A breakdown of the foreign exchange utilization showed that industrial and agricultural sectors accounted for 45.0 and 1.1 per cent compared with the respective levels of 42.4 and 1.2 per cent in the half year of 2004. The shares of other sub-sectors: finished goods, transport and invisibles were 31.1, 11.0 and 11.7 per cent, respectively in the first half of 2005 compared with 35.1, 7.8 and 13.6 per cent in the corresponding period of 2004.



3.5 International Economic And Monetary Developments

3.5.1 Developments in the World Economy

World output growth was estimated at 4.3 per cent for 2005, indicating 0.8 percentage point decline than the rate in the previous year. In the first half of the year, growth was moderate in the United States (US) but buoyant in China; most emerging markets; and developing countries. In contrast, Europe and Japan experienced faltering growth in exports and weak domestic demand. Higher oil prices contributed to the slow down in global economic activity with stronger impact on the developing countries and emerging markets.

3.5.2 International Monetary Cooperation

Issues of interest to the developing countries were discussed during the 2005 International Monetary Fund (IMF) and the World Bank Spring meetings. These issues centred on:

- ◆ Global economic expansion;
- ◆ The volatility of capital flows and the risk of contagion and the need to

design a precautionary facility with ample access to help prevent capital account crises;

- ◆ Establishment of a facility by the IMF for the investment of international reserves of emerging markets and oil exporting countries;
- ◆ The need for the World Bank and other donors to increase their assistance to African countries to support their local efforts at achieving the Millennium Development Goals (MDGs);
- ◆ Refining IMF's operational approach to Poverty Reduction Strategy (PRS) especially, the need to improve the design and financing of Poverty Reduction and Growth Facility (PRGF); and
- ◆ Improving macroeconomic stability and strengthening the investment climate to foster private sector-led growth.

Nigeria met with the IMF and the World Bank to review the performance of her economy and used the occasion to highlight its economic reform programmes. Furthermore, Nigeria's economic reform programme the NEEDS, was accepted by the Bretton Woods Institutions as the framework to evaluate the performance of the Nigerian economy for the purpose of debt negotiation with the Paris Club.

3.5.3 The G-24 Technical Group

The G-24 Technical Group Meeting was held in Manila, Philippines, from 17-18 March, 2005, to articulate the G-24 position on some global

issues preparatory to the 2005 Spring Meetings of the IMF and the World Bank. Participants agreed on the need for developing countries to have greater voice and participation in the decision making processes of the BWIs through increase in their quota/shares to cope with current global realities. Nigeria urged the G-24 to impress on the IMF to accept its home-grown economic programme, the NEEDS.

3.5.4 Economic Community of West African States (ECOWAS)

During the Spring Meetings, the Vice President Africa Region (World Bank), Executive Secretary of ECOWAS and Governors and Ministers of ECOWAS held separate meetings at which the ECOWAS Secretary reviewed progress made so far in the areas of ECOWAS integration and the challenges confronting the sub-region. The challenges are in the areas of trade liberalization, crisis prevention, monetary integration and the adoption of NEPAD programmes.

3.5.5 Bilateral Economic Relations

A bilateral Joint Commission Meeting between Nigeria and Niger Republic was held to review the progress made since their last meeting in March 2004. The meeting noted significant developments in areas of land and air transportation, electricity and supply of petroleum products between both countries. It, however, identified the lack of financial resources for its operations and the need by

members to make proposals on ways to generate funds to discharge the functions of the Commission.

The 28th ECOWAS Summit of the Heads of State and Government was held from January 9-19, 2005 in Ghana and approved:-

- i) common agricultural policy;
- ii) master plan for improving electricity supply;
- iii) common regulatory policy framework for liberalizing air transport in the sub-region; and;
- iv) project development and implementation unit for ECOWAS/NEPAD infrastructure.

The Regional Network of "Market Information Systems and Traders' Organizations in West Africa", (MISTOWA) was launched at the ECOWAS Secretariat on March 3, 2005 to contribute to regional economic integration through increased agricultural trade and food security. The strategy to be adopted by the MISTOWA was to improve and link existing efforts within the ECOWAS sub-region through information management on quantities and qualities of crop output, product availability and prices.

A workshop on the implementation of the ECOWAS Community Levy was organized by the ECOWAS Secretariat from 4th to 5th April, 2005. It was agreed that the rate of the levy should remain at 0.5 per cent. The meeting also agreed on a harmonized draft procedure for the assessment, collection and lodgement of ECOWAS Community levy, and that the levy

be paid directly into ECOWAS account within 30 days.

The regional workshop on the adoption of the ECOWAS Common External Tariff (CET) was held at the ECOWAS Secretariat, Abuja, on May 23, 2005. The agreed ECOWAS CET ranged from 0.0 – 20.0 per cent and in line with the list of products to be exempted, The Gambia confirmed 76, Ghana 385, Guinea 227 and Sierra Leone 109 of Types A and B exemption.

The commencement of the ECOWAS Common External Tariff (CET) was shifted to January 2008.

3.5.6 West African Monetary Zone (WAMZ)

The 17th Meeting of the Convergence Council of Ministers and Governors of Central Banks of the WAMZ was held on 5th and 6th May, 2005 in Banjul, The Gambia. The objectives of the meeting were to consider:

- i) the outcome of the studies conducted by the West African Monetary Institute (WAMI) and some consultants on the State of preparedness of the WAMZ countries for Monetary Union on July 1, 2005;
- ii) the Work Programme and Budget for WAMI for the Second Half of 2005; and;
- iii) the Financial Statement for the year ended 31st December, 2004.

The Summit adopted the recommendations of the Council as follows:

- i. The commencement of the monetary union should be rescheduled to 1st

December 2009 to allow for attainment of primary convergence criteria and the implementation of the structural benchmarks and an Action Plan based on a work programme of critical deliverables.

- ii. Political commitment should be sustained by announcing the implementation of the following by July 2005.

- currency convertibility/trading in regional currencies;
- full capital account liberalization;
- cross-border listing in the stock markets;
- removal of all barriers to free movement of persons and goods; and;
- introduction of common external tariff.

- iii. Reaffirmed its commitment to the Accra Declaration establishing the Second Monetary Zone;
- iv. Committed itself to the full implementation of the Action Plan to be undertaken up to 2009;
- v. Promised to sustain its commitment and build WAMZ programmes into national budgets;
- vi. Expressed commitment to establishing a single economic space through abolition of all barriers relating to free movement of capital, goods, persons and services;
- vii. That WAMI should be restructured; and;

- viii. Ministers of Finance and Trade should fully participate at WAMZ meetings.

3.5.7 African Development Bank (AfDB) Group

The 2005 Annual Meetings of the ABDG was held in Abuja, Nigeria from 16th to 19th May, 2005. Highlights of the decisions taken were;

- i) The tenure of the Bureau of the Board and the Joint Steering Committee would last till the end of 2006.
- ii) The retention of the ADBG headquarters should remain in Abidjan, Cote d'Ivoire, while the six-monthly assessment of the situation in that host country would continue, with the time-frame of the temporary relocation period extended by twelve (12) months from 3rd June, 2005.
- iii) The Annual Report and Audited Financial Statements of the ADB, Nigerian Trust Fund (NTF) and the Special Relief (Emergency and Humanitarian Assistance) and other Trust Funds for the financial year ended 31st December, 2004 were approved.
- iv) The proposal to create an Office of the Auditor General and to establish an Anti-Corruption and Fraud Investigation Function within the Bank to enforce the collective responsibility

of fighting corruption in the Bank was approved.

- v) The recommendation that initial negotiations should begin between Nigeria and the Bank on the extension of the NTF tenure beyond the terminal date of 25th April 2006 was approved.
- vi) The African Economic Outlook (AEO) was launched.

3.5.8 Association of African Central Banks (AACB)

The meetings of the AACB Technical Committee and the Bureau of Governors were held from April 27-29, 2005 to consider sub-Regional Committee Activities; Cooperation with the African Union (AU); and the AACB Bureau's budgeting and operational matters. The AACB, while noting that marginal progress was made by a few regions in the area of primary convergence criteria, urged members to conform to the format of convergence report adopted at the Kampala meeting as well as appointed AACB Website Administrators. On cooperation with the AU, the Bureau directed its Chairperson to discuss with its AU's Commission counterpart, the MOU on the Implementation of the African Monetary Cooperation Programme (AMCP) with the AU. Furthermore, the AU representative informed the Bureau Meeting of the decision of the Heads of State and Government of the AU at the summit in Abuja, to cite the African Central Bank in West Africa, the African Monetary Fund in North Africa, and the African

Investment Bank in East Africa. As this development was unanticipated by the Bureau, the meeting requested the AU Commission to officially inform the AACB Governors on the new development.

Other resolutions included the adoption of the proposed AACB Budgetary and Accounting Principles; and the need for the establishment of a Committee of African Central Bank Experts on a Payments System, as a follow-up to an already established global Committee of Ten involving South Africa Reserve Bank and BCEAO on the issue.

3.5.9 Commission/ Conference of African Ministers of Finance, Planning and Economic Development

The 38th Conference of African Ministers of Finance, Planning and Economic Development was held in Abuja, Nigeria from 14 – 15 May, 2005 to deliberate on the theme “Achieving the Millennium Development Goals (MDGs) in Africa”. Arising from their discussions, the Ministers issued the following statements:

- i. The MDGs would be a critical step on the road towards the far reaching and sustainable development to which Africa aspires;
- ii. Ministers were committed to developing strategies for generating decent and productive work for men and women, as well as youth in Africa and to explicitly address employment generation issues in national poverty reduction strategies;
- iii. More work was needed to deepen national ownership and leadership, as African governments must frame and operationalize poverty reduction and growth policies that integrate the MDGs as key objectives. They noted that there was need to move from preoccupation with the formal PRS towards a focus on the content of growth and development strategies;
- iv. On trade, infrastructure and agriculture, Ministers called for the elimination of trade distorting domestic support and export subsidies that have harmful implications for African commodity exports. They urged for measures to promote public-private partnerships to bring resources and infrastructural development to the sector.
- v. They called for the doubling of Official Development Assistance (ODA) to Africa, emphasized the critical importance of international action on debt-stock and service reduction by up to 100 per cent as a measure to support Africa's ability to meet the MDGs.
- vi. They proposed that in future, the findings of the African Peer Review Mechanism (APRM) on country studies should provide the foundation for

monitoring performance by African countries.

3.5.10 International Commodity Organizations

3.5.10.1 International Cocoa Organization (ICCO)

The 125th Executive Committee meeting of the International Cocoa Organization (ICCO) took place in London in June, 2005 to deliberate on issues relating to economics, statistics, finance, administrative matters, membership and the 2003 International Cocoa Agreement.

A report was presented to the Market Committee in March, 2005, in which it was noted that the political and social events in Côte d'Ivoire had continued to be a dominant factor in the direction of price movements during the period. On the basis of that observation, the 2004/2005 cocoa season was projected to yield a production surplus of 30,000 tonnes.

At the meeting, the Council members agreed to relocate the ICCO Headquarters from No.22 Banners Street, London to No.1, New Oxford Street, London while the next ICCO meeting was scheduled for September 2005 in London.

3.5.10.2 Cocoa Producers' Alliance (COPAL)

The 30th Special Council Session of the Cocoa Producers' Alliance (COPAL) was held in London in June, 2005 to discuss issues bordering on staff emoluments, administrative budget, and promotion of cocoa consumption.

4.0 ECONOMIC OUTLOOK FOR THE REST OF 2005

Domestic output grew modestly in the first half of 2005 driven mainly by agricultural and industrial output. The outcome in the external sector was favorable as the overall balance of payments was in surplus. The average naira exchange rate appreciated while gross official external reserves grew substantially. Interest rates generally declined.

The Federal Government fiscal operations resulted in a modest deficit below the budgeted estimate. The achievement of a single digit inflation rate in 2005 is not likely. Against this background economic management in the second half of the year is expected to pose serious challenges, as the problem of excess liquidity may likely worsen, if full capital release is made by the Treasury during the second half of 2005.