

**DRAFT OF**

**CENTRAL BANK OF NIGERIA**

**ANNUAL REPORT**

**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2005**

Central Bank of Nigeria  
Corporate Head Office  
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### *Vision*

To be one of the most efficient and effective of the world's central banks in promoting and sustaining economic development.

### *Mission*

To be proactive in providing a stable framework for the economic development of Nigeria through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial sector.

## BOARD OF DIRECTORS' PICTURES

**MEMBERS OF THE BOARD OF DIRECTORS OF THE BANK  
AS AT 31<sup>ST</sup> DECEMBER, 2005**

- |     |                           |   |   |
|-----|---------------------------|---|---|
| 1.  | Charles C. Soludo         | - | Governor (Chairman)   |
| 2.  | Ernest C. Ebi             | - | Deputy Governor (Corporate Services)                        |
| 3.  | Obadiah Mailafia          | - | Deputy Governor (Economic Policy)                           |
| 4.  | Tunde Lemo                | - | Deputy Governor (Financial Sector Surveillance)             |
| 5.  | Shamsuddeen Usman         | - | Deputy Governor (Operations)                                |
| 6.  | Olusegun O. O. Ogunkua    | - | Director (Permanent Secretary, Federal Ministry of Finance) |
| 7.  | Akpan H. Ekpo             | - | Director  |
| 8.  | Juliet A. Madubueze (Mrs) | - | Director  |
| 9.  | Dahiru Muhammad           | - | Director  |
| 10. | Sam O. Olofin             | - | Director  |
| 11. | Joshua O. Omuya           | - | Director  |
|     | Umaru B. Girei            | - | Secretary to the Board                                      |

**MEMBERS OF THE COMMITTEE OF GOVERNORS OF  
THE BANK AS AT 31<sup>ST</sup> DECEMBER, 2005**

- |    |                   |   |   |
|----|-------------------|---|---|
| 1. | Charles C. Soludo | - | Governor (Chairman)                             |
| 2. | Ernest C. Ebi     | - | Deputy Governor (Corporate Services)            |
| 3. | Obadiah Mailafia  | - | Deputy Governor (Economic Policy)               |
| 4. | Tunde Lemo        | - | Deputy Governor (Financial Sector Surveillance) |
| 5. | Shamsuddeen Usman | - | Deputy Governor (Operations)                    |
|    | Umaru B. Girei    | - | Secretary                                       |

**PRINCIPAL OFFICERS OF THE BANK AS AT 31<sup>ST</sup> DECEMBER, 2005**

**A. Departmental Directors**

- |    |                      |   |                              |
|----|----------------------|---|------------------------------|
| 1. | Sarah O. Alade (Mrs) | - | Banking Operations           |
| 2. | Odufu I. Imala       | - | Banking Supervision          |
| 3. | Umaru B. Girei       | - | Corporate Secretariat        |
| 4. | Benjamin C. Onyido   | - | Currency & Branch Operations |
| 5. | Amos S. Bamisile     | - | Development Finance          |

6.	Mohammed S. Garba	-	Finance
7.	Mohammed Nda	-	Foreign Operations
8.	Osaretin A. Demuren (Mrs)	-	Human Resources
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10.	Samuel O. Olatunde*	-	Internal Audit
11.	James K. A. Olekah*	-	Monetary Policy
12.	Samuel A. Oni	-	Other Financial Institutions
13.	Garba Ahmed	-	Procurement & Support Services
14.	Okwu J. Nnanna	-	Research & Statistics
15.	Walter W. Ahrey	-	Strategy & Performance
16.	Omolara O. Akanji (Mrs)	-	Trade & Exchange
	Anthony O. Olatujoye	-	Legal Adviser

## **B. Special Advisers to the Governor**

1.	Chidozie E. Emenuga	-	Economic Matters
2.	Patrick A. H. Ataman	-	Governor's Office
3.	Suleiman Barau	-	Parastatals and Private Sector

\* On acting appointment

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2.	Benneth C. Ezeaneche	-	Abuja
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4.	Yusuf Nuhu	-	Bauchi
5.	Anthony O. Agholor	-	Benin
6.	Ernest O. Alilonu	-	Calabar
7.	Christian. E. Nkwonta	-	Enugu
8.	Jeremiah O. Okafor	-	Ibadan
9.	Patrick I. Okonkwor	-	Ilorin
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18.	Benedict M. C. Obi	-	Owerri
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20.	Ahmed Mohammed	-	Sokoto
21.	Sylvester. C. Chukwuka	-	Uyo*
22.	Shuaibu. Abdulkarim	-	Yola

\* Currency Centre

\*\* On acting capacity

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## List of Abbreviations and Acronyms

<b>AACB</b>	Association of African Central Banks
<b>AIT</b>	African Independent Television
<b>AfDB</b>	African Development Bank
<b>AMCP</b>	African Monetary Cooperation Programme
<b>APRM</b>	Africa Peer Review Mechanism
<b>ATM</b>	Automated Teller Machine
<b>AU</b>	African Union
<b>BAs</b>	Bankers' Acceptances
<b>BDC</b>	Bureaux de Change
<b>BOI</b>	Bank of Industry
<b>BWIs</b>	Bretton Woods Institutions
<b>CAC</b>	Corporate Affairs Commission
<b>CAMA</b>	Companies and Allied Matters Act
<b>CAMEL</b>	Capital Adequacy, Asset Quality, Management, Earning and Liquidity
<b>CAR</b>	Capital Adequacy Ratio
<b>CBN</b>	Central Bank of Nigeria
<b>CBP</b>	Capacity Building Programme
<b>CBs</b>	Community Banks
<b>CEPR</b>	Centre for Economic Policy Research
<b>CIC</b>	Currency in Circulation
<b>CIT</b>	Companies Income Tax
<b>COBEC</b>	Code of Business Ethics and Conduct
<b>COPAL</b>	Cocoa Producers' Alliance
<b>CPI</b>	Consumer Price Index
<b>CPs</b>	Commercial Papers
<b>CRMS</b>	Credit Risk Management System
<b>CRR</b>	Cash Reserve Requirement
<b>CSCS</b>	Central Securities Clearing System
<b>DAS</b>	Dutch Auction System
<b>DFIs</b>	Development Finance Institutions
<b>DLF</b>	Direct Lending Facilities
<b>DMBs</b>	Deposit Money Banks
<b>DMO</b>	Debt Management Office
<b>EBP</b>	Electronic Budgeting and Planning
<b>ECA</b>	Economic Commission for Africa
<b>ECOWAS</b>	Economic Community of West African States
<b>EEG</b>	Export Expansion Grant

<b>e-FASS</b>	Electronic Financial Analysis and Surveillance System
<b>EFCC</b>	Economic and Financial Crimes Commission
<b>e-Money</b>	Electronic Money
<b>EMS</b>	Enterprise Management and Security
<b>EOHSI</b>	Environmental and Occupational Health Science Institute
<b>ERP</b>	Enterprise Resource Planning
<b>FAO</b>	Food and Agriculture Organization
<b>FCs</b>	Finance Companies
<b>FCT</b>	Federal Capital Territory
<b>FGN</b>	Federal Government of Nigeria
<b>FITC</b>	Financial Institutions Training Centre
<b>fob</b>	Free on Board
<b>G-24</b>	Group of twenty four (24) developing countries
<b>GDP</b>	Gross Domestic Product
<b>HGSFHP</b>	Home-Grown School Feeding and Health Programme
<b>HIPCs</b>	Highly Indebted Poor Countries
<b>IAS</b>	International Accounting Standard
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>ICCO</b>	International Cocoa Organization
<b>ICO</b>	International Coffee Organization
<b>IDA</b>	International Development Assistance
<b>IDMS</b>	Integrated Document Management System
<b>IFAD</b>	International Fund for Agricultural Development
<b>IFT</b>	Inter-bank Funds Transfer
<b>IMF</b>	International Monetary Fund
<b>IPOs</b>	Initial Public Offers
<b>IPPA</b>	Investment Promotion and Protection Agreement
<b>IPPs</b>	Independent Power Plants
<b>IST</b>	Investment and Securities Tribunal
<b>ITU</b>	International Telecommunication Union
<b>JSE</b>	Johannesburg Stock Exchange
<b>JVC</b>	Joint Venture Cash Calls
<b>KYC</b>	Know Your Customer
<b>LVIFT</b>	Large Value Inter-bank Funds Transfer
<b>mbd</b>	Million barrels per day
<b>MDGs</b>	Millennium Development Goals
<b>MFBs</b>	Microfinance Banks
<b>MHTF</b>	Millennium Hunger Task Force
<b>MICR</b>	Magnetic Ink Character Recognition
<b>MOU</b>	Memorandum of Understanding
<b>MRR</b>	Minimum Rediscount Rate

<b>NACRDB</b>	Nigerian Agricultural, Cooperative and Rural Development Bank
<b>NACS</b>	National Automated Clearing System
<b>NAERLS</b>	National Agricultural Extension Research Liaison Service
<b>NAFDAC</b>	National Food, Drug Administration and Control
<b>NAICOM</b>	National Insurance Commission
<b>NAPIMS</b>	National Petroleum Investment Management Services
<b>NAPRI</b>	National Animal Production Research Institute
<b>NBS</b>	National Bureau of Statistics
<b>NDIC</b>	Nigeria Deposit Insurance Corporation
<b>NEEDS</b>	National Economic Empowerment and Development Strategy
<b>NEPAD</b>	New Partnership for Africa's Development
<b>NEXIM</b>	Nigerian Export-Import Bank
<b>NGOs</b>	Non-Governmental Organizations
<b>NICPAS</b>	Nigerian Cheque Printers Accreditation Scheme
<b>NMFCC</b>	National Microfinance Consultative Committee
<b>NNPC</b>	Nigerian National Petroleum Corporation
<b>NPC</b>	National Population Commission
<b>NPI</b>	National Programme on Immunization
<b>NPSC</b>	National Payments System Committee
<b>NSE</b>	Nigerian Stock Exchange
<b>NSPFS</b>	National Special Programme for Food Security
<b>NTA</b>	Nigerian Television Authority
<b>NSPM</b>	Nigerian Security Printing and Minting Plc
<b>NTCF</b>	Nigeria Technical Cooperation Fund
<b>ODA</b>	Overseas Development Assistance
<b>OBB</b>	Open Buy Back
<b>OFIs</b>	Other Financial Institutions
<b>OMO</b>	Open Market Operation
<b>OPEC</b>	Organization of Petroleum Exporting Countries
<b>PHCN</b>	Power Holding Company of Nigeria
<b>PIR</b>	Process Improvement and Redesign
<b>PMIs</b>	Primary Mortgage Institutions
<b>POS</b>	Point of Sale
<b>PPT</b>	Petroleum Profit Tax
<b>PRGF</b>	Poverty Reduction and Growth Facility
<b>PRSP</b>	Poverty Reduction Strategy Paper
<b>PSI</b>	Policy Support Instrument
<b>RBDAAs</b>	River Basins Development Authorities
<b>RTEP</b>	Root and Tuber Expansion Project
<b>RTGS</b>	Real Time Gross Settlement
<b>SAMMDRA</b>	South African Medicines and Medical Devices Regulatory Agency

<b>SEC</b>	Securities and Exchange Commission
<b>SF</b>	Stocking Facilities
<b>SITC</b>	Standards International Trade Classification
<b>SMEEIS</b>	Small and Medium Enterprises Equity Investment Scheme
<b>SON</b>	Standard Organization of Nigeria
<b>SSC</b>	South - South Cooperation
<b>SPDC</b>	Shell Petroleum Development Company
<b>TCs</b>	Travellers' Cheques
<b>TFM</b>	Trust Fund Model
<b>UAT</b>	User Acceptance Test
<b>UNECA</b>	United Nations Economic Commission for Africa
<b>UNICEF</b>	United Nations Children's Fund
<b>USFDA</b>	United States Food and Drug Agency
<b>VAT</b>	Value Added Tax
<b>WACB</b>	West African Central Bank
<b>WAFSA</b>	West African Financial Supervisory Agency
<b>WAIFEM</b>	West African Institute for Financial and Economic Management
<b>WAMA</b>	West African Monetary Agency
<b>WAMZ</b>	West African Monetary Zone
<b>WDAS</b>	Wholesale Dutch Auction System

## GOVERNOR'S PICTURE

## STATEMENT BY THE GOVERNOR

I have the pleasure to present the ***Annual Report and Statement of Accounts*** of the Central Bank of Nigeria (CBN) for the year ended December 31, 2005. The report covers the activities of the Bank and the major developments in the Nigerian economy in 2005.

Let me begin by extending my sincere appreciation to members of the Board of Directors of the CBN who successfully completed their two terms of office in 2005, namely, Mr. Inie S. Akono, Apostle Hayford I. Alile, Dr. (Mrs.) Uche Azikiwe, Prof. Michael O. Kayode, and Mallam Bashiru Tukur. I commend their invaluable contributions to the governance of the CBN during their tenure. I wish to welcome and congratulate our new members of the Board of Directors who were appointed during the year, namely, Prof. Akpan H. Ekpo, Mrs. Juliet A. Madubueze, Mallam Dahiru Muhammad, Prof. Sam O. Olofin, and Chief Joshua O. Omuya. I am confident that they will bring their wealth of professional experience to bear on the work of the Bank. In the same vein, I congratulate Dr. Obadiah Mailafia on his appointment as a Deputy Governor of the CBN during the year.

The Nigerian economy recorded significant milestones in 2005 and it is evident that a solid foundation is being laid for Nigeria to realize its full economic potentials. The Central Bank remained focused and committed to sound monetary and exchange rate policies as key components of the National Economic Empowerment and Development Strategy (NEEDS) agenda. The sustained and successful implementation of the NEEDS led to positive macroeconomic outcomes. The Central Bank met the targets set for the growth of monetary aggregates and this helped to significantly reduce the inflationary pressures during the year (from 28% in August to 11.6% in December). The exchange rate of the naira remained stable and further appreciated, as it did in 2004. Our external reserves increased by 60 per cent from its level in 2004 to an all-time highest level of US\$28.28 billion. Our commitment to sound monetary policy, healthy financial sector and fiscal policy regime received international recognition and facilitated the approval by the IMF Executive Board of a Policy Support Instrument (PSI). The good performance under the PSI paved the way for an agreement for a debt relief with the Paris Club of creditors, which culminated in the cancellation of US\$18.0 billion (60%) of Nigeria's external debt owed to the Paris Club.

The successful implementation of the reform programme also enabled the country to secure a good sovereign risk rating (BB-) from two reputable rating agencies (Fitch, and Standard and Poor's).

The first phase of the banking sector consolidation programme was successfully completed with the emergence of 25 deposit money banks with strong capital base and the potential to promote faster economic growth and development of the Nigerian economy. In addition, the foundation has been laid for the Nigerian banks to become global players in the international financial markets. However, having successfully gone through the exercise, a major challenge in the months ahead is to further consolidate on this initial success, by strengthening the supervisory and regulatory framework for the financial system. We also need to expeditiously address and dispose of any post-consolidation issues, especially paying-off depositors of the banks whose licenses have been revoked once the courts order the NDIC to liquidate them.

A major policy initiative was implemented by the CBN in 2005 with the establishment of the Microfinance Policy Regulatory and Supervisory framework and the launching of the Microfinance Policy. This initiative is expected to result in the emergence of well-capitalized Microfinance Institutions (MFIs)

which will cater for the financing needs of micro, small and medium enterprises. Thus, within the next two years, as part of the restructuring/reform of the financial system, we will witness a major shift from the present community banks to microfinance banks that will support economic activities in their primary areas of operation.

Consistent with our vision to take the CBN to greater heights to meet the demands of the 21<sup>st</sup> Century central banking, the restructuring of the CBN under Project EAGLES received a significant boost in 2005. Five major IT initiatives were deployed simultaneously to improve the Bank's work processes: Enterprise and Resource Planning (Oracle ERP), Real-Time Gross Settlement System (RTGS), Temenos 24 (T24), Electronic Financial Analysis and Surveillance System (e-FASS) and Enterprise Management and Security (EMS). The benefits of the new IT initiatives are to refocus the Bank on its core mandate, reduce the operational costs, mitigate the risk of frauds and forgeries, achieve a sound and least-cost supervisory and regulatory framework, to ensure that financial data are captured on-line and analysis done on a timely manner. Our overall goal is for the CBN to be one of the most efficient and effective world's Central Banks.

During the year, the Bank continued the reform of the Nigerian Security Printing and Minting (NSPM) Plc that started in 2004. Within a few months of CBN's take-over and appointment of a new Management for the NSPM Plc, the company's productivity had improved by over 30 per cent and for the first time in recent history, NSPM Plc met all the currency job orders from the CBN for the year. The NSPM Plc has now been fully revamped and by the end of 2006 it will be ready to meet all the currency minting needs of Nigeria, and by this date Nigeria will cease to import finished currency. This will save the country the huge resources in foreign exchange hitherto spent on importation of finished currency.

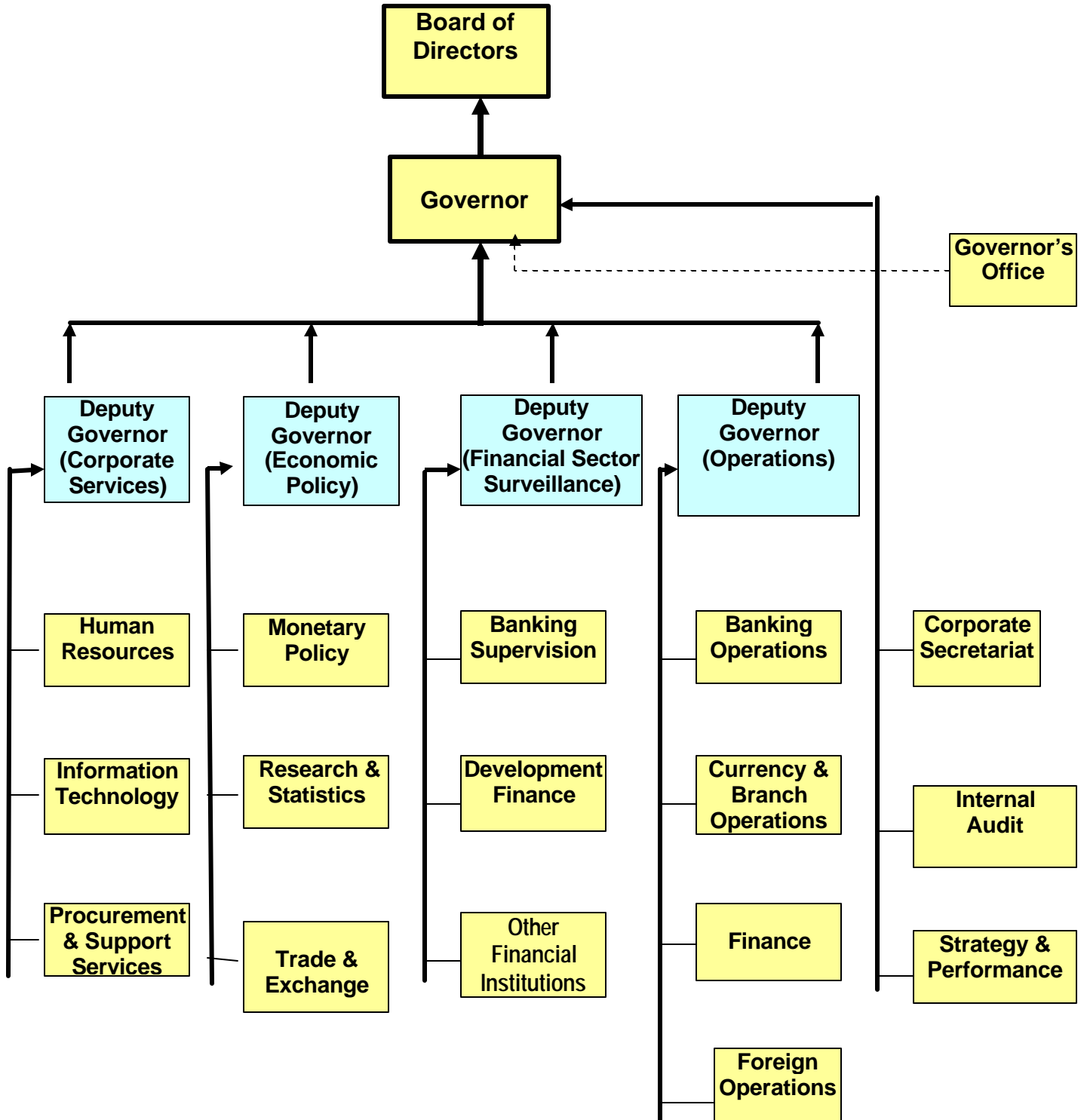
Finally, I wish to sincerely thank the Board, Management and the entire Staff of the Bank for their diligence and invaluable contributions to the overall performance of the CBN during the year. We should sustain the spirit of team work, dedication, hard work and strong support for the revolutionary changes taking place in

the Bank. I am encouraged by the fact that with God on our side and, through His guidance and direction, we shall continuously improve upon the reforms and our performance. I wish to thank Mr. President, the National Assembly (especially the Committees on Banking and Currency), the Bankers' Committee and all the key stakeholders in the Nigerian economy for their support during the year.

**Prof. Charles C. Soludo**  
**Governor**

**April, 2006.**

## Organizational Structure of the CBN as at 31<sup>st</sup> December 2005



**CENTRAL BANK OF NIGERIA**  
**ANNUAL REPORT AND STATEMENT OF ACCOUNTS**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2005**

*Executive Summary*

1. This Report provides an overview of the operations of the Central Bank of Nigeria (CBN) and major outcomes for the economy.

2. It is structured into two parts. Part I presents the corporate activities of the CBN in 2005, focusing on its monetary, financial, exchange rate, developmental and organisational policy stance. The performance of the Nigerian economy and the international economic and financial developments, which impacted on it during the year, are discussed in Part II. Overall, the Report contains 8 chapters. The highlights of the Report are as follows:

**CORPORATE ACTIVITIES**

**The CBN Board and its Activities**

3. There were changes in the composition of the Board of Directors of the Bank in 2005. On May 3, 2005, Obadiah Mailafia was appointed Deputy Governor to replace Wahir D. A. Mshelia (Mrs) who retired from the Bank.

Furthermore, the Board was reconstituted on November 23, 2005, following the expiration of the term of five non-executive Directors namely; Samson I. Akono, Hayford I. Alile, Uche Azikiwe (Mrs), Michael O. Kayode and Bashiru Tukur. They were replaced by Akpan H. Ekpo, Juliet A. Madubueze (Mrs), Dahiru Muhammad, Sam O. Olofin and Joshua O. Omuya. The Bank's Board of Directors held seven (7) regular and five (5) emergency meetings in 2005. The Committee of Governors held nineteen (19) meetings, while the Governors' Consultative Committee held twelve (12) regular meetings and one (1) emergency meeting. The Committee of Departmental Directors held twelve (12) regular and three (3) emergency meetings, while the Audit Committee held three (3) regular meetings.

## MONETARY POLICY, SURVEILLANCE ACTIVITIES AND OPERATIONS OF THE CBN

4. The monetary policy framework remained unchanged in 2005. It was anchored on monetary targeting and its key objective was to ensure price stability and non-inflationary growth. A tight monetary policy stance, complemented by the prudent fiscal operations of the Federal Government, resulted in relative macroeconomic stability. Excess liquidity, which was a major problem in 2005, was contained through the sterilization of excess earnings from crude oil exports and the deployment of special instruments, such as the non-discountable CBN Bills and special foreign exchange auction sales. The CBN Minimum Rediscount Rate (MRR) rate was anchored on the year-on-year inflation rate to reflect economic fundamentals. Consequently, the MRR was adjusted downwards by 200 basis points to reflect the decline in headline inflation. Accordingly, interest rates fell generally during the year. The Bank also met the

base money target set under the Policy Support Instrument (PSI). The growth in broad money supply ( $M_2$ ) was within the targeted range.

Aggregate bank credit to the domestic economy (net) grew by 21.9 per cent, and was within the programme target. Credit to the private sector (state and local governments, non-financial public enterprises and the core private sector) grew by 30.8 per cent, compared with the target growth rate of 25.2 per cent, while credit to the core private sector increased by 29.3 per cent. The CBN granted ₦54.04 billion Ways and Means Advances (overdraft facility) to the Federal Government, and representing 5 per cent of its retained revenue in 2004. This performance surpassed the West African Monetary Zone (WAMZ) target of a maximum accommodation of 10.0 per cent. Moreover, the Ways and Means Advances was repaid by December 31, 2005, in line with the statutory requirements.

5. The pressure in the foreign exchange market moderated as the

demand for foreign exchange declined by 2.7 per cent during the year. Overall, the exchange rate at end-period appreciated in nominal terms by 2.9 per cent, and was relatively stable in real terms. The stock of external reserves, which stood at US\$16.96 billion at end-December 2004, increased by 59.8 per cent to US\$28.28 billion, owing largely to higher export earnings, a non-accommodating monetary policy stance and fiscal prudence. The average monthly import bill stood at US\$1,338.9 million, compared with \$920.4 million in 2004. Thus, the level of reserves could finance 19.7 months of current imports, compared with 13.6 months in 2004 and was well above the 6.0 months requirement under the WAMZ programme.

The 18-month banking sector consolidation programme, which commenced in July 2004, was successfully concluded in 2005. The CBN provided free consultancy services and help-desks for banks in need of technical assistance on merger/acquisitions advisory services. Inspections carried out

before the expiration of the recapitalization programme revealed that the symptoms of systemic distress, which manifested in 2001, persisted. Banks' performance rating indicated that the number of sound/satisfactory banks declined steadily from 73 in 2001 to 52 in September, 2005. In the same vein, the number of banks that were "marginal/unsound" doubled from 17 in 2001 to 34 in September, 2005. As at end-December 2005, Nigeria's banking industry comprised 25 banks with a minimum shareholders' funds of ₦25.0 billion each. At the conclusion of the consolidation programme, 75 of the eighty-nine (89) banks that existed as at end-December 2004, successfully fused into 25 banks, while fourteen (14) banks, which were unsuccessful in meeting the consolidation requirements, had their licences withdrawn. In terms of structure, the financial system as at end-2005 comprised the CBN, the Nigeria Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission

(NAICOM), 25 deposit money banks, 757 community banks, 112 finance companies, 126 bureaux-de-change, one (1) stock exchange, one (1) commodity exchange, five (5) discount houses, 90 primary mortgage institutions, six (6) development finance institutions, 103 insurance companies, and 581 registered stockbrokers.

6. In terms of financial flows, the consolidation programme brought in ₦350.2 billion new investment and US\$660.6 million foreign capital inflow during the period.

7. To further enhance access to credit by entrepreneurs, the Bank launched a microfinance policy in December 2005. The policy requires the establishment of a Microfinance Development Fund, including the setting aside of an amount not less than 1.0 per cent of the annual budgets of State/Local Governments for on-lending activities, through microfinance banks, to enhance credit access to small-scale entrepreneurs.

8. The audited financial statement of the CBN showed that total revenue rose

by 7.8 per cent to ₦94.4 billion in 2005. The increase in revenue reflected the rise in "Other Income"<sup>1</sup> during the year. In contrast, operating expenses fell by 1.2 per cent to ₦ 73.6 billion. After some provision, the operations of the CBN in 2005 resulted in a surplus of ₦ 8.1 billion, reflecting a decline of 11.4 per cent below the ₦9.2 billion recorded in 2004. In accordance with the provisions of Part II, Section 5(3) of the Central Bank of Nigeria Act, 1991 as amended, the sum of ₦6.8 billion was transferred to the Federal Government, while the balance went to general reserves.

Notwithstanding the strong revenue profile in 2005, a committee was constituted to identify alternative sources of revenue, against the backdrop of the continuing decline in the traditional sources of revenue induced by the improved efficiency in economic

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<sup>1</sup> Other income comprise: Exchange Commission, Gain on Fixed Assets Disposed, Commission on Sales of Travellers' Cheques, etc.

management, coupled with the rising cost of conducting monetary policy.

Total assets of the CBN increased significantly in 2005, by 33.0 per cent to ₦4,200.1 billion, compared with the level in 2004 reflecting, largely, the increase in external reserves (54.7%) and other securities (69.1%) which, more than offset the fall in government securities (56.6%). The rise in liabilities largely mirrored the increase in deposits (50.5%), particularly government deposits with the CBN (113.7%) and CBN Bills (95.8%). The effects of the increase were, however, moderated by the fall in other liabilities and trade debt promissory notes. The CBN's paid-up capital remained unchanged at ₦3.0 billion, while general reserves rose by 2.9 per cent to ₦47.5 billion.

9. The Bank sustained the effort at computerizing its operations and processes. The electronic Financial Analysis and Surveillance System (e-FASS), a customized application initiated jointly by the CBN and the NDIC for

enhancing supervisory and surveillance processes, became operational. The system was effectively linked to ten (10) banks and one discount house. Arrangements were concluded to link the remaining institutions in the first quarter of 2006. As part of efforts to improve the payments infrastructure, the two major Information Technology (IT) initiatives, the Real Time Gross Settlement (RTGS) system and Temenos T24 were also made operational. Work on Oracle Enterprise Resource Planning (ERP) to address the Bank's re-engineered business processes, including human resources, financial management, inventory, currency management, asset management and payroll was completed in 2005.

The Bank also sustained its effort at improving the transparency of monetary policy implementation during the year, through regular interaction with stakeholders. To this end, it organized the Fifth Annual Monetary Policy Conference, with the theme "Capital

Flows and Economic Transformation in Nigeria". Furthermore, two monetary policy forums, with the themes, "Challenges of Banking Sector Consolidation" and "Issues in the Implementation of Wholesale Dutch Auction System (WDAS)", were also held in 2005.

10. The Bank recruited twenty-two (22) staff during the year. The number comprised eight (8) senior and fourteen (14) junior staff. However, the Bank lost the services of forty (40) staff through death. Furthermore, 804 staff left the services of the Bank as a result of either attaining the mandatory retirement age or years of service, or as a result of taking advantage of the Bank's early retirement exercise. Consequently, the staff strength of the Bank fell to 4,862 at end-December 2005 from 5,715 in 2004.

11. Efforts to transform the Bank into a knowledge-driven organisation were sustained. In particular, ICT training was stepped-up, following the deployment of the new IT applications, namely, Oracle ERP, Temenos T24 and e-FASS. Overall,

2,100 staff benefited from local training, while 304 benefited from overseas training.

The Capacity Building Programme (CBP), which was initiated by the CBN in 1998 to assist universities in Nigeria, was being reviewed to refocus on the endowment of professorial chairs in economics, banking and finance, as well as the sponsorship of research projects relevant to the conduct of monetary policy.

## ECONOMIC REPORT

### The International Economy

12. Global output growth at 4.8 per cent in 2005 was 0.5 percentage point below the preceding year's level. The growth in output was undermined by increases in the prices of crude oil and refined petroleum products accentuated by the devastating effects of Hurricane Katrina in the United States (US). The average global consumer price inflation rose marginally, owing to the persistent higher prices of crude oil. The major industrial countries' core inflation was

contained, as inflationary expectations anchored on wages were modest. Global trade in 2005 was estimated to have increased by 13.6 per cent above the value in the preceding year. The high value of trade was due to higher prices of crude oil. Data on total world trade showed that advanced countries accounted for 69.1 per cent, while the developing countries accounted for 30.9 per cent.

13. The G-24 members at the Spring meetings of the World Bank/International Monetary Fund (IMF) resolved to play a more active role in the decision-making processes of the Bretton Woods Institutions (BWIs) and urged the IMF to design a facility for the purpose of investing the international reserves of emerging markets and oil-producing countries in a more efficient manner.

14. The International Finance Corporation's (IFC) Strategic Initiative for Africa, including the Private Enterprises Partnership Facility came on stream in 2005. The IMF approved a two-year Policy Support Instrument (PSI) for

Nigeria. Indeed, Nigeria with the support of the G-24 countries initiated the PSI. The endorsement of the PSI facilitated the cancellation of US\$18.0 billion of Nigeria's external debt owed to the Paris Club Creditors. Nigeria also signed an Investment Promotion and Protection Agreement with the Government of Finland.

15. The Convergence Council of the West African Monetary Zone (WAMZ) made far-reaching decisions. These included: the re-scheduled commencement of the West African Monetary Union to December 1, 2009; the Introduction of a common external tariff (CET) for member countries, as well as the implementation of single a economic space. The African Union (AU) Summit of Heads of State and Government approved the siting of the proposed African Central Bank in West Africa, the African Monetary Fund in North Africa, and the African Investment Bank in East Africa.

16. Overall, the domestic economy was positively impacted by the favourable terms of trade and the substantial debt

relief granted by the Paris Club members in 2005.

## Domestic Economy

### Fiscal Operations of the Federation

17. Total federally-collected revenue amounted to ₦5,547.5 billion, representing an increase of 42.2 per cent over the level in 2004. The improved performance was largely attributable to the favourable international crude oil price, which was consistently higher than the budget benchmark price of US\$30.00 per barrel. Adherence to the fiscal rule resulted in an accumulated savings of US\$16,808.0 million by the three tiers of government at the end of 2005. This was made up of the US\$2,984.1 million unspent from the 2004 savings and the US\$13,824.0 million accumulated in 2005. Similarly, non-oil revenue increased by 38.8 per cent over its level in 2004. The fiscal operations of the Federal Government recorded a further improvement in 2005, as the fiscal deficit-to-GDP ratio declined marginally from 1.5 to 1.1 per cent. The primary balance recorded a surplus equivalent to 5.6 per

cent of GDP. The stock of public debt as at end-December, 2005, stood at ₦4,221.0 billion, equivalent to 28.3 per cent of GDP, compared with 53.6 per cent of GDP in 2004. The stock of external public debt declined by 44.9 per cent while domestic public debt increased by 11.4 per cent over the level in 2004.

### The Real Sector

18. The performance of the real sector was modest in 2005 as the real gross domestic product (GDP), measured in 1990 basic prices grew by 6.2 per cent, compared with 6.5 per cent in 2004. The main growth drivers were agriculture, general commerce and services. Inflationary pressures persisted as the year-on-year inflation rate rose modestly to 11.6 per cent from 10.0 per cent in 2004. Similarly, the 12-month moving average inflation rate for end-December 2005 stood at 17.9 per cent, compared with 15.0 per cent in 2004. However, core inflation rate on both the year-on-year and 12-month moving average basis, remained at a single digit during the year.

## The External Sector

19. The performance of the external sector remained impressive in 2005, with an overall balance of payments surplus of ₦1,364.8 billion, or 9.2 per cent of Gross Domestic Product (GDP), compared with ₦1,128.4 billion or 9.7 per cent of GDP in 2004. Similarly, the current account balance increased from ₦2,064.1 billion, or 17.7 per cent of GDP in 2004, to ₦3,367.0 billion or 22.8 per cent of GDP.

Table 1. Selected Macroeconomic and Social Indicators

Indicator	2001	2002	2003	2004 /1	2005 /2
<b>Domestic Output and Prices</b>					
Real GDP Growth (Growth Rate%) 3/	4.7	4.6	9.6	6.6	6.2
Oil Sector	5.2	-5.7	23.9	3.3	0.5
Non-oil Sector	4.5	8.3	5.2	7.8	8.2
Oil Production (mbd)	2.2	2.1	2.3	2.5	2.5
Manufacturing Capacity Utilisation	39.6	44.3	45.6	45.0	45.9
Gross National Savings (% of GDP)	5.3	3.5	7.2	18.4	19.4
Gross Fixed Capital Formation (% of GDP)	5.3	6.3	8.6	11.9	12.0
Inflation Rate (%) (Dec-over-Dec)	16.5	12.2	23.8	10.0	11.6
Inflation Rate (%) (12-month moving average)	18.9	12.9	14.0	15.0	17.9
Core Inflation Rate (%) (Dec-over-Dec) 4/	0.1	21.0	34.8	5.9	2.4
Core Inflation Rate (%) (12-month moving average) 4/	6.0	12.5	27.2	15.5	8.8
<b>Federal Government Finance (% of GDP)</b>					
Overall Fiscal Balance	-4.3	-5.5	-2.8	1.5	-1.1
Primary Balance	4.2	0.4	5.5	5.2	5.6
Retained Revenue	15.4	13.1	13.9	10.7	11.2
Total Expenditure	19.6	18.6	16.7	12.2	12.2
Domestic Debt Stock	19.6	21.3	18.1	11.7	10.2
External Debt Stock	61.2	72.0	61.1	41.9	18.1
<b>Money and Credit ( Growth Rate %)</b>					
Net Domestic Credit	79.9	64.6	29.1	12.0	14.5
Net Credit to Government	95.2	6320.6	58.4	-17.9	-37.0
Credit to Private Sector	43.5	19.7	18.4	26.6	30.8
Narrow Money (M1)	28.1	15.9	29.5	8.6	15.5
Broad Money (M2)	27.0	21.6	24.1	14.0	16.0
<b>External Sector</b>					
Overall Balance (% of GDP)	0.4	-7.1	-1.6	9.7	9.3
Current Account Balance (% of GDP)	1.5	-3.4	4.9	17.7	22.8
Capital and Financial Account Balance (% of GDP)	-1.1	-3.6	-6.4	-7.9	-13.5
External Reserves (US \$ million)	10,415.6	7,681.1	7,467.8	16,955.0	28,279.1
Number of Months of Import Equivalent	11.3	7.4	5.6	13.6	19.7
Average Crude Oil Price (US\$/barrel)	24.5	25.0	29.2	38.5	55.4
Average AFEM/DAS Rate (N/\$1.00)	111.9	121.0	129.4	133.5	131.7
End of Period AFEM/DAS Rate (N/\$1.00)	113.5	126.9	137.0	132.9	129.0
Average Bureau de Change Exchange Rate (N/\$)	133.0	137.8	142.0	140.8	142.6
End of Period Bureau de Change Exchange Rate (N/\$)	134.6	138.6	150.4	138.7	141.5
<b>Social Indicators</b>					
GDP at Current Mkt Prices (N' billion) 3/	7,055.3	7,984.4	10,136.4	11,673.6	14,894.5
GDP at Current Mkt Prices (US\$' billion) 3/	63.1	66.0	78.3	87.4	113.1
GDP per Capita (N) 3/	59,388.0	65,232.0	80,320.1	89,866.1	111,569.3
GDP per Capita (US\$) 3/	530.7	539.1	620.7	673.2	847.1
Population (million)	118.8	122.4	126.2	129.9	133.5
Population Growth Rate (%)	2.8	2.8	2.8	2.8	2.8
Life Expectancy at Birth (Years)	54.0	54.0	54.0	54.0	54.0
Adult Literacy Rate (%)	57.0	57.0	57.0	62.0	62.0
Incidence of Poverty 5/	***	***	***	54.4	54.4

1/ Revised

2/ Provisional

3/ Revised based on National accounts of Nigeria 1981-2005 Harmonised series

4/ Core Inflation is measured as the rate of change of all-item Consumer Price Index (CPI) less farm produce.

5/ The incidence of poverty in Nigeria was projected to increase from 65.6 per cent in 1966 to 70.0 per cent in 2000.

However, the result of a Nigeria Living Standard Survey of 2003/2004 from NBS (former FOS), showed that the incidence of poverty declined to 54.4 per cent in 2003/2004.

\*\*\* indicates not available.

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PART ONE

*ACTIVITIES OF THE CENTRAL  
BANK OF NIGERIA IN 2005*

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## ACTIVITIES OF THE CENTRAL BANK OF NIGERIA IN 2005

The implementation phase of the Bank's re-engineering process, Project EAGLES, continued during the year with the staff selection and placement exercise aimed at improving the Bank's efficiency and effectiveness. The Bank was further restructured and the number of departments reduced to 16. Work on its major IT initiatives, the Real Time Gross Settlement (RTGS) system, Temenos T24, the e-FASS, and the Oracle Enterprise Resource Planning (ERP) was completed. The Bank issued a new currency denomination - the ₦1000 note, to further enhance the payments system and interacted with stakeholders through the annual Monetary Policy Conference and Seminars in order to improve the transparency of its policy making. In addition, the Bank undertook collaborative research which included the conduct for the first time, of a comprehensive national survey with the National Bureau of Statistics (NBS) to obtain the quarterly gross domestic product (GDP) series.

### 1.0 Corporate Activities of the CBN

#### 1.1 Administration

##### 1.1.1 Board of Directors and Other Committees

There were changes in the composition of the Board of Directors of the Bank in 2005. Obadiah Mailafia was appointed Deputy Governor on May 3, 2005 to replace Wahir D.A. Mshelia (Mrs) who retired from the services of the Bank. Furthermore, the Board was reconstituted on November 23, 2005 following the

expiration of the term of the former non-executive Directors, namely, Samson I. Akono, Hayford I. Alile, Uche Azikiwe (Mrs), Michael O. Kayode and Bashiru Tukur. They were replaced by Akpan H. Ekpo, Juliet A. Madubueze (Mrs), Dahiru Muhammad, Sam O. Olofin and Joshua O.Omuya. The Bank's Board of Directors held 7 regular and 5 emergency meetings in 2005. The Committee of Governors also held 19 meetings, while the Governors' Consultative Committee held 12 regular meetings and 1 emergency meeting. The Committee of Departmental

Directors held 12 regular and 3 emergency meetings, while the Audit Committee held 3 regular meetings.

### **1.1.2 Development of Branch Offices**

Following the Federal Government's policy of monetization, the CBN stopped further development of staff housing. Furthermore, arrangements for the disposal of the Bank's housing estates reached an advanced stage. The Bank concluded arrangements for the award of contracts for the construction of four new branch buildings at Asaba, Awka, Katsina and Uyo. The construction of the Enugu branch building attained about 90 percent completion in 2005. Work on the Port Harcourt branch building, which commenced on August 1, 2003, progressed satisfactorily, and was scheduled for completion in March 2006.

### **1.1.3 Computerization Programme**

The development of the electronic Financial Analysis and Surveillance System (e-FASS) was completed in 2005. The facility, which incorporates all institutions that render returns to the CBN,

will enhance the surveillance capability of the Bank when fully operationalised. The implementation of phase I of the User Acceptance Test (UAT), using data from selected reporting institutions, resulted in a sign-off by some user departments in 2004. The pilot run of the system was conducted for 11 institutions which established connection to the CBN between November and December 2005. Similarly, work on the Oracle, an Enterprise Resource Planning (ERP) system to address the re-engineered business processes, including human resources, financial management, inventory, currency management, asset management and payroll was completed in 2005, and the live-run is expected in early 2006. Other projects which had reached final stages of completion included the Enterprise Management and Security (EMS) system and the Corporate Performance Management (CPM).

### **1.1.4 Library Operations**

The volume of books and journals as well as the number of materials consulted by staff increased in 2005. The number of

books added to the library was 9,250 compared with 3,775 in 2004. The substantial increase in the number of books procured was due to the need to stock the sixteen new libraries established in the branches. Similarly, subscription to journal titles stood at 415, while 13,953 local and foreign magazines were received. Furthermore, the Library subscribed to two external databases namely, the EBSCO Publishing Database and CEPR Discussion Paper Series in order to give staff access to on-line reference materials. The Library recorded 4,836 users compared with 958 in 2004. Consequently, the number of materials consulted by users rose to 47,236 from 31,533 in 2004. The total volume of books in the Bank's library system stood at 80,025 in 2005.

### **1.1.5 Legal Services**

The CBN, through its Legal Services Division carried out a number of activities to strengthen the Bank's legal and regulatory framework and enhance the effectiveness of the financial system. These were contingent on recent

developments in the financial sector that have rendered specific earlier amendment Bills passed by the Senate inadequate. The developments included the transfer of the supervision of specialized banks and other non-bank financial institutions to the CBN; implementation of the banking sectors reform agenda; and the need to address emerging issues in economic and financial crime. Consequently, the CBN undertook a comprehensive review of the CBN and BOFI Acts and proposed necessary amendments or the enactment of new legislation through the Federal Executive Council, for consideration and presentation to the National Assembly. The draft Bills for Economic and Financial Malpractices Disclosure and the establishment of an Asset Management Corporation, were also reviewed and submitted to the Federal Executive Council. The Bank participated in the National Committee for the Review of Financial Sector Legislation, and prosecuted cases involving it and third parties during the year. Judgements/rulings were given in favour

of the Bank in all the one hundred and twenty-four (124) cases decided; while none was given against it. Some other cases were proposed for settlement out of court, through the Alternative Dispute Resolution (ADR) mechanism. The efforts by the Bank, through local and foreign media to counter the phenomenon of advance fee fraud, paid off as no new case against the Bank in foreign courts was recorded in 2005. The last of such cases was decided in favour of the Bank at the Court of Appeal, Cincinnati, U.S.A, during the year.

#### **1.1.6 Internal Audit**

A total of fifteen (15) departments and twenty-one (21) branches and currency centres were audited. Also, 528 currency disposal operations requiring an audit witness were carried out. The Audit Committee held three (3) meetings during the year. The audit exercises showed that the Bank's business processes were generally carried out within the laid down rules and procedures.

#### **1.1.7 Restructuring of the CBN (Project EAGLES)**

The implementation phase of the Bank's re-engineering project, code-named project EAGLES, continued effectively in 2005. The automation of the various modules of corporate performance tools on the Oracle Enterprise Resource Planning (ERP) system, including electronic budgeting and planning (EBP), business intelligence, staff appraisal and corporate governance commenced in June 2005. The Code of Business Ethics and Conduct (COBEC) manual was developed and adopted for implementation. The Process Improvement and Redesign (PIR) meant to enhance internal efficiencies of business processes and staff functions in the Departments was concluded during the year. The major outcome of this activity was a thorough and transparent staff deployment exercise. In addition, a new Records Management Policy was developed to streamline the treatment of physical and electronic records, Bank-wide, and to facilitate the implementation

of the Integrated Document Management System (IDMS).

### **1.1.8 Communication**

The Bank sustained its efforts at improving the transparency of monetary policy during the year, through regular interaction with stakeholders and the public. To this end, a communications committee, headed by the Deputy Governor, Economic Policy was appointed by management. Four (4) meetings of the Monetary Policy Committee were held and decisions were released immediately to the public. It also organized the Fifth Annual Monetary Policy Conference with the theme, "Capital Flows and Economic Transformation in Nigeria". Furthermore, two monetary policy fora, with the themes "Issues in the Implementation of Wholesale Dutch Auction System (WDAS)" and "Challenges of Banking Sector Consolidation" respectively were held. Participants at the conferences and fora were drawn mainly from banks, academia, international monetary/financial institutions, and the organized private sector. Similarly, the Bank held the 7<sup>th</sup> edition of the Seminar for Finance Correspondents and Business

Editors with the theme, "Post-Consolidation Banking in Nigeria: Challenges and Prospects". The Seminar attracted 82 participants from various media houses.

In addition, ten (10) series of a programme on economic matters were aired on the NTA and AIT television channels during the first quarter of 2005, to further enlighten the general public on the mandate of the CBN and to present topical issues on the Nigerian economy. As part of its regular interaction and communication with the key stakeholders in the financial services industry, six (6) Bankers Committee meetings were held in 2005. The Governor and top management of the Bank, in conjunction with the Project EAGLES team, embarked on six (6) road shows to six CBN Branches to sensitize staff on the implementation of the Bank's restructuring programme and to facilitate healthy communication and face-to-face interaction between staff and the Executive/Management on current issues in the Bank. The Governor took the opportunity of the road shows to meet with members the banking community and the

academia to enlighten them on the banking sector's consolidation programme, and to exchange ideas on issues of mutual interest or concern.

#### **1.1.9 Staff**

The Bank recruited twenty-two (22) staff during the year. The number comprised eight (8) senior and fourteen (14) junior staff. However, the Bank lost the services of forty (40) staff through death during the year. Furthermore, 804 staff left the services of the Bank through mandatory or early retirement, following the staff selection exercise. Consequently, the staff strength of the Bank fell to 4,862 at end-December 2005 from 5,715 at end-December 2004.

#### **1.1.10 Medical Services**

The CBN carried out a number of activities during the year to ensure a healthy and virile workforce, including the successful treatment of over 95 per cent of all out-patient cases at the CBN clinics in various locations. Furthermore, the Bank undertook various medical interventions to reduce the incidence of major episodes of illness including:

executive medical screening, screening of drivers and staff working in hazardous areas, as well as cancer screening of male and female staff. The Bank also sponsored the participation of its Executives and Senior Managers at the Healthy Life Seminar aimed at reducing the prevalence and severity of cardiovascular diseases and promoting fitness.

#### **1.1.11 Training**

During the year, the CBN sustained its policy of staff development and skill enhancement through training. Consequently, the Bank sponsored staff training programmes, in the form of seminars, workshops, conferences and courses within and outside Nigeria. In addition, the Bank organized train-the-trainers workshops for staff on the following IT applications: MS productivity tools, Oracle ERP, Temenos T24, and e-FASS. Overall, 2,100 staff benefited from local training, while 304 benefited from overseas training.

### **1.1.12 Recreational Activities**

The CBN sponsored various sporting competitions in 2005, including soccer and lawn tennis tournaments. The finals of both the 27<sup>th</sup> edition of the CBN Senior Open Tennis Championship and the 21<sup>st</sup> edition of the All Financial Institutions Football Competition were successfully staged. The 25<sup>th</sup> edition of the Governor's Cup Football Competition for all CBN Branches was also successfully staged at various centres. At the finals played at the Rwang Pang Stadium, Jos, Plateau State on 13 August, 2005, the Abeokuta Branch of the CBN won the gold medal, while Kaduna and Ilorin Branches won the Silver and Bronze Medals respectively.

### **1.1.13 Corporate Social Responsibility**

The Capacity Building Programme (CBP), which was initiated by the CBN in 1998 to assist Nigerian universities, was being reviewed to refocus on the endowment of professorial chairs in economics, banking and finance as well as the sponsorship of research projects relevant to the conduct of monetary policy.

### **1.1.14 Staff Social Responsibility**

Staff of the CBN as part of their contribution to the upliftment of the welfare of the less privileged in the Nigerian society, initiated a Staff Alms Collection Scheme. This involves monetary contributions to keep beggars off the streets of Nigeria's metropolitan cities. Under the scheme, staff are encouraged to contribute/donate into an Alms Collection Account, rather than doling out such on the streets. Funds collected are then utilized to execute specific projects, in line with the objectives of the scheme. During the year under review, the clinic project at the Alheri Special Leprosy Village Scheme at Yangoji-Koroko, Kwali Area Council of the FCT, that was embarked upon in 2003 at the cost of ₦3.1 million, was completed and is awaiting commissioning.

## **1.2 Research and Collaborative Activities**

The Bank conducted research and disseminated information on key issues relating to the management of the economy, in line with its core functions.

During the year, the Bank published two books, namely, "Financial Markets in Nigeria" and "Finance, Investment and Growth in Nigeria". It was also involved in about ten empirical studies, notable among which were: "A case study of Distressed Banks in Nigeria", "Impact of Sanctions on Banks for Non-compliance with Foreign Exchange Guidelines: A Case of Banks Sanctioned in 2001", and "Reassessing the Viability of the WAMZ Project", a position paper for consideration of the WAMZ Convergence Council. Also, the Bank collaborated with the National Bureau of Statistics (NBS) in the conduct of the 2005 National Economic Survey, which culminated in the generation of quarterly GDP series. Similarly, regular publications of the Bank were issued including: the 2004 Annual Report, 2005 Half – Year Report, the quarterly journal, CBN Economic and Financial Review, CBN Statistical Bulletin, CBN Briefs, and Staff Occasional Papers.

Furthermore, fifteen (15) seminar papers on topical issues were presented, some of

which were published in the Bank's journal after being subjected to thorough reviewing, refereeing and editorial processes. In addition to the annual Monetary Policy Conference, the Bank organized the annual Executive Policy Seminar. The theme of the seminar was "The Mortgage Industry in Nigeria: Issues, Challenges and Prospects". The proceedings of this seminar are being finalized for publication.

In recognition of the existence of a pool of expertise in various disciplines in the CBN, the Bank received and honoured requests for the presentation of lectures and papers by Bank staff in various institutions.

### **1.3 CBN Balance Sheet**

#### **1.3.1 Income and Appropriation**

The audited financial statements of the CBN showed that total revenue rose by 7.8 per cent to ₦94.4 billion in 2005. The increase in revenue reflected the rise in "Other Income". In contrast, operating expenses fell by 1.2 per cent to ₦73.6 billion. Thus, the operations of the CBN in 2005 resulted in a surplus before

provisions of ₦20.9 billion, compared with ₦13.2 billion in 2004. The net operating surplus was ₦8.1 billion, reflecting a 11.4 per cent decline below the ₦9.2 billion in 2004. The lower net operating surplus reflected the provision for the shortfall in pension contributions. In accordance with the provisions of Part II, Section 5(3) of the Central Bank of Nigeria Act, 1991 (as amended), the sum of ₦6.8 billion was transferred to the Federal Government while the balance went to general reserves.

### **1.3.2 Assets and Liabilities**

Total assets of the CBN increased significantly by 33.0 per cent to ₦4,200.1 billion, compared with the level in 2004. This reflected, largely, the increase in external reserves (54.7%) and other securities (69.1%) which more than offset the decrease in government securities (56.6%).

The increase in deposits (50.5%), particularly government deposits with the CBN (113.7%) and CBN Bills (95.8%), largely mirrored the rise in liabilities. The effects of the increase were, however,

moderated by the fall in other liabilities and trade debt promissory notes. The CBN's paid-up capital remained unchanged at ₦3.0 billion, while general reserves rose by 2.9 per cent to ₦47.5 billion.

## **2.0 Monetary Policy, Surveillance Activities and Operations of The CBN in 2005**

### **2.1 Monetary Operations**

#### **2.1.1 Monetary and Credit Developments**

Monetary management faced serious challenges in 2005, especially the surge in liquidity in the banking system. The excess liquidity arose from the monetization of the enhanced oil receipts, induced by higher prices of crude oil in the international market. Following the liquidity buoy in the banking system, the Bank took proactive measures to ensure that monetary aggregates were brought within target. The measures included: special auction of foreign exchange; issuance of CBN bills; upward adjustment of the Cash Reserve Requirement (CRR) by a total of 150 basis points and subsequent reduction to 5.0 per cent; and

withdrawal of the deposits of some parastatals from the Deposit Money Banks (DMBs). Consequently, monetary policy targets were largely met in 2005 as broad money ( $M_2$ ) rose by 16.0 per cent, compared with the programmed target of 15.0 per cent, while narrow money,  $M_1$ , rose by 15.5 per cent, compared with the growth target of 11.4 per cent. Also, aggregate bank credit to the domestic economy grew by 14.5 per cent, compared with the growth target of 22.5 per cent for fiscal 2005 (Table 2.1).

**Table 2.1****Key Policy Targets and Outcomes (in Per Cent)**

	2001		2002		2003		2004		2005	
	Target	Outcome	Target	Outcome	Target	Outcome	Target	Outcome	Target	Outcome
Growth in Base Money	***	34.9	15.3	14.0	19.6	19.8	12.8	5.2	6.5	4.2
Growth in broad money (M <sub>2</sub> )	12.2	27.0	15.3	21.6	15.0	24.1	15.0	14.0	15.0	16.03
Growth in narrow money (M <sub>1</sub> )	4.3	28.1	12.4	15.9	13.8	29.5	10.8	8.6	11.4	15.5
Growth in aggregate bank credit	15.8	79.9	57.9	64.6	25.7	29.1	22.5	12.0	22.5	14.5
Growth in bank credit to Government	2.6	95.2	96.6	6320.6	- 150.3	58.4	29.9	-17.9	-10.9	-37.0
Growth in bank credit to private sector	22.8	43.5	34.9	19.7	32.3	27.1	22.0	26.6	22.0	30.8
Inflation rate (Year-on-Year)	7.0	16.5	9.3	12.2	9.0	23.8	10.0	10.0	10.0	11.6
Growth in real GDP	5.0	4.6	5.0	3.5	5.0	10.2	5.0	6.5	5.0	6.2

\*\*\*: Not Applicable

**Table 2.2****WAMZ Convergence Criteria**

	Target	Achievement
Inflation Rate	< 5.0 per cent	11.6
Central Bank financing of Government (Ways and Means Advances)	= 10.0 per cent of retained revenue of the Government	5.0
Deficit to GDP Ratio	= 4.0 per cent	1.1
Gross Official Reserve	6 months import cover	19.7

### **2.1.2 Liquidity Management**

In order to deal with the problem of excess liquidity and, ultimately, achieve the objective of maintaining price stability, the Bank employed additional measures to the daily open market operations (OMO). Specifically, the OMO was complemented by CRR and discount window operations, including repurchase agreements (repos), phased withdrawal of public sector funds from the DMBs, issuance of special non-discountable treasury bills, and foreign exchange special auction sales. Overall, these measures facilitated the attainment of the targets for key monetary aggregates, such as base money and broad money ( $M_2$ ), that were set in the monetary programme with the policy support instrument (PSI). Specifically, base money at end-December 2005 was ₦762.8 billion, compared with the target of ₦764 billion while growth in  $M_2$  was 16.0 per cent, compared with the target of 15.0 per cent.

### **2.1.3 Interest Rate Policy and Developments**

The CBN influenced the cost of borrowing for private sector investors

through a proactive downward adjustment of the minimum rediscount rate (MRR). Consistent with macroeconomic developments, the MRR was adjusted by 200 basis points to 13.0 per cent in February 2005. Consequently, banks' deposit and lending rates generally trended downwards. Banks' weighted average savings deposit rate, which stood at 4.4 per cent in December 2004, declined to 4.0 per cent in June and further to 3.3 per cent at the end of the year. The average rates on time deposits of various maturities declined from a range of 7.0 to 12.8 per cent at end-December 2004, to a range of 4.6 to 9.1 per cent at end-December, 2005.

The weighted average prime and maximum lending rates also declined from 18.9 and 20.4 per cent in December 2004 to 17.8 and 19.5 per cent, respectively, at end-December, 2005. The lending rates were positive in real terms. The spread between the weighted average deposits and maximum lending rates widened from 10.9 percentage points in 2004 to 13.1 percentage points. The margin between

the average savings deposit rate and the maximum lending rates widened from 16.1 percentage points to 16.2 percentage points. The weighted average inter-bank call rate, which stood at 12.1 per cent in December 2004, declined to 7.0 per cent at end-December 2005. The development reflected the liquidity surfeit in the banking system. The average NTB issue rate, which stood at 14.4 per cent at end-December 2004, also declined to 12.0 per cent in December 2005 (Table 2.7).

#### **2.1.4 Payments, Clearing and Settlement Developments**

##### **2.1.4.1 Institutional Arrangements**

The development of a robust payments system for the financial system received a further boost in 2005. The National Payments System Committee (NPSC) was reconstituted, with representation at higher levels, to ensure a more effective policy formulation and implementation. Six technical sub-committees of the NPSC were also inaugurated. The problem of a relatively high level of MICR rejects in cheque-clearing persisted during the year.

In order to deal with this problem and in line with the reform of the payments system to ensure greater efficiency, the Nigerian Cheque Printers Accreditation Scheme (NICPAS) was approved. In addition, the process for the selection of security printers reached an advanced stage.

As part of CBN's efforts to improve the payments infrastructure, the implementation of two major information technology (IT) initiatives, the Real Time Gross Settlement (RTGS) system and Temenos T24 were successfully completed. Furthermore, the deployment of the T24 for an operational test-run was completed in Lagos, Abuja and Minna Branches of the Bank.

Two settlement banks merged In 2005, following the consolidation programme, thereby reducing the number of settlement banks from seven to six.

##### **2.1.4.2 Issue of Legal Tender**

The structure of banknotes was enhanced with the introduction of the ₦1000 denomination note. The Clean

Notes Policy was sustained in 2005. The tempo of currency disposal was also increased. Consequently, 573,287 boxes of disposable currency, with a face value of ₦284.8 billion, were destroyed, compared with 246,758 with a face value of ₦72.1 billion, in 2004. The volume and value of notes destroyed rose by 132.0 and 295.0 per cent, respectively, relative to the levels in 2004.

## 2.2 Currency and Branch Operations

The value of currency in circulation (CIC), as at end-December 2005, grew by 17.7 per cent to ₦642.2 billion. As a ratio of nominal GDP and  $M_2$ , this represented 4.3 and 24.5 per cent, respectively, compared with the ratios of 4.7 and 24.1 per cent in 2004.<sup>1</sup> The Bank introduced the ₦1000 currency note denomination in October 2005, bringing the number of banknote denominations in circulation to eight (8).

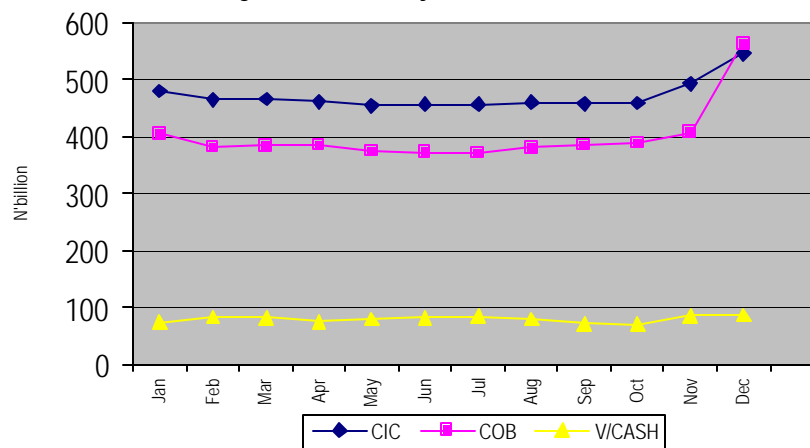
The Bank acquired 77.0 per cent shareholding in the Nigerian Security

Printing and Minting (NSPM) Plc. in February 2005, following approval by the Federal Government in 2004. This was with a view to making NSPM more efficient and effective, capable of meeting the nation's security printing needs, as well as the need of other African economies. As a result, the volume of banknotes produced by the company increased to 1.27 billion pieces from 958 million pieces in 2004. The volume and value of imported banknotes stood at 970 billion pieces and ₦265.5 billion, compared with 1.4 billion pieces and ₦258.0 billion respectively, ordered in 2004 but delivered in 2005.

<sup>1</sup> See Table 2.3 for the currency structure

Table 2.3: Currency Structure				
Coins	2004		2005	
	Value (N'million)	Volume (Million)	Value (N'million)	Volume (million pcs)
N1	445.4	445.4	447.2	447.2
50K	218.6	437.2	218.8	437.6
25K	43.3	173.1	43.1	172.5
10K	12.6	125.9	12.6	128.8
1K	0.4	40.7	0.41	40.7
<b>Sub-Total</b>	<b>720.2</b>	<b>1,222.2</b>	<b>722.1</b>	<b>1,223.9</b>
Notes				
N1000	-	-	34,606.6	34.6
N500	301,128.1	602.3	370,999.6	742.0
N200	153,265.0	766.3	155,314.0	776.6
N100	55,590.8	555.9	43,983.7	439.8
N50	8,721.5	174.4	15,738.0	314.8
N20	20,186.1	1,009.3	12,440.0	622.0
N10	3,401.5	340.1	5,860.6	586.1
N5	2,719.3	543.9	2,569.2	513.8
<b>Sub-Total</b>	<b>545,012.4</b>	<b>3,992.2</b>	<b>641,511.6</b>	<b>4,029.7</b>
<b>Total</b>	<b>545,732.6</b>	<b>5,214.5</b>	<b>642,233.7</b>	<b>5,253.6</b>

Figure 2.1 : Currency in Circulation 2005



## 2.3 Foreign Exchange Management

### 2.3.1 Foreign Exchange Flows

Total inflow of foreign exchange stood at US\$ 38,307.0 million in 2005. Of this amount, 93.2 per cent was through the CBN while 6.8 per cent was from private sources. Total receipts for the year represented an increase of 37.9 per cent when compared with the level in the preceding year. The rise in gross inflow was attributable to the global increase in the price of crude oil.

Official receipts increased by 43.0 per cent above the US\$ 24,963.3 million recorded in 2004, while private sector receipts was US\$215.4 million, 7.6 per cent lower than the preceding year's level. A breakdown of private sector receipts showed that while non-oil receipts decreased by US\$336.4 million (39.5 per cent), capital inflows increased substantially by US\$1,069.5 million (160.8 per cent) to US\$1,734.4 million from the level in the preceding year. The lower non-oil receipts were traceable to the suspension of incentives, such as the

Export Expansion Grant (EEG), by the government in 2004.

Total utilization of official foreign exchange receipts in 2005 stood at US\$24,307.6 million, representing an increase of 58.4 per cent above the level in 2004, due largely to substantial out-payments for imports, external debt service and other official payments. Further analysis of the amount utilized showed that external debt service accounted for 36.6 per cent, National Priority Project 0.4 per cent, while the balance of 63.0 per cent was for domestic use. A breakdown of the amount for domestic use indicated that 44.0 per cent was used to fund the foreign exchange market.

Foreign exchange sales to authorized dealers in 2005 amounted to US\$10,824.8 million, which was US\$1,301.5 million higher than the level in 2004. Of this amount, 39.9 per cent was sourced from the CBN, while the balance was from other sources namely, non-oil exports (1.7 per cent), ordinary domiciliary accounts

(33.6 per cent), oil company purchases (9.6 per cent), capital importation (12.3 per cent), across the counter purchases (2.2 per cent), home remittances (0.6 per cent), and external accounts (0.1 per cent). Sectoral analysis of utilization of foreign exchange showed that imports valid for foreign exchange accounted for 83.9 per cent while invisible trade took the balance of 16.2 per cent.

### 2.3.2 Management of DAS

The retail Dutch Auction System (DAS) was retained as the main mechanism for exchange rate determination and foreign exchange management. Other policy measures aimed at facilitating a smooth transition to the Wholesale Dutch Auction System (WDAS) were also pursued. Some of the policy measures introduced included:

- ◆ Special foreign exchange auctions to deposit money banks which were allowed to purchase on their own account; and
- ◆ Reduction of documentation requirements in the spirit of liberalization.

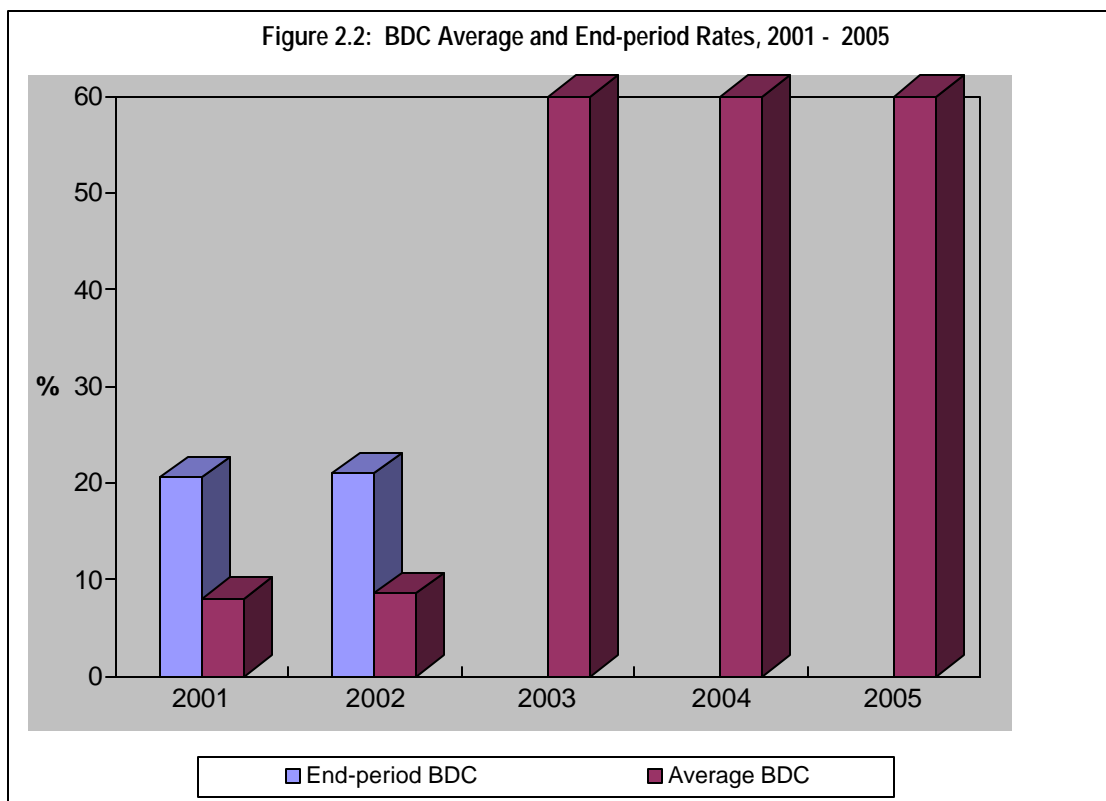
A total of US\$10,824.8 million was sold in 102 sessions at the DAS segment of the foreign exchange market, compared with US\$9,523.3 million in 2004. The sales represented a daily average of US\$42.9 million, compared with US\$36.3 million in 2004. The CBN purchased the sum of US\$312.5 million, resulting in a net sale of US\$10,512.3 million, which was 10.9 per cent above the preceding year's level. The end-period nominal exchange rate at the DAS appreciated to ₦129.0000 per US dollar at end-December 2005, or 3.0 per cent in nominal terms, from ₦132.8600 per dollar in December 2004. The exchange rate of the naira was relatively stable in real terms. The average marginal rate in 2005 was ₦131.66 per US dollar, compared with ₦133.50 per US dollar in 2004. However, the average exchange rate at the BDC depreciated by 2.7 per cent in nominal terms to ₦142.5583 per US dollar, from ₦140.85 per US dollar in 2004. Consequently, the premium between the DAS rate and the bureaux de change (BDC) rate widened from 5.5 percent in

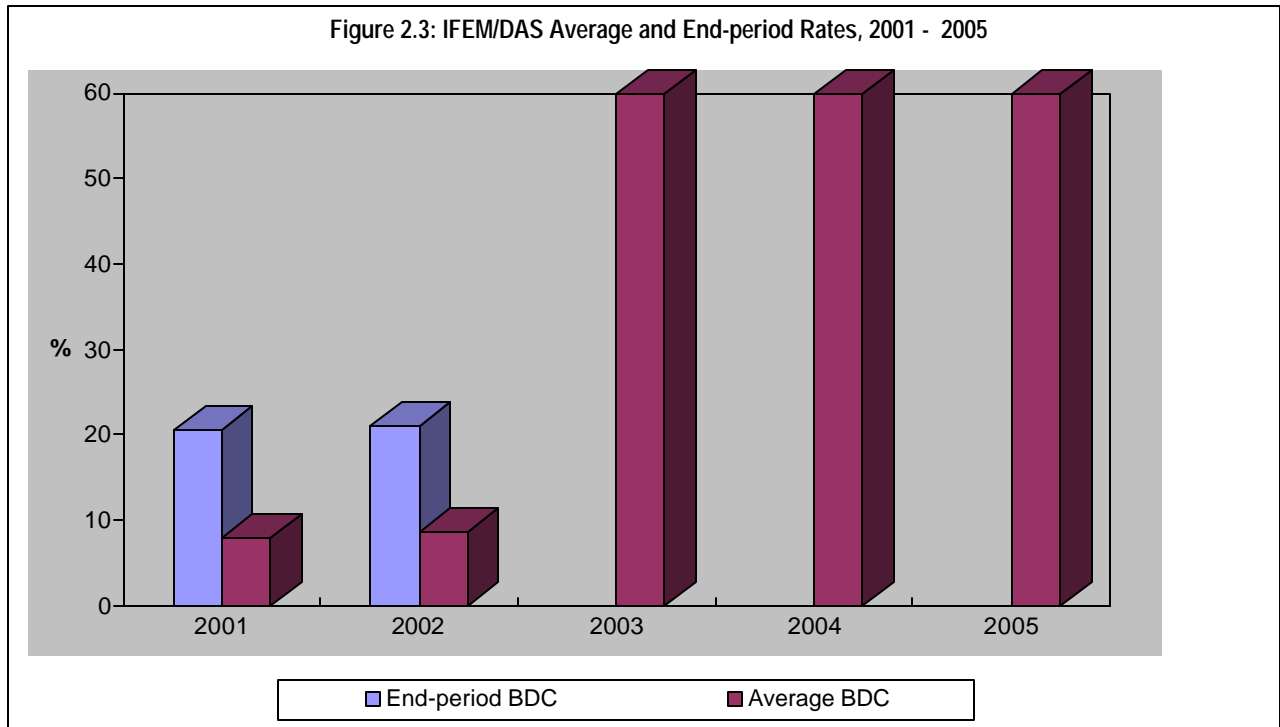
2004 to 8.3 percent in 2005. The arbitrage premium was driven largely by the tariff regime, a long list of prohibited items, slow progress in trade liberalization, and other structural bottlenecks.

### 2.3.3 External Reserves Management

The CBN pursued a proactive reserves management in 2005. It sought for the amendment to the CBN Act in order to provide for the diversification of

asset classes and higher returns. At the end of the year, the stock of external reserves stood at US\$28.3 billion owing largely to higher export earnings, a non-accommodating monetary stance and fiscal prudence. With an average monthly import bill of US\$1,338.9 million, compared with US\$920.4 million in 2004, the level of reserves could finance 19.7 months of imports, compared with 13.6 months in 2004.





### 2.3.4 External Assets

Total external assets as at end-December 2005 amounted to ₦4,301.3 billion (US\$33.3 billion), compared with ₦2,962.5 billion (US\$22.3 billion) in the corresponding period of 2004. The observed increase in external assets was due to the improved earnings from oil sales. A breakdown of the total external assets indicated that the CBN holding stood at ₦3,835.4 billion (US\$29.7 billion), representing 89.2 per cent of the total, compared with 82.7 per cent in 2004, while the net foreign asset holding of DMBs accounted for 10.8 per cent.

## 2.4 Surveillance Report on the Activities of Financial Institutions

### 2.4.1 Banking Supervision

The CBN conducted on-site and off-site supervision of licenced banks and other financial institutions. This involved regular appraisal and review of their periodic returns, spot checks, monitoring and special investigations.

The Bank also strengthened the credit appraisal procedures and monitored over-exposure in banks, through the mechanism of the Credit Risk Management System (CRMS). On the

whole, sixty-six (66) banks rendered returns to the CBN, compared with sixty-seven (67) in the preceding year. The database showed 34,366 borrowers with outstanding loans of ₦1.0 million and above, at end-December 2005, compared with 34,288 borrowers at end-2004. The value of outstanding credit reported by banks in the CRMS data base stood at ₦1,388.1 billion at end-December 2005, compared with ₦1,316.8 billion at end-2004.

#### **2.4.2 Prudential Examination**

With the abolition of the dual CRR regime in January 2004, a uniform rate of 9.5 per cent was adopted, with an average maintenance period of 8 weeks. Following the liquidity surfeit observed in the early part of 2005, the CRR was raised to 10 per cent in June with a 2-week maintenance period and further to 11.0 per cent in August, but with effect from October, 2005. However, the CRR was significantly reduced to 5.0 per cent with effect from 1<sup>st</sup> December 2005, in order to reduce the cost of fund and

promote lending to the real sector. The application of this prudential ratio resulted in a net credit refund of ₦147.5 billion to the banks, which was sterilized in the CBN by issuing special non-rediscountable CBN bills to the banks. Examination of banks' prudential status showed that most of the banks in the country met the minimum required capital adequacy ratio (CAR) and liquidity ratio of 10.0 and 40.0 per cent, respectively, as at end-December 2005. Prudential examinations of the other financial institutions showed that, of the 76 Primary Mortgage Institutions (PMIs) that rendered returns in 2005, 26 complied with the minimum mortgage assets to total assets ratio of 30.0 per cent; 55 met the prescribed minimum liquidity ratio of 20.0 per cent; while 66 met the stipulated capital adequacy ratio of 10.0 per cent.

#### **2.4.3 Anti-Money Laundering Compliance**

Examination of the anti-money laundering controls and the Know-Your-Customer (KYC) principle in banks and

other financial institutions revealed that some banks and other financial institutions violated various provisions of the law. Follow-up examinations were also conducted on some banks and the results revealed that few a banks failed to comply with some of the recommendations contained in previous examination reports. In addition, following customers' complaints against some banks, spot checks/special investigations were conducted on the affected banks. Most of the complaints bordered on excess/unauthorized charges, underpayment of interest on deposits, conversion of cheque proceeds by banks, and effecting payment of cheques without mandate. The investigations enabled most of the complaints to be resolved.

#### **2.4.4 Routine Examination**

During the year, routine examination was conducted on fifty-one (51) deposit money banks, five (5) discount houses and two (2) Nigerian offshore banks. The examinations covered prudential regulations, foreign exchange operations,

anti-money laundering controls, and KYC directives. Infractions on foreign exchange operations included: non-compliance with open position limits; failure to repatriate interest earned on FEM funds; and non-distribution of the naira proceeds repatriated on letters of credit transactions to eligible customers. Other infractions included excess charges by banks on foreign exchange transactions; recycling of airline tickets for invisible trade transactions; disbursement of foreign exchange without complete documentation; and failure to render statutory returns to the CBN. The banks in breach of these regulations were appropriately sanctioned.

Income audits and capital verifications were also conducted on some banks to authenticate the reports/returns to the CBN. Capital verifications were also carried out to ensure that only stable and legitimate funds were used to recapitalize banks. Special and ad-hoc examinations of fifteen (15) banks were carried out jointly by the CBN and the NDIC. The results of the examinations revealed that

in addition to under-capitalization, other operational lapses included weak internal control systems, granting of credit with inadequate collateralization, poor asset quality, violation of the single obligor limit, and weak corporate governance.

#### 2.4.5 Banking Sector Soundness

The result of the assessment of the operational performance of banks was mixed. As at end-September, 2005, the rating of licenced banks, using the Capital Adequacy, Asset Quality, Management, Earnings and Liquidity (CAMEL) parameters, revealed that fifty two (52) banks were rated "sound/satisfactory" while thirty four (34) were rated "marginal/unsound". The symptoms of systemic distress which started in 2001 persisted with the number of "sound/satisfactory" banks declining steadily from 73 to 52 in September, 2005. In the same vein, the number of banks that were "marginal/unsound" increased from 17 in 2001 to 34 in September, 2005. The marginal/unsound banks exhibited such weaknesses as

undercapitalization, illiquidity, weak/poor asset quality, poor earnings, among others (Table 2.4).

Category	Number				
	2001	2002	2003	2004	2005 <sup>2/</sup>
Sound/ Satisfactory	73	67	64	61	52
Marginal/ Unsound	17	23	23 <sup>3/</sup>	26 <sup>3/</sup>	34 <sup>3/</sup>

Total assets of the industry grew by 20.3 per cent to ₦4,515.1 billion at end-December 2005. Further analysis showed that, of the ₦1,991.1 billion outstanding credit at end-December 2005, 19.0 per cent was non-performing which was within the acceptable limit of 20.0 per cent. The size of inter-bank funds showed that

1/ Figures are as at September, 2005.

2/UBA & CTB merged into a single entity, therefore, the number of banks in the system stood at 86.

3/ Two terminally distressed banks were not examined in 2003, 2004 and 2005.

aggregate placements and takings stood at ₦42.8 billion.

#### **2.4.6 Examination of Other Financial Institutions**

The Bank conducted on-site examinations on 226 community banks, 19 finance companies, 7 primary mortgage institutions, 4 development finance institutions, and 38 bureaux-de-change. The four DFIs examine were: Agricultural Co-operative and Rural Development Bank, Federal Mortgage Bank of Nigeria, Bank of Industry, and Nigerian Export/Import Bank.

The services of consultants were engaged to verify the operational status of 328 Other Financial Institutions (OFIs), made up of 248 community banks, 14 finance companies, 8 primary mortgage institutions and 58 bureaux-de-change. Pre-licensing inspections were also conducted on 171 community banks, while 383 audited accounts were approved. In addition, on-site examination was also conducted on four (4) development finance institutions.

## **2.5 Developmental Functions of the CBN**

### **2.5.1 Agricultural Credit Guarantee Scheme Fund (ACGSF)**

The authorized share capital of the Fund remained at ₦3.0 billion in 2005, while the paid-up capital stood at ₦2.3 billion. The CBN had fully paid up its share of ₦1.2 billion. The Federal government was yet to make a full payment of its share subscription. The total resources of the ACGSF, as at end-December 2005, increased by ₦310.0 million to ₦4.7 billion. This amount includes all the accrued earnings on previous investments made in Nigerian Treasury Bills.

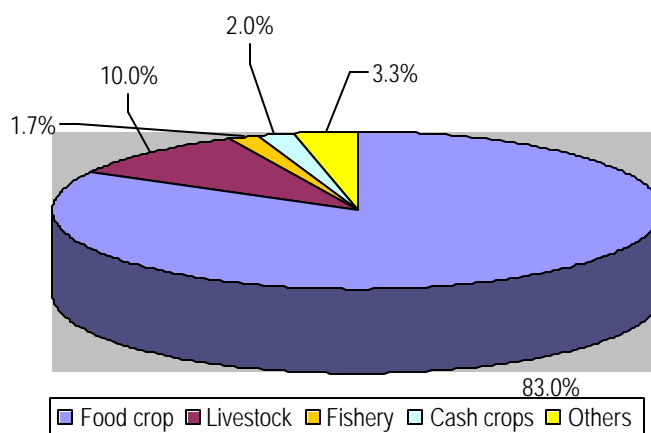
There was a significant improvement in the performance of ACGSF operations. A total of 46,238 loans, valued at ₦3.1 billion, were guaranteed, representing an increase of 46.2 and 32.0 per cent respectively. Analysis of loans by type of activities showed that the food crop sub-sector dominated, accounting for 87.5 and 83.0 per cent of the total volume and value of loans guaranteed, respectively.

Livestock followed with 4.5 and 10.0 per cent respectively. Fisheries accounted for 1.0 and 1.7 per cent respectively, cash crops 3.1 and 2.0 per cent respectively, while "others" accounted for the balance. In terms of size, loans valued between ₦20,001 and ₦50,000 dominated lending

in 2005, accounting for 35.7 per cent. Loans valued ₦20,000 and below followed with 34.8 per cent, while loans in the ₦50,001 to ₦100,000 and over ₦100,000 categories recorded 19.6 and 11.2 per cent respectively.

Category	Volume	Value in ₦million
₦20,000 and below	10,830 (34.8)	193.0 (10.9)
₦20,001- ₦50,000	11,121 (35.7)	439.0 (24.7)
₦50,001 - ₦100,000	6,119 (19.63)	516.0 (29.0)
Above ₦ 100,000	3,492 (11.20)	803.4 (32.3)

Figure 2.4 : Distribution of Loans Granted by the ACGSF 2005 by Value of loans



A breakdown by category of borrowers revealed that individual borrowers dominated, accounting for 99.0 and 97.5 per cent respectively of the total volume and value of loans guaranteed. Co-operative societies accounted for 0.3 and 1.3 per cent, while corporate bodies accounted for the rest. Since its inception in 1978, 443,660 loans, valued at ₦10.7 billion, have been guaranteed under the Scheme. Total number and value of fully repaid loans in 2005 were 32,519 and ₦1,861.0 million respectively, representing an increase of 24.1 and 58.8 per cent, above the levels in the preceding year. Total number of fully repaid loans from inception stood at 310,623 and valued at ₦6.4 billion, representing 70.0 and 60.1 per cent respectively of volume and value of loans granted.

In order to increase the level of lending under the ACGSF, the CBN initiated, in

2001, initiated the Trust Fund Model (TFM) as a framework for funds intermediation for agricultural development. Under the model, states and local governments, oil companies and non-governmental organisations (NGOs) augment farmers' savings security by placing funds with the participating banks, thereby helping to mitigate the risks that banks face by lending to agricultural sector borrowers. The beneficiaries under the scheme are normally members of farmers' cooperative associations and informal self-help groups (SHGs).

As at end-December 2005, fifteen (15) stakeholders, comprising ten (10) state governments, three (3) oil companies and two (2) NGOs have adopted the model and the total amount pledged and deposited with the banks of their choice stood at ₦1.6 billion.

Table 2.6 Performance under the Trust Fund Model as at end-December 2005					
No.	Name of Stakeholder	Amount placed (N'm)	Partnering bank	Date MOU was Signed	Other remarks
1	Shell Petroleum Development Corporation (SPDC) MISCARD	5.00	FBN/CDB	2001	Nil
2	Jigawa State	50.00	BON, FBN, HBN IB, TEB	2002	Nil
3	Agip Green Card	5.00	UBA	2003	Nil
4	Kogi State	150.00	FBN	27/11/03	Reviewed on 22/8/05
5	Nasarawa State	10.0	FBN	19/2/04	Nil
6	Katsina State	1,000.00	BON/HBN/IB/FBN	1/6/04	To increase Annually by <del>₦</del> 250m
7	Ondo State	100.00	Omega bank	15/6/04	Nil
8	Total Card	20.00	UBA	2004	Nil
9	Benue State	15.00	Habib Bank Nig.	27/6/05	Nil
10	Kaduna state	50.00	UBA	7/6/05	Nil
11	Kwara State	63.00	UBA	10/8/2005	Newly signed MOU
12	Kebbi State	100.00	UBN	7/9/05	To increase to <del>₦</del> 250m by year end
13	Ogun State	50.00	FBN	2005	Newly signed MOU
14	CASPAN	4.00	Fidelity/Zenith Banks	2005	Newly signed MOU
15	Feko	65850.00	Modupe Cb	2005	Newly signed MOU
	<b>Total</b>	<b>67,472.00</b>			

In 2005, the Board of ACGSF approved the payment of 2,382 (long) outstanding genuine claims out of the backlog of unsettled claims accrued between 1978 and 1998 valued at ~~₦~~18.8 million, compared with 2,061 valued at

~~₦~~98.0 million in 2004. However, a total of 1,682 loans valued at ~~₦~~260.0 million still await verification by the task force commissioned to accelerate the processing of the backlog. Furthermore, the Board reviewed upwards the limit of approval for guarantee under the scheme

ceded to the Director, Development Finance Department from ₦0.5 million to ₦1.0 million. Similarly, the ACGSF Board approved the payment of ₦16.6 million to 6,113 qualified beneficiaries under the Interest Drawback Programme (IDP) nationwide.

### **2.5.2 The World Bank SME II Loan Scheme**

A total sum of US\$10.8 million was received in repayment to the World Bank under the SME II Loan Scheme, compared with US\$10.6 million in 2004. The increase in the amount repaid was as a result of the interest charged by the World Bank.

### **2.5.3 Small and Medium Enterprises Equity Investment Scheme (SMEEIS)**

The SMEEIS recorded improved performance in 2005. The cumulative amount set aside by the banks at end-December 2005 stood at ₦41.4 billion, compared with ₦28.8 billion at the end of the preceding year. Similarly, cumulative investment by banks increased by 41.3 per cent to ₦12.1 billion. Analysis of the

investments showed that the real sector received ₦6.9 billion in 136 projects, compared with ₦5.6 billion in 115 projects in 2004. Investments in the real sector represented 57.5 per cent of total sum invested by banks. The service sector received ₦5.1 billion in 76 projects. Various studies indicated that inadequate data on SME potentials and the narrow scope of economic activities funded were some of the major problems constraining the disbursement of funds under the scheme. In response to the data problem, the CBN contracted Nigerian universities to conduct a baseline economic survey of SMI in Nigeria in 2003. In order to increase accessibility to the Fund, the Scheme was restructured to accommodate non-industrial enterprises (excluding trading). The name of the scheme was, therefore, changed from SMIEIS to Small and Medium Enterprises Equity Investment Scheme (SMEEIS) in February 2005 to reflect the new focus (See Box 1). Also, the Bankers' Committee approved the guidelines for

the management of the withdrawn un-invested SMEEIS fund during the year.

### Box 1: The Revised Small and Medium Industries Equity Investment Scheme (SMIEIS)

The Small and Medium Industries Equity Investment Scheme (SMIEIS) was introduced by the CBN and the Bankers' Committee in 2001, with the objective of providing both finance and managerial expertise to the small and medium industries (SMIs) in the Nigerian economy. The guidelines for the scheme require all deposit money banks in Nigeria to set aside 10 per cent of their pre-tax profit for equity investment in the SMIs. They also provide, among others, that funds set aside be invested within 18 months in the first instance and 12 months thereafter. After the grace period, the CBN is required to debit the banks that fail to invest the set aside funds and invest same in treasury bills for 6 months. Thereafter, the uninvested fund would be bid for by successful investors under the scheme. Activities approved for funding under the scheme range from manufacturing and solid minerals extraction to construction, information technology, education, tourism and services. The funds set aside by banks under the scheme increased from ₦13.1 billion in 2002 to ₦41.4 billion in 2005. However, actual investments grew much slower from ₦2.2 billion in 2002 to ₦12.1 billion in 2005, representing only 29.1 per cent of the funds set aside.

Worried by the slow pace of investment relative to the amount set aside over the years, the CBN conducted two studies in 2003 and 2004 respectively, to ascertain the bottlenecks on investment operations and recommend ways of tackling them. The studies found that the major constraints to the implementation of the scheme included: the desire of banks to acquire controlling shares in the funded enterprises, poor state of infrastructure, limitation of funding to only equity investments, restriction on range of activities covered under the scheme, and the reluctance of Nigerian entrepreneurs to go public. Policy recommendations that have been implemented to address these problems include:

- ◆ continuous enlightenment/education programmes for bank officials on the need to fund the real sector;
- ◆ continuous enlightenment/education programmes for industrialists, emphasizing the importance of partnerships, especially with banks;
- ◆ the need to establish a credit guarantee scheme for the SMIs, similar to the agricultural credit guarantee scheme;
- ◆ the need to continuously withdraw the overdue funds from the banks and transfer same to the CBN in line with SMIEIS guidelines;
- ◆ the publication by the CBN of the names of the banks participating in the scheme, stating the number of projects and funding made by each, as well as listing non-participating banks;
- ◆ the establishment of a largely autonomous unit in the Development Finance Department of the CBN to administer the scheme; and
- ◆ the need for CBN to bring pressure to bear on Government to discharge its obligations under the scheme.

In February 2005, two major policy actions were taken by the Bankers' Committee to restructure the scheme. First, with the exception of general commerce and financial services, all business activities can now be funded under the scheme. The scheme was restructured to accommodate non-industrial enterprises. Thus, other major sectors of the economy, such as agriculture, housing, transport and utilities can be funded. The name of the scheme was, therefore, changed to Small and Medium Enterprises Equity Investment Scheme (SMEEIS), to reflect the expanded focus. Second, the limit of banks' equity investment in a single enterprise was increased from ₦200 million to ₦500 million, thus accommodating the real medium sized industries that constitute the missing middle in Nigeria's industrial structure. These two measures had an immediate impact on the scheme, as investment rose by 29.4 per cent in 2005 to ₦12.1 billion. The full impact of the liberalization is expected from 2006, following the successful completion of the bank consolidation exercise in 2005.

#### 2.5.4 Microfinance

The Microfinance Policy Regulatory and Supervisory framework was a major policy initiative of the Bank in 2005. The President and Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria launched the Micro finance Policy

on December 15, 2005. The policy, among others, addresses the problem of lack of access to credit by entrepreneurs who do not have access to regular banks; strengthens the weak capacity of such entrepreneurs, and raises the capital base of microfinance institutions. The key

elements of the new policy framework include the following:

- ◆ Setting aside an amount of not less than 1.0 per cent of the annual budgets by State/and Local Governments for on-lending activities through microfinance banks;
- ◆ Constitution of the National Microfinance Policy Consultative Committee (NMFPPC);
- ◆ An accreditation process for the management of micro-finance Banks (MFBS);

- ◆ Listing of all the micro-finance Institutions (MFIs) in Nigeria for CBN's microfinance database;
- ◆ Establishment of a Microfinance Development Fund;
- ◆ Introduction of deposit insurance for microfinance banks to protect depositors; and
- ◆ The formation of an apex body for MFBS

(See Box 2)

## Box 2: Microfinance Policy and Framework for the Establishment of Microfinance Banks in Nigeria

The formal financial system provides services to about 35 per cent of the economically active population in Nigeria, while the remaining 65 per cent are excluded from access to formal financial services. The bulk of the active population is thus provided financial services via microfinance arrangements. The total assets of 725 community banks that rendered returns out of the 757 operating community banks as at end-December 2005 stood at ₦82.9 billion. Also, the top 8 (eight) Micro Finance Institutions (MFIs) that participated in the United Nations Development Programme (UNDP), Nigeria Microstart Project, mobilized a total savings of ₦101.1 million in 2004 and advanced ₦716.5 million credit, with an average loan size of ₦7,951.0.

In spite of the fact that there are several providers and beneficiaries of micro-finance services in Nigeria, there were no specific guidelines in terms of policies, regulations or co-coordinating framework. This resulted in multiple standards and modalities of intermediation in the sub-sector. In order to address these sectoral problems, the CBN designed and launched the Microfinance Policy Regulatory and Supervisory Framework on December 15, 2005. The objectives of the microfinance policy are to make financial services accessible to a large segment of the potentially productive Nigerian population, which otherwise would have had little or no access to financial services and empower them to contribute to rural transformation. Other objectives are to promote linkage platforms among universal/development banks, specialized institutions and microfinance banks and promote synergy and mainstream the informal sub-sector into the national financial system. A microfinance policy which recognizes the existing informal institutions and brings them within the supervisory purview of the CBN will not only enhance monetary stability but also expand the financial infrastructure of the country to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs).

While the Policy provides broad goals and direction, the Framework gives the detailed guidelines for the operational requirements for licenced microfinance banks (MFBs) on permissible and prohibited activities, ownership and licensing requirements, management quality, funding accounts and related matters, prudential requirements, accounting disclosure policies, and growth path, among others.

Specifically, the microfinance banks would provide diversified, affordable and dependable financial services to the active poor in a competitive manner that would enable them undertake and develop long-term sustainable entrepreneurial activities. They would also mobilize savings for intermediation, create employment opportunities and increase the productivity of the active poor, raise individual household income and enhance systematic and focused participation of the active poor in socio-economic development. In addition, they would provide a veritable platform for the administration of government micro-credit programmes on a non-recourse basis and facilitate the payment services such as salaries, gratuities and pensions for the various tiers of government. In particular, the policy recommends that state governments dedicate not less than 1 per cent of their annual budgets to support the on-lending activities of microfinance banks in favour of their residents.

Under the MFP, the licensing of microfinance banks is the responsibility of the Central Bank of Nigeria. A licenced institution is required to add "Microfinance Bank" after its name. All such names shall be registered with the Corporate Affairs Commission (CAC), in compliance with the Companies and Allied Matters Act (CAMA) 1990. Licenced microfinance banks are expected to operate under a diversified and professional board of directors. A micro loan under the Policy and Framework is a credit not greater than ₦500,000, or as may be reviewed by the CBN from time to time. The maximum loan by an MFB to any individual or director or related borrowers shall not exceed one per cent (1%) of the MFB's shareholders' funds unimpaired by losses, or as may be prescribed by the CBN from time to time, while a group borrower is restricted to a maximum of 5 per cent. Application fees, which may be varied by the CBN, are ₦50,000 for a unit MFB and ₦100,000 for a state MFB, while licensing fees are ₦100,000 and ₦250,000, respectively. The minimum capital requirements are ₦20 million for a unit MFB and ₦1.0 billion for a state MFB.

The policy targets of the MFP and Regulatory Framework include the reduction of poverty, through job creation, by covering many economically active population by 2020; increasing the share of micro-credit as a percentage of total credit to the economy from 0.9 per cent in 2005 to at least 20 per cent in 2020, and as a percentage of GDP from 0.2 per cent in 2005 to at least 5 per cent in 2020; and promoting the participation of at least two-thirds of state and local governments in micro credit financing by 2015. Other targets are to eliminate gender disparity by improving women's access to financial services by 5 per cent annually and increasing the number of linkages between universal banks, development banks, specialized finance institutions and microfinance banks by 10 per cent annually.

The policy measures and instruments of the Framework banks make provisions for two categories – unit MFB and state MFB. The two categories are allowed under the policy to have a national coverage, subject to meeting the prudential requirements. An existing NGO which intends to operate an MFB can either incorporate a subsidiary MFB, while still carrying out its NGO operations, or fully convert to a new MFB. The offences for which the licences can be revoked include rendition of false information/data, use of proxies, illegal operations, and other acts which in the opinion of the CBN constitute serious violation of the CBN and BOFIA Acts.

The Policy provides an organic growth path for MFBs ownership diversification which enhances good corporate governance. All existing licenced community banks, prior to the approval of this policy, shall transform to microfinance banks licenced to operate as a unit bank on meeting the prescribed new capital and other conversion requirements within a period of 24 months from the date of approval. Also, existing universal banks are allowed to participate in microfinance activities either as an activity/product or by setting up a department/unit for such services and shall be subjected to the provisions of the MFBs regulatory and supervisory guidelines. NGO-MFIs that have not obtained an MFB licence shall be allowed to provide micro-credit to their targeted population but would not be allowed to mobilize deposits from the general public.

Finally, the MFP and Regulatory Framework would establish support institutions and/or programmes to enhance the implementation of the policies. Such institutions include: a National Microfinance Consultative Committee (NMFCC), Credit Reference Bureau, rating agency, deposit insurance scheme, a certification process, an apex association of microfinance institutions, a linkage programme, and a Microfinance Development Fund.

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## PART TWO

# *ECONOMIC REPORT*

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## ECONOMIC REPORT

### 3.0 World Output, Prices and Trade

Aggregate global output witnessed a marginal decline, while the average global headline inflation rose marginally. The value of trade increased substantially, mainly due to higher prices of crude oil. Major industrial countries' core inflation was contained as inflationary expectations anchored on wages were modest. Available data showed that advanced countries accounted for 69.1 per cent of world output, while developing countries accounted for 30.9 per cent. Nigeria's total trade was estimated at US\$47,346.3 million, representing 0.8 per cent of the emerging market's share.

#### 3.1 Output and Growth

Global output growth was projected at 4.8 per cent in 2005, representing a 0.5 percentage point below the preceding year's figure. The growth in output was undermined by increases in the prices of crude oil and refined petroleum products, which were accentuated by the natural disaster (Hurricane Katrina) in the United States. Among the industrial countries, the U.S. growth momentum slowed moderately to 3.5 per cent, representing a 0.7 percentage point decline. Similarly, Japanese output growth of 2.7 per cent was 0.4 percentage point below the preceding year's level, largely driven by

domestic demand. In the Euro area, output growth averaged 1.3 per cent, representing a decrease of 0.8 percentage point below the preceding year's figure.

Growth in the emerging Central and Eastern Europe, which was initially robust, slowed considerably. Output from the region was affected by the weak growth in Western Europe, although growth in the Baltic States remained relatively robust. At 5.3 per cent, the region's output declined by 1.2 percentage points below the preceding year's figure. However, other large economies in the region, such as Poland, Hungary and Turkey recorded high output growth rates.

Emerging Asian economies recorded an average growth rate of 8.6 per cent as growth in China and India remained high at 9.0 and 7.4 per cent, respectively. Growth in the rest of the region slowed, reflecting the impact of higher oil prices, slower growth in IT exports, currency appreciation and country-specific factors. In the Western Hemisphere, growth moderated to 4.3 per cent. This was attributable to an improved macroeconomic policy, as well as internal and external demands in the countries of the region.

Transition economies experienced slow output growth. The development was attributable to the political uncertainty arising from the Yukos affairs and the high marginal tax rates in the oil sector which slowed investment. Regional growth, at 6.0 per cent, was 2.4 percentage points below the preceding year. Among the major countries in the region, Russia experienced a slow growth of 5.5 per cent, a decline of 1.7 percentage points below

the preceding year's figure. Similarly, Ukraine and Uzbekistan recorded slow growth of 5.5 and 3.5 per cent, respectively.

The growth in output for Africa was 5.2 per cent, a decline of 0.3 percentage point below the preceding year's level. The growth in the region was driven by the strength of global demand, improved domestic macroeconomic policies, progress in structural reforms, and fewer armed conflicts. Within the region, some oil-exporting countries, such as Nigeria, Angola, Chad and Equatorial Guinea recorded higher output as new oil production fields came on stream. In contrast, non-oil commodity producers, particularly cotton-exporting countries, such as Benin, Burkina Faso, Mali and Togo experienced output declines with the slide in world cotton prices. The elimination of world textile trade quotas also affected the output of the textile sector in Kenya, Lesotho, Madagascar, Mauritius and Swaziland.

For the two major economies in sub-Saharan, namely South Africa and Nigeria,

the growth rates were 4.3 and 6.2 per cent respectively. In South Africa, a sound fiscal policy resulted in a deficit below 2.0 per cent of GDP. For Nigeria, growth in the non-oil sector of 8.0 per cent was explained by structural reforms, including banking sector consolidation and privatization.

### 3.2 World Prices

Global headline inflation picked up slightly in response to higher oil prices but remained at moderate levels. Among the major industrial countries, core inflation appeared to have been generally contained as inflationary expectations, which were anchored on wages, increased moderately. US inflation rate stood at 3.4 per cent, a 0.7 percentage point above the preceding year's figure, as the US Federal Reserve continued to raise policy rates in order to stem inflation. Japan, however, continued to experience deflation, which remained at negative 0.3 per cent. The Bank of Japan maintained an accommodative monetary policy stance in

order to sustain the progress made in tackling deflation.

In the Euro area, inflationary pressures eased. Headline inflation remained above 2.0 per cent, reflecting the impact of higher oil prices, while core inflation slowed significantly. As a group, the average inflation rate remained unchanged at 2.3 per cent. For the two major economies in the Euro area, namely, Germany and France, the inflation rates at 1.9 in both countries indicated a similar proportionate downward trend of 0.4 percentage point.

In the transition economies, inflation averaged 12.6 per cent, owing to favourable commodity market developments. Other factors were strong wage growth, rapid money and credit expansion, rapid consumption growth, near-full production capacity and substantial net foreign inflows. Russia registered an inflation rate of 12.6 per cent, a 1.7 percentage points increase above the previous year's level. Similarly, Ukraine had an inflation rate of 14.2 per

cent, 5.2 percentage points above the level a year ago. Reducing inflation remained a key policy priority in the two countries.

In emerging Europe, inflation was well contained as the EU accession-related taxes that pushed up the headline inflation gradually eased. The group inflation rate was 3.5 per cent, a 1.7 percentage points decline from 2004. Credit growth in the Baltic States of the region was strong and impacted on property prices. For countries such as Turkey, inflation was 8.0 per cent, while in Romania it was 8.8 per cent, down from 11.9 per cent in the preceding year.

Inflationary pressures decreased in the Asian emerging market economies, notwithstanding the impact of higher oil prices and other shocks. The average inflation rate for the region at 3.6 per cent, was lower than the preceding year's level. China and India recorded an inflation rate of 3.0 and 3.9 per cent, respectively, representing 0.9 and 0.1 percentage point respectively below the levels in the preceding year.

For countries in the Western Hemisphere, inflation accelerated, owing to growing wage pressures and some monetary accommodation on account of unsterilized foreign exchange inflows. Inflation rate for Argentina was 9.5 per cent, 5.1 percentage points above the previous year's figure. In contrast, Brazil recorded 6.8 per cent, which was higher by 0.2 percentage point over the previous year's level.

Sub-Saharan African countries registered comparatively low inflation rates, due to improved domestic macroeconomic policies and structural reforms. Average inflation rate for Africa was 8.5 per cent, a 0.4 percentage point below the previous year's level. In the two major economies, namely, Nigeria and South Africa, inflation rates were 11.6 and 3.9 per cent, respectively. Nigeria's inflation was largely induced by the drought in the neighbouring countries, which pushed up food export and influenced domestic food prices. Several countries in the region, such as Angola, Congo D.R. and Guinea recorded inflation rates above 20.0 per

cent, but the highest inflation rate of 190.4 per cent was recorded in Zimbabwe.

### 3.3 World Trade

Global trade in 2005 was estimated at US \$20,281.2 billion, representing an increase of 13.6 per cent above the value in the preceding year. Average annual real growth rate was projected at 14.1 per cent. The high value of trade was due to higher prices of crude oil. A disaggregation of the total world trade showed that the advanced countries accounted for US \$14,019.0 billion or 69.1 per cent, while the developing countries accounted for US \$6,262.6 billion or 30.9 per cent. The advanced economies accounted for US \$6,771.0 billion or 66.7 per cent of the export trade and US \$7,248 billion or 71.6 per cent of import trade.

Emerging markets and developing countries accounted for US \$6,262.6 billion or 33.3 per cent of total trade. A breakdown of global trade indicated that export trade for the developing countries

amounted to US \$3,381.6 billion or 33.3 per cent and import trade amounted to US \$2,881.0 billion or 28.4 per cent. Further breakdown of the trade figures showed that non-oil exporting developing countries accounted for US \$5,400.4 billion or 26.6 per cent of global trade. Nigeria's total trade was US\$47,346.3 million, representing 0.8 per cent of the emerging market's share.

### 3.4 The International Foreign Exchange Market

In spite of the huge deficit recorded in the U.S current account, the performance of the dollar at the international foreign exchange market remained remarkable. This was supported by the activities of the U.S. Federal Reserve Bank. The Fed. raised short-term interest rates eight times during the year, a development that made dollar-denominated assets more attractive than other major currency instruments. The rise in interest rates attracted foreign capital into the U.S. and helped to strengthen the dollar. However, the euro was undermined by the growing political uncertainties in Europe, following the

rejection of the European Union's constitution by France and the Netherlands. While the dollar appreciated against the pound sterling, the yen and Swiss franc by 0.9, 0.7 and 2.2 per cent, respectively, it depreciated against the euro by 0.5 per cent.

The naira, which remained relatively stable against the dollar during the year, appreciated by 3.0 per cent at the official market. It, however, depreciated against the dollar at the bureaux de change segment of the market by 2.0 per cent.

### **3.5 The Impact of International Economic and Political Developments on the Nigerian Economy**

Several global political and economic developments had a profound impact on the Nigerian economy in 2005. Typically, the rise in the demand for crude oil and petroleum products, especially from China, the US and India, raised the global demand for the commodities. Supply disruptions in Mexico and Iraq, as well as speculations surrounding the oil

operations in Iran, constrained effective supply from meeting rising demand. Consequently, the prices of crude oil and petroleum products rose substantially during the year. For example, the average price of Nigeria's reference crude, the Bonny Light, which was US\$44.49 per barrel in January 2005, rose to US\$57.51 by December, and averaged US\$55.12 per barrel for the year.

In order to stem rising oil prices, the Organization of Petroleum Exporting Countries (OPEC) increased its aggregate production ceiling by 500,000 barrels per day (bpd) twice during the year. Nigeria's oil production quota was, thus, increased twice and aggregate output in million of barrels rose by 2.8 per cent. Given the substantial increases in oil export and price, oil revenue rose by 41.8 per cent and constituted 85.8 per cent of total government revenue.

These developments impacted positively on the economy during the year. First, the

budget deficit of the Federal Government declined from the 1.2 per cent of GDP recorded in 2004 to 1.1 per cent, owing to the fiscal prudence of the Federal Government. Second, the stock of external reserves rose sharply by 56.8 per cent to US\$28.28 billion, which could support 21.1 months of current imports, compared with 18.4 months in 2004. Third, the persistent tension in the Middle East and the US diversification of her sources of oil also served Nigeria's interest. Thus, the US has become the largest single importer of Nigeria's crude oil and accounted for 38.0 per cent of total exports in 2005. Fourth, the huge oil revenue enabled the Government to pay a substantial part of the country's external debt under the auspices of the Paris Club debt relief deal. Consequently, the stock of consolidated government debt fell by 48.3 per cent to ₦4,221.0 billion in 2005, while the external debt stock declined by 42.9 per cent to US\$20.5 billion

The phenomenal rise in oil prices, however, had some negative impact on the economy. The upsurge in the global

price level, especially for petroleum products and manufactures, which Nigeria imported in large quantities, drove up domestic prices. Thus, domestic inflation had a dose of imported inflation. In addition, the price adjustment component of the deregulation of the downstream oil sector was halted temporarily, due largely to resistance to the price increases by organized labour lobby group.

In contrast to the positive developments in the oil sector, Nigeria had adverse terms of trade with respect to agricultural exports, whose prices declined in the world commodity market due, largely, to weak international demand and excess supply. The major agricultural exports affected were cocoa, soyabean and palm oil, which recorded price declines of 5.2, 13.0 and 13.1 per cent, respectively. However, the increase of 45.7 per cent recorded in the price of coffee moderated the dip in the prices of the other commodities, thereby influencing the all-commodity world price index to close with a decline of 1.8 per cent.

Other external factors influenced institutional changes and provided the much-needed leverage for sustaining non-oil growth and poverty reduction. The Policy Support Instrument (PSI), anchored on the National Economic Empowerment and Development Strategy (NEEDS) and supported by the IMF, paved the way for the cancellation of 60 per cent or US\$18.0 billion owed the Paris Club Creditors. The debt owed this group of creditors constituted about 86.0 per cent of the total external debt stock. The relief would release more resources to grow the domestic economy and provide social amenities that would reduce poverty.

The New Partnership for Africa's Development (NEPAD) constituted a framework for promoting democracy, good governance, stability and economic development in the region. The Peer Review Mechanism of NEPAD helped in diagnosing some weak institutional arrangements and suggested ways for improvement. For example, the emphasis on good governance and transparency aided Nigeria to pursue vigorously the Extractive Industry Transparency Initiative as a major anti-corruption crusade. Overall, global socio-economic and political developments in 2005 had a positive impact on the domestic economy.

### **Box 3: The Policy Support Instrument (PSI)**

The Policy Support Instrument, which was approved by the IMF Executive Board on October 17, 2005, is a facility designed for low income countries that may not need IMF financial assistance, but seek close cooperation with the Fund in the preparation and endorsement of their policy frameworks. Indeed, Nigeria, with the support of the G-24 countries initiated the PSI. The PSI-supported programmes are based on country-owned poverty reduction strategies adopted in a participatory process, involving civil society and development partners. The purpose is to ensure that the PSI-supported programmes would be consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty.

Prior to the introduction of PSI, Nigeria had, in 2004, initiated a credible home-grown poverty reduction programme embedded in the National Economic Empowerment Development Strategy (NEEDS). The policy thrust of NEEDS focused on empowerment, wealth creation, employment generation and poverty reduction, as well as value orientation. Under NEEDS, substantial progress was made in the implementation of structural reforms, including a comprehensive banking sector consolidation programme, growing the non-oil sector, liberalization of Nigeria's import tariffs regime transactions, introduction of a Wholesale Dutch Auction System (WDAS) for foreign exchange, fight against corruption, and restructuring and privatizing state-owned enterprises, in order to improve the environment for private-sector led growth and increase investor's confidence. Following the strong policy commitment and the broad-based structural reform agenda, the IMF concluded that the Nigerian programme met the standard for the PSI and, hence, Nigeria became the first country to adopt it, following its approval by the IMF's Executive Board.

The PSI aims to promote a close policy dialogue between the IMF and a member country; provide more frequent Fund assessments of a member's economic and financial policies than is available through the regular consultation process, known as surveillance; and deliver clear signals on the strength of these policies. The PSI is voluntary, demand-driven, and intended to be supported by strong country ownership. Therefore, it is available only upon the request of a member country. Some of the key features are as follows:

Programme targets and structural reforms are based on a country's poverty reduction strategy to help ensure policy ownership; Programme must meet the same high standards as required under the Fund's financial arrangement; PSIs have a fixed schedule of reviews to assess programme implementation, with reviews normally scheduled semi-annually: Only limited flexibility is allowed in the timing of the reviews, and the Board reviews are conducted irrespective of the status or prospects of programme implementation. The provision of timely and accurate information from the member with a PSI is essential for the Fund's assessments: A framework for dealing with possible cases of misreporting is in place to safeguard the integrity of the IMF assessments; In the event of a shock, an on-track PSI could provide the basis for rapid access to Poverty Reduction and Growth Facility (PRGF) resources through the Fund's new exogenous shocks facility; and the publication of PSI documents is voluntary, but presumed. This is a similar policy to the one in effect for PRGF documents. In the short period of its existence and adoption by Nigeria, the PSI has brought considerable benefits/goodwill to Nigeria; it has: paved the way for discussions with the Paris Club creditors on possible debt relief for Nigeria; facilitated the eventual debt relief agreement reached between Nigeria and the Paris Club creditors, which culminated in the cancellation of US\$18.0 billion (60%) of Nigeria's external debt owed to the Paris Club, thus freeing up resources that were hitherto used for debt service to address social and infrastructural needs; facilitated a significant reduction in the stock of Nigeria's external debt; laid the foundation for Nigeria to successfully exit from the problem of external debt overhang by the first half of 2006, conditional on the payment of the balance of the Paris Club debt in two tranches; and helped to renew the confidence of foreign investors in the Nigerian economy, thereby, facilitating increased inflow of foreign capital.

## 4.0 The Financial Sector

The deadline for the bank recapitalization programme announced by the CBN on July 6, 2004 expired on December 31, 2005. At the expiration of the deadline, twenty-five (25) banks emerged from seventy-five (75) out of eighty-nine (89) banks that had existed as at end-December, 2004. To further improve the payments system, especially, the settlement of high value payments on continuous and real time basis, the Real Time Gross Settlement (RTGS) system reached its final stage, following the completion of the test script. The Bank also intensified its on-site and off-site surveillance activities to ensure sound management and good corporate governance in the banking system. Overall, the financial system at end-December 2005 comprised the CBN, the Nigeria Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM), 25 deposit money banks, 757 community banks, 112 finance companies, 126 bureaux-de-change, 1 stock exchange, 1 commodity exchange, 5 discount houses, 90 primary mortgage institutions, 6 development finance institutions, 103 insurance companies, and 581 stockbrokers.

### 4.1 Institutional Developments

#### 4.1.1 Growth and Structural Changes

The first phase of the banking sector reforms and consolidation, which was concluded at end-December 2005, resulted in 25 banks emerging from seventy-five (75) out of eighty-nine (89) banks that had existed, prior to end-December 2005 (See Box 3). Fourteen (14) banks, which were insolvent (negative shareholders' funds) had their licences revoked by the CBN. There was no new application for a banking licence during the year.

In the Other Financial Institutions (OFIs) sub-sector, operating licences were issued to 4 community banks (CBs), 3 finance companies (FCs) and 1 primary mortgage institution (PMI). Also, six (6) new PMIs were given approval to commence operation. Thus, the number of CBs, FCs, PMIs and BDCs that operated in the country stood at seven hundred and fifty-seven (757), one hundred and twelve (112), ninety (90) and one hundred and twenty-six (126), respectively, compared with 753, 109, 89

and 126 respectively in 2004. With the launching of the new microfinance policy in December 2005, all CBs are required to convert to microfinance banks within the next two years. Forty-three (43) additional bank branches and cash offices were approved for banks, bringing the total number of bank branches to 3,535.

In the Other Financial Institutions sub-sector, final operating licences were granted to two qualified operators to commence business as primary mortgage institutions (PMIs). Also, approval was granted for the restructuring of six PMIs. Overall, forty-five (45) PMIs met the minimum paid-up capital requirement of ₦100.0 million, as against 34 in 2004. Four new CBs were issued with final operating licences during the year, bringing the total number of CBs in operation to 757. In 2005, the CBN regularized the operating licences of 536 CBs. Three newly established Finance Companies (FCs) were issued with final operating licences, bringing the number of FCs in operation to 112 in 2005.

Finally, 2 bureaux-de-change (BDCs) were cleared to trade in travellers' cheques (TCs) bringing the number of BDCs participating in the TCs market to 26.

#### Box 4: Banking Sector Consolidation Programme

The recent banking sector reforms commenced with the announcement of a 13-point reform agenda by the CBN on July 6, 2004. A major element of the reform programme was the requirement for banks to achieve a minimum shareholders' funds of ₦25.0 billion by end-December 2005. Banks were specifically required to achieve this through fresh capital injection, where applicable, but were most importantly encouraged to explore merger/acquisition arrangements with other banks. A major objective of the reform is to enable Nigerian banks become active domestic and global players in the financial market.

At end-December 2004, nine groups had indicated interest in merger, while seventeen (17) banks had raised funds from the capital market. By the end of the first half of 2005, not less than twenty-five (25) banks had raised funds from the capital market through POs, while others were at different stages of merger talks. Specifically, twenty-one (21) groups, involving sixty-four (64) banks, had signed Memorandum of Understanding (MOUs) during the period. At the expiration of the deadline on 31<sup>st</sup> December 2005, twenty-five (25) groups emerged from seventy-five (75) banks out of the eighty-nine (89) banks that existed at end-December 2004. The successful banks accounted for 93.5 per cent of the total deposit liabilities of the banking system. Fourteen banks, which had negative shareholders' funds and, therefore, insolvent had their licences revoked by the CBN. Consequently, the Nigerian Deposit Insurance Corporation (NDIC) was directed to obtain court approval to commence the process of liquidation of the affected banks. The grouping of the twenty-five consolidated banks was as follows:

#### Component Members of Consolidated Banks

Bank Name	Members of the Group
1 Access Bank Plc	Marina Bank, Capital Bank International, Access Bank
2 Afribank Plc	Afribank Plc, Afribank International Ltd (Merchant Bankers)
3 Diamond Bank Plc	Diamond Bank, Lion Bank, African International Bank (AIB)
4 EcoBank	EcoBank
5 ETB Plc	Equatorial Trust Bank (ETB), Devcom
6 FCMB Plc	FCMB, Co-operative Development Bank, Nig-American Bank, Midas Bank
7 Fidelity Bank Plc	Fidelity Bank, FSB, Manny Bank
8 First Bank Plc	FBN plc, FBN Merchant Bank, MBC
9 First Inland Bank Plc	IMB, Inland Bank, First Atlantic Bank, NUB
10 Guaranty Trust Plc	GT Bank
11 IBTC-Chartered Bank Plc	Regent, Chartered, IBTC
12 Intercontinental Bank Plc	Global, Equity, Gateway, Intercontinental
13 NIB	Nigerian International Bank
14 Oceanic Bank Plc	Oceanic Bank, In't Trust Bank
15 Platinum-Habib Bank Plc	Platinum Bank, Habib Bank
16 Skye Bank Plc	Prudent Bank, Bond Bank, Coop Bank, Reliance Bank, EIB
17 Spring Bank Plc	Guardian Express Bank, Citizens Bank, Fountain Trust Bank, Omega Bank,, Trans-International Bank, ACB
18 Stanbic Bank Ltd	Stanbic Bank
19 Standard Chartered Bank Ltd	Standard Chartered Bank Ltd
20 Sterling Bank Plc	Magnum Trust Bank, NBM Bank, NAL Bank, INMB, Trust Bank of Africa
21 UBA Plc	STB, UBA, CTB
22 Union Bank Plc	Union Bank, Union Merchant Bank, Universal Trust Bank, Broad Bank
23 Unity Bank Plc	New Africa Bank, Tropical Commercial Bank, Centre-Point Bank, Bank of the North, NNB, First Interstate Bank, Intercity Bank, Societe Bancaire, Pacific Bank
24 Wema Bank Plc	Wema Bank, National Bank
25 Zenith International Bank Plc	Zenith International Bank Plc

*In the process of complying with the minimum capital requirement, ₦406.4 billion was raised by banks from the capital market, out of which ₦360 billion was verified and accepted by the CBN as at end-December 2005. The programme also attracted ₦350.2 billion (about US\$3.0 billion) as new investment and US\$666.6 million and GP£0.16 million from Foreign Direct Investment (FDI) inflow.*

*The bank consolidation programme has brought a number of positive developments to the banking sector, in particular, and the economy in general. The consolidation has produced relatively well-capitalized banks, which has engendered greater public confidence in the system. It has also brought greater public awareness and a deepening of the capital market. The resulting liquidity in the system also induced a significant fall in interest rates. Banks now have greater potential to finance big-ticket transactions with higher single obligor limit. Ownership of banks has been diluted and this should in no small way, tame the monster of insider and corporate governance abuse. The banks will of course enjoy economies of scale and, consequently, pass on the benefit in the form of reduced bank charges to their customers. With virtually all the banks now publicly quoted, there is a wider regulatory oversight, with the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) joining the regulatory team. These regulators will oversee and focus on fewer banks, thereby fostering effectiveness and efficiency in supervision.*

#### **4.1.2 Fraud and Forgery**

The number of reported cases of attempted or successful fraud and forgery rose in the banking industry. There was a total of 1,229 reported cases of attempted fraud and forgery involving ₦10.4 billion, US\$1.4 million, £35,840.0 and €116,310.0 in 2005, compared with 1,175 reported cases involving ₦9.6 billion, US\$15.6 million, £46,397.4 and €223,728.7 in 2004. Out of this number, 534 cases were successfully executed by the perpetrators and resulted in loss to the banks amounting to ₦5.5 billion, US\$728,347.0, £30,085.0 and €10,255.0 in 2005, compared with 518 cases of fraud and forgery amounting to

₦2.6 billion, US\$1.2 million, £12,794.8 and €36,984.0 in 2004.

#### **4.1.3 Public Complaints Desk**

The Ethics and Professionalism sub-Committee of the Bankers Committee handled complaints among banks, as well as between banks and their customers. As in the preceding years, most of the complaints concerned, among others, on excess charges by banks, manipulation and fraudulent practices on customers' accounts, conversion of invested funds, irregular clearing of customers' cheques, and non-refund of wrong debit to customers' accounts.

#### 4.1.4 Cheque Clearing

The volume and value of cheques cleared through the system rose by 4.8 and 26.6 per cent to respectively 14.7 million and ₦13,915.1 billion, from 14.0 million and ₦10,996.0 billion respectively in 2004. The increase reflected stronger public confidence in the use of the cheque as a mode of payment. As in the previous years, the Lagos clearing zone accounted for 50.7 and 46.5 per cent of the volume and value of cheques cleared in the system, respectively. Also, the volume and value of cheques cleared through Abuja clearing zone increased by 7.6 and 14.8 per cent, respectively, reflecting, partly, the impact of the deployment of the National Automated Clearing System (NACS) in Abuja.

The clearing cycles of T+2 (local) and T+5 (up country) were sustained in 2005. The clearing system was still faced with the problem of lack of standardization of cheques, reflected in a high MICR reject rate. In order to address this problem, the Bank approved the Nigerian Cheque Printers Accreditation Scheme. Workshops

were organized to sensitize stakeholders on the basic requirements of the Scheme.

	2004		2005	
	Volume	Value (N' billion)	Volume	Value (N' B billion)
Clearing System	13,997,898	10,996.0	14,658,511	13,915.1
Lagos Clearing House	7,122,056 (50.9%)	5,744.2 (52.2%)	7,435,977 (50.7%)	6,466.5 (46.5%)
Abuja Clearing House	1,006,194 (6.7%)	1,135.4 (13.0%)	1,115,973 (7.6%)	2,059.1 (14.8%)
Others	5,869,648 (41.9%)	4,116.4 (37.4%)	6,106,561 (41.7%)	5,389.5 (38.7%)

Figures in brackets represent percentage of total

Figure 4.1: Volume of Cheques Cleared

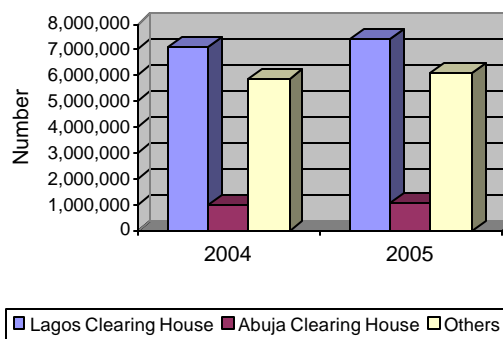
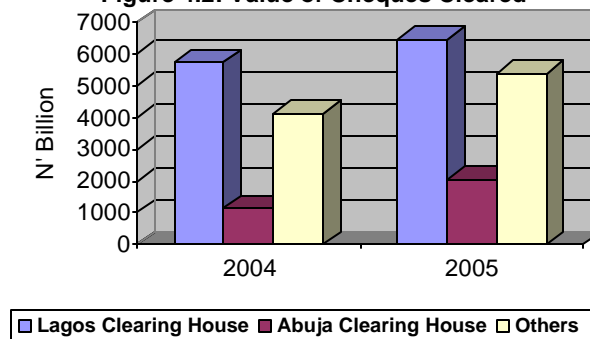


Figure 4.2: Value of Cheques Cleared



#### **4.1.5 Inter-bank Funds Transfer (IFT)**

The inter-bank funds transfer segment of the financial market witnessed mixed developments. The volume of large-value transfers fell by 16.3 per cent to 136,335 relative to 2004, while the value increased by 42.8 per cent to ₦27,925 billion. The lower volume of transactions reflected the impact of the bank consolidation exercise and increased use of cheques for retail payments.

#### **4.1.6 Use of e-Money Products**

Public confidence in the use of electronic money (e-money) products in Nigeria continued to grow stronger in 2005. The smart card segment recorded mixed developments. The volume of transactions rose by 0.8 per cent above the 1,055,655 recorded in 2004, while the value fell by 31.6 per cent below the ₦61.3 billion recorded in 2004. The increased volume of transactions reflected the opening of more points-of-sale (POS) terminals, the introduction of new card products and a higher number of banks operating the card scheme; the lower value of transactions was due to a lower public patronage of wholesale cards. The volume and value of

foreign currency-denominated cards stood at 40,843 and US\$10.7 million, respectively. In the Automated Teller Machines (ATMs) segment, the volume and value of transactions increased substantially by 131.0 per cent to 425 as a result of the rise in the number of ATMs. Consequently, the volume and value of ATM transactions increased by 242.9 and 298.9 per cent, respectively, to 3.5 million and ₦17.3 billion respectively in 2005. The developments reflected growing public awareness, following the deployment of more ATMs by the banks.

#### **4.1.7 Institutional Savings**

Aggregate financial savings rose by ₦166.7 billion, or 16.1 per cent, to ₦1,200.1 billion at end-December, 2005 from ₦1,033.4 billion in the preceding year. The ratio of financial savings to GDP was 12.4 per cent, compared with 12.1 per cent in 2004. As in previous years, deposit money banks maintained their dominance as the major depository institutions within the financial sector. The DMBs accounted for 90.8 per cent of the total financial savings, compared with 90.3 per cent in the

preceding year. Other depository institutions, including the PMIs, Life Insurance Funds, the Nigerian Social Insurance Trust Fund, and Community Banks held the balance of 9.2 per cent.

## 4.2 Credit and Monetary Developments

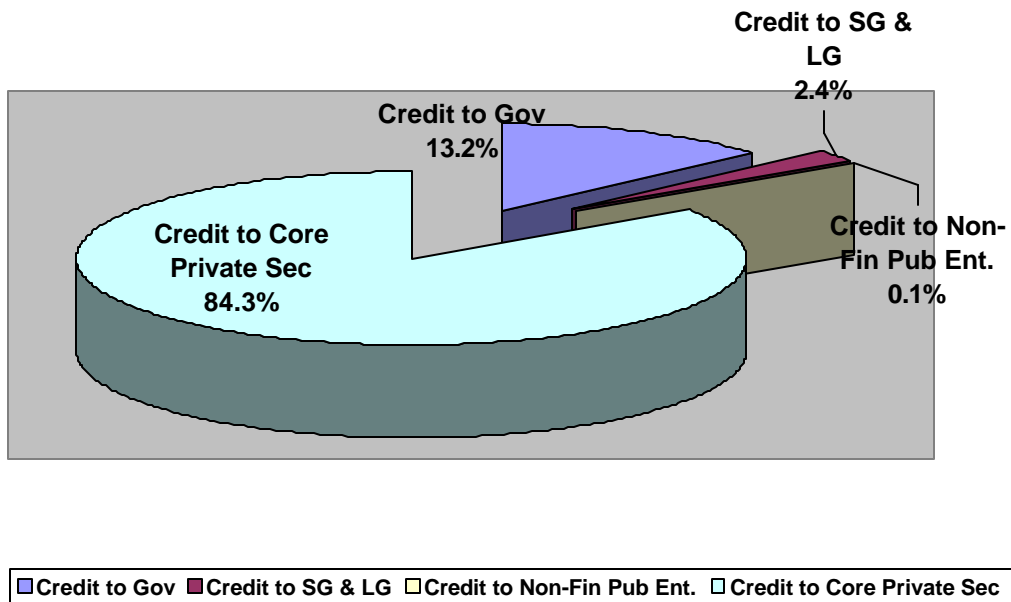
### 4.2.1 Aggregate Banking System Credit

Aggregate bank credit to the domestic economy (net) grew by ₦293.2 billion, or 14.5 per cent, compared with the growth target of 22.5 per cent for fiscal 2005, and the growth of 12.6 per cent recorded in the preceding year. The increase in domestic credit was due entirely to the rise in credit to the private sector. Credit to the private sector (comprising the state and local governments, non-financial public enterprises and the core private sector) grew by 30.8 per cent to ₦2,007.4 billion, compared with the target growth rate of 22.5 per cent, while credit to the core private sector increased by 29.4 per cent to ₦1,950.4 billion. However, credit to the

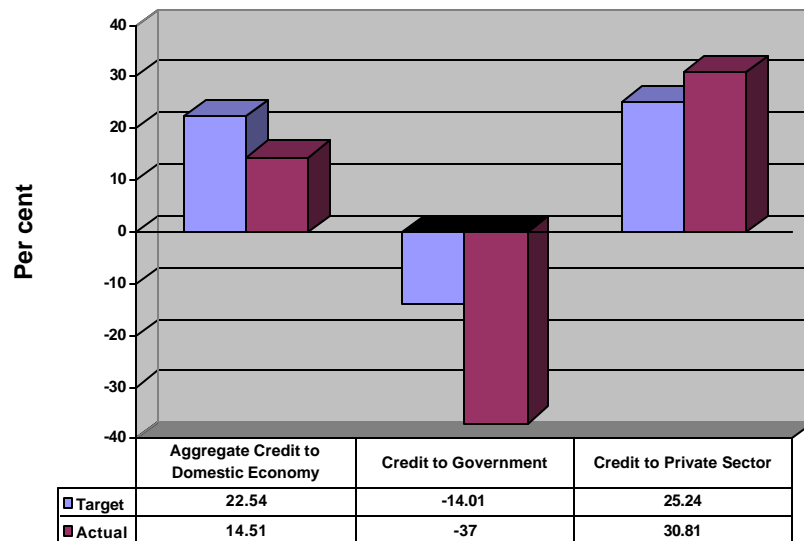
Federal Government (net) declined by 37.0 per cent to ₦306.0 billion, compared with the growth target of negative 10.9 per cent. The fall reflected the significant decline in Central Bank's credit to the Federal Government, following the sharp drop in the Bank's holding of treasury securities. During the year, the CBN granted ₦54.04 billion Ways and Means Advances (overdraft facility) to the Federal Government, representing 5 per cent of its retained revenue in 2004. This performance surpassed the West African Monetary Zone (WAMZ) target of a maximum accommodation of 10.0 per cent. Moreover, the Ways and Means Advances was repaid by December 31, 2005, in line with the statutory requirements.

Aggregate credit to the domestic economy by deposit money banks amounted to ₦1,991.1 billion and represented an increase of 31.1 per cent over the level at end-December 2004.

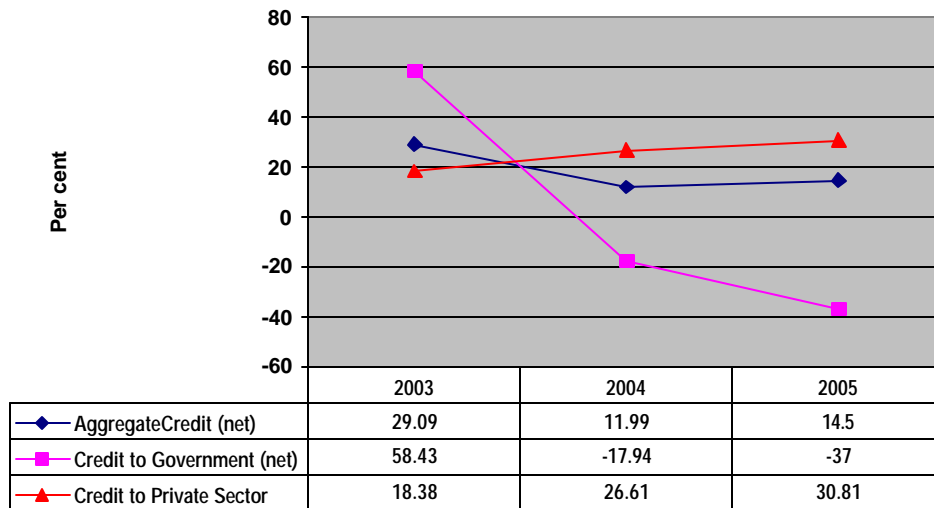
**Figure 4.3: Banking System Credit in 2005**



**Figure 4.4: Movements in Domestic Credit in 2005**



**Figure 4.5: Movements in Aggregate Credit**

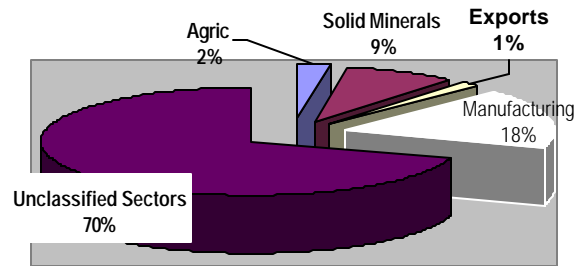


## 4.2.2 Sectoral Distribution

Credit flows to the core private sector amounted to ₦471.9 billion in 2005. Outstanding credit to agriculture, solid minerals, exports and manufacturing, constituted 30.1 per cent of the total outstanding credit in 2005, compared with 37.0 per cent in 2004. Specifically, outstanding credit to agriculture, solid minerals, exports and manufacturing was 2.4, 8.7, 1.3 and 20.7 per cent,

respectively, while the unclassified sectors accounted for the balance of 69.9 per cent. The average liquidity ratio for deposit money banks, as at end-December 2005, stood at 38.7 per cent, compared with the stipulated minimum of 40.0 per cent, while the average loan/deposit ratio for the banks was 76.7 per cent, compared with 72.8 per cent in the preceding year.

Figure 4.6 :Sectoral DMBs Allocation of Credit in 2005



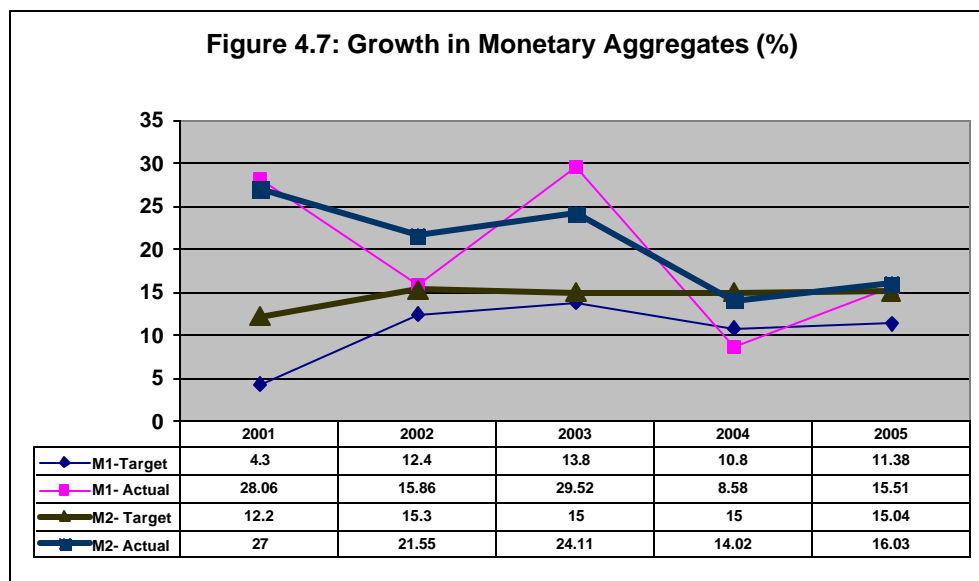
### 4.2.3 Monetary Developments

Broad money supply ( $M_2$ ) was targeted at 15.0 per cent, but actual out turn was 16.0 per cent. The development reflected, largely, the rapid expansion in the net foreign assets of the banking system, following favourable price developments in the international petroleum market, as well as increased FDI inflow arising from the banking sector's consolidation programme. Specifically,  $M_2$  rose by 16.0 per cent to ₦2,626.5 billion, compared with the growth target of 15.0 per cent for fiscal 2005, and the growth of 14.0 per cent in 2004. The growth in  $M_2$  reflected the increase in both narrow money supply ( $M_1$ ) and quasi-money. The rise in  $M_1$  reflected, largely, the increase in foreign assets (net) of the banking system reinforced by the rise in credit to the domestic economy (net).  $M_1$  rose by 15.5

per cent to ₦1,537.0 billion, compared with the target of 11.4 per cent for the year, and the increase of 8.6 per cent recorded in 2004. The growth in  $M_1$  mirrored increases in both currency outside the banks and demand deposits. Currency outside the banks and demand deposits rose by 22.8 and 11.7 per cent, respectively, compared with the increase of 11.3 and 7.2 per cent, respectively, in 2004. The growth in  $M_1$  was, however, moderated by the significant decline in other assets (net) of the banking system. Quasi-money rose by 16.8 per cent to ₦1,089.5 billion, compared with the growth of 22.0 per cent in 2004. Further analysis showed that time and savings deposits grew by 18.5 per cent, compared with 19.4 per cent in 2004, while the foreign currency component grew by 9.3 per cent or ₦188.5 billion.

Base money grew by 4.2 per cent to ₦762.8 billion and was within the target of ₦764 billion under the Policy Support Instrument (PSI). The money multiplier in

December 2005 was 3.4, compared with 3.1 in December 2004. The money velocity was 3.4 in December 2005 and 3.1 on a five-year annual average basis.



### 4.3 Other Financial Institutions

#### 4.3.1 Development Finance Institutions (DFIs)

Activities of the four (4) development finance institutions that reported their operations as at end-June 2005 indicated marginal improvements, compared with the preceding year. Specifically, financial reports were received from the Nigerian Export-Import Bank (NEXIM), the Bank of Industry (BOI), the Federal Mortgage Bank of Nigeria (FMBN), and the Nigerian

Agricultural, Cooperative and Rural Development Bank (NACRDB).

The total assets of the four reporting DFIs showed an increase of ₦22.2 billion, or 42.7 per cent, over the level in the preceding year. The development reflected wholly the increased investment by the institutions, which grew by ₦13.2 billion or 1,761.3 per cent over the level in 2004. Analysis of the asset base of the four institutions indicated that NACRDB maintained its dominant position with

₦23.7 billion or 32.0 per cent of the total. The shares of NEXIM, BOI and FMBN were ₦13.4 billion or 18.1 per cent, ₦15.8 billion or 21.3 per cent and ₦21.3 billion or 28.7 per cent, respectively.

Cumulative loan disbursements by the four institutions increased from ₦17.9 billion in 2004 to ₦36.1 billion, representing an increase of ₦18.1 billion or 101.1 per cent. The composition of their loan disbursements indicated that FMBN topped the list, with a total of ₦9.8 billion, and constituted 28.6 per cent of the total. This was followed by BOI (₦9.7 billion or 26.4 per cent), NACRDB (₦9.2 billion or 25.1 per cent) and NEXIM (₦7.3 billion or 19.9 per cent). A breakdown of the loan disbursements by FMBN revealed that the sum of ₦6.0 billion was granted to primary mortgage institutions, among other beneficiaries. A sectoral analysis of the loan disbursements by BOI indicated that ₦3.5 billion, or 36.0 per cent of the total, was granted to Small and Medium Scale Enterprises (SMEs), while the balance of ₦6.2 billion, or 64.0 per cent, was disbursed to the Large Enterprises (LE).

Loan disbursements by NACRDB showed that special projects, direct lending to small and large-scale farmers, and on-lending to cooperatives and other state agencies topped the list. Loan disbursements by NEXIM were utilized mainly in four major areas, viz: Stocking Facility (SF) for raw materials (₦1.2 billion), Refinancing and Rediscounting Facilities (RRF) (₦1.4 billion), Direct Lending Facilities (DLF) (₦3.1 million), and Others (₦1.7 billion). The provision for loan losses by NACRDB rose substantially, from ₦336.1 million in 2004 to ₦2.5 billion as at end-June, 2005.

Among the four reporting institutions, only NEXIM recorded a positive reserve position, while the remaining three institutions recorded negative reserve positions, which worsened their cumulative deficit reserve level from ₦1.3 billion in 2004 to ₦1.8 billion. The development was attributable largely to the accumulation of huge losses by the FMBN.

### 4.3.2 Community Banks (CBs)

The performance of the 725 reporting CBs showed a significant improvement, relative to 2004. The total assets/liabilities of the CBs increased by 142.6 per cent from ₦34.2 billion in 2004 to ₦82.9 billion in 2005. Their paid-up share capital and shareholders' fund increased substantially by 191.3 and 122.0 per cent respectively to ₦13.4 billion and ₦18.1 billion, respectively. Similarly, loans and advances granted by CBs increased by 151.1 per cent to ₦28.5 billion, while their investments amounted to ₦2.6 billion in 2004, an increase of 37.6 per cent. A sectoral analysis of the loan portfolio of the reporting CBs showed that the unclassified category increased its dominance as it accounted for ₦23.8 billion, or 83.3 per cent, of the total, compared with 50.9 per cent in 2004.

Transportation/communications, trade and commerce, and real estate and construction accounted for 9.8, 5.6 and 0.8 per cent, respectively of loans by CBs. The balance of ₦0.2 billion or 0.5 per cent went to agriculture and forestry,

manufacturing and food processing, and mining and quarrying (Table 4.6).

### 4.3.3 Discount Houses

Discount houses recorded improved performance in 2005. Total assets/liabilities of the five operating discount houses increased by 47.5 per cent to ₦99.3 billion, while the total funds sourced amounted to ₦37.3 billion, compared with ₦22.6 billion in 2004. The funds were sourced mainly from non-bank customers (₦14.0 billion), money-at-call (₦9.0 billion), and increase in cash and balances with banks (₦4.2 billion), among others. The funds were utilized mainly in the purchase of Federal Government securities of less than 91-days maturity (₦22.6 billion) and settlement of claims to banks (₦7.5 billion). Discount houses' investment in Federal Government securities of less than 91 days maturity amounted to ₦48.7 billion at end-December 2005, representing 62.9 per cent of their total deposit liabilities. This was 2.9 percentage points higher than the prescribed minimum of 60.0 per cent for fiscal 2005 (Table 4.7).

#### 4.3.4 Finance Companies (FCs)

The activities of finance companies indicated a marginal improvement in 2005. Of the 112 finance companies in operation, 81 rendered statutory returns to the CBN, compared with 77 in 2004. Total assets/liabilities of the reporting companies increased from ₦34.5 billion in 2004 to ₦37.5 billion at end-December 2005, representing an increase of 8.6 per cent. Total funds sourced by the FCs amounted to ₦10.8 billion, compared with ₦8.8 billion in the preceding year. The funds were sourced mainly from increases in equipment leasing (₦3.6 billion) and borrowings (₦1.4 billion) which were utilized mainly for extensions of credit (₦5.2 billion), and placements with other FCs (₦5.0 billion). Loans and advances by the companies rose by 47.6 per cent to ₦16.3 billion, from ₦11.0 billion in the preceding year, while their combined investments rose by 5.5 per cent to ₦5.8 billion. Also, aggregate borrowings by the FCs increased from ₦21.4 billion in 2004 to ₦22.8 billion, while the

shareholders' funds increased from ₦7.8 billion to ₦9.5 billion in 2005 (Table 4.8).

#### 4.3.5 Primary Mortgage Institutions (PMIs)

The number of PMIs in operation increased from 83 in 2004 to 90, following the issuance of a final operating licence to one (1) PMI and the granting of approval for the restructuring of six (6) PMIs in 2005. Total assets/liabilities of the 76 PMIs that rendered statutory returns stood at ₦99.9 billion, representing an increase of 23.1 per cent over the level in the preceding year. Total investible funds available to the PMIs amounted to ₦19.9 billion, compared with ₦19.6 billion in 2004. The funds were sourced mainly from increased deposit liabilities (₦13.2 billion), long-term loans/NHF (₦3.3 billion), and enhanced capitalization (₦1.9 billion), among others. The funds were utilized to increase bank balances (₦11.8 billion), the acquisition of other assets (₦4.5 billion), and on loans and advances (₦2.1 billion).

### 4.3.6 Bureaux-de-Change (BDCs)

The number of BDCs that rendered returns on their activities to the CBN remained at 126, the same figure as in 2004, as no new BDC was licenced during the year. However, two additional bureaux-de-change were cleared to participate in the purchase and sale of travellers' cheques (TCs), bringing the total number cleared to 26.

### 4.3.7 Insurance Companies

There has been a continuous improvement in the overall operational results of the Nigerian insurance industry over the years. Specifically, gross premium income from the general insurance business increased steadily, from ₦37.8 billion in 2002 to ₦44.8 billion in 2004 and was estimated to increase further to ₦49.3 billion in 2005. However, the industry lacked the financial muscle to carry large risks due to low capitalization. It, therefore, became necessary to restructure the industry to enhance its operational efficiency.

The process of restructuring necessitated an increase in the capital requirement in 2003, for all categories of the

insurance business as follows: Life Insurance - ₦150 million, General insurance – ₦200 million, Composite insurance – ₦350 million, and Reinsurance – ₦350 million. A further increase was necessitated by the need to enhance the international competitiveness of the industry as well as stem the current outflow of insurance relating to local risks. An important component of the reform in the industry, which commenced in September 2005 raised the capitalization requirement to the following levels: Life insurance – ₦2 billion, General insurance – ₦3 billion, and Reinsurance – ₦10 billion. Operators are expected to comply with the new capital requirement by end-February, 2007.

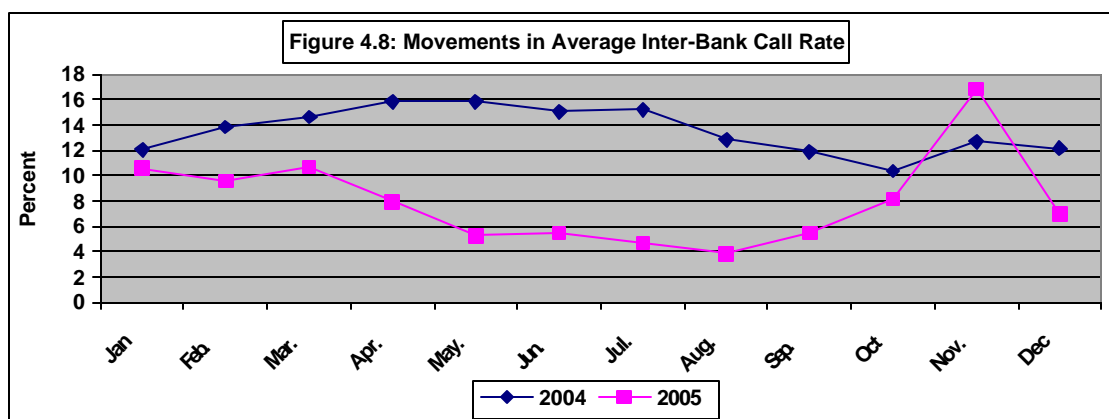
## 4.4 Money Market Developments

### 4.4.1 Inter-Bank Funds Market

The tempo of activities at the inter-bank funds market increased. The turnover rose by 21.6 per cent over the level in the preceding year to ₦5,600.6 billion. As a result of consolidation in the banking sector, market players showed preference for risk-free investment in government securities to

hedge against risks. Arising from this development and coupled with excess liquidity in the banking system, inter-bank interest rates trended downwards in all segments of the market when compared with developments in the preceding year. The range of inter-bank call rates was 3.9 to 10.7 per cent, for most of the year (except in November when 16.8 per cent was

posted), compared with 11.9 to 15.9 per cent in 2004. The inter-bank call rate, on a monthly basis, fell to an average of 7.9 per cent in 2005, compared with an average of 13.5 per cent in 2004. Similarly, the monthly average 7-day and 30-day NIBOR rate fell to 10.7 and 12.8 per cent, from 17.0 and 18.5 per cent, respectively, in 2004.



#### 4.4.2 Open Buy Back

Open Buy Back (OBB) transactions decreased by 29.8 per cent from ₦19,813.1 billion in 2004 to ₦13,914.0 billion. The introduction of a 0.01 percentage point commission on transactions in the third quarter made banks to reduce

the volume of OBB transactions. Thus, the total value of OBB decreased from ₦10,083.1 billion, in the first half of 2005 to ₦3,110.9 billion in the second half of the year.

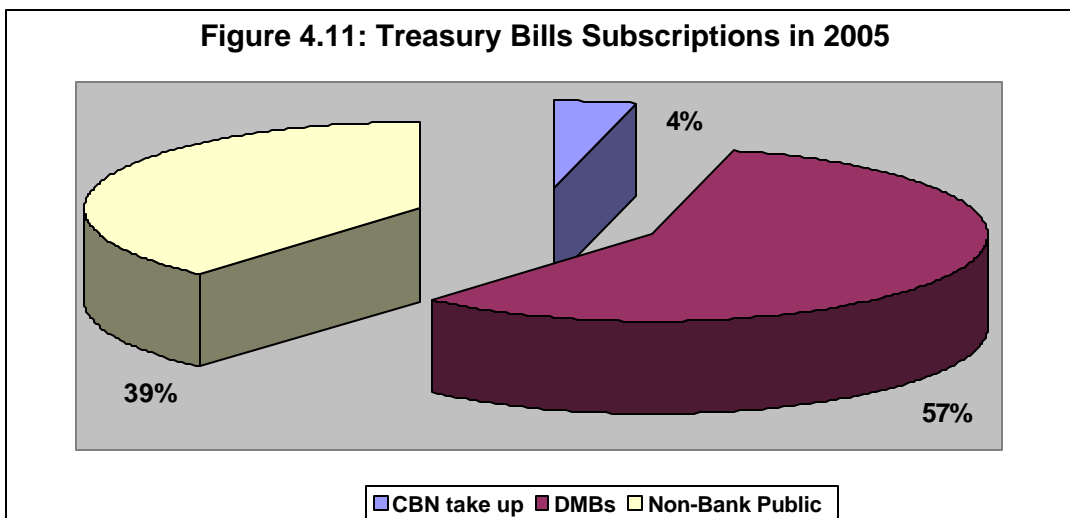
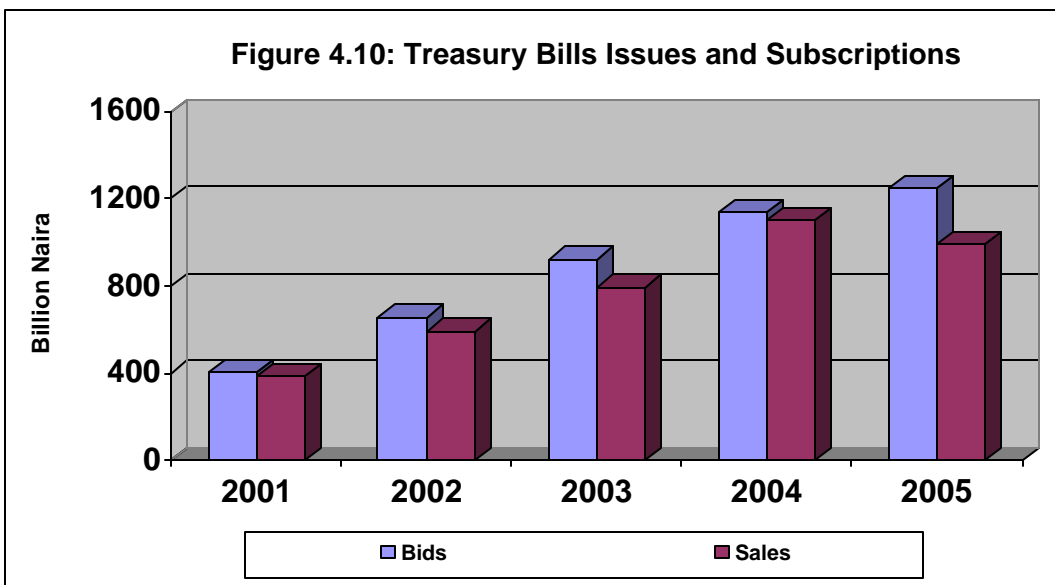
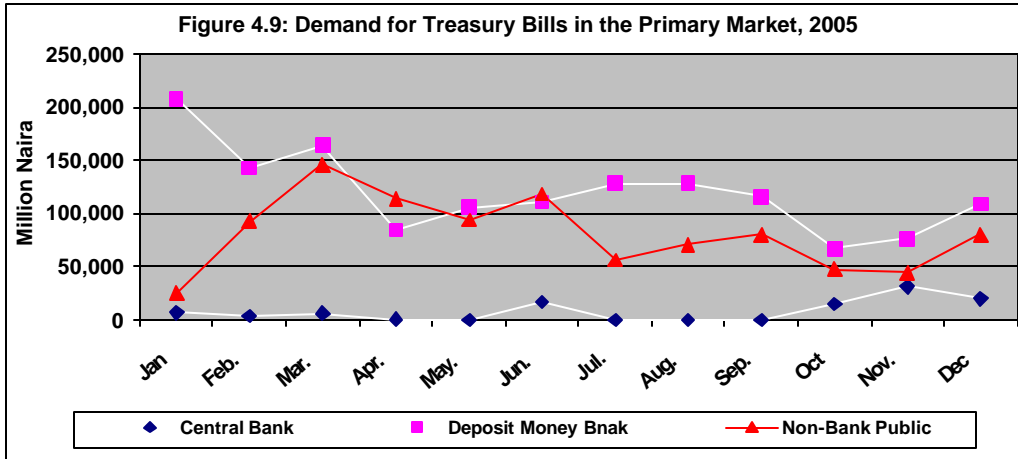
### 4.4.3 Nigerian Treasury Bills

At the government securities market, sales of NTBs were lower, compared with the preceding year. The development was a reflection of lower patronage in the first three quarters of the year, due to certain factors, including: the restructuring of the tenor and issue programme; the preference for foreign assets with a more attractive yield; and investment in the capital market, which was made more vibrant by the numerous Initial Public Offers (IPOs) by banks.

At the primary market, NTBs worth ₦2,521.7 billion were issued to replace matured bills, representing a decline of ₦946.0 billion, or 27.3 per cent, compared with ₦3,467.7 billion in 2004. The lower issue arose from the repayment of ₦149.4 billion worth of matured 91-day bills as well as the restructuring of short-tenored bills to a longer maturity of between 182

and 364 days, which reduced the amounts and number of re-issues in the year. However, there was an additional issue of ₦132.0 billion to finance the Federal Government's deficits in 2005. Consequently, by end-December 2005, the total outstanding Nigerian Treasury Bills fell from ₦871.58 billion as at end-December 2004 to ₦854.83 billion.

Analysis of holdings of the treasury bills outstanding at the end of 2005 indicated that deposit money banks (DMBs) and discount houses continued to dominate the market as they jointly accounted for 68.4 per cent of the total, while investment by the non-bank public accounted for 21.9 per cent. The balance of ₦82.7 billion or 9.7 per cent of the total was held by the CBN.



#### 4.4.4 Commercial Papers

Investment in Commercial Papers (CPs) maintained an upward trend, as in the last five years. The value of CPs held by DMBs rose by ₦105.8 billion to ₦194.6 billion in 2005, compared with an increase of ₦51.5 billion at end-December 2004. Thus, CPs constituted 16.9 per cent of the total value of money market assets outstanding at end-2005, compared with 8.9 per cent at the end of the preceding year.

#### 4.4.5 Bankers' Acceptances

The stock of Bankers' Acceptances (BAs) increased in 2005. The rise reflected increased investments by deposit money banks and discount houses. Holdings of BAs by DMBs rose by 2.0 per cent to ₦42.3 billion, compared with an increase of 27.0 per cent in 2004. Consequently, BAs accounted for 3.7 per cent of the total value of money market assets outstanding at end-2005, compared with 4.1 per cent in 2004.

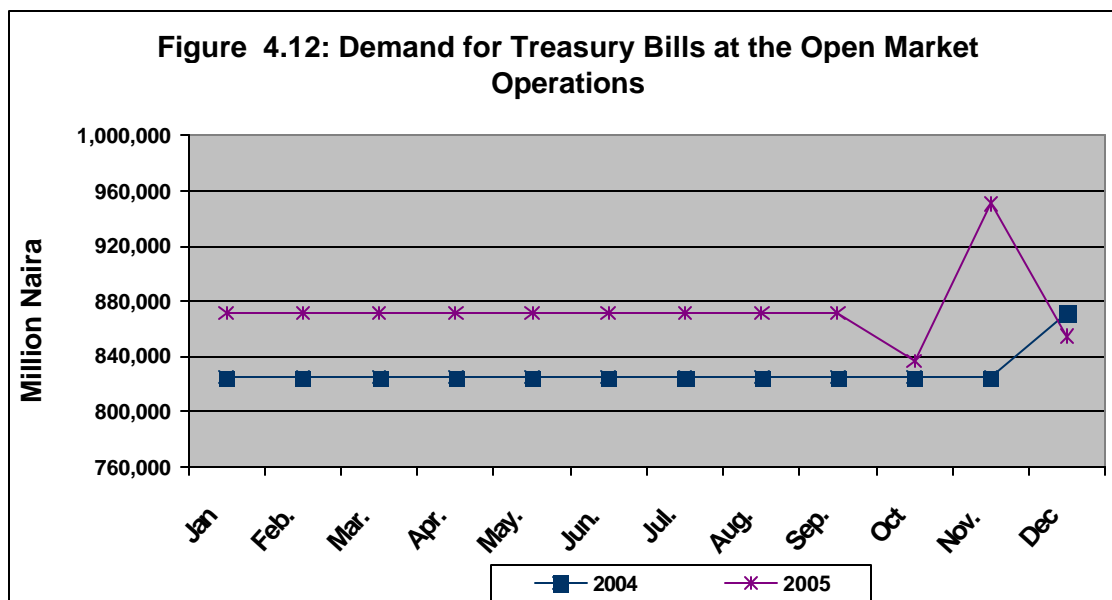
#### 4.4.6 Open Market Operations

The Bank continued its reliance on the open market operations (OMO) as the main instrument of monetary management in 2005. Discount window operations, cash reserve requirement and the foreign exchange interventions, as well as the partial withdrawal of public sector deposits complemented OMO. The securities used for the conduct of OMO were the NTBs, Treasury Bonds and the CBN Bills. The CBN Bills was introduced to mitigate the problem of the dearth of intervention securities experienced in the secondary market, especially during the fourth quarter of 2005.

Two hundred and forty (240) daily OMO sessions were conducted in 2005, compared with two hundred and forty-eight (248) in the preceding year. Total subscriptions and sales of the intervention securities amounted to ₦1,247.3 billion and ₦989.9 billion, respectively, compared with ₦1,136.3 billion and ₦1,099.5 billion respectively in the preceding year. The total bids and sales

in 2005 were ₦1,039.5 billion and ₦831.7 billion, respectively, for Nigerian Treasury Bills (NTBs), and ₦207.9 billion and ₦158.2 billion for the CBN Bills. Though there was an increase of ₦111.0 billion in

subscription, actual sales dropped by ₦109.6 billion below the level in the preceding year, following a lower yield on the securities relative to the primary market.



#### 4.4.7 CBN Bills

In order to enhance the effectiveness of OMO in the face of the dearth of intervention securities, the Bank used its own instrument, the CBN Bills, in September 2005. The market response to the instrument was very positive. In the last four months of the year, total bids and sales of the securities at the open market

were ₦207.9 billion and ₦159.1 billion, respectively. The issue rates for the CBN Bills averaged 12.0 per cent on a monthly basis, while the range of issue rate was from 4.99 per cent to 22.0 per cent, with the tenors ranging from 14 days to 182 days.

## 4.5 Capital Market Developments

In 2005, the capital market recorded an impressive performance, as all the market indicators trended upwards. The aggregate volume and value, as well as the total number of transactions in the secondary market, rose; market capitalization and the value index also increased. The market capitalization of the 288 securities listed on the Nigerian Stock Exchange appreciated by 37.3 per cent from ₦2.1 trillion in 2004 to close at ₦2.9 trillion in 2005. The growth was driven largely by the banking sector's consolidation programme which resulted in new listings (equities and bonds), supplementary issues, and price appreciation in the equities sector.

### 4.5.1 The Nigerian Stock Exchange

Activities on the Nigerian Stock Exchange (NSE) increased significantly in 2005, following positive developments in the banking sector. Also, a new branch of the Exchange equipped for electronic trading was opened in Benin City, Edo State, while arrangements were made for the

opening of other branches/trading floors in Uyo, Akwa Ibom state, and in Bauchi, Bauchi state. Work commenced on the automation of Kaduna and Ibadan trading floors of the Exchange in 2005 and are expected to be concluded in 2006 along with the automation of the Onitsha branch/trading floor. Oando Plc was granted secondary listing status on the Johannesburg Stock Exchange (JSE) of South Africa during the year. The listing widens the corporate financing options for Nigerian companies and should reduce the domestic cost of capital to local companies. Furthermore, the Exchange adopted a zero-tolerance policy on market malpractices resulting in the revocation of the dealing licences of six stock broking firms. The Nigerian Stock Exchange (NSE)/Central Securities Clearing System (CSCS) Trade Alert was launched in March 2005 to further secure the market against unethical practices, especially unauthorized sale of clients' shares. The device also functions as a medium for communicating market-related information to subscribers. These developments

enhanced market liquidity; offered opportunities for price recovery; improved market efficiency in service delivery and above all; resulted in unprecedented growth in both the new issues and secondary markets. Available data indicated that the Exchange witnessed transactions in foreign portfolio in excess of ₦10.0 billion, excluding strategic foreign investments in banks under the recapitalization programme.

#### **4.5.1.1 The Secondary Market**

The secondary market was vibrant as the market witnessed substantial growth in turnover. This development followed the automation of processes, increased local awareness of opportunities in the Nigerian Stock Market, as well as the continued effort at the internationalization of the market. The volume of transactions rose by 40.0 per cent from 19.2 billion shares in 2004 to 26.7 billion shares, while the value stood at ₦262.9 billion, up by 16.4 per cent from ₦225.8 billion in 2004. Transactions in equities accounted for ₦254.7 billion or 96.9 per cent of the

turnover value. The Federal Government Development Stock sub-sector recorded a turnover of ₦7.3 billion, compared with ₦300.0 million in 2004, while the State Government Bonds and the Industrial Loans/Preference Stocks sub-sectors recorded turnovers of ₦728.0 million and ₦165.0 million, respectively.

#### **4.5.1.2 FGN Bonds**

Consistent with the efforts of the Federal Government to restructure its domestic debt, grow the Bonds market, and ensure economic development, the Debt Management Office (DMO), in collaboration with the CBN, issued the 2<sup>nd</sup> FGN bond series 1-7, with tenors of 2 and 3 years. The first issue was in July 2005. The total issue of all the series was ₦178.3 billion with 100 per cent allotment. Public subscription for the bonds was remarkable at ₦326.4 billion, representing an over-subscription by 86.3 per cent. Of the total issue, bonds valued at ₦58.4 billion or 33.3 per cent was for the 2-year tenor, while the balance of ₦119.9 billion or 66.7 per cent was for the 3-year tenor.

### 4.5.1.3 Value Index Equities

The NSE all-sector value index recorded a marginal improvement when compared with performance in the preceding year. The index rose by 1.0 per cent to close at 24,085.8 (1984 = 100), in 2005, from the 23,844.5 recorded in the preceding year.

### 4.5.2 New Issues

The new issues market was boosted during the year by the banking industry consolidation programme as several banks accessed the primary market to shore up their capital base in order to beat the December 31, 2005 deadline. Consequently, the Securities and Exchange Commission (SEC) considered and approved 57 applications for new issues, valued at ₦552.8 billion in 2005, compared with 37 applications for new issues valued at ₦235.5 billion in 2004.

Of this amount, ₦372.5 billion or 67.4 per cent was raised by 29 banks.

Further analysis of the approvals in 2005 indicated that the sum of ₦305.2 billion was raised through offers for subscriptions; supplementary offers amounted to ₦11.2 billion; right issues stood at ₦50.1 billion; while ₦39.3 billion, ₦6.9 billion and ₦140.0 billion were from private placements, debt stocks and FGN bonds (in 7-series), respectively.

Two (2) offers for sale involving 280 million ordinary shares worth ₦1.1 billion and two (2) unit trusts valued at ₦1.8 billion were also approved. In addition, five merger applications valued at ₦95.5 billion were approved and concluded.

## 5.0 Fiscal Operations

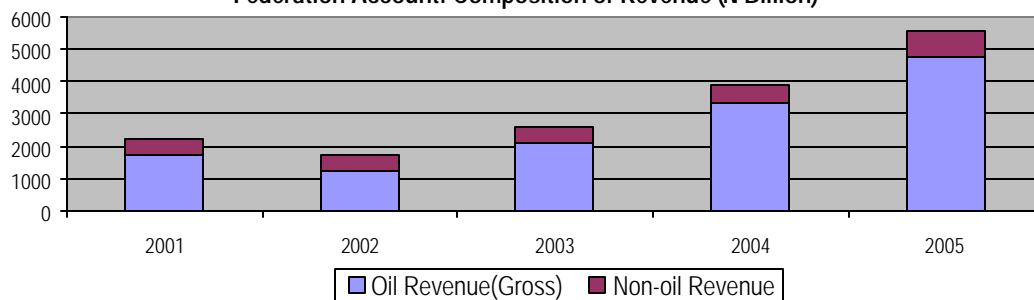
Total federally-collected revenue amounted to ₦5,547.5 billion, representing an increase of 41.5 per cent over the level in 2004. The improved performance was largely attributable to the favourable international crude oil price, which was consistently higher than the budget benchmark price of US\$30.00 per barrel. Adherence to the fiscal rule resulted in accumulated savings of US\$16,808.0 million by the three tiers of government at the end of 2005. The surplus comprised US\$2,984.1 million unspent from the 2004 savings and the US\$13,824.0 million accumulated in 2005. Similarly, non-oil revenue increased by 38.8 per cent over its level in 2004. The fiscal operations of the Federal Government recorded a modest improvement in 2005, as the fiscal deficit narrowed from ₦172.6 billion or 1.5 per cent of GDP in 2004 to ₦161.4 billion or 1.1 per cent. The primary balance recorded a surplus of ₦831.0 billion, or 5.6 per cent of GDP, which was indicative of strict adherence to the fiscal rule as well as maintenance of fiscal prudence. The stock of public debt at end-December 2005 declined to ₦4,221.0 billion, or 28.3 per cent of GDP, from ₦6,260.6 billion, or 53.6 per cent of GDP in 2004. Federal Government retained revenue and aggregate expenditure increased by 34.3 and 27.8 per cent respectively over the levels in 2004 to ₦1,660.7 billion and ₦1,822.1 billion respectively.

### 5.1 Federation Account Operations

Total federally-collected revenue in 2005 was ₦5,547.5 billion, exceeding the level in 2004 by 41.5 per cent. The rise was due to the significant increase in oil receipts, particularly in the third quarter of

the year. Analysis of gross revenue showed that oil receipts increased by 42.0 per cent to ₦4,762.4 billion, or 85.8 per cent of the total, compared with 85.6 per cent in 2004.

**Figure 5.1**  
**Federation Account: Composition of Revenue (N'Billion)**



Revenue from crude oil and gas exports amounted to ₦1,995.7 billion, representing an increase of 33.2 per cent over the level in the preceding year. Similarly, revenue from Petroleum Profit Tax (PPT) and Royalties increased by 61.0 per cent to ₦1,904.9 billion, while domestic crude oil sales increased by 28.3 per cent to ₦856.9 billion.

Revenue from non-oil sources increased by 38.8 per cent to ₦785.1 billion. All the components of non-oil revenue increased relative to their levels in 2004. Companies Income Tax (CIT), Customs and Excise Duties, Value-Added Tax (VAT) and Federal Government Independent Revenue increased by 24.6, 7.2, 11.7 and 260.1 per cent, respectively, over their levels in the preceding year. The rise in Federal Government Independent Revenue reflected the

increases in the operating surpluses of parastatals and agencies.

The sum of ₦532.2 billion was deducted from the gross oil receipts for the Joint Venture Cash (JVC) calls, while ₦1,958.9 billion was deducted in respect of excess crude/PPT/royalty proceeds. The latter was retained in the names of the various tiers of government and other beneficiaries (Table 5.1).

### 5.1.1 Federation Account Allocation

The sum of ₦3,033.9 billion accrued to the Federation Account in 2005, an increase of 14.2 per cent over the ₦2,657.2 billion recorded in 2004. Of the total, ₦2,643.7 billion was distributed among the three tiers of government and the Derivation Fund. The difference between net federation account receipts and the amount distributed reflected the exclusion of Federal Government Independent

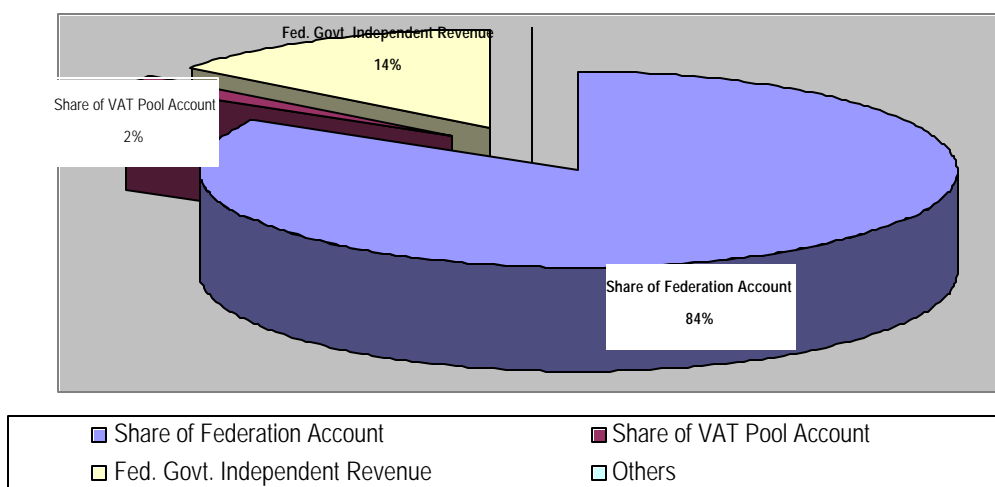
Revenue (₦212.1 billion) and VAT Pool Account (₦178.1 billion). A breakdown of the distribution showed that the Federal Government received ₦1, 237.2 billion, State Governments, ₦627.5 billion, Local Governments, ₦483.8 billion, while ₦295.3 billion went to the Derivation Fund, shared among the oil-producing states.

## 5.2 Federal Government Finances

### 5.2.1 Retained Revenue of the Federal Government

Federal Government retained revenue amounted to ₦1,660.7 billion, representing an increase of 32.5 per cent over the level in 2004 and an excess of 11.3 per cent over the ₦1,492.0 billion budget estimate for 2005. Analysis of the revenue showed that the share from the Federation Account was ₦1,237.2 billion, the VAT Pool Account contributed ₦26.7 billion, Federal Government Independent Revenue fetched ₦212.1 billion, while "others" accounted for the balance.

Figure 5.2: Composition of Federal Govt Retained Revenue in 2005

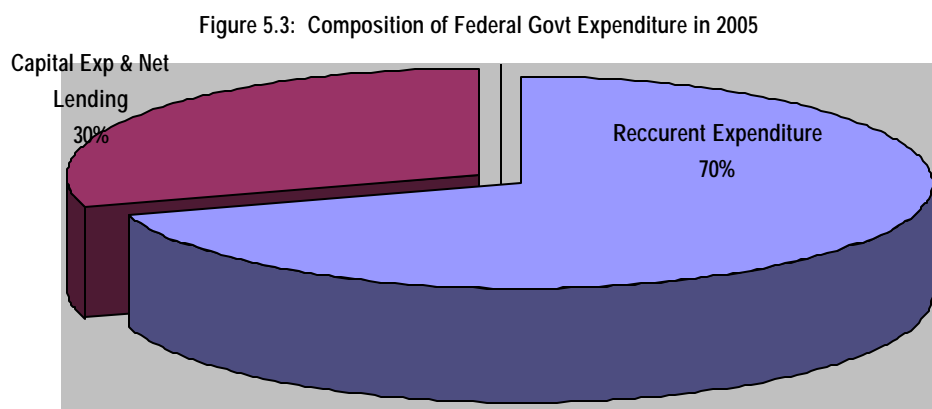


## 5.2.2 Total Expenditure of the Federal Government

Aggregate expenditure of the Federal Government rose by 27.8 per cent to ₦1,822.1 billion from the level in 2004. As a proportion of GDP, total expenditure remained unchanged at 12.2 per cent as in 2004. Non-debt expenditure (i.e. total expenditure less debt service payments) rose by 36.9 per cent above the level in 2004 and was 3.3 per cent below the ₦1,477.2 billion budget estimate for 2005. Total debt service payments amounted to ₦394.0 billion, representing 21.6 per cent of total expenditure (Table 5.2).

### 5.2.2.1 Recurrent Expenditure

At ₦1,223.7 billion, the recurrent expenditure rose by 18.5 per cent over the level in 2004 and accounted for 67.2 per cent of total expenditure. The increase in recurrent expenditure was attributable largely to personnel and overhead costs. Analysis of the components of recurrent expenditure showed that government consumption, comprising purchases of goods and services, amounted to ₦829.8 billion, or 67.8 per cent, while external and domestic debt service, at ₦394.0 billion, accounted for the balance.



A functional classification of recurrent expenditure showed that the outlay on administration rose by 41.7 per cent over

the level in 2004 to ₦434.7 billion and accounted for 35.4 per cent of the total. As a proportion of tax revenue, personnel

cost was 35.5 per cent, and exceeded the minimum of 35 per cent target under the WAMZ secondary convergence criterion. Transfer payments rose by 7.6 per cent to ₦573.1 billion and accounted for 46.8 per cent reflecting, largely, the increase in the outlay for pensions and gratuities as well as transfers to the FCT and "others", which rose by 16.4 and 21.9 per cent, respectively. Expenditure, on economic services rose by 9.4 per cent to ₦64.3 billion, reflecting the rise in expenditure on agriculture and construction activities. Similarly, expenditure on social and community services increased by 12.8 per cent to ₦151.6 billion and accounted for 12.4 per cent of the total (Table 5.3).

#### **5.2.2.2 Capital Expenditure**

Capital expenditure amounted to ₦519.5 billion, representing an increase of 47.9 per cent over the level in 2004, and constituted 28.5 per cent of total expenditure. As a proportion of Federal Government revenue, capital expenditure was 31.3 per cent, exceeding the minimum of 20 per cent target under the

WAMZ secondary criterion. The budget for capital expenditure recorded over 84.2 per cent implementation rate. A breakdown of capital expenditure into economic functions showed that economic services accounted for ₦265.0 billion, or 51.0 per cent of the total, compared with 47.7 per cent in the preceding year. Expenditure on administration accounted for 33.0 per cent of the total, rising by 24.6 per cent over the level in 2004. Similarly, expenditure on social and community services accounted for 13.7 per cent of the total, rising by 137.6 per cent to ₦71.4 billion. The increase resulted from the rise in expenditure on other social service sectors, such as sports, education, population activities culture and tourism (Table 5.4).

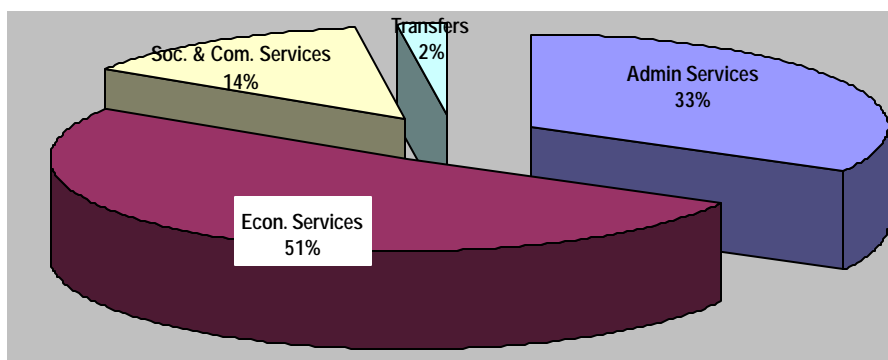
#### **5.2.2.3 Overall Balance and Financing**

The fiscal operations of the Federal Government resulted in a deficit of ₦161.4 billion, or 1.1 per cent of GDP, compared with ₦172.6 billion or 1.5 per cent of GDP recorded in 2004. The deficit was below the budget estimate of 2.8 per cent for

fiscal 2005 and within WAMZ's primary convergence criterion target of 3.0 per cent. The notional deficit occurred as a result of the observance of the fiscal rule on oil benchmark price which resulted in an accumulated savings of US\$16,808.0 million by the three tiers of government at the end of 2005. This was made up of the US\$2,984.1 million unspent from the 2004

savings and the US\$13,824.0 million accumulated in 2005. The deficit was financed entirely from domestic sources, with ₦143.5 billion from the non-bank public, ₦38.4 billion from the FGN's share of the Excess Crude Account, and ₦15.0 billion from privatization proceeds.

Figure 5.4: Functional Classification of Federal Government Capital Expenditure in 2005



### 5.3 State Government Finances

Provisional data on state governments' finances indicated that their fiscal operations resulted in a deficit of ₦13.6 billion, compared with ₦11.1 billion in 2004.

The total revenue of state governments in 2005 was ₦1,255.7 billion, and exceeding

that of the preceding year by 12.7 per cent. It comprised allocations from the Federation Account, including 13.0 per cent derivation fund (₦921.0 billion), allocation from the VAT Pool Account (₦87.4 billion), internally generated revenue (IGR) (₦126.5 billion), stabilization account (₦1.5 billion), and the

reserve account and other grants (N119.3 billion). Receipts from the Federation and VAT Pool Accounts constituted 73.3 and 7.0 per cent, respectively, of total compared with 69.8 and 8.6 per cent respectively in 2004. IGR accounted for 10.1 per cent, down from 12.0 per cent in the preceding year, while receipts from the stabilization and reserve accounts as well as grants, accounted for the balance. The consolidated expenditure of the state governments increased by 12.8 per cent to N1, 269.3 billion. A breakdown of the figure showed that recurrent expenditure at N640.3 billion was higher by 15.0 per cent than the level recorded in the preceding year. Similarly, capital expenditure at N454.2 billion, or 35.8 per cent of the total expenditure, was higher than the level in 2004 by 10.0 per cent. The extra-budgetary expenditure, of the states increased by 12.5 per cent to N174.7 billion and represented 13.7 per cent of the total expenditure, compared with 13.8 per cent in 2004. The combined fiscal operations of the state governments resulted in an overall deficit of N13.6

billion. The deficit was financed by internal borrowing and suppliers credit (Tables 5.5 and 5.6).

#### 5.4 Local Governments' Finances

Provisional data indicated that the consolidated revenue of the 774 local governments, at N597.2 billion, exceeded the revenue in 2004 by 27.5 per cent. A breakdown of the receipts showed that the Federation Account, VAT Pool Account and internally generated revenue accounted for 82.6, 9.3 and 4.0 per cent of the total respectively. The shares of the stabilization fund and state government revenue stood at 1.0 and 0.5 per cent, respectively, while grants and "others" accounted for the balance of 2.5 per cent.

The provisional consolidated expenditure of the councils, which stood at N588.0 billion, was higher than the level recorded in the preceding year by 27.5 per cent. A breakdown of the total expenditure showed that recurrent and capital accounted for 63.7 and 36.3 per cent, respectively. The recurrent expenditure

comprised personnel costs of ₦235.6 billion, overhead costs of ₦119.3 billion, and consolidated revenue fund charges (CRFC) and “others” of ₦19.5 billion. The capital outlay was higher than the level in the preceding year by 29.0 per cent. The fiscal operations of the Local Government Councils resulted in an overall surplus of ₦9.2 billion, up from ₦7.2 billion in 2004 (Table 5.7).

## 5.5 Consolidated Government Debt

The stock of consolidated government debt, as at end-December, 2005, was ₦4,221.0 billion, or 28.3 per cent of GDP, compared with ₦6,260.6 billion, or 53.6 per cent of GDP in 2004. The decrease was traceable to the Paris Club “Debt Relief Deal” which provided a cancellation and a large pay-off of some part of the accrued arrears in 2005. However, while the stock of external public debt declined by 44.9 per cent, that of domestic public debt increased by 11.4 per cent above the level in 2004. The landmark achievement recorded with the debt relief secured by the country from the Paris Club of

Creditors significantly reduced the stock of external debt from US\$35.9 billion in 2004 to approximately US\$20.5 billion as at end-December, 2005. Domestic debt outstanding amounted to ₦1,525.9 billion, representing 36.2 per cent of total while external debt outstanding amounted to ₦2,695.1 billion (US\$20.5 billion) or 63.8 per cent of the total.

### 5.5.1 Domestic Debt

The domestic debt stock of the Federal Government outstanding at end-December 2005 stood at ₦1,525.9 billion, representing an increase of 11.4 per cent over the level in 2004. The increase was due mainly to the issuance of fresh FGN Bonds worth ₦140 billion, in line with government’s policy to access the capital market for its financial needs.

The banking system remained the dominant holder of Federal Government securities. Its holding increased slightly over the preceding year’s level by 5.8 per cent or ₦62.1 billion. The total holding of the non-bank public also increased by 31.4 per cent to ₦391.3 billion. Further

analysis of the holdings showed that the DMBs, the CBN and the non-bank public accounted for 47.6 per cent, 25.6 per cent and 26.8 per cent, respectively. Similarly, holdings by the DMBs increased by 33.7 per cent to ₦726.2 billion and accounted for 64.0 per cent of the banking system's holdings.

Analysis of the maturity structure of domestic debt showed that instruments with a tenor of two (2) years and below accounted for ₦983.7 billion, or 64.5 per cent, compared with ₦938.6 billion, or 68.5 per cent, in the preceding year. This was followed by instruments with a tenor of ten (10) years and above which accounted for 17.8 per cent or ₦271.2 billion. Similarly, instruments with a tenor of two (2) to five (5) years accounted for 10.7 per cent or ₦163.9 billion, while those with a tenor between five (5) and ten (10) years accounted for ₦107.0 billion or 7.0 per cent of the total (Table 5.9).

## 5.5.2 External Debt

The composition of the external debt stock showed that the Paris Club's share declined from US\$30.8 billion in the preceding year to US\$15.4 billion and accounted for 75.1 per cent of the total. The share of multilateral debt fell from US\$2.8 billion in 2004 to US\$2.5 billion and accounted for 12.2 per cent of the total. Promissory notes at US\$0.6 billion, fell below the preceding year's level by 17.0 per cent and accounted for 3.2 per cent of the total, while "others" at US\$0.5 billion, accounted for 0.2 per cent of the total. The London Club's claim, however, remained unchanged at the preceding year's level, accounting for 6.8 per cent of the total (Table 5.10).

### 5.5.2.1 Debt Service Payments

Total debt service payments in 2005 was estimated at ₦330.4 billion. This comprised ₦180.0 billion or US\$1.4 billion for external debt service and ₦150.5 billion for domestic debt service. Overall, debt service payments to GDP ratio declined from 3.8 per cent in the

preceding year to 22 per cent in 2005. Also, under the debt relief agreement secured with the Paris Club, the sum of

US\$6.3 billion was paid out of Nigeria's total external debt (Table 5.11).

### Box 5: Nigeria's External Debt Relief Deal

Nigeria's external debt could be traced back to 1958 when the country first contracted the sum of US\$28 million for railway construction. Since then a number of external debt have been contracted. Total debt outstanding remained low throughout the 1960s and 1970s. However, huge external borrowings were made in the mid-1980s to finance large capital projects for economic development in the face of dwindling oil revenue, occasioned by the glut in the international oil market. The general rise in interest rates and the recapitalization of the accrued interests on the loans led to a rapid growth in the debt stock. The debt situation worsened with the entry of State Governments into the external loan contractual obligations, with many of the loans having unfavourable terms, and indeed, mismanaged. Specifically, total external debt stock grew rapidly from less than US\$1.0 billion in 1970 to US\$18.5 billion in 1985 and further to US\$34.1 billion in 1995. However, it declined to US\$30.9 billion in 2002, before rising to US\$32.9 billion in 2003 and US\$35.9 billion in 2004. It is instructive to note that the increase did not result from new loans, but instead from the capitalization of accrued arrears on deferred payments. Moreover, Nigeria made cumulative debt service payments of about US\$37.0 billion to all the creditors between 1985 and 2004.

By 1986, the country had recognised that the debt profile was unsustainable and, thus, began rounds of negotiations with the Paris Club and other groups of creditors to address the precarious debt situation. During that period, Nigeria was able to secure four major debt restructuring, with the last in 2000. A major outcome of these efforts was that the country reached a rescheduling agreement with the Paris Club in December 2000, which was structured on the Houston terms.

The Houston terms are a debt restructuring package for lower middle-income countries with per capita income of between US\$785.0 and US\$3,125.0. In that process, Nigeria rescheduled about US\$21.4 billion Paris Club debt for 18-20 year period. Also, the Official Development Assistance (ODA) credits were rescheduled at new interest rates that were almost as un concessionary as the original interest rates for over 20 years, with a grace period of 10 years. Commercial credits were rescheduled at over 18 years at market-based interest rates and with a 3-year grace period. In spite of these efforts, Nigeria's external debt stock continued to build-up as the Houston terms only allowed for a deferral of payments with no provision for actual debt reduction.

Thus, by 2004, the Creditor composition of Nigeria's external debt was as follows:

Paris Club	-	US\$30.85 billion or 85.8 per cent
Multilateral Institutions	-	US\$2.82 billion or 7.9 per cent
London Club	-	US\$1.44 billion or 4.0 per cent
Promissory Note Holders	-	US\$0.78 billion or 2.2 per cent
Non-Paris Club Bilateral	-	US\$0.048 billion or 0.1 per cent

Much of the resources which would have been devoted to government's poverty reduction programmes were being utilised for debt service. For instance, from 0.8 per cent in 1980, the actual debt service ratio (debt service over exports) rose to 23.9 per cent in 1990, but later declined to 7.2 per cent in 2004, largely on account of accumulation of arrears. The huge external debt obligations, thus, became burdensome.

However, the satisfactory progress made since 2004, with the implementation of a home-grown economic reform programme, the National Economic Empowerment and Development Strategy (NEEDS), coupled with improvements in economic governance and the anti-corruption drive of the present administration, added impetus to the quest for debt relief for Nigeria among creditor nations. Also, it was argued that a debt relief was imperative, if Nigeria was to achieve the objectives espoused under NEEDS, as well as meet the Millennium Development Goals (MDGs) by 2015.

Consequently, on June 29, 2005, the country secured a major breakthrough in her quest for debt relief, with the Paris Club agreement to grant Nigeria an International Development Assistance (IDA)-only status, which was supportive of the debt relief struggle. To give practical effect to this, a delegation from the country met with the Paris Club Creditors on October 20, 2005, and a final agreement was reached to cancel 60 per cent (US\$18 billion) of Nigeria's debt with the Paris Club. The breakdown of the debt owed Paris Club was:

Principal Balance	-	US\$25,199,180.00
Arrears	-	-US\$5,684,634.53
Total	-	-US\$30,847,814.53

The agreement involved a debt reduction, under the Naples terms, on eligible debts and a buy back at a market-related discount on the remaining eligible debts after reduction, and was to be implemented in two phases, conditional on the implementation of a comprehensive economic reform programme under the Policy Support Instrument (PSI), as approved by the Executive Board of the International Monetary Fund (IMF) on October 17, 2005. The Naples terms are a more generous debt relief package reserved only for lower income countries that showed good performance on their reform programmes.

In the first phase, Nigeria undertook to pay arrears of US\$6.3 billion, due on all categories of debts, while the Paris Club creditors would grant a 33.0 per cent cancellation of eligible debts and this was achieved during the fourth quarter of 2005. The second phase would become due after the approval of the first review of the PSI by the Executive Board of the IMF during the first half of 2006. Then, Nigeria would pay US\$6.1 billion, the amount due under the post-cut off date debt. The Paris Club Creditors would grant a further cancellation of 34.0 per cent on eligible debts and then buy back the remaining eligible debts. The execution of this fifth bilateral agreement with the Paris Club Creditors would facilitate the resumption of normal bilateral economic relations with the member countries. The total amount to be paid, under the debt relief deal to complete the exit strategy from the Paris Club debt overhang, amounted to US\$12.4 billion.

## 6.0 The Real Sector

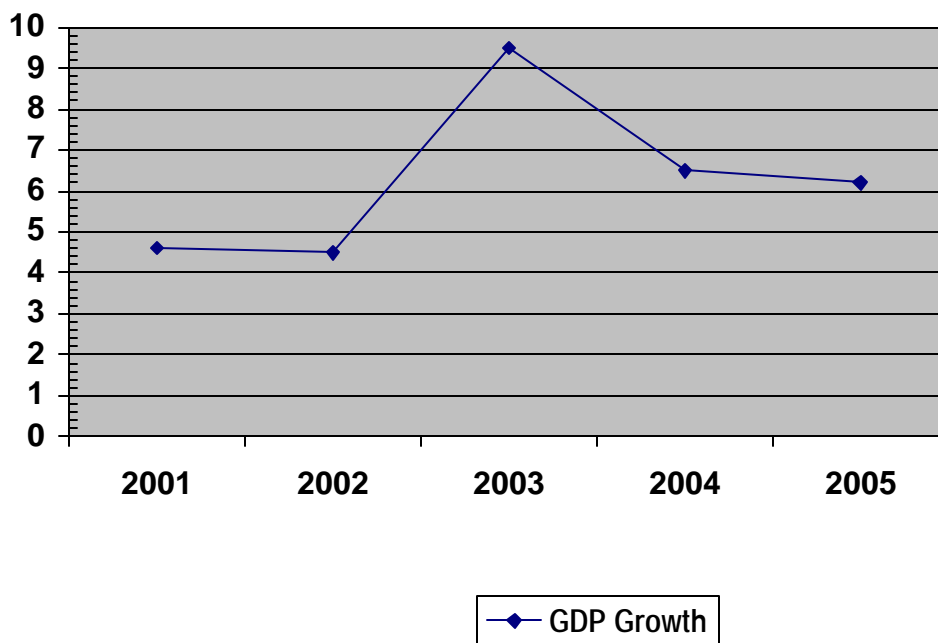
The impressive performance of the real sector was sustained in 2005 as the real gross domestic product (GDP), measured in 1990 basic prices grew by 6.2 per cent, compared with 6.5 per cent in 2004. The main drivers of growth were agriculture, general commerce and services. Industry as a group grew marginally, largely from the increase in crude oil production. Growth in manufacturing output, electricity consumption and solid minerals sub-sectors was unimpressive. Inflationary pressure persisted as the year-on-year inflation rate rose to 11.6 per cent from 10.0 per cent in 2004. However, core inflation was subdued to a single digit.

### 6.1 Domestic Output

The Gross Domestic Product (GDP), measured in 1990 constant basic prices, rose by 6.2 per cent to ₦560.4 billion. The growth rate compared favourably with the 6.5 per cent recorded in 2004. The performance of the non-oil GDP was impressive with a growth rate of 8.2 per cent, while oil GDP grew by 0.5 per cent. Agriculture, general commerce and

services were the main drivers of growth. Industry as a group grew marginally largely from the increase in crude oil production. Growth in manufacturing, electricity consumption and solid minerals sub-sectors was unimpressive. Communications recorded the highest growth rate in the last five years, although its share of the GDP remained low, at 1.5 per cent.

Figure 6.1: GDP Growth 2001 - 2005

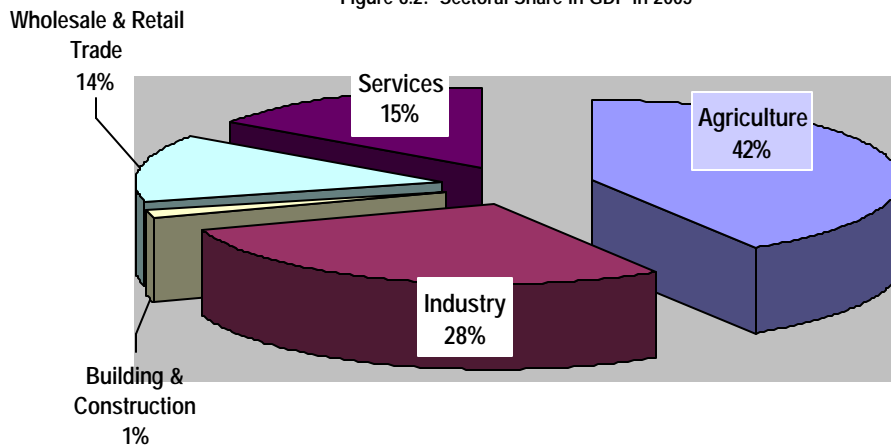


A sectoral analysis showed that agricultural output, comprising crop production, livestock, forestry and fishery, accounted for 41.2 per cent of GDP, almost the same as in 2004. The industrial sector, made up of crude petroleum, mining and quarrying, and manufacturing contributed 28.4 per cent, compared with 29.7 per cent in the preceding year. The share of the services sector was 15.2 per cent, while general commerce, and building and construction

accounted for 13.7 and 1.5 per cent, respectively (Table 6.1).

Available data also showed that the real domestic output, based on the expenditure approach (1990 purchasers' value), stood at ₦575.7 billion compared with ₦541.5 billion, in 2004. Private consumption expenditure and government final expenditure were ₦356.4 billion and ₦86.7 billion, respectively, compared with the level in the preceding year of ₦361.2 billion and ₦78.5 billion, respectively (Table 6.3).

Figure 6.2: Sectoral Share in GDP in 2005



## 6.2 Agriculture

### 6.2.1 Agricultural Production

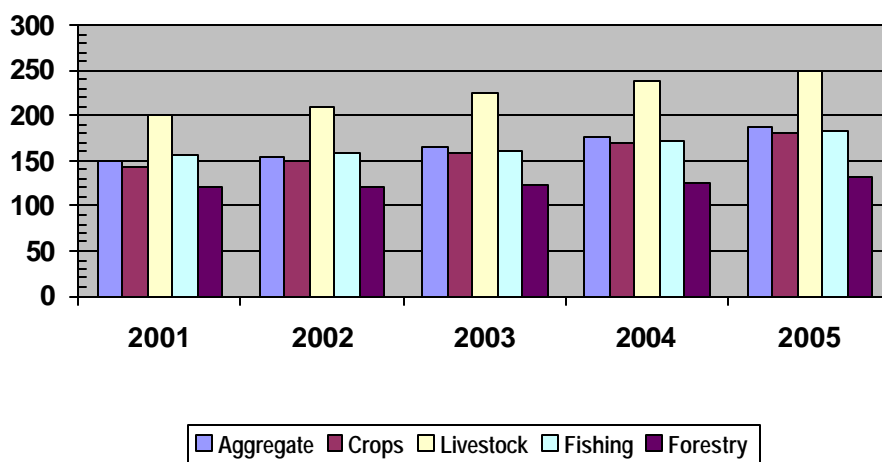
The performance of the agricultural sector improved further in 2005. Provisional data from the CBN/NBS joint survey indicated that the aggregate index of agricultural production stood at 186.9 (1990=100), compared with 175.5 in 2004<sup>1</sup>. This represented an increase of 6.5 per cent, compared with the 6.1 per cent recorded in 2004, and the average of 4.7 per cent for the period 2001 to 2004. The performance was above the target of 6.0 per cent set for the agricultural sector in the National Economic Empowerment and

Development Strategy (NEEDS) programme. All the sub-sectors recorded increases in output, thereby contributing to the overall growth of the sector (Table 6.5).

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<sup>1</sup> The computation of the index is based on gross output of the sector and not value added.

Figure 6.3: Index of Agricultural Production (1990=100)



The output of staples grew by 6.8 per cent, compared with 6.3 per cent in 2004. All the major staple crops recorded increases in output over the levels recorded in the preceding year. The output of maize, millet, sorghum, rice and wheat rose by 9.1, 6.2, 6.0, 5.8 and 6.2 per cent, respectively, over their levels in 2004. Similarly, the output of beans, cassava, potatoes, yam and plantain increased by 3.1, 8.0, 7.3, 6.8 and 7.3 per cent, respectively. Cash crop production increased by 7.8 per cent when compared with the level in the preceding year. The output of soya bean, palm oil, cocoa and rubber increased by 6.9, 5.0, 6.3 and 6.4 per cent, respectively. Also, the output of

melon, groundnut and benniseed grew by 6.8, 8.3, and 6.1 per cent, respectively (Table 6.6).

The impressive growth in the crop sub-sector was largely attributed to the Federal Government's strong support for the agricultural sector in general. The support was reinforced by the subsidy on the supply of fertilizers and other inputs. A total of 124,029.5 tonnes of assorted fertilizers, 4,200 tonnes of agricultural lime and 56,000 litres of micro nutrients, all valued at ₦9.0 billion, were procured and distributed to the thirty-six states and the FCT, River Basin Development Authorities (RBDA) and the National Special Programme for Food Security (NSPFS) at

25 per cent subsidy. Also, the temporary prohibition of the importation of fruit juice, vegetable oil, poultry and related products, and the intensification of the export drive for cassava an increased their local prices and encouraged farmers to expand production. Furthermore, an increase in the tempo of activities under the Fadama II project and the favourable weather conditions provided an additional impetus for the improved performance of the sector.

Other contributory factors were the operationalisation of the presidential initiatives on rice, cassava, vegetable oil, tree crops, livestock, fisheries and aquaculture development, rubber development and tropical fruits. A total sum of ₦1.1 billion, including the ₦687.3 million proceeds from 10.0 per cent surcharge on rice importation, was released for the take-off of the crops-related initiatives and another ₦100.0 million was released for the livestock initiative. The implementation of the blueprint for fisheries and aquaculture development also commenced. The

activities of the NSPFS and the South-South Co-operation (SSC) Programme, Roots and Tuber Expansion Project (RTEP), and Community Based Agricultural Development Project all contributed to the growth of the sector.

The index of livestock production at 250.0 (1990=100), rose by 5.0 per cent, compared with the increase of 9.2 per cent in the preceding year. Poultry production increased by 21.3 per cent, compared with 10.3 per cent in 2004. The increase was enhanced by improved disease control and the use of improved vaccines in all the states. Also, output of poultry was boosted by the export of poultry products to some West African countries. In furtherance of the presidential initiative on livestock, a programme for popularizing indigenous Shika Brown chicken, developed by the National Animal Production Research Institute (NAPRI) for the commercial poultry sector, was intensified. Output of goat meat, mutton and eggs rose by 2.5, 2.4 and 10.4 per cent, respectively,

compared with the growth rate of 0.1, 2.9 and 3.8 per cent, respectively, in the preceding year. Improved breeding and fattening programmes, as well as continued intensification of various disease control programmes, contributed to the observed growth. Also, the expansion of the presidential initiative on dairy into the School Feeding Programme boosted the demand and encouraged increased output.

At 182.1 (1990=100), the index of fish production rose by 5.8 per cent, compared with 7.2 per cent recorded in 2004. The increase was attributable mainly to the implementation of some government initiatives, including the promotion of fibre-glass tanks technology, the establishment and development of fish farm estates, as well as the stocking of lakes and dams with fingerlings. The Artisanal Fisher Folks Scheme commenced during the year with a US\$1.5 million loan assistance from the International Fund for Agricultural Development (IFAD). Similarly, under a public-private sector partnership, the

Ebughu Coastal Terminal was rehabilitated for the productive fishing and shrimp industry, as well as for aquaculture.

At 132.6 (1990=100), the index of forestry production rose by 5.5 per cent in 2005, compared with an increase of 2.1 per cent in the preceding year. The rise in output was attributed to increased exploitation of forests in response to increased demand for wood products. The Forestry Research Institute of Nigeria intensified its supply of improved breeder seedlings to replace the harvested tree stock and to ensure the sustainability of the sub-sector.

In spite of the remarkable performance of agriculture in 2005, some problems persisted, including inadequate supply of fertilizers and other farming inputs, and the time lag between the supply and distribution of inputs and the planting period. Another problem was the invasion of farms by quela birds in Kebbi, Sokoto, Zamfara, Jigawa, Bauchi, Gombe, Borno, Taraba, Yobe and Adamawa states.

## 6.2.2 Agricultural Prices

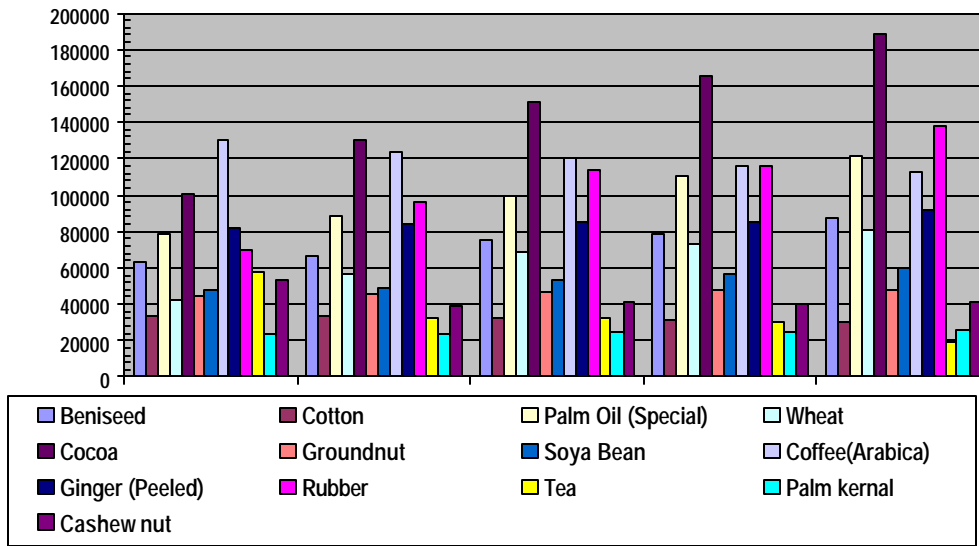
The prices of Nigeria's major agricultural commodities continued its downward trend in the world market in 2005. The all-commodities world price index, computed in US dollars, stood at 86.9 (1985=100), representing a decline of 1.8 per cent below the level in the preceding year. The fall in prices was attributable largely to weak international demand and excess supply. Of all the commodities monitored, only the price of coffee increased, 45.7 per cent, over its level in the preceding year. The increase in the price of coffee was more than offset by the decline in the prices of other commodities monitored. The decrease in the prices of the other commodities ranged from 9.8 per cent for soya bean to 11.5 per cent for copra (Table 6.7).

In naira terms, the all-commodities index fell by 7.1 per cent to 7,881.9 (1985=100). Of all the commodities monitored, only the price of coffee increased, by 37.9 per cent, over the level in the preceding year. The prices of other

monitored commodities decreased by 5.2, 6.5, 13.0, 13.1 and 13.3 per cent respectively for cocoa, copra, soyabean, cotton and palm oil (Table 6.8).

The domestic producer prices of Nigeria's major agricultural commodities recorded a mixed trend in 2005. Of the thirteen commodities monitored, ten registered price increases, which ranged from 1.6 per cent for groundnut (unshelled) to 19.0 per cent for rubber. The increase in prices was attributable partly to increased costs of transportation, resulting from the upward adjustments in petroleum products' prices and the exportation of some agricultural produce to neighbouring countries such as Chad and Niger, in the form of food aid to cushion the effects of the drought in these countries. However, the prices of other commodities, such as tea and cotton fell by 37.5 and 2.5 per cent, respectively (Table 6.9).

Figure 6.4: Average prices of Selected Cash Crops (Naira per Tonne) 2001 - 2005

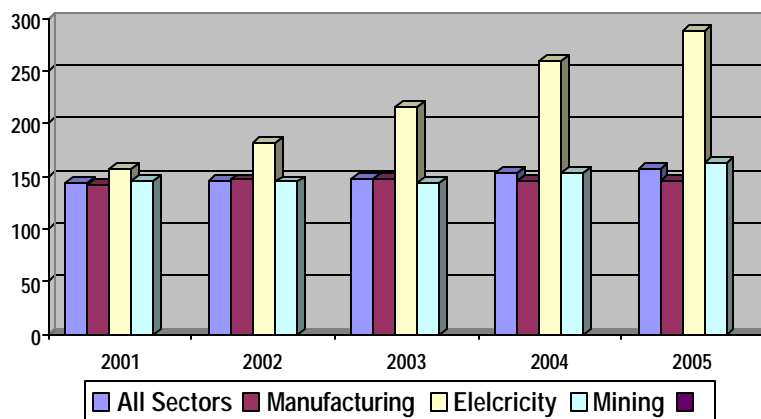


### 6.3 Industry

Aggregate industrial output improved in 2005. The index of industrial production, estimated at 157.0 (1985=100), rose by 2.1 per cent over the level in 2004.<sup>1</sup> The improvement was attributable largely to the 2.7 and 1.2 per cent increases in mining production and electricity consumption, respectively, as manufacturing output stagnated (Table 6.10).

<sup>1</sup> The computation of the index is based on gross output of the sector and not value added.

Figure 6.5 Index of Industrial Production (1985=100)



### 6.3.1 Manufacturing

The index of manufacturing production was estimated at 145.7 (1985=100), almost the same as in 2004<sup>1</sup> (Table 6.11). Correspondingly, the estimated average capacity utilization rate in the sector rose marginally by 0.9 percentage point, from 45.0 per cent in 2004 to 45.9 per cent. The performance in the manufacturing sub-sector was attributed to a number of factors, including the relative macroeconomic stability and the regular supply of petroleum products. The sector also benefited from the salutary effects of the surveillance activities of the

National Food Drugs Administration and Control (NAFDAC) and the Standards Organization of Nigeria (SON) on the food, beverages and pharmaceutical sub-sectors.

### 6.3.2 Mining

#### 6.3.2.1 Crude Oil

Nigeria's crude oil production, including condensates, averaged 2.53 million barrels per day (mbd), or 923.5 million barrels in 2005, compared with 2.46 mbd or 900.4 million barrels recorded in 2004. This represented an increase of 2.8 per cent. The Oso condensate contributed 23.1 million barrels (2.5% of total output), compared with 22.5 million barrels produced in 2004. The increase

<sup>1</sup> The computation of the index is based on gross output of the sector and not value added.

in Nigeria's crude oil output was largely attributed to the lifting of the production ceiling by OPEC on member countries, following increased global demand and sluggish growth in supply. Complementary to this was the coming into operation of Shell's Bonga Oil field, a development that raised Nigeria's crude oil production capacity from 2.6 to 2.8 million barrels per day. However, a further increase in the production of crude was constrained by disturbances in the Niger Delta area, which disrupted the production activities of oil companies, especially Shell Petroleum Development Company (SPDC) and Chevron Nigeria Limited.

Aggregate export of crude oil averaged 2.1 mbd, or 759.2 million barrels, compared with 2.0 mbd or 735.7 million barrels in 2004. A total of 164.3 million barrels of crude oil was supplied to the Nigerian National Petroleum Corporation (NNPC) for local refining out of which 76.0 million barrels or 46.3 per cent was processed by the local

refineries, while 84.0 million barrels or 53.7 per cent was exported.

The Federal Government revoked the licences of five oil companies (three multinationals and two local ones) on 22 oil blocks after about 10 years of inactivity. The recovered blocks were part of the 75 oil blocks offered by government for allocation to successful bidders in the 2005 bid round, in which 25 companies won and have fully paid for the blocks.

The average spot price of Nigeria's reference crude, the Bonny Light (37<sup>0</sup> API), stood at US\$55.4 per barrel in 2005, compared with US\$38.7 per barrel in 2004. This represented an increase of 43.1 per cent. The average prices of the Forcados, UK Brent and West Texas Intermediate also rose by 43.9, 42.4 and 36.2 per cent to US\$55.2, US\$54.4 and US\$56.2 barrel, respectively. The average price of OPEC's basket of seven crude streams rose from US\$36.1 in 2004 to US\$50.6 a barrel in 2005. The sharp increase in price was attributed to the rise in global energy demand, especially from

China, and the anxiety over supply disruptions in Nigeria, Iraq and Iran. The hurricanes Katrina and Rita that ravaged oil installations in the Gulf of Mexico also induced the price increase.

### **6.3.2.2 Gas**

Aggregate output of natural gas in 2005 fell by 2.7 per cent to 57861.1 million cubic meters (MMm<sup>3</sup>), compared with 59,493.8 MMm<sup>3</sup> in 2004. The decrease in associated gas production was attributed to the decline in the output from older oil wells. Of the total output, 40.0 per cent, or 23,117.0 MMm<sup>3</sup> was flared, compared with 43.0 per cent in 2004. The volume utilized for various purposes was 34,744.1 MMm<sup>3</sup>, compared with 34,177.5 MMm<sup>3</sup> in 2004. The increase in gas utilization was largely attributed to gas sold to other industries {3.7%}, gas converted to natural gas liquids {5.48%} and gas lifted {2.8%}.

### **6.3.2.3 Solid Minerals**

Solid minerals production remained unchanged in 2005 when compared with the preceding year. Data from the Federal Ministry of Solid Minerals Development showed that total production stagnated at 13,010,423 tonnes. The output of marble, columbite and coal declined by 1.1, 0.9 and 0.1 per cent, respectively. The production of limestone was sustained at the same level as in the preceding year, as the high demand for the product by cement manufacturers persisted. Expansion of production in the sub-sector was stymied by the revalidation of mining and quarrying rights, licences and leases by the Federal Ministry of Solid Minerals Development. In addition, the Federal Government abolished States' Ministries of Solid Minerals during the year. These exercises were aimed at repositioning the sector for better performance in the years ahead.

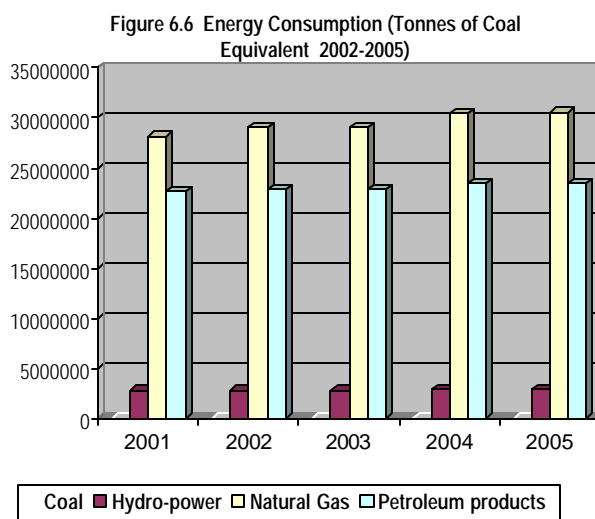
### 6.3.3 Electricity Generation

The quantum of electricity generated declined in 2005. At 2,687.1 megawatt hour (MWH), aggregate electricity generation fell by 2.8 per cent, in contrast to the increase of 15.2 per cent in 2004. The decline was attributable largely to the low water levels in the hydropower plants, disruptions of gas supply to the thermal plants and the inability of Power Holding Company of Nigeria (PHCN) to pay the increased gas prices. These resulted in the twenty (20) system collapses experienced in 2005. The installed electricity capacity of the PHCN stood at 5800 mw, while that of the Independent Power Plants (IPPs) was 300 mw. Thus, PHCN accounted for 99.5 per cent of the total electricity generated, while the IPPs accounted for the remaining 0.5 per cent.

### 6.3.4 Energy Consumption

At 171.2 (1985=100), the aggregate index of energy consumption increased by 0.5 percent in 2005, compared with 2.7 percent in 2004. The energy consumed rose from 23.2 million tonnes of coal

equivalent (mtce) in 2004 to 25.3 million tonnes, representing an increase of 9.1 per cent. The increase was accounted for by a rise in the consumption of natural gas (31.3 per cent) and petroleum products (15.0 per cent). The consumption of coal stagnated, while that of hydropower, declined by 24.6 per cent.



#### 6.3.4.1 Petroleum Products

Aggregate consumption of petroleum products stood at 10,434,146.16 tonnes representing an increase of 0.1 percent, in contrast to the decline of 4.1 per cent in 2004. The increase was attributed to developments in the consumption of Liquefied Petroleum Gas (LPG), which rose by 0.3 per cent, and Automotive Gas

Oil (AGO) 0.6 per cent. The consumption of LPG increased due mainly to the waiver of value-added tax on it by the Federal Government, and the resultant price drop of 16.0 per cent. The increase in the consumption of AGO was attributed to continued stability in the supply and price of the product which induced high consumption by heavy trucks and users generating set, in the face of declining performance in electricity supply. However, the consumption of Premium Motor Spirits (PMS), which constituted 72.8 percent of total petroleum products consumption stagnated, due largely to the price increases effected in the last quarter of 2004 and in August 2005.

#### **6.3.4.2 Electricity Consumption**

Electricity consumption increased by 1.2 per cent to 1,973.1 MWh in 2005. The rise in consumption was accounted for by the increases of 0.5, 0.9 and 0.2 per cent in the residential, commercial/street lighting and industrial consumption, respectively. The marginal improvement reflected mainly the effect of increased

government funding to the sector since 1999, especially for the installation of new equipment and the rehabilitation of transmission and distribution facilities in the electric power sector. Residential consumption accounted for 51.4 per cent of total electricity consumption, while commercial and street lighting, and industrial consumption had respective shares of 26.8 and 21.8 per cent of total.

#### **6.3.4.3 Hydropower Consumption**

At 3.1 million tonnes of coal equivalent (tce), hydropower consumption decreased by 24.7 percent in 2005, in contrast to an increase of 42.9 percent in 2004. The decline was attributable to the low levels of performance of the hydropower plants occasioned largely by the low water level at the dammed rivers and the aging of plants. For instance, the Shiroro power plant was finally shut down in May 2005 after about six months of declining output, owing to declining water levels of River Kaduna. In addition, the Kainji hydropower plant collapsed, prompting the Federal Government to borrow the sum of US \$172 million from the World Bank for its

repair, along with other projects in the electricity sub-sector.

#### **6.3.4.4 Coal Consumption**

Coal consumption almost stagnated at 8,050.7 tonnes of coal equivalent (tce) when compared with 8065.7 tce recorded in 2004. This was attributable largely to a shift in the pattern of major coal consumers, especially the Power Holding Company of Nigeria (PHCN), to more environmental-friendly sources of energy. The Nigerian Railway Corporation, another major coal consumer, has recorded a steady decline in performance for more than a decade thereby further deepening distress in the coal industry. In addition, the unimpressive performance of the manufacturing sub-sector contributed to the lull in the industry as such companies as the Nkalagu Cement factory which relied mainly on coal for energy remained dormant. Other problems of the coal industry included the yet inconclusive efforts at coal carbonization and briquetting, aimed at producing smokeless coal, as well as the

failure to mechanize the mines for increased production.

#### **6.3.4.5 Natural Gas Consumption**

The consumption of natural gas at 46.6 million tonnes of coal equivalent, increased by 1.7 percent, compared with an increase of 21.7 percent in 2004. Natural gas accounted for 66.10 percent of total energy consumed in 2005, compared with 67.4 per cent in the preceding year. The increase in natural gas consumption was attributable to improved operations at the Nigerian Liquefied Natural Gas (NLNG) with the take-off of its fourth train. Moreover, natural gas enjoyed the patronage of an increasing number of manufacturing firms and the thermal power generating plants, especially the Independent Power Plants. In addition, Global Gas and Refining Company - a subsidiary of Global Energy International based in the United States - commenced processing of about 120 million cubic feet of natural gas into liquefied petroleum gas at its Cawthorne Channel Gas Processing Plant in Bonny,

Rivers State. However, further expansion in the consumption of natural gas was constrained by disturbances in the Niger Delta region, which forced some oil companies to suspend oil and gas operations in the area.

## **6.4 Transportation and Communications**

### **6.4.1 Airline Services**

#### **6.4.1.1 Domestic Airlines**

The operations of private domestic airlines recorded a phenomenal decrease in 2005. The number of passengers airlifted fell by 58.6 per cent to 4.2 million, compared with 10.1 million in 2004. Similarly, cargo tonnes per kilometre dropped by 55.8 per cent over the preceding year's level. Mail tonnes per kilometre followed the same trend, as it declined drastically by 97.7 per cent to 8,773 million from the 377,303 million recorded in 2004. This outcome adversely affected the aggregate revenue of the airlines which dropped by 40.0 per cent below the preceding year's figure from ₦7.1 billion to ₦4.9 billion. The general dismal performance of the sector

in 2005 was attributed to the series of air disasters, which eroded public confidence in air travel. There were three air crashes which claimed over 200 lives.

#### **6.4.1.2 Foreign Airlines**

The performance of the airlines on the international routes followed the same pattern as on the domestic routes. The number of passengers airlifted on all routes (African and other routes) fell by 58.9 per cent, while cargo tonnes per kilometre and mail tonnes per kilometre dropped by 71.5 and 27.8 per cent, respectively. Consequently, aggregate revenue fell by 75.4 per cent to ₦2.3 million in 2005, compared with ₦9.4 million in the preceding year. However, a remarkable development in the sector was the emergence of a new national carrier, Virgin Nigeria Airways.

### **6.4.2 Railway Services**

Available data revealed a weak performance in the services of Nigerian railways. The number of passengers carried and passengers' revenue

decreased by 81.5 and 60.8 per cent, respectively. Freight-tonnes/kilometre and freight-revenue declined in similar proportions.

### 6.4.3 The Communications Sector

The Communication sector improved further in 2005 driven largely by the Global System for Mobile Communication (GSM). From US\$50.0 million in 1999, cumulative foreign private investment rose remarkably to US\$7.5 billion as at December 2005. As at December 2005, the sector had 1,223,258 connected fixed lines and 18,587,000 mobile lines, giving a combined subscriber strength of 19,810,258 lines with a teledensity of 15.7 lines per 100 inhabitants. This compares favourably with a combined subscriber strength of 10,201,728 lines and a teledensity of 8.5 lines per 100 inhabitants recorded in 2004. The figure for 2005 is also significantly above the International Telecommunication Union (ITU) minimum standard of 1:100. The contribution of the sub-sector to GDP increased by 27.8 per cent, from ₦6.7 billion in 2004 to ₦8.6

billion. The industry currently employs about 5,500 professionals directly in addition to the creation of about 450,000 indirect jobs in 2005. The phenomenal growth in the sub-sector notwithstanding, the quality of services provided by the operators has remained unimpressive, owing to poor interconnectivity between the different networks. The problems of constant call droppings, message and call failures, and overloaded billings have not been effectively addressed despite numerous complaints from the consuming public.

### 6.5 Unemployment

Data from the National Bureau of Statistics showed that the number of registered unemployed with the Employment Exchange Offices increased by 1.3 per cent to 317,769. Further analysis showed that the number of registered unemployed in the professional and executive cadre rose significantly by 443.5 per cent to 22,533. In contrast, the number of registered unemployed lower-grade workers was 295,236, representing

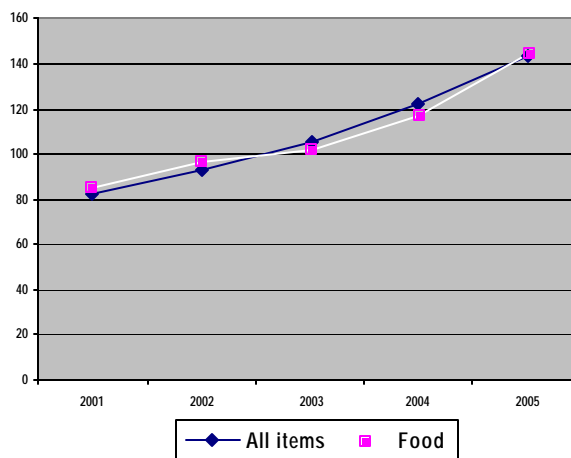
a decrease of 4.6 per cent below the level in 2004.

## 6.6 Consumer Prices

Inflationary pressures persisted in 2005 and were only moderated in the last quarter. Data from the National Bureau of Statistics (NBS) indicated that the all-items composite consumer price index (CPI) for December, 2005 stood at 144.7 (May 2003 = 100), and represented a year-on-year inflation rate of 11.6 per cent. The rate was above the single digit target and the 10.0 per cent recorded in 2004. Similarly, the 12-month moving average inflation rate for end-December 2005 stood at 17.9 per cent, compared with 15.0 per cent in 2004. The food index increased by 15.5 per cent to 144.1, compared with 14.6 per cent in the previous year. The persistent inflationary pressure was attributed to the increase in food export, particularly cassava and grains. The rise in export influenced an increase in relative domestic prices as was the re-stocking of the strategic grains reserve following food aid to two

neighbouring countries, Niger and Chad, affected by drought, famine and poor harvest. The decrease in inflation rate in the last quarter of 2005 was attributed to the good agricultural harvest, which had a dampening effect on prices, as well as stability in the exchange rate of the naira.

Figure 6.7 Composite Consumer Price Index (2003=100)



## 6.7 The Social Sector

### 6.7.1 Living Standard and Poverty Reduction

Available data from the Nigerian Living Standard Survey conducted in 2003/2004 indicated that the incidence of poverty exhibited a downward trend. It declined from 70.0 per cent in 2000 to 54.4 per cent in 2004. In 2005 the federal and state government agencies were involved in poverty reduction programmes. The

leading agency at the federal level was the National Poverty Eradication Programme (NAPEP), which disbursed a total of ₦500.0 million to some states under the Revolving Micro-credit Fund Scheme. A total of 120,000 people benefited from the disbursement to enable them set up small enterprises. Also, a total of 50,000 people were trained in targeted skills for entrepreneurial development under the Capacity Acquisition Programme of NAPEP. In the same vein, a total sum ₦240.0 million was disbursed to 7200 farm families under NAPEP's Farmers Empowerment Programme. This was to enable them expand their business activities and improve productivity, as well as introduce new and improved farming techniques. Under phase two of NAPEP's Capacity Enhancement Programme, a total of 2000 units of three wheeler vehicles, called "Keke NAPEP", were distributed to the youth. They were sold at a 50% discount on an owner-operated basis.

### **6.7.2 Healthcare Delivery**

The Federal Government's health programme recorded improvements in 2005. Government commenced construction of 200 model healthcare centres across the country. The primary health care model centres would be the focal point of community health management and eradication of the major child killer diseases. About 154 centers had been completed, while the remaining 46 were at various stages of completion. On a regional basis, 31 model centers have been completed and handed over in the North West zone (out of 38), 23 in the North East (out of 32), 28 in the North Central (out of 28), 32 in the South West (out of 33), 21 in the South East (out of 31) and 17 in the South South (out of 33). The National Programme on Immunization (NPI) recorded huge success in the immunization of children up to the age of five against polio and other child killer diseases. There were variations in the percentage of children who received

specific vaccinations by urban-rural residence, region, level of education, and wealth quintile. More than three times as many urban children were fully immunized compared with rural children (25 and 7.0 per cent, respectively). The differentials by wealth quintile were almost as large: less than 4.0 percent of children living in households in the two lowest quintiles were fully vaccinated; and 40.0 percent of children in households in the highest quintile received all recommended vaccinations. Determined to ensure the success of the National Health Insurance Scheme (NHIS), the Federal Government released the sum of ₦4.8 billion as its take-off grant.

The National Agency for Food, Drug Administration and Control (NAFDAC)'s consultations with national and international stakeholders, resulted in the provision of various assistance in the areas of staff training, donation of equipment and information sharing from the United States Food and Drug Agency (USFDA), Environmental and

Occupational Health Science Institute (EOHSI), and South African Medicines and Medical Devices Regulatory Agency (SAMMDRA). To enhance NAFDAC's sensitization exercise, jingles were carried at prime times on both radio and television. In its determined efforts to eliminate fake and sub-standard products from the Nigerian market, drugs worth about ₦2.0 billion were destroyed publicly by the agency. The fake drugs were from four sources: those handed over by repentant traders; those found in secret warehouses as a result of tip-off from drug sellers and the public; and those seized by drug sellers' internal task forces and NAFDAC's task forces.

### **6.7.3 Education**

In the bid to improve the standard of education in Nigeria, government encouraged greater private sector participation, and this has increased the number of private primary, secondary and tertiary institutions in the country. The literacy rate for the country rose to an all-time high of 62.0 percent.

To enhance overall educational standards, government at all levels spent large sums of money in building and marketing infrastructure and the acquisition of learning tools. Most state governments spent as much as 40.0 per cent of their annual budgets on education, while enrolment into schools shot up over the last few years. The enrolment rate for the country rose to 81.2 per cent.

#### **6.7.4 Demography**

The National Population Commission (NPC)'s projected annual growth rate of 2.8 per cent (based on the revised 1991 census) put the population of Nigeria at 129.9 million in 2004 and 133.7 million in 2005.

#### **6.7.5 Water Resources Development**

The proportion of the population with access to potable water rose from 30 per cent in 1999 to 65 percent in 2005. A breakdown of the 2005 figure showed that 67.0 percent coverage had been achieved for state capitals, 60.0 percent for urban areas, 50.0 per cent for semi-urban areas

and 55.0 per cent coverage for rural areas.

#### **6.7.6 The Environment**

The Federal Ministry of Environment designed and implemented a pilot community based waste management project, aimed at mobilizing communities to develop the culture of community ownership and responsibility for municipal waste management.

To check the rapid rate of deforestation in the country, about 2,000 km of a Shelter Belt of Green Wall has been established in the desert prone region of the country. Private and communal woodlots were being established nation-wide, and more efficient wood stoves and alternative household energy sources were being provided or encouraged. A pilot rangeland project was embarked upon to minimize incidents of land use conflict and to reduce or prevent the degradation of resources in addressing the challenges of drought and desertification.