

CENTRAL BANK OF NIGERIA



ECONOMIC REPORT FOR THE FIRST QUARTER OF 2006

RESEARCH AND STATISTICS DEPARTMENT

CENTRAL BANK OF NIGERIA

QUARTERLY ECONOMIC REPORT

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ECONOMIC REPORT FOR THE FIRST QUARTER OF 2006

1.0 SUMMARY

Aggregate output in the economy measured by the gross domestic product (GDP) grew by 2.7 per cent during the first quarter of 2006. Non-oil GDP grew by 4.8 per cent, while oil GDP declined by 2.5 per cent. Available data indicated a rise in monetary aggregates during the review quarter. Broad money supply (M_2) rose by 10.3 per cent over the level in the preceding quarter, while narrow money supply (M_1), increased by 5.3 per cent during the period. The rise in M_2 was attributable largely to the increase in foreign assets (net) of the banking system reinforced by the 3.0 per cent increase in bank credit to the domestic economy.

Available data indicated a general decline in banks' deposit and lending rates in the first quarter of 2006, reflecting the liquidity ease in the banking system during the period. The spread between the weighted average deposit and maximum lending rates narrowed from 13.1 percentage points in the preceding quarter to 12.4 percentage points. Similarly, the margin between the average savings deposit and maximum lending rates narrowed from 16.2 to 15.1 percentage points during the quarter. The weighted average inter-bank call rate, which stood at 7.0 per cent in the preceding quarter, rose sharply to 27.06 per cent in January 2006, following the non-release of statutory allocation for that month, and later fell to 7.8 per cent at end-March 2006. The decline reflected the liquidity ease in February and March, following the release of statutory revenue funds for two months after the deadlock in January.

The value of money market assets outstanding declined marginally by 0.01 per

cent to ₦2,963.1 billion, in contrast to the increase of 5.4 per cent in the preceding quarter. Activities on the Nigerian Stock Exchange indicated mixed developments as both the volume and value of traded securities declined, while market capitalisation increased.

Total federally-collected revenue during the first quarter of 2006 stood at ₦1,705.5 billion, and represented an increase of 63.9 per cent over the proportionate budget estimate but a decline of 4.2 per cent compared with the level in the preceding quarter. At ₦1,551.1 billion, oil receipts constituted 91.0 per cent of the total, and represented increases of 80.6 and 5.9 per cent over the budget estimate and receipts in the preceding quarter, respectively. The rise in oil receipts reflected the continued increase in prices in the global oil market. Non-oil receipts, at ₦154.4 billion or 9.1 per cent of the total was, on the other hand, lower than the receipts in the preceding quarter and its budget estimate by 51.2 and 15.0 per cent, respectively. The fall in non-oil receipts during the period was due to the significant decline in Federal Government Independent Revenue relative to the level in the fourth quarter of 2005. Federal Government retained revenue for the first quarter of 2006 was ₦374.5 billion, while total expenditure was ₦333.8 billion. Thus, the fiscal operations of the Federal Government was estimated to have resulted in a surplus of ₦40.7 billion as against a proportionate budget deficit of ₦94.5 billion and a deficit of ₦163.8 billion recorded in the preceding quarter.

The major agricultural activities in the quarter included: harvesting of tree

crops & fruits; cultivation of irrigated lands with vegetables and wheat as well as clearing of lands for the 2006 cropping season. During the quarter under review, the poultry sub-sector was hit by the avian influenza (bird flu) H5N1 viral strain leading to the loss of about 450,000 birds nationwide. Activities in the industrial sector declined during the first quarter of 2006 as the estimated index of industrial production fell by 0.2 per cent from its level in the preceding quarter. The prices of most Nigerian major agricultural commodities at the London Commodities Market generally recorded increases during the review quarter.

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.2 million barrels per day (mbd) or 198.0 million barrels for the first quarter of 2006, compared with 2.4 mbd and 2.3 mbd in the preceding quarter and the corresponding quarter of 2005, respectively. Crude oil export was estimated at 1.8 mbd or 161.1 million barrels for the quarter, while deliveries to the refineries for domestic consumption remained at 0.45 mbd or 40.05 million barrels. The average price of Nigeria's reference crude, the Bonny Light (37⁰ API), estimated at US\$62.46 per barrel, rose by 7.2 per cent over the level in the preceding quarter. The end-period inflation rate for the first quarter of 2006, on a year-on-year basis, was 12.0 per cent, compared with 11.6 per cent recorded in the preceding quarter and 16.3 per cent in the corresponding quarter of 2005. Inflation rate on a twelve-month moving average basis was 17.4 per cent, compared with 17.9 per cent in the preceding quarter, reflecting the impact of continued harvesting of agricultural produce which moderated rising food prices coupled with the relative stability in the prices of petroleum products.

The balance of payments account was favourable in the first quarter of 2006 with

an estimated overall surplus of ₦998.1 billion, compared with the surplus of ₦476.0 billion in the corresponding period of 2005. The development during the quarter was attributable to the surplus recorded in the current account, following the sustained increase in the international price of crude oil during the period. The level of external reserves rose significantly by US\$7.8 billion or 27.6 per cent to US\$36.07 billion in March 2006, compared with the level at end-December 2005. This level of reserves could finance 22.7 months of current import commitments, compared with 26.3 and 21.0 months in the preceding quarter and corresponding period of 2005, respectively.

Foreign exchange inflow and outflow through the Central Bank of Nigeria (CBN) amounted to US\$9.41 billion and US\$2.32 billion, respectively, resulting in a net inflow of US\$7.09 billion during the quarter. The demand pressure in the foreign exchange market moderated as foreign exchange sales by the CBN to the authorized dealers fell by 66.3 per cent from the preceding quarter's level. The weighted average exchange rate of the Naira vis-à-vis the US dollar, appreciated by 0.8 per cent to ₦128.23 per dollar in the quarter. In the bureaux de change segment of the market, the rate, however, depreciated from ₦143.06 per dollar to ₦145.97 per dollar. Non-oil export earnings by Nigeria's top 100 exporters in the quarter amounted to US\$171.49 million, indicating an increase of 5.3 per cent over the level in the preceding quarter. The development was attributable largely to the increase in the prices of the commodities traded at the international commodities market during the period.

Other major international economic developments of relevance to the domestic economy during the quarter included: the meeting of the European Union Ambassador in Nigeria with members of the National Focal Point on World Trade Organization

(WTO) to discuss the outcome of the WTO's Ministerial Conference held in Hong Kong, in December, 2005, as it relates to Nigeria and the European Union (EU); the Second Session of the Nigeria-Iran Joint Commission held in Tehran, Islamic Republic of Iran from 6-7 February, 2006. At the Session, the Iranian Export Guarantee Funds agreed to grant short and medium term credit facilities to Nigerian importers provided that their letters of credit or bank guarantees were issued by some specified banks in Nigeria; the G-24 Meeting held in Geneva, Switzerland, from 16-17 March, 2006 to reach consensus on issues of common interest which would form the position of the G-24 Ministers at the IMF Spring Meetings scheduled to hold in Washington D.C., U.S.A. from April 19 -23, 2006; the ordinary meeting of the Bureau of the Association of African Central Banks (AACB) held in Dakar, Senegal from 1 – 3 March, 2006 to consider the progress reports on the implementation of the African Monetary Cooperation Programme (AMCP), among others; an Inter-Ministerial Preparatory Meeting to the 2nd Session of Nigeria-Russia Joint Commission (NRJC) held at the Ministry of Foreign Affairs, Abuja, 15th March, 2006 to harmonise Nigeria's position on issues of national interest in order to optimize the accruable benefits from the Joint Commission; an Inter-Ministerial Meeting on Draft Investment Promotion and Protection Agreement (IPPA) between Nigeria and Romania/Zambia held at the Federal Ministry of Industry, Abuja, 9th March, 2006 to examine and harmonize the draft IPPA submitted by Zambia; an Inter-Agency Meeting on the visit of the Security Council Committee to prepare the Report on Nigeria pursuant to UN Resolution 1267 (1999) organized by the Ministry of Foreign Affairs, Abuja, 6th March, 2006; and a working visit by the Nigerian economic

delegation to the Grand Duchy of Luxembourg from 28 - 29 March, 2006 during which the Governor, Central Bank of Luxembourg (CBL) was briefed on the recent reform programme of Nigeria, including the banking sector reforms, and the need for both countries to reach agreement on exchange of information on financial crimes and money laundering activities.

2.0 FINANCIAL SECTOR DEVELOPMENTS

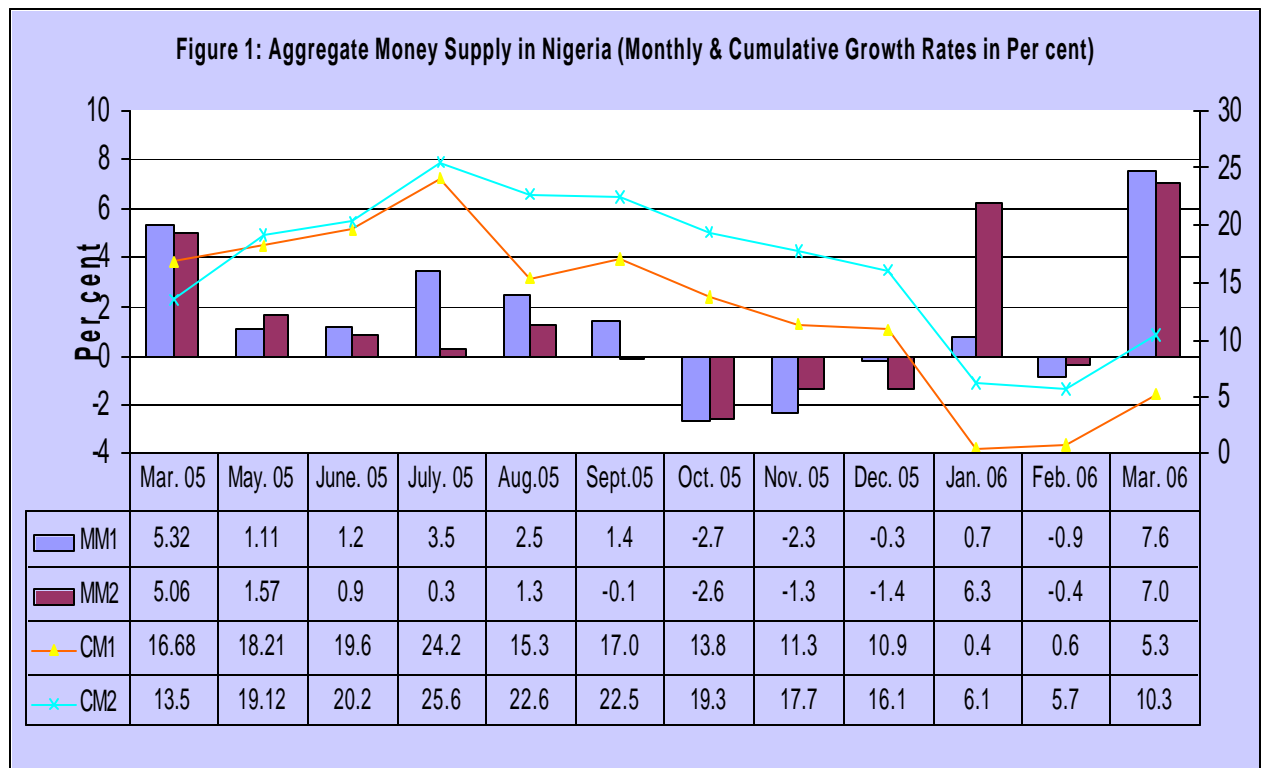
Monetary aggregates increased in the first quarter of 2006, while banks' deposit and lending rates generally declined. The value of money market assets also declined following largely the fall in Bankers Acceptances (BAs). Transactions on the Nigerian Stock Exchange (NSE) recorded mixed developments as both the volume and value of traded securities fell, while market capitalization rose during the review period.

2.1 Monetary and Credit Developments

Available data indicated that monetary aggregates increased during the first quarter of 2006. Broad money supply (M_2) rose by

however lower than the 13.5 per cent increase recorded in the corresponding period of 2005. The rise in M_2 during the quarter was attributable largely to the increase in foreign assets (net) reinforced by the 3.0 per cent rise in aggregate bank credit (net) to the domestic economy. Similarly, narrow money supply (M_1) increased by 5.3 per cent to ₦1,618.2 billion as against the decline of 1.3 per cent in the preceding quarter (fig.1 and table 1).

Aggregate banking system credit (net) to the domestic economy rose by 3.0 per cent to ₦2,383.0 billion in the first quarter of 2006, in contrast to the decline of 10.7 per cent in the preceding quarter. In the corresponding period of 2005, aggregate bank credit to the domestic economy increased by 11.9 per cent. The development during the quarter reflected the increase in claims on the Federal Government.



10.3 per cent to ₦2,896.8 billion, as against the decline of 5.3 per cent in the preceding quarter. The increase in the quarter was

Banking system's credit (net) to the Federal Government increased by 42.5 per cent to ₦436.1 billion, in contrast to the

decline of 49.3 per cent in the preceding quarter, while an increase of 22.1 per cent was recorded in the corresponding period of 2005. The rise during the period was attributable largely to the substantial increase in deposit money banks' (DMB's) holdings of government securities during the period.

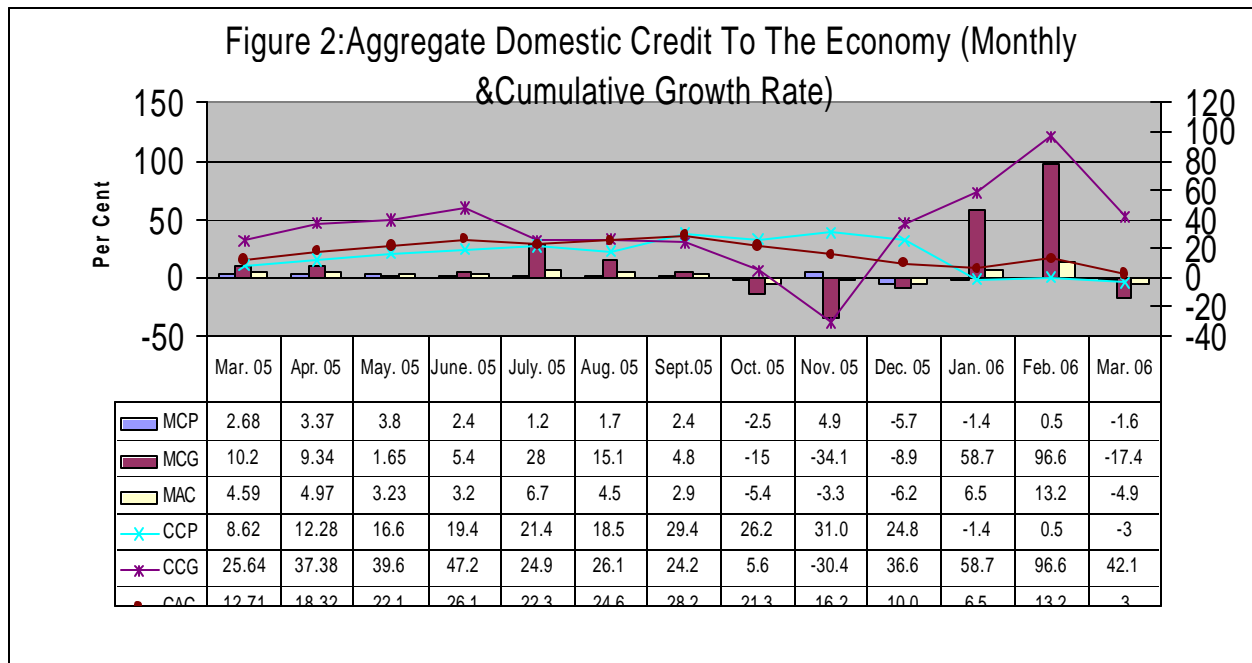
Banking system's credit to the private sector, on the other hand, declined by 3.0 per cent to ₦1,947.0 billion, in contrast to the increase of 1.1 and 8.6 per cent in the preceding quarter and the corresponding period of 2005, respectively. The fall in the

savings and foreign currency deposits of the DMBs during the quarter.

Other Assets (net) of the banking system, on the other hand, fell by ₦796.9 billion or 21.0 per cent, in contrast to the increase of ₦128.9 billion or 3.3 per cent in the preceding quarter. The decline reflected the fall in unclassified assets of both the CBN and DMBs during the quarter.

2.2 Currency-in-circulation and Deposits at the CBN

At ₦620.0 billion, currency in



quarter reflected entirely the 3.2 per cent decline in DMBs' claims (fig 2).

At ₦5,109.0 billion, foreign assets (net) of the banking system rose by 24.3 per cent, compared with the increase of 0.01 per cent in the preceding quarter. The development was attributable largely to the 24.6 per cent increase in CBN's holding.

Similarly, quasi money rose by 17.4 per cent to ₦1,278.6 billion, in contrast to the fall of 10.4 per cent in the preceding quarter. The development was attributable to the increase in all the components namely, time,

circulation fell by 3.5 per cent in March, 2006 from the level in December, 2005. The fall was traceable to the decline of 4.8 per cent in currency outside the banking system, as vault cash increased during the period.

Total deposits at the CBN amounted to ₦597.4 billion, indicating a decline of 10.3 per cent from the level in the preceding quarter. This was attributable entirely to the fall in Federal Government deposits, which declined by 2.1 per cent during the period. The shares of the Federal Government, banks and "others" in total deposits at the CBN were 64.6, 28.0 and 7.4 per cent,

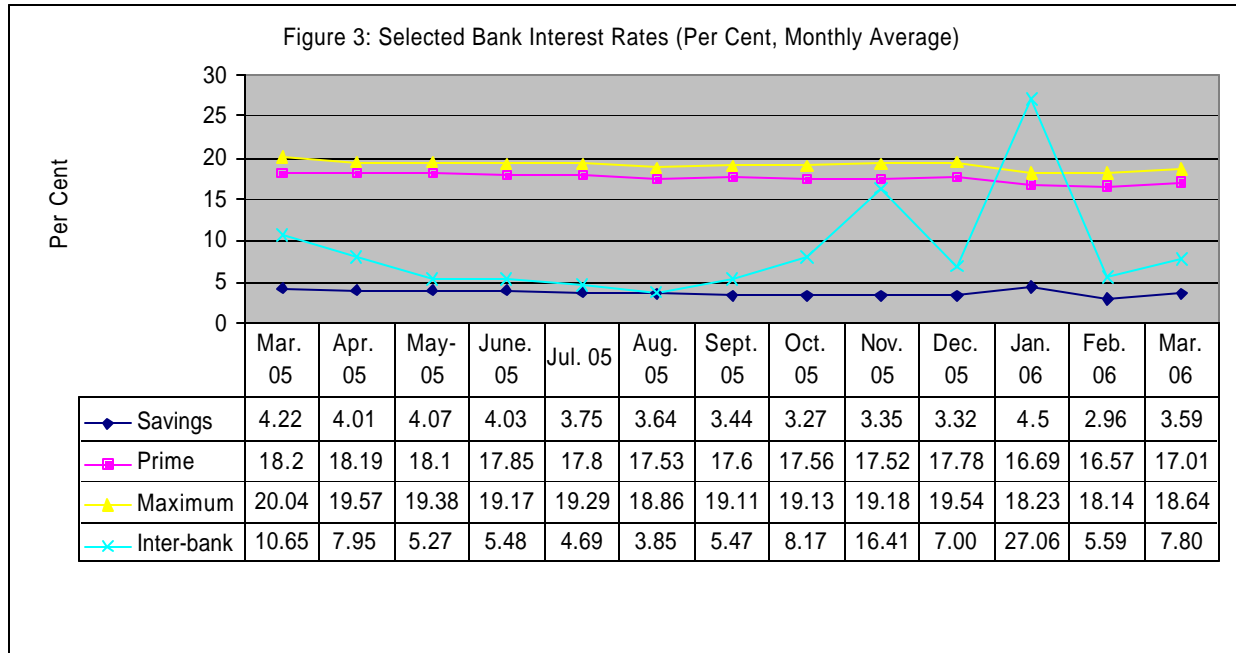
respectively, compared with the shares of 72.8, 22.2 and 5.0 per cent, in the fourth quarter of 2005.

2.3 Interest Rate Developments

Available data indicated a general decline in banks' deposit and lending rates in the first quarter of 2006, reflecting the

16.2 percentage points in the preceding quarter to 15.1 percentage points.

The weighted average inter-bank call rate, which stood at 7.0 per cent in the preceding quarter, rose sharply to 27.06 per cent in January 2006, following the non-release of statutory allocation for that month, and later fell to 7.8 per cent at end-March 2006. The decline reflected the



liquidity ease in the banking system. With the exception of the average savings deposit rate, which declined by 0.27 percentage point, all other rates on deposits of various maturities declined from a range of 4.56 – 9.14 per cent in the fourth quarter of 2005 to 3.59 – 9.08 per cent in the quarter. Similarly, the average prime and maximum lending rates declined by 0.77 and 0.90 percentage point to 17.01 and 18.64 per cent, respectively. Consequently, the spread between the weighted average deposit and maximum lending rates narrowed from 13.1 percentage points in the preceding quarter to 12.4 percentage points. Furthermore, the margin between the average savings deposit and maximum lending rates narrowed from

liquidity ease in February and March, following the release of statutory revenue funds for two months after the deadlock in January.

2.4 Money Market Developments

The value of money market assets outstanding at the end of the first quarter of 2006 declined marginally by 0.01 per cent to ₦2,963.1 billion, in contrast to the increase of ₦150.78 billion or 5.4 per cent in the preceding quarter and the ₦99.3 billion or 3.2 per cent rise in the corresponding quarter of 2005. The fall was attributable to the 71.2 per cent decline in Bankers Acceptances during the quarter. Treasury Bills outstanding also declined from ₦854.9 billion in the fourth quarter of 2005 to

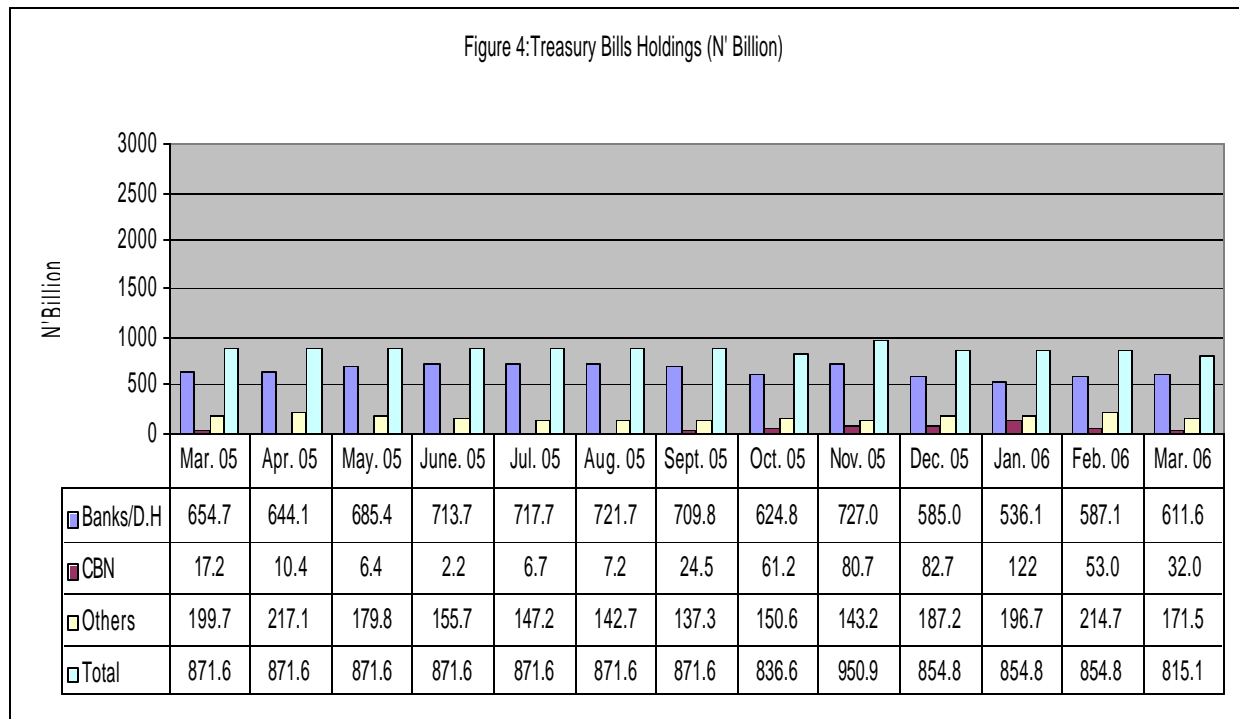
₦815.0 billion in the quarter under review, following the repayment of ₦39.83 billion worth of matured bills by the Federal Government during the period.

Treasury bills worth ₦494.10 billion were offered during the first quarter of 2006, compared with ₦497.10 billion in the preceding quarter. Subscriptions and sales stood at ₦694.30 billion and ₦461.40 billion, respectively, during the quarter, compared with ₦563.10 billion and ₦425.30

per cent to ₦611.6 billion. Holding by the non-bank public, however, declined by 8.4 per cent to ₦171.5 billion. Consequently, the CBN's holding declined from ₦82.7 billion in the fourth quarter of 2005 to ₦32.0 billion.

2.5 Capital Market Developments

Transactions on the Nigerian Stock Exchange in the first quarter of 2006



billion in the preceding quarter. Analysis of offer showed that deposit money banks (DMBs) and discount houses maintained their dominance, as they jointly accounted for ₦304.8 billion or 61.7 per cent of the total, while investment by the non-bank public stood at ₦156.6 billion, representing 31.7 per cent of the total amount issued. The balance of ₦32.8 billion, representing 6.6 per cent of the total was absorbed by the CBN.

Data on holdings of treasury bills outstanding indicated that holdings by the DMBs and discount houses increased by 4.5

indicated mixed developments. The aggregate volume and value of traded securities fell by 34.6 and 15.4 per cent to 5.3 billion shares and ₦62.3 billion at end-March, 2006, from 8.1 billion shares and ₦73.6 billion, respectively, in the preceding quarter. Analysis of transactions during the review quarter showed that the banking sub-sector remained the most active on the Exchange, while industrial loans/preference stocks recorded no dealings.

The new issues market was revitalized as two banks namely, Zenith Bank Plc and JAIZ International Bank Plc

raised funds involving 13.50 billion ordinary shares worth ₦61.20 billion. Overall, the Securities and Exchange Commission (SEC), considered and approved six (6) new issues (equities) involving 17.5 billion ordinary shares valued at ₦72.17 billion during the review quarter. The issues consisted of two (2) offer for subscription (₦55.10 billion) and three (3) private placements (₦14.27 billion). During the same period, the monthly issuance of the 3rd FGN bonds continued as planned. The five series of 3-year and 5-year tenor FGN Bonds worth ₦85.00 billion were auctioned by the Debt Management Office (DMO) during the period under review.

Market capitalization trended upward from ₦2.9 trillion in the preceding quarter, to ₦3.0 trillion at end-March 2006. The development was attributable largely to price gains by some of the blue chip companies. Value index of listed securities on the other hand, fell by 3.1 per cent to 23,336.60 (1984=100) during the review period.

2.6 Deposit Money Banks' Activities

Available data indicated that total assets/liabilities of the twenty five (25) deposit money banks (DMBs) and fourteen (14) DMBs in liquidation amounted to ₦5,591.3 billion in the first quarter of 2006, compared with ₦4,585.9 billion in the preceding quarter. The development was due largely to the increases in foreign assets, claims on state and local governments, claims on other financial institutions and reserves of the banks. Funds, which were sourced mainly from demand deposits, time, savings and foreign currency deposits and unclassified liabilities were used mainly for the settlement of obligations to the private sector, acquisition of foreign assets and unclassified assets.

At ₦3,258.2 billion, credit to the domestic economy increased by 15.9 and 35.4 per cent, compared with the preceding quarter and the corresponding period of 2005, respectively. The rise was traceable to the increase in claims on both the Federal Government as well as state and local governments during the period.

Central Bank's credit to the DMBs rose by 21.4 per cent to ₦20.2 billion in the review quarter, reflecting an increase in banks overdrawn position with the CBN.

Total specified liquid assets of the DMBs stood at ₦1.6 billion, representing 53.5 per cent of their total deposit liabilities. This level of assets was 13.5 percentage points above the stipulated minimum ratio of 40.0 per cent for fiscal 2006.

2.7 Discount Houses

Total assets/liabilities of the discount houses stood at ₦173.3 billion in the first quarter of 2006, indicating an increase of 74.5 per cent over the level in the preceding quarter. When compared with the corresponding period of 2005, total assets/liabilities increased by ₦70.3 billion or 68.2 per cent. The rise in assets was attributable to the 81.3 and 73.1 per cent increases in "claims on banks" and "claims on Federal Government", respectively. The increase in total liabilities, on the other hand, was largely attributable to the 124.4 and 84.6 per cent rise in "money-at-call" and "other amount owing", respectively, during the period. Discount houses' investments in Federal Government securities of less than 91 days maturity amounted to ₦94.8 billion, representing 63.1 per cent of their total deposit liabilities. At this level, discount houses' investments increased by 48.6 and 66.8 per cent over their levels in the preceding quarter and corresponding period of 2005, respectively. Also, this level of investment was 3.1 percentage points higher

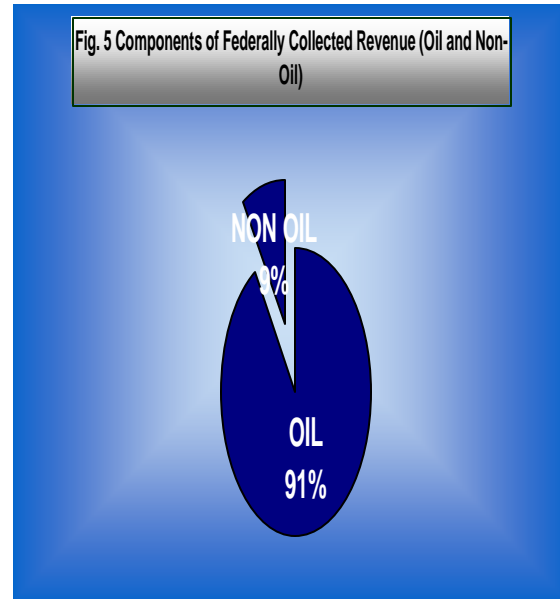
than the prescribed minimum of 60.0 per cent for fiscal 2006.

Total borrowing by discount houses was ₦73.8 billion, while their capital and reserves amounted to ₦13.0 billion, resulting in a gearing ratio of 5.7:1, compared with the stipulated maximum target of 50:1 for fiscal 2006.

3.0 FISCAL OPERATIONS

3.1 Federation Account Operations

Total federally-collected revenue during the first quarter of 2006 stood at ₦1,705.5 billion, representing an increase of 63.9 per cent over the proportionate budget estimate but a decline of 4.2 per cent from the level in the preceding quarter. When compared with the corresponding period of 2005, total federally-collected revenue increased by 35 per cent. At ₦1, 551.1 billion, oil receipts constituted 91.0 per cent of the total, representing increase of 80.6 and 5.9 per cent over the budget estimate and receipts in the preceding quarter, respectively. The rise in oil receipts was due to the continued increase in prices in the global oil market. On the other hand, non-oil receipts, at ₦154.4 billion or 9.1 per cent of the total was lower than the receipts in the preceding quarter and its budget estimate by 51.2 and 15.0 per cent, respectively. The fall in non-oil receipts during the period was due to the significant decline in Federal Government Independent Revenue relative to the level in the fourth quarter of 2005 (fig 5).



Out of the total federally-collected revenue during the review quarter, the sum of ₦764.5 billion was transferred to the Federation Account for distribution among the three tiers of government and the 13% derivation fund. The federal government received ₦356.7 billion, while the State and Local governments received ₦180.9 billion and ₦139.5 billion respectively. The balance of ₦87.4 billion went to the 13% derivation fund.

3.2 The fiscal operations of the tiers of government

3.2.1 The Federal Government

At ₦374.5 billion, the Federal Government retained revenue for the first quarter of 2006 was 9.0 and 26.4 per cent lower than the proportionate budget estimate and receipts in the preceding quarter, respectively. The fall in retained revenue relative to the budget estimate was due to the significant decline in the Independent Revenue of the Federal Government during the quarter.

At ₦333.8 billion, total expenditure for the period declined by 50.4 and 34.0 per cent from the levels in the preceding quarter and the proportionate budget estimate, respectively. The decline in total expenditure for the period was attributable to the low level of capital expenditure during the period. Of the total expenditure, recurrent, capital and transfers accounted for 98.0, 0.8 and 1.2 per cent, respectively. A breakdown of the recurrent expenditure showed that debt accounted for 21.2 per cent of the total, while non-debt expenditure accounted for the balance.

The fiscal operations of the Federal Government in the first quarter of 2006 was estimated to have resulted in a surplus of ₦40.7 billion, as against a proportionate budgeted deficit of ₦94.5 billion and a deficit of ₦163.8 billion recorded in the preceding quarter (fig 6).

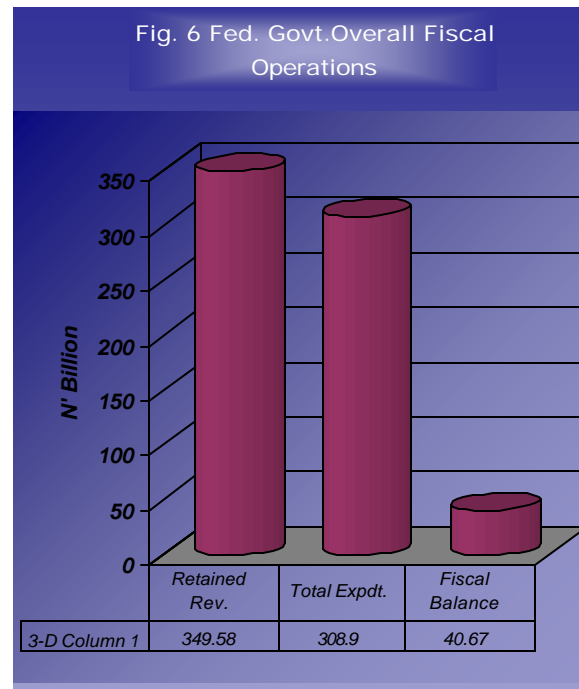
3.2.2 Statutory Allocations to State Governments

Total receipts (including 13% Derivation and share of Value Added Tax (VAT) by the State Governments from the Federation Account during the first quarter of 2006 stood at ₦290.0 billion, representing increases of 14.5 and 15.4 per cent over the levels in the preceding quarter and the corresponding period of 2005, respectively. At ₦23.1 billion, receipts from the VAT Pool Account increased by 9.0 and 0.9 per cent over the levels in the preceding quarter and the corresponding quarter of 2005, respectively.

3.2.3 Statutory Allocations to Local Government Councils

Total receipts by the local governments from the Federation and VAT Pool Accounts during the first quarter of 2006 stood at ₦155.7 billion. This was

higher than the levels in the preceding quarter and the corresponding quarter of 2005 by 15.1 and 6.4 per cent, respectively. The allocations during the period comprised ₦139.5 billion from the Federation Account and ₦16.2 billion from VAT Pool Account. On monthly basis, the sums of ₦52.0 billion, ₦47.8 billion and ₦55.9 billion were allocated to the 774 local governments in January, February and March 2006, respectively.



4.0 DOMESTIC ECONOMIC CONDITIONS

Aggregate output in the economy measured by the gross domestic product (GDP) grew by 2.7 per cent during the first quarter of 2006. Non-oil GDP grew by 4.8 per cent, while oil GDP declined by 2.5 per cent. The major drivers of output growth were telecommunication and postal services (26.2 per cent), solid minerals (23.9 per cent), manufacturing (10.2 per cent) and agriculture (6.2 per cent) sub-sectors.

However, output in the crude petroleum and natural gas sub-sector declined by 2.5 per cent. The remarkable growth in telecommunication activities reflected the continued reforms in the sub-sector, including uniform licensing, which impacted positively on the sub-sector's operations, while expansion in the solid minerals sub-sector was driven by increased quarrying activities in response to upsurge in the construction industry. The decline in crude oil and gas sub-sector was attributable to supply disruptions in the Niger Delta region.

The major agricultural activities during the first quarter of 2006 were harvesting of tree crops & fruits; cultivation of irrigated lands with vegetables and wheat as well as clearing of lands for the 2006 cropping season. During the quarter under review, the poultry sub-sector was hit by the avian influenza (bird flu) H5N1 viral strain, leading to the loss of about 450,000 birds nationwide. Crude oil production was estimated at 2.2 million barrels per day (mbd) or 198.0 million barrels for the quarter. The end period inflation rate for the

first quarter of 2006, on year-on-year basis, was 12.0 per cent, compared with 11.6 per cent recorded in the preceding quarter. The inflation rate on a 12-month moving average basis was however, 17.4 per cent compared with 17.9 per cent in December, 2005.

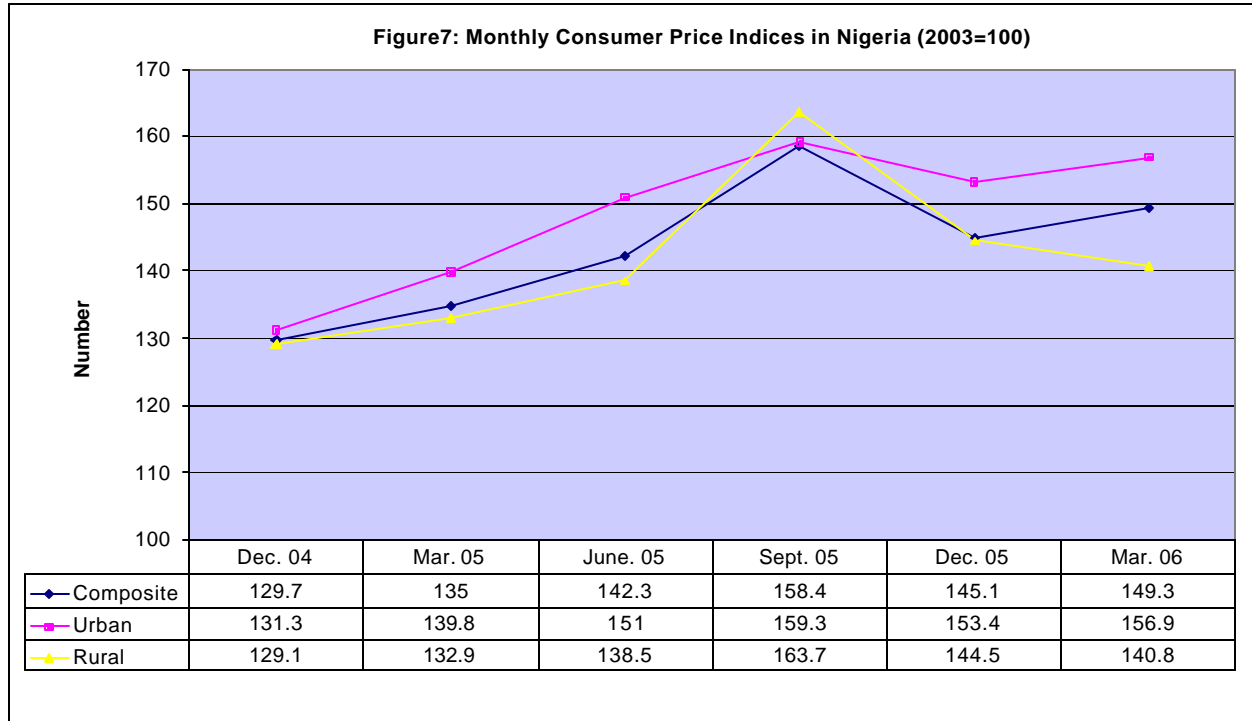
4.1 Agricultural Sector

Agricultural activities during the first quarter of 2006 centered on harvesting of tree crops and fruits; and clearing of lands for the 2006 cropping season in the Southern States, while in the Northern States, farming activities concentrated mainly on cultivation of irrigated lands with vegetables and wheat. The poultry sub-sector was hit by the avian influenza (bird flu) H5N1 viral strain. The strain, which was first officially confirmed in Kaduna State later spread to poultry flocks in 13 other states in the country, including the Federal Capital Territory. Overall, a total of 450,000 birds were destroyed nationwide to curtail further spread of the virus in the country.

The sum of ₦429.12 million was granted to 6,793 farmers under the Agricultural Credit Guarantee Scheme (ACGS) in the first quarter of 2006, representing a decline of 70.8 per cent from

while the fisheries sub-sector got ₦1.35 million or 0.3 per cent. The mixed crops sub-sector did not benefit from the scheme during the quarter.

The prices of Nigeria’s major



the level in the preceding quarter, but an increase of 256.4 per cent over the level in the corresponding quarter of 2005. A sub-sectoral analysis of the loans guaranteed indicated that the food crops sub-sector had the largest share of ₦391.3 million or 91.2 per cent granted to 6,588 beneficiaries, while livestock sub-sector got ₦29.6 million or 6.9 per cent. Also, the cash crops sub-sector got ₦6.73 million or 1.6 per cent,

agricultural commodities at the London Commodities Market recorded increases during the review quarter. Of the six commodities monitored during the period, cocoa, coffee, copra, and cotton in dollar terms, recorded price increases of 6.5, 11.1, 4.0 and 3.5 per cent, respectively, while palm oil and soya bean, recorded price declines of 2.0 per cent each, from their levels in the preceding quarter.

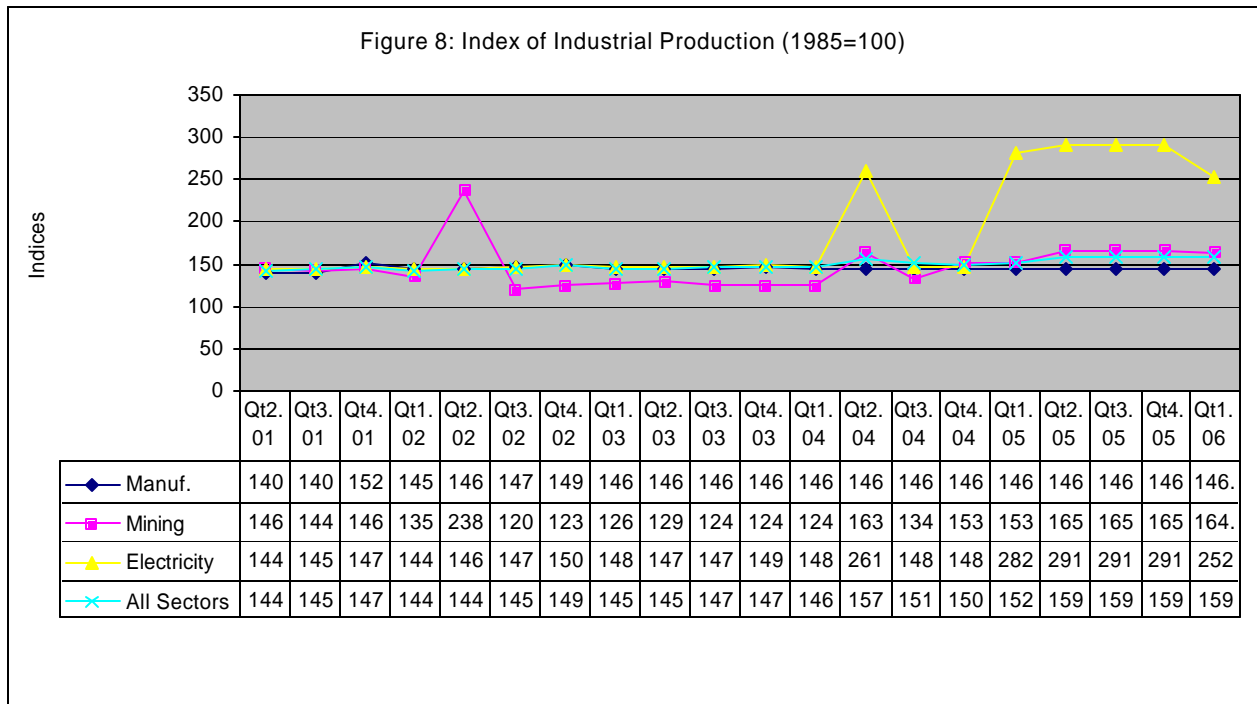
Similarly, in naira terms, coffee, cocoa, copra, and cotton recorded price increases of 5.8, 10.4, 3.3 and 2.9 per cent, respectively, over their levels in the preceding quarter, while palm oil and soya bean recorded price declines of 2.7 and 2.6 per cent, respectively, during the period.

4.2 Industrial Production

Industrial activities during the first quarter of 2006 declined relative to the preceding quarter. At 158.6 (1985=100), estimated index of industrial production fell

for footwear. However, sugar confectionery output declined by 0.2 per cent during the review quarter. Further improvement in the sector was constrained by the poor power supply situation experienced by manufacturers during the period.

The index of mining production declined by 0.5 per cent to 164.0 (1985=100). The development was accounted for by the crude oil and gas sub-sectors, which declined by 1.5 and 0.4 per cent, respectively. This was largely as a result of the shut down of production by oil companies in the Niger Delta region,



from the level attained in the preceding quarter by 0.2 per cent. The development reflected the 0.5 and 1.9 per cent decline in the indices of mining production and electricity consumption, respectively.

The estimated index of manufacturing production, at 146.0 (1985=100), increased by 0.1 per cent over the preceding quarter's level. The rise was accounted for mainly by the increases recorded in 7 sub-groups, ranging from 0.01 per cent for synthetic fabrics to 0.2 per cent

following attacks by irate militants.

At 3,006.1 MW/h, estimated average electricity generation fell by 2.2 per cent from the level attained in the preceding quarter. The decline was attributable to the vandalism of gas pipelines in the Niger Delta region, which supplies gas to the thermal stations in the country as well as the low water level experienced at the hydro power stations.

At 1,796.56 MW/h, estimated average electricity consumption declined by 1.9 per cent from the level in the preceding quarter. Of the total, residential consumption accounted for 51.3 per cent, while commercial and street lighting accounted for 26.7 per cent. Industrial consumption accounted for the balance of 22.0 per cent. The decline in electricity consumption relative to the preceding quarter was attributable to low supply from the power generating stations as well as various forced and planned power outages, including emergency load shedding. The power situation was worsened by the four (4) system collapses that were experienced during the quarter.

4.3 Petroleum Sector

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.2 million barrels per day (mbd) or 198.0 million barrels, representing a decline of 8.3 per cent from the level in the preceding quarter. Crude oil export was estimated at 1.8 mbd or 162.0

million barrels, compared with 2.0 and 1.9 mbd in the preceding quarter and corresponding quarter of 2005, respectively. Deliveries to refineries for domestic consumption remained at 0.45 mbd or 40.05 million barrels.

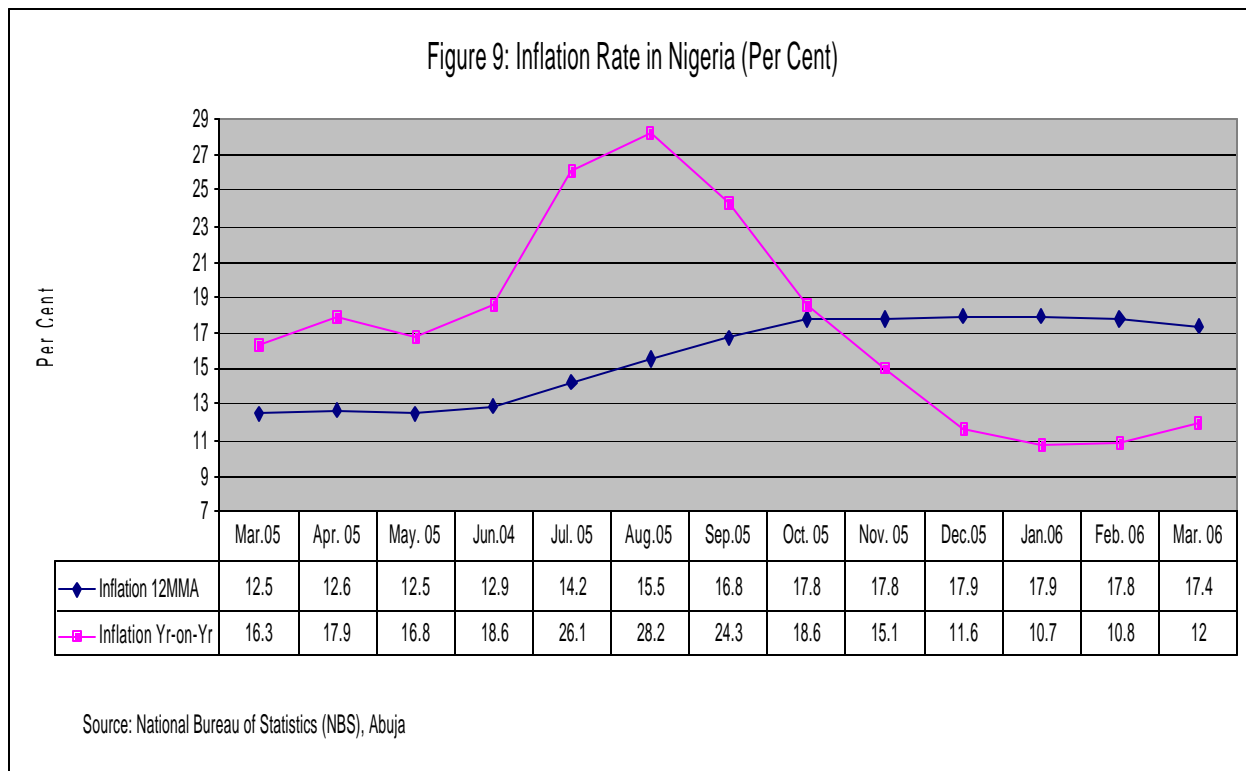
At an estimated average of US\$62.46 per barrel, the price of Nigeria's reference crude, the Bonny Light (37° API) rose by US\$4.22 per barrel or 7.2 per cent over the level in the preceding quarter. The average prices of other competing crudes, namely, the West Texas Intermediate, U.K Brent, Arab Light, and the Forcados increased by 6.0, 8.2, 7.5 and 7.0 per cent to US\$62.75, US\$61.16, US\$56.93 and US\$62.24, per barrel, respectively. The rise in price was attributable to the high demand in the United States of America (USA) due to the severe winter; anxiety over supply disruptions in Iraq and Nigeria as well as speculations on the likely impact of the row between Iran and the international community on her nuclear programme.

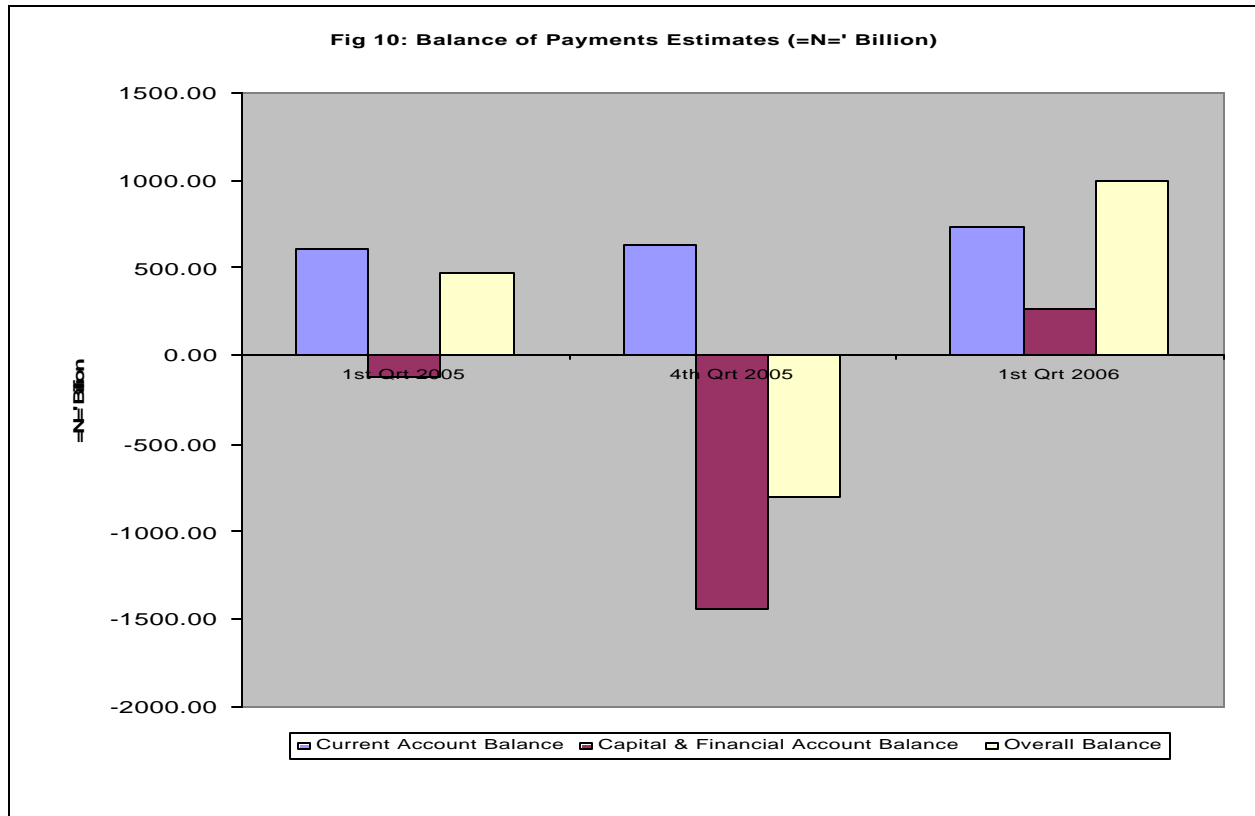
4.4 Consumer Prices

Provisional data showed that the all-items composite Consumer Price Index (CPI) for the end of first quarter, 2006 was 151.30 (May 2003=100), representing an increase of 4.6 per cent over the level in the preceding quarter. The rise was attributable to the following components: housing, water, electricity & gas; health; transport; clothing and footwear; alcoholic beverages, tobacco & kola; food; and food & non-alcoholic beverages; communication; and restaurant & hotels whose indices increased by 17.8, 6.9, 3.5, 5.6, 0.6, 2.4, 2.6, 1.3 and 7.4 per cent, respectively. However, the indices of recreation & culture; education; and miscellaneous goods and services declined by 3.5, 5.9 and 11.6 per cent, respectively, from the preceding quarter's levels, while the index of furnishing, household equipment and household maintenance remained unchanged at the preceding quarter's level.

The urban all-items CPI for the end of first quarter, 2006 stood at 160.4 (May 2003=100), indicating an increase of 3.2 per cent over the level in the preceding quarter.

The rural all-items CPI for the quarter was 147.30 (May 2003=100), and represented an increase of 5.2 per cent over the level in the preceding quarter. The end-period inflation rate for the first quarter of 2006, on a year-on-year basis, was 12.0 per cent, compared with 11.6 per cent recorded in the preceding quarter. The inflation rate on a twelve-month moving average basis for the quarter ended March 2006, however, was 17.4 per cent, compared with 17.9 per cent recorded in December 2005, reflecting the impact of the continued harvesting of the agricultural produce, which moderated rising food prices coupled with the relative stability in the prices of petroleum products.





5.0 EXTERNAL SECTOR DEVELOPMENTS

5.1 Balance of Payments

The balance of payments account was favourable in the first quarter of 2006 with an estimated overall surplus of ₦998.1 billion, compared with the surplus of ₦476.0 billion in the corresponding period of 2005. The balance of payments account, however, recorded deficit of ₦809.5 billion in the preceding quarter. The development during the review quarter was attributable to the surplus recorded in the current account, following the sustained increase in the

international price of crude oil during the period. The current account recorded a surplus of ₦731.7 billion, compared with the surplus of ₦632.4 billion and ₦603.7 billion in the preceding quarter and corresponding period of 2005, respectively. The capital and financial account also recorded a surplus of ₦269.6 billion, in contrast to ₦1,438.2 billion and ₦124.5 billion deficits in the preceding quarter and corresponding period of 2005, respectively (fig. 10).

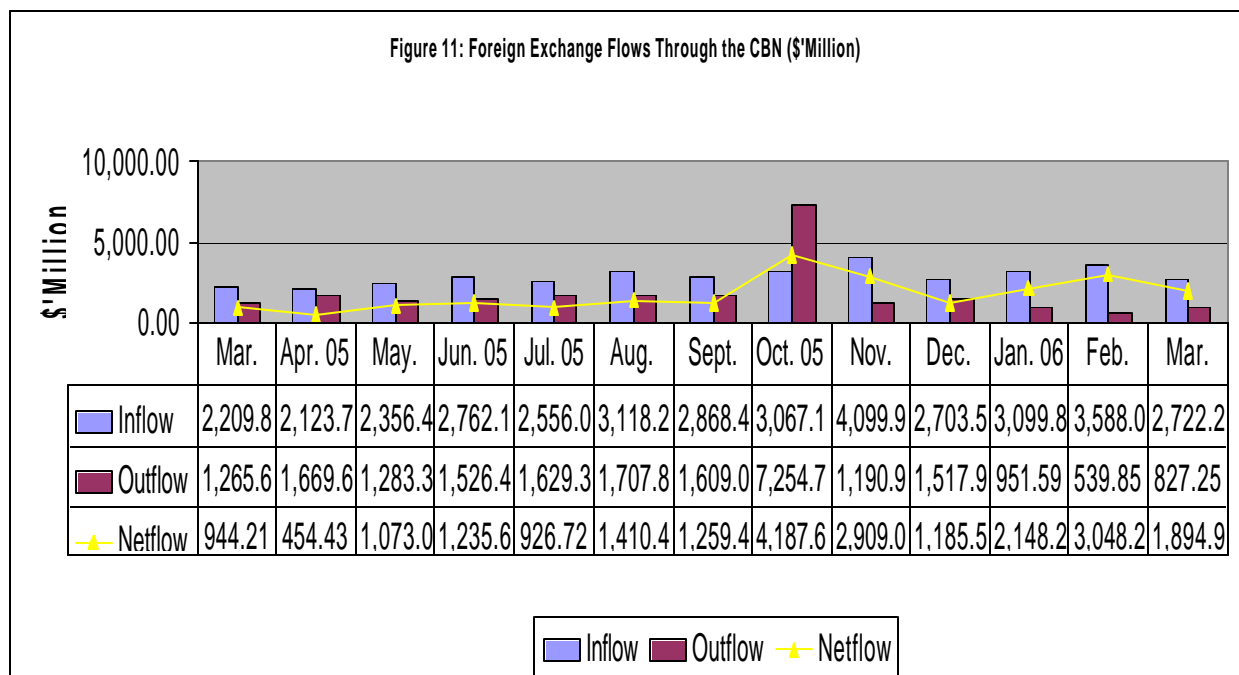
The level of external reserves rose significantly by US\$7.8 billion or 27.6 per cent to US\$36.07 billion in March 2006, compared with the level at end-December 2005. This level of reserves could finance 22.7 months of current import commitments, compared with 26.3 and 21.0 months in the preceding quarter and corresponding period of 2005, respectively.

account, however, declined to a surplus of ₦426.9 billion from a surplus of ₦1,028.0 billion and ₦734.2 billion in the preceding quarter and corresponding period of 2005, respectively. The development was attributable to the high import bills during the period.

The current transfers account (net) recorded a substantial increase of 70.0 per cent to ₦370.0 billion in the first quarter of 2006. The other sectors recorded higher levels of inflows, arising from increased personal home remittances by Nigerians abroad, while the general government registered a deficit of ₦2.3 billion during the period.

5.1.2 The Capital and Financial Account

The capital and financial account recorded a surplus of ₦269.6 billion, in



5.1.1 The Current Account

The current account surplus increased by 27.4 per cent to ₦731.7 billion in the quarter under review, reflecting the increase in earnings from both crude oil and non-oil exports. The balance in goods

contrast to the deficits of ₦1,438.2 billion and ₦124.5 billion in the preceding quarter and corresponding period of 2005, respectively. The development was attributable to increased capital inflow, following the improvement in the

investment, climate reinforced by the high credit rating of the economy. Foreign direct investment flow to the economy also rose by 210.5 per cent and 85.3 per cent to ₦167.5 billion over the levels in the preceding quarter and corresponding period of 2005, respectively. Furthermore, the private component of other investment recorded a surplus of ₦23.9 billion, as against the deficits of ₦811.3 billion and ₦180.2 billion in the preceding quarter and the corresponding period of 2005, respectively.

5.2 Foreign Exchange Flows

Foreign exchange inflow and outflow through the CBN in the first quarter of 2006 amounted to US\$9.41 billion and US\$2.32 billion, respectively, representing a net inflow of US\$7.09 billion. Compared with the respective levels of US\$9.87 billion and US\$10.03 billion in the preceding quarter, inflow and outflow declined by 4.7 and 76.9 per cent, respectively.

Provisional data on aggregate foreign exchange flows through the economy indicated that total inflow fell by 4.0 per cent from the preceding quarter's level to US\$13.44 billion but represented a rise of 21.5 per cent over the corresponding quarter of 2005. Oil sector receipts, which accounted for 65.2 per cent of the total, stood at US\$8.76 billion, compared with US\$9.03 billion or 64.5 per cent and US\$7.32 billion or 66.2 per cent in the preceding quarter and corresponding quarter of 2005, respectively. Similarly, non-oil public sector and autonomous inflows declined by 23.5 and 2.5 per cent, and accounted for 4.8 and 30.0 per cent of the total, respectively.

At US\$2.44 billion, aggregate foreign exchange outflow from the economy fell by 75.9 per cent from the level in the preceding quarter. The fall was attributable to the decline in external debt payments, which fell

from US\$6.61 billion in the preceding quarter to US\$0.25 billion in the quarter under review. Others, namely funding of the Dutch Auction System (DAS) and drawings on L/Cs declined by 64.9 and 76.4 per cent to US\$709.47 million and US\$19.04 million, respectively. Other official payments, autonomous outflows and national priority projects, however, rose from their levels of US\$1,231.91 million, US\$104.40 million and US\$67.51 million in the preceding quarter to US\$1,281.63 million, US\$122.49 million and US\$84.90 million, respectively, in the review quarter.

Consequently, a net inflow of US\$10.99 billion was recorded during the quarter, compared with the net inflow of US\$7.33 billion in the corresponding period of 2005.

5.3 Non-Oil Export Proceeds by top 100 Exporters

Non-oil export earnings by Nigeria's top 100 exporters in the first quarter of 2006 amounted to US\$171.49 million, indicating an increase of 5.3 per cent over the preceding quarter's level.

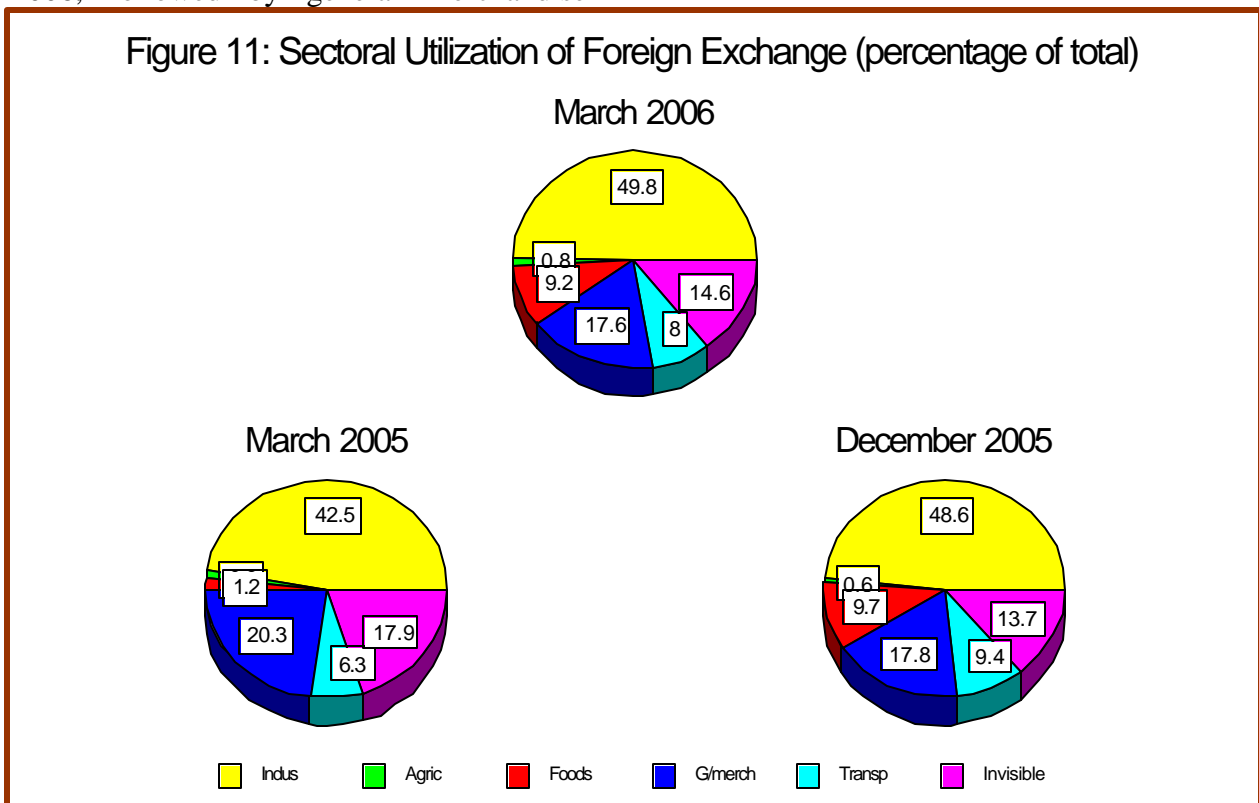
A breakdown of the proceeds in the quarter showed that proceeds in respect of the agricultural sub-sector, manufacturing sub-sector and "others" rose from US\$97.56 million, US\$58.88 and US\$6.37 million in the preceding quarter to US\$98.74 million, US\$60.62 million and US\$12.14 million, respectively. The shares of agricultural, manufacturing and "others" sub-sectors in total non-oil export proceeds were 57.6, 35.3 and 7.1 per cent, respectively, compared with 59.9, 36.2 and 3.9 per cent, in the preceding quarter. The rise in the shares of agricultural and manufacturing sub-sectors was attributable largely to variations in the prices of the goods traded at the international market. The top 100 exporters

accounted for 99.7 per cent of all the non-oil export proceeds in the first quarter of 2006.

5.4 Sectoral Utilisation of Foreign Exchange

The industrial sector accounted for the bulk (49.8 per cent) of total foreign exchange disbursed in the first quarter of 2006, followed by general merchandise

per cent to US\$0.68 billion. Under the DAS, the weighted average exchange rate of the Naira vis-à-vis the US dollar appreciated marginally by 0.8 per cent to ₦128.23 per dollar from ₦129.31 per dollar in the preceding quarter. In the bureaux de change segment of the market, the average rate, however, depreciated from ₦143.06 per dollar in the fourth quarter of 2005 to ₦145.97 per dollar. Consequently, the



(17.6 per cent). Other beneficiary sectors, in a descending order of importance, included: invisibles (14.6 per cent), food (9.2 per cent), transport (8.0 per cent) and agricultural products (0.8 per cent) (Fig.12).

premium between the official and bureaux de change rates widened from 9.6 per cent in December 2005 to 12.2 per cent.

5.5 Foreign Exchange Market Developments

The demand pressure in the foreign exchange market moderated, as foreign exchange sales by the CBN to end-users through the authorized dealers fell by 66.3

6.0 OTHER INTERNATIONAL ECONOMIC DEVELOPMENTS

World crude oil output in the first quarter of 2006 was estimated at 85.10 million barrels per day (mbd), while demand was estimated at 84.60 mbd, compared with 83.80 mbd in the preceding quarter. The increase in demand was attributable largely

to the higher demand for crude in the United States of America (USA) due to the severe winter in that country.

Other major international economic developments of relevance to the domestic economy during the quarter included: the meeting of the European Union Ambassador to Nigeria with members of the National Focal Point on World Trade Organization held at the Federal Ministry of Commerce, Abuja on 6th February 2006. The purpose of the meeting was to discuss the outcome of the World Trade Organisation's (WTO) Ministerial Conference held in Hong Kong, in December, 2005, as it relates to Nigeria and the European Union (EU).

Also, the Second Session of the Nigerian-Iran Joint Commission was held in Tehran, Islamic Republic of Iran, from 6th to 7th February, 2006. Highlights of the deliberations were as follows:

- ◆ The Nigerian foreign affairs minister and his counterpart from Iran signed the Joint Commission documents, including the implementation of the MOU on the \$1.5 million ODA Grant by the Government of the Islamic Republic of Iran to the Government of the Federal Republic of Nigeria;
- ◆ The Iranian Export Guarantee Funds agreed to grant short and medium-term credit facilities to Nigerian importers provided that their letters of credit or bank guarantees were issued by any of these banks- First Bank of Nigeria, Union Bank of Nigeria Plc and United Bank of Africa Plc.
- ◆ Nigeria provided information to the Iranians on opportunities available in Nigeria's infrastructural development needs such as consulting, mining of solid mineral,

engineering, electricity production and distribution;

- ◆ The Iranian Chamber of Commerce, Industry and Mines declared its readiness to host a delegation of the Nigerian Chamber of Commerce, Industry, Mines and Agriculture (NACCIMA) in Iran at a future date.

In a related development, the 22nd Session of Group of Twenty Four (G-24) Technical Group Meeting was convened by United Nations Conference on Trade and Development (UNCTAD) at the UN Conference Secretariat. Twenty two (22) countries drawn from Asia, Latin America and Africa, including Nigeria were in attendance. The purpose of the meeting was to reach a consensus on issues of common interest, which would form the position of the G-24 Ministers at the IMF Spring Meetings scheduled to hold in Washington D.C., U.S.A. from April 19 -23, 2006. The consensus reached were as follows:

- ◆ The IMF should acquaint the G-24 countries which constitute about 80 per cent of global GDP of the consequences of global imbalances, and work in concert with the G-24 countries to effect an orderly correction of the global imbalances to avoid adverse global consequences.
- ◆ The need for IMF reforms, quota calculation review to reflect the strength of emerging market economies.
- ◆ The need for caution on financial liberalization because of the adverse effects of volatility and crises that are often associated with capital flows.
- ◆ The creation of a stability and social investment facility should involve the IMF and the World Bank, with the IMF managing macro variables,

while the World Bank takes care of social issues. Poverty Reduction and Growth Facility should also be moved to the World Bank from the IMF.

In another development, the Bureau of the Association of African Central Banks (AACB) held its Ordinary meeting on Friday, March 3rd, 2006 in Dakar, Senegal. The meeting was preceded by the meeting of the Technical Committee for which Nigeria, BCEAO, the African Union (AU) and Algeria were invited. The major highlights of the meeting were as follows:

- ◆ Inflation control dominated the progress reports on the Implementation of the African Monetary Cooperation Programme (AMCP), in which member countries recorded varying degrees of success.
- ◆ The Bureau considered the recommendation for the re-appointment of Cabinet Deloitte to audit the 2005 Accounts of the AACB and observed that the Auditors were not appointed in line with international best practice. However, due to time constraint, Deloitte was re-appointed but the Secretariat was mandated to put in place necessary machinery for the competitive appointment of an independent external auditor from that of the BCEAO.

In addition, an Inter-Ministerial Preparatory Meeting to the 22nd session of Nigeria-Russia Joint Commission (NRJC) was convened by the Ministry of Foreign Affairs (MFA) on March 15th, 2006 to harmonize Nigeria's position on issues of national interest in order to optimize the accruable benefits from the Joint Commission Session scheduled to take place

in Abuja from 29th to 31st March, 2006. Highlights of the meeting were as follows:

- ◆ The need to conclude the negotiations started in 2001, on cooperation and mutual assistance in the areas of illicit financial transactions, and money laundering.
- ◆ The CBN emphasized that the proposal for the establishment of a Nigerian/Russian bank should be a private sector initiative.
- ◆ The signing of Memorandum of Understanding (MOU) for the commencement of 3 out of 8 projects identified for execution by both parties at the last NRJC session held in Moscow, 2004. The projects were the rehabilitation of Kainji Hydro Power Station, construction of 1, 2, 3 KV transmission lines in Jos, Makere, Pankshin and extension of Kainji 30 KV Switchyard.

Also, an Inter-Ministerial Meeting was convened by Federal Ministry of Industry, Abuja on 9th March, 2006 to consider the draft Investment Promotion and Protection Agreement (IPPA) submitted by the Government of Romania and the Republic of Zambia in response to Nigeria's draft. The meeting examined and harmonized the draft IPPA submitted by Zambia with Nigeria's version.

Furthermore, an Inter-Agency Meeting on the visit of the Security Council Committee to prepare Report on Nigeria pursuant to UN Resolution 1267 (1999) was convened by the Ministry of Foreign Affairs (MFA) Abuja on 6th March, 2006. The purpose of the meeting was to harmonize Nigeria's position on issues of national interest in order to present a position paper, showing its national compliance with regards to the Thirteen Universal Instruments against terrorism as well as a

thorough picture of the country's situation regarding the fight against terrorism.

A Nigerian Economic Delegation undertook a working visit to the Grand Duchy of Luxembourg from 28 – 29 March, 2006. The delegation from the Nigerian banking sector held an interactive session with the Governor of the Central Bank of Luxembourg (CBL) and his team during which they were briefed on the Nigerian banking sector reforms, and the need for both sides to reach agreement on exchange of information on financial crimes and money laundering activities. The issue of the extension of medium-term credit line facility to Nigerian banks for micro financing was also raised by the CBN, while the Nigerian deposit money banks requested for trade finance facility. A Memorandum of Understanding was later signed between Nigeria and Luxembourg on Immigration.