PART TWO

ECONOMIC REPORT

CHAPTER THREE

THE GLOBAL ECONOMY

Global output, which contracted in 2009, resumed growth in 2010 although with uncertainties about its sustainability. Global output increased by 5.0 per cent, up from a 0.6 per cent decline in 2009. The development was largely due to higher performance in many emerging economies, strong domestic demand in developing countries, as well as the combined effects of the fiscal and monetary interventions adopted in the advanced economies. Global inflation rose in 2010, driven by rise in commodity prices, especially food and oil prices. Generally, commodity prices rose and global trade, which contracted in 2009, rebounded. The international financial markets which had earlier recovered, experienced some instability

3.1 OUTPUT AND GROWTH

Global output, which contracted in 2009, resumed growth in 2010 although with uncertainties about its sustainability in the world's three biggest markets: the United States, Europe; and China. Global output increased by 5.0 per cent in 2010, up from the 0.6 per cent decline in 2009[1]. The increase in growth of global output was due largely to the stronger-than-expected activity in many emerging economies in the second half of 2010; strong domestic aggregate demand in developing countries, especially Africa; and the new policy initiatives implemented in the United States of America. However, the sovereign debt crisis in Europe and the policy responses it generated triggered alarm in international financial markets. In addition, the tightening of monetary policy and efforts to douse the overheated property markets in China, raised concerns about the growth trajectory.

Global output, which contrasted in 2009, resumed growth in 2010. Global output increased by 5.0 per cent, up from a 0.6 per cent decline in 2009.

The economies of Developing Asia enjoyed a strong rebound of 8.2 per cent in 2010, due to significant growth in trade, driven by the large manufacturing sector. Public infrastructure procurement, financed by China's considerable fiscal stimulus, contributed largely to growth in the region, while difficulties with monsoon rains affected India's agricultural output.

The development was largely due to higher performance in many emerging economies, strong domestic demand in developing countries as well as the combined effects of fiscal and monetary interventions adopted in the advanced economies.

[1]World Economic Outlook, WEO, January 25, 2011

Russia remained the engine of growth among countries of the Commonwealth of Independent States (CIS). The 4.1 per cent output growth in the region in 2010 was higher than the 7.0 per cent decline of 2009. Economic performance was driven by commodity exports. The best growth performers were Uzbekistan, Turkmenistan, and Georgia at 8.0, 6.0 and 6.0 per cent, respectively. The key challenge for the CIS economies was the concentration of the economic base, with the attendant threat of external vulnerability of the financial sector.

Developing and emerging countries as a group recorded significant improvement in output performance in 2010. Output increased by 7.1 per cent, compared with the 2.6 per cent decline in 2009. The high level of growth was due to improved output performance in commodity-exporting countries, as well as countries that were relatively unaffected by the global financial crisis.

Table 3.1: Changes in World Output and Prices (per cent) 2006 - 2010

	Output					Consumer Prices				
Region/Country	**2006**	**2007**	**2008**	**2009**	**2010**	**2006**	**2007**	**2008**	**2009**	**2010**
Advanced Economies	3	2.7	0.2	-3.4	3	2.2	2.3	2	0.7	1.1
United States	2.7	1.9	-	-2.6	2.8	3.3	2.9	2.2	0.9	0.9
Japan	2	2.4	-1.2	-6.3	4.3	-0.9	-0.7	-0.8	-0.9	-2.1
European Union	3.5	3.2	0.8	-4.1	1.8	2.3	2.4	3.7	0.9	1.9
Germany	3.4	2.7	1	-4.7	3.6	1.8	2.3	2.8	0.2	1.3
France	2.4	2.3	0.1	-2.5	1.6	1.9	1.6	3.2	0.1	1.6
Italy	2	1.5	-1.3	-5.-	1	2.2	2	3.5	0.8	1.6
United Kingdom	2.8	2.7	-0.1	-4.9	1.7	2.3	2.3	3.6	2.1	3.1
Euro Area	3	2.9	0.5	-4.1	1.8	2.2	2.1	3.3	0.3	1.6
Other Advanced Economies	3.9	4	1	-1.2	5.6	2.2	2.7	3.1	0.8	2.7
Newly Industrialized Asian Economies	5.9	5.8	1.8	-0.9	8.2	1.6	2.2	4.5	1.3	2.6
Other Emerging Markets and Developing Countries	8.2	8.7	6	-2.6	7.1	5.6	6.5	9.2	5.2	6.2
Regional Groups										
Central and Eastern Europe	6.5	5.5	3	-3.6	4.2	5.9	6	8.1	4.7	5.2
Russia	8.2	8.5	5.2	-7.9	3.7	9.7	9	14.1	11.7	6.6
Africa	6.4	7	5.5	2.8	5	6.9	6.9	11.7	10.4	7.5
Asia	10.4	11.4	7.7	7	9.3	4.2	5.4	7.5	3.1	6.1
Middle East	5.8	6	5	1.8	3.9	7.5	10	13.5	6.7	6.8
Western Hemisphere	5.5	5.6	4.6	-1.7	5.7	5.3	5.4	7.9	5	6.8
China	12.7	14.2	9.6	9.2	10.3	1.5	4.8	5.9	-0.7	3.5

Source: World Economic Outlook, January 2011

In Africa, output grew by 5.0 per cent, compared with 2.8 per cent in 2009. The development was attributed to improved commodity prices, export trade especially in the oil exporting countries, as well as improved agricultural performance. Five (5) African countries - South Africa, Nigeria, Angola, Ethiopia, and Kenya - accounted for two thirds of the economic output of the region. In 2010, the output growth from these countries was led by Nigeria with 7.0 per cent, while South Africa, whose economy was in recession in 2009, recorded the least growth of 3.1 per cent.

3.2 GLOBAL INFLATION

Global consumer prices rose generally in 2010 except in Japan, Russia and Africa. Rising commodity prices, especially food and oil prices, contributed to the general price increase which was highest in emerging market economies. The price of agricultural products moved upward significantly, as a result of supply shortages due to adverse weather conditions. Industrial metal prices continued to soar on strong Chinese demand. Precious metal prices reached their peak, relative to recent year experiences, under the influence of expectations of continued quantitative easing measures by major central banks. Another source of inflationary pressure was loose monetary policy maintained in the hope that consumer demand would be rekindled. Oil prices picked up on the weak United States dollar, especially from September 2010.

In advanced economies inflation averaged 1.1 per cent, compared with 0.7 per cent in 2009. CPI inflation decreased marginally, while the downtrend in core inflation paused. The stability of core inflation, at 0.7 per cent, kept alive the fear of deflation. The low levels of capacity utilization and well-anchored inflation expectations helped to contain inflationary pressures. Headline inflation moved from zero in 2009 to 1.3 per cent in 2010, as rebounding energy prices more than offset the slowing labour costs. In the US, the average inflation rate remained 0.9 per cent as in 2009.

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Japan experienced price deflation of negative 2.1 per cent for most parts of 2010, a higher magnitude than the minus 0.9 per cent recorded in 2009. On a year-by-year basis, core consumer prices declined by 0.4 per cent at end-December. The price was driven by education, which declined by 13.0 per cent, furniture by minus 3.5 per cent, and recreation and clothing, which both declined by 0.8 per cent on a year-by-year basis.

In the Euro area, price inflation averaged 1.6 per cent, higher than the rate of 0.3 per cent recorded in 2009. Transportation, housing, and alcohol and tobacco were the major components that drove the price spiral in Europe. An additional factor that stimulated inflation in the region was increase in VAT as a means of cutting down on public sector deficits.

Countries of the Western Hemisphere recorded inflation of 6.8 per cent, compared with 5.0 per cent in 2009. In Venezuela, price inflation was as high as 28.5 per cent, Argentina and Trinidad and Tobago had inflation rates of 11.0 and 10.4 per cent, respectively. Mexico, Brazil, and Nicaragua experienced single-digit inflation at 4.5, 5.2 and 7.0 per cent, respectively. Only Antigua and Barbuda had deflations of -1.1 per cent, each. Rising fuel cost was largely the reason for price increases. In Canada, inflation rose by 2.4 per cent, compared with negative 0.9 per cent recorded in 2009.

Inflation threatened Central and Eastern European economic recovery as it dampened consumer spending and prompted interest rate increases. At an average of 5.2 per cent in 2010, inflation was 0.5 percentage point higher than in 2009. Some countries in the region, such as Armenia (8.1 per cent), Romania (6.1 per cent); and Serbia (5.9 per cent) experienced persistent higher than average inflation throughout the year owing to higher food prices. The relatively better performers were Macedonia (-0.4 per cent); Estonia (-0.1 per cent); Slovenia (0.9 per cent); and Slovakia (1.6per cent). Consumer price in developing Asia picked up in 2010, but mostly within the target range set by central banks. Average inflation in the region rose from a low of minus 0.7 per cent in 2009 to positive 8.2 per cent in 2010. Most of the consumer price increase was attributed to higher food prices and adverse weather conditions. In China, food prices rose by over 6.0 per cent, resulting in overall inflation of 10.3 per cent, compared with 9.2 per cent recorded for 2009. Inflation accelerated in Thailand, Indonesia and South Korea, putting pressure on central banks to further raise interest rates, despite concerns about slowing Western demand for Asian exports.

In the CIS, inflation continued its 2009 decline in early 2010, despite the economic rebound, the delayed pass-through of currency devaluation carried out in 2009 and loose monetary policy. By mid-2010, however, prices had risen as a result of a number of supply shocks, including droughts in the Russian Federation and Ukraine which caused food prices to rise sharply. Ukraine and Belarus experienced double-digit inflation rates of 15.9 and 13.0 per cent respectively.

In emerging market economies and developing countries, inflation rose by one percentage point to 6.2 per cent relative to the rate in 2009. Average core inflation fell by 0.2 percentage point to 2.9 per cent. It, however, varied among emerging economies. In many of the countries, food and energy prices had considerable impact on overall inflation as these commodities attracted a larger share of household expenditures. Other contributory factors were bad weather (which pushed up the price of agricultural products), fiscal stimulus measures that created liquidity surfeit, higher commodity costs and increased labour costs. In Africa, inflation moderated to 7.5 per cent, from 10.4 per cent in 2009. South Africa's price inflation came down to 3.5 per cent in 2010, from 6.3 per cent in 2009. In Nigeria, the inflation rate was down to 11.8 per cent in 2010, compared with13.9 per cent a year earlier. In Egypt, Angola and Ghana, inflation remained relatively high, ranging between 10.0 to 18.0 per cent.

3.3 GLOBAL COMMODITY DEMAND AND PRICES

The U.S. dollar price of commodities continued to rebound in 2010 from the post-financial crisis lows, with prices varying from a relatively small increase in energy to larger gains in metals and agriculture. In 2010, the average basket price of crude oil was US $77.39 per barrel, compared to US $72.91 in 2009. The rise in price was attributable to increased demand at the end of the global recession, especially from China. At an average of 87.8 million barrels per day in 2010, global oil demand rose by 2.8 million barrels per day over the position in 2009. Base metals price index rose significantly by 43.0 per cent over the December 2009 level of 144.3 to 206.4, supported by a relatively strong demand in emerging markets, as well as the recovering economies of developed countries.

The US dollar price of commodities continued to rebound in 2010 from the post financial crisis lows.

Although the downturn in industrial production in 2010 caused the demand momentum to slow, dollar-denominated commodity prices were given a boost in the fourth quarter by the strengthening demand from China and expectations of tightening supplies in the medium term. Agricultural prices were up 17.0 per cent in 2010, with some commodities rising much higher on extreme weather conditions. For example, severe drought in Russia and surrounding countries led to a sharp rise in wheat prices. Corn and soybeans prices followed, in part, due to expected competition for acreage. Heavy rains in Asia as well as drought in South America affected several tropical commodities. Africa, however, faced the least weather-related problems during the year.

3.4 WORLD TRADE

Global trade, which contracted by 15.1 per cent in 2009, in value terms, increased by 11.9 per cent in 2010, but remained below the pre-crisis level. The increase in world trade was attributed to the rebound in industrial activity in most advanced economies and the higher growth levels in emerging and developing economies, which contributed to higher export levels.

In the advanced economies, both volume of exports and imports improved from negative of 12.1 and 12.2 per cent in 2009 to increases of 11.4 and 11.1 per cent, in 2009 and 2010, respectively. The terms of trade, however, worsened from a surplus of 2.8 per cent in 2009 to a deficit of 0.6 per cent in 2010. The development was in sharp contrast to the average annual changes in trade volumes in emerging and developing economies, where both exports and imports increased by 12.8 and 13.8 per cent in 2010 respectively, resulting in a terms of trade surplus of 1.2 per cent.

Table 3.2: World Trade Volumes (Average Annual Percentage Change in Trade in Goods and Services) 2006 - 2010

	Advanced					Emerging and Developing				
Volume of Trade	**2006**	**2007**	**2008**	**2009**	**2010**	**2006**	**2007**	**2008**	**2009**	**2010**
Exports	8.7	6.6	1.9	-12.1	11.4	10.3	9.9	4.4	11.7	12.8
Imports	7.7	5.0	0.4	-12.2	11.1	10.9	13.0	9.0	13.5	13.8
Terms of Trade	-1.1	0.3	-1.8	2.8	-0.6	2.9	0.0	3.4	-4.2	1.2

Source: World Economic Outlook, October 2010 (2010 figures are projections)

3.5 INTERNATIONAL FINANCIAL MARKETS

The global financial market which had appreciably recovered by end of 2009 suffered a major setback during the second quarter of 2010.

The global financial markets which had recovered appreciably by the end of 2009, suffered a major setback during the second quarter of 2010. Concerns about the sustainability of the sovereign debt of Greece, Italy, Spain, Portugal, Belgium, and Ireland triggered financial market worries. Consequently, market volatility increased and risk appetite declined during the period, thereby reducing confidence among banks and generating a systemic crisis as funding stress spread. By the end of the year, a measure of stability had returned to the financial markets.

3.5.1 Money Markets

The sovereign debt crisis in the Euro Area increased the problem of liquidity squeeze that arose with the global financial crisis. In addition, the fear that countries with debt problems might not be able to honour their obligations as at when due and increased risk and uncertainties in financial markets, have all contributed to higher interest. Also, the exiting strategies of some central banks from the quantitative easing measures put additional pressures on interest rates.

3.5.2 Capital Markets

Financial stability suffered a major setback in mid-2010, as market volatility increased and risk appetite declined. This followed heavy selling of the sovereign debt of vulnerable Euro area economies, an action that rattled banking systems and triggered a systemic crisis, with funding stress spreading to banks. These measures, added to existing worries about the sustainability of economic recovery, caused a broader decline in stocks. As a result, most equity markets surrendered part of their large gains of 2009, as volatility rose during the year. The losses were first felt by financial stocks in Europe. However, as concerns about sustainability of the recovery grew, these losses broadened to other regions.

In China, India, Vietnam, and developing Asia, capital markets were particularly active in support of the respective countries' growth. The International Financial Corporation (IFC) launched a pioneering programme of Chinese renminbi-denominated bonds in Hong Kong, SAR, the proceeds of which would be applied to private sector projects in the areas of rural development and a cleaner production. In the US and Western Europe, capital markets were more cautious as players awaited regulatory changes that governments had promised. The situation in Africa was similar due to lack of appetite for risk by investors.

Table 3.3: International Stock Market Indices, 2009 - 2010

Country	Index	31-Dec-09	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10
AFRICA						
Nigeria	ASI	20,827.17	26,411.97	25,409.00	23,050.59	24,770.50
South Africa	JSE African ASI	27,775.58	28,747.56	26,258.82	29,456.04	32,296.50
Kenya	Nairobi NSE 20	3,247.77	4,072.80	4,339.28	4,636.18	4,495.41
Egypt	EGX CSE 30	6,272.00	6,806.11	6,033.09	6,634.27	7,073.12
Ghana	GSE All Share	5,572.34	6,014.34	6,591.10	6,835.71	7,369.21
NORTH AMERICA						
US	S&P 500	1,115.10	1,173.27	1,030.71	1,146.24	1,271.89
Canada	S&P/TSX Composite	11,746.11	12,044.21	11,294.42	12,363.08	13,443.20
Mexico	Bolsa	32,120.47	33,399.46	31,156.97	33,807.48	38,605.80
SOUTH AMERICA						
Brazil	Bovespa Stock	68,588.41	69,959.58	60,935.90	70,229.35	69,962.30
Argentina	Merval	2,320.73	2,404.77	2,185.01	2,652.29	3,628.48
Columbia	IGBC General	11,602.14	12,042.19	12,449.90	14,697.55	15,368.30
EUROPE						
UK	FTSE 100	5,452.35	5,693.50	4,858.69	5,558.59	5,899.94
France	CAC 40	3,982.49	3,995.78	3,388.15	3,647.80	3,900.86
Germany	DAX	6,000.75	6,157.12	5,894.13	6,141.10	6,989.74
Russia	MICEX	1,370.01	1,461.32	1,287.47	1,461.50	1,687.99
ASIA						
Japan	NIKKEI 225	10,654.79	11,089.94	9,191.60	9,381.06	10,398.10
China	Shanghai SE A	3,402.31	3,260.00	2,488.30	2,782.02	2,987.03
India	BSE Sensex	17,567,20	17,562.15	17,459.70	20,533.73	20,610.20
Source: Bloomberg						

Overall, the average major equity market index gained 15.3 per cent in 2010. Sri Lanka's stock market gained the most at 96.1 per cent, while Bermuda had the highest decline of 44.9 per cent. Among the G-7 countries, Germany was the best performer at 16.1 per cent, followed by Canada at 14.5 per cent, the United States at 12.8 per cent, and the United Kingdom at 9.0 per cent. France, Japan, and Italy all declined at negatives 3.3, 3.0, and 13.2 per cent, respectively. Among the BRIC countries, Russia performed best at 22.7 per cent, followed by India at 17.4 per cent and Brazil at 1.0 per cent. China, however, experienced a decline at negative 14.3 per cent.

In Africa, the South African JSE All-Share, the Kenyan Nairobi: NSE 20, the Egyptian EGX CASE 30 and Ghana's GSE indices increased by 23, 3.6, 17.2 and 11.8 per cent, respectively, while the Nigerian NSE ASI index decreased by 2.5 per cent.

3.5.3 The International Foreign Exchange Market

The 2010 triennial survey by the Bank for International Settlements showed that the global foreign exchange market, since 2007, remained resilient. It grew by 20.0 per cent from its 2007 level, with a daily average turnover of $4.0 trillion (from US$3.3 trillion in 2007 to US$4.0 trillion in 2010). The report attributed the growth to the 48.0 per cent increase in turnover of spot transactions, which represented 37.0 per cent of total foreign exchange turnover. The performance of major world currencies in 2010 against the US dollar showed that the euro and British pounds depreciated by 9.95 and 3.33 per cent, respectively. However, the Japanese yen, the Canadian dollar, the Australian dollar, the Swiss franc, the Chinese yuan, the South African rand and the Mexican peso appreciated against the US dollar by 14.82, 4.79, 13.94, 10.65, 3.33, 11.33 and 6.01 per cent, respectively.

The US dollar depreciated against other currencies for most parts of 2010 to the extent that, on August 01, 2010, the Federal Open Market Committee (FOMC) of the US Federal Reserve System put in place a temporary US dollar liquidity swap arrangement with the central banks of England, Canada, Japan, Switzerland and the European Central Bank. The development was in response to the re-emergence of strains in short-term US dollar funding markets.

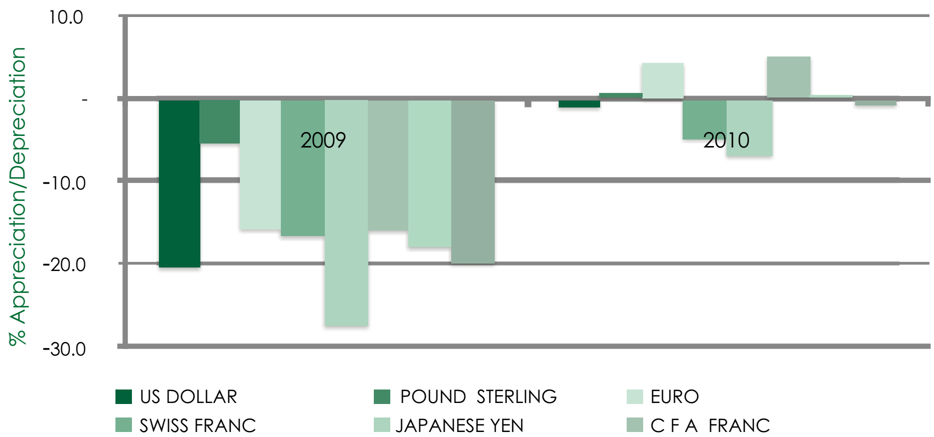
China's tight pegging of the renminbi to the US dollar, at a rate that encouraged a large bilateral surplus with the United States, continued for most of 2010. However, the impact of the FOMCs decision prompted China to move out of the dollar zone to avoid asset depreciation, and to revalue the Yuan in 2010.

The Japanese yen fell after Standard & Poor's down grade the country's sovereign credit rating, even though the Bank of Japan intervened aggressively which made China buy into the yen.

The euro depreciated considerably against other tradable currencies, following sovereign debt problems. At a stage in the crisis, when Germany was reluctant to bail out distressed EU economies, the survival of the euro was in doubt as fears that countries which could not meet the currency's stringent macroeconomic convergence requirements might opt out of the currency grew. A flight from the euro followed, and it caused the dollar to rebound.

A comparison of the exchange rate of the naira against major international currencies in 2010 indicated that the naira appreciated against the pound sterling by 1.89 per cent, the euro by 5.50 per cent and the CFA francs by 5.11 per cent. However, it depreciated against the US dollar by 0.94 per cent, then Swiss franc by 11.24 per cent, the Japanese yen by 11.23 per cent, the Saudi riyal by 0.59 per cent and the WAUA by 0.16 per cent.

Figure 3.1: Annual Percentage Change in the Average Unit of Naira Per Foreign Currency



3.5.4 Central Bank Interest Rate Policies

Monetary policy remained supportive in many economies throughout 2010. The global economic crisis saw central banks responding differently depending on how the crisis affected their economies. For example, while many central banks in advanced economies kept the main policy rate near the zero bound in 2010, those in emerging economies raised their policy rates, while a number of central banks in developing economies cut their policy rates in 2010. For instance, the Bank of Japan kept its policy rate at 0.1 per cent; the US Federal Reserve at 0.25 per cent; the ECB at 1.0 per cent; the Central Bank of Russia between 7.75 - 8.75 per cent; the Bank of England at 0.5 per cent.

Many Central Banks in advanced economies kept the main policy rate near zero, those in emerging economies raised policy rates, while a number of Central Banks in developing economies cut the policy rate.

Central banks in emerging and some developing economies, however, eased monetary policy by reducing or cutting their policy rates. These included the Reserve Bank of South Africa, which reduced its rate from 6.5 to 5.5 per cent and the Bank of Ghana from 15.0 to 13.5 per cent. Several central banks in a number of emerging economies had effected monetary tightening with rate hikes; increased cash reserve requirements and/or imposed direct limits on credit growth. Some of these included the Reserve Bank of Australia, from 4.5 to 4.75 per cent; the Peoples Bank of China from 5.31 to 5.81 per cent; the Bank of Norway from 5.5 to 6.5 per cent; the Swedish National Bank from 0.75 to 1.25 per cent; and the Central Bank of Nigeria from 6.0 per cent to 6.25 per cent.

Table 3.4: Monetary Policy Rates of Selected Countries, 2007 - 2010

	China	Russia	India	Korea	Australia	Brazil	FED USA	BOJ Japan	ECB EU	BOE UK	SARB South Africa	BOG Ghana	CBN Nigeria	Norway	Sweden
2007	5.31	10.21	5.25	4.73	6.4	11.98	4.25	0.5	4	5.5	11	13.5	9	4.38	3.46
2008	5.31	10.94	5.25	4.79	6.69	12.54	1	0.1	2.5	2	11.5	17	9.75	5.32	4.14
2009	5.31	11.21	5.25	2.04	3.27	9.92	0.25	0.1	1.23	0.63	8.13	18.29	7.44	1.75	0.65
Jan-10	5.31	8.75	4.75	2	3.75	8.75	0.25	0.1	1	0.5	7	18	6	1.75	0.25
February	5.31	8.5	4.75	2	3.75	8.75	0.25	0.1	1	0.5	7	16	6	1.75	0.25
March	5.31	8.25	5	2	4	8.75	0.25	0.1	1	0.5	6.5	16	6	1.75	0.25
April	5.31	8	5.25	2	4.25	9.5	0.25	0.1	1	0.5	6.5	15	6	1.75	0.25
May	5.31	8	5.25	2	4.5	9.5	0.25	0.1	1	0.5	6.5	15	6	1.96	0.25
June	5.31	7.75	5.5	2	4.5	10.25	0.25	0.1	1	0.5	6.5	15	6	2	0.5
July	5.31	7.75	5.75	2.25	4.5	10.5	0.25	0.1	1	0.5	6.5	13.5	6	2	0.5
August	5.31	7.75	5.75	2.25	4.5	10.75	0.25	0.1	1	0.5	6.5	13.5	6	2	0.5
September	5.31	7.75	6	2.25	4.5	10.75	0.25	0.1	1	0.5	6	13.5	6.25	2	0.75
October	5.56	7.75	6	2.25	4.5	10.75	0.25	0.1	1	0.5	6	13.5	6.25	2	1
November	5.56	7.75	6.25	2.5	4.75	10.75	0.25	0.1	1	0.5	5.5	13.5	6.25	2	1
December	5.81	7.75	6.25	2.5	4.75	10.75	0.25	0.1	1	0.5	5.5	13.5	6.25	2	1.25

Sources: FED US Federal Reserve, BOJ – Bank of Japan, ECB - European

SARB – South Africa Reserve Bank, BOG – Bank of Ghana, CBN

In 2010, central banks worldwide introduced quantitative easing to address problems associated with the global financial crisis. There was, therefore, increased liquidity available for short-term speculation which impacted the oil and other commodity markets. Indeed, quantitative easing was adopted as a strategy to expand money supply in many jurisdictions. The growth in liquidity prompted the Basel Committee on Banking Supervision to review, in September 2010, details of the Basel III principles, which included global regulatory standards on capital adequacy and liquidity. In November, the framework was endorsed by the G-20 leaders at their meeting in Seoul, South Korea. On their part, central banks began to increase policy rates and, in Europe, the European Central Bank started to drain liquidity from the banking system.

3.6 The Impact of the Global Economic Developments on the Nigerian Economy

The global economic recovery, relative stability achieved in international financial markets, and the continuing rebound in commodity prices, had helped in supporting growth in commodity-producing regions, including Nigeria. The development impacted positively on the Nigerian economy, through recovery in export and commodity prices, arising largely from increased demand by emerging economies and improved capital market activities. However, the general rise in food prices, worldwide, impacted negatively on Nigeria's inflation rate, efforts at achieving food security, and attaining the Millennium Development Goals.

In addition, the global counter-cyclical policy environment in 2010, as represented by the actions of the US FOMC and the Bank of China, had also influenced Nigeria's policy options. Owing to the fiscal space attributed to increased oil receipts and the earlier debt relief, Nigeria was able to continue its major public spending programmes in 2010. The crisis also paved the way for monetary easing and intervention in key sectors of the economy, through a reduction in the key policy rate. Specifically, it helped Nigeria to adopt a stimulus package and to target real sector programmes, aimed at mitigating the effects of the crisis on the rural poor.

External financial flows to Nigeria were partly subdued in 2010 due to the slow economic growth in most of Nigeria's trading partners. Although, the Nigerian government implemented investment-friendly measures to attract foreign direct investment in all sectors, most foreign investment into the country were in the extractive industries.

The global economic recovery impacted positively on the Nigerian economy, through recovery in export and commodity prices, arising largely from increased demand by emerging economies and improved capital market activities.

CHAPTER FOUR

FINANCIAL SECTOR DEVELOPMENTS

The effects of the global financial crisis lingered in 2010 as money supply was sluggish and remained substantially below the target. Moreover, the credit crunch persisted as net domestic credit grew at a rate far below the indicative benchmark. Notwithstanding, the Nigerian financial sector remained relatively resilient and stable. In order to restore confidence in the system, measures were taken to unlock the credit potentials of banks, including a review of the monetary policy rate, the promotion of activities of AMCON, and the continued guarantee of inter-bank transactions.

The outcome of financial developments was mixed in 2010. The ratio of broad money supply (M_2) to nominal GDP, at 38.9 per cent, was lower than the ratio of 42.7 per cent recorded at the end of the preceding year. The banking system's capacity to finance economic activities weakened as the ratio of claims on the core private sector to non-oil GDP declined by 17.0 percentage points to 48.1 per cent. Also, the efficiency of intermediation declined slightly as the proportion of currency outside banks to M_2 rose to 9.4 per cent.

The thrust of monetary policy in 2010 was to ease the tight liquidity condition in the banking system and ensure financial stability, without compromising the primary goal of price stability. The monetary policy actions of the Bank produced modest outcomes. Broad money (M_2) grew by 6.7 per cent at the end of the year, and was significantly below both the indicative target for the year and the outcome in the preceding year. Reserve money, the Bank's operating target, also fell below the indicative benchmark for the year.

Total money market assets outstanding at end-December 2010, increased by 35.9 per cent, compared with 19.1 per cent at end-December 2009, due largely to the rise in the value of FGN Bonds, Treasury Bills (NTBs) and Bankers' Acceptances (BAs). The risk-free yield curve for treasury securities (treasury bills and bonds) remained upward-sloping, with steeper slopes at the short and long segments than at the middle. Furthermore, the yields for all the maturities were lower than in 2009. The capital market was bullish, owing to the restoration of confidence as the All-Share Index at the Nigerian Stock Exchange rose by 18.9 per cent, as against the decline of 33.8 per cent in the preceding year. Furthermore, the ratio of total market capitalisation to GDP increased by 33.6 per cent.

At end-December 2010, the Nigerian financial system comprised the CBN, the Nigerian Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), *the National Insurance Commission (NAICOM), the National Pension Commission (PENCOM), 24 deposit money banks, 5 discount houses, 866 microfinance banks, 108 finance companies, 101 primary mortgage institutions, 5 development finance institutions, 1,959 bureaux-de-change, 690 security brokerage firms, 13 pension fund administrators, 5 pension fund custodians, 1 asset management corporation, 1 stock exchange, 1 commodity and securities exchange, and 73 insurance companies.*

4.1 INSTITUTIONAL DEVELOPMENTS

4.1.1 Growth and Structural Changes

The structure of the Nigerian financial sector changed with the establishment of the Asset Management Corporation of Nigeria (AMCON). However, the number of banks in the industry remained at twenty-four (24), as in the preceding year, while the number of banks' branches increased from 5,565 in 2009 to 5,799, indicating an increase of 4.2 per cent. As in the preceding year, no bank was offered for sale through the purchase and assumption (P&A) option for distressed bank resolution, as the cases of the remaining two (2) banks in liquidation, were still pending in the courts. The CBN had, however, at end-December 2010, issued a total of ₦47.7 billion promissory notes to cover the shortfall between the assumed deposit liabilities and the cherry-picked assets of the eleven (11) failed banks that had been liquidated, in accordance with the terms of the P&A contract.

In the other financial institutions (OFIs) sub-sector, two (2) finance companies (FCs) wound down and the licences of two hundred and twenty-four (224) MFBs were revoked. Also, the operating licences of one hundred and thirty-two (132) Class "A" bureaux-de-change (BDCs) were withdrawn, while the licences of fifty-nine (59) new MFBs and four hundred and ninety (490) new BDCs were approved. However, one hundred and twenty-one (121) MFBs, whose licences had been revoked, were subsequently granted provisional licences following the injection of fresh capital and the recovery of substancial loans. The revocation of MFB licences was based on the report of the examination of eight hundred and twenty (820) microfinance banks (MFBs), which rated the affected MFBs as 'technically insolvent' or 'terminally distressed'. As part of measures to ensure enhanced access to financial services by the active poor, the CBN embarked on the review of the Regulatory and Supervisory Guidelines for MFBs in 2010.

The re-structuring of the Nigerian Agricultural Credit and Rural Development Bank (NACRDB) commenced during the year with the re-constitution of the Board of Directors and a change of name to 'Bank of Agriculture (BOA)'. Similarly, the Urban Development Bank (UDB) was privatized and restructured to enable it attract the desired funding for infrastructure financing and other related development activities. Under the auspices of the Association of African Development Finance Institutions (AADFI), new prudential requirements/standards were drawn up to deepen the operations and ensure the sustainability of all reporting DFIs. Also, the CBN injected the sum of ₦18.28 billion as additional capital into the Nigeria Export-Import Bank (NEXIM), aimed at restructuring and repositioning the bank for improved efficiency and effectiveness. Furthermore, the Board of Directors of the Federal Mortgage Bank of Nigeria (FMBN) was re-constituted, while the erstwhile Suburban Savings & Loans was acquired by Alliance and General Insurance Co. Ltd and renamed Alliance and General Savings & Loans.

4.1.2 Fraud and Forgery

The number of reported cases of attempted or successful fraud and/or forgery in the banking industry increased in 2010. There were a total of 5,960 cases of attempted fraud or forgery, involving ₦19.7 billion and US$19.2 million, compared with 3,852 reported cases involving ₦33.3 billion, US$1.0095 million, €11,000.0 and £2,800.0 in 2009. Out of this amount, the actual losses to the banks were ₦11.4 billion and US$10.98 million.

As in the preceding year, most of the successful fraud cases were perpetuated via the electronic system, reflecting weaknesses in the internal control systems of banks in Nigeria.

4.1.3 The Public Complaints Desk

The Bankers Committee ceded the functions of handling complaints between and among banks, hitherto performed by the Sub-Committee on Ethics and Professionalism, to the CBN in March 2010. Since its inception, the Bank had processed one thousand, five hundred and twenty-six (1,526) complaints resulting in the refund of over ₦2.2 billion by banks to various customers. As in previous years, most of the complaints bordered on excess charges by banks, staff matters, manipulation and fraudulent practices on customers' accounts, conversion of invested funds, and non-refund of wrong debits to customers' accounts, among others.

4.1.4 Cheque Clearing

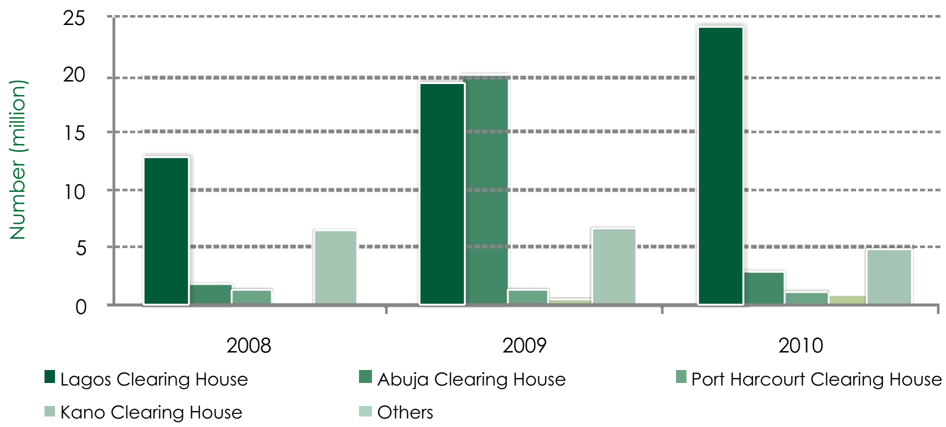
The developments in the cheque clearing system indicated mixed developments in 2010. The total volume of cheques cleared increased by 16.5 per cent to 33.99 million, compared with 29.16 million in 2009, while the value declined by 33.0 per cent to ₦19.7 billion. The relative rise in volume was attributed to the increased use of cheques in the system, while the fall in value was attributed to the Federal Government directive to effect the payment of staff salaries and contractors' payments through electronic means, as well as the public's adoption of other payment modes, such as the Real Time Gross Settlement (RTGS) system, the NIBSS Inter-bank Funds Transfer (NEFT), Automated Teller Machines (ATM's), Mobile/phone payments, and Internet payments.

Table 4.1: Volume and Value of Cheques Cleared in 2008 – 2010						
	2008		2009		2010	
	Volume	Value (₦'million)	Volume	Value (₦'million)	Volume	Value (₦'million)
Clearing System	30,172,925	43,357,416.23	29,159,780	29,390,852	33,986,062	19,687,864
Lagos Clearing House	12,686,663	19,313,680.69	19,151,133	14,279,926.24	24,187,391	13,567,260.08
	(42.0)	(44.5)	(65.7)	(48.6)	(72.2)	(68.9)
Abuja Clearing House	1,658,042	4,454,888.77	1,983,280	2,914,092.91	2,714,917	1,717,371.03
	(5.5)	(10.3)	(6.8)	(9.9)	(8.1)	(8.7)
Port Harcourt Clearing House	1,158,566	2,800,798.08	1,220,389	2,348,677.27	1,089,432	610,779.32
	(4.0)	(6.0)	(4.2)	(8.0)	(3.2)	(3.1)
Kano Clearing House			349,460	992,940.98	717,718	579,718.12
	na	na	(1.2)	(3.4)	(2.1)	(2.9)
Others	6,292,471	9,680,400.00	6,455,518	8,855,314.74	4,897,074	3,212,735.00
	(21.0)	(22.0)	(22.1)	(30.1)	(14.4)	(16.3)

Figures in parentheses are percentages

na = not applicable

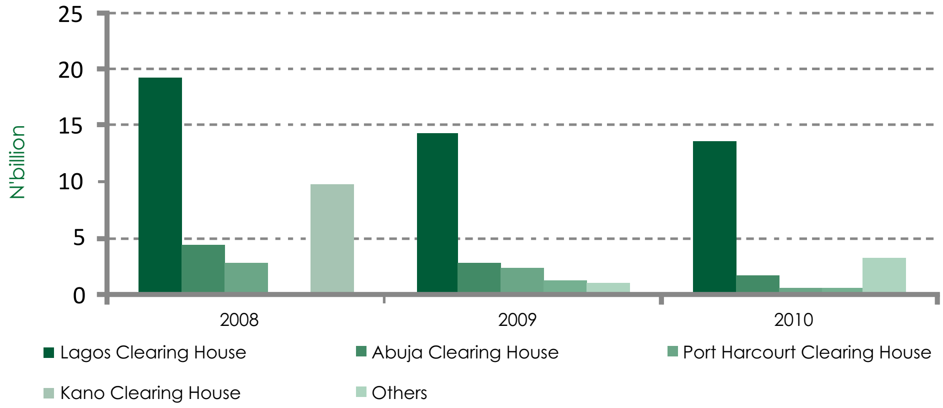
Figure 4.1a: Volume of Cheques Cleared in 2008 - 2010



4.1.5 Inter-bank Funds Transfer (IFT)

The volume and value of inter-bank funds transfer, through the RTGS system (Central Bank Interbank Funds Transfer System - CIFTS) increased significantly by 28.9 and 44.5 per cent to 373,248 and ₦92,955.0 billion, compared with 289,535 and ₦64,351.0 billion, respectively, in 2009.

Figure 4.1b: Value of Cheques Cleared in 2008 - 2010



4.1.6 Use of e-Money Products

The volume and value of e-card transactions increased by 70.6 per cent and 66.3 per cent to 195,525,568 and ₦1, 072.88 billion, compared with 114,592,669 and ₦645.0 billion, respectively, in 2009.

The use of the various forms of e-payment grew significantly.

Available data on various e-payment channels indicated that Automated Teller Machines (ATMs) remained the most patronized, accounting for 95.2 per cent of the total e-payment transactions in volume terms, while the Point-of-sale (POS) terminal was the least with 0.8 per cent:

The volume and value of ATM transactions stood at 186,153,142 and ₦954.04 billion, respectively, at end-December 2010. That reflected an increase of 70.5 per cent and 73.9 per cent, respectively, over the levels recorded in 2009. The development reflected increased public confidence in the system after the adoption of various measures to combat card fraud.

The development reflected increased public confidence in the system after the adoption of various measures to combat card frauds.

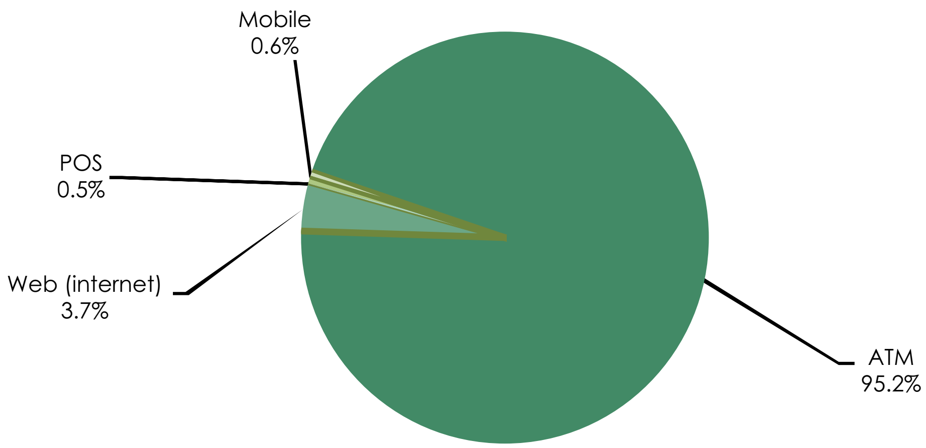
The use of mobile payments was still at its infancy as the mobile payment service operators were only recently licensed. The use of mobile telephones for payments declined in volume by 36.1 per cent to close at 1,156.533, while the value increased by 429.1 per cent to ₦6.65 billion.

Table 4.2: Market Share in the e-Payment Market in 2008 - 2010

e-Payment Segment	Volume (Millions)			Value (₦ ' Billion)		
	2008	2009	2010	2008	2009	2010
ATM	60.1	109.6	186.2	399.7	548.6	954.0
	(91.0)	(95.3)	(95.2)	(90.5)	(85.1)	(88.9)
Web (Internet)	1.6	2.7	7.2	25.1	84.2	99.5
	(2.4)	(2.3)	(3.7)	(5.7)	(13.0)	(9.3)
POS	1.2	0.9	1.1	16.1	11.0	12.7
	(1.8)	(0.8)	(0.5)	(3.7)	(1.7)	(1.2)
Mobile	3.2	1.8	1.2	0.7	1.3	6.7
	(4.8)	(1.6)	(0.6)	(0.1)	(0.2)	(0.6)

Figures in brackets are percentage share of total

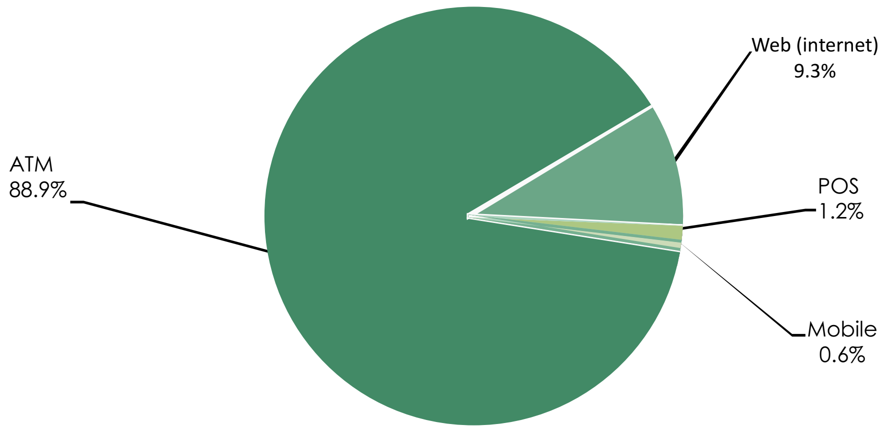
Figure 4.2a: Volume of Electronic Card-based Transactions in 2010



4.1.7 Institutional Savings

Aggregate financial savings rose by ₦90.7 billion or 1.4 per cent to ₦6,430.6 billion, compared with ₦6,339.9 billion at the end of the preceding year. The ratio of financial savings to GDP was 32.9 per cent, compared with 22.8 per cent in 2009. The DMBs remained the dominant depository institution within the financial system and accounted for 92.6 per cent of the total financial savings, compared with 90.9 per cent in the preceding year. Other savings institutions, namely, the PMIs, life insurance funds, the pension funds, the Nigerian Social Insurance Trust Fund, and microfinance banks accounted for the balance of 7.4 per cent.

Figure 4.2b: Value of Electronic Card-based Transactions in 2010



4.2 MONETARY AND CREDIT DEVELOPMENTS

4.2.1 Reserve Money (RM)

At ₦1, 803.9 billion, RM grew by 9.1 per cent, relative to the level at end-December 2009 and was 25.9 percentage points below the indicative benchmark of ₦2,232.4 billion for fiscal 2010. The increase in the sources of base money was accounted for, largely, by the rise in the net domestic assets of the CBN, particularly claims on government and the private sector, which more than offset the decline in net foreign assets of the Bank.

On the uses side, the currency component increased by 16.4 per cent relative to the level at end-December 2009, while DMBs' reserves, however, declined by 9.8 per cent.

Figure 4.3a: Reserve Money and its Components

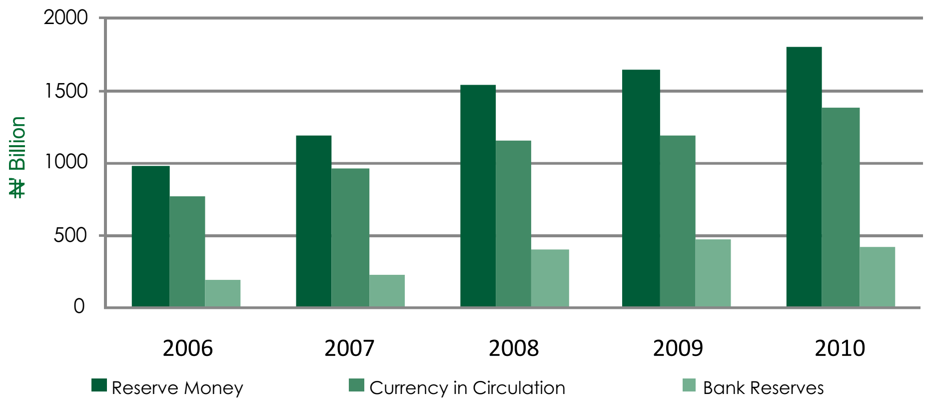


Figure 4.3b: Reserve Money Targets and Outcomes (Naira billion)

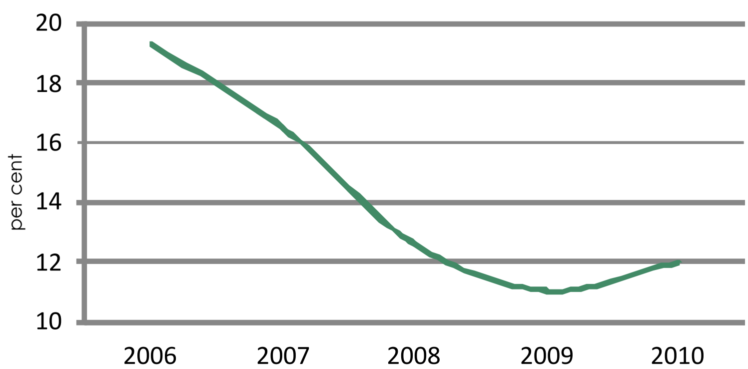
4.2.2 Broad Money (M_2)

Broad money supply (M_2) grew by 6.7 per cent to ₦11,488.7 billion at end-December 2010, compared with the indicative benchmark growth rate of 29.3 per cent for fiscal 2010 and the growth of 17.5 per cent at the end of the preceding year. The sub-optimal growth in M_2 was largely driven by the expansion in domestic credit (net) and other assets (net) of the banking system. Correspondingly, the growth in total monetary liabilities was driven by the expansion in both narrow and quasi-money.

The analysis of the composition of the total monetary liabilities (M_2) showed that the distribution was skewed towards the liquid component M_1, especially in the last quarter of the year, due to seasonal factors. Currency outside bank increased by 16.7 per cent, compared with 3.9 per cent at end-December 2009. As a ratio of the total monetary liabilities, it rose to 9.4 per cent, from 8.6 per cent at end-December 2009. As in the preceding year, foreign currency deposits remained a significant component of M_2 at 13.1 per cent, slightly down by 0.6 percentage point from the ratio at end-2009.

The movement in M_2 was largely driven by the expansion in domestic credit (net) of the banking system, particularly credit to the Federal Government.

Figure 4.4: Ratio of Currency in Circulation to M_2



4.2.3 Drivers of Growth in Broad Money

4.2.3.1 Net Foreign Assets (NFAs)

The net foreign assets of the banking system stood at ₦6,303.63 billion, representing a decline of 17.0 per cent at end-December 2010, compared with the decline of 11.2 per cent at the end of the preceding year. The development reflected, wholly, the decline in the net foreign asset holdings of the CBN, which stood at ₦5,169.3 billion at the end of the review period, compared with ₦6,522.2 billion at end-December 2009. This was accounted for by the reduction in demand deposits with foreign banks, as well as holdings of bills of foreign governments. As a share of M_2, NFA was 54.9 per cent at end-December 2010, compared with 70.5 per cent at end-December 2009, but still maintained its dominance in the last five years.

4.2.3.2 Net Domestic Credit (NDC)

Credit to the domestic economy (net) grew by 13.4 per cent at end-December 2010, but was lower than the indicative benchmark of 51.4 per cent for the year, and the growth rate of 59.6 per cent at end-December 2009. The development reflected, wholly, the growth of 64.2 per cent in credit to the Federal Government (issuance of treasury securities). Credit to the private sector declined by 4.1 per cent, as against the growth of 26.6 per cent at end-December 2009. Net domestic credit to the economy constituted 78.0 per cent of the total monetary assets (M_2) at end-December 2010.

4.2.3.3 Credit to the Government (CG)

Net credit to the Federal Government (CG) rose by 64.2 per cent, compared with 25.9 per cent at end-December 2009 and the indicative benchmark of 25.1 per cent for fiscal 2010. Notwithstanding, the Federal Government remained a net creditor to the banking system in 2010, as in the preceding year.

Figure 4.5: Growth in M_2 and its Sources (per cent)

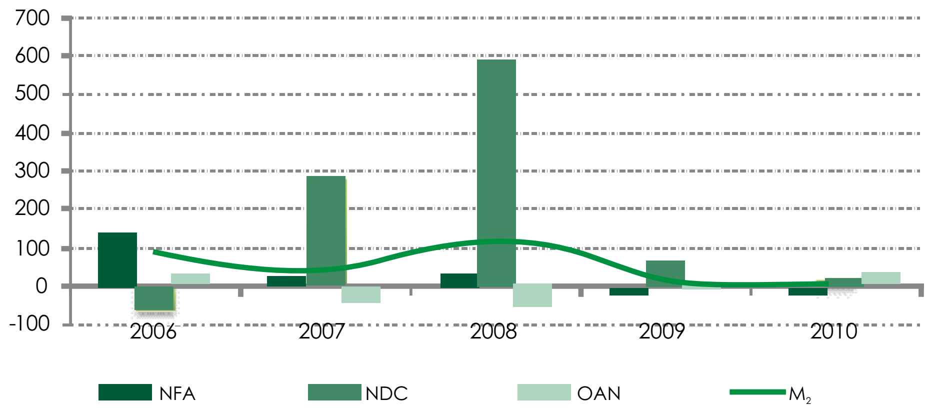
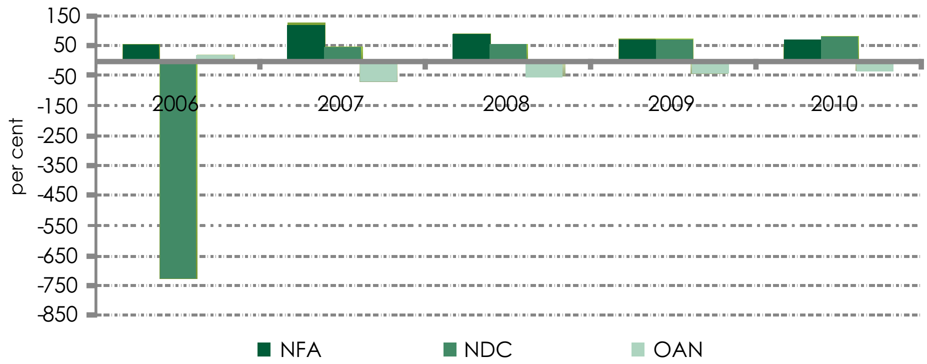


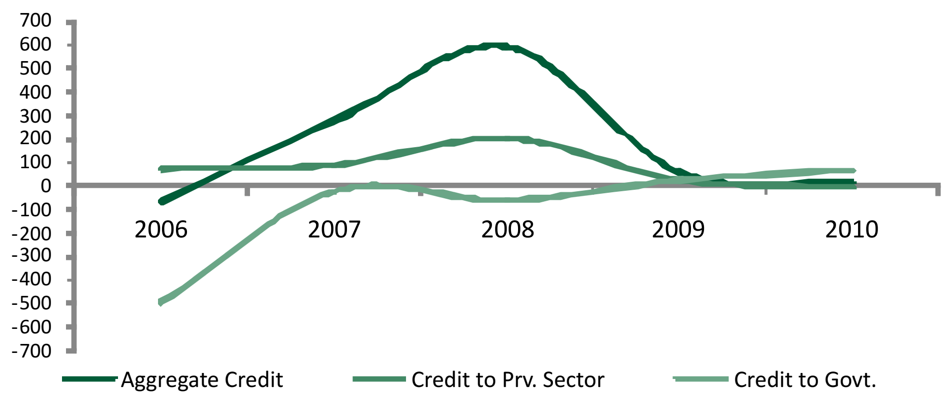
Figure 4.6: Share of NFA and NDC in M2 (per cent)



4.2.3.4 Credit to the Private Sector (CP)

Credit to the private sector (including the states and local governments and non-financial public enterprises), declined by 4.1 per cent, in contrast to the increase of 26.6 per cent recorded at end-December 2009. Credit to the core private sector (excluding states and local governments), declined by 4.8 per cent. The development reflected, largely, the crowding-out effect of the banking system's claims on the Federal Government.

Figure 4.7: Growth in Domestic Credit (per cent)



4.2.3.5 Other Assets (Net) (OAN)

Other Assets (net) of the banking system increased by 20.1 per cent, in contrast to a decline of 9.1 per cent at end-December 2009. OAN contributed 8.8 percentage points to the growth in M_2 at end-December 2010, as against a negative contribution of 4.3 percentage points a year earlier.

Table 4.3: Contribution to the Growth in M2 (per cent) 2006 - 2010					
	2006	**2007**	**2008**	**2009**	**2010**
Net Foreign Assets (NFA)	78.5	23.8	22.1	-10.4	-12.0
Net Domestic Credit (NDC)	-56.9	49.0	39.0	32.2	9.8
Other Assets (net) (OAN)	21.4	-28.6	-3.3	-4.3	8.8
M_2	**43.1**	**44.2**	**57.8**	**17.5**	**6.7**
Narrow Money (M_1)	19.7	20.7	30.0	1.6	4.9
Quasi Money	23.4	23.5	27.8	15.9	1.8
M_2	**43.1**	**44.2**	**57.8**	**17.5**	**6.7**

4.2.3.6 Narrow Money (M_1)

Narrow money supply (M_1) grew by 10.6 per cent at end-December 2010, compared with 3.0 per cent at end-December 2009. The currency component, (COB) rose by 16.7 per cent, while demand deposits grew by 9.2 per cent, compared with their respective growth rates of 3.0 and 2.8 per cent at the end of the preceding year. As a proportion of M_1, COB rose by 19.6 per cent at end-December 2010, from 18.5 per cent a year earlier.

Figure 4.8: Growth in Monetary Aggregate (per cent)

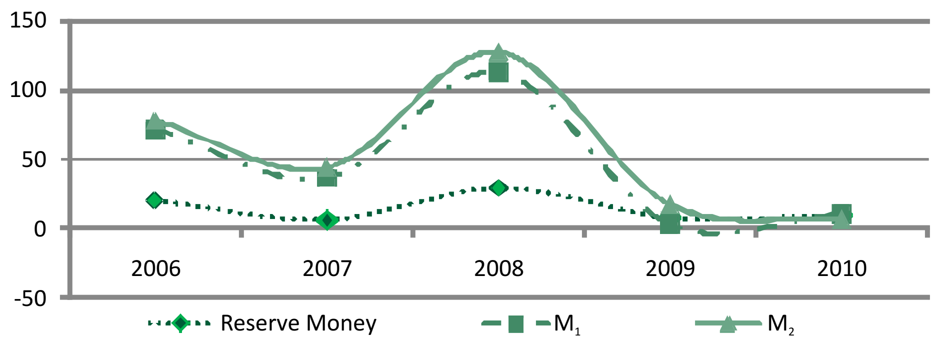


Figure 4.9: Growth in the Components of Broad Money (M_2) (per cent)

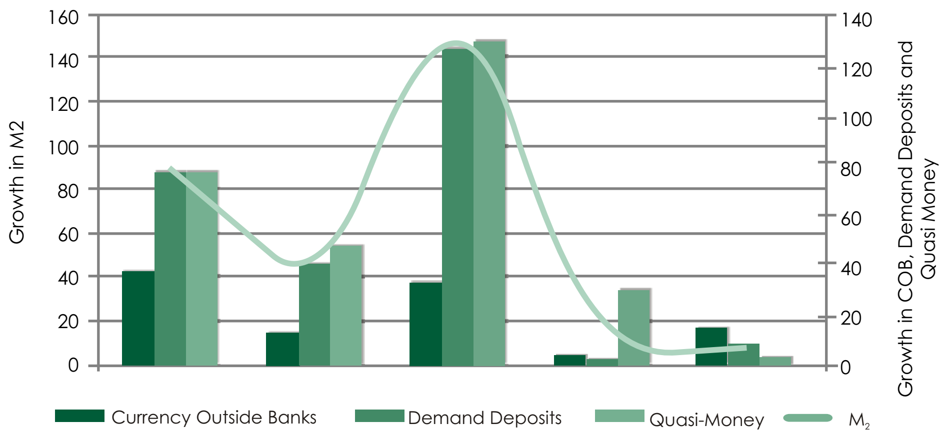


Table 4.4: Composition of Total Monetary Aggregate (M2) (per cent)

	2006	2007	2008	2009	2010
Net Foreign Assets	**156.6**	**125.1**	**93.3**	**70.5**	**54.9**
Net Domestic Credit	**17.7**	**46.3**	**54.0**	**73.4**	**78.0**
Net Credit to Government	-48.1	-40.8	-33.9	**-21.4**	-6.4
Credit to Private Sector	65.8	87.0	87.9	94.8	84.5
Other Assets (Net)	**-74.3**	**-71.0**	**-47.3**	**-43.9**	**-32.9**
Total Monetary Assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Money Supply (M_1)	**56.6**	**53.6**	**53.0**	**46.5**	**48.2**
Currency Outside Banks	16.2	12.7	9.7	8.6	9.4
Demand Deposit	40.5	40.9	43.3	37.9	38.8
Quasi Money	**43.4**	**46.4**	**47.0**	**53.5**	**51.8**
Time & Savings Deposit	43.4	46.4	47.0	53.5	51.8
Foreign Currency Deposit (FCD)	7.5	8.2	10.1	13.4	13.1
Total Monetary Liabilities (M_2)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

4.2.3.7 Quasi-Money

Quasi-Money grew by 3.3 per cent, compared with 33.7 per cent at end-December 2009. The development reflected the respective growth of 3.3 and 4.3 per cent in time and foreign currency deposits with deposit money banks.

4.2.4 Maturity Structure of DMBs Loans and Advances and Deposit Liabilities

Analysis of the structure of DMBs' outstanding credit at end-December 2010 indicated that short-term maturity remained dominant in the credit market. However, there was an improvement in the share of long-term maturity. Outstanding loans and advances maturing one year and below accounted for 65.3 per cent of the total, compared with 70.3 per cent at end-December 2009, while the medium-term (between 1-3 years) and long-term (3-year and above) accounted for 14.6 and 20.1 per cent, respectively, compared with 14.3 and 15.3 per cent, at end-December 2009. Analysis of DMBs' deposit liabilities showed a similar trend, with short-term deposits of below one year maturity constituting 96.9 per cent of the total. The share of deposits of less than 30-day maturity was 76.3 per cent, while long-term deposits of more than three (3) years had a share of 1.0 per cent at end-December 2010, compared with 0.1 per cent at end-December 2009. The structure of DMBs' deposit liabilities explains banks' preference for short-term claims on the economy.

Analysis of DMBs' outstanding credits and deposit liabilities showed that short-term maturities dominated both the credit and deposit markets.

Table 4.5: Maturity Structure of DMBs, Loans and Advances and Deposit Liabilities (per cent)

	Loans and Advances					Deposits				
Tenor/Period	**2006**	**2007**	**2008**	**2009**	**2010**	**2006**	**2007**	**2008**	**2009**	**2010**
0-30 days	54.4	49.2	46.6	50.1	46.1	66.6	74.1	72.7	73.3	76.3
31-90 days	11	11.3	13.4	6.4	10	16.6	12.3	13.1	15	14.4
91-181 days	6.3	5.8	7.8	7.3	3.9	3.5	4.3	6.2	4.7	3.4
181-365 days	6.4	9.5	7.5	6.5	5.3	1.4	2.6	2.7	2.7	2.8
Short term	**78.02**	**75.83**	**75.4**	**70.3**	**65.3**	**88.1**	**93.3**	**94.8**	**95.7**	**96.87**
Medium term(above 1 year and below 3 years	**8.3**	**13.5**	**14.5**	**14.3**	**14.6**	**5.4**	**3.3**	**5.2**	**4.1**	**2.06**
Long term (3 years and above)	**13.7**	**10.7**	**10.1**	**15.3**	**20.1**	**6.5**	**3.3**	**0.03**	**0.069**	**1.005**
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Figure 4.10a: Maturity Structure of DMBs Loans and Advances at end-December 2010

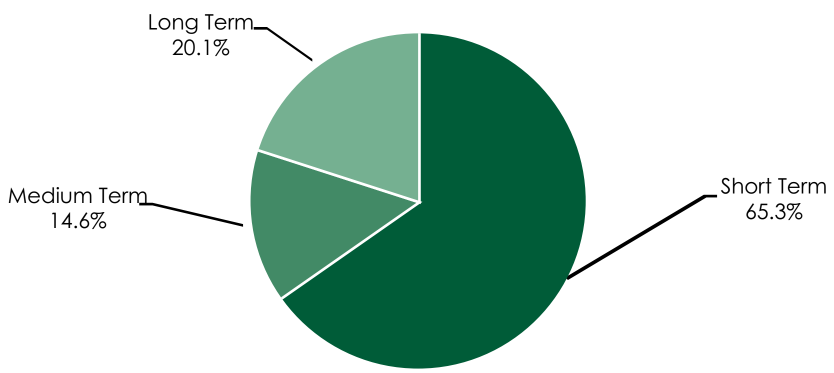
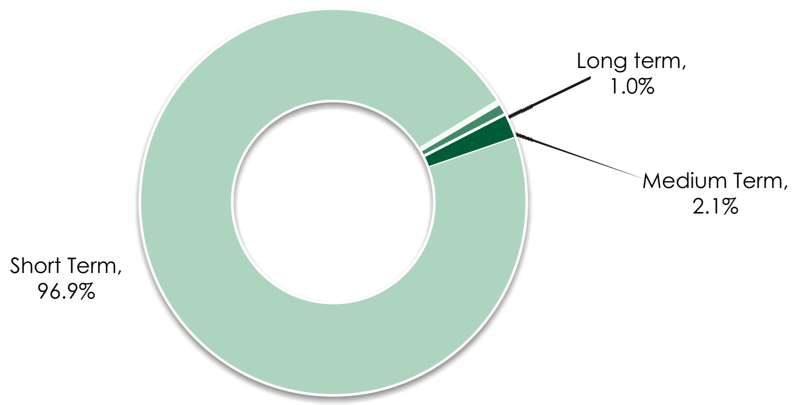


Figure 4.10b: Maturity Structure of DMBs Deposits at end-December 2010



4.2.5 Sectoral Distribution of Credit

At end-December 2010, credit to the core private sector by the DMBs declined by 4.8 per cent, in contrast to the growth of 25.1 per cent at end-December 2009. Of the amount outstanding, DMBs' credit to priority sectors constituted 30.4 per cent, of which agriculture, solid minerals, exports and manufacturing received 1.7, 15.3, 0.6 and 12.8 per cent, respectively. The less priority sectors accounted for 47.8 per cent of outstanding credit, compared with 46.9 per cent at end-December 2009, while unclassified sectors accounted for the balance of 21.8 per cent.

Table 4.6: Credit to the Core Private Sector, 2006 - 2010

	Share in Outstanding (per cent)				
	2006	**2007**	**2008**	**2009**	**2010**
1. Priority Sectors	**30.3**	**25.9**	**26.2**	**25.2**	**30.4**
Agriculture	2.2	3.2	1.4	1.4	1.7
Solid Minerals	10.1	10.7	11.3	12.7	15.3
Exports	1.2	1.4	1	0.5	0.6
Manufacturing	16.9	10.4	12.5	10.6	12.8
2. Less Preferred Sectors	**46**	**41.2**	**42**	**46.9**	**47.8**
Real Estate	5.9	6.2	6.2	8.3	8.7
Public Utilities	0.9	0.6	0.6	0.8	0.7
Transp. & Comm.	7.6	6.8	7.2	8.3	10.7
Finance & Insurance	4.6	9.4	9.5	13.1	11.3
Government	4.5	3.7	1.9	3.7	4.9
Imports & Dom. Trade	22.5	14.5	16.4	12.8	11.7
3. Unclassified	**23.7**	**32.9**	**31.8**	**27.9**	**21.8**
Total (1+2+3)	**100**	**100**	**100**	**100**	**100**

Figure 4.11a: Share in Outstanding Credit to the Core Private Sector in 2010

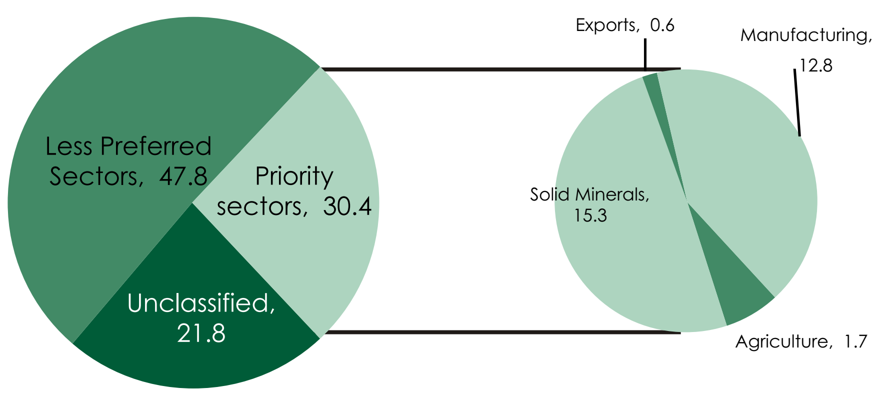
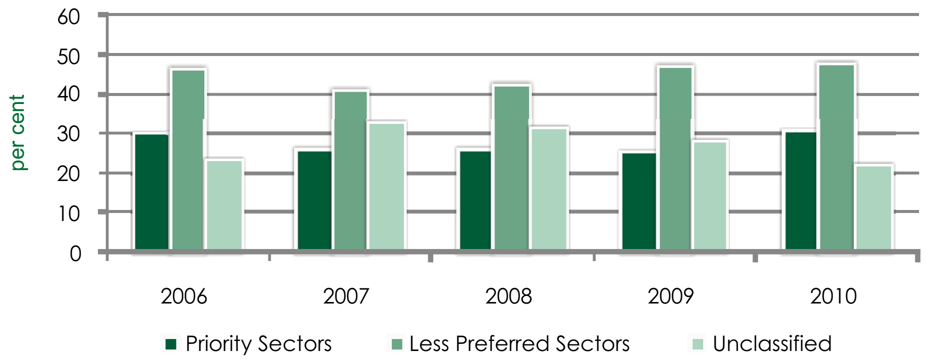


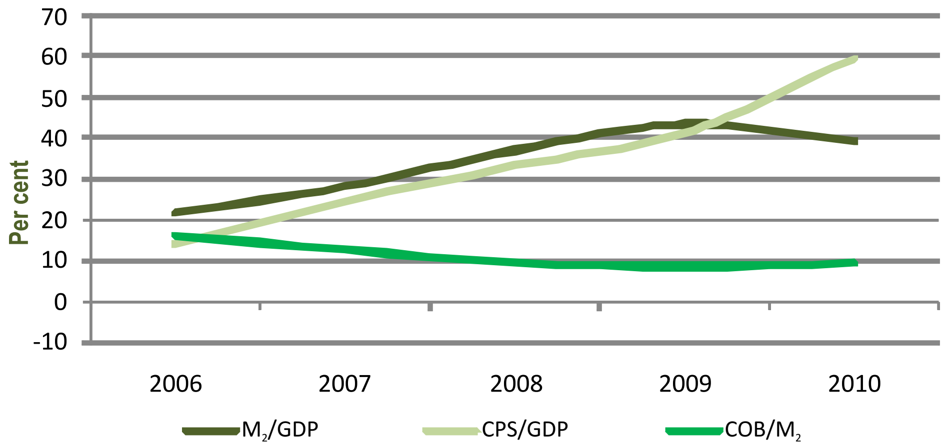
Figure 4.11b: Share in Outstanding Credit to the Core Private Sector (2006-2010)



4.2.6 Financial/Banking System Developments

The depth of the financial sector, as measured by the ratio of M_2 to GDP, stood at 38.9 per cent at end-December 2010, which was lower than the 42.7 per cent at end-December 2009. Thus, the capacity of the banking system to provide liquidity for economic activities weakened during the year. Furthermore, the intermediation efficiency indicator, as measured by the ratio of currency outside banks to broad money supply was 9.4 per cent at end-December 2010, compared with 8.6 per cent at end-December 2009.

Figure 4.12a: Ratio of Broad Money (M_2) to GDP, Credit to Private Sector (CPS) to GDP and Currency Outside Bank (COB) to M_2 (per cent)



The ratio of financial savings to GDP increased to 32.9 per cent, from 22.8 per cent in the preceding year. The moniness of the economy, as measured by the ratio of CIC to GDP, remained at 4.7 per cent, the same as in the preceding year. The size of the banking system, relative to the size of the economy, indicated by the ratio of DMBs assets to GDP, declined from 69.6 per cent at end-December 2009 to 58.8 per cent in 2010. Similarly, the ratio of the CBN assets to GDP declined from 40.5 per cent at end-December 2009 to 30.2 per cent at end-December 2010.

Figure 4.12b: Ratio of Banking System's Total Assets to GDP (per cent)

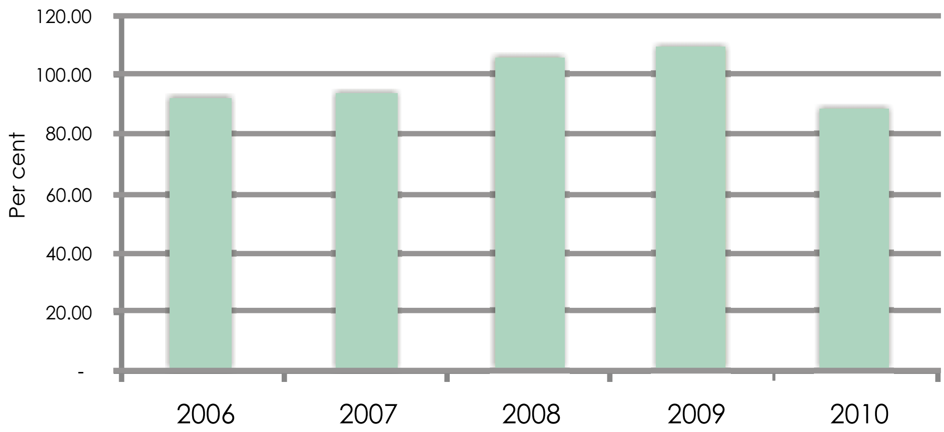


Figure 4.12c: Ratio of Deposit Money Banks' Assets to GDP (per cent)

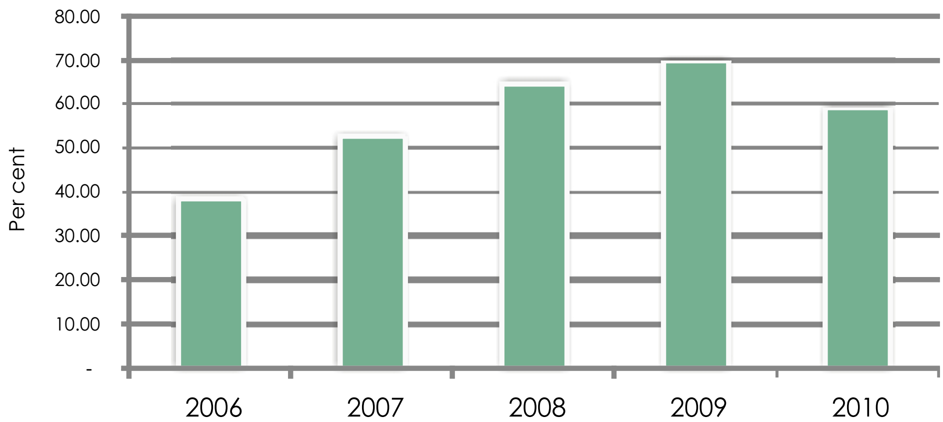


Table 4.7: Monetary Aggregates and Measures of Financial/Banking Development

Aggregates (N' billion)	2006	2007	2008	2009	2010
Nominal GDP	18,709.60	20,940.90	24,665.20	25,225.10	29,498.60
Broad Money (M_2)	4,027.90	5,809.80	9,166.80	10,767.40	11,488.70
Quasi Money (Savings)	1,747.30	2,693.60	4,309.50	5,763.50	5,954.30
Currency in Circulation	779.3	960.8	1,155.30	1,181.50	1378.02
Currency Outside Banks	650.9	737.9	892.8	927.2	1082.2
Credit to Private Sector	2,650.80	5,056.70	8,059.50	10,206.10	9,787.10
Credit to core private sector (CPcore)	2,556.90	4,968.90	7,909.70	9,895.70	9,417.30
DMBs Assets	7,172.90	10,981.70	15,919.60	15,522.90	17,331.60
CBN Assets	10,034.50	8,689.00	10,204.00	8,898.40	8,591.00
Banking System Assets	17,207.40	19,670.70	26,123.50	27,726.80	26,223.00
Monetary Ratio (per cent)					
M_2/GDP	21.5	27.7	37.2	42.7	38.9
CIC/ M_2	19.3	16.5	12.6	11.0	12.0
COB/ M_2	16.2	12.7	9.7	8.6	9.4
Quasi Money/M_2	43.4	46.4	47.0	53.5	51.8
CIC/GDP	4.2	4.6	4.7	4.7	4.7
Cp/GDP	14.3	24.1	32.7	40.5	58.9
Cp core/GDP	13.7	23.7	32.1	39.2	30.2
Cp core/Non-Oil GDP	22.1	39.7	54.4	65.1	48.1
DMBs Assets/GDP	38.3	52.4	64.5	69.5	58.8
CBN's Assets/GDP	23.6	47.9	35.2	40.5	30.2
Banking System's Assets/GDP	92	93.9	105.9	109.9	88.9

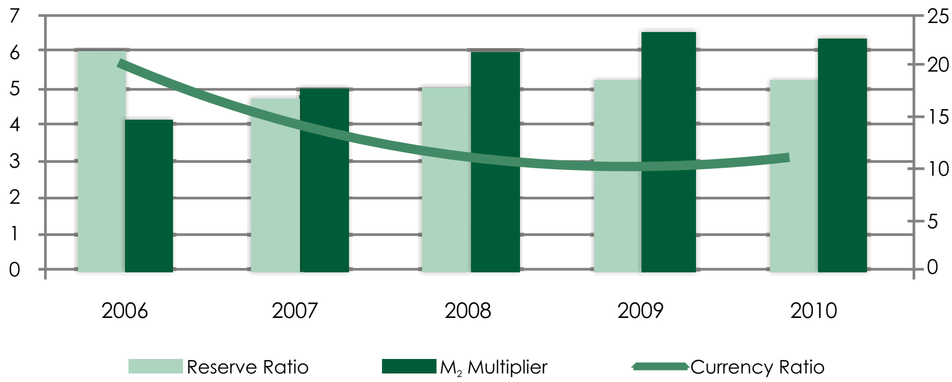
4.2.7 Money Multiplier and Velocity of Money

The broad money multiplier at end-December 2010 stood at 6.4, compared with the 6.0 programmed for the year and 6.5 at end-December 2009. The slight decline in the multiplier reflected the increase in currency deposit ratio, which rose from 10.1 per cent at end-December 2009 to 11.1 per cent at end-December 2010, arising from the increase in the total deposit liabilities of the DMBs. Reserve-to-deposit ratio declined from 5.2 per cent at end-December 2009 to 4.4 per cent at end-December 2010.

Table 4.8: Money Multiplier and Velocity of M_2

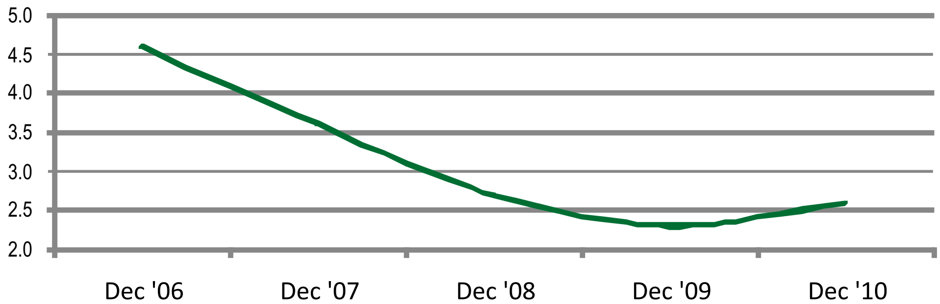
	2006	2007	2008	2009	2010
Currency Ratio	20.1	14.8	11.2	10.1	11.1
Reserve Ratio	6.0	4.7	4.9	5.2	4.4
M_2 Multiplier	4.1	4.9	5.9	6.5	6.4
Velocity of M_2	4.6	3.6	2.7	2.3	2.6

Figure 4.13: Money Multiplier, Currency Ratio and Reserve Ratio



The velocity of circulation of broad money remained relatively stable at end-December 2010. The M_2 velocity, which stood at 2.3 at end-December 2009 increased slightly to 2.6 at the end-December 2010. However, it showed a declining trend over the last five years.

Figure 4.14: The Velocity of Money



4.3 OTHER FINANCIAL INSTITUTIONS

4.3.1 Development Finance Institutions (DFIs)

The total assets of the five (5) DFIs increased by 95.8 per cent to ₦316.2 billion, compared with ₦161.5 billion at the end of the preceding year. Analysis of the asset base of the five institutions indicated that the Bank of Industry (BOI) accounted for 56.9 per cent of the total. The Federal Mortgage Bank of Nigeria (FMBN), the Bank of Agriculture (BOA), the Nigerian Export-Import Bank (NEXIM), and the Urban Development Bank of Nigeria (UDBN) accounted for 24.9, 12.0, 6.0 and 0.2 per cent of the total, respectively.

The combined paid-up share-capital of the DFIs was ₦50.1 billion, while the combined shareholders' fund was negative ₦3.0 billion, compared with negative ₦25.1 billion recorded in the preceding year. Cumulatively, the loan disbursed by the DFIs increased by 23.2 per cent to ₦111.8 billion. The percentage shares of FMBN, BOI, BOA, NEXIM and UDBN in the total loan outstanding were 49.6, 23.2, 20.2, 6.8 and 0.2 per cent, respectively. The improved loans portfolio of the DFIs, relative to the preceding year, was attributed, largely, to the re-positioning and re-structuring of most of the institutions which enhanced their capacity, efficiency and effectiveness.

4.3.2 Microfinance Banks (MFBs)

The total assets/liabilities of MFBs increased by 2.4 per cent to ₦170.6 billion at end-December 2010. The paid-up capital also increased by 5.3 per cent to ₦40.4 billion, while the shareholders' funds declined by 4.1 per cent to ₦43.7 billion. Similarly, the loans and advances, and deposits declined by 10.7 and 3.4 per cent, respectively. The development was attributed, largely, to the revocation of the operating licences of one hundred and three (103) MFBs by the CBN. Investible funds available to the sub-sector totaled ₦22.1 billion, compared with ₦39.6 billion in the preceding year. The funds were sourced mainly from an increase in placements from other financial institutions (₦10.7 billion), paid-up capital (₦2.0 billion), a reduction in net loans/advances (₦6.5 billion), and a reduction in other assets (₦1.6 billion). The funds were used mainly to increase cash and short-term funds (₦12.1 billion) and reduce deposit liabilities (₦2.7 billion), among others.

4.3.3 Maturity Structure of Microfinance Banks' (MFBs) Loans and Advances and Deposit Liabilities

Short-term investments remained dominant in the microfinance (MFBs) market in 2010, reflecting developments in the banking system. Short-term loans, at end-December 2010, accounted for 88.0 per cent of the total, while loans with maturity over 360 days accounted for 12.0 per cent, from the respective levels of 77.2 and 22.8 per cent at end-December 2009. Similarly, the short-term liabilities of these institutions remained dominant as deposits of less than one year maturity accounted for 92.3 per cent, while deposits of above one (1) year accounted for 7.7 per cent at end-December 2010. Indeed, deposits of less than 30 days maturity constituted 60.3 per cent, compared with 58.6 per cent at end-December 2009.

Table 4.9: Maturity Structure of Assets and Liabilities of Microfinance Banks (MFBs) (per cent)

	2009		2010	
Tenor/Period	**Loans and Advances**	**Deposits**	**Loans and Advances**	**Deposits**
0-30 days	8.4	58.6	24.3	60.3
31-60 days	19.1	8.3	9.6	7.7
61-90 days	18.1	9.3	16.7	9.3
91-180 days	19.1	8.9	18.4	7.2
180 – 360 days	12.5	8.4	19	7.8
Short term	**77.2**	**93.5**	**88**	**92.3**
Above I80 days but below 1 year	**17.2**	**6.5**	**19**	**7.8**
Above 360 days	22.8	6.5	12	7.7
Total	**100**	**100**	**100**	**100**

4.3.4 Discount Houses (DHs)

Total assets/liabilities of the discount houses increased by 4.4 per cent to ₦361.1 billion, compared with ₦346.0 billion in 2009. Total funds sourced amounted to ₦152.2 billion, compared with ₦87.4 billion in the preceding year. The funds were sourced mainly from money-at-call (₦78.4 billion), claims on banks (₦26.4 billion), and claims on others (₦24.0 billion). The funds were utilized mainly for investment in Federal Government securities (₦110.2 billion) and repayment of borrowings (₦28.4 billion), among others. Discount houses' investments in Federal Government securities of less than 91 days maturity amounted to ₦55.1 billion, representing 20.1 per cent of their total current liabilities. This was 39.9 percentage points below the prescribed minimum of 60.0 per cent for fiscal 2010.

4.3.5 Finance Companies (FCs)

The total assets/liabilities of the FCs increased significantly by 53.5 per cent to ₦185.6 billion at end-December 2010. Similarly, loans and advances, and fixed assets increased by 48.7 and 135.6 per cent to N61.1 billion and ₦17.6 billion, respectively, at end-December 2010. Cash and short-term funds increased by 210.0 per cent to ₦77.2 billion. In addition, capital and reserves and borrowings increased by 239.4 and 32.4 per cent to ₦48.3 billion and ₦107.5 billion, respectively. Investible funds available to the sub-sector were ₦90.8 billion, compared with ₦68.4 billion in the preceding year. The funds were sourced mainly from the increase in paid-up capital (₦27.2 billion), borrowings (₦26.3 billion) and reduction in investments (₦22.4 billion), among others. The funds were used mainly to increase cash and short-term funds (₦52.3 billion) and loans/advances (₦20.0 billion).

4.3.6 Primary Mortgage Institutions (PMIs)

The total assets of the PMIs stood at ₦336.8 billion at end-December 2010, indicating an increase of 1.0 per cent over the preceding year's level. Similarly, investments and loans/advances increased by 8.1 and 2.4 per cent to ₦67.9 billion and ₦124.2 billion, respectively, at end-December 2010. Also, fixed assets increased by 20.3 per cent to ₦18.9 billion. Investible funds available to the PMIs totalled ₦30.1 billion, compared with ₦55.7 billion in 2009. The funds were sourced mainly from an increase in deposits (₦17.5 billion) and the injection of paid-up capital (₦4.4 billion), and were utilized mainly to buffer the reduction in reserves (₦10.7 billion), repayment of other liabilities (₦6.5 billion) and an increase in fixed assets (₦3.2 billion).

4.3.7 Bureaux-de-Change (BDCs)

A total of four hundred and ninety (490) BDCs were granted approval, while the licences of one hundred and thirty-two (132) class 'A', BDCs were revoked in 2010. Consequently, the total number of approved BDCs increased to 1,959, from 1,601 in 2009.

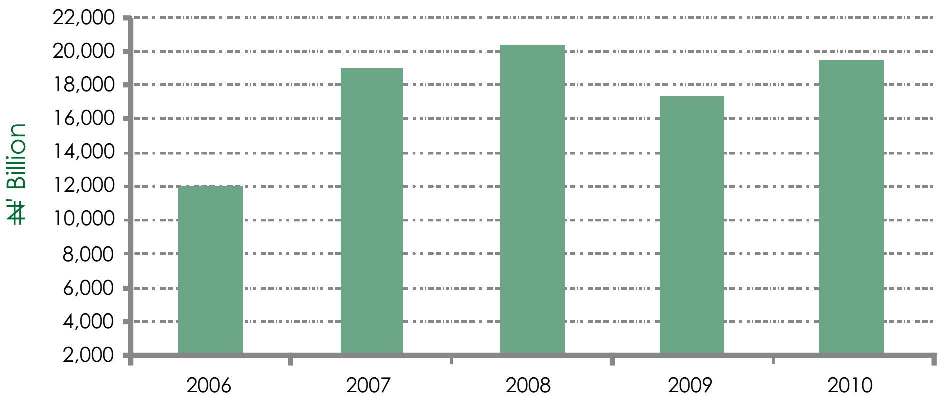
4.4 MONEY MARKET DEVELOPMENTS

Activities in the money market in 2010 followed the swings in liquidity flows. Quantitative easing measures were taken, along with the extension of the Bank's guarantees, to restore and sustain public confidence in the market, as well as encourage inter-bank activities. The enactment of the Asset Management Corporation of Nigeria (AMCON) legislation further boosted confidence in the system. Active Open Market Operations commenced from October for the purpose of targeted liquidity management. Patronage at the auctions of Federal Government securities remained significant as banks and discount houses sought to take advantage of the instruments, coupled with the improved yield.

4.4.1 Inter-bank Funds Market

At the inter-bank funds market, the value of transactions increased by 12.2 per cent to ₦19,534.75 billion in 2010. The development was due to various measures taken, such as the extension of the Bank's guarantee to restore confidence in the market. As a proportion of the total value of transactions, the inter-bank call and the open-buy-back segments accounted for 59.6 and 40.4 per cent, respectively, compared with 25.8 and 74.2 per cent in 2009.

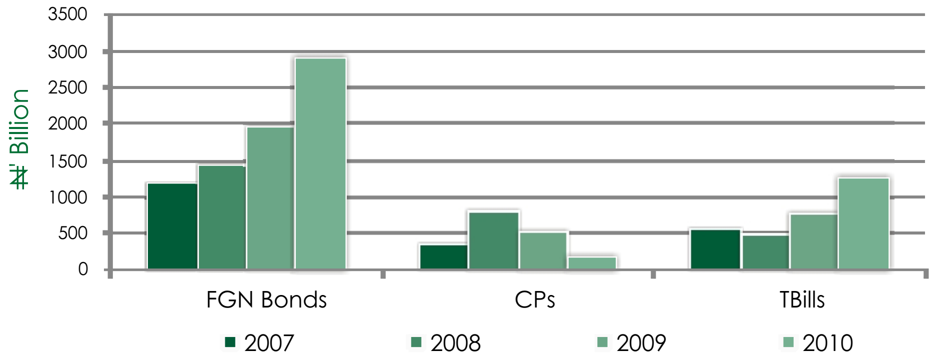
Figure 4.15: Value of Inter-bank Funds Market Transactions



4.4.2 Money Market Assets Outstanding

Total money market assets outstanding, as at end-December 2010, stood at ₦4, 447.3 billion, showing an increase of 33.0 per cent, when compared with the increase of 19.1 per cent at end-December 2009. The development was attributed to the increase in the value of FGN bonds, Treasury Bills (NTBs) and Bankers' Acceptances (BAs).

Figure 4.16: Money Market Assets Outstanding



Government remained the dominant player in the Nigerian money market, as government securities constituted 94.0 per cent of money market assets outstanding, as at end-December 2010, while private sector-issued securities (certificates of deposits, commercial papers and bankers' acceptances) accounted for 6.0 per cent. The depth of the money market, as measured by the ratio of value of money market assets outstanding to GDP, improved from 13.3 per cent in 2009 to 15.1 per cent in 2010, reflecting the effect of the issuance of the 7th FGN Bonds. However, the size of this ratio, in relation to bank-financing of the economy (credit to the core private sector/GDP), was 31.6 per cent and underscored the short-term feature of financial markets in Nigeria.

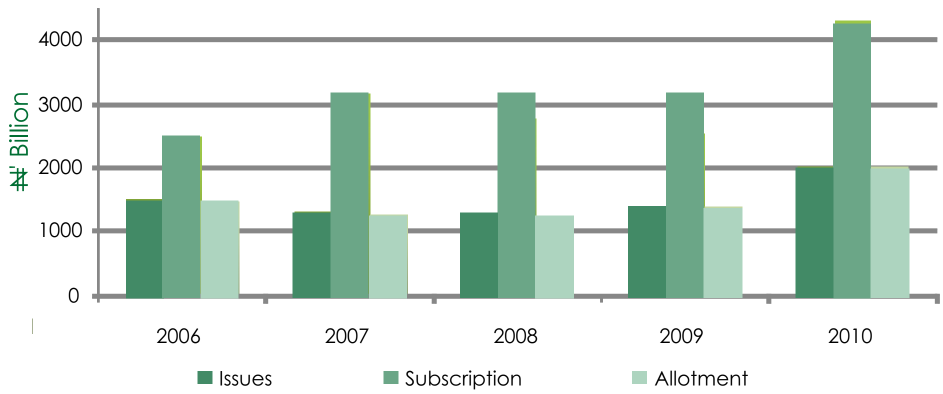
Government remained the dominant player in the Nigerian money market, as government securities constituted 94.0 per cent of money market assets outstanding, as at end-December 2010.

Table 4.10: Composition of Money Market Assets Outstanding in 2010		
Asset	**Share in Total (%) in 2009**	**Share in Total (%) in 2010**
Treasury Bills	23.85	28.72
Treasury Certificates	0.00	0.00
Development Stocks	0.02	0.00
Certificates of Deposit	0.00	0.00
Commercial Papers	15.22	4.25
Bankers' Acceptances	1.86	1.78
FGN Bonds	59.05	65.24
Total	**100**	**100**

4.4.2.1 Nigerian Treasury Bills (NTBs)

Auctions for Nigerian Treasury Bills of 91-, 182- and 364-day tenors were conducted in 2010. NTBs worth ₦2,004.0 billion were issued and allotted in 2010. The value allotted increased by 43.9 per cent over the ₦1,392.5 billion in 2009. The increase was accounted for by the additional issues during the period under review.

Figure 4.17: NTB Issues, Subscriptions and Allotments



A breakdown of the allotments showed that DMBs, Discount Houses, Mandate and Internal Funds got ₦1, 478.7 billion (73.8%), ₦201.2 billion (10.0%) and ₦324.1 billion (16.2%), respectively. The average successful bid rates ranged from 1.04 and 10.5 per cent, compared with the range of 1.9 and 7.3 per cent in the preceding year. The sum of ₦1,526.0 billion was repaid during the year, compared with the ₦1,049.8 billion repaid in 2009. Consequently, Nigerian Treasury Bills outstanding at end-December 2010 increased by 60.1 per cent to ₦1, 277.1 billion.

Table 4.11: Allotment of NTBs (Naira billion)

	2008	2009	2010
DMBs	383.7	838.8	1478.7
Mandate and Internal Fund	429.3	346.1	324.1
Discount Houses	69.1	71.1	201.2
MMD Take-up	23.4	5.0	0.0
CBN Take-up	7.6	0.0	0.0

Figure 4.18: Nigerian Treasury Bills: Breakdown of Allotments in 2010

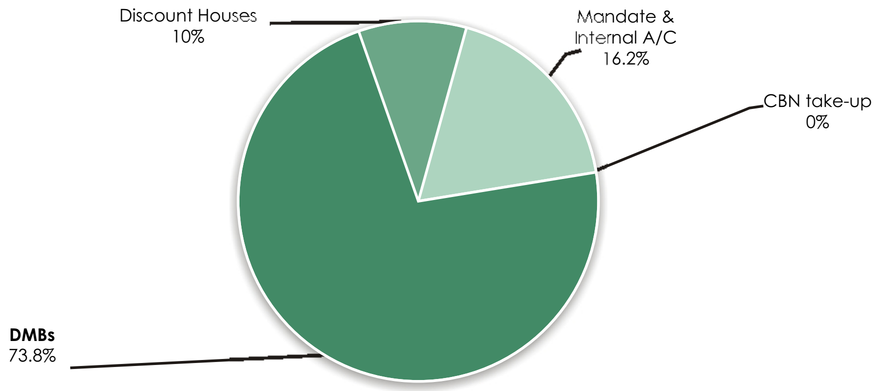


Figure 4.19: Treasury Bills Outstanding

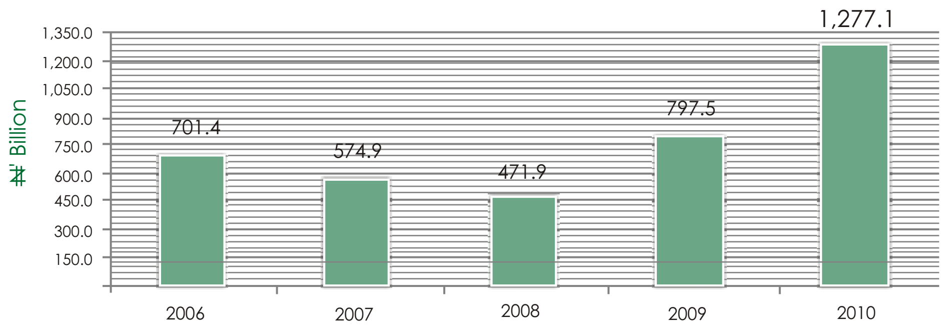
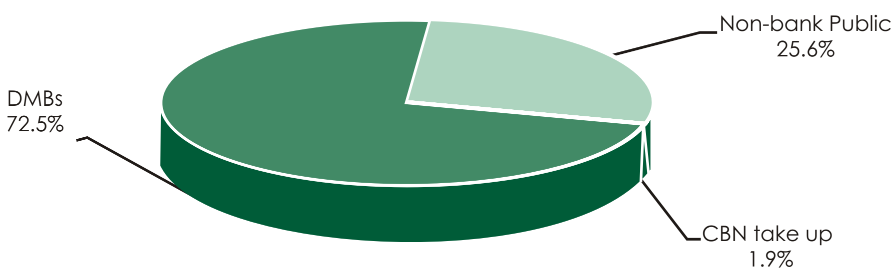


Figure 4.20: Nigerian Treasury Bills: Classes of Holders in 2010



4.4.2.2 Commercial Papers (CPs)

Investments in CPs as a supplement to bank credit to the private sector, fell in 2010. The value of CPs held by DMBs declined by 62.8 per cent to ₦189.2 billion at end-December 2010, compared with the decline of 38.1 per cent at end-December 2009. Thus, CPs constituted 4.3 per cent of the total value of money market assets outstanding, compared with 15.2 per cent at the end of the preceding year.

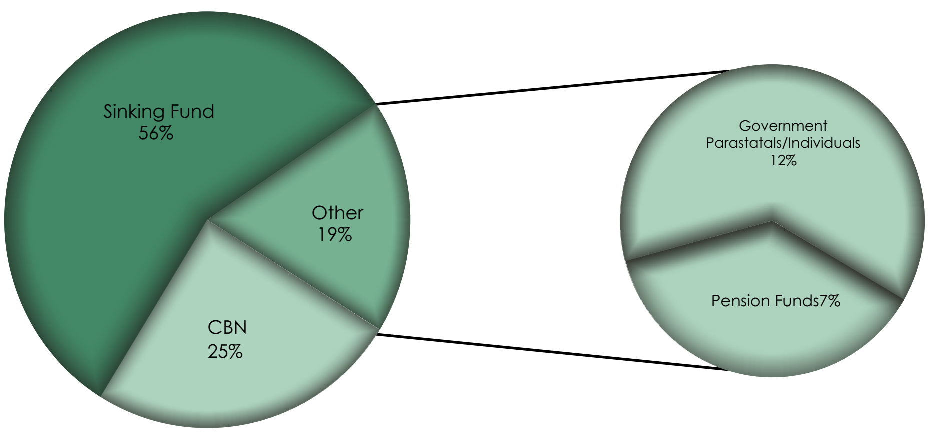
4.4.2.3 Bankers' Acceptances (BAs)

Holdings of BAs by DMBs increased by 27.2 per cent to ₦79.2 billion, as against the decline of 6.3 per cent at end-December 2009. The development reflected the increase in investments in BAs by DMBs and discount houses. BAs, however, accounted for 1.8 per cent of the total value of money market assets outstanding, down from 1.9 per cent at end-December 2009.

4.4.2.4 Federal Republic of Nigeria Development Stocks (FRNDS)

Outstanding FRN Development Stocks stood at ₦0.22 billion at end-December 2010,as a result of the redemption of ₦0.30 billion 12.5 per cent FRN 23DS 2010. Of the amount outstanding, holdings on the account of sinking funds stood at ₦0.18 billion, down from ₦0.29 billion in the previous year. Holdings by the non-bank public stood ₦0.039 billion, down from ₦0.1 billion in the preceding year.

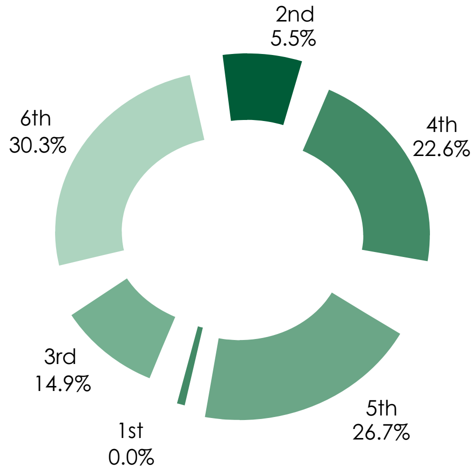
Figure 4.21: Development Stock: Classes of Holders in 2010



4.4.2.5 FGN Bonds

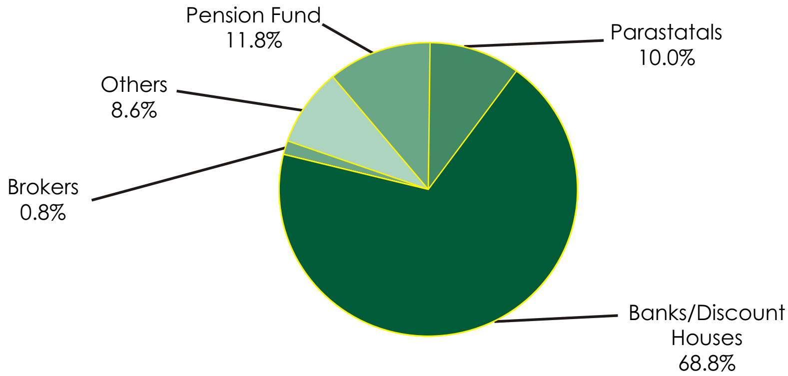
At the FGN Bonds segment, the 4th, 5th, 6th and 7th FGN Bonds series were re-opened. Total outstanding at the end of the year was ₦2, 901.6 billion, compared with ₦1,974.9 billion at the end of the preceding year, representing an increase of 49.1 per cent. The development was traceable to the new issues to finance FGN's budget deficit and the restructured NTBs. Of the total outstanding bonds, 0.02, 5.5, 14.9, 22.6, 26.7 and 30.3 per cent were for the 1st FGN Bond, 2nd FGN Bond, 3rd FGN Bond, 4th FGN Bond, 5th FGN Bond, and 6th FGN Bond, respectively, while the balance of 30.3 per cent was for the 7th FGN Bond.

Figure 4.22: Outstanding FGN Bonds



A breakdown of the holdings of FGN Bonds showed that the banks and discount houses held 68.8 per cent, parastatals 10.0 per cent, the pension fund 11.8 per cent, brokers 0.8 per cent, and others 8.6 per cent.

Figure 4.23: FGN Bonds by Holder



4.4.3 Open Market Operations (OMO)

Open market operations were carried out using direct auction, tenored repurchase agreements and Discount Window transactions. OMO were complemented by the Standing Facilities (lending and deposit) and Reserve Ratios. In order to boost the availability of tradable bills at the inter-bank two-way quote trading, auctions of CBN securities were approved by the Bank. Thus, in line with that policy directive, the sum of ₦162.0 billion was sold at the open market in the second quarter. The stop rates at the auctions ranged from 1.1 3.04 per cent, for the various maturities offered. Government securities worth ₦2.0 billion were traded through the two-way quote trading platform at the offer rates of 1.1-1.2 per cent.

Total subscription and sale of NTBs amounted to ₦616.3 billion and ₦270.8 billion, respectively, compared with ₦471.6 billion and ₦254.5 billion, respectively in 2009. The substantial increase in volume of transactions in NTBs in the review year was attributed to patronage by banks and discount houses of the risk-free Federal Government securities, with improved yield.

Figure 4.24: OMO Issues and Sales

4.4.4 Discount Window Operations

4.4.4.1 CBN Standing Facilities

The CBN standing facilities were accessible to deposit money banks and discount houses throughout the year, with a view to meeting their short-term liquidity needs and providing a window for investing their surpluses, while the applicable rates remained linked to the monetary policy rate.

4.4.4.1.1 Deposit Facilities

Patronage of the standing deposit facilities remained relatively high in 2010 due largely, to the effects of the Bank's quantitative easing policy. The adjustments of the standing facility rates corridor, through Monetary Policy Committee decisions, were aimed at proactively stemming inflation. The cumulative deposits placed by DMBs and discount houses in the year was ₦53,173.02 billion, compared with the ₦8,628.9 billion recorded in 2009. The average daily deposit stood at ₦206.9 billion, compared with ₦89.41 billion in 2009. Interest paid on the deposits also increased significantly to ₦3.07 billion, from ₦15.97 million in 2009. The SDF rate, which was 2.0 per cent at the beginning of the year, was reviewed downwards to 1.0 per cent in March 2010 in order to encourage inter-bank trading. The rate was, however, increased to 3.3 per cent in September 2010 and to 4.25 per cent in November as the Bank tightened monetary policy.

4.4.4.1.2 Lending Facilities

The cumulative transactions at the standing lending facilities stood at ₦3,768.8 billion, compared with ₦32,533.6 billion in 2009. The average daily request for the SLF in 2010 was ₦14.7 billion, compared with ₦145.91 billion in 2009. The lending facility rate was maintained at 200 basis points above the Monetary Policy Rate, which was 8.0 per cent from January to September 20, 2010 and 8.25 per cent thereafter.

4.4.4.2 Over-the-Counter Transactions (OTCs)

Over-the-counter trading in NTB Bonds worth ₦8,652.2 billion were traded in 34,542 deals at the secondary market, compared with ₦10,694.3 billion in 42,769 deals in 2009. The development reflected the 19.1 and 19.2 per cent decline in value and deals, respectively, due to the fall in trading by the Primary Dealers and Market Makers (PDMMs).

4.4.4.3 Over-the-Counter Transactions (OTCs) in FGN Bonds

FGN Bonds worth ₦18,962.7 billion were transacted in 197,406 deals compared with ₦26,879.4 billion in 212,509 deals in the previous year. The decrease on OTC transactions reflected the decline in trading by the Primary Dealers and Market Makers (PDMMs).

4.4.4.4 Foreign Investment

During the year under review, ₦132.5 billion and ₦109.6 billion respectively were invested in NTBs and FGN Bonds, reflecting a sharp increase in foreign investment in the country, when compared with the nil investment in the preceding year.

4.4.4.5 Promissory Notes

Promissory notes worth ₦4.0 billion were issued in favour of some banks in respect of the purchase and assumption of liquidated banks, compared with ₦6.7 billion issued in 2009. There was no redemption during the period.

4.4.4.6 CBN Guarantees

In order to avoid perceived counter-party risks on inter-bank placements among deposit money banks, the Bank continued its guarantee of all inter-bank transactions and foreign lines, as well as placements with banks by the Pension Fund in 2010. The guarantee was meant to be a stop-gap pending the establishment of a more enduring framework that could engender counter-party confidence and facilitate robust inter-bank activities. The guarantee of inter-bank placements, which was initially approved

In order to avoid perceived counterparty risks on inter-bank placements among deposit money banks, the Bank continued its guarantee of all inter-bank transactions and foreign lines as well as placements with banks by Pension Fund in 2010.

for a period of nine (9) months, spanning July 2009 to March 31, 2010, was extended, first to December 31, 2010 and later to June 2011. The extension was intended to provide ample time for the conclusion of the banking sector restructuring and the publication of audited accounts for the period up to December 2010. Moreover, it was expected that sufficient information would be available for creditors and investors to make an independent assessment of the risk of individual counter-parties by June 2011.

The Bank's guarantee of inter-bank transactions has helped to boost inter-bank activities as counter-parties relate with more confidence and at relatively stable rates. Outstanding inter-bank guarantee as at December 2010 was N904.58 billion, compared with N958.87 billion in the corresponding period of 2009.

4.4.4.7 Repurchase Agreement (Repo)

In line with the Bank's policy to engender a more efficient and effective intermediation framework and to stabilise interest rates, especially at the short-end of the credit market, the Bank's Repo window remained open to all market participants. However, requests for repo's which had ceased in September 2009, resumed in October 2010. Moreover, the applicable repo rates were considered less attractive as the rates were higher when compared with that of overnight SLF. A total of ₦470.2 billion was approved in 2010, at rates ranging from 9.3 to 10.8 per cent, compared with ₦1.5 trillion in 2009.

4.4.4.8 Open-Buy-Back (OBB) Transactions

The total value of transactions at the OBB stood at ₦18,845.02 billion in 2010, a decrease of 1.7 per cent from the ₦19,166.1 billion recorded in 2009. The development was attributed to the increased liquidity conditions in the banking system and the dearth of government securities available for collaterals.

4.5 CAPITAL MARKET DEVELOPMENTS

4.5.1 Developments in the Nigerian Capital Market

In an effort to enhance investor confidence in the Nigerian capital market, a number of reforms were carried out by the regulatory authorities. These included the reconstitution of the board and management of the Nigerian Stock Exchange (NSE), strengthening of the NSE Arbitration Committee, and strict enforcement of the rules and regulations on financial reports by the Securities and Exchange Commission (SEC). In order to improve the efficiency and depth of the market, the daily trading hours on the floor of the Exchange was extended by two (2).

Fifteen (15) securities, consisting of three (3) dormant companies and twelve (12) fixed income securities which had matured, were delisted from the Daily Official List, while twelve (12) other companies were at the final stage of being delisted at end-December 2010. In an effort to ensure strict compliance with the relevant rules and regulations, and

In an effort to enhance investor confidence in the Nigerian capital market, a number of reforms were carried out by the regulatory authorities.

engender confidence in the market, seventy-four (74) dealing member firms were suspended for failure to submit audited accounts, forty-two (42) companies were placed on technical suspension; 15 were placed on full suspension for various infractions of listing rules, and seventeen (17) others, which had previously been on suspension for violating listing rules; and reinstated.

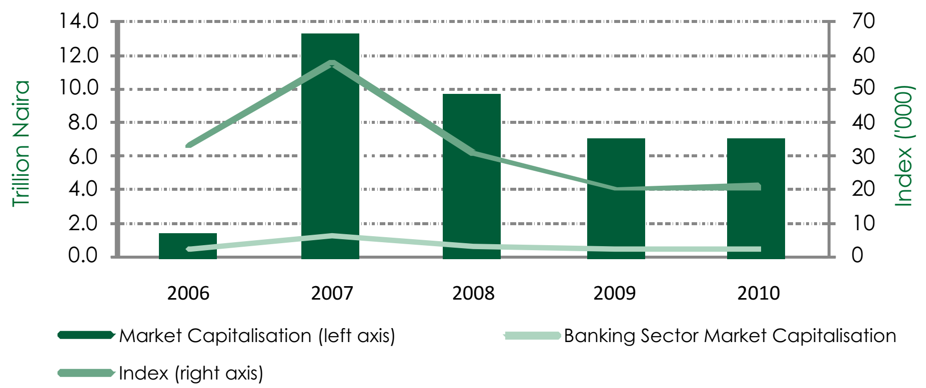
Eight (8) new firms were given approval to commence trading on the floor of the NSE, while six (6) others were given approval to establish and operate new branch offices. Also, the NSE carried out inspections on two hundred and forty-two (242) dealing member firms, while one hundred and thirty-five (135), out of three hundred and sixty-six (366) complaints received by the NSE, were resolved.

4.5.2 The Nigerian Stock Exchange (NSE)

Activities on the floor of the NSE indicated mixed developments. Aggregate volume of traded securities declined by 9.3 per cent, while the value increased by 16.3 per cent. Also, aggregate market capitalization of the 264 listed securities rose by 41.0 per cent to close at ₦9.9 trillion, compared with ₦7.0 trillion recorded in 2009. The market capitalisation of the 217 listed equities increased from ₦5.0 trillion in 2009 to close at ₦7.9 trillion. The development was due, largely, to the new listings and price appreciation recorded by the highly capitalised equities. The top twenty (20) listed companies had a market capitalisation of ₦6.2 trillion, representing 62.6 and 78.5 per cent of the aggregate market capitalisation and equities market capitalisation, respectively.

Activities on the floor of the NSE indicated mixed developments.

Figure 4.25: Trends in Market Capitalisation and NSE Value Index



Market capitalisation as a percentage of GDP was 33.6 per cent, compared with 28.5 per cent in 2009. The ratio of the value of stocks traded to GDP stood at 2.7 per cent, compared with 10.0 per cent in 2009, while the turnover value (measured as the ratio of the total value of stocks traded to the total value of stocks listed on the domestic market) was 8.0 per cent, compared with 9.8 per cent in 2009.

Table 4.12: Indicators of Capital Market Development in the Nigerian Stock Exchange (NSE)

	2006	2007	2008	2009	2010
Number of Listed Securities	288.0	309.0	299.0	266.0	264.0
Volume of Stocks Traded (Turnover Volume) (Billion)	36.5	138.1	193.1	102.9	93.3
Value of Stocks Traded (Turnover Value) (Billion Naira)	470.3	2100.0	2400.0	685.7	797.6
Value of Stocks/GDP (%)	2.6	8.9	10.0	10.0	2.7
Total Market Capitalisation (Billion Naira)	5120.9	13294.6	9535.8	7032.1	9918.2
Of which: Banking Sector (Billion Naira)	*2142.7*	*6432.2*	*3715.5*	*2238.1*	*2710.2*
Total Market Capitalisation/GDP (%)	28.1	56.0	39.7	28.5	33.6
Of which: Banking Sector/GDP (%)	*11.8*	*27.1*	*15.5*	*9.1*	9.2
Banking Sec. Cap./Market Cap. (%)	41.8	48.4	39.0	31.8	27.3
Annual Turnover Volume/Value of Stock (%)	7.8	6.6	8.0	15.0	11.7
Annual Turnover Value/ Total Market Capitalisation (%)	9.2	15.8	25.2	9.8	8.0
NSE Value Index (1984=100)	33358.3	57990.2	31450.8	20827.2	24770.5
Growth (In percent)					
Number of Listed Securities	0.0	7.6	-2.6	-11.0	-0.8
Volume of Stocks	36.8	278.4	39.8	-46.7	-9.3
Value of Stocks	78.9	346.5	14.3	-71.4	16.3
Total Market Capitalisation	76.6	159.6	-28.3	-26.3	41.0
Of which: Banking Sector	*76.8*	*200.2*	*-42.2*	*-39.8*	*21.1*
NSE Value Index	38.5	73.8	-45.8	-33.8	18.9
Share of Banks in the 20 Most Capitalised Stocks in the NSE (%)	55.0	65.0	70.0	59.0	80.0

Source: Nigerian Stock Exchange (NSE).

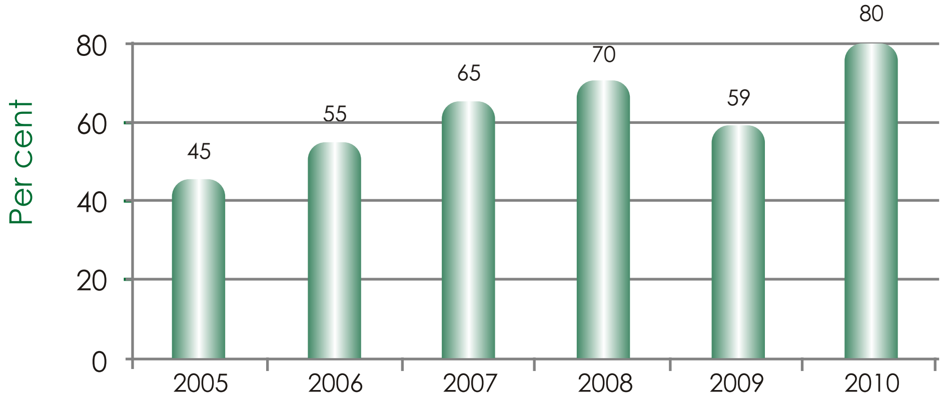
4.5.2.1 The Secondary Market

The secondary market segment of the NSE recorded mixed performance in 2010. A turnover volume of 93.3 billion shares was recorded, indicating a decline of 9.3 per cent from the 102.9 billion shares in 2009. However, a turnover value of ₦797.6 billion was recorded, representing an increase of 16.3 per cent over the level in 2009. The bulk of the transactions remained in equities, which accounted for 99.99 per cent of the turnover value, the same share in total transactions as in 2009. The

The secondary market segment of the NSE recorded mixed performance as the bulk of the transactions remained in equities while industrial loans and preference stocks sub-sector.

banking sub- sector accounted for 53.1 per cent of the total volume of transactions. The Industrial loan and preference stock sub-sectors remained inactive in the review period. Of the top twenty (20) listed companies by turnover volume, the banking and insurance sub-sectors accounted for sixteen (16), while conglomerates, maritime, alternative securities exchange and market (ASEM), and information and communications technology had one (1) or 5.0 per cent each. The share of banks in the twenty (20) most capitalised stocks in the NSE was 80.0 per cent.

Figure 4.26: Share of Banks in the 20 Most Capitalized Stocks in the NSE



4.5.2.2 The NSE Value Index

The Nigerian Stock Exchange (NSE) All-Share Index rose significantly by 18.9 per cent to close at 24,770.5, compared with 20,827.2 in the preceding year. The development reflected the rise in share prices of the listed stocks on the NSE.

The new NSE-30 Index rose by 30.7 per cent to close at its year-end level of 1,081.95. Similarly, three of the four sectoral indices, namely, the NSE Food/Beverage Index, the NSE Banking Index and the NSE Oil/Gas Index rose by 47.8, 17.6 and 17.6 per cent to close at 778.47, 399.08 and 338.85, respectively, while the NSE Insurance Index depreciated by 32.4 per cent to close at 168.34.

4.5.2.3 The New Issues Market

The primary market recorded improved activity as indicated by the rise in the number of applications received and issues offered for public subscription, reflecting a restoration of confidence in the market with investors making recourse to the stock market. The NSE considered and approved thirty-one (31) applications for

The primary market recorded improved activity as indicated by the rise in the number of applications received and issues offered for public subscription, reflecting a restoration of confidence in the market as investors made recourse to the stock market.

both new issues and mergers/acquisitions, valued at ₦2.44 trillion, compared with thirty (30) applications valued at ₦279.3 billion in 2009. The non-bank corporate issues accounted for 58.2 per cent of the total new issues approved, with eighteen (18) applications valued at ₦1.42 trillion, while the banking sub-sector accounted for 36.1 per cent, with seven (7) applications valued at ₦0.88 trillion. The states' Government bonds issue constituted 19.3 per cent of the total with six (6) applications valued at ₦0.14 trillion.

Further analysis of the approved new issues showed that the sum of ₦5.2 billion was raised through initial public offerings (IPOs), ₦46.6 billion through rights issue, ₦2,091.8 billion through mergers/acquisitions, and ₦193.7 billion through bonds issue, including four states' Government bonds. Listing by Introduction accounted for ₦17.7 billion, while share placements accounted for ₦92.8 billion.

Figure 4.27: New Issues by Sector

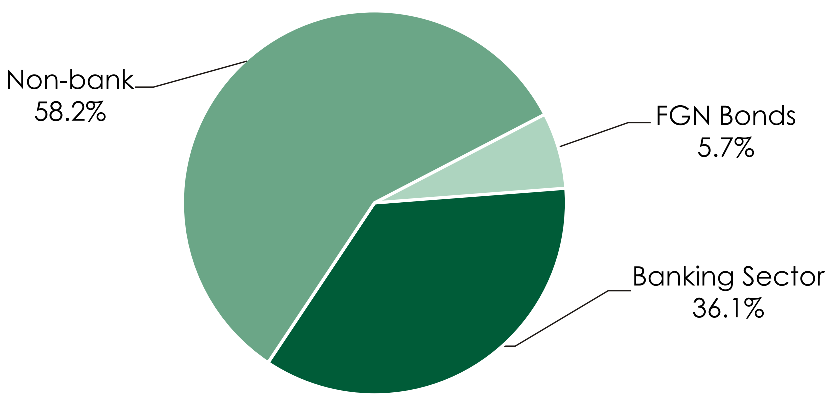
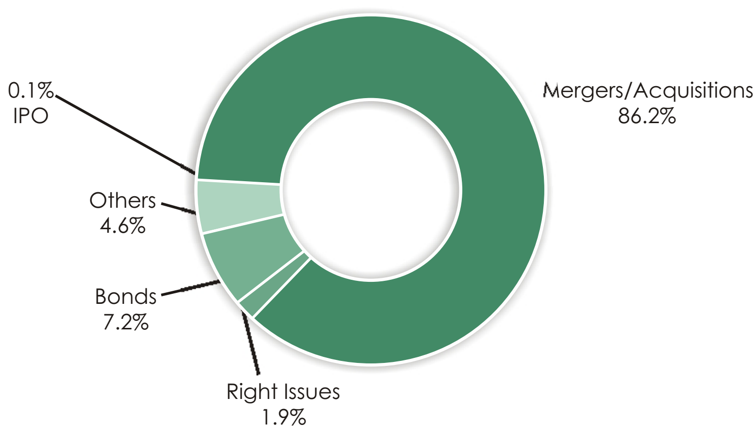


Figure 4.28: New Issues by Type



CHAPTER FIVE

FISCAL POLICY AND GOVERNMENT FINANCE

Nigeria's fiscal policy thrust in 2010 was to stimulate economic recovery by implementing policy measures to ameliorate the challenges of the global economic recession. At ₦7,303.7 billion or 24.8 per cent of GDP, the Federation Account revenue (gross) increased by 50.8 per cent above the level in 2009. The development was attributed to enhanced receipts from oil and non-oil revenue sources. The sum of ₦3,865.9 billion was transferred to the Federation Account, reflecting an increase of 36.5 per cent above the level in the preceding fiscal year.

Fiscal interventions in the priority sectors resulted in a substantial drawdown of the excess crude account savings, from US$6.54 billion at end-2009 to US$3.10 billion.

At ₦3,089.2 billion, Federal Government-retained revenue rose by 16.9 per cent above the level in 2009 and aggregate expenditure grew by 21.5 per cent to ₦4,194.6 billion. The fiscal operations of the Federal Government resulted in an overall deficit of ₦1,105.4 billion, or 3.7 per cent of GDP. Provisional data on state government finances indicated an overall deficit of ₦132.1 billion, while that of the local governments revealed a surplus of ₦2.5 billion.

Consequently, general government's consolidated expenditure was ₦8,370.9 billion, or 28.4 per cent of GDP, while aggregate revenue was ₦7,135.8 billion. This resulted in an overall deficit of ₦1,235.0 billion or 4.2 per cent of GDP, and financed largely from the domestic financial market.

Federal Government debt stock was ₦5,241.7 billion, or 17.8 per cent of GDP, at end-2010, compared with ₦3,818.5 billion, or 15.1 per cent of GDP, at end-2009. External debt stock rose by US$0.63 billion to US$4.6 billion, following additional disbursement of concessional loans from the multilateral institutions. Domestic debt grew significantly by 41.0 per cent to ₦4,551.8 billion as a result of substantial borrowing to finance critical infrastructure in 2010 by the three tiers of government.

5.1 FISCAL POLICY THRUST

The fiscal policy thrust for the 2010 Budget was designed to stimulate economic recovery from the negative effects of the global economic and financial crises. With increased spending outlays, the budget was to transform the socio-economic fortunes of the country by implementing relevant measures to ameliorate the challenges of the global economic recession. This was to be achieved through targeted fiscal interventions in the priority sectors, particularly critical infrastructure, in order to provide the enabling environment for the acceleration of sustainable economic growth and development, driven by the private sector. Therefore, consistent with the revised Medium-Term Expenditure Framework which incorporated results-oriented budgeting, the main thrust was targeted at achieving the following:

The fiscal policy thrust for 2010 Budget was designed to stimulate economic recovery from the negative effects of the global economic and financial crises.

- Rationalisation and prioritisation of capital expenditure by allocating about 90.0 per cent of MDAs' capital expenditure to five (5) key priority sectors, namely, critical infrastructure, human capital development, land reform and food security, physical security, law and order, and the Niger Delta;

- Enhancement of power infrastructure to deliver 10,000MW of electricity by 2011 by completing ongoing projects in power generation, transmission and distribution, expansion, management and maintenance of new/existing power plants to further bridge critical infrastructural gaps and, thereby, reduce the cost of doing business in Nigeria;

- Establishment of special intervention funds to provide credit facilities for commercial farming and support necessary agro-processing linkages to resuscitate industries;

- Review existing tariffs and provide fiscal incentives to enhance productivity in the real sector in order to facilitate rapid economic growth; and,

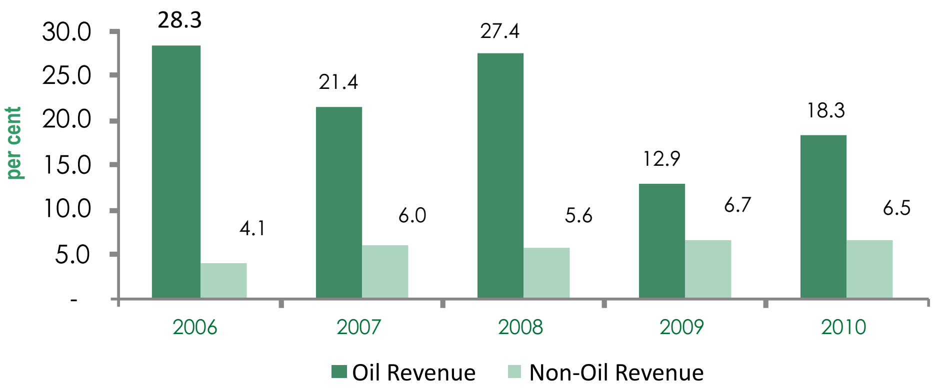
- Create gainful employment and increase disposable income as well as provide alternative routes for the transportation of goods and services across the nation, through investment in upgrading existing railway networks and dredging waterways.

5.2 FEDERATION ACCOUNT OPERATIONS

5.2.1 Federally-Collected Revenue

Total federally-collected revenue increased by 50.8 per cent to ₦7,303.7 billion in 2010, and constituted 24.8 per cent of GDP. The development was attributed to enhanced receipts from both oil and non-oil revenue sources.

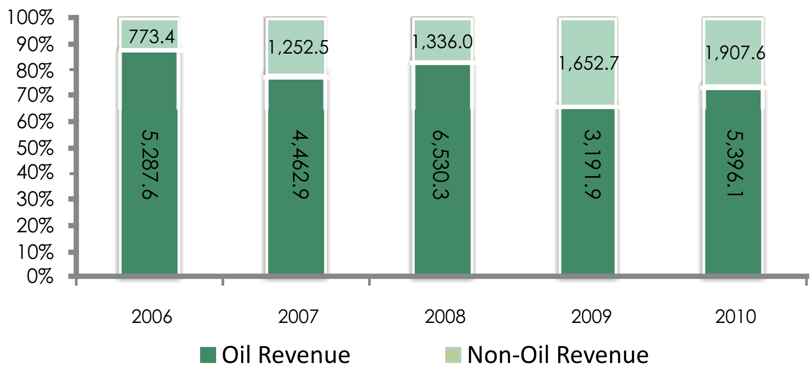
Figure 5.1: Oil and Non-Oil Revenue (per cent of GDP)



Of the total receipts, oil revenue (gross) accounted for ₦5,396.1 billion (18.3 per cent of GDP), indicating an increase 69.1 per cent above the level in 2009. A breakdown showed that revenue from crude oil and gas exports increased significantly by 88.9 per cent to ₦1,696.2 billion. In the same vein, receipts from petroleum profit tax (PPT) and royalties increased by 54.8 per cent to ₦1,944.7 billion, while revenue from domestic crude oil sales increased by 83.2 per cent to ₦1,746.3 billion. The development reflected the increased crude oil production/ exports occasioned by the sustained demand and favourable prices in the international market. Furthermore, the amnesty programme of the Federal Government ensured relative peace in the Niger Delta region which facilitated improved crude oil production. The sum of ₦962.9 billion was deducted from the gross oil receipts for the Joint Venture Cash (JVC) calls, ₦1,430.8 billion in respect of excess crude/PPT/royalty proceeds and "others", leaving a balance of ₦3,002.4 billion for distribution to the three tiers of government.

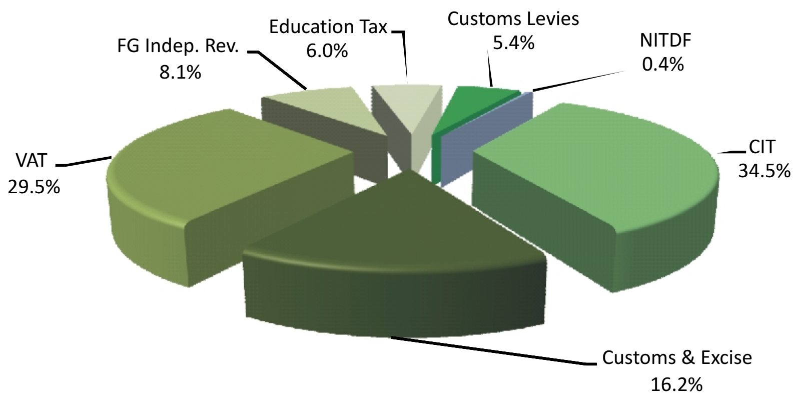
Total federally-collected revenue increased by 50.8 per cent to ₦7, 303.7 billion in 2010, and constituted 24.8 per cent of GDP.

Figure 5.2: Federation Account: Composition of Revenue (Naira billion)



Gross revenue from non-oil sources increased by 15.4 per cent to ₦1,907.6 billion or 6.5 per cent of GDP. A breakdown indicated that Value Added Tax (VAT) increased by 20.2 per cent to ₦562.9 billion, while company income tax (CIT) and customs/excise duties increased by 15.7 and 3.9 per cent, to ₦657.3 billion and ₦309.2 billion, respectively. Other components, the Independent Revenue of the Federal Government and custom levies also increased by 109.9 and 5.0 per cent, to ₦153.6 billion and ₦103.4 billion, respectively. The increase in most of the components of the non-oil revenue reflected improved economic activities, particularly in the first half of the year, resulting in enhanced collection by the revenue-collecting agencies.

Figure 5.3: Composition of Non-oil Revenue in 2010



The sum of ₦125.5 billion was deducted from the non-oil revenue as cost of collection, leaving a distributable balance of ₦1,782.0 billion.

5.2.2 Federation Account Distribution

The sum of ₦4,784.5 billion accrued to the Federation Account, indicating an increase of 32.9 per cent over the level in 2009. Of this amount, ₦540.3 billion, ₦153.6 billion and ₦224.7 billion were transferred to the VAT Pool Account, the Independent Revenue, and 'other transfers'[2], respectively. In addition, ₦439.0 billion, ₦886.5 billion and ₦39.9 billion were drawn from the excess crude account for budget augmentation, excess crude revenue-sharing and foreign exchange rate gains, respectively. These amounts were added to the federally-collected revenue (net) to boost the distributable total to ₦5,231.2 billion. Analysis of the distribution among the three tiers of government[3], showed that the Federal Government (including Special Funds) received the sum of ₦2,456.7 billion, state governments ₦1,246.0 billion, and local governments ₦960.7 billion, while the sum of ₦567.8 billion was shared among the oil-producing states as 13% Derivation Fund.

[2] *This includes the Education Tax, Customs Levies, and the National Information Technology Development Fund.*
[3] *The Federation Account revenue sharing formula is as follows: FG (52.68%), SGs (26.72%) and LGs (20.60%), while 13.0% of net oil revenue is shared among oil-producing states.*

However, from their share of excess crude, the Federal and state governments refunded the sum of ₦121.6 and ₦4.3 billion, respectively to the local governments. This resulted in net balances of ₦2,335.0 billion, ₦1,241.8 billion and ₦1,086.6 billion for the Federal, state and local governments, respectively.

5.2.3 VAT Pool Account Distribution

The sum of ₦540.3 billion was transferred to the VAT Pool Account, representing an increase of 20.2 per cent over the level in 2009. Analysis of the distribution among the three tiers of government[4] showed that the Federal Government (including the FCT) received ₦81.1 billion, state governments ₦270.2 billion, and the local governments shared ₦189.1 billion.

5.3 GENERAL GOVERNMENT FINANCES

5.3.1 Aggregate Revenue

At ₦7,135.8 billion, the aggregate revenue of the three tiers of government in 2010 comprised ₦3,865.9 billion from the Federation Account, ₦438.9 billion budget augmentation, ₦886.5 billion from excess crude revenue-sharing, ₦39.9 billion from foreign exchange rate gains, and ₦540.3 billion from VAT. Others were ₦153.6 billion from the Federal Government Independent Revenue, ₦519.5 billion from 'other funds'[5], as well as ₦446.7 billion, ₦176.7 billion, ₦55.1 billion and ₦12.7 billion from internally-generated revenue, grants, stabilisation fund and state allocation, respectively, for sub-national governments.

5.3.2 Aggregate Expenditure

At ₦8370.9 billion, the aggregate expenditure of general government increased by 15.3 per cent from the level in 2009. As a proportion of GDP, it represented 28.4 per cent, compared with 28.8 per cent in 2009. A breakdown showed that the outlay on recurrent activities, at ₦4,965.2 billion (16.8 % of GDP), accounted for 59.3 per cent and capital expenditure, at ₦2,755.9 billion (9.3 % of GDP), represented 32.9 per cent. Transfers and 'others' at ₦554.3 billion (1.9 % of GDP) and ₦95.4 billion (0.3 % of GDP) respectively accounted for 6.6 and 1.2 per cent of the aggregate expenditure.

At ₦8,370.9 billion, the aggregate expenditure of the general government rose by 15.3 per cent from the level in 2009.

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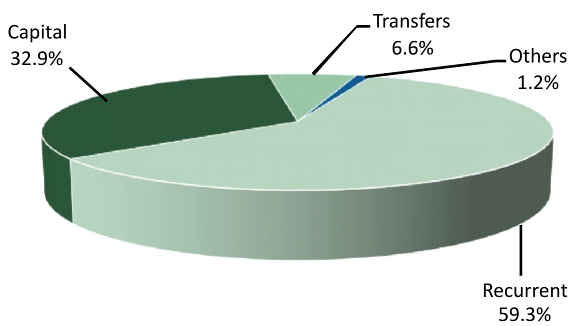
[4]*The VAT Pool Account revenue sharing formula is as follows: FG (15%), SGs (50%) and LGs (35%).*

[5]*This constitutes unspent balances from the Federal Government budget and other receipts by state and local governments not classified elsewhere.*

Table 5.1: Sources of Funds for the three tiers of Government in 2010 (Naira billion)

	Federal Government			State Governments			Local Governments	Grand Total
SOURCE	FG's Share	FCT	Sub-Total	States	13%	Sub-Total		
Share from Federation Account	1,796.2	34.8	**1,830.9**	928.7	390.3	**1,319.0**	716.0	**3,865.9**
Augmentation	197.4	3.8	**201.2**	102.0	57.1	**159.1**	78.7	**438.9**
Gross Share from Excess Crude	398.6	7.7	**406.3**	206.1	115.2	**321.3**	158.9	**886.5**
Less Refund to FG			**-**	-	-	**-**	-	**-**
Less Refund to SG	-	-	**-**			**-**	-	**-**
Less Refund to LG	*121.6*		***121.6***		-			***121.6***
Add Refund from FG			**-**	-	-	**-**	*121.6*	***121.6***
Add Refund from SG	-	-	**-**			**-**		
Add Refund from LG	-	-	**-**	-	-	**-**		**-**
Balance of Share of Excess Crude	276.9	7.8	**284.6**	206.1	115.2	**321.3**	280.5	**886.5**
Exchange Gain	17.9	0.3	**18.3**	9.3	5.2	**14.5**	7.1	**39.9**
Share of VAT	75.6	5.4	**81.1**	270.2		**270.2**	189.1	**540.3**
FG Independent Revenue	153.6		**153.6**			**-**		**153.6**
Privatisation Proceeds	-		**-**			**-**		**-**
Internally-Generated Revenue			**-**	420.5		**420.5**	26.2	**446.7**
Grants and Others			**-**	140.4		**140.4**	36.3	**176.7**
State Allocation to LG			**-**			**-**	12.7	**12.7**
Others	519.5	-	**519.5**		-		-	**519.5**
TOTAL	**3,037.1**	**52.1**	**3,089.2**	**2,119.6**	**567.8**	**2,687.4**	**1,359.2**	**7,135.8**

Figure 5.4: Composition of General Government Expenditure in 2010



5.3.3 Consolidated Fiscal Balance and Financing

The fiscal operations of general government resulted in a primary deficit of ₦760.1 billion (2.6 % of GDP), and an overall notional deficit of ₦1,235.0 billion (4.1 % of GDP), compared with ₦994.7 billion (3.9 % of GDP) in 2009. The deficit was financed, largely, by domestic borrowing from the domestic banking system and the non-bank public.

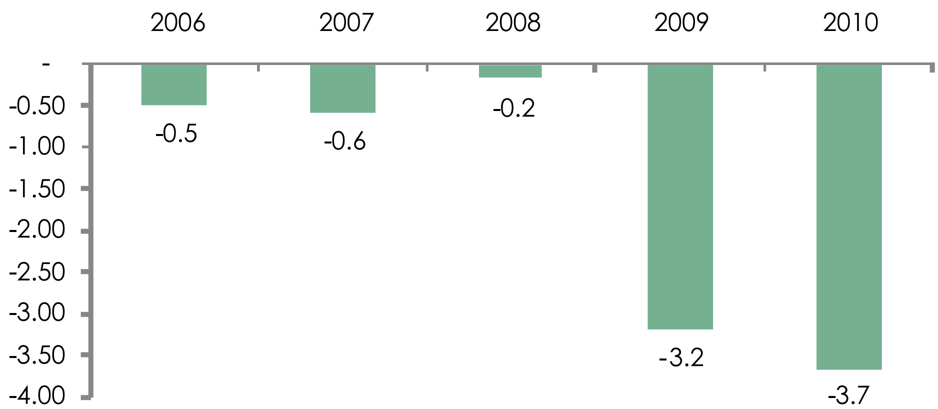
5.4 FEDERAL GOVERNMENT FINANCES

5.4.1 Overall Fiscal Balance and Financing

The current balance in 2010 reflected a deficit of ₦20.2 billion, or 0.1 per cent of GDP, compared with a surplus of ₦515.0 billion, or 2.0 per cent of GDP in the preceding year. Similarly, the primary balance recorded a deficit of ₦689.8 billion, or 2.3 per cent of GDP, relative to a primary deficit of ₦558.2 billion or 2.2 per cent of GDP in 2009. The overall fiscal operations of the Federal Government resulted in a notional deficit of ₦1,105.4 billion, or 3.7 per cent of GDP, compared with the deficit of ₦810.0 billion, or 3.2 per cent of GDP, recorded in 2009. The deficit was within the West African Monetary Zone (WAMZ) primary convergence criterion target of 4.0 per cent, notwithstanding the deterioration, when compared with the position in the preceding four years. The overall budget deficit was financed mainly from domestic sources.

The overall fiscal operations of the Federal Government resulted in a notional deficit of ₦1,105.4 billion, or 3.7 per cent of GDP, compared with the deficit of ₦810.0 billion, or 3.2 per cent of GDP, recorded in 2009.

Figure 5.5: Fiscal Deficit (per cent of GDP)



5.4.2 Federal Government-Retained Revenue

The Federal Government-retained revenue increased to ₦3,089.2 billion, from ₦2,643.0 billion in 2009. Analysis of the revenue showed that the share of the Federation Account was ₦1, 830.9 billion, or 59.3 per cent of total; the VAT Pool Account amounted to ₦81.1 billion (2.6%); the Federal Government Independent Revenue share was ₦153.6 billion (5.0%); the excess crude accounted for, ₦464.1 billion (15.0%), while 'others' accounted for the balance of ₦559.5 billion (18.1%).

The Federal Government retained revenue increased to ₦3,089.2 billion, from ₦2,643.0 billion in 2009.

Figure 5.6: Composition of Federal Government-Retained Revenue in 2010

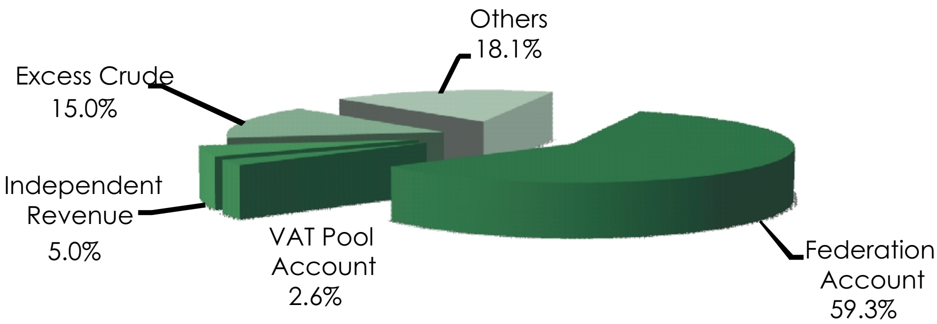
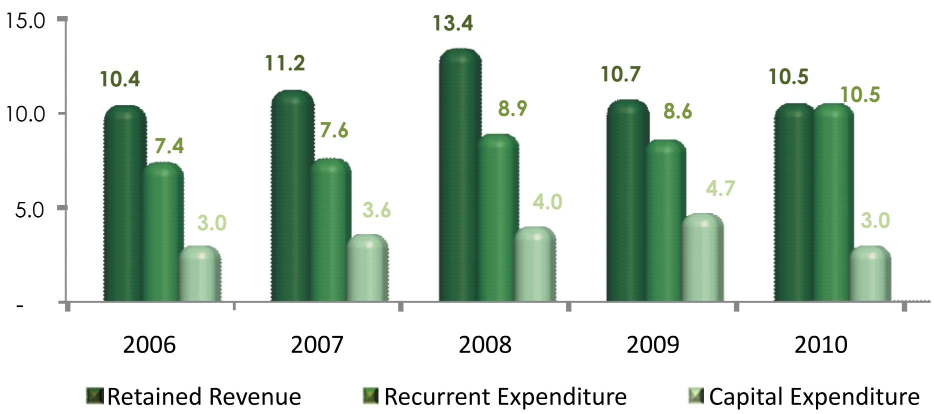


Figure 5.7: Federal Government Revenue and Expenditure (per cent of GDP)

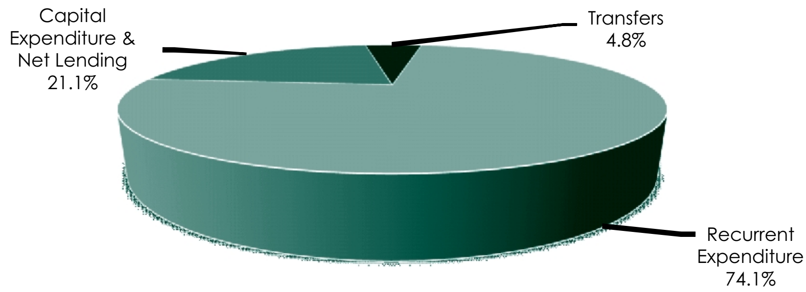


5.4.3 Total Expenditure of the Federal Government

The estimated aggregate expenditure of the Federal Government increased by 21.5 per cent to ₦4,194.6 billion in 2010. As a proportion of GDP, total expenditure increased slightly to 14.2 per cent, from 13.7 per cent in the previous year. The non-debt expenditure increased by 18.0 per cent over the level in 2009. Total debt service payments amounted to ₦415.6 billion, representing 9.9 per cent of the total expenditure, or 1.4 per cent of GDP.

Aggregate expenditure of the Federal Government increased by 21.5 per

Figure 5.8: Composition of Federal Government Expenditure in 2010

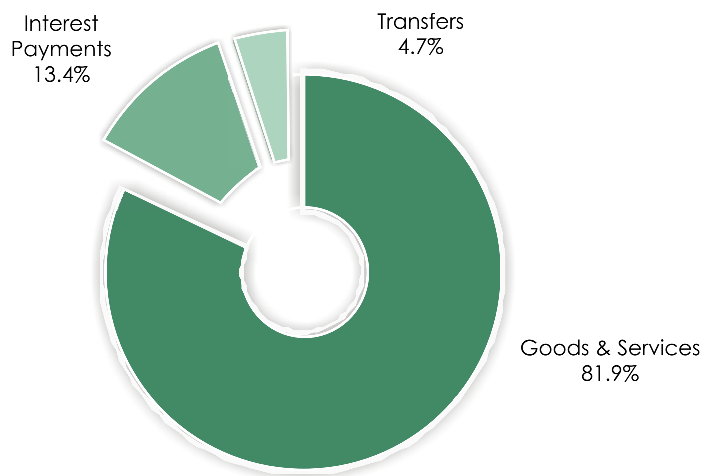


5.4.3.1 Recurrent Expenditure

At ₦3,109.4 billion, recurrent expenditure expanded by 46.1 per cent over the level in 2009 and accounted for 74.1 per cent of total expenditure. As a percentage of GDP, recurrent expenditure increased to 10.5 per cent, from 8.4 per cent in 2009. Most components of recurrent expenditure increased relative to their levels in the preceding year. Interest payments increased by 65.1 per cent and the goods and services component increased by 48.7 per cent. Analysis of the goods and services component, at ₦2,546.2 billion (81.9 % of total), shows that personnel cost and pensions amounted to ₦1,564.0 billion and overhead cost was ₦982.3 billion. Furthermore, interest payments[6], at ₦415.6 billion (13.4 % of total) or 1.4 per cent of GDP, was up from 1.0 per cent in 2009, comprised, ₦39.9 billion for external services and ₦375.8 billion for domestic services and transfers to the Federal Capital Territory (FCT)/'others' accounted for ₦147.5 billion (4.7 % of total) .

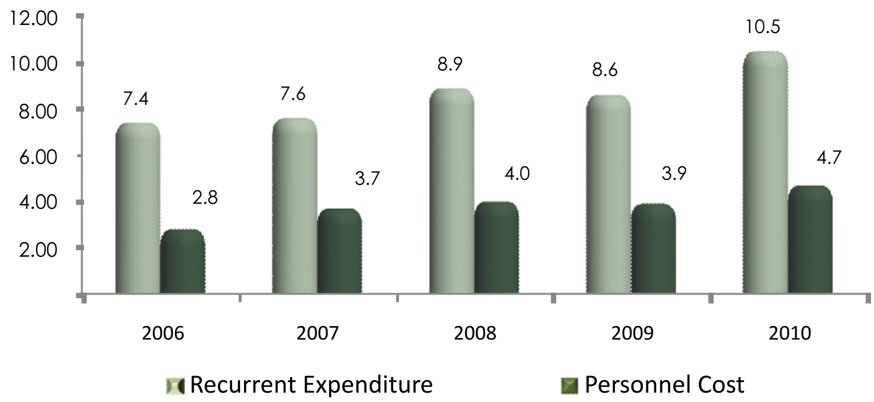
Recurrent expenditure expanded by 46.1 per cent over the level in 2009 and accounted for 74.1 per cent of total expenditure.

Figure.5.9: Economic Classification of Recurrent Expenditure in 2010



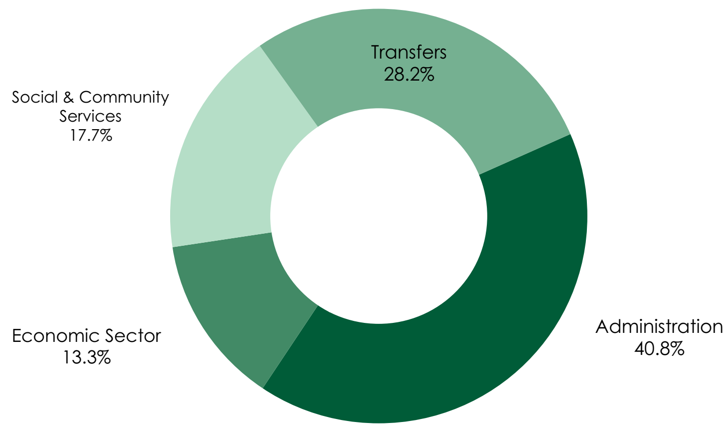
[5]This includes interest payments on ways and means.

Figure 5.10: Recurrent Expenditure & Personnel Cost (per cent of GDP)



The functional classification of recurrent expenditure showed that the outlay on administration increased by 54.4 per cent to ₦1,267.1 billion and accounted for 40.8 per cent of the total. Similarly, transfer payments increased by 38.1 per cent to ₦878.0 billion and constituted 28.2 per cent of the total, reflecting, largely, the significant increase in domestic debt charges in 2010. Expenditure on economic services, at ₦413.0 billion, accounted for 13.3 per cent of total recurrent expenditure. Within the economic sector, agriculture, transport, communications and roads/construction collectively absorbed 30.9 per cent. The expenditure on social and community services sector accounted for 17.7 per cent of total recurrent expenditure.

Figure 5.11: Functional Classification of Federal Government Recurrent Expenditure in 2010



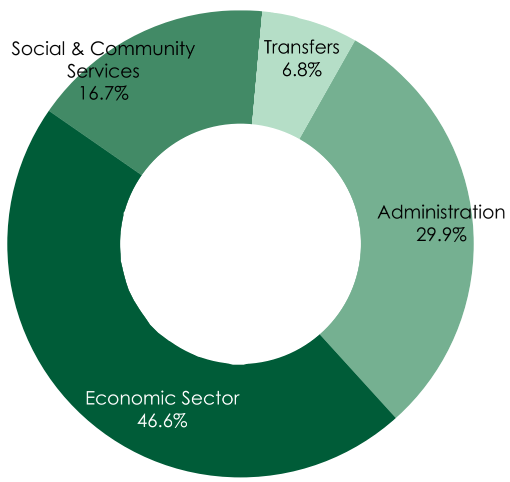
5.4.3.2 Capital Expenditure

Capital expenditure declined by 23.3 per cent to ₦883.9 billion, or 3.0 per cent of GDP, and accounted for 21.1 per cent of the total. As a proportion of Federal Government revenue, capital expenditure was 28.6 per cent, exceeding the stipulated minimum target of 20.0

per cent under the WAMZ secondary convergence criteria. Analysis of capital expenditure showed that outlays on economic services accounted for ₦412.2 billion, or 46.6 per cent of the total, compared with 43.9 per cent in the preceding year. Within the economic services sector, manufacturing, mining/quarrying, agriculture/natural resources, transport/communications and roads/construction absorbed 88.0 per cent. Public investments in social and community services increased by 22.1 per cent above the level in the preceding year and accounted for 16.7 per cent of the total. Within the social and community services sector, outlay on education increased by 102.6 per cent to ₦87.8 billion while that of health fell by 33.4 per cent to ₦35.0 billion. As a ratio of capital spending, expenditure on education and health constituted 9.9 and 4.0 per cent, respectively, compared with 3.8 and 4.6 per cent in 2009.

Capital expenditure declined by 23.3 per cent to ₦883.9 billion, and accounted for 21.1 and 3.0 per cent of total expenditure and GDP, respectively.

Figure 5.12: Functional Classification of Federal Government Capital Expenditure in 2010



BOX 5: IMPLEMENTING PERFORMANCE-BASED BUDGETING IN PUBLIC SECTOR FINANCIAL MANAGEMENT IN NIGERIA

Over the past one and a half decades, governments around the world have been attempting to establish a results-oriented budgeting or performance-based budgeting (PBB) in their public sector financial management. The reform process was predicated on the belief that public sector accountability and transparency should focus on the quality of government expenditure, rather than the quantum of expenditure. The approach introduces rules and norms that make it appropriate for public representatives (executive/legislature) and managers (public servants) to concentrate on outcomes and outputs, rather than inputs and procedures.

In the emerging economies of South Africa, Malaysia, Singapore and in developed countries, such as Australia and those of the Organization for Economic Co-operation and Development (OECD), PBB has been adopted in budgetary reforms to transform public budgeting system from an input and output orientation to an output and outcome orientation, thus introducing a results-oriented accountability into public organizations.

The approach was designed to address the weaknesses in the budgeting process and ensure transparency and accountability in spending by the MDAs. The system integrates an annual performance plan indicating the relationship between programme funding levels and expected results, based on visible achievements of executed projects within the time-frame specified in the budget. The approach represents a clear departure from the past, where budget preparation was not linked with outputs and deliverables and leading to poor implementation in most sectors as results were always below targets. Furthermore, PBB formally establishes spending targets (appropriations) and performance targets, which, together, form the basis for monitoring performance throughout the budget cycle.

In the light of global experience with budget reforms, the Federal Government commenced budgetary reforms in fiscal year (FY) 2003 with a gradual movement away from the line-item budgeting to contemporary techniques of budgeting. By FY2005, the Federal Government had instituted the Fiscal Strategy Plan (FSP) and embraced the Medium Term Fiscal Framework (MTFF), both of which were underscored by the legal framework established by the Fiscal Responsibility Act of 2007. The FSP documents the fiscal stance of government in the medium-term and outlines the MTFF on a rolling basis. By FY2008 the Federal Government had progressively embraced a budgetary system which incorporates performance-based elements as a component of the public financial management reforms (PFM).

As it is being implemented, PBB as an essential component of PFM, places greater emphasis on tracking the tangible deliverables achieved by the Ministries, Departments and Agencies (MDAs) in terms of measurable outputs and outcomes. Key performance indicators (KPIs) were set for the MDAs against which progress on project completion was measured. In addition, policies, projects and goals were linked with outputs and deliverable targets in large-spending MDAs on an ongoing basis.

The adoption of the results-oriented budgeting approach in PFM was expected to deliver the following benefits when fully integrated into Nigeria's fiscal landscape:

- Justify the need for more resources in the budgetary process;
- Improve MDAs' ability to present performance assessment and results;
- Improve MDAs' ability to channel resources to high priority sectors;
- Align MDAs' data collection and reporting with results;
- Foster MDAs' ability to make decisions, based on customer-focused, outcome-oriented information;
- Enable MDAs to clearly align budgets and their execution within its purpose and priorities;
- Elicit accountability from public office holders; and
- Ensure transparency in public sector financial management.

In order to facilitate a complete migration to PBB, the infrastructural support has been almost fully installed. In this regard, the Business Process Review (BPR) and Charts of Accounts (COA) have been completed and revised. During the period, the performance indicator (PI) database and detailed project formulation documentation/checklists were being developed. Finally, the process of implementing the Government Integrated Financial Management System (GIFMIS) platform, with World Bank (WB) assistance, was ongoing and expected to come on stream by early 2011.

5.5 STATE GOVERNMENTS' FINANCES[7]

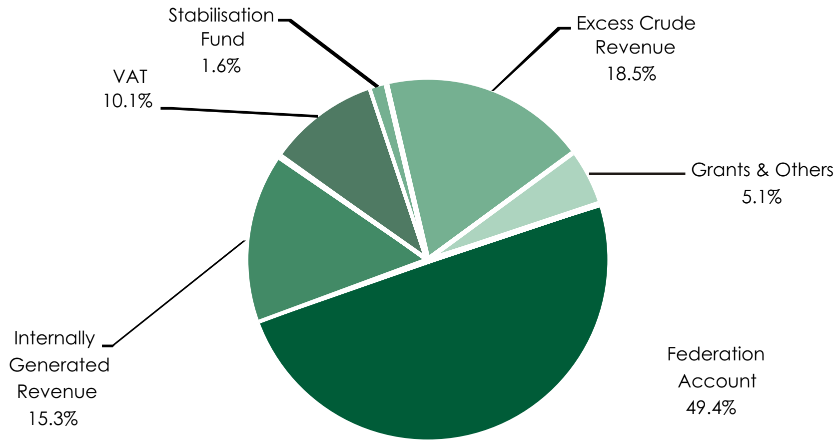
5.5.1 Overall Fiscal Balance and Financing

Provisional data on state governments' finances (including the FCT) indicated a decline in the overall deficit from ₦186.2 billion, or 0.7 per cent of GDP in 2009, to ₦132.1 billion, or 0.4 per cent of GDP in 2010. The deficit was financed largely through borrowing from the DMBs.

Provisional data on state governments' finances (including FCT) indicated a decline in the overall deficit to 0.4 per cent of GDP, down from 0.7 per cent of GDP in 2009.

[7]The provisional data are from the CBN survey returns from 36 states and the FCT.

Figure 5.13: State Governments' Revenue (Naira Billion)



5.5.2 Revenue

Total revenue of the state governments increased by 5.7 per cent to ₦2,739.4 billion, or 9.3 percent of GDP, compared with ₦2,590.7 billion or 10.3 per cent of GDP in 2009. The analysis of the sources of revenue indicated that allocations from the Federation Account (including 13.0% Derivation Fund) was ₦1,353.7 billion, or 49.4 per cent; the VAT Pool Account was ₦275.6 billion, or 10.1 per cent; Internally Generated Revenue (IGR) was ₦420.5 billion, or 15.3 per cent; the Stabilisation Account was ₦42.5 billion, or 1.6 per cent; the Excess Crude Account sharing (including budget augmentation and foreign exchange rate gains) totalled ₦506.7 billion or 18.5 per cent; and grants/others amounted to ₦140.4 billion, or 5.1 per cent. The IGR fell below the level in 2009 by 8.8 per cent. In terms of tax efforts, measured as the ratio of IGR to total revenue (IGR/TR), Lagos state ranked the highest with 60.7 per cent, followed by Rivers and Kwara states, with 21.7 and 21.6 per cent, respectively, while Bauchi state ranked last with 2.8 per cent. In terms of the state governments' effort at improving internally-generated revenue, Ondo state ranked top, with an increased IGR/TR ratio from 1.2 per cent in 2009 to 5.5 per cent, followed by Kebbi and Kwara states in the second and third positions, respectively. Overall, the consolidated IGR/TR ratio of the state governments declined from 17.8 per cent in 2009 to 15.3 per cent.

Total revenue of the state governments rose by 5.7 per cent to ₦2,739.4 billion, or 9.3 per cent of GDP.

Table 5.2: State Governments' Revenue

Item	State Governments' Revenue				Share in Overall GDP	
	2009		2010 1/		2009	2010
	Amount (₦' Billion)	Share (%)	Amount (₦' Billion)	Share (%)	%	%
Federation Account 2/	973.8	37.6	1,353.7	49.4	3.9	4.6
Excess Crude Revenue 3/	708.6	27.3	506.7	18.5	2.8	1.8
VAT	229.3	8.9	275.6	10.1	0.9	0.9
Internally Generated Revenue	461.2	17.8	420.5	15.3	1.8	1.4
Stabilisation Fund	29.7	1.1	42.5	1.6	0.1	0.1
Grants & Others	188.1	7.3	140.4	5.1	0.8	0.5
Total	**2,590.7**	**100.0**	**2,739.4**	**100.0**	**10.3**	**9.3**

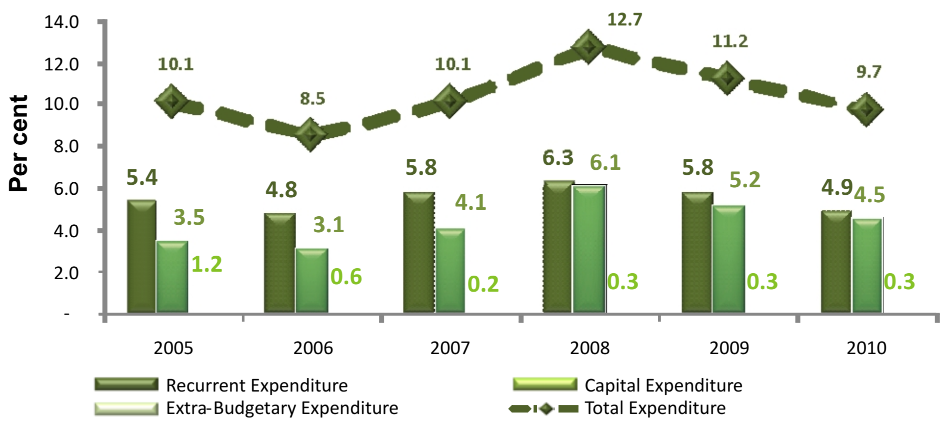
1/ Including FCT
2/ Including 13% Derivation Fund
3/ Including Budget Augmentation and Foreign Exchange Rate Gains

5.5.3 Expenditure

Total expenditure of the state governments increased by 3.4 per cent to ₦2,871.5 billion, or 9.7 per cent of GDP. A breakdown showed that, at ₦1,437.0 billion or 4.9 per cent of GDP, recurrent expenditure was 0.8 per cent higher than the level in the preceding year and accounted for 50.1 per cent of the total.

The total expenditure of the state governments grew by 3.4 per cent to ₦2.871.5 billion, or 9.7 per cent of GDP.

Figure 5.14: State Governments' Expenditure (per cent of GDP)



At ₦1,339.0 billion, or 4.5 per cent of GDP, the capital expenditure was 4.3 per cent above the level in 2009 and accounted for 46.6 per cent of the total. Similarly, extra-budgetary expenditure grew by 43.1 per cent and accounted for 3.3 per cent of the total expenditure.

Analysis of spending on primary welfare sectors indicated that expenditure on education increased by 3.0 per cent from the level in 2009 to ₦241.3 billion and accounted for 8.4 per cent of total expenditure. Similarly, expenditure on health and agriculture rose by 0.9 and 37.6 per cent, respectively, relative to their levels in 2009 to ₦151.1 billion and ₦218.5 billion. However, expenditure on water supply and housing fell by 22.5 and 24.6 per cent, respectively, relative to their levels in 2009 to ₦77.4 billion and ₦54.5 billion. On the whole, aggregate expenditure on primary welfare sectors amounted to ₦742.7 billion, or 2.8 per cent of GDP, and accounted for 25.9 per cent of total expenditure.

Figure 5.15: State Governments' Expenditure in Key Sectors for 2010 (per cent of Total Expenditure)

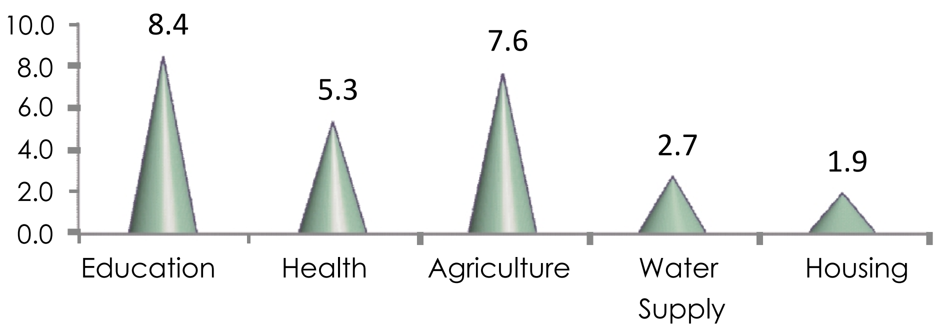
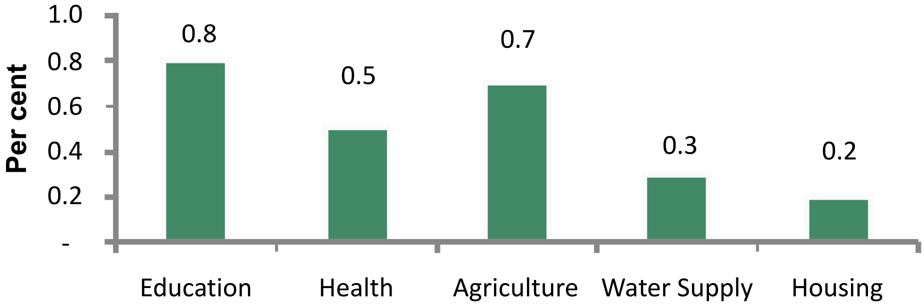


Figure 5.16: State Governments' Expenditure in Key Sectors for 2010 (per cent of GDP)



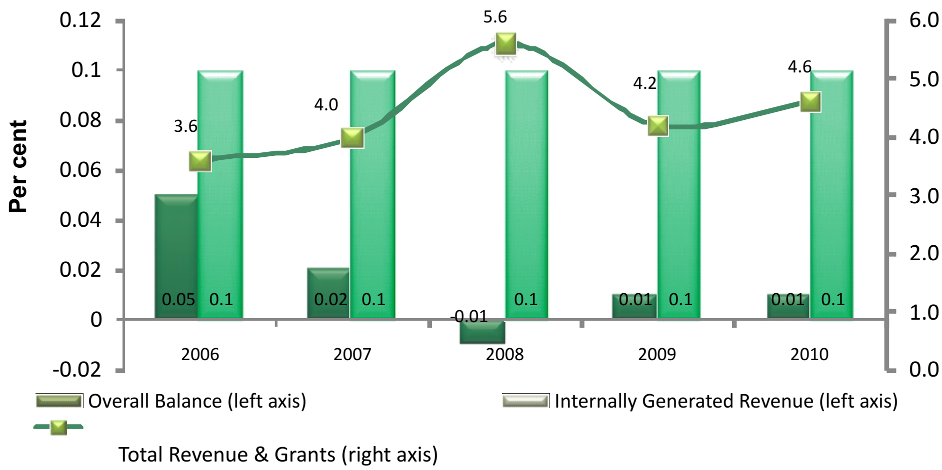
5.6 LOCAL GOVERNMENTS' FINANCES[8]

5.6.1 Overall Fiscal Balance and Financing

Provisional data on local governments' fiscal operations indicated a surplus of ₦2.5 billion, compared with a surplus of ₦1.8 billion in 2009.

[8]*The provisional data are from the CBN survey returns from 774LGAs.*

Figure 5.17: Local Governments' Revenue & Overall Balance (Per cent of GDP)



5.6.2 Revenue

Total revenue of local governments was ₦1,359.2 billion, indicating an increase of 27.1 per cent from the level in 2009. The sources of the revenue comprised allocations from the Federation Account (₦716.0 billion), VAT (₦189.1 billion), IGR (₦26.2 billion), grants/'others' (₦36.3 billion), stabilization fund (₦12.6 billion), state allocation (₦12.7 billion), excess crude revenue sharing (including refund from FG & SG) (₦280.5 billion), budget augmentation (₦78.7 billion), and foreign exchange rate gains (₦7.1 billion).

The total revenue of local governments was ₦1,359.2 billion, indicating an increase of 27.1 per cent.

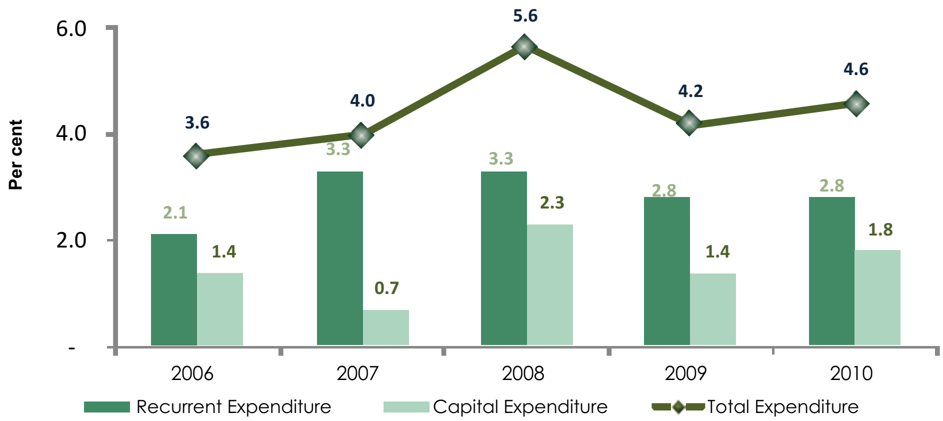
Table 5.3: Local Governments' Revenue

Item	Local Governments' Revenue				Share in Overall GDP	
	2009		2010		2009	2010
	Amount (₦' Billion)	Share (%)	Amount (₦' Billion)	Share (%)	%	%
Federation Account	529.3	49.5	716.0	52.7	2.1	2.4
Excess Crude Revenue	145.0	13.6	280.5	20.7	0.6	1.0
Budget Augmentation	131.7	12.3	78.7	5.8	0.5	0.3
Exchange Rate Gain	28.4	2.7	7.1	0.5	0.1	0.02
VAT	157.4	14.7	189.1	13.9	0.6	0.6
Internally Generated Revenue	26.1	2.4	26.2	1.9	0.1	0.1
Stabilisation Fund	11.4	1.1	12.6	0.9	0.05	0.04
State Allocation	19.7	1.8	12.7	0.9	0.1	0.04
Grants & Others	20.3	1.9	36.3	2.7	0.1	0.1
Total	**1,069.4**	**100.0**	**1,359.2**	**100.0**	**4.3**	**4.6**

5.6.3 Expenditure

At ₦1,356.7 billion, total expenditure of the local governments was 27.1 per cent above the level in 2009, and represented 4.6 per cent of the GDP. A breakdown indicated that recurrent outlays, stood at ₦823.7 billion or 60.7 per cent, while capital expenditure amounted to ₦533.0 billion, or 39.3 per cent of the total.

Figure 5.18: Local Governments' Expenditure (per cent of GDP)



The expenditure of the local governments was 27.1 per cent higher than the level in 2009 and represented 4.6 per cent of the GDP.

A further breakdown of recurrent expenditure showed that personnel cost was ₦316.5 billion, while overhead cost and the consolidated fund charges/others amounted to ₦395.0 billion and ₦112.2 billion, respectively. Analysis of capital expenditure by function revealed that the share of administration was ₦78.8 billion, economic services (₦247.2 billion), social and community services (₦183.3 billion), and transfers (₦23.7 billion).

BOX 6: THE SOVEREIGN WEALTH FUND (SWF)

Generally, a Sovereign Wealth Fund (SWF) is a special purpose investment fund created and owned by the general government for macroeconomic purposes. The fund is commonly established from balance of payments surpluses, official foreign currency operations, proceeds of privatisation, fiscal surpluses, and receipts from commodity exports, amongst others. SWF offers various economic and financial benefits which include savings for inter-generational transfers, reduction of boom and burst cycles, greater portfolio diversification, promotion of prudent fiscal management, and responsible asset management. SWF could facilitate a more efficient allocation of resource from commodity surpluses, and enhance market liquidity. Finally, SWF would help to strengthen domestic policy frameworks by ensuring manageable liquidity in the system. Funds are set aside and invested on behalf of the nation for inter-generational equity. However, SWFs are being criticised on the ground that they unduly expand government role in the international financial market and restrict the free flow of global capital.

Countries that have created SWFs include the United Arab Emirates (US$ 627 billion), Algeria (US$56.7 billion), Libya (US$70 billion), Kuwait (US$202.8 billion), Venezuela (US$0.8 billion), Saudi Arabia (US$439.1 billion) and Iran (US$23.0 billion). Other countries that have had substantial investment through SWFs are Norway (US$512 billion) and China (US$826.0 billion)1.

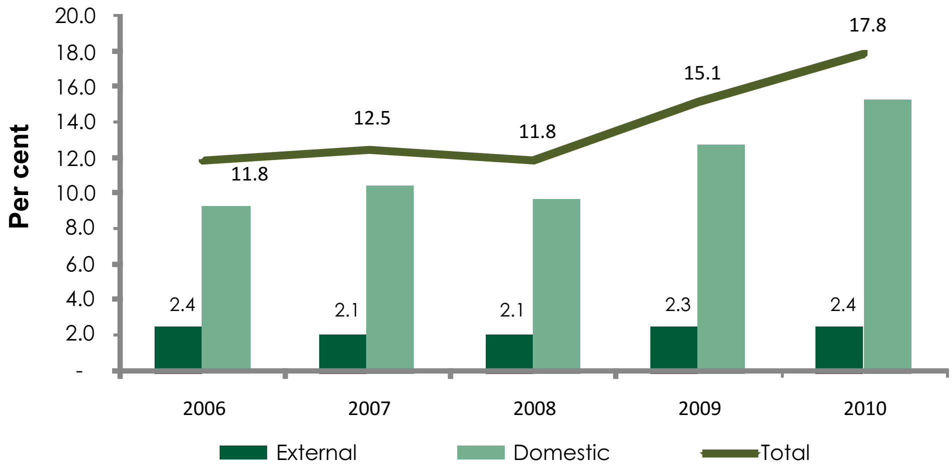
Since the discovery of crude oil deposits in the late 1950s, there have been several attempts to put aside some of the surplus receipts from crude oil price exports. In 2004, efforts were made, through the creation of the ECA, to save for the future and stabilise any budget deficit that could arise from oil price shocks. In 2010, the Nigerian government commenced the process of establishing a SWF, aimed at safeguarding the country's resources for future generations and building a robust institutional framework for a strong fiscal policy and prudent management of excess crude earnings. A draft bill on the fund had been submitted to the National Assembly for necessary legislation and the proposed fund had been seeded with US$1.0 billion of capital. With this development, the ECA would gradually transform into the SWF.

Source: Sovereign Wealth Fund Institute, December 2010. www.swfinstitute.org/fund-ranking[1]

5.7 CONSOLIDATED FEDERAL GOVERNMENT DEBT

The consolidated Federal Government debt stock, as at 31st December 2010 was ₦5,241.7 billion, or 17.8 per cent of GDP, compared with ₦3,818.5 billion, or 15.1 per cent of GDP in 2009. Analysis of the debt showed that the domestic component constituted 86.8 per cent and the external 13.2 per cent. The increase reflected, largely, the substantial borrowing through the issuance of FGN Bonds and treasury bills to finance projects and the settlement of contractual obligations. Consequently, the stock of FGN Bonds rose from ₦1,974.9 billion in 2009 to ₦2,901.6 billion and accounted for 63.7 per cent of the total, while treasury bills grew from ₦797.5 billion in 2009 to ₦1,277.1 billion and accounted for 28.1 per cent of the total. At end-December 2010, external debt outstanding increased by 16.8 per cent to US$4.6 billion (₦689.8 billion), while the domestic component increased by 41.0 per cent from its level in 2009.

Figure 5.19: Consolidated Public Debt Stock (per cent of GDP)

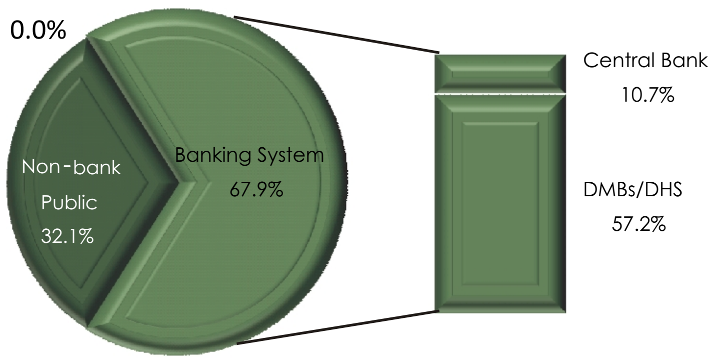


5.7.1 Domestic Debt

The stock of Federal Government domestic debt at end-December 2010 was ₦4,551.8 billion, representing an increase of 41.0 per cent over the level in 2009. The development reflected the substantial borrowing through the issuance of FGN Bonds and treasury bills. The banking system remained the dominant holder of the outstanding debt instruments with, 67.9 per cent, and the non-bank public accounted for the balance of 32.1 per cent. Disaggregation of the banking system's holdings indicated that ₦2,605.0 billion, or 84.2 per cent, was held by the DMBs and DHs, and ₦487.5 billion, or 15.8 per cent by the CBN and the Sinking Fund.

Analysis of the maturity structure of the domestic debt showed that instruments of two (2) years and below accounted for ₦2,850.7 billion or 62.6 per cent, followed by instruments of two (2) to five (5) years at ₦501.7 billion, or 11.0 per cent; those with tenors of between five (5) and ten (10) years totalled ₦481.1 billion or 10.6 per cent, and tenors of over ten (10) years at ₦718.3 billion, or 15.8 per cent.

Figure 5.20: Composition of Domestic Debt Stock by Holders in 2010



5.7.2 External Debt

At US$4.6 billion, Nigeria's external debt grew by 16.0 per cent over the level at end-December 2009. The rise reflected the drawdown of additional multilateral loans by the Federal Government, amounting to US$713.3 million. Of the total external debt outstanding, the share of multilateral institutions was US$4.2 billion and accounted for 92.1 per cent, while 'others' totalling US$0.4 billion accounted for the balance.

5.7.3 Debt Service Payments and Debt Sustainability Analysis

Total debt service payments[9] stood at ₦407.4 billion, or 1.4 per cent of GDP and comprised ₦53.3 billion, or US$0.35 billion for external and ₦354.1 billion for domestic debt. The external debt service comprised amortization (principal repayment) of ₦38.0 billion, or 71.4 per cent and actual interest payments of ₦15.3 billion, or 28.6 per cent. Domestic debt service indicated that amortization stood at ₦334.7 billion, or 94.5 per cent, while interest payment was ₦19.5 billion, or 5.5 per cent of the total.

The analysis of Nigeria's debt sustainability revealed that at 17.8 per cent, the debt stock/GDP ratio remained low relative to the maximum international threshold of 30.0 per cent of GDP.

The analysis of debt sustainability revealed that the debt stock/GDP ratio remained low relative to the maximum international threshold of 30.0 per cent, though it weakened from 15.4 per cent in 2009 to 17.8 per cent in 2010. At 169.7 per cent, the debt stock/revenue ratio, which shows the quantum of total revenue required to redeem the total debt stock, worsened in 2010, compared with 144.3 per cent in 2009. The debt service/revenue ratio improved from 20.5 per cent in 2009 to 13.2 per cent in 2010, implying that a lower proportion of the total revenue was devoted to interest/principal repayments during the year.

[9] *This represents actual debt service payments by the Debt Management Office which may differ from the figures in the Federal Government finances table that indicates contribution to the external creditors' fund.*

Table 5.4: Debt Service Payment (Naira billion) and Debt Sustainability Indicators (per cent)

Indicators	International Thresholds	2006	2007	2008	2009	2010
External Debt Service (Interest Payments)*	-	831.04	117.21	9.03	17.38	15.3
Amortization - External Debt	-	34.50	11.39	46.16	46.46	38.0
Domestic Debt Service (Interest Payments)	-	166.84	185.37	232.98	271.34	19.47
Amortization - Domestic Debt	-	55.73	67.26	238.29	207.36	334.7
Total Debt Service	-	1,088.11	381.23	526.46	542.54	407.4
Total Debt/GDP	30	11.8	12.5	11.6	15.4	17.8
Total External Debt/GDP	30	2.4	2.1	2.0	2.4	2.4
Total Domestic Debt/GDP	40-60	9.4	10.4	9.6	13.1	15.4
Total External Debt/Export (%)	100	6.2	5.3	4.4	8.5	6.2
Total Debt Service/Revenue (%)	20-25 (Max.=25)	23.3	13.9	10.5	20.5	13.2
Total Debt/Revenue (%)	150	113.8	111.3	88.0	144.3	169.7

Source: Debt Management Office

CHAPTER SIX

REAL SECTOR DEVELOPMENTS

The economy was vibrant as growth in domestic output was robust and broad-based in 2010,due to sound economic management policies and vast economic reforms. The real Gross Domestic Product (GDP), measured in 1990 basic prices, grew by 7.9 per cent, compared with 7.0 per cent in 2009. Growth in 2010 was attributed, largely, to the performance of the non-oil sector, which grew by 8.5 per cent, complemented by a significant increase in oil sector output. Sectoral analyses showed that agricultural output grew by 5.7 per cent, building and construction by 12.2 per cent, the services sector by 11.9 per cent, and wholesale and retail trade by 11.2 per cent. Industrial output grew by 5.3 per cent. This was attributed, largely, to the implementation of the Federal Government amnesty programme which precipitated increased crude oil production and increased government funding of critical infrastructure. The output of solid minerals, as well as manufacturing, also expanded. Inflationary pressure moderated, but remained above the single digit. Various government programmes and policies on improving the state of critical infrastructure and availability of credit to the real sector also impacted positively on growth. Challenges to the real sector in the period under review remained principally poor infrastructure, the most serious of which was inadequate power supply.

6.1 DOMESTIC OUTPUT

Provisional data from the National Bureau of Statistics (NBS) showed that the Gross Domestic Product (GDP), measured at 1990 constant basic prices, was estimated at ₦775.4 billion in 2010, indicating a growth rate of 7.9 per cent. This exceeded the 7.0 per cent recorded in 2009 and the average annual growth rate of 6.7 per cent for the period 2006 2010, but lower than the target growth rate of 10.0 per cent for the year. As in previous years, agriculture accounted for the greatest share of the GDP growth rate, as it contributed 2.4 percentage points, followed by services with 2.1 percentage points; wholesale and retail trade contributed 2.0 percentage points; and building and construction 0.2 percentage point. Industry as a group made a positive contribution of 1.1 percentage point, compared with a 0.4 percentage point contribution in 2009. Growth in GDP

The Gross Domestic Product (GDP), measured at 1990 constant basic prices, was estimated at ₦775.4 billion in 2010, indicating a growth rate of 7.9 per cent. This exceeded the 7.0 per cent recorded in 2009 and the average annual growth rate of 6.7 per cent for the period 2006 2010, but lower than the target growth rate of 10.0 per cent for the year.

reflected, largely, the sound and stable monetary and fiscal policies, as well as the favourable weather conditions which boosted agricultural output. Other drivers of growth included an increase in crude oil production throughout the year, stability in the price and supply of petroleum products, the successful implementation of the Federal Government amnesty programme, huge investment in infrastructure by government, building and construction activities across the country and continued expansion in the telecommunications sub-sector.

Figure 6.1 GDP Growth Rate (2006-2010)

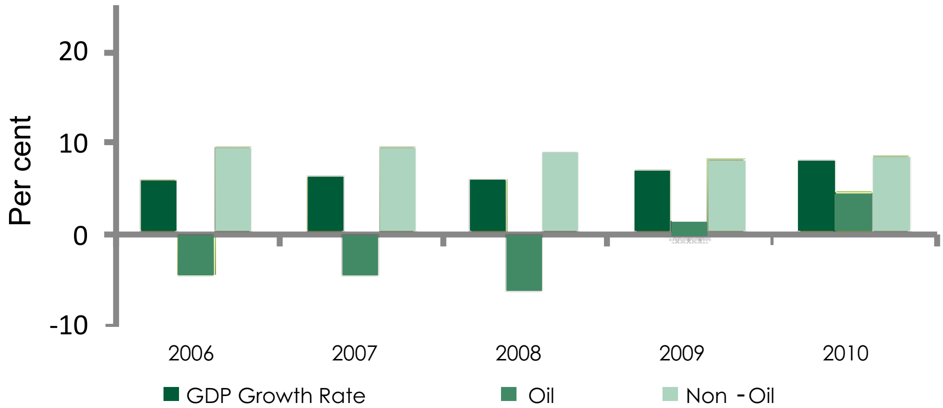


Table 6.1: Sectoral Growth Rates of GDP at 1990 Constant Basic Prices (per cent)

Activity Sector	2006	2007	2008	2009 1/	2010 2/
1. Agriculture	**7.4**	**7.1**	**6.3**	**5.9**	**5.7**
Crop Production	7.5	7.3	6.2	5.8	5.7
Livestock	6.9	6.9	6.9	6.5	6.5
Forestry	6.0	6.1	6.1	5.9	5.9
Fishing	6.6	6.6	6.6	6.2	6.0
2. Industry	**-2.5**	**-2.2**	**-3.4**	**2.0**	**5.3**
Crude Petroleum	-4.5	-4.5	-6.2	0.5	4.6
Solid Minerals	10.3	12.8	12.8	12.1	12.3
Manufacturing	9.4	9.6	8.9	7.9	7.6
3. Building & Construction	**13.0**	**13.0**	**13.1**	**12.0**	**12.2**
4. Wholesale & Retail Trade	**15.3**	**15.2**	**14.0**	**11.5**	**11.2**
5. Services	**9.2**	**9.9**	**10.4**	**10.8**	**11.9**
Transport	6.9	7.0	7.0	6.8	6.7
Communications	32.5	28.5	34.0	34.2	34.5
Utilities	4.9	4.9	3.7	3.2	3.3
Hotel & Restaurant	12.9	13.0	12.9	11.9	12.0
Finance & Insurance	5.0	5.0	4.8	4.0	3.9
Real Estate & Business Services	11.3	11.4	11.4	10.6	10.4
Producers of Govt. Services	5.9	5.9	6.0	5.9	5.7
Comm., Social & Pers. Services	10.6	10.6	10.7	9.8	9.9
TOTAL (GDP)	**6.0**	**6.5**	**6.0**	**7.0**	**7.9**
NON-OIL (GDP)	**9.4**	**9.5**	**9.0**	**8.3**	**8.5**

1/ Revised

2/ Provisional

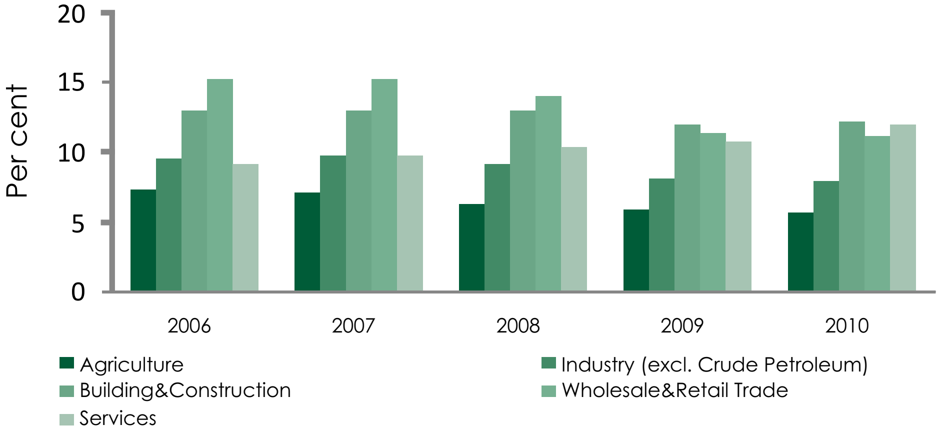
Source: National Bureau of Statistics (NBS)

Table 6.2: Sectoral Contribution to Growth Rates of GDP at 1990 Constant Basic Prices (percentage points)					
Activity Sector	**2006.0**	**2007.0**	**2008.0**	**2009 1/**	**20101/**
1. Agriculture	**3.1**	**3.0**	**2.8**	**2.5**	**2.4**
Crop Production	2.8	2.7	2.4	2.2	2.1
2. Industry	**-0.7**	**-0.6**	**-0.5**	**0.4**	**1.1**
Crude Petroleum	-1.1	-1.0	-0.9	0.1	0.7
3. Building & Construction	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
4. Wholesale & Retail Trade	**2.1**	**2.3**	**2.3**	**2.0**	**2.0**
5. Services	**1.4**	**1.6**	**1.7**	**1.8**	**2.1**
Communication	0.5	0.6	0.7	1.0	1.3
TOTAL (GDP)	**6.0**	**6.5**	**6.0**	**7.0**	**7.9**
NON-OIL (GDP)	**9.4**	**9.5**	**9.0**	**8.3**	**8.5**
1/ Revised					
2/ Provisional					
Source: National Bureau of Statistics (NBS)					

Non-oil GDP grew by 8.5 per cent in 2010, compared with 8.3 per cent in 2009. The performance was driven, largely, by agricultural production which grew by 5.7 per cent, attributable to the favourable weather conditions, improved supply of inputs, and the impact of various government intervention programmes and policies. Other drivers of growth in non-oil GDP included building and construction, services, and wholesale and retail trade, which recorded growth rates of 12.2, 11.9 and 11.2 per cent, respectively. In the services sub-sector, communications recorded the highest growth rate of 34.5 per cent, buoyed by the sustained liberalisation and expansion of telecommunications services. In 2010, industrial output grew by 5.3 per cent. This development was attributable mainly to the effective and successful implementation of the Federal Government amnesty programme, which paved the way for an increase in crude oil production, stability in the price and supply of petroleum products, as well as huge government investment in critical infrastructure development. Other government programmes and policies in support of the real sector, especially small- and medium-scale enterprises, also impacted positively on growth. Solid minerals and manufacturing output grew by 12.5 and 7.6 per cent, respectively.

Figure 6.2: Sectoral Share in GDP

Figure 6.3: Growth Rate of Major Sectors of Non-oil GDP

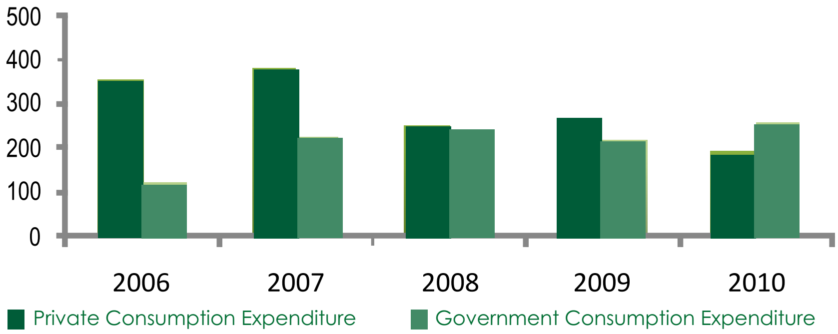


Sectoral analysis indicated that the agricultural sector contributed the largest share of 40.9 per cent to real GDP in 2010, compared with 41.7 per cent in 2009. The share of industry and crude oil in GDP declined from 20.8 and 16.3 per cent, respectively in 2009, to 20.3 and 15.8 per cent. The contributions of solid minerals and manufacturing components of industry remained insignificant. Services as a group contributed 18.1 per cent to the GDP, of which communications, finance and insurance, utilities and transport accounted for 4.6, 3.6, 3.2 and 2.7 percentage points, respectively.

Figure 6.4: Contribution to Growth Rate of Non-oil GDP

Provisional data showed that real domestic demand at 1990 purchasers' price (GDP by Expenditure approach) fell by 6.2 per cent and stood at ₦525.2 billion in 2010, compared with ₦560.0 billion in 2009. Private consumption was ₦193.7 billion, while government final consumption expenditures totalled ₦254.1 billion in 2010, compared with ₦264.1 billion and ₦215.6 billion, respectively in the preceding year. This indicated a decrease of 26.7 per cent in real private consumption expenditure and an increase of 17.9 per cent in real government consumption expenditure. Real investment (gross fixed capital formation) fell by 3.6 per cent, while net exports grew by 150.1 per cent, in real terms. The increase in government consumption was attributed mainly to government's huge investment in the power sector and other critical infrastructure, while the decrease in private consumption resulted from the impact of the low level of credit to the economy, particularly to the private sector, exacerbated by the dip in the capital market occasioned by the global economic and financial crises, and the double digit inflation recorded during the year. As a share of aggregate demand, private consumption constituted 36.9 per cent.

Figure 6.5: GDP (Expenditure Approach) at 1990 Purchasers' Price



6.2 AGRICULTURE

6.2.1. Agricultural Policy and Institutional Support

Government intervention in the agricultural sector was informed by the need for national food security to ensure sustainable access to, and availability and affordability of good quality food for all Nigerians. Other objectives of government included the production of agricultural raw materials for the industrial sector and the export market, promotion of the value-chain approach in the agricultural sector, enhancement of farm income and reduction of poverty.

Government vigorously pursued the establishment of agro-processing centres and export crop handling through a Public-Private Partnership (PPP) arrangement, This was informed by lessons of experience from past programmes that had over-emphasized production and the impact of the global food crisis of 2007 and 2008. To this end, 17 integrated large scale rice processing mills in 12 states of the Federation were at various stages of completion. The states are: Adamawa, Anambra, Bayelsa, Benue, Ebonyi, Enugu, Kano, Kebbi, Kwara, Niger, Ogun and Taraba. When operational, the mills would significantly boost local capacity to produce high quality processed rice. In addition, the establishment of 6 export crop handling, preservation and conditioning centres commenced in Cross River, Enugu, Gombe Kaduna, Kebbi and Nasarawa states. Furthermore, the construction of 8 agro-processing centres commenced in existing grain silo complexes in Benue, Cross River, Jigawa, Gombe, Kwara, Niger, Ondo and Oyo states. In addition, the establishment of 2 agro-processing estates commenced in Bakura and Maradun in Zamfara state for the production of edible flour, milled rice and vegetable oil.

Government continued to provide support to farmers under the Fertilizer Market Stabilization Programme. The Federal Government provided the sum of ₦22.30 billion as its 25 per cent subsidy contribution to the procurement and distribution of 900,000 tonnes of fertilizer to the states and the FCT, valued at ₦89.31 billion. This represented the highest provision in any single year since the inception of the fertilizer subsidy programme in 1999. However, as a long-term strategy to cut import dependence, there were renewed emphasis on partnering with local fertilizer manufacturers and blenders to produce suitable blends of fertilizer for the country, as well as promote the use of organic fertilizers to complement the inorganic ones.

The Nigerian Country-Stat Project was launched on September 16, 2010 to address the perennial problem of the absence of a reliable agricultural database for the country. The Project was sponsored by the Bill and Melinda Gates Foundation, in collaboration with the Food and Agriculture Organization (FAO).

The Guaranteed Minimum Price Scheme (GMPS), instituted in 2008 to encourage farmers and stabilize food prices, was sustained. A total of 63 licensed buying agents were engaged nationwide while the sum of ₦8.76 billion was spent on the purchase of assorted grains and garri for storage under the Strategic Grains Reserve Programme. Besides the 12 functional silos, with a combined capacity of 300,000 tonnes, additional ones were being constructed across the country to bring the national storage capacity to 1,350,000 tonnes.

In the fisheries sub-sector, activities were focused on achieving self-sufficiency in fish production, through the improvement of the means of production, processing, storage and marketing. Some major achievements recorded included: the rehabilitation of 5 modern fish hatcheries and fingerlings production centres at Olupona (Osun State), Tiga Dam (Kano State), Gubi Dam (Bauchi State), Mando (Kaduna State) and Umuna-Okigwe (Imo State). Government also established fish feed and fingerlings production centres nationwide; 12 cage fish culture development centres in all the geo-political zones; ornamental fish production centres in Imo, Edo, Ogun and Rivers States and; shrimp production centres in Ekiti, Nasarawa and Oyo States. The design and construction of the Lokoja boatyard and the model fish feed mill in Ibadan at ₦35.0 million was also undertaken. In addition, there were sensitisation workshops on fish farming and fish seed certification in all 36 states and the FCT.

Access to affordable credit continued to receive attention as the CBN monitored and encouraged the disbursement of funds under the ₦200 billion Commercial Agricultural Credit Scheme (CACS). As at end-December 2010, the Bank had released ₦96.81 billion to 11 participating banks for disbursement to 86 projects/promoters (including 18 state governments).

In order to further improve the lending environment in the agricultural sector the CBN, in collaboration with other stakeholders, initiated the Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL).

Specifically, the objectives of NIRSAL included the following:

- Stimulate innovations in agricultural lending;
- Encourage bank lending to the sector;
- Eliminate state dependency by banks for deploying loanable funds to agriculture;
- Leverage DMBs' balance sheet for lending into agriculture; and
- Build a business approach to lending to the sector and motivate banks to share in the risk.

To further improve the lending environment in the agriculture sector the CBN, in collaboration with other stakeholders, initiated the Nigerian Incentive-based Risk Sharing System for Agricultural

The Rural Finance Institution Building Programme (RUFIN) commenced operations during the year. The Programme has the potential of impacting positively on the capacity of rural financial institutions to meet the credit requirements of rural farm communities. The programme was being implemented in 12 selected states through a loan of US$27.2 million from IFAD, a grant of US$0.5 million from the Ford Foundation and counterpart funding from the Federal Government and the participating states.

The increase in agricultural production was propelled, largely, by the favourable weather conditions and the sustained implementation of various agricultural programmes initiated in 2009.

6.2.2 Agricultural Production

At 255.9 (1990=100), the provisional aggregate index of agricultural production increased by 5.7 per cent, compared with the 6.8 per cent increase in 2009. The growth was, however, below the national sectoral target of 8.0 per cent. The increase in agricultural production was propelled, largely, by the favourable weather condition and the sustained implementation of various agricultural programmes initiated in 2009.

6.2.2.1 Crop Production

The output of staples grew by 5.7 per cent, compared with the 6.2 per cent growth in 2009. Similarly, the output of cash crops increased by 7.2 per cent, relative to the level in the preceding year.

Table 6.3: Growth in Major Crop Production (per cent)

Crop	2009	2010	Crop	2009	2010
Wheat	7.8	5.5	Plantain	7.9	5.5
Sorghum	8.1	4.0	Potatoes	9.9	5.8
Rice (Paddy)	9.1	4.0	Yam	9.0	4.8
Maize	9.1	5.9	Beans	9.0	6.1
Millet	9.7	4.9	Cassava	9.4	6.9
Soya Beans	10.0	8.4	Palm Oil	11.1	8.2
Rubber	9.5	5.6	Cocoa	7.2	6.6

The crops sub-sector sustained its impressive performance on account of the favourable weather conditions in most parts of the country and the continuation of various government programmes initiated in 2009. One of such initiatives is the identification of, and targeted intervention in, thirteen (13) strategic crops by the Federal Government. Consequently, cassava output grew by 6.9 per cent while paddy rice production increased by 4.0 per cent over the level in 2009.

6.2.2.2 Livestock

Livestock production increased by 6.4 per cent, compared with the 6.8 per cent increase in the preceding year. The development was attributed to the measures taken to control livestock diseases, especially the deadly Avian Flu, and improved access to credit. Further analysis showed that poultry and beef production increased by 19.5 and 8.9 per cent, respectively, when compared with the growth rates in 2009. This was as a result of the support provided to expand the livestock value chain, including the establishment of modern abattoirs and sanitary sale outlets across the country.

6.2.2.3 Fishery

Fish output increased by 7.0 per cent from its level in 2009 to 759,163 tonnes. This was, however, lower than the estimated national demand of 1.5 million tonnes, but reflected the impact of the various efforts by government towards improving activities in the value chain of the sub-sector.

6.2.2.4 Forestry

Forestry production increased by 4.9 per cent to 165.1 million cubic metres, but was lower than the 5.9 per cent recorded in 2009. The increase was attributed to the sustained demand for wood products. The Forestry Research Institute of Nigeria (FRIN) continued to intensify efforts in the supply of improved breeder seedlings to replace the harvested tree stocks in order to sustain wood production. Challenges faced by the sub-sector in 2010 included inadequate and untimely distribution of fertilizers, dearth of processing and storage facilities and an inefficient transportation infrastructure.

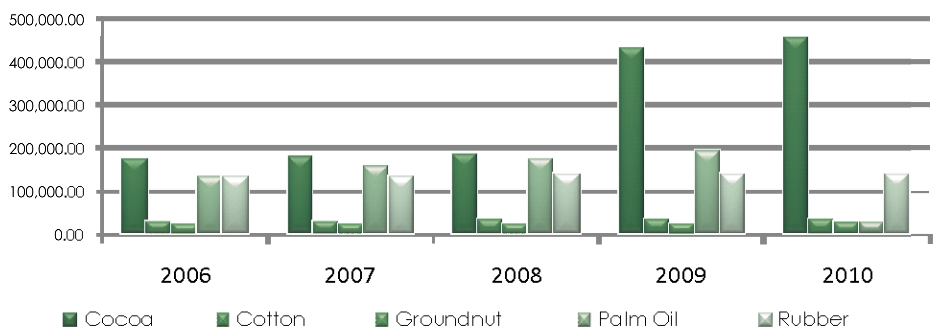
6.2.3 Agricultural Prices

The prices of most of Nigeria's agricultural export commodities were higher in 2010 when compared to the previous year. The overall index, computed in US dollar terms, stood at 727.7 (1990=100), representing an increase of 26.9 per cent over the level in 2009. Cocoa and palm oil recorded the highest price increases of 46.9 and 31.4 per cent, respectively over the levels in 2009. The increase in the price of cocoa was attributed, largely, to the relatively strong demand brought about by a cut in output, arising from bad weather conditions in some producing countries, the spread of crop diseases, smuggling activities in some producing countries, the fear of a supply shortage in 2011, and currency fluctuations[10]. Coffee, soyabean, cotton and copra recorded price increases of 5.6, 6.2, 20.9 and 9.4 per cent, respectively. In naira terms, the all-commodities price index increased by 29.2 per cent to 10,347.7 (1990=100) in 2010. The prices of cocoa, cotton, palm oil, coffee, copra and soya beans recorded increased of 46.9, 20.9, 31.4, 5.6, 7.2 and 6.0 per cent, respectively.

Available data indicated that the domestic prices of most commodities increased.

Available data indicated that the domestic prices of most commodities increased, ranging from 1.6 per cent for rubber to 72.3 per cent for wheat. The increase in prices was attributed to the high cost of farm inputs and increased demand from agro-processors, industrial users and neighbouring countries.

Figure 6.6: Average Prices of Selected Cash Crops (Naira per Tonne)



[10]International Cocoa Organisation (ICCO)

BOX 7: RECENT CBN INITIATIVES TO BOOST REAL SECTOR ACTIVITIES

The real sector plays strategic roles in an economy, particularly in a developing economy such as Nigeria. First, the sector produces and distributes tangible goods and services required to satisfy aggregate demand. Its performance is a gauge or an indirect measure of the standard of living of the people. Second, the performance of the sector can be used to gauge the effectiveness of macroeconomic policies. Third, a vibrant real sector, particularly the agriculture and manufacturing sub-sectors, creates more linkages in the economy than any other sector, and thus, reduces the pressure on the external sector. Fourth, it builds capacity and generates employment and income.

The sector has, however, grossly underperformed as a result of various constraints. The major constraints were poor access to credit the high cost of credit, inadequate power supply and other infrastructural challenges. The constraint of credit has been further exacerbated by the impact of the global financial crisis on the economy, as the pool of loanable funds shrank significantly. Against this background, the CBN and the Federal Government initiated measures to boost credit to the real sector. These initiatives included the following:

₦200 Billion Commercial Agricultural Credit Scheme (CACS)

The Scheme was established in 2009 by the CBN, in collaboration with the Federal Ministry of Agriculture and Water Resources (FMA&WR). The objective of the Scheme was to promote commercial agricultural enterprises in Nigeria. The Scheme was funded through the issuance of FGN Bonds worth ₦200 billion. The first tranche of ₦100 billion was raised and passed on to participating banks for on-lending to farmers. All the 24 banks in the country were expected to participate in the administration of the Scheme, but only 11 banks have been involved so far. By end- December 2010, the CBN had released the sum of ₦96.81 billion for disbursement to 86 projects/promoters, including 18 state governments.

₦200 Billion Small and Medium Scale Enterprises Guarantee Scheme (SMECGS)

The ₦200 Billion Small and Medium Scale Enterprises Guarantee Scheme (SMECGS) was established by the CBN in 2010. The main objectives of the Scheme were to: fast-track the development of the SME/manufacturing sector of the Nigerian economy, set the pace for the industrialisation of the economy; and increase access to credit by promoters of SMEs and manufacturers. The Scheme provides guarantees on loans by banks to the sector in order to absorb the risks that had inhibited banks from lending to the real sector.

The activities covered under the Scheme include manufacturing and the agricultural value chain, private educational institutions, and the processing, packaging and distribution of primary products. Beneficiaries would be SMEs with assets not exceeding ₦300 million and a labour force of 11 to 300 staff. A maximum amount of ₦100 million would be guaranteed which could be in the form of working capital, term loans for refurbishment or equipment upgrade or expansion, and overdraft. The lending rate would be the prime lending rate of the banks. The guarantee covers 80 per cent of the said amount and is valid up to the maturity date of the loan (with maximum tenure of 5 years). All deposit money and development banks are eligible to participate in the Scheme. By end-December 2010, two applications, valued ₦7.5million and ₦100 million each had been approved for NERFUND, Abuja and the Nnewi branch of FBN, respectively.

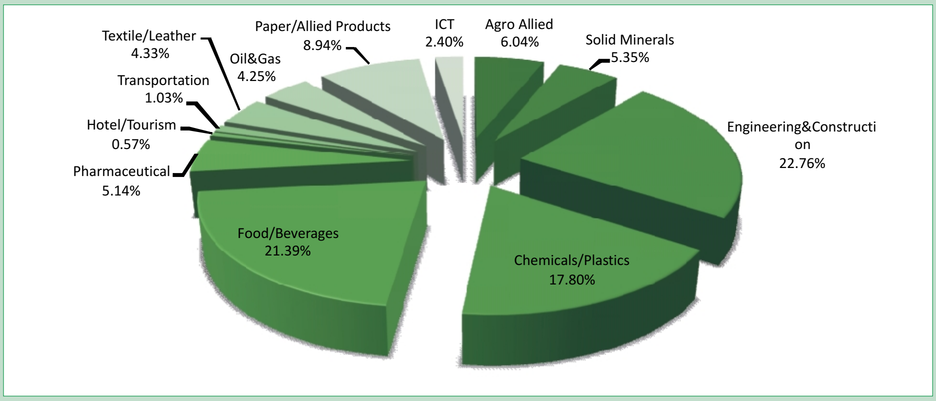
₦200 Billion SME Restructuring/Refinancing Fund

The CBN established the Fund for re-financing or re-structuring of banks' existing loan portfolios to the manufacturing sector and SMEs. The Fund was sourced from the ₦500 billion debenture stock issued by the Bank of Industry (BOI). Its main objective was to enhance access to credit by manufacturers and improve the financial position of the DMBs. All the DMBs and DFIs, excluding BOI, would participate in the Fund. Facilities under the Scheme would include long-term loans for the acquisition of plant and machinery, and re-financing of existing lease and working capital. The loan amount for a single obligor would be a maximum of ₦1.0 billion in respect of re-financing or re-structuring, with an interest rate of 7 per cent payable on a quarterly basis.

The expected economic benefits of the Scheme would include the creation of an additional 7,195 direct jobs and substantial indirect employment for suppliers of inputs, marketers and distributors of products; enhanced capacity utilisation from 25 to 29 per cent; a reduction in the cost of fund, as well as a favourable cash flow to beneficiaries.

The sum of ₦199.67 billion had been released to the BOI by the CBN, out of which the sum of ₦197.59 had been disbursed to the participating banks for restructuring or refinancing of loans to 539 eligible projects as at end-December, 2010. A sectoral breakdown of the amount disbursed is shown in Figure 6.7 below.

Figure 6.7: Sectoral Analysis of Disbursment of the SME Restructuring/Refinancing Fund



₦300 Billion Power and Aviation Intervention Fund

The CBN set aside ₦300 billion to stimulate credit to the domestic power and troubled airline industries. The main objective was to refinance existing loans and leases and provide working capital for the power and aviation sectors. Borrowing under the Scheme would attract a concessionary interest rate of 7 per cent (1.0% BOI as management fee and 6.0% to participating banks), payable on a quarterly basis, including all charges. The Fund is being managed by BOI, with the Africa Finance Corporation as the technical adviser. All commercial banks and Development Finance Institutions (excluding BOI) have been enlisted to participate in the Scheme.

Companies in the power sub-sector wishing to participate in the Scheme must have been duly registered and involved in the electricity power supply value chain, which include power generation, transmission, distribution and associated services. Also, eligible projects could be promoted by the private or public sector or a combination of both, and be properly structured, either as a profit-oriented business concern or a public service so long as on the condition that contracted cash flows or financing support is provided to ensure repayment of both principal and interest, in addition to ensuring long-term viability. With regard to aviation projects, any airline duly incorporated under the Companies and Allied Matters Act (CAMA) 1990 and operating in Nigeria would eligible to apply for the facility.

By end-December, 2010, 16 and 5 applications valued ₦147.54 billion and ₦37.62 billion for the aviation and power sectors, respectively, had been received, processed and awaiting approval/disbursement by the CBN. In addition, 3 applications valued ₦5.85 billion were being processed for aviation projects while 15 applications valued ₦47.68 billion were being similarly processed for power projects. The total value of applications being processed was ₦238.71 billion. It was expected that the balance of ₦16.28 billion would be committed by the end of the first quarter in 2011.

The Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL)
The Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL), was an initiative of the CBN, in collaboration with various stakeholders, to simultaneously address, in an integrative manner, the risks and capacity bottlenecks inherent in the agricultural value-chain. NIRSAL is a demand-driven credit facility, rather than the current supply-driven funding. It would adopt a value chain approach to lending. Banks would be free to choose which part of the value chain they would like to patronise. It would build the capacity of the banks to engage and deliver loans; reduce counterpart risks facing banks through innovative crop insurance products; reward performance in agricultural lending; and would be managed with performance-based incentives. The Scheme would also pool current resources in CBN's agricultural financing schemes and other investors' funds and transfer them to the five components of the programme that would be managed outside of the CBN. The existing agricultural support frameworks, such as CACS, ACGS, ACSS and NAIC, etc, would be assessed, modified and integrated into five components of NIRSAL as follows: Risk Sharing Facility (RSF), Insurance Component (IC), Technical Assistance Facility (TAF), Bank Incentive Mechanism (BIM), and Agricultural Bank Rating System (ABRS).

6.3 INDUSTRY

6.3.1 Industrial Policy and Institutional Support

The need to diversify the resource base of the economy, especially away from the oil and gas sector, and increase the contribution of other sectors to gross domestic output, among others, defined the policy thrust of 2010. Particularly, several initiatives were pursued to reposition the industrial sector to play its pivotal role in the economy. The Ministry of Petroleum gave unfettered access to low pour fuel oil (LPFO) to manufacturers at concessionary prices.

The Federal Ministry of Commerce and Industry set up a committee to develop a 10-year National Strategic Industrial Development Master Plan that would ensure increased employment and enhance output from the sector. The committee, at the end of 2010, had finalised consultations with stakeholders and developed an *Industrial Sector Specific Action Plan (ISSAP)*. The Plan documented the various needs of the industrial sub-sector and identified actionable processes that would serve as inputs to the broader objectives of the *Vision 20:20: 20* proposals.

The Ministry also took wide-ranging steps to stem the bottlenecks associated with the importation of industrial inputs, particularly raw materials and intermediate goods, with the intention of reducing cost per unit of input. One of the key actions was the establishment of a task force on trade facilitation to enforce compliance with multilateral and regional decisions, prune down the numerous check points in border areas, and harmonise the activities of all government agencies involved in foreign trade.

The Federal Government unveiled a power sub-sector reform agenda. The reform is premised on the notion that private sector participation would break the vicious cycle of poor power supply in the country. In August 2010, the Roadmap for the Power Sector Reform was launched to fast-track the implementation of the *Electricity Power Sector Reform Act*, which was enacted in 2005. The Roadmap aims to deregulate the generation and distribution segments of the market. Consequently the PHCN would be unbundled into six autonomous generation companies and eleven distribution companies. Each company would be individually licensed, while government, through, the Transmission Company of Nigeria (TCN), would control the segment. The gas-fired generation companies would be privatised through the sale of at least 51 per cent of governments equity stake. Operators of the hydro-generation companies would be granted long-term concessions. In the distribution companies, 51 per cent of government equity stake would also be sold.

In the cement sub-sector, the Federal Government, through the Federal Ministry of Commerce and Industry, continued to pursue the policy of backward integration, with the objective of growing local productive capacity and conserve foreign exchange on imports. As part of the measures, the Ministry revoked all unutilised cement import licences issued between 2002 and 2008, while new licences were issued to companies that had demonstrated a visible commitment to local production of cement, effective between July and end-December 2010.

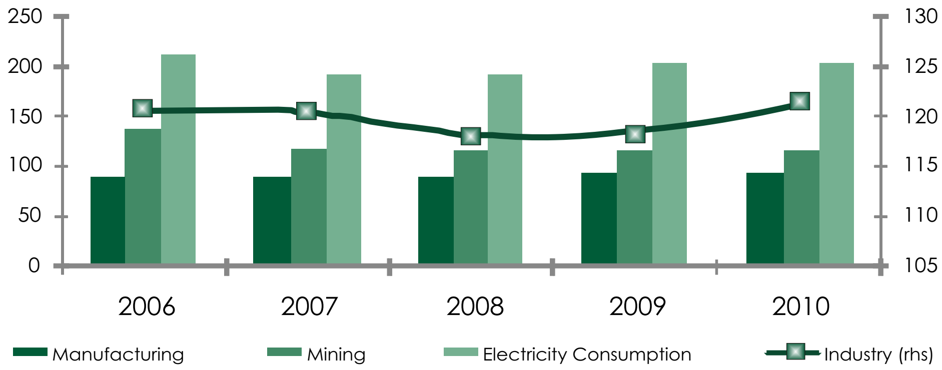
In the agro-allied sub-sector, the National Sugar Development Council, in conjunction with Bank PHB, the CBN and the Nigerian Agricultural Insurance Corporation (NAIC), continued the disbursement of input loans and credits to members of 40 outgrower associations. The Bank of Industry approved ₦58 billion to 675 small enterprises to increase the utilisation of raw materials, increase export potentials, deepen banks' credit delivery process, through cooperative lending and group guarantee arrangements. The Federal Ministry of Commerce and Industry collaborated with the Common Fund for Commodity (CFC) for the provision of prototype cassava processing plants, and one of which is located in Lafia, Nasarawa state. The Nigerian Palm Oil Project also benefited from the US$4.6 billion grant to Nigeria and Cameroun to improve production, through the acquisition of improved management capacities of small producers.

In 2010, the Federal Government, through its agencies and parastatals inaugurated several financing schemes to unlock the potentials of the industrial sub-sector. Such packages included the ₦100 Billion Textile Intervention Fund, the ₦200 Billion Commercial Agriculture Credit Scheme, the ₦300 Billion Power and Aviation Intervention Fund, the ₦200 Billion Refinancing/Restructuring Facility for the manufacturing sector, and the ₦200 Small and Medium Scale Enterprises Credit Guarantee Scheme. At end-December 2010, the restructuring/refinancing facility had been fully drawn down, and the textile fund had facilitated the re-opening of two textile firms in Kaduna and Kano states.

6.3.2 Industrial Production

The index of industrial production, estimated at 121.5 (1990 = 100) increased by 2.8 per cent over the level in 2009. This was driven by the increase of 1.4 and 1.8 per cent in manufacturing production and mining indices, respectively.

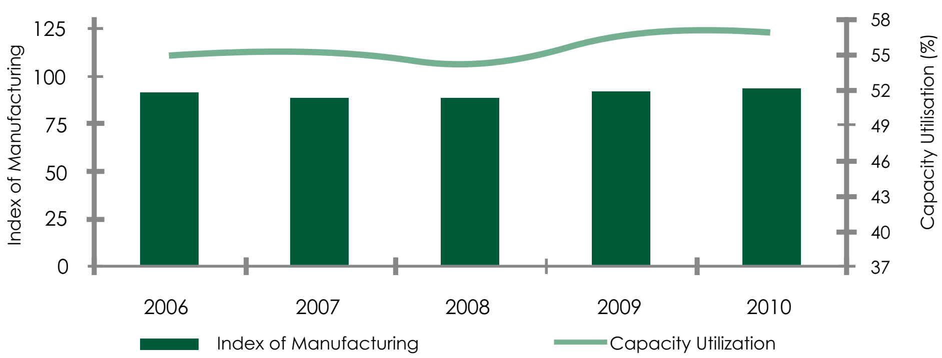
Figure 6.8: Index of Industrial Production 2006-2010 (1990 = 100)



6.3.2.1 Manufacturing

The index of manufacturing production, estimated at 93.7 (1990=100) rose by 1.4 per cent above the level of 2009, while the average capacity utilisation rate of the manufacturing sub-sector also showed a slight improvement, from 55.4 per cent in 2009 to 55.5 per cent in 2010. The increase was attributed, mainly, to the improved performance in the cement sub-sector.

Figure 6.9: Index of Manufacturing Production and Capacity Utilisation



6.3.2.2 Mining

6.3.2.2.1 Crude Oil

The Nigerian Local Content Policy Bill was passed by the National Assembly and consequently signed into law in April, 2010. The major objectives of the Nigerian local content policy are as follows:

- Promote the addition of value to the local economy;
- Increase local participation in the oil and gas sector;
- Build local capacity on the back of ongoing projects;
- Increase linkage to other sectors of the national economy; and
- Generally grow local content by 70.0 per cent.

The mechanisms put in place to enhance the Nigerian local content included a project-specific local content plan and the employment of competent and qualified local contractors to provide technical and non-technical services and support. Other measures include investing in the training of Nigerians to participate in higher-level activities, as well as investing in the provision of office space, logistics, accommodation, computing systems and other business-support infrastructure, goods and services - all of which would be purchased locally to augment other equipment procured internationally.

The increase in manufacturing was attributed mainly, to the performance in the cement sub-sector.

b. Crude Oil Production and Prices

i. Production

Nigeria's aggregate crude oil production, including condensates and natural gas liquids, averaged 2.13 million barrels per day (mbd), or 777.45 million barrels in 2010, compared with 1.82 mbd or 664.3 million barrels, in the preceding year. This represented a 17.0 per cent increase relative to 2009. The development was attributed to the success of the Federal Government's amnesty programme, which brought relative peace to the Niger-Delta region and paved the way for improved oil production.
Aggregate export of crude oil was estimated at 1.68 mbd, or 613.2 million barrels, compared with 1.37 mbd, or 500.1 million barrels in the preceding year.

ii Prices

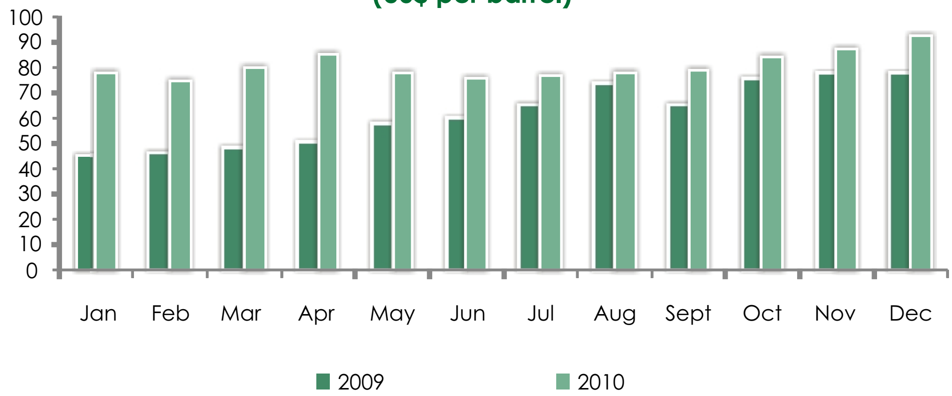
The average spot price of Nigeria's reference crude, the Bonny Light, (37° API), stood at US$80.81 per barrel in 2010, compared with the preceding year's average of US$62.08 per barrel, an increase of 30.2 per cent. The average prices of other crude streams, such as the West Texas Intermediate (WTI) at US$79.12; UK Bren at US$79.75, and Forcados at

The average spot price of Nigeria's reference crude, the Bonny Light (370 API), stood at $80.81 per barrel in 2010, compared with the preceding year's average of $62.08 per barrel, an increase of 30.2 per cent.

US$80.88 exhibited a similar trend as the Bonny Light. The average price of OPEC's basket of 11 crude streams also increased by 26.8 per cent to US$77.45 per barrel in 2010. The development was due to the global economic recovery.

The increased crude oil production was attributed to the success of the Federal Government's amnesty programme, which brought relative peace to the Niger-Delta region.

Figure 6.10: Bonny Light Monthly Prices in 2009 and 2010 (US$ per barrel)



iii Refinery Utilisation

The volume of crude oil refined domestically was estimated at 6,996,486.0 tonnes, up from the 2,887,815.0 tonnes processed in 2009.

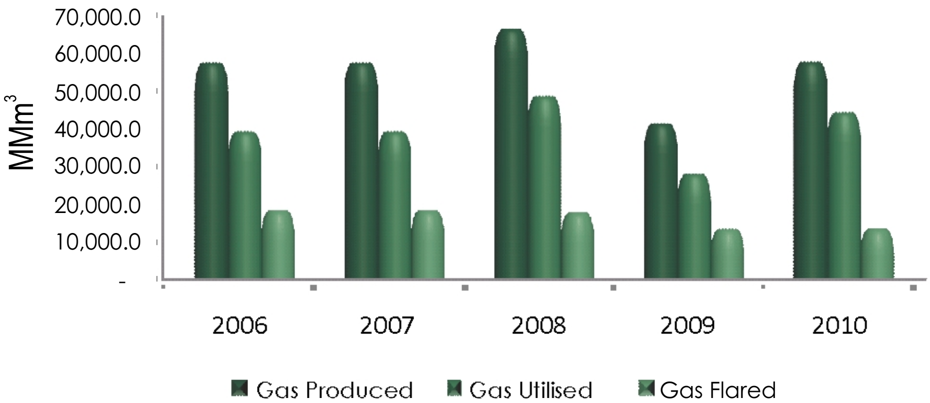
6.3.2.2.2 Gas

New cost regimes for gas-to-power and gas-to-industry were introduced to ensure sustainability of gas supply to the power plants, as well as ensure that the manufacturing sector was effectively covered in the gas supply arrangement.

a. Gas Production

The volume of gas produced increased by 39.7 per cent to 58,005.96 MMm3, above the level in 2009. Of the total, 76.7 per cent was utilised, while the balance was flared. About 48.9 per cent was sold to industries, such as the Power Holding Company of Nigeria (PHCN), cement and steel companies, as against 36.4 per cent in 2009, while 15.1 per cent was sold to the Nigeria Liquefied Natural Gas (NLNG). Gas converted to natural gas liquids and gas lift accounted for 3.8 and 3.3 per cent, respectively, while the oil companies used 7.1 per cent as fuel gas.

Figure 6.11: Gas Production and Utilisation (2006-2010)



6.3.2.2.3 Solid Minerals

a. Institutional Support for the Sector

As part of efforts to support the solid minerals sub-sector, the Federal Government, in 2010, established a "Solid Minerals Development Fund", as provided for in the *Nigerian Mining Act of 2007*, to boost mining operations. Government also put in place numerous incentives for foreign investors in the industry, as well as a favourable tax regime: a three-year tax holiday for new companies, a 10 per cent reduction in the capital gains tax, a5 per cent reduction in companies' profit tax, as well as internationally competitive fiscal incentives enshrined in the law. The Ministry of Solid Mineral Development and the Nigerian Geological Survey Agency (NGSA), in collaboration with the World Bank created a data base, produced maps, reports and publications through national surveys. The Metallurgical Inspectorate and Raw Materials Development Department (MI&RMD) was established to regulate the operation of metallurgical industries by ensuring that metallurgical raw materials and products produced in the country meet international standards and comply with environmental regulations.

As part of the overall development initiative for the sub-sector, particularly curbing illegal mining, especially in gemstones, the Federal Ministry of Mines and Steel Development organized artisanal miners into co-operative groups.

b. Solid Minerals Production

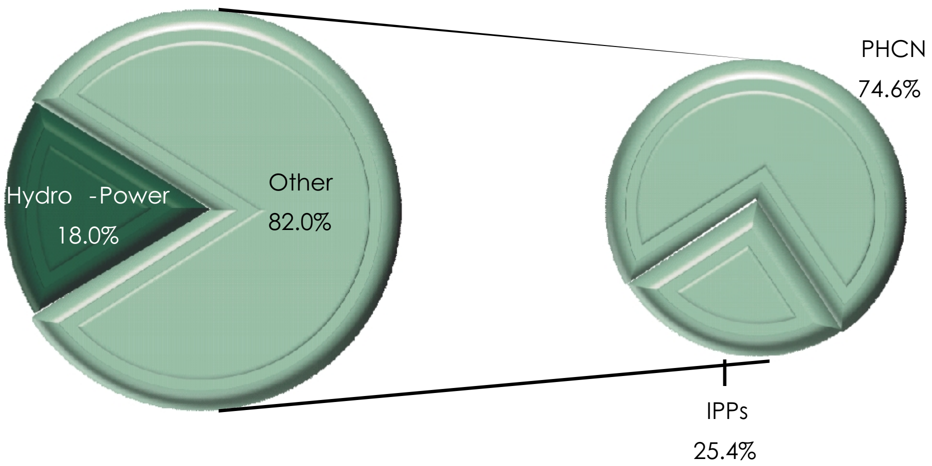
Provisional data showed that aggregate output of solid minerals increased by 7.8 per cent to 48.3 million tonnes. The development was accounted for by increased production of limestone, gold, lead/zinc and cassiterite marble. However, the production of other minerals, such as barites, clay, iron ore, laterite and columbite declined.

6.3.3 Electricity Generation

The total installed electricity generation capacity stood at 8815 Mega Watts in 2010, an increase of 4.1 per cent over the level in 2009. The composition of the electric power system remained as follows: 1,938.4 MW of hydro-power (22.0 per cent) and 6,876.6 MW of thermal power (78.0 per cent). The Power Holding Company of Nigeria (PHCN) accounted for 74.6 per cent of the total installed capacity, while the IPPs accounted for the remaining 25.4 per cent.

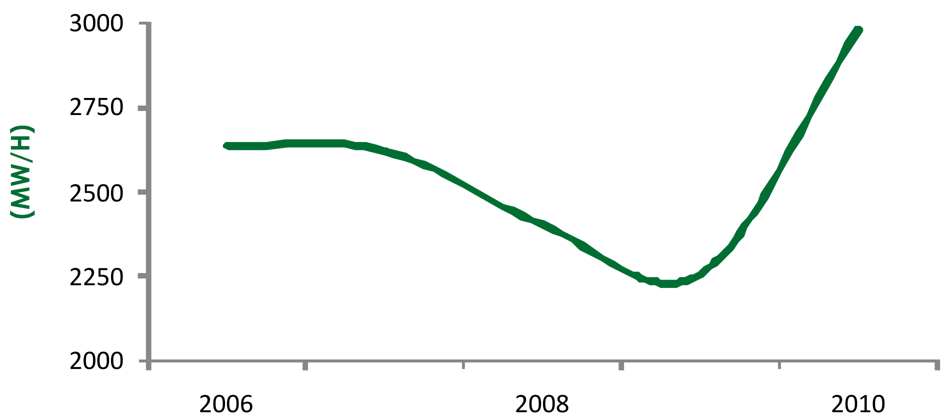
The performance of the power generating plants showed an increase of 7.1 percentage point in capacity utilisation, as their average capacity utilisation rose from 26.7 per cent in 2009 to 33.8 per cent in 2010.

Fig. 6.12: Nigeria's Power System Composition in 2010



At 2,981.9 mega-watts per hour (Mw/h), total electricity generation increased by 32.08 per cent above its level in 2009. The increase was attributed to an increase in gas supply to thermal stations.

Figure 6.13: Electric Power Generation



6.3.4 Energy Consumption

The aggregate energy consumed in 2010 showed an improvement, compared to 2009. At 179.1 (1990=100), the index of energy consumption rose by 2.8 per cent, compared with a decline of 1.9 per cent recorded in 2009. In absolute terms, aggregate energy consumed stood at 19.1 million tonnes of coal equivalent (tce) in 2010, from 18.3 million tce in the preceding year, representing a 4.9 per cent fall. The improvement in aggregate energy consumption was attributed to the increase in natural gas supply (by 143.6 per cent).

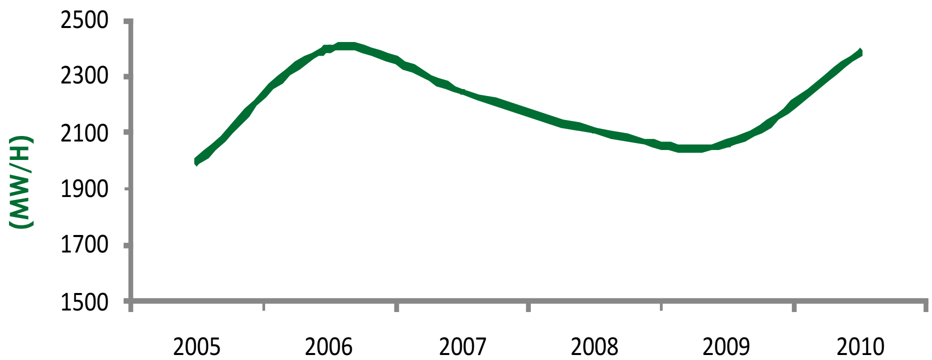
6.3.4.1 Petroleum Products Consumption

The total volume of petroleum products consumed was about 7,758.25 million litres compared with the level of 8,379.65 million litres in 2009, representing a decrease of 7.4 per cent. A breakdown by product showed that Premium Motor Spirit (PMS) had the highest figure of 6,594.17 million litres (85.0% of total). This was followed by Automotive Gas Oil (AGO), with 722.74 million litres (9.3% of total), Dual Purpose Kerosene (DPK, with 406.25 million litres (5.2%), and Low Pour Fuel Oil (LPFO), with 35.09 million litres (0.5%).

6.3.4.2 Electricity Consumption

At 2,383.08 mega-watts per hour (Mw/h), total estimated electricity consumption increased by 15.6 per cent above the 2,060.71 Mw/h in 2009. The development was attributed to enhanced generation and improvement in the transmission and distribution infrastructure. Residential consumption accounted for 57.3 per cent of total electricity consumption, while commercial and street-lighting, and industrial consumption accounted for 26.1 and 16.6 per cent of the total, respectively.

Figure 6.14: Electricity Consumption



6.3.4.3 Hydropower Consumption

At 3,582,840 tce, hydropower consumption in 2010 declined by 2.5 per cent, compared with the level in 2009. The development was attributable to a fall in electricity generated at the Shiroro plant, which fell by 49.0 per cent to 1,156,320.0 mwh in 2010, compared with 2,267,195.8 mwh in 2009. The performance of the Kainji and Jebba plants, however, improved with generation increasing by 22.0 and 14.6 per cent, respectively.

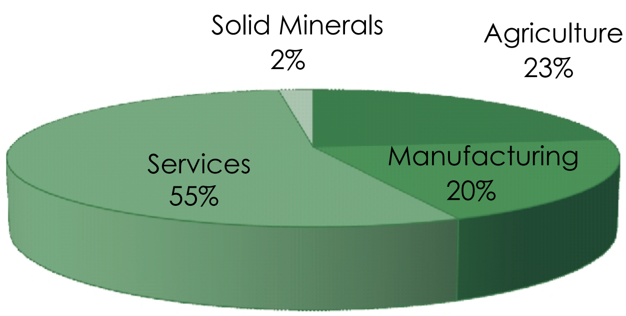
6.3.4.4. Coal Consumption
Estimated aggregate coal consumption remained low at 500.5 tonnes of coal equivalent. The stagnation in coal consumption is a reflection of the shift of industrial consumers to more environmentally friendly sources of energy.

6.3.5. Industrial Financing

6.3.5.1 Nigeria Export-Import Bank (NEXIM)
The Nigeria Export Import Bank (NEXIM) approved thirty-five (35) applications, valued at ₦21,651.40 million, under its main facilities to various beneficiaries. The share of the various facilities were as follows; total local input facility ₦9,943.36 million, direct lending facility ₦7,390.30 million, the guarantee facility received ₦4,017.74 million, while the stocking facility got ₦300.0 million. In the export support services, total availments amounted to ₦6,880.80. Out of this amount, stocking and direct lending facilities got ₦1,600.00 and ₦1322.94, respectively. The local input facility and the start-your-own-business facility received ₦750.0 million and ₦0.70 million, respectively. The guarantee facility had the highest allocation of ₦3,207.16 million.

A sectoral breakdown of the disbursement showed that the services sector received the highest amount of ₦4,227.31 million, or 54.56 per cent of the total, the agriculture sub-sector followed with 23.23 per cent while the manufacturing and solid minerals sub-sectors got 20.07 and 2.14 per cent, respectively.

Figure 6.15: Sectoral Distribution of NEXIM's Credit in 2010



6.4. TRANSPORTATION AND COMMUNICATIONS

6.4.1 Airline Services

6.4.1.1 Policy and Operational Environment
The airport modernization project which commenced two years ago continued with the commissioning of the Total Radar Coverage of Nigeria (TRACON) built at the cost of US$66.5 million. The Akanu Ibiam International Airport, Enugu was reopened after rehabilitation. In addition, approval was given by the Federal Government to re -model

the Murtala Mohammed International Airport, Lagos; the Nnamdi Azikiwe International Airport, Abuja; the Port Harcourt International Airport, Port Harcourt; and the Aminu Kano International Airport, Kano to international standards at a total cost of N90.0 billion. Also, a N50 billion intervention fund was established to boost the operations of domestic airlines.

On August 23, 2010, the United States, FAA, granted Nigeria aviation Category 1 status. This allows Nigerian carriers to fly directly to the US, while Arik Air was also issued a US-FAA Operator Certification to operate direct flights to the US.

The Federal Airports Authority of Nigeria (FAAN), Nigerian Airspace Management Authority (NAMA) and the Nigerian Civil Aviation Authority (NCAA) continued to enforce international standards for passenger safety, for which a security sensitization seminar for agents of foreign airlines and a ministerial conference on civil aviation security was held during the year. The United State's Federal Aviation Agency (FAA) granted the Aviation Category 1 Status to Nigeria. This allows Nigerian carriers to fly directly to the US, while Arik Air was also issued a US-FAA Operator Certification to operate direct flights to the US.

6.4.1.2 Domestic Airlines

The operations of airlines on the domestic route improved in 2010. The number of passengers airlifted increased by 12.8 per cent from 9.5 million in 2009 to 10.7 million. Also aircraft movement increased by 8.0 per cent from 188,649 in 2009 to 203,710 in 2010. The development reflected increased competition, improved government funding and greater public confidence in the sector. The performance of the sector was further enhanced by intensified efforts at the rehabilitation and replacement of obsolete infrastructure in the sector by the Federal Government, in order to achieve full implementation of the International Civil Aviation Organisation's Standards and recommended practices in the various areas of air transportation.

6.4.1.3 Foreign Airlines

The operational performance of airlines on the international routes was impressive in 2010, as the number of passengers airlifted on the routes increased by 7.1 per cent to 3.2 million, compared with 3.0 million in 2009. International aircraft movement also increased by 7.9 per cent from 32,643 aircrafts in 2009 to 35,214 in 2010. The development could be attributed to political and economic stability in the country and the result of government's effort at attracting investors into the country.

6.4.2 Railway Services

The Nigerian Railway Modernisation Project, which was resuscitated in 2009, continued in 2010. Ongoing rehabilitation projects included the upgrade of the outstanding 22km of the 257km AjaokutaWarri standard gauge; the 640km JebbaKano axial line; the 221km ZariaKaura Namoda rail line; the culvert and drainage works at the AkerriMinna, KadunaKano and KanoChallowa sections. Work on the 488km Lagos-Jebba track rehabilitation, contracted to China Civil Engineering Construction Corporation (CCECC), also recorded significant progress.

The Nigerian Railway Corporation (NRC) Mass Transit service moved 1.4 million passengers in 2010, compared with 1.09 million in 2009. The Corporation received 25 new C25-EMPD locomotive engines between February and September from General Electric (GE), Brazil at the cost of US$76.2 million to boost mass transit operations in the country. Also, it secured a US$200 million loan to refurbish its dilapidated rail network. Consequently, the intra-city mass transit train services of 11 trains per day in Lagos and Kano started, with plans to extend the same facility to Port-Harcourt, Jos, Maiduguri and Enugu. The NRC also finalised arrangements for the commencement of a cement freight train from Larfarge Cement Company at Ewekoro and Lakatabu to Lagos and other parts of the country.

The Nigerian Railway Modernization Project which was resuscitated in 2009 continued in 2010.

6.4.3 Maritime Services

There were remarkable improvement in the activities in the maritime sector in 2010. This was attributed to the successful implementation of the Federal Government Port Reform Programme aimed at making Nigerian ports favourably competitive, with other ports in the world. The Federal Government pursued key maritime programmes in the areas of safety, security, marine environment protection and human development. Also, a number of special intervention projects were implemented to increase maritime activities, including, the establishment of the Maritime Policy Advisory Group (MAPAG) and constitution of the Ministerial Task Force on Wreck Removal.

The Cabotage Vessel Finance Fund (CVFF) established in 2003, generated over ₦13 billion from the maritime sub-sector in 2010, while 285 vessels were registered by the Nigerian Ship Register Office, bringing the total to 1,371 with a gross tonnage of 1,966,285.7 in 2010.

The cargo throughput handled in Nigerian ports increased by 12.0 per cent from 66,908,322 metric tonnes in 2009 to 74,910,284 in 2010. General cargo shipment increased by 10.4 per cent from 8,196,251 metric tonnes in 2009 to 9,047,030, while crude oil shipment increased by 41.0 per cent over the 101,622,957 metric tons in 2009. The increase in cargo throughput reflected the regular dredging/maintenance of the channels that allowed for bigger draught vessels with large volume of cargo into the Nigerian ports.

The improved performance in the sector was reflected in the average turnaround time of vessels for all the ports, which declined to 5.9 days from 6.7 days in 2009, while the average waiting time of vessels in all ports dropped to 27.4 hours, from 50.4 hours in 2009. In the same vein, dollar revenue generated and collected stood at $592.2 million and $457.8 million,

respectively, indicating a growth of 15.3 and 9.8 per cent over 2009, respectively.
Ship traffic at Nigerian ports increased in 2010. Available data show that the number of ocean going vessels completed in 2010 stood at 4,962, reflecting an increase of 79.0 per cent. The total gross tonnage of the ocean going vessels increased by 20.1 per cent to 108,621,872, compared with 97,796,560 in 2009. Coastal vessels that called at the ports in 2010 increased by 26.1 per cent over 2009 to 21,950, while the gross tonnage of the coastal vessels grew by 18.6 per cent to 6,818,827 in 2010.

6.4.4 Communications

The communications sector sustained its growth driven mainly by the Global System of Mobile Communications (GSM).

Table 6.4: The Nigerian Telecommunications Market Statistics

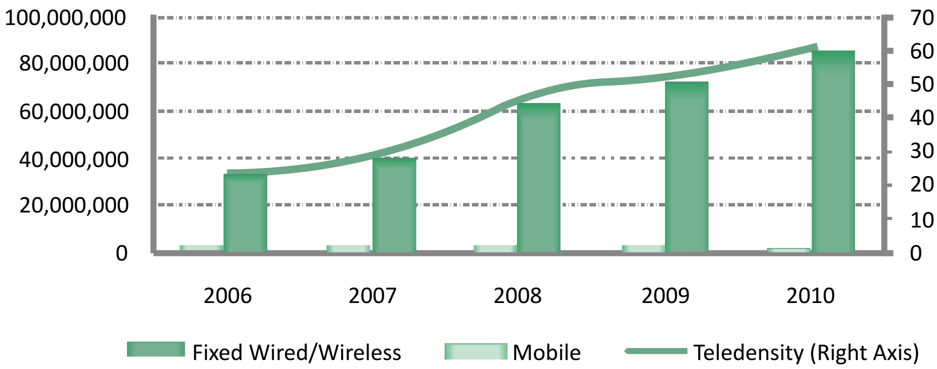
	2006	2007	2008	2009	2010
No. of Active Fixed Wired/Wireless Lines('000)	1,673	1,580	1,308	1,481	1,050
No. of Active Digital Mobile Lines (million)	32.32	55.24	62.99	73.10	87.29
No. of National Carriers	2	2	2	2	2
No. of Operating ISPs	117	**117**	83		
No. of Active Licensed Fixed Line Operators	26	29	20	22	
Number of Licensed Mobile Operators	4	4	9	8	8
Teledensity	24.18	29.98	45.93	53.23	63.11
Cumulative Investment (US$ million)	8,150	11,500	12,000	18,000	

Source: Nigerian Communications Commission (NCC)

The communications sector continued sustained growth driven mainly by the Global System of Mobile Communications (GSM).

As at end-December 2010, the combined subscriber strength of the telecommunications sub-sector had increased by 18.5 per cent, over its December 2009 level, to a total of 88,348,026 active lines (1,050,237 fixed wired/wireless and 87,287,889 mobile lines). Consequently, the teledensity increased from 53.23 lines per 100 inhabitants, as at December 2009, to 63.11 lines per 100 inhabitants. This exceeded the International Telecommunication Union (ITU) minimum standard of 1:100. In addition, the output of the sub-sector grew by 34.9 per cent in 2010 and accounted for 4.6 per cent of the GDP. Other developments in the sub-sector included the launch of compulsory SIM card registration in May 2010.

Figure 6.16: Trends of Total Connected Lines and Teledensity



The commercial services of Glo-1 and Main-one broadband cables were launched to reduce the cost of satellite bandwidth and provide quality service in telecommunications and related fields. The leading Indian telecommunications company, Bharti-Airtel took over Zain Africa the parent company of Zain Nigeria. Furthermore, pursuant to its privatisation programme, the Federal Government continued its efforts to secure investors' interest in the purchase of the Nigeria Telecommunications (NITEL) and its subsidiary, Mobile Telecommunication (MTEL) to reposition NITEL.

6.5 CONSUMER PRICES

Inflationary pressures moderated in 2010 though the rate remained above the single digit. The composite Consumer Price Index (CPI) was revised, based on the Nigeria Living Standard Survey (NLSS) 2003/2004 with the new base period as November 2009. Also, a new sub-index, the Imported Food Index, was included in the revised CPI. The weight assigned to food in the CPI basket was reduced from 63.8 to 50.7 per cent.

Inflationary pressure moderated in 2010 though the rate remained above the single digit.

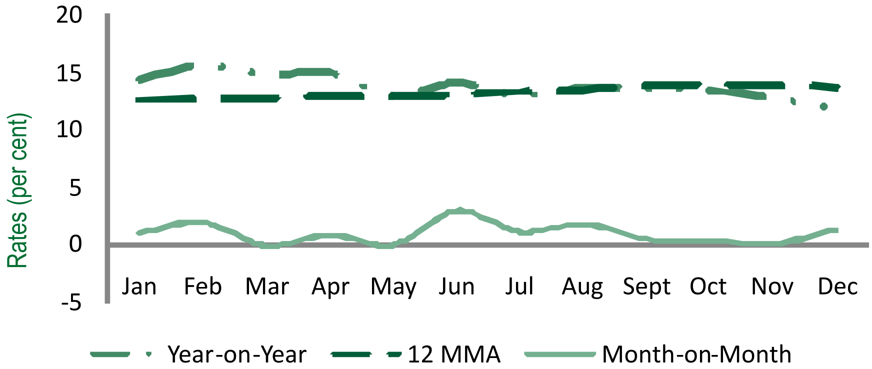
The all-items composite CPI was 114.2 (November 2009=100) in December 2010, compared with 102.2 in the corresponding month of 2009. This represented a year-on-year headline inflation rate of 11.8 per cent, which was 2.1 percentage points below the rate in December 2009.The development was attributable to a number of factors, including an increase in agricultural production, a decrease in the prices of staples, relative stability in the supply and prices of petroleum products, seasonal effects, and the re-basing of the CPI.

The inflation rate, on a year-on-year basis, which stood at 14.4 per cent in January 2010, went up to 15.0 in April, before assuming a downward trend to 13.6 per cent by the end of the third quarter and 11.8 per cent at end-December 2010. Further analysis indicated that the urban headline inflation rate (year-on-year) increased from 9.3 per cent in 2009 to 10.7 per cent in December 2010. However, the rural inflation rate fell from 16.6 to 12.7 per cent during the same period. The inflation rate at the end of the year exceeded both the national and the WAMZ single-digit inflation rate targets.

Table 6.5: Annual Headline Inflation Rates (Year-on-Year) (per cent)

	2006	2007	2008	2009	2010
January	10.7	8.0	8.6	14.0	14.4
February	10.8	7.1	8.0	14.6	15.6
March	12.0	5.2	7.8	14.4	14.8
April	12.6	4.2	8.2	13.3	15.0
May	10.5	4.6	9.7	13.2	12.9
June	8.5	6.4	12.0	11.2	14.1
July	3.0	4.8	14.0	11.1	13.0
August	3.7	4.2	12.4	11.0	13.7
September	6.3	4.1	13.0	10.4	13.6
October	6.1	4.6	14.7	11.6	13.4
November	7.8	5.2	14.8	12.4	12.8
December	8.5	6.6	15.1	13.9	11.8
Average	***8.4***	***5.4***	***11.5***	***12.6***	***13.8***

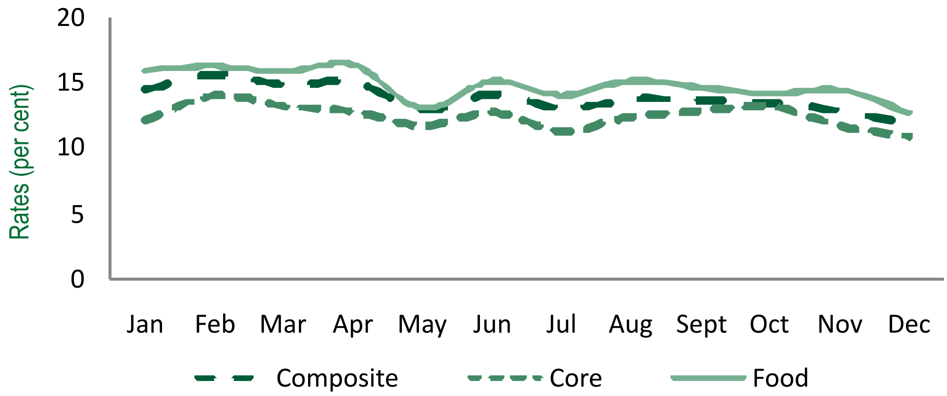
Figure 6.17: Trends in Inflation in 2010



1/ 12 MMA is 12-month moving average

In the same vein, the 12-month moving average headline inflation rate, which was 12.5 per cent at end-December 2009, rose to 13.7 per cent in 2010. The year-on-year food inflation rate, which stood at 15.5 per cent at end-December 2009, went up by 0.4 percentage point in January 2010. It declined to 13.0 per cent in May, rose again to 14.1 per cent in October, before declining to 12.7 per cent in December 2010. Thus, food price increase was the major driver of inflation.

Figure 6.18: Trends in Inflation (Composite, Core and Food) in 2010



Food price increase was the major driver of inflation.

The core inflation (all-items, less farm produce) on a year-on-year basis, which stood at 12.1 per cent in January, increased to 13.2 per cent by March 2009. It went from 11.7 per cent in May to 13.2 per cent in October and closed at 10.9 per cent in December 2010.

6.6 THE SOCIAL SECTOR

6.6.1 Demography

The 2006 population and housing census put Nigeria's population at 140,003,542, with an annual growth rate of 3.2 per cent. The country's population was, therefore, estimated at 158,802,674 in 2010 and the total labour force was projected at 67,039,103 in 2010. In fulfilment of its mandate to provide the nation with accurate and reliable demographic data, the National Population Commission conducted the 2010 Internal Migration Survey (IMS) in all states of the Federation and the Federal Capital Territory.

6.6.2 Unemployment

Available estimates showed that the national unemployment rate in 2010 was 21.1 per cent, compared with 19.7 per cent in 2009. When the unemployment statistics was disaggregated, it revealed that almost half of 15 24 year olds that were unemployed lived in the urban areas. The rise in the unemployment rate was largely attributed to the increased number of school graduates with no matching job opportunities, a freeze on employment in many public and private sector institutions, as well as the slow disbursement of the capital budget by the Federal Government.

Table 6.6: Labour Statistics, 2006-2010

	2006	2007	2008*	2009*	2010*
Total Population	140,003,542	144,483,655	149,107,132	153,878,560	158,802,674
Total Labour Force	58,933,891	61,249,485	62,946,096	64,960,371	67,039,103
Total Employment [1]	50,886,826	52,326,923	53,807,775	55,529,624	57,306,572
Total Unemployment	8,047,065	8,922,562	9,204,515	9,499,059	9,803,029
Unemployment Rate (%)[2]	12.3	12.7	14.9	19.7	21.1

Source: National Bureau of Statistics

1/TheLabour force consists of the number of people aged 15 and over who are employed (that is, those who currently have jobs) and unemployed (that is, those who do not have jobs, but who are actively looking for work). Individuals who do not fall into either of these groups, such as retired people and discouraged workers, are not included in the calculation of the labour force.

2/The International Labour Organization (ILO) defines 'unemployment' as the proportion of the labour force which was available for work but did not work for at least one hour in the week preceding the survey period. However, the definition used in this Report is that of the National Bureau of Statistics (NBS), Nigeria. The NBS defines unemployment as 'the proportion of the labour force that is available for work but did not work for at least 39 hours in the week preceding the survey period'.

**Staff Estimates*

CHAPTER SEVEN

EXTERNAL SECTOR DEVELOPMENTS

The external sector was under pressure, with the overall balance of payments (BOP) and international investment position (IIP) in deficit. The development was reflected in the depletion of external reserves, huge import bills, rising external debts, increased repatriations of investment income, declining foreign direct investment (FDI) inflows, as well as the weak global economic recovery. The overall BOP deficit represented 6.0 per cent of the gross domestic product (GDP,) while the current account surplus narrowed from 8.0 per cent of GDP in 2009 to 1.5 per cent. The surplus in capital and financial account reduced by 6.1 percentage point to 1.8 per cent of GDP in 2010. These developments, notwithstanding, there was a rebound in the oil sector, occasioned by remarkable improvements in crude oil production and international prices. The resurgence was driven by renewed oil demand by Nigeria's major trading partners, following global recovery, as well as the relative stability in the oil-rich Niger Delta region. Crude oil production rose from an average of 1.82 million barrels per day (mbpd) in 2009 to 2.13 million mbpd. Similarly, the price of Nigeria's reference crude (Bonny Light 370 API) and the average volume of exports grew by 30.7 and 22.6 per cent, respectively. External debt stock remained at a tolerable level though up by 16.0 per cent to US$4.6 billion. The stock of external reserve fell by 23.7 per cent to US$32.4 billion, representing 7.2 months of imports in 2010, which exceeds the West African Monetary Zone (WAMZ) requirement of 3 months. The external sector remained fragile due to the continued dependence on the oil sector and the un-competiveness of the non oil sector. Movement in exchange rates was relatively stable throughout the year in all segments of the foreign exchange market.

7.1 BALANCE OF PAYMENTS

7.1.1 Major Developments

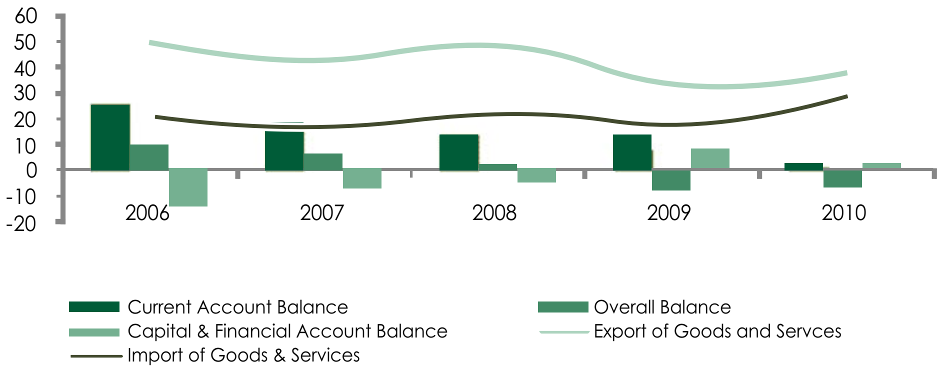
The BOP position showed lower surpluses in both the current and capital and financial accounts, which reflected the lingering impact of the global economic and financial crises. Despite the rise in crude oil prices at the international market, the surplus in the current account declined from ₦1,958.5 billion in 2009 to ₦370.8 billion due to high import bills and increased income repatriation by non-resident investors. The value of crude oil export rose by 32.0 per cent to ₦9,666.1 billion (US$65.1) billion as a result of increased global demand for crude oil and surging prices. The deficit in the services and income account (net) widened by 17.4 and 30.0 per cent, respectively, while net transfers increased by 8.1 per cent. The capital and financial account, which recorded a lower

The pressure on the external accounts persisted.

surplus of ₦443.4 billion, or 1.8 per cent of GDP relative to ₦1,954.8 billion in 2009, was driven by the increased portfolio investment and other investment (asset), which moderated the reduced foreign direct investment (FDI) and rising external debt. The overall balance of payments deficit of ₦1,491.5 billion, or 6.0 per cent of GDP, was indicative of the continued pressure on the sector. The pressure was reflected in the depletion of external reserves, huge import bills, rising external debts, declining foreign direct investment (FDI), increased repatriation of investment income as well as weak global economic recovery. The stock of external debt increased by 16.0 per cent to US$4.6 billion, but remained sustainable.

The pressure was reflected in the depletion of external reserves, huge import bills, rising external debts, increased repatriation of investment income, declining foreign direct investment (FDI) inflows as well as weak global economic recovery.

Figure 7.1: Balance of Payments (per cent GDP)



7.2 THE CURRENT ACCOUNT

The current account surplus declined sharply by 81.1 per cent to ₦370.8 billion despite increased earnings from crude oil exports. The development reflected, largely, the growth in import bills, deteriorating services and income accounts. The trade (goods) balance decreased from a surplus of ₦3,773.3 billion in 2009 to ₦3,030.4 billion. The surge in import bills was traceable to the financing of the power sector and other economic infrastructure, as well as consumer goods imports. The deficit in the services account widened by 17.4 per cent, driven by increased overseas travels, freight charges and education expenses abroad. The deficit in the income account (net) expanded by 30.0 per cent, due to increased repatriation of dividends, coupled with lower earnings on external reserves. Current transfers (net), which comprised mainly workers' remittances, increased by 8.1 per cent to ₦3,008.7 billion.

The current account surplus declined sharply by 81.1 per cent to ₦370.8 billion (US$2.5 million), reflecting the growth in import bills and worsening services and income accounts.

Table 7.1: Summary of the Provisional Balance of Payments Statement 1/

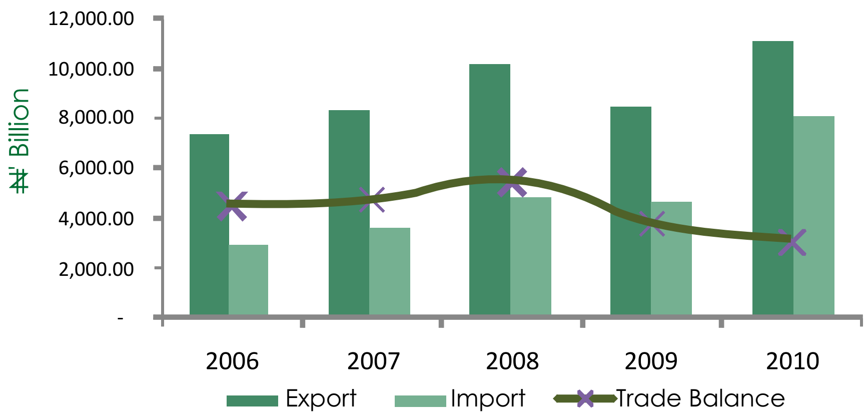
	₦' billion				US$' billion			
	2007	2008	2009 2/	2010 3/	2007	2008	2009 2/	2010 3/
CURRENT ACCOUNT	3,478.4	3,328.2	1,958.5	370.8	27.9	28.3	13.3	2.5
Goods	4,749.9	5,438.8	3,773.4	3,030.4	38.1	46.2	25.6	20.4
Exports (fob)	8,309.8	10,161.5	8,356.4	11,035.8	66.6	84.2	54.8	71.6
Imports (fob)	-3,559.9	-4,722.7	-4,583.0	-8,005.4	-28.5	-40.1	-31.1	-53.9
Services(net)	-2,126.8	-2,621.1	-2,453.7	-2,879.7	-17.1	-22.3	-16.7	-19.4
Credit	181.6	268.3	330.2	460.6	1.5	2.3	2.2	3.1
Debit	-2,308.4	-2,889.4	-2,784.0	-3,340.3	-18.5	-24.5	-18.9	-22.5
Income(net)	-1,478.2	-1,785.0	-2,144.7	-2,788.7	-11.9	-15.2	-14.6	-18.8
Credit	322.6	278.8	139.3	147.0	2.6	2.4	1.0	1.0
Debit	-1,800.8	-2,063.7	-2,283.9	-2,935.7	-14.4	-17.5	-15.5	-19.8
Current transfers(net)	2,333.5	2,295.4	2,783.5	3,008.7	18.7	19.5	18.9	20.3
Credit	2,352.4	2,358.4	2,852.6	3,082.2	18.9	20.0	19.4	20.8
Debit	-18.9	-62.9	-69.0	-73.5	-0.2	-0.5	-0.5	-0.5
CAPITAL AND FINANCIAL ACCOUNT	-1,354.2	-992.7	1,954.8	443.4	-10.9	-8.4	13.3	3.0
Financial account(net)	-1,354.2	-992.7	1,954.8	443.4	-10.9	-8.4	13.3	3.0
Assets	-2,706.6	-2,142.2	249.1	988.3	-21.7	-18.2	1.7	6.7
Direct investment (Abroad)	-109.2	-124.7	-227.1	-137.1	-0.9	-1.1	-1.5	-0.9
Portfolio investment	-231.9	-560.5	-122.4	-167.9	-1.9	-4.8	-0.8	-1.1
Other investment	-1,238.3	-1,260.7	-965.2	-2,174.9	-9.9	-10.7	-6.6	-14.7
Reserve assets	-1,127.2	-196.4	1,563.7	1,491.5	-9.0	-1.7	10.6	10.0
Liabilities	1,352.3	1,149.5	1,705.7	1,431.7	10.8	9.8	11,958.0	9.6
Direct investment (in reporting economy)	759.4	971.5	1,273.8	905.7	6.1	8.3	8.7	6.1
Portfolio investment	332.6	157.2	70.9	556.6	2.7	1.3	0.5	3.8
Other investment liabilities	260.41	20.84	360.94	-30.62	2.09	0.18	2.45	-0.21
NET ERRORS AND OMISSIONS	-2,124.1	-2,335.5	-3,913.3	(814.18	-17.0	-19.8	-26.6	-5.5
Memorandum Items:								
Current Account Balance as % of G.D.P	16.8	13.7	7.9	1.5	16.8	13.7	7.9	1.5
Capital and Financial Account Balance as % of G.D.P	-6.6	-4.1	7.9	1.8	-6.6	-4.1	7.9	1.8
Overall Balance as % of G.D.P	5.5	0.8	-7.7	-6.0	5.5	0.8	-7.7	-6.0
External Reserves - Stock (US $ million)	51,333.2	53,000.4	42,382.5	32,339.3	51,333.2	53,000.4	42,382.5	32,339.3
Number of Months of Imports Equivalent	21.6	15.9	16.3	7.2	21.6	15.9	16.3	7.2
External Debt Stock (US$ million)	3,654.0	3,720.0	3,947.3	4,578.8	3,654.0	3,720.0	3,947.3	4,578.8
Effective Central Exchange Rate (N/$)	124.8	117.8	147.3	148.5	124.8	117.8	147.3	148.5
Average Exchange Rate (N/$)	125.8	118.5	148.9	149.7	125.8	118.5	148.9	149.7
End-Period Exchange Rate (N/$)	118.0	132.6	149.6	150.7	118.0	132.6	149.6	150.7

1/ The conversion of BOP purposes was based on the mid-point or the effective central exchange rate
2/ Provisional
3/ Overall balance mirrors the movement in external reserves

7.2.1 The Goods Account

At ₦3,030.4 billion, the goods account (fob) surplus adjusted for balance of payments (trade balance) decreased by 19.7 per cent, accounted for solely by the 74.7 per cent increase in import bills,as the receipts from gross exports (crude oil, gas and non-oil exports) rose by 32.1 per cent. Further analysis revealed that both export volume and the price of crude oil increased in 2010. This was due to relative stability in the Niger Delta region and the favourable developments in the international oil market. The volume of crude oil production and export improved from an average of 1.82 and 1.37 mbpd in 2009 to 2.13 and 1.68 mbpd, respectively. Similarly, the price of Nigeria's reference crude (Bonny Light 370 API) increased on an annualised basis from an average of US$62.1 per barrel in 2009 to US$80.81. The oil and non-oil components of unadjusted merchandise trade (imports and exports) increased by 40.0 and 60.1 per cent to ₦12,773.2 billion and ₦6,929.1 billion, respectively. Although, the oil sector component continued to dominate total trade, its share decreased from 67.8 per cent in 2009 to 64.8 per cent. The degree of openness of the economy, as measured by the total trade/GDP ratio was 66.8 per cent, compared with 53.4 per cent in 2009.

Figure 7.2: Value of Imports, Exports and Trade Balance



7.2.1.1 Imports: Cost and Freight (c&f)

At ₦8,666.6 billion, total imports unadjusted for balance of payments, increased significantly by 69.8 per cent as a result of higher domestic demand for consumer goods to meet production gaps, industrial raw materials and capital goods for the oil sector activities, and the ongoing infrastructure development projects. A breakdown of imports, using returns by Deposit Money Banks' (DMBs) on foreign exchange utilization, revealed that industrial imports accounted for 22.0 per cent of the total, oil (19 per cent), financial (19 per cent), manufactured goods (14 per cent), food products (13 per

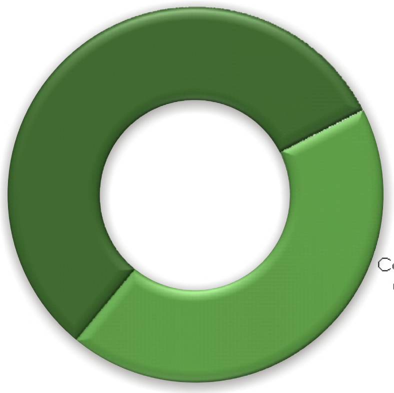
Total imports increased significantly reflecting higher domestic demand for consumer goods, industrial raw materials and capital goods.

cent), business services (5 per cent), transport (4 per cent), agricultural sector imports (1 per cent), and others (3 per cent).

(a) Import by End-User

The analysis of aggregate imports by end-users showed that the share of consumer goods increased by 1.8 percentage points to 43.4 per cent, reflecting the gap in domestic industrial output, particularly in the manufacturing sub-sector. In the consumer goods category, the bulk of imports was durable goods with a share of 67.8 per cent while the non-durable goods took the remainder.

Figure 7.3: Imports by Major Groups in 2010



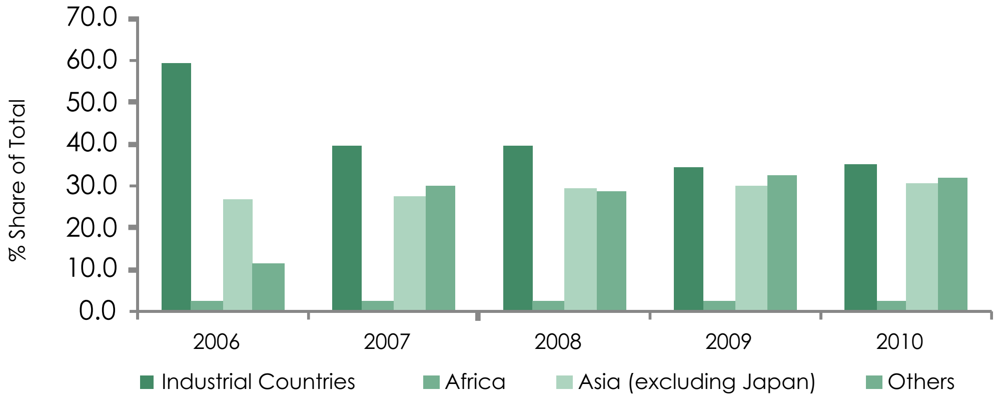
The share of capital goods and raw materials in total imports, however, decreased by 1.5 percentage points to 56.1 per cent. Within the group, raw materials (chemicals) and capital goods (spare parts and agricultural machinery) accounted for 27.9 and 72.1 per cent, respectively.

(b) Non-oil Imports by Country of Origin

Available data revealed that industrialised countries remained the dominant source of imports to Nigeria and accounted for 35.0 per cent of the total. This was followed by Asia (excluding Japan) with a share of 30.7 per cent, while 'others' accounted for the remainder. On country basis, China accounted for the highest share of 16.9 per cent, followed by the USA, the UK, India and Germany with 9.9, 5.0, 4.8 and 4.6 per cent, respectively. Further analysis revealed that imports from Africa as a group recorded the lowest share of 2.7 per cent.

Available data revealed that industrialized countries remained the dominant source of imports to Nigeria and accounted for 35.0 per cent of total, up from 34.6 per cent in 2009.

Figure 7.4: Non-Oil Imports by Origin in 2010



7.2.1.2 Exports: Free on Board (fob)

Aggregate export receipts, at ₦11,035.8 billion rebounded, with a growth of 32.1 per cent. The development reflected increased demand by Nigeria's major trading partners, notably the United States of America and the United Kingdom, whose economies experienced some recovery during the year as well as higher international prices of crude oil. Complementary to the above was the improvement in domestic oil production as it increased by 17.0 per cent to 2.13 mbpd in 2010. The bulk of the export proceeds was accounted for by crude oil (87.6 per cent) while gas and non-oil exports accounted for 8.8 and 3.6 per cent, respectively. The value of gas exports was ₦973.3 billion, while non-oil exports (including estimates for unrecorded trade) stood at ₦396.4 billion.

The value of total exports grew by 32.1 per cent in 2010 to ₦11,035.8 billion reflecting increased demand by Nigeria's major trading partners.

[a] Direction of Oil Exports

All Nigeria's major trading partners increased their share of crude oil imports relative to their patronage in 2009. The development was attributable to the global recovery and the severe winter conditions experienced in the year. The USA was the largest importer of Nigeria's crude oil (30.1 per cent), followed by India (18.3 per cent), Brazil (10.0 per cent), Equatorial Guinea and Indonesia (5.3 per cent each) as well as Spain (4.6 per cent).

The USA remained the largest single importer of Nigeria's crude oil, accounting for 54.8 per cent of the total.

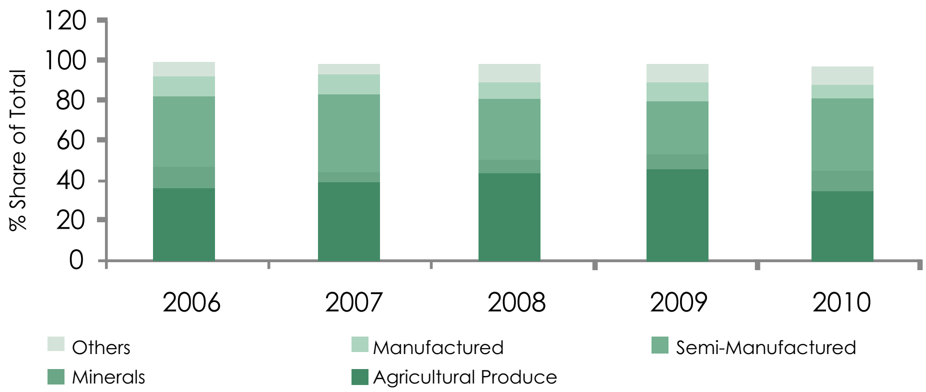
[b] Non-oil Exports

The value of non-oil exports increased by 37.1 per cent to ₦396.4 billion, attributed to improvements in production, processing and packaging of Nigeria's semi-manufactured and agricultural products for oversea markets. Despite this development, the non-oil export subsector performed dismally, accounting for 3.6 per cent of the total. The factors that influenced non-oil performance included poor infrastructure, policy slippages and volatility in commodity pricing.

Further analysis of the performance of non-oil exports by product showed that semi-manufactured goods, agricultural produce, solid minerals, and manufactured goods accounted for 37.5, 35.7, 11.2 and 5.8 of total, respectively. Other exports, which comprised petroleum products, charcoal, scrap metals, crafts, ammonia and cement/lime products accounted for 9.8 per cent of total. The agricultural produce category had an aggregate contribution of 35.7 per cent and comprised cocoa beans (13.0 per cent), rubber and cotton (5.0 per cent each), fish/shrimp (2.2 per cent), and others (10.5 per cent). In the semi-manufactured category, processed skins and furniture/processed wood contributed 27.8 and 3.3 per cent of the total non-oil exports, respectively.

The value of non-oil exports increased by 37.1 per cent to ₦396.4 billion.

Figure 7.5: Non-Oil Exports by Product in 2010



[c] Non-oil Exports to the ECOWAS Sub-Region

Aggregate non-oil exports to ECOWAS countries stood at US$226.0 million in 2010, compared with US$189.9 million in 2009, indicating an increase of 19.0 per cent. Non-oil exports to Ghana ranked the highest with US$81.0 million, followed by Niger, Togo, Benin, Burkina Faso and Cote d' Ivoire with US$42.8 million, US$33.10 million, US$21.4 million, US$19.4 million and US$16.5 million, respectively. Other ECOWAS importing countries from Nigeria were Guinea, Senegal and Guinea Bissau. Major export products continued to be tobacco, plastics, paint, rubber, footwear, plastic paint containers, and poly bags.

[d] Analysis of Shipment by Top 100 Non-oil Exporters

the value of the "Top 100 Non-oil Exporters" which represented 82.8 per cent of total non-oil receipts, was US$2,210.8 million. A ranking of the shipments by these exporters revealed that Olam Nigeria Limited was at the top position and accounted for 16.0 per cent of total. This was followed by Bolawole Enterprises Nigeria Limited, while the third place went to Unique Leather Furnishing Company Limited. Their products included cotton lint, fermented cocoa bean and goat skin leather, and were exported to Malaysia, The Netherlands and Italy, respectively.

7.2.2 The Services Account

The deficit in the services account (net) was unabated and, widened from ₦2,453.7 billion in 2009 to ₦2,879.7 billion. The persistent deficit was traceable to the dominance of the freight and transportation business by foreign carriers and the increase in the volume of business and private travels abroad. Payments for transportation and travels increased by 36.1 and 14.4 per cent to ₦1,011.6 billion and ₦751.1 billion respectively. Under transportation (net), the deficits in both passenger fares and freight charges rose by 155.0 and 5.1 per cent respectively.

The deficit in the services account (net) remained unabated and widened from ₦2,453,7 billion in 2009 to ₦2,879.7 billion.

Analysis of the share of major components of services in net deficit in the account, revealed that transportation, travels, insurance, construction and personal cultural and recreational services widened, and represented 36.1, 26.1, 2.8, 0.7 and 0.3 per cent of total, respectively. However, the shares of communication, financial services, computer and information services, royalties and licence fees, government services and 'other' business services all narrowed.

Figure: 7.6 Percentage Share of Major Invisible Services

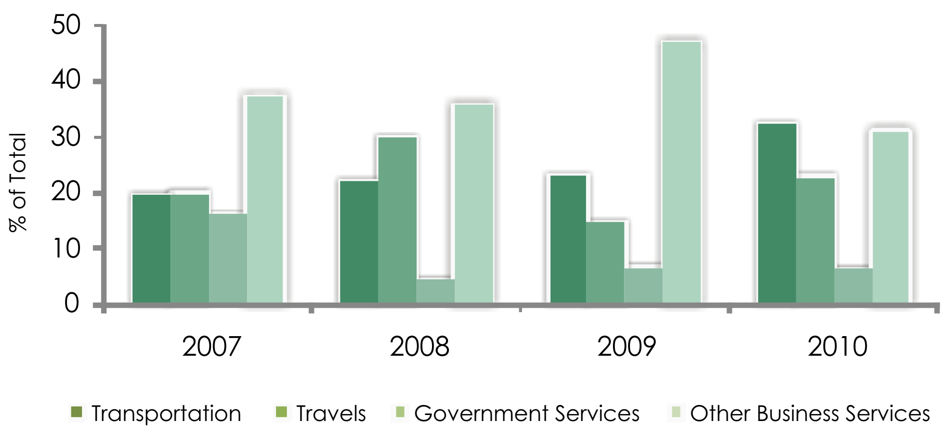


Table: 7.2 Percentage Share of Major Invisible Transactions in Net Deficit

Items	2006	2007	2008	2009	2010
Transportation	22.2	19.6	21.9	32.3	**36.1**
Travel	13.5	19.8	29.8	22.7	**26.1**
Insurance Services	0.1	1.9	2.5	2.5	**2.8**
Communication Services	2.4	1.7	1.7	2.0	**1.2**
Construction Services	0.8	0.6	0.6	0.3	**0.7**
Financial Services	0.3	0.04	0.04	0.2	**0.1**
Computer and Information Services	2.7	1.8	1.8	1.2	**0.6**
Royalties and Licence Fees	1.3	1.6	1.6	1.4	**1.2**
Government Services	1.2	15.9	4.6	6.4	**0.7**
Personal, Cultural & Recreational Services	0.01	0	0	0.0	**0.3**
Other Business Services	55.5	37.2	35.6	31.0	**23.2**

7.2.3 The Income Account

The outcome of transactions in the income account resulted in a higher net deficit of ₦2,788.7 billion, compared with ₦2,144.7 billion in 2009. The development was attributed to out-payments in respect of dividends and distributed branch profits which increased by 27.8 per cent and the reduced earnings on external reserves. Despite the deficit in the major sub-accounts, compensation on employees and interest income on debt netted surplus positions of ₦22.2 billion and ₦82.0 billion, respectively.

7.2.4 Current Transfers

The surplus in current transfers (net) increased by 8.1 per cent to ₦3,008.7 billion in 2010. The inward transfers, at ₦3,082.2 billion, exceeded the outward transfers of ₦73.5 billion. The outward transfers reflect government expenses on foreign embassies, payments to international organisations, and the remittances of foreigners resident in the country. The inward transfer was dominated by workers' remittances which accounted for 95.5 per cent of total inflows.

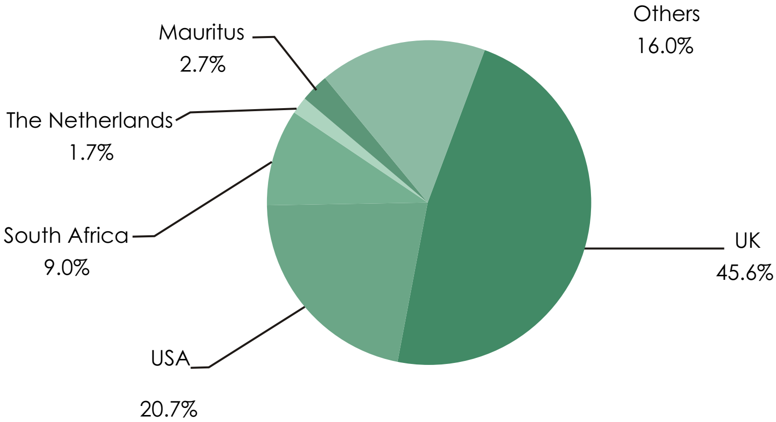
Table 7.3: Current Transfers (Naira billion)		
	2009	**2010**
TOTAL INFLOWS (credit)	**2,852.5**	**3,082.2**
1.General government (grants, ODA, Technical Assistance & gifts)	137.4	138.8
2. Other sector workers' remittances and other transfers in kind	2,715.1	2,943.4
TOTAL OUTFLOWS (debit)	**(69.0)**	**(73.5)**
1.General government (Payments to International Organizations & other payments)	(17.5)	(25.3)
2. Other sector workers' remittances and other transfers	(51.5)	(48.2)
NET CURRENT TRANSFERS	2,783.5	3,008.7

7.3 THE CAPITAL AND FINANCIAL ACCOUNT

The capital and financial account registered a lower surplus of ₦443.4 billion, or 1.8 per cent of GDP, as against ₦1,954.8 billion or 7.9 per cent of GDP in the preceding year. The development in the financial account was influenced by increased portfolio investment (asset) and other investment (asset), which moderated reduced foreign direct investment inflows and increased external borrowing. Net foreign direct investment declined by 26.2 per cent, representing reduction in capital inflow in the form of equity and lower reinvested earnings by FDI enterprises. The low performance of the FDI account was attributable to the lingering challenges posed by the poor state of infrastructure and global economic uncertainty. However, the rekindled investor confidence in the financial markets especially in the bond and equity markets, resulted in a significant growth of 87.2 per cent in portfolio investment. Portfolio investment (asset) and other investment (asset) increased over their levels in 2009 by 296.8 and 37.2 per cent, respectively, indicating active participation of Nigerians in the global financial market. The growth in other investment was driven by trade credit, other sectors and currency and deposits. The stock of external reserve fell by 24.0 per cent to US$32.3 billion.

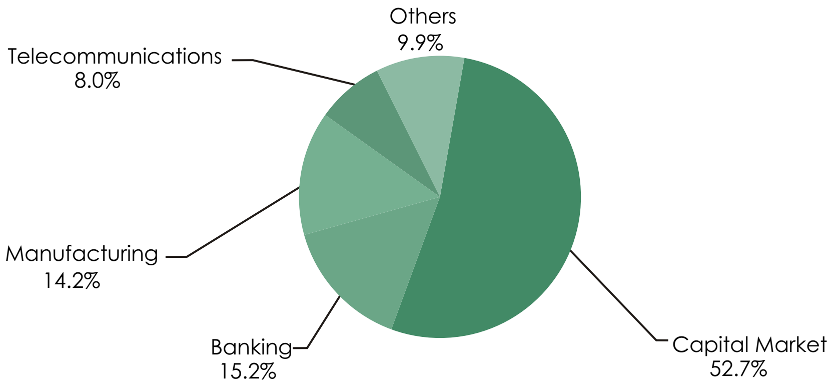
The capital and financial account registered a lower surplus of ₦443.4 billion, or 1.8 per cent of GDP, as against ₦1,954.8 billion, or 7.9 per cent of GDP, in the preceding year.

Figure: 7.7 Capital Importation by Country: 2010 (per cent)



Inflows, according to economic sectors, showed that the stock market received a boost with US$3,161.0 million for the purchase of shares, as against the capital reversals witnessed in the wake of the global financial crisis, indicative of the renewed investor confidence in the Nigerian capital market, following a series of reforms. Notably, the market went through reforms which included a new management for the Nigerian Stock Exchange, the enforcement of rules and regulations by the Security and Exchange Commission (SEC) on the updating and rendition of financial reports, the strengthening of the Nigerian Stock Exchange Arbitration Committee, and zero tolerance for market infractions.

Figure: 7.8 Capital Importation by Sector: 2010 (per cent)



Capital inflows to telecommunications, manufacturing, services and construction sectors also increased but declined for banking, oil and gas, trading and transport sectors. As a share of total flow, the capital market, banking, manufacturing and telecommunications accounted for 52.7, 15.2, 14.2 and 8.0 per cent, respectively.

Table 7.4: Capital Importation: Country and Sector Inflows (US$ Million)

Country	2007	2008	2009	2010	Sector	2007	2008	2009	2010
United Kingdom	4,705	4,105	**731**	2,732	Banking	3,541	4,681	**2,624**	909
United States	1,850	4,950	**3,296**	1,241	Shares	2,612	3,424	**1,479**	3,161
South Africa	1,109	468	**224**	537	Financing	929	749	**205**	171
Mauritius	500	216	**77**	161	Telecommunications	777	717	**336**	479
Netherlands	157	154	**186**	0.1	Production/Manufacturing	563	504	**294**	854
Cyprus	141	83	**64**	45	Servicing	492	94	**33**	179
Switzerland	128	73	**69**	58	Brewery	151	-	**60**	25
Luxembourg	102	-	**4**	121	Oil and Gas	152	641	**114**	89
Germany	95	18	**23**	62	Trading	125	63	**37**	35
Denmark	87	213	**-**	3	Construction	74	130	**13**	43
Sweden	85	22	**10**	90	Hotels	45	-	**-**	2
China	11	36	**139**	9	Transport	14	14	**50**	3
United Arab Emirates	33	151	**18**	75	Marketing	14	21	**28**	0
Others	570	682	**459**	860	Others	84	133	**27**	44
COUNTRY INFLOWS (TOTAL)	**9,573**	**11,171**	**5,300**	**5,994**	**SECTOR INFLOWS (TOTAL)**	**9,573**	**11,171**	**5,300**	**5,994**

Analysis of capital importation into the economy, as captured from the DMBs' database, revealed a total inflow of US$5,994.2 million, comprised foreign direct investment (12.2 per cent), portfolio investment (65.6 per cent), other investments trade credit, loans, currency deposits and other claims (22.2 per cent). Foreign direct investment inflows declined by 78.1 per cent, accounted for solely by the fall in equity which offset the significant growth in 'other' capital flows. Portfolio inflows improved remarkably as reflected in the growth of equity, bonds and money market instruments. Of the total portfolio inflows of US$3.9 billion, equity, money market instruments and bonds accounted for 75.8, 22.5 and 1.7 per cent, respectively. In the "other" investment category loans which accounted for the bulk of the inflows, increased by 71.4 per cent. Further review of capital importation revealed that the highest inflow came from the United Kingdom (45.6%), followed by the United States (20.7%), South Africa (9.0%), Mauritius (2.7%), Luxembourg (2.0%), Sweden (1.5%), UAE (1.3%) and "others" (14.3%).

Table 7.5: New Capital Inflows (US$' thousand)				
NATURE OF CAPITAL	**2007**	**2008**	**2009**	**2010**
Foreign Direct Investment - Equity	4,243,535.0	4,597,675.3	3,305,678.3	668,350.9
Foreign Direct Investment - Other capital	38,037.1	63,605.9	20,719.3	60,602.2
Portfolio Investment - Equity	2,488,462.2	2,349,962.5	1,443,229.0	2,979,446.7
Portfolio Investment - Bonds	1,058,089.1	420,057.2	12,617.4	68,476.8
Portfolio Investment - Money Market Instruments	147,919.9	659,673.0	84,151.7	883,844.2
Other Investments - Trade Credits	82,719.9	15,000.0	7,915.1	154.9
Other Investments - Loans	1,501,392.2	2,735,581.5	816,670.0	1,399,457.4
Other Investments - Currency Deposits	-	-	9,200.0	-
Other Investments - Other Claims	13,011.5	328,133.5	2,708.2	2,225.4
TOTAL	**9,573,167.0**	**11,169,688.8**	**5,702,888.9**	**5,994,150.0**

Other investment liabilities revealed that government's repayments of debt due declined by 23.4 per cent, while fresh commitments in 2010 resulted in an increased debt stock, from US$3.9 billion in 2009 to US$4.6 billion. The loans were additional disbursements from the International Development Agency (IDA), the African Development Bank (AfDB), and the International Fund for Agricultural Development (IFAD).

7.4 INTERNATIONAL INVESTMENT POSITION (IIP)

Provisional Nigeria's net International Investment Position (IIP) revealed that Nigeria recorded a higher deficit of US$11.0 billion, as against US$0.7 billion in 2009, reflecting the continued pressure on the external sector as a result of the lingered impact of the global financial crisis. The IIP account revealed that the value of total foreign assets and liabilities amounted to US$83.7 billion and US$94.7 billion, compared with US$83.9 billion and US$84.7 billion in 2009, respectively.

The Nigerian International Investment Position (IIP) revealed that there was continued pressure on the external sector as Nigeria recorded a deficit of US$8.6 in 2010 as against US$0.7 billion in 2009.

Further analyses revealed that assets abroad - direct investment, portfolio investment, external reserves and "other" amounted to US$5.0 billion, US$12.7 billion, US$32.3 billion and US$33.5 billion, respectively. Both direct and portfolio investment stock abroad increased by US$922.9 million and US$941.9 billion in 2010. Compared with 2009, the total official reserves decreased by 23.7 per cent to US$32.4 billion in 2010 and accounted for 38.7 per cent of Nigeria's total foreign assets.

The stock of liabilities, valued US$94.7 billion, was made up of direct investment, (US$60.3 billion) and portfolio investment, stocks and debt securities (US$18.1 billion). The surge in capital claims by the rest of the world on the economy raised Nigeria's liabilities to 48.4 per cent of GDP.

Figure 7.9: Assets and Liabilities: International Investment Position (IIP)

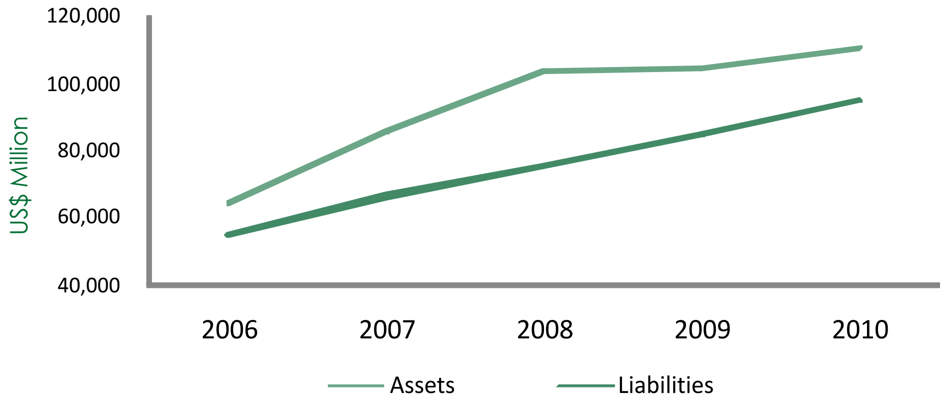
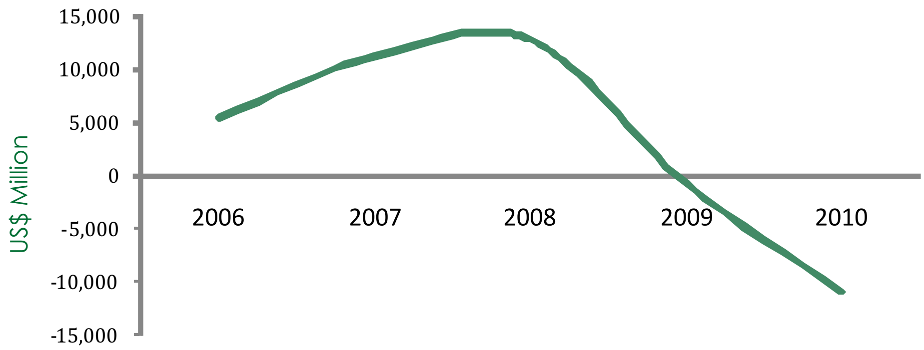


Figure 7.10: Net International Investment Position



7.5 EXCHANGE RATE MOVEMENTS

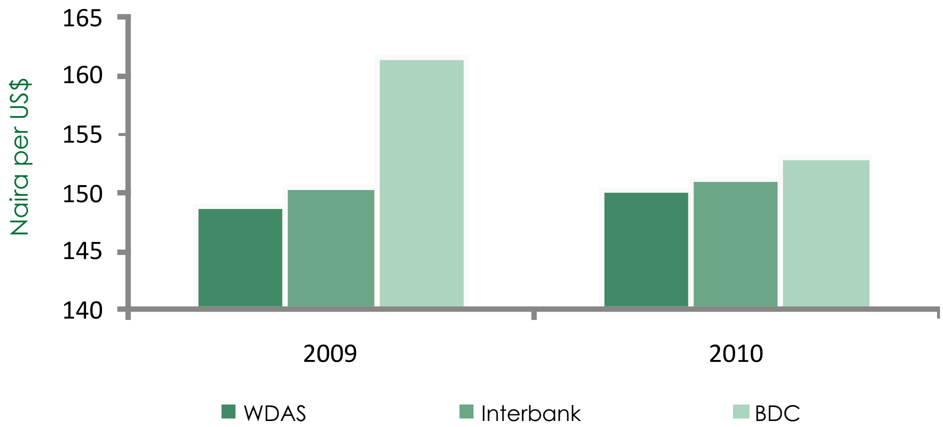
The exchange rate of the naira to the US dollar was relatively stable in 2010. The average exchange rate of the naira at the WDAS segment of the foreign exchange market in 2010 was ₦150.30 per US dollar, a depreciation of 0.9 per cent, compared with the level in 2009. Similarly, at the inter-bank market, the naira depreciated by 0.5 per cent to ₦151.09 per US dollar. However, at the BDC segment, the naira strengthened against the US dollar by 5.6 per cent, compared with the level in 2009, to ₦153.06 per US dollar. Consequently, the premium between WDAS/inter-bank and WDAS/BDC rates narrowed from 1.0 inter-bank and 8.6 per cent in 2009 to 0.5 and 1.8 per cent, respectively.

The premium between WDAS/inter-bank and WDAS/BDC rates narrowed from 1.0 and 8.6 per cent in 2009 to 0.5 and 1.8 per cent, respectively, in 2010.

Table 7.6: International Investment Position (IIP) of Nigeria (2006-2010) [Millions of dollars]

Type of Asset/Liability	2006	2007	2008	2009	2010
Net international investment position of Nigeria	**5,529.09**	**11,208.93**	**12,841.52**	**-723.97**	**-11,009.16**
Assets	**60,495.21**	**77,498.53**	**88,463.64**	**83,928.45**	**83,668.50**
Direct investment abroad	624.48	1,506.42	2,564.69	**4,118.29**	**5,041.17**
Portfolio investment abroad	4,349.21	6,208.32	10,967.09	**11,797.86**	**12,739.73**
Equities	3,923.17	5,643.86	9,710.55	**10,472.09**	**11,508.15**
Money Market	426.05	564.47	1,256.55	**1,325.78**	**1,231.59**
Banks	426.05	564.47	1,256.55	**1,325.78**	**1,231.59**
Bonds	-	-	-	**-**	
Financial Derivatives	-	-	-	**-**	
Other foreign assets	13,223.40	18,450.63	21,931.49	**25,629.80**	**33,548.34**
Public Sector assets, excluding official reserves	745.52	2,019.36	4,103.86	**6,408.50**	**8,443.14**
Banks	**4,974.70**	**5,779.57**	**9,257.14**	**6,351.18**	**6,494.39**
Deposits	7,475.67	10,059.95	17,616.49	**17,060.91**	**24,484.88**
Loans	1,050.92	1,167.69	1,459.61	**1,824.51**	**2,069.69**
Non-banks					
Deposits					
Trade Credits	7,943.69	15,166.68	18,022.07	**24,748.74**	**31,742.51**
Nigeria official reserve assets	42,298.11	51,333.15	53,000.36	**42,382.49**	**32,339.25**
Liabilities	**54,966.12**	**66,289.60**	**75,622.12**	**84,652.42**	**94,677.66**
Direct investment	31,242.81	37,329.54	45,578.18	**54,227.71**	**60,326.67**
Portfolio investment	9,703.19	12,368.69	13,702.99	**14,368.88**	**18,116.78**
Equities	5,335.00	6,794.49	5,834.69	**6,327.36**	**8,506.64**
Money Markets	**293.49**	**441.41**	**1,378.32**	**1,459.44**	**2,343.15**
Banks	293.49	441.41	1,378.32	**1,459.44**	**2,343.15**
Bonds:	**4,074.70**	**5,132.79**	**6,489.98**	**6,582.08**	**7,266.99**
Gen. Government	4,074.70	5,132.79	6,489.98	**6,582.08**	**7,266.99**
Others	-	-	-	**-**	
Financial Derivatives	-	-	-	**-**	
Other Investments	14,020.12	16,591.37	16,340.95	**16,055.83**	**16,234.20**
Deposits:	**8,888.23**	**10,589.46**	**10,589.46**	**9,762.66**	**9,312.08**
Banks	5,613.00	6,464.23	6,190.55	**5,777.15**	**5,551.86**
Non-banks	3,275.23	4,125.23	4,398.91	**3,985.51**	**3,760.22**
Loans	**8,744.90**	**8,719.56**	**9,550.78**	**10,534.50**	**11,827.53**
Long Term					
Gen. Government	4,046.20	3,533.20	3,507.20	**3,707.12**	**4,429.25**
Banks	1,084.46	2,468.71	2,244.30	**2,586.05**	**2,492.87**
Others	3,275.23	4,125.23	4,398.91	**3,985.51**	**3,760.22**

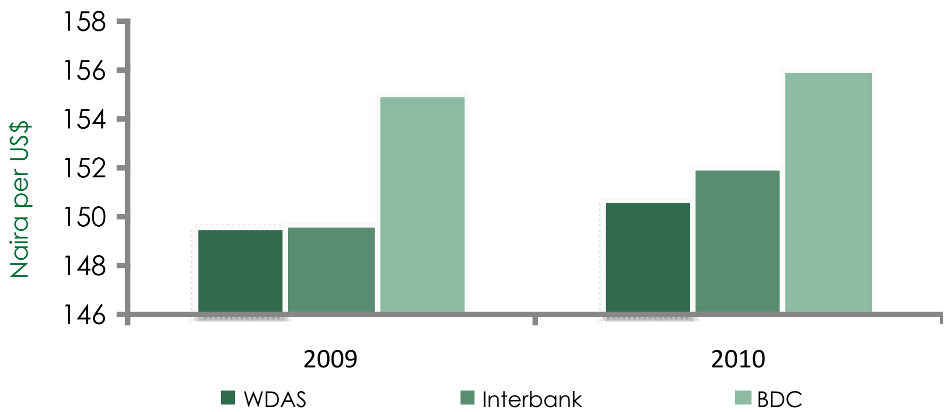
Fig 7.11: Average Yearly Exchange Rate of the Naira per US Dollar



The end-period exchange rate of the naira to the US dollar in 2010 at the WDAS segment of the foreign exchange market stood at ₦150.66 per dollar, a depreciation of 0.7 per cent, compared with the level in 2009. Similarly, at the Inter-bank and BDC markets, the rate depreciated by 1.5 and 0.6 per cent, compared with the level in 2009, to ₦152.00 and ₦156.00 per dollar, respectively.

The exchange rate of the naira to the US dollar was relatively stable in 2010.

Fig 7.12: End-period Exchange Rate of the Naira per US Dollar



7.6 The Nominal Effective Exchange Rate (NEER) and the Real Effective Exchange Rate (REER)

The average 13-currency Nominal Effective Exchange Rate (NEER) index increased by 0.9 per cent over the level in 2009 to 96.6 (May 2003=100) indicating a marginal loss of competitiveness of the naira. In contrast, the average 13-currency Real Effective

Exchange Rate (REER) index, declined by 6.3 per cent below the level in the preceding year to 92.3 in 2010. The development was due to a decline in the Consumer Price Index (CPI) as the base year was revised from May 2003=100 to November 2009=100. The 13-currency REER index opened at 94.97 and closed 5.0 percentage points lower at end-2010 as a result of relative increase in the CPI of the country's major trading partners. The development was due to various fiscal and monetary measures deployed to promote recovery in their economies.

Figure 7.13: Nominal and Real Effective Exchange Rate Indices

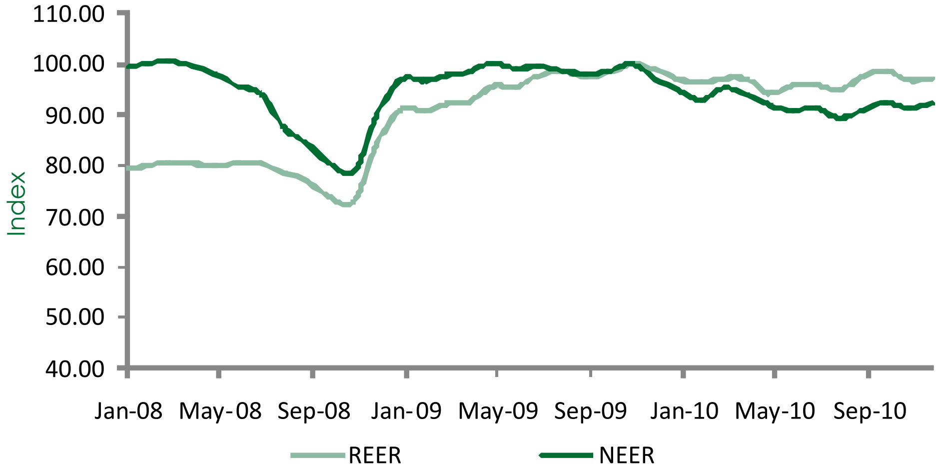


Table 7.7: Nominal and Real Effective Exchange Rate Indices (May 2003=100)

	December 2009		December 2010		
	Monthly Index	Annual Average	Monthly Index	Annual Average	%Change in Annual Average
NEER	98.91	95.73	97.20	96.57	0.9
REER	97.19	98.47	92.21	92.31	(6.3)

CHAPTER EIGHT

INTERNATIONAL AND REGIONAL INSTITUTIONS

The 2010 Spring and Annual Meetings of the Bretton Woods Institutions (BWIs) focused on the pace of global economic recovery, trade flows, reforms of the BWIs and the IMF's mandate. Members welcomed the steps taken to enhance the IMF's lending toolkit as part of the efforts to strengthen global financial safety nets and the establishment of the Precautionary Credit Line (PCL) to meet the diverse needs of its members At US$72.9 billion, the World Bank Groups' commitment to various projects in 2010 increased by 24.0 per cent, compared with US$58.8 billion in 2009. Nigeria signed a Memorandum of Understanding (MoU) with Namibia, on the holding of political and diplomatic consultations, to aid the exchange of views on bilateral, regional and international issues of mutual interest. At the continental level, the African Heads of State and Government discussed and agreed to take necessary actions aimed at attaining the Millennium Development Goals (MDGs) 4, 5 and 6; mobilised adequate resources for integrated health programmes of up to 15.0 per cent of national budgets; and urged member countries to continue to speak with one voice. At the sub-regional level, the Economic Community of West African States (ECOWAS) Technical Sub-Committee on the Abuja 2020 Roadmap on the Single Currency Programme, assessed progress on the implementation of the road map and stressed the need for monitoring institutions (the ECOWAS Commission, the West African Monetary Agency (WAMA), the West African Monetary Institute (WAMI) and the West African Bankers Association (WABA)) to intensify efforts on their assigned responsibilities in order to achieve a single currency in the ECOWAS Sub-region by 2020.

8.1 THE INTERNATIONAL MONETARY SYSTEM

8.1.1 The Group of Twenty-Four (G-24) and the IMF/World Bank Annual Meetings

The 2010 Meetings of the Inter-Governmental Group of Twenty-Four (G-24) under the Bretton Woods Institutions (BWIs) , the Board of Governors of the World Bank Group and the International Monetary Fund (IMF) discussed, amongst others, global economic and financial developments, trade, reforms of the BWIs, and the IMF's mandate. The Ministers and Governors at the IMF/World Bank Group meetings:

- Observed that the pace of global economic recovery had weakened and had become more uncertain since the Euro Area sovereign debt problem became more severe in April, 2010;

- Noted that while most developing economies had continued to maintain their growth momentum, reflecting strong fundamentals and robust macroeconomic frameworks, the recovery in advanced economies remained sluggish, with some of them facing a vicious circle of weak sovereign balance sheets, high unemployment, lack of consumer confidence, and continued fragile financial sector;

- Called on the IMF to strengthen the monitoring of surging capital flows, as well as consider options for mitigating associated risks and the strengthening of the Fund's bilateral and multilateral surveillance for the uncovering of vulnerabilities in large advanced economies;

- Agreed to complete the Fourteenth General Review of Quotas by January 2011, to help bring about a shift of at least 5 percentage points from advanced economies to Emerging Markets and Developing Countries (EMDCs);

- Urged countries that have not yet ratified the 2008 quota and voice reform to do so;

- Welcomed the steps taken to enhance the IMF's lending toolkit as part of the efforts to strengthen global financial safety nets and the establishment of the Precautionary Credit Line (PCL) to meet the diverse needs of its membership;

- Noted that International Development Association (IDA) had been a pivotal instrument in the support of low-income countries and called for an ambitious replenishment of IDA-16, as well as the establishment of a permanent instrument to assist low-income countries to cope with external shocks, through an IDA Crisis Response Window; and

- Constituted a 3rd Constituency for Africa at the World Bank that comprised South Africa, Nigeria and Angola.

8.1.2 The International Monetary Fund (IMF)

The IMF's outstanding global credit increased to SDR 60.4 billion at end-December 2010, from SDR 42.3 billion at end-December 2009. This comprised the General Resources Account (GRA) disbursements (SDR 55.6 billion) and the Poverty Reduction and Growth Facility Exogenous Shocks Facility (PRGF-ESF) disbursement (SDR 4.8 billion).

8.1.3 The World Bank Group

The World Bank Group committed US$72.9 billion in fiscal year 2010, representing an increase of 24.0 per cent over the US$58.8 billion in 2009. The International Bank for Reconstruction and Development (IBRD or World Bank) and the International

Development Association (IDA) together committed US$58.7 billion in loans and grants to its member countries. A further breakdown indicated that out of this amount, IDA committed US$14.5 billion and IBRD US$44.2 billion.

The International Finance Corporation (IFC) committed US$12.7 billion and mobilised an additional US$5.4 billion for private sector development in developing countries, out of which US$4.9 billion was channelled through IDA to member countries. The Multilateral Investment Guarantee Agency (MIGA) issued US$1.5 billion in investment guarantees for 19 projects in developing countries. This represented a US$0.1 billion increase over the US$1.4 billion new issues in 2009.

8.1.4 International Commodity Organisations

8.1.4.1 The Cocoa Producers' Alliance

The 73rd General Assembly and Council of Ministers Meeting of the Cocoa Producers' Alliance (COPAL) was held from September 20-24, 2010 in Kuala Lumpur, Malaysia. The meeting, among others:

- Constituted a committee to shortlist candidates for the position of Secretary-General of COPAL;
- Noted with concern the gap in the cocoa value chain and considered it detrimental to the producers and, therefore, adopted the use of supply strategies to enhance income to producers;
- Requested the Government of Malaysia to prepare and circulate for consideration a concept note for remedial action; and
- Directed the Secretariat to respect the budget in all ramifications and to forward the budget drawdown to the Internal Auditor on a quarterly basis.

8.1.4.2 The Organization of Petroleum Exporting Countries (OPEC)

The organization of Petroleum Exporting Countries (OPEC) held three meetings, two ordinary (156th and 157th) meetings and one extraordinary (158th) in 2010.

The 156th ordinary meeting was convened on March 17, 2010 at the Organization's new Headquarters' in Vienna. The meeting reviewed oil market developments, in particular supply/demand projections, as well as the outlook for 2010, and noted that, while the global economy was clearly rebounding from the preceding year's recession, with continued positive signals coming from the manufacturing and services sectors, serious threats remained. The downside risks included: the mounting and potentially unsustainable public debt in most advanced economies; degrading fiscal position which might lead OECD governments to tighten fiscal and monetary policies despite rising unemployment; weak demand; persistent global imbalances; and rising protectionism. The meeting further noted with concern that, although world oil demand was projected to increase marginally during the year, the rise could be offset by the expected increase in non-OPEC supply. The meeting therefore decided to retain the current oil production ceiling.

The 157th meeting of OPEC was held on October 14, 2010, amidst growing crises in Ecuador, a member country. The meeting observed that, whilst economic recovery was underway, there was still considerable concern about the magnitude and pace of the recovery, especially in the major industrialized countries of the OECD. The meeting noted that, while there had been some easing of the overhang in crude oil stocks, market fundamentals remained weak, refinery utilization rates were low and product inventories had risen considerably. Analysis of important market drivers revealed that the market was well supplied. Consequently, the meeting retained the current production levels, but reaffirmed its determination to ensure reliable supply to the market, at reasonable and fair prices, supported by an adequate level of spare capacity.

The 158th Extraordinary Meeting of OPEC was convened in Quito, Ecuador, on December 11, 2010. The meeting reviewed the oil market outlook, including the overall demand/supply projections for 2011 and agreed to maintain the current oil production levels. Member Countries acknowledged their commitment to individually agreed production allocations, as outlined in the Oran Agreement of December 2008, and reiterated their readiness to rapidly respond to any developments that might jeopardize oil market stability and Member Countries' interests. The Conference further renewed its call on other oil producers/exporters to cooperate with the Organization in its endeavours to secure oil market equilibrium.

8.1.5 Bilateral Relations

8.1.5.1 The Central Bank of Nigeria/Bank Negara Malaysia Agreement

The Board of Directors of the Central Bank of Nigeria undertook a study tour of Malaysian financial institutions from March 22 26, 2010, at the end of which it signed a Memorandum of Understanding with Bank Negara Malaysia, to share expertise and exchange relevant information in the areas of banking supervision, small and medium enterprises (SMEs), microfinance, islamic finance, monetary policy, development finance institutions, external reserve management, institutional arrangement for financial crisis management and resolution, foreign exchange administration, performance management and corporate strategy, leadership development and talent management.

8.1.5.2 Nigeria-Cameroun Joint Commission

The 5th Session of the Nigeria-Cameroun Joint Commission was held in Abuja from November 23 - 24, 2010. The meeting:

- Reviewed the relation between the two countries and expressed satisfaction with the outcome of the Green Tree Agreement;

- Called for the speedy implementation of all pending Cooperation Agreements between the two countries for the mutual benefit of the citizens of the two countries;

- Agreed to implement the various recommendations on posts, telecommunications, and funds transfer adopted at a meeting in October 2009;

- Noted the concerns raised by Cameroun about the prohibition of some imports by Nigeria and the inability of some Camerounian goods to enter the Nigerian market due to lack of NAFDAC certification and agreed to explore areas where exemptions on import prohibition can be made for Camerounian exports. It was also agreed that NAFDAC and its Cameroonian counterpart should meet and agree on protocols on product certification;

- Entered into a Framework Agreement on electricity interconnection which would cover the institutional framework for planning, coordination, financing and the realisation of electricity interconnection between the contracting parties. The Camerounian side agreed to supply electric power from the Lagdo Dam on River Benue to Adamawa state in Nigeria;

- Agreed that the Free-Trade Zone Authority of Nigeria should provide necessary information at the Nigerian Embassy in Yaounde to enable Cameroonians know the steps to follow in applying for space at any of the Free-Trade Zones in Nigeria;

- Agreed to conclude a new trade agreement by the first quarter of 2011 between both countries, which would provide for the establishment of a joint trade committee that would address bilateral economic relations issues; and

- Expressed satisfaction with the progress so far made in the construction of the Bamenda-Manfe-Abakaliki-Enugu highway which was being financed by the African Development Bank (AfDB).

8.1.5.3 Nigeria - Namibia Joint Commission

The 4th Session of the Nigeria-Namibia Joint Commission was held in Abuja from September 22 - 23, 2010. At the end of the session, a Memorandum of Understanding (MoU) on the holding of political and diplomatic consultations was signed by the two nations. The MoU committed each country to allowing regular diplomatic consultations in order to exchange views on bilateral, regional and international issues of mutual interest. The Joint Commission considered, among others, economic, infrastructure and socio-cultural matters, as well as diplomatic, defence and legal issues.

8.2 REGIONAL INSTITUTIONS

8.2.1 The African Union (AU)

The 15th African Union (AU) Summit of Heads of State and Government, with the theme, "Maternal, Infant and Child Health and Development in Africa" was held from July 25-27, 2010, in Kampala, Uganda. On the sidelines of the summit, were the 13th Summit of Heads of State and Government of the African Peer Review Mechanism, the 23rd Summit of the NEPAD Implementation Committee and the Joint Heads of State and Government meeting on climate change.

During the Summit, the leaders:

- Agreed to take necessary actions in various member states aimed at attaining the MDGs 4, 5 and 6, including the launching of a campaign on accelerated reduction of maternal mortality in Africa (CARMMA), the mobilisation of adequate resources for integrated health programmes of up to 15 per cent of national budgets, the sharing of best practices within regions, and regular evaluation and reporting of progress achieved by member states;

- Extended the accelerated action towards universal access to HIV/AIDS, tuberculosis and malaria services in Africa (the Abuja Call) to 2015 to coincide with the Millennium Development Goals (MDGs);

- Welcomed the efforts deployed by the AU and the regional economic communities/regional mechanisms for conflict prevention, management and resolution (RECs/RMs), with the support of the international community, towards the full operationalisation of the African Peace and Security Architecture, in particular the Continental Early Warning System (CEWS) and the African Standby Force (ASF);

- Reiterated its commitment to the vision of gradually transforming the African Union Commission into the African Union Authority in order to strengthen the institutional building processes of the African Union and to accelerate integration of the continent;

- Reaffirmed the Ezulwini Consensus and the Sirte Declaration on the Reform of the United Nations Security Council containing the African common position, called for its intensive promotion, and stressed the need for Africa to continue to speak with one voice; and

- Decided that the theme of the summit in July 2011 would be "Accelerating Youth Empowerment for Sustainable Development".

8.2.2 Joint Annual Meetings of the African Union (AU) Conference of Ministers of Economy and Finance and the Economic Commission for Africa (ECA) Conference of African Ministers of Finance, Planning and Economic Development

The 2010 Joint Annual Meetings of the African Union (AU) Conference of Ministers of Economy and Finance and the Economic Commission for Africa (ECA) Conference of African Ministers of Finance, Planning and Economic Development was held in Lilongwe, Malawi from March 25-30, 2010. In attendance were Ministers of Finance, Planning and Economic Development and Governors of Central Banks from African countries. The Ministers Conference was preceded by the meeting of experts which was held from March 27-28, 2010.

During the meeting, the members:

- Reviewed recent economic and social developments in Africa as presented by the ECA;
- Noted that the global economic crisis had taken a heavy toll on economic activity, employment and social conditions;
- Noted that the overall objectives of the Millennium Development Goals (MDGs) would be compromised unless bold steps were taken towards high, sustainable and employment focused growth;
- Recommended that countries should draw lessons from the experiences of others and adopt policies and strategies that would promote backward and forward linkages between sectors, pursue regional integration and move away from total dependence on commodity exports;
- Expressed concern that the positive growth achieved in most African countries in 2009 had not translated to any significant improvement in employment creation and poverty reduction, and therefore stressed that monetary policy should go beyond the price stability objective, to include support for growth and employment generation;
- Concluded that inadequate infrastructure and limited access to finance and other supporting services were major constraints to the development of the private sector which should play a pivotal role in investment and job creation;
- Urged governments to allocate more resources to sectors that could generate employment and help reduce poverty, such as agriculture and rural development. They noted that good political and economic governance was a major prerequisite for growth and job creation; and

- Agreed on the need for promotion of domestic resource mobilisation, economic diversification, internal policy harmonisation among ministries and agencies to enhance efficiency and effectiveness in mainstreaming employment in development plans and programmes.

8.2.3 African Development Bank (AfDB)

The 2010 Annual Meetings of the African Development Bank (AfDB) Group was held in Abidjan, Cote d'Ivoire on May 27, 2010. At the meeting, the President, Donald Kaberuka noted that the AfDB had helped member countries to overcome the effects of the global financial crisis by providing necessary support to enable them substantially grow the private sector, and to fill the gap left by donors involved in key infrastructure projects. Furthermore, the meeting:

- Approved its 6th General Capital Increase, and the 12th replenishment of the African Development Fund (ADF); and

- Created two new constituencies, raising the number of board chairs from 18 to 20.

8.2.4 The Developing Eight (D-8)

The 7th Summit of the D-8 Heads of State and Government was held in Abuja, Nigeria, from July 4 - 10, 2010. The Central Bank of Nigeria hosted the D-8 Central Bank Governors' Meeting as part of the 7th D-8 Summit. At the meeting, leaders of member nations of the Group of 8 (D-8):

- Declared their interest to pursue and boost a viable South-South cooperation, with a view to enhancing greater economic growth and globalisation;

- Agreed that in an increasingly globalised world, the D-8 model of cooperation would provide a viable form of South-South cooperation, hence the resolve to broaden and strengthen this cooperation in order to develop the economies and also empower member countries to participate more actively in the process of globalisation;

- Recognized the role of governments as catalysts and enablers of economic growth, but noted that the D-8 cooperation must essentially be private-sector driven;

- Stressed that intra D-8 investments were essential for deepening the economic relationship among member states and, therefore, resolved to take immediate measures to encourage, facilitate and promote foreign direct investment (FDI) in priority areas;

- Directed the D-8 Commission to explore ways and means of establishing a D-8 Investment Fund and identify investment opportunities in the member countries, including the proposal by Iran to establish the D-8 Joint Investment Fund (JIF);

- Endorsed the report of the 12th and 13th sessions of D-8 Council of Ministers and welcomed the prioritisation of activities of the D-8 roadmap in the areas of trade, agriculture and food security, industrial cooperation and small and medium scale enterprises (SMEs), transportation, and energy and minerals; and

- Agreed on boosting collaborative efforts on capacity building, transfer of technology, development of alternative fuels, renewable sources of energy, and peaceful uses of nuclear energy for power generation.

8.2.5 The Association of African Central Banks (AACB)

8.2.5.1 The Ordinary Meeting of the Bureau of the AACB

The Ordinary Meeting of the Bureau of the Association of African Central Banks (AACB) was held at the Headquarters of the Central Bank of West African States in Dakar, Senegal, February 22 - 24, 2010. The meeting assessed the status of implementation of the decisions taken by the Assembly of Governors at its 33rd Ordinary Session held on August 21, 2009 in Kinshasa, Democratic Republic of the Congo and reviewed the progress made on the African Monetary Cooperation Programme (AMCP). The Governors welcomed the continued cooperation with the African Union (AU) within the framework of the Joint Committee charged with drafting a strategy for the establishment of the African Central Bank (ACB).

The 34th Annual Meeting of the AACB was held in Dakar, Senegal, August 16-20, 2010. The meeting was attended by 39 member countries of the AACB, with Nigeria's delegation headed by the Central Bank of Nigeria's Governor, Mallam Sanusi Lamido Sanusi. The meeting called on African central banks to fully assume their roles of financial regulation to prevent possible crises in the future. The meeting also noted that there was a pressing need for Africa's central banks to work for the creation of an efficient device for the regulation of financial systems.

8.2.6 The Steering Committee of the African Central Bank

The Steering Committee of the African Central Bank commenced operations at its office in Abuja, Nigeria on June 14, 2010. The Committee was chaired by the Governor, Central Bank of Nigeria, Mallam Sanusi Lamido Sanusi and comprised a team of five Consultants from AU member countries. Its roles and functions were contained in the Memorandum of Understanding (MoU), signed in Washington, DC on April 24, 2009 between the African Union Commission and the Government of the Federal Republic of Nigeria. These included working out the modalities for the establishment of the African Central Bank. As at December 2010, the Committee had developed a fairly large data base and literature for conducting a study on the need for a single currency in Africa.

8.3 SUB-REGIONAL INSTITUTIONS

8.3.1 The Economic Community of West African States (ECOWAS)

The Second meeting of the Technical Sub-Committee on the Economic Community of West African States (ECOWAS) Single Currency Programme was held in Accra, Ghana from July 21 - 22, 2010. The meeting was convened by the ECOWAS Commission to assess progress on the implementation of the Abuja 2020 Roadmap on the ECOWAS Single Currency Programme. The meeting was attended by representatives from the ECOWAS Commission, the UEMOA Commission, the West African Monetary Institute (WAMI), the West African Monetary Agency (WAMA), the West African Bankers Association (WABA), the Central Bank of West African States, the Bank of Ghana, and the central banks of The Gambia, Guinea, Liberia, Sierra Leone and Nigeria.

Progress reports were presented by the four monitoring institutions namely, the ECOWAS Commission, WAMA, WAMI and WABA. After extensive discussions of the monitoring institutions' progress report towards a single currency in the ECOWAS Region, the Committee recommended as follows:

i) *That ECOWAS Commission:*

- Continue contacts with the authorities of Cape Verde to ensure that its National Coordinating Committee (NCC) was established as soon as possible;
- Build the cost of living index in each member country into the salaries of Macroeconomists and Bilingual Secretaries;
- Urge each member countries to supplement the financing of NCC activities in the country; and
- Provide more information on the challenges of implementing VAT in The Gambia and Liberia to facilitate the adoption of VAT in both countries.

ii) *That WAMA:*

- Work with WAMI and the BCEAO on the study on the harmonisation of monetary policy frameworks in the ECOWAS Region. This would include the terms of reference (TOR) for the consultant to undertake the study as well as reviewing and finalising the consultant's report before its submission to the technical sub-committee.

iii) *That WABA:*

- Work with WAMA, WAMI and the BCEAO to finalise the document on quoting and trading of national currencies and forward the document to the technical sub-committee; and

- Intensify efforts to make the WAMZ payments system infrastructure compliant with that of the UEMOA zone.

iv) *That WAMI:*

- Bring on board WAMA and the BCEAO into the coordination of capital account liberalisation in ECOWAS member states.

8.3.2 The West African Monetary Agency (WAMA)

The 2010 statutory meeting of the West African Monetary Agency (WAMA) was held in Dakar, Senegal from November 23-25, 2010. The meeting of the Committee of Governors, which was held on November 25, was preceded by the Joint Technical Committee meeting from November 23-24, 2010. The Committee:

- Noted that public expenditure by member countries remained a major challenge to regional integration. Nonetheless, the meeting observed that although there was need to reduce expenditure, capital expenditure should not be affected due to its implications for output and employment;

- Underscored the importance of financial sector integration in ECOWAS, and observed the need for the process to begin with all the relevant components at the national level. Member countries were urged to remove all impediments to integration at the national level in order to facilitate a region-wide integration;

- Decided that the College of Supervisors in the WAMZ countries should be embraced by the UEMOA zone so as to foster region-wide financial sector integration and collaborative oversight; and

- Consulted and agreed that Nigeria should retain the Chair of the Committee, pending the restoration of stability in Guinea.

8.3.3 The West African Institute for Financial and Economic Management (WAIFEM)

The Board of the West African Institute for Financial and Economic Management (WAIFEM) was unable to meet in 2010. However, WAIFEM executed thirty one (31) training and capacity building programmes in the year. The activities consisted of ten (10) courses and workshops, as well as missions conducted under debt management department, twelve (12) by macroeconomic management department and nine (9) by the financial sector management department. Eight hundred and fifty-seven (857) senior/executive level officials from central banks, core economic ministries, public and private sector agencies participated in the various programmes.

In terms of participation by user institutions, central banks accounted for 381 or 44.5 per cent, core economic ministries 164 or 19.1 per cent, while other public sector agencies and private sector organisations accounted for 51 or 6.0 per cent. Regarding gender distribution, there were 693 or 80.9 per cent male and 164 or 19.1 per cent female participants at the WAIFEM training programmes in 2010.

WAIFEM relocated to its permanent administrative block, following the completion of its renovation by the Central Bank of Nigeria. In 2010, the Board of Governors of the Institute recruited Dr. Johnson Asiama from the Bank of Ghana as Director, Macroeconomic Management Department and Mr. Euracklyn Williams from the Bank of Sierra Leone as Director, Administration and Finance.

The Management of WAIFEM also recruited staff for the positions of Senior Programme Manager (Financial Sector Management Department), Programme Managers (Macroeconomic and Debt Management Departments), an Internal Auditor and a Research Officer.

In its efforts to remain the centre of excellence in capacity building, WAIFEM, signed Memoranda of Understanding (MoU) with the following institutions:

(i) The Centre for Research on Political Economy (CREPOL), based in Dakar, Senegal. The MoU allowed the two Institutions to collaborate in the areas of training, research, advisory services, advocacy, policy debates, exchange of information and data, as well as staff exchange and sabbatical leave; and

(ii) The West African Monetary Institute (WAMI), Ghana, for capacity building.

The Institute also received technical support from the World Trade Organization (WTO), the Economic Commission for Africa (ECA), the World Bank and the IMF. It opened discussions with the African Growth Initiative of the Brookings Institute in Washington, D. C., USA with a view to accessing funds to support WAIFEM's research activities, as well as other areas of collaboration.