PART TWO

ECONOMIC REPORT

CHAPTER 3

3.0 THE GLOBAL ECONOMY

In the second half of 2009, the global economy began a gradual recovery from the economic recession that started in 2007/2008, though at different speeds in various regions. Notwithstanding, world output was projected to have declined by 0.8 per cent in 2009, in contrast to the 3.0 per cent increase in 2008, as a result of the poor performance of most economies. Although the combined effects of the monetary and fiscal interventions adopted by the authorities helped to increase confidence, challenges of unemployment and uncertainty of full recovery persisted. Global inflation moderated, while commodity prices rose modestly when compared with historical trends. Global trade was depressed in 2009, while the international financial markets experienced some instability. A major concern of most central banks remained how to exit from the stimulus packages without destabilizing the financial markets and/or truncating the recovery process.

3.1 OUTPUT AND GROWTH

Global output declined by 0.8 per cent in 2009, in contrast to an increase of 3.0 per cent in 2008. The development was attributed to the fall in economic activities in the advanced economies, Central and Eastern Europe, the Commonwealth of Independent States (CIS) and the Western Hemisphere countries, whose output declined by 3.2, 4.3, 7.5 and 2.3 per cent, respectively. The decline was moderated by the increase of 1.9, 6.5 and 2.2 per cent recorded by Africa, Developing Asia and the Middle East, respectively. The contraction in world economic activity was occasioned by low domestic demand in the advanced economies as well as weak exports of emerging and developing economies. By the second half of 2009, however, global production began to recover owing to the extraordinary support measures by governments across the globe. These measures included cuts in policy interest rates by central banks in order to inject liquidity into the system, the adoption of unconventional measures to sustain credit flows in the economy, the introduction of several fiscal stimulus packages and guarantees, as well as capital injections. The effects of these combined actions helped to reduce uncertainty and increase confidence in the financial markets, thus, fostering improvements in the global economy.

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The contraction in world economic activity was occasioned by low domestic demand in the advanced economies as well as weak exports of emerging and developing economies.

The US economy was projected to have declined by 2.5 per cent, in contrast to a marginal growth of 0.4 per cent in 2008, following the sharp fall in credit to the private sector, especially households, and weakened domestic demand since the beginning of 2008. The US Treasury intervened through a number of measures which included fiscal and financial stimulus packages to inject new funds, the Trouble Asset Relief Programme (TARP) and an initiative to purchase US$1.25 trillion agency-backed securities. In addition, the Federal Reserve maintained the Federal funds target rate within a range of 0 - 0.25 per cent, in order to stimulate credit expansion in the economy.

Similarly, Japan experienced a substantial decline in output growth which contracted by 5.3 per cent in 2009, compared with a fall of 1.2 per cent in 2008. The deceleration was due to the decline in its manufactured exports, particularly automobiles, and weak domestic demand.

In the Euro area, weak domestic demand and decline in the demand for the region's exports caused output to decrease by 3.9 per cent, as against the 0.6 per cent increase realized in 2008. The concerted efforts of both the fiscal and monetary authorities to promote growth in the region, including fiscal and financial stimulus packages, the purchase of toxic assets and the maintenance of low interest rates to enhance credit expansion failed to engender the desired growth.

Output in the Western Hemisphere contracted by 2.3 per cent, down from an expansion of 4.2 per cent in 2008. This was attributable to the sharp fall in domestic demand and exports, occasioned by the tighter external financing conditions and lower worker remittances in most countries. The decline in economic activities, however, varied across the region and greatly depended on the nature and intensity of the external shocks and country-specific characteristics. In response, a number of economies in the region adopted policy measures to mitigate the effects of the shocks. Such measures included the implementation of counter-cyclical monetary and fiscal policies, making the financial sector more resilient, and using the exchange rate as a shock absorber.

Economic performance in Central and Eastern Europe was also weak as output fell by 4.3 per cent in 2009, in contrast to an increase of 3.1 per cent in 2008. All the countries in the region, with the exception of Poland which reported an output growth of 1.0 per cent, recorded negative growth rates. The slowdown was largely traced to the decline in cross-border funding and a weak private sector, especially household demand, following the global economic recession.

Developing Asia maintained its positive growth path, but at a lower rate, as output rose by 6.2 per cent in 2009, compared with 7.9 per cent in 2008. The growth in output was linked to the aggressive expansionary fiscal and monetary policies adopted by most countries within the region; a rebound in financial markets and capital inflows, which eased financing constraints for smaller export enterprises, and improved consumer and business confidence; and a positive impulse for industry, following large inventory adjustments. Tension in the financial markets eased and the decline in domestic demand moderated, while strong demand was experienced, especially in China and India.

Output in the countries of the Commonwealth of Independent States (CIS) contracted by 7.5 per cent in 2009, in sharp contrast to the expansion of 5.5 per cent in 2008. The development owed much to the severe negative impact of the global recession. For instance, the Russian economy declined sharply by 9.0 per cent in 2009, as against the 5.6 per cent increase in 2008. With the pervading dependence on Russia for remittances and export earnings, many countries in the region witnessed depressed domestic demand.

In Africa, output growth was modest at 1.9 per cent in 2009, compared with 5.2 per cent in 2008. The significant slowdown resulted from weak demand and depressed commodity prices, as well as the effects of the global meltdown on its financial markets. The impact of the global recession was initially felt through South Africa, whose economy is highly integrated with the global financial markets. Weak global trade, underpinned by decline in financial flows, adversely affected the region's oil exporters (Algeria, Angola, Libya and Nigeria), manufacturing exporters (Morocco, Tunisia), and other commodity exporters (Botswana). The GDP growth in oil-exporting countries decelerated from 5.0 per cent in 2008 to 1.5 per cent in 2009, with that of South Africa, the largest economy in the region, declining by 2.1 per cent. Nigeria, however, recorded an impressive output growth estimated at 6.9 per cent.

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3.2 GLOBAL INFLATION

Global consumer prices moderated for most part of 2009, as inflationary pressures remained low, attributable to the weak global demand. However, the Commonwealth of Independent States (CIS) and Venezuela recorded the highest inflation rate of 11.8 and 29.5 per cent, respectively, traceable to currency devaluation and low remittances, huge public spending and the easing of monetary policy. Across the global economy, the moderation in inflation was uneven, with the inflation rate subdued more in China and the Middle East than in other regions.

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In the advanced economies, headline inflation moderated to 0.1 per cent, from 3.4 per cent recorded in 2008. The US headline inflation improved by 4.2 percentage points from

3.8 per cent in 2008 to negative 0.4 per cent in 2009. Similarly, Japan entered deflation as its headline inflation fell from 1.4 per cent in 2008 to negative 1.1 per cent. In the Euro area, headline inflation declined to 0.3 per cent from 3.3 per cent in 2008. In the United Kingdom, headline inflation also fell by 0.4 percentage point, to 1.5 per cent. The moderation in inflation was facilitated by a number of factors which included central banks implementing an unusually large policy rate cuts to combat the recession and intervening in the credit and asset markets to ease the financial conditions.

For the Western Hemisphere economies, headline inflation declined to 6.1 per cent, from 7.9 per cent in 2008. The moderation in inflationary pressure in the region was attributed to the continued weakness in economic activity. Inflation, however, remained at double digit in Venezuela (29.5 per cent) as a result of huge public spending and a lax monetary policy. For the inflation-targeting countries (Brazil, Colombia, Chile, Mexico, Peru, and Uruguay) where inflation rose above their targeted range (2 - 5 per cent), policy rates were raised as part of the efforts to subdue inflation.

In the developing Asian economies, headline inflation declined to 3.0 per cent, from 7.5 per cent in 2008, with all the countries in the region contributing to the decline. The response to the moderation in inflation varied across the region. Extensive fiscal and monetary support helped ease tension in financial markets and softened the decline in domestic demand in China and India. Central banks provided ample liquidity and lowered policy rates in India, Indonesia, Korea, Malaysia, The Philippines, Taiwan Province of China and Thailand. Pakistan, however, witnessed higher inflationary pressures as its headline inflation rate rose from 12.0 per cent in 2008 to an estimated 20.8 per cent.

For the CIS, headline inflation declined to 11.8 per cent, from the 15.6 per cent recorded in 2008. Governments in the region were faced with the major challenge of striking the right balance between domestic and external stability. Consequently, policy measures, such as currency devaluation and a tight monetary policy stance, were adopted to contain inflation.

In Africa, inflation also declined to an average of 9.0 per cent, from 10.3 per cent in 2008. However, three economies, (Democratic Republic of Congo, Ethiopia, and Seychelles) recorded inflation rates of more than 20.0 per cent. In contrast, a majority of the economies belonging to the CFA franc zone and the Maghreb region had estimated inflation rates of less than 5.0 per cent. To ease the inflationary pressures, central banks in countries with high inflation rates pursued tight monetary policies, while those with low inflation employed expansionary monetary policies to stimulate aggregate demand.

3.3 GLOBAL COMMODITY DEMAND AND PRICES

Global commodity demand and prices recovered modestly in 2009, despite the generally high levels of inventories, but failed to reach the pre-crisis level. The recovery was attributed to the buoyant recovery in Asia and other emerging and developing countries, as well as improvements in global financial conditions. World oil output dropped by nearly 2.0 million barrels per day (mbd), falling from 86.3 mbd in 2008 to about 84.3 mbd. Global oil demand also contracted in excess of 1.0 mbd between the fourth quarter of 2008 and 2009. Oil demand by the Organisation for Economic Cooperation and Development (OECD) countries declined from 47.6 mbd in 2008 to 45.4 mbd, while the demand by non-OECD countries rose marginally from 38.7 mbd in 2008 to 39.1 mbd. The decline in oil demand was driven by the low demand from the advanced economies, particularly the United States and Japan.

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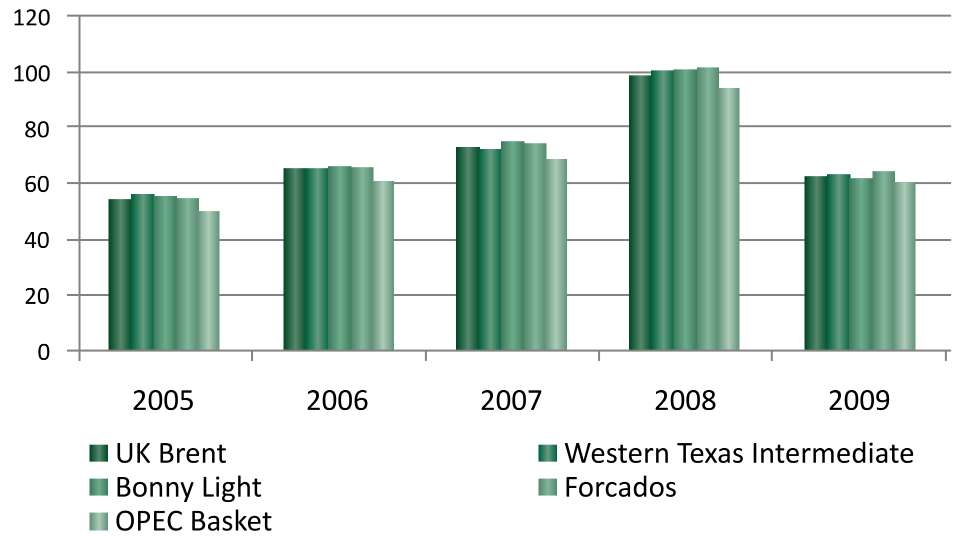
The persistent weak demand forced the Organization of Petroleum Exporting Countries (OPEC) to implement a series of production cuts to shore up prices. In response to the economic recovery and the OPEC actions, global oil prices moved from a low of US$36.0 a barrel on February 27, 2009 to an average of US$70.0 per barrel by mid-year, and stabilized around that price for the rest of 2009.

Figure 3.1: Average Spot Prices of Selected Crudes (US Dollar per Barrel)



3.4 WORLD TRADE

Aggregate global trade declined by 15.1 percentage points to negative 12.1 per cent, from 2.8 per cent in 2008. In the advanced countries, both exports and imports declined by 12.1 per cent and 12.2 per cent, respectively. Similarly, export and import trade in emerging and developing countries declined to negative 11.7 and negative 13.5 per cent, respectively, in 2009, in contrast to the increase of 4.4 and 8.9 per cent in the preceding year. The substantial decline in the volume of trade was attributed mainly to the global economic recession.

3.5 INTERNATIONAL FINANCIAL MARKETS

The Global financial markets recovered faster than expected in 2009, after reaching their troughs during the global economic and financial crises. The recovery was spurred by improved economic conditions and sustained public policy support, which helped restore confidence. For most of 2009, financial markets were largely stable, except for the slight volatility of prices in the capital market experienced in the fourth quarter, a consequence of the request by Dubai World for a debt repayment standstill and announcements by credit rating agencies of the sovereign ratings of a number of European countries. Equity prices rose in most of Europe and the US, although they remained below the pre-crisis peak in the UK. Despite the observed improvements, financial stability remained fragile in many of the developed and emerging economies, especially those hard-hit by the global financial meltdown.

3.5.1 Money Markets

The liquidity squeeze that accompanied the global financial crisis led to increased risk-aversion and uncertainty, thus affecting the pricing of risk throughout the global financial system. This resulted in increased interest rate spreads on riskier assets, such as corporate bonds, in some developing and developed countries. The spreads in developing countries remained high, as the base rates declined, in response to the easing of monetary policy in the advanced economies. Despite near zero interest rates in advanced countries, the cost of credit in developing countries increased and in some cases doubled, leaving potential effects on debt sustainability and the profitability of future investments. Although most banks were less reliant on central bank facilities and guarantees, the need to rebuild their capital remained a major challenge.

3.5.2 Capital Markets

Increased risk aversion, a re-assessment of growth prospects, and the need for firms and investors in high-income countries to strengthen their balance sheets, resulted in large scale repatriation of capital from developing to advanced economies. As a consequence, global stock markets lost between 50.0 and 60.0 per cent of their values in dollar terms, resulting in a massive loss of global wealth. Following

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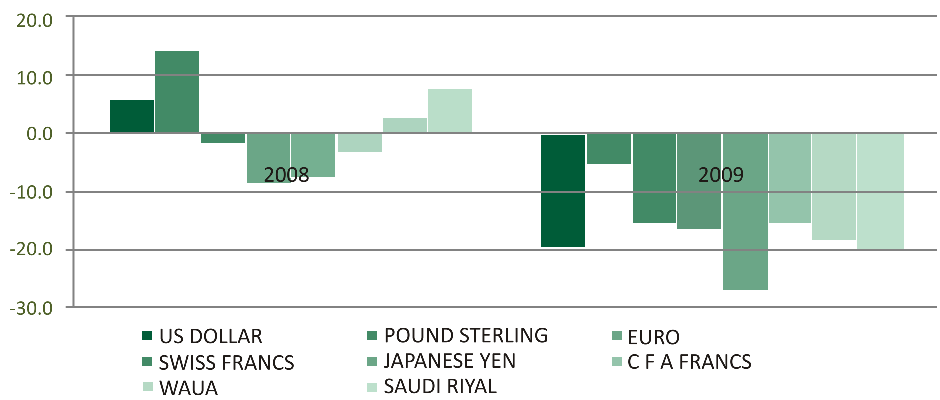
improved expectations on the health of the international banking system (in the wake of the G-20 London Summit and other measures undertaken by the U.S. Treasury) and the enhanced confidence that the global economy might recover in the near term, stock market valuations gradually regained lost ground in the later part 2009. By end-2009, all major equity markets, which had recorded significant declines in their activities by mid-March, rebounded, with corporate bond issuance reaching record high levels by end-December 2009. Although the equity market rebounded, the surge in corporate bond issuance did not offset the reduction in bank net credit to the private sector, especially to such vulnerable groups as small- and medium-size enterprises and household/consumer units.

3.5.3 The International Foreign Exchange Market

The global financial crisis led to the depreciation of the currencies of most developing economies against the US dollar. The collapse in commodity prices also played a role in the depreciation of the exchange rate in some developing and emerging countries, such as Argentina, Brazil, the Russian Federation, as well as some high-income countries, such as Australia and Canada. In the aftermath of the crisis, only a few currencies appreciated or remained stable against the US dollar. The currencies included those of some oil-exporting countries that were pegged to the US dollar. Weaker economic conditions in developed countries negatively affected home remittances and tourism, which were important sources of foreign exchange for many countries in sub-Saharan Africa. Responding to the high capital outflows, the currencies of countries in sub-Saharan Africa depreciated sharply against the US dollar, recording an average depreciation rate of about 25.0 per cent. Other countries in the world also experienced varying levels of depreciation in their currencies against the US dollar.

Figure 3.2 Annual Percentage Change in the Average Unit of Naira per Foreign Currency (Appreciation/Depreciation)



The naira weakened against major international currencies in the year under review. On the average, it depreciated against the US dollar by 20.1 per cent, the British pound sterling by 5.6 per cent, the euro by 15.8 per cent, the Swiss franc by 16.4 per cent, the Japanese yen by 27.5 per cent, the CFA francs by 15.7 per cent, the Saudi Riyal by 20.1 per cent and the WAUA by 18.1 per cent.

3.5.4 Central Bank Interest Rate Policies

Central banks across the globe continued with expansionary monetary policies for most of 2009. In particular, many central banks maintained low interest rates throughout the year, as they reduced their policy rates to considerably low levels. For example, the policy rate was around 0.25 per cent in Canada, Sweden, and the United States, and 1.0 per cent in the Euro area. In the U.S Federal Reserve, the Bank of Canada and the Sieriges Riksbank, efforts were made to transmit the cuts in short-term interest rate to longer maturities by explicit committment to the maintainance of a policy of low interest rates until there were clear signs of recovery. Overall, the cuts in interest rates were generally smaller in emerging economies, reflecting a combination of higher inflation and stress in the external sector arising from large capital outflows that could lead to a depreciation of the domestic currency exchange rate.

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Following signs of recovery, a number of central banks began to focus on exit strategies from the intervention measures that had characterised the massive cuts in interest rates in 2008 and part of 2009. For most of the central banks, raising policy interest rates did not necessarily require the unwinding of unconventional policies, as some unconventional policies, including systemic liquidity easing measures, unwind naturally with improvements in the financial market conditions. Other measures aimed at alleviating the impaired credit markets were likely to remain until conditions in those markets normalized. In general, for central banks in emerging and developing economies, maintaining their independence remained a key prerequisite for price stability in the long run.

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3.6 THE IMPACT OF THE GLOBAL ECONOMIC AND FINANCIAL CRISES ON THE NIGERIAN ECONOMY

The impact of the global financial crisis on the Nigerian economy was more evident in 2009 than in 2008. The global economic and financial crises affected developments in the domestic economy through falling commodity prices; reduced net capital inflows (in particular, foreign portfolio investment and remittances); and the drying up of trade finance and international lines of credit. The continued fall in oil prices, from a peak of US$147.0 per barrel in July 2008 to about US$70.0 per barrel in 2009 and the continued drawdown from the excess crude account, in the midst of declining oil revenues, presented some macroeconomic challenges in 2009. The reduction in inflows from crude oil exports, weakening confidence, and lower net capital inflows, all added pressure on the naira exchange rate and further deterred new investments.

The global economic and financial crises affected developments in the domestic economy through falling commodity prices; reduced net capital inflows (in particular, foreign portfolio investment and remittances); and the drying up of trade finance and international lines of credit.

BOX 3: The Impact of the Global Financial Crisis on the Nigerian Economy and the Policy Responses by the Authorities

Introduction

The global financial crisis had its origin in the United States sub-prime mortgage crisis of 2007. By the first quarter of 2008, many financial institutions in the US had tightened credit standards in view of deteriorating balance sheets. By the third quarter of 2008, the increased sub-prime loans delinquency had not only culminated in the loss of confidence in the US financial system, but also escalated and spread like wildfire through complex and poorly misunderstood financial linkages to the rest of the world's financial centres. Consequently, many large US corporations failed, with the attendant contagion effects transmitted all over the globe, resulting in output decline, credit freeze, inventory pile-ups, job losses and the ultimate bankruptcy of many global financial institutions. For developing/emerging economies, including primary-export African economies, the inevitable effect of output decline in the BRIC (Brazil, Russia India and China) and the advanced countries resulted in persistent decline in commodity prices, including oil prices, which fell precipitously in the face of declining demand and an induced a significant drop in earnings. In addition, the global financial crisis traumatized the credit and equity markets, as it triggered substantial foreign investments and portfolio outflows, owing to spontaneous global deleveraging by investors.

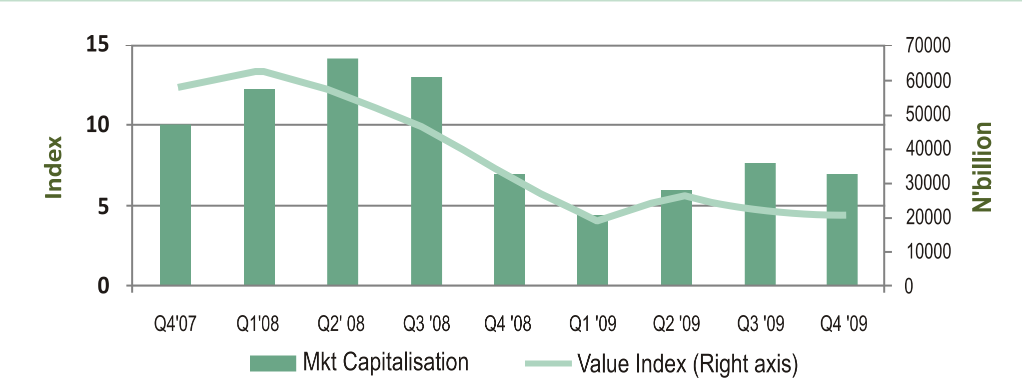
Effects of the Global Recession on the Nigerian economy

The effects of the global downturn on the Nigerian economy reflected its high degree of dependence on the external sector. The crisis was strongly felt in the external-related sectors and spilled over to other sectors of the economy. With a mono-product economy that depends largely on the export of crude oil for the bulk of government revenue, Nigeria became vulnerable to adverse developments in the international oil market, particularly as oil demand and prices became very volatile and nose-dived substantially. Specifically, the price of Nigeria's premier crude (Bonny Light) dipped from USD147.0 per barrel in July 2008 to less than USD40.0 in December 2008, before rising again to about USD70.0 in December 2009. On an annual basis, the average price rose from $74.96 per barrel in 2007 to $101.2 in 2008, but dipped to $62.1 in 2009. The export value fell persistently, from 1.7 million barrels per day (mbd) in 2007 to 1.5 mbd and 1.4 mbd in 2008 and 2009, respectively. Oil revenue exhibited a similar trend at ₦5.3 trillion, ₦4.56 trillion, ₦6.53 trillion and ₦3.19 trillion in 2006, 2007, 2008 and 2009, respectively. The negative developments in the oil sector culminated in a substantial decline in revenue to the federation which the government tried to address with a massive drawdown on the excess crude revenue account to smooth public expenditures.

Still on the Nigerian external sector, the global financial crisis resulted in loss of external competitiveness, reduction in financial inflows especially, Foreign Direct Investments (FDI) and portfolio investments as investors scrambled to safety to cushion the impact of the downturn on their home positions. In addition, inward remittances plummeted as countries imposed restrictions and as employment opportunities dipped in the Diaspora, rendering jobless many Nigerians who had hitherto remitted money to the economy. The need to effect increased divestment and repatriation of dividends, portfolio engagement and capital by the foreign investors exacerbated pressure on the foreign exchange market and the large funding of the foreign exchange demand led to a significant drawdown on external reserves, which in turn affected the Balance of Payments position of the country. Thus, the exchange rate of the naira depreciated widely from about ₦117.00/US$ in 2007 to ₦181.00/US$ at end-December 2008. The observed depreciation of the naira was accentuated by the adverse terms of trade occasioned by price movements in the international oil market.

Though the effect of the global recession threatened financial stability in the advanced economies, the ramifications on Nigeria's financial system was limited, owing to its minimal integration into the global financial landscape. In this regard, the impact of the crisis on the financial sector was not pronounced until the third quarter of 2008 when the stock market was rattled and it registered a continuous drop in its All-Share Index and volume of traded securities at the Nigerian Stock Exchange, with the market capitalization plunging from ₦13.3 trillion in 2007 to ₦9.5 trillion in 2008 and further to ₦7.0 trillion by end-2009.

The banking sector also recorded a significant assets decline of about 39.8 per cent as the crisis that had engulfed the capital market led to higher loss provisioning by banks, much lower profits and a slump in lending to the private sector. The banking sub-sector also registered a decline in trade/credit lines from foreign banks, as more credits were recalled or cancelled in the heat of the crisis within their own domestic economies. This development significantly constrained the ability of the domestic banks to extend credit to the real sector of the economy, while the interest rate spreads increased further.



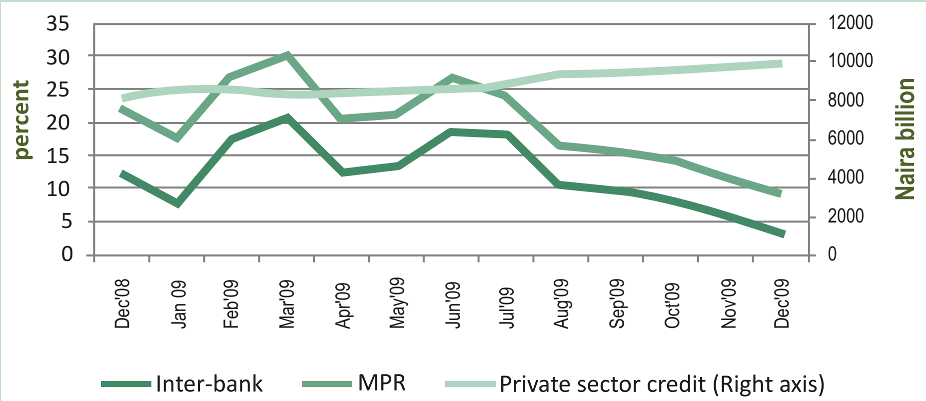
The global economic meltdown, which persisted until 2009, caused significant declines in real output growth in some sectors and the general economy. The total industrial production index fell from 119.4 in 2007 to 117.8 in 2008, but recovered modestly in 2009 as the economy toed the line of recovery. The GDP growth rate declined from 6.5 per cent in 2007 to 6.0 per cent at the onset of the crisis in 2008, but rose to 6.7 per cent in 2009. The adverse effect of the global crisis on the GDP remained noticeable in the areas of agriculture, industry and the wholesale sub-sectors. However, the building and construction sub-sector was not adversely affected as it grew marginally during the period under review. The level of liquidity available for the real sector activities was hindered by the global financial crisis. Thus, domestic credit (net) to the economy grew by 59.0 per cent at end-December 2009, which was below the target of 66.0 per cent and the growth of 84.2 per cent recorded in 2008.

Although global aggregate prices were depressed during the crisis, the large depreciation of the naira exchange rate, vis-à-vis the US dollar, contributed to the hike in the cost of imports, increase in the cost of production and loss of competitiveness by Nigerian industries. Consequently, the export market was depressed as some manufacturing companies and multinationals relocated to neighbouring countries and engaged in re-imports to Nigeria. This was as a result of the high cost of production in the country. The development has worsened the state of unemployment in the country, which rose from 10.9 per cent in 2004 to 12.8 per cent in 2008 and 12.9 per cent in the 2009. The consumer price index (CPI) showed significant variations at the onset of the crisis. The Year-on-Year inflation rate rose sharply from 6.6 per cent in December 2007 to 15.1 per cent in the last quarter of 2008, but moderated to 12.0 per cent in the last quarter of 2009, owing to relative stability in the exchange rate. However, the effect of the crisis remained high in the food component of the CPI, although it dropped significantly in August 2007 to minus 1.2 per cent and later rose to 17.1 per cent in September 2008, and subsequently to 18.0 per cent in 2009.

Policy Response by the Nigerian Government

In response to the impact of the global economic crisis on the domestic economy, the government introduced several policy measures to address the problems and prevent the crisis from throwing the economy into recession. The policy measures adopted were mainly on three broad fronts, namely monetary easing, fiscal easing, and trade policy.

On the monetary front, the monetary authorities embarked on monetary easing to ward off the contagion effect of liquidity and credit crunch in the domestic financial market. The monetary policy rate was adjusted downwards from 9.75 per cent in 2008 to 6.0 per cent in 2009, CRR from 2.0 to 1.0 per cent, and liquidity ratio was retained at 30.0 per cent, resulting in lowering the inter-bank rate and increasing the banking system credit to the private sector. The CBN also expanded the discount window facilities to provide liquidity for banks to firm up their positions.



Other measures included the identification, monitoring and safeguarding of banking system vulnerabilities, particularly rising credit risk and cross-border contagion. The use of high frequency data was embraced to help in improving the assessment of bank liquidity and solvency, and in conducting credit risk diagnostics, including stress testing. Resident and stand-by teams of target examiners were deployed to banks in the first quarter of 2009 to ensure timely regulatory action and, in general, closely monitor the activities of banks. The framework for the Contingency Plan for Systemic Distress in Banks was also reviewed and surveillance activities were further strengthened to ensure the soundness of the financial system. The CBN injected about ₦620 billion bail-out funds into some insolvent banks to shore them up and prevent contagion and a systemic crisis that might have arisen from their failure. The monetary authorities also demanded full provisioning for non-performing credit to detect the state of banks and institute remedial action. In addition, they were given the latitude to restructure margin facilities, up to the end of 2009.

Other monetary policy measures included the introduction of consolidated and risk-based supervision and the adoption of a common accounting year-end for all banks, effective from end-December 2009, to improve data integrity and comparability. The Bank also proposed the establishment of an Asset Management Company of Nigeria (AMCON) to take over the non-performing assets of banks.

The easing of fiscal policy by government was also to cushion the effects of the global crisis on the domestic economy. In this regard, the Federal Government, in collaboration with the CBN, floated a ₦200.0 billion bond for the deposit money banks, under the Commercial Agricultural Credit Scheme, to improve mechanized/commercial agriculture. Also, the lower tariffs regime under the

'2008 - 2012 Nigeria Customs and Tariff Book' was continued to stimulate domestic industrial production and manufacturing activities.

Given the high degree of openness of the Nigerian economy, the global recession had the potency to impact negatively on the country's economic activities. With the stabilization of the global financial markets and subsequent recovery in the advanced economies, the battery of policy measures initiated by government would check economic slowdown and eventual slippage into negative growth. These policies are also expected to provide a basis for a rapid turnaround of the financial system to be a driver of long-term development, through unfettered intermediation of resources to critical sectors of the economy. Thus, sustainable efforts to strengthen financial stability, through proactive regulation and supervision of financial institutions, should be given priority. Furthermore, the Federal Government should embark upon legal and institutional reforms to engender accountability and transparency in all facets of economic engagements to bolster economic growth and prosperity.

CHAPTER 4

4.0 THE FINANCIAL SECTOR

The effects of the global financial crisis persisted in the financial system in 2009. The banking system was characterized by a tight liquidity condition, especially in the first and second quarters. This, in concert with management problems and capital erosion in some banks, threatened the stability of the financial system. Thus, the CBN faced the challenges of managing liquidity shortages and the restoring public confidence in the system. This notwithstanding, the Nigerian financial sector remained resilient and stable, as evidenced by the outcomes of the various indicators.

Financial deepening continued, as the ratio of broad money supply (M2) to nominal GDP increased to 43.4 per cent, from 37.7 per cent in the preceding year. The banking system's capacity to finance the exchange of goods and services grew stronger as the ratio of claims on the core private sector to non-oil GDP grew by 10.4 percentage points to 64.8 per cent. Also, banking habit and efficiency of intermediation improved further as the proportion of currency outside banks to M2 fell to 8.7 per cent from 9.7 per cent at end-2008, reflecting the increased use of cheques and electronic forms of payment.

The money market deepened, as the ratio of money market assets outstanding to GDP stood at 13.5 per cent, from 11.7 per cent at end-December 2008.The capital market, however, remained bearish, owing to the lingering effects of the global financial and economic crises on key sectors of the economy as the All-Share Index at the Nigerian Stock Exchange fell. Furthermore, the ratio of total market capitalization to GDP declined to 28.5 per cent, from 39.7 per cent in the preceding year.

The thrust of monetary policy in 2009 was to ease tight liquidity conditions 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 (M2) grew by 17.1 per cent at the end of the year, and was below both the indicative target for the year and the outcome in the preceding year. The reserve money, the Bank's operating target, however, exceeded the indicative benchmark for the year. 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 2008.

At end-December 2009, the Nigerian formal 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 (DMBs), 5 discount houses (DHs), 910 microfinance banks (MFBs), 110 finance companies (FCs), 101 primary mortgage institutions (PMIs), 5 development finance institutions (DFIs), 1,601 bureaux-de-change (BDCs), 1 Stock Exchange, 1 Commodity Exchange and 73 insurance companies.

4.1 INSTITUTIONAL DEVELOPMENTS

4.1.1 Growth and Structural Changes

The number of banks in the industry remained at twenty-four (24), while the number of bank branches grew by 8.4 per cent from 5,134 in 2008 to 5,565. No bank was offered for sale through the Purchase and Assumption (P&A) arrangement for the resolution of insolvent banks as the cases of the remaining two (2) banks were still pending in courts. However, the CBN at end-December 2009 had issued a total of ₦47.0 billion promissory notes to cover the shortfall between the assumed deposit liabilities and the cherry-picked assets of the 11 failed banks that had been liquidated, in accordance with the terms of the P&A contract. The operating licence of Savannah Bank PLC was returned, following an order of the Federal High Court, Abuja to the CBN in February 2009.

In the other financial institutions (OFIs) sub-sector, a special examination was undertaken to ascertain the insolvency and/or cessation of business of the two hundred and ninety-eight (298) community banks (CBs) that failed to convert to MFBs. Consequently, an exit strategy that would lead to the formal revocation of their operating licences and the appointment of the NDIC as liquidator was initiated.

Of the 606 converted CBs that were granted provisional approval in 2007 to operate as MFBs, four hundred and thirty-eight (438) had obtained final licences, while one hundred and sixty-eight (168) held provisional approvals. Of this number, forty-five (45) that were yet to submit the required documentation for the conclusion of their conversion process were given up to January 31, 2010 to comply, failing which the provisional approvals would be cancelled and their names de-listed. Also, two hundred and twenty-two (222) new investors were granted final MFB licences, while eighty-two (82) were granted approvals-in-principle (AIPs), including an affiliate of ASA, Bangladesh. This brought the number of MFBs with significant foreign ownership/participation to three (3). Overall, the number of approved MFBs at end-December 2009 stood at 910 and comprised 438 converted MFBs with final licences, 222 new MFBs with final licences, one hundred and sixty-eight (168) converted MFBs with provisional approvals, and eighty-two (82) new MFBs with AIPs. One (1) DMB was granted a final licence to establish a microfinance bank subsidiary company. This brought the number of DMBs operating microfinance banks to ten (10). Final approvals to operate PMIs were also granted to two (2) promoters, which brought the total number of licensed PMIs to one hundred and one (101).

4.1.2 Fraud and Forgery

The number of reported cases of attempted or successful fraud and/or forgery in the banking industry rose in 2009, although the value of losses declined significantly. There were a total of 3,852 cases of attempted fraud and forgery involving ₦33.3 billion, US$1,009,539.00, €11,000.00 and £2,800.00, compared with 1,974 reported cases involving ₦24.5 billion, US$1,362,446.00, €451,075.00 and £2,635.00 in 2008. Out of this number, 1,590 cases resulted in losses to the banks amounting to ₦4.1 billion, US$328,201.00, £2,800.00 and €3,795.00, compared with 1,553 cases involving ₦8.8 billion, US$591,488.00, €35,391.00 and £12,410.00 in 2008.

Available data indicated that 70.0 per cent of the fraud cases were perpetrated via the electronic system, reflecting a lack of in-depth understanding of security issues and weaknesses in the internal control systems of banks in Nigeria.

4.1.3 The Public Complaints Desk

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

4.1.4 Cheque Clearing

The T+2 clearing cycle for cheque clearing was sustained in 2009. However, the volume and value of cheques cleared nationwide in 2009 declined by 3.46 and 47.52 per cent to 29.16 million and ₦29,390.95 billion, from 30.17 million and ₦43,357.42 billion, respectively, in the preceding year. The development was largely attributed to the electronic payment of staff salaries and contractors' funds by all the Ministries, Departments and Agencies (MDAs) of government, effective January 1, 2009 and the increased use of other payment modes such as the Real Time Gross Settlement (RTGS) system, NIBSS Inter-bank Funds Transfer (NEFT) and Automated Teller Machines (ATMs).

The Lagos clearing centre dominated clearing activities, accounting for 65.7 and 48.6 per cent, respectively, of total volume and value.

Figure 4.1a: Volume of Cheques Cleared in 2007 - 2009

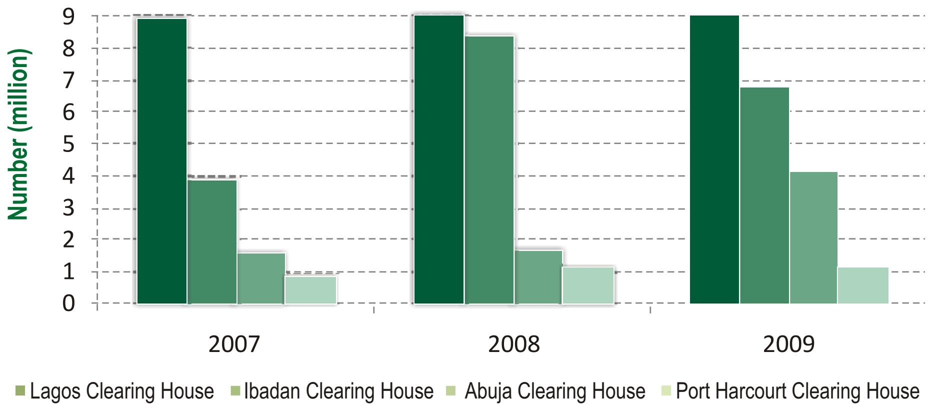
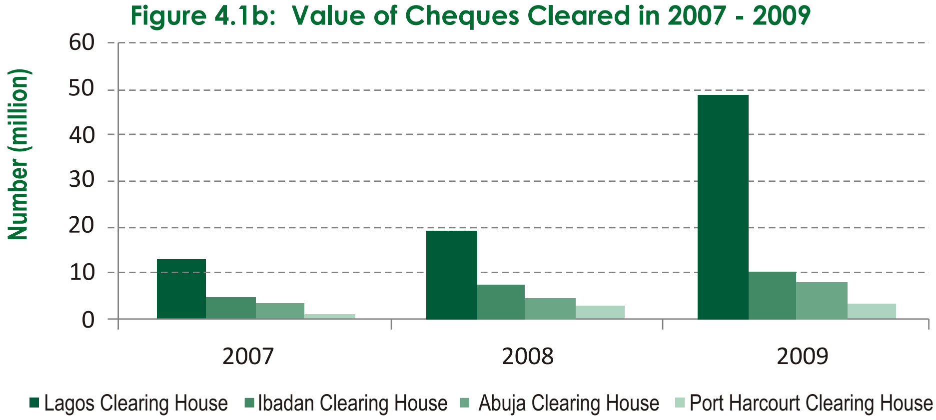


Table 4.1: Volume and Value of Cheques Cleared in 2007 - 2009

	2007		2008		2009	
	Volume	Value (₦'million)	Volume	Value (₦'million)	Volume	Value (₦'million)
Clearing System	19,895,613	28,111,190.42	30,172,925	43,357,416.23	29,159,780	29,390,952
Lagos Clearing House	8,865,357 (44.6)	12,565,276.01 (44.7)	12,686,663 (42.0)	19,313,680.69 (44.5)	19,151,133 (65.7)	14279926.24 (48.6)
Abuja Clearing House	1,556,290 (7.8)	3,402,510.12 (12.1)	1,658,042 (5.5)	4,454,888.77 (10.3)	1983280 (6.8)	2914092.91 (9.9)
Port Harcourt Clearing House	933,533 (5.0)	969,321.28 (3.0)	1,158,566 (4.0)	2,800,798.08 (6.0)	1220389 (4.2)	2348677.27 (8.0)
Kano Clearing House	na	na	na	na	349,460 (1.2)	992,940.98 (3.4)
Others	4,635,488 (23.0)	6,397,700.00 (23.0)	6,292,471 (21.0)	9,680,400.00 (22.0)	6455518 (22.1)	8855314.74 (30.1)

Figures in parentheses are percentages
na = not applicable

Figure 4.1b: Value of Cheques Cleared in 2007 - 2009



4.1.5 Inter-bank Funds Transfer (IFT)

The volume and value of inter-bank transfers through the CBNs' Inter-bank Funds Transfer System (CIFTS) were 289,535 and ₦64,351.21 billion, respectively, compared with 220,326 and ₦73,076.40 billion in 2008.

4.1.6 Use of e-Money Products

The use of the various forms of e-payment grew significantly in the year under review as the volume and value of transactions stood at 114.6 million and ₦645.04 billion, respectively, showing an increase of 73.4 and 46.1 per cent, respectively when compared with 66.1 million and N441.6 billion in 2008.

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

Apart from the Point-of-Sale (POS) transactions, all other segments of e-money products recorded increased activities.

Available data on various e-payment channels indicated that Automated Teller Machines (ATMs) remained the most patronized channel, accounting for over 95 per cent of the total e-payment transactions, while Point-of-Sale (POS) terminals were the least with less than 1.0 per cent. ATM, Web-based (Internet), POS and mobile payments accounted for 85.1, 13.0, 1.7 and 0.2 per cent, respectively, of the total value of transactions. In volume terms, they accounted for 95.2, 2.4, 0.8 and 1.6 per cent, respectively.

The upsurge in ATM transactions continued during the review period with the volume and value standing at 109.2 million and ₦548.60 billion, respectively, as at end-2009. This represented an increase of 81.5 and 37.3 per cent, respectively over the 60.1 million and ₦399.71 billion recorded in the corresponding periods of 2008. The increase in the use of ATMs could be attributed to a number of factors, including an increased number of ATMs and the spread and convenience of usage.

The use of the Internet for the payment of goods and services during the period under review increased in both volume and value from 1.6 million and ₦25.05 billion to 2.7 million and ₦84.15 billion, respectively. This represented an increase of 68.86 per cent and 235.87 per cent, respectively. The increase could be attributed to the growing number of airlines and to both local and international merchants who accepted payments through the web.

The increase in the use of the Internet for the payment of goods and services could be attributed to the growing number of airlines and to both local and international merchants who accepted payments through the web.

In 2009, the total volume and value of on-line POS transactions stood at 0.9 million and ₦11.04 billion, respectively, showing a decrease of 23.1 and 31.5 per cent, compared with 1.2 million and ₦16.12 billion, respectively in the preceding year. The decline was attributable to the fears expressed by customers over the increased numbers of fraud associated with card transactions.

The value of payments through mobile telephones increased by 80.2 per cent to ₦1.26 billion, from ₦0.70 billion in 2008, while the volume decreased by 43.1 per cent to 1.8 million, from 3.2 million in 2008.

The widespread use of foreign currency-denominated cards was sustained in 2009. The volume and value of transactions in the dollar-denominated cards increased by 22.5 and 18.7 per cent to 600,937 and US$139.88 million, respectively, from 490,445 and US$117.9 million, respectively in the preceding year. The development reflected the increased confidence of foreign investors' in the absorptive capacity of the Nigerian economy as more Nigerians now utilize the various cards available.

Table 4.2: Market Share in the e-Payment Market in 2008 and 2009

e-Payment Segment	Volume (Millions)		Value (₦' Billion)	
	2008	2009	2008	2009
ATM	60.1 (91.0)	109.2 (95.2)	399.71 (90.5)	548.60 (85.1)
Web (Internet)	1.6 (2.4)	2.7 (2.4)	25.05 (5.7)	84.15 (13.0)
POS	1.2 (1.8)	0.9 (0.8)	16.12 (3.7)	11.04 (1.7)
Mobile	3.2 (4.8)	1.8 (1.6)	0.70 (0.1)	1.26 (0.2)

Figures in brackets are percentage share of total

Figure 4.2a: Volume of Electronic Card-based Transactions in 2009

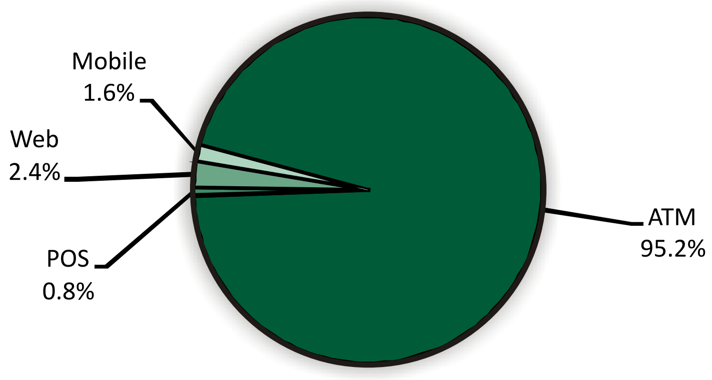
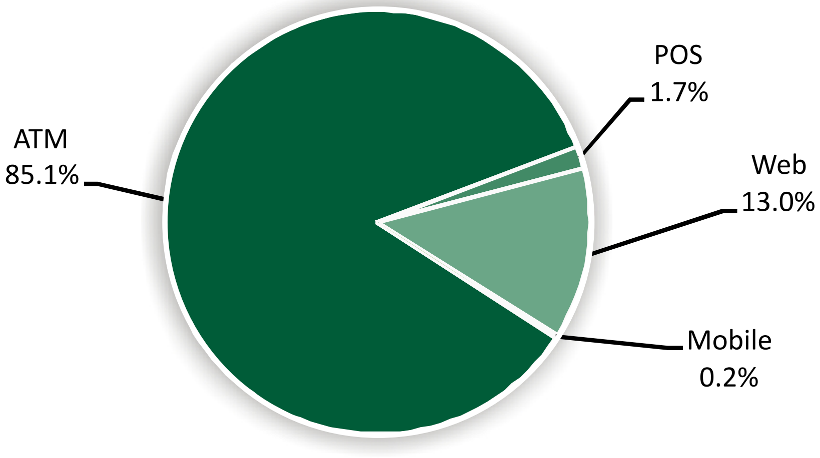


Figure 4.2b: Value of Electronic Card-based Transactions in 2009



4.1.7 Institutional Savings

Aggregate financial savings rose by ₦791.0 billion or 14.3 per cent to ₦6,339.9 billion, compared with ₦5,548.9 billion at the end of the preceding year. The ratio of financial savings to GDP was 25.7 per cent, compared with 23.1 per cent in 2008. The DMBs maintained their dominance of depository institutions within the financial sector and accounted for 90.9 per cent of the total financial savings, compared with 77.6 per cent in the preceding year. Other sources of savings held by the PMIs, Life Insurance Funds, the Pension Funds, the Nigerian Social Insurance Trust Fund, and Microfinance Banks accounted for the balance of 9.1 per cent.

4.2 MONETARY AND CREDIT DEVELOPMENTS

4.2.1 Reserve Money (RM)

At ₦1,668.5 billion, Reserve Money (RM) grew by 7.7 per cent, relative to the level at end-December 2008. At this level, RM exceeded the indicative benchmark of ₦1,604.8 billion for 2009 by 4.0 per cent. The growth in monetary base was accounted for by the growth in both currency-in-circulation (CIC) and DMBs' reserves at the CBN.

Figure 4.3a: Reserve Money and its Components

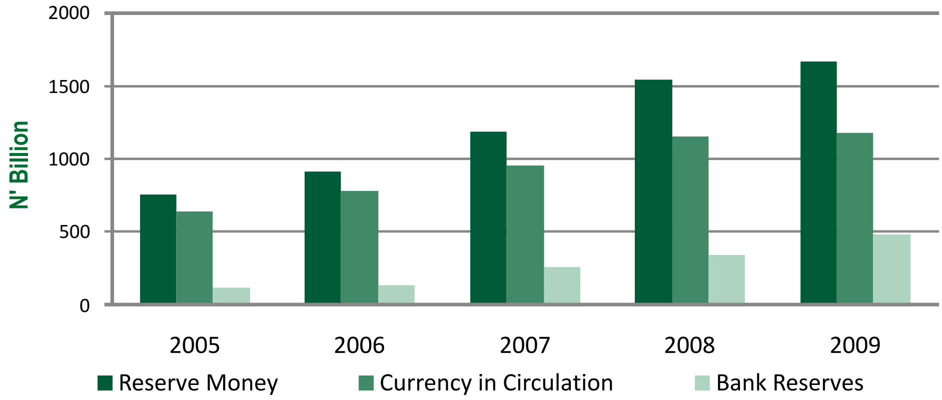
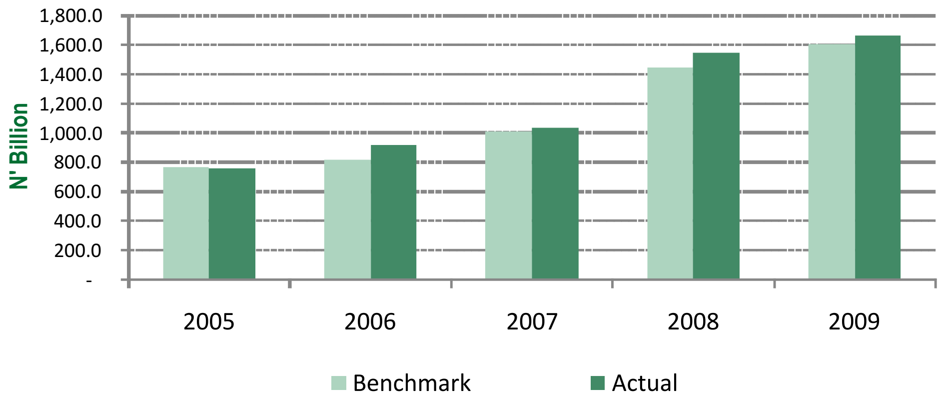


Figure 4.3b: Reserve Money Targets and Outcomes



The currency component of the reserve money increased by 2.6 per cent at end-December 2009 relative to the end-December 2008 level. Similarly, the DMBs' reserve balances at the CBN grew by 22.8 per cent at end-December 2009. Correspondingly, the increase in the sources of base money was accounted for largely by the increase in the net domestic assets of the CBN, particularly claims on the private sector and other items (net). The increase in net domestic assets more than offset the decline in net foreign assets of the CBN.

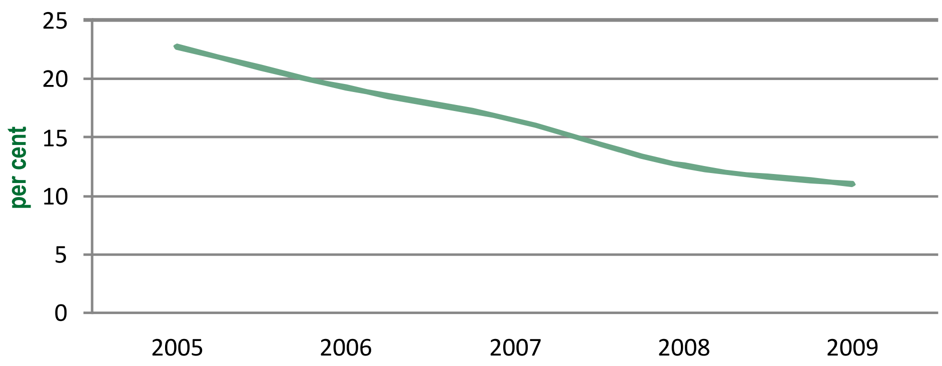
4.2.2 Broad Money (M_2)

The movement in M2 was largely driven by the expansion in domestic credit (net) of the banking system, particularly credit to the private sector.

Broad money supply grew by 17.1 per cent at end-December 2009 to ₦10,730.8 billion, compared with the indicative benchmark growth rate of 20.8 per cent for 2009 and the 57.8 per cent growth at the end of the preceding year. The movement in M_2 was largely driven by the expansion in domestic credit (net) of the banking system, particularly credit to the private sector. Correspondingly, on the liabilities side, the growth in M_2 was driven by the expansion in both narrow money and quasi-money.

An analysis of the composition of the total monetary liabilities (M_2) showed that it was fairly distributed between the liquid M_1 and quasi-money, although skewed towards the latter, and reflected the increase in time and savings deposits, as well as the public preference for holding financial assets in the form of bank deposits. Furthermore, the shift from physical currency-holding to demand deposit continued in 2009 as the ratio of currency outside banks to M_2 declined to 8.7 per cent from 9.7 per cent at end-December 2008. The ratio of foreign currency deposits to M_2 grew by 3.5 percentage points over the level at end of the preceding year to 13.5 per cent.

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, at ₦7,548.5 billion, declined by 11.7 per cent at end-December 2009, in contrast to the increase of 17.7 per cent at the end of the preceding year. The development reflected the decline in the net foreign asset holdings of both the CBN and DMBs. As a share of M_2, NFA was 70.3 per cent at end-December 2009, compared with 93.3 per cent at end-December 2008, but maintained its dominance as in the preceding five years.

4.2.3.2 Net Domestic Credit (NDC)

Credit to the domestic economy (net) grew by 59.0 per cent at end-December 2009, lower than the indicative benchmark of 66.0 per cent and the growth of 84.2 per cent at end-December 2008. The development reflected, largely, the growth of 26.0 per cent in credit to the private sector, which was however, lower than the 59.4 per cent growth at end-December 2008. Net domestic credit to the economy constituted 73.4 per cent of the total monetary assets (M_2) at end-December 2009.

4.2.3.3 Credit to the Government (CG)

Net credit to the Federal Government (CG) fell by 26.6 per cent, compared with the indicative benchmark of negative *41.9* per cent for 2009 and the decline of 31.2 per cent at end-December 2008. The Federal Government maintained its status as net creditor to the banking system at end-December 2009, as in the preceding year, with its deposits with the banking system exceeding the credit extended to it.

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

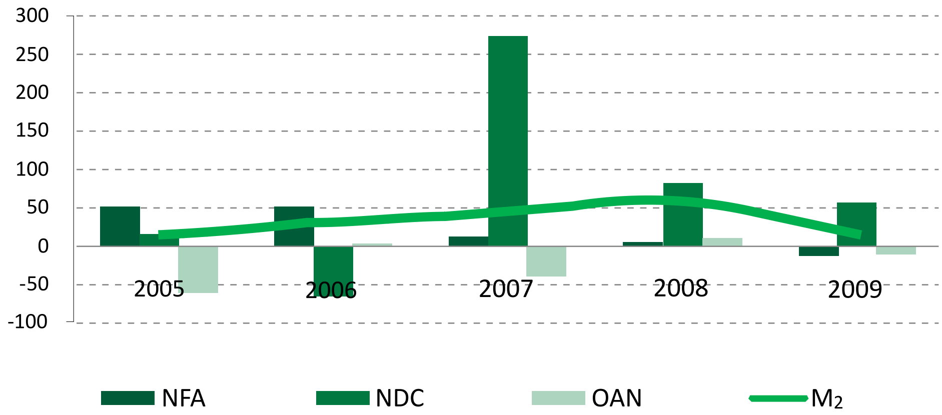
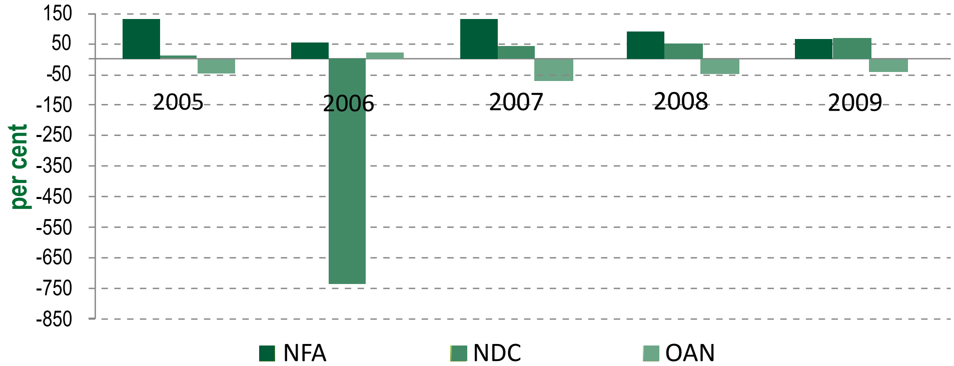


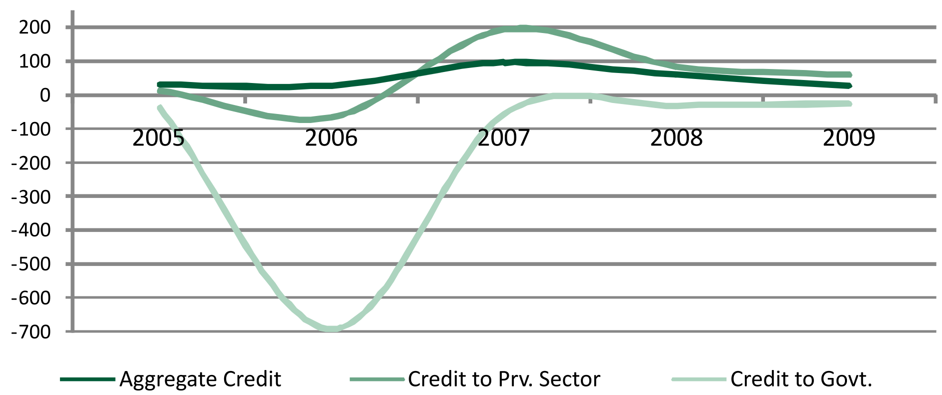
Figure 4.6: Share of NFA and NDC in M_2 (per cent)



4.2.3.4 Credit to the Private Sector (CP)

Credit to the private sector (including state and local governments and non-financial public enterprises), grew by 26.0 per cent, which was lower than the 59.4 per cent recorded at end-December 2008. Credit to the core private sector (excluding state and local governments) grew by 24.5 per cent.

Figure 4.7: Growth in Domestic Credit (per cent)



4.2.3.5 Other Assets (Net) (OAN)

At negative ₦4,693.2 billion, Other Assets Net (OAN) of the banking system declined by 8.3 per cent, compared with a decline of 4.6 per cent at end-December 2008. OAN contributed negative 3.9 percentage points to the growth in M_2 at end-December 2009.

Table 4.3: Contribution to the Growth in M_2 (per cent)

	2005	2006	2007	2008	2009
Net Foreign Assets (NFA)	64.23	78.49	23.8	22.1	-10.93
Net Domestic Credit (NDC)	15.5	-58.84	49.0	38.96	31.89
Other Assets (net) (OAN)	-55.3	23.44	-28.6	-3.28	-3.90
M_2	**24.4**	**43.09**	**44.2**	**57.78**	**17.06**
Narrow Money (M_1)	17.44	19.73	20.7	29.97	1.20
Quasi Money	6.91	23.37	23.5	27.81	15.86
M_2	**24.4**	**43.09**	**44.2**	**57.78**	**17.06**

4.2.3.6 Narrow Money (M_1)

Narrow money supply (M_1) grew by 2.3 per cent at end-December 2009, compared with the growth of 55.9 per cent at end-December 2008. The currency outside bank (COB) increased by 4.3 per cent, while demand deposits grew by 1.8 per cent, compared with their respective growth of 21.0 and 67.0 per cent at the end of the preceding year. As a proportion of M_1, COB declined to 15.0 per cent from 18.4 per cent at the end of 2008. However, as a proportion of nominal GDP, it increased by 3.7 percentage points to 7.4 per cent at end-December 2009.

Figure 4.8: Growth in Monetary Aggregates (per cent)

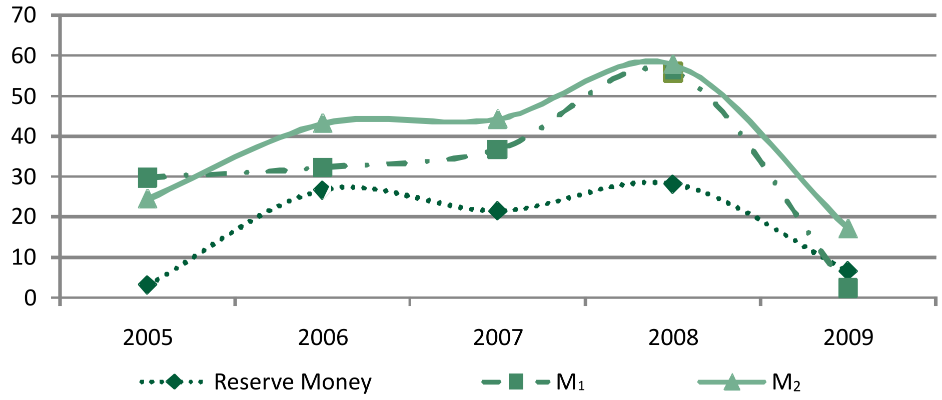
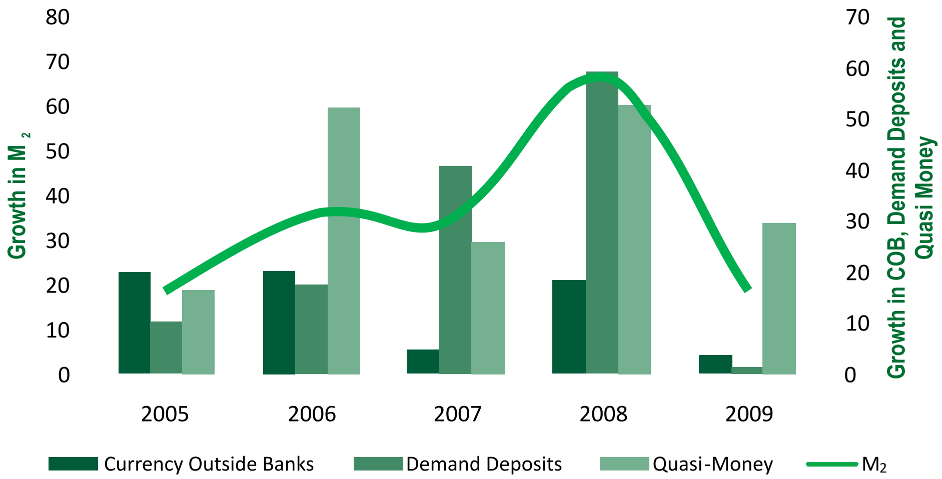


Figure 4.9: Growth in the Components of Broad Money (M_2) (per cent)



4.2.3.7 Quasi-Money

Quasi-Money grew by 33.7 per cent, compared with 60.0 per cent at end-December 2008. The growth in quasi-money reflected, largely, the growth in time deposits, especially the 56.3 per cent growth in the foreign currency deposits component with DMBs. The development reflected the aggressive competition for deposits by DMBs, as well as the public preference for term deposits to equities, following the crash of the stock market.

4.2.4 Maturity Structure of DMB Loans and Advances and Deposit Liabilities

Analysis of the structure of DMBs' outstanding credit at end-December 2009 indicated that short-term maturity remained dominant in the credit market. Outstanding loans and advances maturing one year and below accounted for 70.3 per cent of the total, compared with 75.3 per cent at end-December 2008, while the medium-term (between 1-3 years) and long-term (3-years and above) accounted for 14.4 and 15.3 per cent, respectively, compared with 14.5 and 10.2 per cent, at end-December 2008. Analysis of DMBs' deposit liabilities showed a similar trend, with short-term deposits constituting 95.7 per cent of total. Indeed, 73.3 per cent of the deposits had a maturity of less than 30 days, while the share of long-term deposits increased to 0.1 per cent at end-December 2009, from 0.03 per cent at end-December 2008. The structure of DMBs' deposit liabilities clearly explains their preference for short-term claims on the economy.

Analysis of DMBs' deposit liabilities showed a similar trend, with short-term deposits constituting 95.7 per cent of total.

Table 4.4: Composition of Total Monetary Aggregate (M_2) (per cent)

	2005	2006	2007	2008	2009
Net Foreign Assets	**156.07**	**156.6**	**125.0**	**93.27**	**70.38**
Net Domestic Credit	**84.2**	**17.7**	**46.0**	**54.03**	**73.32**
Net Credit to Government	10.9	-48.1	- 40.8	- 33.9	-21.2
Credit to Private Sector	71.3	65.8	87.0	87.9	94.6
Other Assets (Net)	**-129.8**	**-74.3**	**-71.0**	**- 47.3**	**-43.7**
Total Monetary Assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Money Supply (M_1)	**61.3**	**56.6**	**53.6**	**53.0**	**46.3**
Currency Outside Banks	20.0	16.2	12.7	9.7	8.7
Demand Deposit	41.3	40.4	40.9	43.3	37.6
Quasi Money	**38.7**	**43.4**	**46.4**	**47.0**	**53.7**
Time & Savings Deposit	32.0	35.87	38.2	36.9	40.25
Foreign Currency Deposit (FCD)	6.7	7.51	8.17	10.1	13.46
Total Monetary Liabilities (M_2)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 4.5: Maturity Structure of DMBs, Loans and Advances and Deposit Liabilities (per cent)						
Tenor/Period	Loans and Advances			Deposits		
	2007	2008	2009	2007	2008	2009
0-30 days	49.2	46.6	50.1	74.1	72.7	73.3
31-90 days	11.3	13.4	6.4	12.3	13.1	15.0
91-181 days	5.8	7.8	7.3	4.3	6.2	4.7
181-365 days	9.5	7.5	6.5	2.6	2.7	2.7
Short term	**75.8**	**75.3**	**70.3**	**93.3**	**94.7**	**95.7**
Medium term(above 1 year and below 3 years	**13.5**	**14.5**	**14.4**	**3.4**	**5.27**	**4.2**
Long term (3 years and above)	**10.7**	**10.2**	**15.3**	**3.3**	**0.03**	**0.1**
Total	**100.0**	**100.0**	**100**	**100.0**	**100.0**	**100**

Figure 4.10a: Maturity Structure of DMBs Loans and Advances at end-December 2009

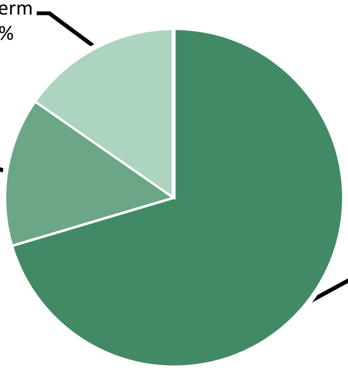


Figure 4.10b: Maturity Structure of DMBs Deposits at end-December 2009

4.2.5 Sectoral Distribution of Credit

At end-December 2009, credit to the core private sector by the DMBs grew by 59.2 per cent. Of the amount outstanding, credit to the priority sectors constituted 24.5 per cent, of which 1.4, 12.3, 0.5 and 10.3 per cent, respectively, went to agriculture, solid minerals, exports and manufacturing. The less priority sectors accounted for 45.5 per cent of outstanding credit, while the unclassified sectors accounted for the balance of 30.0 per cent.

Table 4.6: Credit to the Core Private Sector, 2006 - 2009

	Share in Outstanding (per cent)			
	2006	**2007**	**2008**	**2009**
1. Priority Sector	**30.3**	**25.9**	**26.2**	**24.5**
Agriculture	2.2	3.2	1.4	1.4
Solid Minerals	10.1	10.7	11.3	12.3
Exports	1.2	1.4	1.0	0.5
Manufacturing	16.9	10.4	12.5	10.3
2. Less Preferred Sectors	**46.0**	**41.2**	**42.0**	**45.5**
Real Estate	5.9	6.2	6.2	8.0
Public Utilities	0.9	0.6	0.6	0.8
Transp. & Comm.	7.6	6.8	7.2	8.0
Finance & Insurance	4.6	9.4	9.5	12.7
Government	4.5	3.7	1.9	3.6
Imports & Dom. Trade	22.5	14.5	16.4	12.4
3. Unclassified	**23.7**	**32.9**	**31.8**	**30.0**
Total (1+2+3)	**100.0**	**100.0**	**100.0**	**100**

Figure 4.11a: Share in Outstanding Credit to the Core Private Sector in 2009

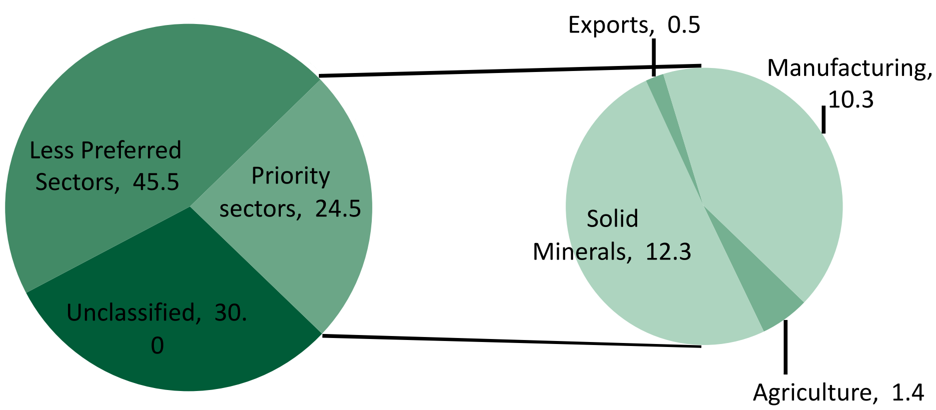
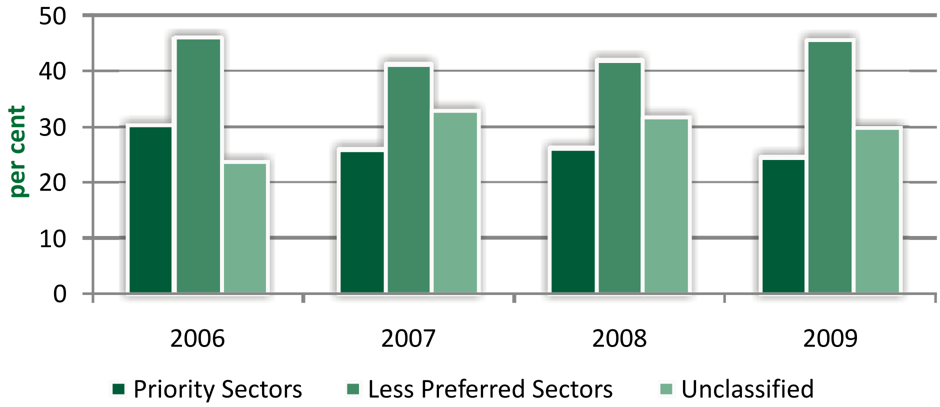


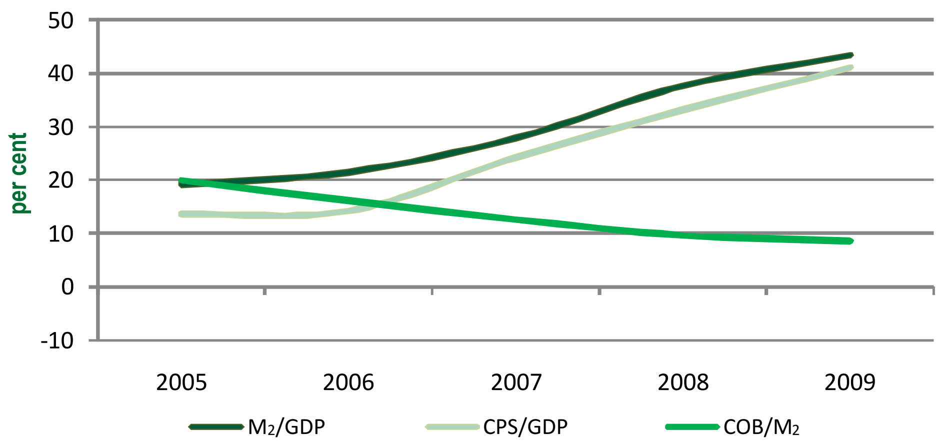
Figure 4.11b: Share in Outstanding Credit to the Core Private Sector, 2006-2009



4.2.6 Financial/Banking System Development

The depth of the financial sector, as measured by the ratio of M_2 to GDP, stood at 43.4 per cent at end-December 2009.This indicated an improvement when compared with 37.7 per cent at end-December 2008. Thus, the banking system showed a greater capacity to finance the exchange of goods and services. Bank financing of the economy, measured by the ratio of credit to the private sector to GDP (CP/GDP), stood at 41.1 per cent at end-December 2009, compared with 33.2 per cent at end-December 2008. Furthermore, the intermediation efficiency indicator, the ratio of currency outside banks to broad money supply, improved modestly to 8.7 per cent at end-December 2009, from 9.7 per cent at end-December 2008, reflecting the impact of the increased use of electronic forms of payment, particularly ATM and other e-card products, as well as improved banking habits. Also, the ratio of currency in circulation to M_2 fell to 11.0 per cent in 2009, from 12.6 per cent in the preceding year.

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



The ratio of financial savings (quasi-money) to GDP improved to 23.3 per cent from 17.7 per cent in the preceding year. The moniness of the economy, measured by the ratio of CIC to GDP, stood at 4.8 per cent, the same as at end-2008. The size of the banking system, relative to the size of the economy, indicated by the ratio of banking system's assets to GDP, remained at 107.5, the same as at end-2008. The ratio of DMBs' assets to GDP increased to 70.9 per cent in 2009, from 66.5 per cent at end-December 2008 notwithstanding the difficulties that the DMBs faced during the year as a consequence of the stock market crash. The ratio of the CBN assets to GDP, however, fell from 42.0 per cent at end-December 2008 to 36.6 per cent as a result of the decline in its net foreign assets holdings.

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

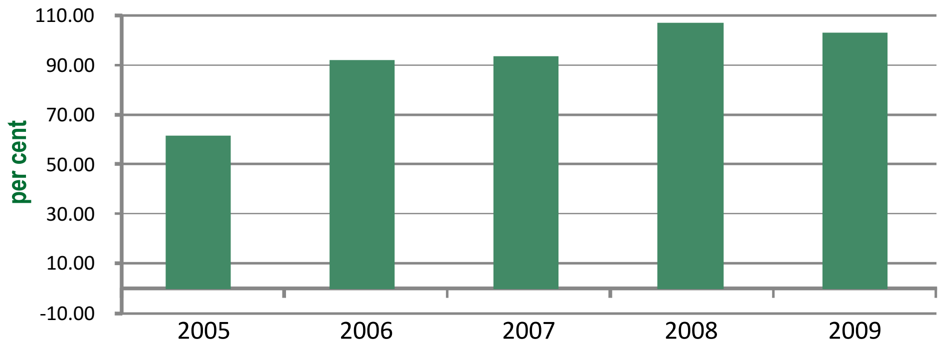


Figure 4.12c: Ratio of Deposit Money Banks' Assets to GDP (per cent)

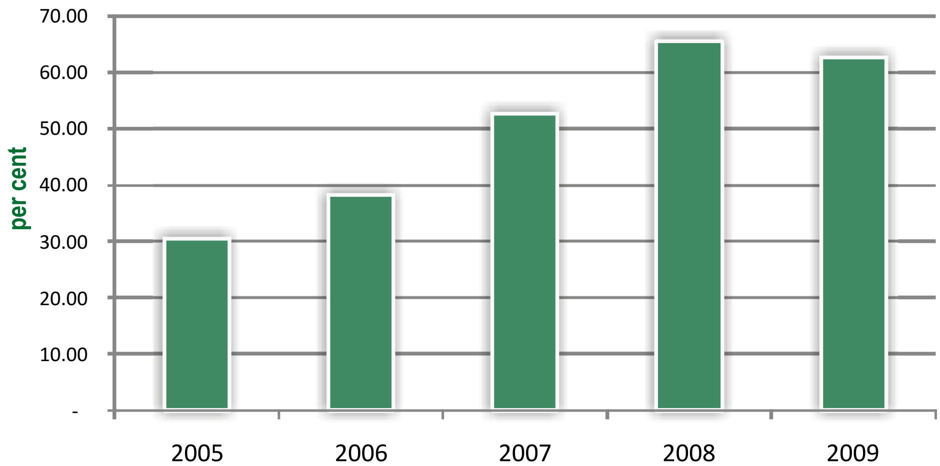


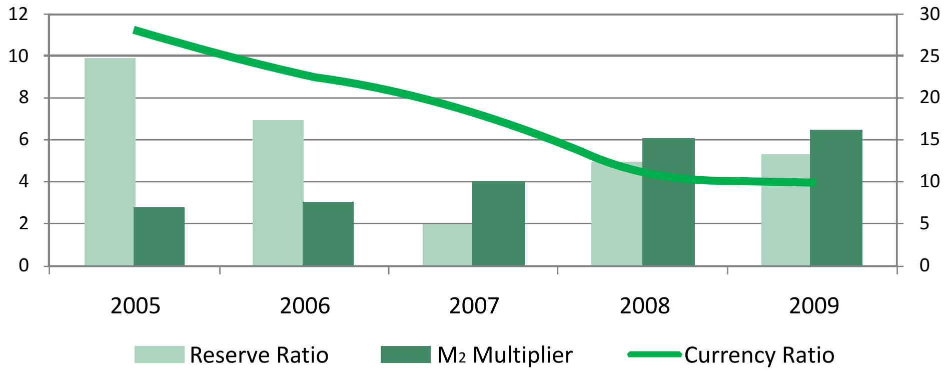
Table 4.7: Monetary Aggregates and Measures of Financial/Banking Development					
Aggregates (₦' billion)	**2005**	**2006**	**2007**	**2008**	**2009**
Nominal GDP	14,735.3	18,709.6	20,853.6	24,296.3	24,712.7
Broad Money (M_2)	2,814.8	4,027.9	5,809.8	9,166.8	10,730.8
Quasi Money (Savings)	1,089.5	1,747.3	2,693.6	4,309.5	5,763.5
Currency in Circulation	642.4	779.1	960.6	1,155.6	1,185.0
Currency Outside Banks	563.2	650.9	737.9	892.9	930.7
Credit to Private Sector	2,007.2	2,650.8	4,968.96	8,059.5	10,155.4
DMBs Assets	4,515.1	7,172.9	10,981.7	15,919.6	17522.9
CBN Assets	4,406.7	10,034.5	8,689.0	10,203.4	9,039.1
Banking System Assets	8,921.8	17,207.4	19,670.7	26,123.6	26,562.0
Monetary Ratio (per cent)					
M_2/GDP	19.1	21.5	27.9	37.7	43.4
CIC/ M_2	22.8	19.3	16.5	12.6	11.0
COB/ M_2	20.0	16.2	12.7	9.7	8.7
Quasi Money/ M_2	38.7	43.4	46.4	47.0	53.7
CIC/GDP	4.4	4.2	4.6	4.8	4.8
Cp/GDP	13.6	14.2	24.2	33.2	41.1
Cp core/Non-Oil GDP	21.9	22.1	37.9	54.4	64.8
DMBs Assets/GDP	30.6	38.3	52.7	66.5	70.9
CBN's Assets/GDP	29.9	53.6	41.7	42.0	36.6
Banking System's Assets/GDP	60.5	92.0	94.3	107.5	107.5

4.2.7 Money Multiplier and Velocity of Money

The broad money multiplier at end-December 2008 rose to 6.4, compared with the 5.8 programmed for 2009 and 5.9 at end-December 2008. The increase in the multiplier reflected the decline in currency-deposit ratio, following the increased use of electronic money. Currency-deposit ratio declined from 11.2 per cent at end-December 2008 to 10.2 per cent at end-December 2009, reflecting the substantial increase in the total deposit liabilities of the DMBs. However, reserve-to-deposit ratio increased to 5.3 per cent at end-December 2009 from 4.9 per cent at end-December 2008.

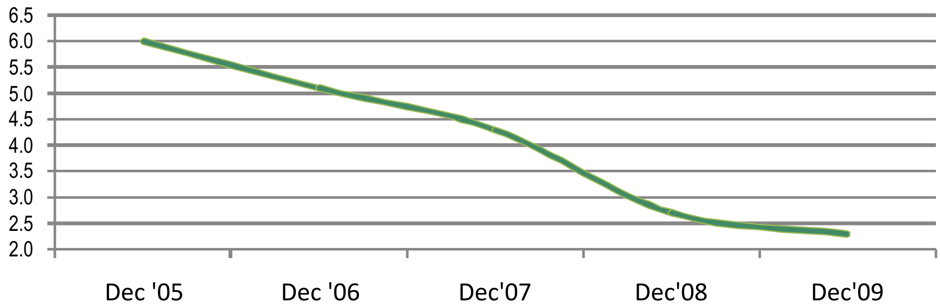
Table 4.8: Money Multiplier and Velocity of M_2						
	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Currency Ratio	32.8	27.7	22.8	18.4	11.2	10.2
Reserve Ratio	11.2	9.8	6.9	1.9	4.9	5.3
M_2 Multiplier	3.1	2.7	2.9	3.9	5.9	6.4
Velocity of M_2	5.2	6.0	5.1	4.3	2.7	2.3

Figure 4.13: Money Multiplier, Currency Ratio and Reserve Ratio



The velocity of circulation of broad money remained unstable at end-December 2009. The M_2 velocity which stood at 4.3 at end-December 2007 fell to 2.7 at end-December 2008 and further to 2.3 at end-December 2009.

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 1.6 per cent to ₦161.5 billion, compared with ₦158.9 billion in the preceding year. Analysis of the asset base of the five institutions indicated that FMBN accounted for 36.3 per cent of the total. NACRDB, BOI, NEXIM and UDBN accounted for 25.5, 22.4, 15.3 and 0.5 per cent of the total, respectively.

Cumulative loan disbursements by the DFIs increased by 16.4 per cent to ₦90.8 billion. The percentage shares of FMBN, NACRDB, NEXIM, BOI and UDBN in total loans were 43.0, 25.9, 16.2, 14.7 and 0.2 per cent, respectively. The combined paid-up share-capital of the DFIs was ₦38.3 billion, while their combined shareholders' funds was ₦25.1 billion, compared with ₦27.1 billion recorded in the preceding year.

4.3.2 Microfinance Banks (MFBs)

The total assets/liabilities of MFBs rose by 29.4 per cent to ₦158.8 billion at end-December 2009. The paid-up capital also increased by 36.9 per cent to ₦38.8 billion, and the shareholders' funds increased by 22.3 per cent to ₦45.3 billion. The development was attributed to the injection of fresh capital by both new and old investors of the converted and newly licensed microfinance banks. Investible funds available to the sub-sector amounted to ₦39.6 billion, compared with ₦49.1 billion in the preceding year. The funds were sourced mainly from an increase in deposits (₦11.2 billion), placements from other banks (₦10.9 billion), paid-up capital (₦10.5 billion) and other liabilities (₦5.1 billion). The funds were used for placements with other banks (₦16.0 billion), loans and advances (₦13.1 billion), fixed assets (₦4.5 billion), other assets (₦3.0 billion), and investments (₦0.5 billion).

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

Short-term investments remained dominant at the microfinance banks (MFBs) in 2009, mirroring developments in the banking system. Short-term loans, at end-December 2009, accounted for 77.2 per cent of the total, while loans maturing above 360 days accounted for 22.8 per cent from the respective levels of 83.8 and 16.2 per cent at end-December 2008. Similarly, the short-term liabilities by these institutions remained dominant as deposits of less than one year maturity accounted for 93.5 per cent, while deposits of above one (1) year accounted for 6.5 per cent at end-December 2009. Indeed, deposits of less than 30 days maturity constituted 58.6 per cent, compared with 60.0 per cent at end-December 2008.

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

	2008		2009	
Tenor/Period	**Loans and Advances**	**Deposits**	**Loans and Advances**	**Deposits**
0-30 days	17.5	60.0	8.4	58.6
31-60 days	8.0	9.7	19.1	8.3
61-90 days	12.2	7.5	18.1	9.3
91-180 days	16.3	7.7	19.1	8.9
180 – 360 days	29.7	7.8	12.5	8.4
Short term	**83.8**	**92.8**	**77.2**	**93.5**
Above l80 days but below 1 year	**29.7**	**7.2**	**17.2**	**6.5**
Above 360 days	**16.2**	**7.2**	**22.8**	**6.5**
Total	**100.0**	**100.0**	**100.0**	**100.0**

4.3.4 Discount Houses (DHs)

The total assets/liabilities of the discount houses declined by 17.1 per cent to ₦346.0 billion, compared with ₦417.2 billion in 2008. Total funds sourced amounted to ₦87.4 billion, compared with ₦209.5 billion in the preceding year. The funds were sourced mainly from money-at-call (₦47.4 billion) and claims on banks (₦23.0 billion), among others. The funds were invested mainly in Federal Government Securities (₦43.6 billion) and repayment of borrowings (₦20.9 billion). Discount houses' investments in Federal Government securities of less than 91 days maturity amounted to ₦52.4 billion and represented 19.0 per cent of their total current liabilities. This was 41.0 percentage points lower than the prescribed minimum of 60.0 per cent for 2009.

4.3.5 Finance Companies (FCs)

The total assets/liabilities of the FCs declined by 12.0 per cent to ₦118.1 billion. Similarly, loans and advances declined by 35.8 per cent to ₦32.4 billion, while shareholders' funds declined significantly by 52.5 per cent to ₦12.0 billion. Total borrowings, however, increased by 5.5 per cent to ₦87.7 billion. Investible funds that accrued to the sub-sector totalled ₦33.9 billion, compared with ₦68.4 billion in the preceding year. The funds were sourced mainly from customers' repayment of loans and advances (₦18.0 billion), borrowings (₦4.6 billion), and an increase in paid-up capital (₦3.8 billion). They were utilized in the reduction of reserves (₦17.1 billion) and other liabilities (₦8.5 billion), among others.

4.3.6 Primary Mortgage Institutions (PMIs)

The total assets of the PMIs stood at ₦329.6 billion at end-December 2009, indicating a decline of 0.1 per cent from the preceding year's level. The development was attributed largely to the decline in the deposit liabilities of the PMIs. Investible funds available to the PMIs totalled ₦55.7 billion, compared with ₦154.2 billion in 2008. The funds were sourced mainly from the withdrawal of balances with banks (₦26.8 billion), increase in the shareholders' funds (₦10.7 billion), and other liabilities (₦9.6 billion). The funds were utilized mainly to increase other assets (₦21.2 billion), reduce deposit liabilities (₦18.1 billion) and increase loans and advances (₦10.1 billion).

4.3.7 Bureaux-de-Change (BDC)

A total of four hundred and forty-six (446) fresh applications for BDC licences, comprising seventy-five (75) class "A" and three hundred and seventy-one (371) class "B" were received, compared with 589 applications received at end-December 2008. The number of final licences granted during the year was three hundred and eleven (311), compared with three hundred and forty-five (345) granted in the preceding year, while two hundred and forty-two (242) AIPs and forty-eight (48) other applications were at various stages of processing. Overall, the number of approved BDCs increased from one thousand, two hundred and sixty-four (1,264) at end-December 2008 to one thousand, six hundred and one (1,601) at end-December 2009.

4.4 MONEY MARKET DEVELOPMENTS

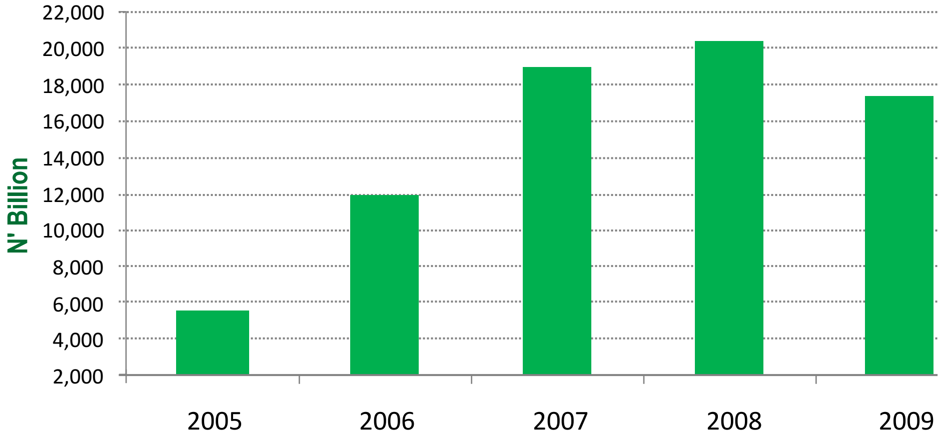
Activities in the money market slowed in the first half of the year. The lull could be attributed to the tight liquidity condition in the banking system that began in the last quarter of 2008. The Bank took various policy actions to inject funds into the banking system, namely, the reduction of the Monetary Policy Rate and the injection of a ₦620.0 billion lifeline into eight (8) banks and the re-introduction of the interest rate corridor as well as the Central Bank's guarantee of unsecured inter-bank market transactions. The actions moderated risk expectations among market participants, as the spread between the unsecured and secured transactions at the inter-bank market narrowed, while the volume of transactions increased considerably. The interest rate on the standing deposit facility was reduced to 2.0 per cent, from 4.0 per cent, in order to encourage trading amongst DMBs.

Furthermore, there was neither direct auction nor two-way-quote trading at the secondary market, due mainly to the Bank's decision to increase banking system liquidity. However, at the auction of government securities, the coupon rate trended downwards. The foreign exchange market remained relatively stable with the re-introduction of the Wholesale Dutch Auction system in the second half of the year, the sale of foreign exchange to BDC operators, and further liberalization of the inter-bank foreign exchange market.

4.4.1 Inter-bank Funds Market

At the inter-bank funds market, the value of transactions declined by 15.1 per cent to ₦17,316.22 billion in 2009. The development was due to the low level of transactions at the inter-bank and open-buy-back segments. The value of transactions at the inter-bank call placement segment fell by 22.9 per cent to ₦4,472.01 billion in 2009, relative to the level in 2008. At the open-buy-back segment, investments also fell to ₦12,844.21 billion, from ₦14,606.17 billion in 2008. As a proportion of the total value of transactions, the inter-bank call and the open-buy-back segments accounted for 25.8 and 74.2 per cent, respectively, compared with 28.4 and 71.6 per cent in 2008.

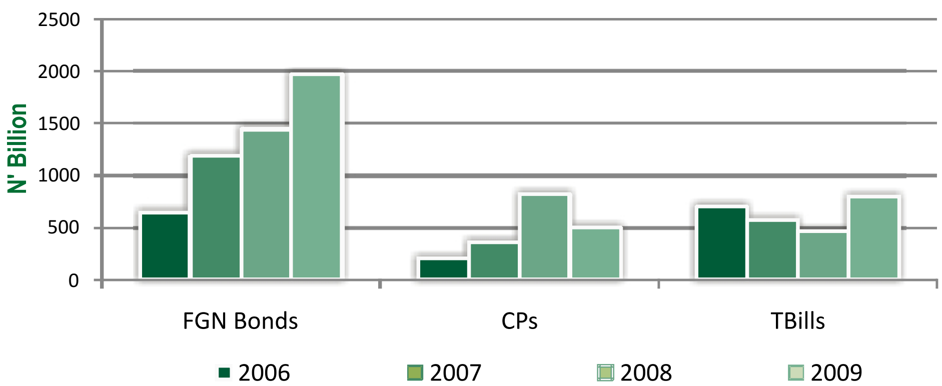
Figure 4.15: Value of Inter-bank Funds Market Transactions



4.4.2 Money Market Assets Outstanding

Total money market assets outstanding as at end-December 2009, stood at ₦3,344.25 billion, showing an increase of 19.1 per cent, when compared with the 27.2 per cent increase at end-December 2008. The development was traceable to the increase in the value of Commercial Papers (CPs), Bankers' Acceptances (BAs) and FGN bonds.

Figure 4.16: Money Market Assets Outstanding



Government remained the dominant player in the Nigerian money market, as government securities constituted 82.9 per cent of money market assets outstanding as at end-December 2009, while private sector-issued securities (certificates of deposits, commercial papers and bankers' acceptances) accounted for 17.1 per cent.

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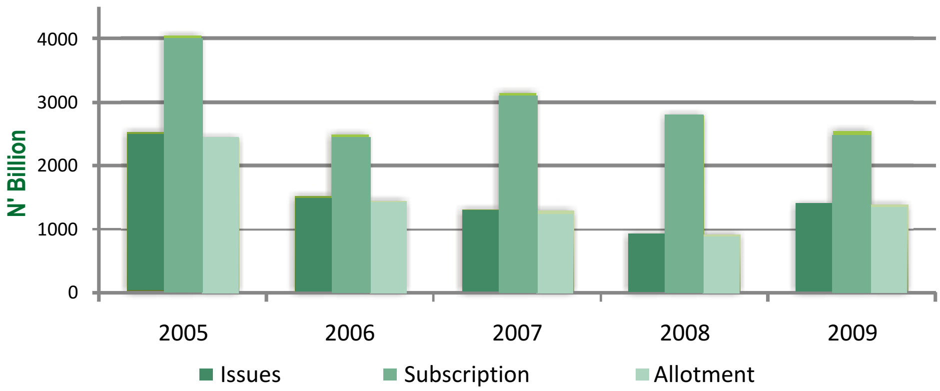
Table 4.10: Composition of Money Market Assets Outstanding in 2009		
Asset	**Share in Total (%) in 2008**	**Share in Total (%) in 2009**
Treasury Bills	16.74	23.85
Treasury Certificates	0.0	0.0
Development Stocks	0.02	0.02
Certificate of Deposit	0.0	0.0
Commercial Papers	29.6	15.22
Bankers' Acceptances	3.7	1.86
FGN Bonds	51.29	59.05
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 2009. NTBs worth ₦1,392.5 billion were issued in 2009, showing an increase of 52.0 per cent over the ₦916.3 billion in 2008. The increase was accounted for by the series of additional issues during the period under review.

Figure 4.17: NTB Issues, Subscriptions and Allotments



A breakdown of the allotments showed that banks were allotted ₦838.8 billion, Discount Houses ₦71.1 billion, Mandate and Internal Funds ₦346.1 billion, while the CBN and Money Market Dealers (MMDs) got ₦5.0 billion. The average rates ranged between 4.0 and 7.4 per cent, indicating a decrease in rates when compared with the range of 5.7 and 9.4 per cent in the preceding year.

A total of ₦1,049.8 billion was repaid during the year. Nigerian Treasury Bills outstanding at the end of 2009 increased by 68.9 per cent to ₦797.5 billion.

Table 4.11: Allotment of NTBs (Naira billion)			
	2007	**2008**	**2009**
DMBs	587.3	383.7	838.8
Mandate and Internal Fund	556.3	429.3	346.1
Discount Houses	133.8	69.1	71.1
MMD Take-up	21.1	23.4	5.0
CBN Take-up	6.0	7.6	0.03

Figure 4.18: Nigerian Treasury Bills: Breakdown of Allotments in 2009

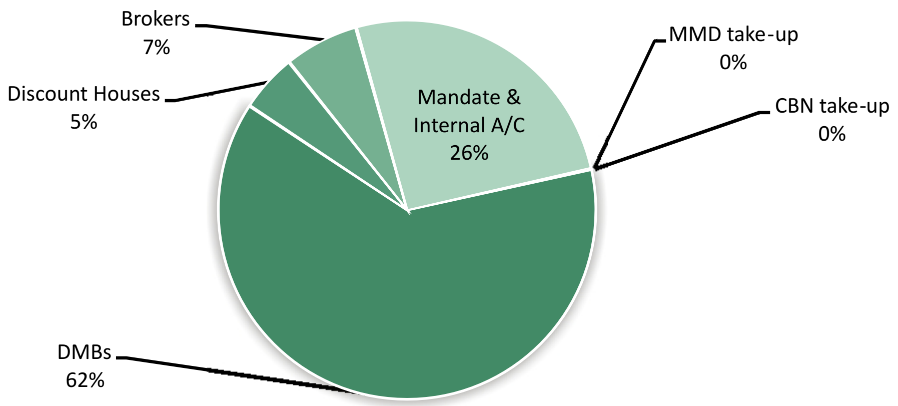


Figure 4.19: Treasury Bills Outstanding

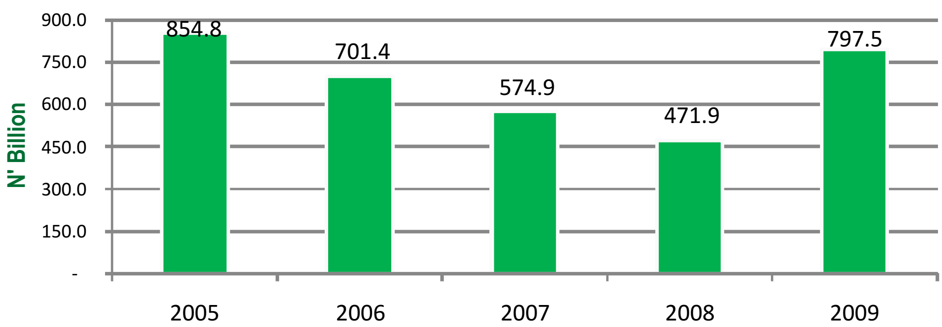
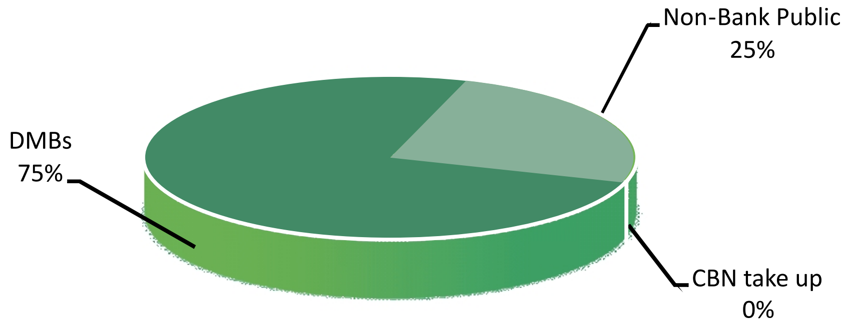


Figure 4.20: Nigerian Treasury Bills: Classes of Holders in 2009



4.4.2.2 Commercial Papers (CPs)

Investments in CPs as a supplement to bank credit to the private sector fell in 2009. The value of CPs held by DMBs declined by 38.1 per cent to ₦509.1 billion at end-December 2009, compared with the increase of 126.4 per cent at end-December 2008. Thus, CPs constituted 15.2 per cent of the total value of money market assets outstanding, compared with 29.6 per cent at the end of the preceding year.

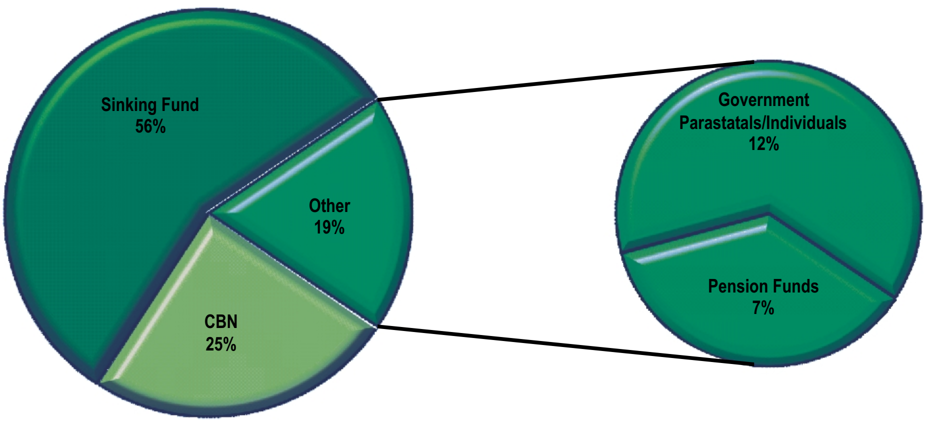
4.4.2.3 Bankers' Acceptances (BAs)

Holdings of BAs by DMBs fell by 6.3 per cent to ₦62.2 billion as at end-December 2009, compared with the fall of 18.9 per cent at end-December 2008. The fall reflected the decline in investments by DMBs and discount houses. Consequently, BAs accounted for 1.9 per cent of the total value of money market assets outstanding at end-December 2009, down from 2.4 per cent end-December 2008.

4.4.2.4 Federal Republic of Nigeria Development Stocks (FRNDS)

Outstanding Development Stocks stood at ₦0.52 billion at end-December 2009. There was, however, no redemption during the year. Of the amount outstanding, the CBN held a total of ₦0.13 billion, compared with ₦0.14 billion in 2008. Holdings on the account of sinking funds stood at ₦0.29 billion, down from ₦0.38 billion in the previous year. Holdings by the non-bank public was ₦0.1 billion, from ₦0.06 billion in the preceding year.

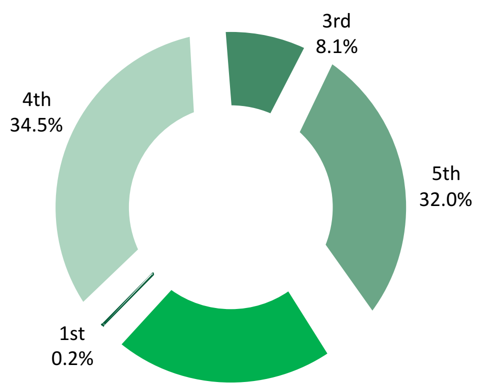
Figure 4.21: Development Stock: Classes of Holders in 2009



4.4.2.5 FGN Bonds

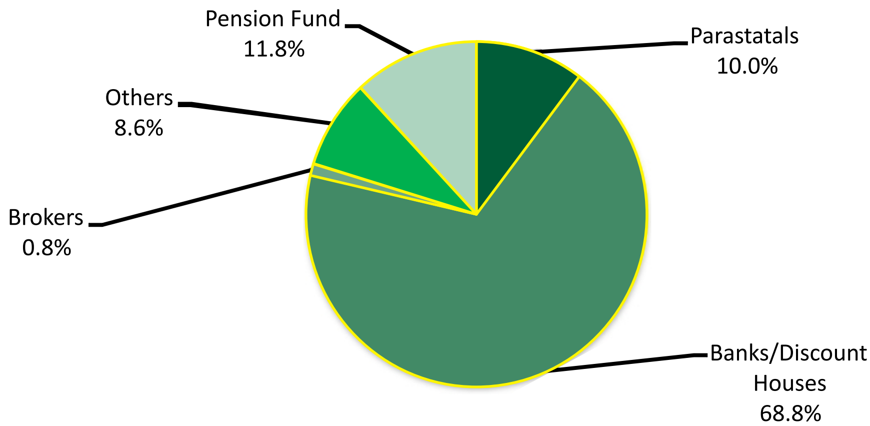
At the FGN Bonds segment, new Bonds were floated while the 4th, 5th and 6th FGN Bonds were re-opened. Total outstanding at the end of 2009 was ₦1,974.9 billion, compared with ₦1,445.7 billion at the end of the previous year, an increase of 36.6 per cent. The increase was traceable to the new issues to finance FGN's budget deficit and the restructured NTBs. Of the total outstanding bonds, 0.2 per cent was for the 1st FGN Bond, 8.1 per cent for the 3rd FGN Bond, 34.5 per cent for the 4th FGN Bond, 32.0 per cent for the 5th FGN Bond and the balance of 25.1 per cent for the 6th FGN Bond. The balance of ₦25.0 billion Special FGN Bond, issued to settle outstanding pension arrears, was fully liquidated during the year.

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 accounted for 8.6 per cent.

Figure 4.23: FGN Bonds by Holder

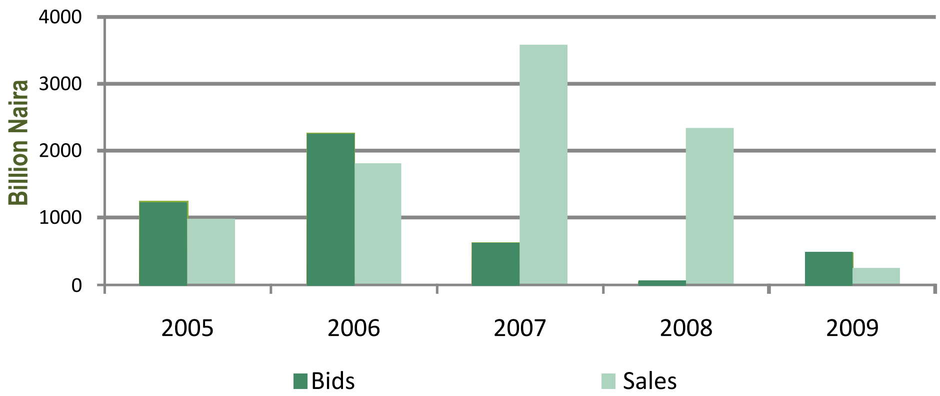


4.4.3 Open Market Operations (OMOs)

Analysis of activities in the money market revealed that there was a tight liquidity condition in the banking system early in 2009. However, in order to boost the tradeable bills at the inter-bank, two way quote trading, a weekly auction of ₦20.0 billion was approved by the Monetary Policy Committee (MPC) and, as a result of that policy action, a total of ₦62.3 billion was withdrawn from the banking system by the end of March. There was neither purchase nor sale of government securities through the two-way quote platform due to the unattractiveness of the offer rates quoted at the trading sessions. However, in order to provide funds for the ₦200.0 billion Commercial Agricultural Credit Scheme (CACS) and boost tradeable maturities at the secondary market, as well as deepen activities among money market dealers, direct auctions were conducted four (4) times in April 2009. Nigerian Treasury Bills (NTBs) worth ₦125.8 billion, ₦20.0 billion and ₦60.0 billion were offered in April, May and June, respectively, while the sum of ₦95.15 billion, ₦39.25 billion and ₦57.8 billion, respectively were allotted. In line with the Bank's monetary policy stance, aggressive mopup of excess liquidity was suspended from July to December 2009.

Total subscription and sale of NTBs amounted to ₦471.6 billion and ₦254.9 billion, respectively in 2009, compared with ₦34.0 billion and ₦2, 331.3 billion, respectively in 2008. The low level of sales could be attributed to the tight liquidity in the banking system, the suspension of mop-up activities and the policy stance of the Bank to inject liquidity into the banking system.

Figure 4.24: OMO Issues and Sales



4.4.4 Discount Window Operations

4.4.4.1 CBN Standing Facilities

Deposit Money Banks and discount houses continued to access the standing facilities in order to meet their liquidity needs during temporary shortages and to invest their surpluses when the need arose.

4.4.4.1.1 Deposit Facilities

Interest payment on the standing deposit facilities window was restored, with effect from July 7, 2009, after its suspension in October 2007. With the downward review of MPR to 6.0 per cent, from 8.0 per cent, the interest rates corridor was restored at 200 basis points above the MPR for lending facilities and 200 basis points below MPR for deposit facilities. The deposit rate was further reviewed downwards to 400 basis points in November 2009. Consequently, the cumulative deposits placed by DMBs and discount houses in the year under review was ₦8,628.9 billion, against the nil recorded in 2008 when deposits were not remunerated.

4.4.4.1.2 Lending Facilities

Activities at the standing lending facility window were sustained. The cumulative transactions at the standing lending facility in 2009 stood at ₦32,533.6 billion, an increase of 9.8 per cent or ₦2,889.3 billion, compared with ₦29,644.3 billion in 2008.

4.4.4.2 Over-the-Counter Transactions (OTCs)

Over-the-counter trading in FGN Bonds was carried out on the floor of the Nigerian Stock Exchange, while final settlement was effected at the CBN. Total transaction was ₦26,879.1 billion in 212,509 deals, an increase of ₦16,090.2 billion or 166.4 per cent, when compared with ₦10,090.0 billion in 80,135 deals in 2008. The development was attributed to the preference for government securities by the Primary Dealers Market Makers (PDMM).

4.4.4.3 Foreign Investment

During the year, there was no investment in either NTBs or FGN Bonds by foreign investors, a fallout of the global economic meltdown, which culminated in the outflow of capital from the economy. However, total investment at end-December 2008 was ₦71.7 billion.

4.4.4.4 Promissory Notes

Promissory notes worth ₦6.7 billion were issued in favour of some banks in respect of the purchase and assumption of some liquidated banks in 2009, compared with ₦9.1 billion issued in 2008. The sum of ₦14.2 billion was redeemed, leaving an outstanding stock of ₦15.3 billion at end-December 2009.

4.4.4.5 The Expanded Discount Window Operations/CBN Guarantees

The Expanded Discount Window (EDW) which allowed the use of privately issued securities, such as Bankers' Acceptances, Guaranteed Commercial Papers, Promissory Notes, NDIC Accommodation Bills, State Government Bonds and tenored securities of up to 365 days, remained accessible to market players in the first two quarters of 2009. However, government securities, namely, Nigerian Treasury Bills and FGN Bonds, ceased to be eligible for the EDW transactions from March 2009. The total volume of EDW transactions between January and July 2009 was ₦1,465.7 billion at rates ranging from 12.0 to 24.4 per cent. The applicable rates were anchored on the MPR except for the period between February and April 2009 when they were linked to the NIBOR. There were no fresh transactions on the window, following the decision of the Bank to close the EDW in July 2009.

Furthermore, as part of the CBN strategy to address the problem of risk perception among the counter parties and encourage trading among the DMBs at the inter-bank money market, the Bank guaranteed all inter-bank placements, with effect from July 2009. The guarantee, coupled with the injection of the sum of ₦620 billion into eight troubled banks, had the salutary effect of moderating/stabilizing the inter-bank money market rates.

As part of the CBN strategy to address the problem of risk perception among the counterparties and encourage trading among the DMBs at the inter-bank money market, the Bank guaranteed all inter-bank placements, with effect from July 2009.

4.4.4.6 Repurchase Agreement (Repo)

In line with the Bank's policy to engender a more efficient and effective intermediation framework and, in order to stabilize interest rates, especially at the short-end of the credit market, the Bank's window remained open to all market participants. From March 2009, access to the facility was streamlined such that the tenor was pegged to a maximum of 90 days and only Federal Government security-backed collaterals were acceptable. The rate on the repo window was benchmarked to the MPR plus appropriate basis points to reflect the different tenors. The sum of ₦1,395.9 billion was approved at the repurchase window from February to September 2009. Patronage at the repo window, however, slowed as the Bank's guarantee of inter-bank exposures and Pension Fund Administrators' placements with banks engendered confidence, provided liquidity and led to more vibrant inter-bank activities. It also enhanced access to funds in the banking system.

4.4.4.7 Open-Buy-Back (OBB) Transactions

The total value of transactions at the OBB stood at ₦19,166.1 billion in 2009, a decrease of 29.3 per cent from the ₦27,105.9 billion recorded in 2008. The development was attributed to the tight liquidity condition in the banking system and the dearth of government securities available for collaterals.

4.5 CAPITAL MARKET DEVELOPMENTS

4.5.1 Institutional Developments in the Nigerian Capital Market

Sixty-four (64) securities, consisting of nine (9) dormant companies, fifty-three (53) fixed income securities and two (2) other firms were delisted from the Daily Official List, while three (3) managed funds were granted memorandum-listing status, compared with four (4) in 2008. The names of three (3) companies were changed as recommended by their board of directors as follows: Platinum Habib Bank PLC to Bank PHB PLC; First Inland Bank PLC to FinBank PLC; and Dunlop Nigeria PLC to DN Tyre & Rubber PLC.

In an effort to strengthen and propel the Nigerian Stock Exchange (NSE) into the future, a new organizational structure was approved. Under the new structure, the title of the Director General became Group Chief Executive Officer, supported by four (4) Executive Directors heading four (4) directorates, namely, Information Technology and Market Operations, Listings, Strategy and Business Development, and Regulation and Risk Management. The Private Placement and Emerging Markets department of the Exchange was also renamed the Alternative Investment Market and Private Placement Exchange (AIM/PRIPEX). The AIM/PRIPEX offers a special window for all concluded private placements to be listed on the Exchange. The Exchange introduced a new NSE-30 and four sectoral indices. These are the NSE-30, the NSE Food/Beverage, the NSE Banking, the NSE Insurance and the NSE Oil/Gas Indices.

In an effort to strengthen and propel the Nigerian Stock Exchange (NSE) into the future, a new organizational structure was approved.

Furthermore, the NSE concluded arrangements with two renowned global news media, namely, Thomson Reuters and Bloomberg for the dissemination of real-time market data to the global investment community. The service was designed to complement that provided by the official website and local data centre. The Exchange commissioned two (2) new trading floors in Owerri and Bauchi, bringing the number of trading floors to thirteen (13), compared with eleven (11) in the preceding year. Also, in an effort to internationalise the market, the Exchange collaborated with Bloomberg to co-brand all the newly created indices in order to enhance their profile and give institutions the confidence to create products, based on these indices.

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4.5.2 The Nigerian Stock Exchange (NSE)

Activities on the floor of the NSE were bearish, as all the major market indicators trended downwards almost throughout the year. The aggregate volume and value of traded securities declined substantially by 46.9 and 71.4 per cent, respectively. Also, aggregate market capitalization of the 266 listed securities declined by 26.3 per cent to close at ₦7.0 trillion, compared with ₦9.6 trillion recorded in 2008. The market capitalization of the 216 listed equities dropped from ₦7.0 trillion in 2008 to close at ₦5.0 trillion. The development was due largely to the significant decline in the price of equities, the delisting of 11 companies and the maturity of 53 fixed income securities.

Activities on the floor of the NSE were bearish, as all the major market indicators trended downwards almost throughout the year.

Market capitalization, as a percentage of GDP, was 28.5 per cent, compared with 39.7 per cent in 2008. The ratio of the value of stocks traded to GDP remained at 10.0 per cent as in the preceding year and the turnover value, as a percentage of market capitalization, was 9.8 per cent, compared with 25.2 per cent in the preceding year. The annual turnover value (measured as a ratio of the total value of stocks traded to the total value of stocks listed on the domestic market) declined by 71.4 per cent, in contrast to the increase of 14.3 per cent in 2008.

Figure 4.25: Trends in Market Capitalization and NSE Value Index

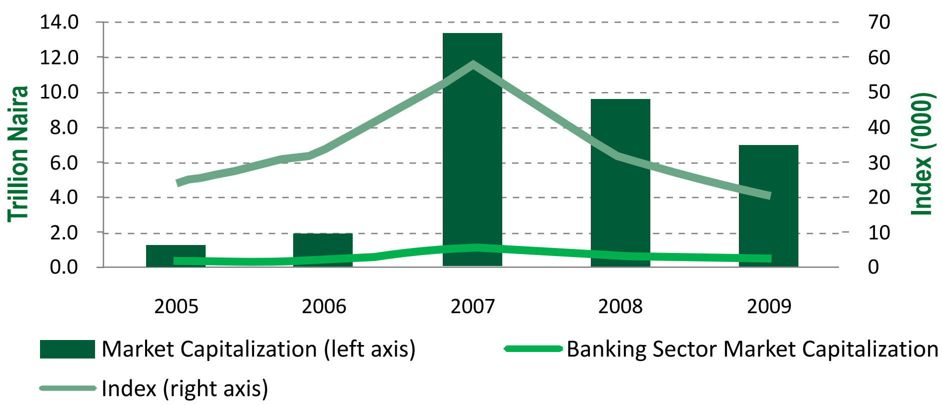


Table 4.12: Indicators of Capital Market Developments in the Nigerian Stock Exchange (NSE)

	2005	2006	2007	2008	2009
Number of Listed Securities	288	288	309	299.0	266.0
Volume of Stocks Traded (Turnover Volume) (Billion)	26.7	36.5	138.1	193.1	102.9
Value of Stocks Traded (Turnover Value) (Billion Naira)	262.9	470.3	2100.0	2400.0	685.7
Value of Stocks/GDP (%)	1.8	2.6	8.9	10.0	10.0
Total Market Capitalization (Billion Naira)	2900.1	5120.9	13294.6	9,535.8	7,032.1
Of which: Banking Sector (Billion Naira)	*1212.1*	*2142.7*	*6432.2*	*3,715.5*	*2,238.1*
Total Market Capitalization/GDP (%)	19.5	28.1	56.0	39.7	28.5
Of which: Banking Sector/GDP (%)	*8.1*	*11.8*	*27.1*	*15.5*	*9.1*
Banking Sec. Cap./Market Cap. (%)	41.8	41.8	41.8	39.0	31.8
Annual Turnover Volume/Value of Stock (%)	10.1	7.8	6.6	8.0	15.0
Annual Turnover Value/ Tota l Market Capitalization (%)	9.1	9.2	15.8	25.2	9.8
NSE Value Index (1984=100)	24,085.8	33,358.3	57,990.22	31,450.78	20,827.17
Growth (In per cent)					
Number of Listed Securities	4.0	0.0	7.6	-2.6	-11
Volume of Stocks	38.8	36.8	278.4	39.8	-46.9
Value of Stocks	16.4	78.9	346.5	14.3	-71.4
Total Market Capitalization	50.6	76.6	159.6	-27.8	-26.3
Of which: Banking Sector	*82.9*	*76.8*	*200.2*	*-42.2*	*-39.8*
Annual Turnover Value	16.4	78.9	346.5	14.3	-71.4
NSE Value Index	1.0	38.5	74.7	-45.8	-33.8
Share of Banks in the 20 Most Capitalised Stocks in the NSE (%)					

Source: Nigerian Stock Exchange (NSE).

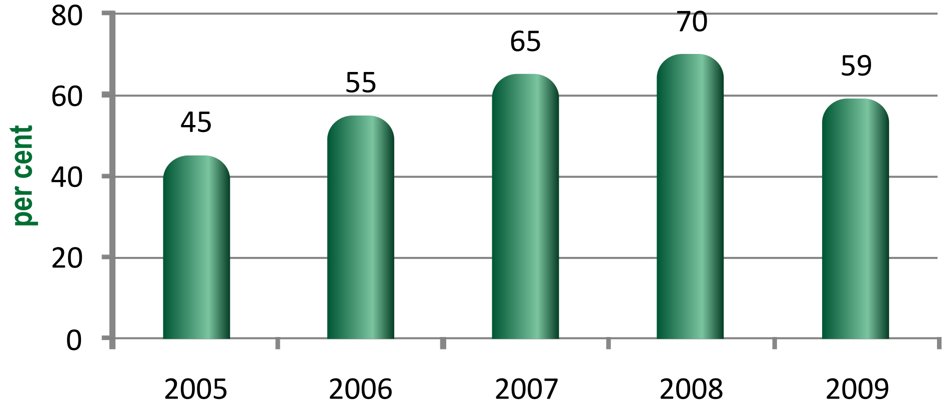
4.5.2.1 The Secondary Market

The secondary market segment of the NSE recorded poor performance as there was significant capital reversal owing to low investors' confidence, following the global economic and financial crises. A turnover volume of 102.9 billion shares was recorded, indicating a decline of 46.9 per cent from the 193.1 billion shares in 2008. Similarly, a market turnover of ₦685.7 billion was recorded, representing a decline of 71.4 per cent from the level in 2008. The bulk of the transactions remained in equities, which accounted for ₦685.3 billion or 99.9 per cent of the turnover value. Transactions in the industrial loans sub-sector accounted for ₦412.8 million, representing 0.1 per cent of the total, while the Preference Stocks sub-sector remained inactive. Of the top twenty (20) listed companies by turnover volume, the banking and insurance sub-sectors accounted for eighteen (18), while information and communications technology and conglomerate had one (1) each. The share of banks in the twenty (20) most capitalized stocks in the NSE was 59.0 per cent.

The secondary market segment of the NSE recorded poor performance as there was significant capital reversal owing to low investors' confidence, following the global economic and financial crises.

Towards the end of the year, however, the market rebounded, owing to market corrections. Consequently, foreign portfolio investments worth ₦229.0 billion were recorded, compared with ₦153.5 billion recorded in the preceding year.

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 fell significantly by 33.8 per cent to close at 20,827.17, compared with 31,450.78 in the preceding year. The development reflected the decline in share prices of the listed stocks on the Exchange, a consequence of the continued crisis in the global financial system, weak domestic economic performance, and the sustained investors' crisis of confidence experienced in the capital market.

The new NSE-30 Index, however, dropped marginally by 3.0 per cent to close at its year-end level of 827.99, while the four sectoral indices, namely, the NSE Food/Beverage Index, the NSE Banking Index, the NSE Insurance Index and the NSE Oil/Gas Index also fell, by 5.8, 32.0, 61.1 and 60.1 per cent, respectively, to close at 526.71, 339.32, 249.01 and 288.06.

4.5.2.3 The New Issues Market

There was a lull in the primary market as indicated by the decline in the number of applications received and issues offered for public subscription, reflecting the liquidity crisis and investors' waning confidence in the market.

There was a lull in the primary market as indicated by the decline in the number of applications received and issues offered for public subscription, reflecting the liquidity crisis and investors' waning confidence in the market. The Exchange approved 30 applications for both new issues and mergers/acquisitions, valued at ₦279.3 billion, compared with 70 applications valued at ₦2.6 trillion in 2008. The non-bank corporate issues accounted for 71.5 per cent of the total new issues approved with 25 applications valued at ₦199.7

billion, while the banking sub-sector accounted for 3.6 per cent with one application valued at ₦10.1 billion. The State Government Bond issue amounted to ₦69.5 billion, representing 24.9 per cent of the total. Of the non-bank applications, foreign listings and insurance sub-sectors accounted, respectively, for ₦27.5 billion (9.8 per cent) and ₦33.2 billion (11.9 per cent).

No new issue was raised through initial public offer (IPO), while ₦314.7 billion was raised through supplementary issues. The sum of ₦31.7 billion was raised through rights issues and ₦71.7 billion through bonds issue, including four State Government Bonds. Listing by Introduction accounted for ₦131.0 billion, while shares placement took ₦7.4 billion. Four (4) applications by Unit Trusts for memorandum-listing valued at ₦22.8 billion were also approved during the year.

Figure 4.27: New Issues by Sector

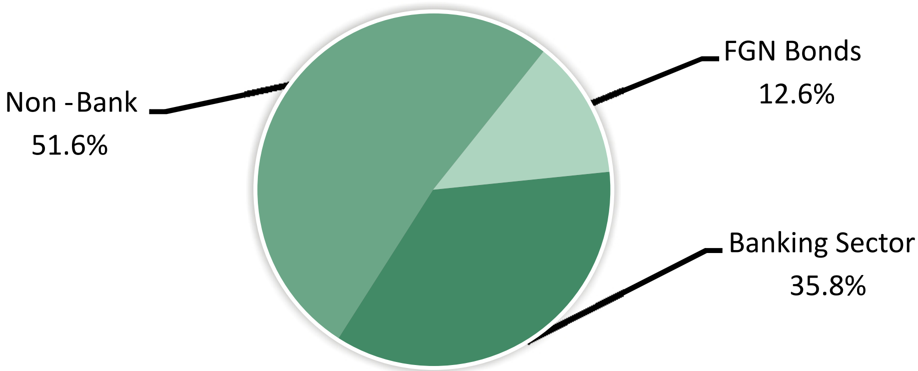
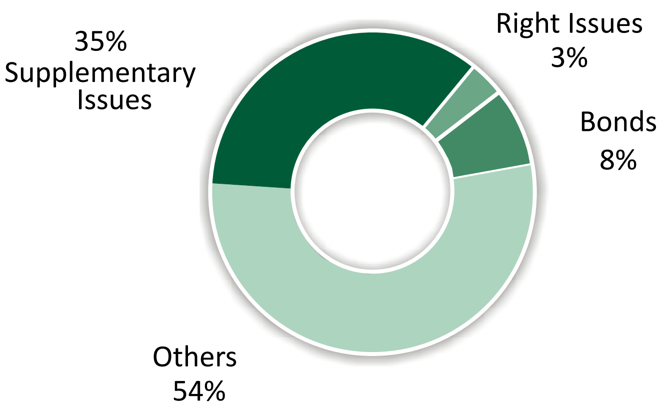


Figure 4.28: New Issues by Type



CHAPTER 5

5.0 FISCAL OPERATIONS

Nigeria's fiscal policy thrust in 2009 remained the maintenance of prudent fiscal management under the revised Medium-Term Fiscal Framework. At ₦4,844.6 billion or 19.6 per cent of GDP, the gross Federation Account revenue decreased by 38.4 per cent below the level in 2008. The development was attributed to the decrease in both domestic crude oil production and prices, particularly during the first quarter. However, the decline was moderated by the rise in non-oil receipts. The need to stimulate the economy prompted a substantial drawdown of the excess crude account savings, from US$20.34 billion at end-2008 to US$6.54 billion at end-2009 to shore up the distributable revenue to the three tiers of government. The Analysis of the fiscal operations of the general government revealed an aggregate outlay of ₦7,258.0 billion, relative to an aggregate revenue of ₦6,263.4 billion and resulted in an overall deficit of ₦994.5 billion or 4.0 per cent of GDP, which was financed largely through domestic borrowing. Federal Government retained revenue decreased by 17.2 per cent below the level in 2008, while aggregate expenditure rose by 6.5 per cent. The fiscal operations of the Federal Government resulted in an overall deficit of ₦810.0 billion or 3.3 per cent of GDP. Provisional data on state governments' finances indicated an overall deficit of N186.2 billion, while that of the local governments showed a surplus of ₦1.8 billion. Consolidated public debt was ₦3,812.6 billion or 15.4 per cent of GDP at end-2009 , compared with ₦2,811.3 billion or 11.7 per cent at end-2008. Nigeria's external debt stock increased by US$0.2 billion to US$3.9 billion, following the additional disbursement of concessional loans from multilateral institutions. In the same vein, domestic debt grew by 35.6 per cent to ₦3,228.0 billion as a result of the additional net borrowing during the year.

5.1 FISCAL POLICY THRUST

The fiscal policy thrust for 2009 was instituted against the backdrop of the challenges posed by the global economic and financial crises, which led to a slowdown of global economic growth. The development resulted in a lower crude oil demand and a decline in the international prices of oil, which adversely affected the Nigerian economy. Consistent with the revised Medium-Term Expenditure Framework, the fiscal thrust adopted a prudent outlook that was targeted at achieving the following:

The fiscal policy thrust for 2009 was instituted against the backdrop of the challenges posed by the global economic and financial crises, which led to a slowdown of global economic growth.

- A more efficient use of public resources by rationalizing areas of waste and focusing on the critical sectors that would propel economic growth and assist in the realization of the objectives of the 7-Point Agenda of the Federal Government;
- Migrating from a system in which limited resources are spread thinly across

many projects to that in which resources are concentrated on fewer, high priority projects for speedy completion;

- Strengthening compliance with ECOWAS Common External Tariff (CET) to mitigate cross-border smuggling and enhance sub-regional trade, through continued implementation of the tariff bands under the "2008 2012 Nigeria Customs and Tariff Book", with the 'fifth band' of 35.0 per cent providing modest protection to key local industries;
- Increasing investment in critical physical infrastructure, human capital development and the implementation of sectoral reforms;
- Protecting the integrity of the financial system by introducing measures that would strengthen the financial markets and restore investors' confidence; and
- Ensuring lasting peace, security and development, not only in the Niger Delta, but across the country.

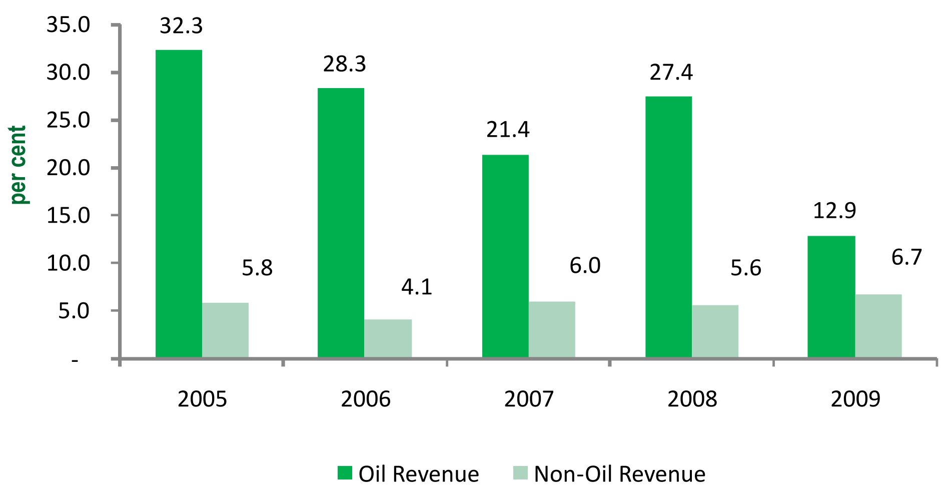
5.2 FEDERATION ACCOUNT OPERATIONS

5.2.1 Federally-Collected Revenue

Total federally-collected revenue declined by 38.4 per cent to N4,844.6 billion in 2009, and constituted 19.6 per cent of GDP.

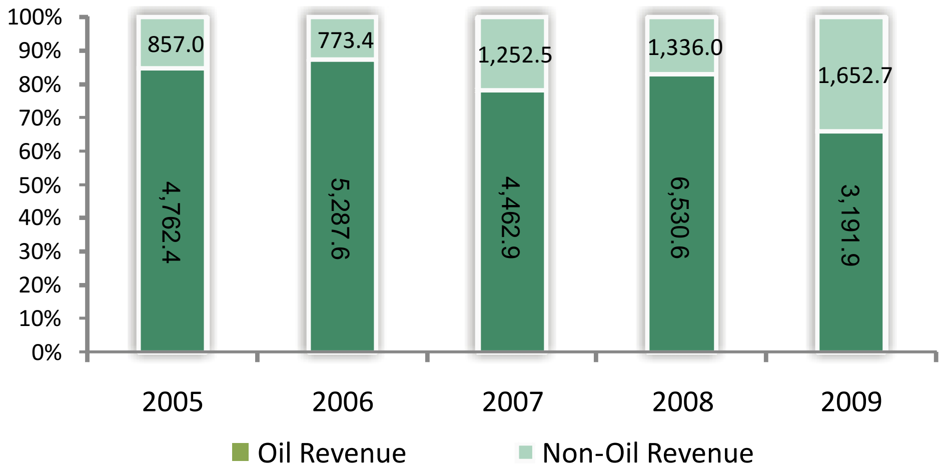
Total federally-collected revenue declined by 38.4 per cent to ₦4,844.6 billion in 2009, and constituted 19.6 per cent of GDP. The development was largely attributed to the decline in domestic crude oil production and exports, occasioned by the militant activities in the Niger Delta and lower oil prices in the international market, particularly during the first quarter of 2009.

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



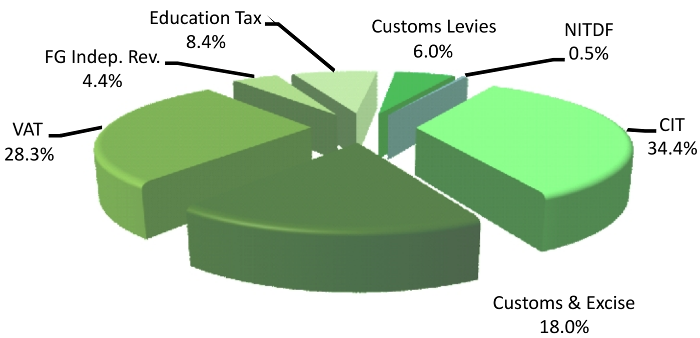
Of the total receipts, oil revenue (gross) accounted for ₦3,191.9 billion (12.9 per cent of GDP), indicating a decline of 51.1 per cent from the level in 2008. A breakdown showed that revenue from crude oil and gas exports fell significantly by 60.1 per cent from the level in the preceding year to ₦897.8 billion. In the same vein, receipts from petroleum profit tax (PPT) and royalties fell by 55.3 per cent to ₦1,256.5 billion, whilst the revenue from domestic crude oil sales dropped by 34.8 per cent to ₦953.0 billion. These developments reflected the decline in domestic oil production as well as in the global oil prices. The adverse effect was, however, moderated by the impact of the amnesty initiative of the Federal Government, which improved oil production and exports during the second half of the year. The sum of ₦809.6 billion was deducted from the gross oil receipts for the Joint Venture Cash (JVC) calls, ₦365.1 billion in respect of excess crude/PPT/royalty proceeds and "others", leaving a balance of ₦2,017.2 billion for distribution to the three tiers of government and other beneficiaries.

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



Gross revenue from non-oil sources rose by 23.7 per cent to ₦1,652.7 billion. A breakdown indicated that Value Added Tax (VAT) grew by 15.8 per cent to ₦468.4 billion, while company income tax (CIT) and customs/excise duties increased by 36.3 and 5.8 per cent, to ₦568.1 billion and ₦297.5 billion, respectively. Other components, education tax and custom levies also rose, by 195.6 and 36.4 per cent, to ₦139.5 billion and ₦98.5 billion, respectively, and the National Information Technology Development Fund (NITDF) rose by ₦7.5 billion. The rise in non-oil revenue was, however, dampened by the decline of 35.8 per cent in Independent Revenue of the Federal Government. At 6.7 per cent, the ratio of non-oil revenue to GDP rose above the level in the previous year, reflecting government's efforts at boosting revenue from non-oil sources.

Figure 5.3: Composition of Non-oil Revenue in 2009



The development was due to sustained efforts in revenue collection by both the Nigerian Customs Service (NCS) and the Federal Inland Revenue Service (FIRS). The sum of ₦69.8 billion was deducted from the non-oil revenue as costs of collection, leaving a distributable balance of ₦1, 582.9 billion.

5.2.2 Federation Account Distribution

The sum of N3,600.1 billion accrued to the Federation Account, indicating a decline of 20.9 per cent from the level in 2008. Of this amount, ₦449.7 billion was transferred to the VAT Pool Account and the sum of ₦73.2 billion and ₦245.6 billion were deducted for Independent Revenue and 'other transfers'[1], respectively. The sums of ₦735.0 billion, ₦812.4 billion and ₦158.7 billion were drawn from the excess crude account for budget augmentation, excess crude sharing and foreign exchange rate gains, respectively, and were added to boost the distributable revenue to ₦4,537.8 billion. Analysis of the distribution among the three tiers of government, as per the revenue-sharing formula[2], showed that the Federal Government received the sum of ₦2,060.0 billion (including Special Funds), State Governments ₦1,159.3 billion, and Local Governments ₦834.5 billion, while the sum of ₦484.0 billion, which accrued to the 13 per cent Derivation Fund, was shared among the oil-producing states.

5.2.3 VAT Pool Account Distribution

The sum of ₦449.7 billion was transferred to the VAT Pool Account, an increase of 15.8 per cent over the level in 2008. A breakdown of the distribution among the three tiers of government, as per the VAT Pool Account sharing formula[3], showed that the Federal Government received ₦67.4 billion, State Governments ₦224.8 billion, while the 774 local governments shared ₦157.4 billion.

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[1]This includes the Education Tax, Customs Levies, and the National Information Technology Development Fund.

[2]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.

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

5.3 GENERAL GOVERNMENT FINANCES

5.3.1 Aggregate Revenue

At ₦6,263.4 billion, the aggregate revenue of the three tiers of government in 2009 comprised ₦2,831.7 billion from the Federation Account, ₦735.0 billion of budget augmentation proceeds, ₦812.4 billion of excess crude revenue, ₦158.7 billion of foreign exchange rate gains, ₦449.7 billion of VAT, ₦73.2 billion of Federal Government Independent Revenue, ₦487.3 billion of internally-generated revenue of the sub-national governments, ₦208.4 billion of grants/others for the sub-national governments, ₦41.1 billion of stabilization fund for the sub-national governments, ₦19.7 billion of state governments' allocation to the local governments, and ₦446.3 billion of other funds.

Table 5.1: Sources of Funds for the Three Tiers of Government in 2009 (Naira billion)

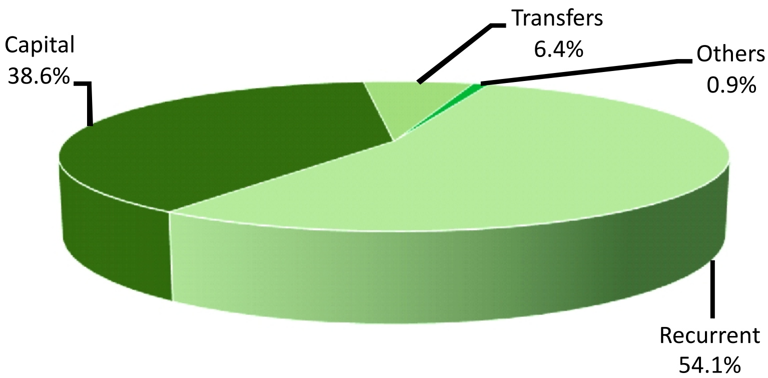
Source	FG			SG			LG	Grand Total
	FG (CRF+ Special Funds)	FCT	Sub-Total	States	13%	Sub-Total		
Share from Fed. Acct.	1,328.62	24.99	**1,353.61**	686.57	262.24	**948.80**	529.31	**2,831.73**
Budget Augmentation	330.48	6.39	**336.87**	170.87	95.55	**266.42**	131.73	**735.02**
Share from Excess Crude	290.56	6.27	**296.83**	264.96	105.61	**370.58**	145.00	**812.40**
Foreign Exchange Rate Gains	71.35	1.38	**72.73**	36.89	20.63	**57.52**	28.44	**158.68**
Share of VAT	62.95	4.50	**67.45**	224.83		**224.83**	157.38	**449.65**
FG Independent Revenue	73.20	-	**73.20**	-	-	-	-	**73.20**
Privatization Proceeds	-	-	-	-	-	-	-	-
Sub-National Govt. Internally-Generated Rev.	-	8.40	**8.40**	452.80	-	452.80	26.06	**487.26**
Grants and Others	-	-	-	188.10	-	188.10	20.32	**208.42**
Share of Stabilization	-	-	-	29.70	-	29.70	11.38	**41.08**
State Allocation	-	-	-	-	-	-	19.74	**19.74**
Others	446.29		**446.29**	-	-	-	-	**446.29**
TOTAL	**2,603.39**	**51.93**	**2,655.32**	**2,054.71**	**484.03**	**2,538.74**	**1,069.37**	**6,263.43**

5.3.2 Aggregate Expenditure

At ₦7,258.0 billion, the aggregate expenditure of the general government fell by 5.1 per cent from the level in 2008. As a proportion of GDP, it represented 29.4 per cent, compared with 31.5 per cent in 2008. A breakdown showed that the outlay on recurrent activities, at ₦3,925.7 billion (15.9 per cent of GDP), accounted for 54.1 per cent, capital expenditure, at ₦2,800.0 billion (11.3 per cent of GDP) represented 38.6 per cent, while transfers and 'others' at ₦465.5 billion (1.9 per cent of GDP) and ₦66.7 billion (0.3 per cent of GDP) accounted for 6.4 and 0.9 per cent of the aggregate expenditure, respectively.

At ₦7,258.0 billion, the aggregate expenditure of the general government fell by 5.1 per cent from the level in 2008.

Figure 5.4: Composition of General Government Expenditure in 2009



5.3.3 Overall Fiscal Balance and Financing

The primary balance was in deficit of ₦609.8 billion (2.5 per cent of GDP), while the overall fiscal operations of the general government resulted in a notional deficit of N994.5 billion (4.0 per cent of GDP), compared with the deficit of ₦137.2 billion (0.6 per cent of GDP) in 2008. The overall deficit was financed largely by domestic borrowing from the banking system and the non-bank public.

5.4 FEDERAL GOVERNMENT FINANCES

5.4.1 Overall Fiscal Balance and Financing

The current surplus in 2009 was lower by 52.1 per cent, relative to the preceding year and stood at ₦515.0 billion or 2.1 per cent of GDP, while the primary balance was in deficit of ₦558.2 billion or 2.3 per cent of GDP, compared with the surplus of ₦333.8 billion or 1.4 per cent of GDP in 2008. The overall fiscal operations of the Federal Government resulted in a notional deficit of ₦810.0 billion or 3.3 per cent of GDP, compared with the deficit of ₦47.4 billion or 0.2 per cent of GDP recorded in 2008. The deficit outperformed the WAMZ's 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 ₦810.0 billion or 3.3 per cent of GDP, compared with the deficit of ₦47.4 billion or 0.2 per cent of GDP recorded in 2008.

Figure 5.5: Fiscal Deficit (per cent of GDP)

5.4.2 Retained Revenue of the Federal Government

The Federal Government retained revenue decreased to ₦2,646.9 billion, from ₦3,193.4 billion in 2008. Analysis of the revenue showed that the share from the Federation Account was ₦1,353.6 billion or 51.1 per cent of total; the VAT Pool Account accounted for ₦67.4 billion (2.5 per cent); the Federal Government Independent Revenue's share was ₦73.2 billion (2.8 per cent); share of excess crude oil earnings was ₦706.4 billion (26.7 per cent), while "others" accounted for the balance of 16.9 per cent.

The Federal Government retained revenue decreased to ₦2,646.9 billion, from ₦3,193.4 billion in 2008.

Figure 5.6: Composition of Federal Government Retained Revenue in 2009

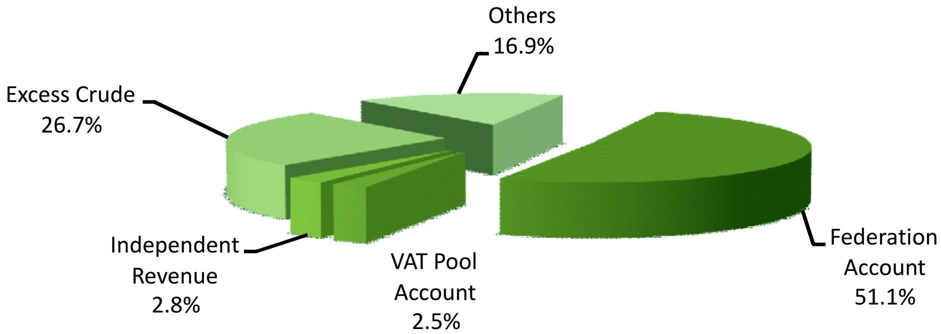
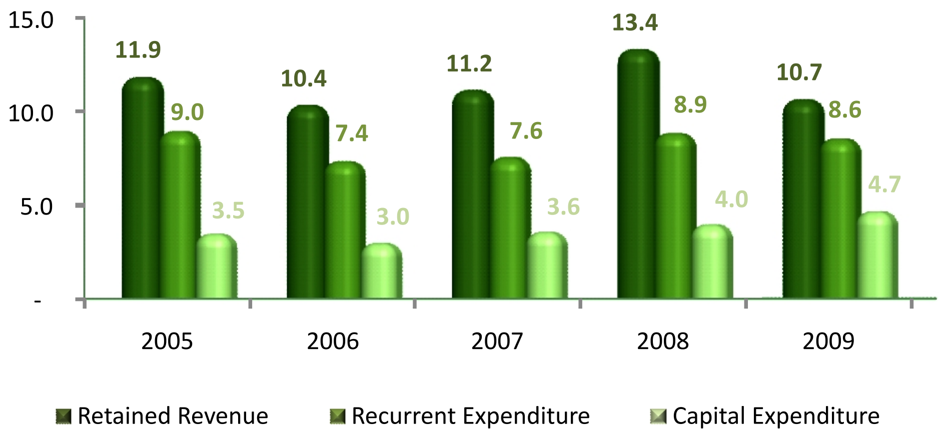


Figure 5.7: Federal Government Revenue and Expenditure (per cent of GDP)

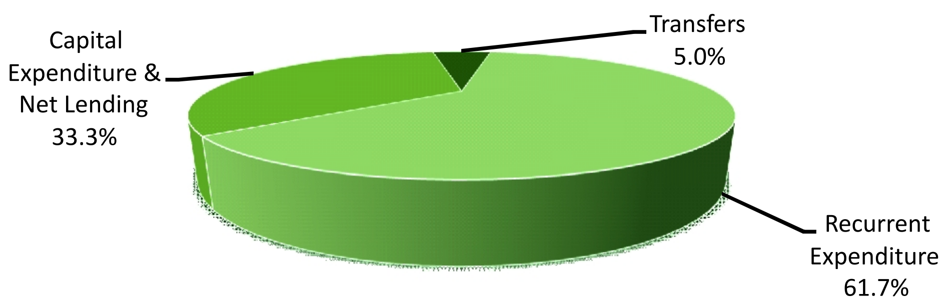


5.4.3 Total Expenditure of the Federal Government

Aggregate expenditure of the Federal Government increased by 6.7 per cent to ₦3,456.9 billion in 2009. As a proportion of GDP, total expenditure increased slightly to 14.0 per cent, from 13.6 per cent in the previous year. Non-debt expenditure increased by 12.1 per cent from the level in 2008 and exceeded the ₦2,954.4 billion budget estimate for 2009 by 8.5 per cent. Total debt service payments amounted to ₦251.8 billion, representing 7.3 per cent of the total expenditure or 1.0 per cent of GDP.

Aggregate expenditure of the Federal Government increased by 6.7 per cent to ₦3,456.9 billion in 2009.

Figure 5.8: Composition of Federal Government Expenditure in 2009



5.4.3.1 Recurrent Expenditure

At ₦2,131.9 billion, recurrent expenditure increased by 0.7 per cent over the level in 2008 and accounted for 61.7 per cent of total expenditure. As a percentage of GDP, recurrent expenditure declined to 8.6 per cent, from 8.9 per cent in 2008. Most of the components of recurrent expenditure fell relative to their levels in the preceding year. Thus, interest payments decreased by 33.9 per cent, while transfers dropped by 15.4 per cent. The goods and services component, however, increased by 11.3 per cent. Analysis of the goods and services component showed that personnel cost and pensions amounted to ₦1,148.3 billion or 53.9 per cent of the total and overhead cost totalled ₦564.2 billion or 26.5 per cent. Furthermore, interest payments stood at ₦251.8 billion or 11.8 per cent (comprising external ₦37.2 billion and domestic ₦214.5 billion) while transfers to the Federal Capital Territory (FCT) and other transfers accounted for ₦167.7 billion or 7.9 per cent.

Recurrent expenditure increased by 0.7 per cent over the level in 2008 and accounted for 61.7 per cent of total expenditure.

Figure. 5.9: Economic Classification of Recurrent Expenditure in 2009

Interest payments on consolidated debt (foreign and domestic) as a percentage of GDP fell from 1.6 per cent in 2008 to 1.0 per cent in 2009.

The functional classification of recurrent expenditure showed that the outlay on administration rose by 12.3 per cent to ₦820.8 billion and accounted for 38.5 per cent of the total. Transfer payments, however, fell by 13.5 per cent, to ₦639.7 billion and constituted 30.0 per cent of the total, reflecting a significant reduction in both external and domestic debt charges in 2009. Expenditure on economic services increased marginally by 1.1 per cent to ₦317.2 billion and accounted for 14.9 per cent of recurrent expenditure. Within the economic sector, agriculture, transport, communications and roads/construction jointly absorbed 60.9 per cent of the share of the sector, while expenditure on social and community services accounted for 16.6 per cent.

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

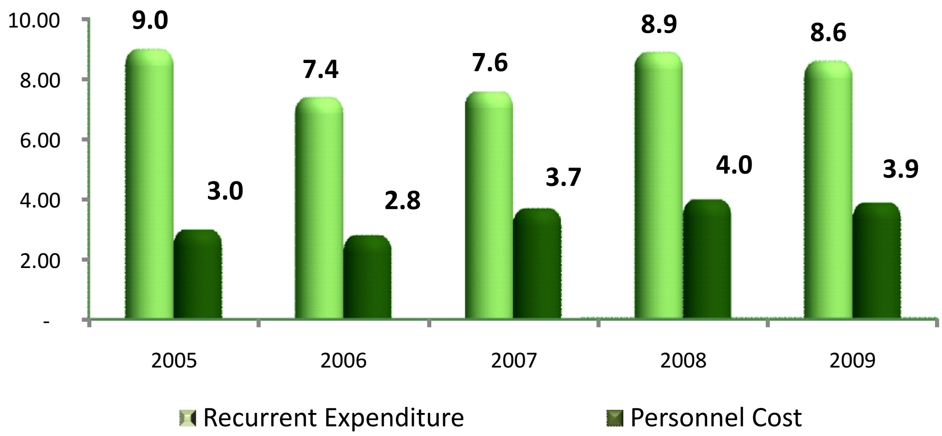
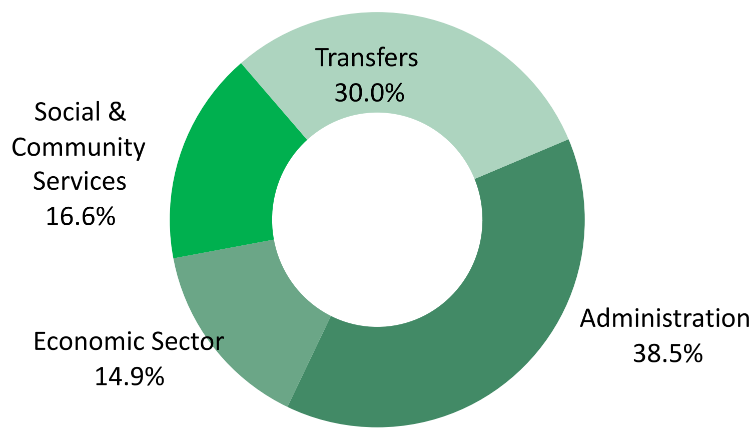


Figure 5.11: Functional Classification of Federal Government Recurrent Expenditure in 2009

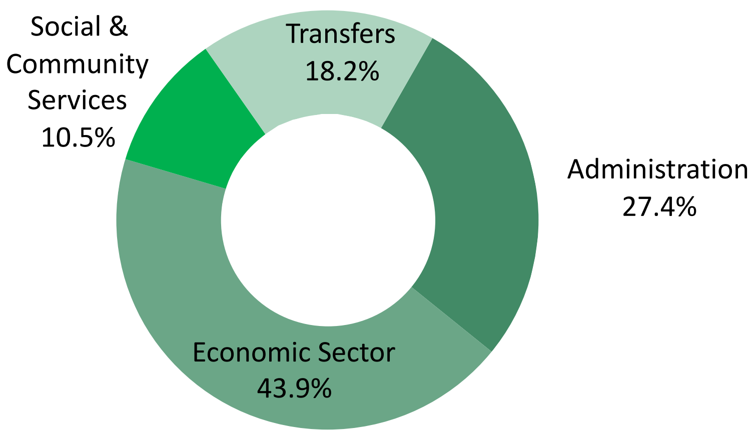


5.4.3.2 Capital Expenditure

Capital expenditure increased by 20.0 per cent to ₦1,152.8 billion, and accounted for 33.3 and 4.7 per cent of total expenditure and GDP, respectively. As a proportion of Federal Government revenue, capital expenditure was 43.6 per cent, exceeding the stipulated minimum target of 20.0 per cent under the WAMZ secondary convergence criteria. A breakdown of capital expenditure showed that public investment in economic services accounted for ₦506.0 billion or 43.9 per cent of the total, compared with 52.5 per cent in the preceding year. Within the economic services sector, manufacturing, mining/quarrying, agriculture/natural resources, transport/communications and roads/construction absorbed 81.9 per cent of the share of the sector. Public investments in social and community services recorded a decrease of 20.6 per cent below the level in the preceding year, and accounted for 10.5 per cent of the total. Within the social and community services sector, expenditure on education and health, declined by 11.1 and 46.0 per cent to ₦43.4 billion and ₦52.5 billion, respectively. As a ratio of capital spending, expenditure on education and health constituted 3.8 and 4.6 per cent, respectively, in 2009, compared with 5.1 and 10.7 per cent in 2008.

Capital expenditure increased by 20.0 per cent to N1,152.8 billion, and accounted for 33.3 and 4.7 per cent of total expenditure and GDP, respectively.

Figure 5.12: Functional Classification of Federal Government Capital Expenditure in 2009



BOX 4: FISCAL STIMULUS AS A STABILIZATION TOOL

The global economic and financial crises of 2007 through 2009 have brought renewed interest in the role of discretionary fiscal policy as a counter-cyclical measure and, indeed, a potent mitigant against fluctuations in economic activities and business cycles. Discretionary fiscal policy is the deliberate change in government spending and/or taxation policies to influence the level of aggregate demand. The period witnessed the emergence of severe economic and financial conditions which were provoked by the sub-prime crisis in the United States (US) that triggered widespread bankruptcy of large corporations, mortgage institutions, banks, etc, and eventual recession in most of the world's major industrial and emerging economies. Consequently, several countries implemented different stimulus packages and tax adjustments to boost aggregate demand in order to enhance growth and employment in their various economies. However, the size of the discretionary measures varied from one country to another, depending on the severity of the crisis and, most importantly, the available fiscal space.

On the confirmation of declining outputs for two/three consecutive quarters, signalling the onset of recession, the United States assembled substantial stimulus packages, running into billions of US Dollars, in the form of fiscal bail-outs of insolvent firms and expenditure hand-outs to boost aggregate demand and reduce unemployment. In addition, the fiscal stimulus was complemented by tax adjustments to upturn dwindling economic fortunes. In the same vein, the United Kingdom (UK), Germany, Japan and other industrial and emerging economies implemented broad-ranging fiscal stimuli involving, direct spendings and a host of other interventions to increase expenditures, particularly on infrastructure, and provide cash hand-outs as a safety net. China disbursed about US$635 million as fiscal stimulus to reverse the apparent slowdown in its economy. Overall, the stimulus packages, to a large extent, not only helped to stem the tide of decline, but were also able to reset these economies on the path of growth and recovery.

Nigeria's stimulus package was obviously not as pungent as those undertaken elsewhere, but like other economies ravaged by the adverse impact of the global economic meltdown, the Federal Government initiated a fiscal stimulus to contain the obvious slowdown of economic growth. Consequently, the following fiscal interventions were deployed:

- Disbursement of N200.0 billion to deposit money banks under the Commercial Agricultural Credit Scheme;

- Continuation of the lower tariffs regime under the '2008 2012 Nigeria Customs and Tariff Book' to encourage the importation of raw materials to stimulate domestic industrial production and manufacturing activities;
- Earmarking of ₦361.2 billion for investment in critical infrastructure; and
- Injection of about ₦100.0 billion multilateral loan in critical sectors of the economy.

The fiscal stimulus countered the effects of the global crisis and curtailed the deceleration of Nigeria's economic growth.

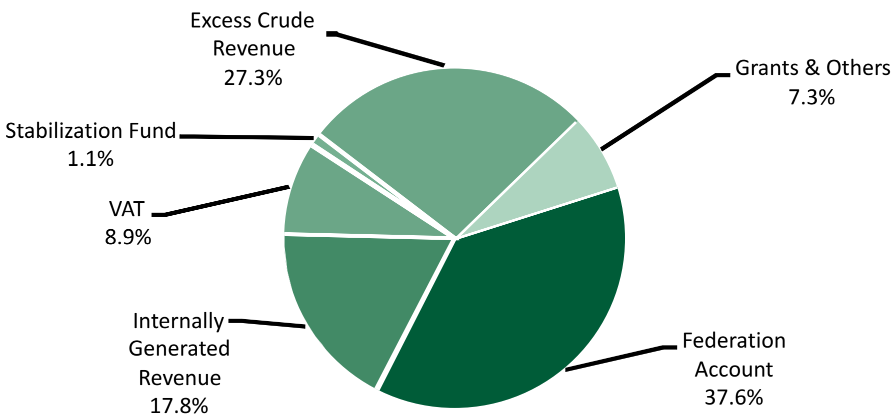
5.5 STATE GOVERNMENTS' FINANCES[4]

5.5.1 Overall Fiscal Balance and Financing

Provisional data on state governments' finances (including FCT) indicated an increase in the overall deficit from ₦86.8 billion, or 0.4 per cent of GDP in 2008 to ₦186.2 billion, or 0.8 per cent of GDP in 2009. The deficit was financed largely through loans from the DMBs.

Provisional data on state governments' finances (including FCT) indicated an increase in the overall deficit.

Figure 5.13: State Governments' Revenue (Naira billion)



5.5.2 Revenue

Total revenue of the State Governments fell by 11.7 per cent to ₦2,590.7 billion, or 10.5 per cent of GDP, compared with ₦2,934.8 billion, or 12.1 per cent of GDP in 2008. The analysis of the sources of revenue indicated that allocations from the Federation Account (including the 13.0 per cent Derivation Fund) was ₦973.8 billion or 37.6 per cent; VAT Pool Account, ₦229.3 billion or 8.9 per cent; Internally Generated Revenue (IGR), ₦461.2 billion or 17.8 per cent; Stabilization Account ₦29.7 billion or 1.1 per cent; excess crude account sharing (including budget augmentation and foreign exchange rate gains) ₦708.6 billion or 27.3 per cent; and grants/others ₦188.1 billion or 7.3 per cent. The IGR rose above the level in 2008 by 4.6 per cent to ₦461.2 billion. In terms of tax efforts, measured as the ratio of IGR to total revenue (IGR/TR), Lagos state ranked the highest with 62.2 per cent, followed by Sokoto and Ogun states with 47.7 and 29.3 per cent, respectively, while Ondo ranked the least with 1.2 per cent. In terms of the state governments' effort at improving internally-generated revenue, Taraba state ranked top with an increase of its IGR/TR ratio from 2.3 per cent in 2008 to 9.0 per cent, followed by Rivers and Benue states in the second and third positions, respectively. Overall, the consolidated IGR/TR ratio of the state governments increased from 15.0 per cent in 2008 to 17.8 per cent in 2009.

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

Table 5.2: State Governments' Revenue

Item	State Governments' Revenue				Share in Overall GDP	
	2008		2009 1/		2008	2009
	Amount (₦' Billion)	Share (%)	Amount (₦' Billion)	Share (%)	%	%
Federation Account 2/	1,709.2	58.2	973.8	37.6	7.0	3.9
Excess Crude Revenue 3/	354.1	12.1	708.6	27.3	1.5	2.9
VAT	198.0	6.8	229.3	8.9	0.8	0.9
Internally Generated Revenue	441.1	15.0	461.2	17.8	1.8	1.9
Stabilization Fund	53.4	1.8	29.7	1.1	0.2	0.1
Grants & Others	179.0	6.1	188.1	7.3	0.7	0.8
Total	**2,934.8**	**100.0**	**2,590.7**	**100.0**	**12.1**	**10.5**

1/ Including FCT

2/ Including 13% Derivation Fund

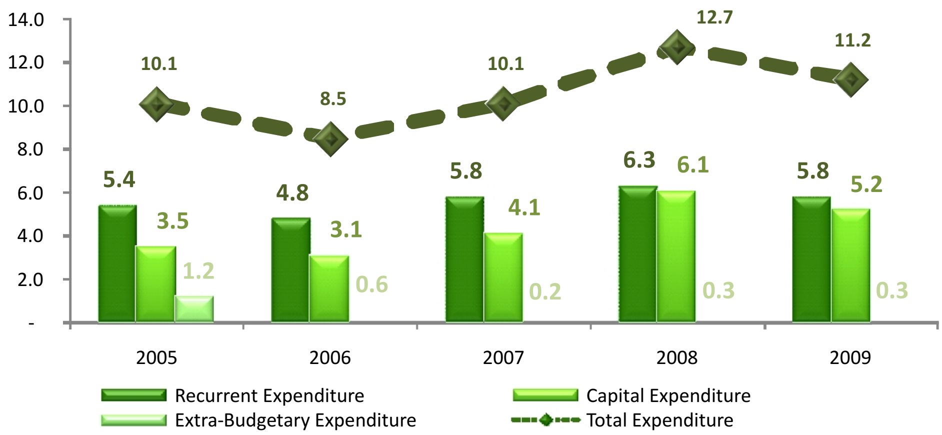
3/ Including Budget Augmentation and Foreign Exchange Rate Gains

5.5.3 Expenditure

The consolidated expenditure of the State Governments declined by 8.1 per cent to ₦2,776.9 billion, or 11.2 per cent of GDP. A breakdown showed that, at ₦1,426.1 billion or 5.8 per cent of GDP, recurrent expenditure was 5.3 per cent lower than the level in the preceding year and accounted for 51.4 per cent of the total.

The consolidated expenditure of the State Governments declined by 8.1 per cent to ₦2,776.9 billion, or 11.2 per cent of GDP.

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



At ₦1,284.2 billion, or 5.2 per cent of GDP, the capital expenditure of the state governments was 11.8 per cent lower than the level in 2008 and accounted for 46.2 per cent of the total. However, extra-budgetary expenditure increased by 10.7 per cent and accounted for 2.4 per cent of total expenditure.

Analysis of the consolidated spending on primary welfare sectors indicated that expenditure on education decreased by 0.2 per cent below the level in 2008 to ₦234.2 billion and accounted for 8.4 per cent of total expenditure. However, expenditure on health and agriculture rose by 27.5 and 48.7 per cent above the levels in the preceding year to ₦149.7 billion and ₦158.7 billion, respectively and accounted for 5.4 and 5.7 per cent, respectively, of the total. The outlay on water supply and housing also increased, by 56.1 and 62.6 per cent, to ₦99.8 billion (3.6 per cent) and ₦63.8 billion (2.3 per cent), respectively. On the whole, aggregate expenditure on key welfare sectors amounted to ₦706.2 billion or 2.9 per cent of GDP, and accounted for 25.4 per cent of total expenditure.

Figure 5.15: State Governments' Expenditure in Key Sectors for 2009 (per cent of Total Expenditure)

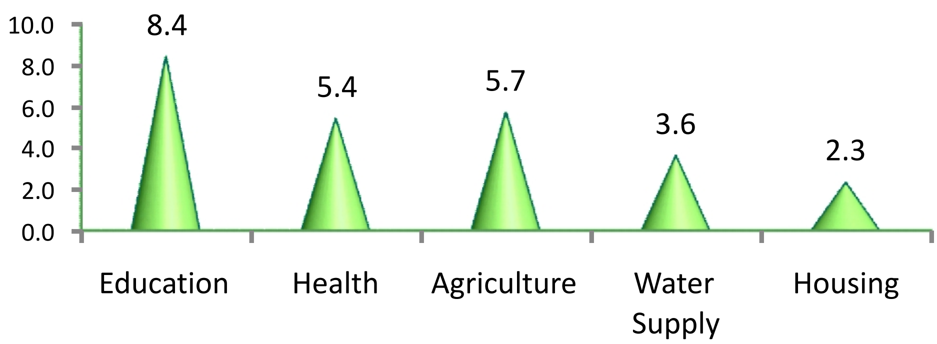
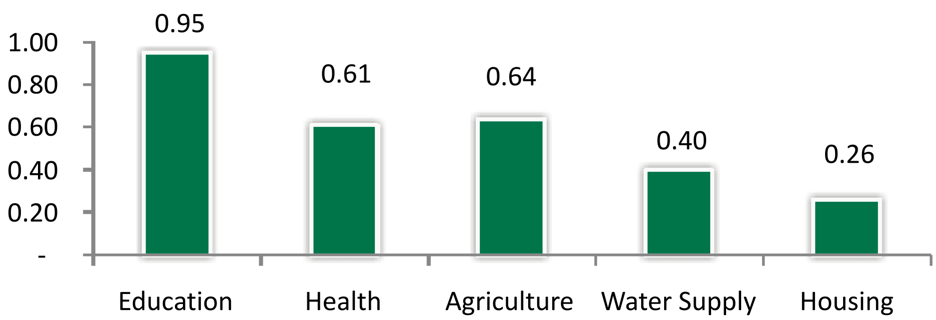


Figure 5.16: State Governments' Expenditure in Key Sectors for 2009 (per cent of GDP)



5.6 LOCAL GOVERNMENTS' FINANCES[5]

5.6.1 Overall Fiscal Balance and Financing

Provisional estimates on consolidated local governments' fiscal operations indicated a surplus of ₦1.8 billion as against a deficit of ₦3.0 billion in 2008.

Provisional estimates on consolidated local governments' fiscal operations indicated a surplus of ₦1.8 billion as against a deficit of ₦3.0 billion in 2008.

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

5.6.2 Revenue

The total revenue of Local Governments was estimated at ₦1,069.4 billion, indicating a decline of 22.5 per cent.

The total revenue of Local Governments was estimated at ₦1,069.4 billion, indicating a decline of 22.5 per cent from the level in 2008. The sources of the revenue comprised allocations from the Federation Account (₦529.3 billion), VAT (₦157.4 billion), Internally-Generated Revenue (₦6.1 billion), Grants/Others, (₦20.3 billion), Stabilization Fund (₦11.4 billion), State Allocation (₦19.7 billion), excess crude sharing (₦145.0 billion), budget augmentation (₦131.7 billion), and foreign exchange rate gains (₦28.4 billion).

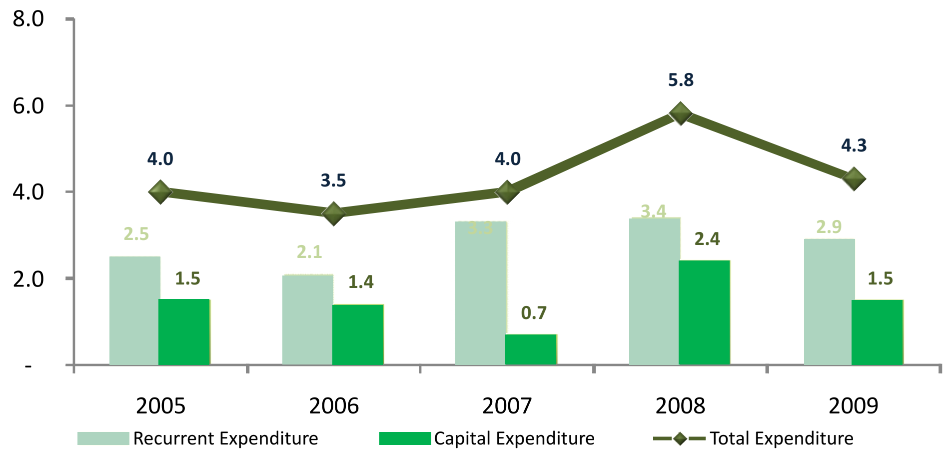
5.6.3 Expenditure

At ₦1,067.6 billion, the expenditure of the Local Governments was 22.8 per cent lower than the level in 2008 and represented 4.3 per cent of the GDP. A breakdown indicated that

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

recurrent outlay stood at ₦704.6 billion or 66.0 per cent, while capital expenditure amounted to ₦363.0 billion or 34.0 per cent.

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



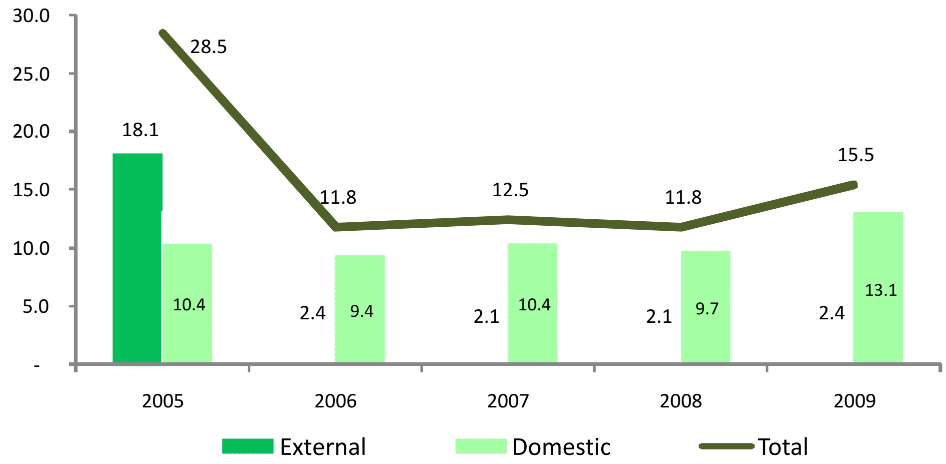
A further breakdown of recurrent expenditure showed that personnel cost was ₦306.3 billion, while overhead cost and consolidated fund charges/others amounted to ₦328.7 billion and ₦69.7 billion, respectively. Analysis of capital expenditure by function revealed that the share of administration was ₦57.4 billion, economic services (₦175.0 billion), social and community services (₦124.2 billion) and transfers (₦6.5 billion).

The expenditure of the Local Governments was 22.8 per cent lower than the level in 2008 and represented 4.3 per cent of the GDP.

5.7 CONSOLIDATED FEDERAL GOVERNMENT DEBT

The consolidated Federal Government debt stock, as at December 31, 2009, was ₦3,818.5 billion or 15.5 per cent of GDP, compared with ₦2,813.5 billion or 11.8 per cent of GDP in 2008. A breakdown showed that the domestic component constituted 84.7 per cent and the external 15.3 per cent. The increase reflected largely the additional net 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 ₦1,445.6 billion in 2008 to ₦1,974.9 billion and accounted for 51.8 per cent of the total, while the treasury bills stock grew from ₦471.9 billion in 2008 to ₦797.5 billion and accounted for 20.9 per cent of the total. At end-December 2009, external debt outstanding increased by 6.6 per cent to ₦590.4 billion (US$3.9 billion), while the domestic component increased by 39.1 per cent from its level in 2008.

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



5.7.1 Domestic Debt

The stock of Federal Government domestic debt outstanding at end-December 2009 stood at ₦3,228.0 billion, representing an increase of 39.1 per cent over the level in 2008. The increase was due mainly to additional net borrowing during the year, through the issuance of FGN Bonds and treasury bills to settle government contractual obligations, as well as to finance some key critical projects. The banking system remained the dominant holder of the outstanding domestic debt instruments with 58.3 per cent and the non-bank public accounted for the balance of 41.7 per cent. Disaggregation of the banking system's holdings indicated that ₦1,274.6 billion or 67.7 per cent was held by the DMBs and DHs, and ₦607.9 billion or 32.3 per cent by the CBN and Sinking Fund.

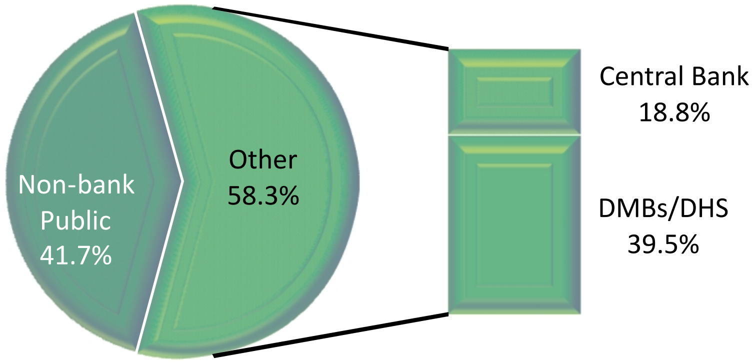
The stock of Federal Government domestic debt outstanding at end-December 2009 stood at ₦3,228.0 billion, representing an increase of 39.1 per cent over the level in 2008.

Analysis of the maturity structure of the domestic debt showed that instruments of two (2) years and below accounted for ₦1,421.4 billion or 44.0 per cent, followed by instruments of two (2) to five (5) years, ₦947.3 billion or 29.3 per cent; over ten (10) years, ₦564.6 billion or 17.5 per cent; and those with tenors of between five (5) and ten (10) years totalled ₦294.7 billion or 9.1 per cent.

5.7.2 External Debt

At US$3.9 billion, Nigeria's external debt grew by 6.6 per cent over the level at end-December 2008. The rise reflected the drawdown of additional multilateral loans by the Federal Government, amounting to US$347.9 million. Of the total external debt outstanding, the share of multilateral institutions was US$3.5 billion and accounted for 88.8 per cent, while 'others' totalling US$0.4 billion accounted for the balance of 11.2 per cent.

Figure 5.20: Composition of Domestic Debt Stock by Holders in 2009



5.7.3 Debt Service Payments and Debt Sustainability Analysis

Total debt service payments in 2009 stood at ₦542.5 billion, or 2.2 per cent of GDP and comprised ₦63.8 billion, or US$0.43 billion for external and ₦478.7 billion for domestic debt. On the one hand, the external debt service comprised amortization (principal repayment) of ₦46.5 billion, or 72.8 per cent, and the actual interest payments of ₦17.4 billion or 27.2 per cent. On the other hand, the composition of domestic debt service indicated that the amortization stood at ₦207.4 billion, or 43.3 per cent, while the domestic interest payment was ₦271.3 billion or 56.7 per cent of the total.

The analysis of Nigeria's debt sustainability signified that the debt stock/GDP ratio remained low relative to the maximum international threshold of 30.0 per cent of GDP, even though it deteriorated from 11.6 per cent in 2008 to 15.4 per cent in 2009. In addition, the debt stock/revenue ratio showed a weaker position in 2009 at 144.3 per cent, compared with 88.0 per cent in 2008, showing the magnitude of total revenue that would be required to redeem the total debt stock. Furthermore, the debt service/revenue ratio deteriorated from 10.5 per cent in 2008 to 20.5 per cent in 2009, implying that more than 20.0 per cent of the total revenue was devoted to interest and principal repayments. The deteriorated sustainability ratios reflected the slow growth of the economy and the unimpressive performance of the Federal Government retained revenue relative to the preceding year.

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

Table 5.3: Debt Service Payment (₦' billion) and Debt Sustainability Indicators (per cent)

Indicators	International Thresholds	2005	2006	2007	2008	2009
External Debt Service (Interest Payments)*	-	1,130.13	831.04	117.21	9.03	17.38
Amortization - External Debt	-	51.41	34.50	11.39	46.16	46.46
Domestic Debt Service (Interest Payments)	-	150.45	166.84	185.37	232.98	271.34
Amortization - Domestic Debt	-	0.00	55.73	67.26	238.29	207.36
Total Debt Service	-	1,331.99	1,088.11	381.23	526.46	542.54
Total Debt/GDP	30	28.7	11.8	12.5	11.6	15.4
Total External Debt/GDP	30	18.3	2.4	2.1	2.0	2.4
Total Domestic Debt/GDP	40-60	10.4	9.4	10.4	9.6	13.1
Total External Debt/Export (%)	100	37.2	6.2	5.3	4.4	8.5
Total Debt Service/Revenue (%)	20-25 (Max.=25)	18.8	23.3	13.9	10.5	20.5
Total Debt/Revenue (%)	150	240.1	113.8	111.3	88.0	144.3

Source: Debt Management Office

CHAPTER 6

6.0 THE REAL SECTOR

The growth in domestic output was robust in 2009, particularly against the backdrop of the global financial/economic meltdown that adversely affected economic performance. The real Gross Domestic Product (GDP), measured in 1990 basic prices, grew by 6.7 per cent, compared with 6.0 per cent in 2008. Growth in 2009 was attributed largely to the performance of the non-oil sector, which grew by 8.3 per cent, complemented by a significant reduction in the decline in oil sector output. Sectoral analyses showed that agricultural output grew by 5.9 per cent, wholesale and retail trade by 11.3 per cent, and the services sector by 10.9 per cent. Industrial output grew by 8.2 per cent, in contrast to the fall recorded in the previous three years, due to the implementation of the Federal Government amnesty programme which paved the way for an increase in crude oil production. The output of solid minerals as well as manufacturing also expanded. Inflationary pressure moderated, but remained above the single digit. Other government programmes and policies in support of the real sector, especially agriculture, 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, and the delayed approval of the 2009 appropriation bill.

6.1 DOMESTIC OUTPUT

Provisional data from the National Bureau of Statistics (NBS) showed that Gross Domestic Product (GDP), measured at 1990 constant basic prices, was estimated at ₦716.9 billion in 2009, indicating a growth rate of 6.7 per cent. This exceeded the 6.0 per cent recorded in 2008 and the average annual growth rate of 6.4 per cent for the period 2005 2009, but lower than the target growth rate of 10.0 per cent for the year. As in the previous years, agriculture accounted for a greater share of the GDP growth rate, as it contributed 2.5 percentage points, followed by wholesale and retail trade with 2.0 percentage points; services 1.8 percentage points; and building and construction 0.2 percentage point. Industry as a group made a positive contribution of 0.1 percentage point, compared with a negative contribution in 2008. Growth in GDP reflected largely the sound 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, especially in the second half of the year, building and construction activities across the country and continued expansion in the telecommunications sub-sector.

The Gross Domestic Product (GDP), measured at 1990 constant basic prices, was estimated at ₦716.9 billion in 2009, indicating a growth rate of 6.7 per cent. This exceeded the 6.0 per cent recorded in 2008 and the average annual growth rate of 6.4 per cent for the period 2005 2009, but lower than the target growth rate of 10.0 per cent for the year.

Figure 6.1 GDP Growth Rate (2005 - 2009)

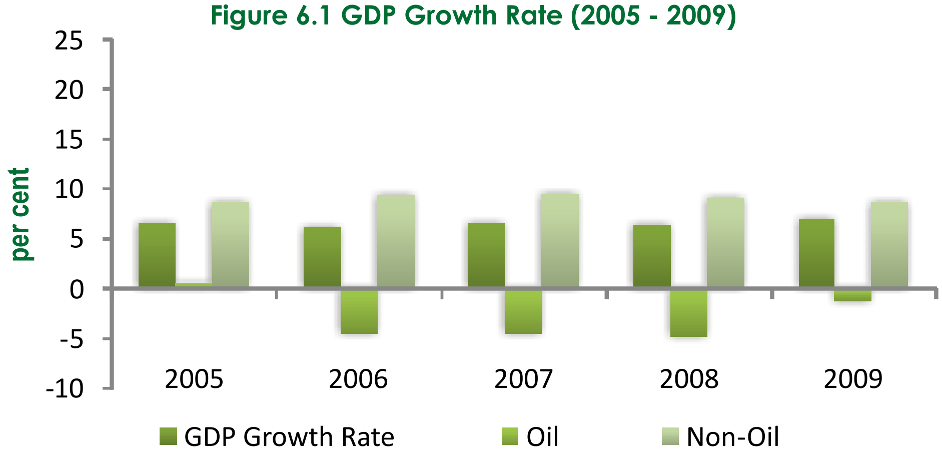


Table 6.1: Sectoral Growth Rates of GDP at 1990 Constant Basic Prices (per cent)

Activity Sector	2005	2006	2007	2008 1/	2009 2/
1. Agriculture	**7.06**	**7.40**	**7.19**	**6.54**	**5.94**
Crop Production	7.13	7.49	7.25	6.52	5.90
Livestock	6.76	6.90	6.93	6.89	6.50
Forestry	5.92	6.02	6.12	5.97	5.85
Fishing	6.02	6.55	6.58	6.52	6.03
2. Industry	**1.71**	**-2.51**	**-2.23**	**-2.18**	**0.62**
Crude Petroleum	0.50	-4.51	-4.54	-4.76	-1.33
Solid Minerals	9.53	10.28	12.75	12.81	12.08
Manufacturing	9.61	9.39	9.57	9.28	7.94
3. Building & Construction	**12.10**	**12.99**	**13.03**	**13.06**	**12.26**
4. Wholesale & Retail Trade	**13.51**	**15.26**	**15.20**	**14.00**	**11.27**
5. Services	**7.96**	**9.18**	**9.88**	**10.45**	**10.88**
Transport	6.35	6.92	6.95	6.99	6.93
Communications	28.38	32.45	32.85	29.65	34.18
Utilities	6.64	4.87	4.93	4.17	3.34
Hotel & Restaurant	10.45	12.91	12.95	12.89	12.44
Finance & Insurance	2.85	4.98	5.03	4.82	4.02
Real Estate & Business Services	10.62	11.29	11.35	11.42	10.65
Producers of Govt. Services	5.38	5.85	5.92	6.01	5.85
Comm., Social & Pers. Services	10.50	10.61	10.62	22.25	9.77
TOTAL (GDP)	**6.51**	**6.03**	**6.45**	**5.98**	**6.66**
NON-OIL (GDP)	**8.59**	**9.41**	**9.52**	**8.95**	**8.33**

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	2005	2006	2007	2008 1/	2009 2/
1. Agriculture	**2.89**	**3.05**	**3.00**	**2.75**	**2.50**
Crop Production	2.60	2.75	2.70	2.44	2.20
2. Industry	**0.51**	**-0.71**	**-0.58**	**-0.52**	**0.14**
Crude Petroleum	0.13	-1.09	-0.99	-0.93	-0.23
3. Building & Construction	**0.17**	**0.20**	**0.21**	**0.22**	**0.22**
4. Wholesale & Retail Trade	**1.74**	**2.10**	**2.27**	**2.27**	**1.96**
5. Services	**1.19**	**1.40**	**1.55**	**1.69**	**1.83**
Communication	0.36	0.50	0.63	0.71	1.00
TOTAL (GDP)	**6.51**	**6.03**	**6.45**	**6.41**	**6.66**
NON-OIL (GDP)	**6.80**	**8.09**	**8.96**	**9.40**	**8.33**

1/ Revised

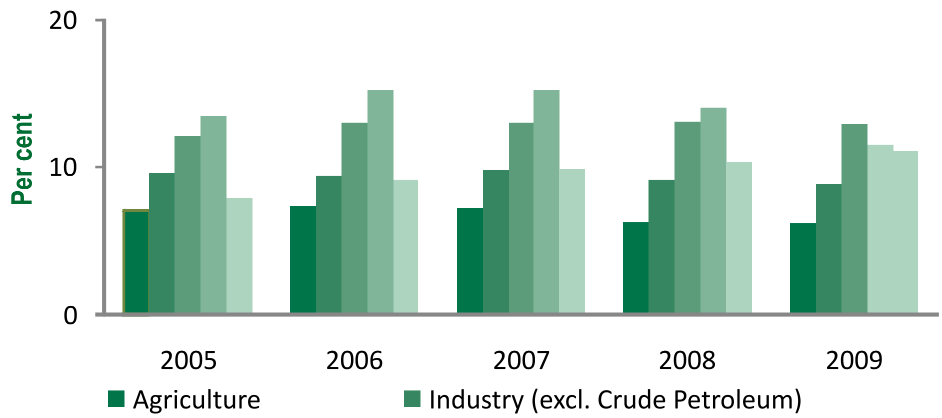
2/ Provisional

Source: National Bureau of Statistics (NBS)

Non-oil GDP grew by 8.3 per cent in 2009, compared with 9.0 per cent in 2008. The performance was driven largely by agricultural production, which grew by 5.9 per cent, attributable to the favourable weather conditions, improved supply of inputs and the impact of various government programmes and policies. Other drivers of growth in non-oil GDP included building and construction, wholesale and retail trade; and services, which recorded growth rates of 12.3, 11.3 and 10.9 per cent, respectively. In the services sub-sector, communications recorded the highest growth rate of 34.2 per cent, buoyed by the sustained liberalization and expansion of telecommunications services. Also, other components of the services sub-sector recorded significant growth rates. In 2009, industrial output grew by 0.6 per cent, in contrast to the fall recorded in the previous three years. This development was attributable mainly to the implementation of the Federal Government amnesty programme, which paved the way for an increase in crude oil production. 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 12.1 and 7.9 per cent, respectively.

Figure 6.2: Sectoral Share in GDP

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

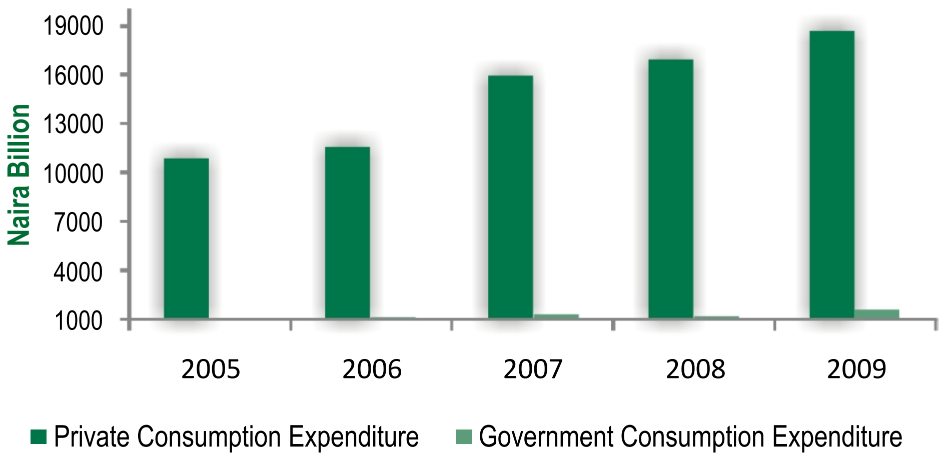


Further sectoral analysis indicated that the agricultural sector contributed the largest share of 41.8 per cent to real GDP in 2009, compared with 42.1 per cent in 2008. The share of industry and crude oil in GDP declined from 21.8 and 17.4 per cent, respectively in 2008, to 20.6 and 16.0 per cent, which was not unconnected with developments in the Niger Delta region. The contributions of solid minerals and manufacturing components of industry remained insignificant. Services as a group contributed 17.5 per cent to the GDP, of which communications, finance and insurance, utilities and transport accounted for 3.7, 3.7, 3.3 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) grew by 8.3 per cent and stood at ₦774.2 billion in 2009, compared with ₦714.7 billion in 2008. Private consumption and government final consumption expenditures in 2009 were N416.3 billion and ₦181.5 billion, respectively, compared with ₦465.5 billion and ₦164.9 billion in the preceding year. This indicated a decrease of 10.6 per cent in real private consumption expenditure and an increase of 10.1 per cent in real government consumption expenditure. Real investment (gross fixed capital formation) grew by 109.1 per cent, while net exports fell by 70.5 per cent, in real terms, respectively. The increase in government consumption was attributed mainly to the monetization of the excess crude oil savings to finance government capital projects, while the decrease in private consumption resulted from the credit crunch, the fall in government revenue and a depressed aggregate demand in the economy. As a share of aggregate demand, private consumption constituted 53.8 per cent.

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



6.2 AGRICULTURE

6.2.1. Agricultural Policy and Institutional Support

The policy thrust for the agricultural sector in 2009 continued to be anchored on the 5-Point Agenda of the Federal Ministry of Agriculture and Water Resources (FMAWR), namely:

(i) Strengthening Agricultural Regulation and Tariff (START)
(ii) Research and Development in Agriculture (RADA)
(iii) Rural Sector Enhancement Programme (RUSEP)
(iv) Developing Agricultural Inputs Markets in Nigeria (DAIMINA)
(v) Maximizing Agricultural Revenue in Key Enterprises (MARKETS).

The Agenda was put in place to enable the agricultural sector to play its traditional role of ensuring food security, creating new job opportunities, developing new enterprises, supporting existing industries and improving the competiveness of Nigeria's exports.

Notable among the new initiatives by the FMAWR was the establishment of the Agro-Allied Value Chain Infrastructure Development Programme. The projects under this programme comprised: agro-input centres (300 sites), integrated livestock markets (3 sites), integrated fish estates (2 sites), farmers' markets (6 sites), food courts (6 sites), export crop handling, preservation and conditioning centres (4 sites), and commodity outgrower development and extension service centres (20 sites). The structural designs, site identification and selection of service providers were completed during the year. Some of the projects were being funded on a Build-Lease-and-Transfer basis, while others were financed through the Special Intervention Fund of the FMAWR (as grants to the tune of 40 per cent) and the balance sourced from the Commercial Agricultural Credit Scheme (CACS). All the projects were expected to be completed by the third quarter of 2010. These programmes were considered critical to the success of the country's Vision 20:2020 initiative, the 7-Point Agenda of the Federal Government, and the Millennium Development Goals (MDGs).

In a move to address the protracted issues of inadequate credit and high interest rate on agricultural lending, the CBN, in collaboration with the FMAWR, established the CACS. Under the Scheme being financed from the proceeds of N200 billion FGN bonds, farmers and other practitioners in the agro-allied industry could access credit at not more than a single-digit interest rate.

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While access to credit remained a major challenge to farmers in Nigeria generally, rural farmers and other allied rural-based, micro-enterprises were even more disadvantaged. Despite the long history of a traditional system of savings and informal credit institutions that provided financial services in the rural areas, the impact was limited and a huge demand for financial services remains in the rural sector. In an effort to address these issues, the FMAWR, assisted by the International Fund for Agricultural Development (IFAD), established the Rural Finance Institution Building Programme (RUFIN). The programme would be implemented over a 7-year period and financed from a concessionary loan ($27.2 million) and a grant ($400.5 million) from the IFAD, the Ford Foundation ($500.0 million grant) and counterpart funding from the Federal Government of Nigeria ($11.9 million).

The objectives of RUFIN included:

(a) Developing and strengthening rural micro-finance institutions (RMFIs) and micro-finance banks (MFBs);
(b) Establishing linkages between RMFIs and formal finance institutions;
(c) Creating a viable and sustainable rural financial system;
(d) Guaranteeing credit to RMFIs by MFBs and deposit money banks; and
(e) Refinancing RMFIs through MFBs.

Programme implementation was expected to commence fully with a national start-up/sensitization workshop in early 2010.

Pursuant to the policy of expanding the capacity of the national grains reserve, two (2) of the additional twenty-five (25) silos under construction, located in Kaduna, Kaduna State and Ezillo, Ebonyi State, were completed and billed for commissioning in 2010. This brought the national grains reserve to a capacity of 1.3 million tonnes. Under the Buyer-of-Last-Resort programme of the FMAWR, 64,000 tonnes of assorted grains were purchased in 2009, while 25,000 tonnes were released to the public to cushion the effects of rising food prices.

6.2.2 Agricultural Production

At 242.1 (1990=100), the provisional aggregate index of agricultural production increased by 6.2 per cent, compared with 6.5 per cent in 2008. 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 conditions and the sustained

The increase in agricultural production was propelled largely by the favourable weather conditions and the sustained implementation, in 2009, of the various agricultural programmes initiated in 2008.

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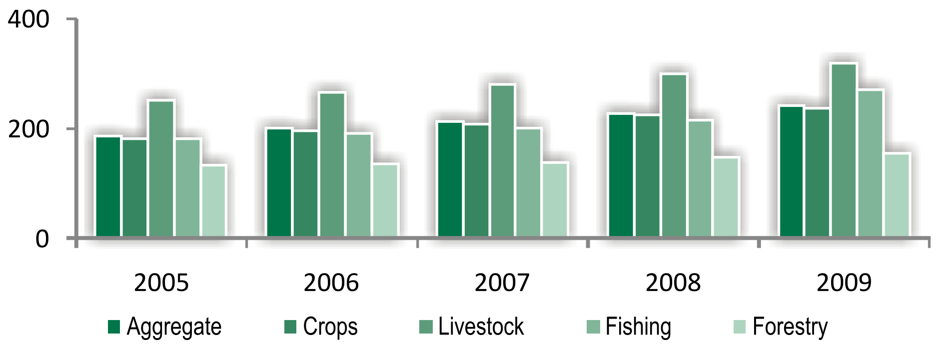
Figure 6.6: Index of Agricultural Production (1990 = 100)



6.2.2.1 Crop Production

The output of staples grew by 6.2 per cent, compared with 7.4 per cent in 2008. Similarly, the output of cash crops increased by 7.1 per cent, relative to the level in the preceding year.

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

Crop	2008	2009	Crop	2008	2009
Wheat	6.3	7.8	Plantain	6.0	7.9
Sorghum	6.0	8.1	Potatoes	6.4	9.9
Rice	7.3	9.1	Yam	5.9	9.0
Maize	7.0	9.1	Beans	7.2	9.0
Millet	6.6	9.7	Cassava	9.1	9.4
Soya Beans	5.7	10.0	Palm Oil	9.0	11.1
Rubber	6.4	9.5	Cocoa	5.6	7.2

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 2008. Other factors responsible for the improved performance of the crops sub-sector included the identification and targeted intervention in thirteen (13) strategic crops by the Federal Government. Cassava output grew by 6.6 per cent, attributable to the increased use of improved cassava cuttings and an expansion of processing facilities across the country. Paddy rice production increased by 7.3 per cent over the level in 2008, traceable to the increased adoption by farmers of the high-yielding NERICA rice variety and the Rice Box technology.

6.2.2.2 Livestock

Livestock production increased by 6.8 per cent, compared with 5.8 per cent in the preceding year. The increase was attributable to the effective measures taken to control livestock diseases, especially the deadly Avian Flu, and access to credit, which helped to expand production. Further analysis of the sub-sector showed that poultry and beef production increased by 7.7 and 6.1 per cent, respectively, when compared with growth rates in 2008. This was the outcome of the support provided to expand the livestock value chain, including the establishment of modern abattoirs and sanitary sales outlets across the country.

6.2.2.3 Fishery

Fish output increased by 6.1 per cent from its level in 2008 to 709,680 tonnes. This was, however, lower than the estimated national demand of 1.5 million tonnes.

6.2.2.4 Forestry

Forestry production increased by 5.9 per cent to 157.5 million cubic metres in 2009, which was higher than the 2.2 per cent recorded in 2008. The development was attributed to the increase in demand for wood products. The Forestry Research Institute of Nigeria (FRIN) continued to intensify the supply of improved breeder seedlings to replace the harvested tree stocks in order to sustain wood production. Challenges faced by the sector in 2009 included inadequate and untimely distribution of fertilizers, dearth of processing and storage facilities, an inefficient transportation infrastructure and poor access to credit.

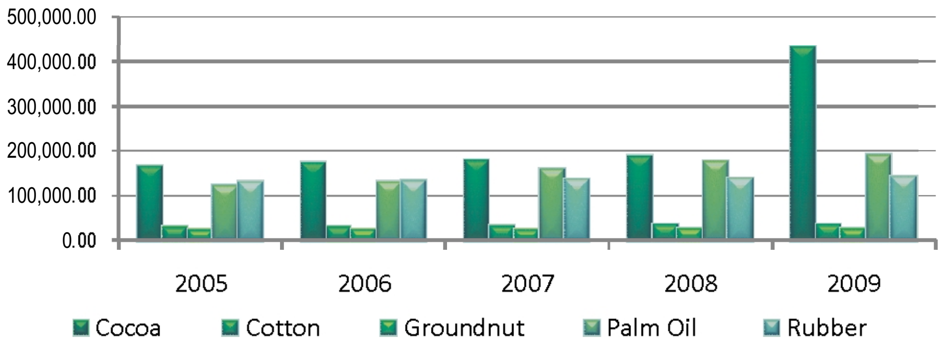
6.2.3 Agricultural Prices

The prices of most of Nigeria's agricultural export commodities were higher in 2009 than in the previous year. The overall index, computed in US dollar terms, stood at 572.8 (1990=100), representing an increase of 11.3 per cent over the level in 2008. Cocoa recorded the highest price increase of 49.5 per cent over the 2008 level, due largely to the relatively strong demand and reduction in output, arising from protests by farmers in Cote d' Ivoire against the low prices fixed for the commodity. Other reasons for the price increase were bad weather conditions in some producing countries, the fear of a supply shortage in 2010 and currency fluctuations[6]. Other crops that recorded price increases were cotton and palm oil, at 23.4 and 13.1 per cent, respectively. The prices of coffee, copra and soya beans, however, declined by 27.0, 11.0 and 6.1 per cent, respectively, below the levels in the previous year. In naira terms, the all-commodities price index increased by 11.3 per cent to 8,009.1 (1990=100) in 2009. Cocoa, cotton and palm oil recorded price increases of 49.1, 23.4 and 11.3 per cent, respectively, while the prices of coffee, copra and soya beans declined by 27.0, 12.0 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 1.9 per cent for cotton to 97.7 per cent for cocoa. The general increase in prices was attributed to the high cost of farm inputs and increased demand from agro-processors, industrial users and the neighbouring countries. Specifically for cocoa, the price doubled in 2009 as a result of increased demand and disruptions to supplies, following protests by farmers in Cote d' Ivoire.

Figure 6.7: Average Price of Selected Cash Crops (Naira per Tonne)



[6]International Cocoa Organisation (ICCO)

6.3 INDUSTRY

6.3.1 Industrial Policy and Institutional Support

As part of efforts to ensure increased industrial output, reduce importation of consumer goods, conserve foreign exchange, and, consequently, create employment and wealth, the Federal Ministry of Commerce and Industry launched the "Campaign for Patronage of Made-in-Nigeria Products". The Ministry also provided capital allowance incentives for companies that incurred capital expenditure in excess of ₦500,000 and eight (8) 500 KVA generators to states with proven commitment to the development of an Enterprise Zone. The beneficiary states were: Bauchi, Bayelsa, Imo, Ebonyi, Ekiti, Kano, Kogi and Osun.

The promotion of local sugar production received a boost during the year, as new guidelines were issued to companies granted licences to import unfortified raw sugar for industrial use. The guidelines were on packaging and labelling and a commitment to backward integration. The companies were to ensure at least 70.0 per cent local content in national sugar consumption by 2015. In addition, the Ministry of Commerce and Industry, in conjunction with Bank PHB, the National Agricultural Insurance Corporation and the CBN started granting input loans to members of out-grower associations.

In the cement sub-sector, the following initiatives were put in place to ensure increased local production: a two- to three-year duty free period for the importation of machinery, equipment and spare parts to cover the cement plant building phase and the first 2 years of commencement of production; removal of all restrictions on the importation of gypsum, up to the point when local production on a commercial basis is achieved; tax deduction incentives on investment in system conversion to coal-firing for cement production; concessional pricing and special allocation of Low Pour Fuel Oil (LPFO), including duty-free importation of LPFO during periods of acute domestic shortage of cement.

The Federal Ministry of Power's Strategic Plan 2009, under the Vision 20:2020 initiative, provided the road map for the improvement and sustenance of electricity supply in Nigeria, with a target of 6,000 Mega Watts (MW) by December 2009 and 10,000MW by December 2011. The initiative was to leverage the existing capacity within the Power Holding Company of Nigeria (PHCN) plants through rehabilitation, re-enforcement/expansion of the transmission and distribution network, and collaboration with the Ministry of Petroleum and the NNPC to ensure accelerated implementation of the Gas Master Plan. It would also ensure the resolution of any commercial issues in the course of delivering gas to power stations, the institution of appropriate corporate and industry governance structures, as well as the engagement of technical assistants/consultants to assist the successor companies in commercialising their operations.

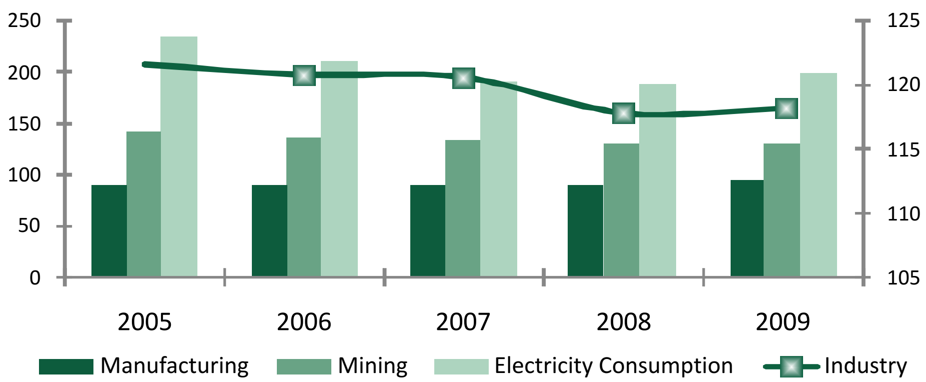
Other initiatives and projects undertaken by the Ministry in 2009 included the following:

- Adoption of the frameworks for the exploitation of coal to generate power and the development of small and medium hydroelectric plants;
- Award of a contract for the construction of a 215MW (ISO) power plant in Kaduna, to be powered by LPFO; and
- Completion of the engineering design for the establishment of a 10MW Wind Project in Katsina.

6.3.2 Industrial Production

The index of industrial production, estimated at 118.2 (1990 = 100), showed a marginal increase of 0.4 per cent over the level in 2008. The marginal improvement was attributable to manufacturing production, which rose by 1.3 per cent, while mining production fell by 0.1 per cent.

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



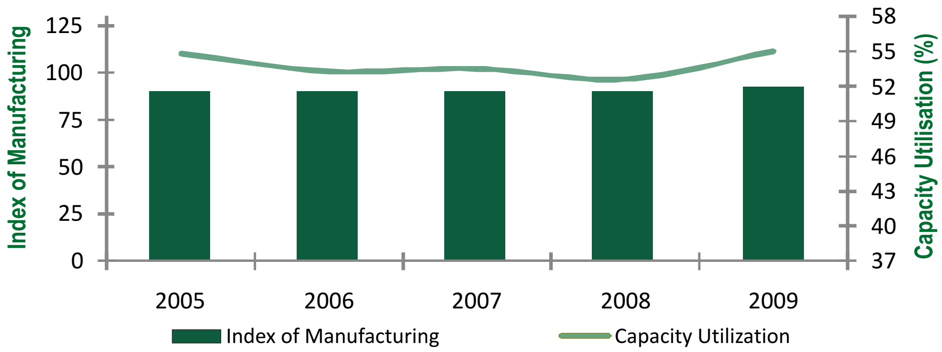
6.3.2.1 Manufacturing

The index of manufacturing production, estimated at 92.4 (1990=100) rose by 1.3 per cent above the level in 2008. Similarly, average capacity utilisation in the sub-sector showed a slight improvement from 54.7 per cent in 2008 to 55.0 per cent. The development was attributed to the increase in the output of cement, sugar, confectionary and beverages. The sub-sector continued to experience challenges with accessing credit from the banking sector, which in turn affected the importation of raw materials. In addition, the delay in the passage of the

The sub-sector continued to experience challenges with accessing credit from the banking sector, which in turn affected the importation of raw materials.

2009 Appropriation Act by the National Assembly affected the business and investment plans of manufacturers. Others were the epileptic supply of electricity and the increased pump price of diesel used mainly in the private provision of electricity.

Figure 6.9: Index of Manufacturing Production and Capacity Utilization



6.3.2.2 Mining

6.3.2.2.1 Crude Oil

a. Institutional and Regulatory Support

The failure of past efforts at infusing greater transparency and accountability in the oil and gas industry in Nigeria led to the introduction of the Petroleum Industry Bill in 2009. The Bill provided for an Act to establish the legal and regulatory framework, as well as the institutions and regulatory authorities for the Nigerian Petroleum Industry. It is also to establish guidelines for the operations of the upstream, midstream and downstream sectors of the industry.

BOX 5: SOME KEY ELEMENTS OF THE PETROLEUM INDUSTRY BILL

Some of the fundamental objectives of the Bill were to:

(a) Vest in the Federal Government of Nigeria the property and sovereign ownership of petroleum within Nigeria, its territorial waters, the continental shelf and the Exclusive Economic Zone;

(b) Vest in the Minister, with respect to upstream operations, the power only to grant petroleum prospecting licence, or petroleum mining lease;

(c) Vest in the Minister in charge of petroleum resources the responsibility for the coordination and overall supervision of the activities as well as the institutions of the petroleum industry;

(d) Establish the National Petroleum Directorate. The Directorate shall develop policies and instruments for effective coordination and operations of the Oil and Gas industry for the consideration and approval of the Minister. It shall also formulate and develop strategies, implement the petroleum policy and other related policies approved by the Minister;

(e) Provide for a governing Board which shall consist of a chairman, who is the Minister, the Director-General and the Directors of the Directorate;

(f) Provide for the establishment of the Nigerian Petroleum Inspectorate, with the aim of organising and regulating the technical, cost and commercial activities of the Upstream Petroleum Operations and ensuring the efficient, safe, effective and sustainable infrastructure development of upstream operations. The functions of the Inspectorate are the enforcement and administration of policies, laws and regulations relating to the technical aspects of upstream petroleum operations;

(g) Provide for the Petroleum Products Regulatory Authority, aimed at the promotion and implementation of national technical and commercial policies for downstream petroleum operations. It also aims at the promotion of competitive markets for gas services in downstream operations and promotes security of gas supply, market development and competition, among others. The functions of the Authority are to regulate and coordinate the commercial activities of downstream operations in a non-discriminatory and transparent manner, as well as regulate bulk storage and distribution and set rules for petroleum products, petroleum products pipelines and regional storage depots;

(h) Provide for the establishment of the National Midstream Regulatory

Agency. Prominent objectives of the Agency are to promote the implementation of national technical and commercial policies for midstream Petroleum Operations; promote the efficient, effective and sustainable technical and commercial development of Midstream Petroleum Operations; and promote the conditions that will enable the transportation activities to be carried out in Midstream Petroleum Operations on an equitable basis, while protecting the rights and interests of licencees and other stakeholders;

(i) ` Provide for the establishment of the Nigerian National Petroleum Company Limited (the National Oil Company). The Nigerian National Petroleum Company Limited shall be a limited liability company and shall be a successor company to the assets and liabilities of the Nigerian National Petroleum Corporation (the Corporation). Ownership of the National Oil Company shall be vested solely in the Federal Government of Nigeria;

(j) provide for the establishment of the Nigerian Petroleum Research Centre. The corporate headquarters of the Centre shall be in Port Harcourt. The functions of the Centre, among other things, shall be to carry out research in all areas pertaining to the petroleum industry;

(k) establish a National Frontier Exploration Service, with the objectives of promoting the efficient and sustainable exploration of hydrocarbons in the frontier basins of Nigeria. Among others, its functions are to regulate petroleum exploration activities in all unassigned frontier acreages in Nigeria held by the Directorate; identify opportunities and increase information about the petroleum resource base within all frontier acreages in Nigeria, with demonstrable technical and operational excellence;

(l) Establish, pursuant to this Act, the Petroleum Equalization Fund into which shall be paid any net surplus revenue recovered from petroleum products marketing companies, and such sums as may be provided for that purpose by the Federal Government. The Fund shall be managed by the Petroleum Equalization Fund Management Board. The Board shall determine the method by which net surplus revenue shall be collected from the petroleum products marketing companies; and

(m) Propose the Petroleum Technology Development Fund. Sources of the Development Fund, among others, are the balance of the monetary assets outstanding at the commencement of this Act in the accounts of the Petroleum Technology Development Fund Act; penalty fees resulting from non-compliance with expatriate quota provisions; penalty fees for violation of the Nigerian Content policy, etc.

b. Crude Oil Production and Prices

i. Production

Nigeria's aggregate crude oil production, including condensates and natural gas liquids, averaged 1.82 million barrels per day (mbd), or 664.3 million barrels in 2009, compared with 1.98 mbd or 700.8 million barrels in the preceding year. This represented an 8.0 per cent decline relative to 2008. Declining production had characterized oil output over the previous five years due largely to militant activities and the attendant destruction of oil-production facilities. The Federal Government's amnesty programme brought relative peace to the Niger-Delta area in the second half of 2009. Consequently, production level rose from 1.75mbd in January to 1.94 mbd in September and closed at the end of the year at 2.02 mbd.

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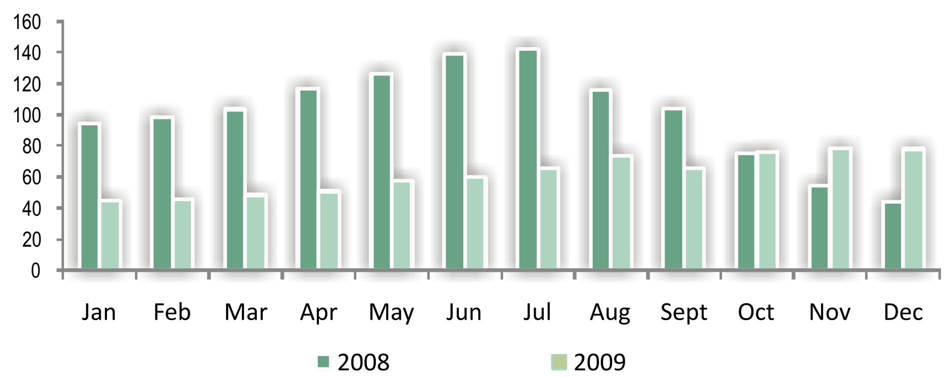
Aggregate export of crude oil over the period was estimated at 1.37 mbd, or 500.1 million barrels, compared with 536.6 million barrels in the preceding year. Despite the low production, Nigeria's trade pattern remained the same in 2009, attributable mainly to capacity additions from new oilfields and declining world demand.

ii. Prices

The average spot price of Nigeria's reference crude, the Bonny Light (37^{0} API), stood at $62.1 per barrel in 2009, compared with the preceding year's average of $101.2 per barrel, a decline of 38.6 per cent. The average price of OPEC's basket of 11 crude streams also fell by approximately 35.0 per cent to $61.1 per barrel in 2009. Reduced world demand and the stronger value of the US dollar accounted for the depressed price.

The average spot price of Nigeria's reference crude, the Bonny Light (370 API), stood at $62.1 per barrel in 2009, compared with the preceding year's average of $101.2 per barrel, a decline of 38.6 per cent.

Figure 6.10: Bonny Light Monthly Prices in 2008 and 2009



iii. Refinery Utilization

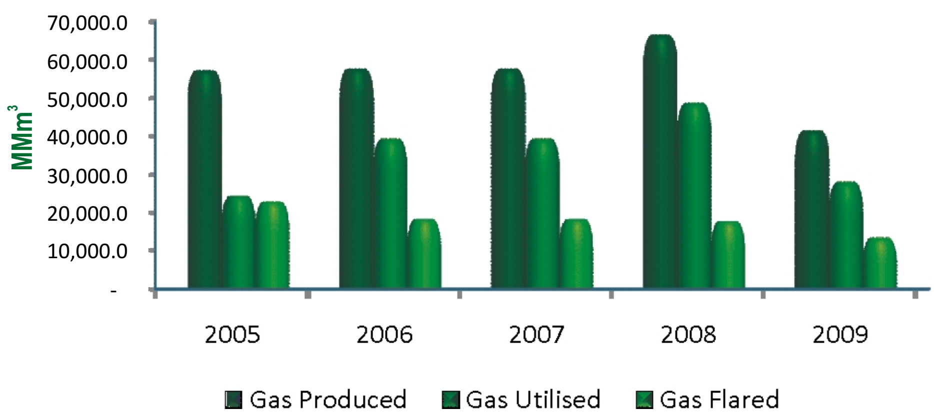
The total quantity of crude oil refined by local refineries in 2009 was estimated at 2,887,815.00 tonnes, down from the 5,544,446.67 metric tonnes processed in 2008.

6.3.2.2.2 Gas

a. Gas Production in 2009

A total volume of 41,534.16 million cubic meters MMm3 of natural gas was produced in 2009, down from 66,640.75MMm3 in 2008, showing a decrease of 37.7 per cent. This was attributed to the decline in oil production as a result of frequent attacks on oil installations by militants in the Niger Delta. Out of the quantity produced, 32.4 per cent was flared, while the balance of 67.60 was utilized. About 36.41 per cent was sold to industries, such as the Power Holding Company of Nigeria (PHCN), cement and steel companies, as against 40.20 per cent in 2008, while 15.82 per cent was sold to the Nigeria Liquefied Natural Gas (NLNG). Gas converted to natural gas liquids and gas lift accounted for 4.14 and 4.17 per cent, respectively, while the oil-producing companies used 7.1 per cent as fuel gas.

Figure 6.11: Gas Production and Utilisation (2005 - 2009)



6.3.2.2.3 Solid Minerals

a. Institutional Support for the Sector

As a follow-up to efforts to make the sector more competitive in 2009, the Ministry of Mines and Steel Development organized an investment solicitation campaign in China, with the theme, "Creating a Sustainable and Investor-Friendly Framework for Mining in Nigeria" from November 27 to 29, 2009. The aim was to showcase the opportunities and incentives in Nigeria's mining sub-sector. The Ministry also reviewed and updated the geological maps of the entire country and produced geological and mineral maps for every state of the federation and the Federal Capital Territory in digital format. It also revised the country's geodetic network and completed its cartographic coverage to facilitate a more accurate determination and charting of mineral titles.

The Ministry identified seven strategic minerals that were considered critical to the nation's industrial development. Some of the minerals were gold, coal, iron ore and bitumen.

The Ministry identified seven strategic minerals that were considered critical to the nation's industrial development. Some of the minerals were gold, coal, iron ore and bitumen. It granted over 2,508 mineral titles and issued 2,062 licences, out of the 8,179 applications/titles registered. It further registered 234 mining cooperatives, quarry associations and small scale miners, out of the 600 applications received. In addition, it verified and registered 17 additional private mineral buying centres, which would serve as interface between mining cooperatives, licensed miners, local users and export markets.

The Ministry commenced the disbursement of the US$10 million grant, under the Sustainable Management of Mineral Resources Project (SMMRP) of the World Bank, to the first ten artisanal miners and mining communities to improve their operations. The beneficiaries included seven (7) artisanal and small scale mining projects and three (3) community projects. Some mining cooperatives received grants up to US$50,000 for the purchase of simple mining tools and equipment. During the year, the Ministry worked in close collaboration with the various state Mineral Resources and Environmental Management Committees (MIREMCO) to ensure environmental best practices in the mining sector. It embarked on capacity building by upgrading the old school of mines in Jos into the new Nigerian Institute of Mining and Geosciences (NIMG) and trained over 200 staff.

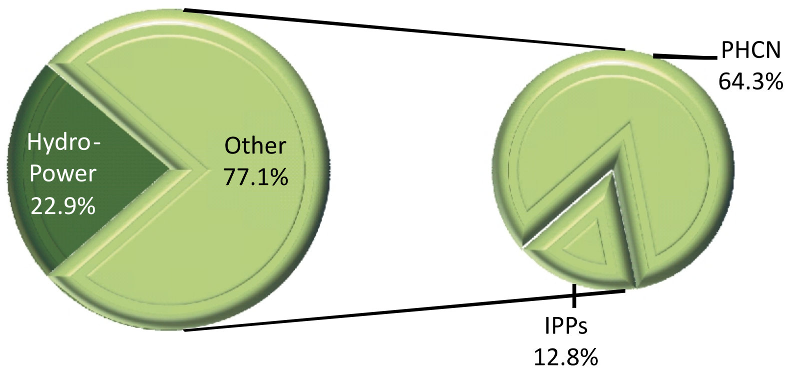
a. Solid Minerals Production

Solid minerals production increased marginally in 2009 relative to the preceding year. Provisional data showed that aggregate output increased from 40.2 million tonnes in 2008 to 41.0 million tonnes, representing an increase of 2.0 per cent. The increase was accounted for by increased production of limestone. Other minerals, such as cassiterite, columbite, clay, marble aggregates, lead/zinc, shale, laterite and iron ore, however, declined in the period under review compared, with 2008.

6.3.3 Electricity Generation

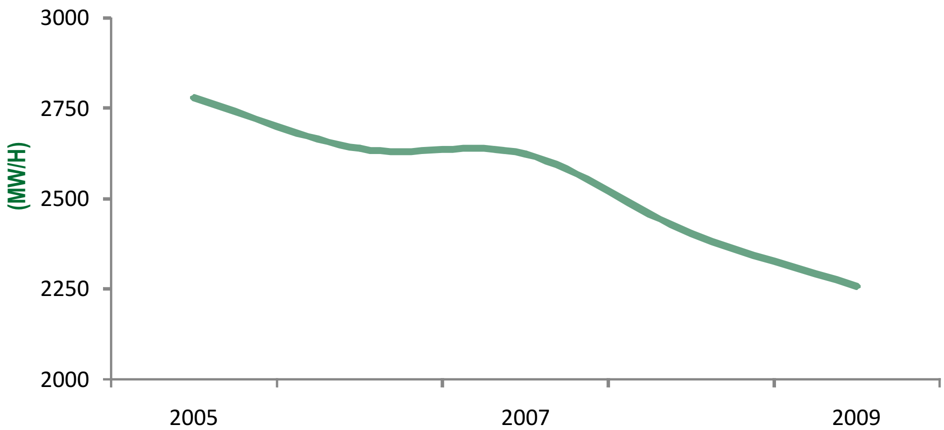
The total installed electricity generation capacity stood at 8,469.5 mega watts in 2009, an increase of 20.8 per cent over the level in 2008. The composition of the electric power system remained as follows: 1,938.4 MW of hydro- power (22.9 per cent) and 6,531.1 MW of thermal power (77.1 per cent). The Power Holding Company of Nigeria (PHCN) accounted for 87.2 per cent of the total electricity generation, while the IPPs accounted for the remaining 12.8 per cent. The performance of the power generating plants showed a decline of 8.3 percentage points in capacity utilisation; their estimated average capacity utilisation fell from 35.0 per cent in 2008 to 26.7 per cent.

Fig. 6.12: Nigeria's Power System Composition in 2009



At 2,257.6 mega-watts per hour (Mw/h), the total electricity generation fell by 6.1 per cent below its level in 2008. The decline was attributed to disruptions in gas supply to the generating stations and obsolete generating equipment.

Figure 6.13: Electricity Power Generation



6.3.4 Energy Consumption

The aggregate energy consumed in 2009 showed a decline when compared to 2008. At 174.2 (1990=100), the index of energy consumption fell by 1.9 per cent, compared with an increase of 4.9 per cent recorded in 2008. In absolute terms, aggregate energy consumed stood at 18.3 million tonnes of coal equivalent (tce) in 2009, down from 20.4 million tce in the preceding year, representing a 10.6 per cent fall. The decline in aggregate energy consumption was attributed to the fall in petroleum products (by 6.4 per cent) and natural gas (by 47.9 per cent).

6.3.4.1 Petroleum Products Consumption

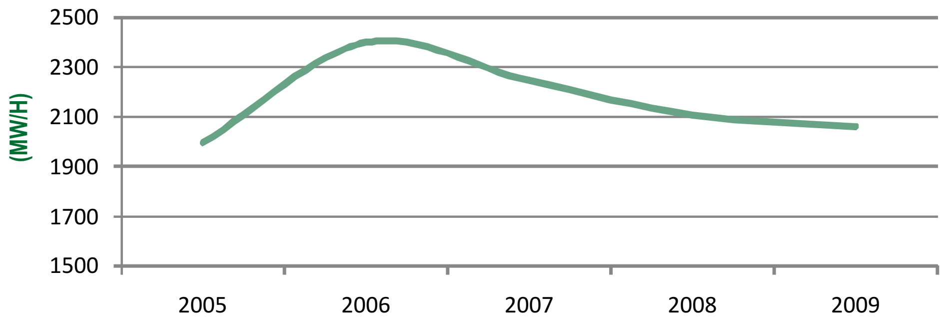
Aggregate petroleum products consumed in 2009 stood at 8.81 million tonnes, down marginally from 8.9 million tonnes in the preceding year. The consumption of Premium Motor Spirit (PMS) was estimated at 6.8 million tonnes, a 1.3 per cent decline from the level in 2008, while consumption of Dual Purpose Kerosene (DPK) rose by 9.8 per cent over the level a year earlier.

The consumption level of Automated Gas Oil (AGO) and Low Pour Fuel Oil (LFPO) exhibited mixed trends in the period under review. While the former declined by 28.3 per cent, the latter rose by 39.0 per cent in 2009, compared with 2008. The decline in the quantity of PMS and AGO distributed was due to the reduction of supply by the major marketers.

6.3.4.2 Electricity Consumption

At 2060.71 mega-watts per hour (Mw/h), total estimated electricity consumption fell by 2.2 per cent below the 2,107.96 mega watt per hour (MW/H) consumed in 2008. The decline was attributed to low generation and deterioration in transmission and distribution infrastructure. The gap between electricity generation and consumption was 8.8 per cent, compared with 12.9 in 2008. Residential consumption accounted for 56.3 per cent of total electricity consumption, while commercial and street-lighting, and industrial consumption accounted for 25.7 and 18.0 per cent of the total, respectively.

Figure 6.14: Electricity Consumption



6.3.4.3 Hydropower Consumption

At 4,590,534.4 tce, hydropower consumption in 2009 increased by 0.5 per cent, compared with the level in 2008. The development was attributable to the improved performance of the Shiroro hydropower plants, which following its refurbishment generated 2,267,195.8 mwh, compared with 1,913,856.7 mwh in 2008, an increase of 18.5 per cent. The performance of the Kainji and Jebba plants, however, declined by 6.4 and 6.3 per cent, respectively.

6.3.4.4. Coal Consumption

Estimated aggregate coal consumption remained at the 2008 level of 8,050.7 tce. The stagnation in coal consumption reflected the shift to more environmentally-friendly sources of energy.

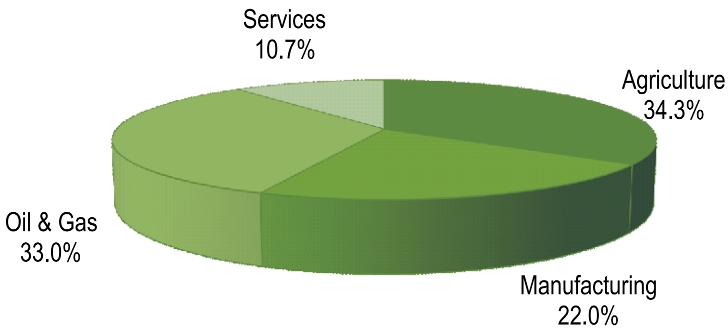
6.3.5. Industrial Financing

6.3.5.1 Nigeria Export-Import Bank (NEXIM)

The Nigeria Export Import Bank (NEXIM) disbursed a total of ₦2,613.4 million under its main facilities, to various beneficiaries in 2009, an increase of 53.3 per cent over the amount disbursed in 2008. Of the total amount, the sum of ₦1,500.0 million was disbursed under the rediscounting and refinancing facility for various products in manufacturing, agriculture, solid minerals and the services sub-sectors, while ₦1,113.4 million was disbursed under the direct lending facility.

A sectoral breakdown of the disbursement showed that the agriculture sector received the highest amount of ₦778.04 million or 34.3 per cent of the total, the oil and gas sub-sector followed with 33.0 per cent, while the manufacturing and the services sub-sectors got 22.03 and 10.72 per cent, respectively.

Figure 6.15: Sectoral Distribution of NEXIM's Credit in 2009



6.4 TRANSPORTATION AND COMMUNICATIONS

6.4.1 Airline Services

6.4.1.1 Policy and Operational Environment

The reforms in the aviation industry which began in 2007 were further reinforced in 2009. The Federal Airports Authority of Nigeria (FAAN), Nigerian Airspace Management

Authority (NAMA) and the Nigerian Civil Aviation Authority (NCAA) vigorously pursued the enforcement of international standards for passenger safety during the year. The installation of the instrument landing system at the airports, airport security upgrade and airport modernization programme continued.
Following an unsuccessful terrorism attempt on a US plane by a Nigerian, airport security was stepped up towards the year-end to ensure the attainment of full strict standards according to the International Civil Aviation Organisation (ICAO) regulations. Some of the measures instituted included installation of body scanners at the major international airports in the country and a review of the security check system on passengers.

Nigeria passed the ICAO security audit as well as that of the Transport Security Administration (TSA) of the United States in 2009.

Consequently, Nigeria passed the ICAO security audit as well as that of the Transport Security Administration (TSA) of the United States in 2009. During the year, the ARIK, DANA, IRS and AERO airlines commenced new domestic routes.

The challenges of industry airspace management which manifested itself in terms of Air Traffic Control (ATC) radar failures, air-misses and non-compliant search and rescue organization lingered on during the year 2009.

6.4.1.2 Domestic Airlines

The operations of the private domestic airlines recorded improvements in 2009. The number of passengers airlifted increased by 0.9 per cent to 8.65 million, from 8.58 million in 2008, although aircraft movement declined by 19.0 per cent from 248,621 in 2008, to 199,151. The improvement in the operational performance of the domestic airlines reflected the effects of increased competition which led to commencement of new routes. Further improvement in the performance of operators were constrained by the reported challenges of double taxation, excessive duties on aircraft engines and aircrafts, and airport charges by FAAN, NAMA and NCAA as well as rise in aviation fuel prices, and labour issues.

6.4.1.3 Foreign Airlines

The operational performance of airlines on the international routes declined significantly in 2009, as the number of passengers airlifted on the routes fell by 17.9 per cent to 2.74 million, compared with 3.34 million in 2008. International aircraft movement also declined by 86.6 per cent to 29,047 in 2009 from 216,502 aircrafts in 2008. The development could be attributed to the challenges arising from increasing airfares, and restrictive policy on visa operated by most foreign embassies in Nigeria in 2009. Other factors included rising prices of aviation fuel and operational costs, and decline in demand for foreign travel arising from insecurity and terrorism threats.

6.4.2 Railway Services

Efforts to transform the nation's transport infrastructure received a major boost during the year. The Nigerian railway modernization project which was suspended in 2008 was resuscitated in 2009. The implementation of the first phase commenced with the award of the contract for the construction of 186km single track standard gauge railway lines from Abuja (Idu) to Kaduna at a cost of US$875 million. Of this amount, US$500 million would be provided by the Chinese Government as concessional loan.

Efforts to transform the nation's transport infrastructure received a major boost during the year with the resuscitation of the Nigerian railway modernization project which was suspended in 2008.

The Lagos-Kano modernization project also received a boost during the year. After a re-negotiation with China Civil Engineering Construction Corporation (CCECC), the project was repackaged into five segments, namely: Lagos-Ibadan, Ibadan Ilorin, Ilorin Minna, Abuja Kaduna and Minna Kano. Other projects being handled under the umbrella of Railways rehabilitation project included: Ajaokuta-Warri Line (254km); Lagos Jebba phase (488km); Jebba Kano (640km); construction of six stations, bridges and culverts; rehabilitation of track and signal/telecommunication facilities; and supply of 25 brand new locomotives engines.

Remarkable progress was recorded on railway concessioning during the year. These included: remobilization of transportation advisers, Electronic Assets Register for NRC Assets, Work plan for concession and re-structuring of the Corporation. The performance of the Nigerian railways on functional routes improved in 2009 by 20 percent, as 2.396 million passengers were carried compared to 1,996 million in 2008. The volume of cargo moved also increased by 18.0 per cent to 55,942.62 tonnes in 2009 from 47,409 tonnes in 2008.

6.4.3 Maritime Services

The maritime sector witnessed mixed developments in 2009. Government pursued key maritime programmes in the areas of safety, security, marine environment protection and human development. Despite the global economic downturn, the cargo volume excluding crude-oil, rose marginally by 1 per cent to 66 million tonnes in 2009 from 65 million tonnes in 2008.

As part of efforts to enable large ships to berth in the inland river and increase their utilization, the Federal Government signed the contract for the dredging of the River Niger to increase the draught of its channels.

6.4.4 Communications

The communications sector continued to be vibrant with stable growth in 2009, driven

The communications sector continued to be vibrant with stable growth in 2009, driven mainly by the Global System of Mobile Communications (GSM), following the liberalization of the sector.

mainly by the Global System of Mobile Communications (GSM), following the liberalization of the sector and the active effort of the industry regulator. Total investment in the sector increased by 50.0 per cent, from US$12.0 billion in 2008 to US$18.0 billion. A breakdown of total investment for 2009 showed that US$12.0 billion was Foreign Direct Investment (FDI), while the remaining US$6.0 billion was from local investors.

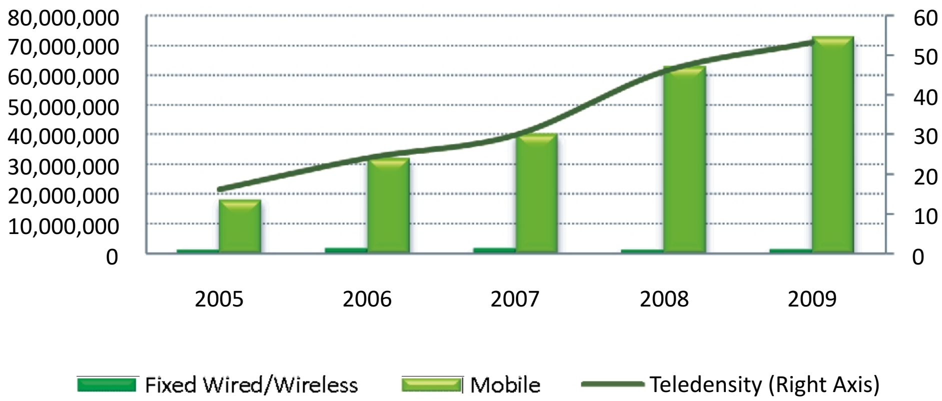
Table 6.4: The Nigerian Telecommunications Market Statistics

	2005	2006	2007	2008	2009
No. of Connected Fixed Lines ('000)	1,223	1,673	1,580	1,308	1,419
No. of Connected Digital Mobile Lines (million)	18.59	32.32	55.24	62.99	73.10
No. of National Carriers	2	2	2	2	2
No. of Operating ISPs	69	117	**117**	83	
No. of Active Licensed Fixed Line Operators	26	26	29	20	22
Number of Licensed Mobile Operators	4	4	4	9	8
Teledensity	16.27	24.18	29.98	45.93	53.23
Cumulative Investment (US$ million)	7,500	8,150	11,500	12,000	18,000

Source: Nigerian Communications Commission (NCC)

As at end-December 2009, the combined subscriber strength of the telecommunications sub-sector had increased by 13.7 per cent, over its December 2008 level, to a total of 64,296,117 lines (1,307,625 fixed wired/wireless and 62,988,492 mobile lines). Similarly, teledensity increased from 45.93 lines per 100 inhabitants, as at December 2008, to 53.23 lines per 100 inhabitants. This was appreciably higher than the International Telecommunication Union (ITU) minimum standard of 1:100. In addition, the output of the sub-sector grew by 34.2 per cent in 2009 and accounted for 3.7 per cent of the GDP. Other developments in the sub-sector included the signing of a memorandum of understanding (MoU) on mobile television services.

Figure 6.16: Trends of Total Connected Lines and Teledensity



In 2009, the industry regulator, the Nigeria Communications Commission (NCC) set up a public inquiry desk that provided the public with a platform for resolving issues of interconnectivity. It launched the State Accelerated Broad Initiative (SABI) project in Kano, which was expected to reduce the cost of internet access and technological services, especially in rural and semi-urban areas. Also, the NCC reviewed downwards the interconnection rates in the industry, action that is expected to reduce the tariff rate.

6.5 CONSUMER PRICES

Inflationary pressure moderated somewhat in 2009, but the rate of inflation remained above the single digit. The inflation rate on a year-on-year basis, which stood at 14.0 per cent in January 2009, dropped to 10.4 per cent in September 2009, before assuming an upward trend to peak at 12.0 per cent at end-December 2009. The development was attributable to a number of factors including: the surge in the prices of staples, and seasonal effects. The all-items composite Consumer Price Index (CPI) was 215.6 (May 2003=100) in December 2008, compared with 192.6 in the corresponding month of 2008. This represented a year-on-year headline inflation rate of 12.0 per cent, which was 3.1 percentage points below the rate in December 2008. Further analysis indicated that the urban headline inflation rate (year-on-year) declined significantly from 11.4 per cent in 2008 to 7.9 per cent in December 2009. Similarly, the rural inflation rate fell from 17.0 to 14.0 per cent during the same period. Inflation rate at the end of the year exceeded both the national and the WAMZ single-digit inflation rate target.

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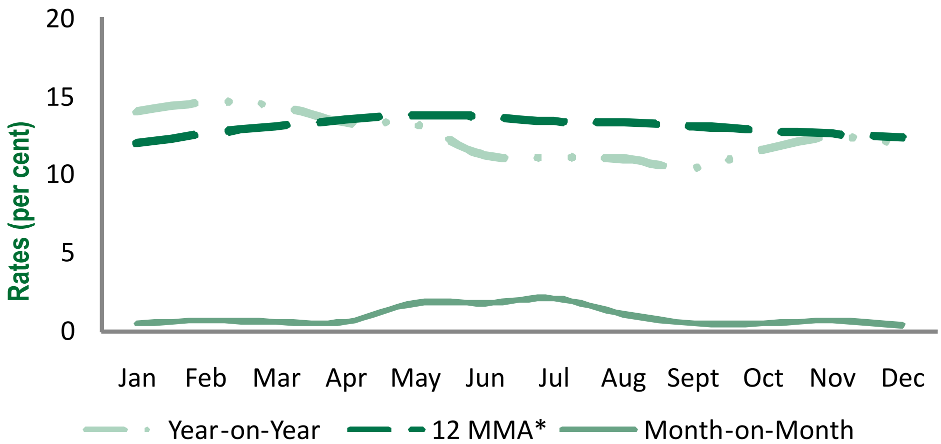
Inflation rate at the end of the year exceeded both the national and the WAMZ single-digit inflation rate target.

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

	2005	2006	2007	2008	2009
January	9.8	10.7	8.0	8.6	14.0
February	10.9	10.8	7.1	8.0	14.6
March	16.3	12.0	5.2	7.8	14.4
April	17.9	12.6	4.2	8.2	13.3
May	16.8	10.5	4.6	9.7	13.2
June	18.6	8.5	6.4	12.0	11.2
July	26.2	3.0	4.8	14.0	11.1
August	28.2	3.7	4.2	12.4	11.0
September	24.3	6.3	4.1	13.0	10.4
October	18.6	6.1	4.6	14.7	11.6
November	15.1	7.8	5.2	14.8	12.4
December	11.6	8.5	6.6	15.1	12.0
Average	***17.9***	***8.4***	***5.4***	***11.5***	***12.4***

Figure 6.17: Trends in Inflation in 2009

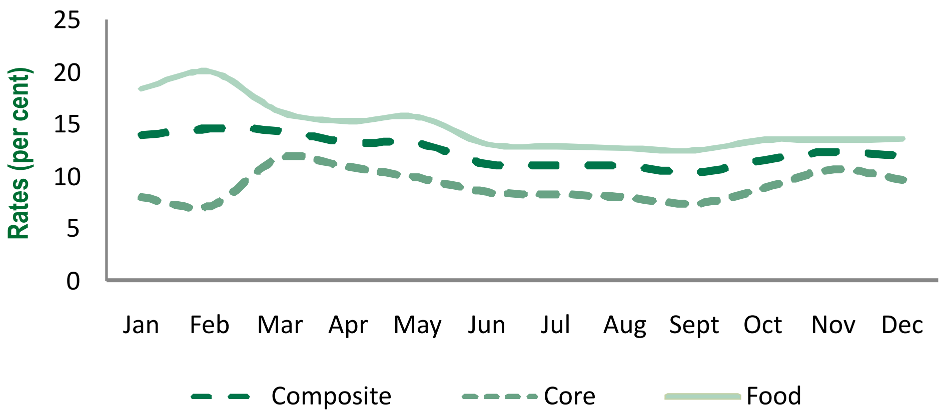


**12 MMA is 12- month moving average*

In the same vein, the 12-month moving average headline inflation rate, which was 11.6 per cent at end-December, 2008, rose to 12.4 per cent in 2009. The year-on-year food inflation rate, which stood at 18.0 per cent at end-December 2008, went up by 0.4 percentage point in January 2009. It further rose to 20.0 per cent in February, before declining to 13.6 per cent in December 2009. Thus, food price increase was the major driver of inflation.

Food price increase was the major driver of inflation.

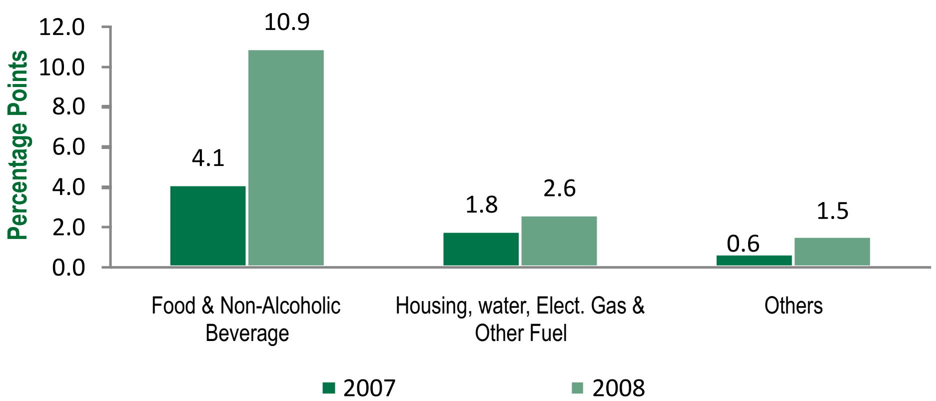
Figure 6.18: Trends in Inflation (Composite, Core and Food) in 2009



The core inflation (all-items, less farm produce) on a year-on-year basis, which stood at 8.0 per cent in January, increased to 10.9 per cent by April 2009. It assumed a downward trend from 9.9 per cent in May to 7.4 per cent in September and closed at 9.7 per cent in December 2009.

The key drivers of headline inflation included housing, water, electricity, gas and other fuels component a combination of which contributed 3.0 percentage points, as well as food and non-alcoholic beverages, which contributed 2.3 percentage points.

Figure 6.19: Contribution of Key Components to Headline Inflation (end-Period)



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 153,878,560 for 2009 and the total labour force was projected at 64,960,371 in 2009.

6.6.2 Unemployment

Available estimates showed that the national unemployment rate in 2009 was 12.9 per cent, compared with 12.8 per cent in 2008. 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, 2005 - 2009

	2005	2006	2007	2008*	2009*
Total Population	138,468,013	140,003,542	144,483,655	149,107,132	153,878,560
Total Labour Force	56,170,672	58,933,891	61,249,485	62,946,096	64,960,371
Total Employment [1]	49,486,362	50,886,826	52,326,923	53,807,775	55,529,624
Total Unemployment	6,684,310	8,047,065	8,922,562	9,204,515	9,499,059
Unemployment Rate (%)[2]	11.9	14.6	10.9	12.8	12.9

Source: National Bureau of Statistics

1/The Labour 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 weekpreceding the survey period.
**Staff Estimates*

CHAPTER 7

7.0 EXTERNAL SECTOR DEVELOPMENTS

The impact of the global financial crisis of 2008 lingered in 2009. Consequently, Nigeria's external sector, as in most economies, was under pressure. This was reflected in the drawdown on external reserves, capital reversal by portfolio investors for most part of the year, and a lower trade balance occasioned by the effect of price shocks in the international crude oil market. Despite the pressure, proactive monetary policy actions and robust exchange rate management combined to produce a surplus outcome in both accounts of the balance of payments. The current account surplus represented 11.9 per cent of GDP, down from 20.5 per cent in 2008. Other external sector indicators revealed that the external debt stock increased by 6.5 per cent to US$3.9 billion, but remained within a sustainable level, while the level of external reserves at US$42.4 billion could finance 17.7 months of imports. This exceeded the 6 months imports cover recommended under the West African Monetary Zone (WAMZ) convergence criteria. Exchange rate movement was relatively stable from the second quarter of the year. Notwithstanding the shocks, the external sector remained strong, particularly with the rebound in the price of crude oil in the second half of the year.

7.1. BALANCE OF PAYMENTS

7.1.1 Major Developments

The persistent pressure on the external accounts resulted in an estimated overall balance of payments deficit of ₦1,548.4 billion (US$10.6 billion), as derived from the changes in the level of external reserves. The overall deficit was equivalent to 6.3 per cent of GDP and contrasted with the modest surplus of 0.8 per cent recorded in 2008. Following weak demand from Nigeria's trading partners, aggregate external trade decelerated, with the oil export being severely affected during the period. Receipts from crude oil export declined by 32.9 per cent, as the price of Nigeria's reference crude (Bonny Light 37^0 API) fell significantly from an average of US$101.15 per barrel in 2008 to US$62.08. The performance of crude oil inflows overwhelmed the invisible transactions in the current account, resulting in a lower surplus of ₦2,934.2 billion (US$20.1 billion) or 11.9 per cent of GDP.

> *Following weak demand from Nigeria's trading partners, aggregate external trade decelerated, with the oil export being severely affected during the period.*

However, there were improvements in the invisible accounts as the deficits in the income account (net) declined, while net transfer increased marginally by 4.2 per cent in dollar terms. The pressure on the financial account was evident in the capital outflows by portfolio investors, while direct investment remained at almost the 2008 level.

Figure 7.1 Balance of Payments (per cent of GDP)

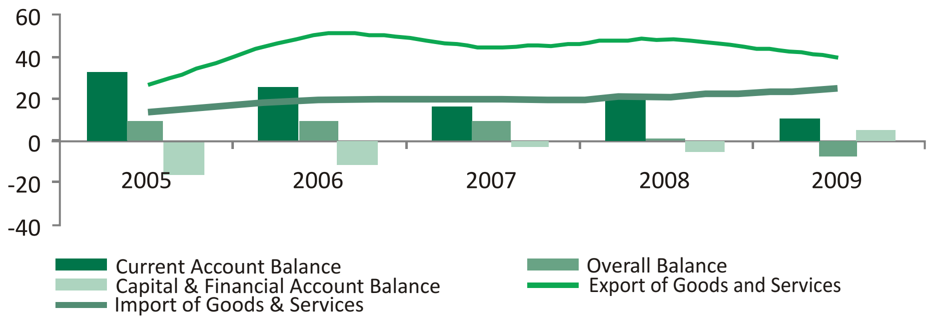


Table 7.1: Summary of the Provisional Balance of Payments Statement 1/						
	₦' billion			US$' billion		
	2007	**2008**	**2009 2/**	**2007**	**2008**	**2009 2/**
CURRENT ACCOUNT	3,890.68	4,977.73	**2,934.19**	31.19	42.26	**20.12**
Goods	4,512.06	5,563.18	**2,577.10**	36.17	47.23	**17.67**
Exports (fob)	8,309.76	9,907.61	**6,771.60**	66.61	84.12	**46.43**
Imports (fob)	(3,797.69)	(4,344.43)	**(4,194.50)**	(30.44)	(36.89)	**(28.76)**
Services(net)	(1,390.28)	(1,444.08)	**(1,505.00)**	(11.14)	(12.26)	**(10.32)**
Credit	181.56	230.74	**250.15**	1.46	1.96	**1.72**
Debit	(1,571.83)	(1,674.83)	**(1,755.15)**	(12.60)	(14.22)	**(12.04)**
Income(net)	(1,478.82)	(1,414.00)	**(1,069.11)**	(11.85)	(12.01)	**(7.33)**
Credit	321.98	284.21	**140.04**	2.58	2.41	**0.96**
Debit	(1,800.80)	(1,698.21)	**(1,209.14)**	(14.43)	(14.42)	**(8.29)**
Current transfers(net)	2,247.71	2,272.62	**2,931.20**	18.02	19.30	**20.10**
Credit	2,266.60	2,295.26	**2,959.71**	18.17	19.49	**20.30**
Debit	(18.88)	(22.63)	**(28.51)**	(0.15)	(0.19)	**(0.20)**
CAPITAL AND FINANCIAL ACCOUNT	(791.52)	(1,265.15)	**1,306.85**	(6.34)	(10.74)	**8.96**
Capital account(net)	-	-	**-**	-	-	**-**
Credit	-	-	**-**	-	-	**-**
Debit	-	-	**-**	-	-	**-**
Financial account(net)	(791.52)	(1,265.15)	**1,306.85**	(6.34)	(10.74)	**8.96**
Assets	(1,986.33)	(1,325.80)	**702.79**	(15.92)	(11.26)	**4.82**
Direct investment (Abroad)	(58.39)	(41.27)	**(74.53)**	(0.47)	(0.35)	**(0.51)**
Portfolio investment	(231.94)	(319.95)	**(316.10)**	(1.86)	(2.72)	**(2.17)**
Other investments	(568.79)	(768.21)	**(454.99)**	(4.56)	(6.52)	**(3.12)**
Reserve assets	(1,127.21)	(196.37)	**1,548.40**	(9.04)	(1.67)	**10.62**
Liabilities	1,194.81	60.65	**604.06**	9.58	0.51	**4.14**
Direct investment (in reporting economy)	759.38	460.22	**572.55**	6.09	3.91	**3.93**
Portfolio investment	332.55	(465.25)	**(30.27)**	2.67	(3.95)	**(0.21)**
Other investment liabilities	102.88	65.67	**61.78**	0.82	0.56	**0.42**
NET ERRORS AND OMISSIONS	(3,099.15)	(3,712.58)	**(4,241.05)**	(24.84)	(31.52)	**(29.08)**
Memorandum Items						
Current account balance as % of GDP	16.71	20.49	**11.87**	16.71	20.49	**11.87**
Capital and financial account balance as % of GDP	(3.40)	(5.21)	**5.29**	(3.40)	(5.21)	**5.29**
Overall balance as % of GDP	4.84	0.81	**(6.27)**	4.84	0.81	**(6.27) 3/**
External reserves (US$ million)	51,333.15	53,000.36	**42,382.49**	51,333.15	53,000.36	**42,382.49**
Number of months of import equivalent	20.24	17.24	**17.68**	20.24	17.24	**17.68**
External debt stock (US$ million)	3,654.00	3,704.08	**3,947.30**	3,654.00	3,704.08	**3,947.30**
Outstanding debt service due as % of exports of goods and non-factor services						
Effective central exchange rate(N/$)	124.76	117.78	**145.83**	124.76	117.78	**145.83**
End-period exchange rate(N/$)	117.97	132.56	**149.58**	117.97	132.56	**149.58**
Average exchange rate(N/$)	125.83	118.53	**148.90**	125.83	118.53	**148.90**

1/ The conversion for 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 THE CURRENT ACCOUNT

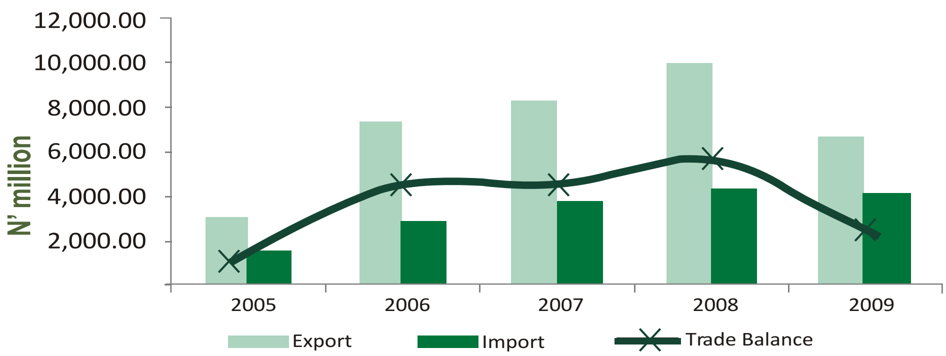
The current account surplus contracted sharply by 41.1 per cent to ₦2,934.2 billion (US$20.1 billion), reflecting the diminution of earnings from crude oil. The global economic shocks impacted on the current account largely through the trade channel. Consequently, the trade (goods) balance declined from a surplus of ₦5,563.2 billion (US$47.2 billion) in 2008 to ₦2,577.1 billion (US$17.7 billion). The deficit in the services account moderated in dollar terms, while that of the income account narrowed by 24.4 per cent. Current transfers (net), which comprised mainly home remittances, increased by 4.2 per cent in dollar terms to US$20.1 billion. In naira terms, it increased substantially by 29.0 per cent to ₦2,934.2 billion, due to exchange rate depreciation. The naira depreciated from an average of ₦118.5 to the US dollar in 2008 to ₦148.9 in 2009.

The current account surplus contracted sharply by 41.1 per cent to ₦2,934.2 billion (US$20.1 billion), reflecting the diminution of earnings from crude oil.

7.2.1 The Goods Account

At ₦2,577.1 billion, the goods account (fob) surplus adjusted for balance of payments (merchandise trade balance), decreased by 53.7 per cent, due to the decline in the combined receipts from crude oil, gas and non-oil exports (gross exports), which declined by 31.7 per cent, as well as the moderate drop in imports. Further analysis of trade developments, however, revealed that the major driver of trade (price of crude oil) rose significantly in the third and fourth quarters of 2009. The international price of crude oil surged from quarterly averages of US$47.12 and US$56.01 per barrel in the first and second quarters to US$69.79 and US$77.51 per barrel, respectively in the third and fourth quarters of 2009. The oil and non-oil components of unadjusted merchandise trade (imports and exports) decreased by 27.0 and 6.9 per cent to ₦7,535.5 billion and ₦3,877.2 billion, respectively. The continued dominance of the oil sector was reflected in its share of 66.0 per cent in total trade, down from 71.2 per cent in 2008. The degree of the economy's openness, as measured by the total trade/GDP ratio, fell from 54.7 per cent in 2008 to 49.2 per cent.

Figure 7.2 Value of Imports, Exports and Trade Balance



7.2.1.1 Imports: Cost and Freight (c&f)

At ₦4,641.1 billion, total imports unadjusted for balance of payments fell by 7.0 per cent, reflecting the weak consumer and industrial demand occasioned by the second-round effects of the global economic crisis on the economy. Non-oil imports, which represented 77.4 per cent of total imports, declined by 11.8 per cent due to the lull in economic activities, especially the depression in credit from the banking sector. The decline in non-oil sector imports overwhelmed the 14.1 per cent increase in oil sector imports.

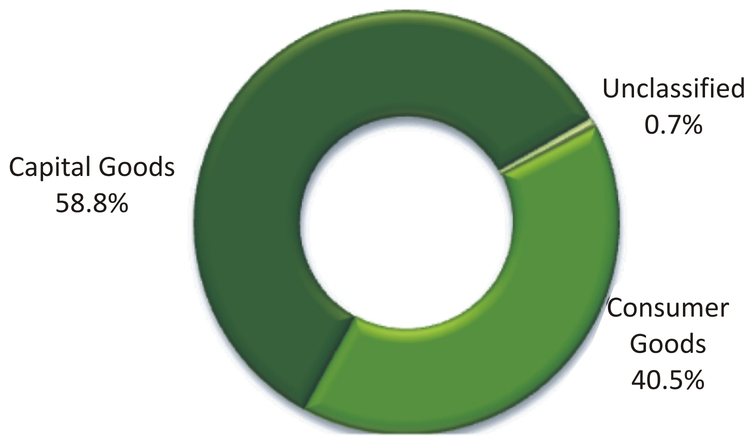
The decline in non-oil sector imports overwhelmed the 14.1 per cent increase in oil sector imports.

Analysis of DMBs' returns on foreign exchange utilization revealed that financial, industrial, manufactured goods, oil, transport and agricultural sectors' imports, respectively, accounted for 17.7, 22.5, 18.5, 15.4, 4.7 and 0.8 per cent of the total. Specifically, the shares of imports of food, vehicles, electronics and fertilizer were 10.7, 4.5, 4.2 and 0.4 per cent, respectively.

(a) Imports by End-User

Analysis of aggregate imports by end-user revealed that consumer goods declined by 17.5 per cent from the 2008 level, while capital goods and raw materials, as a group, increased marginally by 1.7 per cent. The increase was accounted for mainly by raw materials imports, which were required to grow the industrial sector of the economy. The share of consumer goods in total imports also declined, by 5.2 percentage points, to 40.5 per cent and was accounted for by payments in respect of durable and non-durable imports. Capital goods and raw materials imports took a large share of 58.8 per cent of the total. Within the group, raw materials imports (chemical) and capital goods (spare parts and agricultural machinery) accounted for 36.0 and 22.8 per cent, respectively. The balance of 0.7 per cent was accounted for by unclassified (miscellaneous) imports.

Figure 7.3 Import by Major Groups in 2009



(b) Imports by Harmonized System (HS)

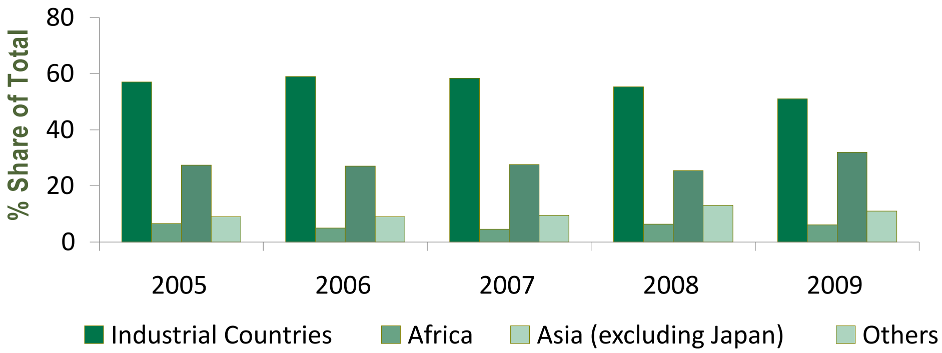
With respect to imports by HS, the value of some categories of imports recorded reasonable increases over their levels in 2008. However, major import items, such as base metals, boilers, machinery and appliances recorded a decline over their levels in the preceding year. The proportion of imports was highest in the boilers, machinery and appliances category at 28.7 per cent of total imports, followed by the vehicles and aircraft category at 19.9 per cent, base metals (10.5 per cent), chemicals and allied industries (8.6 per cent), plastics and rubber (7.8 per cent) and vegetable products (5.3 per cent). The proportion of the textiles category in total imports declined, however, from 5.3 per cent in 2008 to 1.8 per cent, following government's effort at resuscitating the ailing textile industry.

(c) Non-oil Imports by Country of Origin

Available data revealed that industrialized countries remained the dominant source of imports to Nigeria and accounted for 50.9 per cent of total, down from 55.3 per cent in 2008. The United States maintained the lead in this group, with a share of 13.6 per cent, followed by the United Kingdom 7.8 per cent, France 6.7 per cent, the Netherlands 6.4 per cent, while the balance of 16.4 per cent was accounted for by Japan, Germany and Italy. The share of Nigeria's imports from Asia (excluding Japan) increased by 6.6 percentage points to 32.0 per cent, reflecting the new shift of trade from the traditional industrial countries to developing economies, such as China, Thailand, India and Korea. The share of imports from African countries decreased by 0.2 percentage point to 6.1 per cent. Among this group, imports from South Africa ranked highest at 4.9 per cent of total.

Available data revealed that industrialized countries remained the dominant source of imports to Nigeria and accounted for 50.9 per cent of total, down from 55.3 per cent in 2008

Figure 7.4: Non-Oil Imports by Origin in 2009



7.2.1.2 Exports: Free on Board (fob)

The value of total exports declined by 31.7 per cent in 2009 to ₦6,771.6 billion (US$46.4 billion). The decline in export receipts reflected the weak global demand and the lower international price of crude oil relative to the 2008 average, as well as disruptions in crude oil production. The bulk of the export proceeds was accounted for by crude oil and gas (95.8 per cent), while non-oil exports accounted for 4.2 per cent. Available data indicated that the value of gas exports was ₦1,192.8 billion (US$8.2 billion), or 17.6 per cent of total, while non-oil exports (including estimates for unrecorded trade) stood at ₦286.3 billion (US$2.0 billion).

The value of total exports declined by 31.7 per cent in 2009 to ₦6,771.6 billion (US$46.4 billion).

Box 6: The Effect of the Global Financial Crisis on Nigerian Exports and the Need to Enhance the Competitiveness of Non-oil Exports

The integration of the Nigerian economy into the global economy over the last decade has been remarkably rapid. This is reflected in the consistent growth of exports, especially oil exports, and trade openness (total trade/GDP ratio) which averaged 30.1 and 66.4 per cent, respectively, between 2004 and 2008. The favourable balance of trade recorded over the years was largely driven by export growth, which overwhelmed imports. The sustained export growth, up till 2008, was facilitated by the positive terms of trade shocks stemming from the high prices of crude oil in the international market, a conducive policy environment and a good economic climate in Nigeria 's major trading partners, such as the United States (US) and the United Kingdom (UK). However, due to the impact of the global economic shocks on the economy, aggregate exports declined by 44.8 per cent in 2009, with significant implications on the fiscal operations of a country that depended largely on oil exports and an uncompetitive non-oil sector. The productivity of the non-oil sector has remained low and has been bedevilled by poor infrastructure, especially power needed by small and medium enterprises to grow the economy. Consequently, the non-oil sector has performed dismally over the decades, accounting for below 3.0 per cent of total exports. To ameliorate this situation, government, through its agents, has put in place a National Export Strategy to diversify the export base of the country.

Institutional arrangements targeted towards enhancing the performance of the export sector included the Nigerian Export Promotion Council (NEPC), the Nigerian Export-Import Bank (NEXIM) and Export Processing Zones (EPZ), among others. These institutions undertake a range of export-related activities and provide export support services, as well as incentive schemes and export expansion grants. To sustain government's effort, a new framework for National Export Strategy (NES)

2005-2010 for Nigeria was formulated jointly between the Federal Government and The Commonwealth Secretariat (COMSEC). The Strategy focuses on promoting non-oil exports, monitoring, mobilization of internal and external donor funding support, and institutional arrangements. A major component of the Strategy is the implementation of the Export Production Village (EPV) Scheme designed to create opportunities for the rural communities to increase their participation in mainstream export activities to provide jobs and the injection of fresh funds into the communities. Within the framework of the National Economic Empowerment and Development Strategy (NEEDS), non-oil export expansion during the Strategy's targeted period was expected to grow by 50.0 per cent.

[a] Direction of Oil Exports

The Americas as a group constituted the largest importer of Nigeria's crude oil, followed by the countries of Asia and Western Europe. The share of Nigeria's crude oil exports to the Americas increased by 1.8 percentage points to 54.8 per cent, while the value of crude oil export decreased from ₦4,638.4 billion in 2008 to ₦3,553.9 billion. Similarly, the volume declined by 23.8 per cent, to 307.4 million barrels. On a country-by-country basis, the US remained the largest single importer of Nigeria's crude oil, accounting for 30.0 per cent of the total.

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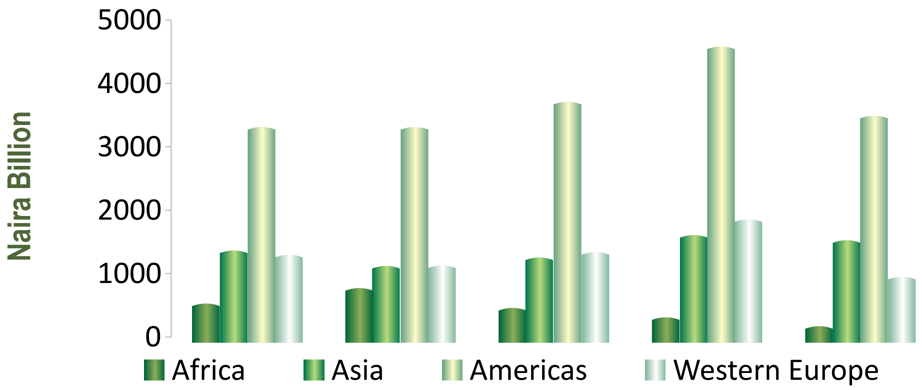
Figure 7.5: Direction of Crude Oil Exports in 2009

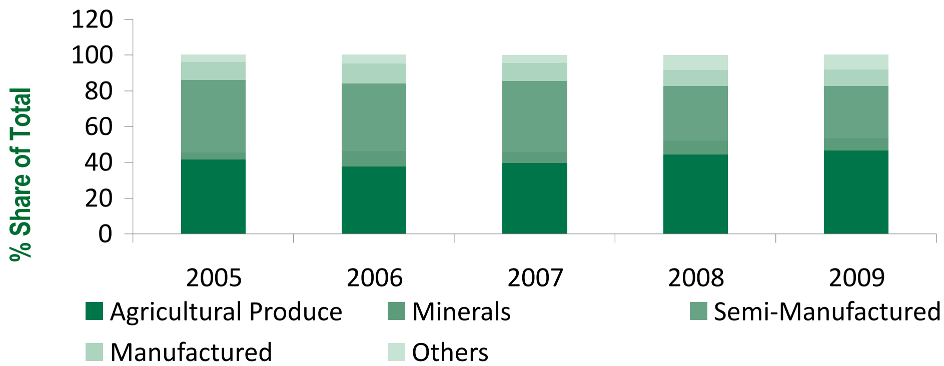


The share of Asia grew by 5.5 percentage points to 24.5 per cent, while that of Western Europe declined by 6.2 percentage points to 15.7 per cent. At 3.5 per cent, the share of crude oil exports to African countries remained the lowest. In the ECOWAS sub-region, Senegal was the largest importer of Nigeria's crude oil, followed by Ghana, while Côte d'Ivoire was the lowest importer.

[b] Non-oil Exports

The value of non-oil exports increased by 15.5 per cent to ₦286.3 billion. The analysis of non-oil exports by product showed that agricultural produce, semi-manufactured goods, manufactured goods and solid minerals accounted for 46.9, 29.2, 9.1 and 6.7 per cent of the total, respectively. Other exports, which comprised petroleum products, charcoal, scrap metals, crafts, ammonia and cement/lime products accounted for 8.1 per cent of the total. In the agricultural produce category, cocoa beans, rubber, fish/shrimps and cotton accounted for 15.0, 6.0, 2.4 and 10.0 per cent, respectively of the total non-oil exports. In this category, the share of all the products declined except cotton. The share of cotton increased from 2.6 to 10.0 per cent. The semi-manufactured goods category, which comprised processed skins, furniture/processed wood and textile yarn, accounted for 23.8, 1.3 and 1.4 per cent of the total non-oil exports, respectively, while the share of textiles in the manufactured group increased by 0.2 percentage point.

Figure 7.6: Non-Oil Exports by Product in 2009



[c] Non-oil Exports to the ECOWAS Region

Aggregate non-oil exports to the ECOWAS stood at ₦27.7 billion (US$189.96 million) in 2009, compared with ₦26.9 billion (US$228.81 million) in 2008, indicating a decline of 17.0 per cent in dollar terms. In naira terms, however, it increased owing to exchange rate depreciation. At US$68.6 million, non-oil exports to Ghana ranked highest within the ECOWAS, followed by Niger and Togo with US$35.17 million and US$29.87 million, respectively. Other importing countries were Benin, Cote d' Ivoire, Burkina Faso, Guinea, Senegal and Guinea-Bissau. The major export products were tobacco, plastics, paint, rubber, footwear, plastic paint containers and poly bags, among others.

7.2.2 The Services Account

The deficit in the services account (net) persisted, from ₦1,444.1 billion in 2008 to N1,505.0 billion in 2009.

The deficit in the services account (net) persisted, from ₦1,444.1 billion in 2008 to ₦1,505.0 billion in 2009. The main sources of out-payments were in respect of travels, freight charges for imports and other business services that comprised operational leasing and miscellaneous, business and professional services. Out-payments for transportation increased by 4.9 per cent to ₦483.8 billion, while payments for travels decreased by 46.1 per cent to ₦246.7 billion. Under transportation, passenger fares rose by 25.1 per cent, while freight charges (net) decreased by 9.1 per cent to ₦231.9 billion. Education and related expenditure posted a net deficit of ₦111.2 billion as against ₦243.0 billion in 2008. The substantial deficit reflected the number of Nigerians seeking education abroad.

Analysis of the major components of services revealed that business services, transportation, communications and government services recorded improved performance

Analysis of the major components of services revealed that business services, transportation, communications and government services recorded improved performance. Business services accounted for the bulk of the invisible transactions, representing 35.6 and 46.6 per cent, respectively, in 2008 and 2009. This was followed by the transportation services with 21.9 and 23.0 per cent, respectively, in the same period. Also, the share of communication services increased from 1.7 per cent in 2008 to 3.0 per cent. The development reflected the renewed interest of investors in the telecommunications sub-sector of the economy. The persistent deficit in the services account was attributable to the low investment by residents in freight business, non-compliance with global shipping policies, as well as increased volume of business and private travels abroad by Nigerians.

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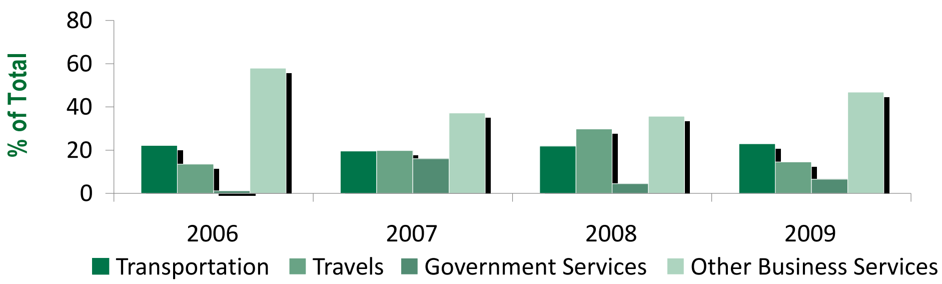
Table: 7.2 Percentage Share of Major Invisible Services Transactions

Items	2006	2007	2008	2009
Transportation	22.2	19.6	21.9	23.0
Travels	13.5	19.8	29.8	14.5
Insurance Services	0.10	1.86	2.48	2.52
Communication Services	2.44	1.66	1.68	3.00
Construction Services	0.80	0.55	0.55	0.43
Financial Services	0.28	0.04	0.04	0.17
Computer and Information Services	2.65	1.81	1.82	1.82
Royalties and Licence Fees	1.27	1.56	1.56	1.40
Government Services	1.22	15.97	4.55	6.56
Personal, Cultural & Recreational Services	0.01	0.00	0.00	0.00
Other Business Services	55.53	37.15	35.62	46.60

Figure: 7.7 Percentage Share of Major Invisible Services



7.2.3 The Income Account

The deficit in the income account (net) narrowed from ₦1,414.0 billion in 2008 to ₦1,069.1 billion. The contraction reflected the reduced out-payments on dividends and distributed branch profits. Also, earnings on external reserves and other investment assets by the monetary authorities declined by 90.2 per cent to ₦17.2 billion (US$0.1 million), reflecting the substantial drawdown on external reserves and the near-zero interest on foreign securities holdings.

7.2.4 Current Transfers

The surplus in current transfers (net) increased by 29.0 per cent, in naira terms, to ₦2,931.2 billion in 2009, reflecting exchange rate depreciations. In dollar terms, the surplus increased by 4.2 per cent. The inward transfers, at ₦2,959.7 billion, surpassed the outward transfers of ₦28.5 billion recorded in the general government accounts for the expenses of foreign embassies, payments to international organizations, and the remittances of foreigners resident in the country.

Table 7.2a: Current Transfers (Naira billion)

	2008	2009
INFLOWS (credit)	**2,295.3**	**2,959.7**
1.General government (grants, ODA, Technical Assistance & gifts)	21.2	26.2
2. Other sector workers' remittances and other transfers in kind	2,274.1	2,933.5
OUTFLOWS (debit)	**22.6**	**28.5**
1.General government (Payments to International Organizations & other payments)	14.0	18.8
2. Other sector workers' remittances and other transfers	8.6	9.7
NET CURRENT TRANSFERS	2,272.6	2,931.2

7.3 THE CAPITAL AND FINANCIAL ACCOUNT

The capital and financial account registered a surplus of ₦1,306.9 billion, or 5.3 per cent of GDP, as against the deficit of ₦1,265.1 billion, or 5.2 per cent of GDP, in the preceding year. Provisional data on foreign direct investment (FDI) inflows, which comprised equity capital, re-invested earnings and other capital inflows increased by 0.5 per cent in dollar terms to US$3.9 billion. The FDI flows were largely channelled into the banking, telecommunications and oil and gas sub-sectors. The portfolio account witnessed large capital reversals due to the deleveraging by foreign portfolio investors in the wake of the global financial crisis and the bearish performance of activities at the Nigerian stock market during most part of the year.

New capital imported into the economy, as captured from the DMBs database, amounted to US$5.3 billion. The inflows were mainly into the banking sector and the capital market with a share of 49.5 and 27.9 per cent respectively, while 'others' and telecommunications accounted for 16.3 and 6.3 per cent, respectively. On a regional basis, capital importation from the US accounted for a share of 62.2 per cent, UK 13.8 per cent, South Africa 4.2 per cent, the Netherlands 3.5 per cent, China 2.6 per cent, while other countries accounted for 13.7 per cent of the total.

Figure: 7.8 Capital Importation by Region in 2009 (per cent)

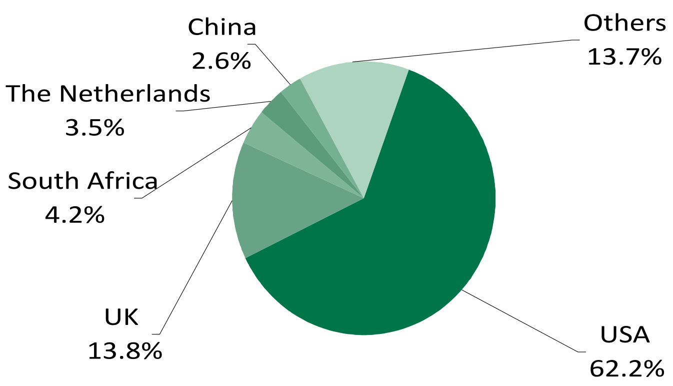


Figure: 7.9 Capital Importation by Sectors in 2009 (per cent)

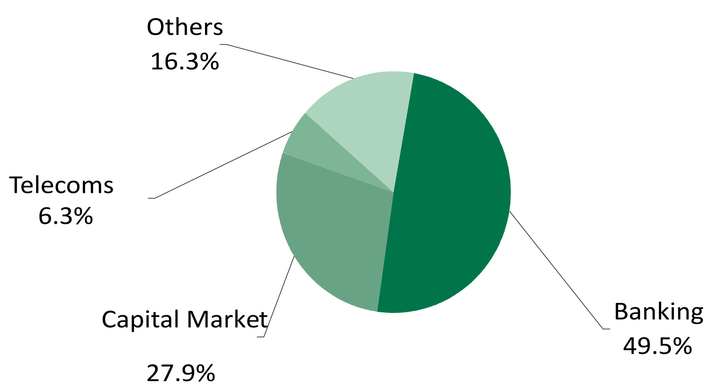


Table 7.2b: Capital Importation: Country and Sector Inflows (US$ million)

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

Analysis of other investment liabilities indicated that government's repayments of debt due increased by 3.7 per cent, while fresh commitments in 2009 resulted in an increased debt stock, from US$3.7 billion in 2008 to US$3.9 billion. This was traceable to additional disbursements of the International Development Association (IDA), the African Development Bank (AfDB), and the International Fund for Agricultural Development (IFAD) loans. The current level of external debt, at 2.4 per cent of GDP, was within a sustainable threshold.

Box 7: The Nature and Trends of Capital Flows in Nigeria

Capital flows are classified into private and official flows. Private capital flows comprise mainly foreign direct investment (FDI), portfolio investment (bonds and equity) and commercial bank loans, while official capital flows include Overseas Development Assistance (ODA) and grants.

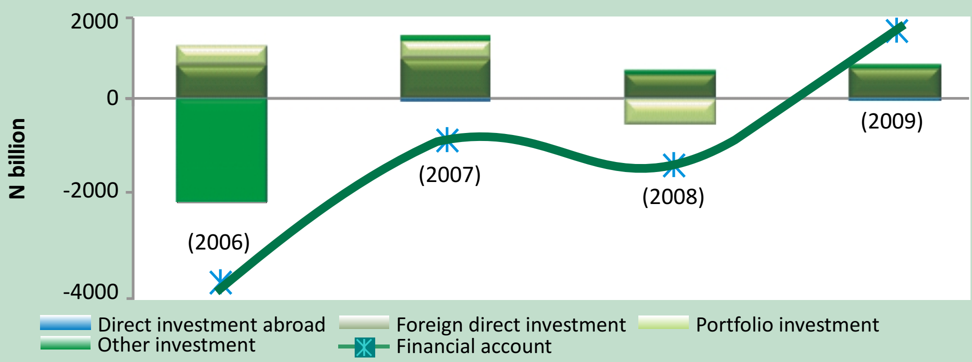
In most empirical studies, the major determinants of capital flows include: stable macroeconomic conditions as reflected in relatively strong economic growth, low inflation and a stable exchange rate, as well as a high interest rate differentials. However, in the Nigerian case, the major drivers of capital flows include: the level of reserves, degree of openness as reflected in the liberalization of current, capital and financial accounts, a two-period lag interest rate and the depth of the financial system, according to a study carried out by the Bank's Research Department on “Determinants of Capital Flows in Nigeria and Challenges for Macroeconomic Stability” (unpublished).

For decades, capital flows into the Nigerian economy have been largely in the form of Foreign Direct Investment (FDI). The development promoted the transfer of technology, employment and improved production capacity in most of the 1960's and 70's. The pattern of flow did not however, change up till the banking sector consolidation in 2004/2005 when the Nigerian economy began to witness a huge surge in foreign portfolio investments (bonds and equity), largely induced by the liberalization of some of the transactions in the capital account, policy consistency, and re-capitalization of the financial institutions. The sustainability of these flows was affected by the global financial crisis and the crash of the Nigerian Stock Market. For instance, market capitalization fell from ₦13.3 trillion as at end-December 2007 to a low level of ₦4.3 trillion in January 2009. A concise trend analysis of capital flows to the economy is presented below.

Foreign Direct Investment (FDI)

Foreign direct investment flows into Nigeria have increased significantly, following the deregulation of the economy in 1986. FDI inflows increased steadily by 21.6 per cent from ₦624.5 billion in 2006 to ₦759.4 billion in 2007. However, it declined by 39.4 per cent to ₦460.2 billion in 2008 due to the global financial crisis, but later rose by 24.4 per cent to ₦572.5 billion in 2009. The major components of FDI in Nigeria are new capital importation, reinvested earnings, signature bonuses and communication licence fees, as well as machinery and equipment. Capital importation and reinvested earnings account for over 80 per cent of total FDI flows to Nigeria. In terms of the sectoral distribution, inflows of FDI into Nigeria are relatively broad-based. While FDI inflows continued to be underpinned by the large and long-standing presence of investments in the oil and gas sector, the period 2000-2009 saw the rising importance of FDI flows into the service sector, with the share of FDI in this sector more than doubling. FDI in the services sector is well diversified, with investment being channelled to the financial services and outsourcing, communications and transportation sub-sectors. Within the West African sub-region, Nigeria accounts for over 70 per cent of the FDI flows to the sub-region. The continued attraction of Nigeria to FDI flows in the 2000's was traced to the relative political stability, policy consistency, macroeconomic stability and robust external reserves.

Trends of Capital Flows in Nigeria



Direct Investment Abroad

In recent years, a sharp increase in direct investment abroad by Nigerian companies has been recorded. Direct investment abroad amounted to ₦58.4 billion in 2007, but later declined by 29.3 per cent to ₦41.3 billion in 2008. However, direct investment abroad rose by 80.6 per cent in 2009 to ₦74.5 billion owing, mainly, to growing markets for Nigerian products abroad and banking services in the sub-region. It is expected that expanding investment abroad by Nigerian companies would promote more competitive Nigerian companies. Nigerian investment abroad was dominated largely by Deposit Money Banks (DMBs), which have continued to dominate the financial markets in the West African sub-region. Over 35 branches of Nigerian DMBs are scattered across the globe. The branching out of DMBs after the consolidation of the banking industry in 2006 increased Nigeria's off-shore activities which have impacted on the competitiveness of financial services in both the home and the host countries.

Factors driving Nigerian banks to invest abroad include expansion of market frontiers, competitiveness, branding, and advancement in technology. Generally, Nigerian banks which invested abroad have also enhanced their domestic operations by expanding capacity and moving up the production value chain in order to establish an integrated supply chain management with their overseas subsidiaries. This has increased their overall efficiency and enabled them to better compete in the global market. Investment by Nigerian companies abroad, over a medium term, will within the medium term be beneficial through the competitive gains from globalization, greater job opportunities, dividends for shareholders, and inflows from profit repatriation.

Portfolio Investment

From 2000 the portfolio inflows have surged remarkably, due to the banking sector consolidation and higher returns on domestic debt instruments. Portfolio inflows surged to ₦360.3 billion in 2006 owing to equity participation in the initial public offers of deposit money banks, but later declined by 7.7 per cent to ₦332.5 billion in 2007. The build-up in portfolio investment, especially during 2005-2007, was largely due to the consolidation of the financial sector and the liberalization of the money market which allowed foreign investors to invest in treasury bills of at least one year. However, the global financial crises of 2007/2008 resulted in capital outflows of ₦465.3 billion in 2008.

Nigerian investors have also taken advantage of the liberalization of the foreign exchange market to invest in cheaper foreign equities and real estate consequent upon the global financial crisis that has created liquidity problems in most industrialized economies, such as the United States of America (USA) and the United Kingdom (UK).

Other Investments

Other investments comprising mainly trade credits, external loans undertaken by the general government and the private sector, as well as currency and deposit placements by the monetary authorities and deposit money banks which recorded net inflows of ₦1,479.7 billion in 2006, but thereafter have consistently recorded net outflows of ₦671.7 billion, N833.9 billion and ₦516.8 billion, respectively from 2007 to 2009.

International Reserves

The Nigerian external reserves have witnessed an appreciable growth over the previous ten years. The stock of external reserves has increased from US$5.4 billion in 1999 to US$7.7 billion, US$7.5 billion, US$28.2 billion and US$53.0 billion in 2002, 2003, 2005 and 2008, respectively. It, however, declined by 20 per cent to US$ 42.4 billion at the end of 2009. This level of external reserves could finance 17.7 months of imports. The dramatic change in the growth of external reserves from 1999 to 2009 was induced by sustained current account surpluses which continued to overwhelm the deficit in capital and financial account; positive terms of trade shocks emanating from increased oil prices in the international market; and fiscal discipline characterised by due process in public procurements, as well as the resilience of monetary policy actions.

The review of developments of capital flows to Nigeria has brought to the fore the following: First, capital flows to Nigeria has continued to be dominated by FDI, especially the multinational corporations in the oil and gas, financial services, as well as the telecommunications sub-sectors. Second, in recent times, portfolio investment particularly in bonds, equity and treasury bills have gained prominence.

7.4 EXTERNAL ASSETS MANAGEMENT

Nigeria's total external assets at end-December 2009 stood at ₦7,484.8 billion (US$50.04 billion), compared with ₦8,616.5 billion (US$65.0 billion) in 2008. The foreign assets of the CBN declined by 12.6 per cent to ₦6,413.7 billion (US$42.38 billion) from the level in 2008, while its share of total external assets increased to 85.7 per cent, compared with 85.1 per cent in 2008. The net foreign assets of the Deposit Money Banks (DMBs) declined by 16.3 per cent below the level in the preceding year to ₦1,071.1 billion (US$0.74 billion) in 2009 and accounted for 14.3 per cent of the total external assets, compared with 14.9 per cent in 2008.

7.5 INTERNATIONAL INVESTMENT POSITION (IIP)

The Nigerian International Investment Position (IIP) was severely under pressure in 2009, as the total net IIP declined from ₦3,542.8 billion (US$26.7 billion) in 2008 to ₦2,873.1 billion

(US$19.2 billion) indicating a decline of 28.0 per cent. The development was traceable to the global financial and economic crisis which prompted excessive capital outflows culminating in the depletion of external reserves from ₦7,025.7 billion (US$53.0 billion) in 2008 to ₦6,339.6 billion (US$42.38 billion) in 2009. At ₦13,892.1 billion (US$92.9 billion), total assets declined by 3.9 per cent from the level in 2008. External assets contributed the highest at ₦6,339.6 billion (US$42.38 billion), followed by other foreign assets and domestic money bank assets with ₦5,844.9 billion (US$39.1) and ₦2,666.64 billion (US$17.8 billion), respectively.

The Nigerian International Investment Position (IIP) was severely under pressure in 2009, as the total net IIP declined from ₦3,542.8 billion (US$26.7 billion) in 2008 to ₦2,873.1 billion (US$19.2 billion)

Total stock of liabilities increased by 6.0 per cent to ₦11,023.0 billion (US$73.69 billion) in 2009. The stock of inward direct investment was ₦6,755.49 billion (US$45.16 billion) as against ₦5,466.4 billion (US$41.2 billion) in 2008. The stock of other investments also increased from ₦2,637.3 billion (US$19.9 billion) to ₦3,039.6 billion (US$20.32 billion). The growth in the stock of financial liabilities was traced to the continued confidence by foreign investors, occasioned by macroeconomic stability, the resilience in economic performance and the proactive policy direction of both the monetary and fiscal authorities to stem the effects of the global financial crisis on the economy.

Figure 7.10: Assets and Liabilities: International Investment Position (IIP)

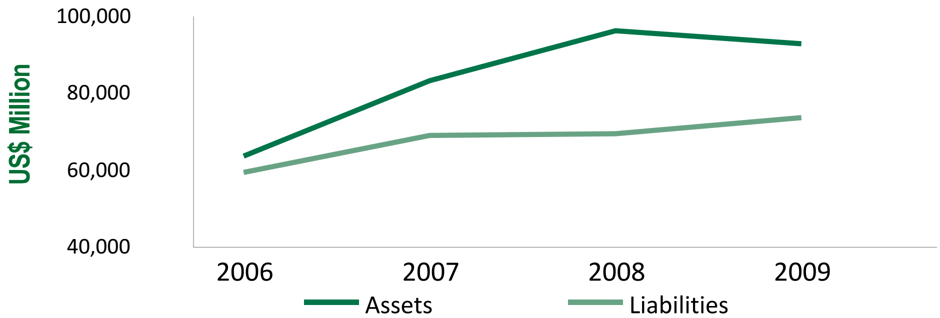


Figure 7.11: Net International Investment Position (IIP)

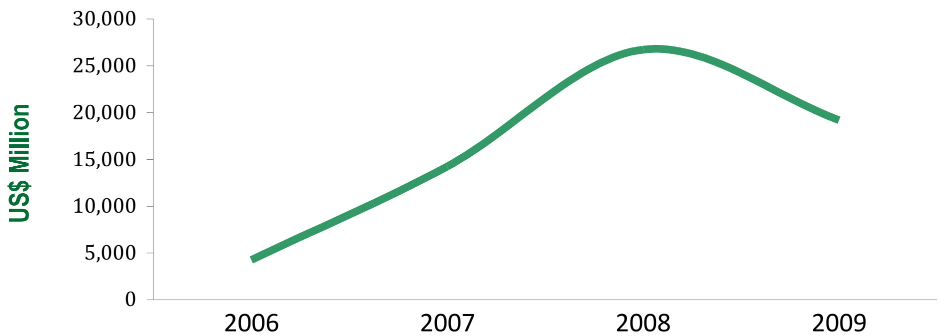


Table 7.3: International Investment Position (IIP) of Nigeria (2006-2009)
[Millions of dollars]

Type of Asset/Liability	2006	2007	2008	2009
Net international investment position of Nigeria	**4,260.09**	**14,259.30**	**26,726.22**	**19,207.92**
Assets	**63,719.22**	**83,295.29**	**96,277.13**	**92,901.05**
Direct investment abroad	318.61	786.61	1,137.01	1,648.08
Portfolio investment abroad	3,052.08	4,911.19	7,627.61	9,795.18
Equities	-	-	-	-
Money Market	3,052.08	4,911.19	7,627.61	9,795.18
Banks	3,052.08	4,911.19	7,627.61	9,795.18
Bonds	-	-	-	-
Financial Derivatives	-	-	-	-
Other foreign assets	18,050.42	26,264.34	34,512.15	39,075.30
Public Sector assets, excluding official reserves	1,308.03	2,581.87	4,666.37	5,971.01
Banks	6,620.62	9,923.26	15,418.25	17,840.92
Deposits	5,569.70	8,755.57	13958.64	16257.77
Loans	1,050.92	1,167.69	1,459.61	1,583.15
Non-banks	4,837.00	7,218.00	6,859.00	6,997.52
Deposits	4,837.00	7,218.00	6,859.00	6,997.52
Trade Credits	5,284.77	6,541.21	7,568.53	8,265.85
Nigeria official reserve assets	42,298.11	51,333.15	53,000.36	42,382.49
Liabilities	**59,459.13**	**69,035.99**	**69,550.91**	**73,693.13**
Direct investment	31,242.81	37,329.54	41,236.94	45,163.06
Portfolio investment	9,703.19	12,368.69	8,418.64	8,211.07
Equities	5,335.00	6,794.49	1,764.71	1,460.37
Money Markets	293.49	441.41	1,101.08	1,185.23
Banks	293.49	441.41	1,101.08	1,185.23
Bonds:	4,074.70	5,132.79	5,552.85	5,565.47
Gen. Government	4,074.70	5,132.79	5,552.85	5,565.47
Others	-	-	-	-
Financial Derivatives	-	-	-	-
Other Investments	18,513.13	19,337.76	19,895.33	20,319.00
Deposits:	5,613.00	6,463.00	6,189.32	5,775.91
Banks	5,613.00	6,463.00	6,189.32	5,775.91
Non-banks	-	-		
Loans	12,900.13	12,874.76	13,706.01	14,543.09
Long Term	12,900.13	12,874.76	13,706.01	14,543.09
Gen. Government	8,201.43	7,688.43	7,662.43	7,636.01
Banks	1,094.70	1,216.33	1,372.58	1,587.2
Others	3,604.00	3,970.00	4,671.00	5,319.88

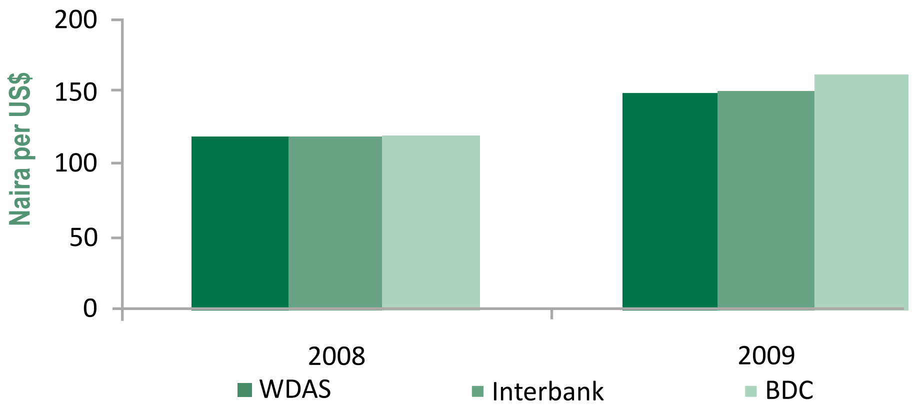
7.6 EXCHANGE RATE MOVEMENTS

The exchange rate of the naira in 2009 depreciated in all segments of the foreign exchange market. The depreciation reflected the adverse terms of trade shock on the price of crude oil in the international market. This resulted in low foreign exchange earnings and a decline in autonomous foreign exchange inflows thus exacerbating the demand pressure at the foreign exchange market. As a consequence, the average exchange rate of the naira under the RDAS/WDAS was ₦148.90 per US dollar, showing a depreciation of 20.1 per cent from the level in 2008. At the inter-bank and BDC segments of the market, the naira traded at an average exchange rate of ₦150.41 and ₦161.64 per US dollar, representing a depreciation of 20.8 and 25.3 per cent, respectively, from their respective levels in the preceding year. Consequently, the premium between WDAS/inter-bank and WDAS/BDC rates widened from 0.1 and 1.6 per cent in 2008 to 1.0 and 8.6 per cent, respectively, in 2009.

Analysis of the major components of services revealed that business services, transportation, communications and government services recorded improved performance

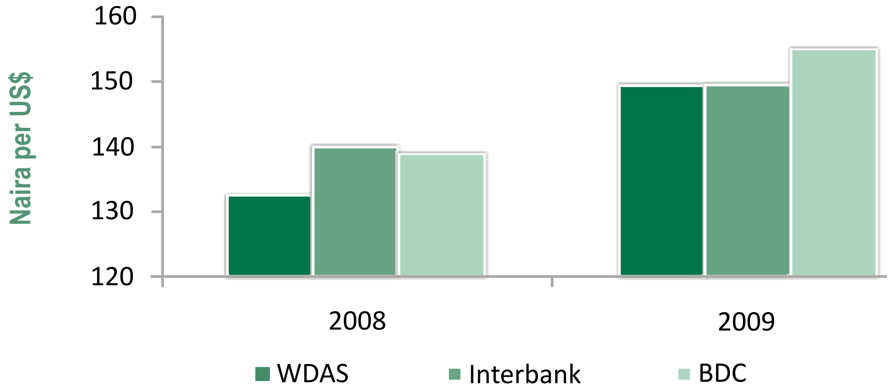
The premium between WDAS/inter-bank and WDAS/BDC rates widened from 0.1 and 1.6 per cent in 2008 to 1.0 and 8.6 per cent, respectively, in 2009.

Fig 7.12 Average Yearly Exchange Rate of the Naira per US Dollar



The end-period exchange rate at the WDAS segment of the foreign exchange market closed at ₦149.58 per dollar, reflecting a depreciation of 11.4 per cent from the end-December 2008 level. At the inter-bank and BDC segments of the foreign exchange market, the naira exchange rate to the US dollar also depreciated by 6.5 and 10.3 per cent to close at ₦149.67 and ₦155.00 per dollar, respectively, from their levels at the end of the preceding year. In general, the volatility in exchange rate during the first quarter of the year eased off, resulting in the relative stability recorded in the rest of the year.

Fig 7.13 End-period Exchange Rate of the Naira per US Dollar



7.7 Nominal Effective Exchange Rate (NEER) and the Real Effective Exchange Rate (REER)

The Nominal Effective Exchange Rate (NEER) and the Real Effective Exchange Rate (REER) indices (May 2003=100) were recomputed to capture the change in the composition of Nigeria's major trading partners. Consequently, the number of major trading partners constituting 80.0 per cent of the total trade increased from twelve to thirteen. The countries were the United States, the United Kingdom, Germany, France, Belgium, Italy, the Netherlands, India, China, Ghana, Spain, Brazil and South Africa. Indonesia and Japan were excluded from the list due to a reduction in trade with the countries.

The average NEER and REER indices, year-on-year, rose by 14.4 and 6.4 per cent above the figures in the preceding year to 121.57 and 62.86, respectively. The upward movement in the NEER index reflected the loss of external competitiveness of the naira against the basket of currencies of the major trading partners, while the growth in the REER index was indicative of a higher consumer price index (CPI), compared with Nigeria's trading partners.

Figure 7.14: Nominal and Real Effective Exchange Rate Indices

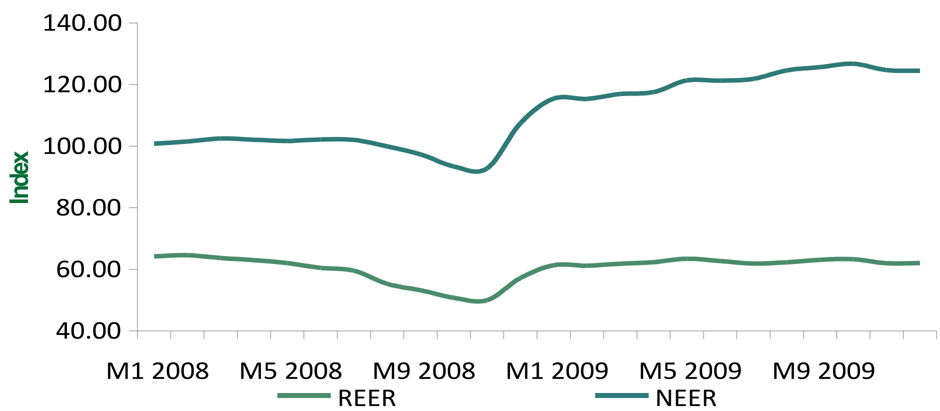


Table 7.4 Nominal and Real Effective Exchange Rate Indices (May 2003=100)

	December 2008		December 2009		
	Monthly Index	Annual Average	Monthly Index	Annual Average	%Change in Annual Average
NEER	107.44	100.31	125.57	121.54	14.4
REER	57.18	58.67	62.86	62.45	6.4

CHAPTER 8

8.0 INTERNATIONAL AND REGIONAL INSTITUTIONS

The IMF Spring and Annual Meetings centered on the global financial and economic situation, need for reforms in the Bretton Woods Institutions, financing for developing countries, Fund lending, multilateral surveillance and mobilization of resources for Fund operations. Members stressed the need for continued timely and adequate intervention from international financial institutions for developing countries affected by the global crises. At US$58.8 billion, the World Bank Groups' commitment to assist countries plagued by the global financial and economic crises increased by 54.0 per cent over the level in 2008. Nigeria signed a US$16.0 billion Bilateral Investment Agreement with the United Arab Emirates (UAE) to improve basic infrastructural facilities in Nigeria. At the regional level, The African Heads of State and Government discussed the global financial crisis and agreed that in-depth reforms of the global financial system should be undertaken, based on an inclusive approach. At the sub-regional level, the ECOWAS Convergence Council approved a revised road map for the realization of a single currency for West Africa by 2020. The road map includes the harmonization of the regulatory and supervisory framework for banks and other financial institutions, as well as the establishment of a payments system infrastructure for cross border transactions.

8.1 THE INTERNATIONAL MONETARY SYSTEM

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

The 2009 Spring and Annual Meetings of the Inter-Governmental Group of Twenty-Four (G-24) on International Monetary Affairs and Developments, and the discussions of the Board of Governors of the World Bank Group and the International Monetary Fund (IMF) all centered on the global financial and economic situation, the need for reforms in the Bretton Woods Institutions, financing for developing countries, IMF lending, multilateral surveillance, and mobilization of resources for Fund operations. At the meetings, the Governors:

- called for concerted and prompt implementation of necessary measures to address the deep-rooted weaknesses in the regulation of the financial markets;
- stressed the need for continued timely and adequate intervention from international financial institutions for developing countries affected by the global crises;
- urged developed countries to avoid protectionist and restrictive policy measures in the areas of trade, finance, investment and labour services;
- commended improvements in the IMF's lending policies and called on the Fund to take specific measures aimed at enhancing its instruments for broad-based precautionary financing; and
- directed the IMF to commence the implementation of the new flexible framework

for the Financial Sector Assessment Programme (FSAP) and ensure sharper macro-financial surveillance.

8.1.2 The International Monetary Fund

The IMF's outstanding global credit increased to SDR 42.3 billion at end-December 2009, from SDR 21.49 billion at end-December 2008. This comprised disbursements of SDR 37.2 billion in the General Resources Account (GRA) and SDR 5.1 billion under the Poverty Reduction and Growth Facility Exogenous Shocks Facility (PRGF-ESF).

8.1.3 The World Bank Group

The World Bank Group committed US$58.8 billion to assisting countries devastated by the global financial and economic crisis, an increase of 54.0 per cent over the level in 2008. The World Bank, comprising the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD), committed US$46.9 billion in loans and grants to its member countries. The individual commitments of IDA and IBRD were US$14.0 billion and US$32.9 billion, respectively. Furthermore, the International Finance Corporation (IFC) committed US$10.5 billion and mobilized an additional US$4.5 billion for private sector development in developing countries. The Multilateral Investment Guarantee Agency (MIGA) issued US$1.4 billion in investment guarantees for 26 projects in developing countries. Of the total, US$1.2 billion was in the financial sector to support continued lending by banks. This represented a decline of US$700.0 million from the level in 2008. The fall was attributable to reduced investment flows occasioned by the global financial crisis.

8.1.4 International Commodity Organisations

8.1.4.1 The International Cocoa Organisation (ICCO)

The 79th Regular Council Session, the 139th Executive Committee Meeting and the 19th Meeting of the Consultative Board on the World Cocoa Economy of the International Cocoa Organization (ICCO) were held in Moscow in June 1 5, 2009. The meetings discussed membership of the ICCO, distribution of votes, review of the observer status of non-member countries, the special reserve fund, cocoa production and consumption, and proposals for a future cocoa agreement.

On cocoa production and consumption, Africa supplied about 70.0 per cent of world cocoa beans, with Cote d'Ivoire alone accounting for nearly 35.0 per cent. World production was projected to increase from 3.5 million tonnes in 2008/2009 to 4.1 million tonnes in 2013/2014. Cocoa prices in real terms were projected to increase to US$2,345.0 per tonne in 2009/2010 and then decline to US$1,901.0 per tonne in 2011/2012.

8.1.4.2 The Organization of Petroleum Exporting Countries (OPEC)

The Organization of Petroleum Exporting Countries (OPEC) held four meetings in 2009. Against the backdrop of the global meltdown, the Organization convened its 152nd

Meeting of the OPEC Conference on March 15, 2009. The Conference reviewed the oil market and decided to leave the existing production agreement unchanged. The Conference observed that there was about 80 per cent compliance with the quota allocations and that, that was instrumental to the observed price stability. The Conference also observed that the Organization had not abandoned the price target range of US$75 US$80 per barrel and cautioned that oil producers could not invest sufficiently towards meeting future demand with prices at half the required level. Prices, therefore, needed to be strengthened considerably to cater for the longer term. Given that OPEC and non-OPEC countries alike benefit from high prices, the Conference called on non-OPEC countries to contribute to the sacrifices needed to shore up prices.

The 153rd Extraordinary Meeting of OPEC was held on May 28, 2009, amid continuing worries about falling demand for oil. The Meeting was concerned that propping up prices with production cuts could depress demand, while hastening the development of green alternatives. A review of market developments showed that there was no consensus on the drivers of oil prices, from about $150 per barrel in July/August 2008 to $32 per barrel in December 2008, and to $50 per barrel in early May 2009. Some analysts attributed the developments to prior production cuts, others to weakening of the US dollar, and yet others to the gradual return of market confidence. The Meeting, however, decided to defer further production cuts for at least eleven weeks.

The 154th Ordinary Conference of OPEC was held in Vienna on September 9, 2009 to consider whether or not to cut production. There were discussions on pegging oil prices to the euro instead of the dollar. The depreciation of the dollar eroded oil exporters' purchasing power, prompting some members to call for a switch from the US dollar.

The 155th Extraordinary Meeting of the Conference of the OPEC convened in Luanda, Angola, on December 22, 2009. The Meeting was also attended by representatives of the Arab Republic of Egypt, Indonesia and Oman as observers. The Conference considered the report of the Ministerial Monitoring sub-Committee, as well as other presentations on administrative matters. A review of the oil market outlook showed that while the worst of the global recession appeared over, the world economy was still faced with the deepest and most widespread contraction since the 1940s. It was observed that for the first time since the early 1980s, world oil demand had declined for the second successive year. Although asset market prices had rebounded and economic growth had resumed in some parts of the world, the strength and durability of that growth was still in contention. In the face of shrinking industrial production, low private consumption and high unemployment, the conference once again decided to maintain the existing oil production levels for the time being. The Conference renewed calls on non-OPEC producers to cooperate with the Organisation in its effort to support oil market stability.

8.1.5 Bilateral Relations

8.1.5.1 Nigeria/ United Arab Emirates Bilateral Meetings

The Federal Government of Nigeria and the United Arab Emirates (UAE) held bilateral meetings in Abuja on January 15, 2009, where a US$16.0 billion Bilateral Investment Agreement was signed to improve basic infrastructure facilities in Nigeria. The Agreement covered such areas as dams, electricity, agriculture, mineral resources and the development of the Federal Capital Territory (FCT).

8.1.5.2 Nigeria - China Joint Commission for Economic and Technical Cooperation

The 5th Session of the Nigeria - China Joint Commission for Economic and Technical Cooperation was held in Beijing, China from June 22 - 26, 2009. The meeting urged:

- Chinese banks to establish their presence in Nigeria, with a view to promoting bilateral trade and investments between the two countries;
- China to encourage investors to participate in the development of the Nigerian gas sub-sector and increase crude oil import from Nigeria;
- China to speed up the development and completion of Free Trade Zones, such as the Lekki and Ogun/Guangdong Free Trade Zones; and
- China to co-operate with Nigeria in the area of capacity building.

8.1.5.3 Nigeria-U.S Trade and Investment Framework Agreement (TIFA) Council

The 6th Session of Nigeria-U.S Trade and Investment Framework Agreement (TIFA) Council Meeting was held in Washington D.C., U.S.A from March 30 to 31, 2009. The meeting agreed that:

- Efforts should be made to bring the Doha Round of multilateral trade talks to a successful conclusion;
- The US should assist Nigeria by training sanitary and phyto-sanitary specialists in order to improve the quality of Nigeria's products and enhance their market access;
- The US should encourage its entrepreneurs to take part in the development of Nigeria's energy sector under the public private partnership (PPP) policy of Nigeria; and
- Both countries should revisit issues concerning intellectual property, the bilateral investment treaty, and the avoidance of double taxation.

8.2 REGIONAL INSTITUTIONS

8.2.1 The African Union (AU)

The African Heads of State and Government meeting of February 3, 2009 in Addis Ababa, Ethiopia, which was within the framework of the 12th Assembly, discussed the global financial crisis and resolved to unite, in order to increase the voice of Africa in the United Nations. The leaders agreed, among others, that:

- In-depth reforms of the global financial system should be undertaken, based on an inclusive approach that would fully and legitimately integrate the voice of Africa. The G-20 framework should be revised to include all Member States of the United Nations System;

- Member States of the AU should promote the development and integration of African economies, through the establishment of shared financial institutions, such as the African Monetary Fund, the African Central Bank and the African Investment Bank. The African Union Commission (AUC) should fast track and finalise the establishment of the institutions;
- Efforts aimed at mobilizing additional resources should be strengthened and steps taken to ensure sound regulation and supervision of the African financial system; and
- The integration of African stock exchanges could help boost efficiency in the mobilization of domestic resources, and reaffirmed their commitment to the initiative.

8.2.2 The Joint Committee of the African Union Commission and the Association of African Central Banks (AACB)

The 2nd meeting of the Joint Committee of the African Union Commission (AUC) and the Association of African Central Banks (AACB) was held at the Headquarters of the African Union in Addis Ababa, Ethiopia on April 9, 2009. The meeting considered the new approach suggested by AUC, which entailed setting up a steering committee to oversee preparations for the establishment of the African Central Bank (ACB). The approach included the preparation of a Joint Strategy for the establishment of the ACB instead of recruiting a consultant to conduct the study had been decided on November 22, 2007 in Addis Ababa, Ethiopia. The two parties agreed, among other things that:

- Macroeconomic convergence is a prerequisite for the introduction of a common currency and the establishment of the ACB;
- There is a need to conduct a joint study on the establishment of the ACB;
- A Steering Committee that would carry out other responsibilities, while awaiting the report of the study on the Joint Strategy, be set up; and
- The Steering Committee should follow up on the recommendations arising from the study, which would eventually help establish the ACB.

The two parties reaffirmed their willingness to continue cooperating for the purpose of achieving the African Union's objective of monetary integration in the Continent, through the establishment of a common central bank.

8.2.3 The Association of African Central Banks (AACB)

The 33rd Ordinary Meeting, Annual Symposium and Meeting of the Assembly of Governors of the Association of African Central Banks (AACB) were held in Kinshasa, Democratic Republic of Congo (DRC) from August 17 to 21, 2009. The theme of the meeting was, "The Formulation of Monetary Policy in Africa: the Relevance of Inflation Targeting".

At the meeting, the Assembly of Governors:

- directed the Evaluation Committee to select the European Central Bank (ECB) to conduct the study on the strategy to be adopted for the establishment of the African Central Bank (ACB);
- approved the recommendations of the Continental Seminar on Liquidity Management, which was held in Abuja, from May 7 to 9, 2009;
- approved that the BCEAO should invest the AACB funds on terms to be agreed on with the Executive Secretariat and endorsed by the Governors;
- accepted the Progress Report of the African Monetary Cooperation Programme for 2008, but stressed the need for macroeconomic convergence and a sub-regional approach in the pursuit of monetary integration;
- approved the work programme of the AACB for 2010 and appointed the Governor of the Central Bank of Congo as the new President of the AACB for 2009/2010; and
- approved the organisation of a seminar with the theme, "Lessons Africa Should Learn from the International Financial and Economic Crises: Mechanisms for Mitigation and Coordination of Responses" and a symposium on "The Role of African Central Banks in the Regulation and Stability of the Financial System", both in 2010.

8.2.4 The United Nations Economic Commission for Africa (UNECA)

The African Ministers of Finance, Planning and Economic Development met in Cairo, Egypt, in June 6 and 7, 2009, for the Second Joint Annual Meeting of the African Union Conference of Ministers of Economy and Finance and the United Nations Economic Commission for Africa (ECA) Conference of African Ministers of Finance, Planning and Economic Development. The Ministers, among others:

- recognized that the drying up of key sources of development finance had exposed Africa's vulnerability to external finance and rekindled interest in domestic resource mobilization;
- acknowledged that several countries in the region lacked the ability and flexibility to conduct counter-cyclical policies needed to mitigate the effects of the crisis on their economies;
- urged regional and multilateral development finance institutions to increase their financial support to African countries, while alleviating the attendant conditionalities, to ensure that the financial crisis did not become a humanitarian disaster;
- acknowledged the existence of a wide gap between domestic savings and investment requirements in Africa, as well as the need to close the financing gap in order to increase the prospects of meeting the Millennium Development Goals (MDGs);
- recognized the crucial role of domestic resource mobilization in laying a solid

foundation for sustained growth and development;

- encouraged African leaders to critically assess the benefits and costs of using tax incentives to promote foreign investments, and also urged them to adopt a more cautious approach to multilateral trade liberalization;
- acknowledged the recent progress towards regional integration in Africa, such as the decision of the Heads of State and Government of the Common Market for Eastern and Southern Africa, the Southern African Development Community and the East African Community to establish a free-trade area;
- expressed concern that overall progress in regional integration and intra-Africa trade remained limited, and reaffirmed their commitment to advance regional integration in the context of the Minimum Integration Programme adopted by the Fourth Conference of African Ministers of Integration;
- agreed to address the challenges facing regional economic integration, especially macroeconomic policy convergence, inadequate policy commitments and non-implementation of protocols by member States; and
- expressed concern, on over-protectionism by advanced economies and reiterated the need to conclude the Doha Development Round, with appropriate provisions to take into account Africa's interests and concerns.

8.2.5 The African Development Bank (AfDB)

The 4th Annual Meeting of the Board of Governors of the African Development Bank (AfDB) and the 35th Annual Meeting of the African Development Fund (ADF) were held jointly from May 13 to 14, 2009 in Dakar, Senegal. The Governors:

- stressed that the 2009 Annual meetings were being held in the context of the global economic and financial crisis, which had created uncertainties in the economies of African countries;
- noted the need to sustain the progress recorded by several African countries over the previous five years. In that regard, they invited development partners to increase their financing; underscored the importance of Foreign Direct Investments; advised African countries to dialogue and take ownership of operational strategy; canvassed the diversification of African economies; and emphasized the imperative of a shift from public sector-led to private sector-driven economies; and
- invited the bank to streamline regional integration processes, especially in the areas of infrastructure, agriculture and energy efficiency. They also requested the bank's management to re-engineer and reposition the bank for a more effective discharge of its responsibilities.

8.3 SUB-REGIONAL INSTITUTIONS

8.3.1 The Economic Community of West African States (ECOWAS)

The ECOWAS Convergence Council, comprising Ministers of Finance and the Governors of Central Banks of Member States, held an extraordinary Meeting on May 25, 2009. The Convergence Council approved a revised road map for the realization of a single currency for West Africa by 2020. The following were the highlights of the road map and other decisions of the Convergence Council:

- Harmonization of the regulatory and supervisory framework for banks and other financial institutions, and the establishment of a payments system infrastructure for cross-border transactions and completion of the payments system infrastructure in Guinea, the Gambia and Sierra Leone between 2009 and 2013;
- Ratification of the legal instruments for the creation of the West African Monetary Zone (WAMZ), West African Central Bank (WACB) and the West African Financial Supervisory Agency (WAFSA), as well as the establishment of the WAMZ secretariat;
- Realization of monetary union and the introduction of Eco by 2015, to be followed by the withdrawal of the national currencies of the five constituent Member States;
- Commencement of the processes for the merger of the two currencies to create a single currency, including the introduction of a Supplementary Act to the Revised ECOWAS Treaty to provide a legal instrument for the preceding monetary union, to begin three years before the launching of the single currency;
- This will culminate in 2020 with the introduction of a regional currency, preceded by the launching of the monetary union, the establishment of a regional central bank and, finally, the withdrawal of national currencies; and
- Cape Verde and Liberia, the two Member States that were neither members of the CFA zone nor the WAMZ, were urged to join one of the two monetary zones and the ECOWAS Monetary Cooperation Programme for the realization of the single currency objective.

8.3.2 The West African Monetary Zone (WAMZ)

The 25th Meeting of the Convergence Council of the Ministers and Governors of the West African Monetary Zone (WAMZ) took place on December 17, 2009, in Accra, Ghana. The Council approved:

- the report on macroeconomic developments in the WAMZ and the status of convergence at the end of June 2009;
- that Member States' medium-term frameworks be incorporated in the WAMI's assessment of Member States' macroeconomic developments and prospects for meeting the convergence criteria;
- a review of the convergence criteria by WAMI, which should advise the Council accordingly;
- the organization of a meeting of experts from ministries of finance, central banks, and regional institutions by WAMI, with a view to shedding light on the rationale for the choice and levels of convergence indicators;
- the Draft Fiscal Responsibility Act as a model Act for incorporation into the national laws of Member States;

- that WAMI collaborate with WAIFEM in developing training programmes for capacity building in the area of cross-border banking supervision; and
- that WAMI organize, before the next Convergence Council Meeting, a forum for key stakeholders, including Ministers of Trade, Finance, Integration, and Governors of Central Banks, to deliberate on the trade integration imperatives for establishing the WAMZ monetary union.

The Council also:

- urged the Ministers of Trade, Integration and Finance be urged to participate in the meetings and activities of the WAMZ, and Member States to expedite action on the ratification of the WAMZ Legal instruments;
- endorsed the application of the Republic of Liberia for membership of the WAMZ and authorised the Chairman of the Convergence Council to forward the request to the Chairman of the Authority of Heads of State for a decision; and
- noted the Memorandum of Understanding executed between the national central banks in the areas of cross-border licensing, supervision and regulation of financial institutions.

8.3.3 The West African Monetary Agency (WAMA)

The 37th Ordinary Meeting of the Committee of Governors of Central Banks of the ECOWAS member states was held on December 16, 2009. The Committee:

- urged WAMA to accelerate work on the review of the monetary policy framework and noted the need for member central banks to take proactive measures to strengthen banking supervision;
- directed WAMA and WAMI to undertake joint surveillance missions to save the time and efforts of the central banks of member countries by providing data and information to the regional institutions;
- stressed the need to strengthen banking supervision in the region by sharing knowledge about the licensing regimes, branches and opening of representative offices;
- approved that WAMA organize a technical seminar for exchange of ideas on the best strategy for ensuring financial stability within the Community; and
- requested WAMA to focus on the transitory modalities for settlement between national currencies, by putting in place the convertibility mechanisms of national currencies of the member States. It also agreed that WAMA would eventually harmonize the UEMOA payments system laws with that being developed by WAMI for the WAMZ.

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

The Board of the West African Institute for Financial and Economic Management (WAIFEM) met in Accra, Ghana in December 2009, under the chairmanship of Sanusi Lamido Sanusi, Governor, Central Bank of Nigeria. During the meeting, the Board approved a budget of US$3,174,200.37 for 2010, out of which member country central banks would contribute US$2,111,200.37. The budget was to fund twenty-eight capacity building activities and other operations of the Institute.

The Board also approved the retirement of the pioneer Director-General of the Institute, Dr. Osi C. Itsede with effect from January 31, 2009 and the appointment of Professor Akpan H. Ekpo as his successor. Professor Ekpo assumed duty on June 1, 2009. The Board of Governors also recruited, in November 2009, Messrs. Baba Y. Musa from Nigeria and Ousman Sowe from The Gambia as Directors for the Debt Management and the Financial Sector Management Departments of the Institute, respectively.

The Institute conducted thirty-one (31) training and capacity building programmes with 803 participants attending. A breakdown of the activities revealed that ten training activities were undertaken in the Debt Management programme for 236 participants/beneficiaries, while eleven (11) and ten (10) activities were executed under the Macroeconomic and Financial Sector Management programmes of the Institute, respectively, with 300 and 267 participants, respectively.

Analysis of participation by user institutions revealed that it was broad-based. The central banks accounted for 317 or 39.5 per cent of participants, core economic ministries accounted for 216 participants or 26.9 per cent, while other public sector agencies and the private sector accounted for 270 or 33.6 per cent of participants.

WAIFEM's management also continued in its efforts to update the knowledge and skills of its staff in order to place them at the cutting edge of developments in their areas of core competencies for sustained job performance. In addition to computer training, four (4) members of staff attended training programmes organized by WAIFEM and other training institutions.