ECONOMIC REPORT FOR THE MONTH OF FEBRUARY 2004

1.0 SUMMARY

The downward trend in monetary aggregates observed in the preceding month continued in February, 2004. Provisional data indicated that broad money stock (M_2) and narrow money supply (M_1) fell by 2.8 and 4.9 per cent, respectively, during the month, compared with the declines of 0.2 and 3.2 per cent in the preceding month. The development during the month was attributable entirely to the decline in aggregate credit to the domestic economy. Aggregate banking system's credit to the domestic economy fell by 10.2 per cent during the month, compared with the decline of 9.7 per cent in the preceding month.

Banks' interest rates trended downward during the month. The spread between the banks' weighted average deposit and maximum lending rates was 9.4 percentage points, while the margin between the average savings deposit and maximum lending rates stood at 16.5 percentage points. The average inter-bank call rate, which stood at 12.1 per cent in January, however, rose to 13.8 per cent in February 2004.

The value of money market assets outstanding rose marginally by 0.05 per cent to ₦928.3 billion in February 2004, in contrast to the decline of 0.5 per cent in the preceding month. Treasury bills worth ₦144.1 billion were re-issued in February 2004 to replace matured bills of the same value, compared with ₦299.0 billion in the preceding month. Activities on the Nigerian Stock Exchange (NSE) indicated mixed developments during the month.

The major agricultural activities during the review period included harvesting of tree crops and fruits, clearing of lands in preparation for the year's planting season and tending of irrigation-fed vegetable and cereals in the northern parts of the country. The price index of Nigeria's major agricultural commodities at the London Commodity Market, in dollar terms, declined by 9.9 and 27.5 per cent from the levels in the preceding month and the corresponding period of 2003, respectively. The inflation rate in February 2004 was estimated at 15.3 per cent, up from 15.0 per cent in the preceding month.

Estimated crude oil output, including condensates and natural gas, was 2.58 million barrels per day (mbd) or 74.82 million barrels for the month, indicating an increase of 0.8 per cent over the preceding month's level. Crude oil exports were estimated at 2.13 mbd or 61.77 million barrels for the month, indicating an increase of 9.5 per cent over the level in the preceding month. Deliveries of crude oil to refineries for domestic consumption, however, remained at 0.45 million barrels per day or 13.95 barrels for the month. The average price of Nigeria's reference crude, the Bonny Light (37^{o}API), was US$30.99 a barrel, reflecting a decline of 2.5 per cent from the preceding month's level.

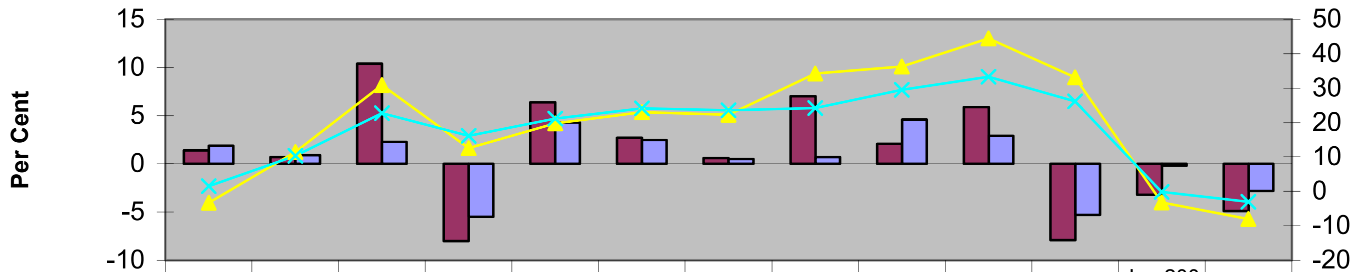
Provisional data on foreign exchange flows through the Central Bank of Nigeria (CBN) showed an inflow of US$2,188.33 million and an outflow of US$1,206.20 million, resulting in a net inflow of US$982.13 million during the month. Foreign exchange sales to authorized dealers by CBN amounted to US$780.14 million, compared with US$777.36 million in January 2004. The weighted average exchange rate of the Naira vis-à-vis the US dollar appreciated by 0.9 per cent from ₦136.59 per dollar in January 2004 to ₦135.41 per dollar in February 2004. Similarly, in the bureaux de change segment of the market, the rate appreciated from ₦147.65 per dollar in January 2004 to ₦142.95 per dollar in February. Nigeria's gross external reserves increased by 12.1 per cent to US$9,352.4 million as at end-February, 2004.

On the international scene, world crude oil output, estimated at 80.15 million barrels per day (mbd) exceeded demand by 0.25 mbd, in contrast to an excess demand of 0.55 mbd in the preceding month. Other major international economic developments of relevance to the domestic economy during the month included: a Stakeholders' Workshop to develop a 4-year programme for the harmonization of Nigeria's Tariff with Economic Community of West African Countries (ECOWAS) Common External Tariff (CET) benchmark. Also, the Bureau of the Association of African Central Banks (AACB) met in Dakar, Senegal to review the progress made in the implementation of the African Monetary Cooperation Programme (AMCP) in various parts of the continent. In another development, the Federal Government of Nigeria extended an interest free loan of US$10.0 million and a grant of US$436,000.00; as well as donated US$40,000, a fax machine and a computer to the Democratic Republic of Sao Tome and Principe (DRSTP). In a related development, the Federal Executive Council approved Bilateral Air Services Agreement (BASA) with 10 countries, namely Kenya, Turkey, Yemen, United Arab Emirate (UAE), Cameroon, Ethiopia, Switzerland, Algeria, Niger and Congo with a view to strengthening bilateral ties and economic relations. Furthermore, African Heads of State and Government met in Kigali, Rwanda in February 2004 as a follow-up to the Abuja 2003 Summit where the African Peer Review Mechanism (APRM) was established. Finally, the European Union (EU) Stability and Growth Pact was suspended during the month. This was because, France and Germany the two leading countries in the Union exceeded the ceiling of 3.0 per cent of GDP on deficit especially, as they had prevented the imposition of sanctions in the last two years.

2.0 FINANCIAL SECTOR DEVELOPMENTS

Monetary aggregates as well as banks' deposit and lending rates indicated further declines in February 2004. Money market activities increased modestly following the decline in the tempo of activities in the foreign exchange market, while transactions on the Nigerian Stock Exchange (NSE) showed mixed developments during the month.

Figure 1 : Aggregate Money Supply in Nigeria (Monthly & Cumulative Growth Rate in Per cent)



	Feb	Mar	Apr	May	June	July	August	Sept.	Oct.	Nov	Dec	Jan.2004	Feb
MM1	1.4	0.7	10.4	-8	6.4	2.7	0.6	7.03	2.1	5.9	-7.9	-3.2	-4.9
MM2	1.9	0.9	2.3	-5.5	4.3	2.5	0.5	0.7	4.6	2.9	-5.3	-0.2	-2.8
CM1	-3.3	11.4	30.9	12.5	19.8	23	22.3	34.2	36.3	44.4	33.1	-3.2	-8
CM2	1.5	10.3	22.7	16.2	21.2	24.1	23.6	24.2	29.5	33.3	26.2	-0.2	-3

MM1 MM2 CM1 CM2

2.1 Monetary and Credit Developments

Broad money stock (M_2), fell in February 2004 by ₦56.1 billion or 2.8 per cent to ₦1,959.5 billion, compared with a decline of ₦3.5 billion or 0.2 per cent in the preceding month, but in contrast to an increase of ₦32.5 billion or 1.9 per cent recorded in the corresponding period of 2003. Narrow measure of money (M_1) also fell by 4.9 per cent to ₦1,159.3 billion, compared with the 3.2 per cent decline recorded in the preceding month. The development in the review month was attributable entirely to the decline in credit to the domestic economy.

Aggregate banking system's credit to the domestic economy fell by ₦163.8 billion or 10.2 per cent to ₦1,435.9 billion in February 2004, compared with the decline of ₦171.6 billion or 9.7 per cent recorded in the preceding month. The fall in the review month was accounted for wholly by the substantial decline in the banks' claims on the Federal Government, reflecting the significant rise in the latter's deposits with the CBN during the month (fig.2).

Banking system's net claims on the Federal Government fell by ₦178.8 billion or 71.2 per cent to ₦72.4 billion, compared with the decline of ₦213.9 billion or 46.0 per cent in the preceding month. The fall reflected the significant drop of ₦181.9 billion or 154.3 per cent in net claims on the Federal Government by the CBN. Claims on the Federal government by the DMBs, however, rose by ₦3.1 billion or 0.8 per cent to ₦372.2 billion during the review month.

Banking system's credit to the private sector increased by ₦15.0 billion or 1.1 per cent to ₦1,363.5 billion during the month, compared with the increase of ₦42.3 or 3.2 per cent in the preceding month. The increase in the review month reflected largely the rise in claims by deposit money banks on the sector.

At ₦1,596.9 billion, foreign assets (net) of the banking system rose by ₦122.1 billion or 8.3 per cent during the month, in contrast to the decline of ₦130.4 billion or 8.1 per cent in the preceding month. The rise in the month under review was attributable largely to the 11.2 per cent increase in the CBN's holding.

Quasi-money rose by ₦4.0 billion or 0.5 per cent to ₦800.3 billion in February 2004, compared with the increases of ₦36.6 billion or 4.8 per cent and ₦8.4 billion or 1.2 per cent recorded in the preceding month and corresponding period of 2003, respectively.

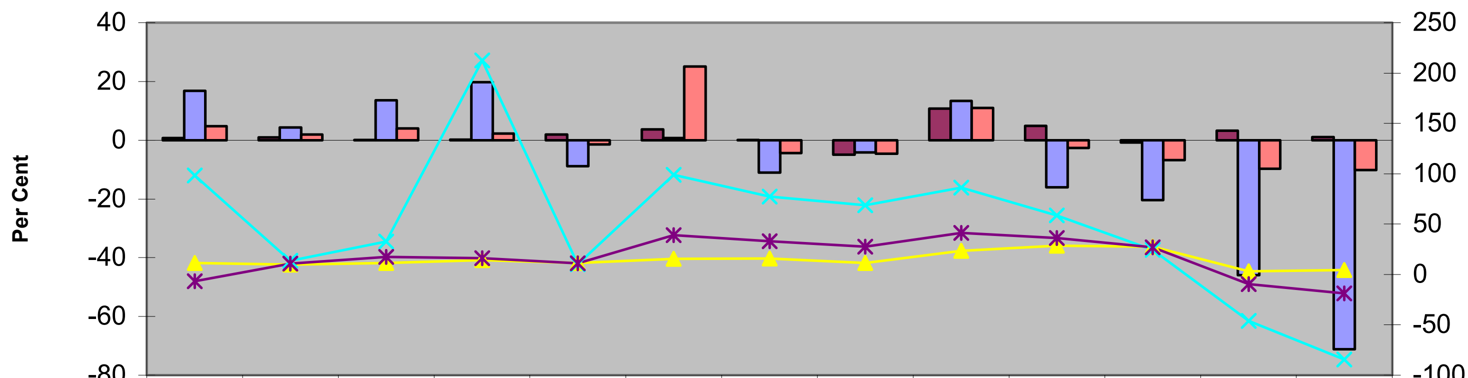
Other Assets (net) of the banking system rose by ₦14.4 billion or 1.4 per cent in the review month, as against a decline of ₦298.5 billion or 22.0 per cent in the preceding month. The rise was traceable to the fall in unclassified liabilities of the Central Bank during the month.

2.2 Currency-in-circulation and Deposits at the CBN

At ₦471.4 billion, currency in circulation in February 2004 declined by ₦4.3 billion or 0.9 per cent from the level in the preceding month but rose by ₦36.7 billion or 8.4 per cent over the level in February 2003. The fall during the review month was traceable wholly to vault cash, which declined by 3.4 per cent. Currency held outside the banking system, on other hand, rose by 1.2 per cent during the month.

Total deposits at the CBN amounted to ₦968.7 billion, indicating increases of ₦97.6 billion or 11.2 per cent and ₦127.1 billion or 15.1 per cent over the levels in the

Figure 2: Aggregate Domestic Credit To The Economy (Monthly & Cumulative Growth Rate)



	Feb	Mar	Apr	May	June	July	August	Sept	Oct.	November	Dec	Jan. 2004	Feb.
MCP	0.7	0.9	0.1	0.2	1.9	3.7	0.03	-4.9	10.7	4.9	-0.8	3.2	1.1
MCG	16.8	4.3	13.6	19.8	-8.8	0.7	-11	-4.2	13.3	-16	-20.4	-46	-71.2
MAC	4.8	1.9	4	2.2	-1.4	25.1	-4.4	-4.6	11	-2.6	-6.8	-9.7	-10.2
CCP	11.4	9.7	11.4	14.2	11.5	15.6	15.7	11.4	23.4	28.6	27.6	3.2	4.4
CCG	98.4	13.6	32.7	212.6	10.2	99.1	77.3	68.9	86.4	58.5	24.5	-46	-84.4
CAC	-6.7	10.8	17.4	16	11.2	39.1	33	27.6	41.1	36.1	26.8	-9.7	-18.9

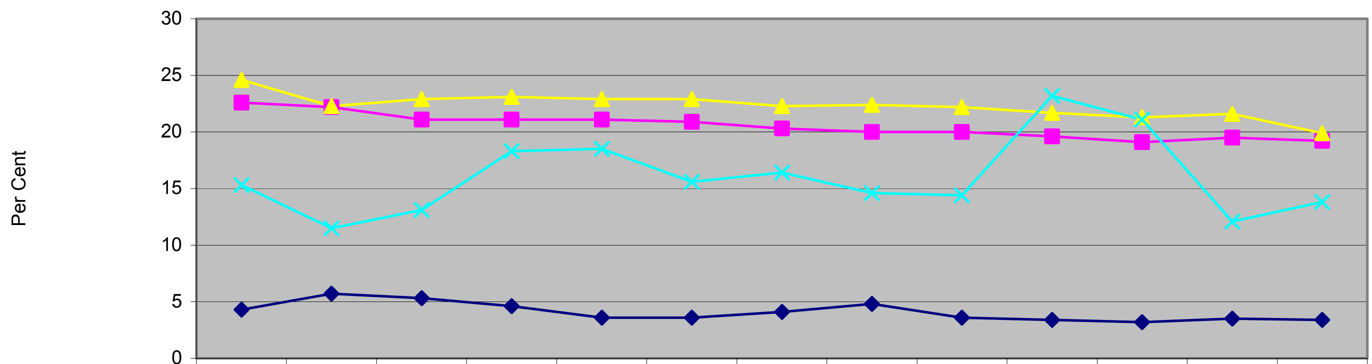
MCP MCG MAC CCP CCG CAC

preceding month and corresponding month of 2003, respectively. The development during the month was traceable entirely to the substantial increase of ₦183.1 billion or 37.2 per cent in the deposits of Federal Government. This was, however, moderated by the declines of ₦5.3 billion or 2.7 per cent and ₦80.1 billon or 43.2 per cent in the accounts of the deposit money banks and others, respectively. The shares of the three components in total deposits at the CBN, namely, Federal Government, bankers and 'others' were 69.7, 19.4 and 10.9 per cent, respectively, compared with 56.5, 22.3 and 21.2 per cent in January, 2004.

2.3 Interest Rate Developments

Available data showed a general decline in banks' deposit and lending rates during the month. The average savings deposit rate fell by 0.1 percentage point to 3.40 per cent, while all other rates on deposits of various maturities, declined from a range of 9.48-16.75 per cent in January to 6.10 – 12.10 per cent in February 2004. Similarly, Banks' weighted average prime and maximum lending rates fell by 0.3 and 1.7 percentage points to 19.20 and 19.90 per cent, respectively. Thus, the margin between the average savings deposit and maximum lending rates stood at 16.5 percentage points in the review month. The spread between the weighted average deposit and maximum lending rates, however, widened marginally to 9.4 from 9.3 percentage points in January 2004.

Figure 3: Selected Banks' Interest Rates (Per Cent, Monthly Average)



	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan.2004	Feb.
Savings	4.3	5.7	5.3	4.6	3.6	3.6	4.1	4.8	3.6	3.4	3.2	3.5	3.4
Prime	22.6	22.2	21.1	21.1	21.1	20.9	20.3	20	20	19.6	19.1	19.5	19.2
Maximum	24.6	22.3	22.9	23.1	22.9	22.9	22.3	22.4	22.2	21.7	21.3	21.6	19.9
Inter-bank	15.3	11.5	13.1	18.3	18.5	15.6	16.4	14.6	14.4	23.2	21.1	12.1	13.8

Month

Savings Prime Maximum Inter-bank

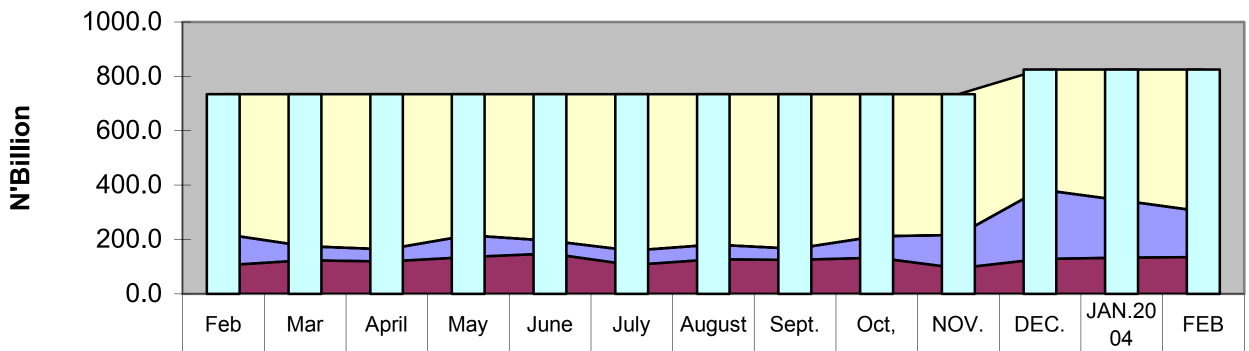
The weighted average inter-bank call rate, which was 12.1 per cent in January 2004 rose to 13.8 per cent in February 2004, reflecting the tight liquidity condition in the banking system (fig.3).

2.4 Money Market Developments

The value of money market assets outstanding as at end-February 2004 rose by ₦0.5 billion or 0.05 per cent to ₦928.3 billion, in contrast to the decline of ₦4.3 billion or 0.5 per cent in the preceding month. This development reflected the 1.7 and 0.2 per cent increases recorded in Commercial Papers (CPs) and Eligible Development Stocks (EDS), respectively. Treasury Bills outstanding, however, remained unchanged at the end-January 2004 level of ₦825.1 billion.

Treasury bills worth ₦144.1 billion were issued in February 2004 to replace matured bills of equivalent value, compared with ₦299.0 billion in the preceding month. Of the total amount issued, deposit money banks (DMBs) and discount houses jointly subscribed ₦63.5 billion or 44.1 per cent, while "other" investors accounted for ₦30.4 billion or 21.1 per cent. The balance of ₦50.2 billion or 34.8 per cent was absorbed by the CBN.

Figure 4: Treasury Bills Holdings (N'Billion)



	Feb	Mar	April	May	June	July	August	Sept.	Oct,	NOV.	DEC.	JAN.2004	FEB
Banks/D.H	514.1	559.0	569.7	518.2	538.5	575.2	552.6	567.6	521.6	517.8	441.3	481.8	522.8
CBN	115.5	51.7	45.4	80.1	47.0	53.2	53.7	41.2	79.2	121.5	255.7	210.7	166.8
Others	104.2	123.1	118.7	135.5	148.3	105.4	127.5	125.0	133.0	94.5	128.1	132.6	135.5
Total	733.8	733.8	733.8	733.8	733.8	733.8	733.8	733.8	733.8	733.8	825.1	825.1	825.1

Others CBN Banks/D.H Total

Analysis of outstanding treasury bills holdings showed that DMBs and discount houses' accounted for ₦522.8 billion or 63.4 per cent, while holdings by "other" investors amounted to ₦135.5 billion or 16.4 per cent, compared with their respective shares of ₦481.8 billion or 58.4 per cent and ₦132.6 billion or 16.1 per cent in the preceding month. Consequently, Central Bank's holding declined from ₦210.7 billion in January 2004 to ₦166.8 billion in February, representing 20.2 per cent of the total (fig 4).

2.5 Capital Market Developments

Activities on the Nigerian Stock Exchange (NSE) in February 2004 showed mixed developments. The volume of traded securities declined by 47.8 per cent to 1.3 billion from 2.5 billion in January 2004, while the value of transactions rose by 13.8 per cent to ₦18.3 billion in the review month. All transactions were recorded in equities, as the Federal Government and industrial loan stocks remained dormant during the period. Further analysis of the transactions showed that the banking subsector remained the most active in the market.

Market capitalization and value index also rose by 13.3 and 9.2 per cent to close at ₦1.7 trillion and 24,797.43 (1984=100), respectively, compared with ₦1.5 trillion and 22,712.88 in the preceding month. The development during the month was attributable to the price gains recorded by most of the blue chip companies listed on the Exchange.

2.6 Deposit Money Banks' Activities

Total assets/liabilities of deposit money banks amounted to ₦3,300.7 billion in February 2004, representing increases of ₦145.8 billion or 4.6 per cent and ₦227.9 billion or 7.4 per cent over the levels in the preceding month and February 2003, respectively. Funds were sourced from demand, time and savings deposits as well as foreign currency deposits, while the major uses of funds included increased investment in treasury bills and, among others.

Aggregate credit to the domestic economy by deposit money banks amounted to ₦1, 722.5 billion, representing increases of ₦17.6 billion or 1.0 per cent and ₦131.3 billion or 8.3 per cent over the preceding month's level and the level at end-December 2003, respectively. A breakdown showed that credit to the private sector rose by ₦14.5 billion or 1.1 per cent, while net credit to the Central Government rose by ₦3.1 billion or 0.8 per cent over the preceding month's level.

Central Bank's credit to deposit money banks rose by 4.3 per cent from ₦43.9 billion, in January 2004 to ₦45.8 billion in the review month. The rise reflected largely the increase in overdrawn facilities granted to the banks during the month.

Total specified liquid assets of deposit money banks stood at ₦839.9 billion or 48.6 per cent of their total deposit liabilities. This level of assets was 0.1 percentage point below the preceding month's level, but 8.6 percentage points over the minimum target of 40.0 per cent for fiscal 2004.

2.7 Discount Houses

Total assets/liabilities of the discount houses amounted to ₦53.5 billion in February 2004, indicating declines of ₦0.3 billion or 0.6 per cent and ₦4.0 billion or 7.0 per cent below the preceding month's level and the level in the corresponding month of 2003. Their investments in Federal Government securities of less than 91 days maturity was ₦26.3 billion, representing 68.8 per cent of their total deposit liabilities. This was 4.9 and 8.8 percentage points higher than the levels in the preceding month and the prescribed minimum of 60.0 per cent for fiscal 2004.

Total borrowings by discount houses stood at ₦22.2 billion, while their capital and reserves amounted to ₦7.7 billion, resulting in a gearing ratio of 3:1, compared with the stipulated maximum target of 50:1 for the year.

3.0 DOMESTIC ECONOMIC CONDITIONS

In February 2004, agricultural activities during the month included harvesting of tree crops and fruits, clearing of lands in preparation for the year's planting season and tending of irrigation-fed vegetable and cereal crops in the northern parts of the country.

Crude oil output rose by 0.8 per cent over the preceding month's level, while inflationary pressures continued as estimated rate of inflation of 15.3 per cent indicated an increase of 0.3 percentage points over the preceding month's level.

3.1 Agricultural Sector

The major agricultural activities in the southern states in February 20004 were harvesting of tree crops and fruits; and clearing of lands for 2004 wet cropping season, while tending of irrigation-fed vegetables and cereals dominated agricultural operations in the northern states.

The prices of Nigeria's major agricultural commodities at the London Commodity Market trended downward during the month. At 86.3 (1985=100), the all-commodities price index, in dollar terms, fell by 9.9 and 27.5 per cent below its levels in the preceding month and the corresponding month of 2003, respectively. In naira terms, the index, at 8859.68 (1985 = 100), similarly declined by 1.9 and 14.1 per cent below the levels in the preceding month and the corresponding period of 2003, respectively.

Of the six commodities monitored during the month, copra and palm-oil recorded price increases of 21.2 and 9.1 per cent, respectively, in dollar terms, over their levels in the preceding month, while cocoa, coffee, cotton and soya bean recorded price declines of 14.0, 17.0, 2.1 and 10.4 per cent, respectively. When compared with their levels a year earlier, copra, cotton, palm oil and soya bean recorded price increases of 34.8, 11.9, 18.6, and 25.5 per cent, respectively, while cocoa and coffee recorded price declines of 35.0 and 18.2 per cent, respectively.

In naira terms, two of the commodities namely: palm-oil and soya bean recorded price increases of 5.6 and 0.1 per cent, respectively, over their levels in the preceding month, while cocoa, coffee, copra and cotton recorded price declines of 4, 6.8, 0.1 and 2.9 per cent, respectively. When compared with their levels in the corresponding month of 2003, four of the commodities namely: copra, cotton, palm oil and soya bean recorded price increases of 79.9, 35.4, 23.0 and 47.6 per cent, respectively, while the remaining two, cocoa and coffee recorded price declines of 22.8 and 4.1 per cent, respectively.

3.2 Petroleum Sector

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.58 million barrels per day (mbd) or 74.82 million barrels for the month, showing a marginal increase of 0.02 mbd or 0.8 per cent over the level in January 2004. Crude oil export was estimated at 2.13 mbd or 61.77 million barrels for the month, compared with 2.11 mbd in January 2004. Deliveries of crude oil to refineries for domestic consumption remained at 0.45 mbd or 13.95 million barrels per month, same as in the preceding month.

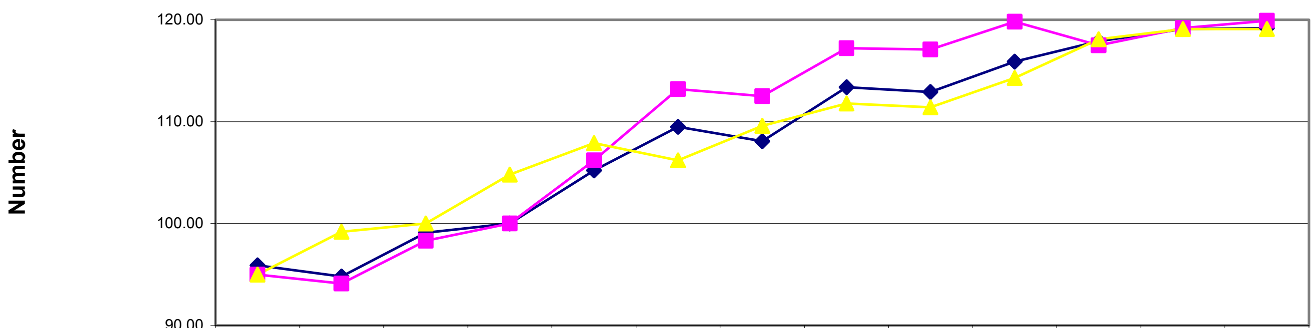
There were mixed developments in crude oil prices in February 2004 in both the spot and netback markets. In the spot market, the average price of Nigeria's reference crude, the Bonny Light (37° API), was US$30.99 a barrel, indicating a decline of US$0.78 a barrel or 2.5 per cent below the January 2004 level. The prices of some other competing brands namely, the Arab Light and the West Texas Intermediate (WTI), however, rose by 0.5 and 2.5 per cent to US$30.28 and US$34.43 a barrel, respectively, while the prices of the UK Brent and Forcados declined by 3.1 and 2.5 per cent from their respective levels in the preceding month to US$30.51 and US$30.89 per barrel during the month.

In the net-back market, the Bonny Light was sold for $40.21 a barrel, compared with US$40.24 in January 2004. The UK Brent and the WTI were sold for US$39.41 and $40.63 a barrel, respectively, compared with US$40.23 and US$40.86 a barrel in the preceding month.

3.3 Consumer Prices

Based on the Federal Office of Statistics (FOS) data for January, 2004, the all-items composite Consumer Price Index (CPI) in February 2004 was estimated at 119.2 (May 2003 = 100), representing increases of 0.1 and 24.3 per cent over the levels in the preceding month and the corresponding period of 2003, respectively. The development during the month was attributable to the rise in the indices of food; food and non-alcoholic beverages; furnishings, household equipment and maintenance; health; communication; recreation and culture; education; and miscellaneous goods and services by 1.0, 0.9, 2.3, 4.3, 0.6, 0.3, 3.2 and 7.7 per cent, respectively. However, the indices of alcoholic beverages, tobacco and kola; clothing and footwear; housing, water, electricity, gas and other fuel; transport; and restaurant and hotels recorded declines of 0.7, 0.6, 0.7, 1.1 and 2.2 per cent, respectively. When compared with their levels in the corresponding month a year earlier, all the components recorded price

Figure 5 : Monthly Consumer Price Indices in Nigeria (1985 = 100)



	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan.2004	Feb
Composite	95.90	94.80	99.10	100.00	105.20	109.50	108.10	113.40	112.90	115.90	117.90	119.10	119.20
Urban	95.00	94.10	98.30	100.00	106.20	113.20	112.50	117.20	117.10	119.80	117.50	119.20	119.90
Rural	95.00	99.20	100.00	104.80	107.90	106.20	109.60	111.80	111.40	114.30	118.10	119.10	119.10

Source:Federal Office of Statistics(FOS), Lagos

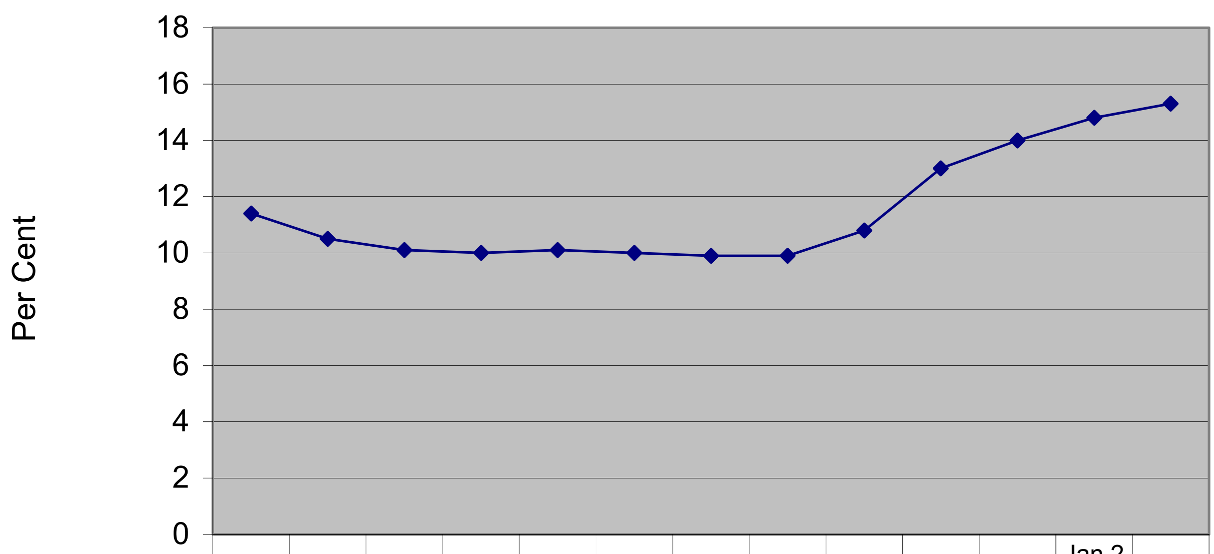
Composite Urban Rural

increases ranging from 8.8 per cent for communication to 62.2 per cent for miscellaneous goods and services. The urban all-items CPI was estimated at 119.9 (2003=100), indicating increases of 0.6 and 26.2 per cent over the levels in the preceding month and the corresponding month of 2003, respectively. The rural all-items CPI, however, remained at the preceding month's level of 119.1 (2003=100), but rose by 23.9 per cent over the level in the corresponding period of 2003.

Retail price surveys of selected consumer items by the CBN, in some locations within Lagos area, F C T Abuja as well as Bauchi, Enugu, Ibadan and Kano zones also indicated an upward trend. The retail price index (RPI) showed an increase of 1.70 per cent in the all-items average price of consumer items in February 2004, compared with 1.75 per cent increase in the preceding month. The development during the month was traceable to the increase in the indices of staples; meat, fish and eggs; vegetable, fruits and nuts; beverages and drinks; clothing and fabrics; fuel and light; medical as well as building materials by 3.0, 4.1, 4.8, 4.3, 1.6, 1.4, 16.9, and 3.1 per cent, respectively. Price increase of 2.8, 0.3, 0.2, 1.3, 0.2 and 0.1 per cent was reported in Bauchi, Enugu, Ibadan, Kano zones, F.C.T Abuja and Lagos area, respectively, over the preceding month's level.

The rate of inflation for the twelve-month period ended February 2004 was estimated at 15.3 per cent, compared with 15.0 and 11.4 per cent in the preceding month and corresponding month of 2003, respectively. The observed inflationary pressure reflected mainly structural/cost-push factors as the money and foreign exchange markets witnessed favourable

Figure 6: Inflation Rate in Nigeria (Per Cent, Monthly)



	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan.2004	Feb
Inflation	11.4	10.5	10.1	10	10.1	10	9.9	9.9	10.8	13	14	14.8	15.3

Source:Federal Office of Statistics(FOS), Lagos

Inflation

developments. The lending rate declined, while the exchange rate of the naira appreciated. The structural factors included: the effect of the recent increase in the prices of petroleum products with attendant consequences on the cost of transportation and increase in prices of other items.

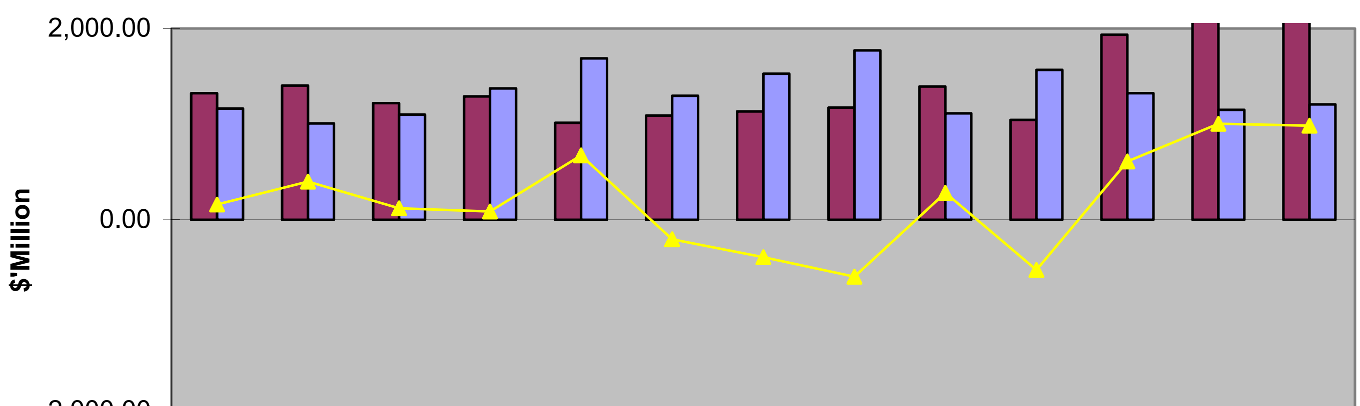
4.0 EXTERNAL SECTOR DEVELOPMENTS

4.1 Foreign Exchange Flows

Foreign exchange inflow and outflow through the Central Bank of Nigeria (CBN) in February 2004 amounted to US$2,188.33 and US$1,206.20 million, respectively, indicating a net inflow of US$982.13 million. Compared with their levels of US$2,152.27 and US$1,148.50 million in the preceding month, inflow and outflow rose by 1.7 and 5.0 per cent, respectively. The rise in inflow was attributable wholly to the 52.7 per cent increase in non-oil receipts during the month, while the increase in outflow was traceable to the 957 and 10.5 per cent rise in debt service and other official payments, respectively during the month. At US$4,340.60 million, cumulative inflow through the CBN in the first two months of 2004 was 77.3 per cent higher than the level in the corresponding period a year earlier, while cumulative outflow, at US$2,354.70, indicated a decline of 9.2 per cent from the level in the same period of 2003.

Economy-wide foreign exchange flows indicated that total inflow rose by 0.2 per cent over the level in January 2004 to US$2,807.23 million in February 2004. Receipts from oil sector fell by 0.3 per cent to US$2,064.72 million, representing 73.6 per cent of the total, while non-oil public sector receipts amounted to US$123.61 million, or 4.4 per cent of the total. Inflow through the autonomous sources stood at US$618.90 million and accounted for 22.1 per cent of the total, compared with 23.2 per cent in the preceding month. At US$1,313.55 million, aggregate foreign exchange outflow from the economy rose by 2.6 per cent over the preceding month's level, reflecting largely the significant

Figure: 7 Foreign Exchange Flows Through the CBN ($'Million)



	Feb	Mar	Apr	May	June	July	August	Sept.	Oct	Nov	Dec	Jan.2004	Feb
Inflow	1,322.76	1,402.84	1,219.26	1,288.56	1,013.70	1,090.40	1,134.00	1,173.10	1,393.00	1,041.50	1,934.13	2,152.27	2,188.33
Outflow	1,164.06	1,005.29	1,099.25	1,373.32	1,686.86	1,296.20	1,525.50	1,769.40	1,111.70	1,567.70	1,324.42	1,148.50	1,206.20
Netflow	158.7	397.55	120.01	84.76	673.16	-205.8	-391.5	-596.3	281.3	-526.2	609.71	1,003.77	982.13

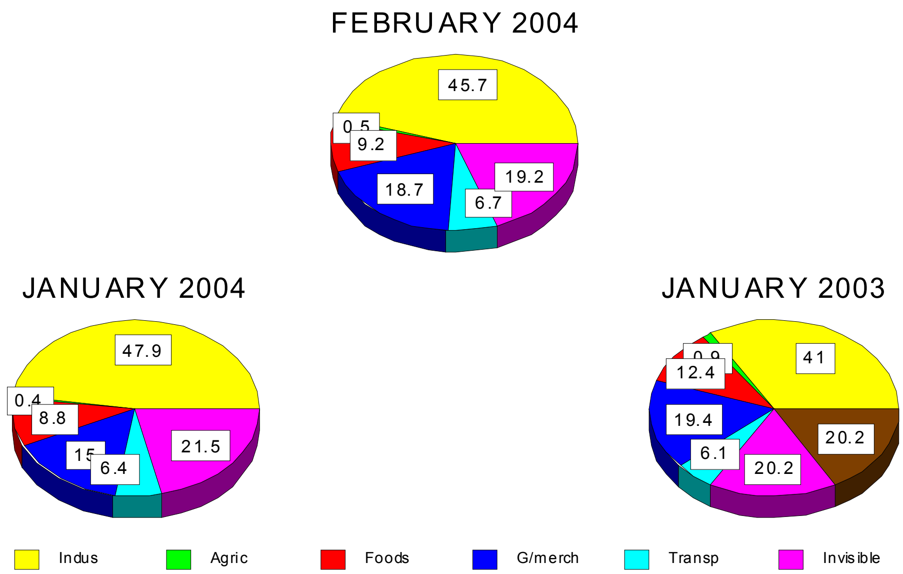
Inflow Outflow Netflow

increase in the major components of outflow, particularly the sharp rise in external debt service payments by 957 per cent during the month. The cumulative inflow and outflow through the economy from January to February 2004 amounted to US$5,609.30 and US$2,594.35 million, respectively, compared with US$3,939.21 and US$2,739.91 million in the corresponding period of 2003.

4.2 Sectoral Utilisation of Foreign Exchange

The industrial sector accounted for the bulk (45.7 per cent) of total foreign exchange disbursed in February 2004, followed by invisibles (19.2 per cent). Other beneficiary sectors, in a descending order of importance, included: general merchandise (18.7 per cent), food (9.2 per cent), transportation (6.7 per cent) and agricultural products (0.5 per cent) (Fig.8).

Figure 9: Sectoral Utilization of Foreign Exchange (percentage of total)



4.3 Foreign Exchange Market Developments

The demand for foreign exchange in the Foreign Exchange Market (FEM) increased in February 2004, compared with the level in the preceding month. A total of US $780.14 million was sold to end-users through the authorized dealers, compared with US$777.36 million in the preceding month. The weighted average exchange rate of the Naira vis-à-vis the US dollar, however, appreciated by 0.9 per cent from ₦136.59 per dollar in January 2004 to ₦135.41 per dollar in February 2004. Similarly, in the bureaux de change segment of the market, the rate appreciated from ₦147.65 per dollar in January 2004 to ₦142.95 per dollar in February 2004. Overall, the premium between the bureaux de change and official market rates narrowed to 5.8 per cent from 8.50 per cent in January 2004.

4.4 External Reserves

Provisional data showed that Nigeria's gross external reserves at end-February, 2004 amounted to US$9,352.4 million, indicating an increase of 12.1 per cent over the preceding month's level. At current foreign exchange commitments, the level of reserves could finance about 7.9 months of imports as against 7.3 months in the preceding month.

5.0 OTHER INTERNATIONAL ECONOMIC DEVELOPMENTS

World crude oil output, estimated at 80.15 million barrels per day (mbd) in February 2004 rose by 0.25 mbd or 0.3 per cent over the preceding month's level of 79.90 mbd, while the estimated demand at 79.90 mbd for the month, declined by 0.55 mbd or 0.7 per cent. Overall, total world oil supply exceeded demand by 0.25 mbd, in contrast to an excess demand of 0.55 mbd in the preceding month. The fall in demand was attributable largely to the tapering off of winter in major oil consuming countries of the Northern Hemisphere.

Other major international economic developments of relevance to the domestic economy during the month included: a Stakeholders' Workshop held in Abuja in February 2004 to develop a 4-year programme for the harmonization of Nigeria's Tariff with Economic Community of West African Countries (ECOWAS) Common External Tariff (CET) benchmark. The following proposals were subsequently adopted at the workshop:

- Reduction of Nigeria's existing 20 different tariff rates to 4 tariff categories as follows: 0, 5, 10 and 20 per cent in line with ECOWAS decision;
- Provision for special tax, not exceeding 30 per cent to be introduced on some finished goods in order to protect local industries whose survival would be threatened by the adoption of lower import tariff;
- Publication of revised tariff in order to convince investors that a low tariff regime has been introduced as well as assure regional/multilateral trading partners of Nigeria's commitment to working towards compliance with agreed tariff regimes of bodies which she is a member;
- Strengthening the institutional capacity of regulatory agencies charged with the administrative and technical control of unnecessary imports;
- Drastic reduction in the use of tariff waivers, exemptions, and concessionary tariff, several of which would be rendered redundant by the lower tariff;
- Reforms to rules, regulations and procedures for customs' valuation, inspection, goods clearance and duty payments; and
- Addressing the problems of poor infrastructure, inadequate incentives and investments as well as other factors that contribute to high cost of doing business in Nigeria.

Similarly, the Bureau of the Association of African Central Banks (AACB) met in Dakar, Senegal in February 2004 to review the progress made in the implementation of the African Monetary Cooperation Programme (AMCP) in various parts of the continent. The Bureau also deliberated on the need to sensitize Ministries of Finance, Trade and Economic Planning of member countries responsible for fiscal and real sector issues to play their roles to enable African Central Banks achieve the objectives of the AMCP through the harmonization of the monetary cooperation programmes of the Regional Economic Communities (RECs) with those of the AMCP.

In another development, the Federal Government of Nigeria extended an interest free loan of US$10.0 million and a grant of US$436,000.00 to the Democratic Republic of Sao Tome and Principe (DRSTP). The loan would be recovered from a 40 per cent interest of the DRSTP in the proceeds of the signature bonus to be paid by oil companies that won oil blocs in the two countries' Joint Development Authority (JDA). Nigeria signed the instrument of ratification of the Gulf of Guinea Commission Treaty with copies deposited at the United Nations to formalize the relationship.

Nigeria also redeemed the promise to donate US$40,000.00, a computer and a fax machine for use by the countries' reconciliation Secretariat in Sao Tome.

In a related development, the Federal Executive Council in February 2004 approved Bilateral Air Services Agreement (BASA) with 10 countries namely: Kenya, Turkey, Yemen, United Arab Emirate (UAE), Cameroon, Ethiopia, Switzerland, Algeria, Niger and Congo with a view to strengthening bilateral ties and economic relations.

Furthermore, African Heads of State and Government met in Kigali, Rwanda in February 2004 as a follow-up to the Abuja 2003 Summit where the African Peer Review Mechanism (APRM) was established. The APRM seeks to bring pressure to bear on African governments that fall short of NEPAD's expectations in the areas of good governance and respect for human rights in order to enhance the adoption of appropriate economic and political policies that would attract donors and foreign investors to contribute towards Africa's development. So far, eighteen African Governments, including Nigeria have ratified the agreement on the APRM.

Finally, the European Union (EU) Stability and Growth Pact was suspended during the month. This was because, France and Germany, the two leading countries in the Union exceeded the ceiling of 3 per cent of GDP on deficit especially as they had prevented the imposition of sanctions in the last two years.