

CENTRAL BANK OF NIGERIA



MONTHLY REPORT

May 2004

RESEARCH DEPARTMENT

ECONOMIC REPORT FOR THE MONTH OF MAY 2004

1.0 SUMMARY

Provisional data indicated that broad money stock (M_2) and narrow money supply (M_1) recorded increases of 0.3 and 0.2 per cent, respectively in May 2004 over the levels in the preceding month. This development was attributable to the rise in foreign assets (net) of the banking system. Aggregate banking system's credit to the domestic economy, declined by 0.5 per cent during the review month, in contrast to the increase of 2.0 per cent in the preceding month. During the first five months of the year, M_2 grew by 6.8 per cent, while M_1 declined of 3.1 per cent.

Banks' interest rates maintained an upward trend during the month. The margin between the average savings deposit and maximum lending rates widened to 18.2 percentage points from 18.06 per cent in the preceding month, while the spread between the banks' weighted average deposit and maximum lending rates narrowed to 10.11 percentage points from the preceding month's level of 11.02 percentage points. The average inter-bank call rate, which stood at 15.85 per cent in April 2004, rose to 17.45 per cent in May, reflecting the tight liquidity condition in the inter-bank funds market.

The value of money market assets outstanding fell by 0.2 per cent to ₦949.89 billion in May 2004, in contrast to the increase of 3.86 per cent in the preceding month. Treasury bills worth ₦160.0 billion were issued in the review month to replace matured bills of the same value, compared with ₦325.0 billion issued in April 2004. Activities on the Nigerian Stock Exchange (NSE) indicated improved performance, as

the major indicators increased during the review month.

The major agricultural activities during the month included land preparation for transplanting of tree crops, cereals and vegetables, as well as the harvesting of early maize. The price index of Nigeria's major agricultural commodities at the London Commodity Market, in dollar terms, declined by 4.4 and 21.7 per cent over the levels in the preceding month and the corresponding month of 2003, respectively. The inflation rate for the twelve month period ended May 2004 was estimated at 19.1 per cent, up from 18.5 per cent in the preceding month.

Crude oil output, including condensates and natural gas liquids, was estimated at 2.67 million barrels per day (mbd) or 82.77 million barrels for the month, indicating an increase of 1.5 per cent from the preceding month's level. Crude oil exports were estimated at 2.22 mbd or 68.82 million barrels for the month, compared with 2.18 mbd in the preceding month. Deliveries of crude oil to the refineries for domestic consumption, however, remained at 0.45 million barrels per day and was 13.95 million barrels for the month. The average price of Nigeria's reference crude, the Bonny Light (37°API), was US\$38.32 per barrel, reflecting an increase of 11.4 per cent over the preceding month's level.

Available data on foreign exchange flows through the Central Bank of Nigeria (CBN) showed an inflow of US\$2,041.49 million and an outflow of US\$1,303.99 million, resulting in a net inflow of US\$737.5 million during the month.

Foreign exchange sales to authorized dealers by CBN amounted to US\$982.86 million, compared with US\$790.85 million in April 2004. The weighted average exchange rate of the Naira vis-à-vis the US dollar appreciated by 0.37 per cent from ₦133.67 per dollar in April 2004 to ₦133.18 per dollar in May. However, in the bureaux de change segment of the market, the rate depreciated from ₦138.85 per dollar in April 2004 to ₦139.64 per dollar in May. Nigeria's gross external reserves increased by 1.4 per cent to US\$10,118.68 million as at end-May, 2004.

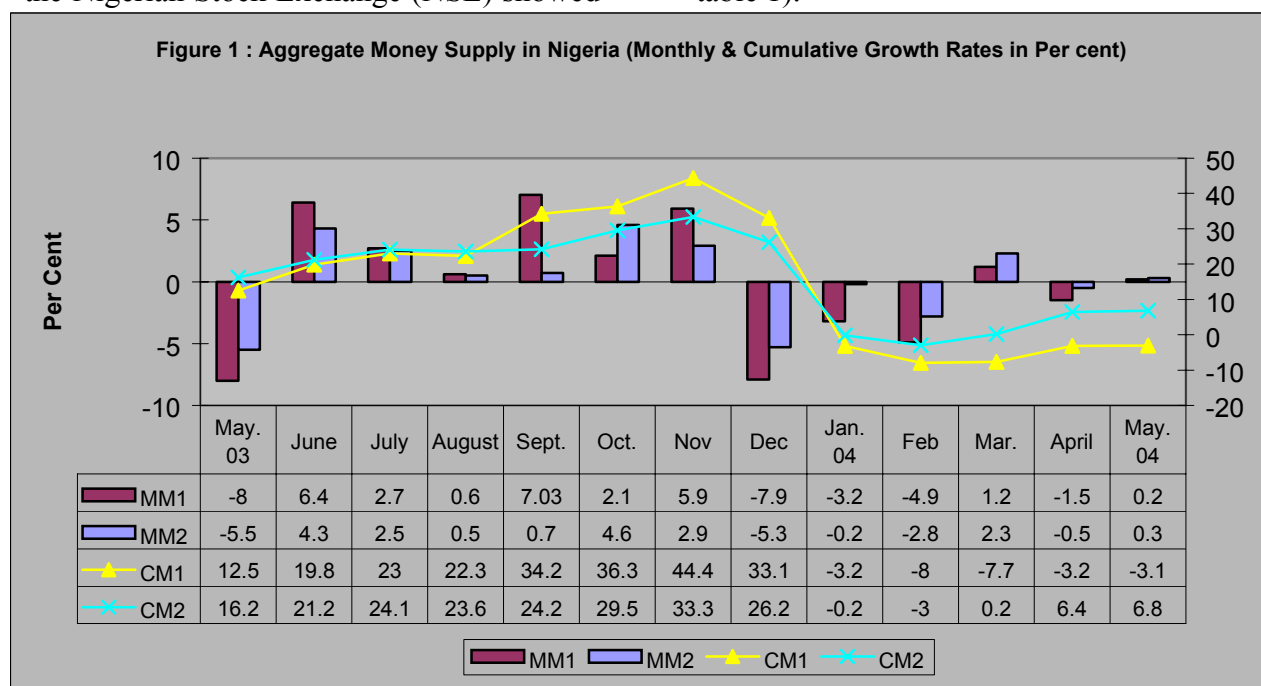
On the international scene, world crude oil demand of 79.55 million barrels per day (mbd) was in excess of output by 0.18 mbd. Other major international economic developments of relevance to the domestic economy during the month included: the Extra-Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB) in Entebbe, Uganda. The meeting focused on the adoption of a common position on "Fast-Tracking" the African Monetary Cooperation Program (AMCP) and the feasibility of establishing an African Central Bank (ACB) by 2015; and the meeting of the Africa Group 1 Constituency of the International Monetary Fund (IMF) and the World Bank in Kampala, Uganda, which highlighted the threat to global economic recovery, by the rising global interest rates and the persistence of high level of oil prices. Also Ecobank Nigeria Plc. was recommended by the Working Group on the transfer of the management of the ECOWAS Traveller's Cheque to private sector operator at its meeting in Sierra Leone in May 2004 to the Committee of Governors of the West African Central Banks for ratification. Furthermore, following an appeal by Brazil against the US, the World Trade Organisation (WTO), in an interim ruling on

24th April, 2004, through its Dispute Settlement Panel (DSP), ruled that the US subsidy to her country's cotton farmers violated international trade rules. The decision is expected to improve the trade prospects of African cotton producers/exporters in the international market. Finally, Nigeria signed an agreement with the People's Republic of China for a grant of 30 million Yuan (US\$3.5m) in Abuja on 21st May 2004.

2.0 FINANCIAL SECTOR DEVELOPMENTS

Monetary aggregates and banks' interest rates showed general increases in May 2004. However, money market activities fell during the month, following the declines in the value of commercial papers and Eligible Development Stocks (EDS). Transactions on the Nigerian Stock Exchange (NSE) showed

in the preceding month. The development was attributable to the 1.3 increase in, foreign assets (net) of the banking system. In the first five months of the year, M_2 rose by 6.8 per cent, implying an annualized growth rate of 16.3 per cent, compared with the programmed target of 16.0 per cent for fiscal 2004. M_1 , however, declined by 3.1 per cent, during the same period following the decline in the currency component (fig 1 and table 1).



improved performance as the major indicators rose during the month.

2.1 Monetary and Credit Developments

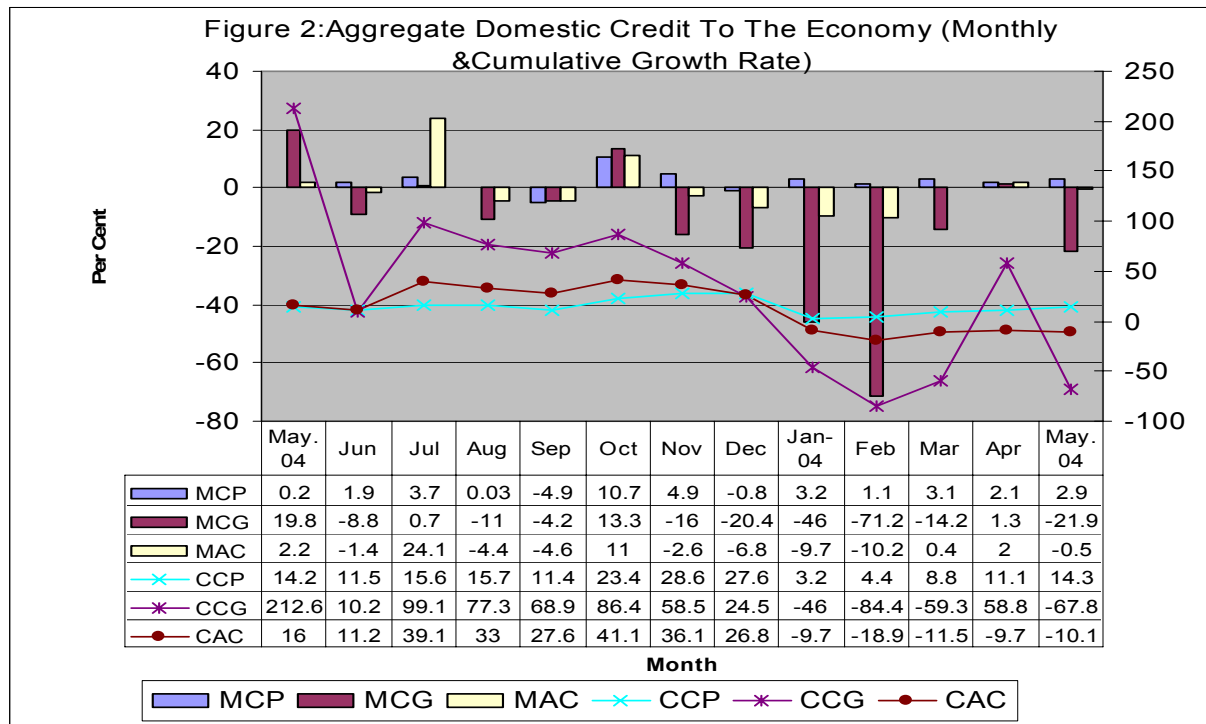
Provisional data indicated that broad money supply (M_2) rose by ₦7.3 billion or 0.3 per cent to ₦2,119.4 billion, in contrast to the decline of ₦10.3 billion or 0.5 per cent in the preceding month. Similarly, narrow money supply (M_1) increased by ₦2.7 billion or 0.2 per cent to ₦1,188.0 billion in the review month, in contrast to the decline of ₦17.4 billion or 1.5 per cent

Aggregate banking system's credit to the domestic economy fell by ₦8.3 billion or 0.5 per cent to ₦1, 666.0 billion in May 2004, as against an increase of ₦32.8 billion or 2.0 per cent in the preceding month. This development reflected the decline in credit to the Federal Government during the review month.

Banking system's claims on the Federal Government fell by ₦49.7 billion or 21.8 per cent to ₦178.1 billion, in contrast to the increase of ₦2.9 billion or 1.3 per cent in the preceding month. The decline reflected the substantial increase in Federal

Government deposit with the CBN during the month, reinforced by the fall in the DMBs' holding of treasury bills.

Quasi-money rose by ₦4.6 billion or 0.5 per cent to ₦931.4 billion, compared with the increases of ₦7.1 billion or 0.8 per cent



Banking system's credit to the private sector rose by ₦41.4 billion or 2.9 per cent to ₦1,487.9 billion, compared with the increase of ₦29.9 billion or 2.1 per cent in the preceding month. The rise reflected the increase of ₦40.4 billion or 2.8 per cent in DMBs' claims on the sector during the month. In the first five months of the year, credit to the private sector rose by 14.3 per cent, compared with the programme target of 22.0 per cent for fiscal 2004.

At ₦1, 679.2 billion, foreign assets (net) of the banking system rose by ₦21.6 billion or 1.3 per cent, in contrast to the decline of ₦19.8 billion or 1.2 per cent in the preceding month. The rise during the month under review was attributable to the 7.1 per cent increase in the DMBs' holding.

and ₦15.3 billion or 1.9 per cent recorded in the preceding month and the corresponding period of 2003, respectively.

Other Assets (net) of the banking system fell by ₦6.0 billion or 0.5 per cent in the review month, as against the decline of ₦23.3 billion or 1.9 per cent in the preceding month. The fall was traceable largely to the rise in the unclassified liabilities of the Central Bank during the month.

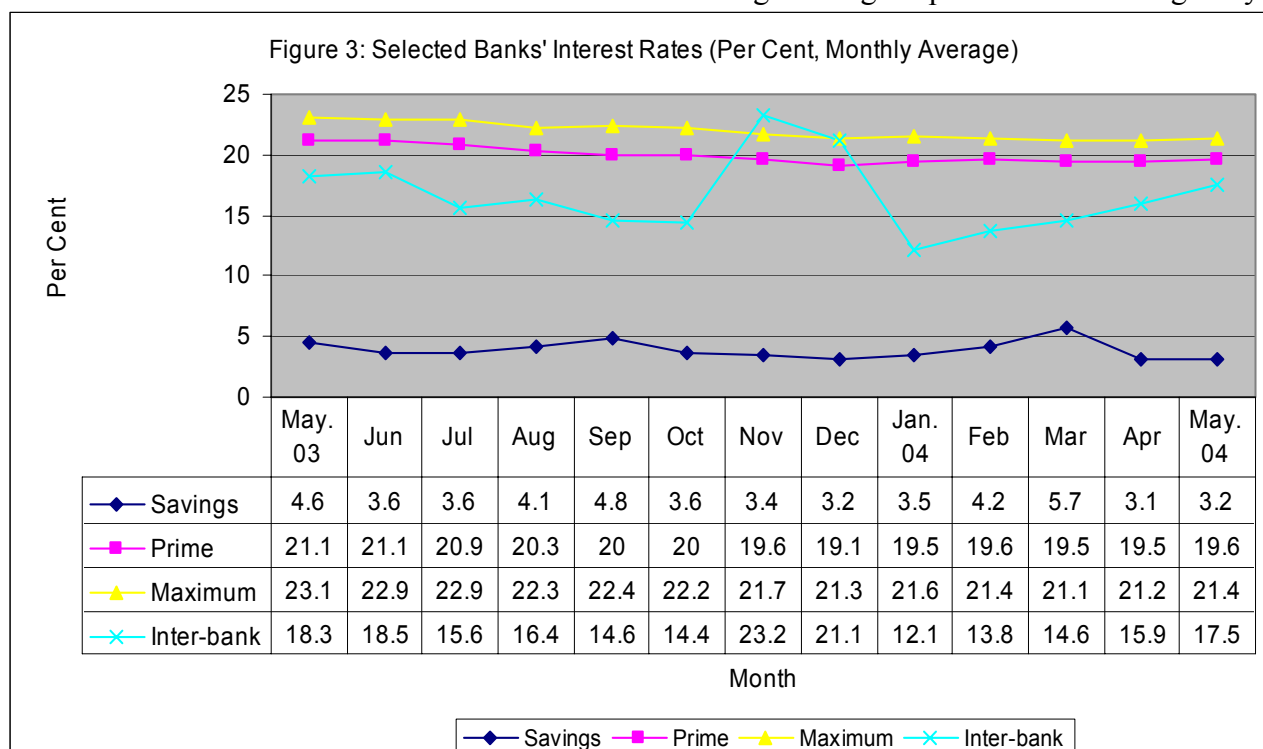
2.2 Currency-in-circulation and Deposits at the CBN

At ₦453.0 billion, currency in circulation in May 2004 declined by ₦8.3 billion or 1.8 per cent and ₦49.2 billion or 9.8 per cent from the levels in the preceding month and end-December 2003, respectively. The fall during the review month was traceable to currency held

outside the banking system, which, declined by ₦12.1 billion or 3.1 per cent during the month. Vault cash, however, rose by ₦3.8 billion or 4.8 per cent during the month.

2.3 Interest Rate Developments

There was a general increase in banks' deposit and lending rates in May 2004. The average savings deposit rate rose marginally



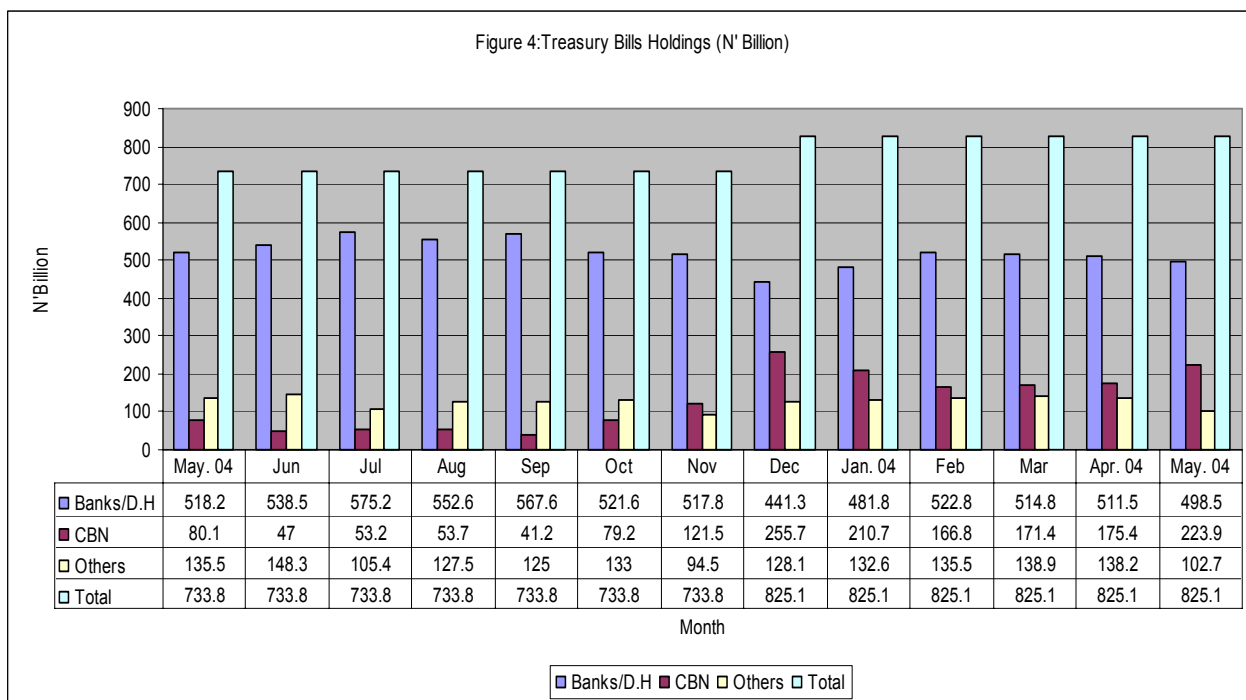
Total deposits at the CBN amounted to ₦953.2 billion, indicating increases of ₦28.5 billion or 3.1 per cent and ₦232.3 billion or 32.2 per cent over the levels in the preceding month and end-December 2003, respectively. The development during the month was traceable to the increase of ₦65.4 billion or 10.9 per cent in deposits of the Federal government. The deposit money banks' and private sector deposits, however, fell by ₦13.5 or 6.9 per cent and ₦23.4 or 18.5 per cent, respectively. The shares of the three components in total deposits at the CBN, namely, Federal Government, bankers and 'others' were 70.0, 19.1 and 10.9 per cent, respectively, compared with 65.1, 21.2 and 13.7 per cent, in April, 2004.

by 0.02 percentage points to 3.15 per cent, while all other rates on deposits of various maturities rose from a range of 8.21 – 13.45 per cent in April to 9.22 – 15.11 per cent in May 2004. The average prime and maximum lending rate, similarly, rose by 0.09 and 0.16 percentage points to 19.55 and 21.35 per cent, respectively, during the review month. Consequently, the margin between the average savings deposit and maximum lending rates widened to 18.2 from 18.06 percentage points in the preceding month. However, the spread between the weighted average deposits and maximum lending rates narrowed to 10.11 percentage points from the preceding month's level of 11.02 percentage points.

The weighted average inter-bank call rate, which was 15.85 per cent in April

2004, rose to 17.45 per cent in May, reflecting the tight liquidity condition in the inter-bank funds market. (fig. 3).

with N228.0 billion in April 2004. Of the total amount issued, the deposit money banks (DMBs) and discount houses continued their dominance of the market as



2.4 Money Market Developments

The value of money market assets outstanding as at end-May 2004 fell by ₦1.77 billion or 0.2 per cent to ₦949.89 billion, as against the increase of ₦33.86 billion or 3.86 per cent in the preceding month. The fall was attributable to the 1.2 and 0.8 per cent decreases in the value of commercial papers and Eligible Development Stocks, respectively. Treasury Bills outstanding, however, remained unchanged at the preceding month's level of ₦825.1 billion.

Treasury bills worth ₦160.0 billion were issued during the month compared with ₦325.0 billion issued in the preceding month. The public allotments for the securities totaled N134.3 billion compared

they jointly accounted for ₦84.1 billion or 52.6 per cent of the total, while “other” investors took up ₦50.2 billion or 31.4 per cent of the total. The balance of ₦25.7 billion was absorbed by the CBN, representing a decrease of 73.7 per cent below the level it absorbed in the preceding month.

Analysis of outstanding treasury bills holdings indicated that DMBs and discount houses together accounted for N498.5 billion or 60.4 per cent of the total, while holdings by ‘other’ investors amounted to N102.7 billion or 12.5 per cent of the total. Consequently, Central Bank's holding rose by 84.6 per cent to ₦223.9 billion in May 2004, constituting 27.2 per cent of the total during the review month.

2.5 Capital Market Developments

Transactions on the Nigerian Stock Exchange as at end-May, 2004 indicated improved performance as the major indicators trended upward during the month. At 1.5 billion shares, worth ₦23.3 billion, both volume and value of traded securities rose by 1.3 and 4.5 per cent from 1.4 billion shares valued at ₦22.3 billion in the preceding month. Most of the transactions were in equities with the banking sub-sector being the most active as in the preceding month.

In the bond segment of the market, a total of 150 units of Federal Government of Nigeria Development stocks worth ₦15,175 million were traded during the month. Similarly, 40,000 units of the first Yobe State Floating Rate Redeemable Bond worth ₦20 million and 1.6 million units of the first Delta State floating rate bond worth ₦160 million were traded during the review month. The floatation boosted instrument trading during the review month.

The market capitalization and value index also rose by 7.9 and 6.2 per cent respectively to close at ₦2.0 trillion and 28,178.7 (1984=100), during the review month, compared with ₦1.8 trillion and 26,120.10 (1984=100) in the preceding month. The development was attributable to the price gains recorded by most of the equities, especially those in the petroleum sector and the new listings on the exchange during the month.

2.6 Deposit Money Banks' Activities

Total assets/liabilities of deposit money banks amounted to ₦3,361.1 billion in May 2004, representing an increase of ₦84.6 billion or 2.6 per cent and ₦331.2 billion or 10.3 per cent from the levels in the

preceding month and end-December 2003, respectively. Funds were sourced mainly from demand deposits, unclassified liabilities and Federal Government deposits, while major uses of funds included expansion in reserves and foreign assets.

Aggregate credit to the domestic economy by deposit money banks amounted to ₦1,902.3 billion, representing increases of ₦28.9 billion or 1.5 per cent and ₦311.1 billion or 19.5 per cent over the levels in the preceding month and end-December 2003, respectively. A breakdown showed that credit to the private sector rose by ₦39.6 billion or 2.8 per cent, while credit (net) to the Central Government declined by ₦11.5 billion or 2.6 per cent, compared with the preceding month's levels.

Central Bank's credit to deposit money banks rose by 9.0 per cent to ₦63.0 billion in May 2004. The increase was attributable to the rise of 9.8 and 5.8 per cent in Bank's loans and advances as well as overdraft facilities, respectively, granted to the DMBs during the month.

Total specified liquid assets of deposit money banks amounted to ₦863.2 billion, representing 47.5 per cent of their total deposit liabilities. The level was 0.4 and 7.5 percentage points over the preceding month's level and the minimum target of 40.0 per cent for fiscal 2004, respectively.

2.7 Discount Houses

Total assets/liabilities of the discount houses amounted to ₦71.3 billion in May 2004, indicating increases of ₦11.5 billion or 19.2 per cent and ₦17.5 billion or 32.5 per cent over the levels in the preceding month and the corresponding month of 2003, respectively. Their investments in Federal Government securities of less than

91 days maturity amounted to ₦43.8 billion, representing 81.2 per cent of their total deposit liabilities. This was 7.8 and 21.2 percentage points higher than the levels in the preceding month and the prescribed minimum of 60.0 per cent for fiscal 2004, respectively.

Total borrowings by discount houses stood at ₦14.5 billion, while their capital and reserves was ₦8.0 billion, resulting in a gearing ratio of 1.8:1, compared with the stipulated maximum target of 50:1 for the year.

3.0 DOMESTIC ECONOMIC CONDITIONS

The major agricultural activities during the month included land preparation for transplanting of tree crops, cereal and vegetables, fertilizer application, and the clearing and disinfecting of broiler houses.

Crude oil output increased by 1.5 per cent over the preceding month's level, while inflationary pressure persisted as the estimated rate of inflation went up to 19.3 per cent, indicating an increase of 0.8 percentage points over the preceding month's level.

3.1 Agricultural Sector

Agricultural activities continued during the month with the dominance of land preparation for transplanting of tree crops from nurseries, planting of upland rice, maize, vegetables, as well as the staking of yams and the harvesting of early maize. In the livestock sub-sector, most farmers intensified clearing and disinfecting of broiler houses to mitigate the incidence of diseases. The agricultural activities were boosted under the Agricultural Credit Guarantee Scheme (ACGS) as the sum of

₦8.2 million was granted to farmers under the scheme, representing an increase of 29.8 per cent over the preceding month's level.

The prices of Nigeria's major agricultural commodities at the London Commodity Market generally plummeted during the month. The all-commodities price index, at 85.4 (1985=100), in dollar terms, fell by 4.4 and 21.7 per cent below its levels in the preceding month and the corresponding month of 2003, respectively. In naira terms, the index, at 8002.42 (1985 = 100), also declined by 6.3 and 15.3 per cent below the levels in the preceding month and the corresponding period of 2003, respectively.

Of the six commodities monitored during the month, cocoa, coffee, copra and soya bean recorded price declines of 6.1, 4.1, 2.5 and 3.2 per cent, respectively, below their levels in the preceding month, while only cotton and palm oil recorded marginal price increases of 0.5 and 1.6 per cent, respectively, during the period. When compared with their levels in the corresponding month of 2003, cocoa and coffee recorded price declines of 30.0 and 9.8 per cent, respectively, while copra, cotton, palm oil and soya bean recorded price increases of 23.4, 20.6, 27.7 and 47.0 per cent, respectively.

In naira terms, all the commodities namely: cocoa, coffee, copra, cotton, palm oil and soya bean recorded price declines of 8.2, 6.2, 36.5, 1.7 0.4 and 5.4 per cent, respectively, below their levels in the preceding month. When compared with their levels in the corresponding month of 2003, three of the commodities recorded price increases ranging from 25.9 per cent for cotton to 53.0 per cent for soya bean, while the other three recorded price declines

ranging from 6.3 per cent for coffee to 26.9 per cent for cocoa.

3.2 Petroleum Sector

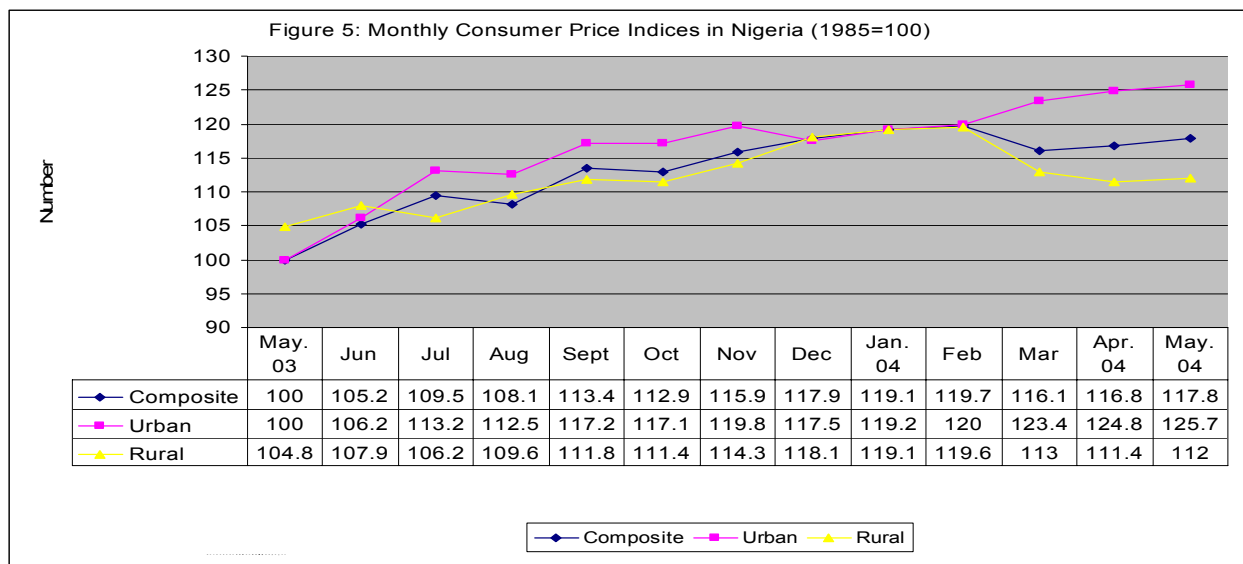
Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.67 million barrels per day (mbd) or 82.77 million barrels for the month, compared with 2.63 mbd produced in April 2004. Crude oil export was estimated at 2.22 mbd or 68.82 million barrels for the month, compared with 2.18 mbd in April 2004. Deliveries of crude oil to the refineries for domestic consumption remained at 0.45 mbd, same as in the preceding month or 13.95 million barrels for May 2004.

Crude oil prices trended upward in May 2004. In the spot market, the average price of Nigeria's reference crude, the Bonny Light (37° API), was US\$38.32 a barrel during the month, indicating an increase of

US\$40.15, US\$37.58, US\$34.59 and US\$37.80 per barrel, respectively, during the month. In the net-back market, the prices of all crude blends similarly rose over their levels in the preceding month. The Bonny Light and WTI were sold for \$49.96 and \$49.76 a barrel, respectively, compared with their respective prices of \$43.35 and \$45.40 a barrel in the preceding month. The UK Brent was also sold for \$49.26 a barrel during the month, showing an increase of \$6.71 a barrel or 15.8 per cent over the level in the preceding month. The price increases were driven largely by increased demand for crude by the US and China to meet their energy needs; as well as panic buying following terrorist attacks in Saudi Arabia and the uncertainties in other parts of the Middle East.

3.3 Consumer Prices

Based on the Federal Office of



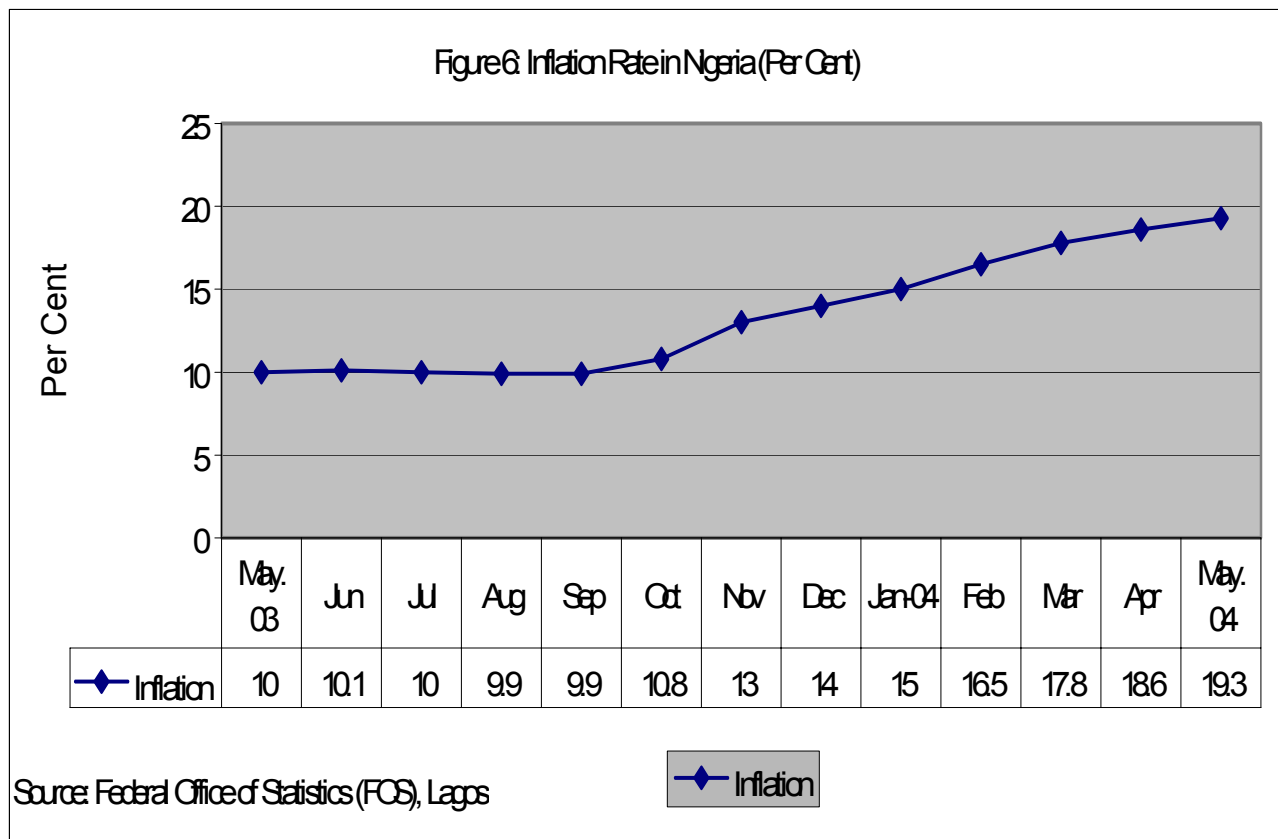
US\$3.92 a barrel or 11.4 per cent over the level in the preceding month. The prices of other competing brands namely, the West Texas Intermediate (WTI), the UK Brent, the Arab Light and the Forcados also rose by 9.7, 12.5, 10.3 and 11.5 per cent to

Statistics (FOS) data for April, 2004, the all-items composite Consumer Price Index (CPI) in May 2004 was estimated at 117.8 (May 2003 = 100), representing increases of 0.9 and 17.8 per cent over the levels in the preceding month and the corresponding

month of 2003, respectively. The development during the month was attributable to the rise in the estimated indices of food; food and non-alcoholic beverages, alcoholic beverages, tobacco and kola; clothing and footwear; housing, water, electricity, gas and other fuel; furnishing, household equipment and household maintenance; health; transport; communication; recreation and culture; education; restaurant and hotels; and miscellaneous goods and services whose indices increased by 1.2; 1.2; 0.8; 0.9; 1.8;

The urban all-items CPI was estimated at 125.7 (May 2003=100) for the month, indicating increases of 0.7 and 25.7 per cent over the levels in the preceding month and the corresponding month of 2003, respectively. Also, the rural all-items CPI, estimated at 112.0 (2003=100), indicated a rise of 0.5 and 12 per cent over the levels in the preceding month and the corresponding month of 2003.

Retail price surveys of selected consumer items by the CBN in Lagos, F C T



0.3; 0.6; 1.0; 0.6; 0.3; 0.1; 0.4; and 0.8 per cent, respectively. Similarly, when compared with their levels in the corresponding month a year earlier, all the components recorded price increases ranging from 5.4 per cent for communication, to 54.9 per cent for health.

Abuja as well as Bauchi, Enugu, Ibadan and Kano Zones showed marginal increases. The retail price index (RPI) showed an increase of 1.3 per cent in the all-items average price of consumer items in May 2004, compared with 1.8 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; oil and fat;

beverages and drinks; clothing and fabrics; fuel and light; medical; as well as building materials by 1.1; 1.6; 1.5; 2.0; 1.7; 2.0; 3.4; and 0.7 per cent, respectively, while the indices of vegetables, fruits and nuts; fell by 0.4 per cent, during the review month.

Price increases of 1.6, 3.2, 0.8, 0.2 and 0.5 per cent were recorded in Enugu, Ibadan, and Kano zones, F.C.T Abuja and Lagos area, respectively, over the preceding month's level, while Bauchi zone recorded a price decline of 1.8 per cent, during the period.

The rate of inflation for the twelve-

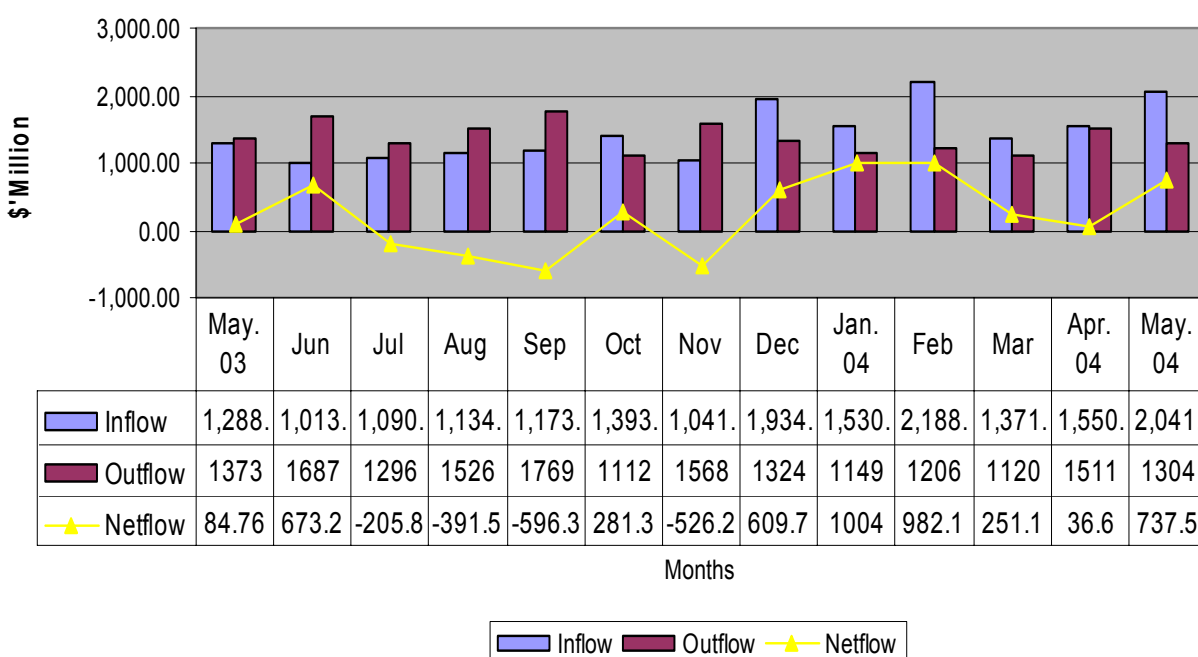
petroleum products with upward pressure on transportation and other costs.

4.0 EXTERNAL SECTOR DEVELOPMENTS

4.1 Foreign Exchange Flows

Foreign exchange inflow and outflow through the Central Bank of Nigeria (CBN) in May 2004, amounted to US\$2,041.49 and US\$1,303.99 million, respectively, indicating a net inflow of US\$737.5 million. Compared with their levels of US\$1,550.17 and US\$1,510.87 million in the preceding

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



month period ended May 2004 was estimated at 19.1 per cent, compared with 18.5 per cent in April. The estimate for May was 0.6 and 9.0 percentage points higher than the levels in the preceding month and corresponding month of 2003, respectively. The upward inflationary pressure reflected the increase in the index of food prices and the effect of the increase in the prices of

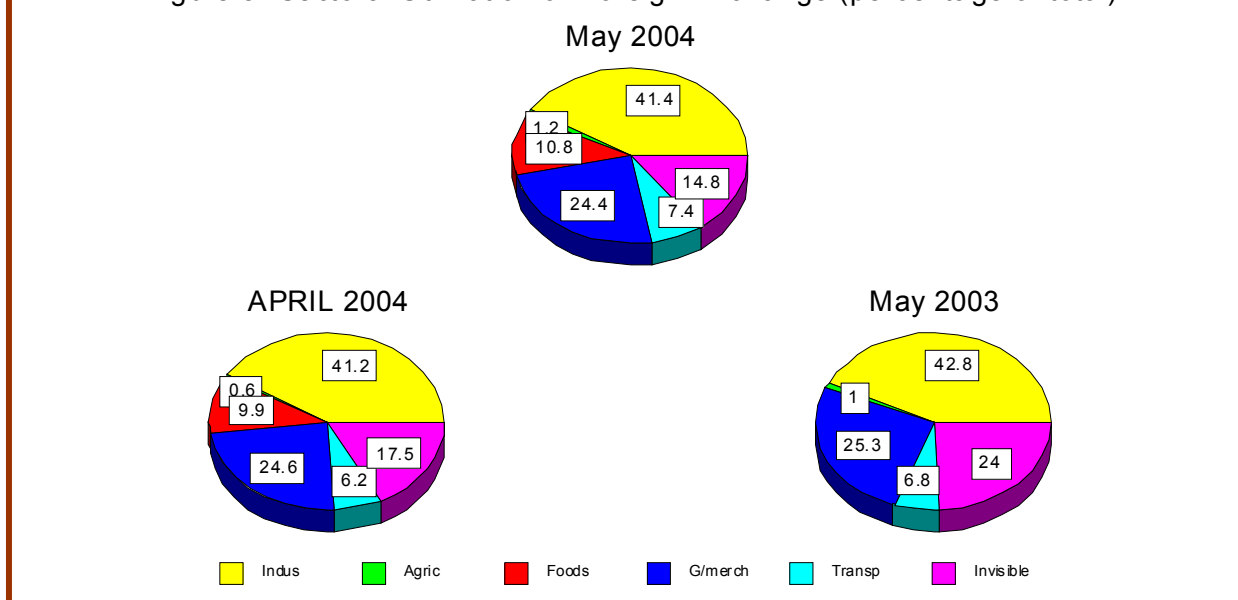
month, inflow rose by 31.7, while outflow fell by 13.7 per cent, respectively, during the month. The rise in inflow was attributable to the 28.1 and 103.2 per cent increases in oil sector receipts and non-oil official receipts respectively, while the decline in outflow was traceable to the 79.3 and 100 per cent reductions in external debt service payments and funding of national priority projects,

respectively. At US\$8,681.71 million and US\$6,289.89 million, cumulative inflow and outflow through the CBN in the first five months of 2004 were 36.5 and 3.6 per cent higher than their levels in the corresponding period a year earlier.

Aggregate foreign exchange flows through the economy indicated that total

autonomous sources from US\$397.01 million, US\$94.56 million and US\$90.74 million to US\$82.12 million, nil and US\$62.33 million, respectively. Outflows through funding of the DAS Auction System, “Other official payments” and drawings on L/Cs, however, rose by 24.3, 3.9 and 32.8 per cent to US\$982.86 million, US\$230.96 million and US\$8.05 million,

Figure 8: Sectoral Utilization of Foreign Exchange (percentage of total)



inflow rose by 24.4 per cent from the level in the preceding month to US\$2,811.91 million in May 2004. Receipts from oil sector, which constituted 67.2 per cent of the total rose by 28.1 per cent to US\$1,888.81 million, while non-oil public sector receipts rose by 103.2 per cent to US\$152.68 million, representing 5.4 per cent of the total. Inflow through the autonomous sources rose by 8.5 per cent from the preceding month's level to US\$770.42 million and accounted for 27.4 per cent of the total. At US\$1,366.32 million, total foreign exchange outflow from the economy fell by 14.7 per cent from the preceding month's level. This reflected largely the reduction in the major components of outflow, particularly the decline in external debt service payments, funding of national priority projects and outflows through

respectively, during the month. The cumulative inflow and outflow through the economy from January to May 2004 amounted to US\$12,205.17 and US\$6,588.27 million, respectively, compared with US\$9,593.41 and US\$6,577.94 million in the corresponding period of 2003.

4.2 Sectoral Utilisation of Foreign Exchange

The industrial sector accounted for the bulk (41.4 per cent) of total foreign exchange disbursed in May 2004, followed by general merchandise (24.4 per cent). Other beneficiary sectors, in a descending order of importance, included: invisibles (14.8 per cent), food (10.8 per cent), transportation (7.4 per cent) and agricultural products (1.2 per cent) (Fig.8).

4.3 Foreign Exchange Market Developments

There was increased demand for foreign exchange in May 2004. A total of US\$982.86 million was sold to end-users through the authorized dealers, compared with US\$790.85 million in the preceding month. The weighted average exchange rate of the Naira vis-à-vis the US dollar, however, appreciated by 0.37 per cent from ₦133.67 per dollar in April 2004 to ₦133.18 per dollar in May 2004. However, in the bureaux de change segment of the market, the rate depreciated from ₦138.85 per dollar in April 2004 to ₦139.64 per dollar in May 2004. Overall, the premium between the bureaux de change and official market rates widened to 4.98 per cent from 4.0 per cent in April 2004.

4.4 External Reserves

Provisional data showed that Nigeria's gross external reserves at end-May, 2004 amounted to US\$10,118.68 million, indicating an increase of 1.4 per cent over the preceding month's level. At current level of foreign exchange commitments, the reserves could finance about 7.8 months of foreign exchange disbursement.

5.0 OTHER INTERNATIONAL ECONOMIC DEVELOPMENTS

World crude oil output, estimated at 79.37 million barrels per day (mbd) in May 2004 rose by 0.31 mbd or 0.4 per cent over the preceding month's level of 79.06 mbd, while the estimated demand at 79.55 mbd for the month, rose by 0.25 mbd or 0.3 per cent. Overall, total world oil demand exceeded supply by 0.18 mbd owing largely to inventory build up in the United States (US)

and China to meet the demands of economic expansion being experienced in both countries. Other factors included panic purchases following terrorist attacks in Saudi Arabia and the general uncertainties in the Middle East.

Other major international economic developments of relevance to the domestic economy during the month included: the Extra-Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB); Africa Group 1 Constituency meeting; Bidding for the transfer of the management of the ECOWAS Trvellers' Cheque to a private sector operator; World Trade Organisation (WTO) ruling on cotton subsidy; and the signing of Agreement with the Peoples Republic of China for a grant of 30 million Yuan (US \$3.5m) by Nigeria.

The extra-ordinary meeting of the AACB held in May 2004 in Entebbe, Uganda was to adopt a common position on "Fast-Tracking" the African Monetary Cooperation Program (AMCP) and the feasibility of establishing an African Central Bank (ACB) by 2015. The key recommendations of the ACB to the Summit of Heads of State and Government of the African Union scheduled for Addis Ababa, in July 2004 included:

- adoption of a step-by-step approach, to the eventual establishment of an African Central Bank, through strong political will and the building of the right preparatory/supporting institutions as well as the meeting of stipulated convergence criteria by African economies;
- The need to intensify efforts at facilitating the attainment and

maintenance of macroeconomic convergence criteria by the sub-regions, who should also explore the possibility of fast tracking of their programmes.

The meeting of the Africa Group¹ Constituency of the International Monetary Fund (IMF) and the World Bank in Kampala, Uganda on May 24, 2004 expressed concern over the negative effects of rising global interest rates and oil prices on global economic recovery. To support African countries in the light of these negative consequences, the Governors,

- ♦ underscored the urgent need for a more determined and coordinated international effort to mobilize additional resources to help developing countries meet the Millennium Development Goals (MDGs) by 2015;
- ♦ expressed the need for the increased democratization of governance of the Bretton Woods institutions and the involvement of developing countries in the decision-making process in the two institutions;

The Governors also noted that the governments of the UK, France, Sweden, Denmark and the Netherlands had fulfilled their pledges to contribute to Analytical Trust Fund in support of Sub-Saharan Executive Directors' Offices to conduct research on issues relating to the work of the IMF and the World Bank. In addition, the governors endorsed the nominations of Dr. Sinzokahamvya Cyprien of Burundi and Dr. Ngeno Nehemiah K.C of Kenya as Alternate Executive Directors in the Constituency's World Bank and the IMF offices, respectively. The Alternates to Nigeria and South Africa, in the Development Committee and International Monetary and Financial Committee (IMFC), respectively,

would be made during the annual meetings of the Bretton Woods Institutions in Washington, D.C.

The Working Group on the transfer of the management of the ECOWAS Travellers' Cheque to a private sector operator at its meeting, in Sierra Leone in May 2004:

- accepted the only Bid from Ecobank Nigeria Plc and recommended the bank to the Committee of Governors of the West African Central Banks for ratification as a manager of the ECOWAS Travellers' Cheques;
- recommended that the West African Monetary Agency (WAMA) should monitor the proposed investment of US \$4.3 million by the bank in the ECOWAS Travellers' Cheque project to ensure its efficient implementation;
- recommended that the bank should provide adequate insurance cover for the ECOWAS Travellers' Cheques;
- rejected Ecobank's request for exclusive right to operate the ECOWAS Travellers' Cheque project for 20 years and the prohibition of the circulation of other travellers' cheques for regional transactions in order not to compromise the principle of free market.

Furthermore, in an interim ruling on 24th April, 2004, over a dispute instituted by Brazil on the US, through its Dispute Settlement Panel (DSP), the World Trade Organisation (WTO) held that the US subsidy to her cotton farmers violated international trade rules. Similarly, Burkina Faso and three other West African countries appealed to the WTO to end cotton subsidies to farmers in developed countries. These countries observed that subsidies granted by US to her cotton farmers, which was estimated at \$3.0-\$4.0 billion per annum,

exceeded her annual aid to the entire African continent. It is expected that African cotton producers/exporters would have improved trade prospects in international markets following these developments.

Finally, Nigeria signed an agreement with the Peoples' Republic of China for a grant of 30 million Yuan (US\$3.5m) in Abuja on 21st May 2004. While expressing the need for an improved bilateral economic cooperation between the two countries, the representative of the Chinese Government stated that China was desirous of supporting Nigeria in many areas including:

- participation in the downstream sub-sector of the petroleum industry;
- development of exploration technology in the oil industry;
- cooperation in building telecommunication networks;
- foreign direct investment in the manufacture of television and motorcycle in Nigeria; and
- supporting training of 700-800 technicians in collaboration with UNIDO and UNDP in the next three years.

The leader of the Nigerian delegation, commended the Chinese Governments' support in the area of technical assistance, capacity building and her supportive role in the Group of 22 at the World Trade Organisation (WTO) in protecting the interest of Nigeria and other developing countries.

He reiterated that the country's economic programme, the National Economic Empowerment and Development Strategy (NEEDS) was targeted at growing the private sector and reducing poverty with emphasis on agriculture, small and medium enterprises (SME), solid minerals, oil and the service sectors and called for a better understanding between the two countries in these areas.