

CENTRAL BANK OF NIGERIA



ECONOMIC REPORT FOR THE THIRD QUARTER OF 2006

RESEARCH AND STATISTICS DEPARTMENT

CENTRAL BANK OF NIGERIA

QUARTERLY ECONOMIC REPORT

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ECONOMIC REPORT FOR THE THIRD QUARTER OF 2006

1.0 SUMMARY

Aggregate output in the economy measured by the gross domestic product (GDP) was projected to grow by 7.5 per cent during the third quarter of 2006, the same growth rate recorded in the preceding quarter. The growth was driven by the non-oil sector which was projected to have grown by 12.8 per cent. Available data indicated further increase in monetary aggregates during the review quarter. Broad money supply (M_2) rose by 4.3 per cent over the level in the preceding quarter, while narrow money supply (M_1), increased by 3.4 per cent during the period. The increase in M_2 was attributable to the rise in foreign assets (net) and other assets (net) of the banking system.

Available data indicated a mixed development in banks' deposit and lending rates in the third quarter of 2006. The spread between the weighted average deposit and maximum lending rates widened from 15.37 percentage points in the preceding quarter to 15.67 percentage points. Similarly, the margin between the average savings deposit and maximum lending rates increased from 11.33 to 11.66 percentage points during the quarter. The weighted average inter-bank call rate, which stood at 3.62 per cent in the preceding quarter, rose marginally to 3.68 per cent at end-September 2006, reflecting tight liquidity condition in the market.

The value of money market assets outstanding increased by 2.8 per cent to ₦1,497.4 billion, compared with the increase of 9.4 per cent in the preceding quarter. The rise was attributable to the 69.4 and 17.9 per cent increase in Bankers Acceptances (BAs) and outstanding FGN Bonds, respectively. Activities on the Nigerian Stock Exchange indicated

improved performance as all the major market indicators trended upward.

Total federally-collected revenue during the third quarter of 2006 stood at ₦1,487.6 billion, and represented a decline budget estimate but an increase of 15.8 per cent over the level in the preceding quarter. At ₦1,311.8 billion, oil receipts constituted 88.2 per cent of the total, and represented a decline of 14.7 per cent below the budget estimate but an increase of 14.7 per cent over the level in the preceding quarter. The rise in oil receipts over the level in the preceding quarter reflected the continued increase in volume of crude oil production, coupled with the higher prices in the global oil market. Similarly, non-oil receipts, at ₦175.8 billion or 11.8 per cent of the total, was higher than the receipts in the preceding quarter by 25.0 per cent but lower than its budget estimates by 3.3 per cent. The rise in non-oil receipts relative to the preceding quarter was attributable to the payment of withholding tax by companies whose accounting due-dates fell within the review quarter, reinforced by the aggressive Value Added Tax (VAT) drive embarked upon by the Federal Inland Revenue Service (FIRS). Other factors included the reconciliation carried out by the Nigerian Custom Service (NCS) with the CBN which led to the realization of higher remittances. Federal Government retained revenue for the third quarter of 2006 was ₦492.7 billion, while total expenditure was ₦378.0 billion. Thus, the fiscal operations of the Federal Government was estimated to have resulted in a surplus of ₦114.7 billion, as against the proportionate budget deficit of ₦100.8 billion and a surplus of ₦85.9 billion recorded in the preceding quarter.

The major agricultural activities in the review quarter included: harvesting of various root crops, planting of late crops and preparation of land and nurseries for various vegetable crops. In the livestock sub-sector, poultry farmers intensified production of poultry products, particularly during the last month of the quarter, in preparation for the approaching festive seasons. Activities in the industrial sector declined during the third quarter of 2006 as the estimated index of industrial production fell by 0.6 per cent from its level in the preceding quarter. The prices of most Nigerian major agricultural commodities at the London Commodities Market increased during the review quarter.

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.33 million barrels per day (mbd) or 214.4 million barrels for the third quarter, compared with 2.25 mbd and 2.29 mbd in the preceding quarter and the corresponding quarter of 2005, respectively. Crude oil export was estimated at 1.9 mbd or 157 million barrels for the quarter, while deliveries to the refineries for domestic consumption remained at 0.45 mbd or 41.40 million barrels. The average price of Nigeria's reference crude, the Bonny Light (37⁰ API), estimated at US\$71.5 per barrel, rose by 1.4 per cent over the level in the preceding quarter. The end-period inflation rate for the third quarter of 2006, on a year-on-year basis, was 6.3 per cent, compared with 8.5 and 24.3 per cent recorded at the end of the preceding quarter and in the corresponding period of 2005. Inflation rate on a twelve-month moving average basis was 10.0 per cent, compared with 15.5 per cent in the preceding quarter, reflecting the impact of harvest of agricultural produce, which had dampening effect on food prices as well as the effect of sound macroeconomic policies.

The balance of payments account remained favourable in the third quarter of 2006 with an estimated overall surplus of ₦484.4 billion, compared with the surplus of ₦34.4 billion and ₦398.0 billion recorded in the preceding quarter and corresponding period of 2005, respectively. The development was attributable to the surplus recorded in the current account. The gross external reserves rose by US\$3.76 billion or 10.3 per cent to US\$40.24 billion in September 2006, compared with US\$36.48 billion at end-June 2006. This level of reserves could finance 17.2 months of current import commitments, compared with 24.9 and 17.2 months in the preceding quarter and corresponding period of 2005, respectively.

Foreign exchange inflow and outflow through the Central Bank of Nigeria (CBN) amounted to US\$9.63 billion and US\$5.07 billion, respectively, resulting in a net inflow of US\$4.56 billion during the quarter. Foreign exchange sales by the CBN to the authorized dealers rose to US\$3.74 billion from US\$2.93 billion in the preceding quarter. The weighted average exchange rate of the Naira vis-à-vis the US dollar, appreciated marginally by 0.1 per cent to ₦127.06 per dollar at the WDAS. In the bureaux de change segment of the market, the rate, also appreciated from ₦142.34 per dollar to ₦130.26 per dollar. Non-oil export earnings by Nigeria's top 100 exporters amounted to US\$210.35 million, indicating an increase of 5.1 per cent over the level in the preceding quarter. The development was attributable largely to the increase in the prices of the commodities traded at the international commodities market during the period.

Other major international economic developments of relevance to the domestic economy during the quarter included: the 30th Ordinary Meeting of the Assembly of Governors of the Association of African

Central Banks (AACB) held on August 18, 2006 in Windhoek, Namibia; and a meeting of the African Ministers of Finance and Economic Development under the aegis of the African Governors Caucus held from August 1 – 3, 2006 in Maputo, Mozambique to articulate an African position, following the ongoing reforms in the Bretton Woods Institutions; and the 2006 Annual Meetings of the G-24 and the Boards of Governors of the IMF and the World Bank Group held in Singapore from September 14- 20, 2006.

2.0 FINANCIAL SECTOR DEVELOPMENTS

Monetary aggregates grew further in the third quarter of 2006, while banks' deposit and lending rates recorded mixed developments. The value of money market assets also increased following largely, the rise in outstanding FGN Bonds and Bankers Acceptances (BAs). Transactions on the Nigerian Stock Exchange (NSE) recorded improved performance as all the major market indicators trended upward during the review period.

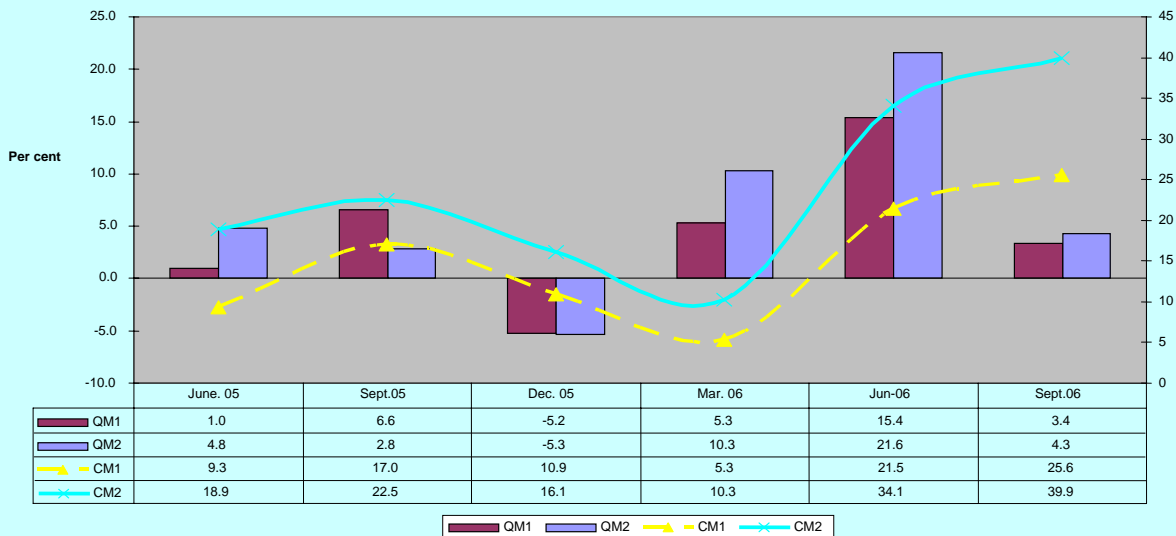
2.1 Monetary and Credit Developments

Available data indicated further growth

the banking system, arising from the sustained positive price developments in the international crude oil market. Similarly, narrow money supply (M_1) increased by 3.4 per cent to ₦1,930.8 billion, compared with the increase of 15.4 per cent in the preceding quarter. Over the level at end-December 2005, M_1 and M_2 , grew by 25.6 and 39.9 per cent, indicating an annualized growth rate of 43.1 and 53.2 per cent, respectively, compared with the targets of 13.3 and 27.8 per cent for fiscal 2006 (fig.1 and table 1).

Aggregate banking system credit (net) to the domestic economy fell by 8.6 per cent to ₦2,435.6 billion in the third quarter of 2006, in contrast to the increase of 11.8 and 18.6 per cent in the preceding quarter and corresponding period of 2005, respectively. The development during the review quarter reflected entirely the decline in claims on Federal Government (net).

Figure 1: Aggregate Money Supply in Nigeria (Quarterly and Cummulative Growth Rates in Per cent)



in monetary aggregates. Broad money supply (M_2) rose by 4.3 per cent to ₦3,674.4 billion, compared with the increase of 21.6 and 2.8 per cent in the preceding quarter and corresponding period of 2005, respectively. The rise in M_2 was attributable to the increase in foreign and other assets (net) of

At negative ₦136.1 billion, banking system's credit (net) to the Federal Government declined by 137.7 per cent, compared with 17.3 per cent decline in the preceding quarter of 2006. However, when compared with the corresponding period of 2005, it showed an increase of 76.5 per cent.

The decline was attributable entirely to the fall in Federal Government deposit with the CBN during the period.

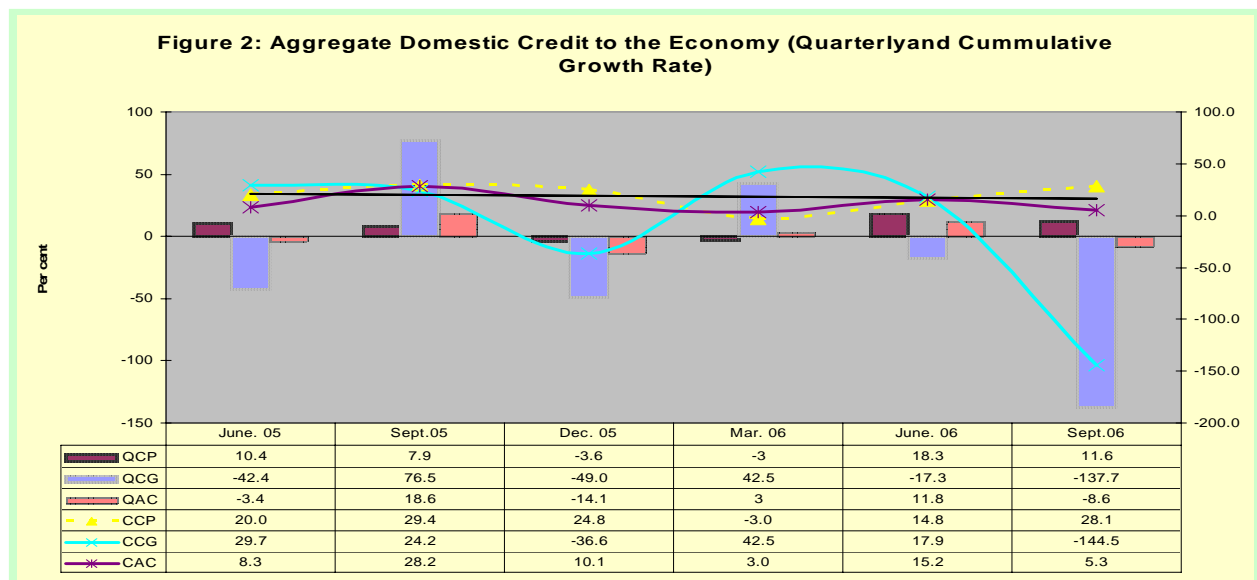
Banking system's credit to the private sector rose by 11.6 per cent to ₦2,571.7 billion, compared with the increase of 18.3 and 7.9 per cent in the preceding quarter and corresponding period of 2005, respectively. The rise in the review quarter reflected largely the ₦264.0 billion or 11.8 per cent increase in DMB's claims on the core private sector (fig 2).

At ₦5,575.7 billion, foreign assets (net) of the banking system rose marginally by

Other assets (net) of the banking system also rose by 8.0 per cent, compared with the increase of 2.5 per cent in the preceding quarter. The rise reflected largely the increase in unclassified assets of both the CBN and DMBs.

2.2 Currency-in-circulation and Deposits at the CBN

At ₦615.1 billion, currency in circulation rose by 2.8 per cent in September, 2006 over the level in June, 2006. The rise was traceable to the increase



0.1 per cent, compared with the increase of 9.0 and 17.2 per cent in the preceding quarter and corresponding period of 2005, respectively. The development was attributable to the increase in DMBs holding of foreign assets.

Similarly, quasi money rose by 5.4 per cent to ₦1,743.6 billion, compared with the increase of 29.4 per cent in the preceding quarter. When compared with the corresponding period of 2005, it, however, fell by 1.7 per cent. The development was attributable to the increase in all the components namely, time, savings and foreign currency deposits of the DMBs.

of 2.8 per cent in currency outside the banking system.

Total deposits at the CBN amounted to ₦1,570.5 billion, indicating an increase of 53.0 per cent over the level in the preceding quarter. This was attributable to the 66.2 and 22.1 per cent rise in Federal Government and Deposit Money Banks' deposits, respectively. The shares of the Federal Government, banks and "others" in total deposits at the CBN were 81.5, 15.3 and 3.2 per cent, respectively, compared with the shares of 75.1, 19.2 and 5.7 per cent, in the first quarter of 2006.

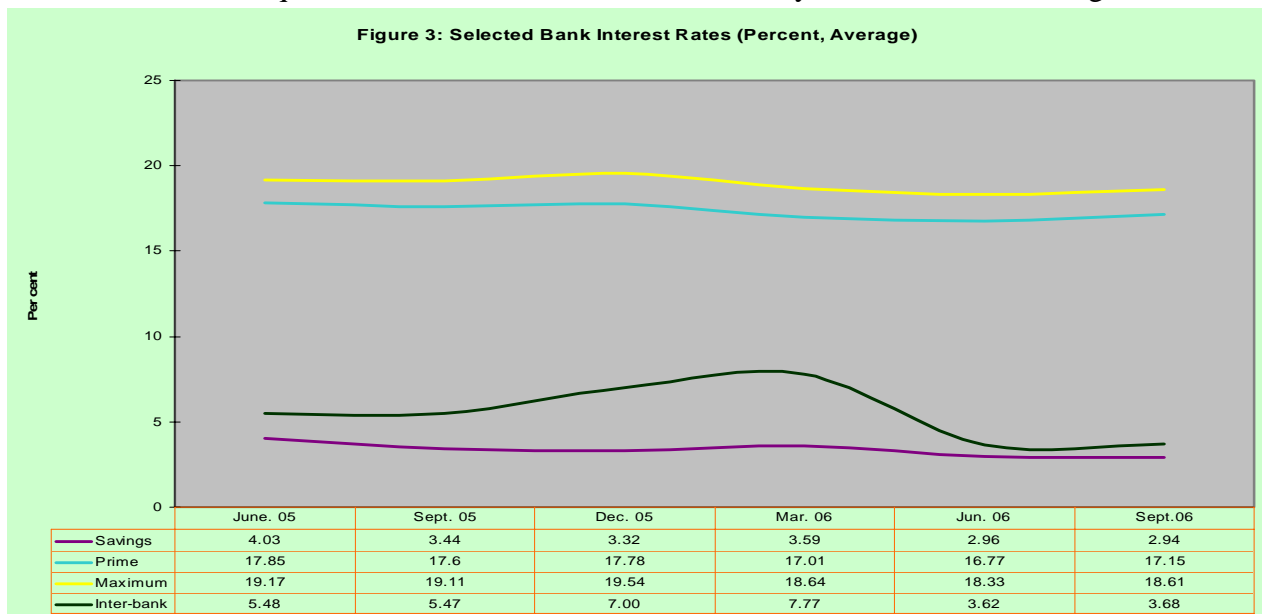
2.3 Interest Rate Developments

Available data indicated mixed developments in banks' deposit and lending rates in the third quarter of 2006. With the exception of the average savings, seven days, one month and twelve-months deposit rates, which declined by 0.02, 0.52, 0.2 and 0.73 percentage points to 2.94, 4.36, 9.21 and 8.01 per cent, respectively, all other rates on deposits of various maturities increased from a range of 7.58 – 9.77 per cent in the second quarter of 2006 to 8.14 –

quarter, reflecting tight liquidity condition in the inter-bank funds market.

2.4 Money Market Developments

The value of money market assets outstanding at the end of the third quarter of 2006 increased by 2.8 per cent to ₦1,497.4 billion, compared with the increase of 9.4 per cent in the preceding quarter. The rise was attributable to the 69.4 and 17.9 per cent increase in Bankers Acceptances (BAs) and outstanding FGN Bonds, respectively. Treasury Bills outstanding, however,



9.79 per cent. Similarly, the average prime and maximum lending rates increased by 0.38 and 0.28 percentage points to 17.15 and 18.61 per cent, respectively. Consequently, the spread between the weighted average deposit and maximum lending rates widened from 15.37 percentage points in the preceding quarter to 15.67 per cent. Also, the margin between the average savings deposit and maximum lending rates increased from 11.33 percentage points in the preceding quarter to 11.66 percentage points.

The weighted average inter-bank call rate rose to 3.68 per cent at end-September 2006 from 3.62 per cent in the preceding

declined from ₦785.4 billion in the second quarter of 2006 to ₦715.3 billion. The decline was attributable to the restructuring of the bills to longer tenored debt instruments, which resulted in the repayment of the matured 91-day and 182-day bills by the Federal Government.

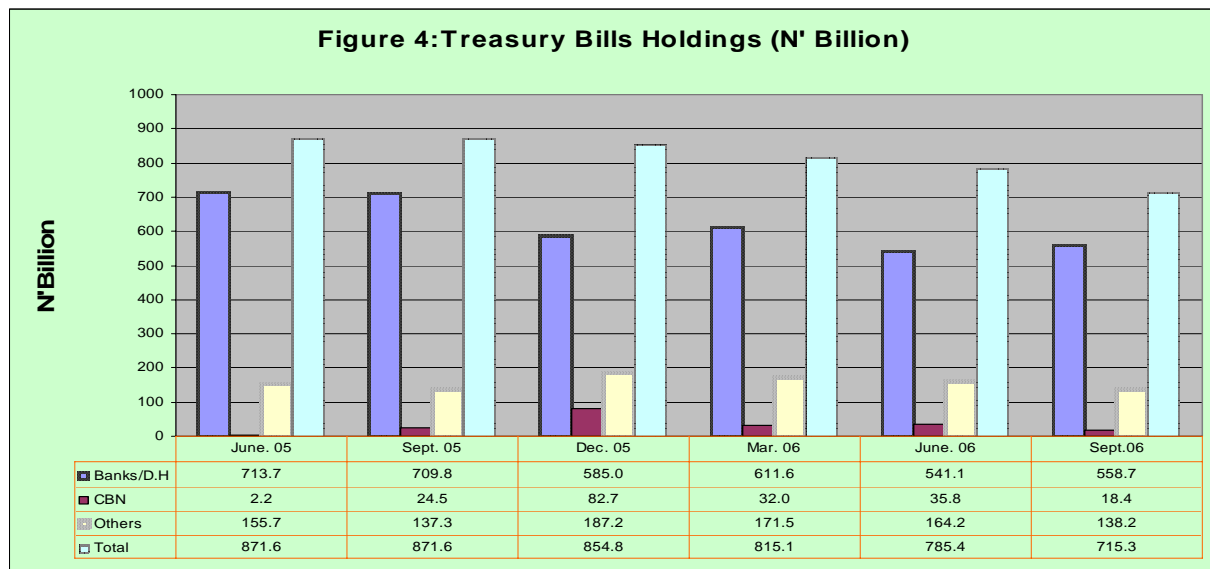
Treasury bills worth ₦311.9 billion were offered during the third quarter of 2006, compared with ₦387.0 billion in the preceding quarter. Subscriptions and sales stood at ₦575.5 billion and ₦309.2 billion, respectively, compared with ₦548.6 billion and ₦339.6 billion in the preceding quarter. Analysis of sales showed that the share of deposit money banks (DMBs) and discount

houses declined by 13.0 per cent from the preceding month's level and they jointly accounted for ₦168.4 billion or 54.5 per cent of the total, while investment by the non-bank public stood at ₦138.1 billion, representing 44.7 per cent of the total amount sold. The balance of ₦2.7 billion, representing 0.8 per cent of the total was absorbed by the CBN.

Data on holdings of treasury bills outstanding indicated that holdings by the

remained the most active on the Exchange, while Federal Government and industrial loans/preference stocks recorded no dealings.

The new issues market received a boost through the monthly issuance of the 3rd FGN bonds. The tenth (7-year), eleventh (3-year) and twelfth (3-year) series of bonds valued at ₦70.98 billion, as well as the ₦75.0 billion Special FGN Bonds for Pension Arrears were admitted on the floor



DMBs and discount houses declined by 3.8 per cent to ₦558.7 billion. Similarly, holdings by the non-bank public and CBN declined by 15.8 and 54.6 per cent to ₦138.2 billion and ₦18.4 billion, respectively, during the review quarter.

2.5 Capital Market Developments

Transactions on the Nigerian Stock Exchange in the third quarter of 2006 were bullish as all the market indicators trended upward. The aggregate volume and value of traded securities rose by 71.0 and 64.5 per cent to 11.8 billion shares and ₦162.0 billion, respectively, at end-September, 2006, compared with 6.9 billion shares and ₦98.5 billion, in the preceding quarter. Analysis of transactions during the review quarter showed that the banking sub-sector

of the Exchange during the review period. Also, a total of fourteen supplementary listings, involving twelve bonuses and two merger arrangements were listed on the Exchange. The First Ekiti State Floating Rate Redeemable Bond worth ₦4.0 billion was, however, delisted, following its full redemption. Manny Bank Plc and FSB International Bank Plc were also delisted, following their merger with Fidelity bank Plc.

Market capitalization and value index rose by 36.7 and 24.2 per cent to ₦4.1 trillion and 32,485.0 (1984=100), respectively, during the review period. The development was attributable largely to gains recorded by highly capitalized stocks as well as the new listings, particularly the 3rd FGN bond and the special FGN Bond for Pension Arrears during the quarter.

2.6 Deposit Money Banks' Activities

Available data indicated that total assets/liabilities of the twenty five (25) deposit money banks (DMBs) amounted to ₦6,488.4 billion, compared with ₦6,009.7 billion in the preceding quarter. The development was attributable largely to the increase in claims on state and local governments. Funds, which were sourced mainly from the depletion of reserve, withdrawals from capital account and unclassified liabilities were used mainly for purchase of claims on the Federal Government, especially the treasury bills.

At ₦3,467.8 billion, credit to the domestic economy increased by 7.3 and 34.6 per cent, over the levels in the preceding quarter and the corresponding period of 2005, respectively. The rise was traceable largely to the increase in claims on state and local governments during the period.

Central Bank's credit to the DMBs rose by 24.4 per cent to ₦16.2 billion in the review quarter, reflecting an increase in banks overdrawn position with the CBN. However, CBN Loans & Advances to banks declined by 1.6 per cent to ₦10.2 billion during the period.

Total specified liquid assets of the DMBs stood at ₦2.2 billion, representing 58.2 per cent of their total deposit liabilities. This level of assets was 18.2 percentage points above the stipulated minimum ratio of 40.0 per cent for fiscal 2006.

2.7 Discount Houses

Total assets/liabilities of the discount houses stood at ₦197.7 billion in the third quarter of 2006, indicating an increase of 18.1 and 22.2 per cent over the levels in the preceding quarter and corresponding period of 2005, respectively. The rise in assets was attributable to the 72.9 and 33.1 per cent increase in "claims on banks" and "claims

on others", respectively. The increase in total liabilities, on the other hand, was attributable to the 79.7 per cent rise in "other amount owing", during the period. Discount houses' investments in Federal Government securities of less than 91 days maturity amounted to ₦82.8 billion, representing 48.9 per cent of their total deposit liabilities. At this level, discount houses' investments rose by 3.8 per cent over the level in the preceding quarter. It, however, fell by 10.5 per cent when compared with the level in the corresponding period of 2005. This level of investment was, 11.1 percentage points lower than the prescribed minimum of 60.0 per cent for fiscal 2006. Total borrowing by discount houses was ₦99.1 billion, while their capital and reserves amounted to ₦15.2 billion, resulting in a gearing ratio of 6.5:1, compared with the stipulated maximum target of 50:1 for fiscal 2006.

3.0 FISCAL OPERATIONS

3.1 Federation Account Operations

Total federally-collected revenue during the third quarter of 2006 stood at ₦1,487.6 billion, representing a decline of 13.0 per cent from the proportionate budget estimate but an increase of 15.8 per cent over the level in the preceding quarter. When compared with the corresponding period of 2005, total federally-collected revenue showed an increased of 5.5 per cent. At ₦1,311.8 billion, oil receipts constituted 88.2 per cent of the total, representing a decline of 14.1 per cent from the budget estimate but an increase of 14.7 per cent over the level in the preceding quarter. The rise in oil receipts was due to the continued increase in volume of oil production, coupled with the higher prices in the global oil market. Similarly, non-oil receipts, at ₦175.8 billion or 11.8 per cent of the total was higher than the receipts in the preceding

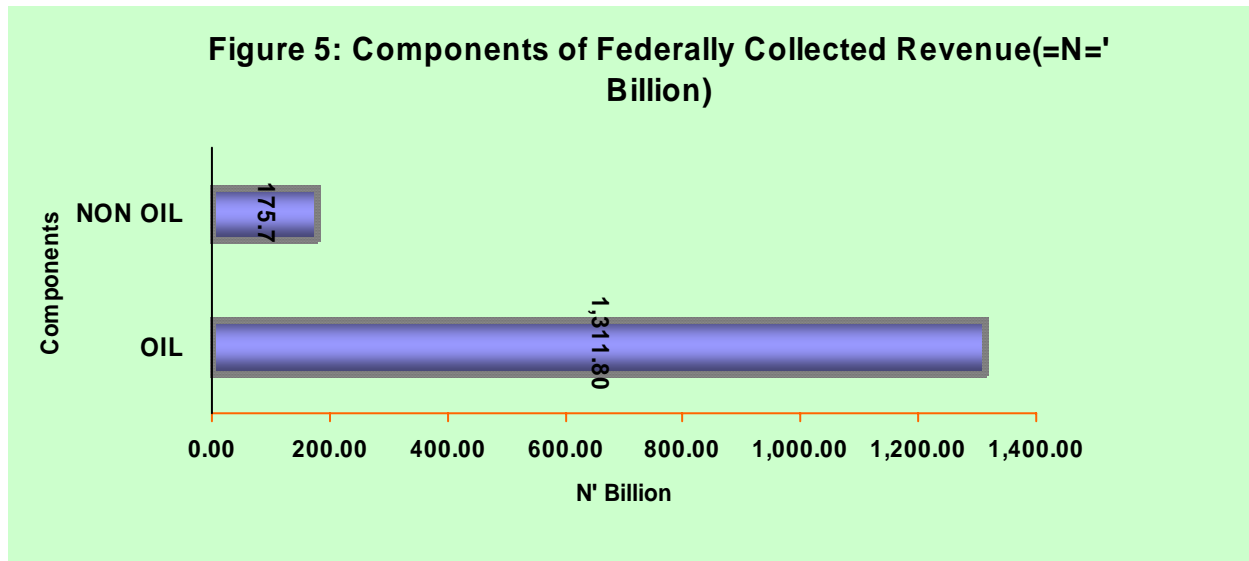
quarter by 25.1 per cent but lower than its budget estimate by 3.3 per cent. The rise in non-oil receipts during the period was attributable to the payment of withholding tax by companies whose accounting due-dates fell within the review quarter, reinforced by aggressive Value Added Tax (VAT) drive embarked upon by the Federal Inland Revenue Service (FIRS). Other factors included the reconciliation carried

and ₦83.3 billion, respectively. The balance of ₦63.1 billion went to others.

3.2 The Fiscal Operations of the Three Tiers of Government

3.2.1 The Federal Government

At ₦492.7 billion, the Federal Government retained revenue for the third quarter of 2006 was 19.7 and 24.7 per cent



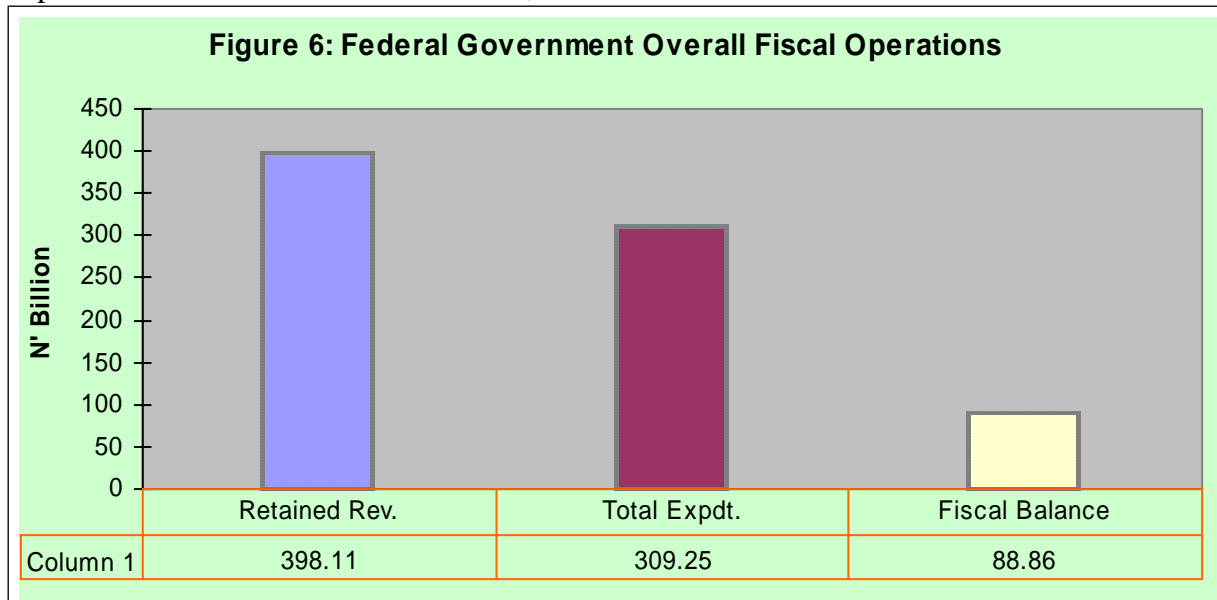
out by the Nigerian Custom Service (NCS) with the CBN which led to the realization of higher remittances (fig 5).

Of the total federally-collected revenue during the review quarter, the sum of ₦810.8 billion was transferred to the Federation Account for distribution among the three tiers of government and the 13% derivation fund. The Federal Government received ₦350.0 billion, while the state and local governments and the 13% derivation fund received ₦177.5 billion, ₦136.9 billion

higher than the proportionate budget estimate and the receipts in the preceding quarter, respectively. The increase in retained revenue relative to the preceding quarter was due to enhanced revenue accruing to the three tiers of government from the Federation Account, occasioned by the rise in oil revenue, as well as the additional inflow from the share of the Excess Crude Account during the review quarter.

At ₦378.0 billion, total expenditure for the period rose by 22.2 per cent over the level in the preceding quarter but lower than the proportionate budget estimate by 26.2 per cent. The shortfall in total expenditure for the period relative to the budget estimate was attributable largely to the delay in the release of capital vote as a result of “Due Process” stringent procedure. A breakdown of total expenditure showed that recurrent, capital and transfers accounted for 93.7, 2.1

Federation Account during the third quarter of 2006 stood at ₦282.7 billion, representing an increase of 8.3 and 5.3 per cent over the levels in the preceding quarter and the corresponding period of 2005, respectively. At ₦27.5 billion, receipts from the VAT Pool Account rose by 26.3 and 28.5 per cent over the levels in the preceding quarter and the corresponding period of 2005, respectively.



and 4.2 per cent, respectively. Of the total recurrent expenditure, debt service accounted for 25.9 per cent of the total, while non-debt expenditure accounted for the balance.

The fiscal operations of the Federal Government in the third quarter of 2006 resulted in a surplus of ₦114.7 billion, as against the proportionate budget deficit of ₦100.8 billion. The surplus was attributable to the low release from the capital vote during the review quarter.

3.2.2 Statutory Allocations to State Governments

Total receipts (including 13% Derivation and share of Value Added Tax (VAT) by the State Governments from the

3.2.3 Statutory Allocations to Local Government Councils

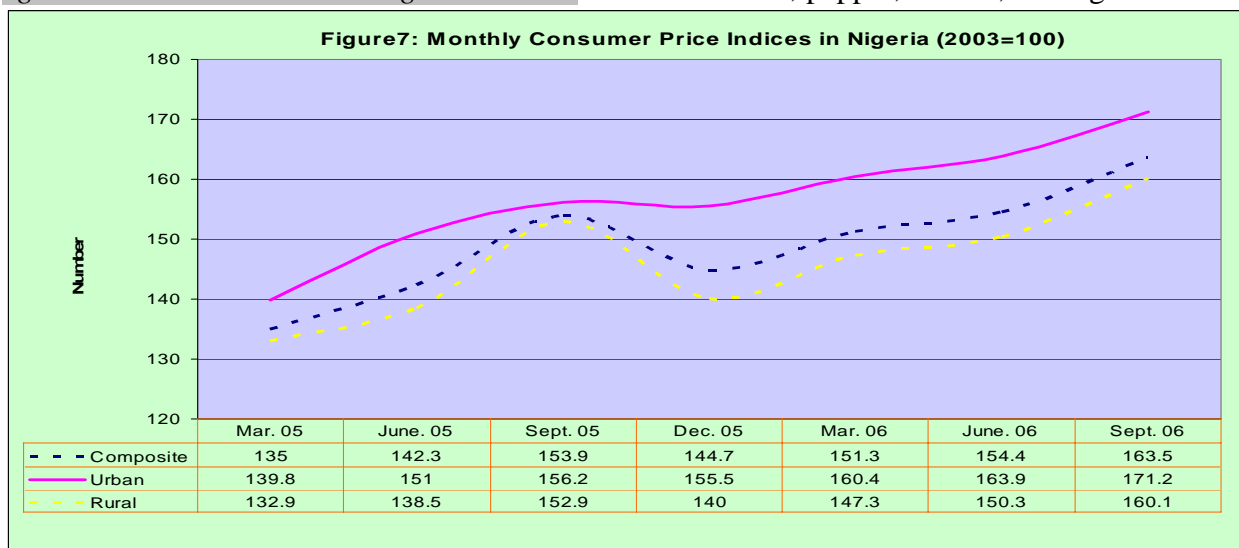
Total receipts by the local governments from the Federation and VAT Pool Accounts during the third quarter of 2006 stood at ₦153.0 billion. This was higher than the levels in the preceding quarter and the corresponding period of 2005 by 7.4 and 20.0 per cent, respectively. The allocations during the period comprised ₦133.7 billion from the Federation Account and ₦19.3 billion from VAT Pool Account. On monthly basis, the sums of ₦53.2 billion, ₦44.6 billion and ₦55.2 billion were allocated to the 774 local governments in July, August and September 2006, respectively.

4.0 DOMESTIC ECONOMIC CONDITIONS

Aggregate output in the economy measured by the gross domestic product (GDP) was projected to grow by 7.5 per cent during the third quarter of 2006, the same growth rate as in the preceding quarter. The growth was driven by the non-oil sector which was projected to have grown by 12.8 per cent. The major agricultural activities during the third

4.1 Agricultural Sector

Agricultural activities during the third quarter of 2006 centered on the harvesting of various root crops such as yam, sweet potatoes and groundnuts; and planting of late crops in some parts of the country, following the favourable rainfall experienced nationwide. In the northern part of the country, farmers commenced the cultivation of land and nurseries for tomatoes, pepper, carrots, cabbage and other



quarter of 2006 were harvesting of various root crops, planting of late crops and preparation of land and nurseries for various vegetable crops. In the livestock sub-sector, poultry farmers intensified production of poultry products, particularly during the last month of the quarter, in preparation for the approaching festive season. Crude oil production was estimated at 2.3 million barrels per day (mbd) or 214.4 million barrels for the quarter. The end-period inflation rate for the third quarter of 2006, on year-on-year basis, was 6.3 per cent, compared with 8.5 per cent recorded in the preceding quarter. The inflation rate on a 12-month moving average basis was, 10.0 per cent, compared with 15.5 per cent in June, 2006.

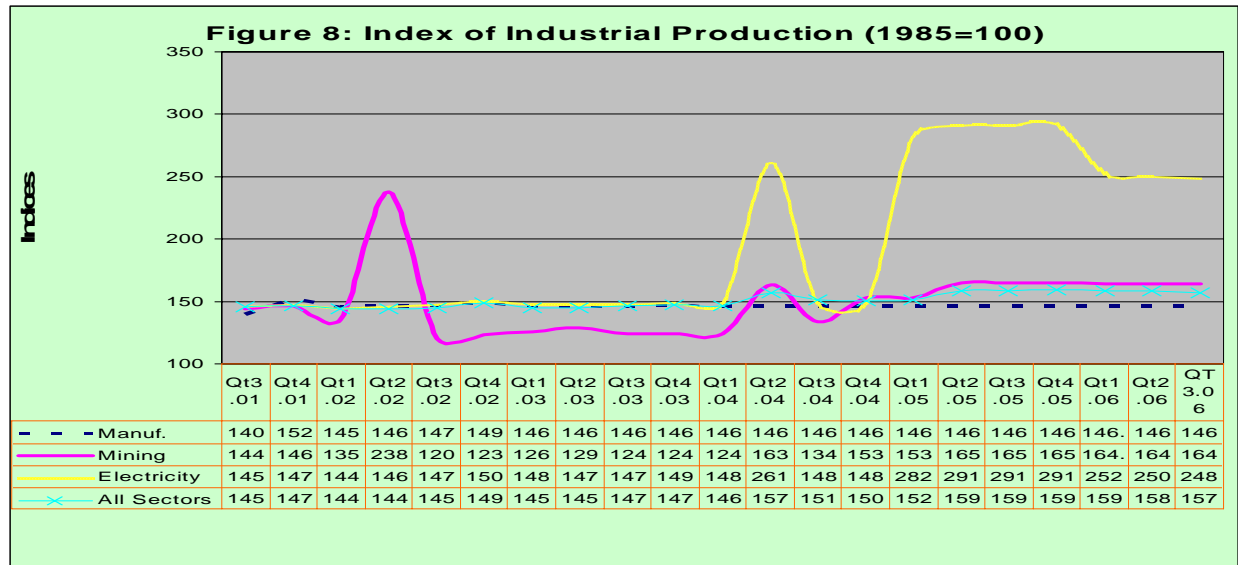
vegetables. In the livestock sub-sector, poultry farmers intensified production of poultry products, particularly during the last month of the quarter, in preparation for the approaching festive season. During the quarter under review, farmers benefited from various governments financial interventions such as the ₦50.0 billion Agricultural Credit Support Scheme and the Agricultural Credit Guarantee Scheme (ACGS). Specifically, the sum of ₦725.09 million was granted to 8,371 farmers under the ACGS in the third quarter of 2006, representing an increase of 90.3 per cent over the level in the preceding quarter, but a decline of 41.9 per cent below the level in the corresponding quarter of 2005. A sub-sectoral analysis of the loans guaranteed

indicated that the food crops sub-sector had the largest share of ₦585.4 million or 80.7 per cent granted to 7,398 beneficiaries, while livestock sub-sector got ₦100.3 million or 13.8 per cent granted to 768 beneficiaries. Also, the cash crops sub-sector got ₦8.8 million or 1.2 per cent for disbursement to 54 beneficiaries, while the fisheries sub-sector got ₦30.4 million or 4.2 per cent granted to 149 beneficiaries and others got ₦0.2 million or 0.03 granted to 2 beneficiaries. Analysis by state showed that 25 states benefited from the scheme during the quarter, the highest and lowest sums of ₦102.0 million (14.1 per cent) and ₦1.6 million (0.2 per cent) went to Adamawa and

price increases of 2.8, 4.8, 5.0, 10.6, 13.5 and 28.0 per cent, respectively, over their levels in the preceding quarter. When compared with their levels in the corresponding period of 2005, the price of coffee, copra, palm oil and cocoa showed increase of 0.6, 1.5, 2.5 and 23.1 per cent, respectively, while cotton and soya bean recorded price declines of 0.4 and 7.7 per cent, respectively.

4.2 Industrial Production

Industrial activities during the third quarter of 2006 declined relative to the preceding quarter. At 157.2 (1985=100),



Anambra states, respectively.

The prices of most Nigerian major agricultural commodities at the London Commodities Market recorded increases during the review quarter. Of the six commodities monitored during the period, soya bean, copra, palm oil, coffee and cocoa, in dollar terms, recorded price increases of 2.2, 12.1, 14.8, 22.9 and 26.9 per cent, respectively, over their levels in the preceding quarter, while cotton, recorded a price decline of 2.6 per cent below the level in the preceding month.

In naira terms, cotton, soya bean, cocoa, copra, palm oil and coffee recorded

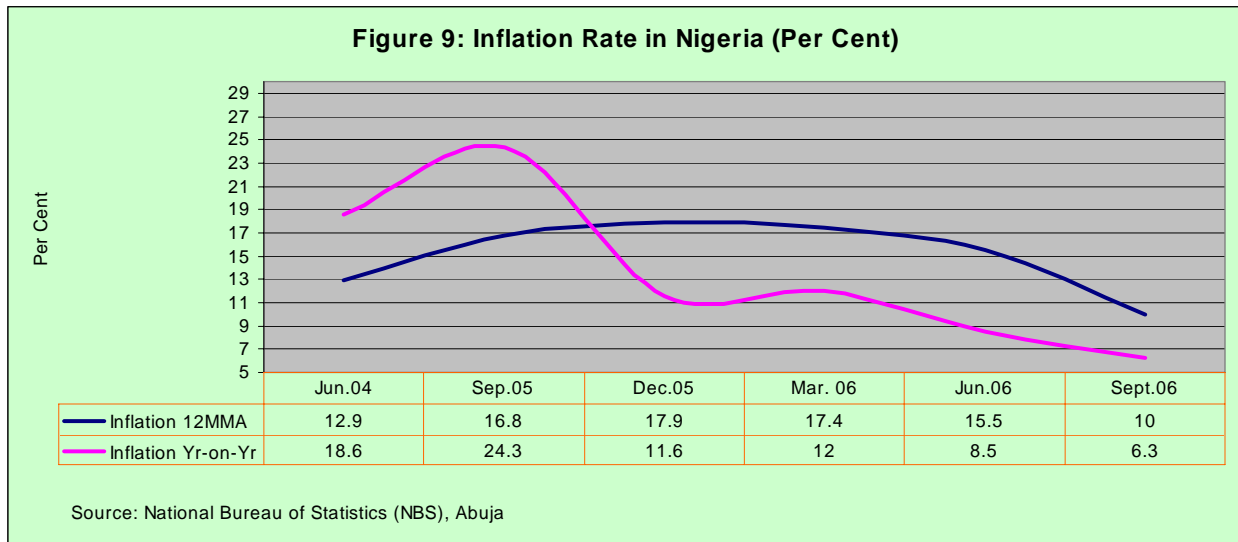
estimated index of industrial production fell by 0.6 and 1.0 per cent from the levels attained in the preceding quarter and corresponding period of 2005, respectively. The development reflected the declines in the indices of electricity consumption and manufacturing production, respectively.

The estimated index of manufacturing production, at 145.6 (1985=100), fell by 0.1 per cent both from the levels in the preceding quarter and corresponding period of 2005. The fall was accounted for mainly by the 0.3, 0.2 and 0.1 per cent decline in the indices of cement and roofing sheet; paint; soft drink, beer & stout,

respectively. However, the indices of sugar confectionary and footwear increased moderately by 0.2 per cent each, during the review quarter. The development in the sub-sector was attributable to the poor power supply situation experienced by manufacturers as well as the high cost of diesel fuel which manufactures used in running electricity generating plants during the review quarter.

At 163.8 (1985=100), the index of

per cent, commercial & street lighting accounted for 26.7 per cent, while industrial consumption accounted for the balance of 22.0 per cent. The decline in electricity consumption relative to the preceding quarter was attributable to low supply from the power generating stations as well as various forced/planned power outages, and emergency load shedding during the period.



mining production declined by 0.1 and 0.7 per cent from the levels in the preceding quarter and corresponding period of 2005, respectively.

At 2,520.0 MW/h, estimated average electricity generation fell by 8.2 and 13.5 per cent from the levels attained in the preceding quarter and corresponding period of 2005, respectively. The decline was attributable to the vandalism of gas pipelines in the Niger Delta region, which supplies gas to the thermal stations in the country and the rehabilitation being carried out at the hydro power stations.

At 1,725.1 MW/h, estimated average electricity consumption declined by 3.6 and 16.8 per cent from the levels in the preceding quarter and the corresponding period of 2005, respectively. Of the total, residential consumption accounted for 51.3

4.3 Small and Medium Enterprises Equity Investment Scheme

A cumulative sum of ₦40.74 billion was set aside by the 25 banks under the SMEEIS as at the end of the third quarter of 2006. This remained unchanged at the amount at the end of the preceding quarter. However, total amount invested by banks increased by 11.6 per cent to ₦16.63 billion, compared with the amount in the preceding quarter.

4.4 Petroleum Sector

Nigeria’s crude oil production, including condensates and natural gas liquids, was estimated at 2.3 million barrels per day (mbd) or 214.36 million barrels for

the quarter, representing an increase of 3.6 per cent over the level in the preceding quarter. Crude oil export was estimated at 1.9 mbd or 157.2 million barrels in the quarter, compared with 1.8 mbd each in the preceding quarter and corresponding period of 2005, respectively. Deliveries to the refineries for domestic consumption remained at 0.45 mbd or 41.40 million barrels for the quarter.

At an estimated average of US\$71.5 per barrel, the price of Nigeria's reference crude the Bonny Light (37° API), rose by 1.4 and 15.2 per cent over the levels in the preceding quarter and corresponding period of 2005, respectively. The average prices of other competing crudes, namely, the West Texas Intermediate, U.K Brent, Arab Light, and the Forcados increased by 0.3, 0.6, 1.2, and 2.3 per cent to US\$70.94, US\$69.91, US\$65.25 and US\$70.97, per barrel, respectively. The rise in price was attributable to the persistent hostilities in the Middle East as well as the shutdown of British Petroleum operation field in Alaska, North America.

4.5 Consumer Prices

Available data showed that the all-items composite Consumer Price Index (CPI) for the end of third quarter, 2006 was 163.5 (May 2003=100), representing an increase of 5.9 and 6.2 per cent over the levels in the preceding quarter and corresponding period of 2005, respectively. The development was attributable to the rise in the price of the following components: food; food & non-alcoholic beverages; alcoholic beverages, tobacco & kola; clothing and footwear; furnishing, household equipment and household maintenance; health; transport; communication; recreation & culture; education; restaurant & hotels; and miscellaneous goods and services whose indices increased by 9.7, 9.6, 10.5, 8.0, 1.3,

10.8, 5.9, 2.3, 14.5, 16.1, 19.8 and 0.7 per cent, respectively. However, the index of housing, water, electricity & gas declined by 2.2 per cent from the preceding quarter's level.

The urban all-items CPI for the end of third quarter, 2006 stood at 171.2 (May 2003=100), indicating an increase of 4.5 and 9.6 per cent over the levels in the preceding quarter and corresponding quarter of 2005, respectively. Similarly, the rural all-items CPI for the quarter stood at 160.1 (May 2003=100), and represented an increase of 6.5 and 4.7 per cent over the levels in the preceding quarter and corresponding quarter of 2005, respectively. The end-period inflation rate for the third quarter of 2006, on a year-on-year basis, was 6.3 per cent, compared with 8.5 and 24.3 per cent recorded in the preceding quarter and corresponding quarter of 2005, respectively. The inflation rate on a twelve-month moving average basis for the quarter ended September 2006, was 10.0 per cent, compared with 15.5 and 16.8 per cent recorded in June 2006 and the corresponding period of 2005, respectively, reflecting largely the impact of the early harvest of some agricultural products, such as fruits, vegetable and maize, which had a dampening effect on rising food prices, coupled with the effect of sound macroeconomic policies.

5.0 EXTERNAL SECTOR DEVELOPMENTS

5.1 Balance of Payments

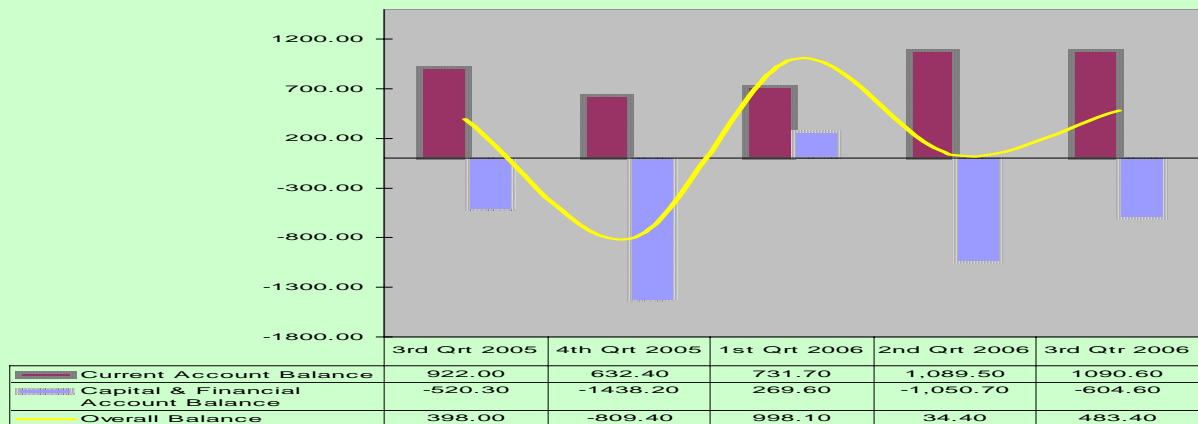
The balance of payments account remained favourable in the third quarter of 2006 with an estimated overall surplus of ₦483.4 billion, compared with the surplus of ₦34.4 billion and ₦398.0 billion recorded in the preceding quarter and the corresponding period of 2005, respectively. The development was attributable to the surplus recorded in the current account and increased capital flows during the period. The current account recorded a surplus of ₦1,090.6 billion, compared with the surplus

US\$28.13 at end-June 2006 and the corresponding period of 2005, respectively. This level of reserves could finance 17.2 months of current import commitments, compared with 24.9 and 17.2 months in the preceding quarter and corresponding period of 2005, respectively.

5.1.1 The Current Account

The current account surplus increased marginally by 0.1 per cent to ₦1,090.6 billion in the quarter under review. The balance in goods account recorded a surplus of ₦754.6 billion, down from the surpluses of ₦948.1 billion and ₦1,022.0 billion in the preceding quarter and

Figure 10: Balance of Payments Estimates (=N='Billion)



of ₦1,089.5 billion and ₦922.0 billion in the preceding quarter and corresponding period of 2005, respectively. The capital and financial account, however, recorded a deficit of ₦604.6 billion, compared with a deficit of ₦1,050.7 billion and ₦520.3 billion in the preceding quarter and corresponding period of 2005, respectively (fig. 10).

The gross external reserves rose by US\$3.76 billion or 10.3 per cent to US\$40.24 billion in September 2006, compared with US\$36.48 billion and

corresponding period of 2005, respectively. The development was attributable to the high import bills as well as the decline in oil receipts during the period.

The current transfers account (net) rose significantly by 166.6 per cent to ₦262.4 billion in the third quarter of 2006. Furthermore, the inflow through the Federal Government recorded a deficit of ₦0.6 billion, while “other sectors” recorded higher level of inflows, reflecting the seasonal trend in inward personal home

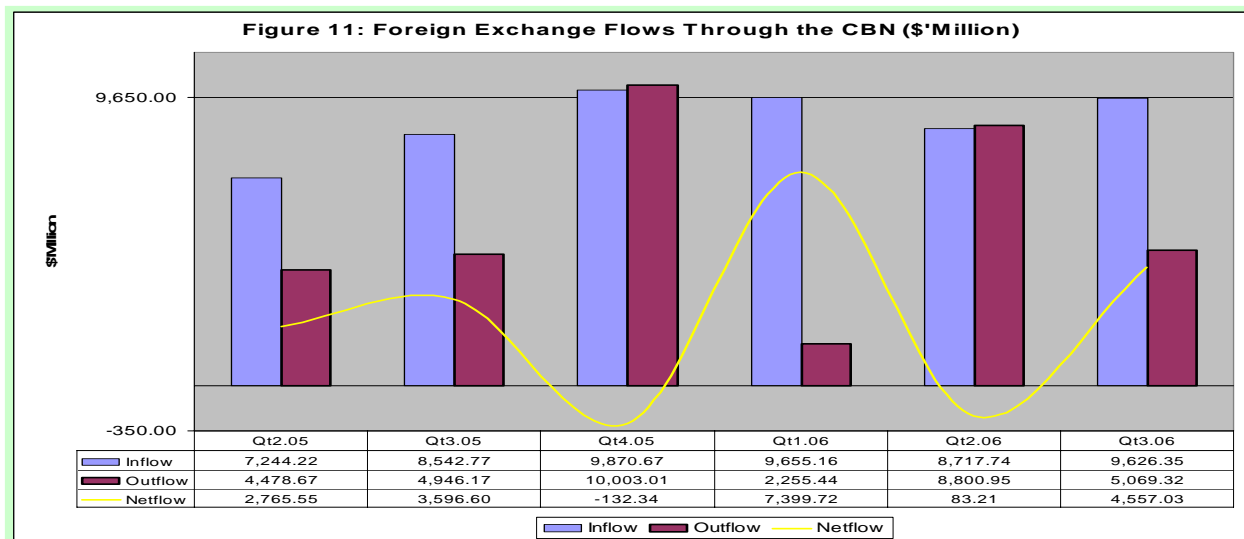
remittances by Nigerians abroad during the review quarter.

5.1.2 The Capital and Financial Account

The capital and financial account recorded a deficit of ₦604.6 billion, compared with a deficit of ₦1,050.7 billion and ₦520.3 billion recorded in the preceding quarter and corresponding period of 2005,

billion in the preceding quarter and corresponding quarter of 2005, respectively, inflow rose by 10.32 percent, while outflow fell by 41.7 per cent. The rise in inflow was attributable to the increase in oil earnings as average price of Bonny Light rose from \$70.41 per barrel in the preceding quarter to \$71.03 a barrel during the period under review.

Provisional data on aggregate foreign exchange flows through the



respectively. At ₦71.1 billion, foreign direct investment flow to the economy declined by 16.4 and 24.8 per cent from ₦85.0 and ₦94.6 billion recorded in the preceding quarter and corresponding period of 2005, respectively. Similarly, the private component of other investment recorded a deficit of ₦728.9 billion, compared with ₦1,245.5 billion and a surplus of ₦179.3 billion in the preceding quarter and the corresponding period of 2005, respectively.

5.2 Foreign Exchange Flows

Foreign exchange inflow and outflow through the CBN in the third quarter of 2006 amounted to US\$9.63 billion and US\$5.07 billion, respectively, representing a net inflow of US\$4.56 billion. Compared with the levels of US\$8.72 billion and US\$8.80

economy indicated that total inflow rose by 17.2 per cent to US\$16.6 billion, compared with a decline of 5.2 per cent and an increase of 38.2 per cent in the preceding quarter and corresponding period of 2005, respectively. Oil sector receipts, which accounted for 53.0 per cent of the total, stood at US\$8.82 billion, compared with US\$7.97 billion or 56.1 per cent and US\$7.85 billion or 65.1 per cent in the preceding quarter and corresponding quarter of 2005, respectively. Similarly, non-oil public sector and autonomous inflows rose by 7.3 and 27.9 per cent, and accounted for US\$0.80 billion or 4.8 per cent and US\$7.02 or 42.2 per cent of the total, respectively.

At US\$5.19 billion, aggregate foreign exchange outflow from the economy fell by 41.7 per cent from the level in the preceding quarter. The fall was attributable largely to

the decline in external debt payments and other official payments, which fell from US\$4.73 billion and US\$1.11 billion in the preceding quarter to US\$0.21 billion and US\$0.94 billion, respectively.

Consequently, a total inflow of US\$16.6 billion was recorded during the review quarter, representing net inflow of US\$11.46 billion compared with the net inflow of US\$5.31 billion and US\$6.94 billion in the preceding quarter and the corresponding period of 2005, respectively.

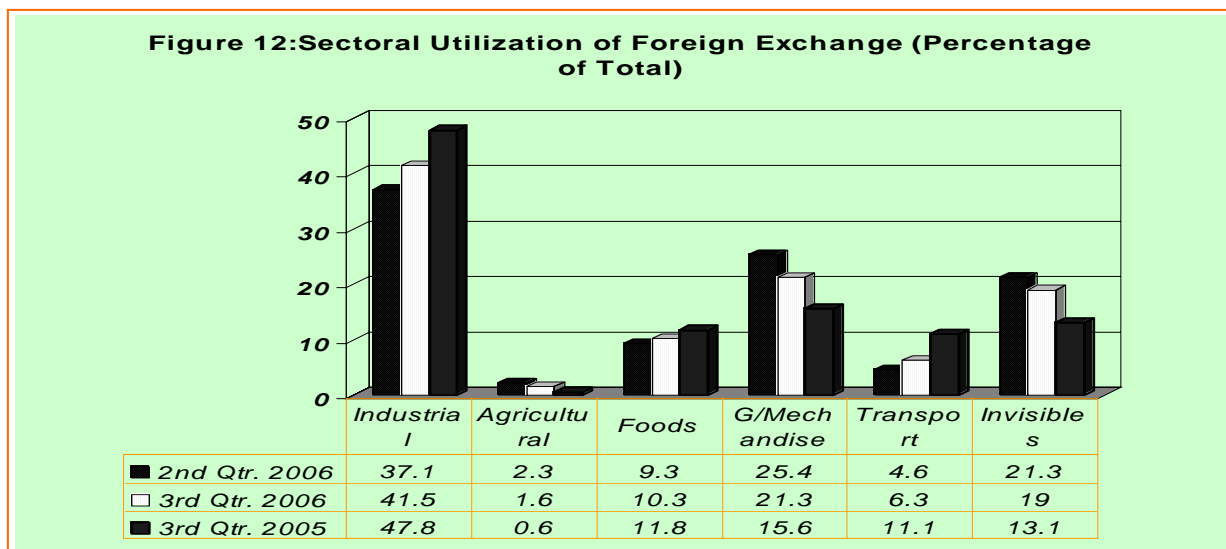
5.3 Non-Oil Export Proceeds by top 100 Exporters

Non-oil export earnings by Nigeria's top 100 exporters in the third quarter of

sub-sectors in total non-oil export proceeds were 44.7, 52.0 and 3.0 per cent, respectively, compared with 41.8, 49.4 and 8.3 per cent, in the preceding quarter. The rise in the shares of agricultural and manufacturing sub-sectors was attributable largely to the increase in the prices of the goods traded at the international market. The top 100 exporters accounted for 99.7 per cent of all the non-oil export proceeds in the third quarter of 2006.

5.4 Sectoral Utilisation of Foreign Exchange

The industrial sector accounted for the bulk (41.5 per cent) of total foreign exchange disbursed in the third quarter of



2006 amounted to US\$210.35 million, indicating an increase of 5.1 per cent over the preceding quarter's level.

A breakdown of the proceeds in the review quarter showed that proceeds in respect of the agricultural and manufacturing sub-sectors rose from US\$84.10 million and US\$99.34 million in the preceding quarter to US\$94.37 million and US\$109.62 million, respectively, while that of "others" sub-sector declined by 62.1 per cent to US\$6.36 million. The shares of agricultural, manufacturing and "others"

2006, followed by invisibles (19.0 per cent). Other beneficiary sectors, in a descending order of importance included: general merchandise (21.3 per cent), food (10.3 per cent), transport (6.4 per cent) and agricultural products (1.5 per cent) (Fig.12).

5.5 Foreign Exchange Market Developments

Foreign exchange sales to end-users by the CBN through the authorized dealers

stood at US\$3.74 billion, indicating an increase of 27.9 and 2.4 per cent over the levels in the preceding quarter and corresponding period of 2005, respectively. Under the WDAS, the weighted average exchange rate of the Naira vis-à-vis the US dollar appreciated marginally by 0.1 per cent to ₦127.06 per dollar from ₦127.18 per dollar in the preceding quarter. In the bureaux de change segment of the market, the average rate, also, appreciated from ₦142.34 per dollar in the second quarter of 2006 to ₦130.26 per dollar. Consequently, the premium between the official and bureaux de change rates narrowed from 11.91 per cent in June 2006 to 2.52 per cent.

6.0 OTHER INTERNATIONAL ECONOMIC DEVELOPMENTS

World crude oil output in the third quarter of 2006 was estimated at 84.85 million barrels per day (mbd), while demand was estimated at 84.03 mbd, compared with 83.26 mbd demanded in the preceding quarter. The increase in demand was attributable largely to the improved economic activities in the United States of America (USA) and China, particularly due to the latter's move to develop its rural areas. The onset of summer for automobiles also triggered increased demand for gasoline during the quarter under review.

Other major international economic developments of relevance to the domestic economy included: the 30th Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB) held on August 18, 2006 in Windhoek, Namibia. The meeting was preceded by a symposium on 'Domestic Capital Markets and Mobilization of Resources for Growth and Poverty Reduction'. The symposium brought to fore the need for African countries to develop

viable bond and equity markets to harness potentially cheap, medium and long-term financial resources. (See August, 2006 edition of the Report).

In another development, a meeting of the African Ministers of Finance and Economic Development under the aegis of the African Governors Caucus was held from August 1 – 3, 2006 in Maputo, Mozambique. The meeting was to articulate an African position following the ongoing reforms in the Bretton Woods Institutions, ahead of the International Monetary Fund (IMF) and World Bank Annual Meetings scheduled to take place in Singapore in September, 2006. (See August, 2006 edition of the Report).

Finally, the 2006 Annual Meetings of the G-24 and the Boards of Governors of the IMF and the World Bank Group was held in Singapore from September 14- 20, 2006. The following were some of the highlights of the meetings:

- The Board of Governors of the IMF adopted a Resolution on Quota and Voice Reform in the IMF. These reforms aim to better align the IMF's quota shares with members' relative positions in the world economy and to make it more responsive to changes to the global economy, while enhancing the participation and voice of low-income countries in the IMF. The two-year reform program includes, as a first step, ad-hoc quota increases for a group of the most clearly underrepresented countries, China, Korea, Mexico and Turkey.
- The Resolution further stated that the Annual Meetings of the IMF Executive Board in 2007 would

reach agreement on a new quota formula to guide the assessment of the adequacy of members' quotas in the IMF. Such a formula should provide a simpler and more transparent means of capturing members' relative positions in the world economy. The new quota formula will provide the basis for a further rebalancing of quotas to be recommended to the Board of Governors by the Annual Meetings in 2007 and no later than the Annual Meetings in 2008.

- The Executive Board was also requested to propose an amendment of the IMF's Articles of Agreement to provide for at least a doubling of the basic votes that each member possesses, so as to protect the voting power of low-income countries as a group; and it is envisaged that the amendment should also safeguard the proportion of basic votes in total voting power.
- Ministers of the G-24 welcomed the ongoing and broad-based global growth performance in 2006, but stressed the need for early and meaningful efforts to address global imbalances.
- The Ministers expressed disappointment about the suspension of the Doha Round of multilateral trade negotiations, stressing that the current trading system is heavily biased against developing countries owing to the wide array of harmful subsidies, tariff escalation schemes, and non-tariff restrictions maintained by industrialized countries.