

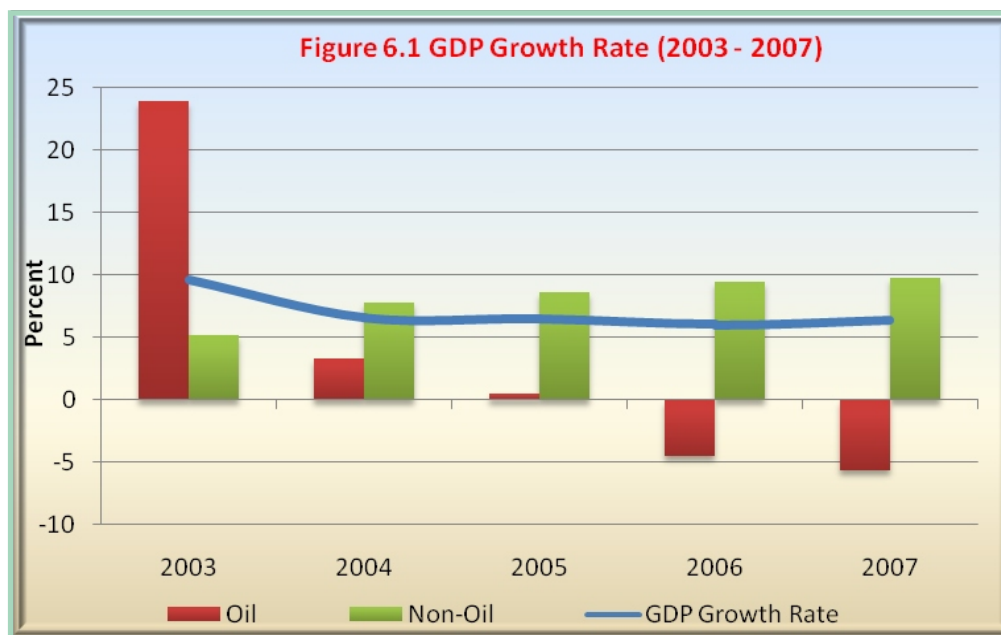
CHAPTER 6

THE REAL SECTOR

The growth in domestic output remained modest in 2007. The real Gross Domestic Product (GDP), measured in 1990 basic prices, grew by 6.2 per cent, compared with 6.0 per cent in 2006. However, output growth fell below the projected average of 7.0 per cent for the period 2003 to 2007. Growth in 2007 was broad based but driven mainly by the non-oil sector. Agriculture grew by 7.4 per cent led by crop production and fishing. Wholesale and retail trade rose by 15.3 per cent and the services subsector by 9.8 per cent. Industrial output fell by 3.5 per cent due to the poor performance of the oil sector. Mining and quarrying as well as manufacturing however grew even as electricity consumption declined. The moderation in inflationary pressure that began in 2005 was sustained in 2007, attributable largely to good agricultural harvest and a non-accommodating monetary policy. Thus, the single digit inflation target has been sustained two years in a row. Further expansion in output was, however, constrained by poor infrastructure, a mild drought and flooding experienced in some food producing areas.

6.1 DOMESTIC OUTPUT

Provisional data indicated that, the Gross Domestic Product (GDP), measured at 1990 constant basic prices amounted to N634.1 billion in 2007. This represented a growth rate of 6.2 per cent, compared with 6.0 per cent in 2006 and an average annual growth rate of 7.0 per cent estimated for the five year period, 2003 to 2007. At almost 3.0 percentage points, agriculture contributed almost half of the GDP growth rate of 6.2 per cent, followed by wholesale and retail trade with 2.3 percentage points, services 1.5 percentage points and building and construction 0.2 percentage points. Industry as a group made a negative contribution of 0.8 percentage point. The growth in 2007 was attributed largely to sound monetary and fiscal policies as well as favourable credit conditions, which supported the financing of the private sector; the relative stability in the goods and foreign exchange markets; as well as in the prices and supply of petroleum products. The 6.2 per cent growth in GDP was however, lower than the target growth rate of 10.0 per cent.



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

Activity Sector	2003	2004	2005	2006 1/	2007 2/
1. Agriculture	6.64	6.50	7.06	7.40	7.42
Crop Production	7.00	6.50	7.13	7.49	7.51
Livestock	4.19	6.50	6.76	6.90	6.91
Forestry	1.50	6.50	5.92	6.02	6.02
Fishing	4.06	6.50	6.02	6.55	6.58
2. Industry	21.26	4.15	1.71	-2.51	-3.48
Crude Petroleum	23.90	3.30	0.50	-4.51	-5.92
Mining & Quarrying	5.44	10.85	9.53	10.28	10.32
Manufacturing	5.66	10.00	9.61	9.39	9.16
3. Building & Construction	8.75	10.00	12.10	12.99	13.02
4. Wholesale & Retail Trade	5.76	9.70	13.51	15.26	15.28
5. Services	0.41	8.83	7.96	9.18	9.77
Transport	1.20	5.90	6.35	6.92	6.93
Communications	35.87	27.77	28.38	32.45	32.4
Utilities	3.57	10.85	6.64	4.87	4.48
Hotel & Restaurant	4.64	10.85	10.45	12.91	12.98
Finance & Insurance	-9.56	2.73	2.85	4.98	5.01
Real Estate & Business Services	3.11	10.85	10.62	11.29	11.33
Producers of Govt. Services	1.24	10.85	5.38	5.85	5.9
Comm., Social & Pers. Services	1.30	10.85	10.50	10.61	10.66
TOTAL (GDP)	9.57	6.58	6.51	6.03	6.22
NONOIL (GDP)	5.17	7.76	8.59	9.41	9.61

1/ Revised

2/ Provisional

Source: National Bureau of Statistics (NBS)

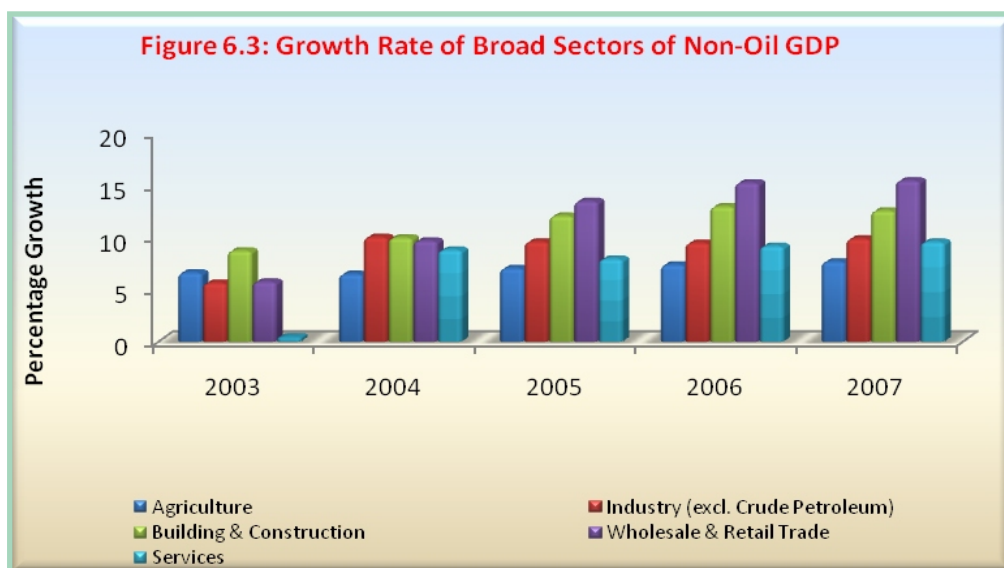
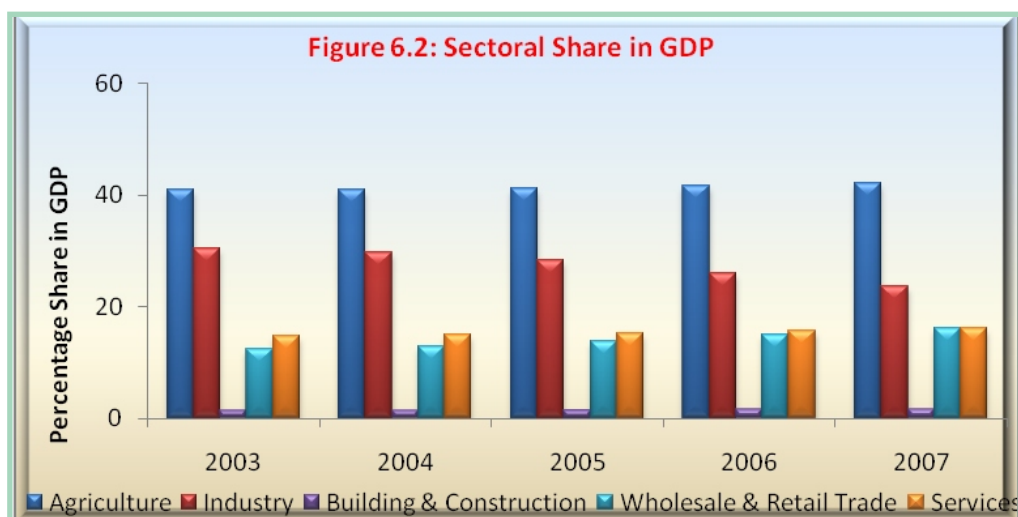
**Table 6.1(a): Sectoral Contribution to Growth Rates of GDP
at 1990 Constant Basic Prices**

(Percentage Points)					
Activity Sector	2003	2004	2005	2006	2007 1/
1. Agriculture	2.58	2.65	2.85	2.93	2.65
Crop Production	2.42	2.36	2.56	2.64	2.67
2. Industry	6.12	1.22	0.47	-0.62	-0.78
Crude Petroleum	6.02	0.84	0.12	-0.93	-1.08
3. Building & Construction	0.12	0.14	0.18	0.20	0.21
4. Wholesale & Retail Trade	0.69	1.24	1.82	2.16	2.34
5. Services	0.06	1.32	1.19	1.36	1.49
Communications	0.36	0.35	0.43	0.59	0.74
TOTAL (GDP)	9.57	6.58	6.51	6.03	6.22
NONOIL (GDP)	3.44	5.36	6.04	6.65	6.99

1/ Provisional

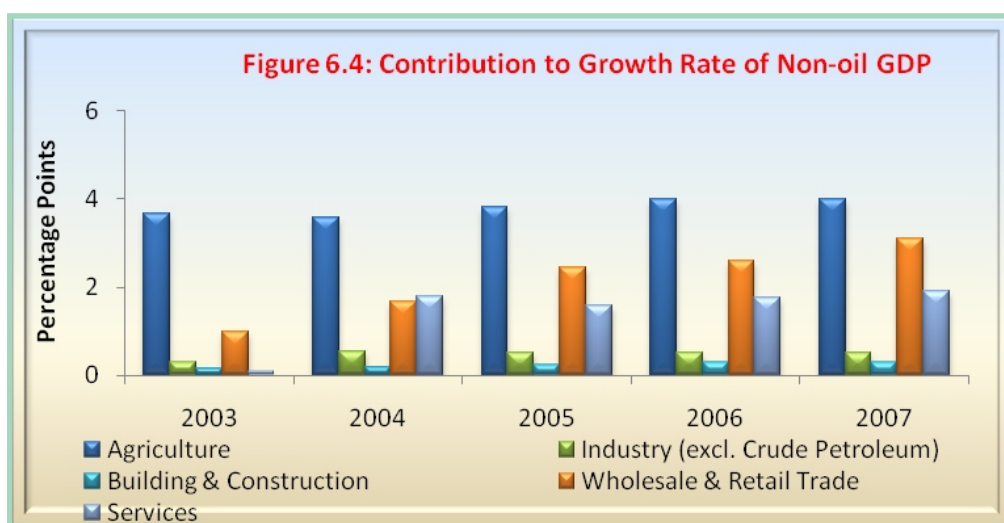
Source: National Bureau of Statistics (NBS)

Non-oil GDP achieved a growth rate of 9.6 per cent, compared with 9.4 per cent in 2006. The improved performance was driven largely by the agricultural sector, which grew by 7.4 per cent, underpinned by the robust growth in all its components. Other drivers of growth in non-oil GDP included wholesale and retail trade, building and construction, and services, which recorded growth rates of 15.3, 13.0 and 9.8 per cent, respectively. In the services subsector, communications recorded the highest growth rate of 32.9 per cent, buoyed by the sustained liberalisation of telecommunications services. Indeed, all the components of the services subsector recorded impressive growth rates. In contrast, industrial output fell by 3.5 per cent, attributable mainly to the 5.9 per cent drop in crude oil production, even though the output of the mining and quarrying and manufacturing subsectors grew by 10.5 and 9.9 per cent, respectively.

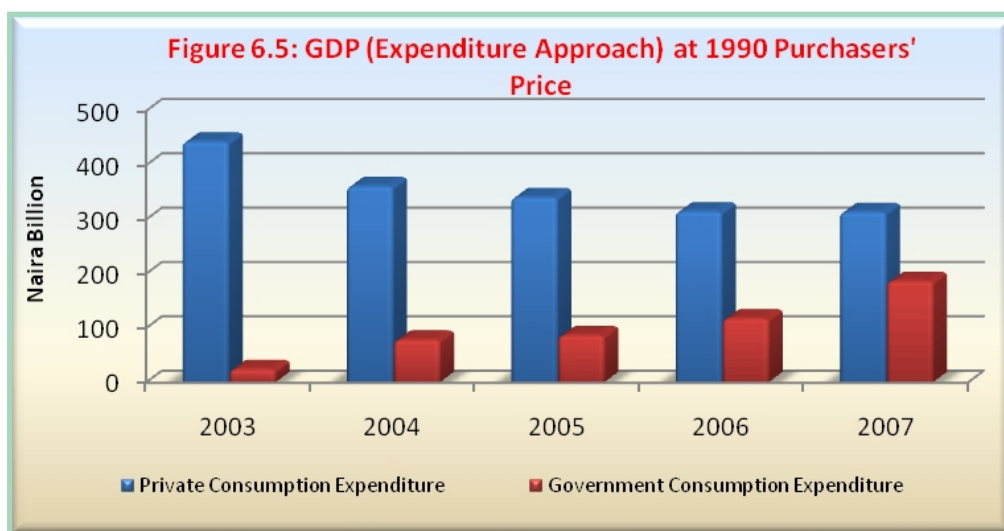


A sectoral analysis of the real GDP performance indicated that the agricultural subsector contributed the largest share of 42.2 per cent, compared with 41.7 per cent in 2006. This was followed by industry whose share fell from 26.0 per cent in 2006 to 23.7 per cent. The share of crude oil in the GDP also declined from 21.9 per cent in 2006 to 19.4 per cent in 2007. The contribution of mining and quarrying and manufacturing

components of industry remained insignificant. Services as a group contributed 16.1 per cent to the GDP of which finance and insurance, utilities and transport accounted for 3.8, 3.5 and 2.7 per cent, respectively.



Provisional data showed that real domestic demand at 1990 purchasers' price (GDP by expenditure approach) grew by 19.9 per cent and stood at N722.2 billion in 2007, compared with N602.4 billion (or growth rate of 7.5 per cent) in 2006. Private consumption and government final consumption expenditures were N313.6 billion and N186.6 billion, respectively, in 2007, compared with N314.8 billion and N117.7 billion, respectively, in the preceding year, indicating a downward movement in real private consumption expenditure (0.4 per cent) and a significant increase in real government consumption expenditure (58.5 per cent) in 2007. Real investment (gross fixed capital formation) also rose substantially (42.3 per cent), while net exports in real terms grew by 4.4 per cent during the period. The significant growth of government consumption was attributed largely to the increased pre-2007 general election spending, while the slowdown in private consumption may have resulted from a reduction in the real average take-home earnings of employees in the economy as a whole. As a share of aggregate demand, private consumption constituted 46.9 per cent.



6.2 AGRICULTURE

6.2.1 Agricultural Policy and Institutional Support

In 2007, agricultural production benefitted immensely from the various initiatives, including the following:

- The Presidential Initiative on Rice Production and Export, through the introduction of high yielding NERICA rice variety and R-box technology both of which increased the productivity of rice per hectare in 2007. Government released N1.0 billion for the multiplication of NERICA and other improved rice varieties, while the National Seed Service distributed about 560 tonnes of certified rice seeds at 50.0 per cent price subsidy to the states through the seed companies and other private producers;
- About 5,000 tonnes of improved maize seeds and 95,000 litres of agro-chemicals were distributed to farmers. The Presidential Initiative on Cassava Production and Export promoted private sector investment in the cassava downstream sector, especially in Ogun, Imo, Edo, Niger and Benue states;
- The Federal Government through the National Cocoa Development Programme provided seedlings, assorted herbicides, fungicides, insecticides and other inputs for distribution to farmers at 50.0 per cent price subsidy;
- The Committee on Cotton Production in Nigeria evolved clean a cotton programme, through the systematic distribution of certified seeds to farmers, as well as the re-introduction of cotton grading and the direct payment of premium to cotton growers and ginners. The stakeholders made a joint take-off contribution of N400 million to implement the programme. Also, the sum of N70.0 billion was facilitated as Textile Rehabilitation Fund to support the cotton, textile and garment industries. The Federal Government also initiated a public-private partnership for cotton production in 24 cotton producing states of the country, to increase cotton production from 300,000 to 1 million tonnes in 2007;
- The Federal Government approved a two-year Implementation Action Plan covering 2007 and 2008, as well as the provision of N423.1 million to kick start the Presidential Initiative on Rubber. To complement the previous efforts of the Presidential Initiative on Tropical Fruits, the Federal Government approved the sum of N250.0 million as its contribution for 2007 to 2008, to achieve the targets set for the production of various tropical fruits;
- The Federal Government distributed N550 million Millennium Development Goals (MDGs) loans, as a component of the Animal Traction and Hand Tools Technology Loan Scheme to farmers. Similarly, the period of access to the N50.0 billion Agricultural Loan Scheme was extended to the end of the year. In a related development, the bill for the establishment of the National Agricultural Development Fund was passed by the National Assembly. It was expected to enhance the funding of agriculture;
- About 318,860.34 tonnes of assorted fertilizer were distributed at 25.0 per cent price subsidy to farmers for the 2007 cropping season. In addition, 2,000 tonnes of different brands of organic fertilizer was delivered to the State Agricultural Development Programme (ADPs);
- The sum of N2.5 billion was released for the production/procurement of grains in the country by the Federal Government. As a result, the Federal Government met its 2005/2006 strategic food reserve

target of 51,000 tonnes of grains in May 2007, with about 1,220 tonnes of processed cassava in store;

- In order to control trans-boundary pests, the Federal Government embarked on the rehabilitation of the Agro-Aviation unit in Kaduna, through the purchase of an Agro-Aviation aircraft, and the distribution of agro-chemicals to states. About 150 flight hours were contracted out, while 15,000 litres of avicide were dispensed over the eight (8) frontline states affected by quela birds; and
- In collaboration with development partners, the poultry industry and local communities, the Federal Government drafted an integrated national avian and pandemic influenza response plan aimed at coordinating the efforts of stakeholders towards addressing the threat of avian flu.

Box 4: The National Programme for Food Security (NPFS)

Food security exists when all people, at all times, have access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life. The National Programme for Food Security is an initiative of the Federal Government of Nigeria and the Food and Agriculture Organisation (FAO) for poverty reduction in line with the thrust of the National Economic Empowerment and Development Strategy (NEEDS). It focuses attention on the application of innovative low cost technologies towards improving the productivity and sustainability of agricultural systems, with the ultimate objective of contributing to better the livelihood of farmers, through a bottom-up development approach.

In May 2000, the FAO signed an agreement with the Nigerian Government for a Unilateral Trust Fund project worth US\$45.2 million in support of the National Programme for Food Security (NPFS) in Nigeria. The Federal Government of Nigeria implemented the NPFS with own its human and financial resources, while the FAO provided technical support on demand to the Government.

The broad objective of the NPFS was to attain food security in the broadest sense and alleviate rural poverty in Nigeria. Also, the programme was designed to achieve the following specific objectives:

- Assist farmers in achieving their potential for increasing output and productivity and consequently their incomes on a sustainable basis;
- Strengthen the effectiveness of research and extension services in bringing technology and new farming practices developed by research institutes to farmers and ensuring greater relevance of research to the practical problems faced by small farmers;
- Concentrate initial efforts in pilot areas for maximum effect and ease of replicability;
- Improve upon experience gathered internationally for a broader outlook and approach;
- Complement and refine the ongoing efforts of government in the promotion of simple technologies for self-sufficiency and surplus production in small scale rain-fed and irrigation farming;
- Train and educate farmers in the effective utilisation of available land, water and other resources, to produce food and create employment on a sustainable basis; and
- Utilise international experience for farming practice to maximise the use of existing facilities and knowledge.

The programme involved technical assistance in such areas as root and tuber, cash and arable crops, animal traction, poultry, soil testing, grains cultivation, vegetable production, animal fattening and provision of grinding machines. It supported various components of agriculture, ranging from irrigation farming to the construction of micro earth dams and sinking of tube wells and irrigation systems.

The Project Coordination Unit in the Federal Ministry of Agriculture and Rural Development was established and charged with the task of launching field activities of the programme in all 36 Nigerian states, initially involving a total of 109 sites and 30, 000 farm families. In March 2003, China, Nigeria and the FAO signed a US\$22.7 million, four-year South-South Cooperation agreement, with funding provided entirely by the Government of Nigeria. The Government of China provided some 20 experts and more than 500 field technicians with expertise in various fields of agriculture to assist in the building and rehabilitation of small scale water control infrastructures, including the construction of dams. By January 2005, 380 Chinese experts and technicians were already working in Nigeria.

In the first phase of the project covering 2001 to 2006, a total of 109 sites were developed on the basis of one site per senatorial district, with one site each located around the state capital for the development of urban and peri-urban agriculture. The sites were selected based on some criteria including: accessibility, water availability and relative poverty, existence of abandoned or non-performing projects that can easily be rehabilitated/re-organised to produce good results.

The NPFS played a central role in achieving Government's agricultural policy goals of boosting agricultural production for certain priority crops and commodities such as rice, cassava, yam, sorghum, millet and vegetables. In 2004, the FAO adjudged the NPFS model the best in the world and it was recommended to other countries. Its successful results - substantially improved food security and productivity especially in marginal areas- prompted the government to triple the number of project sites to 327, under the second phase which spans 2007 to 2011. In total, the expanded programme is expected to reach six million farmer beneficiaries.

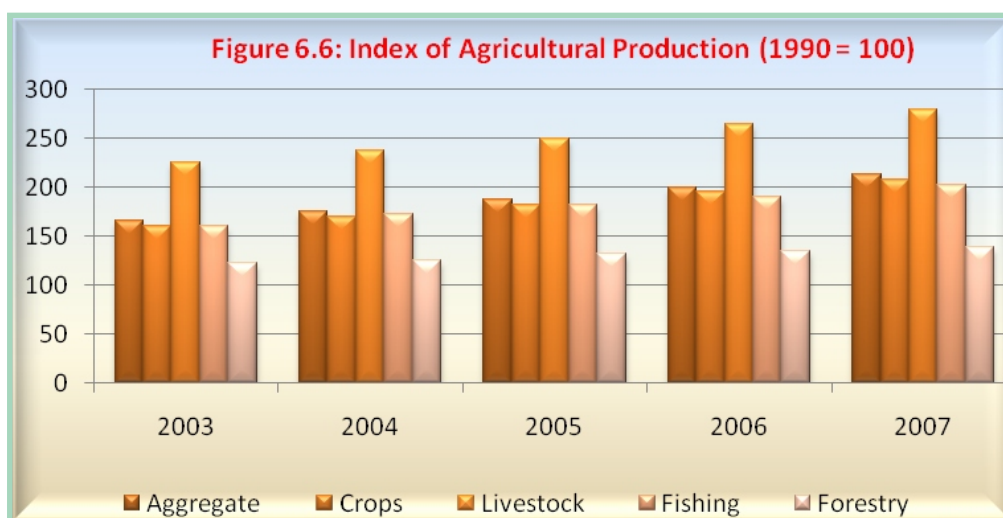
The budget for the expansion of the NPFS to cover the five-year period amounts to US\$ 355.0 million. Funding is obtained from a variety of sources, with the Government of Nigeria bearing a large portion of the cost, supplemented by the World Bank, the African Development Bank (ADB), and the International Fund for Agricultural Development (IFAD), the European Union (EU) and the Arab Bank for Economic Development in Africa.

At the farmer level, the simple low-cost technologies in use during the Phase 1 had contributed to significant increases in crop production and yields in many sites. In addition, diversification into small short-cycle livestock and small scale fisheries had increased revenues for women and improved the quality of household food consumption.

6.2.2 Agricultural Production

At 212.8 (1990=100), the provisional aggregate index of agricultural production increased by 6.4 per cent, compared with 7.1 per cent recorded in 2006. The growth exceeded the target of 6.0 per cent set for the agricultural sector in the NEEDS programme. The increase in agricultural production was propelled largely by the implementation of the various agricultural policies and programmes, including the prompt response to the outbreak of pest infestations, implementation of zero tariffs on imported agrochemicals and

the continued enforcement of the temporary ban on the importation of some agricultural products, notably poultry products and rice.



6.2.2.1 Crop Production

The output of staples grew by 6.7 per cent, compared with 8.0 per cent in 2006. All the major staple crops recorded increased output over the levels in the preceding year. Similarly, the output of cash crops increased by 6.0 per cent, compared with the level in the preceding year.

Table 6.2: Growth in Major Crops Production (Per cent)

Crop	2006	2007	Crop	2006	2007
Wheat	6.0	6.6	Plantain	5.5	6.6
Sorghum	6.1	5.9	Potatoes	5.5	7.3
Rice	6.9	7.7	Yam	6.4	5.4
Maize	6.9	7.1	Beans	7.4	7.0
Millet	6.9	6.3	Cassava	10.8	7.4
Soya Beans	5.6	5.7	Palm Oil	6.5	11.4
Rubber	5.9	6.8	Cocoa	5.7	5.5

The improved performance of the crop subsector was attributed largely to the Federal Government's support for the agricultural sector in general, especially through the various Presidential Initiatives. For instance, rice output grew by 7.7 per cent, a development attributed mainly to the increase in the acreage under cultivation and the intensity of cultivation through the introduction of high yielding NERICA rice variety, as well as the Rice Box technology.

Cassava production grew by 7.4 per cent, in response to the drive to increase cassava export and the domestic consumption especially with the Federal Government's directive to flour millers in the country to include at least 10.0 per cent of cassava flour as input in the production of composite bread and other confectionaries. These achievements were facilitated by the increased use of improved cassava cuttings and processing facilities across the country.

6.2.2.2 Livestock

Livestock production rose by 5.5 per cent in 2007, compared with 6.0 per cent in the preceding year. Despite the outbreak of the avian flu pandemic in some states, the poultry subsector witnessed increased growth. This was attributed to the strict compliance with safety practices such as slaughtering of infected flocks, safe disposal of the carcasses, decontamination of the farms, improvement of bio-security, controlled movement of birds and strengthening of surveillance and disease reporting. Prompt and adequate payment of compensation to affected farmers facilitated the implementation of these measures. Thus, egg production increased by 4.6 per cent to 632,000 tonnes in 2007 driven by the utilisation of the resistant Shika Brown Chicken, developed by the National Animal Production Research Institute (NAPRI).

Total milk production increased by 5.7 per cent to 1.4 million tonnes in 2007. Government initiated several programmes to increase domestic milk production and intensified the campaign on fresh milk consumption. The pilot Diary Development Programme continued in Kaduna with the formation of the Milk Producers' Associations. Other contributory factors were the encouragement of milk consumption through the primary school feeding and health programmes, introduced in many schools across the country.

6.2.2.3 Fishing

Fish output increased by 5.8 per cent to 635,200 tonnes in 2007. The production of fish through Aquaculture also increased from 68,300 tonnes to 76,300 tonnes, representing a growth rate of 11.7 per cent. However, the annual production level was much lower than the national demand of 1.5 million tonnes.

6.2.2.4 Forestry

Forestry production increased modestly by 2.7 per cent to 145.6 million cubic metres above its level in 2006. The rise was attributed to increased demand for wood products. In order to sustain wood production, the Forestry Research Institute of Nigeria (FRIN) intensified the supply of improved breeder seedlings to replace the harvested tree stocks.

In spite of the remarkable performance of the agricultural sector in 2007, some problems constrained higher production. These included inadequate and late supply of fertilizers and other farming inputs, high cost of production, as well as the invasion of farms by quela birds in most Northern states, coupled with a mild draught and flooding experienced in some parts of the country.

6.2.3 Agricultural Prices

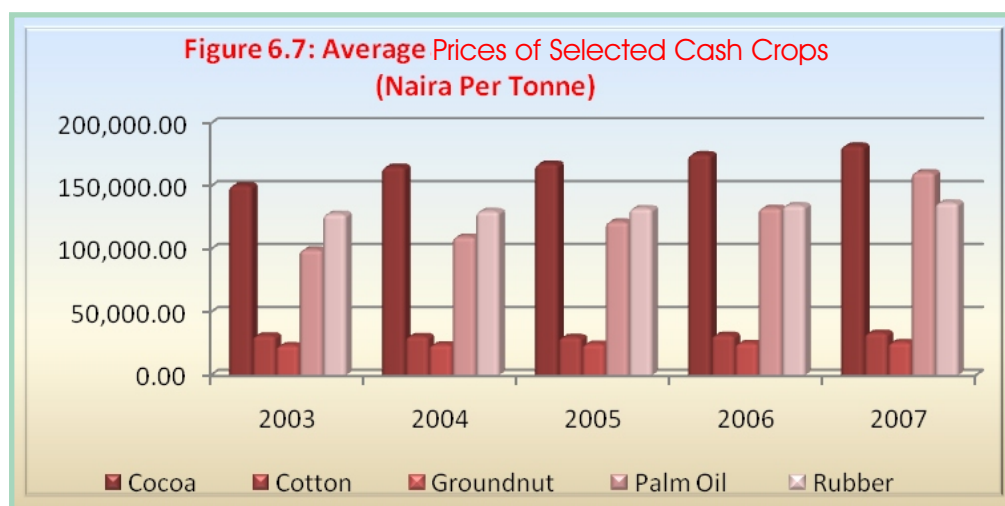
The prices of most of Nigeria's agricultural export commodities were higher in 2007 than in the previous year. The overall index computed in US dollar terms stood at 413.6 (1990=100), representing an increase of 100.8 per cent over the level in 2006. Coffee price recorded the highest increase of 237.0 per cent due to the strong growth in world consumption which more than offset the increase in production and the flow of exports during the coffee year. The total world production in the crop year 2006/07 was 125.0 million bags, while consumption was about 120.4 million bags¹. Cocoa price increased by 27.3 per cent over the 2006 level, due largely to the relatively strong demand, increased interest of investment funds in the cocoa market, and currency fluctuations². These factors were expected to prevail in the first half of 2008. Cotton and Soya bean also recorded price increases of 120.9 and 107.5 per cent, respectively. However, the prices of copra and palm oil declined by 14.9 and 49.7 per cent, respectively. In naira terms, the all-commodities price index rose by 126.6 per cent to 5,713.1 (1990=100) in 2007. Coffee, soya bean, cotton

¹International Coffee Organisation (ICO)

²International Cocoa Organisation (ICCO)

and cocoa recorded price increases of 148.2, 146.3, 121.4 and 37.6 per cent, respectively, while palm oil and copra prices declined by 55.0 and 6.9 per cent, respectively.

Available information showed that the domestic producer prices of Nigeria's major agricultural commodities increased in 2007. Of the thirteen commodities monitored, twelve recorded price increases, ranging from 1.2 per cent for cashew nut to 109.7 per cent for ginger (peeled), while the price of wheat fell by 24.7 per cent. The increase in prices was attributed to the high cost of farm inputs and increased demand for produce from agro-processors, industrial users and neighbouring countries.



6.3 INDUSTRY

6.3.1 Industrial Policy and Institutional Support

As part of efforts towards the implementation of Nigeria's Industrial Policy 2003, which focused on the competitiveness of the industrial sector, finance, technological advancement, incentives to industries, research and development, among others, the National Integrated Industrial Development (NIID) blueprint was adopted by the Federal Government in 2007. The NIID is a country service framework developed by the United Nations Industrial Development Organisation (UNIDO) in collaboration with the Federal Ministry of Industry and other stakeholders. The framework comprised four integrated programmes viz:

- Industrial governance and publicprivate sector partnership;
- Strengthening industry's institutional support base: a cluster development initiative to grow the Small and Medium Enterprises (SMEs) using common facilities;
- Environment and Energy: the challenge of low power generation and utilisation to be addressed through rural renewable energy; and
- Rural private sector agro-industrial development.

The Lagos, Kano, Aba and Port-Harcourt (LOKAP) Industrial Action Plan was also developed in recognition of the infrastructural decay and the absence of focus in addressing the needs of these four industrial cities.

The Federal Government adopted the recommendation of the Presidential Committee on the Revival of the

Textile Industry in Nigeria with the approval of a N50.0 billion loan to the textile subsector. Efforts to boost the development of SMEs through the construction of one industrial park in each of the six geo-political zones of the country by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) continued. The parks would provide serviced industrial plots with regular power supply, potable water and sewage systems, among others.

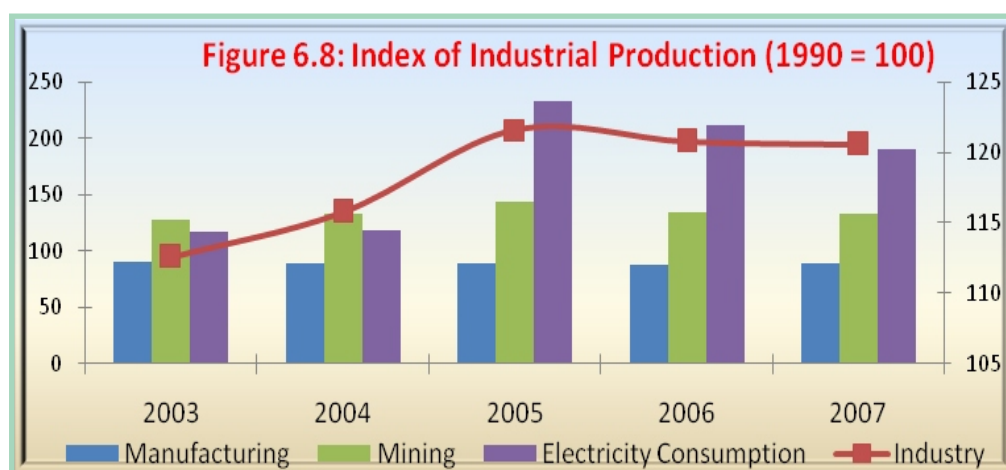
In line with the Federal Government objective of increasing the level of electricity generation in the country through greater private sector participation, the Nigerian Electricity Regulatory Commission (NERC) issued 14 new licences in 2007 to private sector operators for the establishment of independent power plants of varying capacities with expected total output of 6,010.0 MW. All the licensed power generating plants were gas-based. This brought the total number of licences issued by the Commission to 23, with expected total output of 9,152.0 MW. Also, the Commission granted two new licences to electricity distribution companies.

Further, the NERC opted for the Multi-Year Tariff Order (MYTO) rather than single year order as a means of addressing the problem of electricity pricing in Nigeria. The underlying pricing principles guiding the choice of the MYTO model included the following:

- Cost recovery and financial viability as regulated entities would be permitted to recover their costs of operation plus a reasonable return on capital;
- Certainty and stability of the pricing framework;
- Simplicity and cost effectiveness of managing the tariff structure;
- Incentives for improving performance (quality of service); and
- Non-discriminatory access to monopoly networks.

6.3.2 Industrial Production

The index of industrial production, estimated at 120.6 (1990 = 100), fell marginally by 0.2 per cent below the level in 2006. This development was attributable largely to the 6.8 and 3.7 per cent decline in mining output and electricity consumption, respectively. Manufacturing production, however, increased marginally.

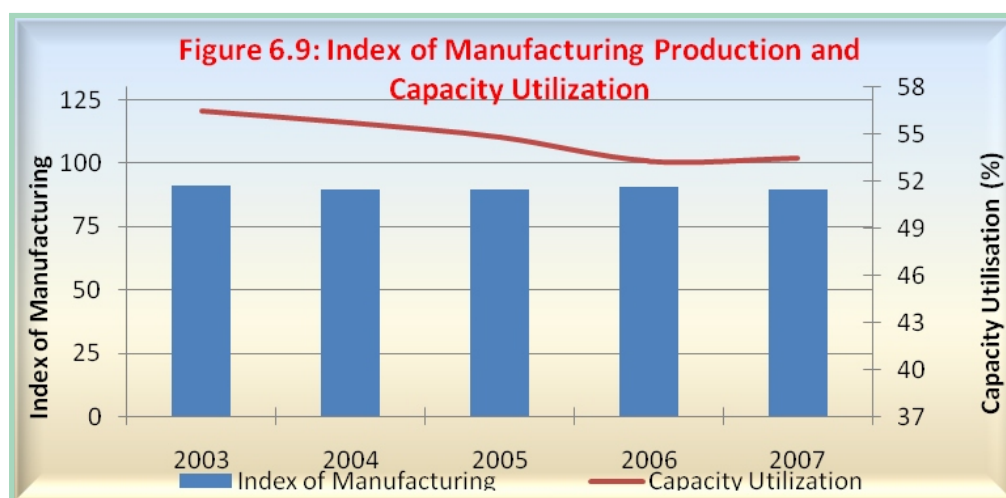


6.3.2.1 Manufacturing

The index of manufacturing production estimated at 89.7 (1990 = 100), increased by 0.2 per cent above the level in 2006. Correspondingly, the average capacity utilisation rate of the manufacturing subsector increased from 53.3 per cent in 2006 to 53.5 per cent in 2007. The marginal improvement was attributed largely to the improved performance of the cement subsector, following the coming on stream of the Obajana Cement Plant during the year and the refurbishment of other cement plants across the country. Other subsectors that recorded improved output were metal products, basic metal products, wood products, pharmaceuticals, rubber/plastic products, among others.

The improvement in the performance of these subgroups was attributed, among others, to the increased demand for building materials as a result of the upsurge in the activities of the mortgage sector and the surveillance activities of the regulatory agencies, such as the National Agency for Food, Drug Administration and Control (NAFDAC) and the Standard Organisation of Nigeria (SON), which limited the influx of sub-standard imports. Also, the basic metal group benefited from the reduction in the duty on steel wire from 60 per cent to 5 per cent. However, the food & beverages and the textiles subsectors recorded poor performance. This was attributed largely to the influx of substandard and cheaper imports into the country. The textiles subsector also suffered from high cost of local raw materials that led to the closure of some textile factories during the year.

Other factors which constrained growth in manufacturing production included the continued deterioration in infrastructural facilities, especially power supply which resulted in production stoppages and higher operational costs; scarcity/incassant increases in the price of natural gas, low pour fuel oil (LPFO); multiple taxes/levies by the three tiers of government; poor port administration/management; inadequate long-term loans and high interest rates/charges; and a high level of insecurity of life and property.



6.3.2.2 Mining

6.3.2.2.1 Crude Oil

Institutional and Regulatory Support

In furtherance of the Federal Government's efforts at deregulating the downstream sector of the oil industry, approval was given to the Sharks Petroleum Development Company, a German oil conglomerate and Orient Petroleum Resource Nigeria Limited in 2007 to build private refineries in Bauchi and Anambra

states, respectively. The Federal Government also evolved an alternative energy development strategy through a bio-fuel initiative that would blend ethanol with petrol with the aims of reducing the country's dependence on crude oil as well as integrating the oil and gas sector with the agricultural sector. In addition, the 2007 bid round for oil blocks was conducted in May.

On the regulatory front, a National Energy Council was set up with the mandate to restructure the Ministry of Energy and the Nigerian National Petroleum Corporation (NNPC). The Council is headed by the President, Federal Republic of Nigeria, with the Vice President as the Vice Chairman. Other members of the Council included relevant Special Advisers to the President, and representatives of relevant ministries, parastatals and agencies of government. Consequently, a new national oil company known as the National Petroleum Company of Nigeria (NAPCON) and designed to have seven directorates and two subsidiary companies was established. The directorates are the following:

- Refinery and Petrochemicals,
- Upstream, Marketing and Investments,
- Gas & Power,
- Engineering and Technology,
- Finance, Accounts and Corporate Services,
- Petroleum Products Distribution Authority,
- National Oil and Gas Assets Holding and Management Services Company.

The subsidiary companies are the following:

- National Petroleum Directorate; and
- Petroleum Inspectorate Commission;

Crude Oil Production and Prices

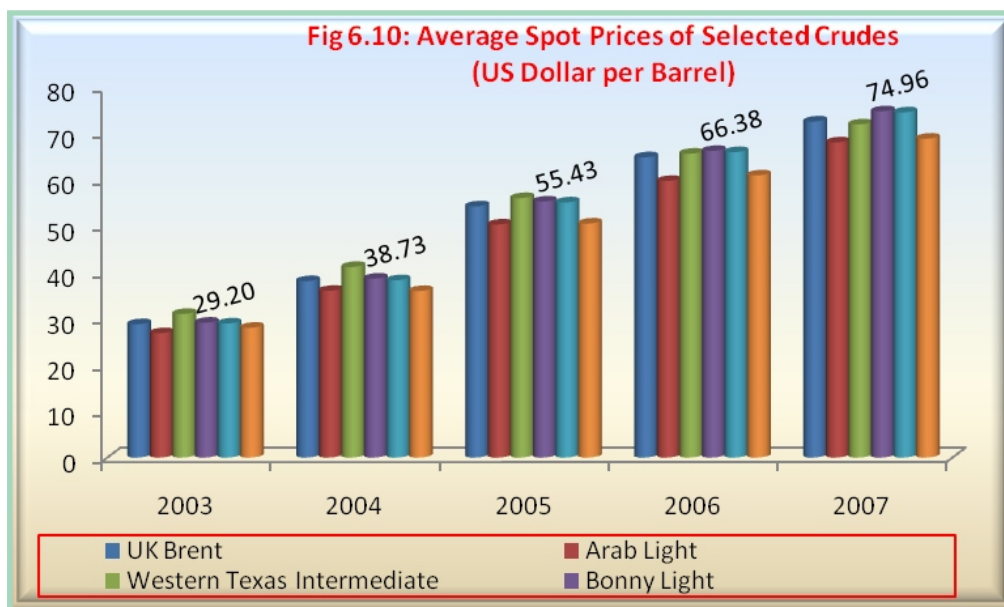
Production

Nigeria's aggregate crude oil production, including condensates, averaged 2.15 million barrels per day (mbd) or 784.75 million barrels in 2007, compared with 2.23 mbd or 813.95 million barrels per day in 2006, representing a decrease of 3.6 per cent. The decrease in oil output was due to several production shutdowns enforced on most oil companies including Shell Petroleum Development Company (SPDC), Exxon Mobil, Nigerian Agip Oil Company (NAOC) and Chevron, by continued militant attacks on oil production facilities in the Niger Delta area throughout the year. By the end of the 1st quarter of the year, for instance, 587,000 bpd had been shut in. However, increased production by companies such as Addax petroleum ameliorated the effects of the disruptions. Aggregate export of crude oil averaged 1.70mbd or 620.50 million barrels for the year, compared with 1.80 mbd or 656.09 million barrels in 2006, while 0.445 mbd or 162.43 million barrels were set aside for domestic refining.

Prices

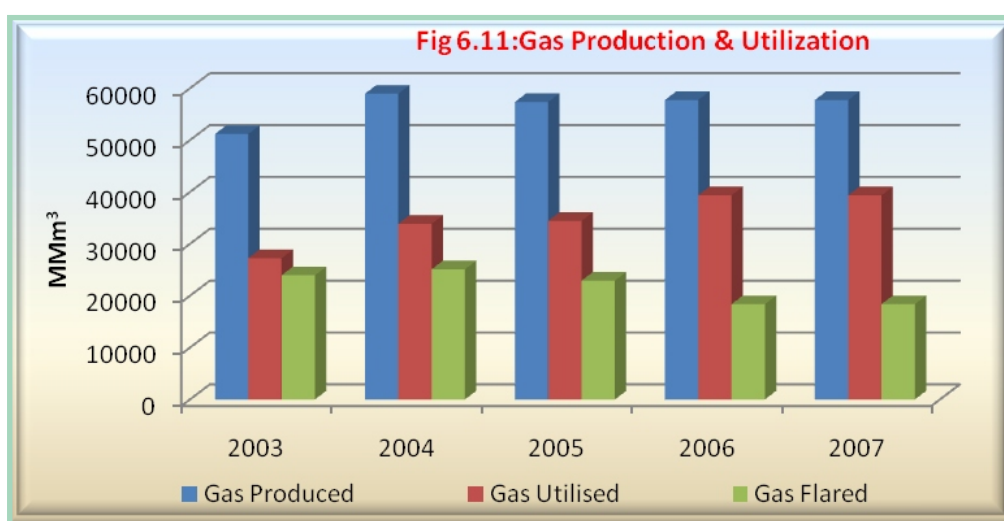
The average spot price of Nigeria's reference crude, the Bonny Light (37O API), stood at US\$74.96 per barrel, compared with US\$66.46 per barrel in 2006, representing a 16.5 per cent increase. The average price of the Forcados, UK Brent and West Texas Intermediate crude streams also rose by 16.5, 16.4 and 14.6 per cent respectively. Similarly, the average price of OPEC's basket of 12 crude streams rose from

US\$61.08 per barrel in 2006 to US\$69.02 in 2007. Crude oil prices increased primarily in response to the sustained high demand for crude oil by China and India, and the disruption of supplies from Nigeria and the Middle East.



6.3.2.2.2 Gas

An estimated total of 65,936.5 million cubic meters (MMm³) of natural gas was produced in 2007 compared with 57,753.7 MMm³ in 2006, an increase of 14.2 per cent. This was attributed to the operationalisation of the Bonga and the Erha offshore fields which contributed about 20.0 per cent of the nation's gas. Out of the quantity produced, 34.5 per cent was flared, while the balance of 65.5 per cent was utilised. Of the quantity utilised, about 26.3 per cent was sold to industries, such as the Nigeria Gas Company (NGC), the Power Holding Company of Nigeria (PHCN) and cement and steel companies, as against 2.7 per cent sold in 2006. Gas converted to natural gas liquids and gas lift accounted for 4.3 and 89.1 per cent, respectively. The oil producing companies used 19.0 per cent as fuel gas.



6.3.2.2.3 Solid Minerals

Institutional Support for the Sector

The Federal Government in 2007 mapped out new measures to strengthen and reposition the subsector and embarked upon a number of institutional reforms. In the bid to enhance the flow of foreign investment into the solid minerals subsector, the Minerals and Mining Act of 1999 was reviewed in 2007 with the aim of ensuring greater transparency and efficiency in the assignment of mineral blocks in the country. The 2007 Minerals and Mining Act was therefore passed into law in March, 2007.

Key elements of the new Minerals and Mining Act, 2007 are;

- Access to a mineral title is open to all big and small, foreign and local investors on a level and equitable playing field and on a “first come first served” basis;
- Guaranteed security of tenure and transferability of mineral rights;
- The application of the 'use it or lose it' principle in mineral title administration;
- Provisions for sound environmental control and community development agreements; and
- Involvement of other stakeholders through the creation of States' Mineral Resources and Environmental Management Committees to facilitate access to land.

Restructuring of the Ministry

The Ministry of Solid Minerals Development, comprising one technical department and four service departments was restructured in January 2007 to include the steel component of the defunct Ministry of Power and Steel. The new Ministry was renamed the Ministry of Mines and Steel Development with three additional technical departments.

Solid Minerals Production

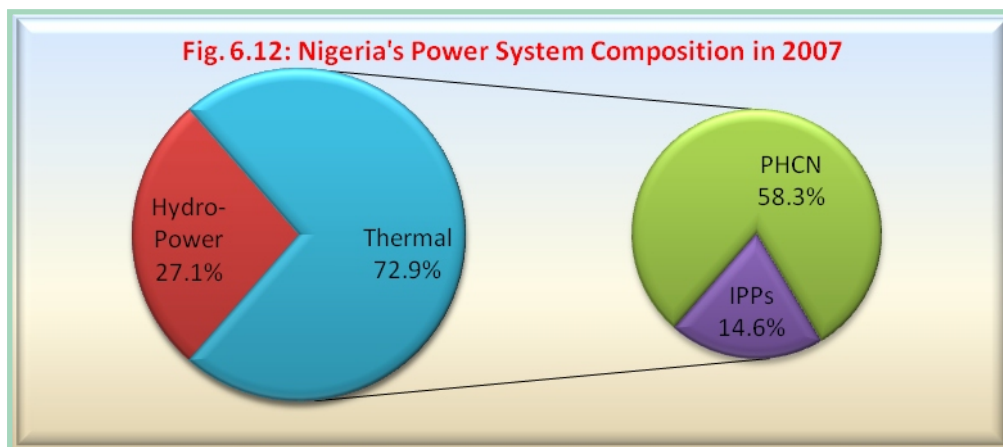
Solid minerals production decreased in 2007, relative to the preceding year. Available data from the Ministry of Mines and Steel Development showed that aggregate output declined by 1.14 per cent from 36.03 million tonnes recorded in 2006 to 35.62 million tonnes in 2007. The decrease was accounted for by the substantial decline in the production of some principal minerals such as cassiterite, columbite and limestone. Also, the production of tin, iron ore, phosphate, silica sand, basalt, granite and mica was insignificant.

The production of cassiterite was 229.2 tonnes as against 1,818.0 tonnes recorded in 2006, while the output of limestone declined to 3.3 million tonnes in 2007, from 15.3 million tonnes recorded in the preceding year. The production of barite, marble aggregates, iron ore and shale also recorded a similar decline. On the other hand, the output of laterite, clay, sand, gold, gypsum and lead/zinc increased when compared with the preceding year. The discovery and exploitation of gold in Kebbi State in the fourth quarter of 2007 added to the growth in gold production. The poor performance of the subsector was precipitated by the recall of 1,002 mining titles from producers in 2007.

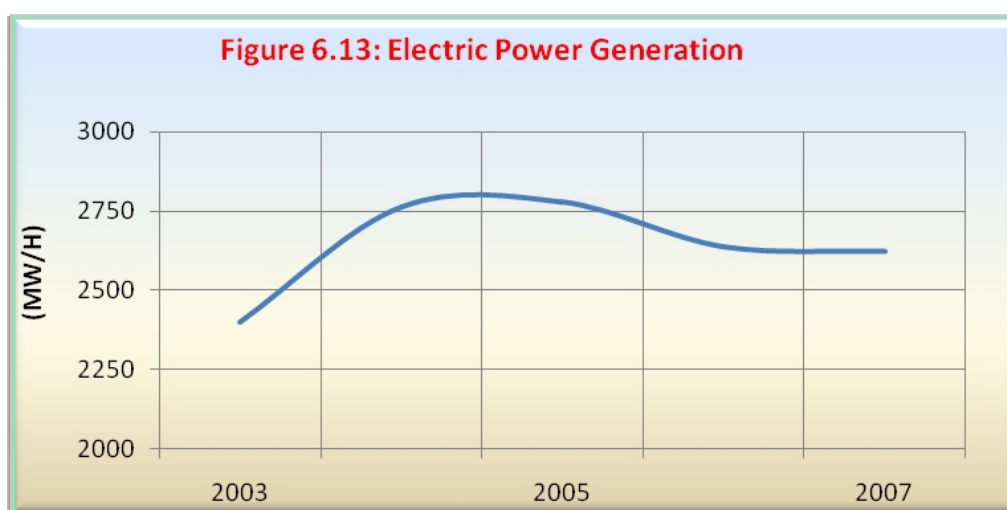
6.3.3 Electricity Generation

The total installed electricity generation capacity was 7,011.6 MW in 2007, as the outstanding projects under the National Integrated Power Projects (NIPP) remained uncompleted. The composition of the electric power system remained as follows: 1,900.0 MW of hydro power (27.1 per cent) and 5,111.6 MW of thermal power (72.9 per cent), including independent power plants (IPPs). The Power Holding Company

of Nigeria (PHCN) accounted for 85.3 per cent of the total electricity generation, while the IPPs accounted for the remaining 14.7 per cent. The performance of the power generating plants continued to decline, as their average capacity utilisation dropped from 37.6 per cent in 2006 to 37.4 per cent in 2007.



Notwithstanding the coming on stream of the Rivers State-owned Omoku and the new Omotosho power plants, aggregate electricity generation at 2,623.1 mega watt per hour (MW/H) fell by 0.6 per cent, compared with the decrease of 5.7 per cent in 2006. The decline was attributed largely to poor maintenance and non-replacement of non-functional parts at some power plants; low water levels at the hydropower plants and the disruption of gas supply to the thermal plants, following the persistent damage to gas pipelines in the Niger Delta area.



6.3.4 Energy Consumption

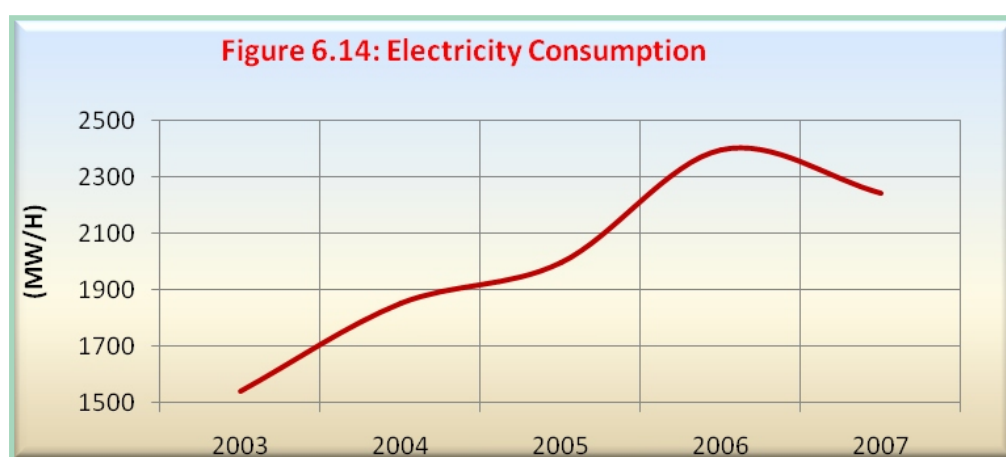
The major sources of energy in Nigeria include petroleum products, hydropower, coal and natural gas. Aggregate energy consumption declined in 2007 compared with the level attained in 2006. Specifically, at 169.2 (1990=100), the index of energy consumption fell marginally by 0.5 per cent in 2007, compared with 3.8 per cent in 2006. The decline in aggregate consumption was attributed to the fall in the consumption of petroleum products, which contributed 67.3 per cent of energy consumed in Nigeria.

6.3.4.1 Petroleum Products Consumption

The aggregate quantity of petroleum products consumed declined by 15.5 per cent to 6.9 million metric tonnes in 2007. The consumption of Premium Motor Spirit (PMS), Dual Purpose Kerosene (DPK), Automotive Gas Oil (AGO) and Low Pour Fuel Oil (LPFO) declined by 3.0, 52.3, 49.8 and 42.8 per cent, respectively. Consumption of Liquefied Petroleum Gas and Bitumen/Asphalt declined marginally while the consumption of other products (wax, grease, etc) rose. The decline in aggregate consumption was attributable to supply shortages due to the poor performance of the refineries and the fall in the importation of the products in the face of rising crude oil prices. For instance, the volume of crude oil received by domestic refineries in 2007 stood at 2,871,938.96 metric tonnes. This represented a decline of 34.57 per cent relative to the volume received in 2006. Consequently, the volume processed into petroleum products declined by 31.87 per cent to 2,981,152.76 metric tonnes when compared with the volume processed in 2006. The yield in 2007 was 2.5m metric tonnes which declined by 35.56 per cent.

6.3.4.2 Electricity Consumption

Electricity consumption fell by 6.4 per cent to 2,245.5 MW/h in 2007. The decline in consumption was accounted for by the low generation and the deterioration in power transmission and distribution infrastructure. The gap between electricity generated and consumed reflected a loss of 14.4 per cent of the generation, compared with the 9.1 per cent loss recorded in 2006. The loss was due mainly to the poor distribution network and power theft through illegal connections. Residential consumption accounted for 51.3 per cent of total electricity consumption, while commercial and street-lighting, and industrial consumption accounted for 26.7 and 22.0 per cent of the total, respectively.



6.3.4.3 Hydropower Consumption

At 3,888,208.35 tce, hydropower consumption in 2007 increased by 14.54 per cent, compared with the level in 2006. The improved performance of hydropower consumption was attributable to the improved performance of the Kainji and Jebba hydropower plants which generated 2,816,749.70 and 2,728,899.00 megawatt hour compared with 2,366,716.48 and 2,171,747.00 mwh in 2006, representing an increase of 19.0 and 25.7 per cent respectively. The reason for improved performance included the refurbishment of Kainji and Jebba power plants. The performance of the Shiroro plant, however, declined by 8.29 per cent.

6.3.4.4 Coal Consumption

Estimated aggregate coal consumption remained at the 2006 level of 500.5 tonnes of coal equivalent. The stagnation in coal consumption is a reflection of the shift of industrial consumers to more

environmentally friendly sources of energy.

6.3.4.5 Natural Gas Consumption

The consumption of natural gas at 1.4 million tonnes of coal equivalent (tce) increased when compared with 1.3 million tce in 2006 accounting for 7.7 per cent of the total energy consumed in the year under review. The increase was attributed to the reduction in gas flaring in the country and the continued use of natural gas by manufacturers and the new independent power plants such as Okpai, Omotosho and Omoku. The improved performance of the Nigeria Liquefied Natural Gas (NLNG) also aided the growth in natural gas consumption. For example, the capacity utilisation of the NLNG rose from 74.0 per cent in 2006 to 91.0 per cent in 2007, thus the volume of gas exported in 2007 increased by 26.8 per cent over the level in 2006.

6.4 TRANSPORTATION AND COMMUNICATIONS

6.4.1 Airline Services

6.4.1.1 Domestic Airlines

In 2007, the new ultra-modern Murtala Mohammed Airport terminal 2 (MMA2) built by Bi-Courteny under a Build, Operate and Transfer (BOT) arrangement, was commissioned. As a consequence of the new tariffs at the airport, domestic airline operators effected a 20.0 per cent increase in air fares.

The Nigerian Civil Aviation Authority (NCAA) initiated and supported access to cheaper funds for local operators through the Cape Town convention to acquire aircrafts. The recapitalisation of airlines was ordered in 2007 to shore up their capital base to at least N1.0 billion. Six airlines, namely: AERO, Virgin Nigeria, Bellview, Arik, Chanchangi and IRS airlines scaled the hurdle. Albarka, Dasab, ADC, Sosoliso, Fresh and Space World which could not recapitalise, went under. Although the NICON (formerly EAS) and Capital airlines scaled through the capitalisation exercise, they were unable to sustain their operations in 2007.

6.4.1.2 Foreign Airlines

On the international scene, three carriers Arik, Virgin Nigeria and Bellview were designated on the United States routes and were expected to commence operations by the second quarter of 2008.

6.4.2 Railway Services

In order to revive the ailing railway system in Nigeria a contract of \$8.3 billion was awarded in May to the China Civil Engineering Construction Corporation.

6.4.3 Communications

The performance of the communications sector further improved in 2007, driven mainly by the Global System of Mobile Communications (GSM). Foreign investment in the sector increased from US\$8,150 million in 2006 to \$11,500 million in 2007, indicating an increase of 41.1 per cent. The number of operating Internet Service Providers (ISPs) was 117, the same as in 2006.

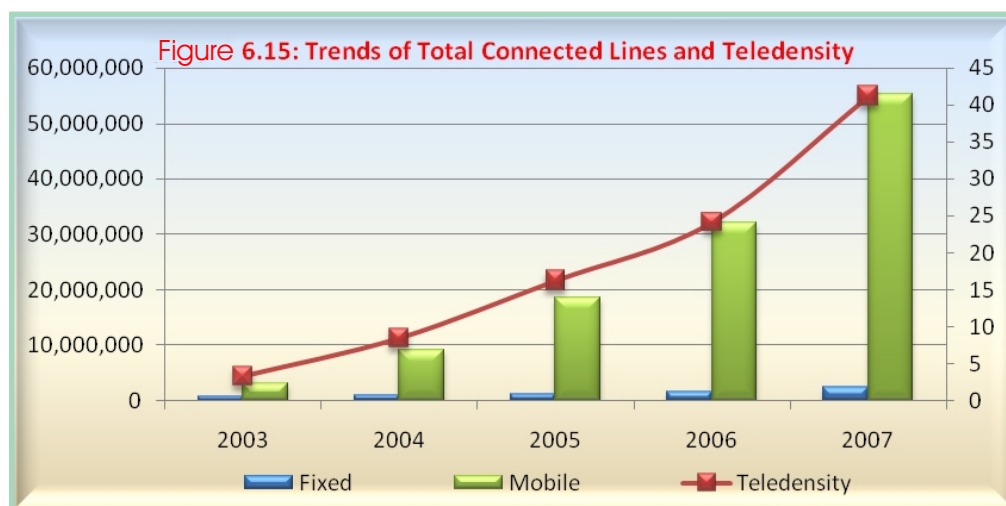
As at December 2006, the sector had 1,701,952 connected fixed lines and 32,184,861 mobile lines, giving a combined subscriber strength of 33,858,022 lines with a teledensity of 24.18 lines per 100 inhabitants. By December 2007, it had increased by 70.4 per cent to a total of 57,687,544 lines (2,449,019 fixed and 55,238,525 mobile), with a corresponding increased teledensity of 41.21 lines per 100 inhabitants. This was significantly above the International Telecommunication Union (ITU) minimum standard of 1:100.

Table 6.3: The Nigerian Telecommunications Statistics

	1999	2002	2003	2004	2005	2006	2007
No. of Connected Fixed Lines ('000)	450	702	850	1,120	1,223	1,668	2,449
No. of Connected Digital Mobile Lines (million)	None	1.59	3.10	9.20	18.59	32.32	55.24
No. of National Carriers	1	2	2	2	2	2	2
No. of Operating ISPs	18	35	35	36	69	117	117
No. of Active Licensed Fixed Line Operators	9	17	20	22	26	26	29
Number of Licensed Mobile Operators	1	4	4	4	4	4	4
Teledensity	0.73	1.89	3.35	8.50	16.27	24.18	41.21
Investment (US\$ million)	50	2,100	4,000	6,000	7,500	8,150	11,500

Source: Nigerian Communications Commission (NCC)

In addition, the subsector grew by 32.9 per cent to N15.12 billion in 2007 and accounted for 2.4 per cent of the GDP. Developments in the sector during the year included the emergence of the Code Division Multiple Access (CDMA) which refers to any of several protocols used in second-generation (2G) and third-generation (3G) wireless communications. The total number of mobile CDMA in 2007 stood at 424,579. This number is part of the total mobile lines in the system.



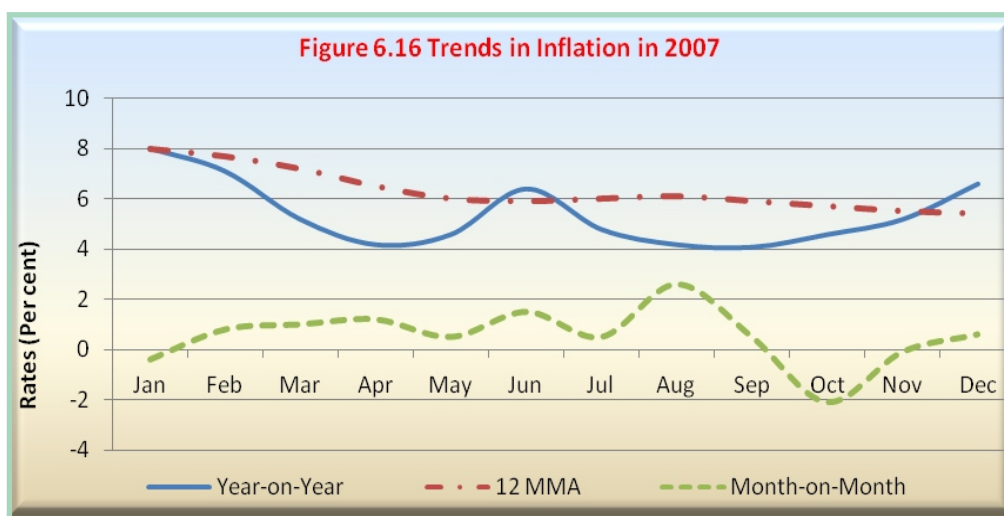
Nigeria launched a communications satellite called NIGCOMSAT-1 through a long march 3-B rocket in August. The satellite would remain in operation for the next 15 years. NIGCOMSAT-1, which is a super-hybrid geo-stationary satellite, is reputed to be the first commercial satellite in Africa. It is expected to offer broadband internet services to the African continent.

Also during the year, Globacom was granted a N60 billion licence for the establishment of the Global System for Mobile Communication (GSM) by the Benin government after it emerged the preferred bidder. The Benin government had granted the Nigerian company the operational licence on the strength of its technical superiority and demonstrable ability to roll out GSM services within 60 days.

6.5 CONSUMER PRICES

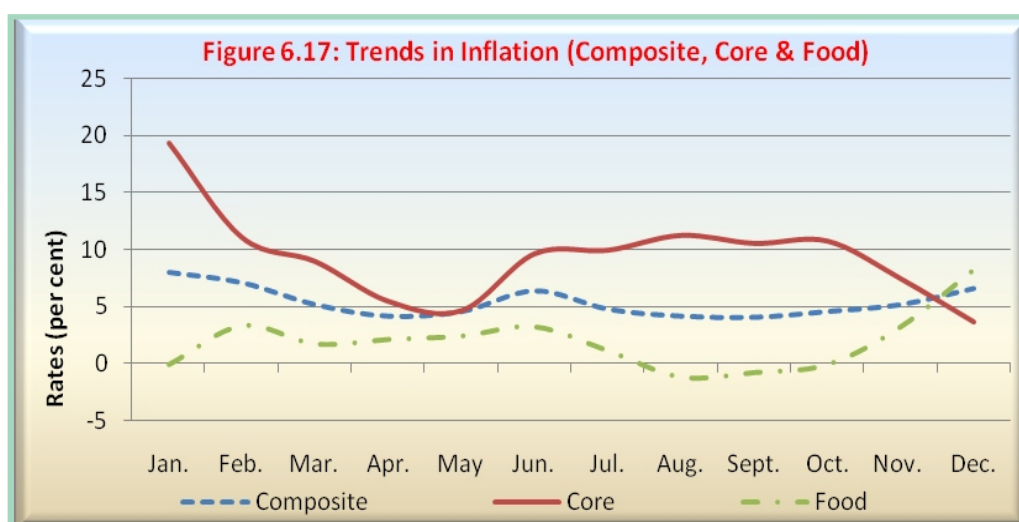
Inflationary pressures were largely contained in 2007 as the single digit inflation rate target was sustained. The all items composite Consumer Price Index (CPI) was 167.45 (May 2003=100) in December 2007,

compared with 156.4 in the corresponding month of 2006. This represented a year-on-year headline inflation rate of 6.6 per cent, 1.9 percentage points below the figure in December 2006. This also met both the national and WAMZ single digit inflation rate target.



Similarly, the 12-month moving average headline inflation rate which was 8.2 per cent at end-December, 2006 fell significantly to 5.4 per cent in 2007. The single digit inflation sustained two years in a row was attributed to several factors, including sound macroeconomic policies, especially monetary and fiscal policies, good agricultural harvest, stability in the prices and supply of petroleum products, as well as the relative stability of the naira exchange rate. This was in spite of the supply constraints brought about by poor infrastructure and the mild draught and flooding experienced in some states of the federation.

The year-on-year food inflation rate rose from -0.1 per cent in January to 3.2 per cent in June 2007, but declined to -0.1 per cent in October before rising again to 3.2 per cent in November and peaked at 8.2 per cent in December, 2007.



The core inflation (all items less farm produce) on a year-on-year basis fell steadily from 19.3 per cent in January to 9.9 per cent in July after which it rose to 10.7 per cent in October 2007, but resumed the downward trend to close at 3.6 per cent in December 2007. The data also indicated that the urban headline inflation rate (year-on-year) rose from 10.3 per cent in 2006 to 11.6 per cent in December 2007, while the rural inflation rate declined from 7.7 per cent to 4.1 per cent during the same period.

The key drivers of headline inflation were the two constituent groups: housing, water, electricity, gas and other fuels which contributed 3.0 percentage points, and food and non-alcoholic beverages, which contributed 2.3 percentage points.

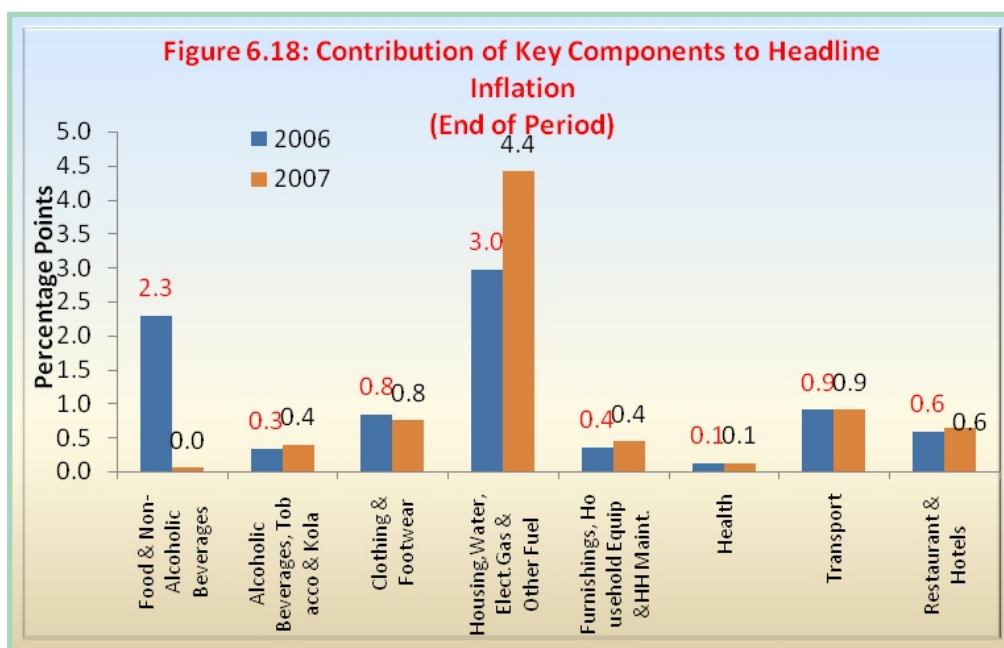


Table 6.4: Annual Headline Inflation Rate (Year-on-Year)
(Per cent)

	2003	2004	2005	2006	2007
January	10.6	22.4	9.8	10.7	8.0
February	7.3	24.8	10.9	10.8	7.1
March	5.9	22.5	16.3	12.0	5.2
April	8.3	17.5	17.9	12.6	4.2
May	8.7	19.8	16.8	10.5	4.6
June	14.0	14.1	18.6	8.5	6.4
July	12.9	10.7	26.2	3.0	4.8
August	12.4	13.0	28.2	3.7	4.2
September	18.4	9.1	24.3	6.3	4.1
October	23.6	10.7	18.6	6.1	4.6
November	21.3	10.0	15.1	7.8	5.2
December	23.8	10.0	11.6	8.5	6.6
Average	13.9	15.4	17.9	8.4	5.4

6.6 THE SOCIAL SECTOR

6.6.1 Demography

The National Population Commission (NPC) carried out a population and housing census in the country during 21st-27th March, 2006. The result of the census released in 2007 showed that the country's population stood at 140,003,542. Given an annual growth rate of 3.2 per cent, the country's population was estimated at 144,483,655 for 2007.

The total labour force was projected at 61,249,485 in 2007, indicating an increase of 3.9 per cent. Total employment in 2007 stood at 52,326,923 compared with 50,886,826 in 2006. This represents an annual increase of 2.8 per cent.

Table 6.5 Labour Statistics, 2003 - 2007

	2003	2004	2005	2006	2007
Total Population	129,900,168	134,131,224	138,468,013	140,003,542	144,483,655.34
Total Labour Force	54,929,577	55,538,881	56,170,672	58,933,891	61,249,485
Total Employment ¹	46,800,000	48,124,440	49,486,362	50,886,826	52,326,923
Total Unemployment	8,129,577	7,414,441	6,684,310	8,047,065	8,922,562
Unemployment Rate (%)	14.8	13.4	11.9	13.7	14.6

Source: National Bureau of Statistics

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

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

6.6.2 Unemployment

Available data from the NBS indicated that the national unemployment rate in the first quarter of 2007 was 14.6 per cent, compared with 13.7 per cent in 2006. The urban and rural rates were 14.4 and 15.0 per cent, respectively, compared with 10.2 and 14.8 per cent in 2006.

Further analysis showed that the distribution of unemployment ranged from 14.1 per cent for the age group of 25-44 to 23.5 per cent for the 65-70 age group. Disaggregation according to geopolitical zones showed a very uneven distribution, with the South- South zone having the highest unemployment rate of 29.5 per cent and the South West at the rear with 8.5 per cent. Between these extremes were the North East with 18.5 per cent, South East 18.1 per cent, North Central 15.8 per cent and North West 14.2 per cent.

Table 6.6 Unemployment Rate by Age Group and Sector

AGE GROUP	2006			2007		
	URBAN	RURAL	NATIONAL	URBAN	RURAL	NATIONAL
1525	31.9	30.3	30.8	16.1	14.7	15.1
2544	5.1	11.1	8.8	14.1	14.1	14.1
4559	1.6	6.7	4.8	13.4	15	14.6
6064	4.0	8.3	7.3	20.3	19.8	19.9
6570	4.2	12.5	7.1	27.2	22.2	23.5
ALL GROUPS	10.2	14.8	13.7	14.4	15.0	14.6

Source: National Bureau of Statistics

Table 6.7: Unemployment Rate by State and Zone (March 2007)

NORTH WEST			NORTH EAST		NORTH CENTRAL	
	State	Rates	State	Rates	State	Rates
1	Sokoto	12.3	Bauchi	20.5	Niger	4.2
2	Kebbi	1.3	Adamawa	21.5	Kwara	17.7
3	Zamfara	19.1	Gombe	16.9	Kogi	14.6
4	Katsina	10.9	Yobe	24.4	Nassarawa	11.8
5	Kano	10.1	Borno	12.5	Benue	7.9
6	Jigawa	27.0	Taraba	15.2	Plateau	6.8
7	Kaduna	8.7			FCT	47.8
Average		14.2		18.5		15.8

SOUTH WEST			SOUTH EAST		SOUTH SOUTH	
	State	Rates	State	Rates	State	Rates
1	Oyo	8.1	Anambra	14.9	Edo	14.8
2	Osun	7.2	Abia	25.1	Delta	22.9
3	Ondo	6.7	Ebonyi	7.9	Bayelsa	21.9
4	Ogun	3.6	Enugu	14.1	Rivers	66.4
5	Ekiti	11.4	Imo	28.3	Akwa Ibom	18.0
6	Lagos	13.7			Cross River	32.8
Average		8.5		18.1		29.5

Source: National Bureau of Statistics

6.6.3 Industrial Relations

The economy witnessed relative industrial peace in 2007 as the number of trade disputes declared by labour unions declined by 10.1 per cent to 170, compared with 189 (or an increase of 26.8 per cent) in 2006. Of the 170 trade disputes recorded, 60 resulted in work stoppages compared with 63 in the previous year. However, the number of workers involved rose by 17.3 per cent to 2,445,999, compared with a decrease of 25.7 per cent in 2006. This fact notwithstanding, the number of man days lost declined by 22.3 percent to 6.0 million.

The reduction in the number of trade disputes and work stoppage during the year was due largely to the coming on board of a new political administration which promoted continuous dialogue between the labour unions and employers, as well as the timely resolution of many areas of conflict. For example, the quick reversal of the increases in the Value Added Tax (VAT) and the prices of petroleum products which were effected by the previous administration helped to douse tension among labour unions and promoted industrial harmony.

Table 6.8: Summary of Industrial Disputes

S/N	Category	Year				% Change Btw	
		2004	2005	2006	2007	2&3	3&4
1	Total No of Disputes	36	149	189	170	26.8	-10.1
2	Work Stoppages	26	57	63	60	10.5	-4.8
3	Workers Involved ('000)	127.4	280.6	208.6	244.6	-25.7	17.3
4	Man Days Lost (Million)	2.7	4.3	7.8	6.0	80.7	-22.3

Source: National Bureau of Statistics

CHAPTER 7

THE EXTERNAL SECTOR

The external sector remained robust with a huge current account surplus and an improved capital and financial account. The current account surplus as a ratio of the Gross Domestic Product (GDP) was 16.30 per cent and largely driven by increased receipts from crude oil exports and the remarkable surge in inward remittances by Nigerians in diaspora. The deficit in the capital and financial account over a three-year period narrowed from 18.2 per cent of GDP in 2005 to 2.7 per cent in 2007. This reflected the strong macroeconomic fundamentals, sustained economic reforms under the NEEDS programme and the favourable outcomes of the concluded IMF monitored Policy Support Instrument (PSI). External debt fell from US\$20.5 billion in 2005 to US\$3.6 billion in 2007 as a result of the Paris Club debt exit and the payoff of the London Club debts. However, when compared with 2006, there was an increase of 3.1 per cent, arising from new concessional loans to finance development projects. The foreign exchange market witnessed increased inflows as well as a more vibrant and deepened inter-bank market. These developments reduced the pressure on the official segment of the foreign exchange market and resulted in the substantial appreciation of the naira from an end-period figure of N128.27 per dollar in 2006 to N117.97 per dollar in 2007. External reserves at end-December increased by 21.4 per cent to US\$ 51.33 billion and could finance 16.1 months of imports (revised). This was higher than the six months of imports under the West African Monetary Zone (WAMZ) arrangement. A major challenge for the sector remained its vulnerability to shocks arising from the dominance of oil receipts. Others included the sustainability of the current capital flows, the consequences of short-term flows on macroeconomic stability and the effect of an appreciating exchange rate on the export promotion programme of the country.

7.1. BALANCE OF PAYMENTS

7.1.1 Major Developments

The provisional balance of payments position remained impressive with an increase of 8.2 per cent in the current account surplus and the reduction by 61.1 per cent in the capital and financial account-deficit. The surplus in the current account was driven by a robust goods account, occasioned by the positive developments in the international oil markets, as the average price of Nigeria's reference crude oil, the Bonny Light 370, API rose from US\$66.39 per barrel in 2006 to US\$74.96. In addition, inward current transfers increased by 63.2 per cent. Both outcomes more than offset the huge imports and net deficits in the services and income accounts. The deficit in the capital and financial account narrowed from 18.2 and 8.7 per cent of GDP in 2005 and 2006, respectively to 2.7 per cent in 2007. This development reflected the strong macroeconomic fundamentals and the political commitment to sustain economic reforms under the home grown NEEDS programme as well as the favourable outcome of the IMF monitored Policy Support Instrument (PSI) concluded in June 2007.

7.2 THE CURRENT ACCOUNT

The surplus in the current account increased by 8.2 per cent to N3,723.6 billion. Although the surplus in the goods account shrank slightly, the huge net inward transfers compensated for the deficits in the services and income accounts. The deficits in the services and income accounts widened by 68.9 and 11.5 per cent, respectively, while the surplus in current transfers (net) increased by 63.2 per cent, reflecting mainly home remittances by Nigerians in diaspora.

7.2.1 The Goods Account

The goods account (fob) adjusted for balance of payments (trade balance) declined by 2.7 per cent to N3,365.2 billion. The reduced surplus in the goods account (adjusted for balance of payments) reflected

mainly the surge in import bills to meet consumption amidst supply gaps in the domestic economy. Although total exports increased by 10.9 per cent, the huge import bills which edged up by 23.1 per cent overwhelmed the goods account. However, incorporating cost and freight to aggregate imports, total trade improved by 19.3 per cent to N12,813.9 billion, attributed to increases in imports and exports. The non-oil and oil components of total trade increased by 10.2 and 47.7 per cent to N8,953.7 billion and N3,860.2 billion, respectively. The development reflected the continued dominance of the oil sector in total trade, accounting for 69.9 per cent, although down from 75.7 per cent recorded in 2006. The total trade/GDP ratio declined from 58.9 per cent in 2006 to 55.1 per cent in 2007.

Box 5: New Presentation and Revisions in Nigeria's Balance of Payments

In conformity with international standards, the balance of payments' statistics is currently undergoing a comprehensive revision to capture major non-residents' transactions with the aim of tracking down the huge inflows of capital and expand coverage. So far, the revision has benefitted from the technical assistance missions from the International Monetary Fund (IMF) as well as the modular project on "External Sector Statistics" under the General Data Dissemination Standard (GDDS) for Anglophone African countries. As part of the external sector development, a preliminary attempt was made to incorporate the international investments position (IIP) which measures net assets and liabilities between Nigeria and the rest of the world.

In the revision, all unrecorded transactions are accommodated in the net errors and omissions as against the former practice of recording these transactions as residuals in other investments (non-residents). Consequently, the errors and omissions in Table 7.1 are very large and would narrow within a two-year time frame when more financial transactions would have been captured.

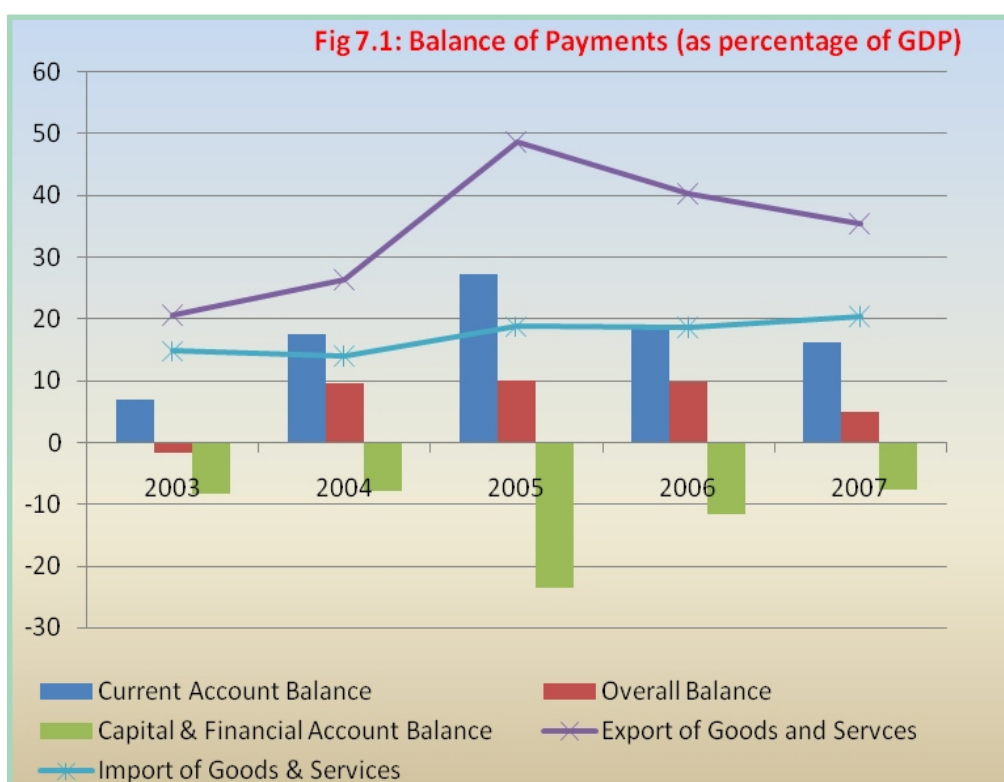


Table 7.1: Summary of the Provisional Balance of Payments Statement

	₦ billion			US\$ billion		
	2005	2006	2007	2005	2006	2007
CURRENT ACCOUNT	4,066.60	3,443.08	3,723.57	30.95	27.00	29.85
Goods	3,833.00	3,457.63	3,365.16	29.17	27.12	26.97
Exports (fob)	7,246.54	7,324.69	8,126.00	55.14	57.44	65.13
Imports (o.f.)	(3,413.54)	(3,867.04)	(4,760.84)	(25.98)	(30.33)	(38.16)
Services(net)	(419.47)	(589.08)	(995.16)	(3.19)	(4.62)	(7.98)
Credit	426.27	510.90	789.39	3.24	4.01	6.33
Debit	(845.74)	(1,099.98)	(1,784.54)	(6.44)	(8.63)	(14.30)
Income(net)	(269.77)	(804.09)	(896.64)	(2.05)	(6.31)	(7.19)
Credit	90.30	207.77	255.03	0.69	1.63	2.04
Debit	(360.07)	(1,011.86)	(1,151.67)	(2.74)	(7.94)	(9.23)
Current transfers(net)	922.85	1,378.61	2,250.21	7.02	10.81	18.04
Credit	940.10	1,401.39	2,269.09	7.15	10.99	18.19
Debit	(17.25)	(22.78)	(18.88)	(0.13)	(0.18)	(0.15)
CAPITAL AND FINANCIAL ACCOUNT	(2,710.89)	(1,592.22)	(619.93)	(20.63)	(12.49)	(4.97)
Capital account(net)	962.97	1,357.98	-	7.33	10.65	-
Credit	962.97	1,357.98	-	7.33	10.65	-
Debit	-	-	-	-	-	-
Financial account(net)	(3,673.86)	(2,950.20)	(619.93)	(27.96)	(23.14)	(4.97)
Assets	(1,893.33)	(2,718.26)	(2,366.11)	(14.41)	(21.32)	(18.97)
Direct investment (Abroad)	-	-	-	-	-	-
Portfolio investment	-	-	-	-	-	-
Other investment	405.24	(930.70)	(1,238.89)	3.08	(7.30)	(9.93)
Reserve assets	(1,488.09)	(1,787.56)	(1,127.21)	(11.32)	(14.02)	(9.4)
Liabilities	(1,780.53)	(213.94)	1,746.13	(13.55)	(1.82)	14.00
Direct investment (in reporting economy)	654.19	1,779.59	1,553.73	4.98	13.96	12.45
Portfolio investment	(393.34)	(294.96)	(609.34)	(2.99)	(2.31)	(4.88)
Other investment liabilities	(2,828.06)	(2,306.49)	(416.89)	(21.52)	(18.09)	(3.34)
NET ERRORS AND OMISSIONS	(569.04)	(1,850.86)	(3,103.64)	(4.33)	(14.52)	(24.88)
Memorandum Items						
Current account balance as % of GDP	27.30	18.89	16.25	27.3	18.89	16.25
Capital and financial account balance as % of GDP	18.20	8.74	2.71	18.20	8.74	2.71
Overall balance as % of GDP	9.99	9.81	4.92	9.99	9.81	4.92
External reserves (US\$ million)	28,279.06	42,298.00	51,333.15	28,279.06	42,298.00	51,333.15
Number of months of imports equivalent	13.06	16.74	16.14	13.06	16.74	16.14
External debt stock (US\$ million)	20,476.20	3,544.49	3,654.00	20,476.20	3,544.49	3,654.00
Outstanding debt service due as % of exports of goods and non-factor services						
Effective central exchange rate (N/\$)	131.41	127.51	124.76	131.41	127.51	124.76
End-period exchange rate (N/\$)	129	128.27	117.97	129	128.27	117.97
Average exchange rate (N/\$)						

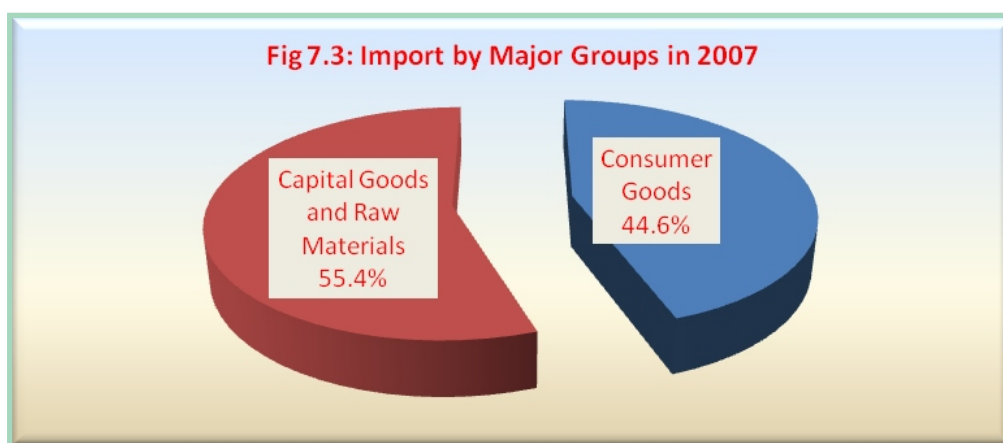
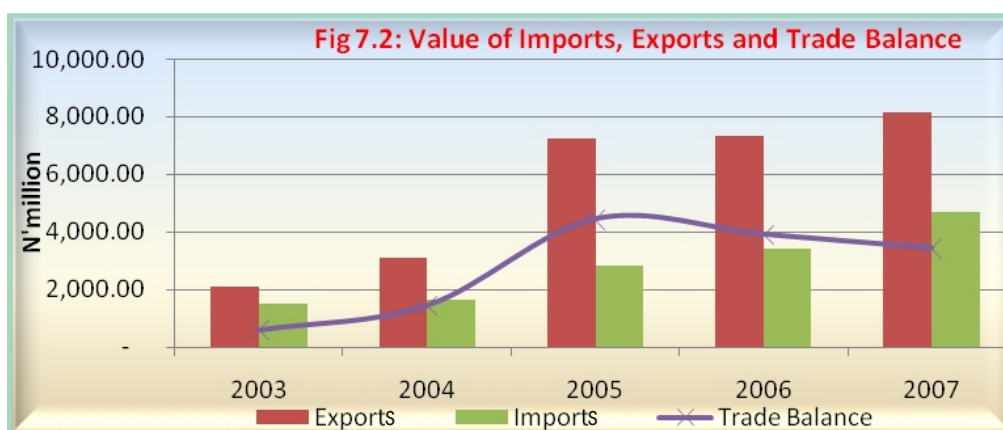
7.2.1.1 Imports: Cost and Freight (c&f)

The surge in import bills by 37.4 per cent to N4, 687.9 billion was accounted for by both the oil and non-oil components which rose by 6.5 and 48.8 per cent, respectively. This was due partly to the increased demand for raw materials and capital goods for the rehabilitation of infrastructure as well as the enhanced domestic capacity to revamp the real sector. Finished (consumer) goods import also increased to bridge supply gaps in the domestic economy. An assessment of imports using DMBs' returns on foreign exchange utilisation revealed that the industrial sector, finished goods, transport and agricultural sectors' imports accounted for 50.0, 41.7, 6.3 and 1.0 per cent respectively of the total. Specifically, under transport, imports

of motor cars increased by 96.0 per cent and accounted for 4.2 per cent of the total foreign exchange utilised for visible imports.

(a) Imports by End-Users

The analysis of imports by end-users showed that the share of consumer goods in total imports declined to 44.6 in 2007 from 47.0 per cent in 2006. The share of durable consumer goods remained low at 4.6 per cent, while that of non-durable consumer goods declined to 39.9 from 42.3 per cent in the previous year. The share of capital goods and raw materials imports as a group remained dominant and increased by 2.3 percentage points to 55.4 per cent of the total. The increase in total imports was driven mainly by both consumer and capital goods and raw materials, which increased from 30.0 per cent and 43.4 per cent, respectively.

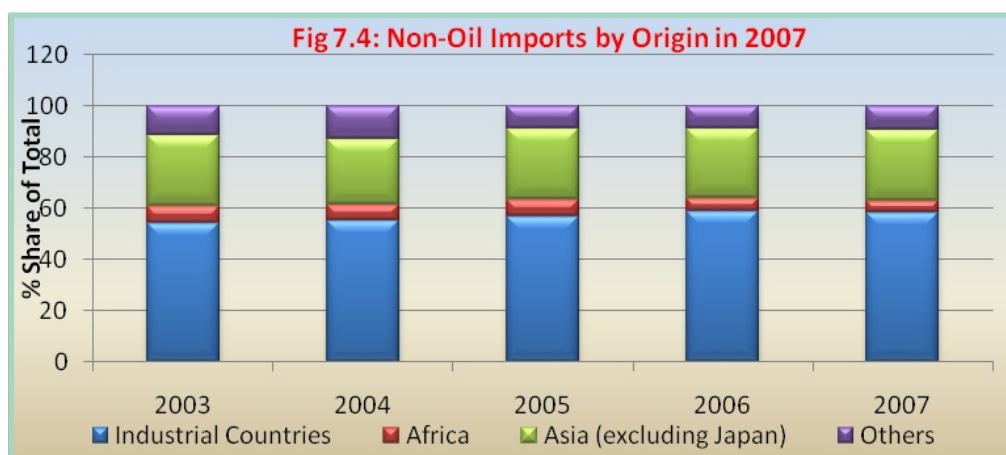


(b) Imports by Standard International Trade Classification (SITC)

Further analysis of imports, using the SITC revealed that the value of all import categories increased over their levels in 2006. The increase was particularly prominent in crude materials (39.7 per cent), manufactured goods (39.5 per cent), chemicals (37.9 per cent), and food and live animals (23.4 per cent). Imports of manufactured goods accounted for 33.0 per cent of the total, followed by chemicals (24.2 per cent), machinery and transport equipment (22.6 per cent) and miscellaneous (10.2 per cent).

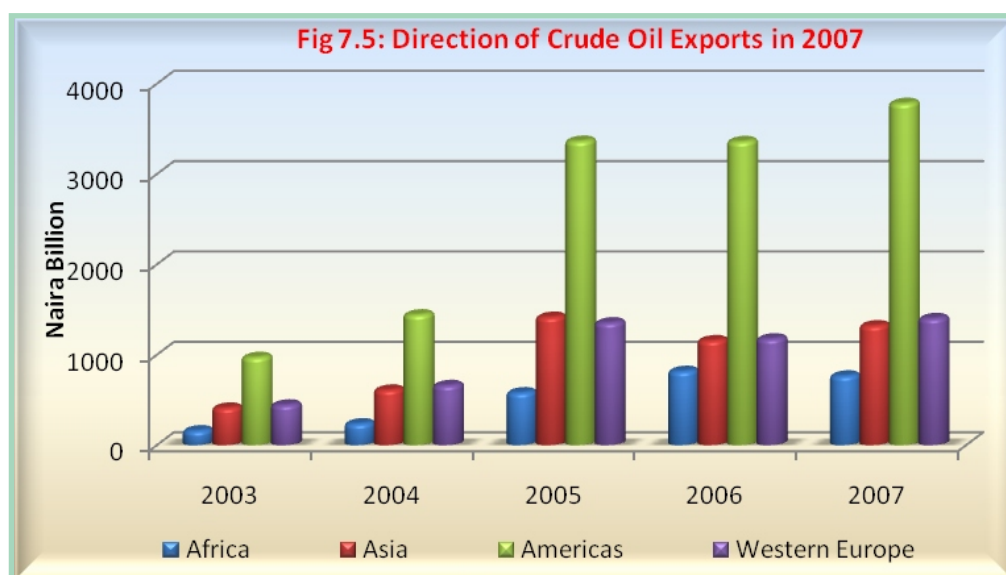
(c) Non-oil Imports by Country of Origin

A breakdown of imports by country of origin showed that non-oil imports from industrialised countries remained the highest, but its share of total imports declined by 0.7 percentage point to 58.3 per cent in 2007. The proportion of imports from African countries also dropped by 0.4 percentage point to 4.6, while the share of Asian countries increased by 0.6 percentage point to 27.6 per cent. Imports from the United States, Japan and the Peoples Republic of China topped the list, with 23.3, 18.0 and 10.2 per cent of total non-oil imports, respectively.



7.2.1.2 Exports (fob)

Aggregate exports at N8,126.0 billion was higher than the N 7,324.7 billion recorded in 2006. The bulk of the export proceeds were accounted for by crude oil (89.8 per cent) while gas and non-oil exports accounted for 8.1 per cent and 2.1 per cent, respectively. Provisional data showed that the value of gas exports was N651.7 billion, while non-oil exports (including estimates for unrecorded trade) stood at N169.7 billion.



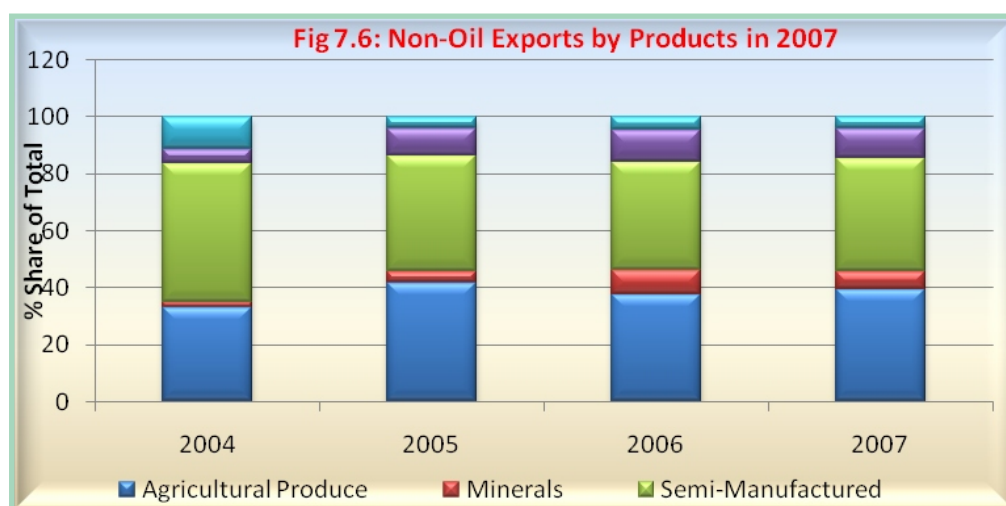
[a] Direction of Oil Exports

The Americas as a group constituted the largest buyer of Nigeria's crude oil, followed by the countries of Western Europe and Asia. The share of Nigeria's crude oil exports to the Americas increased by 0.4 percentage point to 51.8 per cent. Its value of export increased from N3,360.8 billion in 2006 to N3,783.8 billion in 2007 while the volume of exports also increased by 23.9 per cent to 414.9 billion barrels. On a country-by-country basis, the United States (US) remained the largest single importer of Nigeria's crude oil, accounting for 43.0 per cent of total exports.

The share of Asia rose by 0.4 percentage point to 18.1 per cent in 2007, while the share of Western Europe rose by 1.2 percentage points to 19.2 per cent. At 10.5 per cent, the share of crude oil exports to African countries remained the lowest. Within Africa, however, Cote d'Ivoire remained the largest importer of Nigeria's crude oil, followed by Ghana, while Senegal remained the lowest.

[b] Non-oil Exports

The value of non-oil exports increased remarkably by 27.0 per cent to N169.7 billion. The analysis of non-oil exports by product showed that agricultural produce, semi-manufactured goods, manufactured goods and solid minerals accounted for 39.7, 39.4, 10.3 and 6.3 per cent of the total, respectively. Other exports, which accounted for 4.7 per cent, comprised petroleum products, charcoal, scrap metals, crafts, urea ammonia and cement/lime products.



In the agricultural produce category, cocoa beans, rubber, fish/shrimps and cotton accounted for 13.2, 5.8, 7.1, and 4.8 of the total non-oil exports, respectively. In the semi-manufactured goods category, processed skins, cocoa products, textile yarn and furniture/processed wood accounted for 23.5, 5.0, 4.1 and 1.8 per cent of the total non-oil exports, respectively. The share of tyres/tubes and textiles under the manufactured group increased by 0.3 and 0.2 percentage point, respectively.

7.2.2 The Services Account

The outcome of transactions in the services account (net) resulted in a much higher deficit of N995.2 billion, compared with N589.1 billion in 2006. The deficit reflected the out-payments in respect of travels, freight charges for imports and other business services comprising operational leasing and miscellaneous, business and professional services. The net payments in respect of freight services increased by 59.0 per cent to N616.7 billion, showing the dominance of shipping services by non-resident carriers and a reflection of increased volume of trade. The payments for transportation and travels amounted to N223.8

billion and N245.8 billion, respectively. The persistent deficit in the services account was attributable to the low investment in the shipping subsector by domestic entrepreneurs, non-compliance with global shipping policy as well as increased volume of business and private travels abroad by Nigerians.

7.2.3 The Income Account

The pressure on the income account (net) persisted as the deficit widened from N804.1 billion in 2006 to N896.6 billion in 2007. The deficit reflected, partly, the increased interest payments to committed loans and substantial out payments on dividends and distributed branch profits. However, interest earnings on external reserve and other investment assets by the monetary authorities increased by 23.5 per cent to N249.9 billion¹ (US\$2,002.7 million). To further enhance earnings on investments, JP Morgan Chase was appointed Global Custodian with nine other Asset Managers to partner with Nigerian DMBs to manage the external reserve funds professionally.

7.2.4 Current Transfers

The surplus in the current transfers (net) increased by 63.2 per cent to N2,250.2 billion in 2007, reflecting personal home remittances by Nigerians abroad and other private sector transfers in-kind. The inward transfers at N2,269.1 billion surpassed the outward transfers of N18.9 billion recorded in the general government accounts for the expenses of foreign embassies, payments to international organizations, and the remittances of foreigners resident in the country.

Table 7.2: Current Transfers (₦ Billion)

	2006	2007
INFLOWS (credit)	1,401.4	2,269.1
1. General government (grants, ODA, TA & Gifts)	25.5	25.0
2. Other sector workers' remittances and other transfers in-kind	1,375.9	2,244.1
OUTFLOWS (debit)	22.8	18.9
1. General government (Payments to International Organizations & other payments)	6.1	10.4
2. Other sector workers' remittances and other transfers	16.7	8.5
NET CURRENT TRANSFERS	1,378.6	2,250.2

7.3 CAPITAL AND FINANCIAL ACCOUNTS

In 2007, the pressure on the capital and financial accounts moderated as the deficit of N1,592.2 billion or 8.7 per cent of GDP recorded in 2006 narrowed to N619.9 billion or 2.7 per cent of GDP. New capital imported into the economy amounted to US\$9,771.5 million of which US\$4,243.5 million was for equity investment mainly in the financial services industry. Investors' interest was boosted by high returns as well as liquidity and safety of investment in the Nigerian stock market. Provisional data showed that foreign direct investment (FDI) in the reporting economy reduced by 12.7 per cent to N1,553.7 billion, while portfolio investment increased by 106.6 per cent to N609.3 billion. The sizeable portfolio investment was attributable to the strong macroeconomic fundamentals, government's commitment to sustained economic reforms and more importantly, the high returns. In addition, the favourable country ratings and the de-listing of the country by the Financial Action Task Force (FATF) boosted investors' confidence in the economy. Net claims of non-residents continued to widen with large unrecorded trade claims in the oil sector resulting in a huge net negative errors and omissions (unadjusted).

¹Converted using the average exchange rate of N124.76/US\$

7.4 EXTERNAL ASSETS MANAGEMENT

The provisional figure on total external assets as at end-December, 2007, was at N6,733.63 billion (US\$62.31 billion), representing an increase of 27.7 per cent over the level in 2006. The CBN's foreign exchange holdings increased from N5,617.2 billion (US\$42.3 billion) in 2006 to N6,344.38 billion (US\$51.33 billion) in 2007. The development was due to the increase in the net assets of DMBs. The share of CBN foreign assets in total external assets was 86.5 per cent in 2007 compared with 89.8 per cent in 2006. The net foreign assets of the DMBs was N985.64 billion (US\$8.38 billion) in 2007 compared with N638.11 billion (US\$4.97 billion) in 2006 and accounted for 13.4 per cent in 2007, compared with 10.2 per cent in 2006.

7.5 INTERNATIONAL INVESTMENT POSITION (IIP)

The preliminary net International Investment Position (IIP) revealed a favourable outcome in 2007 with a surplus of US\$12.5 billion or 6.8 per cent of the GDP. Nigeria in the last three years continued to be a net creditor to the rest of the world, due largely to the shoring up of the value of external reserves. Nigeria's total foreign liabilities amounted to US\$55.0 billion and foreign assets US\$67.4 billion at the end of 2007. The net position in Nigeria's foreign assets owned abroad increased from US\$53.6 billion in 2006 to US\$67.4 billion in 2007 or 25.8 per cent. The growth in net assets abroad was attributed largely to the accumulation of official reserve assets.

Box 6: The International Investment Position (IIP)

The International Investment Position (IIP) is a statistical statement that shows at a point in time the value of financial assets (debt and equity) of residents of an economy that are claims on non-residents as well as the gold bullion held as reserve assets; and the liabilities of residents of an economy to non-residents. The IIP is also a subset of the national balance sheet. The net IIP which may be in surplus (positive) or deficit (negative) is the difference between an economy's external financial assets and liabilities. An economy is a creditor when the IIP is in surplus. This occurs when the value of foreign assets held by domestic residents exceeds the value of domestic assets held by the rest of the world. Alternatively, an economy is a debtor when the IIP is in deficit because domestic liabilities exceed domestic assets.

The capital and financial account balance consists of flow variables (changes in asset) as it records changes in an economy's asset holdings within a year. Transactions in this account form major inputs for the compilation of the IIP. However, the international asset position consists of stock variables since it records the total value of assets at a point in time. The combination of the net IIP and the value of non-financial assets show the net worth of an economy. A key advantage of the net IIP is that it enables an economy to identify potential external vulnerability caused by the integration of the world market and safeguard against the external shocks. This has become crucial since the Asian financial crisis of the 1990's. It also provides an alternative way of assessing an economy's relations with the rest of the world.

The IIP for Nigeria illustrates the annual aggregated estimates of the value of accumulated stocks of Nigerian owned assets abroad and of foreign-owned assets in Nigeria, that is, changes in Nigeria's stock of foreign assets and liabilities, which from the preliminary statement prepared for 2005 to 2007 was in surplus. Consequently, Nigeria is a net creditor to the rest of the world for the period due largely to the huge accumulation of external reserves which offset the claims (liabilities) on the economy by non-residents in the form of capital inflows.

The favourable crude oil receipts and interest accrued from foreign securities to the reserve assets enhanced Nigeria's official reserves position. The official reserves accounted for 76.1 per cent of Nigeria's foreign owned assets as at the end December, 2007. The official reserve assets increased from US\$42.3 billion in 2006 to US\$51.3 billion in 2007. Public sector assets (excluding official reserves) increased by 97.4 per cent from US\$1.3 billion in 2006 to US\$2.6 billion in 2007.

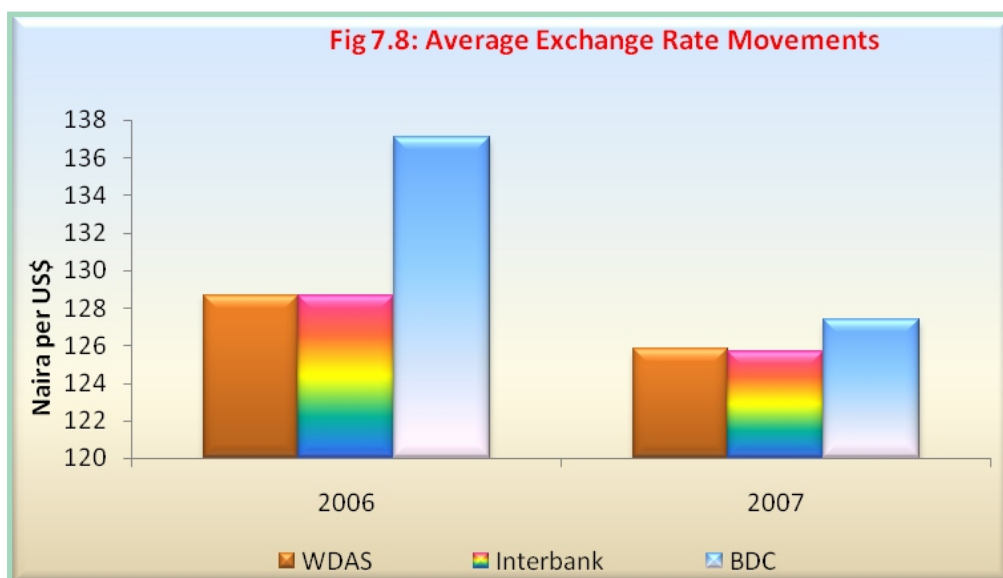
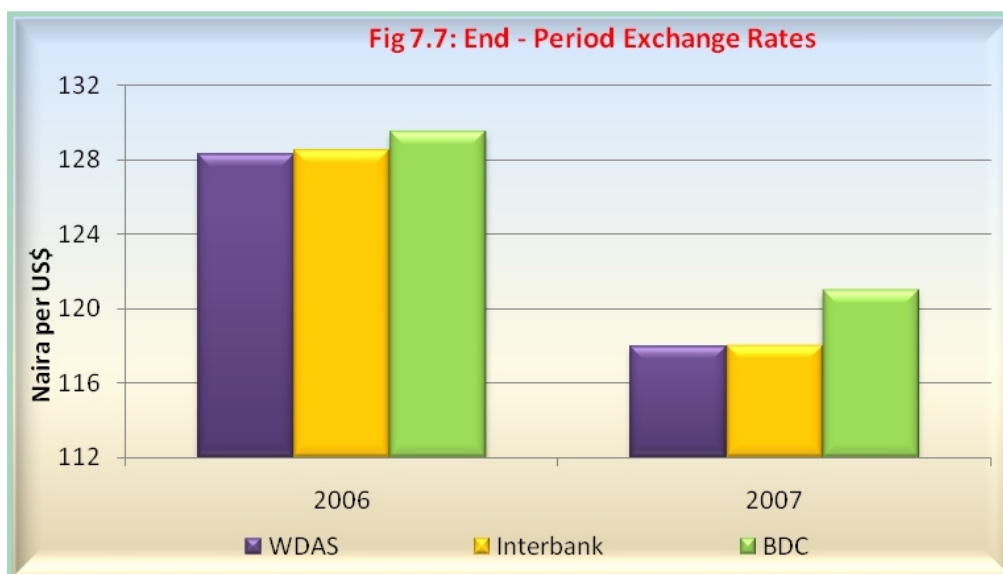
Nigeria banks' liabilities increased from US\$0.3 billion in 2006, to US\$1.1 billion in 2007. Consequently, Nigeria's bank claims on the rest of the world also increased from US\$5.0 billion in 2006 to US\$7.3 billion in 2007. However, Nigeria's non-banks' liabilities decreased by 11.8 per cent from US\$3.6 billion in 2006 to US\$3.2 billion in 2007 as against the increase of 24.65 per cent in non-bank claims. Net foreign purchases of portfolio investment, mostly stocks, increased from US\$5.2 billion in 2006 to US\$9.5 billion in 2007 or 84.77 per cent.

Table 7.3: Preliminary International Investment Position (IIP) of Nigeria at Year-end, 2005-2007

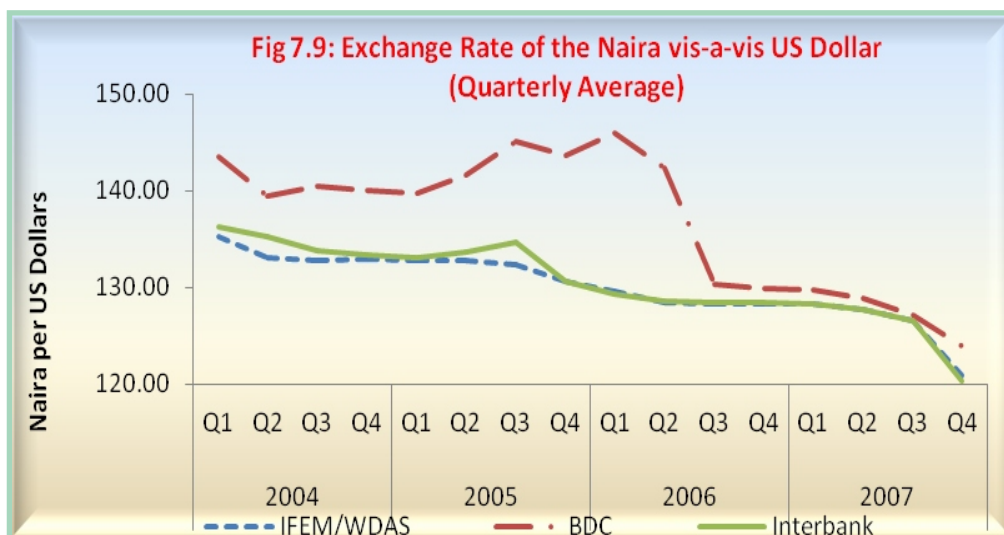
[Millions of dollars]			
Type of Asset/Liability	2005	2006	2007
Net international investment position of Nigeria	395.06	16,864.64	12,461.85
Assets	36,535.91	53,598.82	67,434.73
Nigeria owned assets abroad:	36,535.91	53,598.82	67,434.73
Direct investment abroad	0.00	0.00	0.00
Portfolio investment abroad	0.00	0.00	0.00
Financial derivatives	0.00	0.00	0.00
Other investments	0.00	0.00	0.00
Nigeria official reserve assets	28,076.77	42,298.11	51,333.15
Gold			
Special drawing rights			
Reserve position in the International Monetary Fund			
Foreign currencies	28,076.77	42,298.11	51,333.15
Public sector assets apart from official reserves	1,427.83	1,308.03	2,581.87
Other foreign assets	7,031.31	9,992.68	13,519.71
Banks	2,789.31	5,023.68	7,325.71
Non-banks	4,242.00	4,969.00	6,194.00
Liabilities	36,140.85	36,734.18	54,972.88
Foreign-owned assets in Nigeria	36,140.85	36,734.18	54,972.88
Direct investment	6,044.75	20,000.00	32,454.58
Portfolio investment	3,170.00	5,161.00	9,536.12
Financial derivatives			
Foreign official assets in Nigeria			
Long-term loan	23,539.20	7,682.49	8,751.50
External debt	20,476.20	3,544.49	3,654.00
Bond	3,063.00	4,138.00	5,097.50
Short-term loan			
Other sectors loan			
Other foreign liabilities	3,386.90	3,890.69	4,230.68
Banks	216.90	286.69	1,052.68
Non-banks	3,170.00	3,604.00	3,178.00

7.6 EXCHANGE RATE MOVEMENTS

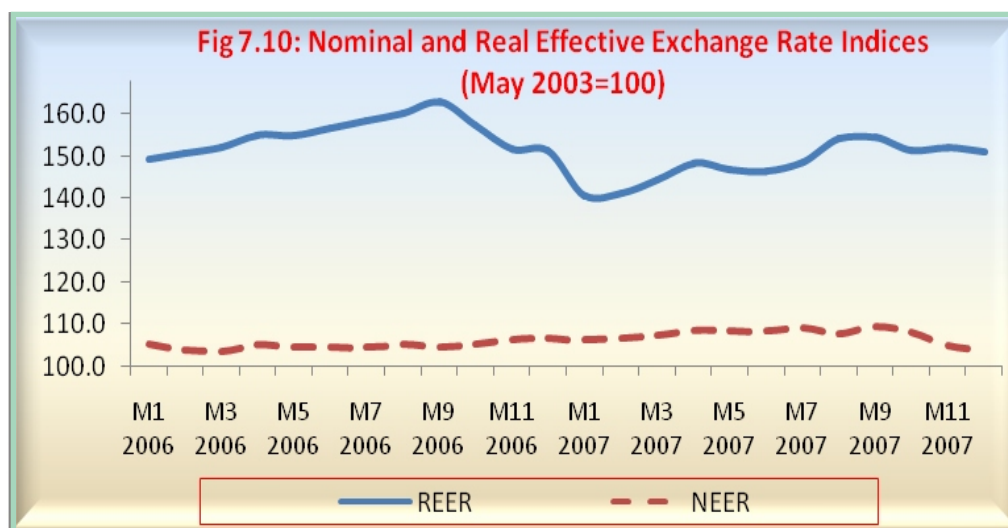
The average effective exchange rate of the naira, under the WDAS segment of the foreign exchange market was N125.83 per dollar as against N128.65 per dollar in 2006. This showed an appreciation of 2.2 per cent over the level in the preceding year. At the Inter-bank and BDC segments of the market, the naira traded at an average exchange rate of N125.75 and N127.41 per dollar respectively showing an appreciation of 2.3 and 7.6 per cent, over their levels in the preceding period. The average exchange rate of the naira in all the segments of the market appreciated throughout the year under review. Consequently, the premium between the WDAS/IFEM and WDAS/BDC rates was 0.1 and 1.3 per cent in 2007 respectively, compared with 0.02 and 6.6 per cent in 2006, respectively.



The end-period nominal exchange rate at the WDAS segment of the market was N117.97 per dollar, indicating an appreciation of 8.7 per cent over the level in the corresponding period in 2006. Similarly, at the Inter-bank and BDC segments of the foreign exchange market, the naira exchanged at N118.05 and N121.00 per dollar, showing an appreciation of 7.0 and 8.9 per cent, respectively, over their levels in 2006.



The index of Nominal Effective Exchange Rate (NEER) (May 2003=100) of the Naira, which was based on the currency basket of 12 major trading partners, namely, Brazil, China, France, Germany, India, Indonesia, Italy, Japan, Netherlands, Spain, United Kingdom and United States of America, was 103.92 at end-December, 2007 compared 106.72 in the preceding year. The index of Real Effective Exchange Rate (REER) (May 2003=100) was 151.23 as against 150.91 in the preceding year.



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

		NEER	REER
Monthly Index	Dec-05	102.87	137.95
	Dec-06	105.48	149.19
	Dec-07	103.98	152.32
Annual Average	2005	106.58	143.74
	2006	104.07	148.22
	2007	107.45	155.23
Percentage Change (Point to Point)	Dec-05	-6.9	0.2
	Dec-06	2.5	8.1
	Dec-07	-1.4	2.1
Percentage Change (Annual Average)	Dec-05	-0.5	13.5
	Dec-06	-2.4	3.1
	Dec-07	3.2	4.7

CHAPTER 8

INTERNATIONAL AND REGIONAL INSTITUTIONS

8.1 THE INTERNATIONAL MONETARY SYSTEM

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

The 2007 Spring Meetings of the Inter-Governmental Group of Twenty-Four (G-24) on International Monetary Affairs and Developments, the International Monetary Fund (IMF) and the World Bank (WB) considered the following issues: Voice and Representation of Developing Countries, the 1977 Decision on Surveillance, Scaling up of Aid, Clean Energy and Climate Change, Governance and Anti-Corruption. The Ministers of the G-24 stressed the need to adopt a package of reforms aimed at increasing the voice and representation of developing countries for the legitimacy and effectiveness of the Bretton Woods Institutions. They also advocated for an increase in the voting share of those countries whose weight and role in the world economy had increased the most, but not at the expense of other developing countries.

The Ministers endorsed the principles agreed by the Executive Board to guide any revision of the 1977 Decision on Surveillance over exchange rate policies, namely: there should be no new obligations, and dialogue and persuasion should remain key pillars of surveillance; the Decision should pay due regard to the circumstances of a country and emphasise evenhandedness; and it should remain flexible to allow surveillance to continue evolving. They expressed disappointment that progress on the increased delivery of aid resources was stalled after the adoption of the MDGs, the Monterrey Consensus and the commitment of the G8 to scale up aid. They however, welcomed the progress made in the implementation of the World Bank Group's Africa Action Plan, but noted that the region was still not on track to meet most of the MDGs targets. Furthermore, the Ministers stressed that good governance and the fight against corruption were of utmost importance to their countries.

The 2007 Annual Meetings of the Inter-governmental Group of Twenty-Four (G-24) on International Monetary Affairs and Development, the IMF and the World Bank noted that developing countries had become the new growth drivers and the stabilising factor in the world economy. It noted that the current turbulence in global financial markets had only limited impact on developing countries as a result of strengthened economic fundamentals. The Meeting stressed the importance of vigilance in the face of these risks, and emphasised the need for transparency, appropriate regulation and supervision to mitigate systemic risks. The Ministers equally noted the vulnerability of the US sub-prime mortgage market and its spill over effects. They underscored the need for the IMF to improve its surveillance of advanced countries as it does for emerging market economies, stressing that policy coordination was very critical to prevent the emergence of crises in the future.

The Ministers called for reform of the selection process for the heads of the Bretton Woods Institutions with rules and practices that are merit-based and promote broad geographic representation. They urged the Boards of Directors of the two institutions to reach an agreement on this before the 2008 Spring Meetings. The Ministers also endorsed the agreement to open up the process and establish a term limit and geographic rotation of the appointment of the International Monetary and Finance Committee (IMFC) Chairman.

8.1.2 The International Monetary Fund

The IMF's outstanding global credit declined to SDR 7.3 billion from SDR 19.9 billion in 2006, owing to the continued early repayments of outstanding loans and the low level of new disbursements. IMF disbursements amounted to SDR 2.3 billion, the bulk of which went to Turkey. New IMF commitments fell

sharply, from SDR 8.3 billion in Financial Year 2006 to SDR 237 million in FY2007, with two new Stand-By Arrangements approved for Paraguay and Peru.

8.1.3 The World Bank Group

The World Bank Group's total commitments in 2007 amounted to US\$34.3 billion in loans, grants, equity investments and guarantees to its members and to private businesses in member countries. Of this amount, the International Bank for Reconstruction and Development (IBRD) commitments were US\$12.8 billion to finance 112 projects. The International Development Association's (IDA) commitments increased by 25.0 per cent from US\$9.5 billion in 2006 to US\$11.9 billion in 2007 to finance 189 projects. The International Finance Corporation committed US\$8.2 billion in 2007 for private sector development in developing countries, compared with US\$1.5 billion in 2006. The Multilateral Investment Guarantee Agency (MIGA) issued 45 new guarantees for 29 projects valued at US\$1.4 billion.

The World Bank Group faced a leadership crisis during the year that led to the resignation of its President, Paul Wolfowitz. The Board, thereafter, confirmed Robert Zoellick as the Bank's 11th President, effective 1st July, 2007 for a five-year term.

8.1.4 International Commodity Organisations

8.1.4.1 The International Cocoa Organisation (ICCO)

The 133rd Executive Committee meeting of the Consultative Board of the ICCO was held at the European Bank for Reconstruction and Development (EBRD), London from 4th to 7th June, 2007. The participants included 13 producing and 27 consuming countries. Issues considered included the report on the 12th Consultative Board Meeting held in Kuala Lumpur, Malaysia and the adoption of the draft document for a Round Table meeting to be held in Accra, Ghana later in 2007. The document dwelt extensively on sustainable world cocoa economy such as the following:

- increasing the incomes of cocoa farm families within the cocoa growing communities;
- ensuring quality and value addition to cocoa products;
- payment of contributions for administrative budgets; and
- an action programme on pesticide residues.

The 76th Regular Council Session, 134th Executive Meeting, 14th Meeting of the Consultative Board and the Subsidiary Meetings of the International Cocoa Organisation (ICCO) were held in London from 10th to 14th September, 2007. The meetings considered a wide range of issues which included membership of the organisation which stood at 42 (16 exporting and 26 importing countries). Nigeria as at August 2007 had fully paid up her contribution totalling £86,478 to the ICCO.

The world production of cocoa beans for the 2006/2007 cocoa year was estimated at 3,444 million tonnes. Africa remained the largest cocoa producing region in the world with about 70.0 per cent of the total output. Nigeria's cocoa production, at 160,000 tonnes for 2006/2007 remained the same as in the previous season, and was 15 per cent less than the forecast of 200,000 tonnes. The ICCO recognised seven countries as exclusive exporters of fine or flavour cocoa. They included Columbia, Ghana, Grenada, Jamaica, Madagascar, Saint Lucia and Trinidad and Tobago. Other issues considered included the distribution of votes and voting rights in the Council. Cote d'Ivoire had the highest voting rights of 400 being the highest exporter of cocoa beans. Nigeria had 92 voting rights as the third largest exporter of cocoa beans in Africa. The market price movements during that period ranged between £1,143 and £1,144 in London and

US\$2,144 and US\$2,145 in New York. The forecast of World grindings of cocoa beans was put at 3,343,000 tonnes to 3,426,000 tonnes in the 2006/2007 season.

8.1.5 Bilateral Relations

Nigeria held Bilateral Economic Cooperation meetings with the Niger Republic, Russia, the Republic of South Africa, Congo (DRC) and the United States to deliberate on issues of common interest. During the Economic Cooperation meeting between Nigeria and Niger, both countries agreed on the need for cooperation in the development of sugar processing factories and the production of ethanol. The meeting also affirmed the need to find a solution to the problem of human trafficking and how to discourage smugglers along the common borders of the two countries.

Nigeria and Russia signed a Memorandum of Understanding on the establishment of the Nigeria/Russia Business Council in 2007. Both parties agreed to promote economic cooperation especially, in the areas of banking and finance, fisheries, energy and trade. The third meeting of the Special Implementation Committee of the Bi-national Commission between Nigeria and South Africa agreed on the need to establish a Joint Agriculture Committee. Both sides also agreed to cooperate in the areas of banking and finance, solid minerals development, tourism and the development of national parks.

The Nigeria/Congo Joint Commission agreed to promote cooperation in research and development in the areas of mining, mapping, exploration and exploitation of the solid minerals sector. Both countries expressed willingness to cooperate in the fields of solar energy, small and medium-sized corporation and banking and finance. Also, at the fifth Session of the US-Nigeria Trade and Investment Forum Agreement, the US agreed to intensify efforts towards the development of electric power in Nigeria and capacity building for the Nigerian banking sector on project financing models. The two sides also agreed on new areas of cooperation including improving enforcement against piracy and counterfeiting.

8.2 REGIONAL INSTITUTIONS

8.2.1 The Association of African Central Banks (AACB)

The 31st Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB) was held in Tripoli, Libya on 15th August, 2007. The Assembly adopted a progress report on the African Monetary Cooperation Programme (AMCP). The Governors agreed not to establish the African Central Banks Experts Working Group on Payments System, but requested subregions to implement payments system harmonisation at their levels and report at the AACB annual meetings. The Governors also considered and approved the work programme of the Secretariat and the 2008 AACB budget. The Governors noted the unfortunate situation of some central banks failing on their obligations of contributions and signing of statutes. Consequently, the Governors agreed to implement with immediate effect, Article 8 of the statutes on sanctions. The Assembly agreed to form a joint committee between the Africa Union (AU) and AACB to reconcile their strategies for the establishment of the African Central Bank (ACB) as well as the formation of both the African Investment Bank (AIB) and the African Monetary Fund (AMF). The Assembly agreed that the theme of the 2008 symposium would be “The Objective Conditions Necessary for the Proper Functioning of the Proposed Three African Financial Institutions- the African Central Bank, the African Finance Corporation and the African Investment Bank”. The Assembly elected Mr. Farhat O. Bengdara, Governor of the Central Bank of Libya as Chairman of AACB for 2007/2008.

8.2.2 The United Nations Economic Commission for Africa (UNECA)

The United Nations Economic Commission for Africa (UNECA) held its 40th Conference of African Ministers of Finance, Planning and Economic Development in Addis Ababa from 2nd-3rd April,

2007 with the theme “Accelerating Africa's Growth and Development to Meet the MDGs: Emerging Challenges and the Way Forward.” The Conference concluded with the adoption of resolutions calling for action to ensure that the MDGs targets are achieved in African countries.

The Ministers agreed that the scaling up of both public and private sector investments was key to meeting the MDGs targets. Although there was agreement on the crucial role of the private sector in accelerating growth, the Ministers noted that private investment would not grow substantially without a massive leap in public sector investment, especially in key sectors such as human resources and infrastructure development.

The Ministers committed to designing nationally-owned development strategies that have the MDGs at their core. In this regard, they urged the international community to allow African governments the necessary policy space to design strategies that were country specific with a view to ending aid dependency over time. The Ministers also commended UNECA for its bold and strategic business plan for the years 2007 to 2009, and committed themselves, together with the development partners, to fully back the programme with adequate resources to ensure its success. They also noted with appreciation the strong and growing working relationship between UNECA, the African Union Commission (AUC) and the African Development Bank (AfDB).

8.2.3 The African Development Bank (AfDB) Group

The 42nd Annual Meetings of the Board of Governors of the African Development Bank (AfDB) Group and the 33rd Annual Meetings of the Board of Governors of the African Development Fund (ADF) were held from 16th to 17th May, 2007, in Shanghai, China. At the meetings, 14 new directors were elected to replace retiring ones. The Governors reaffirmed that “the headquarters of the Bank shall remain in Abidjan, Cote d'Ivoire”, but extended the temporary relocation of operations to Tunis for 12 months with effect from 3rd June, 2007. Three reports: “The African Economic Outlook 2006”, “African Competitiveness Report, 2007”, and “Consumption and Price Levels in African Countries” were launched. The Bank Group's 2006 accounts, which were presented, showed that the three windows of the institution earned income of US\$372.5 million, with the AfDB window alone accounting for US\$291 million. All the rating agencies reaffirmed triple AAA and AA+ rating for the Bank's senior and subordinated debt, respectively. The meetings observed that the economic outlook for Africa remained positive with 31 countries' economies growing faster than their population. Half of them achieved five per cent while nine others were growing above 7.0 per cent per annum. The meetings acknowledged the recovery in post-conflict countries such as Liberia, Central African Republic, Democratic Republic of Congo and Burundi.

8.2.4 The New Partnership for Africa's Development (NEPAD)

NEPAD Nigeria developed a project called 'Interactive Learning Network (ILN)' in partnership with the private sector, the Federal Ministry of Education, and its key parastatals, such as the Education Tax Fund (ETF) and the Federal Ministry of Science and Technology. The aim of the ILN was to create a dedicated and sustainable platform, using appropriate technologies, through which quality educational content and data can be affordably accessed and interacted with. The ILN, which was designed to cover all tiers of education in Nigeria, was expected to facilitate collaboration among students/learners, teachers and the entire Nigerian community.

Networking of the NEPAD Nigeria Data Bank with states by using a Broad Band Global Area Network was also initiated to meet the information requirements of their stakeholders at all levels (National, State, Local Government and the Civil Society). The information will cover social and economic conditions such as employment, manufacturing and trade and would be sourced through economic surveys, economic indicators and surveys of business owners.

At the regional level, NEPAD's priority in 2007 was the strengthening of infrastructure in Africa which is considered to be vital for integration and growth in the region. The NEPAD Infrastructure Short-Term Action Plan which was produced in May 2002 ended in 2007, but was replaced by a Medium to Long-Term Strategic Framework at the end of the year. The mandate of the Plan was to strengthen the eight Regional Economic Communities (RECs) under NEPAD which would serve as the “building blocks” of regional integration. The Action Plans project portfolio comprised a selection of infrastructure projects that support regional integration, with an estimated value of US\$20 billion. National ministries, banks and utilities, regional development banks and regional specialised agencies were expected to liaise with the RECs for effective execution of the Action Plan. The establishment of a fund at the AfDB was proposed to support the delivery of the Action Plan by the RECs.

The West African Ministers of Environment held a meeting in Accra, Ghana, on 27th June, 2007, to deliberate on the SubRegional Environment Action Plan for West Africa (SREAP WA) initiative of NEPAD. The Action Plan had been developed for each of the five subregions of Africa using the same process and structures as the continent-wide Action Plan for the Environment Initiative of NEPAD adopted by the AU Summit in Mozambique in July, 2003. At the end of the meeting, the Ministers endorsed the Action Plan and urged West African countries to take measures to initiate the implementation of the Plan and to integrate it into their national development strategies, such as the poverty reduction strategies, and into national environment management strategies and action plans.

8.2.5 The African Peer Review Mechanism (APRM)

NEPAD Nigeria in Abuja engaged the services of a consortium of Lead Research Organisations (LROs) to prepare a draft Country Self Assessment Report (CSAR) which would serve as a basis for Nigeria's peer review under the African Peer Review Mechanism (APRM). The report, which was prepared using internationally accepted research methodology, covered the four thematic areas of governance under the APRM framework, namely: Democracy and Political Governance; Economic Governance and Management; Corporate Governance; and Socio-Economic Development. The report contained the perceptions of Nigerians on the quality of governance in the country and proffered a roadmap for addressing identified challenges and weaknesses with a view to evolving better governance practices.

Subsequently, a nationwide validation of the CSAR was conducted between 18th November and 1st December, 2007 by the National Working Group of APRM, Nigeria. The validation exercise was aimed at facilitating inputs to the document by important segments of the Nigerian population in order to strengthen and promote its ownership and sustainability. The Federal Government had set up a National Working Group (NWG) made up of eminent persons, important Non-Governmental Organisations (NGOs), Civil Society Organisations (CSOs), governmental institutions such as the CBN, the media, labour and trade associations, and other critical stakeholders, as a key structure of the APRM, with the responsibility to facilitate and manage the validation exercises.

As a follow-up to the validation exercises at the sub-national level, a national stakeholders' validation workshop was held by NEPAD Nigeria in Abuja on 4th December, 2007. The aim of the workshop was to present the results of the nationwide validation exercises to the national and state stakeholders for their inputs, discussion and strengthening of the recommendations. It was also to elicit support for implementing the final recommendations that would be contained in the National Programme of Action (NPoA) at the completion of the peer review process.

8.3 SUB-REGIONAL INSTITUTIONS

8.3.1 The Economic Community of West African States (ECOWAS)

The 31st Summit of Heads of State and Government of the Economic Community of West African States (ECOWAS) was held in Ouagadougou, Burkina Faso on 19th January, 2007. The Authority adopted reports on the ECOWAS regional integration and cooperation programme, institutional issues, and regional peace and security. In order to realise the ECOWAS monetary integration programme, the Heads of State and Government urged member states of the West African Monetary Zone (WAMZ) to redouble efforts to achieve the agreed macroeconomic convergence criteria. The Summit urged member states to take all necessary measures to implement the Protocol on Free Movement of Goods and Persons and the Right of Residence and Establishment. It welcomed the decision of the Council of Ministers to establish pilot units on the Lagos-Cotonou, Lomé-Accra, Abidjan-Ouagadougou, and Bamako-Conakry axis and to create a central coordination and monitoring bureau. The Summit adopted a regional telecommunications policy and a regulatory framework covering specific areas and agreed to harmonise infrastructure policies in the subregion.

The progress made in the construction of the West African Gas Pipeline was acknowledged and the establishment of a Power Pool System, charged with linking the electricity grids of member states was noted. The Heads of State and Government lauded the transformation of the Executive Secretariat into a Commission, as well as the restructuring of the institutions of ECOWAS. President Blaise Compaoré of Burkina Faso was elected Chairman of the Commission. The ECOWAS Commission convened an extraordinary meeting of the ECOWAS Convergence Council on 9th October, 2007 in Ouagadougou. The meeting considered the report of a Technical Committee on the ECOWAS Single Currency Initiative held in Ouagadougou on 8th October, 2007 that had adopted the critical mass approach. Under this option, the Eco currency would be launched, provided that a “critical mass” of at least four countries representing not less than 75 per cent of ECOWAS GDP the convergence criteria. In addition, all countries would be required to agree to a growth and stability pact that would guarantee the sustainability of the Union.

The Council further considered the feasibility of this approach and proposed that:

- a renowned independent consultant be appointed to lead the process; and
- a feasibility study be conducted, taking into account the management experience of the BCEAO; the deadline for launching the single currency, the harmonisation of the convergence criteria, taking into account exchange rate regimes, and the institutional reforms of monetary institutions.

At the end of deliberations, it was agreed that a progress report would be submitted at the next Summit of ECOWAS Heads of State and Government, on the status of implementation of the directive relating to the creation of the ECOWAS single currency.

8.3.2 The West African Monetary Zone (WAMZ)

The West African Monetary Zone (WAMZ) held its meetings in Abuja, Nigeria, from 7th to 10th May, 2007. The meetings were attended by all member countries namely: The Gambia, Ghana, Guinea, Nigeria and Sierra Leone. The Committee of Governors noted that member countries were on course for the December 2009 launch of the monetary union, and that The Gambia and Nigeria had met the four primary convergence criteria. They stressed the need to deepen institutional and structural reforms so as to sustain the momentum, particularly in trade liberalisation, elimination of trade barriers and domestication of relevant protocols.

Recommendations by the Committee of Governors which were adopted by the Convergence Council included the following:

- The adoption by members of Nigeria's Fiscal Responsibility Act as best practice to ensure fiscal prudence;
- Enactment of WAMZ statutes into national laws. Nigeria and Ghana should endeavour to ratify the WAMZ statutes. Members should pay up all financial obligations;
- The Quoting and Trading of WAMZ currencies should be adopted but without the involvement of central banks. All exchange control regulations should be abolished and central banks should maintain stable exchange rate regimes;
- The Council accepted the adoption of the WAMZ Cheque Standard and the Automated Cheque Processing Standard (ACPS) as a model for all member countries; and
- The National Sensitisation Committees should develop clear terms of reference to engage WAMZ stakeholders (parliamentarians, captains of industry, civil society groups and the general public).

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

The Annual Meeting of the Institute was held in Conakry, Guinea in October, 2007. The Institute reported that during the period January to October, 2007, 34 training and capacity building programmes were held which were attended by 1,158 participants. During the meeting, the annual programme and the 2008 budget of the Institute were approved by the Committee of Governors of the WAMZ. The budget of US\$3,136,538.36 was designed to fund 33 training and capacity building programmes and other operations of the Institute. Member central banks were to contribute US\$1,473,038.36 or 47 per cent, while external donors would contribute US\$1,400,000 or 45 per cent of the budget. The remaining eight (8) per cent or US\$263,500 would be generated internally.

