CENTRAL BANK OF NIGERIA

ECONOMIC REPORT FOR THE THIRD QUARTER OF 2009

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RESEARCH DEPARTMENT

CENTRAL BANK OF NIGERIA

QUARTERLY ECONOMIC REPORT

The Central Bank of Nigeria Quarterly Economic Report is designed for the dissemination of financial and economic information on the Nigerian economy on current basis. The Report analyses developments in the financial, fiscal, real and external sectors of the economy, as well as international economic issues of interest. The Report is directed at a wide spectrum of readers including economists and financial analysts in government and the private sector, as well as general readers.

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1.0 Summary

Provisional data from the National Bureau of Statistics (NBS) estimated GDP growth in the third quarter of 2009 at 7.6 per cent, compared with 7.2 per cent in the preceding quarter. The projected growth was driven mainly by the non-oil sector which contributed 83.6 per cent of total GDP. Broad money (M_2) grew by 4.2 per cent, relative to the preceding quarter. The increase in M_2 was attributed largely to the rise in aggregate banking system credit to the domestic economy (net). Narrow money (M_1), however, declined by 3.4 per cent from the level in the preceding quarter.

Available data indicated a general increase in banks' deposit rates, while lending rates declined. The spread between the weighted average term deposit and maximum lending rates narrowed from 11.00 percentage points in the preceding quarter to 10.49 percentage points. The margin between the average savings deposit and maximum lending rates, however, widened from 19.96 to 20.02 percentage points during the period. The weighted average inter-bank call rate fell to 12.66 per cent from 14.76 per cent in the preceding quarter, reflecting the liquidity condition in the inter-bank funds market.

The value of money market assets outstanding rose by 13.5 per cent over the level in the preceding quarter to =N=3,515.9 billion. The increase was attributed largely to the rise in outstanding Nigerian Treasury Bills (NTBs). Activities on the Nigerian Stock Exchange were mixed during the review quarter.

Total federally-collected revenue in the third quarter, 2009 stood at =N=1,218.30 billion, representing a decline of 8.1 per cent from the proportionate budget estimate but an increase of 16.6 per cent over the preceding quarter's level. At =N=716.81 billion, oil receipts constituted 58.8 per cent of the total revenue, and was lower than the proportionate budget estimate. The fall in oil receipts relative to the proportionate budget estimate was attributed to the decline in crude oil production occasioned by the attacks on oil facilities. Non-oil receipts, at =N=501.49 billion or 41.2 per cent of the total, was lower than the proportionate budget estimate but higher than the receipts in the preceding quarter. The decline in non-oil receipts relative to the budget estimate was attributed largely to the fall in customs and excise duties, Value-Added-Tax (VAT) and independent revenue of the Federal Government. Federal Government retained revenue for the third quarter 2009 was =N=817.28 billion, while total expenditure was =N=1,011.22 billion. Thus, the fiscal operations of the Federal Government resulted in an estimated overall deficit of =N=193.94 billion, compared with =N=382.23 billion in the preceding quarter and the budgeted deficit of =N=209.15 billion.

The major agricultural activities in the review quarter included harvesting of root crops such as yams, irish and sweet potatoes and groundnuts. In addition, farmers commenced the preparation of land and nurseries for the cultivation of tomatoes, pepper, carrots, cabbage and other vegetables.

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 1.73 million barrels per day (mbd) or 159.16 million barrels for the quarter. Crude oil export was estimated at 1.33 mbd or 122.36 million barrels for the quarter, while deliveries to the refineries for domestic consumption remained at 0.445 mbd or 40.94 million barrels. The average price of Nigeria's reference crude, the Bonny Light (37^0 API), estimated at US\$70.05 per barrel, rose by 14.6 per cent over the level in the preceding quarter. The end-period inflation rate for the third quarter, 2009, on a year-on-year basis, was 10.4 per cent, compared with 11.2 and 13.0 per cent recorded at the end of the preceding quarter and the corresponding quarter of 2008, respectively. Inflation rate on a twelve-month moving average basis for the third quarter, was 13.1 per cent, compared with 13.7 and 9.2 per cent recorded in the preceding quarter and the corresponding quarter, 2008, respectively.

Foreign exchange inflow and outflow through the Central Bank of Nigeria (CBN) amounted to US\$5.67 billion and US\$9.01 billion, respectively, resulting in a net outflow of US\$3.34 billion during the quarter. Foreign exchange sales by the CBN to the authorized dealers amounted to US\$7.34 billion in the review quarter. The weighted average exchange rate of the Naira vis-à-vis the US dollar, depreciated by 2.1 per cent to =N=150.92 per dollar at the WDAS. In the bureaux de change segment of the market, the naira also depreciated from =N=175.68 per dollar to =N=157.36 per dollar. Non-oil export earnings by Nigerian exporters declined by 11.4 per cent from the level in the preceding quarter to US\$335.84 million. . The development was attributed largely to the fall in the prices of all the commodities traded at the international commodities market during the period.

The modest growth in the global economy experienced in the second quarter continued in the third quarter, following the strong performance of Asian economies. In the advanced economies, unprecedented public intervention has stabilised activity and has even fostered a return to modest growth in several economies. Emerging and developing economies were generally further ahead on the road to recovery, led by rebound in Asia. The recent rebound in commodity prices and supportive policies are helping many of these economies. World crude oil output in the third quarter of 2009, was estimated at 84.32 million barrels per day (mbd), while demand was estimated at 83.13 mbd, compared with 83.62 and 83.17 mbd supplied and demanded in the preceding quarter, respectively. The increase in demand was due to renewed optimism of a global economic recovery. Crude oil prices in particular have hovered between \$70 and \$80 per barrel during the quarter. Price developments will partly depend on how strongly supply responds to recovering demand.

Other major international economic developments of relevance to the domestic economy during the quarter included: the 9th meeting of the Special Implementation Committee (SIC) of the Nigeria-South Africa Bi-National Commission (BNC) held in Abuja from July 22- 23, 2009. The meeting had six working groups on Foreign Affairs and Cooperation; Agriculture, Water Resources and Environment; Social and Technical; Trade, Industry and Finance; Minerals and Energy; and Defence and Security (see July 2009 Report).

Also, the Committee of Ten African Ministers of Finance and Governors of Central Bank (Committee of Ten) held their third session in Abuja on July 14, 2009 under the auspices of the African Development Bank, the Economic Commission for Africa and the African Union Commission. The objective of the meeting was to review the latest information pertaining to the impact of the global financial crisis on Africa; take stock of recent internal and international developments; and agree on African perspectives to be fed into the global discussions, in particular during the G20 Leaders Summit in Pittsburgh on September 26, 2009 (see July Report).

In a related development, the International Monetary Fund (IMF) concluded its Article IV Consultation Mission with the Nigerian authorities on July 29, 2009 and noted that Nigeria entered the global financial crisis from a position of strong macroeconomic stability. The reforms of recent years paid off, with oil savings, high international reserves, and a well-capitalized banking system preventing the type of economic crisis Nigeria witnessed during the oil price cycles of the early 1980s (see July Report). In another development, the 33rd Ordinary Meetings of the Association of African Central Banks (AACB) was held in Kinshasa, Democratic Republic of Congo (DRC) from August 17—21 2009. The theme for the 2009 AACB Annual Meetings was "The Formulation of Monetary Policy in Africa: The Relevance of Inflation Targeting" (see August Report).

The International Monetary Fund (IMF) on August 28, 2009 bolstered its members' reserves through an allocation of Special Drawing Rights (SDRs) worth US$250 billion, followed by an additional allocation of $33.0 billion on September 9, 2009. With the two allocations totaling $283.0 billion, the outstanding stock of SDRs would increase nearly ten-fold to about $316 billion (see August Report).

In another development, the 8th African Growth and Opportunity Act (AGOA) Forum was convened by the Government of the Republic of Kenya in conjunction with the United States (US) Government in Kenya from August 1 – 6, 2009 on the theme "Realizing the Full Potential of AGOA through Expansion of Trade and Investment". The objective of the forum was to create a platform on which both the US and the sub-Saharan African countries could articulate their views and concerns in order to foster closer economic ties for mutual benefit (see August Report). Also, the summit of the Group of twenty (G-20) industrialized and emerging market economies was held from September 24 – 25, 2009 in Pittsburgh, USA. The leaders noted that the forceful policy response to the crisis had helped to stop a dangerous, sharp decline in global activity and stabilized financial markets. Industrial output was now rising in nearly all economies and international trade was starting to recover, while IMF analysis indicated that the global economy is expected to grow at nearly 3 per cent by 2010.

Lastly, the African Development Bank (AfDB) approved a grant of US$1 million to AB Microfinance Bank Of Nigeria (ABN) from the Fund for Africa Private Sector Assistance (FAPA) on September 7, 2009. The Technical Assistance (TA) contribution from FAPA, which accounted for 7.7 percent of the overall TA package, will be used to co-finance the provision of technical assisted to ABN to build the capacity of the institution during its first few years of operation.

2.0 FINANCIAL SECTOR DEVELOPMENTS

2.1 Monetary and Credit Developments

Major monetary aggregate rose, while banks' deposit and lending rates indicated mixed developments in the third quarter of 2009. The value of money market assets increased, following largely the rise in outstanding Nigerian Treasury Bills (NTBs) and Bankers Acceptances (BAs). Transactions on the Nigerian Stock Exchange (NSE) recorded mixed developments during the review quarter.

Provisional data indicated growth in monetary aggregate in the third quarter, 2009. Broad money (M_2) rose by 4.2 per cent to =N=9,458.5 billion, compared with the increase of 0.9 per cent in the preceding quarter. Narrow money (M_1), however, fell by 3.4 per cent to =N=4,333.5 billion from the level in the preceding quarter. The rise in M_2 was accounted for largely by the 23.1 per cent increase in aggregate banking system credit to the domestic economy (net) (fig. 1 and table 1).

At =N=6,991.2 billion, aggregate banking system credit (net) to the domestic economy increased by 23.1 per cent in the third quarter of 2009, compared with the rise of 17.8 per cent in the preceding quarter. The development reflected largely the 14.7 per cent rise in claims on the private sector, reinforced by the 2.1 per cent increase in claims on the Federal Government.

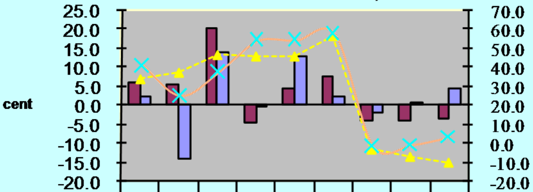
Banking system's credit (net) to the Federal Government increased by 2.1 per cent to negative =N=2,820.2 billion, compared with the increase of 15.4 per cent in the preceding quarter. The rise was accounted for wholly by the increase in CBN's holding of Federal Government securities.

Banking system's credit to the private sector increased by 14.7 per cent to =N=9,811.4 billion, compared with the increase of 4.0 per cent in the preceding quarter. The rise reflected largely the 13.9 per cent increase in CBN's claims on the sector (fig 2).

At =N=6,886.9 billion, foreign assets (net) of the banking system fell by 9.9 per cent, compared with the decline of 5.7 per cent in the preceding quarter. The development was attributed largely to the 11.8 per cent decline in the CBN's holdings.

Quasi money increased by 11.6 per cent to =N=5,125.0 billion, compared with the increase of 6.0 per cent in the preceding quarter. The development was attributed to the rise in all the components namely, time, savings and foreign currency deposits of the (DMBs).

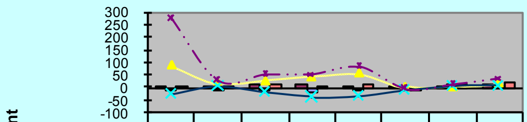
Figure 1: Aggreagate Money Supply in Nigeria (Quarterly and Cummulative Growth Rates in Per cent)



	3rd Qtr 07	4th Qtr 07	1st Qtr 08	2nd Qtr 08	3rd Qtr 08	4th Qtr 08	1st Qtr 09	2nd Qtr 09	3rd Qtr 09
QM1	5.8	5.5	20.2	-4.8	4.6	7.4	-3.9	-3.9	-3.4
QM2	2.2	-14.4	14.0	-0.6	12.7	2.3	-1.8	0.9	4.2
CM1	33.2	36.6	45.9	45.2	45.2	55.9	-3.9	-7.7	-10.8
CM2	40.8	25.0	37.7	54.1	54.2	57.8	-1.8	-1.0	3.2

Other assets (net) of the banking system, however, declined by 4.1 per cent to =N=4,419.6 billion, compared with the decline of 8.0 per cent in the preceding quarter. The fall reflected largely the decline in unclassified assets of the CBN during the quarter.

Figure 2: Aggregate Domestic Credit to the Economy (Quarterly and Cummulative Growth Rate)



	4th Qtr 07	1st Qtr 08	2nd Qtr 08	3rd Qtr 08	4th Qtr 08	1st Qtr 09	2nd Qtr 09	3rd Qtr 09
QCP	7.3	3.9	13.3	10.4	7.8	2.1	4	14.7
QCG	-7.8	1.9	-8.6	-19.4	-3.8	-9.6	15.4	2.1
QAC	6.9	5.5	16.6	4.4	16.7	-2.6	17.8	23.1
CCP	90.8	18	33.6	47.5	59.4	2.1	6.2	21.7
CCG	-22	5.6	-14.7	-36.9	-31.2	-9.6	7.3	9.3
CAC	276	28.8	50.2	56.8	84.2	-2.6	14.7	41.2

2.2 Currency-in-circulation and Deposits at the CBN

At =N=1,031.9 billion, currency in circulation rose by 2.6 per cent in September 2009 over the level in the second quarter, 2009. The increase was attributed wholly to the 4.3 per cent rise in currency outside the banking system during the period.

Total deposits at the CBN amounted to =N=4,949.2 billion, indicating a decline of 7.0 per cent from the level in the preceding quarter. The development was attributed wholly to the fall in Federal Government deposits. The shares of the Federal Government, banks and "others" in total deposits at the CBN were 86.2, 9.1 and 4.7 per cent, respectively, compared with the shares of 89.3, 5.3 and 5.4 per cent, in the second quarter, 2009.

2.3 Money Market Developments

Activities in the money market were influenced by the various policy actions taken by the monetary authority to inject liquidity into the economy during the review period. These included the reduction in Monetary Policy Rate, suspension of transactions at the Expanded Discount Window, the injection of N420.0 billion into five (5) Deposit Money Banks, the re-introduction of the interest rate corridor as well as the Bank's guarantee of unsecured inter-bank market transactions. The actions moderated risk expectations among market participants as the spread between the unsecured and secured transactions at the inter-bank market narrowed, while the volume of transactions increased significantly.

Provisional data indicated that the value of money market assets outstanding as at end–September 2009 was =N=3,515.9 billion, representing an increase of 13.5 per cent over the level at end-June 2009. The increase during the period was attributed mainly to the 17.4, 29.5 and 27.6 per cent increase in Nigerian Treasury Bills (NTB), Bankers Acceptances (BAs) and Commercial Papers (CPs).

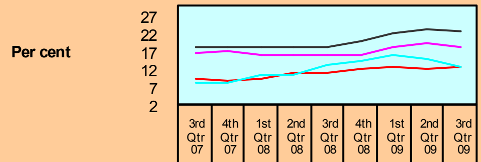
2.3.1 Interest Rate Developments

Available data indicated a general increase in banks' deposit rates, while lending rates declined in the third quarter, 2009. With the exception of the average savings deposit rate, which declined by 0.13 percentage points to 2.80 per cent, all other rates on deposits of various maturities increased from a range of 6.74 – 13.14 per cent in the preceding quarter to 6.81 – 13.84 per cent. Similarly, at 12.33 per cent, average term deposit rate rose by 44 basis points from the level in the preceding quarter. On the other hand, the average prime and maximum lending rates declined by 63 and 07 basis points to 18.38 and 22.82 per cent, respectively. Consequently, the spread between the weighted average term deposit and maximum lending rates narrowed from 11.00 percentage points in the preceding quarter to 10.49 percentage points. The margin between the average savings deposit and maximum lending rates, however, widened from 19.96 percentage points in the preceding quarter to 20.02 percentage points. With headline inflation rate at 10.4 per cent at end-September, all deposit rates, with the exception of savings and 7-day rates, were positive in real terms.

At the inter-bank call segment, the weighted average rate, which stood at 14.76 per cent in the preceding quarter, fell to 12.66 per cent, reflecting the liquidity condition in the inter-bank funds market. Similarly, weighted average rate at the Open Buy Back (OBB) fell from 7.32 per cent in June to 6.89 per cent at the end of third quarter.

In tandem with activities at the inter-bank market, Nigeria Inter-bank Offered Rate (NIBOR) for the 7 and the 30-day tenors declined to 14.15 and 16.14 per cent at the end of the third quarter from 15.81 and 17.00 per cent respectively, in the second quarter 2009.

Figure 3: Selected Bank Interest Rates (Per cent Average)



	3rd Qtr 07	4th Qtr 07	1st Qtr 08	2nd Qtr 08	3rd Qtr 08	4th Qtr 08	1st Qtr 09	2nd Qtr 09	3rd Qtr 09
Avg. Term Deposits	8.99	8.69	9.35	10.78	11.06	11.67	12.27	11.89	12.33
Prime	16.46	16.9	16.05	15.86	15.97	16.03	18.34	19.01	18.38
Inter-bank	8.13	8.25	10.21	10.4	12.83	14.01	15.79	14.76	12.66
Maximum	18.27	18.24	18.17	17.9	18.1	19.79	22.24	22.89	22.82

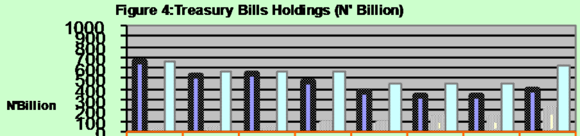
2.3.2 Commercial Papers (CPs)

Investment in Commercial Papers (CPs) as a supplement to bank credit to the private sector rose in the review period. The value of CPs held by DMBs rose by =N=166.23 billion to =N=768.7 billion at end-September 2009, as against a decline of =N=145.83 billion at end-June 2009. Thus, CPs constituted 21.9 per cent of the total value of money market assets outstanding as at end-September 2009, compared with 25.9 per cent at the end of the preceding quarter.

2.3.3 Bankers' Acceptances (BAs)

Holdings of BAs by DMBs rose by 21.9 per cent to =N=96.1 billion as at end-September 2009, as against the decline of 3.3 per cent in the preceding quarter. The rise reflected the increase in investments by DMBs and discount houses. Consequently, BAs accounted for 2.7 per cent of the total value of money market assets outstanding at the end of the third quarter, compared with 2.6 per cent in the preceding quarter.

Figure 4:Treasury Bills Holdings (N' Billion)



	3rd Qtr 07	4th Qtr 07	1st Qtr 08	2nd Qtr 08	3rd Qtr 08	4th Qtr 08	1st Qtr 09	2nd Qtr 09
Banks/D.H	676.9	551.4	559.6	495.3	400.8	352.4	352.4	417.1
CBN	0.7	5.9	3.1	6.3	7.1	0.4	0.4	23.4
Others	0.3	17.6	12.2	73.3	64.0	119.1	119.1	201.4
Total	677.9	574.9	574.9	574.9	471.9	471.9	471.9	641.9

2.3.4 Open Market Operations

Aggressive mop–up of excess liquidity remained suspended and there was no direct auction at the open market. In the same vein, there was no purchase or sale of government securities through the two-way quote platform due to the unattractiveness of the offer rates quoted at the trading sessions.

2.3.5 Primary Market

At the primary market, Nigerian Treasury Bills of 91, 182 and 364-day tenors were offered fortnightly during the review period in line with the issue program. Total NTBs issued and allotted was =N=322.22 billion apiece, compared with the =N=341.60 billion apiece issued and allotted in the second quarter. Public subscriptions stood at =N=513.13 billion, compared with =N=560.30 billion in the second quarter. The range of issue rates for the 91-182- and 364-day NTBs was from 2.80-6.75 per cent, compared with the range of 2.00-6.50 per cent for the same tenors in the preceding quarter. All the auctions were oversubscribed as market players showed stronger preference for risk-free government securities.

2.3.6 Bonds Market

FGN Bonds of 3, 5 and 20-year tenors were re-opened (in line with the restructuring of the domestic debt profile to longer tenors) and offered to the public in the period under review. Total issue and allotment during the third quarter, 2009 stood at =N=180.0 billion, compared with =N=170.0 billion, in the preceding quarter. Total subscriptions stood at =N=356.26 billion. A breakdown of the total issues and allotments showed that =N=60.00 billion, =N=54.00 billion and =N=66.00 billion, were issued for the 3-, 5- and 20-year tenors, while the total subscriptions were =N=116.71 billion, =N=110.09 billion and =N=129.46 billion, respectively. In the preceding quarter, issue and allotment for the respective tenors were =N=75.00 billion 3-year, =N=55.00 billion 5-year and =N=40.00 billion 20-year. The FGN Bonds were offered and allotted at marginal rates ranging between 7.88-11.00 per cent, as against the issue rate range of 10.10-12.79 per cent, in the preceding quarter. The impressive subscription, especially for the 20-year tenor, reflected market players' confidence in the Nigerian economy and perceived stable and attractive yields on the instruments.

2.3.7 CBN Standing Facilities

The re-introduction of remuneration on standing deposit facility by the Bank increased activities at that segment.

Consequently, cumulative lending facility granted to DMBs at end-September 2009 stood at =N=10,659.29 billion, compared with =N=10,299.22 billion in the second quarter of 2009. Total deposits stood at =N=2,387.28 billion. The lending and deposit rates were fixed at 8.00 and 4.0 per cent, respectively, (plus and minus 2 per cent above and below the Monetary Policy Rate).

2.4 Deposit Money Banks' Activities

Available data indicated that total assets/liabilities of the DMBs amounted to =N=16,731.5 billion, representing an increase of 7.8 per cent over the level in the preceding quarter. The development was attributed largely to the 13.8 per cent increase in claims on the private sector, reinforced by the 15.6 per cent rise in unclassified assets.

Funds, which were sourced mainly from accumulation of time, savings and foreign currency deposits and capital accounts were used mainly for the extension of credit to the private sector.

At =N=10,516.3 billion, credit to the domestic economy rose by 8.5 per cent over the level in the preceding quarter. The development was attributed wholly to the 13.9 per cent increase in claims on the private sector.

Central Bank's credit to the DMBs rose by 133.8 per cent to =N=387.7 billion in the review quarter, reflecting largely the increase in CBN's loan & advances to the DMBs.

Total specified liquid assets of the DMBs stood at =N=2,287.4 billion, representing 25.0 per cent of their total current liabilities. At that level, the liquidity ratio fell by 6.9 percentage points from the preceding quarter's level, but the same as the stipulated minimum ratio of 25.0 per cent. The loans-to-deposit ratio rose by 3.3 percentage points to 89.0 per cent over the level in the preceding quarter, and exceeded the prescribed minimum target of 80.0 per cent by 9.0 percentage points.

2.5 Discount Houses' Activities

Total assets/liabilities of the discount houses stood at =N=329.3 billion in the third quarter of 2009, indicating a decline of 29.3 and 21.1 per cent from the levels in the preceding quarter and the corresponding period of 2008, respectively. The fall in assets was accounted for largely by the 53.1 per cent decline in claims on others, reinforced by the fall in claims on banks during the quarter. Correspondingly, the fall in total liabilities was attributed largely to the 41.9 per cent decline in other amount owing during the period.

Discount houses' investments in Federal Government securities of less than 91 days maturity rose by 106.3 per cent to =N=62.5 billion, representing 23.3 per cent of their total deposit liabilities. At this level, discount houses' investments rose by 15.6 per cent over the level in the preceding quarter. This level of investment was 36.7 percentage points below the prescribed minimum level of 60.0 per cent for fiscal 2009.

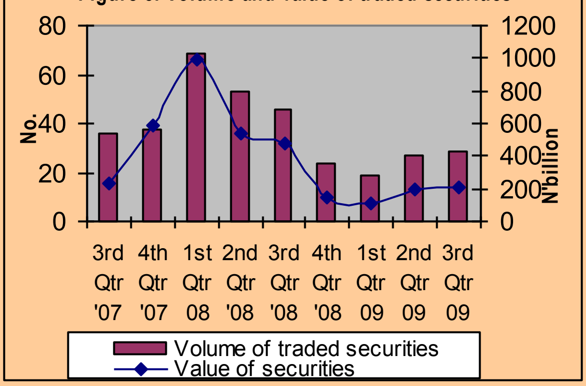
Total borrowing by the discount houses was =N=104.2 billion, while their capital and reserves amounted to =N=41.8 billion. Thus, resulting in a gearing ratio of 2.5:1, compared with the stipulated maximum target of 50:1 for fiscal 2009.

2.6 Capital Market Developments

2.6.1 Secondary Market

Available data indicated that the volume and value of traded securities rose by 6.3 and 3.9 per cent to 28.9 billion shares and =N=207.1 billion, respectively, compared with 27.2 billion shares and =N=199.4 billion in the second quarter. In the first nine months of the year, total turnover volume and value stood at 75.3 billion shares and =N=508.7 billion, respectively. The banking sub-sector was the most active on the Exchange with traded volume of 15.4 billion shares valued at =N=135.4 billion exchanged in 246,837 deals. Transactions during the period included 100 units of Lagos State Fixed Rate Bond worth =N=119,530.

Figure 5: Volume and value of traded securities



2.6.2 Over-the-Counter (OTC) Bonds Market

Transactions on the over-the-counter (OTC) bond segment of the market indicated that a turnover of 4.7 billion units worth =N=5.3 trillion in 38,418 deals was recorded in the review quarter, compared with a total of 4.4 billion units valued at =N=4.2 trillion recorded during the preceding quarter. The most active bond measured by turnover volume was the 4th FGN Bond 2014 Series 3 with traded volume of 349.0 billion units valued at =N=401.0 billion in 3,245 deals.

Cumulatively, total transactions on FGN Bonds through the OTC were 13.31 billion valued at =N=14.02 trillion in 91,884 deals, compared with 6.81 billion shares worth =N=6.82 trillion in 54,985 deals recorded in the corresponding period of 2008.

2.6.3 New Issues Market

In the new issues market, 4.2 billion shares in favour of eTranzact International Plc were admitted on the Daily Official list by way of introduction at the price of =N=4.80 per share. The Company was listed in the Information Communication and Telecommunication sub-sector. Similarly, 400 million shares in favor of Portland Paints & Products Nigeria Plc were admitted at a price of =N=10.00 per share in the Chemical & Paints sub-sector. Also, 16.7 billion shares in favour of African Alliance Insurance Company Plc were admitted on the Daily Official List at a price of N3.50 per share. The Company was listed in the Insurance sub-sector. By this action, the number of listed companies increased to 211. Similarly, the =N=18.5 billion Imo State Government of Nigeria 15.5% Fixed Rate Bond 2009/2016 Series 1 was admitted on the Daily Official List. By this action, the number of listed State Government Bonds and securities increased to 7 and 294, respectively. During the review quarter, there were twenty-one (21) supplementary listings, compared with eight (8) in the preceding quarter.

In another development, five FGN bonds - the FGN Bond 2009 (Special Pension), 3rd FGN Bond 2009 series 4, 6, and 11 were delisted from the Daily Official list on maturity during the review period.

2.6.4 Market Capitalization

The total market capitalization of the 294 listed securities declined by 11.4 per cent to =N=7.8 trillion from the preceding quarter's level. The fall in market capitalization was attributed to the price losses recorded by the highly capitalized stocks. The 211 listed equities accounted for =N=5.1 trillion or 65.8 per cent of the total market capitalization.

2.6.5 NSE All-Share Index

The NSE All-Share Index, which opened at 26, 861.55, closed at 22,065.00, representing a decline of 17.9 per cent from the level in the preceding quarter. Relative to the closing value of 31,450.78 on December 31, 2008, the year-to-date decline in the NSE All-Share-Index stood at 29.8 per cent. Also, the NSE-30 Index declined by 7.5 per cent to 835.68. The NSE Insurance Index fell by 15.1 per cent to close at 312.16, while the NSE Food/Beverage Index also declined by 10.4 per cent to close at 451.46. The NSE Banking Index and NSE Oil/Gas Index fell by 22.0 and 31.4 per cent to close, respectively, at 358.24 and 287.67.

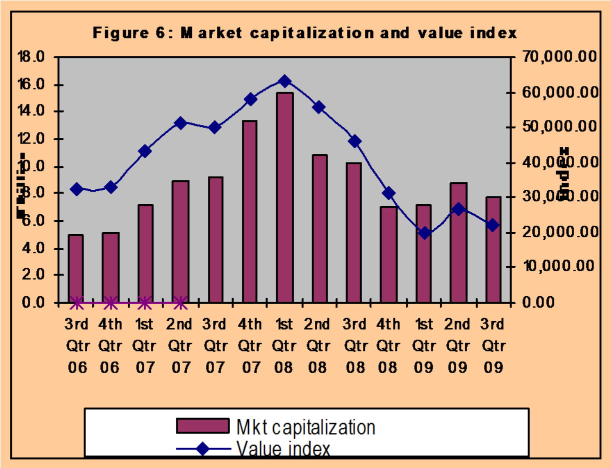


Figure 6: Market capitalization and value index

3.0 FISCAL OPERATIONS

3.1 Federation Account Operations

Available data showed that total federally-collected revenue during the third quarter of 2009 stood at =N=1,218.30 billion, representing a decline of 8.1 per cent from the proportionate budget estimate, but an increase of 16.6 per cent over the receipts in the preceding quarter. At =N=716.81 billion, oil receipts, which constituted 58.8 per cent of the total, was lower than the proportionate budget estimate by 7.9 per cent but exceeded the receipts in the preceding quarter by 2.9 per cent. The fall in oil receipts relative to the proportionate budget estimate was due to the significant decline in oil production occasioned by the attacks on oil facilities in the Niger Delta region. However, the increase in oil revenue compared with the preceding quarter gives an indication of a positive impact of the Federal Government's amnesty initiative in the region.

Non-oil receipts, at =N=501.49 billion or 41.2 per cent of the total, was lower than the budget estimate by 8.4 per cent but exceeded the receipts in the preceding quarter by 44.0 per cent. The decline relative to the budget estimate was attributed largely to the fall in customs and excise duties occasioned by declining trade volumes, Value-Added Tax (VAT) and Independent Revenue of the Federal Government (fig 7).

As a percentage of GDP, oil revenue was 10.6 per cent, while non-oil revenue stood at 7.4 per cent in the third quarter of 2009.

Of the total federally-collected revenue during the review quarter, the sum of =N=717.54 billion was transferred to the Federation Account for distribution among the three tiers of government and the 13.0 per cent derivation fund. The Federal Government received =N=346.26 billion, while the State and Local Governments received =N=175.63 billion and =N=135.40 billion, respectively.

The balance of =N=60.25 billion went to the 13.0 per cent derivation fund for distribution by the oil producing states. To bridge the shortfall in revenue for the period, the sum of =N=197.36 billion was drawn from the excess crude account and shared as follows: Federal Government (=N=90.45 billion), State Governments (=N=45.88 billion), Local Governments (=N=35.37 billion) and oil producing states (=N=25.66 billion).

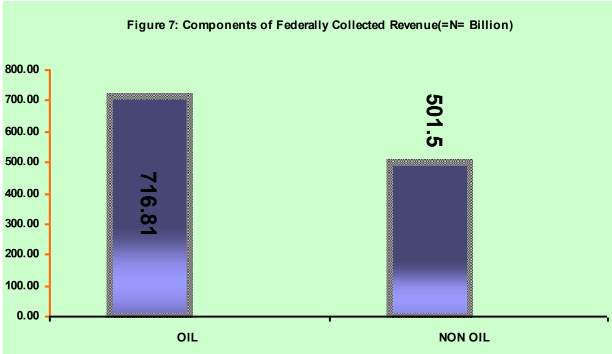


Figure 7: Components of Federally Collected Revenue(=N= Billion)

3.2 The Fiscal Operations of the Three Tiers of Government

3.2.1 The Federal Government

At =N=817.28 billion, Federal Government retained revenue for the third quarter 2009, was higher than the proportionate budget estimate and the receipts in the preceding quarter by 36.1 and 57.4 per cent, respectively.

At =N=1,011.22 billion, total estimated expenditure for the review quarter rose by 24.9 and 12.2 per cent over the proportionate budget estimate and the level in the preceding quarter, respectively. The rise in total expenditure relative to the budget estimate and the preceding quarter was attributed largely to the estimated increase in capital releases and domestic interest payments during the quarter. A breakdown of total expenditure showed that the recurrent component accounted for 46.6 per cent, capital component 49.7 per cent, while statutory transfers accounted for the balance of 3.7 per cent. As a percentage of GDP, recurrent expenditure was 7.0 per cent, while capital expenditure and transfers stood at 7.4 and 0.5 per cent, respectively.

The fiscal operations of the Federal Government in the third quarter, 2009, resulted in an overall deficit of =N=193.94 billion, compared with the deficits of =N=382.23 billion in the preceding quarter and the budgeted sum of =N=209.15 billion.

As a percentage of GDP, the fiscal deficit was 2.9 per cent in the review quarter. The fiscal deficit was financed from additional issuance of FGN Bonds, privatization proceeds and signature bonus.

3.2.2 Statutory Allocations to State Governments

During the review quarter, total receipts, including the 13.0 per cent Derivation Fund and share of VAT by the State Governments from the Federation Account stood at =N=354.81 billion. This represented a decline of 10.7 and 25.6 per cent from the levels in the preceding quarter and the corresponding period of 2008, respectively.

Further breakdown showed that at =N=61.01 billion, receipts from the VAT Pool Account rose by 9.5 per cent over the level in the preceding quarter, while receipts from the Federation Account stood at =N=293.80 billion. On monthly basis, the sum of =N=110.56 billion, =N=125.04 billion and =N=119.20 billion were allocated to the 36 state governments in July, August and September 2009, respectively.

3.2.3 Statutory Allocations to Local Government Councils

Total receipts by the Local Governments from the Federation and VAT Pool Accounts during the third quarter of 2009, stood at =N=213.48 billion. This was lower than the level in the preceding quarter and the corresponding quarter of 2008 by 1.7 and 61.5 per cent, respectively. Of this amount, allocation from the Federation Account was =N=170.77 billion or 80.0 per cent of the total, while VAT Pool Account accounted for =N=42.71 billion or 20.0 per cent. On monthly basis, the sums of =N=67.09 billion, =N=75.50 billion and =N=70.89 billion were allocated to the 774 local governments in July, August and September 2009, respectively.

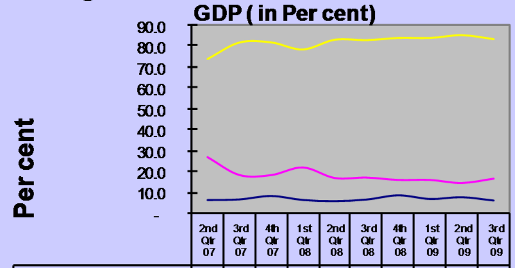
3.3 Consolidated Federal Government Debt

At =N=3,635.88 billion or 13.5 per cent of GDP, the total Federal Government debt as at end-September 2009, rose by 8.1 per cent over the level at end-June 2009. The breakdown comprised of domestic debt of =N=3,058.19 billion and external debt of =N=577.70 billion (US$3.86 billion).

3.3.1 Domestic Debt

The domestic debt stock of the Federal Government outstanding at the end of the third quarter, 2009 was =N=3,058.19 billion, representing an increase of 8.7 per cent over the level at the end of the preceding quarter. As a percentage of GDP, total domestic debt was 11.3 per cent. The rise in domestic debt was accounted for by the issuance of additional FGN Bonds, increase in treasury bills outstanding as well as the increase in debt instruments via the introduction of promissory notes during the quarter.

Figure 8: Trends in Oil and Non-Oil Share of GDP (in Per cent)



	2nd Qtr 07	3rd Qtr 07	4th Qtr 07	1st Qtr 08	2nd Qtr 08	3rd Qtr 08	4th Qtr 08	1st Qtr 09	2nd Qtr 09	3rd Qtr 09
GDP Growth	5.7	6.1	7.8	5.8	5.2	6.0	8.2	6.3	7.2	5.5
Oil Share of GDP	26.4	18.1	18.0	21.6	16.7	16.9	15.8	15.8	14.4	16.4
Non-Oil Share of GDP	73.6	81.9	82.0	78.4	83.3	83.1	84.2	84.2	85.6	83.6

4.0 DOMESTIC ECONOMIC CONDITIONS

Aggregate output growth in the economy measured by the gross domestic product (GDP) was estimated at 7.6 per cent in the third quarter of 2009, compared with 7.2 per cent in the preceding quarter. Agricultural activities centered on harvesting of root crops and preparation of land and nurseries for cultivation. Farmers also intensified the production of poultry products during the last month of the quarter in preparation for the end of year festivals. Crude oil production was estimated at 1.73 million barrels per day (mbd) or 159.16 million barrels for the quarter. The end-period inflation rate for the third quarter of 2009, on a year-on-year basis, was 10.4 per cent, compared with 11.2 per cent in the preceding quarter. The inflation rate on a 12-month moving average basis was 13.1 per cent, compared with the preceding quarter's level of 13.7 per cent.

4.1 Agricultural Sector

Agricultural activities during the review quarter centered on harvesting of root crops, especially yams, irish and sweet potatoes, and ground nuts, while farmers commenced the preparation of land and nurseries for the cultivation of tomatoes, pepper, carrots, cabbage and other vegetables. Farmers also intensified the production of poultry products during the last month of the quarter in preparation for the end of year festivals.

During the review period, a total of =N=3.38 billion was guaranteed to 23,291 farmers under the Agricultural Credit Guarantee Scheme (ACGS). This amount represented an increase of 83.7 and 279.0 per cent over the levels in the preceding quarter and the corresponding period of 2008, respectively.

A sub-sectoral analysis of the loans guaranteed indicated that the food crops sub-sector had the largest share of =N=2.43 billion or 72.1 per cent to 21,104 beneficiaries, while the livestock sub-sector received =N=633.25 million or 18.7 per cent to 1,124 beneficiaries. Also, 352 beneficiaries in the fisheries sub-sector obtained =N=156.1 million or 4.6 per cent. In the cash crops sub-sector, 507 beneficiaries got =N=129.21 million or 3.8 per cent, while 147 beneficiaries in 'others' had =N=22.2 million or 0.7 per cent. Further analysis showed that 33 states benefited from the scheme during the quarter, the highest and lowest sums of =N=474.5 million (14.0 per cent) and =N=5.9 million (0.2 per cent) went to Katsina and Plateau States, respectively.

The retail prices of most staples recorded increase in the third quarter of 2009. Eleven of the fourteen commodities monitored recorded price increase, which ranged from 2.6 per cent for groundnut oil to 18.7 per cent for brown beans over their levels in the preceding quarter, while guinea corn, millet and yam flour recorded price decline of 9.5, 15.1 and 22.5 per cent, respectively. The increase in the price of most commodities was attributed to the subsisting food situation in the country in the aftermath of the global food crisis.

4.2 Industrial Production

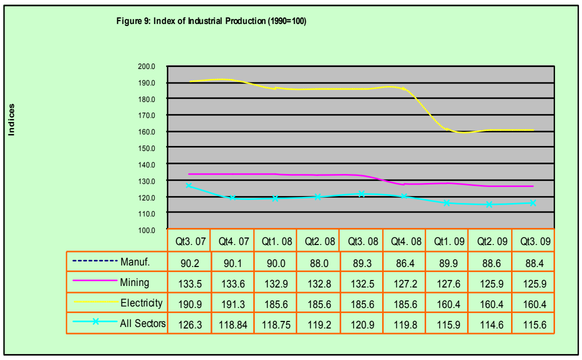
Industrial activities during the third quarter of 2009, indicated marginal improvement relative to the preceding quarter. At 115.6 (1990=100), the estimated index of industrial production rose by 0.9 per cent over the level attained in the preceding quarter but declined by 1.9 per cent from the level in the corresponding period of 2008. The increase reflected the improvement in mining activities and electricity generation.

The estimated index of manufacturing production, at 88.4 (1990=100), declined by 0.2 and 3.2 per cent from the levels in the preceding quarter and corresponding period of 2008, respectively. The estimated capacity utilization also fell by 0.5 percentage points to 53.0 per cent during the review quarter. The decline was attributed to the lull in industrial production due to rising production costs in the face of falling demand.

At 125.9 (1990=100), the index of mining production increased marginally by 0.8 per cent over the level attained in the preceding quarter but declined by 1.7 per cent from the level in the corresponding period of 2008. The rise was accounted for by the rise in crude oil and gas production, resulting from the amnesty programme of the Federal Government, which reduced the activities of militants in the Niger Delta region.

At 2,090.0 MW/h, estimated average electricity generation increased by 7.5 per cent over the level attained in the preceding quarter. The rise reflected the increase in water levels at the hydro dams as well as improvement in the supply of gas to thermal stations.

At 1,843.0 MW/h, estimated average electricity consumption rose by 10.2 per cent over the level in the preceding quarter. Of the total, residential consumption accounted for 52.6 per cent, commercial & street lighting accounted for 27.1 per cent, while industrial consumption accounted for 20.3 per cent. The increase in electricity consumption was attributed to the marginal improvement in power supply experienced during the review quarter.



	Qt3. 07	Qt4. 07	Qt1. 08	Qt2. 08	Qt3. 08	Qt4. 08	Qt1. 09	Qt2. 09	Qt3. 09
Manuf.	90.2	90.1	90.0	88.0	89.3	86.4	89.9	88.6	88.4
Mining	133.5	133.6	132.9	132.8	132.5	127.2	127.6	125.9	125.9
Electricity	190.9	191.3	185.6	185.6	185.6	185.6	160.4	160.4	160.4
All Sectors	126.3	118.84	118.75	119.2	120.9	119.8	115.9	114.6	115.6

4.3 Petroleum Sector

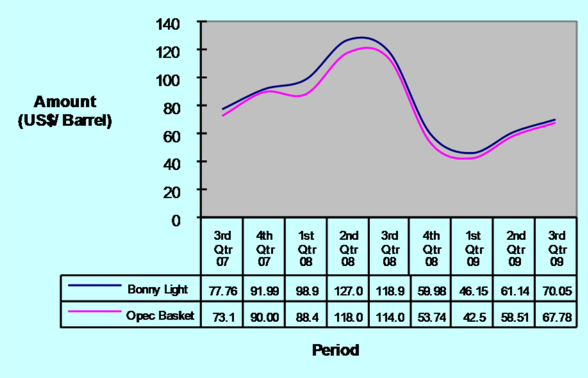
Nigeria's crude oil production, including condensates and natural gas liquids was estimated at 1.73 million barrels per day (mbd) or 159.16 million barrels (mbd) during the third quarter of 2009, compared with 1.70 mbd or 156.70 mbd in the preceding quarter. This represented an increase of 1.8 per cent. The development was accounted for by the relative peace being experienced in the Niger Delta region as a result of the Federal Government's amnesty programme.

Crude oil export was estimated at 1.33 mbd or 122.36 million barrels in the review period, compared with 1.30 mbd or 118.30 million barrels in the preceding quarter. Deliveries to the refineries for domestic consumption remained at 0.445 mbd or 40.94 million barrels in the review quarter.

At an estimated average of US$70.05 per barrel, the price of Nigeria's reference crude, the Bonny Light (37º API), rose by 14.6 per cent over the level in the preceding quarter. The average prices of other competing crudes namely, the West Texas Intermediate, the U.K Brent and the Forcados also rose by 14.5, 15.1 and 15.7 per cent to US$68.03, US$68.79 and US$69.76 per barrel, respectively.

The average price of OPEC's basket of eleven crude streams also, rose by 15.8 per cent to US$67.78 over the level in the preceding quarter. The increase in price was attributed to investors' renewed optimism of a global economic recovery.

Figure 10: Trends in Crude Oil Price

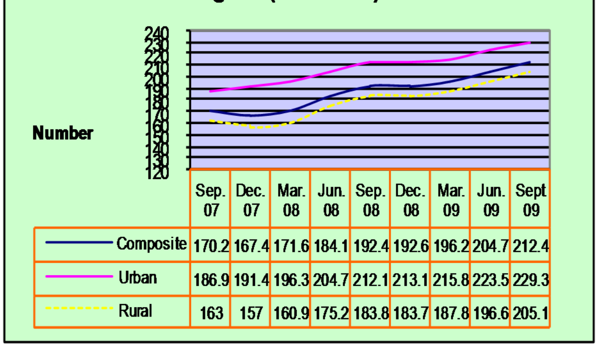


4.4 Consumer Prices

Available data showed that the all-items composite Consumer Price Index (CPI) for the end of the third quarter of 2009, was 212.4 (May 2003=100), representing an increase of 3.8 and 10.4 per cent over the levels in the preceding quarter and the corresponding period of 2008, respectively. The development was attributed largely to the increase in the prices of food and non-alcoholic beverages.

The urban all-items CPI at the end of the third quarter of 2009, was 229.3 (May 2003=100), indicating an increase of 2.6 and 8.1 per cent over the levels in the preceding quarter and the corresponding quarter of 2008, respectively. Similarly, the rural all-items CPI for the quarter, at 205.1 (May 2003=100), represented an increase of 4.3 and 11.5 per cent over the levels in the preceding quarter and the corresponding period of 2008, respectively.

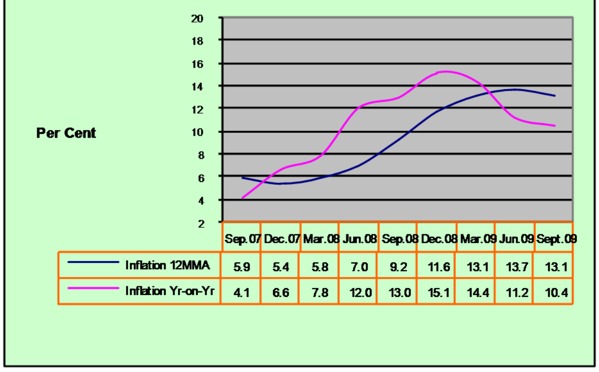
Fig. 11: Quarterly Consumer Price Indices in Nigeria (2003=100)



The end-period inflation rate for the third quarter of 2009, on a year-on-year basis, was 10.4 per cent, compared with 11.2 and 13.0 per cent in the preceding quarter and the corresponding quarter of 2008, respectively.

The inflation rate on a twelve-month moving average basis for the third quarter of 2009, was 13.1 per cent, compared with 13.7 and 9.2 per cent recorded in the preceding quarter, 2009 and the corresponding period of 2008, respectively.

Figure 12: Inflation Rate in Nigeria (Per Cent)



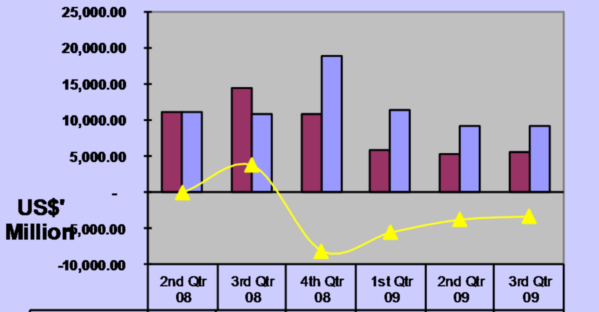
5.0 EXTERNAL SECTOR DEVELOPMENTS

Provisional data indicated that foreign exchange inflow through the CBN in the third quarter of 2009 rose by 5.8 per cent, while outflow fell by 1.4 per cent. Similarly, total non-oil export earnings receipts by banks declined by 11.4 per cent from the level in the preceding quarter. The weighted average exchange rate of the Naira vis-à-vis the US dollar, depreciated by 2.1 per cent to =N=150.92 per dollar at the Wholesale Dutch Auction System (WDAS).

5.1 Foreign Exchange Flows

Foreign exchange inflow and outflow through the CBN in the third quarter of 2009 amounted to US$5.67 billion and US$9.01 billion, respectively, representing a net outflow of US$3.34 billion. Relative to the respective levels of US$5.36 billion and US$9.14 billion in the preceding quarter, inflow rose by 5.8 per cent, while outflow fell by 1.4 per cent. The increase in inflow was attributed to the 41.5 per cent rise in oil receipts, while the fall in outflow was due largely to the 2.5 per cent decline in Wholesale Dutch Auction System (WDAS) utilization during the review quarter.

Figure 13: Foreign Exchange Flows Through the CBN (US$' Million)



	2nd Qtr 08	3rd Qtr 08	4th Qtr 08	1st Qtr 09	2nd Qtr 09	3rd Qtr 09
Inflow	11,082.8	14,554.9	10,782.3	5,724.61	5,359.55	5,672.22
Outflow	11,176.1	10,860.3	18,934.4	11,255.67	9,135.09	9,114.89
Netflow	-93.23	3,694.57	-8,152.09	-5,531.06	-3,775.54	-3,342.67

Available data on aggregate foreign exchange flows through the economy indicated that total inflow amounted to US$17.29 billion, representing an increase of 34.1 per cent over the level in the preceding quarter and a decline of 39.2 per cent from the level in the corresponding period of 2008. Oil sector receipts, which accounted for 26.0 per cent of the total, stood at US$4.57 billion, compared with the respective levels of US$3.23 billion and US$13.81 billion in the preceding quarter and corresponding period of 2008, respectively. Non-oil public sector inflows, which accounted for 6.4 per cent of the total, however, declined by 48.1 per cent, while autonomous inflow, which accounted for 67.2 per cent increased by 54.3 per cent.

At US$9.24 billion, aggregate foreign exchange outflow from the economy declined by 1.0.4 and 18.0 per cent from the levels in the preceding quarter and the corresponding period of 2008, respectively. The fall in outflow relative to the preceding quarter was accounted for largely by the decline in funding of the WDAS segment of the foreign exchange market during the quarter under review

5.2 Non-Oil Export Proceeds by Exporters

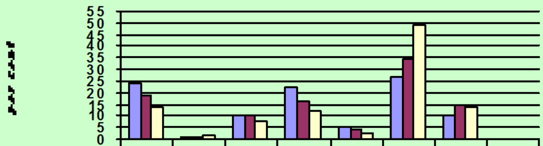
Total non-oil export earnings by Nigeria's exporters declined by 11.4 per cent to US$335.84 million from the level in the preceding quarter. A breakdown of the proceeds in the review quarter showed that the proceeds of industrial, food products, manufactured products, transport, agricultural, and minerals stood at US$213.93 million, US$9.15 million, US$74.29 million, US$0.03 million, US$35.38 million and US$0.01 million, respectively.

The shares of industrial, food products, manufactured products, transport, agricultural, and minerals sub-sectors in non-oil export proceeds were 64.3, 2.8, 22.3, 0.0, 10.6 and 0.0 per cent, respectively, in the review quarter. The development was attributed largely to the decline in the prices of the goods traded at the international market.

5.3 Sectoral Utilisation of Foreign Exchange

The invisibles sector accounted for the bulk (34.5 per cent) of total foreign exchange disbursed in the third quarter of 2009, followed by the industrial sector (19.0 per cent). Other beneficiary sectors, in a descending order of importance, included: manufactured products (16.5 per cent), minerals & oil (14.7 per cent), food (10.4 per cent), transport (4.3 per cent) and agricultural products (0.6 per cent) (Fig.14).

Fig. 14: Sectoral Utilisation of Foreign Exchange (Percentage of Total)



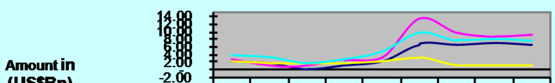
	Industrial	Agricultural	Food	Manufactures	Transport	Invisibles	Min. & Oil
2nd Qtr 2009	24.1	0.9	10.6	22.1	5.3	26.4	10.6
3rd Qtr 2009	19	0.6	10.4	16.5	4.3	34.5	14.7
3rd Qtr 2008	14.1	1.3	7.9	11.7	2.7	48.6	13.7

5.4 Foreign Exchange Market Developments

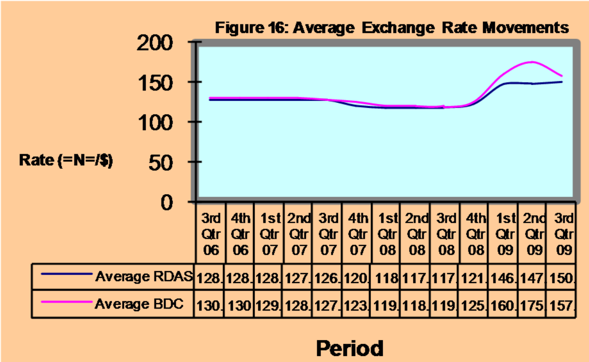
Foreign exchange demand by the authorized dealers stood at US$10.30 billion, indicating an increase of 6.5 per cent over the level in the preceding quarter. Relative to the level in the corresponding period of 2008, demand rose by 48.9 per cent. Consequently, a total amount of US$7.34 billion was sold by the CBN during the period, indicating a fall of 6.3 per cent from the level in the preceding quarter.

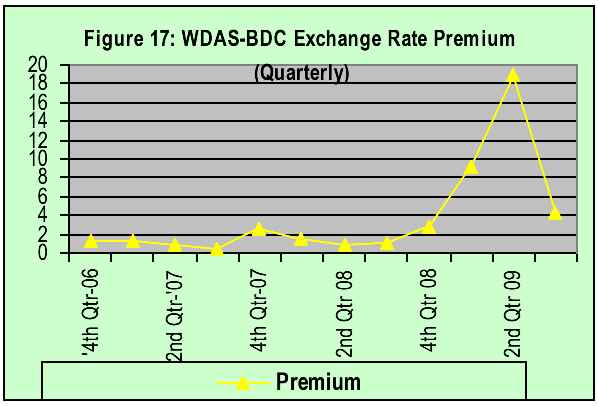
Under the WDAS, the weighted average exchange rate of the Naira vis-à-vis the US dollar depreciated by 2.1 per cent to =N=150.92 per dollar from =N=147.76 per dollar in the preceding quarter. It also showed a depreciation of 22.0 per cent from the level in the corresponding period of 2008. In the bureaux-de-change segment of the market, the naira traded at an average of =N=157.36 per dollar, compared with =N=175.68 and =N=119.00 per dollar in the preceding quarter and the corresponding quarter of 2008, respectively. Consequently, the premium between the official and the bureaux-de-change rates narrowed from 18.9 per cent in the preceding quarter to 4.3 per cent (fig. 16).

Figure 15: Demand for and Supply of Foreign Exchange



	3rd Qtr 07	4th Qtr 07	1st Qtr 08	2nd Qtr 08	3rd Qtr 08	4th Qtr 08	1st Qtr 09	2nd Qtr 09	3rd Qtr 09
Forex Sales at WDAS	2.11	1.60	0.24	1.08	2.19	6.58	6.26	6.90	6.23
Forex Demand at WDAS	2.72	1.05	1.06	2.57	3.47	13.25	9.83	8.74	9.19
Supply of Forex to BDC	1.93	1.77	1.40	1.67	2.44	3.14	1.32	0.93	1.12
Total Forex Supply	4.04	3.37	1.64	2.75	4.63	9.77	7.58	7.84	7.34





6.0 GLOBAL ECONOMIC CONDITIONS

The modest growth in the global economy experienced in the second quarter continued in the third quarter, following the strong performance of Asian economies. In the advanced economies, unprecedented public intervention has stabilised activity and has fostered a return to modest growth in several economies. Emerging and developing economies were generally further ahead on the road to recovery, led by rebound in Asia. The recent rebound in commodity prices and supportive policies are helping many of these economies. World Bank economists stated that such economic vital signs as industrial production, trade, and foreign direct investments were picking up, though they were at considerably lower levels than before the financial crisis. But the gap between what the world can produce and what it was actually producing is expected to remain very large — about 6 percentage points of GDP for developing countries. Moreover, the higher borrowing costs and weak financial system would likely reduce the long run potential output of developing countries by as much as 4.0 percent of their GDP.

Uncertainty and systemic risk in financial markets are now lower. The triggers for the rebound were attributed to strong public policies across advanced and many emerging economies that have supported demand and eliminated fears of a global depression.

These fears contributed to the steepest drop in global activity and trade since World War II. Central banks reacted quickly with exceptionally large interest rate cuts as well as unconventional measures to inject liquidity and sustain credit. Governments launched major fiscal stimulus programs, while supporting banks with guarantees and capital injections. Together, these measures reduced uncertainty and increased confidence, fostering an improvement in financial conditions, as evidenced by strong rallies across many markets and a rebound of international capital flows.

However, the environment remained very challenging for lower tier borrowers. More generally, the risk of a reversal was a significant market concern, and a number of financial stress indicators remained elevated. Looking ahead, the policy forces that are driving the current rebound would gradually lose strength, and real and financial forces, although gradually building, remained weak. Specifically, fiscal stimulus would diminish and inventory rebuilding will gradually lose its influence. Meanwhile, consumption and investment are gaining strength only slowly, as financial conditions remained tight in many economies. The main short-term risk was that the recovery would stall. Premature exit from accommodative monetary and fiscal policies seemed a significant risk because the policy-induced rebound might be mistaken for the beginning of a strong recovery in private demand.

In general, the fragile global economy remained vulnerable to a range of shocks, including rising oil prices, a virulent return of H1N1 flu, geopolitical events, or resurgent protectionism. However, short-term risks were not only on the downside, as evidenced by the recent, more-rapid- than-expected improvement in financial conditions. In particular, the policy-induced reduction in fears about a 1930s-style crash in activity and the accompanying strong rebound in financial market sentiment might induce a larger-than-expected surge in consumption and investment across a number of advanced and emerging economies. Extending the horizon to the medium term, there are other important risks to sustained recovery, mainly in the major advanced economies.

On the financial front, a major concern is that continued public skepticism toward what is perceived as bailouts for the very firms considered responsible for the crisis undercuts public support for financial restructuring, hereby paving the way to a prolonged period of stagnation. On the macroeconomic policy front, the greatest risk revolves around deteriorating fiscal positions.

6.1 Global Inflation

The sharp drop in activity and rise in output gaps have decreased inflationary pressures. At the global level, year-on-year inflation moderated to 1.0 per cent in July, down from more than 6 per cent a year earlier. In the advanced economies, headline inflation has been below zero since May, as oil prices have remained far below levels a year earlier despite their recent pickup. Core inflation has eased to 1.2 percent, down from just over 2 per cent a year earlier. Similarly, headline and core inflation in the emerging economies have moderated, falling to 4.2 per cent in July. However, developments have been uneven, with inflation falling mainly in emerging Asia and less so in emerging Europe. Policy interest rates have been brought down considerably, close to the zero floor in many advanced economies. Cuts in rates were generally smaller in emerging economies, reflecting a combination of higher inflation at the onset of the crisis and pressure for exchange rates to depreciate in response to capital outflows. Looking ahead, some central banks in Asia and Latin America may start to tighten again, if the strong rebounds there are sustained, although some central banks in emerging Europe are still exploiting room to cut rates in response to more stable external financial conditions. Central banks in most advanced economies and some emerging economies resorted to a range of unconventional measures to further ease financial conditions during the past year. There have been a variety of different approaches, mainly reflecting different financial system structures.

6.2 Global Commodity Prices

The rise in the global demand and price of commodities continued in the third quarter. World crude oil output in the third quarter 2009, was estimated at 84.32 million barrels per day (mbd), while demand was estimated at 83.13 mbd, compared with 83.62 and 83.17 mbd supplied and demanded in the preceding quarter, respectively. The increase in demand was due to renewed optimism of a global economic recovery. Crude oil prices in particular have hovered between $70 and $80 per barrel during the quarter. Price developments would partly depend on how strongly supply responds to recovering demand. With non-Organisation of Petroleum Exporting Countries (OPEC) supply unlikely to pick up substantially—given high decline rates in some large, matured fields, notably in the North Sea and Mexico, and given sluggish capacity buildup because of barriers to investment in many countries—this response will depend largely on OPEC production.

The experience of recent episodes of deliberate production cuts suggests that OPEC members will respond gradually and with some lag to increasing demand and rising price pressure. Indeed, recent statements by key OPEC officials suggest that OPEC production increases will be predicated on a substantial drawdown of Organisation for Economic Cooperation and Development (OECD) inventories to more normal stock-use levels and on an oil price within the target range of $70−$80 per barrel.

Also, in line with broad commodity market developments, most metal prices rebounded in the second quarter of 2009. By end-July, the IMF metal daily index which had risen by nearly 60 per cent from its trough earlier in the year was led by copper, lead, and nickel. Besides, the improvement in near-term global economic and financial prospects, which elicited strong price responses from the cyclically sensitive base metals, the price rebound also reflected metal-specific factors. As in the case of oil, a good part of the recovery in metal demand has already been priced in, and further strong price increases in the near term seem unlikely at this point because of substantial excess capacity.

Looking ahead, as reflected in futures prices, food prices are expected to rise only gradually throughout the global economic recovery. Demand is relatively insensitive to the business cycle compared with other commodities, and future harvests are expected to be fairly abundant, although there is the prospect that the El Niño weather pattern may affect production of some crops, particularly soybeans, through 2010. However, there are upside risks to prices. Agricultural supply-demand balances remain relatively tight, with the global stock-to-use ratio for the major crops of corn, rice, soyabeans, and wheat expected to remain below their average levels over recent.

Low inventory ratios are a result, in part, of food demand in emerging economies, which rose quickly during 2001−07. The renewed pickup in growth in these economies over the coming years will keep market balances tight, and risks are that the increases in food price volatility observed over the past decade or so will be sustained. Another risk concern is the higher cost of energy, particularly as oil prices remain well above their decade averages. Higher energy prices drive up the cost of farming through fuel inputs and fertilizer prices. An indirect effect of higher oil prices is the increased incentive to divert food crops toward biofuel production. Acreage dedicated to biofuel production has increased significantly in recent years, helped by high oil prices and, particularly in advanced economies, by policy incentives.

In the United States, it is anticipated that the fall in the oil price would lead to a sharp decline in ethanol-refining margins and to industry consolidation. However, the U.S. Department of Agriculture projects that the proportion of U.S. corn production used for ethanol will still rise in 2009−10, albeit at a slower pace than had been projected in 2008. These emerging biofuel linkages have led to an increase in the correlation between food and energy prices, and although these prices were possibly inflated by the effects of the extreme volatility of 2008, they will likely remain higher than in the past.

6.3 International Financial Markets

The nascent recovery was most evident in financial markets, although conditions were still very difficult for many borrowers. Public intervention, low policy interest rates, and expectations for recovery have spurred strong rallies in many markets as well as a rebound in international capital flows. Initially, the main driver was public policy, including guarantees for financial institutions, capital injections, provision of ample liquidity, and intervention in credit markets. Now, improving growth prospects were beginning to feed back into financial conditions, with declining risk aversion adding further momentum. However, the environment remained very challenging for lower-tier borrowers, notably small and medium-size enterprises and many households. Securitization markets are still heavily impaired, which severely limits banks' capacity to originate (and distribute) credit. More generally, the risk of a reversal was a significant market concern, and a number of financial stress indicators remain elevated.

Investors were allocating an increasing amount of funds away from government bonds in search of higher yields. Confidence in advanced economy banking systems has received a fillip from better-than-expected earnings results and a series of successful bank capital raisings.

In addition, stress-testing exercises, completed and published in the United States and ongoing in various other countries, are helping to rebuild trust in banks. Still, questions remain about the sustainability of bank earnings and the implications of elevated credit risks, with loan delinquencies continuing to increase and delays by banks in recognizing loan losses. International capital flows have recovered, including to emerging markets. Since the beginning of the year, sovereign spreads are down and sovereign issues are up for both advanced and emerging economies, consistent with a noticeable pickup in portfolio flows. The recovery in activity has been better than expected, which has buoyed market sentiment, particularly in Asia and Latin America.

Since mid-year, emerging market corporate and sovereign deals have been oversubscribed and refinancing risks have fallen sharply, although less so in emerging Europe and the Commonwealth of Independent States (CIS). As in mature markets, high-quality corporate borrowers can access funding fairly easily, but the borrowing capacity of those with weaker credit is more constrained. Notwithstanding these favorable market developments, vulnerabilities remain, especially in emerging Europe and other countries heavily dependent on external financing. Cross-border funding for emerging market banks remains vulnerable to the need for mature-market banks to further deleverage. Refinancing and default risks in the corporate sector continue to be relatively high, especially in emerging Europe, but also for smaller, leveraged corporations in Asia and Latin America.

The return of some appetite for risk in international markets has contributed to depreciation of the dollar and yen and appreciation of emerging market currencies. This followed sharp movements in the opposite direction at the height of the crisis. The euro recently strengthened against both the dollar and the yen, although it has held more or less steady at the level prevailing before the crisis in nominal effective terms.

Even with improving financial market conditions, however, many households and firms in both advanced and emerging economies will continue to face difficult conditions. In particular, bank loans to the private sector are still stagnating or contracting in the United States, the euro area, and the United Kingdom, consistent with surveys among bank loan officers that point to a continuation of very tight credit conditions.

6.4 Other International Economic Developments and Meetings

Other major international developments and meetings of relevance to the domestic economy during the review quarter included: the 9th meeting of the Special Implementation Committee (SIC) of the Nigeria-South Africa Bi-National Commission (BNC) held in Abuja from July 22- 23, 2009. The meeting had six working groups on Foreign Affairs and Cooperation; Agriculture, Water Resources and Environment; Social and Technical; Trade, Industry and Finance; Minerals and Energy; and Defence and Security (see July Report).

The Committee of Ten African Ministers of Finance and Governors of Central Bank (Committee of Ten) held their third session in Abuja on July 14, 2009 under the auspices of the African Development Bank, the Economic Commission for Africa and the African Union Commission.

The objective of the meeting was to review the latest information pertaining to the impact of the global financial crisis on Africa; take stock of recent internal and international developments; and agree on African perspectives to be fed into the global discussions, in particular during the G20 Leaders Summit in Pittsburgh on September 26, 2009 (see July Report).

Also, the International Monetary Fund (IMF) concluded its Article IV Consultation Mission with the Nigerian authorities on July 29, 2009 and noted that Nigeria entered the global financial crisis from a position of strong macroeconomic stability. The reforms of recent years paid off, with oil savings, high international reserves, and a well-capitalized banking system preventing the type of economic crisis Nigeria witnessed during the oil price cycles of the early 1980s (see July Report).

The G8 Summit was held in L'Aquila, Italy from July 8 – 10, 2009. The G8 Leaders discussed the interlinked challenges of the economic crisis, poverty and climate change among others. While noting some signs of stabilisation and improved confidence, they reaffirmed their commitment to implementing the decisions made at the Washington and London Summits (see July Report).

In another development, the 33rd Ordinary Meetings of the Association of African Central Banks (AACB) held in Kinshasa, Democratic Republic of Congo (DRC) from August 17—21 2009. The theme for the 2009 AACB Annual Meetings was "The Formulation of Monetary Policy in Africa: The Relevance of Inflation Targeting" (see August Report).

In a related development, the African Caucus, comprising African Governors of the International Monetary Fund and World Bank met in Freetown, Sierra Leone from August 12 – 13, 2009. The Meeting considered the draft Memorandum to be submitted to the Heads of the Bretton Woods Institutions (BWIs) at the IMF/World Bank Annual Meetings in October, 2009. The Memorandum welcomed the reforms undertaken by the IMF to overhaul its low income countries (LICs) financing framework, notably by streamlining structural conditionality, providing short-term and emergency financing, increasing the access limits and norms of concessional instruments along with those for General Resource Agreement (GRA) resources (see August Report).

Also, the United Kingdom Department for International Development (DFID) met with the African Governors of the BWIs on the role of International Financial Institutions (IFIs) in supporting growth in Africa.

The discussions were intended to articulate the position of Africa on the IFIs, especially the BWIs as input into the presentation of the G-20 Chairman, Prime Minister Gordon Brown to the upcoming G-20 Summit in the USA (see August Report).

The International Monetary Fund (IMF) on August 28, 2009 bolstered its members' reserves through an allocation of Special Drawing Rights (SDRs) worth US$250 billion, followed by an additional allocation of $33.0 billion on September 9, 2009. With the two allocations totaling $283.0 billion, the outstanding stock of SDRs would increase nearly ten-fold to about $316 billion (see August Report).

The 8th African Growth and Opportunity Act (AGOA) Forum was convened by the Government of the Republic of Kenya in conjunction with the United States (US) Government in Kenya from August 1 – 6, 2009 on the theme "Realizing the Full Potential of AGOA through Expansion of Trade and Investment". The objective of the forum was to create a platform on which both the US and the sub-Saharan African countries could articulate their views and concerns in order to foster closer economic ties for mutual benefit (see August Report).

In another development, the summit of the Group of twenty (G-20) industrialized and emerging market economies was held from September 24 – 25, 2009 in Pittsburgh, USA. The major highlights of the summit were as follows:

- The leaders noted that the forceful policy response to the crisis had helped to stop a dangerous sharp decline in global activity and stabilized financial markets. Industrial output was now rising in nearly all economies and international trade was recovering, while IMF analysis indicate that the global economy is expected to grow at nearly 3 per cent by 2010.

- The G-20 leaders agreed to continue strengthening regulation of the international financial system; protect consumers, depositors, and investors from abusive market practices; and encourage the resumption of lending to household and businesses. The Leaders asked the IMF to help the G-20 with its analysis of how national or regional policy fit together.

- The leaders noted that the collective response to the crisis highlighted both the benefit of international cooperation and the need for a more legitimate and effective IMF. They welcomed the reform of IMF`s lending facilities including the creation of the innovative Flexible Credit Line.

- They asked the IMF to support G-20 efforts under their new Framework for strong, Sustainable and Balanced growth through the Fund's surveillance of countries policy framework and their collective implication for financial stability and the level and pattern of global growth. They welcomed moves to create a stronger resource base for the fund, to improve global liquidity through allocation of special Drawing Rights (SDRs), and the decision to boost assistance for low-income countries.

- The G-20 said that modernizing the IMF`s governance was a core element of efforts to improve the IMF`s credibility, legitimacy, and effectiveness. They supported a shift in quota share to dynamic emerging market and developing countries of at least five percent from over-represented to under-represented countries using the current quota formula as the basis to work from. They also stressed their commitment to protect the voting share of the poorest in the IMF.

The African Development Bank (AfDB) approved a grant of US$1 million to AB Microfinance Bank Of Nigeria (ABN) from the Fund for Africa Private Sector Assistance (FAPA) on September 7, 2009. The Technical Assistance (TA) contribution from FAPA, which accounted for 7.7 per cent of the overall TA package, will be used to co-finance the provision of technical assisted to ABN to build the capacity of the institution during its first few years of operation.

The grant is attached to an equity investment of US$ 1,013,186 made by the AfDB to launch the ABN in partnership with a number of other Development Finance Institutions that are also contributing to co-financing the technical assistance package supported by this grant for FAPA. The FAPA is a component of the enhanced Private Sector Assisted Initiative (EPSA), a billion dollar joint initiative of Japan and the AfDB to promote private sector development in Africa. The FAPA trust Fund provides untied grants for studies, technical assistance and capacity building for private sector projects and African institution such as ABN.