ECONOMIC REPORT FOR THE FIRST HALF OF 2000

This Report reviews economic developments during the first half of 2000 and articulates the major policy responses of the Central Bank of Nigeria (CBN) to those developments. The Report is structured into five parts. Part 1 presents a summary of the Report, while Parts 2 and 3 review macroeconomic policy objectives as well as sectoral developments and policy appraisal. Part 4 evaluates CBN's policy responses during the period, while the final Part discusses the prospects of the economy in the rest of the year. A statistical appendix is attached to the Report.

I. 0

2

stood at US $7,272.4 million, which could support about 11 months of imports. However, the naira exchange rate depreciated slightly during the period due to excess demand arising mainly from the liquidity surfeit in the

There were mixed developments in domestic economic conditions. While the agricultural sector recorded further improvement, the industrial sector deteriorated. Inflationary pressures moderated significantly. Provisional estimate indicat

per cent inflation rate compared with 12.1 per cent attained in the corresponding period of 1999. The socio economic situation was relatively unfavourable as it was characterized by labour unrest as well as reports of violent crimes.

international economic and financial developments influenced the domestic economy during the first half of 2000. The price of crude oil in the international market rose significantly and was accompanied by increased output. However, the prices of other primary commodities fell. World output, trade and inflation maintained a steady growth.

A review of CBN policy responses indicated that considerable effort was devoted to liquidity and foreign exchange management, as well as the surveillance of

An assessment of economic prospects for the rest of the year indicated that improvement in the industrial sector could come from the increase in aggregate demand, arising from the increase in minimum wage.

2.0 MACROECONOMIC POLICY OBJE

The year 2000 economic policies were designed to sustain the rate of inflation at single digit, as well as stimulate output and employment growth. The strategies for achieving these objectives include further commitment by the Federal Government to fiscal prudence, complemented by a tight monetary policy. Specifically, the policy thrust anchors on guided privatization of public enterprises, private sector led growth, rehabilitation and upgrading of infrastructural facilities and implementation of a poverty alleviation programme. Details of policy measures are outlined below.

The fiscal measures in Budget 2000 were formulated to improve government revenue, as well as enhance economic growth. Specific measures ou

Budget included the provisions of generous tax incentives to encourage production, while provision for low income tax rates was designed to enhance consumers' purchasing power. In order to broaden the tax base and enhance greater efficiency

tax collection, the administrative capacity of the tax authorities was to be further strengthened. In the area of the Value Added Tax (VAT), the flat rate of 5.0 per cent on VAT was retained, while the 50 VAT offices established in 1999 would become

erational. Furthermore, a VAT clearance certificate was to be introduced by government and issued to all VAT payers. Other measures included: a comprehensive port reform and streamlining of port charges/levies and a review of existing incentives and set offs as they relate to the oil and gas sector, while the new memorandum of understanding on the scheme was expected to come into effect during the year. There was also a provision for the enforcement of compliance with

tax assessment by small and medium scale enterprises. In addition, the Federal Government would embark on the deregulation of the petroleum industry such that the crude oil delivery to Nigeria National Petroleum Corporation (NNPC) for domestic consumption would be at a price equivalent to what it is in the international market, thereby eliminating subsidy.

collected revenue was projected at ═1,686.0 billion for the year, representing an increase of 68.9 per cent over the revenue estimates for 1999. Of this

al receipts from petroleum were projected at ═1,340.0 billion (about 79.5 per cent of total receipts) based on a bench mark oil price of US $20.0 per barrel and an estimated output level of 2.04 million barrels per day. Non

rease by 44.7 per cent to ═345.6 billion compared to an increase of 43.0 per cent in the preceding year. Revenue from customs and excise was projected to rise by 31.6 per cent to ═100.0 billion, while revenue from Company Income Tax

Tax (VAT) were expected to increase by 113.1 and 62.5 per

═65.0 billion each. Revenue from independent sources, at ═

constituted 14.5 per cent of the total non oil revenue, compared with the ratio of 5.0

per cent (₦12.0 billion) in 1999. Out of the total collectible revenue, the share of the Federal Government was projected at 48.5 per cent, while the State and Local Governments would receive 24.0 and 20.0 per cent, respectively. The balance of 7.5 per cent was set aside as special funds.

Total Federal Government planned expenditure was projected to be ₦653.1 billion for the year, representing an increase of 86.7 per cent over the estimate in 1999, and about 16.7 per cent of GDP compared with 10.4 per cent in the preceding year. This was to reflect largely the anticipated increase in personnel cost, the implementation of poverty alleviation programme and the substantial allocations for the revamping of infrastructural facilities. Total expenditure comprised of ₦341.5 billion for recurrent expenditure while capital expenditure was projected at ₦311.6 billion. Thus, with a projected expenditure of ₦653.1 billion and retained revenue of ₦556.5 billion, the overall budget deficit was put at ₦ 96.6 billion, representing about 2.5 per cent of GDP.

2.2 Monetary Policy Measures

Monetary and credit policies for the year were primarily designed to maintain macroeconomic stability as basis for sustainable growth. The main thrust of the policies was to sustain inflation at single digit by containing excess liquidity in the banking system. Specifically, the main targets of the monetary policy were to ensure the attainment of a growth rate of 14.6 per cent for broad money supply (M_2), while aggregate bank credit, (credit to government and to the private sector) was targeted to expand by 27.8.

Open Market Operations (OMO) would remain the major instrument of monetary management to be conducted weekly in short term government securities. This was to be complemented by discount window operations, repurchase agreements (REPOs), cash and liquidity ratio requirements. The cash reserve requirement (CRR), which is applicable only to commercial banks, remained at 12.0 per cent, while the minimum liquidity ratio (LR) applicable to both commercial and merchant banks remained at 40.0 per cent as in 1999. In order to reduce the cost of funds to banks and influence movements in market interest rates, the CRR and the LR were reviewed downward to 11.5 and 35.0 per cent, respectively, in April, 2000. Earlier in April 2000, the CBN's Minimum Rediscount Rate (MRR) was reduced by 100 basis points to 17.0 per cent following the ease in economic and market conditions, occasioned by the sustained decline in the inflation rate. Interest rates remained deregulated in consonance with the prevailing market-based techniques of monetary management, while the CBN would continue to influence interest rates through its intervention rate on various money market instruments, such as the Minimum Rediscount Rate (MRR) and the stop rate at the weekly tender for treasury bills. As in the recent past, the CBN would place emphasis on creating a more competitive financial environment and the introduction of complementary monetary instruments. In this regard, the Bank would continue to encourage investment in treasury securities by the non-bank public and also initiate policies to strengthen community banks and other deposit taking institutions to attract savings and enhance credit delivery to micro-enterprises. It was envisaged that these actions would reduce the persistent wide spread between savings and maximum lending rates.

In order to complement current efforts aimed at addressing the problem of excess liquidity in the economy and promote financial savings, the CBN would in conjunction with the Federal Government explore the possibility of issuing the National Savings Certificate, a medium-to-long term security of 3-5 years maturity, which was approved in 1998. The Bank would also work with the Federal Government with a view to resuming the floatation of Federal Government development stocks, which was suspended in 1988 to improve the financial environment for monetary policy and encourage the government to source its long-term financing needs from the capital market.

In pursuance of the objective of deepening the financial sector as well as enhancing its efficiency, the CBN would continue to allow merchant banks that meet the necessary conditions to convert to commercial banks, while approval in principle was granted for the introduction of universal banking in Nigeria. Meanwhile the minimum paid-up capital requirement for existing banks remained at ₦500 million as in 1999, while that for new banks was raised to ₦1.0 billion with effect from January 2000.

The capital base of the Agricultural Credit Guarantee Scheme Fund (ACGSF) was raised from ₦100 million to ₦1.0 billion to enhance its operational effectiveness, while refinancing schemes would be established to cater for the needs of medium and large-scale borrowers. In order to promote growth in the real sector in general, banks were encouraged to set aside 10 per cent of their profit before tax of the previous year for equity investments in small and medium scale enterprises (SMEs).

The CBN would continue to engage in moral suasion through regular dialogue with banks and other financial institutions, under the aegis of the Bankers' Committee and other channels, in order to enhance efficiency in the banking industry, especially with respect to interest and exchange rate management.

2.3 External Sector Policy Measures

The external sector policies in the year 2000 were designed to ensure a stable naira exchange rate as well as the attainment of external balance under a deregulated exchange rate mechanism. To this end, the Inter-bank Foreign Exchange Market (IFEM) would continue to exist and operate freely. However, operators were expected to adhere to the relevant laws and regulations governing the operations of the market. Foreign exchange purchased from the CBN at IFEM was to be used for eligible transactions. Oil and oil service companies were free to sell their foreign exchange to any bank of their choice to meet their domestic expenses. In line with the policy of divesting CBN of retail banking, all government parastatals, government companies, agencies and companies in which the government had majority shareholding were directed to transfer their foreign currency domiciliary accounts to commercial banks. Furthermore, any traveller entering and leaving Nigeria was required to declare any amount above ₦10, 000.00 (Ten thousand Naira only) in his/her possession at the time of arrival in, or departure from the country on Forms TM and TE, respectively. In order to minimize the delay in foreign exchange transactions, the prescribed minimum documentation requirements for all visible and invisible trade transactions were retained, while all Authorized Dealers should continue to render promptly, accurate and coordinated returns on foreign exchange transactions on the prescribed schedules. Sanctions would be imposed on defaulting authorized dealers and those that rendered inaccurate returns. In the area of external debt, the Federal Government would intensify efforts at securing debt service and debt stock reduction.

2.4 Real Sector Policy Measures

The 2000 Budget envisaged the achievement of a minimum of 3.0 per cent growth in real GDP, a single digit inflation rate, reduction in unemployment and poverty, improvement in agricultural and industrial production, as well as social services, including the rehabilitation and upgrading of infrastructural facilities. Specific policy measures on agriculture in the budget include, the provision of fiscal incentives to institutional lenders and borrowers in support of agricultural enterprises, exemption from Value Added Tax (VAT) on all agricultural equipment and inputs, encouragement of state governments to specialize in the production of a crop in which they have ecological advantage, reactivation of the Agricultural Development Projects (ADP) through a US $77.986 million loan to be drawn from the on-going World Bank and IMF facility, privatization of fertilizer procurement and other farm inputs supply, as well as a reassessment of the Agricultural Credit Guarantee Scheme.

Industrial sector policies and programmes included the privatization of government investment in public enterprises quoted on the stock exchange as a way of enhancing their efficiency, the establishment of regulatory framework for effective private sector participation in preparation for privatizing public utility companies, the establishment of Niger Delta Development Commission to reduce the perennial disturbance of oil production. Other measures include, emphasis on aerial geo-physical surveys and exploration of solid mineral deposits in order to encourage private investment in the sector, provision of appropriate protection of domestic industries against stiff competition from imports and dumping by foreign industries. Such protection was designed to allow for survival of local industries in the face of global onslaught and trade liberalization.

3.0 SECTORAL DEVELOPMENTS AND POLICY APPRAISAL

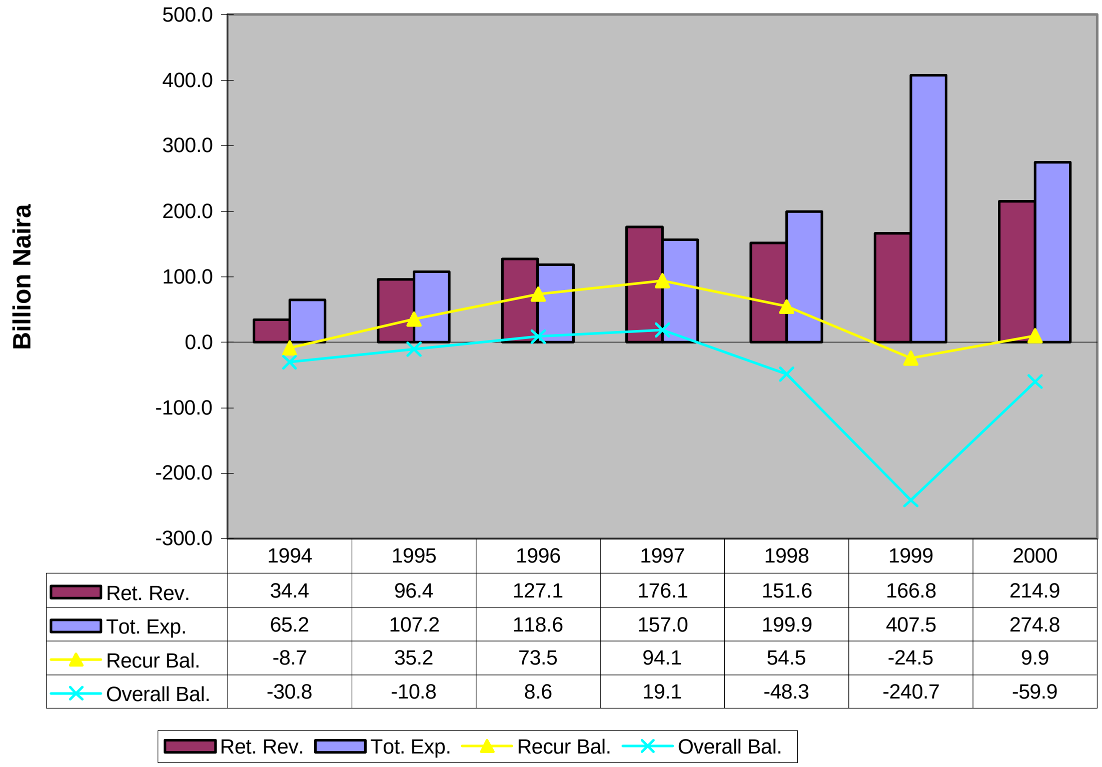
3.1 Fiscal Operations and Developments

(a) Federal Government Finances

The fiscal operations of the Federal Government during the first half of year 2000 resulted in an overall deficit of ₦59,945.2 million which was 84.2 and 67.4 per cent of the proportionate budget estimate and the outcome in the corresponding period of 1999, respectively (Figure 1). On a proportionate half year basis, the deficit in the review period was 3.1 per cent of GDP compared with 14.3 per cent in the corresponding period of 1999. Available data showed that total federally-collected revenue amounted to ₦796,315.0 million, which is by 124.9 per cent higher than the level in the corresponding period of 1999 but fell short of the proportionate budget estimate by 5.5 per cent. The lower revenue, relative to the budget projections, was attributable to the low receipts from non-oil sources as a result of the lull in economic activities during the period. Total oil receipts grew by 162.3 per cent over the level in the corresponding period of 1999 and exceeded the budget estimate by 0.7 per cent, while non-oil revenue recorded an increase of 30.4 per cent when compared with the corresponding half of 1999 although, it fell short of the budget projections by 23.8 per cent. The sum of ₦435,738.9 million or 54.7 per cent of the total federally-collected revenue was credited to the Federation Account as against 36.1 per cent in the first half of 1999.

The retained revenue of the Federal Government for the period was ₦214,878.7 million indicating an increase of 28.8 per cent over the amount in the corresponding period of 1999, but was 22.8 per cent below the proportionate budget projection. The aggregate expenditure of the Federal Government, at ₦274,823.9 million declined by 15.8 and 32.6 per cent below the proportionate budget estimates for the first half

Figure 1: Federal Government Fiscal Operations in the First Half of the Year (N'Billion)



	1994	1995	1996	1997	1998	1999	2000
Ret. Rev.	34.4	96.4	127.1	176.1	151.6	166.8	214.9
Tot. Exp.	65.2	107.2	118.6	157.0	199.9	407.5	274.8
Recur Bal.	-8.7	35.2	73.5	94.1	54.5	-24.5	9.9
Overall Bal.	-30.8	-10.8	8.6	19.1	-48.3	-240.7	-59.9

of 2000 and 1999, respectively. The relatively low expenditure resulted largely from the late approval of the year 2000 budget and the low disbursement on capital expenditure, which was 60.0 per cent lower than budgeted for the period.

(b) Statutory Allocations to State Governments and the Federal Capital Territory

Statutory allocations to State Governments and the Federal Capital Territory amounted to ₦108,739.8 million in the first half of year 2000, representing an increase of 157.0 per cent over the ₦42,317.8 million received in the corresponding period of 1999. The statutory allocations consisted of ₦95,981.1 million from the Federation Account and ₦12,758.7 from the Value-Added Tax (VAT) pool account. Receipts from the Federation Account rose by 209.2 per cent over the level in the corresponding period of 1999 as a result of the upward review of the total amount disbursed to all the beneficiaries of the Account and the payment of 13.0 per cent derivation to the mineral producing areas.

(b) Statutory Allocations to Local Government Councils

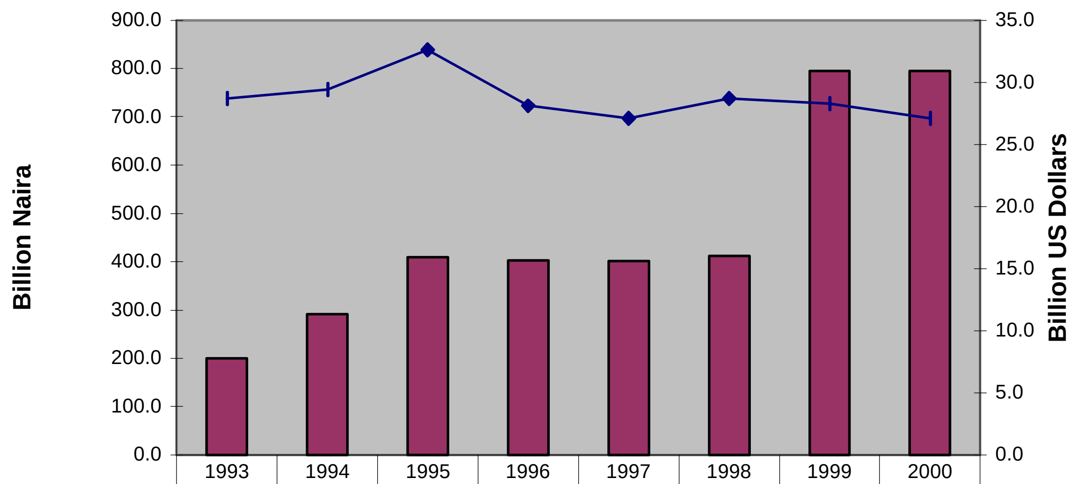
Available information showed that total statutory allocations to Local Government Councils from the Federation and VAT pool accounts increased significantly by 155.7 per cent to ₦856.5 million when compared with the corresponding half of 1999. Gross allocation from the Federation Account, at ₦76,795.3 million, indicated an increase of 199.9 per cent over the level in the corresponding period of 1999 and accounted for 89.4 per cent of total allocation for the period under review.

(d) Public Debt

Domestic debt outstanding at the end of June 2000 stood at ₦794,806.5 million indicating a marginal decrease of ₦190.0 million from the level in end-June, 1999 (Figure 2). The Federal Government redeemed a total of ₦190.0 million development stocks, which matured during the review period. Available data on external debt outstanding showed that the debt stock at end-June, 2000 stood at US

$27,062.74million, while external debt service payments for the first

Figure 2: Public Debt Outstanding



	1993	1994	1995	1996	1997	1998	1999	2000
Int.(N)	199.9	291.6	409.6	402.9	400.7	411.6	795.0	794.9
Ext.($)	28.7	29.4	32.6	28.1	27.1	28.7	28.3	27.1

half of the year amounted to US $1,213.5 million compared with US $729.9 million in the corresponding period of 1999. Of the total debt service payments, 25.3, 45.7, 8.2, 5.2 and 15.3 percent accrued to multilateral institutions, the Paris Club of creditors, the promissory notes holders, London Club and other bilateral creditors, respectively.

3.2 Financial Sector Developments

(a) Institutional Developments

Following the granting of licence by the CBN to Regent Bank Limited to commence commercial banking activities in the country, the number of banks in operation at end-June, 2000 increased by 1 to 91 (59 commercial and 32 merchant). Branch network also increased by 90 from 2530 (2401 commercial and 129 merchants) in December 1999, to 2,620 (2,483 commercial and 137 merchant) following the opening of new branches. A merchant bank converted to commercial bank during the period, bringing the number of such conversions to 6. Those granted approval-in-principle (AIP) to convert increased from 4 to 7. The number of banks that met fully the ₦500 million minimum paid-up capital requirements as stipulated in the Prudential Guidelines remained at 80. Effective January 2000, the minimum paid-up capital requirement for new banks was raised to ₦1 billion.

In order to streamline the functions of development finance institutions (DFIs), the Presidency constituted a Committee comprising the office of Head of Service, the Ministries of Finance, Industries and Justice, to work out modalities for the merging of three DFIs namely, NBCI, NIDB, and NERFUND.

In continuation of the distress resolution options, six more banks were approved for sale to successful bidders in the review period. These were Nationwide Merchant Bank, Eagle Bank (First African Trust Bank) Ltd, New Nigerian Bank Plc, African Continental Bank Plc, Orient Bank of Nigeria Plc, and Nigerian Universal Bank. National Bank had earlier been sold and is in the process of commencing banking business. The number of distressed banks remained unchanged at 10.

A survey of Primary Mortgage Institutions (PMIs) was conducted during the period to determine their viability as a prelude to their reforms. The Report on the revised guideline for the operation of the PMIs is currently receiving attention of the CBN management. Meanwhile, the number of PMIs in operation remained at 195 as was reported in December 1999.

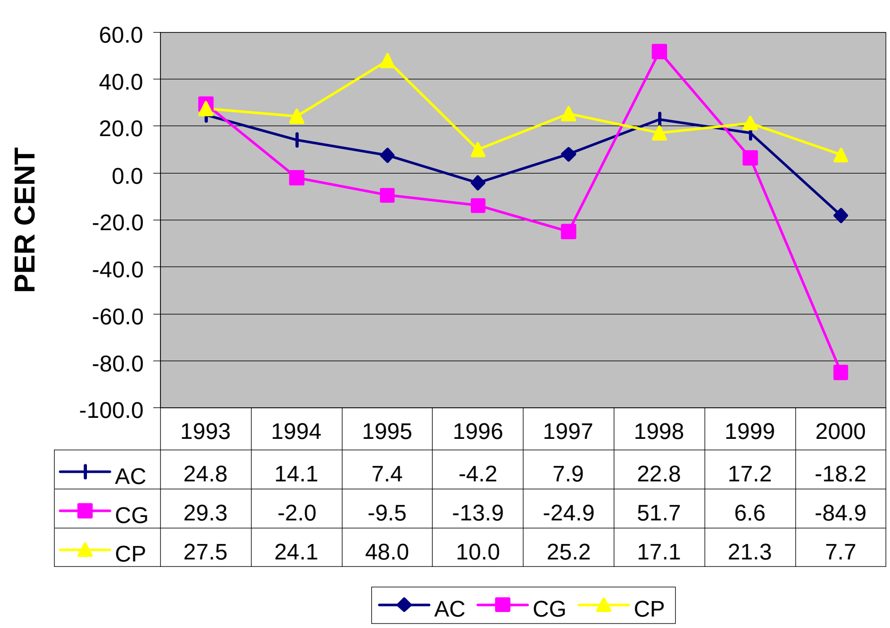
The number of finance companies with AIP stood at 21 while those issued operational licence dropped from 280 to 72 at end-June, 2000 following the cancellation of 462 AIPs and the revocation of licences of 208 finance companies. The number of community banks also remained at 1,014, the same as at end-December, 1999.

Efforts to resolve the financial distress continued during the review period. The joint CBN/NDIC Technical Committee on problem banks discovered that some of the funds from prospective investors bidding to acquire some distressed banks were from unstable sources and hence unacceptable as capital deposit for acquisition of distressed banks. In another development, one of the distressed banks, First African Trust Bank (now Eagles Bank) was handed over to the new owners after meeting the requirements for acquisition. Meanwhile, the Credit Risk Management System (CRMS) took off during the review period. Banks have started rendering their returns on-line instead of the old diskette system.

(b) Monetary and Credit Developments

Consistent with the target expansion rate for fiscal 2000, the growth in broad money supply (M_2) was moderate during the first half of the year. However, narrow money (M_1) accelerated rapidly, particularly in June, owing largely to the sharp increase in foreign assets (net) of the Central Bank. Provisional data indicated that M_2 rose by 5.4 per cent to ₦ 737,477.0 million within the stipulated target of 14.6 per

Figure 4: Banking System's Credit to the Economy During the First Half Year (Per Cent Growth Rate)



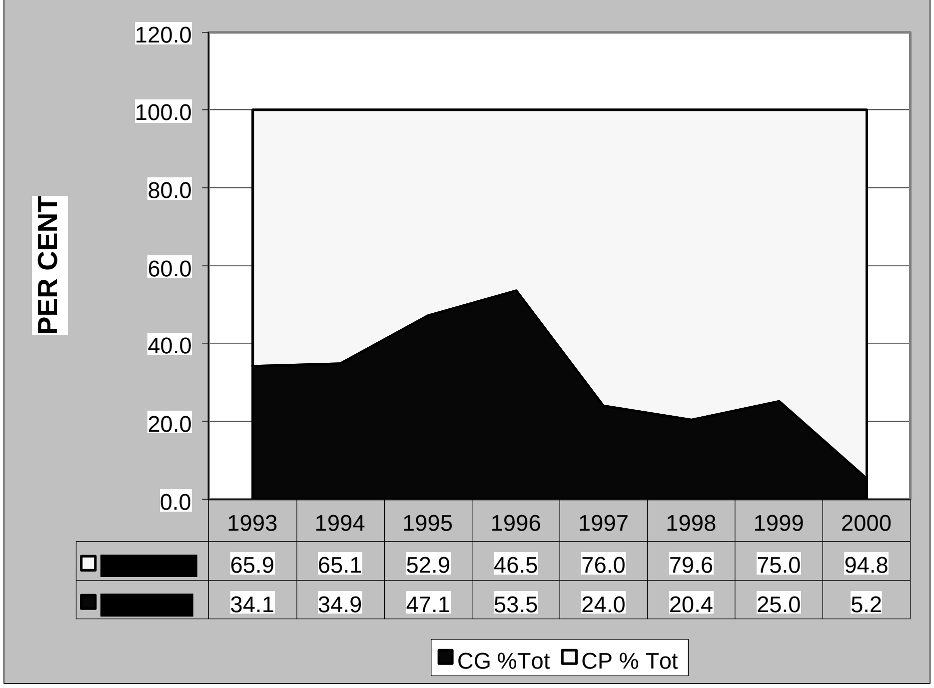
	1993	1994	1995	1996	1997	1998	1999	2000
AC	24.8	14.1	7.4	-4.2	7.9	22.8	17.2	-18.2
CG	29.3	-2.0	-9.5	-13.9	-24.9	51.7	6.6	-84.9
CP	27.5	24.1	48.0	10.0	25.2	17.1	21.3	7.7

cent for fiscal 2000 compared with the 19.5 per cent increase recorded in the corresponding period of 1999 (Figure 3). Narrow money (M_1) expanded by 10.3 per cent to ₦433,427.0 million, surpassing the 9.8 per cent target for the entire year and was marginally higher than the 9.5 per cent achieved in the comparable period of 1999. The growth in M_2 reflected wholly the substantial increase in M_1, as quasi-money fell during the period. The growth in M_1 during the review period reflected the sharp rise in foreign assets (net) of the banking system, and the decline in quasi-money. However, the significant decline in aggregate credit, particularly to the Federal Government, as well as the decline in other assets (net), exerted a moderating influence on the growth of M_1.

Aggregate bank credit to the economy fell significantly during the first half of 2000, reflecting entirely the sharp fall in net credit to the Federal Government. Provisional data indicated that, aggregate bank credit fell by 18.2 per cent, compared with the 27.8 per cent target growth rate envisaged for fiscal 2000 and the 17.2 per cent increase observed in the corresponding period of 1999 (Figure 4).

Net credit to the Federal Government declined sharply by 84.9 per cent in the half-year, as against the target increase of 37.8 per cent stipulated for fiscal 2000 and the increase of 6.6 per cent recorded in

Figure 5: Share of Governement and Private Sector in Banking System's Credit to the Economy



	1993	1994	1995	1996	1997	1998	1999	2000
[redacted]	65.9	65.1	52.9	46.5	76.0	79.6	75.0	94.8
[redacted]	34.1	34.9	47.1	53.5	24.0	20.4	25.0	5.2

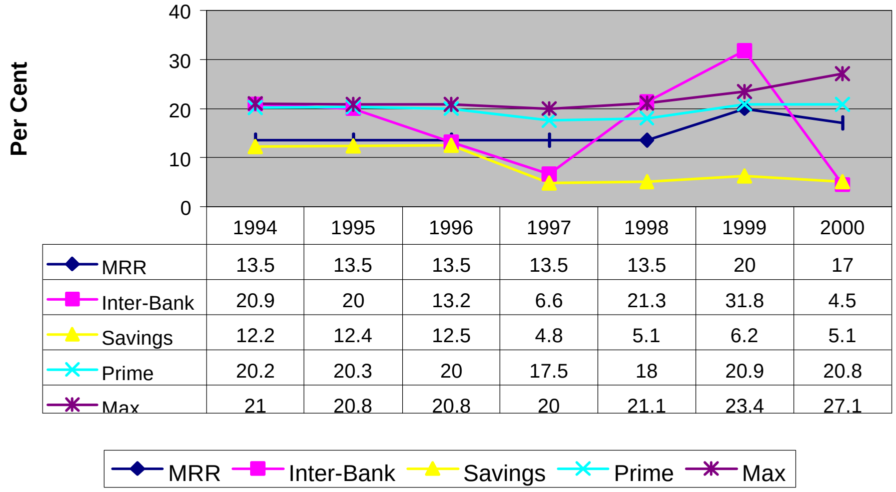
the first half of 1999 (Figure 4). Accounting largely for the decline in net credit to the Government was the sharp fall of 338.2 per cent in CBN net claims, following Government's fiscal prudence, particularly in the first five months of the year, as well as the relatively tight monetary policy adopted during the period. Figure 5 shows that net credit to government accounted for 5.2 per cent of the banking systems' credit to the economy during the period.

Credit to the private sector increased by 7.7 per cent, less than 21.9 per cent projected expansion rate for fiscal 2000 and the 21.3 per cent growth recorded in the first half of 1999. Also, credit to state and local governments fell by 21.0 per cent, as against the 52.7 per cent increase in the corresponding period of 1999. Credit to 'other' private sector, which constitutes the bulk (91.0 per cent) of private sector credit increased by 7.1 per cent, compared with the increase of 26.0 per cent in the corresponding period a year earlier.

(c) Interest Rates

Reported bank deposit and lending rates indicated mixed movements during the first half of 2000. This reflected largely the impact of the liquidity overhang in the banking system, coupled with the reduction in CRR and liquidity ratio. Available data indicated that the average rate on commercial banks' savings deposits rose marginally from 5.3 per cent in December, 1999 to 5.4 per cent in March, 2000 but fell to 5.1 per cent in June. Similarly, the average rates on time deposits of various maturities, which increased from a range of 8.4-12.7 per cent in December 1999 to 8.7-13.4 per cent in March, moved downward to between 8.6-12.5 per cent at the end of June. The average prime lending rates of commercial banks, which stood at 21.3 per cent at end-December, 1999 rose marginally by 0.6 percentage point to 21.9 per cent in March before declining to 20.8 per cent in June. Their maximum lending rate also fell from 27.2 per cent in December 1999 to 27.1 per cent. Deposit and lending rates of merchant banks fluctuated downward during the half-year. For example 3-months time deposit rate fell from 17.6 per cent in December 1999 to 16.8 per cent in June 2000. Similarly, the average prime and maximum lending rates fell from 25.8 and 30.0 per cent, respectively in December 1999 to 23.2 and 27.7 per cent in June 2000. The wide spread between bank deposit and lending rates persisted during the half year of 2000, as the gap between commercial banks' savings and maximum lending rates stood at 22.0 percentage points in June. Also, the spread between merchant banks' 7-day deposit and their maximum lending rates stood at 16.8 percentage points at the end of June, 2000. Bank deposits and lending rates were, positive in real terms during the review period as inflation rate moderated to an estimated 1.3 per cent in June.

Figure 6: Selected Commercial Banks' Interest Rates (Per Cent, Half Year)



	1994	1995	1996	1997	1998	1999	2000
MRR	13.5	13.5	13.5	13.5	13.5	20	17
Inter-Bank	20.9	20	13.2	6.6	21.3	31.8	4.5
Savings	12.2	12.4	12.5	4.8	5.1	6.2	5.1
Prime	20.2	20.3	20	17.5	18	20.9	20.8
Max	21	20.8	20.8	20	21.1	23.4	27.1

Following the downward review of CBN's MRR from 18.0 to 17.0 per cent in April, 2000, in an effort to narrow the gap between banks' deposit and lending rates, and the sustained moderation in the rate of inflation, treasury bill issue rate declined from 17.0 to 16.0 per cent during the review period.

(d) Financial Savings

At ₦340,581.7 million, aggregate financial savings at the end of June 2000 was 21.6 per cent over the level attained in December 1999. This represents 8.7 per cent of GDP compared with 8.6 per cent attained in June 1999. Time and savings deposits with commercial and merchant banks, as in the past years, constituted the bulk of aggregate institutional savings, accounting for 97.5 per cent of the total compared with 97.0 and 97.1 per cent in December and June, 1999, respectively. Of the institutional savings, commercial banks, accounted for 81.5 per cent, merchant banks 16.0 per cent, while other institutions accounted for the balance.

(e) Inter-bank Funds Market

The inter-bank funds market witnessed a significant increase in the volume of transactions during the first half of 2000, compared with the corresponding period of 1999. The increase largely reflected the sustained pressure on the foreign exchange market, which compelled banks to source funds from the market during the review period. At ₦380.1 billion in the first half of the year, the aggregate value of transactions rose by 15.5 and 78.1 per cent over the levels in the preceding half-year and the corresponding period of 1999, respectively. The inter-bank call placements, which constituted the bulk (46.2 per cent) averaged ₦29.2 billion, compared with ₦24.0 billion in the preceding half-year and the ₦15.2 billion in the corresponding period of 1999. Gross rediscounts totalled ₦134.9 billion in the first half of the year, compared with the ₦136.9 billion recorded in the corresponding period of 1999

(f) Capital Market Developments

The Nigerian Stock Exchange was active in the first half of 2000. The volume and value of equities traded rose by 115.7 and 61.5 per cent from their levels in the corresponding period of 1999 to 2,084 million and ₦9,100.8 million in the review period. Also, activities in Federal Government Development Stocks, which had been dormant, picked up during the review period as 8.7 million stocks valued at ₦8.1 million were traded. Similarly, Edo State Government offered for subscription ₦500 million First Edo State 21 per cent Floating Rate Revenue Bond 2002/2006 to finance its housing project. Market capitalisation and value price indices thus rose from ₦281.3 billion and 5,978.0 to ₦361.1 billion and 6,466.7, respectively, in the review period. This reflected largely investors' confidence in the market.

(f) Central Banking

Provisional data indicated that total assets/liabilities of the Central Bank increased by 2.6 per cent over its end-December, 1999 level to ₦1,469,021.2 million in June, 2000. This represented an increase of 16.6 per cent when compared to its level in the corresponding period a year earlier, thus reflecting the increase of 18.4 per cent in the Bank's foreign assets holding which was induced by the positive developments in the international petroleum market.

Domestic assets, mainly investments in government securities, fell by 6.9 per cent to ₦829,829.3 million, in sharp contrast to the 37.8 per cent increase in the comparable period of 1999. The fall was induced largely by the sharp decline in the Bank's holding of treasury securities following increased participation of the commercial and merchant banks and other investors in the securities market. The Bank's other assets, on the other hand, rose by 2.7 per cent to ₦388,344.8 million during the first half of 2000.

Total deposit liabilities of the Bank rose by 4.8 per cent to ₦644,546.7 million, while other liabilities (unclassified items) increased by 2.5 per cent to ₦607,514.7 million during the review period. The Bank's currency liabilities, on the other hand, declined by 3.6 per cent to ₦201,025.5 million while its paid-up capital and general reserve remained at the end-December 1999 levels of ₦500.0 million and ₦15,434.3 million, respectively.

(h) Commercial Banking

Total assets/liabilities of commercial banks rose by 19.0 per cent to ₦1,272,905.4 million during the first-half of 2000 compared with the increase of ₦287,501.9 million or 41.4 per cent in the corresponding half of 1999. Thus, they accounted for 88.6 per cent and 91.2 per cent of total assets and deposit liabilities of the banking system, compared with 84.4 and 90.1 per cent, respectively, in June 1999. This category of banks also contributed 89.4 per cent of the banking system's capital and reserves compared with 68.9 and 70.4 per cent in the preceding half-year and the corresponding period of 1999, respectively. Their dominance was further enhanced by the conversion of six merchant banks to commercial banks.

Funds available to the banks during the period amounted to ₦207,946.1 million, compared with ₦290,406.9 million during the first-half of 1999. The funds were sourced through increases in deposit liabilities (42.2 per cent), central government deposits (39.5 per cent) and unclassified liabilities (18.7 per cent), among other sources. The funds were utilised to increase banks' investment in government securities (15.2 per cent), claims on the private sector (23.6 per cent), acquisition of foreign assets (5.6 per cent) and unclassified assets (42.6 per cent), among other uses.

Loans and advances, which over the years constituted the bulk of investment portfolio, increased by 13.8 per cent during the period under review, compared with 15.9 per cent recorded in the corresponding period of 1999. Aggregate liquidity ratio of commercial banks improved from 48.1 and 50.9 per cent, respectively, in June and December 1999 to 56.2 per cent in June 2000 relative to the new statutory requirement of 5.0 per cent. Loan/deposit ratio of the banks, however, dropped to 39.9 per cent from 63.4 and 54.1 per cent in June and December, 1999, respectively.

(i) Merchant Banking

Merchant banks' position continued to be relatively weak in terms of assets, deposit liabilities and capital/reserves during the period under review. Assets of the banks constituted 11.4 per cent of the banking system's total assets in June 2000, compared with 15.6 per cent in June 1999. The banks also accounted for 8.8 per cent of total deposit liabilities as against 9.9 per cent in the corresponding period of 1999. Their contribution to the system's capital and reserves was 10.6 per cent compared with 10.9 and 30.0 per cent, respectively, in December and June 1999.

At ₦163,585.9 million in June, 2000, merchant banks' total assets increased by 31.9 per cent. Total funds available to the banks amounted to ₦39,895.4 million, compared with ₦51,238.9 million in June 1999. The funds were sourced mainly from increases in deposit liabilities (55.1 per cent), other liabilities (22.1 per cent) and capital accounts (7.5 per cent), among other sources. The funds were utilised for the purposes of increasing other assets (54.6 per cent), claims on the private sector (39.3 per cent) and acquisition of foreign assets (4.3 per cent), among other uses.

At ₦74,722.3 million, merchant banks' aggregate credit increased by 7.1 per cent compared with an increase of 22.9 per cent in the comparable period of 1999. Loans and advances granted amounted to ₦62,546.9 million, representing 83.7 per cent of aggregate credit of the banks. The aggregate loan/deposit ratio was 82.6 per cent in June 2000 compared with 91.2 per cent in December 1999. The average liquidity ratio of merchant banks was 59.3 per cent in June 2000, which reflected an improvement over the 55.3 per cent attained in December 1999.

(j) Discount Houses

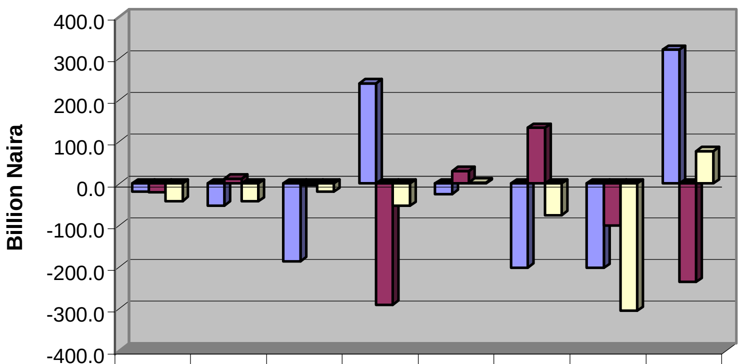
The number of discount houses operating in Nigeria remained unchanged at 5. Their total assets/liabilities amounted to ₦22,758.5 million at end-June 2000, indicating an increase of 51.2 per cent over the level in December, 1999. The investible funds generated by the houses, which amounted to ₦8,566.8 million, were sourced from increases in money at call (62.8%), other liabilities (27.9%) and increase in capital/reserves (3.5%), among other sources. The funds were utilised to increase investments in government securities (43.0%), other investments (7.0%) claims on banks (39.5%), among others.

3.3 External Sector Developments

(a) Balance of Payments

Provisional estimates for the first half of the year revealed that the pressure on Nigeria's balance of payments abated as the overall position resulted in a modest surplus of ₦78,323.3 million (US $782.4 million), as against the huge deficit of ₦304,878.4 million (US $3,397.7 million) in the first half of 1999. The favourable development in the external sector was largely as a result of the huge surplus of ₦320,906.6 million (US $3,205.6 million) in the current account which more than offset the deficit of ₦235,605.9 million (US $2,353.5 million) in the capital account. Government's policy of reserves build-up received a boost as the gross reserves grew by 33.7 per cent from end-December 1999 level of $5,440.7 million to US $7,272.4 million. At that level, the external reserves could finance 11.6 months of imports. The improvement in the current account, which started in the second half of 1999, was sustained in the review period. The trade account deficit of ₦5,106.8 million (US $57.0 million) recorded in the first half of 1999 swung into surpluses of ₦412,291.6 million (US $4,345.4 million) and ₦80,962.1 million (US $4,804.4 million) in the second half of 1999 and the review period, respectively. The surpluses were traceable to increased inflow from crude oil exports occasioned by the rise in average crude oil prices from US $13.5 per barrel in the first half of 1999 to US $22.5 and $27.1 in the second half of 1999, and the review period, respectively. In addition to the significant oil export increases, import bills dropped by 14.6 per cent from the level in the first half of 1999 to ₦376,434.3 million (US $3,760.3 million) (Figure 9). Although, non-oil export performance continued to be weak, it increased from ₦11,244.0 million (US $125.5 million) in the first half of 1999 to ₦14,826.1 million (US $148.1 million).

Figure 7: Balance of Payments (Annualized: 1993-96; Ist Half-year: 1997-2000)



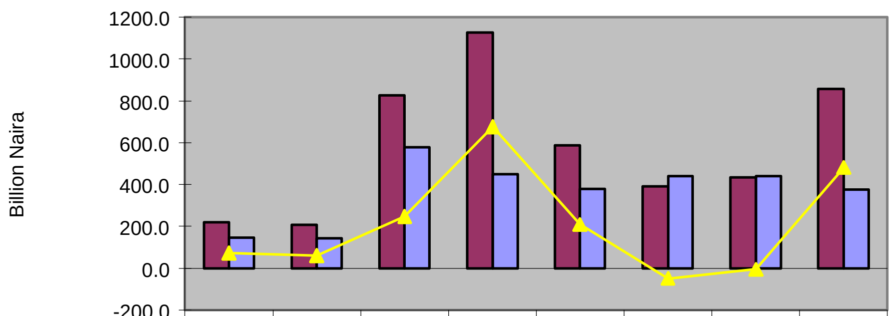
	1993	1994	1995	1996	1997	1998	1999	2000
Cur. Acct	-19.5	-52.3	-186.1	240.2	-25.7	-201.3	-202.0	320.9
Cap. Acct	-19.7	11.3	-3.3	-290.2	30.8	133.5	-99.7	-235.6
Overall Bal.	-41.8	-42.6	-19.5	-53.2	2.7	-75.2	-304.9	78.3

Cur. Acct Cap. Acct Overall Bal.

The deficit in the services and income account persisted, although the net position in the account improved from ₦244,689.4 million (US $2,731.1 million) in the first half of 1999, respectively, to ₦195,351.6 million (US $1,951.4 million). This reflected decreases in expenditures in respect of all the components of invisible transactions, including the Joint Venture Cash (JVC) Calls. However, the surplus in unrequited transfers declined from ₦47,852.0 million (US $534.1 million) in the corresponding half of 1999 to ₦35,296.1 million (US $352.6 million), an indication of a slow down in home remittances by Nigerian residents abroad. The pressure on the external sector manifested more in the capital account with the deficit enlarging from

₦99,735.7 million (US $1,113.2 million) in the first half of 1999 to ₦263,766.4 million (US $2,780.0 million) in the second half of 1999 but declined to ₦235,605.9 million (US $2,353.5 million). Scheduled debt service payments and Nigeria's short-term claims on foreigners were responsible for the unfavourable performance of the capital account. Consequently, the overall surplus of the balance of payments was

Figure 8: Exports and Imports (Annualized:1993-97; 1st Half year: 1997-2000)



	1993	1994	1995	1996	1997	1998	1999	2000
Expt.	219.4	206.1	825.7	1125.7	587.6	391.6	435.7	857.4
Impts.	147.2	144.7	578.4	449.7	379.1	440.9	440.8	376.4
Trd. Bal.	72.3	61.3	247.2	676.0	208.5	-49.3	-5.1	481

Expt. Impts. Trd. Bal.

achieved through deferment of some portion of the debt service due, amounting to ₦59,015.4 million (US $589.5 million).

(b) External Assets

Nigeria's total external assets as at the end of the first half of 2000 stood at ₦921,028 million ($9,012.0 million), compared with ₦625,400.8 million ($6,591.5 million) at end-June, 1999 and ₦698,874.3 million ($7,116.9 million) at end-December, 1999. This represented increases of 47.3 and 31.8 per cent above the level achieved at end-June and end-December, 1999 respectively. The Central Bank of Nigeria's (CBN) holdings stood at ₦743,240.7 million ($7,272.4 million) as against ₦453,291.0 million ($4,777.5 million) at end-June, 1999, representing 80.7 per cent of the total external assets, compared with 72.5 per cent in the corresponding period of 1999. The bulk of the CBN holdings was in foreign bank balances. The combined share of commercial and merchant banks' net assets increased from ₦169,503.1 million

($1,786.5 million) at end-June 1999 to ₦177,764.3 million ($1,739.4 million) at end-June, 2000.

3.4 International Economic and Monetary Developments

(a) International Foreign Exchange Market

International foreign exchange market during the period under review was dominated by the US dollar. The dollar was supported at the foreign exchanges by the sustained expansion of the US economy, which triggered large movement of long-term capital from the Euro-zone to the US. Overall, the US dollar appreciated against the pound sterling, Deutsche Mark, French Franc, Dutch Guilder, Swiss France and the Euro by 3.2, 12.1, 11.3, 12.3, 11.5 and 14.1 per cent, respectively. The strength of the dollar was supported by positive economic fundamentals such as the GDP growth rate of 7.3 per cent, interest rate of 6.76 per cent and low inflation rate of 3.0 per cent in the first quarter of 2000.

(b) Developments in the International Commodity Organizations

The International Coffee Organization (ICO) and Inter-African Coffee Organization (IACO) met in London in May 2000 and discussed the persistent decline in coffee prices in the past three years. They decided that the Coffee Retention Plan should come into force by June, 2000 in member countries in order to reduce the total world coffee exports by about 20.0 per cent so as to boost coffee price. The average composite price of coffee in the international market was US $0.675 per pound in May 2000, compared with US $0.9128 in the first four months of 1999, representing 26.0 per cent decline. The retention committee would decide, whether or not, to release retained coffee stocks whenever the price indicator reaches US $0.95 per pound. The release of stocks would, however, be mandatory when the price indicator rises up to 110 U.S. cents per pound.

The International Cocoa Council (ICCO) at its sixty-first regular session in

London in March 2000 resolved to invite the World Bank and the IMF to assist cocoa producing countries in finding suitable ways of marketing their produce within the framework of liberalized trading system. The intention was to moderate the harmful effects of exclusive spot market, encourage forward sales and relax the downward pressure on cocoa prices. The Council would promote stronger cooperation between the Common Fund for Commodities (CFC), the World Bank and the ICCO to assist producing countries in stabilizing the cocoa market in the short-run through increased use of price-risk management instruments.

(c) International Monetary Institutions/Cooperation

(i) World Bank/IMF

The Spring Meetings of the International Monetary Fund (IMF) and the World Bank were held in Washington D. C., United States of America in April, 2000. The issues discussed included world economic outlook, the strengthening of the IMF's role in the global economy, review of Fund facilities, safeguards and misreporting and private sector involvement in the resolution of financial crisis. Other issues were transparency and accountability as well as the heavily indebted poor countries (HIPC) Initiative for Poverty Reduction and Growth Strategies.

The meetings endorsed the decision of the IMF Board to streamline its operations by eliminating four facilities - the Currency Stabilization Fund, Support for Commercial Bank Debt and Debt Service Reduction, the Buffer Stock Financing Facility, and the Contingency Element of the Compensatory and Contingency Financing Facility. The Fund also endorsed the requirement that all countries making use of its resources should publish annual central bank financial statements that are independently audited in accordance with internationally accepted standards in order to check cases of misreporting and misuse of resources provided to members under IMF arrangements.

The Fund noted the need for fairness in the treatment of different cases of private creditors, and agreed that private sector involvement should proceed on the basis that no class of creditors should be considered as inherently privileged. The Fund reiterated the importance attached to greater transparency in policy making by improving the functioning of national economies as well as the international financial system.

On the HIPC Initiative and Poverty Reduction and Growth Facility (PRGF), the IMF and the World Bank have embarked on the implementation of poverty reduction. programmes. However, progress in the implementation of the debt reduction has been slow as only five countries - Bolivia, Mauritania, Mozambique, Tanzania and Uganda - earlier considered under the Initiatives, have reached their decision points under the new framework. A key requirement for reaching the completion point under the enhanced HIPC Initiative and for drawing from PRGF is the adoption of a fully developed Poverty Reduction Strategy Programme (PRSP) that is endorsed by the World Bank and IMF.

(ii) Association of African Central Banks

The Assembly of Governors of the Association of African Central Banks (AACB) met in Abuja, Nigeria in January, 2000. They agreed that the Central Bank of Nigeria should continue to act as an Interim Secretariat of the AACB until the issue of a permanent secretariat was resolved. A working group was mandated to make proposals on the cost implications of establishing a permanent secretariat for submission at its next meeting in Tanzania. The executive body of the Association was reconstituted into a technical committee to draw up an Action Programme for an African Monetary Cooperation to be presented for consideration at its next meeting. Other issues discussed were the interim report of the liquidated African Centre for Monetary Studies (ACMS) and the amended statute of the AACB, and recommended that the final reports of the two issues should be submitted at the next meeting.

(iii) ECOWAS Single Monetary Zone

The Heads of State of Ghana, The Gambia, Guinea, Liberia, Nigeria and Sierra Leone expressed commitment to establish a Second Monetary Zone by 1st January

2003 to facilitate attainment of the ECOWAS Single Monetary Zone. This was in line with the decision of the Heads of State and Government of ECOWAS that two or more countries could take initiative to accelerate integration in the region. Consequently, they agreed to take concerted actions to attain the following quantitative primary convergence criteria, which are preconditions for the establishment of a Second Monetary Zone: single digit inflation rate by the Year 2000 and 5.0 per cent by 2003; gross external reserves to cover at least 3 months of imports by end 2000 and 6 months by end 2003; central bank financing of budget deficit to be limited to 10.0 per cent of previous year's tax revenue; budget deficit (excluding grants) to GDP ratio of not more than 5.0 per cent by 2000 and 4.0 per cent by 2002.

A three-stage action plan covering the period January 2000, to December, 2003 for the implementation of the convergence criteria was adopted. The first stage would involve the harmonization of macroeconomic policies and concepts, review of the institutional, administrative and legal framework for establishing the second monetary zone, sensitization of public, etc. The second and third stages of the Action Plan include: the establishment of macroeconomic data base and studies on Compensation and Stabilization Mechanism, Exchange Rate Mechanism and preparation of a project document for technical assistance from the IMF and the World Bank, all of which would lead to the establishment of a Common Central Bank and the introduction of a common currency by December, 2003. This would be merged with the existing CFA franc of the UEMOA group by December 2004 to form a single currency under the ECOWAS Monetary Cooperation Programme.

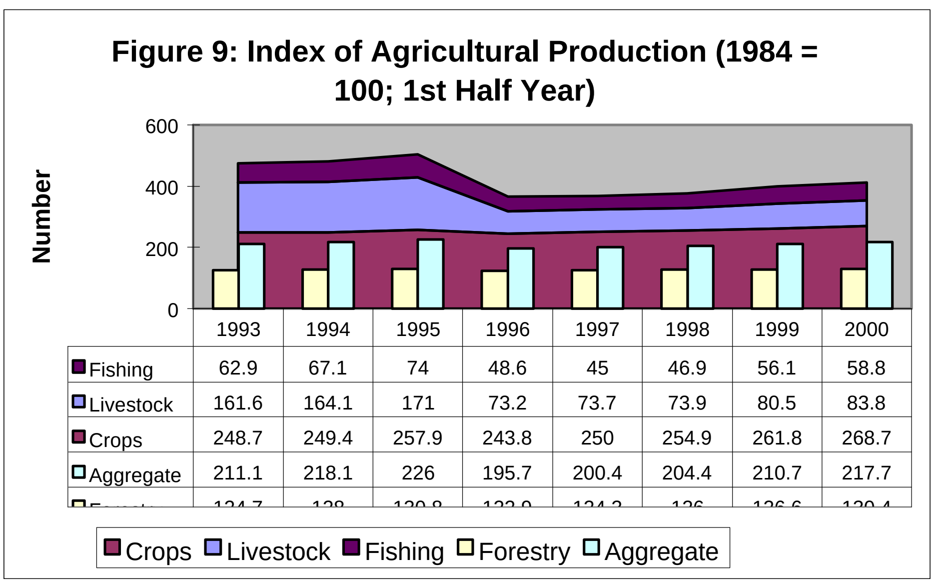
The Committee of Governors of ECOWAS Central Banks met in Dakar, Senegal in May, 2000 and agreed that the macroeconomic convergence criteria adopted by the second sub-regional monetary zone were consistent with those prescribed by ECOWAS Heads of State and Government in Lome in December, 1999. The Governors also identified phases of activities which would facilitate the creation of ECOWAS Single Monetary Zone as follows: harmonisation of economic and financial management, revitalization of West African Monetary Agency (WAMA), review of eligible transactions through the clearing system, review of member countries economic adjustment and harmonisation of domestic taxation system and the establishment of a single Central Bank.

3.5 Real Sector Developments

There were mixed developments in the domestic economic conditions during the first half of 2000. While agricultural sector recorded further improvement, the industrial sector deteriorated slightly. Inflationary pressures moderated, but the socio-political situation was relatively unfavourable.

(a) Agricultural Production

The steady increase in agricultural production observed in the preceding five years, was sustained in the first half of 2000. At 217.7 (1984 = 100), the aggregate index of agricultural production increased by 3.3 per cent, compared with 3.1 and 2.0 per cent growth recorded in



	1993	1994	1995	1996	1997	1998	1999	2000
Fishing	62.9	67.1	74	48.6	45	46.9	56.1	58.8
Livestock	161.6	164.1	171	73.2	73.7	73.9	80.5	83.8
Crops	248.7	249.4	257.9	243.8	250	254.9	261.8	268.7
Aggregate	211.1	218.1	226	195.7	200.4	204.4	210.7	217.7

the first half of 1999 and 1998, respectively. All the sub-sectors contributed to the observed growth. Crop production rose by 2.6 per cent, compared with 2.7 per cent in 1999. The output of staples increased by 4.2 per cent higher than the 2.5 per cent recorded in the preceding half year. Also, cash crop production rose by 3.0 per cent compared with 3.7 per cent (Figure 10). The improved agricultural performance during the half year was attributed mainly to favourable weather conditions, especially rainfall which was timely, adequate and well distributed throughout the country, except in the case of few states in the north -eastern part of the country that reported late rains. Other factors, which supported intense farming activities during the period, included low incidence of pests and diseases, as well as better distribution and availability of farm inputs, especially fertilizers, though at a high cost.

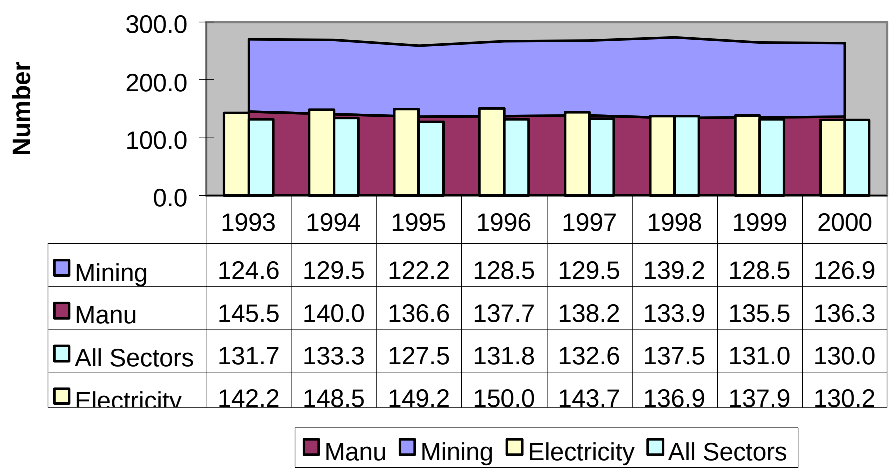
The prices of Nigeria's major agricultural export commodities at the London Commodities Market in the first half of the year continued the downward trend, which began in the first half of 1998. At 50.5 (1985 = 100), the all commodities price index, in dollar terms, declined by 17.7 and 21.6 per cent below the levels in the first half of 1999 and 1998, respectively. Of the six commodities monitored, palm oil recorded the highest price decline of 15.2 per cent, while cocoa, coffee, cotton, soya bean and copra recorded price losses of 14.3, 11.9, 8.6, 7.6 and 3.2 per cent, respectively. As in the preceding year, increased international supply of most of the commodities, coupled with slack in demand, accounted mainly for the general decline in prices.

The domestic retail prices of most selected food items fell during the period. Of the eight commodities monitored, only one registered price increase while the remaining seven recorded price declines relative to their respective levels in 1999. The price decreases ranged from 1.8 per cent for beans (brown) to 34.5 per cent for millet, while the price of rice increased by 19.5 per cent. The price increase was attributable to rising production and transportation costs due to the poor condition of some rural roads, which made evacuation of farm produce to the urban centres difficult.

(b) Industrial Production

The deterioration in industrial output continued in the first half of 2000. The provisional index of industrial production, at 130.0 (1985 = 100), fell by 0.8 per cent from the level in the first half of 1999, but indicated a 2.2 per cent increase over the level in the preceding half year. The fall in output from the level in corresponding period was accounted for by 1.3 and 5.6 per cent drop in mining output and electricity consumption, respectively, as manufacturing production rose marginally by 0.6 per cent. The increase recorded over the second half of 1999 reflected improvements in mining operations as the manufacturing and electricity sub-sectors suffered some set-back. Also, aggregate manufacturing capacity utilization rate, at 33.8 per cent, represented an increase of 0.6 percentage point over its level in the first half of 1999, but indicated a fall of 2.3 percentage points from the level in the preceding half year (Figure 11).

Figure 10: Index of Industrial Production (1985 = 100; 1st Half Year)



The continued poor performance of the manufacturing sub-sector was attributed largely to the uncertainty associated with the late approval and implementation of the year 2000 budget. Other factors included numerous communal and religious clashes in some parts of the country, which adversely affected manufacturing activities. Another major constraint was high cost of production ascribed to high exchange and interest rates, multiple taxes and levies imposed by state and local governments and poor performing economic infrastructure.

Mining output fell in relation to the corresponding period of 1999, owing to the decline in the production of all the principal minerals, except columbite. Crude oil production, including condensates, estimated at 311.77 million barrels, fell by 0.5 per cent from its level in the first and second halves of 1999, respectively. The average daily production was 2.00 million barrels, compared with 2.04 and 2.00 million barrels recorded in the corresponding period of 1999 and the preceding half-year, respectively. Domestic output was sustained in spite of the disruptions of operations, occasioned by communal clashes in the oil producing communities. Nigeria's production quota (excluding condensates) averaged 2.00 million barrels per day (mbd) during the period. It was raised from 1.97 to 2.033 mbd from April following an increase in total OPEC quota to 24.69 mbd.

Aggregate crude oil exports, at 311.8.0 million barrels, declined by 0.5 per cent below the level in the first half of 1999, while a total of 54.8 million barrels were supplied for processing and local consumption, almost the same as in the corresponding period. The first Port Harcourt Refinery was undergoing a Turn-Around Maintenance (TAM) during the review period. The other three refineries (Kaduna, Warri and Second Port Harcourt) processed 2.29 million tonnes of crude oil, indicating a decline of 44.6 per cent from the level processed in 1999. The total output of petroleum products from the refineries was 2.11 million tonnes, representing a decline of 45.2 per cent below the corresponding period's output. Consequently, the average capacity utilization rate of the refineries dropped from 30.4 to 25.7 per cent. The major constraints on refinery operations during the period were delayed TAM at the second Port Harcourt Refinery, and equipment and power plant failures at the Kaduna Refinery. The Warri Refinery operated for only two months as a result of the explosion of one of its heaters, which paralyzed its activities.

At $27.06 per barrel, the average price of Nigeria's reference crude, the Bonny Light (37^{o} API), rose by 93.9 and 23.4 per cent above $13.95 and $21.93 recorded in the corresponding period and the second half of 1999, respectively. The upward movement in price during the review period was attributed largely to increased demand for crude oil by the major consumer nations, especially the United States of America and the East Asian countries, as well as disruption in crude oil supply in Norway by oil workers strike in April.

At 17,926.9 million cubic metres ($MM_m{}^3$), the output of natural gas declined by 0.8 and 0.9 per cent below the levels in the corresponding and second halves of 1999, respectively. Total gas flared at 13,207.7 MMm^3 accounted for 73.7 per cent of total production and indicated a decline of 2.6 percentage points from the proportion flared in the first half of 1999. The reduction was attributed to various gas-flaring reduction measures adopted by oil producing companies. Gas re-injected rose by 26.2 per cent to 2005.6 MMm^3, while the volume sold to industries increased by 29.0 per cent to 1428.0 MMm^3. Also, gas converted to NGLs increased by 9.6 per cent to 113.4 MMm^3. In contrast, gas used for pressure lift in oil wells fell by 11.5 per cent to 4405.9 MMm^3.

A total of 4.6 million tonnes of petroleum products were consumed during the period under review, representing a fall of 0.4 per cent from the level in the first half of 1999. Except the consumption of liquefied petroleum gas (LPG) and premium motor spirit (PMS), which increased by 25.7 and 4.0 per cent, respectively, the consumption of all the other products recorded declines. In addition, the bulk of the consumption was mainly imports as local production was severely constrained. The decline in consumption was attributable mainly to arbitrary increases in prices by dealers, official upward adjustment in prices in late May and the social unrest, which disrupted products distribution.

Aggregate production of solid minerals at 0.92 million tonnes, declined by 13.2 and 10.0 per cent below the levels in the first and second halves of 1999, respectively. The decrease in output was accounted for by all the components except columbite production, which increased by 3.3 per cent relative to the first half of 1999. The decline in the aggregate output of the solid minerals sub-sector was attributable, among others, to shortage of spare parts and mining equipment.

Electricity consumption deteriorated further during the first half of 2000. At 4,005.0 million KWh, projected electricity consumption plummeted by 5.6 and 7.6 per cent from the levels in the first and second halves of 1999, respectively. All the three major electricity-consuming components accounted for the drop. Residential consumption which accounted for 51.2 per cent of total consumption, declined by 5.9 per cent to 2,048.6 million KWh. Commercial/street lighting and industrial components which represented 26.7 and 22.1 per cent of total consumption fell by 6.4 and 4.1 per cent to 1,069.3 and 887.1 million KWh, respectively. Similarly, compared with consumption levels during the preceding half year, residential, commercial/street lighting and industrial consumption fell by 8.4, 7.7 and 5.3 per cent, respectively. The general reduction in electricity consumption reflected reduced supply occasioned by the precarious state of electricity infrastructure nation-wide, which resulted in three full system failures during the period. Other major bottlenecks of the sub-sector included vandalization of NEPA facilities, as well as poor maintenance, broken down transformers and cables, owing largely to inadequate funding.

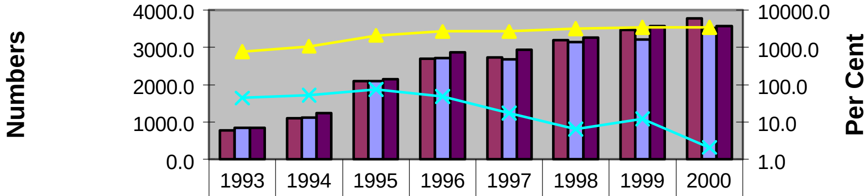
(c) Transportation

The performance of various transportation modes in the first half of year 2000 was mixed. Shipping and Railway services improved slightly, while road transportation services declined. The estimated number of ships that berthed and departed the Nigerian ports was 1,467 and 1,119, respectively, indicating increases of 6.8 and 9.8 per cent. The volume of goods evacuated from the hinterland to the seaports by all modes of transportation also rose by 19.2 per cent to 713 million tonnes. The shares of road, water, rail and other modes (pipelines, conveyor belt and suction pipes) in total haulage were 41.6, 7.7, 6.7 and 44.0 per cent, respectively. The improvement in rail services during the period was as a result of the re-opening of some routes, following the rehabilitation of their tracks. This improvement had led to increased passenger revenue and passengers/Km carried.

(d) Consumer Prices

The downward trend in inflationary pressure observed in the second half of 1999, continued in the first half of 2000. Data from the Federal Office of Statistics (FOS) showed that the composite consumer

Figure 11: Consumer Price Indices and Inflation Rate (1985 = 100; 1st Half Year)



	1993	1994	1995	1996	1997	1998	1999	2000
Composite	780.6	1105.1	2094.9	2699.2	2723.4	3204.7	3469.9	3780.2
Food	855.6	1115.1	2107.3	2715.4	2687.6	3134.7	3218.1	3515.8
Urban	846.5	1232.3	2156.4	2867.7	2935.4	3262.9	3560.7	3575.0
Rural	767.7	1080.4	2083.0	2666.4	2682.2	3193.4	3452.3	3435.9

price index (CPI) for June 2000 was estimated at 3780.2 (1985 = 100), representing an inflation rate of 1.3 per cent, as against 12.1 per cent in June 1999 (Figure 12). Analysis of the components of the CPI revealed that the food index increased by 9.3 per cent while some non-food items such as transportation, recreation and other services increased by 1.5, 9.1 and 13.1 percentage points, respectively, when compared to the first half of 1999. In contrast, the index for medical, clothing and footwear however, fell by 1.8 and 0.2 per cent, respectively. The decline in inflation rate was traced largely to favourable harvests of some food crops, and the late release of the 2000 appropriation bill, which led to a general lull in economic activities.

(e) Labour Market

Although labour statistics were not available from the Federal Office of Statistics and the Federal Ministry of Employment, Labour and Productivity, anecdotal evidence indicate that the unemployment situation deteriorated. Projections indicated that the national unemployment rate was 5.1 per cent compared with 4.7 per cent estimated for the same period of 1999. The rural unemployment rate was projected at 4.3 per cent as against 3.9 per cent recorded in the corresponding period of 1999. In contrast, the urban unemployment rate declined by 0.2-percentage point from 6.5 per cent estimated for 1999 to 6.3 per cent for year 2000. The unemployment statistics should, however, be interpreted with caution, as evidence abounds that unemployment was larger than reported, owing to labour lay-offs and staff rationalization in many states and the Federal Public Service. Furthermore, private sector employment generation capacity was constrained by structural bottlenecks, including fallen demand for goods and services, frequent power outages and infrastructural inadequacies.

Industrial relations were strained during the period following the wage review initiated by the Federal Government. Many state governments were yet to agree with the labour unions on the new wage structure, hence the numerous strike actions by workers. In addition, an upward review of petroleum product prices led to a nationwide strike, which paralyzed the economy for a week.

(f) Social Services

The delivery of social services was impaired during the review period owing largely to the late passage of the 2000 Appropriation Bill. Protests against the increase in petroleum product prices by the Nigerian Labour Congress (NLC) and the industrial actions by state government workers for the harmonization of salaries and wages with federal workers were some of the factors that disrupted the provision of social services during the first half of the year. However, some activities of the sub-sector received a boost through the launching of specific programmes, such as the Federal Government's Poverty Alleviation Programme (PAP) and the Universal Basic Education Scheme. The former has the objective of providing direct jobs for 200,000 unemployed persons nationwide, while the latter is aimed at ensuring that all children of school age acquire at least primary education free of charge. The problem of social insecurity, with threats to lives and property remained intractable in the first half of the year with reported cases of riots and civil strikes in some parts of the country. Armed robbery and other criminal activities persisted. However, to effectively address the security issues the law enforcement agencies were provided additional equipment with a view to enhancing their operational capabilities. Also, more personnel were recruited to ensure increased surveillance and policing of the country.

4. CBN POLICY RESPONSE AND OPERATIONS

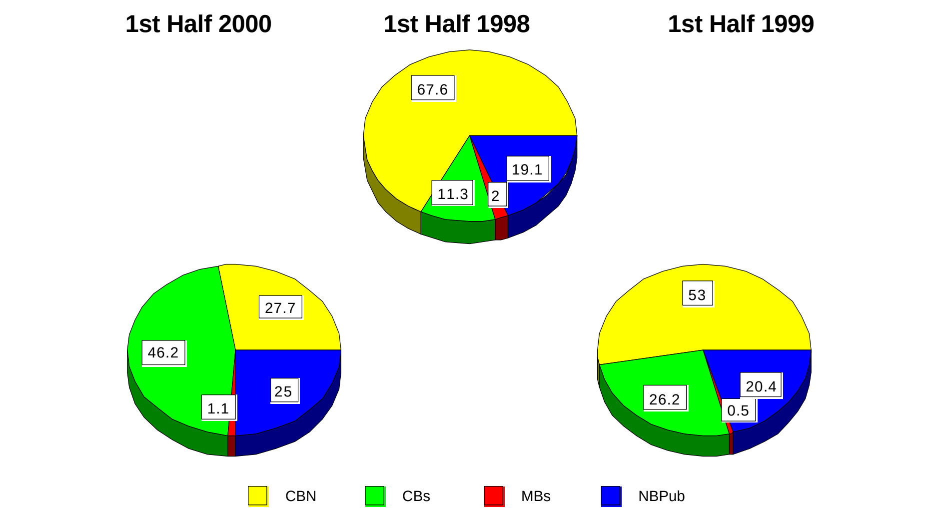
The CBN policy response and operations during the review period was guided by the desire to keep inflation within a single digit level, through the maintenance of appropriate monetary and exchange rate regime, as well as improved the overall confidence in the financial system. Although inflationary pressure was at its lowest ebb, rising stock of liquidity in the system following the substantial monetization of the enhanced foreign exchange receipts from crude oil sales and transfer of government's deposits to deposit money banks was a potential threat to monetary stability. Also, there was an unprecedented surge in foreign exchange demand, which threatened exchange rate stability. These problems were the main underlying factors, which informed the policy responses during the period.

(a) Liquidity Management

Open Market Operations (OMO) remained the primary instrument of liquidity management by the CBN during the first half of 2000. Total bids and sales rose sharply, compared with the preceding half-year and the corresponding period of 1999. The levels, which fell in January 2000 compared with the preceding month, increased significantly in February following largely the liquidity surfeit in the banking system. It, however, fell in March due to the increased pressure in the IFEM before recovering in April. Reflective of the sudden growth in the level of liquidity in the banking system during the last two weeks of June, aggregate bids peaked at ₦106.6 billion during the month, but aggregate sales amounted to only ₦16.96 billion, following the paucity of the intervention securities in the CBN portfolio. In spite of this development, total bids and sales stood at ₦304.4 billion and ₦165.4 billion during the first half of 2000, compared with ₦77.7 billion and ₦72.1 billion in the preceding half-year and ₦104.0 billion and ₦95.5 billion in the comparable period of 1999.

There was an over-subscription in the primary and secondary markets during the review period. Total issues of treasury bills, amounting to ₦129,564.6 million, were made to refinance maturing bills in the first half of 2000, compared with ₦71,267.2 million in the corresponding period of 1999. Thus, total treasury bills outstanding remained unchanged at end-December, 1999 level of ₦361,758.4 million. The surge in banking system liquidity for most part of the review period, coupled with the attractiveness of the treasury bill rate, accounted for the significant rise in subscription by banks and non-bank public in the primary market, compared with the level in the first half of 1999. Owing to the observed patronage by these investors, Central Bank's take-up constituted only 27.7 per cent of the total issues, while the commercial and merchant banks accounted for 46.2 and 1.1 per cent, respectively. The balance of 25.0 per cent went to other investors. Similarly, following the large liquidity overhang and low rediscounts at the end of June, Central Bank holdings of the security fell significantly to an all-time low of ₦10,400.0 million or 2.9 per cent of total outstanding in June, 2000, compared with ₦79,860.5 million or 22.1 per cent at end-December 1999 and ₦219,665.4 million or 60.7 per cent in June, 1999. Commercial and merchant bank's holdings increased sharply from ₦186,142.7 million and ₦12,723.3 million in December 1999 to ₦292,692.1 million and ₦14,576.3 million, respectively in June, 2000.

Figure 12: Structure of Treasury Bills Holdings in Nigeria (% of Total)



In order to reduce the cost of funds to banks and minimize the distortion in the financial markets, as well as induce down ward movements in the lending rates, the CRR and the LR were reduced from 12.0 and 40.0 to 11.5 and 35.0 per cent, respectively, in April 2000. Earlier in April 2000, the CBN's Minimum Rediscount Rate

(MRR) was lowered by 100 basis points to 17.0 per cent following the ease in economic and market conditions.

(b) Financial Sector Surveillance

The CBN intensified its efforts geared towards the supervision and surveillance of the financial system during the review period. The Bank carried out routine/ target/maiden examinations of 42 financial institutions made up of 19 commercial banks, 8 merchant banks, one (1) development bank, one (1) primary mortgage institution, 7 finance companies, 11 community banks and 2 discount houses during the period. In addition, 39 special investigations were carried out based on allegations and complaints by clients, which indicted some financial institutions of various malpractices. The report of the investigations showed that most of the examined institutions were characterized by poor record keeping, poor credit administration and ineffective recovery procedures, weak assets quality and weak internal control. They were also characterized by infractions of the provisions of BOFI Decree 1999 and various other circulars issued by the CBN. Appropriate penalties were imposed on defaulters.

The routine examinations of the foreign exchange operations of 14 banks were also carried out during the period. In addition, 14 special investigations on foreign exchange issues were carried out on commercial and merchant banks. The examinations and investigations revealed the usual infractions such as non and/or late repatriation of export proceeds to the CBN, excess charges on customers processing forms “M” clause “NOT VALID FOR FOREIGN EXCHANGE”, failure to distribute the naira proceeds of the repatriated interest to eligible LC customers; poor recording keeping and weak internal controls. During the period under review, spot checks on foreign exchange utilization were carried out on 6 banks to determine the reasons for the high demand for foreign exchange. The exercise revealed that 3 of the banks released foreign exchange on the basis of spurious documents, engaged in fraudulent transactions and were appropriately sanctioned along with their customers.

During the period under review, the Money Laundering Surveillance Unit conducted routine examinations of 17 commercial banks, 10 merchant banks, one (1) community bank, one (1) development bank and one (1) primary mortgage institution to ascertain their level of compliance with the provisions of the Money Laundering Decree, 1995. Also, the unit carried out investigations on Advance Fee Fraud cases referred to it by the police and Foreign Operations Department of the CBN. As part of the Banks effort to sensitize operators in the financial system on the issues involved in money laundering, the Bank provided resource persons to assist in the workshops organized by two banks.

The Bank carried out follow-up examinations of 20 commercial banks, 24 merchant banks, and 12 other financial institutions. The follow-up visits were aimed at verifying their level of compliance with the recommendations contained in the CBN examination reports. The follow-up examinations revealed non or partial compliance with the CBN directives/recommendations, which resulted in the imposition of appropriate penalties on the erring financial institutions. In addition, the analysis of the Returns of frauds and forgeries sent to the Bank during the period under review indicated that 66 fraud cases were perpetrated against the banking system valued at ₦95.56 million.

(c) Foreign Exchange Management

The Central Bank of Nigeria intervened 121 times at the Inter-bank Foreign Exchange Market (IFEM) in the first half of the year, compared with 26 AFEM interventions during the same period of 1999. The CBN met in full, all the foreign exchange demands by the authorized dealers. A total sum of $3,151.5 million was sold to banks as against $2,909.73 million in the corresponding period of 1999. The CBN, however, purchased a total sum of $44.1 million from the banks during the first half of year indicating a net trading position of $3,107.35million. The average IFEM rate was ₦100.51 = $1.00 in the first half of the year, representing a depreciation of 10.94 per cent, compared with the average AFEM rate of ₦89.51 = $1.000 during the corresponding period of 1999. Similarly, the bureaux de change and parallel segments of the market witnessed the depreciation of the naira as it exchanged at the rates of ₦105.85 and ₦105.61 to a dollar, signifying depreciations of 8.04 and 8.16 per cent, respectively, compared to ₦97.34 and ₦96.99 per dollar in the first half of 1999. The increase in forex demand and naira depreciation during the period under review was largely attributable to excess liquidity in the banking system.

(d) Debt Conversion Programme

Transactions under the Debt Conversion Programme picked-up as 12 applications valued at US $206.65 million were received compared with 6 applications worth US $101.0 million received in the corresponding period of 1999. The improved performance was attributable to the renewed investors' confidence in the Nigerian economy, following the restoration of democratic governance. Of the total applications processed, 7 valued at $116.2 million received approval in principle compared with same number valued at $37.1 million in the first half of 1999. Thus, the cumulative number and value of approvals granted since the inception of the programme stood at 368 and $3,245.47 million, respectively.

As a result of improved participation in the programme, debts cancelled during the first half of the year stood at $38.63 million, indicating an increase of 52.1 per cent over the level in the corresponding period of 1999. Conversion proceeds amounting to ₦2,675.50 million was disbursed to various beneficiaries during the review period compared to the sum of ₦1,051.35 million disbursed in the corresponding period of 1999. A breakdown of the disbursement showed that 76.1, 13.3, 9.3 and 1.2 per cent accrued to non-profit organizations as cash gifts and grants, manufacturing sub-sector, hotel and tourism and services, respectively.

(e) Agricultural Credit Operations

The tempo of activities under the Agricultural Credit Guarantee Scheme Fund (ACGSF) increased during the review period. The volume and value of loans guaranteed rose by 52.0 and 42.4 per cent to 1,490 and ₦38.15 million, respectively over the level in the corresponding period of 1999. This reflected commercial banks' renewed interest in the scheme following the increase in the capital base from ₦100.0

million to ₦1.0 billion and the response to CBN's moral suasion on the need to enhance agricultural production. The cumulative loans guaranteed from inception of the scheme in April 1978 to date stood at ₦2.0 billion for the benefit of 270,614 farmers.

A breakdown of loans guaranteed during the half year showed that as in the past, the food crop sub-sector accounted for the bulk with 1,202 loans (82.7 per cent) valued ₦24.18 million (75.5 per cent). The livestock sub-sector received 159 loans (10.7 per cent) valued ₦6.59 million (17.3 per cent), while the fisheries sub-sector attracted 47 loans (3.2 per cent) valued ₦0.70 million (17.3 per cent). Farming enterprises aggregated as 'others' accounted for 76 loans valued ₦6.41 million.

In terms of size, small scale farmers borrowings between ₦5,000 and ₦20,000 under the ACGSF as in the past accounted for the higher volume (1,001 or 67.2 per cent) and valued (₦13.24 million (or 34.7 per cent) of loans). Medium scale farmers borrowings between ₦20,001 – ₦50,000 attracted 227 (15.2 per cent) loans valued ₦7.46 million (19.6 per cent) while large scale farmers' share of total guaranteed loans was 39 loans (2.6 per cent) valued ₦9.37 million (24.6 per cent). Small scale farmers borrowings ₦5,000 and below received 145 loans (9.7 per cent) which amounted to ₦1.27 million (3.3 per cent).

A total of 7,409 loans valued ₦113.41 million were fully repaid. This represented a decline of 4.4 per cent in the number but an increase of 45.2 per cent in the value of loans repaid. The small-scale borrowers accounted for the highest volume and value of repayment, 3,567 loans or 48.1 per cent valued ₦45.19 or 39.9 per cent, while the large-scale borrowers accounted for the least number of 21 (0.3 per cent) value ₦13.59 (12.0 per cent).

5. ECONOMIC OUTLOOK FOR THE REST OF FISCAL 2000

The developments in the economy in the first half of the year were mixed but generally more favourable than in the corresponding period of 1999. A measure of macroeconomic stability was achieved, reflected by fiscal and monetary restraint, moderation in inflationary pressures and a modest surplus in the balance of payments. In addition, the growth of key monetary aggregates was within targets. However, the pressure on the foreign exchange market continued with further depreciation of the naira exchange rate, while infrastructural deficiencies contributed to the less than satisfactory performance of the real sector. On the whole, the projections of major economic aggregates to the end of the year, point to the likelihood of achieving a real growth rate of 3.0 per cent, single digit inflation and the restoration of both internal and external balance, as envisaged in the Budget.

The prospects for further reduction in fiscal deficit during the second half of the year would depend largely on the intensification of revenue collection efforts and expenditure restraint. The average oil price will exceed the $20.0 per barrel on which the Budget was predicated, thereby boosting oil revenue. Also, the resolve by the Government to ensure transparency and accountability in project implementation would help to reduce waste and enhance effective implementation of projects.

Given the high level of excess liquidity in the economy, the maintenance of monetary stability would remain an arduous task. This situation may be aggravated given the possibility of increased inflow of external resources following improved perception of the Nigerian economy by the international community and the continued monetisation of the excess receipts from oil. The recent increases in salaries and wages, as well as the modest increase in the prices of petroleum products, would threaten monetary stability in the second half of the year. This underscores the need for fiscal and monetary restraint in the remaining months of the year. The recently announced policy, requesting government ministries and parastatals to transfer their capital vote to the Central Bank of Nigeria would help in assuaging the liquidity problem.

The wide margin between deposit and lending rates observed in the first half may continue unless action is taken to minimise the distortions in the system. Savings rates may continue to be low, given the reluctance of banks to finance productive activities with their excess reserves. Low deposit rates may fuel speculation in the foreign exchange market and weaken further the confidence in the financial intermediation process. Therefore, there is need to remove the structural bottlenecks that militate against investments in the real sector to ensure higher returns on investments in this area.

Aggregate domestic output performance for the rest of the year will remain moderate. Agricultural output is expected to record further growth if the current conducive weather conditions continue and the supply of complementary inputs are adequate and timely. Also, it is expected that the current effort to reduce the level of pest and disease infestation to the barest minimum would be sustained. Output of the industrial sector may improve if the existing structural constraints on manufacturing activities are reduced. These include the deplorable state of economic infrastructure, particularly NEPA's power generation and distribution facilities and the petroleum refineries.

Inflationary pressures may increase further during the second half of the year, if fiscal and monetary stance becomes expansionary. Also, the poor states of utilities and basic infrastructure that have persistently constrained production have the potential of fueling inflation. This may however, be dampened if some of the effort of rehabilitating them and the increase in agricultural output growth are sustained. Also, the harvesting season is expected to exact a dampening effect on inflation.

Relative stability of the naira exchange rate could be attained in the second half of 2000 with the successful management of the excess liquidity in the banking system. The resolve to return the capital votes of ministries and parastatals to the CBN may help in this regard. Also, the price of crude oil, which has remained consistently above the $20.0 budget price, may assist to provide resources for funding the IFEM. However, negotiations on a Stand-by Agreement with the IMF need to be concluded in order to pave the way for the successful external debt reduction and thereby freeing more resources for internal growth and development.

Finally, it is desirable that some socio-economic problems that had constrained productive activities in the recent past are urgently addressed. Matters calling for urgent attention include decline in the quality of social services and public utilities.

There is also, the need for concerted efforts to deal with the serious issues of maintaining law and order and the protection of life and property.