Part Two

Economic Report

CHAPTER 3
General Survey of The Economy

The real sector recorded a modest increase in real output in 2001. The level of external reserves improved, although demand pressures in the foreign exchange market persisted resulting in the depreciation of the naira exchange rate in all the segments of the foreign exchange market. The fiscal operations of the Federal Government resulted in a deficit of N221.1 billion or 4.0 per cent of GDP, while the rate of inflation rose from a single digit of 6.9 per cent in the preceding year to 18.9 per cent at end- December, 2001.

3.1 Domestic Output

The gross domestic output, at 1984 constant factor cost, increased by 3.9 per cent in 2001 compared with the growth rate of 3.8 per cent achieved in 2000. All the activity sectors contributed to the growth, especially agriculture, manufacturing, merchandise, transportation, finance and insurance, and producers of government services. Agricultural production recorded a growth rate of 3.7 per cent compared with 3.1 per cent in 2000. Similarly, manufacturing production rose by 2.9 per cent compared with an increase of 0.4 per cent in 2000. As in the preceding year, services and commerce flourished reflecting the expansion in the fiscal operations of government as well as the substantial increase in aggregate demand, arising from the wage increase in fiscal 2000.

The relative contribution to the GDP by the agricultural sector, comprising crops, livestock, forestry and fishing, accounted for 42.0 per cent of the total, while the industrial sector, consisting of crude petroleum, mining and quarrying, and manufacturing, contributed 17.0 per cent. The share of the services sector stood at 28.0 per cent, while the other sectors accounted for the balance of 13.0 per cent.

3.2 Domestic Prices

Data from the Federal Office of Statistics (FOS) showed that the inflation rate, measured by the change in the average all-items composite consumer price index for the twelve-month period ended December, 2001, was 18.9 per cent compared with the 6.9 per cent in 2000. The major contributory factor was the expansionary fiscal operations of the government. Other factors included the depreciation of the naira exchange rate, inadequate power supply, weak infrastructure, and high lending interest rates, all of which resulted in a high cost of domestic production.

3.3 Federal Government Fiscal Operations

Provisional data on fiscal operations of the Federal Government in 2001 indicated a deficit of ₦221.1 billion or 4.0 per cent of the GDP. The deficit was much higher than the ₦103.8 billion or 2.1 per cent of GDP recorded in the preceding year and the budgeted deficit of ₦201.5 billion or 3.7 per cent of GDP for 2001. The deficit was financed entirely from domestic sources, through the use of excess crude oil proceeds accumulated in the preceding year as well as the issuance of treasury bills.

The retained revenue of the Federal Government amounted to ₦797.0 billion, comprising its share of the Federation Account (₦530.7 billion), VAT (₦13.4 billion), Independent Revenue (₦44.4 billion), share of Reserve Account (₦117.0 billion) and Privatisation proceeds (₦37.8 billion).

The aggregate expenditure of the Federal

Government totalled ₦1,018.0 billion, representing a 45.2 per cent increase over the expenditure in the preceding year, which exceeded the budgeted total expenditure by 8.7 per cent. The higher expenditure level reflected increased personnel and overhead costs over the budget targets. Total expenditure consisted of recurrent expenditure of ₦579.3 billion and capital expenditure of ₦438.7 billion.

Recurrent expenditure was utilized as follows: Transfers (45.9 percent), Administration (31.2 per cent), Social and Community Services (13.7 per cent), and Economic Services (9.2 per cent). Capital expenditure was spent on Economic Services (59.2 per cent), Transfers (17.4 per cent), Social and Community Services (12.2 per cent) and Administration (11.2 per cent).

The total public debt of the Federal Government outstanding as at end-December, 2001 amounted to ₦4,193.3 billion, representing an increase of 4.9 per cent over the stock at the end of 2000. As a proportion of GDP, total debt outstanding was 76.4 per cent, down from 82.5 per cent in the preceding year.

3.4 Monetary Developments

Monetary growth in 2001 exceeded the programmed targets by wide margins. Broad money (M2) expanded by 27.0 per cent as against the stipulated target of 12.2 per cent. Similarly, narrow money (M1) increased by 28.1 per cent compared with 4.3 per cent target growth for the year. The growth in monetary aggregates was attributed to the expansionary effect of the large fiscal deficit and the growth in net foreign assets induced by favourable price developments in the international oil market during the first three quarters of 2001.

Aggregate banking system credit to the domestic economy increased by 75.8 per cent, compared with the 15.8 per cent target for the year. In the preceding year, there was a decline of 25.3 per cent. The growth in credit in 2001 reflected increased lending to both the public and private sectors of the economy. Bank lending to the private sector was 72.4 per cent of total, while 27.6 per cent went to the public sector.

Interest rates trended upwards in 2001. Banks' average savings deposit rate, which was 4.9 per cent at end-December 2000, fluctuated upwards to 5.2 per cent in June, but fell to 5.0 per cent in August and remained at that level for the rest of the year. Lending rates were generally higher than in the preceding year. Average prime lending rate, which was 21.3 per cent in January, rose to 23.5 per cent in June and further to 26.0 per cent at end-December 2001. Maximum lending rate rose from 25.6 per cent in January to 31.2 per cent in December. The increase in interest rates reflected policy actions aimed at restraining excess liquidity in the banking system, fuelled by the monetisation of oil receipts as well as large fiscal deficit, in addition to the oligopolistic structure of the banking system which constrained competition.

3.5 External Payments Position

There was renewed pressure on balance of payments in 2001 in contrast to the preceding year. The overall balance of payments position recorded a lower surplus of ₦29.2 billion or 0.5 per cent of GDP, from ₦314.1 billion or 6.3 per cent of GDP in the preceding year. This development reflected the substantial decline in the current account surplus, though the deficit in the capital and financial accounts

BOX 2

The Oligopolistic Structure of the Nigerian Banking System

The Nigerian financial system comprised the CBN, 90 deposit money banks which together constituted the monetary system, and other financial institutions comprising 747 community banks, 6 development finance institutions, 1 stock exchange, 1 commodity exchange, 5 discount houses, 74 primary mortgage institutions, 98 finance companies, 115 insurance companies, and 80 bureaux de change. Despite this number, only 10 banks dominate the Nigerian banking system. The influence and power of these banks is reflected in their share of the total deposits (53.1 per cent), credit (46.5 per cent), and total assets (50.8 per cent), of the industry in 2001. The oligopolistic structure of the Nigerian banking system has been influenced by a number of factors. These include: the extensive branch network of the old generation banks as well as the confidence/loyalty built over the years by their customers. The patronage of these banks also includes a substantial proportion of public-sector funds being deposited. The dominance of the few banks has tended to constrain competition and the effectiveness of monetary policy.

The monetary authorities have made efforts to encourage competition and efficient financial intermediation through the liberalization of licensing procedures. The minimum paid-up capital requirement for banks has been raised periodically to strengthen banks' operations and enhance their efficiency. The adoption of universal banking, which has streamlined the operational focus of the banks, is also expected to lead to increased competition. The monetary authorities have also addressed the problems of defaults and distress in the financial sector through restructuring and outright liquidation in some cases, in order to enhance public confidence in the system. The deposit insurance scheme was put in place to protect the interests of small and vulnerable depositors. Regulatory oversight (both on-site and off-site) has been enhanced to prevent distress and bank failure. The introduction of a contingency plan by the monetary authorities to address systemic banking crisis is another policy initiative to enhance stability in the banking system. Measures that could assist in addressing the oligopolistic structure of the banking system include the following:

Encouragement of foreign banks:

The new impetus for encouraging of new banks should be sustained in order to encourage the participation of more foreign banks. Lessons of experience reveal that financial liberalization promotes competition through free entry and free exit. In this regard, banks are expected to voluntarily increase their capital base in order to meet the challenges of globalization and withstand competition from highly-capitalised foreign banks.

Mergers and acquisitions

To enhance competition, the current paid up capital for foreign and existing banks should be made uniform. Existing banks that cannot meet the capital requirements should be encouraged to merge with others. Acquisition by financially stronger banks should be allowed to enhance the stability of the sector and foster competition in the industry.

Adoption of information technology:

Continued encouragement should be given to the adoption and deployment of information technology. The use of IT should provide impetus for efficiency in service delivery and contribute to the enhancement of the payments system. The banks should also encourage the use of plastic money and other near money substitutes, including credit cards which could be enhanced with the use of information technology.

Public sector patronage of banks

There is the need for government to spread its patronage of banks for its recurrent deposits and other receipts. With the current revenue drive by the various government agencies and parastatals, banks should compete for patronage, based on the quality of services and competence. The ability of the banks to handle various government accounts effectively would deepen the money market without concentrating government funds in a few banks.

Macroeconomic stability:

The current stance of government at attaining macroeconomic stability should enhance the level of savings and investment in the economy, thus creating opportunities for banks. Macroeconomic stability would also enhance the attractiveness of the Nigerian economy to foreign investments, including foreign banking institutions which will increase the level of competition in the industry.

narrowed during the year. The gross external reserves at end-December 2001 stood at $10.45 billion, up from $9.4 billion in 2000.

3.6 Exchange Rate Movements

The naira depreciated against the US dollar in all segments of the Foreign Exchange Market . At the Inter-bank Foreign Exchange Market (IFEM), the naira exchanged at the rate of ₦102.1 = $1.00 in 2000, but depreciated to ₦111.9 = $1.00 in 2001. Apart from the initial sharp depreciation in January, the exchange rate was relatively stable for most of the year. At the other segments of the market, namely, the bureaux de change and the parallel market, the rate of depreciation was sharper as the value of the naira declined by approximately 10.3 per cent.

3.7 International Economic And Financial Developments

There was a general slowdown in the world economy in 2001, as world output grew at an estimated rate of 2.4 per cent compared with 4.7 per cent in the preceding year. The development was traceable to the delayed recovery in the U.S.A., worsened by the September 11 terrorist attack, continued recession in Japan, and the weak consumer demand in Europe and Asia. This was further compounded by deteriorating financial conditions in many emerging economies and generally weak commodity prices.

As a result of the above factors the demand for oil, Nigeria's major export, fell compared with the previous year. However, the relative stability in crude oil prices during the year, occasioned by the OPEC output cut, ensured that revenue from oil did not deviate substantially from projections. Indeed, during the first three quarters of the year, Nigeria's reference crude, the Bonny Light, sold at an average of $25.00 per barrel, resulting in excess crude oil revenue above the budgeted target.

The African Development Bank (ADB) approved 134 loan applications amounting to UA2,372.36 million in 2001. Of this amount, Nigeria obtained UA28.00 million, representing 1.2 per cent of the total. In the ECOWAS sub-region, a new Secretary-General was appointed for a period of four years. Also, further impetus was given to the efforts to promote a Regional Airline, ECOAIR, and a coastal shipping line, ECOMARINE.

The West African Monetary Institute, Accra, Ghana, was established in January, 2001 to prepare the groundwork for the adoption of a common currency, and the establishment of a second central bank for the West African Monetary Zone (WAMZ). The Authority of Heads of State and Government of WAMZ, on 22nd December, 2001 signed and adopted recommendations for facilitating the implementation of the W AMZ Agreements, Statutes of the West African Central Bank, and the ECOWAS Stabilization and Cooperation Fund. It also decided on the establishment of an Exchange Rate Mechanism for WAMZ, the development of the National Payments Systems, the establishment of efficient cross-border Payments Arrangements, the operationalisation of the Stabilization and Cooperation Fund, and the establishment of the National Sensitisation Committee in member States of WAMZ.

CHAPTER 4
The Financial Sector

In 2001, the growth in monetary aggregates continued to be excessive relative to targets set while the outcome with respect to inflation and interest rate developments remained unsatisfactory. Monetary growth was influenced mainly by the substantial increase in aggregate bank credit to the domestic economy, reinforced by the rise in foreign assets (net) of the banking system. Money market developments were influenced by the state of the banking system's liquidity and the various control measures adopted to stem the excessive growth of domestic liquidity. The introduction of the CBN certificate during the year was an additional tool by the Bank to address the seemingly intractable liquidity overhang in the banking system. Capital market indicators, however, showed relative improvements in 2001, in spite of the upward movements in interest rates.

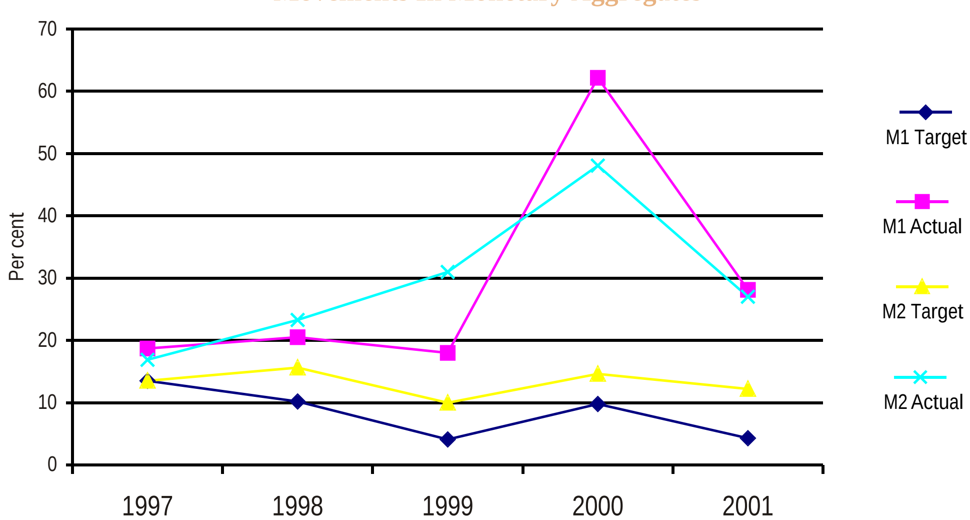
In order to effectively supervise and regulate the non-bank financial institutions, the CBN established a new Department called Other Financial Institutions Department (OFID). In all, the Nigerian financial system comprised the CBN, 90 deposit money banks which together constituted the monetary system, and other financial institutions comprising 747 community banks, 6 development finance institutions, 1 stock exchange, 1 commodity exchange, 5 discount houses, 74 primary mortgage institutions, 98 finance companies, 118 insurance companies and 80 bureaux de change.

4.1 The Monetary System

(a) *Monetary and Credit Developments*

The growth in monetary aggregates was excessive and substantially out of line with the prescribed targets. The expansion was induced by the monetisation of excess crude oil receipts, the proceeds of the GSM licensing fees, savings from the previous year and the monetary financing of Federal Government fiscal deficits. Broad money supply (M2) rose by 27.0 per cent to ₦1,315.9 billion, as against the 12.2 per cent target stipulated for the fiscal year and the 48.1 per cent rise in 2000. Similarly, narrow money supply (M1) increased by 28.1 per cent, compared with the 4.3 per cent target growth rate for fiscal 2001 and the increase of 62.2 per cent recorded a year earlier. Nevertheless, the observed growth represented a deceleration compared with the rapid acceleration in the preceding year, reflecting the impact of the various policy actions taken by the CBN to address the problem of excess liquidity in the banking system. The growth in M2 reflected the increases in both M1 and quasi-money. The expansion in M1 in 2001 was influenced by the substantial growth in aggregate bank credit to the domestic economy, reinforced

Figure 4.1 (a)
Movements In Monetary Aggregates



by the increase in foreign assets (net) of the banking system.

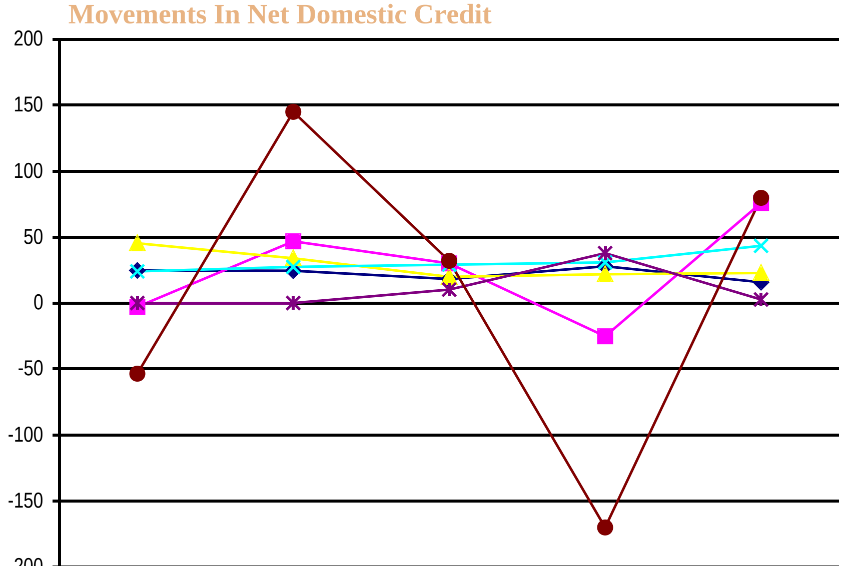
The sharp decline in other assets (net) of the banking system, as well as the substantial increase in quasi-money, however, exerted a moderating influence on M1 growth. Quasi-money grew by 25.3 per cent to ₦499.2 billion, compared with the 29.9 per cent increase in 2000. The demand deposit component of M1 rose significantly by 31.4 per cent to ₦478.0 billion during the year, constituting 58.5 per cent of the money stock (M1), compared with 57.0 per cent a year earlier. Consequently, the currency component fell to 41.5 per cent, from 43.0 per cent in 2000 (Table 4.1).

(b) Banking System Credit

Aggregate banking system credit to the domestic economy rose sharply by ₦357.8 billion or 75.8 per cent, in contrast to the decline of ₦160.0 billion or 25.3 per cent in the preceding year. The growth, which was substantially out of line with the target of 15.8 per cent, reflected the increase in credit to both the Federal Government and the private sector, with the latter accounting for 72.4 per cent of the total increase.

The rise in credit to the Federal Government resulted from the huge fiscal deficit financed by the CBN, while credit expansion to the private sector reflected the persistent demand pressure in the foreign exchange market during the year. Net claims on the Federal Government rose sharply by ₦98.8 billion or 79.7 per cent during the year, in contrast to the 170.1 per cent decline recorded in 2000 and the 2.6 per cent growth target for fiscal 2001. Banking system credit to the private sector rose substantially by 43.5 per cent during

Figure 4.1 (b)
Movements In Net Domestic Credit

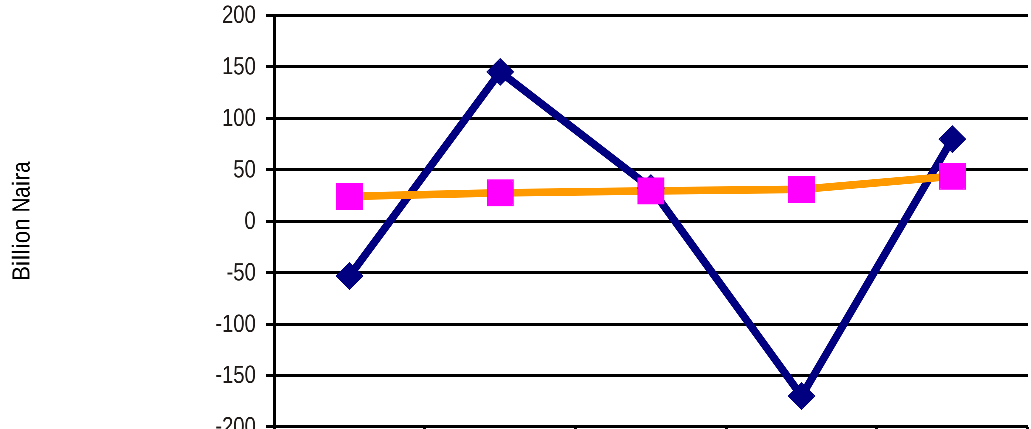


	1997	1998	1999	2000	2001
Net Domestic Credit (Target)	24.8	24.5	18.3	27.8	15.8
Net Domestic Credit (Actual)	-2.8	46.8	30.0	-25.3	75.8
Credit To Private Sector (Target)	45.4	33.9	19.9	21.9	22.8
Credit To Private Sector (Actual)	23.9	27.4	29.2	30.9	43.5
Credit To Government (Target)	0	0	10.2	37.8	2.6
Credit To Government (Actual)	-53.5	144.9	32.0	-170.1	79.7

the year, compared with the growth target of 22.8 per cent and the 30.9 per cent increase in 2000. The expansion in credit to the private sector remained within target during the first four months of the year, but rose sharply thereafter, culminating in an increase of 43.5 per cent at the end of the year. Bank credit to the state and local governments also increased sharply by ₦19.2 billion or 254.7 per cent during the year, compared with the ₦5.5 billion or 259.9 per cent rise recorded a year earlier.

The growth during the year was attributed entirely to the sharp increase in deposit money banks' claims as these tiers of government resorted to massive borrowing from banks. This compelled the CBN, in July 2001, to request all licensed banks to make additional prudential provisions for credit extended to all tiers of government and their agencies. Credit to the core private sector, which constituted the bulk (96.7 per cent) of lending to the sector, rose substantially by ₦239.6 billion or 40.8 per cent during the year, compared with the 29.9 per cent increase in the previous year.

Figure 4.2
Movement In Net Aggregate Credit



	1997	1998	1999	2000	2001
Credit to Government	-53.5	144.9	32	-170.1	79.7
Credit to Private Sector	23.9	27.4	29.2	30.9	43.5

The rise in claims on the sub-sector continued to be influenced by developments in the foreign exchange market (Table 4.2).

(c) Central Banking

Movements in the assets and liabilities of the CBN in 2001 indicated an acceleration in the growth of the monetary base. It increased by ₦130.4 billion or 34.9 per cent, compared with the 36.6 per cent growth in 2000. The main sources of the increase were the substantial increase in net credit to the Federal Government and the rise in the foreign assets (net) of the Bank.

(i) Total Assets

Total assets of the CBN increased by ₦283.3 billion or 15.8 per cent to N2,075.4 billion, compared with the 44.7 per cent increase in the preceding year. Both the domestic and foreign assets of the Bank increased during the year. The domestic assets, mainly investments in government securities, rose substantially by ₦210.4 billion or 32.4 per cent, compared with the increase of ₦9.1 billion or 1.8 per cent in the preceding year. The rise in domestic assets reflected largely the substantial increase in the Bank's holding of treasury bills, following the conversion of outstanding Ways and Means Advances totalling ₦113.0 billion as at end-December, 2001 into treasury bills, the bulk of which was absorbed by the CBN. Other assets fell significantly by ₦18.6 billion or 35.1 per cent to ₦34.4 billion during the year. The foreign assets of the Bank rose by ₦91.5 billion or 8.4 per cent to ₦1,181.7 billion, constituting 56.9 per cent of the total assets, compared with the substantial increase of 99.3 per cent in 2000.

(ii) Total Liabilities

The increase of 15.8 per cent in total liabilities of the Bank was reflected in the growth of deposits, currency, paid-up capital, general reserves and 'other' liabilities of the Bank. The Bank's deposit liabilities rose by 13.5 per cent to ₦1,131.7 billion, constituting 54.5 per cent of the total liabilities. The currency liabilities also rose by 30.0 per cent to ₦403.5 billion, compared with the 48.9 per cent increase a year earlier. Similarly, the 'other' liabilities rose by 9.3 per cent to ₦502.8 billion, compared with the increase of 15.1 per cent in the previous year. The Bank's paid-up capital was increased from ₦0.5 billion to ₦3.0 billion, following the approval to that effect by the Board of Directors. The general reserves increased to ₦34.5 billion from ₦23.90 billion in 2000.

(d) Deposit Money Banks

The dichotomy between commercial and merchant banking was removed in 2001, following the adoption of universal banking. Under the system, the erstwhile commercial and merchant banks transformed into deposit money banks and were allowed to engage in both money and capital market activities, as well as in insurance business, depending on individual bank's operational preference. The oligopolistic structure of the sector, however, remained as ten banks out of the ninety in operation accounted for 50.8 per cent of total assets, 53.1 per cent of total deposit liabilities, and 46.5 per cent of total credit compared with 49.3, 52.5, and 40.2 per cent respectively in 2000.

Aggregate assets/liabilities of deposit money banks stood at ₦2,167.3 billion, representing an increase of ₦462.9 billion or 27.2 per cent over the level at end-December 2000. Total funds available to the banks during the period amounted to N593.8 billion. The funds were sourced mainly from a reduction in claims on government (₦110.9 billion), increases in deposits (₦178.2 billion), unclassified liabilities (₦197.9 billion), and enhanced capitalisation (₦85.3 billion) among other sources. The funds were utilised mainly to increase reserves (₦182.6 billion), foreign assets holdings (₦82.0 billion), claims on the private sector (₦206.5 billion), and to acquire other assets (₦113.4 billion), among others.

The structure of banks' deposit liabilities indicated that demand deposits accounted for 47.3 per cent, while savings and time deposits and foreign currency deposits constituted 47.7 and 5.0 per cent, respectively in 2001. These compare figures with 47.6, 47.1, and 5.3 per cent, respectively, in 2000 (Tables 4.3 and 4.4). Analysis of the capital adequacy ratio (CAR) of the banks during the period indicated that 67 banks recorded between 14.0 and 18.0 per cent while 13 others had between 8.0 and 14.0 per cent. Ten banks recorded a CAR below the statutory minimum of 8.0 per cent.

Aggregate credit to the domestic economy by deposit money banks amounted to ₦998.3 billion, representing an increase of ₦191.3 billion or 23.7 per cent over the level achieved at end-December 2000. Claims on the private sector rose substantially by ₦256.5 billion or 43.6 per cent, while claims on central government fell by ₦65.2 billion or 29.8 per cent, resulting from the divestment of holdings in government securities. Total loans increased by ₦199.8 billion, or 36.4 per cent, to ₦748.1 billion, representing 88.6 per cent of total claims on the private sector. Credit operations of deposit money banks in 2001 tended to favour the less-productive sectors of the economy as only 46.2 per cent of the total credit granted in 2001 went to agriculture, solid minerals, exports and manufacturing, compared with 48.2 per cent in 2000. The computed liquidity ratio for deposit money banks averaged 55.1 per cent, compared with the statutory minimum of 40.0 per cent. However, 16 banks were unable to meet the minimum liquidity ratio at the end of the year. The average loan to deposit ratio was 78.9 per cent, reflecting substantial over-trading relative to the prudential limit of 47.5 per cent. In all, about 67 banks reported higher loan-deposit ratios relative to the prudential limit. In terms of profitability, the banking system maintained a fairly stable trend in the four quarters of the year as it recorded ₦N24.0 billion, ₦23.0 billion, ₦27.0 billion and ₦23 billion in the first, second, third, and fourth quarters respectively. However, income from the core functions of the banks was generally not sufficient to cover the operating expenses, including provisions, thus culminating in fourteen (14) banks recording losses during the year, while 16 banks had overdrawn positions with the CBN at the end of the year.

4.2 Community Banks (CBs)

The number of community banks in operation was 747 at the end of 2001 as against 881 in 2000. However, only 128 reported their operations to the CBN. The establishment of the Other Financial Institutions Department (OFID) within the CBN further strengthened the Banks regulatory and supervisory framework for the sub-sector.The Bank embarked on a verification exercise during the year to ascertain the exact number of CBs in operation. At ₦4.9 billion, total assets/liabilities of the 128 reporting CBs declined by 59.3 per cent in contrast to the increase of 51.8 per cent in 2000. Capital and reserves of the banks also declined by ₦1.7 billion, or 62.7 per cent, to ₦1.0 billion.

Loans and advances granted by the reporting banks declined by 64.2 per cent in contrast to the increase of 39.4 per cent in 2000, while investment declined by 32.4 per cent. The sectoral analysis of the loan portfolio of the reporting banks indicated that agriculture and forestry lost their dominance to general commerce during the period. Loans and advances to general commerce represented 36.9 per cent of the total, miscellaneous and transportation/communication received 25.4 and 19.9 per cent respectively, while manufacturing got 8.4 per cent. The average loan/deposit ratio of the banks declined to 39.9 per cent from 47.6 per cent in 2000 (Table 4.5)

4.3 Other Financial Institutions

(i) Discount Houses

Discount houses recorded marginal growth in their operations in 2001 relative to the bullish performance in 2000. At ₦32.4 billion as at end-December 2001, total assets/liabilities of discount houses increased by ₦2.1 billion, or 6.9 per cent, compared with the substantial increase of 101.1 per cent in 2000. Funds available to discount houses in 2001 amounted to ₦9.7 billion. These funds were sourced mainly through divestment of treasury securities (₦N2.2 billion), increased miscellaneous liabilities (₦N4.5 billion), and addition to capital and reserves (₦1.2 billion), among other sources. The funds were utilised to repay matured obligations in the form of money at call (₦4.0 billion),increase claims on deposit money banks (₦2.7 billion) and to raise the cash holdings and balances with banks (₦1.6 billion), among other uses. Investment in short-dated securities amounted to ₦12.1 billion at the end of the year, representing 40.4 per cent of total assets compared, with the stipulated minimum target of 60.0 per cent for fiscal 2001. The gearing ratio remained very low at 0.03:1 as against the stipulated maximum of 50:1 for discount houses, indicating low exposure by the houses to outside finance (Table 4.6).

(ii) Finance Companies

The number of finance companies in operation rose to 98 in 2001 from 93 in 2000. Of this number, 34 reported on their operations to the CBN. Total assets/liabilities of the companies amounted to ₦12.9 billion, indicating an increase of 63.9 per cent over the preceding year's level. Funds available to the companies amounted to ₦5.3 billion. The funds were sourced mainly from borrowings (₦3.3 billion), increased other liabilities (₦633.7 million), and addition to capital and reserves (₦846.6 million), among others. The funds were utilized to boost loans and advances to their clients (₦2.3 billion), increase investments (₦1.1 billion), and acquire miscellaneous assets (₦1.2 billion), among other uses. The performance of finance companies in 2001 represented a marked improvement, relative to 2000, as major indicators showed upward trends, suggesting a return of confidence in the activities of the companies (Table 4.7).

(iii) Primary Mortgage Institutions (PMIs)

There were 74 primary mortgage institutions in operation at end-December 2001. Of this number, 43 rendered their statutory returns to the regulatory authorities. Total assets/liabilities of the reporting PMIs stood at ₦33.5 billion. Investments accounted for 61.0 per cent of assets while loans and advances constituted 22.0 per cent. On the liabilities side, the level of paid-up capital/reserves of PMIs remained low relative to the authorised capital as only N4.3 billion was available out of the authorised capital of N45.0 billion for the reporting institutions. Thirteen PMIs fully met the minimum paid-up capital requirement of ₦100 million during the period under review. At ₦22.3 billion, mortgage deposits accounted for 66.6 per cent of total liabilities, while other liabilities accounted for 12.5 per cent.

(iv) Insurance Companies

Insurance business received a boost in 2001 compared to the preceding year. Aggregate assets/liabilities of the 44 companies that reported on their operations amounted to

₦54.7 billion, reflecting an increase of 26.0 per cent over the preceding year's level. The sum of ₦11.3 billion accrued to the companies during the period. The funds were mainly from the increase in premium income (₦5.1 billion), accumulation of insurance funds (₦2.9 billion); increased "other" liabilities (₦1.4 billion), and accretion to reserves (₦1.0 billion), among others. These funds were utilized to increase outgoings (₦4.8 billion), investments (₦3.8 billion), loans and advances to various sectors of the economy (₦1.4 billion), and "other" assets (₦0.7 billion), among others (Table 4.8).

At ₦1.9 billion, total loans and advances of the reporting companies rose by 287.0 per cent, in sharp contrast to a decline of 9.7 per cent in 2000. Sectoral analysis of loans and advances showed that loans to policy holders and staff stood at ₦1.7 billion, constituting 87.0 per cent of the aggregate loan disbursements in 2001. Building construction and mortgage loans declined from ₦218.2 million in 2000 to ₦187.6 million, representing 10.0 per cent of the total loans. General commerce had ₦39.0 million, constituting 2.0 per cent of the total, while services received ₦8.7 million or 1.0 per cent of the aggregate loans. The manufacturing sector received only N0.4 million which represented a decline of 66.7 per cent from the previous year's level.

Aggregate investments stood at ₦9.2 billion at end-December 2001, reflecting an increase of 62.4 per cent, as against a decline of 10.3 per cent in 2000. Investments in private securities dominated insurance companies' portfolio as they accounted for ₦8.1 billion or 87.9 per cent of total investments in 2001, compared with ₦5.1 billion or 94.1 per cent in 2000. The proportion of the companies' holdings of government securities increased significantly by 328.8 per cent to ₦1.0 billion, in contrast to a decline of 4.2 per cent in 2000. Similarly, their share of foreign investments increased by 17.3 per cent, as against a decline of 76.7 per cent in 2000.

4.4 Financial Savings

Aggregate financial savings amounted to ₦540.7 billion at end-December 2001, representing an increase of ₦117.9 billion or 27.9 per cent over the level achieved in 2000. The ratio of financial savings to GDP was 9.9 per cent, representing an improvement over the level of 8.1 per cent attained in the previous year. Deposit money banks maintained their dominance as the major depository institutions within the financial sector. The banks accounted for 92.3 per cent of total financial savings, compared with 95.2 per cent in 2000. Other depository institutions, including PMIs, Life Insurance Funds, the Nigerian Social Insurance Trust Fund, and Community Banks held the balance of 7.7 per cent.

4.5 Money Market Developments

Activities in the money market in 2001 were influenced by the liquidity profile of the banking system and the various actions taken by the CBN to stem the excessive growth in domestic liquidity. Among such actions were the progressive increases in the CBN's minimum rediscount rate (MRR) by 650 basis points between January and September, the upward review of the cash reserve requirement and the liquidity ratio of deposit money banks from 10.0 and 35.0 per cent respectively to 12.5 and 40.0 per cent respectively, as well as the introduction of the CBN certificate. New issues of treasury bills were also made to refinance

Ways and Means Advances outstanding to the Federal Government in 2001. Consequently, total money market assets outstanding rose by 27.2 per cent to ₦660.0 billion at end-December 2001, compared with the 31.3 per cent increase in 2000. The levels of Commercial Papers (CPs), Bankers' Acceptances (BAs) and Eligible Development Stocks (EDS) also increased while banks divested all their holdings of Certificates of Deposits (CDs) during the year. Treasury bills remained the dominant instrument in the money market in 2001, accounting for 88.6 per cent of total money market assets outstanding, compared with 89.7 per cent in the preceding year.

(i) The Inter-bank Funds Market

The inter-bank funds market witnessed a significant increase in the volume of transactions in 2001, compared with the preceding year. The increased activity was attributable to the upsurge in the demand for foreign exchange which compelled banks to access the market for funds to cover their bids in the Inter-bank Foreign Exchange Market (IFEM), as well as the partial funding of the Global System of Mobile Communications (GSM) project during the year.

The volume of transactions rose by 32.6 per cent over the previous year's level to ₦1,399.5 billion, averaging ₦116.6 billion monthly, compared with ₦88.0 billion in 2000. Transactions in overnight call money, which constituted the dominant maturity (59.3 per cent), increased substantially from ₦538.8 billion in 2000 to ₦830.1 billion in 2001.The average rate on overnight funds also fluctuated upwards from 15.4 per cent in January to 24.6 per cent in December, 2001, reflecting the impact of demand pressure and tightening monetary policy. The average rates for placements of various maturities exhibited a similar pattern. The rate on 30-day and 90-day maturities rose markedly from 17.3 and 17.8 per cent in January to 29.1 and 31.5 per cent, respectively in December, 2001.

(ii) Treasury Bills

Primary issues of treasury bills, including roll-overs, amounted to ₦1,985.5 billion in 2001, compared with ₦1,629.1 billion in the preceding year. New issues, amounting to ₦113.0 billion (with a face value of ₦119.0 billion), were made in December to liquidate CBN Ways and Means Advances outstanding to the Federal Government. Consequently, total treasury bills outstanding rose from ₦465.5 billion at end-December 2000 to ₦584.5 billion in December, 2001.

Despite the high liquidity in the banking system and the enhanced yield on the security, public subscription to total issues fell to 46.3 per cent from 77.2 per cent in 2000, while the balance of 53.7 per cent was taken up by the CBN, bringing the Bank's holding to ₦325.3 billion or 55.7 per cent of the total, compared with ₦87.4 billion in the preceding year. The decline in public patronage of the intervention securities was attributable largely to banks preference for foreign exchange in the IFEM.

Deposit money banks' holdings fell from ₦288.2 billion, or 61.9 per cent of total outstanding in December 2000 to ₦199.3 billion or 34.1 per cent at end-December, 2001. Similarly, holdings by non-bank investors declined to ₦59.9 billion or 10.3 per cent from ₦90.0 billion or 19.3 per cent in 2000 (Tables 4.9 and 4.10). Gross rediscounts of treasury bills, including repurchase transactions (Repos), fell to N320.6 billion from ₦403.7 billion in

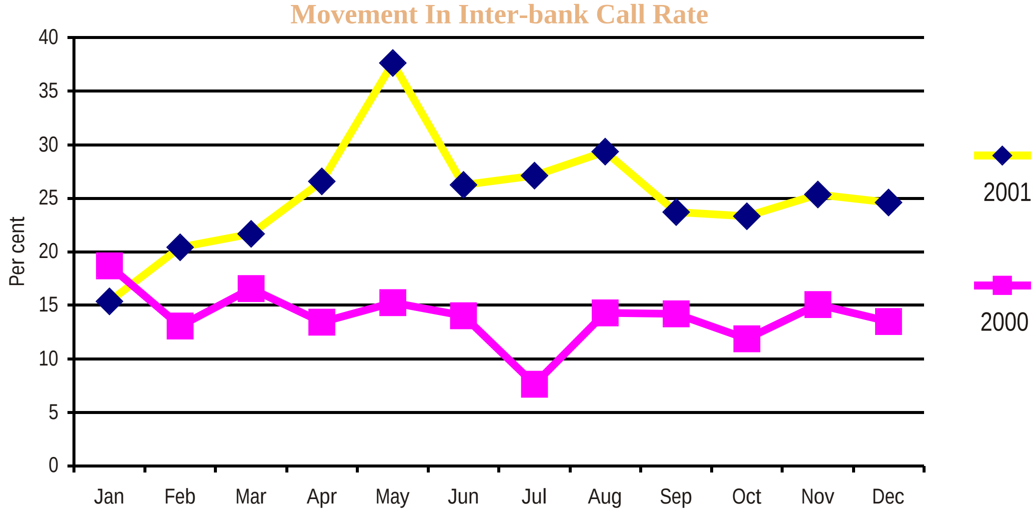
2000, as a result of the high rediscount rates associated with such transactions during the year, as well as the high liquidity profile of the banks.

(iii) The CBN Certificate
The CBN introduced its own money market instrument, the CBN certificate, in February 2001, in order to address the lingering problem of liquidity overhang in the economy. The instrument was issued in two tranches of 180-day and 360-day tenors, with minimum investment of ₦250,000 and in multiples of ₦50,000 thereof. The total amount offered by the CBN and public subscriptions amounted to ₦256.0 billion and ₦118.2 billion, respectively. However, certificates of 180-day maturity worth ₦53.4 billion matured and were repaid during the year. Consequently, the outstanding public investment in the instrument stood at ₦64.8 billion as at end-December, 2001 (Table 4.12).

(iv) Certificates of Deposits (CDs)
Transactions in negotiable certificates of deposits (CDs) declined further in 2001. The decline resulted from the excess liquidity in the banking system as well as the relative unattractiveness of the securities compared with other instruments of similar maturity. Thus, average monthly issues fell from ₦570.9 million in 2000 to ₦510.3 million in 2001. As in the previous four years, all the outstanding issues were held by the non-bank public.

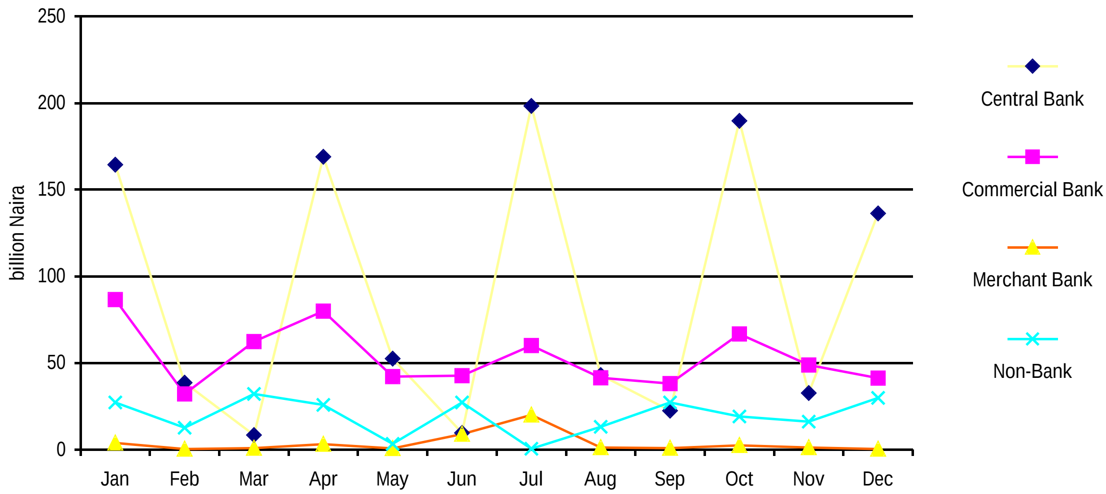
(v) Commercial Papers (CPs)
Investment in Commercial Papers (CPs) by deposit money banks rose further in 2001, in continuation of the trend observed since 1999. As a principal supplement to bank loans for the purpose of meeting seasonal credit requirements of the private sector, the level of CPs held by the deposit money banks increased significantly from a monthly average of ₦21.2 million in 2000 to ₦29.0 million in 2001.

Figure 4.3
Movement In Inter-bank Call Rate



(vi) Bankers' Acceptances (BAs)
The level of Bankers' Acceptances (BAs) rose substantially in 2001, reflecting increased investments by deposit money banks and discount houses in the instrument during the year. Holdings by banks increased from a monthly average of ₦17.7 billion in 2000 to ₦26.6 billion in 2001,

Figure 4.4
Demand For Treasury Bills in The Primary Market



while that by discount houses increased from ₦4.4 billion to ₦5.4 billion during the period (Table 4.11). The growth of the BAs market during the year reflected largely the rise in the financing requirements of private sector agents, particularly for import/export transactions.

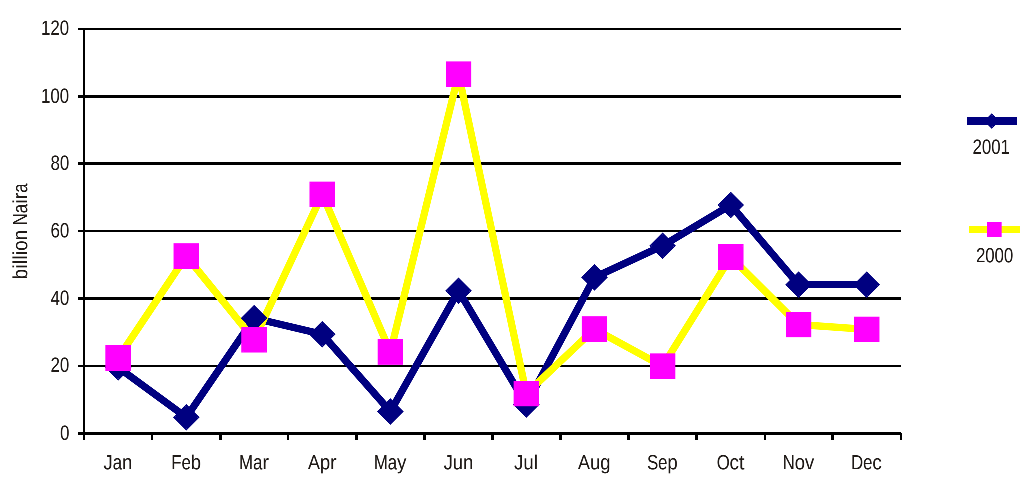
(vii) Open Market Operations (OMO)

Open Market Operations (OMO) remained the primary instrument of liquidity management by the CBN in 2001. A total of fifty-two (52) weekly auctions of OMO were conducted during the year, compared with forty-seven (47) sessions in 2000. The demand for intervention securities declined in 2001, compared with the previous year, following largely the increased demand for foreign exchange by deposit money banks. Thus, total bids declined by 16.4 per cent to ₦403.3 billion from ₦482.6 billion at end-December, 2000. Total sales, however, rose by 21.6 per cent to ₦386.9 billion, averaging ₦32.2 billion monthly, compared with ₦26.5 billion in the preceding year, reflecting the prevalence of a liquidity surfeit in the banking system in 2001 (Table 4.11).

4.6 Capital Market Developments

There was a remarkable improvement in capital market activities during the year, as

Figure 4.5
Demand For Treasury Bills at Open Market Operations



most indicators exhibited upward trends. The volume, value and number of transactions in the secondary market increased, while market capitalization and the value index rose substantially. Market capitalization rose sharply by 40.1 per cent from ₦472.9 billion in 2000 to ₦662.6 billion at end-December, 2001.

(i) The Abuja Stock Exchange Plc

In an effort to streamline the institutional arrangements in the secondary market, the Abuja Stock Exchange Plc, which was commissioned in 2000, was re-named Abuja Commodity Exchange, thereby changing the operational focus of the institution from being a stock exchange to a commodity exchange

(ii) Nigerian Stock Exchange (NSE)

The Nigerian Stock Exchange remained the only stock exchange in the economy with the re-naming of the Abuja Stock Exchange to Abuja Commodity Exchange. During the year, the Exchange made some progress in improving market infrastructure through the upgrading of the automated trading system, expansion in investors, base, and consolidation of its global outlook. The Exchange signed an additional Memorandum of Understanding (MOU) with the Egyptian Stock Exchange in anticipation of the proposed international listing of major government parastatals in the course of the privatisation exercise. Three (3) MOUs had earlier been signed with similar stock exchanges in Africa in the last three years.

(a) The Secondary Market

The impressive performance recorded in 2000 continued in 2001. A total of 5,930.2 million securities, valued at ₦57.7 billion, were traded in 426,163 deals, representing increases of 18.7, 104.9, and 65.9 per cent in volume, value, and number of transactions respectively. As in the preceding years, trading in equities dominated the market with a total of 5,890.8 million shares worth ₦57.7 billion, representing 99.3 and 99.9 per cent respectively, of the total volume and value of traded securities during the year. The industrial loan stock continued to be dormant, while trading in government development stocks rose both in volume and value from 8.7 million and ₦8.1 million respectively in 2000 to 39.3 million and ₦35.6 million in 2001 (Table 4.13).

(b) Equity Prices

The Central Bank's all-sector equity price index improved during the year, reflecting price gains in the commercial and services sectors and a significant turn-around in the manufacturing sector. At 10,965.0 (Dec. 1984=100), the all-sector price index rose by 35.2 per cent as against the rise of 54.0 per cent in 2000, with all the sectors contributing to the increase. The manufacturing sector led other sectors with a growth of 61.0 per cent. The services sector followed with an increase of 48.6 per cent, while the commercial and financial sectors accounted for 35.7 and 27.9 per cent respectively. The agricultural sector, however, recorded a decline of 19.9 per cent. Within the financial sector, the banking sub-sector showed the strongest performance while the building materials sub-sector in the case of the manufacturing sector, showed the most remarkable growth during the year.

(c) New Issues

Activities in the new issues market increased further during the year. The Exchange considered and approved 27 applications for new issues, valued at ₦38.0 billion in 2001, as against 21 applications for new issues worth ₦35.5 billion approved in 2000. All but two of the approvals in 2001 were for the raising of new funds, as companies re-capitalised and restructured to take advantage of emerging business opportunities. Ten applications, or 37.0 per cent of the total, were for banks in the form of rights and public subscriptions.

(d) Federal Government Development Stocks

The value of Federal Government development stocks outstanding declined further in 2001 to ₦1.8 billion from ₦2.1 million in 2000, following the redemption of two matured development stocks, worth ₦0.3 billion, during the period.

Holdings of development stocks continued to be dominated by special funds maintained with the CBN, which accounted for 50.0 per cent of the total outstanding. Holdings by other investors remained at the previous year's level except for the CBN's direct holding which declined marginally from ₦0.7 billion in 2000 to ₦0.6 billion in 2001. However, the CBN and special funds accounted for 84.0 per cent of the total stocks outstanding in 2001, compared with

CHAPTER 5
Fiscal Operations

Developments in the international oil market impacted positively on Government finances in 2001. Total federally-collected revenue amounted to N 2,231.5 billion, showing an increase of 17.1 per cent over the level in 2000. The level of Federal Government retained revenue rose by 33.4 per cent to N797.0 billion, owing to increased earnings from both oil and non-oil sectors. Similarly, total expenditure rose by 45.2 per cent to N1,018.0 billion, resulting in an overall deficit of N221.1 billion (4.0 per cent of GDP), compared with a deficit of N103.8 billion (2.1 per cent of GDP) in 2000. The deficit was financed entirely from domestic sources.

5.1. Federation Account Operations

Gross federally-collected revenue in 2001 amounted to ₦2,231.5 billion, representing an increase of ₦325.4 billion or 17.1 per cent over the level in 2000. The improved performance reflected the rise in crude oil price above the budget benchmark of US $22.00 per barrel and the higher receipts from import duties, as a result of the comprehensive (100.0 per cent) import destination inspection scheme introduced during the year.

A breakdown of gross revenue showed that revenue from the oil sector rose by 7.3 per cent to ₦1,707.6 billion, constituting 76.5 per cent of total revenue. Receipts from crude oil exports declined marginally by 1.4 per cent to ₦934.2 billion and constituted 54.7 per cent of gross oil revenue. Revenue from petroleum profit tax, royalties, etc., rose by 21.7 per cent to ₦639.2 billion and accounted for 37.4 per cent, while the share of domestic crude oil sales stood at ₦121.5 billion or 7.1 per cent of gross oil receipts (Table 5.1).

The sum of ₦804.1 billion, representing "first charge" was deducted from the gross oil receipts. This represented an increase of 9.5 per cent over the ₦734.1 billion deducted in 2000. The higher deduction was due to the improved funding of oil production and the increased external debt service payments. Total deductions included joint venture cash calls (₦391.9 billion), external debt service payments (₦232.2 billion), NNPC priority projects (₦38.1 billion), excess crude oil proceeds account (₦97.2 billion), and excess PPT and Royalty (₦44.6 billion). Thus, net oil revenue rose by 5.4 per cent to ₦903.5 billion, compared with the level in 2000.

Revenue from non-oil sources grew by ₦209.5 billion, or 66.6 per cent, to ₦524.0 billion, compared with the increase of 39.9 per cent recorded in 2000. The companies income tax component of non-oil revenue increased by 34.4 per cent to N68.7 billion, compared with ₦51.1 billion in 2000. Similarly, customs and excise duties and value-added tax yielded ₦170.6 and ₦91.8 billion respectively, reflecting increases of 68.1 and 56.9 per cent respectively over the levels in 2000. The comprehensive destination inspection of imports and the opening of additional VAT offices contributed significantly to the improved performance of non-oil revenue. Tax on petroleum products amounted to ₦30.2 billion, while independent revenue of the Federal Government rose by ₦6.3 billion, or 16.5 per cent, to ₦44.4 billion.

5.1.1. Federation Account Allocation

The sum of ₦1,599.4 billion accrued to the Federation Account in 2001, compared with ₦1,262.5 billion in 2000, representing an increase of 26.7 per cent. Of the total, the sum of ₦1,298.3 billion was shared by the three tiers of government and special funds showing an increase of ₦246.7 billion, or 23.5 per cent, over the ₦1,051.6 billion distributed in 2000. The increase reflected the distribution of excess crude oil proceeds

BOX 3
Destination Inspection and Revenue Performance in 2001

Goods imported into the country are generally required to undergo inspection either at the country of origin or on arrival at Nigerian ports. The former is referred to as pre-shipment inspection while the latter is called destination inspection. Inspection is undertaken to arrest the drain of foreign exchange reserves, to ensure that the goods imported meet the quality and quantity standards as well as price and legality requirements. Another reason for inspection is to ensure that appropriate duties are paid on the imports.

Prior to May 2001, pre-shipment inspection was undertaken to achieve the above objectives. However, it created a number of problems, such as delays in the clearance of goods and disputes with regard to duty assessment. Destination inspection, which involves 100 per cent physical examination of all containerized imports into the country, was introduced to replace the pre-shipment inspection scheme.

Under destination inspection, the appointed inspection agents or the Nigerian Customs or both are to examine the goods at the port of destination in the presence of the importer or his agent. After a successful examination, all the parties who participated in the joint examination are required to sign the examination report to enable the Nigerian Customs to tally the goods, reconcile the details on the manifests and bills of lading and ensure that appropriate duties and other relevant charges are paid in respect of the goods.

Since the implementation of the policy commenced in May 2001, available data show that it has impacted positively on revenue performance, especially on customs and excise duties, as well as on Value Added Tax (VAT). From a monthly average of ₦10.0 billion in the first quarter of 2001, customs and excise duties rose to ₦11.8, ₦16.8 and ₦17.2 billion per month in the 2nd, 3rd, and 4th quarters of the year respectively. The amounts consistently exceeded the monthly budget target of ₦9.5 billion. Similarly, the monthly average receipt of VAT increased from N6.4 billion in the first quarter of 2001, to ₦7.8, ₦8.2 and ₦8.2 billion in the 2nd, 3rd, and 4th quarters of the year respectively, exceeding the monthly budget target of ₦7.1 billion.

In spite of the impressive performance, a few problems still persist. Importers complained of delays in the clearing of goods at the ports. This points to the need for continued port reforms. An important aspect is the installation of scanners at the ports and other strategic customs formations. The scanners will provide information on the nature and quantity/quality of the imports. Similarly, the implementation of the Automated System for Customs Data (ASYCUDA) will facilitate record keeping as well as the calculation

and receipts from the sale of GSM licences. The difference between gross receipts and the amount distributed reflected transfers to the stabilization account (₦17.4 billion), federation reserve account (₦20.4 billion), VAT Pool Account (₦91.8 billion), Federal Government independent revenue (₦44.4 billion), National Judicial Council (₦8.8 billion), and others (₦118.4 billion).

A breakdown of the distribution showed that the Federal Government received ₦530.7 billion, state governments ₦391.3 billion, local governments ₦245.4 billion, and special funds ₦130.9 billion, of which ₦78.4 billion went to the 13 per cent derivation fund shared among the oil-producing states. The total amount distributed from the Federation Account showed an excess of ₦171.9 billion over the federally-collected revenue (net) and was funded from excess crude oil reserves, GSM proceeds, and stabilisation accounts.

5.2. Federal Government Finances

(a) Federal Government-Retained Revenue

Federal Government-retained revenue amounted to ₦797.0 billion, representing an increase of ₦199.7 billion or 33.4 per cent over the level in 2000. The increase reflected mainly the Federal Government's share from reserve accounts (mainly excess crude oil proceeds) and GSM proceeds, which amounted to ₦117.0 billion and ₦37.8 billion respectively. Other components of the retained revenue included share of Federation Account (₦530.7 billion), VAT (₦13.4 billion), and independent revenue (₦44.4 billion).

(b) Federal Government Total Expenditure

Aggregate expenditure of the Federal Government rose by 45.2 per cent to ₦1,018.0 billion from the level in 2000. The amount also exceeded the budgeted total expenditure of ₦936.8 billion by ₦81.2 billion, or 8.7 per cent, reflecting higher personnel and overhead costs above the budget estimates. Total expenditure as a proportion of GDP consequently rose from 14.5 per cent in 2000 to 18.6 per cent in 2001.

Non-debt expenditure (that is, total expenditure less debt service payments) rose by 45.6 per cent to ₦862.6 billion over the level in 2000 and 3.1 per cent over the budget estimate of ₦836.8 billion. Domestic debt service payments amounted to ₦155.4 billion, representing 15.3 per cent of total expenditure and exceeded budget provisions by 55.4 per cent. The increase reflected the rise in domestic debt stock as well as interest rate on treasury bills (Table 5.2).

(i) Recurrent Expenditure

At ₦579.3 billion, recurrent expenditure rose by ₦117.7 billion, or 25.5 per cent over the level in 2000, reflecting the effect of increased outlays on personnel, overhead costs and debt service payments. The structure of recurrent expenditure showed that government purchase of goods and services accounted for ₦423.9 billion, or 73.2 per cent of the total, while domestic debt service, at ₦155.4 billion, accounted for the balance of 26.8 per cent.

A breakdown into economic functions showed that transfer payments rose by 5.6 per cent to ₦265.9 billion and accounted for 45.9 per cent of total recurrent expenditure. Similarly, the outlay on economic services and social and community services rose by 77.8 and 35.4 per cent to ₦53.0 and ₦79.6 billion respectively and accounted for 9.2 and 13.7 per cent respectively of total recurrent expenditure, (Table 5.3).

(ii) Capital Expenditure

Capital expenditure in 2001 amounted to ₦438.7 billion, showing an increase of ₦199.2 billion, or 83.2 per cent over the level in 2000, and constituted 43.1 per cent of total expenditure. The rise reflected increased allocations to priority projects in the economic sector, including roads, water supply, power and steel, all of which accounted for 92.0 per cent of the total.

A breakdown of capital expenditure into economic functions showed that economic services accounted for ₦259.8 billion, or 59.2 per cent of the total, and transfer payments ₦76.3 billion, or 17.4 per cent of the total. Compared with 2000, expenditure on economic services and transfer payments rose by 133.0 and 63.4 per cent respectively, while expenditure on administration declined by 7.5 per cent. Expenditure on social and community services rose by 90.6 per cent to ₦53.3 billion or 12.2 per cent of the total. Non-debt capital expenditure amounted to ₦438.4 billion.

(c) *Overall Fiscal Balance And Financing*

The fiscal operations of the Federal Government resulted in a deficit of ₦221.1 billion, or 4.0 per cent of GDP, financed entirely from domestic sources, including excess crude oil receipts of year 2000 and borrowing from the banking system.

5.3. State Government & Federal Capital Territory (FCT) Finances

The relatively good performance in revenue collection into the Federation Account, the VAT Pool Account and other funds in 2001 impacted positively on the fiscal operations of the state governments and the FCT. The total revenue of these governments amounted to ₦573.5 billion, up by 59.7 percent when compared with their aggregate revenue in 2000. Of the total revenue, receipts from the Federation Account, VAT, and the Grants and Stabilisation Fund accounted for 89.6 percent as against 89.5 percent in 2000. As components of the aggregate revenue, the Federation Account, VAT, and the Grants and Stabilisation fund accounted for 70.4, 7.8, 10.1, and 1.2 percent respectively.

The share of internally generated revenue in the total was 10.4 per cent, down from 10.5 percent in 2000.The state governments and FCT could meet 30.4 percent of their recurrent expenditure (personnel and overhead costs) which amounted to ₦195.3 billion in 2001, or 9.9 percent of their total expenditures (recurrent and capital) from their internally generated revenues in 2001 as against 19.2 and 10.5 percent respectively in 2000.

Provisional data indicated that while their aggregate revenue increased by 59.7 per cent over the level in 2000, their total expenditures rose by 66.0 percent from ₦355.7 billion in 2000 to ₦597.0 billion. Recurrent expenditure accounted for 49.4 percent of the total expenditure, down from 54.7 percent in 2000. Capital expenditure accounted for 39.4 per cent, down from 44.2 per cent in the preceding year. In nominal terms, recurrent expenditure increased by 48.0 percent over 2000 levels, down from an increase of 91.6 percent over 1999 levels, while capital expenditure increased by 48.0 percent as against 162.9 percent in 2000.

The consolidated fiscal operations of the state governments and FCT in 2001 resulted in a deficit of ₦23.4 billion as against a deficit of ₦0.6 billion in 2000.

The deficit was financed by borrowing from internal and external sources as well as from their cash balances in the preceding year. In 2001, the aggregate net borrowing by these governments from domestic money banks and external sources stood at ₦19.2 and ₦1.4 billion respectively. A cash balance of ₦4.9 billion from the preceding year and ₦0.5 billion "other funds" were also used to finance part of the deficit (Tables 5.5 and 5.6)

5.4 Local Government Finances

Aggregate revenue of the local governments amounted to ₦166.1 billion for 572 reporting councils. This comprised internally generated revenue (₦9.8 billion), Federation Account (₦118.1 billion), VAT (₦19.3 billion), stabilisation fund/excess crude and general ecology, etc., (₦18.9 billion).

Expenditure of the reporting local governments stood at ₦171.4 billion, consisting of ₦121.7 billion recurrent and ₦49.8 billion capital. The fiscal operation of the reporting local governments, resulted in an overall deficit of ₦5.3 billion. The deficit was financed by their cash balances in 2000 and debts owed to local contractors. Recurrent expenditure comprised personnel costs (₦61.3 billion), overhead costs (₦44.9 billion), and consolidated revenue fund charges and others (₦15.5 billion). Total capital expenditure of the reporting councils amounted to ₦49.8 billion during the year, comprising administration (30.3 per cent), economic services (50.2 per cent), social and community services (14.9 per cent) and transfers (4.6 per cent).

5.5 Public Debt

The total public debt of the Federal Government outstanding as at end-December, 2001 amounted to ₦4,193.3 billion, representing an increase of 4.9 per cent over the stock at the end of 2000. As a proportion of GDP, total debt outstanding was 76.4 per cent, down from 82.5 per cent in the preceding year.

5.5.1 Domestic Debt

The outstanding domestic debt of the Federal Government at the end of the year stood at ₦1,017.0 billion, or 18.5 per cent of GDP, representing an increase of ₦118.7 billion, or 13.2 per cent over the level in 2000. The increase was due to the issuance of Treasury Bills (TBs) of ₦113.0 billion, at the end of the year to refinance outstanding Ways and Means Advances. Consequently, the total TBs outstanding rose to ₦584.5 billion, or 57.5 per cent of total debt instruments. The level of treasury bonds remained unchanged, while the level of development stocks fell to ₦1.8 billion with the redemption of ₦280.0 million worth of stocks during the year (Table 5.9)

A review of the holding of Federal Government securities showed the continued dominance of the banking system with a total holding of ₦879.4 billion, or 86.5 per cent of total, an increase of ₦23.5 billion over the level in 2000. The Central Bank accounted for ₦680.1 billion, or 66.9 per cent of the total, down from the 79.5 per cent held in the preceding year. Holding by deposit money banks increased by 50.2 per cent above the level in 2000. The non-bank public holding rose by 225.3 per cent to ₦137.6 billion but constituted only 13.5 per cent of the total.

An analysis of the maturity structure of Federal Government debt instruments revealed that the instruments with tenor of 2 years and below amounted to ₦584.9 billion, or 57.5 per cent, compared with 51.9 per cent in 2000. Conversely, debt instruments of over 10 years maturity accounted for 14.8 per cent, down from 42.0 per cent in 2000.

5.5.2. External Debt

(a) *The Debt Stock*

Total external debt outstanding at the end of December, 2001 amounted to US$28.4 billion representing an increase of US$0.1 billion, or 0.4 per cent, compared with US $28.3 billion in the preceding year. The distribution of the debt outstanding by creditors showed that the Paris Club accounted for the highest share of US$22.1 billion or 77.9 per cent. This was followed by multilateral holdings of US $2.8 billion, or 9.9 per cent, the London Club US$2.0 billion, or 7.2 per cent, and promissory note holders US$1.3 billion or 4.6 per cent. The balance (US$121.2 million or 0.4 per cent) was held by the non-Paris Club Bilateral Creditors (Table 5.10).

(b) *Debt Service Payments*

Available statistics showed that debt service payments in 2001 amounted to US$2.1 billion, representing an increase of US$412 million or 24 per cent over actual debt service payments of US$1.7 billion in the preceding year. The breakdown of the payments showed that the sum of US $1.9 billion was in respect of principal repayments, US$153.2 million for interest payments while US$18.0 million was for penalty interests and other charges (Table

5.11).

(c) *The Debt Conversion Programme (DCP)*

The level of activities in the debt conversion programme continued to decline with 14 applications, compared with the 20 applications received in 2000. The value of applications received, however, increased by US$582.2 million to US$935.4 million in 2001, with manufacturing accounting for US$747.1 million or 79.9 per cent. Two applications, valued at US$714.4 million, were approved compared with 11 applications, valued at US$184.8 million in 2000.

At end-December 2001, external debt, valued at US$26.6 million, was redeemed under the auction system, while US$0.8 million was cancelled under the out-of-auction arrangement, bringing the value of debts redeemed in 2001 to US$27.4 million, compared with US$57.9 million in 2000. The total value of debts redeemed in the last five years amounted to US$331.8 million (N31.2 billion). Other benefits of the programme in 2001 included transaction commissions of US$0.2 million (N38.2 million) and discounts of US$5.3 million (N588.9 million), at an average discount rate of 16.6 per cent, compared with 31.4 per cent in 2000. During the year, direct capital inflows amounted to US$0.5 million. Sectoral breakdown of disbursements to beneficiaries showed that gifts and grants accounted for ₦1.5 billion or 68.3 per cent of the total, while manufacturing received ₦0.7 billion or 31 per cent.

CHAPTER 6
The Real Sector

The performance of the real sector improved in 2001, with the real gross domestic product (GDP) growing by 3.9 per cent, compared with 3.8 per cent in 2000. The major sources of growth were agriculture, manufacturing, merchandise, transportation, finance and insurance, and government services. Improved performance in the agricultural sector was traced to favourable weather conditions, low incidence of pests and diseases and the supply of high-yielding and disease-resistant seeds. The growth in the manufacturing sector was driven by the restoration of normal supply of petroleum products throughout the year, modest improvements in electric power supply, and the introduction of comprehensive inspection of imports at the ports. Services and commerce flourished, owing to the expansion in fiscal operations of the governments and the impact of the 2000 wage increases, most of which were implemented during the year. Also, industrial relations were relatively cordial during the year. However, inflationary pressures accelerated as a result of the liquidity surfeit fuelled by expansionary fiscal operations and the lingering structural bottlenecks which increased costs of doing business in the economy. The unemployment level remained high.

6.1 Gross Domestic Product (GDP)

The gross domestic product (GDP), measured at 1984 constant factor cost, rose by 3.9 per cent to ₦125.4 billion in 2001, exceeding slightly the growth rate of 3.8 per cent recorded in 2000 but lower than the 5.0 per cent target for 2001 (Table 6.1a). All the broad activity sectors contributed to the growth in output during the year. The major sources of growth were agriculture, especially crop production, manufacturing, merchandise, transportation, finance and insurance, and producers of government services. Sectoral analysis showed that the value of agricultural output, comprising crops, livestock, forestry and fishing, was ₦51.5 billion, representing about 41.1 per cent of the total GDP, about the same level as in 2000. The industrial sector, consisting of crude petroleum, mining and quarrying, and manufacturing, contributed ₦21.23 billion or 17.0 per cent of the total, compared with 16.7 per cent in the preceding year. The share of the services sector was 28.0 per cent, about the same level as in 2000, while distributive trade (wholesale and retail), and building and construction accounted for about 11.4 and 2.3 per cent respectively.

Provisional data showed that at ₦92.5 billion, aggregate consumption expenditure rose by 8.3 per cent, in contrast to the 8.5 per cent decline in 2000. The increase, which reflected entirely the rise in private consumption expenditure, was attributed largely to the impact of the 2000 wage increases, most of which were implemented in 2001, and the expansion in the fiscal operations of the governments (Table 6.2). At ₦74.3 billion, private consumption expenditure rose by 14.2 per cent, in contrast to a decline of 14.5 per cent in 2000, while government's final consumption expenditure declined by 11.1 per cent to ₦17.7 billion.

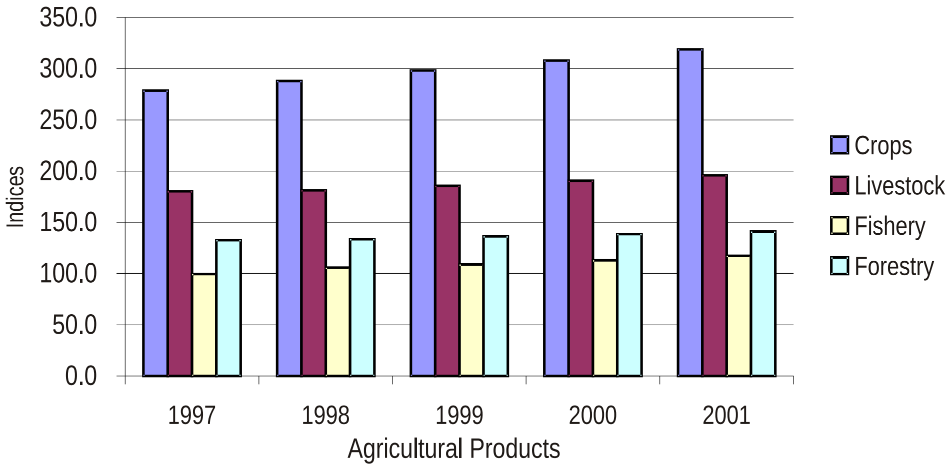
6.2 Agriculture

6.2.1 Agricultural Production

Output in the agricultural sector recorded increased growth in 2001. At 267.7 (1984 = 100), the aggregate index of agricultural production rose by 3.7 per cent, compared with 3.1 per cent in 2000 (Table 6.4). All the sub-sectors contributed to the growth. The output of crops rose by 3.5 per cent, compared with the 3.3 per cent growth in 2000. All the major sub-sectors recorded output increases over the preceding year's level (Table 6.5).

The output of staples rose by 3.5 per cent, compared with 3.0 per cent in 2000. All the major staples recorded output increases

Figure 6.1
Index of Agricultural Production by Type



over the preceding year's level. For instance, maize, cassava, millet and sorghum rose by 1.6, 3.1, 4.8, and 7.4 per cent respectively. Cash crop production rose by 3.4 per cent compared with 3.3 per cent in 2000 as a result of improvements in demand and market prices. The output of cotton, soya bean and palm oil increased by 1.4, 1.8, and 4.0 per cent respectively. Other cash crops: coffee, rubber and cocoa grew by 1.0, 1.1 and 4.3 per cent respectively.

A nationwide agricultural survey conducted by the Central Bank of Nigeria, showed that the modest increase in agricultural production during the year was attributed mainly to favourable weather conditions, resulting from timely and well-distributed rainfall throughout the country. Average annual rainfall, which increased from 1245 mm in 2000 to 1280 mm, encouraged intense farming activities and resulted in increased production. Other factors which contributed to the observed improvement included the supply of high-yielding and disease-resistant seeds, low incidence of pests and diseases, improved post-harvest handling, as well as continued intensification of off-farm research efforts by research institutes. In spite of the improved performance of the sector, the 3.7 per cent growth recorded was only marginally higher than the average of 3.3 per cent recorded in the last five years, and much lower than the 5.8 per cent annual growth target set in the 2000-2003 National Rolling Plan. Some of the major constraints that hindered output expansion are as highlighted below.

In the crop sub-sector, despite the efforts of the Federal Ministry of Agriculture and Rural Development, there was shortage in the supply of fertilizer as locally produced ones were virtually non-existent, owing to the continued shut-down of the National Fertilizer Company of Nigeria (NAFCON) which accounts for over 85.0 per cent of total local production of the commodity. The total quantity of fertilizer available for distribution was 120,000 metric tonnes, representing a decline of 60.0 per cent below the 300,000 tonnes distributed in 2000. The quantity supplied was also significantly lower than the estimated national minimum requirements of 1.5 million tonnes. The development resulted in prices that were higher than government-approved prices. The average cost of procuring a 50-kilogram bag of fertilizer ranged from ₦1,500 to ₦2,500 in most parts of the country as against the recommended subsidized price of ₦1,000. The shortfall in the supply of fertilizers and the inefficiencies of distribution made the commodity inaccessible to many farmers and most agro-allied research institutes engaged in crop and fodder research activities. The rise in the cost of other farm inputs, such as agrochemicals, farming implements, and labour constrained the capacity of farmers to increase crop production. Another significant problem during the year was the flooding of farmlands in Kano, Adamawa and Jigawa states, among others.

The index of livestock production at 195.8 (1984 = 100) rose by 2.7 per cent, the same as in 2000. All the components of the sub-sector contributed to improved performance, which resulted mainly from the intensification of disease control activities, restocking of breeding animals, and the provision of supplementary feed. Also, the development and adoption of a Nigerian layer parent stock by commercial poultry farmers bolstered output in the sub-sector.

At 117.4 (1984 = 100), fishery output rose by 4.0 per cent, compared with the 3.8 per cent growth in the previous year. The increase in production reflected the growth of all modes of fishing in response to the various restocking programmes of the federal and state governments. Also, the return of social and political stability in the Niger Delta, as well as the release of water from Cameroun into Lake Chad, increased access to fishing areas. However, the escalation in the cost of fishing inputs, such as outboard engines, continued to hamper private sector investment in the sub-sector and constrained its growth.

Forestry production increased by 1.8 per cent, compared with the 1.5 per cent in 2000. The increase was attributed to the intensive exploitation of forest resources in response to the strong domestic demand for sawn-wood, furniture and paper products.

6.2.2 Agricultural Prices

The all-commodities world price index computed in US dollars, which was the major currency of invoice, rose by 30.6 per cent to 62.8 (1985 = 100) in contrast to a decline of 24.6 per cent recorded in the preceding year. Further analysis on a commodity basis showed that the prices of all monitored items, except cocoa, declined during the year. The price decline ranged from 4.7 per cent for soya bean to 56.8 per cent for copra. The fall in commodity prices in 2001 was attributed largely to weak demand, arising from the slowdown in the advanced economies and the excess supply of most of the commodities. The price of cocoa rose by 46.3 per cent in contrast to a decline of 25.3 per cent in 2000. The improvement in cocoa price was attributed mainly to the concerted effort by producers to reduce supply to the market as well as increased demand. In Naira terms, the all-commodities index rose by 32.8 per cent to 5,640.8 (1985 = 100) in 2001. The price increases of the monitored commodities ranged from 4.3 per cent for palm oil to 46.3 per cent for cocoa. However, cotton, coffee and copra recorded price declines of 1.3, 17.9, and 22.3 per cent respectively.

Domestic producer prices of Nigeria's major agricultural commodities also improved during the year. Of the ten commodities monitored, only two (coffee and cotton) registered price declines of 1.4 and 5.1 per cent respectively. The price increases ranged from 1.7 per cent for groundnut to 23.9 per cent for benniseed. Palm oil, ginger, soya bean and cocoa recorded significant increases of 21.5, 17.6, 12.2, and 12.2 per cent respectively.

The increase in prices was attributable mainly to improved demand while excess production and availability of substitutes combined to depress the prices of coffee and cotton.

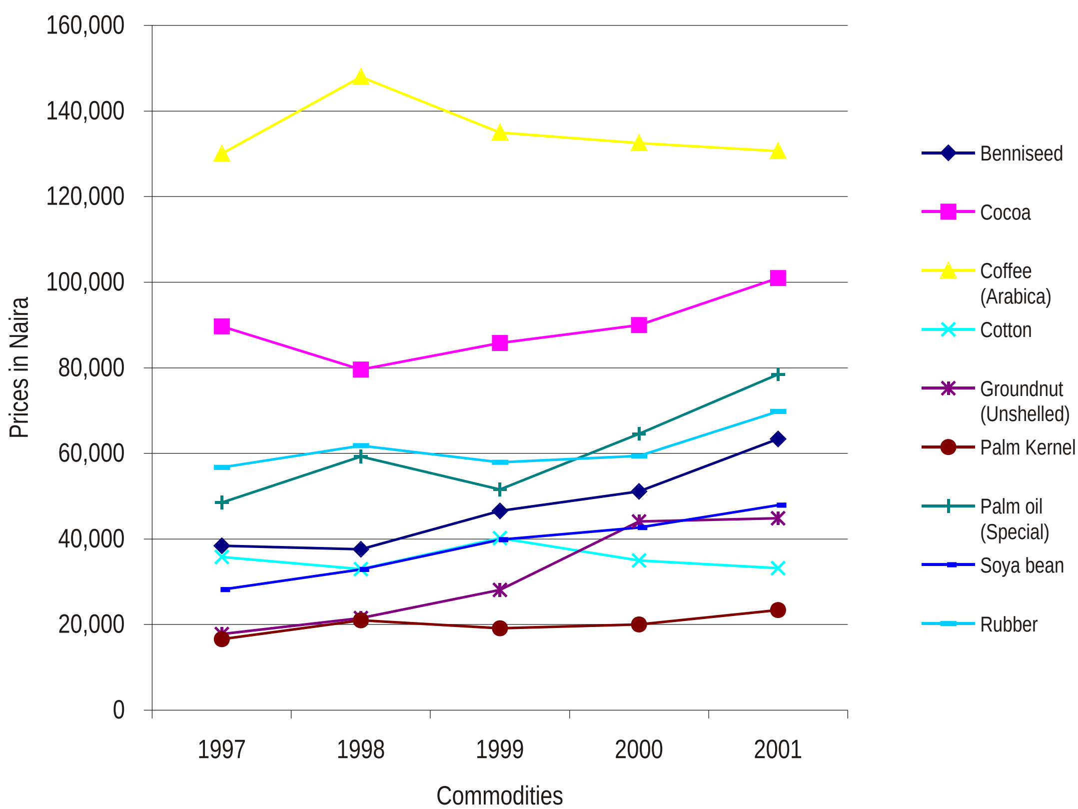
The urban retail prices of most of the selected food crops recorded substantial increases, in spite of the increased output of staples during the year. For instance, the price of garri, yam and maize rose by 173.4, 168.6, and 80.3 per cent respectively.

The price increases were attributed mainly to rising production costs, especially the cost of labour and farm inputs. The poor conditions of some rural roads also contributed to the increase in food prices as reflected in high transportation costs, which were passed on to consumers. To dampen the impact of high prices in the sub-sector, the Federal Government released 35,000 tonnes of assorted grains from the eight functional silos to federal, state and local government establishments.

6.3 Industry

Industrial output rose during the year as the aggregate index of industrial production, estimated at 145.3 (1985 = 100), increased by 3.3 per cent, compared with 7.6 per cent recorded in 2000. The increase in aggregate industrial output was accounted for by appreciable increase - 2.9 per cent in manufacturing, 0.4 per cent in mining production, and 2.7 per cent in electricity consumption (Table 6.9).

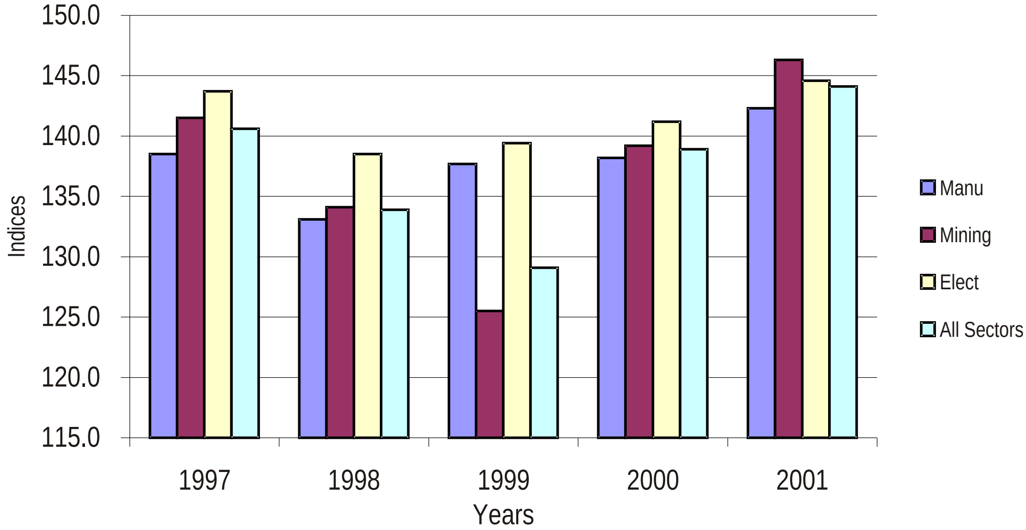
Figure 6. 2
Average Prices of Selected Cash Crops (Naira per Tonne)



6.3.1 Manufacturing

The manufacturing sub-sector recorded a modest improvement as the index of manufacturing production, at 142.2 (1985 = 100), rose by 2.9 per cent, compared with an increase of 0.4 per cent in 2000 (Table 6.10). In general, the expansion in

Figure 6.3
Index of Industrial Production (1985 =100)



manufacturing production was traced largely to improved supply of inputs, especially the restoration of normal supply of petroleum products, a moderate improvement in electric power supply, the introduction of comprehensive inspection of imports at the ports, which forced importers of finished goods to pay appropriate duties, thereby increasing, slightly, the competitiveness of local manufactures and renewed investors' confidence in the economy. The improved performance of the manufacturing sub-sector was corroborated by the results of the nation-wide survey conducted by the Central Bank of Nigeria, covering 428 firms with a response rate of 61.7 per cent. The results of the survey showed that the average capacity utilization rate of respondents rose from 36.1 per cent in 2000 to 39.6 per cent in 2001.

Further growth in the sub-sector was, however, impaired largely by low effective demand for locally made goods, occasioned by the continued influx of cheaper and better quality, imported products. The adverse impact of dumping (especially second-hand goods) on local production was more pronounced on the textiles, footwear, leather, cement, vehicle assembly, radio, television and telecommunications equipment sub-groups which recorded persistent output contraction or outright closure of local factories in some cases. Other constraints included the poor state of social and economic infrastructure, including power and water supply, as well as the poor performance of the transport system.

6.3.2 Mining

The upward trend in mining output observed during the preceding year slowed down in 2001. At 144.9 (1985 = 100), the index of mining production rose by 0.4 per cent, compared with an increase of 14.9 per cent in 2000. Expansion in output during the year was mainly attributed to the 0.4 per cent increase in crude petroleum production, which accounted for 98.9 per cent of total output in the sub-sector. Similarly, output of coal, limestone, and gas increased, reflecting modest improvements in the end-user application of these mineral products (Table 6.11).

(i) Crude Oil

Nigeria's aggregate crude oil production, including condensates, was estimated at 832.2 million barrels or 2.28 million barrels per day (mbd), indicating an increase of 0.4 per cent, compared with an increase of 7.1 per cent in the preceding year. The marginal increase reflected compliance with OPEC output quota cuts, dictated by falling oil prices in the international market. The OPEC quota for Nigeria was reviewed downwards to 2.075, 1.993 and 1.911 mbd in February, April and September respectively. Of the total daily production, 1.87 mbd, representing 82.0 per cent, was exported compared with 1.97 mbd or 86.8 per cent in 2000. The NNPC purchased 142.48 million barrels of oil for domestic consumption out of which 84.08 million barrels or 59 per cent were delivered to the local refineries, while 58.40 million barrels or 41 per cent were exported and the proceeds used in importing petroleum products.

The spot price of Nigeria's reference crude, the Bonny Light (370 API), averaged US$24.53 a barrel in 2001, representing a fall of 14.1 per cent, when compared with the level in 2000, while the average price of the Forcados was US$24.13 a barrel, compared with US $28.45 in 2000. Similarly, the average price of the UK Brent fell by 14.4 per cent to US $24.43 a barrel. In the American spot market, the average prices of the Arab Light and the West Texas Intermediate (WTI) fell to US$17.57 and US$25.86 from their respective levels of US$27.32 and US$30.30 in 2000. The decline in prices was attributable to excess supply of crude oil to the market and the recession in the economies of the major industrial countries which resulted in lower demand for oil. Also, the September 11, 2001 terrorist attacks on the United States of America impacted negatively on the airline industry world-wide, causing a slack in the demand for aviation fuel.

(ii) Gas

The production of natural gas increased by 21.0 per cent to 57,530 million cubic metres (MMm^3) in 2001, owing to increased oil production and the high gas-oil ratio in most producing wells. Of this output, the quantities utilized and flared increased by 35.1 and 9.0 per cent to 29,639.8 Mmm^3 and 27,890.2 Mmm^3s, respectively. The quantity of gas flared accounted for 48.5 per cent of total output, compared with 53.8 per cent in 2000. The reduction in the proportion flared was attributed to expansion in gas utilisation. Gas sold to industries for electricity generation rose by 60.2 per cent to 16,209.6 Mmm^3, out of which 8,465.4 Mmm^3 was sold to the Nigerian Liquified Natural Gas (NLNG). Gas re-injected into the wells for conservation stood at 8,637.7 Mmm^3, showing an increase of 2.9 per cent over the level in 2000. Gas lifted for pressure purposes was 863.4 Mmm^3, indicating an increase of 12.0 per cent over the level in the previous year, while that converted to natural gas liquids(NGL) rose by 165.1 percent to 1,733.8MMm^3. However, gas used as fuel by oil companies fell by 9.2 per cent to 2,195.4 Mmm^3.

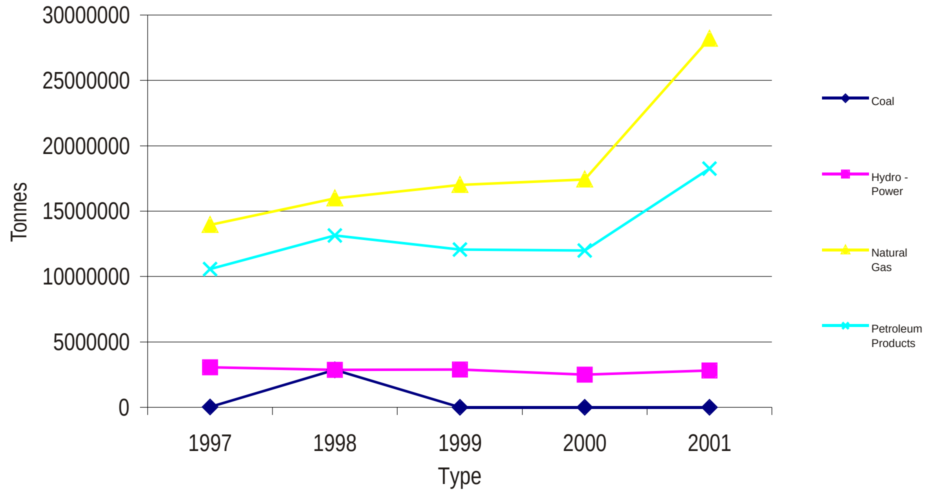
(iii) Solid Minerals

Solid minerals production improved marginally during the year with aggregate output rising by 0.2 per cent to 2.1 million tonnes in 2001, compared with 0.5 per cent in 2000. The improvement was accounted for by increases of 1.6 and 0.9 per cent respectively in the production of coal and limestone. There was no change in columbite output, while the production of cassiterite declined by 1.2 per cent.

6.3.3 Electricity (Generation)

Aggregate electricity generation increased by 22.3 per cent to 18,009.6 million KWh, compared with a decrease of 6.5 per cent in the previous year. The improvement was

Figure 6.4
Energy Consumption (Tonnes)



attributed largely to the rehabilitation of some generating equipment and higher utilization of existing capacities. The National Electric Power Authority (NEPA) accounted for 99.5 per cent of the total electricity generated, while thermal energy purchased from private firms contributed 0.5 per cent.

6.3.4 Energy Consumption

At 158.8 (1985 = 100), the aggregate index of energy consumption rose sharply by 83.8 per cent in 2001, in contrast to a decline of 0.1 per cent in the preceding year. The energy consumed increased from 32.0 million tonnes of coal equivalent (tce) in 2000 to 45.5 million tce in 2001. This was accounted for by increases in the consumption of hydro-power, natural gas and petroleum products resulting from increased economic activities. The consumption of coal, however, declined by 8.3 per cent (Table 6.12).

(i) Petroleum Products

Aggregate quantities of petroleum products consumed rose by 2.8 per cent to 9,225.6 million tonnes during the period under review, compared with an increase of 7.7 per cent in 2000. The consumption of liquefied petroleum gas (LPG), premium motor spirit (PMS), household kerosene (HHK), lubrication oil, bitumen/ asphalt and others increased by 30.5, 1.9, 8.1, 18.6, 28.0, and 29.6 per cent respectively. However, the consumption of automotive gas oil (AGO) and low pour fuel oil (LPFO) declined by 1.5 and 22.2 per cent respectively. Throughout the year, there was normal supply of petroleum products, especially PMS (petrol), as a result of enhanced processing capacity at the refineries, sustained importation of products to contain shortfalls and an improved distribution network (Table 6.13).

(ii) Electricity (Consumption)

Electricity consumption increased by 2.4 per cent to 8,893.8 million KWh in 2001, compared with an increase of 0.2 per cent in the preceding year. The rise in consumption reflected the increases of 2.4, 2.1 and 2.4 per cent in residential, commercial/street lighting, and industrial consumption respectively. The improvement was traceable to the sustained efforts at boosting electricity generation and distribution in the country. Residential consumption accounted for 52.0 per cent of total electricity consumption. Commercial and street lighting and industrial consumption had shares of 26.2 and 21.8 per cent of total respectively. At 2,825,071.3 tce, hydro-power consumption increased by 13.0 per cent in 2001, as against a decline of 13.1 per cent a year earlier. The increase reflected improvements in power generation and productive activities, particularly in the manufacturing sub-sector, during the period.

(iii) Coal

Coal consumption declined by 6.4 per cent to 9,826.2 tonnes in 2001, compared with a decline of 6.6 in the previous year. The decline in coal consumption was attributable to improvements in the usage of other forms of energy, especially petroleum products and natural gas.

(iv) Natural Gas

The consumption of natural gas at 28.2 million tonnes of coal equivalent (tce), represented 61.9 per cent of total energy consumed, and marked a 61.8 per cent increase, compared with an increase of 2.5 per cent in 2000. The expansion in natural gas consumption was attributed partly to its growing role as an emerging fuel for industrial enterprises, including the breweries, chemical and gas plants. Another factor was the intensive exploration activities of some oil companies that required large quantities of natural gas.

6.4 Construction

The construction activities of the Federal and state governments, as well as some of their agencies, recorded appreciable progress in 2001. The construction and maintenance of roads and bridges, rehabilitation and refurbishment of sea and airports, and other projects received a boost with an enhanced budgetary allocation.

6.4.1 Road Development

The road construction and rehabilitation works of the federal and state governments progressed on existing projects, while contracts were awarded for new ones in 2001. Three federal roads were completed in the North-Central, geo-political zone, while several others attained between 50.0 and 90.0 per cent completion stage across the country. The Federal Government's efforts were complemented by state governments' road development initiatives.

6.4.2 Airport Development

The Federal Airports Authority of Nigeria (FAAN) intensified efforts at improving existing facilities at the various airports, in a bid to make Nigerian airports and airspace meet international safety standards. The FAAN commenced the re-construction of the domestic terminal at the Murtala Muhammed Airport (MMA), Lagos on a build, operate and transfer (BOT) system during the year. Also, the refurbishment of light fittings, the baggage handling system, general air conditioners, escalators, and travolators at the international wing of the MMA was completed, while that of other facilities, such as access road dualisation, the construction of a perimeter road, water supply and a powerhouse, were at advanced stages of completion. At the general aviation terminal of the MMA, the construction of airline office blocks, an access/terminal road, and a car park reached between 90 and 40 per cent completion rates, while security was beefed up through the establishment of a magistrate court and the introduction of security escort to aircraft on landing and take-off. At the Abuja international airport, maintenance work reached 25.0 per cent completion rate as the domestic terminal car park extension was completed, while construction of Kano domestic terminal building reached 40.0 per cent level of completion. Restructuring work at the terminal building roof at the Port- Harcourt and Calabar airports reached between 85.0 and 90.0 per cent completion rate.

6.4.3 Seaport Development

The Nigerian Ports Authority (NPA) made progress in the execution of some of its projects during the year. These included refurbishment of four vessels, charting digitalization and the Lagos harbour channel dredging. Some progress was made in the construction of six tug boats and computerisation of the billing system. The rehabilitation and other ancillary works at the Apapa port complex, the Lily pond container terminal, and the Port-Harcourt Bitumen Jetty were 35.0,55.0, and 57.0 per cent completed respectively.

6.4.4 Railway Development

The maintenance of the Nigerian Railway Corporation's (NRC) facilities continued during the year as rehabilitation and reconstruction of rail tracks, bridges and workshop civil works were at various stages of completion. For instance, the rail track and bridges reconstruction reached 48.0 per cent completion rate, while the provision of civil engineering equipment and track tools, and track doubling between Apapa and Ebute Metta junction in Lagos State were at 25.0 and 50.0 per cent level of completion respectively. In the same vein, civil work and the rehabilitation of aged buildings attained 50.0 per cent completion rate.

6.5 Transportation and Communications

6.5.1 Shipping Services

Shipping services maintained a high tempo during the year. A total of 3,707 ships, with net registered tonnage (NRT) of 26.3 million tonnes, berthed at Nigerian ports in 2001, representing increases of 11.2 and 25.8 per cent, respectively, over the levels in the preceding year. At 3,170, the number of ships that departed Nigerian ports declined by 5.0 per cent, although their NRT of 26.8 tonnes rose by 24.1 per cent over the preceding year's level. Further disaggregation showed that the volume of non-oil shipment rose by 24.2 per cent to 30.2 million tonnes, compared with an increase of 32.8 per cent in 2000. Non-oil imports and exports also rose by 31.7 and 9.7 per cent to 21.1 and 9.2 million tonnes respectively. The quantum of goods evacuated to and from the hinterland to Nigerian ports through all modes of transportation rose by 113.5 per cent to 10.4 million tonnes. Combined haulage by pipelines, conveyor belt and suction pipes, accounted for 90.6 per cent and rose almost three folds to 9.4 million tonnes. Conversely, transportation by road, which constituted 9.2 per cent of the total, fell by 37.0 per cent to 957,000 tonnes, while transportation by water, which accounted for 0.2 per cent of the total, declined by 98.1 per cent to 18,000 tonnes.

6.5.2 Railway Services

The performance of the Nigerian Railway Corporation (NRC) was mixed during the year. The number of passengers carried declined by 15.8 per cent below the preceding year's level to 1.3 million, while passengers-kilometre covered fell by 50.8 per cent to 770.4 million kilometres. Passenger and freight revenue also declined by 21.2 and 26.1 per cent to N110.5 and N115.3 million respectively. This development was attributable mainly to the on-going rehabilitation and refurbishment of railway facilities. Freight-tonnes per kilometre, however, rose by 13.8 per cent to 132,000 tonnes.

6.5.3 Airline Services

The market share of the private airlines and the Nigeria Airways on domestic routes stood at 97.9 and 2.1 per cent, respectively, compared with 97.0 and 3.0 per cent respectively in fiscal 2000.

(i) Nigeria Airways

The performance of Nigeria Airways on domestic routes was mixed. The number of passengers carried and the volume of cargo tonnes per kilometre airlifted increased by 31.1 and 159.3 per cent respectively. However, freight tonnes and passengers carried, and aircraft per kilometre flown declined by 76.7, 63.6 and 37.7 per cent respectively. Although this performance represented a modest improvement in some areas of its activities, the airline was yet to regain its pre-eminent position in the industry. The decline in some of the services provided by the airline has persisted due mainly to management and under-funding problems as well as fleet depletion.

The performance of the airline on the international routes was also mixed. On the African routes, the number of passengers carried rose by 13.0 per cent over the level in the preceding year to 26,000. However, freight tonnes, cargo tonne-kilometre, aircraft-kilometres, and passenger tonne-kilometres covered recorded declines ranging from 3.2 to 27.8 per cent. The trend on the African routes was the same as in the previous year. Also, on other international routes, the airline recorded mixed performance. For instance, the number of passengers carried rose by 7.1 per cent to 22,500 in contrast to a decline of 27.6 per cent in the preceding year. All other indicators, including freight tonnes, passengers-kilometres, aircraft-kilometres, and cargo and tonne-kilometres flown registered declines ranging from 20.0 to 34.7 per cent. The sluggish performance of Nigeria Airways on the international routes was attributable to competition from private airlines (domestic and foreign) as a result of further deregulation of the industry.

(ii) Private Domestic Airlines

The operations of private domestic airlines continued on an impressive note during the year. A total of 3.7 million passengers were airlifted, showing an increase of 37.0 per cent over the level in 2000. Similarly, cargo tonnes-kilometres travelled rose by 3.8 per cent to 436,000, while the private domestic airlines were virtually responsible for all airmail movements. The improvement in the performance of the airlines was attributable to enhanced competition engendered by an increased number of air operators, the acquisition of additional aircraft by some operators, and efficient service delivery.

6.5.4 Road Transport Services

Available data showed continued improvements in road transport services as about 191,735 vehicles were registered in 2001, indicating an increase of 18.17 per cent over the level in the preceding year. The increase was attributed mainly to the improved performance of the economy. At 113,675, cars constituted 59.3 per cent of the registered vehicles, compared with 29.9 per cent in 2000.

The total number of reported road accidents during the year stood at 18,760, representing an increase of 0.8 per cent over the level in the preceding year. Similarly, the number of reported fatal cases as well as the number of people injured or killed, rose by 5.1, 25.0 and 0.6 per cent to 6,210, 21,911 and 8,745 respectively. The number of serious or minor cases of accidents, however, declined by 0.5 and 2.4 per cent respectively to 7,617 and 4,933. The causative factors for the observed trend were traced to negligence on the part of road users, mechanical faults, road defects and weather-related problems, among others.

6.5.5 Communications

Improvements in the communications sub-sector received a boost during the year with

BOX 4

DEREGULATION OF THE TELECOMMUNICATIONS INDUSTRY IN NIGERIA

An efficient and optimal telecommunications system is a crucial infrastructure for economic development as it enhances the availability of information and the decision making process. Telecommunications which can be defined as the science of conveying information in voice, written, coded or pictorial forms through devices of the telephone, telegraph, cable, radio, television and such other means has, therefore, become a vital engine of growth of any modern economy as it promotes the development of other sectors.

The early recognition of the importance of telecommunications in administrative and economic activities propelled Nigeria to devote official resources to its development, right from the colonial era. From about 1886 up till the recent past, political considerations held sway as the industry was domiciled in the public sector and used for the promotion of administrative functions rather than socio-economic development. This accounted for the provision of only 200,000 operational telephone lines as at 1985, resulting in a teledensity of 1:440 as against the International Telecommunications Union (ITU) standard of 1:100. Furthermore, the sub-sector was characterised by unsatisfactory quality of service, high cost, etc. Its contribution to the GDP had been averaging 0.3 per cent in 1996-2000, compared with about 20.0 per cent in some new, industrializing countries.

The reforms, deregulations and re-organisations of the sub-sector during the period of 1986-2000 included the commercialization of the Nigerian Telecommunications Limited (NITEL) (the state monopoly provider of telecommunications services); the establishment of Mobile Telecommunications Limited (M-TEL) to operate cellular telephony services; and the licensing of private sector operators. These measures yielded only marginal gains. Foremost among the structural reform initiatives were the establishment of the Nigerian Communication Commission (NCC), through the NCC Decree 75 of 1992, and the launching of the first National Policy on Telecommunications in 1998. The main objective of the policy is the achievement of efficient, affordable, reliable, modern and integrated telecommunications networks and services capable of bringing about national economic and social development in a globalized environment. The Decree and the Policy give the NCC the responsibility of creating a regulatory environment for the provision of efficient and effective telecommunications services, facilitating and promoting fair competition and efficient market through the divestment of government equity interest in the sub-sector, as well as enhancing increased private sector participation through an appropriate regulatory framework.

Despite the afore-mentioned reforms, the sub-sector remained inefficient and ineffective due to a number of factors, such as equipment obsolescence, monopoly of service provisioning, management problems, a cumbersome billing system, and administrative red-tapism. Consequently, total number of operational telephone lines remained at 426,500 in year 2000. Even with this low figure, the services remained poor.

The continued unsatisfactory performance of the telecommunications sub-sector, even after commercialization, led to the full deregulation of the sub-sector. In March 2001, the NCC licensed two private operators in addition to NITEL through a competitive international tender to operate the Global System of Mobile (GSM) telecommunications. Two of the operators commenced operation in August and by end-December 2001, about 300,000 cell phones had been rolled out, bringing the total operational telephone lines available in Nigeria to 726,500 or a teledensity of about 1: 165. Although the teledensity improved from the level of 1: 284 in 2000, there are still problems of interconnectivity arising from the absence of a new gateway to decongest the existing NITEL network.

The plan to privatize NITEL through the sale of 51.0 per cent of government equity interest to a core investor and to sell the remaining 49.0 per cent to small-scale investors through the capital market in 2002 is expected to improve the system further. The expected upsurge in the supply level, all things being equal, would create the opportunity for licensing more operators, upgrading exchanges and cell sites, as well as opening additional gateways to reduce the current traffic congestion. As progress is made in improving the teledensity, the economy would benefit from local manufacture of telecommunications equipment and components. Consequently, there would be enhanced human capacity development and increased job creation which would result in a higher level of national output.

The Nigerian Telecommunications sub-sector, however, is still faced with the challenge of ensuring increased access to its services at affordable charges, bringing teledensity to the world standard (which requires about 10 million telephone lines), extending its services to rural areas, and integrating the country into the global telephoning system. Others include improvements of facilities and services in order to create a conducive investment environment, increased contribution to the GDP through local development of components, human resource development and greater employment generation, among others. Finally, there is need to put in place appropriate legal and administrative framework as

the deregulation of the telecommunications sub-sector and the launching of the Global System of Mobile (GSM) telecommunications. The Nigeria Telecommunications Limited (NITEL) and two private operators were issued GSM licenses to operate the mobile/cell telephony system as a way of improving the country's low teledensity. Of the three licenses issued in the first quarter of the year, two commenced operations in September 2001. Also, the privatization of NITEL commenced in the last quarter of 2001 with the sale of 51.0 per cent of government's equity interest to a core investor which made a down payment of 10 per cent of the contract sum, with the balance due in February 2002, in accordance with the contract terms. The remaining 49.0 per cent was scheduled to be sold to local investors through the capital market.

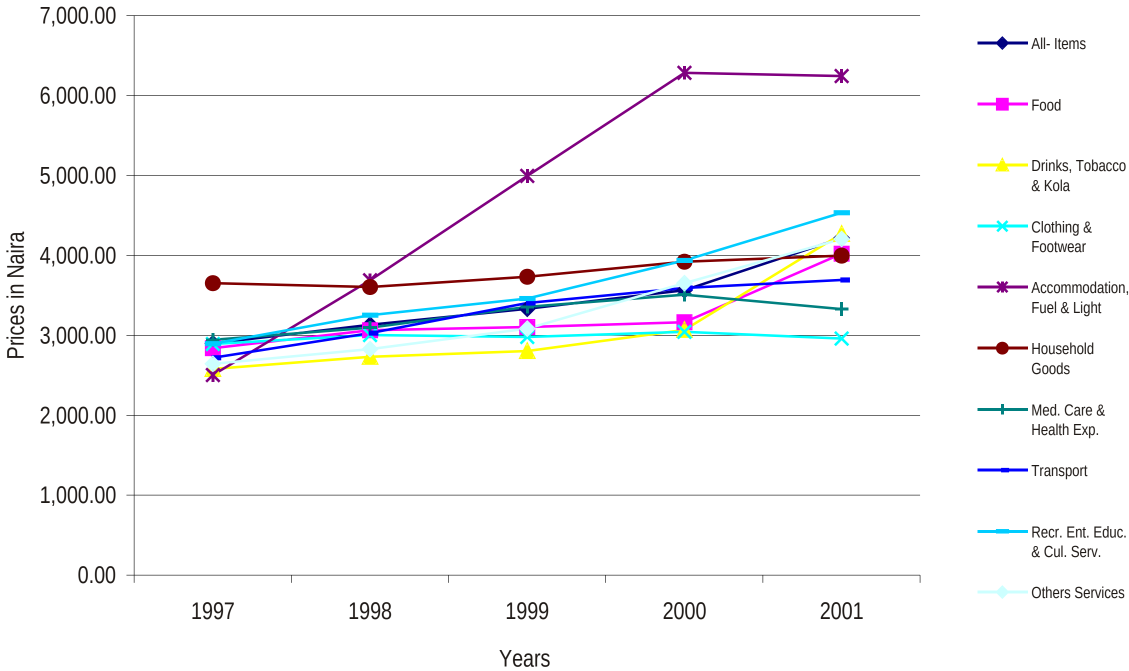
6.6 Unemployment And Industrial Relations

6.6.1 Unemployment

The labour force sample survey, conducted by the Federal Office of Statistics (FOS) in June 2001, indicated that the composite unemployment rate stood at 3.8 per cent, compared with the estimated 4.0 per cent in the corresponding period of 2000. Similarly, the urban and rural unemployment rates declined from 6.3 and 3.3 per cent in June 2000 to 5.4 and 3.1 per cent respectively. The composite unemployment rate was estimated at 3.8 per cent in December 2001, compared with 4.7 per cent in December 2000. The urban and rural unemployment rates were also estimated at 5.4 and 3.1 per cent, respectively, compared with 7.2 and 3.7 per cent in the preceding year. However, the low level of unemployment rates should be interpreted with caution, in view of the high incidence of underemployment which dampened the level of unemployment.

The number of the unemployed registered with the Employment Exchange Offices was reported to have risen as a result of favourable expectations about placements by the labour exchange offices, following the poverty alleviation and other employment generation-related programmes of the three tiers of government. The number of unemployed, lower-grade workers who registered with the Employment Exchange Offices in 2001 was estimated at 89,793, indicating an increase of 5.2 per cent over the level in 2000. The number of professional and executive cadre workers who registered also rose by 2.6 per cent to 182,216, compared with an increase of 64.9 per cent in the preceding year. All categories of registration rose, ranging from 73.6 per cent for old registration to 50.0 per cent for fresh registration. At 6,511, the number of vacancies declared by the Employment Exchange Offices for the lower-grade workers rose by 1.1 per cent, compared to a decrease of 10.0 per cent in the preceding year. Of this number, 814 or 12.5 per cent of

Figure 6.5
Composite Consumer Price Index



the applicants were offered jobs. A total of 127 vacancies were declared for the professional and executive job seekers, out of which 88 or 69.3 per cent were filled.

6.6.2 Industrial Relations

The industrial atmosphere was relatively peaceful in 2001 as the number of trade disputes declared declined by 8.2 per cent to 45, compared with a decline of 5.8 per cent in 2000. Of the total trade disputes declared, 37 or 82.2 per cent resulted in work stoppages, representing a decrease of 21.3 per cent below the preceding year's level. Similarly, the number of workers involved and man-days lost fell by 24.8 and 24.9 per cent respectively. The improvement in industrial relations during the year was due largely to continuous dialogue between labour and employers and timely resolution of potential areas of conflict in some sectors.

6.7 Consumer Prices

The modest inflationary pressure witnessed in the previous four years was reversed in 2001. Data from the Federal Office of Statistics (FOS) showed that the average all-items composite Consumer Price Index (CPI) for the twelve-month period ended December, 2001 was 4,268.0 (1985 = 100), compared with 3,590.5 in 2000. The change represented an inflation rate of 18.9 per cent, compared with 6.9 per cent in 2000. This development was attributed largely to the liquidity surfeit in the banking system, fuelled by the expansionary fiscal operations of the three tiers of government. Other factors included depreciation of the exchange rate of the naira, inadequate power supply, weak infrastructural facilities and a rising interest rate which resulted in high costs of domestic production. At 4,021.7 (1985 = 100), the food index which accounted for about 69.1 per cent of total household expenditure rose by 27.7 per cent, compared with 2.4 per cent in the preceding year, despite the favourable harvest recorded during the year. The non-food components of the index also recorded price increases, except for clothing and footwear, accommodation, fuel and light, and medical care and health expenditure whose indices fell by 1.2, 0.6 and 4.8 per cent respectively.

The average all-items urban Consumer Price Index stood at 4,489.8 (1985 = 100), representing an increase of 20.4 per cent, compared with a 6.8 per cent rise in 2000. The increase was traced to all the component items, ranging from 6.9 per cent for clothing and footwear to 36.0 per cent for drinks, tobacco and kola, except the indices of accommodation, fuel and light, medical care and health expenditure that fell by 0.8 per cent respectively. Similarly, the all-items rural CPI at 4,215.4 (1985 = 100) indicated an increase of 18.3 per cent, compared with 7.0 per cent at the end of 2000. All the component items contributed to the increase except accommodation, fuel and light; clothing and footwear; and medical care and health expenditure whose indices declined by 0.6, 2.8 and 5.1 per cent respectively (Table 6.16).

6.8 Social Services

The performance of the social services sector did not improve significantly in 2001, despite increased budgetary allocations to the various sub-sectors. The slow pace of rehabilitation of basic facilities and the high incidence of industrial strikes in the education and health sub-sectors hampered service delivery by the key institutions and departments established to mitigate the living conditions of the vulnerable groups. However, a modest improvement in environmental protection activities was recorded.

6.8.1 Healthcare Delivery

The performance of the health sub-sector was mixed during the period under review. While the overall rate of immunization rose to 74.6 per cent from 72.7 per cent in the preceding year, population per physician, population per hospital bed, and population per nursing staff rose to 4,568, 1,650 and 932 respectively from 4,524, 1,617 and 920 respectively, thus showing a deterioration in the state of health care delivery.

The improved immunization rate was as a result of repeated house-to-house visits by medical staff to immunize children against the six childhood killer diseases. On the other hand, the deterioration shown by the other health indicators was largely due to prolonged industrial action by doctors, nurses and midwives during the year. The problems of poor nutrition and hygiene, limited access to safe water and poor environmental conditions persisted. The budgetary allocation to the sub-sector, which rose by over 100.0 per cent above the 2000 level to ₦35.4 billion, represented 4.0 per cent of the Federal Government budget, but fell short of the 5.0 per cent minimum standard recommended by the World Health Organization.

6.8.2 Education

The education sub-sector recorded modest improvements during the year as enrolment in both primary and secondary schools increased by 4.0 per cent from 24.9 million and 6.4 million respectively to 25.9 million respectively and 6.7 million respectively.

The relative improvement in performance of the sub-sector was attributed to an enhanced budgetary allocation which rose by 10.6 per cent to ₦62.6 billion and accounted for 7.0 per cent of the Federal Budget, and the rehabilitation of schools under the Universal Basic Education programme. However, the pupil/teacher ratio in both primary and secondary schools deteriorated slightly from 54 and 41 respectively to 56 and 45 respectively in the period under review.

6.8.3 Water Resources Development

The budgetary allocation for water resources development increased significantly by 352.3 per cent to ₦64.8 billion in 2001 relative to the allocation of ₦14.3 billion in 2000. Available information showed that the volume of available water also increased by 1.0 per cent to 5,732.6 trillion cubic meters in 2001. The proportions for domestic consumption and industrial uses were 14.2 and 27.0 per cent respectively. While irrigation maintained its share of 35.0 per cent, wastages accounted for 23.8 per cent (Table 6.17).

The improved volume of available water was due largely to the enhanced budgetary allocation. However, the major problems faced by the State Water Boards included the high cost of replacement of broken equipment and burst pipes.

6.8.4 Demography

The projected annual growth rate (based on the revised 1991 census) of 2.8 per cent by the National Population Commission estimates Nigeria's population at 118.3 million in 2001. Both maternal and infant mortality rates remained unchanged at 10.0 and 75.1 respectively per 1000 live births. Similarly, crude birth and death rates stood at 49.0 and 41.0 respectively per 1000 persons.

6.8.5 Environmental Protection

Environmental protection and natural resources conservation efforts were sustained in 2001. Information from the Federal Ministry of Environment showed that the Lagos foreshore protection works, erosion, flood and coastal zone management projects were completed. Similarly, the pilot community project at Nyanya in the Federal Capital Territory (FCT), Abuja, on waste minimization through source reduction re-use, recycling and use of biodegradable packaging materials, was completed during the year. Under the Ministry's forestry programme, a total of 847,000 tree seedlings were produced. Some of the seedlings were used for timber and poles, indigenous fruit tree development, forest resources development and national tree planting campaigns. Nigeria obtained certification on the requirements for implementing the Sea Turtle Excluder Devices (TEDs), thereby certifying Nigeria to export all categories of shrimps to the United States of America.

In pursuit of a cleaner production technology in the country, a total of 205.2 metric tonnes of Chloro-fluoro Carbons (CFCs) were phased out through the closure of some investment projects. Under the Environment Impact Assessment (EIA) programme, a total of 66 new projects were subject to EIA evaluation and 47 reports approved in 5 different sectors. However, a total of 155 oil spillages, involving 21,448 barrels of crude oil, were recorded during the year.

CHAPTER 7

The External Sector

Nigeria's external sector experienced renewed pressure in 2001, resulting in a lower overall balance of payments surplus of ₦29.2 billion or 0.5 per cent of GDP, down from N314.1 billion or 6.3 per cent of GDP in 2000. This development reflected the substantial decline in the current account surplus. The deficit in the capital and financial account narrowed during the year. The lingering problems included the excessive dependence on imports, a huge external debt profile, the debt service burden, as well as the low level of foreign direct investment. The current account surplus decreased by 61.9 per cent to ₦269.3 billion, while the capital and financial account deficit was reduced by 39.5 per cent to ₦231.3 billion. The stock of external reserves rose by 5.5 per cent from US$9.9 billion to US$10.45 billion, which was much lower than the increase of 81.8 per cent in 2000. The external reserve level could support 12.0 months of current imports, compared with 13.6 months in 2000.

= 7.1 The Current Account

At ₦269.3 billion, the current account balance declined by 61.9 per cent from ₦707.0 billion recorded in 2000. This reflected the deterioration in the services and income accounts, as well as increases in visible imports. In addition, the current transfer (net) declined from ₦159.4 billion to ₦143.0 billion in 2001.

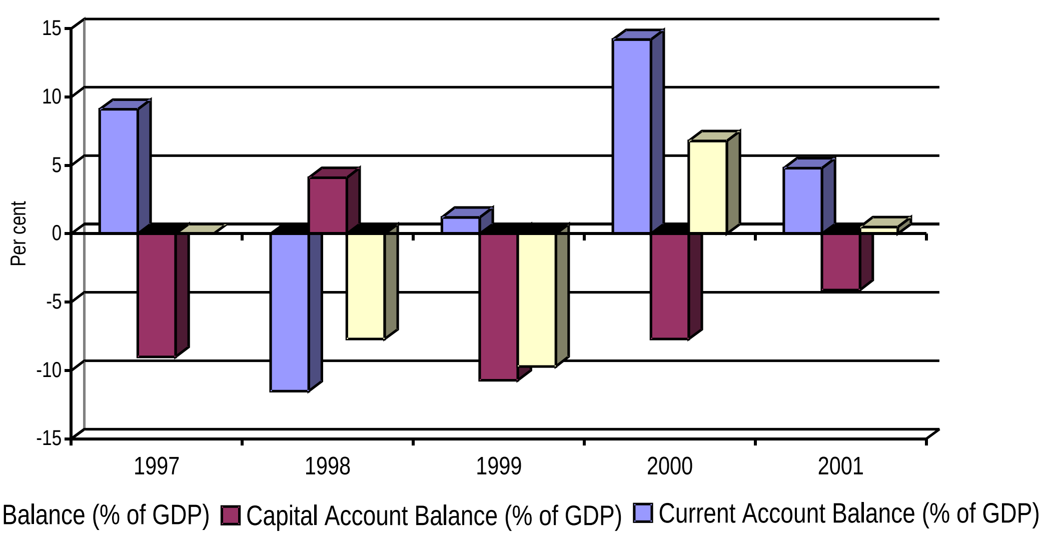
7.1.1. Goods Trade

Total transactions on goods trade (unadjusted for balance of payments) rose by ₦475.4 billion or 16.3 per cent to ₦3,384.1 billion in 2001. This reflected increases in imports and exports above their levels in 2000. At ₦2,118.0 billion, total exports increased by 8.9 per cent while imports totalled ₦1,266.1 billion, resulting in a trade surplus of N851.9 billion. This was 13.3 per cent below the ₦982.8 billion achieved in 2000. The oil and non-oil components of total trade increased by 8.8 and 36.7 per cent, respectively. (Table 7.3).

(a) Imports Cost and Freight (CFR)

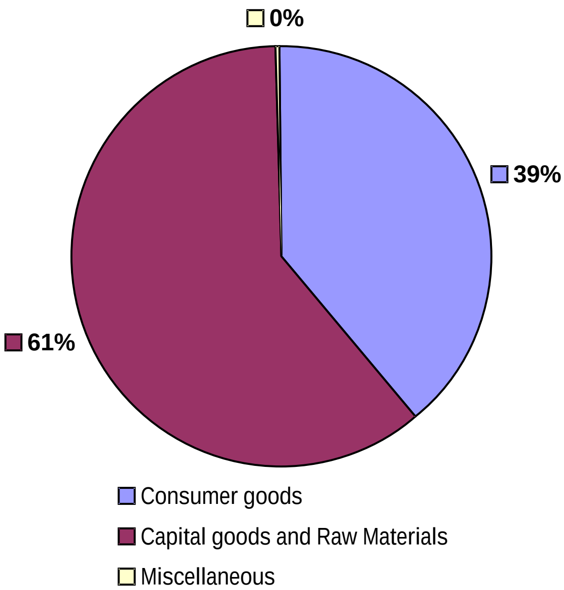
At ₦1,266.1 billion, total imports rose by 31.5 per cent over the level recorded in 2000, reflecting increased demand for finished goods and raw materials. Both oil and non-oil imports contributed to the imports level; the non-oil imports accounted for ₦1,050.6 billion or 83.0 per

Figure 7.1
Balance of Payments



cent. A breakdown of imports by end-use revealed that the share of consumer goods in total imports was 38.8 per cent, the same as in the preceding year, while that of capital goods and raw materials also remained at 60.9 per cent. The share of raw materials continued to dominate as in the preceding years.

Figure 7.2
Imports By Major Groups



A disaggregation of imports on the basis of the Standard International Trade Classification (SITC) showed that the value of imports increased, with the exception of the unclassified miscellaneous items. In terms of the relative share of the items to total imports, manufactured goods constituted the bulk (29.5 per cent), followed by machinery and transport equipment (23.5 per cent), chemicals (22.7 per cent), food and live animals (11.9 per cent), while the remaining six categories accounted for the balance of 12.4 per cent.

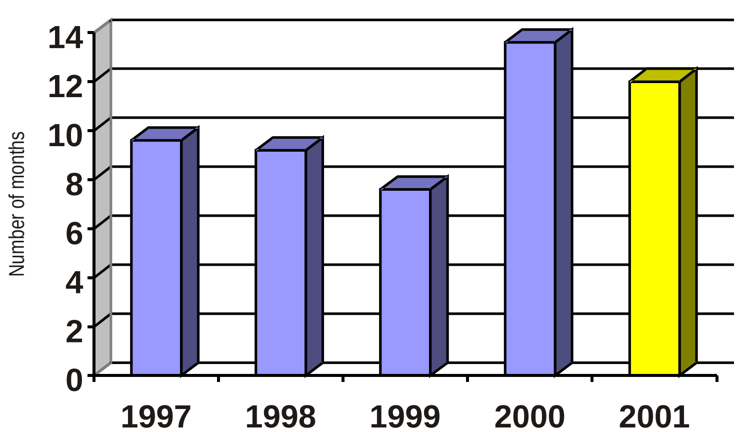
(b) Exports (fob)

The value of Nigeria's exports increased by 8.9 per cent to ₦2,118.0 billion, reflecting developments in both the oil and non-oil sectors. The contribution of the oil sector to total exports was 98.7 per cent, the same as the level achieved in 2000. Oil sector exports totalled ₦2,090.0 billion, representing an increase of 8.8 per cent relative to the 64.2 per cent increase in 2000. This reflected the lower price of crude oil in 2001 relative to the preceding year. The value of non-oil exports in 2001 increased by 12.9 per cent to ₦28.0 billion, but accounted for only 1.3 per cent of total, the same proportion as in 2000.

7.1.2. Direction of Oil Exports

The Americas remained the largest buyer of Nigeria's crude oil in 2001, followed by Western Europe. However, its share declined to 49.6 per cent from 50.8 per cent in 2000, while that of Western Europe dropped to 22.9 per cent from 23.5 per cent. In contrast, the shares of Asia and Africa increased

Figure 7. 3
Number of Months of Import Equivalent of External Reserves



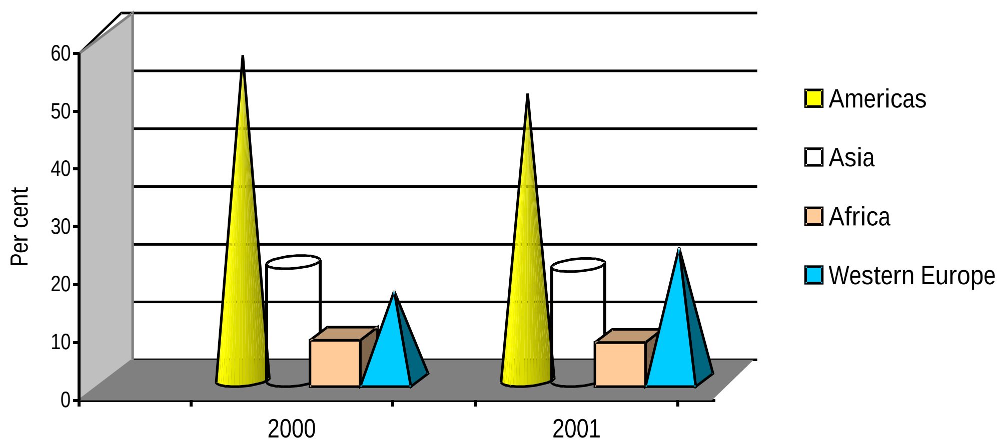
from 7.2 and 18.3 per cent respectively in 2000 to 7.6 and 19.9 per cent in 2001. The United States of America (USA) continued to dominate other countries as the largest importer of Nigeria's crude oil, accounting for 39.1 per cent of total oil export, though lower than its 40.4 per cent share in 2000.

The volume of crude oil exports to the Americas increased marginally from 306.6 million barrels in 2000 to 339.1 million barrels in 2001, while the value increased substantially from ₦975.6 billion to ₦1,037.1 billion. In the same vein, the volume of crude oil exports to Western Europe rose from 142.0 million barrels in 2000 to 156.3 million barrels, while the value increased from ₦452.0 billion to ₦ 478.1 billion. Nigeria's crude oil exports to African countries also rose from 43.5 million barrels in 2000 to 51.8 million barrels while the value increased by 14.3 per cent to ₦158.3 billion (Table 7.6).

7.1.3. The Services Account

The services account (net) worsened from a deficit of N149.2 billion in 2000 to ₦442.0 billion in 2001. All items in the account contributed to the net out flows. Net out flows of ₦138.6

Figure 7.4
Direction of Crude Oil Export



Box 5
PERSPECTIVES ON FOREIGN DIRECT INVESTMENT(FDI) FLOWS IN NIGERIA

Foreign Direct Investment (DFI) represents a veritable source of foreign exchange and technological transfer, especially to developing countries. FDI can be analysed in terms of inflow of new equity capital (change in foreign share capital), re-invested earnings (unremitted profit), trade and suppliers credit, net inflow of borrowing and other obligations from the parent company or its affiliates. Through FDI, a country benefits from the transfer of skills and technology, organizational and management expertise, employment generation, access to foreign markets, as well as forward and backward linkages.

FDI is, therefore, a major component of the capital and financial account of a nation’s balance of payments (BOP). It can positively or negatively influence the overall position of the external sector. A net inflow position occurs when an economy reaps the benefit of FDI through a surplus in the foreign investment account of the BOP. This reflects increased investment by non-residents in the economy, owing to the provision of an enabling environment and the pursuit of investment-friendly policies. Conversely, a net outflow of FDI implies a deficit in the foreign investment account of the BOP, which implies divestment of foreign interests or capital flight, characteristics of an unstable political and macroeconomic environment.

Thus, the Federal Government of Nigeria has, since 1986, embarked on sustained efforts to encourage foreign direct investment. The most significant of these policy measures was the introduction of the Structural Adjustment Programme (SAP) which provided the basis for the deregulation of the economy. Under the SAP, a number of institutional, structural and market reforms were undertaken to liberalise the economy and provide an enabling environment for attracting foreign investment.

Specifically, the industrial policy of 1988 embodied provisions for FDI. It created an FDI-friendly framework, as embodied in the provisions of the Industrial Development Coordination Committee (IDCC) under Decree No. 36. The IDCC streamlined the multiplicity of institutions responsible for the approval and registration of foreign companies in the country. It has responsibility for approving pre-investment agreements, fiscal incentives, employment permits for foreigners, foreign capital imports, and providing policy advise to the Federal Government. In 1995, Decree 16 established the Nigerian Investment Promotion Council, with a mandate of promoting and attracting foreign investors. Similarly, Decree 17 of the same year created the Foreign Exchange (Monitoring and Miscellaneous Provision) which authorized any person, including non-Nigerians, to deal in, invest in, acquire or dispose of, create or transfer, any interest in securities market. These decrees were targeted at removing all bottlenecks to the inflow of FDI, into Nigeria. In addition, the privatization and commercialization decree removed restrictions or limits placed on foreign ownership of economic enterprises. The fiscal incentives to encourage FDI, for example, include the 100 per cent tax holiday for 7 years and tax reduction for investors that provide their own infrastructure and invest in research and development activities.

Available data showed that FDI in Nigeria averaged US$1,184.0 million per year in the period 1997-2001. On an annual basis, FDI dropped from US$1,539.4 million in 1997 to US$1,051.3 million in 1998. It further declined to US$1,004.9 million in 1999. However, in 2000 the performance improved as net inflows increased by 13.5 per cent to US$1,140.7 million. However, the tempo was not sustained in 2001. The low level of FDI in Nigeria can be attributed to a number of factors, among which are macroeconomic instability, as evidenced by rising inflation, interest and exchange rate volatility, arising from fiscal dominance. Poor infrastructural facilities, inadequate and costly telecommunications services, frequent disruptions in power supply, inadequate water supply, and a poor road network are other factors which have continued to constrain the flow of FDI into Nigeria.

The high debt burden also influences adversely foreign investors' perception of the health of the economy. Similarly, the incessant social and political instability, insecurity of life and property are factors which undermine Nigeria's efforts in attracting FDI, despite the economy's natural advantages, such as market size, strategic location, abundance of natural resources, and cheap, trained labour force.

Against this background, the need to pursue prudent fiscal and monetary policies and good governance cannot be overemphasized, if the economy is to attract its fair share of FDI on a sustained basis.

billion, ₦184.7 billion and ₦118.7 billion were recorded for transporta-tion travels, and business services respectively.

The low level of participation by Nigerias in the provision of international services accounted for the persistent deficit in the services account. However, travels in 2001 showed that out payments in respect of Federal Government estacode declined from

₦7.2 billion in 2000 to ₦5.5 billion.

7.1.4. The Income Account

The deficit in the income account widened from ₦362.4 billion to ₦388.7 billion in 2001. This development was attributed to the high scheduled interest payments on external debt, relative to the inflows from interest earnings on the external reserves and other investments. Scheduled interest payments on Nigeria's external debt and other investments were ₦241.8 billion and ₦187.1 billion respectively, while the interest on reserves and investment was ₦40.3 billion.

7.1.5 Current Transfers

The surplus in the current transfers (net) decreased by 10.3 per cent to ₦143.0 billion, reflecting the drop in inflows in unrequited transfers. Outflows in respect of general government accounts narrowed as the expenditure on Nigerian embassies and payments to international organizations declined during the year. Private remittances fell to ₦145.8 billion from ₦173.0 billion in 2000, reflecting declines in transfers-in-kind. Similarly, the deficits in the general government accounts dropped from ₦13.7 billion in 2000 to ₦2.8 billion as a result of streamlining of the activities of Nigeria's embassies abroad and decline in financing the sub-regional peace keeping efforts.

7.2. The Capital And Financial Account

Transactions in the capital and financial account resulted in a deficit of ₦231.3 billion during the year. However, this performance was an improvement over year 2000 as the deficit declined by 39.5 per cent. The high debt service payments and Nigeria's short-term claims on foreigners was responsible for the negative outcome in this account.

In the financial sub-account, the huge deficit in the 'other investment' (net) outweighed the surpluses in the direct and portfolio investments (net). Capital inflow through direct investment increased from ₦116.0 billion in 2000 to ₦132.4 billion, which reflected an improved investment climate in the economy. With the on-going privatisation programme, especially in the telecommunications sub-sector, the economy witnessed an inflow of foreign direct investments, as a result of investment in the Global Systems of Mobile Telecommunications (GSM). The other investment' (net) account recorded a deficit of ₦456.3 billion in 2001, which was an improvement over the deficit of ₦552.6 billion in 2000. Of this amount, amortization due and disbursement were ₦95.1 billion and ₦0.5 billion respectively.

7.3 External Assets

Nigeria's external assets totalled ₦1,472.1 billion at end-December, 2001, compared with the level of ₦1,300.1 billion recorded at end-December, 2000, representing an increase of 13.2 per cent. The improvement in external assets reflected the rise in foreign assets holdings of the banks. External assets of the Central Bank of Nigeria rose by 8.4 per cent from ₦1,090.1 billion in 2000 to ₦1,181.7 billion during the period under review. The increase in CBN assets holding was traceable to the enhanced foreign exchange receipts from crude oil sales. Similarly, the combined net foreign assets of deposit money banks amounted to ₦287.8 billion or 19.6 per cent of the total at end-December 2001, compared with ₦207.9 billion or 16.0 per cent in 2000.

BOX 6

Movements in Nigeria's External Reserve

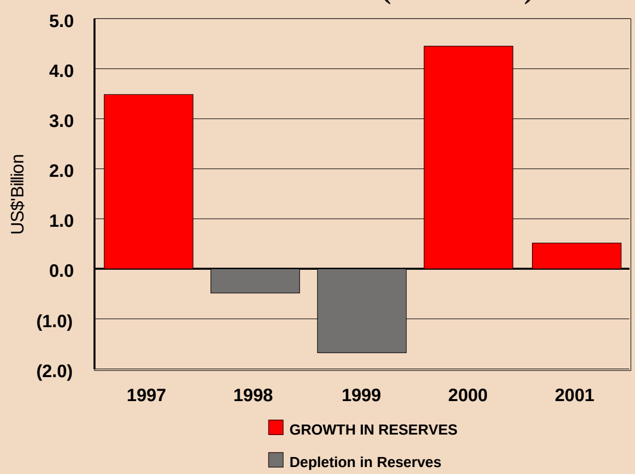
External reserves constitute part of the monetary authority's holdings of total external assets. When net foreign exchange outflow is lower than inflow, the surplus is added to the stock of external reserves. In situations where outflows are higher than inflows, a country draws down on her external reserves. Consequently, prudent management of the external reserve entails ensuring that receipts are greater than expenditure. Reserves are also resources that could earn income, through their investment in safe and high-yielding securities abroad. Interests accrued from such investments help to increase the level of external reserves. A country's external reserves should, according to international standards, accommodate about 3 - 4 months of import commitments.

The objectives of external reserve management include, among others: preservation of the value of the currency, through intervention in the foreign exchange market to either shore up the value or prevent a possible run on the currency; maintenance of international liquidity, to ensure that reserves are readily available and could meet external commitments; and precautionary motive, to guide against total capital losses.

Nigeria's external reserve has been fluctuating over the years. In 1997, the level rose from US$4.1 billion in 1996 to US$7.5 billion, thereafter it dropped to US$7.1 and US$5.4 billion in 1998 and 1999 respectively. It trended upwards to US$9.9 and US$10.45 billion respectively in 2000 and 2001. The months of import cover were 9.6 in 1997, down to 9.2 and 7.6 in 1998 and 1999 respectively. This improved to 13.6 months in 2000, but dropped to 12.0 months in 2001 (Figure 7.3).

Efficiency in reserve management could be viewed beyond the months of import cover *per se*, to the actual amount saved in the year. In other words, the accretion to the external reserve account is very crucial in reserve management. In 1997, accretion to reserve was US$ 3.5 billion. This savings was, however, not sustained in the subsequent years, resulting in a net draw down of US$ 0.5 billion and US$ 1.6 billion respectively in 1998 and 1999. With the improvement in crude oil price in 2000, the external sector outcome resulted in an accretion of US$ 4.5 billion, but this again dropped to US$ 0.5 billion in 2001(Figure 7.5). This trend reveals the expenditure profile of government, in which years of huge savings or gains in the net position of foreign exchange transactions are followed by periods of increased expenditure, as reflected in the net flow position in the balance of payments.

Figure 7.5
Accretion to Nigeria's External Reserve (1997-2001)



Generally, a volatile fiscal policy is not consistent with a sustainable external reserves management. A prudent fiscal policy will enhance the viability of Nigeria's balance of payments and strengthen the stability of the exchange rate.

7.4 Foreign Exchange Developments

Foreign exchange inflows and outflows through the CBN in 2001 stood at US$15.7 billion and US$14.7 billion respectively, compared with US$ 15.7 billion and US$11.8 billion respectively in 2000. These resulted in a net inflow of US$ 0.98 billion in 2001 as against US$ 3.9 billion in 2000. The fall in inflows was attributed to the decline in oil receipts while the rise in outflows was traced to increased funding of the Inter-bank Foreign Exchange Market (IFEM) and external debt service payments.

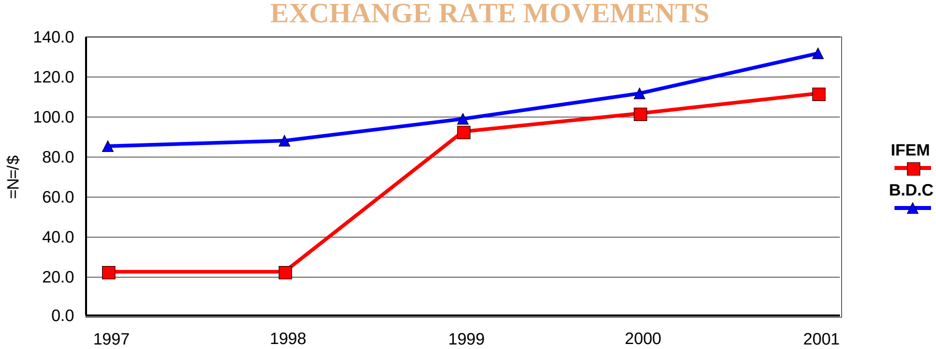
The demand pressure at the IFEM intensified during the year as foreign exchange worth US$9.6 billion was sold by the CBN to authorised dealers, compared with US$7.1 billion in 2000. The fiscal operations of government contributed to the upswing in the demand for foreign exchange. However, the Bank met all effective demand by end-users of foreign exchange. The skewed nature of foreign exchange supply to the market persisted, as the CBN continued to account for the bulk of funds in the IFEM. In the period under review, the Bank purchased only US$59.1 million compared with US$165.5 million in 2000.

Exchange rate movements in 2001 indicated that the average selling rate of the naira *vis-a-vis* the United States dollar at depreciated from ₦102.10 in 2000 to ₦111.96 in 2001. The trend in the bureaux-de-change segment of the foreign exchange market was similar, as the naira on the average exchanged at ₦132.59 for US$1.00. Overall, the premium between the IFEM and the parallel market rates further widened from 9.1 per cent in 2000 to 18.2 per cent in 2001.The increased demand pressure was largely responsible for the declining value of the naira (Figure 7.6).

The agricultural and transport sectors accounted for US$20.2 million (0.6 per cent) and US$94.3 million (2.8 per cent) respectively.

The total value of final attested invoices (i.e., value of goods that were inspected for shipment to the country) amounted to US$6.8 billion. Of this amount, transactions "valid for foreign exchange" accounted for

Figure 7.6
EXCHANGE RATE MOVEMENTS



7.5 Other Developments

7.5.1. Pre-Shipment Inspection

The total value of Forms 'M' opened in the year was US$15.2billion. Of this amount, transactions "valid for foreign exchange" accounted for US$11.8 billion (77.5 per cent) while imports "not valid for foreign exchange" accounted for US$3.4 billion (22.5 per cent). A breakdown of Forms 'M' "valid for foreign exchange" showed that the industrial sector accounted for US$5.1 billion (42.9 per cent) while finished goods consumed US$6.1 billion (51.4 per cent). The agricultural and transport sectors accounted for US$273.3 million (2.3 per cent) and US$402.7 million (3.4 per cent) respectively. An analysis of imports "not valid for foreign exchange" showed that finished goods accounted for US$2.1 billion (61.5 per cent) while the industrial sector accounted for US$1.2 billion (35.1 per cent).

US$6.1 billion (90.5 per cent) while those "not valid for foreign exchange" stood at US$0.7 billion (9.5 per cent). A further analysis of attested invoices "valid for foreign exchange" showed that the industrial sector accounted for US$3.1 billion (51.1 per cent) while invoices for finished goods amounted to US$2.6 billion (42.3 per cent). The share of agricultural sector imports stood at US$114.8 million (1.9 per cent) while transport accounted for US$283.7 million (4.6 per cent). Similarly, a breakdown of imports "not valid for foreign exchange" transactions showed that industrial sector goods accounted for US$418.4 million (63.8 per cent) while finished goods accounted for US$223.1 million (34.0 per cent). The agricultural and transport sectors accounted for US$1.0 million (0.2 per cent) and US$9.8 million (1.5 per cent) respectively.