Part One

Activities of the Central Bank of Nigeria

Chapter 1

CBN MONETARY AND FINANCIAL POLICY STANCE IN 2002

The Central Bank of Nigeria (CBN) in 2002 pursued its principal objectives of maintaining price and exchange rate stability, in line with the provisions of the *CBN Act of 1991* as amended. In this regard, the CBN took policy actions aimed at fostering a stable macroeconomic environment. In addition, the Bank performed developmental functions, including adoption of programmes for the development of small and medium enterprises, and promotion of food security through facilitation of the financing of agriculture. It also rendered services to third parties as part of its corporate social responsibility and undertook collaborative research studies with other agencies.

1.1 MONETARY AND FINANCIAL POLICY STANCE

In 2002, the CBN adopted a medium-term perspective monetary policy framework, covering 2002–2003, in recognition of the fact that monetary policy actions affect the ultimate objectives of policy with a substantial lag. The shift was to minimize the problem of time inconsistency and over-reaction due to temporary shocks. The primary aim of monetary policy in 2002 was to achieve price and exchange rate stability.

In pursuit of these objectives, various policy measures were outlined in the *CBN Monetary Policy Circular* No. 36, for fiscal 2002/2003. Specifically, the policy measures were designed to maintain internal and external balance and contribute to the achievement of real GDP growth of 5.0 per cent. The main policy thrusts were: the reduction of excess liquidity in the banking system, achievement of single digit inflation, maintenance of exchange rate stability, sustenance of a market-based interest rate regime, promotion of non-inflationary growth, achievement of balance of payments viability, and maintenance of financial sector stability. In line with these objectives, targets for key monetary and credit aggregates were set for the year as shown in Table 1.1, compared with 2001.

Table 1.1

Key Policy Targets (In Per cent)

		2001	2002
(i)	Growth in broad money (M_2)	12.2	15.3
(ii)	Growth in narrow money (M_1)	4.3	12.4
(iii)	Growth in aggregate bank credit	15.8	57.9
(iv)	Growth in bank credit (net) to Government	2.6	96.6
(v)	Growth in bank credit to private sector	22.8	34.9
(vi)	Inflation rate	7.0	9.3
(vii)	Growth in real GDP	5.0	5.0

In addition, the Bank continued to promote the growth and development of the economy, through the provision of guarantees for agricultural loans under the Agricultural Credit Guarantee Scheme (ACGS). Efforts to recover the outstanding balances on the Small and Medium Enterprises (SME II) Loans Scheme were sustained. Furthermore, the promotion of the Small and Medium Industries Equity Investment Scheme (SMIEIS) continued. The Bank undertook collaborative research projects with other agencies in economic and financial matters. A number of policy measures were applied to achieve the specified objectives and policy targets, as described below.

1.1.1 Liquidity Management

In line with the specific objective of maintaining monetary stability, the Bank's strategy for liquidity management in 2002 continued to focus on the use of market-based techniques. Thus, open market operations (OMO), conducted mainly in Nigerian Treasury Bills (NTB), remained the primary instrument of monetary management during the year. This was complemented by Cash Reserve Requirement (CRR) and discount window operations. The specified CRR was adjusted downwards from 12.5 to 9.5 per cent in July for banks whose credit allocation to the real sector of the economy increased by 20.0 per cent over the level at end-June 2002. The Minimum Liquidity Ratio was, however, maintained at 40.0 per cent. In addition, the Bank continued to collaborate with the Federal Government towards the issuance of a medium, to long-term security and the National Savings Certificate (NSC), designed to promote financial savings and address the problem of excess liquidity in the banking system on a more permanent basis. During the year, no new CBN Certificate was issued. Rather, the outstanding Certificates issued in 2001 were repaid as they matured.

1.1.2 Interest Rate Policy

The Bank maintained a market-based interest rate regime in 2002 whereby it proactively adjusted the Minimum Rediscount Rate (MRR) to influence the direction of interest rate movement in line with monetary conditions. Specifically, the MRR was adjusted downwards twice during the year in response to favourable macroeconomic developments, especially the downward movement in domestic price level, as well as the need to boost private sector investment and overall output growth. As part of interest rate management and to mitigate the high cost of borrowing by farmers under the ACGS, without distorting market expectations and undermining financial intermediation, the Bank introduced the Interest Drawback Programme (IDP) as part of its interest rate policy in year 2002. Under the programme, farmers were able to borrow from lending banks at market interest rates. The Programme was designed to provide an interest rebate of 40 per cent to farmers who repaid their loans on schedule. The sum of ₦2.0 billion was approved as seed fund for the Programme.

1.1.3 Financial Sector Surveillance

In line with the objective of maintaining financial sector soundness, the Bank's surveillance activities focused on: ensuring sound corporate governance; maintaining healthy balance sheets; and avoiding abuse of standards. In furtherance of these objectives, the Bank designed a number of policy actions to address some of the lapses observed in the operations of the deposit money banks, including the suspension of foreign exchange dealership licences, the introduction of a contingency plan for distress resolution, and the initiation of a private sector-funded "lifeboat" inter-bank lending scheme.

1.1.4 Payments and Clearing System Policy

The Bank sustained its policy thrust of enhancing the efficiency of the payments system. In this regard, the articulation of the National Policy on Payments System progressed satisfactorily during the year. The Bank's commitment to maintaining a clean notes policy also received a boost with the commissioning of the Nigerian Security Printing and Minting Company (NSPMC) factory in Abuja, and the intensification of the production of mint notes, as well as the acquisition of bank notes sorting and destruction machines to enhance the capacity for currency processing.

1.2 External Sector Policy

The major objectives of external sector policy in 2002 were the maintenance of a stable exchange rate and the achievement of balance of payments viability. In this regard, the Inter-bank Foreign Exchange Market (IFEM) was further deregulated in 2002 to give bureaux de change operators access to IFEM funds. In addition, the Dutch Auction System (DAS) of foreign exchange management was re-introduced in July 2002. Some other measures adopted to achieve these objectives were as follows:

- Holders of ordinary domiciliary accounts continued to have unfettered access to funds in their accounts, while utilization of funds in the non-oil export domiciliary accounts were permitted for eligible transactions. Furthermore, inward money transfers became repayable in the currency of remittance;
- All oil and oil service companies were allowed to continue to sell their foreign exchange brought into the country to meet their local

expenses to any bank of their choice, including the CBN;

- Current account transactions involving the use of bills for collection remained permissible, provided relevant documents were passed through authorized dealers. Transactions executed on private sector initiative were to carry no government guarantee or obligations;
- The maximum amount of foreign exchange which bureaux de change could sell was retained at US$ 5,000.00 per transaction.
- Procurement of foreign exchange for Business Travel Allowance (BTA) and Personal Travel Allowance (PTA) remained eligible in the foreign exchange market (FEM), subject to the maximum of US$2,500.00 per quarter for BTA and US$2,000.00 twice a year for PTA for beneficiaries above 12 years old. For travels to countries in the ECOWAS sub-region, BTA and PTA were issued in ECOWAS Travellers' Cheques.
- The maximum life span of an approved Form 'M' for the importation of machinery, plant and equipment was retained at 540 days.

1.3 Other Policy Objectives

Consistent with the policy of promoting non-inflationary growth in 2002, the Bank supported schemes designed to enhance accessibility and availability of credit to farmers, as well as small and medium scale enterprises, through the:

- Agricultural credit guarantee under the Agricultural Credit Guarantee Scheme Fund (ACGSF);
- Supervision of the utilization of credit facilities under the ACGS and SME II;
- Promotion of the Small and Medium Industries Equity Investment Scheme (SMIEIS); and
- The Rediscounting and Refinancing Facility (RRF) at a concessionary interest rate.

1.4 Corporate Social Responsibility

During the year, the Bank also rendered services to third parties in the areas of :

- Economic and financial data management and dissemination;
- Grants to Nigerian universities and other agencies;
- Library services;
- Collaborative research projects with relevant agencies; and
- Sponsorship of sporting activities in the country.

Chapter 2
Appraisal of Monetary Policy And Operations of The CBN

Monetary policy implementation faced daunting challenges in 2002 as the problem of excess liquidity persisted, and the demand pressure in the foreign exchange market intensified. Sequel to the downward review of the MRR, as well as the moral suasion by the CBN encouraging banks to reduce interest rates on lending, bank deposit and lending rates fell generally, particularly during the second half of the year. However, the oligopolistic structure of the banking system continued to encourage the unacceptably wide spread between deposit and lending rates. The Bank intensified its surveillance activities over banks and non-bank financial institutions to ensure a sound and stable financial system. The external sector was under pressure, resulting in lower external reserves and a balance of payments deficit position as against the modest surplus in 2001. Consequently, the Naira exchange rate depreciated in all segments of the foreign exchange market. The re-introduction of the Dutch Auction System (DAS) of foreign exchange management in July, 2002 engendered relative stability in the foreign exchange market, and stemmed further depletion of reserves during the second half of the year. The growth in real Gross Domestic Product (GDP) remained sluggish at 3.3 per cent in 2002, compared with 4.2 per cent growth in 2001. However, inflation rate, which was 18.9 per cent in December 2001, dropped to 12.9 per cent at the end of 2002, owing largely to proactive monetary management by the Bank and a good harvest. In pursuit of its commitment to improve the payments system, the CBN ensured the full installation of Magnetic Ink Character Recognition (MICR) in all the clearing zones, and was involved in the live-run of the Nigerian Automated Clearing System (NACS) in the Lagos clearing zone, during the year. In order to enhance appreciation of monetary policy actions by stakeholders, the Bank organized seminars and conferences. It also engaged in collaborative research projects with other agencies in the economy.

2.1 Monetary And Credit Developments

Monetary growth was excessive, relative to the targets set for 2002, reflecting the impact of the expansionary fiscal operations of the three tiers of government. The broad measure of money supply (M2) rose by 21.5 per cent, compared with the 15.3 targeted, while narrow money stock (M1) increased by 15.9 per cent as against the 12.4 per cent performance target for the year. The broad money and narrow money stocks rose by 27.0 and 28.1 per cent, respectively in 2001. The growth in broad money (M2) reflected increases in aggregate bank credit, particularly to the Federal Government, and other assets (net) of the banking system. (Tables 2.1 and 2.2)

2.1.1 Open Market Operations (OMO)

The Bank conducted forty-nine (49) OMO sessions in 2002, compared with 52 in the preceding year. Total bids and sales rose substantially above their respective levels in 2001, reflecting largely the liquidity surfeit in the banking system and an enhanced yield on the intervention securities.

Table 2.1
Outcomes of Monetary, Financial and Other Targets

	2001 Target	2001 Actual 1/	2002 Target	2002 Actual
	(in per cent unless otherwise stated)			
M2	12.2	27.0	15.3	21.5
M1	4.3	28.1	12.4	15.9
Aggregate bank credit	15.8	79.9	57.9	56.6
Credit (net) to Federal Government	2.6	95.2	96.6	6320.6 2/
Credit to Private Sector	22.8	43.5	34.9	11.8
Inflation rate	7.0	18.9	9.3	12.9
Growth in GDP	5.0	4.2	5.0	3.3
Accretion to External Reserves (US $ million)	500	(505.2)	300	(2,428.9)
Exchange rate N=/$ (end-period)	113.5		126.9	

1/ Revised
2/Reflecting the substantial drawdown on Federal Government deposits with the CBN

Table 2.2
Credit Developments (₦ million)

	2001	2002
Aggregate Credit	848,992.9	1,329,401.3
Credit (net) to Fed. Gov.	(-6,006.5)	373,639.2
Of which:		
Central Bank	(-185,934.6)	(-41,246.8)
DMBs	179,928.1	414,886.0
Credit to Private Sector	854,999.4	955,762.1
of which:		
Central Bank	10,513.4	7,298.0
DMBs	844,486.2	948,464.1

Figure 2.1
Growth in Monetary Aggregates, Output and Prices

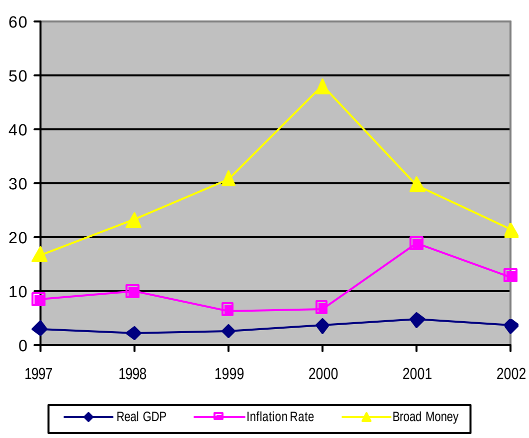


Figure 2.2:
Growth in Domestic Credit

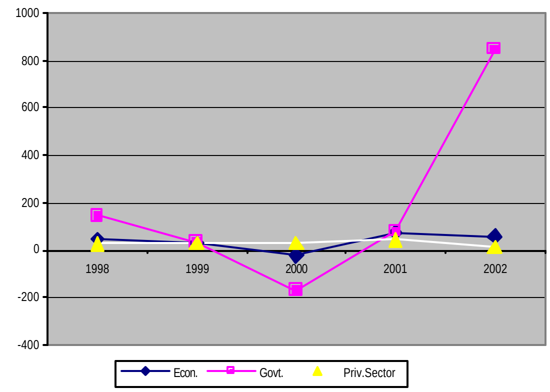
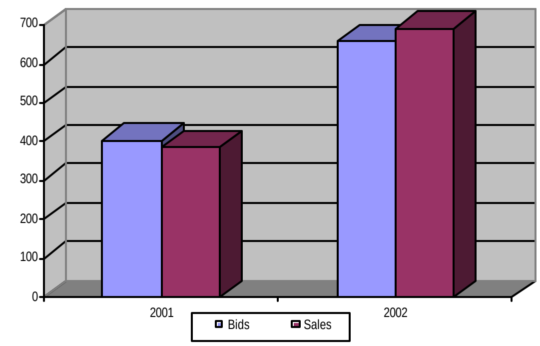


Figure 2.3: Open Market Operations



2.1.2 Interest Rate Developments

Deposit money banks' average deposit and lending rates declined generally in 2002. This was attributable to the downward review of the CBN's MRR and the moral suasion employed by the CBN to encourage banks to bring down their lending rates in order to boost investment.

Available data indicated that banks' average savings deposit rate, which stood at 5.0 per cent in December 2001, fell to 3.7 per cent at the end of the year. The average rates on time deposits of various maturities declined consistently from a range of 12.0 – 18.4 per cent in December 2001 to 8.8 – 14.4 per cent at end-December 2002. Similarly, the average prime and maximum lending rates declined from 26.0 and 31.2 per cent in 2001 to 20.6 and 25.7 per cent in 2002, respectively. Consequently, the spread between the weighted average deposit and maximum lending rates narrowed to 12.9 percentage points at end-December 2002, from 14.7 percentage points at the end of 2001. Also, the margin between the average savings and maximum lending rates was 22.0 percentage points, compared with 26.2 percentage points at end-December 2001 (seeTable 2.8). With the inflation rate at 12.9 per cent in December 2002, some of the deposit rates were positive in real terms.

The average inter-bank call rate, which stood at 23.91 per cent in January, declined to 13.94 per cent at end-December 2002. The sharp fall in the call rate, as in the past, was influenced largely by the surfeit of liquidity in the banking system as well as the reduced demand pressure in the foreign exchange market during the second half of the year.

The average NTB issue rate, which stood at 20.5 per cent in December 2001, declined to 13.8 per cent in December 2002. The downward movement in the issue rate was in tandem with the reductions in MRR from 20.5 per cent in January to 18.5 in July and 16.5 per cent in December, 2002.

2.2 Institutional Developments

The CBN continued to implement its policy of free entry and free exit in the banking system with the issuance of an operating licence to one bank (Bond Bank Ltd) and the revocation of the operating licence of another (Savannah Bank Plc) during the year. In pursuance of its mandate of ensuring banking sector soundness and financial sector stability, the Bank imposed penalties on errant institutions for various malpractices, especially foreign exchange infractions. Furthermore, the monetary authorities introduced a contingency plan for distress resolution.

Sixty-seven banks (67) rendered returns to the Credit Risk Management System (CRMS), which was established to strengthen banks' credit appraisal procedure and monitor over exposure to borrowers. The database had 24,234 borrowers with outstanding loan balances of ₦1.0 million and above, while the total number of outstanding credits was 33,213 worth ₦837.6 billion as at 31st December, 2002.

In order to address the problem of a poor capital base in the other financial institutions (OFIs) sub-sector, the CBN amended the shareholding structure of community banks by allowing individuals and corporate bodies to own more than 5.0 per cent share in community banks. Also, the Bank organized a training programme for all operators of community banks to strengthen their managerial capacity. In order to enhance ethics and professionalism in the banking industry, the Bankers' Committee, on the initiative of the Bank, established the Ethics and Professionalism Sub-Committee to mediate and arbitrate in complaints among banks and between banks and their customers.

2.2.1 Growth and Structural Changes

The number of banks in operation remained at 90 as at end-December, 2002, following the issuance of an operating licence to one bank and the revocation of another. The number of bank branches, however, increased from 2,994 in December 2001 to 3,018 as at end-December 2002.

The number of outstanding applications for new bank licences stood at 21 as at end-December 2002, while no Approval-In-Principle (AIP) was granted during the year. Four banks changed their names and/or status for various reasons, including their conversion to public liability companies as well as the need to portray a new identity. The list of the banks involved is as follows:

Change of Name and/or Status in 2002

Former name	New name
Intercontinental Bank Ltd.	Intercontinental Bank Plc
Standard Trust Bank Limited	Standard Trust Bank Plc.
Eko International Bank Limited	EIB International Bank Plc.
Indo Nigeria Merchant Bank Limited	INMB Bank Limited

In the Other Financial Institutions (OFIs) sub-sector, operating licences were issued to two hundred and eighty two community banks (282), one primary mortgage institution (PMI) and three finance companies (FCs). Approval-In- Principle was also granted to four PMIs and two FCs , while the operating licences of Union Trust Building Society Ltd and Chalton Savings and Loans Ltd were revoked. Thus, the number of community banks, primary mortgage institutions, finance companies, and Bureaux de change (BDCs) in operation stood at 769, 80, 102 and 83 respectively, at end - December 2002.

2.2.2 Legal and Regulatory Developments

Further progress was made on the revision of the *CBN Act* (1991) and the *Banks and Other Financial Institutions* (BOFI) *Act*, (1991) as amended during the year. The contingency plan for distress resolution became effective in July 2002. The plan was initiated by the CBN, in collaboration with the Nigeria Deposit Insurance Corporation (NDIC), in line with international best practices. The CBN also initiated a private sector-funded "lifeboat" facility that was accessed by banks in a temporary liquidity problem. In addition, the preparation of a framework for consolidated supervision of the entire financial industry reached an advanced stage, while a comprehensive review of the operational guidelines for Discount Houses was embarked upon in order to enhance their effectiveness.

2.2.3 Ensuring Banking Sector Soundness

The CBN intensified its surveillance activities on the operations of the banking sector, through various approaches, including regular appraisal and review of banks' periodic returns, spot checks, monitoring of the payments system and special investigations, among others. Surveillance activities on the operating banks revealed over-reliance on the inter-bank funds market, as an average of 38 banks, or 42 per cent, were net takers of funds from the banking system.

During the year, a joint CBN/NDIC workshop on the new Basel Capital Accord was held, with the main objective of appreciating the elements of the new Accord and assessing the preparedness of the operators to comply with the new international capital adequacy requirements as well as the expected roles of the financial institutions, supervisors and external credit-rating institutions. The new capital Accord is expected to become operational in 2007. Also, the Financial Sector Assessment Programme (FSAP) was conducted jointly by the International Monetary Fund (IMF) and the World Bank in February, 2002 to assess the soundness of Nigeria's financial sector, based on international standard codes.

2.3.1 Surveillance Report On the Activities Of Financial Institutions

In pursuit of its surveillance function, the Bank conducted on-site and off-site supervision of licensed banks and non-bank financial institutions by the Banking Supervision, Bank Examination, and Other Financial Institutions Departments. During the year, the Bank carried out routine examination of 60 deposit money banks, 5 discount houses, 116 community banks, 6 finance companies and 83 Bureaux de change, as well as the offshore examination of some Nigerian banks' branches. In addition, special and ad-hoc examinations of 48 banks and 5 discount houses were carried out. The results of these examinations revealed lapses in the operations of some banks, including: poor management, weak internal control systems, under-capitalization, inadequate collateriza-tion of facilities granted, and exceeding the single obligor limits. Other lapses identified were in respect of foreign exchange infractions, including the disbursement of foreign exchange without documentation; non-repatriation and distribution of interest earned on L/C transactions to eligible customers; non-provision of naira cover for foreign exchange bids; and charging of L/C customers over and above the maximum prescribed in the bankers' tariff. Moreover, many banks were found guilty of round tripping of foreign exchange and abuse of transactions in "free" funds. The errant banks were appropriately sanctioned by suspension of their dealership licence for one year and refund to the CBN of the undeserved earnings from the foreign exchange malpractices.

The minimum paid-up capital requirement for existing banks was raised from ₦500.0 million to ₦1.0 billion, while that of new banks remained at ₦2.0 billion. The deadline for compliance was fixed for end-December, 2002. As at 31st December 2002, thirty-nine banks or 43.0 per cent of the banks in operation had not met the required minimum paid-up capital of ₦1.0 billion. However, action was being taken to ensure compliance. Appraisal of banks' compliance with the Capital Adequacy Ratio (CAR) revealed that seven (7) banks recorded negative capital adequacy ratios; five (5) recorded between 1 and 8 per cent; twenty-two (22) recorded between 8 and 18 per cent, while fifty-six (56) banks recorded capital adequacy ratios above 18.0 per cent during the year.

A cash reserve ratio of 12.5 per cent was maintained during the year. However, with effect from July 2002, the CBN reduced the cash ratio by 300 basis points to 9.5 per cent for banks which increased their lending to the real sector by a minimum of 20 per cent above the level at end-June, 2002. At end- December 2002, thirty-one banks had benefited from the reduced cash reserve ratio of 9.5 per cent.

In an effort to address the problem of a poor capital base of the OFIs, the CBN amended the shareholding structure for community banks by allowing individuals and corporate bodies to own more than 5.0 per cent of the equity of community banks.

In pursuance of the sanitization and verification of the capital compliance by financial institutions, the CBN embarked on the pre-licensing inspection of 465 community banks that were given 6 months to rectify some observed lapses before consideration for final licensing. Out of a total of 102 finance companies, only 49 met the ₦20.0 million minimum paid-up capital requirement. Also, out of 83 BDCs that were examined, 16 met the prescribed minimum paid-up capital of ₦10.0 million, while 67 did not comply. However, one hundred and eighty six (186) BDCs were found to have closed shop. Two PMIs, met the prescribed minimum capital requirement of ₦100.0 million during the year.

2.3.1 Fraud and Forgery

In 2002, there were 981 reported cases of fraud and forgery involving ₦5.0 billion, US $5.25 million, and £1,701.17. Out of this number, four hundred and twenty-eight (428) cases resulted in losses of ₦1.40 billion and $153,000 to the banks, while others were nipped in the bud.

2.3.2 Public Complaints Desk

During the year, 197 complaints were received from banks' customers, compared with 286 in 2001. Most of the complaints were in respect of excessive charges by banks, manipulations, and fraudulent practices on customers' accounts, conversion of investment funds and irregular clearing of customers' cheques.

2.4 Payments And Clearing System

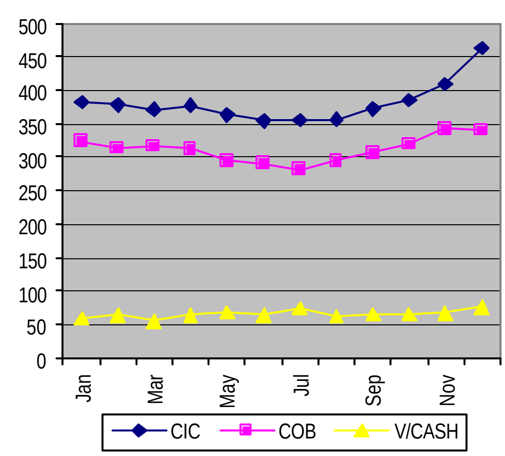
2.4.1 Issue of Legal Tender

The Bank sustained its clean notes policy during the year through the withdrawal of dirty notes and issuance of new ones. A total of ₦56.6 billion in currency notes of various denominations were issued in 2002. The value of the currency in circulation at end-December 2002 stood at ₦463.2 billion, showing an increase of 14.3 per cent over its level in 2001. The currency structure is shown in Table 2.3.

Table 2.3 Currency Structure

	2001		2002	
Coins	Value (₦'million)	Volume (Million)	Value (₦'million)	Volume (million)
N1	436.59	436.6	440.59	440.6
50K	216.9	433.8	217.68	435.4
25K	43.4	173.6	43.3	173.2
10K	12.6	126.0	12.6	125.7
1K	0.4	41.0	0.4	40.6
Total (sub)	709.9	436.6	714.6	440.6
Notes				
N500	113,041.9	226.1	186,077.6	372.2
N200	84,084.6	420.4	113,691.9	568.5
N100	72,225.9	722.3	69,353.6	693.5
N50	76,547.7	1,531.0	47,694.3	953.9
N20	52,648.0	2,632.4	39,849.8	1,992.0
N10	4,155.03	415.5	4,083.8	408.4
N5	2,197.7	439.5	2,232.7	446.5
Total (sub)	404,900.8		**462,983.6**	
Total	405,610.7		**463,698.3**	

Figure 2.4: Currency in Circulation



2.4.2 Cheque Clearing

Cheque clearing activities increased in 2002, reflecting increased economic activities and public confidence in the payments system, as well as further improvement in the banking habit. At 11,169,380 and ₦5,262.7 billion, the volume and value of cheques cleared through the system rose by 6.3 and 35.5 per cent, from 10,508,977 and ₦3,885.0 billion respectively in 2001.

Table 2.4 Volume and Value of Cheques Cleared

	2001		2002	
	Volume	Value (₦' billion)	Volume	Value (₦' billion)
Clearing System	10,508,977	3,885.0	11,169,380	5,262.7
Lagos Clearing House	6,590,007	1,488.4	6,612,337	1,382.7
Others	3,918,970	2,396.6	4,557,043	3,880.0

Similarly, the volume of cheques cleared through the Lagos Clearing House rose by 0.3 per cent over its level in 2001 to 6,612,337, while its value fell by 7.1per cent to ₦1,382.7 billion. The volume and value of cheques cleared through the Lagos Clearing House represented 59.2 and 26.3 per cent respectively of the total volume and value of cheques cleared in the system. In order to enhance the effectiveness of the clearing system, the Nigerian Automated Clearing System (NACS) took-off in the Lagos Clearing Zone during the year.

2.5 Foreign Operations

The Bank was proactive in 2002 as it introduced far-reaching measures to further enhance the efficient management of foreign exchange and ensure orderly transactions in the Inter-bank Foreign Exchange Market (IFEM). In line with public desire for improved access to Travellers' Cheques (TCs), the Bank commissioned in February 2002 a pilot scheme of direct sale of TCs to end-users. The scheme was aimed at enhancing access to TCs, reducing the transaction cost of TCs to end-users, minimizing documentation requirements and eliminating undue bureaucracy. It was also aimed at narrowing the parallel market premium and promoting the growth of Bureaux de change. During the year under review, Travelex Global and Financial Services pioneered the scheme with the sale of Thomas Cook TCs; Standard Chartered Bank joined later with the sale of American Express (AMEX) TCs.

Following the persistent demand pressure in the IFEM and the rapid depletion of external reserves, coupled with sharp practices by some market operators, and the inefficiencies in the market, the Bank re-introduced the retail Dutch Auction System (DAS) of foreign exchange management in July 2002. The Bank also intensified the surveillance of the market during the year and imposed sanctions on defaulting authorized dealers, including the withdrawal of their dealership licences for one year.

Between January and July 22 2002, 4,255 deals were transacted in 136 IFEM sessions while 32,608 successful customer bids resulted from 44 DAS sessions between July and December 2002. The total amount of foreign exchange sold to end-users in the year stood at US $8.14 billion while the amount purchased was US$26.11 million, resulting in a net sale of US$8.11 billion, compared with sales, purchases and net sales of US $9.67 billion, US $59.13 million and US $9.08 billion respectively in 2001. Furthermore, total sales in 2002 represented a decrease of 15.8 per cent below the amount sold in 2001, reflecting the efficacy of the DAS as an option for managing the foreign exchange market. In the year under review, the naira exchange rate depreciated by 11.4 per cent to ₦126.90=US $ 1.00, compared with a depreciation of 3.09 per cent in 2001.

In the Travellers' Cheques (TCs) segment of the foreign exchange market, sales increased to £2.8 million and US$36.9 million from £1.4 million and US$23.5 million in 2001. Similarly, TCs worth US$ 167.7 million were sold to the public through Travelex Global and Financial Services Ltd.

Transactions under Documentary Credit showed that 171 Letters of Credit (L/Cs) valued at US$406.5 million were established in 2002, compared with 165 L/Cs valued at US$377.4 million in the preceding year. One hundred and twenty eight (128) L/Cs valued at US $427.2 million were extended during the year, compared with forty-five (45) valued at US $512.8 million in 2001. Total drawings on L/Cs in 2002 amounted to US $453.1 million, compared with US $220.1 million in 2001. Total value of transactions through the West African Monetary Agency (WAMA) was WAUA 0.134 million or ₦19.2million, compared with WAUA 0.16 million or ₦22.9 million in 2001.

2.6 Other Developmental Functions of the CBN

2.6.1 The Small and Medium Industries Equity Investment Scheme (SMIEIS)

At the end of 2002, the amount set aside for the Small and Medium Industries Equity Investment Scheme more than doubled from ₦6.2 billion in 2001 to ₦13.1 billion. Similarly, the number of banks that contributed to the fund rose to 80 from 68 at end-2001. As at December 2002, 23 participating banks had invested the sum of ₦2.4 billion in 52 projects. Of the number of projects and value so far, information technology, telecommunications and other services accounted for 69.2 and 55.6 per cent of the total number and value of investments respectively. Investments were also in 7 manufacturing projects (13.5 per cent) valued at ₦434.6 million, 6 agro-allied (11.5 per cent) valued at ₦250.0 million and 3 construction projects (including quarrying) (5.8 per cent) valued at ₦386.1 million. In terms of geographical spread, investments in 47 projects (90.4%) valued at ₦2.15 billion (89.6%) were sited in Lagos while one project each was sited in Onitsha, Agbor, Eket and Jos.

2.6.2 SME II Loans Scheme

During 2002, a total of ₦1,091 million of the outstanding loans under the SME II Scheme was repaid to the World Bank, compared with ₦968.9 million in 2001. The higher repayment in Naira reflected an exchange rate depreciation during the year. Similarly, repayments made by three participating banks amounted to ₦38.0 million, compared with ₦93.0 million in the preceding year.

2.6.3 Agricultural Credit Guarantee Scheme Fund (ACGSF)

The Board of the ACGSF, which was dissolved in 1994, was reconstituted and inaugurated in November 2002. The 8-member board has a Chairman and 3 members from the CBN, and a member each from the Federal Ministry of Finance, Federal Ministry of Agriculture and Rural

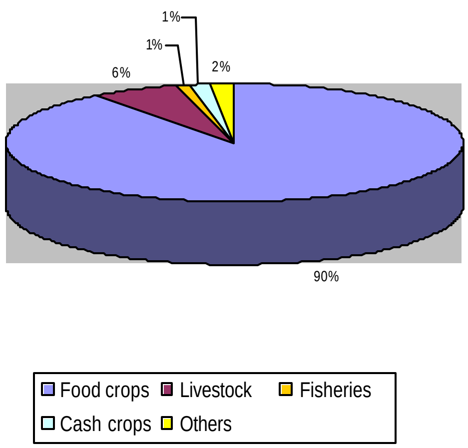
Development, and the Bankers' Committee, and a representative of the farmers.

The paid-up share capital of the Fund at end-December 2002 stood at ₦2.25 billion. While the CBN had fully paid up its share of ₦1.2 billion, the Federal Government was yet to pay its own share of ₦0.75 billion. As in the preceding year, the number of participating banks remained at six.

The volume and value of loans guaranteed under the ACGSF in 2002 stood at 23,681 and ₦1.05 billion respectively, compared with 20,298 and ₦0.73 billion in the preceding year, representing increases of 16.7 and 43.8 per cent, respectively. The improved performance during the year was attributable to the adoption of new strategies of credit delivery, which reduced the risks banks faced in agricultural lending. One such strategy adopted was the Trust Fund Model. Some of the programmes under the model included the Micro Credit Scheme for Agricultural Development (MICSAD) by the Shell Petroleum Development Corporation unlimited (SPDC), the Green Card of the Nigerian Agip Oil Company Limited, and the Jigawa State Trust Fund for Agricultural Development. The average value of loans guaranteed in 2002 under the ACGSF stood at ₦44,406.48, compared with ₦35,892.47 in 2001, reflecting the effect of inflation, as farmers demanded higher amounts to enable them meet the increasing cost of farm inputs.

The distribution of loans by size showed that farmers borrowing ₦50,000 and below accounted for ₦540.19 million or 75.2 per cent of the total. The volume of loans above ₦50,000 stood at 5,684 and accounted for 23.8 per cent and was valued at ₦510.67 million. Loans to individual farmers dominated the scheme as it accounted for 99.3 and 97.5 per cent respectively of the volume and value of total loans guaranteed under the scheme. As in the preceding year, the food crop sub-sector accounted for 88.1 and 88.0 per cent respectively of the total volume and value of loans guaranteed in the year. The 'other crops' sub-sector accounted for 5.6 and 1.7 per cent respectively, while the livestock, fisheries and cash crops sub-sectors accounted for 5.3 and 6.1; 1.1

Figure 2.5: Distribution of loans granted by the ACGSF in 2002 by value of loans



and 2.0; and 1.8 and 1.3 per cent, respectively. The cumulative number and value of loans guaranteed under the scheme from its inception stood at 338,084 and ₦ 4.35 billion respectively. A total of 206 claims valued at ₦6.08 million were filed by lending banks. Of these, 124 valued at ₦3.21 million was settled. Also, 64 of the outstanding claims valued at ₦21.99 million were fully repaid.

2.6.4 Rural Finance Policy: Micro Finance Policy and Programme Development Committee (MPPDC)

In pursuance of its developmental functions, the Bank conducted a baseline survey of micro-finance institutions (MFIs) in Nigeria in order to appraise their activities with respect to their background, vision, mandate, practices, capital levels, as well as their operational problems and prospects. The result of the survey showed that MFIs were largely small with high transaction costs, mostly donor-funded, and unevenly spread across the country. Furthermore, women accounted for about 85.0 per cent of the clientele of these institutions while 73.0 per cent of respondent MFIs had mobilized about ₦99.4 million savings within five years. In order to sensitize the stakeholders and obtain their inputs preparatory to the development of an appropriate regulatory and supervisory framework for their operations in Nigeria, the Bank organized the National Consultative Forum of the micro-finance industry during the year.

2.6.5 CBN Rediscounting and Refinancing Facility (RRF) for Medium - to Long-term Credit

In order to encourage medium to long-term lending to the productive sector of the economy, a total of four (4) applications, valued at ₦818.59 million were received from four banks and processed under the CBN (RRF) programme in 2002, out of which ₦314.59 million was approved for two banks.

2.7 Other Activities Of The Bank

2.7.1 Board of Directors and Other Committees

The Board of Directors held 7 regular and 4 extra-ordinary meetings while the Committee of Governors held 12 regular and 8 extra-ordinary meetings in 2002. The Monetary Policy Committee (MPC) met 26 times in 2002 to discuss issues relating to monetary, banking, interest and exchange rate policies in order to promote macroeconomic stability. In keeping with the Bank's policy of transparency in monetary and exchange rate matters, the MPC issued monthly communiqués on its deliberations and policy decisions. The Financial Sector Surveillance Committee (FSSC) was established on March 5, 2002 to deal with issues pertaining to regulation and supervision. The Committee met 23 times, including 2 extra-ordinary meetings, during the year. The Governor's Consultative Committee and the Committee of Departmental Directors held 12 regular meetings each, while the Internal Audit Committee held one regular meeting.

2.7.2 Restructuring of the Central Bank of Nigeria (Project EAGLES)

Arising from the Bank's restructuring/re-engineering exercise, the Performance Improvement Department (PID) was created in May 2002. The objective of setting up the Department is to have within the organizational structure of the Bank, a unit that would be responsible for the implementation of the reco-mmendations of Project EAGLES. The Department would also ensure continuous improvement in the services of the Bank through effective and efficient management of the Performance Management System (PMS). It will also regularly clarify and focus attention on the strategic objectives of the Bank. After some months of delay, implementation of some of the programmes of Project EAGLES progressed. The CBN commenced the procurement of the three applications software that had been negotiated earlier. The software were: Enterprise Resource Planning (ERP), Real Time Gross Settlements (RTGS), and Banking Analysis System (BAS). Also, the invitation for bids for five processes were floated during the year. The processes were: Performance Management System Implementation, Process Improvement and Redesign Implementation, Communication Strategy and Culture Change, Information Technology and Non-core Process Re-engineering, and Outsourcing.

2.7.3 The Monetary Policy Forum

The CBN sustained its efforts at making the conduct of monetary and exchange rate policies more transparent and participatory through the mechanism of the Monetary Policy Forum. The Bank organized two (2) seminars on topical issues during the year on the following themes:

- Interest and Exchange Rates Management in the context of Economic Growth and Development, and - Achieving Fiscal Sustainability in Nigeria.

In November 2002, the Bank organized its Second Monetary Policy Conference on the theme "Enhancing Financial Sector Soundness in Nigeria". The Conference identified the causes of unsoundness in the financial sector to include: uncoordinated monetary and fiscal policies, portfolio mismatches, poor management, a weak internal control system, under-capitalization, inadequate collateralization of facilities granted, and an unfavourable macroeconomic environment. The following proposals were suggested for dealing with the problems:

- Strengthening regulatory surveillance,
- Enhancing corporate governance,
- Institutionalizing market discipline,
- Designing an implementation schedule for compliance with the requirements of the New Basle Accord on Capital Adequacy, and
- Establishing financial and institutional structures for e-banking.

2.7.4 Staff

The Bank employed 256 new staff in 2002. Of significance was the target recruitment of 51 Assistant Economists, under the maiden Professional Trainee Programme

(PTP) of the Bank. It also lost the services of 2,181 members of staff for the following reasons: retirement (2,137); termination (6); dismissal (5); and death (33). The phenomenal increase in the number of retirees was as a result of the exit of 2,078 staff that took advantage of the Bank's early retirement scheme, which took effect from February 1, 2002. Consequently, the staff strength of the Bank dropped sharply from 7,624 in 2001 to 5,708 in 2002. Arising from the above development, the number of pensioners increased from 2,168 in 2001 to 4,158 in 2002. During the year, 970 staff were promoted/ appointed to higher grades comprising Executive (94), Senior (541) and Junior (335) categories. In the same vein, the Bank upgraded 60 and converted 158 staff for acquiring higher qualifications or new skills, during the year. Four hundred and seventy five (475) members of staff qualified and received the Bank's Long Service Awards.

2.7.5 Training

The Management of the Bank sponsored 4,863 training programmes within and outside the country, including participation at seminars, workshops, and conferences. A breakdown showed that 324 participants benefited from 116 overseas courses, while 881 participants benefited from 35 courses organized by the CBN Training Centre. Furthermore, 3,658 participants benefited from various one-day seminars and other local courses organized by consultants, professional bodies, and other educational institutions. In order to keep staff abreast of developments in the IT industry, some members of staff were trained on IT courses relevant to their operations. In line with its commitment to operationalize the new Performance Management System, the Bank began a series of retreat for executive staff in 2002, in order to give them a clear understanding of the concept of Strategic Business Planning. It was also designed to equip them to develop the capacity to conceptualize and internalize detailed plans of action to address issues in the Bank's corporate plans.

2.7.6 Corporate Social Responsibility

As part of its corporate social responsibility, the Bank collaborated with other agencies in economic and social research. Furthermore, the Bank extended grants amounting to ₦420 million to some Nigerian universities and sponsored sporting activities.

Sports:

In 2002, the Bank sustained its efforts at promoting sports within the country by sponsoring various competitions in soccer and lawn tennis tournaments. The final of the 24th edition of the CBN Open Tennis Championship was held on the 25th of May 2002 at the National Stadium, Lagos. Also, the final of the 18th edition of the All Financial Institutions' Football Competition was played at the Onikan Stadium, Lagos on the 16th of November 2002. Union Bank Plc won the gold medal, while the CBN and Securities and Exchange Commission (SEC) Football Clubs won the silver and bronze medals respectively. Furthermore, all the 22 Branches and Currency Centres of the Bank, including Abuja Head Office, took part in the Governor's Cup competition. The final match, played between Abeokuta and Ibadan Branches, at the Ahmadu Bello stadium, Kaduna, on 22nd June 2002, was won by Abeokuta which bagged the gold medal, while the silver and bronze medals went to Ibadan and Lagos respectively.

2.7.7 CBN Primary School

Pupil enrolment at the Bank's primary school increased from 856 in 2001 to 900 in 2002, indicating an increase of 5.1 per cent. However, the number of teaching staff fell from 44 in 2001 to 32. The pupil/teacher ratio, therefore, deteriorated as it increased from 19:1 in 2001 to 28:1 in 2002.

2.7.8 Development of CBN Headquarters and Branch Offices

The construction work on the Bank's new Head Office Complex in Abuja, designed to accommodate 4,500 members of staff was completed in 2002. The partitioning and furnishing of the complex progressed during the year. Similarly, work on the extensioin of Kano branch reached 85% completion stage, while that of

Enugu was in progress. The contract for the extension of Port Harcourt branch was awarded during the year, while the detailed designs for the construction of Katsina and Uyo branch buildings were being processed.

2.7.9 Computerization Programme

In its resolve to drive its processes with Information and Communications Technology (ICT), the Bank embarked on building an Information Technology (IT) infrastructure that would enable it to realize its objectives. To that effect, the Satellite Wide Area Network was installed in the Bank's Branches. When operational, all Branches would be able to transfer data for consolidation in the Head Office and communicate on voice circuits with each other, using the PABX telephone facility connected to the satellite equipment. The Enterprise Management and Security System project, which was embarked upon to provide an efficient e-mail system and ensure a secure and efficient monitoring of IT services, would become operational in 2003. The Bank's website on the Internet, www.cenbank.org became operational during the year. With this development, the dissemination of information on the Bank's activities was enhanced. The contract for the procurement of the software for the Enterprise Resource Planning (ERP), Real Time Gross Settlement (RTGS), and Banking Analysis System that would drive the re-engineered processes were awarded in 2002 and were at various stages of implementation. The Banking Analysis System (BAS) and the Credit Risk Management System (CRMS) were being integrated into one process. The existing Banking Operations application software in the branches was enhanced with the fund transfer and remote data entry facility for improved reconciliation of books of accounts. The installation of the Integrated Document Management Solution (IDMS) to store and archive the Bank's documents in electronic format was completed in Abeokuta. The installation of the equipment to archive physical documents was at advanced stages of completion in Abuja, Lagos, Ibadan, Kano Bauchi and Enugu.

2.7.10 Library Operations

The CBN Library continued to offer various types of services to individual and group users, including literature searches, reference and bibliographic services, and selective dissemination of information, etc. In 2002, the Library acquired additional 2,568 books excluding gifts and exchange materials, compared with 1,084 in the preceding year. It subscribed to 394 periodical and journal titles, compared with 385 in 2001. The number of local and foreign magazines received during the year stood at 13,800 as against 9,925 in the previous year. Also, 20,952 local and foreign newspapers were received. Furthermore, the Library also embarked on refurbishment of earlier collections as 260 journal titles and 118 books were bound. The number of books borrowed/consulted in 2002 was 27,055, compared with 26,152 in the preceding year. Also, 1,103 relevant articles were downloaded from the Internet for researchers. As at end-2002, the Library at Abuja had 68,258 books (after weeding) and 97,208 volumes of periodicals, compared with 67,000 books and 96,000 volumes of periodicals in 2001.

2.8 Income and Appropriation

The operations of the CBN in 2002, as contained in the audited financial statements, resulted in an operating surplus of ₦35.7 billion. This showed a decrease of 43.6 per cent from the ₦63.3 billion recorded in 2001.The decrease in operating surplus was attributed to the 48.4 per cent rise in expenditure, and the 30.6 per cent decline in "Other" income. The appropriation account showed that ₦29.7 billion was transferred to the Federal Government, while the balance of ₦5.9 billion was transferred to general reserves, in accordance with the provisions of Part II, Section 5(3) of the *Central Bank of Nigeria Act, 1991* as amended.

2.8.1 Assets

2.8.2 Central Banking

The changes in the components of assets and liabilities of the CBN in 2002 indicated further acceleration in the growth of the monetary base. It increased by 8.3 per cent to ₦591.4 billion, compared with the 34.9 per cent growth in the previous year, reflecting the increases in both currency and bank reserves.

2.8.3 Total Assets

The total assets of the CBN fell by 17.6 per cent to ₦1,710.0 billion as against the increase of 15.8 per cent in the previous year. The fall reflected declines in both the domestic and foreign assets of the Bank. The decline in domestic assets was largely traceable to the reduction of ₦206.1 billion, or 27.9 per cent, in the Bank's holdings of Federal Government securities, particularly treasury bills. Similarly, the external assets dropped by 14.2 per cent to ₦1,013.5 billion, in contrast to the increase of 8.4 per cent a year earlier. The decline in the external reserves was attributable to the substantial drawdown on the external reserves by the government during the last quarter of the year. Other assets also fell by 8.2 per cent to ₦31.6 billion, following the decline in the bank's sundry assets, mainly Small and Medium Enterprises (SME) and staff loans. However, the Bank's rediscount and advances rose substantially by 224.4 per cent to ₦23.5 billion as a result of the granting of overdrafts and temporary accommodation facilities to banks (Table 2.5).

2.8.4 Total Liabilities

The decline in the total liabilities of the CBN was reflected in the deposits and other dedicated accounts of the Bank. The Bank's deposit liabilities, which represented 42.1 per cent of the total, declined substantially by 38.0 per cent to ₦702.0 billion. Also, the dedicated accounts of the Bank declined by 64.9 per cent to ₦204.3 billion during the year. However, the "other" liabilities (unclassified items) increased by 1.4 per cent, in contrast to the decline of 9.3 per cent in the previous year. The Bank's paid-up capital remained unchanged at the end-2001 level of ₦3.0 billion, while the general reserves rose by ₦5.9 billion or 17.2 per cent to ₦40.5 billion in 2002. At end-December 2002, currency in circulation stood at ₦463.2 billion, showing an increase of 14.8 per cent over its level a year ago.

Part Two

Economic Report

Chapter 3

General Survey of the Economy

The economy recorded a mixed performance in 2002. The real gross domestic product (GDP) increased by 3.3 per cent relative to 4.2 per cent in the preceding year. Inflation declined from 18.9 per cent in 2001 to 12.9 per cent at the end of the year. Similarly, bank deposit and lending rates trended downwards. However, the fiscal operations of the Federal Government resulted in an overall deficit of ₦301.4 billion or 5.1 per cent of GDP. The demand pressure in the foreign exchange market also persisted resulting in the depreciation of the naira exchange rate in all segments of the foreign exchange market. The level of external reserves declined to US$7.99 billion, which could support 6.4 months of imports of goods and services, compared with 8 months in the preceding year.

3.1 Domestic Output

The gross domestic output, at 1984 constant factor cost, increased by 3.3 per cent. The sectors, which contributed to the modest growth, included: agriculture, manufacturing, communications, utilities, building and construction as well as services. Overall, the performance was below the 5.0 per cent target set for fiscal 2002 and the 4.2 per cent achieved in 2001. Agricultural production increased by 4.0 per cent compared with 3.7 per cent in 2001. Similarly, manufacturing production grew by 3.0 per cent, slightly higher than the 2.9 per cent realized in the preceding year. The communications sub-sector improved substantially during the year. Mining production, however, declined by 13.6 per cent due to the reduction in Nigeria's production quota by the OPEC in 2002 as part of its bid to shore-up and to stabilize crude oil prices. In terms of sectoral contribution agriculture, consisting of crops, livestock, forestry and fisheries, accounted for 40.8 per cent of aggregate output while the industrial sector, comprising crude petroleum, mining and quarrying, and manufacturing contributed 16.0 per cent. The share of the services was 29.3 per cent while the other sectors accounted for the balance of 13.9 per cent.

3.2 Domestic Prices

Inflation, as measured by the change in the average all-item consumer price index for the twelve-month period ending December 2002, was 12.9 per cent. It represented a deceleration compared with the 18.9 per cent recorded in 2001. The food index, which is a dominant component, rose by 13.1 per cent compared with 28.0 per cent in the preceding year. However, the core inflation rate, which excludes the impact of food, was 12.5 per cent, compared with 6.0 per cent in 2001.

3.3 Federal Government Fiscal Operations

The fiscal operations of the Federal Government in 2002 resulted in an overall deficit of ₦301.4 billion or 5.1 per cent of GDP, exceeding the deficit of ₦221.1 billion or 4.0 per cent of GDP recorded in the previous year. The deficit was financed entirely from domestic sources, including past savings of excess crude oil proceeds and borrowing from the banking system. The retained revenue of the Federal Government in 2002 amounted to ₦716.8 billion, representing a decrease of 10.1 per cent from the level in 2001. The major sources of the retained revenue were the Federal Government's share of the Federation Account (₦660.6 billion), VAT pool account (₦15.5 billion), independent revenue (₦68.1 billion), and GSM proceeds (₦19.7 billion).

The aggregate expenditure of the Federal Government amounted to ₦1,018.2 billion, indicating an increase of 0.02 per cent above the level in the preceding year. The amount fell short of the total budgeted expenditure by 10.0 per cent. It comprised recurrent and capital expenditure of ₦696.8 billion and ₦321.4 billion, respectively. The economic classification of recurrent expenditure showed that government purchase of goods and services constituted 70.7 per cent of the total, while domestic debt service accounted for 29.3 per cent. A similar classification of capital expenditure showed that economic services accounted for 67.0 per cent, administration 22.9 per cent and social and economic services 10.1 per cent.

The total public debt of the Federal Government outstanding as at end-December 2002 amounted to ₦4,946.2 billion, representing an increase of 17.9 per cent over the stock at the end of 2001. As a proportion of GDP, it rose to 83.6 per cent from 76.4 per cent in the preceding year.

3.4 Monetary Developments

The growth in monetary aggregates was in excess of the programme targets for 2002, but represented a considerable moderation, compared with the preceding year. Broad money (M2) grew by 21.5 per cent, compared with the target of 15.3 per cent for the year and 27.0 per cent recorded in 2001. Similarly, narrow money (M1) rose by 15.9 per cent, compared with the target of 12.4 per cent and 28.1 per cent achieved in the preceding year. The excessive growth in money supply was induced by the expansionary fiscal operations of the three tiers of government. In particular, the rapid draw down of the Federal Government deposits with the CBN, the monetization of US$1.5 billion external reserves in the last quarter of the year, and the substantial increase in bank credit to the domestic economy were expansionary of money supply. Aggregate bank credit to the domestic economy increased by 56.6 per cent, compared with the 57.9 per cent targeted for the year and the 79.9 per cent increase observed in the preceding year. The Federal Government accounted for the bulk of the credit growth, which the deposit money banks provided through their increased holdings of treasury bills. Bank credit to the private sector was much lower than that for 2001 and the target for the year, reflecting the weak growth performance of the economy.

There was a general decline in interest rates in 2002. The trend was influenced by the surfeit of liquidity in the banking system, the downward review of CBN's Minimum Rediscount Rate (MRR) and the moral suasion employed by the CBN for banks to reduce lending rates in order to stimulate investment growth. The average savings deposit rate fell to 3.7 per cent from 5.0 per cent. Similarly, the average rates on time deposits of various maturities declined from a range of 12.5 – 18.4 per cent to 8.8 – 14.4 per cent at the end of the year. The average prime and maximum lending rates also fell from 26.0 and 31.2 per cent in December 2001 to 20.6 and 25.7 per cent respectively in December 2002.

3.5 External Payments Position

The balance of payments was under severe pressure in 2002 as a result of adverse external shocks, particularly the reduction in Nigeria's crude oil production quota by the OPEC and the external debt service burden. Consequently, the overall balance of payments swung into a deficit of ₦525.7 billion or 8.9 per cent of GDP, from the surplus of ₦24.7 billion or 0.4 per cent of GDP in 2001. Consequently, there was a substantial draw down of external reserves and deferment of scheduled debt service payments. Nevertheless, the current account recorded a surplus while the deficits in the services and income accounts moderated during the year. The level of external reserves fell from US$10.42 to US$7.99 billion, which could support 6.4 months of foreign exchange disbursements, compared with the 8.0 months achieved in 2001.

3.6 Exchange Rate Movements

The fall in foreign exchange inflow during the first half of the year, coupled with increased demand for foreign exchange, induced the depreciation of the Naira in the Inter-Bank Foreign Exchange Market (IFEM) from ₦111.90 =US$1.00 to ₦115.97=US$1.00 at the end of June 2002. In order to stem the depletion of external reserves and realign the naira exchange rate, the Dutch Auction System (DAS) of foreign exchange management was re-introduced in July 2002. Overall, the Naira depreciated against the US dollar from an average of ₦111.9 =US1.00 in 2001 to ₦120.5= US$1.00 in 2002 in the IFEM. Similarly, at the bureaux de change segment of the market, the Naira depreciated from ₦132.59 =US$1.00 to N138.28 to US$1.00. However, following the re-introduction of DAS the difference in premium between the IFEM/DAS and the parallel market rates fell from 18.2 per cent in 2001 to 13.5 percent in 2002.

3.7 International Economic and Financial Developments

The world economy experienced a modest rebound, as output growth rate rose marginally over that for 2001. Global output increased at an estimated 3.0 per cent, compared with 2.2 per cent in the preceding year. The modest improvement reflected the impact of the relative decline in energy prices, improvements in economic fundamentals and the resilience of the global financial infrastructure. In the early part of the year, excess production of crude oil relative to global demand depressed the international oil prices. The development prompted OPEC to cut production quotas of members leading to a 7.8 per cent decline in Nigeria's oil production.

The Multilateral Investment Guarantee Agency (MIGA) issued 58 guaranteed contracts valued at US$1.4 billion in 2002. Ten of the contracts amounting to US$143.3 million were for investments in conflict-affected areas and included a banking project in Bosnia and Herzegovina and two telecommunications projects in Nigeria. In its efforts to support Foreign Direct Investment (FDI) flows to developing countries, MIGA's First-Time Coverage Offer for projects in four African countries namely, Benin, Mauritania, Nigeria and sénégal amounted to US$4.7 billion.

The Authority of Heads of State and Governments of the West African Monetary Zone (WAMZ) held its fourth summit in Conakry in November, 2002. The Authority extended the date for the take-off of the WAMZ Monetary Union to July 1,2005. It called on countries to draw up programmes outlining the modalities for meeting the convergence criteria during the period 2003 to 2005.

The Authority agreed that convergence targets, especially that on the budget deficit/GDP ratio, should be incorporated into the annual budgets of member countries in order to deal with the problem of fiscal dominance and the associated expansionary effect of money supply on domestic inflation and pressure on the external sector.

Table 3.1
Selected Macroeconomic Indicators

	1998	1999	2000	2001 1/	2002
Domestic Output and Prices					
Real GDP Growth (Growth Rate%)	2.3	2.8	3.9	4.2	3.3
Oil Sector	-4.9	-7.5	11.2	-4.0	-16.5
Non-oil Sector	3.7	4.2	3.0	4.9	5.5
Oil Production (mbd)	2.1	2.0	2.2	2.2	2.1
Manufacturing Capacity Utilisation	32.4	35.9	36.1	39.6	41.3
Gross National Savings (% of GDP)	9.2	18.3	28.3	25.5	25.1
Gross Fixed Capital Formation (% of GDP)	5.3	4.9	5.4	6.2	7.0
Inflation Rate (%)	10.0	6.6	6.9	18.9	12.9
Federal Government Finance (% of GDP)					
Overall Fiscal Balance	-4.8	-8.9	-2.1	-4.0	-5.1
Primary Balance	-2.3	-1.5	0.1	-1.2	-1.6
Retained Revenue	12.8	20.7	12.3	14.5	12.1
Total Expenditure	17.6	29.7	14.5	18.5	17.3
Domestic Debt Stock	19.4	24.9	18.6	18.5	19.7
External Debt Stock	22.9	80.7	64.0	57.9	64.1
Money and Credit (Growth Rate %)					
Net Domestic Credit	46.8	30.0	-25.3	79.9	56.6
Net Credit to Government	144.9	32.0	-170.1	95.2	-
Credit to Private Sector	27.4	29.2	30.9	43.5	11.8
Narrow Money (M1)	20.5	18.0	62.2	28.1	15.9
Broad Money (M2)	23.3	31.7	48.1	27.0	21.6
External Sector					
Overall Balance(% of GDP)	-8.4	-9.8	6.3	0.4	-8.9
Current Account Balance(% of GDP)	-12.6	1.4	14.3	4.9	3.9
Capital and Financial Account Balance(% of GDP)	4.4	-11.0	-7.8	-4.3	-12.7
External Reserves (US $ million)	7100.0	5450.0	9910.4	10415.6	7986.7
Average Crude Oil Price (US$/barrel)	12.9	18.0	28.6	24.5	25.0
Average AFEM Rate (N/$) 2/	84.4	91.8	na	na	na
Average IFEM Rate (N/$)	na	96.1	101.7	111.9	120.5
Average Parallel Market Exchange Rate (N/$)	87.9	99.2	111.1	132.6	136.8
Average Bureau de Change Exchange Rate (N/$)	88.1	99.3	111.1	133.0	136.9
Social Indicators					
GDP per Capita (N)	1041.0	1038.8	1046.8	1062.5	1065.4
Population Growth Rate (%)	3.0	3.0	3.0	3.1	3.1
Life Expectancy at Birth (Years)	54.0	54.0	54.0	54.0	54.0
Adult Literacy Rate (%)	57.0	57.0	57.0	57.0	57.0
Human Development Index	0.4	0.4	0.4	0.4	0.4

1/ Revised
2/ Figure is for January to October 24 1999.

na Not applicable

CHAPTER 4

The Financial Sector

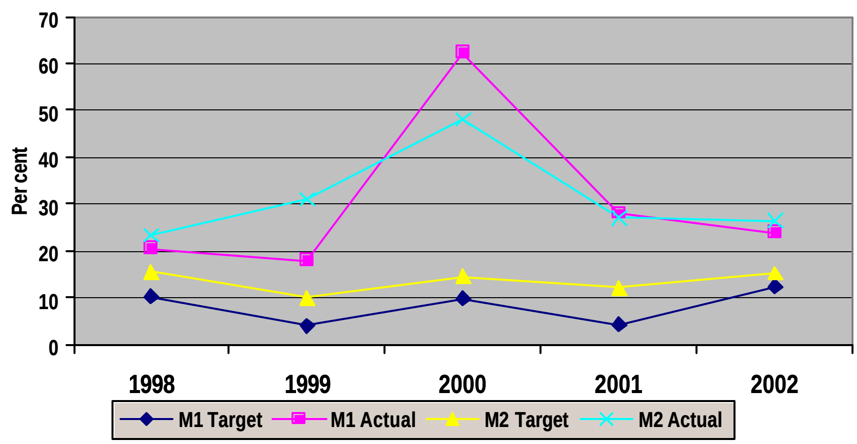
The financial sector was characterized by a persistent liquidity overhang, induced largely by the expansionary fiscal operations of the three tiers of government. Consequently, the growth in monetary aggregates exceeded the prescribed targets by wide margins. However, the growth represented a deceleration when compared with the growth rate in 2001. Inflationary pressure moderated as the rate dropped from 18.9 per cent in December 2001 to 12.9 per cent in 2002. Similarly, bank deposit and lending rates generally declined, reflecting the downward review of the minimum rediscount rate (MRR) as well as the impact of the moral suasion by the authorities for banks to reduce lending rates. In order to ensure a robust and sound financial system, the CBN imposed sanctions on errant institutions for various infractions, including the suspension of foreign exchange dealership licence. The Bank also adopted a contingency plan for banks' distress resolution and initiated a private sector-funded 'lifeboat' facility, which was accessed by banks with a temporary liquidity problem. To attenuate the problem of high and persistent domestic demand pressure and ensure relative stability in the naira exchange rate as well as enhance the allocative efficiency of the foreign exchange market, the Dutch Auction System (DAS) of foreign exchange management was re-introduced in July 2002. The performance of the market under the DAS was generally satisfactory, particularly the narrowing of the spread between the official and parallel market rates and the stemming of the depletion of foreign reserves. Structurally, the Nigerian financial system in 2002 comprised the CBN, 90 deposit money banks which together constituted the monetary system, and other financial institutions, consisting of 769 community banks, 6 development finance institutions, 1 stock exchange, 1 commodity exchange, 5 discount houses, 118 insurance companies, 80 primary mortgage institutions, 102 finance companies, and 83 bureaux de change.

4.1 The Monetary System

4.1.1. Monetary and Credit Developments

The growth in monetary aggregates accelerated rapidly in 2002, substantially exceeding the prescribed targets for the year. The rapid expansion was influenced by the prevalence of excess liquidity in the banking system, induced largely by the expansionary fiscal operations of the three tiers of government. In particular, the substantial draw-down on the Federal Government's deposits with the CBN, coupled with the monetization of US$1.5 billion external reserves in the last quarter of the year, contributed to the excess liquidity in the system. The broad money stock (M2), increased by 21.5 per cent, compared with the growth target of 15.3 per cent for fiscal 2002 and the 27.0 per cent increase recorded in 2001. Similarly, narrow money supply (M1) grew by 15.9 per cent, compared with the permissible target of 12.4 per cent for the year and the 28.1 per cent increase in the preceding year (Table 4.1).

Figure 4.1 (a)
Movement In Monetary Aggregates

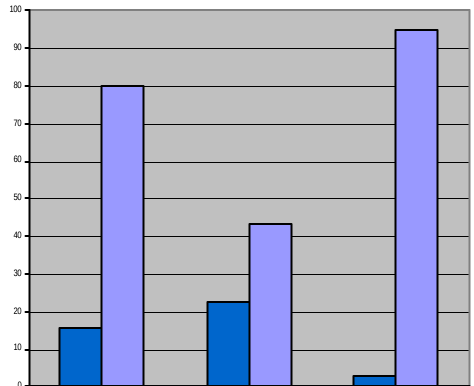


The expansion in M2 reflected increases in both narrow money supply (M1) and quasi-money. The main expansionary factor of money supply was the increase in aggregate bank credit (net) of the banking system. The decline in foreign and other assets (net) of the banking system and the significant increase in quasi-money, however, exerted a moderating influence on the growth of M1. Quasi-money rose substantially by 30.9 per cent to ₦653.2 billion, compared with the increase of 25.3 per cent in the preceding year. The demand deposit component of M1 also rose significantly by 17.0 per cent to ₦559.3 billion, constituting 59.1 per cent of M1, compared with 58.5 per cent in 2001. The currency component increased by 14.3 per cent to ₦386.9 billion, constituting 40.9 per cent of narrow money (Table 4.1).

4.1.2 Banking System Credit

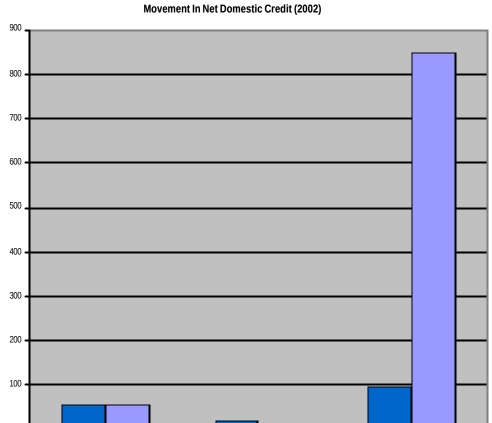
Aggregate bank credit to the domestic economy grew by 56.6 per cent to ₦1,329.4 billion in 2002, compared with the growth target of 57.9 per cent for the year and the sharp increase of 79.9 per cent in the preceding year.

Figure 4.1 (b)
Movement In Net Domestic Credi t (2001)



	Net Domestic Credit)	Credit To Private Sector	Credit To Government
Target	15.8	22.8	2.6
Actual	79.87	43.5	95.16

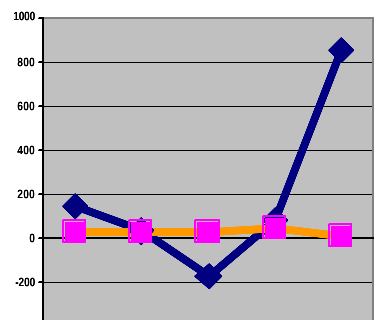
Figure 4.1 (c)
Movement In Net Domestic Credit (2002)



	Net Domestic Credit)	Credit To Private Sector	Credit To Government
Target	57.9	22.8	96.6
Actual	56.59	11.9	848.9

The observed increase in aggregate bank credit was attributable to the rise in claims on both the government and private sectors, with the former accounting for 79.0 per cent of the total increase. Growth in the banking system's credit to the Federal Government maintained an upward trend for most part of 2002. From a net claim of ₦6.0 billion on the banking system in 2001, the Federal Government became indebted to the system to the tune of ₦373.6 billion in 2002. The rise reflected largely the substantial draw-down in government deposit with the CBN as well as increased holdings of government debt instruments by the deposit money banks. Consequently, deposit money banks' claims on the Federal Government more than doubled from ₦179.9 billion in 2001 to ₦414.9 billion in 2002.

Figure 4.2
Movement In Net Aggregate Credit (%)



	1998	1999	2000	2001	2002
Credit to Government	144.9	32	-170.1	79.7	848.92
Credit to Private Sector	27.4	29.2	30.9	43.5	11.99

The growth in bank credit to the private sector was relatively sluggish, especially in the first half of the year, but improved modestly in the second half, following the moderation in interest rates on lending. Overall, bank credit to the private sector in the year under review increased by 11.8 per cent, which was substantially lower than the target growth of 34.9 per cent for fiscal 2002 and the 43.5 per cent increase in 2001. Credit to the state and local governments declined substantially during the year in contrast to the sharp increase observed in the preceding year. The level fell by 35.3 per cent to ₦17.3 billion in contrast to the 254.2 per cent increase recorded in 2001. The fall reflected the impact of the CBN's directive to banks in 2001 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 (98.2 per cent) of credit to the private sector, increased by 13.4 per cent in 2002. The rise in credit to the sector was attributable to deposit money banks' claims, which accounted for 99.2 per cent of the total. Central Bank's claims, on the other hand, fell by 30.6 per cent, in contrast to the 31.4 per cent increase in the preceding year. The relatively low tempo of economic activities coupled with the high lending rates accounted largely for the low growth in credit to the sector.

4.1.3 Deposit Money Banks

The oligopolistic structure of the sector remained, as only ten banks or 11.1 per cent of the ninety in operation accounted for 54.5 per cent of total assets, 52.4 per cent of total deposit liabilities, and 46.1 per cent of total credit, compared with the 50.8, 53.1 and 46.5 per cent respectively in 2001. At ₦2,705.7 billion, aggregate assets/liabilities of deposit money banks rose by 24.8 per cent over the level at end-December 2001. Total investible funds available to the banks amounted to ₦548.8 billion during the year. The funds were sourced mainly from a reduction in claims on state and local governments (₦9.5 billon), increases in deposit liabilities (₦55.8 billion), foreign liabilities (₦1.8 billion), unclassified liabilities (₦166.7 billion) and increased capitalization (₦128.99 billion), among others. The funds were utilized mainly to increase reserves (₦2.5 billion), foreign assets (₦93.2 billion), claims on the Federal Government (₦224.3 billion), claims on the private sector (₦167.1 billion), and other assets (₦60.9 billion), among others. The structure of banks' deposit liabilities showed that demand deposits accounted for 68.1 per cent, while savings and time deposits as well as foreign currency deposits constituted 88.3 per cent in 2002, compared with 47.3 per cent and 52.7 per cent respectively in 2001 (Tables 4.3 and 4.4).

Aggregate credit to the domestic economy by deposit money banks at end-December 2002 amounted to ₦1,302.2 billion, indicating an increase of 26.0 per cent over the level at end-December 2001. A breakdown showed that credit to the private sector increased by ₦104.0 billion or 12.3 per cent, while claims on the Federal Government rose by 130.0 per cent, reflecting the banks' increased holdings of government securities during the year. Banks' total loans and advances also increased by 15.7 per cent to ₦845.7 billion during the year. In 2002, sectoral allocation of deposit money banks' credit continued to favour the less-productive sectors of the economy, as only 40.9 per cent of the total credit went to agriculture, solid minerals, exports and manufacturing, down from 46.2 per cent in 2001.

As at end-December 2002, the computed average liquidity ratio of deposit money banks stood at 58.2 per cent, compared with the stipulated minimum of 40.0 per cent. However, 11 banks failed to meet the minimum liquidity ratio requirement. The average loan to deposit ratio was 66.5 per cent, compared with the prudential limit of 80.0 per cent. Indeed, 36 banks reported a net loan to deposit ratio of over 100 per cent during the year.

4.2 Community Banks (CBs)

The total number of community banks in operation rose from 747 in 2001 to 769 in 2002. During the year, 282 community banks were licensed, out of which 116 were examined. The Bank conducted pre-licensing inspection of 182 out of 465 community banks that were given 6 months to rectify some observed lapses before they could be considered for final licensing. Total assets/liabilities of the 316 reporting community banks rose sharply by 216.3 per cent to ₦15.5 billion, in contrast to a decline of 59.3 per cent recorded by 128 reporting community banks a year earlier.

Capital and reserves of the CBs also increased from ₦1.03 billion to ₦3.82 billion during the year. Loans and advances granted by the reporting CBs rose by 228.1 per cent, in contrast to the decline of 64.2 per cent in 2001, while their investments increased by 204.1 per cent to ₦0.9 billion. The sectoral analysis of the loan portfolio of the reporting CBs showed that general commerce continued to dominate. Loans and advances to general commerce represented 32.1 per cent of the total; the miscellaneous category received 24.4 per cent; manufacturing and food processing got 12.7 per cent; while agriculture and forestry had 9.1 per cent. The balance went to real estate and construction, transportation and communication, as well as mining and quarrying. The average loan/deposit ratio of the community banks declined from 39.9 per cent in 2001 to 22.5 per cent in 2002 (Table 4.5).

4.3 Other Financial Institutions

4.3.1 Discount Houses

Discount houses recorded a significant growth in their operations in 2002, relative to the level in 2001. Total assets/liabilities of the five operating discount houses amounted to ₦57.3 billion at end-December 2002, representing an increase of ₦24.9 billion or 77.1 per cent over the level at end-December 2001. Total funds available to discount houses in 2002 totalled ₦28.7 billion, compared with ₦9.7 billion in the preceding year. The funds were sourced mainly from money-at-call (₦13.9 billion), other amounts owed to bank and non-bank customers (₦11.7 billion), accretion to capital and reserves (₦1.6 billion), and reduction in cash and balances with banks (₦1.5 billion). The funds were utilized largely for investment in government securities (₦19.7 billion), settlement of claims to banks (₦4.1 billion), and acquisition of other assets (₦2.4 billion), among other uses. Discount houses' investments on Federal Government securities of less than 91 days maturity amounted to ₦32.8 billion as at end-December 2002, representing 64.5 per cent of their total deposit liabilities and 4.5 percentage points above the prescribed minimum of 60.0 per cent for fiscal 2002 (Table 4.6).

4.3.2 Finance Companies

The level of activities of the finance companies declined in 2002 relative to the preceding year. The total number of finance companies in operation increased from 98 to 102 at end-December, 2002. Of this number, only 28 reported their operations to the CBN during the year, compared with 34 in the preceding year. As at end December 2002, forty-nine (49) out of the 102 finance companies met the minimum paid-up capital of ₦20.0 million. Eleven new applications for licence were received, three approvals-in-principle were granted, while two new licences were issued. On the whole, routine examination was conducted on six (6) finance com-panies during the year. Total assets/liabilities of the reporting companies declined by 9.4 per cent from ₦12.9 billion in 2001 to ₦11.7 billion at end-December, 2002. Similarly, loans and advances granted by the companies declined from ₦6.9 billion in 2001 to ₦4.1 billion in 2002, while investments rose by 29.4 per cent to ₦2.2 billion. Also, the fixed assets of the companies rose by 133.3 per cent to ₦1.4 billion during the year. Capital and reserves declined by 10.7 per cent to ₦2.4 billion while "Other" liabilities rose by 8.0 per cent to ₦1.8 billion during the year (Table 4.7).

4.3.3 Primary Mortgage Institutions (PMIs)

The performance of primary mortgage institutions was mixed in 2002. Only two additional PMIs met the ₦100.0 million prescribed minimum capital requirement, thereby bringing the number of PMIs that met the minimum paid-up capital requirement to 20. The operating licences of Union Trust Building Society Limited and Chalton Savings and Loans Limited were, however, revoked during the year. Also, 4 PMIs were granted AIP while one was issued a final operating licence. Consequently, the number of PMIs in operation increased from 79 in 2001 to 80 in 2002. Out of this number, only 37 reported their operations to the CBN during the year. Of the reporting PMIs, only one complied with the prescrib-ed minimum mortgage assets to total assets ratio of 60 per cent. However, an appreciable increase of ₦25.1 billion or 64.2 per cent was recorded in their assets base, which rose from ₦33.5 billion in 2001 to ₦55.0 billion at end-December, 2002.

4.3.4 Development Finance Institutions (DFIs)

The performance of the DFIs remained unimpressive in 2002 in spite of the restructuring and recapit-alization of 6 of them in the preceding year. The Nigerian Agricultural, Co-operative and Rural Development Bank (NACRDB) was working on the possibility of operating limited retail banking services through its network of branches spread across the country, while the Bank of Industry Limited (BOI) made efforts to recover the debts owed the former constituent institutions.

The major function of the Federal Mortgage Bank of Nigeria (FMBN) remained the administration of the National Housing Fund Facility (NHFF). Similarly, the Nigerian Expo-rt/Import Bank (NEXIM) continued to focus on three main operational areas/activities as follows:

(1) The African Development Bank (ADB) Export Stimulation Loan (ESL) facility, administered under the Foreign Input Facility (FIF);

(2) The export credit re-discounting and re-financing facility (RRF); and

(3) The Stocking Facility (SF).

4.4 Financial Savings

Aggregate financial savings amounted to ₦694.9 billion at end-December, 2002, representing an increase of 28.5 per cent over the level in 2001. The ratio of financial savings to GDP rose to 11.8 per cent from 9.9 per cent in 2001. Deposit money banks maintained their dominance as the major depository institutions within the financial sector, accounting for 94.0 per cent of the total financial savings, compared with 92.3 per cent in 2001. Other depository institutions, including the PMIs, life insurance companies, the Nigerian Social Insurance Trust Fund and community banks held the balance of 6.0 per cent.

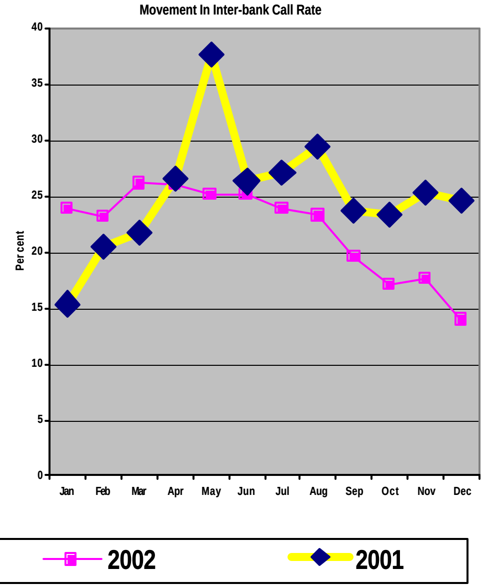
4.5 Money Market Developments

Developments in the money market were influenced largely by the state of liquidity in the banking system, the activities in the foreign exchange market and the monetary policy actions taken by the CBN. Following the moderation in inflation in the first half of the year and the need to stimulate investment in the real sector, the CBN adjusted the cash reserve requirements (CRR) downwards by 300 basis points in July 2002, from 12.5 per cent to 9.5 per cent, for banks whose credit allocation to the real sector increased by a minimum of 20.0 per cent over the level at end-June 2002. Similarly, the minimum rediscount rate MRR was reduced by 200 basis points from 20.5 per cent to 18.5 per cent in July and by another 200 basis points to 16.5 per cent in November 2002, in order to influence the level and direction of interest rates. The liquidity ratio was, however, maintained at 40 per cent during the year. New issues of treasury bills were also made to refinance outstanding CBN Ways and Means Advances to the Federal Government at end-December 2002. Consequently, the total value of money market assets outstanding grew by 23.6 per cent to ₦815.8 billion, compared with the 27.2 per cent increase recorded in the preceding year. The levels of Bankers Acceptances (BAs) and Commercial Papers (CPs) also increased. However, there was a decline in the level of Eligible Development Stocks (EDS), while banks divested completely all their holdings of Certificate of Deposits (CDs) during the year. As in the previous years, treasury bills remained the dominant money market instrument, accounting for 89.9 per cent of the total value of money market assets outstanding as at end-December 2002, compared with 88.6 per cent in 2001.

4.5.1 Inter-bank Funds Market

The steady growth in transactions in the inter-bank funds market observed in 2001 was reversed in 2002. The decline in activities was largely attributable to the suspension of a number of banks from participating at the foreign exchange market for various foreign exchange infractions, coupled with the liquidity surfeit in the banking system. Consequently, the aggregate value of transactions in the market declined by 35.5 per cent to ₦903.2 billion, averaging ₦75.3 billion monthly, compared with ₦116.6 billion in 2001. Transactions in

Figure 4.3
Movement In Inter-bank Call Rate

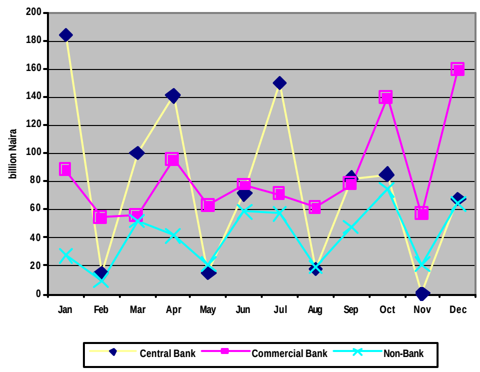


overnight call money also fell significantly by 42.6 per cent to ₦578.3 billion from the level attained in the preceding year. The average rate on overnight funds declined from 23.9 per cent in January to 13.9 per cent in December 2002, reflecting the downward adjustments in MRR and the relative ease in monetary conditions, particularly in the second half of the year. However, the overnight call money, which accounted for 64.0 per cent of the total transactions, continued to dominate the activities in the Inter-bank Funds Market. Average rates on placements of various maturities exhibited a similar pattern. Notably, the average rate on 30-day maturity declined from 29.3 per cent in January to 20.6 per cent in December 2002, while that on 90-day fell from 32.0 per cent to 18.4 per cent.

4.5.2 Treasury Bills

The total value of primary issues of treasury bills (including roll-overs) amounted to ₦2,421.1 billion, in year 2002, representing an increase of ₦435.6 billion or 21.9 per cent over the level in 2001. The rise reflected the new issues made to refinance CBN's Ways and Means Advances outstanding to the Federal Government at the end of the year. Consequently, total treasury bills outstanding rose to ₦733.8 billion in December 2002, from ₦584.5 billion at end-December 2001 (Tables 4.8 and 4.9).

Figure 4.4
Demand For Treasury Bills in The Primary Market, 2002



Public subscriptions grew signifycantly and accounted for 61.6 per cent of the total issues, compared with 46.3 per cent in the preceding year. The increased patronage by investors was partly attributable to the repayments of maturing CBN Certificates during the year; the surfeit of liquidity in the system; and the relative attractiveness of the yield on the instrument. The liquidity surfeit in the banking system provided the banks easy access to funds for investment in NTB. Thus, holdings of NTB outstanding by deposit money banks rose sharply from ₦199.3 billion in December 2001 to ₦460.2 billion at the end of 2002, while that of the non-bank public increased significantly to ₦125.7 billion from ₦59.9 billion in 2001 (Table 4.9). Consequently, CBN's holdings fell to ₦147.8 billion from ₦ 325.3 billion in December 2001, representing 20.1 per cent of the total.

4.5.3 Certificates of Deposits (CDs)

Transactions in negotiable certificates of deposit improved relative to the performance in the preceding year. This development was induced by the moderation in inflationary pressure and the enhanced confidence in the financial system, including an improved yield on the instrument during the year. Total issues averaged ₦872.8 million monthly, reflecting an increase of 71.0 per cent over the level in 2001. As in the previous years, the non-bank public held all outstanding issues of CDs.

4.5.4 Commercial Papers (CPs)

Investment in Commercial Papers (CPs) witnessed further growth during the year. The level of CPs held by deposit money banks rose from a monthly average of ₦29.0 billion in 2001 to ₦31.1 billion in 2002. Thus, the CPs constituted 4.5 per cent of the total value of money market assets outstanding in 2002.

4.5.5 Bankers' Acceptances (BAs)

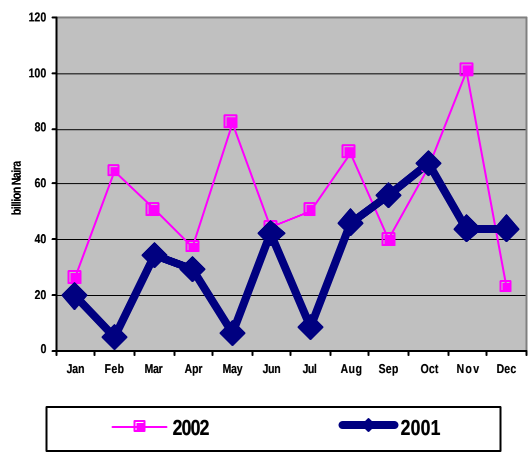
Investments in Bankers' Acceptances (BAs) averaged ₦38.0 billion monthly, compared with ₦32.0 billion in the preceding year. The rise reflected increased investments by deposit money banks and discount houses. Holdings by the banks increased from a monthly average of ₦26.6 billion in 2001 to ₦28.9 billion in 2002, while that of the discount houses rose from ₦5.4 billion to ₦9.2 billion during the year. The rise in patronage resulted from increased needs of the private sector for short-term funds. Investment in BAs constituted 16.7 per cent of the total value of money market assets outstanding in 2002.

4.5.6 Open Market Operations (OMO)

The CBN continued its liquidity management through reliance on market-based instruments. The OMO was conducted mainly in NTBs and complemented by reserve requirements and discount window operations. A total of 49 sessions of the open market operations was conducted during the year as in 2001. The demand for the intervention securities improved significantly, relative to the level in the preceding year, as a result of the liquidity surfeit as well as the enhanced yield on the security. Consequently, treasury bonds worth ₦15.5 billion were converted to NTBs in November 2002, as a stop-gap to meet the high demand. The monthly average bids and sales of the securities amounted to ₦54.7 billion and ₦49.3 billion in 2002, compared with ₦33.6 billion and ₦32.2 billion respectively in the preceding year.

On a cumulative basis, the bids and sales rose sharply to ₦656.4 billion and ₦592.0 billion, respectively in 2002, from ₦403.3 billion and ₦386.9 billion in 2001 (Table 9).

Figure 4.5
Demand For Treasury Bills at Open Market Operations



4.6 Capital Market Development

In 2002, the capital market recorded improved performance, as all the market indicators showed upward trends. Aggregate volume and value as well as the total number of transactions in the secondary segment of the market increased, while market capitalization and the value index rose significantly. Market capitalization rose by 20.0 per cent from ₦662.6 billion in 2001 to ₦763.9 billion in 2002, reflecting price appreciation in the equities, as well as new listings on the Exchange during the year. This development was attributed largely to the current efforts aimed at modernizing the market infrastructure as well as achieving internationalization.

4.6.1 Nigerian Stock Exchange (NSE)

The Nigerian Stock Exchange recorded a remarkable growth, especially in the new issues segment of the market, during the year. The Exchange made some progress in the area of improving its market infrastructure, restructuring and re-engineering its processes for enhanced efficiency. It also commenced work on the upgrade of its trading, clearing and settlement systems, and commissioned its e-business platform during the year.

4.6.1.1 The Secondary Market

Activities in the secondary market improved further in 2002. The volume of transactions rose by 11.5 per cent to 6,614.0 million shares, while the value increased by 3.0 per cent to ₦59.4 billion. Transactions in equities dominated the market, accounting for 99.3 per cent of the total value of transactions during the year. The industrial loan/preference stocks remained dormant, while the government development stocks sector recorded transactions of 2.6 million shares worth ₦2.3 million in 3 deals. In the State Government bonds sector, 1.55 million shares worth ₦775.0 million in 5 deals were recorded.

4.6.1.2 Value Index of Equities

The NSE all-sector value index indicated further improvement during the year, reflecting price gains in the manufacturing and commercial sub-sectors as well as a significant improvement in the agricultural sector. At 12,137.7 (1984 = 100), the index rose by 10.7 per cent, compared with 35.2 per cent in 2001, with almost all the sectors contributing to the increase. The agricultural sector led with a growth of 288.9 per cent, while the manufacturing sector grew by 30.9 per cent. The financial and commercial sub-sectors recorded growths of 12.2 and 1.9 per cent respectively. The index of the services sub-sector, however, declined by 37.3 per cent (Table 4.10).

4.6.2 New Issues Market

Activities in the new issues segment of the market indicated improved performance over the level in 2001. The Exchange considered and approved 27 applications for new issues, valued at ₦68.6 billion, compared with 23 applications valued at ₦45.6 billion in 2001. There were eight Public Offers (POs), involving some deposit money banks, which sourced funds from the market to meet their new minimum capital requirement.

CHAPTER 5

FISCAL OPERATIONS

The fiscal operations of the Federal Government resulted in an overall deficit of ₦301.4 billion or 5.1 per cent of GDP, compared with the overall deficit of ₦221.1 billion or 4.0 per cent of GDP in 2001. Total federally-collected revenue amounted to ₦1,731.8 billion, representing a decrease of 22.4 per cent, of which, the Federal Government-retained revenue amounted to ₦716.8 billion, representing a decline of 10.1 per cent from the level in 2001. Total expenditure rose by 0.02 per cent to ₦1,018.2 billion. The fiscal operations of government reflected developments in the international oil market. In the first quarter of the year, there was a cut in OPEC production quota designed to shore up crude oil prices. Following the reduction in production and the threats of the US attack on Iraq, oil prices rose from the second quarter of the year. The increase in prices, however, was not enough to offset the revenue loss from the reduction of Nigeria's export volume of crude and, consequently, there was a decline in actual oil revenue relative to the budget estimate for 2002. Another important development that affected fiscal operations of the three tiers of government during the year was the landmark judgement of the Supreme Court delivered in April 2002 which declared unconstitutional the deduction of first line charges as well as allocations to the Federal Capital Territory from the Federation Account.

5.1 Federation Account Operations

Total federally-collected revenue in 2002 was ₦1,731.8 billion, representing a decrease of ₦499.7 billion, or 22.4 per cent from the level in 2001. The decline was traceable largely to the lower allocation of crude oil production quota by OPEC, a significant shortfall in privatization proceeds, and the abolition of tax on petroleum products. Analysis of gross revenue showed that receipts from the oil sector declined by 27.9 per cent to ₦1,230.9 billion, constituting 71.1 per cent of the total, compared with 76.5 per cent in 2001. Receipts from crude oil export declined by ₦438.0 billion to ₦496.3 billion in 2002. Petroleum profit tax and royalties contributed the sum of ₦392.2 billion and represented a decline of ₦247.0 billion or 38.6 per cent from the level in the preceding year. By contrast, domestic crude oil sales rose by 150.4 per cent to ₦304.2 billion and accounted for 24.7 per cent of gross oil receipts. The increase reflected the higher price of US$18.0 per barrel at which deliveries to the local refineries were made, as against US$9.0 per barrel in 2001 (Table 5.1).

The sum of ₦125.7 billion was deducted as first line charges from gross oil receipts during the first quarter of the year as against the ₦804.1 billion deducted in the entire 2001. The sharp fall was due to the Supreme Court Judgement in April 2002 declaring that deductions for purposes of Joint Venture Cash Calls, the settlement of external debt obligations, and NNPC priority projects were unconstitutional.

Revenue from non-oil sources declined by 4.4 per cent to ₦501.0 billion, as against the significant increase of 66.2 per cent recorded in the preceding year. Company income tax (CIT), customs and excise duties, VAT and Independent Revenue of the Federal Government recorded increases. Specifically, CIT increased by 29.7 per cent to ₦89.1 billion while customs and excise duties rose by 6.3 per cent to ₦181.4 billion. Similarly, VAT and Independent Revenue of the Federal Government, at ₦108.6 billion and ₦68.1 billion, exceeded their levels in the preceding year by 18.3 and 53.4 per cent respectively. However, privatization proceeds recorded a sharp decline which more than offset the increases in the other components of non-oil revenue receipts.

5.1.1 Federation Account Allocation

The sum of ₦1,899.5 billion accrued to the Federation Account in 2002, representing an increase of 18.8 per cent over the ₦1,599.4 billion recorded in 2001. Of the total, ₦1,692.8 billion was shared among the three tiers of government and special funds, showing an increase of 23.3 per cent over the ₦1,298.3 billion distributed in 2001. The increase was accounted for by the inclusion of excess crude oil proceeds and receipts from GSM licences. The difference between gross receipts and the amount distributed reflected the exclusion of the Federal Government from independent revenue (₦68.1 billion), the VAT Pool Account (₦108.6 billion), and Others (₦30.0 billion).

A breakdown of the distribution showed that the Federal

Government received ₦859.0 billion, State Governments ₦398.8 billion, Local Governments ₦333.9 billion and Special Funds ₦101.1 billion, of which ₦89.2 billion or 88.2 per cent went to the Derivation Fund shared among the oil-producing states. The amount shared included draw-downs from external reserves, excess crude, etc. The entire federally-collected revenue paid into the Federation Account was distributed among the three tiers of government leaving only ₦356.7 million in the residual account, compared with ₦7,870.4 million in the preceding year.

5.2 Federal Government Finances

5.2.1 Federal Government-Retained Revenue

Federal Government-retained revenue amounted to ₦716.8 billion, representing a decrease of 10.1 per cent from the level in 2001. The analysis of the components revealed that the share of the Federation Account was ₦660.6 billion, the VAT Pool Account (₦15.5 billion), and independent revenue (₦68.1 billion). Other components included its share of GSM privatization proceeds (₦19.7 billion).

5.2.2 Federal Government Total Expenditure

Aggregate expenditure of the Federal Government rose marginally by 0.02 per cent to ₦1,018.2 billion from the level in 2001. It was, however, 10.0 per cent below the budget estimate of ₦1,092.8 billion for the year, reflecting lower capital outlays than anticipated. As a proportion of GDP, total expenditure declined to 17.2 per cent in 2002 from 18.6 per cent in 2001.

Non-debt expenditure (that is, total expenditure less debt service payments) fell by 5.6 per cent to ₦ 814.3 billion from the level in 2001 and was 15.1 per cent below the ₦958.8 billion budget estimate for 2002. Domestic debt service payments amounted to ₦170.6 billion, representing 16.8 per cent of total expenditure and exceeded the budget provision by 21.4 percentage points. The increase reflected the rise in domestic debt stock and in interest rates during the first quarter of 2002 (Table 5.2).

5.2.2 (i) Recurrent Expenditure

At ₦696.8 billion, the recurrent expenditure rose by 20.3 per cent over the level in 2001, reflecting increased outlays on personnel and overhead costs as well as debt service payments. The economic classification of recurrent expenditure showed that government purchases of goods and services amounted to ₦492.9 billion, or 70.7 per cent of the total, while foreign and domestic debt service, at ₦203.9 billion, accounted for the balance of 29.3 per cent.

A breakdown into economic functions showed that the outlay on administration rose by 83.5 per cent over the level in 2001 to ₦331.7 billion and accounted for approximately 50.0 per cent of total recurrent expenditure, while transfer payments declined by 58.7 per cent to ₦109.7 billion in 2002. The total outlay on economic services and social and community services rose by 24.3 and 137.9 per cent over their levels in 2001 to ₦65.9 billion and ₦189.4 billion respectively, and accounted for 9.9 and 28.5 per cent respectively of total recurrent expenditure (Table 5.3).

5.2.2 (ii) Capital Expenditure

In 2002 capital expenditure amounted to ₦321.4 billion, showing a decrease of 26.7 per cent below the level in 2001, and constituted 31.6 per cent of total expenditure. The decline was attributable to the substantial reduction in outlay on priority projects in the economic sector. A breakdown of capital expenditure into economic functions showed that economic services accounted for ₦215.3 billion or 67.0 per cent of the total. Compared with 2001, expenditure on economic services fell by 17.1 per cent, while that on administration increased by 49.3 per cent. Also, expenditure on social and community services which accounted for 10.1 per cent of the total in 2001 declined by 39.0 per cent to ₦32.5 billion, in 2002.

5.2.3 Overall Fiscal Balance and Financing

The fiscal operations of the Federal Government resulted in a deficit of ₦301.4 billion, or 5.1 per cent of GDP, compared with 4.0 per cent recorded in 2001. The deficit was financed entirely from domestic sources, including the use of past savings of excess crude oil proceeds, recovered looted funds and borrowing from the banking system.

5.3 State Government Finances

Provisional data on the fiscal operations of state governments resulted in an overall deficit of ₦54.7 billion in 2002, compared with the ₦23.4 billion overall deficit recorded in 2001. Aggregate revenue of all state governments amounted to ₦669.8 billion, up by 16.8 per cent over the level in the preceding year. Receipts from the Federation Account amounted to ₦388.3 billion, reflecting a decline of 3.9 per cent from ₦404.0 billion in the preceding year. The decline was attributable to the fall in the resources available to the Federation Account for sharing. Receipts from that source accounted for 58.0 per cent of the total revenue of the states, compared with 70.5 per cent in 2001. Other sources of revenue included VAT (₦52.6 billion), representing 7.8 per cent of the total, internally generated revenue (₦89.6 billion), or 13.4 per cent, grants and other sources (₦129.7 billion), or 19.4 per cent, and the stabilization fund, (₦9.6 billion), or 1.4 per cent.

Aggregate expenditure of all the state governments amounted to ₦724.5 billion, up by 21.4 per cent, compared with the level in 2001. At ₦424.2 billion, recurrent expenditure accounted for 58.5 per cent of the total expenditure while capital and extra-budgetary expenses accounted for 42.3 and 2.5 per cent, respectively, compared with their levels in 2001. Furthermore, recurrent and capital expenditures increased by 43.9 and 20.5 per cent, to ₦424.2 and ₦283.5 billion respectively in 2002. Extra-budgetary expenditure fell sharply by 74.8 per cent to ₦16.9 billion.

The overall deficit of ₦54.7 billion was financed from both internal sources and external borrowing. The internal sources, comprising bank loans, issue of bonds, and unsettled obligations to contractors and government workers, amounted to ₦32.4 billion. External loans amounted to ₦15.9 billion; financing from cash balances amounted to ₦5.1 billion; and other sources amounted to ₦1.3 billion, during the year.

5.4 Local Government Finances

The aggregate revenue of the 589 reporting local government councils amounted to ₦172.2 billion. This comprised revenue from internally-generated revenue (₦10.4 billion), the Federation Account (₦128.9 billion), share of VAT proceeds (₦18.7 billion), the stabilization fund (₦9.9 billion), and allocation to states (₦1.7 billion). Aggregate expenditure stood at ₦169.8 billion, consisting of ₦124.7 billion and ₦45.1 billion on recurrent and capital expenditures respectively. Recurrent expenditure comprised personnel costs (₦70.4 billion), overhead costs (₦44.0 billion), consolidated revenue fund charges and others (₦10.3 billion). Total capital expenditure amounted to ₦45.1 billion comprising administration (26.5 per cent), economic services (47.7 per cent), social and community services (22.7 per cent), and transfers (3.1 per cent). The fiscal operations of the reporting local governments resulted in an overall surplus of ₦2.3 billion.

5.5 Public Debt

The total public debt of the Federal Government outstanding as at end-December, 2002 amounted to ₦4,946.2 billion, representing an increase of 17.9 per cent over the stock at the end of 2001. Total debt outstanding as a proportion of GDP was 83.55 per cent, up from 76.4 per cent in the preceding year.

5.5.1 Domestic Debt

The domestic debt stock of the Federal Government outstanding at the end of 2002 stood at ₦1,166.0 billion. This represented an increase of ₦149.0 billion or 14.7 per cent. The increase was partly offset by the ₦0.2 billion redemption of Development Stock at end-December 2002. The banking system remained the dominant holder of Federal Government securities in 2002. It held ₦992.7 billion or 85.1 per cent, representing an increase of ₦54.8 billion over the level in 2001. The Central Bank held ₦532.5 billion or 45.6 per cent of the total, down from 74.5 per cent in the preceding year. Holdings by deposit money banks increased by 260.9 per cent to ₦460.2 billion in

2002, constituting 39.5 per cent of the total. Holdings of the non-bank public rose by 119.1 per cent to ₦173.3 billion. Analysis of the maturity structure of domestic debt revealed that instruments with tenor of two years and below accounted for ₦733.8 billion or 62.9 per cent, compared with 57.5 per cent in 2001. By comparison, instruments of 10 years maturity and above accounted for 37.1 per cent.

5.5.2 External Debt

5.5.2 (i) The Debt Stock

The external debt stock at end-December 2002 stood at US$29.8 billion, representing an increase of US$1.4 billion or 5.1 per cent over the level in the preceding year. The increase was traceable to the capitalization of unpaid interest and charges on Paris Club debt . External debt, as a percentage of GDP, was 74.2 per cent, compared with 58.0 per cent in 2001.

Available statistics showed that the Paris Club accounted for US$24.2 billion or 81.2 per cent of the total while the London Club's claim totalled US$1.4 billion or 4.8 per cent. Promissory Notes stood at US$1.2 billion or 3.9 per cent while "others" accounted for the balance of US$0.06 billion (Table 5.10).

5.5.2 (ii) Debt Service Payments

Available statistics showed that external debt service payments in 2002 amounted to US $1.2 billion, representing a decrease of US $0.9 billion from the actual debt service payments of US$2.1 billion in the preceding year. A breakdown of the payments showed that the sum of US$0.8 billion was in respect of principal repayment, US$0.3 billion for interest payments, while US$0.02 billion was for commitment, penalty interest and other charges (Table 5.11).

5.5.3 Debt Conversion Programme

Performance under the debt conversion programme in 2002 was mixed. Ten (10) applications valued at US$1,505.73 million were received during the year, compared with fourteen (14) valued at US $935.43 million received in 2001. However, seven (7) applications valued at

US$182.27 million were granted approvals-in-principle, compared with two (2) applications valued at US$714.39 million in the preceding year. Nevertheless, disbursements during the year amounted to ₦4,286.3 million, compared with ₦2,244.48 million in 2001.

The total amount of debt cancelled increased by 66.3 per cent from US $27.35 million in 2001 to US $45.47 million in 2002. Similarly, discount received increased to US $8.16 million or ₦1,019.86 million in 2002 from US $6.90 or ₦742.96 million in 2001. A transactions commission of ₦41.91 million was received in 2002, compared with ₦38.19 million realized in the preceding year.

Overall, the level of activity of the debt conversion programme improved slightly in 2002, reflecting the increase in the number of applications received as well as access to Paris Club debts.

CHAPTER 6

THE REAL SECTOR

The real sector recorded modest growth in 2002. The real gross domestic product (GDP) grew by 3.3 per cent, compared with 4.2 per cent in 2001. The growth in output reflected the performance of all the major sub-sectors except mining, which declined. Agricultural production was given a boost by the renewed interest of the Federal Government in the sector, which reflected in the setting up of Presidential Committees to initiate programmes that will promote production, as well as the ban on the importation of poultry products and favourable weather conditions. Manufacturing activities were enhanced by the relative macroeconomic stability, marginal improvements in electricity supply, uninterrupted supply of petroleum products and liberalization of the communications sub-sector. Inflationary pressure moderated, owing largely to the dampening effects of good agricultural harvest on food prices. Unemployment remained a serious national problem while industrial relations suffered a setback with frequent strike actions in the education and health sectors.

6.1 Gross Domestic Product (GDP)

The real Gross Domestic Product (GDP), measured at 1984 constant factor cost, increased by 3.3 per cent to ₦129.83 billion, representing a weaker performance when compared with the 4.2 per cent increase achieved in 2001 and the 5.0 per cent target for the year. Improvements recorded in the output of agriculture, manufacturing, utilities, communications, building and construction, general commerce and services sectors contributed largely to the growth in GDP. Analysis of sectoral contributions showed that the share of agricultural output, comprising crop, livestock, forestry and fisheries rose to 41.2 per cent of GDP in 2002, from 40.4 per cent in 2001. The industrial sector, consisting of crude petroleum, mining and quarrying, and manufacturing contributed 16.1 per cent of the total, down from 17.9 per cent in the preceding year. The share of the services sector was 28.8 per cent, compared with 28.1 per cent in 2001, while general commerce, as well as building and construction contributed

11.3 and 2.6 per cent respectively (Table 6.1).

The lower growth performance in the real GDP during the year was attributable largely to the significant fall of 7.8 per cent in crude oil production following the cut in Nigeria's production quota by the OPEC.

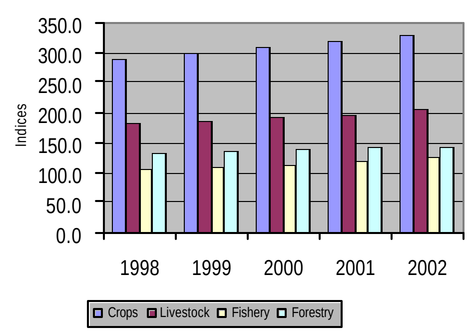
Based on the expenditure approach, private consumption expenditure which accounted for 59.8 per cent of GDP rose by 4.0 per cent, compared with the increase of 14.8 per cent observed in 2001. In the same vein, government final consumption expenditure rose by 5.0 per cent accounting for 14.2 per cent of GDP (Tables 6.2 & 6.3).

6.2 Agriculture

6.2.1 Agricultural Production

The modest improvement in agricultural output observed in the previous years was sustained in 2002. At 278.5 (1984=100), the aggregate index of agricultural production increased by 4.0 per cent, compared with 3.7 per cent in 2001 (Table 6.4). All the sub-sectors contributed to the growth, although the cash crops and forestry sub-sectors grew at much slower rates (Table 6.5). The output of staples rose by 4.2 per cent, compared with 3.5 per cent in 2001. All the major staple crops recorded increases in output over the preceding year's level. For instance, the output of sorghum, beans and yam rose by 3.0, 8.4 and 5.0 per cent respectively, while those of maize and potatoes rose by 1.6 and 9.5 per cent respectively. Also, the output of cash crops rose by 2.2 per cent, compared with 0.5 per cent in the preceding year. All the major crops recorded increased output, which ranged from 0.6 per cent for groundnuts to 10.7 per cent for benniseed.

Figure 6.1
Index of Agricultural Production by Type



A nation-wide survey of the agricultural sector, conducted by the CBN, showed that the improved agricultural performance was attributed largely to the renewed support by the Federal Government to the agricultural sector, reflected in the approval of a new agricultural policy in 2002. In particular, the new policy assigned promotional and supportive roles to government, leaving actual investments to the private sector. In this regard, the mobilization of the various commodity associations and the setting up of some presidential committees (on rice, livestock, cassava, tree crops and vegetable oils), with the mandate to initiate programmes that would boost agricultural production, were some of the major developments in 2002. Also, the ban on the importation of poultry and related products boosted domestic production in the sub-sector. Moreover, the favourable weather conditions, especially rainfall, which was timely, adequate and well distributed throughout the country, contributed to the improved agricultural growth performance. This encouraged intense farming activities, which culminated in increased production.

In spite of the improved performance in the sector, the 4.0 per cent growth recorded was lower than the 5.8 per cent projected annual growth target set in the 2002-2003 National Rolling Plan. Some of the major constraints to optimum output growth during the year were: inadequate supply of fertilizers and other farming inputs, as well as tardiness in the supply and distribution of some of these inputs. For instance, of the 163,700 metric tonnes of fertilizer approved for procurement for wet season farming in 2002, only 104,024.1 metric tonnes (63.5 per cent) were delivered. Another problem was the invasion of farms by quelea birds in Borno, Sokoto, Jigawa, Kano and Bauchi states. Even though the roosting sites of the birds were located and aerially attacked with avicide, the invasion resulted in substantial loss of grains in the affected states. Also, the outbreak of the cassava mosaic disease, which affected cassava production in some states in the southern parts of the country, as well as reported cases of flood in some states, contributed to the non-attainment of the production target.

The index of livestock production, at 204.0 (1985=100) rose by 4.2 per cent, compared with the 2.7 per cent increase recorded in 2001. All the components of the sub-sector contributed to the growth, which was attributed partly to improvements in disease control, restocking of breeding animals and provision of improved supplementary feeds. Also, the ban on the importation of frozen poultry and related products, in addition to other measures adopted by both government and other stakeholders to encourage local production, bolstered output in the sub-sector.

At 124.8 (1984=100), the fisheries sub-sector recorded a growth rate of 6.3 per cent, compared with 4.0 per cent in 2001. The improvement which reflected the growth in the output of all the fishing modes was attributed largely to the impact of various restocking initiatives of government and aquaculture development. These were supported through the establishment and development of fish farm estates as well as lake and lagoon fisheries development and management. However, the high cost of fishing inputs, such as outboard engines and fishing nets, was a disincentive to private sector investment, which slowed down growth in the sub-sector.

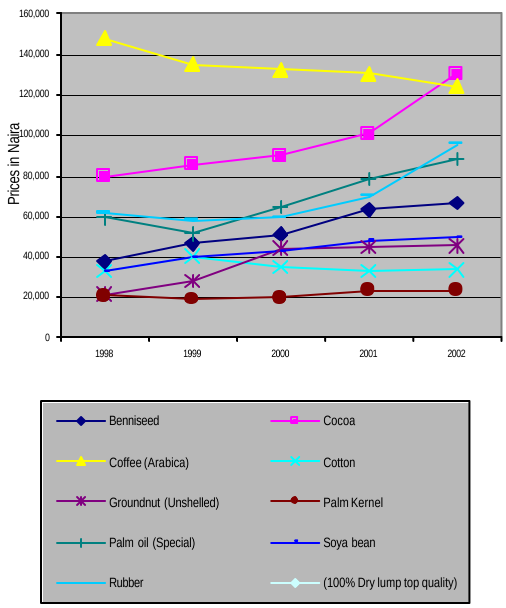
Forestry production increased by 0.8 per cent, compared with the 1.8 per cent increase achieved in 2001. The reduction in the growth rate of the sub-sector was attributed to less intensive exploitation of forest resources during the year.

6.2.2 Agricultural Prices

The prices of Nigeria's major agricultural commodities in the world market continued the upward trend observed in 2001. The all-commodity world price index (1985=100) computed in U.S. dollars, stood at 92.2, representing an increase of 46.8 per cent over the level in the preceding year (Table 6.6). Further analysis showed that the prices of all the commodities monitored rose during the review year, except cotton and coffee, which declined by 5.0 and 16.0 per cent respectively. The items that recorded price increases included: copra (51.3 per cent), cocoa (48.9 per cent), palm oil (41.6

per cent) and soyabean (10.9 per cent). The increase in the world price of cocoa was attributed largely to the decline in the supply of the commodity from Ivory Coast, which is the world's largest producer, following the political crisis in that country.

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



The increase in the prices of other commodities was attributed to increased demand relative to supply. In naira terms, the all-commodity index at 9,684.6 (1985=100) showed an increase of 71.7 per cent over the level in the previous year (Table 6.7). All the monitored items exhibited price increases as follows: cocoa 78.5 per cent, palm oil 47.3 per cent, cotton 4.3 per cent, copra 33.9 per cent, soyabean 23.5 per cent and coffee 11.4 per cent.

The domestic producer prices of Nigeria's major agricultural commodities also increased in 2002 (Table 6.8). The price increases for ten of the thirteen commodities monitored ranged from 0.5 per cent for palm kernel to 37.1 per cent for rubber. Other commodities, such as wheat, cocoa, palm oil, benniseed, soyabean, ginger and cotton, recorded price increases of 35.4, 29.4, 12.5, 5.0, 3.1, 2.8 and 2.0 per cent respectively. The increase in prices was attributed to improved demand. Conversely, excess supply relative to demand depressed the prices of tea, cashew nuts and coffee, hence their prices declined by 43.1, 27.7 and 5.0 per cent respectively.

The urban retail prices of most crops trended downwards during the year. The development was attributable to increased output as well as the release of 8,000 tonnes of assorted grains by the Federal Government from the strategic grains reserves in the country, which dampened the prices of most of the commodities during the year.

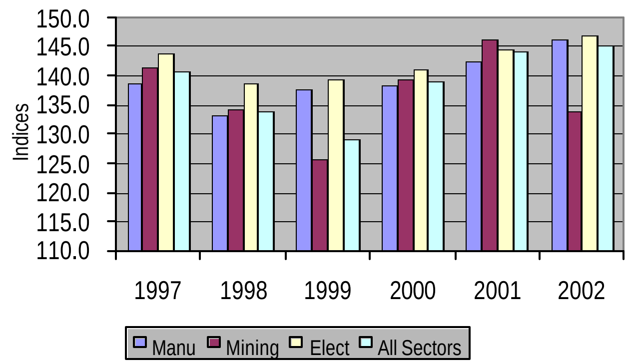
6.3 Industry

Aggregate industrial output declined in 2002. The index of industrial production, estimated at 145.2 (1985=100), fell marginally by 0.1 per cent, compared with 2001 (Table 6.9). This development is attributable to the fall in crude oil production, by 7.8 per cent. However, manufacturing production and electricity consumption rose by 3.0 and 1.5 per cent respectively.

6.3.1 Manufacturing

The manufacturing sub-sector recorded a moderate improvement, as the index of manufacturing production rose from 142.3 (1985=100) in the preceding year to 146.3, indicating an increase of 2.9 per cent (Table 6.10). In general, the expansion in manufacturing production was traced largely to the improvement in the operating environment resulting from a number of factors. Prominent among the factors was the 100 per cent physical inspection of goods at the ports, which compelled importers to pay the appropriate duties, thereby improving the competitiveness of local manufactures. Similarly, the enhanced surveillance of the National Agency for Food, Drug Administration and Control (NAFDAC) assisted in checking the influx of fake and sub-standard drugs/foods into the country. This resulted in increased patronage of locally-manufactured drugs, and thus their increased production. Other contributory factors included the moderate improvement in electricity supply, complemented by increased utilization of gas by some industries as an alternative source of electric power. All these boosted inv-

Figure 6.3
Index of Industrial Production (1985 =100)



estors' confidence in the economy and enhanced output growth in the manufacturing sub-sector. The improved output performance of the manufacturing sub-sector was confirmed by the result of the nation-wide survey conducted by the CBN covering 405 manufacturing firms, with a response rate of 54.8 per cent. The survey showed that the average capacity utilisation rate of respondents rose from 42.7 per cent (revised) in 2001 to 44.3 per cent in 2002. The increase was attributed to the following industrial sub-groups, which operated as follows: Basic industrial chemicals (67.5), wood and cork products (49.7), soft drinks (44.4), vegetable and grain mills (43.2), soap and perfumes (42.1), plastic products (38.7), paints (36.6), textiles (35.5), structural metal products (39.9), motor vehicle assembly (32.8), leather products (31.8), sugar, cocoa and confectionery (24.5), as well as paper and paper products (23.7).

The value of imported raw materials declined by 12.8 per cent in 2002, compared with 2001, while the value of locally-sourced raw materials increased by 25.5 per cent during the review period. Total employment and investment expenditure increased by 0.4 and 19.8 per cent respectively. The level of funding from local banks increased by 24.6 per cent, company's own funds by 16.2 per cent, and foreign funding by 199.0 per cent. Raw materials, salaries and wages and others contributed 65.7, 10.7 and 9.1 per cent, respectively to the total cost of production.

6.3.2 Mining

Mining production fell in 2002. At 133.7 (1985=100), the index of mining production declined by 7.7 per cent, as against the increase of 0.4 per cent recorded in 2001. The decrease in output was attributed mainly to the decline in crude petroleum production, which accounted for the bulk of the total output in the sub-sector (Table 6.11). In contrast, the output of cassiterite, columbite, coal, limestone and gas posted increases, which reflected increased demand by end-users.

6.3.2.1 Crude Oil

Aggregate crude oil production, including condensates, was estimated at 767.47 million barrels or 2.10 million barrels per day (mbd) in 2002, representing a decline of 7.8 per cent as against an increase of 0.4 per cent recorded in the preceding year. The decrease was attributable to the cut by OPEC of Nigerian's production quota to 1.787 mbd in

2002. 'Oso' condensates accounted for 32.59 million barrels of the total production, compared with 34.58 million barrels recorded in the preceding year. Of the total daily production, an average of 1.66 mbd representing 79.0 per cent was exported, compared with 1.87 mbd or 82.0 per cent in 2001. The NNPC purchased 162.66 million barrels for domestic consumption, out of which 78.95 million barrels or 48.5 per cent was delivered to local refineries, while 83.71 million barrels or 51.5 per cent were exported and the proceeds used in importing petroleum products.

The spot price of Nigeria's reference crude, the Bonny Light (37^0 API), averaged US $25.04 per barrel, representing an increase of 2.1 per cent over the price level in 2001. The average spot price of the Forcados crude was US$24.95 a barrel, compared with US$24.13 in 2001, representing an increase of 3.4 per cent. Similarly, the average price of the UK Brent rose by 2.2 per cent to US $24.96 a barrel in 2002. In the American spot market, the average price of the Arab Light and the West Texas Intermediate (WTI) increased to US $22.73 and US $26.01 per barrel from their respective levels of US $17.57 and US $25.86 per barrel in 2001. The increase in prices was attributable to OPEC's reduction in crude oil production quotas to its member-countries, with support from Non-OPEC member countries, especially Russia and Norway, which also cut their production. The cut in production was aimed at shoring up prices. Other contributory factors included: the persistent tension in the Middle East, threat of war on Iraq by the United Sates of America, severe winter in the Northern Hemisphere and the protracted industrial action by Venezuelan oil workers.

6.3.2.2 Gas

The production of natural gas increased by 6.9 per cent to 58,420.9 million cubic metres (MMm^3) in 2002, owing to the high gas-oil ratio in most producing wells. Of this output, the quantities of gas utilized and flared increased by 6.5 and 7.4 per cent to 30,507.3 MMm^3 and 27,913.6 MMm^3 respectively. Gas flared accounted for 47.8 per cent of total output, almost the same proportion as in 2001. Gas sold to industries for power generation rose by 8.7 per cent to 16,015.4 MMm^3, out of which 8,310.2 MMm^3 was sold to the Nigerian Liquefied Natural Gas Ltd. (NLNG). Gas converted into natural gas liquids (NGL) rose by 52.4 per cent to 2,641.9 MMm^3. Gas re-injected into the wells for conservation stood at 8,651.8 MMm^3 showing a decrease of 5.2 per cent from the level in the previous year, while gas used as fuel by oil companies fell by 2.9 per cent to 2,133.4 MMm^3.

The NLNG produced a total of 13.71 MMm^3 liquefied natural gas during the year, representing an increase of 3.7 per cent over the 13.22 MMm^3 produced in 2001. The company exported 13.47 MMm^3 LNG in 2002 from which it realized revenue of US$1,047.0 million, compared with the export of 12.57 MMm^3 sold for US$1,145.0 million in 2001. The NLNG Ltd also produced and exported 234,484 tonnes of condensates from which it realized US$50.0 million, as against an export of 264,221 tonnes of condensates, which yielded US$52.0 million in 2001. The third train expansion programme of the company was completed and commissioned during the year.

6.3.2.3 Solid Minerals

Solid minerals production improved slightly during the year under review, as aggregate output rose by 0.5 per cent to 2.13 million tonnes, compared with the increase of 0.2 per cent to 2.12 million tonnes in 2001. The increase was accounted for by marginal increases in the output of all components, except for cassiterite, which declined by 1.2 per cent.

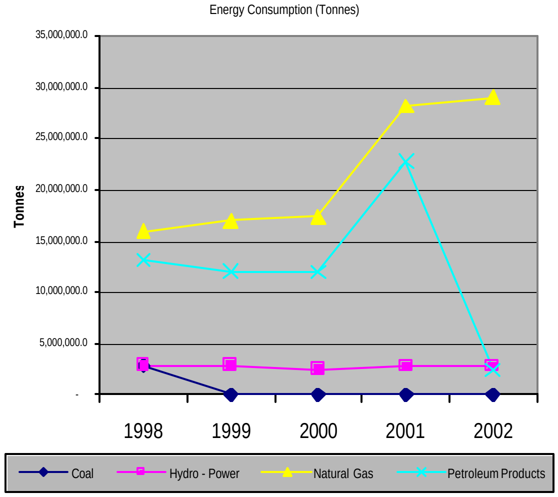
6.3.3 Electricity Generation

Aggregate electricity generation increased by 6.4 per cent to 16,088.7 million KWh, in contrast to a decrease of 6.5 per cent recorded in the preceding year. The improvement was attributed largely to the rehabilitation of some generating equipment and a higher utilization of existing capacities. The National Electric Power Authority (NEPA) accounted for 99.5 per cent of the total electricity power generated, while thermal energy purchased from private firms contributed 0.5 per cent.

6.3.4 Energy Consumption

At 165.4 (1985=100), the aggregate index of energy consumption increased by 0.9 per cent in 2002, compared with the increase of 68.7 per cent in the preceding year. The volume of energy consumed increased from 54.0 million tonnes of coal equivalent (tce) to 56.1 million tce in 2002. The improvement was accounted for by increases in the consumption of hydro-power (0.2%), natural gas (3.1%), and petroleum products (6.2%). The consumption of coal, however, declined by 8.3 per cent.

Figure 6.4:
Energy Consumption (Tonnes)



6.3.4.1 Petroleum Products

Aggregate quantity of petroleum products consumed increased by 6.2 per cent to 10,720.5 million tonnes during the review period, compared with the increase of 12.5 per cent in 2001. The consumption of Liquefied Petroleum Gas (LPG), Premium Motor Spirit (PMS), Automotive Gas Oil (AGO), Diesel and others, increased by 8.1,16.5,1.1 and 3.9 per cent respectively, while Dual Purpose Kerosene (DPK), Low Pour Fuel Oil (LPFO), lubricating oil and bitumen/asphalt consumption declined by 13.9, 22.1, 4.9 and 32.0 per cent respectively.

6.3.4.2 Electricity Consumption

Electricity consumption increased by 2.4 per cent to 8,893.8 million KWh in 2002, compared with an increase of 0.2 per cent in the preceding year. The rise in consumption was accounted for by increases of 2.4, 2.1 and 2.4 per cent in residential, commercial/street lighting and industrial consumption, respectively. The improvement reflected mainly the impact of efforts at boosting electricity generation and distribution in the country. Residential consumption accounted for 52.0 per cent of total electricity consumption, while commercial and street lighting and industrial consumption had 26.2 and 21.8 per cent of total, respectively.

6.3.4.3 Coal

Coal consumption declined by 6.3 per cent to 9,008.1 tonnes during the year, the same rate as in 2001. The fall in coal consumption was attributable to improvement in the usage of other forms of energy, especially petroleum products and natural gas.

6.3.4.4 Natural Gas

The consumption of natural gas, at 29.1 million tce, represented a 3.2 per cent increase and accounted for 51.8 per cent of total energy consumed, compared with the increase of 2.1 per cent and a 52.3 per cent share in 2001. The increase in natural gas consumption was attributed partly to its increasing role as an emerging source of fuel for industrial enterprises, including the breweries, chemical and gas plants, and partly to the intensive exploration activities of some oil companies that required much natural gas for re-injection.

6.3.4.5 Hydro-Power

At 2.8 million tce, hydropower consumption increased by 0.2 per cent in 2002, compared with an increase of 13.0 per cent recorded in the preceding year. The increase in hydro-power consumption reflected the improvement in power generation and productive activities during the year, particularly in the manufacturing sub-sector.

6.4 Construction

6.4.1 Housing Construction

In 2002, the Central Bank of Nigeria (CBN) conducted a pilot survey of housing construction in Nigeria. The objective was to collect information on housing units constructed in the country, for the purpose of planning and policy formulation, as the housing index serves as an indicator of economic and social development in the economy.

During the survey, data on applications for building permits and approvals were collected from the Ministries of Lands and Surveys in seven states of the federation, as well as the Federal Capital Territory, and used as proxy for housing construction. Simple indices were constructed using the number of building plans approved as proxy for the number of houses built. The Housing Construction Index (HCI) was calculated using 1997 as the base year with weights derived from the 1997 population estimates for the selected states.

Analysis of the data revealed that the overall HCI for the selected states trended downwards between 1997 and 1999, but assumed an upward trend from 2000 to 2001. The aggregate HCI fell from 100 in 1997 to 94 (1997 = 100) in 1999 before rising to 136.3 and 168.8 in 2000 and 2001 respectively. Movement in the HCI during the period was in tandem with the trend in real GDP growth rate, suggesting that the HCI could serve as a reliable proxy for gauging the direction of output growth in the economy.

6.4.2 Road Development

A nation-wide survey was conducted by the CBN on the state of highways in the country in December 2002. The purpose of the survey was to gather pertinent information needed to assess the status of the roads and their maintenance.

The survey revealed that the road network, as at December 2002, was estimated at 194,000 kilometers, with the Federal Government being responsible for 17 per cent, State Governments 16 per cent, and Local Governments 67 per cent. It was also shown that most of the roads were in a bad condition, especially those in the South Eastern and North Western parts of the country. The pattern is generally the same for the roads in the other parts of the country. Some of the roads, constructed over 30 years ago, had not been rehabilitated even once, resulting in major cracks (longitudinal and transverse), depressions, broken down bridges and numerous potholes that make road transport slow and unsafe. The survey indicated that the state of Nigerian roads had remained poor for a number of reasons, including faulty designs, lack of drainage and very thin coatings that are easily washed away; excessive use of the road network, given the underdeveloped nature of waterways and railways which could serve as alternative means of transport; absence of an articulated road programme, and inadequate funding for road maintenance.

The most serious problem appears to be inadequate funding. The survey returns revealed that from 1999 to 2002, less than 10 per cent of the funding request made by the Federal Ministry of Works and Housing for road maintenance were appropriated, but only 53.5 per cent of the appropriation was released. For each of the years, tollgate collections alone were much higher than the total funds released for road maintenance. An Executive Bill for the establishment of the National Road Maintenance Agency, with responsibility for the maintenance of federal highways, was passed into law late in 2002.

6.4.3 Seaport Development

The activities of the Nigerian Port Authority (NPA) witnessed a boost in 2002. Rehabilitation work at the Lagos port complex attained 73 percent level of completion, while work on the flood control and rehabilitation of the stacking areas of the Ijora lilly-pond attained 53 per cent level of completion. The delay in the completion of the projects was as a result of non-payment of certified bills to the contractors. Also during the year, the NPA gave approval for Flour Mills Nigeria Ltd to commence construction works on Berths 1-3 of the Lagos port complex to be funded by the company on an amortization plan which commenced on 1st September 2002. The project had attained a 25 percent level of completion by the end of 2002.

6.5 Transportation and Communications

6.5.1 Shipping Services

The level of shipping services declined in 2002 as the number of ships which berthed at Nigerian ports decreased by 15.5 per cent to 2,688 thousand. Their net registered tonnage (NRT) also decreased by 14.9 percent to 17.49 million tonnes. Similarly, the number of ships that departed Nigerian ports fell by 4.2 per cent to 2,812 with a NRT of 18.16 million tones, representing a decrease of 4.0 per cent over the preceding year's level. A further breakdown revealed that the volume of non-oil shipment fell by 3.3 per cent to 30.0 million tonnes, in contrast to the increase of 27.4 per cent recorded in 2001. Non-oil imports and exports fell, each by 2.0 and 15.4 per cent to 22.0 million tonnes and 8.0 million tonnes respectively.

The quantity of goods transported from the hinterland to the Nigerian ports by all modes of transportation fell by 8.8 per cent to 9.7 million tonnes. Combined haulage by pipelines, conveyor belts and suction pipes, which were the major modes of haulage, fell to 8.6 million tonnes, representing 89.6 per cent of the total. However, transportation by road, which constituted 10.3 per cent of the total in 2001, rose by 17.7 per cent to 993,000 tonnes in 2002, while transportation by water, which accounted for only 0.2 per cent of the total in 2001, fell by 46.7 per cent to 24,000 tonnes in 2002. Haulage by rail was negligible as in the previous years.

6.5.2 Airline Services

6.5.2.1 Nigeria Airways

The performance of the Nigeria Airways on domestic routes was mixed. The number of passengers carried and the volume of cargo tonnes per kilometre airlifted each increased by 4.0 per cent. Also, freight tonnes carried and aircraft per kilometre flown each rose by 4.0 per cent. Although, the performance in the review period witnessed a modest improvement in some areas of its activities, the airline was yet to recover its pre-eminent position in the industry.

The airline's performance was also mixed on the international routes. On the African routes, the number of passengers carried increased by 13.0 per cent to 29,000 over the level in the preceding year. In contrast, freight tonnes, cargo tonne-kilometre, aircraft-kilometer, mail tonne-kilometre, and passenger tonne-kilometres covered, registered declines ranging from 1.1 per cent for cargo tonnes per kilometre to 18.8 per cent for mail tones per kilometre. The performance of the airline on other international routes exhibited the same trend as in the African routes. For instance, the number of passengers carried in the first half of 2002 stood at 17,097.0, about 13.8 per cent below the number carried in the whole of 2001. Other indicators which registered increases as at the end of the first half of 2002 included passenger-kilometres and aircraft-kilometres measures. Freight tonnage, however, trended downwards as it stood at 38.0 in the first half of 2002 whereas it recorded 222.0 in 2001. The poor performance of the Nigeria Airways on the international routes may be attributed to inadequate funding and poor management, in addition to a drastic reduction in its fleet.

6.5.2.2 Private Domestic Airlines

The operations of the private domestic airlines recorded a marginal improvement during the year under review. The number of passengers airlifted rose by 0.04 per cent, compared with 0.05 per cent in 2001. Similarly, mail tonnes per kilometre and cargo tonnes per kilometre rose by 0.3 and 0.2 per cent respectively, compared with 0.6 and 0.3 per cent in 2001. The improvement in the performance of the airlines was attributable to enhanced competition engendered by an increased number of airline operators and the acquisition of additional aircraft by some of the existing operators.

6.5.3 Communications

The operations of the communications sub-sector showed improvement in 2002. The operations of NITEL showed that the total number of telephone lines increased by 20.3 per cent from 767,862 in 2001 to 932,424 in 2002. The total number of calls per minute, however, fell by 7.6 per cent from 896,236,679 to 827,830,974. The amount paid for calls increased from ₦4.5 billion to ₦5.0 billion in 2002. Of the ₦5.0 billion paid for calls in 2002, about ₦3 billion or 60.0 per cent went for local, fixed calls, 22.0 per cent or ₦1.1 billion was GSM, while 16.0 and 2.0 per cent went to domestic analogue and international fixed calls respectively.

The deregulation of the sector, which saw the introduction of the Global System of Mobile (GSM) communication in 2001, contributed immensely to the improvement in communication services. The two private operators, MTN and ECONET, increased their telephone lines from 300,000 in 2001 to 1,660,000 in 2002. The breakdown showed that MTN had 960,000 lines while ECONET had 700,000. These lines, in addition to about 500,000 connected NITEL fixed lines, 136,758 GSM lines, and 38,881 analogue lines, put the Nigeria's teledensity at 1:51, which was above the International Telecommunication Union (ITU) standard of 1:100. As at December 2001, Nigeria's teledensity was 1:165. Another private operator, GLOBACOM, had been issued with a licence and was due to commence operation by the end of the first quarter of 2003. In addition, NCC had issued a licence to NITEL to operate an independent GSM service. This was with a view to creating a level playing field between NITEL and other private sector operators.

6.6 Unemployment and Industrial Relations

6.6.1 Unemployment

The composite registered unemployment rate for December 2002 was projected at 3.7, compared with 3.8 in 2001. The urban and rural unemployment rates were also projected at 5.6 and 3.0 per cent respectively, compared with 5.4 and 3.1 per cent in the preceding year. However, the low unemployment rates should be interpreted with caution, in view of the high incidence of underemployment. For instance, the country has a large informal sector in which a substantial number of the unemployed take up employment.

The number of the unemployed registered with the Employment Exchange Offices increased in 2002. This was as a result of expectations about placements by the labour exchange, following the re-focused poverty alleviation and other employment-generation-related programmes of the three tiers of government. Data from the Employment and Exchange Offices showed that the number of registered (lower-grade) unemployed was 85,648, representing a 0.3 per cent decline from the level in 2001. However, the number registered in the professional and executive cadre rose by 12.2 per cent, in contrast to the decline of 19.6 per cent in the preceding year. The vacancies declared for the lower-grade workers by the Employment Exchange Office decreased by 5.7 per cent, in contrast to the increase of 13.0 per cent recorded in the preceding year.

6.6.2 Industrial Relations

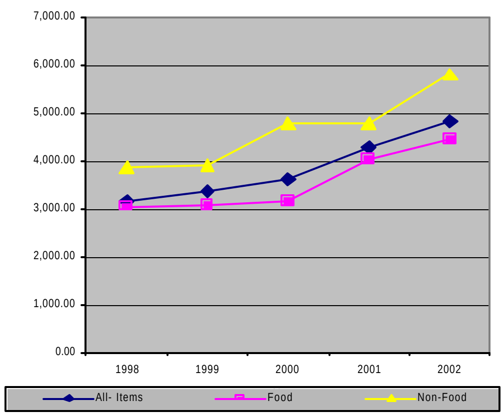
The economy witnessed a relatively peaceful industrial atmosphere in 2002 as the number of trade disputes declared reduced by 2.0 per cent, compared with an increase of 4.1 per cent in 2001. About 42 trade disputes declared during the year resulted in work stoppages, representing an increase of 13.5 per cent over the preceding year's level. Similarly, the number of workers involved and man-days lost rose by 16.5 and 16.6 per cent respectively. The relatively peaceful industrial relations witnessed during the year was due largely to continuous dialogue between labour and employers and the timely resolution of potential areas of difference, even though labour relations deteriorated in the education and health sectors.

6.7 Consumer Prices

Inflationary pressure moderated during 2002. Data from the Federal Office of Statistics (FOS) showed that the average all-item composite Consumer Price Index (CPI) for the twelve-month period ended December, 2002 was 4,817.8 (1985=100). This represented an inflation rate of 12.9 per cent as against the single digit rate targeted and the 18.9 per cent observed in 2001. The rise in price level was induced by the depreciation of the Naira exchange rate and the excessive growth in domestic liquidity. The food index, which stood at 4,560.7 (1985=100), registered a rise of 13.4 per cent, compared with a 28.0 per cent increase in the preceding year. All the non-food components of the index, especially drinks, tobacco and kola; accommodation, fuel and light; recreation, entertainment, education and cultural services; and other services, recorded price increases of

24.1, 16.9, 10.0 and 18.3 per cent, respectively.

Figure 6.5
Composite Consumer Price Index, 1985=100



The average all-item urban CPI stood at 5,046.2 (1985=100), representing an increase of 12.4 per cent, compared with the 20.4 per cent rise in 2001. The increase was traced to all the component items, ranging from 1.7 per cent for other services to 24.6 per cent for drinks, tobacco and kola. Similarly, the all-item rural CPI at 4754.5 (1985=100), indicated an increase of 12.8 per cent, compared with 18.3 per cent in 2001. All the component items except clothing, and footwear and transport contributed to the increase (Table 6.16).

6.8 Social Services

The social sector recorded some positive developments in 2002. These included the implementation of some projects under the National Poverty Eradication Programme (NAPEP), intensification of the surveillance activities of NAFDAC, and the commencement of the National Health Insurance Scheme. Further improvement in the provision of social services was constrained largely by incessant industrial action in the education and health sub-sectors during the year.

6.8.1 National Poverty Eradication Programme (NAPEP)

As part of the efforts to accelerate the pace of poverty reduction in the country, the Federal Government strengthened the National Poverty Eradication Programme (NAPEP) and the strategy for its implementation. Budgetary allocation to the core poverty eradication ministries and agencies, totalling ₦132.47 billion, was pooled into the Poverty Eradication Fund. Several projects were also undertaken in all the states under the various schemes of NAPEP. For instance, a total of 2,497 three-wheeler paggio cars, called “KEKE NAPEP”, were sold to beneficiaries at subsidised rates in all the states in the federation.

6.8.2 Health Care Delivery

Budgetary allocation to the health sub-sector increased by 1.3 per cent over that for 2001 to ₦40.7 billion in 2002. Immunization against polio and other child-killer diseases was intensified. Also, grants of about ₦457.0 million were given to some of the Federal University Teaching Hospitals and Federal Medical Centres for the execution of special projects, including the building and upgrading of facilities.

The NAFDAC intensified its surveillance efforts aimed at ridding the country of fake, expired and sub-standard drugs/products. The agency visited some overseas drugs and food manufacturing and exporting companies to solicit compliance with international standards. It also shut down some local pharmaceutical companies engaged in illegal production and sale of expired drugs.

The National Health Insurance Scheme (NHIS) took off in March 2002 as one of government's efforts aimed at improving healthcare delivery. The NHIS is intended to cover various health care services, including outpatient care, provision of prescribed drugs (as contained in the NHIS essential drugs list) and maternity care for up to four live births for every insured person. Other services covered include: routine immunization (as contained in the National Programme on Immunization) and hospital care in a standard ward of a public or private hospital during a stated duration of stay for physical or mental disorders.

6.8.3 Education

Budgetary allocation to the education sub-sector declined by 16.3 per cent to ₦69.03 billion in 2002. However, efforts were made to rehabilitate and improve primary and secondary schools, under the Universal Basic Education Programme. Enrolment in primary and secondary schools increased by 8.0 and 7.0 per cent to 29.6 million and 7.5 million respectively. Improved performance in the education sector was however, constrained by frequent labour unrests in some Universities.

6.8.4 Water Resources Development

The budgetary allocation to water resources development declined significantly by 50.7 per cent to ₦31.94 billion in 2002. Nonetheless, expansion of some rural water supply projects was executed during the year. These included the Jimeta/Yola water treatment plant in Adamawa State and the Azare water project which was taken up by the Hadejia Jamaa're River Basin Development Authority. Similarly, the Upper Benue River Basin Development Authority provided 281 boreholes to communities in Taraba, Gombe and Adamawa States.

6.8.5 Demography

The projected annual growth rate of 2.83 per cent (based on the revised 1991 census) puts Nigeria's population at 122.1 million in 2002. Available data showed that maternal and infant mortality rates remained unchanged in 2002 at 10.0 and 75.1 per 1,000 live births respectively. Similarly, crude birth and death rates stood at 49.0 and 41.0, per 1000 persons, respectively.

6.8.6 Environment

Environmental protection and natural resources conservation efforts were intensified in 2002. Budgetary allocation to the sector increased by 43.1 per cent to ₦2.4 billion over the level in the previous year. The Federal Government also released ₦25 million for the temporary sand-filling of 600 metres length and 120 metres width of the Bar Beach in Lagos. Efforts were also made by private firms at improving the environment. Contracts for 19 erosion control projects totalling ₦1.3 billion were awarded in 14 States and the FCT. The sum of ₦711.7 million was released to the Ecological Fund in 2002. This amount represented an 89.4 per cent decline from the level in 2001, following the discontinuation of allocation in April, 2002 as a result of the Supreme Court judgement which abolished the special fund.

CHAPTER 7

The External Sector

The external sector was under severe pressure in 2002 as the balance of payments swung into an overall deficit of ₦525.7 billion, or 8.9 per cent of GDP, from a surplus of ₦24.7 billion or 0.4 per cent of GDP in 2001. Consequently, there was a substantial draw-down of the external reserves and deferred payments of scheduled debt service obligations. The current account recorded a surplus of ₦232.9 billion, which was more than offset by the deterioration in the capital and financial account position. The deficit in the capital and financial account widened from ₦211.2 billion in 2001 to ₦749.4 billion in 2002. In addition, the naira exchange rate depreciated from an average of ₦111.90 per US$1.00 in 2001 to ₦120.47 in 2002. The level of external reserves declined by 23.3 per cent from end-December 2001 level of US$10.42 billion to US$7.99 billion while the deferred scheduled debt service totalled US$1.93 billion. The level of external reserves could support 6.4 months of current foreign exchange disbursements, compared with 8.0 months in 2001. In terms of visible imports, the external reserves could finance 10.1 months of current imports.

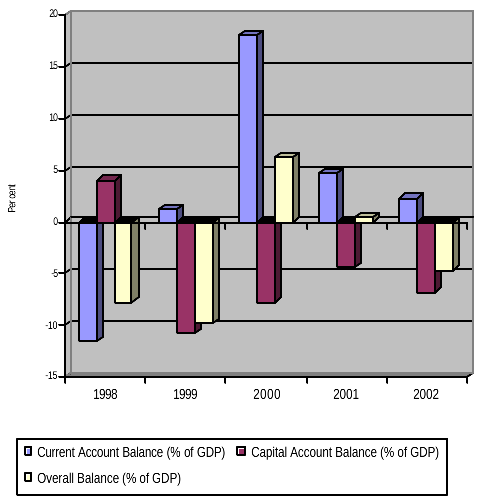
7.1 The Current Account

The current account surplus decreased marginally from ₦242.9 billion in 2001 to ₦232.9 billion in 2002, influenced by developments in the international oil market. The surplus in the goods account, adjusted for balance of payments, declined from ₦767.0 billion in 2001 to ₦726.5 billion in 2002. The deficit in the services account narrowed, while that in the income account increased by 10.8 per cent during the year. Current transfers (net) also increased by 11.6 per cent to ₦169.7 billion (Table 7.2).

7.1.1 Goods Trade

Aggregate goods (merchandise) trade (unadjusted for balance of payments) decreased by 6.7 per cent to ₦3,124.3 billion, resulting from the drop in both receipts from oil exports, and import bills. Total receipts from exports declined from ₦2,001.2 billion in 2001 to ₦1,874.9 billion. The oil sector component of export receipts fell by 9.8 per cent to ₦1,780.2 billion, while non-oil export receipts more than tripled, from N28.0 billion in 2001 to ₦94.7 billion.

Figure 7.1
Balance of Payments

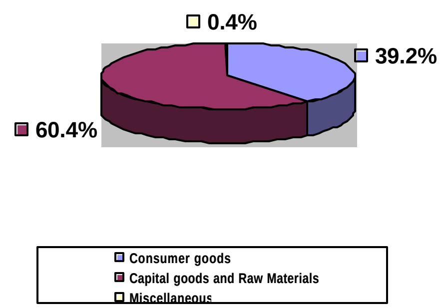


Imports declined by 7.3 per cent to ₦1,249.4 billion. The drop in imports was attributable to the fall of 10.8 per cent in the non-oil component. Similarly, the surplus on merchandise trade, unadjusted for balance of payments, decreased from ₦653.8 billion in 2001 to ₦625.5 billion, reflecting the dwindling receipts from the export sub-sector. (Table 7.3).

7.1.1.1 Imports: Cost and Freight (cfr)

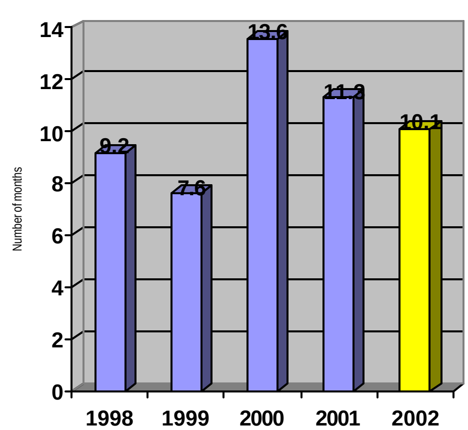
Total imports declined by 7.3 per cent from ₦1,347.5 billion in 2001 to ₦1,249.4 billion. The oil sector imports, however, increased by 11.0 per cent to ₦239.1 billion, while the non-oil component contracted by 10.8 per cent to ₦1,010.3 billion. A review of imports by end-users revealed that the share of consumer goods in total imports rose by 0.4 percentage point to 39.2 per cent, while capital goods and raw material imports, as a group, declined from

Figure 7.2 : Imports By Major Groups, 2002



60.9 per cent to 60.4 per cent. In the consumer goods sub-group, durable goods fell by 0.3 percentage point to 2.9 per cent, while the non-durable

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



goods increased by 0.7 percentage point to 36.3 per cent. The marginal decline in the share of capital goods and raw material imports was reflected in both components, which declined from 21.1 and 39.8 per cent in 2001 to 21.0 and 39.4 per cent respectively. However, the share of raw material imports as a sub-group (39.4 per cent) accounted for the highest share, in response to the increased needs of the industrial sector (Table 7.4).

Analysis of imports, based on the Standard International Trade Classification (SITC), revealed that the value of most categories of imports fell from their respective levels in 2001 except beverages and tobacco, animals and vegetable oils, mineral fuels and miscellaneous manufactured goods. In relative terms, the shares of manufactured goods at ₦360.6 billion, or 28.9 per cent of the total, ranked highest followed by machinery and transport equipment (₦298.0 billion or 23.9 per cent) and chemicals (₦277.0 billion, of 22.2 per cent) (Table 7.5).

7.1.1.2 Exports (fob)

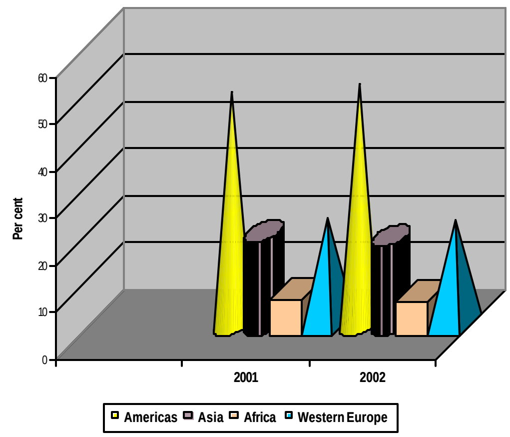
Aggregate value of exports declined from ₦2,001.2 billion in 2001 to ₦1,874.9 billion, reflecting mainly the contraction in the oil sector performance. Crude oil exports dominated the export sector, accounting for 87.9 per cent of the total. In the year under review, the share was 4.0 percentage points lower than the 91.9 per cent recorded in 2001. Gas accounted for 7.1 per cent of total exports, compared with 6.7 per cent in 2001. At ₦1,780.2 billion, oil sector exports fell by 9.8 per cent from the level in 2001, attributable mainly to the cut in production quota by OPEC. Whereas the average price of crude oil rose marginally from US$24.5 in 2001 to US$25.0 per barrel, the volume exported declined sharply from 674.9 million barrels in 2001 to 545.1 million barrels in 2002. Consequently, the share of non-oil exports recorded a remarkable increase from 1.4 per cent in

2001 to 5.1 per cent, the highest in a decade. The improvement in the non-oil exports was attributable largely to the liberalized market environment, improvements in physical infrastructure, and en-hanced world prices of Nigeria's schedule export commodities, especially cocoa and palm oil, during the year.

7.1.2 Direction of Oil Exports

The Americas as a group accounted for the largest share of Nigeria's crude oil exports. The value of crude oil export to the countries in this group increased by 1.5 percentage points to 51.1 per cent. In contrast, the share of the Western European countries in total crude oil exports declined marginally from 22.9 per cent to 22.4 per cent. The value of Nigeria's crude oil export to Asia, which had been on the increase since 1999, dropped to ₦313.1 billion from ₦366.0 billion in 2001. The relative share also declined to 19.0 per cent from 19.9 per cent in 2001. A similar trend was observed for African countries where both the volume and value declined in 2002. Overall, the United States of America (USA) remained the largest importer of Nigeria's crude oil, accounting for 40.3 per cent of total exports.

Figure 7.4
Direction of Crude Oil Export



However, export of crude oil to the Americas decreased to 278.5 million barrels valued at ₦842.2 billion, from 334.9 million barrels valued at ₦912.7 billion in 2001. Similarly, the volume and value of oil exports to Western Europe also fell during the review year. Oil exports to the region totalled 121.0 million barrels valued at ₦369.2 billion, compared with 154.4 million barrels worth ₦420.7 billion in 2001.

7.1.3 The Services Account

The deficit in the services account persisted, although it narrowed from ₦332.2 billion in 2001 to ₦282.2 billion in 2002. The deficit was attributable to out-payments in respect of transportation, travels and "other business". Net out-payments in respect of travels, "other business" and transportation were ₦156.6 billion, ₦145.4 billion and ₦98.9 billion respectively. However, outflows in respect of management, technical and consultancy services, as a group, remained the highest at ₦261.7 billion. The factors militating against improvements in the services account included the dominance of the freight business by foreign carriers, the increased volume of business and private travels abroad, as well as the low participation by Nigerians in the provision of international services.

7.1.4 The Income Account

The deficit in the income account (net) increased from ₦343.9 billion in 2001 to ₦381.1 billion. The development was attributable to interest payments on scheduled debt service and the relatively high retained earnings by the oil companies. The level of scheduled interest payments on external debt for 2002, which amounted to ₦209.2 billion (US$1.7 billion), remained very high thereby reducing the amount of resources available for domestic investment. The combination of external debt service payments and the repatriation of capital and investment earnings by foreign companies operating in Nigeria outweighed the inflows from investment income from abroad in the form of interest on reserves and other investments. Due to the fall in the level of reserves and other investment, inflows from these components of investment income fell from ₦40.3 billion to ₦19.2 billion.

7.1.5 Current Transfers

The surplus in the current transfers account (net) which dropped to ₦152.0 billion in 2001 increased by 11.6 per cent to ₦169.7 billion in the year under review. This was attributed to increased resource inflows in the form of grants from official development assistance (ODA) and personal home remittances by Nigerians living abroad. This more than offset the net deficit in general government accounts in respect of foreign embassies' expenses, payments to international organizations, and remittances of foreigners resident in the country. In 2002, general government current transfers (net) recorded a deficit of ₦1.5 billion as against the surplus of ₦6.2 billion recorded in 2001. Current transfers from "other sectors" rose by 17.5 per cent to ₦171.2 billion. Gross inflows from current transfers stood at ₦157.1 billion, while outflows remained low at ₦10.7 billion. The net inflow reflected mainly private transfers-(Personal Home Remittances).

7.2 The Capital and Financial Account

The capital and financial account remained weak, as the position deteriorated further from a deficit of ₦211.2 billion in 2001 to ₦749.4 billion. This development was attributable to the combined effect of the high level of amortisation and the increased net claims on foreign buyers of Nigeria's crude oil. Net direct investment increased remarkably by 70.0 per cent; while the total capital inflow was ₦238.4 billion as against the outflow of ₦13.4 billion, resulting in a net inflow of ₦225.0 billion. This represented new capital funds for oil sector activities, especially the gas sub-sector, and telecommunications. However, portfolio investment dropped from ₦92.5 billion to ₦16.1 billion, reflecting divestments by foreigners in Nigeria's capital market, despite the internationalization of the operations. "Other investment" continued to be under pressure and outweighed the surpluses in direct and portfolio accounts. Consequently, a huge deficit of ₦997.0 billion emerged, traced to amortization due (₦164.7 billion) and a sharp increase in short-term net claims on non-residents.

7.3 External Assets

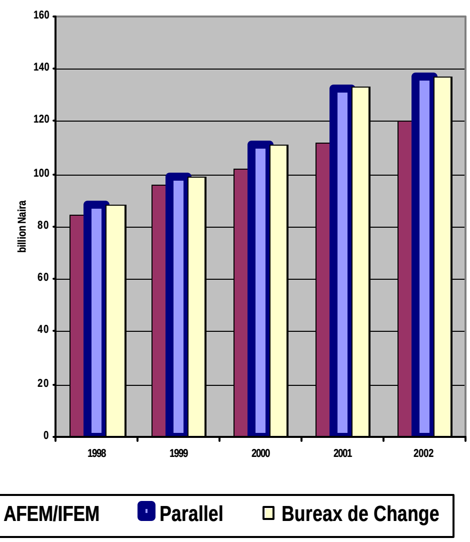
Total external assets as at end-December 2002 was ₦1,354.9 billion, representing a fall of ₦117.2 billion or 8.0 per cent from the level a year earlier. The fall was reflected in the CBN holdings (external reserves) due to the decline in export earnings from the oil sector. The CBN foreign assets holding fell from ₦1,181.7 billion (US$10.42 billion) in 2001 to ₦1,013.5 billion (US$7.99 billion) and its share in the nation's total external assets holdings also fell by 5.5 percentage points to 74.8 per cent at end-December 2002. The net foreign asset holdings of deposit money banks, which constituted 25.0 per cent of total external assets, rose from ₦287.8 billion (US$2.5 billion) at end-December 2001 to ₦338.8 billion (US$2.7 billion) in 2002.

7.4 Foreign Exchange Developments

Official foreign exchange inflows and outflows through the CBN in 2002 stood at US$9.8 billion and US$13.0 billion respectively, compared with US$15.7 billion and US$14.7 billion in 2001. These resulted in a net outflow of US$3.2 billion in 2002 in contrast to the net inflow of US$1.0 billion recorded in 2001. The decline in gross inflow was attributed to the fall in oil export receipts while the decline in outflows was due to the reduction in the funding of the foreign exchange market as well as the deferment in external debt service payments.

The demand pressure in the foreign exchange market moderated during the year, particularly in the second half, as the volume of foreign exchange sold by the CBN to end-users, through authorised dealers, dropped from US$9.6 billion in 2001 to US$8.1 billion in 2002. The re-introduction of the Dutch Auction System (DAS) of foreign exchange determination in July 2002 had a moderating effect on the demand for foreign exchange in 2002. At the foreign exchange market (IFEM/DAS), the average exchange rate of the naira vis-à-vis the US dollar, depreciated from ₦111.9 in 2001 to ₦120.50 in 2002. In the bureaux-de-change segment, the exchange rate depreciated from ₦132.59 per US$1.00 in 2001 to ₦138.28 per US$1.00. Consequently, the premium between the IFEM/DAS and the parallel market rates fell from 18.2 per cent in 2001 to 13.5 per cent in 2002.

Figure 7.5
Exchange Rate Movements



US$251.5 million (3.3 per cent) respectively. An analysis of imports 'not valid for foreign exchange' showed that finished goods amounted to US$1,726.0 million (52.1 per cent) while the industrial sector accounted for US$1,568.2 million (47.4 per cent). The agricultural and transport sectors accounted for US$0.6 million (0.01 per cent) and US$16.0 million (0.5 per cent) respectively.

7.5 Other Developments

7.5.1 Pre-Shipment Inspection

The aggregate value of Forms 'M' opened in 2002 was US$11,019.1 million, made up of transactions 'valid for foreign exchange' totalling US$7,708.3 million (70.0 per cent) and imports, 'not valid for foreign exchange' valued US$3,310.8 million (30.0 per cent). A breakdown of the category of imports 'valid for foreign exchange' showed that the industrial sector accounted for US$2,928.6 million (38.0 per cent) while finished goods accounted for US$4,433.5 million (57.5 per cent). The agricultural and transport sectors accounted for US$94.7 million (1.2 per cent) and

7.5.2 Direct Sale of Travellers' Cheques by Travelex and Standard Chartered Bank

In pursuance of its policy of ensuring easy accessibility to foreign exchange, the CBN started the pilot project of direct sale of TCs to end-users using Travelex Global and Financial Services and, later, Standard Chartered Bank as outlets. The initiative, among others, was aimed at addressing some travel-related problems associated with foreign exchange utilisation. Specifically, the objectives of the project were to: facilitate easy access to travellers' cheques by end-users; reduce the transaction cost to end-users of travellers' cheques; eliminate the use of spurious documents in obtaining TCs; reduce the gap between the CBN/IFEM and parallel market exchange rates; and encourage the growth of the bureaux de change operations.

During the review period, both Travelex and Standard Chartered Bank sold Travellers' Cheques worth US$187.4 million.