Part Three

The International Economy

CHAPTER 8

International Economic and Financial Developments

The world economy experienced a slight rebound, as the downturn in output recorded in 2001 was reversed in the year. World economic output grew by 3.0 per cent in 2002, compared with the 2.2 per cent in 2001, reflecting increased industrial production and enhanced trade. This was largely triggered by the post-September 11, 2001 policy response which made governments to pursue aggressive policies to improve their economic fundamentals. Except Asian and other developing economies, which registered relatively high growth rates, major advanced economies as a group recorded modest growth. Global inflationary pressure continued to trend downwards, owing to the effectiveness of anti-inflationary policies in both industrial and developing countries. Discussions at various international fora centred on the easing of monetary conditions in leading industrial countries to stimulate further global economic recovery and ensure access to industrial countries' markets by developing countries. OPEC's policy of output cut contributed to the stabilization of crude oil prices above budget estimates in Nigeria. At the ECOWAS sub-regional level, efforts were on: the need to maximize the benefits from the New Partnership for Africa's Development (NEPAD), agreement to defer the launching of the sub-region's single currency till 2005, and approaches to eliminating fiscal dominance in economic management in order to achieve macroeconomic stability and convergence which are necessary conditions for the launching of WAMZ monetary union.

8.1 World Output and Prices

The rate of global output increased from 2.2 per cent in 2001 to an estimated rate of 3.0 per cent in 2002. This development was traced to several factors, including the aggressive policy response by many countries to the events of September 11, 2001, some improvements in the economic fundamentals of many industrial economies, the relative decline in energy prices, and the resilience of the global financial infrastructure. On a regional basis, growth in output in the major industrial countries was 1.7 per cent, up from 0.8 per cent in the preceding year, attributable mainly to recovery in the economies of the US and Canada, as output levels in the United Kingdom, Germany, France and Japan dipped. The U.S. economy grew by 2.2 per cent, compared with 0.3 per cent in the previous year. Similarly, Canada's economy recorded an output growth of 3.4 per cent, compared with 1.5 per cent in 2001. In contrast, Japan recorded a negative growth rate of 0.5 per cent, reflecting the adverse effects of economic recession in that country.

In the economies of the euro area, output declined further to 0.9 per cent from 1.5 per cent recorded in 2001.

The transition economies of Eastern Europe experienced a general economic slowdown, though Russian and Ukrainian economies had strong domestic demand within the region. The region's output growth fell by 1.1 percentage point to 3.9 per cent in 2002. Russia recorded a 4.4 per cent growth rate, compared with 5.0 per cent a year earlier.

Growth in output in developing countries, as a group, increased by 0.2 percentage point to 4.2 per cent in 2002. A disaggregation, however, showed that Western Hemisphere countries experienced an economic downturn, with growth in output declining from 0.6 in 2001 to –0.6 per cent. This was traced mainly to the Argentine financial crisis and its effects on the neighbouring countries. Africa's GDP growth was estimated at 3.1 per cent, down from 3.5 per cent in 2001, and largely attributable to the drop in commodity prices, drought, conflicts and political instability. Output declined in many countries, except in Ghana, Tanzania, Uganda and South Africa which experienced growth rates of 4.5, 5.8, 5.7 and 2.5 per cent respectively, reflecting marginal improvements over their levels in 2001.

Nigeria recorded a real growth rate of 3.26 per cent in 2002, showing a 0.95 percentage point decline from the level attained in the preceding year. This situation was largely attributable to the cut in OPEC's quota of oil production and the lagged effect of earlier price declines during the review period.

The output of developing countries in the Middle East and Europe increased by 3.6 per cent, compared with the 1.5 percent growth achieved in the preceding year. The improved performance of the region was attributed largely to its ability to take advantage of positive price developments in the crude oil market.

The developing countries of Asia recorded an output growth of 6.1 per cent, reflecting a marginal increase of 0.5 percentage point over the previous year's rate. Emerging market economies in Asia experienced a significant rebound in economic activity owing, mainly, to a global upturn and improvements in the information technology sector. China and India sustained high growth rates at 7.4 per cent and 5.0 per cent respectively, showing increases of 0.2 and 0.9 percentage point over their respective previous year's levels.

Inflation rates in industrial and developing countries continued to trend downwards. This was traced largely to the effectiveness of anti-inflationary policies adopted in both industrial and emerging market economies. For the advanced economies, the rate of inflation declined further from 2.2 to 1.4 per cent in 2002. The United States of America recorded an inflation rate of 1.5 per cent, compared with the 2.8 per cent in the previous year. In the euro area, inflation declined to 2.1 per cent from 2.6 per cent in 2001. In Japan, price deflation persisted, resulting in a further downward movement of prices as in the preceding years, and reflecting the deep recession in that country. Deflation stood at 1.0 per cent, compared with 0.7 per cent in the previous year. For developing countries as a group, inflation declined marginally from 5.7 per cent in 2001 to 5.6 percent. In Africa, inflation fell from 13.1 per cent in 2001 to 9.6 per cent. This development was attributable mainly to the tight monetary policy stance and fiscal discipline in many countries of the region.

The developing countries of the Middle East and Europe recorded marginal declines in inflation rates, from 17.2 per cent in 2001 to 17.1 per cent. An adverse security situation impacted negatively on the economies of many countries in the region, resulting in output decline and high inflationary pressure.

Developing countries of the Western Hemisphere experienced increased inflationary pressure, largely as a result of financial crises and political uncertainties. Thus, inflation rose to 8.6 per cent during the year, from 6.4 per cent in 2001. In contrast, the group of developing countries in Asia recorded an inflation rate of 2.1 per cent, down from 2.6 per cent in the preceding year, largely reflecting an appropriate mix of the implementation of fiscal and monetary policy measures in the region. The transition economies also experienced a decline in inflation rates from 15.9 to 13.3 per cent in the review period. This phenomenon reflected the impact of fiscal consolidation.

8.2 World Trade

The aggregate value of world trade amounted to $11,754.9 billion, representing an increase of 2.8 per cent over the preceding year's level. The expansion in world trade was attributed mainly to the modest global economic recovery recorded, especially in the U.S. and the emerging markets of Asia. The group of advanced economies accounted for $9,245.6 billion or 78.6 per cent of the total, while the developing countries' share was $2,509.3 billion or 21.4 per cent, reflecting increases of 2.5 and 3.8 per cent respectively. The growth in trade in developing countries was traced largely to the increases in the non-oil producing developing countries; while oil-exporting developing countries recorded a decline of 1.5 per cent.

The analysis of total world trade showed that exports and imports accounted for $5,847.8 billion or 49.8 per cent and $5,907.1 billion or 50.2 per cent respectively. Of the total export trade, Industrial economies accounted for $4,528.9 billion or 77.4 per cent, representing an increase of 2.4 percentage points over their share in the preceding year. Accounting for 22.6 per cent of the total, the exports of developing countries increased by 3.2 per cent to US$1,318.9 million during the year under review. Exports of oil-producing developing countries, however, declined by 5.5 per cent, reflecting, largely, the impact of a cut in production quota by OPEC aimed at stabilizing world market prices.

The industrial economies accounted for $4,716.7 billion or 79.8 per cent of global imports, while the developing countries accounted for $1,190.4 billion or 20.2 per cent, representing increases of 2.5 and 4.6 per cent over their respective levels in 2001.

8.3 International Foreign Exchange Market

The international foreign exchange market was relatively stable in 2002. The US dollar, however, depreciated against other major trading currencies owing, largely, to the crisis in the US stock markets, high crude oil prices and the uncertainties associated with the US threat of war with Iraq. On the average, the dollar depreciated against the pound sterling, euro and the Swiss franc by 4.0, 5.2 and 8.4 per cent respectively. It, however, appreciated against the Japanese yen by 3.0 per cent owing, largely, to the weak economic fundamentals in Japan.

8.4 The Impact of International Economic and Political Developments on the Nigerian Economy

The over-production of crude oil, relative to global demand, adversely affected world oil market prices early in 2002. This prompted OPEC member countries to cut production in order to stabilize prices. Consequently, Nigeria's aggregate crude oil output fell by 7.8 per cent in the year 2002. The reduction in output and the uncertainties of a US war with Iraq raised average crude oil prices from US$25.02 per barrel in the second quarter of 2002 to US$26.95 in the fourth quarter, which partly compensated for revenue losses in the early part of the year. The average crude oil price was US$25.0 per barrel in 2002, representing an increase of 2.1 per cent over the level in 2001.

Developments in world commodity markets reflected modest improvements in the demand for, and prices of some primary commodities. The civil disturbance in Cote d'Ivoire, the world's largest producer of cocoa, created a supply shortage, resulting in a rise in the price of the commodity. Nigeria benefited from the increase in the price of cocoa and thereby raised the contribution of non-oil export to total foreign exchange earnings. The contribution, however, remained low at 5.1 per cent.

8.5 International Commodity Organizations

8.5.1 International Coffee Organization (ICO)

The 42nd Annual General Assembly of the International Coffee Organization (ICO) was held in Malabo, Equatorial Guinea, in October 2002, during which member-countries resolved, under “the Malabo Declaration”, to tackle the perennial crisis of coffee pricing. The “Declaration” involved an agreement to improve the quality of output, encourage consumption, and increase revenue from coffee. The total global output of coffee in 2001/2002 coffee years was 117.3 million bags, representing an in-crease of 4.6 million bags or 4.1 per cent over the level in 2001. The excess supply of coffee and the gradual decline in its consumption accounted for the general depression of coffee prices in 2002.

8.5.2 International Cocoa Organization (ICCO)

The ICCO held its 24th Special Session, and its 65th and 66th Council Sessions in 2002. Discussions at the sessions focused on the situation of the cocoa market, implementation of the 6th International Cocoa Agreement (ICCA), and the regulation of Ochratoxin A (OTA) levels in cocoa and cocoa products. The price movements in the world market indicated an upward trend, from a monthly average of $1,059.16 per tonne in 2001 to $1,393.00 per tonne as at July 2002, representing an increase of 31 per cent. The price increase was attributed to the decline in the global stock of cocoa beans, which became more pronounced with the political upheaval in Cote d’Ivoire.

8.5.3 Cocoa Producers’ Alliance (COPAL)

The 65th General Assembly of the Cocoa Producers’ Alliance (COPAL) was held in Nigeria to discuss the low level of domestic cocoa consumption in member countries, and a research programme to encourage best techniques for optimal cocoa production. The Assembly commended efforts at developing high quality, disease-resistant cocoa varieties in West Africa, South East Asia and Latin

America, and acknowledged the funding of a project for the rehabilitation of cocoa farms. This project, estimated at a cost of €518,327.0 million, was geared towards sustaining cocoa cultivation in Cote d'Ivoire, Ghana, Nigeria and Cameroon. The meeting also explored the possibility of setting up an International Cocoa Research Network to facilitate the exchange of ideas on cocoa development and relevant technologies amongst member countries.

8.5.4 Organization of Petroleum Exporting Countries (OPEC)

The Organization of Petroleum Exporting Countries (OPEC) held three Ministerial Conferences in 2002 during which members reviewed market developments and agreed to retain the production ceiling of 21.7 million barrels per day (mbd) in order to stabilize crude oil prices within the band of \$25 - \$28 per barrel. During the meetings, members appealed to non-OPEC members to cooperate in cutting oil production, with a view to ensuring market stability. A new Secretary General of the OPEC was appointed, effective July 1, 2002. OPEC also agreed to raise its production ceiling to 23.0 mbd from January 1, 2003.

8.6 Bilateral and Multilateral Economic Relations

8.6.1 Bilateral Relations

During the year, Nigeria held joint bilateral commission sessions with several countries, including Botswana, Niger, Cameroon and Jamaica to deliberate on issues of common interest. The sessions centred on the urgent need to harmonize policies towards the speedy and effective implementation of signed bilateral agreements and memoranda of understanding (MOU).

The Overseas Private Investment Corporation (OPIC) of the US informed the Nigeria Trade and Investment Council that the sum of \$1.3 billion had been earmarked for Nigeria to facilitate roads development, telecommunications, education, health and e-commerce. Nigeria was urged to take advantage of the provisions of the African Growth Opportunity Act (AGOA).

8.6.2 Multilateral Relations

8.6.2.1 The International Monetary System

Global economic and financial conditions were less favourable than expected, as recovery was slow in the major industrial economies. Thus, discussions at the various international meetings, centred on how to accelerate the recovery of the world economy, strengthen the infrastructure of the international financial system, improve crisis-prevention mechanisms, and make crisis resolution more predictable in order to enhance sustainable global prosperity.

During the review of the global economy, the Ministers of the Group of Twenty-four (G-24) called for further easing of monetary conditions in the leading industrial economies, growth-oriented structural reforms in the euro area, and a more flexible interpretation of the fiscal constraints of the Stability and Growth Pact. They also called for support in respect of efforts by low income countries aimed at strengthening their developmental capabilities and fostering greater country ownership of poverty-reduction strategies and policies. The Group stressed the need for increased access of developing countries' products to industrial markets, and called on the IMF to streamline its conditionalities and combat money laundering and the financing of terrorism.

Fund facilities totalling SDR 66.5 billion were granted to its members during the first nine months of 2002. Of this amount, SDR 60 billion or 90.2% was sourced from the General Resources Account (GRA). Total purchases by developing countries from the GRA, as at September 2002, amounted to SDR 27.5 billion, indicating an increase of SDR 3.7 billion or 15.5 percent above the same period of 2001. Total repurchases amounted to SDR 12.1 billion, compared to SDR 13.3 billion in the corresponding period of 2001, resulting in a net transfer of SDR 15.4 billion from the IMF to the developing countries. Total purchases from the GRA by African countries amounted to SDR 6.2 billion, as against total repurchases of SDR 0.93 billion, resulting in a total net resource inflow of SDR 5.3 billion during the first nine months of 2002. This compared with the net inflow of SDR 2.1 billion during the same period of 2001.

8.6.2.2 The Association of African Central Banks (AACB)

The Assembly of Governors of the Association of African Central Banks (AACB) held its 26th Ordinary Meeting in Algiers, Algeria on 4th September, 2002. The meeting was preceded by a symposium on "Appropriate Macro-economic Framework for Sustainable Development within the African Integration Process". The Governors adopted the reports of the 25th Ordinary Meeting of the Association, held on 10th August, 2001 in Johannesburg, and the Extraordinary Meeting of the Bureau held on 8th June, 2002 in Durban, South Africa, to consider a request from the African Union for the establishment of continental financial institutions. The Assembly made amendments to the Draft Statute of the Association and requested the Bureau, in collaboration with legal experts of member Central Banks, to revise the Statute in line with its recommendations. It agreed in principle to share equally, contributions to the Association's Fund amongst member central banks, and re-emphasized an earlier decision to have a slim, but effective Secretariat to serve as a contact point for the Association. The Governors adopted the report of the Secretariat on Asset Management and Signatories to the Accounts of the AACB and agreed to engage the services of an Auditor. It also mandated the Bureau of the AACB to examine and dispose of the assets of the liquidated African Centre for Monetary Studies (ACMS).

8.6.2.3 African Development Bank Group (AfDB)

The AfDB, at its annual meeting held in Addis Ababa, Ethiopia in May, 2002, reported significant improvements in all aspects of the Bank's operations in 2001. Total loan approvals amounted to US$3.0 billion (the highest in 10 years), owing largely to operations through the AfDB window, as well as a resurgence of operations through the concessional window, and the African

Development Fund (ADF). Significant expansion in private sector activities, which attracted US$240.0 million, a five-fold increase over the previous year's level, was also reportted. Funds mobilized by the Bank, through co-financing operations, amounted to US$4.0 billion, while disbursements aggregated to US$1.0 billion – a 22.0 per cent increase over the level in 2001. Of the total disbursements, 6.63 per cent was from the Nigeria Trust Fund. Major sectoral loan approvals amounted to US$1.4 billion. Agriculture and rural development received US$349.1 million (15.3%), the social sector US$257.7 (11.3%) million, while the multisectoral category (support for economic reforms and good governance in member countries) received US$534.0 million (23.5%). Other economic activities and sectors secured the balance of the approvals.

8.6.2.4 The Economic community Of West African States (ECOWAS)

At the meetings of the Committee of Governors of ECOWAS member Central Banks and ECOWAS Administration and Finance Commission, certain key issues were discussed and re-commendations made as follows: (i) that appropriate measures be taken to ensure that the West African sub-region derives utmost benefit from the New Partnership for Africa's Development (NEPAD) initiative and that NEPAD focal points should be established in all countries; (ii) that a decision on the date for the launch of ECOWAS single monetary zone be deferred till 2005, after a detailed appraisal of compliance with the macroeconomic convergence criteria in the economies of the sub-region; (iii) that concrete measures to be taken towards the implementation of the ECOWAS trade liberalization scheme and the alignment of the national customs tariffs as the basis for an ECOWAS Common External Tariff (CET); (iv) that payment of the ECOWAS Community Levy should come into force, effective 1st July, 2003; (v) and the ratification of the protocol establishing the ECOWAS Bank for Investment and Development (EBID) and payment of the first tranche (35 percent) of the call-up capital of EBID.

The meetings assessed the security situation in the sub-region and noted the significant progress made towards the restoration of peace and security in Sierra Leone. The recent initiative of the Presidents of the Mano River Union – Guinea, Liberia and Sierra Leone - to restore dialogue in the Union was commended. The meetings expressed deep concern over the persistence of the Ivorian crisis and called for peaceful resolution and an early return of peace to the country.

8.6.2.5 The West African Monetary Zone (WAMZ)

The Authority of Heads of State and Government of the West African Monetary Zone (WAMZ) held its Fourth Summit in Conakry, Republic of Guinea, on 7th November, 2002. The meeting deliberated on the following major issues: ways of moving the WAMZ project forward, the establishment of a common West African Central Bank (WACB), and the need to establish a Finance Minister's Forum. The Authority rescheduled the date for the establishment of WACB from January 2003 to June 2005. The mandate of the West African Monetary Institute (WAMI) and the tenure of the current Director General and staff was also extended for the same period. It called on member countries to draw up programmes spelling out the modalities for meeting the convergence criteria during the period 2003 to June 2005.

The Authority agreed that the convergence criteria, especially the limit on a budget deficit/GDP ratio, should be incorporated into member countries' annual budgets to deal with the problem of fiscal dominance and associated negative effects on the levels of monetary growth, inflation and external reserves. It approved the establishment of a Forum for Ministers of Finance of the sub-region to facilitate the effective implementation of fiscal policies, consistent with the monetary policy objectives of the WAMZ. It directed that the programme for the elimination of trade barriers in the Zone and within the ECOWAS sub-region be accelerated. In particular, existing trade protocols under the ECOWAS Trade Liberalization Scheme (TLS) should be honoured and a common external tariff instituted, while trade fairs should be organized amongst member countries and the goods involved exempted from customs duties so as to boost trade within the sub-region. It further directed that the executive arms of government should interact more with national legislatures to facilitate the ratification of WAMZ Agreements and Statute before the end of June 2003.

The Convergence Council reaffirmed its earlier decision on *"ECO"* as the name for the common currency of the WAMZ, and recommended to the Authority of Heads of State and Government to formally adopt the name in order to sustain the sensitization programme in member states. The Council called for the intensification of the sensitization campaign on the WAMZ single currency project, as well as the provision of adequate resources to national sensitization committees (NSCs).

8.6.2.6 The West African Monetary Agency (WAMA)

The annual meeting of the West African Monetary Agency was held in Dakar, Senegal in December, 2002. The meeting reaffirmed the need for cooperation between the ECOWAS Secretariat and WAMA, in order to strengthen the multilateral surveillance mechanism. The two institutions were to define the modalities for such cooperation by the end of March 2003. National Coordinating Committees (NCCs) were to be set up and made functional by that date. The meeting also directed WAMA to collaborate with ECOWAS, AFRISTAT, WAMI and UEMOA, with a view to harmonizing and improving the quality of macroeconomic data in the sub-region in order to enhance their comparability.

The WAMA was also directed to complete all practical modalities relating to the privatization process and effective transfer of the management of the ECOWAS Travellers' Cheques to a private sector operator by end-June, 2003. However, it was agreed that the West

African Unit of Account (WAUA) in which the ECOWAS Travellers' Cheques were denominated and the principle limiting the use of the cheque for financing of travel expenses should be retained. A Director General was appointed for WAMA for a four-year term.

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

During the year, the Institute organized 24 training and capacity-building programmes, compared with 22 in the preceding year. A total of 633 senior/executive-level officials of central banks and core economic ministries, as well as other public sector agencies in WAIFEM countries attended the training programmes. Two hundred and thirty-four (234) Nigerians participated in WAIFEM training and capacity-building programmes during the period under review. To date, 968 Nigerians have benefited from WAIFEM programmes, since the inception of the institute.

Participation in the Institute's training programmes, which initially reflected mostly its ownership by central banks, has changed since 2001 when it commenced the implementation of the Capacity Building Programme (CBP). The Institute enriched the content of its training programme to further strengthen capacity in managing public debt, and improve skills and knowledge in macroeconomic and financial sector management among the staff of public sector agencies. Issues of fiscal management, planning and poverty-reduction, privatization and macroeconomic dimensions of regional integration, among others, were also prominent areas of focus in the Institute's programmes.