

## ECONOMIC REPORT FOR THE MONTH OF FEBRUARY 2002

### 1.0 SUMMARY

Available data indicated a mixed development in the growth of monetary aggregates in February 2002, contrary to developments in January 2002. Broad money stock ( $M_2$ ) grew by 1.6 per cent, while narrow money ( $M_1$ ) declined by 0.5 per cent, compared with the increases of 1.3 and 1.5 per cent in the preceding month, and 10.3 and 14.9 per cent in the corresponding period, a year earlier. During the first two months of the year, however,  $M_2$  and  $M_1$  grew by 7.6 and 3.6 per cent, respectively, as against the 15.3 and 12.4 per cent targets for 2002. The rise in  $M_2$  in the review month was traceable to the sharp increase in quasi-money, while the decline in  $M_1$  was attributable to the decline in foreign assets (net) of the banking system. Aggregate banking system's claims on the domestic economy rose by 3.5 per cent, compared with the increase of 1.3 in the preceding month.

Provisional data indicated that banks' interest rates trended downward in February 2002. The spread between banks' weighted average deposit and maximum lending rates was 12.7 percentage points, while the margin between the weighted average savings deposit and maximum lending rates was 25.8 percentage points. The average inter-bank call rate fell to 23.2 per cent from 23.9 per cent in January, 2002.

The value of money market assets outstanding at end-February 2002 declined by 1.6 per cent from its level in the preceding month. The fall reflected the declines of 3.0 and 24.0 per cent in Commercial Papers (CPs) and Bankers Acceptances (BAs), respectively. No new issues of Nigerian Treasury Bills (NTBs)

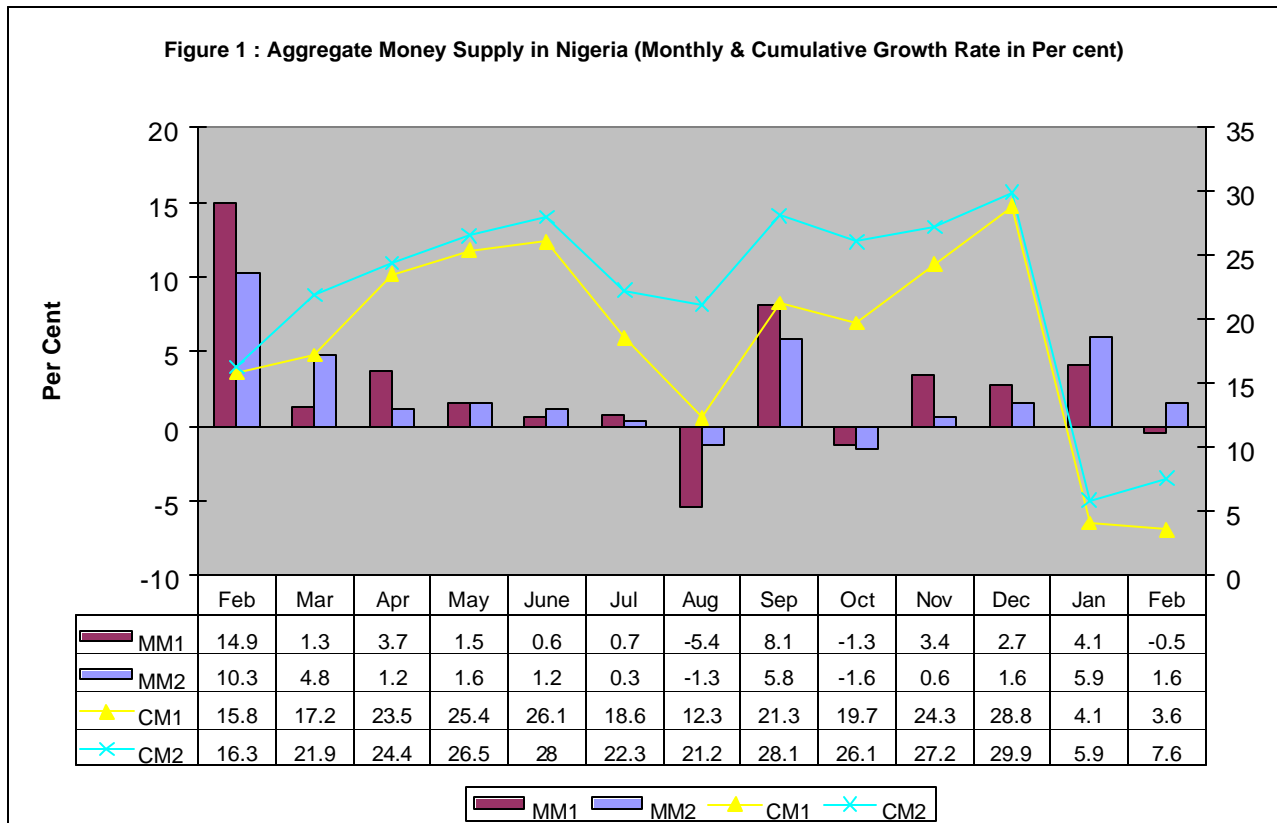
were made during the month, but matured ones worth N77.9 billion were rolled over. Activities on the Nigerian Stock Exchange (NSE) showed mixed developments during the month as the volume of shares traded increased, while the value, market capitalization and the price index declined.

Agricultural activities during the month were mainly pre-planting operations in the coastal areas of the Southern states, while harvesting of irrigated crops dominated in the Northern states. Estimated crude oil output, including condensates and natural gas, was 1.99 million barrels per day (mbd) or 55.72 million barrels for the month. Crude oil exports represented 77.4 per cent of total output, while the balance (22.6 per cent) was refined for domestic consumption. The average price for Nigeria's reference crude, Bonny Light (37°API), rose by 3.2 per cent over its level in January, 2002. The price index of Nigeria's major agricultural commodities at the London Commodities Market, on the other hand, declined by 28.8 per cent, in dollar terms, from the preceding month level but showed an increase of 29.1 per cent when compared with the corresponding period of 2001. The inflation rate remained stable at 18.9 per cent in February.

Foreign exchange flows through the Central Bank of Nigeria (CBN) indicated an inflow of US\$852.8 million and outflow of US\$1,185.1 million, resulting in a net outflow of US\$332.3 million during the month. Foreign exchange sales at the Inter-bank Foreign Exchange Market (IFEM) rose to US\$781.20 million from US\$710.9 million in January 2002. The average exchange rate of the naira vis-à-vis the US dollar in the IFEM depreciated from

₦113.96 per dollar, in January to ₦114.75 per dollar in the review month. Similarly, rates in the parallel market and bureaux de change, depreciated from ₦135.52 and ₦135.87 per dollar in January to ₦138.68 and ₦139.18 per dollar, respectively, in February. Nigeria's gross external reserves

2002 to discuss a number of issues including the appointment of a secretary of the Association; transfer of the account of the liquidated African Centre for Monetary Studies (ACMS) to AACB, among others. Also, the African Development Bank (ADB) Group cancelled debt worth \$429.47



declined by 3.2 per cent to US\$9,793.5 million at end-February, 2002.

On the international scene, total world oil supply exceeded demand by 0.26 mbd, compared with an excess supply of 0.15 mbd in the preceding month. Other major international economic developments that influenced the domestic economy during the month were the meeting of the G-15 Expert Group on the Reform of International Financial Architecture (IFA) held in Kuala Lumpur, Malaysia, on 26 February 2002.

The Bureau of the Association of African Central Banks (AACB) met in Dakar, Senegal from 11<sup>th</sup> –12<sup>th</sup> February,

million owed by Ethiopia, Tanzania and Mozambique under the Heavily Indebted Poor Countries (HIPC) initiative.

## 2.0 FINANCIAL SECTOR DEVELOPMENTS

The broad money supply (M<sub>2</sub>) showed an upward movement in February 2002. Bank interest rates and activities on the Nigerian Stock Exchange (NSE) exhibited mixed developments during the month. Developments in the money market continued to be influenced largely by the state of liquidity in the banking system.

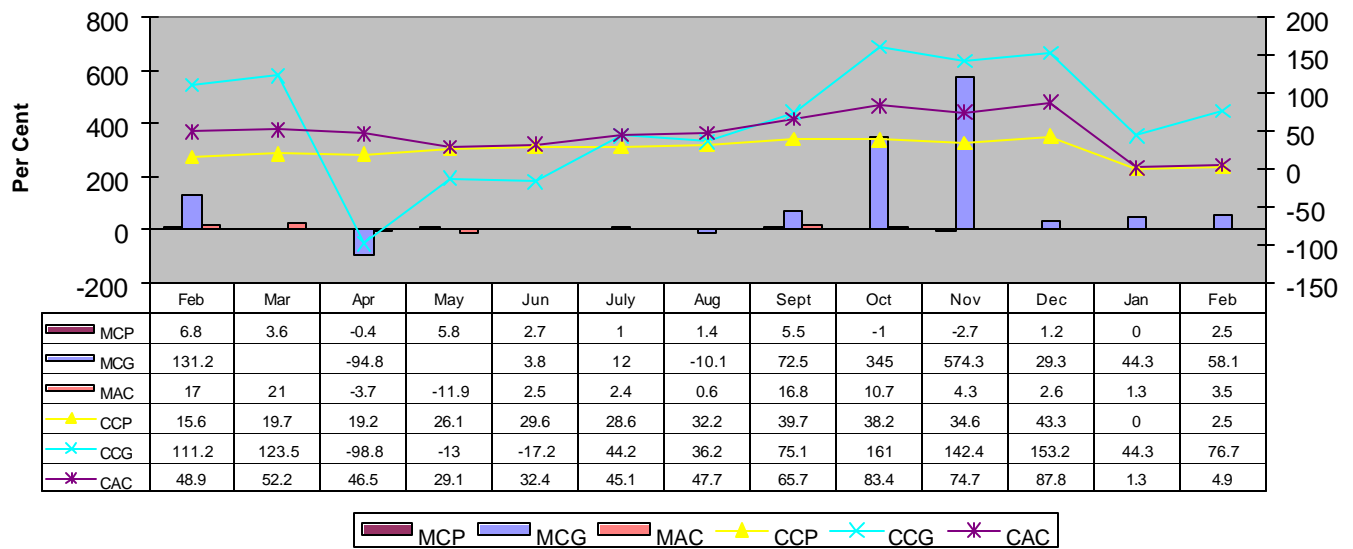
## 2.1 Monetary and Credit Developments

Provisional data indicated that broad money stock ( $M_2$ ) rose in February 2002 by ₦22.8 billion or 1.6 per cent to ₦1,416.3 billion, compared with the increase of ₦77.6 billion or 5.9 per cent in the preceding month. The rise reflected the increase in quasi-money.  $M_1$ , on the hand, fell by ₦4.6 billion or 0.5 per cent during the month, following the sharp decline in foreign assets (net) of the banking system. During the first two months of the year, however,  $M_2$  and

for 72.5 per cent of the total increase. During the first two months of the year, aggregate bank credit to the domestic economy rose by ₦40.7 billion or 4.9 per cent, compared with the increase of 48.9 per cent in the corresponding period of 2001.

Banking system's net claims on the Federal Government rose by ₦8.2 billion or 58.1 per cent, reflecting wholly the rise in deposit money banks' claims. In the first two months of the year, credit (net) to the Federal Government rose by ₦19.3 billion or 76.7 per cent.

Figure 2: Aggregate Domestic Credit To The Economy (Monthly & Cumulative Growth Rate -Please note that omitted points are outliers )



$M_1$  grew by 7.6 and 3.6 per cent, respectively, compared with the targets of 15.3 and 12.4 per cent for fiscal 2002.

Aggregate banking system's credit to the domestic economy rose by ₦29.7 billion or 3.5 per cent to ₦870.5 billion, compared with the increase of ₦11.0 billion or 1.3 per cent in the preceding month. The rise in the review month reflected the increases in credit (net) to the Federal Government and the private sector, with the latter accounting

Banking system's claims on the private sector also rose by ₦21.5 billion or 2.5 per cent during the review month and by 2.5 per cent in the first two months of the year, compared with the 34.9 per cent target maximum for the whole year (Fig. 2).

At ₦1,313.5 billion, foreign assets (net) of the banking system fell further by ₦57.6 billion or 4.2 per cent during the month. The fall reflected entirely the sharp decline in Central Bank holdings by ₦59.8

billion or 5.4 per cent. Central Bank holding constituted 79.4 per cent of total foreign assets, compared with 80.4 per cent in the preceding month.

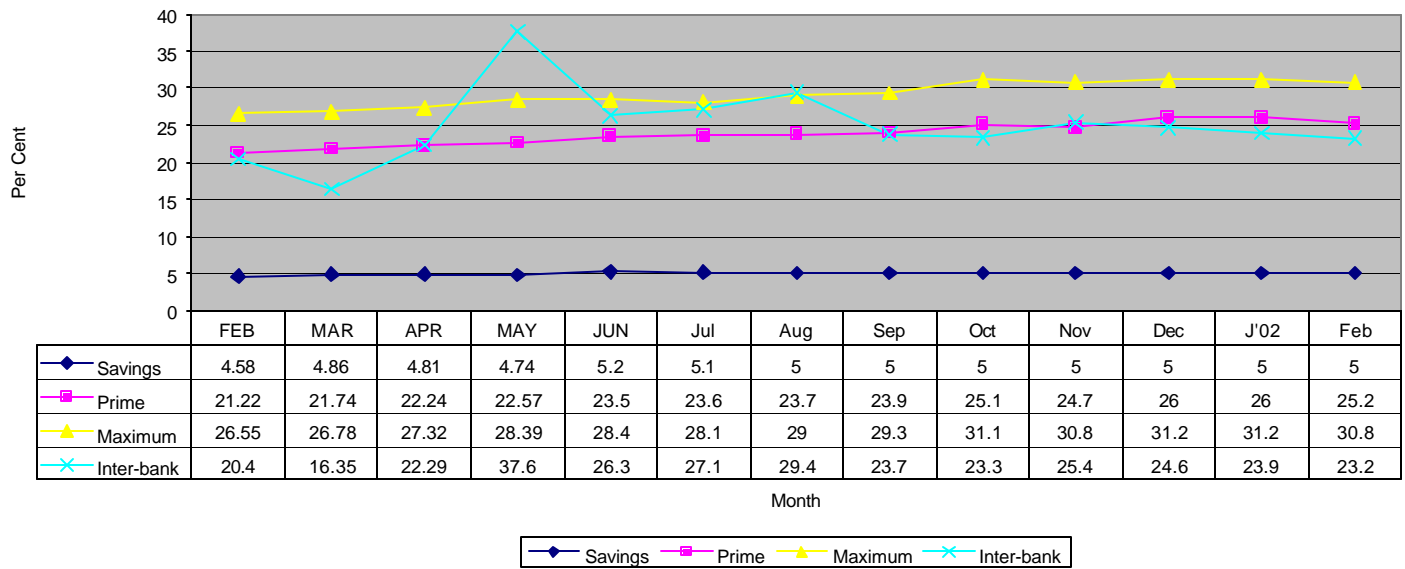
Quasi-money rose by ₦27.4 billion or 5.1 per cent in February, compared with the increase of ₦43.8 billion or 8.8 per cent in the preceding month. The rise during the month reflected the increases in banks' time, savings, and foreign currency deposits.

Other assets (net) of the banking system increased by ₦50.7 billion or 6.2 per cent, attributable largely to movements in Central Bank accounts.

entirely to currency held outside the banking system, which declined by 4.7 per cent from the preceding month's level.

Total deposits at the CBN amounted to ₦992.9 billion, indicating declines of ₦58.9 billion or 5.6 per cent and ₦91.6 billion or 8.4 per cent from the levels in the preceding month and corresponding period of 2001, respectively. The fall during the month resulted from the sharp decline in Federal Government deposit, by ₦51.6 billion or 5.8 per cent to ₦844.6 billion. The shares of the three components in total deposits at the CBN, namely, Federal Government, bankers and 'others' were

Figure 3: Selected Banks' Interest Rates (Per Cent, Monthly Average)



## 2.2 Currency-in-circulation and Deposits at CBN

At ₦411.8 billion, currency in circulation in February 2002 declined by ₦12.3 billion or 2.9 per cent from the preceding month's level but increased by 34.9 per cent over the level in the corresponding month of 2001. The development during the month was traceable

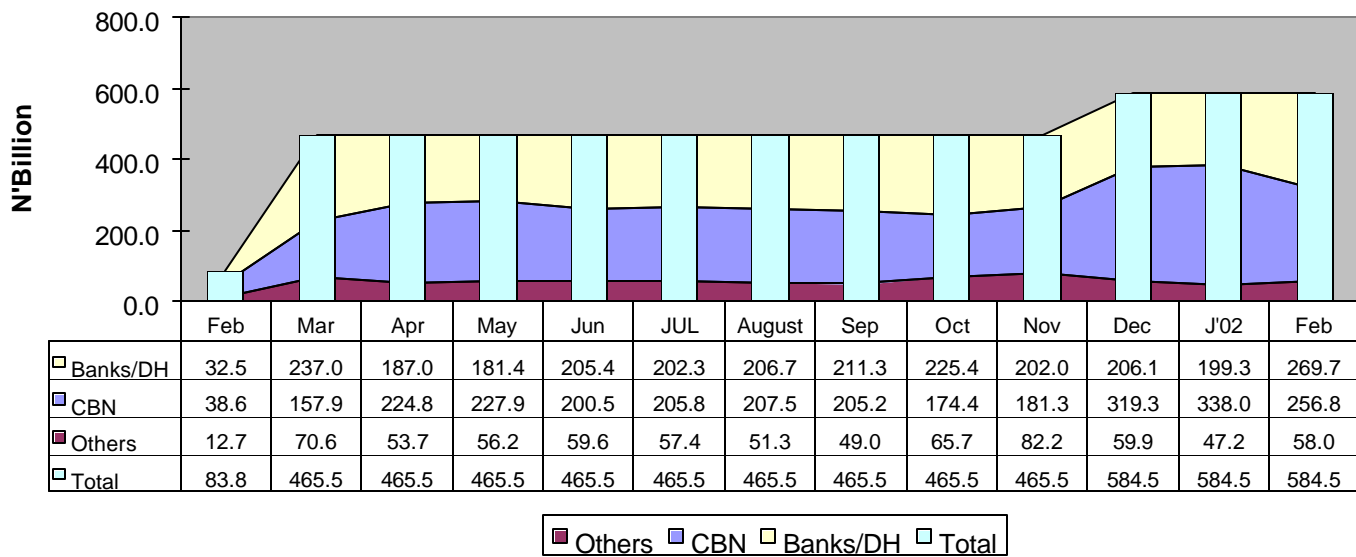
85.1, 12.3 and 2.6 per cent, compared with 84.5, 13.5 and 2.0 per cent in the preceding month, respectively.

The average inter-bank call rate fell from 23.9 per cent in January, to 23.2 per cent, reflecting largely the impact of improved bank liquidity.

### 2.3 Interest Rate Developments

Available data indicated that interest rate movements in February 2002 trended downward. With the exception of the average savings deposit rate which remained

**Figure 4: Treasury Bills' Holdings (N'Billion)**



unchanged at the preceding month's level of 5.0 per cent, the average rates on time deposits of 7-day, 3- month and over 12-month maturities declined, while those on 1-month, 6-month and 12- month maturities increased. Banks' average prime and maximum lending rates, on the other hand, fell from 26.0 and 31.2 percentage points to 25.2 and 30.8 per cent, respectively. Thus, the spread between banks' weighted average deposit and maximum lending rates fell to 12.7 percentage points from 12.9 percentage points in the preceding month, while that between the average weighted savings deposit and maximum lending rates fell to 25.8 percentage points from 26.2 percentage points in January, 2002.

### 2.4 Money Market Developments

The value of total money market assets outstanding at end-February, 2002 declined by ₦10.6 billion or 1.6 per cent to ₦645.4 billion, compared with a decline of ₦4.0 billion or 0.6 per cent in the preceding month. The fall reflected the declines of 3.0 and 24.0 per cent in Commercial Papers (CPs) and Bankers' Acceptances (BAs), respectively. The levels of Eligible Development Stocks (EDS) and Treasury Bills outstanding, however, remained unchanged at the preceding month's levels of ₦3.6 billion and ₦584.5 billion, respectively.

Treasury bills worth ₦77.9 billion were re-issued to replace matured bills of the same value, compared with ₦299.0 billion re-issued in the preceding month. Analysis of the total amount rolled over during the month indicated that deposit money banks subscribed ₦52.1 billion or 66.9 per cent, while discount houses and “other” investors together subscribed ₦11.9 billion or 15.3 per cent. The balance of ₦13.9 billion or 17.8 per cent was absorbed by the CBN. Following increased public patronage, Central Bank’s holding fell by ₦81.2 billion or 24.0 per cent to ₦256.8 billion during the month.

## **2.5 Capital Market Developments**

Activities on the Nigerian Stock Exchange (NSE) showed mixed developments in February 2002. The volume of shares traded indicated increase, while the value, market capitalization and price index recorded declines. At 407.0 million, the number of shares rose by 9.0 per cent from the preceding month’s level of 376.5 million, while the value declined by 7.0 per cent to N2,955.2 million. Market capitalization and value index, on the other hand, recorded marginal declines of 1.0 per cent each to close at ₦625.4 billion and 10,581.0, respectively. The declines observed in market capitalization and value index during the month were attributable mainly to price losses.

## **2.6 Deposit Money Banks’ Activities**

Total assets/liabilities of deposit money banks in February, 2002 stood at ₦2,207.2 billion, representing increases of ₦18.1 billion or 0.8 per cent and ₦39.9 billion or 1.8 per cent over the preceding month’s level and the level at end-February 2001, respectively. Funds were sourced mainly from the increases in demand, time,

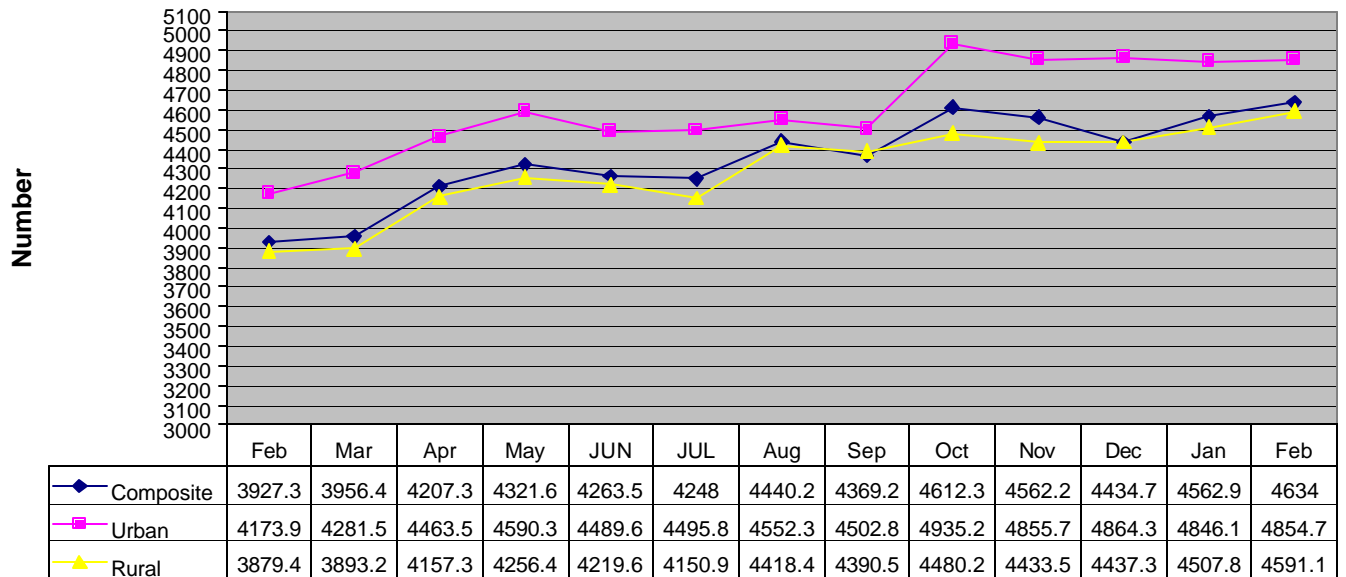
savings and foreign currency deposits, while the major uses of funds included settlement of unclassified liabilities as well as increased claims on the central government and the private sector, among others.

Available data indicated that aggregate credit to the domestic economy by deposit money banks amounted to ₦1,053.1 billion, representing an increase of ₦33.6 billion or 3.3 per cent over the level in the preceding month. The breakdown showed that credit to the central government increased by ₦12.0 billion or 6.8 per cent, while credit to the private sector increased by ₦21.6 billion or 2.6 per cent. Credit to state and local governments also rose by ₦6.9 billion or 35.5 per cent, during the period.

Central Bank’s credit to deposit money banks amounted to ₦18.7 billion, representing increases of ₦8.6 billion or 84.9 per cent and ₦9.8 billion or 109.8 per cent over the levels in the preceding month and corresponding month of 2001, respectively, reflecting largely overdraft facilities to banks during the period.

Total specified liquid assets of deposit money banks stood at ₦614.4 billion or 54.0 per cent of their total deposit liabilities. This level of assets was 1.6 percentage points below the preceding month’s level but 14.0 percentage points above the stipulated minimum of 40.0 per cent for fiscal 2002.

**Figure 5 : Monthly Consumer Price Indices in Nigeria (1985 = 100)**



Source: Federal Office of Statistics (FOS), Lagos

◆ Composite    ■ Urban    ▲ Rural

## 2.7 Discount Houses

Total assets/liabilities of the discount houses amounted to ₦27.8 billion in February, 2002, indicating a decline of ₦10.4 billion or 27.2 per cent from the level in the preceding month. Investments in Federal Government securities of less than 91 days maturity amounted to ₦10.3 billion, representing 37.0 per cent of discount houses' total deposit liabilities. This represented 23.0 percentage points below the prescribed minimum of 60.0 per cent for fiscal 2002. Total borrowings by discount houses during the month amounted to ₦5.1 billion, representing 1.1:1 of total capital and reserves, compared with the stipulated maximum target of 50:1.

## 3.0 DOMESTIC ECONOMIC CONDITIONS

Major agricultural activities during the review month included pre-planting operations in some coastal areas and harvesting of irrigated crops in the North. In the livestock sub-sector, rearing of table birds (broilers and pullet chicken) was intensified for Easter sales. Crude oil output declined by 5.2 per cent from the January level, while the domestic price level was relatively stable.

### 3.1 Agricultural Sector

Major agricultural activities during the month consisted of pre-planting operations in some coastal areas following early rains, while the harvesting of irrigated crops dominated activities in the Northern part of the country. Also, fishing activities

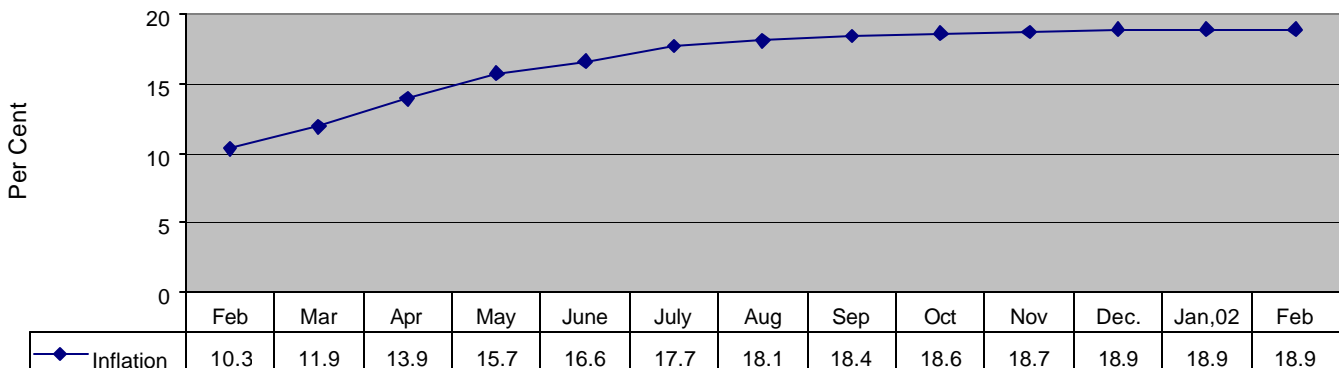
were carried out in the coastal areas due to low tides witnessed in the areas. However, in the livestock sub-sector, farmers intensified the rearing of table birds (broilers and pullet chicken) for sales during the Easter period.

The prices of Nigeria's major agricultural commodities at the London Commodity Market fell during the month.

recorded price declines of 97.9, 31.2, 12.7 and 3.7 per cent, respectively.

In naira terms, cocoa, copra and coffee recorded price increases of 11.5, 5.2 and 3.5 percent, respectively, over their levels in the preceding month. However, palm oil, cotton and soyabean showed price declines of 26.1, 1.8 and 0.6 per cent below their preceding month's levels. When

Figure 6: Inflation Rate in Nigeria (Per Cent, Monthly)



Source: Federal Office of Statistics (FOS), Lagos

—◆— Inflation

The all-commodity price index, at 74.1 (1985=100), in dollar terms, declined by 28.8 per cent from the level in the preceding month. Compared with the level in February 2001, the index represented an increase of 29.1 per cent. In naira terms, the index, at 7,269.1 (1985=100), however, rose by 5.3 and 22.7 per cent over their respective levels in the preceding month and corresponding period of 2001. The price fluctuations were attributable mainly to seasonal factors.

Of the six commodities monitored during the month, four (4), namely, copra, cocoa, cotton and palm-oil recorded price declines, in dollar terms, of 34.7, 32.4, 3.0 and 0.1 per cent, respectively, while coffee and soyabean recorded price increases of 3.5 and 0.4 per cent, respectively. When compared with the corresponding month of 2001, four (4) of these commodities, namely, copra, cotton, coffee and soyabean

compared with their levels in the corresponding month of 2001, all commodities, except cotton and coffee, recorded varying degree of price increases.

### 3.2 Petroleum Sector

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 1.99 million barrels per day (mbd) or 55.72 million barrels for the month, representing a decline of 5.2 per cent from the level in the preceding month. The fall in output was attributable mainly to compliance with OPEC's output cut by 6.5 per cent with effect from January 1, 2002. The share of the country's production in total OPEC's output was 7.2 per cent, compared with 7.5 per cent in the preceding month. Crude oil exports were estimated at 1.54 million barrels per day (mbd) or 43.12



million barrels for the month, showing a decline of 5.2 mbd below the level in January, 2002.

Crude oil exports accounted for 77.4 per cent of total output, compared with 78.6 per cent in the preceding month, while the balance (22.6 per cent) was refined for domestic consumption.

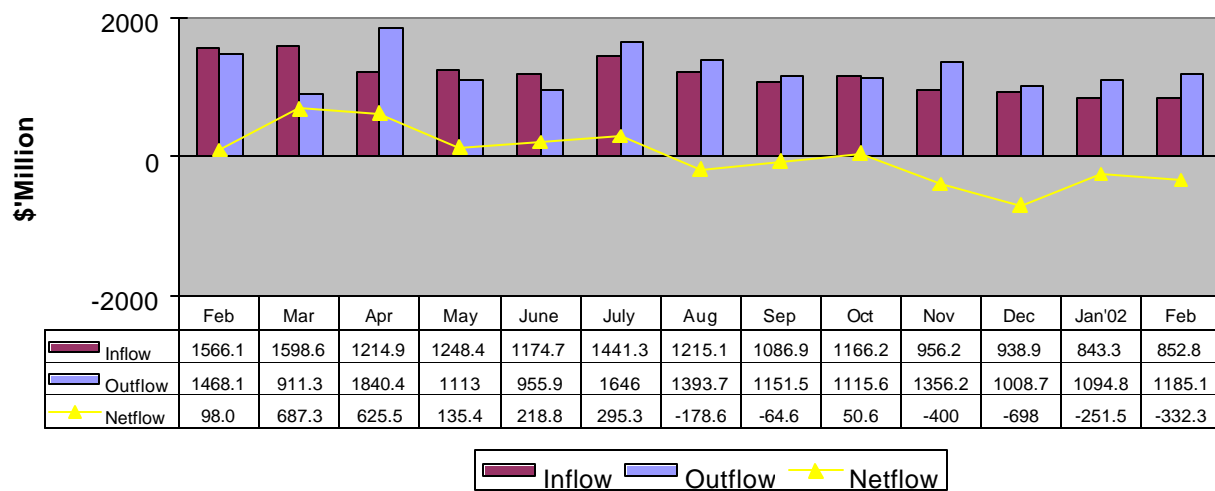
Crude oil prices recorded significant increases over the levels in the preceding month, following the cut in crude oil supply by OPEC. At \$20.26 a barrel, the average price of Nigeria's reference crude, Bonny Light (37<sup>0</sup> API), rose by 3.2 per cent over its level in January 2002, in the spot market. Similarly, the average prices of other competing brands of crude, namely the Forcados, U.K. Brent, West Texas Intermediate (WTI), and Arab Light rose to \$20.15, \$20.24, \$20.59 and \$17.77 a barrel, from their respective levels of \$19.54, \$19.41, \$19.66 and \$15.58 a barrel, recorded in the preceding month. In the European net back market, the Bonny Light and UK Brent were sold at \$21.29 and \$21.35 a barrel,

Similarly, in the American net back market, the Arab Light and the WTI were sold at \$20.23 and \$21.69 a barrel, respectively, as against \$19.28 and \$21.27 a barrel in the preceding month.

### 3.3 Consumer Prices

Data from the Federal Office of Statistics (FOS) showed that the all-items composite Consumer Price Index (CPI) in February 2002 was 4,634.0 (1985 = 100). This represented increases of 1.6 and 18.0 per cent over the preceding month and corresponding month of 2001, respectively. The development during the month was traceable to the indices of food; drinks, tobacco and kola; household goods; medical care and health expenses; and other services whose indices increased by 1.9, 6.2, 3.0, 0.9 and 10.3 per cent, respectively. The indices of other component items, however, recorded price declines ranging from 1.2 per cent for clothing and footwear to 4.8 per cent for education and cultural services. When compared with their levels in the corresponding month a year earlier, all the

**Figure 7: Foreign Exchange Flows Through the CBN (\$'Million)**



showing increases of 0.8 and 8.0 per cent, from their respective levels in January 2002.

components recorded price increases except clothing and footwear; accommodation, fuel

and light; medical care and health expenses and transportation whose indices recorded price decreases of 3.8, 2.8, 7.4 and 1.2 per cent, respectively. The urban all-items CPI was 4,854.7 (1985=100) in February 2002, indicating increases of 0.2 and 16.3 per cent over the preceding month and corresponding month of 2001, respectively. Similarly, the rural all-items CPI for February 2002 which stood at 4,591.1 (1985=100), exhibited the same trend as observed in the urban centers when compared with the levels in the preceding month and the corresponding month of 2001 though at slightly higher rates.

The inflation rate for the twelve-month period ended February 2002 remained stable at 18.9 per cent, compared with 10.3 per cent in the corresponding month of 2001.

#### **4.0 EXTERNAL SECTOR DEVELOPMENTS**

##### **4.1 Foreign Exchange Flows**

In February 2002, foreign exchange inflow and outflow through the Central Bank of Nigeria (CBN) amounted to US\$852.8 million and US\$1,185.1 million, respectively, showing a net outflow of US\$332.3 million. Compared with the respective levels of US\$843.3 million and US\$1,094.8 million in the preceding month, inflow and outflow rose by 1.1 and 8.2 per cent, respectively. The rise in inflow in the review month was accounted for by the increase in oil receipts, while that of outflow was attributable mainly to the sharp increase in external debt service from US\$54.8 million in January 2002 to US\$147.0 million. Besides, funding of the Inter-bank Foreign Exchange Market (IFEM) increased from US\$710.9 million to US\$781.2 million in February 2002.

Available data on foreign exchange flows through the economy showed that total inflow stood at \$1,210.1 million, down from \$1,214.2 million in January, 2002. Receipts from the oil sector rose by 1.6 per cent to \$824.7 million or 68.2 per cent of total inflow, while non-oil receipts and inflow through other autonomous sources amounted to \$385.4 million or 31.8 per cent. At \$1,259.5 million, foreign exchange outflow from the economy represented an increase of 47.4 per cent over the level in January, 2002. The increase was accounted for largely by the 168.1 per cent rise in external debt service payments and CBN funding of the IFEM. However, disbursements in respect of "Other Official Payments" fell by 25.2 per cent to US\$235.8 million in February, 2002.

##### **4.2 Sectoral Utilisation of Foreign Exchange**

The industrial sector accounted for the bulk (46.7 per cent) of total foreign exchange disbursed in February 2002, followed by general merchandise, which had 19.2 per cent. Other beneficiary sectors, in a descending order of importance, included: invisibles, food, transportation and agricultural products (fig.8).

##### **4.3 Foreign Exchange Market Developments**

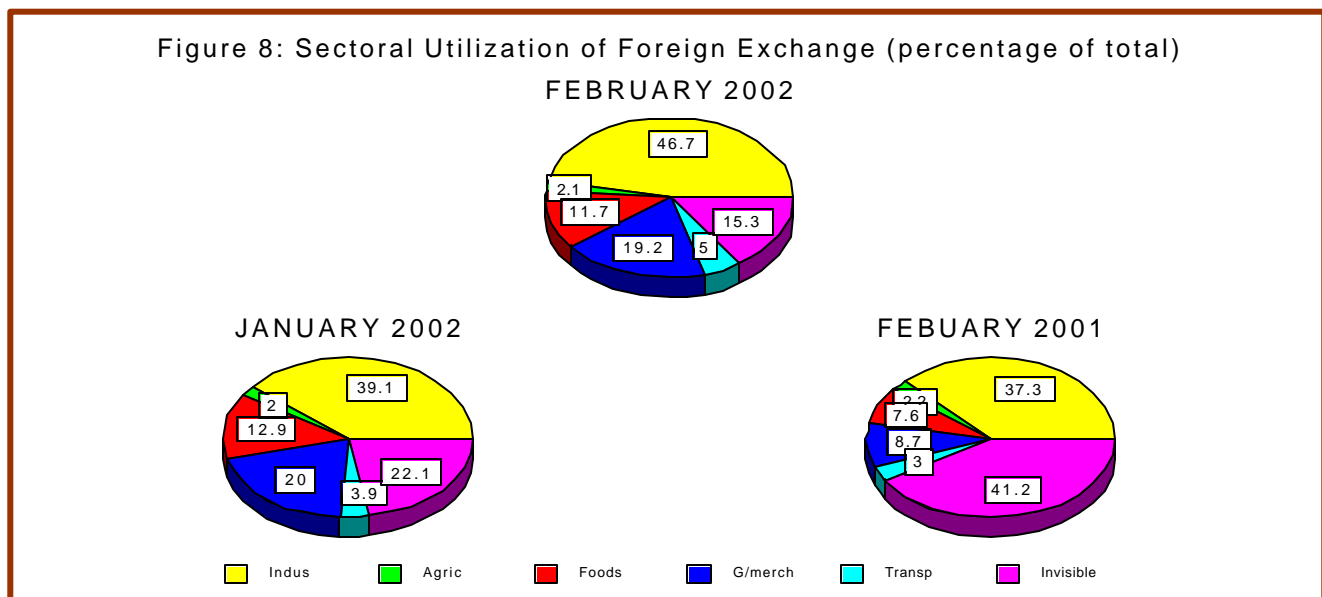
The demand pressure in the Inter-bank Foreign Exchange Market (IFEM) intensified during the review month as a total of \$781.20 million was sold to authorized dealers by CBN, compared with \$710.9 million in January, 2002. The rise in demand was in line with expectations as business activities were beginning to gather

momentum after the lull experienced in the preceding month. The CBN did not purchase any foreign exchange from the market during the month, as in the previous month. The average exchange rate of the naira in the IFEM depreciated from ₦113.96 per dollar to ₦114.75 per dollar in February 2002. Similarly, the rates in the parallel market and bureaux de change, depreciated from ₦135.52 and ₦135.87 per dollar to ₦138.68 and ₦139.18 per dollar, respectively. Overall, the premium between the IFEM and the parallel market rates widened further

accounted for by the higher average outflow in February, compared with January, 2002.

## 5.0 OTHER INTERNATIONAL ECONOMIC DEVELOPMENTS

Revised data indicated that world crude oil output declined from 75.65 mbd in January 2002 to 75.26 mbd in February, while world crude oil demand, estimated at 75.00 mbd for the month, also declined by 0.50 mbd. Overall, total world oil supply



from 18.92 per cent in January, 2002 to 20.85 per cent, in February, 2002.

exceeded demand by 0.26 mbd, compared with an excess supply of 0.15 mbd in the preceding month.

## 4.4 External Reserves

Nigeria's gross external reserves at end-February, 2002 amounted to \$9,793.5 million, indicating a decline of 3.2 per cent from the preceding month's level of \$10,116.8 million. At current foreign exchange commitments, the reserves could finance about 8.7 months of imports as against 9.2 months in the preceding month. The reduced months of imports was

The meeting of the G-15 Expert Group on the Reform of the International Financial Architecture (IFA), was held in Kuala Lumpur, Malaysia on 26th February 2002. The issues considered focused on four major areas, namely: Transparency, Standards and Codes; Capital flow issues; Highly Leveraged Institutions; and Reform of the International Financial Institutions (IFIs).

In another development, the Bureau of the Association of African Central Banks (AACB) met in Dakar, Senegal from 11<sup>th</sup>—12<sup>th</sup> February 2002. The Bureau discussed a number of issues, which included, the appointment of a secretary of the Association; transfer of the account of the liquidated African Centre for Monetary Studies (ACMS) to AACB; designation of authorized signatories to the AACB accounts; outstanding contribution arrears; theme for the 2002 Symposium of the Association; proposed amendments to the AACB status; as well as the venue and date for the 26<sup>th</sup> Ordinary Meeting of the Association.

Finally, the African Development Bank (ADB) Group has cancelled debts worth \$429.47 million owed by Ethiopia, Tanzania and Mozambique under the Heavily Indebted Poor Countries (HIPC) initiative. The cancellation is expected to relieve each of the countries of about 80 per cent of repayment commitments to the ADB Group, thus freeing resources to address the problem of poverty in these countries.