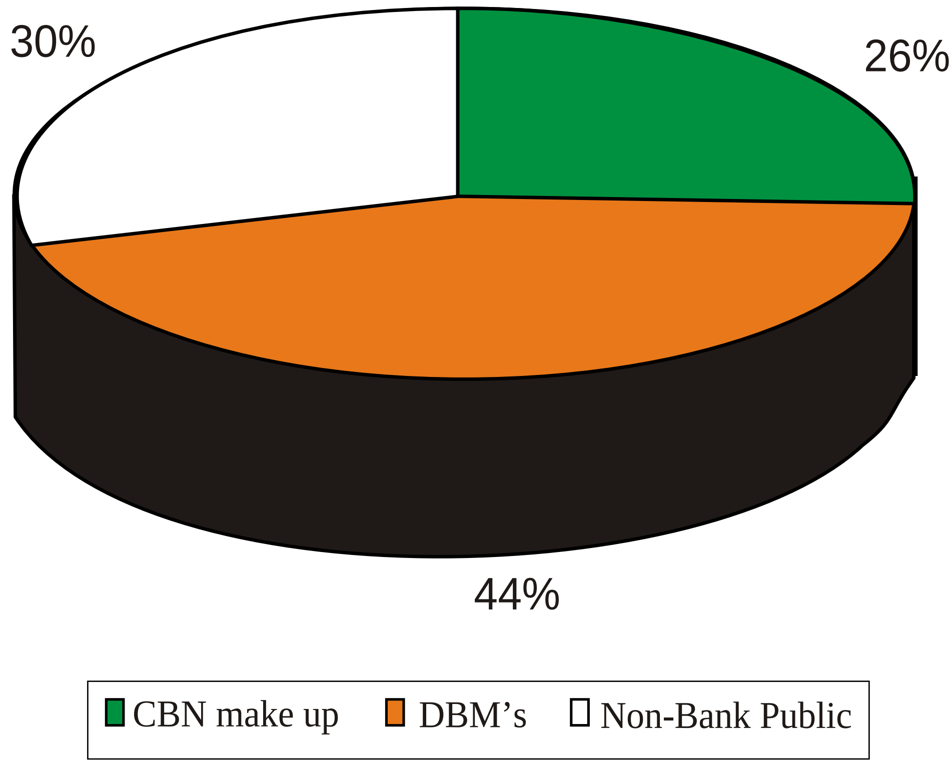
Figure 4.6
Treasury Bills: Issues and Subscriptions
2003 (Naira Billion)



4.1 Monetary and Credit Developments

4.1.1 Monetary Developments

The growth in monetary aggregates in 2003, exceeded the prescribed targets for the year by substantial margins. The expansion was induced by the rapid monetisation of crude oil receipts and the expansionary fiscal operations of the Federal and State governments. The broad measure of money supply (M_2) increased by 24.1 per cent, compared with the target of 15.0 per cent set for fiscal 2003 and the 21.6 per cent rise in 2002. The expansion in M_2 reflected the increase in both narrow money supply (M_1) and quasi-money. M_1 grew by 29.5 per cent, compared with the target of 13.8 per cent and the increase of 15.9 per cent recorded in the preceding year (Table 4.1).

The main expansionary factors of M_1 were the increase in aggregate credit to the domestic economy and foreign assets (net) of the banking system. The decline in other assets (net) of the banking system and the significant increase in quasi-money, however, exerted a moderating influence on M_1

growth. Quasi-money rose by 16.3 per cent to ₦759.6 billion, compared with the increase of 30.9 per cent in the preceding year. The demand deposits component of M_1 increased significantly by 45.4 per cent to ₦813.4 billion, representing 66.4 per cent of M_1, compared with 59.1 per cent in 2002. Similarly, the currency component increased substantially by 33.6 per cent from 40.9 per cent in 2002 (Table 4.1)

4.1.2 Banking System Credit

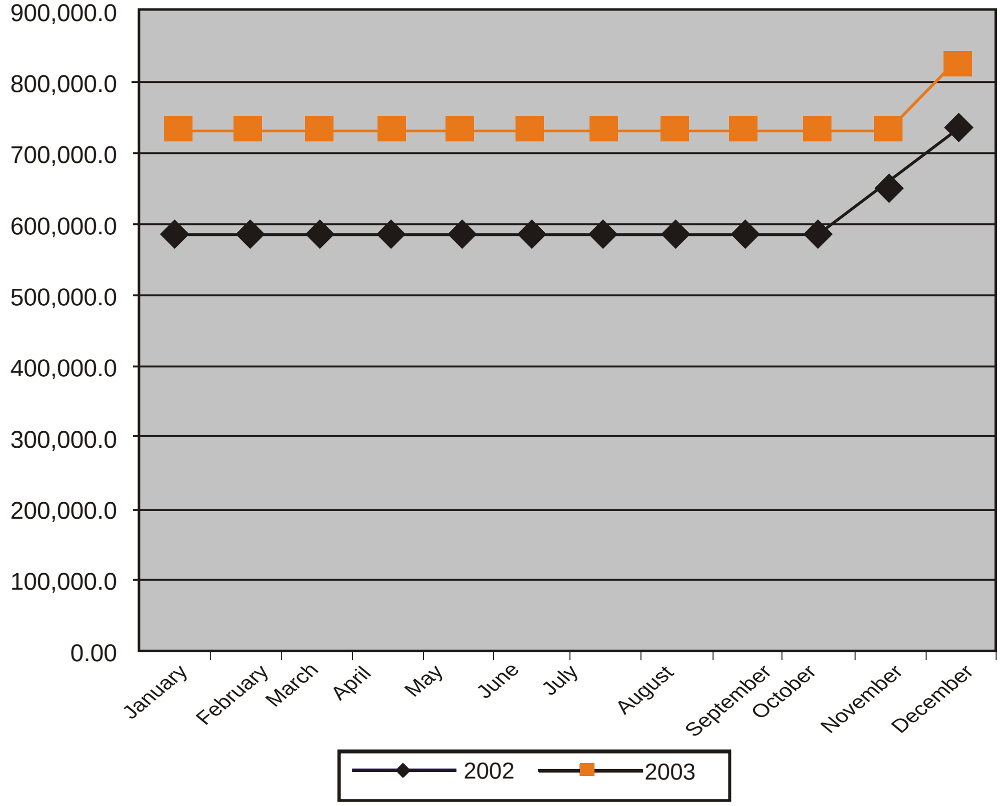
Aggregate bank credit to the domestic economy rose by 32.7 per cent to ₦1,854.1 billion, compared with the programmed target of 25.7 per cent for the year and the substantial increase of 64.6 per cent in the corresponding period of 2002. Domestic credit expansion during the year reflected an increase in claims on both the government and private sectors, the latter accounting for 70.2 per cent of the total. Net claims on the Federal Government stood at ₦552.6 billion, representing an increase of 47.9 per cent above the level at end-December 2002, compared with the significant increase observed in the corresponding period of 2002.

The increase in 2003 was attributable to the drawdown of federal government deposits with the CBN which was, however, moderated by the decline in the treasury bills holdings by the deposit money banks. Consequently, deposit money banks' claims on the Federal Government declined by 28.1 per cent to ₦298.4 billion in contrast to the 130.6 per cent rise in the preceding year. Banking system credit to the private sector grew sluggishly, particularly in the first half of the year. However, following the monetary authority's incentive of a lower CRR of 9.5 per cent for banks exceeding the set lending target of 20.0 per cent or more to the real sector of the economy over the level in June 2002, credit to the private sector improved markedly from the third quarter of the year. Overall, bank credit to the private sector increased by 27.1 per cent, compared with the target growth rate of 32.3 per cent for fiscal 2003. Banking system's claims on state and local governments declined during the first half of the year, the same trend as in the preceding year. The trend reflected the impact of the CBN's directive to banks in 2001 which had emphasized exceptional provisioning by banks for loans and advances to all tiers of government and their agencies. However, by end-December 2003, bank credit to state and local governments had increased by 16.8 per cent, in contrast to the decline of 35.3 per cent in the preceding year. Credit to the "core" private sector, which accounted for 98.4 per cent of the total credit to the private sector, rose by 27.3 per cent to ₦1,281.1 billion. The increase reflected, largely, deposit money banks' claims on the sector which rose by 27.4 per cent to ₦1,272.5 billion. The proportion of the CBN's contribution to the sector remained at 0.7 per cent as in the preceding year.

4.1.3 Deposit Money Banks

The oligopolistic structure of the banking system persisted, with only ten banks out of the eighty-nine (89) in

Figure 4.7
Demand for Treasury Bills at Open Market Operations



operation accounting for 55.3 per cent of total assets, 56.2 per cent of the total deposit liabilities, and 44.3 per cent of total credit, compared with 54.5, 52.4 and 46.1 per cent respectively in 2002. At ₦3,047.9 billion, the aggregate assets/liabilities of deposit money banks rose by 12.6 per cent over the level at end-December 2002. During the year, total funds available to the banks amounted to ₦370.3 billion, compared with ₦548.8 billion in the preceding year. The funds were sourced mainly from a reduction in claims on government (₦28.2 billon), an increase in deposit liabilities (₦180.2 billion), and an enhanced capitalization (₦97.6 billion), among others. Funds were utilized mainly to increase reserves (₦40.9 billion), foreign assets holdings (₦39.4 billion), claims on the private sector (₦251.8 billion), claims on the other financial institutions (₦21.6 billion), and acquisition of other assets (₦13.6 billion), among others. The structure of banks' deposit liabilities showed that demand deposits accounted for 43.2 per cent while savings and time deposits as well as foreign currency deposits constituted 56.8 per cent, compared with 56.5 and 43.5 per cent in 2002 (Tables 4.3 and 4.4).

Aggregate credit to the domestic economy by deposit money banks amounted to ₦1,501.6 billion, indicating an increase of ₦199.4 billion or 15.3 per cent over the level at end-December 2002. The breakdown showed that credit to the private sector rose by ₦251.8 billion or 27.0 per cent, while claims on the federal government declined by ₦125.3 billion or 15.6 per cent, reflecting the divestment of holdings in government securities as well as the increase in government deposits with banks during the year. Banks' total loans and advances increased by ₦196.0 billion or 23.2 per cent to ₦1,041.7 billion during the year. Analysis of the sectoral allocation of deposit money banks' credit showed that the less productive sectors of the economy continued to be favoured as only 40.2 per cent of the total credit granted in 2003 went to agriculture, solid minerals, exports and manufacturing, compared with 40.9 per cent in 2002. As at end-December 2003, the computed average liquidity ratio for deposit money banks stood at 49.7 per cent, compared with the stipulated minimum of 40.0 per cent. However, twenty-one (21) banks failed to meet the minimum liquidity ratio as at end-December 2003. The average loan to deposit ratio was 70.0 per cent, compared with the prudential limit of 80.0 per cent. As at end-December 2003, forty-five banks (45) or 50.6 per cent of the banks in operation, however, recorded a net loan to deposit ratio of 100 per cent and above.

Overall, the rating of licensed banks, using the CAMEL parameters, revealed that 11 banks were rated “sound”, 53 were “ satisfactory” while 14 and 9 banks were rated “marginal” and “unsound” respectively.

4.2 Community Banks (Cbs)

The total number of community banks (CBs) in operation increased from 769 in 2002 to 774 at end-December 2003. Of this number, 564 community banks reported on their operations to the CBN during the year, compared with 316 in the preceding year. Only one (1) additional community bank was licensed, bringing the total number of licensed CBs to 283 at end- 2003. The CBN conducted a pre-licensing inspection on 442 community banks, while three Approvals-In-Principle (AIP) were granted during the year. The total assets/liabilities of the 564 reporting community banks amounted to ₦28.7 billion, representing an increase of 85.5 per cent over the level in 2002.

The capital and reserves of the CBs increased by ₦3.2 billion or 83.3 per cent from ₦3.8 billion in the preceding year to ₦7.0 billion in 2003. Loans and advances granted by the reporting community banks increased by 130.9 per cent to ₦10.0 billion, compared with the increase of 228.1 per cent in 2002 while investment, which stood at ₦0.9 billion in 2002, increased to ₦2.3 billion in 2003. A sectoral analysis of the loans portfolio of the reporting CBs showed that general commerce lost its dominance to the “Others” category of credit recipients. Loans and advances to “Others” represented 34.4 per cent of the total assets, while trade and commerce; and transportation/communications received 27.5 per cent and 17.4 per cent respectively. The average loan/deposit ratio of the banks increased to 55.1, from 44.4 per cent in 2002 (Table 4.5).

4.3 Other Financial Institutions

4.3.1 Discount Houses

The level of activities of discount houses declined in 2003, relative to 2002, as their total assets/liabilities fell by 7.9 per cent to ₦52.7 billion. Total funds available to discount houses fell by 46.3 per cent to ₦15.4 billion. These funds were sourced mainly through divestment of treasury securities (₦6.6 billion), increased miscellaneous liabilities (₦3.9 billion), and accretion to capital and reserves (₦1.2 billion), among others. The funds were utilized for the settlement of claims to banks (₦5.2 billion), repayment of other amounts owed to banks and non-bank customers (₦7.7 billion) as well as call-money placements, among others. Discount houses' investments in federal government securities of less than 91 days maturity amounted to ₦23.7 billion at end-December 2003, representing 73.7 per cent of their total deposit liabilities. This was 13.7 percentage points higher than the prescribed minimum of 60.0 per cent for fiscal 2003 (Table 4.6).

4.3.2 Finance Companies (FCs)

Finance companies recorded modest growth in their operations in 2003. The number of finance companies reporting on their activities to the CBN increased from 28 to 75 in 2003. Total assets/liabilities of the reporting companies increased by 153.0 per cent from ₦11.7 billion in 2002 to ₦29.6 billion at end-December 2003. Total investible funds available to the FCs during the year amounted to ₦18.2 billion, compared with ₦3.7 billion in the preceding year. The funds were sourced mainly from borrowings (₦12.2 billion), addition to capital and reserves (₦4.0 billion), and other liabilities (₦2.3 billion), among others. The funds were utilized in boosting equipment on lease (₦10.9 billion), acquisition of miscellaneous assets (₦2.3 billion) and repayment of loans and advances (₦2.1 billion), among other uses. Loans and advances by the finance companies increased by 279.5 per cent to ₦14.8 billion from the ₦4.1 billion recorded in the preceding year, while investments increased by 95.5 per cent to ₦4.3 billion. Also, the fixed assets of the companies increased by 71.4 per cent to ₦2.4 billion during the period. On the liabilities side, the FCs recorded an increase in capital and reserves of 211.1 and 109.9 per cent to ₦4.2 billion and ₦2.2 billion respectively, while funds due to other finance companies declined by ₦44.7 billion or 63.9 per cent to N25.2 billion (Table 4.7).

4.3.3 Primary Mortgage Institutions (PMIs)

The performance of the primary mortgage institutions (PMIs) improved in 2003 relative to the preceding year.

Out of eighty-one (81) PMIs in operation, seventy-two (72) rendered statutory returns to the regulatory authorities, compared with 63 in the preceding year. Total assets /liabilities of the PMIs stood at ₦64.4 billion, representing an increase of 17.0 per cent over the level in the preceding year. Investible funds available to the PMIs were ₦36.7 billion, compared with ₦21.5 billion in 2002. The funds were sourced mainly from increased deposit liabilities (₦32.8 billion) and accretion to capital and reserves (₦2.7 billion), among others. The major uses of funds included a reduction in long-term liabilities (₦23.3 billion), placements with banks (₦2.4 billion), acquisition of miscellaneous assets (₦1.8 billion), and fixed assets (₦1.5 billion).

4.3.4 Development Finance Institutions (DFIs)

The performance of the development finance institutions was mixed in 2003. The operations of the Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) generally improved, while those of the Urban Development Bank (UDB) and the Bank of Industry (BOI) were weak. The total assets of the three development finance institutions reporting in 2003 indicated an increase of ₦6,278.0 million or 24.3 per cent over the level in the preceding year. The increase reflected largely more loans granted by NACRDB, which grew by ₦1,913.0 million or 38.1 per cent over the level in 2002. The distribution of the asset base among the three development institutions showed that the NACRDB dominated with ₦25,005.8 million or 78.0 per cent of the total, while the share of BOI and UDB was ₦6,467.4 million or 20.2 per cent and ₦602.4 million or 1.9 per cent respectively. Also, loans

CHAPTER 5

FISCAL OPERATIONS

The fiscal operations of the Federal Government in 2003 resulted in an overall deficit of ₦202.7 billion or 2.8 per cent of GDP, compared with the overall deficit of ₦301.4 billion or 5.5 per cent of GDP in 2002. However, the primary balance was a surplus of N39.0 billion. The overall deficit was traceable to the impact of debt service burden. Total federally-collected revenue amounted to ₦2,575.1 billion, representing an increase of 48.7 per cent over the level in 2002. Federal Government retained revenue was ₦1,023.2 billion, representing an increase of 42.7 per cent over the level in 2002. The improved performance in government revenue in 2003 reflected largely, the developments in the world oil market, as crude oil prices were generally above the budget benchmark of US$22.0 per barrel.

5.1 Federation Account Operations

Total federally-collected revenue in 2003 was ₦2,575.1 billion, representing an increase of 48.7 per cent over the level in 2002. The increase was due to the significant increase in the price of crude oil in the world market and the removal towards the end of the year, of the subsidy on domestic crude oil sales to the Nigerian National Petroleum Corporation (NNPC). Analysis of gross revenue showed that receipts from the oil sector increased by 68.5 per cent to ₦2,074.3 billion, constituting 80.6 per cent of the total, compared with 71.1 per cent in 2002.

Receipts from crude oil exports increased sharply by ₦502.1 billion or 98.8 per cent to ₦998.4 billion in 2003, reflecting the higher price of crude oil in the international market. Revenue from Petroleum Profit Tax (PPT) and Royalties contributed the sum of ₦683.5 billion, representing a significant increase of ₦291.3 billion or 74.3 per cent over the level in the preceding year. Similarly, domestic crude oil sales increased by ₦82.2 billion or 27.0 per cent, following the sales of crude oil to the NNPC at the international price using a market determined exchange rate.

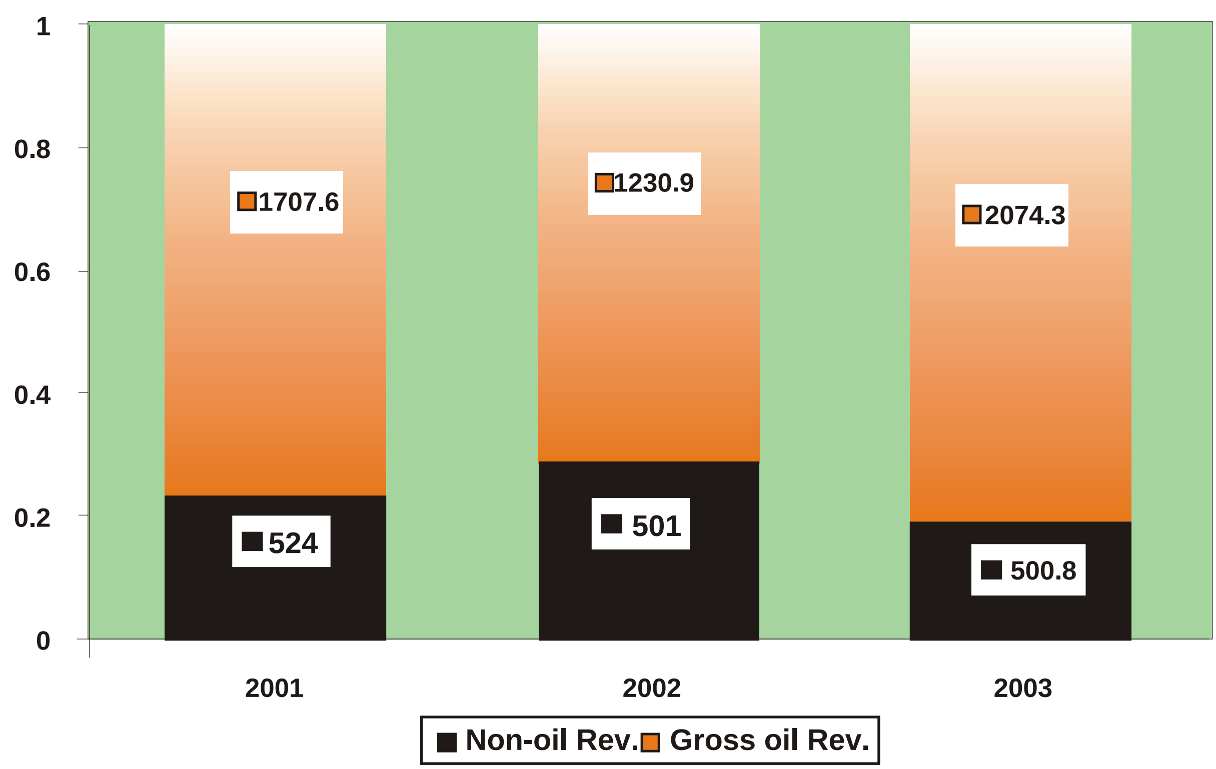
The sum of ₦563.5 billion in respect of Joint Venture Cash Calls and excess crude/ PPT/ royalty proceeds was deducted from gross oil receipts during the year. This was ₦437.8 billion higher than the deduction of ₦125.7 billion in 2002. Revenue from non-oil sources declined by 0.4 per cent to ₦500.8 billion in 2003.

Federal Government Independent Revenue also declined by 20.4 per cent to ₦54.2 billion. Company Income Tax (CIT), Custom and Excise Duties and Value-Added Tax (VAT), however, increased by 28.8, 7.8 and 23.9 per cent respectively over their levels in the preceding year.

5.1.1 Federation Account Allocation

The sum of ₦2,011.6 billion accrued to the Federation Account in 2003, representing an increase of 5.9 per cent over the ₦1,899.5 billion recorded in 2002. Of the total, ₦1,821.0 billion was distributed among the three tiers of government and the Derivation Fund. The increase was largely due to bigger oil revenue. The difference between gross receipts and the amount distributed reflected the exclusion of Federal Government Independent Revenue (₦54.2 billion) and VAT Pool Account (₦136.4 billion). A breakdown of the distribution showed that the Federal Government received ₦917.1 billion, State Governments ₦419.8 billion, Local Governments ₦346.9

Figure 5.1
Federation Account: Composition of Revenue
(N'Billion)



billion, while ₦137.2 billion went to the Derivation Fund and shared among the oil-producing states (Table 5.1).

5.2 Federal Government Finances

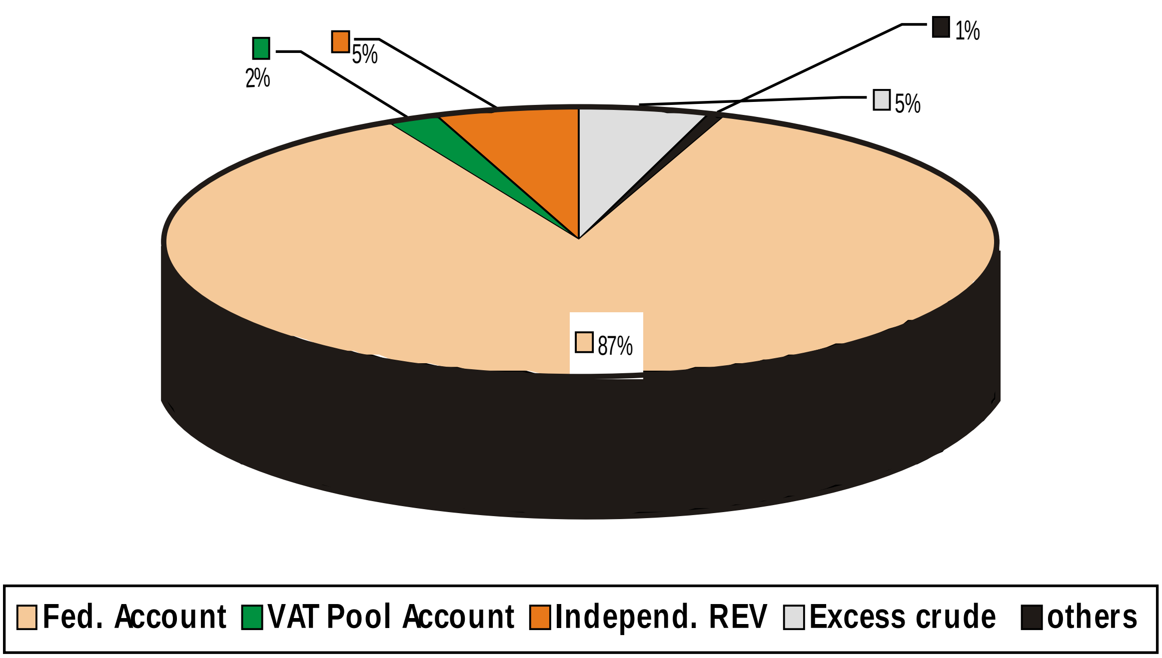
5.2.1 Federal Government Retained Revenue

Federal Government retained revenue amounted to ₦1,023.2 billion, representing an increase of 42.7 per cent over the level in 2002. Analysis of the revenue showed that the share from the Federation Account was ₦889.2 billion, the VAT Pool Account ₦20.0 billion, and Independent Revenue of the Federal Government ₦54.2 billion. Other components included the share of excess crude (₦53.3 billion), loans recovered from the states (₦0.08 billion), and other items (₦6.6 billion)

5.2.2 Federal Government Total Expenditure

Aggregate expenditure of the Federal Government increased by 20.4 per cent to ₦1,226.0 billion from the level in 2002 and surpassed the 2003 budget estimate of ₦1,189.6 billion by 3.1 per cent. As a proportion of GDP, total expenditure declined to 16.7 per cent in 2003 from 18.6 per cent in 2002. Non-debt expenditure (that is, total expenditure less debt service payments) went up by 5.5 per cent above the level in 2002 and was 7.3 per cent below the ₦926.6 billion budget estimate for 2003. Domestic debt service payments amounted to ₦172.9 billion,

Figure 5.2
Composition of Federal Govt. Retained Revenue in 2003



representing 14.1 per cent of total expenditure and exceeded the budget provision of ₦74.0 billion by 133.6 per cent. The increase reflected a rise in the interest on domestic debt.

5.2.2.1 Recurrent Expenditure

At ₦984.3 billion, the recurrent expenditure increased by 41.3 per cent over the level in 2002, reflecting largely, increased outlays on goods and services and external debt service payments. The economic classification of recurrent expenditure showed that government purchases of goods and services amounted to ₦617.7 billion or 62.8 per cent, while external and domestic debt service, at ₦366.6 billion, accounted for the balance of 37.2 per cent. A breakdown into economic functions showed that the outlay on administration fell by 7.2 per cent below the level in 2002 to ₦307.8 billion and accounted for approximately 31.3 per cent of total recurrent expenditure, while transfer payments increased by 70.5 per cent to ₦477.8 billion and accounted for 48.5 per cent of the total in 2003. The increase was due mainly to biger foreign debt service payments. The outlay on economic services increased by 45.7 per cent to ₦96.0 billion, while that on social and community services declined by 45.9 per cent to ₦102.6 billion in 2003, accounting for 9.8 and 10.4 per cent of total recurrent expenditure respectively (Table 5.3).

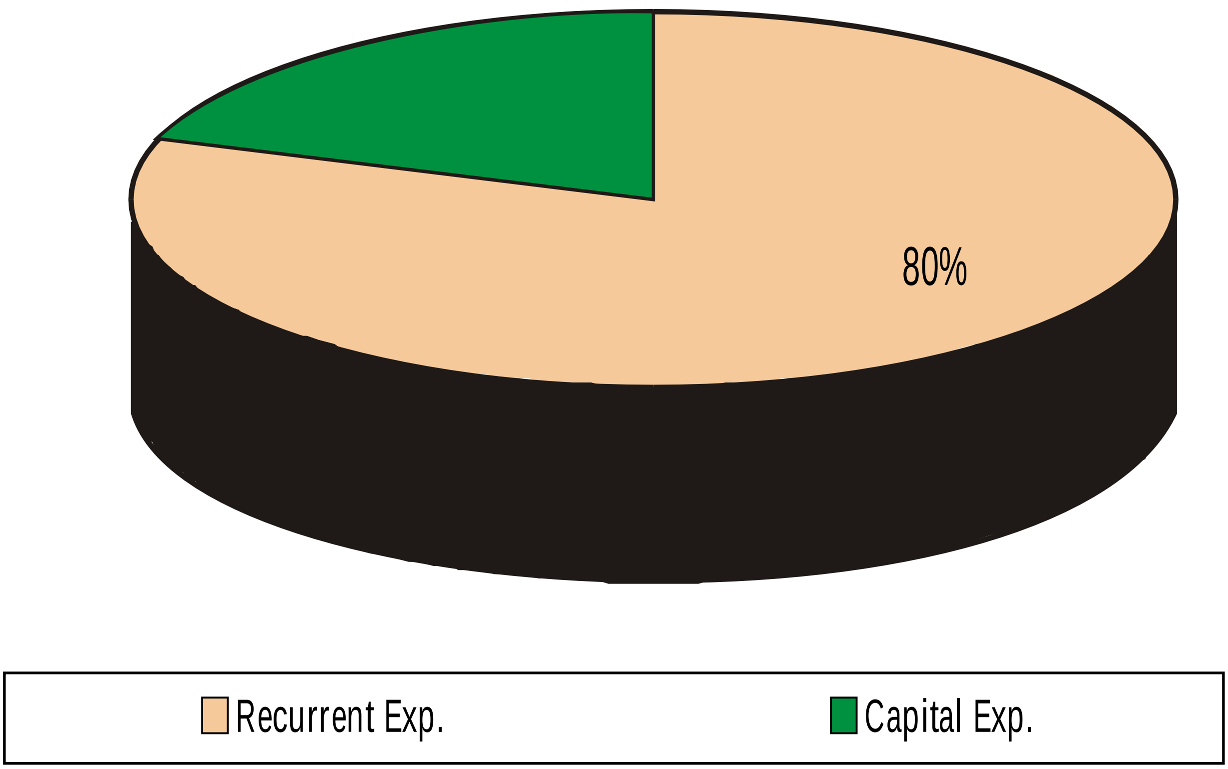
5.2.2.2 Capital Expenditure

In 2003, capital expenditure amounted to ₦241.7 billion, showing a decrease of 24.8 per cent below the level in 2002, and constituting 19.7 per cent of total expenditure. A breakdown of capital expenditure into economic functions showed that economic services accounted for ₦98.0 billion or 40.5 per cent of the total. Compared with 2002, expenditure on economic services fell by 54.5 per cent while that on administration increased by 19.6 per cent and accounted for 36.4 per cent of the total. Also, expenditure on social and community services, which accounted for 23.1 per cent of the total, increased by 71.7 per cent to ₦55.7 billion in 2003. The increase was as a result of government's commitment towards completing the National Stadium in Abuja and the hosting of the All African Games (AAG) (Table 5.4).

5.2.3 Overall Fiscal Balance and Financing

The fiscal operations of the Federal Government resulted in a deficit of ₦202.7 billion, or 2.8 per cent of GDP, compared with the 5.5 per cent recorded in 2002. The deficit was financed entirely from domestic sources, with ₦105.6 billion coming from the banking system, ₦58.1 billion from the non-bank public, and the balance of ₦39.0 billion from other funds.

Figure 5.3
Composition of Federal Govt. Expenditure in 2003

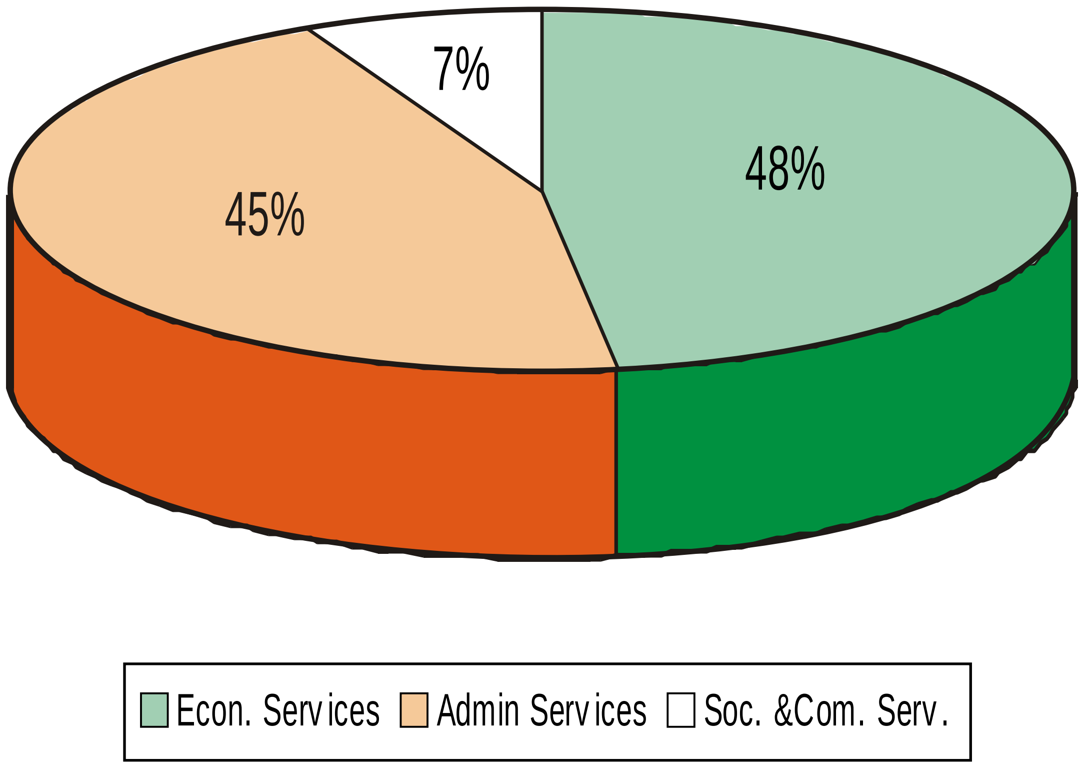


5.3 State Governments' Finances

Provisional data on the fiscal operations of the state governments resulted in an overall deficit of ₦66.2 billion in 2003, compared with the ₦54.7 billion deficit recorded in 2002. Total revenue of the state governments amounted to ₦855.0 billion, exceeding that of the preceding year by 27.**6** per cent. Broadly, the revenue consisted of statutory allocations and internally generated revenue (IGR), which accounted for 86.1 and 13.9 per cent respectively. The statutory allocations comprised their share of the Federation Account of ₦535.2 billion; VAT Pool Account of ₦65.9 billion, excess crude oil proceeds, reserve account, grants of ₦134.2 billion and stabilization account of ₦996.8 million. The IGR of the state governments stood at ₦118.8 billion and represented 13.9 per cent of the total revenue, but covering only 12.9 per cent of their total expenditure.

Total expenditure of the state governments amounted to ₦921.2 billion, exceeding the level in 2002 by 27.1 per cent. Recurrent expenditure amounted to ₦545.3 billion and accounted for 59***.2*** per cent of the total and was higher than the level in the preceding year by 28.6 per cent. Capital

Figure 5.4
Fed. Govt. Capital Exp. In 2003



expenditure amounted to ₦324.0 billion and represented 35.2 per cent of the total expenditure. Further breakdown of the recurrent expenditure showed that personnel costs, overhead costs, and others accounted for 36.8, 21.4 and 41.8 per cent of the total respectively. Aggregate capital expenditure of the state governments amounted to ₦324.0 billion. The amount was 14.3 per cent higher than the level in 2002. The overall deficit of ₦66.2 billion was financed from both domestic and external sources. External loans amounted to ₦14.7 billion, while internal borrowing amounted to ₦71.0 billion. Other funds of the state governments had an accretion of ₦32.6 billion (Tables 5.5 and 5.6).

5.4 Local Government Finances

Total revenue of 659 (out of 774) local governments that reported in 2003 amounted to ₦370.2 billion. A breakdown of this figure shows that ₦20.2 billion was generated internally, ₦291.4 billion realised from the Federation Account, ₦39.7 billion realised from VAT, ₦4.6 billion from stabilisation fund and general ecology and ₦2.1 billion from state allocation, representing 5.5, 78.7, 10.7, 1.2 and 0.6 per cent respectively of the total. On the other hand, aggregate expenditure for the reporting local governments stood at ₦361.8 billion. The total recurrent and capital expenditures amounted to ₦211.6 billion and ₦150.1 billion respectively. Recurrent expenditure was made up of personnel costs (₦134.2 billion or 63.4 per cent), overhead costs (₦63.2 billion or 29.9 per cent), and consolidated revenue fund charges (₦14.3 billion or 6.7 per cent). Capital expenditure, which amounted to ₦150.1 billion, comprised administration (₦21.6 billion), social services (₦62.9 billion) economic services (N52.0 billion), and transfers (N13.6 billion). The operations of the reporting local governments resulted in an overall surplus of N8.4 billion (Tables 5.7 and 5.8).

5.5 Public Debt

The stock of debt of the Federal Government, as at end-December, 2003, stood at ₦5,808.0 billion. The amount represented an increase of 13.9 per cent over the stock at the end of 2002. However, the total debt outstanding as a proportion of GDP decreased from 93.3 per cent in the preceding year to 79.2 per cent. Domestic debt outstanding amounted to ₦1,329.7 billion, representing 22.9 per cent, while external debt outstanding amounted to ₦4,478.3 billion (or 77.1 per cent) of total debt outstanding. In line with Government's policy of reducing reliance on monetary financing of deficits, the Federal Government, through the Debt Management Office (DMO), raised funds through the capital market to meet its financing needs by issuing the 1st FGN Bonds. The Bonds were issued in four tranches of 3, 5, 7 and 10 year maturities. The Government was only able to raise ₦72.6 billion, out of the ₦150.0 billion worth of bonds issued. However, the tranche of three-year maturity was over-subscribed.

5.5.1 Domestic Debt

The domestic debt stock of the Federal Government outstanding at the end of 2003 stood at ₦1,329.7 billion, representing an increase of 14.0 per cent over the level in 2002. The increase was partly offset by the ₦0.2 billion redemption of Development Stock at end-December 2003. The banking system remained the dominant holder of Federal Government securities in 2003. It held ₦1,085.6 billion or 81.6 per cent, indicating an increase of ₦105.6 billion or 10.8 per cent over the level in 2002. The Central Bank held ₦613.8 billion or 46.2 per cent of the total, up from 45.6 per cent in the preceding year, reflecting its holdings of Treasury Bonds of ₦358.2 billion. Holdings by deposit money banks also increased by ₦11.6 billion or 2.5 per cent to ₦471.8 billion in 2003, constituting 35.5 per cent of the total. Similarly, holdings of the non-bank public increased by 31.2 per cent to ₦244.1 billion, thereby constituting 18.4 per cent of the total (Table 5.9).

Analysis of the maturity structure of domestic debt revealed that instruments with tenor of 2 years and below accounted for ₦836.8 billion or 62.0 per cent, compared with ₦738.8 billion or 62.9 per cent in 2002. By comparison, the instruments of 10 years and above maturity declined from 29.1 per cent in 2002 to 24.1 per cent or

₦319.9 billion, while those with maturities of between 2 to 10 years increased from 7.4 per cent in 2002 to 13.0 per cent or ₦172.9 billion in 2003.

5.5.2 External debt

5.5.2.1 The Debt Stock

The data from DMO indicate that the external debt stock at end-December 2003 was US$32.9 billion, constituting an increase of US$1.3 billion or 6.1 per cent over the preceding year's level of US$31.0 billion. The increase was attributable to the capitalization of unpaid interest and charges on Paris Club debt as well as the depreciation of the dollar *vis-à-vis* the Euro and the Japanese Yen. External debt as a percentage of GDP was 61.1 per cent, compared with 72.0 per cent in 2002.

Available data showed that the Paris Club accounted for US$27.5 billion or 83.6 per cent of the total while Multilateral and the London Club's claim totalled US$3.0 billion and US$1.4 billion or 9.1 and 4.3 per cent of total respectively. Promissory Notes stood at US$0.9 billion or 2.7 per cent while "others" accounted for the balance of US$0.05 billion or 0.2 per cent (Table5.10).

5.5.2.2 Debt Service Payments

Available data revealed that external debt service payments in 2003 was US$1.8 billion, indicating an increase of US$0.6 billion from the actual debt service payments of US$1.2 billion in the preceding year. A breakdown of the payments revealed that the Paris Club had the lion share of US$1.0 billion, followed by Multilateral with US$0.5 billion and Promissory Notes and "others" with US$0.2 billion, while US$0.1 billion went to the London Club. Analysis in respect of structure of debt service re-payments revealed that US$1.3 billion was for principal payments, US$0.5 billion for interest payments and the remaining US$0.02 billion for commitment, penalty interest and other charges (Table 5.11).

5.5.3 Debt Conversion Programme

Generally, the level of activity of the debt conversion programme deteriorated in 2003, reflecting a reduction in the number of applications received as well as in other activities. Three (3) applications valued at US$76.6 million were received during the year, as against ten (10) valued at US$1,489.3 million received in 2002. However, five (5) applications valued at US$48.9 million were granted approvals-in-principle, as against seven (7) applications valued at US$182.3 million in the preceding year. Disbursements during the year also declined by ₦1,973.2 million or 46.0 per cent from the value in the preceding year to ₦2,313.1 million.

The total amount of debt cancelled declined by US$25.2 million or 55.3 per cent from its level in the preceding year to US$20.3 million in 2003. Similarly, discount received declined by US$6.2 million or ₦771.5 million in 2002 to US$1.97 million or ₦248.4 million in 2003. The transactions commission for the year also declined by ₦7.1 million to ₦34.8 million.

CHAPTER 6

THE REAL SECTOR

Data from the Federal Office of Statistics revealed that the real sector expanded further in 2003. The gross domestic product (GDP), measured in 1990 basic prices increased by 10.2 per cent, compared with 3.5 per cent in 2002. All the major sectors, contributed to the substantial improvement in aggregate output. Agricultural production was promoted largely by the temporary import prohibition on some selected agricultural produce, favourable weather conditions and government's price support programme. There was a substantial increase in crude oil production, owing largely to an increase in the country's OPEC quota and production of condensate and gas. A higher global demand for oil during the year was driven mainly by speculations occasioned by the persistent tension in the Middle East, war in Iraq and the booming Chinese economy. Improvements in the operating environment enhanced manufacturing production. Inflationary pressure persisted, especially during the last quarter of the year, culminating in an inflation rate of 14.0 per cent as against 12.9 per cent in 2002. Unemployment remained worrisome during the year. The number of declared trade disputes declined by 2.0 per cent to 49 in 2003.

6.1 Gross Domestic Product (GDP)

The Gross Domestic Product (GDP), measured at 1990 constant basic prices, increased by 10.2 per cent to ₦392.76 billion. The growth rate substantially exceeded the 3.5 per cent recorded in 2002, but was lower than the 5.0 per cent target for fiscal 2003. Sectoral analyses showed that improvements in the output of agriculture, industry, utilities, communications, building and construction and services sectors/sub-sectors largely accounted for the increase in the real GDP.

The value of agricultural output, consisting of crop production, livestock, forestry and fishing represented 34.6 per cent of the total GDP in 2003, compared with 35.9 per cent in 2002. The industrial sector, comprising crude petroleum, mining and quarrying, and manufacturing contributed 38.2 per cent of the total, compared with 34.7 per cent in the preceding year. The share of the services sector was 12.5 per cent, while general commerce, and building and construction accounted for about 12.7 and 2.1 per cent, respectively (Table 6.1(a).

The data also showed that the real domestic output, based on the expenditure approach, stood at ₦403.95 billion, representing an increase of 10.1

per cent, compared with 3.7 per cent in the preceding year. Private consumption expenditure rose considerably by 9.4 per cent to ₦273.05 billion and accounted for about 67.6 per cent of total expenditure, while government final expenditure stood at ₦24.9 billion and represented 6.2 per cent of the total (Tables 6.2 & 6.3).

6.2 Agriculture

6.2.1 Agricultural Production

The performance of the agricultural sector improved in 2003. Aggregate index of agricultural production was estimated at 190.9 (1990 = 100), compared with 179.9 in the previous year. This showed an increase of 6.1 per cent, compared with the 4.0 per cent recorded in 2002 and an average of 5.6 per cent for the period 1999 to 2002 (Table 6.4). Also, the performance surpassed the 5.8 per cent growth target set in the 2002 2003 National Rolling Plan for the sector. All the sub-sectors contributed to the growth in output. Output of staples grew by 7.1 per cent, compared with 4.2 per cent in 2002. All the major staple crops recorded increases in output over the previous year's levels. For instance, the output of maize, millet, sorghum and rice increased by 4.8, 6.3, 5.6 and 4.4 per cent, respectively. Similarly, cassava, yam, beans, potatoes and cocoa-yam recorded output increases of 6.2, 8.6, 8.4, 9.7 and 13.9 per cent, respectively (Table 6.5). Cash crop production increased by 3.0 per cent. The output of palm oil, soyabean and cottonseed increased by 3.5, 5.0 and 5.7 per cent, respectively. The growth rates of other cash crops were: cocoa 0.7 per cent, coffee 1.8 per cent, and rubber 2.0 per cent.

Figure 6.1
Index of Agric. Production (1990=100)

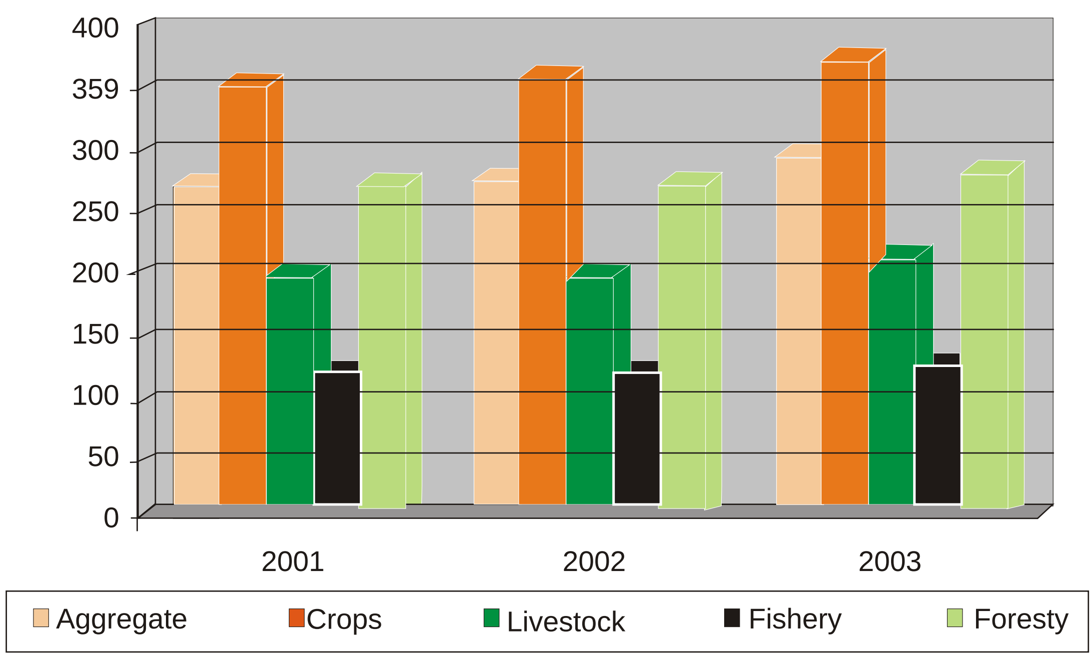
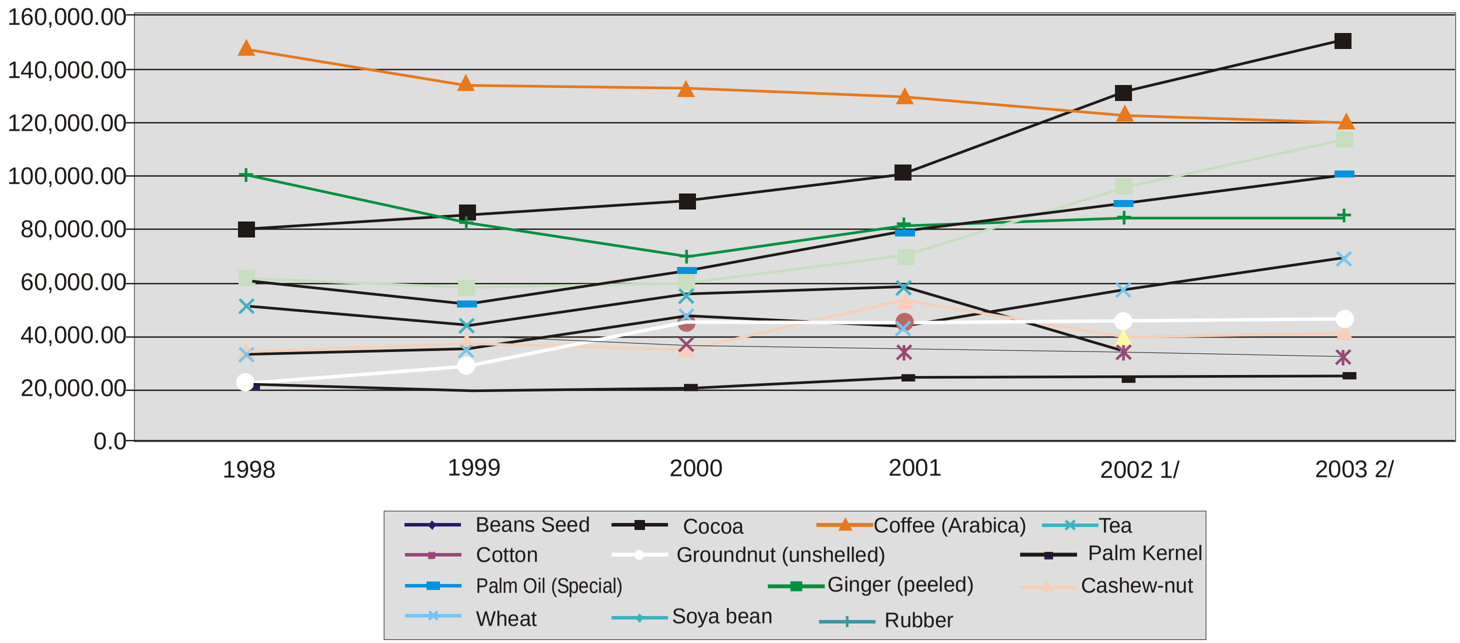


Figure 6.2
Average Prices of Selected Cash Crops (Naira per Tonne)



These developments were corroborated by the results of the national survey conducted by the Central Bank of Nigeria, which showed that the increase recorded in agricultural production during the year was driven largely by sustained support from the Federal Government to the sector. In particular, the sustained prohibition on the importation of cassava, fruit juice, vegetable oil, poultry and related products increased their local prices and encouraged farmers to expand production. Moreover, the favourable weather conditions (rainfall was timely and well distributed throughout the country) contributed to the improved agricultural performance. In addition, the implementation of the special rice programme, under the aegis of the Special Programme on Food Security (SPFS) aimed at attaining self- sufficiency in rice production with a US$42.5 million Unilateral Trust Fund (UTF), began during the year. Also, the Root and Tuber Expansion Programme (RTEP) for sustainable increases in cassava, yam, cocoyam and potato production, took off in 2003 with a US$23 million soft loan from the International Fund for Agricultural Development (IFAD).

Several multi-purpose irrigation dams were also constructed and commissioned across the country during the year. Furthermore, five commodity associations and presidential committees, out of the six set up to boost the production and marketing of agricultural products, submitted their recommendations to the government and their recommendations were approved in 2003.

Notwithstanding the remarkable performance of agriculture in 2003, some problems persisted. The major problems were inadequate supply of fertilizers and other farming inputs, as well as the time lag between the supply and distribution of these inputs and the planting period. Another problem was the invasion of farms by quela birds in Borno, Yobe, Adamawa, Sokoto, Jigawa, Kano and Bauchi States. Also, the outbreak of cassava mosaic disease, which affected cassava production in Oyo, Lagos and Kwara States, as well as reported cases of flood in Jigawa, Kano and Kebbi States, constrained further growth in agricultural production.

The index of livestock production, at 179.0 (1990=100), grew by 5.0 per cent, compared with the increase of 4.2 per cent in the preceding year. Poultry grew by 13.1 per cent, compared with 12.6 per cent in 2002. Output of beef, lamb/mutton and goat increased by 5.4, 8.6, and 12.6 per cent, respectively, compared with the respective increases of 4.8, 7.7, and 13.2 per cent, in 2002. Disease control activities in all the states, as well as availability and use of improved vaccines from the National Veterinary Research Institute, Vom, curtailed mortality rate in the livestock sub-sector.

At 163.3 (1990 = 100), the index of fish production rose by 2.0 per cent, compared with 6.3 per cent in 2002. The increase was attributable to Federal Government's support to aquaculture development, which helped in the establishment of fish farm estates and the development and management of lakes and lagoons fisheries. Loans disbursement to fisher folks commenced during the year with the receipt of the sum of US$1.47 million from the ECOWAS Fund. Further increases in fish production were, however, constrained by the escalation in the costs of inputs, such as outboard engines and fishing nets.

The index of forestry output stood at 124.2 (1990=100), and represented an increase of 2.4 per cent, compared with 0.8 per cent in the preceding year. The growth in output was attributed, partly, to intensified exploitation of forests in response to increased demand for wood products. The Forestry Research Institute of Nigeria intensified its supply of improved breeder seedlings to replace harvested tree stock and embarked on the afforestation of ecologically degraded sites.

6.2.2 Agricultural Prices

The prices of Nigeria's major agricultural commodities in the world market trended upwards in 2003. At 96.3 (1985 = 100), the dollar-based, all-commodities price index, grew by 4.4 per cent over the level in the preceding year. Further analysis showed that the prices of all the monitored commodities increased during the year, except coffee which declined by 5.1 per cent. The fall in the price of coffee was attributed largely to excess supply of the commodity (Table 6.6).

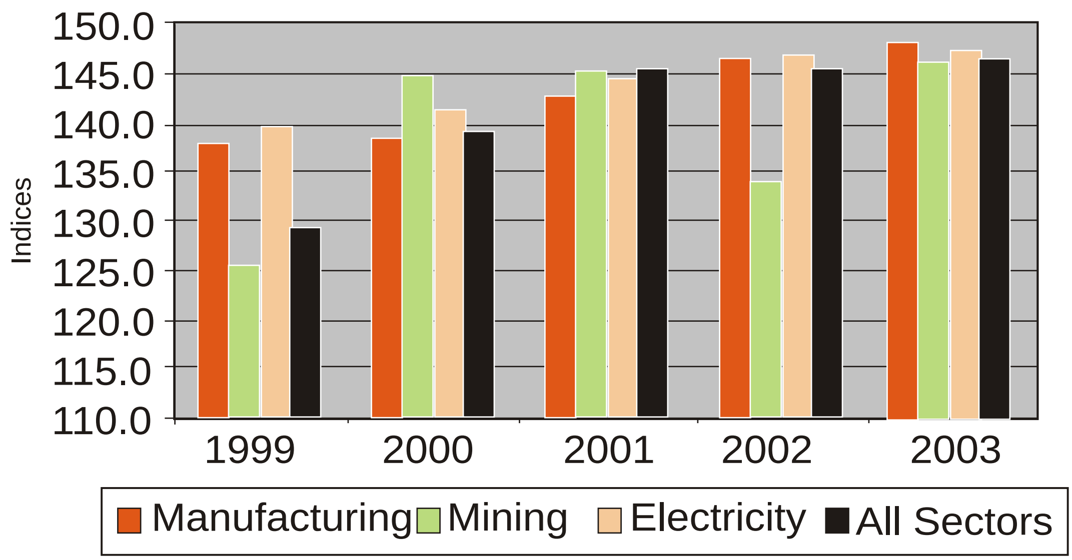
The increase in the prices of other commodities ranged from 2.9 per cent for copra to 5.5 per cent for cotton. Improved international demand, coupled with tight supply situations, largely accounted for the strengthening of the world commodities' prices.

In Naira terms, the all-commodities index increased by 4.7 per cent to 10,138.2 (1985=100). The price of all the monitored commodities recorded increases as follows: copra 0.2 per cent, soyabean 2.5 per cent, coffee 2.9 per cent, cotton 3.3 per cent, palm oil 3.5 per cent and cocoa 4.9 per cent (Table 6.7).

Domestic producer prices of Nigeria's major agricultural commodities increased during the year. Of the thirteen monitored commodities, ten registered price increases, while three recorded price declines, relative to their levels in 2002. The price increases ranged from 1.6 per cent for ginger to 20.7 per cent for wheat. Other commodities, such as rubber, cocoa, palm-oil, benniseed, soyabean, kolanut, palm kernel, groundnut and ginger recorded price increases of 19.1, 15.5, 13.2, 12.9, 7.5, 6.6, 3.5, and 1.9 per cent, respectively (Table 6.8).

The increase in prices was attributable, partly, to increased costs of transportation as a result of the upward adjustment in the prices of petroleum products and to the poor conditions of rural roads, which increased the cost of evacuating of farm produce to urban centres. The Federal Government price support programme also pushed up prices by mopping up excess grains for the nation's strategic grain reserve programme.

Figure 6.3
Index of Industrial Production (1985=100)



6.3 Industry

Aggregate industrial output, measured at 1985 constant prices, increased marginally in 2003. The index of industrial production, estimated at 146.7 (1985=100), increased by 0.96 per cent above the level in 2002. The improvement was attributable, largely, to the substantial increase in mining output. Manufacturing production and electricity consumption increased marginally (Table 6.9).

6.3.1 Manufacturing

The performance of the manufacturing sub-sector improved in the review period as the index of manufacturing production increased by 1.1 per cent above the preceding year to 147.9 (1985=100). The expansion in manufacturing production was traced to improvements in the operating environment, resulting from a number of factors, prominent among which was the retention of 100 per cent physical inspection of goods at the ports. Others included an intensified surveillance by the National Agency for Food, Drugs Administration and Control (NAFDAC) and the Standards Organisation of Nigeria (SON) to check the influx of fake and sub-standard products into the country and their counterpart local production, as well as the prohibition of the importation of a number of items. These measures made imports dearer and, thus, induced the patronage of local manufactures and their production (Table 6.10).

Another contributory factor was

the effect of increased utilisation of the Small and Medium Industries Equity Investment Scheme (SMIEIS) fund by manufacturers during the year. A pilot survey by the CBN, in December 2003, indicated that enterprises that utilised the facility recorded increases in their capacity utilisation and levels of employment. The increase in output of the sub-sector was also confirmed by the result of the CBN 2003 nation-wide business survey which covered 382 manufacturing firms, with a response rate of 54.5 per cent. The survey results showed that the average capacity utilisation rate of the respondents increased from 44.3 per cent in 2002 (revised) to 46.2 per cent in 2003, indicating an increase of 1.9 percentage points. Further analysis revealed that the average capacity utilisation rate increased in the Lagos area, Enugu and Bauchi Zones to 59.0, 51.1 and 35.5 per cent respectively. It however, declined in the Kano and Ibadan Zones to 42.6 and 43.0 per cent respectively. Of the thirty (30) manufacturing sub-sectors covered by the survey, nine operated at over 50 per cent of their installed capacity. These were mostly imports- dependent sub-sectors, reflecting the relative availability of foreign exchange during the year. Eight sub-sectors operated between 40 and 50 per cent, while another ten operated below 40 per cent. There were no returns from three sub-sectors.

The performance in the sub-sector fell below expectations, and this was traceable to the poor condition of basic infrastructure, especially electricity supply.

6.3.2 Mining

There was a remarkable improvement in the mining sub-sector in 2003. At 146.6 (1985=100), the index of mining production increased by 9.6 per cent, in contrast to a decrease of 7.7 per cent recorded in 2002. The rebound during the year was attributed, largely, to the increase in Nigeria's OPEC quota for crude oil in 2003. Crude petroleum accounted for the bulk (98.9 per cent) of the total output in the sub-sector. Gas, cassiterite and columbite output recorded significant increases, while the production of coal and limestone declined (Table 6.11).

6.3.2.1 Crude Oil

Nigeria's aggregate crude oil production, including condensates, was estimated at 848.7 million barrels per annum or 2.33 million barrels per day (mbd) in 2003, representing an increase of 10.4 per cent over the level in 2002. The increase was attributable to a higher OPEC quota of 2.018 mbd, compared with 1.787 mbd in the previous year. The production of 'Oso' condensates, however, declined from 32.59 million barrels in 2002 to 21.27 million barrels. Of the total daily production, an average of 2.31 mbd, representing 99.1 per cent, was exported, compared with 1.66 mbd or 79.0 per cent in 2002. Although the Nigerian National Petroleum Corporation (NNPC) purchased 162.4 million barrels of crude oil, representing 19.1 per cent of total production for domestic consumption, only 45.03 million barrels were delivered to local refineries. About 117.3 million barrels, representing 72.3 per cent of NNPC's purchases were exported and the proceeds used to import petroleum products.

The spot price of the Nigerian reference crude, Bonny Light (37^0 API), averaged US$29.20 per barrel, representing an increase of 16.6 per cent above the level recorded in 2002. Also, the average price of the Forcados was US$29.03, indicating an increase of 16.4 per cent. Similarly, the average price of the UK Brent increased by 15.63 per cent to US $28.86. In the American spot market, the average prices of the Arab Light and West Texas Intermediate (WTI) increased to US $26.92 and US$31.09 per barrel, respectively in 2003, from US $22.73 and US $26.01 per barrel in 2002. The increase in prices were attributable to the protracted tension in the Middle East, the war in Iraq, severe winter in the Northern Hemisphere, and the booming Chinese economy all of which induced a higher demand for oil. Supply on the other hand, was affected during the year by the protracted industrial dispute in the Venezuelan oil industry.

6.3.2.2 Gas

The production of natural gas increased by 11.3 per cent to 53,379.0 million cubic metres (MMm^3) in 2003. The improvement was attributable mainly to the expansion in oil production and associated gas. Also, the quantities of gas utilised and flared increased by 14.3 and 7.5 per cent to 30,580.0 and 22,799.0 MMm^3, respectively. Gas flared accounted for 42.7 per cent of total output, compared with 47.8 per cent in 2002. The reduction in the proportion of flared gas was attributed to the expansion in gas utilisation, as gas sold to industries for energy increased by 61.6 per cent to 18,947.0 MMm^3, out of which 64.1 per cent was sold to the Nigerian Liquefied Natural Gas (NLNG). At 7,341.0 MMm^3, gas re-injected into the wells for conservation decreased by 15.4 per cent below the level in the previous year, while gas converted to natural gas liquids (NGL) declined by 53.7 per cent to 1,585.0 MMm^3. Gas used as fuel by oil companies also fell by 7.0 per cent to 1,973.0 Mmm^3

6.3.2.3 Solid Minerals

Solid minerals production declined in the review period. The aggregate output fell by 36.5 per cent to 8,270 million tonnes from 13,026 million tonnes in the preceding year (revised figures). The fall was accounted for by declines in the production of coal (46.9 per cent), marble (45.8 per cent) and limestone (35.1 per cent). The production of columbite and cassiterite, however, increased by 145.6 and 133.1 per cent, respectively. The decline in coal and limestone production reflected the fall in demand, occasioned by the shift by its major consumers in the country, the Nigerian Railway Corporation (NRC) and the National Electric Power Authority (NEPA) towards more, environmentally friendly sources of power, such as petroleum and gas. For limestone, the fall in its demand was occasioned by a decline in the production of cement in the country. In contrast, the increase in the production of Cassiterite and Columbite reflected the efforts of the Ministry of Solid Minerals, through the Nigerian Mining Corporation, towards the resuscitation of their exploration, evaluation and mining across the country.

6.3.3 Electricity Generation

At 20,183.2 million kilowatts/hour (KWH), aggregate electricity generation declined by 6.3 per cent, compared with an increase of 9.6 per cent in 2002. The fall was traceable to thermal generation which decreased by 16.9 per cent below the level in 2002, although hydro- generation increased by 20 per cent. The lower output of the thermal plants was attributed to shutdowns for rehabilitation, as well as communal unrests in the gas/oil producing areas which disrupted gas transportation through pipelines to the plants. The NEPA accounted for 99.5 per cent of the total electricity generated. The poor performance in electricity generation in 2003 was also attributed to a decline in the funding of the power sector by the Federal Government. Moreover, NEPA's functional plants, especially, 6 units of the Kainji plant, 5 units of Jebba plant and 6 units of Egbin plant were over-used in an effort to meet the nation's power needs.

6.3.4 Energy Consumption

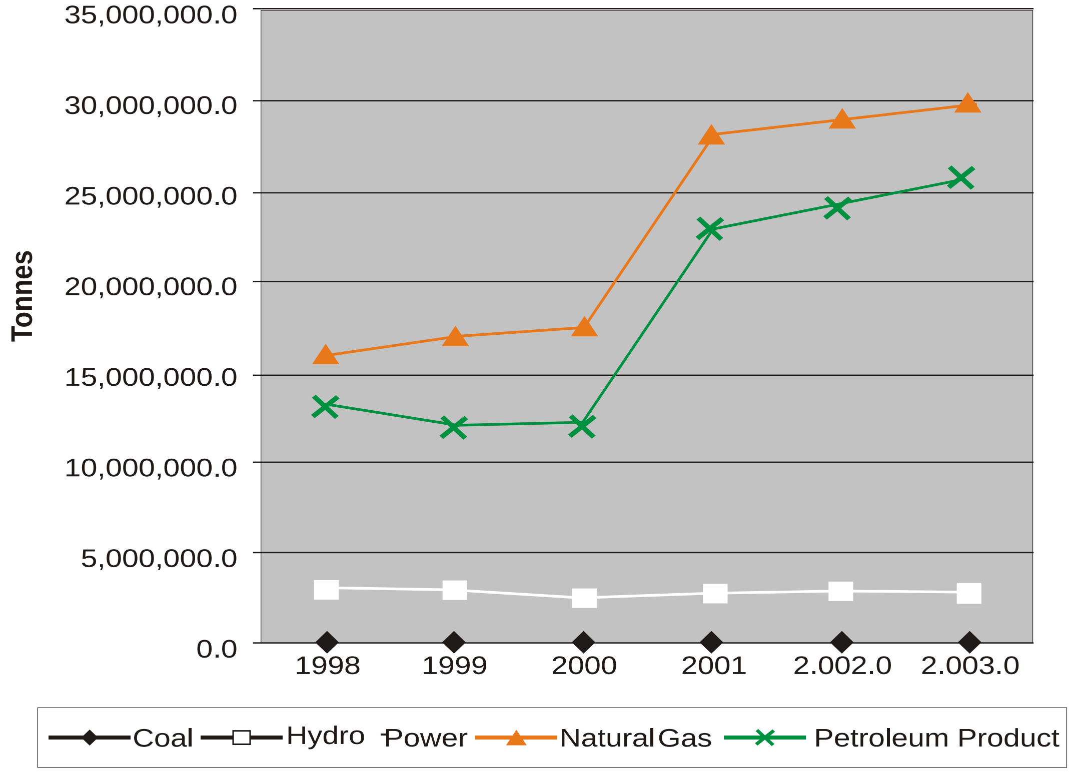
At 165.9 (1985=100), the aggregate index of energy consumption increased by 0.3 per cent in 2003, compared with an increase of 0.9 per cent in the preceding year. The aggregate energy consumed increased from 56.1 million tonnes of coal equivalent (tce) in 2002 to 58.4 million tce in 2003. The increase was accounted for by increases in the consumption of petroleum products (5.8 per cent), natural gas (3.0 per cent) and hydro-power (0.2 per cent). However, the consumption of coal declined by 9.2 per cent.

6.3.4.1 Petroleum Products

The aggregate quantity of petroleum products consumed increased by 2.6 per cent to 11,528,790.88 million tonnes during the year, compared with an increase of 11.3 per cent in 2002.

The consumption of liquefied petroleum gas (LPG), low pour fuel oil (LPFO), other intermediate products, dual purpose kerosene (DPK), bitumen/asphalt, premium motor spirit (PMS), automotive gas oil (AGO) and lubricating oil increased by 22.2, 28.9, 11.2, 3.0, 3.0, 1.9, 0.3 and 0.1 per cent respectively. The increase in consumption of petroleum products was ascribed to the general improvement in the level of economic activity. There was also massive importation of petroleum products by the NNPC and major oil marketers to meet domestic supply shortages arising from pipeline vandalisation and sub-optimal performance of the local refineries (Table 6.13).

Figure 6.4
Energy Consumption (Tonnes)



6.3.4.2 Electricity Consumption

Improvements in the electricity sub-sector had been sluggish. Electricity consumption increased by 0.2 per cent to 12,866.6 million KWh in 2003, compared with an increase of 0.6 per cent in the preceding year. The rise in consumption was accounted for by an increase of 7.3 per cent in commercial/street lighting, as industrial and residential consumption declined by 9.3 and 0.6 per cent, respectively.

The fall in industrial consumption reflected a switch to private provisioning by industrial consumers as a result of the ongoing rehabilitation of NEPA plants. Residential consumption accounted for 59.6 per cent of total electricity consumption, while commercial and street lighting and industrial consumption accounted for 27.5 and 12.9 per cent of the total respectively.

6.3.4.3 Coal

Coal consumption declined by 9.2 per cent to 8,182.1 tonnes during the year, owing to increased usage of other forms of energy, especially petroleum products and natural gas, as well as the environmental hazards of raw coal utilisation. However, construction work at the first phase of coal carbonization/Briqueting/ pelletization plants by the Nigerian Coal Corporation, Enugu for the production of 100,000 tonnes per annum of smokeless coal had reached 95 per cent completion by the end of 2003.

6.3.4.4 Natural Gas

The consumption of natural gas, at 29.9 million tce (1985=100), increased by 3.0 per cent, compared with an increase of 3.1 per cent in 2002. Natural gas accounted for 51.2 per cent of total energy consumed. The increase in natural gas consumption was attributed partly to its growing role as an emerging fuel for power generating plants, industrial enterprises and the oil companies.

6.3.4.5 Hydro-Power

At 2,835,100.6 tce (1985=100), hydro-power consumption increased by 0.2 per cent in 2003, the same as in the preceding year. The sluggish performance in hydro-power consumption reflected the poor performance in power generation generally during the year.

6.4 Housing Construction

The Central Bank of Nigeria started the survey of housing construction in 2002 with the aim of gathering pertinent information on housing units in the country. The initial survey covered only seven states and the Federal Capital Territory, and information were received from the ministries of land and survey, on the number of applications for building permits, approvals given, and the buildings actually started. Simple indices were constructed using the number of building plans approved as a proxy for the number of houses built. The housing construction index was calculated using 1997 as the base year. During the 2003 annual survey, conducted between January and March 2004, the number of states covered was increased to twenty-two (22). An analysis of the returns indicated a decline in the tempo of housing construction activities in 2003. For instance, the index of applications received declined by 7.6 per cent to 950.1. Similarly, the indices of applications which received approval and the buildings started decreased by 31.1 and 16.1 per cent to 692 and 177.6 respectively. Of the total applications received, the highest number, about 48.7 per cent, was for commercial purposes, while 23.7, 4.8 and 25.2 per cent were for residential, industrial and other purposes, respectively (Table 6.14).

6.5 Transportation and Communications

6.5.1 Shipping Services

Shipping activities fell further in 2003. Available data indicated that the number of ships entering Nigerian ports and their net registered tonnage (NRT) declined by 13.0 and 8.6 per cent to 2,339 and 16.0 million NRT, respectively. In the same vein, the number of ships cleared to board at the ports and their net registered tonnage declined by 11.3 and 5.5 per cent to 2,494 and 18.2 million NRT, respectively. The volume of non-oil shipment, however, increased by 1.4 per cent to 30.4 million tonnes, in contrast to a decline of 1.0 per cent in 2002. While non-oil imports increased by 4.3 per cent as in 2002, exports declined further by 6.5 per cent, compared with the 13.0 per cent decline in 2002.

The quantity of goods transported from the hinterland to the Nigerian ports increased marginally by 0.3 per cent to 9.6 million tonnes. Combined haulage through pipelines, conveyor belts and suction pipes, which were the major modes of transportation (89.2 per cent), remained the same. Road and water transportation accounted for 10.6 and 0.2 per cent respectively, while a negligible volume was transported by rail as in the previous years.

6.5.2 Railway Services

The performance of the Nigerian Railway Corporation (NRC) during the year was mixed. Available data indicated that the number of passengers transported increased by 54.8 per cent in contrast to a decline of 23.3 per cent in the preceding year. The passenger revenue and the passenger/kilometre covered also increased by 101.0 and 55.0 per cent, respectively. In contrast, the freight tonne / kilometre and freight revenues declined by 40.0 and 23.9 per cent, respectively.

6.5.3 Airline Services

The activities of the Nigerian Airways came to a halt in 2003, following government's plan to liquidate it and float another national carrier. However, the operations of the private domestic airlines recorded marginal improvement, during the year. The number of passengers airlifted increased by 0.1 per cent to 3.7 million in 2003. Similarly, cargo tonnes per kilometre and mail tonnes per kilometre increased by 0.7 and 0.5 per cent, respectively, compared with 0.2 and 0.3 per cent in 2002. The improvement in the performance of the airlines was attributable to increased competition engendered by an increase in the number of airline operators and the acquisition of additional aircraft by some operators.

On the international scene, there was a marked improvement in airlines' activities as the number of passengers carried, both on the African and other routes, increased by 13.8 and 9.6 per cent, respectively, compared with 11.5 and 2.2 per cent in the preceding period. However, the passen-ger/kilometre, cargo tonne/kilometre, mail tonne/kilometer and aircraft/kilometre ratios as well as freight tonnes for the African and other routes recorded declines, ranging from 0.3 per cent to 15.4 per cent.

6.5.4 Communications

The deregulation of the Nigerian telecommunications sub-sector in 2001 resulted in a remarkable improvement in the sector. In response to the new competitive environment, the government-owned operator, Nigerian Telecommuni-cations Limited (NITEL), increased its number of telephone lines from 767,862 in 2001 to

932,424 in 2002, representing an increase of 20.3 per cent. However, as at June 2003, NITEL had only 510,000 functionally connected lines made up of 350,000 connected fixed lines, 120,000 GSM lines and 40,000 analogue lines.

The combined subscriber network of the two private operators which began operations in 2001 increased from 1,660,000 lines in 2002 to 2,050,000 in 2003, representing an increase of 23.4 per cent. The Globacom Nigeria Ltd, another private operator, began operations towards the end of the year.

With an estimated population of 125.8 million people, the country's tele-density improved tremendously from 1:165 in December 2001 to 1:56 in 2002 and further to 1:49 as at June 2003, which is much higher than the International Telecommunication Union (ITU) specified minimum standard of 1:100.

The involvement of private telephone operators in the industry has brought about innovation, a wider coverage, competition, better services and the mobilization of new financing for telecommunications investments. Also, the introduction of the GSM has increased the contribution of the communications sector to the GDP, from N0.69 billion in 2002 to ₦0.83 billion in 2003.

6.6 Unemployment and Industrial Relations

6.6.1 Unemployment

Available data from the Federal Office of Statistics showed that the composite unemployment rate, as at March 2003, was 2.3 per cent, compared with 3.8 per cent at end December 2002. The urban and rural unemployment rates were also estimated at 2.4 and 2.3 per cent respectively, compared with 3.8 and 2.7 per cent in the preceding year.The reduction in unemployment rates was attributed to the various government efforts aimed at addressing the problem through poverty alleviation programmes. The unemployment rates were also dampened by an increased number of people engaged in informal sector activities, although the bulk of such people could be regarded as underemployed. A further analysis of the unemployed by educational level showed that secondary school leavers accounted for 53.6 per cent, primary and tertiary 14.7 and 12.4 per cent respectively, while those without any form of schooling accounted for 19.3 per cent.

The number of the unemployed registered with the Employment Exchange Offices increased marginally by 0.1 per cent to 143,690 in 2003. The data showed that the number of unemployed lower-grade workers, estimated at 81,570, decreased by 0.3 per cent, but the number in the professional and executive cadre, on the other hand, increased by 0.1 per cent. The number of vacancies declared for the lower-grade workers by the Employment Exchange Offices fell by 5.7 per cent, in contrast to an increase of 7.7 per cent in the preceding year. For the professional and the executive cadre, the number of vacancies declared increased by 3.3 per cent to 125, in contrast to a decrease of 4.7 per cent in the preceding year. The number of placements, for both the professional and executive cadre and lower-grade workers declined by 14.1 and 25.1 per cent, respectively.

6.6.2 Industrial Relations

The number of declared trade disputes in 2003 declined by 2.0 per cent to 49, in contrast to an increase of 11.1 per cent in 2002. Of the total trade disputes declared, 42 or 85.7 per cent led to work stoppages involving about 302,006 workers. The total man-days lost to the work stoppages, including the six months industrial action embarked upon by the Academic Staff Union of Nigeria Universities (ASUU) were put at over 5.5 million.

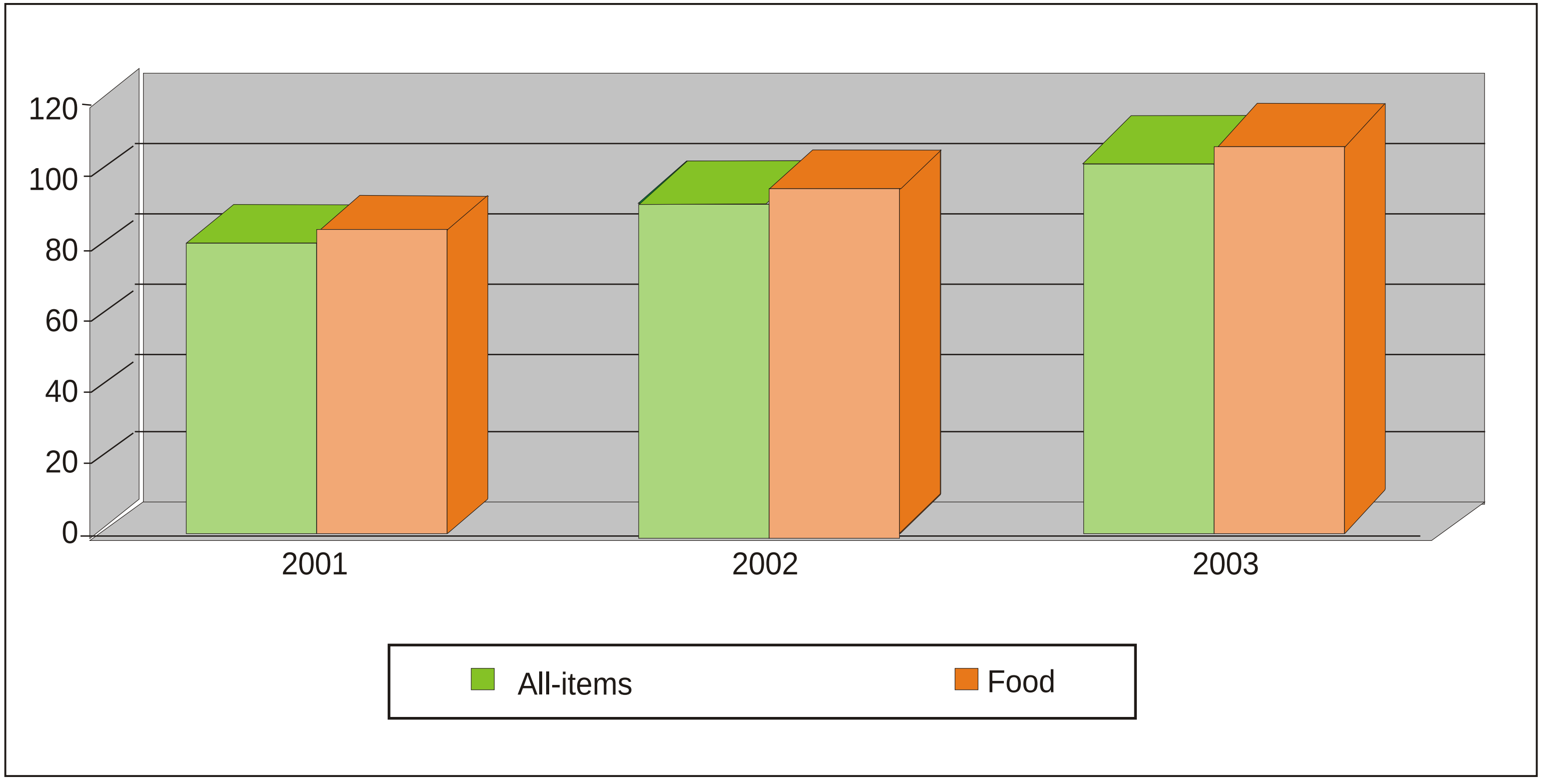
6.7 Consumer Prices

Inflationary pressures have largely persisted in 2003, especially in the last quarter of the year. Data from the Federal Office of Statistics (FOS) indicated that the average all-items composite consumer price index (CPI) for December 2003 was 105.9 (May 2003 = 100), representing an inflation rate of 14.0 per cent, compared with the single digit target and the 12.9 per cent recorded in 2002. The increase in the general price level was attributed to the rise in aggregate demand, the depreciation of the naira, and the increase in the pump prices of petroleum products, all of which resulted in high costs of transportation and domestic production. The food index increased by 6.0 per cent to 102.3 during the year. Also, the non-food components, particularly alcoholic beverages, tobacco and kola; clothing and footwear; housing, electricity, gas and other fuel; health and transport. Others include education, recreation and culture; and miscellaneous and other services which recorded price increases of 11.9, 20.8, 33.9, 18.3, 26.5, 24.9, 35.1 and 54.5 per cent respectively (Table 6.15). The average all-item urban CPI stood at 107.2, representing an increase of 16.5 per cent, when compared with the level in the preceding year. This increase was traced to the rise in the prices of all the component items, which ranged from 2.6 per cent for communications to 44.9 per cent for housing, electricity, gas and other fuels. Similarly, the all-item rural CPI at 105.4 (May 2003 = 100) indicated an increase of 13.2 per cent. All the component items, except communications, contributed to the increase (Tables 6.16 & 6.17).

6.8 Social Services

The developments in the social services sector were mixed in 2003. The implementation of the National Poverty Eradication Programme and the surveillance activities of the National Agency for Food, Drug Administration and Control (NAFDAC) recorded notable successes. A modest improvement was also recorded in the provision of potable water, especially in the rural areas. However, the high incidence of industrial strikes in the tertiary institutions dampened the

Figure 6.5
Composite Consumer Price Index (2003 =100)



performance of the education sector.

6.8.1 National Poverty Eradication Programme (NAPEP)

Over 100,000 youths were trained in different skills within the country under NAPEP. The government also distributed a total of 2,000 units of three-wheeler vehicles called 'KEKE-NAPEP' in all the states, compared with 2,497 units distributed in 2002, and established 147 youth information centres across the senatorial districts.

6.8.2 Healthcare Delivery

There were some improvements in the healthcare delivery services during the year. Immunization against polio and other childhoodkiller diseases was intensified in spite of resistance in some states. The NAFDAC intensified its surveillance efforts aimed at ridding the country of fake, expired and sub-standard drugs and products. The agency destroyed fake or expired drugs worth ₦567.2 million and shut down some local pharmaceutical companies engaged in illegal production and sale of expired drugs. NAFDAC's moves to stop the importation of fake drugs into the country also received a boost as the Government of India began the pre-inspection of drugs before they were exported to Nigeria.

6.8.3 Education

The education sector recorded mixed developments during the year. Efforts were made to rehabilitate and improve primary and secondary schools, under the Universal Basic Education Programme. Also, enrolment in the primary and secondary schools increased by 3.0 and 2.0 per cent to 30.46 million and 7.63 million respectively. The teacher/pupil ratios in both primary and secondary schools improved during the year as they declined from 55 and 50 in 2002 to 53 and 43 in 2003 for primary and secondary schools respectively. However, the performance of the sector was constrained by the six-month industrial action embarked upon by the Academic Staff Union of Nigerian Universities (ASUU), over the non-implementation of earlier agreements reached with the Federal Government.

6.8.4 Water Resources Development

There was an increase in water resources development during the year. These included the expansion and completion of some rural and urban water supply projects in many states. Among these were the Gombe Water Scheme (Gombe State) and the Gurara Water Scheme (Niger State). Other major water projects reported included those of Aleiro, Malisa, Ruwan Fili Razai, Unashi and Kwandage (Kebbi State), executed at the cost of ₦45.00 million; and the Oriokpa Water Project at the cost of ₦28.48 million (Edo State). About 52 solar-powered water projects were also completed in Katsina State at the cost of ₦372.41 million during the year.

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 125.8 million in 2003. No changes were recorded in the maternal and infant mortality rates, which remained at 10.0 and 75.1 per 1000 live births, respectively. Similarly, crude birth and death rates remained at 49.0 and 14.0 per 1000 persons, respectively during the year.

6.8.6 The Environment

Environmental protection and natural resources conservation efforts were intensified in 2003. The Federal Government intensified efforts at sand filling of the bar beach in Lagos and also, increased the reaforestation efforts in the northern borders of the country. The problems of flood and gully erosion persisted during the year in the south-eastern parts of the country, particularly in Anambra and Enugu States.

CHAPTER 7

THE EXTERNAL SECTOR

The pressure on the external sector of the economy in 2003 moderated remarkably as the overall balance of payments deficit narrowed from N565.35 billion or 10.3 per cent of Gross Domestic Product (GDP) in 2002 to N162.84 billion or 2.2 per cent of GDP. The outcome was influenced by the robust goods account, occasioned by the favourable developments in the international oil market, as the average price of crude oil rose from US$25.04 per barrel in 2002 to US$29.61 per barrel in 2003. Consequently, the current account recorded a surplus of N507.12 billion, equivalent to 6.9 per cent of the GDP, as against 0.7 per cent in 2002. Conversely, the deficit in the capital and financial account widened from N602.88 billion in 2002 to N661.59 billion in 2003. In the foreign exchange market, under the Dutch Auction System (DAS), the naira exchange rate to the US dollar, depreciated from an average of N120.97 in 2002 to N129.36 in 2003. This was as a result of the persistent demand pressure caused by market exuberance during the fourth quarter. The financing of the overall deficit was through the draw-down on external reserves and partial deferment of scheduled external debt service. Thus, the stock of external reserves was depleted by 2.8 per cent, to US$7.47 billion as at end-December 2003, while the deferred debt service totalled US$1.05 billion. The level of external reserves could finance 6.5 months of imports cover, compared with 7.8 months recorded in the preceding year. The import cover of 6.5 months was, however, above the West African Monetary Zone (WAMZ) minimum requirement of 3.0 months.

7.1 The Current Account

The surplus in the current account, which stood at ₦40.22 billion in 2002, increased sub-stantially to N507.11 billion in 2003. The performance largely reflected developments in the goods account and further improvements in current transfers (net). The surplus in the goods account, adjusted for balance of payments, increased from ₦445.83 billion in 2002 to ₦1,111.56 billion. The deficit in both the services and income accounts widened, while current transfers (net) increased by 17.9 per cent over its level in 2002 to ₦200.83 billion, reflecting the higher inward transfers by Nigerians living abroad (Tables 7.1 and 7.2).

7.1.1 Goods Trade

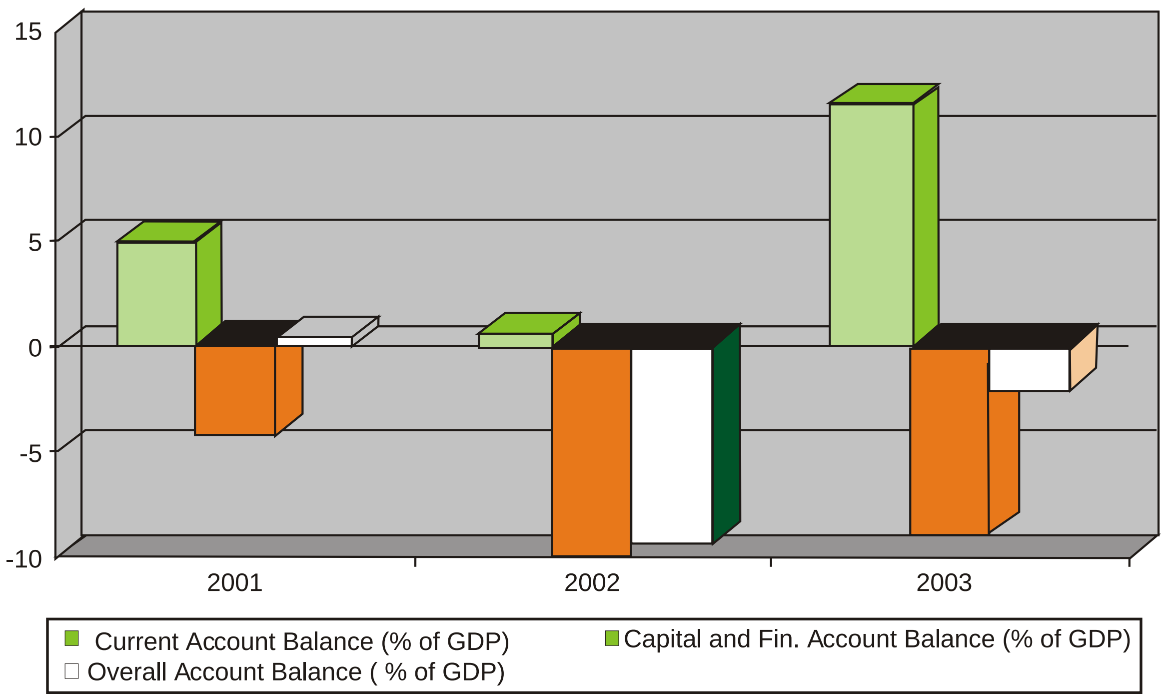
Total transactions on goods (trade) account (unadjusted for balance of payments) increased from ₦3,463.19 billion in 2002 to ₦4,845.96 billion in 2003, representing an increase of 39.9 per cent. Both exports and imports increased by 53.5 and 23.8 per cent, respectively.

The favourable position in the goods account reflected higher oil prices in the international oil market. The oil and non-oil components of total trade also increased by 52.1 and 22.2 per cent to ₦3,127.29 billion and ₦1,718.66 billion respectively in 2003 (Table 7.3).

7.1.1.1 Imports: Cost and Freight (cfr)

At ₦1,956.11 billion, total imports increased by 23.8 per cent, over the level in 2002. Both the oil and non-oil sector imports grew by 23.7 per cent over their levels in the corresponding period of 2002. The growth in oil sector imports was attributed to the deregulation of the downstream oil and gas sub-sector, which increased the tempo of activities in the petroleum sector. The increase in non-oil imports was accounted for by the surge in aggregate demand (Table 7.3). A review of imports by end-users showed that the share of consumer goods in total imports increased by 1.3 percentage point to 40.5 per cent, while capital goods and raw materials imports as a group declined from 60.4 to 59.2 per cent. In the consumer goods sub-group, the share of durable goods fell by 0.5 percentage point to 2.4 per cent, while the non-durable goods increased by 1.3 percentage point to 38.1 per cent.

Figure 7.1
Balance of Payments (%of GDP)



Although the share of capital and raw materials imports as a group increased, the relative share of raw materials declined from 39.4 per cent in 2002 to 37.9 per cent in 2003. In contrast, the share of capital goods increased by 0.3 percentage point to 21.3 per cent as a result of the ongoing rehabilitation of infrastructure. The share of raw materials (37.9 per cent) remained dominant (Table 7.4).

Analysis of imports using the Standard International Trade Classification (SITC) revealed that the value of all import items increased over their respective levels in 2002. The increases ranged from 12.6 per cent for beverages and tobacco to 41.4 per cent for miscellaneous manufactured articles. In relative terms, imports of manufactured goods dominated total imports, accounting for N561.3 billion or 28.7 per cent of the total, followed by machinery and transport equipment (₦465.5 billion or 23.8 per cent) and chemicals (₦418.2 billion or 21.4 per cent).

7.1.1.2 Exports (fob)

The value of Nigeria's exports increased substantially over its level in 2002, reflecting major improve-ments in the oil sector. Thus, at ₦2,889.85 billion, total exports was 53.5 per cent higher than the level a year ago. The oil sector contributed 96.7 per cent of total export proceeds as against 95.0 per cent in the preceding year. Oil sector exports grew from ₦1,787.62 billion in 2002 to ₦2,794.75 billion in 2003. This outcome was influenced mainly by the favourable international crude oil prices and receipts from gas exports. The value of non-oil exports increased marginally by 0.5 per cent to ₦95.09 billion, though its

Figure 7.2
Imports By Major Groups in 2003

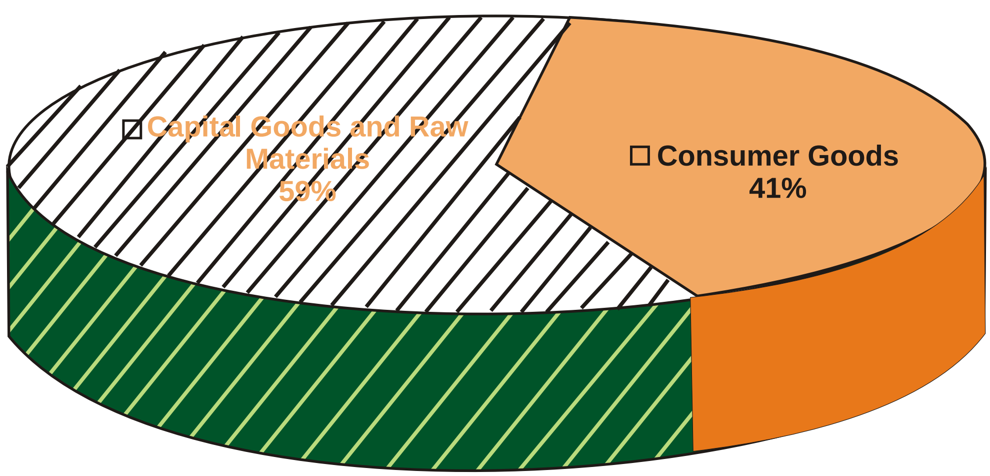
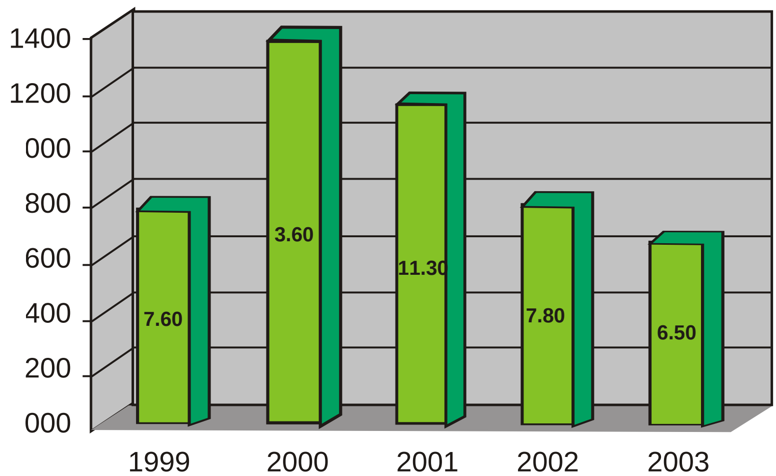


Figure 7.3
Number of Months of Import Equivalent of External Reserves



share in total exports declined from 5.0 per cent in 2002 to 3.3 per cent. The factors militating against the effective performance of non-oil exports included low international demand for primary commodity exports, ineffective marketing strategies, and the slow pace of diversifying the non-oil export base from commodities to manufactures.

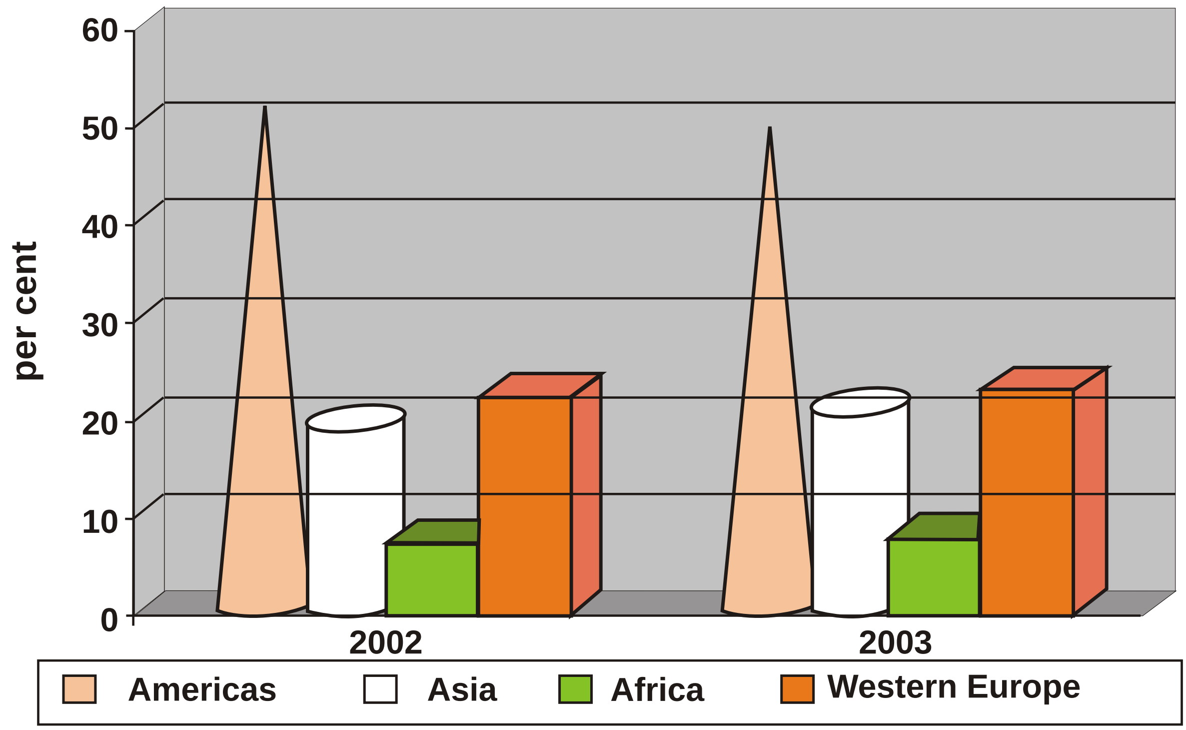
7.1.2 Direction of Oil Exports

The Americas as a group continued to be the largest buyer of Nigeria's crude oil, followed by the countries of Western Europe. Their share of Nigeria's crude oil exports during the year increased by 2.4 percentage points to 48.7 per cent. Total crude oil sales to this group of countries increased from 278.5 million barrels, valued at N913.5 billion in 2002, to 327.8 million barrels valued at ₦1,361.0 billion in 2003. This represented an increase of 17.7 and 49.0 per cent respectively in volume and value terms.

The share of Western European countries in Nigeria’s total crude oil exports declined marginally from 22.4 to 22.3 per cent. The value of Nigeria's crude oil exports to Asia increased further from ₦339.6 billion in 2002 to ₦575.7 billion in 2003. Thus, the share of Asia as a group increased by 1.6 percentage point to 20.6 per cent. A similar increase was observed for African countries in both the volume and value of crude oil exports. However, Nigeria's crude oil exports to African countries remained low relative to other regions, accounting for only 8.0 per cent of total exports.

The value of oil exports to the countries of the Economic Community of West African States (ECOWAS) increased from 25.1 million barrels, valued at ₦82.3 billion in 2002, to 33.0 million barrels valued at ₦136.9 billion in 2003. In Africa, exports to ECOWAS as a group dominated the region's share

Figure 7.4
Direction of Crude Oil Exports



arising mainly from bilateral agreements aimed at promoting trade within the sub-region.

Overall, the United States of America (USA) remained the largest single importer of Nigeria's crude oil, accounting for 38.0 per cent of total exports. This was, however, lower than the 40.3 per cent share recorded in 2002 (Table 7.6).

7.1.3 The Services Account

Transactions in the services account (net) resulted in an enlarged deficit of N381.29 billion in 2003. The deficit was attributable to out-payments in respect of transportation and travels which amounted to ₦163.5 billion and ₦225.5 billion respectively. The out-payments in respect of freight and public sector travels remained high at N163.9 billion and ₦126.6 billion respectively. The persistent deficit in the services account could be attributed to the low participation by Nigerians in the provision of international services as reflected in the dominance of the freight business by foreign carriers as well as the increased volume of business and private travels abroad by Nigerians.

7.1.4 The Income Account

The pressure on the income account (net) persisted as the level of deficit widened from ₦382.72 billion to ₦423.99 billion in 2003. This development reflected the high scheduled interest payments on loans of ₦196.15 billion, which outweighed the inflows from interest income on reserves and other investments. The inflows from interest on reserves and other investments fell by 47.5 per cent from ₦20.01 billion in 2002 to ₦10.55 billion as a result of the decline in the stock of Nigeria's external reserve and the generally low rate of interest on financial assets abroad, especially in dollar investments.

7.1.5 Current Transfers

The surplus in current transfers (net) grew by 17.9 per cent to ₦200.83 billion in 2003. This development was influenced by increased private sector inflows in the form of other sector transfers and personal home remittances by Nigerians living abroad, which outweighed the deficit recorded in general government accounts in respect of foreign embassies' expenses, payments to international organisations and remittances of foreigners resident in the country.

The CBN administered questionnaires to diplomatic and consular missions in Nigeria, with a view to ascertaining the amount of grants received during the year. The results showed that the inflow of external cash grants declined by 48.8 per cent to US$18.55 million, as against US$35.99 million in 2002. A breakdown of the cash grants into country of origin revealed that the government of Japan granted the highest amount of US$9.35 million, or 57.9 per cent, followed by India and France with US$5.0 and US$1.9 million, respectively. However, the contribution of France to total grants increased from 4.7 in 2002 to 10.0 per cent in 2003.

The "other sector" transfers, reflecting, mainly workers' remittances, increased by 23.0 per cent to ₦211.32 billion in 2003.

7.2 The Capital and Financial Account

The capital and financial account remained weak as the deficit widened further to ₦658.96 billion in 2003, compared with ₦596.31 billion in 2002. This development was attributed to the high scheduled debt service payments and the increase in the net short-term claims on the rest of the world in respect of oil sector transactions. Direct investments (net) increased by 14.7 per cent over the level in 2002. Similarly, portfolio investment (net) grew from ₦16.1 billion to ₦19.0 billion. The relative improvement in foreign direct investment (FDI) was the result of new investments in the oil and gas sub-sector of the economy, as well as investors' perception of prospects in the economy, increased investment in infrastructure, and the rigorous efforts at redefining the country's image. However, the problem of insecurity of life and property remained a major setback to the achievement of the desired level of capital inflows through FDI.

The performance of the debt conversion programme,a component of portfolio investment, was adversely affected by scarcity of debt instruments in the secondary market and the suspension of conversion of Paris Club debts. In general, the continued deficit in "other investment" outweighed the surpluses in the direct and portfolio investment sub-accounts. Conse-quently, a huge deficit emerged and was traced to the amortization due and increases in short-term net claims on non-residents.

7.3 Total External Assets

Total external assets as at end-December 2003, amounted to ₦1,505.4 billion, compared with ₦1,414.3 billion in the corresponding period of 2002. The observed increase was attributable to the depreciation of the naira. However, in dollar terms, total external assets fell marginally from US$11.2 billion in 2002 to US$11.0 billion. Of the total external assets, the CBN holdings totalled ₦1,065.1 billion (US$7.47 billion) and accounted for 70.8 per cent, compared with 71.7 per cent in the comparable period of 2002. A breakdown of the CBN holdings showed that the foreign exchange balance increased from ₦1,013.5 billion to ₦1,065.1 billion as at end-December 2003. The net foreign assets of the deposit money banks (DMBs) amounted to ₦437.7 billion, representing an increase of 9.9 per cent over the level in the corresponding period of 2002 (Table 7.7).

7.4 Foreign Exchange Developments

Foreign exchange inflows and outflows through the CBN in 2003 amounted to US$15.6 billion and US$16.3 billion respectively, com-pared with US$9.7 billion and US$13.1 billion in 2002. These developments resulted in a net outflow of US$0.7 billion in 2003, which was 78.5 per cent lower than the level in 2002. The rise in inflows was attributed to enhanced oil receipts while that of outflows resulted from increased out-payments in respect of the major items. These included external debt service payment, the official funding of the foreign exchange market, joint ventures cash call, and "other official payments" - all of which increased by 82.0, 18.8, 2.2 and 5.8 per cent respectively.

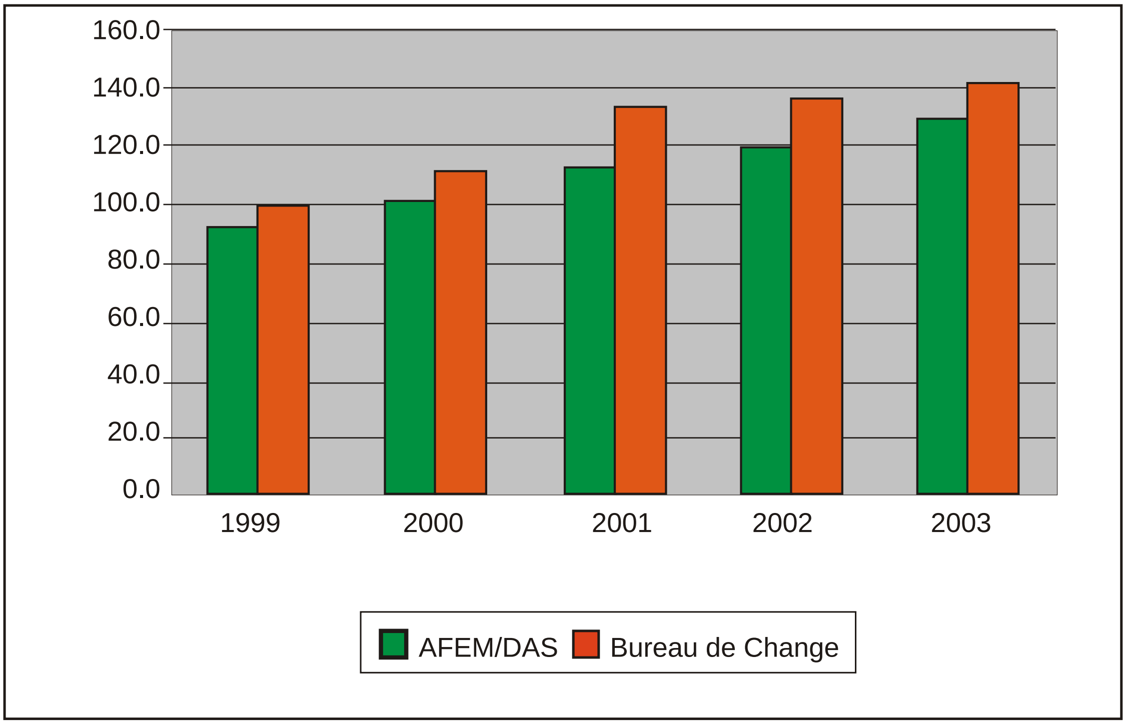
The demand pressure in the foreign exchange market under the Dutch Auction System (DAS) was exacerbated during the year as foreign exchange worth US$9.6 billion was sold to authorised dealers, compared with US$8.1 billion in 2002. Consequently, the naira depreciated by 6.5 per cent, having traded on the average at ₦129.36 per dollar during the year. In the bureaux-de-change (BDC) segment of the market, the exchange rate depreciated from ₦138.28 to N141.99 per US dollar. The premium between the DAS and BDC rates narrowed from 14.8 per cent in 2002 to 9.8 per cent in 2003.

7.5 Other Developments

7.5.1 Pre-Shipment Inspection

The aggregate value of Forms 'M' opened in 2003 was US$17,984.1 million (₦2,326.4 billion). Of this amount, transactions "valid for foreign

Figure 7.5
Exchange Rate Movvements



exchange" accounted for US$13,897.00 million (77.3 per cent), while imports "not valid for foreign exchange" accounted for US$4,087.1 million (22.7 per cent). The total value of goods, valid and not-valid, for which a Clean Report of Inspection (CRI) was issued was US$9,157.09 million. Of this amount, transactions "valid for foreign exchange" amounted to US$7,292.2 million (79.6 per cent), while those "not valid for foreign exchange" were worth US$1,864.79 million (20.4 per cent).

7.5.2 Direct Sale of Travellers' Cheques (Tcs)

The pilot project of direct sale of TCs to end-users, which took off in February 2002, was sustained in 2003. A total of 14 BDCs were approved to commence the purchase and sale of TCs from Travelex Global Financial Services Limited. Overall, total foreign exchange disbursed to end-users through the two TCs providers (Travelex and Amex) amounted to US$242.93 million in 2003.

PART THREE

THE INTERTNATIONAL ECONOMY

CHAPTER 8

INTERNATIONAL ECONOMIC AND FINANCIAL DEVELOPMENTS

The estimated world output increased by 3.2 per cent in 2003, representing a marginal improvement of 0.2 percentage point over the level in 2002. The low rate of growth was attributed to the economic slow-down in the industrial countries of Western Europe during the first half of the year which adversely affected other regions of the world. However, following the efforts to subdue inflationary pressure globally, monetary policies were eased to support economic recovery in most regions. The issues that dominated discussions at international fora during the year included sustaining global economic recovery, strengthening the international financial architecture, improving crisis resolution mechanisms and promoting macroeconomic stability. The G-24 Ministers of developing countries noted that trade protectionism in industrial countries had constrained global growth and poverty reduction. They, therefore, called for agricultural reforms in industrial countries to allow market access to developing countries, as well as enhance the progress of poverty reduction as envisaged in the Millennium Development Goals. At the sub-regional level, the Authority of Heads of State and Government of the West African Monetary Zone (WAMZ) agreed to site the Headquarters of the proposed West African Central Bank in Accra, Ghana.

8.1 World Output and Prices

Global economic output grew at an estimated rate of 3.2 per cent in 2003, compared with 3.0 per cent in 2002. Output performance was particularly low during the first half of the year, owing largely to uncertainties in different regions arising from the Iraqi crisis, the outbreak of Severe Acute Respiratory Syndrome (SARS) in South East Asia, and the bursting of the United States equity market. As inflationary pressure moderated in most parts of the world, macroeconomic policies were eased during the second half of the year to support global economic recovery.

On a regional basis, the United States (US) economy led economic recovery in industrial countries following the introduction of an economic recovery package in most countries. The U.S. economy grew by 2.6 per cent, compared with 2.4 per cent in the preceding year. In Japan, the economic growth rate was estimated at 2.0 per cent, owing to the limited impact of some recovery measures adopted during the year (Table 8.1).

In the Euro area, however, economic slowdown was deeper and more prolonged. The growth rate was barely 0.5 per cent reflecting, largely, the impact of weak domestic demand, corporate difficulties and the appreciation of the euro against other major trading currencies. Germany, France and Italy experienced severe economic difficulties. The German economy remained weak for the third consecutive year, with a growth rate of 0.5 per cent, a development which adversely affected the entire region. Europe's inability to respond positively to the downturn was due largely to the restrictive fiscal and monetary policies imposed by the Stability and Growth Pact and the European Central Bank.

In the emerging markets of Asia, output declined by 1.1 percentage point as economic activities were influenced not only by developments in the industrial countries, but also by contraction in external financing, the outbreak of SARS, and other country specific situations.

Developing countries as a group recorded 5.0 per cent growth rate which was 0.4 percentage point above the growth rate in 2002. Within the group, African countries recorded 3.7 per cent growth, compared with 3.1 per cent in 2002. The group benefited from the expansionary effects of global economic recovery and high commodity prices. Growth prospects were, however, undermined by adverse weather conditions, the HIV/AIDS scourge, political instability and conflicts. Nevertheless, Morocco, Tunisia, Botswana and Nigeria recorded 5.5, 5.5, 3.7 and 10.2 per cent growth rates respectively, while Ethiopia, Côte d'Ivoire, countries of the Great Lakes' region and South Africa recorded output declines of 5.0, 1.2, 0.3 and 0.8 per cent respectively, from the levels recorded in the preceding year.

The developing countries of Asia experienced an initial slowdown in economic activity owing to weak domestic demand, war-related uncertainties, high oil prices and the outbreak of SARS, but that situation was later offset by the fiscal stimulus adopted by many countries of the region.

Growth in the region remained unchanged at the 2002 level of 6.4 per cent. Growth performance of China remained strong at 7.5 per cent, owing largely to the financial and economic reforms introduced during the year.

The growth rate of the economies of the Western Hemisphere as a group was 1.1 per cent, in contrast to the decline of 0.1 per cent in 2002. The region's economic recovery was supported by increased exports, facilitated by depreciation in the real exchange rate.

The growth rate in the Middle East was estimated at 5.1 per cent, representing a 0.3 percentage point increase over the level in the preceding year. The increase was due largely to strong growth in oil-exporting countries in the region, particularly Saudi Arabia and the Gulf States, as well as economic reforms in Iran.

Growth in the Eastern European countries remained robust, at 3.4 per cent as against 3.0 per cent recorded in 2002. Energy exports, particularly by Russia, as well as favourable liquidity conditions in the domestic economy and increased access to international capital markets were supportive of economic activities in the region. Economic growth in Russia was estimated at 6.0 per cent, compared with the preceding year's rate of 4.3 per cent.

Inflationary pressure moderated in many parts of the world leading to the easing of macroeconomic policies and a reduction in interest rates, especially in Europe and the U.S., as well as other industrial and emerging market economies. The low interest rate policy and low inflation rate averaging 2.0 per cent in the U.S, facilitated a firm economic recovery. In Japan, short-term interest rates of about zero per cent, aimed at stabilizing the financial system, were unable to end the deflationary trend which began in early 2000. Price deflation was 0.3 per cent in 2003, compared with 0.9 per cent in the previous year. In the euro zone, inflation declined to about 2.0 per cent, reflecting the generally tight monetary and fiscal policies of the zone.

Developing countries as a group recorded price inflation of 5.9 per cent, indicating a 0.6 percentage point increase above the level in the preceding year. African countries as a group recorded a 10.6 per cent inflation rate, compared with 9.3 per cent in 2002. With the exception of some countries, notably, Zimbabwe and Angola, inflation in Africa was relatively low owing, largely, to the tight fiscal policy stance adopted by most governments.

The developing countries of Asia recorded an average inflation rate of 2.5 per cent, which was 0.5 percentage point above the level in 2002. For countries in the Western Hemisphere, further reforms aimed at strengthening the banking system and granting autonomy to central banks were helpful in some instances, in reducing inflationary pressure to 14.8 per cent, compared with the 17.3 per cent recorded in 2002. Inflation in the developing countries of the Middle East and Europe declined by 2.2 percentage points to 13.5 per cent. The high inflation rate reflected the distortions in economic activities arising from war and political uncertainties in the region.

For the Transition Economies of Central and Eastern Europe and Russia, inflation rates continued to trend downwards, but remained comparatively high *vis-à-vis* other regions. Within the region, inflation rates varied, ranging from single digit in the most advanced reformers, to high rates of 21.9 and 29.0 per cent respectively in Uzebekistan and Belarus, the less advanced reformers (Table 8.1).

8.2 World Trade

At US$13,530.3 billion, the nominal value of global trade increased by 13.8 per cent above the level in the preceding year owing, largely, to the depreciation of the U.S. dollar and high oil and non-fuel commodity prices. Real growth in trade, however, averaged 3.0 per cent, basically the same rate as in the preceding year. The less than expected performance reflected weak economic conditions in many countries, especially in Western Europe, and accentuated by geopolitical conditions in the Middle East and the outbreak of SARS in Asia.

A disaggregation of total world trade showed that industrial countries accounted for US$10,604.8 billion or 78.4 per cent of the total, while developing countries' share was US$2,925.5 billion or 21.6 per cent. In some industrial countries, exports were depressed by weak demand, while the substantial appreciation of the euro undermined recovery efforts in Europe.

Of the total trade of developing countries, the non-oil exporting countries accounted for US$2,393.4 billion or 81.8 per cent, while the oil-exporting countries were responsible for the balance of $532.1 billion or 18.2 per cent (Table 8.1).

8.3 The International Foreign Exchange Market

The International Foreign ExchangeMarket was relatively unstable as the U.S. dollar depreciated significantly against other major trading currencies in 2003. This was due, largely, to the huge U.S. current account deficit, which stood at US$548.6 billion at end-December 2003. The appreciation of the euro, culminating in an all-time high exchange rate of US$1.25 per euro, undermined export trade in the euro zone, a development that adversely affected the pace of economic recovery in the zone. On the average, the dollar depreciated against the yen, the euro, the pound sterling and the Swiss franc by 7.8, 17.2, 7.9, and 15.3 per cent respectively.

Similarly, the naira depreciated, on the average, against the U.S. dollar by 6.5 and 2.7 per cent respectively at the official DAS and the Bureaux-de-Change (BDC) segments of the Foreign Exchange Market. The relative depreciation of the naira against the dollar was precipitated largely by market exuberance and the expansionary fiscal operations of the three tiers of government.

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

Developments in the international petroleum market were very favourable to Nigeria in 2003. OPEC reviewed the production quotas of its members during the year to accommodate disruption in production arising from the war in Iraq and workers' strikes in Venezuela. The

OPEC production policy contributed to the sustenance of the price of oil at an average of US$28.14 per barrel or 12.6 per cent higher than the previous year's average price. Nigeria's production quota was increased by about 8.2 per cent in 2003 to 2.045 mbd, in contrast to a production cut of 7.8 per cent in 2002. The improvement in the levels of production and prices boosted the foreign exchange earnings of the country.

The agricultural export commodities, cocoa and coffee, experienced price declines of 5.1 and 3.6 per cent respectively due, largely, to the excess supply of both commodities in the global market.

8.5 International Commodity Organisations

8.5.1 The International Coffee Organisation (ICO)

At its 43rd Annual General Assembly in Abidjan in 2003, the International Coffee Organisation (ICO), recommended that African coffee producers should promote the consumption of coffee domestically and in non-coffee producing countries, and increase efforts in research and development so as to improve the local content and quality of African coffee. World coffee output rose by 5.6 per cent to 119.32 million bags in 2002/2003 owing, largely, to the increase in output in Vietnam and Brazil. The increase in supply, however, depressed the prices of various grades of coffee.

8.5.2 The International Cocoa Organisation (ICCO)

The International Cocoa Organisation (ICCO), at its 27th Special Session in London and the 68th Regular meeting in the Dominican Republics in 2003, discussed developments in the cocoa market; threats to the sustainability of remunerative prices of cocoa; the selection of a new Executive Director; and the relocation of the ICCO headquarters from London to Abidjan, Côte d'Ivoire. The meetings recommended the following: the coordination of output programmes by producers in order to control supply to the market; the evolution of appropriate information channels to make cocoa farmers aware of realistic future prices of cocoa; and the need to diversify farming activities by cultivating other crops to reduce dependence on cocoa. The ICCO agreed to step up campaigns on the promotion of cocoa consumption in producing countries. The supply of cocoa beans to the world market increased by 5.1 per cent to 3.0 million tonnes in 2002/2003. Nigeria's voting right as a member of the ICCO was suspended due to a default in the payment of its membership fee.

8.5.3 The Organisation of Petroleum Exporting Countries (OPEC)

At its meeting in January, 2003, OPEC increased its output ceiling to 24.5 million barrels per day from 23.0 million in December 2002. This decision was informed by the disruption of production caused by workers' strike in Venezuela and the threat of war in Iraq. The output level was later suspended during the meeting of March 21, 2003, following the US-led war against Iraq. The ceiling was reviewed upwards during its meeting of April 24, 2003 to 25.4 million barrels per day with effect from June 1, 2003. The Organisation reduced output to 24.5 million barrels per day, with effect from November 1, 2003 following increased supply by non- member states and a decline in global demand. In the period under review, OPEC's production policy helped to maintain an average basket price of $28.14 a barrel which was 15.5 per cent higher than the level recorded in 2002. The Indonesian Oil Minister, Mr. Purnomo Yusgiantoro, was elected as OPEC's new President in December 2003.

8.5.4 The African Petroleum Producers' Association (APPA)

The African Petroleum Producers' Association (APPA) held the Twentieth Ordinary session of its Council of Ministers on March 15, 2003 in Tripoli, Libya. During the meeting, the Council raised the capital base of the APPA Fund from US$2.5 million to US$5.0 million, but scheduled the take-off to when the capital share reaches US$4.0 million. They also approved a budget of euro 1.3 million for the 2003/2004 financial year, of which member countries were to contribute euro 51,223 each. Three studies of the Permanent Marketing Committee were merged into one comprehensive study entitled: " The Supply of Petroleum Products and Petrochemicals in African Countries" with specific reference to oil flows, shortages of petroleum products, and emergency plans for acute shortages. The Council also approved the setting up of a committee of experts charged with responsibility for the calculation, evaluation and classification of oil reserves.

The Secretariat's report for 2003/2004 indicated that the non-implementation of recommendations and a poor response to committees' assignments had undermined the performance of APPA which has been in existence for eighteen years. Member countries were, however, requested to submit proposals to the Secretariat for the preparation of the VIth Programme of Action, in accordance with the overall objectives of APPA.

Council members unanimously elected Nigeria's Dr. Rilwanu Lukeman, Presidential Adviser on Petroleum matters, as the new President of APPA. Also, Mr. Dave Lafiaji Akanni of Nigeria was appointed the new Executive Secretary of APPA for a term of three years.

8.6 Bilateral And Multilateral Economic Relations

8.6.1 Bilateral Relations

During the year, Nigeria held Joint Commission meetings with The Gambia, Cuba, India, Algeria and South Africa to deliberate on issues of common interest. The Nigeria/The Gambia bilateral session reached agreement on capacity building assistance to strengthen The Gambian immigration, judiciary, telecommunications and military. The Nigeria/Cuba Joint Commission agreed on technical cooperation in the production of animal vaccines at the National Veterinary Research Institute (NVRI) Vom, Jos, capacity building in coastal fishing and management, animal breeding, including artificial insemination, and biotechnology and tissue culture.

The Nigeria/Algeria Bi-National Session concluded cooperation agreements on improvements of Customs and Excise Services, and on standard and quality control of products for their mutual benefit. They also agreed on the need for a speedy completion of some core joint projects, especially the Trans-Saharan Highway, the Optic Fibre Link and Gas Pipeline Projects that are expected to link the two countries, through Niger Republic. The Nigeria/South Africa Bi-National Commission agreed to harmonize standards in laboratory testing and services, the inspection of consignments and products and system certification.

8.6.2 Multilateral Relations

8.6.2.1 The International Monetary System

Discussions at the various international meetings centred on how to sustain the recovery of the world economy; strengthen the architecture of the international financial system; improve crisis resolution mechanisms; and promote macroeconomic stability in order to achieve sustainable global economic growth.

The Ministers of the Group of Twenty-Four (G-24) developing countries observed that trade protectionism in industrial countries continued to constrain their growth and hinder their poverty reduction efforts. They stressed that the monetary policy of industrial countries should remain supportive of growth, while the fiscal framework should aim at restoring fiscal balance and putting the social security systems on a sound footing. The Ministers expressed disappointment about the outcome of the Cancun Ministerial Conference of the World Trade Organisation (WTO) and stressed the need for progress in agricultural reforms, particularly among the largest industrial economies, in order to boost the growth prospects of developing economies and strengthen their capacity to reduce poverty and achieve the Millennium Development Goals (MDGs). They noted that growth in Africa had remained resilient in the previous three years, the global downturn not withstanding, reflecting improved macroeconomic policies, higher prices of some commodities, and a modest debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

IMF facilities totalling SDR 76.5 billion were granted to developing countries in 2003. SDR 69.8 billion or 91.2% was sourced from the General Resources Account (GRA). Total purchases by developing countries from the GRA, as at October 2003, amounted to SDR 19.6 billion, indicating a decline of SDR 5.60 billion or 28.6 per cent below the level in 2002. Total repurchases amounted to SDR 12.8 billion, resulting in a net transfer of SDR 17.0 billion from the IMF to the developing countries. Total purchases from the GRA by African countries were SDR 6.7 billion, compared with total repurchases of SDR 1.9 billion, resulting in a total net resource inflow of SDR 4.8 billion during the first ten months of 2003, compared with a net inflow of SDR 1.9 billion in 2002.

The World Bank Group's total commitments to developing countries in 2003 amounted to US$18.5 billion, representing a 5.4 per cent decline from the level recorded in the preceding year. The International Bank for Recons-truction and Development's (IBRD) commitments declined marginally during the year under review to US$11.2 billion, from US$11.4 billion in 2002. The International Development Association's (IDA) component stood at US$7.3 billion, representing a decline of 9.5 per cent below the level in 2002. The number of projects approved by both IBRD and IDA increased from 96 and 133 in 2002 to 99 and 141 respectively in 2003.

The Multilateral Investment Guarantee Agency (MIGA) issued 68 guaranteed contracts in 2003, valued at US$1.5 billion, as against 58 contracts valued at US$1.358 billion in the preceding year. The contracts were in support of 46 projects, including 3 existing ones. These were the second highest annual totals, in terms of both contracts issued and projects supported, in the Agency's history.

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 27th Ordinary Meeting in Kampala, Uganda, in August 2003. The meeting was preceded by a symposium on “Sub-regional Monetary Integration: Challenges and Prospects”. The Gover-nors adopted the report of the 26th Ordinary Meeting of the Association held in September 2002 in Algiers, Algeria, and the Revised AACB Statutes.The Assembly considered the progress report on the implementation of the African Monetary Cooperation Programme and a related phased convergence process, expected to eventually usher in a single currency and a common Central Bank in Africa. The Assembly emphasized the importance of the role of the AACB in the formulation, design and implementation of programmes of the African Union (AU) and the New Partnership for Africa's Development (NEPAD). The Assembly adopted the budgets of the Association for 2003 and 2004 and the progress report on the AACB Website. Mr Emmanuel TumusiimeMutebile, Governor, Bank of Uganda was elected as the AACB Chairperson for the period

2003 2004.

8.6.2.3 The World Trade Organisation (WTO)

The 5th Ministerial Conference of the World Trade Organisation (WTO) was held in Cancum, Mexico in 2003 to launch a new round of multilateral trade negotiations and to review developments since the 4th Conference in Doha, Qatar. The conference was, however, stalled owing to sharp disagreements between the advanced economies and the developing countries on the implementation issues regarding the existing WTO agreements - the withdrawal of domestic support for agricultural produce, export subsidies, and market access - on which developed countries were expected to have taken action, but had failed to do so. Developing countries were opposed to the immediate negotiation of 'New Issues', given the non-compliance by the developed countries with previous agreements. Cambodia and Nepal were admitted into the WTO during the Conference as the 147th and 148th members respectively, while Hong Kong offered to host the 6th Ministerial Conference.

8.6.2.4 The United Nations EconomiC Commission for Africa (ECA

The 2003 Conference of African Ministers of Finance, Planning and Economic Development was held in Addis-Ababa in June 2003, under the auspices of the United Nations Economic Commission for Africa (ECA). The conference provided an opportunity for African ministers and senior policy makers to explore how to operationalize mutual accountability; promote policy coherence; contribute to making the Bretton Woods Institutions work better for Africa; and overcome the economic/hu-man resource costs of HIV/AIDs, thereby contributing to meeting the Millennium Development Goals (MDGs). The Ministers viewed NEPAD as a vision and a way of evolving home-grown policies and programmes for poverty reduction, improving governance and resolving conflicts on the continent. They agreed that the African Peer Review Mechanism (APRM) represented a sound basis for assessing and monitoring Africa's commitments to NEPAD policies.

8.6.2.5 The Economic Community of West African States (ECOWAS)

The 27th Session of the Authority of Heads of State and Government of the Economic Community of West African States (ECOWAS) was held in Accra, Ghana, in December 2003. The Authority reaffirmed its commitment to the consolidation of regional peace and security, and to the regional integration process, in order to free the peoples of the West African sub-region from the grip of poverty. In view of the serious threat posed to children involved in armed conflict in the sub-region, the Authority adopted the Dakar Declaration on the West African Child which requires the ECOWAS Executive Secretariat to take the necessary measures to enhance the capacity of children, and also appointed ECOWAS

Ambassadors for the child.

The Heads of State and Government reiterated their commitment to the objectives, orientations and priorities of NEPAD as an appropriate instrument for the integration and development of the economies of the African continent and urged member states to speed up the establishment of the NEPAD focal points. They also appealed to the international community to fulfil the promises made at the summits of Genoa in 2001, Kalaskis and Monterrey in 2002 and Evian in 2003. The Heads of State and Government endorsed the launching of Trade Negotiations between West Africa and the European Union within the framework of the *Cotonou Agreement.* They urged all member states to take concrete steps in establishing a single regional market in West Africa, through the effective implementation of the ECOWAS Trade Liberalisation Scheme. A workshop for the National Coordinating Committees (NCC) of ECOWAS member states on the Common External Tariffs (CET) was held in Accra, Ghana in 2003 to work out strategies for the completion of the national report on the implementation of CET.

8.6.2.6 The West African Monetary Zone (WAMZ)

The Authority of Heads of State and Government of the West African Monetary Zone (WAMZ), at its Sixth Summit in Accra, Ghana in December 2003, considered and adopted the report of the 13th Meeting of the Convergence Council, containing proposals aimed at strengthening the implementation of the WAMZ programme. The Authority agreed that member countries should redouble their efforts to comply with the convergence criteria and make adequate resources available to the National Sensitisation Committees to implement their programmes. They reaffirmed their commitment to the actualisation of the WAMZ Monetary Union and decided that the Headquarters of the proposed West African Central Bank (WACB) be sited in Ghana. However, the Authority agreed that all WAMZ countries would be eligible to express interest to host the Headquarters of the future ECOWAS Central Bank. The Heads of State and Government formally signed the Revised Statute of the WACB.

8.6.2.7 The West African Monetary Agency (WAMA)

The Committee of Governors of Central Banks of ECOWAS member states, at its 13th Meeting in Accra, Ghana in December 2003, adopted several proposals aimed at improving the operations of the West African Monetary Agency (WAMA). Among these were: WAMA's 2004 work programme and budget; a consultant's report on the general review of conditions of service and remuneration of WAMA staff; an auditor's report on WAMA's Financial Statement for the year ended 31st December, 2002; the transfer of the management of the ECOWAS Travellers' Cheque scheme to a private sector operator; and progress report on ECOWAS Monetary Cooperation Programme (EMCP).

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

The 13th Meeting of the Board of Governors of WAIFEM was held in Accra, Ghana on 16th December, 2003 and the Governor, Bank of Ghana was elected Chairman of its Board of Governors. The Board also approved the 2004 work programme and the budget of the