

CENTRAL BANK OF NIGERIA



MONTHLY REPORT

October 2004

RESEARCH DEPARTMENT

ECONOMIC REPORT FOR THE MONTH OF OCTOBER 2004

1.0 SUMMARY

Available data indicated that both broad money stock (M_2) and narrow money supply (M_1) increased by 3.3 and 2.2 per cent, respectively, in October, 2004 over the levels in the preceding month. The development was attributable wholly to the 11.5 per cent rise in foreign assets (net) of the banking system during the review month. In the first ten months of the year, M_1 and M_2 rose by 5.3 and 12.9 per cent, respectively.

Banks' deposit and lending rates indicated a general increase during the month. The spread between the weighted average deposit and maximum lending rates narrowed to 10.26 percentage points from 10.32 percentage points in the preceding month. The margin between the average savings deposit and maximum lending rates, however, widened to 15.89 percentage points from 15.87 percentage points in the preceding month. The weighted average inter-bank call rate, however, fell from 11.9 per cent in September, to 10.4 per cent in October 2004, reflecting the liquidity ease in the inter-bank funds market.

The value of money market assets outstanding rose by 1.3 per cent to ₦979.6 in October, 2004, compared with the increase of 0.9 per cent in the preceding month. Treasury bills worth ₦260.0 billion were issued during the month to replace matured bills of equivalent value, compared with ₦305.1 billion issued in September, 2004. Transactions on the Nigerian Stock Exchange (NSE) in the month of October, 2004 were bullish as the major market indicators trended upward.

In October, 2004, the major agricultural activities centered on harvesting of various root crops; planting of late crops; preparation of land and nurseries for vegetable and other associated crops as well as intensified production of poultry products in order to take full advantage of the impending Ramadan and Christmas festivities. The prices of Nigeria's major agricultural commodities at the London Commodity Market, on the average, fell during the month. The all-commodities price index, at 84.6 (1985=100), in dollar terms, declined by 4.7 per cent from its level in the preceding month. The inflation rate for the twelve-month period ended October, 2004 was estimated at 18.2 per cent, compared with 18.9 per cent recorded in the preceding month.

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.40 million barrels per day (mbd) or 74.40 million barrels for the month, compared with 2.30 mbd produced in September, 2004. Crude oil export was estimated at 1.95 mbd for the month, compared with 1.85 mbd in September 2004. Deliveries of crude oil to refineries for domestic consumption remained at the preceding month's level of 0.45 mbd or 13.95 million barrels for the month. In the spot market, the average price of Nigeria's reference crude, the Bonny Light (37° API), was US\$50.29 a barrel during the month, indicating an increase of US\$6.58 a barrel or 15.1 per cent over the level in the preceding month.

Available data on foreign exchange flows through the Central Bank of Nigeria (CBN) showed an inflow of US\$2,682.62 million and an outflow of US\$1,147.78

million, resulting in a net inflow of US\$1,534.84 million during the month. Foreign exchange sales to authorized dealers by CBN amounted to US\$769.74 million, compared with US\$807.87 million in September, 2004. The weighted average exchange rate of the Naira vis-à-vis the US dollar, depreciated marginally by 0.11 per cent from N132.78 per dollar in September to N132.92 per dollar in October, 2004. In the bureaux de change segment of the market, however, the rate appreciated from ₦141.08 per dollar in September 2004 to ₦140.46 per dollar in October 2004. Nigeria's gross external reserves increased by 11.4 per cent to US\$14,723.55 million at end-October, 2004.

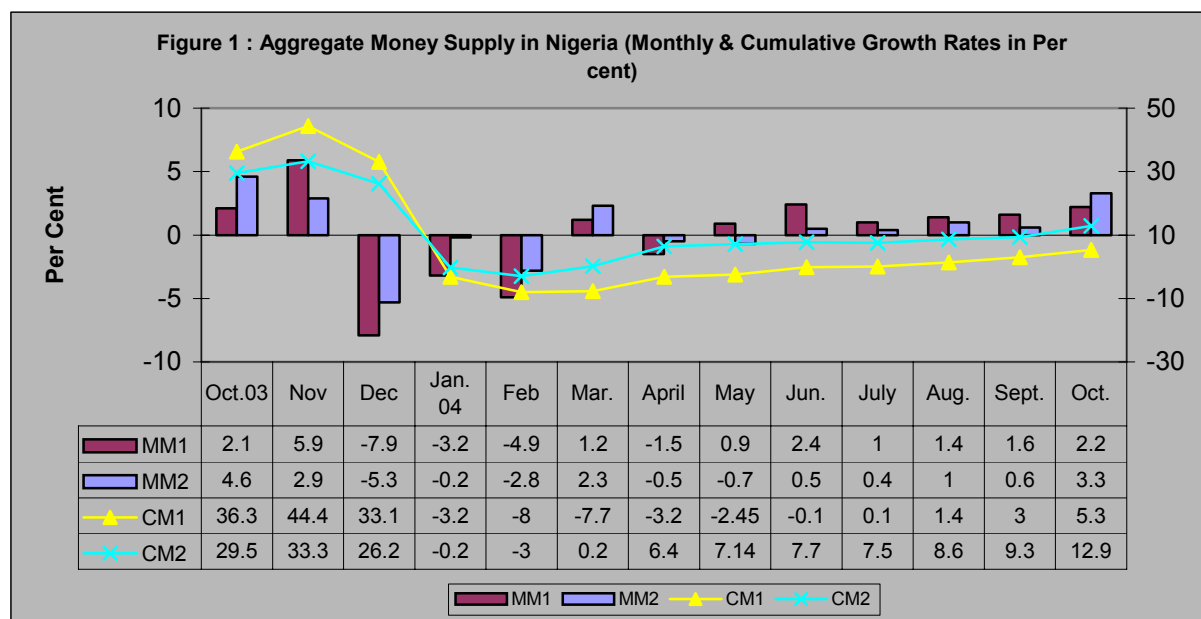
On the international scene, world crude oil output estimated at 84.10 million barrels per day (mbd), in October 2004, rose by 1.65 mbd or 2.0 per cent over the preceding month's level of 82.45 mbd, while the estimated demand at 82.20 mbd for the month, rose by 0.90 mbd or 1.1 per cent over the preceding month's level. On the whole, total world crude oil supply exceeded demand by 1.90 mbd, reflecting the increased crude oil production from OPEC and non-OPEC countries to take advantage of the rising crude oil prices.

2.0 FINANCIAL SECTOR DEVELOPMENTS

Money supply increased in October 2004, as banks' deposit and lending rates generally increased during the month. Also, the value of money market assets rose following the increase in the value of Eligible Development Stocks

month. In the first ten months of the year, M₁ rose by 5.3 per cent, as against the target of 13.4 per cent. Similarly, M₂ rose by 12.9 per cent, representing an annualized growth rate of 15.5 per cent, which is within the programmed target of 16.0 per cent, for 2004 (Fig. 1 and table 1).

Aggregate banking system's credit to



(EDS) and Commercial Papers (CPs). Transactions on the Nigerian Stock Exchange (NSE) were bullish as the major indicators trended upward during the month.

2.1 Monetary and Credit

Developments

Available data indicated an increase in monetary aggregates in October 2004. Broad money supply (M₂) and narrow money supply (M₁) increased by ₦72.3 billion or 3.3 per cent and ₦27.5 billion or 2.2 per cent, to ₦2,241.4 billion and ₦1,290.5 billion, respectively, in the review month. The development was attributable entirely to the 11.5 per cent rise in foreign assets (net) of the banking system during the review

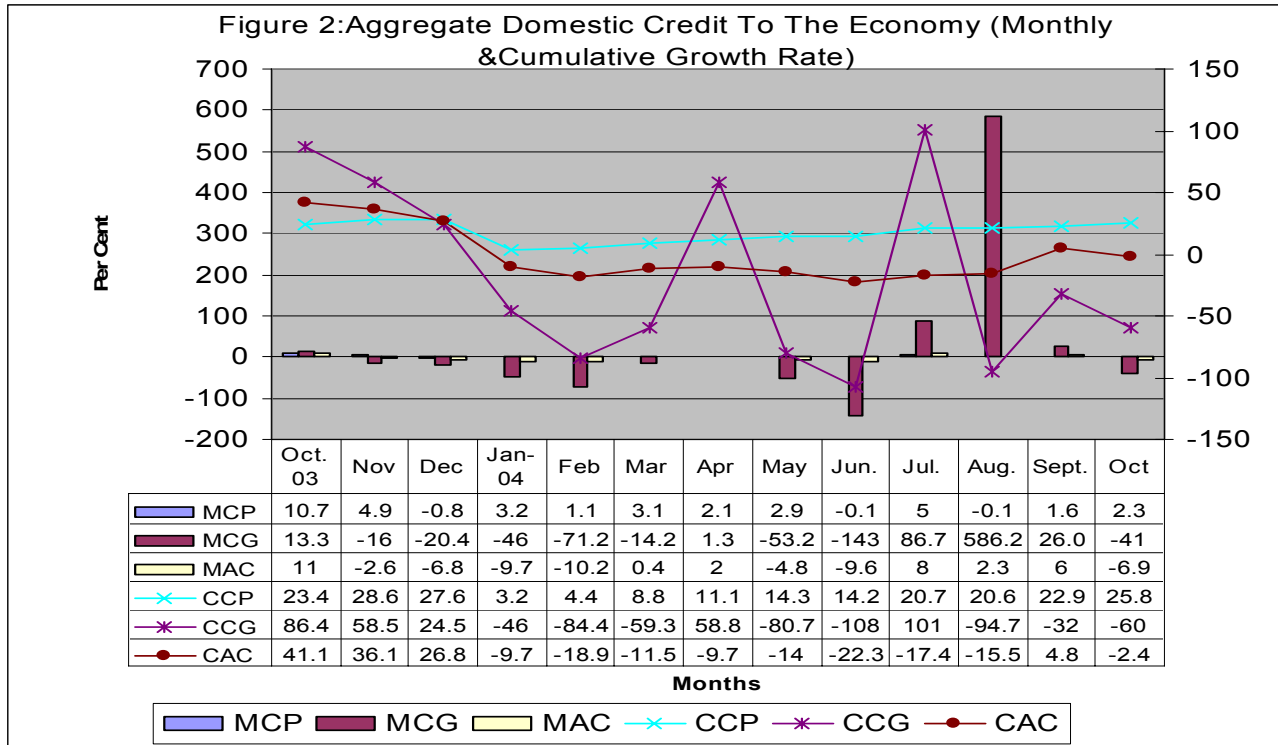
the domestic economy declined by ₦130.0 billion or 6.9 per cent to ₦1,761.1 billion, in contrast to the increase of 6.0 per cent in the preceding month. The development during the month reflected the fall in net claims on the Federal Government. In the first ten months of the year, aggregate bank credit (net) to the domestic economy declined by 2.4 per cent, as against the target growth of 22.4 per cent for 2004, reflecting the fall in net claims on the Federal Government during the period.

Banking system's credit (net) to the Federal Government declined substantially by ₦164.9 billion or 41.0 per cent, as against an increase of 26.0 per cent in the preceding month. The development reflected largely the significant increase in Federal

Government deposits with both the Central bank and the DMBs during the review month. In the first ten months of the year, claims on the Federal Government fell by ₦355.1 billion or 60.0 per cent, as against the growth target of 23.3 per cent for fiscal 2004.

At ₦2,363.1 billion, foreign assets (net) of the banking system increased by ₦243.4 billion or 11.5 per cent, in contrast to the decline of ₦61.8 billion or 2.8 per cent in September, 2004. The increase was attributable to the 11.8 and 10.1 per cent rise in CBN and DMB's holding during the month.

Banking System's credit to the private



sector rose by ₦34.9 billion or 2.3 per cent to ₦1,524.2 billion, compared with the increase of ₦23.9 billion or 1.6 per cent in the preceding month. The increase reflected largely the rise in claims by the deposit money banks (DMBs) during the month. Cumulatively, aggregate credit to the private sector rose by 25.8 per cent, between January and October 2004, representing an annualized growth rate of 31.0 per cent, compared with the programmed target of 22.0 per cent for the year (fig. 2).

Similarly, quasi-money rose by ₦44.7 billion or 4.9 per cent to ₦951.0 billion, in contrast to the decline of ₦6.7 billion or 0.7 per cent in the preceding month.

Other Assets (net) of the banking system fell further by ₦41.1 billion or 2.2 per cent, compared with the decline of ₦31.8 billion or 1.8 per cent in the preceding month.

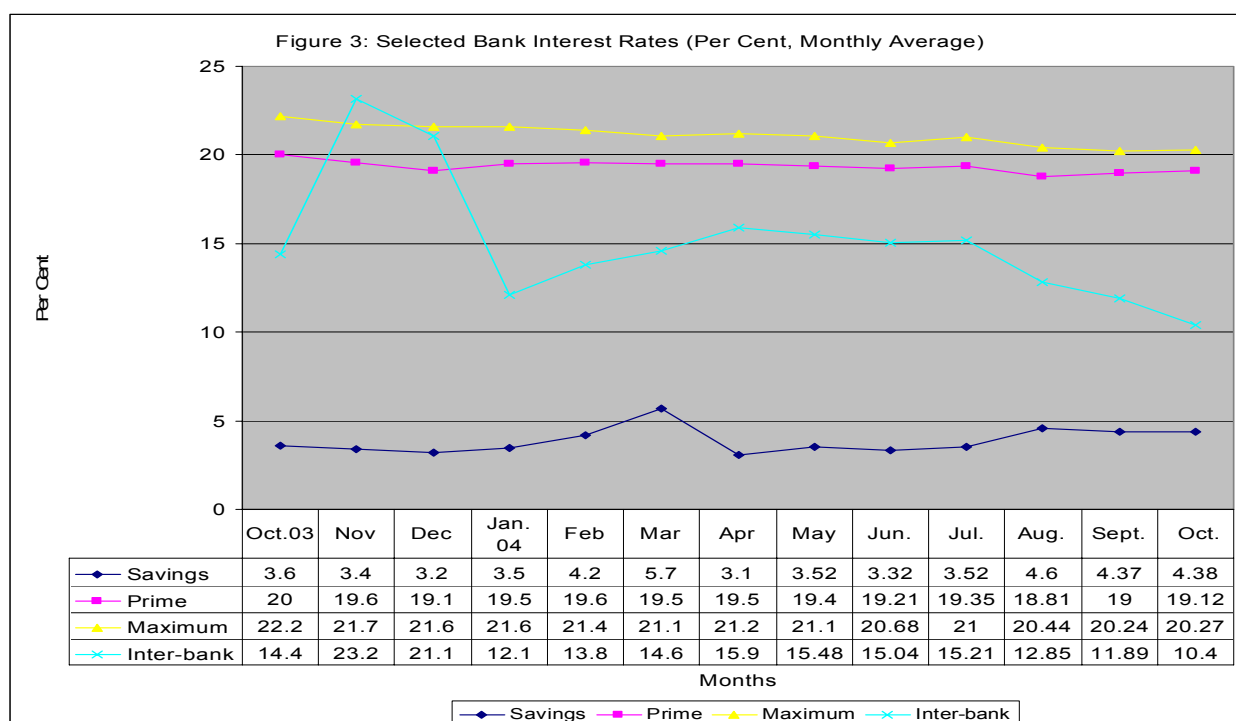
2.2 Currency-in-circulation and Deposits at the CBN

At ₦459.4 billion, currency in circulation in October, 2004 increased by ₦1.4 billion or 0.3 per cent over the level recorded in the preceding month. The rise during the month was traceable to currency outside the banking system, which rose by ₦3.2 billion or 0.8 per cent during the month. Vault cash, on the other hand, fell by ₦1.8 billion or 2.5 per cent during the period.

deposits at the CBN, namely, Federal Government, bankers and 'others' were 71.7, 17.4 and 10.9 per cent, respectively, compared with 62.3, 22.7 and 15.0 per cent, in September, 2004.

2.3 Interest Rate Developments

Provisional data indicated a general increase in banks' deposit and lending rates in October, 2004. Average savings deposit rate rose by 0.01 percentage point to 4.4 per cent, while all other rates on deposits of



Total deposits with the CBN amounted to ₦1,0171.9 billion, indicating an increase of ₦223.2 billion or 26.3 per cent over the level in the preceding month. The development during the month was attributable wholly to the increase of ₦239.3 billion or 45.2 per cent in Federal Government deposits. Private sector deposits and deposits of DMBs, however, declined by 3.4 and 7.5 per cent, respectively, during the period under review. The shares of the three components in total

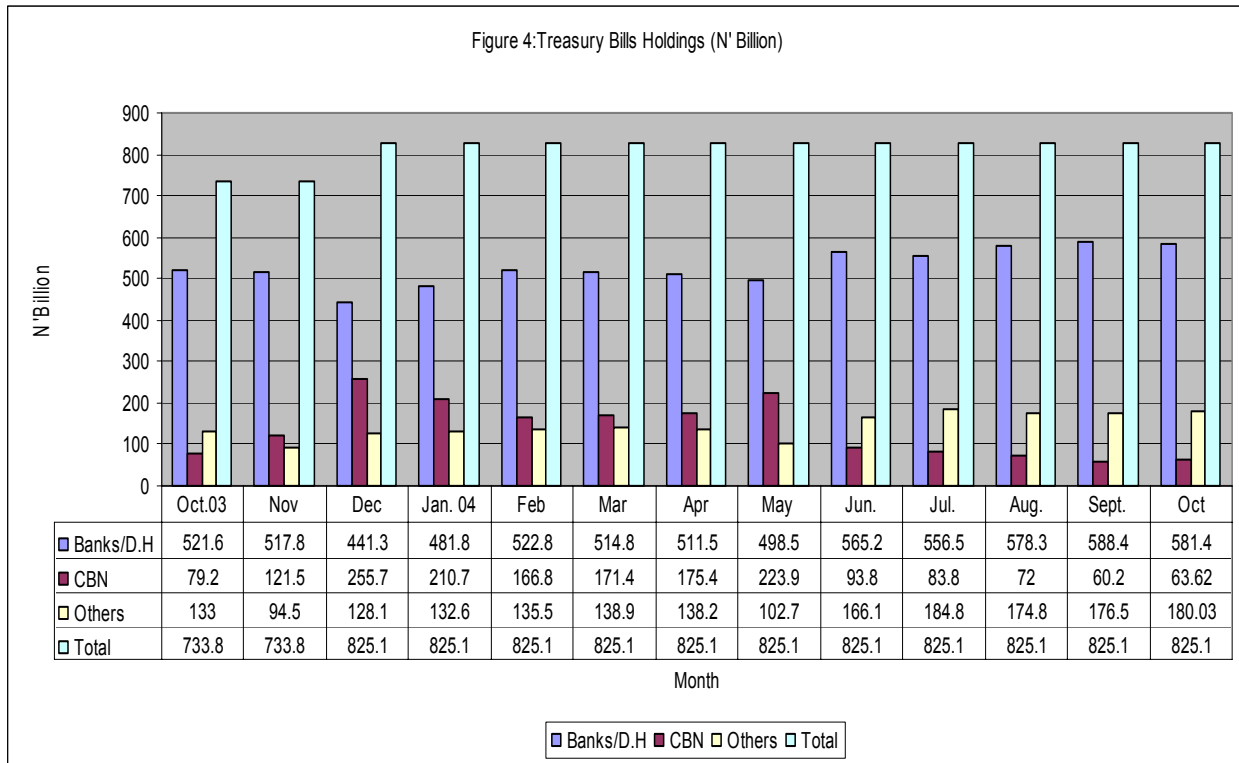
various maturities, rose marginally from a range of 7.21 – 13.39 per cent in September to 7.22 – 13.40 per cent in October, 2004. Similarly, the weighted average prime and maximum lending rates increased by 0.12 and 0.03 percentage points to 19.12 and 20.27 per cent, respectively. Consequently, the spread between the weighted average deposit and maximum lending rates, narrowed to 10.26 percentage points from 10.32 percentage points in the preceding month. On the other hand, the margin between the average savings deposit and

maximum lending rates which stood at 15.87 percentage points in September, widened to 15.89 percentage points in the review month.

The weighted average inter-bank call rate

outstanding, however, remained unchanged at the preceding month's level of ₦825.1 billion.

Treasury bills worth ₦260.0 billion were issued during the month to replace



fell from 11.9 per cent in September, to 10.4 per cent in October 2004, reflecting the liquidity ease in the inter-bank funds market. (fig. 3).

2.4 Money Market Developments

Available data indicated that the level of money market instruments outstanding at end-October 2004 rose by ₦12.9 billion or 1.3 per cent to ₦979.6 billion, compared with the increase of ₦8.2 billion or 0.9 per cent in the preceding month. The rise was attributable to the increase recorded in Eligible Development Stock (EDS) and Commercial Papers (CPs) during the review month. Treasury Bills

matured bills of equivalent value in October 2004, compared with ₦305.1 billion issued in the preceding month. Of the total amount issued, deposit money banks (DMBs) and discount houses jointly accounted for ₦139.5 billion or 53.7 per cent of the total, while investment by the non-bank public amounted to ₦103.6 billion or 39.8 per cent of the total. Consequently, the balance of ₦16.90 billion, constituting 6.5 per cent of the total issue during the review month was absorbed by the CBN.

Holdings of treasury bills outstanding by the DMBs' and discount houses declined by 1.2 per cent to ₦581.4 billion, while that of the non-bank public increased by 2.03 per cent to ₦180.03 billion. CBN's holding (including

rediscounts) increased by 5.7 per cent to ₦63.62 billion during the review month and constituted 7.7 per cent of the total.

2.5 Capital Market Developments

Available data indicated that activities on the Nigerian Stock Exchange (NSE) recorded improved performance in October 2004 as all the major market indicators increased, reflecting the new listings witnessed on the Exchange. The value and volume of securities traded rose respectively, by 114 and 10.0 per cent to ₦11.7 billion and 1.1 billion shares from ₦10.5 billion and 1.0 billion shares in the preceding month. The banking sub-sector, as in the preceding months, remained the most active as substantial price gains were recorded in its equities, reflecting the ripples produced in the capital market by the banking industry consolidation initiative of the CBN. Particularly, as banks made efforts to meet the new capital base requirement through mergers and acquisition, and initial public offers (IPO), investors' took advantage of envisaged better earnings to invest in banks equities. For instance, Guaranty Trust Bank plc reportedly acquired Inland Bank in addition to raising fresh capital through public offer to meet the new capital base requirement. In another development, a subsisting MOU was signed between Gulf Bank, Universal Trust Bank plc, All States Trust Bank, Hallmark Bank plc and Lion Bank plc on the possibility of merger and it is expected that the formal processes would be completed soon. Other merger talks were going on between Wema Bank plc, Lead bank and Fountain Trust Bank plc. in a bid to take advantage of envisaged better earnings from the mega banks.

The market capitalization and value index rose by 8.1 per cent each to close at

₦1.8 trillion and 25,987.03, from ₦1.7 trillion and 24,046.5, respectively, in the preceding month. The development was due to price gains in the blue chip companies as well as the boost received from activities in the new issues market, following the listing of new instruments on the NSE during the month. Specifically, Zenith Bank plc's equity comprising six billion shares and Acen Insurance Company plc's five hundred million shares were listed bringing to 205 the number of quoted companies on the Exchange. Other listings that boosted the market included the ₦8.4 billion shares of Standard Trust Bank plc, following the bank's successful completion of the initial public offer, the right issues of First Bank plc, AIICO Insurance plc and AG Leventis plc.

2.6 Deposit Money Banks' Activities

Total assets/liabilities of deposit money banks (DMBs) amounted to ₦3,696.06 billion in October, 2004, indicating an increase of ₦140.0 billion or 3.9 per cent over the preceding month's level. Funds were sourced mainly from increase in time, savings and foreign currency deposits, while funds were used mainly in the acquisition of foreign assets, settlement of private sector claims and expansion of reserves.

Aggregate credit to the domestic economy amounted to ₦1,979.9 billion, representing an increase of ₦26.3 billion or 1.3 per cent over the preceding month's level. The development was due to the increase in the credit to the state and local governments, other financial institutions and the private sector during the month under review. This was, however, moderated by a decline in credit to the Federal Government during the period.

Central Bank's credit to the DMBs rose by 3.9 per cent to ₦66.1 billion in October 2004. The increase in the review month was attributable largely to the banks' overdrawn position with the CBN.

Total specified liquid assets of the DMBs stood at ₦991.5 billion, representing 51.8 per cent of the total deposit liabilities. The level was 0.7 per cent above the preceding month's level, and 11.8 percentage points above the minimum target of 40.0 per cent for the year.

2.7 Discount Houses

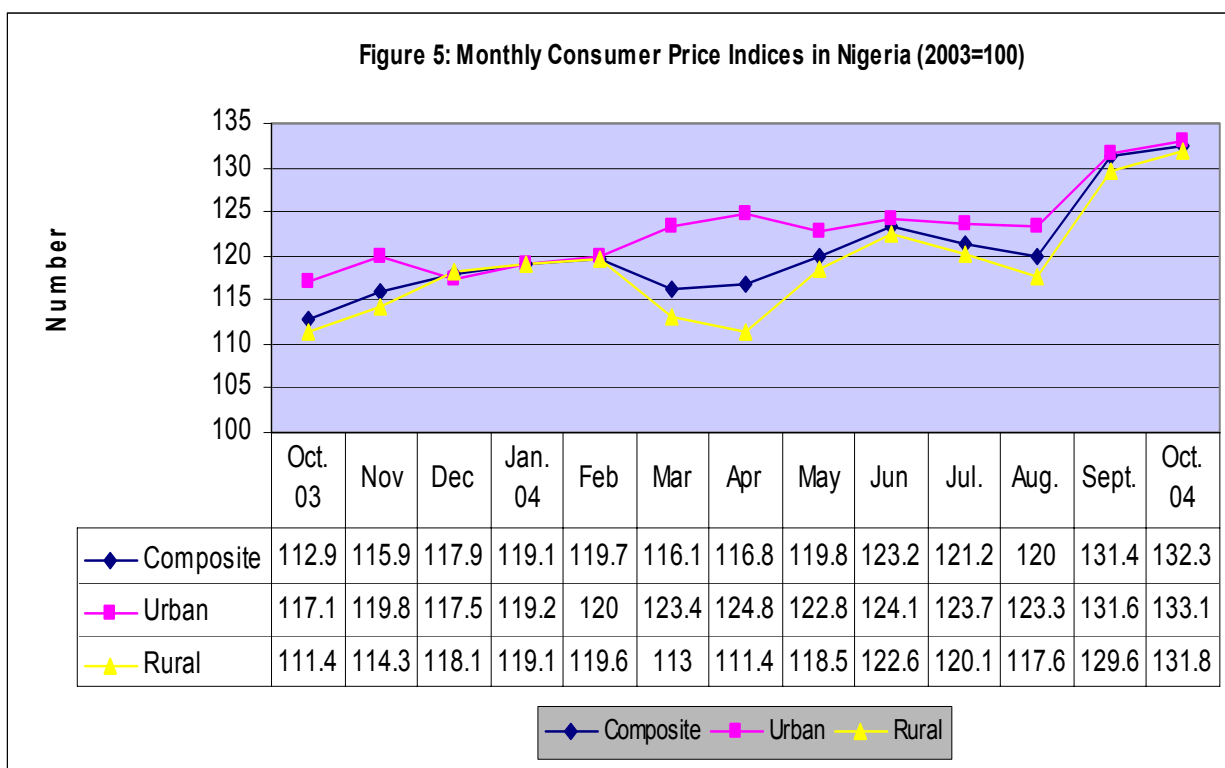
Total assets/liabilities of the discount houses amounted to ₦78.9 billion in October 2004, representing an increase of ₦12.7 billion or 19.2 per cent over the level in the preceding month. Their investments in the Federal Government securities of less than 91 days maturity amounted to ₦49.9

percentage points above the level in the preceding month, and 23.0 percentage points higher than the prescribed minimum of 60.0 per cent for fiscal 2004.

Total borrowings by discount houses stood at ₦23.5 billion, while their capital and reserves amounted to ₦9.0 billion, resulting in a gearing ratio of 2.6:1, compared with the stipulated maximum target of 50:1 for the year.

3.0 DOMESTIC ECONOMIC CONDITIONS

In October 2004, agricultural activities centered on harvesting of various root crops; planting of late crops; preparation of land and nurseries for vegetable and other associated crops as well as intensified production of poultry products. Crude oil output increased by 2.4



billion, representing 83.0 per cent of their total deposit liabilities. This was 7.6

per cent over the preceding month's level, while inflation rate at an estimated rate of

18.2 per cent declined by 0.7 percentage points below the preceding month's level.

3.1 Agricultural Sector

The major agricultural activities during the month consisted the harvesting of various root crops such as yam, sweet and Irish potatoes and groundnuts. In the Southern States the planting of late crops continued in most areas, while in the Northern States, farmers were engaged in the preparation of land and nurseries for legumes and vegetables. In the livestock sub-sector, the production of poultry products were intensified by farmers in order to take advantage of the continued ban on the importation of frozen chicken and the fast approaching Ramadan and Christmas festivals.

The prices of Nigeria's major agricultural commodities at the London Commodity Market fell during the month of October 2004. The all-commodities price index, at 84.6 (1985=100), in dollar terms, declined by 4.7 per cent from the level in the preceding month. In naira terms, the all-commodities price index similarly showed a decline of 4.6 per cent below the level in the preceding month.

Of the six commodities monitored during the month, two, namely coffee and copra recorded price increase of 3.7 and 6.1 per cent, respectively, over their levels in the preceding month. The remaining four commodities recorded a price decline ranging from 2.5 per cent for soya bean to 8.2 per cent for cotton, during the same period.

In naira terms, coffee and copra, similarly recorded price increases of 3.7 and 6.1 per cent, respectively, over the levels in the preceding month. Four commodities, namely, cocoa, cotton, palm oil and soya bean recorded price declines of 4.9, 8.2, 3.7 and 2.4 per cent, respectively.

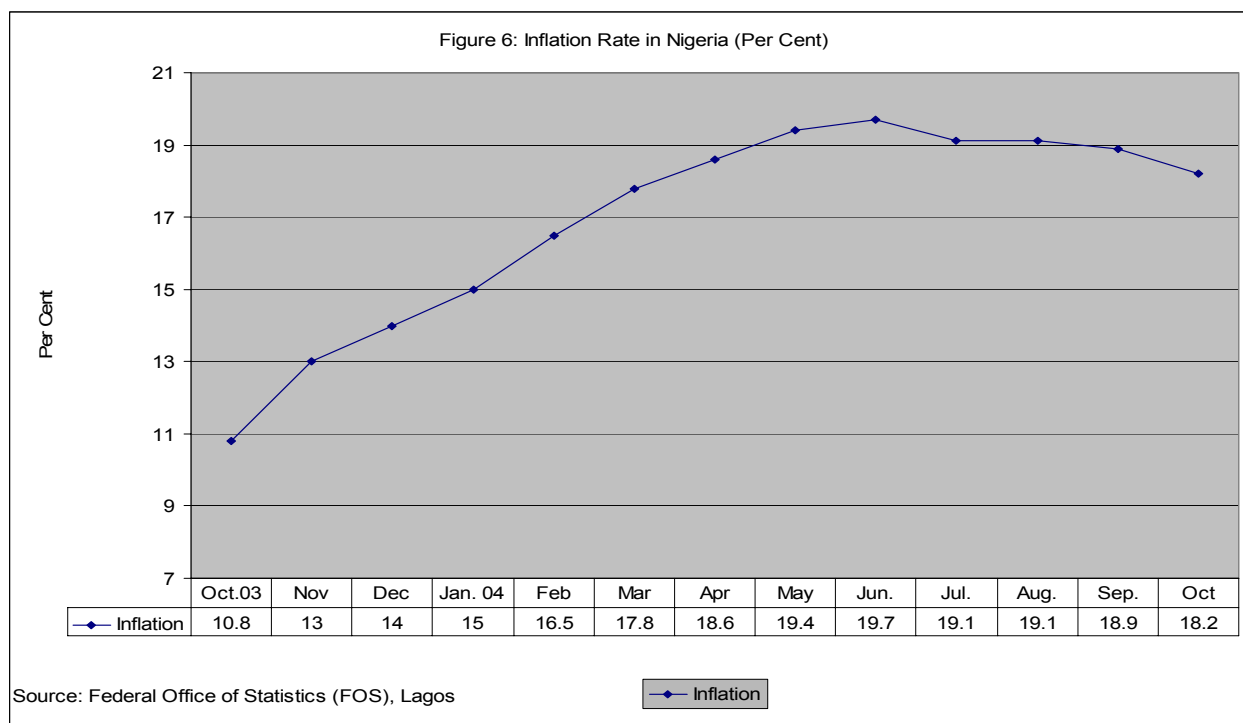
3.2 Petroleum Sector

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.40 million barrels per day (mbd) or 74.40 million barrels for the month, compared with 2.30 mbd produced in September, 2004. Crude oil export was estimated at 1.95 mbd or 60.45 million barrels for the month, compared with 1.85 mbd in September 2004. Allocation of crude oil to refineries for domestic consumption remained at the preceding month's level of 0.45 mbd or 13.95 million barrels in October, 2004.

Crude oil price rose generally in October, 2004. In the spot market, the average price of Nigeria's reference crude, the Bonny Light (37° API), was US\$50.29 a barrel, indicating an increase of US\$6.58 a barrel or 15.1 per cent over the level in September, 2004. The price of other competing brands namely, the West Texas Intermediate (WTI), the UK Brent, the Arab Light and the Forcados also rose by 16.3, 15.2, 20.7 and 15.3 per cent to US\$53.0, US\$49.58, US\$48.61 and US\$50.36 per barrel, respectively, during the month. In the netback market, the price of all crude blends rose above the level in the preceding month.

3.3 Consumer Prices

Data from the Federal Office of Statistics (FOS) showed that the all-items composite Consumer Price Index (CPI) for October 2004 was estimated at 132.3 (May 2003 = 100). This represented an increase of 0.6 per cent over the level in the preceding month. The development was attributable to the components of food; food and non-alcoholic beverages; alcoholic beverages, tobacco and kola; clothing and footwear; transport; communication; recreation and culture; and education whose indices rose by



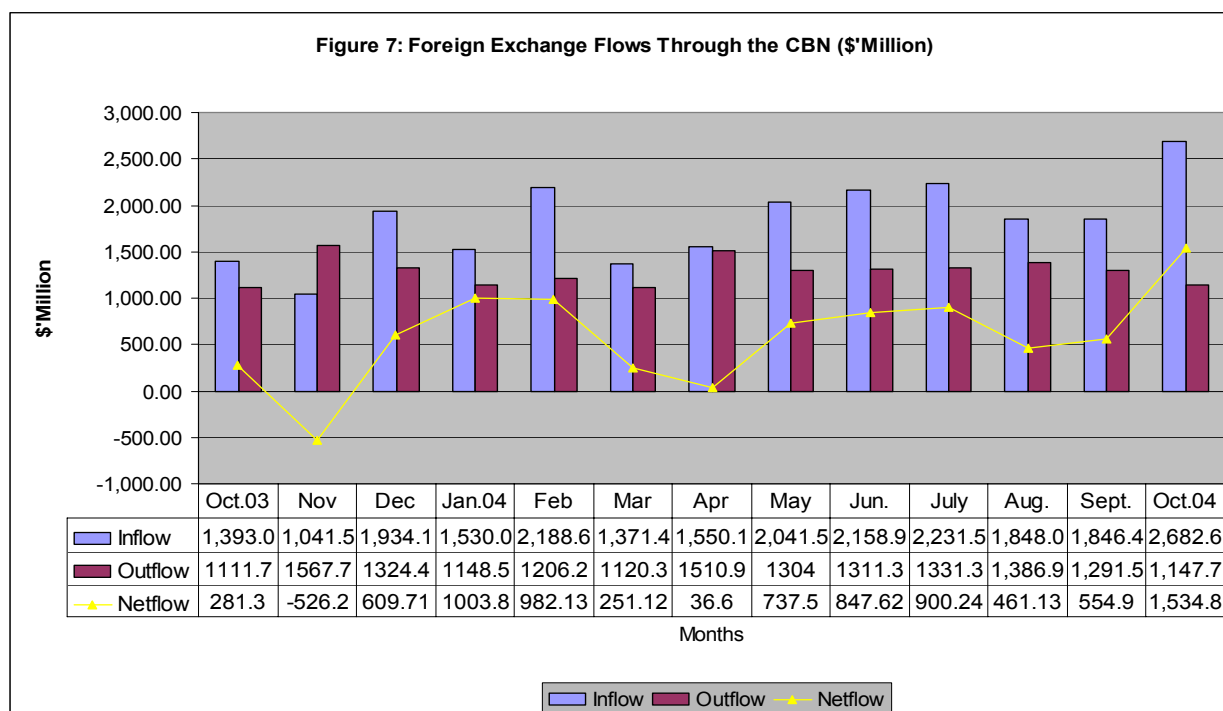
The major factors responsible for the increase in price were the high demand for crude oil in the United States to build up inventories of heating oil in order to meet demand during winter season, slow production recovery in the U. S Gulf of Mexico, following the disruptions by the Hurricane Ivan, destruction of the Iraq's oil pipelines and uncertainties in the Middle East, among others.

0.9; 0.8; 5.7; 1.1; 1.5; 1.2; 3.5 and 2.45 per cent, respectively. This was, however, moderated by the components of housing, water, electricity, gas and others; furnishings, household equipment and maintenance; restaurant and hotels; and miscellaneous goods and services whose indices declined by 0.1; 0.6; 1.3; and 1.2 per cent, respectively.

The urban all-items CPI for October 2004 was estimated at 133.1 (May 2003=100), indicating an increase of 1.2 per cent over the level in the preceding month. The rural all-items CPI for October 2004 was also estimated at 131.8 (May 2003=100), representing an increase of 1.7

indices increased by 2.9, 3.3, 2.0, 5.8, 3.1, 4.2 and 2.2 per cent, respectively.

The rate of inflation for the twelve-month-period ended October, 2004 was estimated at 18.2 per cent, compared with 18.9 per cent recorded in the preceding



per cent over the level in the preceding month.

Retail price surveys of selected consumer items by the CBN in Bauchi, Enugu, Ibadan, Kano, FCT Abuja and Lagos showed increase, in contrast to the developments in the preceding month. Nationally, the retail price index (RPI) showed a marginal increase of 0.7 per cent in the all-items average price of consumer items in October 2004, as against the 0.6 per cent increase in the preceding month. The development during the review month was accounted for by the components of staples; meat, fish and eggs; oil and fat; vegetable, fruits and nuts; beverages and drinks; medical; and building materials whose

month. The downward trend in inflationary pressure could be attributable to the decline in prices of some food items due to the harvest period.

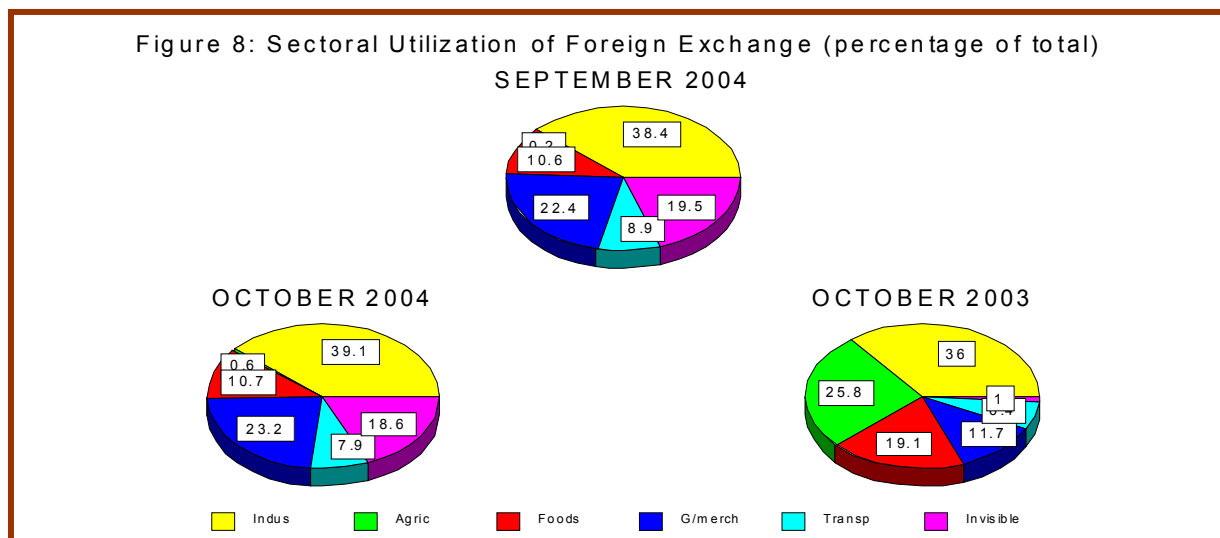
4.0 EXTERNAL SECTOR DEVELOPMENTS

4.1 Foreign Exchange Flows

Foreign exchange inflow and outflow through the Central Bank of Nigeria (CBN) in October, 2004, amounted to US\$2,682.62 million and US\$1,147.78 million, respectively, indicating a net inflow of US\$1,534.84 million. Compared with the level of US\$1,846.42 million and US\$1,291.52 million in the preceding month, inflow rose by 45.3 per cent during

the month, while outflow declined by 11.1 per cent during the same period. The rise in inflow was attributable to the 46.6 per cent increase in the oil sector receipts, while the decline in outflow was traceable to the 4.7 per cent fall in DAS utilization and 26.7 per cent decline in Other Official Payments. At US\$19, 449.29 million, cumulative inflow through the CBN in the first ten months of 2004 was 57.7 per cent higher than the level

declined by 10.0 per cent in October, 2004. The development was attributable largely to the decline in out payments through the CBN, particularly the funding of the Dutch Auction System (DAS), Drawings on L/Cs and Other Official Payments, which fell from US\$807.87 million, US\$12.88 and US\$365.49 million to US\$769.74 million, US\$1.98 and US\$267.79 million, respectively. Outflow through External Debt



in the corresponding period a year earlier. On the other hand, cumulative outflow through the Bank in the same period was US\$12,758.74 million, representing a decline of 5.2 per cent from its level in the corresponding period a year earlier.

Aggregate foreign exchange flow through the economy indicated that total inflow rose by 28.8 per cent from the preceding month's level to US\$3,561.13 million in October, 2004. Receipts from oil sector, which constituted 71.5 per cent of the total rose by 46.6 per cent to US\$2,545.21 million. Similarly, non-oil public sector receipts rose by 24.4 per cent to US\$137.41 million. However, receipts through autonomous sources fell by 4.3 per cent to US\$878.51 million and accounted for 24.7 per cent of the total in the review month.

At US\$1,330.57 million, total foreign exchange outflow from the economy

Service Payments, National Priority Projects and Autonomous Sources, however, increased from US\$101.60 million, US\$3.68 million, and US\$21.32 in September 2004 to US\$102.49 million, US\$5.78 million and US\$33.87 million, respectively, during the month. Cumulative inflow and outflow through the economy as at end-October 2004 amounted to US\$27,376.44 million and US\$13,213.36 million, respectively, compared with US\$18,692.00 million and US\$14,737.63 million in the corresponding period of 2003.

4.2 Sectoral Utilisation of Foreign Exchange

The industrial sector accounted for the bulk (36.0 per cent) of total foreign exchange disbursed in October 2004, followed by general merchandise (25.8 per cent). Other beneficiary sectors, in a

descending order of importance, included: invisibles (19.1 per cent), food (11.7 per cent), transport (6.4 per cent) and agricultural products (1.0 per cent) (Fig.8).

4.3 Foreign Exchange Market Developments

The demand pressure in the foreign exchange market moderated in October, 2004 as the total foreign exchange sold to end-users by CBN through the authorized dealers fell by 4.7 per cent to US\$769.74 million from US\$807.87 million in the preceding month. Under the DAS, the weighted average exchange rate of the Naira vis-à-vis the US dollar depreciated marginally by 0.11 per cent from ₦132.78 per dollar in September, 2004 to ₦132.92 per dollar in October 2004. However, in the bureaux de change segment of the market, the naira traded at an average rate of ₦140.46 to a dollar, compared with ₦141.08 to a dollar in the preceding month. Consequently, the premium between the official and bureaux de change rates narrowed from 6.2 per cent in September 2004 to 5.7 per cent in the period under review.

4.4 External Reserves

Provisional data showed that Nigeria's gross external reserves at end-October, 2004 amounted to US\$14,723.55 million, indicating an increase of 11.4 per cent over the adjusted gross external reserves of US\$13,222.90 million in the preceding month. At the current level of foreign exchange commitments, the reserves could finance about 12.8 months of foreign exchange disbursement.

5.0 OTHER INTERNATIONAL ECONOMIC DEVELOPMENTS

World crude oil output, estimated at 84.10 million barrels per day (mbd), in October 2004, rose by 1.65 mbd or 2.0 per cent over the preceding month's level of 82.45 mbd, while the estimated demand at 82.20 mbd for the month, rose by 0.90 mbd or 1.1 per cent over its preceding month's level. On the whole, total world crude oil supply exceeded demand by 1.90 mbd, reflecting the increased crude oil production from OPEC and non-OPEC countries to take advantage of the rising crude oil prices.