

CENTRAL BANK OF NIGERIA



MONTHLY REPORT

FEBRUARY 2005

RESEARCH AND STATISTICS DEPARTMENT

CENTRAL BANK OF NIGERIA

MONTHLY REPORT

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The Central Bank of Nigeria Monthly Report is designed for the dissemination of financial and economic information on the Nigerian economy on current basis. The Report analyses developments in the financial, real and external sectors of the economy, as well as international economic issues of interest. The Report is directed at a wide spectrum of readers including economists and financial analysts in government and the private sector, as well as general readers.

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ECONOMIC REPORT FOR THE MONTH OF FEBRUARY 2005

1.0 SUMMARY

Available data indicated that monetary aggregates declined in February 2005. Broad money stock (M_2) and narrow money supply (M_1) fell by 0.5 and 1.1 per cent, respectively, over the levels in the preceding month. The development was attributable to the decline in credit to the domestic economy.

Banks' deposit and lending rates exhibited declines during the month. The spread between the weighted average deposit and maximum lending rates, however, widened from 10.85 percentage points in the preceding month to 11.4 percentage points. The margin between the average savings deposit and maximum lending rates, stood at 15.74 percentage points in the review month. The weighted average inter-bank call rate fell from 10.60 per cent in January 2005, to 9.55 per cent in February 2005, reflecting the liquidity ease in the inter-bank funds market.

Provisional data indicated that the level of money market assets outstanding at end-February, 2005 declined by ₦8.7 billion or 0.9 per cent to ₦1,003.7 billion, in contrast to the increase of ₦1.6 billion or 0.2 per cent in the preceding month. Provisional data indicated that activities on the Nigerian Stock Exchange (NSE) in February 2005 were bearish as almost all the major indicators trended downward during the month.

The major agricultural activities in February 2005 centered on harvesting of tree crops and fruits; land clearing for 2005 wet season farming as well as tending irrigation-fed vegetable and cereal crops. Crude oil output increased by 5.4 per cent over the

preceding month's level. The rate of inflation for February 2005 on year-on-year basis was estimated at 10.6 per cent, compared with 9.8 per cent for the preceding month. However, the inflation rate for the twelve-month period ended February, 2005 was estimated at 12.9 per cent, compared with 14.0 per cent recorded in the preceding month.

Foreign exchange inflow and outflow through the Central Bank of Nigeria (CBN) in February, 2005, amounted to US\$2.91 billion and US\$1.23 billion, respectively, indicating a net inflow of US\$1.68 billion. At US\$1.26 billion, total foreign exchange outflow from the economy increased by 17.2 per cent over the preceding month's level.

The major international economic developments of relevance to the domestic economy during the month included the nomination and support for Nigerian's bid for the president of the ADB Group. The elections will be held during the Bank Group's Annual Meetings scheduled to take place in Abuja, Nigeria between May 18th and 19th, 2005. Also, the fourth meeting of the National Organizing Committee (NOC) on the 4th Edition of ECOWAS Trade Fair was held at the Federal Ministry of Commerce, Abuja on 23rd February, 2005 to review the outcome of the meetings of the various sub-committees under the NOC. Finally, Nigeria benefited from the Swiss Bank's determination to tackle money laundering during the month. As a result of the agreement signed between the Swiss and the Nigerian Government, the Swiss Supreme Court had decided during the month under review that \$458 million, being

part of about \$2.2 billion laundered in foreign banks by the late Head of State, be returned to Nigeria without going through the bureaucracy of confiscation order.

2.0 FINANCIAL SECTOR DEVELOPMENTS

Money supply declined in February 2005, while banks' deposit and lending rates indicated mixed developments during the month. Provisional data indicated that activities on the Nigerian stock Exchange (NSE) in February were bearish, while the value of money market assets rose during the month following increases in the value of Bankers Acceptances (BAs).

2.1 Monetary and Credit Developments

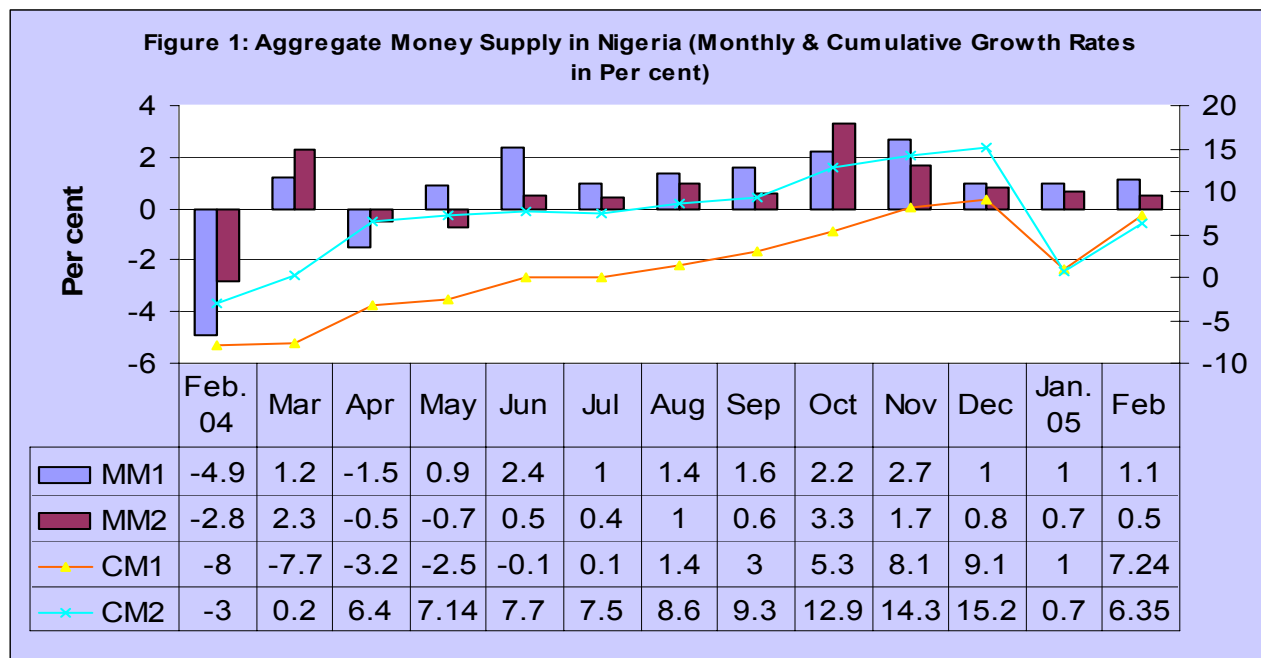
Available data indicated a decline in monetary aggregates in February 2005. Broad money supply (M_2) and narrow money (M_1) fell by ₦12.7 billion or 0.5 per cent and ₦16.2 billion or 1.1 per cent to ₦2,407.4 billion and ₦1,427.0 billion, respectively, in the review month. The development reflected the decline in credit to the domestic economy. This was,

however moderated by a slight increase in foreign assets (net) of the banking system (fig.1 and table 1).

Aggregate banking system's credit to the domestic economy fell by ₦17.7 billion or 0.9 per cent to ₦1,939.7 billion, compared with the decline of ₦62.8 billion or 3.1 per cent in the preceding month. The development during the month reflected largely the 12.91 per cent decline in the CBN's net claims on the Federal Government occasioned by the rise in government deposits with the Bank during the review month.

Banking system's credit (net) to the Federal Government declined by N11.6 billion 3.3 per cent to ₦338.7 billion, compared with the decline of ₦135.4 billion or 27.9 per cent in the preceding month. The fall was attributable to the significant decline in the CBN's net claims on the Federal Government. Claims on the Federal Government by deposit money banks' (DMBs), however, rose by ₦8.9 billion or 1.7 per cent to ₦517.7 billion during the same period.

Banking system's credit to the private sector also declined by ₦6.0 billion or 0.4

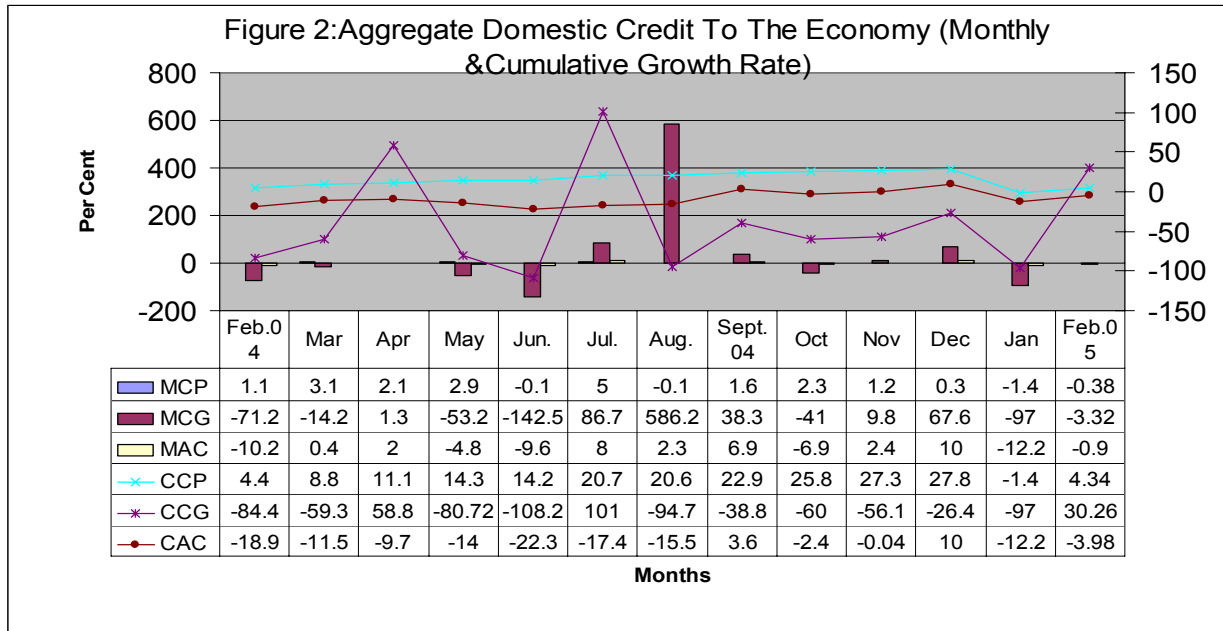


per cent to ₦1,601.0 billion, in contrast to the increase of ₦72.6 billion or 4.7 per cent in the preceding month. The fall reflected entirely the 0.4 per cent decline in the DMBs' claims on the sector, during the month (fig. 2).

attributable to the decline in unclassified assets of the deposit money banks.

2.2 Currency-in-circulation and Deposits at the CBN

At ₦504.8 billion, currency in



At ₦2,314.4 billion, foreign assets (net) of the banking system rose by ₦6.6 billion or 0.3 per cent, in contrast to the decline of ₦404.6 billion or 14.9 per cent in the preceding month. The rise during the review month was attributable to the 0.1 and 0.9 per cent increases in the CBN and DMBs' net holdings of foreign assets.

Quasi-money rose by ₦3.5 billion or 0.4 per cent to ₦980.3 billion, as against the increase of ₦43.9 billion or 4.7 per cent in the preceding month. The increase reflected the rise in savings deposit with the deposit money banks during the month.

Other Assets (net) of the banking system fell by ₦1.6 billion or 0.1 per cent in the review month, in contrast to the increase of ₦623.8 billion or 25.3 per cent in the preceding month. The fall was largely

circulation in February, 2005 fell by ₦18.3 billion or 3.5 per cent below the level recorded in the preceding month. The decline during the month was traceable to currency outside banks which decreased by ₦18.8 billion or 4.4 per cent. This was, however, moderated by the ₦0.45 billion or 0.5 increase in vault cash during the month.

Total deposits with the CBN amounted to ₦919.9 billion, indicating an increase of ₦21.5 billion or 2.4 per cent over the level in the preceding month. All categories of depositors contributed to the increase ranging from 0.9 per cent for private sector to 3.7 per cent for the Federal Government deposit. The shares of the three components in total deposits at the CBN, namely, Federal Government, bankers and 'others' were 59.9, 24.1 and 16.0 per cent, respectively, compared with 59.1, 24.7 and 16.2 per cent, in January, 2005.

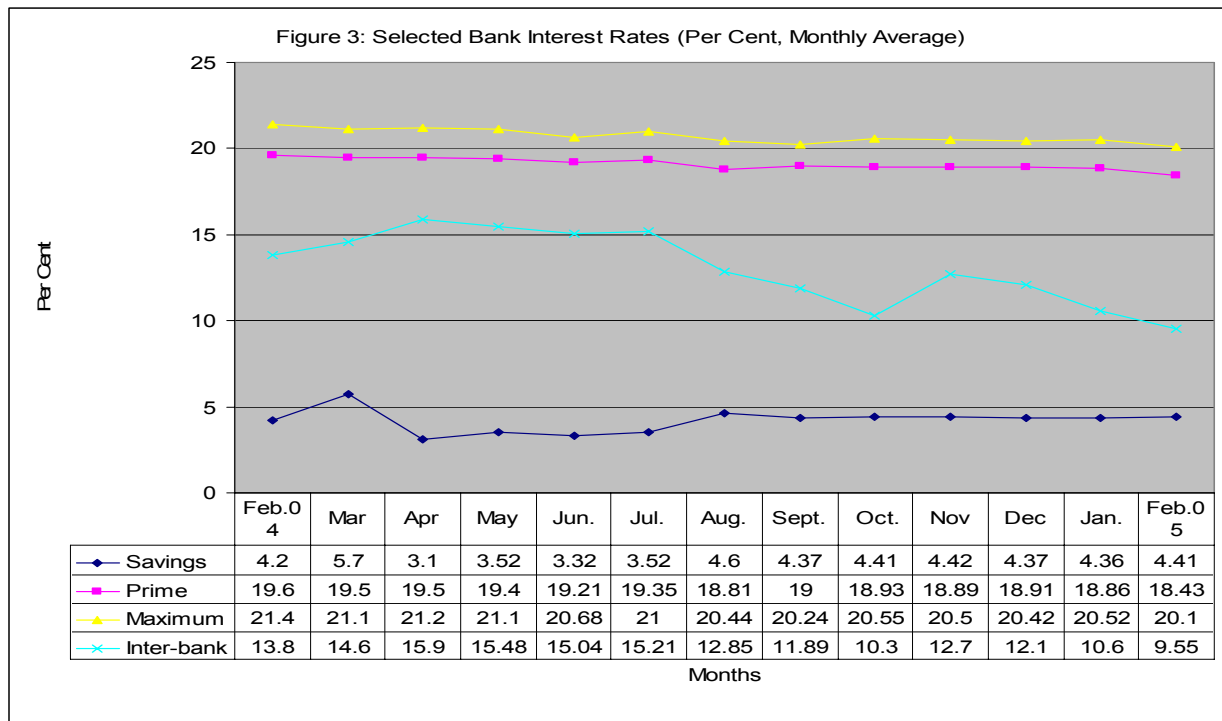
2.3 Interest Rate Developments

Provisional data indicated a general decline in banks' deposit and lending rates in February, 2005. With the exception of deposit rate of twelve-month maturity which rose by 0.13 percentage points to 12.7 per cent, all other rates on deposits of various maturities fell from a range of 6.77-12.61 per cent in January to 6.43-12.44 per cent in February 2005. Similarly, the average prime and maximum lending rates fell by 0.43 and 0.42 percentage points to 18.43 and 20.10

reflecting the liquidity ease in the inter-bank funds market. (Fig. 3).

2.4 Money Market Developments

Provisional data indicated that the value of money market instruments outstanding at end-February, 2005 declined by ₦8.7 billion or 0.9 per cent to ₦1,003.7 billion, in contrast to an increase of ₦1.6 billion or 0.2 per cent in the preceding month. The fall was attributable to the 6.0 and 8.8 per cent declines in Commercial Papers (CPs) and in Bankers Acceptances



per cent, respectively. The spread between the weighted average deposits and maximum lending rates, however, widened from 10.89 percentage points in January to 11.4 percentage points in February 2005. The margin between the average savings deposit and maximum lending rates stood at 15.74 percentage points in the review month.

The weighted average inter-bank call rate fell from 10.60 per cent in January 2005, to 9.55 per cent in February 2005,

(BAs), during the review month. Treasury Bills outstanding, however, remained unchanged at the preceding month's level of ₦871.6 billion.

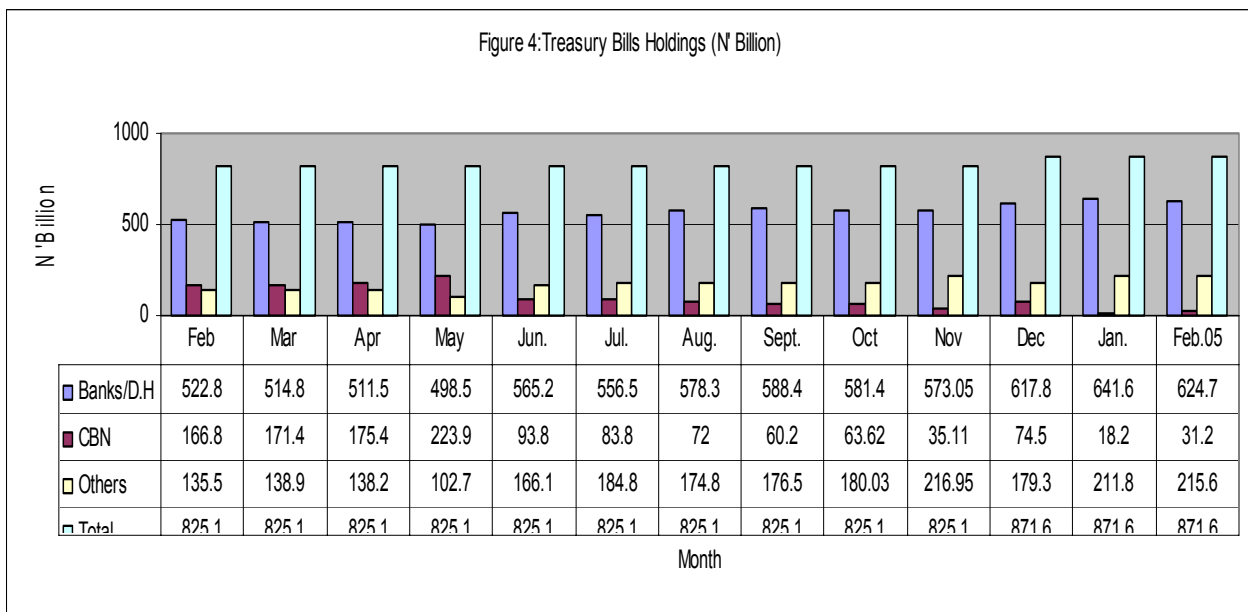
Treasury bills worth ₦240.0 billion were issued during the month to replace maturing bills of equivalent value in February 2005, same as in the preceding month. Analysis of subscription in the review month showed that deposit money banks (DMBs) and discount houses

continued their dominance of the market as they jointly accounted for ₦157.8 billion or 65.7 per cent of the total, while investment by the non-bank public amounted to ₦78.4 billion or 32.7 per cent of the total. Consequently, the CBN absorbed ₦3.9 billion or 1.6 per cent of the total issue.

Holdings of treasury bills outstanding by the DMBs and discount houses declined by 2.6 per cent to ₦624.7 billion and constituted 71.7 per cent of the total. Holdings by the non-bank public,

by 17.3 per cent from 1.2 billion shares in January 2005 to 1.0 billion shares, while the value rose by 11.0 per cent from ₦11.0 billion to ₦12.2 billion in February 2005. There were no dealings in the Federal and industrial loans/preference stocks during the period. The banking sub-sector, as in the preceding month remained the most active on the Exchange.

Following the on going banking industry reform which started in July 2004, 12 groups have so far emerged for likely



however, increased by 1.8 per cent to ₦215.60 billion. Consequently, CBN's holding rose by 71.4 per cent to ₦31.2 billion and constituted 3.6 per cent of total during the review month.

2.5 Capital Market Developments

Provisional data indicated that activities on the Nigerian Stock Exchange (NSE) in February 2005 were bearish. With the exception of value of traded securities which trended upward, all other major indicators trended downward during the month. The volume of traded securities fell

consolidation. The development has raised the tempo of activities at the primary segment of the capital market with eight (8) banks namely, Standard Trust Bank (STB), Guaranty Trust Bank (GTB), Oceanic Bank, Afribank, Zenith Bank, Intercontinental Bank, WEMA Bank and Access Bank raising funds from the capital market in order to meet the ₦25.0 billion capital base stipulated in the reform agenda. Similarly, eight (8) other banks viz., NAL, First Atlantic, EIB, ACB, Global, Chartered, First City Monument and Intercity Banks are at various stages of recapitalization via the capital market. So far, the capital market has demonstrated a strong capacity to

intermediate the huge investment flows through it since the banking industry's reform was introduced in July 2004.

Market capitalisation and value index fell by 5.7 and 7.0 per cent from N1.9 trillion and 23,722.89 recorded in the preceding month to close at N1.8 trillion and 22,067.26 (1984=100), respectively, in February 2005. The development was due to the cautious efforts by investors in restructuring their portfolio of assets in view of the new fiscal year as well as the delay in passing the Federal Government budget for fiscal 2005.

2.6 Deposit Money Banks' Activities

Total assets/liabilities of deposit money banks (DMBs) amounted to ₦4,036.5 billion in February 2005, indicating an increase of ₦96.3 billion or 2.4 per cent over the preceding month's level. Funds were sourced mainly from increases in time, savings and foreign currency deposits and accretion to capital and reserves. The funds were invested mainly in Central Government securities.

At ₦2,103.5 billion, aggregate credit to the domestic economy increased by ₦2.9 billion or 0.1 per cent over the preceding month's level. The development was largely due to the rise in net claims on Central Government.

Central Bank's credit to the DMBs fell by 1.9 per cent to ₦61.9 billion in February 2005, reflecting the decline in banks' overdrawn position with the CBN.

Total specified liquid assets of the DMBs stood at ₦1,177.4 billion,

representing 55.2 per cent of their aggregate deposit liabilities. At this level, the liquidity ratio was 2.1 percentage points higher than the preceding month's level and was 15.2 percentage points above the stipulated minimum of 40.0 per cent for fiscal 2005.

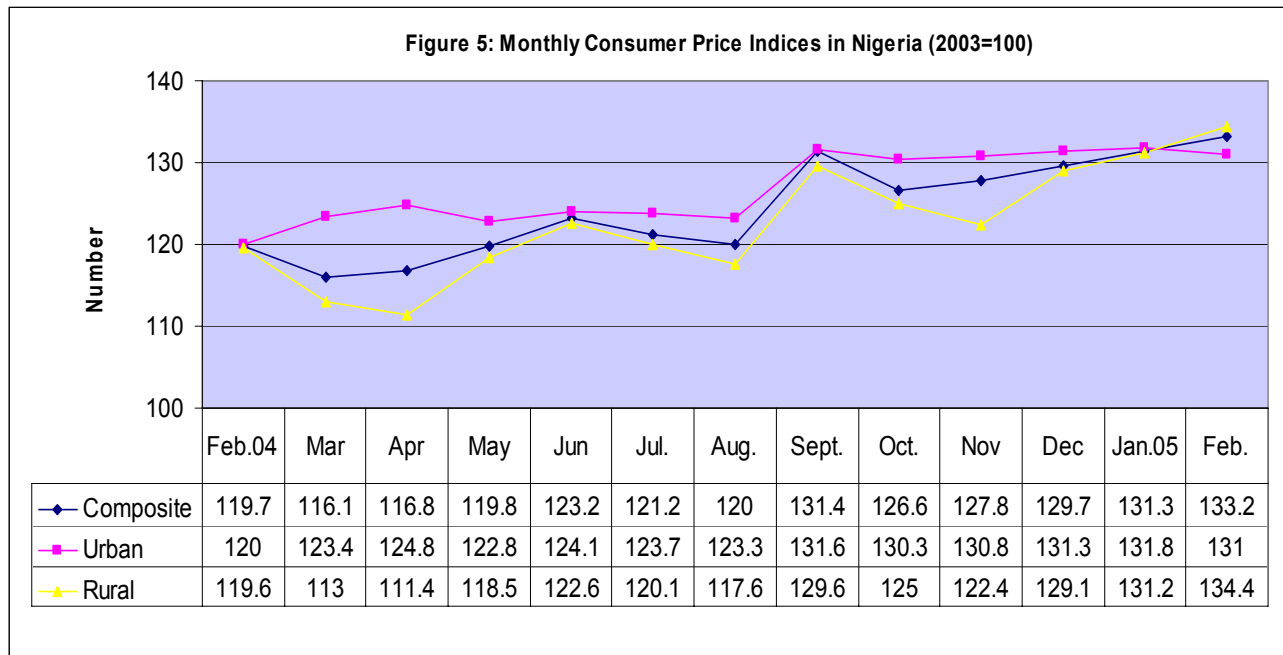
2.7 Discount Houses

Total assets/liabilities of the discount houses stood at ₦116.1 billion in February 2005, indicating a decline of ₦3.4 billion or 2.9 per cent from the level in the preceding month. Their investments in Federal Government securities of less than 91 days maturity amounted to ₦77.4 billion, representing 81.1 per cent of their total deposit liabilities. This level of investment was 12.0 percentage points below the level in the preceding month, but 21.1 percentage points over the prescribed minimum of 60.0 per cent for fiscal 2004.

Total borrowings by discount houses was ₦45.9 billion, while their capital and reserves amounted to ₦9.9 billion, resulting in a gearing ratio of 4.6:1, compared with the stipulated maximum target of 50:1 for the year.

3.0 DOMESTIC ECONOMIC CONDITIONS

The major agricultural activities in February 2005 were harvesting of tree crops and fruits; land clearing for 2005 wet season farming as well as tending irrigation-fed vegetable and cereal crops. Crude oil output increased by 5.4 per cent over the preceding month's level, while inflation rate at an estimated rate of 12.9 per cent fell by 1.1 percentage point below the level in the preceding month.



3.1 Agricultural Sector

Agricultural activities in the southern states were harvesting of tree crops, fruits and land clearing for 2005 wet season farming, while in the northern states tending irrigation-fed vegetable and cereal crops were predominant.

The prices of Nigeria's major agricultural commodities at the London Commodity Market declined during the month. The all-commodities price index, at 76.1 (1985=100), in dollar terms, fell by 8.9 and 18.9 per cent from the level in the preceding month and February 2004. In naira terms, the all-commodities price index, at 7063.42 (1985=100), fell by 8.1 and 20.3 per cent below the levels in the preceding month and the corresponding month of 2004.

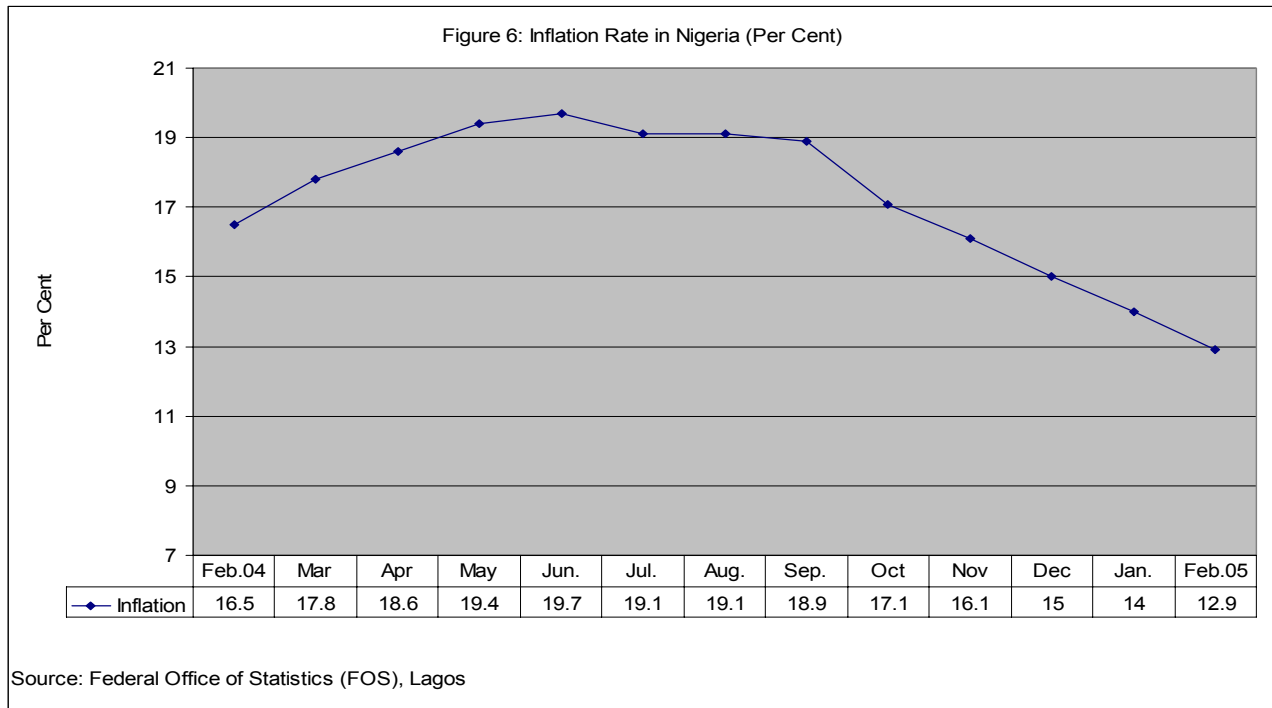
Of the six commodities monitored during the month, three commodities namely, palm oil, cotton and copra recorded price increases of 4.7, 6.6 and 10.7 per cent, respectively, while soya beans, cocoa and coffee recorded price declines of 0.1, 12.0

and 20.2 per cent, respectively, in the same period. In naira terms, three commodities recorded price increases ranging from 4.7 per cent for palm oil to 10.7 per cent for copra over the level in the preceding month, while three others recorded price declines ranging from 0.1 per cent for soya bean to 20.2 per cent for coffee.

3.2 Petroleum Sector

At an estimated 2.36 million barrels per day (mbd) in February, 2005 Nigeria's crude oil production increased by 5.4 per cent when compared with the level in the preceding month. Crude oil export averaged 1.91 mbd or 53.5 million barrels for the month, compared with 1.79 mbd or 55.49 million barrels in January 2005. Allocation of crude oil to refineries for domestic consumption stood at 0.45 mbd or 12.6 million barrels in February 2005.

In the spot market, the average price of Nigeria's reference crude, the Bonny Light (37° API), rose by 1.7 per cent to US\$45.69 per barrel in February, 2005. The rise in price was attributable to increased demand for crude oil occasioned by severe



winter in the Northern Hemisphere, depreciation of the dollar against other major currencies as well as a strong global demand especially by China.

3.3 Consumer Prices

Data from the Federal Office of Statistics (FOS) showed that the all-items composite Consumer Price Index (CPI) for February 2005 was estimated at 132.2 (May 2003=100), compared with 130.8 in the preceding month. This represented an increase of 1.4 per cent over the level in the preceding month. The development was attributable to the components of food; food and non-alcoholic beverages; housing, water electricity, gas and other fuel; communication; recreation and culture; restaurant and hotels; and other services whose indices rose by 1.0, 0.8, 0.8, 4.1, 3.0, 1.4 and 5.7 per cent, respectively. This was, however, moderated by the components of alcoholic beverages, tobacco & kola; clothing & footwear; furnishings, household equipment & household maintenance; health; transport and education whose indices declined by 6.9, 8.7, 2.2, 12.0, 2.1

and 18.5 per cent, respectively, during the month.

The urban all-items CPI for February 2005 was estimated at 131.0 (May 2003=100), indicating a decline of 3.6 percent below the level in the preceding month. The rural all-items CPI for was also estimated at 134.4 (May 2003=100), compared with the 128.7 in the previous month, representing an increase of 4.5 per cent over the level recorded in the preceding month.

Retail price survey of selected consumer items by the CBN in the economic regions of Bauchi, Enugu, Ibadan, Kano, Lagos and FCT Abuja showed an upward movement. The retail price index (RPI) indicated an increase of 1.51 per cent in the all-items average price of consumer items in February 2005, compared with the 0.8 per cent increase in the preceding month. The development during the review month was accounted for by some food and all non-food components. The indices of meat, fish and eggs; oil and fat; vegetable, fruits and nuts; beverages and drinks; clothing and fabrics; fuel and light; medical; and building

materials rose by 1.47, 1.65, 2.02, 2.10, 0.04, 3.62, 0.94 and 1.57 per cent, respectively. The upward movement in the RPI was, however, moderated by the decline of 0.57 per cent in the index of staples.

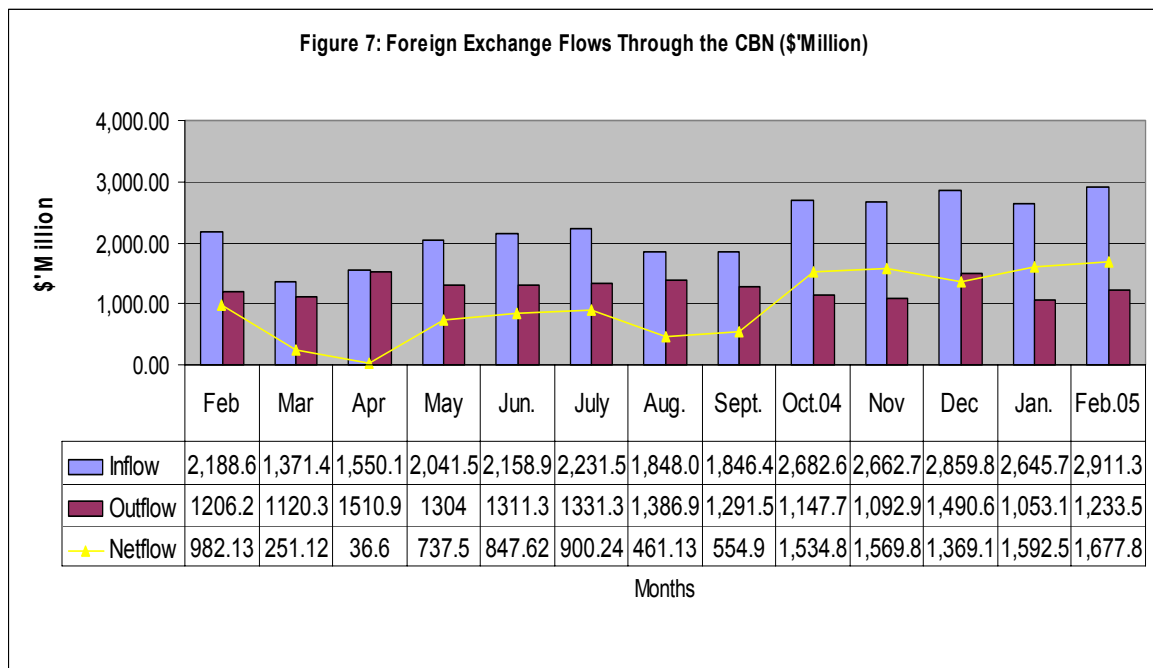
The rate of inflation for February 2005 on year-on-year basis was estimated at 10.6 per cent, compared with 9.8 per cent for the preceding month. However, the inflation rate for the twelve-month period ended February, 2005 was estimated at 12.9 per cent, compared with 14.0 per cent recorded in the preceding month. The trend toward single-digit inflation rate could be attributable to the lagged effect of tight monetary policy pursued in 2004 coupled with the relative stability in the prices of petroleum products in most parts of the country, as well as late passage of the 2005

4.0 EXTERNAL SECTOR DEVELOPMENTS

4.1 Foreign Exchange Flows

Foreign exchange inflow and outflow through the Central Bank of Nigeria (CBN) in February, 2005, amounted to US\$2.91 billion and US\$1.23 billion, respectively, representing a net inflow of US\$1.68 billion. Compared with the levels of US\$2.65 billion and US\$1.05 billion in the preceding month, both inflow and outflow rose by 9.8 and 17.1 per cent, respectively. The trend in inflow, during the month, was due to the improved earnings from both oil and non-oil sources, while that of outflow was traceable to the increase in DAS utilization and external debt service.

Provisional data on aggregate



Appropriation Bill that has somehow restrained expenditure.

foreign exchange flows through the economy indicated that total inflow increased by 5.4 per cent from the preceding month's level to US\$4.15 billion in February, 2005. Receipts from the oil sector, which accounted for 66.2 per cent of the total inflow, rose by 9.6 per cent to US\$2.74 billion during the month. Non-oil public

sector receipts also rose by 18.8 per cent to US\$0.17 billion in the review period. Receipts through autonomous sources declined marginally by 4.1 per cent from US\$1.29 billion to US\$1.23 billion.

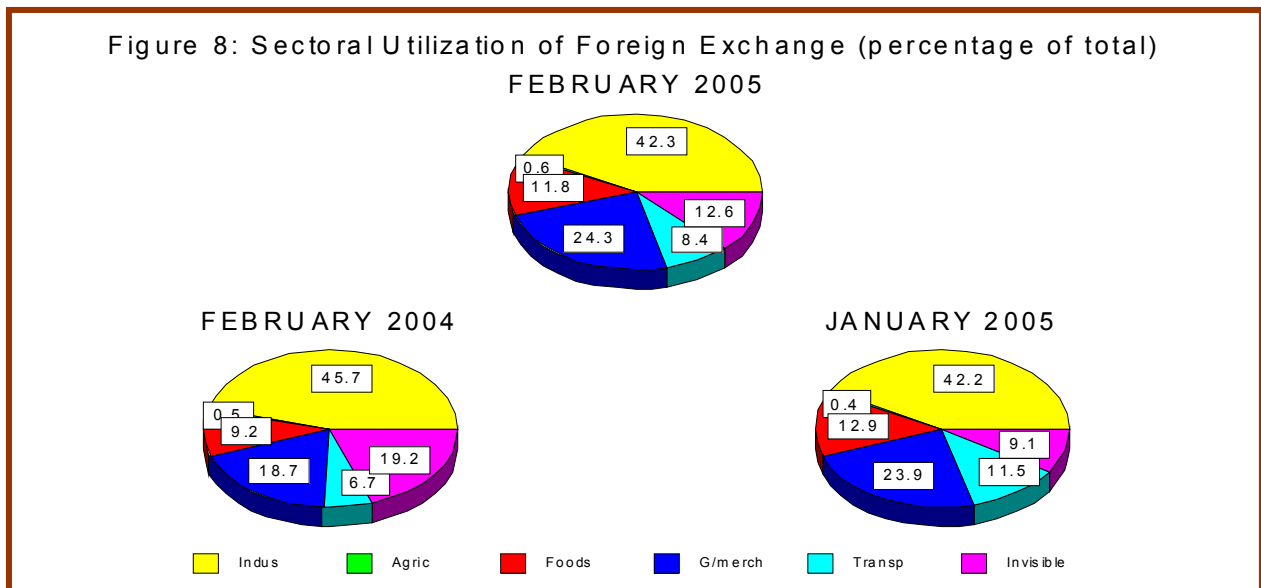
At US\$1.26 billion, total foreign exchange outflow from the economy increased by 17.2 per cent from the preceding month's level. The development was attributable largely to the increases in out payments through the CBN, particularly, the funding of the Dutch Auction System (DAS), debt service payments, and outflows through autonomous sources which increased from US\$674.33, US\$6.74 and US\$21.28 to US\$881.30, US\$33.62 and US\$26.12 million, respectively, in February 2005. On the other hand, drawings on L/Cs and "Other official payments" declined from US\$35.70 million and US\$336.42 million in January 2005, to US\$3.90 million and US\$314.67 million, respectively, in February 2005. Cumulative inflow and outflow through the economy at end-February 2005, stood at US\$8.08 and US\$2.33 billion, respectively, compared with US\$4.93 and US\$2.47 billion in the

4.2 Sectoral Utilisation of Foreign Exchange

The industrial sector accounted for the bulk (42.3 per cent) of total foreign exchange disbursed in February 2005, followed by general merchandise (24.3 per cent). Other beneficiary sectors, in a descending order of importance, included: invisibles (12.6 per cent), food (11.8 per cent), transport (8.4 per cent) and agricultural products (0.6 per cent), (Fig.8).

4.3 Foreign Exchange Market Developments

The demand in the foreign exchange market increased in February, 2005 as the total foreign exchange sold to end-users by CBN through the authorized dealers rose by 30.7 per cent to US\$881.3 million over the level in the preceding month. The increase was partly due to the renewed tempo of economic activities in the review period. Under the DAS, the weighted average exchange rate of the Naira vis-à-vis the US dollar appreciated marginally by 0.01 per



corresponding period of 2004.

cent from ₦132.90 per dollar in the preceding month to ₦132.89 in February

2005. Similarly, in the bureaux de change segment of the market, the naira traded at an average rate of ₦139.66 to a dollar, compared with ₦139.69 to a dollar in the preceding month. Consequently, the premium between the official and bureaux de change rates remained unchanged at the preceding month's level of 5.13 per cent.

4.4 External Reserves

Provisional data showed that Nigeria's gross external reserves at end-February, 2005 amounted to US\$20.96 billion, indicating an increase of 7.0 per cent over the adjusted gross external reserves of US\$19.59 billion in January, 2005. At the current level of foreign exchange commitments, the reserves could finance about 16.6 months of current foreign exchange disbursement.

5.0 OTHER INTERNATIONAL ECONOMIC DEVELOPMENTS

The major international economic developments of relevance to the domestic economy during the month included the approval in Tunis of Nigeria's candidate for the presidency of the ADB Group. The elections will be held during the Bank Group's Annual Meetings scheduled to take place in Abuja, Nigeria on May 18th and 19th, 2005. The President of the Bank Group is elected by the Board of Governors for a 5 year term and is renewable once.

In another development, the Federal Ministry of Commerce held the fourth meeting of the National Organizing Committee (NOC) for the 4th edition of the Economic Community of West African States (ECOWAS) Trade Fair on 23rd February, 2005. It reviewed the outcome of the meetings of the various sub-committees under the NOC. The Central Bank of Nigeria was represented at the meeting

along with other representatives of Federal Ministries and Parastatals.

Furthermore, following the significant strengthening of its banking laws which required banks to share information about the origin of large deposits and the decision of the Swiss Supreme Court on 15 February, 2005 on the issue, Switzerland would be the first to return to Nigeria part of the money laundered from the country during the regime of the late Head of State. As a result of the agreement signed between the Swiss and the Nigerian Government, the Swiss Supreme Court had decided that \$458 million, part of about \$2.2 billion laundered in foreign banks by the late head of state, be returned to Nigeria without going through the bureaucracy of confiscation order.