

CENTRAL BANK OF NIGERIA



MONTHLY REPORT

JULY 2006

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 JULY 2006

1.0 SUMMARY

Available data indicated that both broad money stock (M_2) and narrow money supply (M_1) rose by 2.9 and 3.2 per cent, respectively, in July 2006, over the levels in the preceding month. The development was attributable to an increase in foreign and other assets (net) of the banking system. Over the level at end-December 2005, M_2 grew by 38.0 per cent, representing an annualized growth rate of 65.1 per cent, compared with the revised target of 27.8 per cent for fiscal 2006.

Banks' deposit rates generally declined in July, 2006, while lending rates increased. The margin between banks' weighted average deposit and maximum lending rates, widened from 11.49 percentage points in June, 2006 to 11.72 percentage points in July, 2006. Similarly, the spread between the average savings deposit and maximum lending rates widened from 15.65 to 15.76 percentage points. The weighted average inter-bank call rate, which stood at 8.16 per cent in June, 2006 fell sharply to 3.77 per cent reflecting the liquidity surfeit in the inter-bank market during the review period.

The value of money market assets outstanding fell by 0.03 per cent to ₦1,827.6 billion, compared with the decline of 7.1 per cent in the preceding month. Activities on the Nigerian Stock Exchange indicated improved performance as all the major market indicators trended upward during the review month.

The predominant agricultural activities in the review month included: weeding; cultivation of various crops; and harvesting of root crops and vegetables. The prices of most Nigerian major agricultural commodities at the London Commodities Market recorded increases. All the six

commodities monitored recorded price increases.

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.16 million barrels per day (mbd) in July, 2006, compared with 2.30 mbd in the preceding month. Crude oil export was estimated at 1.71 mbd for the month, while deliveries to the refineries for domestic consumption remained at 0.45 mbd. The average price of Nigeria's reference crude, the Bonny Light (37⁰ API) estimated at US\$75.13 per barrel, rose by 8.4 per cent over the level in June 2006.

The inflation rate on a year-on-year basis declined to 3.0 per cent in July, 2006, from 8.5 per cent recorded in the preceding month. Inflation rate on a twelve-month moving average was 13.5 per cent, compared with 15.5 per cent in June, 2006. The fall was attributable largely to the increased harvest of agricultural produce as well as sound macroeconomic policies which had dampening effect on food prices.

Foreign exchange inflow and outflow through the Central Bank of Nigeria (CBN) in July, 2006, amounted to US\$3.25 billion and US\$1.16 billion, respectively, resulting in a net inflow of US\$2.09 billion. The rise in inflow was attributable to the increase in both oil and non-oil sector receipts, while the decline in outflow was traceable to the decline in DAS Utilisation. The demand pressure in the foreign exchange market moderated in July, 2006, as foreign exchange sales by the CBN to the authorized dealers declined by 43.8 per cent from the preceding month's level. The weighted average exchange rate of the Naira vis-à-vis the US dollar, appreciated by 0.1 per cent to ₦127.11 per dollar in July, 2006. In the bureaux de change segment of the market, the rate appreciated from ₦136.82 per dollar

to ₦130.12 per dollar. Provisional data showed that Nigeria's gross external reserves increased by 4.4 per cent to US\$38.07 billion in July, 2006. Non-oil export earnings by Nigeria's top 100 exporters in July, 2006 amounted to US\$52.0 million, indicating a decline of 31.6 per cent from the level in the preceding month.

The development was attributable largely to the variation in the prices of some of the commodities traded at the international commodities market during the review month.

2.0 FINANCIAL SECTOR DEVELOPMENTS

Money supply increased further in July, 2006. Banks' deposit rates declined while, the lending rates increased. The value of money market assets outstanding fell following the lower amount of Federal Government bonds issued during the month. Transactions on the Nigerian Stock Exchange indicated improved performance as all the major market indicators trended upward during the review month.

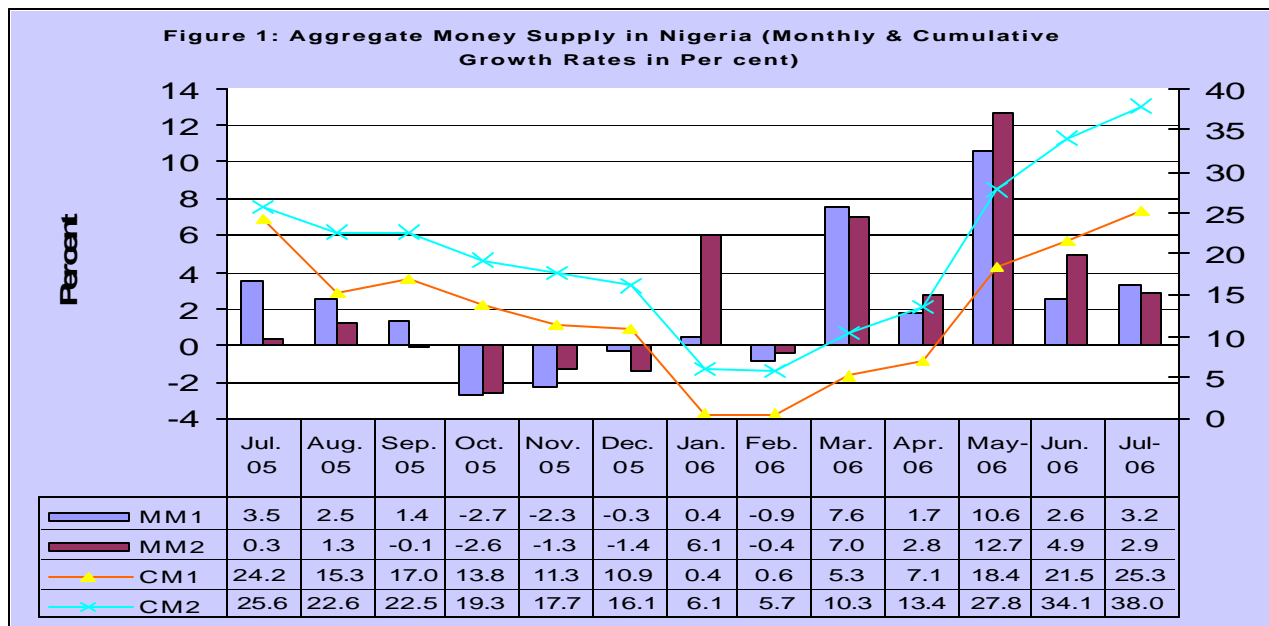
2.1 Monetary and Credit Developments

Available data indicated further increase

in foreign assets (net) and other assets (net) of the banking system. Over the level at end-December 2005, M_2 , rose by 38.0 per cent, indicating an annualized growth rate of 65.1 per cent, compared with the revised target of 27.8 per cent for fiscal 2006 (fig.1 and table 1).

Aggregate banking system credit (net) to the domestic economy fell by 12.9 per cent to ₦2,351.5 billion, in contrast to the increase of 14.4 per cent in June 2006. The fall was traceable entirely to the decline in bank credit to the Federal Government. In the first seven months of the year, however, aggregate banking system credit (net) to the economy grew by 1.6 per cent.

Banking system's credit (net) to the private sector rose by 3.5 per cent to

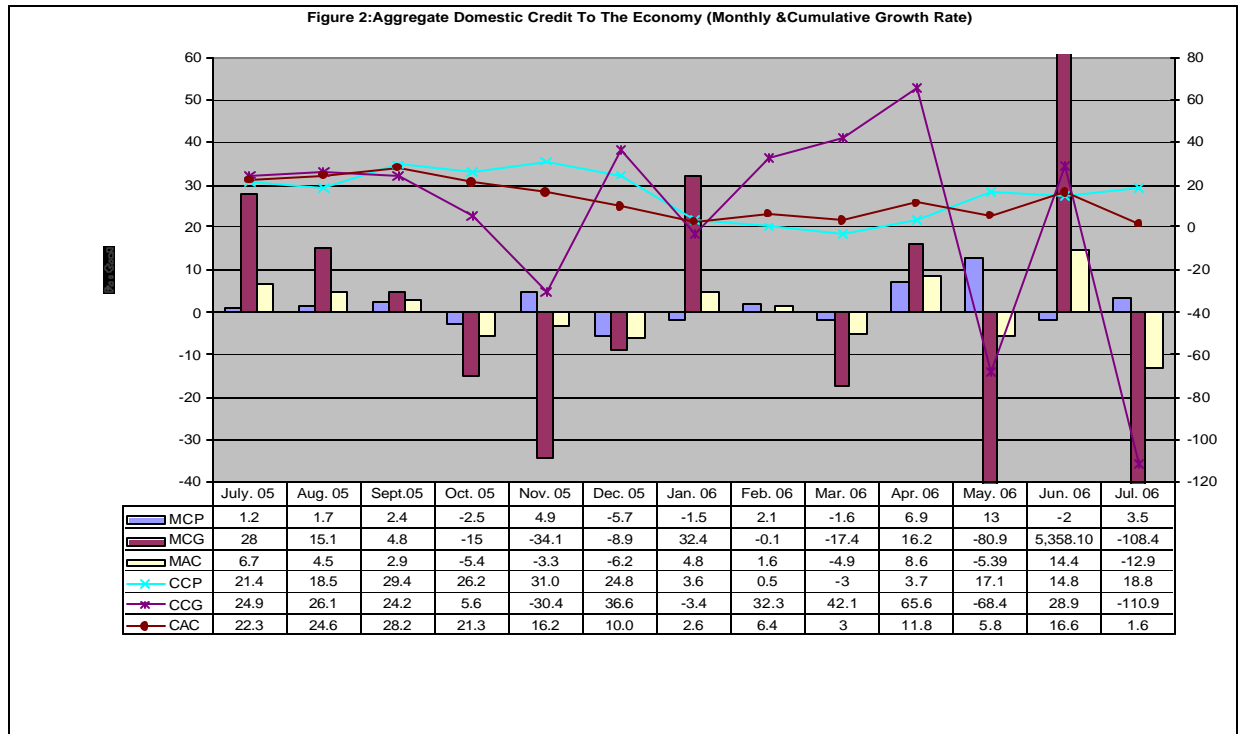


in monetary aggregates in July 2006, compared with the level in June 2006. Broad money supply (M_2) and narrow money (M_1) rose by 2.9 per cent and 3.2 per cent to ₦3,623.6 billion and ₦1,925.9 billion, respectively, compared with the increase of 4.9 and 2.6 per cent in the preceding month. The development was attributable to the rise

₦2,384.8 billion, in contrast to the decline of 2.0 per cent in the preceding month. Over the level at end-December 2005, aggregate bank credit to the private sector rose by 18.8 per cent, compared with the 21.4 per cent growth recorded in the corresponding period of 2005 (Fig. 2).

Banking system's credit (net) to the Federal Government in July, 2006, fell significantly by 108.4 per cent to ₦33.3 billion, in contrast to the increase recorded in the preceding month. The fall reflected mainly the substantial increase in Federal Government deposits with the CBN during the period. Over the level at end-December

Similarly, other assets (net) of the banking system rose by 6.3 per cent, in July, 2006, in contrast to the decline of 7.1 per cent in the preceding month. The rise reflected the increase in unclassified assets of the DMBs. It, however, showed a decline of 17.1 per cent over the level at end-December 2005.



2005, aggregate bank credit to the Federal Government fell by 110.9 per cent.

At ₦5,719.1 billion, foreign assets (net) of the banking system rose by 2.7 per cent, compared with the increase of 2.6 per cent in June, 2006. The development was attributable largely to the 3.0 per cent increase in the CBN's holdings.

Quasi money rose by 2.6 per cent to ₦1,697.6 billion, compared with the increase of 7.7 per cent in the preceding month. The development was attributable to the rise in all the components namely, time, savings and foreign currency deposits of the DMBs during the month.

2.2 Currency-in-circulation and Deposits at the CBN

At ₦604.6 billion, currency in circulation fell by ₦6.5 billion or 1.1 per cent in July, 2006, from the level in the preceding month. The fall was traceable to the decline of 0.2 per cent and 8.5 per cent in currency outside banks and vault cash, respectively. Total deposits at the CBN amounted to ₦1,433.0 billion, indicating an increase of 39.6 per cent over the level in the preceding month. This was attributable to the 56.7 per cent increase in Federal Government deposits. The shares of the

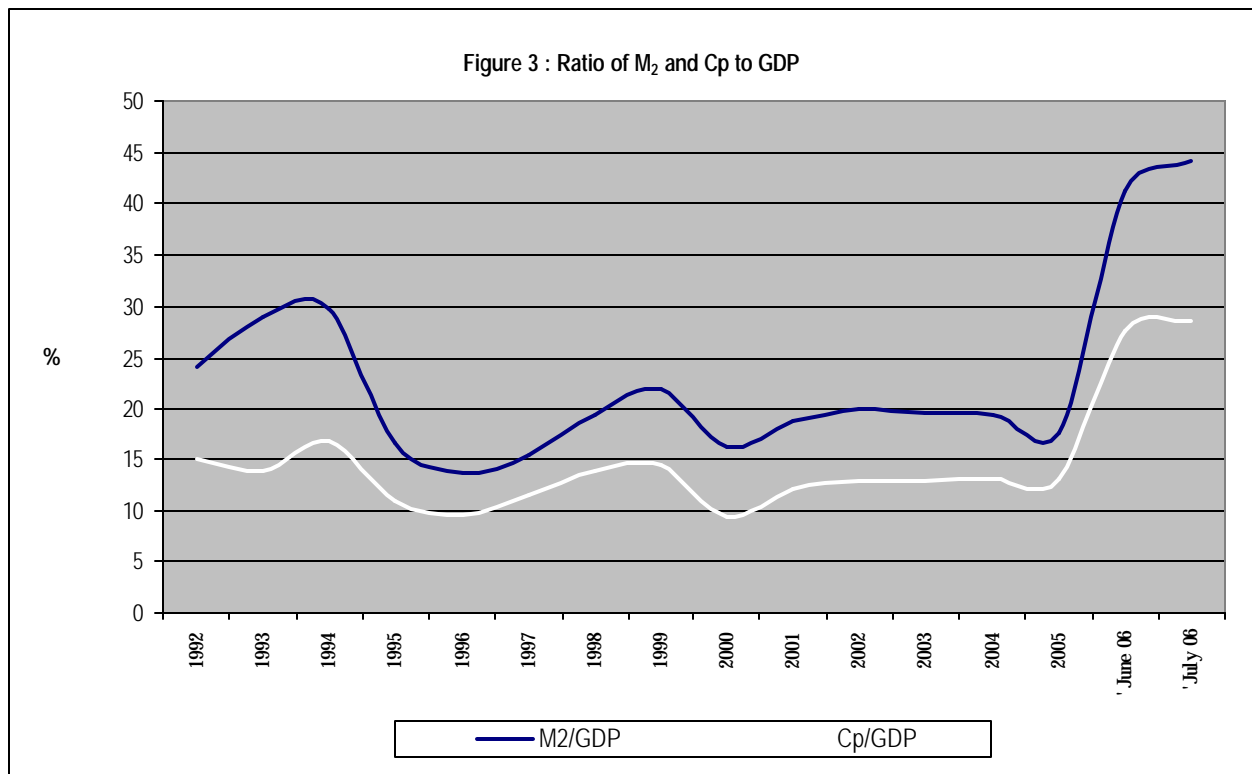
Federal Government, banks and “others” in total deposits at the CBN were 84.2, 13.4, and 2.4 per cent, respectively, compared with 75.1, 19.2 and 5.7 per cent, in the preceding month.

2.3 Financial Development

Provisional data indicated that the depth of the financial sector, measured by the ratio of M_2 to GDP increased to 44.4 per cent at end-July 2006 from 18.0 per cent at the end of December 2005. Thus, the banking system showed a greater capacity to provide

2.4 Interest Rate Developments

Available data indicated a general decline in banks’ deposit rates in July, 2006, while, the lending rates increased. The average savings deposit rate declined by 0.02 percentage point to 2.94 per cent, while other rates on deposits of various maturities excluding over 12-month deposit rate declined from a range of 4.96–9.95 per cent in June, 2006 to 4.40–9.84 per cent in the review month. The weighted average prime and maximum lending rates, however, rose by 0.09 percentage point each to 17.17 and

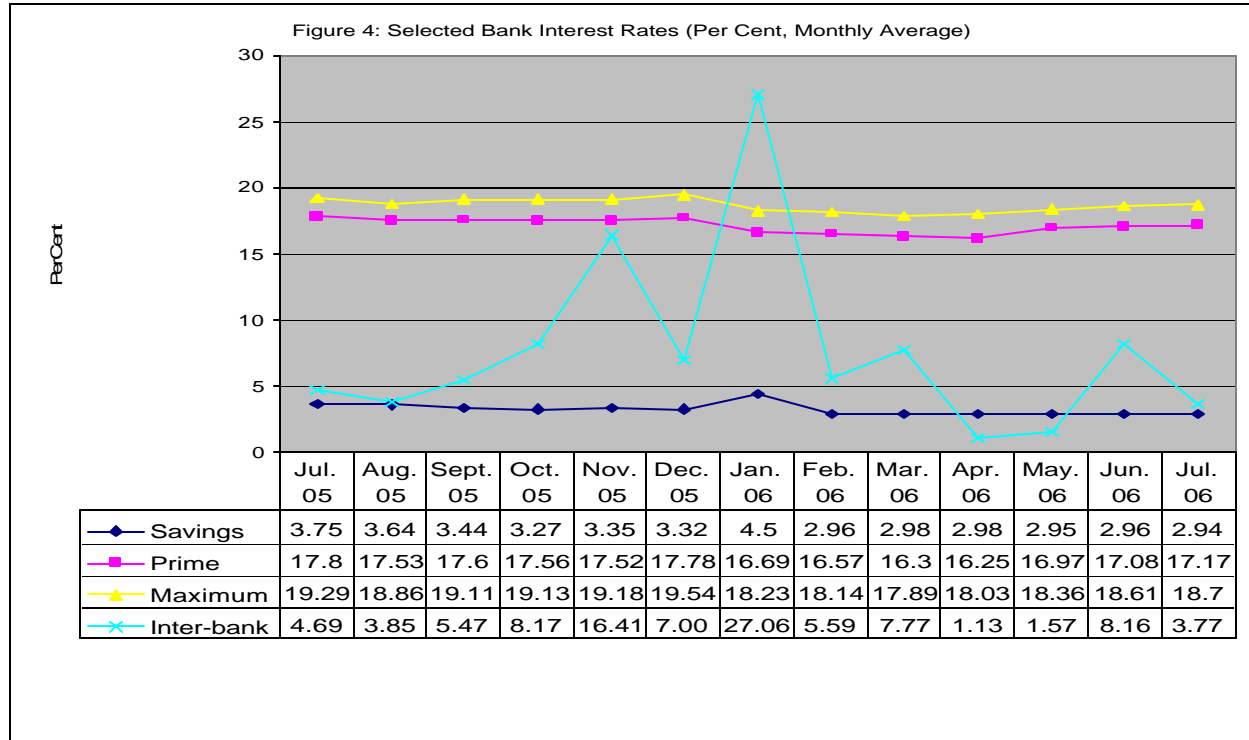


liquidity for the exchange of goods and services during the review period than in the pre-consolidation period. Similarly, bank financing of the economy, measured by the ratio of private sector credit by banking system to GDP increased to 28.6 per cent during the period from an average of 12.2 per cent between 2000 and 2005 (fig. 3).

18.70 per cent, respectively. Consequently, the spread between the weighted average deposit and maximum lending rates widened from 11.49 to 11.72 percentage points in July, 2006. Similarly, the margin between the average savings deposit and maximum lending rates increased from 15.65 percentage points in the preceding month to 15.76 percentage points.

The weighted average inter-bank call rate, which stood at 8.16 per cent in June, 2006 fell sharply to 3.77 per cent reflecting the liquidity surfeit in the inter-bank market during the review period.

end-July, 2006 fell by 0.03 per cent to ₦1,827.6 billion, compared with the decline of 7.1 per cent in the preceding month. The decline was traceable largely to the 7.8 per cent decline in FGN Bonds as the Bonds



2.5 Money Market Developments

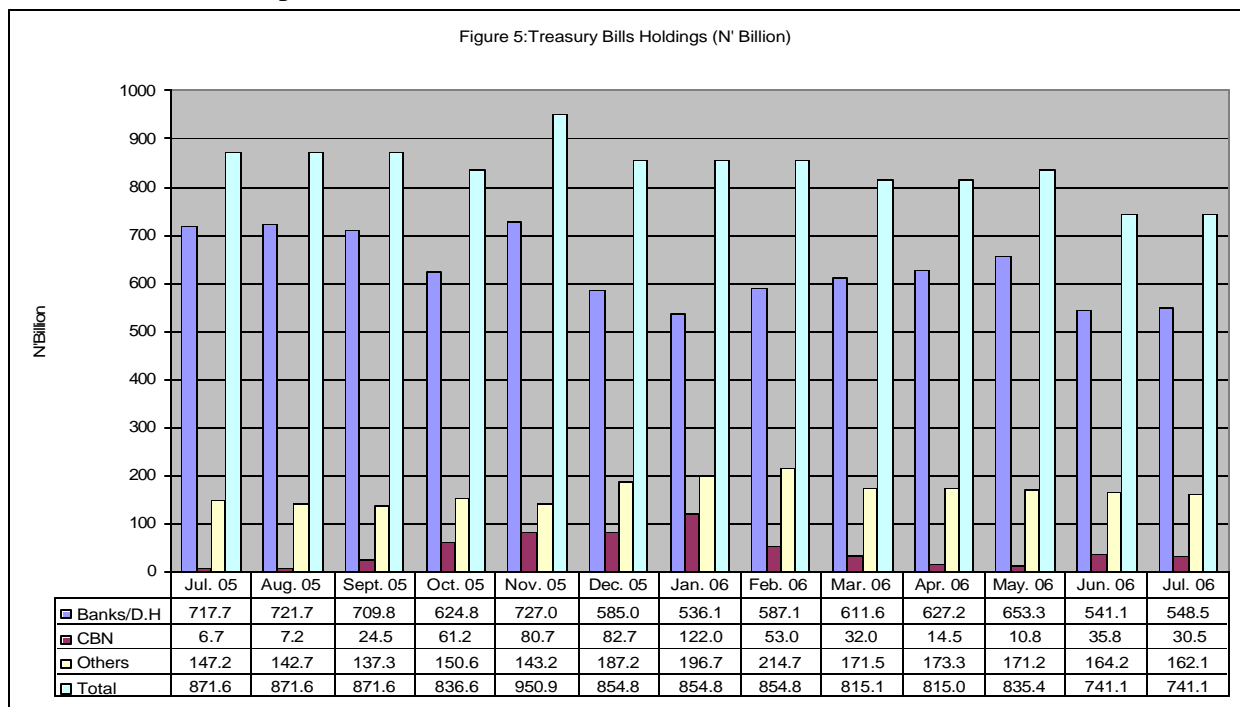
Available data indicated that the value of money market assets outstanding at

worth ₦20.0 billion was issued, compared with ₦21.7 billion issued in the preceding month. Treasury bills outstanding, however, remained unchanged at the preceding month's level of ₦741.1 billion.

Treasury bills worth ₦135.9 billion were offered in July 2006, compared with ₦157.0 billion in the preceding month. Subscriptions and allotment stood at ₦135.9 billion and ₦85.9 billion, compared with ₦157.0 billion and ₦113.6 billion, respectively, in the preceding month. Analysis of allotment showed that investment by the non-bank public stood at ₦31.3 billion, representing 36.4 per cent of the total, while the deposit money banks (DMBs) and discount houses jointly accounted for 60.0 per cent of the total

2.6 Capital Market Developments

Activities on the Nigerian Stock Exchange (NSE) indicated improved performance, as all the major market indicators trended upward in July, 2006. The volume and value of traded securities rose by 47.8 and 27.6 per cent to 3.4 billion shares and ₦39.8 billion, respectively. The banking sub-sector as in the preceding month remained the most active on the Exchange as it accounted for 73.6 per cent of the month's total volume of transactions.



amount issued during the month. The balance of 3.6 per cent was absorbed by the CBN.

Holdings of treasury bills outstanding showed that the DMBs and discount houses' share rose by 1.4 per cent to ₦548.5 billion. Holdings by the non-bank public, however, fell by 1.3 per cent to ₦162.1 billion. Similarly, the CBN's holding fell by 14.8 per cent to ₦30.5 billion.

There were no transactions in industrial loans/preference stocks sub-sector.

In the new issues market, the 3rd FGN Bond 2013, series 10 worth ₦21.69 billion with seven year tenor was admitted on the Exchange. Also, a total of seven supplementary listings worth ₦20.5 billion, involving six bonus issue and one merger arrangement were listed on the Exchange, while the ₦4.0 billion First Ekiti state Floating Rate Redeemable Bond was delisted, following its full redemption.

Market capitalization and value index increased by 6.5 and 6.6 per cent to ₦3.7 trillion and 27,880.50 (1984=100), respectively. The development was attributable largely to price gains recorded by highly capitalized stocks as well as the new listings made on the Exchange, particularly the 3rd FGN bond.

2.7 Deposit Money Banks' Activities

Available data indicated that total assets/liabilities of deposit money banks (DMBs) stood at ₦6,355.0 billion, in July 2006 and represented a rise of 5.7 per cent over the level in the preceding month. Funds, which were sourced mainly from unclassified liabilities, were utilized largely for increased investment in Federal Government securities, especially the treasury bills as well as extension of credit to the private sector.

Aggregate credit to the domestic economy by the DMBs amounted to ₦3,345.6 billion, representing an increase of 2.4 per cent over the level in the preceding month. The rise was traceable to the increase in claims on both the Federal Government and private sector during the period.

The Central Bank's credit to the DMBs amounted to ₦10.3 billion, representing a decline of 21.1 per cent from the level in June 2006. The development reflected the decline in banks overdrawn position with the CBN during the period.

Total specified liquid assets of the DMBs stood at ₦2,356.8 billion, or 70.6 per cent of their total current liabilities. This level of liquid assets was 30.6 percentage points above the stipulated minimum ratio of 40.0 per cent for fiscal 2006, while the loans-to-deposit ratio, at 64.6 per cent, was 15.4 percentage points below the maximum target of 80.0 per cent.

2.8 Discount Houses

Total assets/liabilities of the discount houses stood at ₦283.4 billion in July 2006, representing an increase of 69.3 per cent over the level in the preceding month. The rise in assets was attributable largely to the 86.8 per cent increase in "claims on Federal Government", while the rise in liabilities was attributable largely to the 99.6 and 65.8 per cent increase in "money-at-call" and "other amount owing", respectively, during the period. Discount houses' investments in Federal Government securities of less than 91 days maturity stood at ₦141.8 billion, representing 54.9 per cent of their total deposit liabilities. This level of investment was 77.7 per cent above the level in the preceding month but was 5.1 percentage points below the prescribed minimum of 60.0 per cent for fiscal 2006.

Total borrowing by discount houses was ₦115.2 billion, while their capital and reserves amounted to ₦15.0 billion, resulting in a gearing ratio of 7.7:1, compared with the prescribed maximum target of 50:1 for the year.

3.0 DOMESTIC ECONOMIC CONDITIONS

The predominant agricultural activities in July, 2006 were weeding; cultivation of various crops; and harvesting of root crops and vegetables. Crude oil production was estimated at 2.16 million barrels per day (mbd) or 66.96 million barrels for the month. The inflation rate for July, 2006, on a year-on-year basis, stood at 3.0 per cent, compared with 8.5 per cent recorded in the preceding month.

3.1 Agricultural Sector

The major agricultural activities during the month of July, 2006 centered on weeding; cultivation of various crops; and harvesting of root crops and vegetables. In the Southern States, farmers were engaged in weeding, harvesting of yams and other root crops, as well as maize cultivation, while in the Northern States, farming activities consisted mainly of the cultivation of various crops and continued harvest of vegetables.

The sum of ₦177.4 million was granted to 2,323 farmers under the Agricultural Credit Guarantee Scheme (ACGS) during the review month, representing a decline of 4.9 and 38.0 per cent from the levels in the preceding month and the corresponding period of 2005, respectively. A sub-sectoral analysis of the loans guaranteed showed that food crops sub-sector received the largest share of ₦135.1 million or 76.2 per cent granted to 1,833 farmers. The livestock sub-sector got ₦29.6 million or 16.7 per cent granted to 429 farmers, while fisheries sub-sector received ₦12.5 million or 7.0 per cent granted to 60 beneficiaries. The cash crops sub-sector received the balance of ₦0.15 million or 0.1 per cent granted to a beneficiary. Further analysis by states showed that eight states benefited from the scheme, with the highest guaranteed sum of ₦42.8 million (24.2 per cent) to 943 farmers in Benue State, and the lowest sum of ₦6.0

million (3.4 per cent) to 36 farmers in Rivers State.

The prices of Nigeria's major agricultural commodities at the London Commodities Market recorded increases during the review month. At 112.6 (1985=100), the all-commodities price index, in dollar terms, rose by 4.9 and 32.1 per cent over their levels in the preceding month and the corresponding period of 2005, respectively. Further analysis showed that all the six commodities monitored namely, cotton, soya bean, copra, cocoa, coffee, and palm oil, in dollar terms, recorded price increases of 0.1, 2.1, 4.1, 4.4, 7.3 and 8.8 per cent, respectively, compared with their levels in the preceding month.

In naira terms, at 9,842.98 (1985=100), the all commodities price index, rose by 5.0 and 25.1 per cent over the levels in the preceding month and the corresponding period of 2005, respectively.

3.2 Petroleum Sector

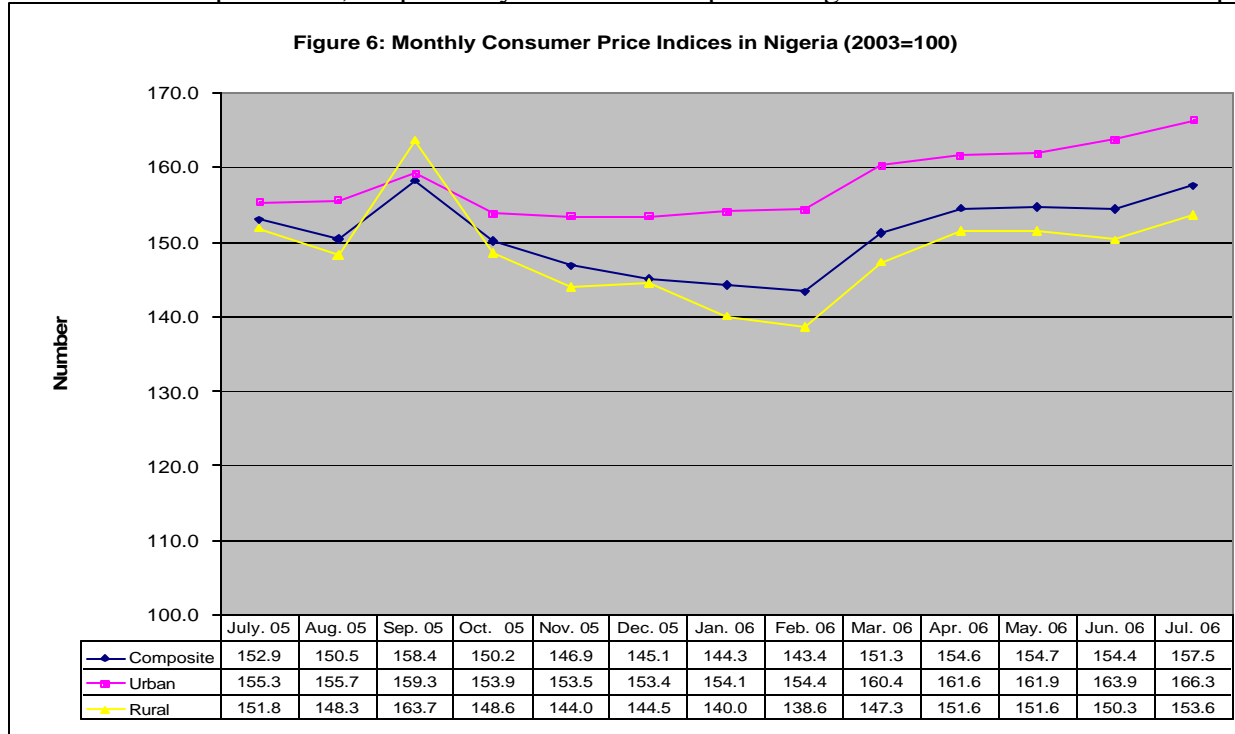
Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.16 million barrels per day (mbd) or 66.96 million barrels in July, 2006, compared with 2.3 mbd or 69.0 million barrels in the preceding month. Crude oil export was estimated at 1.71 mbd or 53.01 million barrels for the month, compared with 1.85 mbd or 55.5 million barrels in June, 2006. Deliveries to refineries for domestic consumption remained at 0.45 mbd or 13.95 million barrels for the month.

At an estimated average price of US\$75.13 per barrel, the price of Nigeria's reference crude, the Bonny Light (37° API) rose by 8.4 per cent over the level in the preceding month. Similarly, the prices of other competing crudes namely, the West Texas Intermediate, U.K Brent, Arab Light, and the Forcados, rose by 4.8, 8.1, 4.7 and 7.0 per cent to US\$74.24, US\$73.55, US\$68.18 and US\$74.36 per barrel, respectively. The

per cent from 82.70 mbd in the preceding month.

3.3 Consumer Prices

Data from the National Bureau of Statistics (NBS) showed that all-items composite Consumer Price Index (CPI) for July, 2006 stood at 157.5 (May 2003=100), representing an increase of 2.0 and 3.0 per



increase in price was attributable to the fear of supply disruptions in Iran, Iraq, Nigeria, as well as the escalation of hostilities in the Middle East in the last two weeks of the month. Also, the fall in United States of America crude inventories in the face of summer aided an upward pressure on crude prices in the review period.

On the global scene, world crude oil output was estimated at 84.64 million barrels per day (mbd) in July, 2006, indicating an increase of 1.3 per cent over the preceding month's level. Similarly, estimated demand, at 82.90 mbd, rose by 0.2

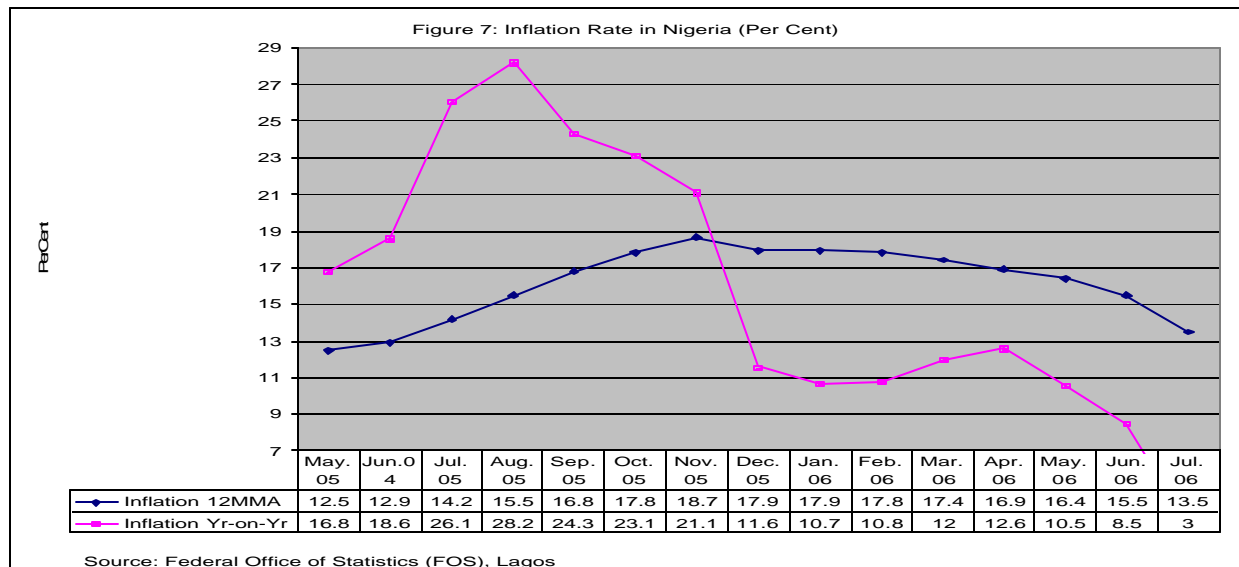
per cent over the 154.4 and 152.9 recorded in the preceding month and corresponding period of 2005, respectively. The development was attributable to the increase in the following components: Restaurant & Hotels; Recreation and culture; clothing and foot wear; Alcoholic beverages, tobacco & kola; Communication; Food; and Food and Non Alcoholic Beverages whose indices increased by 12.9, 8.8, 6.3, 5.0, 2.3, 2.2, and 1.8 per cent, respectively. This was, however, moderated by the components of health; miscellaneous goods & services; housing, water, electricity, gas & other fuel; furnishings, housing equipment &

household maintenance; transport; and education whose indices declined by 5.9, 3.7, 2.3, 1.7, 1.1 and 0.6 per cent, respectively.

The urban all-items CPI for July, 2006 stood at 166.3 (May 2003=100), indicating an increase of 1.5 and 7.1 per cent

3.4 Small and Medium Enterprises Equity Investment Scheme

A cumulative sum of ₦40.74 billion was set aside by the 25 banks under the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) at end-July 2006. Of this



over the levels in the preceding month and corresponding period of 2005, respectively. Also, the rural all-items CPI for July 2006, which stood at 153.6 (2003=100), indicated an increase of 2.2 and 1.2 percent over the levels in the preceding month and the corresponding month of 2005, respectively.

The rate of inflation for July, 2006, on a year-on-year basis stood at 3.0 per cent, compared with 8.5 per cent in the preceding month. The fall was attributable largely to the increased harvest of agricultural produce such as yam, cocoyam, maize, fruits and other vegetables. This factor coupled with the sound macroeconomic policies adopted by the authorities during the year had dampening effect on food prices. The inflation rate on a twelve-month moving average basis for the month under review stood at 13.5 per cent, compared with 15.5 per cent recorded in June 2006.

total, ₦16.63 billion or 40.8 per cent had been invested in 244 projects, representing 11.6 per cent increase in the total sum invested by banks when compared with the preceding month. A breakdown of the investments showed that the real sector (manufacturing-40.4 per cent, construction-6.7 per cent, agro-allied-5.7 per cent and solid minerals-0.4 per cent) recorded investments valued at ₦8.83 billion or 53.1 per cent in 157 projects, while the service sub-sector (Tourism-19.9 per cent, Services-15.7 per cent, IT & Telecom-10.5 per cent, and Educational Establishment-0.8 per cent) accounted for the balance valued at ₦5.13 billion or 46.9 per cent in 76 projects.

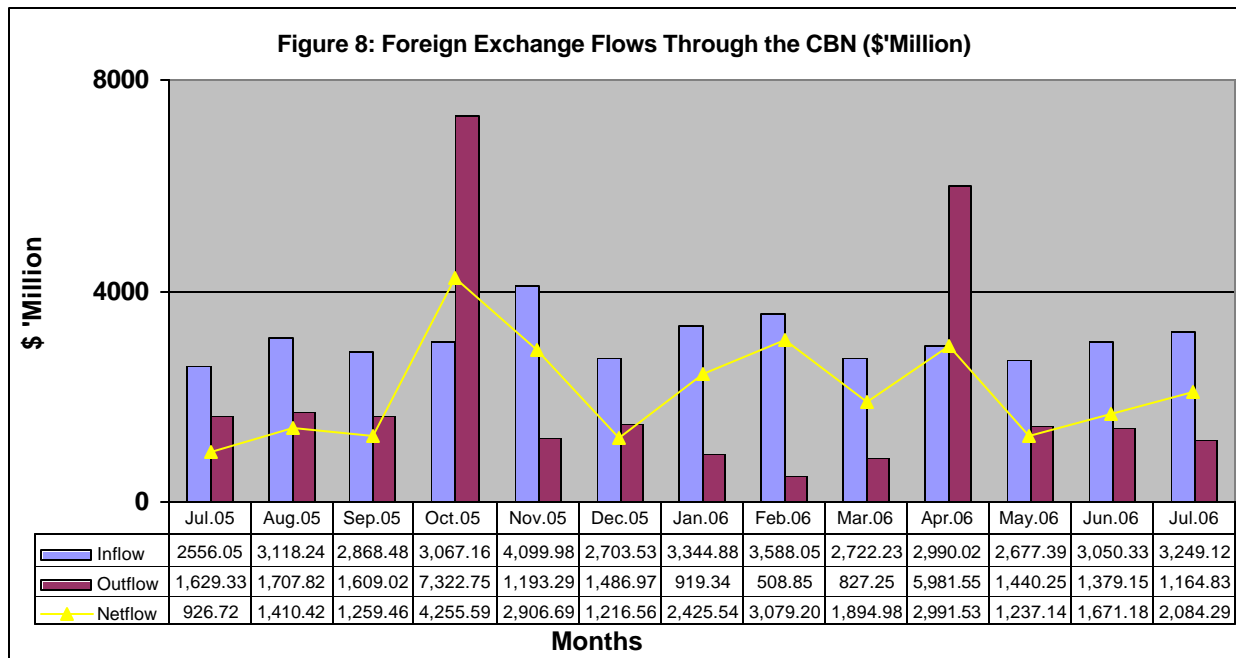
4.0 EXTERNAL SECTOR DEVELOPMENTS

4.1 Foreign Exchange Flows

Foreign exchange inflow and outflow through the CBN, amounted to US\$3.25 billion and US\$1.16 billion, in July 2006, compared with US\$3.05 billion and US\$1.38 billion, respectively, in June 2006. This resulted in a net inflow of US\$2.09

US\$2.86 billion. Non-oil public sector inflows, also rose by 96.0 per cent to US\$0.39 billion and accounted for 6.7 per cent of the total inflows. Autonomous inflow, however, declined slightly by 0.9 per cent, to US\$2.5 billion, representing 43.9 per cent of the total.

At US\$1.20 billion, aggregate foreign exchange outflow from the economy fell by 15.6 per cent from the preceding month's level, reflecting the decline in DAS



billion, compared with US\$1.67 billion in the preceding month. Inflow rose by 6.5 per cent, while outflow fell by 15.5 per cent, relative to the preceding month. The increase in inflow was attributable to the rise in both oil and non-oil sector receipts, while the decline in outflow was traceable to the decline in DAS Utilisation.

Available data on aggregate foreign exchange flows through the economy in July 2006 showed that total inflow rose by 3.1 per cent to US\$5.80 billion. Oil sector receipts, which accounted for 49.4 per cent of the total, rose marginally by 0.3 per cent over the preceding month's level of

Utilisation and outflow through the autonomous sources by 43.8 and 16.8 per cent to US\$0.55 billion and US\$0.03 million, respectively. All other components of outflows, however, rose during the review month.

Cumulative inflows and outflows through the economy in the first seven months of the year stood at US\$34.98 billion and US\$12.50 billion, respectively, compared with US\$26.42 billion and US\$9.98 billion in the corresponding period of 2005. Consequently, the cumulative net inflow stood at US\$22.48 billion, compared

with US\$16.44 billion recorded in the corresponding period of 2005.

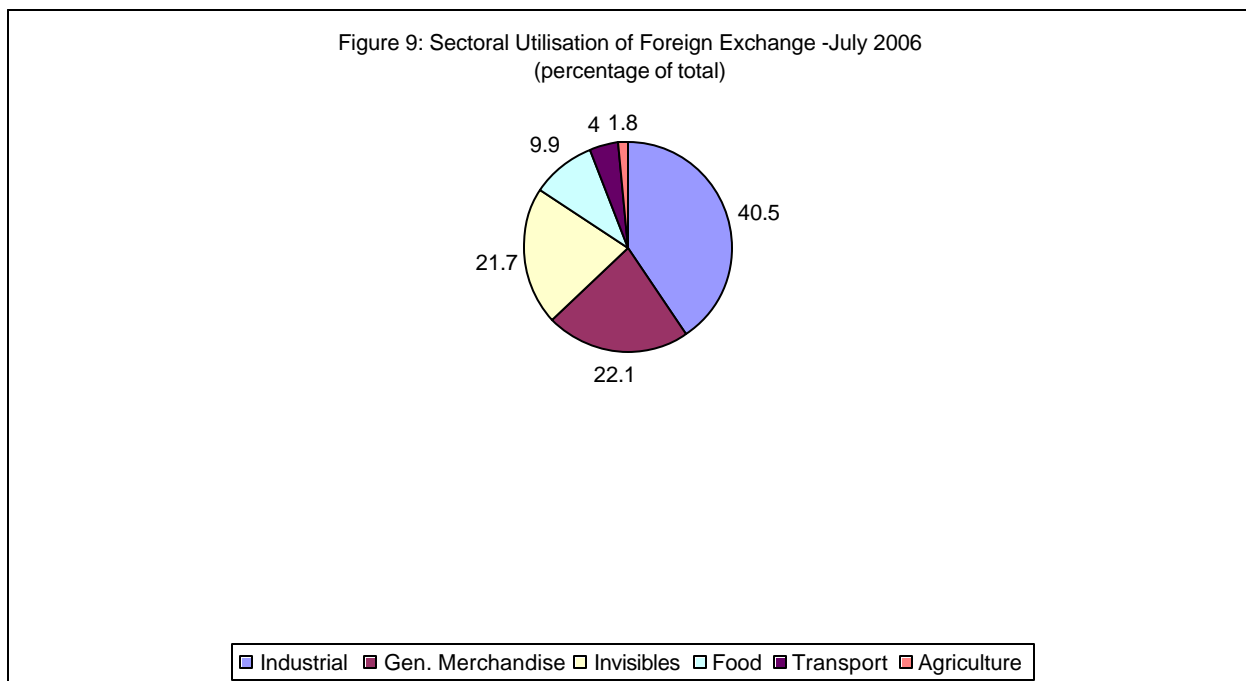
4.2 Non-Oil Export Proceeds by top 100 Exporters

Non-oil export earnings by Nigeria’s top 100 exporters amounted to US\$52.0 million in July, 2006, indicating a decline of 31.6 per cent from the preceding month’s level.

preceding month, while manufacturing sub-sector accounted for 58.7 per cent, compared with 44.9 percent in the preceding month. The share of “others” sub-sector fell sharply from 10.6 per cent to 2.4 percent. The top 100 exporters accounted for 99.8 per cent of all the non-oil export proceeds in July, 2006.

4.3 Sectoral Utilisation of Foreign Exchange

The industrial sector accounted for the



A breakdown of the proceeds during the month showed that proceeds in respect of the agricultural, manufacturing and ‘others’ sub-sectors fell by 39.2, 10.5 and 84.3 per cent to US\$20.08 million, US\$30.53 million and US\$1.27 million, respectively. The fall in non-oil export proceeds was attributable largely to the variation in the prices of some of the commodities traded at the international commodities market. The shares of agricultural sector in total non-oil export proceeds was 38.6 per cent during the month, as against 43.4 per cent in the

bulk (40.5 per cent) of total foreign exchange disbursed in July, 2006, followed by the general merchandise sector (22.1 per cent). Other beneficiary sectors, in a descending order, included: invisibles (21.7 per cent), food (9.9 per cent), transport (4.0 per cent), and agricultural products (1.8 per cent) (Fig.8).

4.4.1 Foreign Exchange Market Developments

The sale of foreign exchange by the CBN to authorized dealers amounted to

US\$551.92 million, during the month under review, representing a decline of US\$429.44 million or 43.8 and 55.6 per cent from the preceding month's level and the corresponding period of 2005, respectively. The CBN's purchase from the foreign exchange market amounted to US\$8.50 million. The development was attributable to the improved activities at the inter-bank foreign exchange market. Following the further liberalization of the market, the weighted average exchange rate of the Naira vis-à-vis the US dollar appreciated marginally by 0.1 per cent to ₦127.11 per dollar in July 2006. In the bureaux de change segment of the market, the rate also appreciated by 4.9 per cent to ₦130.12 per dollar from ₦136.82 per dollar in June, 2006.

Consequently, the premium between the official and bureaux de change rates narrowed from 7.6 per cent in June, 2006 to 2.4 per cent.

4.5 External Reserves

Available data showed that Nigeria's gross external reserves at end-July, 2006 stood at US\$38.07 billion, representing an increase of 4.4 per cent over the level of US\$36.48 billion recorded in the preceding month. At the current rate of foreign exchange commitments, the level of reserves could finance about 31.9 months of foreign exchange disbursement, compared with 24.9 months in June, 2006.