The number of securities listed on the Exchange remained at 288, the same as in 2005. However, 28 new securities were listed, while the same number of securities was de-listed during the year. Also, four new sub-sectors were created on the daily official list (mortgage companies, road transportation, leasing and the foreign listings), thus raising the number of sub-sectors in the equity sector of the daily official list to 31.

Box 5: NIGERIAN PAYMENTS SYSTEM INITIATIVES AND ACTIVITIES IN 2006

Over the years, it has been recognized that modern payments and settlement systems have far-reaching economic and social implications for an economy. On the microeconomic level, a safe and efficient payments and settlement system reduces transaction costs, improves operational efficiency of trade and commerce and is supportive of the internationalisation of an economy. Modern payments and settlement systems also help in the inclusion of a significant proportion of the population in participating in the financial systems, thereby improving the quality of their lives. This financial inclusion further benefits the economy as money kept outside the financial system is brought in and used by banks in stimulating business growth and consumption.

Due to the perceived benefits of a safe and efficient payments system, the Central Bank of Nigeria has been active its promotion. This has been reinforced by the need to improve the effectiveness of monetary policy implementation and ensure the overall financial stability of the economy. In 2006, notable achievements in infrastructure and institutional reforms of the payments system were recorded, as highlighted below:

INSTITUTIONAL REFORMS:

National Payments System Committee (NPSC):
Reconstituted and inaugurated in 2005, the National Payments System Committee (NPSC) is at the apex of the Nigerian payments and settlement systems, with the Governor of the Central Bank of Nigeria as its chairman. The Committee met thrice in 2006 and considered various papers and memoranda from its technical sub-committees, including the following:

- Guidelines on Transaction Switching Competition
- Guidelines on Transaction Switching and Card Issuance
- Modalities on Linking the Central Securities Clearing System (CSCS) to the CIFTS
- Memorandum on Pathway to Electronic Payments System
- Draft Cards and Electronic Payments Standard
- Modalities for Electronic Bill Presentment and Collection of Government Revenue

The recommendations made by the sub-committees were being fine-tuned prior to their implementation.

Payments Systems Vision 2020

In 2006, the National Payments System Committee (NPSC) constituted and inaugurated a National Payments System Strategy Team to prepare a payments and settlement system vision document to guide the orderly development of the nation's payments system. The vision document was approved during the year as a key component of the broader reform programme, known as the Financial System Strategy 2020 (FSS 2020). The document identified seven user initiatives and core infrastructure that would drive the electronification of payments and settlement systems in Nigeria. It is envisaged that government supplier payments, person-to-person trade, salary payments, bill payments, taxes, etc, would be settled electronically, using the various standard systems available now and in the future.

Nigerian Cheque Standards and Cheque Printers Accreditation Scheme

The Nigerian Cheque Standard was established to reduce the high reject rates in the clearing system and deter cheque fraud. Cheques printed for the Nigerian market must conform to certain standard specifications in order to significantly reduce the high reject rate and thus promote greater efficiency in the cheque clearing process. In addition, the standard was designed to ease progression to cheque imaging, truncation and archiving in the future.

As cheque printing is a highly specialised activity, the Cheque Printers Accreditation Scheme was introduced to ensure that only accredited printers would print cheques for the Nigerian banking industry. Accordingly, eleven cheque printers were approved in 2006 and January 1, 2007 was set as the effective date for the complete withdrawal of all old cheques from the clearing system. To have the intended impact, training of banks' Inspectors as well as zonal training and awareness campaigns on the Nigerian Cheque Standard were conducted during the year.

INFRASTRUCTURE

Improved payments and settlement systems depend critically on appropriate infrastructure. Consequently, the Bank, in collaboration with key stakeholders, implemented the following programmes:

The Central Bank of Nigeria Inter-Bank Funds Transfer System (CIFTS)

The CIFTS is a Real Time Gross Settlement System (RTGS) for large value inter-bank fund transfers. It provides on-line real-time settlement of large value transactions, particularly inter-bank, on gross basis. The CIFTS went live on December 18, 2006 with 25 banks, 5 discount houses and Nigeria Inter-Bank Settlement System linked to it. In addition to inter-bank large value transfers, participants send and receive transfers on behalf of their customers, using the 3rd party transfer module of CIFTS. Also, net funds arising from cheque clearing and other electronic retail transactions are transmitted by the Nigeria Inter-Bank Settlement System (NIBSS) into participants' accounts at the CBN, through the CIFTS's net settlement module.

The importance of CIFTS to the economy is that it allows for the movement of large funds on real-time and gross settlement basis. Balances are known at the end of each working day and, as such, it serves as a veritable tool for managing settlement risks, particularly systemic risk. Through the RTGS, participants are able to move funds between their Settlement Accounts in RTGS and their Current Accounts in T24, the Bank's banking application system that interfaces with RTGS. Participants have been very enthusiastic since the commencement of the CIFTS. The volume and value of transfers recorded during the two weeks of operation in 2006 were 3588 and N1,104.77 billion, respectively.

Establishment of a Central Switch

During the year, the Bank, in collaboration with the Bankers Committee, approved the establishment of a Central Switch at the Nigeria Inter-Bank Settlement System (NIBSS). Stand-alone switches will be connected to the Central Switch to ensure interconnectivity and interoperability of switches in the country. This has the advantage of efficient use of resources as only a single card is needed in order to have access to the different switches offering similar services. Without a central switch, a user must buy the cards of the different switches in order to have access to their services.

CHAPTER 5

FISCAL OPERATIONS

Fiscal activities responded positively to policy measures in 2006. At N5,965.1 billion or 32.7 per cent of GDP, total federally-collected revenue increased by 7.5 per cent over the level in 2005. The performance was attributable largely to the international crude oil price which remained higher than the budget benchmark price of US$35.00 per barrel. Efficient public expenditure management resulted in accumulated savings of US$24,359.4 million by the three tiers of government at the end of the year. The savings comprised US$9,078.7 million brought forward from 2005 and the US$15,280.7 million accumulated in 2006. Non-oil revenue, however, declined by 13.7 per cent below the level in the preceding year to 3.7 per cent of GDP. Federal Government retained revenue and aggregate expenditure increased by 10.6 and 6.4 per cent respectively over the levels in 2005. The exercise of fiscal prudence resulted in the achievement of a primary surplus of N148.0 billion or 0.8 per cent of GDP. Thus, the overall fiscal deficit of the Federal Government narrowed from a notional deficit of N161.4 billion or 1.1 per cent of GDP in 2005 to N101.3 billion or 0.6 per cent of GDP. The stock of Nigeria's external debt fell significantly from US$20.5 billion in 2005 to US$3.5 billion in 2006. Consequently, the consolidated public debt at end-December 2006 declined to N2,204.7 billion or 12.1 per cent of GDP, from N4,221.0 billion or 28.3 per cent of GDP in 2005. The improved debt to GDP ratio reflected, largely, the debt relief secured from the Paris Club creditors which provided for the cancellation and subsequent pay-off of the outstanding

5.1 FISCAL POLICY THRUST

The fiscal policy thrust in 2006, which was consistent with the provisions of the National Economic Empowerment and Development Strategy (NEEDS), was targeted at improving the quality of life and addressing infrastructural deficiencies. It was also aimed at wealth creation, employment generation and the achievement of the Millennium Development Goals (MDGs). Consequently, the government budget gave priority to investments in power, water, roads, health, education and national security.

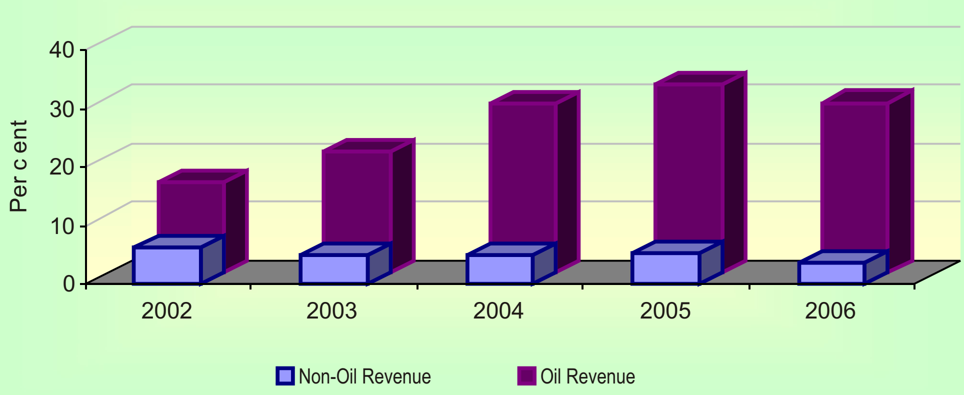
In pursuit of its growth and development objectives while sustaining the fiscal consolidation process as outlined in the Medium Term Expenditure Framework (MTEF), the government specifically embarked on the following reform measures:

- Tax reform which was expected to increase the tax base and make the country less dependent on the oil sector as the main source of government revenue;
- Rationalising recurrent expenditure by ensuring a zero-tolerance borrowing from the Central Bank;
- Introduction of a Destination Inspection Scheme to eliminate malpractices and increase custom revenue;
- Expansion of Value Added Tax coverage to include more items;
- Strengthening the revenue collection machinery of government agencies by providing necessary incentives;
- Encouraging public/private sector partnership in economic development to reposition the private sector as the engine of growth; and
- Improving the infrastructural facilities to reduce the cost of doing business in Nigeria.

5.2 FEDERATION ACCOUNT OPERATIONS

Total federally-collected revenue increased by 7.5 per cent to N5,965.1 billion in 2006 and amounted to 32.7 per cent of GDP, compared with 37.2 per cent in 2005. At that level, total federally-collected revenue was 12.7 per cent lower than the budget estimate of N6,836.0 billion. The reduction in actual revenue relative to budget estimates resulted partly from the slowdown in crude oil production below the budgeted level, due to restiveness in the Niger Delta region. Other factors included the effect of the implementation of the ECOWAS Common External Tariff (CET) on non-oil revenue and the adoption of a new inspection regime, aimed at minimizing excessive importation and sharp practices in international trade.

Figure 5.1: Oil & Non-Oil Revenue as a Percentage of GDP



Revenue from non-oil sources fell by 13.7 per cent to N677.5 billion in 2006. Analysis of the revenue profile showed that the two major components, namely, Customs/Excise Duties and Federal Government Independent Revenue declined by 23.7 and 84.3 per cent, respectively. The fall in tax revenue could be attributed to the implementation of the CET under the ECOWAS protocols, the granting of duty waivers and tax holidays to foreign investors.

Also, the sharp fall in the Federal Government Independent Revenue reflected the decline in the operating surpluses of agencies of government. At 3.7 per cent, the ratio of non-oil revenue to GDP fell by 1.6 percentage point below the level in 2005, negating the objective of being less dependent on oil revenue.

Revenue from crude oil and gas exports amounted to N2,074.2 billion, representing an increase of 3.9 per cent over the level in the preceding year. The development was due to increased oil prices in the international market. Similarly, revenue from Petroleum Profit Tax (PPT) and Royalties increased by 7.0 per cent to N2,038.3 billion, while revenue from domestic crude oil sales increased by 36.8 per cent to N1,171.8 billion. The sum of N527.8 billion was deducted from the gross oil receipts for the Joint Venture Cash (JVC) calls, while N2,195.5 billion was deducted in respect of excess crude/PPT/royalty proceeds and set aside for all the tiers of government and other beneficiaries.

Figure 5.2: Fed Govt Revenue & Expenditure (% of GDP)

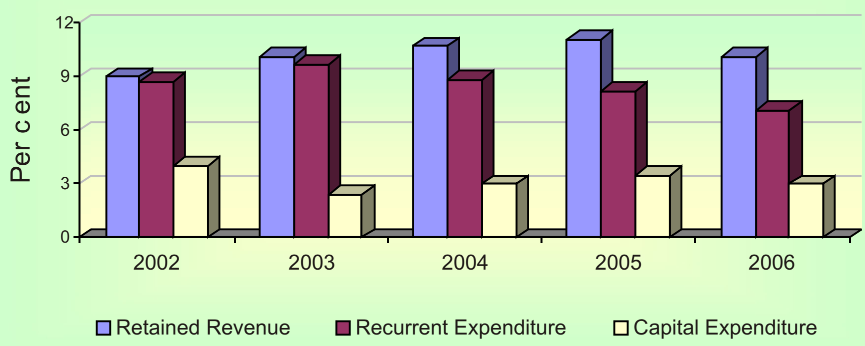
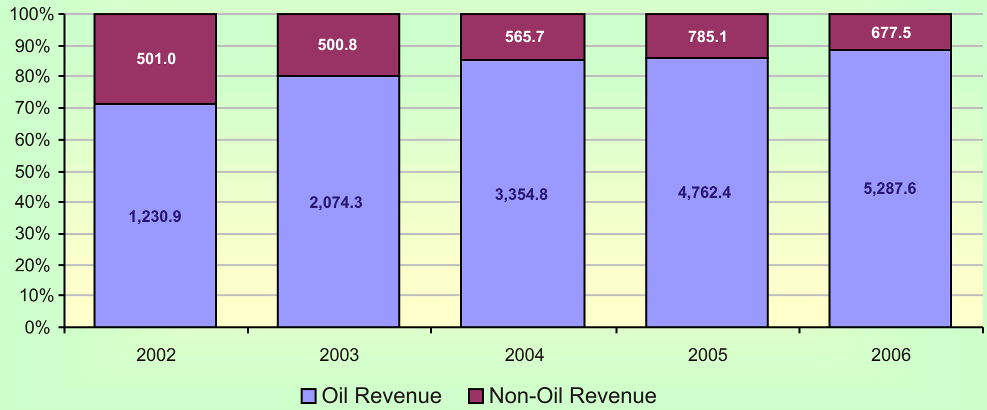


Figure 5.3: Federation Account: Composition of Revenue (₦' Billion)



5.2.1 Federation Account Allocation

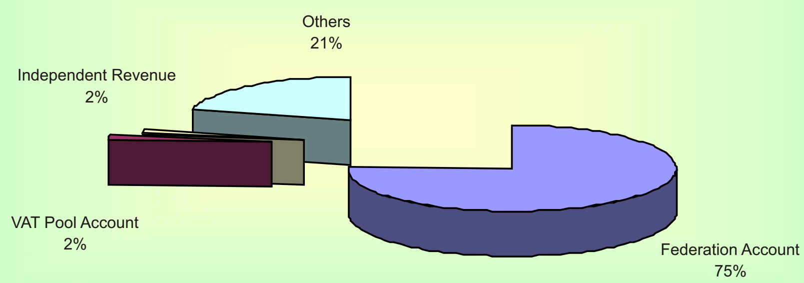
The sum of N3,219.1 billion accrued to the Federation Account in 2006, an increase of 6.1 per cent over the level recorded in 2005. Of the total, N2,964.2 billion was distributed among the three tiers of government, as well as the Derivation Fund as a result of the deduction of the VAT Pool Account which amounted to N221.6 billion and the sum of N33.3 billion which accrued to the Federal Government as Independent Revenue. A breakdown of the distribution among the three tiers of government showed that the Federal Government received N1,385.9 billion, State Governments N703.0 billion, Local Governments N542.0 billion, while the sum of N333.4 billion Derivation Fund was shared among the oil-producing States.

5.3 FEDERAL GOVERNMENT FINANCES

5.3.1 Retained Revenue of the Federal Government

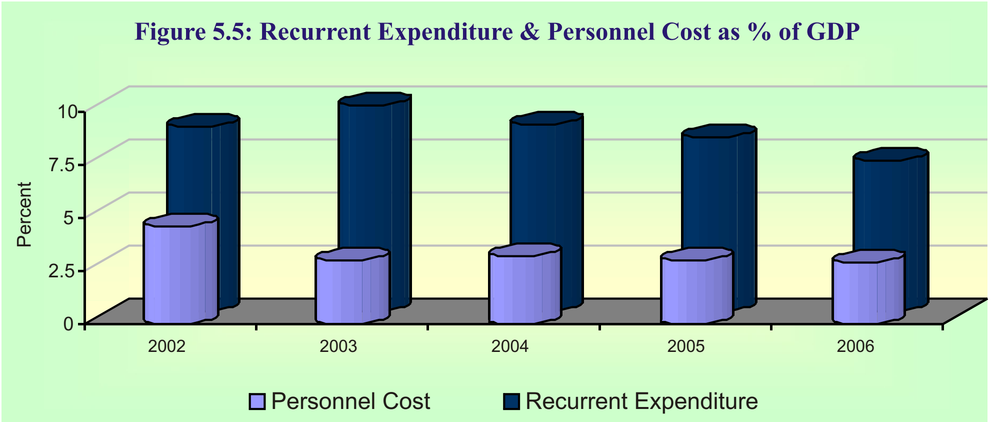
The Federal Government retained revenue increased to N1,836.7 billion or 10.1 per cent of GDP, from N1,660.7 billion or 11.1 per cent of GDP in 2005. Analysis of the revenue showed that the share from the Federation Account was N1,385.9 billion, the VAT Pool Account N33.2 billion, Federal Government Independent Revenue N33.3 billion, share of reserve N320.8 billion, while "others" accounted for the balance. The rise in retained revenue was due mainly to the substantial increase in the share from the reserve account which rose by 73.6 per cent over the level in 2005.

Figure 5.4: Composition of Federal Government Retained Revenue in 2006



5.3.2 Total Expenditure of the Federal Government

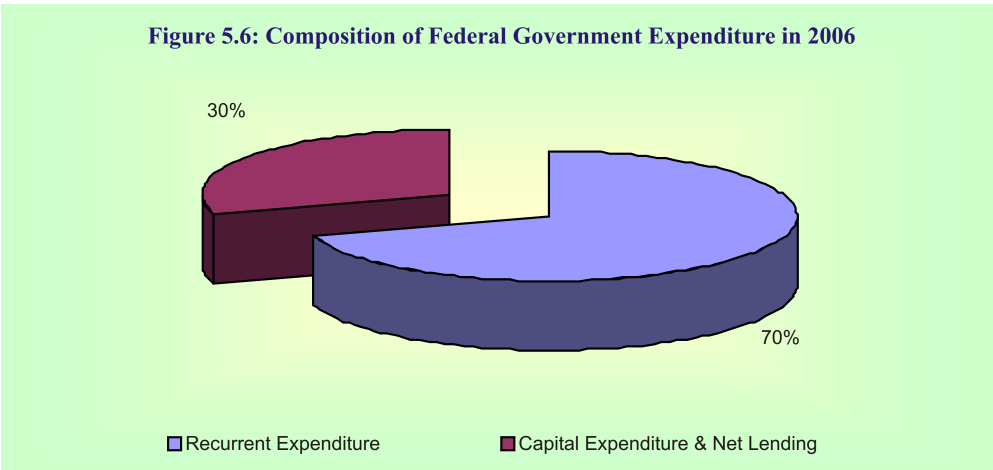
Aggregate expenditure of the Federal government increased by 6.4 per cent to N1,938.0 billion in 2006. As a proportion of GDP, total expenditure declined to 10.6 per cent, from 12.2 per cent in the previous year, which reflected fiscal prudence. Non-debt expenditure (total expenditure less debt service payments) rose by 18.2 per cent above the level in 2005 and was 4.9 per cent above the N1,610.5 billion budget estimate for 2006. Total debt service payments amounted to N249.3 billion, representing 12.9 per cent of the total expenditure.



5.3.2.1 Recurrent Expenditure

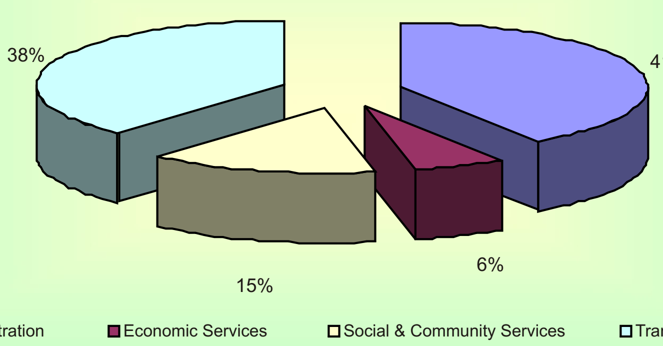
At N1,290.2 billion, recurrent expenditure rose by 5.4 per cent over the level in 2005 and accounted for 66.6 per cent of the total expenditure. Most of the components of the recurrent expenditure increased relative to their levels in the preceding year. Analysis of the components showed that purchases of goods and services amounted to N1,040.9 billion or 80.7 per cent of total, while external and domestic debt service, at N249.3 billion, accounted for the balance. However, as a percentage of GDP, recurrent expenditure fell to 7.1 per cent from 8.2 per cent in 2005. Also, personnel cost declined marginally from 3.0 per cent of GDP in 2005 to 2.9 per cent.

Similarly, interest payments on foreign and domestic loans, as a percentage of GDP, fell from 2.6 per cent to 1.4 per cent in 2006. This decline largely reflected the exit from the Paris Club debt and the restructuring of domestic debts.



A functional classification of recurrent expenditure showed that the outlay on administration rose by 20.1 per cent over the level in 2005 to N522.2 billion and accounted for 40.5 per cent of the total. Transfer payments fell by 13.8 per cent to N494.1 billion and accounted for 38.3 per cent reflecting, largely, the decrease in the outlay for public debt charges. Expenditure on economic services rose by 23.9 per cent to N79.7 billion and accounted for 6.2 per cent of the total recurrent expenditure. Within the economic services sector, agriculture, transport, communications, and roads/construction were the key areas which absorbed 59.9 per cent of the share of the sector, while expenditure on social and community services accounted for 15.0 per cent of the total.

Figure 5.7: Functional Classification of Federal Government Recurrent Expenditure in 2006

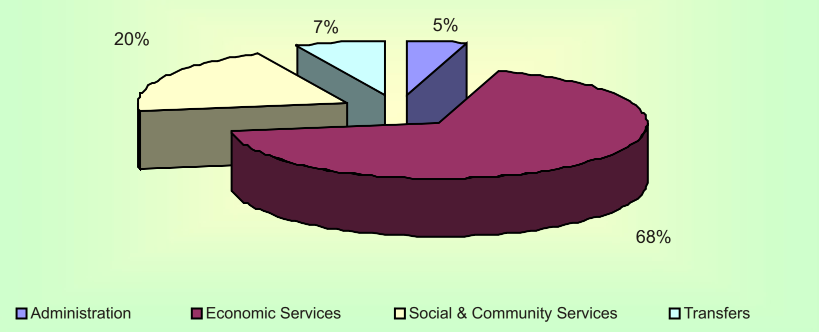


5.3.2.2 Capital Expenditure

Capital expenditure increased in absolute terms by 6.3 per cent to N552.4 billion in 2006, but as a percentage of GDP, it fell slightly to 3.0 per cent from 3.5 per cent in 2005. As a proportion of Federal Government revenue, capital expenditure was 30.1 per cent, exceeding the minimum of 20 per cent target under the WAMZ secondary criteria. Furthermore, capital expenditure budgeting achieved a 97.2 per cent implementation rate in 2006. The effective implementation of the 'Due Process', which ensured that funds were released only on the basis of the progress achieved in project implementation, facilitated the whole process.

A breakdown of capital expenditure into economic functions showed that public investment in economic services accounted for N262.2 billion or 47.5 per cent of the total, compared with 51.0 per cent in the preceding year. Within the economic services sector, housing, manufacturing, mining/quarrying, agriculture/natural resources, transport/communications and roads/construction absorbed 68.8 per cent of the share for the sector. Public investments in social and community services recorded a decline of 10.3 per cent from the level in the preceding year, while key sectors, such as education and health, improved by 2.4 per cent and 47.2 per cent, respectively, over their levels in 2005.

Figure 5.8: Functional Classification of Federal Government Capital Expenditure



5.3.3 Overall Fiscal Balance and Financing

The current account surplus, which reflects the savings position of the government, increased by 25.0 per cent to N546.5 billion or 3.0 per cent of GDP, while the primary balance, which reflects the outcome of the current year's fiscal operations, recorded a surplus of N795.8 billion or 4.4 per cent of GDP, as against the N831.0 billion in 2005. However, the overall fiscal operations of the Federal Government resulted in a notional deficit of N101.3 billion or 0.6 per cent of GDP, when compared with the deficit target of 2.6 per cent and the actual deficit of 1.1 per cent of GDP recorded in 2005. The notional deficit occurred as a result of the strict observance of the fiscal rule on oil benchmark price which resulted in an accumulated savings of US$24,359.4 million by the three tiers of government. The savings comprised US$9,078.7 million brought forward from 2005 and the US$15,280.7 million accumulated in 2006. At 0.6 per cent of GDP, the deficit outperformed the WAMZ's primary convergence criterion target of 4.0 per cent. The overall national budget deficit of N101.3 billion was financed entirely from domestic sources, with N45.0 billion from the non-bank public, N14.3 billion from the sale of government properties, and N42.0 billion from the refund of overpayment to the Debt Management Office (DMO).

As a percentage of GDP, total net domestic borrowing declined from 1.0 per cent in 2005 to 0.2 per cent. Net borrowing from the domestic non-bank public fell to N45.0 billion from N143.5 billion in 2005.

Figure 5.9: Fiscal Deficit (Per cent of GDP)

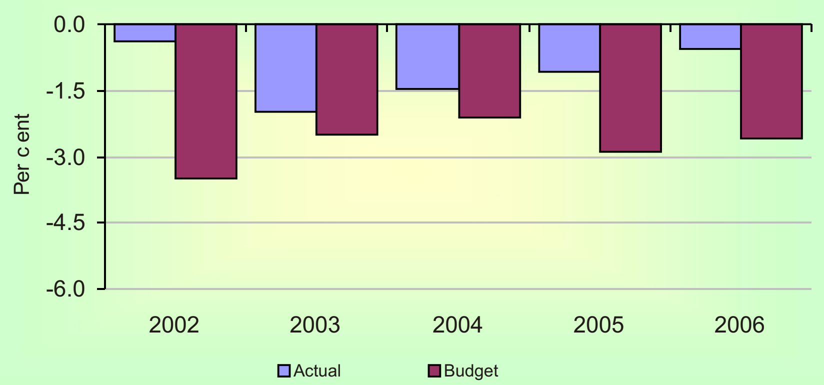
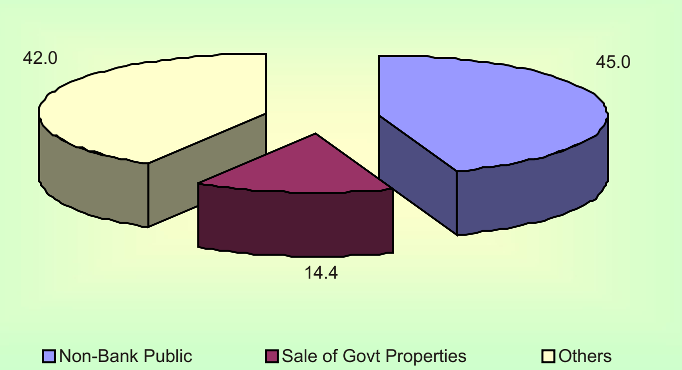


Figure 5.10: Financing of Deficit (₦ billion)



5.4 STATE GOVERNMENTS' FINANCES

5.4.1 Fiscal Balance

Provisional data on state governments' finances indicated a modest improvement, with a deficit of N43.0 billion or 0.2 per cent of GDP, representing a decline of 27.0 per cent when compared with N58.9 billion or 0.4 per cent of GDP in 2005.

The lower deficit was largely attributable to the increased statutory allocations from the Federation and VAT pool Accounts, which increased by 10.3 and 26.4 per cent respectively over the levels in 2005. The significant reduction in the level of extra-budgetary expenditures (about 3.9 per cent), relative to the level in the preceding year, also enhanced the fiscal balance.

Figure 5.11: State Governments' Revenue & Overall Balance

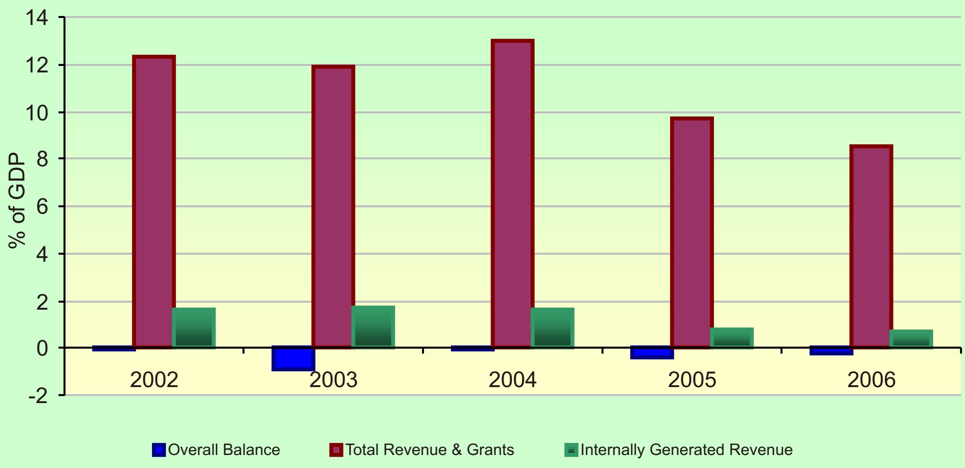
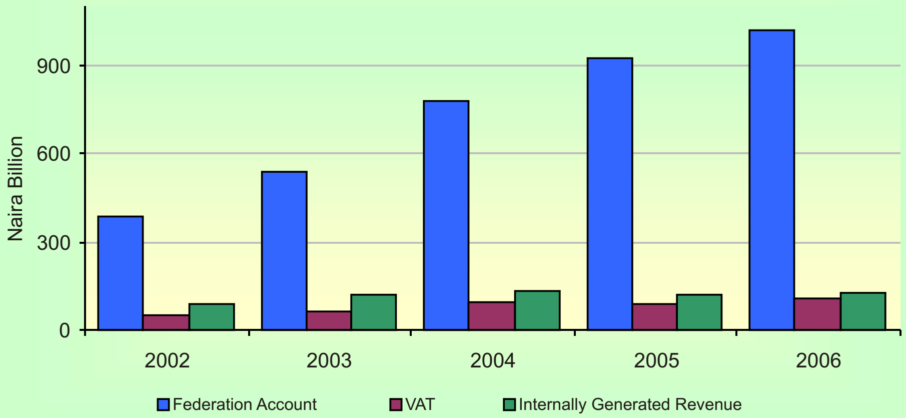


Figure 5.12: State Governments' Revenue



5.4.2 Revenue

Total revenue of State Governments rose by 8.7 per cent, from N1,419.6 billion or 9.5 per cent of GDP in 2005, to N1,543.8 billion or 8.4 per cent of GDP. Analysis of the revenue indicated that allocations from the Federation Account, including the 13.0 per cent derivation fund, was N1,016.1 billion or 65.8 per cent, the VAT pool Account (N110.6 billion or 7.2 per cent), Internally Generated Revenue (IGR) (N125.2 billion or 8.1 per cent), the stabilization account (N11.9 billion or 0.8 per cent), share of excess crude revenue (N154.7 billion or 10.0 per cent), grants and others (N125.3 billion or 8.1 per cent) constituted the major sources of States' government revenue. The dismal performance of internally generated revenue continued in 2006 as reflected in the low IGR/GDP ratio. From 0.8 per cent in 2005, the ratio declined to 0.7 per cent in 2006, reflecting the weak internal revenue base in most of the states of the federation.

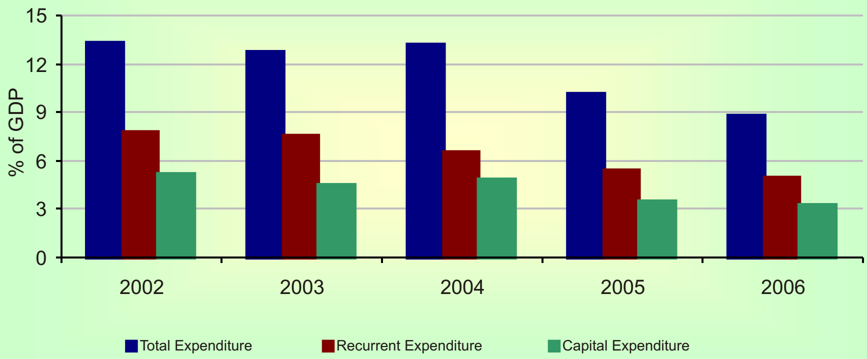
5.4.3 Expenditure

The consolidated expenditure of the State Governments in 2006 increased by 7.3 per cent to N1,586.8 billion or 8.7 per cent of GDP. A breakdown showed that, at N894.3 billion or 4.9 per cent of GDP, recurrent expenditure was 13.3 per cent higher than the level recorded in the preceding year and accounted for 56.4 per cent of total expenditure.

Table 5.1: State Governments' Revenue

Item	2005		2006	
	Amount (₦' Billion)	Share (%)	Amount (₦' Billion)	Share (%)
Federation Account	921.0	64.9	1,016.1	65.8
VAT	87.4	6.2	110.6	7.2
Internally Generated Revenue	122.7	8.6	125.2	8.1
Stabilisation Fund	10.8	0.8	11.9	0.8
Excess Crude Revenue	140.2	9.9	154.7	10.0
Grants & Others	137.4	9.7	125.3	8.1
Total	1,419.6	100.0	1,543.8	100.0

Figure 5.13: State Governments' Expenditure



Capital expenditure, at N584.0 billion or 3.2 per cent of GDP, was 13.5 per cent higher than the level recorded in 2005 and represented 36.8 per cent of total expenditure. The extra-budgetary expenditure of the states, however, declined by 37.9 per cent to N108.5 billion and represented 6.8 per cent of total expenditure for 2006.

Analysis of consolidated spending on primary welfare sectors indicated that at N177.1 billion or 1.0 per cent of GDP, expenditure on education increased by N20.6 billion or 13.2 per cent over the level in 2005, and expenditure on health rose by N11.2 billion or 12.2 per cent to N102.8 billion or 0.6 per cent of GDP. Similarly, expenditure on agriculture increased by N8.3 billion or 14.6 per cent over the level in the preceding year to N65.1 billion or 0.4 per cent of GDP. The outlay on housing and water supply increased by 4.3 per cent and 6.4 per cent, respectively, to N37.8 billion or 0.2 per cent of GDP and N52.9 billion or 0.3 per cent of GDP respectively.

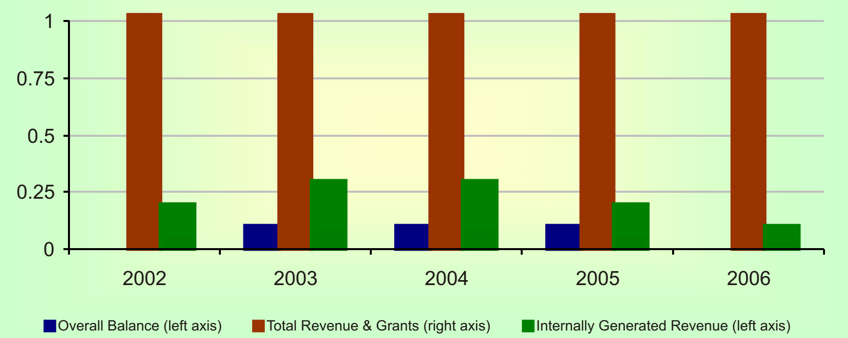
On the whole, aggregate expenditure on key welfare sectors amounted to N435.7 billion or 2.5 per cent of GDP and accounted for 27.5 per cent of the consolidated total expenditure on the fiscal operations of the State Governments.

5.5 LOCAL GOVERNMENTS' FINANCES

5.5.1 Fiscal Balance

Provisional data on local governments' finances indicated that the fiscal operations of the 774 Local Government Councils recorded a surplus of N8.4 billion, compared with N9.2 billion in 2005. The surplus achieved was attributable, largely, to the increased revenue accruing to the Local Government Councils in 2006. Fiscal balance (surplus) as a percentage of GDP remained unchanged at 0.1 per cent.

Figure 5.14: Local Governments' Revenue & Overall Balance (Percent of GDP)



5.5.2 Revenue

Total revenue of local governments rose by 12.9 per cent, from N597.2 billion or 4.0 per cent of GDP in 2005, to N674.3 billion or 3.6 per cent of GDP. Local government councils' revenue comprised allocations from the Federation Account (N550.8 billion or 81.7 per cent), the VAT pool Account (N75.9 billion or 11.3 per cent), Internally Generated Revenue (N23.2 billion or 3.4 per cent), the stabilization account (N6.1 billion or 0.9 per cent), grants and others (N14.8 billion or 2.2 per cent), and State government allocations (N3.4 billion or 0.5 per cent).

The low contribution of internally generated revenue continued in 2006, as reflected in the IGR/GDP ratio of 0.1 per cent, implying increasing dependence on funds from the Federation Account.

5.5.3 Expenditure

The consolidated expenditure of the Local Government Councils in 2006 increased by 13.2 per cent, from N588.0 billion or 3.9 per cent of GDP in 2005, to N665.8 billion or 3.6 per cent of GDP.

A breakdown of the figure showed that recurrent expenditure, at N398.2 billion or 2.2 per cent of GDP, was higher than the level recorded in the preceding year by 6.3 per cent and accounted for 59.8 per cent of the total. Similarly, capital expenditure at N267.7 billion or 1.4 per cent of GDP was higher than the level recorded in 2005 by 25.4 per cent and represented 40.2 per cent of the total expenditure.

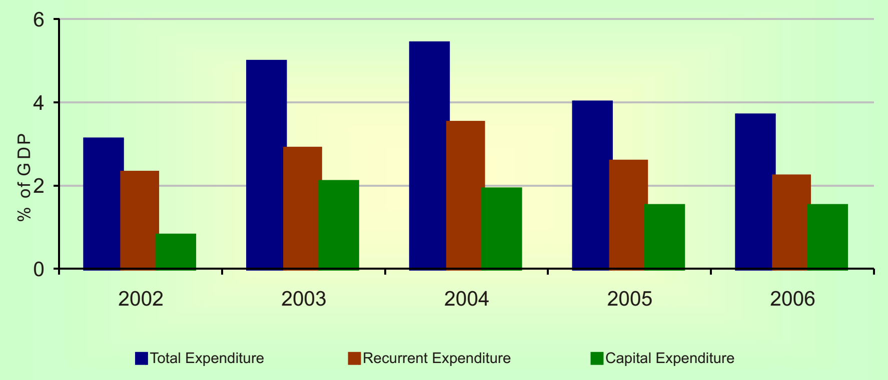
5.6 CONSOLIDATED GOVERNMENT DEBT

The stock of the consolidated government debt, as at end-December 2006, was N2,204.7 billion or 12.1 per cent of GDP, compared with N4,221.0 billion or 28.3 per cent of GDP in 2005. The decrease was traceable to the exit deal secured from the Paris Club creditors which provided for the cancellation and subsequent pay-off of the outstanding debt in the first quarter of 2006. Consequently, the debt relief reduced the stock of external debt from US$20.5 billion in 2005 to approximately US$3.5 billion (N451.5 billion) or 20.5 per cent of the total consolidated debt. At end-December 2006, domestic debt outstanding amounted to N1,753.3 billion and constituted 79.5 per cent of the total consolidated debt. However, while the stock of external public debt declined by 83.2 per cent, that of domestic public debt increased by 14.9 per cent above the level in 2005.

5.6.1 Domestic Debt

The domestic debt stock of the Federal Government outstanding at end-December 2006 stood at N1,753.3 billion, representing an increase of 14.9 per cent over the level in 2005. The increase was due mainly to the issuance of fresh FGN Bonds (3rd FGN Bonds) worth N282.1 billion and Special FGN Bonds amounting to N166.8 billion to settle pension arrears.

Figure 5.15: Local Governments' Expenditure



The banking system remained the dominant holder of Federal Government securities in 2006. Its holdings increased over the preceding year's level by N83.7 billion or 7.4 per cent. Similarly, the total holdings of the non-bank public increased, by 36.7 per cent to N534.9 billion.
Further analysis of the holdings revealed that the banking system (CBN and DMBs) held 69.5 per cent, while the non-bank public accounted for the balance of 30.5 per cent. A decomposition of banking system's holdings indicated that N882.9 billion or 72.5 per cent and N335.5 billion or 27.5 per cent were held by the DMBs and CBN, respectively.

Table 5.2:
Maturity Structure of Federal Government Domestic Debt (Amount In ₦ ' Billion)

Tenor	2003	2004	2005	2006
2 Years and Below	836.9	938.6	983.7	897.1
2-5 Years	89.9	71.2	163.9	431.2
5-10 Years	83.0	184.5	107.0	194.0
Over 10 Years	319.9	176.0	271.2	231.0
Class of Holder				
CBN	613.8	403.5	408.4	335.5
DMB's	500.4	669.1	726.2	882.9
Non Bank Public	215.5	297.8	391.3	534.9
Total Debt Outstanding	**1,329.7**	**1,370.3**	**1,525.9**	**1,753.3**

Analysis of the maturity structure of the domestic debt showed that instruments with a tenor below two (2) years accounted for N897.1 billion or 51.2 per cent, compared with N983.7 billion or 64.5 per cent in the preceding year. This was followed by instruments with a tenor of two (2) to five (5) years which accounted for 24.6 per cent or N431.2 billion. Instruments with a tenor of over ten (10) years accounted for 13.2 per cent or N231.0 billion, while those with tenors between five (5) and ten (10) years accounted for N194.0 billion or 11.1 per cent.

5.6.2 External Debt

The Paris Club external debt stock of US$15.4 billion at end-2005 was liquidated in 2006. This was as a result of the debt relief which provided for the cancellation and subsequent pay-off of the outstanding debt. The outstanding par bond component of the London Club debt, amounting to about US$1.4 billion was also paid off in November 2006. Consequently, the external debt stock outstanding as at end-December 2006 stood at US$3.5 billion. The share of multilateral debts was US$2.6 billion in 2006 and accounted for 73.6 per cent of the total. At US$0.5 billion, Promissory Notes fell below the preceding year's level by 21.7 per cent and accounted for 14.4 per cent of the total, while other commercial debts at US$0.4 billion accounted for 12.0 per cent of the total.

5.6.2.1 Debt Service Payments

Total debt service payments in 2006 was estimated at N451.4 billion. This comprised N284.6 billion or US$2.2 billion for external debt service and N166.8 billion for domestic debt service. Overall, debt service payments to GDP ratio increased from 2.2 per cent in the preceding year to 2.5 per cent in 2006.

CHAPTER 6

THE REAL SECTOR

The tempo of growth in domestic output in the past two years moderated in 2006 due to the fall in oil production. However, the non-oil sector performed remarkably above the sector average. The real Gross Domestic Product (GDP), measured in 1990 basic prices, grew by 5.6 per cent, compared with the 6.5 per cent growth recorded in 2005. The major drivers of growth were agriculture, wholesale and retail trade and services. Industrial output as a group declined largely due to the fall in crude oil production and manufacturing. The mining and quarrying components, however, grew even as electricity consumption was unimpressive. Headline inflation was largely contained as the single digit target was met. The performance was attributable largely to the clement weather experienced during the year which gave rise to good harvest for most agricultural produce. Thus, food inflation fell and moderated overall inflation. Core inflation (measured on the basis of All Items less farm produce CPI), however, rose steadily for most of the year. The social sector performance was in line with the Federal Government's commitment to improve education, health and other social infrastructure. Reforms in the airline industry were on-going but, as in the power sector, results were expected with a lag. Road infrastructure improved and reduced the volume and fatality of reported road accidents. The 2006 National Census was successfully carried out, but data were still being collated. A major challenge of the real sector was the lingering poor state of economic infrastructure, especially power.

6.1 DOMESTIC OUTPUT

Provisional data indicated that in 2006 the Gross Domestic Product (GDP), measured at 1990 constant basic prices (N593.6 billion), grew by 5.6 per cent and was broad-based, compared with the growth rate of 6.5 per cent recorded in 2005 and an annual average of 6.6 per cent over the period 2002-2006. The fall in growth rate resulted largely from the decline in oil sector output, arising from youth restiveness in the Niger Delta region. Despite the slowdown, the performance of the Nigerian economy in 2006 was satisfactory, given the constraints posed by the disturbances in the Niger-Delta region and the associated inadequate and epileptic power supply, which constrained economic activities. The major factors that sustained the satisfactory level of GDP growth in 2006 included the conducive macroeconomic environment, which favoured enhanced financing of the private sector, coupled with the relative stability in the goods and foreign exchange markets, as well as a moderation of uncertainty in the economy which enhanced investor confidence.

Figure 6.1 GDP Growth Rate (2002 - 2006)

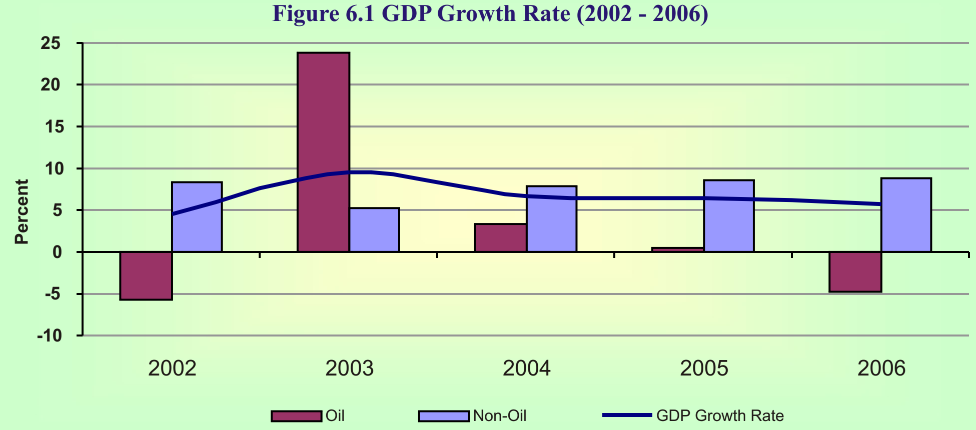


Table 6.1: Sectoral Growth Rates of GDP at 1990 Constant Basic Prices (Percent)

Activity Sector	2002	2003	2004	2005 1/	2006 2/
1. Agriculture	**4.22**	**6.64**	**6.50**	**7.06**	**7.17**
(a) Crop Production	4.15	7.00	6.50	7.13	7.25
(b) Livestock	4.81	4.19	6.50	6.76	6.78
(c) Forestry	0.70	1.50	6.50	5.92	5.95
(d) Fishing	6.33	4.06	6.50	6.02	6.24
2. Industry	**-3.75**	**21.26**	**4.15**	**1.71**	**-2.61**
(a) Crude Petroleum	-5.71	23.90	3.30	0.50	-4.67
(b) Mining & Quarrying	4.32	5.44	10.85	9.53	9.57
(c) Manufacturing	10.09	5.66	10.00	9.61	9.71
3. Building & Construction	**4.34**	**8.75**	**10.00**	**12.10**	**12.14**
4. Wholesale & Retail Trade	**6.48**	**5.76**	**9.70**	**13.51**	**13.73**
5. Services	**22.46**	**0.41**	**8.83**	**7.96**	**8.83**
(a) Transport	17.77	1.20	5.90	6.35	6.80
(b) Communications	43.04	35.87	27.77	28.38	30.85
(c) Utilities	27.77	3.57	10.85	6.64	6.71
(d) Hotel & Restaurant	6.84	4.64	10.85	10.45	10.72
(e) Finance & Insurance	29.42	-9.56	2.73	2.85	3.13
(f) Real Estate & Business Services	3.27	3.11	10.85	10.62	10.67
(h) Producers of Govt. Services	15.50	1.24	10.85	5.38	5.78
(I) Comm., Social & Pers. Services	15.05	1.30	10.85	10.50	10.61
TOTAL (GDP)	**4.63**	**9.57**	**6.58**	**6.51**	**5.63**
NON-OIL (GDP)	**8.27**	**5.17**	**7.76**	**8.59**	**8.93**

1/ Revised
2/ Provisional
Source: National Bureau of Statistics (NBS)

The non-oil sector GDP achieved a growth rate of 8.9 per cent, compared with 8.6 per cent in 2005 and the annual average of 7.7 per cent over the period 2002-2006. The improved performance in the sector was largely driven by the agricultural sector (comprising crop production, livestock, fishery and forestry), which grew by 7.2 per cent, and wholesale and retail trade, building and construction, and services which recorded growth rates of 13.7, 12.1 and 8.9 per cent, respectively.

Within the services sector, the communications sub-sector recorded the highest growth rate in the last six years, buoyed by the far-reaching liberalization of the sector and the emergence of mobile telephony (GSM). In 2006, the growth rate was 30.9 per cent. Industrial output as a group declined by 2.6 per cent, attributable mainly to the 4.7 per cent drop in crude oil production and the unimpressive performance of the manufacturing sub-sector. However, the output of the mining and quarrying sub-sector grew by 9.3 per cent, which had been unprecedented in recent times.

Figure 6.2: Sectoral Share of GDP in 2006

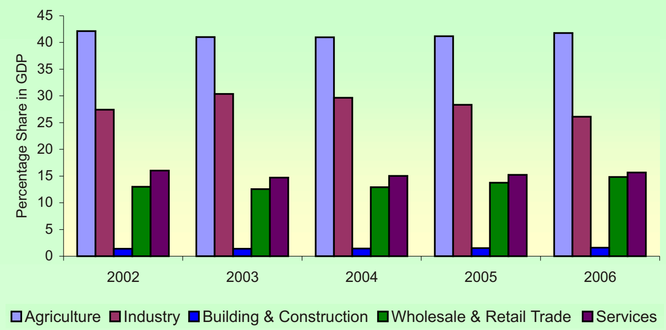


Figure 6.3: Growth Rate of Broad Sectors of Non-Oil GDP

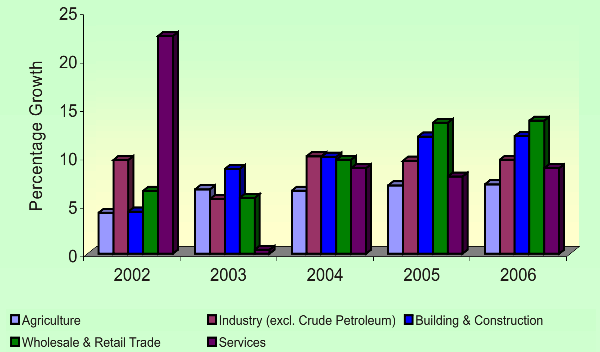
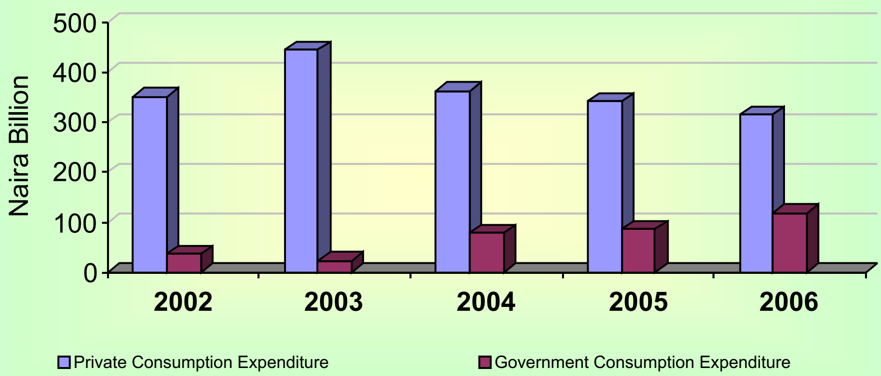


Figure 6.4: Contribution to Growth Rate of Non-oil GDP

A sectoral analysis of the real GDP indicated that the agricultural sub-sector had the largest share of 41.8 per cent, compared with 41.2 per cent in 2005. It was followed by industry, the share of which declined to 26.1 per cent, from 28.3 per cent in 2005, owing mainly to the fall in crude oil production. The share of crude oil in the GDP declined to 21.9 per cent, from 24.6 per cent in 2005. The contribution of mining and quarrying, and manufacturing components of industry remained insignificant, given their low base. Services as a group contributed 15.7 per cent to the GDP of which finance and insurance, utilities, and transport accounted for 3.9, 3.6 and 2.7 per cent, respectively.

Provisional data showed that real domestic demand at 1990 purchasers' price (GDP by expenditure approach) grew by 5.9 per cent and stood at N602.4 billion in 2006, compared with N560.2 billion (or growth rate of 1.5 per cent) in 2005. Private consumption and government final consumption expenditures were N314.8 billion and N117.7 billion, respectively, compared with N340.8 billion and N86.7 billion, respectively, in the preceding year, indicating a decline in real private consumption expenditure (7.6 per cent) and a substantial expansion in real government consumption expenditure (35.7 per cent) in 2006. Real investment (gross fixed capital formation) also rose significantly (27.8 per cent), while net exports in real terms grew by 28.7 per cent during the period. The substantial growth of government consumption may be partly due to the monetization of fringe benefits in the public sector, while the slowdown in private consumption may have resulted from a reduction in the real average take-home earnings of employees in the economy as a whole. As a share of aggregate demand, private consumption constituted more than 50 per cent.

Figure 6.5: GDP (Expenditure Approach) at 1990 Purchasers' Prices



6.2 AGRICULTURE

6.2.1 Agricultural Policy and Institutional Support

The major policy instruments used to promote agriculture in 2006 included increased fiscal incentives to agricultural activities, a review of the import waiver, as well as the promotion of increased use of agricultural machinery and inputs through a favourable tariff policy. These were strengthened by the various Presidential agricultural initiatives which addressed the problems of the sub-sector. The Presidential Initiative on Rice Production and Export was designed with a target production of 6 million tonnes of milled rice per annum by 2005 and some surplus for export by 2007. As part of the efforts to increase production, the sum of N1.0 billion was approved and released in 2006 for the multiplication of NERICA and other improved rice varieties. An Implementation Committee comprising all major stakeholders in the maize sub-sector was inaugurated and charged to work towards increasing the production level by 25.0 per cent by 2007. A total of 5,000 tonnes of improved maize seeds and 60,000 litres of agro-chemicals were procured for distribution to farmers.
The Presidential Initiative on Cassava Production and Export targeted annual export earnings of US$5.0 billion by 2010. In 2006, five improved cassava varieties were released to farmers for propagation. The production and utilization of cassava was further enhanced through the passage of a bill which made it mandatory for bakers in Nigeria to include 10.0 per cent high quality cassava flour in composite flour production for bread baking and other confectionaries.

The National Cocoa Development Programme was set up in 2006 to rehabilitate old plantations, set up new ones, sensitize people for increased local consumption, train cocoa farmers and strengthen research efforts through the Cocoa Research Institute of Nigeria (CRIN). A total of 5,976,854 seedlings were raised to establish 54,504 ha of new plantations while domestic consumption of cocoa was being promoted.

The Presidential Committee on Cotton Development was set up to promote the production of improved cotton. The result was the recorded increase in cotton production to about 630,000 tonnes in 2006, from 150,000 tonnes in 1999. A Textile Rehabilitation Fund of N50.0 billion to support cotton/textile/garment industries was facilitated by the Presidential Committee on the Revival of the Textile Industry in 2006.

About 170 surveillance centres were established by government to control animal disease nationwide and 120 motorcycles were distributed for effective animal disease surveillance and vaccination. The outbreak of the Avian influenza (bird flu) was promptly curtailed and financial compensation was paid to the affected farmers. The Presidential Initiative on Fisheries was introduced to increase domestic fish production in Nigeria to 2 million tonnes by 2007. The rehabilitation of some fish farms in the six geopolitical zones and a stock assessment of 23 inland water bodies were undertaken. Similarly, fishing inputs, such as nets and outboard engines, were procured and distributed to farmers.

The capacity of the national silo complexes was increased by 100,000 tonnes to 385,000 tonnes, in order to strengthen the national food security programme and achieve price stabilization. Government also adopted an improved one-tonne, metal bin on-farm storage structure as a component of the National Special Programme for Food Security (NSPFS). The metal bin was installed for demonstration in 109 locations nationwide in 2006.

A National Fertilizer Policy was approved by government in 2006 to guide and control the production and utilization of fertilizer in agricultural production. In this regard, the moribund National Fertilizer Company of Nigeria (NAFCON) was privatized, while the use of organic fertilizer was promoted to induce its production. The Federal Government also procured and distributed about N250.0 million worth of fertilizer, at 25 per cent price subsidy to farmers.

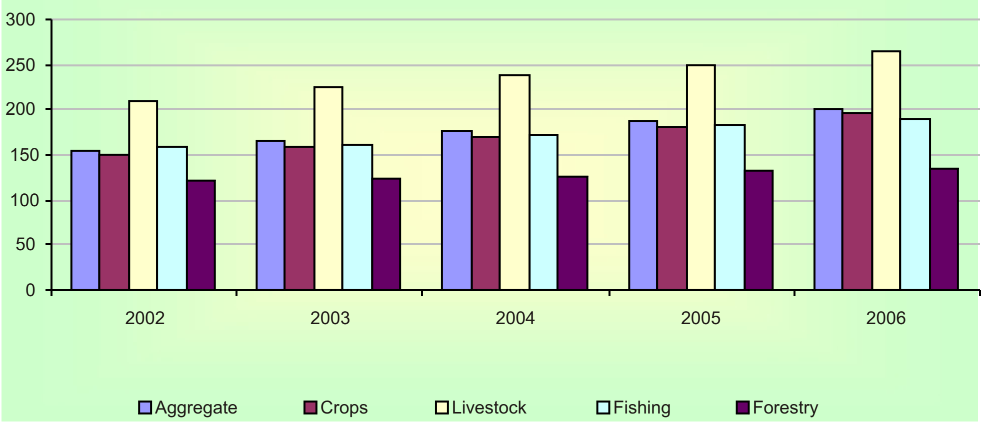
An Agricultural Credit Support Scheme (ACSS) was established to provide credit facilities to farmers at single digit interest rate, through the initiative of the Federal Government and the CBN. Under the scheme, the Federal Government, through the Presidential Committee on Financing of Agriculture (PCFA), mobilized N50.0 billion for on-lending to farmers and other agro-allied entrepreneurs nationwide, at an interest rate of 8.0 per cent for the 2006 farming season.

The Ministry of Agriculture, through the 15 agricultural research-related institutions and 12 Federal Colleges of Agriculture, developed and distributed high-yielding and disease-tolerant varieties of sorghum, soya bean, rice, oil palm, cocoa and rubber, among others, to farmers nationwide. In addition, a Nigerian layer parent stock was bred for commercial poultry farmers by the National Animal Production Research Institute (NAPRI) at Shika, Samaru. Government also supported the production and distribution of 429,069 grafted seedlings of mango capable of planting 4,201 ha; 700,000 budded seedlings of citrus capable of planting 3,432 ha; 10,000,000 suckers of pineapple capable of planting 250 ha; and 117,550 seedlings of avocado capable of planting 1,175 ha. These developments resulted in increased participation of farmers in investment in horticultural activities.

6.2.2 Agricultural Production

At 200.1 (1990=100), the provisional aggregate index of agricultural production increased by 7.1 per cent, compared with the 6.5 per cent recorded in 2005 and the last five years' average of 6.1 per cent. The growth also exceeded the target of 6.0 per cent set for the agricultural sector under the NEEDS programme.

Figure 6.6: Index of Agricultural Production (1990 = 100)



6.2.2.1 Crop Production

The output of staples grew by 8.0 per cent, compared with 6.8 per cent in 2005. All the major staple crops recorded increased output over the levels in the preceding year. Similarly, the output of cash crops increased by 5.4 per cent, compared with the level in the preceding year, as reflected in the components.

Table 6.2: Growth in Crop Production (%)

Crop	2005	2006	Crop	2005	2006
Wheat	6.2	6.0	Plantain	7.3	5.5
Sorghum	6.0	6.1	Potatoes	7.3	5.5
Rice	5.8	6.9	Yam	6.8	6.4
Maize	9.1	6.9	Beans	3.1	7.4
Millet	6.2	6.9	Cassava	8.0	10.8
Soya Bean	6.9	5.6	Palm Oil	5.0	5.9
Rubber	6.4	5.7	Cocoa	6.3	5.7

The improved performance of the crop sub-sector was attributed largely to the Federal Government's support for the agricultural sector in general, especially through the various Presidential Initiatives. Rice output grew by 6.9 per cent, a development attributed mainly to the increase in the acreage under cultivation and the introduction of the high-yielding NERICA rice variety, as well as the Rice Box technology. Under the programme, the acreage cultivated increased from 2.7 million hectares in 2005 to 2.8 million hectares in 2006. Productivity per hectare also increased from 1.49 tonnes in 1999 to 1.54 tonnes in 2006. The increase in the area cultivated was driven by the need to meet domestic demand in view of the proposed ban on rice importation. The expansion in rice production over the years has resulted in the reduction of rice importation from 2.0 million tonnes in 2003 to less than 1.0 million tonnes in 2006.

Cassava production grew by 10.8 per cent, propelled by the drive to increase cassava production for export and the Federal Government's directive to Nigeria's flour millers to include at least 10.0 per cent of cassava flour as input in the production of bread and other confectionaries. The Flour Millers Association of Nigeria supported this initiative by donating the sum of N500 million to the Presidential Initiative on Cassava.

Through the intervention of Federal Government's Cotton Development Programme, the output of seed cotton grew from 600,000 tonnes6in 2005 to 631,500 tonnes in 2006.

Box 6: The Presidential Initiative on Cassava Production and Export - Prospects and Matters Arising

Nigeria is currently the largest cassava producer in the world, with an estimated annual production of 49 million tonnes in 2006. Cassava is a major staple in Nigeria that has benefited from the agricultural policies and initiatives of government because of its numerous uses and bye-products. Each component of the plant is valuable. The leaves may be consumed as vegetable, cooked as soup ingredient or dried and fed to livestock as protein supplement. The stem is used for plant propagation and grafting. The roots are typically processed for human and industrial consumption. It possesses a number of other value-added market opportunities for industry.

About 90.0 per cent of total production is, however, consumed as food. The need for the country to fully harness the socio-economic potentials of cassava led to the setting up of the Presidential Initiative on Cassava Production and Export in 2002. The programme is to raise the production level from the current 49 million tonnes per annum to 150 million tonnes by 2010 to assist the country realize an income of US$5.0 billion per annum in three years from the export of cassava products and its derivatives, such as starch, cassava chips, pharmaceuticals, adhesives and other value-added products. The Presidential Initiative is aimed at diversifying and expanding the uses of cassava (ethanol, starch, livestock feed and household flour), as well as creating opportunities for income generation for the rural populace.

Under the Initiative, the following projects have been implemented:

- Production of 9.2 million bundles of breeder stock by the National Root Crops Research Institute (NRCRI), Umudike;
- Production of 73.2 million bundles of foundation stock by the Root and Tuber Expansion Programme (RTEP);
- Establishment of multiplication centres by the State Agricultural Development Programme (ADPs) to enable farmers have access to improved cassava varieties;
- Production and distribution of 576,000 bundles of improved cassava cuttings by State Agricultural Development Projects (ADPs) to farmers;
- Training of fabricators by the National Centre for Agricultural Mechanization (NCAM);
- Programme facilitation and sensitization workshop for cassava-producing states;
- Establishment of farm-gate primary processing centres for the production of primary products, such as cassava flour, chips and pellets;
- Organizing training workshops at the National Centre for Agricultural Mechanization (NCAM), Ilorin, for identified fabricators from various states on existing machines and equipment for pelleting, chipping, flour and starch making;
- Developing equipment for the processing of cassava products for export, in collaboration with the International Institute for Tropical Agriculture (IITA).

The Initiative has recorded the following achievements:

- Development of equipment for the processing of various cassava products targeted for the export market, in collaboration with IITA;
- Production/procurement of planting materials, such as breeders, foundation and certified stocks by the Root and Tuber Expansion Programme Management Unit (RTEP-MU), NRCRI Umudike and IITA;
- Collaborated with local communities to establish pilot cassava processing centres in each LGA of the cassava producing states for subsequent replication and adoption;
- Establishment of the National Cassava Development Committee (NCDC) and the National Technical Implementation Committee (NTIC);
- On-farm trials of forty-three newly improved cassava varieties out of which five have been selected for distribution to farmers. These varieties have the potential yield of 30-80 tonnes per hectares, compared with the former product yield of 12-15 tonnes per hectare;
- The productivity of most cassava farms has increased by 3.0 per cent since the Presidential Initiative commenced. The output of cassava has increased from 28 million tonnes in 2001 to about 49 million tonnes in 2006;
- Private sector investment in the cassava downstream activities has increased and most state governments have encouraged massive cassava production, processing and marketing. In addition, the Presidential Initiative, through the Ministry of Commerce, has facilitated the export of cassava chips; and
- Domestic utilization and consumption of cassava is being promoted and institutionalized as part of efforts To guarantee a ready market for cassava producers.

There are, however, challenges to the achievement of the objectives of the Initiative which need to be addressed. Some of these include high production costs attributable, largely, to infrastructural inadequacies, which limit the competitiveness of Nigeria's cassava at the International market. There is, therefore, the need to improve on infrastructure to reduce costs of production. Also, the current low level of production relative to the targeted 150 million metric tones, limits Nigeria's market share and revenue from cassava export. There is need to boost productivity in terms of yield per hectare and the actual acreage planted through widespread use of improved cassava varieties, adequate quantity/quality of fertilizers, agro-chemicals and appropriate technology. Flowing from the above is the need for funding the procurement of processing machinery and equipment that would extend cassava value-added and reduce post harvest-losses. To meet this challenge, farmers/entrepreneurs should be encouraged to form cooperatives or associations to enable them to access the array of credit facilities that are currently available.

6.2.2.2 Livestock

Livestock production rose by 6.0 per cent in 2006, compared with 5.0 per cent in the preceding year. As a result of the outbreak of Avian influenza in the early part of the year, the growth of poultry production slowed down considerably to 4.1 per cent, compared with 21.4 per cent in 2005. Egg production increased by 4.2 per cent to 604,300 tonnes in 2006. The recorded growth was attributed mainly to the quick recovery from the outbreak, following the intensive campaigns and distribution of the resistant Shika Brown Chicken, developed by NAPRI, to farmers.

To contain the spread of the outbreak of the Avian influenza, government adopted a policy which involved the slaughtering of infected flocks, safe disposal of the carcasses, decontamination of the farms, payment of compensation, improvements of biosecurity, control of the movement of birds and the strengthening of surveillance and disease reporting. A total of N107.6 million was paid as financial compensation to the affected farmers. Moreover, 170 surveillance centres were established nationwide in 2006.

Total milk production increased by 5.5 per cent to 1.3 million tonnes in 2006. Government initiated several programmes to increase domestic milk production and intensified campaigns on fresh milk consumption. The pilot Diary Development Programme continued in Kaduna with the formation of Milk Producers' Associations. Over 600,000 litres of milk, worth over N183.3 million, was procured from the pastoralists and processed into yogurt, fresh milk and butter.

6.2.2.3 Fishing

Fish output increased by 4.7 per cent, above its level in 2005to 600,600 tonnes. There was also an increase in fingerling production to 50.0 million in 2006, from 2.0 million in 2004. The production of table fish through aquaculture also increased from 30,000 tonnes to 80,000 tonnes in the same period. The 2006 production level of 0.6 million tonnes was much lower than the national demand of 1.5 million tonnes.

6.2.2.4 Forestry

Forestry production increased marginally by 1.5 per cent to 141.8 million cubic metres above its level in 2005. The rise was attributed to increased demand for wood products. In order to sustain wood production, the Forestry Research Institute of Nigeria (FRIN) has intensified its supply of improved breeder seedlings to replace the harvested tree stocks.

In spite of the remarkable performance of the agricultural sector in 2006, some problems constrained higher production. They included inadequate and untimely supply of fertilizers and other farming inputs, as well as the invasion of farms by quela birds in most parts of the Northern states.

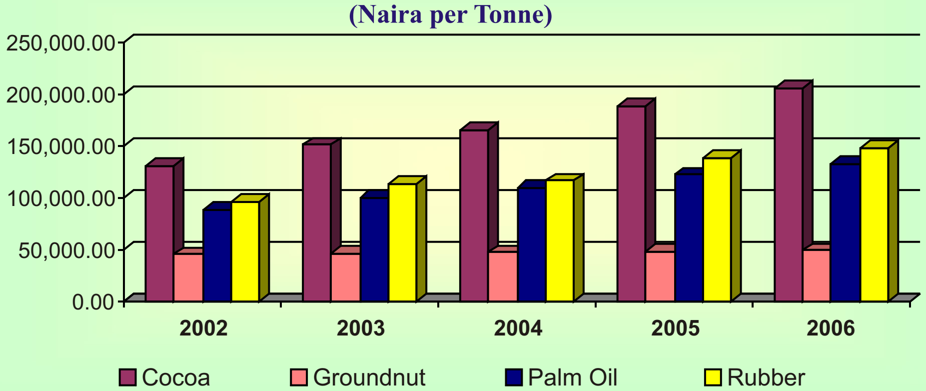
6.2.3 Agricultural Prices

The prices of most Nigerian agricultural export commodities were higher in 2006 than in the previous year. Although the prices of some commodities declined, the overall index computed in US dollar terms stood at 206.0 (1990=100), representing an increase of 19.5 per cent over the level in 2005. The price of coffee recorded the highest increase of 28.1 per cent, due to supply shortages which exerted an upward pressure on prices. The total world production of the crop in the year 2005/06 totalled 109.39 million bags[1], while the demand was about 116.0 million bags. The price of cocoa increased by 20.5 per cent over the 2005 level, due largely to speculative activities. For the 2005/06 cocoa year, world cocoa bean production was estimated to have grown by more than 6.0 per cent to 3,382,000 tonnes, compared with the previous season[2]. Palm oil and cotton also recorded price increases of 12.2 and 4.5 per cent, respectively. However, the price of copra and soya bean declined by 3.3 and 1.5 per cent, respectively. In naira terms, the all-commodities price index rose by 15.7 per cent to 2,521.3 (1990=100) in 2006. Coffee, cocoa, palm oil and cotton recorded price increases of 24.4, 17.0, 9.1 and 1.6 per cent, respectively, while copra and soya bean prices declined by 7.1 and 4.4 per cent, respectively.

[1] Source: International Coffee Organization (ICO)
[2] Source: International Cocoa Organization (ICCO)

In respect of domestic price formation, available information showed that the domestic producer prices of Nigeria's major agricultural commodities recorded a mixed trend in 2006. Of the thirteen commodities monitored, ten recorded price increases, ranging from 1.0 per cent for ginger (peeled) to 10.0 per cent for wheat. The increase was attributed to the high cost of farm inputs and increased demand from neighbouring countries. However, the prices of other commodities, such as coffee (Arabica), cotton and tea fell by 3.4, 4.3 and 7.3 per cent, respectively. The implication of the movements in domestic producer prices and the high cost of inputs is that the terms of trade for producers may have deteriorated in 2006.

Figure 6.7: Average Prices of Selected Cash Crops (Naira per Tonne)



6.3 INDUSTRY

6.3.1 Industrial Policy and Institutional Support

The industrial policy, as contained in the 2006 Federal Government budget, was anchored on the NEEDS. The overall objective was to achieve the following targets:

- Increase the annual growth of the manufacturing sector by at least 7.0 per cent per annum;
- Increase manufacturing capacity utilization to about 70.0 per cent by 2007;
- Increase the private sector contribution to total investment in industries to 70.0 per cent by 2007;
- Make the private sector play a pivotal role in the industrialization process, through public-private sector partnerships; and
- Support the development of the small and medium enterprises sub-sector.

Pursuant to the above, government continued the policy of privatization in 2006 and focused efforts on providing the enabling environment for core investors to take off and grow. The privatization programme was supported by the International Monetary Fund and the International Finance Corporation which granted Nigeria US$1.0 billion and US$120 million as Stand-by Arrangement and Term Lending Facilities, respectively. These loans complemented by the upgrade of some infrastructural facilities and the promotion of inflow of foreign private investment. Also, there was a substantial increase in the flow of funds from financial institutions to private enterprises, through the instrumentality of bank credit and development finance.

Other efforts included the removal of legal hurdles associated with the ownership of business ventures in Nigeria which had hitherto impeded foreign investment. Under the present fiscal regime, a foreign investor can repatriate unconditionally, dividends, profits and proceeds from foreign investment in Nigeria. Also, withholding tax was reduced from 10.0 to 7.5 per cent for nationals of countries which have a double taxation agreement with Nigeria. A comprehensive package for strengthening the institutional capacity of the Industrial Development Centres for effective service delivery, through the provision of new workshop equipment and the rehabilitation of dilapidated ones, was made in the 2006 budget.

The activities of the Presidential Inter-Ministerial Committee which had been set up in 2005 to ascertain the problems of investors, vis-à-vis the growth of manufacturing firms, continued in 2006. The Committee handled problems related to the dearth of raw materials, unfavourable import tariffs, etc., and made recommendations on incentives, tariffs and waivers. The Standard Organization of Nigeria (SON) scaled up its efforts at promoting the quality of domestic manufactures, in line with global practice. SON, therefore, commenced the compulsory certification of "Made in Nigeria" goods by operationalizing the Mandatory Assessment Programme (MANCAP) for local industries, effective January 2006.

Reforms in the Solid Minerals Sector in 2006

The following strategic initiatives were undertaken in 2006 to transform Nigeria's solid minerals sector into an irresistible mining destination for global capital:

- ***Development of a Policy on Solid Minerals Development***

The policy document, which was adopted by the Federal Executive Council on March 15, 2006 redefined solid minerals as a strategic sector for national development, with clear linkages to employment generation, wealth creation and poverty reduction.

- ***Review of the 1999 Minerals and Mining Act***

The amendment to the Minerals and Mining Act of 1999 was effected, with a focus on the security of tenure and easy access to mining titles, a competitive tax regime and an autonomous cadastre, as well as environmental and community issues.

- ***Establishment of the Mining Cadastre Office (MCO)***

The objective of the MCO was to provide a modern and transparent mining title registry with the responsibility for: granting licences by using objective criteria, applying "first-come, first-serve" rule, granting exclusivity of rights and ensuring security of tenure and transferability of mining titles. The Office which was officially opened to the public on May 2, 2006 received and processed more than 350 applications for licences during the year.

- ***Privatization of Nigerian Mining Corporation and the Nigerian Coal Corporation***

The Nigerian Mining Corporation and the Nigerian Coal Corporation were privatized for improved efficiency and production.

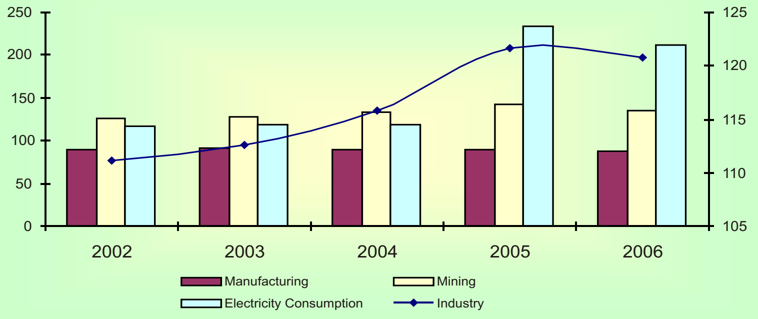
- ***Development of Industrial Minerals***

This involved the establishment of a funding window by the Federal Government, in collaboration with the private sector, to provide financial support to local miners of industrial minerals. Under this mechanism, N14 billion was set aside for the local production of barites.

6.3.2 Industrial Production

The index of industrial production, estimated at 120.8 (1990 = 100), fell by 0.7 per cent below the level in 2005. All the components manufacturing, mining, and electricity consumption registered a decrease in output and, thus, contributed to the overall fall in industrial production.

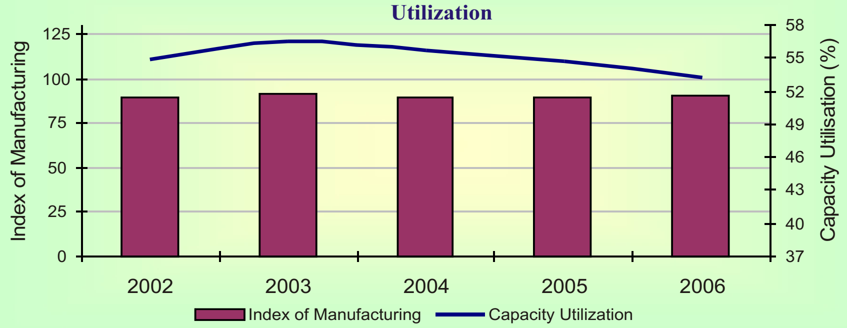
Figure 6.8: Index of Industrial Production (1990 = 100)



6.3.2.1 Manufacturing

The index of manufacturing production, estimated at 88.1 (1990 = 100), declined by 1.5 per cent below the level in 2005. Correspondingly, the average capacity utilization rate of the manufacturing sector declined from 54.8 per cent in 2005 to 53.3 per cent in 2006. The deterioration in performance was attributed to the worsening power supply situation, which raised the cost of production, and an unfair competition from cheaper imports. However, the output of the cement sub-sector improved substantially, owing to the refurbishment of cement plants across the country and an enhanced local cement production environment which boosted activities at the cement plants. Other initiatives that impacted on the manufacturing sector included the temporary ban on the importation of goods that can be produced locally, the surveillance activities of the National Food, Drugs Administration and Control (NAFDAC) and SON.

Figure 6.9: Index of Manufacturing Production and Capacity Utilization



6.3.2.2 Mining

6.3.2.2.1 Crude Oil

Nigeria's aggregate crude oil production, including condensates, averaged 2.23 million barrels per day (mbd) or 813.95 million barrels in 2006, compared with 2.53 mbd or 923.45 million barrels in 2005. This represented a decline of 11.9 per cent. The fall in oil output was due to several production shut-downs, especially by the Shell Petroleum Development Company (SPDC), Exxon Mobil, Nigerian Agip Oil Company (NAOC) and Chevron. The several shut-downs followed persistent disruptions of oil operations and vandalization of oil production facilities in the Niger Delta area. Also, the aggregate production cut by the Organisation of Petroleum Exporting Countries (OPEC) from 27.5 mbd to 26.3 mbd during the year reduced Nigeria's quota by 100,000 bpd to 2.206 mbd.

Nevertheless, Chevron, Exxon Mobil and Shell, opened the Meji Escravos, the Erha Oil Field offshore and the Bonga oil field, respectively. The new fields contributed 25,000, 45,000 and 200,000 bpd, respectively, and moderated the loss arising from disruptions in production. Aggregate export of crude oil averaged 1.80 mbd or 656.09 million barrels, compared with 2.08 mbd or 759.2 million barrels in 2005. The major importers of Nigerian crude included North America, which accounted for 51.9 per cent, while South America, the European region, Asia and the Far East, and Africa had 7.8, 16.5, 17.1 and 6.7 per cent, respectively. Allocations to domestic refineries remained unchanged at 445,000 barrels per day.

The average spot price of Nigeria's reference crude, the Bonny Light (37^0 API), stood at $66.46 per barrel in 2006, compared with $55.43 in 2005, and represented a 19.9 per cent increase. The average prices of the Forcados, UK Brent and West Texas Intermediate streams of crude also rose by 19.7, 19.9 and 17.1 per cent to $66.12, $65.00 and $65.78 a barrel, respectively. Also, the average price of OPEC's basket of twelve crude streams rose from $57.68 per barrel in 2005 to $ 61.50 in 2006. The price increases resulted from a higher demand for crude by China and India, as well as speculative activities. The prolonged face-off between Iran and the United States over the former's nuclear ambitions, as well as the general insecurity in the Middle East and the persistent crisis in the Niger Delta of Nigeria also fuelled speculations of possible disruptions in supply and induced price increases.

Figure 6.10: Growth Rate of Crude Oil Production and Prices

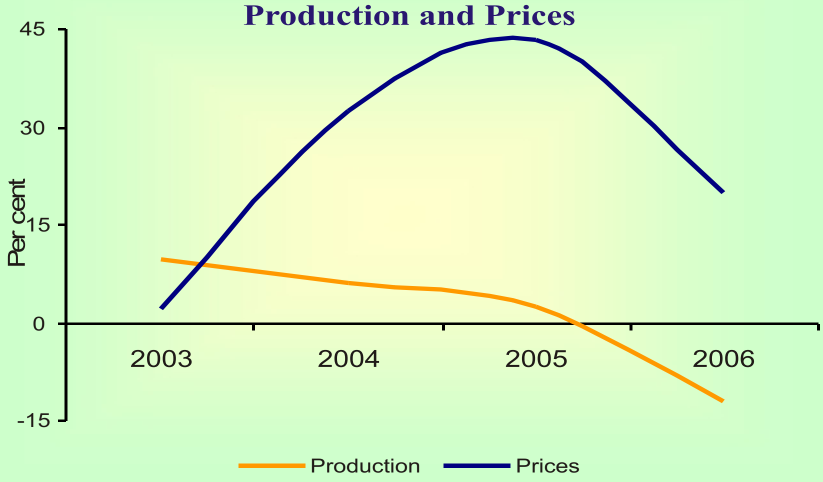
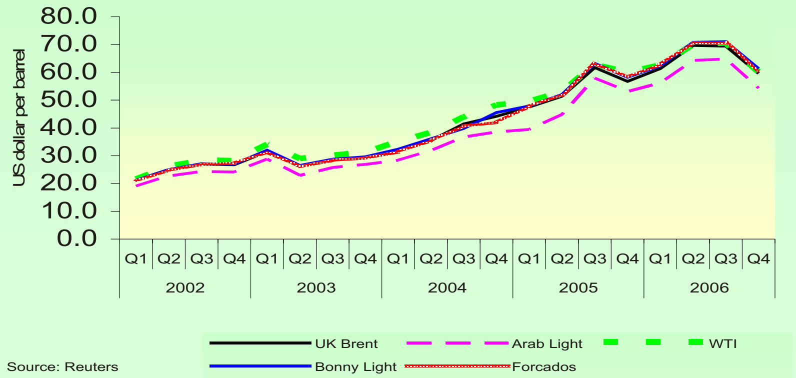


Figure 6.11: Average Spot Price of Selected Crudes Traded at the the International Oil Market (Quarterly Average)

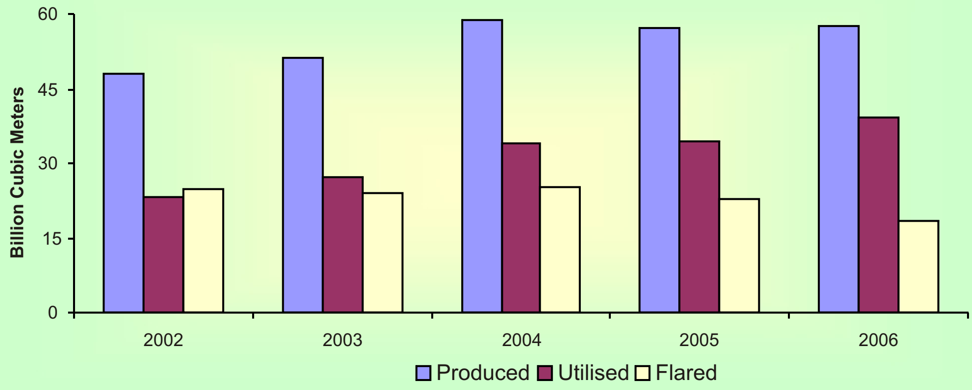


Source: Reuters

6.3.2.2.2 Gas

A total volume of 57,753.7 million cubic metres (MMm3) of natural gas was produced in 2006, compared with 57,369.4 MMm3 in 2005, indicating a marginal increase of 0.7 per cent. The marginal increase in natural gas production was attributed to the operationalization of some new oil fields, prominent among which was the 200,000 barrels per day Bonga oil field being operated by Shell Petroleum Development Company. Out of the quantity produced, 31.8 per cent was flared, while the balance of 68.2 per cent was utilized. Gas sold to industries, including the Nigeria Gas Company (NGC), the Power Holding Company of Nigeria (PHCN) as well as, cement and steel companies stood at 3.1 per cent. Gas converted to natural gas liquids and gas-lift accounted for 7.9 and 1.8 per cent, respectively. The oil-producing companies used 4.5 per cent as fuel gas. Further expansion in natural gas production was constrained by the substantial reduction in oil production.

Figure 6.12: Gas Production and Utilisation



6.3.2.2.3 Solid Minerals

Solid minerals production increased substantially in 2006, compared with the preceding year. Available data from the Ministry of Solid Minerals Development showed that aggregate output rose several folds, from 4,471,113 tonnes recorded in 2005 to 36,031,216 tonnes in 2006. The increase was accounted for by the rise in the production of all the minerals except tin, red alluvium, dolomite, silica sand, basalt, granite and mica that recorded zero production.

The production of cassiterite stood at 1,818 tonnes, up from 100 tonnes recorded in 2005. The output of limestone also surged to 15.3 million in 2006, from 1.2 million tonnes recorded in the preceding year, owing to increased demand by cement manufacturers. The aggregate production of sand, laterite and stones also rose with the increased activity in the building and construction sub-sector. Similarly, other minerals, such as marble, shale, columbite, barites, feldspar, gypsum, iron ore, phosphate, kaolin, clay, gemstone, tantalite, silica and wolframite also recorded increased production during the period under review. In addition, the production of such minerals as gold, lead/zinc, aquamarine, imenite, topaz, sapphire and zircon resumed. The exploitation of the deposits of tantalite, columbite, gemstone and gold discovered in Kaduna State also commenced.

The tremendous development recorded in the sector was largely attributed to the implementation of the various reform programmes of the Federal Government which served as a catalyst to both indigenous and foreign investments.

6.3.3 Electricity Generation

The total installed electricity generation capacity increased in 2006. At 7,011.6 MW, total installed capacity rose by 2.2 per cent, compared with the increase of 11.9 per cent in 2005. The growth in installed capacity resulted from the commissioning of the 150 MW Omoku power plant by the Rivers State Government in December 2006. In addition, progress was made in the construction of the following plants, under the National Integrated Power Projects (NIPPs): Geregu, Kogi State (414 MW), Omotosho, Ondo State (335 MW), Papalanto, Ogun State (335 MW) and Alaoji, Abia State (346 MW).

Despite the increase in installed generation capacity, electricity generation declined. At 2,638.1 mega watt per hour (MW/H), aggregate electricity generation fell by 5.1 per cent, in contrast to the increase of 0.6 per cent recorded in 2005. The decline was attributed largely to the low water level at the hydropower plants and the disruption of gas supply to the thermal plants, following the persistent vandalization of gas pipelines in the Niger Delta area. Lower electricity generation resulted in a reduction in electicity supply and the fourteen (14) system collapses experienced during the year. There were persistent power disruptions which negatively affected both industrial and domestic activities during the year.

Figure 6.13: Electric Power Generation

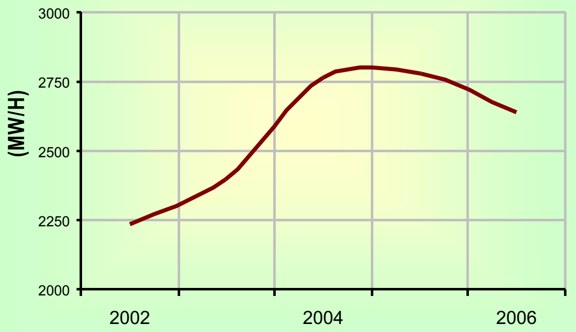
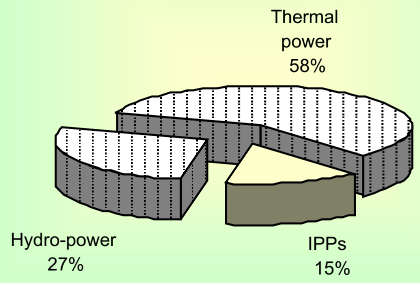


Figure 6.14: Nigeria's Power System Composition in 2006

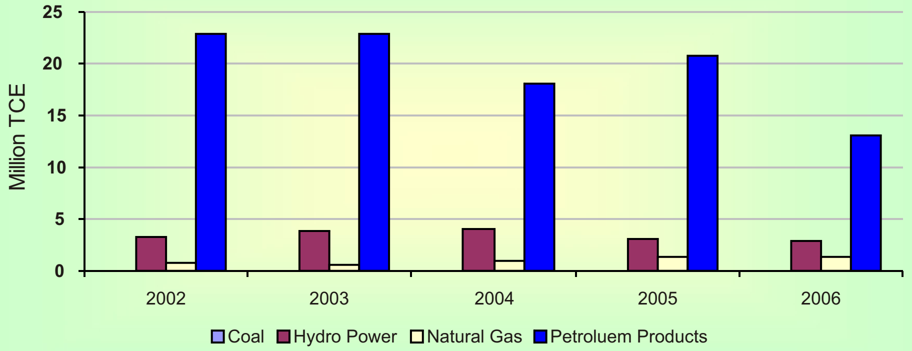


The composition of the electric power system was as follows: 1,900 MW of hydro-power (27.1 per cent) and 5,111.6 MW of thermal power (72.9 per cent), including independent power plants (IPPs). The PHCN accounted for 85.3 per cent of total electricity generation, while the IPPs accounted for the remaining 14.7 per cent.

6.3.4 Energy Consumption

The major energy sources in Nigeria were petroleum products, electricity, hydropower, coal and natural gas. There was a decline in aggregate energy consumption in 2006. At 170.0 (1990=100), the aggregate index of energy consumption declined by 0.7 per cent in 2006, compared with an increase of 0.5 per cent in the preceding year. The aggregate energy consumed fell from 24.5 million tonnes of coal equivalent (mtce) to 23.5 million tonnes in 2006, representing a decline of 4.1 per cent. The decline in aggregate consumption was attributed to the fall in the consumption of petroleum products (16.6 per cent), natural gas (10.3 per cent) and hydropower (2.7 per cent).

Figure 6.15: Energy Consumption



6.3.4.1 Petroleum Products

At 8,342,354.89 metric tonnes, the aggregate consumption of petroleum products declined by 20.1 per cent, compared with the level recorded in 2005. The decline was accounted for by the reduction in the consumption of liquefied petroleum gas (8.1 per cent), premium motor spirit (18.9 per cent), dual purpose kerosene (25.8 per cent), automotive gas oil (22.7 per cent), low pour fuel oil (42.5 per cent), and others (84.8 per cent). The decline in the aggregate consumption of petroleum products was attributable to supply shortages, owing to the poor performance of domestic refineries and the drop in the importation of the products.

6.3.4.2 Electricity Consumption

Electricity consumption fell by 7.0 per cent to 1,742.9 MW/h in 2006. The decline in consumption was accounted for by the frequent power outages recorded during the year, resulting from the deterioration in power transmission and distribution, which was traceable to the persistent vandalization of the distribution infrastructure. The gap between electricity generated and consumed reflected a loss of about 34.0 per cent of the generation, due mainly to the poor distribution network. Residential consumption accounted for 51.3 per cent of total electricity consumption, while commercial and street-lighting, and industrial consumption accounted for 26.7 and 22.0 per cent of the total, respectively.

6.3.4.3 Hydropower Consumption

At 2,965,770.7 tce, the consumption of hydropower declined by 2.7 per cent, compared with the level recorded in 2005. The decline was attributed to the poor performance of the hydroelectric power plants, owing to their obsolescence and the low water levels, especially during the fourth quarter of the year.

6.3.4.4 Coal Consumption

Aggregate coal consumption fell from 8,050.7 tce in 2005 to 500.5 tce in 2006, translating to a decline of 98.8 per cent. The decline was attributed to low industrial demand, arising from the continued shift to cleaner sources of energy.

6.3.4.5 Natural Gas Consumption

The consumption of natural gas at 1,310,102.5 tce declined by 5.4 per cent, compared with the level recorded in 2005. It accounted for 5.6 per cent of the total energy consumed in 2006, compared with 5.7 per cent in 2005. The decline in natural gas consumption was attributed to vandalization of the pipelines conveying gas to the turbines of the PHCN. The major gas consumption in 2006 was by the Nigeria Liquefied Natural Gas (NLNG) for export.

6.4 TRANSPORT AND COMMUNICATIONS

6.4.1 Reported Road Accidents

Available statistics from the National Bureau of Statistics (NBS) showed that the total number of reported road accidents, which stood at 8,962 in 2005, fell by 16.0 per cent to 7,528 in 2006. Similarly, the total number of persons involved dropped by 20.0 per cent, from 20,298 to 16,238. The resultant death toll dropped by 10.0 per cent to 4,067, from 4,519 in 2005. This positive development was attributed to the increased rehabilitation of roads across the country and effective patrols of the highways by the Federal Road Safety Commission.

6.4.2 Airline Services

6.4.2.1 Domestic Airlines

The operations of private domestic airlines improved in 2006. The improvement in the performance of the domestic airlines was attributable to several initiatives undertaken by government to ensure safety in the industry. Some of the measures included the recapitalization of the airlines to a minimum of N500.0 million for those flying the domestic routes. The capital base of the airlines on international routes was reviewed upwards to N1.0 billion for those on regional routes and N2.0 billion for those beyond the regional routes. Government also granted a N10.5 billion intervention fund to upgrade infrastructure facilities in the industry. In addition, the insurance premium in the industry was increased to $100.0 million to ensure speedy settlement of claims. Furthermore, the Civil Aviation Act, 2006, which gave autonomy to the Nigerian Civil Aviation Authority (NCAA) was passed into law.

6.4.2.2 Foreign Airlines

Similar to the situation an the domestic routes, the improved performance in foreign travel resulted from the Federal Government's efforts towards ensuring safety in the air.

6.4.3 Railway Services

The total length of rail lines remained very low, at 3,505 km in 2006, with a single guage and deteriorated locomotives. The number of locomotives was 46 in 2006, while the number of carriages and passenger traffic which stood at 752,482 million and 75,169,835 billion, fell by 60.0 and 10.0 per cent, respectively from the 2005 levels. During the year, the Federal Government signed a Memorandum of Understanding (MOU) with the Guangdong Xinguang International Group of China, to construct a revolutionary "fast" rail (RFR) system from Lagos to Abuja, as well as light rail lines to the Murtala Mohammed International Airport, Lagos, and the Nnamdi Azikiwe International Airport, Abuja. AIso, the government signed a $2.5 billion loan facility with China to finance the refurbishment of the railway system. Furthermore, a consortium of international and domestic private investors offered $1.4 billion, over a 10-year period, for the development of rail infrastructure and services in the country. The contract for the first phase, covering 1,315 km of double-track, standard guage line (1,435mm) from Lagos to Kano, with a branch from Minna to Abuja worth $8.3 billion, was signed during the year.

6.4.4 Communications

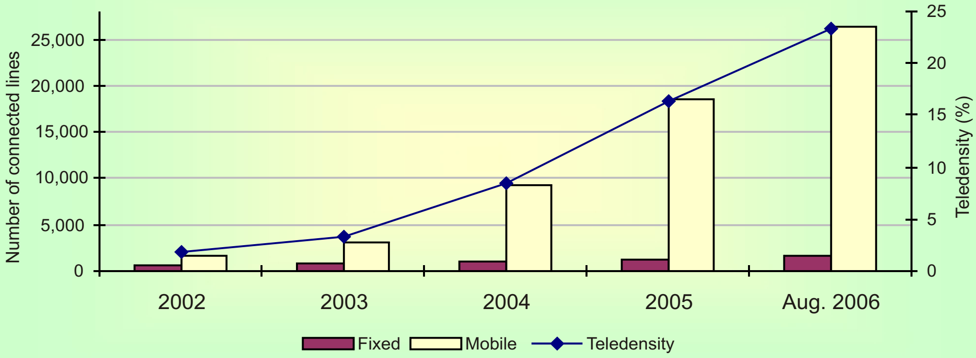
The communications sector further improved in 2006, driven mainly by the Global System of Mobile Communication (GSM). Foreign investment in the sector increased from $7,500 million in 2005 to $8,150 million in June 2006, indicating an increase of 8.7 per cent. The number of connected digital mobile lines rose phenomenally by 35.0 per cent as at June 2006, compared with the level in 2005. The number of operating Internet Service Providers (ISPs) also rose by 50.0 per cent as at June 2006.

Table 6.3: The Nigerian Telecommunications Market's Current Statistics

	1999	2002	2003	2004	2005	2006*
No. of Connected Fixed Lines ('000)	450	702	850	1,120	1,223	1,538
No. of Connected Digital Mobile Lines (million)	None	1.59	3.10	9.20	18.59	25.14
No. of National Carriers	1	2	2	2	2	2
No. of Operating ISPs	18	30	35	40	60	90
No. of Active Licensed Fixed Line Operators	9	16	30	17	20	27
Number of Licensed Mobile Operators	1	4	4	4	4	10**
Investment (US$ million)	50	2,100	4,000	6,000	7,500	8,150

Source: Nigerian Communications Commission (NCC)
**June 2006*
***Including operators with a unified licence who are licensed to do both fixed and mobile*

Figure 6.16 Trends of Total Connected Lines and Teledensity



As at December 2005, the sector had 1,223,258 connected fixed lines and 18,587,000 mobile lines, giving a combined subscriber strength of 19,810,258 lines, with a teledensity of 16.27 lines per 100 inhabitants. By August 2006, it was estimated that the country had a total of 27,949,894 lines (1,589,026 fixed and 26,360,868 mobile), with a corresponding increased teledensity of 23.29 lines per 100 inhabitants. This was significantly above the International Telecommunication Union (ITU) minimum standard of 1:100. Furthermore, the contribution of the sector to GDP increased by 30.8 per cent, from N8.59 billion in 2005 to N11.24 billion in 2006. The strong demand for Internet services and broadband capabilities aided the development of the fixed lines, although with a market penetration of just over 1.0 per cent. The majority of new lines were provided by fixed-wireless systems, and the new unified licensing regime introduced in 2006 will intensify the competition between fixed and mobile operators. Provisional data from the NCC showed that the total addressable market was 25-30 million households requiring telephone services.

The Nigerian Tele-communication Limited (NITEL) was privatized in August 2006, when the Transnational Corporation of Nigeria Plc (Transcorp) paid N63.0 billion (US$500.0 million) for a 51.0 per cent stake in the gateway.

6.5 UNEMPLOYMENT

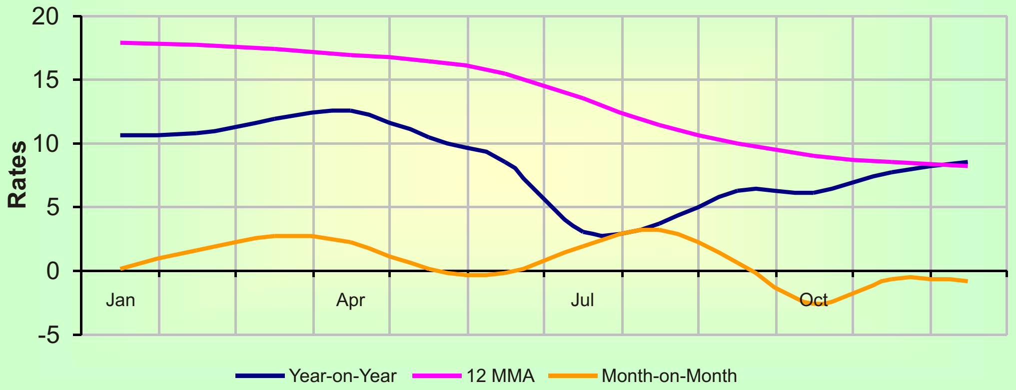
The result of the 2006 Nigerian Core Welfare Indicator (CWI) Survey by the National Bureau of Statistics indicated that general unemployment for persons 15 years and above was 3.8 per cent. Males had a higher rate of 4.1 per cent than females (3.5 per cent). Youth unemployment was estimated at 5.0 per cent with males having a higher rate (5.2 per cent) than females (4.8 per cent). The rate was higher in the urban areas (5.6 per cent) than the rural areas (4.7 per cent). Zonal disaggregation showed uneven distribution, with the South-South having the highest rate of 9.5 per cent and the North-West the lowest rate of 2.2 per cent.

Under-employment, defined as those who sought to increase their earnings, indicated a 12.5 per cent rate in the country. When disaggregated by sex, it was 14.6 per cent for males and 10.5 per cent for females. Under-employment was higher in the rural areas (13.0 per cent) than in the urban areas (11.5 per cent). On a zonal basis, it was highest in the South-South (16.4 per cent) and lowest in the North-Central (8.3 per cent).

6.6 CONSUMER PRICES

Inflationary pressures were largely contained in 2006 as the single digit inflation target was met. Data from the National Bureau for Statistics (NBS) showed that the all items Consumer Price Index (CPI) was 155.5 (May 2003=100) in December 2006, compared with 143.6 in the corresponding month of 2005. This represented a year-on-year headline inflation rate of 8.5 per cent, 3.0 percentage points below the figure recorded in December 2005. Thus, the national and WAMZ single digit inflation target was met.

Figure 6.17 Trends in Inflation in 2006



Similarly, the 12-month moving average headline inflation rate, at 17.9 per cent at end December, 2005 fell significantly to 8.2 per cent in 2006. The single digit inflation recorded during the year was attributed to several factors, including the clement weather experienced throughout the year, which induced good harvests for most agricultural commodities, the appreciation and relative stability of the naira exchange rate, as well as the effects of sound macroeconomic policies, especially monetary and fiscal policies.

Further analysis indicated that food inflation declined sharply and contributed largely to the moderation of overall headline inflation in 2006. The year-on-year food inflation rate fell consistently, from 14.7 per cent in January to -2.3 per cent in August 2006, but rose to 4.3 per cent in September and 5.4 per cent in November, before declining again to 3.9 per cent in December 2006.

In contrast, core inflation (all items, less farm produce) on a year-on-year basis rose steadily from 4.3 per cent in January to 16.6 per cent in April, after which it fluctuated downwards to 9.0 per cent in October 2006, but resumed an upward trend to close at 17.3 per cent in December 2006. The data also indicated that urban headline inflation rate (year-on-year) fell from 18.4 per cent in 2005 to 10.4 per cent in 2006, while the rural inflation rate declined from 8.4 per cent to 7.7 per cent.

The key drivers of headline inflation were the two constituent groups: housing, water, electricity, gas and other fuel, which contributed 3.0 percentage points, and food and non-alcholic beverages, which contributed 2.3 percentage points.

Figure 6.18: Trends in Inflation (Composite, Core & Food)

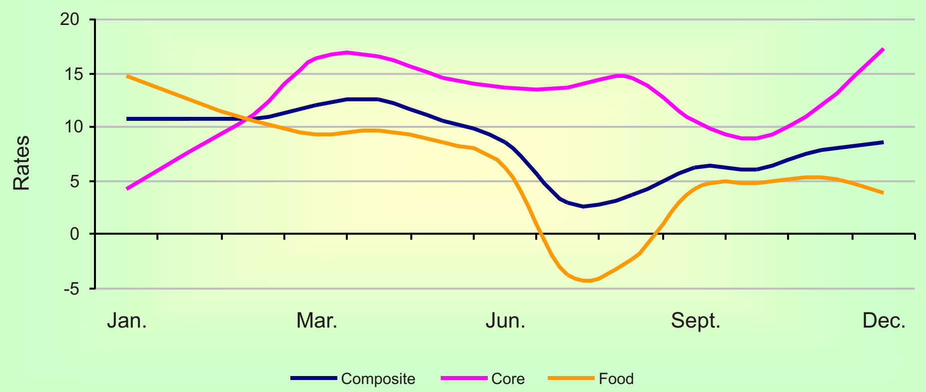


Figure 6.19: Contribution of Key Components to Headline Inflation (End of Period)

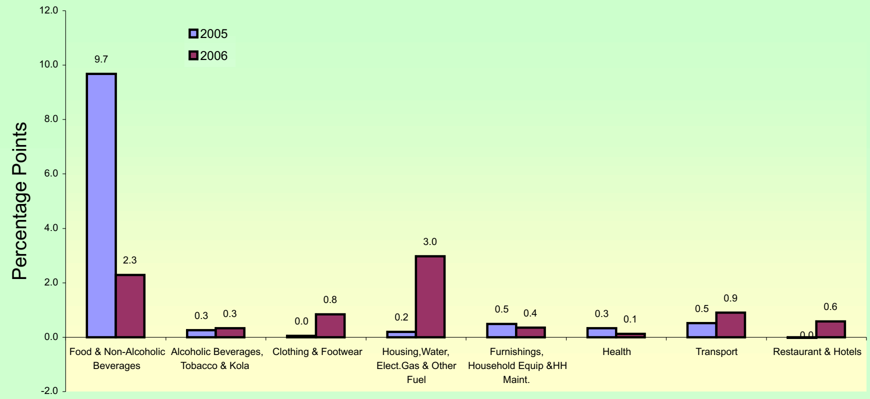


Table 6.4: Annual Headline Inflation Rate (Year -on-Year) (Per cent)

	2002	2003	2004	2005	2006
January	18.6	10.6	22.4	9.8	10.7
February	18.0	7.3	24.8	10.9	10.8
March	17.4	5.9	22.5	16.3	12.0
April	12.8	8.3	17.5	17.9	12.6
May	10.2	8.7	19.8	16.8	10.5
June	12.2	14.0	14.1	18.6	8.5
July	15.6	12.9	10.7	26.2	3.0
August	12.3	12.4	13.0	28.2	3.7
September	10.0	18.4	9.1	24.3	6.3
October	5.4	23.6	10.7	18.6	6.1
November	12.2	21.3	10.0	15.1	7.8
December	12.2	23.8	10.0	11.6	8.5
Average	***13.1***	***13.9***	***15.4***	***17.9***	***8.4***

6.7 THE SOCIAL SECTOR

6.7.1 Living Standards and Poverty Reduction

The results of the 2006 Nigerian Core Welfare Indicator (CWI) Survey by the NBS provided information on the poverty profile and living standards in Nigeria. The dependency ratio, which was defined as the total number of household members aged 0-14 years and 65 years and above to the number of household members aged 15-64 years, was 0.8. This indicated almost a one-to-one dependency ratio, and reflected the high population growth rate in the country. The Household Economic Situation in 2006, compared with 2005, showed that 32.0 per cent and 30.9 per cent of households in rural and urban Nigeria, respectively, were worse-off.

According to the survey, 13.0 per cent of the households in urban Nigeria had difficulty satisfying their basic food needs, which was below the national figure of 13.9 per cent. Almost two-thirds of the households in the country considered themselves poor and this was more prevalent in the female-headed households (68.8 per cent). A greater percentage of the households in the rural areas (65.5 per cent) were recorded to be poor. For the urban areas, the figure was 56.8 per cent.

6.7.2 Education

The Federal Government initiated the public-private sector partnership in the education sector. In this regard, it set up a 16-member committee to work out modalities for the public/private sector partnership in the management of the 102 unity schools in the country.

The Education Trust Fund set aside N5.0 billion to fund technical and vocational education, out of which N205.0 million was allocated to the Colleges of Education, N740.0 million to the Federal and State Ministries of Education, while the National Board for Technical Education and the National Business and Technical Examination Board were each allocated N20.0 million. The Federal Ministry of Education was also allocated N190.0 million.
Available data from the Core Welfare Indicators (CWI) of the NBS showed that the national primary school pupil enrolment rate was 61.5 per cent in 2006. On a regional basis the primary school enrolment rates were 82.3, 81.6, 76.8 and 72.5 per cent for the South-West, South-East, South-South and North-Central, respectively. The North-East and North-West had lower rates of 43.5 and 42.0 per cent, respectively. The proportion of males enrolled was 63.0 per cent, compared with 59.8 per cent for females. However, the primary school completion rate was estimated at 21.1 per cent in 2006, with the rural-urban dis-aggregation showing a 10.6 per cent completion rate for rural areas and 16.3 per cent for urban areas. The national secondary school enrolment rate was estimated at 45.6 per cent in 2006, with the males having a slightly lower enrolment (45.4 per cent) than the females (45.9 per cent). The secondary school enrolment rate in the rural areas was 39.6 per cent, compared to 59.3 per cent in urban areas. Adult literacy, defined as persons aged 15 years and above, who could read and write in any language, was estimated at 64.2 per cent in 2006, compared with 57.0 per cent in 2005. The urban areas recorded a higher rate of 78.6 per cent than the rural areas with 56.9 per cent. Analysis on the basis of gender showed that 73.0 per cent of adult literates were males. Youth literacy rate, for persons aged 15-24 years, was estimated at 76.5 per cent, with males recording 80.7 per cent and females 72.2 per cent.

6.7.3 Water Resources Development

The need to harness the nation's water resources in an integrated and sustainable manner to meet the present and future needs of Nigerians had been a great challenge to government. The water sector had enjoyed political support, which made the sector to be one of the key priority sectors in the national economic and empowerment agenda of government. This led to increased federal budget allocations to water, as well as the flow of Official Development Assistance (ODA) from foreign governments and development partners. For instance, government's budget allocation to the Ministry of Water Resources was N7.3 billion, N13.4 billion, N63.75 billion, N64.08 billion, N38.27 billion, and N37.53 billion in 1999, 2000, 2001, 2002, 2003 and 2004, respectively. It increased from N57.77 billion in 2005 to N75.76 billion in 2006, representing an increase of 31.1 per cent. Between 1999 and 2006, the total budgetary allocation to the water sector was N375.67 billion. This brought about an increased number of water programmes and projects which were aimed at increasing access to water supply and good sanitation, as well as improving food production, health care delivery, integrated rural development, employment generation and environmental protection. The main objective was to achieve the nation's medium-term objective as stipulated in the NEEDS document, as well as meeting the long-term targets of the Millennium Development Goals (MDGs).

6.7.4 Demography

The National Population Commission (NPopC) carried out a population and housing census in the country in 2006. The exercise was conducted from 21st 27th March, 2006 followed by a post-enumeration survey (PES) in June. The result of the census showed that the country's population stood at 140,003,542, with an annual growth rate of 3.2 per cent.

6.7.5 The Environment

While the development of Nigeria's oil sector has been beneficial to the economy, it has had an adverse impact on the environment. Oil extraction in the Niger Delta region has caused severe environmental degradation, owing to the legacy of oil spills and gas flaring, attributed largely to lax environmental regulations. Although the situation was improving with more stringent environmental regulations for the oil industry, marine pollution was still a serious problem. Air pollution from natural gas flaring, exhaust emissions from an explosion in car ownership and electricity generators continued to leave the environment shrouded in smog.

The use of solid biomass, such as fuel wood, was prevalent and constituted a major energy source for rural Nigeria. The production and consumption of commercial renewable energy remained quite limited. With Nigeria's growing population, the pressure on the country's environment would likely increase, even with the added focus on cleaning up the Niger Delta and tightening environmental laws and regulations.

CHAPTER 7

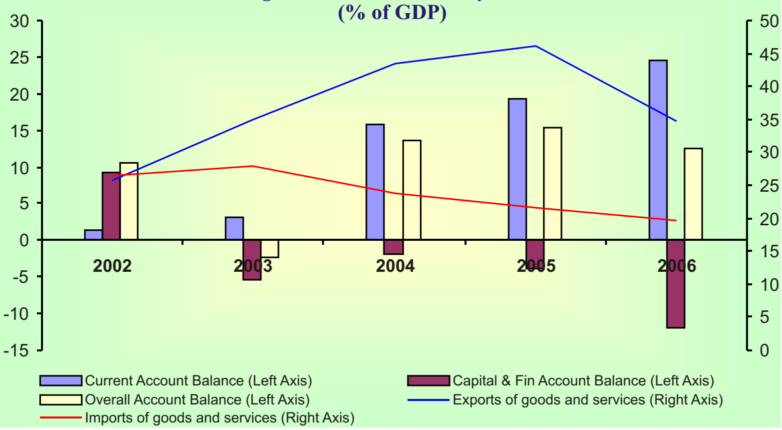
THE EXTERNAL SECTOR

The external sector expanded with a robust current accounts surplus and an improvement in net financial inflows. Consequently, the overall balance of payments was favourable, recording an estimated surplus of 9.7 per cent of GDP, compared with 9.2 per cent of GDP in the preceding year. The development reflected the combined effect of positive terms of trade occasioned by high international prices of export commodities, especially crude oil, increased inward transfers and other financial flows. The average price of crude oil rose from US$55.41 per barrel in 2005 to US$66.39 per barrel, while current transfers more than doubled during the year. The value of the current account surplus which has been on the increase since 2003 represented 24.5 per cent of GDP as against 28.2 per cent in 2005. The estimated deficit in the Capital and Financial Account was 14.7 per cent of GDP reflecting the severe pressure from the huge external debt payments to the Paris Club of Creditors to facilitate Nigeria's exit from the Paris Club debt. The country's total external debt outstanding after the Paris Club exit was US$3.54 billion in 2006, down from US$35.9 billion and US$20.47 billion in 2004 and 2005, respectively. The outstanding debt consists mainly of the London Club debts and promissory notes. The impact of the huge outflows was moderated by the higher foreign direct investments (FDI), resulting largely from the favourable macroeconomic conditions and business environment, favourable country rating by the International Rating Agencies, which buoyed investor confidence, and the de-listing of the country by the Financial Action Task Force. With the introduction of the Wholesale Dutch Auction System (WDAS), the effective exchange rate appreciated by 2.6 per cent against the US dollar. The stock of external reserves stood at US$42.3 billion indicating an increase of 49.6 per cent over the level at end-December, 2005. The external reserves position could finance 28.4 months of current imports, compared with 20.0 months in 2005 and the WAMZ convergence criterion of 6 months imports cover. A major challenge of the sector is the overbearing dependence on oil receipts in the past three decades.

7.1 CURRENT ACCOUNT

In 2006, the surplus in the current account was estimated to have increased by 6.1 per cent to N4,462.9 billion. Although the surplus in the goods account shrank, the huge net inward transfers compensated for the deficits in services and income accounts. The reduced surplus in the goods account (adjusted for balance of payments) reflected a lower oil export volume, which was partially offset by robust crude oil prices in the international oil market, and the surge in import bills. The outcome in the services and income accounts recorded a decline of 79.0 and 46.6 per cent, respectively. However, the surplus in current transfers (net) increased by 57.5 per cent over its level in 2005 to N1,336.1 billion, reflecting mainly home remittances by Nigerians living abroad.

Figure 7.1: Balance of Payments (% of GDP)



7.1.1 Goods Account

In 2006, total trade unadjusted for balance of payments (goods account) fell by 6.5 per cent to N8,280.8 billion. This was attributed mainly to the drop in export receipts as the value of imports increased in 2006. The non-oil component of total trade increased by 1.6 per cent, while the oil component decreased by 9.4 per cent. As in the previous years, the oil sector continued to dominate total trade, accounting for 70.5 per cent, compared with 72.9 per cent recorded in 2005, while the non-oil sector accounted for the balance. The total trade/GDP ratio declined from 59.4 per cent in 2005 to 45.4 per cent.

7.1.1.1 Imports Cost & Freight (c&f)

Import bills increased in 2006 by 2.0 per cent to N2,528.1 billion. This was accounted for by the increase in both the oil and non-oil components which rose by 21.0 and 0.5 per cent, respectively. The increase in non-oil sector imports was due largely to the surge in demand for raw materials and capital goods for the rehabilitation of the power sector as well as the enhanced domestic capacity to revamp the real sector.

(a) Imports by End-Users

Analysis of imports by end-users showed that the share of consumer goods in total imports rose by 2.5 percentage points to 47.0 per cent. The share of durable goods remained low at 4.7 per cent, while that of non-durable goods increased marginally by 0.5 percentage point to 42.3 per cent. The share of capital goods and raw materials imports as a group remained dominant, but decreased by 1.6 percentage points to 52.4 per cent of the total. The decrease was driven mainly by the relative share of raw materials imports, which dropped from 30.8 per cent in 2005 to 28.8 per cent. However, the share of capital goods increased marginally by 0.4 percentage point to 23.6 per cent.

Figure 7.2 Value of Imports, Exports and Trade Balance

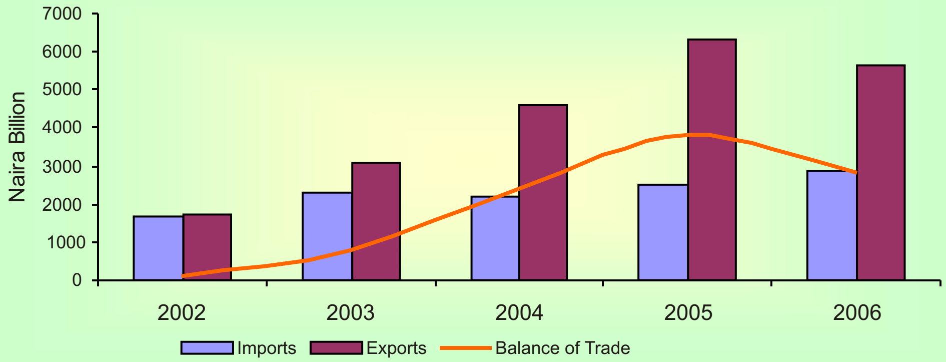
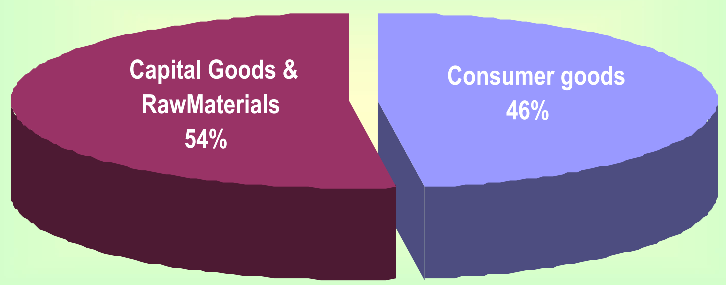


Figure 7.3: Imports by Major Groups in 2006



(b) Imports by Standard International Trade Classification (SITC)

Further analysis of imports, using the SITC revealed that the value of all import categories increased over their levels in 2005. The increase was as follows: 1.9 per cent for beverages, 3.4 per cent for animal and vegetable oils/fats, and 2.6 per cent for manufactured goods. Imports of manufactured goods dominated and accounted for 32.3 per cent of the total, followed by chemicals (24.1 per cent), and machinery and transport equipment (21.9 per cent). The high import of mineral fuel was attributable to the poor state of domestic refineries which necessitated the importation of refined fuel for domestic consumption.

(c) Non-Oil Imports by Country of Origin

A breakdown of imports by country of origin showed that non-oil imports from industrialized countries remained the highest in the share of total imports, as it increased by 2.0 percentage points to 59.0 per cent in 2006. The proportion of imports from African and Asian countries decreased by 0.4 percentage point each to 5.0 and 27.0 per cent, respectively. Imports from the United States of America, Japan and the Peoples Republic of China topped the list, with 22.2, 18.6 and 9.6 per cent of total non-oil imports, respectively.

7.1.1.2 Exports (fob)

At N5,752.7 billion in 2006, total export receipts were lower than the N 6,372.0 billion recorded in 2005. The bulk of the export proceeds were accounted for by crude oil (95.9 per cent) while gas and non-oil exports accounted for 1.8 per cent and 2.3 per cent, respectively. Aggregate oil sector exports decreased by 10.3 per cent below the level in 2005 reflecting the decline in production owing to the continued crisis in the Niger Delta. Crude oil production fell by 11.9 per cent from an average of 2.53 million barrels per day (mbd) in 2005 to 2.23 mbd. Provisional data put gas exports at N101.5 billion. However, non-oil exports (including estimates for unrecorded trade) increased by 26.1 per cent.

[a] Direction of Oil Exports

The North Americas as a group constituted the largest buyer of Nigeria's crude oil, followed by the countries of Asia and the far East as a group. The share of Nigeria's crude oil exports to the North Americas increased by 4.1 percentage point to 50.4 per cent. However, the value of export decreased from N2,875.7 billion in 2005 to N2,780.9 billion, while the volume of exports also decreased by 1.2 percentage points to 330.2 billion barrels. On a country-by-country basis, the United States of America (USA), remained the largest single importer of Nigeria's crude oil, accounting for 45.8 per cent of the total exports.

Figure 7.4: Non-Oil Imports By Origin in 2006

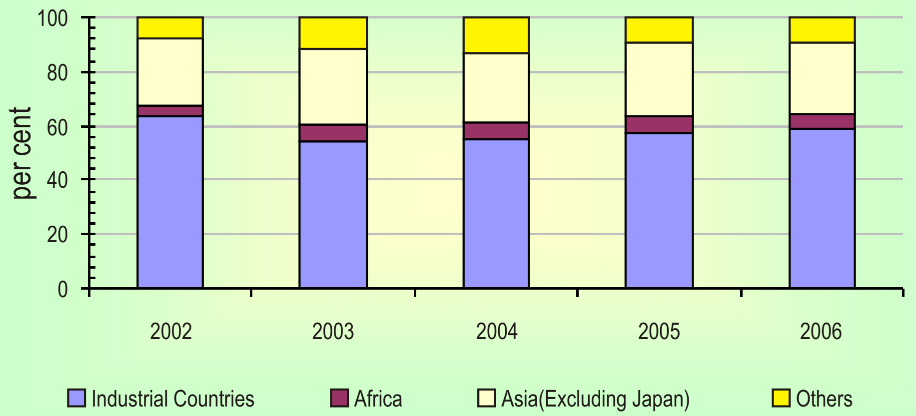
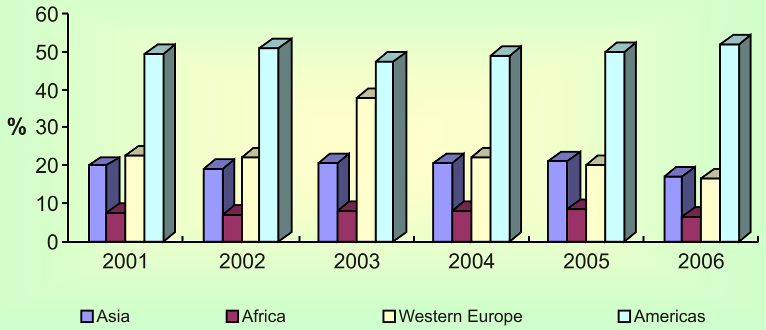


Figure 7.5: Direction of Crude oil Exports in 2006



The share of Asia and the far East as a group, rose by 1.7 percentage points to 18.7 per cent in 2006. The share of countries in Europe also decreased from 24.2 per cent in 2005 to 18.5 per cent. Both the value and volume of crude oil exports to African countries declined. At 6.1 per cent, the share of crude oil exports to African countries remained low when compared with the other regions. However, within Africa, Cote d'Ivoire remained the largest importer of Nigeria's crude oil, followed by Ghana and South Africa. Crude oil exports to Senegal remained the lowest at N33.1 billion in 2006.

[b] Non-oil Exports

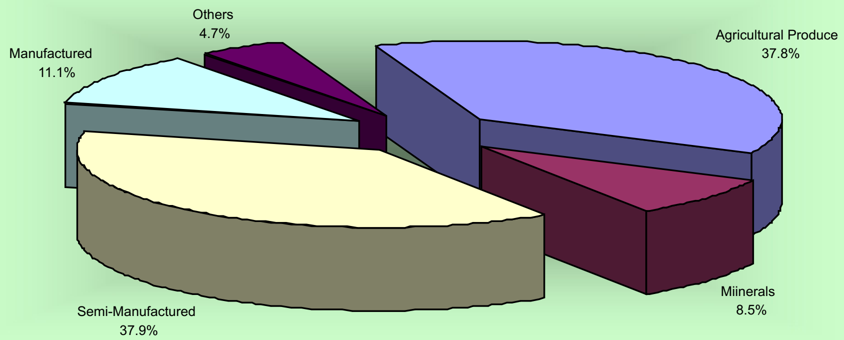
The value of non-oil exports increased by 26.1 per cent to N133.6 billion. Analysis of non-oil exports by product showed that semi-manufactured goods, agricultural produce, manufactured goods and minerals accounted for 37.9, 37.8, 11.1 and 8.5 per cent of the total, respectively. Other exports, comprised petroleum products, charcoal, scrap metals, crafts, urea ammonia and cement/lime products all of which accounted for 4.7 per cent. In the semi-manufactured goods category, processed skins, cocoa products, furniture/processed wood and textile yarn accounted for 26.6, 4.9, 1.4 and 0.8 per cent of the total non-oil exports, respectively. The share of cocoa bean, under the agricultural produce group increased by 1.4 percentage points to 13.9 per cent, while the share of rubber, fish/shrimp and cotton, fell by 0.8, 0.4 and 3.0 percentage points to 5.4, 6.9 and 3.4 per cent, respectively.

The prices of Nigeria's major agricultural export commodities, namely, coffee, cocoa, palm oil and cotton increased during 2006. Specifically, the price of coffee in the international market increased by 28.1 per cent, while that of cocoa, palm oil and cotton increased by 20.5, 12.2 and 4.5 per cent, respectively.

[c] Performance of Top Hundred Non-oil Exporters

Available data on the top 100 non-oil exporters in Nigeria for 2006 indicated that the export of ginger/cotton/cocoa products by Olam Nigeria Limited ranked top and was valued at N17,522.3 million, or 16.0

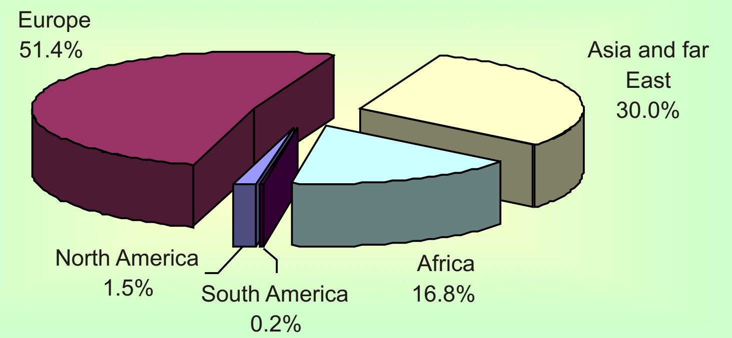
Figure 7.6: Non-Oil Exports by Products in 2006



per cent of total non-oil exports. This was followed by Fata Trading Enterprises which exported processed leather valued N8,410.2 million, or 7.7 per cent of total, while the third was Mario Jose Enterprises Ltd, an exporter of finished leather.

[D]Direction of Non-oil Exports
Analysis of the direction of non-oil exports revealed that Europe remained the major importer of Nigeria's exports with a share of 51.4 per cent, followed by Asia and the Far East which accounted for 30.0 per cent of non-oil exports. Other importers included African countries (16.8 per cent), North America (1.6 per cent) and South America (0.2 per cent). Exports to the Americas have remained low despite the incentives provided for expanding the African share of the American market in the African Growth Opportunity Act (AGOA).

Figure 7.7: Direction of Non-Oil Exports



7.1.2 Services Account

Transactions in the services account (net) improved significantly with a much lower deficit of N44.2 billion, compared with N210.2 billion in 2005. The deficit reflected the out-payments in respect of travels, freight charges for imports and other business services comprising operational leasing and miscellaneous, business and professional services. The payments for transportation and travels amounted to N455.7 billion and N204.8 billion, respectively. Furthermore, net payments in respect of public sector travels and freight remained high at N183.6 billion and N419.0 billion, respectively. The persistent deficit in the services account was attributable to the dominance of the freight business by non-residents, as well as the increased volume of business and private travels abroad by Nigerians.

7.1.3 Income Account

The pressure on the income account (net) moderated as the deficit narrowed from N573.9 billion in 2005 to N306.4 billion. The narrowing of the deficit reflected, partly, the improvement in interest earnings from the external reserves investments. In addition, interest payments on external loans decreased from N4.9 billion to N1.2 billion, following the debt relief from the Paris Club. The receipts from interest on external reserves and other investments increased substantially by 132.8 per cent to N215.1 billion, reflecting the high level of external reserves, as well as the proactive reserves management strategy adopted by the CBN. As part of the strategy, approvals were given for the appointment of a Global Custodian and fourteen (14) external asset managers to manage part of the reserves.

7.1.4 Current Transfers

The surplus in the current transfers (net) increased by 57.5 per cent to N1,336.1 billion in 2006, compared with the level in the preceding year, on account of increased personal home remittances by Nigerian migrants abroad and private sector transfers in-kind. The inward transfers at N1348.6 billion outweighed the outward transfers of N12.5 billion recorded in the general government accounts for the expenses of foreign embassies, payments to international organizations, and the remittances of foreigners resident in the country.

Table 7.1: CURRENT TRANSFERS (₦ Billion)

	2005	2006
INFLOWS (credit)	874.16	1348.64
1.General Government (grants, ODA, TA & Gifts)	Na	Na
2. Other Sector Workers' Remittances and other transfers in- kind	874.16	1348.64
OUTFLOWS (debit)	14.52	12.54
1.General Government (Payments to International Organizations & other payments)	11.91	8.06
2. Other Sector Workers' Remittances and other transfers	2.61	4.48
NET CURRENT TRANSFERS	859.64	1336.1

Box 7: STATUS OF CURRENT AND CAPITAL ACCOUNTS LIBERALIZATION IN NIGERIA

In the last two decades, the rapid integration of the global economy has triggered a phenomenal increase in international financial transactions, leading to growth in international capital flows. This was facilitated by the progressive removal of restrictions on current and capital account transactions of the balance of payments account, implementation of various macroeconomic policy reforms, as well as the increased application of information and communications technology. In Nigeria, the exchange arrangement from the 1960s to the mid-1980s was a control regime, which gave way to the deregulation of the foreign exchange market and the liberalization of the financial markets in the wake of the structural adjustment programme (SAP) adopted in 1986. Since then, other legislation, such as the Foreign Currency (Domiciliary account) Act and the Second-Tier Foreign Exchange Market Act had governed capital flows management in the economy. The enactment of the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act 1995 repealed all previous legislation and moved the economy towards full liberalization. Major current and capital accounts transactions in the economy have been substantially liberalized although minor administrative restrictions may be noticed in a few transactions. For instance, efforts at liberalizing the current accounts transactions which comprised trade in goods (visible), trade in services (invisible), payments of factor incomes and international transfers, included the removal of controls through the promulgation of the Foreign Exchange Miscellaneous Act of 1995, coupled with trade reforms. In 2000 2006, the economy witnessed further liberalization with the progressive reduction of the prohibition list, reduction in tariffs, and the acceptance of the Common External Tariff (CET) policy for the Economic Community of West African States (ECOWAS) member countries. Beside the temporary existence of some vestiges in the negative lists, the current account is near full liberalization. Also, transactions in current account have virtually been devoid of documentation. In March, 2006, the Central Bank of Nigeria (CBN) further liberalized the Foreign Exchange Market as well as other current account transactions, and launched a revised foreign exchange manual in September, 2006 to give full effect to the documentation policy. Authorized dealers are now allowed to approve all current account transactions covered in the foreign exchange manual without reference to the CBN.

The current status of capital account liberalization in Nigeria has followed a systematic reduction of restrictions on capital flows into the economy including the following measures:

- Foreign investors are allowed to invest in government bonds and securities of not less than one year maturity, subject to the issuance ofa Certificate of Capital Importation (CCI) by the processing bank.
- Foreign investors are allowed to invest directly in equity as well as in the capital market through a broker but they are to obtain a CCI as evidence of such investment.

In all this, the investor is guaranteed unrestricted repatriation of proceeds. It is important to state that in the case of investment in government bonds/securities, a foreign investor can divest the investment before maturity by the transfer of the underlying CCI to the new investor. In addition, investors do have unfettered access to non-government securities, such as Bankers Acceptances, etc.

- Foreign investors are allowed to extend loans to private Nigerian entities without restrictions. Such loans could either be in the form of capital or supplier's credit and to be evidenced by the issuance of a CCI to facilitate repayment of principal/interest. However, such loans are without government guarantee.

NIGERIA'S STATUS ON CURRENT AND CAPITAL ACCOUNT LIBERALIZATION

	CURRENT ACCOUNT TRANSACTIONS	STATUS	REMARK
1.	Goods (Trade) Account	Partially Liberalized	Liberalized except for few items on the negative lists
2.	Services	Liberalized	Documentation removed, effective 2006
3.	Income	Liberalized	Documentation removed, effective 2006
4.	Current Transfers	Liberalized	Documentation removed effective, 2006. Foreigners granted 100% remittance of earned income
	CAPITAL AND FINANCIAL ACCOUNT TRANSACTIONS		
5.	Capital Transfers	Liberalized	
6.	Direct Investment	Liberalized	Investors guaranteed unfettered access to funds
7.	Portfolio Investment	Partially Liberalized	Investment in money market securities must be for a maturity period of at least one year. Investors guaranteed unfettered access to funds
8.	Other Investment	Liberalized	Non-residents free to extend loans, but without government guarantee

- With effect from March 2006, Nigerian residents are allowed to invest in foreign currency denominated securities, subject to the repatriation of proceeds from such investment. The repatriated proceeds must be credited to the domiciliary account of the investor for own use and/or deepening the inter-bank market while Authorized Dealers are required to render monthly returns on the transaction to CBN
- Holders of both ordinary and exports proceeds domiciliary accounts are guaranteed unrestricted access to the use of their funds. They are free to sell the funds to their bankers or any party of their choice by mere transfer instructions.

A major challenge to the process of full liberalization of these accounts in the past years, is the sustainability which should include a policy regime devoid of slippages. The sustainability will also depend on a macroeconomic environment characterized by a low level of inflation, fiscal discipline, relatively stable exchange and interest rates, as well as a low external debt profile.

7.2 CAPITAL AND FINANCIAL ACCOUNTS

In 2006, pressure on the capital and financial account moderated as the deficit of N2,827.0 billion recorded in 2005 narrowed to N2,672.4 billion. Foreign direct investment increased by 89.5 per cent to N573.8 billion. The sizeable improvement in foreign direct investment was attributable to the positive effect of the robust macroeconomic environment, an improved business environment, a favourable country rating by two international rating agencies which boosted investor confidence, the general shift by investors to emerging and developing economies which tended to post higher returns on investment vis-à-vis other destinations, and the de-listing of the country by the Financial Action Task Force (FATF). Net claims on the rest of the world remained huge at N2,620.8 billion representing credits in respect of the activities of resident companies, especially in the oil and gas sectors. The deficit in the long-term capital (amortization due) further widened by 19.3 per cent to N752.1 billion, representing the huge claims on the Federal Government for the exit from the Paris Club of Creditors debt buy-back.

7.3 EXTERNAL ASSETS

Total external assets as at end-December 2006 was N6,258.0 billion (US$48.8 billion), indicating an increase of N1,980.3 billion or 46.3 per cent over the level in the proceeding year. The CBN foreign exchange holdings increased from N3,835.3 billion (US$29.7 million) at end-2005 to N5,617.2 billion (US$42.3 billion) in 2006. The rise was attributed to the favourable export earnings from the oil sector, buoyed by the sustained high crude oil prices throughout the year. However, the share of CBN foreign assets in total external assets more or less remained unchanged at 89.8 per cent, compared with 89.7 per cent in 2005, while the net foreign asset holdings of DMBs accounted for 10.2 per cent, compared with 10.3 per cent at the end of 2005.

7.4 EXCHANGE RATE MOVEMENTS

The exchange rate was generally stable in 2006 and, for the first time, there was a convergence of rates among the various segments of the foreign exchange market. The average exchange rate of the naira in all the segments of the foreign exchange market appreciated, with an average effective exchange rate of N128.65 a dollar at the WDAS as against N132.05 a dollar in 2005. This indicated an appreciation of 2.6 per cent.

Analysis of the volatility in the foreign exchange market revealed that the rate in the official and inter-bank segments were relatively stable in 2006. However, the bureaux de change witnessed minor swings before stabilizing in the second half of the year, occasioned by a major shift in policy which allowed BDCs access to the CBN window to deepen the market and curtail destabilizing speculations.

Figure 7.8: Number of Months of Import Equivalent of External Reserves (2003 - 2006)

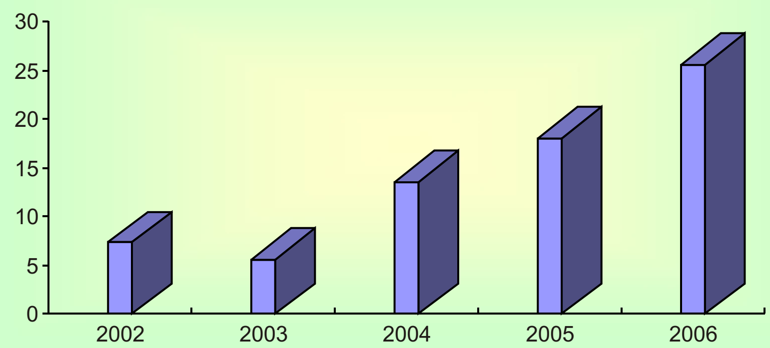
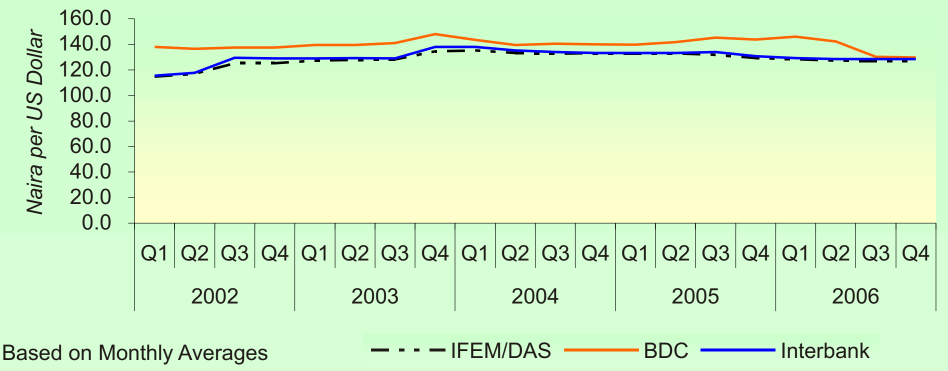


Figure 7.9: Exchange Rate of the Naira vis-a-vis US Dollar (Quarterly Average)



Analysis of the cross rates among other major currencies revealed that the naira also exhibited relative appreciation vis-à-vis these major currencies. The naira appreciated significantly against the Japanese yen (8.9 per cent), the Swiss franc (3.6 per cent), the US dollar (3.4 per cent), the pound sterling (1.5 per cent), and the euro (0.6 per cent).

Based on a currency basket of the major trading partners, namely, Brazil, China, Euro Zone, India, Indonesia, Japan, the United Kingdom and the United States of America, the nominal effective exchange rate (NEER) appreciated by 2.5 per cent in 2006 as against a depreciation of 6.9 per cent in 2005. The real effective exchange rate (REER) showed an appreciation of 8.1 per cent by end-December 2006, compared with 0.2 per cent in 2005, reflecting the relative price movements between Nigeria and its major trading partners and, therefore, a loss in external competitiveness of the economy.

Figure 7.10: Nominal and Real Effective Exchange Rate Indices (May 2003=100)

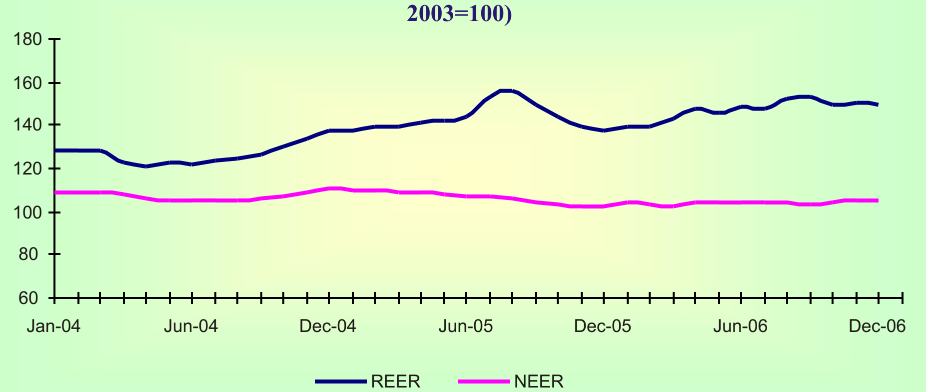


Table 7.2: Nominal and Real Effective Exchange Rate Indices (May 2003 = 100)

		NEER	REER
Monthly Average	Dec '04	110.54	137.67
	Dec'05	102.87	137.95
	Dec'06	105.48	149.19
Annual Average	Dec '04	107.07	126.67
	Dec'05	106.58	143.74
	Dec'06	104.07	148.22
Percentage Change (Point-to-Point)	Dec '04	0.2	6.8
	Dec'05	-6.9	0.2
	Dec'06	2.5	8.1
Percentage Change (Annual Average)	Dec '04	6.4	18.7
	Dec'05	-0.5	13.5
	Dec'06	-2.4	3.1

Box 8: INSTITUTIONAL ARRANGEMENTS FOR FOREIGN DIRECT INVESTMENT IN NIGERIA

With an estimated population of 140 million, Nigeria offers investors a low-cost labour pool, abundant natural resources, and potentially the largest domestic market in sub-Saharan Africa. The Federal Government embarked on a reform programme in late 2003 - the National Economic Empowerment and Development Strategy (NEEDS) and capital controls have been remarkably liberalized, especially with respect to foreign direct investment (FDI). The Nigerian Investment Promotion Commission (NIPC) Decree of 1995 allows 100 per cent foreign ownership of firms outside the petroleum sector, where investment is limited to existing joint ventures or new production-sharing agreements. Industries considered crucial to national security, such as firearms, ammunition, and military and paramilitary apparel, are reserved for domestic investors. Foreign investors must register with the NIPC, after incorporation, under the Companies and Allied Matters Decree of 1990. The decree prohibits the nationalization or expropriation of foreign enterprises except in cases of national interest. Other legal frameworks that influence capital flows into Nigeria include the Securities and Exchange Act of 1999, the Foreign Exchange Act of 1995, the Money Laundering Act of 2003, the Banking and Other Financial Institutions Act of 1991, and the National Office for Technology Acquisition and Promotion Act of 1979. The Government has also substantially opened up Nigeria's telecommunications sector. The Telecommunications Act of 2001 authorizes the Nigerian Communications Commission (NCC) to issue licences to existing and prospective service providers. Telecommunications deregulation has led to the issuance of licences for fixed wireless networks, Internet services, and VSAT (very small aperture terminal) satellite telecommunications equipment services. In 2006, Nigeria and China signed a US$8.3 billion contract for the construction of the railway line from Lagos to Kano as part of an integrated transportation system for the country covering land, air and maritime transport. Also during the year, the Chinese Government granted Nigeria a $2.5-billion loan facility of which a substantial amount would be used on the rail project. The project would create additional 50, 000 jobs. Similarly, the Government of Austria proposed an investment package totalling about $5 billion from its private investors to assist in the development of the Nigerian energy sector. The Nigerian National Petroleum Corporation (NNPC) and its Joint Venture partner, Mobil Oil Producing Nigeria (MBN), and a consortium of eight Nigerian banks are to provide $600 million for investment in the oil and gas sector.

The NIPC established a One-Stop Investment Centre (OSIC). The process, coordinated by the NIPC, provides frontline services that guarantee the approval time of 24 hours for business entry. "The One Stop Shop (OSS) covers investment in all sectors of the economy, including oil and gas. The core benefits of the process are: a reduction in the cost of doing business in Nigeria, ease of FDI and investment tracking, and simplification of procedures. The OSS process would shorten and simplify administrative procedures and guidelines for issuance of business approvals, permits and licences thereby removing the bottlenecks faced by investors in establishing and running businesses in Nigeria. Types of services available in the first phase of OSS include business incorporation, registration and authorization, instant granting of approvals-in-principle, permits and licences, and the provision of investment information. The process is under one roof at NIPC, involving officials of the NIPC, the Corporate Affairs Commission (CAC), the Nigeria Immigration Service (NIS), the Nigeria Customs Service (NCS), and the Federal Inland Revenue Service (FIRS). Also involved are the National Office for Technology Acquisition and Promotion (NOTAP), the Federal Capital Territory (FCT), the National Agency for Food, Drugs Administration and Control (NAFDAC), and the Central Bank of Nigeria (CBN). Other participating government agencies in the first phase are the National Bureau of Statistics (NBS), the Ministry of Solid Minerals Development, the Ministry of Finance and the Standard Organization of Nigeria (SON).

CHAPTER 8

INTERNATIONAL AND REGIONAL INSTITUTIONS

The IMF Annual Spring Meetings centred on a number of global issues which included, world economic prospects, trade, the MDGs, IMF medium-term strategy, and enhancement of the participation and voice of low income countries in the international monetary system. The members canvassed for increased aid commitments and debt relief for sub-Saharan Africa and South Asian countries to meet the MDGs. Nigeria met some of the assessment criteria and structural benchmarks of the Policy Support Instrument (PSI) in 2006 and signed a bilateral trade agreement with Ethiopia and memorandums of understanding (MOUs) with Luxembourg and Iran. It concluded negotiations on energy, transportation, the environment and education with Russia and banks' guarantees for loans to Small and Medium Scale Enterprises (SMEs) with the U.S.A. At the regional level, the West African Monetary Institute (WAMI), under the West African Monetary Zone (WAMZ), was to effectively monitor and review macroeconomic convergence programmes for the creation of a customs union; develop a zonal payments and settlement system for cross-border transactions; ensure statistical harmonization, financial sector integration, and ratification of the WAMZ legal instruments; activate WAMZ institutions; promote sensitization programmes; and prepare towards a common currency in 2009.

8.1 INTERNATIONAL MONETARY SYSTEM

The 2006 Annual Spring Meetings of the Group of Twenty Four Developing Countries (G-24), the Boards of Governors of the International Monetary Fund (IMF) and the World Bank Group considered issues on global economic prospects, trade, the MDGs, the IMF medium-term strategy, voice and representation of developing countries, clean energy, and climate change. The forum expressed concern about the persistence of poverty, the widening global imbalances and the inability of many countries in sub-Saharan Africa and South Asia to meet the MDGs by 2015. Member nations called for an increase in aid commitments and a deepening of debt relief, as agreed in 2005.

At the Meetings, the Board of Governors of the IMF adopted a resolution on quota and voice reforms in the IMF. The reforms aimed at aligning the IMF's quota shares with members' relative economic strength, while enhancing the participation and voice of low-income countries in the IMF. The Governors also endorsed the progress made in implementing the medium-term strategy (MTS). Members expressed disappointment at the suspension of the Doha Round of multilateral trade negotiations, stressing that the current trading system was heavily biased against developing countries, owing to the wide range of harmful subsidies, tariff escalation schemes, and non-tariff restrictions being maintained by industrialized countries.

The Development Committee of the World Bank considered the report on aid effectiveness and governance. The Bank identified four recipes for good governance - building policies and institutions, meting out punishment, improving public financial management through measures from the training of auditors to computerizing public payrolls, and engaging civil society. It agreed with the assertion by Nigeria that tracing and recovering looted funds would deter large-scale corruption and make countries take ownership of the process.

8.1.1 The International Monetary Fund

The Fund commended the Nigerian authorities for continuing with the implementation of relevant reforms. Performance under the Policy Support Instrument was evaluated on the basis of the Federal Government's non-oil primary balance, reserve money, net foreign assets of the Central Bank of Nigeria, new concessional external debt by the public sector, external arrears and memorandum items (oil production, oil price, petroleum profit tax, external debt service, states and local governments' non-oil primary balances). After two reviews by the Fund in April and September 2006, Nigeria met all the assessment criteria and structural benchmarks, except for: an integrated personnel and payroll information system, the opening of financial bids for the Port Harcourt and Kaduna refineries' privatization, the production of quarterly reports of spending on MDGs-related sectors, and the issuance of a procurement manual.

The IMF's outstanding global credit declined to SDR 19.9 billion, a 25-year low compared with SDR 49.9 billion in 2005, while disbursements totalled SDR 2.2 billion. New commitments rose sharply, from SDR 1.3 billion in 2005 to SDR 8.4 billion, largely reflecting the Stand-By Arrangement in the amount of SDR 6.7 billion approved for Turkey in May 2006.

8.1.2 The World Bank Group

The World Bank Group's total commitments in 2006 amounted to US$23.65 billion. Of this amount, the International Bank for Reconstruction and Development's (IBRD) commitments increased from US$13.6 billion to US$14.1 billion to finance 112 projects in 33 countries. The International Development Association's (IDA) commitments increased from US$8.7 billion in 2005 to US$9.5 billion in 2006 to finance 167 projects in 59 countries. The Multilateral Investment Guarantee Agency (MIGA) issued 66 new guarantees valued at US$1.3 billion for 41 new projects in 2006, compared with 62 guarantees valued at US$1.2 billion for 33 new projects in the preceding year. Many of the contracts focused on MIGA's priority areas: 23 were for projects in frontier markets, 15 to support South-South investment, 10 were for projects in conflict-affected countries, and 14 to support infrastructure investment. During the year, MIGA also supported 21 projects in IDA-eligible countries and 13 projects in sub-Saharan Africa.

8.1.3 International Commodity Organizations

8.1.3.1 The Inter-African Coffee Organization (IACO)

The meeting of the IACO was held from November 2023, 2006 at the African Union (AU) Conference Hall in Addis Ababa, Ethiopia. The meeting deliberated on a methodology for achieving the economic sustainability of coffee through investments which would eliminate the adverse factors affecting African coffee at the international market. It also considered the need to train young farmers that would take over from the ageing ones and ensure the transfer of efficient technology to increase production.

8.1.3.2 The International Cocoa Organization (ICCO)

The ICCO held its 73rd Council meeting from March 610, 2006 in Modica, Italy. The meeting deliberated on a wide range of issues which included: global supply and demand trends, market price movements, production techniques, the dearth of statistical data in most producing countries, the quality cocoa beans, consumption promotion, tariffs and taxes.

The unstable cocoa prices in the international market were attributed to the conflict in Côte d'Ivoire during the year and lack of market information. The need for quality cocoa beans that would guarantee acceptable, standard cocoa products was stressed by the importing countries. In that vein, the producing countries were urged to ensure ethical practices by the farmers. The delegates were reminded of possible legislation in the European Union on Maximum Residue Limits (MRLS) for pesticides in food products, including cocoa. To that effect, producing countries, such as Brazil, Cameroon, Côte d'Ivoire, the Dominican Republic, Ecuador, Gabon, Malaysia, Nigeria, Papua New Guinea, Trinidad and Tobago and Venezuela were requested to furnish the ICCO Secretariat with the type of pesticides or chemical inputs officially recommended for use in cocoa farms to ensure contamination-free cocoa products.

Similarly, at the 11th Consultative Board Meeting of the ICCO, held from December 46, 2006, the ICCO informed members that it had concluded plans to execute a project on Supply Chain Management Operations for 2007. The beneficiaries of the project which commenced in October 2006, included Ghana, Nigeria, Cameroon, Ecuador, Papua New Guinea and Dominican Republic. The project was expected to last for four years and would cost US$5,383,413. Of this amount, a grant of US$627,413 would be sourced from the Common Fund for Commodities (CFC).

Other priority project areas for further consideration in a five-year period included: cocoa chain management for total quality, pest and disease control, sustainable cocoa production, and price risk management.

8.1.3.3 The Organization Of Petroleum Exporting Countries (OPEC)

The Organization of Petroleum Exporting Countries (OPEC), in 2006, continued to contend with the challenges posed by the volatility in international oil prices. It held four ministerial conferences in March, June, September and December 2006. During the meetings held in the first half of the year, the organization noted that though oil prices were volatile, there was no need to increase output as OPEC's production ceiling of 28.0 million barrels per day (mbd), was sufficient to address any sudden supply shortages.

The September meeting resolved to review market developments at the December meeting, while the secretariat was urged to be more vigilant on market fundamentals and make necessary consultations prior to that meeting. In the light of this, a consultative meeting of the Organization was held during October 19-20, 2006. It noted that global crude oil supply was in excess of demand thus resulting in instability. The meeting, therefore, resolved to shore up prices through a supply cut of 1.2 mbd, effective November 1, 2006. Nigeria's production quota was thus reduced by 100,000 barrels per day (bpd). At the December 2006 meeting, it was observed that the production cut effected in the previous month had impacted positively on the market; however, there was still room for improvement. As a result, a further supply cut of 500,000 bpd was proposed to take effect from February 1, 2007. This would further reduce Nigeria's production quota by 42,000 bpd from that date.

Also, during the December meeting, Angola was admitted as the twelfth Full Member of the Organization. The meeting also acknowledged the rebound in nonOPEC supply, which was at its highest since 1984, and urged the producers to cooperate with OPEC in maintaining price and market stability.

8.1.4 Bilateral Relations

During the year under review, Nigeria held bilateral Joint Commission meetings with the Grand Duchy of Luxembourg, the Islamic Republic of Iran, Ethiopia, Russia and the United States of America to discuss issues of common interest. The meetings reviewed areas of bilateral economic cooperation in banking, trade and finance.

The Nigeria/Iranian meeting culminated in the implementation of a memorandum of understanding (MOU) on the $1.5 million Overseas Development Assistance (ODA) by the Government of Iran to Nigeria. Furthermore, the Iranian side agreed to grant short and medium-term credit facilities to Nigerian importers under the Iranian Export Guarantee Fund Scheme, provided that such Nigerian importers hold letters of credit that were issued by the First Bank of Nigeria Plc, Union Bank of Nigeria Plc and United Bank of Africa Plc. Similarly, Nigeria and Luxembourg signed a Memorandum of Understanding (MOU) on immigration matters. Delegates of the Nigerian banking sector and their Luxembourg counterparts explored areas of cooperation. The Central Bank of Nigeria submitted draft MOUs for cooperation on money laundering and financial crimes as well as a proposal for correspondent banking relations, subject to the consideration of the Central Bank of Luxembourg.

Nigeria and Ethiopia signed an agreement on the establishment of the Nigeria-Ethiopia Joint Ministerial Commission to facilitate economic and social relations between the two countries. During the state visit of His Excellency, President Olusegun Obasanjo to Ethiopia, in October 2006, both countries signed bilateral trade and mutual recognition agreements on standardization, culture and tourism. They also expressed the desirability of establishing correspondent banking relations to facilitate payment arrangements between the two countries.

At the Fourth Session of the Nigeria/Russia Joint Commission, both sides presented draft agreements for the enhancement of customs cooperation. The two countries agreed to conclude negotiations and the implementation of outstanding issues on energy cooperation. They noted the progress made by Russian on investment in the Aluminium Smelting Company of Nigeria (ALSCON). Other areas of cooperation agreed on included transportation, the environment, education and banking sectors.

At the Fourth Session of Nigeria-US Trade and Investment Framework Council meeting, the US Government agreed to provide support for small-scale businesses through bank guarantees for loans to small and medium scale enterprises (SMEs). Other issues covered during the discussion included, equity loans to Nigerian banks and an U.S.-Nigeria Investment Policy Dialogue.

8.2 REGIONAL INSTITUTIONS

8.2.1 The Association of African Central Banks (AACB)

The 30th Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB) was held on August 18, 2006 in Windhoek, Namibia. The meeting was opened by Honourable Nahas Angula, Prime Minister of the Republic of Namibia. Dr. Paul Acquah, Chairperson of the AACB and Governor of the Bank of Ghana, presided over the meeting. In attendance were twenty-six central banks and the African Union. The meeting was preceded by a symposium on 'Domestic Capital Markets and Mobilization of Resources for Growth and Poverty Reduction'. The symposium brought to the fore the need for African countries to singly or jointly develop viable bond and equity markets to harness potentially cheap medium to long-term financial resources.

The Governors noted, with satisfaction, the progress made in all the sub-regions in the implementation of the African Monetary Cooperation Programme (AMCP) and urged member countries to sustain the implementation of sound policies towards the achievement of macroeconomic convergence.

8.2.2 The United Nations Economic Commission for Africa (UNECA)

The United Nations Economic Commission for Africa (UNECA) held its 39th Conference of African Ministers of Finance, Planning and Economic Development in Ouagadougou, Burkina Faso, from May 14-15, 2006. The objective of the conference was to deliberate on the theme, “Meeting the Challenge of Employment in Africa”. The Ministers stressed the need to incorporate employment objectives in national development and poverty reduction policies. Such policies would also seek to build the human and institutional capacities that are the "key stepping stones towards the generation of decent employment". Lack of reliable statistics hindered the formulation of sound and effective employment policies and the ability to track the progress on job creation. A strong commitment was made to "strengthen national statistical offices and legislative reforms that would ensure their ability to generate timely, reliable and gender-disaggregated statistics".

The conference issued a resolution endorsing the Secretariat's proposal on "Repositioning the ECA to better respond to Africa's priorities”. The proposal was initiated by the new Executive Secretary, Abdoulie Janneh, who was appointed in September, 2005.

8.2.3 The African Development Bank (AfDB)

At the 41st Meeting of the Board of Governors of the African Development Bank (AfDB) and the 32nd meeting of the Board of the African Development Fund (ADF) held in Ouagadougou, Burkina Faso from May 1718, 2006, it was observed that the continent would find it difficult to achieve meaningful development without a fully developed and integrated regional infrastructure. The meeting reiterated the need for the World Bank, the European Union, the AfDB and other multilateral agencies to scale up funding for the development of Africa's infrastructure.

The meeting observed that the challenges required a politically and economically stable environment, poverty reduction in African societies, especially among women, strong economic growth, and a more equitable multilateral trading regime. Integration in Africa should be the region's response to globalization and an instrument of competitiveness geared to attracting foreign investment, as well as building partnerships that would help increase development funding adapted to the needs of recipient countries, the meeting resolved.

8.2.4 The New Partnership for Africa's Development (NEPAD)

Nigeria participated in the 11th Session of the African Ministerial Conference on Environment (AMCEN) held in Brazzaville, Congo from May 22-26, 2006. The objective of the session was to create a forum for the Ministers to review the implementation of the Action Plan for the Environment Initiative of NEPAD.

The NEPAD Fertilizer Summit was also held in Abuja, Nigeria, from June 9-13, 2006. The Summit which was organized by NEPAD Nigeria, in conjunction with NEPAD Continental and the Rockefeller Foundation, had in attendance, African Heads of State and Government, major stakeholders from both public and private sectors, including international organisations and NGOs. The aim of the Summit was to increase awareness of the role of fertilizer in stimulating sustainable pro-poor agricultural productivity growth in Africa and to discuss methods for increasing efficient utilization of fertilizer by African farmers.

The Continental Secretariat of the NEPAD hosted a Multi-Stakeholder Dialogue at the Le Meridien Hotel in Abuja, Nigeria on October 29, 2006, being the 5th Anniversary of the establishment of NEPAD. The objective of the Dialogue was to review, explore, debate and identify mechanisms for stakeholders to collectively assess the level of implementation and success towards sustainable African development. Other issues were poverty reduction and the need to accelerate the establishment of African financial institutions, such as the African Central Bank, the African Monetary Fund and the African Investment Bank.

8.2.5 The African Peer Review Mechanism (APRM)

The African Peer Review Mechanism (APRM) enables African countries to benchmark and evaluate one another's progress, based on the shared values of African and international standards. The main areas of focus were Democracy and Political Governance, Economic and Corporate Governance, as well as Socio-Economic Development. The APRM Secretariat held a conference in Kigali, Rwanda, from May 9-11, 2006. The Forum, which was co-convened by the African Peer Review Panel of Eminent Persons and the Regional Bureau for Africa of the United Nations Development Programme (UNDP), discussed the challenges and opportunities of implementing the Mechanism. As at December 2006, 25 countries had formally joined the APRM.

8.3 SUB-REGIONAL INSTITUTIONS

8.3.1 The Economic Community of West African States (ECOWAS)

The 34th Meeting of the Committee of Governors of the Central Banks of the Economic Community of West African States (ECOWAS) was held on December 18, 2006, in Ouagadougou, Burkina Faso. The Committee of Governors reaffirmed their decision on the future role of the West African Monetary Agency (WAMA), based on the recommendations of the Technical Committee, that WAMA should work in synergy with other sister institutions and national administrations to drive the overall monetary integration strategy; that WAMA should disengage itself from the operational management of the multilateral clearing system and take necessary measures to organize an orderly exit from the clearing system; and that WAMA should also fill existing vacancies.

The Committee of Governors also approved WAMA's work programme for 2007 as recommended by the Technical Committee. The Governors enjoined WAMA to prepare a status report on the multilateral clearing mechanism; undertake a review of the payments system in ECOWAS; and update the 2002 study on the

ECOWAS Exchange Rate Mechanism. Others decisions included the completion of the destruction of ECOWAS traveller's cheque in 2007; the beefing up of the draft report of ECOWAS member states convergence for 2005; and the paper on the status of the financial sector regulation in ECOWAS. The Governors urged member states to make further progress on trade liberalization. On the effects of external shocks arising from high oil prices, unfair trade agreements and granting of external subsidies by advanced countries, members were advised to implement sound fiscal and monetary policies to mitigate their effects and also explore the possibilities of establishing a Solidarity Fund to assist countries facing temporary difficulties.

8.3.2 The West African Monetary Zone (WAMZ)

The Convergence Council of Ministers and Governors of the Central Banks of the West African Monetary Zone (WAMZ) meeting held in September 2006, in Accra, Ghana, decided to restructure and strengthen the West African Monetary Institute (WAMI). However, following delays in the recruitment of a consultant for the restructuring exercise, a work programme to last from January to March 2006 was designed for WAMI. WAMI was given the responsibility to monitor and review the macroeconomic convergence (multilateral surveillance) programme for the creation of a Customs Union, as well as develop a Zonal Payments and Settlement System for cross-border transactions. Other responsibilities were statistical harmonization, financial sector integration, ratification of WAMZ legal instruments, activation of institutions, evolving a sensitization programme, preparation for the WAMZ currency, and promotion of programmes for regional development and integration.

In view of the foregoing developments, the Committee of Governors of WAMZ met on June 30, 2006 in Accra, Ghana, to review the status of the restructuring exercise, the institution's work programme and the budget for 2006. A new Director-General, Dr. O. J. Nnanna and 18 other professional staff out of the 30 required were recruited for the Institute.

The Governor of the Central Bank of Nigeria, Prof. Chukwuma C. Soludo, used the occasion to sensitize other member countries on the African Finance Corporation (AFC), a private sector institution initiated by the Nigerian Government to compete with other international finance institutions for the development of projects in Africa. He, therefore, encouraged them to invest in the new Corporation.

The 19th Meeting of the Convergence Council of WAMZ, which was held on November 24, 2006, in Accra, Ghana, considered the report of the 16th Meeting of the Committee of Governors of the Central Banks of WAMZ, held on November 23, 2006 and made recommendations to the Authority of Heads of State and Government of WAMZ. Dr. Paul A. Acquah, Governor of the Bank of Ghana, who was re-elected Chairman of the Committee of Governors of the Central Banks presented the report; Hon. Kwadwo Baah-Wiredu, Minister of Finance and Economic Planning, also from the Republic of Ghana, was re-elected Chairman of the Convergence Council. After much deliberations, the Council endorsed the following recommendations to the Authority of Heads of State and Government of WAMZ.

- Member countries should sustain efforts towards achieving the primary and secondary convergence criteria by ensuring that the WAMZ project is incorporated in their macroeconomic policies.
- Strengthening of national domestic statistical units to support macroeconomic surveillance activities and domestic policy making.
- The West African Monetary Institute (WAMI) should initiate sub-regional reform programmes to complement existing national programmes in preparing countries for monetary union.
- WAMI should sharpen its early warning system in order to assist member states in sustaining the WAMZ project.
- Ghana and Nigeria should reaffirm their commitment by ratifying all WAMZ statutes.

- Member countries should sustain the ongoing liberalization of their foreign exchange markets.
- National Sensitization Committees should be reactivated and WAMI should source for donors' fund to assist in the sensitization of private sector stakeholders.
- Countries which have not implemented the Real Time Gross Settlement (RTGS) system should do so, while all countries were enjoined to implement the other components of the payments system, and also explore financing assistance for the RTGS from the private sector.
- Capital account liberalization should be undertaken by all countries.
- WAMI should advice on a new deadline for activities contained in the Banjul Declaration Action Plan that have or are about to lapse. These include the ratification of the legal instruments of WAMZ, quoting and trading in WAMZ currencies, cross listing of stocks, and statistical harmonization
- The government/private sector partnership in the integration process should be strengthened. This requires that countries have robust commercial laws to protect property rights.
- Private sector stakeholders at the meeting called on WAMZ authorities to accelerate the formalization of the current practice of trading in WAMZ local currencies.
- To integrate the private sector, the various national Chambers of Commerce should form a WAMZ Chamber of Commerce.

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

The Annual Programme of WAIFEM and the Budget for 2007 were approved by the Committee of Governors of the Central Banks of WAMZ.

The meeting of the Board of the Institute was presided over by the Governor of the Bank of Sierra Leone who assumed the Chairmanship of the Institute as the tenure of the Governor of the Central Bank of Ghana expired, after three years (2003 2006). The Board approved the sum of US$2,805,887.15 for the programmes and administration of the institute for 2007. Member Central Banks would contribute US$1,246,887.15 or 44.4 per cent, representing a decrease of 1.8 per cent over the contribution in 2006. Donors would contribute US$1,457,000.00, or 51.9 per cent of the budget, while the remainder of US$102,414.88, or 3.7 per cent, would be generated internally.

The Board also approved the work programme of WAIFEM, which encompassed 28 training programmes. However, the Institute was enjoined to organize courses on: Computer Applications in Economics, Finance and Management, Taxation, Revenue Generation, Transparency and Accountability, Monetary and Financial Statistics, Home Remittances and Labour Market Development.

The Committee of Governors welcomed the return of Liberia to the membership of WAIFEM and agreed that the contribution of Liberia be kept in a special account for use next year.

APPENDICES

Appendix A1

Balance Sheet
As at 31 December 2006

	Note	2006 ₦' Million	2005 ₦' Million
Assets:			
External reserves	2	5,617,317	3,835,433
Nigerian Government securities	3	237,668	172,811
Loans and advances	4	94,947	20,192
Investments	5	26,915	24,088
Other assets	7	111,283	27,785
Fixed assets	8	127,898	119,791
		6,216,028	**4,200,100**
Liabilities:			
Deposit accounts	9	4,022,237	2,952,091
Central Bank of Nigeria instruments	10	949,406	174,228
Notes and coins in circulation	11	779,254	642,376
International Monetary Fund allocation of Special Drawing Rights		29,286	31,663
Other financial liabilities	13	110,680	86,716
		5,890,863	**3,887,074**
Capital and Reserves:			
Share capital	16	5,000	3,000
General reserve fund	17	50,721	47,534
Fixed assets revaluation reserve	17	95,246	95,246
Foreign currency revaluation reserve	17	174,198	167,246
		325,165	**313,026**
Liabilities and Equity		**6,216,028**	**4,200,100**

Chukwuma C. Soludo______________ Governor

Shamsuddeen Usman______________ Director

Dahiru Mohammad______________ Director

Mohammed S. Garba______________ Director of Finance

The accounting policies on pages 118 to 123 and the notes on pages 124 to135 form an integral part of these financial statements.

Appendix A2

INCOME AND EXPENDITURE ACCOUNT
For The Year Ended 31 December 2006

	Notes	2006 ₦' Million	2005 ₦' Million
Interest income	18	182,873	93,130
Interest expense	19	(58,242)	(20,144)
Net Interest Income		**124,631**	**72,986**
Realised loss on foreign currency	17	(15,557)	(21,701)
Other income	20	**53,426**	**43,144**
Total income		162,500	94,429
Operating Costs	21	(130,878)	(73,560)
Surplus before provisions		31,622	20,869
Net charge to provisions	15	(500)	(12,750)
Surplus available for appropriation		**31,122**	**8,119**

The following surplus distribution was made for the year

Surplus available for appropriation	31,122	8,119
Transfer to general reserve	(5,187)	(1,353)
Transfer to Federal Government of Nigeria under s.5 (3) of the Central Bank of Nigeria Act 1991	(25,935)	(6,766)
Surplus retained for the year		

Appendix A3

STATEMENT OF CASH FLOWS
For The Year Ended 31 December 2006

Cash flow generated from operating activities	Notes	2006 ₦' Million	2005 ₦' Million
Cash generated from/(utilized by) operating activities	22	89,895	(222,184)
Surplus to the Federal Government of Nigeria		(6,378)	(7,862)
Net cash generated from/(utilized by) operating activities		**83,517**	**(230,046)**
Cash flow (utilized by)/generated from investing activities			
Purchase of fixed assets		(15,950)	(13,082)
Proceeds of sale of fixed assets		110	410
Additional investment in subsidiaries and associates		2,820	9,845
Net (investment)/divestment from Government Bonds		(64,857)	(252,563)
		(83,517)	**(230,046)**

Owing to its role in the creation and withdrawal of money, the Bank has no cash balances on its balance sheet.

Appendix B1

Statement of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a. Basis of presentation

These are the financial statements of the Central Bank of Nigeria (CBN or the Bank), a body corporate established by the *Central Bank of Nigeria Act No. 24 of 1991* (as amended). The financial statements are prepared under the historical cost convention as modified by the valuation of certain fixed assets and comply with the accounting policies set out below:

b. Consolidation

Subsidiary undertakings, which are those companies in which the Bank, directly or indirectly, has an interest of more than half the voting rights, or otherwise has power to exercise control over their operations, have not been consolidated. These entities are not consolidated because their activities and accounting policies are different from those of the Bank. Such entities are accounted for as long-term investments.

c. Foreign currency activities

Foreign currency transactions are translated into the reporting currency, using the exchange rates prevailing at the dates of the transactions. Differences arising at the dates of settlements are recognized in the income and expenditure account.

At the balance sheet date, balances in foreign currencies are converted into Naira, using the closing rate except where a balance is to be settled at a contracted rate, then that rate is used. All differences arising on conversion are taken to be income and expenditure account, except differences on long-term foreign currency monetary items which are deferred and taken to the income and expenditure account on a systematic basis over the remaining lives of the monetary items concerned.

d. External reserves

Gold is measured at cost

External reserve balances at year-end are translated into Naira in accordance with the policy in “c” above. All gains and losses realized on external reserve balances are recognized as follows: revaluation gains and losses on reserves due to the Federal Government of Nigeria (FGN) are for the account of the FGN and, consequently, all translation profits and losses are transferred to the respective deposit accounts of the FGN: revaluation gain and losses on external reserve balances of the Bank are transferred to Foreign Currency Revaluation Reserve.

e. Loans and receivables

The following assets have been classified as loans and receivables for the purposes of assessing their recoverability: loans and advances, amounts due by liquidator of distressed banks, and other assets.

A specific credit risk provision is established to provide for Management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This provision is made for each account that is not performing in accordance with the terns of the related facility. The basis is as follows:

Interest and/or principal outstanding For over	Classification	Provision
90 days but less than 180 days	Substandard	10%
180 days but less than 360 days	Doubtful	50%
360 days and over	Lost	100%

In addition, a provision of 1% is made for all performing risk assets to recognize losses in respect of risks inherent in any credit portfolio. The 1% provision is applicable to only loans and advances. Provisions for losses on doubtful receivables are recognized in the income and expenditure account. When a loan is deemed not collectible, it is written off against the related provision for loan losses and subsequent recoveries are credited to income. Risk assets in respect of which a previous provision was not made are written directly to income statement when they are deemed to be not collectible.

f. Investment securities

The Bank's investments in securities are categorized into: long-term investments and short-term investments.

i. Long term investments

Long-term investments are equity and debt held by the Bank over a long period of time to earn income. Long-term investments are carried at cost. When there has been a permanent decline in the value of an investment, the carrying amount of the investment is written down to recognize the loss. Such a reduction is charged to the income statement. Reduction in carrying amount is reversed when there is an increase, other than temporary, in the value of the investment, or if the reasons for the reduction no longer exist.

Ii. Nigerian Government bonds

Nigerian Government Bonds represent debt instruments issued by the Federal Government of Nigeria (FGN) in which the Bank has invested. These bond issues are normally underwritten by the Bank and the investments arise as a result of crystallization of its underwriting commitment.

Treasury bills of the Federal Government of Nigeria are initially recorded at cost, plus incidental costs, and subsequently measured at amortized cost.

Treasury bonds and development stocks are initially recorded at cost, plus incidental cost of acquisition, and subsequently measured at amortized cost. A decline in value is not taken into account unless it is considered to be permanent. Where a permanent decline in the value of such bonds and development stock is deemed to have occurred, the carrying amounts of these bonds are written down to recognize the loss.

Interest earned on investment securities is reported as interest income. Dividend received is reported as dividend income.

G. Fixed Assets

All items of fixed assets are initially recognized at cost. Cost includes expenditure that is directly attributable to the acquisition of the item.

Subsequent measurement Fixed assets at historical cost
All fixed assets, except for motor vehicles and Head Office building, are carried at a valued amount less subsequent accumulated depreciation. If an increase in the net book amount has occurred, it is recognized in the cost of the asset and a fixed assets revaluation reserve is created in equity. A decrease in net book value is recognized as a reduction in cost and first used to reduce the amount of any existing valuation surplus on the same item before being charged to the income and expenditure account.

Subsequent measurement Fixed assets at historical cost
Motor vehicles are stated at historical cost, less accumulated depreciation, except where there is a permanent significant change in the value of the asset.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income and expenditure account during the financial period in which they are incurred.

Depreciation
Depreciation is calculated on a straight line basis to write down the cost/valued amounts of fixed assets to their residual values over their estimated useful lives as follows:

Land and Buildings	-2.0%
Motor Vehicles:	
- Buses	-12.5%
- Cars	-20.0%
- Lorries	-10.0%
Plant and Equipment	
- Air conditioners, generators and water pumps	-15.0%
- Currency processing machines	-10.0%
Furniture and Fittings	-20.0%
Computer software/hardware	-33.3%

Costs related to fixed assets under construction, or in the course of implementation, are disclosed as capital work-in-progress. The attributable cost of each asset is transferred to the relevant category immediately the asset is put into use and then subjected to depreciation.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in the income and expenditure account for the year.

h. Borrowings (loans)

Borrowings are recognized initially at their issued proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortized cost.

Interest paid on borrowings is recognized in the income and expenditure statement for the year.

i. Currency in Circulation

Currency issued by the banks represents a claim on the bank in favour of the holder. The liability in respect of notes and coins in issue at the balance sheet date is stated at the nominal value of the currency.

j. Central Bank of Nigeria instruments

Central Bank of Nigeria instruments comprise Promissory Notes and Special Nigerian Treasury Bills.

Central Bank of Nigerian Promissory Notes represent short to medium-term debt instruments issued by the Bank to commercial banks assuming net liabilities under the Purchase and Assumption Distress Resolution Programme for banks which could not meet the minimum capital requirement for licensed banks.

Promissory Notes are recognized initially at the face value of the instrument.

Special Nigerian Treasury Bills represent short term debt instrument of the Bank issued to commercial banks as a liquidity management tool. They are recognized at cost, less any unamortized premiums/discounts.

Interests paid on these instruments are recognized in the income and expenditure statement for the year.

k. Retirement benefits

The Bank operates a defined benefit plan and a contributory retirement savings scheme as required by the *Pension Reforms Act of 2004*. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Bank and the employees pay fixed contributions into a separate entity. The contributions are funded by the Bank contributing 7.5% of basic salary, housing and transport allowances. The employee contributes on the same basis as the Bank. The Bank has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior period.

The defined benefit obligation is calculated annually by independent actuaries, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash out flows, using the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial losses and gains arising from experience adjustments and changes in actuarial assumptions are charged or credited immediately to income and expenditure account.

For defined contribution plans, the Bank pays contributions to privately administered pension plans on a mandatory basis. The Bank has no further payment obligation once the contribution has been paid. The contributions are recognized as employee benefit expenses when they are due.

l. Provisions

Provisions are recognized when the Bank has a legal and constructive obligation and it is probable that an overflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

i. Internal currency insurance

This provision is accumulated to cover possible losses that could arise on currency stock held within the Bank and in transit. The provision is determined as premium payable to provide insurance cover over such losses.

ii. Contingency

Contingency provision is determined on the basis of experts' valuation (where applicable) and/or the best estimate by management of the Bank of the probable resources required to meet the Bank's present obligation not accounted for in the financial statements.

iii. Self insurance schemes

The Bank operates self-administered insurance schemes, through duly constituted trustees, for all potential losses of currency in transit and in vaults and for replacement and major repairs of its fleet of vehicles. Annual appropriations are made, based on past experience.

These schemes are fully funded and managed independent of the Bank's operations.

m. Sale and repurchase agreements

The Bank has entered into repurchase agreements as part of its monetary policy activities. Securities purchased under agreements to resell are recorded under the heading “Loans and Advances” as “Repurchase agreements”. Securities sold under agreements to repurchase are disclosed as “Treasury bills on repurchase agreements” and are not recorded by the Bank. Likewise, underlying securities sold under repurchase agreements are retained in the books of the Banks.

The difference between the purchase and sale prices are treated as interest and recognized on an accrual basis.

n. Appropriations

In accordance with part II section 5(2) of the *Central Bank of Nigeria Act No.24 of 1991* (as amended), the Bank makes an annual appropriation representing approximately one sixth of the operating surplus of the Bank for the year to a general reserve fund.

All remaining surplus, after the statutory appropriation to the general reserve fund, is payable to the Federal Government of Nigeria on a semi-annual basis. This is in accordance with part II section 5(3) of the *Central Bank of Nigeria Act No 24 of 1991* (as amended).

o. Cash flow

For the purpose of the cash flow statement, no cash and cash equivalents are shown because of the Bank's role as central bank in the creation of money.

p. Revenue recognition

Interest income and expenses are recognized on a time proportion basis, taking account of the principal outstanding amount and the rate over the period to maturity.

Interest income and expenses are recognized in the income and expenditure on an accrual basis. Where the instrument is deemed to be non-performing, interest income is suspended and recognized on a cash basis. Interest income and expense include the amortization of any discount or premium, or other difference between the initial carrying amount of an interest-bearing instrument and its determined amount at maturity.

Fees and commissions, where materials are amortized over the life of the related service. Otherwise fees, commissions and other income are recognized as earned upon completion of the related service. Dividends are recognized when the right to receive payment is established.

Other revenue arising from the provision of services to clients is recognized on the accrual basis, in accordance with the substance of the relevant transaction.

q. Currency issuance and management expenses

Note-printing and coin-minting expenses include ordering, printing, minting, freight, insurance and handling costs. These costs are recorded as prepared expenses and subsequently released to the income and expenditure account when the currency is delivered to the Bank.

Appendix B2

Notes to the financial statements
For the year ended 31 December 2006

1. General Information

The Central Bank of Nigeria (CBN) is the apex regulatory authority of the financial system in Nigeria. It was established by the *Central Bank of Nigeria Act of 1958*, as amended by *CBN Act No 24 of 1991*. It commenced operations on 1 July 1959.

The issued share capital of the Bank is held by the Federal Government of Nigeria. The principal objectives of the Bank are to issue legal tender currency, maintain external reserves to safeguard the international value of the legal tender currency, promote monetary stability and a sound financial system in Nigeria, and act as bankers and financial adviser to the Federal Government of Nigeria (FGN).

2. External currencies

	2006 ₦' Million	2005 ₦' Million
Convertible Currencies	5,617,217	3,835,337
IMF:		
- Reserve tranche	26	23
- Special Drawing Rights	55	54
Gold	19	19
	5,617,317	**3,835,433**
Convertible currencies comprise:		
Current account with foreign banks	1,213,258	1,185,992
Time deposits and money employed	3,933,810	2,314,629
Domiciliary accounts	304,949	131,687
Other foreign securities	92,028	182,317
Sundry currencies and travellers' cheques	73,172	20,712
	5,617,217	**3,835,337**

Included in convertible currencies is an amount of N2,030.61 billion, (2005- N1,526.24 billion) which represents the Naira value of foreign currencies held on behalf of customers in various foreign accounts for letters of credit transactions and other purposes. The corresponding liability for this amount is included in deposits.

Appendix B2 (Cont'd)

	2006 ₦' Million	2005 ₦' Million
Convertible currencies are further analysed by currency as follows:		
United States Dollars	4,904,282	3,584,512
British Pounds Sterling	99,929	75,298
Euro	488,974	173,911
Japanese Yen	53,353	1,586
Others	70,679	48
	5,617,217	**3,835,355**

The market value of gold held as at 31 December 2006 was ₦60.588 billion (2005= ₦45.816 billion).

3. Nigerian Government securities

	2006 ₦' Million	2005 ₦' Million
Nigerian treasury bonds	214,270	82,679
Nigerian treasury bills	23,276	90,000
Nigerian development stocks	122	132
	237,668	**172,811**

4. Loans and advances

	2006 ₦' Million	2005 ₦' Million
Repurchase agreements	3,019	7,786
Overdrawn balances	90,502	10,555
Staff loans	2,332	1,948
Advances to Federal Mortgage Bank of Nigeria	9	9
Other loans	35,107	35,107
Long-term loans	9,958	10,947
	140,927	**66,352**
Provisions for loan losses:		
General	(905)	(106)
Specific	(45,075)	(46,054)
	94,947	**20,192**

Appendix B2 (Cont'd)

Overdrawn balances

Overdrawn balances represent overnight lending to commercial banks and are fully collateralized by Treasury Bills. The balances were fully repaid subsequent to year-end.

Other loans

Other loans represent accommodation to distressed and liquidated banks. These have been fully provided for.

Long-term loans

In 2001, the Bank approved the reduction of the interest rate on loans to some banks from 13.5% to 3%; extended the moratorium period from one to two years; and increased the repayment period to five years. Movements on accounts during the year were as follows:

		2006 ₦' Million	2005 ₦' Million
Long-term loans:			
Balance at 1 January		10,947	49,383
Repayment during the year		(989)	(1,096)
Forbearance granted to banks under the consolidation reform		-	(37,340)
		9,958	**10,947**
Provision for doubtful debts		(9,958)	(10,947)
		-	-
5. Investments			
Investments in subsidiaries and associates:	%		
Bank of Industry	40	3,048	3,048
Abuja Commodity Exchange	57	408	408
Nigeria Deposit Insurance Corporation	60	1,380	1,380
Nigeria Agricultural Cooperative and Rural Development Bank	40	4,027	4,027
Nigeria Export Import Bank	50	6,250	6,250
Nigeria Security Printing and Minting Company Plc	77	13,250	10,405
		28,363	**25,518**
Provision for diminution in value of investments		(2,715)	(2,690)
		25,648	**22,828**
Other Investments:			
Agricultural Credit Guarantee Scheme Fund		1,200	1,200
Federal Mortgage Bank of Nigeria		60	60
Nigerian Inter-bank Settlement System		7	-
		1,267	1,260
		26,915	**24,088**

Appendix B2 (Cont'd)

	2006 ₦' Million	2005 ₦' Million
6. Amount due from liquidators of distressed banks		
Allstates Trust Bank Plc	10,000	-
Lead Bank Plc	2,001	-
Trade Bank Plc	1,000	-
Assurance Bank Plc	938	-
	13,939	-
	(13,939)	
Provision for doubtful balances	**-**	**-**

The Bank entered into Purchase and Assumption arrangements with the Nigerian Deposit Insurance Corporation (NDIC) and some banks over private sector deposits and certain capital assets of some distressed banks in liquidation. Accordingly, the Bank issued promissory notes for the net liabilities assumed. See Note 10.

7. Other assets

	2006 ₦' Million	2005 ₦' Million
Due from Agricultural Credit Guarantee Scheme Fund	576	345
Accrued interest receivable	62,195	22,026
Accounts receivable	10,205	
Sundry receivables	38,425	5,414
	111,401	**27,785**
Provision for doubtful balances	(118)	-
	111,283	**27,785**

Sundry receivables are further analysed as:

	2006 ₦' Million	2005 ₦' Million
CBN Small and Medium Enterprises (SME) accounts	4,717	4,666
International Monetary Fund local currency subscription	622	622
Prepayments	7,243	10
Cheques in clearing	3,507	-
Consumables	124	116
Others	22,212	-
	38,425	**5,414**

Appendix B2 (Cont'd)

8. Fixed Assets

	Land & building	Plants & equipment	Furniture & fittings	Computers	Motor vehicles	Capital work in progress	Total
	₦'M	₦'M	₦'M	₦'M	₦'M	₦'M	₦'M
2006:							
Cost/valuation:							
At January	83,224	21,122	4,139	5,401	5,479	20,981	140,346
Additions	-	525	41	675	497	14,212	15,950
Transfers in(out)	7,153	-	-	-	-	-7,153	-
Disposals	-	-1	-	-	-255	-	-256
At 31-December	**90,377**	**21,646**	**4,180**	**6,076**	**5,721**	**28,040**	**156,040**
Accumulated depreciation:							
At 1 January	4,751	7,160	2,137	4,293	2,214	-	20,555
Charge for the yr.	1,812	3,413	711	914	929	-	7,779
Disposals	-	-2	-	-	-190	-	-192
At 31-December	**6,563**	**10,571**	**2,848**	**5,207**	**2,953**	**-**	**28,142**
Net Book Value							
At 31 Dec. 2005	**78,472**	**13,963**	**2,002**	**1,109**	**3,263**	**20,980**	**119,789**
At 31 Dec. 2004	79,398	14,982	2,791	1,565	4,048	12,422	115,206
Net book value	83,814	11,075	1,332	869	2,768	28,040	127,898
2005:							
Cost/valuation:							
At 1 January	82,494	18,984	4,135	4,060	5,536	12,422	127,631
Additions	730	2,142	95	1,342	214	8,559	13,082
Disposals	-	-4	-91	-1	-271	-	-367
At 31-December	83,224	21,122	4,139	5,401	5,479	20,981	140,346
Accumulated depreciation:							
At 1 January	3,097	4,002	1,344	2,495	1,487	-	12,425
Charge for the yr.	1,654	3,160	829	1,799	809	-	8,250
Disposals	-	-2	-36	-1	-81	-	-120
At 31-December	**4,751**	**7,160**	**2,137**	**4,293**	**2,214**	**-**	**20,555**
Net Book Value	78,473	13,962	2,002	1,108	3,265	20,981	119,791

In 2003, the Bank re-instated items of fixed assets that had been previously written off. Accordingly, all assets, except motor vehicles and the Head Office, were valued by Messrs Onakanmi and Partners, Supo Ojo and Co, Ora Egbunike and Associates, Bello and Co, Adamu Muhammed and Partners, Olatoye Ogundana and Partners, Dosu Fatokun and Co, and Mohammed and Co. The assets were valued as at 31 December 2002 on either open market basis, assuming a willing seller and an able buyer, or depreciated replacement cost basis where market information was not available. Subsequent additions have been incorporated at cost.

Appendix B2 (Cont'd)

9. Deposit accounts

	2006 ₦' Million	2005 ₦' Million
Govt. deposits:		
Current/settlement accounts	1,620,800	902,200
Domiciliary accounts	4,163	7,179
Financial Institutions:		
Current/settlement accounts	98,060	46,201
Bank's reserve accounts	108,637	104,545
Institutions/parastatals		
Current/settlement accounts	164,128	372,910
Domiciliary accounts	300,787	124,508
Other accounts	1,725,662	1,394,548
	4,022,237	2,952,091

Other accounts are further analysed as follows:

	2006 ₦' Million	2005 ₦' Million
FGN PPT Naira funding account	1,148,223	821,561
Special reserve account	498	482
FGN excess crude oil proceeds (Naira funding) acc	223,869	432,444
Letters of credit consolidated account	197,433	39,975
FGN (external creditors) funding account	69,773	69,771
NNPC/ NAPIMS cash call account	6,353	6,353
Deposits for Naira draft account	60,433	16,635
Monetary policy stabilization account	4,617	4,617
Sundry accounts	14,463	2,713
	1,725,662	**1,394,551**

Foreign currency deposits held on behalf of customers for letters of credit transactions and other purposes are analysed below:

	2006 ₦' Million	2005 ₦' Million
Domiciliary accounts	304,950	131,687
Other accounts	1,725,662	1,394,548
	2,030,612	**1,526,235**

10. Central Bank of Nigeria instruments

	2006 ₦' Million	2005 ₦' Million
Central Bank of Nigeria Promissory Notes:		
Capital	13,939	-
Accrued interest	217	-
	14,156	**-**
Opening Market Operations (Own instruments)		
Central Bank of Nigeria Bills	935,250	174,228
	949,406	**174,228**

Appendix B2 (Cont'd)

(a) The CBN issued Promissory Notes to Ecobank Nigeria Plc, Afribank Plc and United Bank for Africa Plc as part of a Purchase and Assumption Arrangement over the private sector deposits and certain assets of Allstates Trust Bank Plc (Ecobank Nigeria Plc), Lead Bank Plc and Assurance Bank Plc (Afribank Nigeria Plc) and Trade Bank Plc (United Bank for Africa Plc). The Promissory Notes have tenors of 1 2 years and carry coupon rates of 6.90% - 13.00%. The last instrument will mature on 07 August 2006.

(b) Central Bank of Nigeria Bills represent bills of the Bank issued to commercial banks as a liquidity management tool. These instruments have tenors ranging from 7 days 365 days and carry discount rates ranging from 7% - 12% per annum.

	2006 ₦' Million	2005 ₦' Million
11. Notes and coins in circulation		
Notes	778,493	641,625
Coins	761	751
	779,254	**642,376**
12. Employment benefit liabilities		
Defined benefit scheme		
At 1 January	-	-
Additional provisions	56	53
Provision for actuarial deficit	24,967	3,000
Remitted to trustees	(25,023)	(3,053)
At 31 December	**-**	**-**
Defined contributory scheme		
At 1 January	-	-
Contributions	901	970
Remitted to trustees	(901)	(970)
At 31 December	**-**	**-**

In accordance with the *Pension Reform Act of 2004*, the Bank retained its old non-contributory defined benefit pension scheme for existing pensioners and staff with less than 3 years to retirement. The scheme is funded by contributions of 50% of the employees' annual salary and certain allowances. An annual actuarial valuation is conducted by qualified independent actuaries and any resulting deficit recognized in the income and expenditure statement.

The defined benefit scheme was actuarially assessed by the firm of Alexander Forbes Consulting Actuaries Nigeria Limited as at 30 June 2006 and an actuarial deficit of N8.9 billion was recognized. An amount of N16.067 billion, being the balance of the actuarial deficit of N19.067 billion determined as at 30 June 2004, was fully provided during the year.

Under the terms of the contributory scheme established, pursuant to the *Pension Reform Act*, the Bank contributes 7.5% of basic, housing and transport allowances of qualifying employees, while the employees contribute 7.5% on the same basis. The balance due to members transferring from the defined benefit scheme will be determined and remitted to the pension fund administrator chosen by each member.

Appendix B2 (Cont'd)

The Bank applied to the National Pension Commission (the Commission) to register both schemes as Closed Pension Fund Administrator (CPFA), but its request was denied. Following this, the Bank has applied for the schemes to be registered as approved schemes. The Commission is yet to issue a decision to this effect. Contributions to both schemes are fully funded and managed by a private trustee. The trustee maintains a current deposit account with the Bank for both schemes. As 31 December 2006, the defined benefit scheme had a deposit balance of N42 million (2005: N1.1 billion), while the defined contributory scheme had a balance of N498 million (2005: N108 million).

	2006 ₦' Million	2005 ₦' Million
13. Other financial liabilities		
Interest payable	928	10
Uncleared effects	-	1,151
Treasury bills on repurchase agreement	3,019	7,786
Accrued charges	24,004	12,661
Surplus payable to Federal Government of Nigeria (Note 14)	26,232	6,675
Sundry payables	11,930	14,417
International Bank for Reconstruction and Development - SME	4,717	4,666
Bank of Tokyo -Commodity loan	1	1
Other provisions (Note 15)	39,849	39,349
	110,680	**86,716**
14. Surplus payable to Federal Government of Nigeria		
At January	6,675	7,771
Surplus transferred from income and expenditure account	25,935	6,766
Paid during the year	(6,378)	(7,862)
At 31 December	**26,232**	**6,675**

15. Other provisions

	At 1 January ₦' Million	Additional charge ₦' Million	At 31 December ₦' Million
2006			
Contingency	22,107	-	22,107
Internal currency insurance funds	6,300	500	6,800
Capital projects	10,602	-	10,602
Agricultural credit fund	340	-	340
	39,349	**500**	**39,849**
2005			
Contingency	9,857	12,250	22,107
Internal currency insurance funds	5,800	500	6,300
Capital projects	10,602	-	10,602
Agricultural credit fund	340	-	340
	26,599	**12,750**	**39,349**

Appendix B2 (Cont'd)

(a) Contingency provisions are determined on the basis of experts' valuation (where applicable) and/or the best estimate by Management of the Bank of the probable resources required to meet the Bank's present obligations not accounted for in the financial statements.

(b) The Bank makes provisions for internal currency insurance, based on the premium that would be payable to external insurers had they been engaged. Losses incurred are indemnified against these provisions.

(c) The provisions for capital projects are determined on the basis of budgeted and approved capital expenditure of the Bank. No additional provisions have been made in the current year.

(d) The Agricultural Credit Guarantee Fund was set aside to provide guarantees to third party lenders on behalf of participating agricultural enterprises. Amounts provided were based on the guarantees issued by the Bank. Following the creation of the Nigerian Export Import Bank (NEXIM), this function was transferred out of the Bank. No additional provisions have been made in the current year.

	2006 ₦' Million	2005 ₦' Million
16. Share capital		
Authorised share capital	5,000	5,000
Issued and fully paid up:		
At 1 January	3,000	3,000
Issue of shares	2,000	-
At 31 December	**5,000**	**3,000**

At its 369th meeting held on 22 February 2006, the Board of the Central Bank of Nigeria approved the increase of the paid-up capital of the Bank from ₦3 billion to ₦5 billion and that the additional ₦2 billion be funded from the General Reserve of the Bank.

17. Reserves

General reserve

	2006 ₦' Million	2005 ₦' Million
At 1 January	47,534	46,181
Transfer to share capital account via bonus issue	(2,000)	-
Transfer from appropriation account	5,187	1,353
At 31 December	**50,721**	**47,534**
Fixed assets valuation reserve		
At 1 January	95,246	95,602
Realised on disposal	-	(356)
At 31 December	**95,246**	**95,246**

The fixed assets valuation reserve represents increases in the net book value of valued items of fixed assets.

Appendix B2 (Cont'd)

	2006 ₦' Million	2005 ₦' Million
Foreign currency revaluation reserve		
At 1 January	167,246	227,111
Net loss on revaluation during the year	(8,605)	(81,566)
Realized loss charge to profit and loss	15,557	21,701
At 31 December	**174,198**	**167,246**

The foreign currency revaluation reserve is used to record exchange movements on long-term monetary assets of the Bank. Unrealized losses or gains on revaluation of those assets are recorded in the account and, upon realization of the asset, the corresponding gain or loss is released to the income and expenditure statement. The foreign currency revaluation reserve was created with the approval of the President, under section 5(1)(b) of the *Central Bank of Nigeria Act 1991* (amended)

18. Interest income

	2006	2005
Analysis by type		
Time deposits and money employed	139,311	49,294
Federal Government Securities	41,830	39,047
Loans and advances	1,732	4,789
	182,873	**93,130**

19. Interest expense

	2006	2005
Central Bank of Nigeria Instruments	57,387	18,509
Deposit accounts	855	1,635
	58,242	**20,144**

All interest was paid locally

20. Other operating income

	2006	2005
Fees	48	1,506
Foreign exchange earnings	49,105	39,828
Commissions	454	229
Profit on sale of fixed assets	46	163
Other income	3,773	1,418
	53,426	**43,144**

21. Operating expenses

	2006	2005
Currency issue expenses	48,333	24,009
Salaries and wages	11,242	13,346
Gratuity	1,257	3,933
Other staff expenses	1,945	2,603
Pension costs	25,924	4,024
Provision for bad and doubtful balances	13,750	945

Appendix B2 (Cont'd)

	2006 ₦' Million	2005 ₦' Million
Administrative expenses	12,676	10,801
Depreciation charge	7,779	8,251
Repairs and maintenance	7,056	5,019
Consultancy fees	609	358
Bank charges	160	121
Auditors' fees	60	38
Directors' remuneration	73	91
Computer system development costs	3	31
	130,878	**73,560**

Included in pension costs is an amount of ₦ 24,967 billion (2005:₦ 3 billion) being full provision for the actual deficit in the Bank's defined benefit scheme. See Note 12 for further details.

22. Cash generated from/(utilized by) operating activities

	2006	2005
Reconciliation of surplus for year to cash generated From/(utilized by) operating activities:		
Surplus available for appropriation	31,122	8,119
Adjustments:		
Depreciation	7,779	8,250
(Profit)/loss disposal of fixed assets	(46)	(163)
Unrealized foreign exchange loss	15,557	21,701
Previously unrecognized investment	(7)	-
Movement in provisions	500	12,750
Net cash generated from operating activities	**54,905**	**50,657**

Changes in working capital:

	2006	2005
Increase in external reserves	(1,781,884)	(1,356,812)
Decrease/(increase) in loans and advances	(74,756)	7,737
Decrease in foreign currency revaluation reserve	(8,605)	(81,566)
Decrease/(increase) in other assets	(83,498)	67,931
Increase in deposit accounts	1,070,147	946,208
Increase in Central Bank of Nigeria instruments	775,178	85,253
Increase in notes and coins in circulation	136,878	96,573
Revaluation loss on International Monetary Fund Allocation of Special Drawing Rights	(2,377)	28,154
Increase/(decrease) in other financial liabilities	3,907	(66,319)
Cash generated from/ (utilized by) changes in working capital	34,990	(272,841)
Cash generated from/(utilized by) operating activities	**89,895**	**(222,184)**

Appendix B2 (Cont'd)

23. Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Bank at 31 December 2006 with contingent liabilities of N49.868 billion (2005-N140.732 billion). No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

The directors are also of the opinion that all known liabilities and commitments which are relevant in the assessment of the state of affairs of the Bank have been taken into consideration in the preparation of these financial statements.

(b) Capital commitments

	2006 ₦' Million	2005 ₦' Million
Capital Commitments	6,721	4,411

These capital commitments are in respect of fixed assets and will be funded from internal resources.

24. Related party information

The Bank entered into banking transactions with related parties in the normal course of business. The transactions included loans, deposit and foreign currency transactions. All transactions with related parties were carried out at arm's length.

25. Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

Appendix B3

Auditors' Report

We have audited the accompanying financial statements of the Central Bank of Nigeria (the "Bank") which comprise the balance sheet as at 31December 2006 and the income and expenditure account and cash flow statement for the year then ended and a summary of significant accounting policies set out in pages 118 to 123 and other explanatory notes set out in pages 124 to 135.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the Central *Bank of Nigeria Act No.24 of 1991* (as amended). This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due from fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an independent opinion on these financial statements, based on our audit. We conducted our audit in accordance with the international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We have obtained all the information and explanations that, to the best of our knowledge and belief, were necessary for the purposes of our audit and we believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Bank has kept proper books of accounts and the financial statements are in agreement with the books of accounts in all material respects. The financial statements drawn up in conformity with the accounting policies of the Bank, give a true and fair view of the financial position of the Central Bank of Nigeria as at 31 December 2006 and have been properly prepared in accordance with the *Central Bank of Nigeria Act No 24 of 1991* (as amended).

Akintola Williams Deloitte
A member firm of
Deloitte Touche Tohmatsu
Chartered Accountants

March 13, 2007
Abuja, Nigeria

PriceWaterhouseCoopers

March 13, 2007
Abuja, Nigeria

APPENDIX C

GLOSSARY OF SELECTED TERMS

Approval in Principle: This refers to the granting of a permit to any financial institution to operate, pending the time it would meet the necessary requirements for operation that would then qualify it for a formal licence.

Distressed Banks: These are banks with problems relating to illiquidity, poor earnings and non-performing assets. The extreme case of distress is referred to as insolvency, which implies that a bank's liabilities are more than its assets.

Prudential Guidelines: These are guidelines and practices which all licensed banks are required to adhere to in reviewing and reporting their performance, particularly in the areas of credit portfolio classification and disclosure; provision for non-performing facilities, interest accrual; classification of other assets; and off-balance sheet engagements.

New Issues are securities raised in the primary market for the first time.

Offer for Subscription is an invitation by a company to the public subscribe to new issues. This increases the capital base of the company.

Rights Issues are shares offered to companies' existing shareholders in proportion to the number of shares held and usually at below market price to make the offer attractive.

Offer for Sale is an offer to sell existing shares by shareholders to the public. The sale is effected usually through stockbrokers and does not affect the capital base of a company.

Debentures are fixed interest-bearing securities. They are usually of two types, debenture with floating charge and debenture with fixed charge. Debenture holders are creditors to the company rather than owners.

Preference Shares are shares of companies on which dividends must be paid before any other shares.

Market Capitalization is the market value of a company's issued share capital. It is the product of the current quoted price of shares and the number of shares outstanding. The term is also used as a performance indicator of the capital market.

Money Supply or money stock refers to the total value of money in the economy and this consists of currency (notes and coins) and deposits with deposit money banks. For purposes of policy, there are two variants of money supply in Nigeria M1 and M2. M1 is the narrow measure of money supply which includes currency in circulation with the non-bank public and demand deposits (current accounts) at the deposit money banks. M2 is the broad measure of money supply and includes M1 and savings and time deposits at the deposit money banks. Savings and time deposits are also called quasi-money. M2 measures total liquidity in the economy. Excess liquidity is the amount of liquidity over and above the optimum level of liquidity determined by the levels of output and prices.

Bank Credit is a major determinant of the money supply and it embraces the amount of loans and advances given by the CBN as well as the deposit money banks to economic agents. This is the banking system credit to the economy which can be broken down into bank credit to government and the private sector.

Ways and Means Advances constitute a portion of credit by the CBN to government. These are temporary loans to government to bridge short-falls in revenue. Statutorily, the CBN is not to give more than 12.5 per cent of government's current revenue.

Other Assets (net) is the other assets of the CBN, deposit money banks less (their) other liabilities.

Net Foreign Assets (NFA) constitute the foreign exchange holdings of the CBN and the deposit money banks after netting out the claims of foreigners. Changes in NFA should reflect developments in the balance of payments. A deficit in the balance of payments would lead to a decrease in foreign asset holdings and, ultimately, the money stock. A surplus in the balance of payments produces the opposite effect.

Interest Rate is the price of money. It is the opportunity cost of holding money and the return for parting with liquidity.

Cost of Capital is the cost incurred in securing funds or capital for productive purposes. The costs include interest rates and legal, administrative and information search charges. This means that the cost of capital is likely to be greater than or equal to the interest rates on loans.

Reserve Requirement refers to the proportion of total deposit liabilities which the deposit money banks are expected to keep as cash in vaults and deposits with the CBN. The CBN can control the money stock by varying the requirement as desirable. Usually, banks keep reserves over and above the legal requirement for safety. The cash ratio requires the deposit banks to keep a certain proportion of their total deposit liabilities in cash balances with the CBN, while the liquidity ratio stipulates the proportion of total deposits to be kept in specified liquid assets, mainly to safeguard the ability of the banks to meet depositors' cash withdrawals and ensure confidence in the banking system. The CBN also has powers to call for special deposits from banks for the purpose of controlling liquidity.

Monetary Base or high-powered money or reserve money comprises certain liabilities of the CBN and includes currency with the non-bank public and total bank reserves. The main sources of the monetary base are net foreign assets of the CBN, net claims on government, claims on government, claims on deposit money banks and other assets (net) of the CBN.

***Open Market Operations* (OMOs)** involve the discretionary power of the CBN to purchase or sell securities in the financial markets in order to influence the volume of liquidity and levels of interest rates which ultimately would affect the money supply. When the CBN sells financial instruments, the liquidity (excess reserves) of the banking system is reduced. This restricts the capacity of banks to extend credit or induce monetary expansion. On the other hand, when the CBN purchases such instruments, it injects money into the system and banks' ability to expand credit is enhanced.

Fiscal Deficit refers to the excess of expenditure over revenue of government. It is usually assessed by its size in relation to nominal Gross Domestic Product (GDP). Fiscal deficits may be financed in various ways external borrowing and internal borrowing (banking system and non-bank public). It is inflationary when financed by the banking system, especially the central banks.

Total Reserves: This is the sum of required reserves and excess reserves.

Required Reserves are a fraction of commercial and merchant banks' money held for the purpose of backing up their deposit operations and partly to control the level of liquidity in the economy. They are made up of cash reserves and liquid assets, and specified in the form of ratios. The cash reserves ratio is the percentage of deposit money banks cash deposits with the CBN in relation to their total demand, savings and time deposits. The liquidity ratio is the percentage of banks' liquid assets to their total deposits liabilities.

Vault Cash: Deposit money banks keep "petty cash" in their vaults for emergency transactions before they can access their accounts with the CBN. The amount so kept is called vault cash.

Discount House is a financial institution devoted to trading in government secondary instruments (treasury bills and certificates and other eligible instruments). The discount house submits bids from authorized dealers, including its needs for OMO instruments, to the Central Bank and facilitates the payments and settlement of the transactions.

Nominal Interest Rate: This is the actual rental value paid for the use of money or credit. It includes the effects of inflation and uncertainty.

Real Interest Rate: This is the nominal interest rate adjusted for expected inflation. To encourage savings, real interest rate is expected to be positive.

Savings Deposit Rate: The savings deposit rate is the amount paid by banks for funds withdrawable after seven days' notice. This restriction is, however, seldomly applied.

Fixed Deposit Rate: When deposits are for a fixed period of time, say 90 or 180 days, the interest rates paid are called fixed deposit rates. They normally attract higher interest rates, while early withdrawals may attract interest penalties.

Minimum Rediscount Rate: This refers to the amount that is charged by the CBN for lending to banks in the performance of its function of lender of last resort and also as a signal of the desired direction of monetary policy.

Prime Lending Rate: This is the interest rate applied to loans made to customers with the highest rating. For each bank, this rate also represents the minimum lending rate.

Maximum Lending Rate: This refers to the rate charged by banks for lending to customers with a low credit rating.

Inter-Bank Interest Rate: This is the rate that applies to transactions among banks, mostly for overnight and other short-term funds.

Cost of Funds: This refers to net expenses incurred in raising funds, including a reasonable profit margin. The expenses include the interest on deposits, reserve requirements, other administrative expenses, etc, as a proportion of total funds borrowed.

Yield Curve: Shows the relationship between the rate of interest and the time to maturity of different financial assets.

Exchange Rate: This is the price of one currency in terms of another.

Foreign Exchange: This is a means of international payments. It includes currencies of other countries that are freely acceptable in effecting international transactions. The foreign exchange position is the difference between foreign exchange receipts and foreign exchange disbursements. If receipts are higher than disbursements, there is a net inflow or an accretion to reserves. On the other hand, if receipts are lower, there is a net outflow and reserves would be depleted.

External Reserves: These are portions of foreign exchange receipts saved by the monetary authorities for the purpose of enhancing the credit worthiness of the economy, protecting the international value of the domestic currency, and financing temporary shocks in the balance of payments. Reserves are held in the form of monetary gold, reserve position at the International Monetary Fund (IMF), Special Drawing Rights (SDRs), and foreign bank balances.

External Assets: These are the reserves held by the monetary authorities, as well as the banking and non-bank public, in foreign countries. Thus, external assets are external reserves and private sector holdings of foreign exchange.

Balance of Payments (BOP): These are records of economic transactions between the residents of a country and the rest of the world during a given period of time. The balance of payments position is the difference between the receipts by the resident of one economy from the rest of the world and the payments by residents to the rest of the world. An excess of receipts over payments shows a balance of payments surplus, while the reverse represents a deficit. The major components of the BOP are the ***current account, the capital account, and the official settlement balance***. The current account comprises transactions arising from the sale or purchase of goods and services and unrequited transfers, while the capital account is the record of assets and financial transactions. The official settlement account is used to equalise any imbalance that may exist in the current and capital accounts so that all the BOP accounts sum to zero.

The Nominal, and Real Exchange Rate: The nominal exchange rate is the price of one currency relative to another. The real exchange rate is the nominal exchange rate deflated by changes in relative prices.

Foreign Exchange and Balance of Payments Position: When foreign exchange receipts and payments are adjusted for valuation changes in reserves, the net position would be identical to the balance of payments position.

Internal Balance: This refers to a state of convergence between domestic output and absorption or expenditure. When output is identical with expenditure, internal balance is considered achieved, and the rate of inflation is expected to be stable. The achievement of the savings-investment identity is also viewed as internal balance. Monetary and fiscal policies, and external debt management measures are usually applied to achieve internal balance.

Dutch Auction System (DAS): This is a method of exchange rate determination through auction where the bidders pay according to their bid rates. The ruling rate is arrived at with the last bid rate that clears the market where the authorities elect to operate a single exchange rate.

Liquidity Ratio: This ratio is defined as the ratio of total specified liquid assets to total current liabilities and reflects the liquidity position of a bank.

Fiscal Operations: This refers to government's financial transactions involving the collection, spending and borrowing of government for a given period.

Government Expenditure: Payment or flow of financial resources out from government.

Recurrent Expenditure: Expenditure on goods and services (other than capital assets) used in the process of production within one year. Interest on loans is included.

Capital Expenditure: Payment for non-financial assets used in the production process for more than one year. Loan amortization (capital repayment) is included.

Debt stock/GDP: This measures the level of domestic indebtedness relative to the country's economic activity.

Federation Account: This is an account opened by the Federal Republic of Nigeria into which all revenues of the Federation are paid for eventual distribution by all tiers of government in Nigeria.

APPENDIX D

POLICY CIRCULARS AND GUIDELINES ISSUED IN 2006

1. BANKING SUPERVISION

S/N	Name of Circular	Date Issued	Remarks
1.	Anti-Money Laundering (AML) Inspection of Banks and Other Financial Institutions	January 2006	Ensuring compliance with FATF recommendations to confirm that anti-money laundering policies are in place
2.	Payments of Proposed Dividends to Former Shareholders of Constituent Members of Consolidated Banks	February 2006	Protection of minority interests in merged banks and ensuring that consolidation guidelines are adhered to
3.	Circular on Terrorist Organizations and Individuals: Sajid Mohammed Badat	February 2006	Ongoing action against individuals and entities associated with terrorism
4.	Code of Corporate Governance	March 2006	New code of corporate governance for banks to align with international best practices
5.	Waiver of Tax on Interest Earnings from Agricultural Lending by Banks	March 2006	Presidential waiver granted to banks to encourage lending to agricultural sector
6.	Know Your Customer Manual for Banks & OFIs in Nigeria – Reporting of Suspicious Transactions to the EFCC	March 2006	Banks are required to report all transactions that fall within the suspicious threshold to the EFCC, in addition to the CBN
7.	Cash/Liquidity Management	May 2006	Circular for amending existing guidelines for cash/liquidity management
8.	Visit of the Review Group Financial Action Task Force	May 2006	FATF assessment mission to Nigeria prior to recommendation on current country status
9.	Post-Consolidation Integration in Banks	May 2006	Banks are required to render returns on status of integration in banks that merged or acquired other banks
10.	Meeting with the Financial Action Task Force (FATF) Group	May 2006	See 8 above
11.	Reporting of Suspicious or Unusual Transactions Involving Terro rism in Nigerian Financial Institutions	August 2006	Suspicious/unusual transactions must be reported to the NFIU
12.	Treatment of Investment in the Federal Mortgage Bank of Nigeria ₦100 Billion Mortgage Backed Bond	August 2006	Investment in FMBN will not be treated as a credit thus the single obligor limit will not apply

13.	Designated Individuals Entities Associated with Terrorists	August 2006	Ongoing action against individuals and entities associated with terrorism
14.	Guidelines for the Development of a Risk Management Framework for Banks.	August 2006	This is part of the transition to risk-based supervision
15.	Reduction of the Single Obligor Limit from 35% to 20%	August 2006	Increased shareholders funds in banks necessitated a reduction in single obligor limit
16.	Review of the Effective Date for the Reduction of Government Holding in Banks	September 2006	Date brought forward from December 2007 to February 2007
17.	Payment of Brokerage Fees to Mobilize Deposits	September 2006	Caution to banks on unethical practices
19.	Meeting of Banks' External Auditors with CBN before approval of Annual Financial Statements	September 2006	Requirement for external auditors to meet with CBN before publication of annual accounts
20.	Returns on Foreign Currency Components of Assets and Liabilities	September 2006	Format for returns on foreign currency components of assets issued
21.	The Treatment of Goodwill and Mergers & Acquisitions Expenses	October 2006	Acceptable accounting practices for treatment goodwill in banks financial
22.	Additional Account Opening Requirements by Financial Institutions	November 2006	A move to streamline and set a benchmark for account opening requirements by banks
23.	List of Individuals/Entities Subject to Sanctions by the United Nations(UN)	December 2006	Ongoing action against individuals and entities associated with terrorism

2. TRADE AND EXCHANGE

Circular Reference	Name of Circular	Date Issued	Content
TED/AD/03/2006	The Abolition of the Pre-shipment Inspection of Imports and the Re-Introduction of Destination Inspection of Imports: Transitional Arrangements	January 4, 2006	This is to inform all Authorised Dealers, the Pre-shipment Inspection Agents (PIAs) and the general public that following the abolition of the pre-shipment inspection scheme for imports and the re-introduction of destination inspection of imports, with effect from 1st January 2006, the following transitional arrangements shall apply up to March 31st, 2006: **i. Letters of Credit Transactions initiated under the Pre-shipment Inspection Scheme (PSI)** For letters of credit transactions approved under the PSI scheme which provide for attested sealed final invoice and CRI as part of the negotiating documents but are not yet executed, the L/C should be amended by deleting the requirements of CRI and attested sealed final invoice. These documents shall be replaced with the Combined Certificate of Value and Origin (CCVO), packing list, manufacturers' certificate of production and clean/shipped on Board bill of lading, all duly attested to by the Chamber of Commerce of the exporting country and where not applicable, notarised as directed in our earlier circular (**Ref: TED/AD/153/2005 dated December 30, 2005)** on the subject matter. **ii. Letters of Credit Opened for New Transactions From January 1st, 2006** For each transaction in this category, the relevant final invoice/CCVO, packing list, manufacturer's Certificate of production and clean/shipped on Board bill of lading, shall be attested to by the Chamber of Commerce or notarised in the exporting country, for the purpose of negotiating the letter of credit. **iii. Goods Shipped Without Inspection** Goods shipped on or before 31st December 2005 will be subject to PSI. For the avoidance of doubt, no payment shall be made in the Foreign Exchange Market for goods whose shipment took place on or before 31st December 2005, without pre-shipment inspection. **iv. Goods for which Inspection had taken place but no CRI and Attested Sealed Final Invoice issued as at 31st March, 2006** Goods in this category shall be consigned for destination inspection. Where they are covered by letters of credit, the terms of payment should be amended to exclude attested sealed final invoice and CRI and in their place insert relevant CCVO, packing list, manufacturer's certificate of production and clean /shipped on Board bill of lading duly attested to by the Chamber of Commerce or notarised in the exporting country.

			v. Transactions with Partial Shipments For transactions with partial shipments that are still outstanding as at 31st March, 2006, such may be extinguished and a new Form 'M' opened. In the alternative, the transactions should be consigned for Destination Inspection under the new regulation. **vi. Transactions Duly Covered by CRI and Sealed Final Attested Invoice** In all cases where goods have been inspected and are duly covered by CRI and Sealed Final Attested Invoice, the documents shall be negotiated (settled) and the goods cleared and handled under the old arrangement of pre-shipment inspection. **vii. Information on Outstanding Applications under PSI** All applications in respect of transactions covered by these transitional arrangements, whether they are bills for collection or letters of credit shall, in the first instance, be submitted to the Director, Trade & Exchange Department, Central Bank of Nigeria in Excel format, stating the following details, • Form M number • Name of applicant • Description of goods • Payment mode • FX purchased (if any) • Port of destination • Value of goods (C&F) • Date Form M was approved and • Estimated time of arrival of goods After clearance of the relevant goods, a copy of the approved Form 'M' application should be forwarded to Director, Trade and Exchange Department, Central Bank of Nigeria together with the following documents: 1. Proforma Invoice 2. Sealed Final invoice and CRI (duly attested) 3. Manufacturer's certificate of production (duly attested) 4. Packing list 5. Clean/shipped on Board Bill of lading (duly attested) 6. Duty payment receipt 7. SGD form with the duty receipt number stated thereon.
TED/AD/04 /2006	Submission of Bids in the Foreign Exchange Market and Payment for Foreign Exchange Winnings	January 5, 2006	This is to inform all Authorized Dealers that, following the conclusion of the consolidation exercise on December 31st, 2005 and the emergence of twenty five (25) banks, submission of bids in the Foreign Exchange Market (FEM) should be in the name of the lead bank in the group, where the group that emerged comprises more than one bank. For the avoidance of doubt, bids

			submitted in the individual names of banks in a group will henceforth be rejected. Also, payment for foreign exchange winnings at the FEM will be effected from the account of the lead bank where applicable while that of those that emerged as single will be treated accordingly. For banks that emerged as single, they should continue to submit bids in their individual names. The provisions of this circular take effect from January 9, 2006 and Authorized Dealers are enjoined to ensure compliance, please.
TED/AD/12/2006	Modification of Exports Domiciliary Account Operations and Transport Mode for Exports	January 19, 2006	This is to inform all authorised Dealers, Exporters and the general public that in order to further encourage exporters, including marginal oil field operators, the understated modifications have been made to the operation of the exports domiciliary account and transport mode for exports: a) Repatriated export proceeds, including those of oil Marginal Field Operators and other inflows, shall be held in Exports Domiciliary Accounts maintained with Authorised Dealers. Banks shall continue to maintain two types of Domiciliary Accounts, namely, Exports Domiciliary Accounts and Ordinary Domiciliary Accounts. Holders of both types of Domiciliary Accounts shall continue to have unfettered access to the funds maintained therein, subject to the existing guidelines; b) The requirement that funds deposited in exports domiciliary accounts shall be sold to the dealing bank or any other bank or be utilized only for eligible transactions, subject to prescribed documentation, is now liberalized. Accordingly, exporters may now sell their export proceeds to any bank, withdraw for own use, issue instructions to the bank to transfer to any beneficiary and utilize the proceeds for eligible transactions, subject to prescribed documentation requirements; c) In the case of transfer of funds to third parties or withdrawal for own use, the instruction of the account holder shall be sufficient, irrespective of the payment mode; and d) The transport mode for exports can now be executed on Free-on-Board (FOB) or Cost and Freight (CFR) basis, depending on the choice between the Nigerian exporter and the overseas buyer. All Authorised Dealers are enjoined to ensure compliance, please.
TED/AD/15/2006	Outstanding Transactions as at 31st December 2005	January 24, 2006	All Authorised Dealers are hereby directed to forward details of all outstanding transactions from 1st January 2002 to 31st December 2005, under the following headings:

			1. All transactions for which foreign exchange had been purchased and not yet utilized; 2. All transactions for which foreign exchange had been purchased and not fully consummated; 3. All transactions for which foreign exchange would be required for consummation; and 4. All transactions for which Clean Report of Inspection had been issued and remained un-utilised.
TED/AD/16/2006	Outstanding Transactions as at 31st December 2005	January 24, 2006	All Authorised Dealers are hereby directed to forward details of all outstanding transactions from 1st January 2002 to 31st December 2005 under the following categories: 1. All transactions for which foreign exchange had been purchased and remained un-utilized; 2. All transactions for which foreign exchange had been purchased and not fully utilized; 3. All transactions for which foreign exchange would be required for consummation; and 4. All transactions for which Clean Report of Inspection had been issued and remained un-utilised and or un-collected. Attached also are the four formats for which the returns should be forwarded to the Director, Trade and Exchange Department, Central Bank of Nigeria, using Excel spreadsheet. Please, note that in the case of banks that have evolved after consolidation, the lead bank should forward details, but listing the transactions by each of the banks in the new group. However, in the case of banks in liquidation, the Management of the banks should ensure compliance with the provisions of this circular. Finally, all responses must be received **on or before 27th January 2006**, both in soft and hard copies.
TED/AD/21/2006	Outstanding Transactions as at 31st December 2005	February 1, 2006	Further to our circular ref: **TED/AD/16/2006 of January 24, 2006** on the above subject, all Authorized Dealers are hereby informed that the deadline for the submission of the returns has been extended by one week, effective from February 1, 2006. Consequently, all Authorized Dealers are advised to submit the returns not later than February 8, 2006. For the avoidance of doubt, any Authorized Dealer that fails to meet the deadline shall be sanctioned appropriately, including suspension from the Foreign Exchange Market.

TED/AD/26/2006	Issuance of New Authorised Dealership Licence to Banks	February 7, 2006	Pursuant to the on-going reform of the Nigerian Banking System embarked upon by the Central Bank of Nigeria, the successful completion of the Consolidation exercise and its intention to commence Wholesale Dutch Auction System (WDAS), the Central Bank of Nigeria hereby informs all the banks that with effect from February 17, 2006, all Authorised Dealership licences held by the banks cease to be valid for operation in the Foreign Exchange Market. Banks are, therefore, advised to apply to the Director, Trade and Exchange Department, Central Bank of Nigeria, Abuja for new licences. The Application should be accompanied with a non-refundable processing fee of N500,000.00 (Five hundred thousand Naira) in a bank draft in favour of the "Central Bank of Nigeria". The requirements for the issuance of an Authorised Dealership Licence (ADL) include, among others: (i) A Dealing room fully equipped with Reuters Dealing Terminals, functional fax and telephone lines; (ii) Qualified and experienced dealers; and (iii) Payment of a licence fee of N1.5 million. The Authorised Dealership licence to be issued shall be valid for a period of one year from date of issue and shall be renewable from year-to-year upon the payment of a licence renewal fee to be fixed from time-to-time by the CBN. For the avoidance of doubt, any bank that does not hold a new ADL after the deadline shall be barred from dealing in the Foreign Exchange Market (i.e. dealing in the inter-bank, autonomous market, export proceeds and purchase from oil companies).
TED/AD/30/06	Deadline for the Inspection of Goods in Respect of Forms "M" Established under the Pre-Shipment Inspection Scheme	February 10, 2006	Following the introduction of the Destination Inspection Scheme, coupled with the need to wind down all transactions started under the Pre-shipment Inspection Scheme and still outstanding as at December 31, 2005 on or before March 31, 2006, the Inspection Agents are, hereby, required to conclude inspection of such goods on or before February 15, 2006 in respect of all registered Forms "M". They are also to issue appropriate documents under the existing guidelines within 72 hours from the date of completion of the inspection. For the avoidance of doubt, all goods for which the Clean Reports of Inspection (CRIs) had been issued under the Pre-shipment Inspection (PSI) Scheme must

			arrive designated Nigerian ports not later than March 31, 2006 to ensure compliance with the directive of the Federal Government of Nigeria. However, where the inspection could not be carried out within the deadline, Authorized Dealers are required to amend the Forms "M" and/or LCs in accordance with the provisions of the Circular **Ref. No. TED/AD/03/2006 of January 4, 2006.**
TED/AD/31/2006	Petroleum Products Import under Destination Inspection Scheme (DIS)	February 10, 2006	This is to inform all Authorized Dealers and the general public that the guidelines and documentation requirements for petroleum products import stipulated in the circular **Ref. No. TED/AD/55/2004 of May 7, 2004** is still valid under the DIS. For the avoidance of doubt, some of the documentation requirements for imports and payment in respect of other imports contained in sections A (15) and B (1) of the circular **Ref. No. TED/AD/153/2005 of December 30, 2005** which are not stated in the circular dated May 7, 2004 shall not apply in the case of petroleum products import. Authorized dealers are, therefore, required to ensure compliance and implementation of the circular on petroleum products import.
TED/AD/36/2006	Import Guidelines, Procedures and Documentation Requirements under Destination Inspection (Clarifications and Amendments)	February 17, 2006	Further to our circular **Ref. No. TED/AD/153 of 30th December, 2005** on the above subject, the following clarifications and amendments are made to the provisions of the said circular. 1. Paragraph A4. All applications for goods subject to Destination Inspection shall carry the "BA" code, while those exempted (as may be approved by the Honourable Minister of Finance) shall include "CB" in the prefix of the numbering system of the Form "M". Payments for goods exempted from Destination Inspection, under the Scheme, would not be carried out in the Foreign Exchange Market, without a prior approval from the Central Bank of Nigeria. 2. Paragraph A15. The "attestation" referred to in Paragraph A15 (a) and Section 6(1), under the sub-heading "The Supplier" and any in other section or sub-section of the said circular, is no longer a requirement. Consequently, all sections and subsections that provide for attestation stand amended. The following shall apply. • Letters of credit transactions: where the transactions involve issuance of Certificate of Capital Importation (CCI) and/or supplier's credit, all negotiating documents and/or shipping documents (as may be applicable), must be routed from the Beneficiary/Supplier through his/ her bank to the correspondence

			bank of the issuing bank and thereafter to the issuing bank. For the avoidance of doubt, on no account must banks endorse or pay on documents which do not comply with the routing outlined above. • For Bills for Collection transactions and Unconfirmed Letters of Credit, documents must come to the issuing bank either directly from the supplier's bank or through the off-shore correspondent of the issuing bank. • For Not Valid for Foreign Exchange transactions (which do not require foreign exchange transfer), the supplier should forward the documents directly to the bank that opened the Form "M". In addition, applicable returns on non-submission of shipping documents after 90 days in respect of such transactions must henceforth be rendered. • In the case of personal effects, the relevant documents should be forwarded to the appropriate Risk Management and Service Provider, provided they are not dutiable items. However, where they are dutiable, the documents should be forwarded to the relevant designated bank. 3. The term "exporting country/country of supply" means the country where the goods are shipped and transport document issued. 4. Carrier Certificate and Insurance Certificate stated in paragraphs A15 (d and e) are no longer documentary requirements. 5. Section 6 (see the sub-heading "The supplier") • Sub-section 6(1). The supplier shall make available three sets each, of original Combined Certificate of Value and Origin (CCVO); Transport document (depending on the mode of transport) and Packing list to the relevant bank as indicated in 2 above. • Sub-section 6(6). The Supplier shall forward only two sets of the documents in 5 above through his/her banker to the relevant overseas correspondent bank of the Nigerian Authorised Dealer Bank, for transactions valid for foreign exchange and those for which Certificate of Capital Importation would be issued or involving supplier's credit. The third copy should be forwarded to the Authorised Dealer Bank that opened the Form "M".

			Similarly, in the case of Bills for collection and unconfirmed letters of credit, two sets should be forwarded, either through the supplier's bank or the offshore correspondent of the issuing bank, to the issuing bank, while the third copy is forwarded directly to the Nigerian Authorised Dealer bank. In the case of Not Valid for Foreign Exchange transactions, only two sets should be forwarded directly to the bank that opened the Form "M", while in the case of dutiable personal effects, two sets should be forwarded to the designated bank and if they are not, the two sets should be forwarded to the appropriate Risk Management and Service provider. These documents should be forwarded within 14 days after shipment. Upon receipt of the third copy of the said documents, or copies received directly in the case of Not Valid for Foreign Exchange transactions or dutiable personal effect, Authorised Dealers should forward photocopies with a letter duly signed by authorized signatories of the bank to the Risk Management and Service Provider for issuance of Risk Assessment Report (RAR). Authorised Dealers must henceforth keep and retain evidence of receipt of documents as outlined above for Bank Examiners. 6. Section 8 "Import Duty Payment". Payment of Import duty is still restricted to the bank that opened the Form "M" where it is a Designated Bank in line with existing regulations. 7. Section B(1c). The Manufacturer's certificate shall continue to be a documentary requirement. In addition, where Manufacturer's Certificate is not applicable, the Phytosanitary Certificate or Chemical Analysis Report should be made available. 8. For all existing letters of credit which have not been consummated as at the date of this circular, necessary amendments should be made to reflect the new provisions. However, for transactions claused Not Valid for Foreign Exchange and for which there would be no foreign exchange remittance, and had been shipped without "attestation", a general concessionary approval is hereby granted to enable such goods to be cleared from the ports. 9. With reference to the circular **reference TED/AD/30/06 dated February 10, 2006** on the deadline for Pre-shipment Inspection, the following concession is hereby granted:

			The deadline for the completion of inspection of goods under the Pre-shipment Inspection Scheme has been extended to 28th February, 2006. Pre-shipment Inspection Agents must conclude inspection of goods not later than February 28, 2006 in respect of all registered Forms "M" under Pre-shipment inspection, such that the goods arrive Nigerian ports not later than 31st March, 2006. 10. All Non-CRI goods to be cleared under the transitional arrangement shall continue to comply with the provisions of the circular **Ref. No. TED/AD/15/2006 of 24th January, 2006.** 11. Please, note that the provisions of circular Ref. No. TED/AD/153 of 30th December, 2005 remain valid except for the clarifications and amendments provided in this circular. 12. In addition, for transactions involving foreign exchange transfer, the assessed value on the Risk Assessment Report (RAR) shall be the amount payable. Where there is excess remittance, such must be repatriated within two weeks failing which appropriate sanctions shall be imposed. 13. Furthermore, the provisions of the circular **Ref. No. TED/AD/55/2004 of 7th May, 2004** on importation of petroleum products shall continue to apply. 14. Authorised Dealers should be guided by the provisions of Memorandum 27(x) of the Foreign Exchange Manual on the need to refer policy issues in respect of which they are in doubt to the Director, Trade and Exchange Department for clarification. For the avoidance of doubt, ALL IMPORTS MUST BE COVERED WITH DULY COMPLTED FORM 'M' regardless of whether or not they are exempted from destination inspection. Finally, Authorised Dealers, Importers, Suppliers, Service providers, Shipping lines, Agents, etc are reminded of the need to ensure compliance with these provisions. Any breach of the guidelines will attract appropriate penalty in accordance with existing regulations and/or statute.

TED/AD/42/2006	Revised Guidelines for the Operation of the Foreign Exchange Market: Wholesale Dutch Auction System	March 1, 2006	Further to our circular **Ref. No. TED/AD/35/2006 of February 16, 2006** on the above subject, the following amendments and additions are made to the provisions of the said circular. 1. **Paragraph 1.** Henceforth the Central Bank of Nigeria (CBN) shall participate in the Foreign Exchange Market to sell foreign exchange through the Wholesale Dutch Auction System. 2. **Paragraph 4.**The Authorised Dealers shall submit their bids as per the attached format for any particular auction session between 8.30 am and 10.30 am on the day of the auction. The bids should be submitted through the primary means, namely, the Reuters to the CBN Lagos/Abuja. However, for those anticipating the implementation of Reuters system, the submission of bid should be in diskette (excel spreadsheet) or hard copy faxed to the offices stated in (2) in the circular under reference. 3. **Paragraph 6.** The CBN shall announce the result of each Auction by 12.00 noon on the day of the Auction. A copy of the result may be obtained from the offices mentioned in (2) above. 4. **Paragraph 7.** Successful bids shall be advised by 12.00 noon on the Auction day and Authorised Dealers shall be debited at the bid rates. 5. **Paragraphs 9 & 10.** The provisions of these paragraphs are no longer applicable. 6. **Paragraph 11. Other Issues** (i) The provisions of sub-section (ii) is no longer applicable. (ii) Authorised Dealers shall strictly observe the Net Open Position (NOP) advised to them. The NOP shall be monitored regularly by the CBN. 12. **Sanctions** Exceeding the approved NOP shall attract appropriate sanctions including withdrawal of Authorised Dealership Licence.
TED/AD/43/2006	Submission of Volume of Major Transaction Currencies for Net Open Position	March 1, 2006	In furtherance of the need for all banks to operate within the Net Open Position set by the Central Bank of Nigeria (CBN), all Authorised Dealers are advised to submit to the Director, Trade & Exchange Department not later than March 15, 2006 volumes of their transactions in the major trading currencies for January and February, 2006.

			Authorised Dealers are enjoined to submit actual volumes of their transactions in the major currencies for the period required. Please, note that any submission that is later found to be at variance with the actual position shall attract appropriate sanctions.
TED/AD/48/2006	Rendering Returns on Currency Exposure - Net Open Position	March 17, 2006	This is to inform all Authorised Dealers that from March 20, 2006 returns on Net Open Positions (NOP) are to be submitted electronically on a daily basis by email using the above stated email address. Attached is a format for rendering the NOP returns and instructions on how it should be completed. All Authorised Dealers are enjoined to ensure compliance, please.
TED/AD/54/2006	Further Liberalisation of the Foreign Exchange Market	March 28, 2006	In furtherance to the ongoing reforms in the banking industry, coupled with the need to delegate more responsibilities to Authorised Dealers and enhance the efficiency of the operations of the Wholesale Dutch Auction, the operations of the transactions stated below have been further liberalized: **A) UTILISATION OF CERTIFICATES OF CAPITAL IMPORTATION (CCI)** The provisions of **Section 5(i) of Memorandum 24 of the Foreign Exchange Manual** are no longer valid. Instead, CCI issued by any Authorised Dealer that initially handled the transaction that qualifies for issuance of CCI can be utilised through another bank, subject to the following: (i) a formal application by the customer to the bank that initially issued the CCI, requesting for transfer to another bank; (ii) the initial bank effects the transfer to a bank of the customer's choice, attaching the following: a) copy of the CCI; b) transaction history of the CCI, stating purpose of CCI, amount remitted so far (interest, loan repayment, dividends), amount outstanding and an indemnity by the issuing bank to the receiving bank against double remittance. A copy of the CCI transaction history should be forwarded to Director, Trade & Exchange Department, CBN, Abuja. (iii) the new bank accepts the transfer and issue to CBN, a letter of indemnity against double remittance and commences remittance on the CCI, subject to relevant documentation being fully met;

			(iv) In all cases and where final remittance has been effected, the original CCI should be retrieved and cancelled by the bank that last handled the transaction involving the CCI. The bank should retain a photocopy for its records and surrender the cancelled original to the Director, Trade & Exchange Department, CBN, Abuja. **B) UTILISATION OF FOREIGN TRADE FINANCE FACILITY (Confirmation/Clean Lines)** The requirements that the utilization of such facility is subject to prior approval of the CBN and its application limited to plant and machinery, raw materials required by the manufacturing sector have been waived. Accordingly, prior approval of the CBN is not necessary and it can be applied to all sectors of the economy. However, Authorised Dealers should inform the Director, Trade & Exchange Department any time such facility is secured and/or enhanced in addition to rendition of monthly returns for information and records. For the avoidance of doubt, unconfirmed Letters of Credit are still subject to prior approval of the CBN. **C) FOREIGN GUARANTEES/CURRENCY DEPOSITS AS COLLATERAL FOR NAIRA-DENOMINATED LOANS** The requirement that the CBN's prior Approval-in-Principle of such transactions should be secured as provided for in Memo 12 sub-section 5 of the Manual has been waived. However, Authorised Dealers should operate the transactions in strict compliance with the guidelines provided in Memorandum 12 sub-section 1-4 of the Forex Manual. **D) SECURITIES PAYABLE IN FOREIGN CURRENCY** The use of funds in the Foreign Exchange Market is allowed, subject to the repatriation of earnings from such investment. The repatriation should be credited to the ordinary domiciliary account of the investor for own use and/or deepening the inter-bank market. Authorised Dealers are required to render monthly returns on repatriation and non-reparation to Nigeria, to the Director, Trade & Exchange Department, CBN, Abuja. **E) FOREIGN BORROWING BY BANKS FOR ON-LENDING** The requirements in the CBN circular **reference No. BSD/DO/CIR/ VOLI/2001/22 of November 29, 2001** which provide that such facility will not qualify for payment with funds from the CBN except there is evidence that the facility is tied to projects that are capable of conserving forex through local production in addition to CCI have been waived.

			However, in all cases, evidence of utilization of the loans, including CCI, etc, in Nigeria in addition to other documentation requirements should be met before remittances are effected in the Forex Market. **F) BTA/PTA** The threshold for BTA has been increased from US$2500 to US$5000.00 per quarter. Similarly, the threshold for PTA has been increased from US$2000.00 every six months to US$4000.00 per quarter. In other words, maximum BTA and PTA per annum is US$20,000.00 and US$16,000.00 respectively. **G) TRAVELS TO ECOWAS SUB-REGION** Travellers to the ECOWAS sub-region can now make use of other TCs as well as ECOWAS Travellers' Cheques for their BTA and PTA. **H) SCHOOL FEES** The documentation requirements for undertaking studies overseas are now as follows: **a) Undergraduate Studies** ● Form 'A' duly completed and approved; ● Letter of admission/course programme; and ● Current school bill. **b) Post-Graduate Studies** Same as in (a) above plus first degree certificate and/or statement of result confirming possession of first degree. All Authorised Dealers are enjoined to exercise due diligence in processing transactions and ensure that the principles of Know-Your-Customer are strictly observed. Also, all third party documents are to be fully verified before remittances on any transaction are effected as any breach will be sanctioned appropriately, including suspension of Authorised Dealership licence.