

DRAFT

CENTRAL BANK OF NIGERIA



ANNUAL REPORT & STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER, 2007

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Vision

To be one of the most efficient and effective world's central banks in promoting and sustaining economic development

Mission

To be proactive in providing a stable framework for the economic development of Nigeria through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial sector

THE CENTRAL BANK OF NIGERIA

Established by the Central Bank of Nigeria (CBN) Act of 1958, the Principal objects of the Bank as contained in the new CBN Act, 2007 are to

- ensure monetary and price stability*
- issue legal tender currency in Nigeria*
- maintain external reserves to safeguard the international value of the legal tender currency*
- promote a sound financial system in Nigeria*
- act as banker and provide economic and financial advice to the Federal Government of Nigeria*

**BOARD OF DIRECTORS' PICTURES
AS AT 31ST DECEMBER, 2007**

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MEMBERS OF THE BOARD OF DIRECTORS OF THE BANK AS AT 31ST DECEMBER, 2007

1.	Chukwuma C. Soludo	-	Governor (Chairman)
2.	Ernest C. Ebi	-	Deputy Governor (Corporate Services)
3.	Sarah O. Alade (Mrs)	-	Deputy Governor (Economic Policy)
4.	Tunde Lemo	-	Deputy Governor (Financial Sector Surveillance)
5.	Suleiman A. Barau	-	Deputy Governor (Operations)
6.	Amal I. Pepple (Ms.)	-	Director (Permanent Secretary, Federal Ministry of Finance)
7.	Ibrahim H. Dankwambo	-	Director (Accountant General of the Federation)
8.	Akpan H. Ekpo	-	Director
9.	Juliet A. Madubueze (Mrs)	-	Director
10.	Dahiru Muhammad	-	Director
11.	Samuel O. Olofin	-	Director
12.	Joshua O. Omuya	-	Director
	Umaru B. Girei	-	Secretary to the Board

MEMBERS OF THE COMMITTEE OF GOVERNORS OF THE BANK AS AT 31ST DECEMBER, 2007

1.	Chukwuma C. Soludo	-	Governor (Chairman)
2.	Ernest C. Ebi	-	Deputy Governor (Corporate Services)
3.	Sarah O. Alade (Mrs)	-	Deputy Governor (Economic Policy)
4.	Tunde Lemo	-	Deputy Governor (Financial Sector Surveillance)
5.	Suleiman A. Barau	-	Deputy Governor (Operations)
	Umaru B. Girei	-	Secretary

PRINCIPAL OFFICERS OF THE BANK AS AT 31ST DECEMBER, 2007

A.	Departmental Directors	
1.	James K.A. Olekah	- Banking Operations
2.	Odufu I. Imala	- Banking Supervision
3.	Umaru B. Girei	- Corporate Secretariat
4.	Benjamin C. Onyido	- Currency & Branch Operations
5.	Amos S. Bamisile	- Development Finance
6.	Mohammed S. Garba	- Finance
7.	Mohammed Nda	- Foreign Operations
8.	Osaretin A. Demuren (Mrs)	- Human Resources
9.	Stephen O. Aladesulu	- Information Technology
10.	Samuel O. Olatunde	- Internal Audit
11.		- Monetary Policy

12.	Samuel A. Oni	-	Other Financial Institutions
13.	Garba Ahmed	-	Procurement & Support Services
14.	Charles N.O. Mordi	-	Research & Statistics
15.	Walter W. Ahrey	-	Strategy & Performance
16.	Omolara O. Akanji (Mrs)	-	Trade & Exchange
	Anthony O. Olatujoye	-	Legal Adviser

B. Special Advisers to the Governor

1.	Patrick A. H. Ataman	-	Governor's Office
2.	Asuri Vasadevan	-	Monetary Operations

C. Branch Controllers/Currency Officers

1.	Olayiwola V. Olusoga	-	Abeokuta
2.	John N. Chukwudifu	-	Abuja
3.	Rahmath A. O. Yusuf-Adeyemi (Mrs)	-	Akure
4.	Joseph A. Dada	-	Bauchi
5.	Azubuike I. Okoye	-	Benin
6.	Ernest O. Alilonu	-	Calabar
7.	Christian E. Nkwonta	-	Enugu
8.	Bashiru G. Adebayo	-	Ibadan
9.	Onoriode M. Olotewo	-	Ilorin
10.	Gin Y. M. Kurah	-	Jos
11.	Faruk A. Garko	-	Kaduna
12.	Mamum I. Maude	-	Kano
13.	Aliyu B. Mohammed	-	Katsina
14.	Adekunle A. Ogunsanya	-	Lagos
15.	Mohammed I. Gusau	-	Maiduguri
16.	Sylvester C. Chukwuka	-	Makurdi
17.	Mohammed A. K. Dala	-	Minna
18.	Patrick I. Okonkwor	-	Owerri
19.	Benedict M. C. Obi	-	Port Harcourt
20.	Ahmed Mohammed	-	Sokoto
21.	Caulma C. Efegi	-	Uyo
22.	Yusuf Nuhu	-	Yola

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List of Abbreviations and Acronyms

AACB	Association of African Central Banks
ABS	Analytical Balance Sheet
ACGSF	Agricultural Credit Guarantee Scheme Fund
ACSS	Agricultural Credit Support Scheme
ADF	Africa Development Fund
ADPs	Agricultural Development Programme
AFC	Africa Finance Corporation
AfDB	African Development Bank
AIPs	Approval-In-Principle
AMCP	African Monetary Cooperation Programme
AML/CFT	Anti-Money Laundering/Combating Financing Terrorism
APRM	Africa Peer Review Mechanism
ATM	Automated Teller Machines
AU	African Union
AUC	Africa Union Commission
BAs	Bankers' Acceptances
BDC	Bureaux de Change
BOI	Bank of Industry
BWIs	Bretton Woods Institutions
CAC	Corporate Affairs Commission
CAMA	Companies and Allied Matters Act
CAMEL	Capital Adequacy, Asset Quality, Management, Earning and Liquidity
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
CBP	Capacity Building Programme
CBs	Community Banks
CDMA	Code Division Multiple Access
CEPR	Centre for Economic Policy Research
CG	Credit to Government
CIC	Currency in Circulation
CIFTS	Central Bank Inter-bank Funds Transfer System
CIT	Companies Income Tax
COB	Currency Outside Bank
COBEC	Code of Business Ethics and Conduct
COPAL	Cocoa Producers' Alliance
CP	Credit to the Private Sector
CPI	Consumer Price Index
CPs	Commercial Papers
CRMS	Credit Risk Management System
CRR	Cash Reserve Requirement
CSAR	Country Self Assessment Report
CSCS	Central Securities Clearing System
CSOs	Civil Society Organisations
DFIs	Development Finance Institutions
DHs	Discount Houses

DLF	Direct Lending Facilities
DMBs	Deposit Money Banks
DMO	Debt Management Office
DS	Development Stock
EBP	Electronic Budgeting and Planning
ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
EDC	Entrepreneurship Development Centres
EEG	Export Expansion Grant
e-FASS	Electronic Financial Analysis and Surveillance System
EFCC	Economic and Financial Crimes Commission
e-Money	Electronic Money
EMS	Enterprise Management and Security
ERP	Enterprise Resource Planning
ETF	Education Tax Fund
FAAC	Federation Account Allocation Committee
FCs	Finance Companies
FCT	Federal Capital Territory
FDI	Foreign Direct Investment
FGN	Federal Government of Nigeria
PHAN	Finance Houses Association of Nigeria
FIRS	Federal Inland Revenue Service
FITC	Financial Institutions Training Centre
fob	Free on Board
FRIN	Forestry Research Institute of Nigeria
FSS 2020	Financial System Strategy 2020
G-24	Group of Twenty four (24) Developing Countries
GDP	Gross Domestic Product
GSM	Global System Mobile Commission
IAS	International Accounting Standard
IBRD	International Bank for Reconstruction and Development
ICCO	International Cocoa Organization
ICO	International Coffee Organization
IDA	International Development Assistance
IDMS	Integrated Document Management System
IEA	International Energy Agency
IFAD	International Fund for Agricultural Development
IFT	Inter-bank Funds Transfer
IGR	Internally Generated Revenue
IIP	International investment Position
ILN	Interactive Learning Network
IMF	International Monetary Fund
IPOs	Initial Public Offers
IPPs	Independent Power Plants
ISPs	Internet Service Providers
IT	Information Technology
ITU	International Telecommunication Union

JVC	Joint Venture Cash Calls
KYC	Know Your Customer
LOKAP	Lagos, Kano, Aba and Port-Harcourt
LPFO	Low Pour Fuel Oil
LR	Liquidity Ratio
LROs	Lead Research Organisations
LVIFT	Large Value Inter-bank Funds Transfer
M ₁	Narrow Money Supply
M ₂	Broad Money Supply
mbd	Million barrels per day
MDGs	Millennium Development Goals
MFBS	Microfinance Banks
MICR	Magnetic Ink Character Recognition
MMDs	Money Market Dealers
MOU	Memorandum of Understanding
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MRR	Minimum Rediscount Rate
MTEF	Medium-Term Expenditure Framework
MYTO	Multi-Year Tariff Order
NACRDB	Nigerian Agricultural, Cooperative and Rural Development Bank
NACS	Nigerian Automated Clearing System
NAFDAC	National Agency for Food, Drug Administration and Control
NAICOM	National Insurance Commission
NAOC	Nigeria Agip Oil Company
NAPCON	National Petroleum Company of Nigeria
NAPRI	National Animal Production Research Institute
NBS	National Bureau of Statistics
NCS	Nigerian Custom Service
NDC	Net Domestic Credit
NDIC	Nigeria Deposit Insurance Corporation
NEEDS	National Economic Empowerment and Development Strategy
NEER	Nominal Effective Exchange Rate
NEPAD	New Partnership for Africa's Development
NERC	National Electricity Regulatory Commission
NEXIM	Nigerian Export-Import Bank
NFAs	Net Foreign Assets
NGC	Nigerian Gas Company
NGOs	Non-Governmental Organizations
NIBOR	Nigerian Inter-Bank Offer Rate
NICPAS	Nigerian Cheque Printers Accreditation Scheme
NNPC	Nigerian National Petroleum Corporation
NPC	National Population Commission
NPFS	National Programme for Food Security
NPSC	National Payments System Committee
NSE	Nigerian Stock Exchange
NSPFS	National Special Programme for Food Security

NSPM	Nigerian Security Printing and Minting
NTBs	Nigerian Treasury Bills
NWG	National Working Group
OBB	Open Buy Back
ODA	Overseas Development Assistance
OFIs	Other Financial Institutions
OMO	Open Market Operation
OPEC	Organisation of Petroleum Exporting Countries
OTC	Over the Counter
P&A	Purchase and Assumption
PENCOM	National Pension Commission
PEP	Politically Exposed Person
PHCN	Power Holding Company of Nigeria
PIR	Process Improvement and Redesign
PMIs	Primary Mortgage Institutions
PMS	Portfolio Management System
POS	Point of Sale
PPT	Petroleum Profit Tax
PSI	Policy Support Instrument
RBDAs	River Basins Development Authorities
RECs	Regional Economic Commission
REER	Real Effective Exchange Rate
RTEP	Root and Tuber Expansion Project
RTGS	Real Time Gross Settlement
SBU's	Strategic Business Units
SEC	Securities and Exchange Commission
SFU	Special fraud Unit
SITC	Standard International Trade Classification
SITC	Standards International Trade Classification
SMEDAN	Small and Medium Enterprises Development Agency
SMEEIS	Small and Medium Enterprises Equity Investment Scheme
SON	Standard Organisation of Nigeria
SPDC	Shell Petroleum Development Company
SPDC	Shell Petroleum Development Company
SSA	Sub-Saharan Africa
SSC	South - South Cooperation
TCs	Travellers' Cheques
TFM	Trust Fund Model
TIB	Temenos Internet Banking
UAT	User Acceptance Test
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organisation
VAT	Value Added Tax
VAT	Value Added Tax
WACB	West African Central Bank
WAIFEM	West African Institute for Financial and Economic Management
WAMA	West African Monetary Agency

WAMZ	West African Monetary Zone
WB	The World Bank
WDAS	Wholesale Dutch Auction System

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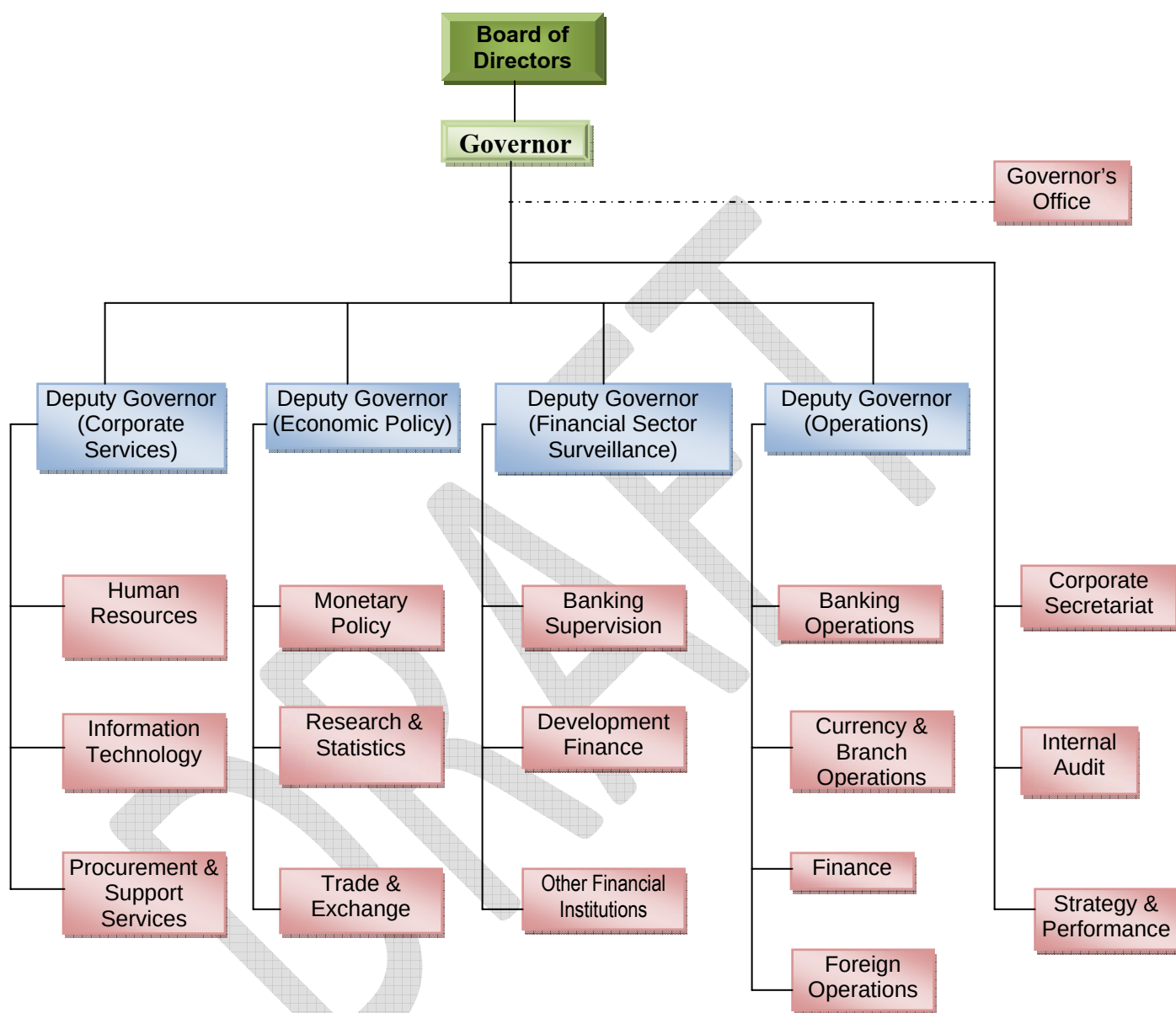
GOVERNOR'S PICTURE

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STATEMENT BY THE GOVERNOR

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Organisational Structure of the CBN as at 31st December, 2007



CENTRAL BANK OF NIGERIA
ANNUAL REPORT AND STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED 31st DECEMBER, 2007

EXECUTIVE SUMMARY

1. This Report reviews the operations of the Central Bank of Nigeria (CBN) and appraises the macroeconomic policies and outcomes in 2007. It is structured into two parts. Part I reviews the corporate operations of the Bank, while Part II assesses the performance of the economy against the backdrop of domestic economic policy measures and international economic and financial developments. Overall, the anti inflationary monetary policy stance of the CBN coupled with other financial policy measures aimed at ensuring financial soundness, effectively contained inflation and further strengthen the financial system. Thus, despite the political transition from one civilian government to another, the overall macroeconomic performance was satisfactory. Furthermore, despite the global financial crises, the Nigerian financial system remained strong, robust and resilient.

CORPORATE ACTIVITIES

The CBN Board and Other Committees

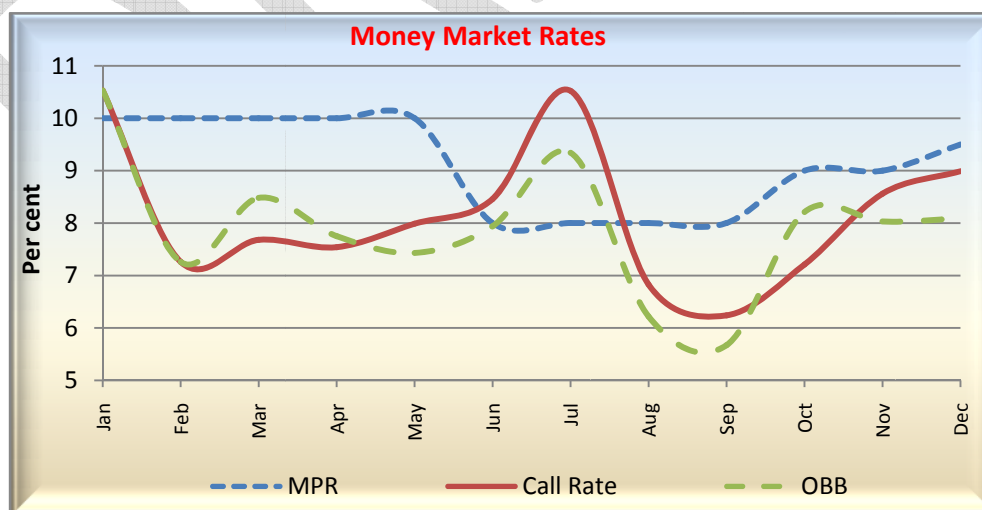
2. The structure of the Board of Directors was altered following the passage of a new CBN Act, in 2007, which increased the number of non-executive Directors from 6 to 7, to include the Accountant General of the Federation. Obadiah Mailafia, former Deputy Governor (Economic Policy) and Shamsuddeen Usman, former Deputy Governor (Operations) ceased to be members of the Board, following their appointments as the Special Adviser to the President on Political Economy and the Honourable Minister of Finance, respectively. Sarah O. Alade and Suleiman A. Barau joined the Board following their appointments as Deputy Governor (Economic Policy) and Deputy Governor (Operations), respectively. Also, Akinlose S. Arikawe, former Permanent Secretary, Federal Ministry of Finance, was replaced on the Board by Ama I. Pepple, following his retirement from the public service.

The Board held eight (8) regular and 1 emergency meetings. The Committee of Governors held seventeen (17) meetings, while the Governors' Consultative Committee and the Committee of Departmental Directors held twelve (12) regular and 1 emergency meetings each, respectively. The Audit Committee of the Board held four (4) regular meetings. The Investment Committee met twice in 2007, during which, it took decisions that enhanced prudent reserves management operations.

In order to facilitate the attainment of the objective of price stability and support the economic policy of the Federal Government, the Monetary Policy Committee (MPC) was formally enshrined in the CBN Act, 2007. It held five (5) meetings at which macroeconomic developments were reviewed, and appropriate monetary policy measures taken.

MONETARY POLICY, SURVEILLANCE ACTIVITIES AND THE OPERATIONS OF THE CBN

3. Monetary targeting remained the framework for monetary policy in 2007. The main policy thrust was to contain the excess liquidity in the banking system in order to attain price stability, promote an efficient and sound financial system and ensure non-inflationary growth. Macroeconomic stability was achieved, due largely to proactive monetary policy management and prudent fiscal operations of the Federal Government. The monetisation of part of the excess crude receipts and distribution of enhanced statutory allocations to the three tiers of government, huge autonomous foreign exchange inflows and pre-election spendings were the major challenges of monetary management during the year. These were addressed through the Open Market Operations (OMO), complemented by the issuance of treasury securities in the primary market, standing facilities (deposit and lending) to encourage trading at the inter-bank market as well as foreign exchange swaps. The monetary policy rate (MPR) introduced in December 2006, as the anchor interest rate, moderated the volatility in inter-bank rates, encouraged inter-bank trading and improved the transmission of monetary policy actions. The Bank adjusted the MPR thrice during the year, in line with macroeconomic developments.

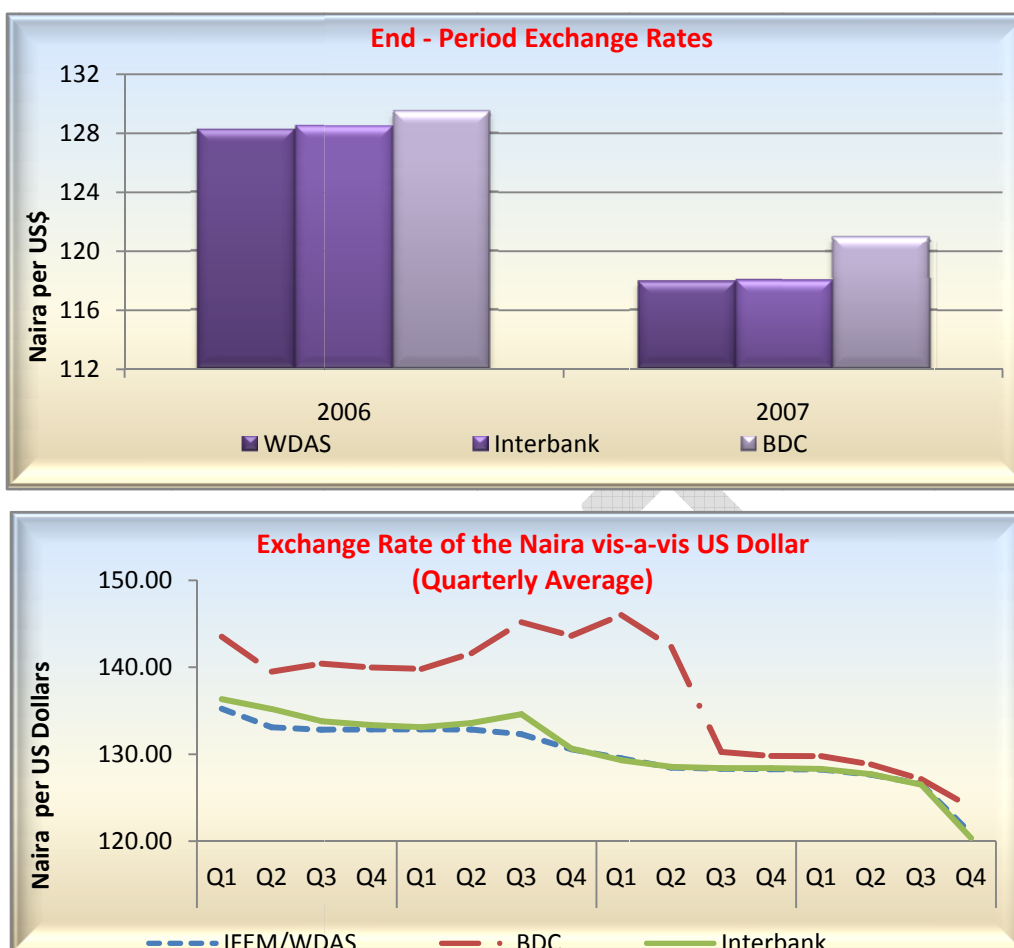


4. The Bank intensified its monetary management to ensure that the Policy Support Instrument (PSI) target was met at the exit period of June 2007. However, the indicative reserve money target at end-December 2007, was missed following high demand for currency in the fourth quarter. Aggregate bank credit (net) to the domestic economy increased significantly, reflecting the substantial increase in credit to the private sector. Net credit to the Federal Government however, declined.

5. The financial system as at end-2007 comprised the CBN, the Nigeria Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM), the National Pension Commission (PENCOM), 24 deposit money banks, 5 discount houses, 709 microfinance banks, 112 finance companies, 703 Bureaux-de-Change, one (1) stock exchange, one (1) commodity exchange, 93 primary mortgage institutions, five (5) development finance institutions and 77 insurance companies.

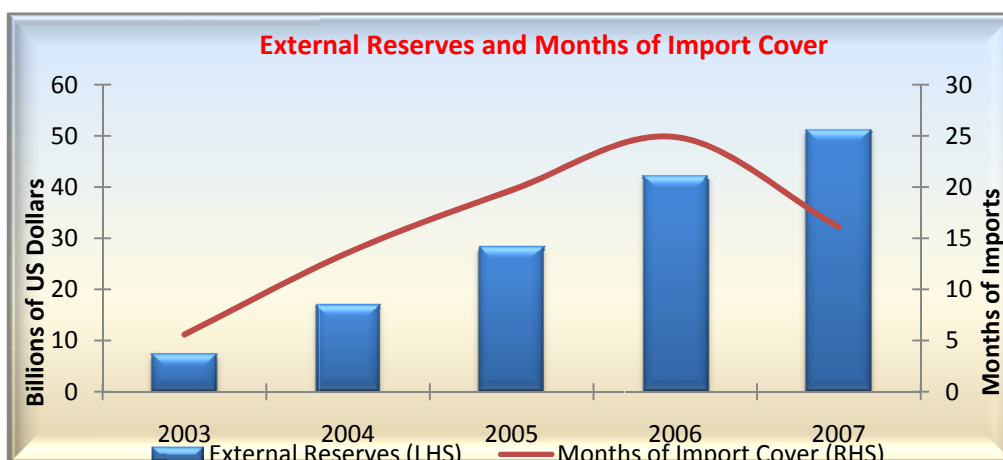
6. An assessment of the health of the banking sector showed that the system is sound as indicated by the banks' aggregate ratings. The average Capital Adequacy Ratio (CAR) of the banks was consistently high and above the stipulated minimum of 10 per cent, while assets quality as measured by the ratio of non-performing loans to total loans stood at 8.4 per cent at end-December, 2007. However, surveillance activities were stepped by the Bank in preparation for a full-fledged implementation of Risk-based Supervision. Income audits, verification of capital and special investigations conducted to check the authenticity of reports/returns to the CBN revealed that three (3) banks failed to meet the statutory minimum required capital adequacy ratio (CAR) of 10.0 per cent, while two (2) banks defaulted on the prescribed minimum liquidity ratio (LR) of 40 per cent at end-December 2007. The defaulting banks were sanctioned appropriately. On-site verification of the banks' post consolidation integration status indicated that fifteen (15), out of the nineteen (19) banks that needed integration, had attained above eighty per cent (80%) level of integration. Three (3) banks had attained less than eighty per cent (80%), while one bank attained less than sixty per cent (60%) level of integration.

7. The foreign exchange market was relatively stable with the further liberalisation of the market and the deepening of the inter-bank market occasioned by the increase in capital flows. The end-period exchange rate at the Wholesale Dutch Auction System (WDAS) appreciated by 8.7 per cent, relative to the preceeding year. The other segments of the market similarly recorded naira appreciation during the year.



Measures that helped to sustain the stability in the foreign exchange market included the participation of the Bureau de Change (BDC) operators in the official window, the non-accommodating monetary policy stance of the CBN, prudent fiscal operations of the government and increased surveillance by the CBN on the activities of the authorised dealers.

8. The stock of external reserves increased by 21.3 per cent over the level recorded in 2006 to US\$51.33 billion and could support 16.1 months of imports, well above the 6 months requirement under the convergence criteria of the West African Monetary Zone (WAMZ).



9. Under the Agricultural Credit Guarantee Scheme Fund (ACGSF), a total of 43,233 loans valued at ₦4.43 billion was guaranteed in 2007, thus bringing the total loans guaranteed since the inception of ACGSF in 1978 to 540,925 valued at ₦19.34 billion. Also, under microfinancing, the cumulative sum set aside by banks for the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) as at end-December 2007 fell by 2.1 per cent to ₦37.4 billion while investments under the scheme increased by 24.1 per cent to ₦21.2 billion.

10. The audited financial statement of the CBN showed that gross income decreased relative to 2006. At ₦146.5 billion, gross income showed a decrease of 9.8 per cent below the preceding year's level, reflecting the cost of monetary operations and foreign currency revaluation. The operations of the CBN in 2007 resulted in a net surplus of ₦32.8 billion, compared with ₦31.6 billion in 2006. In accordance with the provisions of Section 5(2) & (3) of the CBN Act, 2007 (as amended), the sum of ₦24.3 billion was due to the Federal Government while the balance accrued to general reserves.

11. At end-2007, the total assets of the CBN rose by 18.4 per cent to ₦7.4 trillion, relative to the level at end-2006. The development reflected largely the increase in external reserves (16.6 per cent), loans and advances (280.7 per cent), investments (24.9 per cent) and other assets (75.6 per cent).

12. The rise in assets mirrored largely the increase in some liability items of the Bank. Notably, deposits rose by 10.2 per cent, CBN instruments 64.8 per cent, and notes and coins in circulation 23.3 per cent. The share capital of the CBN stood at ₦5.0 billion at end-December 2007, while the general reserves rose by 15.7 per cent to ₦58.8 billion.

13. The CBN continued to fine-tune its Information Technology (IT) initiatives. In an effort to ensure prompt rendition of statutory returns to the CBN, the deposit money banks, other financial institutions and BDC were linked to the Bank's network in 2007. Other initiatives completed during the year, included the Oracle Learning Management System and two modules of the Corporate Performance Management System, namely; the Balanced Score Card and Enterprise Planning & Budgeting; while the Data Warehouse and Daily Business Intelligence modules were at advanced stages of implementation.

14. The Africa Finance Corporation (AFC) started pre-operational activities in 2007 with the issuance of US\$1.0 billion equity capital, of one (1) billion ordinary shares of US\$1 each and the appointment of the President/Chief Executive Officer, as well as other key officials.

15. The Committee on the Financial System Strategy 2020 (FSS 2020) finalised the report on the implementation plans for the achievement of the strategy. Overall, there are about four hundred (400) initiatives under the strategy to be implemented by 2015. The sector reports included those of the regulators (legal, regulation and central banking), the foundation sectors (money and foreign exchange markets, capital and mortgage markets), the follow-up sectors (small and medium enterprises, credit market and insurance), and the enablers (information and communication technology and human development).

16. The Bank recruited four hundred and forty-three (443) staff, comprising Physical Security Operatives, Librarians, Currency Processing/Disposal Assistants and Drivers in 2007. However, the Bank lost the services of twenty-four (24) staff through death. Furthermore, twenty-seven (27) staff left the services of the Bank through mandatory, voluntary or compulsory retirement, while twenty-five (25) staff resigned and four (4) withdrew their services. Also, four (4) staff had their appointment terminated, one (1) staff was declared invalid and one (1) was dismissed. Consequently, the staff strength of the Bank rose from 4,748 at end-December 2006 to 5,111 at end-December 2007.

17. In order to boost staff morale and enhance their performance, the Bank reviewed staff emoluments and promoted a total of 1,377 staff, comprising 910 senior and 467 junior staff. The Bank intensified efforts at capacity building, through staff development and skill enhancement. Consequently, it sponsored staff

training programmes, including seminars, workshops, conferences and courses within and outside Nigeria. Thus, a total of ten thousand, five hundred and fifty-two (10,552) participants benefited in such training slots.

ECONOMIC REPORT

The International Economy

18. Global output growth was projected at 5.2 per cent in 2007, an increase of 0.8 percentage point above the previous year's growth rate. About half of global output expansion was accounted for by China, India and Russia. Also, the global economy witnessed modest inflationary pressures. Total global trade in 2007 grew by 14.2 per cent over the value recorded in the previous year. The increase was due to the high prices of commodities, especially crude oil and solid minerals. The global economic development impacted positively on the Nigerian economy in such areas as enhanced earnings from crude oil exports, strong external sector position, build-up of external reserves and enhanced capital inflows.

19. The Group of Twenty Four developing countries (G-24) reviewed the favourable global economic environment in which many emerging and developing countries experienced modest growth. The Group noted that developing countries had become the new driving force and the stabilising factor in the world economy. It noted that the turbulence in global financial markets had limited impact on developing countries as a result of strengthened economic fundamentals. However, the need for transparency, appropriate regulation and supervision to mitigate systemic risks was stressed. The Annual Meetings of the G-24, and of the Boards of Governors of the IMF and World Bank, emphasised the need to adopt a package of reforms aimed at increasing the voice and representation of developing countries to enhance the legitimacy and effectiveness of the Bretton Woods Institutions. The Ministers of the G-24 at the meeting expressed disappointment at the stalled delivery of aid resources after the adoption of the Millinium Development Goals (MDGs), the Monterrey consensus and the commitment of the G8 to scale up aid. The Group however, welcomed the progress in the implementation of the World Bank Group's Africa Action Plan but regretted that the region was still not on track to meeting the MDGs.

20. Nigeria and Russia signed a Memorandum of Understanding on the establishment of Nigeria/Russia Business Council in 2007. Both parties agreed to promote economic cooperation especially,

in the areas of banking and finance, fisheries, energy and trade. The US-Nigeria Trade and Investment Forum Agreement, aimed at the development of electric power in Nigeria and capacity building for the Nigerian banking sector on project financing models were concluded. Both countries agreed on new areas of cooperation, including improving enforcement against piracy and counterfeiting.

21. The West African Monetary Zone (WAMZ) noted the progress made by member countries toward the December 2009 launch of the monetary union, and that The Gambia and Nigeria have met the four primary convergence criteria. The Committee of Governors of Central Banks in the Zone, therefore stressed the need to deepen institutional and structural reforms so as to sustain the momentum, particularly in trade liberalisation and domestication of relevant protocols. It recommended among others, that member countries should domesticate WAMZ statutes; adopt the WAMZ Cheque Standard and the Automated Cheque Processing Standard (ACPS) as well as Nigeria's Fiscal Responsibility Act as best practice to ensure fiscal prudence.

The Domestic Economy

Fiscal Operations of Government

22. The outcome of the fiscal operations of government was mixed in 2007. At N5,715.5 billion or 25.0 per cent of GDP, the federation account revenue declined by 5.7 per cent from the level in 2006. This development was attributed to the decline in oil revenue as a result of youth restiveness in Niger Delta which disrupted oil production and export activities. This impact was however moderated by the continuous rise in the prices of crude oil in the international market and the increase in the non-oil revenue. Thus, oil revenue stood at ~~N~~4,463.0 billion, a decline of 15.6 per cent from the level in 2006. In contrast, non-oil revenue increased by 62.0 per cent above the level in the preceeding year to ~~N~~1,252.6 billion, which represented 5.5 per cent of GDP.

23. The sum of ~~N~~3,878.5 billion was transferred to the Federation Account in 2007, indicating an increase of 17.0 per cent over the level in 2006. The amount distributed after all statutory transfers was as follows: Federal Government (~~N~~1,500.9 billion), State and Mineral Derivation (~~N~~1,106.5 billion), and Local Government (~~N~~586.9 billion). Similarly, the sum of ~~N~~289.6 billion VAT receipts was distributed to the three tiers of government in the ratios 15, 50 and 35 per cent to the federal, state and local governments, respectively.

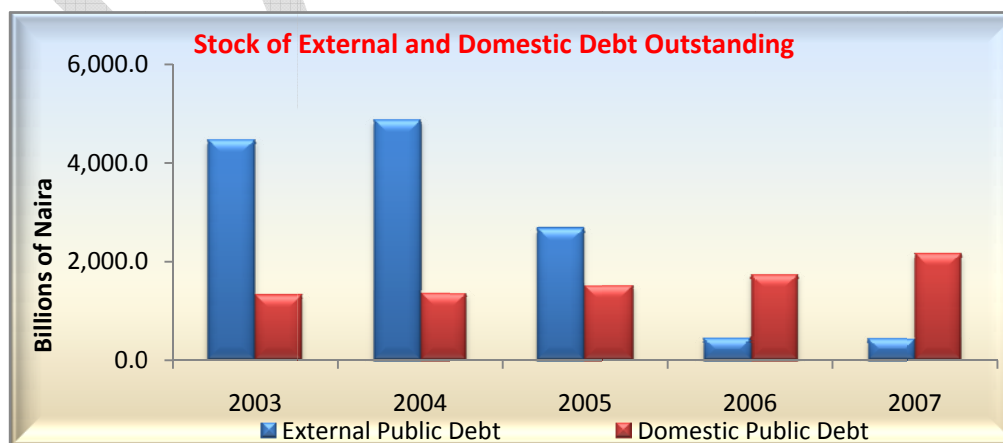
24. Prudent fiscal management resulted in accumulated savings of US\$22,183.9 million by the three tiers of government in 2006 and 2007. The savings comprised US\$9,783.3 million brought forward from 2006 and the US\$12,400.6 million accumulated in 2007, which were transferred to the excess crude account.

25. The Federal Government retained revenue and aggregate expenditure increased by 20.5 and 20.3 per cent, respectively over the levels in 2006. Although, fiscal operations of the Federal Government resulted in a higher notional deficit of ₦117.2 billion, in real terms, representing 0.5 per cent of GDP in 2007, the same as in 2006.

26. Provisional data on State governments' finances indicated a modest improvement with an overall deficit of ₦20.0 billion or 0.1 per cent of GDP, representing a decline of 53.4 per cent when compared with ₦43.0 billion or 0.2 per cent of GDP in 2006. This was underpinned largely by the increased statutory allocations from the Federation account, VAT Pool Account and the share of excess oil revenue.

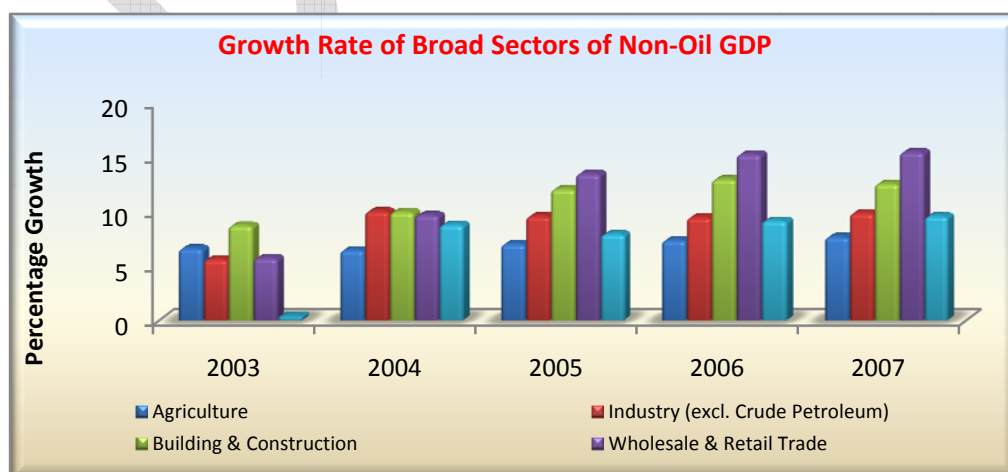
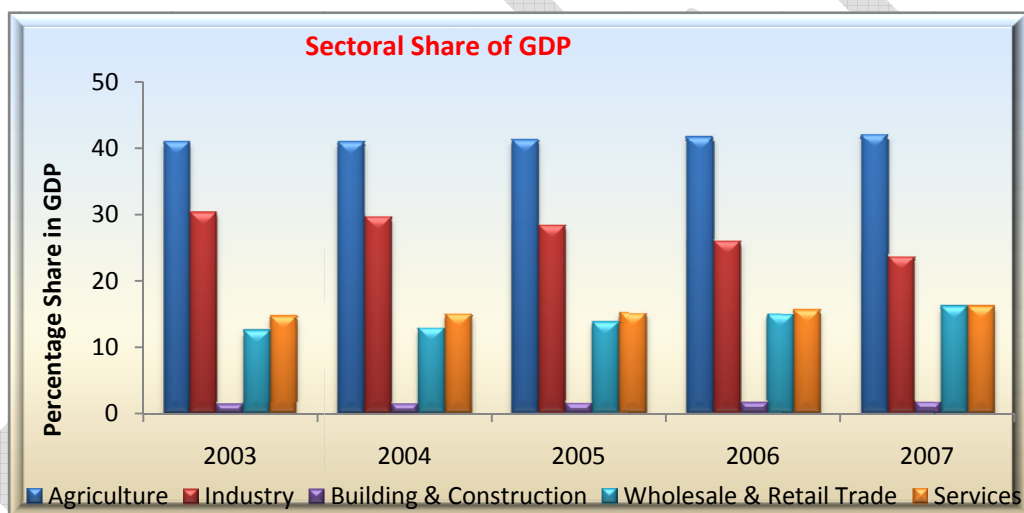
27. Provisional statistics on Local governments' finances showed that the fiscal operations resulted in an overall surplus of ₦4.9 billion, compared with ₦8.4 billion in 2006. The surplus was driven by increased revenue allocation of the local governments in 2007. The fiscal surplus as a percentage of GDP however, fell from 0.05 per cent in 2006 to 0.02 per cent.

28. The stock of consolidated public debt at end-December 2007 was ₦2,597.7 billion or 11.4 per cent of GDP compared with ₦2,204.7 billion or 11.9 per cent of GDP in 2006. The stock of Nigerian external debt rose marginally from US\$3.5 billion in 2006 to US\$3.6 billion, following the contracting of new concessional loans. Domestic debt at ₦2,169.6 billion continued to increase owing to the issuance of new FGN Bonds for the settlement of outstanding pension arrears and payments due to local contractors.

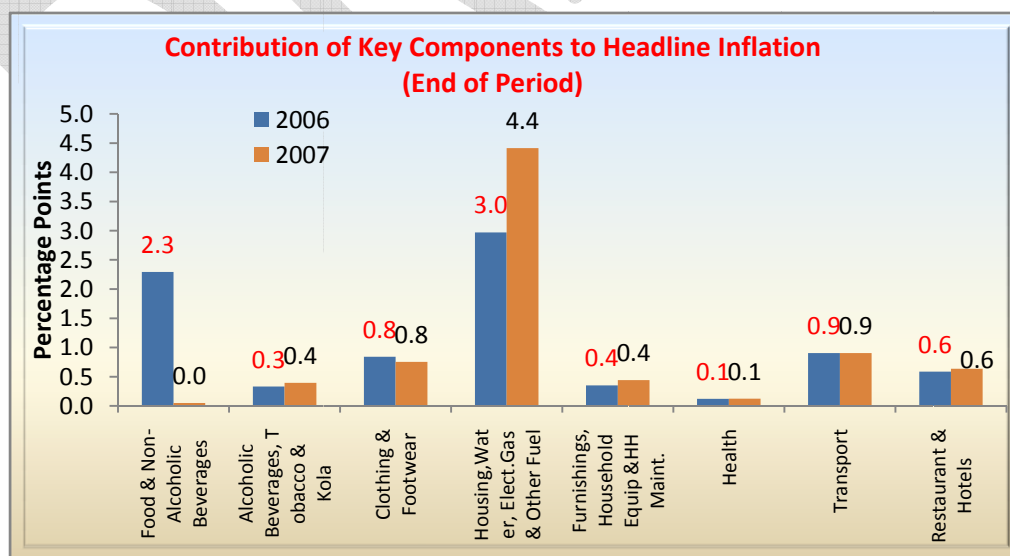
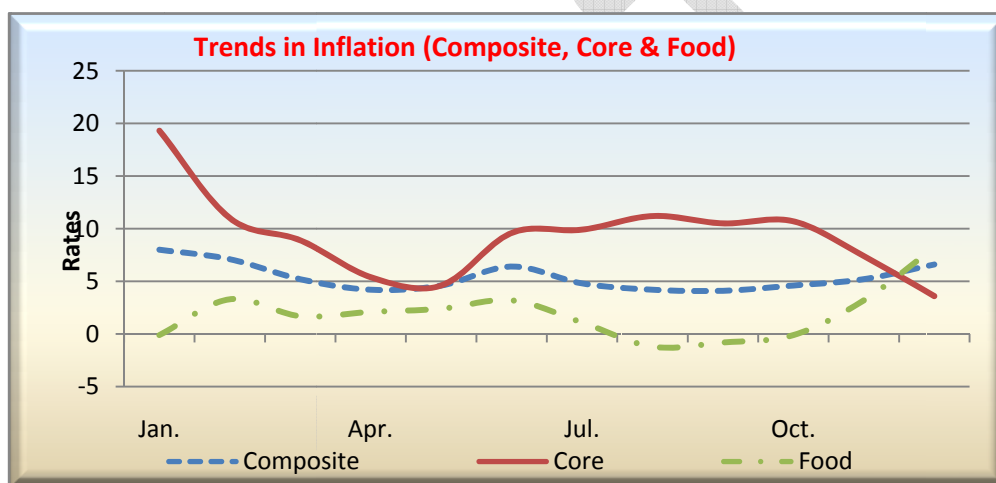


The Real Sector

29. The real Gross Domestic Product (GDP), measured in 1990 basic prices, grew by 6.2 per cent, compared with 6.0 per cent in 2006 and an average annual growth rate of 7.0 per cent estimated for the period 2003 to 2007. The modest growth was attributed largely to sound monetary, fiscal and credit conditions, which enhanced the financing of the private sector; the relative stability in the goods and foreign exchange markets; as well as the peaceful political transition from one civilian government to another. The growth was driven mainly by the non-oil sector, as the agricultural sub-sector, grew by 7.4 per cent, while wholesale and retail trade, building and construction, and services recorded growth rates of 15.3, 13.0 and 9.8 per cent, respectively. Industrial output, however, fell by 3.1 per cent due mainly to the poor performance of the oil sector.

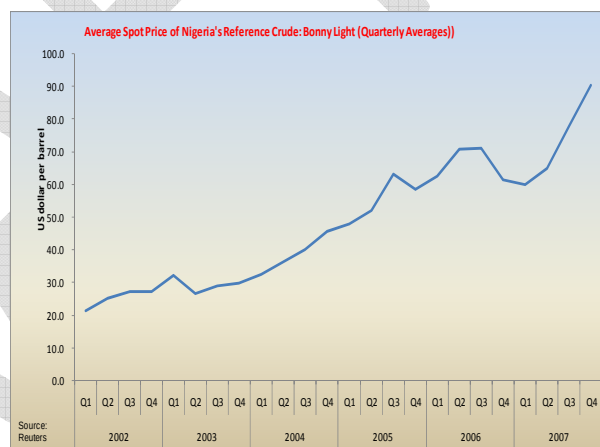
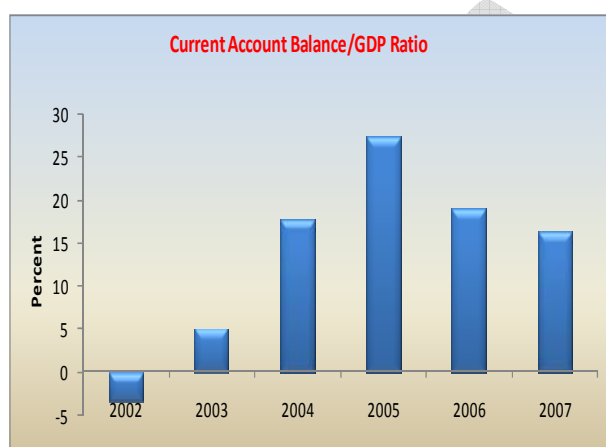


30. Inflationary pressure remained largely subdued in 2007 and the single digit target rate was sustained two years in a row. At 6.6 per cent, the year-on-year inflation rate was 1.9 percentage point below the 8.5 per cent recorded in 2006. The favourable inflationary development was underpinned by relative good agricultural harvest, despite the mild drought and flooding experienced in certain parts of the country, stability in the prices and supply of petroleum products, sound macroeconomic policies, especially monetary and fiscal policies as well as the substantial appreciation of the naira exchange rate. Headline inflation was driven largely by the housing, water, electricity, gas and other fuel components of the CPI which contributed 4.4 percentage points to the observed inflation rate.



The External Sector

31. The external sector position remained robust with improved current account surplus and huge financial flows. The current account surplus as a ratio of GDP was 16.3 per cent and was largely driven by the remarkable surge in inward remittances by Nigerians in diaspora. The increased remittances was underpinned by the strong macroeconomic fundamentals, sustained economic reforms under the homegrown NEEDS programme and the favourable outcomes of the IMF monitored Policy Support Instrument (PSI). Further, the rise in oil export receipts was occasioned by the increase in the average price of Nigeria's reference crude, the Bonny Light, which increased from US\$66.46 per barrel in 2006 to US\$74.96 in 2007. The relative stability sustained in the foreign exchange market at the Wholesale Dutch Auction System (WDAS) segment reflected the increased capital inflows, further liberalisation of the market and the deepening of the inter-bank market. These developments reduced the pressure on the official segment of the market and resulted in the continued appreciation of the naira from an end-period rate of ₦128.27 per dollar in 2006 to ₦117.97 per dollar in 2007.



Selected Macroeconomic and Social Indicators

Indicator	2003	2004	2005	2006 1/	2007 2/
Domestic Output and Prices					
GDP at Current Mkt Prices (N' billion) 3/	10,136.4	11,673.6	14,894.5	18,222.8	22,848.9
GDP at Current Mkt Prices (US\$' billion) 3/	78.4	87.4	112.7	142.6	181.6
Real GDP Growth (%) 3/	9.6	6.6	6.5	6.0	6.2
Oil Sector	23.9	3.3	0.5	-4.15	-5.9
Non-oil Sector	5.2	7.8	8.6	9.4	9.6
Sectoral GDP Growth (%)					
Agriculture	6.6	6.5	7.1	7.4	7.4
Industry 4/	21.3	4.2	1.7	-2.5	-3.5
Services 5/	0.4	8.8	8.0	9.2	9.8
Oil Production (mbd)	2.3	2.5	2.5	2.2	2.2
Manufacturing Capacity Utilisation (%) 1/	56.5	55.7	54.8	53.3	53.5
GDP Deflator 6/	15.2	7.9	23.3	13.8	3.4
Inflation Rate (%) (Dec-over-Dec)	23.8	10.0	11.6	8.5	6.6
Inflation Rate (%) (12-month moving average)	14.0	15.0	17.9	8.2	5.4
Core Inflation Rate (%) (Dec-over-Dec) 7/	34.8	5.9	2.4	17.3	3.6
Core Inflation Rate (%) (12-month moving average) 7/	27.2	15.5	8.8	12.8	9.2
Aggregate Demand and Savings (% of GDP) 8/					
Consumption	87.0	76.2	75.6	74.3	69.7
Private	81.3	69.5	68.9	67.2	62.3
Government	5.7	6.7	6.7	7.0	7.4
Gross Capital Formation	8.6	11.9	12.0	12.5	14.0
Gross Fixed Capital Formation	8.6	11.9	12.0	12.5	13.9
Increase in Stock	0.0	0.0	0.0	0.0	0.0
Net Export of Goods and Non-factor Services	4.4	11.9	12.4	13.2	16.4
Export of Goods and Non-factor Services	25.1	30.2	31.3	33.9	36.9
Import of Goods and Non-factor Services	20.7	18.3	18.9	20.7	20.5
Domestic Savings	13.0	23.8	24.4	25.7	
Gross National Savings	5.4	11.9	12.4	18.7	16.4
Federal Government Finance (% of GDP)					
Retained Revenue	10.6	11.7	12.1	10.4	10.7
Total Expenditure	12.2	13.2	13.2	11.0	11.2
Recurrent Expenditure	9.9	9.7	9.1	7.5	7.4
Of which: Interest Payments	3.7	3.4	2.7	1.3	0.9
Foreign	2.0	1.7	1.3	0.6	0.5
Domestic	1.7	1.7	1.4	0.7	0.5
Capital Expenditure and Net Lending	2.3	3.1	3.6	3.0	3.3
Transfers	0.2	0.4	0.5	0.5	0.4
Current Balance (Deficit(-)/Surplus(+))	0.7	1.9	3.0	2.9	3.3
Primary Balance (Deficit(-)/Surplus(+))	2.1	1.8	1.6	0.8	0.4
Overall Fiscal Balance (Deficit(-)/Surplus(+))	-1.6	-1.5	-1.1	-0.5	-0.5
Financing	1.6	1.5	1.1	0.5	0.5
Foreign	0.0	0.0	0.0	0.0	0.0
Domestic	1.7	0.4	1.0	0.2	0.9
Banking System	1.4	0.0	0.0	0.0	0.7
Non-bank Public	0.3	0.4	1.0	0.2	0.2
Others	-0.1	1.1	0.1	0.3	-0.4
Consolidated Government Debt Stock	58.6	54.9	29.0	11.9	11.4
External	45.2	42.9	18.5	2.4	1.9
Domestic	13.4	12.0	10.5	9.4	9.5

Selected Macroeconomic and Social Indicators (Cont...)

Indicator	2003	2004	2005	2006 1/	2007 2/
Money and Credit (Growth Rate %)					
Reserve Money	19.8	5.2	10.2	20.5	6.3
Narrow Money (M1)	29.5	8.6	15.5	12.2	32.4
Broad Money (M2)	25.0	12.3	16.6	30.6	30.9
Net Foreign Assets	6.4	83.8	51.6	51.3	18.5
Net Domestic Assets	274.7	-260.6	169.3	80.9	10.5
Net Domestic Credit	35.7	12.0	14.5	-67.4	193.5
Net Credit to Government	58.4	-17.9	-37.0	-692.1	-60.5
Credit to Private Sector	26.8	26.6	30.8	27.8	96.8
Money Multiplier for M2	2.7	2.9	3.2	3.8	4.4
Income Velocity of M2	5.3	5.5	6.0	5.1	4.7
Interest Rates (% per annum)					
Minimum Rediscount Rate (MRR) 9/	15.0	15.0	13.0	...	
Monetary Policy Rate (MPR) 9/	...	...	...	10.0	9.5
Repurchase Rate (Average %)	15.7	15.6	13.0	23.0	9.5
Treasury Bill Rate					
91-day	14.5	14.4	10.8	8.3	6.54
182-day 10/	-	14.84	9.57	9.22	7.35
364-day 10/	-	-	10.51	10.71	8.12
Inter-bank Call Rate	21.1	12.1	7.0	9.0	7.84
Deposit Rates					
Savings Rate	3.2	4.4	3.3	3.3	3.55
3-months Fixed	13.7	12.8	9.1	10.3	10.29
6-months Fixed	13.8	11.7	8.7	9.9	9.74
12-months Fixed	13.5	12.7	8.8	7.5	8.10
Prime Lending Rate	19.6	18.9	17.8	17.3	16.94
Maximum Lending Rate	21.6	20.4	19.5	18.7	18.36
Government Bond (Average coupon) 11/					
3-year	-	-	-	12.71	8.82
5-year	18.25	-	12.38	13.50	11.05
7-year	17.70	-	-	13.34	9.73
10-year	18.45	-	-	-	9.60
External Sector					
Current Account Balance (% of GDP)	4.9	17.7	27.3	18.9	16.3
Goods Account	10.0	22.5	25.7	19.0	14.7
Services and Income Account	-7.0	-7.9	-4.6	-7.7	-8.3
Current Transfers	2.0	3.1	6.2	7.6	9.8
Capital and Financial Account Balance (% of GDP)	-6.4	-7.9	-23.5	-11.8	-7.8
Overall Balance (% of GDP)	-1.6	9.7	9.2	9.8	4.9
External Reserves (US \$ million)	7,467.8	16,955.0	28,279.1	42,298.0	51,333.2
Number of Months of Import Equivalent	6.2	13.6	13.0	16.7	16.1
Debt Service Due (% of Exports of Goods and Services)	15.1	12.7	21.7	15.3	
Average Crude Oil Price (US\$/barrel)	29.2	38.7	55.4	66.4	74.96
Average AFEM/DAS Rate (N/\$1.00)	129.4	133.5	132.1	128.7	125.83
End of Period AFEM/DAS Rate (N/\$1.00)	137.0	132.9	130.3	128.3	118.00
Average Bureau de Change Exchange Rate (N/\$)	142.0	140.8	142.6	137.1	127.40
End of Period Bureau de Change Exchange Rate (N/\$)	148.5	138.5	141.5	129.5	121.00
Capital Market					
All Share Value Index (1984=100)	20,128.9	23,844.5	24,085.8	33,358.3	57,990.2
Value of Stocks Traded (Billion Naira)	120.4	225.8	262.9	470.3	2,100.0
Market Capitalization (Billion Naira)	1,324.9	1,925.9	2,900.1	5,120.9	13,294.8

Selected Macroeconomic and Social Indicators (Cont...)

Indicator	2003	2004	2005	2006 1/	2007 2/
Social Indicators					
GDP per Capita (N) 3/	80,320.1	89,866.1	111,569.3	132,017.9	158,123.9
GDP per Capita (US\$) 3/	620.9	673.2	847.4	1,036.2	1,256.6
Population (million)	126.2	129.9	133.5	140.0	140.0
Population Growth Rate (%)	2.8	2.8	2.8	2.9	3.2
Life Expectancy at Birth (Years)	54.0	54.0	54.0	54.0	54.0
Adult Literacy Rate (%)	57.0	62.0	57.0	64.2	64.2
Incidence of Poverty 12/	***	54.4	54.4	54.0	54.0

1/ Revised

2/ Provisional

3/ Revised based on national accounts of Nigeria 1981 to 2005 Harmonised series

4/ Includes Building and Construction.

5/ Includes Wholesale and Retail Services

6/ Based on GDP at purchasers' value (i.e. GDP at market prices)

7/ Core Inflation is measured as the rate of change of all-item Consumer Price Index (CPI) less farm produce.

8/ Based on GDP at Current Purchasers' Value (Current Market Price).

9/ MPR replaced MRR with effect from December 11, 2006

10/ The 182-day and the 364-day bills were introduced with effect from _____

11/ Financial Datahouse Limited.

12/ The incidence of poverty in Nigeria was projected to increase from 65.6 per cent in 1996 to 70.0 per cent in 2000.

However, the result of a Nigeria Living Standard Survey of 2003/2004 from NBS (former FOS), showed that the incidence of poverty declined to 54.4 per cent in 2003/2004.

*** indicates not available.