2008

CENTRAL BANK OF NIGERIA

ECONOMIC REPORT FOR THE FIRST HALF OF 2008

Central Bank of Nigeria
Corporate Head Office
33 Tafawa Balewa Way
Central Business District
P. M. B. 0187
Garki Abuja
Website: www.cenbank.org

Tel: +234(0)961638707
+234(0)961638762

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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*

MEMBERS OF THE BOARD OF DIRECTORS OF THE BANK AS AT JUNE 30, 2008

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.	Ama 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 JUNE 30, 2008

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5.	Suleiman A. Barau	-	Deputy Governor (Operations)
	Umaru B. Girei	-	Secretary

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SUMMARY

POLICY FRAME WORK

The Central Bank of Nigeria (CBN) continued to pursue its primary mandate of ensuring monetary and price stability within the framework of monetary targeting. The Bank's monetary policy operations relied on the open market operations (OMO), adjustment of the monetary policy rate (MPR) and the cash reserve requirement (CRR). These were complemented with the interventions at the foreign exchange market, Wholesale Dutch Auction System (WDAS) and inter-bank and auctioning of treasury securities in the primary market. In order to ensure stability and soundness of the banking sector, the Bank intensified its surveillance activities on banks. The Bank also pursued the implementation of its initiatives on development financing namely, the Agricultural Credit Guarantee Scheme (ACGS) and the microfinance scheme.

CBN OPERATIONS

Liquidity Management

The Bank's liquidity management operations involved the use of MPR, OMO instruments including the two-way quote trading, reverse repurchase sales and standing facilities, primary auctions of treasury securities and reserve requirements. Although the reserve money indicative benchmark for June 2008 was missed owing to the liquidity surge arising from the fiscal injection, the Bank's liquidity management operations moderated the excessive liquidity growth while interest rate volatility in the inter-bank market was reduced as rates hovered around the MPR.

Payments & Clearing System

The payments system reform was sustained as clearing operations were extended to six new zones and up-country and local clearing cycles harmonized to 3 days or (T+2). The National Payments System Committee considered regulatory documents as part of deliverables under the Payments System Vision 2020 Working Group. The documents included: the Regulatory Framework for Mobile Payments Services in Nigeria; Nigeria Direct Debit Scheme Rules; Transaction Switching Guidelines; and Nigerian Bankers' Clearing House Rules. The volume and value of the various modes of payment trended upward reflecting increased public confidence and awareness in the payments system.

Financial Sector Surveillance

As at end-June 2008, the nineteen (19) banks that were involved in mergers and acquisition had made appreciable progress in their strategic business process integration. Under the Purchase and Assumption (P&A) method of resolution, healthy banks were invited to assume the deposit liabilities as well as cherry-pick the assets of four (4) of the fourteen (14) banks that failed under the consolidation programme, for which the NDIC had obtained final court orders for liquidation. The e-FASS User Requirement Specification aimed at enabling the analysis of returns by microfinance banks (MFBs) was drawn up and the connectivity of other financial institutions to the e-FASS was fast-tracked. Banking sector evaluation using CAMEL parameters revealed that no bank was rated unsound, with the average capital adequacy ratio (CAR) and industry wide liquidity ratio well above 10.0 and 40.0 per cent minimum requirement, respectively. In addition, the ratio of non-performing credit to industry total at 6.3

Financial Sector Surveillance

per cent was below the level at end-June 2007 and the contingency threshold of 20.0 per cent for the industry. Examination of foreign exchange operations and anti-money laundering did not reveal any major infractions. In addition, income audit, capital verification and special investigations were conducted to establish the authenticity of earnings, liquid assets and legitimacy of funds used for re-capitalization. Verification of code of corporate governance compliance revealed that many banks complied with most of the provisions.

Foreign Exchange Management

Demand pressure abated at the WDAS relative to the corresponding period of 2007, owing to the increased trading at the inter-bank foreign exchange market. Consequently, foreign exchange sold by the CBN to authorized dealers and BDCs declined by 42.5 per cent to US$4.98 billion. The exchange rate of the naira vis-à-vis the US dollar appreciated by 8.5, 8.9 and 8.4 per cent in the WDAS, inter-bank and BDC segments of the market, respectively, over the levels in the corresponding period of 2007. Notwithstanding, however, the premium between the WDAS/BDC rates increased marginally from 1.1 per cent in the corresponding period of 2007 to 1.2 per cent. Foreign exchange flows into the economy at US$54.54 billion, increased by 85.0 per cent over the level in the corresponding period of 2007 driven largely by autonomous invisible flows. Total foreign exchange outflow increased by 14.7 per cent to US$15.59 billion. Transactions through the CBN resulted in a net inflow of US$9.19 billion compared with US$1.31 billion in the corresponding period of 2007.

THE FINANCIAL SECTOR

The major monetary aggregates grew substantially in the first half of 2008. Available data indicated that relative to the level at end-December 2007, broad money (M_2) grew by 37.4 per cent, compared with 27.0 per cent in the corresponding period of 2007. In the same vain, narrow money supply (M_1) grew by 39.9 per cent compared with 15.7 per cent in the corresponding period of 2007. The growth in money stock was driven mainly by the increase in net domestic credit and foreign assets (net) of the banking system. Furthermore, the reserve money indicative benchmark for the first half of 2008 was missed. The Federal Government was a net creditor to the banking system as net credit to the Government fell by 13.9 per cent, compared with 35.0 per cent recorded at end-June 2007, reflecting the continued accumulation of deposits by the Federal Government with the banking system, particularly with the CBN. Credit to the domestic economy grew by 51.6 per cent at end-June 2008 relative to the level at end-December 2007. The growth in net domestic credit was driven largely by the increase in credit to the private sector. Credit to the private sector rose by 33.9 per cent compared with 34.3 per cent in 2007.

Short-term maturity remained dominant in banks credit and deposit portfolio. The average savings deposit rate fell but rates on other deposits of various maturities rose reflecting increased competition in the deposit market. Given the decline in bank average prime and maximum lending rates, the spread between banks' average term deposit and maximum lending rates narrowed in the first half of 2008. With the year-on-year inflation rate at 12.0 per cent in June 2007, all the term deposit rates were negative in real terms. Aggregate

THE FINANCIAL SECTOR

institutional savings at end-June, 2008 amounted to ₦3,785.7 billion, indicating an increase of 61.4 per cent over the level in the corresponding period of 2007. The DMBs remained the dominant savings institution, accounting for 94.4 per cent of the total institutional savings. Transactions on the Nigerian Stock Exchange were bearish during most of the period as market capitalization (MC) and All-share Index (ASI) fell by 9.0 and 3.5 per cent, respectively, down from their levels at end-December 2007.

THE GOVERNMENT SECTOR

Total federally-collected revenue, at ₦3,723.8 billion, was 24.4 and 55.4 per cent higher than the proportionate budget estimate and the actual revenue in the corresponding period of 2007, respectively. Oil-revenue accounted for 84.2 per cent, while non-oil revenue accounted for the balance. The Federal Government retained revenue at ₦1,371.6 billion, was 5.8 and 27.0 per cent higher than the proportionate budget estimate and the level in the corresponding period of 2007, respectively. Aggregate expenditure of the Federal Government stood at ₦1,380.6 billion, 0.5 and 24.3 per cent higher than the proportionate budget estimate and the level in the corresponding period of 2007. The higher total expenditure relative to the corresponding period of 2007 resulted from the increase in personnel costs and interest payments on domestic debt. Thus, the fiscal operations of the Federal Government resulted in an overall notional deficit of ₦9.0 billion or 0.1 per cent of GDP compared with the proportionate budget deficit of ₦30.3 billion in the same period a year earlier.

THE REAL SECTOR

Provisional data from the NBS indicated that the Gross Domestic Product (GDP) at 1990 constant basic prices grew by 6.1 per cent, compared with 5.5 per cent recorded in the corresponding period of 2007. The growth was driven mainly by the non-oil sector which grew by 8.7 per cent and contributed 80.7 per cent to the GDP. At 204.2 (1990=100), the provisional aggregate index of agricultural production increased by 4.8 per cent, compared with the 7.4 per cent recorded in the first half of 2007, while activities in the industrial sector declined as its index of production at 121.3 (1990=100) fell by 1.6 per cent below the level in the corresponding period of 2007. The poor industrial performance reflected the decline in manufacturing output and electricity consumption. Crude oil production, including condensates at an average of 1.94 million barrels per day (mbd) in the first half of 2008 declined by 0.2 mbd from the level in the first half of 2007. The average spot price of Nigeria's reference crude, the Bonny Light (37^0 API), was US$113.03 per barrel in the first half of 2008, up by 72.0 per cent from level in the first half of 2007. Inflationary pressure mounted as the headline year-on-year and the 12-month moving average inflation rates rose to 12.0 and 7.0 per cent in June 2008 from 6.4 and 5.9 per cent in June 2007, reflecting largely the effects of the domestic supply shortages, rising demand, increased transportation costs, amongst others.

The viability of the external sector was sustained in the first half of 2008 with favourable balance of payments position driven by the developments in the current account (CA) occasioned by high crude oil prices, huge diaspora funds transfer and increased financial flows. The current account surplus increased, offsetting the capital and financial account

EXTERNAL SECTOR

deficit. Consequently, the overall balance of payments surplus was N990.0 billion (US$8.5 billion). Provisional data indicated that Nigeria's external assets at end-June 2008 stood at N8,625.2 billion (US$73.2 billion), representing an increase of 26.7 per cent over the level at end-December 2007. Of this, CBN's holdings (external reserves) accounted for 86.4 per cent of the total and amounted to US$59.8 billion.

World output slowed significantly in the first half of 2008 leading to downward revision of the estimate by the IMF World Economic Outlook (WEO) from 4.5 to 4.1 per cent. The advanced economies were worst hit, particularly the US and Western Europe, while Japan was resilient. The emerging and developing economies particularly, China and India, were less affected by the global financial market turmoil. Commodity markets continued to boom despite slowing global economic activity, while increased inflationary pressure was fuelled by the sustained rise in food and energy prices.

OUTLOOK FOR THE REST OF 2008

The twin problems of lower world output growth, especially in the advanced economies and inflationary pressures across regions may worsen in the rest of the year owing to credit crunch and rising commodity prices. The favourable domestic macroeconomic environment in the first half of 2008 is expected to be sustained as internal balance is combined with external viability. The real GDP growth rate is projected to improve further based on expected good agricultural harvest owing to increasing volume and spread of rainfall, reinforced by the Federal Government agricultural policies, especially on fertilizer procurement and distribution. Industrial output is expected to be buoyed as investment in the power sector and other infrastructural facilities begin to yield positive results. Crude oil output is likely to grow moderately in the second half of 2008 as the violence in the Niger Delta is stemmed. High international price of crude oil, the sustained capital inflow and huge external reserves as well as the sustainable public debt profile are expected to have positive impact on the economy. The implementation of the seven-point agenda of the President, the Vision 2020 programme and the continued favourable sovereign rating of the Nigerian economy are additional factors that would give the domestic economy a boost. As in the rest of the world, the domestic economy may not be insulated from inflationary pressures given the global food and energy crisis. Furthermore, the expected inflow and the resultant expansionary fiscal profile of the three tiers of government, especially the bunching of capital releases in the second half of 2008 could also precipitate liquidity surfeit in both the foreign exchange and domestic money markets leading to exchange rate appreciation and inflationary pressures. The fact that most of the Nigerian staple food items are non-tradeables, the expected favourable agricultural harvest and proactive monetary policy stance supported by strong macroeconomic fundamentals and fixing of the infrastructure would, however, produce a moderating effect on domestic prices.

Selected Macroeconomic and Social Indicators

Indicator	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08
Domestic Output and Prices					
GDP at Current Mkt Prices (N' billion) 3/	5,223.53	6,568.97	8,412.36	9,594.65	12,089.27
GDP at Current Mkt Prices (US$' billion) 3/	39.35	49.44	65.50	75.36	102.63
Real GDP Growth (Growth Rate%) 3/	6.60	5.80	5.30	5.51	6.11
Oil Sector	3.30	-1.74	-3.70	-4.34	-3.30
Non-oil Sector	7.80	8.42	9.48	8.51	8.65
Sectoral Classification of GDP (Growth Rate %)					
Agriculture		6.93	7.32	6.21	6.30
Industry 4/		7.23	7.12	-2.98	-1.93
Services 5/		13.14	15.05	9.58	10.28
Oil Production (mbd)	2.33	2.46	2.34	2.14	1.94
Manufacturing Capacity Utilisation (%) 1/	45.60	48.40	45.10	43.90	52.60
Inflation Rate (%) (Year-over-Year)	14.10	18.60	8.50	6.40	12.00
Inflation Rate (%) (12-month moving average)	14.70	16.20	13.60	5.90	7.00
Core Inflation Rate (%) (Year-over-Year) 7/	14.70	16.20	13.60	9.60	3.60
Core Inflation Rate (%) (12-month moving average) 7/	32.30	6.70	11.00	11.10	5.80
Federal Government Finance (% of GDP)					
Retained Revenue	11.00	10.86	9.24	11.26	11.35
Total Expenditure	13.61	11.09	8.93	11.58	11.42
Recurrent Expenditure	9.36	8.15	7.06	6.24	7.81
Of which: Interest Payments					
Foreign	1.85	1.47	1.15	0.54	0.31
Domestic	1.60	0.92	0.25	0.46	0.94
Capital Expenditure and Net Lending	3.82	2.36	1.37	4.80	3.03
Transfers	0.41	0.58	0.50	0.53	0.58
Current Balance (Deficit(-)/Surplus(+))	1.61	2.71	2.18	5.02	3.54
Primary Balance (Deficit(-)/Surplus(+))	5.07	5.10	3.58	0.68	1.17
Overall Fiscal Balance (Deficit(-)/Surplus(+))	-2.61	-0.23	0.31	-0.32	-0.07
Financing					
Foreign	0.00	0.00	0.00	0.00	0.00
Domestic	2.34	0.94	0.00	0.00	0.00
Banking System	2.32	0.73	0.00	0.00	0.00
Non-bank Public	0.00	0.21	0.00	0.00	0.00
Others	0.06	0.00	0.00	0.32	0.07
Consolidated Government Debt Stock					
External	84.52	69.23	7.36	4.45	3.66
Domestic	25.34	20.77	18.58	21.44	19.35

Selected Macroeconomic and Social Indicators (Cont...)

Indicator	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08
Money and Credit (Growth Rate %)					
Reserve Money					
Narrow Money (M1)	-0.88	9.29	20.38	15.7	39.93
Broad Money (M2)	6.45	18.9	29.1	27.0	37.40
Net Foreign Assets	31.23	29.29	35.8	20.5	14.5
Net Domestic Assets				-44.60	-76.8
Net Domestic Credit	-0.35	8.03	16.39	24.4	51.6
Net Credit to Government	-17.87	-29.65	-1.73	-35.03	-13.9
Credit to Private Sector	7.08	19.96	19.15	32.2	33.9
Money Multiplier for M2				4.76	5.49
Income Velocity of M2					
Interest Rates (% per annum)					
Minimum Rediscount Rate (MRR) 9/	15.00	13.00	14.00	...	
Monetary Policy Rate (MPR) 9/	...	...	...	8.00	10.25
Repurchase Rate					
Reverse Repurchase Rate					
Treasury Bill Rate					
91-day	14.25	4.22	11.20	6.59	8.28
Inter-bank Call Rate	17.23	5.48	8.16	8.46	11.23
Deposit Rates					
Savings Rate	3.32	4.03	2.96	3.78	3.15
3-months Fixed	12.16	10.52	9.95	10.24	11.77
6-months Fixed	10.16	10.74	9.43	10.00	11.63
12-months Fixed	11.74	11.02	8.19	8.02	11.68
Prime Lending Rate	19.21	17.80	17.08	16.92	15.04
Maximum Lending Rate	20.68	19.17	18.61	18.74	17.08
External Sector					
Current Account Balance (% of GDP)	6	16.8	24.7	12.2	17.3
Goods Account	8.4	17.3	21	13.7	11.4
Services and Income Account	-4.5	-4.1	-4.2	-10.6	-5.8
Current Transfers	2.1	3.6	7.9	9.1	11.7
Capital and Financial Account Balance (% of GDP)	-0.6	-6.2	11.9	2.4	1.1
Overall Balance (% of GDP)	5.2	10.5	12.7	0.4	7.4
External Reserves (US $ million)	11,441.36	24,367.12	36,479.00	46,626.20	59,812.90
Number of Months of Import Equivalent	12.2	18.6	23	15.3	16.6
Debt Service Due (% of Exports of Goods and Services)	14.2	8.96	1.6	-	-
Average Crude Oil Price (US$/barrel)	33.04	49.95	61.44	65.66	113.03
Average AFEM/DAS Rate (N/$1.00)	132.75	132.87	128.4543	127.94	117.94
End of Period AFEM/DAS Rate (N/$1.00)	132.75	132.87	128.44	127.31	117.80
Average Bureau de Change Exchange Rate (N/$)	140	141.21	136.8182	129.31	119.21
End of Period Bureau de Change Exchange Rate (N/$)	140.00	142.50	132.50	128.00	119.00
Capital Market					
All Share Value Index (1984=100)	29,439.0	26,877.9	26,161.2	51,330.5	55,949.0
Value of Stocks Traded (Billion Naira)	29.40	100.10	167.60	666.20	106.30
Market Capitalization (Billion Naira)	2.06	1.90	3.50	8.90	12.10

Selected Macroeconomic and Social Indicators (Cont...)

Indicator	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08
Social Indicators					
GDP per Capita (N) 3/	40,429.80	49,095.44	60,088.29	66,398.96	81,081.60
GDP per Capita (US$) 3/	304.56	369.5	467.83	521.55	688.30
Population (million)	129.2	133.8	140.0	144.5	149.2
Population Growth Rate (%)	2.8	2.8	2.8	3.2	3.2
Life Expectancy at Birth (Years)	54	54	54	54	54
Adult Literacy Rate (%)	62	57	64.2	66.9	66.9
Incidence of Poverty 11/	54.4	54.4	54.4	54.4	54.4

1/ Revised

2/ Provisional

3/ Revised based on National accounts of Nigeria 1981-2005 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/ 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.*