2.5 Development Finance Operations

2.5.1 Agricultural Credit Guarantee Scheme Fund (ACGSF)

The authorized and called-up share capital of the ACGSF at end – June 2008 remained at ₦3.2 billion, while the paid-up capital remained at ₦2.25 billion, same as in the corresponding period of 2007. Total resources under the scheme as at end-June 2008 was ₦5.83 billion compared with ₦4.79 billion in the corresponding period of 2007. A total of 17,790 loans valued at ₦1.98 billion were guaranteed, compared with 11,374 loans valued at ₦1.00 billion recorded in the first half of 2007. This represented an increase of 56.4 and 97.6 per cent in volume and value, respectively, compared with the corresponding period of 2007. The total number of loans repaid was 16,601 valued at ₦1.56 billion. The cumulative volume and value of ACGSF loans from inception in 1978 were 526,236 and ₦17.90 billion. No claim was settled under the scheme in the review period.

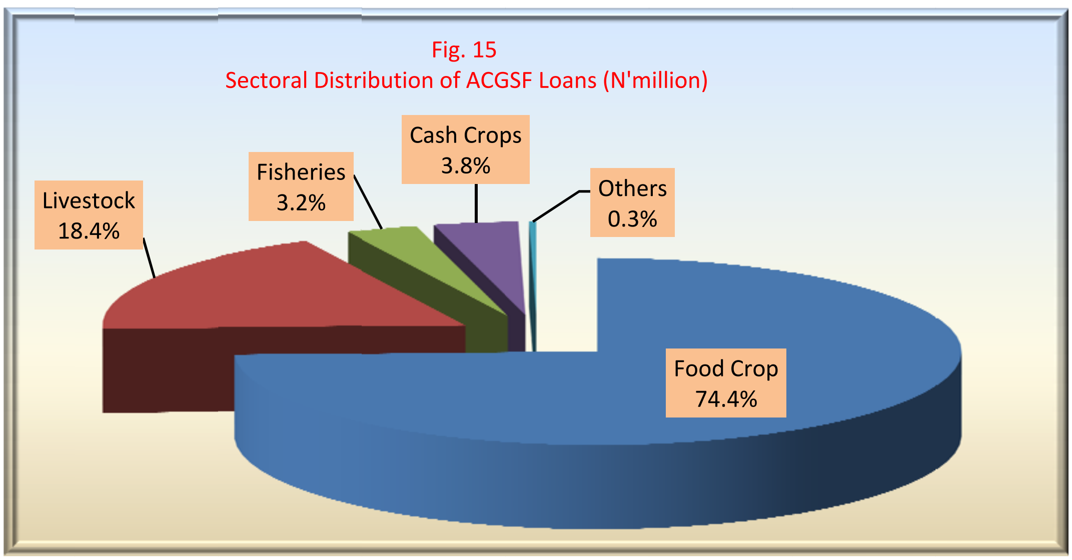


Fig. 15
Sectoral Distribution of ACGSF Loans (N'million)

2.5.2 Interest Drawback Programme (IDP)

The number of settled IDP claims rose by 12.3 per cent but the value fell by 25.7 per cent, compared with the levels recorded in the first half of 2007 to 9,222 and ₦32.84 million, respectively. The rise in volume was attributed to the increased farmers' awareness of the available incentives in respect of prompt loan repayment.

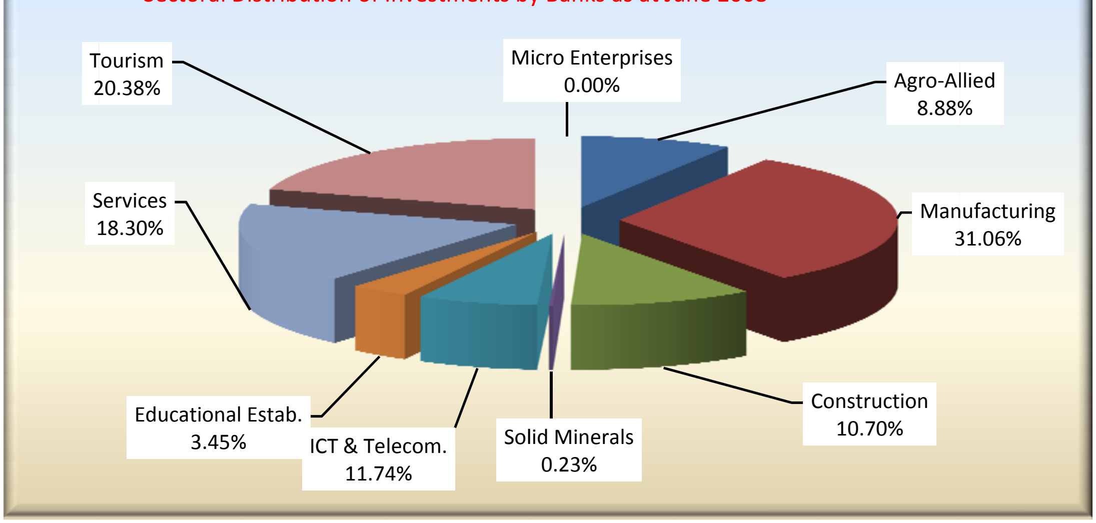
2.5.3 The Trust Fund Model (TFM)

The total number of Memorandum of Understanding (MOUs) signed under the TFM in the review period was twenty (20) made up of sixteen (16) with local governments and four (4) with Ministry of Sports, Youth Development and National Orientation, and the Cross River State government.

2.5.4 Micro Credit Fund/Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

The cumulative sum set aside by banks under the SMEEIS as at end-June, 2008 was ₦42.02 billion which represented an increase of 12.3 per cent compared with the level in the corresponding period of 2007. Of this amount, ₦24.75 billion or 58.9 per cent was invested in 327 projects, representing an increase of 26.7 per cent over the level recorded in the corresponding period of 2007.

Fig. 16
Sectoral Distribution of Investments by Banks as at June 2008



A sectoral breakdown of the investments as at end-June 2008, showed that the real sector accounted for ₦13.24 billion (50.9%) in 204 projects, the services sub-sector accounted for the balance of ₦12.79 billion (49.1%) in 128 projects. Further analysis showed that the manufacturing sector accounted for 143 projects valued at ₦8.08 billion or 70.1 per cent and 61.0 per cent of total number and value of projects in the real sector. This was followed by the agro-allied activities (including wood work and water bottling) with 45 projects valued at ₦2.31 billion or 22.0 per cent and 17.5 per cent of projects in the real sector, respectively. In the services sub-sector, miscellaneous services dominated with 74 projects valued at ₦4.76 billion or 57.0

per cent and 37.2 per cent of volume and value of projects in the sub-sector. Information and Communications Technology (ICT) followed with 24 projects valued at ₦1.82 billion or 18.8 per cent and 14.3 per cent of volume and value of projects in the services sub-sector.

The Micro Credit Fund (MCF) was launched in February 2008 to replace the SMEEIS. Consequently, the participation of banks in the SMEEIS became optional and the balance of the SMEEIS Fund Account was transferred as seed fund to the MCF. Meanwhile, sensitization campaigns were embarked upon to enlighten stakeholders on the development.

2.5.5 Microfinance

At the conclusion of the re-capitalization/conversion programme of community banks (CBs) on December 31, 2007, a total of 607 erstwhile CBs that met the minimum capital requirement of ₦20 million Shareholders' Funds, unimpaired by losses, were converted to microfinance banks (MFBs). An analysis of the CBs that converted to MFBs showed that 227 CBs had completed the process and obtained final licence, while 380 were still carrying provisional approval as at June 30, 2008. Delays in registering increases in capital, change of name and replacement of directors at the Corporate Affairs Commission (CAC), due to non-payment of penal charges for non-submission of statutory returns by the institutions (despite the concessions granted by the CAC), had been largely responsible for the slow conversion of their provisional approvals to final licence stage. The Bank's efforts at enlisting the full cooperation of the relevant agencies of government were consequently stepped up during the review period to address the problem.

2.6 CBN Assets and Liabilities

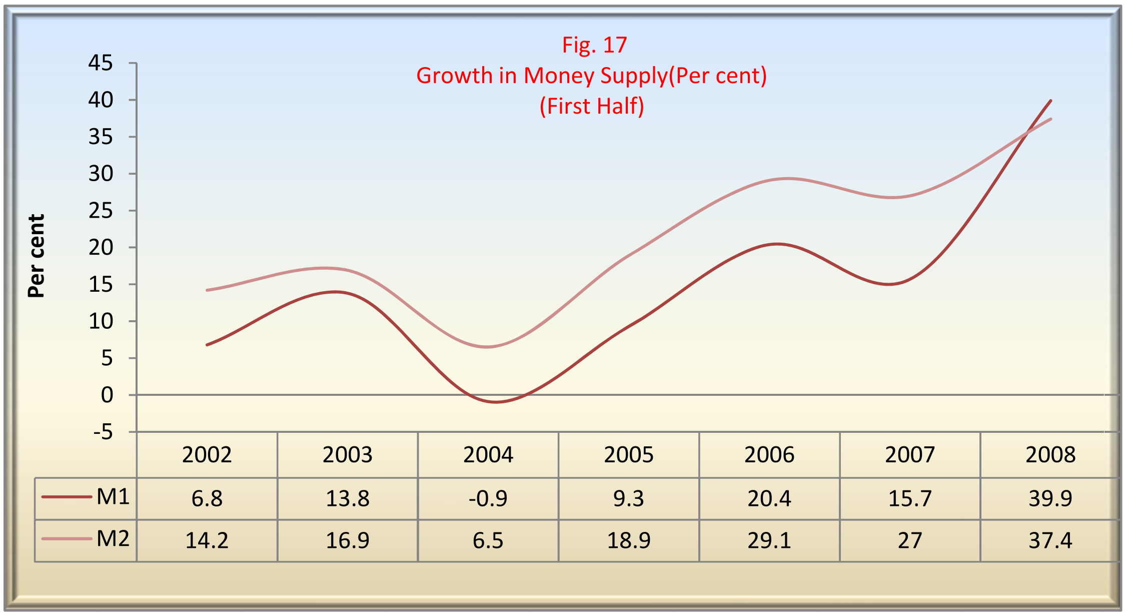
Provisional data indicated that the total assets of the CBN as at end-June 2008 increased by 10.2 and 24.9 per cent over the levels at end-December and end-June 2007, respectively. The development was attributed to the increase of 31.8, 22.7, 21.7 and 0.3 per cent in other assets, other securities, total external reserves and fixed assets, respectively. The increase in assets was, however, moderated by the 82.1 and 65.0 per cent declines in rediscount and advances, and Federal Government securities, respectively.

The increase of 25.0 per cent recorded in total equity and liabilities relative to the first half of 2007 was accounted for by total deposits (28.8 per cent), currency in circulation (28.6 per cent) and other liabilities (19.2 per cent), which more than offset the decline of 24.3 per cent in total capitalization.

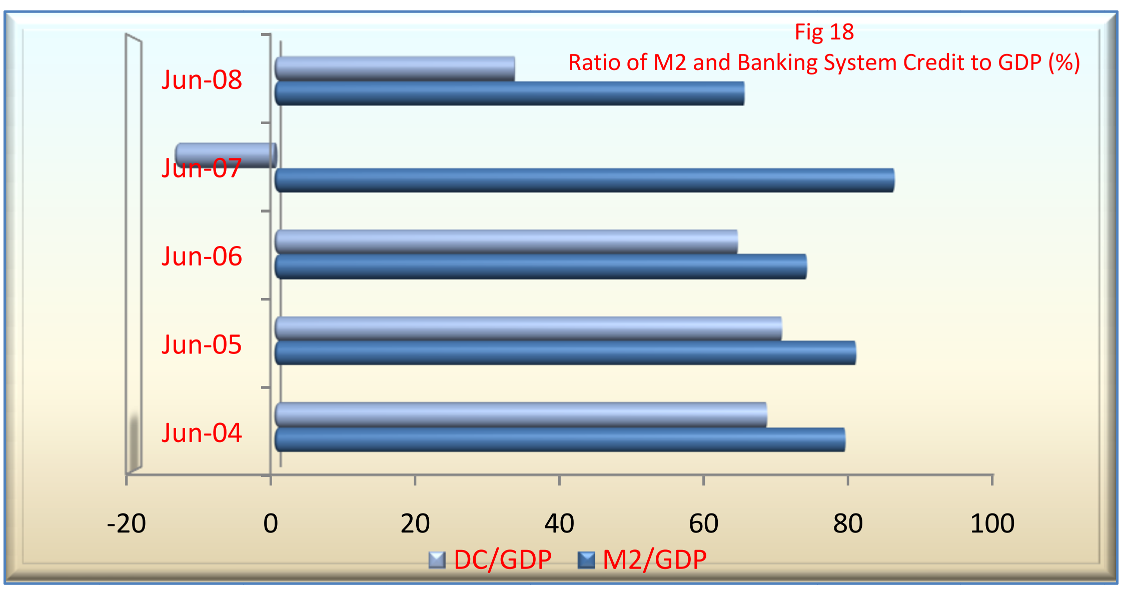
3.0 DEVELOPMENTS IN THE ECONOMY

3.1 Monetary and Credit Developments

The growth in monetary aggregates was substantial in the first half of 2008. Available data indicated that the broad money supply, M_2, at N7,982.9 billion at end-June 2008, grew by 37.4 per cent, compared with 27.0 per cent recorded at the end of the corresponding half of 2007. Similarly, narrow money supply, (M_1), grew by 39.9 per cent, compared with 15.7 per cent recorded at the end of the first half of 2007.



	2002	2003	2004	2005	2006	2007	2008
M1	6.8	13.8	-0.9	9.3	20.4	15.7	39.9
M2	14.2	16.9	6.5	18.9	29.1	27	37.4



3.1.1 Drivers of Growth in Monetary Aggregates

The expansion in broad money was driven largely by the increase in foreign asset (net), while the decline in other assets (net) moderated the growth in monetary aggregates.

3.1.1.1 Net Foreign Assets (NFA)

Net foreign assets of the banking system, at N7,450.1 billion, increased by 14.5 per cent relative to end-December 2007, compared with 20.8 per cent at the end of the first half of 2007. As a percentage of M_2, NFA constituted 104.2 per cent at the end of June 2008, compared with 149.2 per cent recorded at the end of June 2007.

3.1.1.2 Net Domestic Asset (NDA)

The decline in the net domestic assets of the banking system moderated the growth of M_2 in the first half of 2008. At negative N1,456.7 billion, the NDA showed a decline of 76.8 per cent in June 2008, relative to end-December 2007, compared with a decline of 44.6 per cent recorded at the end of the corresponding period of 2007. The decline in NDA was attributed largely to the fall in net credit to the government.

3.1.1.3 Net Domestic Credit (NDC)

Relative to end-December 2007, NDC grew by 51.6 per cent at the end of the first half of 2008, compared with a decline of 24.4 per cent recorded at the end of the corresponding period of 2007. The growth in domestic credit was driven wholly by the increase in credit to the private sector. The growth in the net domestic credit was, however, moderated by the decline in banking system's credit to the government.

3.1.1.4 Credit to the Government (Cg)

Net credit to the government, declined by 13.9 per cent at end-June 2008, compared with a decline of 35.0 per cent recorded at the end of the corresponding half of 2007.

3.1.1.5 Credit to the Private Sector (Cp)

Relative to end-December 2007, credit to the private sector rose substantially by 33.9 per cent, compared with 32.2 per cent at end-June 2007. The effect of this development on net domestic credit was more than offset by the decline in credit to the government.

Analysis of the structure of DMBs outstanding credit as at the end of the first half of 2008 indicated that short-term maturity remained dominant in the credit portfolio of the banks. Outstanding loans and advances maturing in one year and below accounted for 80.5 per cent of the total, while the medium-term (greater than one but less than three years) and long-term (3 years and above) accounted for 10.4 and 9.1 per cent, respectively. Analysis of the deposit liabilities of the banks showed a similar structure. Short-term deposit of one year and below accounted for 95.8 per cent of the total, while deposits with less than 30 days and longer than three years maturities accounted for 3.7 and 0.5 per cent, respectively.

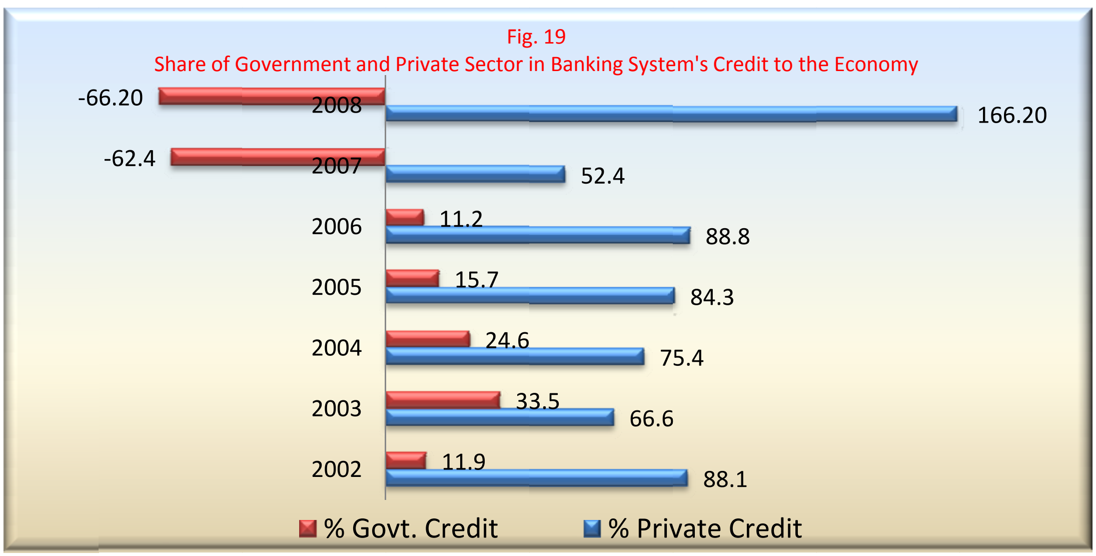


Fig. 19
Share of Government and Private Sector in Banking System's Credit to the Economy

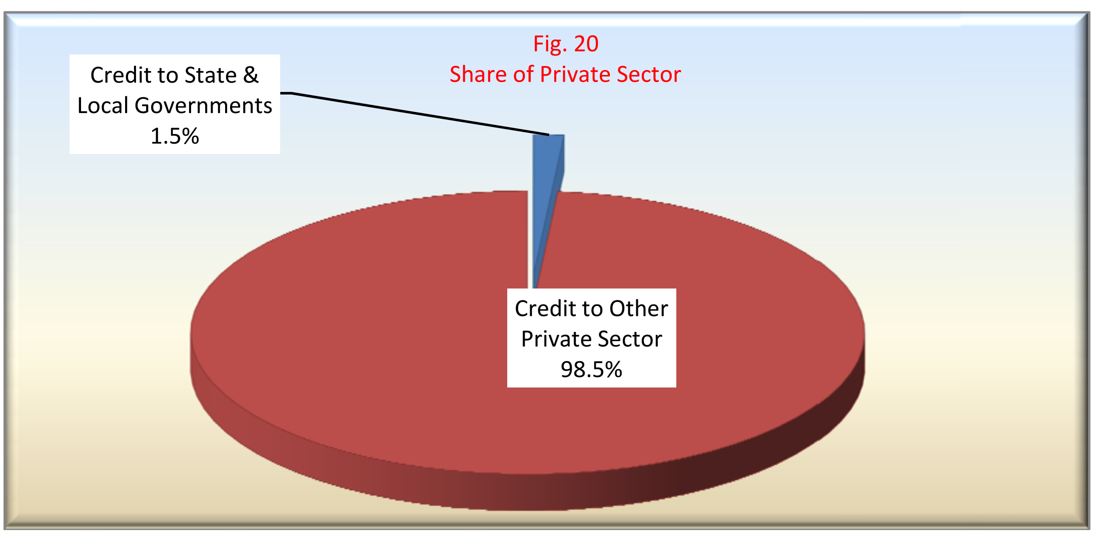


Fig. 20
Share of Private Sector

3.1.2 Money Market Developments

The money market in the first half of 2008 remained very vibrant and was characterised by high liquidity. The Bank thus embarked on extensive mop up to stem excessive growth in money supply. Consequently, market players continued to access the Bank's lending facility until April 2008 when some of the bills sold in December 2007 matured and were paid. In order to mitigate the inflationary effect of the huge liquidity injection into the banking system, arising from the Excess Crude-oil Proceeds and the increased statutory revenue in the second quarter of 2008, the MPR was reviewed upwards twice during the period.

3.1.2.1 Money Market Assets Outstanding

Available data indicated that the level of money market assets outstanding at end-June 2008 stood at ₦2,759.61 billion, showing an increase of 25.0 per cent over the level at end-December 2007. Relative to the level at the end of the first half of 2007, it showed an increase of 34.4 per cent. The development represented increases of 79.7, 14.8 and 107.5 per cent in Commercial Papers (CPs), FGN Bonds and Bankers' Acceptance (BAs), respectively, when compared with the levels at end – December, 2007.

3.1.2.2 Primary Market

In line with the restructuring of the domestic debt profile to longer tenors, the FGN Bonds of 3- and 5-year tranches were reopened. The Debt Management Office (DMO), in collaboration with the Bank, issued 3-, 5- and 10-year tenored securities during the period. FGN Bonds worth N280.00 billion was issued, compared with N270.00 billion in the corresponding period of 2007. Total allotment was N278.5 billion with the marginal rates between 9.00 – 12.75 per cent, compared with N270.0 billion in the first half of 2007. The sustained patronage of the FGN Bonds by both local and foreign investors continued to reflect the increased confidence in the economy. As at end-June, 2008, the total FGN Bonds outstanding stood at N1,361.25 billion, compared with N925.64 billion at the end of the corresponding half of 2007.

During the review period, treasury bills issued at the primary market to replace maturing ones amounted to N1,231.72 billion, compared with N902.47 billion in the corresponding period of 2007. The increased offer was due to the additional bills issued at the primary market strictly for liquidity management. The total subscription and allotment in the first half of 2008 was N1,553.29 billion and N974.42 billion, respectively. Analysis of the issues showed investors' preference for longer tenored bills due mainly to the higher returns and the need to hedge against interest rate volatility.

Treasury bills (TBs) outstanding at N574.94 billion rose marginally by 0.01 per cent over the level at end-December 2007, but dropped by 20.0 per cent when compared with the corresponding period of 2007. The combined holdings of outstanding TBs by the deposit money banks and discount houses declined by 10.2 per cent to N495.3 billion, while the holdings by non-bank public rose by 316.6 per cent to N73.3 billion when compared with end-December, 2007 position. The CBN's holding of treasury bills outstanding stood at N6.3 billion at the end of the first half of the year, compared with N0.6 billion in the corresponding period of 2007.

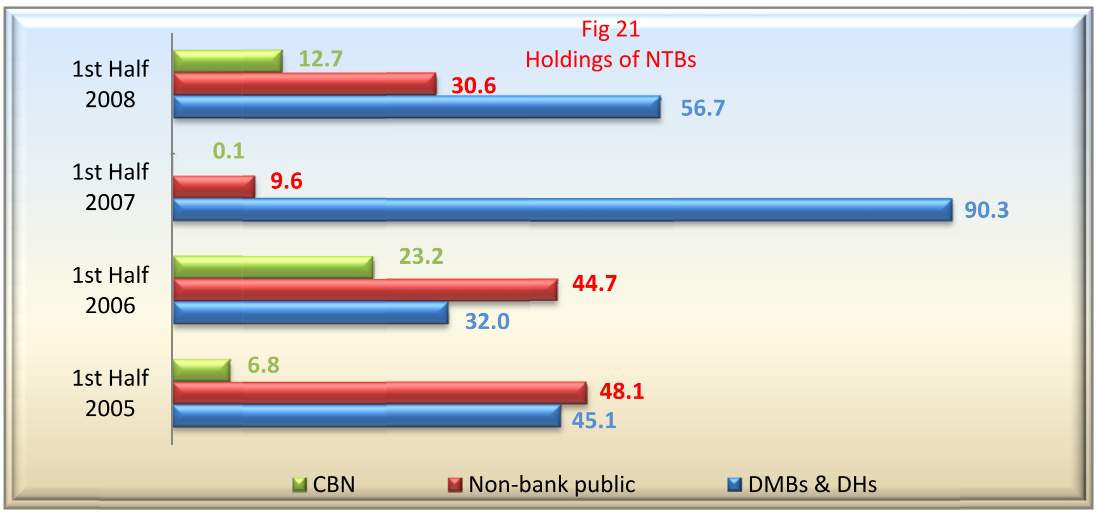


Fig 21
Holdings of NTBs

3.1.2.3 Open Market Operations (OMO)

Open Market Operations (OMO) remained the major tool for liquidity management, during the review period. Direct OMO auctions were conducted on need-for-intervention basis aimed at moderating the huge injections into the system, especially after the payments of statutory revenue and the sharing of part of the excess crude oil proceeds. Two-way quote trading system and reverse repo transactions were used principally for mopping up excess funds in the banking system. The average tenors of 70 to 331 days offered at the open market were structured to mature on the same date as the primary market auctions (Thursdays) to boost the tradability of the instruments in the market. The reverse repo transactions were short tenored, 7-12 days.

Total subscription and sales of NTBs at the open market amounted to N34.0 billion and N1,469.84 billion, compared with N411.8 billion and N1,050.9 billion, respectively, in the corresponding period of 2007. The increased volume of sales at the open market could be attributed to the aggressive mop up embarked upon in order to absorb the excess liquidity injected into the banking system.

3.1.2.4 Interest Rates Developments

Interest rates were relatively stable largely as a result of the moderating effects of the Bank's standing lending facility. The MPR was reviewed upwards from 9.50 per cent in December 2007 to 10.0 per cent in April and further by 25 basis points in June 2008.

3.1.2.5 Money Market Rates

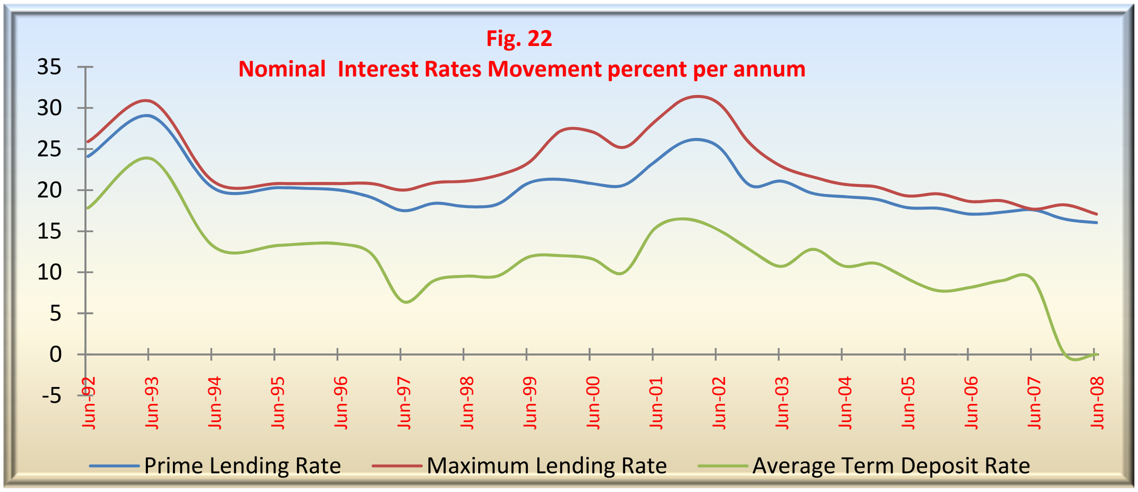
The inter-bank market rates remained stable despite the abolition of the band around the MPR in 2007. The average interbank call rate was 11.23 per cent, compared with 8.46 per cent in the corresponding period of 2007. The average Open Buy-Back (OBB) rates stood at 8.77 per cent, up from 8.23 per cent in the first half of 2007. The weighted average of the Nigeria Inter-bank Offered Rate (NIBOR) for the 7- and 30-day tenors were 10.79 and 12.88 per cent, respectively, compared with 8.94 and 11.61 per cent in the first half of 2007.

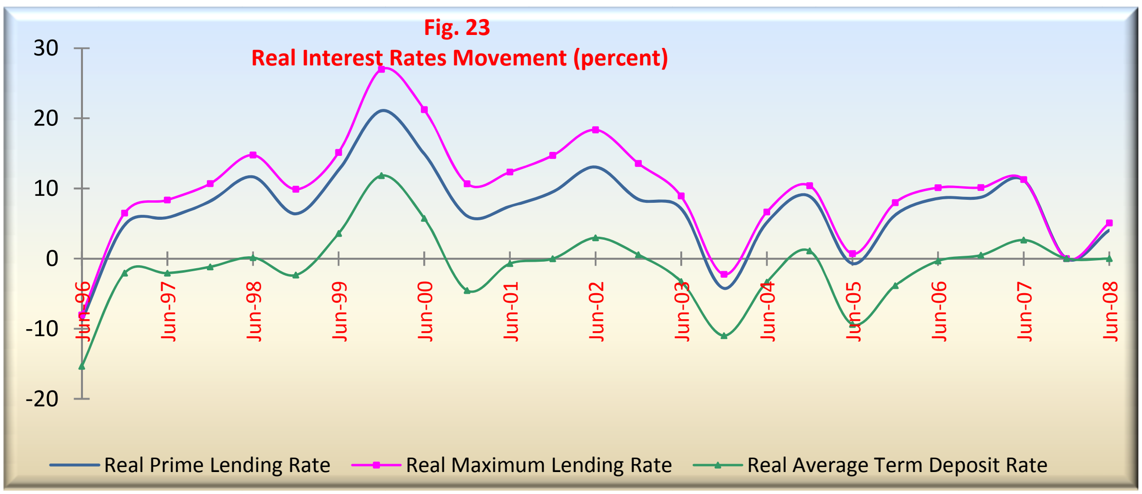
3.1.2.6 Deposit Rates

The average savings deposit rate declined by 0.04 percentage point from the level at end-December 2007 to an average of 3.12 per cent at end-June 2008 and was 0.63 percentage point below the rate at the corresponding period of 2007. On the other hand, the rates on other deposits of various maturities rose from a range of 5.82 – 10.29 per cent in December 2007 to a range of 5.69 – 11.77 per cent at end-June 2008.

3.1.2.7 Lending Rates

The prime lending rate fell from 16.46 per cent in December 2007 to 16.04 per cent in June 2008, while the half year average was 15.96 per cent. Maximum lending rate also fell marginally from 18.21 per cent in December 2007 to 17.08 per cent at end - June 2008. Consequently, the spread between banks' average term deposit and maximum lending rates narrowed to 7.97 percentage points in the first half of 2008 from 9.52 percentage points in the corresponding period of 2007. With the year-on-year inflation rate at 12.00 per cent in June 2008, all the term deposit rates were negative in real terms.





3.1.3 Institutional Savings

Aggregate institutional savings as at end-June 2008 stood at N3,785.7 billion, indicating an increase of 28.3 and 61.4 per cent over the levels at end-December and end-June 2007, respectively. The DMBs remained the dominant savings institution, accounting for 94.4 per cent of the total at end-June 2008, compared with 76.0 and 90.0 per cent at end-December and end-June 2007, respectively. Other institutions, including primary mortgage, life insurance funds, the Nigerian Social Insurance Trust Fund, and microfinance banks held the balance of 5.6 per cent. The ratio of institutional savings to GDP (2008) was 31.3 per cent, compared with 24.4 per cent in the corresponding period of 2007.

3.1.4 Other Financial Institutions

3.1.4.1 Development Finance Institutions

The four reporting development finance institutions namely: Bank of Industry (BOI), Federal Mortgage Bank of Nigeria (FMBN), Nigerian Agricultural, Co-operative and Rural Development Bank (NACRDB) and Nigeria Export Import Bank (NEXIM), had aggregate assets of N143.1 billion at end-June 2008. This was 11.8 per cent higher than the level at end-December 2007. The cumulative loan disbursements by the four reporting institutions increased from N57.5 billion in December 2007 to N78.3 billion in June 2008, representing an increase of 36.3 per cent. The combined paid-up share capital of the four DFIs was N34.5 billion at end-June 2008, while their aggregate shareholders' funds increased by 2.0 per cent over the end- December 2007 level to N22.30 billion.

3.1.4.2 Micro Finance Banks

In addition to the 607 community banks (CBs) that converted to MFBs at the conclusion of the re-capitalisation/conversion programme at end-December 2007, a total of 87 new investors in the MFB sub-sector have been granted final operating licences, while 88 have been granted approvals in principle (AIPs), thus bringing the total number of approved MFBs to 782 at end-June 2008.

The total assets/liabilities of the reporting MFBs increased by 40.4 per cent over the level at end- December 2007 to N93.9 billion. The paid-up share capital and shareholders' fund increased by 96.1 and 42.0 per cent to N22.0 billion and N31.0 billion, respectively. Loans and advances granted by the reporting banks increased by 38.6 per cent to N31.7 billion, compared with N22.9 billion at end-December 2007. Investible funds available to the sub-sector amounted to N20.0 billion.

3.1.4.3 Discount Houses

Total assets/liabilities of the five operating discount houses at end-June 2008 stood at N572.7 billion, compared with N298.3 billion and N223.6 billion recorded at end-December and the corresponding period of 2007, respectively. The total funds sourced amounted to N367.6 billion, compared with N104.6 billion at end-June 2007. The funds were sourced mainly from an increase in "other amount owed to customers” (N53.9 billion) and “claims on banks” (N41.4 billion), among others. The funds were utilized largely in the purchase of Federal Government securities of less than 91 days maturity (N57.0 billion), and settlements of claims (N19.4 billion). The investment of discount houses in Federal Government securities of less than 91 days maturity amounted to N277.7 billion at end-June 2008, representing 39.2 per cent of their total deposit liabilities. This was 20.8 percentage points below the prescribed minimum of 60.0 per cent for 2008.

3.1.4.4 Finance Companies (FCs)

The total number of licensed finance companies (FCs) increased by one (1) to one hundred and thirteen (113) with total assets/liabilities amounting to N118.8 billion, compared with N65.8 billion recorded at end-December 2007. Loans and advances increased by 68.7 per cent to N45.2 billion, while total borrowing also increased by 78.2 per cent to N71.1 billion in June 2008 compared with N39.9 billion at end-December 2007. Investible funds accruing to the sub-sector amounted to N53.1 billion.

3.1.4.5 Primary Mortgage Institutions (PMIs)

The total number of licensed PMIs remained at ninety-nine (99) as at end-June 2008. Two PMIs were, however, given approval to restructure their capital base through the injection of fresh capital by new and existing investors, bringing the total number of PMIs undergoing restructuring to ten (10). Specifically, listing of shares of Aso Savings & Loans, Abuja on the Nigerian Stock Exchange was concluded during the review period, while approval was granted for the injection of Euro 2.50 million hybrid foreign capital into Abbey Building Society, Lagos. Total assets of the PMIs which stood at N202.8 billion at end-December 2007 rose by 31.1 per cent to N268.8 billion at end-June 2008, reflecting the growth in the balance sheet size of the PMIs that were acquired by the DMBs during the review period. Investible funds available to the PMIs was N101.4 billion.

3.1.4.6 Bureaux-de-Change (BDCs)

Three hundred and thirty (330) fresh applications for BDC licences were received during the period under review, compared with 110 applications received in the corresponding period of 2007. Of this number, forty-nine (49) operating licences were approved and one hundred and ninety-five (195) Approvals-In-Principle were granted, while eighty-six (86) others were at various stages of processing. Overall, the number of BDCs in the country stood at 1,012 at end-June 2008, compared with 567 and 368 at end- December and end-June 2007, respectively.

3.1.5 Capital Market Developments

3.1.5.1 The Nigerian Stock Exchange

The performance of the Nigerian Stock Exchange was bearish in the first half of 2008 as reflected in the decline in activities in both the primary and secondary segments of the market. Market capitalization of the listed securities fell by 9.0 per cent to close at N12.1 trillion, compared with N13.3 trillion recorded at end-December 2007. However, when compared with the end-June 2007 level of N8.9 trillion, this represented an increase of 36.0 per cent.

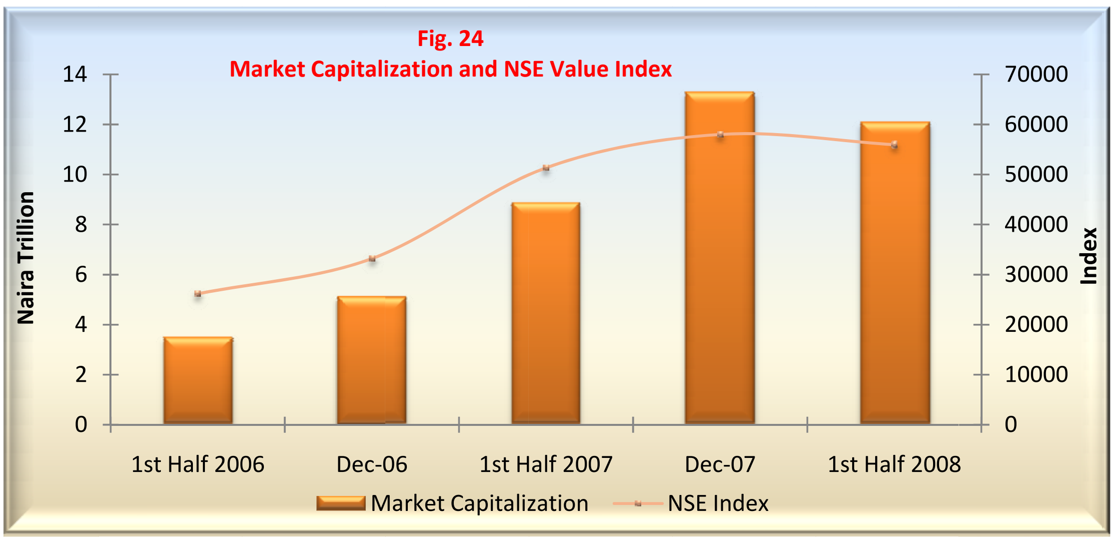


Fig. 24
Market Capitalization and NSE Value Index

3.1.5.2 New Issues Market

The new issues market remained vibrant during the first half of the year. Total issues amounted to 130.5 billion shares, which comprised of 47.5 billion ordinary shares registered as supplementary listings from twenty-three (23) issues, and 83.0 billion fresh ordinary shares admitted into the daily official list, compared with 26.8 billion shares recorded at end-June 2007.

In the bonds segment, FGN Bonds of 3-, 5-, and 10-year tranches valued at N278.5 billion were issued and alloted in line with the restructuring of the domestic debt profile to longer tenors, compared with N270.0 billion recorded in the corresponding period of 2007. The coupon rates for the 3-, 5- and 10-year tranches were 7.0, 9.5 and 10.7 per cent, respectively.

3.1.5.3 The Secondary Market

The volume and value of traded securities in the secondary market rose by 65.8 and 136.2 per cent to 106.3 billion shares and N1,573.8 billion, respectively, compared with 64.1 billion shares and N666.2 billion in the corresponding period of 2007. The development was attributed to the increased public awareness of the relatively high returns on investments in the market.

A sectoral analysis of developments in the market showed that the insurance sub-sector was the most active on the Exchange, followed by the banking sub-sector.

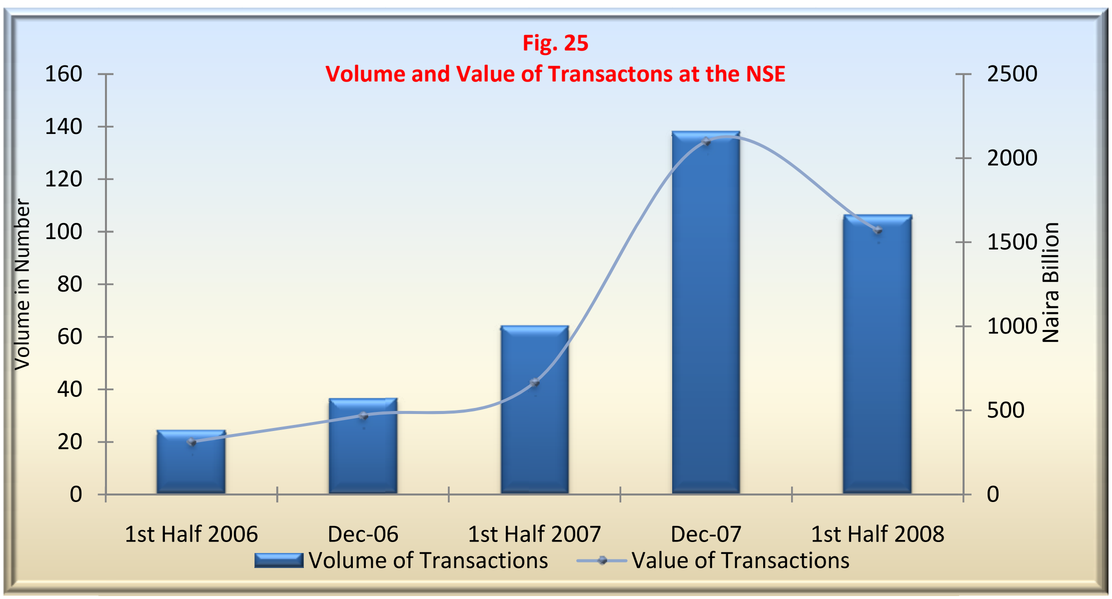


Fig. 25
Volume and Value of Transactons at the NSE

3.1.5.4 Value of All-Share Index

The All-Share Index of the Nigerian Stock Exchange declined by 3.5 per cent to 55,949 (1984= 100) at end-June 2008, compared with 57,990.22 (1984= 100) recorded at end-December 2007. The development was attributed to the low transactions recorded in the blue chip stocks. The Index, however, rose by 9.0 per cent when compared with the level at end-June 2007.

3.1.6 Monetary Outlook for the Rest of 2008

The growth in major monetary aggregates in the first half of 2008 is expected to continue in the second half of the year. This is predicated on the continued increase in fiscal injection arising from the sharing of part of the excess crude proceeds and