CHAPTER THREE

THE GLOBAL ECONOMY

Generally, the global economy experienced a slowdown in 2011. Global output growth rate slowed to 3.8 per cent, compared with 5.2 per cent in 2010, due to the persistence of the Euro area debt crisis, the weak recovery of the US economy, and political crisis in the Middle East and North Africa (MENA). Global inflation remained elevated in 2011, due largely to the resurgence of commodity prices in the first half of the year, and in some economies, demand pressures fuelled by accommodative policies, strong credit growth, and capital inflows. Commodity prices initially peaked in early 2011 before declining, due to weak output and sluggish demand, resulting in a decline in global trade. The international financial market remained weak and fragile, due to the escalating euro area crisis.

3.1 OUTPUT GROWTH

Global output growth rate slowed to 3.8 per cent, compared with 5.2 per cent recorded in 2010, due to the persistence of the euro area debt crisis, the weak recovery of the US economy, and political crisis in the Middle East and North Africa (MENA). Weaker global growth was fuelled by indications that the euro area economy would lapse into a mild recession, following additional fiscal consolidation, as well as the effects of tighter credit conditions on the real economy.

Global output growth rate slowed to 3.8 per cent, compared with 5.2 per cent recorded in 2010, due to the persistence of the Euro area debt crisis, the weak recovery of the US economy, and political crisis in the Middle East and North Africa (MENA).

Growth in the advanced economies stood at 1.6 per cent, compared with 3.2 per cent in 2010, as US consumers reduced their savings in reaction to the gloomy economic prospects. However, there were strong recoveries of business investments, as well as the supply-chain disruptions, after the earthquake in Japan. These developments helped in stabilising oil prices.

The U.S. economy showed a lower GDP growth rate of 1.8 per cent relative to the 2.8 per cent in 2010. This was attributed to the initial problems in getting a deal for the debt ceiling that resulted in the downgrade` of the US credit rating by Standard and Poor's (S&P). Output in the euro area recorded a slight decline as GDP grew at 1.6 per cent, compared with 1.8 per cent in 2010, due to marked budget cuts by governments in order to curtail the region's debt crisis.

In China, the growth rate slowed down to 9.2 per cent from 10.4 per cent in 2010. China's manufacturing contracted as the European debt crisis led to a reduction in export demand in addition to sluggish domestic demand.

Developing and emerging economies also experienced a slowdown in growth, as output moved from 7.3 per cent in 2010 to 6.2 per cent. The situation was the same for the Commonwealth of Independent States (CIS) as GDP growth declined to 4.5 per cent from 4.6 per cent in 2010. Also, in Developing Asia, the Middle East and North Africa, and Latin America and Caribbean, growth decelerated to 7.9, 3.1, and 4.6 per cent, compared with their respective rates of 9.5, 4.3 and 6.1 per cent in 2010. Russia grew by 4.1 per cent compared with 4.0 per cent in 2010; and Central and Eastern Europe grew by 5.1 per cent compared with 4.5 per cent in 2010. Growth in Sub-Saharan Africa (SSA) moderated at 4.9 per cent compared with 5.3 per cent in 2010. The slight moderation in SSA growth was due, largely, to the limited spillover effects of global growth slowdown on the region, owing to its weak trade and finance linkages with the rest of the world.

Table 3.1: Changes in World Output and Prices (per cent), 2007-2011

	Output					**Consumer Prices**				
Region/Country	**2007**	**2008**	**2009**	**2010**	**2011**	**2007**	**2008**	**2009**	**2010**	**2011**
World Output	N/A	**3.9**	**3.0**	**5.2**	**3.8**		**3.6**	**2.0**	**N/A**	**N/A**
Advanced Economies	2.7	**0.2**	**-3.4**	**3.2**	**1.6**	**2.3**	**2.0**	**0.7**	1.1	2.3
United states	1.9	**N/A**	**-2.6**	**3.0**	**1.8**	**2.9**	**2.2**	**0.9**	0.9	2.5
Japan	2.4	-1.2	-6.3	4.4	-0.9	-0.7	-0.8	-0.9	-2.1	-0.3
European Union	3.2	0.8	-4.1	2.0	1.6	2.4	3.7	0.9	1.9	3.0
Germany	2.7	1.0	-4.7	3.6	3.0	2.3	2.8	0.2	1.3	2.2
France	2.3	0.1	-2.5	1.4	1.6	1.6	3.2	0.1	1.6	2.1
Italy	1.5	-1.3	-5.0	1.5	0.4	2.0	3.5	0.8	1.6	2.6
United Kingdom	2.7	-0.1	-4.9	2.1	0.9	2.3	3.6	2.1	3.1	4.5
Euro Area	2.9	0.5	-4.1	1.9	1.6	2.1	3.3	0.3	1.6	1.4
Other Advanced Economies	4	**1**	**-1.2**	**5.8**	**3.3**	**2.7**	**3.1**	**0.8**	2.7	3.5
Newly Industrialized Asian Economies	5.8	1.8	-0.9	8.4	4.2	2.2	4.5	1.3	2.6	3.3
Other Emerging Markets and Developing Countries	8.7	6.0	-2.6	7.3	6.2	6.5	9.2	5.2	6.2	6.2
Commonwealth of Independent States		5.5	-6.6	4.6	4.5		15.6	11.2	7.2	6.1
Regional Groups										
Central and Eastern Europe	5.5	3.0	-3.6	4.5	5.1	6.0	8.1	4.7	5.2	5.2
Russia	8.5	5.2	-7.9	4.0	4.1	9.0	14.1	11.7	6.6	8.9
Latin America and the Caribbean		2.9	0.4	6.1	4.6		12.0	3.6	6.4	4.8
Africa	7	5.5	2.8	5.3	4.9	6.9	11.7	10.4	7.5	8.4
Asia	11.4	7.7	7.0	9.5	7.9	5.4	7.5	3.1	6.1	7.0
Middle East	6	5.0	1.8	4.3	3.1	10.0	13.5	6.7	6.8	9.9
Western Hemisphere	5.6	4.6	-1.7	5.7	4.0	5.4	7.9	5.0	6.8	4.0
China	14.2	9.6	9.2	10.4	9.2	4.8	5.9	-0.7	3.5	5.5

Source: World Economic Outlook, January 2012

3.2 GLOBAL INFLATION

Inflation in many regions of the world remained elevated in 2011 due, largely, to the resurgence of commodity prices in the first half of the year, and, in some economies, demand pressures fuelled by accommodative policies, strong credit growth, and capital inflows. In the advanced economies, inflation rose to 2.3 per cent from 1.1 per cent in 2010. US inflation, which averaged 2.5 per cent from 0.9 per cent in 2010, was restrained from further increase by the retreat in commodity prices, weak job growth and a persistent economic slack that held back wages. In the Euro area, inflation declined at a slower pace to 1.4 per cent, from 1.6 per cent, as inflationary pressures remained well contained following receding commodity prices.

Inflation in many regions of the world remained elevated in 2011.

In Asia, inflation rose marginally to 7.0 from 6.1 per cent in 2010. Inflation in advanced Asia, including Australia, New Zealand and the newly industrialized economies, rose to 3.3 per cent from 2.6 per cent in 2010; the Japanese inflation became less negative from -2.1 to -0.3 per cent. In developing Asia (comprised of China, India, and the ASEAN-5), inflation rose to 7.0 per cent from 5.7 per cent a year ago. However, Indian inflation which remained in double digits due to strong credit growth, a positive output gap, and accommodative policies, decelerated to 10.6 per cent from 12.0 per cent in 2010.

In Latin America and the Caribbean, inflation rose marginally to 4.8 from 6.4 per cent in 2010 and it broadly remained within target in most of the region's inflation targeters. Consumer prices in Brazil and Argentina rose to 6.6 and 11.5 per cent from their respective levels of 5.0 and 10.5 per cent in 2010.

In the Commonwealth of Independent States (CIS), headline inflation picked up and reached double digits in several of the region's economies, reflecting the sharp rise in commodity prices in the first half of the year and the high share of food in the consumption basket. During the year, inflation in CIS declined to 6.1 from 7.2 per cent in 2010.

Consumer prices in the MENA region remained elevated in 2011, driven by commodity price developments and social unrest. Inflation among the oil exporters surged to 10.8 from 6.6 per cent in 2010, but decelerated to 7.5 from 7.6 per cent among the oil importers.

In Sub-Saharan Africa (SSA), the rise in inflation was driven by an earlier surge in commodity prices, accommodative monetary conditions in some economies (including Ethiopia, Kenya, and Uganda), and the severe drought in the horn of Africa which precipitated a major humanitarian crisis in the region. As a result, SSA inflation rate rose to 8.4 from 7.5 per cent in 2010. Among oil exporters, inflation remained high, as pre-crisis rapid monetary expansion (Nigeria) and a sharp increase in domestic fuel prices (Angola) fed into domestic price increases. In Nigeria, however, inflation rate continued its deceleration to 10.3 per cent from 11.8 and 13.9 per cent in the preceding two years, owing to a series of monetary policy tightening and complementary measures undertaken during the year.

3.3 GLOBAL COMMODITY DEMAND AND PRICES

Global commodity prices peaked in early 2011 after more than two years of strong growth, before declining due to weak output in advanced countries and sluggish demand in emerging markets. The commodity price index computed by the IMF declined by 10.0 per cent between April and August, 2011. Prices of metals decreased the most, and agricultural raw materials recorded the largest individual decline, especially cotton and rubber, edible oils such as coconut and palm kernel oil, and cocoa. Overall, in 2011, agriculture, energy and metal prices declined by 19.0, 10.0 and 25.0 per cent, respectively. The rising risk aversion in global financial markets owing to lingering concerns about sovereign debt risks in the euro area coupled with appreciation of the U.S. dollar, also contributed to the decline in commodity prices.

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Despite the fall in energy prices in 2011, the average basket price of crude oil increased to US $ 107.46 per barrel from US $ 77.45 in 2010. The rise in prices was attributable to reduced supply owing to the crises in Libya and other parts of the Middle-East and North-Africa as well as the March 2011 earthquake in Japan that led to the shutdown of its major nuclear plants and increased Japanese demand for energy imports. Oil prices stabilized towards the end of 2011, mainly due to supply developments. However, increasing geopolitical risks to oil prices emerged over Iran's nuclear programme and the international embargo on its oil exports.

The global commodity demand slowed on account of sluggish global growth, weak financial markets and an uncertain global economic outlook. Crude oil demand in the advanced economies declined to 45. 4 from 45.7 million barrels per day (mbd) in 2010, but increased in the emerging and developing economies to 44.1 mbd from 42.6 mbd, largely due to the robust economic activity in China. However, policy tightening in response to rising inflation and surging housing prices in China, which accounts for 40 per cent of global metal consumption and 18 per cent of energy consumption, dampened the demand for major commodities, especially base metals.

3.4 WORLD TRADE

Growth in world trade declined to 6.9 per cent from 12.7 per cent in 2010. The decline was attributed to the post-August turmoil in financial markets and weak demand in Europe which impacted directly on trade. Global merchandise imports fell by 8.0 per cent between August and October, 2011.

In the advanced economies, both imports and exports decreased substantially from 12.2 and 11.5 per cent in 2010 to 5.5 and 4.8 per cent, respectively. Much of the decline in the import volumes of high income countries came from a decline in European Union imports.The terms of trade, however, improved from a deficit of 1.2 per cent in 2010 to a lower deficit of 0.1 per cent. These developments affected average annual changes in trade volumes in emerging and developing economies, where exports and imports also declined but at a slower pace to 9.0 and 11.3 per cent, from 13.8 and 15.0 per cent in 2010, respectively. Developing countries' exports declined at an annualized rate of 1.2 per cent in the third quarter of 2011 and remained in decline, with the sharpest drop in South Asia where it fell at double digits because of supply disruptions caused by the flooding in Thailand. In the review period, the exports of developing Europe and Central Asia expanded slowly, while Latin American exports' growth strengthened. Consequently, the terms of trade in the emerging and developing economies improved marginally to 3.6 from 3.3 per cent in 2010.

Table 3.2: World Trade Volumes (Average Annual Percentage Change in Trade in Goods and Services), 2007 - 2011

	Advanced					Emerging and Developing				
Volume of Trade	**2007**	**2008**	**2009**	**2010**	**2011**	**2007**	**2008**	**2009**	**2010**	**2011**
Exports	6.4	1.9	-14	11.5	4.8	9.4	4.7	-8	13.8	9
Imports	5.3	0.4	-13.6	12.2	5.5	13.5	8.4	-9.5	15	11.3
Terms of Trade	0.5	-2.4	3.8	-1.2	-0.1	0.3	2.9	-5.7	3.3	3.6

Source: World Economic Outlook, September, 2011 and January, 2012 updates

3.5 INTERNATIONAL FINANCIAL MARKETS

3.5.1 Money Markets

The global money market remained weak due to the escalating euro area crisis and financial fragilities across the globe. In particular, concerns about banking sector losses and fiscal sustainability widened sovereign risk spreads for many euro area countries. The phenomenon was unprecedented since the commencement of the Economic and Monetary Union. Bank funding dried up in the euro area, prompting the European Central Bank (ECB) to offer a three-year Long-Term Refinancing Operation (LTRO). Bank lending conditions fluctuated or deteriorated across a number of advanced economies. Capital flows to emerging economies fell sharply.

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3.5.2 Capital Markets

For a greater part of the year under review, the capital market was constrained by the euro area debt crisis that elevated financial stability risks. Markets became more skeptical about the precarious public debt situation in many countries, especially the fringe European countries. As the year rolled on and with growth prospects lowered, concerns extended to more European countries and beyond—from Japan to the US. Worries about sovereign risk extended to concerns about the banks holding sovereign bonds, mainly in Europe. The worries resulted in a partial freeze of financial flows with banks keeping high levels of liquidity and tightening lending. Consequently, stock prices fell. The crisis in the euro area deepened and escalated as spreads on the sovereign bonds of the periphery economies reached new high levels. Concurrently, spreads of several other economies also widened to varying degrees. In the process, stock prices experienced sharp corrections, due to concerns about weak activity and financial sectors in advanced economies. Strains resurfaced in interbank markets, while credit default swap spreads on US government rose.

Following these developments, the performance of international stock markets was bearish, with global indices recording declines. In North America, the S&P 500, the S&P/TSX Composite and the Mexico Bolsa (IPC) indices decreased by 1.1, 11.1 and 4.0 per cent, respectively. In South America, the Brazilian Bovespa, the Argentine Merval and the Colombian IGBC General indices decreased by 18.9, 32.1 and 17.6 per cent, respectively. Europe's FTSE 100, CAC 40, DAX and MICEX indices decreased by 5.6, 19.0, 15.6 and 16.9 per cent, respectively. In Asia, Japan's Nikkei 225, China's Shanghai Stock Exchange-A and India's BSE Sensex indices decreased by 18.7, 22.9 and 25.0 per cent, respectively. In Africa, the Nigeria's NSE ASI, the South African JSE African ASI, the Kenyan Nairobi NSE 20, the Egyptian EGX CSE 30 and Ghanaian GSE All-Share indices, decreased by 16.3, 1.0, 28.7, 48.8 and 3.1 per cent, respectively.

The political crises in the Middle East and North Africa (MENA) region, the debt crises in the Euro-zone, the U.S. sovereign rating downgrade, and the Tsunami in Japan all contributed to the poor performance of global equities.

Table 3.3: International Stock Market Indices, 2010 - 2011

Country	Index	31-Dec-10	31-Mar-11	30-Jun-11	30-Sep-11	30-Dec-11	% Change b/w (a) and (e)
AFRICA		(a)	(b)	(c)	(d)	(e)	(f)
Nigeria	ASI	24,770.52	24,621.21	24,980.20	20,373.00	20730.63	-16.3
South Africa	JSE African ASI	32,296.50	32,204.10	31,864.50	29,674.20	31,985.67	-1
Kenya	Nairobi NSE 20	4,495.41	3,887.07	3,968.12	3,284.06	3,205.02	-28.7
Egypt	EGX CSE 30	7,073.12	5,463.72	5,373.00	4,137.35	3,622.35	-48.8
Ghana	GSE All Share	1,000.00	1,071.50	1,188.91	1,098.38	969.03	-3.1
NORTH AMERICA							
US	S&P 500	1,271.89	1,325.83	1,320.64	1,131.42	1,257.60	-1.1
Canada	S&P/TSX Composite	13,443.20	14,116.10	13,300.90	11,623.84	11,955.09	-11.1
Mexico	Bolsa	38,605.80	37,440.50	36,558.10	33,503.28	37,077.52	-4
SOUTH AMERICA							
Brazil	Bovespa Stock	69,962.30	68,586.70	62,403.60	52,324.42	56,754.08	-18.9
Argentina	Merval	3,628.48	3,388.03	3,360.64	2,084.99	2,462.63	-32.1
Columbia	IGBC General	15,368.30	14,469.70	14,067.70	12,915.80	12,665.71	-17.6
EUROPE							
UK	FTSE 100	5,899.94	5,908.76	5,945.71	5,128.48	5,572.28	-5.6
France	CAC 40	3,900.86	3,989.18	3,982.21	2,981.96	3,159.81	-19
Germany	DAX	6,989.74	7,041.31	7,376.24	5,502.02	5,898.35	-15.6
Russia	MICEX	1,687.99	1,814.65	1,662.18	1,366.54	1,402.33	-16.9
ASIA							
Japan	NIKKEI 225	10,398.10	9,708.39	9,859.79	8,700.29	8,455.35	-18.7
China	Shanghai SE A	2,987.03	3,107.15	2,892.01	2,359.22	2,304.12	-22.9
India	BSE Sensex	20,610.20	19,432.40	18,803.50	16,453.80	15,454.92	-25

Source: Bloomberg

3.5.3 The International Foreign Exchange Market

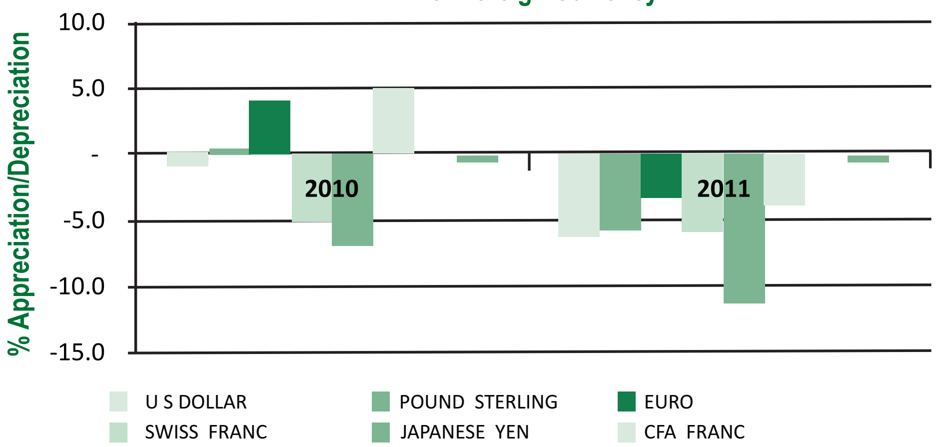
Most currencies depreciated against the US dollar. The South African rand and the Indian rupee depreciated by 22.6 and 19.5 per cent, respectively. The UK pound lost 6.76 per cent while the Euro depreciated by 18.6 per cent. The Chinese yuan and Japanese yen both appreciated by 4.6 and 5.2 per cent, respectively. The rand depreciated the most in the African Region. The Nigerian naira, the Ghanaian cedi, the Egyptian pound, and the Kenyan shilling all depreciated by 5.1, 2.8, 4.0 and 5.3 per cent, respectively. Exchange rates were largely affected by the global economic slow-down, high energy prices, the Euro debt crisis, political unrest in the Middle East and North Africa, show U. S. economic recovery and the natural disasters in Japan.

Table 3.4: Exchange Rates of Selected Countries (Values in Currency units of US$)

Country	Currency	31-Dec-10	31-Mar-11	30-Jun-11	30-Sep-11	31-Dec-11	% Change b/w (a) and (e)
AFRICA		(a)	(b)	(c)	(d)	(e)	(f)
Nigeria	Naira	150.66	155.10	152.28	159.73	158.27	5.05
South Africa	Rand	6.60	6.77	6.77	8.10	8.09	22.58
Kenya	Shilling	80.80	88.00	89.33	100.27	85.07	5.28
Egypt	Pound	5.80	5.96	5.97	5.96	6.03	3.97
Ghana	Cedi	1.42	1.44	1.42	1.45	1.46	2.82
NORTH AMERICA							
Canada	Dollar	1.00	0.97	0.96	1.05	1.02	2.00
Mexico	Peso	12.30	11.90	11.71	13.90	13.94	13.33
SOUTH AMERICA							
Brazil	Real	1.70	1.63	1.56	1.88	1.87	10.00
Argentina	Peso	4.00	4.05	4.11	4.20	4.30	7.50
Columbia	Peso	1923.90	1871.00	1770.78	1931.98	1938.50	0.76
EUROPE							
UK	Pound Sterling	0.60	0.62	0.62	0.64	0.64	6.76
Euro Area	Euro	0.70	0.99	0.97	0.82	0.83	18.57
Russia	Ruble	30.60	28.42	27.87	32.18	32.14	5.03
ASIA							
Japan	Yen	81.10	83.13	80.56	77.06	76.91	5.17
China	Remnibi	6.60	6.55	6.46	6.38	6.30	4.55
India	Rupee	44.40	44.59	44.70	48.97	53.07	19.53

Source: Bloomberg

Figure 3.1: Annual Percentage Change in the Average Unit of Naira Per Foreign Currency



Source: Bloomberg, April 26, 2012

3.5.4 Central Bank Interest Rate Policies

Monetary policy remained accommodating in most economies in the second half of 2011, especially in many advanced economies. The Federal Reserve Bank and the Bank of England maintained interest rates at 0.25 and 0.50 per cent, respectively, throughout the year. The European Central Bank, the Peoples Bank of China and the Bank of Japan, all increased interest rates by 25, 10 and 25 basis points, respectively, in the second half of 2011. The Bank of Japan and the European Central Bank cut interest rates in October and December, 2011 by 25 and 10 basis points, respectively.

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In the emerging economies, interest rate policy varied in different countries during the year. India increased its rate from 7.50 per cent in July to 8.0 per cent and again to 8.50 per cent in October 2011. The Central Bank of Brazil increased its interest rate from 12.25 to 12.50 per cent in August and later reduced it to 11.50 per cent in October 2011.

Table 3.5: Monetary Policy Rates of Selected Countries, 2010-2011 (Per cent)

	Ghana	S. Africa	Kenya	Nigeria	Brazil	Chile	USA	Japan	Euro Area	India	Russia	China	UK	Indonesia
Sept. 2010	13.5	6.0	6.0	6.25	10.75	2.5	0.0 - 0.25	0.1	1.0	6.0	7.75	5.31	0.5	6.5
Oct. 2010	13.5	6.0	6.0	6.25	10.75	2.75	0.0 - 0.25	0.0 - 0.1	1.0	6.0	7.75	5.56	0.5	6.5
Nov. 2010	13.5	5.5	6.0	6.25	10.75	3.0	0.0 - 0.25	0.0 - 0.1	1.0	6.0	7.75	5.56	0.5	6.5
Dec. 2010	13.5	5.5	6.0	6.25	10.75	3.25	0.0 - 0.25	0.0 - 0.1	1.0	6.0	7.75	5.69	0.5	6.5
2011														
January	13.5	5.5	6.0	6.5	10.75	3.25	0.0 - 0.25	0.0 - 0.1	1.0	6.0	7.75	5.69	0.5	6.5
February	13.5	5.5	5.75	6.5	11.25	3.5	0.25	0.0	1.0	6.0	8.0	6.06	0.5	6.75
March	13.5	5.5	5.75	7.5	11.25	4.0	0.25	0.0	1.0	6.0	8.0	6.06	0.5	6.75
April	13.5	5.5	6.0	7.5	11.75	4.5	0.25	0.0	1.25	5.75	8.25	6.31	0.5	6.75
May	13.0	5.5	6.25	8.0	12.25	5.0	0.25	0.0	1.25	7.5	8.25	6.31	0.5	6.75
June	13.0	5.5	8.0	8.0	12.25	5.25	0.25	0.0	1.25	7.5	8.25	6.31	0.5	6.75
July	12.5	5.5	8.0	8.75	12.25	5.25	0.25	0.0	1.5	8.0	8.25	6.56	0.5	6.75
August	12.5	5.5	8.0	8.75	12.5	5.25	0.25	0.1	1.5	8.0	8.25	6.56	0.5	6.75
September	12.5	5.5	6.25	8.75	12.5	5.25	0.25	0.1	1.5	8.0	8.25	6.56	0.5	6.75
October	12.5	5.5	16.5	9.25	11.5	5.25	0.25	0.0	1.5	8.5	8.25	6.56	0.5	6.0
November	12.5	5.5	16.5	12.0	11.5	5.25	0.25	0.0	1.5	8.5	8.25	6.56	0.5	6.0
December	12.5	5.5	18.0	12.0	11.5	5.0	0.25	0.0	1.0	8.5	8.0	6.56	0.5	6.0

Sources: US Federal Reserve, BOJ – Bank of Japan, ECB - European Central Bank, BOE - Bank of England

SARB – South Africa Reserve Bank, BoG – Bank of Ghana, POEC - Peoples Bank of China, Central Bank of Nigeria

3.6 THE IMPACT OF GLOBAL ECONOMIC DEVELOPMENTS ON THE NIGERIAN ECONOMY

Global developments during the year, including the general slowdown in growth, persisting European debt crisis, weak financial markets, elevated commodity prices and inflation rates, affected the Nigerian economy in several ways.

Growth in the Nigerian economy slowed, partly reflecting the deterioration in the external environment. Although the monetary policy stance remained tightened throughout 2011, Nigeria experienced a moderate exchange rate depreciation, despite recovery in oil prices.

The sharp increase in commodity prices against the backdrop of the social unrest in the MENA region had a beneficial effect on Nigeria's current accounts balance. As oil exporters generally benefitted from the price increase, Nigeria's current account rose slightly. However, the need to import petroleum products to meet the domestic supply gap resulted in a huge import bill that took a significant part of the inflow.

Global developments during the year including the general slowdown in growth, persisting European debt crisis, weak financial markets, elevated commodity prices and inflation rates, affected the Nigerian economy in several ways.

The economy witnessed increased capital inflows in the form of foreign direct investments (FDI) and portfolio investment, driven largely by the improved investment climate. However, the tight private external financing environment, caused largely by the Euro area debt crisis, intensified pressures in foreign exchange markets across the globe. Inflows from foreign banks remained low. Nonetheless, there was modest accretion to the external reserves and the 6.5 months of import cover realized by end-2011 was adequate to engender confidence among the trading partners.

There were indications of increased private capital inflow, partially reflecting confidence in the general macroeconomic stability in Nigeria and the successful conclusion of the April 2011 general elections. Nigeria issued Euro bonds of US$500 million in the first quarter of 2011 with a high patronage.