

CENTRAL BANK OF NIGERIA



MONTHLY REPORT

November 2004

RESEARCH DEPARTMENT

ECONOMIC REPORT FOR THE MONTH OF NOVEMBER 2004

1.0 SUMMARY

Available data indicated further increase in monetary aggregates in November 2004. Broad money stock (M_2) and narrow money supply (M_1) rose by 1.7 and 2.7 per cent, respectively, in November, 2004 over the levels in the preceding month. The development during the review month was attributable largely to the 11.0 per cent rise in foreign assets (net) of the banking system, reinforced by the 2.4 per cent increase in aggregate bank credit to the domestic economy. In the first eleven months of the year, M_1 and M_2 rose by 8.1 and 14.3 per cent, respectively, representing annualized growth rates of 8.8 and 15.6 per cent, compared with the targets of 13.4 and 16.0 per cent, respectively, for 2004.

Available data indicated that Banks' interest rate developments were mixed during the month. The spread between the weighted average deposit and maximum lending rates narrowed to 10.6 percentage points from 10.71 percentage points in the preceding month. The margin between the average savings deposit and maximum lending rates also narrowed to 16.08 percentage points from 16.14 percentage points in the preceding month. The weighted average inter-bank call rate rose from 10.3 per cent in October, to 12.7 per cent in November 2004, reflecting the cautious disposition of major players in the market in view of the on-going restructuring in the banking sector and the increased activities in the capital market.

The value of money market assets outstanding fell by 0.5 per cent to ₦974.9

in November, 2004, in contrast to the increase of 1.3 per cent in the preceding month. Treasury bills worth ₦260.0 billion were issued during the month to replace matured bills of equivalent value. Transactions on the Nigerian Stock Exchange (NSE) in the month of November 2004 indicated further improved performance as the major market indicators trended upward.

In November 2004, the predominant agricultural activities were harvesting of tubers, fruits, vegetables and late maturing crops; pre-planting operations as well as intensified production of poultry products for end of year sales. The prices of Nigeria's major agricultural commodities at the London Commodity Market, on the average, rose during the month. The all-commodities price index, at 92.4 (1985=100), in dollar terms, increased by 9.2 per cent from its level in the preceding month. The inflation rate for the twelve month period ended November, 2004 was estimated at 16.2 per cent, compared with 17.1 per cent recorded in the preceding month.

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.46 million barrels per day (mbd) or 73.80 million barrels for the month, compared with 2.40 mbd produced in October, 2004. Crude oil export was estimated at 2.01 mbd for the month, compared with 1.95 mbd in October 2004. Deliveries of crude oil to refineries for domestic consumption were estimated at 0.42 mbd or 12.50 million barrels for the month. In the spot market, the average price of Nigeria's reference crude, the Bonny Light (37° API), was US\$42.80 a barrel during the month, indicating a decline of

US\$7.49 a barrel or 14.9 per cent from the level in the preceding month.

Available data on foreign exchange flows through the Central Bank of Nigeria (CBN) showed an inflow of US\$2,662.7 million and an outflow of US\$1,092.9 million, resulting in a net inflow of US\$1,569.8 million during the month. Foreign exchange sales to authorized dealers by CBN amounted to US\$686.02 million, compared with US\$769.74 million in October, 2004. The weighted average exchange rate of the Naira vis-à-vis the US dollar, remained unchanged at the preceding month's level of N132.92 per dollar. In the bureaux de change segment of the market, however, the rate depreciated marginally from ₦140.46 per dollar in October 2004 to ₦140.69 per dollar in November 2004. Nigeria's gross external reserves rose by 10.0 per cent to US\$16.14 billion at end-November, 2004.

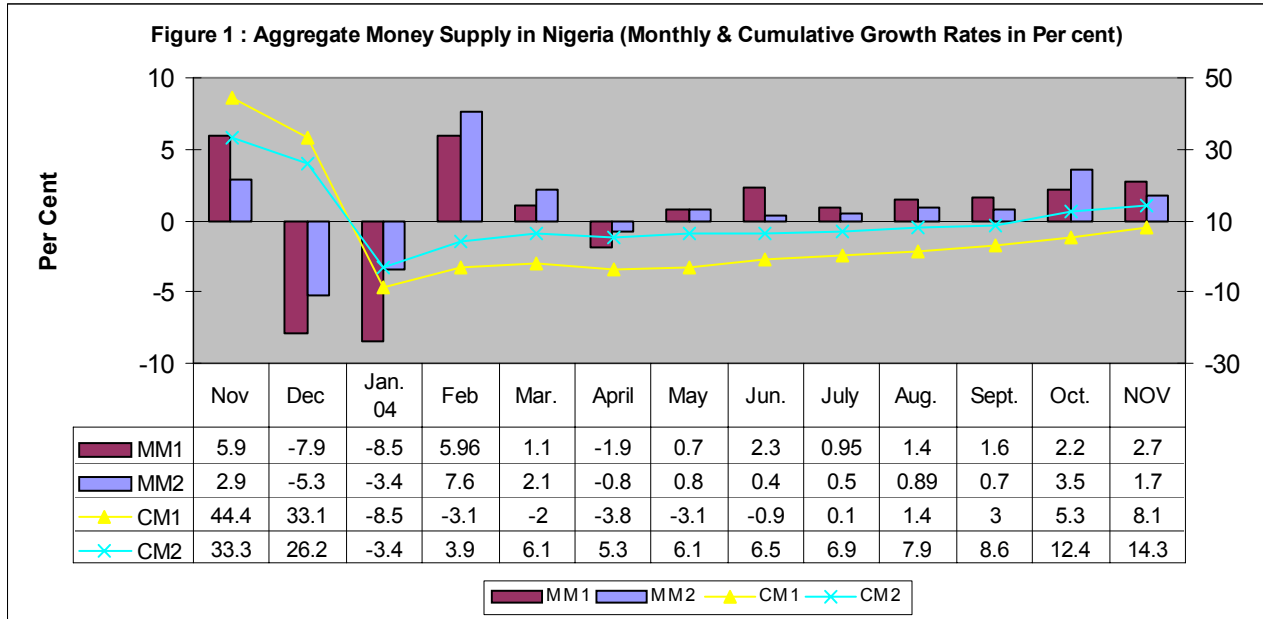
On the international scene, world crude oil output, estimated at 84.42 million barrels per day (mbd), in November 2004, rose marginally by 0.32 mbd or 0.4 per cent over the preceding month's level of 84.10 mbd, while the estimated demand at 82.95 mbd for the month, rose by 0.75 mbd or 0.9 per cent over its preceding month's level. On the whole, total world crude oil supply exceeded demand by 1.47 mbd, reflecting the increased crude oil production from OPEC and non-OPEC countries to take advantage of the rising crude oil prices. Another major international economic development of relevance to the domestic economy during the month was the 4th meeting of the Committee of Banking Supervision, Research and Legal Departments of the West African Monetary Zone (WAMZ) held in Accra, Ghana on November 2, 2004. The meeting was convened to consider the Draft Report of the

Externally Assisted Self-assessment of the Basel Core Principles (BCPs) in the Zone. The Report covered the terms of reference, status of compliance with the BCPs by member countries, action plans to meet the reach compliance criteria by member countries, regulatory challenges and the way forward.

2.0 FINANCIAL SECTOR DEVELOPMENTS

Money supply increased in November 2004, while banks' deposit and lending rates indicated mixed development during the month. The value of money market assets fell during the month following the decline in the value of

November 2004. Broad money supply (M_2) and narrow money supply (M_1) increased by ₦37.2 billion or 1.7 per cent and ₦34.2 billion or 2.7 per cent, to ₦2,269.2 billion and ₦1,324.7 billion, respectively, in the review month. The development was attributable largely to the increase in foreign assets (net) of the banking system, reinforced by the 2.4 per cent rise in



Bankers Acceptances (BAs) and Commercial Papers (CPs). Transactions on the Nigerian Stock Exchange (NSE) indicated improved performance as the major indicators trended upward during the review month.

2.1 Monetary and Credit

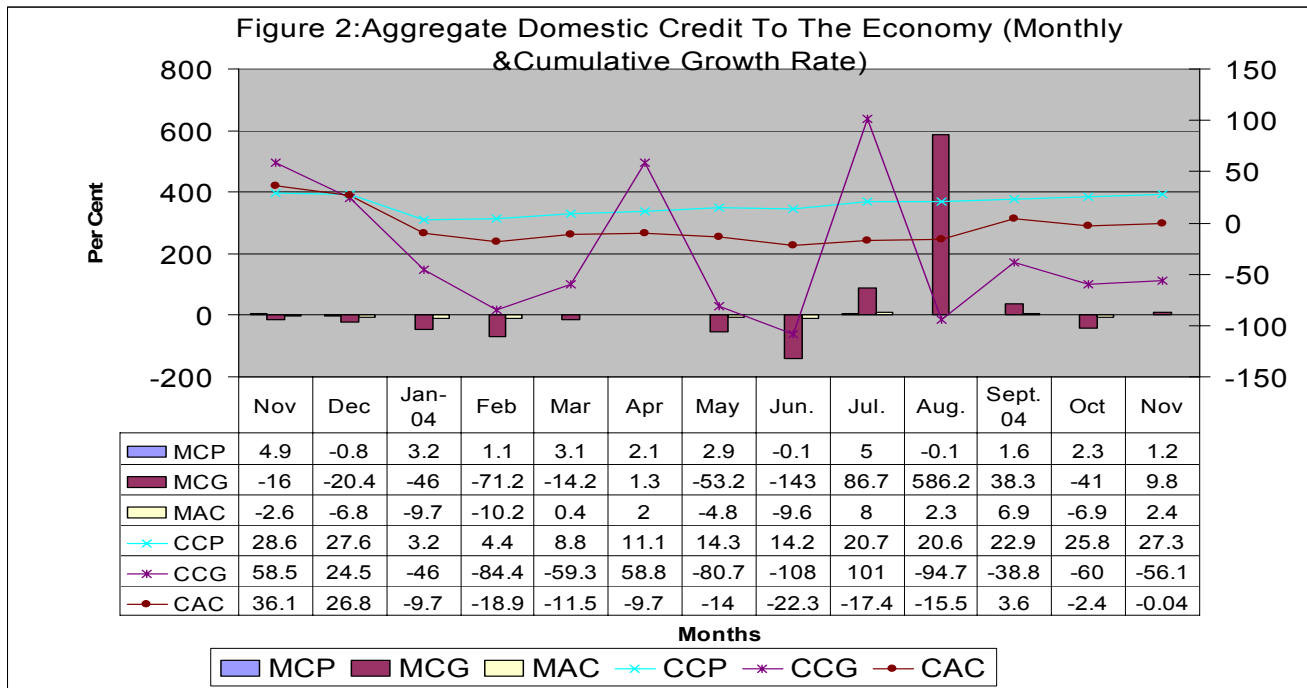
Developments

Available data indicated an increase in monetary aggregates in

aggregate bank credit to the domestic economy. In the first eleven months of the year, M_1 rose by 8.1 per cent, compared with the programmed target of 13.4 per cent, for the year. Similarly, M_2 rose by 14.3 per cent, representing an annualized growth rate of 15.6 per cent, compared with the programmed target of 16.0 per cent, for 2004 (Fig. 1 and table 1).

Aggregate banking system's credit to the domestic economy increased by ₦42.1 billion or 2.4 per cent to ₦1,803.3 billion, in contrast to the decline of ₦130.0 billion or 6.9 per cent in the preceding month. The development in November, 2004 reflected the increase in both credit to the Federal Government and the private sector. In the

Banking System's credit to the private sector rose by ₦18.9 billion or 1.2 per cent to ₦1,543.1 billion, compared with the increase of ₦34.9 billion or 2.3 per cent in the preceding month. The increase reflected the 1.3 per cent rise in claims by the deposit money banks (DMBs) during the month. Cumulatively, aggregate



first eleven months of the year, aggregate bank credit (net) to the domestic economy, however, declined by 0.04 per cent, as against the target growth of 22.4 per cent for 2004.

Banking system's credit (net) to the Federal Government increased by ₦23.3 billion or 9.8 per cent, in contrast to the decline of 41.0 per cent in the preceding month. The development reflected the significant draw-down of Federal Government deposits with the CBN during the month. In the first eleven months of the year, however, claims on the Federal Government fell substantially by ₦331.8 billion or 56.1 per cent, as against the growth target of 23.3 per cent for fiscal 2004.

credit to the private sector rose by 27.3 per cent, between January and November 2004, representing an annualized growth rate of 29.8 per cent, as against the programmed target of 22.0 per cent for the year (fig. 2).

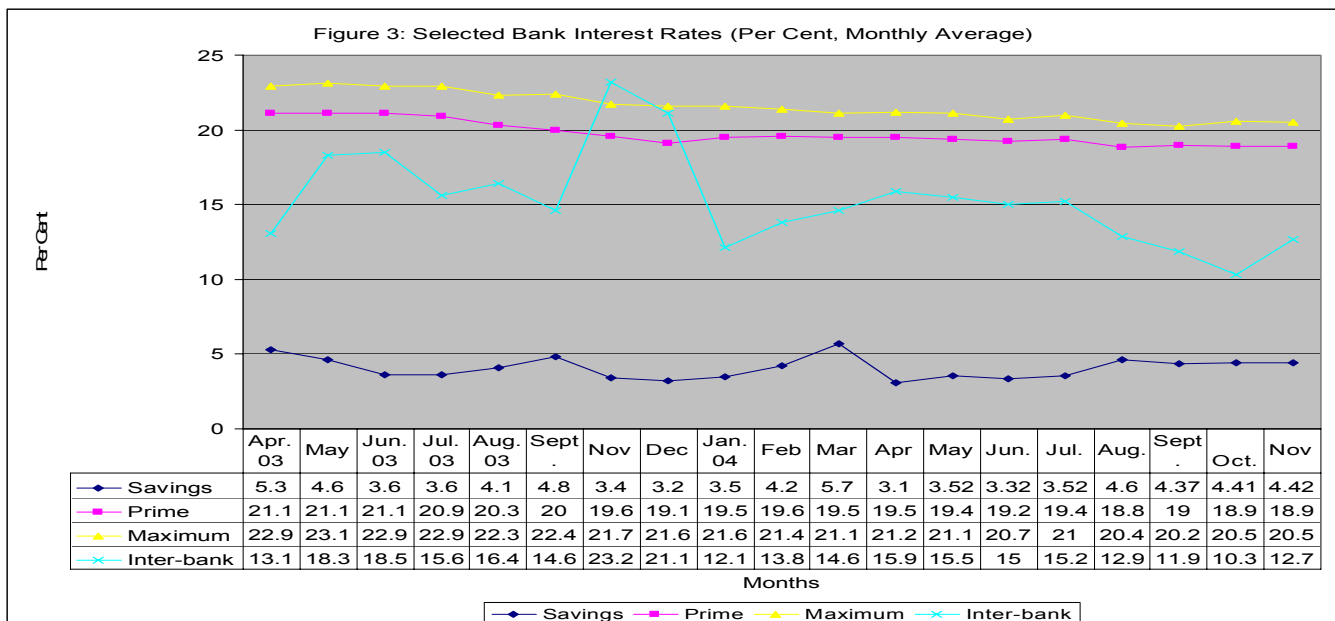
At ₦2,621.9 billion, foreign assets (net) of the banking system increased by ₦258.9 billion or 11.0 per cent, compared with the increase of ₦243.4 billion or 11.5 per cent in October, 2004. The increase was attributable to the rise in both CBN and DMB's holdings during the month.

Quasi-money rose by ₦3.0 billion or 0.3 per cent to ₦944.5 billion, compared with the 5.3 per cent increase in the preceding month. The rise in November reflected the increase in savings deposit during the month.

Other Assets (net) of the banking system fell further during the month by ₦263.8 billion or 13.9 per cent, compared with the decline of ₦38.3 billion or 2.1 per cent in the preceding month. The significant fall in November was attributable to the substantial rise in other

in the preceding month. The rise during the month was traceable to both currency outside the banking system and vault cash, which rose by ₦18.7 billion or 4.8 per cent and ₦15.4 or 21.8 per cent, respectively, during the month.

Total deposits with the CBN amounted to ₦880.2 billion, indicating a decline of ₦191.7 billion or 17.9 per cent from the level in the preceding month. The development during the month was attributable wholly to the substantial decline of ₦224.4 billion or 29.2 per cent in Federal Government deposits. Private sector



liabilities of the DMBs particularly, the capital accounts, bonds issued and unclassified liabilities. The other assets (net) of the monetary authorities also declined significantly following the fall in its miscellaneous asset items.

2.2 Currency-in-circulation and Deposits at the CBN

At ₦493.5 billion, currency in circulation in November, 2004 increased by ₦34.1 billion or 7.4 per cent over the level

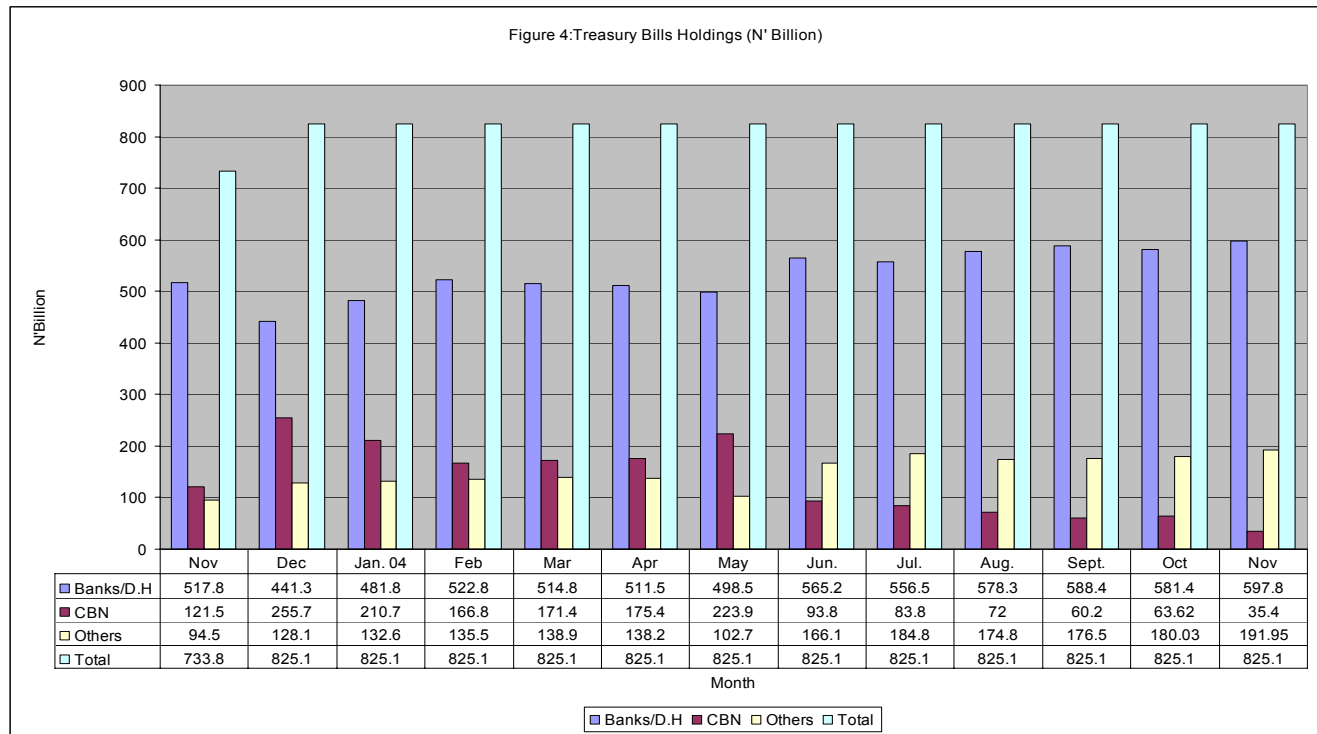
deposits and deposits of DMBs, however, rose by 4.2 and 21.2 per cent, respectively, during the period under review. The shares of the three components in total deposits at the CBN, namely, Federal Government, bankers and 'others' were 61.8, 22.0 and 16.2 per cent, respectively, compared with 71.7, 17.4 and 10.9 per cent, in October, 2004.

2.3 Interest Rate Developments

Available data indicated a mixed development in banks' deposit and lending

rates in November, 2004. Average savings deposit rate rose by 0.01 percentage point to 4.42 per cent, while all other rates on deposits of various maturities, fell marginally from a range of 7.20 – 13.11 per cent in October to 7.06 – 13.09 per cent in November, 2004. The weighted average

reflecting the cautious disposition of major players in the market in view of the on-going restructuring in the banking sector as well as the increased activities in the capital market (fig. 3).



prime lending rate declined by 0.04 percentage point to 18.89 per cent, while the maximum lending rates declined by 0.05 percentage points to 20.50 per cent. Consequently, the spread between the weighted average deposit and maximum lending rates, narrowed to 10.60 percentage points from 10.71 percentage points in the preceding month. Similarly, the margin between the average savings deposit and maximum lending rates which stood at 16.14 percentage points in October, narrowed to 16.08 percentage points in the review month.

The weighted average inter-bank call rate rose from 10.3 per cent in October, to 12.7 per cent in November 2004,

2.4 Money Market Developments

Available data indicated that the level of money market instruments outstanding at end-November 2004 fell by ₦4.7 billion or 0.5 per cent to ₦974.9 billion, in contrast to the increase of ₦12.9 billion or 1.3 per cent in the preceding month. The fall was attributable to the 5.1 and 2.8 per cent decline in Bankers Acceptances (BA) and Commercial Papers (CPs), respectively, during the review month. Treasury Bills outstanding, however, remained unchanged at the preceding month's level of ₦825.1 billion.

Treasury bills worth ₦260.0 billion were issued during the month to replace matured bills of equivalent value in

November 2004. Of the total amount issued, deposit money banks (DMBs) and discount houses jointly accounted for ₦139.5 billion or 53.7 per cent of the total, while investment by the non-bank public amounted to ₦103.6 billion or 39.8 per cent. Consequently, the balance of ₦16.90 billion, constituting 6.5 per cent of the total issue during the month was absorbed by the CBN.

Holdings of treasury bills outstanding by the DMBs' and discount houses increased by 16.4 per cent to ₦597.7 billion, while that of the non-bank public increased by 11.9 per cent to ₦191.95 billion. Thus, CBN's holding declined by 28.2 per cent to ₦35.4 billion during the review month.

2.5 Capital Market Developments

Available data indicated that activities on the Nigerian Stock Exchange (NSE) recorded improved performance in November 2004 as all the major market indicators trended upward. The volume and value of securities traded rose by 45.5 and 52.1 per cent to 1.6 billion shares and ₦17.8 billion, respectively, compared with 1.1 billion shares and ₦11.7 billion in the preceding month. Transactions in the industrial loans/preference stocks remained dormant during the period, while the banking sub-sector remained the most active. Generally, investors' continued interest in the banking sub-sector reflected the envisaged increase in earnings in the sub-sector in the near future.

Market capitalization and value index rose by 5.6 and 2.6 per cent to close at ₦1.9 trillion and 26,668.45, respectively, from ₦1.8 trillion and 25,987.03 in the preceding month. The development was due to price gains in the blue chip companies as well as the boost received from activities in

the new issues market, following the new listings on the NSE during the month.

2.6 Deposit Money Banks' Activities

Total assets/liabilities of deposit money banks (DMBs) amounted to ₦3,823.8 billion in November, 2004, indicating an increase of ₦127.9 billion or 3.5 per cent over the preceding month's level. Funds were sourced mainly from unclassified liabilities, and increased demand deposits, while funds were used mainly in the acquisition of foreign assets, increased claim on the Central Government and expansion of unclassified assets.

Aggregate credit to the domestic economy amounted to ₦2,024.8 billion, representing an increase of ₦44.9 billion or 2.3 per cent over the preceding month's level. The development was due to the increase in net credit to the Central Government and the private sector during the month under review.

Central Bank's credit to the DMBs fell by 3.7 per cent to ₦63.6 billion in November 2004, reflecting largely the decline in banks' overdrawn position with the CBN during the period.

Total specified liquid assets of the DMBs stood at ₦91,015.1 billion, representing 51.6 per cent of the total deposit liabilities. The level was 0.2 per cent below the preceding month's level, but 11.6 percentage points above the minimum target of 40.0 per cent stipulated for fiscal 2004.

2.7 Discount Houses

Total assets/liabilities of the discount houses stood at ₦71.1 billion in November 2004, indicating a decline of ₦7.8 billion or 9.9 per cent from the level in the preceding

month. Their investments in Federal Government securities of less than 91 days maturity amounted to ₦37.2 billion, representing 70.9 per cent of their total deposit liabilities. This was 12.1 percentage points below the level in the preceding month, but 10.9 percentage points higher than the prescribed minimum of 60.0 per cent for fiscal 2004.

Total borrowings by discount houses was ₦23.6 billion, while their capital and reserves amounted to ₦9.5 billion, resulting in a gearing ratio of 2.5:1, compared with the stipulated maximum target of 50:1 for the year.

3.0 DOMESTIC ECONOMIC CONDITIONS

In November 2004, the predominant agricultural activities were harvesting of tubers, fruits, vegetables and late maturing crops; pre-planting operations as well as intensified fattening and management activities in anticipation of end of year sales. Crude oil output increased by 2.5 per cent over the preceding month's level, while inflation rate was estimated at 16.2 per cent in November, 2004, compared with the 17.1 per cent recorded in the preceding month.

3.1 Agricultural Sector

The major agricultural activities during the month were the continued harvesting of late maturing crops as well as pre-planting operations in preparation for dry season farming in the northern states. In the Southern States, farmers were engaged in harvesting of tubers, fruits and vegetables. In the livestock sub-sector, farmers were engaged in fattening and management

activities, in anticipation of end of year sales.

The prices of Nigeria's major agricultural commodities at the London Commodity Market increased in November 2004. The all-commodities price index, at 92.4 (1985=100), in dollar terms, increased by 9.2 per cent from the level in the preceding month. In naira terms, the all-commodities price index similarly showed an increase of 8.2 per cent above the level in the preceding month.

Of the six commodities monitored during the month, four recorded price increases ranging from 0.3 per cent for palm oil to 11.5 per cent for cocoa. Cotton and soya bean recorded price declines of 7.4 and 4.1 per cent, respectively, during the period.

In naira terms, cocoa, coffee and copra recorded price increases of 11.0, 0.2 and 2.0 per cent above the levels in the preceding month, while cotton, soya bean and palm oil recorded price declines of 7.8, 4.5 and 0.1 per cent, respectively.

3.2 Petroleum Sector

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.46 million barrels per day (mbd) or 73.80 million barrels for the month, compared with 2.40 mbd produced in October, 2004. Crude oil export was estimated at 2.01 mbd or 60.30 million barrels for the month, compared with 1.95 mbd in October 2004. Allocation of crude oil to refineries for domestic consumption was estimated at 0.42 mbd or 12.60 million barrels in November, 2004.

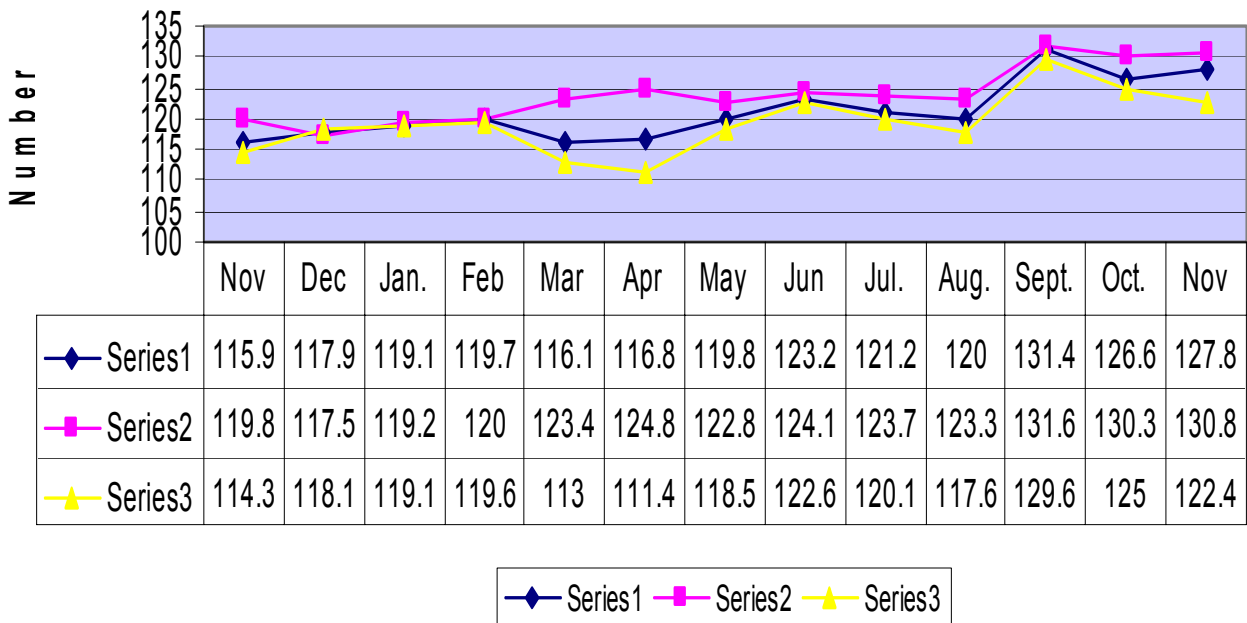
Crude oil price showed a general decline in November, 2004. In the spot market, the average price of Nigeria's reference crude, the Bonny Light (37° API), was US\$42.80 a barrel, indicating a decline of US\$7.49 a barrel or 14.9 per cent from the level in October, 2004. The price of other competing brands namely, the West Texas Intermediate (WTI), the UK Brent, the Arab Light and the Forcados also fell by 8.3, 12.3, 11.4 and 15.3 per cent to US\$48.58, US\$43.48, US\$43.05 and US\$42.64 per barrel, respectively, during the month. Similarly, in the netback market, the price of all crude blends fell below the levels in the preceding month.

The major factor responsible for the decline in price was increased supply of crude oil from OPEC and non-OPEC

3.3 Consumer Prices

Data from the Federal Office of Statistics (FOS) showed that the all-items composite Consumer Price Index (CPI) for November 2004 was estimated at 127.8 (May 2003 = 100). This represented an increase of 0.9 per cent over the level in the preceding month. The development was attributable to the components of food; food and non-alcoholic beverages; clothing and footwear; housing, water, electricity, gas and other fuel; health; communication; education; restaurant and hotels; and miscellaneous goods and services, whose indices rose by 1.0; 1.1; 2.0; 1.8; 0.2; 0.6, 2.5, 6.0 and 1.1 per cent,

Figure 5: Monthly Consumer Price Indices in Nigeria (2003=100)



countries during the month.

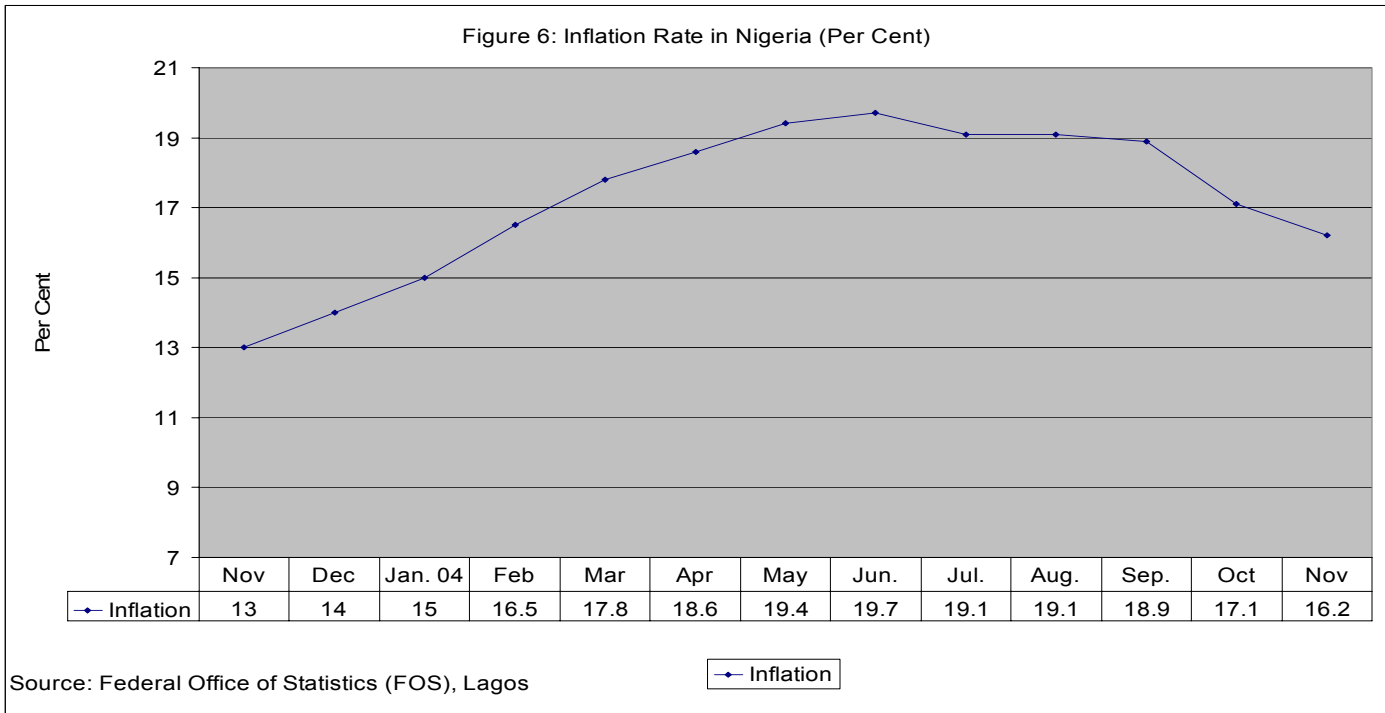
respectively. This was, however, moderated by the components of alcoholic, beverages, tobacco and kola; furnishings, household equipment and maintenance; transport; and recreation

and culture whose indices declined by 2.9; 0.6; 2.1; and 0.2 per cent, respectively.

The urban all-items CPI for November 2004 was estimated at 130.8 (May 2003=100), indicating an increase of 0.4 per cent over the level in the preceding month. The rural all-items CPI for November 2004 was also estimated at 122.4 (May 2003=100), representing a decline of 2.1 per cent below the level in the preceding

vegetable, fruits and nuts; beverages and drinks; fuel and light; and medical whose indices increased by 0.7, 0.5, 1.2, 6.5, 3.1, and 4.2 per cent, respectively.

The rate of inflation for the twelve-month-period ended November, 2004 was estimated at 16.2 per cent, compared with 17.1 per cent recorded in the preceding month. The downward trend in inflationary pressure could be attributable to the



month.

Retail price surveys of selected consumer items by the CBN in Bauchi, Enugu, Ibadan, Kano and FCT Abuja showed an increase, while it showed a decline in Lagos. Nationally, the retail price index (RPI) showed an increase of 2.0 per cent in the all-items average price of consumer items in November 2004, compared with the 0.7 per cent increase in the preceding month. The development during the review month was accounted for by the components of staples; oil and fat;

moderation in the prices of some food items due to the dampening effects of the harvesting season.

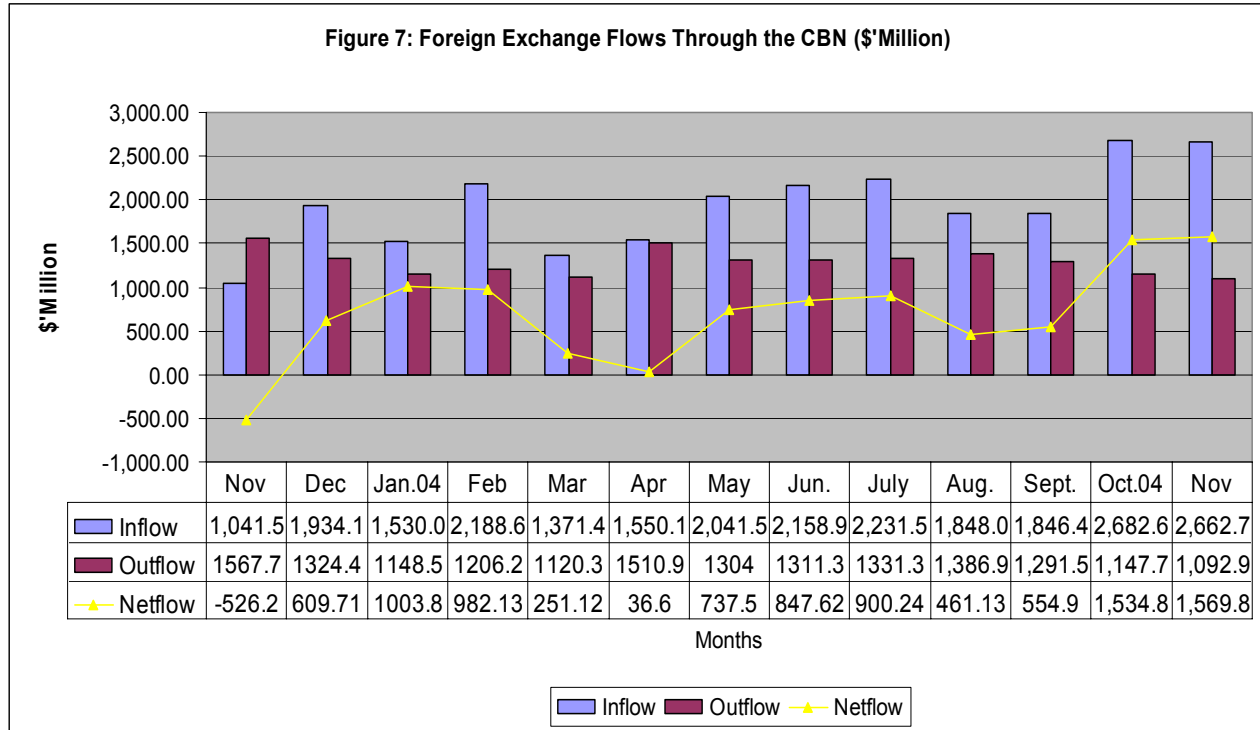
4.0 EXTERNAL SECTOR DEVELOPMENTS

4.1 Foreign Exchange Flows

Foreign exchange inflow and outflow

decline of 7.6 per cent from its level in the corresponding period a year earlier.

Provisional data on aggregate foreign exchange flow through the economy indicated that total inflow fell by 3.4 per



through the Central Bank of Nigeria (CBN) in November, 2004, amounted to US\$2,662.7 million and US\$1,092.9 million, respectively, indicating a net inflow of US\$1,569.8 million. Compared with the level of US\$2,682.62 million and US\$1,147.78 million in the preceding month, both inflow and outflow declined by 0.7 and 4.7 per cent respectively. The fall in inflow was attributable to the 2.7 per cent decline in the oil sector receipts, while the decline in outflow was traceable largely to the 10.9 per cent fall in DAS utilization. At US\$22,111.99 million, cumulative inflow through the CBN in the first eleven months of 2004 was 62 per cent higher than the level in the corresponding period a year earlier. On the other hand, cumulative outflow through the Bank in the same period was US\$13,851.61 million, representing a

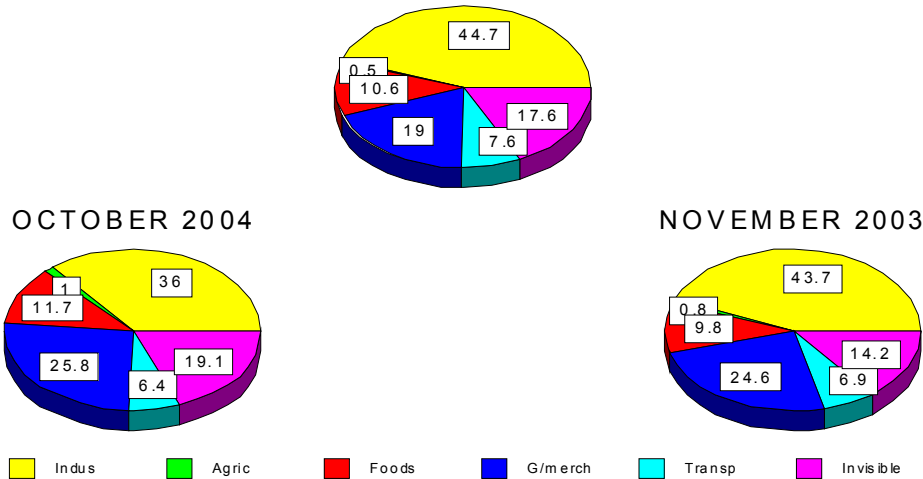
cent from the preceding month's level to US\$3,578.49 million in November, 2004. Receipts from oil sector, which constituted 69.4 per cent of the total receipts, fell by 2.4 per cent to US\$2,485.02 million. Similarly, receipts through autonomous sources, which accounted for 25.6 per cent of total inflows declined by 10.3 per cent to US\$915.79million from the level in October. However, non-oil public receipts rose by 29.3 per cent to US\$177.68 million in the review month.

At US\$1,115.67 million, total foreign exchange outflow from the economy declined by 5.0 per cent in November, 2004. The development was attributable largely to the decline in out payments through the CBN, particularly the funding of the Dutch Auction System (DAS), Debt Service

Payment and National Priority Projects, which fell from US\$769.74 million, US\$102.49 and US\$5.78 million to

per cent). Other beneficiary sectors, in a

Figure 8: Sectoral Utilization of Foreign Exchange (percentage of total)
NOVEMBER 2004



US\$686.02 million, US\$82.09 and US\$0.0 million, respectively in November 2004. In contrast, Drawings on L/C, “Other Official Payment” and outflows through autonomous sources increased from US\$1.98 million, US\$267.79 million, and US\$26.92 million in October 2004 to US\$13.26 million, US\$311.53 million and US\$22.77 million, respectively, during the month. Cumulative inflow and outflow through the economy as at end-November 2004 amounted to US\$31,097.07 million and US\$14,322.05 million, respectively, compared with US\$20,647.53 million and US\$16,517.60 million in the corresponding period of 2003.

4.2 Sectoral Utilisation of Foreign Exchange

The industrial sector accounted for the bulk (44.7 per cent) of total foreign exchange disbursed in November 2004, followed by general merchandise (19.0

descending order of importance, included: invisibles (17.6 per cent), food (10.6 per cent), transport (7.6 per cent) and agricultural products (0.5 per cent) (Fig 8).

4.3 Foreign Exchange Market Developments

The demand pressure in the foreign exchange market moderated further in November, 2004 as the total foreign exchange sold to end-users by CBN through the authorized dealers fell by 10.9 per cent to US\$686.02 million from US\$769.74 million in the preceding month. Under the DAS, the weighted average exchange rate of the Naira vis-à-vis the US dollar remained at ₦132.92, as in the preceding month. However, in the bureaux de change segment

of the market, the naira traded at an average rate of ₦140.69 to a dollar, compared with ₦140.46 to a dollar in the preceding month. Consequently, the premium between the official and bureaux de change rates widened from 5.7 per cent in October 2004 to 5.9 per cent in the period under review.

4.4 External Reserves

Provisional data showed that Nigeria's gross external reserves at end-November, 2004 amounted to US\$16.14 billion, indicating an increase of 10.0 per cent over the adjusted gross external reserves of US\$14.67 billion in the preceding month. At the current level of foreign exchange commitments, the reserves could finance about 14.8 months of current foreign exchange disbursement.

domestic economy during the month was the 4th meeting of the Committee of Banking Supervision, Research and Legal Departments of the West African Monetary Zone (WAMZ) held in Accra, Ghana on November, 2004. The meeting was convened to consider the Draft Report of the Externally Assisted Self-assessment of the Basel Core Principles (BCPs) in the Zone. The Report covered the terms of reference, status of compliance with the BCPs by member countries, action plans to meet compliance criteria by member countries, regulatory challenges and the way forward.

5.0 OTHER INTERNATIONAL ECONOMIC DEVELOPMENTS

World crude oil output, estimated at 84.42 million barrels per day (mbd), in November 2004, rose marginally by 0.32 mbd or 0.4 per cent over the preceding month's level of 84.10 mbd, while the estimated demand at 82.95 mbd for the month, rose by 0.75 mbd or 0.9 per cent over its preceding month's level. Overall, total world crude oil supply exceeded demand by 1.47 mbd, reflecting the increased crude oil production from OPEC and non-OPEC countries to take advantage of the rising crude oil prices.

Another major international economic development of relevance to the