

CENTRAL BANK OF NIGERIA



ECONOMIC REPORT FOR THE SECOND QUARTER OF 2006

RESEARCH AND STATISTICS DEPARTMENT

CENTRAL BANK OF NIGERIA

QUARTERLY ECONOMIC REPORT

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ECONOMIC REPORT FOR THE SECOND QUARTER OF 2006

1.0 SUMMARY

Aggregate output in the economy measured by the gross domestic product (GDP) grew by 7.5 per cent during the second quarter of 2006, compared with the 2.7 per cent increase in the corresponding period of 2005. The growth was driven by the non-oil sector which grew by 12.8 per cent. Available data indicated further increase in monetary aggregates during the review quarter. Broad money supply (M_2) rose by 21.6 per cent over the level in the preceding quarter, while narrow money supply (M_1), increased by 15.4 per cent during the period. The increase in M_2 was attributable to the rise in foreign assets (net) of the banking system and bank credit to the core private sector.

Available data indicated a general increase in banks' deposit and lending rates in the second quarter of 2006. The spread between the weighted average deposit and maximum lending rates widened from 10.85 percentage points in the preceding quarter to 11.5 percentage points. Similarly, the margin between the average savings deposit and maximum lending rates increased from 14.9 to 15.65 percentage points during the quarter. The weighted average inter-bank call rate, which stood at 7.77 per cent in the preceding quarter, rose to 8.16 per cent at end-June 2006, reflecting tight liquidity condition in the market.

The value of money market assets outstanding increased by 3.1 per cent to ₦1,119.3 billion, in contrast to the decline of 8.5 per cent in the preceding quarter. The rise was attributable to the 74.5 and 48.8 per cent increase in Commercial Papers (CPs) and Bankers Acceptances (BAs), respectively. Activities on the Nigerian Stock Exchange indicated improved

performance as all the major market indicators trended upward.

Total federally-collected revenue during the second quarter of 2006 stood at ₦1,284.7 billion, and represented an increase of 23.4 per cent over the proportionate budget estimate but a decline of 24.7 per cent from the level in the preceding quarter. At ₦1,144.2 billion, oil receipts constituted 89.1 per cent of the total, and represented an increase of 33.2 per cent over the budget estimate but a decline of 26.2 per cent below the level in the preceding quarter. The rise in oil receipts over the budget estimates reflected the continued increase in international crude oil prices. On the other hand, non-oil receipts, at ₦140.5 billion or 10.9 per cent of the total, was lower than the receipts in the preceding quarter and its budget estimate by 9.0 and 22.7 per cent, respectively. The fall in non-oil receipts relative to target, was attributable to the implementation of the ECOWAS Common External Tariff (CET) that has lowered tariff, and the granting of negotiable duty credit certificate to certain categories of exporters by the Nigerian Export Promotion Council. Federal Government retained revenue for the second quarter of 2006 was ₦398.1 billion, while total expenditure was ₦309.3 billion. Thus, the fiscal operations of the Federal Government was estimated to have resulted in a surplus of ₦88.8 billion, as against the budget deficit of ₦94.5 billion and a surplus of ₦40.7 billion recorded in the preceding quarter.

The major agricultural activities in the review quarter included: cultivation of crops such as maize, upland rice and vegetables. Activities in the industrial sector declined during the second quarter of 2006 as the estimated index of industrial

production fell by 0.3 per cent from its level in the preceding quarter. The prices of most Nigerian major agricultural commodities at the London Commodities Market recorded mixed developments during the review quarter.

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.3 million barrels per day (mbd) or 209.3 million barrels for the second quarter, compared with 2.2 mbd and 2.3 mbd in the preceding quarter and the corresponding quarter of 2005, respectively. Crude oil export was estimated at 1.8 mbd or 163.8 million barrels for the quarter, while deliveries to the refineries for domestic consumption remained at 0.45 mbd or 40.95 million barrels. The average price of Nigeria's reference crude, the Bonny Light (37⁰ API), estimated at US\$70.5 per barrel, rose by 12.9 per cent over the level in the preceding quarter. The end-period inflation rate for the second quarter of 2006, on a year-on-year basis, was 8.5 per cent, compared with 12.0 per cent recorded at the end of the preceding quarter and 18.6 per cent in the corresponding quarter of 2005. Inflation rate on a twelve-month moving average basis was 15.5 per cent, compared with 17.5 per cent in the preceding quarter, reflecting the impact of continued harvesting of agricultural produce which moderated food prices as well as the effect of sound macroeconomic policies.

The balance of payments account remained favourable in the second quarter of 2006 with an estimated overall surplus of ₦34.4 billion, compared with the surplus of ₦1,014.7 billion and ₦315.6 billion in the preceding quarter and corresponding period of 2005, respectively. The development was attributable to the robust goods account, following the sustained increase in international price of crude oil during the period. Despite the Paris Club exit payment of US\$4.6 billion in April, the level of

external reserves rose marginally by US\$0.28 billion or 0.8 per cent to US\$36.48 billion in June 2006, compared with US\$36.20 billion at end-march 2006. This level of reserves could finance 22.7 months of current import commitments, compared with 21.9 and 15.7 months in the preceding quarter and corresponding period of 2005, respectively.

Foreign exchange inflow and outflow through the Central Bank of Nigeria (CBN) amounted to US\$8.72 billion and US\$8.80 billion, respectively, resulting in a net outflow of US\$0.08 billion during the quarter. Foreign exchange sales by the CBN to the authorized dealers rose to US\$2.93 billion from US\$0.68 billion in the preceding quarter, reflecting the effect of further liberalization of the foreign exchange market which permitted direct sales of foreign exchange to Bureaux de Change (BDCs). The weighted average exchange rate of the Naira vis-à-vis the US dollar, appreciated by 0.9 per cent to ₦127.20 per dollar at the WDAS in the review quarter. In the bureaux de change segment of the market, the rate, also appreciated from ₦146.02 per dollar to ₦142.34 per dollar. Non-oil export earnings by Nigeria's top 100 exporters in the review quarter amounted to US\$200.22 million, indicating an increase of 17.1 per cent over the level in the preceding quarter. The development was attributable largely to the increase in the prices of the commodities traded at the international commodities market during the period.

Similarly, the Organisation of Economic Cooperation and Development (OECD) annual African Economic Outlook released on May 15, 2006 indicated that Africa is experiencing relatively strong growth but failed to make matching progress towards development goals. Also, the World Economic Forum on Africa held in Cape Town, South Africa from May 23rd to June

2nd, 2006 focused on the investment climate in Africa and the major challenges to the sustenance of economic growth in Sub-Saharan Africa.

Group of Fifteen (G-15) Developing countries held on May 18, 2006 at Abuja to review Nigeria's G-15 brochure.

Other major international economic developments of relevance to the domestic economy during the quarter included: the meeting of the ECOWAS National Coordinating Committee on Multilateral Surveillance Mechanism held on 11th April 2006 in Abuja; and the Spring meetings of the Inter-Governmental Group of Twenty-four (G-24) and the Boards of Governors of the International Monetary Funds (IMF) and the World Bank Group, held in Washington D.C between April 19-23, 2006 to consider the Global Economic Prospects. Others included the Inaugural meeting of the Ethiopia-Nigeria joint Ministerial Commission held in Addis Ababa, Ethiopia from April 26-27, 2006; Nigeria – China Bilateral Talks held during a 2-day state visit by the President of Peoples Republic of China to Nigeria from April 26 – 27, 2006 to discuss bilateral strategic partnership, as well as international and regional issues of common interest; a Ministerial Conference on Korea-Africa Economic Cooperation organized by the Korea Eximbank and the African Development Bank (ADB) held in Seoul, South Korea from 24th – 30th April, 2006 to develop strategies for an enhanced economic cooperation between the Republic of Korea and African countries; the 5th Summit of the Group of Eight Developing Countries (D-8) held at Bali, Indonesia from May 9-14, 2006 during which two agreements on promoting intra-trade among member countries were signed; the Conference of African Finance and Education Ministers with a theme “Financing for Development: from Commitment to Action in Africa” which took place in Abuja from 20 – 22 May, 2006; and the Inter-Ministerial Meeting of

2.0 FINANCIAL SECTOR DEVELOPMENTS

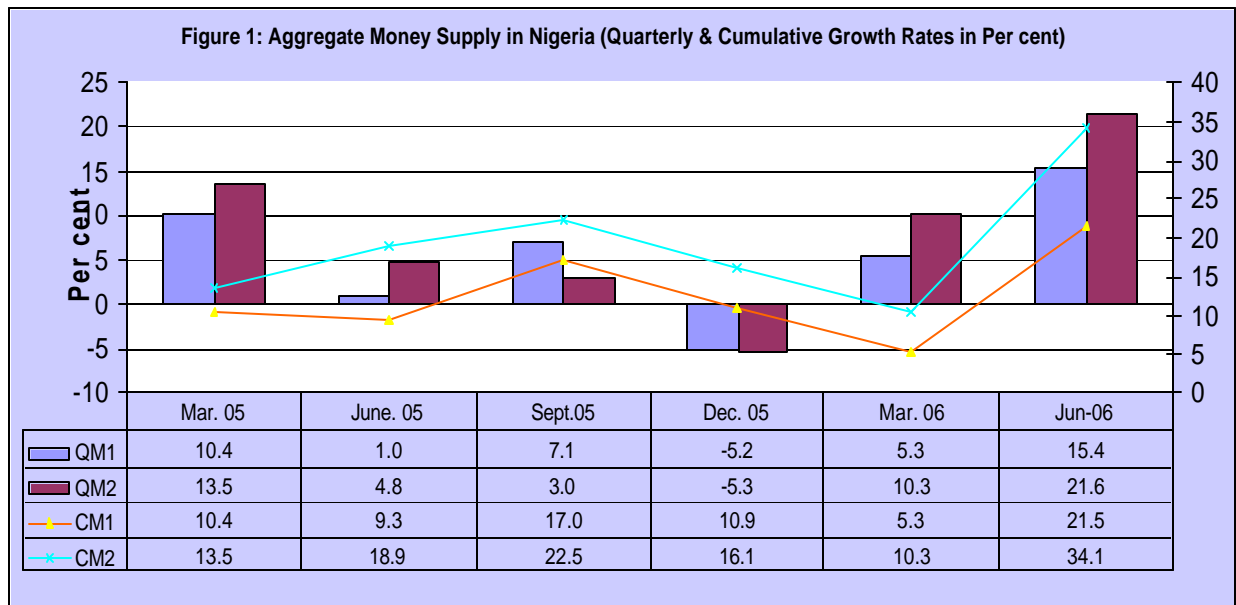
Monetary aggregates grew further in the second quarter of 2006, while banks' deposit and lending rates generally increased. The value of money market assets also increased following largely the rise in Commercial Papers (CPs) and Bankers Acceptances (BAs). Transactions on the Nigerian Stock Exchange (NSE) recorded improved performance as all the major market indicators trended upward during the review period.

2.1 Monetary and Credit Developments

Available data indicated further growth

aggregate bank credit (net) to the domestic economy, following the insignificant increase in bank credit to the core private sector. Similarly, narrow money supply (M_1) increased by 15.4 per cent to ₦1,866.6 billion, compared with the increase of 5.3 per cent in the preceding quarter. Over the level at end-December 2005, M_1 and M_2 , grew by 21.5 and 34.1 per cent, indicating an annualized growth rate of 43.0 and 68.2 per cent, respectively, compared with the targets of 13.3 and 17.0 per cent for fiscal 2006 (fig.1 and table 1).

Aggregate banking system credit (net) to the domestic economy rose by 11.8 per cent to ₦2,664.5 billion in the second quarter of 2006, compared with the increase of 3.0 per cent in the preceding quarter. In the corresponding period of 2005, aggregate



in monetary aggregates. Broad money supply (M_2) rose by 21.6 per cent to ₦3,521.5 billion, compared with the increase of 10.3 and 4.8 per cent in the preceding quarter and corresponding period of 2005, respectively. The rise in M_2 was attributable to the increase in foreign assets (net) arising from the sustained positive price developments in the international crude oil market, as well as the rise in

bank credit to the domestic economy decline by 3.4 per cent. The development during the review quarter reflected entirely to the increase in claims on the core private sector.

At ₦360.8 billion, banking system's credit (net) to the Federal Government declined by 17.3 per cent, in contrast to the increase of 42.5 per cent in the preceding quarter of 2006. But when compared with the corresponding period of 2005, it

declined by 42.4 per cent. The fall was attributable entirely to the substantial increase in Federal Government deposits with the CBN during the period.

Banking system's credit to the private sector rose by 18.3 per cent to ₦2,303.7 billion, as against the decline of 3.0 per cent in the preceding quarter. But when compared with corresponding period of 2005, it rose by 10.4 per cent. The rise in the review quarter reflected largely the ₦306.1 billion or 15.9 per cent increase in DMB's claims on the sector (fig 2).

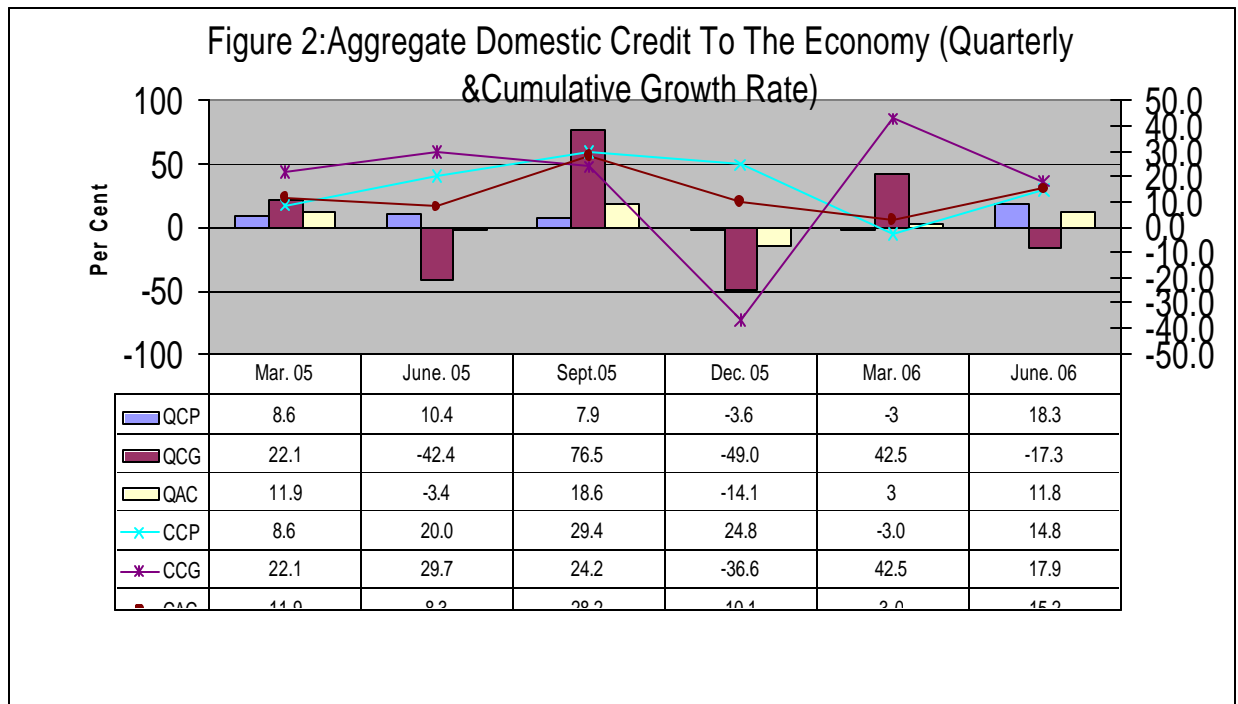
At ₦5,568.8 billion, foreign assets (net)

and foreign currency deposits of the DMBs during the quarter.

Other Assets (net) of the banking system, on the other hand, fell by 2.5 per cent, in contrast to the increase of 21.0 per cent in the preceding quarter. The decline reflected the fall in unclassified assets of both the CBN and DMBs during the quarter under review.

2.2 Currency-in-circulation and Deposits at the CBN

At ₦598.1 billion, currency in



of the banking system rose by 9.0 per cent, compared with the increase of 24.3 per cent in the preceding quarter. The development was attributable to the significant increase in CBN's holding.

Similarly, quasi money rose by 29.4 per cent to ₦1,654.9 billion, compared with the increase of 17.4 and 12.6 per cent in the preceding quarter and the corresponding period of 2005, respectively. The development was attributable to the increase in all the components namely, time, savings

circulation fell by 3.5 per cent in June, 2006 from the level in March, 2006. The fall was traceable to the decline of 4.9 per cent in currency outside the banking system during the period.

Total deposits at the CBN amounted to ₦1,026.2 billion, indicating an increase of 71.8 per cent from the level in the preceding quarter. This was attributable to the 99.7, 32.7 and 17.7 per cent rise in Federal Government, Private Sector and Deposit Money Banks' deposits, respectively, during the period. The shares of the Federal

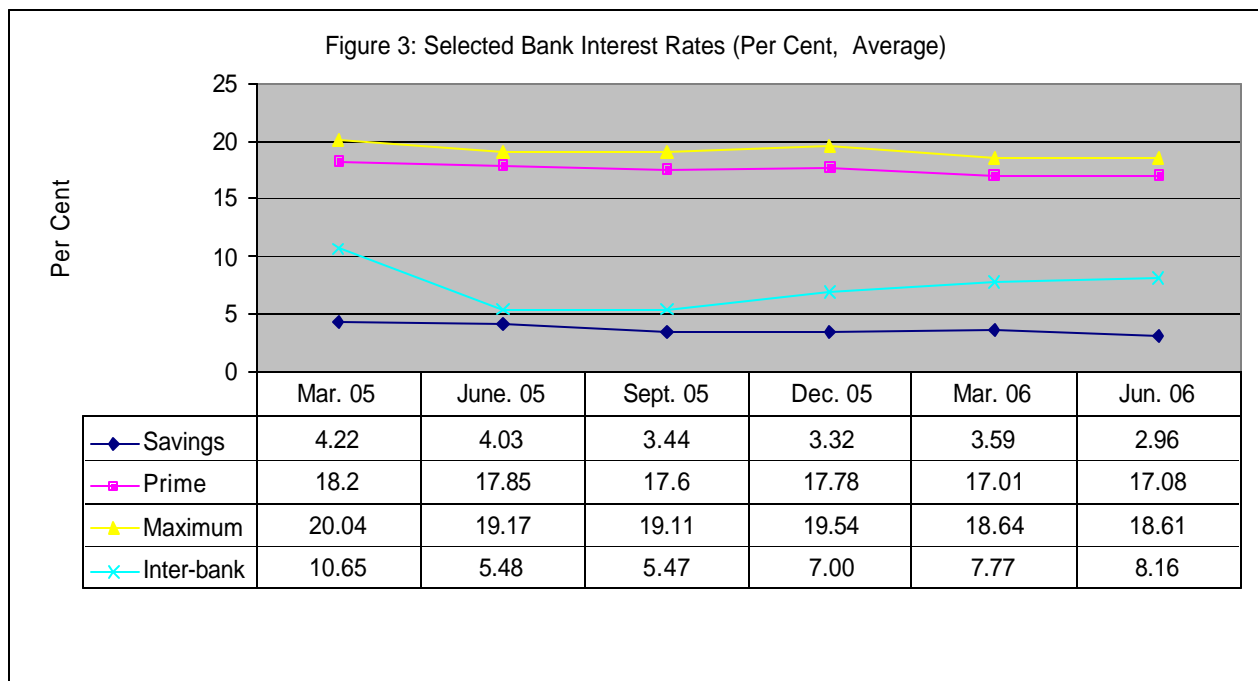
Government, banks and “others” in total deposits at the CBN were 75.1, 19.2 and 5.7 per cent, respectively, compared with the shares of 64.6, 28.0 and 7.4 per cent, in the first quarter of 2006.

2.3 Interest Rate Developments

Available data indicated a general increase in banks’ deposit and lending rates in the second quarter of 2006, in contrast to the decline recorded in the first quarter. With the exception of the average savings,

11.49 percentage. Also, the margin between the average savings deposit and maximum lending rates increased from 14.91 percentage points in the preceding quarter to 15.65 percentage points.

The weighted average inter-bank call rate, which stood at 7.77 per cent in the preceding quarter, rose to 8.16 per cent at end-June 2006, reflecting tight liquidity condition in the inter-bank funds market.



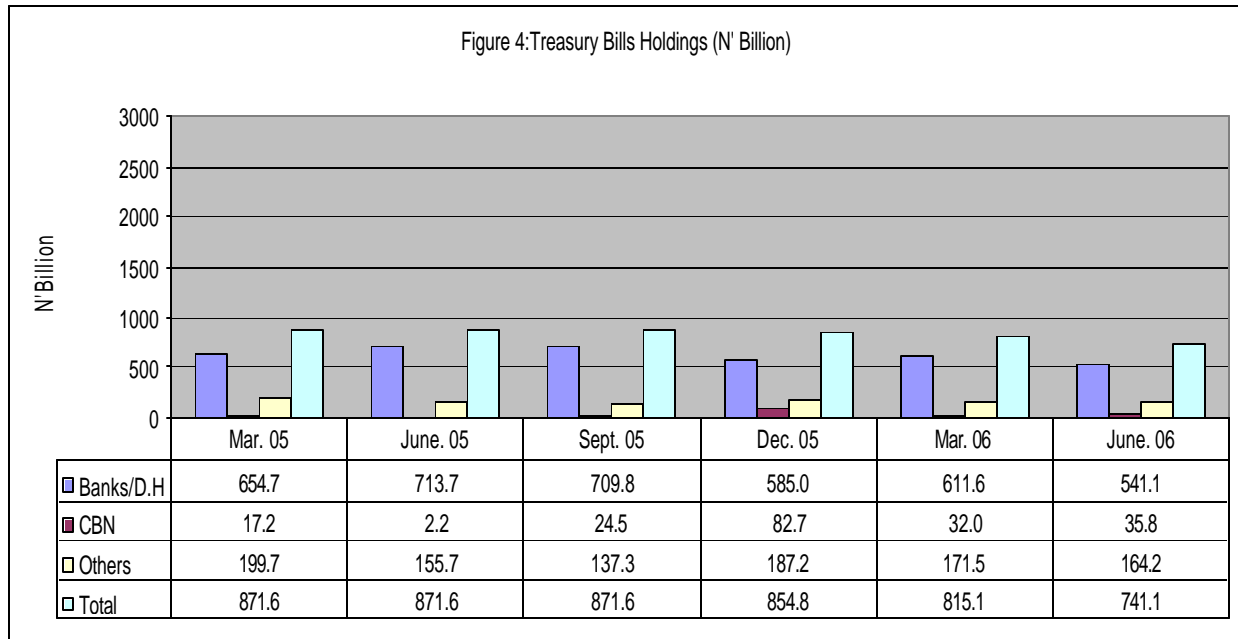
twelve-months and over twelve-months deposit rates, which declined by 0.02, 0.98 and 0.75 percentage points to 2.96, 8.19 and 7.81 per cent, respectively, all other rates on deposits of various maturities increased from a range of 3.25 – 9.62 per cent in the first quarter of 2006 to 4.15 – 9.95 per cent. Similarly, the average prime and maximum lending rates increased by 0.78 and 0.71 percentage points to 17.08 and 18.61 per cent, respectively. Consequently, the spread between the weighted average deposit and maximum lending rates widened from 10.85 percentage points in the preceding quarter to

2.4 Money Market Developments

The value of money market assets outstanding at the end of the second quarter of 2006 increased by 3.1 per cent to ₦1,119.3 billion, in contrast to the decline of 8.5 per cent in the preceding quarter. The rise was attributable to the 74.5 and 48.8 per cent increase in Commercial Papers (CPs) and Bankers Acceptances (BAs), respectively, during the quarter. Treasury Bills outstanding, however, declined from ₦815.1 billion in the first quarter of 2006 to

or 40.9 per cent of the total, while investment by the non-bank public stood at ₦170.4 billion, representing 50.2 per cent of the total amount issued. The balance of ₦30.2 billion, representing 8.9 per cent of the total was absorbed by the CBN.

Data on holdings of treasury bills outstanding indicated that holdings by the DMBs and discount houses declined by 11.5 per cent to ₦541.1 billion. Similarly, holdings by the non-bank public, declined by 4.3 per cent to ₦164.2 billion.



₦741.1 billion. The fall was attributable to the restructuring of the bills to longer tenored debt instruments which resulted in the repayment of the matured 91-day and 182-day bills by the Federal Government.

Treasury bills worth ₦370.00 billion were offered during the second quarter of 2006, compared with ₦494.2 billion in the preceding quarter. Subscriptions and sales stood at ₦548.6 billion and ₦339.6 billion, respectively, during the quarter, compared with ₦694.3 billion and ₦461.4 billion in the preceding quarter. Analysis of offer showed that the share of deposit money banks (DMBs) and discount houses declined as they jointly accounted for ₦139.0 billion

Consequently, the CBN's holding increased from ₦32.0 billion in the first quarter of 2006 to ₦35.8 billion in the review quarter.

2.5 Capital Market Developments

Transactions on the Nigerian Stock Exchange in the second quarter of 2006 trended upward. The aggregate volume and value of traded securities increased by 30.2 and 58.1 per cent to 6.9 billion shares and ₦98.5 billion, respectively, at end-June, 2006, compared with 5.3 billion shares and ₦62.3 billion, in the preceding quarter. Analysis of transactions during the review quarter showed that the banking sub-sector

remained the most active on the Exchange, while industrial loans/preference stocks recorded no dealings.

The new issues market received a boost through the floatation of right issues by four insurance companies, involving 8.90 billion ordinary shares worth ₦13.15 billion. Cornerstone Insurance PLC, Niger Insurance PLC, Standard Trust Assurance Company PLC and Royal Exchange Assurance PLC, floated for subscription Rights issue worth ₦3.52 billion, ₦3.98 billion, ₦1.65 billion and ₦4.00 billion, respectively. During the same period, the monthly issuance of the 3rd FGN bonds progressed as planned. The sixth, seventh, eighth and ninth series of bonds worth ₦50.00 billion were auctioned by the Debt Management Office (DMO). The four series were substantially oversubscribed to the tune of ₦128.73 billion out of which only ₦65.2 billion was allotted.

Market capitalization remained unchanged at the preceding quarter's level of ₦3.0 trillion, while the value index of listed securities rose by 12.1 per cent to 26,161.15 (1984=100), compared with 23,336.60 (1984=100) in the preceding quarter.

2.6 Deposit Money Banks' Activities

Available data indicated that total assets/liabilities of the twenty five (25) deposit money banks (DMBs) amounted to ₦6,009.7 billion, compared with ₦5,591.3 billion in the preceding quarter. The development was attributable to the increases in claims on the central government and other financial institutions. Funds, which were sourced mainly from increased demand, time, savings and foreign currency deposits and unclassified liabilities were used mainly for the increased investment in Federal Government

securities, especially the treasury bills and acquisition of foreign assets.

At ₦3,233.0 billion, credit to the domestic economy increased by 25.4 and 31.9 per cent, over the levels in the preceding quarter and the corresponding period of 2005, respectively. The rise was traceable to the increase in claims on both the Federal Government and private sector during the period.

Central Bank's credit to the DMBs fell by 35.6 per cent to ₦13.0 billion in the review quarter, reflecting a decline in banks overdrawn position with the CBN.

Total specified liquid assets of the DMBs stood at ₦2.1 billion, representing 61.3 per cent of their total deposit liabilities. This level of assets was 21.3 percentage points above the stipulated minimum ratio of 40.0 per cent for fiscal 2006.

2.7 Discount Houses

Total assets/liabilities of the discount houses stood at ₦167.4 billion in the second quarter of 2006, indicating a decline of 3.4 per cent from the level in the preceding quarter. When compared with the corresponding period of 2005, total assets/liabilities, however, increased by ₦39.7 billion or 31.1 per cent. The fall in assets was attributable to the 63.3, 25.2 and 8.9 per cent decline in "cash and balances with banks", "claims on State Governments" and "claims on Federal Government", respectively. The decline in total liabilities, on the other hand, was attributable to the 6.3 and 3.5 per cent fall in "money-at-call" and "other amount owing", respectively, during the period. Discount houses' investments in Federal Government securities of less than 91 days maturity amounted to ₦79.8 billion, representing 55.9 per cent of their total deposit liabilities. At this level, discount houses' investments declined by 48.6 and 66.8 per cent from their levels in the

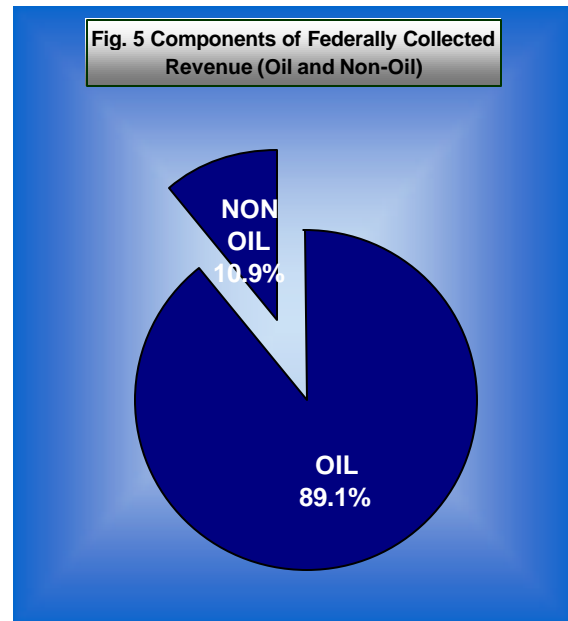
preceding quarter and corresponding period of 2005, respectively. This level of investment was, however, 4.1 percentage points lower than the prescribed minimum of 60.0 per cent for fiscal 2006.

Total borrowing by discount houses was ₦73.8 billion, while their capital and reserves amounted to ₦13.0 billion, resulting in a gearing ratio of 5.7:1, compared with the stipulated maximum target of 50:1 for fiscal 2006.

3.0 FISCAL OPERATIONS

3.1 Federation Account Operations

Total federally-collected revenue during the second quarter of 2006 stood at ₦1,284.7 billion, representing an increase of 23.4 per cent over the proportionate budget estimate but a decline of 24.7 per cent from the level in the preceding quarter. When compared with the corresponding period of 2005, total federally-collected revenue increased by 17.8 per cent. At ₦1,144.2 billion, oil receipts constituted 89.1 per cent of the total, representing an increase of 33.2 per cent over the budget estimate but a decline of 26.2 per cent from the level in the preceding quarter. The rise in oil receipts was due to the continued increase in prices in the global oil market. On the other hand, non-oil receipts, at ₦140.5 billion or 10.9 per cent of the total, was lower than the receipts in the preceding quarter and its budget estimate by 9.0 and 22.7 per cent, respectively. The fall in non-oil receipts during the period was attributable to the implementation of the ECOWAS Common External Tariff (CET) that has lowered tariff, and the granting of negotiable duty credit certificate to certain categories of exporters by the Nigerian Export Promotion Council (fig 5).



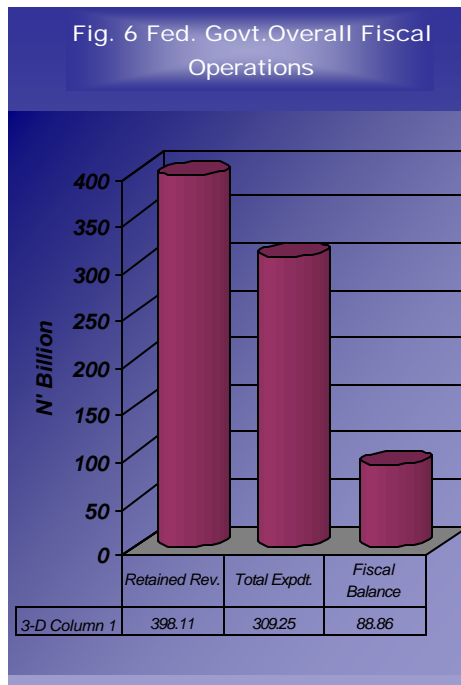
Of the total federally-collected revenue during the review quarter, the sum of ₦696.2 billion was transferred to the Federation Account for distribution among the three tiers of government and the 13% derivation fund. The Federal Government received ₦325.2 billion, while the state and local governments received ₦164.9 billion and ₦127.2 billion, respectively. The balance of ₦78.9 billion went to the 13% derivation fund.

3.2 The fiscal operations of the tiers of government

3.2.1 The Federal Government

At ₦398.1 billion, the Federal Government retained revenue for the second quarter of 2006 was 3.2 per cent lower than the proportionate budget estimate but 6.3 per cent over the receipts in the preceding quarter. The increase in retained revenue relative to the preceding quarter was due to additional revenue from the reversal on contractual obligation and the share of the difference between the provisional and

approved budget benchmark during the quarter.



At ₦309.3 billion, total expenditure for the period declined by 7.4 and 38.9 per cent from the levels in the preceding quarter and the proportionate budget estimate, respectively. The lower total expenditure for the period was attributable largely to the delay in the release of capital vote. A breakdown of total expenditure showed that recurrent, capital and transfers accounted for 86.3, 1.3 and 12.4 per cent, respectively. Of the total recurrent expenditure, debt service accounted for 9.0 per cent of the total, while non-debt expenditure accounted for the balance.

The fiscal operations of the Federal Government in the second quarter of 2006 was estimated to have resulted in a surplus of ₦88.8 billion, as against the budgeted deficit of ₦94.5 billion and a surplus of ₦40.7 billion recorded in the preceding quarter (fig.6). In the corresponding period of 2005, the fiscal operations of the Federal

Government resulted in a deficit of ₦130.8 billion.

3.2.2 Statutory Allocations to State Governments

Total receipts (including 13% Derivation and share of Value Added Tax (VAT) by the State Governments from the Federation Account during the second quarter of 2006 stood at ₦261.0 billion, representing a decline of 5.5 and 10.9 per cent from the levels in the preceding quarter and the corresponding period of 2005, respectively. At ₦21.8 billion, receipts from the VAT Pool Account declined by 5.9 and 1.3 per cent from the levels in the preceding quarter and the corresponding quarter of 2005, respectively.

3.2.3 Statutory Allocations to Local Government Councils

Total receipts by the local governments from the Federation and VAT Pool Accounts during the second quarter of 2006 stood at ₦154.4 billion. This was higher than the levels in the preceding quarter and the corresponding quarter of 2005 by 11.9 and 21.1 per cent, respectively. The allocations during the period comprised ₦127.2 billion from the Federation Account, ₦15.2 billion from VAT Pool Account, and Other receipts ₦12.0 billion. On monthly basis, the sums of ₦45.3 billion, ₦56.3 billion and ₦52.8 billion were allocated to the 774 local governments in April, May and June 2006, respectively.

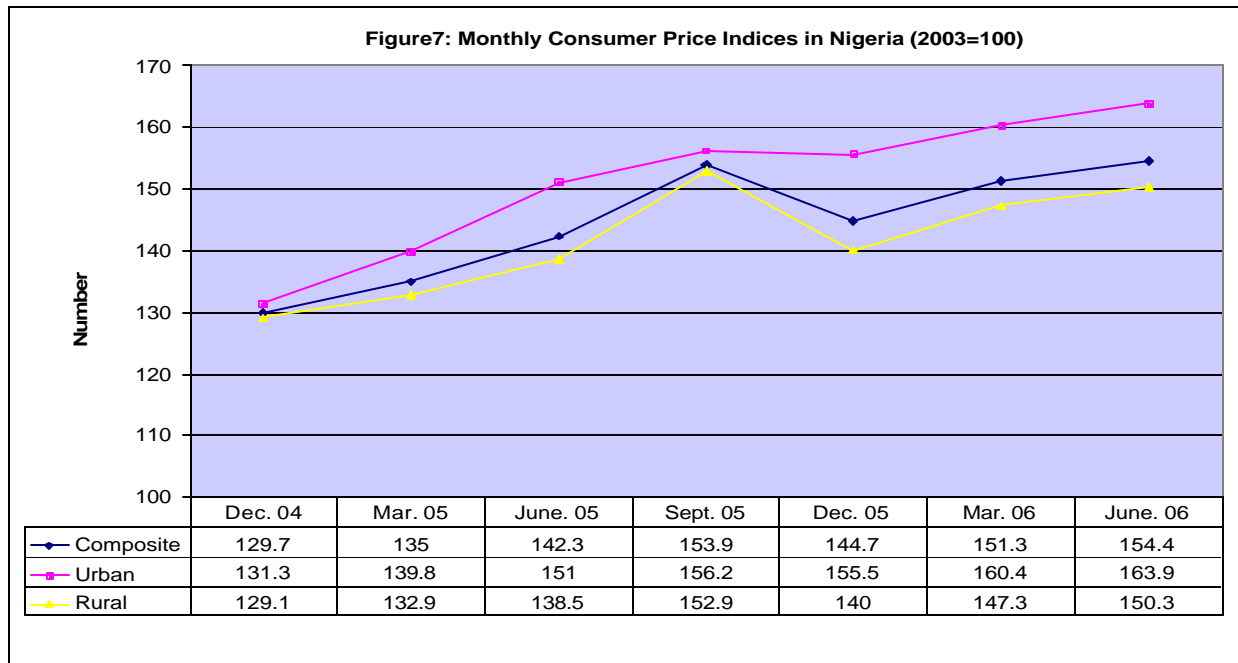
4.0 DOMESTIC ECONOMIC CONDITIONS

Aggregate output in the economy measured by the gross domestic product (GDP) grew by 7.5 per cent during the second quarter of 2006. The growth was

driven by the non-oil sector which grew by 12.8 per cent.

The major agricultural activities during the second quarter of 2006 were cultivation of crops such as maize, upland rice and vegetables. Crude oil production was estimated at 2.3 million barrels per day (mbd) or 209.3 million barrels for the quarter. The end-period inflation rate for the second quarter of 2006, on year-on-year basis, was 8.5 per cent, compared with 12.0 per cent recorded in the preceding quarter.

rice and vegetables. The sum of ₦380.9 million was granted to 5,370 farmers under the Agricultural Credit Guarantee Scheme (ACGS) in the second quarter of 2006, representing a decline of 11.2 per cent from the level in the preceding quarter, but an increase of 80.0 per cent over the level in the corresponding quarter of 2005. A sub-sectoral analysis of the loans guaranteed indicated that the food crops sub-sector had the largest share of ₦322.2 million or 84.6 per cent granted to 4,063 beneficiaries,



The inflation rate on a 12-month moving average basis was, however, 15.5 per cent, compared with 17.4 per cent in March, 2006.

4.1 Agricultural Sector

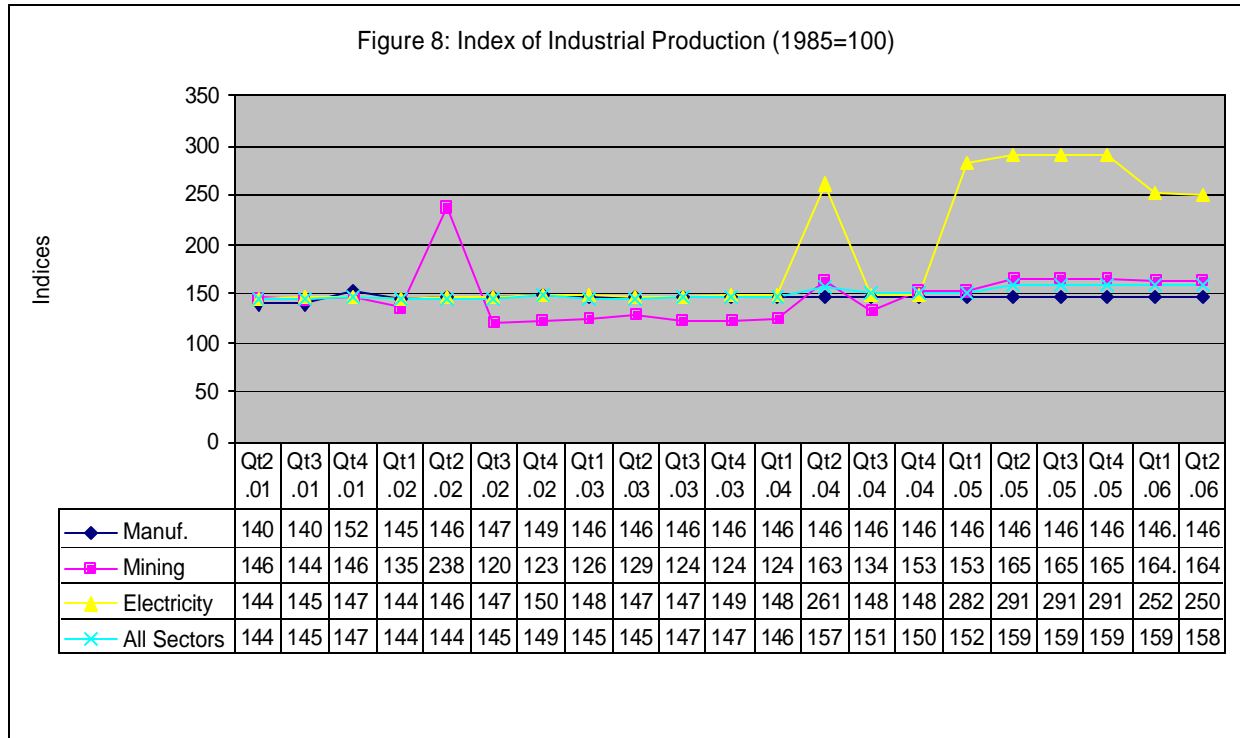
Agricultural activities during the second quarter of 2006 involved the cultivation of crops such as maize, upland

while livestock sub-sector got ₦25.7 million or 6.7 per cent. Also, the cash crops sub-sector got ₦21.4 million or 5.6 per cent, while the fisheries sub-sector got ₦11.3 million or 3.1 per cent. Analysis by state showed that 22 states benefited from the scheme during the quarter, the highest and lowest sums of ₦62.6 million (16.4 per cent) and ₦0.2 million (0.02 per cent) went to Zamfara and Imo states, respectively.

The prices of most Nigerian major agricultural commodities at the London Commodities Market recorded mixed developments during the review quarter. Of the six commodities monitored during the period, cocoa and palm oil, in dollar terms, recorded price increases of 11.3 and 1.4 per cent, respectively, over their levels in the preceding quarter, while soya bean, copra,

by 0.3 and 0.2 per cent from the levels attained in the preceding quarter and the corresponding period of 2005, respectively. The development reflected the 0.8 and 0.1 per cent declines in the indices of electricity consumption and manufacturing production, respectively.

The estimated index of manufacturing production, at 145.8



cotton and coffee, recorded price declines of 0.4, 0.8, 5.3 and 6.3 per cent, respectively.

Similarly, in naira terms, cocoa, copra, and palm oil recorded price increases of 19.5, 0.3, and 0.1 per cent, respectively, over their levels in the preceding quarter, while cotton, coffee, and soya bean recorded price declines of 6.4, 5.1 and 3.5 per cent, respectively.

4.2 Industrial Production

Industrial activities during the second quarter of 2006 declined relative to the preceding quarter. At 158.1 (1985=100), estimated index of industrial production, fell

(1985=100), fell by 0.1 per cent from the preceding quarter's level. The fall was accounted for mainly by the 0.7, 0.6 and 0.1 per cent decline in the indices of soft drinks, beer & stout and synthetic fabrics, respectively. However, the indices of roofing sheet; footwear; refined petroleum; and soap & detergents increased moderately by 0.3, 0.2, 0.1 and 0.1 per cent, respectively, during the review quarter. The development in the sub-sector was attributable to the poor power supply situation experienced by manufacturers as well as the weak demand for local manufactures during the review quarter.

At 164.0 (1985=100), the index of mining production remained the same as in the preceding quarter's level but declined by 0.4 per cent from the level in the corresponding period of 2005.

At 2555.19 MW/h, estimated average electricity generation fell by 1.5 per cent from the level attained in the preceding quarter. The decline was attributable to the vandalism of gas pipelines in the Niger Delta region, which supplies gas to the thermal stations in the country and the rehabilitation being carried out at the hydro power stations.

At 1,788.60 MW/h, estimated average electricity consumption declined by 0.4 and 13.7 per cent from the levels in the preceding quarter and the corresponding period of 2005, respectively. Of the total, residential consumption accounted for 51.3 per cent, while commercial & street lighting accounted for 26.7 per cent. Industrial consumption accounted for the balance of 22.0 per cent. The decline in electricity consumption relative to the preceding quarter was attributable to low supply from the power generating stations as well as various forced/planned power outages, and emergency load shedding during the period.

4.3 Small and Medium Enterprises Equity Investment Scheme

A cumulative sum of ₦40.74 billion was set aside by the 25 banks under the SMEEIS as at end of the second quarter of 2006. This represented a decline of 1.8 per cent from the level in the preceding quarter. However, total amount invested by banks increased by 23.3 per cent to ₦14.91 billion, compared with ₦12.1 billion in the preceding quarter.

4.4 Petroleum Sector

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.3 million barrels

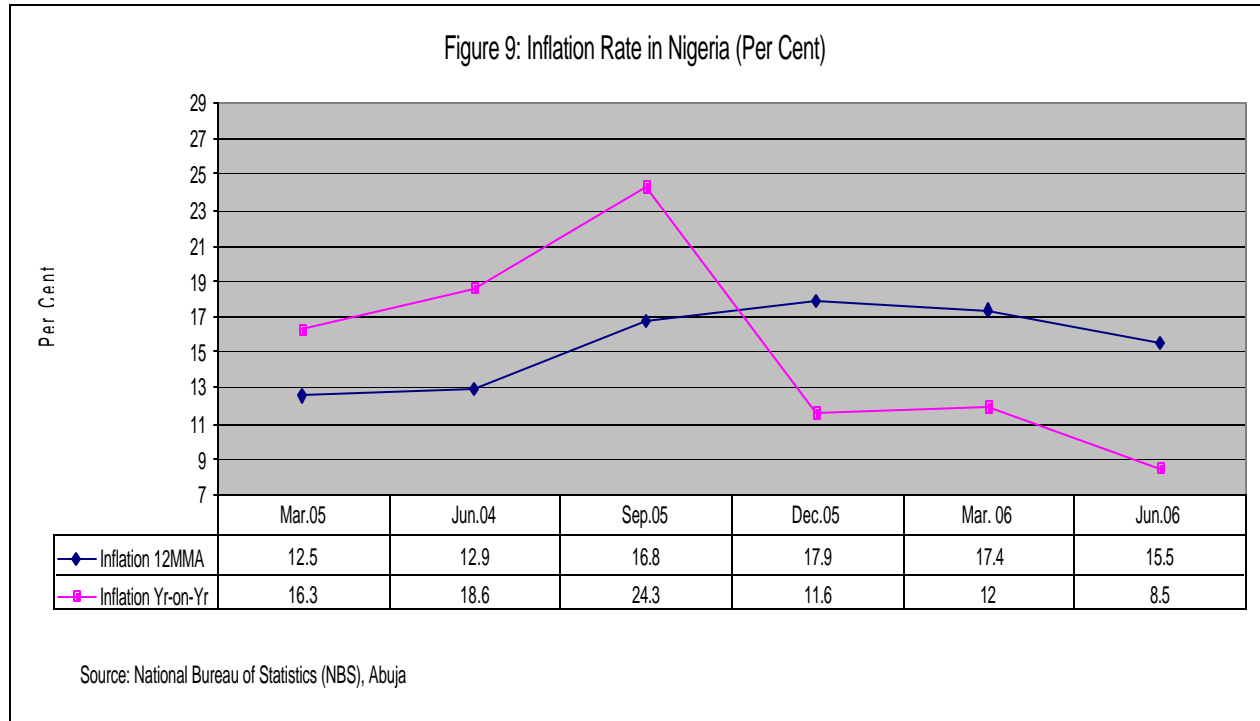
per day (mbd) or 209.3 million barrels for the quarter, representing an increase of 4.5 per cent over the level in the preceding quarter. Crude oil export was estimated at 1.8 mbd or 163.8 million barrels in the quarter, compared with 1.8 mbd and 2.0 mbd in the preceding quarter and corresponding quarter of 2005, respectively. Deliveries to the refineries for domestic consumption remained at 0.45 mbd or 40.95 million barrels for the quarter.

At an estimated average of US\$70.5 per barrel, the price of Nigeria's reference crude, the Bonny Light (37° API) rose by 12.9 and 34.1 per cent over the levels in the preceding quarter and the corresponding quarter of 2005, respectively. The average prices of other competing crudes, namely, the West Texas Intermediate, U.K Brent, Arab Light, and the Forcados increased by 11.7, 13.9, 12.9 and 13.4 per cent to US\$62.75, US\$61.16, US\$56.93 and US\$62.24, per barrel, respectively. The rise in price was attributable to the anxiety over supply disruptions in Iran and continued tension in the Niger-Delta area of Nigeria.

4.5 Consumer Prices

Available data showed that the all-items composite Consumer Price Index (CPI) for the end of second quarter, 2006

quarter was 150.30 (May 2003=100), and represented an increase of 2.0 per cent over the level in the preceding quarter. The end-period inflation rate for the second quarter



was 154.40 (May 2003=100), representing an increase of 2.0 per cent over the level in the preceding quarter. The rise was attributable to the following components: miscellaneous goods and services; recreation & culture; clothing and footwear; transport; housing, water, electricity & gas; furnishing, household equipment and household maintenance; alcoholic beverages, tobacco & kola; food; and food & non-alcoholic beverages whose indices increased by 13.2, 4.6, 4.4, 4.2, 3.5, 2.9, 2.5, 1.4 and 1.3 per cent, respectively. However, the indices of health; communication; restaurant & hotels; and education declined by 12.2, 2.2, 1.5 and 0.7 per cent, respectively, from the preceding quarter's levels.

The urban all-items CPI for the end of second quarter, 2006 stood at 163.90 (May 2003=100), indicating an increase of 2.2 per cent over the level in the preceding quarter. The rural all-items CPI for the

of 2006, on a year-on-year basis, was 8.5 per cent, compared with 12.0 per cent recorded in the preceding quarter. The inflation rate on a twelve-month moving average basis for the quarter ended June 2006, was 15.5 per cent, compared with 17.4 per cent recorded in March 2005, reflecting the impact of the early harvesting of some agricultural products, which moderated rising food prices, coupled with the effect of sound macroeconomic policies.

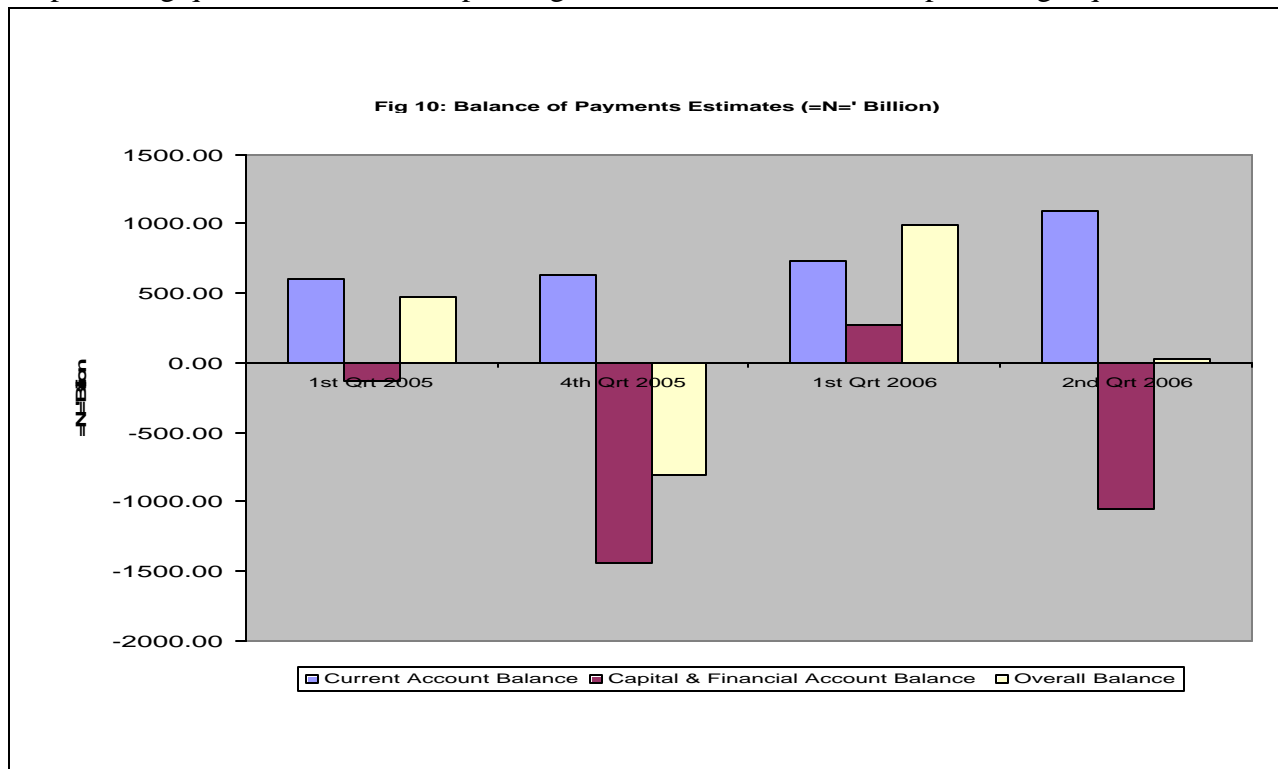
5.0 EXTERNAL SECTOR DEVELOPMENTS

5.1 Balance of Payments

The balance of payments account remained favourable in the second quarter of 2006 with an estimated overall surplus of ₦34.4 billion, compared with the surplus of ₦1,014.7 billion and ₦315.6 billion both in the preceding quarter and the corresponding

recorded in the corresponding period of 2005 (fig. 10).

Despite the Paris Club exit payment of US\$4.6 billion in April, the level of external reserves rose marginally by US\$0.28 billion or 0.8 per cent to US\$36.48 billion in June 2006, compared with US\$36.20 billion at end-March 2006. This level of reserves could finance 22.7 months of current import commitments, compared with 21.9 and 15.7 months in the preceding quarter and



period of 2005, respectively. The development was attributable to the surplus recorded in the current account, following the sustained increase in international price of crude oil during the period. The current account recorded a surplus of ₦1,089.5 billion, compared with the surplus of ₦726.8 billion and ₦609.2 billion in the preceding quarter and corresponding period of 2005, respectively. The capital and financial account, however, recorded a deficit of ₦1,050.7 billion, in contrast to a surplus of ₦291.1 billion in the preceding quarter but compared with the deficit of ₦288.4 billion

corresponding period of 2005, respectively.

5.1.1 The Current Account

The current account surplus increased by 49.9 per cent to ₦1,089.5 billion in the quarter under review. The balance in goods account increased to a surplus of ₦948.1 billion, compared with the surplus of ₦426.4 billion and ₦710.2 billion in the preceding quarter and corresponding period of 2005, respectively. The development was attributable to the increased earnings from both crude oil and

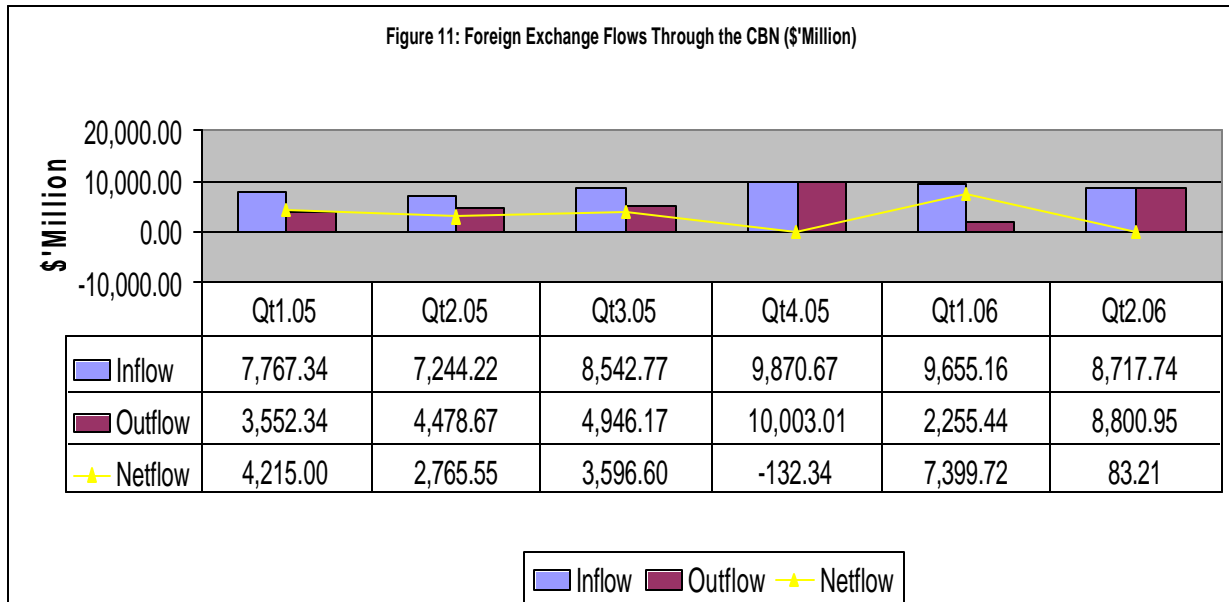
non-oil exports, as well as huge inward transfers during the period.

The current transfers account (net) increased by 24.7 per cent to ₦259.4 billion in the second quarter of 2006. The “other sectors” recorded higher level of inflows, arising mainly from increased personal home remittances by Nigerians abroad, while the general government registered a

in the preceding quarter and the corresponding period of 2005, respectively.

5.2 Foreign Exchange Flows

Foreign exchange inflow and outflow through the CBN in the second quarter of 2006 amounted to US\$8.72 billion and US\$8.80 billion, respectively, representing a



deficit of ₦3.7 billion during the period.

5.1.2 The Capital and Financial Account

The capital and financial account recorded a deficit of ₦1,050.7 billion, in contrast to the surplus of ₦291.1 billion and ₦288.4 billion in the preceding quarter and corresponding period of 2005, respectively. Foreign direct investment flow to the economy declined by 31.7 per cent to ₦85.0 billion from the preceding quarter's level. When compared with the level in the corresponding period of 2005, it rose by 45.1 per cent. Similarly, the private component of other investment recorded a deficit of ₦1,245.5 billion, as against the surplus of ₦53.1 billion and ₦166.3 billion

net outflow of US\$0.08 billion. Compared with the respective levels of US\$9.66 billion and US\$2.26 billion in the preceding quarter, inflow declined by 9.7 per cent, while, outflow rose sharply by 289.4 per cent following, the payment of the second tranche of the outstanding Paris Club debt of US\$4.6 billion during the period under review.

Provisional data on aggregate foreign exchange flows through the economy indicated that total inflow fell by 13.1 per cent from the preceding quarter's level to US\$13.02 billion but represented an increase of 12.6 per cent over the level in the corresponding quarter of 2005. Oil sector receipts, which accounted for 61.2 per cent of the total, stood at US\$7.97 billion, compared with US\$8.76 billion or 58.5 per cent and US\$7.32 billion or 55.4 per cent in

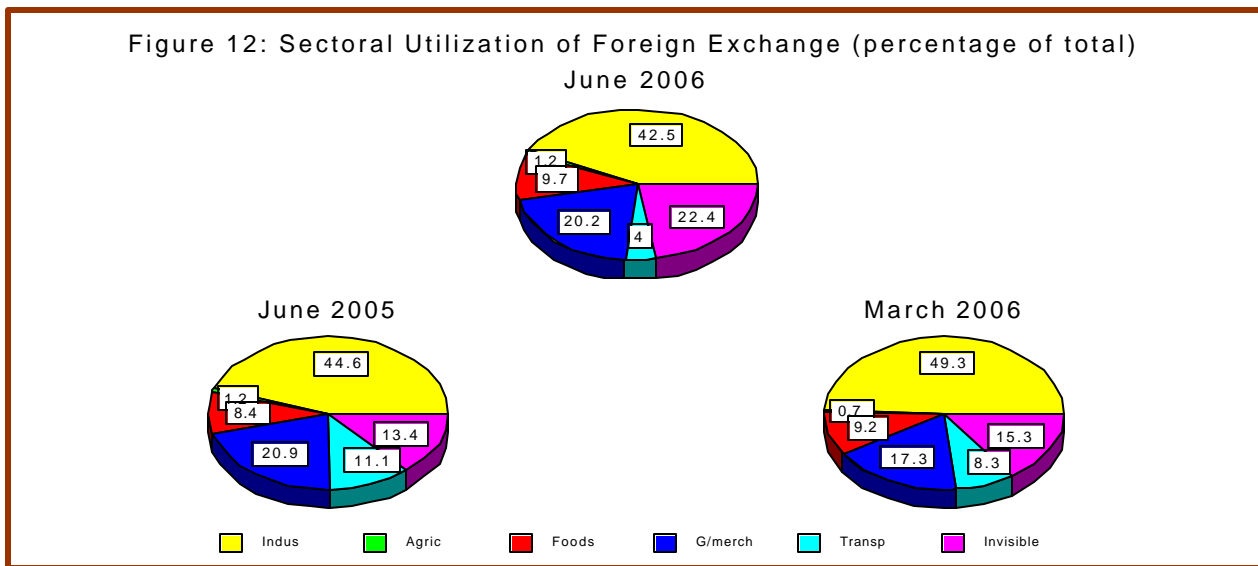
the preceding quarter and corresponding quarter of 2005, respectively. Similarly, non-oil public sector and autonomous inflows declined by 15.7 and 19.2 per cent, and accounted for 5.8 and 33.0 per cent of the total, respectively.

At US\$9.01 billion, aggregate foreign

preceding quarter and the corresponding period of 2005, respectively.

5.3 Non-Oil Export Proceeds by top 100 Exporters

Non-oil export earnings by Nigeria's



exchange outflow from the economy rose by 273.9 per cent over the level in the preceding quarter. The rise was attributable largely to the increase in external debt payments, which rose from US\$0.16 billion in the preceding quarter to US\$4.73 billion. Others, namely funding of the Dutch Auction System (DAS), autonomous outflows and drawings on L/Cs rose by 312.7, 40.4 and 35.1 per cent to US\$2,928.05 million, US\$212.38 million and US\$25.72 million, respectively. Other official payments and national priority projects, however, declined from their levels of US\$1,280.38 million and US\$84.90 million in the preceding quarter to US\$1,113.70 million and US\$0.00 million, respectively.

Consequently, a net inflow of US\$4.01 billion was recorded during the review quarter, compared with the net inflow of US\$12.57 billion and US\$6.92 billion in the

top 100 exporters in the second quarter of 2006 amounted to US\$200.22 million, indicating an increase of 17.1 per cent over the preceding quarter's level.

A breakdown of the proceeds in the review quarter showed that proceeds in respect of the manufacturing sub-sector and "others" rose from US\$59.63 million and US\$12.00 million in the preceding quarter to US\$99.34 million and US\$16.78 million, respectively, while that of agricultural sub-sector declined by 15.3 per cent to US\$84.10 million. The shares of agricultural, manufacturing and "others" sub-sectors in total non-oil export proceeds were 41.8, 49.4 and 8.3 per cent, respectively, compared with 57.8, 34.7 and 7.0 per cent, in the preceding quarter. The rise in the shares of manufacturing sub-sector and "others" was attributable largely to variations in the prices of the goods traded at the international market. The top

100 exporters accounted for 99.5 per cent of all the non-oil export proceeds in the second quarter of 2006.

5.4 Sectoral Utilisation of Foreign Exchange

The industrial sector accounted for the bulk (42.5 per cent) of total foreign exchange disbursed in the second quarter of 2006, followed by invisibles (22.4 per cent). Other beneficiary sectors, in a descending order of importance, included: general merchandise (20.2 per cent), food (9.7 per cent), transport (4.0 per cent) and agricultural products (1.2) per cent) (Fig.12).

5.5 Foreign Exchange Market Developments

Foreign exchange sales by the CBN to end-users through the authorized dealers rose by 312.7 per cent to US\$2.93 billion. The development was attributable to further liberalisation of the foreign exchange market which permitted direct sales of foreign exchange to the Bureaux de Change (BDCs). Under the WDAS, the weighted average exchange rate of the Naira vis-à-vis the US dollar appreciated marginally by 0.9 per cent to ₦127.20 per dollar from ₦128.36 per dollar in the preceding quarter. In the bureaux de change segment of the market, the average rate, also, appreciated from ₦146.02 per dollar in the first quarter of 2006 to ₦142.34 per dollar. Consequently, the premium between the official and bureaux de change rates narrowed from 13.87 per cent in March 2006 to 11.91 per cent.

6.0 OTHER INTERNATIONAL ECONOMIC DEVELOPMENTS

World crude oil output in the second quarter of 2006 was estimated at 84.48 million barrels per day (mbd), while demand

was estimated at 83.26 mbd, compared with 84.56 mbd demanded in the preceding quarter. The decline in demand was attributable largely to the high crude prices and heavy maintenance schedules and gasoline stock draws in the United States of America (USA).

Other major international economic developments of relevance to the domestic economy during the quarter included: the meeting of the National Coordinating Committee of Economic Community of West African States (ECOWAS) on Multilateral Surveillance Mechanism, held on the April 11, 2006, in Abuja.

Also, the Spring meeting of the Inter-Governmental Group of Twenty-four (G-24) and the Boards of Governors of the International Monetary Funds (IMF) and the World Bank Group was held in Washington D.C between 19-23, April, 2006. Some of the issues considered included: the Global Economic Prospects; Trade; the Millennium Development Goals; the IMF Medium Term Strategy; Voice and Representative of Developing Countries; and Clean Energy, Climate Change and Development. (See April edition of the Report).

In addition, a Ministerial Conference on Korea-Africa Economic Cooperation organized by the Korea Eximbank and the African Development Bank (ADB) was held in Seoul, South Korea from 24th – 30th April, 2006. The purpose of the conference was to develop strategies for an enhanced economic cooperation between the Republic of Korea and African countries.

The Inaugural meeting of the Ethiopia-Nigeria joint Ministerial Commission was held in Addis Ababa,

Ethiopia from 26-27 April, 2006. (See April edition of the Report).

Also, Nigeria and China held bilateral talks during a 2-day state visit by the president of the People's Republic of China from April 26-27, 2006. Both countries exchanged in-depth views on developing strategic partnership, as well as international and regional issues of common interest.

During the quarter under review, the 5th Summit of the Group of Eight Developing Countries (D-8) was held at Bali, Indonesia from May 9-14, 2006. At the summit, the D-8 countries signed two agreements to promote intra-trade among them, namely: the Preferential Trade Agreement (PTA) and Multilateral Agreement on Administrative Assistance in Custom Matters. They also formulated the Bali Declaration to show members' concerns for attainment of the United Nations' Millennium Development Goals, housing for the poor, entry to the World Trade Organisation, the solving of energy crisis, as well as issues of world peace.

The Conference of African Finance and Education Ministers also took place in Abuja from May 20 – 22, 2006. It was jointly organized by the African Development Bank (ADB), the Economic Commission for Africa and the Government of Nigeria. The theme of the Conference was "Financing for Development: From Commitment to Action in Africa". (See May 2006 edition for details).

In another development, the Organisation of Economic Cooperation and Developments (OECD) Annual African Economic Outlook showed that Africa experienced relatively strong growth but failed to make progress towards Millennium

Development Goals. Growth for the continent as a whole was estimated at 4.9 per cent in 2005 and was expected to rise to 5.8 per cent in 2006. Growth, which was much stronger among oil-exporting countries in 2005, implied an increase of nearly 3.0 per cent in per capita output. However, the report stated that "limited progress" was made towards the UN Millennium Development Goals. In spite of the new poverty reduction strategies in many countries, most of the continent may fail to meet the target of halving poverty by 2015. Only North Africa and Mauritius are on course towards the poverty reduction target.

Furthermore, the World Economic Forum on Africa was held in Cape Town, South Africa from May 23rd to June 2nd, 2006. The Forum focused on the investment climate in Africa with a view to identifying factors for sustaining Africa's current growth over the long run. The Forum observed that Africa has been one of the world's slowest continent to reform its investment climate. It was agreed that for Africa to sustain its current growth, private investors need the right environment such as transparent, robust institutions, as well as an efficient and clear regulatory framework.