



CENTRAL BANK OF NIGERIA

**ECONOMIC REPORT
FOR THE
FIRST HALF OF 2007**

CENTRAL BANK OF NIGERIA



Economic Report For the First Half of 2007

Vision

To be one of the most efficient and effective world's central banks in promoting and sustaining economic development.

Mission

To be proactive in providing a stable framework for the economic development of Nigeria through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial sector.

MEMBERS OF THE BOARD OF DIRECTORS OF THE BANK AS AT JUNE 30, 2007

1.	Chukwuma C. Soludo	-	<i>Governor (Chairman)</i>
2.	Ernest C. Ebi	-	<i>Deputy Governor (Corporate Services)</i>
3.	Sarah O. Alade (Mrs)	-	<i>Deputy Governor (Economic Policy)</i>
4.	Tunde Lemo	-	<i>Deputy Governor (Financial Sector Surveillance)</i>
5.	Shamsuddeen Usman	-	<i>Deputy Governor (Operations)</i>
6.	Akinlose S. Arikawe	-	<i>Director (Permanent Secretary, Federal Ministry of Finance)</i>
7.	Akpan H. Ekpo	-	<i>Director</i>
8.	Juliet A. Madubueze (Mrs)	-	<i>Director</i>
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10.	Samuel O. Olofin	-	<i>Director</i>
11.	Joshua O. Omuya	-	<i>Director</i>
	Umaru B. Girei	-	<i>Secretary to the Board</i>

MEMBERS OF THE COMMITTEE OF GOVERNORS OF THE BANK AS AT JUNE 30, 2007

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5.	Shamsuddeen Usman	-	<i>Deputy Governor (Operations)</i>
	Umaru B. Girei	-	<i>Secretary</i>

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EXECUTIVE SUMMARY

POLICY FRAMEWORK

The Central Bank of Nigeria (CBN) pursued its primary mandate of maintaining monetary and price stability through monetary targeting. The Bank's monetary operations relied on the lending and deposit facilities anchored on the monetary policy rate (MPR) with a rate corridor. This was complemented with the open market operations (OMO), the sale of foreign exchange through the Wholesale Dutch Auction System (WDAS), reserve requirement and auction of treasury securities in the primary market. In order to play its developmental role, the Bank intensified the implementation of its initiatives on development financing namely, the Small and Medium Enterprises Equity Investment Scheme (SMEEIS), the Agricultural Credit Guarantee Scheme (ACGS) and the microfinance scheme.

CBN OPERATIONS

Liquidity Management

The Bank's liquidity management operations involved the two-way quote trading, primary auctions in treasury securities, reverse repurchase sales, standing facilities, OMO and reserve requirements. These operations yielded positive results as the reserve money target for the first half of the year was met and the volatility in inter-bank rates remained subdued with rates hovering within the MPR corridor.

Payments & Clearing System

The Bank sustained the reforms in the Payments System with the full implementation of the cheque standard and the approval of Oceanic Bank as an additional settlement bank, bringing the total number of settlement Banks to eleven. Furthermore, the Bank concluded arrangements to further reduce the up-country cheque clearing cycle, as well as commenced the electronic bulk payments of salaries of 7 Ministries, Departments and Agencies (MDAs) of the Federal Government. In addition, the National Payments System Vision 2020 was presented to stakeholders at a National Payments System Stakeholders's Forum in order to harvest ideas to improve the strategy. Available data indicated that the upward trend in the volume and value of the various modes of payments continued in the period reflecting increased public confidence and awareness in the payments system.

Financial Sector Surveillance

As at end-June 2007, the private sector liabilities of seven banks had been assumed by three of the 25 capitalized banks under the Purchase and Assumption programme to ensure that no private deposit was lost in banks that failed to meet the capitalization requirement. On the liquidation of the four (4) outstanding banks, the NDIC had obtained provisional court order to liquidate one (1), while the remaining three (3) banks were still undergoing court processes

Financial Sector Surveillance

Examination of banks using CAMEL parameters during the period revealed that no bank was rated unsound, reflecting the absence of signs of serious weakness. Also, prudential examination of banks revealed that 88.0 per cent of the banks in the system met the specified minimum capital adequacy ratio, while the defaulting banks were penalized accordingly. In addition, verification exercise on compliance with the provisions of the code of corporate governance for banks issued in April 2006 revealed that four (4) banks had government equity holdings above 10 per cent, while no bank had complied with the appointment of independent directors

Foreign Exchange Management

Demand pressure increased substantially at the WDAS relative to the period a year ago, occasioned by the seasonal payments for dividend remittances as well as payments for new oil blocks and importation of petroleum products. Consequently, foreign exchange sold by the CBN to the authorized dealers increased by 137.6 per cent to US\$8,641.21 million. Notwithstanding, the exchange rate of the naira vis-à-vis the US dollar appreciated by 0.8 per cent over the level in the corresponding period of 2006. Thus, the wide parallel market premium of 11.8 per cent in the first half of 2006 crashed to 1.1 per cent in the period under review. Foreign exchange flows into the economy at US\$29.71 billion, increased by 1.8 per cent over the level in the corresponding period of 2006 while total foreign exchange outflow increased by 19.4 per cent to US\$13.50 billion. Transactions through the CBN resulted in a net inflow of US\$1.40 billion compared with US\$7.32 billion in the corresponding period of 2006

THE FINANCIAL SECTOR

The major monetary aggregates grew modestly in the first half of 2007. Available data indicated that relative to the level at end-December 2006, broad money (M2) grew by 11.01 per cent as at end-June 2007, compared with the 29.1 per cent in the corresponding period of 2006. On an annualized basis, this represented a growth of 22.02 per cent, compared with the target of 19.0 per cent for fiscal 2007. Narrow money supply (M1) grew by 0.63 per cent, compared with 20.4 per cent in the corresponding period of 2006. The growth in the money stock reflected the increase in foreign and other assets (net) of the banking system. The reserve money target for the first half of 2007 under the Policy Support Instrument (PSI) was met. The Federal Government was a net creditor to the banking system as net credit to the Government fell by 126.0 per cent, compared with 17.89 per cent recorded at end-June 2006, reflecting the significant increase in Federal Government deposits with the banking system, particularly with the CBN. The development reduced credit to the domestic economy by 187.2 per cent at end-June 2007 relative to the level at end-December 2006.

THE FINANCIAL SECTOR

Credit to the private sector however rose by 34.4 per cent. The rising trend observed in bank deposit rates since 2006 persisted. The average savings deposit rate as well as other rates on deposits of various maturities rose, reflecting increased competition in the deposit market. The declining trend that was observed in bank average prime lending rate reversed in the first half of 2007. With the year-on-year inflation rate at 6.4 per cent in June 2007, most of the term deposit rates were positive in real terms. Aggregate institutional savings as at end-June, 2007, amounted to N2,345.4 billion, indicating an increase of 2.6 per cent over the level in the corresponding period of 2006. The DMBs, buoyed by the deposit of N650 billion under the Pension Fund Scheme, remained the dominant savings institution, and accounted for 90.0 per cent of the total institutional savings at end-June 2007. Transactions on the Nigerian Stock Exchange were bullish as all market indicators trended upwards.

THE GOVERNMENT SECTOR

Total federally-collected revenue which stood at N2,344.9 billion was 4.9 and 21.6 per cent lower than the proportionate budget estimate and the actual revenue in the corresponding period of 2006, respectively. Oil-revenue accounted for 83.0 per cent, while non-oil revenue accounted for the balance. Aggregate expenditure of the Federal Government stood at N1,070.6 billion, 12.5 per cent lower than the proportionate budget estimate, but 42.4 per cent higher than the level in the corresponding period of 2006. The lower total expenditure relative to the budget estimate resulted from a decline in interest payment on domestic debt. Thus, the fiscal operations of the Federal Government resulted in an overall surplus of N73.0 billion as against the proportionate budget deficit of N269.8 billion.

THE REAL SECTOR

Provisional data from the NBS indicated that the Gross Domestic Product (GDP) at 1990 constant basic prices grew by 7.4 per cent, compared with 5.3 per cent in the corresponding period of 2006. The main growth driver was the non-oil sector which grew by 9.2 per cent and contributed 76.8 per cent to the GDP. At 194.8 (1990=100), the provisional aggregate index of agricultural production rose by 7.4 per cent, compared with the 6.2 per cent recorded in the first half of 2006 while activities in the industrial sector declined as its index of production at 116.6 (1990=100) fell by 6.4 per cent below the level attained during the corresponding period of 2006. The poor performance reflected the decline in mining production, manufacturing output and electricity consumption. Crude oil production, including condensates declined to an average of 2.14 million barrels per day (mbd) from 2.25 mbd in the first half of 2006. The average spot price of Nigeria's reference crude, the Bonny Light (37⁰ API), was \$65.56 per barrel in the first half of 2007, down by 1.4 per cent from \$66.48 per barrel in the first half of 2006. Inflationary pressure moderated as the headline year-on-year and the 12-month moving average inflation rates fell to 6.4 and 5.9 per cent in June 2007 from 8.5 and 13.6 per cent in June 2006, reflecting largely the effects of the stabilization in the supply of petroleum products, large stock of agricultural products from the 2006/2007 harvest, as well as good macroeconomic management.

EXTERNAL SECTOR

The performance of the external sector improved significantly with the outcome driven by the developments in the current account (CA) occasioned by huge diaspora funds from home remittances, and increased financial flows. The current account surplus increased while the capital account was in deficit. Consequently the overall balance of payments was N109.6 billion (US\$862.01 million). Provisional data indicated that Nigeria's external assets at end-June, 2007 stood at N6,462.19 billion (US\$50.76 billion), representing increases of 3.3 and 26.4 per cent over the levels in the preceding half year and corresponding period of 2006, respectively. The development was due entirely to the increase in the net assets of Deposit Money Banks (DMBs). The CBN's holdings accounted for 86.6 per cent of the total external assets, compared with 86.9 per cent in the corresponding period of 2006. World output growth for 2007 was projected by IMF's World Economic Outlook (WEO) at 5.2 per cent. World output however, expanded modestly in the first half of 2007 although growth in the US economy slowed in the first quarter but regained momentum in the second quarter. Output in most other countries expanded strongly especially in the euro area, Japan and the emerging market economies, led by China. Sub-saharan Africa also experienced growth, attributable to the increase in the prices of natural resources. Commodity prices fell in the international markets while domestic consumer prices increased in industrial countries. Inflation remained generally contained despite strong global demand. However some emerging market and developing economies faced rising inflation, especially in energy and food prices while oil prices increased due to limited spare production capacity.

OUTLOOK FOR THE REST OF 2007

Macroeconomic environment was expected to be conducive in the second half of the year as growth rate of output would be sustained, supported by a strong external sector. This is based on the expected continued improvement in agricultural output arising from favourable weather, government support and farmers' positive response. The industrial sector is also expected to outstrip its performance as a result of envisaged improvement in the power supply. The external sector is expected to remain robust, driven by persistent increase in crude oil prices to an estimated all time high of US\$80.0 per barrel in the third quarter of 2007. The protracted crisis in the Middle East, particularly in Iraq and the current disruption of production activities in the US and Mexico are likely to prompt supply shortages and spur price increases. In addition, the sustained growth in China and India would continue to exacerbate pressure on demand for crude oil and consequently sustain the upward pressure on prices in the international market.

However, the expected inflows may precipitate strong revenue to the three tiers of government with likely attendant fiscal profligacy, particularly at the sub-national government levels. Also, the planned expenses on infrastructural facilities, particularly in the power sector by the Federal Government was expected to accentuate fiscal spendings with serious challenges for monetary management. Consequently, inflation may be contained to about 9.2 per cent by the end of the year.

Selected Macroeconomic and Social Indicators

Indicator	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07
Domestic Output and Prices					
GDP at Current Mkt Prices (N' billion) 3/	**	5,223.53	6,568.97	8,412.36	10,698.26
GDP at Current Mkt Prices (US\$' billion) 3/	**	39.35	49.44	65.50	84.03
Real GDP Growth (Growth Rate%) 3/	9.60	6.60	5.80	5.30	5.69
Oil Sector	23.9	3.30	-1.74	-3.70	-5.87
Non-oil Sector	5.2	7.80	8.42	9.48	9.18
Sectoral Classification of GDP (Growth Rate %)					
Agriculture	6.6	6.5	6.93	7.32	6.82
Industry 4/	20.6	4.4	7.23	7.12	6.56
Services 5/	2.8	9.2	13.14	15.05	15.10
Oil Production (mbd)	2.11	2.33	2.46	2.34	2.14
Manufacturing Capacity Utilisation (%) 1/	45.50	45.60	48.40	45.10	43.90
Inflation Rate (%) (Dec-over-Dec)	14.00	14.10	18.60	8.50	6.40
Inflation Rate (%) (12-month moving average)	22.20	14.70	16.20	13.60	5.90
Core Inflation Rate (%) (Dec-over-Dec) 7/	22.20	14.70	16.20	13.60	9.60
Core Inflation Rate (%) (12-month moving average) 7/	16.60	32.30	6.70	11.00	11.10
Federal Government Finance (% of GDP)					
Retained Revenue	**	11.00	10.86	9.24	10.69
Total Expenditure	**	13.61	11.09	8.93	10.01
Recurrent Expenditure	**	9.36	8.15	7.06	5.18
Of which: Interest Payments					
Foreign	**	1.85	1.47	1.15	0.48
Domestic	**	1.60	0.92	0.25	0.04
Capital Expenditure and Net Lending	**	3.82	2.36	1.37	4.35
Transfers	**	0.41	0.58	0.50	0.48
Current Balance (Deficit(-)/Surplus(+))	**	1.61	2.71	2.18	5.51
Primary Balance (Deficit(-)/Surplus(+))	**	5.07	5.10	3.58	5.90
Overall Fiscal Balance (Deficit(-)/Surplus(+))	**	-2.61	-0.23	0.31	0.68
Financing					
Foreign	**	0.00	0.00	0.00	0.00
Domestic	**	2.34	0.94	0.00	0.00
Banking System	**	2.32	0.73	0.00	0.00
Non-bank Public	**	0.00	0.21	0.00	0.00
Others	**	0.06	0.00	0.00	0.00
Consolidated Government Debt Stock					
External	**	84.52	69.23	7.36	3.98
Domestic	**	25.34	20.77	18.58	19.23

Selected Macroeconomic and Social Indicators (Cont.)

Indicator	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07
Money and Credit (Growth Rate %)					
Reserve Money					
Narrow Money (M1)	13.76	-0.88	9.29	20.38	0.63
Broad Money (M2)	16.9	6.45	18.9	29.1	11.01
Net Foreign Assets	2.17	31.23	29.29	35.8	36.4
Net Domestic Assets					-75.6
Net Domestic Credit	23.55	-0.35	8.03	16.39	-187.3
Net Credit to Government	47.03	-17.87	-29.65	-1.73	-126.0
Credit to Private Sector	14.38	7.08	19.96	19.15	34.37
Money Multiplier for M2					4.76
Income Velocity of M2					
Interest Rates (% per annum)					
Minimum Rediscount Rate (MRR) 9/	16.50	15.00	13.00	14.00	...
Monetary Policy Rate (MPR) 9/	8.00
Repurchase Rate					
Reverse Repurchase Rate					
Treasury Bill Rate					
91-day	15.80	14.25	4.22	11.20	6.59
Inter-bank Call Rate	18.46	17.23	5.48	8.16	8.46
Deposit Rates					
Savings Rate	3.60	3.32	4.03	2.96	3.78
3-months Fixed	12.73	12.16	10.52	9.95	10.24
6-months Fixed	10.93	10.16	10.74	9.43	10.00
12-months Fixed	11.02	11.74	11.02	8.19	8.02
Prime Lending Rate	21.15	19.21	17.80	17.08	16.92
Maximum Lending Rate	22.93	20.68	19.17	18.61	18.74
External Sector					
Current Account Balance (% of GDP)	*	6	16.8	24.7	28.1
Goods Account	*	8.4	17.3	21	15.7
Services and Income Account	*	-4.5	-4.1	-4.2	1.3
Current Transfers	*	2.1	3.6	7.9	11.1
Capital and Financial Account Balance (% of GDP)	*	-0.6	-6.2	-11.9	-26.5
Overall Balance (% of GDP)	*	5.2	10.5	12.7	1.4
External Reserves (US \$ billion)	7.67	11.44	24.37	36.48	42.63
Number of Months of Import Equivalent	7.2	12.2	18.6	23	20.9
Debt Service Due (% of Exports of Goods and Services)	16.5	14.2	8.96	1.6	1.1
Average Crude Oil Price (US\$/barrel)	27.94	33.04	49.95	61.44	63.04
Average AFEM/DAS Rate (N/\$1.00)	127.83	132.75	132.87	128.4543	127.409
End of Period AFEM/DAS Rate (N/\$1.00)	127.92	132.75	132.87	128.44	127.31
Average Bureau de Change Exchange Rate (N/\$)	139.42	140	141.21	136.8182	128.3333
End of Period Bureau de Change Exchange Rate (N/\$)	139.00	140.00	142.50	132.50	128.00
Capital Market					
All Share Value Index (1984=100)		29439.00	26877.92	26161.15	51330.46
Value of Stocks Traded (Billion Naira)		29.40	100.10	167.60	666.20
Market Capitalization (Billion Naira)		2.06	1.90	3.50	8.90

Selected Macroeconomic and Social Indicators (Cont.)

Indicator	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07
Social Indicators					
GDP per Capita (N) ^{3/}					
GDP per Capita (US\$) ^{3/}					
Population (million)	125.6	129.2	133.8	140.0	140.0
Population Growth Rate (%)	2.8	2.8	2.8	2.8	3.2
Life Expectancy at Birth (Years)	54	54	54	54	54
Adult Literacy Rate (%)	57	62	57	64.2	
Incidence of Poverty ^{11/}	54.4	54.4	54.4	54.4	54.4

1/ Revised

2/ Provisional

3/ Revised based on National accounts of Nigeria 1981-2005 Harmonised series

4/ Includes Building and Construction.

5/ Includes Wholesale and Retail Services

6/ Based on GDP at purchasers' value (i.e. GDP at market prices)

7/ Core Inflation is measured as the rate of change of all-item Consumer Price Index (CPI) less farm produce.

8/ Based on GDP at Current Purchasers' Value (Current Market Price).

9/ MPR replaced MRR with effect from December 11, 2006

10/ The 182-day and the 364-day bills were introduced with effect from _____

11/ The incidence of poverty in Nigeria was projected to increase from 65.6 per cent in 1996 to 70.0 per cent in 2000.

However, the result of a Nigeria Living Standard Survey of 2003/2004 from NBS (former FOS), showed that the incidence of poverty declined to 54.4 per cent in 2003/2004.

**** indicates not available.*

