CHAPTER 5

FISCAL OPERATIONS

Nigeria's fiscal operations remained within the medium–term expenditure framework (MTEF) with the objective of maintaining prudent fiscal management. At ₦7,866.6 billion or 32.7 per cent of GDP, the Federation Account Revenue (gross) increased by 37.6 per cent over the level in 2007. The development was attributed to the increase in crude oil prices during the first three quarters of 2008 which later crashed due to the global economic crisis which induced low energy demand in the latter part of the year. Non-oil revenue increased by 6.7 per cent above the level in the preceding year to ₦1,336.0 billion, representing 5.6 per cent of GDP. The sum of ₦4,552.8 billion was transferred to the Federation Account in 2008, indicating an increase of 17.4 per cent over the level in 2007.

Adherence to the fiscal rule resulted in an accumulated savings of US$20,341.2 million by the three tiers of government at the end of 2008 in the excess crude account. The savings comprised US$12,400.6 million brought forward from 2007 and US$7,940.6 million accumulated in 2008.

Federal Government-retained revenue and aggregate expenditure increased by 36.8 and 32.2 per cent, respectively, over their levels in 2007. Sound fiscal management resulted in a primary surplus of ₦333.8 billion or 1.4 per cent of GDP. Furthermore, the overall fiscal deficit of the Federal Government narrowed from a notional deficit of ₦117.2 billion or 0.6 per cent of GDP in 2007 to ₦47.4 billion or 0.2 per cent of GDP.

Provisional data on state governments' finances indicated an overall deficit of ₦86.8 billion or 0.4 per cent of GDP, representing an increase of 71.2 per cent, when compared with ₦50.7 billion or 0.24 per cent of GDP in 2007. Similarly, local governments' fiscal operations resulted in a deficit of ₦3.0 billion as against a surplus of ₦4.9 billion in 2007.

Consolidated Federal Government debt stock as at 31st December, 2008 was ₦2,811.3 billion or 11.7 per cent of GDP, compared with ₦2,597.7 billion or 12.5 per cent of GDP in 2007. Nigeria's external debt stock increased marginally from US$3.6 billion in 2007 to US$3.7 billion, following the additional disbursement of concessional loans from Multilateral Institutions. Domestic debt at ₦2,320.3 billion increased by 6.9 per cent, as a result of the issuance of FGN Bonds for project financing and the settlement of contractual obligations.

5.1 FISCAL POLICY THRUST

The fiscal policy thrust for 2008 was meant to consolidate the growth of the economy and translate the macroeconomic gains of the recent past into tangible improvements in the standard of living of the citizenry. It provided the impetus for the provision of physical infrastructure, particularly roads, water, energy and transportation, as well as improvements in human capital development, job creation, and social safety nets within the context of the two-year Medium-term Expenditure Framework and the Seven-point Agenda of the Federal Government. Consequently, the following broad fiscal measures were taken:

- Continued adherence to the Fiscal Responsibility Act to institutionalize budgetary transparency, accountability as well as prudence in the general public sector management;
- Introduction of lower tariff bands under the "2008-2012 Nigeria Custom and Tariff Book" to expand trade across the ECOWAS sub-region and reduce the incidence of smuggling;
- Enhanced budgetary allocations to education, energy, agriculture and water resources, security and the Niger Delta;
- Sustenance of Public Service reforms to improve service delivery; and
- Disbursement of ₦110.0 billion from the Debt Relief/Forgiveness Fund to selected poverty-reduction programmes.

5.2 FEDERATION ACCOUNT OPERATIONS

Total federally-collected revenue increased by 37.6 per cent to ₦7,866.6 billion, representing 32.7 per cent of GDP, up from 27.4 per cent in 2007. It was 30.4 per cent higher than the budget estimate of ₦6,033.5 billion, a development that was attributable largely to the phenomenal rise in crude oil prices in the international market during the first three quarters of the year.

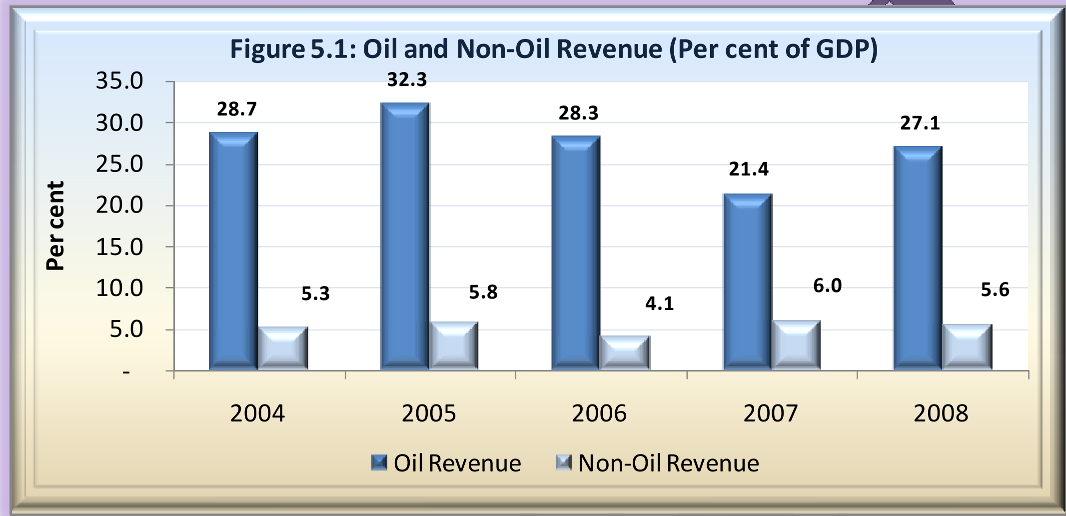
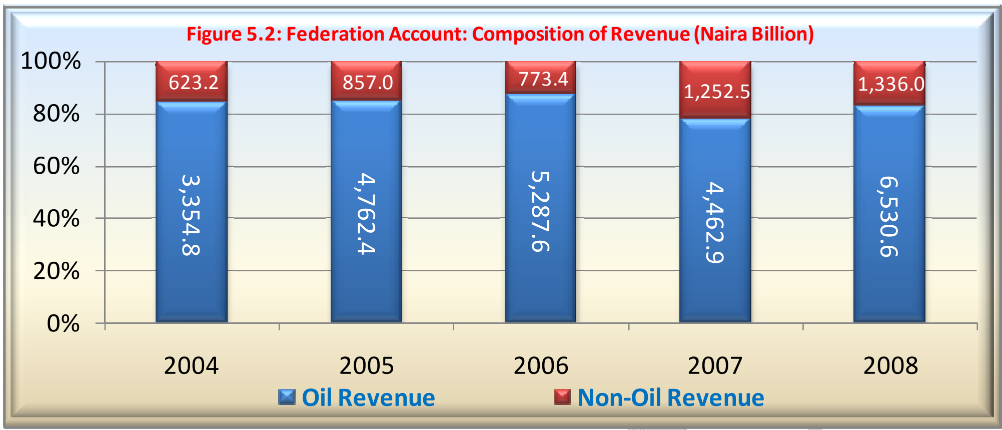


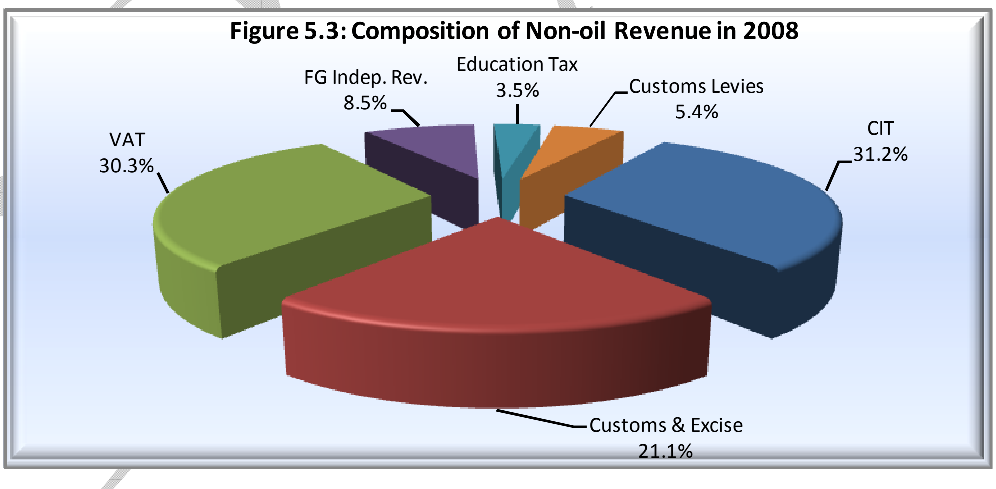
Figure 5.1: Oil and Non-Oil Revenue (Per cent of GDP)

Of the total receipts, oil revenue (gross) accounted for ₦6,530.6 billion or 27.1 per cent of GDP, indicating an increase of 31.6 per cent above the level in 2007. A breakdown showed that revenue from crude oil and gas exports increased by 21.6 per cent from the level in the preceding year to ₦2,251.4 billion. Similarly, revenue from the Petroleum Profit Tax (PPT) and Royalties increased by 87.4 per cent to ₦2,812.3 billion, while revenue from domestic crude oil sales increased by 33.6 per cent to ₦1,462.5 billion. The development reflected the sustained rise in crude oil prices in the international market particularly, in the first half of 2008. However, the impact was moderated by the reduction in crude oil production, due to the persistent restiveness in the Niger Delta region. From the gross oil receipts, ₦579.1 billion was deducted for the Joint Venture Cash (JVC) calls, ₦2,682.1 billion in respect of excess crude/PPT/royalty proceeds and "others", leaving a balance of ₦3,269.5 billion for distribution to the three tiers of government and other beneficiaries.

Accretion to the excess oil revenue savings, comprising excess crude, petroleum profit tax, and royalty accounts amounted to ₦2,682.1 billion, representing an increase of 113.4 per cent over the level achieved in 2007. Of this amount, the sums of ₦841.5 billon or 33.4 per cent, ₦795.4 billion or 29.7 per cent and ₦77.9 billion or 2.9 per cent, respectively, were utilized for budget augmentation, excess crude sharing by the three tiers of government and contributions to external creditors' funding by the state governments and the Federal Government.



Gross revenue from non-oil sources increased by 6.7 per cent to ₦1,336.0 billion in 2008. Further analysis indicated that Value-Added Tax (VAT) increased by 39.7 per cent to ₦404.5 billion, while collections from company income tax and customs and excise duties increased by 27.5 and 16.5 per cent to ₦416.8 billion and ₦281.3 billion, respectively. On the contrary, the Independent Revenue of the Federal Government fell by 57.6 per cent to ₦114.0 billion. At 5.6 per cent, the ratio of non-oil revenue to GDP fell below the level recorded in the previous year, indicating the overwhelming effects of oil earnings.



The increase in non-oil revenue was due partly to the introduction of lower tariff bands which reduced the incidence of smuggling, as well as continuous improvements in the revenue collection machinery of both the Nigeria Custom Service (NCS) and the Federal Inland Revenue Service (FIRS). The sum of ₦52.6 billion was deducted from the non-oil revenue as the administrative costs of its collection from company income taxes, custom and excise duties and value added tax, leaving a distributable balance of ₦388.3 billion.

5.2.1 The Federation Account Allocation

The sum of ₦4,552.8 billion accrued to the Federation Account in 2008, indicating an increase of 17.4 per cent over the level in 2007. Of the total, ₦3,931.1 billion was distributed among the three tiers of government, including the 13% Derivation Fund for the oil-producing state governments. The sum of ₦388.3 billion was transferred to the VAT Pool Account, while the sum of ₦114.0 billion accrued to the Federal Government as Independent Revenue. Similarly, the sum of ₦119.4 billion was transferred to the Education Tax Fund and Customs Special Levies accounts. A breakdown of the distribution from the Federation Account among the three tiers of government showed that the Federal Government, including Special Funds, received ₦1,847.0 billion, state governments (including the 13% Derivation Fund) ₦1,361.8 billion, and local governments ₦722.3 billion.

5.2.2 The VAT Pool Account Distribution

At ₦388.3 billion, the distributable balance in the VAT Pool Account exceeded its level in 2007 by 34.1 per cent. A breakdown of the distribution among the three tiers of government showed that the Federal Government received ₦58.3 billion, state governments ₦194.1 billion, while the local governments shared ₦135.9 billion.

Table 5.1: VAT Pool Account Distribution (Amount In ₦' Billion)

	2004	2005	2006	2007	2008
Beneficiaries					
i Federal Government	23.8	26.7	22.5	43.4	58.3
ii State Governments	79.2	89.1	75.0	144.8	194.1
iii Local Governments	55.4	62.3	52.5	101.4	135.9
Total	**158.3**	**178.1**	**150.0**	**289.6**	**388.3**

5.2.3 Aggregate Revenue for the Three Tiers of Government

At ₦7,460.5 billion, the aggregate revenue for the three tiers of government in 2008 comprised ₦3,931.1 billion from Federation Account; ₦841.5 billion from Budget Augmentation proceeds; ₦795.4 billion from excess crude revenue savings; ₦388.3 billion from VAT; ₦114.0 billion from the Federal Government's independent revenue; ₦464.3 billion from internally-generated revenue of the sub-national governments; ₦103.0 billion from grants/others for the sub-national governments; ₦57.8 billion from the stabilization fund by sub-national governments; ₦6.8 billion from states' allocation to the local governments; and ₦758.2 billion from other funds.

Table 5.2: SOURCES OF FUNDS FOR THE THREE TIERS OF GOVERNMENT IN 2008 (₦Billion)						
Source	FG*	SG			LG	Grand Total
		States	13%	Total*		
Share from Fed. Acct.	1,847.02	936.83	425.03	**1,361.86**	722.26	**3,931.14**
Budget Augmentation	385.67	195.62	109.39	**305.01**	150.81	**841.49**
Share from Excess Crude	106.54	323.32	30.22	**353.54**	335.33	**795.41**
Share of VAT	58.30	194.17	-	**194.17**	135.92	**388.39**
FG Independent Revenue	114.00	-	-	**-**	-	**114.00**
Privatization Proceeds	-	-	-	**-**	-	**-**
Sub-National Govt. Internally-Generated Rev.	-	441.15	-	**441.15**	22.70	**463.85**
Grants and Others	-	102.70	-	**102.70**	12.10	**114.80**
Share of Stabilization	-	53.37	-	**53.37**	5.50	**58.87**
State Allocation	-	-	-	**-**	3.30	**3.30**
Others	681.91	76.31	-	**76.31**	-	**758.22**
TOTAL	**3,193.40**	**2,323.46**	**564.64**	**2,888.10**	**1,387.92**	**7,469.46**

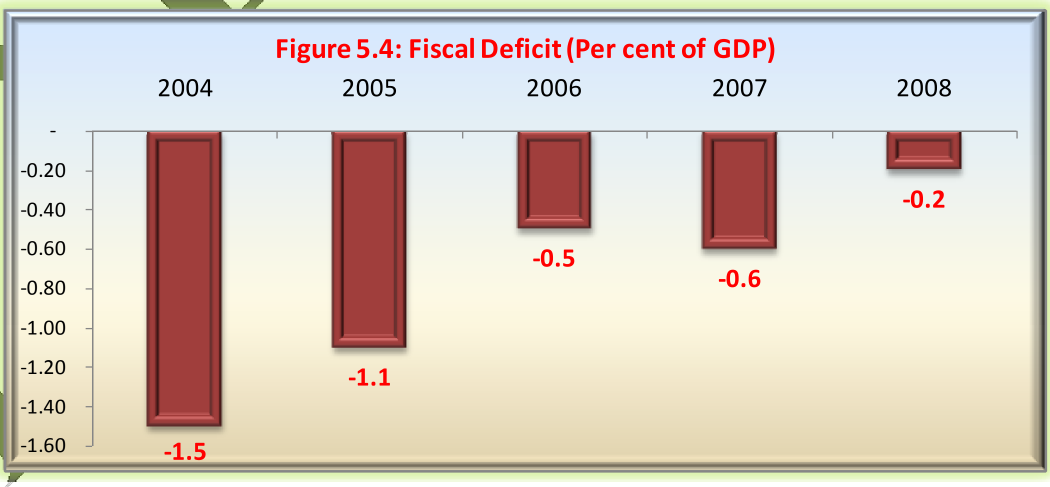
* Share of FCT subsumed in FG

5.3 FEDERAL GOVERNMENT FINANCES

5.3.1 Overall Fiscal Balance and Financing

The 2008 surplus, which reflects the savings position of the government, increased by 44.6 per cent to ₦1,076.1 billion or 4.5 per cent of GDP, while the primary balance, which reflects the outcome of the current year's fiscal operations, recorded a surplus of ₦333.8 billion or 1.4 per cent of GDP, compared with the surplus of ₦96.5 billion or 0.5 per cent of GDP in 2007. However, the overall fiscal operations of the Federal Government resulted in a notional deficit of ₦47.4 billion or 0.2 per cent of GDP, compared with the deficit of ₦117.2 billion or 0.6 per cent of GDP in 2007. At 0.2 per cent of GDP, the deficit outperformed the WAMZ's primary convergence criterion maximum target of 4.0 per cent. The overall budget deficit was financed largely from domestic (through the issuance of FGN bonds) and external sources.

Figure 5.4: Fiscal Deficit (Per cent of GDP)



5.3.2 Retained Revenue of the Federal Government

Federal Government-retained revenue increased to ₦3,193.4 billion or 13.3 per cent of GDP, from ₦2,333.7 billion or 11.2 per cent of GDP in 2007. Analysis of the revenue showed that the share from the

Federation Account was ₦1,847.0 billion; VAT Pool Account, ₦58.3 billion; Federal Government Independent Revenue, ₦114.0 billion; Budget Augmentation, ₦385.7 billion; share of excess crude account, ₦106.5 billion; and "others" accounted for the balance of ₦682.0 billion. The increase in retained revenue was partly due to the substantial increase in the "others" (including the transfer from unspent balances from the previous year's budget), as well as the increase in the share from the Federation, Excess Crude and VAT Pool accounts.

Figure 5.5: Composition of Federal Government-retained Revenue in 2008

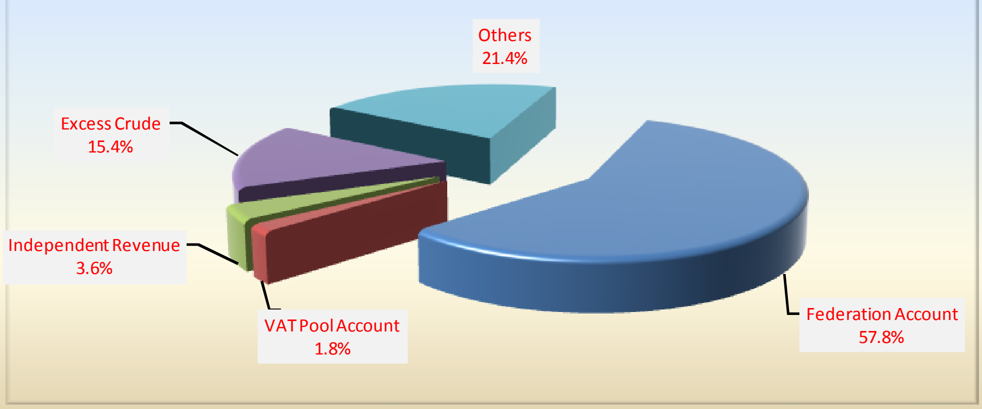
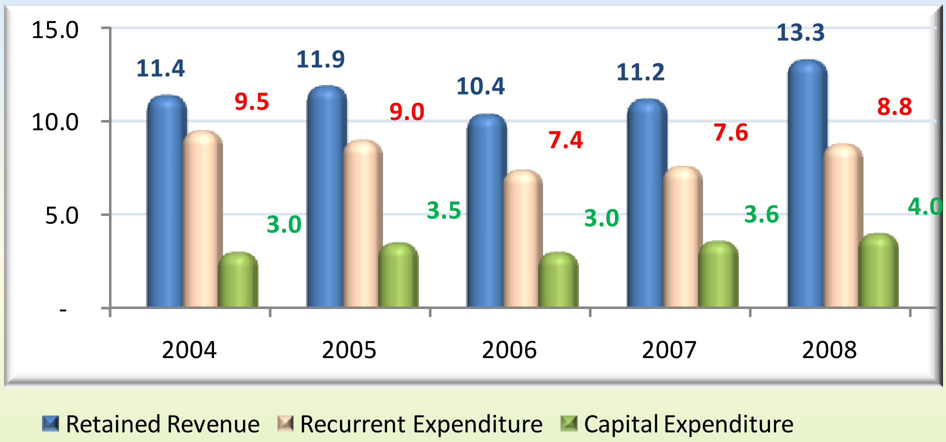


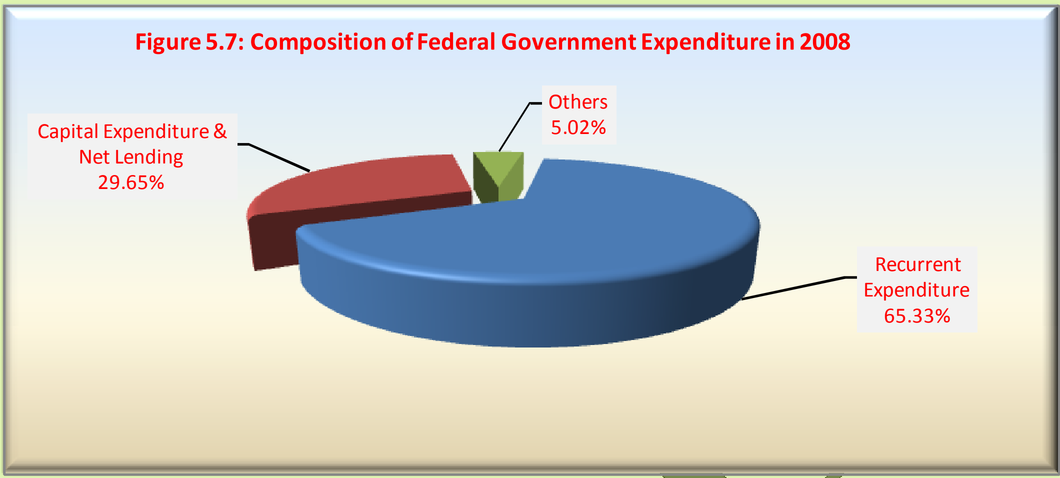
Figure 5.6: Federal Government Revenue and Expenditure (per cent of GDP)



5.3.3 Total Expenditure of the Federal Government

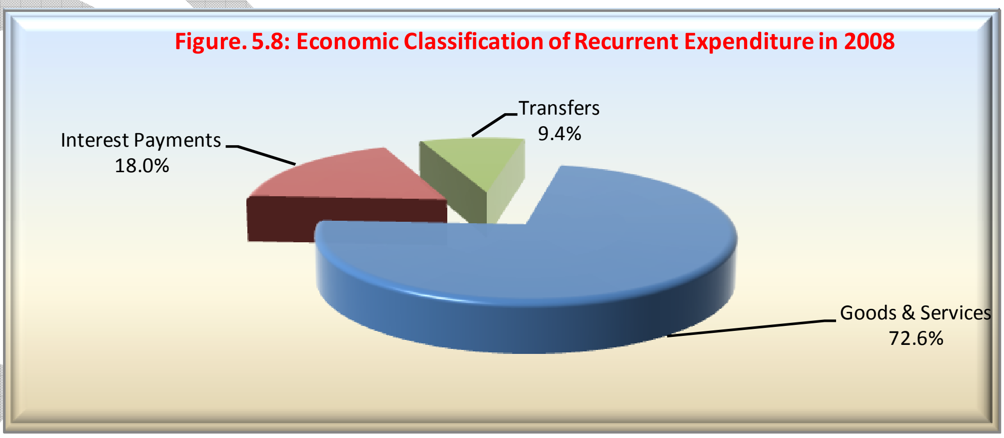
The aggregate expenditure of the Federal Government, in nominal terms, increased by 32.2 per cent to ₦3,240.8 billion in 2008. As a proportion of GDP, total expenditure increased by 13.5 per cent, from 11.7 per cent in the previous year. Non-debt expenditure (total expenditure less debt service payments) increased by 27.8 per cent from the level in 2007 and exceeded the ₦2,375.8 billion budget estimate for

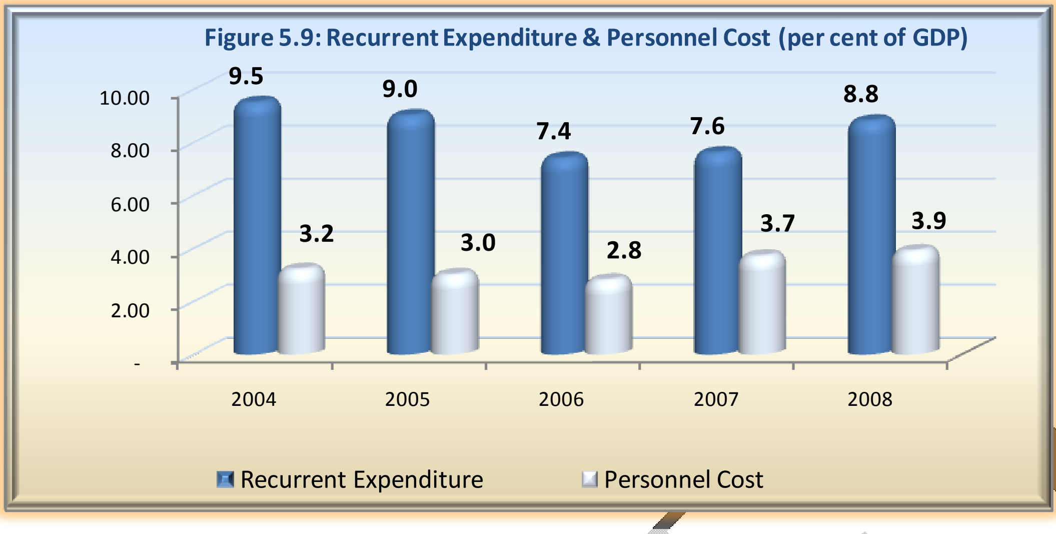
2008 by 20.4 per cent. Total debt service payments amounted to ₦381.2 billion, representing 11.8 per cent of the total expenditure.



5.3.3.1 Recurrent Expenditure

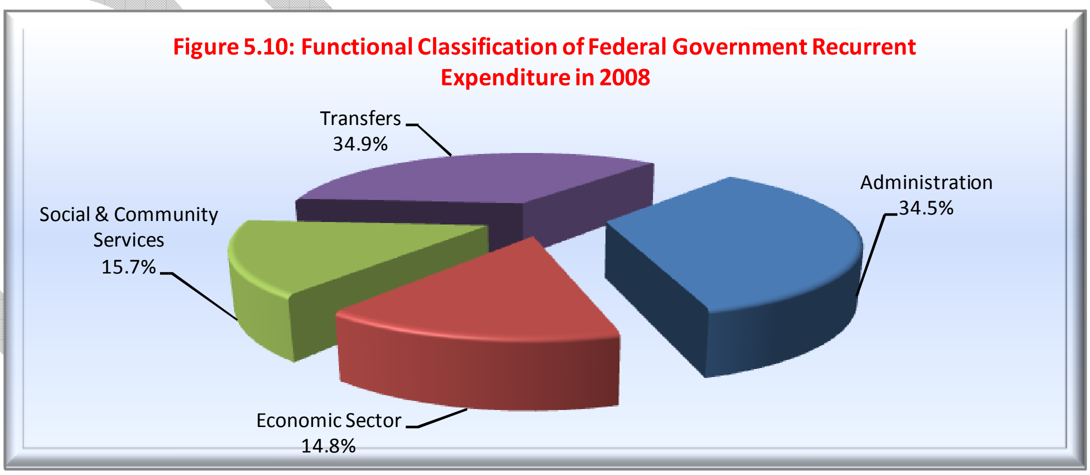
At ₦2,117.4 billion, recurrent expenditure increased by 33.2 per cent over the level in 2007 and accounted for 65.3 per cent of total expenditure. As a percentage of GDP, recurrent expenditure increased by 1.2 percentage points to 8.8 per cent. Most of the components of recurrent expenditure increased relative to their levels in the preceding year. Thus, the goods and services component increased by 24.5 per cent, while interest payments and transfers shot up by 78.4 and 41.3 per cent, respectively. An analysis of the goods and services component showed that personnel cost/pensions amounted to ₦1,080.7 billion or 51.0 per cent of the total recurrent expenditure,and overhead cost was ₦457.4 billion or 21.6 per cent. Furthermore, interest payments stood at ₦381.2 billion or 18.0 per cent (comprising domestic - ₦322.2 billion and external - ₦59.0 billion), and transfers to the Federal Capital Territory (FCT)/others accounted for ₦198.1 billion or 9.4 per cent.





Interest payments on consolidated debt (foreign and domestic) as a percentage of GDP increased from 1.0 per cent in 2007 to 1.6 per cent in 2008, reflecting the continued issuance of FGN Bonds to finance key Federal Government projects.

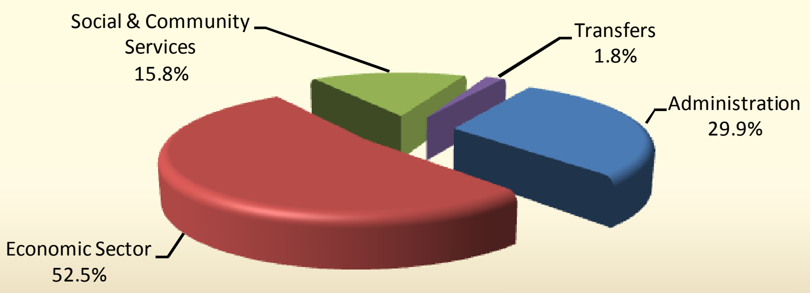
The functional classification of recurrent expenditure showed that the outlay on administration increased by 16.7 per cent to ₦731.0 billion and accounted for 34.5 per cent of the total. Transfer payments increased by 40.3 per cent to ₦739.7 billion and accounted for 34.9 per cent of the total, reflecting a significant increase in domestic interest payments during the period. Expenditure on economic services increased by 75.2 per cent to ₦313.8 billion and accounted for 14.8 per cent of the total recurrent expenditure. Within the economic services sector, agriculture, transport, communications and roads/construction jointly absorbed 72.4 per cent of the share of the sector. Expenditure on social and community services accounted for 15.8 per cent of the total.



5.3.3.2 Capital Expenditure

Capital expenditure increased in absolute terms by 26.5 per cent to ₦960.9 billion and accounted for 4.0 per cent of GDP. As a proportion of Federal Government revenue, capital expenditure was 30.1 per cent, exceeding the stipulated minimum target of 20.0 per cent under the WAMZ secondary convergence criteria. A breakdown of capital expenditure showed that public investment in economic services accounted for ₦504.4 billion or 52.5 per cent of the total, compared with 47.2 per cent in the preceding year. Within the economic services sector, housing, manufacturing, mining/quarrying, agriculture/natural resources, transport/communications and roads/construction absorbed 66.3 per cent of the share of the sector. Public investments in social and community services recorded an increase of 0.8 per cent over the level in the preceding year and accounted for 15.8 per cent of the total. The expenditure on education and health, increased by 4.3 and 0.3 per cent to ₦48.8 billion and ₦97.2 billion, respectively.

Figure 5.11: Functional Classification of Federal Government Capital Expenditure in 2008



BOX 3: THE GLOBAL ECONOMIC CRISIS: IMPLICATIONS FOR FEDERAL GOVERNMENT FISCAL OPERATIONS

As the global economic crisis deepened in most developed and emerging economies, the attendant reduction in energy demand occasioned by the significant drop in industrial production in the advanced and emerging economies induced a drastic fall in crude oil prices in the international market and adversely affected the nation's revenue earnings. Although,the non-oil sector recorded improved performance, its relative contribution to the total revenue was overwhelmed by oil revenue inflows. Thus, with the overdependence on crude oil/gas sales for government revenue, the plunge in crude oil price from an all time high of US$147 per barrel in July to a low of US$45 per barrel in December 2008, has implications for the economy.

A review of the Federal Government revenue profile in the last half-decade (FY2003-FY2008) showed that oil earnings accounted for over 80.0 per cent and generated over 90.0 per cent of the foreign exchange earnings, while the non-oil sector, despite its improved performance, contributed less than 20.0 per cent, thus revealing the extent of the vulnerability of the economy to swings in the price of oil in the international market. Notwithstanding, the declining price of oil below the budget benchmark of US$59 per barrel in the last quarter of 2008, total earnings from oil surpassed the level achieved in 2007 and also out-performed the FY2008 budget estimate. However, the falling crude oil prices resulted in a substantial drawdown of the accumulated excess crude oil revenue savings for budget augmentation, thereby heightening apprehension for its depletion.

The continuing global economic downturn is likely to keep the price of oil low in the international market in the medium term, with the attendant reduction in crude oil revenue and excess crude oil receipts savings in the coming years. The renewed emphasis on the production of alternatives to fossil-fuel energy, such as solar, wind and bio-energy in the advanced economies, would reduce oil demand and further weaken earnings. Thus, in the absence of concerted efforts to shore-up and widen the revenue base, the fiscal operations of the three tiers of government might be constrained and result in the following:

- Inadequate revenue to meet budgets to finance critical development projects;
- Infrastructural decadence and welfare loss, occasioned by expenditure reduction ;
- Reduced revenue allocation to the sub-national governments, with the attendant adverse effects on their fiscal operations;
- Depletion of accumulated excess crude oil revenue savings to finance the budget;
- Unbridled borrowing from the banking system and the capital market, with the subsequent crowding-out of private sector credit and investments ;
- Decline in the growth rate of output and rising unemployment; and
- External debt build-up through external borrowing to finance expenditure.

Going forward, therefore, the robust oil savings reserve should be prudently managed in FY2009. Hence, there is the need to prioritise expenditure and emphasise productive investments in agriculture, infrastructure (power, road, water, etc), as well as strengthen the non-oil sub-sector with linkages to the rest of the economy as safety nets to re-invigorate earnings. Finally, given Nigeria's growing population, the economy's high tax potential should be exploited to generate the highest revenue for government fiscal operations. In this regard, efforts should also be made towards the speedy development of the gas sector and the introduction of gas profit tax as a counterpart to PPT. In addition, the sub-national governments should exploit the property tax potential in their respective states.

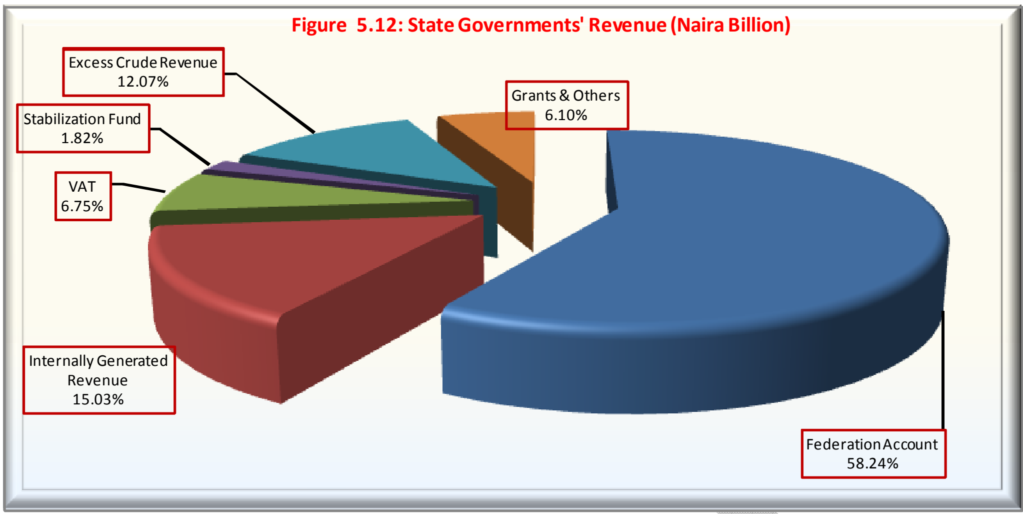
5.4 STATE GOVERNMENTS' FINANCES[1]

5.4.1 Overall Fiscal Balance and Financing

Provisional data on state governments' finances (including FCT) indicated an increase in the overall deficit from ₦50.7 billion or 0.2 per cent of GDP in 2007 to ₦86.8 billion or 0.4 per cent of GDP in 2008. The

[1] The provisional data are from CBN survey returns from 36 states and the FCT.

higher deficit was attributable, largely, to the increased capital expenditure which rose by 70.3 per cent over the level in 2007.



5.4.2 Revenue

The total revenue of the state governments increased by 42.1 per cent to ₦2,934.8 billion or 12.2 per cent of GDP, compared with ₦2,065.4 billion or 9.9 per cent of GDP in 2007. The analysis of the sources of revenue indicated that allocations from the Federation Account (including the 13.0% Derivation Fund and the drawdown for Budget Augmentation) was ₦1,709.2 billion or 58.2 per cent; VAT Pool Account, ₦198.1 billion or 6.8 per cent; Internally Generated Revenue (IGR), ₦441.1 billion or 15.0 per cent; Stabilization Account ₦53.4 billion or 1.8 per cent; the share of excess crude account ₦354.1 billion or 12.1 per cent; and grants/others ₦179.0 billion or 6.1 per cent. The performance of IGR improved over the level in 2007 as it increased from 1.5 to 1.8 per cent of GDP. In terms of tax efforts, measured as a ratio of IGR to total revenue, Lagos State ranked the highest with 63.5 per cent and was followed by Sokoto and Ogun States with 46.6 and 27.5 per cent, respectively, while Taraba ranked the least with 2.3 per cent. In terms of the state governments' effort at improving internally-generated revenue, Ondo state ranked top with an increase of its internally-generated revenue/total revenue (IGR/TR) ratio from 3.2 per cent recorded in 2007 to 16.4 per cent in 2008. Borno and Nassarawa states followed in the second and third positions. Overall, the consolidated IGR/TR ratio of the state governments improved from 14.8 per cent in 2007 to 15.0 per cent in 2008, indicating that state governments made appreciable efforts to shore up their internal revenue.

Item	State Governments' Revenue				Share in GDP	
	2007		2008		2007	2008
	Amount (₦' Billion)	Share (%)	Amount (₦' Billion)	Share (%)	%	%
Federation Account/1	1,109.3	53.71	1,709.19	58.2	5.3	7.1
VAT	144.4	6.99	198.05	6.8	0.7	0.8
Internally Generated Revenue	305.7	14.80	441.15	15.0	1.5	1.8
Stabilization Fund	37.7	1.83	53.37	1.8	0.2	0.2
Excess Crude Revenue	258.9	12.54	354.06	12.1	1.2	1.5
Grants & Others	209.4	10.14	179.01	6.1	1.0	0.8
Total	**2,065.4**	**100.0**	**2,934.83**	**100.0**	**9.9**	**12.2**

Table 5.3: State Governments' Revenue

1/ Including 13% Derivation, Budget Augmentation Drawdown, FCT Allocation etc

5.4.3 Expenditure

The consolidated expenditure of the state governments in 2008 increased by 42.8 per cent to ₦3,021.6 billion or 12.6 per cent of GDP. A breakdown showed that, at ₦1,505.6 billion or 6.3 per cent of GDP, recurrent expenditure was 23.7 per cent higher than the level recorded in the preceding year and accounted for 49.8 per cent of the total.

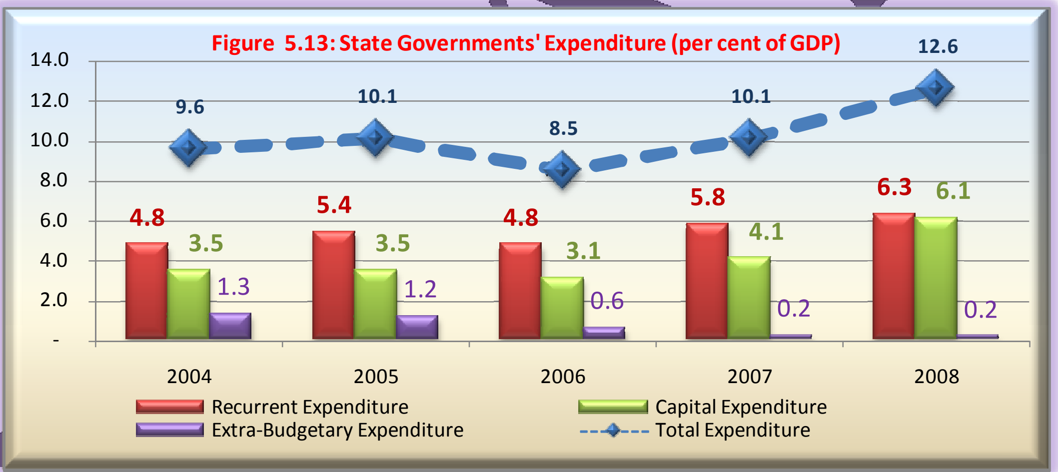
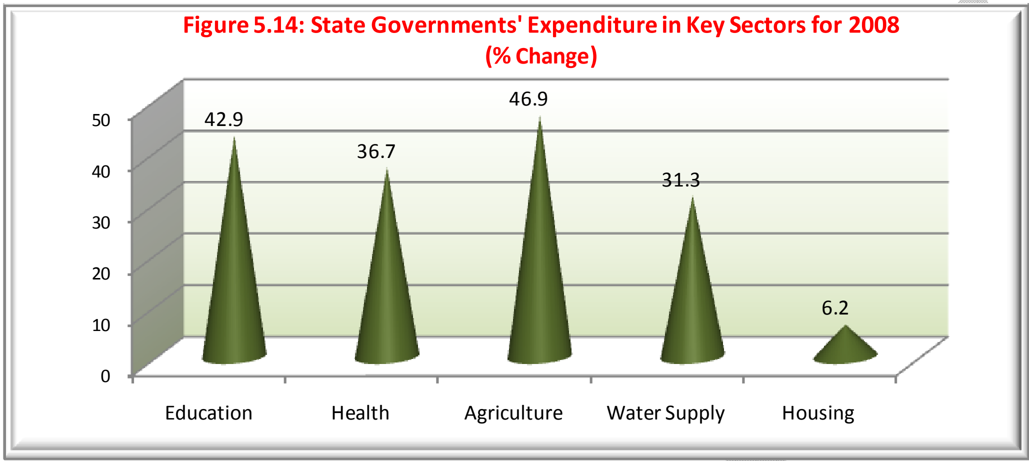


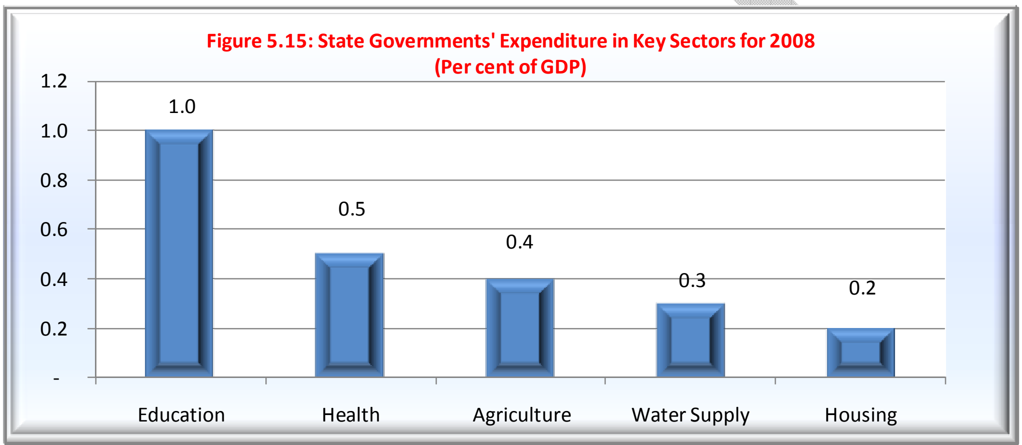
Figure 5.13: State Governments' Expenditure (per cent of GDP)

At ₦1,455.7 billion or 6.1 per cent of GDP, the capital expenditure of the state governments was 70.3 per cent higher than the level in 2007 and accounted for 48.2 per cent of the total. Similarly, the extra-budgetary expenditure of the state governments increased by 37.2 per cent and accounted for 2.0 per cent of the total expenditure.

An analysis of the consolidated spending on primary welfare sectors indicated that expenditure on education and health increased by 42.9 and 36.7 per cent, respectively, over the levels in 2007 to ₦234.7 billion or 1.0 per cent of GDP and ₦117.4 billion or 0.5 per cent of GDP. Similarly, expenditure on agriculture grew by 46.9 per cent above the level in the preceding year to ₦106.7 billion (0.4 per cent of GDP). The outlay on water supply and housing also increased by 31.3 and 6.2 per cent, respectively, to

₦63.9 billion or 0.3 per cent of GDP and ₦39.3 billion or 0.2 per cent of GDP. On the whole, aggregate expenditure on key welfare sectors amounted to ₦562.0 billion or 2.3 per cent of GDP, and accounted for 18.6 per cent of the consolidated total expenditure of the state governments.



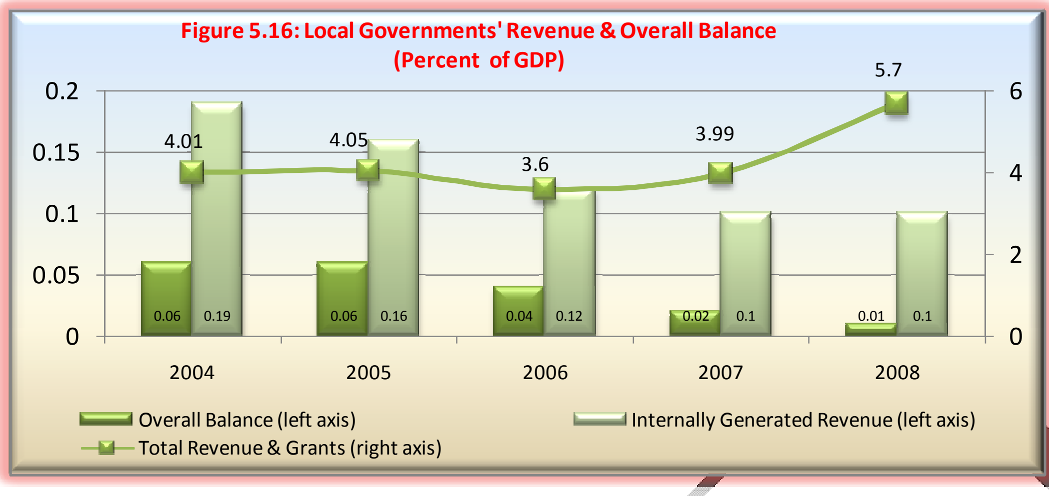


The higher expenditure in the welfare sectors in 2008 occured in the areas of water supply projects, construction and renovation of hospitals/primary health clinics, as well as in the expansion of educational facilities.

5.5 LOCAL GOVERNMENTS' FINANCES

5.5.1 Overall Fiscal Balance and Financing

Provisional estimates on consolidated local government fiscal operations resulted in a deficit of ₦3.0 billion as against a surplus of ₦4.9 billion achieved in 2007. The development was attributed to the substantial increase in capital expenditure occassioned by the desire to deliver developmental projects in order to improve the welfare of the citizens.

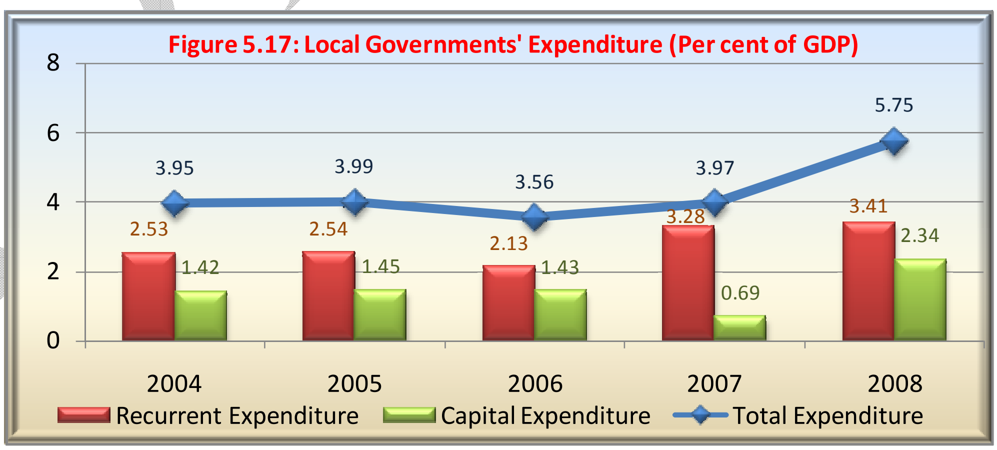


5.5.2 Revenue

The total revenue of local governments was estimated at ₦1,379.0 billion, indicating a significant increase of 65.7 per cent over the level in 2007. The sources of revenue comprised allocations from the Federation Account, ₦722.3 billion; the share of VAT, ₦135.9 billion; internally- generated Revenue, ₦23.1 billion; Grants/Others, ₦0.3 billion; the share of the stabilization fund, ₦4.4 billion; state allocations, ₦6.8 billion; the share of excess crude account, ₦335.3 billion; and the drawdown for budget augmentation, ₦150.8 billion. Internally-generated revenue increased by 8.4 per cent over the level in 2007, due to an improved revenue drive effort by the local councils. As a percentage of GDP, local governments' total revenue was 5.7 per cent, compared with 4.0 per cent in 2007, reflecting enhanced statutory allocations.

5.5.3 Expenditure

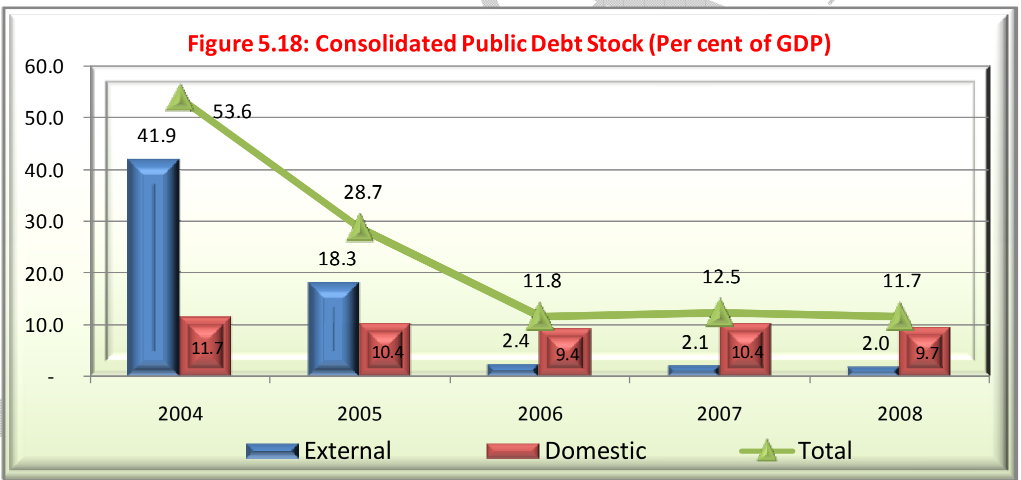
At ₦1,382.0 billion, the estimated total expenditure of local governments was 67.0 per cent higher than the level in 2007. A breakdown indicated that the share of recurrent expenditure stood at ₦819.4 billion, or 59.3 per cent, while capital expenditure amounted to ₦562.6 billion, or 40.7 per cent.



A breakdown of recurrent expenditure showed that personnel cost amounted to ₦341.4 billion, while overhead cost and consolidated fund charges and others amounted to ₦355.6 billion and ₦122.5 billion, respectively. At ₦562.6 billion, capital expenditure represented 2.3 per cent of GDP, and comprised administration, ₦72.8 billion; economic services, ₦252.8 billion; social and community services, ₦219.8 billion; and transfers, ₦17.2 billion.

5.6 THE CONSOLIDATED PUBLIC DEBT

The Consolidated Federal Government debt stock, as at 31st December, 2008, was ₦2,811.3 billion, or 11.7 per cent of GDP, compared with ₦2,597.7 billion, or 12.5 per cent of GDP in 2007. The increase in the stock of consolidated debt resulted from the issuance of new FGN Bonds for project finance and to meet some contractual obligations. Consequently, the stock of FGN Bonds grew from ₦1,186.1 billion in 2007 to ₦1,445.6 billion and accounted for 51.4 per cent of the total. At end-December 2008, external debt outstanding amounted to ₦491.0 billion (US$3.7 billion) and constituted 17.5 per cent of the total. The stock of external public debt increased by 2.1 per cent, while the domestic component increased by 6.9 per cent above its level in 2007.



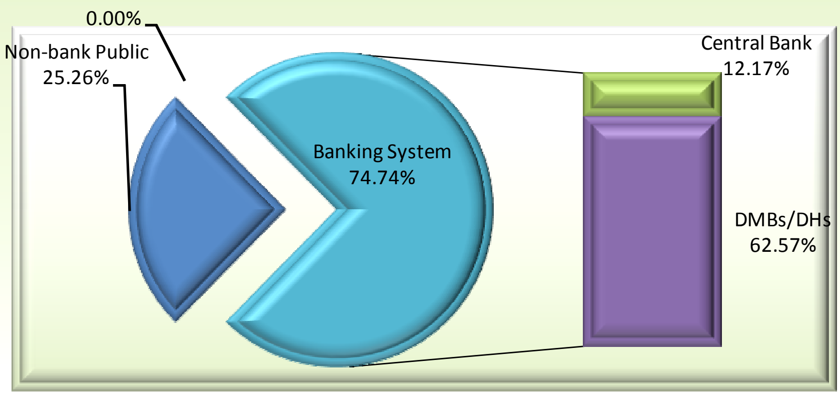
5.6.1 Domestic Debt

The domestic debt stock of the Federal Government outstanding at end-December 2008 stood at ₦2,320.3 billion, representing an increase of 6.9 per cent over the level in 2007. The increase was due mainly to the issuance of new series of FGN Bonds worth ₦495.6 billion in an effort to restructure the domestic debt, as well as finance project and the settlement of other government obligations. The banking system remained the dominant holder of total domestic debt outstanding with 74.7 per cent, while the non-bank public accounted for the balance of 25.3 per cent. A decomposition of the banking system's holdings indicated that ₦1,451.8 billion, or 83.7 per cent was held by the DMBs and DHs, and ₦282.3 billion, or 16.3 per cent, by CBN.

Table 5.4: Composition, Holdings and Maturity Structure of Federal Government Domestic Debt (Amount In ₦' Billion)	2004	2005	2006	2007	2008
Debt by Composition					
i Treasury Bills	871.5	854.8	695.0	**574.9**	**471.9**
ii Treasury Bonds	424.9	419.3	413.6	**407.9**	**402.3**
iii Development Stocks	1.3	1.0	0.7	**0.6**	**0.5**
iv FGN Bonds	72.6	250.8	477.2	**1,007.7**	**1,370.6**
v Special FGN Bonds	0.0	0.0	166.8	**178.5**	**75.0**
Class of Holder					
Banking System	**1,072.5**	**1,134.6**	**1,218.4**	**1,703.6**	**1734.1**
CBN	403.5	408.4	335.5	**293.6**	**282.3**
DMBs/DHs	669.1	726.2	882.9	**1,410.0**	**1451.8**
Non-Bank Public	297.8	391.3	534.9	**466.0**	**586.2**
Debt by Maturity					
2 Years and Below	938.6	983.7	897.1	**709.8**	**952.0**
2-5 Years	71.2	163.9	431.2	**820.9**	**472.7**
5-10 Years	184.5	107.0	194.0	**252.9**	**406.1**
Over 10 Years	176.0	271.2	231.0	**386.0**	**489.5**
Total Debt Outstanding	**1,370.3**	**1,525.9**	**1,753.3**	**2,169.6**	**2320.3**

Analysis of the maturity structure of the domestic debt showed that instruments of two (2) years and below accounted for ₦952.0 billion or 41.0 per cent, followed by instruments with a tenor of over ten (10) years, which accounted for 21.1 per cent, or ₦489.5 billion. Instruments with a tenor of two (2) to five (5) years accounted for 20.4 per cent, or ₦472.7 billion, while those between five (5) and ten (10) years accounted for ₦406.1 billion, or 17.5 per cent.

Figure 5.19: Composition of Domestic Debt Stock by Holder in 2008



5.6.2 External Debt

At US$3.7 billion, Nigeria's external debt outstanding grew by 2.1 per cent over the level at end-December 2007. The increase reflected the drawdown of additional Multilateral loans, amounting to US$75.5 million, by the Federal Government. Of the total external debt outstanding, the share of Multilateral Institutions was

US$3.16 billion and accounted for 85.2 per cent, while 'Other' commercial debts totalled US$0.55 billion and accounted for the balance of 14.8 per cent.

5.6.3 Debt Service Payments

Total debt service payments in 2008 stood at ₦336.2 billion and comprised ₦14.0 billion (or US$0.11 billion) for external debt and ₦332.2 billion for domestic debt. The debt service payments/GDP ratio increased from 1.4 per cent in the preceding year to 1.6 per cent in 2008.

5.6.4 Debt Sustainability Analysis

Analysis of Nigeria's debt sustainability signified that the debt stock/GDP ratio remained low relative to the maximum international threshold of 30.0 per cent of GDP as it improved from 12.5 per cent in 2007 to 11.6 per cent in 2008. Also, the debt stock/revenue ratio showed a stronger position in 2008 as 88.0 per cent of the total revenue could redeem the total debt stock, compared with 111.3 per cent in 2007. Furthermore, the debt service/revenue ratio improved from 13.9 per cent in 2007 to 10.5 per cent in 2008, implying that only about 10.5 per cent of the total revenue was devoted to interest and principal repayments. The improved sustainability ratios reflected the moderate growth of the economy and the impressive performance of the Federal Government-retained revenue relative to the preceding year.

Table 5.5: Debt Sustainability Indicators (Per cent)

Indicators	International Thresholds	2004	2005	2006	2007	2008
Total Debt/GDP	30	53.6	28.7	11.8	12.5	11.6
Total External Debt/GDP	30	41.9	18.3	2.4	2.1	2.0
Total Domestic Debt/GDP	40-60	11.7	10.4	9.4	10.4	9.6
Total External Debt/Export	100	106.2	37.2	6.2	5.3	5.0
Total Debt Service/Revenue	20-25 (Max.=25)	33.2	18.8	23.3	13.9	10.5
Total Debt/Revenue	150	470.2	240.1	113.8	111.3	88.0

CHAPTER 6

THE REAL SECTOR

The growth in domestic output was satisfactory in 2008 against the backdrop of the global financial/economic meltdown that adversely affected economic performance in developed and emerging markets and developing countries. The real Gross Domestic Product (GDP), measured in 1990 basic prices, grew by 6.4 per cent, compared with 6.5 per cent in 2007. Growth in 2008 was attributed mainly to sound monetary and fiscal policies, as well as favourable weather conditions which enhanced agricultural output. Sectoral analysis showed that agricultural output grew by 6.5 per cent, wholesale and retail trade by 14.0 per cent and the services sector by 10.5 per cent. Industrial output fell by 2.2 per cent due to the poor performance of the oil sector. Output of solid minerals as well as manufacturing and electricity consumption also increased. A single digit inflation rate was sustained within the range of 7.8 and 9.7 per cent during January to May. Thereafter, inflationary pressure increased steadily during the rest of the year and peaked at 15.1 percent in December. A further improvement in economic performance was constrained by poor infrastructure, the persistent militancy in the oil-rich Niger Delta, as well as the inclement weather conditions experienced in some food-producing areas of the country.

6.1 DOMESTIC OUTPUT

Provisional data from the National Bureau of Statistics (NBS) showed that the Gross Domestic Product (GDP), measured at 1990 constant basic prices, stood at ₦674.9 billion in 2008 indicating a growth rate of 6.4 per cent. This was almost the same as the 6.5 per cent recorded in 2007 and the average annual projected growth rate for the period 2004 – 2008. Agriculture accounted for almost half of the GDP growth rate, contributing about 2.8 percentage points, followed by wholesale and retail trade with 2.3 percentage points; services, 1.7 percentage points; and building and construction 0.2 percentage point. Industry as a group, however, made a negative contribution of 0.5 percentage point. Growth in 2008 was attributed largely to sound monetary and fiscal policies as well as the favourable weather conditions which boosted agricultural output, notwithstanding the inclement weather conditions experienced in some food-processing areas. The banking sector consolidation, which improved availability of credit to the private sector and relative stability in the goods and foreign exchange markets also contributed to the improved economic performance. Stability in prices and a steady supply of petroleum products were also supportive of growth. The 6.4 per cent growth in GDP was, however, lower than the target growth rate of 10.0 per cent.

Figure 6.1 GDP Growth Rate (2004 - 2008)

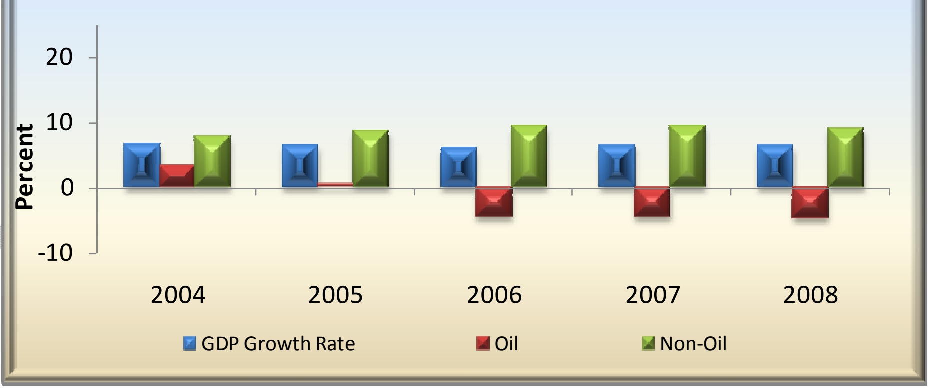


Table 6.1: Sectoral Growth Rates of GDP at 1990 Constant Basic Prices (Per cent)

Activity Sector	2004	2005	2006	2007 1/	2008 2/
1. Agriculture	**6.50**	**7.06**	**7.40**	**7.19**	**6.54**
Crop Production	6.50	7.13	7.49	7.25	6.52
Livestock	6.50	6.76	6.90	6.93	6.89
Forestry	6.50	5.92	6.02	6.12	5.97
Fishing	6.50	6.02	6.55	6.58	6.52
2. Industry	**4.15**	**1.71**	**-2.51**	**-2.23**	**-2.18**
Crude Petroleum	3.30	0.50	-4.51	-4.54	-4.76
Solid Minerals	10.85	9.53	10.28	12.75	12.81
Manufacturing	10.00	9.61	9.39	9.57	9.28
3. Building & Construction	**10.00**	**12.10**	**12.99**	**13.03**	**13.06**
4. Wholesale & Retail Trade	**9.70**	**13.51**	**15.26**	**15.20**	**14.00**
5. Services	**8.83**	**7.96**	**9.18**	**9.88**	**10.45**
Transport	5.90	6.35	6.92	6.95	6.99
Communications	27.77	28.38	32.45	32.85	29.65
Utilities	10.85	6.64	4.87	4.93	4.17
Hotel & Restaurant	10.85	10.45	12.91	12.95	12.89
Finance & Insurance	2.73	2.85	4.98	5.03	4.82
Real Estate & Business Services	10.85	10.62	11.29	11.35	11.42
Producers of Govt. Services	10.85	5.38	5.85	5.92	6.01
Comm., Social & Pers. Services	10.85	10.50	10.61	10.62	22.25
TOTAL (GDP)	**6.58**	**6.51**	**6.03**	**6.45**	**6.41**
NON-OIL (GDP)	**7.76**	**8.59**	**9.41**	**9.52**	**9.13**

1/ Revised
2/ Provisional
Source: National Bureau of Statistics (NBS)

Table 6.2: Sectoral Contribution to Growth Rates of GDP at 1990 Constant Basic Prices (Percentage Points)

Activity Sector	2004	2005	2006	2007 1/	2008 2/
1. Agriculture	**2.67**	**2.89**	**3.05**	**3.00**	**2.75**
Crop Production	2.37	2.60	2.75	2.70	2.44
2. Industry	**1.26**	**0.51**	**-0.71**	**-0.58**	**-0.52**
Crude Petroleum	0.88	0.13	-1.09	-0.99	-0.93
3. Building & Construction	**0.14**	**0.17**	**0.20**	**0.21**	**0.22**
4. Wholesale & Retail Trade	**1.22**	**1.74**	**2.10**	**2.27**	**2.27**
5. Services	**1.30**	**1.19**	**1.40**	**1.55**	**1.69**
Communication	0.29	0.36	0.50	0.63	0.71
TOTAL (GDP)	**6.58**	**6.51**	**6.03**	**6.45**	**6.41**
NON-OIL (GDP)	**5.70**	**6.80**	**8.09**	**8.96**	**9.40**

1/ Revised
2/ Provisional
Source: National Bureau of Statistics (NBS)

Non-oil GDP grew by 9.1 per cent in 2008, compared with 9.5 per cent in 2007. The performance was driven largely by the agricultural sector, which grew by 6.5 per cent, underpinned by the robust growth in all its components. Other drivers of growth in non-oil GDP included wholesale and retail trade, building and construction, and services, which recorded growth rates of 14.0, 13.1 and 10.5 per cent, respectively. In the services sector, communications recorded the highest growth rate of 34.0 per cent, buoyed by the sustained liberalisation and expansion of telecommunication services. Other components of the services sector recorded impressive growth rates as well. In contrast, industrial output fell by 2.2 per cent, attributable mainly to the 4.8 per cent drop in crude oil production, even as the solid minerals, and manufacturing sub-sectors grew by 12.9 and 9.3 per cent, respectively.

Figure 6.2: Sectoral Share in GDP

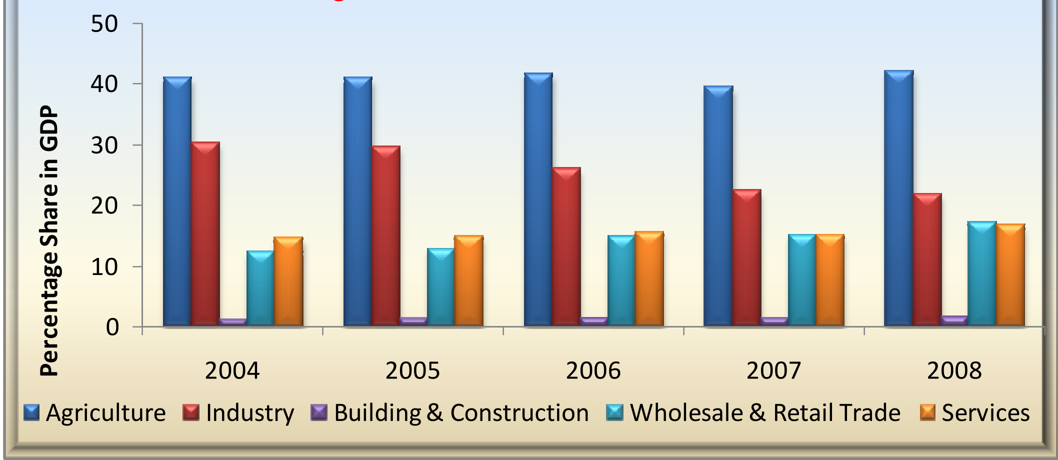
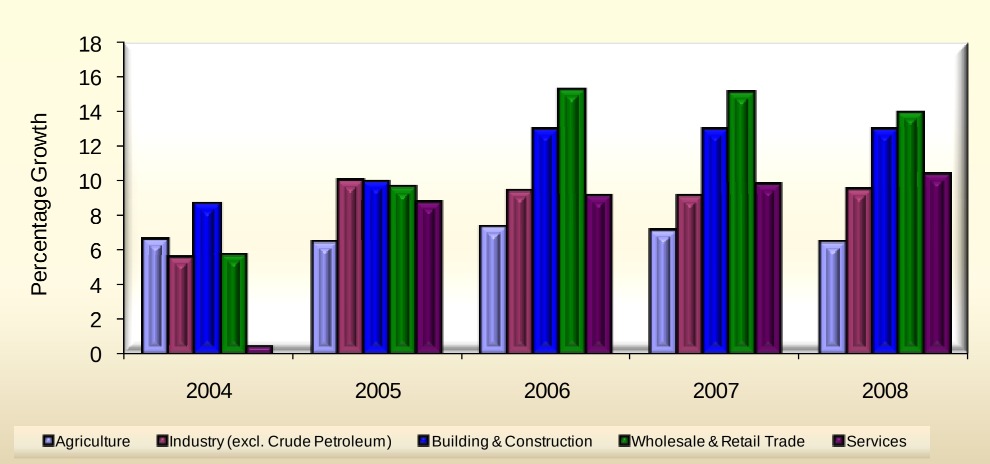


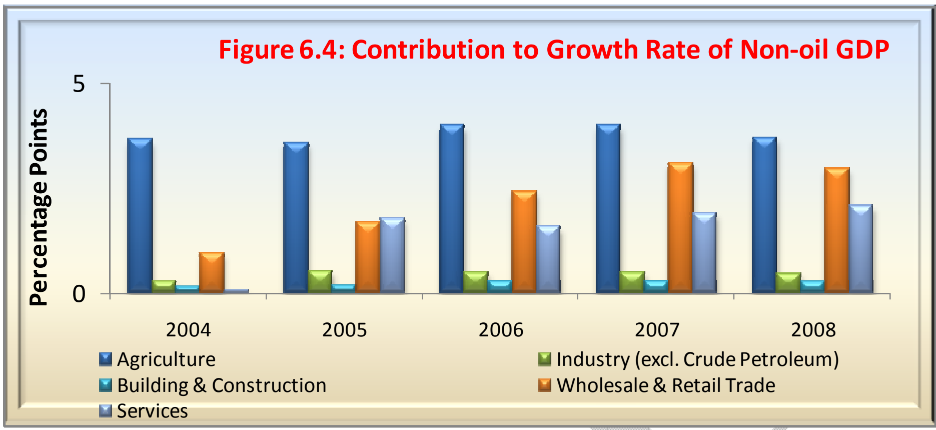
Figure 6.3: Growth Rate of Broad Sectors of Non-Oil GDP



A further sectoral analysis indicated that the agricultural sub-sector contributed the largest share of 42.1 per cent to the real GDP in 2008, compared with 42.0 per cent in 2007. The share of industry and crude oil in the GDP declined from 23.9 and 19.6 per cent in 2007, respectively, to 22.0 and 17.5 per cent in 2008. The contributions of solid minerals and manufacturing components of industry remained insignificant.

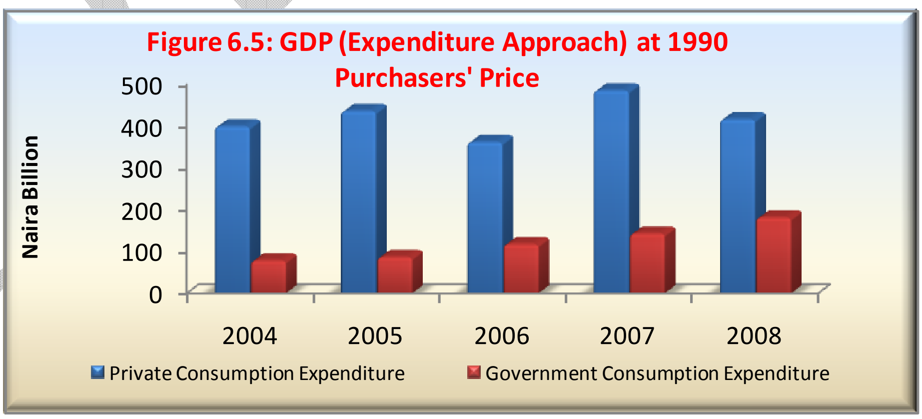
Services as a group contributed 16.8 per cent to the GDP, of which finance and insurance, utilities, communications and transport accounted for 3.8, 3.4, 3.0 and 2.7 percentage points, respectively.

Figure 6.4: Contribution to Growth Rate of Non-oil GDP



Provisional data showed that the real domestic demand at 1990 purchasers' price (GDP by expenditure approach) grew by 7.9 per cent and stood at ₦774.2 billion in 2008, compared with ₦717.5 billion in 2007. Private consumption and government final consumption expenditures in 2008 were ₦416.3 billion and ₦181.5 billion, respectively, compared with ₦485.5 billion and ₦142.9 billion in the preceding year. This indicated a fall in real private consumption expenditure by 14.3 per cent and an increase in real government consumption expenditure by 27.0 per cent. Real investment (gross fixed capital formation) and net exports in real terms grew by 97.9 and 108.5 per cent, respectively. The increase in government consumption was attributed mainly to the monetization of the excess crude oil to finance government capital projects, while the decrease in private consumption resulted from the credit crunch, the fall in government revenue and a depressed aggregate demand in the economy. As a share of aggregate demand, private consumption constituted 53.8 per cent.

Figure 6.5: GDP (Expenditure Approach) at 1990 Purchasers' Price



6.2 AGRICULTURE

6.2.1. Agricultural Policy and Institutional Support

Nigeria's agricultural policy in 2008 was anchored on food import substitution, aimed at reducing the country's dependence on the importation of basic food items, such as wheat, rice, sugar, etc, by producing them locally; and the promotion of national food security. It was also aimed at providing gainful employment for the masses and stemming rural-urban migration; promoting modern farm practices through commercial agriculture; and supporting natural resource conservation in order to stem declining soil fertility and indiscriminate destruction of vegetation.

These objectives and the global food crisis that peaked in 2008 informed government's interventions/initiatives in the sector in the following areas:

- Establishment of the Commercial Agricultural Development Project (CADP) by the Federal Government in partnership with the World Bank. The Project aimed at strengthening agricultural production systems for targeted value chains and facilitating access to markets in five states, namely; Cross River, Enugu, Kaduna, Kano and Lagos. The project was estimated to cost US$185 million with the World Bank providing US$150 million, while the Federal and the participating state governments would provide the balance of US$35 million;
- Release of 64,984.76 tonnes of assorted grains from the Strategic Grains Reserves to states, Federal government agencies and other interest groups to mitigate the effects of rising food prices;
- Renewed effort at completing the construction of 25 new silos to expand the national food reserve capacity from 300,000 to 625,000 tonnes;
- Suspension of import and rice levies between March and October 2008;
- Establishment of a ₦10.0 billion Rice Processing Facility (RPF) under a concessionary interest and tenor arrangement;
- Distribution of a total of 650,000 tonnes of various types of fertilizer to the 36 states and FCT as against 150,000 tonnes in 2007;
- Rehabilitation of irrigation infrastructure covering 14,548 hectares and expansion of existing irrigation schemes covering 25,000 hectares; and
- Commencement of the implementation of the Guaranteed Minimum Price (GMP) and Buyers of Last Resort (BLR) schemes.

Box 4: The Current Food Crisis and its Implications for Nigeria

Food is the most basic need of man. Its adequacy, affordability and security have been the pursuit of every human community over the centuries. This is why the recent phenomenal rise in food prices has been of concern to all peoples and governments across the world. In the first three months of 2008, international nominal prices of major food commodities reached their peak in nearly 50 years and, in real terms, in about 30 years. This has caused severe hardship for an estimated 800 million people world-wide who are already affected by chronic hunger (FAO, 2008). Their ranks would be swelled by the many more millions who are now finding it increasingly difficult to access enough food to guarantee a healthy life.

As a consequence of the food price crisis, there have been widespread social unrest and food riots, particularly in developing countries. Between 2007 and April, 2008, food price-related protests were recorded in 25 countries (IFPRI, 2009). The protests led to fatalities in several countries, such as Côte d' Ivoire and Haiti. The economic impact of the crisis pose a serious threat to both macroeconomic stability and overall growth. As the food crisis peaked at a time when energy prices were very high, many countries were faced with a combination of three risk factors, namely, high levels of chronic hunger, high dependence on imports of major grains, and the importation of petroleum products at cut-throat prices. A total of 22 developing countries across Africa, Asia, Latin America and Eastern Europe are within this category and are considered very vulnerable to economic dislocation.

The identified causes of the crisis include the diversion of a substantial proportion of grains to produce bio-fuel in order to counter the effects of the phenomenal increase in the price of petroleum products, as well as global warming with the attendant climatic changes that resulted in floods and drought. Others were increasing populations and the attendant food demand from emerging economies, particularly China and India, as well as the depletion of strategic food reserves in many countries.

In Nigeria, the surge in the prices of food and other essential commodities has been alarming. For example, the price of a 50 kg bag of the premium brand of imported rice (caprice gold) which stood at about ₦7,500 in December 2007 has risen astronomically to ₦14, 000 by March 2008, representing a 87 per cent price increase. Similarly, the prices of palm oil, maize, guinea corn, beans and garri rose by 36, 28, 16, 12 and 8 per cent, respectively, over the same period.

There are both remote and immediate causes of the current food price increases in Nigeria. First is the weak production structure in the agricultural sector. The farm landscape is dominated by smallholder farmers who still utilize crude implements and operate traditional, inefficient production methods. The level of tractor use is still very low with the entire country having only about 30, 000 tractors, half of which are not functional. This compares unfavourably with India (also an emerging economy), where the state of Punjab alone can boast of 450,000 functional tractors. Also, the average global rate of NPK fertilizer application is 93 kg per hectare, while that of Nigeria is a mere 13 kg per hectare. Storage and processing facilities are grossly inadequate and inefficient, reflecting the high level of post-harvest losses, estimated at about 50 per cent for fruits and vegetables, and 30 per cent for root crops and tubers.

Second is the dearth of support infrastructure, notably an inefficient transportation system and the high cost of energy, both of which constrain the movement of farm produce from rural to urban centres. The railway system has virtually been grounded in the last two decades, thereby making the bulk movement of foodstuff from production centres to the markets impossible. The cost of diesel to power trucks that convey food stuffs across the country has been soaring and sold above ₦160 per litre in 2008.

Third, there is the inflation pass-through of international food prices. The dominance of imported food items in the menu of most urban families meant the easy and smooth transmission to the domestic economy of not only the global price changes of the commodities, but also the significant increases in freight charges. In this manner, the increases in the import prices of commodities have been transmitted to the domestic market.

Fourth is the poor weather condition experienced in 2007, particularly in the Northern States. Widespread incidents of drought were reported in most grain producing areas such as Jigawa, Yobe, Sokoto, Katsina, Kebbi, Gombe, Kano and Borno States. In the North Central States, the rains stopped earlier than usual and these impacted negatively on food production.

The current global food shortage and soaring prices, have serious implications for Nigeria. Specifically, the crises may result in a further increase in food import bills, widening current account deficits, rising inflation and worsening poverty. About US$3.0 billion and US$3.99billion, representing about 8 per cent and 8.1 per cent of total foreign exchange disbursement on imports were utilized on food importation in 2007 and 2008, respectively. This amount is quite significant, particularly against the backdrop of the huge agricultural potential of the country. Most of the food items being imported can be grown abundantly and processed within the domestic environment.

Closely related to the issue of a rising import bill is the fact that the crisis can engender a narrowing of current account surplus. This in turn could impact negatively on other macroeconomic variables, such as the exchange rate and, ultimately, the reserve position. This scenario has become more probable now with the current downturn in the price of crude oil in the international market.

Nigeria currently ranks 20th on the Global Hunger Index and, with about 65 per cent of the population confronted with food insecurity, the subsisting global food crises could further worsen an already bad situation. Given that the poor are more vulnerable in the face of this kind of challenge, there exists the risk of deteriorating poverty if drastic measures are not taken. Overall, the current global food crisis is a threat to the attainment of the objectives of Nigeria's major economic programmes, such as the Seven–point Agenda, the Vision 2020, and the attainment of the MDGs. The actual outcome, however, would depend on commitments to measures being put in place to mitigate the effects of the crisis.

As negative as the potential and real impact of the crisis might be, it presents an opportunity for putting the agricultural sector back in the driver's seat of the macroeconomic development framework. Theoretically, high food prices should stimulate a supply-side response as market signals would be transmitted to farmers. However, only those that have the capacity to increase production and have supportive transport, market and processing infrastructure would be able to respond to the market signals. Thus, the onus is now on governments at all levels to rise to the challenge of creating a conducive policy environment for farmers.

At the peak of the crisis, the Federal Government of Nigeria took some remedial measures to mitigate its impact. It released an initial tranche of 42,610 tonnes of grains (sorghum, maize and millet) and garri from the National Strategic Grains Reserves (NSGR) to states. The balance of 11,000 tonnes was later released. The grains were distributed to the public at subsidized prices. Government also suspended the 50 per cent levy imposed on imported rice in 2006. In the same vein, import duty on the importation of rice into the country was waived for a period of six months, beginning April 2008. Furthermore, a Rice Processing Credit Facility of ₦10 billion was established from which rice processors could borrow to purchase equipment. The fund was made available at a concessionary interest rate of 4 per cent, with a moratorium and a tenor of 5 and 25 years, respectively. The facility was meant to expand rice processing capacity in the country.

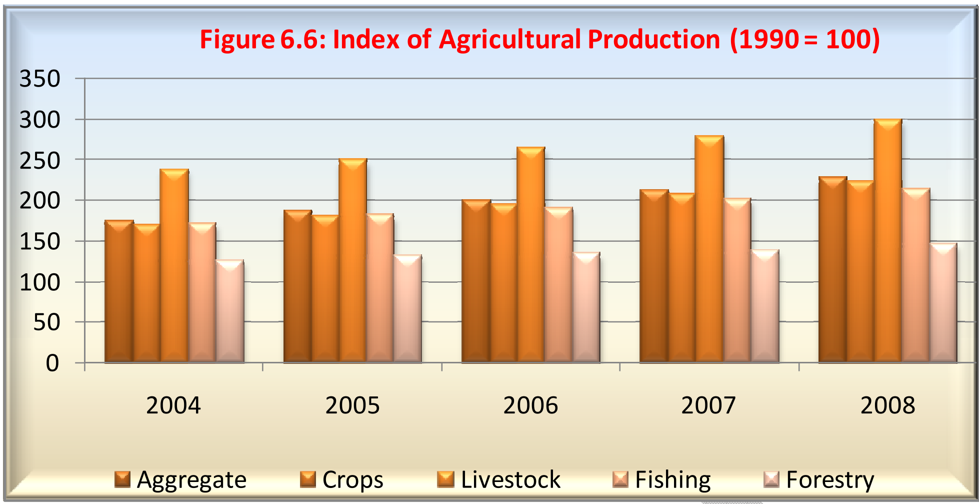
Beyond these remedial actions, the FG has embarked on long-term measures to address food shortage in the country in a holistic manner. The National Food Security Programme is being strengthened. The goals are, in the short term, to significantly improve agricultural productivity; in the medium term, to expand and improve large-scale production, improve the existing storage/processing capacity, as well as other required infrastructure to achieve food stability; and, in the long term, earn over 50 per cent of the nation's foreign exchange from agricultural exports. To this end, some commodities have been identified for priority attention. These are cassava, rice, millet, wheat, sugar, tomato, cotton, cocoa, palm oil and rubber in the crop sub-sector; poultry, goat, sheep and cattle in the livestock sub-sector; and fisheries.

Also, in a bid to fast-track the transformation of the agricultural sector, the Federal Government in collaboration with the World Bank, has established the Commercial Agriculture Development Programme (CADP). The Programme, which has five states (Cross River, Enugu, Kaduna, Kano and Lagos) participating in the first phase, aims at strengthening agricultural production systems for targeted value chains and facilitate access to markets. The project is estimated to cost US$185 million, with the World Bank providing US$150 million, while the Federal and the participating state governments would provide the balance of US$35 million.

As the country marches on in pursuit of economic growth through the implementation of various programmes, national food security should remain a focal point. Moreover, some current global economic developments, particularly the determined quest to seek for alternatives to oil, make it imperative for Nigeria to, once more, return to agriculture as the anchor sector for development. It is in this spirit that no stone should be left unturned to seize the golden opportunity offered by the current global food crisis to realize the full potential of Nigeria's agricultural sector.

6.2.2 Agricultural Production

At 227.9 (1990=100), the provisional aggregate index of agricultural production increased by 7.1 per cent, compared with 6.4 per cent in 2007. However, the growth was below the national sectoral target of 8.0 per cent. The increase in agricultural production was propelled largely by the sustained implementation of the various agricultural initiatives under the National Programme for Food Security (NPFS). Such initiatives included a significant increase in the quantity of assorted fertilizers distributed nationwide, the rehabilitation and expansion of existing irrigation schemes, as well as the retention of the policy of zero tariffs on imported agrochemicals.



6.2.2.1 Crop Production

The output of staples grew by 7.4 per cent, compared with 6.7 per cent in 2007. All the major staple crops recorded increased output over the levels in the preceding year. Similarly, the output of cash crops increased by 5.7 per cent, compared with the level in the preceding year.

Table 6.3: Growth in Major Crop Production (Per cent)

Crop	2007	2008	Crop	2007	2008
Wheat	6.6	6.3	Plantain	6.6	6.0
Sorghum	5.9	6.0	Potatoes	7.3	6.4
Rice	7.7	7.3	Yam	5.4	5.9
Maize	7.1	7.0	Beans	7.0	7.2
Millet	6.3	6.6	Cassava	7.4	9.1
Soya Beans	5.7	5.7	Palm Oil	11.4	9.0
Rubber	6.8	6.4	Cocoa	5.5	5.6

The crop sub-sector sustained its impressive performance, despite adverse weather conditions in some parts of the country. This was due largely to the primary attention it received in the quest for food security in the country. A major impetus was the identification and targeted intervention on 13 strategic crops by the Federal Government. Cassava output grew by 9.1 per cent due to increased use of improved cassava cuttings and an expansion of processing facilities across the country. However, the shrinking export market and the partially successful attempt at diversifying the domestic use of cassava by-products constrained further growth.

Paddy rice production increased by 7.3 per cent in 2008 due to the increased adoption of the high-yielding NERICA rice variety and the adoption of the Rice Box technology by farmers. It was, however, slightly lower than the 7.7 per cent achieved in 2007. Further growth in rice output was stymied by the slow response of processing activities to improvements in production.

6.2.2.2 Livestock

Livestock production increased by 6.6 per cent in 2008, compared with 5.8 per cent in the preceding year. This was made possible by the effective measures taken to control livestock diseases, notably the deadly Avian Flu. Further analysis of the sub-sector showed that beef production increased by 8.4 per cent, from 5.2 per cent in 2007. This was the outcome of the support provided to expand the livestock value chain to incorporate modern production, including the establishment of modern abattoirs and sanitary sales outlets across the country.

6.2.2.3 Fishery

Fish output increased by 6.6 per cent above its level in 2007 to 668,750 tonnes in 2008. The production of fish through aquaculture increased from 76,300 tonnes to 84,500 tonnes, representing a growth rate of 10.8 per cent. However, the level of total domestic fish production was much lower than the national demand estimated at 1.5 million tonnes.

6.2.2.4 Forestry

Forestry production increased slightly by 2.2 per cent to 148.7 million cubic metres in 2008. The increase was attributed to the increased demand for wood products and the depletion of existing resources. In order to sustain wood production, the Forestry Research Institute of Nigeria (FRIN) intensified the supply of improved breeder seedlings to replace the harvested tree stocks.

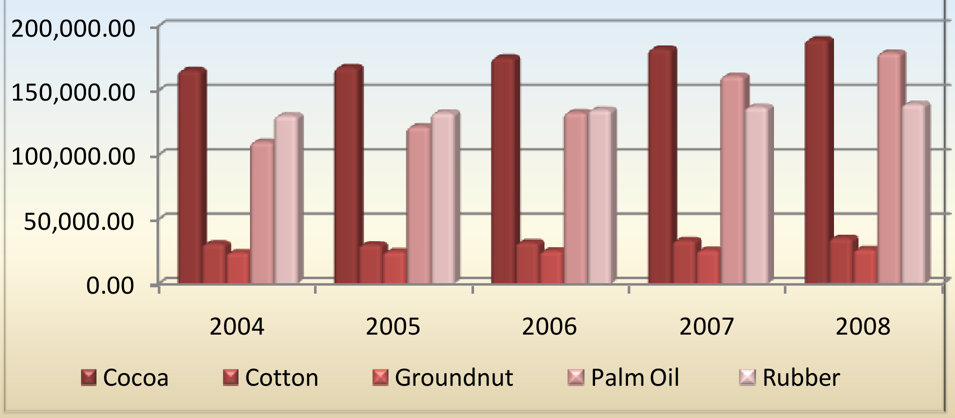
Although the agricultural sector received much attention in 2008, particularly in the wake of the global food crisis, some challenges remained. These included inadequate and untimely distribution of fertilizers, dearth of processing and storage facilities, poor rural road networks, an inefficient transportation system and poor access to credit.

6.2.3 Agricultural Prices

The prices of most of Nigeria's agricultural export commodities were higher in 2008 than in the previous year. The overall index, computed in US dollar terms, stood at 514.8 (1990=100), representing an increase of 31.0 per cent over the level in 2007. Soya beans recorded the highest price increase of 63.9 per cent due to the significant decline in global output. The total world production in the crop year 2007/08[1] was 235.9 million tones, compared with 220.6 million tonnes in 2006/07. Cocoa price increased by 26.2 per cent over the 2007 level, due largely to a relatively strong demand and currency fluctuations[2]. Copra and soya beans also recorded price increases of 41.2 and 63.9 per cent, respectively. However, the price of cotton declined by 18.1 per cent. In naira terms, the all-commodities price index increased by 26.0 per cent to 7,198.5 (1990=100) in 2008. Soya beans, palm oil, copra and cocoa recorded price increases of 54.4, 44.7, 23.1 and 18.9 per cent, respectively, while cotton and coffee prices declined by 22.8 and 3.5 per cent, respectively.

Available data indicated that the domestic prices of most commodities recorded increases in 2008, ranging from 1.7 per cent for rubber to 18.8 per cent for palm kernel. However, the prices of soya beans and cashew nuts remained the same as in 2007. The increase in prices was attributed to the high cost of farm inputs and increased demand for produce from agro-processors, industrial users and the neighbouring countries.

Figure 6.7: Average Price of Selected Cash Crops (Naira per Tonne)



6.3 INDUSTRY

6.3.1 Industrial Policy and Institutional Support

Policy initiatives in 2008 were aimed at consolidating some gains made under the National Economic Empowerment and Development Strategy (NEEDS). These included the promotion of the private sector as the pivot in the industrialisation process, through public-private partnership and support for the development of the small and medium enterprises sub-sector. Thus, in furtherance of the LOKAP (Lagos, Kano, Aba and Port Harcourt) Industrial Action Plan, the Ministry of Commerce and Industry launched the

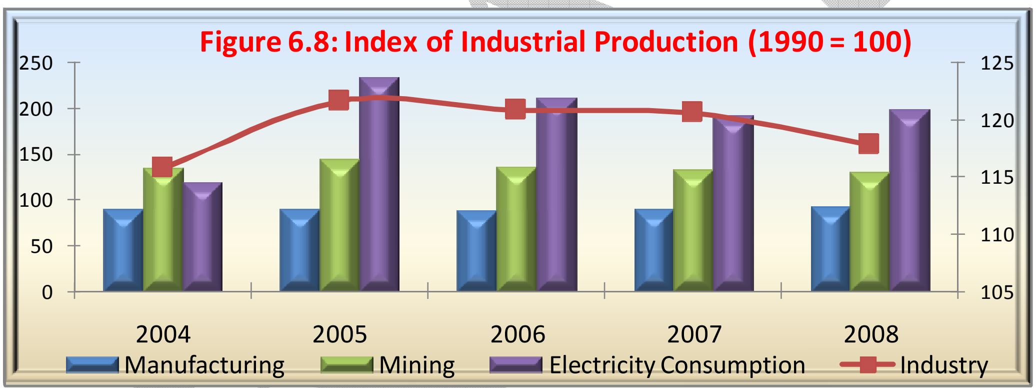
[1] Food and Agricultural Organisation (FAO)
[2] International Cocoa Organisation (ICCO)

Industrial Clusters Programme during the year. The Programme would be established in all states and local governments in a bid to promote small and medium enterprises and increase their contribution to the GDP and non-oil export.

In order to remove the major obstacle to private sector investment in the power sector, the Nigeria Electricity Regulation Commission developed the multi-year tariff regime that would govern electricity pricing in the country. Also, in a bid to cushion the effects of the rising price of cement, while not discouraging local production, government introduced the policy of controlled import liberalization, particularly of bagged cement.

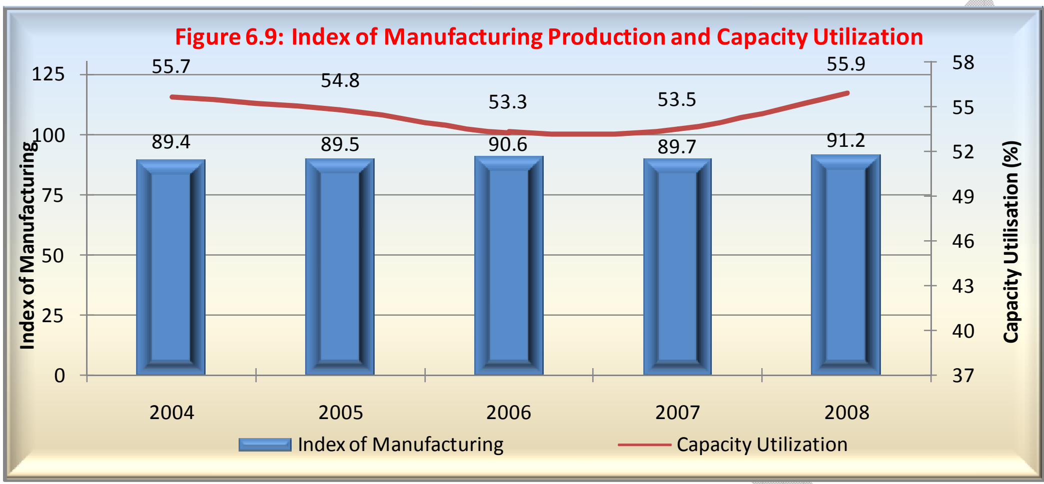
6.3.2 Industrial Production

The index of industrial production, estimated at 117.8 (1990 = 100), fell by 1.30 per cent below the level in 2007. This development was attributable largely to the 2.3 per cent decline in mining output. Conversely, manufacturing production and electricity consumption increased by 2.3 and 4.5 per cent, respectively.



6.3.2.1 Manufacturing

The index of manufacturing production, estimated at 91.2 (1990=100) increased by 2.3 per cent above the level in 2007, while the average capacity utilisation rate in the sub-sector also increased slightly from 53.5 per cent in 2007 to 53.9 per cent. The marginal improvement in capacity utilisation was attributed to improved performance in the cement industry. A further improvement in manufacturing performance was constrained by several factors, including the massive importation of finished goods, which engendered unfair competition and resulted in the closure of several local manufacturing plants. Other problems were the smuggling and dumping of prohibited goods, the proliferation of fake and substandard products, multiple taxes and levies, poor administration/management of the ports leading to congestion, and inadequate financial support for the manufacturing sector, among others. In addition, the delay in the passage of the 2008 Appropriation Bill by the National Assembly affected the business and investment plans of manufacturers. Other constraints included poor infrastructure particularly epileptic power supply and the phenomenal increase in the pump price of diesel which is used extensively in private power generation and manufacturing production.



6.3.2.2 Mining

6.3.2.2.1 Crude Oil

a. Institutional and Regulatory Support

The Federal Ministry of Energy was set up to oversee the gas, petroleum and power sub-sectors. It was initially headed by the President of the Federal Republic of Nigeria. The new Ministry was established to address the inadequacies of the existing structure and to ensure the provision of adequate energy for the country. The Ministry has three arms: the Ministry of Energy (Power), the Ministry of Energy (Gas), and the Ministry of Energy (Petroleum). Each of these was headed by a Minister of State. Towards the tail end of 2008, a Minister of Petroleum, to whom Mr President ceded the headship of the Ministry, was appointed.

A National Oil and Gas Policy was introduced during the year, with the aim of restructuring and repositioning the oil and gas industry to face current domestic and global challenges. Specifically, the policy aimed, *inter alia*, at clearly separating the roles of the various agencies operating in the industry and orientating the industry towards strict commercial lines for maximum economic benefits to the country. It was also intended to eliminate systemic leakages and rent-seeking, as well as minimize political interference.

As part of the focus of the Local Content Initiative, a Nigerian Content Support Fund was set up with the sum of US$350 million, aimed at supporting local companies operating in the oil and gas industry. In addition, the enabling law for establishing a National Data Repository was enacted. The National Data Repository is aimed at effectively harnessing and utilizing oil and gas industry data from different sources. Following the completed feasibility study for the production of bio-ethanol from sugarcane and cassava, a presidential approval was granted for a Bio-Fuel Policy with three sugar cane and two cassava sites identified in Taraba, Jigawa, Ondo, Anambra and Benue states.

b. Crude Oil Production and Prices

i. Production

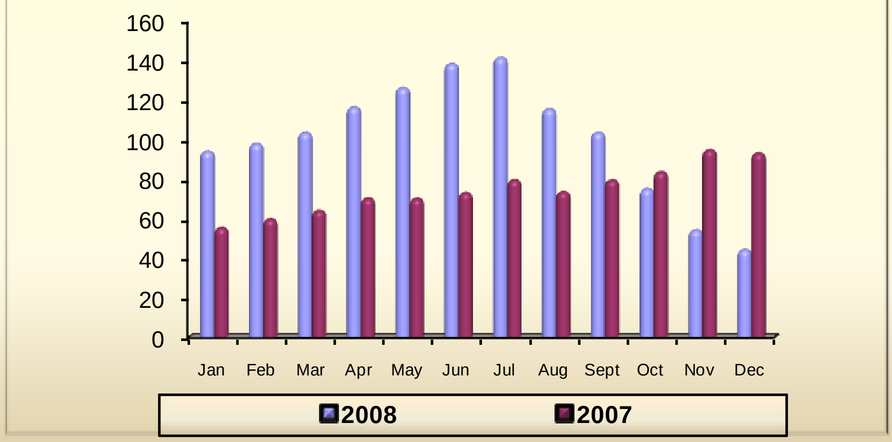
Nigeria's aggregate crude oil production, including condensates and natural gas liquids, averaged 1.98 million barrels per day (mbd) or 700.8 million barrels in 2008, compared with 2.2 mbd or 784.8 million barrels in 2007, representing a decrease of 10.7 per cent. The decrease in oil output was due to several production shutdowns by various oil companies, including Shell Petroleum Development Company (SPDC), Exxon Mobil, Nigerian Agip Oil Company (NAOC) and Chevron, following persistent militant disturbances and the destruction of oil-producing facilities in the Niger Delta area. There was a declaration of force majeures on export programmes by the SPDC. As part of the effort to increase production, a total of 162 concession licences for oil exploration and production were awarded to different companies during the year, while 24 marginal fields were awarded to 31 indigenous companies. A total of 37 drilling rigs were in full operation during the period under review, indicating a 15.6 per cent increase from the preceding year.

Aggregate export of crude oil averaged 1.5 mbd or 536.6 million barrels in 2008, compared with 1.7mbd or 620.5 million barrels in 2007, while provision for domestic refining remained at 0.445 mbd or 162.4 million barrels.

ii. Prices

The average spot price of Nigeria's reference crude, the Bonny Light (37^{O} API), stood at $101.15 per barrel, compared with US$74.96 per barrel in 2007, representing a 34.9 per cent increase. The average price of the Forcados also rose by 26.4 per cent to US$101.52. However, in the last quarter of the year, prices crashed, averaging US$57.99 per barrel.

Figure 6.10: Bonny Light Monthly Prices in 2007 & 2008



iii. Refinery Utilization

The total amount of domestic production carried out by the refineries was 5,544,446.67 metric tones (mt) in 2008, up from 195,262.63 mt in the previous year. The increase in the activities of domestic refineries was attributed to the rehabilitation and maintenance works on oil-processing facilities and pipelines. Specifically, the Warri Refinery and Petrochemical Company and the Kaduna Refinery and Petrochemical Company, which had been idle since February 2006, resumed operations in the review period.

6.3.2.2.2 Gas

a. Institutional and Regulatory Support

The Nigerian Gas Master Plan, launched in the last quarter of 2007, came into effect in 2008. The plan initiative was in response to the sudden boom in gas demand in Nigeria and the consequent shift from demand to supply constraints. The main objectives of the master plan included the following:

(a) Maximizing the multiplier effect of gas in the domestic economy, through the facilitation of gas utilization in the domestic economy and stimulation of ba road gas-based industrialization;

(b) Optimizing Nigeria's share and competitiveness in high value export markets, through selective participation in high value markets and strategic positioning for growth; and

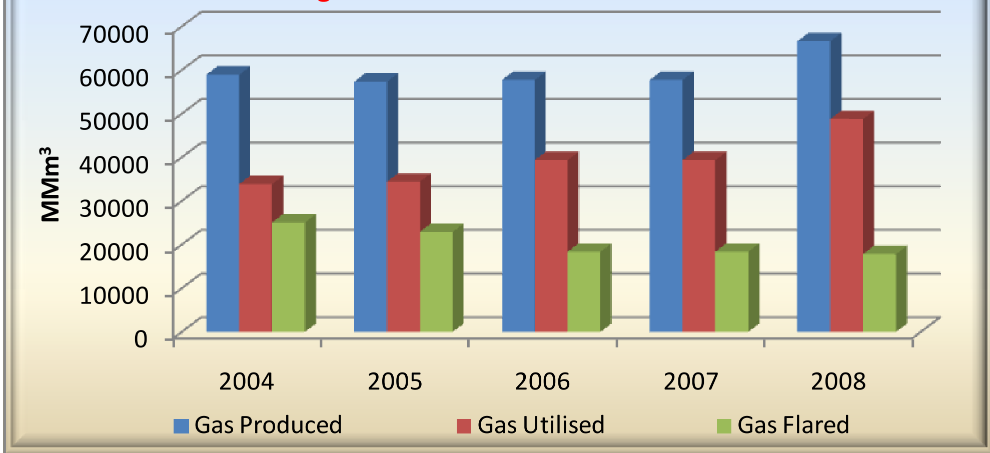
(c) Assuring the long-term energy (gas) security for Nigeria by balancing trans-generational needs – managed exploitation.

b. Gas Production

A total volume of 66,640.8 million cubic meters (MMm³) of natural gas was produced in 2008, up from 65,936.5 MMm³ in 2007, showing an increase of 1.1 per cent. This was attributed to a gas demand boom driven by rising oil prices, power sector reforms in Nigeria and improved investor confidence in the country.

Out of the quantity produced, 26.8 per cent was flared, while the balance of 73.2 per cent was utilized. About 29.4 per cent was sold to industries, such as the Power Holding Company of Nigeria (PHCN), cement and steel companies as against 24.7 per cent in 2007, while 11.3 per cent was sold to the Nigeria Liquefied Natural Gas (NLNG). Gas converted to natural gas liquids and gas lift accounted for 2.8 and 2.1 per cent, respectively, while the oil-producing companies used 4.8 per cent as fuel gas.

Figure 6.11: Gas Production & Utilization



6.3.2.2.3 Solid Minerals

a. Institutional Support for the Sector

The Federal Government, in its determination to boost the solid minerals sector and maximize the benefits from its massive revenue potential, continuously implemented relevant policies aimed at reforming the sector, including the following:

- The development of a National Minerals, Metals Policy;
- The enactment of the Nigerian Minerals and Mining Act, 2007, with guaranteed security of tenure and attractive fiscal incentives, such as tax holidays and import duty waivers, for prospectors;
- The establishment of the Nigerian Geological Survey Agency for the generation of quality geosciences data;
- The privatization of moribund public mining institutions, mineral promotion, and human resources development; and
- The development of skills for indigenous mining companies, through technical support services and funding, as well as enhanced support for artisanal and small-scale miners who constitute over 90 per cent of local operators in the mining industry.

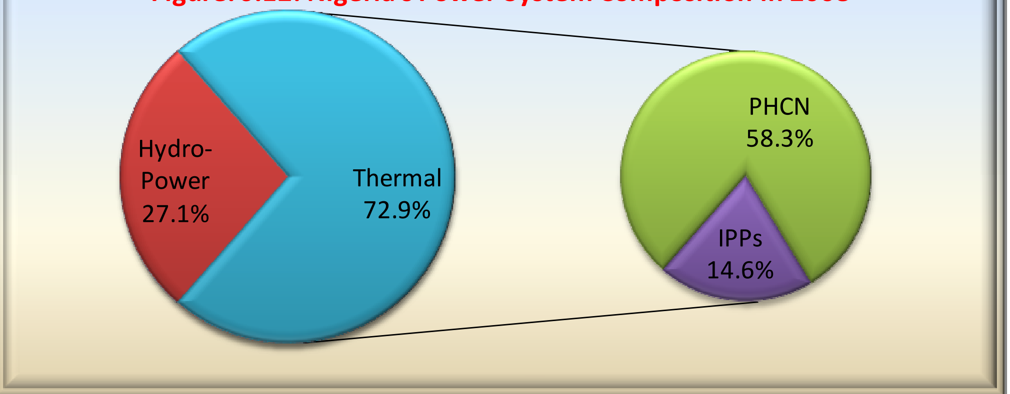
b. Solid Minerals Production

Solid minerals production increased in 2008, relative to the preceding year. Provisional data showed that aggregate output increased from 35.6 million tonnes in 2007 to 40.2 million tonnes. The development was accounted for by the substantial increase in the production of all the principal minerals, especially stone aggregates, limestone, sand, marble aggregates, gold and lead/zinc. The production of stone aggregates was 3.6 million tonnes as against 2.9 million tonnes in 2007. The production of limestone, sand, marble aggregates, lead/zinc and gold increased by 19.2, 13.8, 12.6, 10.7 and 11.1 per cent, respectively. The production of barite, cassiterite, iron ore, shale, columbite, clay and laterite also increased in 2008. The commencement of gold mining by a Chinese company in Osun State, with an investment of ₦1.0 billion (US$7.7 million), added to the growth in gold production. A further improvement in output in the sector was constrained by paucity of funds, flooding of mining sites, and equipment obsolescence.

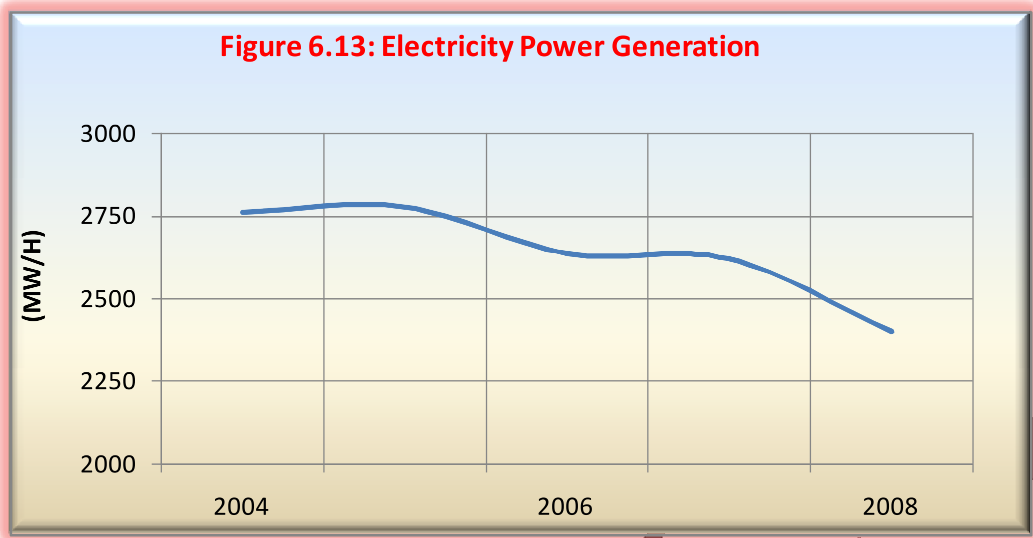
6.3.3 Electricity Generation

The total installed electricity generation capacity stood at 7,011.6 MW in 2008, the same level as in 2007. The composition of the electric power system remained as follows: 1,900.0 MW of hydro- power (27.1 per cent) and 5,111.6 MW of thermal power (72.9 per cent). The Power Holding Company of Nigeria (PHCN) accounted for 85.3 per cent of the total electricity generation, while the IPPs accounted for the remaining 14.7 per cent. The performance of the power generating plants indicated a decline of 2.4 percentage points in capacity utilisation, as average capacity utilisation fell from 37.4 per cent in 2007 to 35.0 per cent in 2008.

Figure. 6.12: Nigeria's Power System Composition in 2008



At 2,403.2 mega-watts per hour (Mw/h), total electricity generation fell by 8.38 per cent below the 2,623.1 mega watt per hour (MW/H) in 2007. The decline was attributed to aggravated gas supply disruptions to the generating stations and obsolete generating equipment.



6.3.4 Energy Consumption

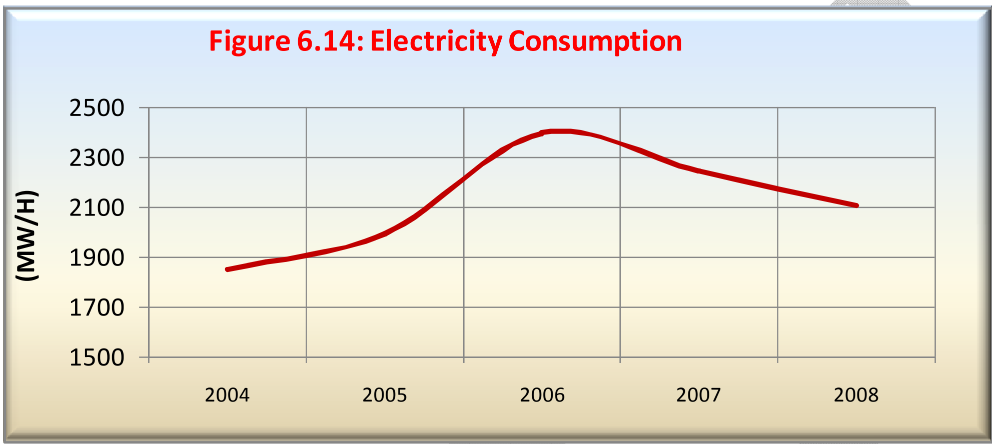
At 169.9 (1990=100), the index of energy consumption increased by 0.4 per cent in 2008, compared with a decline of 0.5 per cent in 2007. In absolute terms, total energy consumed stood at 17.2 million tonnes of coal equivalent (tce) in 2008, compared with 16.2 million tce in 2007, representing an increase of 5.9 per cent. The increase in aggregate consumption was attributable to an increase in the consumption of petroleum products, which contributed 65.7 per cent of the total energy consumed. Hydro power and natural gas consumption also increased, with contributions of 19.0 and 15.2 per cent, respectively.

6.3.4.1 Petroleum Products Consumption

Aggregate petroleum products consumed in 2008 stood at 8.9 million tonnes, a 13.2 per cent increase from the 7.9 million tonnes consumed in the preceding year. The consumption of Premium Motor Spirit (PMS) increased by 19.9 per cent, while the consumption of Automotive Gas Oil (AGO) and Household Kerosene declined by 6.2 and 9.3 per cent, respectively. Consumption of Liquefied Petroleum Gas declined slightly by 0.2 per cent, while that of other products (wax, grease, etc) increased. The increase in the consumption of PMS was attributable to the phenomenal increase in the number of automobiles and the increase in the use of power-generating sets by households and businesses, due to poor power supply by the PHCN in 2008.

6.3.4.2 Electricity Consumption

At 2,108.0 mega-watts per hour (Mw/h), total electricity consumption fell by 6.1 per cent from the 2,245.5 mega watt per hour (MW/H) in 2007. The decline in consumption was attributed to low generation and the deterioration in transmission and distribution infrastructure. The gap between electricity generated and consumed showed a 12.9 per cent loss of generated electricity, compared with 14.4 per cent in 2007. The loss could be attributed to the poor and old distribution facilities and power theft, through illegal connections. Residential consumption accounted for 55.3 per cent of the total electricity consumption, while commercial and street-lighting, and industrial consumption accounted for 24.7 and 20.0 per cent of the total, respectively.



6.3.4.3 Hydropower Consumption

At 3,998,808.05 tce, hydropower consumption in 2008 increased by 2.8 per cent, compared with the level in 2007. The improved performance of the hydropower consumption was attributable to the improved performance of the Kainji and Jebba hydropower plants which generated 2,707,020.00 and 2,794,979.00 megawatt hour, respectively, compared with 2,366,716.48 and 2,171,747 mwh in 2007, representing an increase of 14.3 and 28.7 per cent, respectively. The refurbishment of Kainji and Jebba power plants was responsible for the improved performance. Output from the Shiroro plant however, declined by 14.1 per cent.

6.3.4.4. Coal Consumption

Estimated aggregate coal consumption remained at the 2007 level of 8,050.7 tce. The stagnation in coal consumption reflected the shift to more environmentally-friendly sources of energy.

6.3.4.5 Natural Gas Consumption

At 2.62 million tce, natural gas consumption in 2008 increased by 20.7 per cent above the level in 2007. The increase was attributable to the reduction in gas flaring, resulting from investments by oil companies towards eliminating gas flaring altogether by end-December 2008. The Federal Government's new gas pricing policy and regulation also aided the increase in gas utilization by making more gas available to the domestic market. In addition, the implementation of the sixth train of the Nigeria Liquefied Natural Gas (NLNG) plant boosted gas utilization.

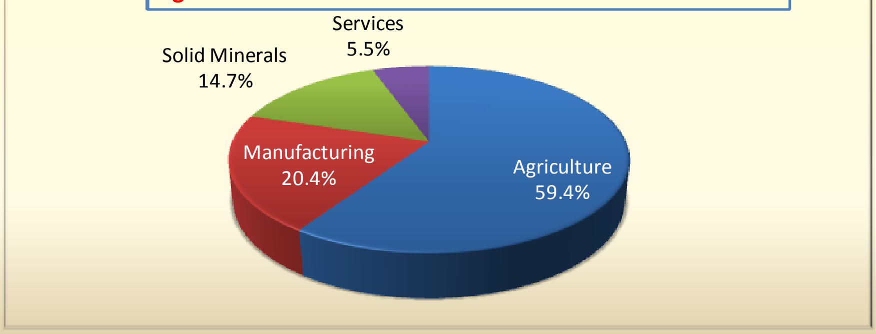
6.3.5. Industrial Financing

6.3.5.1 Nigeria Export-Import Bank (NEXIM)

The Nigeria Export-Import Bank (NEXIM) disbursed a total of ₦1,704.3 million under its main facilities in 2008, representing a 68.8 per cent decline from the amount disbursed in 2007. Of the total amount, the sum of ₦771.2 million was disbursed under direct lending for export facilities for various products in manufacturing, agriculture, solid minerals and the services sub-sectors. The sums of ₦840.0 million and ₦93.1 million were disbursed under the stocking facility, and rediscounting and refinancing facility, respectively.

A sectoral breakdown of the disbursement showed that agriculture received 59.4 per cent of the total, followed by the manufacturing sub-sector with 20.4 per cent, solid minerals 14.7 per cent, and the services sector 5.5 per cent.

Figure 6.15: Sectoral Distribution of NEXIM's Credit in 2008



6.4 TRANSPORTATION AND COMMUNICATIONS

6.4.1 Airline Services

6.4.1.1 Policy and Operational Environment

The reforms in the aviation industry continued in 2008. In that regard, all airlines were mandated to establish safety management systems. The Nigerian Civil Aviation Authority (NCAA) also vigorously implemented the Federal Government policy of phasing out geriatric aircraft of more than 28 years old. Following the domestication of the Cape Town Convention by NCAA, and subsequent approval by the Federal Government, many indigenous airlines purchased brand new aircraft. Efforts by the Federal Airports Authority of Nigeria (FAAN) to enhance flight operations centred on improvements in airport facilities across the country. Other efforts included the designation of Ilorin airport for both domestic and international cargo flights.

Following their successful performance at the International Civil Aviation Organisation (ICAO) audit the previous year, Nigerian airlines were granted waivers by the American Federal Aviation Administration (FAA) to commence direct flights into North America, as well as the certification of the NCAA for the subsequent categorization-one process of the country. Three carriers – Arik, Virgin Nigeria and Bellview, which were designated on the United States routes, commenced flight operationsto the USA in 2008. The Federal Government reviewed its bilateral air services agreement with many countries, leading to the commencement of operations by three new foreign airlines. Government also reviewed the concession of the Nnamdi Azikiwe Airport, Abuja.

6.4.1.2 Domestic Airlines

The operations of private domestic airlines recorded marginal improvements in 2008. The number of passengers airlifted increased by 6.0 per cent to 3.5 million, compared with 3.3 million in 2007. The slight improvement in the performance of the domestic airlines was attributable to several factors, including keen competition and the consolidation of the sector which enhanced the operations and safety of the sector.

6.4.1.3 Foreign Airlines

The performance of airlines on international routes recorded a slight decline in 2008 as the number of passengers airlifted on such routes fell by 4.0 per cent to 2.9 million, compared with 3.0 million in 2007. The development could be attributed to the challenges faced by international airline operators in 2008 which included rising prices of aviation fuel, rising operational costs, as well as increases in the average fares charged rose by 35.0 per cent in naira terms.

6.4.2 Railway Services

Efforts to improve the ailing railway system in Nigeria with a contract of $8.3 billion awarded in October 2006 to the China Civil Engineering Construction Corporation (CCECC) suffered a major set-back during the year. The scope of the work was to construct a standard gauge, double track line covering a distance of 1,315km with a design speed of 150km\hr for passenger trains and 80km\hr for freight trains. The project, which was scheduled for execution in five segments over a four-year period, was terminated in 2008, owing to incomplete advance payment to the contractor. Government also set up an administrative committee during the year to review the project, in line with new guidelines.

6.4.3 Communications

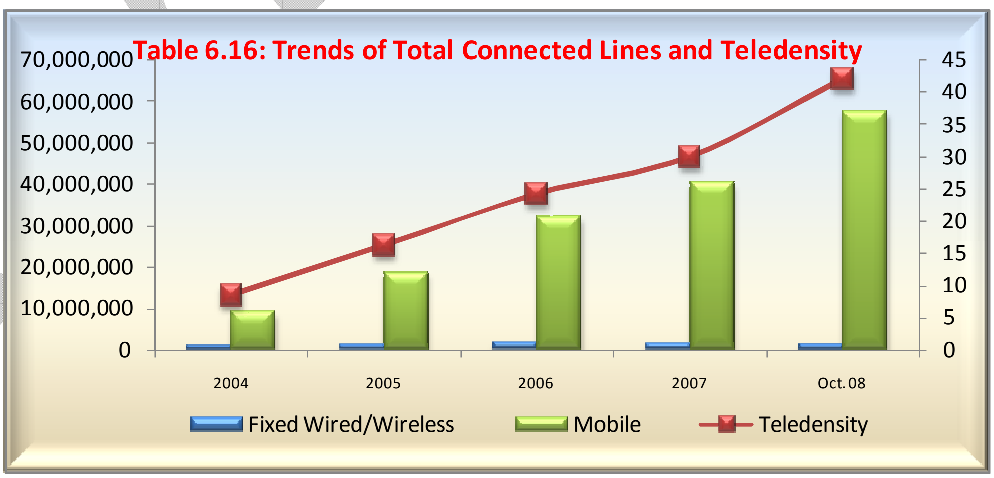
The steady growth in the communications sector was maintained in 2008, driven mainly by the Global System of Mobile Communications (GSM). Foreign investment in the sector increased marginally by 4.3 per cent, from US$11.5 billion in 2007 to US$12.0 billion in 2008. The number of operating Internet Service Providers (ISPs) stood at 83 – a decline by 29.1 per cent.

Table 6.4: The Nigerian Telecommunications Market Statistics

	2004	2005	2006	2007	Oct. 08*
No. of Connected Fixed Lines ('000)	1,120	1,223	1,673	1,580	1,307
No. of Connected Digital Mobile Lines (million)	9.20	18.59	32.32	55.24	62.99
No. of National Carriers	2	2	2	2	2
No. of Operating ISPs	36	69	117	**117**	83
No. of Active Licensed Fixed Line Operators	22	26	26	29	20
Number of Licensed Mobile Operators	4	4	4	4	9
Teledensity	8.50	16.27	24.18	29.98	45.93
Cumulative Investment (US$ million)	6,000	7,500	8,150	11,500	12,000

Source: Nigerian Communications Commission (NCC)
**Data as at October 2008.*

As at October 2008, the combined subscriber strength of the telecommunications sub-sector had increased by 12.0 per cent over its December 2007 level to a total of 64,297,000 lines (1,307,000 fixed wired/wireless and 62,990,000 mobile). Similarly, teledensity increased from 29.98 lines per 100 inhabitants, as at December 2007, to 45.93 lines per 100 inhabitants. This is significantly above the International Telecommunication Union (ITU) minimum standard of 1:100. In addition, the output of the sub-sector grew by 29.7 per cent in 2008 and accounted for 2.9 per cent of the GDP. Other developments in the sub-sector included the emergence of three new telecommunications companies in the market.



However, the sub-sector continued to be confronted with poor quality of services, as reflected in call drops, illegal deductions, and poor connectivity across networks.

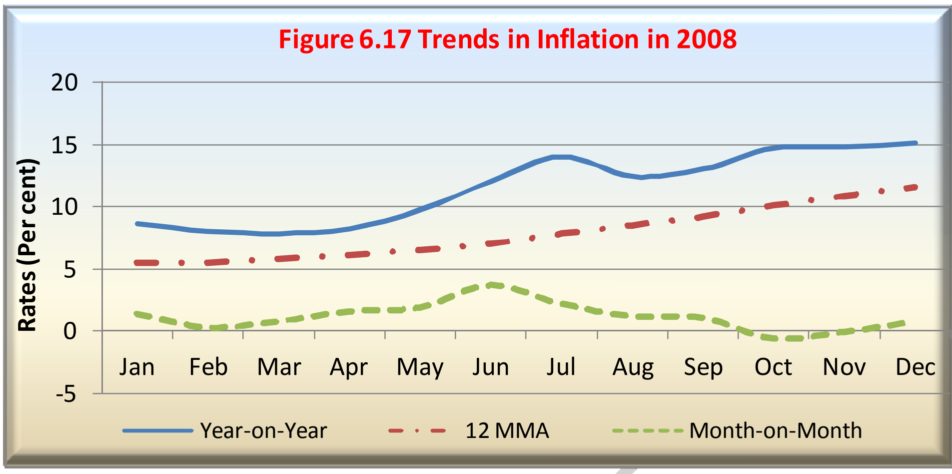
In October, Nigeria signed an agreement with The Gambian Government for the provision of some telecommunications services, such as: interconnection, numbering, licensing, and universal access. Also, Globacom, a Nigerian telecommunications company, won the contract to commence telephone services in Benin Republic and Ghana.

6.5 CONSUMER PRICES

Inflationary pressures showed mixed developments in 2008. The single digit inflation rate target was sustained from January to May 2008, within a range of 7.8 and 9.7 per cent on a year-on-year basis. inflation rose to 12.0 per cent in June and peaked at 15.1 per cent in December 2008, due to the effects of the global financial and economic crisis, surging commodity prices, increased liquidity, increased spending for the end-of-year celebrations and the depreciation of the naira exchange rate towards the end of the year. The all-items composite Consumer Price Index (CPI) was 192.6 (May 2003=100) in December 2008, compared with 167.4 in the corresponding month of 2007. This represented a year-on-year headline inflation rate of 15.1 per cent, 8.5 percentage points above the figure in December 2007. Inflation rate at the end of the year exceeded both the national and WAMZ single-digit inflation rate target.

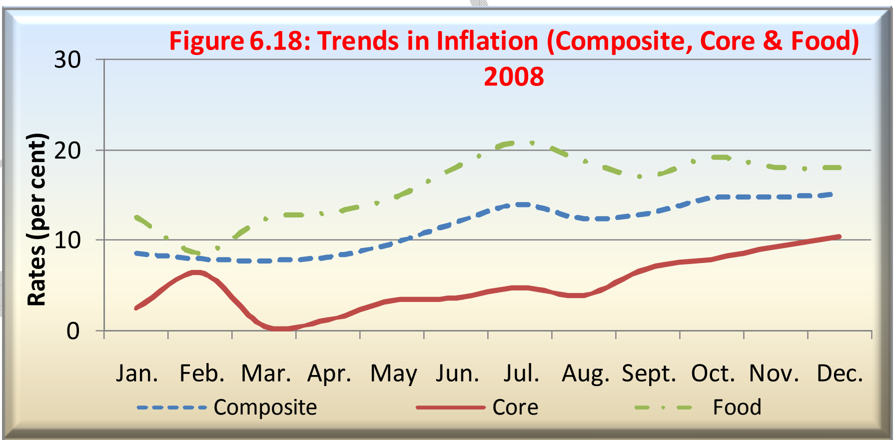
Table 6.5: Annual Headline Inflation Rate (Year-on-Year) (Per cent)

	2004	2005	2006	2007	2008
January	22.4	9.8	10.7	8.0	8.6
February	24.8	10.9	10.8	7.1	8.0
March	22.5	16.3	12.0	5.2	7.8
April	17.5	17.9	12.6	4.2	8.2
May	19.8	16.8	10.5	4.6	9.7
June	14.1	18.6	8.5	6.4	12.0
July	10.7	26.2	3.0	4.8	14.0
August	13.0	28.2	3.7	4.2	12.4
September	9.1	24.3	6.3	4.1	13.0
October	10.7	18.6	6.1	4.6	14.7
November	10.0	15.1	7.8	5.2	14.8
December	10.0	11.6	8.5	6.6	15.1
Average	***15.4***	***17.9***	***8.4***	***5.4***	***11.5***



1/ 12 MMA is 12-month moving average

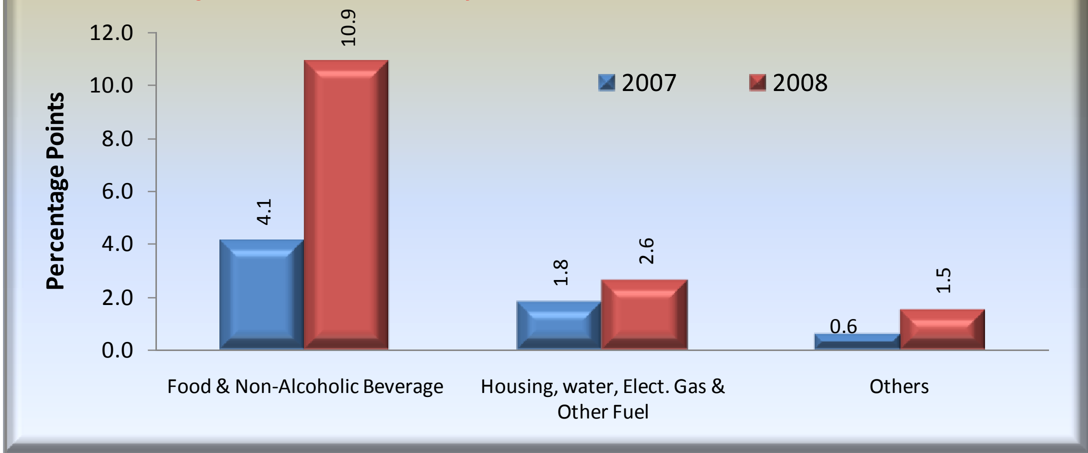
Similarly, the 12-month moving average headline inflation rate, which was 5.4 per cent at end-December, 2007, rose significantly to 11.6 per cent in 2008. The year-on-year food inflation rate, which stood at 8.7 per cent in February, rose to 20.9 per cent in July, but declined to 17.1 per cent in September before rising again to 18.0 per cent in December, 2008. Thus, food price increase was the main driver of inflation during the year.



The core inflation (represented by all-items less farm produce) on a year-on-year basis, which stood at 2.5 per cent in January, fell to 0.5 per cent by the end of the first quarter of 2008. It resumed an upward trend from 1.2 per cent in April and closed at 10.4 per cent in December 2008. Further analysis indicated that the urban headline inflation rate (year-on-year) declined slightly from 11.6 per cent in 2007 to 11.4 per cent in December 2008, while the rural inflation rate increased sharply from 4.1 per cent to 17.0 per cent during the same period.

The key drivers of headline inflation included housing, water, electricity, gas and other fuels, all of which contributed 3.0 percentage points, and food and non-alcoholic beverages, which contributed 2.3 percentage points.

Figure 6.19: Contribution of Key Components to Headline Inflation (end-Period)



6.6 THE SOCIAL SECTOR

6.6.1 Demography

The population and housing census estimated the Nigerian population at 140,003,542 in 2006. It also established an annual population growth rate of 3.2 per cent. The country's population was, therefore, estimated at 144,483,655 for 2007 and 149,107,132 for 2008. The total labour force was projected at 62,946,096 in 2008, indicating an increase of 2.8 per cent above the level in 2007.

6.6.2 Unemployment

Available estimates showed that the national unemployment rate in 2008 was 12.8 per cent, compared with 10.9 per cent in 2007. The increase in the unemployment rate was largely attributed to the increased number of school graduates with no matching job opportunities, a freeze in employment in many public and private sector institutions, the crash in the capital market which caused huge job losses, and continued job losses in the manufacturing and oil sectors.

Table 6.6: LABOUR STATISTICS 2004 - 2008					
	2004	2005	2006	2007	2008*
Total Population	134,131,224	138,468,013	140,003,542	144,483,655	149,107,132
Total Labour Force	55,538,881	56,170,672	58,933,891	61,249,485	62,946,096
Total Employment [1]	48,124,440	49,486,362	50,886,826	52,326,923	53,807,775
Total Unemployment	7,414,441	6,684,310	8,047,065	8,922,562	9,204,515
Unemployment Rate (%)[2]	13.4	11.9	14.6	10.9	12.8

Source: National Bureau of Statistics

1/Labour force consists of the number of people aged 15 and over who are employed (that is those who currently have jobs) and unemployed (that is, those who do not have jobs, but who are actively looking for work). Individuals who do not fall into either of these groups, such as retired people and discouraged workers, are not included in the calculation of the labour force.

2/The International Labor Organization (ILO) defines 'unemployment' as the proportion of the labour force which was available for work but did not work for at least one hour in the week preceding the survey period. However, the definition used in this report is that of the National Bureau of Statistics (NBS), Nigeria. The NBS defines unemployment as the proportion of the labour force that is available for work but did not work for at least 39 hours in the week preceeding the survey period.

**Staff Estimate*

CHAPTER 7

EXTERNAL SECTOR DEVELOPMENTS

The external sector remained strong in 2008,as reflected in the robust trade balance and foreign reserve position, as well as the relative stability of the exchange rate for most part of the yea, notwithstanding the adverse developments induced by the global financial crisis. The favourable performance, especially the current account, was driven mainly by the increased receipts from home remittances by Nigerians in the diaspora, as captured by the returns from the deposit money banks (DMBs) to the CBN and the relatively higher international crude oil prices in the first three quarters of the year. Despite the drastic crash in the international crude oil price from an all-time high of US$147.27 per barrel in July to a low of US$44.46 in December, the average price of US$101.15 per barrel for the year was higher by 25.6 per cent relative to the level in 2007. The current account surplus as a ratio of the Gross Domestic Product (GDP) was 21.0 per cent while the deficit in the capital and financial account widened by 1.2 percent 2.8 per cent in 2008. External debt grew from US$3.6 billion in 2007 to US$3.7 billion in 2008 as a result of the additional disbursements of the International Development Agency (IDA) and the International Fund for Agricultural Development (IFAD) loans. In the wake of the turmoil in the global economy and the consequent repatriation of capital arising from the divestment by portfolio investors from the domestic capital market, the foreign exchange market experienced a huge demand pressure resulting in the depreciation of the naira in the last quarter. However, the average exchange rate appreciated by 5.6 per cent in 2008. External reserves at end-December increased by 3.3 per cent to US$53.0 billion and could finance 16.6 months of imports which exceeded the six months of imports under the West African Monetary Zone (WAMZ) arrangement.

7.1. BALANCE OF PAYMENTS

7.1.1 Major Developments

The performance of the external sector resulted in a positive outcome as the estimated overall balance of payments statement posted a surplus of ₦196.4 billion (US$1.7 billion), or 0.8 per cent of GDP, though lower than the ₦1,127.2 billion (US$9.0 billion), or 4.9 per cent of GDP, achieved in 2007. The surplus in the current account, an equivalent of 21.0 per cent of GDP, remained high as a result of the robust goods account and current transfers. The price of Nigeria's reference crude, the Bonny Light 37^0 API, which was the main driver of the surplus in the goods account, rose from an average of US$74.96 per barrel in 2007 to US$101.15. Also, inward current transfers grew by 79.0 per cent to an unprecedented level of ₦4,046.1 billion (US$34.0 billion). These developments more than offset the huge import bills and net deficits in the services and income accounts. The deficit in the capital and financial account widened from 1.4 per cent of GDP in 2007 to 2.8 per cent. However, the severe pressure on the sector in the fourth quarter, occasioned by capital reversals by portfolio investors in the financial markets, significantly reduced the huge surpluses recorded in the first three quarters of the year. A major challenge of the sector remained the need to diversify the economy away from excessive dependence on oil, in view of its volatile nature and the search for alternative sources of energy by the industrialized economies.

7.2 THE CURRENT ACCOUNT

At ₦4,982.7 billion (US$42.3 billion), the current account surplus rose by 84.4 per cent, reflecting the substantial earnings from crude oil exports occasioned by the high international price of crude oil in the first three quarters of 2008. The trade (goods) balance increased slightly from a surplus of ₦4,134.3 billion

(U$S33.1 billion) in 2007 to ₦4,969.2 billion (US$42.2 billion). The deficit in the services account narrowed marginally by 2.5 per cent while the income account widened by 17.8 per cent. Current transfers (net), which represented mainly home remittances by Nigerians abroad, increased by 78.7 per cent to ₦4.023.4 billion (US$34.2 billion).

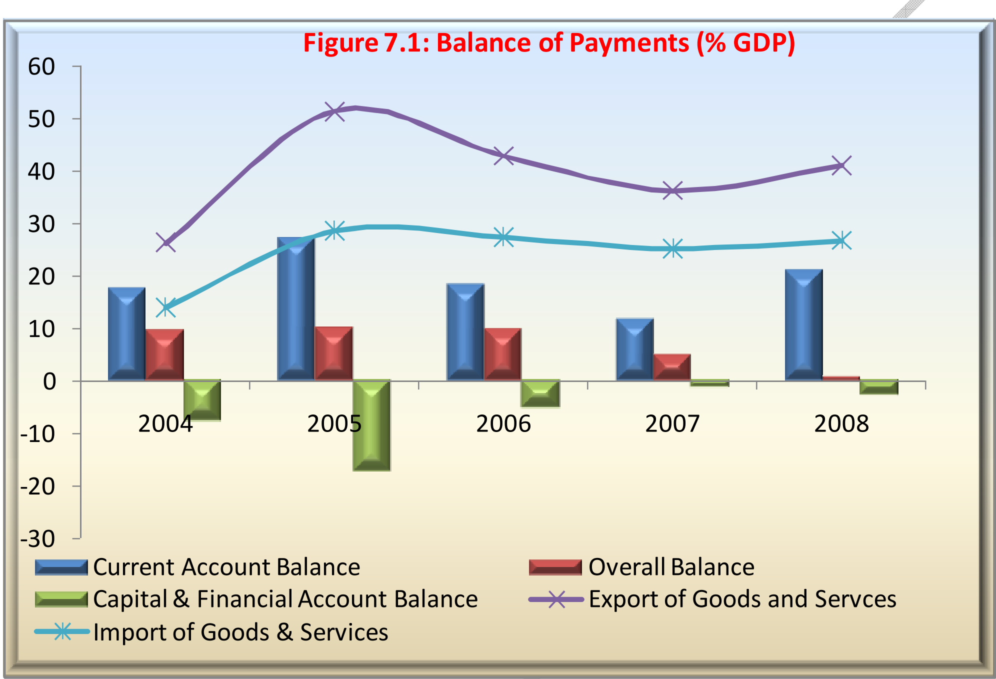


Table 7.1: Summary of the Provisional Balance of Payments Statement 1/						
	₦' billion			US$' billion		
	2006	2007	2008 2/	2006	2007	2008 2/
CURRENT ACCOUNT	3,374.81	2,703.75	4,982.72	26.47	21.67	42.30
Goods	3,457.64	4,134.26	4,969.19	27.12	33.14	42.19
Exports (fob)	7,324.68	8,120.15	9,495.06	57.44	65.09	80.62
Imports (fob)	(3,867.05)	(3,985.88)	(4,525.86)	(30.33)	(31.95)	(38.43)
Services(net)	(608.08)	(1,588.96)	(1,548.96)	(4.77)	(12.74)	(13.15)
Credit	510.90	209.81	270.42	4.01	1.68	2.30
Debit	(1,118.98)	(1,798.78)	(1,819.38)	(8.78)	(14.42)	(15.45)
Income(net)	(849.54)	(2,089.26)	(2,460.95)	(6.66)	(16.75)	(20.89)
Credit	239.47	322.01	284.91	1.88	2.58	2.42
Debit	(1,089.01)	(2,411.27)	(2,745.87)	(8.54)	(19.33)	(23.31)
Current transfers(net)	1,374.79	2,247.71	4,023.44	10.78	18.02	34.16
Credit	1,397.57	2,266.60	4,046.07	10.96	18.17	34.35
Debit	(22.78)	(18.88)	(22.63)	(0.18)	(0.15)	(0.19)
CAPITAL AND FINANCIAL ACCOUNT	(968.47)	(324.69)	(668.21)	(7.60)	(2.60)	(5.67)
Capital account(net)	1,357.98	-	-	10.65	-	-
Credit	1,357.98	-	-	10.65	-	-
Debit	-	-	-	-	-	-
Financial account(net)	(2,326.45)	(324.69)	(668.21)	(18.25)	(2.60)	(5.67)
Assets	(2,341.51)	(1,967.18)	(1,826.31)	(18.36)	(15.77)	(15.51)
Direct investment (Abroad)	(2.12)	(58.39)	(114.48)	(0.02)	(0.47)	(0.97)
Portfolio investment	(19.06)	(17.27)	(81.51)	(0.15)	(0.14)	(0.69)
Other investment	(532.77)	(764.31)	(1,433.94)	(4.18)	(6.13)	(12.17)
Reserve assets	(1,787.56)	(1,127.21)	(196.37)	(14.02)	(9.04)	(1.67)
Liabilities	15.06	1,642.49	1,158.10	0.12	13.17	9.83
Direct investment (in reporting economy)	1,779.59	759.38	802.62	13.96	6.09	6.81
Portfolio investment	311.78	703.68	350.92	2.45	5.64	2.98
Other investment liabilities	(2,076.32)	179.43	4.56	(16.28)	1.44	0.04
NET ERRORS AND OMISSIONS	(2,406.34)	(2,379.06)	(4,314.50)	(18.87)	(19.07)	(36.63)
Memorandum Items						
Current account balance as % of GDP	18.52	11.80	21.03	18.52	11.80	21.03
Capital and financial account balance as % of GDP	(5.31)	(1.42)	(2.82)	(5.31)	(1.42)	(2.82)
Overall balance as % of GDP	9.81	4.92	0.83	9.81	4.92	0.83
External reserves (US$ million)	42,298.00	51,333.15	53,000.36	42,298.00	51,333.15	53,000.36
Number of months of imports equivalent	16.74	19.28	16.55	16.74	19.28	16.55
External debt stock (US$ million)	3,544.49	3,654.00	3,704.08	3,544.49	3,654.00	3,704.08
Outstanding debt service due as % of exports of goods and non-factor services						
Effective central exchange rate(N/$)	127.51	124.76	117.78	127.51	124.76	117.78
End-period exchange rate(N/$)	128.27	117.97	132.56	128.27	117.97	132.56
Average exchange rate(N/$)	128.65	125.83	118.92	128.65	125.83	118.92

1/ The conversion for BOP purposes was based on the mid-point or the effective central exchange rate.

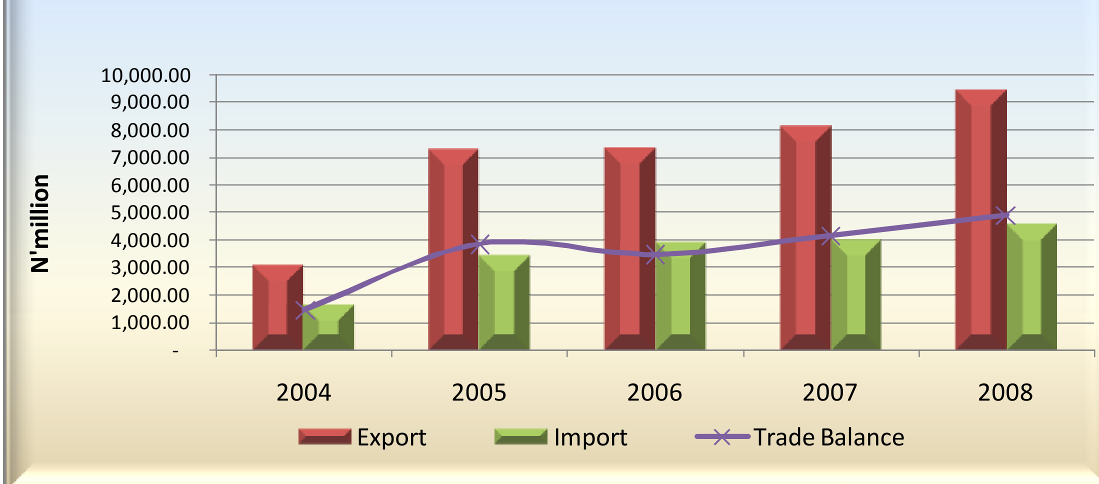
2/ Provisional

7.2.1 The Goods Account

The goods account (fob) surplus adjusted for balance of payments (merchandise trade balance) increased by 20.2 per cent to ₦4,969.2 billion, which was close to the increase of 19.6 per cent recorded in 2007. The combined receipts from crude oil, gas and non-oil exports (total exports) increased by 16.9 per cent while imports (fob) increased by 13.6 per cent. Analysis of trade developments, on a monthly basis, revealed that exports grew significantly in the second and third quarters of 2008, in line with the surge in the international price of crude oil, resulting in favourable terms of trade. With the crash in crude oil price in the fourth quarter, import bills shot above exports earnings resulting in an unfavourable trade balance in that quarter. Thus, the vulnerability of Nigeria's exports receipts to the oil shock was evident in the moderate increase in the surplus recorded in the trade balances for the year.

The oil and non-oil components of unadjusted merchandise trade (imports and exports) increased by 17.8 and 12.4 per cent to ₦10,220.8 billion and ₦4,165.6 billion, respectively. The continued dominance of the oil sector was reflected in its share of 71.2 per cent in total trade, up from 70.3 per cent in 2007. The degree of openness of the economy, as measured by the total trade/GDP ratio, increased from 59.8 per cent in 2007 to 60.2 per cent.

Figure 7.2: Value of Imports, Exports and Trade Balance



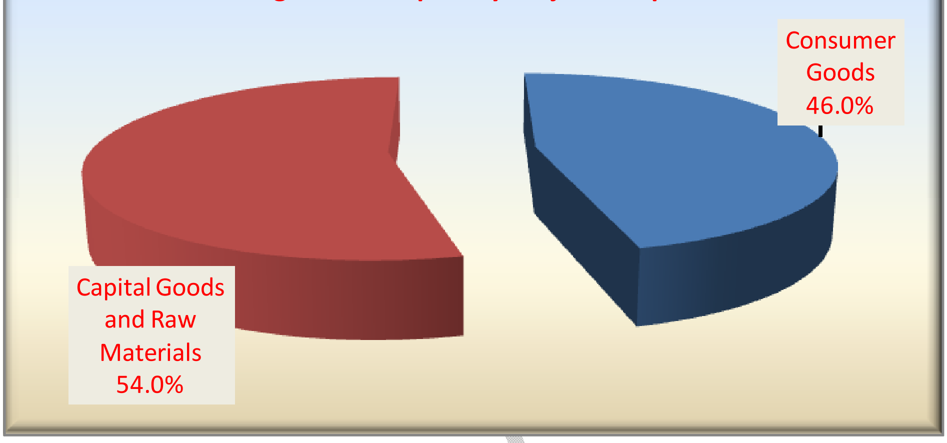
7.2.1.1 Imports: Cost and Freight (c&f)

At ₦4,991.4 billion, total imports unadjusted for balance of payments, increased by 14.8 per cent, reflecting the 13.2 and 15.1 per cent rise in the oil and non-oil components, respectively. The increase in total imports was in response to the expansion in domestic demand and the appreciation of the naira in the first three quarters of the year, which made imports cheap, as well as power outages, which affected domestic production, resulting in supply gaps. An analysis of the breakdown of imports using DMBs' returns on foreign exchange utilization revealed that financial, industrial, manufactured goods, oil, transport and agricultural sectors' imports, respectively, accounted for 29.0, 22.8, 14.1, 3.5 and 0.7 per cent of the total. Specifically, the shares of imports of food, vehicles, electronics and fertilizer were 8.1, 3.2, 3.0 and 0.5 per cent, respectively.

(a) Imports by End-Users

The analysis of imports by end-users showed that the share of consumer goods in aggregate imports increased by 2.7 percentage points to 45.7 per cent in 2008 and was accounted for by the growth in non-durable goods. The share of durable consumer goods remained low at 4.3 per cent. Although the share of capital goods and raw materials import as a group remained dominant, it declined by 2.3 percentage points to 53.7 per cent of the total. Within the group, raw materials imports, comprising component is basically chemicals, accounted for 29.6 per cent of total imports, while capital goods consisting of spare parts and agricultural machinery, took up 24.1 per cent.

Figure 7.3: Import by Major Groups in 2008



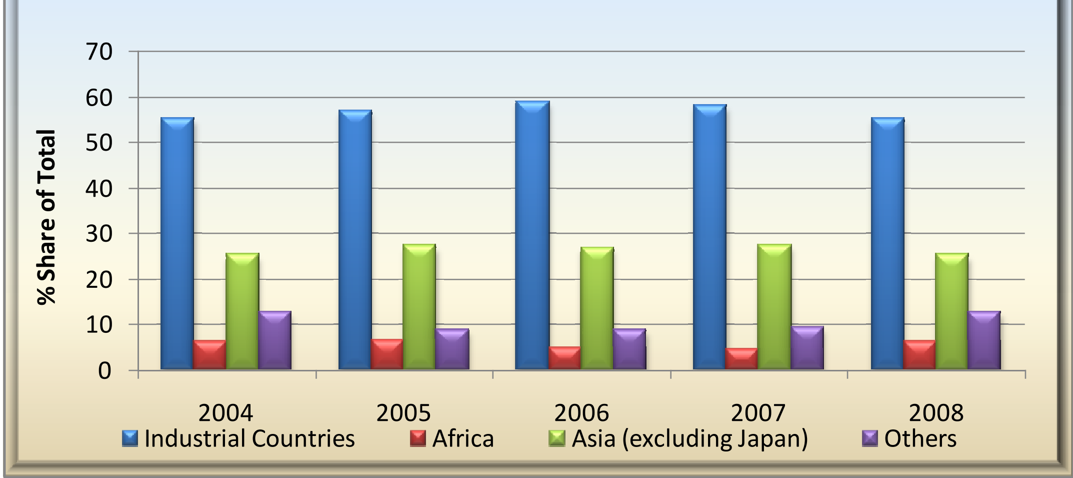
(b) Imports by Standard International Trade Classification (SITC)

With respect to imports by SITC, the value of all categories of imports recorded substantial increases over their levels in 2007. The growth in imports was highest in animal and vegetable oils and fat at 30.4 per cent, followed by chemicals (39.6 per cent), manufactured goods (15.5 per cent), beverages (14.8 per cent), machinery and transport equipment (11.7 per cent), food and live-animals (11.1 per cent) and crude materials (5.2 per cent). As a proportion of total, imports of manufactured goods topped the list, accounting for 33.0 per cent, followed by chemicals (25.0 per cent), machinery and transport equipment (22.0 per cent) and the import of food and live animals, beverages, crude materials, animal and vegetable oils and fat, and miscellaneous items accounted for the balance of 20.0 per cent.

(c) Non-oil Imports by Country of Origin

Available data revealed that by country of origin, industrialized countries remained the dominant source of imports to Nigeria and accounted for 55.3 per cent of total, down from 58.3 per cent in 2007. Within this group, the United States maintained in the lead with a share of 14.4 per cent, followed by France (9.4 per cent), the United Kingdom (7.9 per cent), the Netherlands (7.4 per cent), while the balance (16.2 per cent) was accounted for by Japan, Germany and Italy. Further analysis showed a shift in imports by country of origin, as the share of Nigeria's imports from Japan and the US declined by 14.4 and 8.9 percentage points, respectively. However, the share of imports from European economies, namely, France, Germany, Italy, the Netherlands and the United Kingdom increased significantly in 2008. The share of imports from African countries increased by 1.7 percentage point to 6.3 per cent, while the share of Asian countries (excluding Japan) declined by 2.2 percentage points to 25.4 per cent.

Figure 7.4: Non-Oil Imports by Origin in 2008



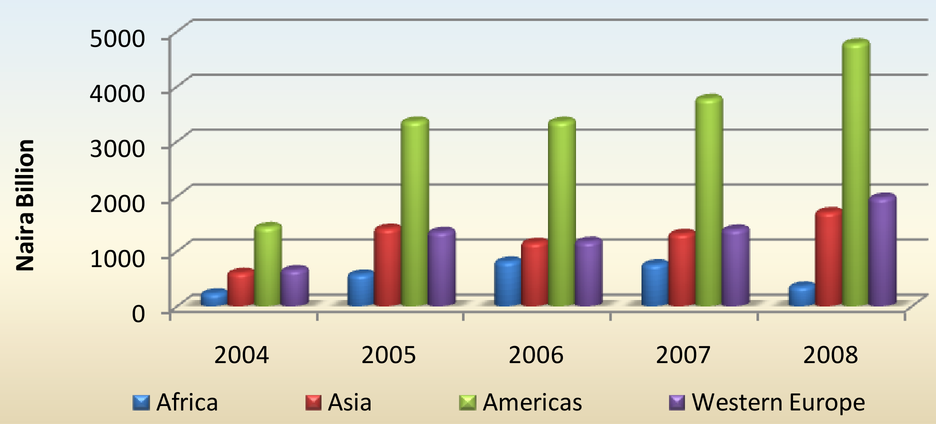
7.2.1.2 Exports (fob)

Following the favourable price of crude oil in the first three quarters of 2008, total export valued at ₦9,495.0 billion (US$80.6 billion), was higher than the ₦8,120.1 billion (US$65.1 billion) in 2007. The bulk of the export proceeds was accounted for by crude oil (92.2 per cent) while gas and non-oil exports accounted for 6.8 and 1.0 per cent, respectively. Despite the growth in the export value, the volume of oil exports was lower than projected, as a result of restiveness in the oil-rich Niger Delta which disrupted production lines. Provisional data indicated that the value of gas exports was ₦649.0 billion (US$5.5 billion), while non-oil exports (including estimates for unrecorded trade) stood at ₦94.3 billion (US$0.8 billion).

[a] Direction of Oil Exports

The Americas as a group constituted the largest importer of Nigeria's crude oil, followed by the countries of Western Europe and Asia. The share of Nigeria's crude oil exports to the Americas increased by 1.2 percentage points to 53.0 per cent. In value terms, crude oil export to the Americas increased from ₦3,775.7 billion in 2007 to ₦4,638.4 billion, while the volume declined by 2.8 per cent to 403.5 million barrels. On a country-by-country basis, the United States (US) remained the largest single importer of Nigeria's crude oil, accounting for 23.0 per cent of the total.

Figure 7.5: Direction of Oil Exports in 2008



The share of Asia increased by 0.9 percentage point to 19.0 per cent, and that of Western Europe by 2.7 percentage points to 21.9 per cent. At 5.2 per cent, the share of crude oil exports to African countries remained the lowest. Côte d'Ivoire was the largest importer of Nigeria's crude oil, followed by Senegal, while Ghana was the lowest.

[b] Non-oil Exports

The value of non-oil exports declined remarkably by 44.4 per cent to ₦94.3 billion. The poor performance was attributed to the declining state of infrastructure, especially power, and the adverse effects of the relatively strong naira, on exports. The analysis of non-oil exports by product showed that agricultural produce, semi-manufactured goods, manufactured goods and solid minerals accounted for 58.3, 17.0, 8.7 and 7.7 per cent of the total, respectively. Other exports, which comprised petroleum products, charcoal, scrap metals, crafts, ammonia and cement/lime products accounted for 8.3 per cent of the total. In the agricultural produce category, cocoa beans, rubber, fish/shrimps and cotton accounted for 32.3, 6.1, 3.5, and 2.6 per cent of the total non-oil exports, respectively. In the semi-manufactured goods category, processed skins, furniture/processed wood and textile yarn accounted for 13.6, 1.1 and 0.5 per cent of the total non-oil exports, respectively, while the share of textiles in the manufactured group decreased by 0.4 percentage point.

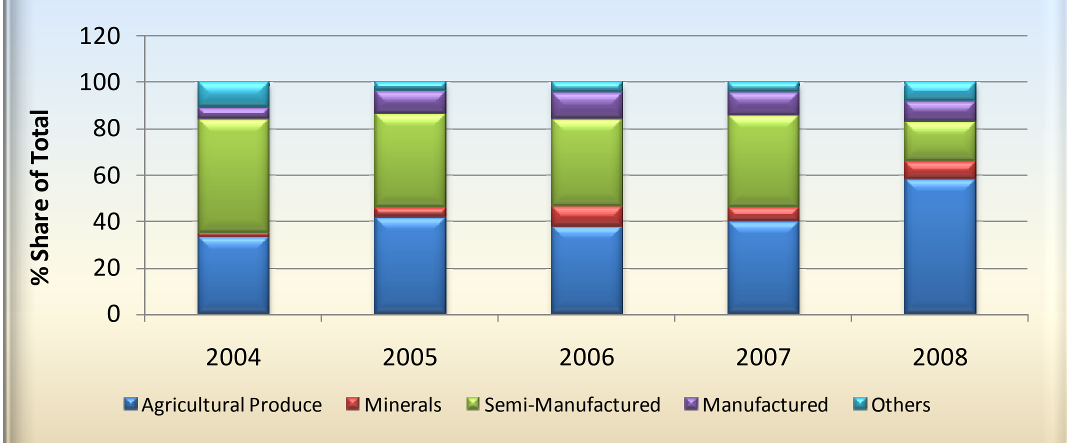


Figure 7.6: Non-Oil Exports by Product in 2008

7.2.2 The Services Account

The deficit in the services account (net) persisted, although it moderated slightly from ₦1,589.0 billion in 2007 to ₦1,549.0 billion in 2008. The main sources were the out-payments in respect of travels, freight charges for imports and other business services, comprising operational leasing and miscellaneous, business and professional services. Payments for transportation and travels increased by 37.3 and 72.0 per cent to ₦577.8 billion and ₦524.3 billion, respectively. Under transportation, passenger fares declined by 17.5 per cent while freight charges (net) increased by 33.8 per cent to ₦324.2 billion. The persistent deficit in the services account was attributable to the low investment by residents in freight business, non-compliance with global shipping policies as well as increased volume of business and private travels abroad by Nigerians. Education and related expenditure, posted a net deficit of ₦273.3 billion against ₦135.3 billion in 2007. This was accounted for by the increased number of Nigerians seeking education abroad.

7.2.3 The Income Account

The pressure on the income account (net) persisted as the deficit widened from ₦2,089.3 billion in 2007 to ₦2,461.0 billion in 2008. The deficit reflected, partly, increased commitments on interest payments on loans and the substantial out-payments on dividends and distributed branch profits. However, interest earnings on external reserves and other investment assets by the monetary authorities declined by 14.5 per cent to ₦175.2 billion (US$1,487.9 million).

7.2.4 Current Transfers

The surplus in current transfers (net) increased by 79.0 per cent to ₦4,023.4 billion in 2008, reflecting personal home remittances and other private sector transfers in kind. The inward transfers at ₦4,046.1 billion surpassed the outward transfers of ₦22.6 billion recorded in the general government accounts for the expenses of foreign embassies, payments to international organizations, and the remittances of foreigners resident in the country.

Table 7.2: Current Transfers (₦ Billion)

	2007	2008
INFLOWS (credit)	**2,266.6**	4,046.1
1.General government (grants, ODA, TA & Gifts)	22.5	**21.2**
2. Other sector workers' remittances and other transfers in kind	2,244.1	**4,024.9**
OUTFLOWS (debit)	**18.9**	22.6
1.General government (Payments to International Organizations & other payments)	10.4	**14.0**
2. Other sector workers' remittances and other transfers	8.5	**8.6**
NET CURRENT TRANSFERS	2,247.7	4,025.5

7.3 THE CAPITAL AND FINANCIAL ACCOUNT

The capital and financial account deficit increased to ₦668.2 billion, or 2.8 per cent of GDP, in 2008 from ₦324.7 billion, or 1.4 per cent of GDP, in the previous year. New capital imported into the economy amounted to US$9,573.2 million of which equity capital contributed US$4,243.5 million mainly in the financial services industry. Provisional data showed that Foreign Direct Investment (FDI) increased by 5.7 per cent to ₦802.6 billion. It comprised equity capital and reinvested earnings, contributing ₦519.1 billion and ₦283.5 billion, respectively. However, portfolio investment witnessed a sharp decline of 50.1 per cent to ₦350.9 billion partly due to the global financial crisis. Net claims of non-residents continued to widen with large unrecorded trade claims in the oil sector, resulting in large net negative errors and omissions (unadjusted).

Box 5: The Global Financial Crisis: Effects on Nigeria's Balance of Payments and Exchange Rate

Over the years, the external indicators had been strong as evidenced in the current account surplus and huge external reserves. However, the global financial crisis which started with the US sub-prime mortgage market crisis in August 2007 and later manifested with the collapse of some financial institutions in October 2008, became evident in Nigeria in the fourth quarter of 2008. The contagion effect, induced by developments in the global market considerably narrowed portfolio investments by 50.1 per cent to US$3.0 billion in 2008. The decline in portfolio investments was attributable to divestments in the Nigerian capital market and higher dividend repatriation by non-residents.

In addition, the international crude oil price, which stood at an unprecedented all-time high of US$147.27 per barrel in July 2008, dropped to US$44.46 per barrel in December 2008 amidst declining production occasioned by the reduced OPEC quota, restiveness in the Niger Delta and reduced international oil demand. If the downward trend in international crude oil prices continues, the effect on the trade balance could eventually rebound, leading to current account deficits in 2009 and beyond. This would seriously affect the external sector viability.

The impact became noticeable in October 2008 when the total outflow of foreign exchange increased from US$3.50 billion in September 2008 to US$7.07 billion in October 2008. The significant increase in outflow was traceable to the divestment from portfolio assets and dividends repatriation by foreign investors, while the inflows, especially through the Central Bank, started to shrink as a result of the drastic fall in international oil prices. Consequently, the demand for foreign exchange increased putting pressure on the exchange rate.

By December 2008, the average exchange rate depreciated in all segments of the market; the trend became worrisome, despite CBN intervention, when the rates depreciated by 6.9 and 13.5 per cent, respectively, in the official and BDC segments. The end-period exchange rate swung from an appreciation of 8.7 per cent (year-on-year) in 2007 to a depreciation of 11.0 per cent in 2008.

Future Prospects of Exchange Rate Movement:

The global financial crisis is expected to impact negatively on remittances from the Diaspora, lead to a reduction in donor inflows and decreased demand for exports, a reduction in the prices of main exports (e.g., crude oil, agricultural commodities and solid minerals), and reduced capital inflows, including Foreign Direct Investments and short-term capital flows. If this trend continues without any foreseeable improvement, especially in the international crude oil prices, the pressure in the foreign exchange market is likely to continue. This presupposes a continued depreciation of the exchange rate.

7.4 EXTERNAL ASSETS MANAGEMENT

Nigeria's total external assets as at 31st December, 2008 was ₦8,616.52 billion (US$65.00 billion), representing an increase of 15.2 per cent above the level in 2007. The CBN's foreign assets increased by 12.0 per cent above the level in 2007 to ₦7,334.30 billion (US$53.00 billion) in 2008. The share of CBN's foreign assets in total external assets decreased from 87.5 per cent in 2007 to 85.1 per cent in 2008. The net foreign assets of the Deposit Money Banks (DMBs) increased by 37.5 per cent above the level in the preceding year to ₦1,279.62 billion (US$9.65 billion) in 2008. It accounted for 14.9 per cent of the total external assets, compared with 12.4 per cent in 2007.

7.5 INTERNATIONAL INVESTMENT POSITION (IIP)

The preliminary net International Investment Position (IIP) revealed that Nigeria remained a net creditor to the rest of the world as in the preceding year. The favourable outcome was reflected in the net IIP surplus of US$18.9 billion or 10.8 per cent of the GDP accounted for by the growth in the value of the external reserves. Nigeria's IIP account revealed that total foreign liabilities amounted to US$73.8 billion and foreign assets US$92.7 billion at the end of 2008.

The favourable crude oil receipts and interest accrued on reserve assets enhanced Nigeria's official reserves position. The total official reserves account increased by 3.3 per cent to US$53.0 billion in 2008 and accounted for 57.2 per cent of Nigeria's total foreign assets.

The liabilities of Nigerian banks increased from US$0.3 billion in 2007 to US$0.4 billion. Claims by the banks on the rest of the world also increased from US$6.5 billion in 2007, to US$7.3 billion in 2008. Net foreign purchases of portfolio investment, mostly stocks, increased by 18.3 per cent to US$17.7 billion.

Figure 7.7: Assets and Liabilities (IIP)

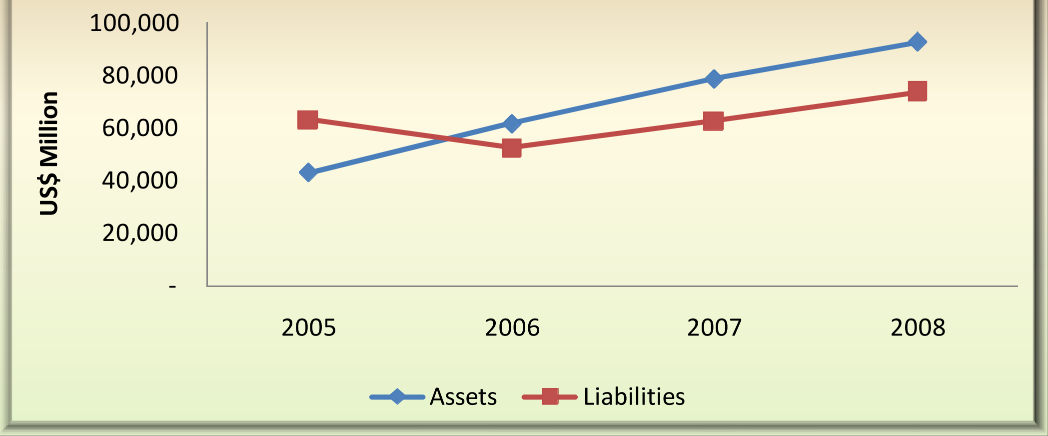


Figure 7.8: Net International Investment Position (IIP)

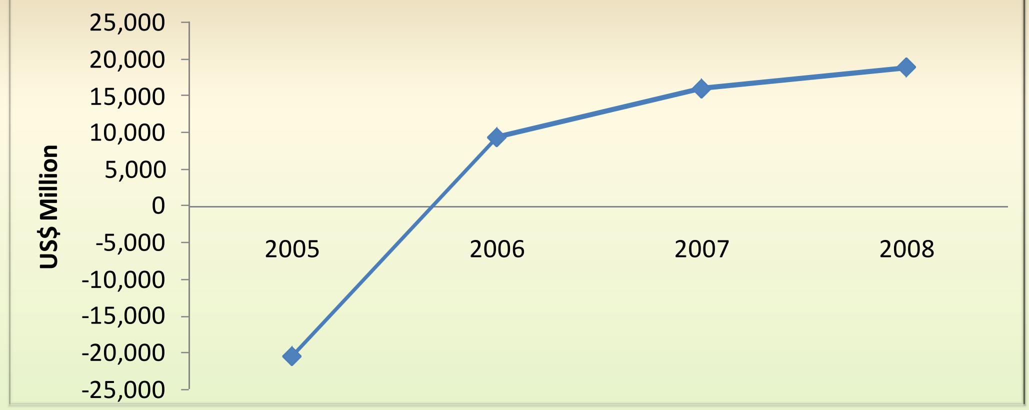
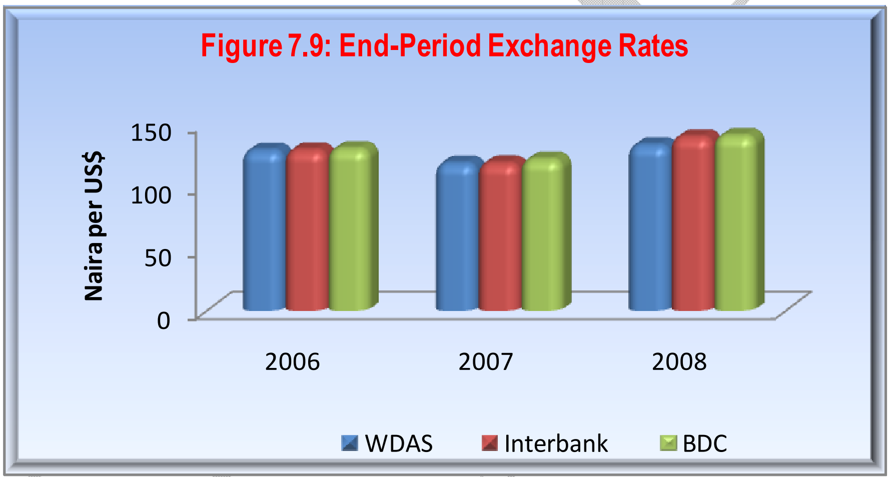


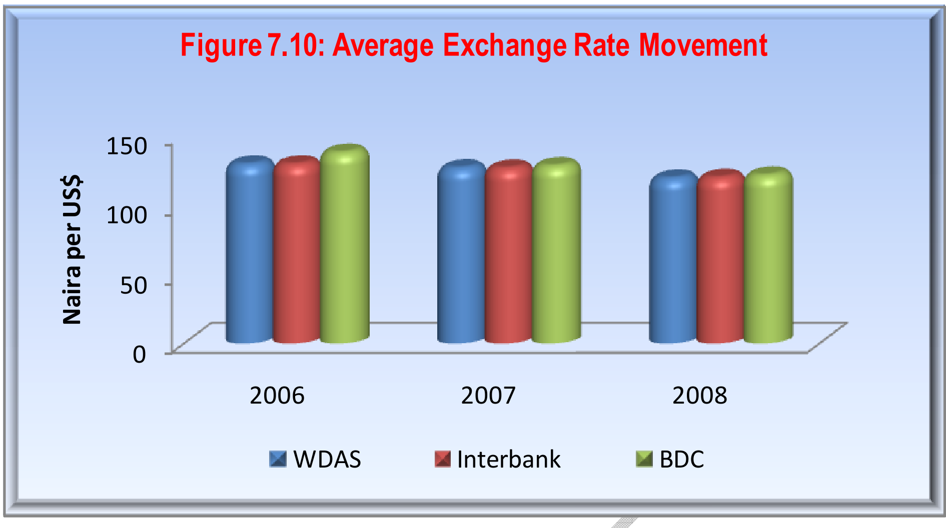
Table 7.3: International Investment Position (IIP) of Nigeria (2005-2008) [Millions of dollars]				
Type of Asset/Liability	**2005**	**2006**	**2007**	**2008**
Net international investment position of Nigeria	**-20,408.70**	**9,387.76**	**15,993.29**	**18,868.55**
Assets	**42,954.33**	**61,879.69**	**78,863.61**	**92,669.50**
Direct investment abroad	302.00	700.00	1,168.00	2,140.00
Portfolio investment abroad	1,178.60	1,294.16	1,374.95	1,806.50
Equities	-	-	-	-
Money Market	1,178.60	1,294.16	1,374.95	1,806.50
Banks	*1,178.60*	*1,294.16*	*1,374.95*	*1,806.50*
Bonds	-	-	-	-
Financial Derivatives	-	-	-	-
Other foreign assets	13,396.96	17,587.42	24,987.51	35,722.64
Public Sector assets excluding official reserves	1,427.83	1,308.03	2,581.87	4,666.37
Banks	4,480.25	6,025.62	8,514.43	12,383.74
Deposits	3,555.44	4,974.70	7,346.74	11033.74
Loans	924.81	1,050.92	1,167.69	1,350.00
Non-banks	4,242.00	4,969.00	7,350.00	11,104.00
Deposits	*4,242.00*	*4,969.00*	*7,350.00*	*11,104.00*
Trade Credits	3,246.88	5,284.77	6,541.21	7,568.53
Nigeria official reserve assets	28,076.77	42,298.11	51,333.15	53,000.36
Liabilities	**63,363.03**	**52,491.93**	**62,870.32**	**73,800.95**
Direct investment	26,345.00	29,313.00	32,613.00	39,048.19
Portfolio investment	6,877.60	9,322.74	14,962.99	17,708.05
Equities	3,550.00	4,890.00	9,538.00	11,686.00
Money Markets	264.60	294.74	327.49	356.05
Banks	264.60	294.74	327.49	356.05
Bonds:	3,063.00	4,138.00	5,097.50	5,666.00
Gen. Government	3,063.00	4,138.00	5,097.50	5,666.00
Others	-	-	-	-
Financial Derivatives	-	-	-	-
Other Investments	30,140.43	13,856.19	15,294.33	17,044.71
Deposits:	5,509.00	5,613.00	6,463.00	7,313.00
Banks	*5,509.00*	*5,613.00*	*6,463.00*	*7,313.00*
Non-Banks	-	-	-	-
Loans	24,631.43	8,243.19	8,831.33	9,731.71
Long Term	24,631.43	8,243.19	8,831.33	9,731.71
Gen. Government	*20,476.20*	*3,544.49*	*3,654.00*	*3704.08*
Banks	*985.23*	*1,094.70*	*1,216.33*	*1307.63*
Others	3,170.00	3,604.00	3,961.00	4,720.00

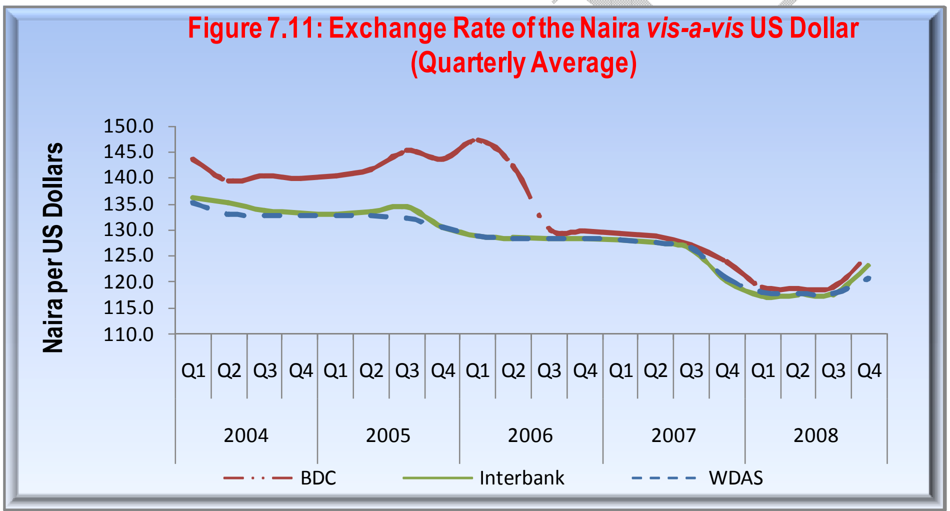
7.6 EXCHANGE RATE MOVEMENTS

The average exchange rate of the naira for 2008 at the WDAS appreciated by 5.8 per cent over the level in 2007 to ₦118.92 per US dollar. At the Inter-bank and BDC segments of the foreign exchange market, the naira traded at an average exchange rate of ₦119.07 and ₦120.81 per dollar, showing an appreciation of 5.6 and 5.5 per cent, respectively, relative to their levels in 2007. Consequently, the WDAS/IFEM and WDAS/BDC premium widened slightly from -0.1 and 1.3 per cent, respectively, in 2007 to 0.1 and 1.6 per cent. The naira appreciated in all segments of the foreign exchange market from January to October, 2008, due largely to the accumulation of foreign exchange reserves which was traced to the favourable crude oil price at the international market, coupled with increased inflow of foreign exchange into the economy through autonomous sources.



However, the end-period exchange rate at the official window stood at ₦132.56 per dollar, a depreciation of 11.0 per cent, compared with the level in 2007. Similarly, at the Inter-bank and BDC segments of the foreign exchange market, the naira exchanged at ₦140.00 and ₦139.00 per dollar, showing a depreciation of 15.7 and 12.9 per cent, respectively, from their levels in 2007. The depreciation was due to the speculative demand and panic buying at the foreign exchange market between November and end-December 2008, triggered by news of a decline in external reserves due to low foreign exchange earnings from crude oil exports, a situation that had risen as a consequence of the global financial and economic crisis.





The index of Nominal Effective Exchange Rate (NEER) (May 2003=100) of the Naira, computed in relation to the country's twelve major trading partners (which constitute 80.0 per cent of total trade) at end-December 2008 was 105.6 as against 104.0 in the preceding year. This indicated that the naira was relatively strong against the currencies of its major trading partners in 2008. The index of Real Effective Exchange Rate (REER) (May 2003=100) stood at 169.6 as at end-December 2008, as against 152.3 in the preceding year, indicating a declining external competitiveness of the Nigerian economy.

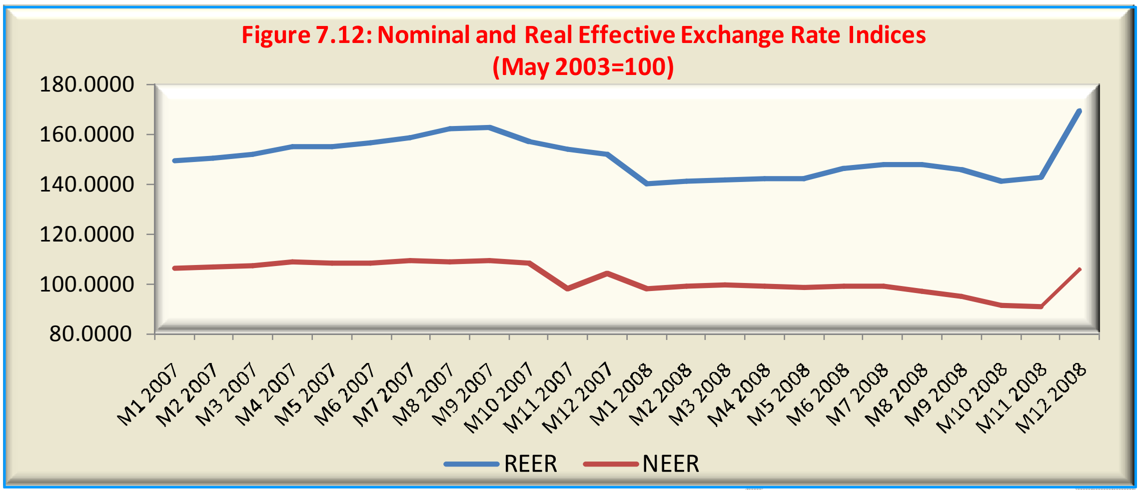


Table 7.4: Nominal and Real Effective Exchange Rate Indices (May 2003 = 100)

	December 2005				December 2006				December 2007				December 2008			
	Monthly Index	Annual Average	% Change (Point-to-point)	% Change (Annual Average)	Monthly Index	Annual Average	% Change (Point-to-point)	% Change (Annual Average)	Monthly Index	Annual Average	% Change (Point-to-point)	% Change (Annual Average)	Monthly Index	Annual Average	% Change (Point-to-point)	% Change (Annual Average)
NEER	102.87	106.58	-6.9	-0.5	105.48	104.07	2.5	-2.4	103.98	107.45	-1.4	3.2	105.58	97.71	1.5	9.1
REER	137.95	143.74	0.2	13.5	149.19	148.22	8.1	3.1	152.32	155.23	2.1	4.7	169.63	145.84	11.3	6.1

CHAPTER 8
INTERNATIONAL AND REGIONAL INSTITUTIONS

8.1 THE INTERNATIONAL MONETARY SYSTEM

8.1.1 The Group of Twenty-Four (G-24) and the IMF/World Bank Annual Meetings

The 2008 Spring and Annual Meetings of the Inter-Governmental Group of Twenty-Four (G-24) on International Monetary Affairs and Developments, the International Monetary Fund (IMF) and the World Bank (WB) considered issues related to the global economic and financial situation, reforms in the Bretton Woods Institutions (BWIs), quota and voice reforms, financing for development and climate change.

The Ministers of the G-24 noted that the world economy was facing the most difficult situation in decades, against the backdrop of a deepening financial crisis that had originated in developed markets. It was observed that advanced economies were slowing markedly with some already in recession. The Ministers called for a comprehensive response to address the strains in financial markets and restore market confidence. The Ministers also underscored the need for fundamental reforms of the regulatory and supervisory framework, clearer accounting rules, as well as transparency of the international financial architecture.

The need to redress the severe democratic deficit in the governance of the BWIs between developed and developing countries was stressed. The proposed package by the IMF to redress the imbalance was welcomed, but the Ministers emphasized that the quota given to developing countries was still insufficient and should be increased, including an additional chair for Africa's large constituency.

The Ministers agreed that an effective response to climate change must include its mitigation and the adaptation to its inevitable consequences, and called for an equitable contribution in that regard, based on the relative use of energy among world economies.

8.1.2 The International Monetary Fund

The IMF's outstanding global credit increased to SDR 21.49 billion as at December 31, 2008, from SDR 9.83 billion in December 2007. This comprised SDR 17.51 billion in the General Resources Account (GRA) disbursements and SDR 3.98 billion in the Poverty Reduction and Growth Facility- Exogenous Shocks Facility (PRGF-ESF) disbursements. IMF disbursements in 2008 totalled SDR 14.0 billion, while repayments totalled SDR 2.5 billion.

8.1.3 The World Bank Group

In 2008, the activities of the World Bank Group remained focused on the achievement of the eight Millennium Development Goals (MDGs), aimed at fostering growth, eliminating poverty and ensuring that development is inclusive and sustainable. The Group's total commitments in 2008 amounted to US$38.2 billion in loans, grants, equity investments and guarantees to its members and private businesses in member countries. Of this amount, the International Bank for Reconstruction and Development's (IBRD) commitments were US$13.5 billion to finance 99 projects. The International Development Association's (IDA) commitments decreased by 5.0 per cent from US$11.9 billion in 2007 to US$11.2 billion in 2008. The International Finance Corporation (IFC) committed US$11.4 billion for private sector development in developing countries, compared with US$8.2 billion in 2007. The Multilateral Investment Guarantee Agency (MIGA) issued 38 new guarantees for 24 projects valued at US$2.1 billion.

8.1.4 International Commodity Organisations

8.1.4.1 The International Cocoa Organisation (ICCO)

The 135th Executive Committee meeting of the consultative Board of the World Cocoa Economy and the 31st Special Session of the ICCO were held in London from 14th – 18th January, 2008. The issues deliberated upon included optimal export taxes in producing countries and the progress report on the implementation of value chain analysis project.

The 136th Executive meeting and the 77th Regular Council Session of the ICCO were held in Berlin, Germany from the 26th – 30th May, 2008. The 16th meeting of the Consultative Board on the World Cocoa Economy and the 1st meeting of the working group for a future international cocoa agreement were also held. Average daily prices between September and December 2007 ranged between US$1,915.0 and US$2,113.0 per tonne. The ICCO's daily price averaged US$2,690.0 per tonne in May, US$3,022.0 in June; US$2,954.0 in July, and US$2,810.0 in August 2008. The estimated world production of cocoa beans for 2007/2008 was 3,712.8 million tonnes, reflecting an increase of 336,000.0 tonnes on the 3,375.9 million tonnes estimated for the preceding year. However, in August, the ICCO Secretariat released its revised forecasts for the 2007/2008 season and the supply deficit was revised upwards to 88,000.0 tonnes, arising mainly from the downward adjustment of the production figure of Indonesia to 480,000.0 tonnes in 2007/2008. Africa remained the largest producing region in the world, accounting for 70.0 per cent of the total, with Côte d' ivoire and Ghana being the world's leading producers. Nigeria's output was put at 210,000.0 tonnes in 2007/2008.

The 71st General Assembly and Council of Ministers' meeting of Cocoa Producers Alliance (COPAL) was held in Bavaro, Dominican Republic from 8th – 12th September, 2008. The meeting discussed and resolved as follows:

- That market information be provided to farmers to prevent a glut and information asymmetry and acknowledged the efforts being made by member countries in combating child labour; and
- Directed the COPAL Secretariat to facilitate the organization of a symposium on the use of pesticides aimed at sensitizing farmers on their health and economic implications.

The 17th meeting of the Consultative Board on the world cocoa economy considered and deliberated on a number of issues presented to the ICCO, including the value chain analysis project. With regard to the issue of pesticide residues on cocoa beans, the Board discussed the regulation on Maximum Residue Levels on pesticides (MRLs) which came into force on September 2, 2008 in all EU member states. The new regulation set a maximum level of pesticide residue permitted in imported foods, including cocoa beans. There were concerns in the cocoa sector that the legislation would adversely affect cocoa trade. This prompted the European Cocoa Association and the Association of Chocolate, Biscuit & Confectionery Industries of the EU (CAOBISCO) to set up a working group on the matter. A joint project aimed at gathering information on pesticide use on cocoa in West and Central Africa was launched to guide discussions with the European Commission. Delegates outlined various challenges that often confronted the entire cocoa chain, including inadequate awareness and sensitization of Africans on the nutritional and medicinal value of cocoa. Delegates observed that although 70 per cent of cocoa emanated from Africa, its consumption rate was about 5 per cent on the continent, with Europe and America being the major consumers.

8.1.4.2 The Organisation of Petroleum Exporting Countries (OPEC)

The Organization of Petroleum Exporting Countries (OPEC) held three extraordinary meetings and two ministerial meetings in 2008. The 147th Extraordinary meeting held in February observed that the market was well supplied throughout 2007 and that commercial stock levels remained within the five-year average with the expectation that sock levels in the first half of 2008 would increase. The meeting projected that Non–OPEC supply would grow by over one million barrels per day and thus provide much of the incremental barrels during the year. OPEC had enough stock for the market and was accelerating plans to bring on stream new projects aimed at guaranteeing adequate response to future demand.

The 148th Ministerial Conference was held in March. The conference observed that crude oil prices were being influenced by the weakness in the US dollar, rising inflation and a significant flow of funds into the commodities markets. The conference concluded that, given that the second quarter of the year was traditionally a period of low demand, the existing supply level would to be maintained at 29.673 million barrels per day, especially as gasoline inventories were around the highest level in ten years.

The 149th meeting of the OPEC conference took place in Vienna, Austria in September, prompted mainly by increasing volatility in the market. The meeting observed that explanations for the volatility could be found in the takes of the industrialized governments in the pump prices of products. Quoting a study by the OPEC Secretariat early in the year on "Composite Takings from a Liter of Fuel Sold at the Pump in G7 Nations between 2003-2007", the meeting stated that governments of these countries made US$2.585 billion from oil taxes. For the same period, OPEC governments had a total of US$2.539 billion as revenue. It was further noted that while the G7 countries' revenues were mere windfalls, much of OPEC's was ploughed into capacity expansion and, indeed, represented non- renewable natural resource depletion.

The 150th (Extraordinary) Meeting held at the OPEC Headquarters, Vienna, Austria, on October 24, 2008, observed that the financial crisis was already having a noticeable impact on the world economy, dampening the demand for energy in general and oil in particular. Moreover, forecasts indicated that the fall in demand would deepen, despite the approach of winter in the northern hemisphere. The Meeting also noted that oil prices had witnessed an unprecedented collapse, both in speed and magnitude, which might possibly result in a medium-term supply shortage. Consequently, the Meeting agreed to cut the production level of 28.808 million barrels a day by 1.5mb/d, distributed as shown below, effective November 1, 2008.

Country	Algeria	Angola	Ecuador	Iran	Kuwait	Libya	Nigeria	Qatar	Saudi Arabia	UAE	Venezuela	TOTAL
Decrease (b/d)	71,000	99,000	27,000	199,000;	132,000	89000	113,000	43,000	466,000	134,000	129,000	1,500,000

The Meeting also called on non-OPEC producers to contribute towards restoring prices to reasonable levels and eliminating fluctuations.

The 151st (Extraordinary) Meeting of the OPEC was convened in Oran, Algeria, on December 17, 2008. The Meeting reviewed the oil market outlook for the year 2009, in particular, the first and second quarters and observed that supply would remain well in excess of demand. This was clearly demonstrated by the fact that crude stocks in OECD countries were well above their five-year average and were expected to continue to rise. Moreover, the impact of the global economic downturn had also led to a decline in demand, resulting in an unprecedented downward pressure on prices, which had fallen by more than $90/b since early July, 2008. The Meeting further noted that, if unchecked, prices could fall to levels that could jeopardize the investments required to guarantee adequate energy supplies in the medium to long term. The Meeting, consequently, agreed to a further cut 4.2m b/d from the actual September 2008 OPEC-11 production level, with effect from 1 January 2009. The heads of delegation reiterated the organization's firm commitment to providing an economic and regular supply of petroleum to consuming nations, as well as to stabilizing the market and realizing OPEC's objective of maintaining crude oil prices at fair and equitable levels.

In May 2008, Indonesia which joined the OPEC in 1962, signified an intention to withdraw its membership of the OPEC, effective end of the year. This was necessitated by the evolution of the country from a net oil exporter to a net importer. The withdrawal was accepted in September, 2008 by OPEC. Also, Ecuador resumed full membership of OPEC, after fifteen years of absence.

8.1.5 Bilateral Relations

In 2008, Nigeria held bilateral meetings with Spain, China, South Africa, Iran, Cameroun and Cuba. Nigeria's President, Umar Musa Yar'Adua, led a delegation to China to hold bilateral talks with the Chinese President, Hu Jintao on 28th February, 2008. The objective of the talks was to exchange views on bilateral relations, as well as discuss international and regional issues of mutual concern and reach a broad consensus on China-Nigeria strategic partnership. The meeting ended with the two heads of state signing a cooperation agreement on cultural and educational exchanges.

The aim of the Nigeria/Spain meeting was to review the Strategic Partnership Agreement signed between Nigeria and Spain on 9th December, 2005 in order to strengthen their level of bilateral cooperation. The two countries agreed on the need for the expansion of Spanish investment in Nigeria and greater partnership in banking and finance as well as energy matters, especially in the export of natural gas to Spain. Both countries agreed on the need to establish a Bi-national Commission as a mechanism to follow up commitments.

The Seventh Session of the Nigeria-South Africa Bi-National Commission (BNC) was held in Abuja, Nigeria, from 21to 23 May, 2008. Both sides reviewed the status of the Memorandum of Understanding (MoU) on Economic Cooperation and agreed that the scope should be expanded to include consumer protection and cooperation on the standardization of products. They also agreed on the need for the establishment of a Nigeria/South Africa Presidential Advisory Committee on Investment to facilitate and fast-track investment flows between both countries.

The Third Session of the Nigeria-Iran Joint Commission was held in Abuja, Nigeria from 25th to 28th August, 2008. The Joint Commission reviewed different areas of economic cooperation and came up with proposals that would boost development and strengthen relations between both countries. The Iranian side expressed its readiness to invest in the Nigerian banking industry, assist Nigerian importers and exporters through its Export Guarantee Fund, grant a credit line to the Nigeria Export-Import Bank (NEXIM), participate in the energy sector and render technical and engineering services to Nigeria.

The 4th Session of the Nigeria/Cameroon Joint Commission was held in Yaounde, from 9th to 11th, October, 2008. The session underscored the need for the two countries to boost commercial activities, through regular exchange of information on economic and trade union issues, among others. The session agreed to intensify cooperation in the areas of risk-prone geological zones; the production of bio-fuels, agricultural research and education.

The 5th Session of the Nigeria/Cuba Joint Session was held in Abuja on 16th and 17th October, 2008. In the area of agriculture, both sides expressed the desire to implement the joint agricultural venture in Nasarawa State and the establishment of a sugar industry in Jigawa State. The Session also expressed satisfaction with the level of cooperation in the field of education and agreed to take steps to ensure the prompt utilization of scholarships offered by Nigeria and Cuba to each other.

8.2 REGIONAL INSTITUTIONS

8.2.1 The Association of African Central Banks (AACB)

The 32nd Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB) was held in Kigali, Rwanda, on 22nd August, 2008. The meeting was attended by representatives of thirty-seven Central Banks, the African Union Commission, sub-regional economic and monetary integration institutions, international financial institutions, the diplomatic corps, as well as members of the financial sector. The meeting was preceded by a symposium held on August 21st , 2008 on "The Objectives and Necessary Conditions for the Proper Functioning of the Three African Financial Institutions, namely: the African Monetary Fund, the African Central Bank and the African Investment Bank". The Governors underscored the crucial role these institutions can play in reinforcing economic development in Africa.

The meeting ended with the election of the Governor of the National Bank of Rwanda as the new AACB Chairperson for the year 2008/2009. The composition of the new Association's bureau for this period comprised the Governor of the National Bank of Rwanda, AACB Chairperson; the Governor of Banque Centrale du Congo, the AACB Vice-Chairperson; the Governor of Banque Centrale des Comores and Chairperson of the East Africa Sub-regional Committee; the Governor of Banque d'Algerie and

Chairperson of the North Africa Sub-regional Committee; the Governor of the Central Bank of Nigeria and Chairperson of the West Africa Sub-regional Committee; the Governor of the Bank of Botswana and Chairperson of the Southern Africa Sub-regional Committee, and the Governor of Banque des Etats de l'Afrique Centrale and Chairperson of the Central Africa Sub-regional Committee.

The Governors agreed that the theme of the 2009 AACB symposium would be, "The Formulation of Monetary Policy in Africa: The Appropriateness of Inflation-targeting". They also agreed that the topic for the 2009 continental seminar would be, "Banking System Liquidity Forecasting and Management".

8.2.2 The United Nations Economic Commission for Africa (UNECA)

The first Joint Annual Meeting of the African Union Conference of Ministers of Economy and Finance and the United Nations Economic Commission for Africa (UNECA) Conference of African Ministers of Finance, Planning and Economic Development was held in Addis Ababa, Ethiopia from 31st March to 2nd April, 2008 with the theme, "Meeting Africa's New Development Challenges in the 21st Century". At the Joint Conference, the Ministers noted, with subdued satisfaction, that Africa's recent growth performance had been encouraging, even though its impact on poverty reduction and employment creation was limited. The conference ended with the adoption of resolutions that reiterated the need to implement strategies to achieve sustained, shared and broad-based growth, in order to accelerate progress towards attaining the MDGs and effectively confront the challenges of the 21st century.

The Ministers agreed that employment-creation was an explicit and central objective of economic and social policies at the national, sub-regional and continental levels for achieving sustainable growth and poverty alleviation. In that regard, the Ministers stated that scientific knowledge was a critical factor for growth, employment and poverty reduction and for the competitiveness of African economies in the 21st century and were, therefore, concerned about weakness in higher education, science and technology. In addition, the Ministers recognized other factors that could help drive sustainable growth objectives on the continent, including the need for improved management of natural resources, particularly in the extractive industries, availability of statistics for planning, commitment to scaling-up investment in infrastructure, and accelerating economic growth and employment-creation, through the rapid expansion of South-South cooperation.

The Ministers agreed that in order to address the issue of escalating food prices, vigorous measures be taken to implement all the pillars of the Comprehensive African Agricultural Development Programme (CAADP), with a view to achieving a structural transformation for the agricultural sector, as well as promoting intra-African trade and regional integration. The Ministers commended the progress made so far by some African countries towards achieving the MDGs, as majority were reportedly implementing MDG-consistent national development plans. However, while applauding the progress, it was noted that the majority of countries were still not on track in meeting all the MDGs by the target date. The Ministers, therefore, agreed to intensify the implementation of national development plans on poverty reduction strategies, optimize the use of available resources and mobilize additional resources to scale-up public sector investments, in order to reach the MDGs by the target date.

8.2.3 The African Development Bank (AfDB) Group

The Annual Meeting of the African Development Bank (AfDB) Group was held in Maputo, Mozambique, on May 14 and 15, 2008. Deliberations centered on the approval of the Group's annual report and operational programmes for 2008. Other major highlights of the Meeting were the admission of Turkey as the 78th member of the institution, the extension of the duration of the Nigeria Trust Fund to 10 years and the establishment of a special Fund for Reconstruction and Development of the Great Lakes Region of Africa. The Governors of the AfDB noted that the impact of the sudden rise in oil and food prices had created tension in many African countries. Consequently, they called for swift mobilization of resources to provide much-needed assistance to the African countries affected by these crises. Nigeria signed a loan agreement of US$65.0 million for an African Development Fund-assisted Rural Water and Sanitation Programme to be implemented in Osun and Yobe states.

8.2.4 The New Partnership for Africa's Development (NEPAD)

In 2008, NEPAD Nigeria implemented a total of 14 programmes. The programmes were designed to be executed in two-phase approaches, namely, the 'National Dialogue' to agree on the courses of action and the follow-up, tagged 'Action-Plan Implementation'.

The NEPAD Sustainable Land Management (TERRE-AFRICA) Initiative was designed to address the problems of land degradation, pollution and environmental sustainability, involving the soil, air and water. The National Consultative Workshop, which took place in Abuja on July 17, 2008, focused on mapping out strategies for sustainable land management projects (particularly with regard to identifying constraints and opportunities, priority setting, agreeing project selection criteria, and preliminary identification of projects for preparation). Similarly, a NEPAD City Project workshop was also held in Abuja, on July 23, 2008, aimed at sensitizing participants and building up linkages towards a national conference on NEPAD sustainable cities programme in Nigeria. Likewise, the National Food Security workshop organised by NEPAD Nigeria in collaboration with the Federal Ministry of Agriculture and Water Resources in Abuja on July 29, 2008, addressed the issue of soaring food prices, identified and targeted specific products that had the potential to help fight poverty and create employment, and facilitated discussion on how to move the agricultural sector forward, by improving coordination among stakeholders within the framework of NEPAD Comprehensive Africa Agriculture Development Programme (CAADP). In the same vein, a national dialogue was organised by NEPAD Nigeria, in collaboration with the same Ministry, on July 30, 2008. The main thrust of the dialogue was a renewed focus on policy implementation towards ensuring cassava processing and marketing, by emphasizing the development of strategies and sustainable programmes that would directly impact and empower Nigerian farmers.

NEPAD Nigeria also organized a sensitization workshop on School Enrolment Advancement Initiative, in collaboration with the Federal Ministry of Education, on 14th August, 2008, in Abuja, with the aim of reversing the decay in the national educational system and accelerating the attainment of the MDGs by 2015. Also, NEPAD Nigeria, in collaboration with the Federal Ministry of Environment, Housing and Urban Development, the Federal Ministry of Women Affairs, and the Office of the Senior Special Assistant to the President on MDGs, organized a One-day National Workshop on Natural Resources Development and Conservation in Abuja, on 10th September, 2008. The aim of the workshop was to study different techniques designed to complement the implementation of the Action Plan of the Environment Initiative of NEPAD at the country level and develop a framework that would reposition reliance on the forestry sub-sector (seasonal and local) to a more sustainable level.

NEPAD Nigeria also held a stakeholders dialogue on “Trade Pacts and International Market Access: Challenges and the Way Forward” on 18th November, 2008, at the ECOWAS Secretariat, Abuja. The objective was to x-ray the extent to which Nigerian entrepreneurs had utilized several bi-lateral and multi-lateral agreements and preferential trade incentives.

A NEPAD Partnership National Dialogue for Promoting ECOWAS Business and Investment Climate for Sustainable Regional Development took place on 19th November, 2008 at the ECOWAS Secretariat, Abuja. The objective of the dialogue was to assess the business and investment climate in ECOWAS countries, with a view to achieving international competitiveness.

8.2.5 The African Peer Review Mechanism (APRM)

The activities of the African Peer Review Mechanism (APRM) in 2008 comprised basically follow-up action on the validation visit of the Country Review Team (CRT) to Nigeria early in the year and the peer review of Nigeria in October, 2008. Other activities included the partial peer-review of Nigeria at the 9th Summit of the APR Forum in Egypt, in July 2008; and the establishment of an Inter-Ministerial Technical Committee on the Mechanism for the Implementation of the National Programme of Action (NPoA), in September 2008, with the APRM Department as secretariat. Nigeria was peer-reviewed fully by the APR Forum at its First Extraordinary Meeting held in Cotonou, Benin Republic on from October 24 to 27, 2008.

8.3 SUB-REGIONAL INSTITUTIONS

8.3.1 The Economic Community of West African States (ECOWAS)

The Thirty Fourth Ordinary Session of the Authority of the Economic Community of West African States (ECOWAS) Heads of State and Government was held in Abuja on June 23, 2008. Some of the major highlights of the Summit were the following:

- The ECOWAS Commission would concentrate on the development of regional infrastructure, particularly the development of energy and the provision of intra-Community rail, air and road links as a catalyst for regional integration;
- Development partners would be encouraged to support regional efforts at mobilizing resources, particularly in attracting investments in energy infrastructure development, which would facilitate the realization of the MDGs;
- The Summit expressed concern over the escalating food prices globally and their impact on the region's economy and called for the expeditious implementation of on-going investment programmes in the agricultural sector;
- After discussing the rising global oil prices and their potential adverse effects on the economies of Member States, the Summit called on oil-exporting Member States to show more solidarity with their non-oil exporting counterparts to help reduce the burden;
- A reiteration of emphasis on the establishment of a Customs Union as a prerequisite for the effective engagement of the European Union, including the on-going negotiation of the ECOWAS/EU Economic Partnership Agreement;
- The need for the ECOWAS Commission to expedite action on the introduction of a region-wide Common External Tariff (CET) and take all necessary measures to conclude a fair, balanced and development-oriented EPA that takes cognizance of the concerns of West Africa; and

- A call on ECOWAS and UEMOA Commissions to harmonize the rules and mechanisms for the standardization and certification of products originating from the Community, towards facilitating intra-community trade.

8.3.2 The West African Monetary Zone (WAMZ)

The 22nd Meeting of the Convergence Council of Ministers and Governors of the West African Monetary Zone (WAMZ) was held in Freetown, Sierra Leone, on June 19, 2008. Highlights of the decisions of the Convergence Council were as follows:

- Member countries would take medium-to long-term strategies to tackle the prevailing energy and food crises;
- Approval of the proposed ADF grant of UA 14 million (US$23 million) for the development of the payments system in The Gambia, Guinea and Sierra Leone;
- Approval of the Statutes on Payments System, WAFSA, Non-Bank Financial Institutions and Single Economic Space and Prosperity Agreement (SESPA);
- WAMI would sensitize commercial banks in the Zone on the financing of trade in the WAMZ, using local currencies;
- A Summit of Heads of State and Government of the WAMZ would be held as soon as possible to address pertinent issues, including the signing of relevant legal instruments; and
- WAMI would convene a meeting in Accra in July 2008 for WAMZ Central Bank and Ministry of Finance officials to discuss the payment of arrears on the Stabilization and Cooperation Fund (SCF) and the West African Central Bank (WACB) capital. The meeting would establish the total cost of the WAMZ programme, and explore all the financial implications associated with the operationalisation of the various structures of a common central bank. In addition, the financial obligations of operationalising the WAMZ Secretariat in Conakry and the West African Financial and Supervisory Agency (WAFSA) in Nigeria would be considered. The financial obligations of each member country would also be determined.

8.3.3 The West African Institute for Financial and Economic Management (WAIFEM)

The West African Institute for Financial and Economic Management (WAIFEM) Lagos executed twenty six (26) training and capacity building programmes. The programmes were in the core areas of competence of the Institute, namely; Debt Management, Macroeconomic and Financial Sector Management. Three thousand four hundred and seven (3,407) officials including directors from the WAMZ central banks, core economic ministries, legislators, executive and personal assistants to chief executives of public and private sector agencies participated in the programme. The WAIFEM budget for 2008 was $3,136,538.36 of which external donors contributed $1,250,000.The Institute expended $1,360,755.00 on training.

The WAIFEM Board of Governors at their meeting in Banjul, The Gambia in November 2008 approved the recruitment of new Executive Management Staff for the Institute following the retirement of the Director General and some Management Staff.

8.3.4 The West African Monetary Agency (WAMA)

The 2008 West African Monetary Agency (WAMA) Statutory Meetings were held in Abuja, Nigeria from November 17 to 22, 2008. The following are the highlights of the deliberations of the 4th Ordinary Meeting of the Convergence Council of Ministers of Finance and Governors of Central Banks of ECOWAS Member States:

- The Convergence Council underscored the importance of the mandate assigned to WAMA within the framework of achieving the overall objectives of regional integration and, therefore, emphasized that WAMA would need the support of all ECOWAS governing bodies and institutions to achieve this crucial mission;
- Council reiterated the need to enhance commitment to the achievement of the integration objectives in ECOWAS, in view of the international financial crisis. Similarly, the need to accelerate and strengthen the African integration programme, under the auspices of the African Union, was also emphasized;
- The report on Macroeconomic Convergence in 2007 and the first half of 2008 showed that only four countries (Benin and Côte d'Ivoire, Mali and Togo) out of the fifteen ECOWAS economies met all the four primary convergence criteria in 2007. Unfortunately, none of these countries sustained the performance in the first half of 2008, due largely to the worsening trends in the international environment. The Convergence Council, therefore, acknowledged the efforts of member countries, despite of the hostile international environment;
- The Convergence Council urged member countries to intensify their efforts in sustaining macroeconomic stability and implementing appropriate measures to boost their foreign exchange earning capacity, fiscal revenue mobilisation and foreign exchange reserves, through the implementation of appropriate policies; and
- Council endorsed the need for a Working Group, comprising experts from the Community's Institutions (WAMA, WAMI and Central Banks), to be set up in order to determine the best method

of interconnecting the payments system in the region and a second group, comprising the ECOWAS Commission (Chairman), WAMA, WAMI, the UEMOA Commission and the Central Banks to map out a single, concrete and realistic strategy for establishing a single currency in the ECOWAS.

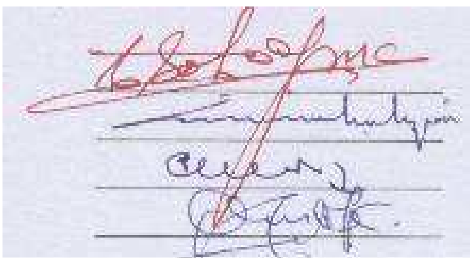
Appendix A1

Balance Sheet
As at 31 December 2008

	Note	2008 ₦' Million	2007 ₦' Million
Assets:			
External reserves	2	7,334,295	6,548,921
Nigerian Government securities	3	272,407	84,503
Loans and advances	4	523,027	368,848
Investments	5	91,561	33,603
Other assets	7	396,289	466,448
Fixed assets	8	141,427	133,695
		8,759,006	**7,636,018**
Liabilities:			
Deposit accounts	9	6,206,981	4,709,594
Central Bank of Nigeria instruments	10	627,068	1,564,366
Notes and coins in circulation	11	1,155,050	960,490
International Monetary Fund allocation of Special Drawing Rights		31,769	29,006
Other financial liabilities	13	250,977	237,826
		8,271,845	**7,501,282**
Capital and reserves:			
Share capital	16	5,000	5,000
General reserve fund	17	60,888	58,808
Fixed assets revaluation reserve	18	63,143	70,928
Foreign currency revaluation reserve	19	358,130	-
		487,161	**134,736**
Liabilities and equity		**8,759,006**	**7,636,018**

Chukwuma C. Soludo — Governor

Sam O. Olofin — Director



Suleiman A. Barau Director

Olufunmilade A. Omofade Director of Finance (Overseeing)

The accounting policies on pages 148 to 152 and notes on pages 153 to 164 form part of these statements.

Appendix A2

INCOME AND EXPENDITURE ACCOUNT
For The Year Ended 31 December 2008

	Notes	2008 ₦' Million	2007 ₦' Million
Interest income	20	206,834	222,921
Interest expense	21	(133,227)	(90,345)
Net Interest Income		**73,607**	**132,576**
Realised gain/loss on foreign currency	19	27,812	(72,433)
Other operating income	22	**100,196**	**86,318**
		201,615	146,461
Operating Costs	23	(192,796)	(113,612)
Surplus before provisions		8,819	32,849
Net charge to provisions	15	(500)	(500)
Surplus available for appropriation		**8,319**	**32,349**
Appropriation:			
Transfer to general reserve		(2,080)	(8,087)
Transfer to Federal Government of Nigeria under s.5 (3) of the Central Bank of Nigeria Act 1991		(6,239)	(24,262)

The accounting policies on pages 148 to 152 and notes on pages 153 to 164 form part of these financial statements.

Appendix A3

STATEMENT OF CASH FLOWS
For The Year Ended 31 December 2008

Cash flow generated from operating activities	**Notes**	**2008 ₦' Million**	**2007 ₦' Million**
Cash generated from operating activities	24	1,018,649	894,297
Net cash (utilized by)/ generated from operating activities		1,018,649	849,297
Cash flow (utilized by)/generated from investing activities			
Purchase of fixed assets		(24,275)	(35,783)
Proceeds from sale of fixed assets		250	13,305
Additional Investment in subsidiaries and associates		-	(6,669)
Deposit for shares in Africa Finance Corporation		-	(57,958)
Redemption of promissory notes		-	-
Net (investment in)/divestment from Government bonds		(187,904)	153,165
Net cash (utilized by)/ generated from investing activities		(211,929)	(66,060)
Cash flow (utilized by)/generated from financing activities			
Surplus paid to the Federal Government of Nigeria		(21,399)	(28,798)
Net cash (utilized by)/ generated from financing activities		(21,399)	(28,798)
Increase in cash and cash equivalents		785,321	931,559
Balance at the beginning of the year		6,548,776	5,617,217
Increase in cash and cash equivalents		785,321	931,559
Balance at the end of the year		7,334,097	6,548,776
The balance at the end of the period is analysed as follows:			
Bank balances		7,127,086	6,449,242
Sundry currencies		207,011	99,534
		7,334,097	6,548,776

The accounting policies on pages 148 to 152 and notes on pages 153 to 164 form part of these financial statements.