

CENTRAL BANK OF NIGERIA



ECONOMIC REPORT FOR THE FOURTH QUARTER OF 2006

RESEARCH AND STATISTICS DEPARTMENT

CENTRAL BANK OF NIGERIA

QUARTERLY ECONOMIC REPORT

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ECONOMIC REPORT FOR THE FOURTH QUARTER OF 2006

1.0 SUMMARY

Aggregate output growth measured by the gross domestic product (GDP) was estimated at 6.1 per cent in the fourth quarter of 2006, compared with 5.7 per cent recorded in the preceding quarter. The growth was driven by the non-oil sector which grew by 9.3 per cent. Provisional data indicated further growth in monetary aggregates during the review quarter. Broad money supply (M_2) and narrow money supply (M_1) increased by 0.2 and 0.8 per cent from the levels in the preceding quarter, respectively. The increase in M_2 was attributable wholly to the rise in other assets (net) of the banking system.

Available data indicated a general increase in banks' deposit and lending rates in the fourth quarter of 2006. The spread between the weighted average deposit and maximum lending rates narrowed from 11.77 percentage points in the preceding quarter to 11.51 percentage points. The margin between the average savings deposit and maximum lending rates, however, widened from 15.59 to 15.60 percentage points during the quarter. The weighted average inter-bank call rate, which stood at 10.45 per cent in the preceding quarter, fell to 8.98 per cent at end-December 2006, reflecting liquidity surfeit in the inter-bank funds market.

The value of money market assets outstanding increased by 6.5 per cent to ₦1,613.3 billion, compared with the increase of 4.0 per cent in the preceding quarter. The rise was attributable to the 28.3 and 2.8 per cent increase in outstanding FGN Bond and Bankers Acceptances (BAs), respectively. Activities

on the Nigerian Stock Exchange indicated mixed developments during the review quarter as some of the major market indicators rose, while others trended downward. Provisional data indicated that total federally-collected revenue during the fourth quarter of 2006 stood at ₦1,483.1 billion, and represented a decline of 13.2 and 0.3 per cent from the proportionate budget estimate and the level in the preceding quarter, respectively. At ₦1,280.5 billion, oil receipts constituted 86.3 per cent of the total, and represented a decline of 16.2 and 2.3 per cent below the budget estimate and the level in the preceding quarter, respectively. The fall in oil receipts from the level in the preceding quarter reflected the decline in the volume of oil production, attributable to the continued disturbances in the Niger Delta area. On the other hand, non-oil receipts, at ₦202.55 billion or 13.7 per cent of the total, increased over its level in the preceding quarter and budget estimates by 15.3 and 11.4 per cent, respectively. The rise in non-oil receipts relative to the preceding quarter was attributable to the improved performance of all the components of non-oil revenue. Federal Government retained revenue for the fourth quarter of 2006 was ₦564.1 billion, while total expenditure was ₦685.8 billion. Thus, the fiscal operations of the Federal Government was estimated to have resulted in a deficit of ₦121.8 billion, compared with a deficit of ₦94.6 billion and ₦85.9 billion recorded in the preceding quarter and corresponding period of 2005, respectively.

The major agricultural activities in the review quarter included: harvesting of tuber crops, fruits, vegetable, late maturing grains, as well as pre-planting operation for dry season planting. In the livestock sub-sector, poultry farmers engaged in fattening and other management activities in anticipation for end-of-year sales. Activities in the industrial sector increased during the fourth quarter of 2006 as the estimated index of industrial production rose by 0.3 and 0.1 per cent over its levels in the preceding quarter and corresponding period of 2005, respectively. The prices of most Nigerian major agricultural commodities at the London Commodities Market recorded improved development during the review quarter.

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.34 million barrels per day (mbd) or 215.3 million barrels for the quarter under review, compared with 2.16 mbd and 2.47 mbd in the preceding quarter and the corresponding quarter of 2005, respectively. Crude oil export was estimated at 1.9 mbd or 174.9 million barrels for the quarter, while deliveries to the refineries for domestic consumption remained at 0.45 mbd or 41.40 million barrels for the quarter. The average price of Nigeria's reference crude, the Bonny Light (37⁰ API), estimated at US\$61.6 per barrel, fell by 13.8 and 5.3 per cent from the levels in the preceding quarter and the corresponding period of 2006, respectively. The end-period inflation rate for the fourth quarter of 2006, on a year-on-year basis, was 8.5 per cent, compared with 6.3 and 11.6 per cent recorded at the end of the preceding quarter and in the corresponding period of 2005. Inflation rate on a twelve-month moving average basis was 8.2 per cent, compared with 10.0 and 17.9 per cent in the preceding quarter and corresponding period of 2005, respectively,

reflecting the decline in the prices of some food items.

The balance of payments account remained favourable in the fourth quarter of 2006 with an estimated overall surplus of ₦215.0 billion, compared with the surplus of ₦483.4 billion and ₦678.9 billion recorded in the preceding quarter and corresponding period of 2005, respectively. The development was attributable to the robust position recorded in the current account during the period. The gross external reserves rose by US\$1.84 billion or 4.5 per cent to US\$42.30 billion in December 2006, compared with US\$40.46 billion at end-September 2006. This level of reserves could finance 25.6 months of current import commitments, compared with 22.1 and 18.0 months as at end-September, 2006 and end-December 2005, respectively.

Foreign exchange inflow and outflow through the Central Bank of Nigeria (CBN) amounted to US\$8.73 billion and US\$8.20 billion, respectively, resulting in a net inflow of US\$0.53 billion during the quarter. Foreign exchange sales by the CBN to the authorized dealers rose to US\$5.22 billion from US\$3.74 billion in the preceding quarter. The weighted average exchange rate of the Naira vis-à-vis the US dollar, appreciated marginally by 0.03 per cent to ₦128.29 per dollar at the WDAS. In the bureaux de change segment of the market, the rate also appreciated by 0.3 per cent to ₦129.81 per dollar from ₦130.26 per dollar. Non-oil export earnings by Nigeria's top 100 exporters amounted to US\$326.85 million, indicating an increase of 56.0 per cent over the level in the preceding quarter. The development was attributable largely to the increase in the prices of the commodities traded at the international commodities market during the period.

Other major international economic developments of relevance to the domestic economy during the quarter included: the

State Visit of the President of the Federal Republic of Nigeria to Addis Ababa, Ethiopia from October 8- 10, 2006; a Multi-Stakeholder Dialogue meeting was hosted by the New Economic Partnership for African Development (NEPAD) at the Le Meridien Hotel in Abuja, Nigeria on 29th October, 2006; the initiation of the de-escalation of remedial measures against Liberia was held by the Executive Board of the International Monetary Fund (IMF) in October, 2006, while a meeting was held at the Office of the Accountant General of the Federation, Abuja on October 18, 2006 to discuss a report on the utilization of the recovered Abacha loot; African leaders met with President Hu Jintao of China in Beijing, China on November 4, 2006 for the Third China-African Summit under the

auspices of the Forum on China-African Cooperation; the meeting of the Convergence Council of Ministers and Governors of the West African Monetary Zone was held in Accra, Ghana on November 24, 2006; the United State Congress on December 11, 2006 approved a bill that would extend trade preferences for sub-Saharan African countries (Nigeria inclusive) from 2007 to 2012; the Executive Board of the International Monetary Fund (IMF) completed the second review of the two-year Policy Support Instrument (PSI) for Nigeria in December, 2006; and the meeting of the International Monetary Fund (IMF) and World Bank held on December 11-13, 2006 with about 55 labor union leaders from around the world.

2.0 FINANCIAL SECTOR DEVELOPMENTS

Monetary aggregates increased further in the fourth quarter of 2006, while banks' deposit and lending rates recorded general increases. The value of money market assets also increased following largely the rise in outstanding FGN Bonds and Bankers Acceptances (BAs). Transactions on the Nigerian Stock Exchange (NSE) recorded mixed developments during the review period.

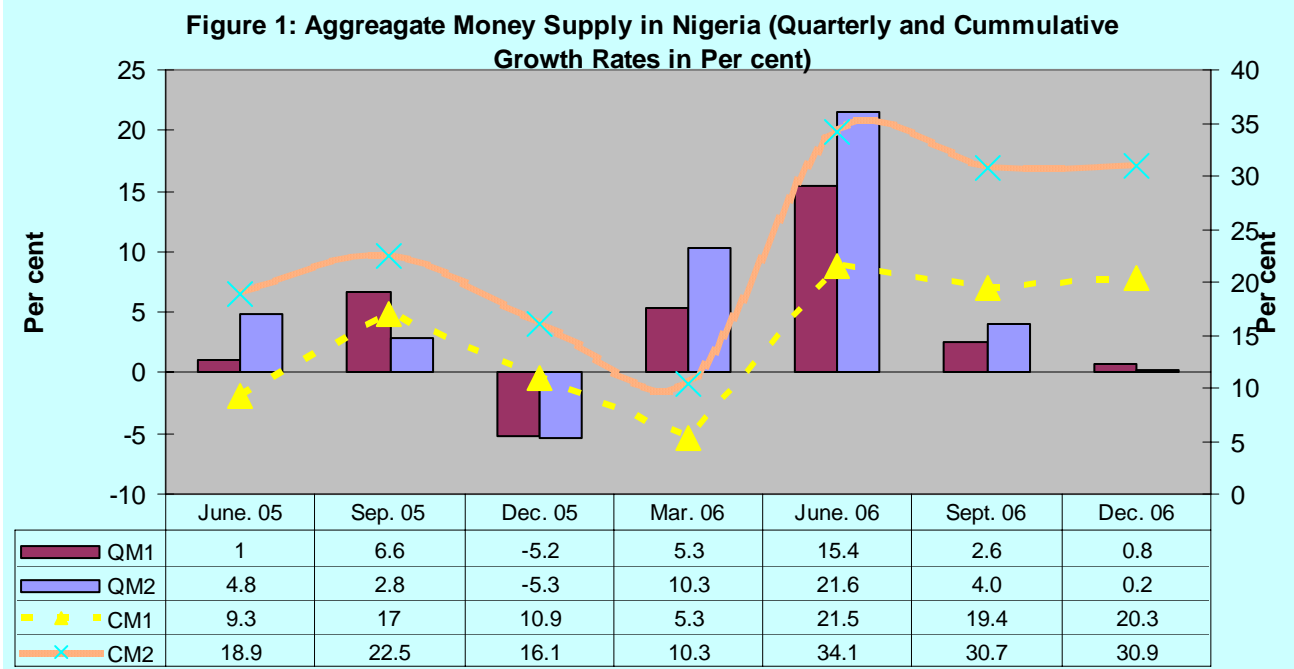
2.1 Monetary and Credit Developments

Provisional data indicated further growth in monetary aggregates in the fourth quarter

the increase of 2.6 per cent in the preceding quarter. Over the level at end-December 2005, M_1 and M_2 , grew by 20.3 and 30.9 per cent, respectively, compared with the targets of 13.3 and 27.8 per cent for fiscal 2006 (fig.1 and table 1).

Aggregate banking system credit (net) to the domestic economy fell further by 76.4 per cent to ₦809.5 billion in the fourth quarter of 2006, in contrast to the increase of 5.8 per cent in the preceding quarter. The development during the review quarter reflected entirely the decline in claims on Federal Government (net).

At negative ₦1,763.5 billion, banking system's credit (net) to the Federal Government declined by 306.9 per cent, compared with 8.6 and 49.3 per cent decline in the preceding quarter and corresponding



of 2006. Broad money supply (M_2) rose by 0.2 per cent to ₦3,190.9 billion, compared with the increase of 4.0 per cent in the preceding quarter. The rise in M_2 was attributable wholly to the increase in other assets (net) of the banking system. Similarly, narrow money supply (M_1) increased by 0.8 per cent to ₦1,849.7 billion, compared with

period of 2005, respectively. The decline in the review quarter was attributable entirely to the substantial increase in Federal Government deposit with the CBN during the period.

Banking system's credit to the private sector rose by 0.1 per cent to ₦2,572.9 billion, compared with the increase of 11.6

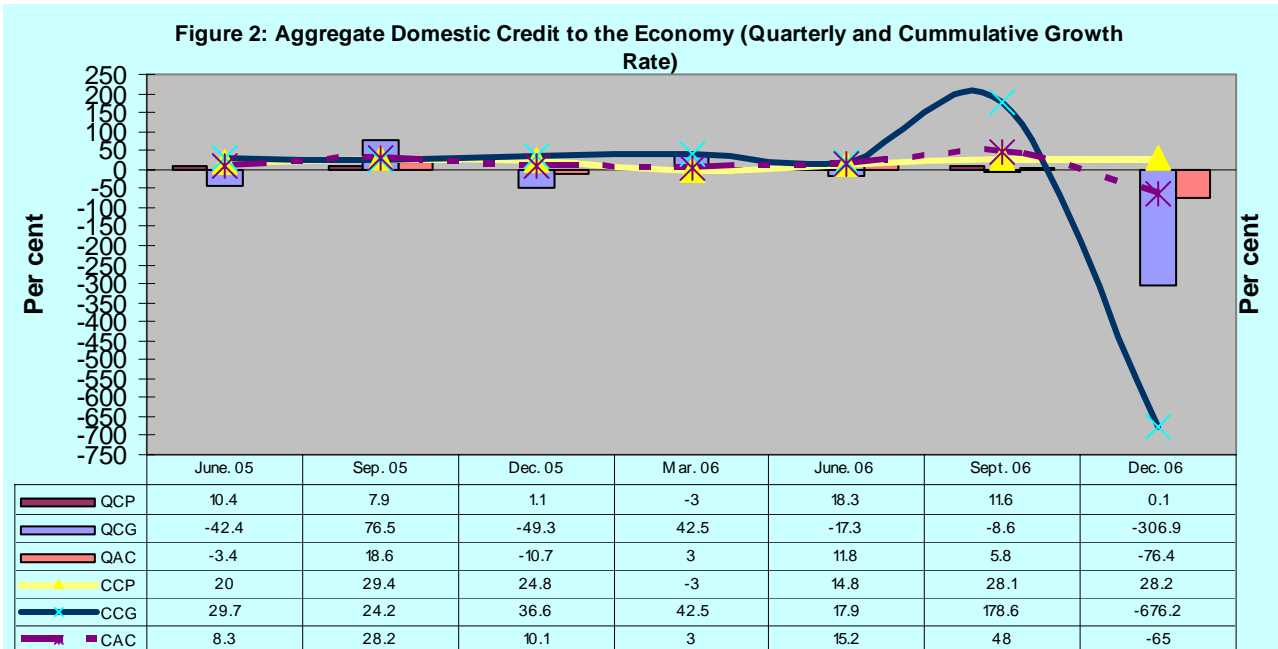
and 1.1 per cent in the preceding quarter and corresponding period of 2005, respectively. The rise in the review quarter reflected mainly the 1.1 per cent increase in DMBs' claims on the core private sector (fig 2).

At ₦6,218.9 billion, foreign assets (net) of the banking system declined by 1.9 per cent, in contrast to the increase of 9.9 and 0.8 per cent in the preceding quarter and

CBN and DMBs during the quarter under review.

2.2 Currency-in-circulation and Deposits at the CBN

At ₦779.3 billion, currency in circulation rose by 26.7 per cent in December, 2006 over the level in



corresponding period of 2005, respectively. The development was attributable to the 10.6 and 0.8 per cent fall in the deposit money banks and CBN's holdings, respectively.

Quasi money fell by 0.8 per cent to ₦1,341.2 billion, in contrast to the increase of 5.8 per cent in the preceding quarter. When compared with the corresponding period of 2005, it, however, fell by 25.9 per cent. The development was attributable to the decline in all the components namely, time, savings and foreign currency deposits of the DMBs during the quarter.

Other assets (net) of the banking system also rose by 41.6 per cent, in contrast to the decline of 10.7 per cent in the preceding quarter. The rise reflected largely the increase in unclassified assets of both the

September, 2006. The rise was traceable to the increase of 31.8 per cent in currency outside the banking system during the period.

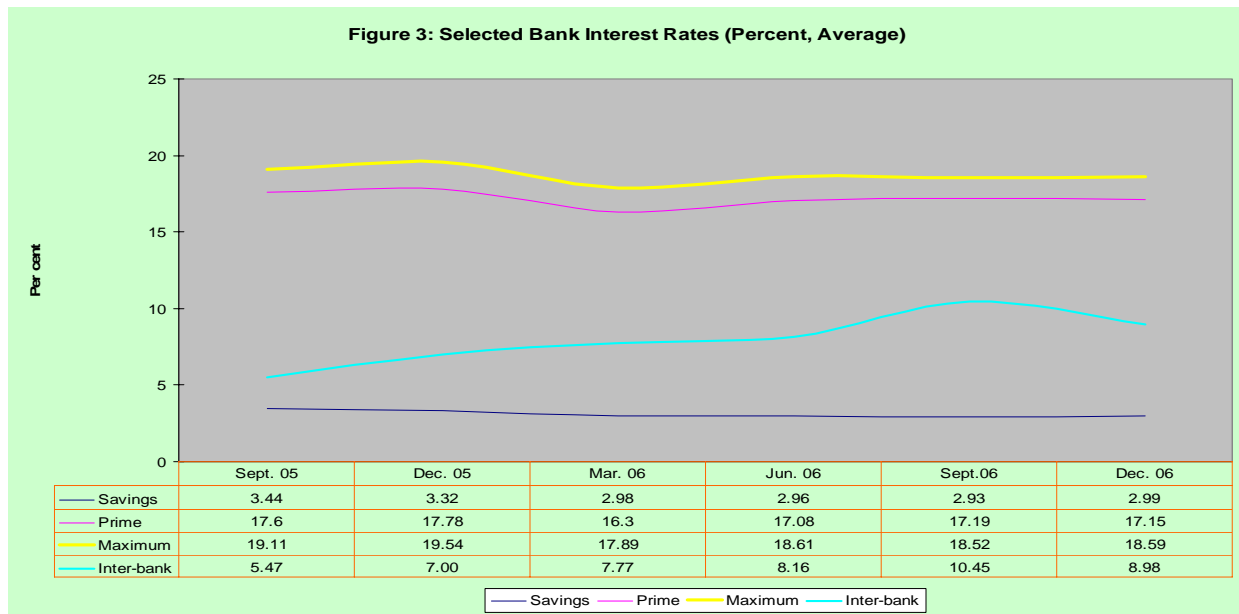
Total deposits at the CBN amounted to ₦3,541.8 billion, indicating an increase of 712.9 per cent over the level in the preceding quarter. This was attributable to the 1,614.7 per cent rise in Federal Government's deposits. The shares of the Federal Government, banks and "others" in total deposits at the CBN were 94.7, 4.0 and 1.3 per cent, respectively, compared with the shares of 44.9, 43.8 and 11.3 per cent, in the third quarter of 2006.

2.3 Interest Rate Developments

Provisional data indicated a general increase in banks' deposit and lending rates in the fourth quarter of 2006. The average savings rate increased by 0.06 percentage point to 2.99 per cent, while other rates on deposits of various maturities increased from a range of 2.93- 9.57 per cent in the third quarter of 2006 to 2.99 – 9.88 per cent. Similarly, the average maximum lending rate increased by 0.07 percentage point to 18.59 per cent. However, the prime lending rate declined by 0.04 percentage point to 17.15 per cent. Consequently, the spread between the weighted average deposit and

2.4 Money Market Developments

The value of money market assets outstanding at the end of the fourth quarter of 2006 increased by 6.5 per cent to ₦1,631.3 billion, compared with the increase of 4.0 per cent in the preceding quarter. The rise was attributable to the 28.3 and 2.8 per cent increase in outstanding FGN Bonds and Bankers Acceptances (BAs), respectively, during the quarter. Treasury Bills outstanding, however, declined by 2.8 per cent to ₦695.0 billion from ₦715.3 billion in the third quarter of 2006. The fall was attributable to the restructuring of the bills to longer tenored debt instruments, which limited the amount of bills available.



maximum lending rates narrowed from 11.77 percentage points in the preceding quarter to 11.51 per cent. The margin between the average savings deposit and maximum lending rates, however, widened marginally from 15.59 percentage points in the preceding quarter to 15.60 percentage points.

The weighted average inter-bank call rate, which stood at 10.45 per cent in the preceding quarter, fell to 8.98 per cent at end-December, 2006, reflecting liquidity surfeit in the inter-bank funds market.

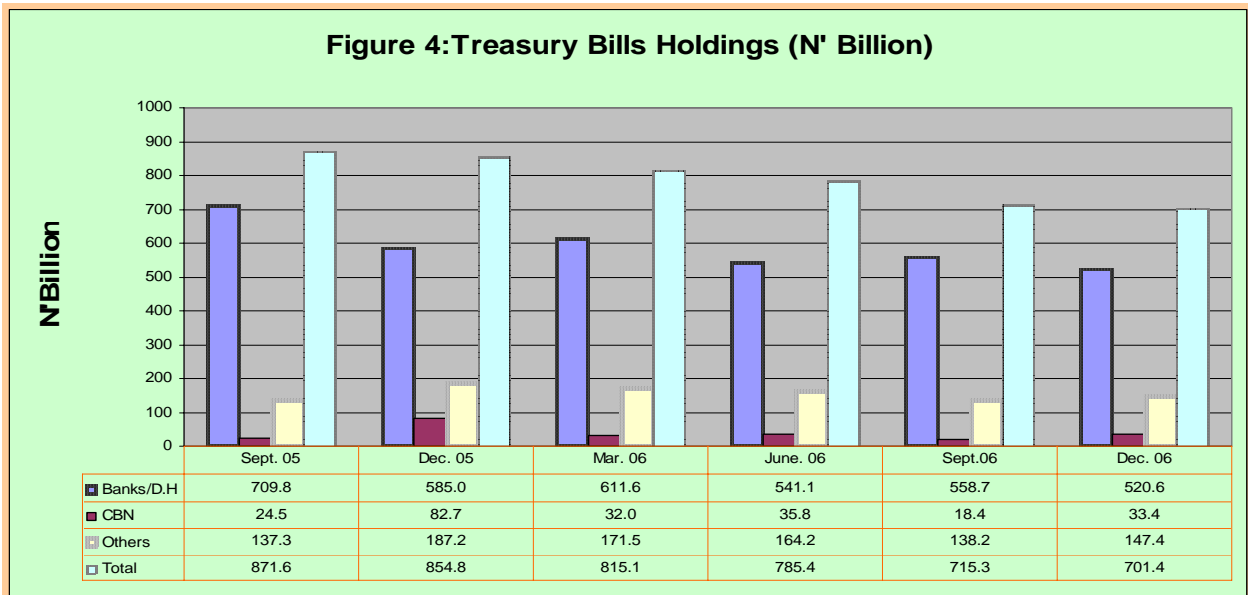
Treasury bills worth ₦335.0 billion were offered during the fourth quarter of 2006, compared with ₦311.9 billion in the preceding quarter. Subscriptions and sales stood at ₦580.9 billion and ₦331.4 billion, respectively, during the quarter, compared with ₦575.5 billion and ₦309.3 billion in the preceding quarter. The sustained patronage in the market was attributable to the safe attributes of the government securities. Analysis of offer showed that the share of deposit money banks (DMBs) and discount houses rose by 22.5 per cent from

the preceding month's level and they jointly accounted for ₦206.2 billion or 561.5 per cent of the total, while investment by the non-bank public stood at ₦126.9 billion, representing 37.9 per cent of the total amount issued. The balance of ₦2.0 billion, representing 0.6 per cent of the total was absorbed by the CBN.

Data on holdings of treasury bills outstanding indicated that holdings by the DMBs and discount houses declined by 6.8 per cent to ₦520.6 billion. Holdings by the

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

In the new issues market, the issuance of the 3rd FGN bonds progressed as four Federal Government Bonds namely, the thirteenth (5-year), fourteenth (7-year) and fifteenth (7-year) series of bonds valued at ₦46.9 billion, as well as the ₦87.7 billion Special FGN Bonds for Pension Arrears and ₦150.0 billion 5-year FGN Bonds for the



non-bank public and CBN, however, rose by 6.7 and 81.5 per cent to ₦147.4 billion and ₦33.4 billion, respectively, during the review quarter.

2.5 Capital Market Developments

Transactions on the Nigerian Stock Exchange in the fourth quarter of 2006 indicated mixed developments. The aggregate volume of traded securities rose by 5.0 per cent to 12.5 billion shares, while the value declined by 9.2 per cent to ₦148.9 billion, at end-December, 2006, compared with 11.9 billion shares and ₦163.9 billion, in the preceding quarter. Analysis of transactions during the review quarter showed that the banking sub-sector

settlement of Local Contractors were admitted on the floor of the Exchange during the review period. Also, a total of ten supplementary listings, involving four bonuses and two rights issues were listed on the Exchange. Three new companies namely, Nigerian Aviation Handling Company (NAHCO) Plc, Sovereign Trust Plc and Associated Company Plc, were admitted in the Airlines, Insurance and Transport sub-sectors, respectively, to the Daily Official list. The names of two companies were amended on the daily official list as recommended by the Board of Directors. The name of Texaco (Nigeria) Plc was changed to Chevron Oil Nigeria Plc, while Guaranty Trust Bank Plc was changed to GT Bank Plc. In another development,

two companies were reclassified on the Daily Official list. UTC Nigeria Plc and C&I Leasing Plc were moved from Conglomerate and Managed Funds to Food/Beverages & Tobacco and Leasing sub-sectors, respectively. Also, the Airlines sub-sector was changed to Aviation sub-sector.

Market capitalization and value index rose by 2.2 and 2.5 per cent to ₦5.1 trillion and 33,358.34 (1984=100), respectively, during the review period. The development was attributable largely to gains recorded by highly capitalized stocks during the quarter.

2.6 Deposit Money Banks' Activities

Provisional data indicated that total assets/liabilities of the twenty five (25) deposit money banks (DMBs) amounted to ₦6,400.8 billion, compared with ₦6,488.4 billion in the preceding quarter. The development was attributable largely to the decline in loans and advances to the Central Government. Funds, which were sourced mainly from the depletion of foreign assets and reserves, were used mainly for increased investment in Federal Government securities, and settlement of demand deposits.

At ₦3,380.0 billion, credit to the domestic economy fell by 30.5 per cent from the level in the preceding quarter. It, however, rose by 2.9 per cent when compared with the corresponding period of 2005. The decline was traceable largely to the decline in claims on state and local governments during the period.

Central Bank's credit to the DMBs rose by 24.4 per cent to ₦16.2 billion in the review quarter, reflecting an increase in banks overdrawn position with the CBN. However, CBN loans & advances to banks declined by 1.6 per cent to ₦10.2 billion during the period.

Total specified liquid assets of the DMBs stood at ₦2.2 billion, representing 58.2 per cent of their total deposit liabilities. This level of assets was 18.2 percentage points above the stipulated minimum ratio of 40.0 per cent for fiscal 2006.

2.7 Discount Houses

Total assets/liabilities of the discount houses stood at ₦186.5 billion in the fourth quarter of 2006, indicating a decline of 5.7 per cent from the levels in the preceding quarter. When compared with the corresponding period of 2005, it however, rose significantly by 87.8 per cent. The decline in assets relative to the preceding quarter was attributable to 47.8, 32.6 and 19.5 per cent decline in "cash and balances with banks", "claims on state governments" and "claims on others", respectively. The decline in total liabilities, on the other hand, was attributable to the 80.2 and 17.3 per cent decline in "borrowing" and "other amount owing" respectively, during the period. Discount houses' investments in Federal Government securities of less than 91 days maturity amounted to ₦70.2 billion, representing 44.5 per cent of their total deposit liabilities. At this level, discount houses' investments fell by 15.3 per cent from the level in the preceding quarter but represented an increase of 44.7 per cent over the level in the corresponding period of 2005. This level of investment was, 15.5 percentage points lower than the prescribed minimum of 60.0 per cent for fiscal 2006. Total borrowing by discount houses was ₦81.9 billion, while their capital and reserves amounted to ₦16.3 billion, representing a decline of 17.4 per cent from the level in the preceding quarter. It, however, represented a significant increase of 88.7 per cent over the level in the corresponding period of 2005. Thus, resulting in a gearing ratio of 5.0:1,

compared with the stipulated maximum target of 50:1 for fiscal 2006.

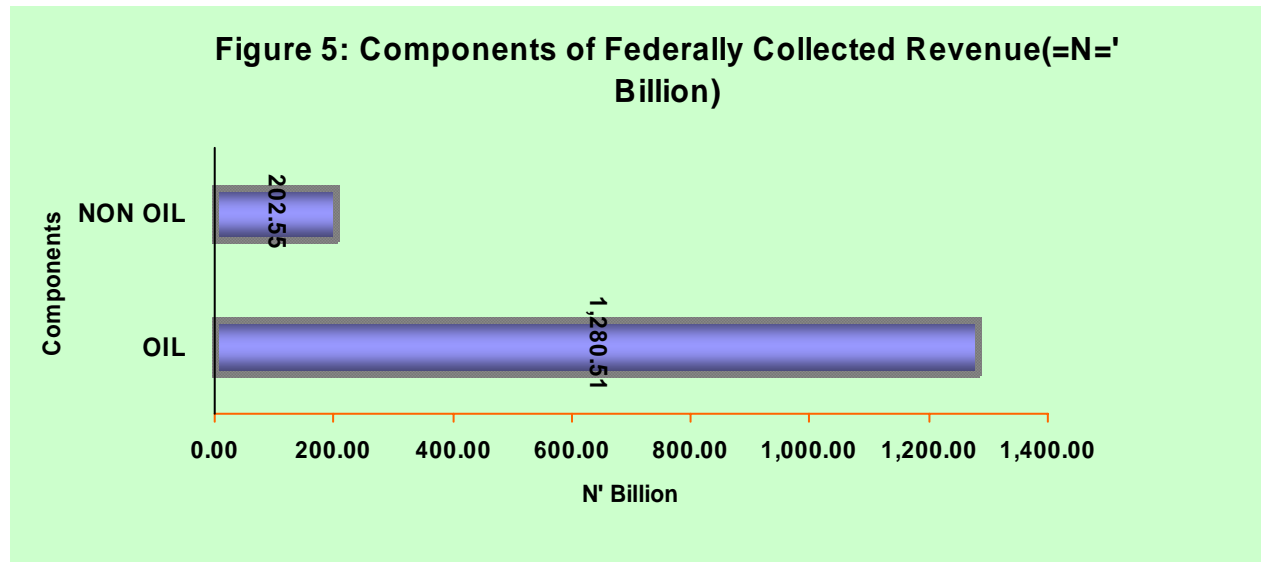
3.0 FISCAL OPERATIONS

3.1 Federation Account Operations

Total federally-collected revenue

attributable to the improved performance of all the components (fig 5).

Of the total federally-collected revenue during the review quarter, the sum of ₦755.7 billion was transferred to the Federation Account for distribution among the three tiers of government and the 13% derivation fund. The Federal Government



during the fourth quarter of 2006 stood at ₦1,483.1 billion, representing a decline of 13.2 and 0.3 per cent from the proportionate budget estimate and the level in the preceding quarter, respectively. When compared with the corresponding period of 2005, total federally-collected revenue fell by 16.8 per cent. At ₦1,280.5 billion, oil receipts constituted 86.3 per cent of the total, representing a decline of 16.2 and 2.3 per cent from the budget estimate and the level in the preceding quarter, respectively. The fall in oil receipts was due to the decline in the volume of oil production, attributable to the continued disturbances in the Niger Delta area. On the other hand, non-oil receipts, at ₦202.55 billion or 13.7 per cent of the total was higher than the receipts in the preceding quarter and its budget estimate by 15.3 and 11.4 per cent, respectively. The rise in non-oil receipts during the period was

received ₦354.0 billion, while the state and local governments received ₦179.6 billion, ₦138.4, respectively. The balance of ₦83.7 billion went to the 13% derivation fund.

3.2 The Fiscal Operations of the Three Tiers of Government

3.2.1 The Federal Government

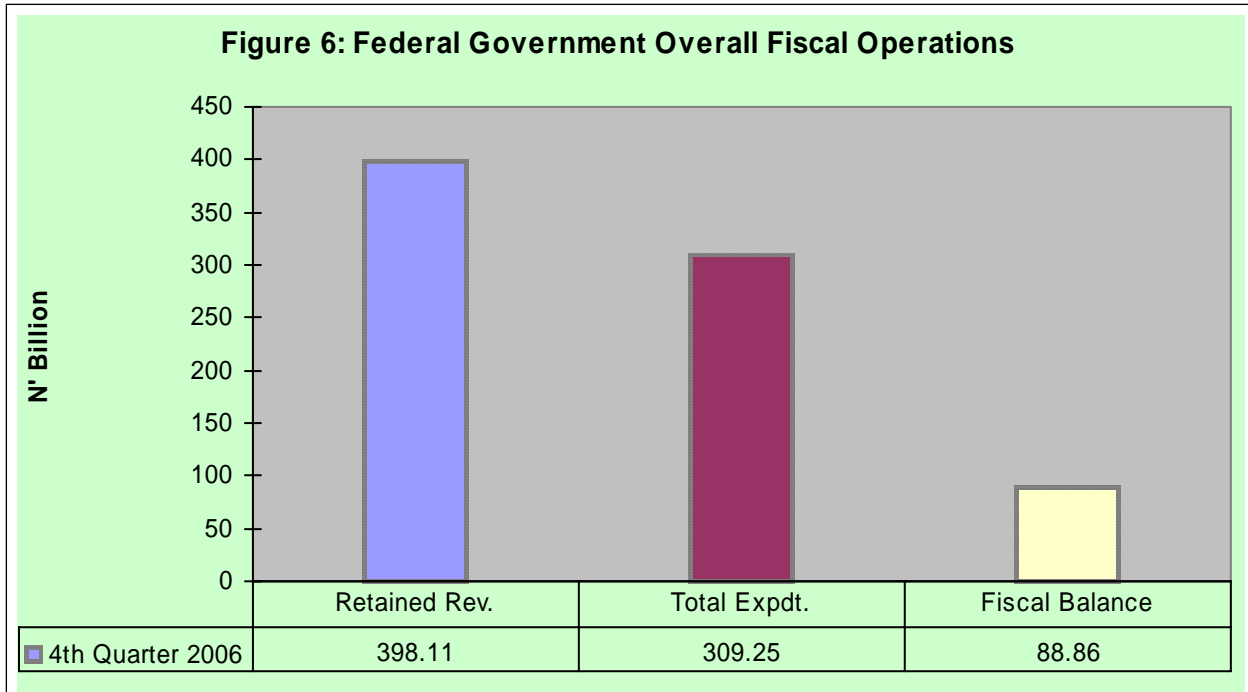
At ₦564.1 billion, the Federal Government retained revenue for the fourth quarter of 2006 was 37.1 and 14.5 per cent higher than the proportionate budget estimate and the receipts in the preceding quarter, respectively. The increase in retained revenue relative to the preceding quarter was due to improvement in the Federal Government Independent Revenue and privatization proceeds during the review quarter.

At ₦685.8 billion, total expenditure for the period rose by 37.7 and 35.5 per cent

over the levels in the preceding quarter and the proportionate budget estimate, respectively. The increase in total expenditure for the period relative to the preceding quarter and budget estimate was attributable largely to the release of ₦309.2 billion from the capital vote during the quarter. A breakdown of total expenditure

3.2.2 Statutory Allocations to State Governments

Total receipts (including 13% Derivation and share of Value Added Tax (VAT)) by the State Governments from the Federation Account during the fourth quarter of 2006 stood at ₦298.1 billion,



showed that recurrent, capital and transfers accounted for 49.5, 45.1, and 5.4 per cent, respectively. Of the total recurrent expenditure, debt service accounted for 11.7 per cent of the total, while non-debt expenditure accounted for the balance.

The fiscal operations of the Federal Government in the fourth quarter of 2006 resulted in a deficit of ₦121.8 billion, compared with the proportionate budget deficit of ₦94.6 billion. When compared with the preceding quarter and the corresponding period of 2005, the fiscal operations of the Federal Government resulted in a deficit of ₦94.6 billion and ₦5.5 billion, respectively, (fig.6).

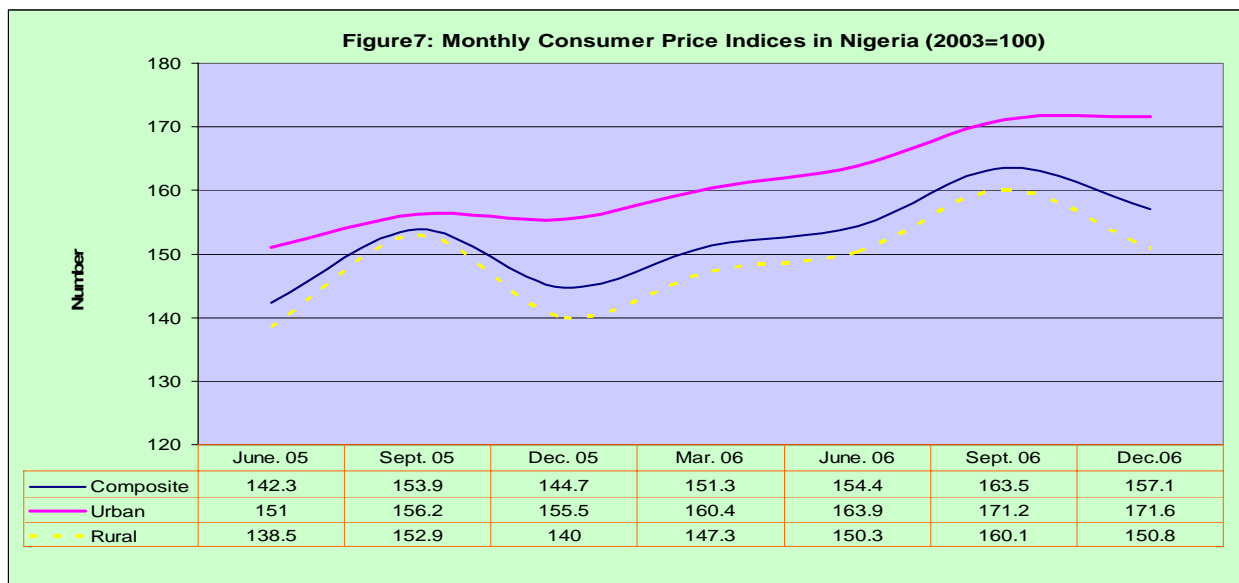
representing an increase of 5.5 and 17.7 per cent over the levels in the preceding quarter and the corresponding period of 2005, respectively. At ₦35.6 billion, receipts from the VAT Pool Account rose by 29.3 and 68.2 per cent over the levels in the preceding quarter and the corresponding period of 2005, respectively. Similarly, at ₦262.5 billion, the total receipts from the Federation Account, including 13% derivation rose by 2.9 and 13.1 per cent over the levels in the preceding quarter and the corresponding period of 2005, respectively.

3.2.3 Statutory Allocations to Local Government Councils

Total receipts by the local governments from the Federation and VAT

Pool Accounts during the fourth quarter of 2006 stood at ₦163.3 billion. This was higher than the levels in the preceding quarter and the corresponding period of 2005 by 6.8 and 11.6 per cent, respectively. The allocations during the period comprised ₦138.4 billion or 84.8 per cent of the total from the Federation Account, compared with 87.4 and 89.2 per cent in the preceding quarter and corresponding period of 2005, respectively. VAT Pool Account accounted for ₦24.9 billion or 15.2 per cent of the total, and was higher than the preceding

oil sector which was projected to have grown by 12.8 per cent. The major agricultural activities during the fourth quarter of 2006 were harvesting of tubers, fruits and vegetables. Others included harvesting of late maturing grains, as well as pre-planting operation for dry season planting. In the livestock sub-sector, poultry farmers were engaged in fattening and other management activities in anticipation for the end-of-year sales. Crude oil production was estimated at 2.34 million barrels per day (mbd) or 215.3 million barrels for the



quarter and corresponding quarter of 2005 by 29.4 and 57.9 per cent, respectively. On monthly basis, the sums of ₦55.9 billion, ₦51.8 billion and ₦55.6 billion were allocated to the 774 local governments in October, November and December 2006, respectively.

4.0 DOMESTIC ECONOMIC CONDITIONS

Aggregate output in the economy measured by the gross domestic product (GDP) was estimated at 6.1 per cent during the fourth quarter of 2006, compared with 5.7 per cent recorded in the preceding quarter. The growth was driven by the non-

quarter. The end-period inflation rate for the fourth quarter of 2006, on year-on-year basis, was 8.5 per cent, compared with 6.3 per cent recorded in the preceding quarter. The inflation rate on a 12-month moving average basis was, 8.2 per cent, compared with 10.0 per cent in June, 2006.

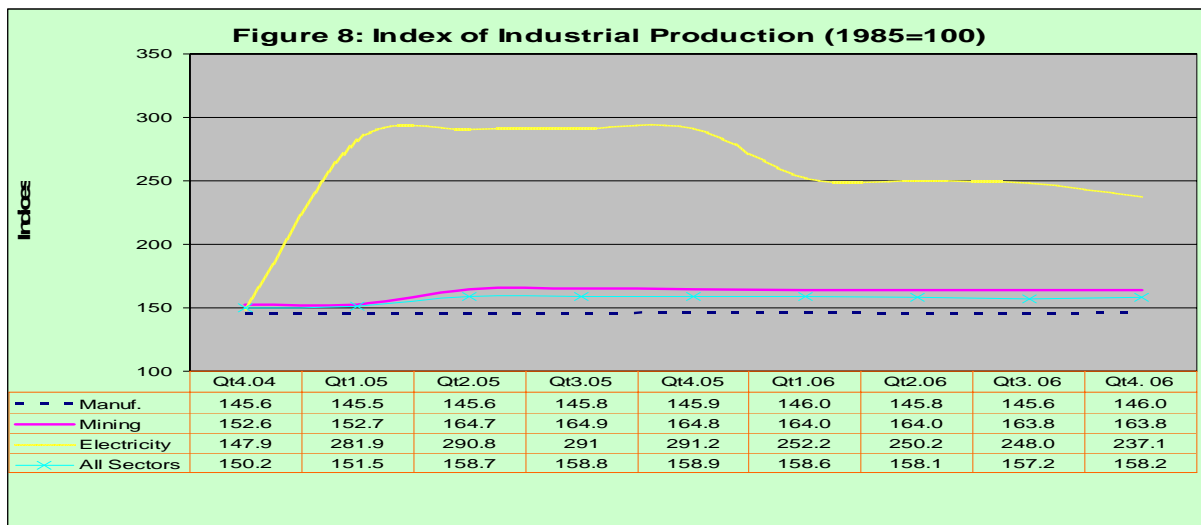
4.1 Agricultural Sector

Agricultural activities during the fourth quarter of 2006 consisted of the harvesting of tuber crops, fruits and vegetables. In the northern part of the country, farmers were engaged in harvesting of late maturing grains, as well as pre-planting operations in preparation for dry

season planting. In the livestock sub-sector, poultry farmers were engaged in fattening and other management activities in anticipation of the end-of-year sales. During the quarter under review, a total of ₦2,007.7 million was granted to 25,010 farmers under the Agricultural Credit Guarantee Scheme (ACGS). This amount represented an increase of 51.1 and 41.6 per cent over the level in the preceding quarter and corresponding quarter of 2005, respectively. A sub-sectoral analysis of the loans guaranteed indicated that the food crops sub-

The prices of most Nigerian major agricultural commodities at the London Commodities Market recorded increases during the review quarter. Of the six commodities monitored during the period, cotton, coffee, palm oil and soya bean, in dollar terms, recorded price increase of 0.3, 2.2, 10.5 and 11.6 per cent, respectively, over their levels in the preceding quarter, while cocoa and copra recorded a price decline of 0.9 and 4.3 per cent below the level in the preceding month.

In naira terms, cotton, coffee, palm



sector had the largest share of ₦1,854.9 million or 89.3 per cent granted to 23,482 beneficiaries, while livestock sub-sector got ₦142.1 million or 6.8 per cent granted to 1,054 beneficiaries. Also, the fisheries sub-sector got ₦44.1 million or 2.1 per cent for disbursement to 246 beneficiaries, while the cash crops sub-sector got ₦30.1 million or 1.5 per cent granted to 178 beneficiaries, the mixed crops sub-sector received ₦1,000 million or 0.1 per cent to a beneficiary and others got ₦5,660 million or 0.4 granted to 49 beneficiaries. Analysis by state showed that 35 states benefited from the scheme during the quarter, the highest and lowest sums of ₦2651.2 million (12.8 per cent) and ₦0.9 million (0.04 per cent) went to Adamawa and Delta states, respectively.

oil and soya bean recorded price increase of 0.2, 2.1, 8.4 and 9.3 per cent, respectively, over their levels in the preceding quarter, while cocoa and copra recorded price declines of 0.9 and 7.8 per cent, respectively. When compared with their levels in the corresponding period of 2005, the price of palm oil, copra, cocoa and coffee increased by 10.5, 14.6, 32.8 and 34.1 per cent, respectively, while cotton and soya bean recorded price declines of 0.9 and 1.6 per cent, respectively.

4.2 Industrial Production

Industrial activities during the fourth quarter of 2006 increased relative to the preceding quarter. At 158.2 (1985=100),

estimated index of industrial production rose by 0.6 over the level attained in the preceding quarter. It, however, fell by 0.4 per cent from the level in the corresponding period of 2005. The development reflected the 0.3 per cent growth in manufacturing production.

The estimated index of manufacturing production, at 146.0 (1985=100), rose by 0.3 and 0.1 per cent over the levels in the preceding quarter and corresponding period of 2005, respectively. The increase was accounted for mainly by the 0.7, 0.4 and 0.3 per cent increase in the indices of soft drink, beer & stout; footwear; and cement and roofing sheet, respectively. The improved performance in the sub-sector was attributable to the increased demand recorded during the end-of-year festive period.

At 163.8 (1985=100), the index of mining production remained unchanged at the level in the preceding quarter. It, however, declined by 0.6 per cent from the level in the corresponding period of 2005. The decline relative to the corresponding quarter of 2005 was attributable mainly to the 0.4 and 0.8 decline in petroleum and gas production, respectively. The petroleum and gas sub-sector had been constrained by the

shut down of oil production in the Niger Delta region following continued disturbances in the region.

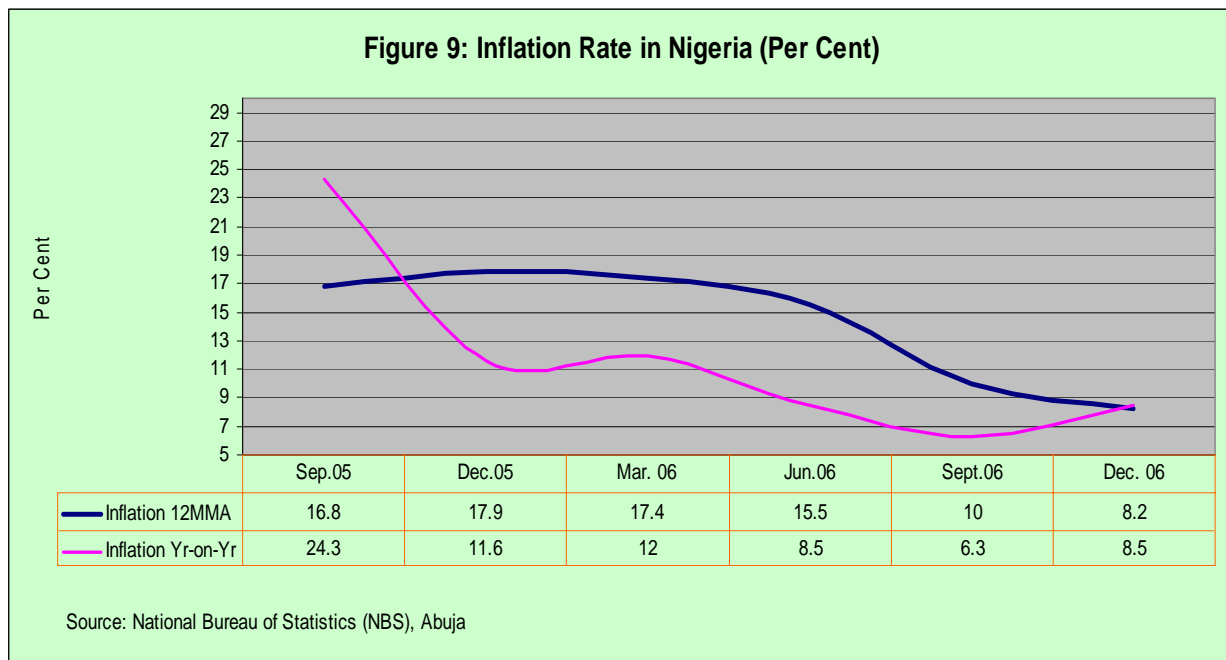
At 2,271.5 MW/h, estimated average electricity generation fell by 9.9 and 26.1 per cent from the levels attained in the preceding quarter and corresponding period of 2005, respectively. The decline was attributable to the vandalism of gas pipelines in the Niger Delta region, which supplies gas to the thermal stations in the country and low water level due to the rehabilitation being carried out at the hydro power stations.

At 1,689.1 MW/h, estimated average electricity consumption declined by 2.1 and 7.8 per cent from the levels in the preceding quarter and the corresponding period of 2005, respectively. Of the total, residential consumption accounted for 51.3 per cent, commercial & street lighting accounted for 26.7 per cent, while industrial consumption accounted for the balance of 22.0 per cent. The decline in electricity consumption relative to the preceding quarter was attributable to low supply from the power generating stations as well as various forced/planned power outages, and emergency load shedding during the period.

4.3 Small and Medium Enterprises Equity Investment Scheme

A cumulative sum of ₦38.2 billion was set aside by the 25 banks under the SMEEIS as at end of the fourth quarter of 2006. During the period, the sum of ₦17.5 billion or 45.9 per cent of the total was set aside for investment in 248 projects. However, total amount invested by banks increased by 4.2 per cent, compared with the preceding quarter.

At an estimated average of US\$61.6 per barrel, the price of Nigeria's reference crude, the Bonny Light (37° API), fell by 13.8 and 5.3 per cent from the levels in the preceding quarter and corresponding period of 2005, respectively. The average prices of other competing crudes, namely, the West Texas Intermediate, U.K Brent, Arab Light, and the Forcados also fell by 15.3, 9.0, 13.7, and 14.2 per cent to US\$60.07, US\$63.65, US\$56.29 and US\$60.87 per barrel,



4.4 Petroleum Sector

Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 2.34 million barrels per day (mbd) or 215.3 million barrels for the quarter, representing an increase of 8.3 per cent over the level in the preceding quarter. Crude oil export was estimated at 1.9 mbd or 173.9 million barrels in the quarter, compared with 1.7 and 2.0 mbd in the preceding quarter and corresponding period of 2005, respectively. Deliveries to the refineries for domestic consumption remained at 0.45 mbd or 41.40 million barrels for the quarter.

respectively. The decline in price was attributable to the ample supply of stock in United States, strong expectations for higher Non-OPEC supply, slow demand and prevailing warm winter weather.

4.5 Consumer Prices

Available data showed that the all-items composite Consumer Price Index (CPI) for the end of fourth quarter, 2006 was 157.1 (May 2003=100), representing a decline of 3.9 and 8.6 per cent from the levels in the preceding quarter and corresponding period of 2005, respectively. The development was attributable to the decline in the price of the following components: food; food & non-alcoholic

beverages; housing, water, electricity & gas; communication; and education whose indices declined by 8.8, 8.7, 0.8, 0.6 and 6.2 per cent, respectively. However, the indices of alcoholic beverages, tobacco & kola; clothing and footwear; furnishing, household equipment and household maintenance; health; transport; recreation & culture; restaurant & hotels; and miscellaneous goods and services increased by 3.4, 8.6, 5.8, 5.6, 8.4, 2.6, 18.8, and 5.4 per cent, respectively, over the preceding quarter's level.

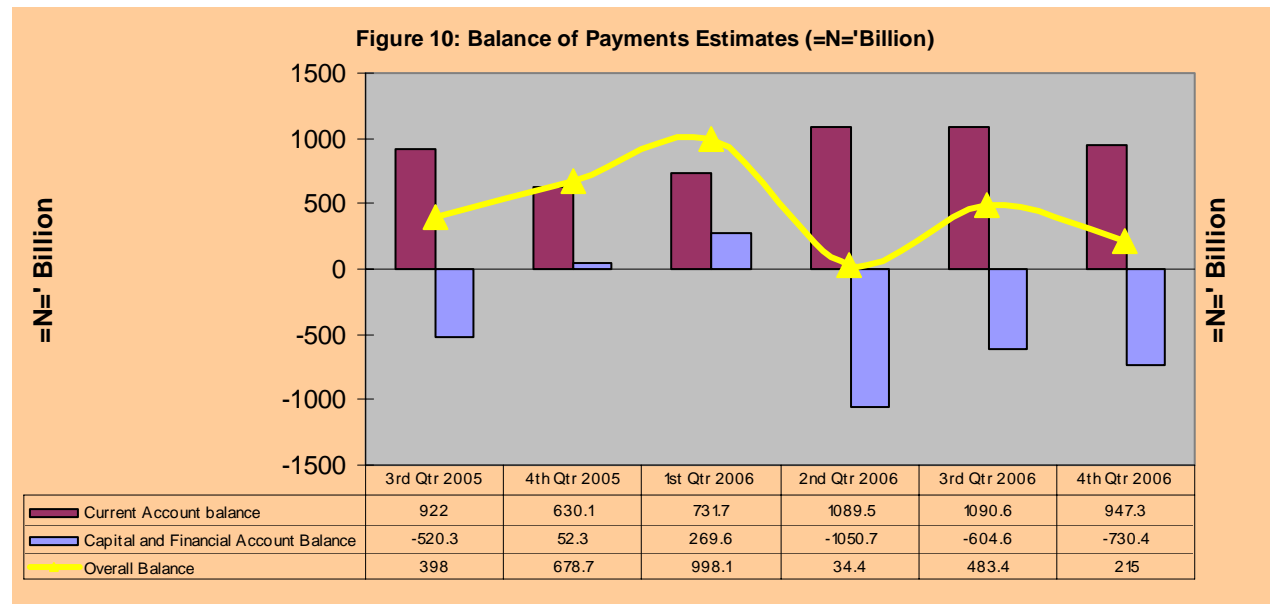
The urban all-items CPI for the end of fourth quarter, 2006 stood at 171.6 (May 2003=100), indicating an increase of 0.2 and 10.4 per cent over the levels in the preceding quarter and corresponding quarter of 2005, respectively. On the other hand, the rural all-items CPI for the quarter stood at 150.8 (May 2003=100), and represented a decline of 5.8 per cent from the level in the

The inflation rate on a twelve-month moving average basis for the quarter ended December 2006, was 8.2 per cent, compared with 10.0 and 17.9 per cent recorded in September 2006 and the corresponding period of 2005, respectively, reflecting largely the decline in the prices of some food items.

5.0 EXTERNAL SECTOR DEVELOPMENTS

5.1 Balance of Payments

The balance of payments account remained favourable in the fourth quarter of 2006 with an estimated overall surplus of ₦215.0 billion, compared with the surplus of ₦483.4 billion and ₦678.9 billion recorded in the preceding quarter and the corresponding period of 2005, respectively. The development was attributable to the



preceding quarter. It, however, represented an increase of 7.7 per cent over the level in the corresponding period of 2005. The end-period inflation rate for the fourth quarter of 2006, on a year-on-year basis, was 8.5 per cent, compared with 6.3 and 11.6 per cent recorded in the preceding quarter and corresponding quarter of 2005, respectively.

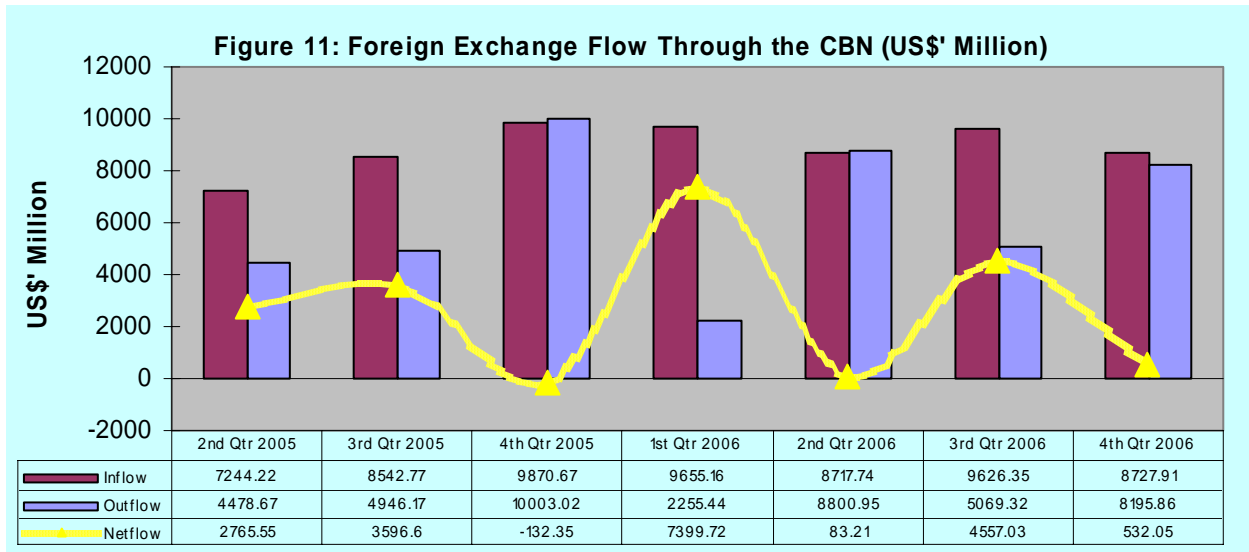
robust position recorded in the current account during the period. The current account surplus however, declined by 13.1 per cent from the level in the preceding quarter. The capital and financial account, recorded a deficit of ₦730.4 billion, compared with a deficit of ₦604.6 billion in the preceding quarter (fig. 10).

The gross external reserves rose by US\$1.84 billion or 4.5 per cent to US\$42.30 billion in December 2006, compared with US\$40.46 billion and US\$28.28 at end-September 2006 and the corresponding period of 2005, respectively. This level of reserves could finance 25.6 months of current import commitments, compared with 22.1 and 18.0 months in the preceding quarter and corresponding period of 2005, respectively.

reflecting the seasonal trend in inward personal home remittances by Nigerians abroad during the review quarter.

5.1.2 The Capital and Financial Account

The capital and financial account recorded a deficit of ₦730.4 billion, compared with a deficit of ₦604.6 billion and ₦52.3 billion recorded in the preceding



5.1.1 The Current Account

The current account surplus increased by 53.0 per cent to ₦947.3 billion in the review quarter. The balance in goods account recorded a surplus of ₦732.0 billion, down from the surpluses of ₦754.6 billion and ₦823.3 billion in the preceding quarter and corresponding period of 2005, respectively. The development was attributable to the high import bills as well as the decline in oil receipts during the period.

The current transfers account (net) rose significantly by 321.7 and 29.7 per cent to ₦340.10 billion in the fourth quarter of 2006. Furthermore, the inflow through the general government recorded a deficit of ₦2.6 billion, while “other sectors” recorded higher level of inflows of ₦342.7 billion,

quarter and corresponding period of 2005, respectively. At ₦135.3 billion, foreign direct investment flow to the economy rose marginally by 90.3 and 49.7 per cent over the level of ₦71.1 and ₦90.4 billion recorded in the preceding quarter and corresponding period of 2005, respectively. The private component of other investment recorded a deficit of ₦724.4 billion, compared with a deficit of ₦728.9 billion and ₦189.5 billion in the preceding quarter and the corresponding period of 2005, respectively.

5.2 Foreign Exchange Flows

Foreign exchange inflow and outflow through the CBN in the fourth quarter of 2006 amounted to US\$8.73 billion and US\$8.20 billion, respectively, representing a

net inflow of US\$0.53 billion. Compared with the levels of US\$9.63 billion and US\$5.07 billion in the preceding quarter and US\$9.87 billion and US\$10.00 billion in the corresponding quarter of 2005, respectively, inflow declined by 9.3 percent, while outflow rose by 61.7 per cent. The fall in inflow was attributable to the decline in both production and the prices of crude oil at the international oil market, from an average of US\$71.1 per barrel in the preceding quarter to US\$61.6 a barrel during the period under review.

Provisional data on aggregate foreign exchange flows through the economy indicated that total inflow declined by 5.5 per cent to US\$14.12 billion, in contrast to the increase of 5.2 and 22.8 per cent in the preceding quarter and corresponding period of 2005, respectively. Oil sector receipts, which accounted for 53.7 per cent of the total, stood at US\$7.58 billion, compared with US\$8.82 billion or 59.0 per cent and US\$9.03 billion or 61.1 per cent in the preceding quarter and corresponding quarter of 2005, respectively. Non-oil public sector and autonomous inflows rose by 43.8 and 1.7 per cent, and accounted for US\$1.15 or 8.2 and US\$5.40 or 38.3 per cent of the total, respectively.

At US\$8.29 billion, aggregate foreign exchange outflow from the economy rose significantly by 61.3 per cent over the level in the preceding quarter. It, however, fell by 17.8 from the level in the corresponding period of 2005. The rise in outflow relative to preceding quarter was attributable largely to the payment of US\$1.73 billion external debt service to the London Club of creditors. Other factors included 39.6, 17.4 and 37.0 per cents increases in foreign exchange sales at the Wholesale Dutch Auction System (WDAS), other official payments and autonomous sources, which rose from US\$3.7 billion, US\$0.94 billion and US\$0.07 billion in the preceding quarter to

US\$5.22 billion, US\$1.10 billion and US\$0.10 billion, respectively.

Consequently, a total inflow of US\$14.12 billion was recorded during the review quarter, representing net inflow of US\$5.83 billion compared with the net inflow of US\$9.80 billion and US\$4.70 billion in the preceding quarter and the corresponding period of 2005, respectively.

5.3 Non-Oil Export Proceeds by top 100 Exporters

Non-oil export earnings by Nigeria's top 100 exporters in the fourth quarter of 2006 amounted to US\$326.85 million, indicating an increase of 56.0 per cent over the preceding quarter's level.

A breakdown of the proceeds in the review quarter showed that proceeds in respect of the agricultural, manufacturing and "others" sub-sectors rose from US\$94.37 million, US\$109.62 million and US\$6.36 million in the preceding quarter to US\$125.31 million, US\$182.17 million and US\$16.28 million, respectively. The shares of agricultural, manufacturing and "others" sub-sectors in total non-oil export proceeds were 38.7, 56.3 and 5.0 per cent, respectively, compared with 44.8, 52.1 and 3.1 per cent, in the preceding quarter. The rise in the shares of agricultural, manufacturing and "others" sub-sectors was attributable largely to the increase in the prices of the goods traded at the international market. The top 100 exporters accounted for 99.1 per cent of all the non-oil export proceeds in the fourth quarter of 2006.

5.4 Sectoral Utilisation of Foreign Exchange

The invisibles sector accounted for the bulk (34.4 per cent) of total foreign exchange disbursed in the fourth quarter of 2006, followed by industrial (33.5 per cent). Other beneficiary sectors, in a descending order of importance, included: general merchandise (21.1 per cent), food (6.8 per cent), transport (3.4 per cent) and agricultural products (0.8 per cent) (Fig.12).

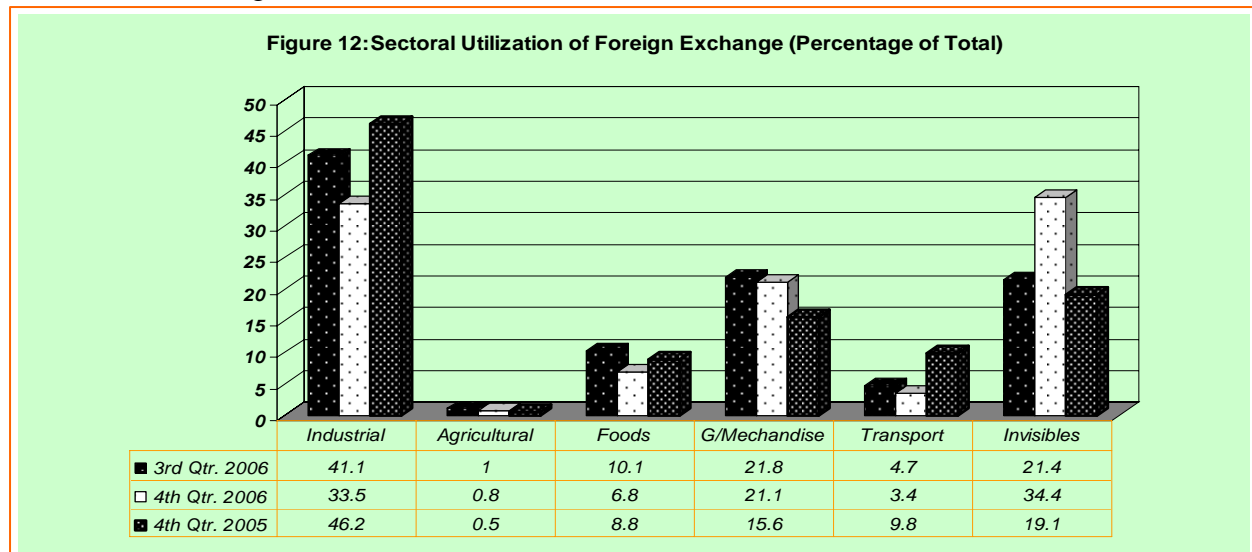
5.5 Foreign Exchange Market Developments

Foreign exchange sales by the CBN to end-users through the authorized dealers

stood at US\$5.22 billion, indicating an increase of 39.6 and a substantial increase of 159.1 per cent over the levels in the preceding quarter and corresponding period of 2005, respectively. Under the WDAS, the weighted average exchange rate of the Naira vis-à-vis the US dollar appreciated marginally by 0.03 per cent to ₦128.29 per dollar from ₦128.33 per dollar in the preceding quarter. In the bureaux de change segment of the market, the average rate, also, appreciated by 0.3 per cent from ₦130.26 per dollar in the third quarter of

6.0 OTHER INTERNATIONAL ECONOMIC DEVELOPMENTS

World crude oil output in the fourth quarter of 2006 was estimated at 86.06 million barrels per day (mbd), while demand was estimated at 84.73 mbd, compared with 84.03 mbd demanded in the preceding quarter, representing a marginal increase of 0.8 per cent. The increase in demand was attributable largely to the stocking up for the expected winter season in the Western



stood at US\$5.22 billion, indicating an increase of 39.6 and a substantial increase of 159.1 per cent over the levels in the preceding quarter and corresponding period of 2005, respectively. Under the WDAS, the weighted average exchange rate of the Naira vis-à-vis the US dollar appreciated marginally by 0.03 per cent to ₦128.29 per dollar from ₦128.33 per dollar in the preceding quarter. In the bureaux de change segment of the market, the average rate, also, appreciated by 0.3 per cent from ₦130.26 per dollar in the third quarter of

Hemisphere during the quarter under review.

Other major international economic developments of relevance to the domestic economy during the quarter included: the State Visit of the President of the Federal Republic of Nigeria to Addis Ababa, Ethiopia from October 8- 10, 2006. The objective of the visit was to strengthen bilateral relations as well as expand trade and investment between the two countries. The two countries signed a Cooperation Agreement on Culture and Tourism,

Bilateral Trade Agreements and Mutual Recognition Agreement on Standardization. (See October, 2006 edition of the Report)

In another development, the Continental Secretariat of the New Economic Partnership for African Development (NEPAD) hosted a Multi-Stakeholder Dialogue meeting at the Le Meridien Hotel in Abuja, Nigeria on 29th October, 2006. The event also marked the 5th Anniversary of the establishment of NEPAD. Participants were drawn from various government agencies, the Organised Private Sector (OPS), Non-Governmental Organisations (NGOs) and Nigerians in the Diaspora (NIDO). (See October, 2006 edition of the Report).

Also, the Executive Board of the International Monetary Fund (IMF) during the quarter initiated de-escalation of remedial measures applied against Liberia. In order to encourage further reform efforts by the Liberian authorities and provide a positive signal to Liberia's development partners, the Executive Board also lifted the declaration of non-cooperation status that had been in place since March 30, 1990. The Board also proposed lifting the suspension of Liberia's voting and related rights, following satisfactory performance, regarding economic policies and payments to the IMF during an evaluation period of approximately 12 months from the date of the Board decision. (See October, 2006 edition of the Report).

Others included a meeting to discuss a Report on the utilization of the recovered Abacha loot held at the Office of the Accountant General of the Federation on October 18, 2006. The Report identified some of the sectors in which the money was expended as power, works, health, education and water resources. It however, noted that

out of the ₦65.07 billion only ₦26.73 billion was expended by the implementation agencies accordingly.

Implementing ministries/agencies were, however, asked to give account/explanation of how they utilized the 2004 budget/Abacha loot before end-October, 2006. The Committee also agreed that in subsequent years, the Abacha loot should be appropriated to specific/identifiable projects.

In another development, African leaders met with President Hu Jintao of China in Beijing, China on November 4, 2006 for the Third China-African Summit under the auspices of the Forum on China-African Cooperation. The conference enabled the leaders to review issues on cooperation between China and African countries on New Strategic Partnership, particularly on Economic Cooperation.

The meeting of the Convergence Council of Ministers and Governors of the West African Monetary Zone was held in Accra, Ghana on November 24, 2006. The meeting was attended by WAMZ member countries and regional institutions such as ECOWAS, BCEAO, WABA, and WAMA as well as the organized private sector. (See November, 2006 edition of the Report).

The United State Congress on December 11, 2006 approved a bill that would extend trade preferences for sub-Saharan African countries (Nigeria inclusive) from 2007 to 2012. The bill known as the AGOA Investment Incentive Act of 2006 amended the original African Growth and Opportunity Act (AGOA), passed in 2000 to provide duty-free access to the United State for many African products. The bill also makes several revisions that will assist African textile producers who have been hard-hit by rising Chinese competition.

Other measures favourable to Africa in the bill include:

- The exemption that allow Africa's producers to use fabrics from third countries to manufacture clothing. This is an important concession since most African countries are yet to produce their own cloth;
- A provision to encourage clothing manufacturers in Africa to use fabrics made in Africa where it is available; and
- A provision to give duty-free access to African manufacturers of non-apparel textile products, if they use materials from less developed countries.

The Executive Board of the International Monetary Fund (IMF) completed the second review under the two-year Policy Support Instrument (PSI) for Nigeria in December, 2006. The review, however, noted the following developments:

- That non-oil GDP growth prospects remain robust, external vulnerabilities have declined with the external debt reduction stemming from the agreements with the Paris and London Clubs of creditors.
- Inflation has been in single-digit since mid-2006, although higher core inflation indicates some underlying pressures.
- Good progress has also been made with the ambitious structural reform agenda, despite some delays.

The IMF further noted that the Nigerian authorities are committed to addressing the considerable challenges that lie ahead. While infrastructure spending is clearly justified, a further fiscal expansion needs to be resisted, including potential pre-election spending pressures. Continued adherence to the budgetary oil price rule will be

essential. As the burden of macroeconomic stability will fall on monetary policy, liquidity management should be improved. Establishment of a liquidity assessment group and full implementation of the new standing facility and the new monetary policy rate by the central bank could assist in this regard. Improving the quality and accuracy of macroeconomic data would also help support decision making.

The Fund observed that to safeguard Nigeria's oil wealth, oil savings management guidelines will be needed, and thorough cost-benefit analyses for project selection will need to be undertaken. Improvements in public financial management and due-process procedures, and the design of prudent international reserves management regulations, will help to ensure the effective allocation of resources and combat waste. External borrowing should be on concessional terms, in order to preserve debt sustainability.

The review concluded that the Nigerian authorities' focus on institutionalizing structural reforms in 2007 is welcome. Right-sizing ministries, restructuring parastatals, building a more skilled civil service, and privatization will all contribute to a more effective public administration. Timely passage of important legislation by the National Assembly, including the Fiscal Responsibility Bill, would help to sustain recent reforms.

Finally, the meeting of the International Monetary Fund (IMF) and World Bank held on December 11-13, 2006 with about 55 labor union leaders from around the world. Participants at the meeting included representatives and affiliates of the International Trade Union Confederation (ITUC), Global Union Federations, and the Trade Union Advisory

Committee to the Organization for Economic Cooperation and Development (OECD). Others included the IMF and World Bank management, staff and executive directors. Key issues discussed at the meeting included:

- How to foster the macroeconomic stability needed for job creation, and
- Ongoing work in the areas of debt relief, core labor standards, HIV/AIDS, lending conditionality, and governance.

IMF Managing Director Rodrigo de Rato remarked that the global economy is presenting opportunities not seen in two generations, but also new and complex risks. The IMF's role in helping countries understand those risks is complementary to union efforts to make globalization work for workers. World Bank President Paul Wolfowitz emphasized that jobs are top priorities for the World Bank and the trade union movement. He also welcomed union allies in the fight against corruption in developing countries.