

ECONOMIC REPORT FOR THE MONTH OF MAY 2003

1.0 SUMMARY

Available data indicated declines in monetary aggregates in May, 2003. Broad money stock (M_2) and narrow money (M_1) fell by 5.5 and 8.0 per cent during the month but expanded by 16.2 and 12.5 per cent, respectively, in the first five months of the year, compared with the targets of 15.0 and 13.8 per cent for the whole year. The fall was attributable to the declines in foreign and other assets (net) of the banking system during the period. Aggregate banking system's credit to the domestic economy, however, rose by 5.3 per cent during the month, and increased by 16.0 per cent during the first five months of the year, compared with the target of 25.7 per cent for fiscal 2003.

Available data indicated an upward movement in banks' interest rates during the month. The spread between the banks' weighted average deposit and maximum lending rates, however, narrowed to 10.1 percentage points from the preceding month's level of 11.0 per cent, while the margin between the average savings deposit and maximum lending rates stood at 18.5 percentage points. The average inter-bank call rate rose from 13.1 per cent in April to 18.3 per cent in May, 2003.

The value of money market assets outstanding declined marginally by 0.5 per cent in May 2003, same as in the preceding month. The fall reflected the decline in Bankers' Acceptances (BAs). Matured Treasury bills were rolled over during the month. Activities on the Nigerian Stock Exchange (NSE) indicated improved performance, as all the major indicators rose during the month. Major activities in the agricultural sector during the month

included the cultivation of various crops in the Northern states; and weeding, staking of yams and harvest of late maize in the Southern states. The price index of Nigeria's major agricultural commodities at the London Commodity Market declined by 13.7 per cent from the level in the preceding month but rose by 11.5 per cent over the level at corresponding period of 2002, in naira terms. The inflation rate at end- May 2003 was estimated at 10.0 per cent, down from 10.1 per cent in the preceding month.

Estimated crude oil output, including condensates and natural gas, was 1.98 million barrels per day (mbd) or 61.38 million barrels for the month. Crude oil exports were estimated at 1.53 mbd or 47.43 million barrels for the month, indicating an increase of 14.2 per cent over the level recorded in the preceding month. Deliveries of crude oil to refineries for domestic consumption, however, remained at 0.45 million barrels per day or 13.95 barrels for the month. The average price of Nigeria's reference crude, Bonny Light (37°API), was \$26.20 a barrel, reflecting an increase of 2.6 per cent over the preceding month's level.

Data on foreign exchange flows through the Central Bank of Nigeria (CBN) showed an inflow of US\$1,288.56 million and an outflow of US\$1,373.32 million, resulting in a net outflow of US\$84.76 million during the month. Foreign exchange sales to authorized dealers by CBN amounted to US\$725.54 million, compared with US\$722.38 million in April. The weighted average exchange rate of the naira vis-à-vis the US dollar depreciated marginally from its April, 2003 level of ₦127.77 per dollar to ₦127.87 per dollar. In both the parallel market and bureaux de

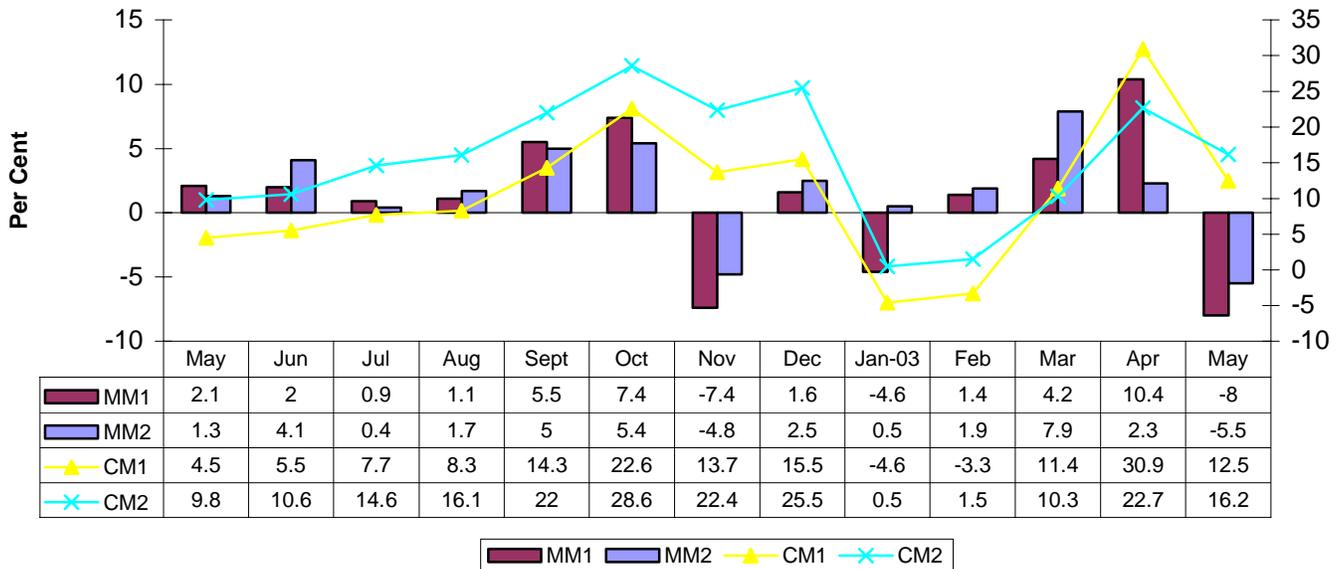
change the rates also depreciated by 1.2 and 1.1 per cent, respectively. Nigeria's gross external reserves increased by 0.8 per cent to US\$8,269.57 million as at end-May, 2003.

On the international scene, World crude oil output increased by 0.4 per cent in

between Nigeria and South Africa with a view to re-affirming their commitments for the actualisation of the reform of representation in the Africa Group I Constituency.

Finally, The World Bank approved the

Figure 1 : Aggregate Money Supply in Nigeria (Monthly & Cumulative Growth Rate in Per cent)



May, 2003, while the demand rose by 0.10 mbd. Overall, total world oil demand exceeded supply by 0.4 per cent, compared with an excess demand of 1.40 mbd recorded in the preceding month.

Other major international economic developments during the month with implications for the domestic economy were: a joint Technical Committee set up by Nigeria and South Africa, aimed at evolving a realistic approach towards actualizing the reform of representation in the Africa Group I Constituency. The committee met in Pretoria, South Africa from 19th - 20th May, 2003 to update and harmonise the main elements of the joint proposal; agreed on the appropriate strategy of achieving the objectives of the joint proposal; and drew up a Draft Memorandum of Understanding

sum of US\$28 million on 29th April, 2003 for the Federal Government of Nigeria to finance the complete eradication of polio in the country by 2005. Nigeria is the first beneficiary of this pilot scheme, in which soft loans to poor countries would be paid off with grants from private foundations.

2.0 FINANCIAL SECTOR DEVELOPMENTS

Monetary aggregates declined in May 2003, while interest rates generally trended upward. Activities on the Nigerian Stock Exchange (NSE) recorded improved performance during the month. The developments in the money market were influenced largely by the state of banking system liquidity during the period.

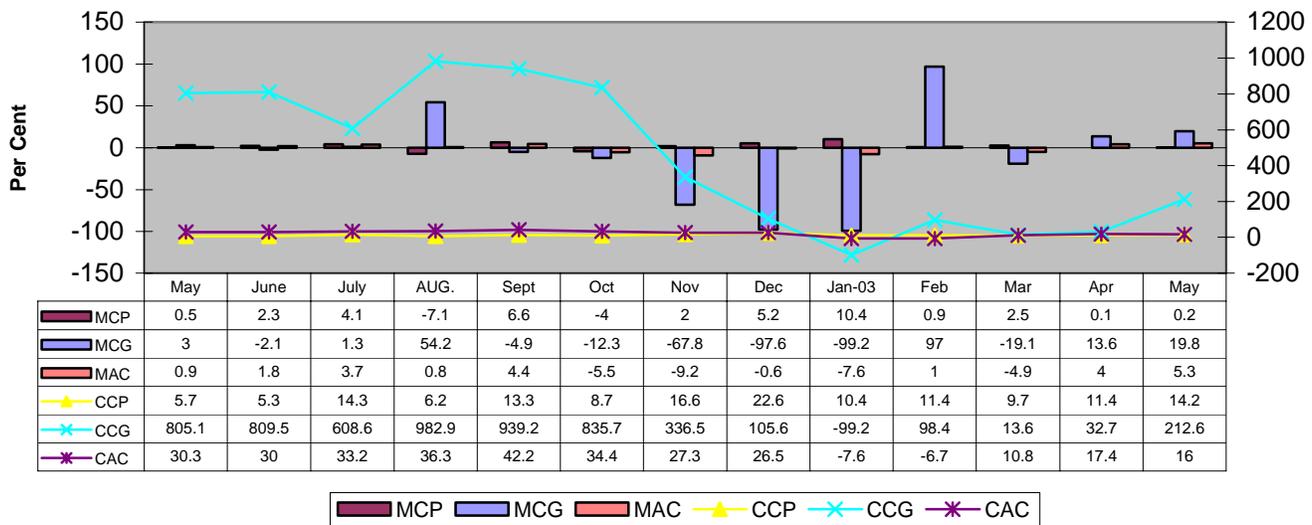
2.1 Monetary and Credit Developments

Available data indicated a deceleration in monetary aggregates in May, 2003. Broad money supply (M_2) declined by ₦108.3 billion or 5.5 per cent to ₦1,857.9 billion, in contrast to the increases of 2.5 and 0.5 per cent in the preceding month and corresponding period of 2002, respectively. The fall reflected the declines of 8.0 and 1.9 per cent in narrow money supply (M_1) and quasi money, respectively. The fall in narrow money supply (M_1) was influenced by the 3.7 and 13.8 per cent

decline of ₦35.4 billion or 2.4 per cent in the preceding month. The rise reflected largely the increase in claims on the Federal Government.. In the first five months of the year, aggregate bank credit to the domestic economy grew by 16.0 per cent, implying an annualized growth rate of 38.4 per cent, compared with the growth target of 25.7 per cent for the year.

Banking system's net claims on the Federal Government rose by ₦74.6 billion or 19.8 per cent in May 2003, in sharp contrast to the decline of ₦66.7 billion in the preceding month. The increase in the review month reflected the rise in CBN's claims. In

Figure 2: Aggregate Domestic Credit To The Economy (Monthly & Cumulative Growth Rate -Please note that omitted points are outliers)



declines in foreign and other assets (net) of the banking system. In the first five months of the year, however, M_2 and M_1 grew by 16.2 and 12.5 per cent, respectively, implying an annualized growth rates of 38.9 and 30.0 per cent, compared with the programmed targets of 15.0 and 13.8 per cent for fiscal 2003.

Aggregate bank credit (net) to the domestic economy rose by ₦77.3 billion or 5.3 per cent in May 2003, in contrast to the

the first five months of the year, banking system's net claims on government grew by ₦78.0 billion or 20.9 per cent, due largely to the increased level of CBN's direct advances to the federal government during the period.

Private sector credit rose marginally by ₦2.7 billion or 0.2 per cent to ₦1,091.1 billion in May 2003, reflecting the increase in deposit money banks' claims on the sector. In the first five months of the year, private sector credit grew by 14.2 per cent,

implying an annualized growth rate of 34.1 per cent, compared with the 32.3 per cent target for fiscal 2003.

At ₦1,406.1 billion, foreign assets (net) of the banking system fell by ₦53.3 billion or 3.7 per cent, in contrast to the 0.2 per cent increase in the preceding month. The fall was attributable to the declines in Central Bank and deposit money banks' holdings. In the first five months of the year, however, the foreign assets (net) of the banking system rose by ₦18.9 billion or 1.4 per cent, in contrast to the decline of 5.2 per cent in the corresponding period of 2002.

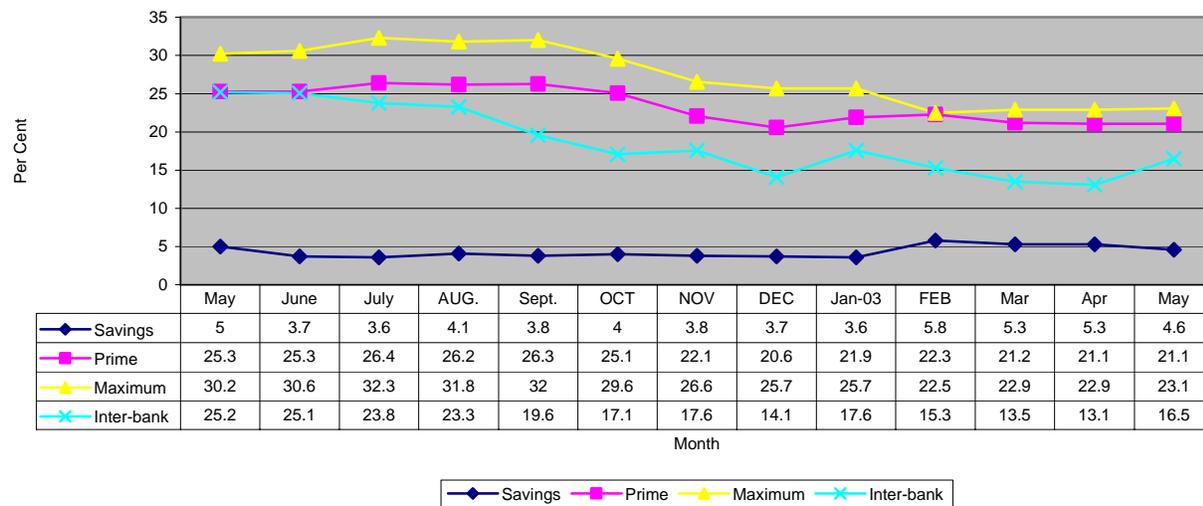
Quasi-money declined by ₦15.3 billion or 1.9 per cent in the review month, in contrast to an increase of ₦11.0 billion or 1.4 per cent in the preceding month. The decline reflected the fall in time and savings deposits of the deposit money banks during

increase of ₦80.3 billion or 7.7 per cent recorded in the preceding month. The decline was traceable to the increases in the liabilities of both the Central Bank and the deposit money banks. The decline in Central bank other assets (net) reflected the increase in its capital accounts and DMB's deposits with the bank, while that of DMBs was influenced largely by the increase in their capital accounts.

2.2 Currency-in-circulation and Deposits at CBN

At ₦449.9 billion, currency in circulation in May 2003 declined by ₦22.9 billion or 4.8 per cent and ₦13.3 billion or 2.9 per cent from the preceding month's level and end-December 2002 level, respectively. The fall during the review month was traceable entirely to currency outside the banking system, which declined

Figure 3: Selected Banks' Interest Rates (Per Cent, Monthly Average)



the period. In the first five months of the year, quasi-money grew by ₦139.9 billion or 21.4 per cent.

Other Assets (net) of the banking system declined by ₦132.3 billion or 13.8 per cent in May 2003, in contrast to an

by 3.7 per cent from the preceding month's level of ₦403.1 billion to ₦372.7 billion. Vault cash, however, rose by ₦7.7 or 11.1 per cent during the month.

Total deposits at the CBN amounted to ₦891.7 billion, indicating increases of

₦59.0 billion or 7.7 per cent over the level in the preceding month but a decline of ₦134.3 billion or 17.7 per cent from the level at end-December 2002. The development during the month was traceable wholly to the increase in deposit money banks' deposits, which rose by ₦173.6 billion or 84.7 per cent during the month. The shares of the three components in total deposits at the CBN, namely, Federal Government, bankers and 'others' were 41.9, 42.4 and 15.7 per cent, respectively, compared with 58.5, 24.6 and 16.9 per cent in April, 2003.

2.3 Interest Rate Developments

Available data indicated that banks' interest rates trended upward in May 2003. With the exception of the average savings rates which declined from 5.3 to 4.6 per cent, other deposit rates of various maturities increased from a range of 8.5 – 14.1 per cent in April to 9.3 – 15.2 per cent in May, 2003. The average prime lending rate remained unchanged at the preceding

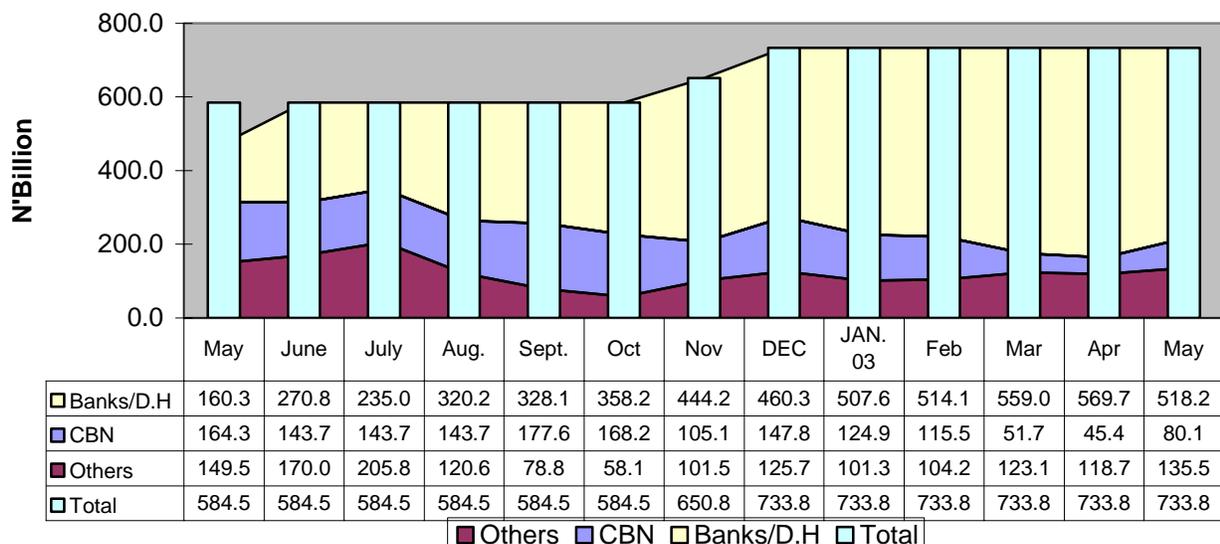
percentage point to 23.1 per cent. The spread between the weighted average deposit and maximum lending rates, however, narrowed to 10.1 percentage points from the preceding month's level of 11.0 percentage points. The margin between the average savings deposit and maximum lending rates stood at 18.5 percentage points

The average inter-bank call rate, which stood at 13.1 per cent in April rose to 18.3 per cent in the review month. The observed movement was influenced largely by the demand pressure in the foreign exchange market (Fig. 3).

2.4 Money Market Developments

Available data indicated that the level of money market assets outstanding as at end-May 2003 declined marginally by ₦3.9 billion or 0.5 per cent to ₦803.7 billion. The fall was attributable wholly to the decline of ₦6.7 billion or 19.1 per cent in the level of Bankers' Acceptances (BAs). Commercial Papers (CPs) rose by ₦1.7

Figure 4: Treasury Bills' Holdings (N'Billion)



month's level of 21.1 per cent, while the maximum lending rates rose by 0.3

billion or 4.7 per cent to ₦38.1 billion during the month, while issues of certificate

of deposits (CDs) worth ₦1.1 billion was made during the same period. Treasury Bills and Eligible Development Stocks (EDS) outstanding, however, remained unchanged at the preceding month's levels of ₦733.8 billion and ₦2.4 billion, respectively.

Treasury bills worth ₦165.1 billion were issued in May 2003 to replace matured bills of the same value, compared with ₦278.0 billion in the preceding month. Of the total amount issued during the month, deposit money banks (DMBs) and discount houses jointly subscribed ₦91.8 billion or 55.6 per cent, while other investors accounted for ₦27.5 billion or 16.7 per cent. The balance of ₦45.8 billion or 27.7 per cent was absorbed by the CBN.

A breakdown of outstanding treasury bills holding showed that deposit money banks and discount houses together accounted for ₦518.2 billion or 70.6 per cent, while holdings by "other" investors amounted to ₦135.5 billion or 18.5 per cent, compared with ₦118.7 billion in the preceding month. The Central Bank's holding rose from ₦45.4 billion in April 2003 to ₦80.1 billion, constituting 10.9 per cent of the total.

2.5 Capital Market Developments

Transactions on the Nigerian Stock Exchange (NSE) showed improved performance in May, 2003, as the major market indicators trended upward. Available data indicated that the volume of traded securities rose by 10.8 per cent from 600.3 million shares in April 2003 to 665.0 million in the review month, while the value increased by 19.6 per cent to ₦6.1 billion. A breakdown of transactions indicated that the banking sub-sector remained the most active, followed by the conglomerates. There were no dealings in the government

and industrial loans/preference stocks sub-sectors during the month. Market capitalization and value index also recorded increases of 4.4 and 4.3 per cent, respectively, to close at ₦894.4 billion and 14086.25 (1984=100), reflecting largely the price gains recorded by some highly capitalized companies on the exchange.

2.6 Deposit Money Banks' Activities

Total assets/liabilities of deposit money banks amounted to ₦2,814.0 billion in May 2003, representing a decline of ₦92.6 billion or 3.1 per cent from the preceding month's level but an increase of ₦108.3 billion or 4.0 per cent over the level at end-December 2002. Funds were sourced mainly from the reductions in unclassified assets and claims on Federal government, while the major use of funds included settlement of demand deposit obligations.

Available data indicated that aggregate credit to the domestic economy by deposit money banks amounted to ₦1,422.3 billion, representing a decline of ₦32.2 billion or 2.2 per cent from the level in the preceding month but an increase of ₦58.9 billion or 4.3 per cent over the level at end-December 2002. The breakdown showed that credit to the central government declined by ₦71.8 billion or 17.4 per cent, while claims on the private sector rose by ₦39.6 billion or 3.8 per cent over the preceding month's level.

Central Bank's credit to deposit money banks amounted to ₦3.7 billion, representing declines of ₦2.8 billion and ₦18.5 billion from the levels in the preceding month and end-December, 2002, respectively. The decline in the review month reflected largely the fall in CBN's overdraft facilities to the banks.

Total specified liquid assets of deposit money banks stood at ₦747.2 billion or 48.3 per cent of their total deposit liabilities. This level of assets was 2.8 percentage points below the preceding month's level but 8.3 percentage points above the stipulated minimum ratio of 40.0 per cent for fiscal 2003.

2.7 Discount Houses

Total assets/liabilities of the discount houses amounted to ₦53.8 billion in May, 2003, indicating a decline of ₦6.2 billion or 10.3 per cent from the level in the preceding month but an increase of ₦9.8 billion or 22.3 per cent over the level in the corresponding period of 2002. Discount houses' investments in Federal Government securities of less than 91 days maturity stood at ₦32.3 billion, representing 82.6 per cent of their current liabilities. This was 12.1 percentage points lower than the preceding month's level, but 22.6 percentage points above the prescribed minimum of 60.0 per cent for fiscal 2003. Total borrowings by discount houses was ₦15.2 billion, while their capital and reserves amounted to ₦6.5 billion, resulting in a gearing ratio of 2.3:1, compared with the stipulated maximum target of 50:1 for fiscal 2003.

3.0 DOMESTIC ECONOMIC CONDITIONS

In May 2003, agricultural activities included the cultivation of various crops as well as weeding, staking of yams and harvesting of late maize in various parts of the country. Crude oil output increased by 10.6 per cent over the preceding month's level, while the estimated inflation rate at 10.0 per cent indicated a marginal decline of 0.1 percentage point below the preceding month's level.

3.1 Agricultural Sector

The major agricultural activities during the month consisted of preparation of land for transplanting of tree crops from nurseries; and planting of upland rice, maize and vegetables in the northern states; while weeding, staking of yams and harvest of late maize dominated activities in the southern states. In the livestock sub-sector, most poultry farmers intensified clearing and disinfecting of broiler houses and their surroundings to minimize the incidence of diseases prevalent in the wet season.

The prices of Nigeria's major agricultural commodities at the London Commodity Market rose during the month. The all-commodity price index, at 109.0 (1985=100), in dollar terms, declined by 14.0 per cent from the level in the preceding month but rose by 36.1 per cent over the corresponding month of 2002. In naira terms, the index at 9450.40 (1984 =100) declined by 13.7 per cent from the level in the preceding month but rose by 11.5 per cent over the level in the corresponding period of 2002.

Of the six commodities monitored during the month, three (3) namely, coffee, soya bean and palm-oil recorded price increases, in dollar terms, of 3.0, 2.7, and 2.3 per cent, respectively, while cocoa, cotton and copra recorded price declines of 16.3, 4.8 and 0.9 per cent, respectively. When compared with their levels in the corresponding month of 2002, all the commodities, except coffee, recorded price increases.

In naira terms, soya bean, copra, coffee and palm oil recorded price increases of 3.1, 0.2, 3.5 and 0.2 per cent, respectively, over their levels in the preceding month, while cocoa and cotton

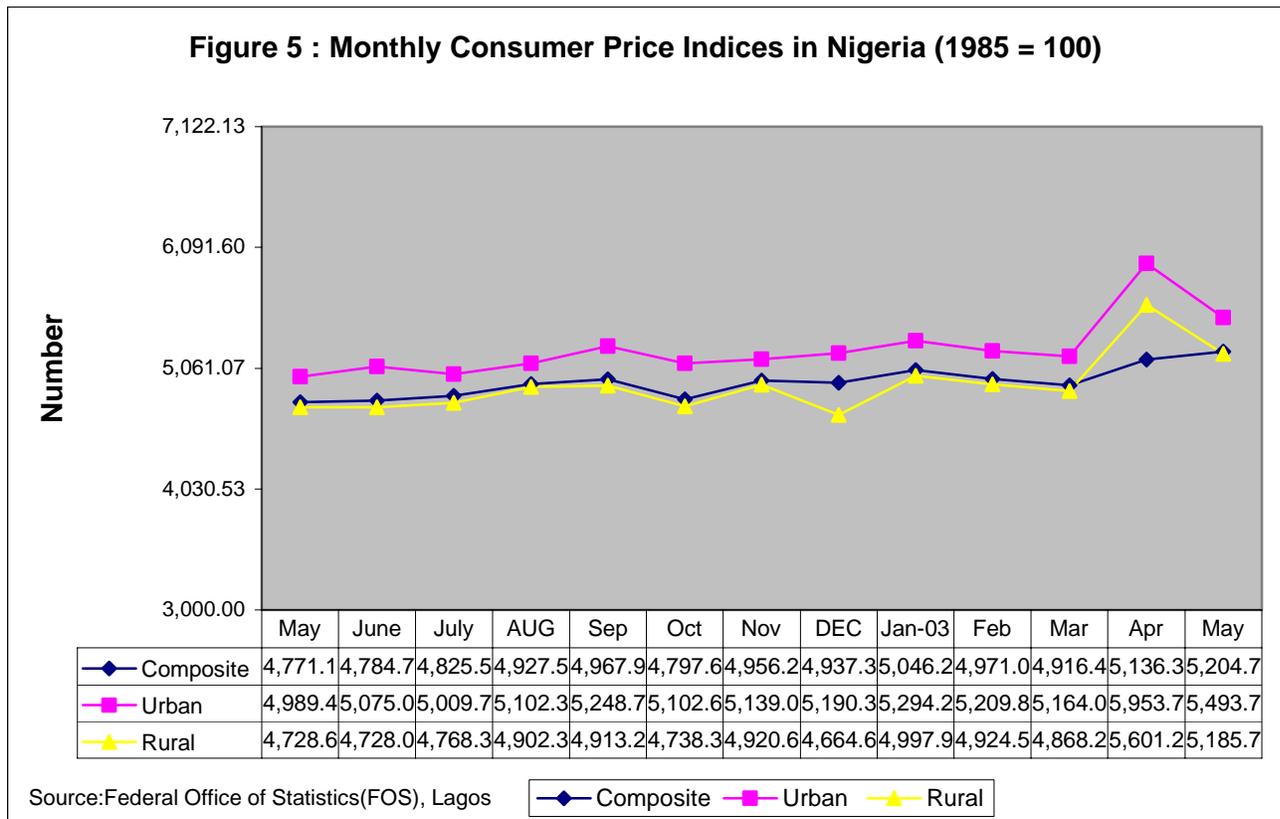
recorded price declines of 16.3 and 4.8 per cent, respectively. When compared with their levels in the corresponding month of 2002, all commodities, except coffee, recorded varying degrees of price declines.

3.2 Petroleum Sector

In May 2003, Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at 1.98

was 6.7 per cent, compared with 6.1 per cent in the preceding month. Crude oil export was estimated at 1.53 million barrels per day (mbd) or 47.43 million barrels for the month, representing an increase of 14.2 per cent over the level in April 2003. Deliveries of crude oil to refineries for domestic consumption remained at 0.45 mbd or 13.95 million barrels per month.

Crude oil prices recorded mixed



million barrels per day (mbd) or 61.38 million barrels for the month, showing an increase of 0.19 mbd or 10.6 per cent over the level in April. The increase in output was attributable largely to the partial resumption of oil production activities in the Niger Delta following the intervention of the Federal Government to end the communal crisis in Warri. In spite of this, the level of production fell short of Nigeria's OPEC quota of 2.018 mbd. The share of the country's production in total OPEC output

development during the month under review at both the spot and the net-back markets. In the spot market, the average price of Nigeria's reference crude, Bonny Light (37° API), at \$26.20 a barrel, increased by 2.6 per cent from its level in April, while the prices of other competing brands, namely, the UK Brent and the West Texas Intermediate (WTI) stood at \$25.96 and \$28.09 a barrel, respectively, reflecting increases of 4.5 and 0.04 per cent from their levels in the preceding month. The average price of the

Arab Light, however, fell by 1.0 per cent to \$23.01 a barrel. In the European net-back market, the Bonny Light was sold for \$32.06 a barrel, representing a decline of 2.5 per cent from the level in April, while the UK Brent and the WTI were sold for \$31.15 and \$31.87 a barrel, respectively, showing declines of 1.6 and 6.7 per cent from their respective levels a month earlier.

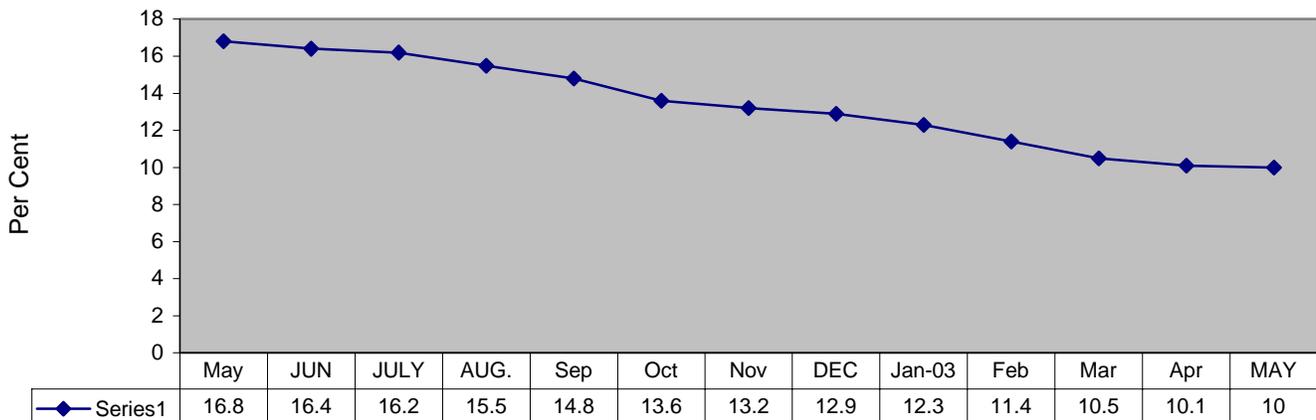
3.3 Consumer Prices

Data from the Federal Office of Statistics (FOS) showed that the all-items composite Consumer Price Index (CPI) in May 2003 was estimated at 5,204.7 (1985 = 100). This represented increases of 1.3 and 9.1 per cent over the levels in the preceding

entertainment, education and cultural services which recorded price decreases of 0.4; 1.0 and 0.1 per cent, respectively. When compared with their levels in the corresponding month a year earlier, all the components recorded price increases ranging from 2.8 per cent for drinks, tobacco and kola to 79.4 per cent for other services. The urban all-items CPI was estimated at 5,493.7 (1985=100), indicating increases of 1.9 and 10.1 per cent over the preceding month's level and the level at end-May, 2002. Similarly, the rural all-items CPI, which was estimated at 5,185.7 (1985=100), showed the same trend, though at a slightly lower rate.

The inflation rate for the twelve-

Figure 6: Inflation Rate in Nigeria (Per Cent, Monthly)



Source: Federal Office of Statistics (FOS), Lagos

month and the corresponding month of 2002, respectively. The development during the month was traceable to the indices of food; clothing and footwear; accommodation, fuel and light; household goods; transportation; and other services whose indices rose by 1.2, 4.4, 7.6, 0.9, 5.9, and 13.2 percent, respectively. This was, however, moderated by the indices of drinks, tobacco and kola; medical care and health expenses; and recreation,

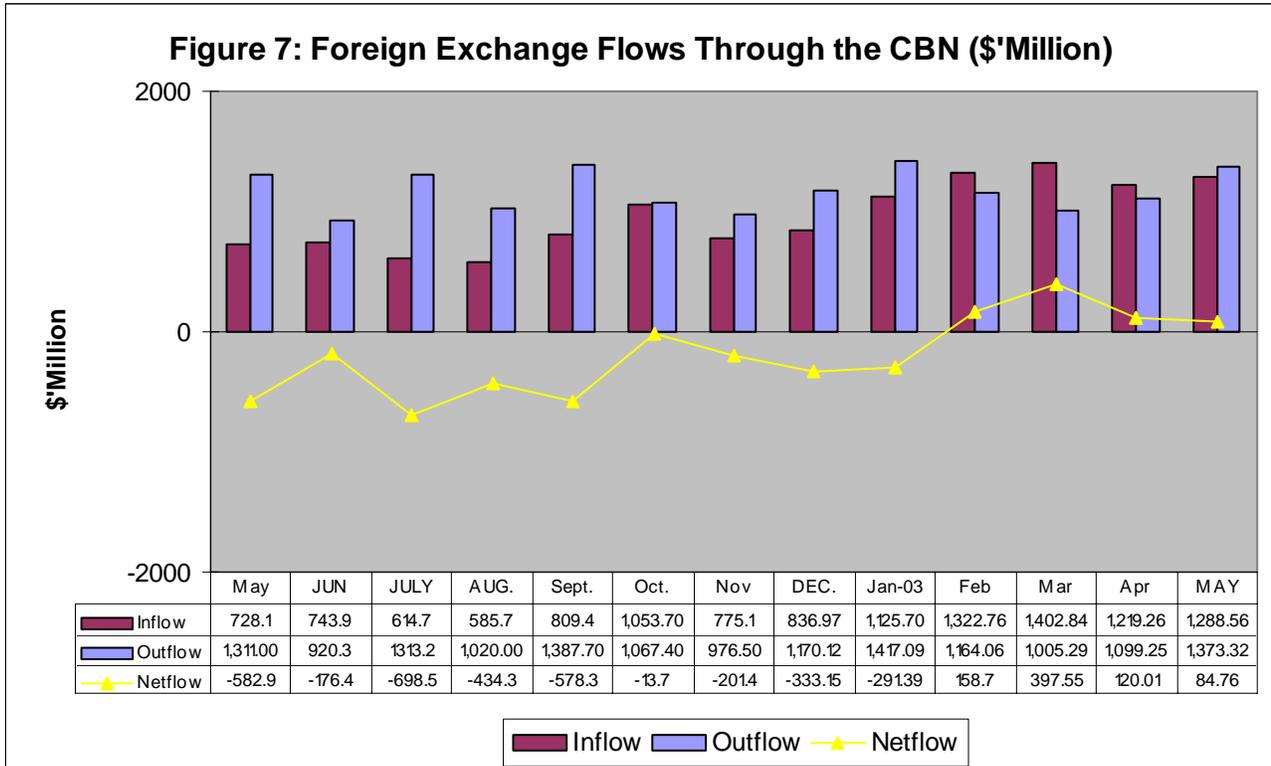
month period ended May 2003 was estimated at 10.0 per cent, compared with 10.1 and 16.87 per cent in the preceding month and corresponding month of 2002, respectively. The moderation in inflationary pressure reflected the dampening effect of the harvest of cereals and fruits during the period.

4.0 EXTERNAL SECTOR DEVELOPMENTS

4.1 Foreign Exchange Flows

In May 2003, foreign exchange inflow and outflow through the Central Bank of Nigeria (CBN) amounted to US\$1,288.56 million and US\$1,373.32

level in April to \$1,959.02 million in May 2003. Analysis of the total inflow indicated that oil receipts declined by 6.2 per cent to \$858.70 million, representing 43.8 per cent of the total, while non-oil public sector receipts amounted to \$429.86 million, representing 22.0 per cent of the total. Inflow through the autonomous sources stood at \$670.46 million or 34.2 per cent of



million, respectively, indicating a net outflow of US\$84.76 million. During the month, inflows and outflows rose by 5.7 and 24.9 per cent, respectively, compared with their levels of \$1,219.26 million and \$1,099.25 million in April 2003. The rise in inflow was traceable to the 41.5 per cent increase in other official receipts during the month. Cumulative inflows and outflows through the CBN in May 2003 were 67.5 and 12.4 per cent, respectively, above their levels in the corresponding month of 2002.

Available data on foreign exchange flows through the economy indicated that total inflow rose by 7.2 per cent over the

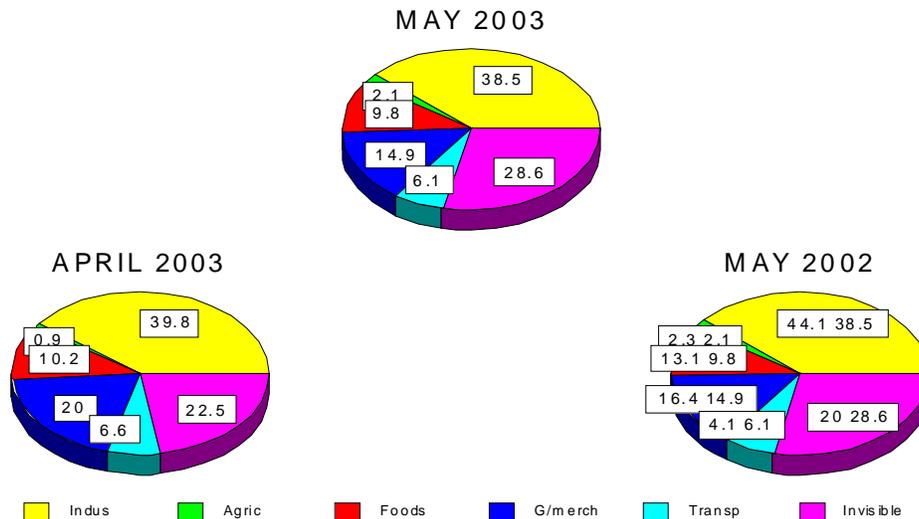
the total.

At \$1,487.34 million, aggregate foreign exchange outflow from the economy increased by 22.6 per cent over the preceding month's level, reflecting the significant increases in the funding of the Foreign Exchange Market (FEM) and "Other Official Payment", which rose from \$722.38 million and \$221.24 million in April 2003 to \$725.54 and \$436.99 million, respectively, in May 2003. Disbursements in respect of drawings on L/Cs and external debt service also rose from \$6.49 million and \$149.14 million to \$22.68 million and \$188.11 million, respectively, over the

preceding month's levels. Outflow through autonomous sources, however, fell marginally from \$114.45 million in April 2003 to \$114.02 million in May 2003. The cumulative inflow and outflow through the economy during the five-month period

compared with \$722.38 million in the preceding month. The weighted average exchange rate of the Naira vis-a vis the US dollar depreciated marginally by 0.08 per cent from ₦127.77 per dollar in April 2003 to ₦127.87 per dollar in May. Similarly, in

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



amounted to \$9,711.40 million and \$6,651.66 million, respectively, compared with \$5,705.00 and \$5,643.10 million in the corresponding period of 2002.

4.2 Sectoral Utilisation of Foreign Exchange

The industrial sector accounted for the bulk (38.5 per cent) of total foreign exchange disbursed in May 2003, followed by invisibles (28.6 per cent). Other beneficiary sectors, in a descending order of importance, included: general merchandise, food, transportation and agricultural products (fig.8).

4.3 Foreign Exchange Market Developments

The demand pressure in the Foreign Exchange Market (FEM) intensified in May 2003, as a total of \$725.54 million was sold to end-users through the authorized dealers,

the parallel and the bureaux de change segments of the market, the rates depreciated from ₦138.25 and ₦138.75 per dollar in April 2003 to ₦139.90 and ₦140.31 per dollar, respectively, in May. Overall, the premium between the official and parallel market rates stood at 9.6 percentage points in May, up from 8.5 per cent in April 2003.

4.4 External Reserves*

Nigeria's gross external reserves at end-May, 2003 amounted to \$8,269.57 million, indicating a marginal increase of 0.8 per cent over the preceding month's level. At current foreign exchange commitments, the reserves could finance about 7.0 months of imports.

*** The reserves level for April, 2003 was adjusted from \$9,425.97 to \$8,206.08.**

5.0 OTHER INTERNATIONAL ECONOMIC DEVELOPMENTS

World crude oil output, estimated at 78.10 million barrels per day in May 2003 rose by 0.33 mbd or 0.4 per cent over the preceding month's level of 77.77 mbd, while estimated demand at 78.50 mbd for the month, rose by 0.10 mbd. Overall, total world oil demand exceeded supply by 0.40 mbd, compared with an excess of 1.40 mbd in the preceding month. The rise was attributable largely to the expected rise in the demand for gasoline following the approaching summer season, especially in the United States of America, as well as the traders' anticipation of OPEC's plan to review downward its output ceiling at its June meeting.

Other major international economic developments of relevance to the domestic economy during the month included: a joint Technical Committee set up by both Nigeria and South Africa, aimed at evolving a realistic approach towards actualizing the reform of representation in the Africa Group I Constituency. The committee met in Pretoria, South Africa from 19th - 20th May, 2003 to update and harmonise the main elements of the joint proposal; agreed on the appropriate strategy of achieving the objectives of the joint proposal; and drew up Draft Memorandum of Understanding between Nigeria and South Africa with a view to re-affirming their commitments to the actualisation of the reform of representation in the Africa Group I Constituency.

Finally, The World Bank approved the sum of US\$28 million on 29th April 2003 for the Federal Government of Nigeria to finance the complete eradication of polio in the country by 2005. Nigeria is the first beneficiary of this pilot scheme, in which soft loans to poor countries would be paid off with grants from private foundations. The donors who promised to sustain this World Bank initiative include Bill and Melinda Gates Foundation, Rotary International Club and the United Nations Foundation.

