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### Central Bank of Nigeria Annual Report and Statement of Accounts for the Year Ended 31st December 1965

Central Bank of Nigeria

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CENTRAL BANK OF NIGERIA



ANNUAL REPORT  
AND  
STATEMENT  
OF ACCOUNTS

FOR THE YEAR ENDED  
31st DECEMBER 1965



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NIGERIAN  
DOCUMENTS



# CENTRAL BANK OF NIGERIA



Annual Report  
and  
Statement of Accounts



For the Year Ended  
31st December 1965



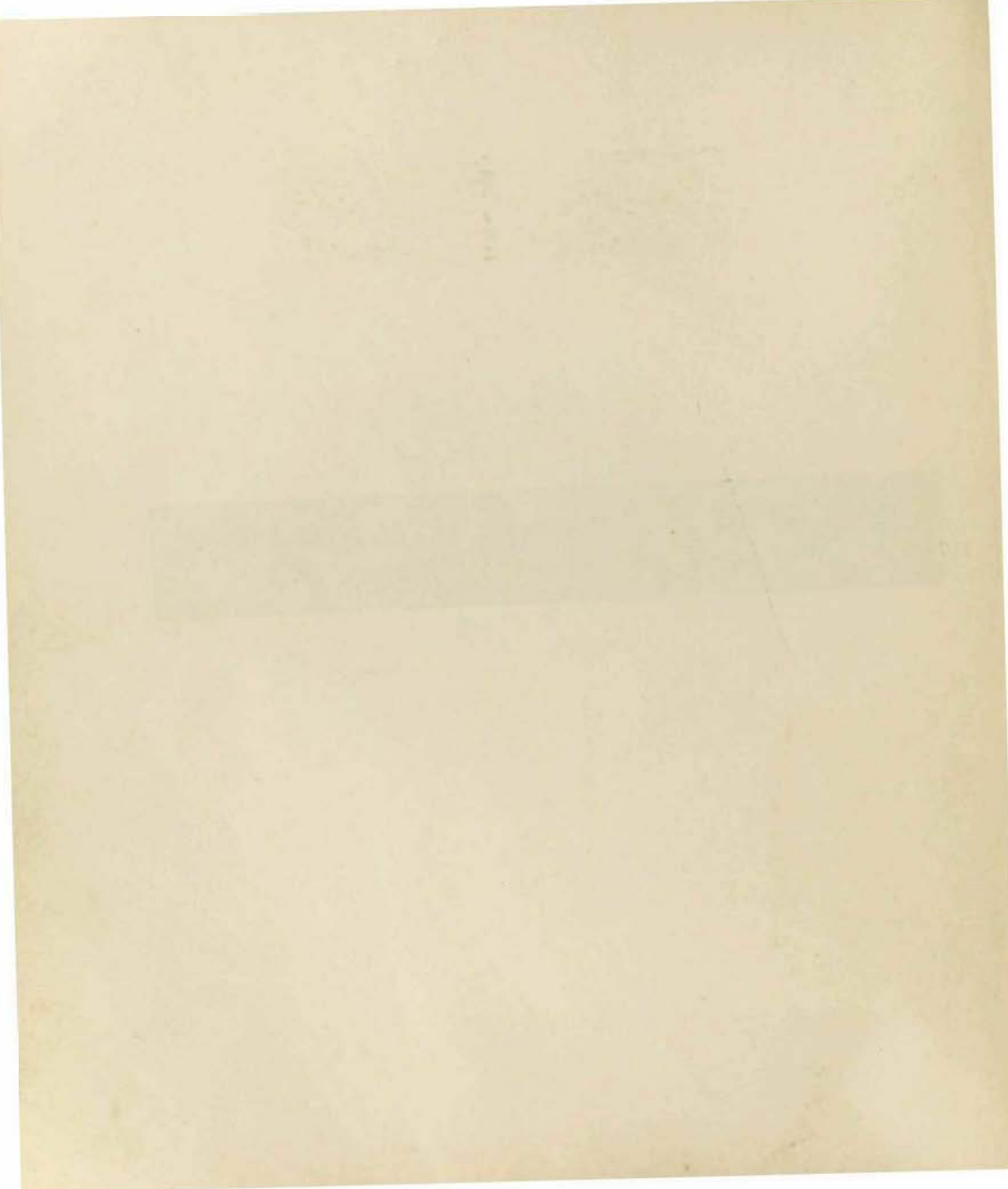


# CENTRAL BANK OF NIGERIA

**BOARD OF DIRECTORS**  
**31st DECEMBER 1965**

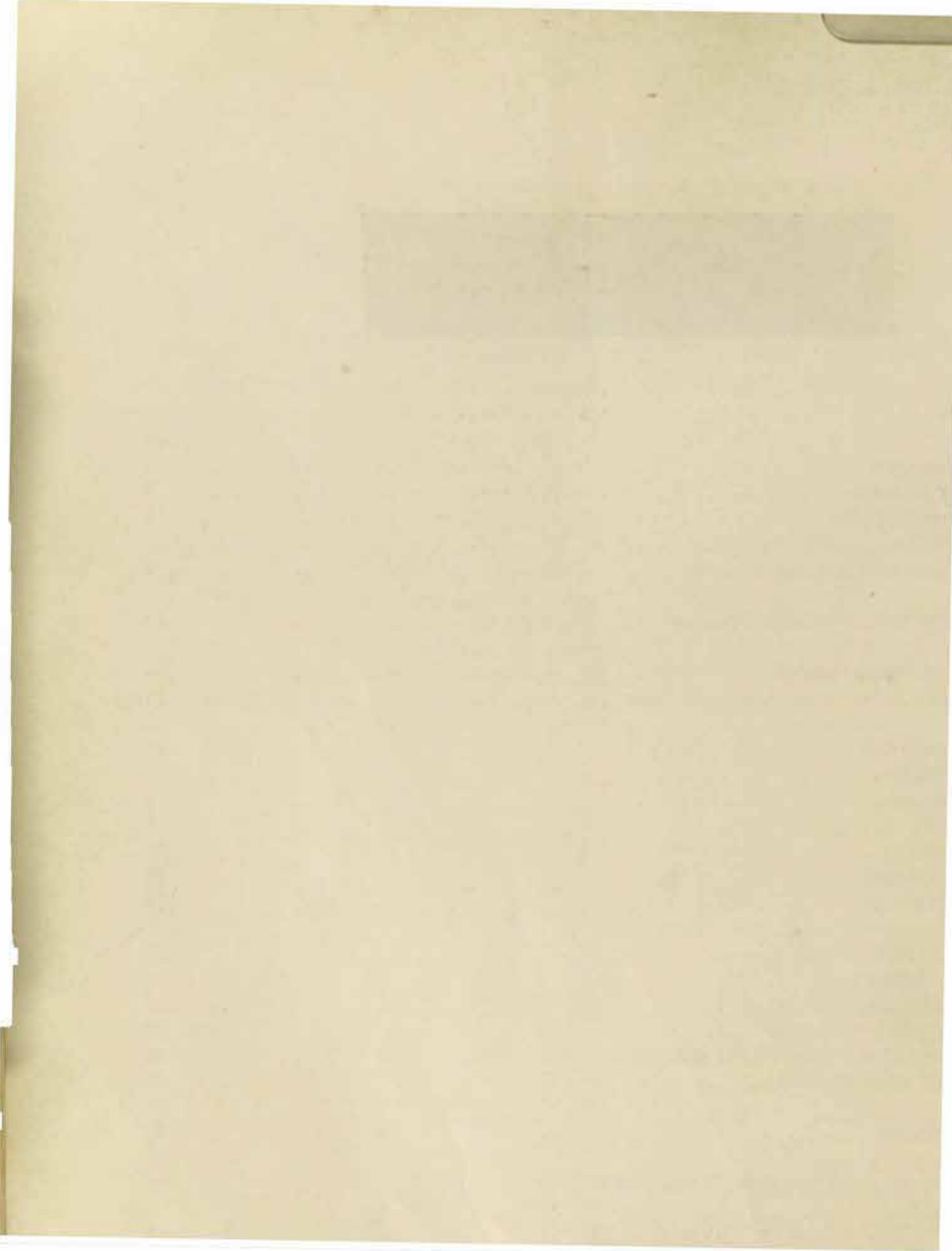
Alhaji Aliyu Mai-Bornu .. .. *Governor*  
Dr A. N. Abai .. .. *Deputy Governor*  
Alhaji Abdu Gusau, o.o.N., M.B.B. *Director*  
Mr E. A. Iyanda .. .. *Director*  
Chief D. N. Nwandu .. .. *Director*  
Chief J. A. Obahor .. .. *Director*  
MaJam Yakubu Wanka, M.O.N... *Director*

**REPORT OF THE BOARD OF DWCTORS FOR  
THE YEAR ENDED 31st DECEMBER 1965**



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## WORLD ECONOMIC SCENE IN 1965

TWO major developments dominated the world's economic scene in 1965. One was the overall slow-down of economic expansion in most industrialized countries. The other was the overall contraction in the rate of growth of world trade and in the flow of international capital.

In countries of the European Economic Community (EEC), the high rate of economic growth of recent years slackened. The problem of labour shortage emerged in 1965 as a serious bottle-neck to continued high rate of economic expansion. Inflationary pressures intensified. In the United Kingdom, pressure from domestic demand produced what has been termed an 'over-heating' of the economy. Stringent measures were taken by the government to reduce the rate of economic expansion to a sustainable level. In Japan, the unprecedented high rate of growth of the post-war years was interrupted as the rate of investment declined. The marginal increase recorded in the growth rate of the industrialized nations was due mainly to the extraordinary strength and duration of the cyclical up-swung of economic activity in the United States.

Most of the trading countries have been concerned in recent years with problems of balance of payments disequilibrium. As a manifestation of this concern, the industrialized countries intensified economic measures designed to achieve internal stability and equilibrium in the balance of payments. These measures included efforts to reduce the rate of economic growth to sustainable levels;

restrictions on the outflow of private capital; a scaling down of official economic assistance to developing countries; a general curtailment of official expenditure overseas, and the intensification of restrictions on imports.

The impact of these measures was a diminished rate of export receipts of the developing countries and a retardation of their economic growth. Their receipts from exports rose by an estimated 5.7 per cent as against an increase of 9.2 per cent in the preceding year. By contrast, the export earnings of the industrial countries advanced by over 11 per cent in 1965, although slightly lower than the 13 per cent in the preceding year.

The modest trade surplus achieved by the developing countries in 1964 was reduced in 1965. This was attributable to the worsening terms of trade of these countries, and the fact that demand for their exports did not keep pace with supply. In 1965, the overall slow-down of economic activity in the industrial countries widened the gap between supply and demand for primary exports, thus reducing further the developing world's share of the benefits of international trade. This was a reversal of the situation in 1964.

The overall trade position of the industrial countries was substantially improved in 1965. The major contribution to this improvement came from the Western European countries and Japan. Except for West Germany whose trade surplus contracted, a generally healthier trade position of the member states led to a considerable reduction in the trade deficit of the E.E.C. The European

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• Excludes the centrally planned economies.

Free Trade Area (EFTA) also reduced their trade deficit. The United Kingdom in particular, with a more rapid increase of exports than imports, improved its trade position during the year. A sustained expansion of exports enabled Japan to increase its trade surplus in 1965. The U.S. trade surplus was reduced as a consequence of an acceleration of imports over exports.

### Balance of Payments

The world's balance of payments picture in 1965 showed some improvement. There was a reduction in the balance of payments deficits of the United Kingdom and the United States. The aggregate surplus in the international payments position of the E.E.C. countries was smaller than in the preceding year; their relative position, however, remained strong. There was a deterioration in Japan's capital account; however, an expanded surplus in the trade and services account brought about an overall favourable balance in the payments position.

Aggregate reserves of the developing countries estimated at \$10.92 billion, represented improvement of \$1.03 billion over 1964. This improvement was due to increased net capital inflow.

The reserves of the industrial countries are estimated to have risen in 1965 despite reserve losses by the U.S., Western Germany and Denmark. The reserves of the U.K. increased in spite of the severe losses in the first half of the year. The reserve position of the E.E.C. continued to be strong, although losses by West Germany reduced the rate of reserve accumulation.

The international means of payments, consisting of official gold holdings, members' I.M.F. positions, and convertible currency holdings, increased at a slower rate in 1965, and amounted to an estimated \$70.06 billion at the end of the year. This compares with \$68.91 billion at the end of 1964. The slower rate of growth of international reserves is attributable to three factors: first, the conversion of dollar holdings into gold by some surplus countries, principally France; secondly, the improvement

recorded in the balance of payments of the key reserve currency countries, the U.S. and the U.K.; and lastly, the expansion in speculative private hoarding of gold following the U.S. balance of payments difficulties, and severe pressures on sterling early in 1965.

### International Liquidity

The efforts of the reserve currency countries, the U.S. and the U.K., to bolster confidence in their currencies by measures directed at the deficits in their balance of payments led to a reduction in the rate of accretion of international liquidity in 1964. The intensification of these measures in 1965 high-lighted the problem of the adequacy of international liquidity. By the close of 1964 however a consensus had been established amongst the Group of Ten that there was need to undertake measures to augment international reserves. The arguments in 1965 were concerned with how best to do this.

The major surplus countries of Western Europe, especially France, argued that the gold exchange key-currency system was outmoded, and should be replaced with an entirely new system pegged to gold or a new reserve unit or both. The control of the new system would be vested in a body like the Bank for International Settlements instead of the International Monetary Fund. The proposal was opposed by the two reserve currency countries, who advocated a reformed system incorporating the essential features of the existing gold exchange standard. They also stressed that reform should take place within the framework of the Fund.

There has been a division of views among the Group of Ten on the most appropriate reform of the international payments system. The division assumed serious proportions in 1965 as views tended to become rigid. To emphasize their point of view on the need to return to some form of gold standard, certain countries, following the example

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• Belgium, Canada, France, Fedcn. Republic of Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States.



of France, started to convert part of their dollar holdings into gold during the year. The impact of this action on world reserves was the contraction already mentioned.

As in previous years, deliberations on the reform of the payments system were confined to the industrialized countries, who tend to regard the issue as their private affair. Prior to the Annual Meeting of the Fund in September, the Group had reached a consensus that the solution to the international liquidity problem was within their sole competence. They also held the view that a rise in international liquidity available to them would indirectly benefit the developing countries through increased trade and capital investments.

Some advocates of reform have in recent years tried to approach the international liquidity problem from the standpoint of the developing countries. While some of their proposals may appear revolutionary, they represent conscious attempts to place the special needs of these countries at the centre of reform. They argue that the problems created by the shortage of international liquidity are not confined to the economically developed countries but also affect the economies of the developing countries.

The 1965 Annual Meeting of the I.M.F. provided another opportunity for the membership of the Fund to express their views on the issue of reform. The overwhelming majority of the membership of the Fund opposed reform that incorporated a return to the gold standard. They emphasized that reform must take place within the framework of the I.M.F., and that future deliberations on the problem should also include countries which are not members of the *Group of Ten*.

The developing countries spoke against the notion that the reform of the international payments system must be the unshared responsibility of the *Group of Ten*. They also stressed the necessity of placing the interest of the economically less developed members at the hub of reform, and the importance of a reform which would enable them to benefit directly from any addition to world reserves.

## Activities of International Institutions

### *The International Bank for Reconstruction and Development (World Bank)*

In 1965, the World Bank continued its efforts to enlarge its own and the I.D.A. resources, particularly for the financing of agricultural and educational projects in developing countries. It transferred \$75 million from its net profits for the financial year ended June, 1965 to the I.D.A., \$25 million more than in 1964. The Charters of the Bank and of the International Finance Corporation (I.F.C.) were amended to enable the latter to borrow from the Bank up to a limit of four times its paid-up capital. Specific proposals for a continuing replenishment of the resources of the I.D.A. were being formulated.

The Bank completed the task of drawing up the Convention for the Settlement of Investment Disputes, which was adopted by the Board of Executive Directors and circulated to members during the year. The Convention comes into force after ratification by twenty member countries." The Bank also reported satisfactory progress in its consideration of an international insurance scheme to guarantee foreign private investments in developing countries against 'non-commercial risks'.

The Bank and the I.D.A. continued their development lending on an increasing scale during the year. The area distribution of such loans during the financial year ended 30th June, 1965, is shown in Table I. In Table 2 is also shown the redistribution of cumulative loans of the World Bank up to 30th September, 1965.

### *The International Monetary Fund (IMF)*

Pressure on the resources of the International Monetary Fund intensified in 1965. The U.S. and the U.K. drew heavily on the Fund during the year in order to shore-up their balance of payments; in the case of the U.S., there was the additional need to correct its technical position with the Fund. As a consequence of these and other drawings, the Fund activated the General Arrangements to

- Nigeria ratified the Convention during the year.



TABLE 1  
WORLD BANK AND I.D.A. LOANS: 1964-65

Area Distribution in \$ Million (U.S.)

Area	World Bank Cr'd 11	Pr ctn /	IDA Credit	Pr ctn,	Total World Bani and /DA Cr,dit	Pr ctn/
Africa .. .. .	123.0	12.0	62.3	20.2	185.3	13.9
Asia and Middle East .. .. .	395.5	38.6	189.3	61.2	584.8	43.9
Australasia .. .. .						
Europe .. .. .	292.5	28.6	39.0	12.6	331.5	24.9
Latin America .. .. .	212.3	20.8	18.5	6.0	230.8	17.1
TOTAL .. .. .	1,023.3	100.0	309.1	100.0	1,332.4	100.0

Source: World Bank

TABLE 2  
WORLD BANK LOANS  
Area Distribution in \$ Million (U.S.)  
30th September, 1965 (Cumulative)

Area	Effjute World Bank Credit	Per cent	Disburud World Bank Credit	Prctnt
Africa .. .. .	437.5	7.4	265.1	6.8
Asia and Middle East .. .. .	2,388.2	40.4	1,504.7	38.3
Australasia .. .. .	227.9	3.9	207.1	5.3
Europe .. .. .	1,185.0	20.1	775.0	19.7
Latin America .. .. .	1,667.7	28.2	1,171.7	29.9
TOTAL .. .. .	5,906.3	100.0	3,923.6	100.0

Source: World Bank

Borro" to the extent of \$930 million in eight currencies-\$405 million in December 1964, and \$525 million in May, 1965. The Fund's Board of Executive Directors approved a four-year extension of this arrangement, dating from October, 1966.

Another development in the Fund was the continuation by six months to March, 1966 of the date by "rich member countries should consent to the quinquennial general quota increases. Studies were

- This is a stand-by arrangement which enables the Fund to supplement its resources by borrowing from a number of industrialized countries.

also reported to be in process to determine the possibility of re-shaping the compensatory financing scheme against fluctuations in export prices of primary commodities with the objective of liberalizing the scheme to meet the criticisms of the developing member countries.

The Annual Meetings of the Fund, and the World Bank and its affiliates, which took place in Washington in September, were dominated by the subject of international liquidity, the structure of the international payments system, and the pro-

blems of development assistance. An important development which took place during these meetings was the formal launching of the African Group, which aims at focusing the attention of the Fund and the Bank upon the problems of the African members.

#### *United Nations Conference On Trade and Development (UNCTAD)*

The United Nations Trade and Development Board, the permanent organ of the UNCTAD, held two meetings in New York and Geneva in 1965. During these meetings, various committees and working groups were set up on several subjects, such as commodities, manufactures and shipping. At the meeting held in October, Geneva was chosen as the permanent headquarters of the Board.

#### **Nigeria's External Economic Relations**

During the year, Nigeria continued to maintain cordial trade relations with most of her trading partners. In addition, steps were taken to widen her export markets.

In the area of export promotion, Nigeria took part in a number of international trade fairs. She also signed a trade agreement with Mali; other agreements were under negotiation. A major effort in export promotion was the conclusion of negotiations for special trade relationship with the European Economic Community. The agreement, which is yet to be approved by the governments of the negotiating parties, provides for duty-free entry of Nigeria's primary commodity exports into the Community. Modifications to the duty-free entry concession have, however, been agreed in the

case of groundnuts, plywood, cocoa and palm-oil. These products, above a given quota, are to be subjected to customs tariffs. In return, Nigeria has agreed to accord the Community **tariff** concessions on a variety of manufactured goods.

Following persistent and growing unfavourable trade balance with Japan, the government, in August, took measures to restrict certain imports from that country in a bid to correct the trade imbalance. It is hoped that the measures adopted by the government to improve the position will be temporary, and that a more appropriate way of tackling the problem will be found.

Intra-African trade still forms only a small proportion of the continent's total trade. Although this is understandable at the present stage of economic development of the continent, it is desirable that as circumstances change, conscious efforts be made to promote trade among African countries. The need to stimulate and enlarge intra-African trade has been discussed at various conferences and on various levels by African governments. These discussions have extended to the possibility of establishing a Clearing and Payments Union in Africa. The establishment of such institutions of co-operation presents formidable problems. But if intra-African trade is to develop, it will be necessary to pursue the establishment of institutional arrangements which would make for, and facilitate economic co-operation and commercial relations. Nigeria was active during the year in the rounds of discussions which took place under the aegis of the United Nations Economic Commission for Africa for the promotion of this objective.

## REVIEW OF MONETARY AND FISCAL POLICIES

The Nigerian economy has experienced continuous pressures on its balance of payments in the past ten years. It was not, however, until 1963, in the second year of the current National Development Plan, and with external reserves at very low levels, that these pressures became very serious. By the beginning of the fourth quarter of 1964, and under the stimulus of rising wages, accelerated government deficit financing, and expanding credit to the private sector, a balance of payments crisis was no longer a potential, but real threat. Aggregate bank credit, which had increased only moderately in the preceding three quarters, rose very sharply; money supply was on the rise; Nigeria's trade imbalance at £8.3 million at the end of the second quarter, deteriorated further to £21.4 million at the end of September, and the country's external reserves fell to £83.9 million from the £98.0 million at the beginning of 1964. Intensification of expansionary forces in the fourth quarter of 1964 only accentuated the balance of payments problems, and called for action to arrest the situation. It was in this circumstance that the monetary and fiscal measures of late 1964 were instituted. The objective was to restrain consumer demand in an effort to contain balance of payments difficulties.

**f** In the sphere of fiscal policy, the federal government in August 1964 imposed higher customs tariffs on a wide range of imports. It also announced a drive to curtail government expenditures. In addition, the Central Bank undertook complementary monetary measures. But it was recognized

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• Revised.

that under the Nigerian conditions of relatively undeveloped money and capital markets, the effectiveness of monetary policy on aggregate liquidity was limited.

In October 1964, the commercial banks were requested to place a fifteen per cent limit on the rate of expansion of aggregate advances, and specifically to exercise restraint in the granting of loans and advances for financing consumption expenditures. Effective from November, reduction was made in the proportion of commercial bank liquid assets held overseas which would count as part of specified liquid assets for satisfying the liquidity ratio requirement. In December the Central Bank adjusted upwards its sterling selling rate, and the Minimum Rediscount Rate. The commercial banks took the cue and also adjusted their lending rates upwards. Interest rates paid on savings and time deposit accounts were also raised to encourage saving.

Since some of the measures were implemented in the last quarter of 1964, it was generally recognized that their full impact, if any, would be felt only later in 1965. As reserves at the end of 1964 aggregated only £81.2 million, and as there was no prospect of a sudden improvement in the external position, it was decided early in 1965 that the monetary measures be maintained until a change of policy was demonstrably justified.

Developments in the first quarter of 1965 continued to be very disquieting. Although there was a reduction in the level of credit to the private sector, the banking system's credit to the public

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• Revised.



sector increased, moderating the contractive impact of private sector credit on money supply. Revised and final statistics for 1964 revealed a larger deficit than was anticipated in the current account of the balance of payments. Trade statistics for the quarter showed that imports, fed by the heavy merchandise inventory build-up which started in the latter months of 1964 and continued into 1965, had risen further. The result was a larger unfavourable balance on the trade account than in the corresponding periods of the preceding three years. The commercial banks, in the meantime, had started to liquidate their external liabilities from the out-set of 1965. The federal government, in providing interim finance for part of the off-shore costs of the Niger Dam project, and other external expenditures, was also remitting larger amounts abroad than in the first quarter of 1964. By the close of the first quarter of 1965, therefore, the Central Bank had lost £16.6 million in its external reserve holdings on account of remittances by banks and government. This compares with a loss of £6.4 million in the first quarter of 1964.

At the end of March 1965, Nigeria's external assets aggregated £75.2 million compared with nearly £81.3 million at the close of 1964. This situation suggested the need for a continuation of Central Bank policy of credit restraint. The Central Bank also continued to draw the attention of government to the persisting threat of a crisis in the balance of payments, and advised the adoption of appropriate fiscal measures to effect improvement.

In the April 1965 Budget, fiscal measures aimed at a variety of objectives were announced. These included measures of protection for domestic industries, the granting of incentives to attract further investment in the private sector, and the raising of Customs and Excise taxes to raise additional revenue. These measures, although not specifically addressed to the balance of payments problem, had balance of payments overtones.

By the middle of the second quarter of 1965, statistical evidence indicated that the various measures were beginning to have the desired effect. The trade balance had swung into surplus

in May. The net external position of commercial banks, after recording net liabilities for seven consecutive months, also moved into surplus. Aggregate external reserves were rising, and commercial bank aggregate advances to the private sector, on a seasonally adjusted basis, were below the level permissible under the fifteen per cent guide-line. The overall picture of Nigeria's external position continued to show improvement. But after June, the favourable trade gap started to narrow, falling from £6.7 million at the end of June to £0.3 million at the end of July. The Central Bank called the attention of the Central Bank Advisory Committee to this development in August.

On its own part, the government had continued to show concern about the country's trade position with particular countries. For example, efforts to curb importation from Japan in 1964 proved abortive; a larger volume of imports than in 1963 actually materialized. This meant an unfavourable trade balance against Nigeria in her trade with Japan of nearly £28.2 million in 1964 compared with £24.6 million in 1963. Trade with the U.S.A., in surplus in recent years, also turned into deficit.

In order to counter further deterioration in the external position, the government, in August 1965, set up an *Official Committee on Balance of Payment!* to study the problems of the balance of payments, and to make recommendations. On the basis of an interim recommendation by the Committee, the federal government on 24th August, 1965, announced drastic measures to arrest a further deterioration in the balance of payments. The measures included (1) imposition of higher custom's tariffs ranging from 3½ to 150 per cent *ad valorem* on non-essential imports; (2) a prohibition of prepayment to overseas customers for imports; (3) a ban on all categories of imports from Japan, except textiles; (4) restoration of restriction of imports from Hong Kong; (5) a requirement that all imports be covered by letters of credit opened by banks operating in Nigeria, copies of which were to be transmitted to the Board of Customs and Excise: imports not so covered were to be refused entry-this requirement was later modified

to apply only to Japan, and (6) a requirement that crude petroleum exporting companies supply more information on their exports than hitherto. In order to off-set part of the adverse effects of these measures on government revenue from import duties, higher excise duties were placed on certain domestic manufactures, and the general base of excise taxes was further broadened.

The main task of the Central Bank in the year was the administration of the measures already in force. The commercial banks were given every encouragement to re-channel advances, within the fifteen per cent guideline, from the less essential, to the productive sectors, including primary exports. At the same time, the Bank discouraged commercial banks from borrowing short overseas to finance requirements in the private sector that required long-term capital. The Bank's objective was to get inadequately capitalized businesses in the private sector to improve their capital positions through genuine capital import. In cases where banks desired additional resources from abroad, and rediscount facilities at the Central Bank, it was stressed that the additional resources were not to be employed in sectors or for purposes contrary to the Bank's policy of restraint on consumer spending.

X The aim of these monetary and fiscal measures was essentially to curtail the rate of expansion of aggregate consumer demand, thus to raise the level of domestic savings and to conserve external reserves. The effectiveness of these measures should be evaluated in terms of their impact on commercial bank operations, consumer demand, and on aggregate savings.

It is, however, necessary, before any realistic evaluation of the policy impact, to isolate developments which, although contributing to the realization of the objectives of policy, were not themselves a consequence of the policy. For example, the rapid growth of petroleum export, and the substantial increase in the value of traditional exports, which were primarily responsible for reducing the trade imbalance, were not a result of the policy measures. The continued high level of private capital inflow, and the larger aggregate receipts

on official capital account, both of which contributed to the improvement in the balance of payments, were not entirely due to the measures taken.

The impact of the monetary and fiscal measures can now be placed in its proper perspective. Provisional trade data show that there was a decline in the rate of importation of consumer goods for most of the year. Although consumer imports have not declined in absolute terms, the rate of increase appears to have fallen in 1965: consumer imports constituted about 44 per cent of total imports in 1965 as against about 53.5 and 46.2 per cent in 1963 and 1964, respectively.

Apart from policy actions that were directed against this category of imports, other influences were also present, for example, the growth of import substitution, and the significant inventory build-up during the last quarter of 1964. Overall, the deceleration in the rate of consumer imports was contributory to the improvement in the external position.

Total commercial bank credit outstanding at the end of 1965 increased by 8.4 per cent to £138.2 million as against 37.5 per cent increase at the end of 1964. The share of this credit by the private sector increased in absolute terms in 1965 but at a more reduced rate than in 1964; that by the public sector declined from the 1964 level by as much as 26.3 per cent.

The moderation in commercial bank lending to the private sector is also reflected in the substantial increase of their domestically held liquid assets, the monthly average of which was £24.9 million for the first eleven months of 1965 compared with £20 million for the same period of 1964.

With respect to the request to restrain the granting of loans and advances for financing consumption expenditures, commercial bank aggregate credit to financial institutions declined persistently throughout the year, whereas credit to miscellaneous borrowers increased, but at a reduced rate.

\* For a fuller discussion of the balance of payments, see page 52 ff.

† Defined here as vault cash, balances with the Central Bank, net domestic inter-bank balances, money market and treasury bills.



The sizeable build-up of banking assets abroad (monthly average of £23.1 million in 1965 and £18.2 million in 1964) and, the appreciable reduction of commercial bank indebtedness to overseas banks, might have been a result of the measures of credit restraint. Of the total resources of £22 million available to the banks from the end of 1964 to 30th November, 1965, about 63 per cent was employed overseas either in the reduction of liabilities or in the expansion of assets.

The net effect of the credit restraint measures on money supply was an increase of 3.1 per cent in 1965 compared with 16.0 per cent in 1964.

An indication of the contractive effect of the monetary and fiscal measures on demand is the accelerated growth in aggregate private voluntary savings over the year. Time and savings deposits with commercial banks increased by 23.2 per cent compared with 21.4 per cent in 1964, and an average of about 17.3 per cent in the preceding two years. Saving is a function of income, and the rise in incomes in the last two years might have contributed to the rapid increase in savings. It is possible that the measures pursued in 1965 had some effect on consumer demand; it is, however, not possible at present to determine this effect quantitatively.

Domestic price behaviour may also be considered in the evaluation of the impact of the policies of the Central Bank, and of the government. The government has always considered price stability as part and parcel of its economic policy. Generally speaking, this goal has so far been realized. The annual price increase in the three years to 1964 averaged a little over 2 per cent. Indications are that the rate of increase in 1965 over 1964 was about 4 per cent. It should be pointed out, however, that the achievement of the relatively slow increase in prices prior to 1965 has been at the expense of external equilibrium.

The Bank's experience has clearly demonstrated the difficulty of administering a policy of credit restraint in the face of expanding government budget deficits. For while the Bank was endeavouring to restrain credit in the private sector, credit to the public sector, in its potentially inflationary form, was on the increase. In fact credit operations in the government sector provided one of the major expansionary impulses on money supply in most of 1965.

The financial pressures experienced by the government in recent years call for a re-examination of the pattern of government expenditures and revenue sources. Such exercise could well include a thorough reappraisal of the forms of public sector projects undertaken and a re-evaluation of government participation in private sector investments—the object being the restriction of participation to those investments which are basic to economic growth. In order to buoy up government revenue, the exercise might also incorporate a general review of tax incentives and other forms of financial subsidies granted to businesses, as well as the entire system of tax administration. These and other measures are necessary in order to achieve the much desired domestic and external equilibrium.

In the years ahead, perhaps more than ever before, there will be a greater need for understanding and co-operation between the Central Bank and the Government in the area of policy for achieving stable conditions in the economy. Until the financial structure permits of an effective operation of traditional central bank tools of credit control, fiscal measures remain the primary means of achieving economic stability. However, the Central Bank intends, for the foreseeable future, to maintain its policy of selective credit control in favour of the productive sectors of the economy. This is the policy which appears to accord with the objectives of the National Development Plan.

## DEVELOPMENTS IN THE ECONOMY

The relatively high rate of activity which characterized the Nigerian economy in 1964 was generally maintained in 1965. The Gross Domestic Product (G.D.P.) at 1957 prices is estimated to have grown by more than five per cent during the year to £1,237 million. This rate of growth was estimated on the basis of an apparent accelerated rate of investment in both the public and private sectors. Overall, the economy in 1965 made encouraging gains in all sectors.

Agriculture, in terms of its contribution to the G.D.P., remained the dominant sector. Although the average world prices of Nigeria's major exports declined in the 1964-65 crop season, domestic producer prices were fixed slightly above the average of the preceding crop season. Because of this, and the fact that output rose during the year, producers' aggregate income was 13.8 per cent higher than in the preceding crop season (See Table 3). The year also witnessed determined efforts to raise the processed primary commodity proportion of total exports. The output of foods for local consumption is also estimated to have risen further during the year.

The mining sector of the economy recorded the most notable gain in 1965. Although the output of all industries in this sector rose, the most significant achievement was made by the petroleum industry. The average daily rate of crude oil production was 274.2 thousand barrels—127.4 per cent more than in 1964.

In the manufacturing sector, a high level of activity was maintained throughout the year. Expansion continued in the textile industry, giving

rise to some fear of over-production in some lines. The process of import substitution continued, and Nigeria's requirement for cement, plastic goods, tobacco products, rubber goods, textiles, pharmaceuticals, footwear, glass, beer and soft drinks, etc., was increasingly being met from domestic production. A number of large industrial plants, including a steel fabricating plant in Lagos, a match manufacturing plant at Ilorin, and an oil refinery at Port Harcourt, came into operation during the year. It is estimated that manufacturing output increased by more than 100 per cent since 1962. Foreign investors continued to explore and exploit investment opportunities during the year. Problems in the decision-making process, however, continued to beleaguer the establishment of basic industries like iron and steel, gas and fertilizer.

Progress continued in the production of fuel and power for the use of a growing list of industries and other consumers. Installed electricity generating capacity, and actual power output increased further in 1965.

There was revival of construction activity especially in the public sector. Work accelerated on important public projects as the Niger dam and roads and bridges. In the private sector residential and factory construction also accelerated. By contrast, the lull in commercial construction continued.

The recovery in commercial activity, which started in 1963, continued through 1965. The concerted efforts of the Central Bank and the government to control consumer demand in order to protect the balance of payments seemed to have had a measure



of success in holding down the rate of growth of demand. The money supply expanded at a slower rate than in 1964. The rate of private saving increased, and the rate of increase of importation fell. With a higher level of exports than in 1964, and a substantial inflow of private foreign investment, Nigeria recorded a balance of payments surplus for the first time in ten years.

It should, however, be stated that despite increased employment during 1965, growing unemployment remained a pressing problem.

### **Agriculture**

The agricultural sector, which includes livestock, fishing and forestry, is estimated to have accounted for 63 per cent of the total G.D.P. in 1965, as against 65 per cent in 1960. On the income side, an estimated 70 per cent of Nigeria's receipts from exports in 1965 was derived from agriculture compared with 94 per cent in 1960. Total output of agriculture increased by only 3 per cent during the year. But for the disappointing performance in the agricultural sector, the growth rate of the G.D.P. would have been higher than was in fact achieved during the year.

### **Cocoa**

Cocoa production in the 1964-65 season was a record—294 thousand tons, representing a 36 per cent increase over the preceding season. With producer prices averaging £116 per ton as against £106 in 1963-64, incomes of cocoa farmers rose 49 per cent to £34 million—the highest in recent years.

Receipts from exports were, however, disappointing. Nigeria realized only £42.5 million for 295.6 thousand tons of cocoa exported. This represents about 6 per cent increase over export receipts in 1964, and contrasts with a 45 per cent expansion in the quantum of exports. At the monthly average price of £181.2 in 1964, cocoa export receipts would have totalled about £51.9 million in 1965. This disappointing result was attributed to the drastic fall in cocoa prices. The Cocoa Producers' Alliance had withheld cocoa from the world market as from October 1964 in the

expectation of achieving better prices. As early as January 1965, however, the Alliance had realized that their decision could no longer be maintained, and the embargo on sales was lifted in February. With the removal of the embargo, world cocoa prices fell steadily for most of the year, averaging £130.6 per ton in 1965 compared with £181.2 in 1964.

Following the withdrawal of cocoa from the market, the Western Nigeria Marketing Board was unable to obtain marketing finance from the cocoa financing consortium of banks and acceptance houses. The Central Bank, therefore, advanced a total of £14.4 million to the Board. In 1965, the Federal Government made an additional loan of £10.5 million to the Board. This brought total advances to the Board from both the Central Bank and the Federal Government during the 1964-65 crop season to £24.9 million

With the Marketing Board's resumption of cocoa shipment to the world market, the cocoa financing consortium offered to resume normal financing of cocoa marketing. For the 1965-66 season, therefore, there was a reversion to the former bill financing scheme. The producer prices of cocoa were reduced by more than 47 per cent for the 1965-66 crop season, which commenced in November 1965.

The long-term outlook for world cocoa prices is not bright. Although both spot and future prices recovered substantially in the last quarter of 1965, indications are that the growth rate of cocoa production will continue to outstrip that of consumption. The problem created by over-production and consequent over-supply to the world market remains a serious one for producing countries. One of the possible ways of tackling this problem lies in the evolution of some international arrangements which would limit the supplies of cocoa that reach the world market, and guarantee a reasonable minimum price.

### **Groundnuts**

The output of groundnuts dropped by as much as 14 per cent to 679 thousand tons in the 1964-65 season as a result of damage to the crop by the



unusually heavy rains in 1964. Consequently, the incomes of groundnut farmers fell from £30.9 million in the 1963-64 season to about £28 million in 1964-65. Groundnut exports declined by about 6 per cent to 511.5 thousand tons in 1965. An improvement in groundnut world prices, therefore, meant higher groundnut export receipts—£37.8 million compared with £34.3 million in 1964. A bumper crop is forecast for the 1965-66 season; and with generally enlarged supplies of other vegetable oil seeds in the world, it is not expected that the level of groundnut export prices in 1965 will be maintained in 1966.

#### *Cotton*

Domestic production of seed cotton in the 1964-65 season totalled 131 thousand tons compared with 129 thousand in 1964, adding £0.3 million more to the income of cotton farmers. Receipts from cotton exports amounted to £3.3 million compared with £6.1 million for 1964. The drastic decline in cotton export receipts in 1965 is explained primarily by the substantial growth of domestic consumption, and secondarily by lower world prices.

The world price of cottonlint was slightly lower than in 1964, mainly because of improved yields and the uncertainty about the cotton policy of the United States Government for the 1965-66 season. Consumers were cautious in their inventory policies, and restricted purchases to immediate requirements. This led to a weakening in world cottonlint prices.

#### *Palm Produce*

Substantial increases were also recorded in the output of palm-kernels and palm-oil. Despite slightly lower average producer prices, the combined income of oil-palm farmers rose to £18.5 million from £16.7 million in 1964.

In Tables 3 and 4 and Chart I are shown the agricultural output and estimated incomes of farmer groups, the direction of Nigeria's primary exports, and commodity price movements, respectively.

#### *Non-export Agriculture*

The importance of foreign exchange in the financing of Nigeria's international transactions has understandably focused the country's attention almost exclusively on the export sector of agriculture. As a result, the great strides made in the area of agriculture which feeds the population go almost unnoticed. For example, it is hardly recognized that Nigeria is almost self-sufficient in poultry products and fresh fruits. Although modern abattoirs are not widely distributed, steady progress is taking place in meat processing. Increasing quantities of vegetables, potatoes, yams, etc., continue to reach the market. The beneficial effects of this on the cost of living of the low income workers should not be underestimated.

The future agricultural policy of government should include active encouragement of agricultural industries, and every incentive should be given to deserving entrepreneurs in this sphere. Apart from the welcome effects of expanding agricultural production for local consumption on the cost of living, it is possible that the products of agricultural industries, in addition to halting the continued importation of the foods which Nigeria can and does produce, can expand the scope of Nigeria's exports.

#### *Mining*

Substantial gains were made in the output of Nigeria's major minerals during the year. The production of crude petroleum and associated gas more than doubled. The production of the other minerals, especially limestone and columbite, was also considerably higher than in 1964. (See Table 5).

#### *Petroleum*

Crude petroleum production in 1965 amounted to 100.1 million barrels compared with 44.0 million barrels in 1964. The large increase in production during the year was due mainly to three factors: first, the completion during the first half of the year, of the trans-Niger oil pipeline which made it possible for the oil-fields in Mid-Western Nigeria to be brought into full production; secondly, the commencement of commercial production of crude

TABLE 3

## PRODUCTION OF PRINCIPAL AGRICULTURAL COMMODITIES AND ESTIMATED PRODUCER INCOMES

(1959-60 to 1964-65)

Commodity	Production* (Thousand Tons)						Producer Prices† (£'s per ton)						Producer Incomes (£'s millions)					
	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65
Cocoa .. .. .	149	186	191	176	216	294	156	108	96	101	106	116	23.2	20.1	18.3	17.8	22.9	34.1
Seed Cotton .. .. .	89	151	85	146	129	131	56	55	48	42	44	46	5.0	8.3	4.1	6.1	5.7	6.0
Groundnuts .. .. .	446	619	688	872	787	679	44	45	42	39	39	41	19.6	27.9	28.8	33.9	30.9	28.0
Benniseed .. .. .	21	28	21	22	20	24	40	45	45	45	45	46	0.8	1.3	0.9	1.0	0.9	1.1
Soyabean .. .. .	4	14	15	27	11	19	20	26	26	22	23	23	0.1	0.4	0.4	0.6	0.3	0.4
Palm-Oil‡ .. .. .	190	173	129	149	148	162	46	46	39	39	40	40	8.7	8.0	5.0	5.8	5.9	6.5
Palm-Kernel‡ .. .. .	423	430	362	414	401	443	29	29	25	25	27	27	12.3	12.5	9.1	10.3	10.8	12.0
TOTAL .. .. .	1,322	1,601	1,491	1,806	1,712	1,754	—	—	—	—	—	—	59.7	78.5	66.7	75.5	77.4	88.1

\* As measured by marketing board purchases.

† Weighted averages of prices for the different grades in the various regions net of produce tax and rounded to the nearest pound; transport and other expenses have not been deducted.

‡ The season for palm-oil and kernels coincides with calendar year; data begin with 1960.

Source: Compiled from Nigerian Produce Marketing Company Ltd. (N.P.M.C.) returns.

TABLE 4

## DIRECTION OF EXPORT SALES JANUARY-DECEMBER

(£'s thousands)

Year and Commodity	U.K.		E.E.C.		U.S.A.		Optional Ports		E. Europe		Others		Total
	Value	Per cent	Value	Per cent	Value	Per cent	Value	Per cent	Value	Per cent	Value	Per cent	
1963													
Cocoa .. ..	5,677	18.1	10,146	32.3	3,898	12.4	1,112	3.5	418	1.3	10,180	32.3	31,431
Groundnuts .. ..	6,731	18.0	19,748	52.8	—	—	6,636	17.7	361	1.0	3,911	10.5	37,387
Cottonlint .. ..	2,857	22.8	4,290	34.3	—	—	2,887	23.1	—	—	2,471	19.7	12,505
Benniseed .. ..	—	—	757	53.2	—	—	—	—	—	—	665	46.8	1,422
Soyabeans .. ..	976	83.6	—	—	—	—	147	12.6	37	3.2	7	0.6	1,167
Palm-Oil .. ..	4,217	54.1	2,229	28.6	170	2.2	83	1.1	69	0.9	1,025	13.2	7,793
Palm-Kernels .. ..	7,285	40.9	7,869	44.2	—	—	830	4.7	469	2.6	1,358	7.6	17,811
TOTAL .. ..	27,743	25.3	45,039	41.1	4,068	3.7	11,695	10.7	1,354	1.2	19,617	17.9	109,516
1964													
Cocoa .. ..	8,684	26.3	13,060	39.5	4,087	12.4	—	—	3,910	11.8	3,333	10.1	33,074
Groundnuts .. ..	5,175	13.1	12,904	32.7	—	—	9,976	25.3	1,617	4.1	9,829	24.9	39,501
Cottonlint .. ..	744	9.4	2,903	36.6	—	—	2,127	26.8	245	3.0	1,910	24.1	7,929
Benniseed .. ..	—	—	158	8.8	—	—	443	24.8	—	—	1,186	66.4	1,787
Soyabeans .. ..	230	86.4	36	13.4	—	—	—	—	—	—	—	—	266
Palm-Oil .. ..	4,968	34.0	3,003	20.5	—	—	2,224	15.2	114	0.8	4,313	29.5	14,622
Palm-Kernels .. ..	8,088	33.5	9,632	39.9	—	—	2,970	12.3	839	3.5	2,613	10.8	24,142
TOTAL .. ..	27,889	23.0	41,696	34.4	4,087	3.4	17,740	14.6	6,725	5.5	23,184	19.1	121,321
1965													
Cocoa .. ..	8,364	18.4	16,594	36.4	15,889	34.9	—	—	699	1.5	4,016	8.8	45,562
Groundnuts .. ..	1,502	4.4	18,032	52.6	—	—	6,750	19.7	668	1.9	7,361	21.5	34,313
Cottonlint .. ..	711	11.8	2,418	40.2	—	—	574	9.5	754	12.5	1,557	25.9	6,014
Benniseed .. ..	—	—	1,025	52.0	—	—	707	35.8	—	—	241	12.2	1,973
Soyabeans .. ..	613	75.9	—	—	—	—	112	13.9	83	10.3	—	—	808
Palm-Oil .. ..	4,673	49.3	3,627	38.3	—	—	19	0.2	—	—	1,155	12.2	9,474
Palm-Kernels .. ..	8,178	37.3	10,282	46.9	—	—	678	3.1	979	4.5	1,791	8.2	21,908
TOTAL .. ..	24,041	20.0	51,978	43.3	15,889	13.2	8,840	7.4	3,183	2.7	16,121	13.4	120,052

Note: The bulk of optional ports sales are usually destined for the E.E.C. countries and North-Western Europe.

Source: Compiled from N.P.M.C. returns.

CHART I  
 AVERAGE WEEKLY PRICES OF PRIMARY COMMODITIES IN LONDON  
 (C.I.F.)

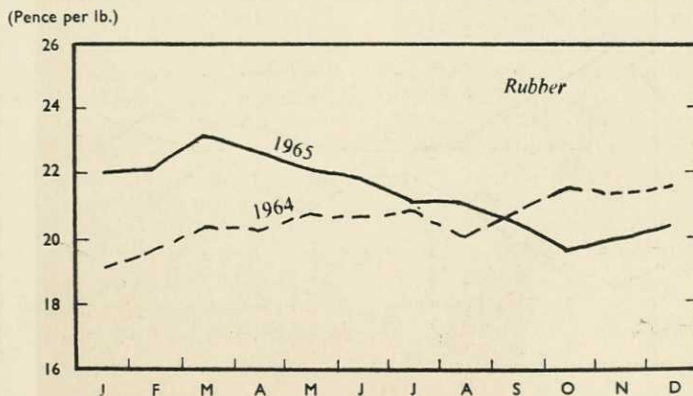
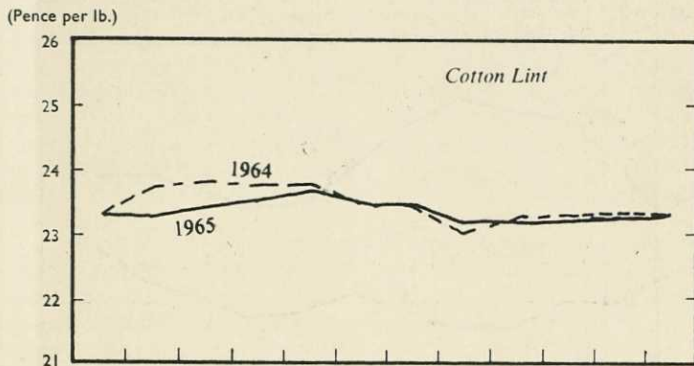
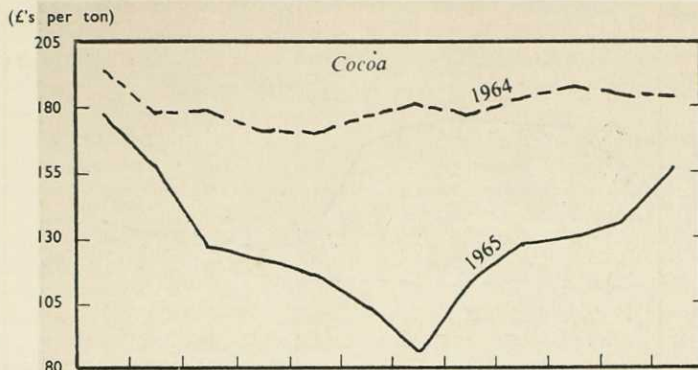
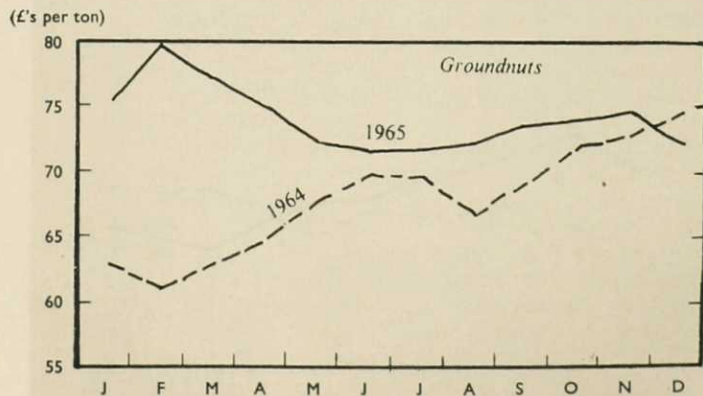
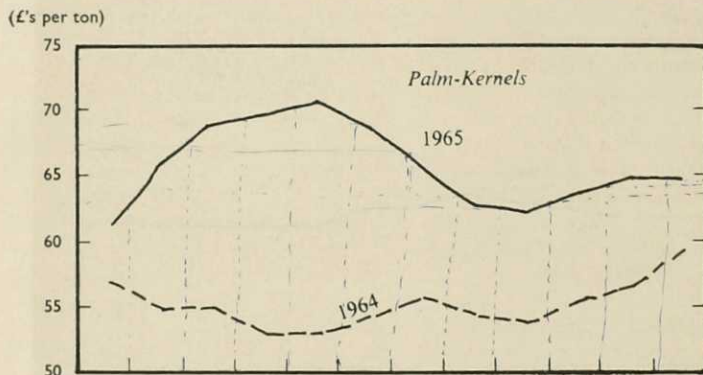
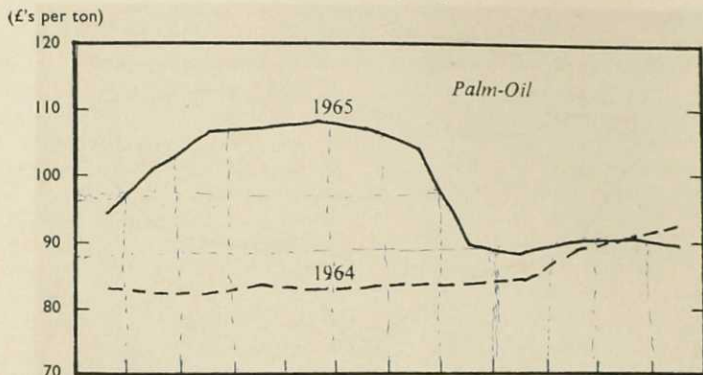




CHART I (Cont'd)  
 AVERAGE WEEKLY PRICES OF PRIMARY COMMODITIES IN LONDON  
 (C.I.F.)



oil by Nigerian Gulf Oil Company in March; and thirdly, the completion of the dredging of the Bonny Bar, which makes the Bonny terminal accessible to 50,000-ton tankers. At the current level of production, Nigeria has become an important oil producing country in Africa. Nevertheless, she still accounts for only about 0.9 per cent of world crude petroleum output.

Further exploration and test drillings for new oil deposits continued during the year. By June the country's oil industry had fourteen drilling rigs in operation compared with six rigs eighteen months earlier. Six oil prospecting licences, one oil mining lease and one oil exploration licence were granted by the government to various oil companies during the year. The arrival of Philips Petroleum Company brought to eight the number of companies in Nigeria's oil industry. Two oil discoveries, estimated to have a potential of 5,100 barrels of crude per day, were made during the year in the Brass River area of the Niger Delta.

The construction of the petroleum refinery at Alesa Eleme near Port Harcourt was completed during the year. After a period of successful test runs, the refinery went on stream in November.

#### *Natural Gas*

Although deposits of unassociated gas have been discovered in some parts of the country, the production of natural gas has so far been limited to gas associated with crude oil. Like crude petroleum, therefore, gas production also increased substantially during the year—a total of 93,344 million standard cubic feet (s.c.f.) compared with 36,333 million s.c.f. in 1964. Sales in 1965 were, however, a little over four per cent of total production.

#### *Cassiterite and Tin Metal*

Nigeria's output of cassiterite and tin metal increased in 1965 over the levels of the preceding year. Cassiterite production, at 12,885 tons for the year compared with 11,788 tons in 1964, was 10.2 per cent higher than the average output of the previous three years. Tin metal output increased in 1965 mainly in response to sustained high prices in the world market.

After some significant reverses early in the year, tin metal prices had, by the end of the year, more than recovered the losses in the first two quarters. In addition to the continual threat to supplies from political conflicts in the Far East during the year, tin prices were also influenced by work stoppages in the Bolivian mines. The only noticeable dampening influence on prices came from the United States' stockpile releases. However, since demand continued to exceed supply, high prices continued to rule throughout the year. The average monthly price of spot tin was £1,412 per ton compared with an average of £1,237 in 1964 and of £1,014 for the preceding three years.

The Second International Tin Agreement (I.T.A.) is due to expire on 30th June, 1966. A Third I.T.A., whose provisions are essentially the same as those of the Second, was drawn up during 1965. The International Tin Council (I.T.C.) took advantage of the opportunity offered by the review of the Agreement to invite governments of countries which were not members of the I.T.C., especially the United States, to become signatories to the Third Agreement. So far, none of the governments invited has signified its intention to accede to the Agreement.

The immediate outlook for tin prices is still one of continued firmness, although fears are building up about the effects of a possible slackening of industrial activity in the main consuming countries. The effect of such an eventuality on prices, however, would likely be marginal in the short-term. Over the longer-term, widespread use by the canning industry of the 'all steel' can recently developed in the United States, and the continuing erosion of the tin can market by aluminium cans, may have a more significant bearing on the future of tin prices than other developments.

#### *Limestone*

The secular growth in limestone output continued into 1965. The year's output of 1,291.6 thousand tons represents an increase of 31.7 per cent during the year.

The expansion of output was due to increased production by the two main users of limestone

TABLE 5

## OUTPUT OF NIGERIA'S PRINCIPAL MINERALS

1965 and 1964: In tons unless otherwise stated

<i>Mineral</i>	1964 (1)	1965 (2)	<i>Actual Change between (2) and (1)</i>	<i>Percentage Change (2) and (1)</i>
Petroleum (barrels) .. .. .	43,996,898	100,065,294	56,068,396	+ 127.4
Gas (million s.c.f.) .. .. .	36,333	93,344	57,011	+ 158.3
Cassiterite .. .. .	11,788	12,885	1,097	+ 9.3
Tin Metal .. .. .	8,749	9,321	572	+ 6.5
Coal .. .. .	668,206	730,092	51,886	+ 7.6
Limestone .. .. .	980,685	1,291,587	310,902	+ 31.7
Columbite .. .. .	2,339	2,548	209	+ 9.0

Source: Federal Ministry of Mines and Power, Shell-BP Co. Ltd. and Nigerian Gulf Oil Co.

—Nigerian Cement Company Limited and the West African Portland Cement Company Limited. Three additional cement plants now under construction are expected to start operation in 1966. When these come into production, limestone output will rise further.

#### Coal

Coal output increased by 7.6 per cent in 1965. The rise in output reflected increased demand from major local consumers—the Electricity Corporation of Nigeria and the Nigerian Railway Corporation, whose difficulties with diesel engines are reported to have accentuated during the year. Coal exports fell slightly from the level attained in 1964.

#### Industry and Trade\*

The recovery of trade and industry about the middle of 1963 continued through 1965. The manufacturing sector recorded 128 additional plants during the year. Although many manufacturing firms still found it necessary to import part of their raw material requirements in 1965,

\* Material for this section, as in 1964, was obtained in a series of interviews conducted by the Research Department in the closing weeks of 1965 with a cross-section of the business community in the Lagos area. Most of the enterprises contacted operate on a nation-wide basis.

there was a reported increase in the utilization of local raw materials.

A smaller number of manufacturers in 1965 reported a higher rate of plant capacity utilization than in 1964. Generally, only a few of the manufacturers experienced any backlog of unfilled orders. The stock positions of raw materials and finished goods of most manufacturing companies were reportedly high. Electricity supply stoppages, and other cost increases were reported as resulting in higher unit cost of production in 1965.

Manufacturing sales were much higher in 1965 than in the preceding year, because of rising incomes, improved quality of local manufactures and increased protection. Business firms reported a growing shift in consumer preferences to higher quality goods. Most manufacturers, although reporting increased volume of business in 1965, attributed their inability to achieve targets to the unrest in some parts of the country and the necessity to raise prices in the face of stiffening competition.

Fewer trading firms reported higher sales in 1965 than in 1964. Sales expectations were not achieved in most cases, and inventory levels were reportedly higher than in 1964. The shortfall in sales relative to expectations was attributed to the same factors which are said to have retarded manufacturing sales. In addition, the lower cocoa producer



prices fixed for the 1965-66 cocoa season, coupled with the delay in the commencement of the season, restrained trading activities during the latter part of the year.

The local banking system continued as the primary source of working capital for trade and industry. It would appear that within the scope of the liquidity position of the banking system, and the restraint imposed by the Central Bank on commercial credit, only a few companies had difficulties in meeting their credit requirements. Among the few large companies which do not depend much on local banking facilities, adequate internal resources or assistance from parent companies supplied required operating funds. Some reliance on suppliers' credit for short-term funds was also reported.

Opinion on the state of business in 1965, as expressed by the business community, was divided. However, all sections conceded that the tempo of business was relatively high up to September. The consensus of business opinion also holds that 1966 should be a good year if stability was maintained on the socio-political front. The attitude among most businessmen about business prospects was one of cautious optimism.

### Manufacturing

The objective of the current National Development Plan is to raise the standard of living of the people through agricultural development and industrialization. Although there is scarcity of data in Nigeria, indications are that the pace of industrial development has quickened since 1962. The contribution of the manufacturing sector to the G.D.P., national income, and employment has continued to grow. Its contribution to import savings has been noticeable in the relative changes in the com-

position of Nigeria's imports in the last few years.

In the absence of actual production data, one way of assessing the growth of the industrial sector is through an examination of such economic indicators as the manufacturing sector's contribution to the G.D.P. and employment; the percentage distribution of imports over a span of time; the trend of relative share of bank loans by the sector, and the trend of consumption of industrial fuels.

The contribution of the manufacturing sector to the G.D.P. was minimal prior to 1957. In value terms, the contribution is estimated to have grown from £11 million (1.2 per cent of G.D.P.) in 1957 to £63 million (5.1 per cent of G.D.P.) in 1965. This represents an annual compound growth rate of 25 per cent.

Another readily available information which points to a quickening in the pace of growth of the manufacturing sector is the increasing proportion of loans and advances being channelled by the banking system to the sector. At the end of June, 1960, only £2.2 million (6.7 per cent) out of a total of £37.7 million in loans and advances outstanding went to manufacturing. On the same date in 1965, £15.1 million (13.6 per cent) of the £109.3 million in loans and advances outstanding was granted to the manufacturing sector. In the five-year period, therefore, loans and advances to manufacturing industries grew at an annual compound rate of 47 per cent compared with only 24 per cent for total loans and advances.

The rate of consumption of industrial fuels, assuming efficiency in utilization, is an indicator of the state of industrial activity. The rate of expansion in the consumption of industrial fuels since 1963 is shown below. To the extent that the other listed fuels are also utilized in the generation of electricity, the rate of expansion of industrial uses of fuel oil,

<i>Industrial fuel</i>	1963	1964	1965*
Fuel Oil .. .. .	100	110	137
Gas Oil .. .. .	100	101	113
Natural gas .. .. .	100	171	282
Electricity .. .. .	100	121	138

\* Estimate





**TABLE 6**  
**PERCENTAGE DISTRIBUTION OF IMPORTS BY COMPOSITION**  
**1960-65**

<i>Imports</i>	1960	1961	1962	1963	1964	1965
Consumer non-durable .. .. .	48	49	46	46	40	37
Consumer durable .. .. .	13	12	12	9	8	8
Total Consumer (a) .. .. .	<b>61</b>	<b>61</b>	<b>58</b>	<b>55</b>	<b>48</b>	<b>45</b>
Capital Goods .. .. .	22	21	22	23	28	31
Raw Materials .. .. .	17	18	20	22	24	24
Capital Goods + Raw Materials (b) .. .. .	<b>39</b>	<b>39</b>	<b>42</b>	<b>45</b>	<b>52</b>	<b>55</b>
Total (a) and (b) .. .. .	100	100	100	100	100	100
Total Imports Index (1960 = 100) .. .. .	100	103	94*	96*	118	127

\* Effects of the 1962 recession.

gas oil and natural gas may be overstated. The data are, however, indicative of the general trend.

At the end of 1962, the number of people employed in manufacturing was placed at 53,000. The estimate rose to 100,000 at the end of 1964. Despite reorganizations and reorientation of operations in many enterprises necessitating cut-backs in the labour force, the net increase in aggregate employment at the end of 1965 was about 24,000—the annual average increase estimated to have been achieved between 1962 and 1964. Altogether, therefore, about 124,000 workers of all grades are estimated to have been actively employed in the manufacturing sector at the end of 1965. This represents an increase of about 134 per cent over 1962. In relation to the active population of the country, the figure is insignificant. But when related to the number of manufacturing labour force of 32,800 in 1960, the year of Nigeria's independence, it will be appreciated that the progress made is noteworthy.

Progress in the manufacturing sector may also be gauged by the impact of domestic manufactures on imports. Between 1960 and 1965 (see Table 6), expenditure on imports of consumer non-durable

goods (mainly foods, tobacco, beverages, rubber goods and textiles) as a proportion of total import expenditures declined from 48 to 37 per cent. During the same period, the share of imports of all classes of consumer goods fell from 61 to 45 per cent, while that of imports of capital goods and industrial raw materials rose from 39 to 55 per cent.

It has already been indicated that successive increases in customs tariffs on consumer goods may have played a part in the decline of the proportion of this class of imports. However, since there has been a slackening in the rate of consumer imports, despite rising incomes, it may be assumed that import substitution—a key policy of the National Development Plan—also played a part in slowing down the rate of such imports.

A casual study of production trends in the manufacturing sector on a disaggregated basis shows that encouraging strides have been made since 1960 in a number of industries—mainly of import substitute types. The effects of the growth of some of these industries on imports are shown in the movement of import indexes (1960 = 100) below.\*

<i>Product</i>	1960	1961	1962	1963	1964	1965
Cement .. .. .	100	68	44	37	23	20
Tobacco (manufactured) .. .. .	100	106	96	106	93	77
Rubber goods .. .. .	100	104	92	93	61	60
Beer .. .. .	100	101	72	20	18	6
Textile .. .. .	100	118	83	96	104	99†
Enamelware .. .. .	100	121	89	99	47	41

† But for domestic production, this index would have been in excess of 100. See *Textile* below.

\* Adjustment for price changes has not been made.

**TABLE 7**  
**DOMESTIC PRODUCTION AND DEMAND FOR CEMENT**  
(thousand tons)

<i>Item</i>	1960	1961	1962	1963	1964	1965	1966
Imports .. .. .	626	444	335	300	140	128	
Domestic Production .. .. .	165	353	467	540	719	1,120	
Inland Demand .. .. .	791	797	802	840	859	1,248	1,550*
Plant Capacity .. .. .	n.a.	n.a.	n.a.	n.a.	1,160	1,390*	1,750*
Domestic Production as percentage of total demand ..	20.8	44.3	58.2	64.3	83.7	89.7*	

\* Estimated

n.a.—not available

### *Cement*

In the absence of statistics on inventory movements, domestic consumption of cement is assumed equal to imports plus domestic output (see Table 7). It is seen from the Table that domestic output as a proportion of total consumption has grown from about 21 per cent in 1960 to nearly 90 per cent in 1965. However, domestic output as at the end of 1965 still fell short of the optimum plant capacity by about 270,000 tons. This compares with excess capacity of about 441,000 tons at the end of 1964. Additional cement plants of various capacities at Sokoto (100,000 tons), Calabar (50,000) and Ukpilla (150,000 tons) are expected to commence operations in 1966\*. By the end of 1966, therefore, the industry's capacity may well exceed 1.7 million tons. Even if imports were prohibited, and the expected increase in consumption allowed for, the industry may still be left with excess capacity of close to 200,000 tons at current prices.

### *Beer*

Indications are that beer consumption declined in 1965. Estimated consumption of 12.6 million gallons during the year contrasts with the 13.4 million gallons in 1964. However, the local producers' share of the domestic market increased slightly (about 400,000 gallons), while imports totalled 377,000 gallons as against 1.6 million gallons in 1964. From an estimated aggregate plant capacity of 16.6 million gallons, it would appear that the industry operated with an excess capacity of about 4.4 million gallons in 1965. This compares with 4.8 million gallons in the preceding year.

\* Ultimate capacities of the first two plants have been given as 120,000 tons and 100,000 tons, respectively.

### *Textile*

Domestic demand for, and local output of textile goods are estimated at 310 million and 120 million square yards, respectively, for 1965. Domestic production, therefore, supplied about 38.7 per cent of demand\*; imports filled the gap of 61.3 per cent. Aggregate local plant capacity was over 200 million square yards in 1965, indicating that aggregate plant capacity utilization was only 60 per cent in the year. This may reflect the limited lines of textile production in Nigeria, and the fact that, with rising incomes, Nigerians are becoming more quality conscious. It is a fact that better quality textile prints have been arriving in increasing yardage and variety since textile plants started production in Nigeria.

### *Other Manufacturing Industries*

One of the most rapidly growing industries in the country is tobacco manufacturing. Production and sales rose by 11 per cent in the financial year ended 30th September, 1965, compared with 8 per cent in the preceding year. Domestic manufacture of rubber goods, including tyres, shoes and household goods have increased rapidly in the past few years.

A number of manufacturers of such products as tyres, household aluminium products, beer, detergents and toilet preparations etc., have been able to establish outlets in foreign markets. The development of export markets for Nigeria's manufactures is as important as the search for external markets for primary commodity exports. But the realization of this objective will depend on, among other

\* See the footnote (†) on page 24.



things, whether or not Nigerian manufactures are able to compete both in price and quality with similar goods from the rest of the world, and on the trade policies of other countries.

### Fuel And Power

During 1965 steady progress continued to be made in the development and utilization of Nigerian fuel and energy resources. As shown below, demand for all primary commercial energy (coal, hydro-power, natural gas and petroleum) increased by 45 per cent between 1955 and 1960, and by an estimated 75 per cent between 1960 and 1965. The composition of this demand has, however, been changing. The rate of coal consumption, for example, has declined, while petroleum products have risen in importance. Natural gas, which entered the market in 1962, is rapidly increasing its relative importance in the energy market.

Fuel Type	Percentage Share of Fuel Market		
	1955	1960	1965
Coal .. ..	64	31	21
Hydro-power .. ..	4	3	2
Natural gas .. ..	—	—	11
Petroleum products ..	32	66	66
	100	100	100
Index of all primary commercial energy } 100	145	250	
	—	100	175

### Electricity\*

Installed electricity generating capacity in the country rose by 54.6 megawatts to 294.1 megawatts in 1965, 23.9 per cent above the capacity in 1964. Actual generation of electrical power in 1965 also increased to 1,152.4 million† kilowatt-hours (kwh) compared with 1,011.7 million kwh. in 1964. Of the total electrical power generated in the country in 1965, industrial and commercial enterprises consumed 56.8 per cent, residential users

\* Only the main producers of electrical energy in Nigeria—ECN, the Nigerian Electricity Supply Corporation Ltd. (NESCO) at Bukuru and the African Timber & Plywood (A.T. & P.) Sapele—are covered in this Report.

† Estimate.

24.7 per cent, other categories of consumers, 0.8 per cent, while generating companies and losses on transmission lines accounted for the remaining 17.7 per cent. The corresponding shares in 1964 were 54.4, 25.9, 1.0 and 18.7 per cent respectively.

The Electricity Corporation of Nigeria (ECN) had a number of new plants under construction in 1965. The most important of these were the 72-megawatt generating plant at Ughelli in the Mid-West, and the three 36.8 megawatts gas turbine plants at Ijora. Although there was some improvement in the electricity supply situation in the Lagos area, several and prolonged stoppages were reported in various parts of the country during the year.

Work progressed further in 1965 on the first phase of the Niger Dam/Hydroelectric Project, which is regarded as the 'cornerstone' of the National Development Plan. The running of transmission lines is expected to begin in 1966.

### Gas

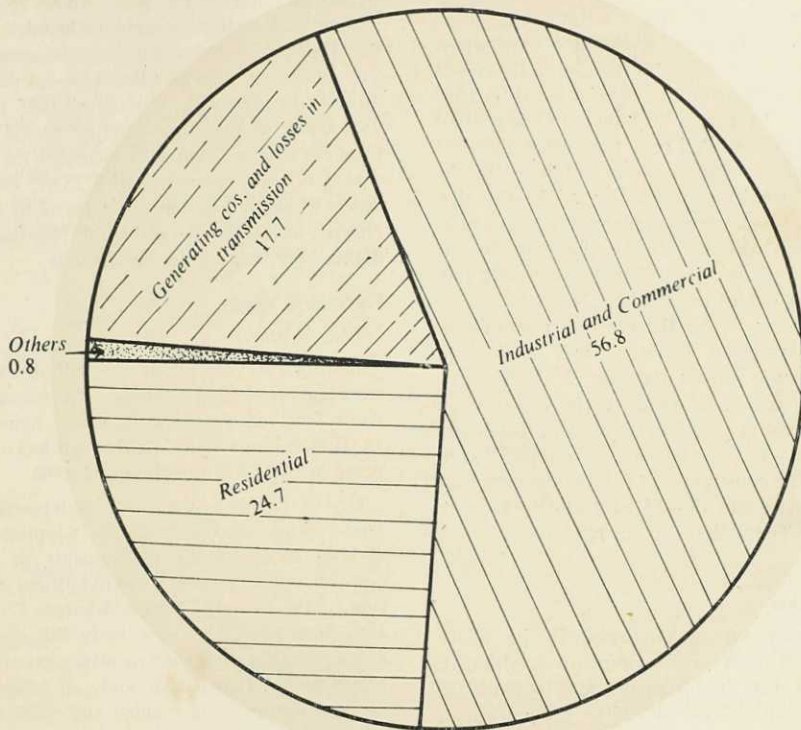
Considerable wastage continued to feature in the country's use of natural gas produced in association with crude petroleum. The potential of this gas appears not to have commanded sufficient attention of Nigerian governments. Thus Nigeria has continued to import ammoniac fertilizer and other products of gas for agricultural and other purposes.

Enterprises based in the Port Harcourt-Aba area are the current users of the country's output of gas. Of the 3,215.1 million s.c.f. sold during the year, 77 per cent was taken by the E.C.N. for electricity generation at its Afam and Apará power stations. Local industries accounted for 23 per cent of the purchases. It is planned that natural gas will also be used to generate electricity at the Ughelli power station.

Consumption of liquefied petroleum gas, also increased during the year. Altogether 3,995.7 tons, all of which was imported, were consumed in the country, compared with 3,685.1 tons\* in 1964. Construction work has begun on a £375,000 butane

\* Revised figure.

CHART II  
ELECTRICITY CONSUMPTION  
Per cent



manufacturing plant alongside the petroleum refinery near Port Harcourt.

#### Construction

Construction programmes in the public and private sectors accelerated during the year. Public construction consisted of projects like the Niger dam, wharf extension and roads. Factory, and to a lesser extent, residential construction, dominated activities in the private sector.

In the public sector, work on the Niger dam project, which started in May 1964, continued satisfactorily during the year. Two temporary dams,

which divert the waters of the Niger from the main construction areas, were completed. Besides facilities for large scale electricity production, the completion of the project will bring in its wake other economic benefits to the people of Nigeria. These will include facilities for all-season navigation of the Niger; additional acreage of irrigated agricultural land, and a potential for a large scale fishing industry. When the project is completed, one of the main access roads, fifty-three miles from Mokwa to Kainji, will provide a permanent first-class alternative road to the existing River Niger crossing at Jebba.

Construction work on the Apapa wharf extension was pushed further in 1965. Progress also continued on the construction of the Port Harcourt wharf extension.

Work on some of the important highways listed in the 1962-72 Highway Development Programme was completed during the year, and the roads opened for traffic, e.g., the reconstructed Tegna/Daura Trunk 'A' road. Work on the Otta-Idiroko International Trunk 'A' road progressed ahead of schedule, and is expected to be completed by the middle of 1966. The construction of the Onitsha-Asaba road-bridge was completed during the year. Contract was awarded during the year for the construction of the second bridge which will link Lagos Island with the Mainland.

In the private sector, the growing pace of construction, especially factories, was maintained during the year. From the rise in the banking system's loans and advances to the construction sector, it would appear that, the effect of rising costs apart, there was some increase in residential construction. The construction of the oil refinery near Port Harcourt, and the oil jetty at Okrika were completed. The lull in commercial construction continued.

### **Transportation**

The railway system continued to be under pressure from intense road competition. Although attempts were made during the year to minimize some of the operational difficulties experienced in 1964, total freight tonnage declined. This was reportedly due to the substantial shift of traffic to the highways. Washouts of railway tracks during the rainy season, and the dock-workers' strike during the year contributed to the problems of the railways.

Two additional berths, two transit sheds and a warehouse were put into service at the Apapa wharf during the year, thus easing somewhat the perennial congestion at the Lagos port. The tonnage of goods handled at Nigerian ports increased by 70 per cent compared with 34 per cent in 1964. Although the new port at Koko was not fully utilized owing to navigational difficulties, the volume

of goods which passed through it also increased substantially.

Domestic air transportation facilities continued to improve during the year. About 76 thousand passengers travelled by internal scheduled flights of the Nigeria Airways as against 66 thousand in 1964. The passenger/mile travelled rose 3.4 per cent to 310.9 in the first eight months of 1965 compared with 300.6 in the corresponding period of 1964. Cargo ton/mile flown also increased for the same period—29,806 compared with 25,675 in 1964. In order to encourage more air travel to Northern Nigeria, air tariffs chargeable for Northern bound flights were reduced during the year.

### **Labour and Wages**

#### *Labour Relations*

During the year about 1.3 million man-hours were lost on account of strikes. The corresponding figure for 1964 was 7.8 million man-hours. About 1,000 man-hours were lost through lockouts compared with 12,672 man-hours in 1964.

One of the most important developments on the labour front in 1965 was the adoption of the 40-hour week by all governments in Nigeria. Another significant event was the formal inauguration of the National Wages Advisory Council on 16th November. This new body will co-ordinate and advise the government on all aspects of national wages policy. It will also study all aspects of industrial disputes and evaluate the effects of terms of settlements on the national wages policy and economic development.

#### *Wage Movements*

Wage and salary scales for workers in the public sector remained at the post-Morgan levels in 1965. The government announced upward adjustments in the salary scales of all grades of teachers during the year, designed to bring them in line with other salary scales in the country.

In the private sector, most of the commercial and industrial firms adopted the Morgan salary/wage recommendations. As a result, the national average of wages was generally higher than in 1964.



## Cost of Living

The average all-items price indices for the lower income group\* in most of the large towns rose in 1965. In Port Harcourt, Lagos, Ibadan and Kaduna, the indices rose by 4.9, 4.7, 3.4 and 3.4 points, respectively. Increases were relatively modest for Zaria and Enugu. (See Table 9.)

In Lagos, the all-items index for the middle income group† averaged 4.8 points higher than in 1964. Although the rate of price increases appeared generally larger for the lower income group, the pattern of change for both the lower and the middle income groups was the same. The substantial fall in tobacco and kolanut prices was, in each case, more than offset by higher prices for all the other items.

In all the centres, particularly Port Harcourt, Kaduna and Zaria, the higher cost of living reflected

mainly the heavily weighted increases in the prices of foodstuffs and drinks, although the prices of some of the other consumer items also increased substantially. There was a rise in the price index for drinks in spite of the announced reductions in April of excise duties on soft drinks and potable spirits.

The index of transportation cost for both the middle and the lower income groups rose following increases in customs duties on some motor vehicles, cycles and spare parts. Higher indirect taxes introduced in April were the main influences which underlay the price increases for clothing, and 'other purchases'. The index of rental cost of residential space, however, was unchanged in all centres except Lagos where demand from a rising population maintained the upward pressure on rents.

TABLE 8  
CONSUMER PRICE INDICES  
MIDDLE INCOME GROUP (LAGOS)

(January-December)

Base: Average 1960 = 100

	1964	1965
All items .. .. .	117.0	121.8
Accommodation .. .. .	115.5	120.9
Food .. .. .	110.7	113.6
Drinks .. .. .	124.2	128.7
Tobacco and Kolanuts .. .. .	101.5	89.8
Fuel and Light .. .. .	103.2	112.8
Transport .. .. .	118.7	125.8
Other purchases .. .. .	106.2	108.6
Clothing .. .. .	124.6	127.9
Other services .. .. .	132.3	149.5

Source: Based on figures obtained from the Federal Office of Statistics.

\* Comprises workers whose basic earnings were not greater than £400 per annum in 1960.

† Comprises workers whose basic earnings range between £400 and £800 per annum.

TABLE 9

CONSUMER PRICE INDICES: 1964 AND 1965

(January-December)

(Base: Average 1960 = 100\*)

	LAGOS		IBADAN		ENUGU		KADUNA		PORT HARCOURT		ZARIA	
	1964	1965	1964	1965	1964	1965	1964	1965	1964	1965	1964	1965
All items .. .. .	112.4	117.1	107.9	111.3	123.3	124.7	109.2	112.6	113.2	118.1	108.3	109.9
Accommodation .. .. .	118.5	123.2	97.5	97.7	101.1	101.1	101.0	101.0	100.0	100.0	91.3	91.3
Food .. .. .	107.0	110.3	102.5	106.2	117.8	121.0	106.6	112.4	108.6	121.1	105.6	108.9
Drinks .. .. .	127.5	134.6	117.8	124.4	134.1	131.9	113.0	123.0	124.6	132.1	102.8	113.5
Tobacco & Kolanuts .. .. .	102.2	92.1	100.7	90.7	120.7	121.5	99.6	86.0	95.6	84.6	100.0	87.2
Fuel and Light .. .. .	105.0	117.8	108.5	115.3	183.3	157.7	119.3	122.7	130.2	122.5	135.1	135.2
Transport .. .. .	110.7	125.7	113.3	119.9	114.3	118.4	107.7	111.7	100.5	98.9	107.0	108.2
Other Purchases .. .. .	106.5	111.2	108.2	110.7	117.6	120.6	105.5	108.6	107.5	113.4	108.7	106.4
Clothing .. .. .	121.8	124.3	134.8	136.3	123.4	125.2	113.9	116.4	125.9	129.6	116.7	119.2
Other Services .. .. .	117.6	125.0	112.7	108.2	147.1	149.6	138.7	141.4	133.4	119.0	119.6	121.6

\* The consumer price indices prepared by the Federal Office of Statistics have 1953 as base year for Ibadan and Enugu, 1957 for Kaduna, Zaria and Port Harcourt, and 1960 for Lagos. For the purpose of this report, however, all the indices have been converted to a common base year (1960).

Source: Based on figures obtained from the Federal Office of Statistics.

## THE FINANCIAL SYSTEM

Nigeria's financial system experienced further growth in 1965. The pace of banking development was firmly forward. The third branch of the Central Bank was officially opened in Ibadan in December. The foundation stones of two more branches, at Enugu and Benin City, were also laid during the year. The number of commercial bank branches increased by 14 in the year to 240. One of the commercial banks extended to Port Harcourt its mobile bank service, which was started in Lagos in 1964. The continuing movement towards banking combinations in Europe and the U.S.A. extended to Nigeria in 1965. Following subscription to the capital of Banque de L'Afrique Occidentale (B.A.O.) by the First National City Bank of New York during the year, the B.A.O. was re-organized in April as Banque Internationale Pour L'Afrique Occidentale with a capital of £2.9 million compared with £2.3 million for the B.A.O. In December, the Nigerian branch of the Chase Manhattan Bank merged with the Bank of West Africa, Limited, which itself had amalgamated with the Standard Bank of London earlier in the year. The Bank of Lagos surrendered its licence, and from 17th September, commenced operations as the Finance Company of Lagos, Limited. With these developments, the number of commercial banking companies in operation fell from seventeen to fifteen at the end of 1965.

Bank credit to the economy aggregated £169.7 million at the end of the year—about £10.6 million or 6.7 per cent larger than at the end of 1964. More than 95 per cent of the net rise in credit granted went to the public sector.

Operations in the money and capital markets

expanded further in 1965. Treasury bill issues averaged £12.2 million monthly, compared with about £10.9 million in 1964. In 1964, the monthly average of treasury bills outstanding was £31.4 million; in 1965 it was £36.8 million. Discount and rediscount activities were smaller than in the preceding year. The call money market maintained its steady growth during the year.

The capital market recorded further gains with the successful floatation of two private sector securities amounting to £1.9 million. The market also absorbed more than £9.7 million of government securities during the year. This compares with £8.8 million in 1964. The Lagos Stock Exchange turnover was only slightly larger than in 1964. Investment operations of the Nigerian Industrial Development Bank Limited (N.I.D.B.) expanded further during the year. About £1.2 million in the form of loans and debentures, and equity participation was sanctioned by the N.I.D.B. compared with £1.4 million in 1964.

Intermediary credit institutions—building societies, insurance companies and co-operative societies—continued to expand their services to the general public. The Nigeria Building Society extended a total of £654,673 in new mortgage loans compared with £454,673 in the preceding year.

In the aggregate, monetary assets rose by about £18.5 million or 8.8 per cent in the year to £227.6 million. In 1964, the increase was £31.0 million or 17.4 per cent. The slower rate of expansion of monetary assets in 1965, compared with 1964 was due largely to the significantly reduced rate of credit expansion.



**TABLE 10**  
**MONEY SUPPLY AND ITS DETERMINANTS**

(£'s millions)

	1963 (1)	1964 (2)	Change between (2) and (1)		1965 (3)	Change between (3) and (2)	
			Actual	Percentage		Actual	Percentage
Credit to Domestic Economy (net) .. .. .	114.1	159.1	+ 45.0	+ 39.4	169.7	+ 10.6	+ 6.7
Credit to Private Sector (net) .. .. .	104.8	139.7	+ 34.9	+ 33.3	140.7	+ 0.4	+ 0.3
(i) Central Bank (net) .. .. .	15.9	19.0	+ 3.1	+ 19.5	6.7	- 12.3	- 64.7
(ii) Commercial Banks (net) .. .. .	88.9	120.7	+ 31.8	+ 35.8	133.4	+ 12.7	+ 10.4
Credit to Public Sector (net) .. .. .	9.3	19.4	+ 10.1	+ 108.6	29.6	+ 10.2	+ 52.6
(i) Central Bank* .. .. .	5.5	12.6	+ 7.1	+ 129.1	24.3	+ 11.7	+ 92.9
(ii) Commercial Banks† .. .. .	3.8	6.8	+ 3.0	+ 78.9	5.3	- 1.5	- 22.1
Foreign Assets (net) .. .. .	76.8	66.0	- 10.8	- 14.1	79.9	+ 13.9	+ 21.1
(i) Central Bank‡ .. .. .	75.0	81.5	+ 6.5	+ 8.7	85.3	+ 3.8	+ 4.7
(ii) Commercial Banks (net) .. .. .	1.8	- 15.5	- 17.3	- 961.1	- 5.4	+ 10.1	+ 65.2
Other Assets (net) .. .. .	- 12.8	- 15.9	- 3.1	- 24.2	- 22.0	- 6.1	- 38.4
Quasi Money .. .. .	46.5	56.6	+ 10.1	+ 21.7	70.2	+ 13.6	+ 24.0
Money Supply .. .. .	131.6	152.6	+ 21.0	+ 16.0	157.4	+ 4.8	+ 3.1
Total Monetary Assets .. .. .	178.1	209.2	+ 31.1	+ 17.5	227.6	+ 18.4	+ 8.8

\* Net of federal and regional government deposits, federal government external assets and Nigeria's I.M.F. position.

† Net of federal and regional government deposits.

‡ Include federal government external assets and Nigeria's I.M.F. position.

## Money and Banking

### Money Supply

Money supply\* rose by £4.8 million or 3.1 per cent over the year to £157.4 million at the end of December 1965. This compares with an increase of £21.0 million or 16.0 per cent in 1964. On monthly basis, money supply was higher in 1965 than in 1964. On quarterly basis, however, money supply declined at a rate of 10.1 per cent in the first two quarters of 1965 compared with 4.9 per cent in 1964. The rise in money supply in 1965, as in 1964, was concentrated in the fourth quarter.

The higher rates of decline of money supply in the first and second quarters of 1965, compared with those of 1964, should be related to the extraordinary monetary expansion which occurred in the last quarter of 1964. With the measures of credit restraint taken towards the close of that year,

it was to be expected that the seasonal decline would be reinforced in 1965.

The quarterly average of the ratios of currency outside banks to money supply in 1965 was 62.1 per cent compared with 61.2 per cent in 1964, and an average of 62.5 per cent for the preceding two years. It would appear that the public preferred to hold a larger amount of their liquid assets in the form of currency than in 1964.

### Currency Movements

Currency movements in 1965, except in July, followed broadly the pattern of earlier years. The rise in July was due mainly to the introduction of the new currency notes on 1st July\*. From the trough in October, and coinciding with the start of the season of heightened economic activity, currency in circulation rose sharply, reaching a peak of £108.9 million at the end of December—£1.5 million or 1.3 per cent above the level on the corresponding date a year earlier.

\* Defined as currency outside banks plus demand deposits at commercial banks net of federal and regional government deposits, plus domestic deposits at Central Bank.

\* The old notes continued to circulate as legal tender along with the new.

**TABLE 11**  
**CHANGES IN MONEY SUPPLY AND ITS DETERMINANTS**  
**END OF QUARTER**  
**(£'s millions)**

	1965			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Credit to Domestic Economy .. .. .	- 3.7	- 7.6	- 9.8	+ 31.7
Credit to Private Sector .. .. .	- 9.7	- 12.8	- 7.8	+ 30.7
(i) Central Bank*	- 4.4	- 7.0	- 2.5	+ 1.6
(ii) Commercial Banks .. .. .	- 5.3	- 5.8	- 5.3	+ 29.1
Credit to Public Sector .. .. .	+ 6.0	+ 5.2	- 2.0	+ 1.0
(i) Central Bank*	+ 6.9	+ 1.9	- 8.1	+ 11.0
(ii) Commercial Banks†	- 0.9	+ 3.3	+ 6.1	- 10.0
Foreign Assets .. .. .	- 5.9	+ 5.4	+ 15.9	- 1.5
(i) Central Bank‡	- 16.5	- 0.9	+ 11.5	+ 9.7
(ii) Commercial Banks .. .. .	+ 10.6	+ 6.3	+ 4.4	- 11.2
Other Assets .. .. .	+ 3.8	- 4.9	+ 0.6	- 5.6
Quasi Money .. .. .	+ 4.9	+ 2.3	+ 5.0	+ 1.4
Money Supply .. .. .	- 10.7	- 9.5	+ 1.8	+ 23.2
Total Monetary Assets .. .. .	- 5.8	- 7.2	+ 6.8	+ 24.6

- \* Net of federal and regional government deposits, federal government external assets, and Nigeria's I.M.F. position.  
† Net of federal and regional government deposits.  
‡ Include federal government external assets and Nigeria's I.M.F. position.

**TABLE 12**  
**COMPOSITION OF MONEY SUPPLY**  
**(£'s thousands)**

End of period	Currency outside banks	Demand deposits at Com- mercial banks*	Money supply	Percentage ratio of demand deposits to money supply
<b>1963</b>				
2nd Quarter .. .. .	67,426	39,372	106,798	36.9
3rd Quarter .. .. .	70,267	38,817	109,084	35.6
4th Quarter .. .. .	84,492	47,102	131,594	35.8
<b>1964</b>				
1st Quarter .. .. .	75,667	49,101	124,768	39.4
2nd Quarter .. .. .	72,016	48,350	120,366	40.2
3rd Quarter .. .. .	75,591	51,353	126,944	40.5
4th Quarter .. .. .	98,946	53,600	152,546	35.1
<b>1965</b>				
1st Quarter .. .. .	87,641	54,235	141,876	38.2
2nd Quarter .. .. .	81,485	50,930	132,415	38.5
3rd Quarter .. .. .	81,898	52,337	134,235	39.0
4th Quarter .. .. .	100,472	56,883	157,355	36.1

- \* Include local government demand deposits with commercial banks and domestic deposits with Central Bank; deposits of other governments are excluded.

Developments in the economy which affected movements in money supply are analysed below.

### Bank Credit

The banking system's credit operations in 1965 were expansionary of money supply. Aggregate credit outstanding at the end of December 1965 stood at £169.7 million compared with £159.1 million on 31st December, 1964. This represents an increase of £10.6 million in the year compared with £45.0 million in 1964. Credit to the private sector rose only marginally—£0.4 million or 0.3 per cent—to £140.1 million. This contrasts with an increase

of £34.9 million or 33.3 per cent a year earlier. Credit to the public sector advanced by £10.2 million to £29.6 million; in 1964, credit to this sector rose by £10.1 million.

### Central Bank Operations

Central Bank credit operations in 1965 were marginally contractive of money supply—aggregate credit to the economy fell by £0.6 million over the year. Credit to the private sector at the end of 1965 fell by 64.7 per cent to £6.7 million compared with 19.5 per cent rise to £19.0 million at the end of 1964. The 19.5 per cent increase in credit in the preceding

CHART III  
TOTAL CURRENCY IN CIRCULATION  
JANUARY 1960—DECEMBER 1965  
End of Month

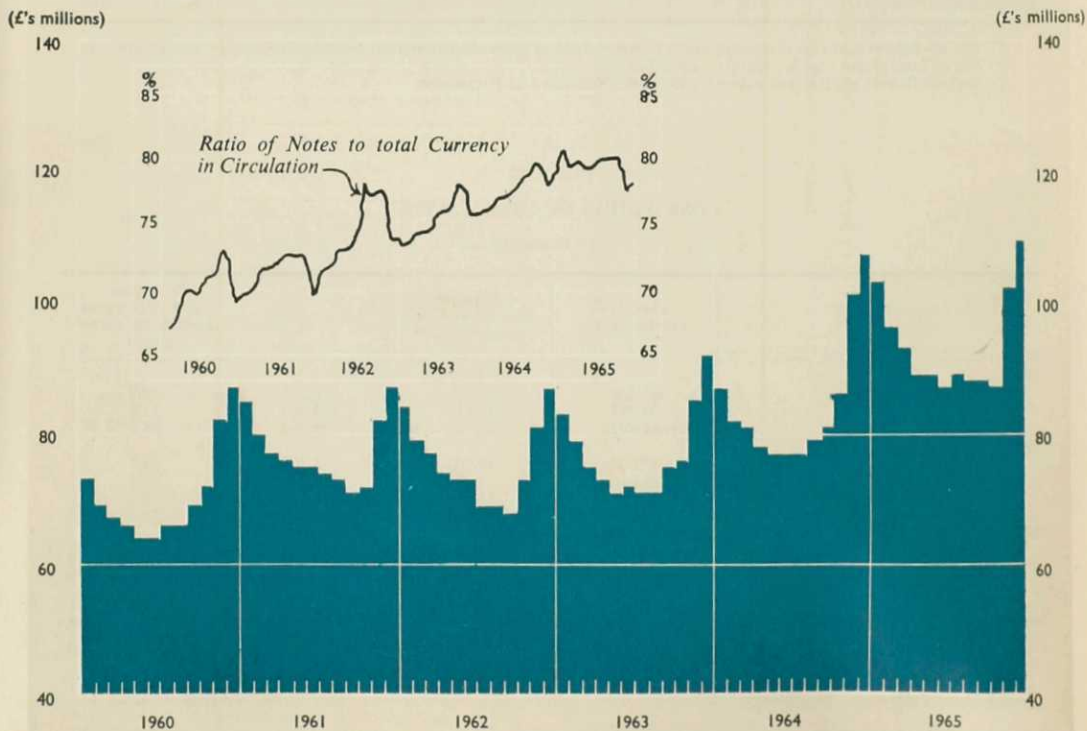




TABLE 13  
CURRENCY IN CIRCULATION  
January-December, 1965  
(£'s thousands)

<i>Currency Denomination</i>	<i>Jan.</i>	<i>Feb.</i>	<i>Mar.</i>	<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>Aug.</i>	<i>Sept.</i>	<i>Oct.</i>	<i>Nov.</i>	<i>Dec.</i>
<i>Notes</i>												
£5 .. .. .	5,489	5,320	5,009	5,151	5,392	5,290	6,066	5,864	6,291	6,082	6,281	6,420
£1 .. .. .	72,722	67,080	64,887	61,518	60,745	59,902	60,743	60,565	59,712	58,561	68,473	74,746
10/- .. .. .	2,317	2,229	2,181	2,076	2,110	2,103	2,453	2,201	2,295	2,254	2,375	2,382
5/- .. .. .	1,781	1,712	1,675	1,604	1,612	1,548	1,851	1,933	1,934	1,913	2,010	2,096
Total Notes .. .. .	82,309	76,341	73,752	70,349	69,859	68,523	71,113	70,563	70,232	68,810	79,139	85,644
Percentage of new notes to total notes .. .. .	—	—	—	—	—	—	33.6	47.0	57.4	64.3	74.9	80.9
<i>Coin</i>												
2/- .. .. .	134	136	136	136	138	138	138	138	138	138	138	137
1/- .. .. .	18,028	16,901	16,073	15,565	15,375	15,178	14,942	14,828	14,676	14,837	19,692	20,232
6d .. .. .	668	656	639	630	622	617	608	601	596	605	663	674
3d .. .. .	1,202	1,188	1,181	1,169	1,163	1,159	1,145	1,141	1,130	1,139	1,224	1,249
1d .. .. .	797	806	817	824	830	840	845	847	850	854	870	884
½d .. .. .	103	106	108	110	112	114	115	116	118	120	121	123
Total Coin .. .. .	20,932	19,793	18,954	18,434	18,240	18,046	17,793	17,671	17,508	17,693	22,708	23,299
Currency Suspende .. .. .	100	30	300	80	110	150	80	—	—	30	100	—
Total Currency .. .. .	103,341	96,164	93,006	88,863	88,209	86,739	88,986	88,234	87,740	86,533	101,947	108,943
Percentage of notes to total currency .. .. .	80.7	79.4	79.6	79.3	79.3	79.0	80.0	80.0	80.0	79.6	77.7	78.6

year was a result of direct advances to the Western Nigeria Marketing Board for the financing of cocoa marketing during the 1964-65 crop season. These advances totalled £14.4 million at the close of 1964, and were responsible for the substantial rise in Central Bank advances in the fourth quarter\*. The Board liquidated the liabilities in 1965.

Following the cocoa producers' resumption of cocoa sales to the world market in February 1965, and the consequent availability of sales contracts as collateral for advances, the cocoa financing consortium of banks and acceptance houses was desirous of resuming normal financing of cocoa marketing. The Central Bank, therefore, withdrew from direct lending to the Board in the 1965-66 crop season. This accounted for the fall in direct advances outstanding to the private sector at the end of 1965 compared with 1964. On the other hand, the value of refinanced commercial paper outstanding rose from £1.96 million on 31st December, 1964, to £3.7 million on 31st December, 1965.

The gross value of commercial paper refinanced by the Bank in 1965 aggregated £16.5 million. This represents a decline of about 44 per cent from the £29.7 million in 1964. Refinancing activity was more or less concentrated in the period from February to June†, with a peak in February. This was in pattern with movements in 1964; the magnitude of refinancing was, however, smaller in 1965.

Several factors were responsible for the lower value of refinanced paper outstanding at the end of the year; first, in the 1964-65 crop marketing season, the Refinance Rate was increased from  $2\frac{3}{4}$  per cent to  $4\frac{1}{2}$  per cent. The higher rate discouraged the consortia of banks responsible for the financing of marketing board crops—mainly groundnuts and cotton in 1965—from seeking large refinance facilities; secondly, with the Central Bank and the federal government providing direct advances to the Western Nigeria Marketing Board for the 1964-65 cocoa season, there was a reduced volume of paper with commercial banks and acceptance

houses; thirdly, the funds which the banks withheld from cocoa financing provided an additional cushion to the liquidity of the banks, thus removing the pressure to seek Central Bank refinancing facilities for non-cocoa paper. The net effect of these developments was that the Central Bank entered 1965 with only £1.96 million of refinanced produce paper.

In contrast, Central Bank rediscount of treasury bills was heavier in 1965, totalling £39.2 million (gross) as against £26.5 million in 1964. The larger volume of rediscounting, especially for commercial banks, was related to the increased holdings of treasury bills by the banks, and the fact that banks appeared to have maximized their profits by rediscounting treasury bills rather than produce paper.

However, since banks undertook heavy rediscounting of treasury bills, it would appear that the rise in the Refinance Rate provided the strongest reason for the low level of refinancing in 1965. At the beginning of the 1965-66 crop season, the Refinance Rate was further raised by one-half point to 5 per cent per annum, thus accentuating the disincentive to refinance.

Other Central Bank lending and investment activities in the private sector during the year increased only marginally. Investment consisted of the Bank's payment of £10,000 of its subscription to the issued shares of the Nigerian Security Printing and Minting Company Limited.

Central Bank credit to the public sector increased in 1965, appreciably offsetting the contractive effects of its operations in the private sector. The Bank's credit outstanding to the public sector rose to £24.3 million at the end of 1965 from £12.6 million on 31st December, 1964. The £11.7 million rise in credit to the sector was a consequence of increased dependence of the government on the banking system for the financing of the budget deficit. Following the issue of the Federal Republic of Nigeria Second Development Loan of £15 million in March, the Bank's investment in medium and long-term government securities went up by £13.8 million to £25.6 million. During the period from March to December, about £6.6 million of the holdings was sold,

\* Central Bank advances to the private sector totalled £4.2 million at the end of the third quarter of 1964.

† There was no refinancing in April.

TABLE 14  
CENTRAL BANK REFINANCE/REDISCOUNT OPERATIONS (GROSS)

(£'s thousands)

Month	Refinanced Commercial Paper		Rediscounted Treasury Bills	
	1964	1965	1964	1965
January .. .. .	600	610	367	681
February .. .. .	3,802	3,600	1,643	3,613
March .. .. .	6,925	1,130	778	5,408
April .. .. .	2,830	—	1,291	412
May .. .. .	2,380*	2,310	2,642	4,151
June .. .. .	3,450*	3,240*	2,012	473
July .. .. .	3,448	270	663	1,161
August .. .. .	980	650	2,205	777
September .. .. .	330*	—	2,557	2,549
October .. .. .	2,920	—	4,951	1,814
November .. .. .	1,490	2,440	5,582	12,287
December .. .. .	500	2,520*	1,827	5,882
TOTAL .. .. .	29,655	16,770	26,518	39,208

\* Includes rediscounts of non-marketing board produce paper.

reducing the value of stocks held by the Bank to £19.0 million at the end of December 1965.

Credit extended by way of treasury bills averaged £5.5 million monthly, compared with £2.9 million in 1964. At the end of the year, the Bank held £9.4 million or 28.5 per cent of treasury bills outstanding as against £4.8 million or 14.1 per cent on 31st December, 1964.

### Commercial Bank Operations

Commercial banks expanded their lending and investment activities in the economy in 1965, and thus exerted an expansionary influence on money supply. Credit outstanding at the end of December was £138.7 million compared with £127.6 million at the close of 1964. The growth rate in commercial bank credit in 1965 was about 8.6 per cent as against 37.5 per cent in the preceding year. Credit to the private sector rose by £12.7 million or by nearly 10 per cent, while credit to the public sector declined by £1.6 million or 23.2 per cent over the year.

### Loans and Advances

Commercial bank loans and advances outstanding at the end of the year totalled £135.0 million—an increase of only £12.6 million or 10.3 per cent over the year. This compares with an

increase of £32.9 million or 36.9 per cent in 1964.

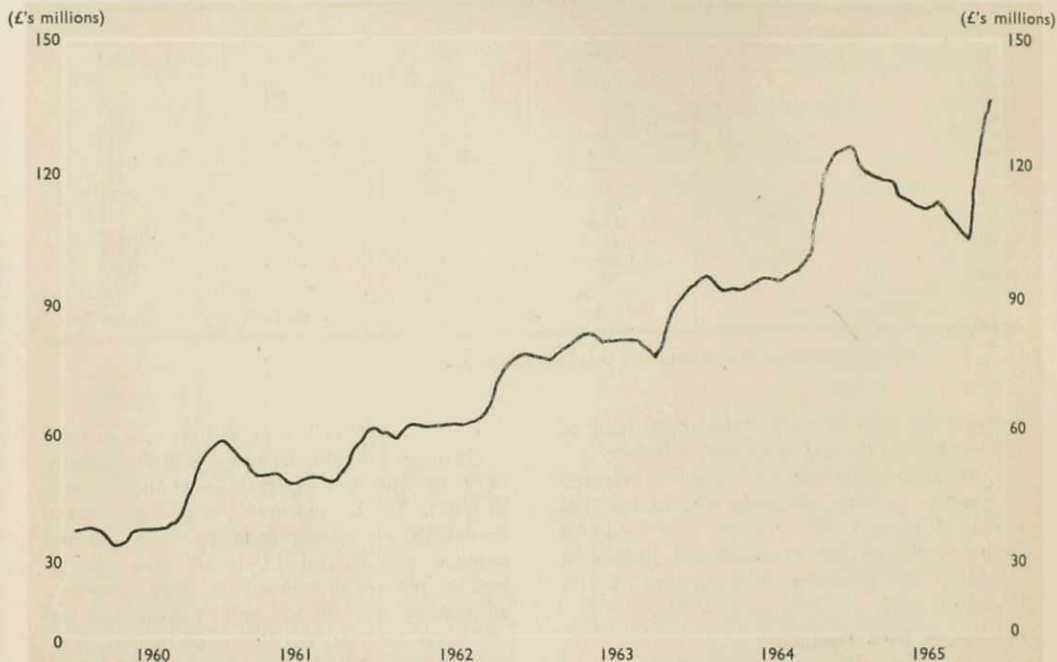
There was a notable departure from past patterns in the movement of aggregate loans and advances in 1965. Unlike previous years, the seasonal decline, which started from February did not terminate until the end of October\*. From November, the upward movement was sharp, recording an increase of about £34 million in the last two months of the year. For the fourth quarter, however, there was an increase of £30.0 million compared with £26.3 million in the corresponding quarter of 1964.

In the thirteen-month period from November 1964, when the Central Bank 15 per cent ceiling on the rate of expansion of bank advances became effective, loans and advances declined continuously except for interruptions in December 1964, January, November and December 1965. From February to October 1965, the movement of loans and advances was consistently downward. From April to October 1965, advances were consistently below the level at the end of November 1964. In none of the preceding three years did commercial bank loans and advances exhibit this pattern of movement; the changed pattern may be attributed to

\* A rise was recorded at the end of August, 1965.



CHART IV  
COMMERCIAL BANKING SYSTEM  
TOTAL LOANS AND ADVANCES  
End of Month



the policy of credit restraint in force during the year. The failure of the seasonal upswing in advances to develop before November is explained by the late commencement of the 1965-66 export crop marketing season.

In addition to the general 15 per cent guideline, banks were also directed to curtail advances to hire-purchase companies, general commerce, and individuals for purposes of consumption. A breakdown of commercial bank advances by sectors (*see* Table 15) for 1965 reveals the influence of this specific measure on the distribution of bank loans and advances.

Advances to credit and financial institutions declined from £3.6 million at the beginning of January to £1.6 million at the end of December. This represents a decline of 55.6 per cent in the year. The proportion of such loans to total loans and advances was 1.2 per cent compared with 3.0 per cent at the end of 1964.

The movement of loans and advances to wholesale and retail trade was downward. From £36.2 million at the end of December 1964, advances to this sector rose to £37.3 million at the end of January, falling generally thereafter to £30.6 million at the end of the year. This represents 22.7

**TABLE 15**  
**COMMERCIAL BANKING SYSTEM**  
**LOANS AND ADVANCES BY SECTOR BORROWERS**

(£'s thousands)

<i>Sector Borrowers</i>	1964		1965											
	<i>Nov.</i>	<i>Dec.</i>	<i>Jan.</i>	<i>Feb.</i>	<i>Mar.</i>	<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>August</i>	<i>Sept.</i>	<i>Oct.</i>	<i>Nov.</i>	<i>Dec.</i>
Governments	890	933	954	777	886	863	945	844	882	970	1,113	839	859	990
Public Utility..	673	779	303	411	376	258	313	320	831	1,129	940	1,386	1,605	1,644
Credit and Financial Insti- tutions ..	3,508	3,648	3,286	3,133	2,206	1,993	1,830	1,860	1,605	1,515	1,690	1,440	1,519	1,618
Agriculture ..	34,736	42,527	43,967	38,698	39,704	37,192	33,040	28,461	26,049	24,565	19,629	16,343	35,586	53,412
(a) Direct Loans	26,245	30,223	29,138	27,048	25,160	23,663	21,509	18,776	16,724	16,086	12,853	11,259	29,098	34,169
(b) Discounted														
Produce Paper	8,491	12,304	14,829	11,650	14,544	13,529	11,531	9,685	9,325	8,479	6,776	5,084	6,488	19,243
Mining ..	397	577	653	453	423	426	376	376	416	277	435	430	456	644
Manufacture ..	12,965	13,131	12,879	12,767	12,201	13,090	15,295	15,138	14,882	15,480	15,565	15,861	15,562	14,500
Construction ..	5,516	5,760	5,773	6,316	6,316	6,913	6,661	7,054	6,802	6,925	6,699	6,230	6,267	6,469
General Com- merce ..	37,433	36,214	37,255	34,821	34,697	33,149	34,147	34,853	33,388	34,741	35,661	35,180	35,192	30,633
(a) Direct Loans	34,909	33,467	34,170	31,831	31,596	30,371	31,339	31,855	30,464	31,386	32,439	32,481	33,190	28,846
(b) Bills Dis- counted ..	2,524	2,747	3,085	2,990	3,101	2,778	2,808	2,998	2,924	3,355	3,222	2,699	2,002	1,787
Miscellaneous	20,223	18,837	18,738	20,562	19,906	22,072	19,562	21,435	23,682	24,125	23,266	23,417	25,940	25,118
<b>TOTAL ..</b>	<b>116,141</b>	<b>122,406</b>	<b>123,808</b>	<b>117,938</b>	<b>116,715</b>	<b>115,956</b>	<b>112,169</b>	<b>110,341</b>	<b>108,537</b>	<b>109,727</b>	<b>104,998</b>	<b>101,126</b>	<b>122,986</b>	<b>135,028</b>

per cent of total bank advances outstanding at the end of the year, and compares with 29.6 per cent on the corresponding date a year earlier. Both direct advances and discounts fell over the year.

The growth of consumer imports is estimated to have fallen from an average annual rate of 4.8 per cent in the ten years to 1965 to 2.8 per cent during the year—about one-half the rate of expansion recorded in 1964. The decline in advances to wholesale and retail trade may have contributed to this development.

Commercial bank advances to miscellaneous borrowers (assumed to comprise mainly individuals either as consumers or as businessmen) rose from £18.8 million on 31st December, 1964 to £25.1 million on 31st December, 1965. The increase in this category of advances was about 33 per cent, the same as in 1964. The share of the miscellaneous category of borrowers as a proportion of total loans was 18.6 per cent as against 15.4 per cent at the end of the preceding year. Thus this was the only sector in which the objective of credit restraint did not appear to have been achieved.

Increases were recorded in loans to the productive sectors in 1965. Loans and advances for agricultural marketing, both direct and through bill discounts, rose 25.6 per cent over the year. Of the two forms of

advances for agricultural marketing, produce bill discounts registered the larger increase—56.4 per cent. There was the usual seasonal decline in advances to this sector, starting from February. Between 31st January and end-October, 1965, advances declined by £27.6 million. The rise in the last two months of the year was sharp—£37.1 million, made up of £23.0 million in direct loans, and £14.1 million in produce paper discounted. Overall, advances to this sector of commercial activity continued as the largest accommodation extended to any single sector borrower, representing 39.6 per cent of total loans at the end of the year compared with 34.7 per cent a year earlier.

Advances to the mining sector rose only slightly over the year. The same was true of the manufacturing and construction sectors. Loans to the manufacturing sector declined slightly throughout the first quarter of the year—from £13.1 million at the end of 1964 to a trough of £12.2 million at the end of March. From April, there was a steady rise to a peak of £15.9 million at the end of October. Advances outstanding to the construction sector were relatively unchanged during the year. The ratio of advances to the mining, manufacturing, and construction sectors to total loans and advances remained as in 1964—0.5, 10.7 and 4.7 per cent, respectively.

TABLE 16  
COMMERCIAL BANK INVESTMENTS  
(£'s thousands)

End of month	1964			1965		
	Treasury bills	Other	Total	Treasury bills	Other	Total
January .. .. .	3,378	1,149	4,527	9,138	1,574	10,712
February .. .. .	6,287	1,106	7,393	10,126	1,576	11,702
March .. .. .	6,768	1,083	7,851	8,206	1,586	9,792
April .. .. .	8,310	1,085	9,395	7,858	1,531	9,389
May .. .. .	7,267	1,040	8,307	7,011	1,532	8,543
June .. .. .	9,196	1,039	10,235	6,326	1,555	7,881
July .. .. .	11,294	1,538	12,832	10,822	1,547	12,369
August .. .. .	11,455	1,535	12,990	13,041	1,494	14,535
September .. .. .	9,700	1,533	11,233	16,553	1,494	18,047
October .. .. .	7,673	1,571	9,244	20,074	1,473	21,547
November .. .. .	4,372	1,587	5,959	9,284	1,473	10,757
December .. .. .	5,363	1,597	6,960	6,453	1,473	7,926



Commercial bank advances to governments and public utilities, although higher than at the close of 1964, remained insignificant as a proportion of total loans and advances.

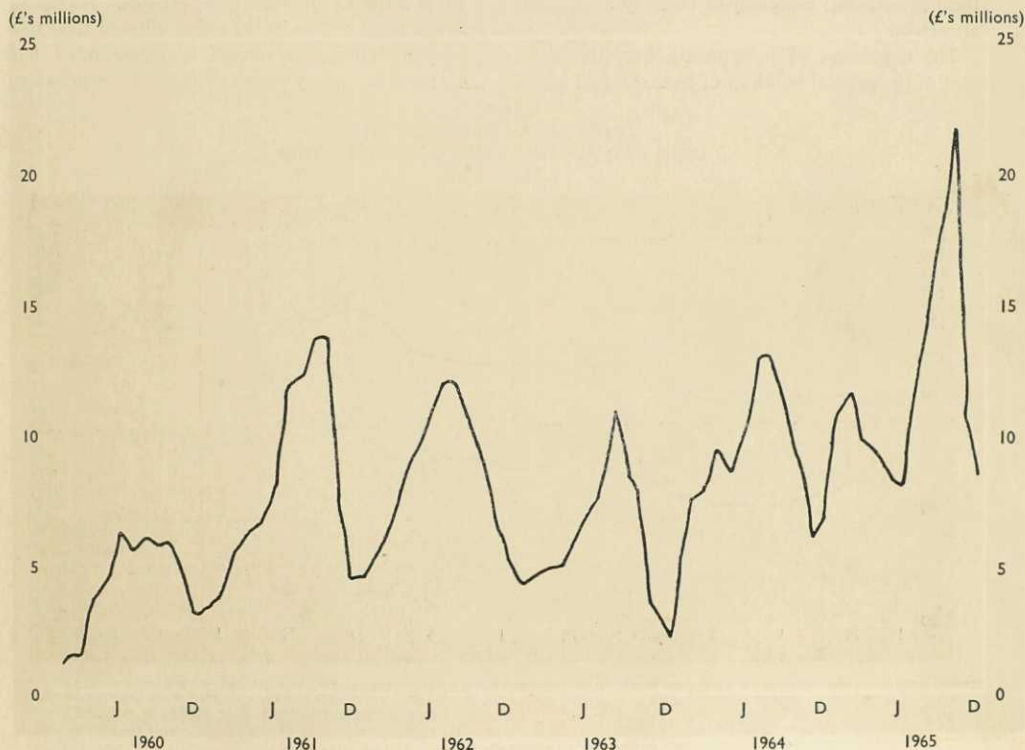
#### Investments

Commercial bank investments as at 31st December, 1965, increased by just under £1 million or 14.3 per cent over the total on the corresponding date of 1964. The monthly average value of investments held was £11.9 million in 1965 compared with £8.9 million in 1964. As in 1964, well over

85 per cent of commercial bank investments were in the government sector. Short-term investment in treasury bills represented about 90.3 per cent of investments in government obligations, or more than 87 per cent of the monthly average of total investments held during the year. Investment in medium- and long-term government securities remained nominal.

The magnitudes of commercial bank treasury bill holdings were larger than in 1964, ranging from £6.3 million to £20.1 million in 1965, compared with a range of £3.4 million to £11.5 million in 1964.

CHART V  
COMMERCIAL BANKING SYSTEM  
INVESTMENTS 1960-1965  
(End of Month)



The monthly average holdings in 1965 totalled £10.4 million, £2.9 million larger than in the preceding year. At the end of December, banks held £6.5 million in treasury bills compared with £5.4 million on the corresponding date of 1964. The monthly average value of total investments was £11.9 million in 1965 compared with £8.9 million in 1964.

One of the measures taken by the Central Bank in the fourth quarter of 1964 was to reduce from  $7\frac{1}{2}$  to 3 per cent of commercial bank deposit liabilities the proportion of their overseas liquid assets eligible as part of specified liquid assets for satisfying the liquidity ratio requirement. At the same time the Central Bank, with government consent, raised the treasury bill issue rate from  $3\frac{1}{2}$  to  $4\frac{1}{2}$  per cent, thereby making short-term local investment, especially in treasury bills, more attractive.

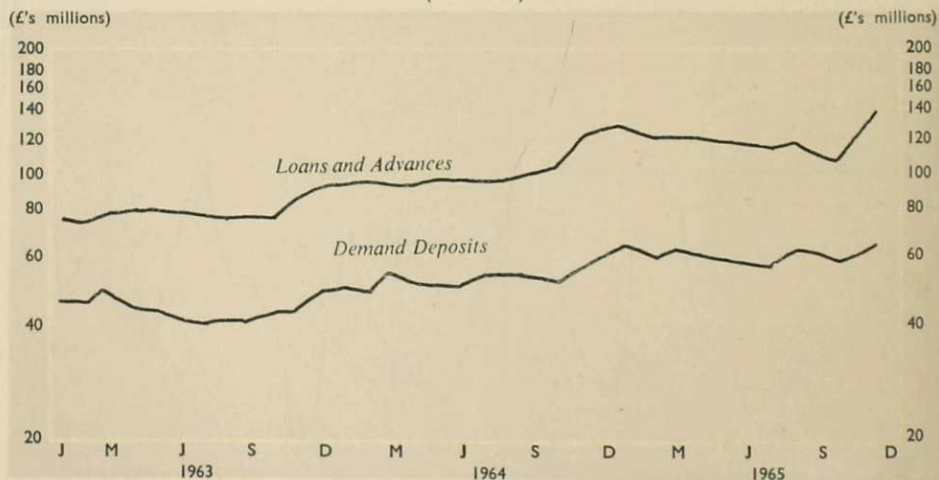
The expansion of investments was, therefore, part of the general build-up of banks' liquid assets

held in Nigeria\* during the year in response to conditions created by these policy measures. The monthly average value of internally held liquid assets was £24.7 million in 1965 compared with 15.6 and £20.0 million in 1963 and 1964, respectively.

The expansion of investment in treasury bills appears, therefore, to have been prompted by, first, the reduced volume of commercial paper available to the money market in 1965; secondly, the policy of restraint on advances to certain sections of the private sector, and lastly, the more attractive treasury bill discount rate than in 1964.

In a seasonal strengthening of their liquidity, preparatory to the commencement of the 1965-66 export crop marketing and Christmas seasons, investments—mainly in treasury bills—were raised to new peaks in the third quarter. Thereafter, investments fell as banks either allowed their treasury bill holdings to run-off or rediscounted them to meet the heavy seasonal demand for advances.

CHART VI  
COMMERCIAL BANKING SYSTEM  
LOAN AND ADVANCES AND DEMAND DEPOSITS  
(Ratio Scale)



\* Defined as vault cash, balances with Central Bank, net internal inter-bank balances, money at call, and treasury bills.

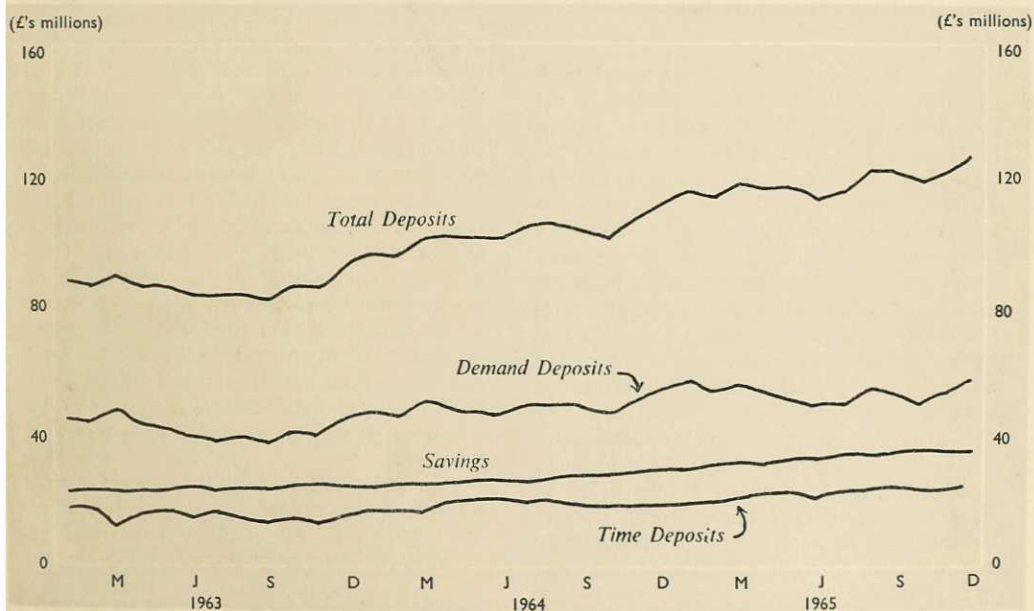
### Banking External Assets

In addition to the effects of overall credit expansion, movements in the banking system's external assets also contributed to the rise in money supply. Net banking external assets rose by £13.9 million to £79.9 million on 31st December, 1965, compared with £10.8 million to £66.0 million on the corresponding date of 1964 (see Table 10). On a disaggregated basis, Central Bank foreign exchange assets totalled £82.6 million\* on 31st December, 1965. The net external position of commercial banks showed significant improvement during the year: their net external liabilities of £15.5 million at the end of 1964 fell to £5.4 million on 31st December, 1965.

### Demand Deposits

Demand deposits at commercial banks rose by 7.1 per cent in 1965 compared with 18.6 per cent in the preceding year. The movement was of the usual seasonal pattern. From a peak of £61.4 million on 31st January, 1965, demand deposits declined continuously to £54.0 million at the end of July as borrowers liquidated advances taken during the peak business season between September 1964 and March 1965. They rose after July, with some interruptions, to nearly £62 million at the year-end. This generally upward movement from the second quarter coincided with the seasonal expansion in loans and advances—a reflection of

CHART VII  
DEPOSITS AT COMMERCIAL BANKS  
JANUARY 1963–DECEMBER 1965  
(End of Month)



\* Excludes federal government external assets and Nigeria's I.M.F. position (see Table 10).



the close association in the movement of bank credit and demand deposits.

### *Savings Deposits*

Savings deposits increased at an annual rate of 17.9 per cent, rising from £34.1 million at the end of 1964 to £40.2 million. This compares with an annual growth rate of 20.9 per cent in the preceding year. The monthly average increase in absolute terms was, however, larger than in 1964. Savings of individuals accounted for well over 90 per cent of aggregate savings deposits.

### *Time Deposits*

Time deposits recorded the highest annual rate of growth—31.4 per cent compared with 21.8 per cent in 1964. For most of the first three quarters, movement of deposits was generally upward. During the fourth quarter, however, when the public need for greater liquidity usually occurs, there was some reduction in time deposits.

### *Other Liabilities*

There was an expansion of commercial bank miscellaneous ('other') liabilities resulting in net miscellaneous liabilities of £3.7 million in contrast to £2.7 million in net miscellaneous assets at the close of 1964. The movement in this category of liabilities exerted a contractive effect of about £6.4 million on money supply at end-1965.

In summary, the net effect of the banking system's operations in the economy in 1965 was a moderate expansion of money supply. Central Bank operations were slightly expansionary—aggregate lending to both private and public sectors diminished marginally. On the other hand, the commercial banks increased their loans to the economy by £11.2 million. As a result, there was a net credit expansion of £10.6 million with the consequent expansionary effect on money supply. With the substantial reduction in commercial bank external liabilities, and an improvement in Central Bank external assets, aggregate foreign assets advanced by £13.9 million, thus intensifying the expansionary effect on money supply. However, an increase of £13.6 million in time and savings deposits and a further decline of the net miscellaneous assets

position by £6.1 million significantly moderated the expansionary influences.

### **Other Developments in the Financial Sector**

#### *National Savings*

National savings\* advanced by 25.9 per cent in the year to £87.5 million, as against a growth rate of 26.7 per cent in 1964. The slight fall in the growth rate in 1965 is explained by a decline in the rate of growth of savings through the National Provident Fund (NPF).

Time and savings deposits with commercial banks, which constituted about 80 per cent of national savings, grew steadily from £57.2 million at the end of December 1964, to £70.5 million at end-1965. This represents an annual rate of increase of 23.2 per cent compared with 21.4 per cent in 1964.

Savings with the Post Office Savings Bank stagnated at about £3.0 million as in the last four years. The lack of growth of this account, in spite of an increasing number of savers with the Savings Bank, is probably explained by the high rate of withdrawal. Since most of those who utilize the Post Office Savings Bank facilities have no access to commercial banks, the lack of growth cannot be attributed solely to interest rate considerations.

Savings under the National Provident Fund rose from £8.9 million at the end of 1964 to £13.7 million at the close of 1965. One of the most significant determinants of the growth rate of savings under the NPF in any given period is the net addition to the number of workers who come under the scheme. About 56,365 workers (net) joined the scheme in 1965 compared with 66,180 in 1964. This factor was primarily responsible for the slow-down in the rate of growth of savings with the Fund.

Cumulative savings through premium bonds, savings certificates and savings stamps are estimated at £135,000 at the end of 1965\*. Response to the

\* Efforts are being made on a continuing basis to widen the coverage of national savings statistics. Adjustments have also been made to show savings through savings certificates and stamps and NPF net of withdrawals. As a consequence of these changes, the figures in this section and in Table 17 are not strictly comparable with those previously published.

**TABLE 17**  
**NATIONAL SAVINGS STATISTICS**

(£'s thousands)

<i>Year and Month</i>	<i>Savings and Time deposits at Commercial Banks</i>	<i>Post Office Savings</i>	<i>Premium Bonds, Savings Certificates, and Savings Stamps</i>	<i>National Provident Fund*</i>	<i>Nigeria Building Society</i>	<i>Total</i>
<b>1962</b>						
December .. .. .	41,644	2,978	8	1,092	n.a.	45,742
<b>1963</b>						
January .. .. .	43,623	2,955	13	1,364	96	48,051
February .. .. .	43,459	2,943	18	1,605	96	48,121
March .. .. .	41,535	3,056	22	1,915	199	46,727
April .. .. .	43,506	3,027	28	2,178	206	48,945
May .. .. .	44,209	3,022	32	2,476	212	49,951
June .. .. .	44,376	3,019	37	2,702	211	50,345
July .. .. .	45,055	3,026	43	3,020	220	51,364
August .. .. .	44,596	3,000	45	3,285	227	51,153
September .. .. .	44,253	3,008	48	3,542	233	51,084
October .. .. .	45,748	3,013	52	3,824	234	52,871
November .. .. .	44,856	2,988	55	4,143	237	52,279
December .. .. .	47,135	2,964	56	4,453	242	54,850
<b>1964</b>						
January .. .. .	49,045	2,920	58	4,765	245	57,033
February .. .. .	49,055	2,914	61	5,079	247	57,356
March .. .. .	49,958	2,990	64	5,424	256	58,692
April .. .. .	52,926	2,979	66	5,764	264	61,999
May .. .. .	54,580	2,962	68	6,183	265	64,058
June .. .. .	54,583	2,935	71	6,422	273	64,284
July .. .. .	54,085	2,945	73	6,752	282	64,137
August .. .. .	56,440	2,950	76	7,132	287	66,885
September .. .. .	54,597	2,951	81	7,501	396	65,526
October .. .. .	54,978	2,954	85	8,077	400	66,494
November .. .. .	55,637	2,960	88	8,505	393	67,583
December .. .. .	57,214	2,949	88	8,893	387	69,531
<b>1965</b>						
January .. .. .	57,675	2,922	90	9,285	392	70,364
February .. .. .	59,506	2,925	95	9,614	386	72,526
March .. .. .	61,997	3,000	103	10,142	394	75,636
April .. .. .	63,087	2,989	105	10,473	396	77,050
May .. .. .	64,686	2,991	110	10,870	398	79,055
June .. .. .	64,301	2,995	113	11,243	406	79,058
July .. .. .	66,440	2,993	119	11,648	429	81,629
August .. .. .	68,093	2,978	121	12,076	433	83,701
September .. .. .	69,101	2,950	126	12,532	457	85,166
October .. .. .	68,859	2,826	132	12,888	478	85,183
November .. .. .	68,314	2,772	132	13,279	478	84,975
December .. .. .	70,509	2,745	134	13,664	481	87,533

\* The data for the National Provident Fund have been adjusted for claims paid. The data, therefore, differ from those in previous Reports.

n.a. Not available.

National Savings Campaign has not been encouraging.

The Nigeria Building Society, which also accepts deposits from the public, recorded total deposits of £481,279 at the end of 1965—an increase of £94,213 or 24.3 per cent over the year. In 1964, the Society recorded an increase of £145,060 or 59.9 per cent in deposit liabilities.

### Money and Capital Markets

Developments in the money and capital markets were mixed in 1965. The monthly issues of treasury bills and amounts outstanding averaged 12.2 and £36.8 million, respectively, compared with 10.9 and £31.4 million in 1964. By contrast, the volume of commercial paper available to the market fell, leading to a general decline in discount and rediscount operations during the year. The call money market continued to gather strength mainly through growing utilization of the facilities outside the Central Bank. The capital market recorded further gains, although the rate of increase in the number and value of transactions fell

by comparison with the performance in 1964.

### Money Market

Activities in the money market during the year were dominated by government fiscal operations. With the rise in government expenditures and a slower rate of revenue receipts, the amount of treasury bills outstanding was raised from £34 million at the close of 1964 to £38 million in January, 1965. This was gradually reduced to £32 million at the end of June, but was thereafter raised to a peak of £42 million at the end of November.\*

On the average, the Central Bank absorbed more than fifty per cent of the monthly issues of treasury bills. The monthly average of the issues taken up by commercial banks (£2.1 million) fell slightly from an average of £2.2 million in 1964. The average holdings, however, remained substantially higher than in 1964 because the banks held bills longer than in the preceding year. The increase in the average monthly investment by the non-bank public was marginal, about £3.6 million compared with £3.5 million in 1964.

TABLE 18  
TREASURY BILL ISSUES AND ALLOTMENTS  
(£'s thousands)

1965	Total issue during period	Taken up by Central Bank	PUBLIC		Bills outstanding at the end of the month
			Taken up by Commercial Banks	Taken up by Non-Bank Public	
January .. .. .	13,000	5,960	1,750	5,290	38,000
February .. .. .	11,000	7,606	1,141	2,253	38,000
March .. .. .	8,000	5,438	981	1,581	35,000
April .. .. .	14,000	6,706	1,402	5,892	33,000
May .. .. .	10,000	5,981	1,308	2,711	32,000
June .. .. .	8,000	5,360	721	1,919	32,000
July .. .. .	16,000	6,687	3,146	6,167	34,000
August .. .. .	13,000	6,318	3,588	3,094	37,000
September .. .. .	13,000	4,520	5,524	2,956	39,000
October .. .. .	15,000	5,851	3,483	5,666	41,000
November .. .. .	14,000	10,045	419	3,536	42,000
December .. .. .	11,000	6,231	2,215	2,554	40,000
AVERAGE .. .. .	12,166.7	6,391.9	2,139.8	3,634.9	36,750

\* Federal government average holdings of treasury bills amounted to £5.0 million compared with £5.2 million in 1964.



The withdrawal of established financing facilities for cocoa by the financing consortium during the 1964-65 crop season reduced the volume of commercial bills in the market in 1965. It also eased the pressure on bank liquidity during the year. As a result, rediscounting and refinancing of commercial paper at the Central Bank fell off somewhat during the year; rediscounting of treasury bills, however, intensified. A total of £55.7 million in treasury bills rediscounts (£39.2 million) and commercial paper refinance/rediscounts (£16.5 million) was carried out at the Central Bank during the year. This compares with £56.2 million in 1964, consisting of £26.5 million in treasury bills and £29.7 million in commercial paper.

The magnitude of commercial bank discount operations fell in 1965 owing to influences already discussed\*. Acceptance houses increased their investments in the discount market from £0.7 million at end-1964 to £1.2 million at the end of 1965.

Financial institutions utilized call money facilities to a larger extent in 1965. The weekly average balance of the Call Money Fund at the Central Bank was £2,086,000 compared with £2,615,000 in 1964. The average weekly recalls were larger than average placements in 1965, reflecting a general tightness in the call market. The average weekly movement of funds through the Call Money Fund in 1965 compared with 1964 is shown below.

Call facilities outside the Central Bank continued to experience substantial growth. Aggregate funds placed on call with acceptance houses rose at an annual rate of 27.3 per cent—from £345,000 on 31st December, 1964 to £781,189 at the end of 1965. Placements by commercial banks totalling £640,000 more than doubled over the year, while those by

non-banks advanced by 66.1 per cent to £141,189.

### Capital Market

Securities offered for public subscription during the year totalled £16.9 million, £15 million of which represented Government stocks. This compares with issues totalling £22.3 million in 1964, of which £20 million represented government securities. The 1965 issues, which were quoted on the Stock Exchange, consisted of the following:

#### Government Stocks

- £2 million 5 per cent Federal Republic of Nigeria Second Development Stock, 1971;
- £3 million 5½ per cent Federal Republic of Nigeria Second Development Stock, 1980;
- £10 million 6 per cent Federal Republic of Nigeria Second Development Stock, 1989.

#### Industrial Securities

1. Textile Printers of Nigeria Limited  
£1.3 million 8 per cent Debenture Stock 1976-80.
2. Guinness (Nigeria) Limited 600,000  
5s Ordinary shares at 20s. *W 2,100*

The two industrial issues were fully subscribed. The Guinness shares, which were issued at a premium of 300 per cent, were over-subscribed.

The subscription lists for the government issue were opened on 8th February and closed on 8th March, 1965. As in the case of the two preceding loans, public subscription to the 1965 issue was small—only £1.2 million or eight per cent. All the three stocks were under-subscribed. The unsubscribed portion of £13.8 million was taken up by the Central Bank.

Year	Amount placed	Amount Recalled	Net Balance	Net Balance	
				High	Low
(£'s thousands)					
1964	3,806	3,717	2,615	3,223	1,797
1965	3,093	3,116	2,086	2,771	1,433

\*See Investments.

**TABLE 19**  
**FEDERAL REPUBLIC OF NIGERIA SECOND DEVELOPMENT LOAN:**  
**INITIAL ALLOTMENTS**  
 (£'s thousands)

<i>Investors</i>	1971	1980	1989	<i>Total</i>	<i>Percentage Distribution</i>
Commercial Banks .. .. .	25	—	—	25	0.2
Individuals .. .. .	29	3	12	44	0.3
Savings Type Institutions .. .. .	436	40	167	643	4.3
Statutory Boards/Corporations .. .. .	254	—	38	292	1.9
Other Corporations .. .. .	5	7	—	12	0.1
Insurance Companies .. .. .	35	25	160	220	1.5
<b>SUB-TOTAL .. .. .</b>	<b>784</b>	<b>75</b>	<b>377</b>	<b>1,236</b>	<b>8.3</b>
Taken up by Central Bank of Nigeria .. .. .	1,216	2,925	9,623	13,764	91.7
<b>TOTAL .. .. .</b>	<b>2,000</b>	<b>3,000</b>	<b>10,000</b>	<b>15,000</b>	<b>100.0</b>

The growth of trading on the Lagos Stock Exchange during the year was marginal. The number of transactions reported rose by only 33 in 1965 compared with 274 in 1964. The value increased by £0.9 million compared with £1.8 million in the preceding year.

The number of transactions in industrial securities was up by only 46 compared with 167 in 1964. There was a decline of 13 in the number of transactions involving government stocks in contrast with an increase of 109 or 37.0 per cent in the preceding year. However, in 1965, the value of transactions in government stocks was 21.9 per cent higher than in 1964. By contrast, the value of trading in industrials declined by 32.5 per cent. Altogether the market absorbed about £9.7 million of government securities including £1.3 million of initial subscription to new issues during the year compared with £8.8 million in 1964.

The Nigerian Industrial Development Bank Limited sanctioned an additional £1.2 million in

loans and debentures, and equity participation during the year as against £1.4 million in the previous year. During the year, disbursement of the 1965 sanctions, and the undisbursed part of the 1964 sanctions, totalled £0.9 million. The company's investment holdings totalled £2.8 million on 31st December, 1965 as against £1.7 million at the close of 1964. There was increased demand on the NIDB for business finance during the year; inadequate financial resources appeared to have been the major constraint on its expansion of investment activities. Arrangements to increase the resources of the company were already in hand before the close of 1965.

#### Interest Rates

In Chart VIII are shown movements in selected interest rates from 1960 to 1965. It is seen that apart from a rise in the Central Bank Refinance Rate from 4½ to 5 per cent per annum for the 1965-66 crop season, all the other rates remained as in 1964.

TABLE 20

## LAGOS STOCK EXCHANGE TRANSACTIONS

MONTH	NUMBER				VALUE (£'s THOUSANDS)			
	1964	1965			1964	1965		
	<i>Total</i>	<i>Total</i>	<i>Government</i>	<i>Industrial</i>	<i>Total</i>	<i>Total</i>	<i>Government</i>	<i>Industrial</i>
January .. ..	68	92	34	58	463.9	559.4	532.3	27.1
February .. ..	58	81	18	63	627.4	634.8	509.2	125.6
March .. ..	80	87	24	63	453.8	555.6	479.3	76.3
April .. ..	68	77	21	56	494.7	425.7	331.3	94.4
May .. ..	67	103	32	71	559.1	848.6	744.6	104.0
June .. ..	82	76	32	44	318.1	576.7	554.3	22.4
July .. ..	76	107	35	72	368.4	740.8	706.4	34.4
August .. ..	95	86	43	43	609.3	1,013.9	933.5	80.4
September .. ..	90	66	34	32	874.3	489.1	481.0	8.1
October .. ..	92	76	34	42	639.4	1,077.3	1,007.8	69.5
November .. ..	92	83	43	40	806.8	473.5	428.0	45.5
December .. ..	117	84	41	43	780.9	534.3	487.2	47.1
TOTAL ..	985	1,018	391	627	6,996.1	7,929.7	7,194.9	734.8



TABLE 21

## HOLDINGS OF DEVELOPMENT STOCKS

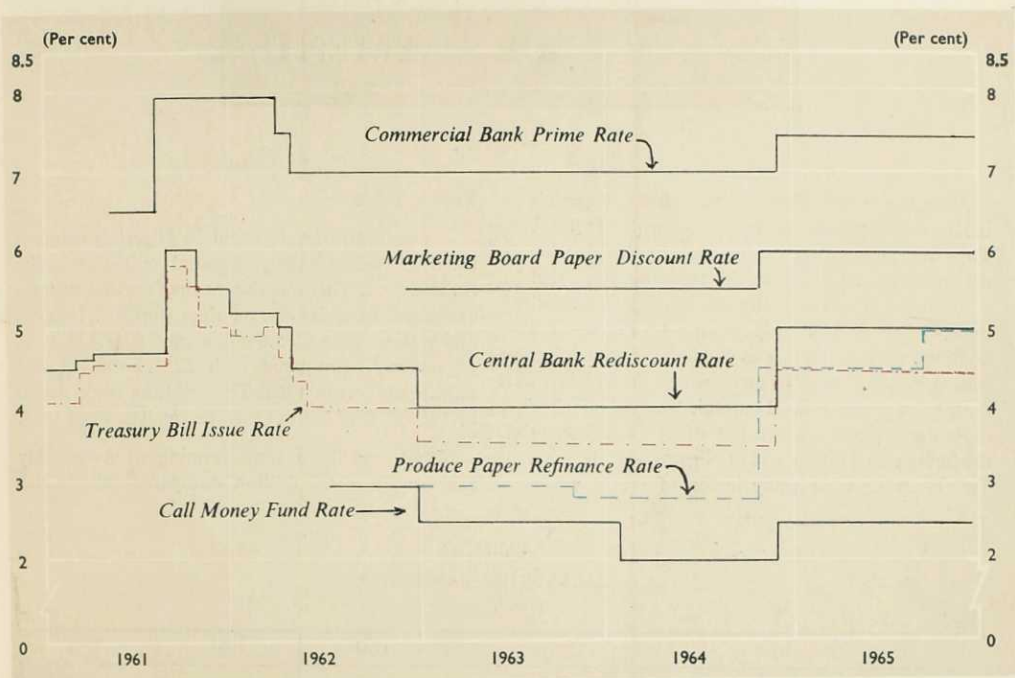
(£'s thousands)

Holders	31-3-64		31-12-64		31-3-65		30-6-65		30-9-65		31-12-65	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Commercial Banks .. .. .	578.0	—	542.0	—	562.0	—	562.0	—	562.0	—	547.0	—
Individuals .. .. .	249.3	6.5	224.6	6.5	268.0	6.5	273.8	5.5	269.2	4.5	267.5	4.5
Savings Type Institutions .. .. .	23,777.2	607.5	28,205.1	666.0	30,672.9	687.5	30,703.3	715.5	33,242.4	660.8	34,987.6	704.5
Statutory Boards/Corporations .. .. .	7,895.5	—	7,035.5	—	7,609.0	—	7,577.0	—	10,520.0	42.0	7,489.2	42.0
Other Corporations .. .. .	1,048.0	—	672.1	—	556.5	—	673.2	—	590.0	—	596.3	—
Local Governments (including Regions) .. .. .	950.5	5.0	2,097.5	—	2,113.3	—	4,071.9	—	4,071.6	—	4,072.7	—
Insurance Companies .. .. .	512.0	107.0	569.0	77.0	889.0	77.0	967.0	82.0	992.0	82.0	1,092.0	82.0
Central Bank .. .. .	18,485.3	—	13,731.3	—	25,513.3	—	23,325.3	—	17,041.0	—	19,027.9	—
Central Bank Sales not yet classified .. .. .	133.2	—	128.4	—	—	—	—	—	877.5	—	41.8	—
TOTAL .. .. .	53,629.0	726.0	53,205.5	749.5	68,184.0	771.0	68,152.0	803.0	68,165.7	789.3	68,122.0	833.0
GRAND TOTAL .. .. .	54,355		53,955		68,955		68,955.0		68,955.0		68,955.0	

(a) = Domestic

(b) = Foreign

CHART VIII  
 SELECTED INTEREST RATES  
 (End of Month)



# BALANCE OF PAYMENTS

After ten years of persistent deficits, Nigeria's balance of payments moved into surplus in 1965. This development is attributable to the sizeable reduction of the deficit in the trade account, and a continued increase in the inflow of private and official capital. Net outpayments on the services account increased further as would be expected, but was more than offset by an increased net inflow of both private and official capital. The net effect of these developments was a rise of £11.9 million in the foreign exchange assets of Nigeria over the year. This contrasts with heavy losses of recent years.

## Visible Trade

A significant development in Nigeria's external trade in 1965 was the substantial reduction in the trade deficit. This was due to the fact that exports expanded at a faster rate than imports. Imports and exports were £275.6 million and £268.1 million, respectively, compared with £254.3 million and £214.6 million in 1964. The resulting trade deficit in 1965 of £7.5 million was the smallest since 1956.

Imports in 1965 were running at a monthly average of £23.0 million compared with £21.2

TABLE 22  
BALANCE OF PAYMENTS\*  
(£'s millions)

Accounts	1963	1964	1965
<b>VISIBLE TRADE</b>			
Exports, f.o.b.† .. .. .	186.0	211.0	263.6
Imports c.i.f.† .. .. .	200.6	245.3	265.6
Trade Balance .. .. .	-14.6	-34.3	-2.0
<b>INVISIBLE TRANSACTIONS</b>			
Services (net) .. .. .	-37.2	-52.4	-59.2
Balance on goods and services .. .. .	-51.8	-86.7	-61.2
<b>TRANSFER PAYMENTS</b>			
Private (net) .. .. .	-5.2	-6.4	-6.5
Official (net) .. .. .	+2.7 + 2.5	+6.6	+6.8
<b>CAPITAL TRANSACTIONS</b>			
Private (net) .. .. .	+37.9	+56.6	+58.9
Official (net) .. .. .	-3.3	+17.2	+25.9
Net change in official and banking assets [(-) increase; (+) decrease] .. .. .	+45.0	+16.7	-11.9
<b>ERRORS AND OMISSION</b> .. .. .	-25.1	-4.0	-12.0

\* Revised estimates for 1963 and 1964; 1965 data are provisional.

† Merchandise trade figures shown include certain coverage and valuation adjustments and differ from the reported trade statistics; the latter are used in this Report under 'Visible Trade'.



34.6

TABLE 23  
EXTERNAL TRADE  
(£'s millions)

Item	1963	1964	1965*
Imports (c.i.f.) .. .. .	207.6	254.3	275.6
Exports and Re-exports (f.o.b.) .. .. .	189.3	214.6	268.1
Balance of Trade .. .. .	- 18.3	- 39.7	- 7.5

\* Provisional.

Source: Federal Office of Statistics.

million in 1964. Although expenditure on all the major import groups increased in 1965, the proportion of consumer goods imports (durable and non-durable) to total imports continued to decline (see Table 24). Consumer goods imports as a percentage of total imports declined from 46.2 per cent in 1964 to 43.7 per cent in 1965. In contrast, the share of capital goods rose from 28.0 per cent in 1964 to 30.7 per cent in 1965.

The shift in the composition of imports is accounted for by three factors, the first two of which are closely related. The first is the growth of import substitutes; the second is the growing pace of industrialization and the progressive execution of public capital projects under the six-year development plan. The large inflow of foreign

official and private capital has been reflected in the substantial increases in the import of machinery and transport equipment and other types of capital goods. The third consists of the fiscal measures of recent years and the monetary measures of 1964-65.

Exports (including re-exports) were strongly upwards in 1965, running at a monthly average of £22.3 million compared with about £18 million in 1964. The remarkable improvement in export performance was due principally to a more than 100 per cent increase in the export receipts from crude petroleum, which rose from £32.1 million in 1964 to about £68.1 million in 1965 (see Table 25). However, the importance of crude petroleum export to the balance of payments has to be measured in

TABLE 24  
IMPORTS BY MAJOR GROUPS

	<i>£'s Millions</i>			<i>Percentage of Total</i>		
	1963	1964	1965*	1963	1964	1965*
Consumer Imports: .. .. .	111.1	117.3	120.4	53.5	46.2	43.7
Non-durables .. .. .	93.1	97.8	98.1	44.8	38.5	35.6
Durables .. .. .	18.0	19.5	22.3	8.7	7.7	8.1
Capital Goods .. .. .	47.3	71.4	84.6	22.8	28.0	30.7
Raw Materials .. .. .	45.7	62.3	67.0	22.0	24.5	24.3
Miscellaneous .. .. .	3.5	3.3	3.6	1.7	1.3	1.3
TOTAL .. .. .	207.6	254.3	275.6	100.0	100.0	100.0

\* Provisional.

**TABLE 25**  
**EXPORTS OF MAJOR COMMODITIES\***

Commodity	Quantity ('000) (In tons unless otherwise stated)			£'s Millions			Per cent of Total Exports		
	1963	1964	1965	1963	1964	1965	1963	1964	1965
Cocoa	171.6	196.8	295.6	32.4	40.1	42.5	17.1	18.7	15.8
Groundnuts	614.2	544.4	511.5	36.6	34.3	37.8	19.3	16.0	14.1
Groundnut Oil	69.4	79.7	90.8	6.5	8.1	10.0	3.4	3.8	3.7
Palm-Kernels	398.3	394.2	415.5	20.8	21.0	26.6	11.0	9.8	9.9
Crude Petroleum	3,695	5,783	13,019	20.2	32.1	68.1	10.7	15.0	25.4
Natural Rubber	63.2	71.9	67.6	11.8	12.1	10.9	6.2	5.6	4.1
Raw Cotton	39.9	25.3	13.5	9.5	6.1	3.3	5.0	2.9	1.2
Palm-Oil	125.7	134.2	149.3	9.4	10.8	13.5	5.0	5.0	5.0
Tin Metal	9.7	10.5	10.6	8.8	12.5	14.9	4.6	5.8	5.6
Timber	—	—	—	6.6	8.0	6.5	3.5	3.7	2.4
Hides and Skins (cwt.)	159.4	167.6	171.5	4.2	4.6	5.6	2.2	2.1	2.1
Total Major Commodities	—	—	—	166.8	189.7	239.7	88.0	88.4	89.3
Other Commodities †	—	—	—	22.5	24.9	28.4	12.0	11.6	10.7
TOTAL EXPORTS	—	—	—	189.3	214.6	268.1	100.0	100.0	100.0

\* Data for 1965 are provisional.

† Including re-exports.

Source: Federal Office of Statistics.

terms of its net contribution to the payments account. This\* may be gauged, for any given period by the magnitude of net investments, local operating expenses, payments to the government of taxes, fees, royalties etc., less the amount representing the portion of total local expenditures financed from local currency revenues earned from operations within Nigeria.

Receipts from most of the important traditional exports also recorded increases. The export earnings from cocoa amounted to £42.5 million in 1965 compared with £40.1 million in 1964. The decline in the prices of cocoa in 1964-65 was drastic; that the level of 1965 cocoa export receipts rose is explained by the substantial increase in the tonnage of exports. Although the tonnage of palm-kernel and palm-oil exported during the year increased, the rise in export receipts from each was due mainly to improved prices. The rise in receipts from groundnuts and tin metal exports was due solely to an increase in prices.

The declines in export receipts from natural rubber, raw cotton and timber in 1965 compared with 1964 were partly attributable to decreases in export volumes, and partly to price declines. The quantitative falls in the exports of rubber and cotton were not due to declines in output, but to increasing consumption by local manufacturing industries. This diversion of primary export commodities to local industries brings about a reduction of foreign exchange receipts from exports. However, since these commodities feed import substitute industries, the loss of foreign exchange resulting from a curtailment of exports is at least offset by a fall in imports.

#### **Direction of Trade**

The direction of Nigeria's external trade continued to follow the pattern established in recent years (see Table 26). The U.K. remained Nigeria's largest, though relatively declining market for both imports and exports. On the other hand, the proportion of the country's trade with the E.E.C., the U.S.A. and Eastern Europe continued to in-

crease. The growth in the proportion of trade with these areas, especially the E.E.C., reflects Nigeria's continued search for wider markets for her exports, aggressive export promotion of E.E.C. countries, and the effects of growing development assistance which is tied to imports.

In the first ten months of 1965, 31.2 per cent of Nigeria's imports came from U.K. as against 31.1 and 34.6 per cent in the corresponding periods of 1964 and 1963, respectively. The E.E.C. supplied 24.8 per cent of Nigeria's imports as against 22.0 and 23.3 per cent in the corresponding periods of 1963 and 1964, respectively. In the same period, 37.4 per cent of Nigeria's exports went to the U.K. compared with 39.8 and 37.1 per cent in 1963 and 1964, respectively. The E.E.C.'s share was 34.7, 36.0 and 36.3 per cent for the same period of 1963, 1964 and 1965, respectively. Overall, Nigeria's trade with the U.K. and the E.E.C. continued to generate a favourable trade balance. Among the E.E.C. countries, Nigeria's trade with Netherlands showed the largest favourable balance.

The United States' share of Nigeria's exports rose to 9.7 per cent in the first ten months of 1965 compared with 6.5 per cent in the corresponding period of 1964. Imports from the U.S. were 11.5 per cent of total imports in 1965, the same as in 1964. This resulted in the reduction of Nigeria's trade imbalance with the U.S. from £12.2 million in 1964 to £4.3 million in 1965. Nigeria continued to record substantial trade imbalance with Japan despite the measures taken in 1964 and 1965. The deficit during the first ten months of 1965 amounted to £19.1 million compared with a deficit of £21.2 million in the corresponding period of 1964. A growing deficit was also experienced in Nigeria's trade with Hong Kong.

Nigeria's trade with Eastern European countries remained relatively small in 1965; however, the trade imbalance with these countries was eliminated and a surplus realized.

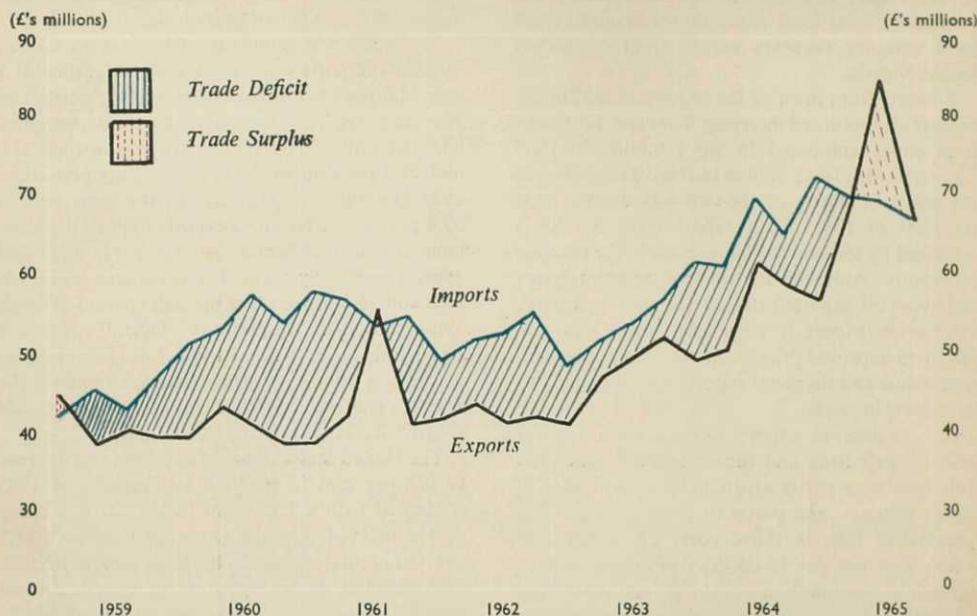
#### **Invisible Transactions**

The deficit in the services account (including transfer payments) increased further in 1965—from £52.4 million in 1964 to £59.2 million. A rise in net

\* No data are at present available to the Central Bank for gauging this contribution.



CHART IX  
EXTERNAL TRADE—SEASONALLY ADJUSTED  
1959-1965 (Quarterly)



outpayments on account of travel, investment income and miscellaneous services was primarily responsible for the expanded deficit. Investment income accruing to foreign-owned enterprises rose further in 1965. Net payment of interest on loans continued to rise in line with the increase in overseas borrowings. Payments, particularly by the oil companies for contract services, contributed significantly to the expanded deficit in the miscellaneous services account.

#### Capital Transactions

The net inflow of foreign capital on both official and private accounts ran at a higher rate than in 1964. Capital receipts on official account in 1965 are estimated at £34.9 million compared with

£19.4 million in 1964. Repayments of official loans aggregated about £9.0 million compared with £2.2 million in 1964.

Net private capital inflow continued at a higher rate during the year. About £58.9 million (net) is estimated to have come into Nigeria compared with £56.6 million in 1964. Of the £58.9 million, retained earnings from operations in Nigeria account for an estimated 35 per cent. The balance of 65 per cent represents capital inflow from overseas.

#### Foreign Exchange Assets

As stated earlier, the deficit in the services account widened in 1965 while the trade deficit was substantially reduced. However, the adverse effect

TABLE 26  
DIRECTION OF EXTERNAL TRADE

January-October\*

	IMPORTS						EXPORTS†						TOTAL TRADE (IMPORTS+EXPORTS)					
	£'s millions			Per cent of total Imports			£'s millions			Per cent of total Exports			£'s millions			Per cent of total Trade		
	1963	1964	1965	1963	1964	1965	1963	1964	1965	1963	1964	1965	1963	1964	1965	1963	1964	1965
<i>Commonwealth Countries</i> ...	64.4	73.9	81.0	38.6	35.7	35.8	66.9	75.9	88.9	42.6	42.3	39.5	131.3	149.8	169.9	40.5	38.8	37.8
United Kingdom ...	57.7	64.4	70.5	34.6	31.1	31.2	62.5	66.5	84.3	39.8	37.1	37.4	120.2	130.9	154.8	37.1	33.9	34.4
Other Commonwealth Countries‡ ...	6.7	9.5	10.5	4.0	4.6	4.6	4.4	9.4	4.6	2.8	5.2	2.1	11.1	18.9	15.1	3.4	4.9	3.4
<i>The European Economic Community</i> ...	36.8	48.3	56.0	22.0	23.3	24.8	54.5	64.6	81.8	34.7	36.0	36.3	91.3	112.9	137.8	28.2	29.3	30.6
West Germany ...	12.3	18.0	23.6	7.4	8.7	10.4	12.5	22.6	23.2	8.0	12.6	10.3	24.8	40.6	46.8	7.7	10.5	10.4
Italy ...	7.3	10.8	10.8	4.4	5.2	4.8	7.4	7.2	10.1	4.7	4.0	4.5	14.7	18.0	20.9	4.5	4.7	4.7
France ...	6.2	8.2	10.2	3.7	4.0	4.5	11.8	7.2	13.8	7.5	4.0	6.1	18.0	15.4	24.0	5.6	4.0	5.3
Belgium-Luxemburg ...	2.4	2.9	2.7	1.4	1.4	1.2	4.1	4.3	5.9	2.6	2.4	2.6	6.5	7.2	8.6	2.0	1.9	1.9
Netherlands ...	8.6	8.4	8.7	5.1	4.0	3.9	18.7	23.3	28.8	11.9	13.0	12.8	27.3	31.7	37.5	8.4	8.2	8.3
<i>United States</i> ...	14.0	23.8	26.1	8.4	11.5	11.5	14.7	11.6	21.8	9.3	6.5	9.7	28.7	35.4	47.9	8.9	9.2	10.7
<i>Japan</i> ...	20.1	23.5	21.3	12.0	11.4	9.4	2.0	2.3	2.2	1.3	1.3	1.0	22.1	25.8	23.5	6.8	6.7	5.2
<i>Hong Kong</i> ...	4.0	3.7	3.4	2.4	1.8	1.5	0.6	0.6	0.1	0.4	0.3	0.04	4.6	4.3	3.5	1.4	1.1	0.8
<i>Eastern Europe</i> ...	5.8	6.2	6.5	3.5	3.0	2.9	1.1	4.2	7.5	0.7	2.4	3.3	6.9	10.4	14.0	2.1	2.7	3.1
<i>Others</i> ...	21.9	27.6	31.8	13.1	13.3	14.1	17.3	20.1	22.9	11.0	11.2	10.2	39.2	47.7	53.1	12.1	12.2	11.8
<b>TOTAL</b> ...	167.0	207.0	226.1	100.0	100.0	100.0	157.1	179.3	225.2	100.0	100.0	100.0	324.1	386.3	449.7	100.0	100.0	100.0

\* Data for 1965 are provisional

† Including re-exports

‡ Excluding Hong Kong

Source: Federal Office of Statistics

of the overall deficit on the trade and services account was more than offset by the increased inflow of private and official capital. The downward movement in external reserves—a concomitant of the persistent deficit in the balance of payments of the last ten years—was, therefore, reversed in 1965. By the end of the year, the value of Nigeria's foreign exchange assets had risen by £11.9 million to £93.1 million compared with

£81.2 million\* at the end of 1964. This gain in external reserves contrasts with a loss of £16.7 million in 1964.

The Central Bank now holds more than 85 per cent of the country's foreign exchange reserves. This development accords with the policy of centralizing the external assets of the country in the Bank.

TABLE 27  
MOVEMENTS IN FOREIGN EXCHANGE ASSETS HOLDINGS  
(£'s millions)

Holders	1964		1965	
	Credit	Debit	Credit	Debit
1. Central Bank .. .. .	8.3	21.3	21.1	26.2
2. Federal Government .. .. .	8.9	2.4	1.5	0.2
3. Regional Governments and Marketing Boards	6.1	—	4.9	1.0
4. Other Official Institutions .. .. .	—	0.2	—	1.9
5. I.M.F. Position .. .. .	—	—	—	—
6. Commercial Banks .. .. .	23.2	5.9	—	10.1
BALANCE .. .. .	16.7	—	—	11.9

TABLE 28  
FOREIGN EXCHANGE ASSETS BY HOLDERS  
(£'s millions)

Holders	1964	1965
Central Bank .. .. .	77.5	82.6
Federal Government .. .. .	2.2	0.9
Regional Governments .. .. .	5.9	2.6
Marketing Boards .. .. .	2.3	1.7
Other Official Institutions .. .. .	7.0	8.9
I.M.F. Position .. .. .	1.8	1.8
Commercial Banks .. .. .	—15.5	—5.4
TOTAL .. .. .	81.2	93.1

\* Revised and adjusted.



## ORGANIZATIONAL AND ADMINISTRATIVE DEVELOPMENTS

The Board of Directors of the Central Bank of Nigeria held ten meetings during 1965. Eight of the meetings were held in Lagos, one in Enugu and one in Benin City.

Chief D. N. Nwandu was appointed to the Board of Directors on 1st February, 1965, in succession to Mr. Justice Chuba Ikepeazu who had resigned his membership of the Board on being appointed a Judge of the High Court of Lagos. Alhaji Abdu Gusau was reappointed a Director on 1st July, 1965, for another term of three years.

The Advisory Committee of the Bank, consisting of the Ministers of Finance in the Federation and the Governor of the Central Bank, held two meetings during the year: the first in Enugu on 5th August, and the second in Benin City on 2nd December. During the meetings, the Ministers reviewed, and expressed satisfaction with the progress made by the Central Bank.

In continuation of its programme of extension of operations into the regions, an additional branch of the Bank was officially opened in Ibadan in December 1965. The foundation stones of two additional branches in Enugu and in Benin City were laid during the year. The Enugu Branch is expected to be completed, and to commence operations in 1966; the Benin Branch early in 1967.

Internal operations and organizational structure of the Bank was further extended during the year by the constitution of the Audit Office into a Department. This brought the number of operating departments of the Bank to four as against three in the preceding year. Mr E. N. Ukochio was appointed Head of the Audit Department. Mr

F. A. Ijewere was appointed Secretary, and Mr A. E. Ekukinam, Director of Research and Head of the Research Department. Arrangements were also concluded with the Federal Ministry of Finance to incorporate the Bank Examination staff, hitherto part of the Ministry, into the Bank's service. The Banking Examiners are expected to join the staff of the Central Bank early in 1966.

The Bank continued to push forward its staff training programme during the year. Towards the end of the year, two members of the staff of the Research Department travelled to the United States for postgraduate studies in economics at the University of Oregon under the U.S.A.I.D. assistance programme. Another member of the Department also received admission into the University of Ibadan for postgraduate work in economics. Earlier in the year, a senior member of the Department, who was pursuing a postgraduate course in Development Economics at Williams College, Williamstown, Massachusetts, rejoined the Department. Before returning to the Bank, he spent a period of internship with the World Bank in Washington, D.C.

A senior member of the Bank staff, who participated in the International Monetary Fund Training Programme in Washington early in the year, returned to the Bank; another will take part in the Course beginning in April 1966. Thirty-two other members of the staff completed various training courses in management supervision, banking and statistics arranged locally during the year. Two more members of the staff entered the Statistical Training School, run by the Federal Office of

Statistics in Lagos, in November for the course ending in July, 1966.

During the year, the Deputy Governor, Dr A. N. Abai, attended the Annual Meetings of the International Monetary Fund and the World Bank in his capacity as temporary alternate Governor of the Fund. He also attended the Commonwealth Economic Consultative Council meeting held in Jamaica from 22nd to 23rd September, 1965.

In connection with the establishment of the African Development Bank (A.D.B.) in Abidjan, Ivory Coast, the General Manager of the Central Bank, Mr O. O. Vincent, spent a considerable part

of the year on the business of the A.D.B. in his capacity as a Vice-President of the Development Bank.

Mr R. K. Barton, the last officer of the Bank of England seconded to the Bank, returned to the Bank of England. The Bank would like to place on record its appreciation of the assistance which has been rendered to it during its formative stage by the Bank of England.

The number of the Bank staff rose from 660 at the end of 1964 to 840 in 1965. This twenty-seven per cent increase in the numerical strength of the staff is a reflection of the substantial expansion in the activities of the Bank during the year.





## LIABILITIES

1964		£	£
£	CAPITAL		
1,500,000	Authorized . . . . .		1,500,000
1,250,000	Subscribed and paid up by Federal Government . . . . .		1,250,000
990,851	GENERAL RESERVE . . . . .		1,211,346
	CURRENCY IN CIRCULATION		
84,961,873	Notes . . . . .	85,643,368	
22,395,075	Coin . . . . .	23,299,175	108,942,543
	DEPOSITS		
1,955,615	Governments . . . . .	1,415,920	
1,154,531	Bankers . . . . .	1,299,414	
1,013,588	Other . . . . .	1,153,433	3,868,767
3,229,512	OTHER LIABILITIES . . . . .		4,267,742
<u>116,951,045</u>			<u>£119,540,398</u>

A. MAI-BORNU  
*Governor.*

J. A. OBAHOR  
*Director.*

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 1964

TRANSFER TO GENERAL RESERVE (In accordance with Section 7(1)(a) of the Central Bank of Nigeria Act (Chapter 30))	£ 220,495
BALANCE PAYABLE TO FEDERAL GOVERNMENT (In accordance with Section 7(3) of the Central Bank of Nigeria Act)	1,543,466
	<u>£1,763,961</u>

# OF NIGERIA

31st DECEMBER 1965

## ASSETS

1964		£
7,074,890	GOLD . . . . .	7,074,890
	CONVERTIBLE CURRENCIES	
56,866,060	Foreign Government Securities and balances with foreign Banks	56,529,647
63,940,950	TOTAL EXTERNAL RESERVE . . . . .	63,604,537
18,543,147	FEDERAL GOVERNMENT SECURITIES . . . . .	28,377,506
14,083,749	OTHER SECURITIES . . . . .	19,542,140
18,361,311	REDISCOUNTS AND ADVANCES . . . . .	6,069,410
373,445	FIXED ASSETS at cost, less amounts written off . . . . .	290,457
1,648,443	OTHER ASSETS . . . . .	1,656,348
<u>£116,951,045</u>		<u>£119,540,398</u>

O. O. VINCENT  
*General Manager.*

J. C. EMEZIE  
*Deputy General Manager.*

YEAR ENDED 31st DECEMBER 1965

### NET PROFIT FOR THE PERIOD

After transfer to pension fund and provision for depreciation of fixed assets and after providing for contingencies . . . . .

1,763,961

£1,763,961

### REPORT OF THE AUDITORS

As Auditors appointed under Section 44 (1) of the Central Bank of Nigeria Act (Chapter 30), we have examined the above balance sheet and profit and loss account which are in agreement with the books of account. In our opinion proper books of account have been kept. We have obtained all information and explanations which we considered necessary for our audit and in our opinion these accounts show a true, and fair view of the state of the Bank's affairs at 31st December, 1965 and of the profit, ascertained in the manner indicated, for the year ended on that date.

Lagos,  
29th January, 1966

COOPER BROTHERS & CO.  
*Chartered Accountants.*

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