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ECONOMIC & FINANCIAL

UPDATE

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ECONOMIC AND FINANCIAL UPDATE (THIRD QUARTER 2008)

SECTORAL UPDATES

THE ECONOMY IN GENERAL

The Federal Government announced a three-phase implementation strategy towards the realization of Vision 2020 targets. The implementation, which would be carried out under three distinct categories namely, Rebuilding, Transformation and World-class Service, would take off in 2009.

Also, new formulae for the sharing of the federal government's Consolidated Revenue Fund meant for intervention in the Universal Basic Education Scheme was introduced. The new formulae consist of 50 percent matching grant, 14 percent Educational Imbalance and 5 percent for Good Performance, while the physically and mentally challenged will attract 2 percent. Other areas include 2 percent as Monitoring Fund, Implementation Fund, 2 percent, while Instructional Materials and Teachers' Training would attract 15 and 10 percent respectively.

In the period under review, the Federal Government announced that it would no longer accept cash import duty payment to banks with effect from October 1, 2008. Consequently, it directed the United Nations Conference on Trade and Development (UNCTAD) and Web Fountaine, the two bodies responsible for its Automated Systems for Customs Data (ASYCUDA) project to ensure that all stakeholders are linked up. Under the new dispensation, all documentation will be done on line, thus eliminating bottlenecks and the associated corrupt practices.

Nigeria's gross external reserves increased to \$62billion in the period under review from \$59.16billion in the preceding quarter of 2008 in spite of the drop in oil prices at the international market coupled and the declining local production. The excess crude account in the Central Bank of Nigeria accounted for \$15billion of the total external reserves.

As part of efforts to ensure effective implementation of the government's agenda, the Federal Executive Council (FEC) approved the rationalization and restructuring of the existing ministers from 22 to 42. Under this new structure, which the government expects would engender greater flexibility, direction and focus, there will be 28 ministries and 42 ministers to cover the constitutional requirements for federal character. Interestingly, a new Ministry of Niger Delta was created to lead and coordinate environmental and youth empowerment policy initiatives as well as reinforce the administration's commitment to the

overall development of the region. Other adjustments to the current ministerial structure was the restoration to their original concepts of the Ministries of Aviation; Transport; Environment; Works, Housing and Urban Development; Water Resources and Agriculture and Rural Development, while the ministers in the Ministries of Education, Mines and Steel Development, Science and Technology, have been reduced by one each. Meanwhile, the Federal Government inaugurated the 45-member Niger Delta Technical Committee (NDTC) as an added measure to solve the problem of youth restiveness in the oil-rich area.

INDUSTRIAL SECTOR

As the surge in the cost of doing business in the economy persisted in the quarter, Dunlop Plc which had been in the business of tyre manufacturing for forty five (45) years closed its manufacturing plant due to what it called “the rising production cost”. The company, therefore, opted for importing tyres from South Africa and other Dunlop factories around the world. In addition to its many socio-economic fall outs, this option by the manufacturing giant is a significant setback for real - sector development in Nigeria.

In the period under review, the Federal Government approved a new import tariff regime, which the Nigerian Customs Service (NCS) claimed was in line with the World Customs Organization 2002 Harmonized Commodity Description and Coding System. Under the new regime, used cars above ten years, Hollandais, English Wax, among other items, were banned. Revenue from NCS is expected to rise beyond the projected N283 billion under the new regime.

MONEY MARKET

In the quarter under review, the Central Bank of Nigeria (CBN) prescribed the minimum authorized capital for cash-in-transit (CIT) companies at N1billion and for Currency Processing Companies (CPC) at N3billion. According to the banking regulator, any company that meets the stated requirements must also be registered with the Corporate Affairs Commission (CAC). Currency processing and distribution are now among the non-core functions of CBN approved for outsourcing to private service providers.

Also, the CBN extended the harmonization of banks’ year-end from December, 2008 to December, 2009. This was aimed at bringing respite to the market, which had earlier been under pressure trying to mobilize deposits at higher rates on account of the December, 2008 deadline.

The CBN sprang a new vista in licensing of new banks, as it rolled out fresh conditions alongside the N25 billion capital base requirements. Specifically, some of the guidelines for licensing include screening of the banks' promoters by regulators like NDIC, SEC, NAICOM and, also, checking the apex bank black book, maintained by the Bankers' Committee, to ascertain the promoters' level of moral and ethical business standard. Where equity is financed by loans, such loans must be long term (at least, of five-year tenure) and must not be taken from the banking system.

The apex bank also undertook pre-emptive measures to insulate the country from the possible backlash of the global financial crisis. At an emergency meeting of the 58th Monetary Policy forum held in the month of September, the apex bank announced a reduction in the benchmark interest rate i.e. the Monetary Policy rate (MPR) by 50 basis points from 10.25% to 9.75%, reduction of the Cash Reserve Requirement (CRR) by 200 basis points from 4% to 2% and reduction of the Liquidity Ratio from 40% to 30%.

Nigerian banks introduced a new charge rate of 0.5 percent on all cash deposits of up to N1 million and above made daily. The new fee, which took effect from May, 2008, will enable banks to recoup part of the processing and management fees for all lodgments with CBN.

Henceforth, the CBN directed that banks will have to make public their deposit and lending rates in order to ensure a transparent pricing regime in the money market and also foster healthy competition in the industry.

CAPITAL MARKET

Fresh initiatives to reposition the waning capital market were adopted by the Security and Exchange Commission. The initiatives, coming on the heels of recent similar action by the Nigerian Stock Exchange included: the slashing of fees charged by SEC for investment in the market to 50 percent, the release of new rules on share buy-back and the setting up of two new committees on the review of the Code of Corporate Governance for Public Companies and the review of capital market structure and processes. The fee slash by SEC would mean more value for investors who before now were charged about 5 percent of the value of their investment by SEC.

Transactions on the stock market dropped significantly in September 2008. In fact, transaction volume was at its 20-month lowest level. A turnover of 10.65 billion shares worth N134.4 billion in 197,213 deals was recorded in the month, as opposed to a total of 17.4 billion shares in 249,937 deals valued at N169.64 billion exchanged during August 2008. Available statistics showed that by the

end of the third quarter of the year, the stock market recorded total turnover of 169.63 billion shares valued at N2.23 trillion exchanged by investors in 3,091,688 deals. In the comparable period during 2007, total transactions were 100.43 billion shares valued at N1.5 trillion traded in 1,917,876 deals.

STOCK MARKET AT A GLANCE
TOP FIVE STOCKS AS AT OCTOBER 3RD 2008

Company	Opening Price (N)	Closing Price (N)	Change (%)
Gainers			
BOC Gas	27.14	32.07	4.93
WApco	36.60	38.48	1.88
Daarcom	5.51	10.41	4.90
Chams	3.17	7.9	4.73
Losers			
Guinness	116.54	115.55	0.99
UACN	47.75	46.77	0.98
Nigerian Breweries	44.76	43.78	0.98
Zenith Bank	36.30	35.31	0.99
Firstbank	27.49	26.51	0.98

MOST ACTIVE SECTORS (BY VOLUME)
TOP TEN SECTORS AS AT OCTOBER 3RD 2008

Sector	Turnover (Million Units)	% of Market's Total
Banking	186.47	63.43
Insurance	60.149	20.46
Information	12.215	4.15
Agriculture	8.478	2.88
Automobile	7.580	2.57
Food/Beverage	2.226	0.75
Maritime	1.8067	0.61
Conglomerates	1.170	0.39
Packaging	1.082	0.36
Healthcare	0.959	0.32

Source: Financial Standard, October 3rd 2008

OIL & GAS

The Nigerian Gas Company (NGC) adjusted gas price upwards from N21.05 per cubic unit to N67.63 per cubic unit, using the Petroleum Products Pricing Regulatory Agency (PPPRA) template for imported Low Pour Fuel Oil (LPFO).

Nigeria signed a 1 billion dollar deal with French energy group, Total, to help resolve the China funding shortfalls that have delayed some of their joint venture projects. Under the agreement signed in Abuja, Total will lend the money to the Nigerian National Petroleum Corporation (NNPC) to fund its portion of the 2008 upstream operation, while the NNPC will pay back in cash and not with crude oil as was the case in the past.

ENERGY

In a bid to ensure that additional capacity was generated, transmitted and distributed efficiently, the Federal Government approved the blueprint submitted by the Presidential Committee on Power, paving the way for a private sector-led development initiative of the sector.

The Nigerian Electricity Regulatory Commission (NERC) issued licenses to twenty six independent power producers (IPPs) across the country in May, 2008. That will, among themselves, generate 10,031 megawatts (mw) of electricity. The World Energy Council also indicated its intention to partner with Nigeria to help find enduring solution to the country's energy crisis.

On the 14th of April, 2008, the Federal Executive Council approved the recommendations of the Presidential Committee on the Accelerated Expansion of Nigeria's Electricity Infrastructure, intended to increase the electricity supply in the country to 6,000 megawatts in the next eighteen months and to add additional 10,000 megawatts by 2011.

PHCN made history by recording a peak energy generation of 86,564.89MW/h coupled with an output of about 3,400MW in September. This was the highest energy generated in the history of the Electricity industry in Nigeria. Hitherto, the highest level was 80,123.0MW/h recorded on October 27, 2006 representing an improvement by 6,441.89MH/h. The feat was made possible through the ongoing rehabilitation of existing power stations, management of water at the hydro dams, improvement in the maintenance and management of the national transmission grid, and distribution network. Electricity consumers benefited by way of increased power supply and reduced load shedding. Meanwhile, in an effort to sustain current effort in the power sector, the three tiers of government agreed to raise about N594billion. The Federal Government would contribute

52% of the fund while the 36 state governments would raise 35% and the local governments would add 13%.

In the period under review, a Nigerian energy group, Oando, acquired 15 percent shareholding of Agip Exploration's interest in production sharing contracts off the Nigerian coast for \$188.4 million. Through the transaction, Oando expects to benefit from partnering with the Italian oil giant, Agip. The acquired assets include production from the Abo field, which will complement the group's existing upstream position. The transaction is expected to add about 3000 barrels a day of crude oil production. The deal is, however, subject to the approval of the federal government.

TELECOM

Ericsson announced its partnership with United Nation's office to use telecommunications to bring mobile - health applications and services (m-health) and telemedicine to rural African countries. This laudable initiative is another step by Ericsson in its on-going commitment to help achieve the Millennium Development Goals (MDGs), among which, importantly, is the aim to reduce global extreme poverty.

Etisalat announced the introduction of Homezone, yet another dimension of choice in the suite of choices it is offering potential subscribers to the Etisalat network in the ongoing 0809choose campaign. Homezone is an innovative feature from Etisalat that will empower customers with the opportunity to choose and register any area as their home zone, which will give subscribers the benefit of lower tariffs.

MACROECONOMIC INDICATORS

S/N	INDICATORS	Q1	Q2	Q3
1	MPR (%)	10	10.25	9.75
2	CRR (%)	3	4	2
3	Inflationary rate (%)	7.8	12	12.4
4	External reserve	\$59.7b	\$59.16b	\$62b
5	GDP	6.4%	6.6%	8
6	Crude oil	\$103.4pb	\$136pd	\$100pb

7	Exchange rate	N116.73/\$	N116.65/\$	N116.56/\$
8	Currency in circulation	N891.53b	N918b	N955.64b