



Economic

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Financial

Update

January – March, 2010

Economic and Financial Update (First Quarter, 2010)

Sectoral Updates

The Economy in General

The year started on a positive note on the global economic terrain, with the International Monetary Fund (IMF) projecting a gross domestic product (GDP) at constant prices growth rate of 4.217% for the global economy, and 4.716% for Sub-Sahara Africa as against the 2009 projected figures of -0.60 and 2.11% respectively. These projections were based on the conviction that various governments' initiatives introduced in the second half of 2009 to mitigate the effects of the economic meltdown would be sustained to galvanise the global economy. The initiatives include policy interest rate cuts by central banks, capital injections, fiscal stimulus packages and various unconventional measures, all aimed at sustaining credit flows.

The successful implementation of the economic initiatives seemed to have restored confidence in the global financial system, and facilitated credit flows across countries. This encouraged industrial outputs, which in turn necessitated an increase in the global demand for energy, particularly fossil fuel. According to the Organisation of the Petroleum Exporting Countries (OPEC), global demand for crude oil increased from 84.3 million barrels per day (mbd) at the end of the previous quarter to 84.7 mbd at the end of the period under review, with the spot price of OPEC's basket crude increasing from US \$74.01 to \$77.21 in the respective periods. This increase in oil demand was complemented by stability in domestic price level, with inflation rate hovering around 12 per cent.

Also, on the domestic front, the nation's economic climate was impaired by the prolonged absence of President Umaru Yar'Adua from the public, and the constitutional constraints on Acting President Goodluck Jonathan to effectively direct the economy. This political imbroglio impacted negatively on the economy even as the passing of the 2010 budget was delayed; business activities dropped sharply as a result of the delayed passage of the budget and the credit squeeze in the financial services sector, despite liquidity in the system. A harmonised budget of ₦4.6 trillion was eventually passed in March. The budget was predicated on a benchmark price of \$67 per barrel for crude oil, and daily production of 2.35 mbd. Highlights of the harmonised budget include a recurrent expenditure of ₦2.077 trillion, capital expenditure of ₦1.8 trillion and a deficit of ₦1.5 trillion.

However, increasing international price of crude oil reflected positively on the nation's foreign exchange market, with the average demand for foreign exchange standing at US \$6,391.15 million, while the actual sale of foreign exchange at the

Wholesale Dutch Auction System (WDAS) stood at US \$5,139.19 million, indicating a shortfall of about 19.59 per cent. The availability of foreign exchange to end users encouraged stability of the nation's currency, naira, around ₦147.81 to US \$1, as year-on-year inflation rate declined from 12.30 per cent in January to 11.80 per cent in March, 2010.

The credit squeeze in the financial services sector, occasioned by the global economic meltdown and ongoing reforms in the sector, which emphasised careful risk assets creation and compliance to regulatory provisions, curtailed economic production in the period under review. Essentially, most banks preferred to increase their portfolio holdings of government securities instead of trading on the inter-bank market, due to the perceived lower risk of the former. In many cases, the banks practically refused to open new credit lines or extend existing ones, even as attention was focused on recovering delinquent loans. To facilitate trading in the inter-bank market and encourage lending in the system again, the Central Bank of Nigeria (CBN) provided a ₦500 billion intervention fund for onward lending to projects in the real sector of the economy, particularly the power sector. This fund complements the ₦200 billion released in 2009 for onward lending to commercial agriculture entrepreneurs through designated banks with the aim of boosting agricultural production. This latest action of the CBN is laudable, considering the multiplier effect of cheap power supply to the industrial sector. However, there is need for caution, as the CBN fine-tunes the modalities of disbursing the fund. Previous experience of similar initiatives of the CBN have shown the importance of involving relevant ministries, departments and agencies (MDAs) as well as representatives of stakeholder private-sector organisations, if the objectives for the fund are to be realised.

Other Developments within the Financial Services Sector

In the insurance sub-sector of the financial services sector, the National Insurance Commission (NAICOM) released a policy document to guide underwriting business in the country. The guidelines are intended to strengthen operational standards in the insurance industry in 2010. The guidelines, which set out the business practice that must be strictly adhered to by all insurance operators in Nigeria, is in accordance with the provisions of Section 49 (1) of the Insurance Act of 1997, and took effect from January 1, 2010. As the insurance industry's regulator, NAICOM has the prerogative to develop and issue policies as well as operational guidelines to guide the practice of underwriting in Nigeria.

The Federal Government of Nigeria (FGN) approved the reduction of the company income tax from 30 per cent to 20 per cent, and the personal income tax from 25 per cent to 17.5 per cent. The policy is aimed at attracting foreign

investments to the country and increasing the net income of workers for saving or consumption; and this in turn is expected to increase production activities in the country. This policy initiative is also intended to encourage self-assessment and prompt tax payment, thereby reducing compliance cost to the Government. Meanwhile the value added tax (VAT) remains unchanged at 5%, despite on-going discussions on consideration of an increase in applicable percentage.

Also, during the first quarter, the Board of the Federal Mortgage Bank of Nigeria (FMBN) approved an increase in the limit of the National Housing Fund (NHF) loan disburseable to qualifying individuals from ₦5 million to ₦15 million, representing an increase of 200 per cent. The Board equally increased the equity contributions (or down payments) on property value by applicants in the following proportion: a loan of ₦5 million and below, 10 per cent down payment; a loan that is above ₦5 million and up to N10 million, 20 per cent down payment; while loans that are above ₦10 million and up to ₦15 million attract 30 per cent down payment (or equity contribution).

Money Market

As part of the Central Bank of Nigeria's efforts to overhaul the banking sub-sector, and in exercise of the powers vested in the CBN Governor by Section 35 (2) of the Banks and Other Financial Institutions Act (BOFIA), the CBN appointed 10 Executive Directors in 3 banks where it intervened: the banks include Bank PHB, Spring Bank and Equitorial Trust Bank. It may be recalled that the chief executive officers (CEOs) and executive directors (EDs) of these banks were sacked in the second phase of the CBN's special joint-audit of banks during the last quarter of 2009. The newly appointed directors for Bank PHB are Mr. Gabriel Ohioma Edgal, Mr. Fredrick Olusegun Bolaji, Mr. Ayaba M. Ayo Joseph, and Mr. Hassan Alwan Ali; Spring Bank has Mr. Onodugo Chike Paschal, Dr. Kabir Ahmed, and Mr. Fakile Emmanuel Olugbenga; while Mr. Obaleke Femi, Mr. Fakeye Akinsola Jacob, and Mr. Tilewa Adebajo were for Equitorial Trust Bank.

Further more, the CBN specified a 10-year maximum tenure for banks' Managing Directors, comprising of five-year tenure renewable only once for another five - year term. The new tenure regime, which takes retroactive effect, applies to all banks' Managing Directors who have spent up to 10 years in their current banks, inclusive of years spent as Managing Directors of legacy banks in the case of merged or acquired banks. The affected banks' CEO's were given up to July 31, 2010 to prepare their succession plans, and hand over to their successor designates. Also, under the new tenure regime no person who has served as Managing Director can hold any position on the board of the same bank or its subsidiaries within three years of leaving office. In the case of the Governor of CBN and his deputies, as well as the Managing Director of the Nigeria Deposit

Insurance Corporation (NDIC) and his Executive Directors, they are barred from taking appointments in any bank, or its subsidiaries, for a period of five years after retiring from service. In the same vein, departmental directors can not take an appointment in a bank, or its subsidiaries, within three years of exiting the CBN or the NDIC. The new policy directives, according to the CBN, are meant to enhance corporate governance in the banking industry, and insulate the banking sub-sector from being hijacked by unscrupulous individuals who may wish to perpetrate all manners of abuses. The policy would also seek to ensure that those who supervise the banking industry are not compromised by independence and insider considerations.

In a bid to verify the integrity of the information submitted by banks as at December 31, 2009, which marked the commencement of the common year end for banks, the CBN and NDIC carried out a joint target examination of the 24 banks in February, 2010. In a related development, the CBN, in its continued efforts to sanitize the sub-sector, concluded its target examination of microfinance banks (MFBs), with the aim of identifying the weaker institutions amongst them. The CBN assessed the MFBs based on three criteria, namely: capital adequacy, liquidity level and corporate governance. The result of the audit exercise is expected to assist the CBN in formulating necessary policies and making regulatory decisions on microfinance banking in Nigeria.

Meanwhile, following incessant complaints by customers of deposit money banks (DMBs) over frequent failures of automated teller machine (ATM) transactions and fraudulent withdrawals from their accounts via ATMs, as well as the inability of most banks to resolve these complaints within reasonable time frame, the CBN directed all the DMBs to create help desks that will address the customers' complaints on the use of ATMs. As a corollary to this, banks are required to publish the names, telephone numbers and e-mail addresses of designated help-desk staff who can be contacted whenever the need arises, and complaints received should be treated and responded to within 72 hours turn around time.

The CBN Monetary Policy Committee (MPC), after its 212th meeting, decided to leave the Monetary Policy Rate (MPR) unchanged at 6 per cent, with the asymmetric corridor of interest rates remaining at 200 basis points above the MPR and 400 basis points below the MPR. The MPC observed that retail lending rates of DMBs were still high despite falling interbank rates, and that a reduction of structural and institutional impediments, as well as DMBs' risk perception of borrowers, could moderate the high lending rates. The MPC also approved the Monetary Programme for 2010/2011, and the Monetary, Credit, Foreign Trade and Exchange Guidelines for Fiscal years 2010/2011. The MPC noted the need to strengthen on-going reform efforts in the banking sector, aimed at engendering desirable medium term economic growth path that is consistent with price and

financial stability. Members reiterated the need to fast-track the proposed reforms in some key sectors of the Nigerian economy, and in particular, the power sector, to attract the much-needed private sector/foreign investment. Meanwhile, the apex bank announced the extension of its guarantee on all interbank transactions up till December 31, 2010, while reserving its prerogative to terminate the guarantee on a case-by-case basis and in line with ongoing reforms in the sector.

The CBN also announced plans to phase out the universal banking model, which allows deposit money banks to offer a wide range of financial services, and replace it with niche banking under a holding company structure. Subsequently, existing deposit money banks will be required to reapply for re-licensing according to the specific area(s) of business they want to operate, and capitalize accordingly. As a corollary, the CBN reviewed the Prudential Guidelines for banks and intends to review the policy document every five years, henceforth.

Capital Market

In the capital market, the Council of the Nigerian Stock Exchange (NSE) approved new and supplementary issues worth ₦18.98 billion for four companies as part of efforts to deepen the stock market. The affected companies are C & I Leasing Plc, Resort Savings and Loans Plc, African Paints (Nig) Plc and Mc Nichols Consolidated Plc. C & I Leasing Plc applied for the placement of ₦2.24 billion Unsecured Floating Rate Redeemable Convertible Loan Stock 2009/2014; while African Paints Plc applied to place 130 million shares of 50 kobo each at par. The NSE also approved the listing by introduction of 13.176 billion shares of Resort Savings and Loans Plc at ₦1.25 per share, while Mc Nichols Consolidated Plc is to list, by way of introduction, a total of 201.885 million of its shares at 98 kobo per unit of share.

The Council of the NSE also reduced transaction charges at the Over-the-Counter (OTC) bond market to encourage divestments of portfolios in the sub-sector. As a corollary to this, annual listings cost of new issues for Federal Government bonds in the primary market will attract a cost fixed at ₦20 million, irrespective of the number of bonds listed by the Debt Management Office (DMO). Furthermore, at the secondary market, the NSE will charge ₦1 per million of the underlying trading on the sell side on a daily basis; the Central Securities Clearing System (CSCS) will charge ₦1 per million of the underlying trading, charged on both buy and sell sides; and the stockbrokers will get ₦5 per million of the underlying trading, charged on both buy and sell sides. For state and local government and corporate bonds, the application levy will be 0.15 per cent for issues up to ₦2 billion; 0.1 per cent for issues above ₦2 billion, while the CSCS will charge 0.0125 per cent. In the secondary market, the NSE will charge ₦5 per million of the underlying traded stocks on the sell side only; CSCS will charge

₦10 per million of the underlying traded stocks, charged on both buy and sell sides; and stockbrokers will earn ₦10 per million of the underlying traded stocks, charged on both buy and sell sides.

Stock Market at a Glance
Top Gainers and Losers as at March 31, 2010

Company	Opening Price (₦)	Closing Price (₦)	Change (%)	Gain (₦)
Flour Mill	61.06	64.00	4.81	2.94
Julius Berger	34.73	36.44	4.92	1.71
NNFM	30.79	32.32	4.97	1.53
Unilever	29.80	31.29	5.00	1.49
Nigerian Breweries	61.50	62.95	2.36	1.45
Losers				Loss (₦)
PZ	31.35	30.42	(2.97)	(0.93)
Cadbury	18.77	18.20	(3.04)	(0.57)
Nigerian Aviation Handling Company (NAHCO)	11.52	11.03	(4.25)	(0.49)
UBA	15.20	14.80	(2.63)	(0.40)
ETI	18.92	18.55	(1.96)	(0.37)

Source: Financial Standard, April 12, 2010

Most Active Sectors (by Volume)

Sector	Turnover (₦' million)	% of Market 's Total
Insurance	130.3	31.94
Banking	124.4	30.43
Food/Beverages	30.2	7.39
Maritime	22.8	5.58
Mortgage	13.5	3.30
Packaging	11.1	2.72
Conglomerates	10.7	2.62
Healthcare	9.9	2.42
Information/Communication	9.5	2.32
Leasing	7.1	1.74
<i>NB: The Insurance sub-sector was the most active and accounted for 31.94 per</i>		

Source: Financial Standard, April 12, 2010

Oil & Gas

In the period under review, the Federal Government through the Nigerian National Petroleum Corporation (NNPC) ordered the importation of 90 cargoes of Petroleum Motor Spirit (PMS), 28 cargoes of Dual Purpose Kerosene (DPK) and 10 cargoes of Automotive Gas Oil (AGO). The massive importation was designed to meet the country's ever increasing petroleum products demand.

The Federal Executive Council (FEC) approved a contract for the supply of strategic fuel reserve, totalling 39.65 billion litres of Low Pour Fuel Oil (LPFO), for Egbin Electric Power Plc at the cost of ~~N~~4.2 billion.

The Management of the Pipelines and Products Marketing Company (PPMC), a subsidiary of the NNPC, approved new ex-depot prices for LPFO and AGO (otherwise called diesel) with effect from January 4, 2010. The new prices are ~~N~~92 per litre of AGO, and ~~N~~73 per litre of LPFO. Fears have been expressed in some quarters that manufacturers and other users of natural gas for power generation may face hard times; this is because past experiences have shown that increase in the price of LPFO automatically hikes the price of natural gas.

The Kaduna refinery resumed operational activities in February, 2010 after lying idle for two years; it produced 14.989 million litres between February and March, 2010 with an average production of 1.5 million litres of fuel daily. Meanwhile, the Federal Government has declared that there is no specific date for the commencement of deregulation of downstream operations unless the problems with the nation's refineries and other infrastructural challenges associated with the petroleum industry are tackled.

Energy

In an effort to achieve its 6,000 mw of electricity production in the country, the Federal Government disbursed US \$4.6 billion for financing of the Niger Delta Power Projects, National Independent Power Projects (NIPPs) and Mambila Power Project, amongst others. However, the critical areas of transmission and distribution of electricity remained in deplorable conditions. The Power Holding Company of Nigeria (PHCN) requires 750 mscf of gas per day, but only gets about 230 mscf, representing about 30.67 per cent of the volume required to generate between 2,500 and 3,000 mw of electricity daily for the country. Moreover PHCN has indicated its readiness to generate 4,040 mw from its available capacity, if there is enough gas. In a related development, the Federal

Government distributed 500 kVA generators to eight states that had been assessed to have started establishing enterprise zones. The beneficiary states are: Imo, Ebonyi, Kogi, Bauchi, Bayelsa, Ekiti, Osun, and Kano.

Telecommunication

The Nigerian Communication Commission (NCC) issued a directive on Subscribers Identification Module (SIM) cards of all new and existing subscribers to the telecommunication networks to be properly registered with effect from March, 2010. This directive is aimed at creating a proper record of telephone subscribers in the country, and to be able to identify and trace telephone users in case of criminal conduct. The exercise will require verification with e-passports or drivers' license/tax cards, and company identification cards with a pension or tax number.

Macroeconomic Indicators, First Quarter, 2010

S/N	INDICATORS	Q1
1	MPR (%)	6
2	CRR (%)	1
3	Inflationary Rate (%)	12.3
4	External Reserve (N' billion)	40
5	GDP (%)	6.68
6	Crude Oil (\$' bpd)	79
7	Exchange Rate (N/\$)	148.3
8	Currency in Circulation (N' trillion)	1.08