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# **ECONOMIC & FINANCIAL**

## **UPDATE**

### **JAN - MAR. 2009**

## ECONOMIC AND FINANCIAL UPDATE (FIRST QUARTER 2009)

### SECTORIAL UPDATES

#### THE ECONOMY IN GENERAL

2009 began on a rather cautious note, with the impact of the global financial crisis affecting both individuals and businesses across the globe. Persistent global panic, rising unemployment, job losses, shortage of liquidity and acute scarcity of credit were some of the common denominators shared by economies around the world.

In Nigeria, economic activities in the first quarter of 2009 was slow, especially with the non-passage of the budget by the National Assembly and the delayed opening of the official foreign exchange market.

President Umaru Yar'Adua appointed fourteen public and private sector personalities to a Presidential Steering Committee to design strategic responses to the possible impact of the current global financial meltdown on the country. Essentially, the committee would formulate appropriate policy responses in the short to medium and long terms, and would work out means of maximizing the opportunities provided by the global crisis.

Meanwhile, the House of Representatives passed a N3.087 trillion 2009 Appropriation Act. Earlier, President Umaru Yar'Adua had on December 2, 2008 laid before the National Assembly a budget estimate of ~~N~~2.197 trillion. But the House Committee on Appropriation, which collated the reports of other committees, recommended ~~N~~3.087 trillion - a difference of ~~N~~170 billion. The budget was premised on a benchmark oil price of \$45 per barrel and a daily crude oil production of 2.292 million barrels per day.

Also within the same period, the National Assembly approved a request by the Federal Government to issue naira-denominated sovereign bond in the International Capital Market (ICM). The government's request was aimed at establishing a sovereign benchmark for the issuance of a naira-denominated bond equivalent to \$500m in the ICM. The bond had 10-year tenure, and its proceeds would be used to partly fund the 2009 budget. In the same vein, the Debt Management Office (DMO), on behalf of the Federal Government, issued ~~N~~50 billion 20-year, 5-year and 3-year sovereign bonds at its first debt auction of the year.

## MONEY MARKET

In the quarter under review, the Central Bank of Nigeria directed the 24 licensed banks in the country to migrate their payment cards to a chip and pin smart cards platform, otherwise known as Euro Pay Master Card Visa (EMV), by the end of the second quarter of 2009. The initial September, 2008 deadline was shifted by the apex bank to enable the banks prepare thoroughly for a complete compliance with the directive.

Also within the period, the CBN suspended the Wholesale Dutch Auction System (WDAS) and re-introduced the Retail Dutch Auction System (RDAS) with effect from January 19, 2009. Under WDAS, banks were not expected to submit documentations on what their clients would use the foreign exchange for, but under the RDAS, banks are required to bid along with documentations containing what foreign exchange being sourced would be used for. Also, under the RDAS, bid for the purchase of foreign exchange must be cash-backed at the time of the bid. Such funds shall not be transferable in the interbank foreign exchange market. Authorized dealers are expected to return to the CBN any unutilized funds within five business days after delivery, at the rate of purchase. Also, interest earned on letters of credit established and for which settlement has not been effected shall be repatriated to the CBN for purchase at the bid rate at the time the funds were purchased. The foreign net open position (NOP) of banks was further reduced from 10% to 5% of shareholders funds.

The CBN stepped up its crackdown on unethical practices in the nation's banking sector by deploying officials to banks to monitor their activities. The officers known as Resident Examiners would maintain their presence in all the banks, scrutinize the banks' transactions and accounts daily and report their findings to the CBN's Head Office. The arrangement is geared towards nipping any crisis or fraud in the bud, thereby ensuring safe and sound banking in the system. To prevent possible compromise, the apex bank barred banks from giving any form of entertainment or remuneration to the Residents Examiners (REs), but are to provide them with adequate and conducive offices only.

At the end of the quarter, the Bankers' Committee, in a meeting held on the 5<sup>th</sup> March, 2009, agreed that Banks in the country adopt December, 31<sup>st</sup> as their common financial year-end, setting December, 2009 as the commencement date for the implementation. Other decisions taken at the meeting bothered on the need for more disclosure by banks in their financial reports, consensus on anti-money laundering, Know-Your-Customer (KYC) by banks and the floating of a ₦200billion bond to boost agriculture financing.

At the international level, the World Bank approved the first phase of reforms to increase the influence of developing countries within the bank group. The reforms include a seat for Sub-Saharan Africa to allow developing countries a majority of seats on the executive board and expansion of voting and capital shares.

### CAPITAL MARKET

As part of its growth strategy, the Nigerian Stock Exchange adopted a hybrid market model that will allow for a simultaneous operation of quote and order driven markets. It also released criteria for licensing market makers in the Nigeria stock market. The criteria states that a company applying to the exchange as a market maker in listed securities must be incorporated in Nigeria, under the Company's and Allied Matters Act 1990 and registered with the Security Exchange Commission and Nigerian Stock Exchange. Also, the company must have a minimum paid-up capital of ₦2 billion, in addition to being able to maintain a minimum float of ₦10 billion at all times.

In the period under review, the Nigerian Stock Exchange introduced five new tradeable indices into the capital market with the aim of deepening trading activities on the floor of the exchange. The new indices, which is expected to boost activities in the capital market, include: NSE 30 Index, NSE Food/Beverages 10 Index, NSE Banking 10 Index, NSE Insurance 10 Index and NSE Oil/Gas 5 Index.

The stock market in March, 2009 recorded improved performance when compared with February. A turnover of 7.8 billion shares worth ₦40.15 billion in 131,419 deals was recorded in March in contrast to a total of 6.44 billion shares valued at ₦37 billion exchanged during February in 150,689 deals. Trading volume and value rose by 21.15% and 8.53%, respectively when compared with February. Consequently, total turnover during the first quarter of the year was 19.03 billion shares valued at ₦106.91 billion.

**STOCK MARKET AT A GLANCE**  
**TOP FIVE STOCKS AS AT MARCH 31<sup>ST</sup>, 2009.**

<b>Company</b>	<b>Opening Price (₦)</b>	<b>Closing Price (₦)</b>	<b>Change (%)</b>	<b>Gain (₦)</b>
<b>Gainers</b>				
Nestle	133.95	138.00	4.30	4.05
AP	59.43	62.40	0.76	2.97
Oando	62.00	63.66	0.73	1.66
BCC	18.80	23.23	4.43	0.94
BOC Gas	16.17	20.81	4.64	0.80
<b>Losers</b>				<b>Loss (^)</b>
CAP	37.90	36.01	4.98	1.89
Zenith	12.38	11.77	4.67	0.61
Nigerian Breweries	36.35	35.74	4.94	0.61
ETI	11.92	11.33	4.92	0.59
CCNN	7.86	7.47	4.98	0.39

**Source: Financial Standard, April 1<sup>st</sup> 2009**

**MOST ACTIVE SECTORS (BY VOLUME)**  
**TOP TEN SECTORS AS AT MARCH 31<sup>ST</sup> 2009**

<b>Sector</b>	<b>Turnover (Million Units)</b>	<b>% of Market's Total</b>
Banking	254.574	56.84
Insurance	26.353	49.54
Information/Communication	12.463	41.38
Building	6.577	34.28
Food/Beverages	5.949	26.12
Conglomerates	4.796	21.32
Healthcare	2.708	18.89
Media	1.862	11.64
Mortgage	1.253	8.52
Construction	1.187	1.22

*The banking sector was the most active, accounting for 56.84 percent of activities.*

**Source: Financial Standard, April 1<sup>st</sup> 2009.**

## OIL & GAS

A new financing arrangement has been designed for the three Nigerian refineries located in Warri, Port Harcourt and Kaduna, to enable them routinely carry out maintenance of the facilities without recourse to the Nigerian National Petroleum Corporation (NNPC). To enhance the process of Turn Around Maintenance (TAM) and guarantee maximum efficiency of the refineries, managers of the three refineries are now allowed to spend a maximum of \$50,000 for the maintenance of the plant.

The Federal Government approved fresh incentives for domestic supply of natural gas by oil firms operating in the upstream sub-sector of the Nigerian oil and gas industry. This is to encourage investment in gas infrastructure needed to address inadequate gas supply to the power generation stations belonging to the Power Holding Company of Nigeria (PHCN).

Within the first quarter, the Federal Government slashed off ₦5 from the pump price of the Premium Motor Spirit (PMS), otherwise known as petrol, thereby bringing the price to ₦65 per litre from the initial ₦70 per litre. Though, this was attributed to the government's move to fully deregulate the downstream sector of the oil industry, the unions rejected the signal, stating that any attempt to fully deregulate the sector at this time would further impoverish Nigerians and bring the few functioning plants to a halt.

## ENERGY

PHCN confirmed that Nigeria's electricity generation rose to 3,200MW consequent upon the improved supply of gas as the Utorogun Gas Plant. However, this dropped to 2,819MW by the end of January, 2009. PHCN, however, said it could comfortably generate 4,000MW, but for inadequate gas supply. The target of 6000MW by December 2009 is still on the front burner, with existing power plants, which are expected to provide 4500MW out of the targeted 6000MW. The National Integrated Power Plants would deliver the balance of 1,500MW. However, the attainment of the objective would depend on the availability of gas and adequate funding.

## AGRICULTURE

The Board of the World Bank approved an International Development Association (IDA) credit of \$150 million (N21 billion) for Commercial Agriculture Development Project (CADP) in Nigeria. The IDA credit, which attracts a service charge of 0.75%, is interest-free and re-payable in 40 years with a moratorium of 10 years. CADP was designed to strengthen agricultural production systems as well as facilitate access to markets for targeted value chains among small and medium scale commercial farmers in the five participating states in the country, namely Cross River, Enugu, Lagos, Kaduna, and Kano.

### **MACROECONOMIC INDICATORS 2009.**

<b>S/N</b>	<b>INDICATORS</b>	<b>Q1</b>
1	MPR (%)	9.75
2	CRR (%)	2
3	Inflationary rate (%)	14.4
4	External reserve	\$47b
5	GDP	6.4%
6	Crude oil	\$40bp
7	Exchange rate	₦145/\$
8	Currency in circulation	₦1.06trillion