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UPDATE

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ECONOMIC AND FINANCIAL UPDATE (FOURTH QUARTER 2008)

SECTORAL UPDATES

THE ECONOMY IN GENERAL

Major macroeconomic indices nosedived in the fourth quarter of 2008. The country's GDP growth dropped from 8 percent of the preceding quarter to 6.83 percent, while the exchange rate depreciated by 17 percent closing at N141 to 1USDollar as against N116.65 to 1US Dollar in the third quarter. Similarly, year–on–year inflation rate maintained its double digit trend in the fourth quarter, increasing from 12.4 percent in September to 15.1 percent at the close of the year. There was also a marginal dip of 6.3 percent in Nigeria's external reserves as it dropped from $62 billion in the third quarter to $58.11 billion in the period under review.

Other trends exhibited by the economy in the fourth quarter include rising interest rate, declining stock prices, significant cutbacks in consumer spending and a slump in government revenue being a direct effect of the global crash in oil price. The downturn in the economy was attributed to the global financial crisis, which dampened business activities across world economies.

Meanwhile, the Federal Government in the quarter announced the creation of a separate account called the Gas Revenue Account for the federation, which shall be distinct from Crude Oil Revenue Account, and into which proceeds from the sale of gas would be paid. To ensure transparency and accountability, the Federal Government appointed a foreign firm, Messrs Cobalt International Services Limited, to carry out pre-shipment inspection of crude oil at the nation's 21 oil export terminals with effect from November 1, 2008. The company would also inspect non-oil exports

Also within the same period, President Umaru Yar'Adua proposed a budget of N2.87trillion for 2009 to a joint session of the National Assembly, with a record deficit of N1.09trillion or 3.95 per cent of GDP, attributed largely to the dwindling oil revenues. The budget was predicated on a crude oil price of $45pb, daily production of 2.292mbd, Joint Venture cash call of $5billion, exchange rate of N116/$, Gross Domestic Product growth rate of 8.9% and inflation rate of 8.2%. The deficit was expected to be financed by outstanding signature bonuses, proceeds of ongoing privatization, the recall of $200m from the Nigerian Trust Fund of the African Development Bank, any unspent balances from the 2008 budget, domestic borrowing and a naira-denominated international bond issue of $500m.

The Lagos State Government, in the period under review, floated a Fixed-Rate Bond to fund the ongoing massive infrastructural renewal programme in the state. The N50 billion bond is the first tranche of the total N275billion five to seven year tax-exempt Infrastructure-Related Bond for which the Government recently obtained approvals of regulatory authorities. The proceeds of the bond would be applied in the provision of water, waste management, provision of educational infrastructure, roads, transportation, and security, among others. The bond pays a coupon of 13%.

MONEY MARKET

In the quarter under review, the Central Bank of Nigeria expanded the discount window and included non Federal government securities as acceptable collateral instruments as part of measures to deepen the financial market. Other qualified instruments include Nigerian Treasury Bill (NTB), Nigerian Treasury Certificate (NTC), FGN Bonds, NDIC Accommodation Bills and State Government Bonds. Others are Bankers' Acceptances, Guaranteed Commercial papers, Promissory Notes, etc. Other changes made by the CBN included the expansion of ownership, which would now include individuals and other corporate bodies. Furthermore, discount houses were now allowed to undertake other financial services subject, however, to meeting the risk-based supervisory requirements and statutory capital as might be specified by the relevant regulatory bodies.

Also, the apex bank, CBN, released new guidelines on the licensing, operation and regulation of Credit Bureau. The Bureaux are expected to warehouse and, on request, provide data on credit activities of an individual or business. Among other benefits, this development would engender fast and better lending decisions in the financial services sector. With the released guidelines, the process of licensing a credit bureau is in three stages namely: receipt and appraisal of application, issuance of Approval-in-Principle (AIP) and issuance of final operating license. The minimum capital requirement is set at N500 million.

According to Section three of the guidelines, individuals or entities are at liberty to invest in a credit bureau subject to approval, while investment by a bank and its subsidiaries in a credit bureau shall not exceed 10 percent of the total paid–up capital of the credit bureau. In addition, banks should not invest in more than one credit bureau and the maximum number of directors (including executive directors) on the board of credit bureau should be eleven (one of which must be an independent director).

In a bid to stem the meltdown in the capital market, CBN granted reprieve to banks with large portfolio of margin facilities by approving their request to restructure such facilities for a longer period. The apex bank said it was allowing the banks to restructure such margin facilities for a longer period between October 2008 and December 31, 2009. The forbearance was specifically for only loans made for the purchase of shares in the Nigerian Stock Exchange.

OTHER DEVELOPMENTS IN THE FINANCIAL SERVICES SECTOR

As more workers in both the private and public sectors of the economy continued to register with licensed Pension Fund Administrators (PFAs) under the contributory pension scheme, there was growing optimism that the scheme would achieve its ambitious growth target of N1.6 trillion in assets by 2011.

The Nigerian Customs Service commenced the implementation of the new tariff regime, which was said to be of the same standard with that of the World Customs Organization. The new tariff is expected to impact positively on trade and investment inflow. One of the changes made in the new tariff structure was the imposition of 35% levy on imported goods that can be manufactured locally, up from 20%. Also, the review increased the age limit of imported fairly used cars from 8 to 10 years, while some items were removed from the prohibition list. Government also scrapped all tariff waivers and enjoined all its agencies to factor custom duties into their respective budgets. It was expected that the new tariff structure would be effective till 2012.

CAPITAL MARKET

The Council of the Nigerian Stock Exchange (NSE) approved the de-listing of nine companies in the quarter under review, carrying out its function of de-listing inactive companies on the Daily Official list. The companies affected include Intramotors Nigeria Plc, Aviation Development Company, Grommac Industries Plc, Onwuka Hi-Tek Industries plc and Nigeria Lamps Industries Plc, amongst others.

Also the NSE reversed its recent policy of one percent maximum share price fall in a day for stocks quoted on the exchange. In replacement to this policy, the NSE restored its former policy of five percent upward or downward share price movement as part of measures to restore investors' confidence in the tottering market. The reversal is expected to give investors the opportunity to invest more.

The Security and Exchange Commission also registered three market-makers in a bid to further increase liquidity of the Nigerian stock market and stem the current bearishness. The registered market makers include Chapel Hill Advisory

Partners, Greenwich Trust Limited and Diamond Capital and Financial Market Limited. Market makers are specialist variously permitted to act as dealers, to stabilize the market by ensuring continuous liquidity, synchronizing buy and sell transactions and shall have a maximum limit of 3 percent and subject to periodical review.

STOCK MARKET AT A GLANCE
TOP FIVE STOCKS AS AT JANUARY 5, 2009.

Company	Opening Price (₦)	Closing Price (₦)	Change (%)	Gain (₦)
Gainers				
Flourmill	31.50	33.00	4.76	1.50
BCC	18.90	19.84	4.97	0.94
UBN	15.50	15.27	4.97	0.77
UACN	36.33	36.99	1.82	0.66
Dangote Flour	13.38	13.99	4.56	0.61
Losers				**Loss (₦)**
Total	203.69	193.57	4.99	10.18
Nestle	191.44	181.87	4.99	9.57
Guinness	98.01	93.11	4.99	4.90
Oando	78.01	74.11	4.99	3.90
Nigerian Breweries	40.00	38.80	3.00	1.20

Source: Financial Standard, January 5, 2009

MOST ACTIVE SECTORS (BY VOLUME)
TOP TEN SECTORS AS AT JANUARY, 5TH 2009

Sector	Turnover (Million Units)	% of Market's Total
Banking	61.826	31.28
Insurance	53.275	26.96
Information	52.941	26.79
Conglomerates	4.910	2.48
Food/Beverages	3.696	1.87
Agriculture	3.290	1.66
Maritime	3.000	1.52
Breweries	2.940	1.18
Building	2.340	1.49
Construction	2.014	1.02
The Banking sector was the most active, accounting for 31.28 percent of activities.		

Source: Financial Standard, January 5 2009

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 (TOTF) 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

Power Holding Company of Nigeria announced the loss of over 2,250MW of the country's installed generating capacity to the myriad of challenges confronting the national grid. These challenges included poor maintenance of equipment, declining gas supply and the cessation of rain, which compelled the closure of some power plants. PHCN indicated that only Kainji, Shiroro and Jebba dams were generating 1,150mw from their combined capacity of 1,700mw, while Egbin power station generated only 400mw from an installed capacity of 1,320mw. Also, the Utorogun Gas Plant, operated by the Anglo-Dutch oil firm, Shell Petroleum Development Company in Ughelli, Delta State, was shut down due to operational problems attributed to the breakdown of all the three generators at the facility. The facility supplies about 230 million standard cubic feet of gas per day to the Nigerian Gas Company, a subsidiary of the NNPC for onward transmission to PHCN and other industrial consumers nationwide. The facility had been reopened for operations.

TELECOM

The Nigerian Communications Satellite (NigComSat-1), which was launched into orbit over 18 months ago, was pronounced damaged beyond repairs. The satellite, built by the China Great Wall Industry Corporation at a cost of $256 million, became the first African communications satellite when it was launched in China on May 13, 2007. It was operated by the Nigerian Space Research and Development Agency (NASRDA) and NigComSat Limited. It had one ground control station in Abuja and a backup control station in Kashgar, in northwest China's Xinjiang Uygur Autonomous Region. The NigComSat was a super hybrid geo-stationary satellite expected to digitalize the Nigerian economy and promote technological advancement in Nigeria and Africa. The satellite was designed to serve as the strategic backbone for the nation's communication industry to the extent that the Federal Government ceded 15% equity interest in NITEL to NigComSat Ltd. NARSDA assured that the Federal Government would replace the damaged NigComSat.

The Federal Government announced the selection of five Private Telecom Operators (PTOs) to manage the $200 million National Rural Telephony Project (NRTP) embarked upon by the Obasanjo administration. The companies, which emerged after the bidding process, offered to pay about $266.25million to manage the projects located in the six geo-political zones of the country. The project would impact positively on the socio-economic well-being of rural dwellers and is expected to reduce rural to urban migration by facilitating the economic empowerment of the people, reduce the digital divide between the urban and rural dwellers in the country.

MACROECONOMIC INDICATORS 2008

S/N	**INDICATORS**	**Q1**	**Q2**	**Q3**	**Q4**
1	MPR (%)	10	10.25	9.75	9.75
2	CRR (%)	3	4	2	2
3	Inflationary rate (%)	7.8	12	12.4	15.1
4	External reserve	$59.7b	$59.16b	$62b	$58.11
5	GDP	6.4%	6.6%	8%	6.83%
6	Crude oil	$103.4pb	$136pd	$100pb	$140pb
7	Exchange rate	₦ 116.73/$	₦ 116.65/$	₦ 116.56/$	₦ 141/$
8	Currency in Circulation	₦ 891.53b	₦ 918b	₦ 955.64b	₦ 1.2trillion

FITC Research, 2008.