



# **Economic & Financial**

## **Update**

### **April - June, 2010**

## Economic and Financial Update (Second Quarter, 2010)

### Sectoral Updates

#### The Economy in General

The second quarter started with the tragic death of President Umaru Musa Y'Aradua on the 6<sup>th</sup> of May, 2010. The unfortunate incidence created temporary setbacks as major initiatives which were yet to be implemented prior to his death were put on hold. However, the then Acting President, GoodLuck Jonathan was sworn in as the President of the Federal Republic of Nigeria, in line with the constitutional provisions. Thus creating a resurgence of hope to Nigerians and to the international community.

Consequently, foreign exchange market remained relatively stable, benefiting from the increased confidence in the naira and the efficacy of the current exchange rate policy of liberalizing the market to enhance foreign exchange supply from autonomous sources. The Whole Sale Dutch Auction Sale rate opened at N150.27 (inclusive of 1% commission) and closed at 150.09/US\$1, with an average exchange rate of N150.24/US\$1, thus representing an appreciation of 30 kobo (or .20% increase) from the preceding quarter which opened at an exchange rate of N149.08/US\$1, and closed at N149.78/US\$1, with an average exchange rate of N149.94US\$1.

Meanwhile, naira exchange rate appreciated by N0.28 or 0.2% from N148.78/\$ to N148.50/\$, while at the parallel market, exchange rate depreciated by 0.33% to N153.50/\$. This fluctuation can be attributed to the interventions by the CBN, in the foreign exchange market in a bid to defend the naira at the expense of building the foreign reserves, coupled with heavy demand. At the inter bank market, exchange rate appreciated by 0.45% to N151.38/\$1 due to increased sales by oil companies.

However, consumer inflation dipped to 10.3% in June from 12.5% and 11% recorded in the months of April and May respectively as against 11.8% of the preceding quarter, representing a decrease of 14.56%. This depreciation can be attributed to the hike in the prices of food, which is likely to pose upside risks existing in the form of public sector wage hikes in the light of the anticipated budget deficit and the operationalisation of the proposed Asset Management Corporation, just approved by the President.

Meanwhile, President GoodLuck Jonathan signed the 2010 appropriation bill into law, with emphasis on proper implementation of the budget. While signing into law, the Local Content Bill, Dr. Jonathan reiterated that the ministry of special duties will be restructured to monitor and evaluate budget performance. The 2010 budget of N4.6 trillion has a deficit of N1.52 trillion with an average crude oil price of \$67 per barrel, oil production of 2.35 million barrel per day; an

exchange rate of N150 to the US dollar, an inflation rate of 11.2% and GDP growth of 5.47%. The budget is expected to assist in facilitating laudable initiatives towards economic development.

The Federal Government approved N10 billion for the Federal Government Staff Housing Loans Board. The board, which would assist public servants in securing loans to build or buy their own houses before retirement, will grant loans at 3 per cent interest rate per annum with a maximum of 25 years repayment tenure. Given the resources at its disposal, the board has been able to provide houses for more than 4,000 federal government public servants.

The Federation Account Allocation Committee (FAAC) approved the creation of another account sub-head within the Federation Account, to cater for any extra cash accruing to the federation above the monthly projected revenues from mineral and non-mineral sources, after deducting the statutorily approved maximum of N365.88billion.

### **Other Developments within the Financial Services Sector**

The National Insurance Commission (NAICOM) indicated its resolve to revoke the certificate of insurance with firms who default in the payment of genuine claims to policy holders. The sanction was communicated during the flagging-off of six compulsory insurance products namely; Employment Liability Insurance, Group Life Insurance; Builders Liability Insurance, Occupiers Liability Insurance, Healthcare Professional Indemnity Insurance and Motor Third Party Liability Insurance. This became necessary in order to shore up the public's confidence in the insurance industry and increase its patronage, exponentially.

In the period being reviewed, a Nigerian finance intermediation firm secured fund totaling \$400 million for microfinance banks in the country. The fund is provided by a trading limited company in Dubai, and is secured with bank guarantees from Suisse Bank plc, a private bank based in the UK. The fund would allow microfinance banks (MFBs) access to long term debt funds of up to a maximum of 10 years. Under the scheme, participating microfinance banks in Nigeria with interest in mechanized agriculture and micro credit investment scheme, will be given money as a subordinated convertible debenture through a specially designed scheme by Africa Capital and Business Support Limited, and the African Investor Protector Programme. This is intended to leverage the Agricultural Credit Guarantee Scheme of the Central Bank of Nigeria and make it accessible to the members of the lower income stratum of the society.

As part of efforts to proffer solutions to the lingering financial crisis, the Financial Services Regulation and Coordination Committee (FSRCC) issued new guidelines on margin lending. Under these guidelines, operators interested in

margin trading are to apply to the Security and Exchange Commission (SEC) for re-certification; while banks and other financial institutions under the CBN's purview are to apply to the CBN for re-certification. Secondly, banks' aggregate exposure to margin lending shall not exceed 10 per cent of the bank's total loans and advances, while banks with exposure in excess of 10 per cent would be required to submit to the CBN, a clear plan of how they intend to wind down their exposure in compliance with the prudential limit. These new directives issued are expected to regulate all aspects of margin trading from bank facilities to transactions in the capital market, with a view to forestalling a recurrence of high non-performing loans associated with margin lending in banks.

### **Money Market**

The Central Bank of Nigeria (CBN) directed all Money Deposit Banks (MDBs) to limit their total outstanding exposures to all tiers of government, and their agencies, to 10 per cent of their credit portfolio. In furtherance to this, banks are to ensure that aggregate large exposures do not exceed eight times the quantum of shareholders' funds, unimpaired losses, while the top fifty exposures should not be more than 50% of the total loan portfolio, and must be in ten different sectors of the economy.

In the period under review, non-interest Islamic banking was included in the new CBN proposed financial model. The banking system, which is based on a profit sharing basis from ventures engaged in using customers' deposits and the bank's capital, is permitted to operate in all the states and federal capital territory with depositors participating in the share of profits and loss of the bank. While Islamic banking struggles to take its roots in the Nigerian financial sector, the international business scene is dotted with an increasing demand for sharia-compliant products due to export-led Asian economic growth and crude oil income in the Persian Gulf.

The CBN in June, created a N200 billion Small and Medium Enterprise Credit Scheme (SMECGS) with a guarantee of N100 million for the operations of Small and Medium Scale (SMEs). The fund is to be expended in the form of working capital, upgrade/expansion, refurbishment/equipment and overdraft. Under this scheme, banks are expected to lend at the prime lending rate (MPLR) with a lending rate that is market-driven. However, a criterion for participation in the scheme is for all Small and Medium Enterprises (SMEs) promoters and manufactures to belong to any private sector associations such as Manufacturers Association of Nigeria (MAN), National Association of Small Scale Industries (NASSI), and the Nigerian Association of Small and Medium Scale Enterprise (NASMSE). Also, the CBN approved an increase in the minimum paid-up capital of Unit Microfinance banks from N20 million to N100 million, and the State Microfinance banks from N1 billion to N2 billion, thus representing an increase of 500 per cent and 100 per cent respectively.

CBN also successfully concluded its gazette on Anti-Money Laundering/Counter Terrorism Financing Compliance Manual, which was last reviewed in 2009. According to the Circular signed by the Director, Financial Policy and Regulation, Mr. I.T Nwaoha, the new manual will be renamed 'CBNAML/CFTREGULATION(2009)' as against AML/CFI Compliance Manual formerly issued in October, 2009. In furtherance to this, all money deposit banks and financial institutions are required to comply with the requirements of the new manual and also designate its AML/CFT Chief Compliance Officer with the relevant competence, expertise and independence to implement the institution's AML/CFT Compliance Programme.

CBN has also concluded a three week certification programme intended for the first batch of the Microfinance Bank operators. The certification programme, which is intended to benefit the institutions by enhancing capacity building and competence, was benchmarked with other professional institutions and would be used as a criterion for operations within the Microfinance sub-sector.

### **Capital Market**

The Securities and Exchange Commission (SEC) introduced 23 new rules and eight amendments to assist the market in attracting more investors while ensuring transparency and efficiency in the Nigerian capital market. One of the new rules is the Rule 64(7), which stipulates that unsuccessful applicants in public offer where returned monies are not dispatched in accordance with the commission's rules, shall be paid an interest rate not below the CBN Monetary Policy Rate (MPR) which is 6 percent, plus 5 per cent (which amounts to 11 percent)

**Stock Market at A Glance**  
**Top Five Stocks as at July 1<sup>st</sup>, 2010**

Company	Opening Price (₦)	Closing Price (₦)	Change (%)	
<b>Gainers</b>				<b>Gain (₦)</b>
BCC	60.00	63.00	5	3.00
WAPCO	38.00	39.00	2.6	1.00
CCNN	16.90	17.60	4.14	0.70
Ashaka Cement	18.90	19.50	3.17	0.60
UAC-Prop	21.00	21.50	2.38	0.50
Costain Nigeria	7.22	7.58	4.99	0.36
UPL	6.40	6.72	5	0.32
May Baker	5.57	5.84	4.85	0.27
<b>Losers</b>				<b>Loss (₦)</b>
Cadbury	28.59	27.17	4.97	1.42
Nigerian Breweries	64.00	63.00	1.56	1.00
Flour Mills	69.40	69.00	0.58	0.40s
Honey Flour	8.05	7.65	4.97	0.40
IntBrew	7.19	6.84	4.87	0.35
First Bank of Nigeria Plc	13.50	13.17	2.44	0.33
NASCON	7.79	7.55	3.08	0.24
Oando Plc	75.20	75.00	0.27	0.20
EcoBank Plc	4.90	4.70	4.08	0.20

**Source: Business Day, July 1<sup>st</sup>, 2010**

**Most Active Sectors (By Deals)**

Sectors	Deals
First Bank	256.6
GT Bank	72.9
Zenith Bank	30.6
Union Bank	16.6
Access Bank	12.1
Oceanic Bank	10.8
Skye Bank	7.2
Diamond Bank	5.3
Nigerian Breweries	3.5

**Source: Business Day, July 1<sup>st</sup>, 2010**

## Oil & Gas

The Federal Government introduced a change in the management of the Nigerian National Petroleum Corporation (NNPC) and the Department of Petroleum Resources (DPR) with the appointment Alhaji Shehu Ladan, former Group Executive Director, Commercial and Investment of NNPC as the new Group Managing Director of NNPC, following the removal of the former GMD of NNPC, Alhaji Mohammed Barkindo. In furtherance to this, the Federal Government approved the merger of three subsidiary trading companies of NNPC, namely, Hyson, NAPOIL and Duke Oil, which are to be established as a business entity known as International Trading Company (ITCO).

Meanwhile, the Petroleum Product Pricing Regulatory Agency (PPPRA) approved the importation of four billion litres of Premium Motor Spirit (PMS) for domestic consumption. This would be imported by NNPC, oil marketers and other fuel importers.

## Energy

President Good Luck Jonathan directed the Ministry of Power to begin the full implementation of the Power Sector Reform Act 2005 to encourage and facilitate private sector participation, that can result in efficient service delivery to Nigerians. The partial implementation of the Act led to the establishment of Nigerian Electricity Regulatory Commission (NERC) and unbundling of PHCN into 18 successor companies broken down as follows: Generation-6, Transmission-1 and Distribution-11. Also, the President approved the composition of a new power reform structure, which aims to transform the power sector and breathe life into electric power in the country. Under the new structure, the power sector is to be supervised by two bodies - the Presidential Action Committee on Power under the President's charge and a Presidential Task Force on Power. The former shall have the Vice President, Mohammed Namadi Sambo as alternate Chairman, other members include; Minister of state for Power, Minister of Finance, Secretary to the Federal Government, Head of Service, Governor of the Central Bank of Nigeria, Special Adviser on Power and the Chief of Staff. To ensure optimum working capacity of the nation's biggest power plant, Egbin thermal power station, a Gas Supply and Purchase Agreement was signed between Egbin Generating Company Limited, a subsidiary of PHCN and NNPC/Pan Ocean Joint Venture. The agreement would result in the supply of 65mmcf/d of gas from Pan Ocean's Ogharafe Gas Plant to Egbin.

## Telecommunication

The Nigerian Communication Commission issued a directive that all Subscribers Identification Module (SIM) cards of all new and existing subscribers to the telecommunication networks should be properly registered effective from March, 2010. This is aimed at having a proper record of telephone subscribers in the country in order 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.

Meanwhile, the **Digital Bridge Institute (DBI)**, Nigeria, in line with its mandate, and in a bid to further enhance Information and Communications Technology (ICT) development in Nigeria and the African continent at large, has conceived the DBI Diaspora Internship Programme. The DBI (Diaspora Internship Programme) is an internship scheme aimed at harnessing and challenging active youths who have broad knowledge of ICT, towards specific projects with a desire to practically improving and contributing to the wealth of ICT knowledge and awareness in the country.

## Macroeconomic Indicators, 2010.

S/N	Indicators	Q1	Q2
1	MPR (%)	6	6
2	CRR (%)	1	1
3	Inflationary rate (%)	12.3	10.3
4	External reserve (₦'billion)	40	38.02
5	GDP (%)	6.68	7.23
6	Crude oil(\$bpd)	79	73
7	Exchange rate (₦/\$1)	148.3	148.50
8	Currency in Circulation (₦trillion)	1.08	1.06