



ECONOMIC

&

FINANCIAL

UPDATE

APRIL - SEPTEMBER, 2009

ECONOMIC AND FINANCIAL UPDATE (SECOND AND THIRD QUARTERS, 2009)

SECTORAL UPDATES

THE ECONOMY IN GENERAL

Major leaps were recorded in the price of crude oil from \$40 per barrel (pb) in the first quarter of 2009 to \$60 pb and \$65 pb in the second and third quarters of the year, representing 50% and 62.50% respectively over the first quarter price. This development makes it appear as if the nation's economy was set to recover from the effects of the global economic meltdown. This is more so because the marginal decrease in the inflation rate from 14.4% in the first quarter to 11% in the third quarter has been consistent. As a corollary to this, the Central Bank of Nigeria (CBN) further reviewed downwards its Monetary Policy Rate (MPR) from 8% to 6% in the third quarter. However, the MPR diverged widely from the interbank rate, which hovered around 22%. The overall implication of this on the economy is that it tended to checkmate the nation's economic recovery process, as the cost of funds became very high thus contracting investment and economic activities. To address this anomaly and ensure a convergence of the two rates, the CBN undertook to provide guarantee on all interbank placements, including pension fund placements with banks, from July, 2009 to March 31, 2010 on some specified conditions.

Meanwhile, there was a dip in the country's external reserves in the period under review. For instance, indicators reveal that while the external reserves stood at \$53 billion at the beginning of the first quarter, the figure slid to \$43.19 billion by the beginning of July, 2009, thus representing a decline of 18.51%. Similarly, the exchange rate oscillated between ₦146 and ₦150 to US \$1 in the second and third quarters, compared to between ₦145 and ₦146 that obtained in the first quarter. These notwithstanding, the economy grew at a slightly increased rate of 6.5% in the second quarter, up from 6.4% in the first quarter. A notable development in the period was the reintroduction of the Wholesale Dutch Auction System (WDAS), which replaced the Retail Dutch Auction System (RDAS) at the beginning of the third quarter. The capital requirement for Class 'A' bureaux de change (BDCs) was also reviewed downwards from ₦500 million to ₦250 million, and Class 'B' BDCs could now participate directly in the CBN window. These measures were intended to make foreign exchange readily available to investors as part of measures to position the economy on the path to recovery from the recent economic meltdown.

Within the period under review, a committee was also set up to review the 2004 Pension Reform Act. The committee, recommended that contribution rates should be negotiated with individual companies and employees; gratuity under the Contributory Pension Scheme should be subject to collective bargaining; and the age for accessing retirement benefits should be in accordance with the terms of employment as currently provided for in the Act.

The International Monetary Fund (IMF) in its April 2009 release on Regional Economic Outlook for Sub-Sahara African Region, projected a growth rate of 2.9% for Nigeria in 2009, and 2.6% in 2010, indicating a major decline from 2008's 5.3% growth. The IMF had based its projections on the then expected decline in the international price of crude oil, and the global economic meltdown, which had greatly constrained energy demands in the international market. It is heartening to note that this projection is unlikely to materialize. This is in view of the persistent rise in the price of crude oil in recent months, as a result of the increasing demand in the international market and ensuing calmness in the Niger Delta region, which has stepped up the production of crude oil.

In the second quarter, the Revenue Mobilisation Allocation and Fiscal Commission (RMAFC) concluded the downward review of remuneration of members of the executive arm of government, as requested by the President in light of the global meltdown. In the review, 20% was slashed off the emoluments of all political office holders in the executive arm of government, with effect from April, 2009. Also, the President, Alhaji Umaru Musa Yar'adua approved the establishment of a savings fund to pool the estimated saving of ₦2.5 billion per annum that will arise from the cut in emoluments of political office holders.

As part of measures to remedy the problem of poor infrastructures in the country, the Federal Government approved the concession of Lagos-Ibadan Expressway to Messrs Bi-Courtney Consortium at an estimated ₦89.53 billion. The Consortium would recoup its investment by managing the highway for a period of 25 years under a Build, Operate and Transfer (BOT) agreement. The Consortium is expected to undertake the reconstruction, expansion and modernisation of the highway up to international standard. The Lagos-Ibadan Expressway is very strategic as it links Lagos, the commercial centre of the country, to the rest of the country. In the same vein, the Federal Government approved the award of contracts worth ₦373.75 billion for the construction, rehabilitation and expansion of various roads across the six geo-political zones and the Federal Capital Territory. These measures are expected to enhance the movement of goods and people across the country, thereby boosting employment and aggregate production output.

MONEY MARKET

Mr. Sanusi Lamido Sanusi was appointed as Governor of the Central Bank of Nigeria in June 2009. He took over from Prof. Chukwuma Charles Soludo on completion of the latter's tenure. The CBN Governor, until his appointment, was the Managing Director/Chief Executive Officer of First Bank of Nigeria His pedigree presents the profile of an economist, a stickler for compliance and corporate governance, and enterprise risk management. Mr. Sanusi's appointment has expectedly induced some policy measures that should positively impact the economy and scale up standards in the banking system, particularly in the areas of ethics, corporate governance, professionalism and transparent reporting. For instance, following the failure of CBN's special audit exercise on banks in the third quarter, the Chief Executive Officers and Executive Directors of five banks were stripped of their positions in August, 2009. The affected banks include Intercontinental Bank, FinBank, Afribank, Oceanic Bank and Union Bank.

According to the CBN Governor, the action became necessary in order to safeguard the financial sector from systemic collapse. The five banks were discovered to have accumulated margin loans of over ₦500 billion, which were non-performing among other delinquent loans, thereby eroding shareholders' funds. Subsequently, the CBN injected ₦420 billion into these banks to shore up their tier-2 capital to minimum acceptable levels. The funds are expected to be paid back to the CBN after the recapitalisation of the banks in the near term.

In a follow up action, the CBN released the names of major debtors of the five banks with a total indebtedness of ₦747 billion non-performing loans. The Economic and Financial Crimes Commission (EFCC) was also co-opted in the effort to recover the loans. These combined efforts have yielded promising results, though heavily opposed by the defaulting echelon. However, the audit exercise continues on 10 other banks in a bid to ascertain their true financial state.

In a bid to encourage banks to make full disclosure of their toxic assets, the CBN suspended the use of commercial papers (CPs) and bankers' acceptances (BAs) as off-balance sheet items in audited reports of banks and discount houses. To dispel rumour that the system was unsafe, the CBN then undertook to guarantee all foreign loans and other correspondent credit lines extended to Nigerian banks.

Meanwhile, the CBN has continued to advocate for a consolidated supervision of the financial services industry involving all regulatory agencies in the sector. In a related development, the CBN proposed a more robust and proactive regulatory framework of harmonised code of corporate governance, adoption of international financial reporting and auditing standards, enhanced information sharing mechanism, and standardised minimum disclosure requirements as imperatives for effective regulation of the sector.

The Bankers' Committee, in an effort to check inflation and curtail increasing cost of funds in the system, introduced the following measures in the second quarter: pegging of the maximum lending and deposit rates to 22% and 15% respectively; immediate reduction of the Monetary Policy Rate (MPR) by 175 basis points from 9.75% to 8.0%; reduction of liquidity ratio requirement by 500 basis points from 30% to 25%; and reduction of cash reserve requirement (CRR) by 100 basis points from 2.0% to 1.0%, all with effect from April 14, 2009. All other charges are to have an upper limit of 2%, implying that lending rates will not exceed 24%. The new measures, though a departure from erstwhile market-based approach, are meant to enable the banks create more funds by easing regulatory requirements, a factor that has been attributed to banks' inability to provide inexpensive funds for investment purposes.

To ensure compliance with the Committee's decisions, therefore, the following sanctions for non-compliance were introduced: the CEO of a bank that is caught increasing interest rates above 15% (deposit) and 22% (lending) will get a warning as a first time violator; if caught the second time, the bank will be suspended from the WDAS and be liable to a fine of ₦50 million; if the bank is caught for the third time, it will have its CEO suspended in addition to the fine. These would remain in place till end December, 2009. The policy is a

welcome development, especially with the persistent rise in deposit rates occasioned by the harmonised year end for banks.

President Umaru Musa Yar'Adua, in the third quarter, launched the new polymer currency notes in ₦50, ₦10 and ₦5 denominations. Prior to this, only ₦20 note was in polymer, while the rest of the currencies were in paper. The new notes were launched as part of the CBN's mandate to promote efficient payment system in the country.

Also, as an additional effort to boost liquidity in the system, the CBN increased the length of time non-oil proceeds could stay with banks before repatriating to exporters' domiciliary accounts. In view of this, repatriation of non-oil export proceeds could be done within 180 days from the day of shipment, while repatriation of oil export proceeds remains 90 days from the date of shipment.

Moreover, during the period under review, twelve leading banks in Nigeria successfully migrated to a secured electronic bank card platform, and now issue the electronic banking smartcard Verve Chip and Pin, which was earlier introduced to the system in the first quarter of 2009. To ensure compliance, the Bank mandated all banks to migrate to the more secure Visa Master Card (EMV) platform by the end of 2009 or face severe sanctions.

Finally in pursuit of wide based implementation of the e-payments strategy, the CBN limited face value of cheque instrument that could be accepted by banks effective January 1, 2010 to ₦10million. All payments above ₦10million must go through the e-payment system.

OTHER DEVELOPMENTS IN THE FINANCIALSERVICES SECTOR

In order to mitigate the impact of crashed stock prices on the investments of insurance companies, as well as create new avenues for insurance market expansion, the National Insurance Commission (NAICOM) instituted modalities for the take off of the Nigerian Insurance Market Development and Restructuring Initiatives (MDRI). Under the new programme, the Commission will start the enforcement of Sections 64 and 65 of the Compulsory Insurance of Public Buildings and Buildings under Construction and other compulsory insurance in the market. The project, which is designed to be a medium-term plan that would install the first phase of reforms in the areas of industry capacity building, market efficiency and consumer protection in the country, also seeks to increase the industry gross premium income from ₦164.5 billion in 2008 to ₦1.10 trillion by 2012.

STOCK MARKET AT A GLANCE

TOP FIVE STOCKS FOR WEEK ENDING OCTOBER 2ND, 2009

Company	Opening Price (₦)	Closing Price (₦)	Gain ₦)	Change (%)
Gainers				

Total	136.50	150.48	13.98	10.2
Mobil	96.97	105.00	8.03	8.3
Lafarge Wapco	31.03	43.00	2.97	38.6
Julius Berger	25.99	28.10	2.11	8.1
GlaxoSmithKline	23.36	25.00	1.64	7.0
Losers			Loss (N)	
Guinness	144.00	136.50	7.50	-5.2
Nigerian Breweries	60.00	54.90	5.10	-8.5
Seven-Up	30.00	28.50	1.50	-5
AP	32.00	30.50	1.50	-4.7
Conoil Plc	37.31	36.00	1.31	-3.5

Source: Financial Standard, October 12th, 2009

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: Financial Standard, October 12th, 2009

OIL & GAS

Nigeria experienced scarcity of Premium Motor Spirit (PMS) or petrol in the first quarter of the year. Rationing and long queues resurfaced at filling stations. The scarcity was attributed to the uncertainties created by Government's indecision on deregulation of the downstream sector, thereby making the Nigerian National Petroleum Corporation (NNPC) and other oil marketers wary in importing petroleum products since the beginning of the year.

Marketers also stopped importing fuel, following the refusal of the Federal Government to pay subsidy on imported petroleum products. Going by market dictates, the Petroleum Products Pricing Regulatory Authority (PPPRA) argued, PMS should sell for ₦90.45 per litre to reflect the costs of fuel purchase, landing, bridging, etc. Actual pump price is however, ₦65 per litre, implying that Government subsidises the fuel importation to the tune of ₦25.45 per litre. The Federal Government as such, is expected to pay a daily

subsidy of about ~~N~~839.85 million on the 33 million litres of PMS consumed nationwide. However, with the completion of the turned around maintenance (TAM) on the Kaduna Refining and Petrochemical Company (KRPC), supply of refined petroleum products is expected to get a boost. The TAM on the facility started in November 2008.

In a related development, the NNPC announced new ex-depot prices of Automotive Gas Oil (AGO) or diesel, and Low Pour Fuel Oil (LPFO). The new prices of AGO and LPFO were set at ~~N~~92 and ~~N~~72 per litre respectively, up from ~~N~~81 and ~~N~~63 per litre. Expectedly, there were corresponding increases in the pump price of the two products with AGO hovering between ~~N~~108 - ~~N~~110 per litre.

ENERGY

Electricity generation was severely hampered by the non-availability of gas, as a result of vandalism of the pipelines during the review period. The Power Holding Company of Nigeria (PHCN) generated only 2,200MW of its 4,000MW capacity. Nigerian Gas Company (NGC), a subsidiary of NNPC, recorded a daily loss of 200 million standard cubic feet of gas due to damage of the Escravos/Warri Gas Pipeline by suspected militants. The pipeline conveyed gas from the various fields of Chevron Nigeria Limited, in Escravos, Warri. Subsequently, the nation's power generation capacity dropped by another 300MW to 1900MW, following the shut down of Afam VI Power Station.

During the third quarter, the Federal Government approved a 10% increase in electricity tariff by the PHCN with effect from July, 1st, 2009. The increase is in line with the Multi-Year Tariff Order recently introduced by the Nigerian Electricity Regulatory Commission (NERC).

AGRICULTURE

The Board of the World Bank approved an International Development Association (IDA) credit of \$150 million (~~N~~21 billion) for Commercial Agriculture Development Project (CADP) in Nigeria. The IDA credit, which attracts a service charge of 0.75%, is interest free and 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

S/N	INDICATORS	Q1	Q2	Q3
1	MPR (%)	9.75	8	6
2	CRR (%)	2	1	1
3	Inflationary Rate (%)	14.4	11.2	11
4	GDP (%)	6.4	6.5	6.5
5	Crude Oil (\$ bpd)	40	60	65
6	Exchange Rate (₦/\$)	145	146.75	150
7	Currency in Circulation (₦ trillion)	1.06	1.01	1.008
8	External Reserves (\$ billion)	47	43.9	41.6