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ECONOMIC & FINANCIAL UPDATE

APRIL – JUNE 2008

ECONOMIC AND FINANCIAL UPDATE (SECOND QUARTER 2008)

SECTORIAL UPDATES

THE ECONOMY IN GENERAL

The economy battled inflation and its spiral effects between April and June, 2008. The country's year-on-year inflation rate rose in June to 12% from 9.7% in May. This rise was caused mainly by the increase of 13.1% in food prices, which put pressure on the overall index. While the Central Bank of Nigeria made effort to arrest the twin issue of liquidity and inflation, it succeeded more on the liquidity aspect, as it implemented the new Cash Reserve Ratio (CRR), but inflation rate continued to increase.

On the 12th of April, the World Bank announced a new initiative called the "Executive Industries Transparency Initiative Plus Plus" (EITI++), which was designed to help developing countries manage and transform their natural resources to long term economic growth that will benefit the poor.

President Umaru Yar'Adua inaugurated both the National Council and the National Steering Committee on Vision 2020. The seventy-man Council, headed by the President himself, was mandated to provide leadership by identifying and approving core national priorities to guide the bottom-up visioning process, while the Steering Committee has the responsibility of developing the Vision and its guidelines.

Also in April, the Federal Executive Council (FEC) approved the implementation of a new Multi - Year Tariff Order (MYTO) worth N320.2 billion. The implementation will take effect from 1st July, 2008. Under the MYTO, electricity tariffs would be determined by market dynamics. This is expected to boost the confidence of lenders and investors alike, as it would provide reasonable returns on capital investment and correct energy pricing.

Within the period under review, the FEC suspended all levies and duties on rice imports till the end of October, 2008. This was aimed at cushioning the impact of the global food crisis in the country. Also it approved the withdrawal of N10 billion from the Rice Levy Account for a credit scheme in support of local rice processing.

On the 8th of May, 2008, the Central Bank of Nigeria (CBN) inaugurated the Committee of Microfinance Banks in Nigeria (COMBIN). The Committee, which was fashioned after the Banker's Committee was to provide a forum for

advocacy and ethical conduct for the 752 microfinance banks (MFBs) in the country. The committee has Rev. Tunde Lemo, the CBN Deputy Governor, Financial Sector Surveillance, as its Chairman.

Towards the end of the quarter, a new revenue allocation formula was inaugurated. Under the new dispensation, the Federal Government gets a share of 53.69 percent, the states receive 31.01 percent, and the local governments get 15.21 percent. Prior to this time, the Federal Government's allocation was 56 percent, while states and local governments were 24 and 20 percent respectively.

In June, 2008, the Federal Government received a gross revenue (mineral and non-mineral) of N731.52 billion before tax deductions. Out of this amount, N280.93 billion was transferred to the Excess Crude Account. A total of N450.59 billion was shared from the Federation Account among the three tiers of government. While the Federal Government got N195.92 billion (52.68%), the states got N99.37 billion (26.72%) and the local government councils received N76.61 billion (20.60%). The shared sum is N14.09 billion higher than the May figure of N436.5 billion.

As part of its efforts in improving the welfare of pensioners, the Federal Government earmarked N59 billion for the payment of workers' retirement benefits. The money is to be kept in an account to be managed by the CBN.

INDUSTRIAL SECTOR

In May, Nigeria's leading industrial conglomerate, Dangote Group acquired a forty-five percent stake in South Africa's Sephaku Cement for three billion rand (\$378 million) through a private placement. The fund is expected to assist to build 2.2 million tonnes per annum cement plant in South Africa, and increase the supply of the product to the Nigerian market when it commences production by mid 2010.

Meanwhile, the energy crisis being faced by the country continued to reduce capacity utilization in the sector so much that the Manufacturers Association of Nigeria (MAN) issued an official release that they had lost confidence in government's promises to rectify the situation.

MONEY MARKET

The NDIC as a supervisory agency in the banking industry commenced the implementation of "Differential Premium System". Under this scheme, banks are able to manage their portfolio to ensure that their risk element is reduced to the barest minimum. To facilitate this, certain criteria had been designed to ascertain the level of market, capital and operational risks that each bank is exposed to at any point in time, as this would help to determine the insurance premium that the bank would pay at the end of the year.

Standard Bank Group, a South African-based financial services company, invested a total of N75.5 billion (\$640 million) in a merger arrangement with IBTC Chartered Bank, subsequently necessitating the change of the name of the bank to Stanbic-IBTC Bank in Nigeria.

As part of initiatives to fast track the attainment of the nation's economic policy objectives, CBN, in collaboration with a Nigerian bank, has begun a nationwide Collaborative Entrepreneurship Skills Acquisition Programme for youth corp members. The programme, which has been organised in all the orientation camps across the country, has the aim of sensitising corp members on how they may obtain funds from banks through CBN-regulated products and schemes, such as the Small and Medium Scale Equity Investment Scheme (SMEEIS), the Agricultural Credit Support Scheme Fund (ACSSF) and Microfinance Banks (MFBs).

As part of efforts to enhance human capacity in the microfinance sub-sector, the apex bank concluded arrangements for the training of 2,800 microfinance bank staff across the country.

On Monday 8th April, 2008, the Central Bank of Nigeria increased the Monetary Policy Rate (MPR) - the base interest rate - from 9.5 percent to 10 percent, thus signaling a rise in commercial lending rates in the country. According to the apex bank, the action was to check inflation from surfeit of liquidity in the financial system. But the manufacturing sector kicked against this development lamenting the sharp increase it induced in their cost of funding businesses.

Similarly, in June 9, 2008, the commercial banks' Cash Reserve Ratio (CRR) was increased by 100 basis points, rising from 3 percent to 4 percent, while the Monetary Policy Rate (MPR) was increased by 25 basis points moving from 10 percent to 10.25 percent, the increase in the CRR and MPR was meant to further curtail inflationary pressures. Meanwhile, the Nigerian Inter-Bank Rates were also increased to 12 percent, consequent upon the increase in the MPR and CRR.

Within the quarter, the CBN and Securities and Exchange Commission, directed banks to stop granting facilities to stock broking firms. This directive was a reflection of the CBN's continuous monitoring exercise, which seeks to sustain stability in both the banking sector and the capital market.

Also, the CBN started the deployment of Wall Street Suite to manage the country's growing reserve estimated at \$59.70 billion as at June 2008. The Wall Street Suite would automate its reserve management operations while monitoring and managing risk and performance.

The CBN sold a total of N59 billion worth of treasury bills in the second week of April 2008. The transactions were conducted in both the primary and secondary open market operations (OMO) segments of the government securities market. While N55 billion worth of bills were traded in the primary market, the remaining N4 billion worth of bills were traded through OMO.

OTHER DEVELOPMENTS IN THE FINANCIAL SERVICES SECTOR

The National Insurance Commission (NAICOM) was set, in the quarter being reviewed, to scrutinize the appointment of board members of insurance, reinsurance and brokerage companies in the country henceforth. Indications of this emerged as the Federal Government directed the Commission to scrutinise the appointment of board members of such companies in order to ensure that only people with adequate knowledge, relevant industry experience, and impeccable integrity are allowed into the boards of companies operating in the sector.

On 2nd May 2008, NAICOM reviewed the fees payable by insurance brokers. In the review, licensing fee was increased from initial N50,000 to N200,000; licensing renewal fee moved from N25,000 to N100, 000; statutory fee increased from N25,000 to N100,000, while registration fee by new members is now N25,000. Also, it became mandatory for all intending brokers to have their names in the register of the Nigerian Council of Registered Insurance Brokers (NCRIB) as a precondition for obtaining their licenses from NAICOM.

A directive was issued in the quarter to all microfinance banks to render monthly returns to the apex bank through the office of the Director, Other Financial Institutions, and to the NDIC through the office of the Director, Special Insured Institutions in both hard and soft copies, in order to facilitate the transition to on-line rendition of the returns. Failure of any bank to abide by this directive would attract appropriate sanctions.

The CBN, in the period under review, disengaged from currency distribution services by outsourcing this non-core function of currency processing and distribution to the private sector, which will also provide services like cash-in-transit operations. This is expected to create safe and prompt consignment deliveries to end-users and ensure the deployment of appropriate currency movement vehicles that meet approved security standards.

CAPITAL MARKET

In May 2008, the Nigerian Stock Exchange announced that preparations are being finalized for the commencement of e-allotment of shares to investors in the new issues market. E-allotment is the allotment of shares by electronic means. The new policy would formally become effective from January 2, 2009, but the Nigerian Stock Exchange (NSE) is to begin a gradual implementation before that date.

As at the end of the second quarter of 2008, the Nigerian Stock Exchange market had its All Share-Index close at 55.949 million, while the market capitalisation recorded N10.920 trillion. As against an All Share - Index of 63.016 million and market capitalization of N12.13 trillion in the preceding quarter, it thus represents an 11.21 and 9.98 percent decrease when compared to the figures in the preceding quarter.

Eighteen companies listed in the thirty three sub - sectors of the stock exchange have been earmarked for de-listing by the Exchange Governing Council; This was as a result of the report the Council received on forty five companies being investigated by the NSE. The remaining twenty seven companies have been ordered by the Council to be re-investigated with a view to ascertaining their status. The companies affected cut across the aviation, textile, petroleum marketing, conglomerates, food and beverages and healthcare sectors. The investigation also led to the indefinite suspension of Afroil Plc shares from NSE.

In April, SEC secured a 50 percent waiver for filing fees payable by existing capital market operators to the Corporate Affairs Commission (CAC). This concession is to run concurrently within the remaining period stipulated for the recapitalization exercise in the capital market, which is expected to end by December 31st, 2008.

A turnover of 19.8 billion shares worth N249.5 billion in 330,332 deals was recorded in the month of June, in contrast to a total of 16.8 billion shares valued at N232.95 billion exchanged in May 2008 in 356,909 deals. Consequently, total turnover during the half year was 121.62 billion shares valued at N1.73 trillion.

STOCK MARKET AT A GLANCE
TOP FIVE STOCKS AS AT JUNE 30TH 2008

| Company | Opening Price (^) | Closing Price (^) | Change (%) |
|-----------------------|--------------------------|--------------------------|-------------------|
| Gainers | | | |
| Wapco | 51.60 | 56.54 | 4.94 |
| Ashaka Cement | 40.67 | 45.66 | 4.99 |
| First bank | 40.74 | 45.72 | 4.98 |
| UBN | 34.63 | 49.62 | 4.99 |
| Dangote Sugar | 31.75 | 36.72 | 4.97 |
| Losers | | | |
| Oando | 203.99 | 199.71 | 4.28 |
| ETI | 38.71 | 33.73 | 4.98 |
| Intercontinental Bank | 35.49 | 31.47 | 4.02 |
| Nig-German | 23.10 | 18.13 | 4.97 |
| CCNN | 14.48 | 9.65 | 4.83 |

MOST ACTIVE SECTORS (BY VOLUME)
TOP TEN SECTORS AS AT JUNE 30TH, 2008

| Sector | Turnover (Million Units) | % of Market's Total |
|------------------|---------------------------------|----------------------------|
| Banking | 335.490 | 58.53 |
| Insurance | 166.183 | 28.99 |
| Food/Beverages | 19.044 | 3.32 |
| Mortgage | 12.240 | 2.13 |
| Conglomerates | 11.073 | 1.93 |
| Automobile | 9.074 | 1.58 |
| Healthcare | 5.114 | 0.89 |
| Computer | 2.382 | 0.41 |
| Breweries | 1.835 | 0.32 |
| Foreign Listings | 1.814 | 0.31 |

Source: Financial Standard, July 1st, 2008

OIL & GAS

The erstwhile redundant Kaduna Refinery and Petrochemicals (KRPC) resumed production after two years of closure. It started producing 1.4 million litres of premium motor spirit (PMS), 1.8 million litres of diesel and 1.3 million litres of kerosene daily. Hopes were high that this level of output would increase by the end of the year.

Oil prices jumped to a new peak of \$114 a barrel on the 15th of April amidst its lingering supply worries and weakness of the US dollar, raising concern in world consumer nations that the increase in energy cost could cause severe economic damage. In the light of this, some world leaders started calling on OPEC members to boost production in order to counter the rapidly rising oil prices.

Meanwhile, the Federal Government of Nigeria approved the release of N2.691 billion (\$23 million) for turn around maintenance (TAM) of the Kaduna Refinery and Petrol Chemical Company (KRPC). This decision was taken to revamp the refinery and ensure adequate supply of products for domestic use.

On the 23rd of April, 2008, Oando Exploration and Production (OEPL), signed a Global Memorandum of Understanding (GMOU) with the Ukana South 1 communities within its block OPL 236, in Uyo, Akwa-Ibom. The GMOU is designed to encourage participatory partnership with stakeholders for promotion of peace, security and sustainable development in the area. The block, which was awarded by the Federal Government in 2005, is expected to add to the country's gas reserve base.

Also in April, the shareholders of African Petroleum Plc approved the merger of African Petroleum Plc and Zenon Petroleum and Gas Limited. The shareholders endorsed the N7 per share dividend earlier declared by the directors of African Petroleum Plc.

Before the end of the quarter, the Federal Government approved \$3.50 (N409.50) per 1000 standard cubic fee (scf) of gas as the new penalty for flaring of associated gas (AG) by oil firms operating in Nigeria. This is about 4000 percent increase from the former penalty of N10 per scf of gas.

Bonny Light spot closed at \$140.3pb by June, 10.2% higher than the \$127.3 pb recorded in May. However, June average price of \$133 was 6.4% higher than the \$125 of the preceding month. The six month average price of \$109.5 pb was 86% above the 2008 Budget threshold of \$59 pb. Meanwhile, Global oil prices

continued to have ripple effects on economies, especially those of consuming nations.

ENERGY

In a bid to ensure that additional capacity was generated, transmitted and distributed efficiently, the Federal Government approved the blueprint submitted by the Presidential Committee on Power, paving the way for a private sector-led development initiative for the sector.

The Nigerian Electricity Regulatory Commission (NERC) issued licenses for 10,031 megawatts (mw) of electricity to twenty six independent power producers (IPPs) across the country in May, 2008. The World Energy Council also indicated its intention to partner with Nigeria to help find solution to the country's energy crisis.

On the 14th of April, 2008, the Federal Executive Council approved the recommendations of the Presidential Committee on the Accelerated Expansion of Nigeria's Electricity Infrastructure. The recommendations were intended to increase the electricity supply in the country to 6,000 megawatts in the next eighteen months and to add additional 10,000 megawatts by 2011.

However, power supply declined drastically across the country in the second quarter, with overall power generation capacity hovering around 900mw for the whole country. At peak performance, PHCN generated about 3000mw, which was grossly inadequate for the country's needs, and hence resulted in constant power outages. Meanwhile, the Legislative Committee on Power Sector recommended that the Federal Government puts privatisation in the energy sector on hold.

TELECOM

The national network Globacom strengthened its hold in the South Eastern telecommunication market, with the launch of its nationwide super transmission network, the "Glo Optic Fibre Backbone". The advantage of the Optic Fibre Backbone over other networks is that it has the capability to transfer data and voice at the speed of light, as well as immunity from adverse weather conditions such as thunderstorms, which often render microwave and satellite facilities ineffective.

ABC Airline announced that mobile phone calls would now be allowed on planes flying in European airspace under new European Commission rules. This means that mobile phones could be used once a plane reached an altitude of 3,000 meters or more.

AGRICULTURAL SECTOR

The World Bank pledged to support the country with funds and expertise that will lead to the full development of the agricultural sector. This is part of the bank’s plan to improve the condition of small holder farmers who are critical to achieving the goal of food sufficiency in the country and to tackle the problems of rural farmers in the face of adverse global climate and high food prices.

The Federal Government moved to end the importation of agricultural raw materials used in industrial production. This is in view of the fact that this practice constitutes a huge drain on the nation’s foreign reserve. The Director General, Raw Materials Research and Development Council, Prof. Peter Onwualu, confirmed this and said the move was necessary since there were alternatives with which the nation could replace the raw materials being imported into the country.

MACROECONOMIC INDICATORS.

| S/N | INDICATORS | Q1 | Q2 |
|-----|-------------------------|------------|------------|
| 1 | MPR | 10% | 10.25% |
| 2 | CRR | 3% | 4% |
| 3 | Inflationary rate | 7.8% | 12% |
| 4 | External reserve | \$59.7b | \$59.16b |
| 5 | GDP | 6.4% | 6.6% |
| 6 | Crude oil | \$103.4pb | \$136pd |
| 7 | Exchange rate | N116.73/\$ | N116.65/\$ |
| 8 | Currency in circulation | N891.53b | N918b |