



# **ECONOMIC & FINANCIAL**

## **UPDATE**

### **OCT- DEC. 2009**

## ECONOMIC AND FINANCIAL UPDATE (FOURTH QUARTER 2009)

### SECTORAL UPDATES

#### THE ECONOMY IN GENERAL

The economy in the fourth quarter of 2009 witnessed little variation from the previous quarter as the exchange rate came under intense demand, as a result of foreign exchange (Forex) demand from importers and other end users. At the end of the period, the exchange rate in the official market closed at ₦149.58 to United States \$1, a depreciation indicating ₦0.22 or 0.15 % from ₦149.36/\$1 in October, but an appreciation of ₦1.27 or 0.84% from ₦150.85/\$1 recorded in November. However deliberate efforts were made by the Central Bank of Nigeria (CBN) to keep the exchange rate around ₦150/\$1 and avoid fluctuations exceeding 3%. The apex bank has indicated its commitment to this exchange rate band, by making interventions in the market whenever necessary.

Meanwhile, a restrained air of relief pervaded the banking sub-sector, following the successful conclusion of the special audit of banks exercise carried out by the CBN and the Nigerian Deposit Insurance Corporation (NDIC) examiners. Though the uncertainty over the state of affairs of banks was cleared, the credit crunch being experienced in the economy did not abate significantly especially as discussions on common financial year-end for Nigerian banks continued. In fact, banks were expected to step up the process of recalling matured credits in order to shore up their positions. As a corollary to this, the Economic and Financial Crimes Commission (EFCC) announced the recovery of ₦171.046 billion from debtors of 7 of the 8 banks with bad loan portfolios. The CBN is expected to complete the process by the second quarter of 2010.

During the period under review, the year-on-year inflation rate (for all Item Consumer Price Index) increased to 12.4% in November, from 11.6% and 10.4% recorded in October and September, respectively. This trend was attributed to the increasing cost of transportation in the country. Earlier on, speculations about Government's plan to deregulate the downstream sector had precipitated an upward review of the prices of petroleum products, thereby leading to scarcity of the commodity and thus compelling consumers to pay higher prices where the products were available.

Major cities across the country witnessed severe shortage of Premium Motor Spirit (PMS) at the pumps, and this left commuters stranded, businesses paralyzed and consumers hovering around few petrol stations that had the product. The Nigerian National Petroleum Corporation (NNPC) entered into agreement with some independent petroleum product marketers to use their facilities as retail outlets to sell petroleum products to consumers, thereby increasing its number of mega and floating stations to 37 and 12 respectively. Meanwhile, the Federal Government made investing in downstream petroleum sector, (particularly investments in refinery projects) a condition for issuance of oil licensing and renewal of concessions to International Oil Companies (IOCs). However, the gross domestic product (GDP) grew by 8.23% in the

fourth quarter of 2009, from 4.50, 7.22 and 7.07% in the first, second and third quarters respectively. This trend is expected to be sustained even as the global economy continues to show signs of recovery from the recent economic meltdown.

In the period under review, Nigeria dropped from the 121<sup>st</sup> position to 130<sup>th</sup> out of 180 countries ranked on the global Corruption Perceptions Index (CPI) by Transparency International (TI), a global anti-corruption watchdog based in Berlin, Germany. The survey measures domestic public sector corruption in selected countries. In the CPI 2009, Nigeria obtained a score of 2.5 out of a maximum of 10 marks to emerge 27<sup>th</sup> out of the surveyed 47 countries in Sub-Saharan Africa, and 33<sup>rd</sup> out of 53 countries in Africa. According to the survey, New Zealand emerged the most perceived corruption-free country at 9.4 to displace Denmark with a score of 9.3, while Somalia came last of the 180 countries surveyed.

### **OTHER DEVELOPMENTS IN THE FINANCIALSERVICES SECTOR**

In an effort to strengthen the banking sub-sector in the wake of recent examination conducted by the CBN, bank chief executives met in Enugu to discuss the fate of the rescued banks, and how to further help them out of the crisis. At the meeting, the bank chiefs resolved to adopt strategies that will enable the banks get involved in big-ticket transactions and to attract more off- shore funding.

In December, the Senate approved the request of President Umaru Musa Yar'Adua's N31.038bn in the 2009 budget for eight ministries. These ministries are Niger Delta, Power, Science, Technology, Interior, Defence, Federal Capital Territory Authority, Aviation, Agriculture, and Water Resources.

President Umaru Musa Yar'Adua approved the appointment of two new Deputy Commissioners for the National Insurance Commission (NAICOM). The new appointees are Alhaji Ibrahim Hassan, from Bauchi State, as Deputy Commissioner (Technical Operations), and Mr. George Onekhena, from Edo State, as Deputy Commissioner (Finance and Administration). The Senate also confirmed the appointment of Ms. Arunma Oteh as the Director General of the Securities and Exchange Commission (SEC).

### **MONEY MARKET**

Following the conclusion of the joint CBN/NDIC special audit of banks in the country, the CBN announced the removal of the Managing Directors and Executive Directors of three banks - BankPHB Plc, Spring Bank Plc and Equitorial Trust Bank Ltd. The banks were found to be deficient in the areas of liquidity, capital adequacy and corporate governance practice. Also, the apex bank ordered the removal of all Non-Executive Directors of Spring Bank Plc, and ordered the boards of Wema Bank Plc and Unity Bank Plc to recapitalise by June, 2010.

In a bid to enhance efficiency and reduce risks in the payment system, the CBN on the 14<sup>th</sup> of December, 2009 approved ₦10 million as the maximum amount for payment by cheques in Nigeria. This implies that any cheque with a face value exceeding ₦10 million will no longer be honoured by banks; instead such amounts should be paid through the Central Bank Inter-Bank Funds Transfer System (CIFTS) or Real Time Gross Settlement (RTGS), and Nigerian Inter-Bank Settlement System Electronic Fund Transfer (NEFT). This new rule became operational from 1<sup>st</sup> January, 2010. By limiting the amount of cheque payment through the banks, it is hoped that risks in clearing and settlement would be minimized and the payment system elevated to international standards. Also, the CBN streamlined the accounts of deposit money banks to 3 major accounts: current account, settlement account and cash reserve account. With effect from January 1, 2010, therefore, all banks operating in Nigeria must keep and operate these approved accounts to ensure efficient operation and effective reconciliation.

Meanwhile, the CBN granted licenses to two firms to provide automatic teller machine (ATM) services in the country. The licensed firms were Chams Access Nigeria Limited (a subsidiary of Chams Plc) and Cooperative Support Services. The new licensing brought the number of independent ATM deployers (IADs) to three. ATM Consortium Limited, a firm that had been operating for about six years, was the first firm to secure an independent ATM deployment license. Currently ATM users in the country exceed 30 million people, and monthly transactions on the existing 8,567 machines spread across the nation stood is over N100 million as at the end of the fourth quarter of 2009.

During the period being reviewed, the CBN dissolved the National Association of Microfinance Banks in Nigeria (NAMFBIN) and the Association of Microfinance Banks (AMFBIN). In view of this development, the CBN appointed Olubunmi Lawson, Managing Director/Chief Executive Officer of ACCION Microfinance Bank Limited and four other microfinance banks' executives to coordinate the affairs of member institutions in the sub-sector and see to the peaceful conduct of election of a viable national body that would help boost the MFBs in Nigeria.

In the same vein, the CBN also appointed seven institutions to act as financial advisers to the eight troubled money deposit banks. Of the seven institutions, only one is from Europe, while the others are indigenous firms/companies. These advisers are to work with the boards and management teams of the affected banks in exploring all feasible options for securing their stability and long-term growth, and also assist the banks to explore possibilities for institutionalising best practices and good corporate governance.

After its 66th Monetary Policy Committee Meeting held on November 3<sup>rd</sup>, 2009, the CBN reaffirmed its commitment to open markets and reforms by introducing an asymmetric corridor of interest rates around the MPR, which remained unchanged at 6%. The rate on standing lending facility would remain at 200 basis points above the MPR, while the rate on standing deposit facility would be 400 basis points below the MPR. Also, the gap between the current monetary aggregates and the benchmark levels for 2009 was estimated at about ₦500 billion.

In furtherance to this, quantitative modalities such as the establishment of an Asset Management Company (AMC), subject to the approval of the National Assembly, and investment in bonds issued by the CBN are to be applied in closing the gap. Other modalities include redemption of promissory notes issued by the Federal Ministry of Finance and the CBN in connection with the retirement of debt and liabilities arising from purchase and assumption of failed banks. However, purchase of loans by banks under the AMC would be based on terms aimed at strengthening banks' balance sheets, with a focus on asset quality, improving liquidity and capital adequacy as well as reducing debt overhang relating to the stock market in order to stimulate activities in the capital market.

### CAPITAL MARKET

The Council of the Nigerian Stock Exchange (NSE) approved new and supplementary issues worth ₦18.975 billion for four companies, as part of efforts to deepen the stock market. The companies are C & I Leasing Plc, Resort Savings and Loans Plc, African Paints (Nig) Plc, and McNichols Consolidated Plc. C & I Leasing Plc applied for the placement of ₦2.240 billion Unsecured Floating Rate Redeemable Convertible Loan Stock 2009/2014, while African Paints Plc would place 130 million shares of 50 kobo each at par. Also, the NSE approved the listing by introduction of 13.176 billion shares of Resort Savings and Loans Plc at ₦1.25/share; another new company, McNichols Consolidated Plc is to list by way of introduction a total of 201.885 million shares at ₦0.98/share.

The global economic downturn dealt the NSE a hard blow, as it lost about ₦7.6 trillion (i.e. 60%) of its market value since the meltdown started in March, 2008. This collapse virtually crippled all segments of the Nigerian economy. By 2009 prices of shares quoted on the stock market had crashed by at least 400%, sending investors in the capital market into frenzied sale of their holdings. This weak performance of the Capital market continued throughout 2009, pruning the All Share-Index (ASI), which had stood at 31,450.78 in December, 2008, to 19,851.89 (36.88%), 26,861.55 (14.59%), 22,065.00 (29.84%) and further to 20,827.17 (33.78%) at the end of the first, second third and fourth quarters of 2009 respectively. Similarly, the market capitalization, which stood at ₦6.96 trillion in December, 2008 declined steadily to ₦4.989 trillion on December 31<sup>st</sup>, 2009. It is hoped that this bearish performance will change for the better in the light of the global economic recovery.

On the 25<sup>th</sup> of November, 2009, the CBN injected a total of ₦65.5 billion into the economy through the sale of Federal Government bonds. The bonds, which were sold on the government securities trading floor of the CBN, had three-year, five-year and 10-year tenors. The bid rates for the bonds varied between 5.40% and 12.25%, while the issue rates varied between 6.75% and 8.50%. The CBN also approved secondary market trading for all sub-national bonds, aimed at removing credit risk from secondary market transactions and ensuring confidence in the sub-national bond market. The new arrangement is expected to provide opportunity for investors to sell their investment holdings if and when they require their money back.

**STOCK MARKET AT A GLANCE**  
**TOP 5 STOCKS AS AT 31<sup>ST</sup> DECEMBER, 2009.**

Company	Opening Price (^)	Closing Price(^)	Change (%)	Gain (₦)
<b>Gainers</b>				
Nigerian Breweries Plc	50.00	53.02	6.04	3.02
Nigerian Bottling Company Plc	19.43	21.42	10.24	1.99
Dangote Flour Mills Plc	8.71	9.93	14.01	1.22
Lafarge Cement Wapco	28.80	30.00	4.17	1.20
NNFM Plc	14.75	21.85	48.14	7.10
<b>Losers</b>				<b>Loss (^)</b>
Total Nigeria Plc	151.60	149.00	(1.72)	2.60
Alumaco Plc	29.16	27.71	(4.97)	1.45
Conoil Plc	29.08	27.63	(4.99)	1.45
UACN Property Development Company Plc	21.30	19.86	(6.76)	1.44
Flour Mills of Nigeria	37.00	36.00	(2.70)	1.00

*Source: Financial Standard, January 11, 2010*

**MOST ACTIVE SECTORS (BY DEALS)**

Sector	Number of Deals
Bagco Plc	3,559
First Bank of Nigeria Plc	1,866
GTBank Plc	1,004
Zenith International Bank Plc	625
UBA Plc	576
Dangote Flour Mills Plc	525
Union Bank of Nigeria Plc	432

Skye Bank Plc	392
Access Bank Plc	382
Japaul Oil and Maritime Services Plc	381

*Source: Financial Standard, January 11, 2010*

### OIL & GAS

The much awaited deregulation of the downstream sector of the petroleum industry which was expected to commence in November 2009, was postponed, leading to a spate of scarcity of petroleum products, and the resultant hike in price. The delay was to allow the Government undertake wider consultations with labour unions, the organised private sector (OPS) and other interest groups before implementation. Meanwhile the Government, through the NNPC, ordered the importation of 90 cargoes of PMS, 28 cargoes of Dual Purpose Kerosene (DPK) and 10 cargoes of Automobile Gas Oil (AGO). This massive importation was intended to meet the expected increase in demand for petroleum products during the festivities at the end of the year. However, the Presidency and the Petroleum Products Pricing Regulatory Agency (PPPRA) withheld approval for the importation of petroleum products into the country by independent marketers pending the commencement of the deregulation programme in the sector.

### ENERGY

Though the Federal Government disbursed \$4.6 billion for the financing of the Niger Delta Power Project and Mambila Power Project amongst others, in a bid to achieve the 6,000MW of electricity in the country by December 2009, critical areas of transmission and distribution of electricity remained in deplorable conditions. The Power Holdings Company of Nigeria (PHCN) was reported to require 750mscf per day, but was only getting about 230mscf of gas per day to generate between 2,500 and 3,000MW of electricity per day. Meanwhile, the Federal Government distributed 500KVA generators to 8 states that had been assessed to have started establishing enterprise zones. The states that benefited are: Imo, Ebonyi, Kogi, Bauchi, Bayelsa, Ekiti, Osun, and Kano. In addition to this gesture, it is expedient, that efforts are geared towards adequate provision of electricity for all the states, as this is indispensable to the achievement of the 7-point Agenda of the Federal Government.

Meanwhile, the much awaited 6000megawatts (MW) promised by the Federal Government could not be achieved by the end of the year largely due to gas shortage; by then the country could only generate 3,500mw of electricity. Though this was the highest in the past three years, it was grossly inadequate to meet industrial and domestic demands. Moreover, the country is known to have a generation capacity of 8,634MW and an available capacity to generate 5,000Mw, thereby justifying the clamour for a complete restructuring of the sector. However, the Federal Government took a major step towards sourcing for alternative power supply using nuclear energy as, it unveiled a 10-year strategic plan of action. In view of this, the country's nuclear power

programme is expected to generate an additional 1,000MW of electricity to the national grid within the next 10 years and up to 4,000MW by 2030.

### TELECOMMUNICATION

The Nigerian Communication Commission (NCC) approved the new interconnectivity rate of ₦8.20 with effect from December 31<sup>st</sup>, 2009. The new rate is uniform across board and indicates a decrease of 29% from the previous rate of ₦11.55 earlier issued by the Commission in September, 2006. Another unique thing about the new rate is that unlike in the past where interconnectivity rates for fixed and mobile networks were different, the new rate is uniform across board because of the unified access licensing regime introduced in 2007. NCC also confirmed that the Nigerian telecommunication connection data base had risen to about 71.9 million subscribers as at October, 2009.

### MACROECONOMIC INDICATORS FOR 2009.

S/N	INDICATORS	Q1	Q2	Q3	Q4
1	MPR (%)	9.75	8	6	6
2	CRR (%)	2	1	1	1
3	Inflation rate (%)	14.4	11.2	11	12.4
4	External reserve (\$ billion)	47	43.9	41.60	42.47
5	GDP (%)	4.50	7.22	7.07	8.23
6	Crude oil price (\$ bpd)	40	60	65	77.13
7	Exchange rate (₦/\$)	145	146.75	146.48	149.58
8	Currency in circulation (₦ trillion)	1.06	1.01	1.01	1.18

**Sundry Sources:** Releases from the Monetary Policy Committee meetings of the Central Bank of Nigeria (CBN), published news stories from the Federal Office of Statistics (FOS), news reports on the international oil markets as published by the dailies and indicators from the websites of key economy regulators.