



Economic

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Financial

Update

January – March, 2011

Economic and Financial Update (First Quarter, 2011)

Sectoral Updates

The Economy in General

The Nigerian economy experienced mixed performances in the period under review, showing waves of economic indicators across major sectors. For instance, the Nigerian crude oil, which traded at the international market on the average of \$98.4 per barrel in January rose sharply to \$112.34 per barrel and \$116.88 per barrel in February and March respectively. This was a direct fall out of the political unrest that engulfed some oil producing regions of the World, notably North Africa and Middle East. Expectedly, the hike in the prices of crude oil impacted positively on the external reserve, which notched up significantly from \$33.12 billion in January, to \$33.26 billion in February and \$33.72 billion in March, thus representing an increase of 0.42 per cent and 1.36 per cent respectively.

Similarly, the nation's growth rate of 2010 was sustained in the first quarter of 2011, with data emerging from the National Bureau of Statistics indicating a Gross Domestic Product (GDP) growth projection of 7.43 percent as against 7.36 percent in the corresponding period in 2010. The non-oil sector remained the major driver of overall growth, with agriculture, wholesale and retail trade, and services contributing to the nation's output significantly. With a healthy GDP, the recipe for a single digit inflation rate may lie in curtailing aggregate expenditure, fiscal prudence and revival of the ailing real sector of the economy.

During the period under review, year-on-year headline inflation stood at 12.8 per cent in March, up from 11.1 per cent and 12.1 per cent in February and January respectively. However, while core inflation rose significantly to 12.8 per cent in March from 10.6 per cent in February and up from 12.1 per cent in January, food inflation maintained a 12.2 per cent in March and February respectively from 10.3 per cent recorded in January. The rise in food inflation, consistent with the seasonal pattern can be attributed to the increase in the costs of imported food items, transportation and energy prices.

On March 16th, 2011, the National Assembly passed into law the Appropriation Bill of ~~N~~4.917 trillion for 2011 (with N2.467 trillion for recurrent expenditure and ~~N~~1.562 for capital expenditure), as against the earlier proposed estimate of ~~N~~4.221 trillion submitted by President Goodluck Jonathan in December, 2010, thus, representing an increase of ~~N~~745 billion. The budget was predicated on crude oil production rate of 2.4 million barrels per day at \$75/barrel, joint venture production estimate of \$5.4billion, Gross Domestic Product (GDP) of 7

percent and exchange rate of ₦150 to \$1. As at the end of the quarter, the President had not endorsed the Appropriation Bill. This may not be unconnected with the fact that the executive believed that the legislature was ambitious in its benchmark for effecting significant increase in the budget.

Following a protracted battle between the Federal government and the organised labour over the new minimum wage, President Goodluck Jonathan signed into law the new national minimum wage in March, 2011. This completed the background process necessary for the implementation of N18,000 monthly pay for Nigerian federal civil servants. The bill, having received both the Senate and House of Representatives assent on February 23 and March 2 respectively, following Presidential approval laid to rest the heated discussion created by the lingering minimum wage issue. It was last reviewed in 2000, when it was increased to N7,500 by the then President Olusegun Obasanjo. It may be recalled that both the Nigerian Labour Congress and the Trade Union Congress in February 2009 presented a demand for a N52,000 minimum wage to the Federal Government, claiming the wage (N7,500) could no longer cater for the needs of civil servants going by the prevailing economic situation.

Other Developments within the Financial Services Sector

The National Insurance Commission (NAICOM), in its 2011 guidelines for the insurance industry, directed all operators to completely disclose details of transactions above N1 million or its equivalent in the case of an individual and N5 million or its equivalent for corporate body to the Nigerian Financial Intelligence Unit (NFIU) in conformity with the provisions of the Money Laundering (Prohibition) Act, 2004. In view of this, any single cash lodgment, transaction or transfer of funds as stipulated must be reported within seven days, failure of which will attract various penalties as contained in the relevant laws. All operators shall also display in all their operation centers nationwide, the provisions of the Money Laundering (Prohibition) Act, 2004 regarding their duty to file cash transaction reports and suspicious transaction reports with Nigerian Financial Intelligence Unit (NFIU), with copies sent to NAICOM. However, where neither cash transaction in excess of the limit prescribed nor any was recorded, the operators should file a nil return to the Nigerian Financial Intelligence Unit (NFIU) and copy the commission on a monthly basis. The operators to comply with directive include the insurers, re-insurers, insurance brokers and the loss adjusters.

The insurance subsector in its bid to meet the 2012 deadline for compliance with International Financial Reporting Standard (IFRS) directives, ordered insurers to start preparing two separate financial accounts. Following the directive, the underwriters and reinsurers began their transition in January 2011, while

insurance brokers are expected to commence theirs in 2012. The Commissioner for Insurance, Mr. Fola Daniel, stated that “the commission is committed to the adoption of IFRS not only because it is one of the initiatives of the insurance industry under Financial Services Sector (FSS) 2020 programme, but also because it is an imperative for the international recognition of our insurers and reinsurers”. The adoption of the IFRS is expected to promote high quality transparent and comparable financial statements that are based on modern accounting principles and concepts being applied globally.

Money Market

During the period under review, the Central Bank of Nigeria extended the deadline given to all account holders in the 24 deposit money banks to update their accounts or stand the risk of losing access to such accounts. The extension to January 31, 2011 came following the expiration of one month initially given, which terminated on December 31, 2010. According to the apex bank, the move became expedient to consolidate on the ongoing reforms in the banking industry, sanitize the banking sector for effective service delivery and update the system’s customers’ database.

The Central Bank of Nigeria (CBN), in the first quarter, increased the Monetary Policy Rate (MPR) to 7.5 percent from 6.5 percent, representing an upward review of 100 basis point. This became necessary to check an expected surge in inflation on account of the country’s general elections coming up in the second quarter. Given that this might engender a high expenditure outlay from the governments, parties and individual politician, the step was aimed at making the cost of borrowing from banks expensive, deter frivolous spending, guard the value of naira from depreciation and keep inflation in the country in checks.

In the same vein, the apex bank, while maintaining the symmetric corridor at +/- 200 basis points, jerked up the cash reserve requirement ratio by 100 basis points from one percent to two percent effective February, 2011, and liquidity ratio by 500 basis points, from 25 percent to 30 percent effective March, 2011. This was informed by the effect of some fiscal, monetary and political factors on the economy.

The Central Bank of Nigeria, in its new rules guiding foreign exchange (FOREX) transactions, approved the sum of \$500,000 as the minimum allowable bid for each tenor by Authorized Exchange Dealers. Following this new guidelines, all forex dealers are now permitted to offer European-styled forex call and put Options Contract to their customers in the inter-bank market, subject to an approval from the CBN Banking Supervision Department to deal in the FX Operations. The guideline is aimed at ensuring that all operations by the forex

dealers are liquid, diversified and global, while enhancing the transmission of the monetary policy and minimizing risk to the financial system.

Also, the apex bank introduced penalties for banks that failed to comply with its ATM directives, following non-compliance by operators to circulars and guidelines issued in this regard. According to the CBN, where video recordings on disputed transactions cannot be provided, the ATM deployer would be made to refund the full amount involved in any ATM related fraud. Also, the penalty for bank's failure to respond to the customer or CBN on any ATM related complaints within three days would attract a fine of N50,000 per day, until a response is received. The fine of N50,000 along with other punishment abound for various offences such as the payment card industry data security standards non-compliance; non-compliance of ATM terminals with EMV levels 1 and 2; failure to provide audit trails and journals to and fro ATM transactions. Specifically, failure to comply with the apex bank's policy of offsite ATM deployment would attract a fine of N50,000 per week until compliance is established as well as fine of N50,000 per day for failure to establish desk contacts. In addition to this and as part of its non-monetary sanctions, the CBN would not only name the erring institution (s) at the Bankers' Committee Forum, but will also suspend such institutions from participating in clearing operations until the infraction is rectified.

The Governor of Central Bank of Nigeria, Mallam Sanusi Lamido Sanusi, was named the World Central Bank Governor for 2010 by the Global Intelligence magazine, The Banker. Mallam Sanusi won the award owing to his resolve to salvage a crumbling financial sector, coupled with implementation of series of reforms that returned Africa's second biggest financial market (Nigeria) back to recovery. His radical anti-corruption campaign aimed at saving the 24 banks on the brink of collapse as well as securing conviction of some of their chief executives were part of the qualities that earned him the award. Others include pegging of Banks' CEO's tenure at a maximum of 10 years and strict disclosure of financial records in the books of deposits money banks (DMBs). The Banker, a publication of Financial Times, London is regarded as the world's most influential financial intelligence magazine published since 1926. It provides guide to bank ratings and definitive reference in international banking for financial experts, governments, central bank governors and other decision makers.

Capital Market

During the period under review, the Nigerian Stock Exchange (NSE) directed all stockbroking firms to separate clients' account from its own account. This became necessary following rising cases of misappropriation of clients' fund and the need to ensure accountability and transparency. Similarly, the Nigerian Stock Exchange (NSE) issued a new guideline for fresh listings in its stock market, directing companies seeking quotation on the NSE to appoint a stock broking firm as its intermediary. To ensure full compliance, the operators are to ensure that every aspect of the issue conforms to the listing requirement of the stock exchange and other statutory provisions in the Investments and Securities Act 2007, and Companies and Allied Matters Act, 1990. As a corollary to these directives, the NSE, will not only rationalize the prices being made on the trading floors by stockbrokers, but will also complement companies that are not performing up to expectation, conduct random evaluation and analysis, and monitor all quoted companies.

Between January and March 2011, 57 member firms of the Nigerian Stock Exchange were suspended over their inability to meet up with the N70 million minimum capital base requirements, while 5 of the affected stockbroking firms later had their suspension lifted, having satisfied the requirements for recapitalization. In furtherance to this, the Securities and Exchange Commission (SEC) in an effort to benchmark its activities with emerging markets in Malaysia and South Africa, disclose its plans to reduce the number of stockbrokers from 300 to a sizeable number. It may be recalled that Securities and Exchange Commission had, in December 2005, raised the minimum shared capital of stock broking firms from N20 million to N70 million.

The board of directors of the Securities and Exchange Commission (SEC) approved the appointment of Mr. Oscar Onyema as the Chief Executive Officer of the Nigerian Stock Exchange (NSE). Mr. Onyema holds a Bachelor of Science in Computer Engineering degree from Obafemi Awolowo University, Ile-Ife, Nigeria and an MBA, Finance and Investment from Ziklin School of Business, Baruch College, New York. Prior to his appointment as the CEO of Nigerian Stock Exchange, he was the Senior Vice-President and Chief Administrative Officer with the New York Stock Exchange (NYSE). A council member of Gerson Lehrman Group, Austin Texas, and a member of the Securities Traders Association of New York and Securities Industry and Financial Markets Association.

Stock Market at a Glance
Top Gainers and Losers as at March 31, 2011

Company	Opening Price (₦)	Closing Price (₦)	Change (%)	Gain (₦)
Gainers				
Costain	5.40	5.67	5.00	0.27
AIICO	0.82	0.86	4.88	0.04
Transcorp	1.06	1.11	4.72	0.05
Continental	0.88	0.92	4.55	0.04
UACN	32.00	33.30	4.06	1.30
Unity Bank	1.24	1.29	4.03	0.05
Intercontinental Wapic	0.53	0.55	3.77	0.02
FCMB	6.62	6.86	3.63	0.24
ECOBank Transnational Inc	15.50	16.00	3.23	0.50
GT Assurance plc	1.65	1.70	3.03	0.05
Losers				Loss (₦)
UBA	8.00	7.60	5.00	0.40
Starcomms	0.80	0.76	5.00	0.04
Goldlink	0.60	0.57	5.00	0.03
Wema Bank	1.40	1.33	5.00	0.07
NNFM	37.71	35.83	4.99	1.88
Custodian and Allied Insurance	3.21	3.05	4.98	0.16
Cadbury Nigeria	24.34	23.13	4.97	1.21
IHS Nig. Plc	3.26	3.10	4.91	0.16
Diamond Bank Nigeria Plc	6.37	6.06	4.87	0.31
Red Star Express	2.89	2.75	4.84	0.12

Source: FSDH Market Review as at March 31st, 2011

Most Active Sectors (by Volume)

Sector	Volume Traded	% of Market 's Total
Conglomerates	2,509,564,143	92.04
Banking	137,096,303	5.08
Insurance	37,505,295	1.36
Information Communication and Telecommunications	14,106,644	0.52
Food/Beverages & Tobacco	5,882,708	0.22

NB: The Conglomerates sub-sector was the most active and accounted for 92.04 per cent of total volume traded.

Source: FSDH-NSE-DOL as at March 31st, 2011

Oil & Gas

The Nigerian oil sector witnessed a major boost following the commissioning of its first Inland Modular Integrated Power, Propane and Liquefied Petroleum Gas (LPG) plant in Ebendo, Delta State. The facility has an inbuilt processing capacity of 30MMSCF intake of gas daily, and is estimated by the Oil and Gas Journal (OGJ), to have had 185 trillion cubic feet (tcf) of proven natural gas as at January, 2010 with a larger percentage wasted through flaring. It would also be generating Liquefied Petroleum Gas (LPG), Natural Gas Liquids (NGL) and condensate, High Octane Fuel Additives (HOFA), Propane and Methane, which will be useful in the production of electric power. It is, therefore, expected that with this new facility, a significant value from gas flaring will be created through the provision of clean energy and emergency electric power coupled with its economic and environmental benefits.

Energy

During the period under review, the federal government established three power projects to enhance electricity supply in the country. The power projects are expected to add about 900 megawatts of electricity to the national grid, thus increasing the current 3,313.8 megawatts, amounting to the sum of \$2.1 billion (N315billion). The three sites involved in the project are Zungeru Hydro-electric power project, Kontagora as well as Gurara dams. The projects will not only generate electricity supply to the national grid, but will also be used for irrigation to support agriculture in the economy.

Telecommunication

The Nigerian Communication Commission (NCC), extended the deadline for the SIM Card registration exercise to September 28, 2011. In effect, any subscriber who fails to register his/her SIM card before the stipulated date would have it cut off on telecommunication networks in the country. The exercise, which is aimed at reducing crimes aided by telecommunication gadgets, will also serve as a source of relevant data for planning and implementation of government programmes. It will also provide a central database for all mobile phone users in Nigeria, while disclosing their identity as well as help security agencies and the National Identity Management Commission carry out their jobs in the interest of the nation.

Agriculture

The Federal Government signed an agreement with the World Bank to boost large scale agriculture for the export market. The agreement, under the World Bank–Nigeria assisted Commercial Agriculture Development Project, will afford five states namely Lagos, Cross River, Enugu, Kano and Kaduna the opportunity to explore their agricultural endowments in generating foreign earnings for the country. Under this project, Lagos, being peculiar for its abundant water resources will focus on aquaculture, poultry and rice production; Enugu will specialize in cashew and pineapple, poultry (eggs and birds) and maize production; Cross River State will be producing oil palm, cocoa and rice; Kaduna will focus on fruit trees, dairy and maize cultivation; and Kano will channels its agricultural resources towards the production of rice, dairy and staples. It is hoped that with such collaboration with the World Bank, the project will help in addressing critical issues preventing exportation of agro products such as capacity building, mentoring, market access and linkages, with an overriding objective to ensure that finished products of value chain selected for the project achieve tremendous success at both domestic and international markets.

Macroeconomic Indicators, First Quarter, 2011

S/N	Indicators	
1	MPR (%)	7.5
2	CRR (%)	2
3	Inflation Rate (%)	12.8

4	External Reserve (\$' billion)	33.72
5	GDP (%)	7.43
6	Crude Oil (\$' bpd)	116.88
7	Exchange Rate (₦/\$)	151.52
8	Currency in Circulation (₦' trillion)	1.41

Source: 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.