



Economic

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Financial

Update

July – September, 2011

Economic and Financial Update (Third Quarter, 2011)

Sectoral Updates

The Economy in General

During the third quarter of 2011, the Nigerian economy witnessed series of economic reforms initiated to emplace strong economic fundamentals for transforming the economy. Unfortunately, these reform efforts intended to significantly improve macroeconomic outcomes were marred by the nefarious activities of the Boko Haram Sect, which led to the bombing of the Police Headquarters and the United Nations building in Abuja, amongst others, leaving 23 persons dead, out of which 11 were United Nation's personnel. This unwholesome act contributed to the nation's dwindling resources, as potential and existing investors became apprehensive and uncertain about the state of the nation's insecurity, which seem to have resulted in panic withdrawal and divestment as well as de-industrialization.

The outcome of these and other activities took its toll on the nation's Gross Domestic Product (GDP), which declined to 7.4 percent in the quarter under review, from 7.7 percent in the preceding quarter. The oil sector also witnessed negative growth within the period, with international oil prices closing at \$105.4 per barrel, from \$120.6 per barrel and \$109.9 per barrel in July and August respectively. The effect of this downward trend impacted negatively on Nigeria's foreign reserve, as it declined marginally to \$31.74billion at the end of third quarter, from \$32.51 billion and \$32.92 billion recorded in the month of July and August, representing a decline of 2.34 per cent and 3.58 per cent respectively. However, the non-oil sector remained the major driver of overall growth, with wholesale/retail trade, telecommunications, manufacturing, finance and insurance sectors contributing significantly to the nations' output.

Meanwhile, Nigeria's inflation rose to 10.3 per cent in September from 9.3 percent and 10.2 percent in August and July respectively, beating the CBN single-digit target. Also, food prices, the largest contributor to the consumer index, maintained an upward movement as it rose by 9.5 per cent year-on-year in September from 8.7 per cent in August and 7.9 percent in July. During this period, the biggest contributors to the consumer inflation were the high prices of electricity and food items, especially, the increasing costs of yam, cooking oil and fish.

In a bid to ensure a unified database of Nigerian citizens from 18 years and above, the Federal Executive Council (FEC) approved the sum of N30 billion for the first phase of a new national identity scheme for the country, otherwise known as the Integrated National Identity Management System (INIMS). One of

the major objectives of this project is to simplify the existing process that will afford different government agencies the opportunity to capture citizens' data separately for their individual use, in a way that would ensure cost reduction, while carrying out their individual registration processes.

Other Developments within the Financial Services Sector

The National Pension Commission (PENCOM) directed all Pension Fund Administrators (PFAs) managing N100 billion and above on behalf of its contributors to create at least, 11 departments to facilitate its operations. The departments to be established include: Contributors/Collectors, Investment, Benefit Administration, Business Development/Relationship Management, Finance, IT, Compliance, Risk Management, Internal Audit, Administration/Human Resources and Legal/Company Secretary. Following this directive, the Commission issued various guidelines and policy directives to its stakeholders to ensure full compliance with the new scheme and provide opportunities to help the informal sector thrive.

In an effort to fast-track the development of the Islamic non-interest banking model in Nigeria, the federal government inaugurated a committee made up of the Central Bank of Nigeria (CBN), Infrastructure Concession Regulatory Commission (ICRC), Securities and Exchange Commission (SEC), Debt Management Office (DMO), Lotus Capital and Jaiz International Plc. The committee was inaugurated to develop an alternative finance model for infrastructure development under the Islamic banking model, with international bond market within the Sukuk framework. The Sukuks represent certificates of proportional and individual ownership right in tangible assets in line with the principle of Islamic finance, where interest is not paid, but rather returns are generated through actual transactions.

Money Market

During the period under review, the Central Bank of Nigeria (CBN) approved the inclusion of Renminbi (Yuan) in the country's external reserve mix. The approval, which followed the signing of a Memorandum of Association (MOU) with the Chinese Financial Regulatory Authority, was done with a view to strengthen alliances between the monetary authorities of the two countries, as well as build strategic and mutually beneficial relationships with major Chinese financial institutions. It may be recalled that prior to this initiative, the country's external currency mix consisted of the United States dollars, the Euro and the British Pound Sterling.

Following series of unusual developments in the global and domestic economy, which impacted negatively on domestic liquidity conditions, the Central Bank of Nigeria (CBN) raised the monetary policy rate (MPR) by 275 basis points (bps) from 9.25 percent to 12 per cent, while maintaining the current symmetric

corridor of +/-200 basis points around the MPR. The increase, which is the sixth in a series this year, and the second in the quarter under review, is aimed at tightening liquidity and achieving price stability. Similarly, the CBN raised the cash reserve ratio (CRR) to 8 percent from 4 percent, while suspending the reserve averaging method for computing CRR in favor of daily maintenance. Also, banks' Net Open Positions (NOP) was reduced from five percent to one percent of shareholder funds.

As part of measures to achieve a cashless economy in Nigeria, the CBN awarded certificates of full registration to a Cash in Transit (CIT) and Cash Sorting companies. The companies are the Integrated Cash Management Systems Limited and Bankers Warehouse Limited. The paid-up capital requirement for CIT companies is N1billion and N3 billion for currency sorting companies, while a total of N4 billion is required to operate both as a CIT and currency sorting firm. However, existing companies that have not met the registration requirements, especially the required capital base were advised to explore other financing options. It is expected that the registration of companies providing services in the cash sub-sector will not only enhance the efficiency of currency management in Nigeria, but will also facilitate the generation of fit naira note for payment, engender healthy competition among service providers; and ensure product quality, integrity and standardization. This is the first time service companies providing services in the cash service sub-sector of the Nigerian banking sector will be registered and brought under the supervisory and regulatory framework of the CBN. This requirement would allow more companies qualify for registration, as the policy is not only consistent with, but complementary to the cash policy guidelines of the CBN.

Also, the apex bank issued December 31, 2012 as the deadline for compliance with the point of sale (POS) standards issued in a circular titled, "Guidelines on POS Card Acceptance". According to the circular, under no circumstances shall a merchant charge a surcharge to customers for using their cards, as fees and charges would be applicable to only POS transactions performed with naira denominated cards. Hence, fees charged at POS terminal transaction will be reviewed annually and distributed as follows; issue- 3percent; Acquirer- 32.5percent; Payment Terminal Owner- 25 percent; Local Switch- 5 percent and Payment Terminal Service Aggregator- 7.5 percent. Furthermore, any operator, processor, infrastructure provider, switching company, service provider or bank that contravenes this policy faces a minimum of one month suspension by the CBN, with stricter sanctions if the practice persists.

Also, during the period under review, the federal government through the Nigeria Deposit Insurance Corporation (NDIC) assumed ownership of Afribank, Bank PHB and Spring Bank via the "Bridge Bank" mechanism, following revocation of their licenses by the Central Bank of Nigeria (CBN). This means the

three banks will still be open to customers and continue to operate normally under the control of three bridge banks created by the NDIC to assume their assets. The Bridge Banks are Enterprise Bank Limited to assume assets of Spring Bank, Keystone Bank Limited to assume assets of Bank PHB, and MainStreet Bank Limited to assume assets of Afribank. In furtherance to this, the CBN reconstituted a new board for the affected banks and they are Mrs. Faith Tuedor-Mathew as the Managing Director, and Mr. Falalu Bello as Chairman, Main street Bank Limited; Messrs. Jacobs Moyo Ajekigbe and Oti Ikomi as its Chairman and Managing Director for Keystone Bank Limited; while Mr. Emeka Onwuka and Mr. Ahmed Kuru as Chairman and Managing Director, Enterprise Bank Limited. The boards of the three nationalized banks were entrusted with the mandate to manage these banks along best commercial practice to compete effectively in the Nigerian banking sector and render quality service to customers. Meanwhile, the depositors of these banks had been assured of the safety of their money by the Asset Management Corporation of Nigeria (AMCON), while employees were also assured of seamless continuity of business operations and job functions. A bridge bank is a temporary bank organized by the regulators to administer the deposits and liabilities of a failed bank. Bridge banks must be chartered as national banks. By implication, they are required to honour the commitments of the failed bank to its customers, and not to interrupt or terminate adequately secured loans. They are also authorized to seek to liquidate failed banks, either by finding buyers for the bank as a going concern or by liquidating its portfolio of assets within two years, which can be extended for cause by an additional year.

The Central Bank of Nigeria (CBN) approved a revised microfinance supervisory and regulatory framework for Nigeria. Under this framework, micro-finance Banks (MFB) will be categorized into three according to the minimum paid-up capital required in order to ensure financial stability in the sector. The first category will consist of those authorized to operate in one location with a minimum paid-up capital of N20 million; the second category of MFBs are to operate within one state or the Federal Capital Territory (FCT), with a minimum paid up-capital of N100 million and are allowed to open branches or cash centres within the same state; while the third category is to have a paid-up capital of N2billion, and will be allowed to open branches in any part of the country. However, beyond the attainment of the revised capital requirement, operationalisation of the framework by MFB is still subject to CBN's ratification.

Capital Market

The Securities and Exchange Commission (SEC) in an effort to begin the demutualization of the operations of Nigerian Stock Exchange (NSE), approved the formation of a Demutualization Committee. The Committee, which was

charged with the responsibility of making recommendations for the demutualization of the NSE activities, was formed at the 61st SEC Board Meeting.

Stock Market at a Glance
Top Gainers and Losers as at September 30, 2011

Company	Opening Price (₦)	Closing Price (₦)	Change (%)	Gain (₦)
Gainers				
CAP	17.00	17.85	5.00	0.85
Ashaka Cement	16.00	16.80	5.00	0.80
NAHCO	5.60	5.88	5.00	0.28
Sterling Bank	1.20	1.26	5.00	0.06
NB	76.18	79.98	4.99	3.80
Ecobank	2.41	2.53	4.98	0.12
RT Briscoe	1.41	1.48	4.96	0.07
Berger	8.92	9.36	4.93	0.44
Dangote Flour	6.49	6.81	4.93	0.32
UBA	3.69	3.87	4.88	0.18
Losers				Loss (₦)
AIICO	0.60	0.57	5.00	0.03
VANLEER	13.97	13.28	4.94	0.69
Flourmill	62.56	59.55	4.81	3.01
MayBaker	3.05	3.00	1.64	0.05
Diamond Bank	3.55	3.50	1.41	0.05
Unity Bank	0.76	0.75	1.32	0.01
Continsure	1.03	1.02	0.97	0.01
Presco	7.05	7.00	0.71	0.05
Fidelity Bank	2.02	2.01	0.50	0.01
Skye Bank	5.11	5.10	0.20	0.01

Source: NSE Daily Summary (Equities) as at September 30th, 2011.

Energy

Owing to the regulated price of electricity in the country and the inability to meet repayment terms by companies buying power from independent power

generating companies, the federal government approved the board of the Nigerian Bulk Electricity Trading (NEBT) Plc. The NEBT board, which is to be chaired by the Minister of Finance and Coordinator of the economy, Dr. Ngozi Okonjo-Iweala, was created by the National Electricity Sector Reform Act 2005 to recoup investments by distribution companies, and this has generally been perceived as the biggest risk to growth in the power sector. The PHCN, which hitherto managed the process, owed huge debts from previous power purchase agreement (PPAs) it had signed with independent producers. Following the approval, NEBT, will henceforth honour current PPAs signed by PHCN and take over the negotiation and signing of future power purchase contracts for distribution companies, thereby boosting potential investors' confidence.

The power sector witnessed a major boost, following the attainment of a 4,242.7 megawatts (MW) power generation, with 3982MW going into national grid and 260MW for the maintenance of the spinning reserve for system stability. The feat, which marked an all-time-high power generation in the country, is coming on the heels of massive reduction in the incidence of system collapse in the power sector. It may be recalled that the highest the government was able to achieve prior to this, was 3800MW.

Meanwhile, the Federal Government terminated the appointments of the Chief Executive Officers of four electricity distribution companies, namely Eko, Ibadan, Benin and Jos distribution companies. The move was necessitated by the need to ensure a successful implementation of the power sector reform. They were replaced by Mr. Oladele Amoda (Eko); Mr. Bolaji Oyesiku (Ibadan); Dr. Effiong Umoren (Benin) and Mrs. Vera Osuhor (Jos). They are expected to ensure effective network operations and revenue collection.

The Federal Government increased electricity consumption tariff from N8.50/kilowatt to N10/kilowatt, the second time within a year. This became necessary in order to attract private investors. However, it is believed that raising the electricity tariff without corresponding increase in power supply will pose an enormous burden to the citizens of the country, more so because other alternative energy sources such as kerosene, diesel and cooking gas are also increasing, scarce and costing much more.

Telecommunication

The Nigerian Communication Commission (NCC), has for the umpteenth time extended, the Subscriber Identification Mode (SIM) card registration period owing to calls from stakeholders and subscribers clamouring for the extension of the deadline. The extension was considered needful, as a result of logistic challenges experienced by over 40 million subscribers who were yet to register the SIM, while the Commission declared that any unregistered SIM card would

be immediately disconnected upon expiration of this extension. Meanwhile, NCC has disclosed that harmonization process would begin without delay. This process involves collation, reconciliation, clearing and consolidation of the captured data into a central data infrastructure for efficient subscribers' database management.

Macroeconomic Indicators, Third Quarter, 2011

S/N	Indicators	
1	MPR (%)	12
2	CRR (%)	8
3	Inflation Rate (%)	10.3
4	External Reserve (\$' billion)	31.74
5	GDP (%)	7.4
6	Crude Oil (\$' bpd)	105.4
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.