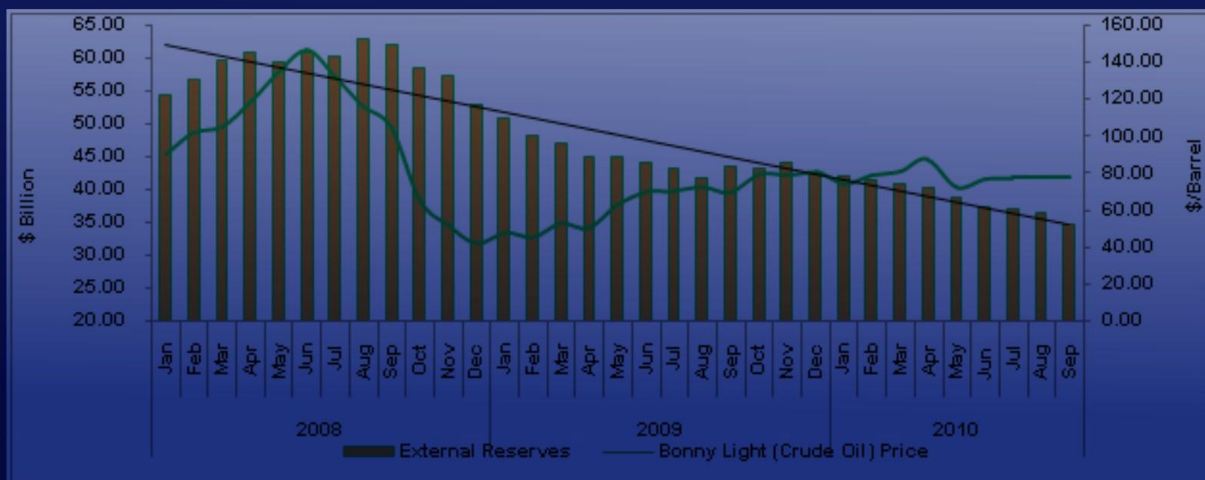
Access Economic Quarterly

Third Quarter 2010



access

access advantage
TAKE THE LEAD
...with a savings account that gives you all the benefits of a current account, you're sure to keep forging ahead. Open an access advantage account today for the edge you need.
Benefits
Competitive Interest Rates
Personalized Cheque Book
Third Party Withdrawals
Cheque and Dividend Deposits
Market Intelligence Reports
More
Free Access Budget Planner for every access advantage account holder
Enquiries
Please go to the nearest Access Bank branch or call Customer Care on 01 - 2712005 - 7 or visit www.accessbankplc.com
Terms and conditions apply
A Passion For Excellence.
access

TABLE OF CONTENTS

Global Economy: A Rebound Beset With Financial Uncertainty 4

Nigerian Economy

Political Environment: A Bumpy Road Ahead? 6

GDP Growth: Expected Rise Still Skewed Towards Oil Earnings 6

Monetary Development

Monetary Policy Stance: Geared To Curb Inflationary Pressures 7

Inflation: Upside Risks Lie In Wait 9

External Reserves: A Fortress Dwindling To Defend The Naira 10

Debt Profile: Pressure On The Upside To Bridge Fiscal Gap 11

Exchange Rate: Is Naira Set For A Precipitous Decline? 12

Crude Oil Price: Speculative Activities To Support Near-Term Price Increase 13

Statutory Allocation: Will SWF Reduce FAAC Disbursements In The Years Ahead? 13

Capital Market: Is A Rebound Lurking? 14

NIBOR: A Return To High Rates? 17

Financial Sector: Reform Focused On Private Sector Lending 18

2010 Budget: Need To Bridge Fiscal Gap Takes Centre Stage 20

Revised Outlook For The Rest Of 2010 And Q1 2011 22

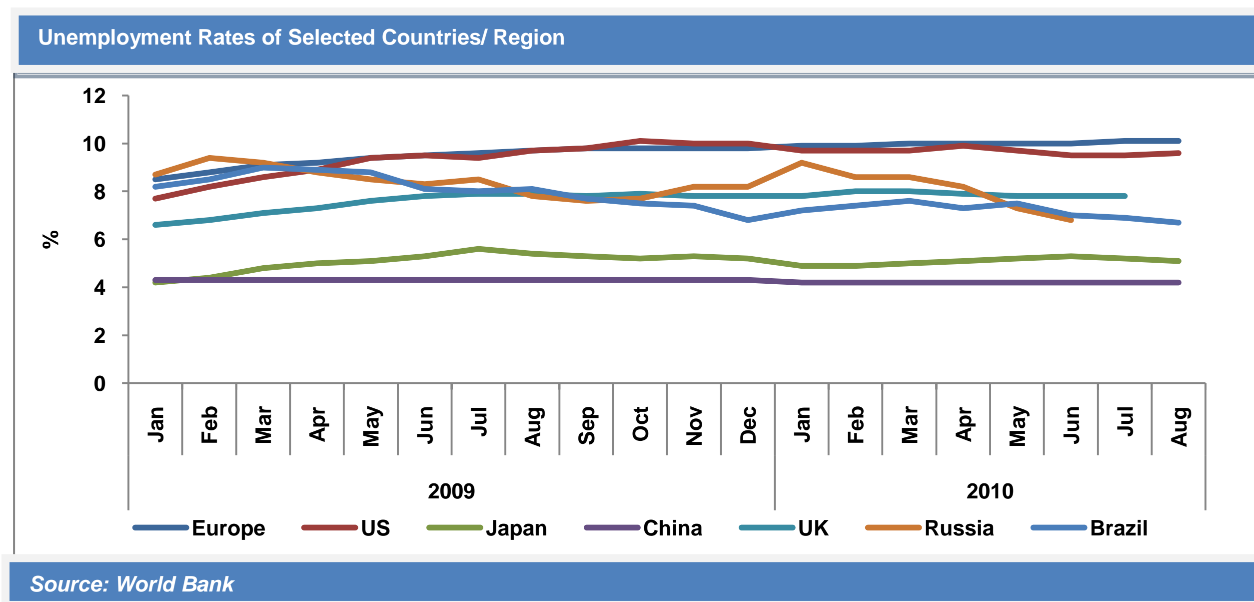
Q3 2010 Economic Review

Global Economy: A Rebound Beset With Financial Uncertainty

Global economic activity slowed its rebound momentum during Q3 2010, due to uncertainty surrounding the sustainability of growth, especially in the world's three biggest financial markets – Europe, United States and China. Sovereign debt default concerns and policy responses in Europe, a mix of disappointing jobs and housing market data in the US and the tightening of monetary policy (credit growth) by China to cool its overheated property market raised fears that global GDP growth may continue to stall. The sovereign debt default crisis has prompted fears of a double-dip or W-shaped recession, with negative implications for manufacturing activities, commodities prices, as well as the entire global financial system. Recall that financial condition started to improve in Q3 2009 due mainly to massive fiscal and monetary interventions by respective countries to stimulate economic activity. With institutions and markets still fragile, the International Monetary Funds (IMF) in its recent World Economic Outlook noted that, in general, volatility in financial, currency and commodity markets remain elevated.

The concerns regarding the possibility of a second round of financial crisis was intensified in the early part of Q3 2010 following sovereign default risks that emanated from Europe. This led major rating agencies, including Fitch, Moody's and S&P to cut Greece, Portugal, Spain, Ireland and Italy sovereign debt ratings. In response, most European Governments commenced spending cuts to prevent collapse of their economies due to the huge size of their fiscal deficits and lingering growth concerns. It is anticipated that the adoption of austerity measures may further erode the fragile business optimism in the near-medium term, amid the global economic recovery from the downturn that began in 2008. This would also have an implosive implication for the current high unemployment rates across major economies.

Unemployment Rates of Selected Countries/ Region



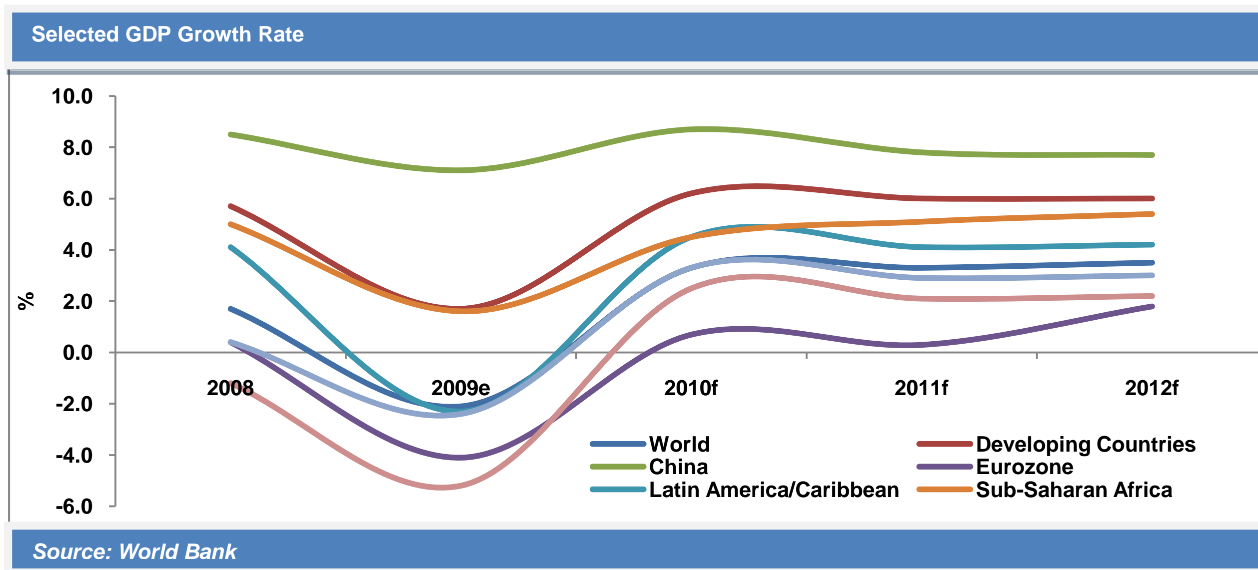
Source: World Bank

In the US, unemployment rate stood at 9.6% in August 2010, though down from a YTD high of 9.9% in April, with rates remaining above 9% since May 2009. The high unemployment rate is partly attributed to decline in US manufacturing activities, which fell from 56.3% in August 2010 to 54.4% in September.

The index had peaked at 60.4% in April 2010, with the decline attributed to weaker aggregate demand by households and inflation concerns. The downturn in US economic activities, being the world's largest economy, would further push back the adjustment time to a sustainable global economic recovery, after several quarters of stagnated growth. Meanwhile, the US Federal Reserves has hinted of plans to inject fresh funds into the system (via an asset purchase program) to revamp the economy amid widening trade deficit which rose to nearly 9% from July 2010 to $46.3 billion in August.

On the other hand, China, like some other Asian Countries, continued remarkable GDP growth rates of over 9%, but has shown increasing signs of slowing down due mainly to decline in demand for its exports. Recently, the Chinese Government embarked on measures to ensure a non-inflationary GDP growth, while stimulating domestic demand. China also plans to rebalance the structure of its Foreign Direct Investments (FDIs) to be more service-oriented, as well as curb domestic credit growth to avoid asset price distortions in the economy.

Meanwhile, the World Bank expects growth in developing and emerging countries to support the rebound from the current sluggish global economic recovery. It also expects developing countries to account for one-half of global GDP growth in the years ahead. Real GDP data at the respective country levels have been relatively volatile, reflecting large fluctuations in net exports tied to a sharp deceleration in world trade growth.



The near term risks to the global economic recovery still remain: foreclosures, rising unemployment rates, sovereign debts default risk, and the dwindling fiscal/monetary space for more accommodating policy measures. Other issues that could pose further challenges to sustainable global economic recovery include impaired credit conditions, pricing system distortions, instability in the financial markets, savings imbalances and rising trade protectionism.

Another major risk to global economic recovery is the increasing international call for China to adopt a more flexible exchange rate. This could involve the use of economic sanctions and trade tariffs by the respective countries that could raise cost of imports and cause global price instability (inflation).

Nigerian Economy

Political Environment: A Bumpy Road Ahead?

A major risk factor in Nigeria lies in the political environment. Nigeria turned its attention to the 2011 General Elections throughout the third quarter, though the peculiarity of the electoral system aroused speculations as to the likely candidates to emerge. The political scene has been characterised by increasing instability, given the unresolved issues regarding amendment to the Electoral Act of 2006.

Security concerns were a major issue during Q3 and there are fears that the situation could further deteriorate, particularly in the Niger Delta and other crisis-prone cities, as it was following the 2007 elections. We expect more polarised tension to heighten as the 2011 General Elections draw nearer. Meanwhile, the relative peace in the Niger Delta region following the amnesty programme appears to be fading away, with oil pipeline vandalism, bunkering/theft and kidnappings gradually becoming widespread. The need for further strengthening of the amnesty is more apparent now to prevent resurgence in Niger Delta restiveness which could curtail oil revenue like was experienced in Q1 and Q2 2009.

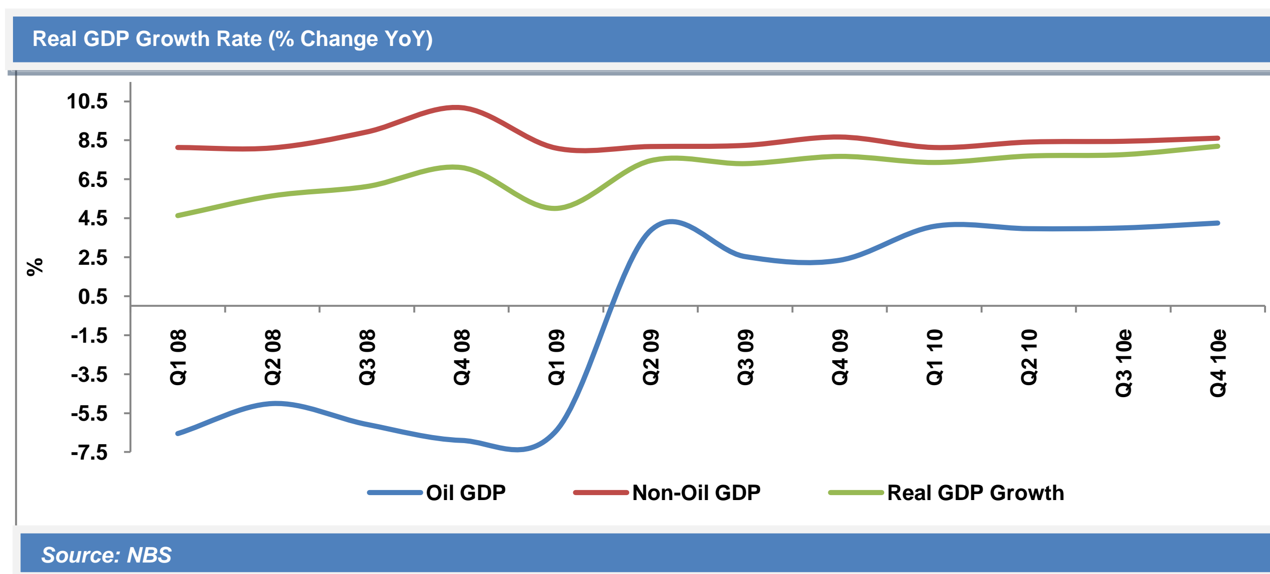
In sum, election spending is expected to increase which will be a drag on fiscal deficit and intensify inflationary tendencies. Our view is that Q4 may be characterised by unrests and conflicts as Presidential Election draws nearer. Political risk to remain high with major issues yet to be resolved leading to subdued investment flows.

GDP Growth: Expected Rise Still Skewed Towards Oil Earnings

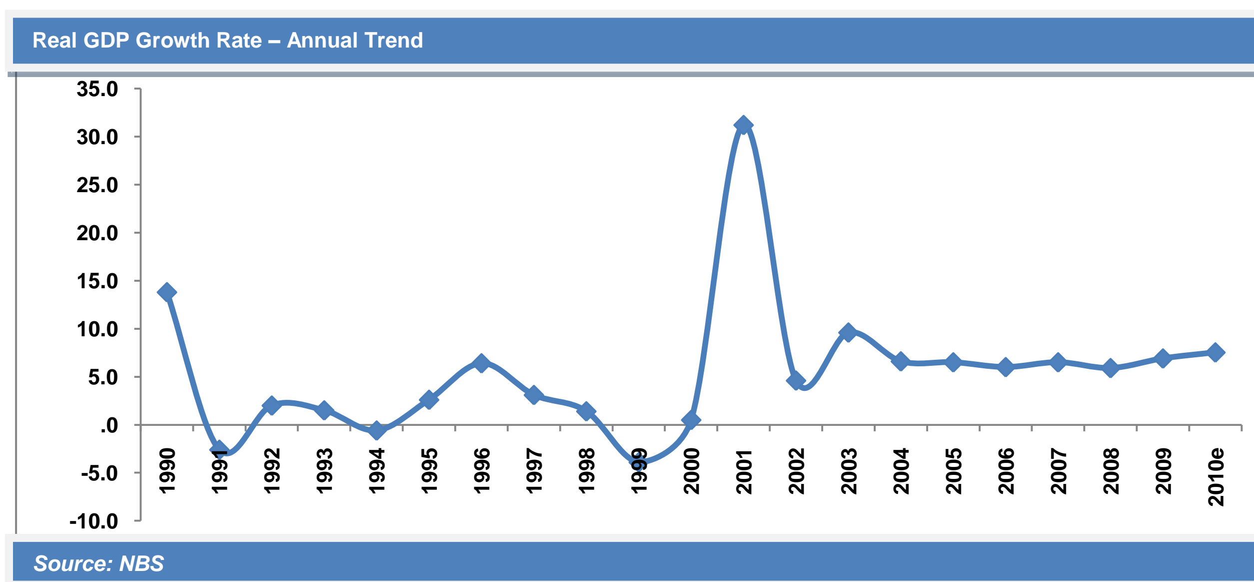
Preliminary estimate from the National Bureau of Statistics (NBS) indicates that real gross domestic product (GDP) for Q3 2010 GDP grew at 7.72%, up from 7.36% and 7.69% in Q1 and Q2 2010, respectively, with Q4 expected to grow by 8.19%. The non-oil sector still remains the main driver of growth; Agriculture contributed the highest to the overall GDP at 42.32% in Q2 2010. This was followed by wholesale & retail trade at 16.19% and crude petroleum & natural gas contributed 15.70% to growth. Given the reported good distribution of rainfall in the current planting season, agricultural sector growth rate is expected to show significant increase of over 6% by end-2010.

Overall end-2010, GDP growth is projected at 7.78%, compared to a revised 6.96% growth in 2009. Meanwhile, oil contribution to GDP is expected to support aggregate growth due to relative peace in the Niger Delta following FG's Amnesty Programme for militants between August and October 2009. Violence in the Niger Delta at that time almost led to the near collapse of the economy, with government recording deficits amid decline in crude oil output to between 1.3 - 1.6 mbpd, from an average of 2.0 mbpd pre-crisis.

Significant concerns to growth outlook stems from militants' mistrust of FG's action plan due to the alleged slow pace of implementation of Post-Amnesty arrangements, which included vocational training for militants. However, crude oil output has stabilised around 2mbpd since year-start, rising by 17.4% in August 2010 against August 2009. The other risk factor upward trajectory of GDP include: infrastructural deficiency; fragile global economic rebound; and sustained slow growth in credits to the real economy; more especially with government spending heavily predicated on revenues from crude oil export.



GDP to grow at 7.78% for end-2010, compared to a revised 6.96% growth recorded in 2009, with plans to become one of the 20 largest economies in the world by 2020 with a GDP of over $900 billion.



Monetary Development

Monetary Policy Stance: Geared To Curb Inflationary Pressures

Monetary policy as at end-Q3 2010 was refocused at maintaining price and financial sector stability, as well as sustaining the relatively robust GDP growth observed in recent times. The CBN had embarked on quantitative monetary policy since July 2009, which involved injecting liquidity into the market to ease credit squeeze induced by the global financial crisis. As a result, the benchmark rate remained unchanged at 6% before the recent increase. At the recent Monetary Policy Committee (MPC) meeting held on September 21, 2010, the Committee opted for a contractionary policy stance.

The increase in the Monetary Policy Rate (MPR) to 6.25%, though a marginal 25 basis points increase, surprised market participants, as most economic agents had projected that the MPR would stay unchanged at 6% for an extended period of time. MPC noted with satisfaction the current GDP growth trajectory and refocused attention on inflationary pressures from its attention to reviving growth impulses. With output trajectory considered to be robust and impressive in the near term, the need to commence a gradual curbing of the imminent inflationary pressure became apparent.

The Committee noted that risks to inflation is on the upside arising from late rains in some food-producing regions of the country, spill-over effects of rising food prices due to famine in Niger Republic, as well as increases in global food prices. Also, the Committee expressed concerns over the threat of inflation emanating from the planned deregulation of energy prices, 2011 electioneering spending, and implementation of new salary structure for government employees, as well as spending rise which accompanies year-end activities.

The increase in the policy rate was accompanied by increase in the lower band of CBN's asymmetric corridor SDF (Standing Deposit Facility) to 3.25%, marking a 225 basis points increase. The increase in SDF would discourage the use of excess liquidity in the system to engage in any speculative attack on the Naira. The rationale is that banks would be attracted to keep their idle funds in CBN's treasury amid lingering high risk perception of borrowers by Deposit Money Banks (DMBs). The CBN also announced the resumption of Open Market Operations (OMO) for the purpose of mopping up excess liquidity. However, a key concern for monetary authorities is how best to determine the optimal level of liquidity that would not put pressure on domestic interest rates, given that lending rates are currently trending upwards.

With the Standing Lending Facility & Standing Deposit Facility now at 8.25% and 3.25% respectively, the gap between interest rates that banks pay to the CBN for funds and rates earned for keeping surplus liquidity has shrunk by 200 basis points, as indicated in the table below. The narrower gap would help reduce volatility especially for short-tenored financial instruments.

MPR Asymmetric Interest Rate Gap

Event	SLF (%)	SDF (%)	Gap (%)
Before MPR increase	8	1	7
After MPR increase	8.25	3.25	5

Source: CBN & Access Economic Intelligence

The MPC at its last meeting cited the following as major pressure points for monetary policy in the short term:

Pressure Points for Monetary Policy	
Inflationary risks	• Need to tighten liquidity to address inflation and exchange rate concerns.
Growth- enhancing policy reforms	• The need for policy reforms to address growth constraints, especially, infrastructural inadequacy to sustain current GDP growth.
Slowing credit to the real sector	• The use of policy to address the near term possibility of a crowding out effect on private sector due to increased credit to government.
Coordination of monetary & fiscal policy	• Coordination of monetary and fiscal policy, as well as the need for fiscal prudency in line with macroeconomic stability objective.

Source: CBN

Inflation: Upside Risks Lie In Wait

Inflation, as measured by the Consumer Price Index (CPI) rose from 13% year-on-year (YoY) in July 2010 to 13.7% in August, but declined slightly to 13.6% in September. Food inflation, which forms the bulk of the CPI, often dictates inflation direction; rising from 14% YoY in July to 15.1% August, but down to 14.6% in September. On the other hand, core inflation rose to 12.8% in September 2010 from 11.3% and 12.4% in July and August 2010, respectively. National Bureau of Statistics (NBS) rebased its inflation index from May 2003 to November 2009, and introduced a new sub category - Imported Food Index - to capture the influence of imported food on the aggregate food basket. June's inflation rate was revised to 14.1% from 10.3% after the rebasing of the index.

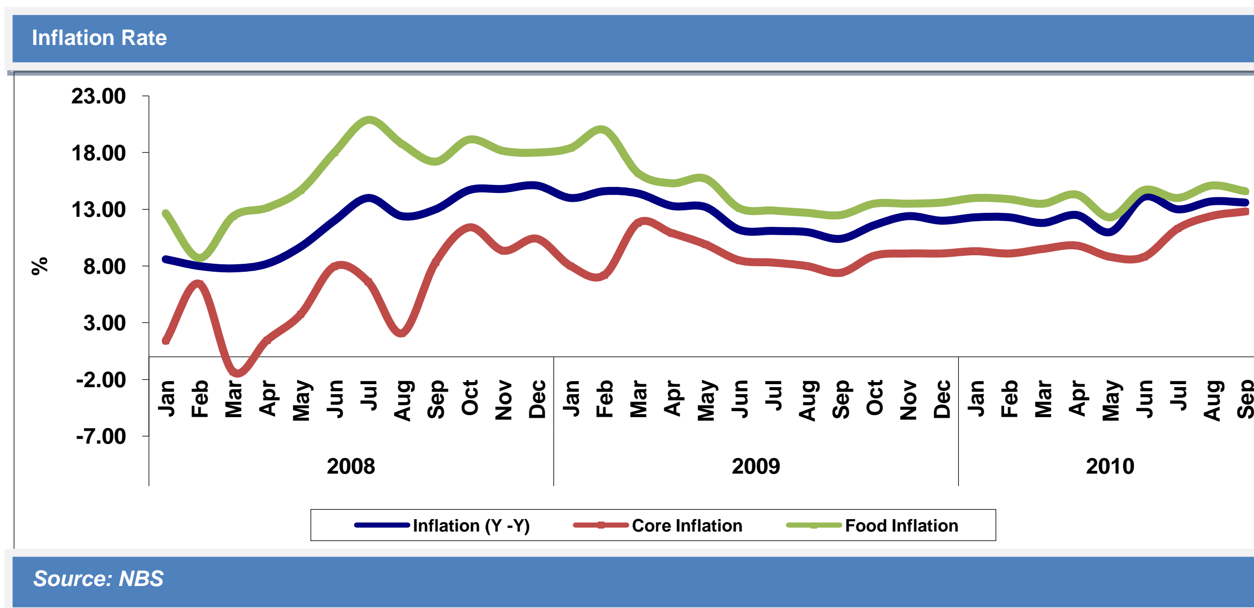
Inflation continued to pose some concern with risk to its stability over the short term still on the upside. CBN had noted that inflation outlook is uncertain, driven mainly by myriad of anticipated monetary shocks in the medium term. The planned removal of petroleum subsidies with its cost-push inflationary pressures, the purchase of toxic assets by Asset Management Company of Nigeria (AMCON), inflows into rescued banks and increased government spending are among factors the apex bank noted could distort the general price level.

As the inflation rate remains well above CBN implied target range of 9.0% - 9.5% and FG's 11.2% target by end-2010, further tightening of the monetary policy is expected, on the back of the resumption in use of Open Market Operations (OMO) instruments and increase of the policy rate from 6% to 6.25%.

Though inflation outlook is rather uncertain, we believe that policy measures to address the imminent cost-push inflation (say direct subsidies/ provision of finance to procure specialised equipments/ other supports), as well as efficient use of CBN's targeted monetary injections would guarantee the stability of aggregate domestic prices. An efficient coordination of monetary and fiscal policy would also help to stem monetary expansion.

Meanwhile, we noted the rising trend of core inflation throughout the quarter under review which could reverberate into several rounds of upward price movements amid the expected increase in cost of funds due to recent increase in MPR.

Inflation Rate



Source: NBS

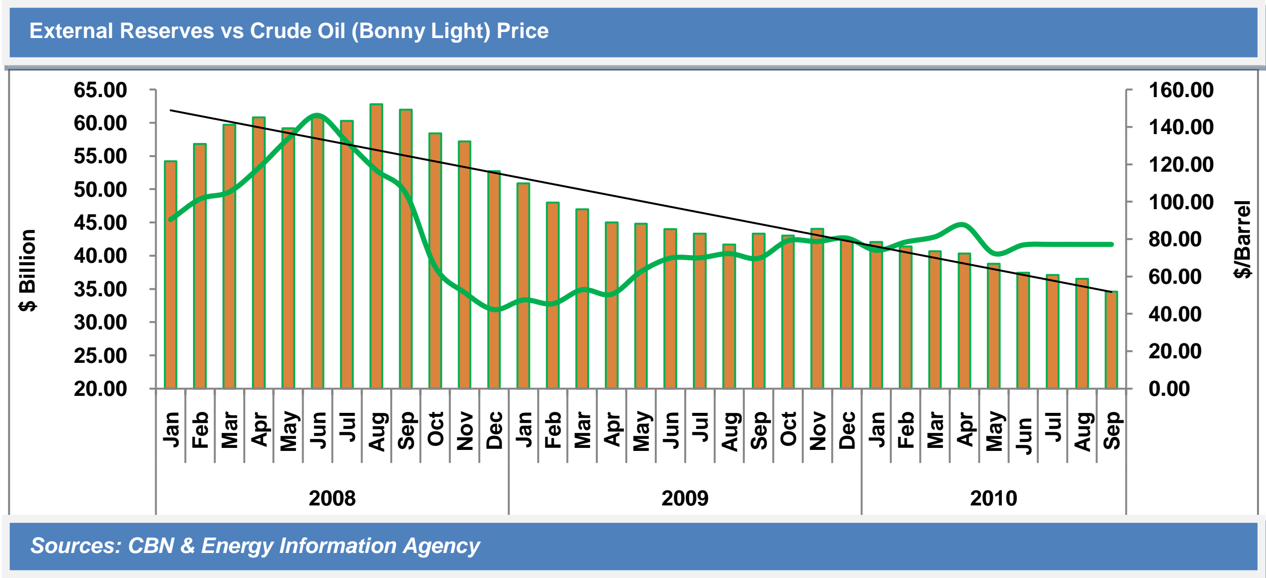
External Reserves: A Fortress Dwindling To Defend The Naira

The nation's external reserves continued its downward trend during the quarter under review, amidst CBN's commitment to maintain Naira's stability. Recent data from the monetary authority shows Nigeria's foreign reserves stood at $34.58 billion as at end-Q3 2010, representing a sharp decline of 14.9% and 7.5% from $40.68 billion and $37.42 billion recorded in Q1 and Q2 2010, respectively. External reserves stood at $42.43 billion as at end-2009, having reached an all-time high of $64.85 billion in August 2008 due to high crude oil price recorded at that time.

The decline in foreign reserves in Q3 was attributed to enhanced import of petroleum products and steep rise in foreign exchange (FX) demand for dividend remittances. Total FX demand for the Q3 at WDAS was $9.16 billion while CBN supplied $7.14 billion, marking a shortfall of $2.02 billion. With $34.58 billion, the country will still be able to meet foreign exchange demand and is sufficient to finance about 15 months of import, which is well over the minimum 3 months import cover stipulated by IMF.

The continuing commitment of the CBN to defend the Naira around current level by meeting all legitimate FX demand may be the major explanation for the stickiness of the country's FX buffer. Recently, the CBN dispelled fears that the Naira would be devalued, maintaining its earlier stance that there is no compelling reason to alter the current exchange rate regime in view of the fact that the apex bank expects current reserves to remain robust following favourable outlook for oil price and output, though the fragile state of the global economy portends risk to the outlook.

External Reserves vs Crude Oil (Bonny Light) Price



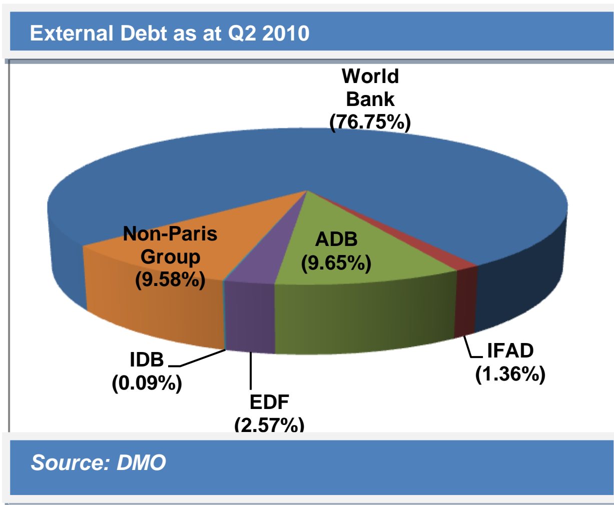
Sources: CBN & Energy Information Agency

Debt Profile: Pressure On The Upside To Bridge Fiscal Gap

Recent data from the Debt Management Office (DMO) indicates that Nigeria's total external debt stock as at June 2010 stood at $4.2 billion (3% of GDP), a 2.3% decline from $4.3 billion as at Q1 2010. However, Nigeria's total debt profile has deteriorated from $3.9 billion as at end-2009. In 2006, the country successfully reduced its external debt through negotiations, debt forgiveness and proper economic management. The loans are concessional and are owed to multilateral institutions, including the World Bank, International Fund for Agricultural Development (IFAD), African Development Bank (ADB), International Development Bank (IDB) and Economic Development Fund (EDF). Meanwhile, DMO put the country's domestic debt stock at N3.8 trillion in Q2 2010, up from N3.5 trillion as at end Q1 2010, with FGN bonds accounting for 63.9% (N2.4 trillion) which was marginally up from N2.2 trillion (62.7%) in Q1 2010.

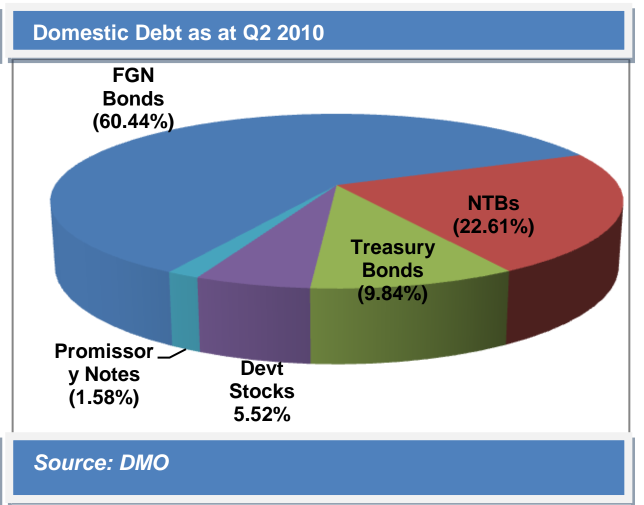
The rising tendency to secure debts against the backdrop of 2010 budget deficit currently at N1.85 trillion could spiral out of control, if not properly managed and may have negative implications for the Naira and the country's rating.

External Debt as at Q2 2010



Source: DMO

Domestic Debt as at Q2 2010



Source: DMO

Exchange Rate: Is Naira Set For A Precipitous Decline?

Naira exchange rate depreciated against the US dollar in Q3 2010 across all segments of the market compared to Q2 2010. Naira fell by 0.9%, 3.0%, 2.3% and 1.9% at the official, interbank, BDC and parallel markets, respectively. With respect to Q3 2009, the Naira lost 1.7% at the official market, but appreciated by 0.3% and 0.6% at the BDC and parallel markets, respectively, while it lost 3.3% at the interbank market.

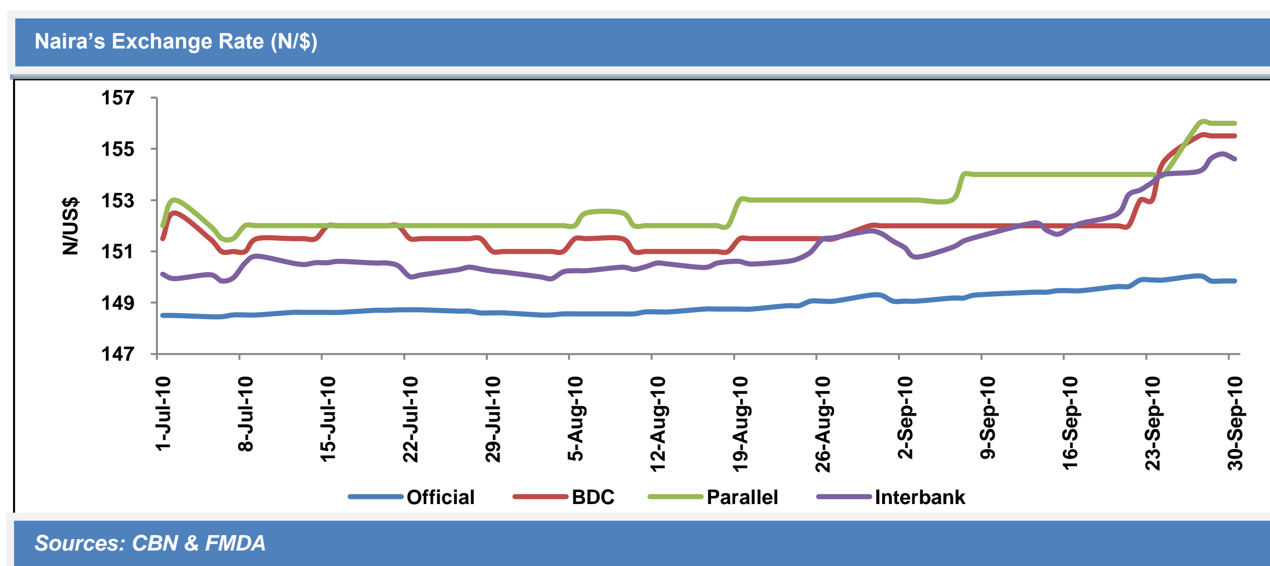
Naira's Exchange Rate (N/$)

End Period	Official	BDC	Parallel	Inter-bank
Q1 09	145.70	153.48	172.00	Market Effectively Closed
Q2 09	146.75	155.00	156.00	147.85
Q3 09	147.32	156.00	157.00	149.70
Q4 09	148.10	152.00	154.00	149.93
Q1 10	148.30	152.00	152.30	150.11
Q2 10	148.50	152.00	153.00	150.05
Q3 10	149.85	155.50	156.00	154.61

Sources: CBN & FMDA

CBN may have limited its supply in the wake of a noticeable increase in FX demand which began in April 2010 to stem speculative demand for the Dollar. The apex bank's investigation shows that the increase in FX demand during the period was due to rising dividend remittances, enhanced importation of rice and petroleum products. Despite boosting FX supply in the period to stabilise the value of the Naira; on September 29, 2010, the currency had recorded a year-to-date loss of 1.7% to N150.05/$ at the official market, while it lost 2.3%, 1.9% and 3.4% at BDC, parallel and interbank markets, respectively.

Naira's Exchange Rate (N/$)



Sources: CBN & FMDA

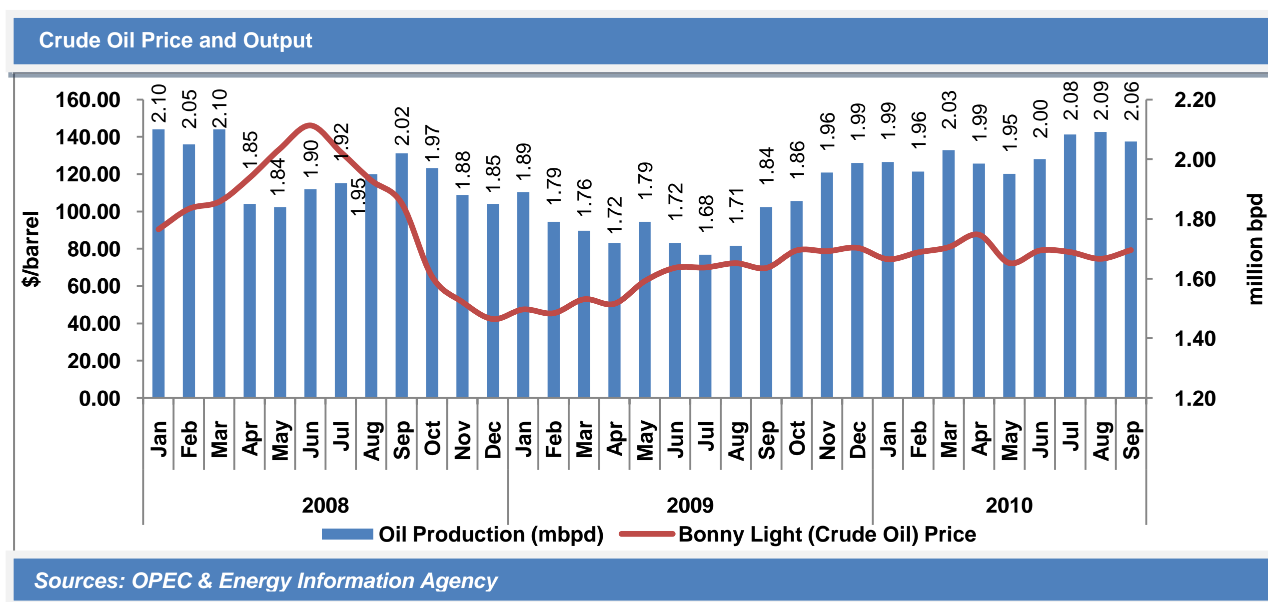
The risks to the Naira outlook stems from the possible impact of declining external reserves, volatility in crude oil price and a slowdown in crude oil output, amid the fragile global economic recovery from recession. The question now is how far can the country's external reserves sustain rising FX demand? Will the CBN reconsider its commitment to defend the Naira should reserves decline; and possibly below its indicative 12 months of imports benchmark?

The current low investors' sentiment regarding the slow pace of recovery of the global economy would provide significant risk to the country's main FX earner. On the upside, the current interest of major foreign hedge funds in emerging markets' securities may provide succour to the Naira's exchange rate outlook, as FX inflow is expected following CBN's hike of the benchmark policy rate that would raise yields/returns on investment.

Crude Oil Prices: Speculative Activities to Support Near-Term Price Increase

In Q3 2010, the price for Nigeria's crude oil (Bonny Light) was relatively stable around $79 - $83 per barrel (pb), but fell slightly to $79.28 pb by the end of the quarter Crude oil price has risen significantly from its post-recession levels, supported by declining US dollar against other major currencies, improved global GDP growth forecast (IMF), as well as strong aggregate oil demand outlook by EIA. As oil gradually becomes a financial instrument, speculation would be further intensified which will lead to increased volatility of oil price at the international market. On the other hand, crude oil output remained high during Q3 2010, staying above 2 million barrel per day (mbpd) monthly on the back of the Federal Government Amnesty Programme for militants which curbed the spate of attacks on oil and gas pipelines in the Niger Delta.

Crude Oil Price and Output



Sources: OPEC & Energy Information Agency

Our outlook for crude oil price is on the upside, given the relatively moderating decline in global economy, as manufacturing (output) activities is expected to bounce back stronger, though this may be limited by the slowdown in export demand. Other factors that might support a sustained high crude oil price include: the continual weakening of the US Dollar against major currencies, increased flow of speculative money, supply bottlenecks arising from political instability in oil producing countries and increased demand from China. However, OPEC members' non-compliance with agreed quota and the expected increase in non-OPEC output may undercut the rise in crude oil price in the medium term, as economic hardship bites in oil producing countries.

Statutory Allocation: Will SWF Reduce FAAC Disbursements in the Years Ahead?

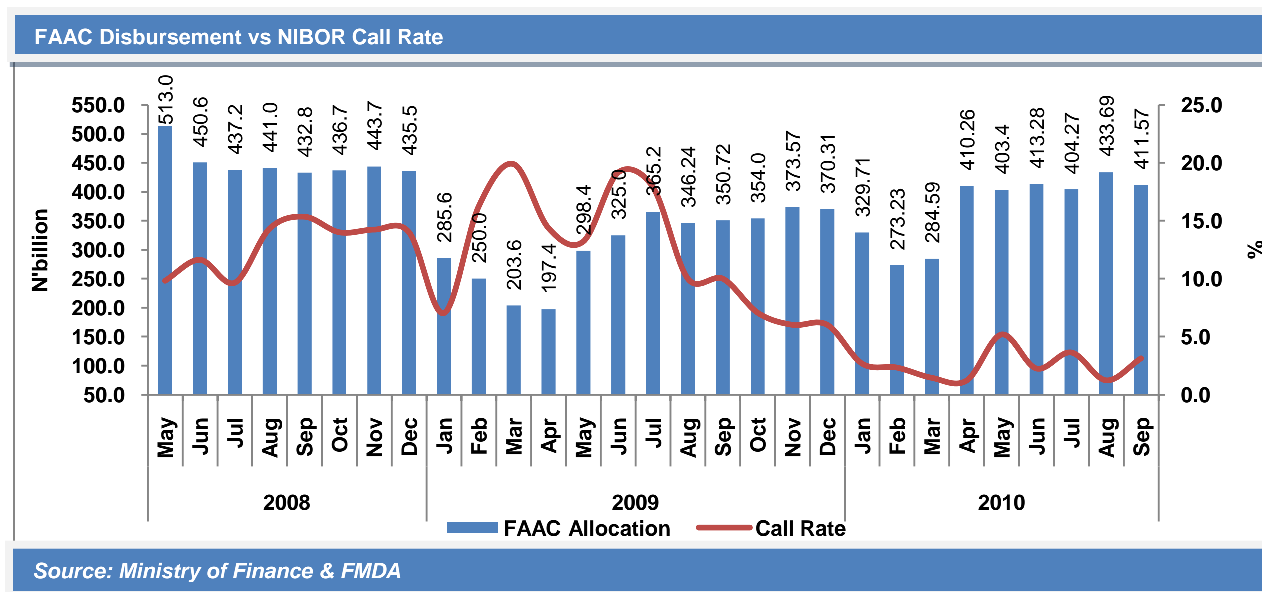
As at end-Q3 2010, statutory disbursement to the three tiers of government by the Federation Account Allocation Committee (FAAC) sustained the Q2 2010 average of over N400 billion monthly which is remarkably higher than an average of N295.8 billion disbursed in Q1 2010.

The Committee shared N404.27 billion, N433.69 billion and N411.57 billion for July, August and September 2010, respectively, with outlook on the downside especially from the proposed structured investments in Sovereign Wealth Fund (SWF) and depleted oil savings in the Excess Crude Account.

The sustained high level of statutory allocation has been backed by the current elevated crude oil price and stability in the country's oil output following marked decline in Niger Delta restiveness. Nigeria saves oil proceeds above a benchmark price ($60 per barrel for the 2010 fiscal year) into an Excess Crude Account which is often used to augment statutory allocation during shortfall in government's revenue.

The balance in the ECA declined further to $460 billion in July 2010 from $3.4 billion in Q2 2010 and over $20 billion in 2008, following an additional withdrawal of $2 billion to augment July's allocation and $1 billion set aside for SWF. When the law to establish the SWF comes into existence and the amount shared monthly declines relatively, there may be some foreseeable implications for domestic interest rates, as Nigeria's financial institutions rely on statutory allocation for a significant chunk of liquidity.

As depicted by the chart below, call rate declined in tandem with higher FAAC disbursements, amid other policy measures to boost money supply in the financial system. About N2.1 trillion was shared by the three tiers of government as at 1H 2010, with an aggregate amount expected to be disbursed by end-2010 to be in excess of N3 trillion.



Capital Market: Is a Rebound Lurking?

In Q3 2010, stock market indicators sustained Q2 2010 declining trend, after an initial uptick in Q1 2010. The decline in the stock market performance can be partly attributed to decline in investors' optimism about a recovery, as well as poor financial results of blue chip companies. The All Shares Index (ASI) which fell by 45.8% and 33.8% in 2008 and 2009 financial year, respectively, grew steeply by 24.67% to 25,966.25 points in Q1 over 2009 levels, driven mainly by impressive results of some companies/banks at that time. As at Q3 2010, the index declined by 11.2% and 9.2% from Q1 and Q2 2010 levels to 23,050.59 points, but still a growth of 10.7% over end-2009. Similarly, market capitalization (MC) of quoted companies also declined by 8.4% from Q2's N6.17 trillion to N5.65 trillion during the same period.

The Stock Market at a Glance

Categories	2009	2010				
		Q1	Q2	End-July	End-August	End-September
ASI	20,827.17	25,966.25	25,384.14	25,844.18	24,268.24	23,050.59
MC	4.99	6.28	6.17	6.32	5.95	5.65
% Gain/Loss in index over 2009 Performance	-33.80	24.67	21.87	24.08	16.52	10.67

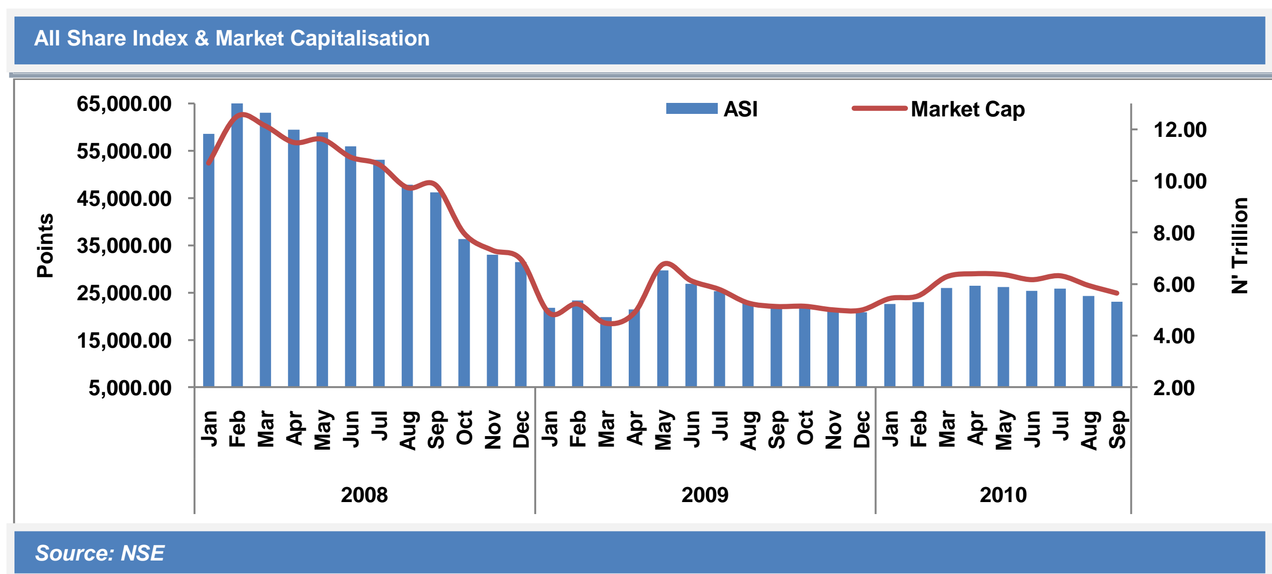
Source: NSE

Meanwhile, we believe that the market can still exhibit a 'coiled market' tendency, with the current low equity prices capable of pushing the index to a higher level. The idea is that if a market progresses in one direction based on its fundamentals, but is pushed in the other direction, it will eventually make a strong move in the original fundamental direction. Investors looking to capitalize on coiled markets will use both fundamental and technical analysis to identify specific equities which exhibit the characteristics.

Hence, we are cautiously optimistic that the recent drop in share prices to relatively low levels may stimulate another round of purchase of stocks and then cause the ASI to appreciate, amid expected improvement in banks' balance sheets as AMCON commences operation. The market would likely receive further support from the recent creation of the Alternative Securities/ Private Placement Exchange to replace the second-tier securities market and amendment of some pre-listing requirements/guidelines in a bid to stimulate the activities of the country's capital market.

Though uncertainty and profit taking by wary investors are still widespread in the equities market, we anticipate that the recent increase in the policy rate to 6.25% would generally raise returns on investment in the economy, and provoke renewed patronage by foreign hedge funds that left the system in the wake of the 2008 stock market meltdown.

All Share Index & Market Capitalisation



Source: NSE

»» www.accessbankplc.com.

We proudly announce the launch of our enhanced website, It is a gateway to our products and services globally and it offers users ease of navigation and functional experience that is simply world class.

Look out for

- Easy navigation - 2 clicks to your destination
- Cutting edge web technology platform "Microsoft External SharePoint" for an extended business environment and information sharing
- More electronic banking solutions
- Financial Planning tools - Calculators Budget Planners and SME toolkit

Follow my Access Community on twitter & f

http://twitter.com/myaccessbank

http://www.facebook.com/myaccess

A Passion For Excellence

access »»

NIBOR: A Return to High Rates?

In Q3 2010, the Nigerian Interbank Offer Rate (NIBOR) – like in previous quarters - responded extensively to liquidity situations. The short-tenored financial instruments were the most responsive to market liquidity movements during the period under review. The mid-months inflows from FAAC into the system often always have huge impact by reducing money market rate across all tenors.

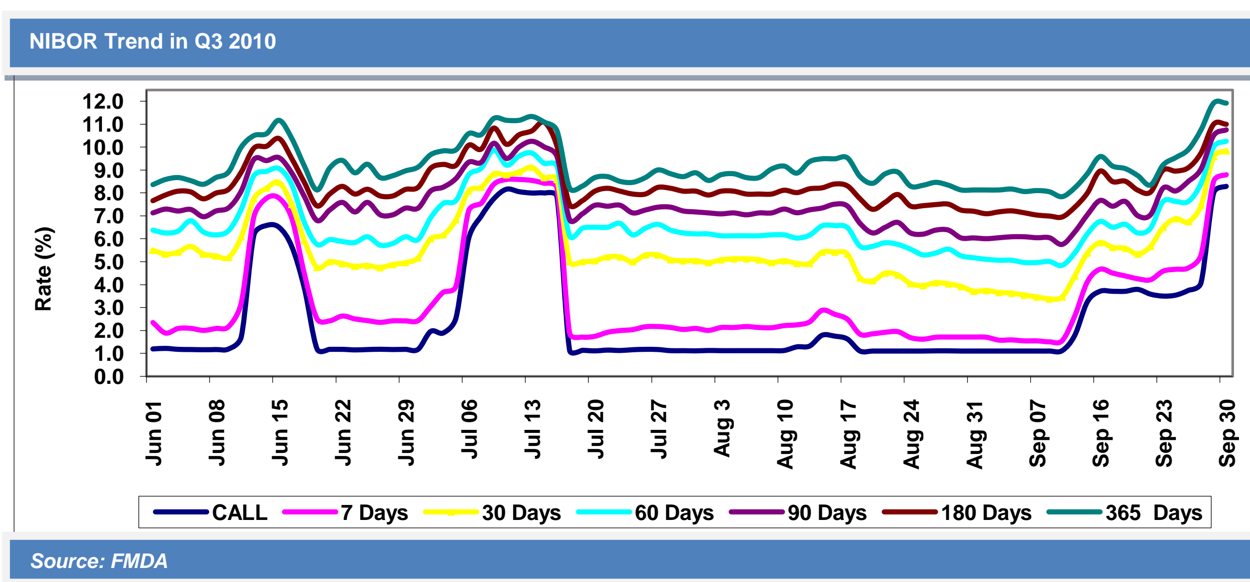
NIBOR

Date	Maturities						
	CALL	7 Days	30 Days	60 Days	90 Days	180 Days	365 Days
Mar 09	19.8710	20.5968	21.3530	21.5328	21.6864	22.0156	22.1613
Jun 09	19.1477	19.5785	19.9911	20.2631	20.5300	20.6599	20.8230
Sep 09	9.9875	11.5077	14.5854	15.4067	16.0368	16.4652	16.8245
Dec 09	6.0040	8.6013	13.7886	14.9261	15.6744	16.2425	16.5833
Mar 10	1.4357	2.7535	5.6850	7.3419	8.7979	10.0036	11.0875
Jun 10	2.2407	3.3531	5.7110	6.6687	7.6693	8.4027	9.1883
Jul 10	1.1083	2.0833	5.0417	6.2083	7.1667	8.0833	8.8750
Aug 10	1.1000	1.7083	3.9167	5.2500	6.0333	7.2583	8.1250
Sep 10	3.1208	3.8146	5.4821	6.5346	7.3604	8.2996	9.0819

Source: FMDA

As at end-September 2010, interbank rates rose precipitously by an average of over 1,200 basis points across all maturities, due to gradual decline in market's liquidity level that was caused by huge withdrawals of funds for FX, and increased supply of government securities, with the resumption of CBN's Open Market Operations (OMO) likely to cut the stock of money in the economy. The marginal increase in MPR on September 21, 2010 may have contributed extensively to the recent northward trend in interbank rates across all tenors.

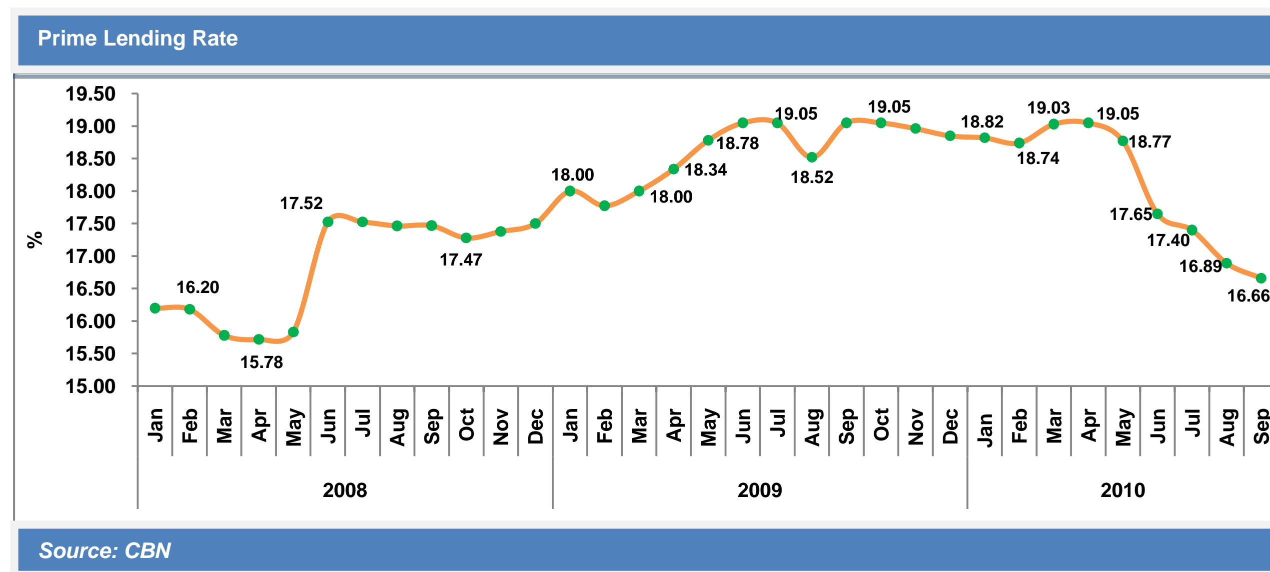
NIBOR Trend in Q3 2010



Source: FMDA

Average prime lending rate of DMBs declined precipitously from 18.74% in January 2010 to 16.66% in September, marking a 208 basis points fall. The rate also fell by 74 basis points during the quarter under review. Amidst DMBs risk perception of borrowers, the banking sector reform (efforts to remove structural and institutional impediments) as well as the respective CBN's funds (extended accommodating monetary policy) may have induced the lagged decline. However, prime lending rate would likely look upward in the near term for its competitive price with the recent increase in MPR.

Prime Lending Rate



Source: CBN

Essentially, the outlook for the interbank rate is on the upside, as lenders price in risks and transaction costs, amid projected liquidity tightness. The question now is: Will the various low interest schemes introduced by the CBN help to ameliorate emerging liquidity concerns?

CBN Targeted Monetary Injections

S/N	Purpose	Established	Amount (N' Trillion)	Status	Tenor
1	Bailout package for 8 troubled banks	June 2009	0.620	Already in the system	Unspecified
2	Commercial Agriculture Credit Scheme	April 2009, but reopened in 2010	0.200	On-going	Tenors: 3, 5 and 10-year
3	N300 billion - power sector, N200 billion - SME Credit Guarantee Scheme	April 2010	0.500	Modalities released	Maximum tenure of 5 years
4	Asset Management Company of Nigeria (AMCON)	2010	1.00	Proposed; modalities still being worked out	10 years

Source: CBN (Various Reports)

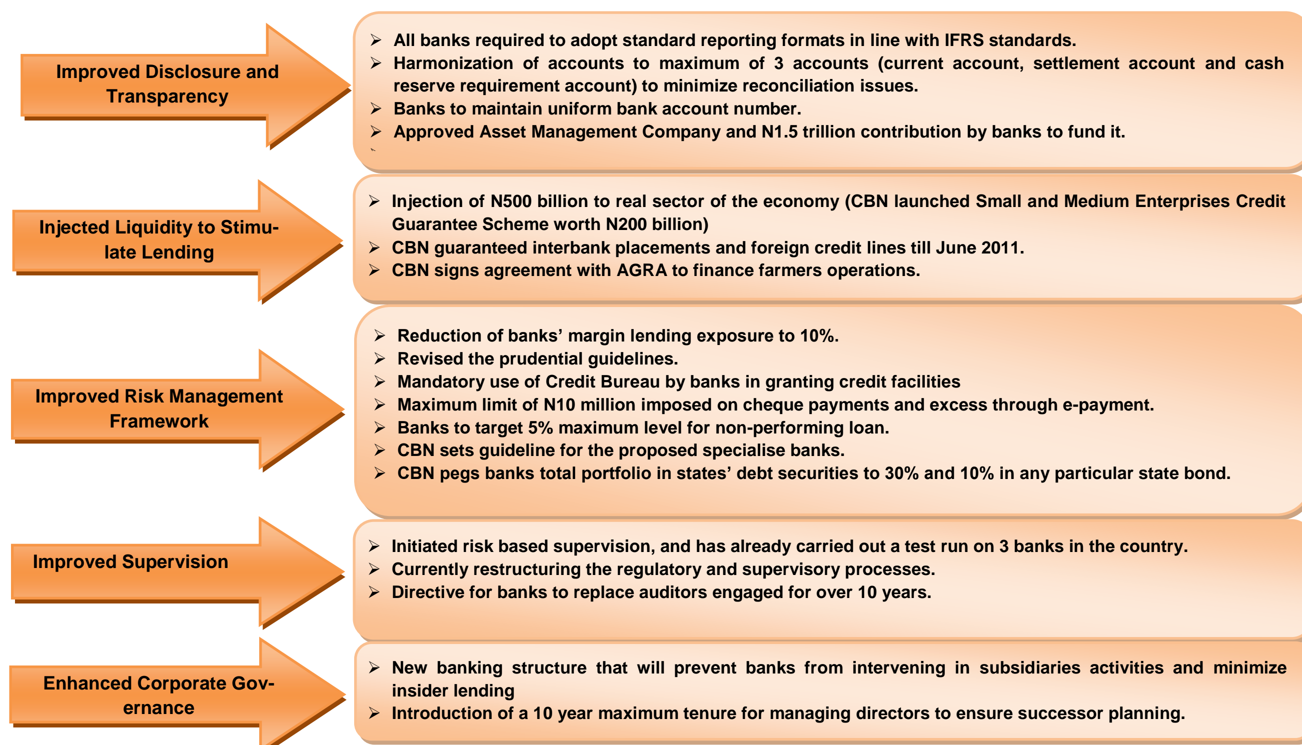
Financial Sector: Reform Focused On Private Sector Lending

Thus far, the banking sector has experienced mixed events and policy developments which have impacted on banks and investors alike. The effects of these developments are broken into 3 categories: Banks' focus on delivering acceptable 2009 financial year (audited) results to investors, which posed a strain to lending in the economy, banks' shift in focus to balance sheet restructuring and cost management (funding and operating) and a slight increase in lending activities in the last quarter with banks' increasing realization to cautiously grow risk assets to boost their bottom-line.

During the period, CBN revoked the licenses of 224 terminally distressed/technically insolvent Microfinance Banks (MFBs) out of 820 across the country, in line with the objective of repositioning the sector for greater efficiency. The apex bank and the Nigerian Deposit Insurance Corporation (NDIC) began a Target Examination of all MFBs in Nigeria between February 2010 and June 2010 to evaluate and enhance MFBs contribution to the economy within efficient corporate governance/ risk management framework. The study noted high level of non-performing loans (resulting in high portfolio at risk), gross undercapitalization in relation to the level of operations; poor corporate governance/incompetent boards/high level of insider-related credits; as well as investments in fixed assets over the approved limit. Meanwhile, the apex bank has granted provisional approval for new licences to 121 out of the 224 MFBs subject to the fulfillment of some specific requirements within three months.

Key Policy Developments

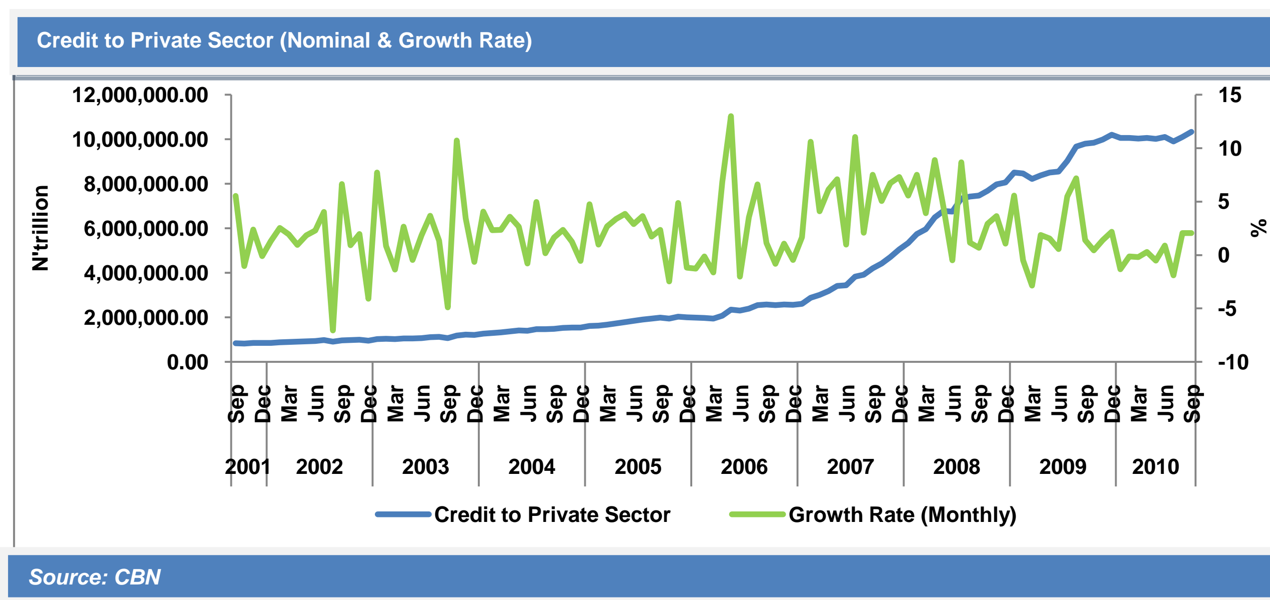
In the aftermath of the economic recession which negatively affected both global and Nigerian banks with multiple weaknesses in regulation and banking structures exposed, CBN made several policy changes to enhance the quality of banks' balance sheet, establish financial stability, enable financial sector innovation/revolution, and ensure that the financial sector contributes to the real economy. Some key policy changes are as follows:



Overall, the vulnerabilities in the financial sector are easing, as the recapitalization process is expected to boost further rescued banks' balance sheets. It is anticipated that the improvement in the banking system would support domestic equities price, given their market share in relation to the total stock market capitalisation. Meanwhile, bank lending to the private sector has been on a declining trend since December 2009, though it increased slightly in Q3 2010.

Available data shows that in August 2010, aggregate domestic credit (net) grew by 18% over the December 2009 level, expanding by 2.3% from N10.11 trillion in August 2010 to N10.34 trillion in September – the biggest nominal value since year-start.

Credit to the private sector is further up from N9.91 trillion recorded in July 2010. The increasing trend may be attributed to respective CBN's initiatives to inject low cost funds into the system which is expected to boost the near term growth. The public sector captured most of the increase in lending, while credit to the private sector remained weak. Credit to government (net) grew substantially by 65% over end-December 2009, whilst credit to the private sector declined by 0.91% during the same period, which is well below indicative benchmark growth of 31.54% for 2010.



It is envisaged that private sector lending may not pick up remarkably until the Q1 2011, as the remainder of 2010 will be focused on restructuring and reforms to ensure improvement and stability in the sector.

Overall, the outlook for the financial sector is still very promising, especially with AMCON, current regime of strict adherence to laid guidelines/ policies, increasing focus on macroeconomic stability and the compulsory adoption of risk-based monitoring by DMBs. We believe that the critical challenge for fiscal/ monetary policy would be to tackle the industrial capacity constraints and asymmetric information problems in credit market via the promotion of extensive use of shared infrastructure to reduce overhead costs in the banking sector.

2010 Budget: Need to Bridge Fiscal Gap Takes Centre Stage

In July, the Senate revised downward the 2010 budget by 4.3% from N4.6 trillion to N4.4 trillion in response to President Jonathan's request for the expenditure portfolio and key assumptions to be adjusted in line with global economic realities. Oil price had declined following renewed uncertainties in the global financial markets due to the sovereign debt default in Europe.

2010 Budget

Categories	2009 Budget (N)	Initially Passed by the NASS for 2010 (N)	Revised 2010 Budget	% Change 2010 Revised vs 2009	% Change (Initial vs Revised 2010
Recurrent Expenditure	1.83 trn	2.08 trn	2.14 trn	16.9 ▲	2.9 ▲
Capital Expenditure	1.28 trn	1.85 trn	1.56 trn	21.9 ▲	15.7 ▼
Statutory Transfers	168.62 bln	180.28 bln	187.20 bln	11.0 ▲	3.8 ▲
Debt Servicing	283.60 bln	497.07 bln	542.38 bln	91.3 ▲	9.1 ▲
Total	**3.56 trn**	**4.61 trn**	**4.43 trn**	**24.4** ▲	**3.9** ▼

Source: Budget Office

Key assumptions of the budget were also reviewed, with oil benchmark price adjusted from $67per barrel to $60pb, while oil output was lowered to 2.2 million barrels per day (mbpd) from 2.35mbpd. Meanwhile, crude output and price of Bonny Light (Nigeria's brand of crude oil) hovered around $79pb - $83pb in Q3 2010. The relatively balanced demand-supply equation, amid the fragile pace of global recovery and increasing spate of stockpile, should sustain oil price at the current range, even as economic activities intensifies in major oil consuming countries; which may prop up government's collectable revenue in Q4 2010 over huge deficits recorded in the first two quarters of 2010.

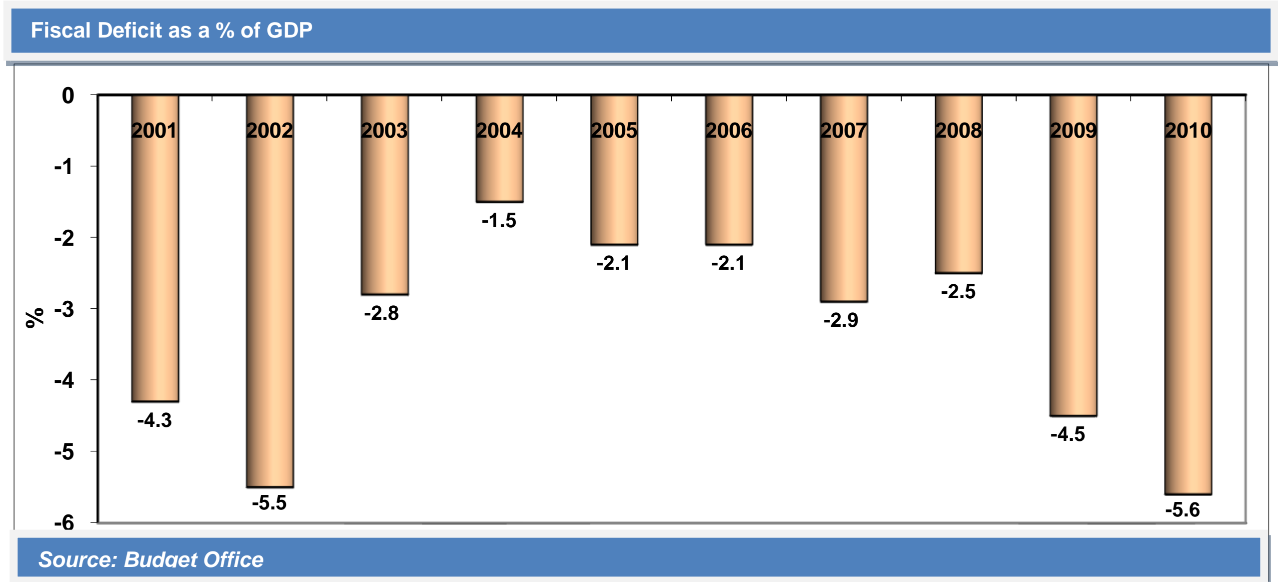
Inflows to the 2010 Federal Budget as at June 2010 (N'Billion)

DESCRIPTION	2010 BUDGET			2010 ACTUAL			VARIANCES					
Inflows for the Federal Budget (CRF)	Annual	Quarterly	Half Year	First Quarter	Second Quarter	Half Year	2nd Quarter Budget Vs Actual		2nd Quarter Vs 1st Quarter		Half Year Budget Vs Actual	
	N'bn	N'bn	N'bn	N'bn	N'bn	N'bn	N'bn	%	N'bn	%	N'bn	%
Share of Oil Revenue	2,068.06	517,02	1,034.03	233.80	334.16	567.97	(182.85)	-35.37	100.36	42.93	(466.06)	-45.07
Share of Non-Oil	929.82	232.45	464.91	118.25	127.01	245.26	(105.44)	-45.36	8.76	7.41	(219.65)	-47.25
Share of VAT	77.95	19.49	38.98	18.71	19.24	37.95	(0.25)	-1.29	0.52	2.79	(1.02)	-2.63
Share of CIT	258.68	64.67	129.34	61.57	39.89	101.46	(24.78)	-38.31	(21.67)	-35.20	(27.88)	-21.56
Share of Customs	293.18	73.30	146.59	32.41	30.99	63.40	(42.30)	-57.71	(1.42)	-4.37	(83.19)	-56.75
Independent Revenue	300.00	75.00	150.00	5.56	36.89	42.44	(38.11)	-50.82	31.33	563.87	(107.56)	-71.70
FGN Bal of Special Accounts	15.48	3.87	7.74	1.24	-	1.24	(3.87)	-100.0	(1.24)	-100.0	(6.50)	-83.99
Transfer (Unspent balance of 2009)	129.54	32.38	64.77	12.59	26.31	38.90	(6.07)	-18.74	13.73	109.07	(25.87)	-39.94
Total	3142.89	785.72	1571.45	365.87	487.49	853.36	(298.23)	-37.96	121.62	33.24	(718.08)	-45.70

Source: Budget Office of the Federation and the OAGF

With the continuing strain in government's revenue and the huge size of the budget deficit for 2010 (5.6% of GDP), the challenge is how best to finance the gap amid current challenges in both the domestic and global economy. Latest available data from the Budget Office indicates that both oil and non-oil revenue receipts were significantly below projections. The net oil revenue inflow into the Federation Account in Q2 2010 amounted to N334.16 billion, representing a shortfall of 35.4% compared to a quarterly estimate of N517.02 billion, though an improvement over Q1 2010 receipt of N233.8 billion. In the same vein, net non-oil receipt was N127.01 billion compared to quarterly estimate of N232.45 billion, which marks a 45.4% shortfall during the same period. The strategy to finance the budget shortfall by issuing bonds (to raise funds from the domestic market which remains susceptible to liquidity concerns) has the tendency to put up-

ward pressure on interest rates, and may crowd out private sector investment, due to increased competition for available funds.



Furthermore, FG plans to bridge the 2010 spending gap by using unspent balance from the 2009 fiscal year, domestic borrowing, floating a debut Naira denominated bond at the international capital market, and a World Bank loan, amongst other sources.

In sum, Q3 2010 was mainly characterised by:

Revised Outlook For The Rest Of 2010 And Q1 2011:

For the global economy, we expect current financial market volatility to dissipate gradually, though it could still act as a temporal break to the economic recovery process across major economies. The global outlook remains uncertain, with downside risks to GDP growth and upside risks to price stability becoming entrenched.

For the Nigerian economy in Q4 2010 and even up to Q1 2011, we expect the rising momentum towards the 2011 General Elections to heat up the body polity, with skirmises in the Niger Delta and some other crisis-prone cities to challenge the country's fiscal sustenance. Will the peace in the Niger Delta be sustained in Q4 2010 and beyond? The rising spates of violence across the country spell some challenging times ahead amid brooding political upheavals, as uncertainties surrounding the 2011 polls intensify.

- **GDP growth to stay robust at over 7.0% in the near - medium term.** We believe that the growth rate would be robust following increasing attention on infrastructure (especially stable power supply and good road network, amongst others) and with its multiplier effect would heighten economic activities. The availability of low interest rate schemes to boost lending to manufacturing sector would also propel GDP growth via the wealth creation transmission mechanism. NBS recently projected that the economy would grow at 7.78% by end-2010, up from 6.96% in 2009. The growth trajectory may be undermined by a downward spiral in oil price at the international market, amid current weak demand fundamentals and GDP growth concerns.

- **Heightened inflationary pressures due to expected monetary growth in the near term.** Cash injections expected from AMCON, 2011 electioneering spending, and the proposed removal of petroleum products subsidy would likely challenge the objective of attaining price stability in the near term. However, a mix of weak performance of monetary aggregates, weak aggregate demand, adequate supply of food and petroleum products, as well as the relatively stable Naira's exchange rate would act as break to the upside risks to inflation. In all, we expect cost-push inflationary pressures to gradually become entrenched and hence, likely distort domestic prices by year-end.

- **Domestic interest rates to revise upward from current levels in line with MPR increase and active use of OMO to manage liquidity level.** An increase in policy rate is expected (on a-priori) to curb inflation; the marginal increase of 25 basis points would likely lead to upward adjustment in domestic interest rates in the near term, with its attendant implication for private sector investment and real sector growth. However, we believe that unless there is a drastic pick-up in demand for credit, there may not be an immediate increase in lending rates by DMBs. The various low interest-earning intervention funds by the CBN (Power Sector Fund, SME Fund and Agric Fund, etc) to stimulate lending to the real sector, as well as expected injection of PENCOM funds into the system would most likely stem a steep rise in domestic interest rates.

- **Naira to be moderately pressured upward against the US Dollar in the near term.** This would be driven mainly by continuing depletion of the nation's external reserves. Although the apex bank has estimated that the country's currency buffer should blossom following sustained high crude oil price and output, we believe that recent increases in FX demand, which is essentially not due to speculation, would put moderate pressure on the Naira, amid heightened activities as year-end ap-

proaches. But if yields/returns on investment stay high, driven by increase in MPR, then outlook for the Naira would be relatively bright, as foreign investors bring funds into the system to slow down the anticipated erosion of the Naira (political risks is a major inhibition to this scenario). A combination of moral suasion and resolute defence of the Naira would help to stabilise the country's exchange rate at current level, except if reserves fall to target threshold of 12 months of import cover.

- **Equities market to shake off currently weak investors' sentiment, with indices expected at higher levels.** The stock market appears to be generally under-valued especially with improvements in corporate profits of quoted companies. We maintain that the relatively low share prices of most stocks would lead to another round of appreciation in the ASI. With AMCON expected to buy up banks' toxic assets in Q1 2011, we believe that renewed interest in banks' equities would engender rebound in the index, though with occasional profit taking by weary investors. The current graveyard market tendency would also gradually dissipate to regain vibrancy around 25,500 points – 30,500 points.

>>> TREATING CUSTOMERS FAIRLY...

...BECAUSE IT'S THE RIGHT THING TO DO

Treating customers fairly lies at the centre of our customer value proposition. For this reason, in 2009 we pioneered the establishment of our Ombudsman Office to handle and resolve customer complaints in an amicable, fair and timely manner.

Our Ombudsman can be reached on 01-2802241 or by email at **complaints.ombudsman@accessbankplc.com**

Visit www.accessbankplc.com for more information.

A Passion For Excellence

access >>>

SO'U SAATCHI & SAATCHI

aaan0123

Research Team

Dr. Emmanuel Moore Abolo
Chief Economist & Head, Group Market Risk Management
emmanuel.abolo@accessbankplc.com
+234 1 2712123

Frank Iyekoretin Ogbeide
frank.ogbeide@accessbankplc.com
+234 1 2712123

Rotimi Aaron Peters
rotimi.peters@accessbankplc.com
+234 1 2712123

Nnenna Aja-Okorie
nnena.aja-okorie@accessbankplc.com
+234 1 2712123

Abiola Huthman
monsuru.huthman@accessbankplc.com
+234 1 2712123

Disclaimer

This report is based on information obtained from various sources believed to be reliable and no representation is made that it is accurate or complete. Reasonable care has been taken in preparing this document. Access Bank Plc shall not take responsibility or liability for any errors or fact or for any opinions expressed herein. This document is for information purposes and for private circulation only, and may not be reproduced, distributed or published by any recipient for any purpose without prior express consent of Access Bank Plc.