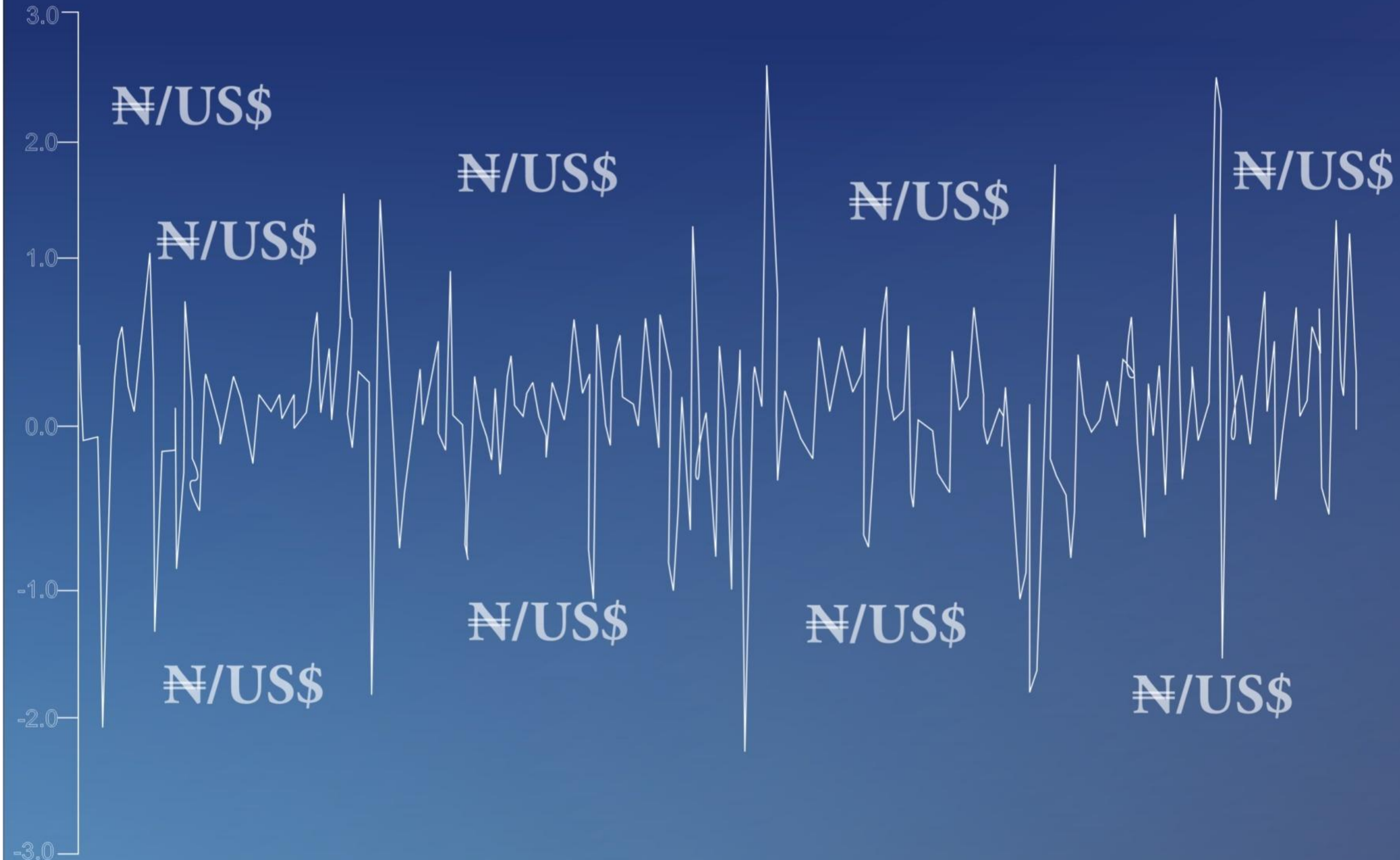
Access Economic Quarterly

Third Quarter 2011



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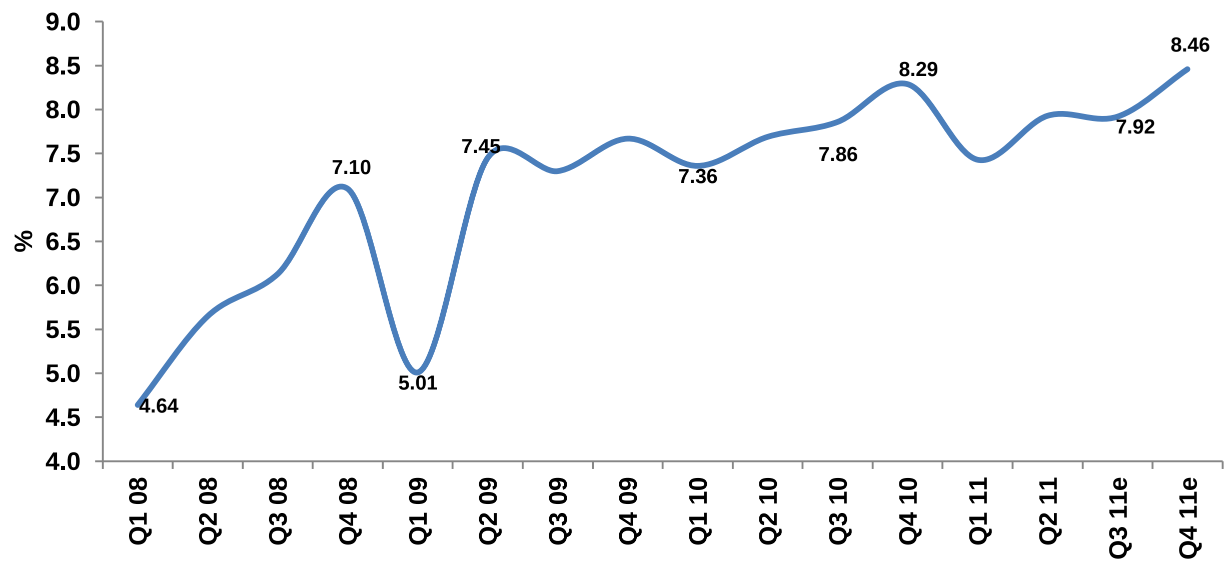
The Nigerian Economy

GDP Growth: A Steady Climb

Real gross domestic product (rGDP) is projected to grow by 7.92% in Q3 2011, according to provisional report from the National Bureau of Statistics (NBS). This figure is above the 7.86% recorded in the Q3 2010.

Real GDP Growth Rate

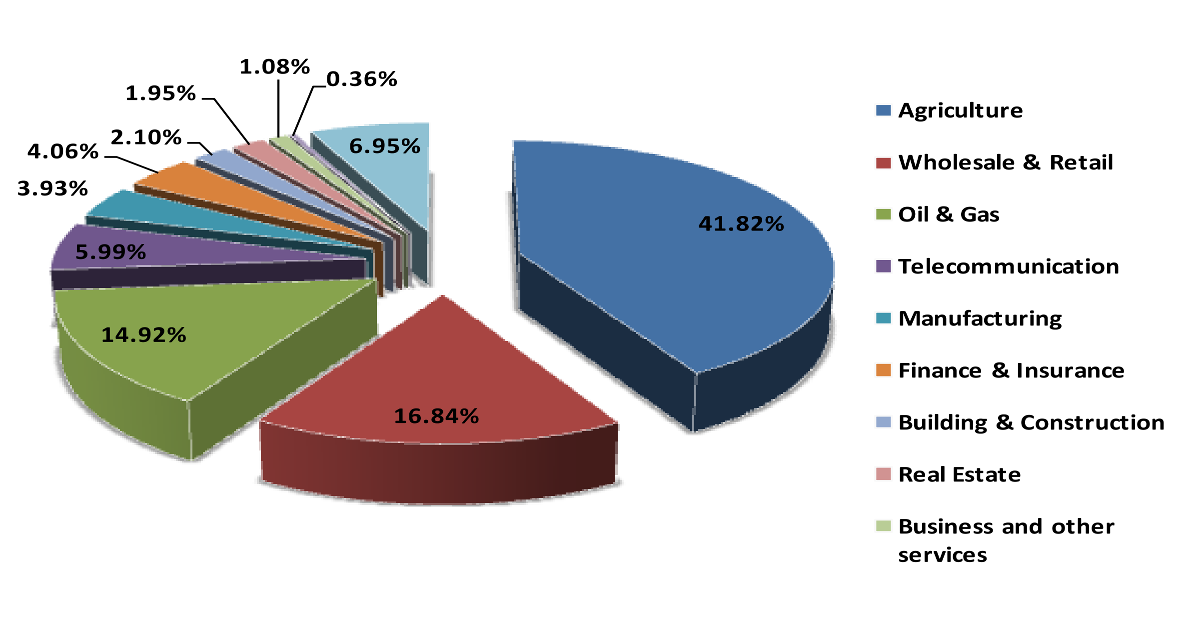


Source: NBS

Overall real Gross Domestic Product (rGDP) is projected at 7.85% in 2011 which is slightly lower than the 7.87% recorded in 2010. The slight decrease in projected rGDP growth figure for 2011 is accounted for by the decline in activities of the wholesale/retail trade, building & construction and finance & insurance sectors of the economy.

The comparatively commendable over-7.5% GDP forecast for 2011 is underpinned by the expected increase in agricultural output, encouraging outcomes of the banking sector reforms and measures to put inflation under check. The growing emphasis on non-oil sectors' contributions to the nation's wealth might add another fillip to GDP growth in the last quarter.

Q2 2011 GDP Contribution



Source: NBS

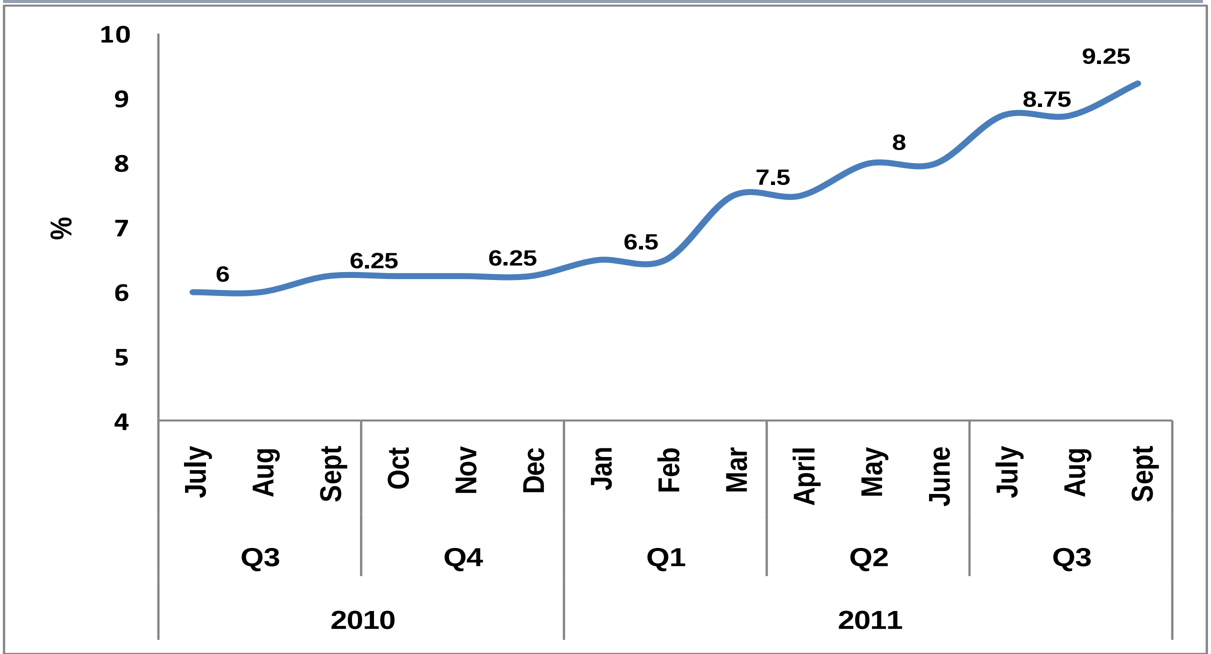
On the other hand, subdued global economic prospects, coupled with continued domestic capacity constraints are possible downside risks to sustained economic growth.

Monetary Policy: Rate Hikes to Stabilize the Exchange Rate and Control Inflation

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) in the period under review adopted an aggressive quantitative tightening stance. It was to address pressure on the foreign exchange market and inflationary impact of excessive liquidity.

The MPC raised MPR twice in the quarter (July and September) by a total of 125 basis points. MPR was moved to 9.25% in September from 8.75% in July. This non-accommodative posture of the Committee was as a result of concerns arising from unsubstantiated increase in the demand for foreign exchange, drop in accretion to the nation’s foreign reserves (falling crude oil prices in the international markets), excessive fiscal injections and the need to ensure a reversal in capital flow. The regulatory authority however left unchanged both the Cash Reserve Requirement (CRR) at 4% and the symmetric corridor at +/- 200 basis points around the MPR.

Monetary Policy Rate



Source: CBN

On the other hand, CBN reduced the Net Open Position (NOP) limit to 1% of Shareholders Fund from 5%. The apex bank also stopped oil companies from buying US Dollars at the regular bi-weekly auctions to fund importation of oil products. The CBN henceforth directed oil & gas firms in swap agreements with the NNPC/PPMC to lift crude oil for delivery of refined products, should instead use proceeds from sale of crude oil to fund importation.

There were also concerns about the deficit nature of the 2012 budget – in excess by as much as 5per cent. Government projects to spend more than it is expected to generate as inflows. This has its own inflationary pressures. To forestall its inflationary impact, the CBN therefore decided in favour of putting pro-active monetary tightening measures in place

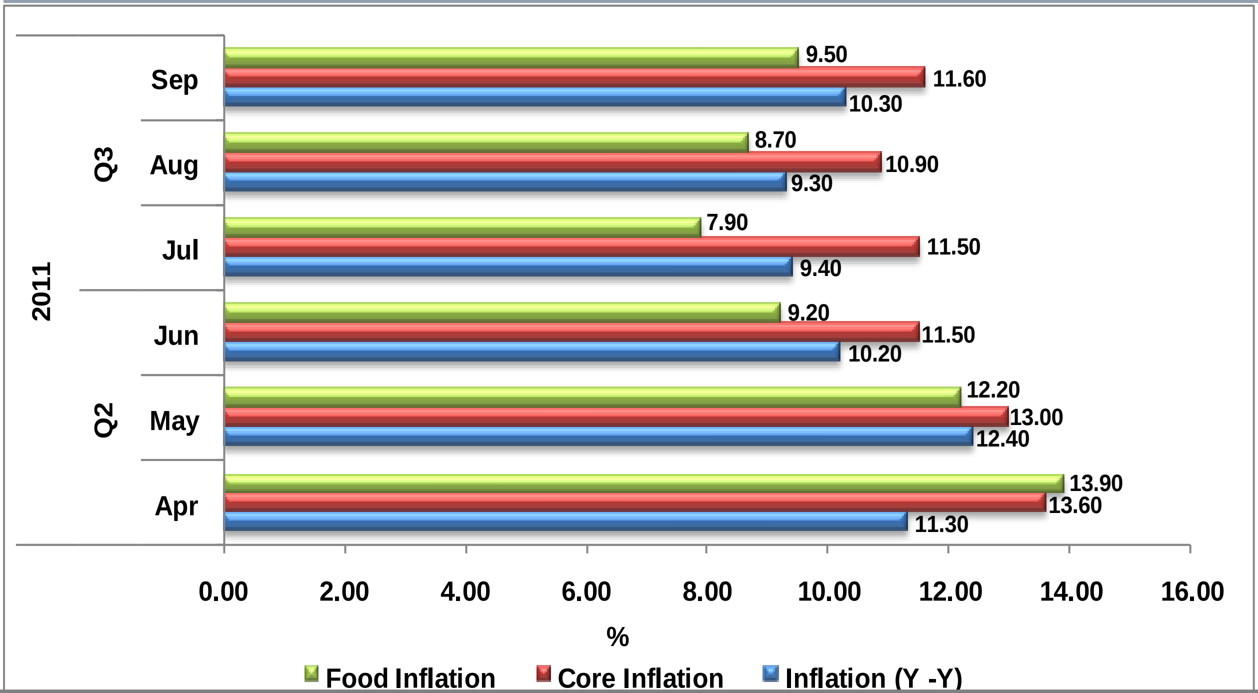
There are plausible signals that suggest the MPR might enjoy further increase in the last quarter. That is, if the CBN is bent on upholding inflationary control as the core of its monetary policy. This is predicated on government's desire to remove subsidies on imported petroleum products, rising international food and energy prices. There is also the issue of negative real interest rate which has heightened the risk of disintermediation. These, amongst other factors, are likely to stoke up inflationary pressures in the coming months and would likely lead the call for increase in the benchmark rate.

Inflation: CBN Battles Inflation

The year-on-year headline inflation rose to 10.3% in September 2011 from 9.3% in August (lowest level in more than 3 years). It had earlier declined to 9.4% in July from 10.2% in June. Food inflation rose to 9.5% in September 2011 from 8.7% in August. The increase in headline inflation was primarily due to rise in the prices of some food items & non-alcoholic beverages, imported food items, transportation, clothing & footwear housing and electricity/gas prices.

At its last meeting held September 19th, 2011, the MPC raised MPR to 9.25% from 8.75% as at July. It was the fifth consecutive time. The decision was taken to tame rising prices.

Inflation



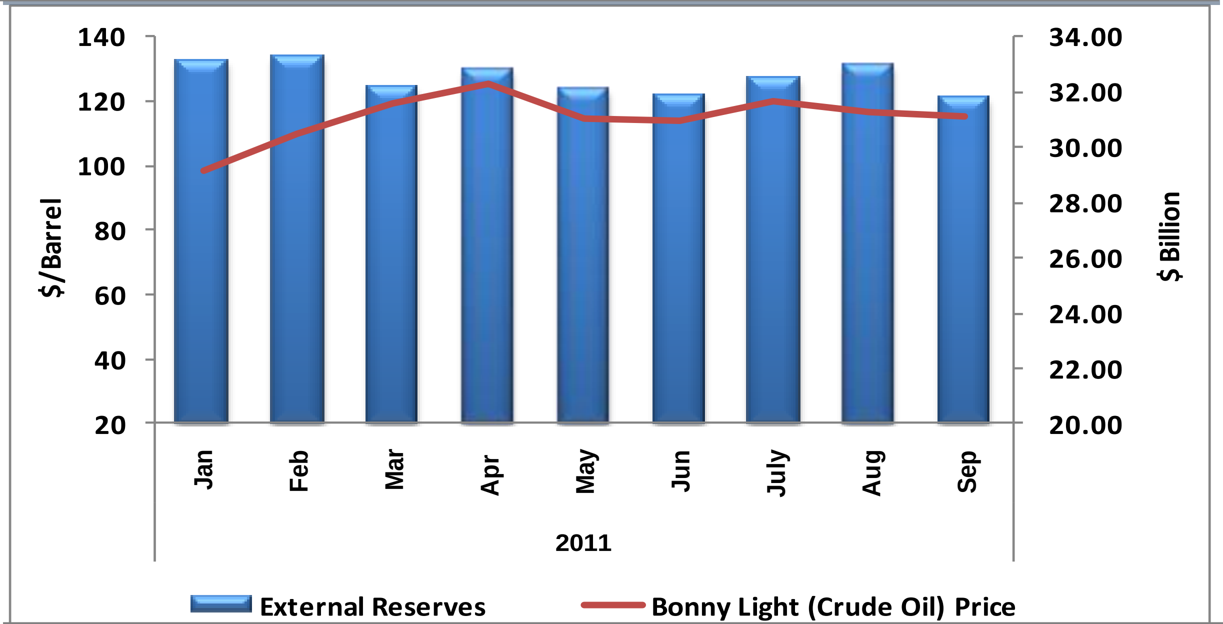
Source: NBS

For the Fourth Quarter, inflation expectations remain elevated owing to the subsisting high fiscal injections, recent increases in public sector wages, and the rise in power tariff. Other likely sources would include liquidity injections from AMCON activities and elevated global food and energy prices.

External Reserves: Increasing FX Demand Pressures Foreign Reserves

The Nation's external reserves rose to US$32.79billion as at end-Q3 from US$31.89billion at Q2 2011, an increase of 2.82%. It reached a quarter high of US$35.91billion in early August but declined thereafter. The drop from quarter-high position was primarily due to CBN's drawdown activities to fund the Naira within its avowed band of N150/US$ +/- 3% at its weekly auctions. Deductions for joint venture cash calls (JVCC) and petroleum subsidies were amongst other factors that also led to fall in the Reserves.

External Reserves & Bonny Light



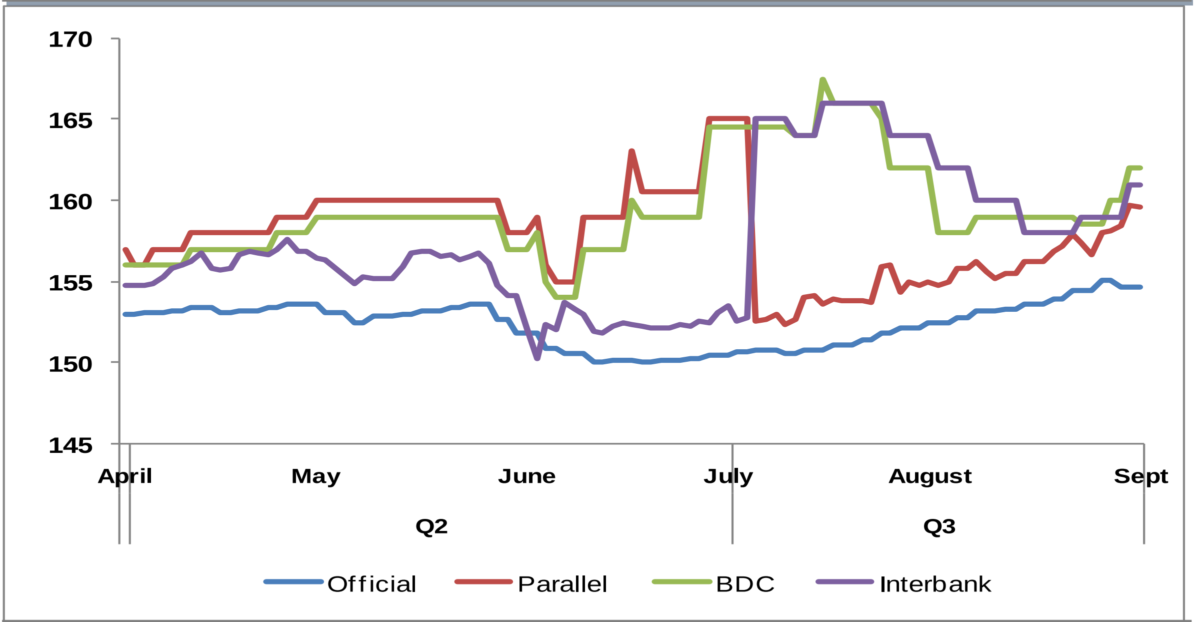
Source: CBN & OPEC

Exchange Rate: Marked Volatility

The foreign exchange market was characterized by wide volatility owing to significant demand pressures for the Dollar. The Wholesale Dutch Auction System (WDAS) window felt the pressure the most. Despite the CBN's deliberate attempt to maintain the exchange rate within a band of N150/US$ +/- 3%, the Naira moved above this target due to continued dollar demand pressure on the last trading day of the Quarter when it traded at a year high of N155.02/US$. Naira also dropped significantly at the inter-bank market where it sold for N159.73/US$

Overall, at the WDAS segment, the Naira/Dollar exchange rate closed at N154.6/US$ on September 30, 2011 after opening at N151.79/US$ on July 1, 2011, a depreciation of 1.85% (or N2.81k). Also, interbank rates opened the quarter at N150.2/US$ but closed at N159.6/US$, a significant depreciation of 6.26% (N9.4k).

Exchange Rates



Source: CBN & FDMA

In a bid to bring back the Naira within acceptable limits, the CBN introduced a number of measures. These measures include:

- ✓ Directing Authorized FX Dealers to, henceforth, ensure that oil firms seeking US Dollar purchase show evidence of the payment of Nigerian Export Supervision Scheme fee;
- ✓ Removal of FX sales limit on Bureau De Change (BDC) operators;
- ✓ Sale of $700million in NNPC proceeds to CBN; and
- ✓ Ban on oil companies from buying US Dollars at the regular bi-weekly auctions to fund importation of oil products.

Subsequently, the market responded favourably to the Naira as it gained strength against the U.S. dollar in all segments of the FX market.

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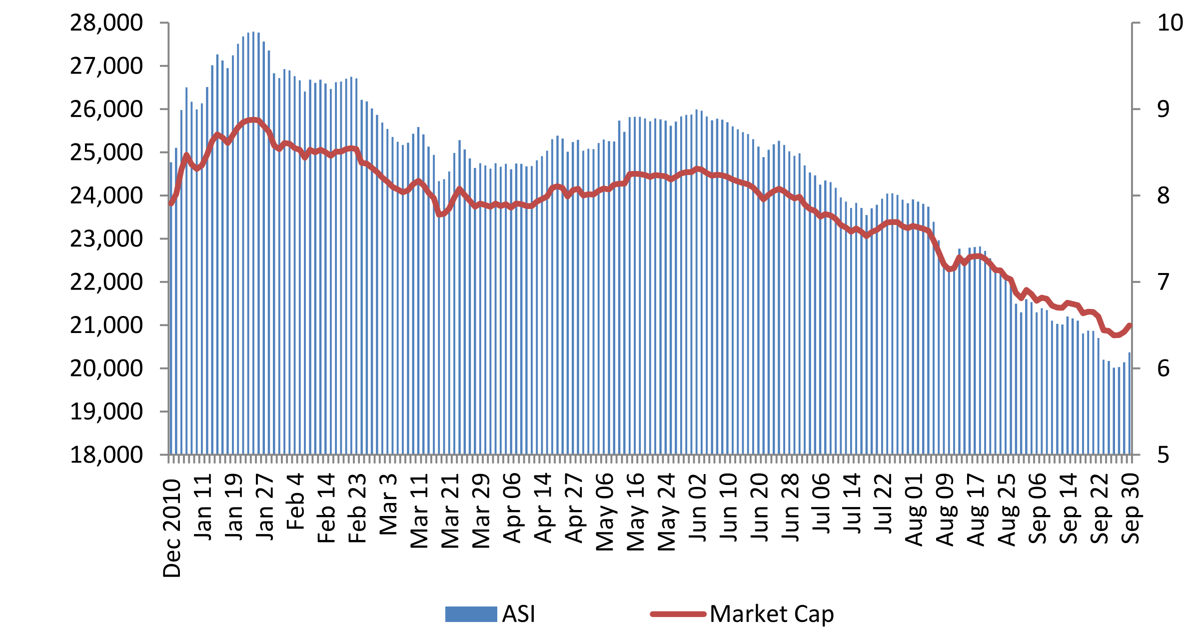
Stock Market: A Decline Induced by Preference for Fixed Income Securities

The Nigerian Stock Exchange All Share Index (ASI) nose-dived steeply to 20,373.00 points as at end-Q3 2011, an 18.4% decline from 24,980.20points recorded as at end-Q2 2011. Overall, market was broadly bearish during the quarter, and remains in dire need of at least a fundamental growth driver to turn the tide. In the same vein, the market capitalization (MC) of listed equities trended downward, losing N1.5trillion to close at N6.5trillion, compared to N7.99trillion as at end-Q2. Against year-start positions, ASI and MC have fallen 17.8% each from 24,770.52points and N6.5trillion, respectively. The decline in stock market performance can be attributed partly to investors' interest in bonds.

The Nigerian Stock Market - All Shares Index (ASI) & Market Capitalisation (MC)



Source: NSE

We remain cautiously optimistic of a reversal of the 'market swoon' owing to the highly attractive level of equities value across the market in the medium-long term. Most stocks are largely underpriced. The on-going consolidation in banking sector, amidst the reform in NSE, would likely engender more confidence, and hence appreciation of major indices of the nation's Stock Exchange.

Interbank Interest Rates: To Gain Traction Upward In The Near Term

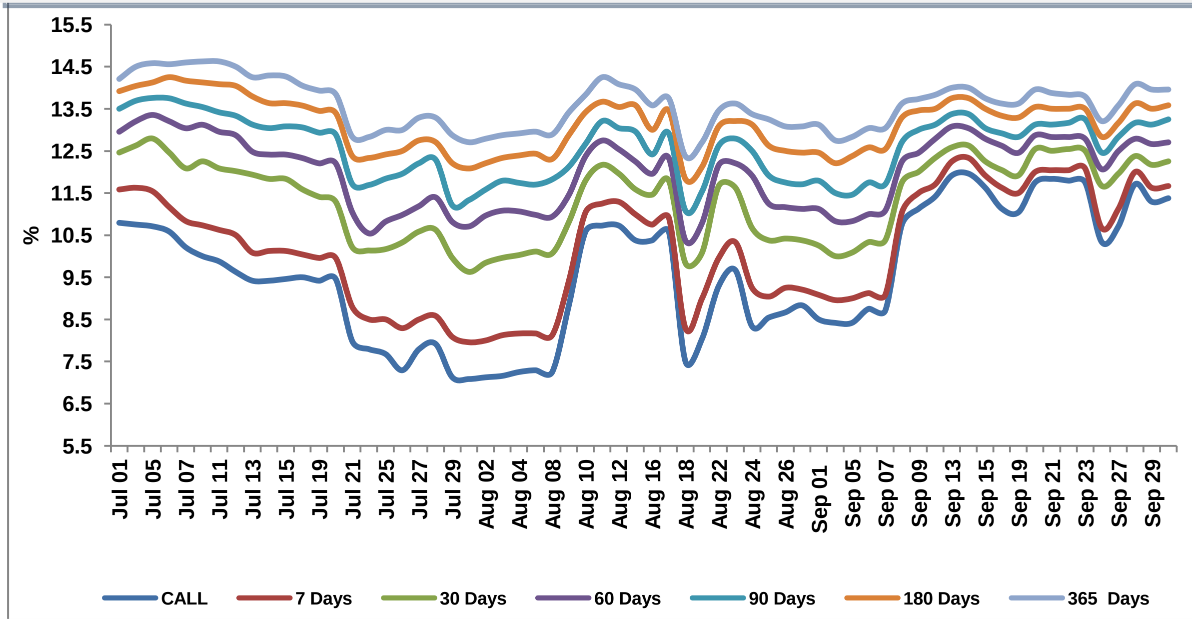
The Nigerian Interbank Offered Rates (NIBOR) surprisingly trended downwards during the quarter in spite of monetary tightening measures put in place by the regulatory authorities beginning year-start. NIBOR closed lower compared to Q2. For the first two months of the quarter, disbursement of statutory allocation by the Federation Account Allocation Committee (FAAC) was N1.145trillion as against N2.379trillion in the previous quarter. Nigeria's financial institutions greatly rely on statutory allocation for a significant chunk of its liquidity which often dictates the directions of bond yields and interbank rates.

NIBOR

End-Period	CALL	7Days	30Days	60Days	90Days	180Days	365Days
Jan 11	6.3684	7.6711	10.2654	11.2851	12.2303	13.0447	13.8969
Feb 11	8.5877	9.4978	11.1864	12.1557	12.8969	13.6053	14.4189
Mar 11	9.7438	10.2670	11.4685	12.2195	12.8663	13.6355	14.3402
Apr 11	10.9247	11.5208	12.4809	13.2074	13.7644	14.4120	14.8935
May 11	9.8375	10.3749	11.6254	12.1742	12.7454	13.2354	13.7504
Jun 11	11.8989	12.4224	13.2375	13.7042	14.1367	14.5117	14.8383
Jul 11	9.1798	9.9119	11.4595	12.1714	12.8409	13.4060	13.9032
Aug 11	8.7730	9.4540	10.7726	11.5437	12.1536	12.7742	13.2845
Sep 11	10.7405	11.1080	11.7746	12.2928	12.7311	13.2178	13.6015

Source: FMDA & FDHL

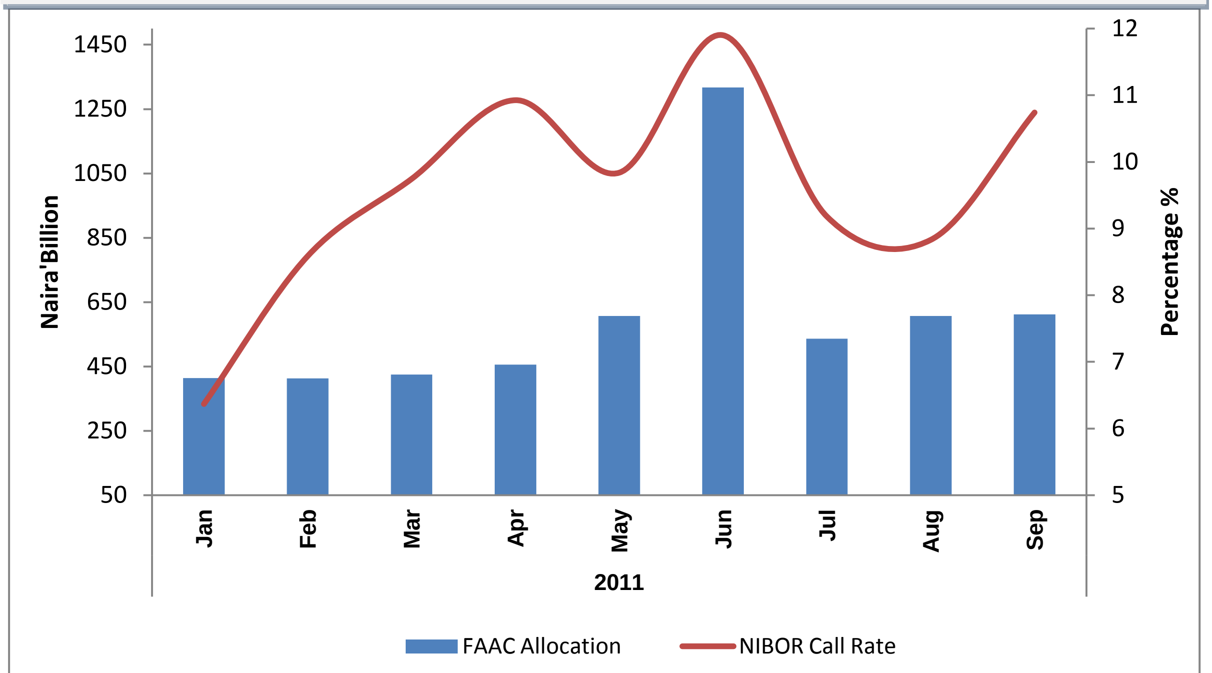
NIBOR



Source: FMDA & FDHL

Activities of CBN via the sale of treasury bills and bond issuance by Debt Management Office (DMO) generated liquidity concerns during the quarter. The monetary tightening measures, if sustained for much longer, would likely put NIBOR on an upward trajectory. CBN believes that excessive fiscal spending in the current year may fuel rise in general price level.

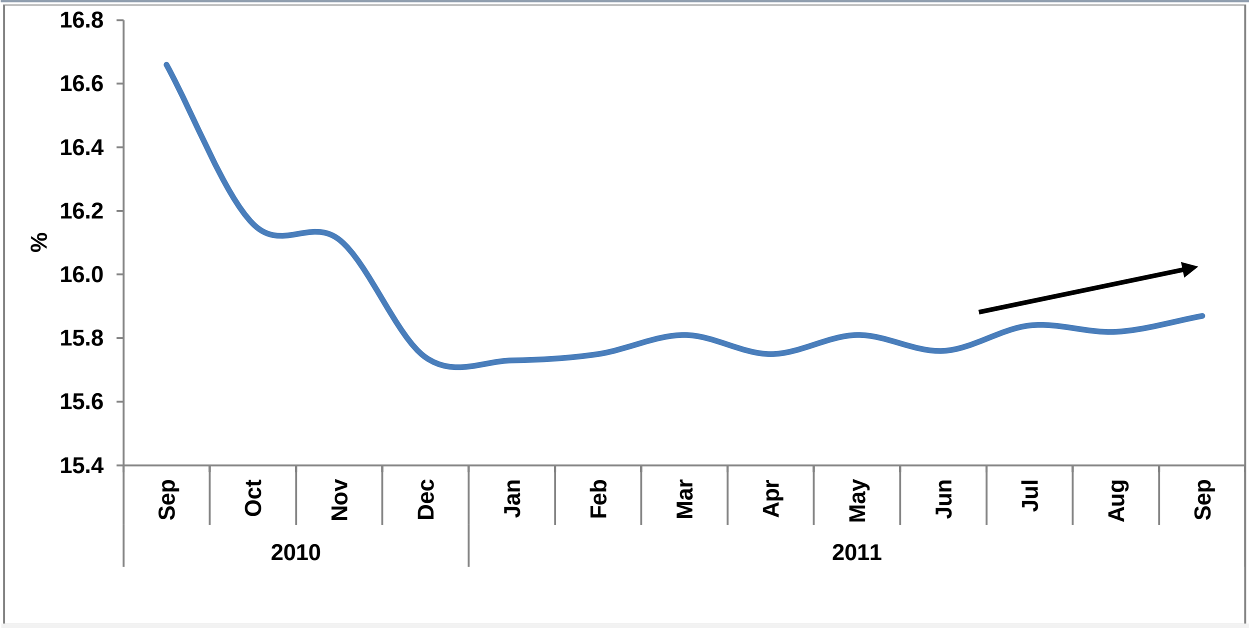
Statutory Disbursement & NIBOR Call



Source: Budget Office & FMDA

On the other hand, prime lending rate of Deposit Money Banks (DMBs) consistently inched up throughout the quarter under review. The rise was induced by the need to sustain margin by Banks. Financial institutions paid more to depositors; the consequence of this is the upward movement in rates to prime borrowers. Average lending rose by 7basis points to 15.84% in Q3 2011 from 15.77% in Q2 2011. Lending rate would likely trend upward in the near-term, on the back of the apex bank’s continued quantitative tightening measures.

Average Prime Lending Rate

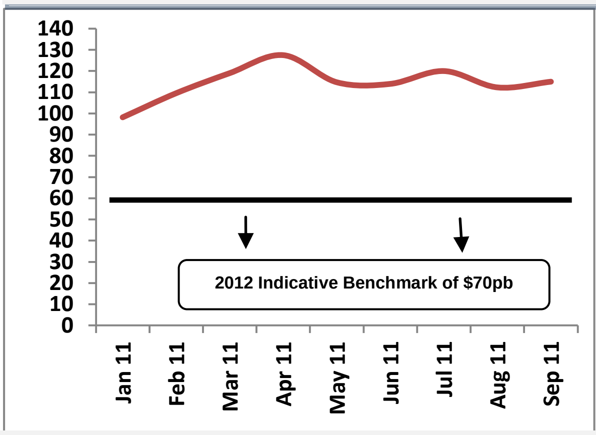


Source: CBN

2012 Budget Hint: Reawakened Need for Fiscal Discipline

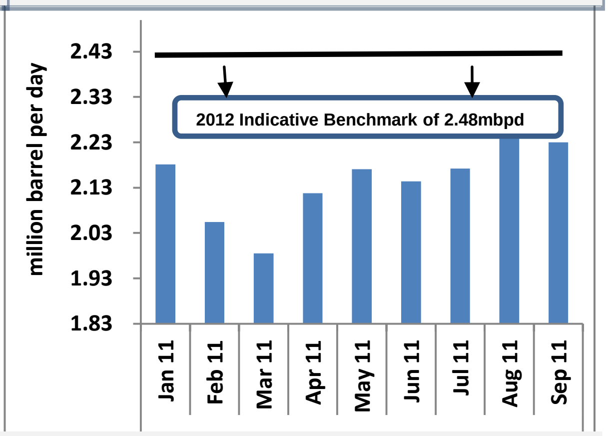
While the final details of the 2012 Budget are still being worked out, the Federal Government announced some basic assumptions of the proposed financial plan. The $75 per barrel that was initially announced was quickly revised to $70. The revision was attributed to the on-going dislocations in advanced economies and increased volatility in oil price at the international market. Meanwhile, the target for oil output was maintained at 2.48million barrel per day as part of efforts to project the country's revenue in the 2012 financial document. Other proposed targets in the 2012 Budget are a 7% GDP growth rate target and an exchange rate of N153 to a Dollar.

Crude Oil Price Benchmark



Source: EIA/Access Economic Intelligence

Oil Production Benchmark

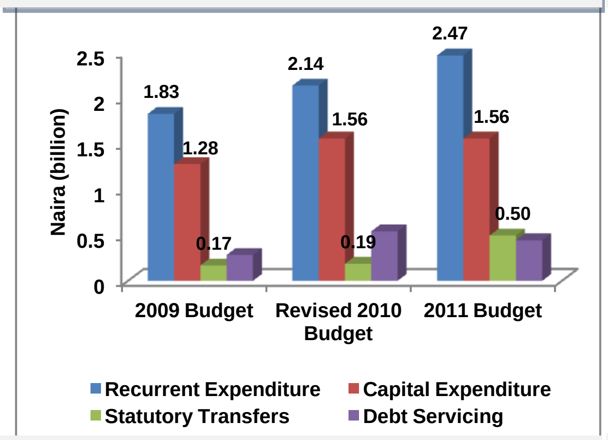


Source: OPEC/Access Economic Intelligence

In the quarter, the FG launched a new budget framework to monitor fiscal expenditures in the next 4 years (2012-2015 periods). Under the framework, a 3% fiscal deficit and below is envisioned over the 4-year period as documented in the Fiscal Responsibility Act. N550 billion was earmarked for debt service in 2012; N474 billion in 2013; N436 billion in 2014 and N402 billion in 2015. The aim of the 2012-2015 fiscal regime was to adequately address key challenges facing the economy – including capital development, overhead cost, deficit financing, as well as domestic debt outlays in the Medium Term. The FG plans to forward the 2012 Budget proposals to the National Assembly in November 2011 to avoid delay in its passage to law.

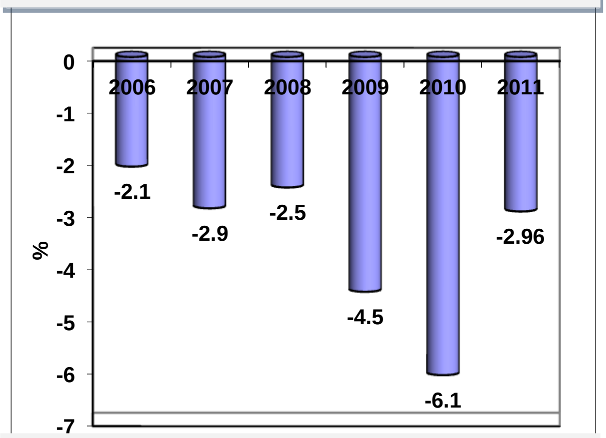
Recall that President Goodluck Jonathan signed the amended version of 2011 Appropriation Bill to law in May 2011. The Budget had an aggregate expenditure of N4.48trillion, which is 9.8% lower, compared to the N4.97trillion passed by the National Assembly in March 2011. Of the sum, recurrent expenditures amounted to 55.1%, with the balance 44.9% budgeted for capital expenditure.

Crude Oil Benchmark



Source: Budget Office

Fiscal Deficit as % GDP



Source: Budget Office

The risk to the 2012 Budget outlook/performance stems from a possible moderation in crude oil price. A decline below the benchmark oil price would have severe impact on the country's fiscal target. With the current downturn in the fortunes of major economies and sovereign debt concerns, the fear of a contagion spreading across global economies is ever present. This might, amongst others, negatively impact on the demand for crude oil going forward, and hence missed revenue targets.

Financial Sector: Targeted Reforms to Strengthen the System

The banking system was relatively stable during the Q3 2011 on the back of the reforms undertaken by the Central Bank of Nigeria. Amidst the wave of merger and acquisitions, CBN revoked the licenses of three banks, namely Afribank, Bank PHB and Spring Bank to recapitalise. Management and Board of Directors of the concerned banks were removed and the resultant Banks handed over the National Deposit Insurance Corporation (NDIC). They were subsequently nationalised and renamed Mainstreet Bank, Keystone Bank and Enterprise Bank, respectively. The Asset Management Corporation of Nigeria (AMCON), by subscription arrangement, injected about N678billion to raise their capital adequacy ratio to 15% each to enable them carry on their banking operations.

Key Policy Changes

In Q3 2011, the apex bank made key policy changes during its Monetary Policy Committee Meeting as well as via circulars.

These included:

- Liberalization of the interbank segment of the FX market. The CBN will henceforth participate in the market as a player – buying and selling Forex;
- Adoption of a market-driven policy stance to avoid speculative attacks on the Naira;
- NOP reduced to 1% from 5.0% of banks capital base; and
- Maintained the interest rate corridor at +/- 2 per cent around the MPR.

CBN lifted the $1million maximum limit that Authorized Dealers can sell to Bureau De Change (BDC) operators from autonomous sources. The decision was taken after a careful observation of happenings in the Foreign Exchange Market to ensure Naira stability, as well as narrowing the gap between the official and parallel segments of the FX market. In early August 2011, the apex bank raised Dollar sale to BDC operators by Banks to $500,000 from $250,000 per week and yet again to $1million per week in a bid to increase the amount of US dollars in the system. However, given the ensuing exchange rate gap, between official and unofficial markets, following the restrictions and the possibility for round tripping, the CBN revised the ceiling. Consequently, Authorized Dealers will be allowed to sell foreign exchange to BDC operators on demand subject to compliance with the provisions of Anti-Money Laundering Laws and adherence to relevant Know Your Customer (KYC) expectations.

During the quarter, the CBN made clear its intention to henceforth hold between 5% - 15% of the country's external reserves in Chinese Yuan. The Yuan was added in January 2011 to the basket of currencies Nigerian businessmen can use for trade settlement with their Chinese counterparts. The CBN took the decision because of the deepening trade between both countries and also to possibly wipe out arbitrate losses/gains using a less direct route. The Yuan's stability might also be another reason for its inclusion as a reserves currency for the West African nation.

In a bid to make the microfinance more relevant as a vehicle for financial intermediation, the CBN approved a revised microfinance supervisory and regulatory framework for the country. The framework adopted the minimum paid-up capital as the key criterion for categorisation. The N20million minimum paid-up capital base is for those authorized to operate in one location. For MFBs hoping to operate within state boundaries including the Federal Capital Territory (FCT), they would have to cough out a minimum paid-up capital of N100 million. The third category required a paid-up capital of N2billion. Thereafter, promoters are allowed to open branches in any part of the country. Beyond the attainment of the revised capital requirement, operationalisation of the framework by MFB is still subject to CBN certified ratification.

The National Pension Commission (PENCOM) gave the Pension Fund Administrators (PFAs) until June 30, 2012 to meet the new minimum capital requirement. Failure to meet this new benchmark might lead to one of two options: they either lose their operational licences or be acquired by others. The new minimum paid-up capital is fixed at N1billion as against the current N150million. The former minimum capital threshold was deemed to be no longer adequate to meet the operational and business requirements of the pension management business. The Director-General, PENCOM, Mr. Mohammad Ahmad, however, assured that such regulatory action would not affect the safety of pension assets/funds. It is expected that the increase in the capital requirement of the PFAs will encourage healthy mergers and acquisitions and promote stability in the industry.

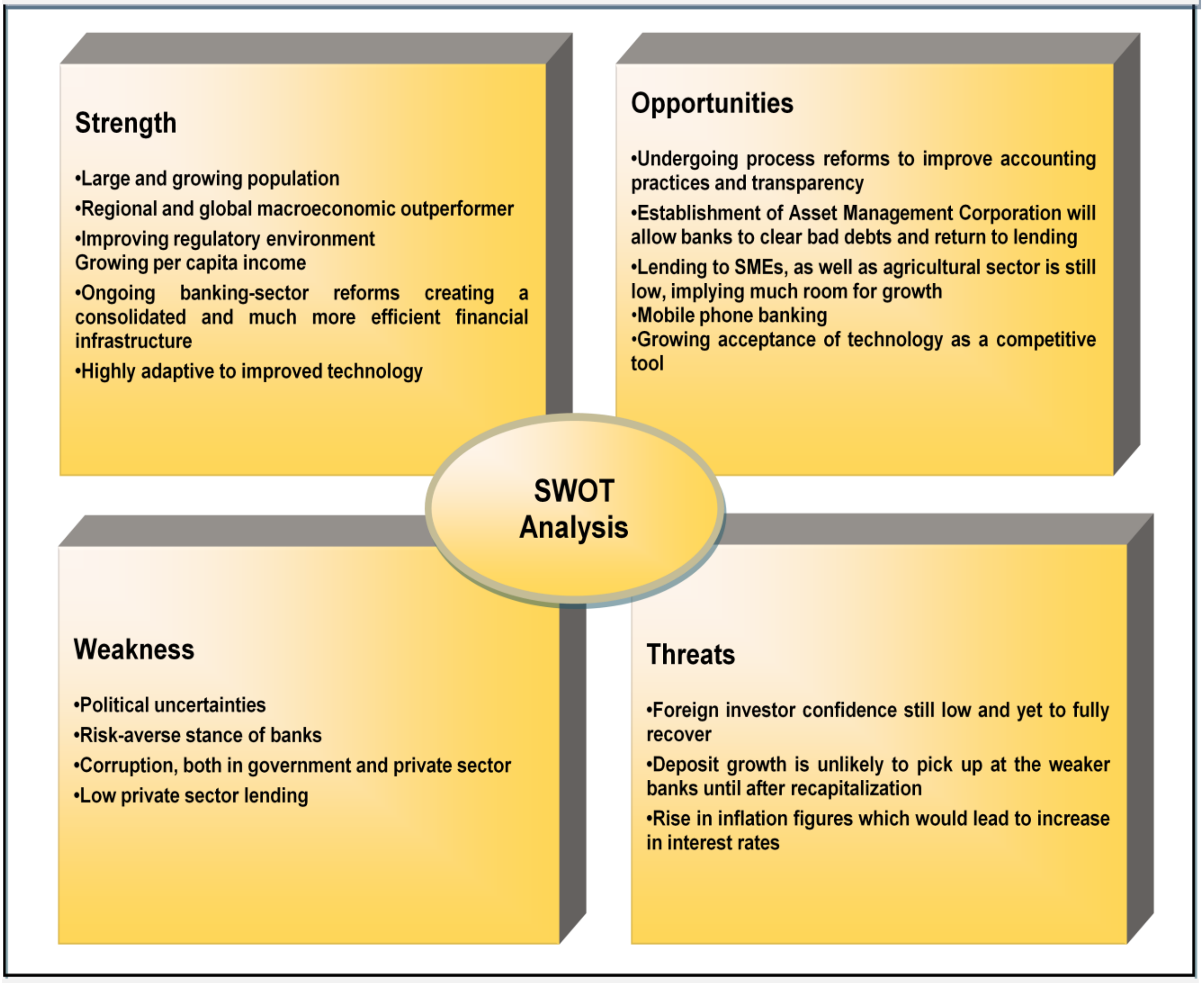
The Federal Ministry of Agriculture & Rural Development and CBN have unveiled the Plan to develop marketing infrastructure for agricultural commodities. The Initiative is aimed at providing ready-market for agricultural produce in the country. Under this proposed scheme, the Federal Government plans to rebuild rural infrastructure such as access roads & transportation, rural markets and extension services. Efforts are now also being made to revive agric insurance and other inputs in the supply chain.

Factors to Drive the Finance Sector Going Forward

- AMCON activities likely to influence financial market direction
- IFRS – accountability cum transparency
- There is the likely continuation of the use of monetary policy instruments to contain inflation
- Renewed efforts towards reinvigorating market confidence – continuous clean up of market irregularities
- Informed and planned regulatory reforms with punitive measures
- Likely merger and acquisition in the banking sector
- Debt Crisis and other global actions likely to impact on financial services

Source: Access Economic Intelligence

Nigerian Banking Sector SWOT Analysis



Source: BMI & Access Economic Intelligence

Outlook for Q4 2011 and Beyond

Political environment to remain relatively stable. Boko Haram menace still a source of concern.

Macroeconomic environment likely to be characterized by:

- GDP growth to stay robust at over 7.5% by end-2011;
- Naira may adjust to a new N155/$±3% target, even as we approach year-end when festivity-induced import activities pick-up;

- Inflation may likely increase. In all, we expect cost-push inflationary pressures to gradually become entrenched by Q4 2011 and beyond, especially with the likely removal of oil subsidies;

- AMCON injections into the financial system may impact positively on stock market performance, amid the relatively attractive level of most share prices. The current reform in the banking sector when fully completed might add further boost to stock market activities;

- Renewed efforts at ensuring congruence between official and unofficial exchange rates.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Economic Intelligence Team

Tony Monye
anthony.monye@accessbankplc.com
+234(0) 1271 2025

Frank Iyekoretin Ogbeide
frank.ogbeide@accessbankplc.com
+234(0) 1271 2025

Rotimi Aaron Peters
rotimi.peters@accessbankplc.com
+234(0) 1271 2025

Pascal Esehien
pascal.esehien@accessbankplc.com
+234(0) 1271 2025

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