Access Economic Quarterly

First Quarter 2012

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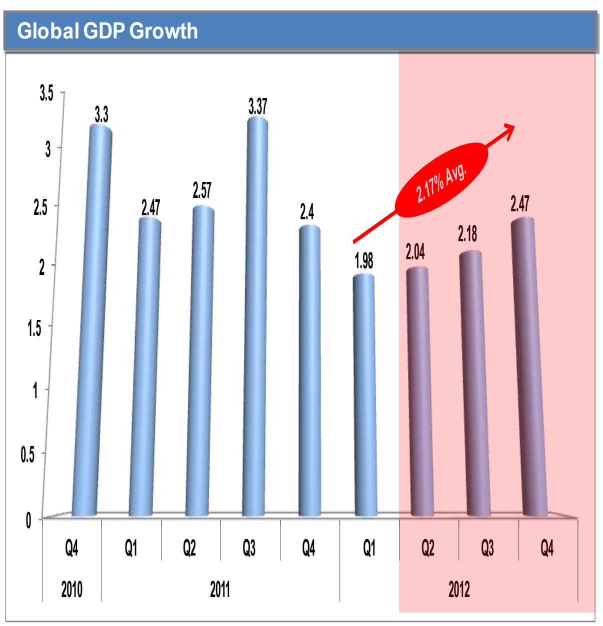
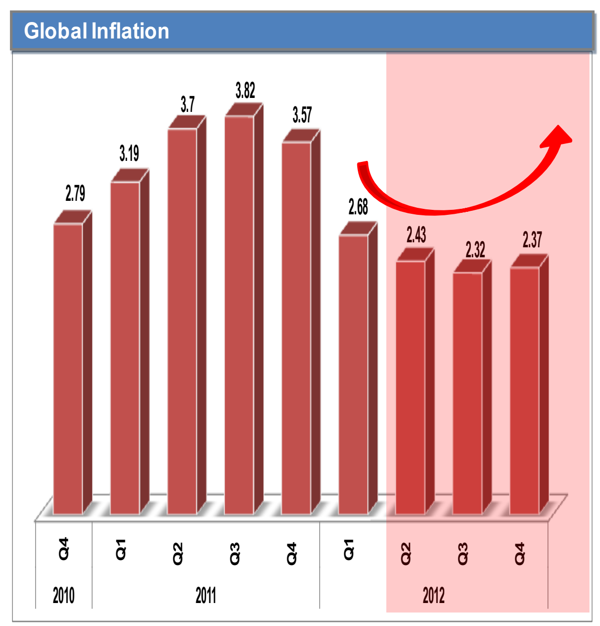
1. Global Economy

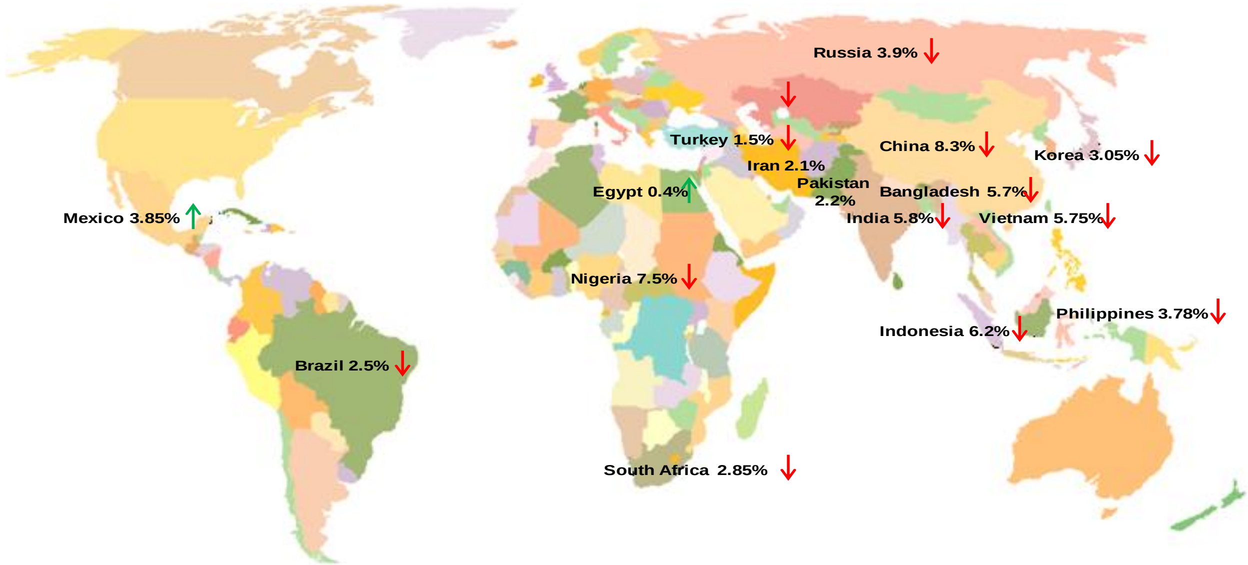
Rising unemployment in the euro area; high debt levels in Spain, Portugal & Italy; and decline in China's manufacturing output tempered global growth performance in Q1 2012. However, some indicators helped restore some measure of confidence. These include: upward revision of US Q4 2011 GDP; fall in US unemployment; and huge liquidity injection into European banks. Other positive spurts in the quarter were: successful debt swap deal for Greece and increase of the Euro-zone firewall to $1trillion. These major developments shaped the world economy in Q1 2012. As a result, fears of continued slowdown and stalled growth in global economy gave way to optimism of slow but steady recovery.





The global economy has indeed stepped back from the brink of danger and signs of stabilization are now emerging from the euro zone and the United States. Still, high debt levels in developed markets, growth moderation in emerging economies and rising oil prices amid tensions between Iran and Israel are key risks ahead in Q2 2012 and beyond.

Q2 2012 Growth Expectations – BRICS & N-11 Economies



1.1 United States

US economic indicators looked more upbeat than they were at the start of the year. Q1 2012 GDP growth settled at 2.2%. Unemployment rate was unchanged at 8.3% in the quarter, down from 8.5% at year-end 2011.

Although, Federal Reserve Chairman, Bernard Bernanke expressed clear disappointment in terms of jobs growth, arguing that a good deal of the success so far was a function of declining layoffs rather than increased hiring. His comments reinforced the idea the Fed may keep a heavy foot on the monetary accelerator.

Industrial output levels were also uninspiring. Anemic supply and soaring demand from emerging economies led to high crude oil prices and a drop in manufacturing sector productivity, impacting negatively on employment in the world's biggest economy.

1.2 Euro Area

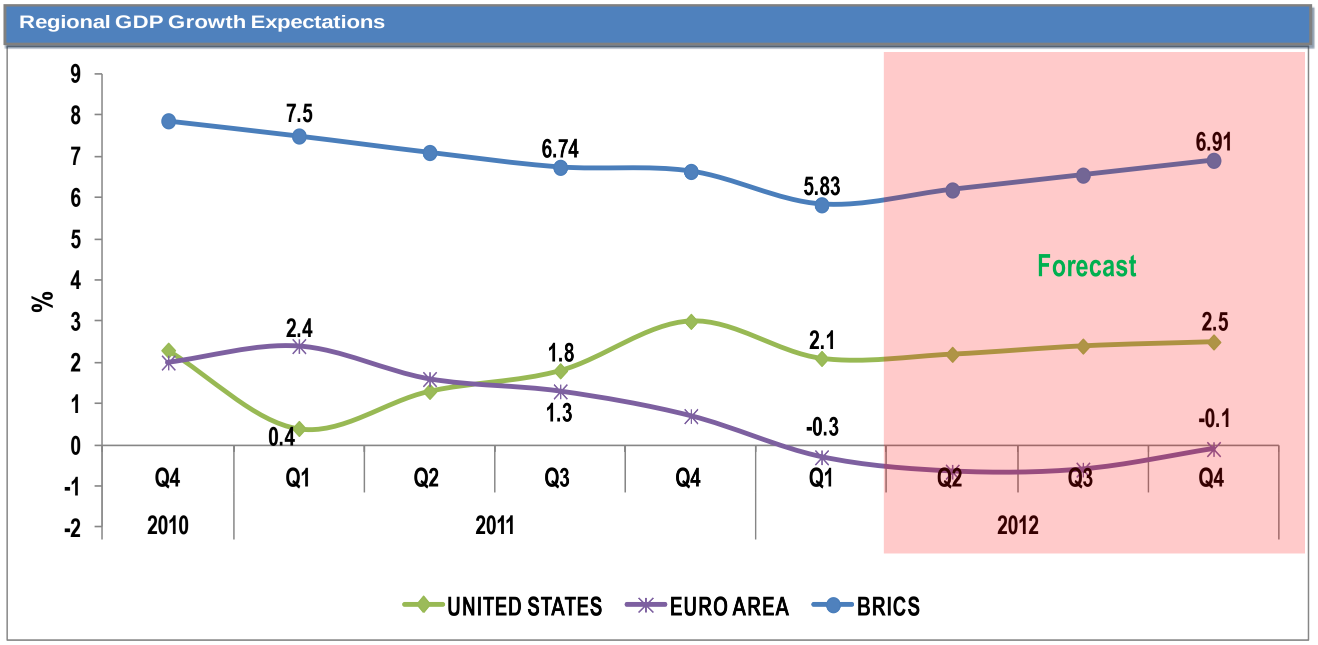
To ease near-term funding worries, lower cost of borrowing and enhance investor confidence, the European Central Bank (ECB) injected €529.53billion in 3-year loans to about 800 banks via its Long Term Refinancing Operation (LTRO). Earlier in the quarter, S&P had cut the credit rating of the euro zone's European Financial Stability Facility (EFSF) rescue fund to AA+, putting the fund's ability to raise cheap money at risk. Similarly, the likes of France and Austria – two of EFSF's guarantors – also suffered downgrades.

Greece, the problem child of the Eurozone, successfully secured the debt swap deal that unlocked bailout of about €130billion ($173billion) from the troika (European Union, ECB and IMF). The pact would help the Hellenic country cut its crippling public debt by €130billion, gradually setting it on a path to growth.

Also in the quarter, twenty five (25) of the European Union leaders signed a new treaty to enforce budget discipline within the bloc. The new treaty aims to prevent the 17 euro-zone states running huge debts like those which sparked the need for bailout for such countries as Greece and Ireland. UK Prime Minister and his Czech counterpart did not sign the pact. United Kingdom would like issues affecting the status of London as one of the world's financial capital resolved.

The Eurozone is forecast to contract by 0.5% in the quarter. This is in contrast to its prior estimate of 1.1%.

BRICS to drive global growth



1.3 Asia and South America

China, the world's 2nd largest economy, grew by 8.1% in Q1 2012 – slowest quarterly growth in more than two years. The economy grew by 8.9% in the last three months of 2011. Weak growth from debt-ridden Europe and global demand slowdown were factors identified as curbing output expansion. Concerns remain that China's growth may slow even further amid a slowing demand for its exports from key markets such as the US and Eurozone.

In a bid to rev up growth and boost lending, China's central bank eased its monetary policy – cutting the amount of money banks must keep in reserve twice in the quarter. Beijing's drive to boost domestic demand was aimed at countering the effects of the Eurozone debt crisis and slowing of the US economy. March 2012 trade surplus of $5.3billion may just be the pointer that the global economy has started to pick up.

Also, China's inflation rate grew more-than-forecast as higher fuel and food costs pushed up consumer prices. It grew by 3.6% in March, up from 3.2% in February. Analysts had forecast an increase of 3.3%. Premier Wen Jiabao cited inflation as one of China's main economic worries and has set a target of 4% for 2012.

In a move to internationalize its currency and seek for alternative base-currency for trade and investment, China put in motion plans to issue Yuan-denominated loans to other BRICS (Brazil, Russia, India and South Africa) economies. The Initiative is aimed at using the Chinese Yuan against the US dollar for international trade and cross-border lending amongst the 5 nations.

China's gradual slowdown is expected to continue into 2012, as consumption growth slows somewhat, investment growth decelerates more pronouncedly and external demand remains weak.

In India, growth in Q1 2012 was lower at an estimated 5.5% - slowest in over two years – compared with 6.1% in Q4 2011. Inflation rate experienced little change in March 2012, falling to 6.89% from 6.95% in February. The authorities heap the blame on faster-than-expected rising food prices. January inflation number was 6.89%. The number makes it harder for the central bank of Asia's third-largest economy to cut interest rates, despite flagging growth. The Reserve Bank of India hiked rates 13 times between March 2010 and October 2011 in an effort to tame India's near double-digit inflation. Analysts expect 2012 inflation figure to be slightly above 7%.

Brazil’s growth in Q1 2012 is estimated at 0.2% down from 0.3% in Q4 2011. Soaring business costs and uncompetitive industries took the shine off of what had been one of the world's most dynamic emerging markets. For the year as a whole, Brazil is projected to record a growth of 2.5% as against 2.7% reached in 2011. Inflation was 5.8% in February 2012.

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The Central Bank of Nigeria has introduced a new cash policy to reduce the usage of physical cash in financial transactions across the country. Piloting with Lagos, this policy limits the amount of physical cash that can be deposited or withdrawn from banks daily to N500,000 for individuals and N3million for corporates. Transactions above these limits attract surcharges.

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2. Nigerian Economy

Nigerian economy Q1 2012 performance may be termed "positive growth spurts with taints of instability". The year began with a nationwide strike on 9th January 2012 to protest the removal of petroleum subsidy. Earlier on January 1 2012, the Federal Government announced a 100% removal of petroleum subsidy, increasing the pump price of petrol by about 117% to N141 per litre from N65.

To cushion the effect of the partial subsidy removal, Government introduced the Subsidy Reinvestment and Empowerment Programme (SURE) – a N1.134trillion palliative scheme intended to provide subsidized transportation, construction of roads, rails and other infrastructure. The scheme has since been jettisoned. The strike lasted 8 days after which Labour and government settled for a price of N97/litre. Subsequently, oil subsidy probes were carried out which revealed significant leakages in the system.

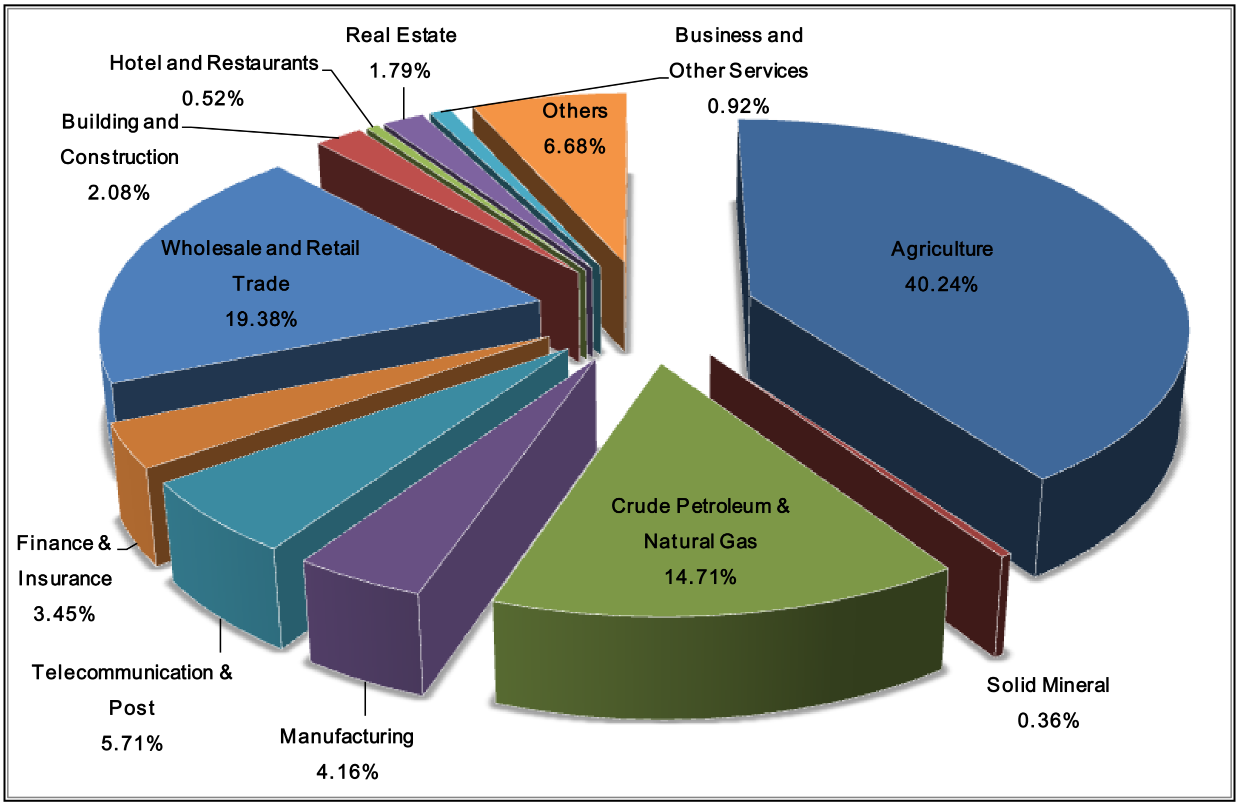
The government promised to overhaul the oil sector and bring out sweeping reforms. The security situation remained a cause for concern in the quarter. Religious unrests in some Northern States have continued to impact negatively on economic activities. A significant chunk of the 2012 Budget is to be spent on Defence and Security – N326.35billion – a measure the Government hopes would address the security challenges facing the nation.

Below is a summary of other defining characteristics of the economy in Q1 2012.

2.1 GDP Growth: A step back yet again

Gross Domestic Product (GDP) is projected to have grown by 7.5% in Q1 2012. This is slightly lower than the 7.68% in the final quarter of 2011 and 49 basis points lower than that of the corresponding period in 2011. The slight decline may be attributed to both domestic and global factors. From the domestic scene, the 8-day strike following government's removal of fuel subsidy clawed back some gains recorded in the non-oil sectors of the economy in 2011. National Bureau of Statistics (NBS) estimates the monetary value of economic activity "lost" during the 8-day strike to be about N207billion.

Sectoral Contribution to GDP

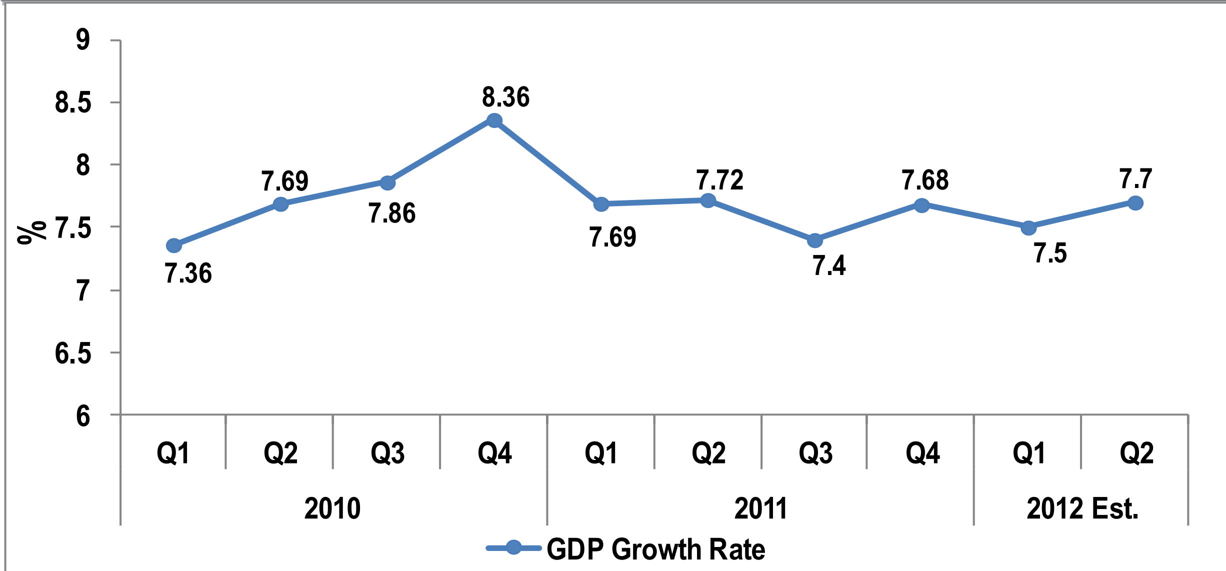


Agriculture, which contributes the most to GDP – over 40% – is projected to have grown by 5.5% in Q1 2012, lower than 5.74% recorded in Q4 2011.

At the global level, China's productivity slowdown, Europe's sovereign debt crises and lower-than-expected GDP growth in US – three of the Nigeria's biggest trade partners – muted GDP performance.

Nevertheless, the non-oil sector will likely continue to drive Nigeria's economic growth in 2012, with the country's GDP expected to grow at 7.7% in Q2 2012.

GDP Growth Rate



Source: NBS

2.2 Monetary Policy

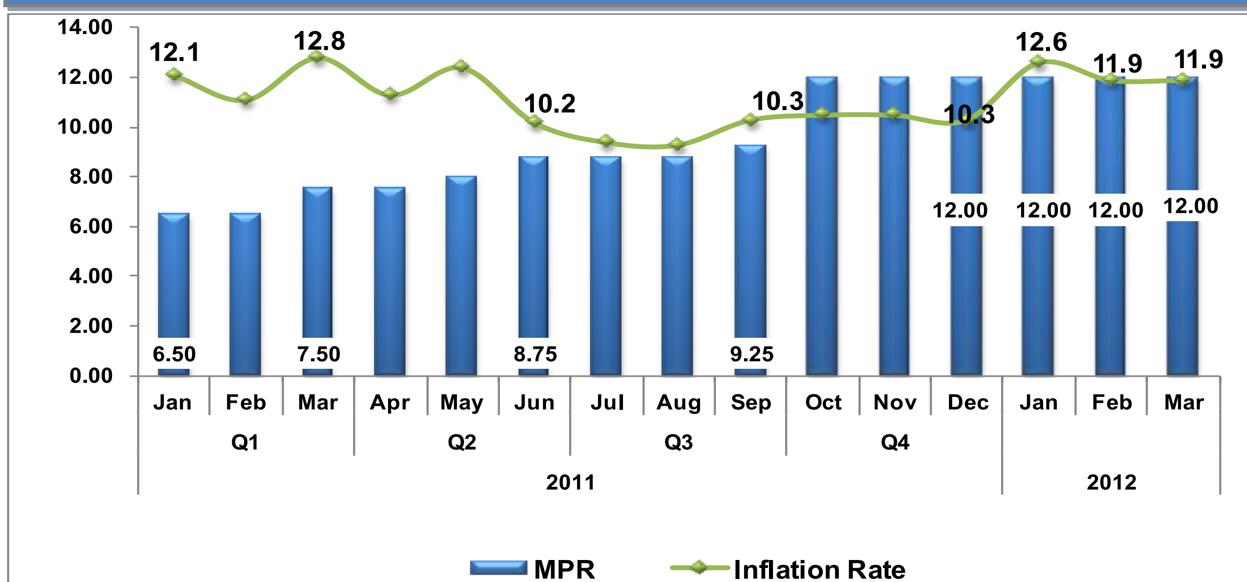
The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) maintained a stable monetary policy stance through its primary anchor rate – Monetary Policy Rate (MPR). This posture was consistent with the need to maintain price stability, sustain foreign investment inflows and promote stability. At the 2 meetings held in Q1 2012 – January and March – it retained the MPR at 12%. The Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) were also left unchanged at 8% and 30%, respectively. The Committee also maintained the +/-200 basis points interest corridors. Standing deposit facility (SDF) and standing lending facility (SLF) rates remained at 10.0% and 14.0%, respectively. The MPR has remained unchanged since October 2011 – when it was raised by 275 basis points from 9.25%.

The active channel for monetary management in Q1 was Open Market Operations (OMO). To mop up excess liquidity from the banking system, the CBN sold Treasury bills to banks. Total amount withdrawn from the system in the period was about N1.9trillion.

In Q2 2012, the CBN would likely continue to favour a stable monetary policy. This is premised on the following reasons:

- ✓ Declining inflation figure – Consumer price growth was 12.1% in March 2012 up from 11.9% in January.
- ✓ "Cashless Lagos" Policy – This is expected to reduce the volume of money in circulation, with more finding their way into banks' vaults. This will lead to a depression in banks' cost of funds with its attendant positive impact on inflation and of course, the general economy.
- ✓ Stable Naira – The local currency has remained within the targeted band against the US Dollar, trading between N156.1 – N156.7/US$, slightly above the 2012 Budget benchmark for exchange rate.

MPR and Inflation



Source: CBN & NBS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• Voters' Card
• International Passport
• National ID Card
A utility bill or any other documentary evidence of address is required only in the event that:
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2. Your address is not on your ID document.
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In a move to reduce the cash in the system and gradually transit to cashless economy, by promoting the use of electronic-based means of payment, the CBN finalized plans to begin a pilot project in Lagos called “Cashless Lagos”. For individuals, cash withdrawals above N500,000 will attract a processing fee of 3% while deposits will attract 2% per N1,000. For corporate organisations, withdrawals above N3million will incur 5% for deposits and 3% per N1,000. However, exemptions were granted to Ministries, Parastatals and Agencies on lodgments for the purpose of revenue collections only. April 1 2012 is the kick-off date in Lagos. The countrywide implementation will begin on January 1, 2013. It was earlier scheduled to begin in a number of states on June 1 2012. The extension is to ensure a smooth start of the programme while re-emphasizing the importance of a cashless economy.

2.3 Inflation

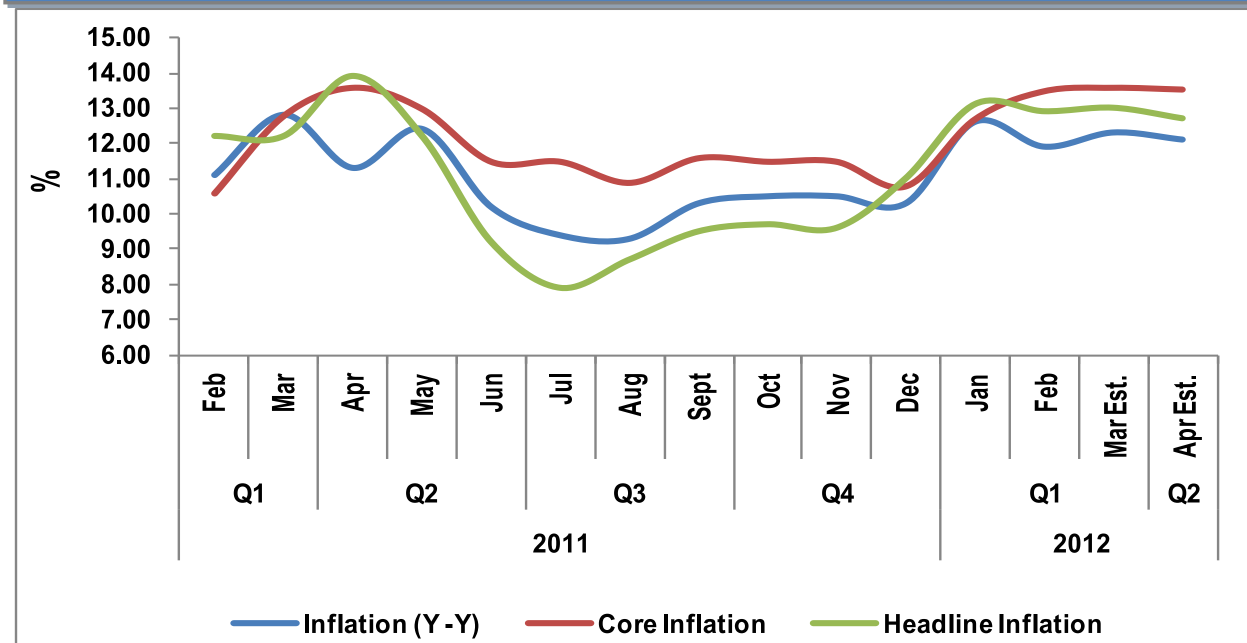
March inflation figure was up 12.1% from 11.9% in February. But lower than 12.6% reached in January. Prices edged higher due to increase in headline inflation as the planting season approached.

After the partial subsidy removal in early January 2012, the immediate impact was the increase in transport cost which cascaded to higher cost of food items. Expectedly, year-on-year headline inflation sprung up to 12.6% in January 2012 from 10.3% recorded in December 2011, with the food inflation rising to 12.5% from 10.3%. This confirmed the propelling, although temporary, effect partial subsidy removal had on the economy.

In February, inflation fell to 11.9% from 12.6% in the previous month. The decline might be interpreted as systemic absorption of the initial impact of energy price increase; leading to a drop in aggregate demand amongst others.

The maintenance of the MPR at 12% for the third consecutive month is to tame any inflation rise and maintain stability in the economy.

Inflation



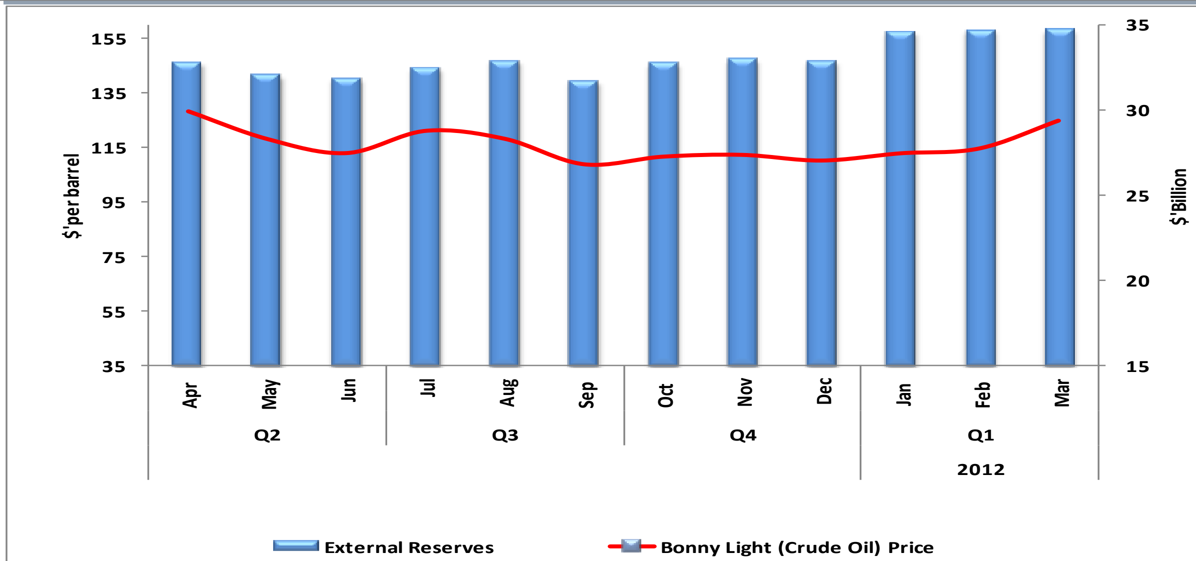
Source: NBS

For Q2 2012, inflation expectations remain high owing to the carry over effects of the January partial fuel-subsidy removal, budget spending and the rise in power tariff. Other likely sources include elevated global food and energy prices.

2.4 External Reserves

The nation's reserve witnessed modest growth in the quarter. It rose to $35.6billion at end-Q1 2012 from $32.92billion reached at year-start, an increase of 5.95%. The accretion to the 'foreign currency pot' came from the rising price of international crude oil and low demand pressure was the weekly wholesale Dutch Auction System (wDAS). The reserves reached the quarter high of $35.6billion on the last day of the quarter.

External Reserves & Bonny Light



Source: CBN & OPEC

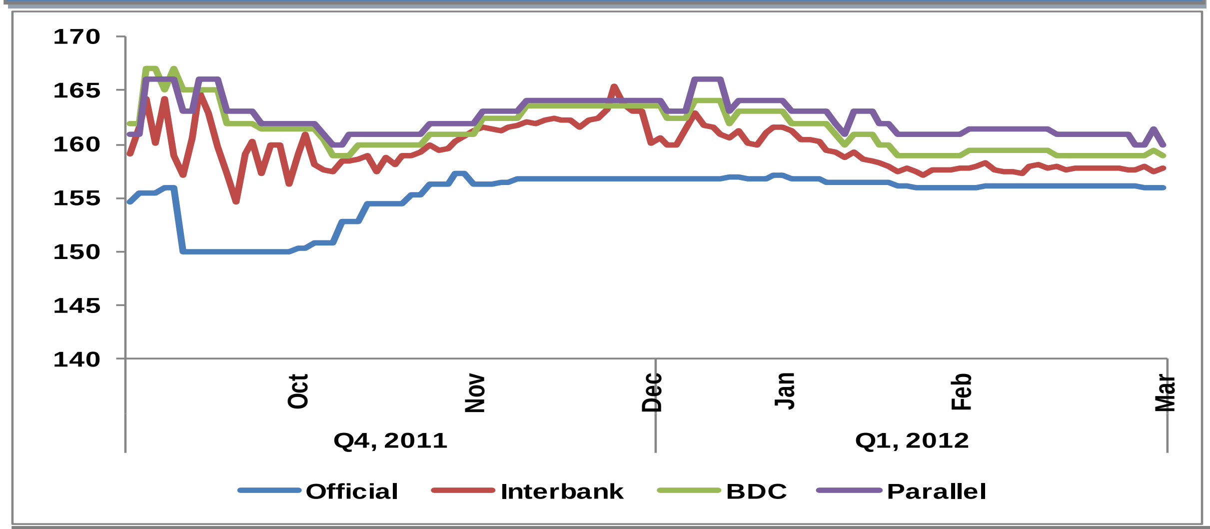
2.5 Exchange Rate: Naira has stayed relatively stable

At the foreign exchange market, Naira remained within the indicative N155/$±3% target for Q1 2012. It marginally strengthened against the US Dollar in the period under review. The currency firmed up helped by huge dollar sales from oil companies. Prudent monetary policy adopted by CBN also supported the strengthening trend observed.

The Naira/Dollar exchange rate at the CBN window closed at N156.01/US$ on March 30, 2012 after opening Q1 2012 at N156.7/US$, gaining 69 kobo. Also, interbank rates ended N157.53/US$ after beginning the quarter at N160.1/US$, a appreciation of about 2% (N2.57).

At the regular bi-weekly auction for the period, CBN sold a total of $5.09billion – 44% lower compared to the $9.04billion recorded in Q4 and 31% lower than the $7.43billion in the corresponding quarter of 2011. Demand for the dollar fell to $4.76billion in Q1, 2012 from $8.54billion in the preceding quarter.

Exchange Rates



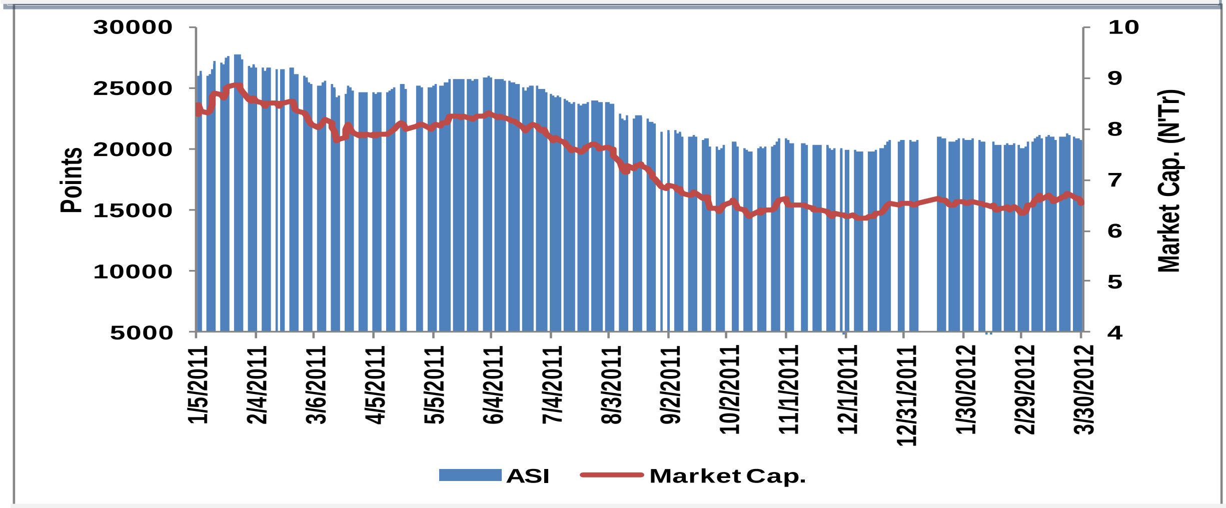
Source: CBN & FDMA

The local currency should sustain current stability levels appreciating overtime on the strength of CBN avowed commitment to keep Naira at current band. However, downside risks to the Naira/Dollar relationship remains: divergence in fiscal-monetary policies, declining foreign reserves and structural bottlenecks in the economy that could perpetuate import dependence.

2.6 Stock Market: Weak sentiments choking recovery

Equities performance in the quarter remained lacklustre. Despite various initiatives introduced by the Securities and Exchange Commission (SEC) – the stock market regulator – to boost confidence, investors still shy away from the bourse. The Nigerian Stock Exchange All Share Index (NSE ASI) declined by 0.38% to 20,652.47 points in Q1 2012 when compared to year-start figure of 20,730.63 points. Similarly, market capitalisation shed N17.25billion to close at N6.53trillion for the period under review. It also appears that high yield level in the fixed income market is impacting negatively on fund flows into the market.

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



Source: NSE

The market may rebound helped by the recent announcement of 10 market markers to provide liquidity to the market and stir up activities. The market makers would provide liquidity to securities through provision of bid and offer prices in the trading system of the exchange. They would ensure a fair and orderly market and assist in the effective functioning of the overall market. Investors may be attracted to the higher bond yields at the fixed income market. This could dampen optimism of a marked improvement in market performance.

2.7 Interbank Rates: Relatively high on occasional systemic liquidity mop up

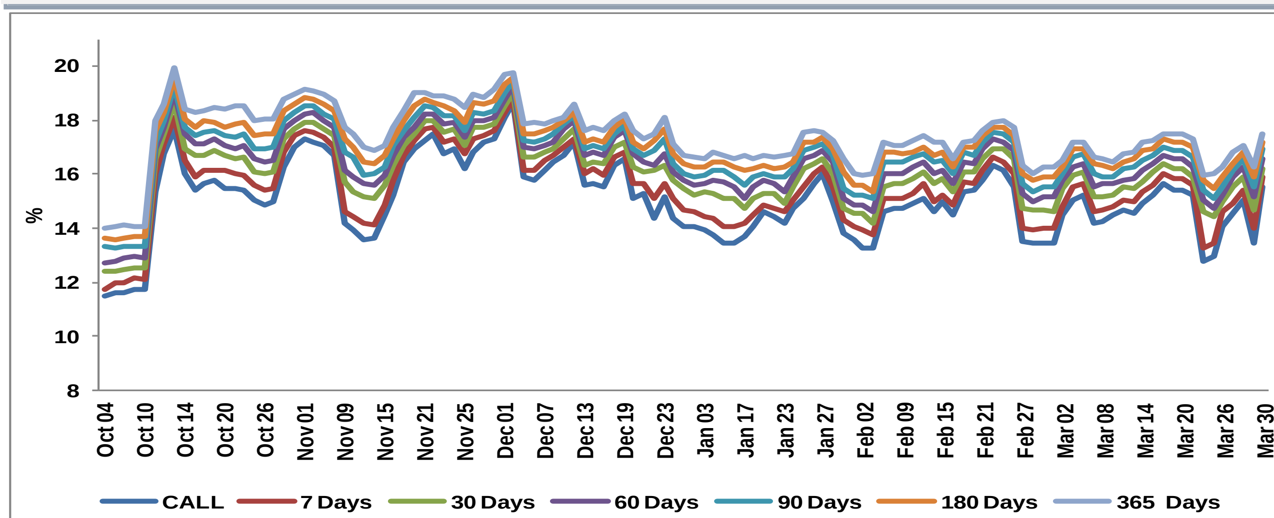
The Nigerian Interbank Offered Rates (NIBOR) trended upwards in Q1 2012 in spite of policy measures adopted by the regulatory authorities. On average, rates closed higher by 107 basis points (bp) compared to 278 bp in Q4 2011. The average rate stood at 16.55% in the period under review. For the first three months of the quarter, disbursement of statutory allocation by the Federation Account Allocation Committee (FAAC) was N787.8billion as against N745.92billion in the previous quarter.

NIBOR

Period	CALL	7-Day	30-Day	60-Day	90-Day	180-Day	365-Day
July 11	7.12	8.08	9.95	10.82	11.20	12.20	12.88
Aug 11	8.83	9.21	10.38	11.13	11.71	12.46	13.08
Sep 11	11.38	11.67	12.25	12.71	13.25	13.58	13.96
Oct 11	17	17.42	17.67	17.96	18.29	18.58	18.96
Nov 11	17.33	17.58	17.83	18.08	18.33	18.71	19.13
Dec 11	14.08	14.63	15.25	15.58	15.88	16.25	16.66
Jan 12	13.83	14.29	14.71	15.08	15.46	16.08	16.54
Feb 12	13.46	14	14.67	15.17	15.54	15.88	16.25
Mar 12	15.5	15.92	16.21	16.59	16.93	17.17	17.49

Source: FMDA & FDHL

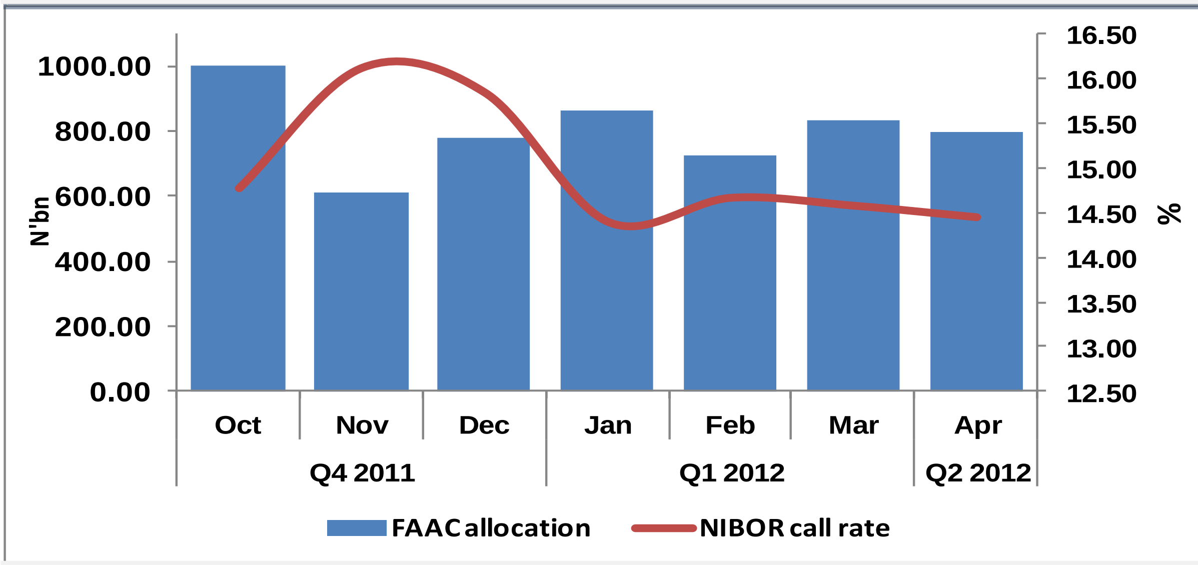
NIBOR



Source: FMDA & FDHL

Activities of the apex bank via the sale of treasury bills and bond issuance by Debt Management Office impacted systemic liquidity in the quarter. However, expected expansionary spending in the current fiscal year may give rise to general price level. Nevertheless, the regulator's monetary policy posturing is aimed at mopping inflationary money from the financial system.

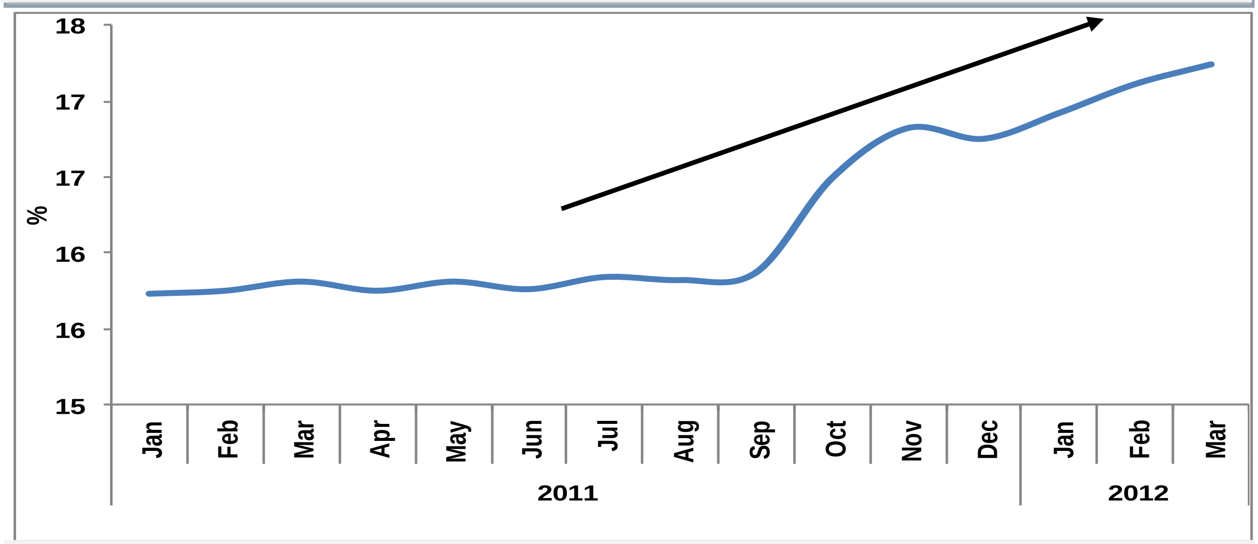
Statutory Disbursement & NIBOR Call



Source: Budget Office & FMDA

On average, prime lending rate of Deposit Money Banks (DMBs) rose to 17.09% in Q1 2012 up from 16.68% in Q4 2011. This may have been induced by relatively higher cost of funds at the money market. Lending rates may possibly remain around current level in the near-term. This is on the back of the apex bank's stable monetary cycle.

Average Prime Lending Rate



Source: CBN

2.8 Fiscal Policy and 2012 Budget

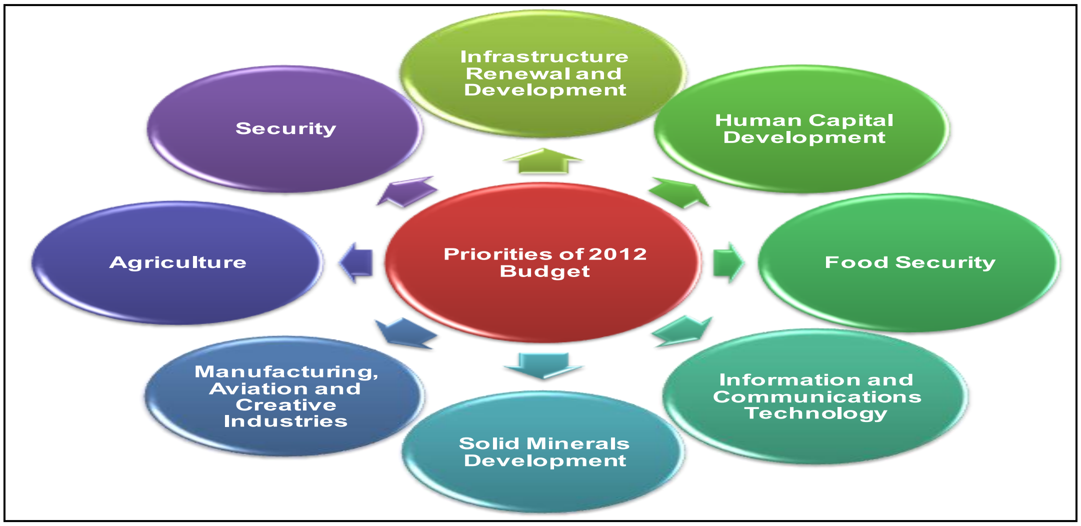
Reducing the cost of governance, job creation and accelerating expansion in the commanding heights of the economy – these were some of thrust of the government's fiscal policy in Q1 2012. The Budget was themed "fiscal consolidation, inclusive growth and job creation" with government focus on Agriculture, Security, Infrastructure renewal and development amongst others.

The Budget was built on four pillars:

- Macroeconomic stability
- Structural reforms
- Governance and institutions; and
- Investing in priority projects

However, delayed passage into law of the 2012 Budget by the National Assembly and bickering over its size hindered any meaningful impact of fiscal policy. Senate eventually approved a Budget of N4.87trillion for 2012 Fiscal Year. The revised Budget was N397billion, or 9% higher than 2011 Budget.

Budget 2012 Priorities



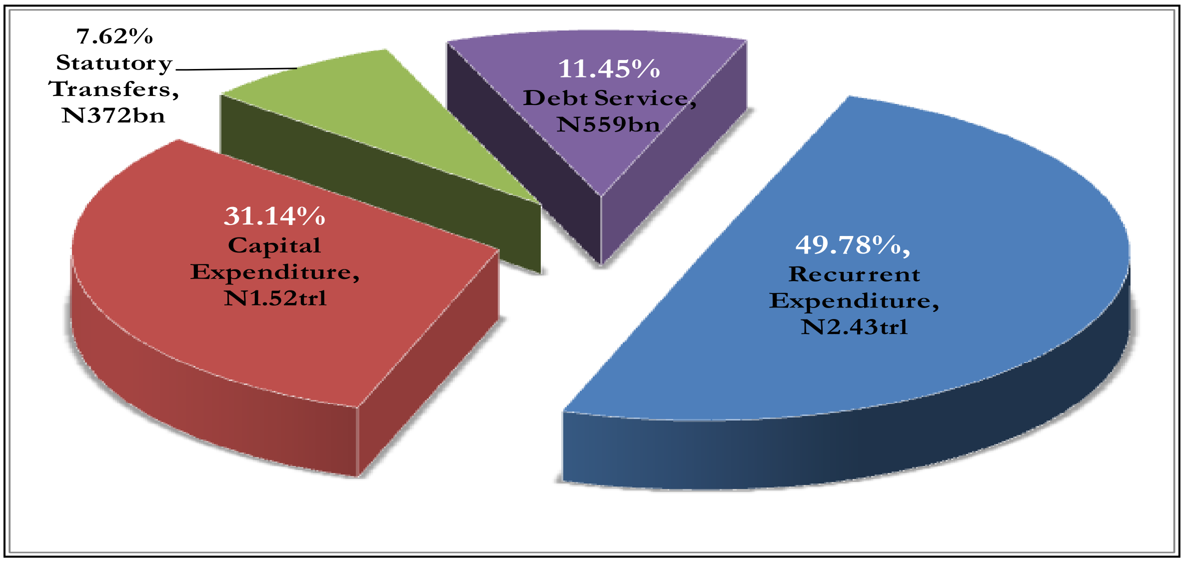
The increase in oil benchmark to $72 per barrel from $70 helped reduce the deficit budget provision of N1.16trillion by N98billion. Other highlights of the Budget include 2.48mbpd crude oil production, 7.2% GDP growth rate, 9.5% inflation rate and an exchange rate of N155/US$.

2012 Budget Benchmarks

Oil Production	2.48mb per day
Benchmark Oil Price	US$72/barrel
Exchange Rate	N155/US$
Projected GDP Growth Rate	7.2%
Target Inflation Rate	9.5%

The approved Budget contains N372billion in statutory transfers, N559billion in debt servicing, N2.43trillion and N1.52trillion in recurrent and capital expenditure, respectively. As at end Q1 2012, the President's assent was still pending.

Budget Breakdown



2.9 Financial Sector

The Banking sector was relatively stable in the period. A number of banks concluded their integration process. The Asset Management Company of Nigeria (AMCON) began restructuring and recovering bad loans owed since the acquisition of non-performing loans (NPLs) from commercial banks. It has so far brought about N3.14trillion worth of bad debts from banks and recovered 15% of that total. AMCON puts estimates of total number of NPLs acquired at about 9,000 in 2011.

In order to stop all forms of regulatory arbitrage and provide a level playing field for all operators, the CBN ordered the adoption of a uniform accounting year for all microfinance banks (MFBs), primary mortgage institutions (PMIs) and other finance companies. This directive comes into effect in December 2012. CBN also sanctioned

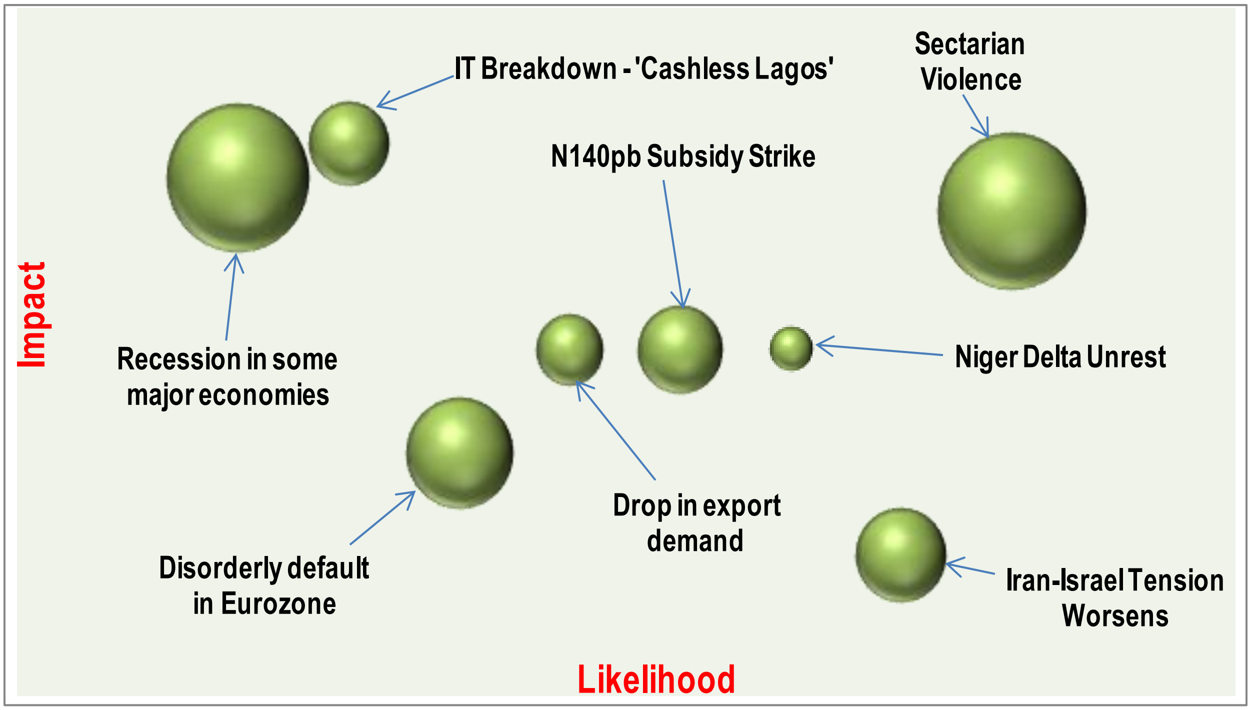
37 Bureau De Change (BDC) operators in the country for offenses ranging from selling foreign exchange without adequate documentation and beyond authorized limits to individuals, none submission of returns and none display of rates, among others.

CBN also put in place a plan to deploy a new Real Time Gross Settlement (RTGS) System in Q2 2012. The objective is to ensure efficiency in the interbank market, ultimately replacing the T24 settlement system. The RTGS system entails the transfer of money from one bank to another on a real time and gross basis. To this end, settlement in real time would be instant as against the T24 payment system subject to a waiting period. The RTGS would meet international standards and improve current interbank payments. It would also ensure seamless third party and debit fund transfers, attend to issues of net settlement, e-payment switching and trade settlements.

3.0 Expectations for Q2 2012

The economy should continue to build on the positive momentum achieved in the first quarter. GDP growth is expected to remain above 7%. This would be on the back of improvements in trade, manufacturing and agricultural sectors. With the signing of the Budget 2012 into law by the President, economic activities are expected to pick up significantly in Q2. From a monetary policy perspective, CBN may leave the MPR unchanged. There are possibilities that the Naira may come under some pressure in the quarter. This may be triggered by the trillions that would flow into the system from budget spending. Also, inflation may pose a threat to price stability – planting season is here. The CBN may likely use other monetary tools to tackle rising prices. So, we expect to see increased use of Open Market Operations, liquidity ratio and cash reserve ratio (as opposed to increasing the MPR) as tools to mop up excess liquidity from the system. Downside risks in the quarter include sudden drop in crude oil prices and religious unrest in some Northern States.

3.1 Top Risk Factors in Q2 2012



3.2 Factors Expected to Drive Financial Market in Q2 2012

- MPR – To remain focused on inflation control and GDP growth
- Improvement in fiscal and monetary policy co-ordination
- Informed and planned regulatory reforms
- More Initiatives at reducing poverty and creating jobs
- Cashless Economy: Gaining momentum
- Security challenges in the Northern states and the Niger Delta

Economic Intelligence Team

Tony Monye

anthony.monye@accessbankplc.com

Rotimi Peters

rotimi.peters@accessbankplc.com

Pascal Esehien

pascal.esehien@accessbankplc.com

Titilayo Oduwole

titilayo.oduwole@accessbankplc.com

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