Access Economic Quarterly

Third Quarter 2012

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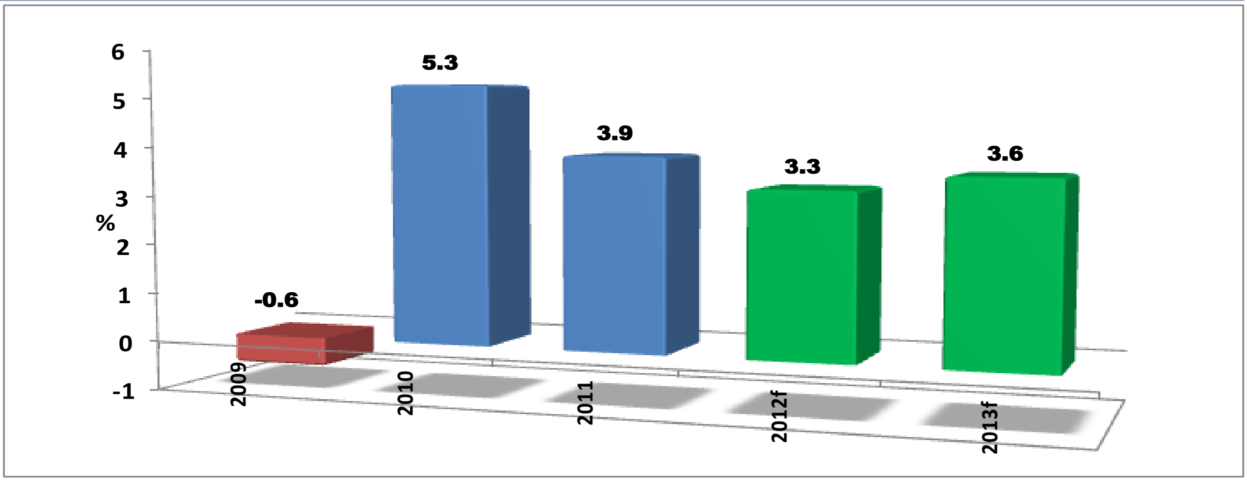
1.0 Global Economy

Plagued by uncertainties and fresh setbacks, the world economy weakened further in Q3 2012. Global output expanded 3.4% in Q3 compared to 3.6% growth attained in Q2 as economic activities muddled through huge debts and sluggish growth in major economies. During the quarter, global financial tension slightly eased on monetary stimulus campaign proposed by major central banks. Nevertheless, concerns over global prospects continued as economic data did not show much improvement. Intensifying euro zone downturn, weak recovery in U.S., and slowing economic activities across emerging markets, most notably China impacted negatively on growth. The world economy is drumming another bout of turbulence in what is expected to be a slow and bumpy recovery as uncertainty weighs heavily on outlook.

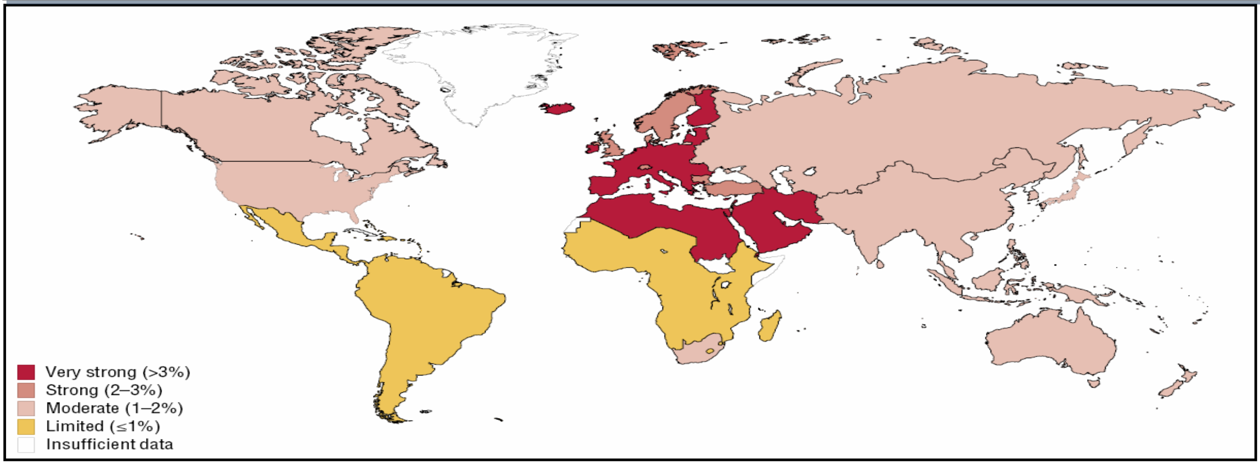
In Q3, Manufacturing activities slowed sharply. Euro area periphery saw discernible decline in economic activities, driven by financial difficulties as evident in a sharp increase in sovereign rate spreads. The spillover effect from advanced economies hampered growth in emerging market and developing economies – potential growth drivers to world economy. Weak financial institutions and inadequate policies in key advanced economies also contributed to the global slowdown observed.

Global GDP Growth



Source: Bloomberg

Eurozone Debt Crisis: Impact on Various Regions



Source: IMF

IMF downgraded 2012 economic growth forecast for most of the worlds' largest economies – projecting global growth of 3.3% in 2012, down from July's estimate of 3.5%. Its forecast for growth in 2013 is 3.6%, down from 3.9% three months ago.

1.1 United States

U.S gross domestic product (GDP) expanded 2% in Q3 2012, from 1.3% recorded in Q2. Increase in government and consumer spending helped strengthen domestic demand and compensated for the decline in business investment. Consumer spending rose by 2% in the review period after climbing 1.5% in the previous quarter. The GDP growth also reflected a 3.7% increase in government spending largely due to a 9.6% jump in federal government spending.

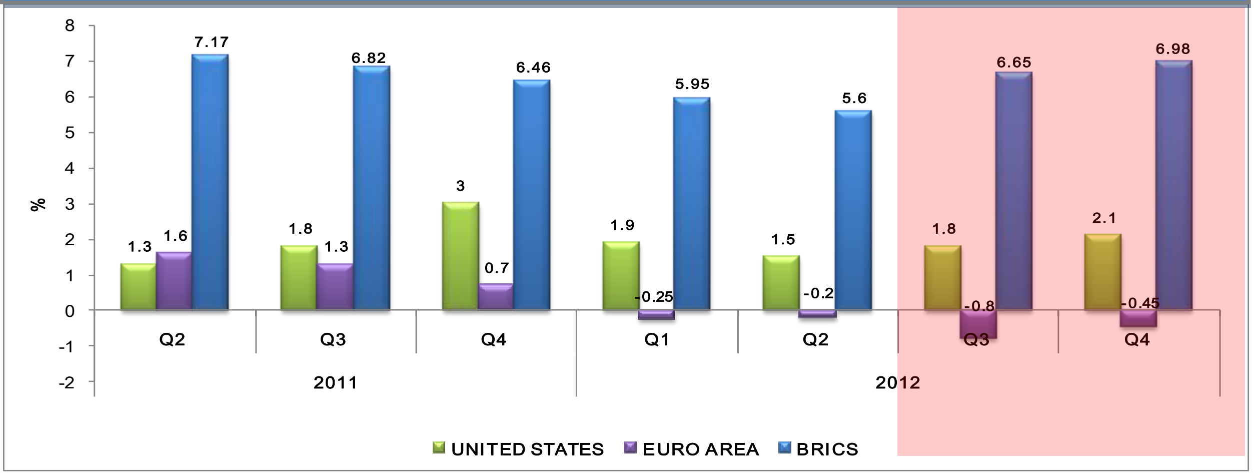
The World's largest economy, faced with series of headwinds from high gasoline prices to debt crisis in Europe and, lately, fears of U.S. government austerity has struggled to surpass a 2% growth since climbing out of recession in 2009. Washington's economy still recovering from the devastating global recession that began in 2008 is now faced with risks emanating from two potential policy-inflicted wounds: the so-called "fiscal cliff" and the debt ceiling. The combined effect of these could result in a huge fiscal contraction – about $700 billion from the U.S. economy in 2013 which is over 4% of GDP – that could further derail economic recovery.

Euro Area

Economic growth in the euro zone contracted 0.1% in Q3 2012, after shrinking 0.2% in the April-June period. The 17-nation bloc returned to recession as persistent debt crisis continue to hurt demand – last seen in recession in 2009, when the economy contracted for five consecutive quarters. GDP figures once again highlighted disparities within the euro area – while core economies, continue to grow, albeit at a slower pace, debt-laden economies remained mired in recession.

The modest expansions in Germany and France (both expanded 0.2% during the period) could not save the region from contraction. Sharp fall in activity in debt-ridden southern Europe economies weighed on total output. Portugal and Greece, who had sought external bailouts, continued to be in the negative territory. Portugal's GDP fell 0.8% from a quarter ago while Greece's dropped sharply by 7.2% year-on-year.

GDP Growth Rate & Forecasts – Regional Comparison



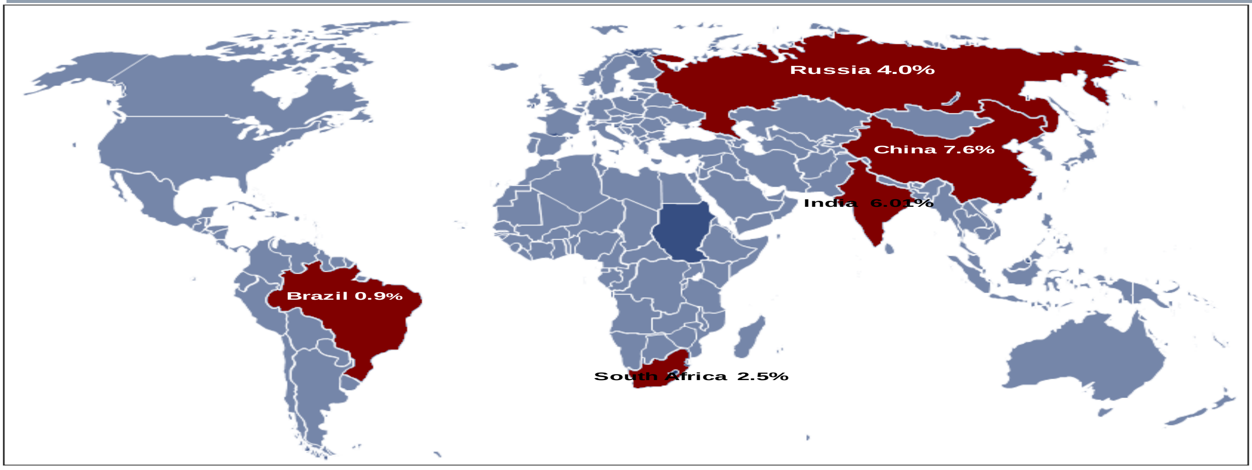
Source: Bloomberg & IMF

Jobless rate climbed to a record high of 11.6%, at end-Q3 2012 – the highest since 1995 as the lingering debt crisis eroded investor and business confidence. The fate of the euro zone remained unclear – may further weaken in Q4. With inflation looking far from alarming, more monetary stimulus may be required to put the Eurozone back on a path of growth. The European Commission expects the economy to contract 0.4% in 2012.

1.3 BRICS

Emerging economies, notably China, Russia, India Brazil and South Africa – which combine as the biggest marginal generators of global output recorded anemic growth. Output expansion in BRICS economies was 5.3% in Q3 2012 down from 5.6% reached in the corresponding quarter.

Q3 2012 GDP Growth: BRICS

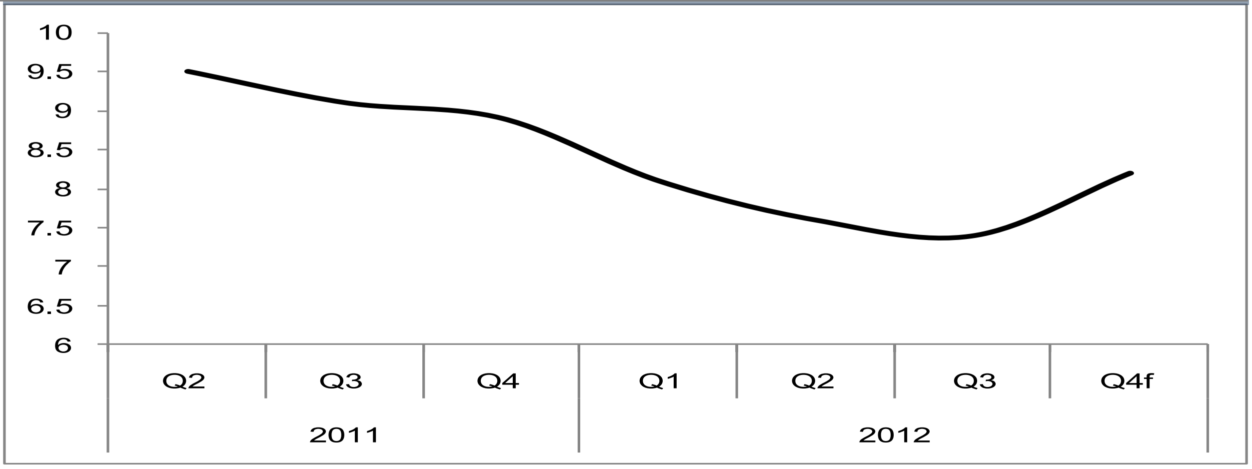


Source: Bloomberg

China

China's GDP grew 7.4% in Q3 2012 compared to 7.6% expansion in Q2. This is below government's full-year target of 7.5% and weakest in 3 years – extending the slowdown to seven quarters in succession. The ongoing crisis in Europe and weak global demand have impacted negatively on Beijing’s growth potential in recent times as domestic economy continued to face immense downward pressure. In an attempt to boost its slowing growth, the government has already made relatively modest efforts to encourage economic activities. The People's Bank of China twice lowered interest rates, and also cut the amount of money banks are required to hold in reserves. The rate cut is expected to help enhance the domestic economy following diminishing export demand from Europe.

GDP Growth Rate & Forecast – China



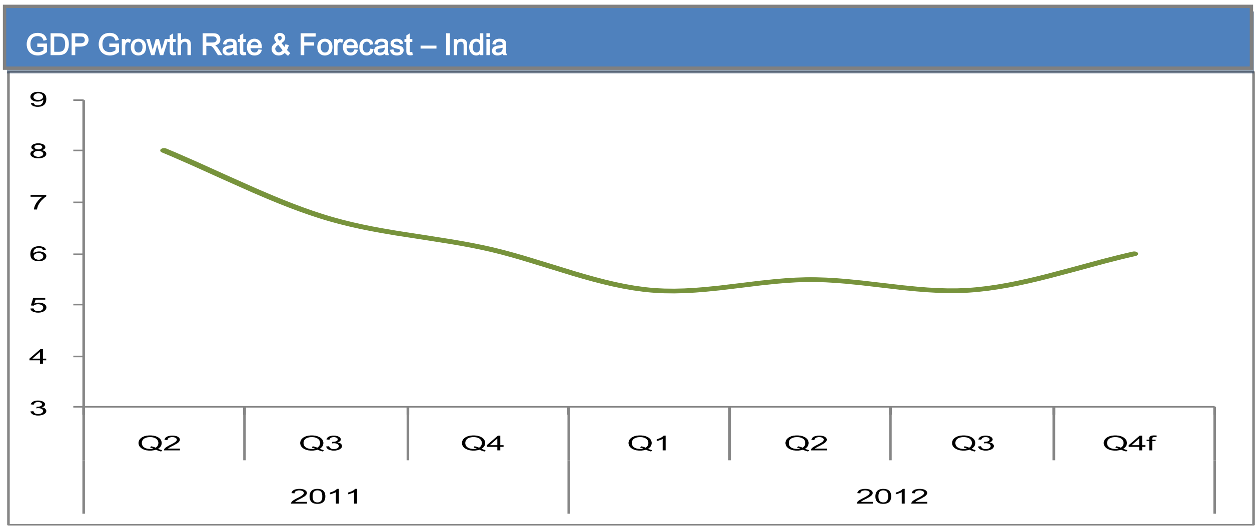
Source: Bloomberg

Economic growth and outlook may be on the verge of further weakening in Q4 on worsening euro zone debt crisis and "fiscal cliff" concerns in the United States. Challenged by a sluggish external market and global economic woes, China lowered its end-2012 growth target to 7.5% in early March, after its economy grew 9.2% year-on-year in 2011. The IMF expects the “so-called Dragon economy” to grow 7.8% in 2012 and 8.2% in 2013.

India

Global macroeconomic environment and inadequate government policies impacted on India’s decelerating growth. The economy has been badly hurt by a lack of market-friendly economic policies. Moreover, bureaucratic reluctance to make key decisions leading to a state of policy inertia also slowed-down economic activities. India’s economy grew by 5.3% in Q3, lower than the 5.5% recorded in Q2 – lowest rate in seven years.

Inflation remained persistent due to increase in energy and food prices. Interest rates are high, and borrowing costs remained elevated, resulting in a drag on business investment. However, the Reserve Bank of India’s (RBI’s) mid-quarter monetary policy review suggests that the effective lending rate remains lower than levels seen between 2003 and 2008 when India managed robust growth. This suggests that India’s high interest rates are not the only drag on the country’s GDP.

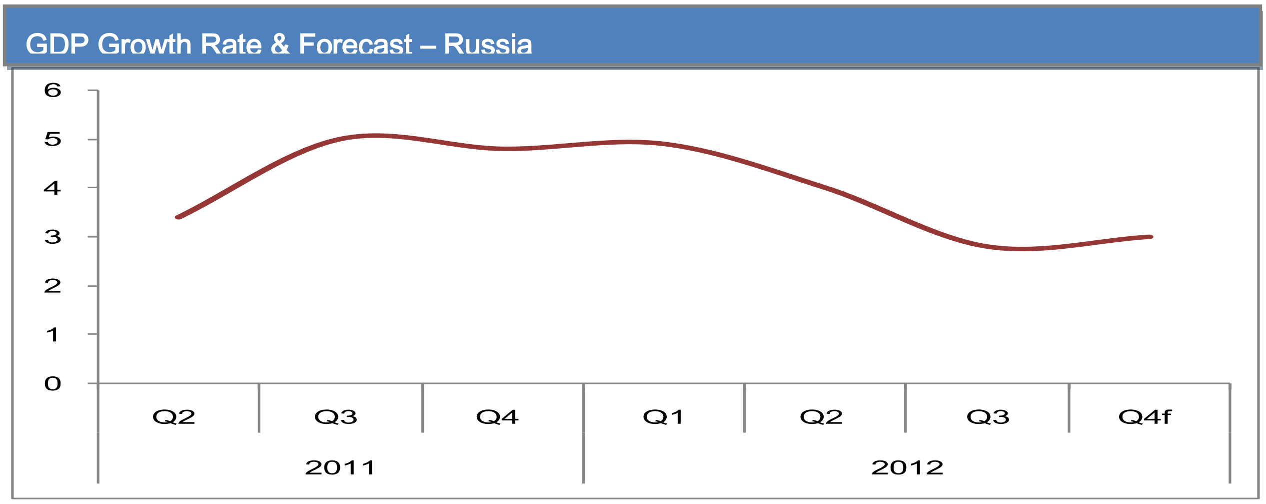


Source: Bloomberg & IMF

The outlook for India remained uncertain: For 2012 following continued investment slowdown, IMF projects real GDP growth at 6.1%. Improvements in external conditions and confidence – helped by a variety of reforms announced recently – are projected to raise real GDP growth to about 7.1% in 2013.

Russia

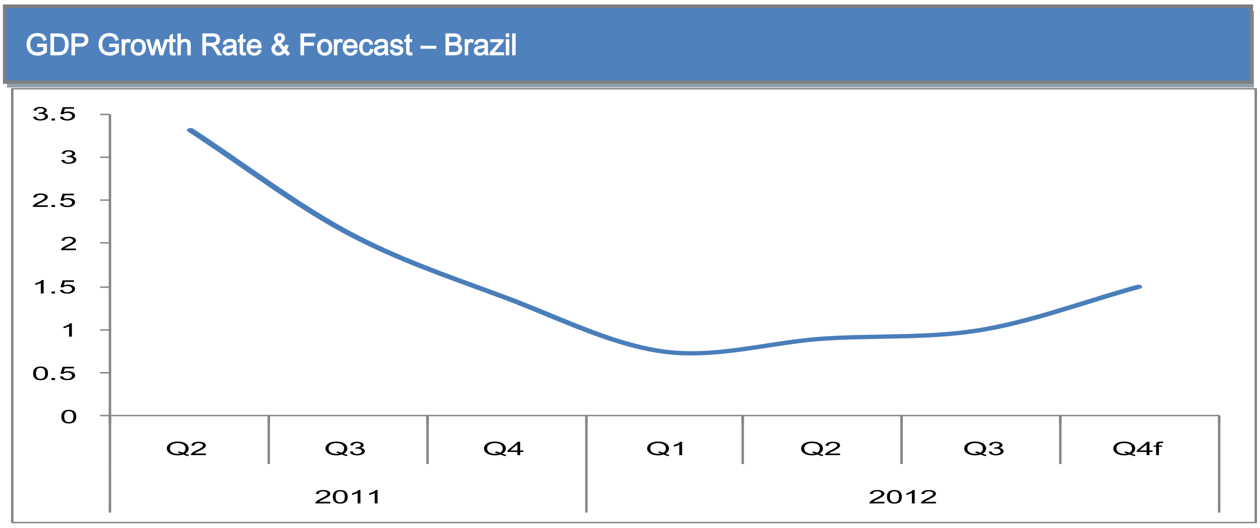
Russia`s economy expanded by an estimated 2.8% year-on-year in Q3 2012. It was up by 4.0% the previous quarter. The growth was mostly fueled by burgeoning domestic demand, which was up 4.4%. Exports were mostly supported by the oil and gas sector, while imports stagnated on a monthly basis. GDP growth stood at 3.8% for the first nine months of 2012, while full-year growth is projected at 3.5%.



Source: Bloomberg & IMF

Brazil

The Brazilian economy gained impetus in Q3 2012 but weaker activity in September suggests the path toward a full-fledged recovery remains rocky. GDP grew 1% in Q3 2012 due to the swerve in tax breaks. With momentum building from the consumer side (which will see a boost from seasonal purchases for Christmas), a pick up to 1.5% in Q4 is forecasted. A struggling local industry coupled with global slowdown has dragged down the Brazilian economy, which until recently was considered a growth-driver along with the likes of large emerging markets like China and Russia.



Source: Bloomberg & IMF

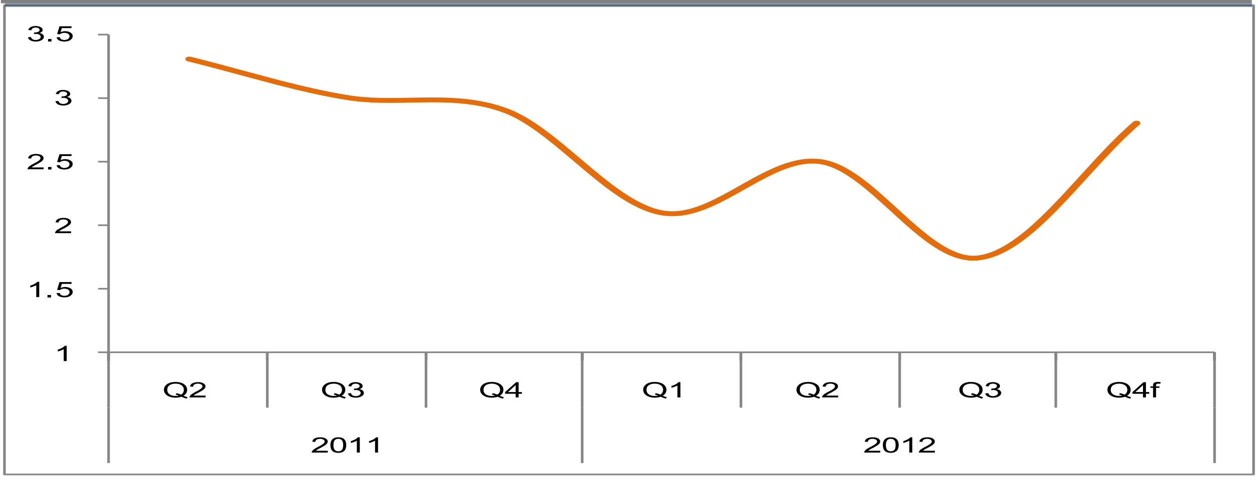
The drop in September economic index reflected the stop-start nature of the recovery in industrial production in response to tax breaks in the key automotive sector. A bounce is expected in October again, which will boost economic growth. GDP could expand more than 4% in 2013 if investment responds to tax benefits.

South Africa

The South African economy would continue its uneven recovery over the medium term, with real GDP growth forecast of 1.7% in Q3 2012. It expanded 3.2% in Q2. The main reason for the expected decline is likely to emanate from the mining and quarrying sector following the potential economy-wide impact of the work stoppages.

There is clear evidence of some grit in the wheels — inflation is on the rise, currently at 5.5% in September 2012 from 5.0% in August. The higher than expected inflation numbers and a weak rand could take the inflation trajectory higher into its November MPC meeting. We think that inflation will drift up and perhaps breach the upper limits of the target band by the middle of next year, mainly on higher fuel and food prices, before adjusting back towards 5.7% by end 2013.

GDP Growth Rate & Forecast – South Africa



Source: Bloomberg & IMF

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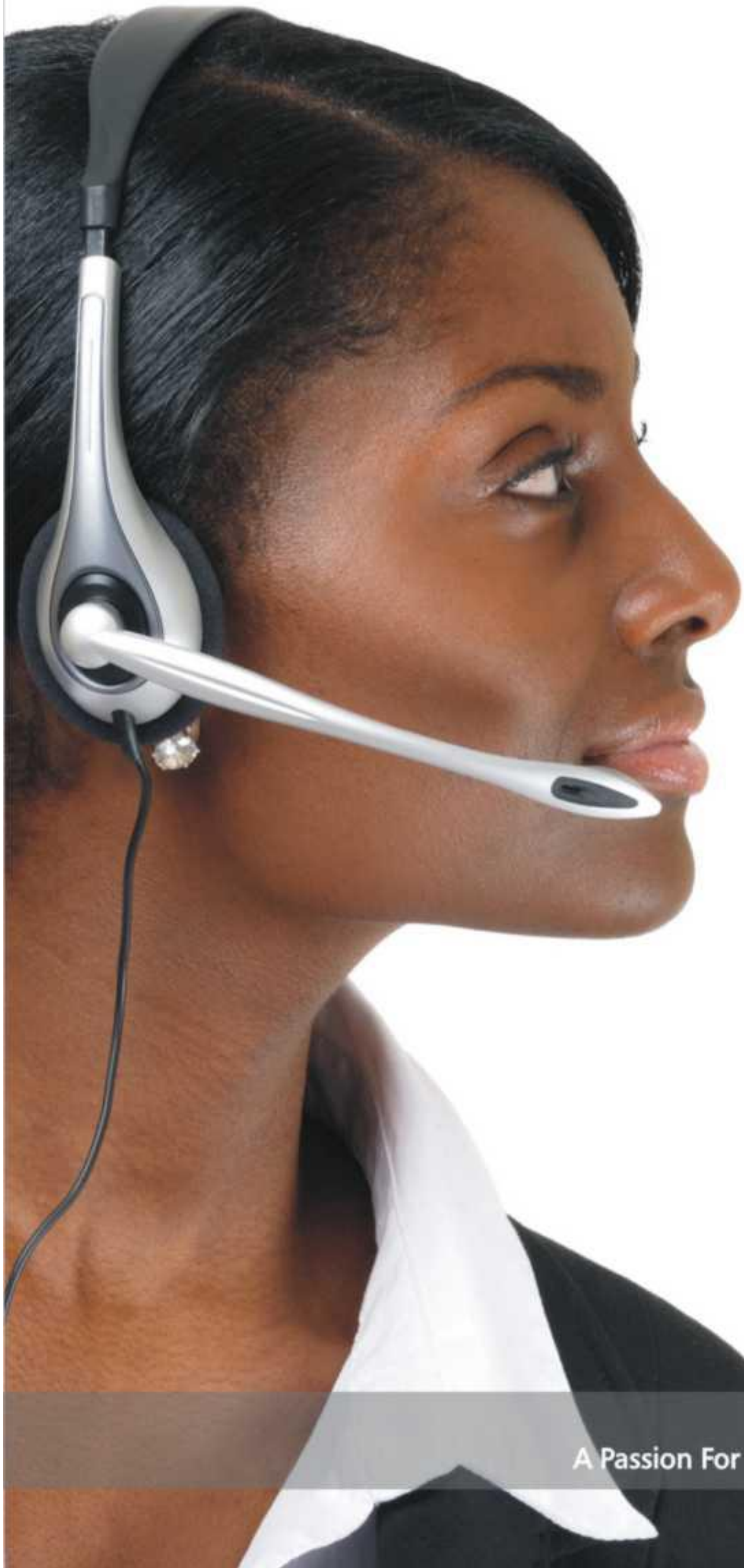

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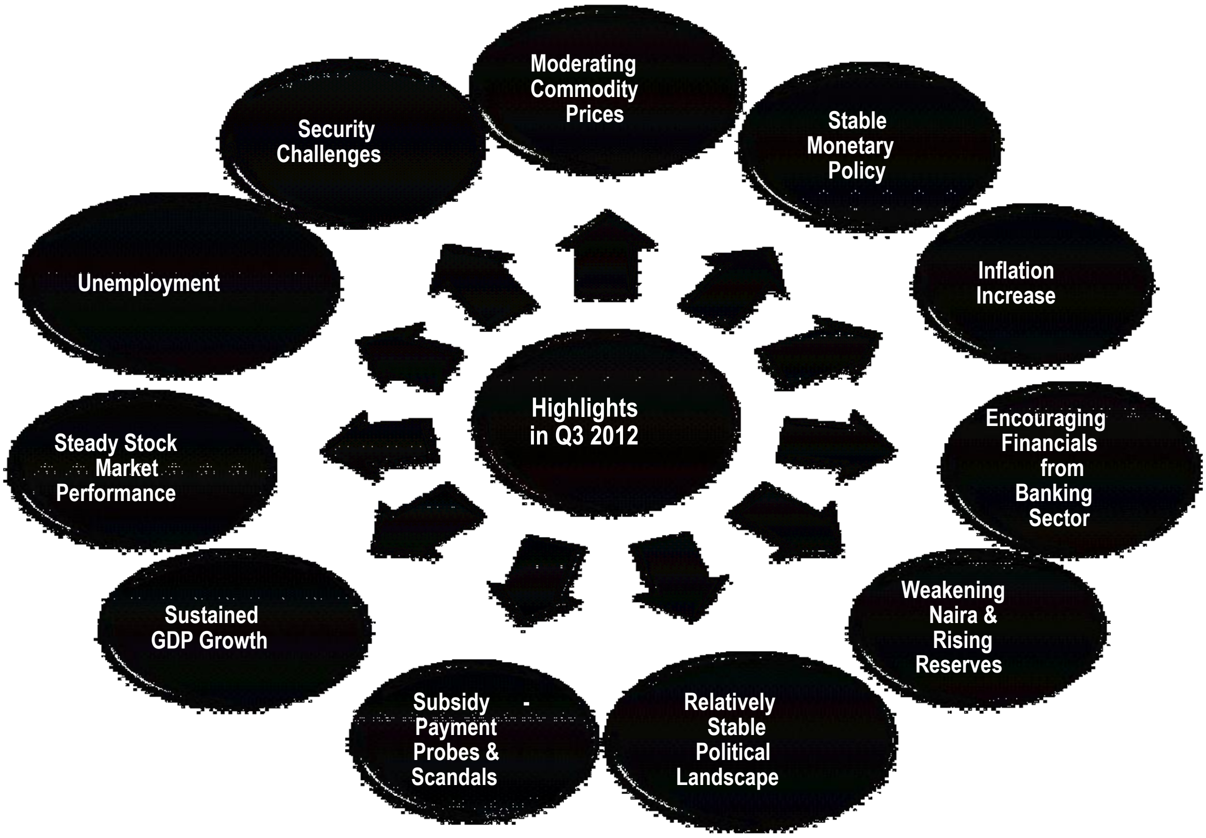
2.0 The Nigerian Economy

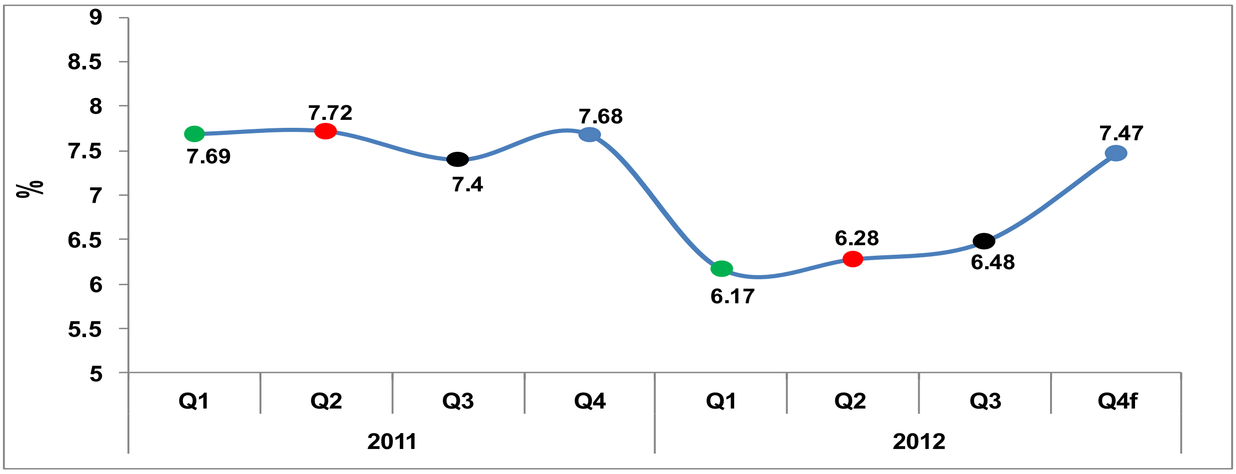
Below is a summary of other defining characteristics of the economy in Q3 2012.



2.1 GDP Growth

The economy grew by 6.48% in Q3 2012 compared to 7.37% expansion in the corresponding quarter of 2011 as growth from the non-oil sector continue to impact positively. In Q2, GDP expanded by 6.28% whilst the figure for Q1 was 6.17%. Growth in the review period was largely supported by expansion in the building & construction, cement, hotel, restaurant and electricity sectors. The 8-day strike in January following government's removal of fuel subsidy clawed back some gains in the non-oil sectors of the economy in 2012. Africa's second largest economy recently received a much needed boost as Standard and Poor's upgraded Nigeria's credit rating to BB- from a B+, while maintaining a stable outlook. The upgrade was premised on improved financial sector stability and optimism over ongoing policy reforms in the oil & gas, power and banking sectors of the economy.

GDP Growth Rate



Source: NBS

In Q4 2012, the nation's GDP is projected to see significant upswing to 7.47% while year-end GDP is forecast to hit 6.77% on the average from the earlier projection of 6.5%. This will be largely driven by increased consumption/spending (government and private). We expect robust output expansion in 2013, bolstered mostly by growing contributions from the non-oil sectors. Downside risks to growth remain spill-over effects of recession in the Eurozone as well as weak global growth. Rising security tension following ongoing sectarian crisis in the north may also slow growth prospects.

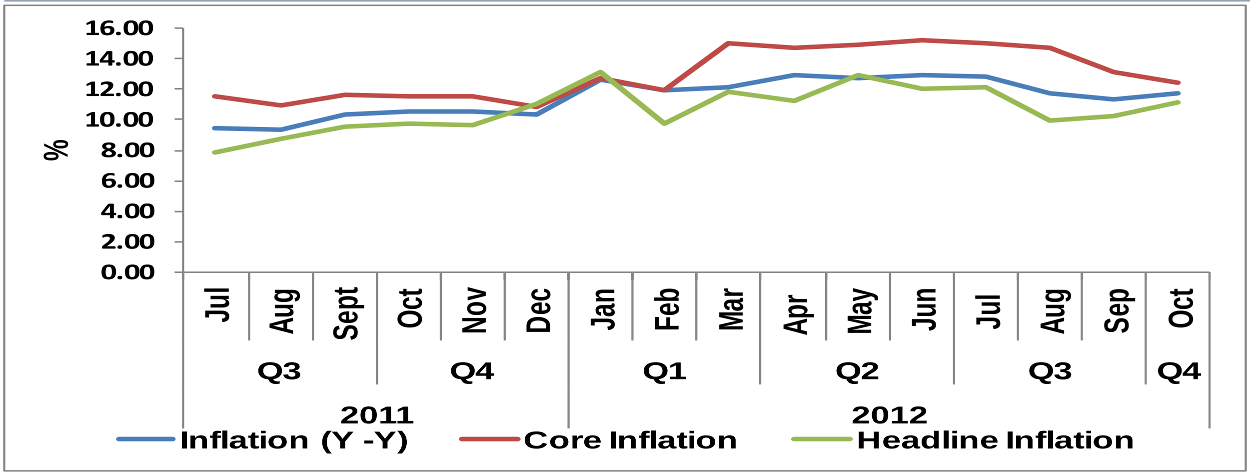
2.2 Inflation

September inflation figure was down 11.3% from 11.7% in August - the lowest level since year-start. The decline in general price level in the review period is attributed to base effects from core inflation components. The expected rise in food prices partly due to the flood which ravaged many parts considered as the nation's food basket was however restrained by the harvests in late July and August 2012.

Inflation has witnessed topsy-turvy movements in the year, achieving 12.90% in April and June 2012 (the highest since October 2010). In the three months to October, inflation recorded a U-shaped movement from 11.7% in August, to 11.3% in September and back to the August position.

Core inflation components, particularly higher transport costs, contributed more to inflation in the quarter. It fell from 12.80% to 11.30% between July and September. Headline inflation however, exhibited mild volatility. It rose to 10.20% in September from 9.90% in August. It was 12.10% in July. Increase in prices of some farm produce such as yam tubers, non-food items and abrupt rise in electricity tariff were headline inflation drivers.

Inflation (Year-on-Year)



Source: NBS

The maintenance of the MPR at 12% for the tenth consecutive month is to tame any inflation rise and maintain stability in the economy. For Q4 2012, inflation expectations remain high owing to increase in power tariffs and end-2012 budget spending.

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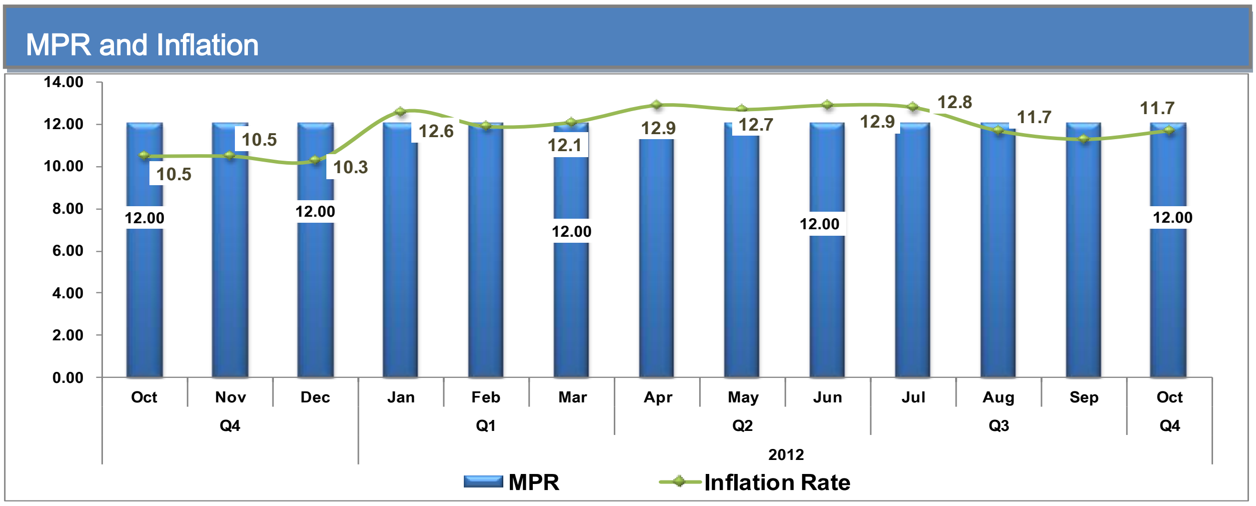
2.3 Monetary Policy

The Central Bank of Nigeria (CBN) maintained policy status quo in the year with the Monetary Policy Rate (MPR) retained at 12%. The objective was to promote price and exchange rate stability and sustain foreign portfolio inflows. The MPR has remained unchanged since October 2011 – when it was raised by 2.75 percentage points from 9.25%. The rate-hold at 12% has helped tame possible inflationary pressure. Still, inflation expectations remain high owing to flood in certain food basket states and year-end government spending. Inflation in October 2012 stood at 11.7% from 11.3% in September.



Source: NBS

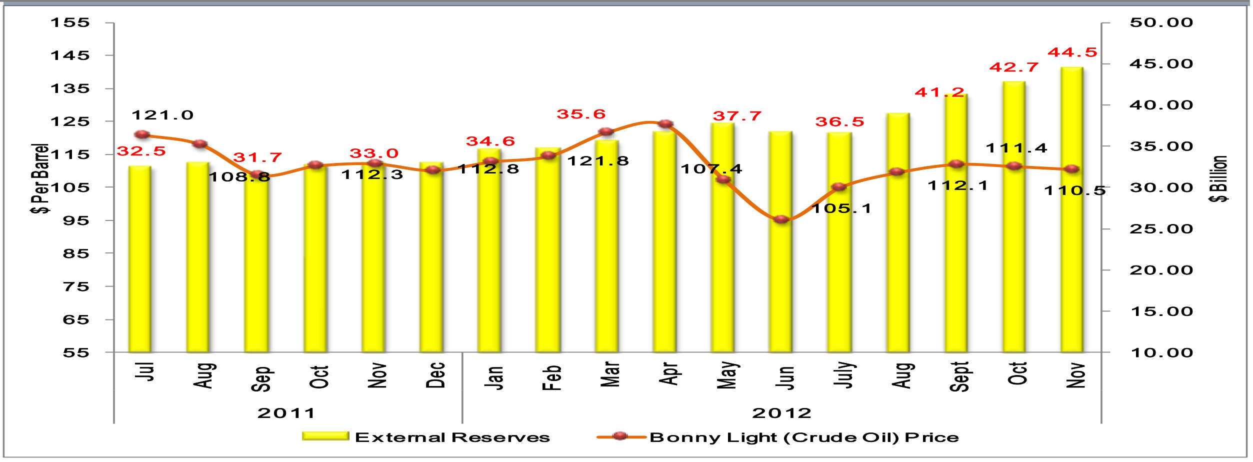
Monetary policy outlook for the rest of 2012 and into early 2013 is likely to focus on sustaining price stability. Also, ensuring a consistent positive monetary impact on GDP growth via investment and consumption adds vent to this position.

2.4 External Reserves

External reserves rose to US$41.18 billion in the quarter under review from US$36.72 billion in Q2 – an increase of 12.15% or US$4.46 billion. The accretion to the 'foreign currency pot' came from the rising price of international crude oil and low demand pressure at the weekly wholesale Dutch Auction System (wDAS). The quarter high figure of $41.18 billion as at end- Q3 2012 is the highest level attained since April, 14, 2010.

Nigeria's external reserves have remained resilient over $30 billion and currently above the $40 billion mark with downside risk to its growth on the rise – particularly from volatile oil price movements.

External Reserves & Bonny Light

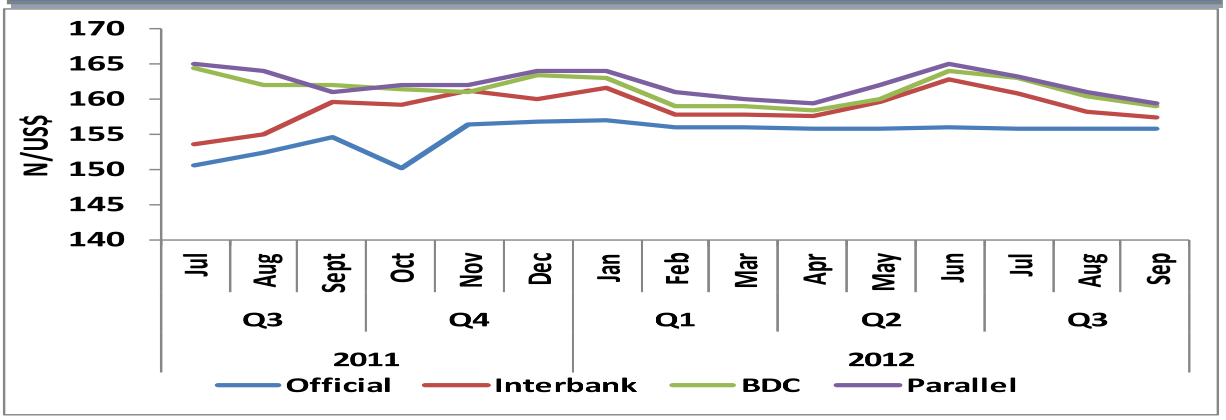


Source: CBN & FMDA

2.5 Exchange Rate

At the foreign exchange market, Naira remained within the indicative N155/$±3% target for the most of 2012. It marginally strengthened against the US Dollar at the CBN window and interbank market – helped by prudent monetary policy adopted by the banking regulator and low demand. Increased oil companies dollar sales and offshore investors participating in the fixed income market also buoyed dollar liquidity.

Exchange Rates



Source: CBN & FMDA

The Naira/Dollar exchange rate at the CBN window closed at N155.76/US$ on November 26, 2012 from year-start opening of N156.70/US$, a gain of 94 kobo. Interbank market rate movements were more volatile. The Naira exchanged at N157.55/US$ to the dollar as at November 26, 2012 from N160.66/US$ at the start of the year - a 1.59% gain. It reached a year-low of N163.28/US$ in July. The local currency may likely sustain recent stability levels on the strength of CBN resolve to keep the Naira at current band i.e. N155/US$ +/- 3%. However, a significant risk to exchange rate outlook stem from planned devaluation of the currency – 2013 Budget benchmark assumption for the Naira is put at N160/US$. Other likely factors to influence the Naira are: drop in external reserves due to sudden slump in crude oil prices or slowdown in production amid fragile pace of global economic recovery.

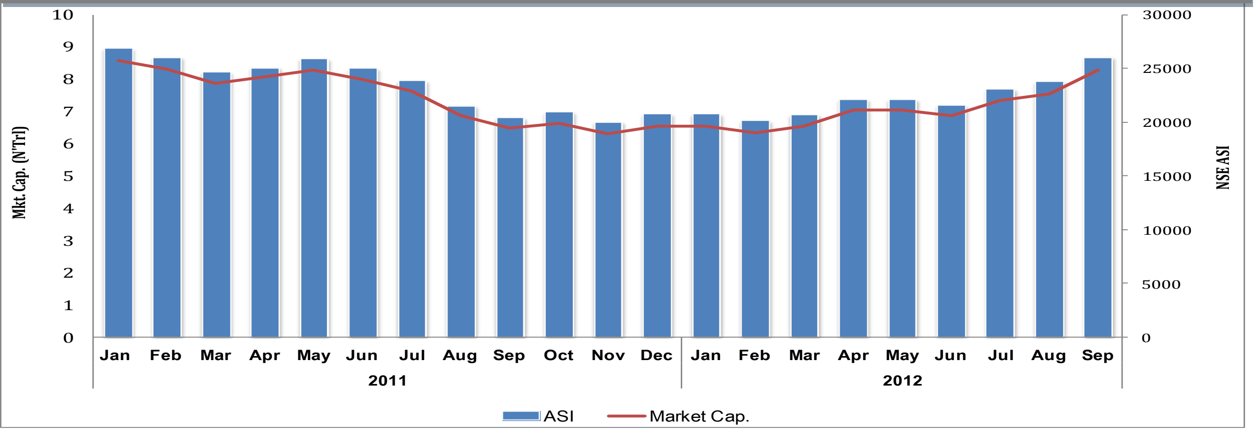
2.6 Stock Market

Equities recorded a year of bull dominance as large capitalised stocks rallied to record significant gains. This resulted in positive changes in market performance indicators. Continued share price appreciation triggered by impressive quarterly scorecards released by some blue-chip companies and attractive dividend payout kept market sentiments on the positive. The introduction of market makers also supported the up-tick in market indices

The Nigerian Stock Exchange All Share Index (NSE ASI) rose to 26,360.55 points as at November 26, 2012 from 20,730.63 points at year-start. Year-to-date return on the index stood at 27.16%. Similarly, market capitalization gained N1.86 trillion, ending at N8.39 trillion from N6.53 trillion in January.

At mid-quarter, the bears re-surfaced and dominated trading activities for a 2-week period due to unrelenting sell pressure witnessed on the bourse. The balance of demand and supply swung the way of the latter as profiteering ensued; forcing equity prices lower after market had recorded significant rallies at the first four weeks into the quarter. On the average market sentiments remained positive as investors appear hopeful about the robustness in performance indicators – which has witnessed weeks of sustained appreciation. The introduction of market makers also supported the up-tick in market indices

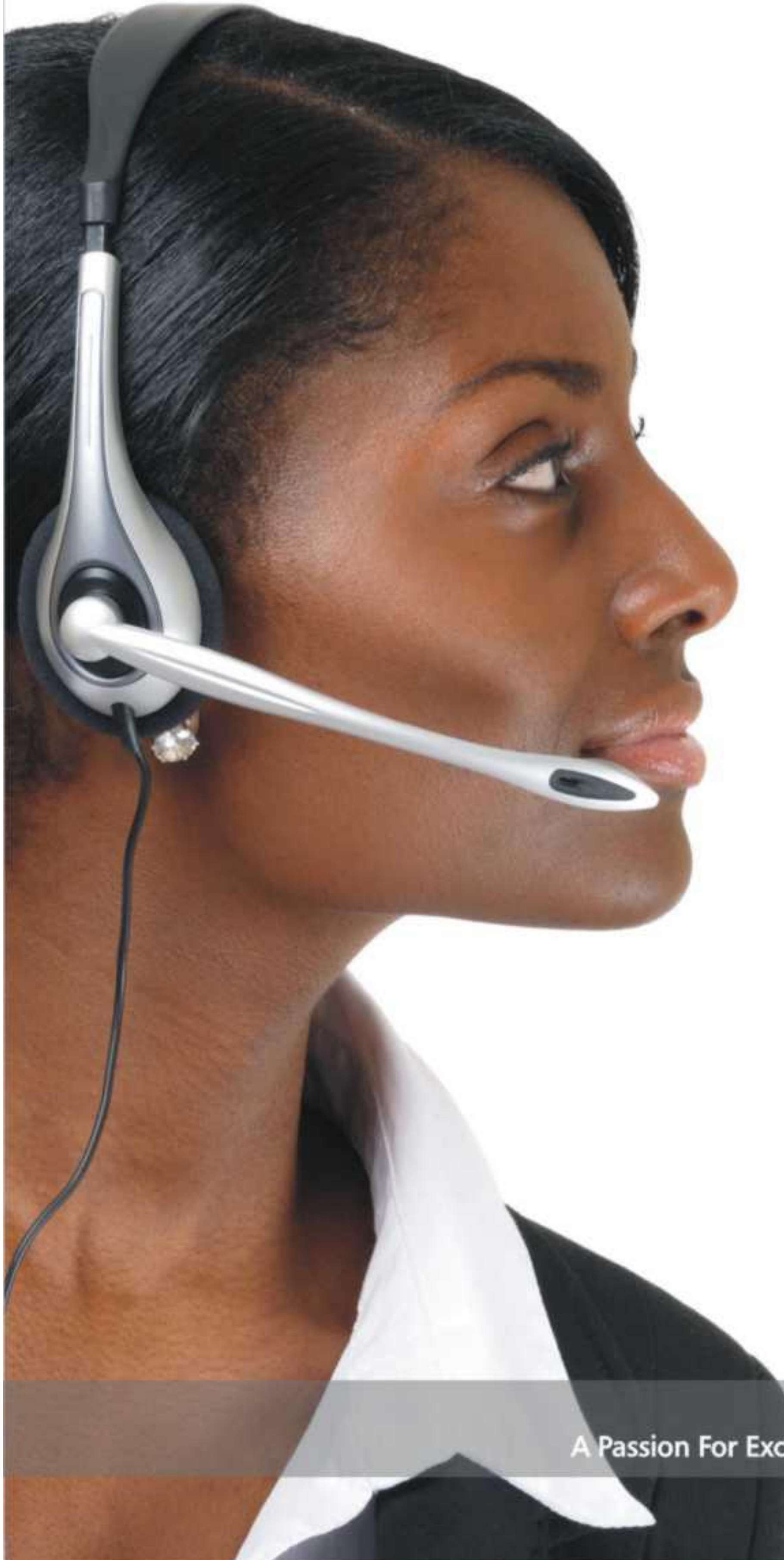
Stock Market



Source: NSE

We expect the market to maintain an upward trajectory in Q4 2012 and 2013. This view is premised on increased demand for equities as investors confidence grows. Also, the proposed listing of over 500 small and medium enterprises coupled with the introduction of National Investors Protection Fund (NIPF) amongst other reforms would further boost participation at the exchange and affect market position positively.

FEEDBACK OR CONCERNS?



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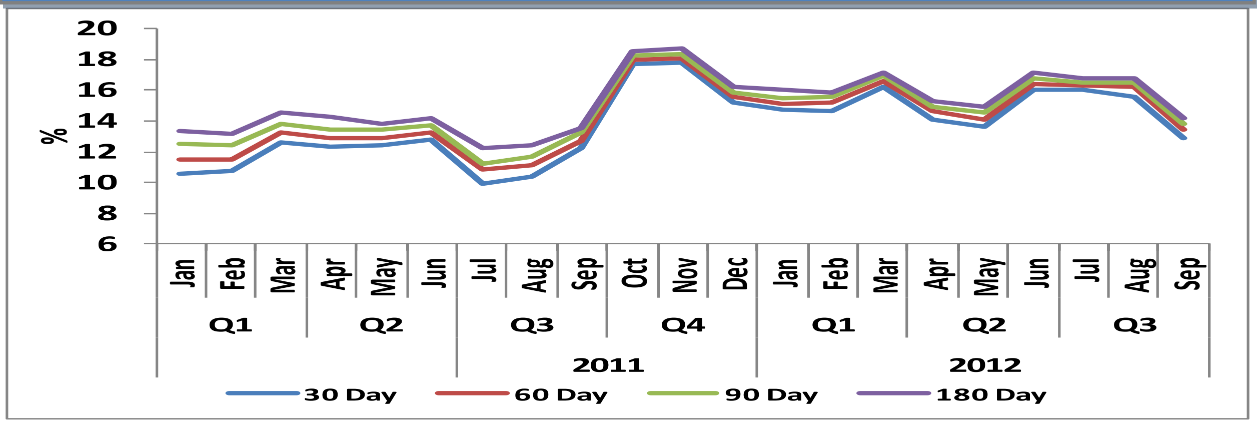
2.7 Interbank Interest Rates

On a quarterly comparison, lending rates at the interbank market trended southwards in Q3 2012. This is despite CBN's monetary tightening stance to manage inflation and stabilise exchange rate. Inflows of about N830 billion in statutory allocations and over N950 billion in maturing T-bills impacted rates during the period.

Consequently, overnight tenor descended to 10.55% from 15.40% the previous quarter while call rate closed at 10.66% from 15.08% during the same period. Similarly, just as the 30-day tenor declined to 12.92% from 16.08%, the 365-day also nosedived to 14.46%, from 17.25% the week before. The Open Buy Back (OBB) rate was up 29.69 percentage points to 10.30%. Decline in FX funding also supported the observed trend due to low dollar demand at the foreign exchange market. Cost of money spiked at mid-quarter to a record high of 30-40% range. The rate hike was triggered by monetary tightening measures adopted by the banking regulator to depress liquidity and stabilize exchange rate (increasing CRR to 12.00% and making the Standing Lending Facility (SLF) window and wDAS inaccessible same day). Rates are likely to trend northwards from current levels. This view is premised on anticipated outflows from fixed income instruments and increased FX funding due to expected high demand for the greenback in preparation for the festive season. Tightening stance to be adopted by CBN may also support expected trend.

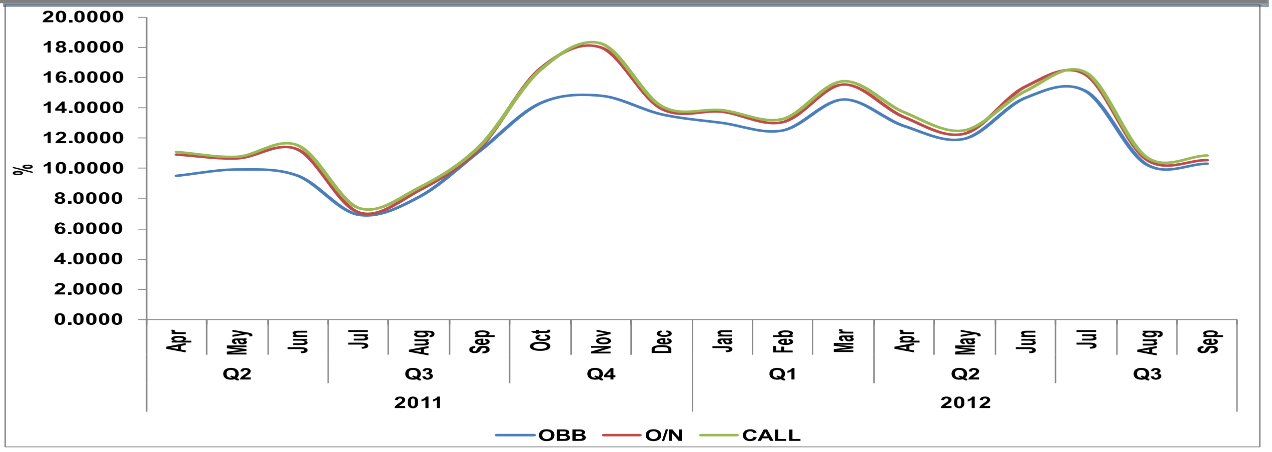
NIBOR



Source: FMDA

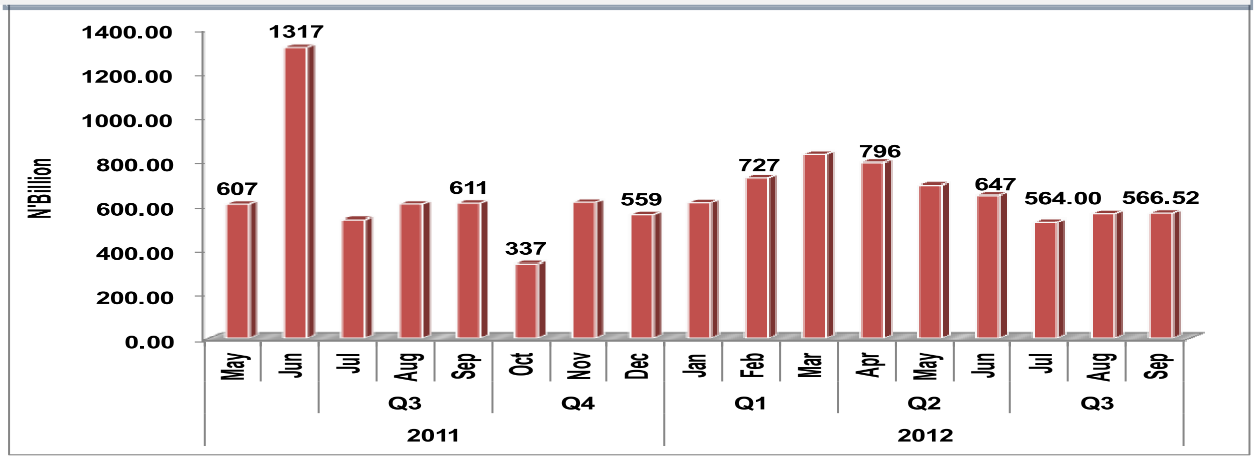
Monthly Statutory allocations by the Federation Account Allocation Committee (FAAC) and other systemic funding sources which include maturing treasury bills and bond payments boosted liquidity in the review period. Overall FAAC payments for Q3, 2012 stood at N1.656 trillion as against N2.136 trillion recorded in the previous quarter

NIBOR – OBB, Overnight $ Call Rates



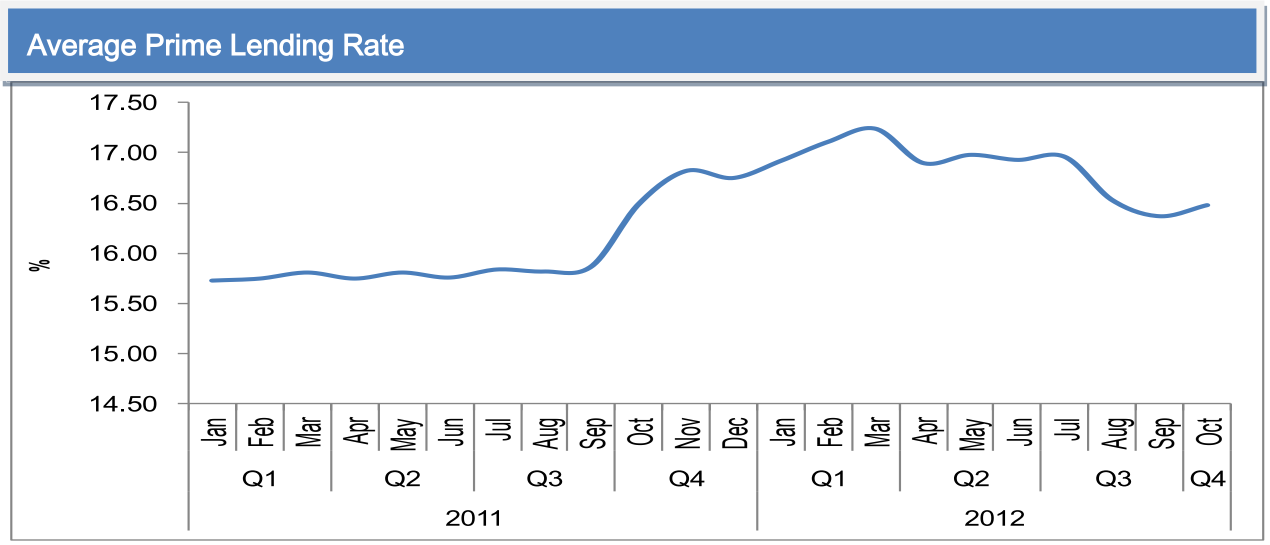
Source: FMDA

Government Statutory Disbursement



Source: Budget Office & FMDA

On average, prime lending rate of Deposit Money Banks (DMBs) slightly declined to 16.62% in Q3 2012 down from 16.94% in Q2. This may have been induced by relatively low cost of funds. In Q4 2012 lending rates may maintain an upward trajectory given CBN's tightening monetary policy.



Source: CBN

2.8 Financial Sector: Targeted Reforms to Strengthen the System

The banking system was relatively stable in Q3 2012 on the back of the reforms undertaken by the Central Bank of Nigeria (CBN). CBN issued guidelines on Sustainable Banking Principles. The guidelines were aimed at minimizing the negative impacts of financial institutions' (FIs) operations on the environment and local communities in which they operate. FIs are expected to integrate environmental and social policies into decision-making processes by developing a management approach that balances the environment and social (E & S) risks identified with opportunities to be exploited through their business activities. The Sustainable Banking Standards are targeted at the agriculture, power and oil & gas sectors.

Also in the review period, the cheque truncation clearing system officially commenced implementation in Lagos. This became effective on August 1, 2012 as clearing period was reduced to T+1 day (two working days) from T+2days (three working days). Cheque truncation entails conversion of physical cheque into electronic form for transmission to the paying bank, thereby eliminating cumbersome physical presentation of cheques and saving time and processing costs. This also ensured faster and more efficient clearing system in the financial industry.

In a separated development, the regulator directed banks and other financial institutions to upgrade their security systems to comply with the Payment Card Industry Data Security Standards (PCI-DSS) before end-2012. PCI-DSS is a set of standards and security due diligence practices issued by a global IT security regulatory body – setting the pace for security standards for safe handling of payment card data. The initiative would help deal with fraud risks associated with electronic payment channels. It entails managing and monitoring access to the electronic payment environment while locking down administrative privileges. The project is aimed at protecting sensitive data in the threat-growing environment, especially with the implementation of the cash-less initiative.

Introduction of a new bank note of N5000 denomination was another milestone reform in the financial sector as well as the economy at large. The proposed 12 currency structure which includes six coins and six bank notes was a child conceived from the need to discourage dollarization, reduce the volume of banknotes as well as the overall cost of currency management, amongst others. The new note which was supposed to go into circulation by early 2013 has been suspended due to public agitation – that it would enhance inflationary pressure and Naira devaluation.

3.0 Outlook for Q4 2012 and Beyond

- Monetary policy softening is unlikely given threats from increased government spending, falling crude oil prices and exchange rates volatility.
- Relatively high lending rate – in the region of 14% - may impair lending to private sector
- Inflation to remain on the polar region and higher on full deregulation of petroleum products
- To focus on liquidity tightening
- Increased government spending for end-2012
- Informed and planned regulatory reforms
- More initiative at reducing poverty and creating Jobs
- Growth concerns from world's richest economies and lingering debt crisis in the Eurozone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