EFInA Quarterly Review

(October to December 2009)

1 Nigerian Economy

1.1 Economic Growth

According to IMF, Nigeria's economic growth is expected to continue to decline in 2010. In its November edition of the monthly country report on Nigeria, the IMF stated that reduced financing (both foreign and domestic), constraints on public spending, and uncertainty about global and domestic prospects, will weigh on consumption and investment until well into 2010. IMF predicted that the medium term growth outlook depends on the success of efforts to realise the potential of oil and gas reserves and to address the infrastructure gap. Apart from security related issues keeping oil and gas below potential, the policy framework for the oil and gas sector will be critical. The rapid non-oil growth of recent years was sustained by increases in agricultural acreage and the take off in sectors such as telecommunications.

1.2 Inflation

According to the National Bureau of Statistics, Nigeria's consumer inflation fell to 12% year-on-year in December from 12.4% the previous month. Growth in food prices, which form the bulk of the inflation index basket, rose to 13.6% year-on-year from 13.5% in November.

1.3 Sovereign Debt

Following the crash of the equities market, investors have shifted their focus to Federal Government bonds. In 2009, investors staked over N18.2 trillion in the OTC market. This translated to an increase of 72% over the N10.2 trillion traded in 2008. Market analysts have said that the high patronage of bonds will continue in 2010 until the equities market stabilises and becomes attractive again.

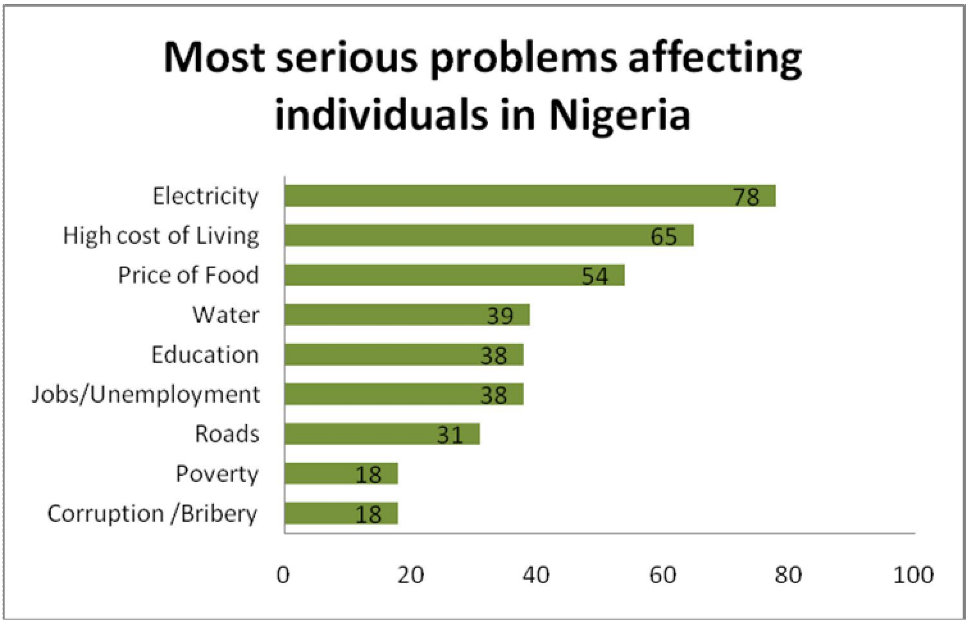
1.4 Minimum Wage

The current minimum wage is presently between N5,500 and N7,500 per month. The national minimum wage is inadequate to guarantee the basic day to day existence in a nation with a high cost of living. The situation is worsened by the poor state of socio-economic infrastructure. The people are made to provide for themselves such basic amenities like water and electricity that are ordinarily the statutory responsibility of the government. They also pay more for education and health facilities. The current minimum wage was enacted into law by the National Minimum Wage Bill 2000. In December 2008, the Nigerian Labour Congress submitted a proposal for an increase in the minimum monthly wage to N52,000.

The House of Representatives has already proposed a N30,000 minimum monthly wage structure and a bill to this effect, having passed through the second reading, has been sent to a House Committee preparatory to final passage. However, even with the current minimum wage, some state governments are still unable to cope, as they continue to owe their workers several months of salary arrears. Worse still, the global economic turndown has affected their revenue. Therefore, if the new minimum wage is "too high" it may be counter-productive, as many states may find it difficult to pay it. The incessant clamour for a minimum wage increase will be reduced with efficient governance that guarantees basic necessities such as education, health facilities, potable water, and electricity are available and affordable.

1.5 Key Challenges facing Nigerians

Poor power supply is the most serious challenge facing Nigerians. Over 78% of Nigerians consider the state of the country's power infrastructure as the major factor that has deprived them of the basic comforts of life. According to the National Electricity Regulatory Commission, Nigerians spend up to N769.4 billion annually in fuelling generators for electricity generation. The high cost of living, at 65% is their second most critical problem while 54% expressed the view that the increasing high prices of food items constitutes the third most pressing challenge facing Nigerians (see graph below). The opinion poll was conducted by Research and Marketing Services in the months of August and September 2009 in three major cities – Lagos, Port Harcourt and Abuja.



Source: Research and Marketing Services

2 Financial Sector

2.1 Corporate Bonds

The corporate bond market that used to be inactive is likely to become active in 2010 following plans by the government to give 10 years tax holiday to investors in corporate bonds. The need to increase capital for some of Nigeria's biggest banks and businesses is likely to create a buoyant local corporate bond market with issues worth more than $10 billion scheduled over the coming months. Nigeria is at the forefront of a continent-wide trend that includes recent issues by companies in Kenya and Egypt. Following the exodus of foreign investors during the global financial crisis, African nations are looking to stimulate local sources of funding. Liquid domestic bond markets might also lure back some foreigners as risk appetite returns.

Until recently, Nigerian corporate finance consisted of bank lending and short-term commercial paper, but in November, the government issued its inaugural 20-year bond, creating a long-term bench mark for issuers and paving the way for banks to make their move.

2.2 Banking

2.2.1 CBN Asset Management Company

In October, CBN said it hoped legislation for the Asset Management Company (AMC) to soak up bad loans will be in place by the end of the year. The AMC would be expected to acquire most of the toxic assets of banks and hold unto them until the assets regained their values. This would allow the banks resume their normal lending responsibilities. However some market analysts argue that the provision of N500 billion as bailout to the banks is inadequate given that their margin loan portfolio is estimated at about N1 trillion.

CBN hopes that when floated, the AMC will take over a good proportion of the banks' non-performing loans (toxic assets), allow the banks to clean their balance sheet and free up funds. The prevailing credit squeeze and worsening liquidity conditions in the economy will be helped by absorbing most of the impaired assets in the banking system. However, the Asset Management Company cannot be established by CBN without an enabling law being passed by both Houses of the National Assembly and assented to by the President.

2.2.2 Mergers & Acquisitions

According to the CBN Governor, a number of foreign banks, including four South African institutions and a British firm, have expressed interest in buying into Nigeria's troubled banks. The Governor said that the Central Bank is not inclined to have anyone attain more than a 20% market share in Nigeria's domestic banking sector. He didn't rule out a foreign bid for 100% of one of the troubled banks although he said a bid for a lesser stake would be viewed more favourably by the government. The Central Bank said that it had a number of options available to stabilize the bailed out banks. According to its head of corporate affairs, Mohammed Abdullahi, there are three options. "The first is for foreign investors coming to invest in the banks and buy them up. The second is to encourage acquisitions and mergers by strong local banks in Nigeria. The third option is for the government to acquire equity shares and then sell to the public at a later date, which is not nationalization" he said.

2.2.3 Regulation and Supervision

CBN and the Nigeria Deposit Insurance Corporation (NDIC) are to re-focus their regulation and supervision of the banking sector on prevention mechanisms. To achieve this, CBN will henceforth subject banks to consolidated supervision as well as tie incentive systems of bank executives and their remuneration to risk management capabilities. CBN will also be establishing Memorandum of Understanding with supervisors in countries where Nigerian banks currently operate to facilitate regular exchange of information. The preventive measure taken by NDIC against future bank crisis is the downward review of the Single Obligor Limits of banks, which is currently 20%. The NDIC MD, Mr Ogunleye noted that there was need for a risk based management approach as a way of mitigating risk in the sector, adding that the recent crisis in the industry serves as an eye opener to improving risk management. Ogunleye said it was imperative that each bank puts in place a binding contract for tenure of its CEO, adding that regulatory intervention in eight of the twenty four banks underscored the need for professionalism and sound ethical practices in the banking system. NDIC is strongly seeking a transformation in borrowing culture. Ogunleye said the creditor rights mechanism requires a drastic overhaul through appropriate legislation. The procedures for taking and enforcing collateral are inefficient as debtors easily frustrate creditor banks by abusing the judicial process.

2.2.4 Non Performing Loans

The Central Bank of Nigeria said in December that the total Non-Performing Loans (NPLs) of the eight banks that were found to be in grave situation after a Special Audit jointly conducted by the apex bank and NDIC was N1.52 trillion. The amount represented 60.75% of the industry's total NPLs. However, as at early November, the Economic and Financial Crimes Commission had recovered N171 billion from the eight banks whose management teams were sacked by the Central Bank.

2.2.5 Banking/Card Fraud

In December, Nigerians who claimed to be victims of authorised ATM withdrawals slammed a N50 billion suit against 24 banks in the country and Interswitch at the Federal High Court in Lagos. Also joined in the suit is the Central Bank of Nigeria. They plaintiffs also demanded N2.5 million being the joint value of the sum lost by them at four of the banks as well as N100 million as the cost of litigation and N10 million as cost of providing appropriate notice to the defendants and administering the class action for their benefit. Union Bank, UBA, Bank PHB and Intercontinental Bank were chosen as representatives of the 24 banks and any decision taken against the four banks affects the 24 banks, as well as the CBN and Interswitch. The plaintiffs also want a declaration that CBN failed in its regulatory duty to promote monetary stability and sound financial system in relation to the electronic money withdrawals.

2.3 Microfinance

In October, Mr. Kingsley Moghalu, Deputy Governor of CBN disclosed that the apex bank would soon embark on measures to reposition all the microfinance banks in the country to make them pay attention to their basic objectives. Mr. Moghalu stated that microfinance banks as presently constituted were not only too many; were over-concentrated in Lagos; have not served the purpose for which they were set up; a number of them have moved away from their vision by becoming "small banks". In his opinion "the way to do microfinance successfully is to target mostly groups not individuals and to target mostly but not exclusively women, because statistics have shown that women are much more reliable borrowers".

2.3.1 Micro Credit Fund

In December, CBN commenced actions to implement the Micro Credit Fund (MCF), 2 years after the programme was launched. The guidelines for the MCF were released in February 2008 and were to replace the Micro, Small and Medium Enterprises Equity Investment Scheme. A number of factors stalled the implementation of the programme, one of which according to a source at the CBN was the inability of the States to erect strong microfinance structures in their States. The other factor, said the CBN source was the global and local financial crisis that impaired the capacity of the planned contributors to continue to fund the programme. According to the operating guidelines for the MCF, all banks are to set aside 5% of their profit after tax to the MCF, while the states and local governments are to devote at least 1% of their annual budgets to the fund. From the seed capital of N20 billion, the MCF was projected to grow to N100 billion by 2010, which observers say is hardly attainable considering the circumstances surrounding the Fund at present.

2.4 Housing Finance

In October, the Federal Government gave its consent and approval to on-going negotiations between the Federal Mortgage Bank of Nigeria (FMBN) and the HSBC Bank to source U$1.5 billion, from the international capital market. Under this arrangement, loans will be bought off originators on recourse or non-recourse basis as a means to providing liquidity to the primary mortgage market. It will also introduce Mortgage and Title insurance as new products to mitigate mortgage-related risks, to ensure affordability and to expand mortgage financing to the non-salaried informal sector that has long been neglected due to the lack of property titles, formal income and non-affordability. It also seeks to encourage the formation of housing cooperatives as a major strategy to bridge the credit gap faced by disadvantaged economic groups and thereby expand the spread and depth of mortgage finance delivery to target groups like teachers, nurses, trade groups, etc.

3 Telecoms Sector

In November, the Nigerian Communications Commission (NCC) stated that Nigeria had attained 50% teledensity, accounting for over 70 million subscriber base. The country's 70 million telephone lines are adjudged the highest in Africa (total subscriber base of about 280 million). According to NCC:

- The Nigerian telecoms sector has gone from a teledensity of 0.4% in 2000 to 50% in September 2009
- Digital mobile network coverage of the 36 states of the federation
- Digital Mobile telephone has been the main driver of market growth in the Nigerian telecoms sector
- Total subscriber base is 70,337,600 as at the end of September 2009