ACCESS
ECONOMIC QUARTERLY
Q1 2014

SPEED | SERVICE | SECURITY

IN THIS EDITION

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1.0

GLOBAL ECONOMY

GLOBAL ECONOMY

It was a bumpy start for global economic growth in Q1 2014, as several economies were faced with significant hurdles. Emerging market (EM) currencies and equities came under renewed pressure – triggered by capital outflows, while bad winter weather severely distorted macro-economic data in the US. More recently, geopolitical risks intensified with political crisis in the Ukraine causing worries about energy supplies to Europe. Financial instability in China continues to bubble although the government finally announced long-awaited reforms intended to change the structure of the economy and allow growth to continue at a rapid pace.

During the period, a number of major emerging markets rode from breathe of optimism for growth outlook to one of uncertainty. It is evident that the world is once again at a turning point; especially as we consider the plight of commodity-exporting countries - likely end to the commodity price boom. Also, there were dents to the brand appeal of emerging markets following the U.S. Federal Reserve tapering of its stimulus programme and recovery in Europe.

IMF GDP Growth Rate and Projection

Source: NBS,IMF Bloomberg

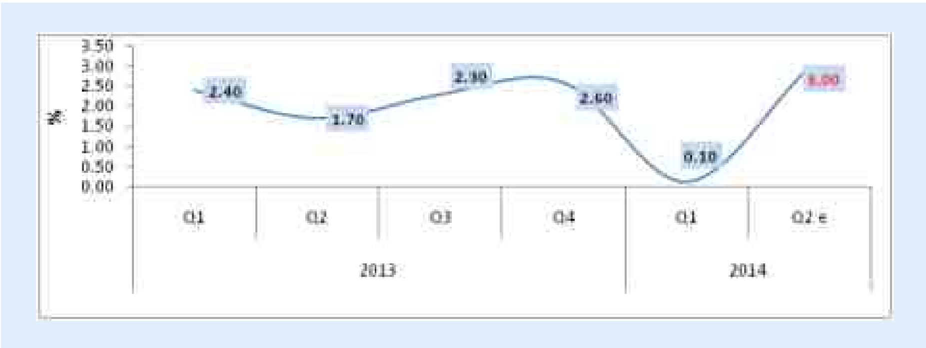
In Q2, our cautiously optimistic view of the global economy remains intact. In the developed nations, more fundamental drivers such as stimulus programme and stronger capital spending should support robust economic growth. The road ahead for EM is more uncertain. Although faster global growth will benefit EM exporters, the current developed market recovery is likely to be less import-intensive than in the past. Structural reforms must also be accelerated to counter declining productivity growth as well as the constricting impact of tightening financial conditions. The International Monetary Fund (IMF) estimated the global economy to grow 3.6% in 2014.

GLOBAL ECONOMY
UNITED STATES/EURO AREA

1.1 UNITED STATES

The U.S economy expanded 0.1% in Q1 2014 – the slowest since Q4 2012. The current GDP figure is a sharp pullback from the 2.6% growth recorded in Q4 2013. The slowdown is partly attributed to an unusually cold and disruptive winter experienced at the beginning of 2014. Tumbling export figures and declines in sectors ranging from business spending to home building may have also contributed to the slow growth. However, analysts are of the opinion that the slowdown in Q1 2014, is likely to be temporary as recent data suggests strength towards the tail end of the quarter.

U S GDP Growth (%)



Source: NBS,IMF Bloomberg

Meanwhile, the U.S Federal Reserve has cut down its monthly asset buying to $45 billion after successive monthly reduction of its stimulus program – the fourth straight $10billion cut, and more reductions in measured steps are likely. U.S economic growth fundamentals remain strong, unemployment continuing to fall, and inflation remaining stable. Unemployment rate in March 2014 was 6.7% attributed largely to stronger than expected job growth in the period. The world's largest economy is projected to grow by 3% in Q2 2014 and 2.8% in FY 2014

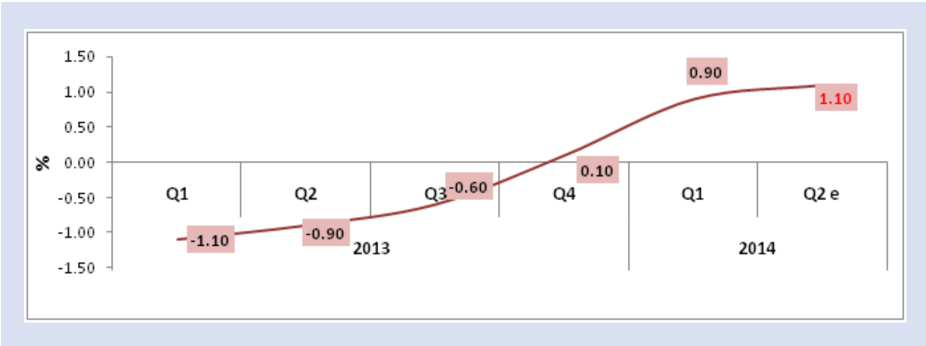
1.2 EURO AREA

In the period, the Eurozone economy seems to have remained on the positive transitory mood coming out of recession to recovery in 2013. The sustained economic growth recovery estimated at 0.9% in Q1 2014 can be attributable, in part, to less fiscal drag and offshoot from private domestic demand. Overall, economic recovery across countries in the 18-nation currency bloc was uneven with pockets of stronger growth as in case of Germany, interposing with stagnant or declining output elsewhere.

GLOBAL ECONOMY
UNITED STATES/EURO AREA

The Zone had experienced contraction in excess of 0.5% in 2013. The 17-member currency bloc is expected to expand by just 1.2% in 2014. At its Monetary Policy meeting (MPC), European Central Bank (ECB) left its interest rates unchanged at 0.25% following recent improvement and stability in macroeconomic conditions.

Euro Area GDP Growth (%)



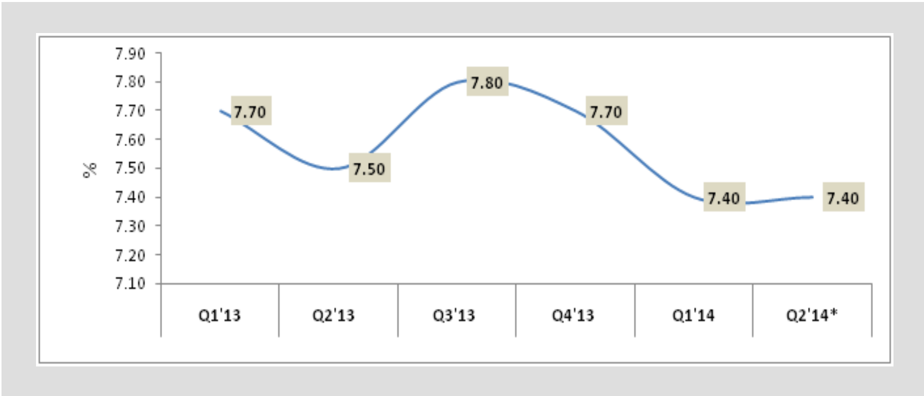
Source: Bloomberg & IMF

Eurozone inflation rate in January was 0.7%, down from 0.8% in December 2013. It was 0% in February 2014. Domestic demand in the euro area has finally stabilized and turned toward positive territory, with net exports also contributing to ending the recession. But high unemployment and debt, low investment, persistent output gaps, tight credit, and financial fragmentation in the euro area may continue to weigh on recovery. Other downside risks to economic recovery stems from incomplete reforms, external factors, and even lower inflation. Accommodative monetary policy, completion of financial sector reforms, and structural reforms are critical to economic growth sustainability in the economic hub.
China, the world's 2nd largest economy, grew by 7.4% in Q1 2014,

China

down from 7.7% recorded in the last three months of 2013. The economic slowdown attributable to the Lunar New Year Holidayis raised concerns about likely increase in unemployment rate and the potential impact on the global economy. China announced a raft of mini-stimulus measures aimed at supporting flagging growth such as increased spending on public infrastructure.

China GDP Growth (%)



Source:Bloomberg

The proposed stimulus measures will see existing tax breaks for small companies extended until the end of 2016 and the threshold for smaller companies to pay tax raised. The move is intended to boost weak economic data for subsequent quarters in 2014. China's trade surplus widened to $18.5billion in April 2014 from $7.7billion reported in March. The improved trade figure was due to growth in exports, up by 0.9% in April 2014, after falling 6.6% the previous month. The latest trade data has helped to calm fears about potential slowdown in China's economic growth outlook even as it has embarked on a number of stimulus measures. The economy is projected to grow by 7.5% in 2014.

India

India's economic growth slowed during the quarter. It is estimated to grow by 4.65% in Q1 2014 from 4.7%. In 2013, GDP growth dropped to 4.4% as against the 4.7% in 2012. The economy has been burdened with persistently high inflation, rising fiscal deficit, and excessive imbalance in its current account, exposing internal challenges that are affecting investors' confidence in the economy's ability to grow.

India GDP Growth (%)

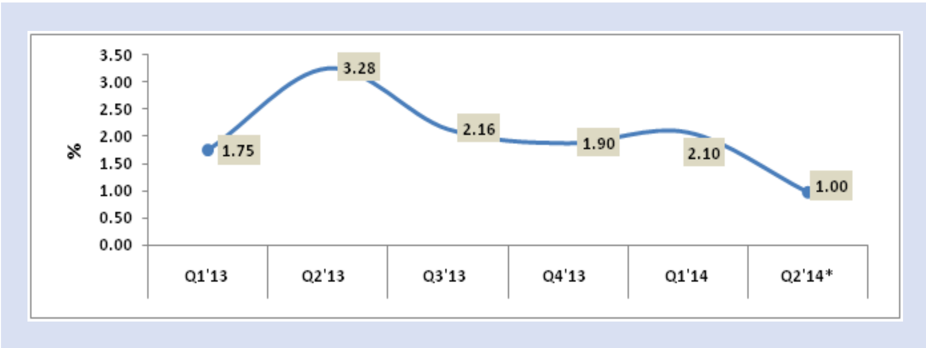
Source: Bloomberg & IMF

Also, political challenges are creating more confusion and scepticism, with just a few weeks away from the change in government via the world's largest general elections by size of voters. Global economic uncertainties are also aggravating India's internal troubles. India was among the worst hit of the emerging economies whose currency, stock, and bond markets experienced extreme volatility this past summer due to the US Federal Reserve's (Fed's) tapering signal. Its currency depreciated more than 20%, while stock markets fell above 10%due to heavy capital outflows. India needs to build on its strengths—a young and diverse population, a healthy financial and banking sector and relatively strong finances—to help it weather the current crisis. The economy is projected to grow 5.4% in 2014.

Brazil

Inflation rate in Brazil in the first quarter of the year stood at 6.15% and GDP was at 2.1% from 1.9% posted the quarter before. Moody's cutting Brazil's sovereign rating from positive to stable reflected the country's flagging economic situation. The slowdown in output expansion stemmed from declining exports, domestic consumption and investments exacerbated by deteriorating public finances. Street protests over economic issues such as foreign investments and public funding have been commonplace.

. Brazil GDP Growth (%)



Source: Bloomberg & IMF

Russia

In Q1 2014, Russia's gross domestic product (GDP) advanced 0.9% - the weakest since Q1 2013 and down from a 1.6% recorded in Q4 2013. The deceleration in GDP growth rate was largely due to decline in investment and industrial activities following the standoff against the U.S. and its allies over Ukraine. Investment weakness arose from a combination of much higher borrowing costs and deterioration in political and economic outlook. Increased tension with Ukraine and fall in oil revenues impacted GDP growth rate. Capital outflows in the period were the largest since the last three months of 2008 triggered by credit squeeze. Net outflows totalled $50.6billion, more than double the $17.8billion that left in the previous quarter, according to the central bank.

Russia GDP Growth (%)

Source: Bloomberg & IMF

GLOBAL ECONOMY

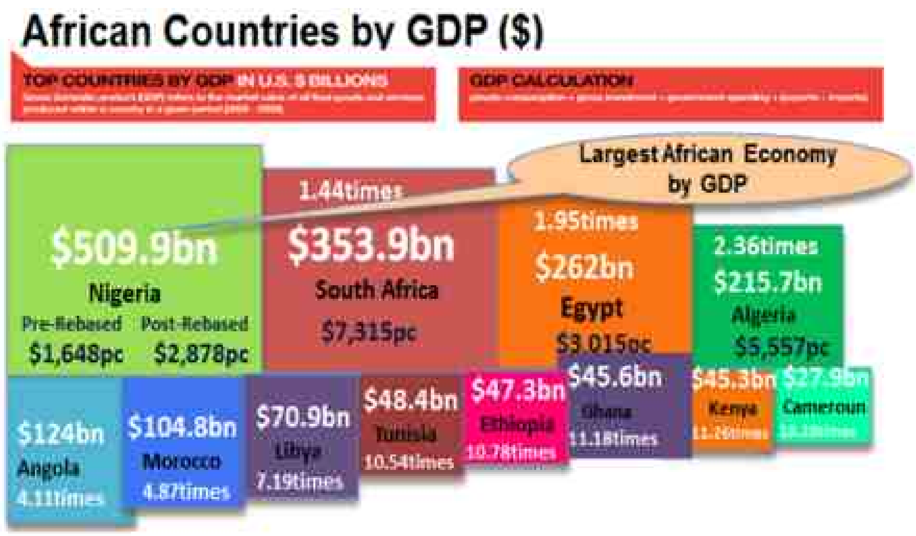
The current GDP growth rate figure laid to rest any lingering beliefs that Russia's economy will prove to be relatively resilient in the face of the deepening crisis in Ukraine. The economy is likely to be faced with technical recession, defined as two consecutive quarters of declining output compared with the previous three-month period. The economy is projected to grow 0.5% in Q2 and 1% FY 2014.

2.0

THE NIGERIAN ECONOMY

THE NIGERIAN ECONOMY

Nigeria carried out a rebasing exercise which saw its gross domestic product (GDP) for 2013 rise to about $509.9billion, 89% higher than the previous estimate of $269billion. Rebasing is a price phenomenon which simply estimates a nation's economic size using current price – in the case of Nigeria, prices for estimating GDP were as at 1990 but now 2010. The new nominal GDP figures places Nigeria as Africa's biggest economy – displacing South Africa with a GDP of $353.9billion, 2013 estimate. Also, as the 26th largest economy in the world, Nigeria is placed ahead of countries like Austria with $394.7billion, Venezuela - $381.26billion, Columbia - $369.6billion, Thailand - $365.96billion and Denmark - $314.88billion. The GDP rebasing exercise was commended by international agencies like the International Monetary Fund (IMF), World Bank and African Development Bank (AfDB), among others.



Fitch Ratings re-affirmed Nigeria's long-term foreign and local currency debt repayment default (IDR) at 'BB-' and 'BB', respectively. Also, stable outlook of the Nigerian economy was adopted on chances of defaulting in debt repayment coming on the heels of Nigeria's GDP rebasing and after S & P had revised downward the nation's credit outlook to negative. The GDP uplift has a mixed impact on key sovereign rating metrics, and therefore no automatic implications for Nigeria's BB-/Stable sovereign rating. While the 2013 per capita GDP rises by 89% to $2,900 on Fitch's calculations, it remained below both the 'BB' and 'B' category peer group medians of $4,528 and $3,841, respectively.

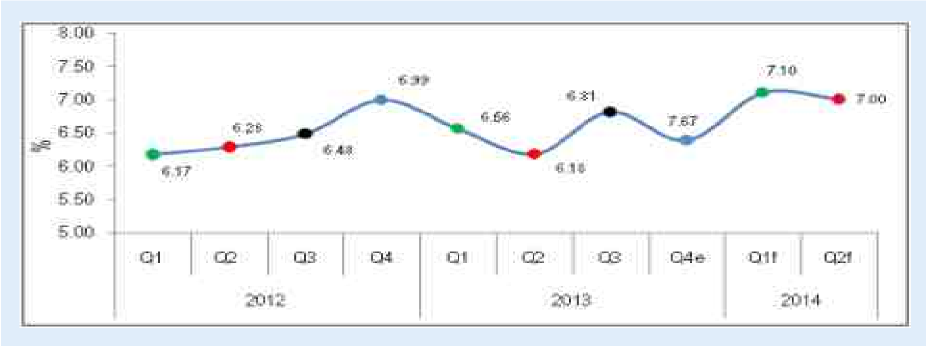
Below is a summary of defining issues in the economy in Q1 2014 – ASnapshot

The security situation remained a cause for concern in the review period. Unrests in some Northern States continued to impact negatively on economic activities. A significant chunk of the proposed 2014 Budget is to be spent on Defense and Security – N340.33billion – a measure the Government hopes would address the security challenges facing the nation.

2.1 GDP GROWTH

Economic growth, in terms of the gross domestic product (GDP),is projected to grow by 7.1% in Q1 2014. This is slightly lower than forecast of 7.67% in the final quarter of 2013, figures according to the National Bureau of Statistics show. The marginal decline may be attributed to both domestic and global factors. From the domestic scene, the small drop in oil receipts due to oil theft – reducing daily crude oil production, impacted negatively on output.We expect robust output expansion in 2014, bolstered mostly by growing contributions from the non-oil sectors. Downside risks to growth remain rising security tension in the North and falling oil prices on growing supply stockpile coming largely from the U.S.

GDP Growth rate: NBS



Source: NBS

2.2 MONETARY POLICY

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) has so far achieved stability in monetary policy through its primary anchor rate – Monetary Policy Rate (MPR). This posture was consistent with the need to maintain price stability and sustain foreign investment inflows. At the only meetings held on March 24–25, 2014, the CBN increased the cash reserve requirement (CRR) on private sector deposits in commercial banks to 15% from 12% - it has been at 12% since October 2013.

The benchmark monetary policy rate (MPR) and the cash reserve ratio (CRR) on public sector funds were retained at 12% and 75%, respectively. The decision to maintain MPR at 12% was premised on the argument that an increase is likely to impact access to credit and domestic growth negatively while increase in CRR was hinged on combating resurgent core inflation. While inflation rate dropped to 7.7% in February 2014 from 8%recorded in the previous month, core inflation inched up to 7.2% from 6.6%. CBN has resolved to sustain the single-digit inflation by targeting 6% inflation rate before end-2015.

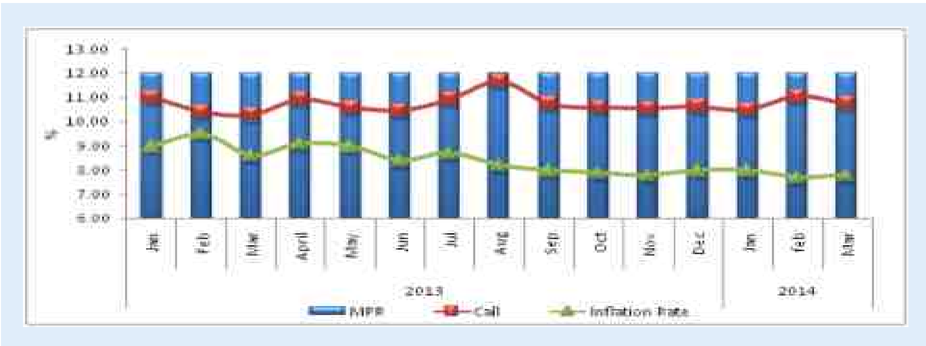
The open market operations (OMOs) remained the active channel for monetary management in Q1 2014. This helped to mop up excess liquidity from the system, with the CBN consistently selling Treasury bills to banks.

Source: NBS

In Q2 2014, the CBN would likely continue to favour a stable monetary policy environment by retaining its tightening posture. This is premised on the following reasons:

- Fed to continue winding down on its stimulus programme – monthly bond buying now at $45billion from $85billion.
- Increased government spending – the 2014 budget of N4.9trillion was just approved by the national assembly. 2013 budget was N4.67trillion.
- Pre-election activities spending
- Weakening Naira – capital repatriation by offshore investors very likely due to strengthening recovery in the U.S.
- Falling reserves – weakening support for Naira exchange rate.

MPR and Inflation



Source :CBN & NBS

2.3 INFLATION

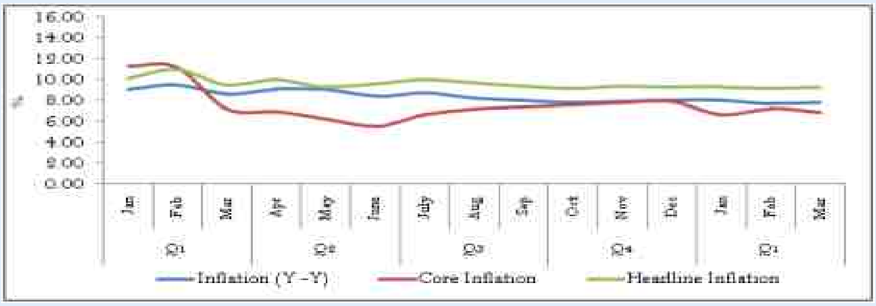
March inflation figure was down to 7.8% (5-year low) from 8% in January 2014. The Consumer Price Index (CPI) has remained in single digit since year-start 2013, when it achieved at 9%. The decline is primarily attributed to base effects as the broad economy recorded higher price levels in the corresponding period of 2013 against the backdrop of relative good harvest.

Prices edged lower on all fronts year-on-year even as core and headline inflation both recorded decline. The headline index dropped to 6.8% in March 2014 from 7.2% recorded in the corresponding month in 2013. It was 8% in January 2014. Core inflation also dropped to 9.2% in March 2014 from 9.5% in the same period last year.

Current inflation figure is in line with CBN target of single digit inflation and it's likely to maintain its stability in Q2 2014.

THE NIGERIAN ECONOMY

Inflation



Source: NBS

2.4 EXTERNAL RESERVES

The nation's reserve witnessed significant decline in Q1 2014 dropping by about $6billion or 13.25% to $37.83billion at end Q1. It was at $43.61billion at the beginning of the year. Overall, external reserve has fallen by 22% in 12months, a drop from $48.57billion a year ago. The falling reserve is partly due to CBN's regular draw down on the foreign currency pot to meet high dollar demand at the rDAS. Also, drop in oil receipts due to low crude oil price and production may have impacted negatively on reserve accretion. Crude oil prices trended downwards in the period by 3.62% to close at $108.per barrel while oil production was estimated at 1.93mbpd (on average), a 15.72% decline from 2.29mbpd reported the previous quarter.

External Reserves & Bonny Light

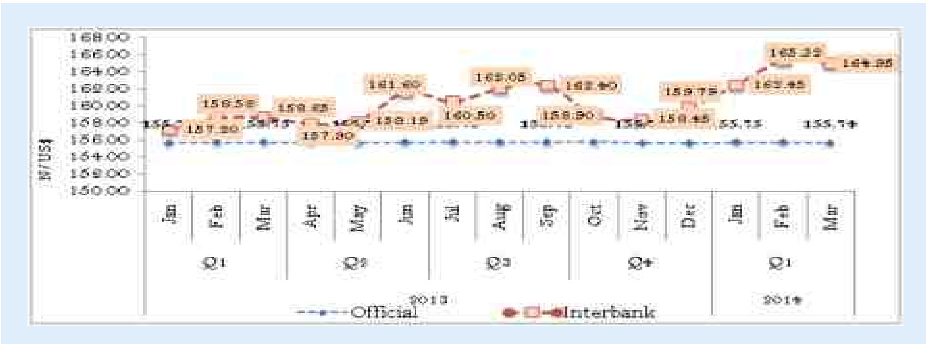
Source :CBN & NBS

2.5 EXCHANGE RATES

There were slight fluctuations or volatility on the Naira against the US Dollar in Q1 2014. However, the quarter ended with the Naira weakening against the US Dollar at the interbank market largely due to increased dollar demand. Massive foreign investors sell-off on investment holdings in the fixed income market in reaction to perceived financial markets instability – triggered by capital repatriation following US Fed's tapering of its stimulus programme. Concerns over the suspension of the erstwhile CBN Governor, Sanusi Lamido Sanusi, may have also contributed to the depreciation of the Naira value.

At the interbank market, the naira fell sharply to N170/US$ on February 20, 2014 at the interbank market, after a temporary market hold back on news of Sanusi's suspension. It later closed the Quarter at N165.04/US$ from N162.33/US$ a quarter earlier. Direct CBN intervention coupled with dollar sales from oil companies slowed the rate of depreciation but didn't stop the Naira from weakening against the dollar due to excess demand. At the CBN window, the local unit closed at N155.74/US$ the same it closed at the end of the last quarter.

Exchange Rate



Source :CBN & FMDA

At the regular bi-weekly auction for the period, CBN sold a total of $8.879billion – 23.53% higher compared to the $6.790billion recorded in Q4 2013. Going into the next quarter, there are high expectations for continued Naira stability at the official window and slight appreciation at the interbank market due to CBN's policies and more dollar sales by oil companies and inflows. Risk to outlook for the local currency stemmed from the continuing tapering of the Fed stimulus programme – offshore investors considering investment option in advanced economies asset. Expectations of falling reserves from drop in global crude oil prices also to pose downside risks to the local currency.

2.6 STOCK MARKET

The equities market closed on a negative note in Q1 2014, as market capitalization (MC) recorded a loss of 5.09% or N779.95billion to close at N12.45trillion from N13.23trillionat year-start. The decline in market size can be attributed largely to losses recorded in the share prices of some highly capitalized stocks especially in the Financial and Consumer Goods sectors. Stocks offload, predominantly in these sectors, impacted negatively on performance indicators.

The tight market liquidity observed in the period may have also impacted investor buying power. Consequently, the Nigerian Stock Exchange All Share Index (NSE ASI) dropped by 6.25% to 38,748.01points. Activity level moved in tandem with market performance as the volume of trades dropped 12.04% to 22.35billion units valued at N262.29billion, though an increase of 10.67% from N237billion the previous quarter. In addition, the number of trades increased 8.86% to 318,149deals.

The Nigerian Stock Market All Share Index & Market Capitalisation

Source :NSE

Other performance-deflators were the instability though short-lived in the financial sector – triggered by the suspension of the CBN governor and impact of cash reserve ratio (CRR) on liquidity. CRR was raised to 75% from 50% for public sector fund and 15% from 12% private sector. Profit taking activities by short-term investors leveraging on capital gains (in early part of the quarter)to recoup investments and the lower than expected FY 2013 financial scorecards also affected market trend in the period.

A rebound from current levels is expected in Q2 2014, hinged on growing optimism for more release of impressive Q1 2014 financial scorecards by some blue-chip companies and attractive dividend payouts.

2.7 INTERBANK RATES

Costs of borrowing at the money market trended slightly upwards across most maturities in Q1 2014. The Nigerian Interbank Offered Rates (NIBOR) inched up to 11.65% on the average from the previous quarter's close of 11.48%. Rates traded in a range of10.5% – 12.5% during the quarter. The market recorded a total outflow of N2.42trillion. This coupled with the impact of the increased CRR on public sector funds to 75% from 50% contributed to the marginal uptick in rates. Inflows for the period amounted to N3.52trillion. 30-day and 90-day rates rose to 11.38% and 11.96% from 11.13% and 11.79%, in that order. However, for the longer tenured instrument (180-day), the rate increased by 0.17 percentage points to 12.21%.

Money Market

Source :FMDA & FDHL

Expected expansionary spending in the current fiscal year may give rise to market liquidity (with its inflationary effects) and further lower rates. However, the regulator's monetary policy posturinghas remained 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) trended southwards to 16.69% in Q1 2014down from 17.01% in Q4 2013. The Q1 figure was however higher than the 16.61% recorded in the corresponding quarter in 2013. Lending rate stayed lower despite increased borrowing cost at the money market triggered by CBN tightening policy measures. Low demand for fund at rates adjudged to be high may have contributed to the observed trend. Lending ratesmay remain around current level in Q2 2014. This is on the back of the apex bank's stable monetary cycle. Reduction of structural and institutional impediments as well as a positive risk perception could moderate high lending rates.

Average Prime Lending Rate

Source :CBN

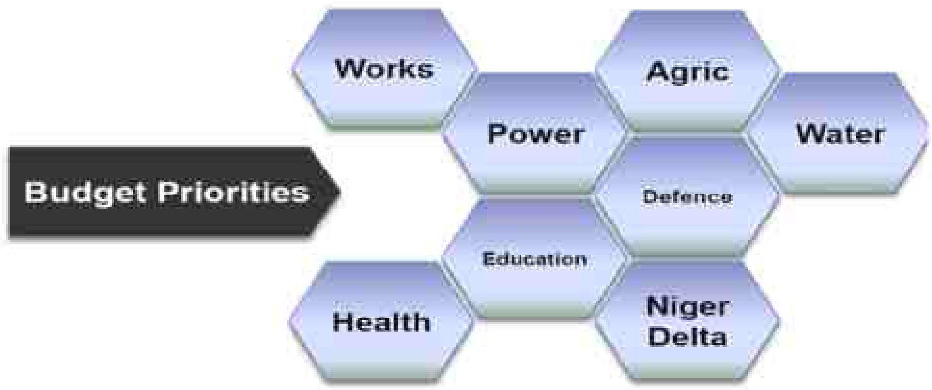
2.8 FISCAL POLICY AND 2014 BUDGET

Some of the policy thrusts of Budget 2014 are reducing the cost of governance, job creation and accelerating expansion in the commanding heights of the economy. The Budget is themed "job creationand inclusive growth" with government deciding to focus on some key areas. These are Power, Agriculture, Security, Infrastructure renewal and development amongst others.

The 2014Budget is built on four pillars:

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

Budget 2014 Priorities



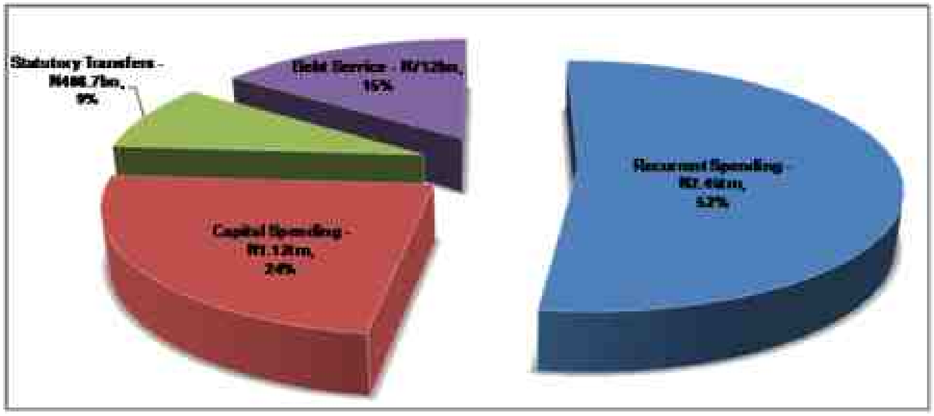
The drop in oil benchmark to $77.5 per barrel from $79 helped reduce the deficit budget provision to about N1.09trillion from N1.16trillion stated in the 2013 Budget. Other highlights of the Budget include: crude oil production – 2.38mbpd, GDP growth rate – 6.75%, inflation rate – 9.5% and an exchange rate of N160/US$.

2014 Budget Benchmarks

Oil Production	2.38mb per day
Benchmark Oil Price	US$77.5/barrel
Exchange Rate	N160/US$
Projected GDP Growth Rate	6.75%
Target Inflation Rate	9.5%

The approved Budget contains N408.7billion in statutory transfers, N712billion in debt servicing, N3.54trillion and N1.1trillion in recurrent and capital expenditure, respectively.

Expediture Breakdown



2.9 FINANCIAL SECTOR DEVELOPMENT

The banking system was relatively stable in Q1 2014 with pockets of concerns occasionally tending towards instability. The suspension of the Central Bank of Nigeria (CBN) governor by the President resulted in minor scare to stability in financial markets. Although this was short-lived following the appointment of the acting governor and governor designate – subject to senate approval – which calmed market nerves.

THE NIGERIAN ECONOMY

Another significant event that impacted financial markets is the increase in cash reserves ratio (CRR) of public sector fund to 75% from 50% at the first monetary policy meeting (MPC) - further tightening of systemic liquidity. According to the banking regulator, the decision was largely on concerns over the falling fiscal buffers following the continuing decline in oil revenue; rundown of reserves and depletion of excess crude oil savings; and falling portfolio and foreign direct investment inflows driven by the commencement of the QE3 tapering by the US Fed. Also, the widening gaps between the official and BDC exchange rates as well as the steady increase in core inflation were amongst other reasons considered. In its subsequent MPC meeting held in March, the CBN raised CRR on private sector fund to 15% from 12%.

During the period, the banking regulator (CBN) revealed plans to implement a National Financial Inclusion Strategy to reduce adult Nigerians excluded from financial services to 20% by 2020 from 46.3% recorded in 2010. The number of Nigerians included in the formal sector is projected to increase to 70% in 2020 from 36.3% in 2010. This goal will be pursued through a broad range of coordinated intervention and reforms targeted at transforming the existing Know Your Customer (KYC) regulations into a simplified risk based tiered framework. The range of reforms will include the development and implementation of a regulatory framework for agent banking, a national financial literacy framework and the implementation of a comprehensive consumer protection framework, amongst others. Other initiatives in the period were the introduction of biometric registration for bank customers.

Furthermore, CBN released guidelines for the operations of the foreign exchange market. The aim was to bring ease to the management of the retail Dutch Auction System (rDAS) introduced in September 2013 having discontinued the operation of the Wholesale Dutch Auction System (wDAS). A designated account called authorized Dealers retail Dutch Auction System (rDAS) Account was created for authorized dealers who are required to fund the account by the close of business on every Thursday for Monday rDAS auction session, while funding for Wednesday auction session shall be done on Mondays. The funding is inclusive of a 1 percent commission. Essentially, the transition to rDAS from wDAS is to allow the apex bank better monitor sources of forex demand and possible discourage speculative demand.

A uniform bank account opening forms for customer was introduced by the banking authorities. As a result, prospective bank customers across the country will now be expected to fill a uniform account opening form regardless of the bank they choose to do business with. This is geared towards ensuring that depositors in the banks and financial institutions provide necessary background information for effective know your customer (KYC) due diligence. This directive by the CBN is coming about two weeks after the CBN inaugurated biometric identity system for bank customers across the country. In line with the directive, prospective bank customers would be required to provide their biometric identity number on account opening forms.

3.0

OUTLOOK FOR Q2 2014 AND BEYOND

3.0 OUTLOOK FOR Q2 2014 AND BEYOND

Monetary policy softening is unlikely in the short-term given threats from both internal and external environments.

Monetary Policy Rate (MPR) likely to remain at 12%.

Inflation to remain in the single digit region on prudent monetary policy management.

Pressure on the Naira expected due to low crude oil production, strong import demand and spending ahead of general elections.

Increased government spending anticipated due to expansionary 2014 fiscal plan.

More initiative at reducing poverty and creating jobs.