ACCESS ECONOMIC QUARTERLY Q3 2013

SPEED | SERVICE | SECURITY

IN THIS EDITION

ACCESS ECONOMIC QUARTERLY
Q2 2013

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GLOBAL ECONOMY

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In Q3 2013, global economic growth was in low gear as output grew at a modest pace. World economy grew by 2.51% up from 2.27% recorded in the previous period. The latest GDP figure reflected more contribution coming from advanced economies. Developed nations are gradually regaining growth momentum growing by 2.03% from 1.69% the quarter before while growth in emerging market economies slowed to 5.2%. It was estimated at 5.6% in Q2 2013.

The U.S. economy was at the center of events in the period, recording impressive GDP growth largely due to increased consumer spending. A number of emerging market economies are coming off cyclical peaks and growth rates are projected to remain much above those of the advanced economies but below the elevated levels seen in recent years, for both cyclical and structural reasons. On the average economies in the Europe showed some signs of recovery.

GLOBAL GDP GROWTH

Source:Bloomberg

Meanwhile, global financial markets were faced with considerable volatility, owing to prospective changes in US monetary policy, a new policy in Japan – "Abenomics" and instability in China's banking system. Nevertheless, concerns over global prospects continued as economic data did not show much improvement. Increasing euro zone downturn and dawdling economic activities across emerging markets are likely to weigh heavily on outlook.

Global growth is projected to recover from slightly above 3% in 2013 to 3.25% in 2014 as downside risks to growth outlook remains. Although imminent tail risks in advanced economies have diminished, additional measures will be needed to keep them at bay.

GLOBAL ECONOMY
UNITED STATES/EURO AREA

1.1 UNITED STATES

U.S gross domestic product (GDP) expanded 4.1% in Q3 2013, from 2.5% recorded in Q2. Increase in government and consumer spending helped strengthen domestic demand and compensated for the slight moderation in business investment and exports. The increase in real GDP in the period primarily reflected positive contributions from private inventory investment; private consumption expenditure, non-residential fixed investment, exports, residential fixed investment, and state and local government spending that were partly offset by a negative contribution from federal government spending and imports.

A buildup in inventories contributed 1.7% to GDP growth in Q3, unchanged from the previous estimate (private businesses increased inventories $115.7 billion in the third quarter, following increases of $56.6 billion in the second quarter and $42.2 billion in the first). Consumer spending rose by 2% in the review period after climbing 1.6% in the previous quarter. Consumer spending, which accounts for over 70% of the U.S. economy, was raised 0.4 percentage point reflecting higher spending on both goods and services. The GDP growth also reflected a 3.7% increase in government spending largely due to a 9.6% jump in federal government spending.

1.2 EURO AREA

Economic growth in the euro zone contracted 0.3% in Q3 2012, after shrinking 0.6% 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-years.

GLOBAL ECONOMY
UNITED STATES/EURO AREA

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.

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.

China

China's gross domestic product (GDP) grew by 7.8% in Q3 2013, 0.3 percentage points higher than the 7.5% growth recorded in the previous quarter. In Q1 2013, output grew by 7.7%. The current growth figure – accelerating for the first time in three quarters – reflects government's effort to restructure the economy in order to achieve sustainable growth and development in the long term. Given the growth trend China may be on course to achieve its target growth rate of 7.5% for FY 2013.

However, Beijing's economic growth is still faced with headwinds emanating from slowing demand from emerging markets. In September, the country witnessed an unexpected 0.3% fall in exports.

GLOBAL ECONOMY
BRICS

.GDP Growth Rate & Forecast – China

Source: Bloomberg

Economic growth and outlook may be on the verge of sustaining above the regulators target in Q4 2013 on better improvement in macroeconomic indicators. The International Monetary Fund estimated Chinese economy to grow 7.6% in 2013 and 7.3% in 2014.

India

India's economy grew by 4.8% in Q3 2013, higher than the 4.4% growth recorded in Q2. Improvement in major macroeconomic indicators impacted the accelerated economic growth trend observed. Asia's third-largest economy has been weighed down by various factors, such as high inflation, a weak currency and a drop in foreign investment. India's annual growth rate has been below the 5% mark for the fourth quarter in a row, and the previous quarter's rate of 4.4% (Q2 2013) was the lowest for four years. Inflation remained persistent due to increase in food prices. As a result, the central bank has had to raise the cost of borrowing in a bid to curb inflation. The latest interest rate rise in October saw the key rate increase to 7.75%.

.GDP Growth Rate & Forecast – India

Source: Bloomberg & IMF

The outlook for India remained uncertain. A combination of weak investment, high inflation and tight monetary policy would not let India's economic recovery gather steam any time soon. The slowing growth, coupled with a recovery in developed markets, such as the US, has made India a less attractive option for foreign investors. The Indian economic is expected to expand by 5.3% in 2014, down from its earlier projection of 6.4%.

Russia

Russia`s economy expanded by an estimated 1.2% year-on-year in Q3 2013. It was up by the same 1.2% the previous quarter. The growth was mostly fueled by growing domestic demand and increase in export. Exports were mostly supported by the oil and gas sector, while imports stagnated on a monthly basis. The recent recovery in advanced economies as observed in the period may have impacted export value.

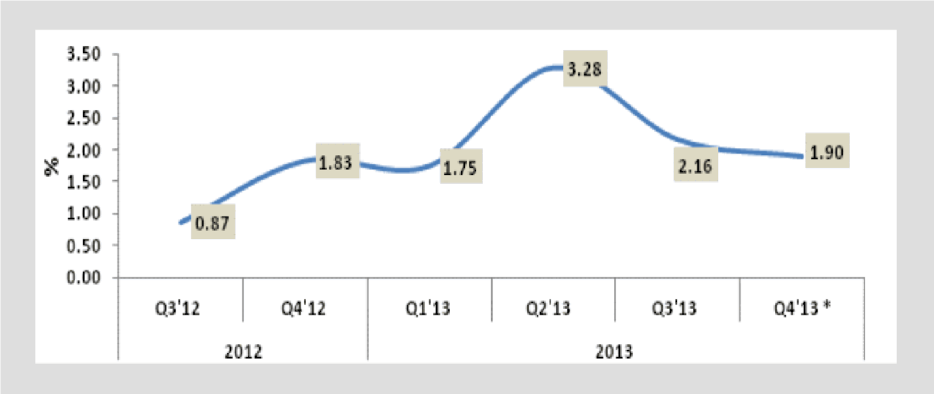
GDP Growth Rate & Forecast – Russia

Source: Bloomberg & IMF

Brazil

In Q3 2013, Brazil economy grew by 2.16%. It was at 3.28% in the previous quarter. The weaker than expected GDP growth is the lowest growth figure recorded since Q1 2009; dashing hopes the economy is rebalancing away from consumption and toward investment. The slow growth was largely driven by deterioration in the external sector as well as in fixed investment. While fixed investment tumbled from a 3.6% expansion in Q2 to 2.2% contraction in Q3 2013, private consumption added 1.0% over the previous quarter. Conversely, government consumption grew just 1.2% in the same period.

.GDP Growth Rate & Forecast – Brazil



Source:Bloomberg & IMF

Furthermore, exports of goods and services plunged from a 6.8% expansion in Q2 to a 1.4% contraction in Q3 while imports fell 0.1%, which was below the 0.3% increase recorded in the previous quarter. The economy is projected to further slowdown to 1.9% in Q4 2013, on account of recovery in advanced economy which is like to impact FDIs negatively.

South Africa

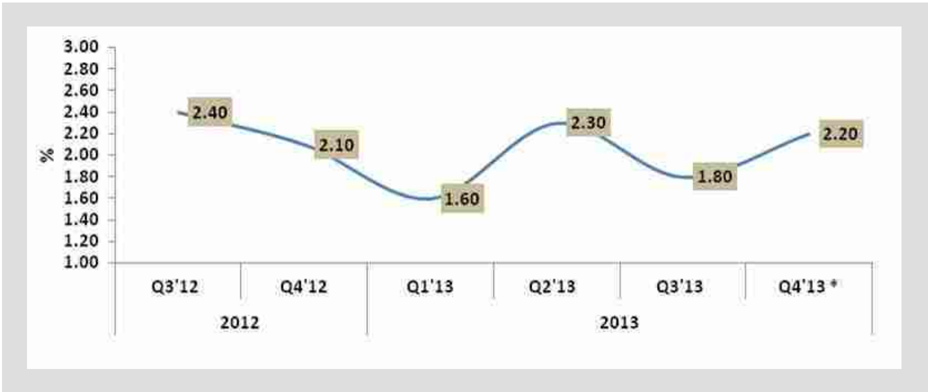
The South African economy would continue its uneven recovery over the medium term, with real GDP growth forecast of 1.8% in Q3 2013. It expanded 2.4% in Q2. The main reason for the expected decline is likely to emanate from the mining and quarrying sector following the potential economy-wide impact of the persistent work stoppages.

There is clear evidence of some grit in the wheels — inflation is on the rise, currently at 0% in September 2013 from 0% in August. The higher than expected inflation numbers and a weak rand could take the inflation trajectory higher. 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 2014.

GLOBAL ECONOMY
BRICS

Comparing growth Q-on-Q, GDP dropped by 40 basis points from Q1 2013 figure. The international Monetary Fund forecast Russia's GDP to grow by 2.5% in 2013.

GDP Growth Rate & Forecast – South Africa



Source: Bloomberg & IMF

2.0

THE NIGERIAN ECONOMY

THE NIGERIAN ECONOMY

Below is a summary of other defining characteristics of the economy in Q3 2013.

2.1 GDP GROWTH

The economy grew by 6.81% in Q3 2013 compared to 6.48% expansion in the corresponding quarter of 2012 as growth from the non-oil sector continue to impact positively. In Q2, GDP expanded by 6.18% whilst the figure for Q1 was 6.56%. Growth in the review period was largely supported by expansion in the building & construction, cement, hotel, restaurant and electricity sectors. The non-oil sectors remained the major drivers of overall growth. The expansion in the non-oil sectors came from agriculture (5.08%), hotel and restaurants (13.7%), building and construction (14.3%) and telecommunication & post (24.4%). Oil sector growth dropped by 0.53% in Q3 2013 compared to 1.15% decline recorded in Q2. Average daily crude oil production increased by 7.1% to 2.26million barrels per day (mbpd) in Q3 2013 from 2.11mbpd in Q2. The improvement in production was supported by the restoration of 400,000bpd during the quarter following the reopening of three major pipelines. Notwithstanding, supply challenges continue to hamper production and pose risks to government revenue.

Source: NBS

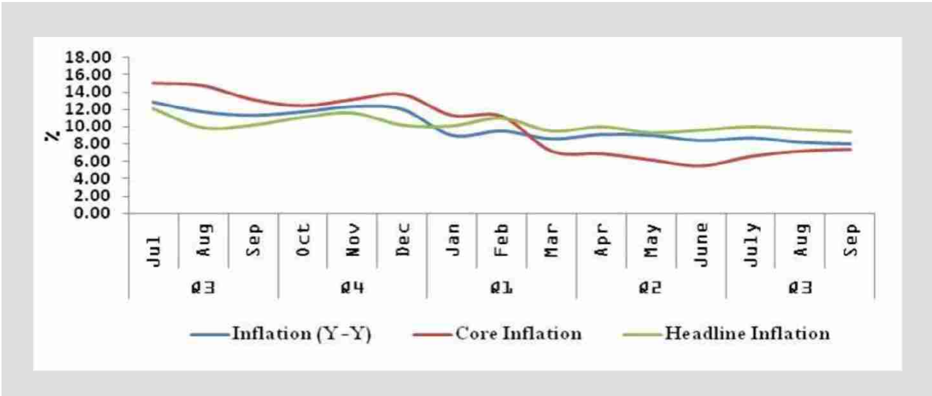
In Q4 2013, the nation's GDP is projected to see significant upswing to 7.7% while year-end GDP is forecast to hit 6.8% on the average from the earlier projection of 6.5%. This will be largely driven by increased consumption/spending (government and private). We expect robust output expansion in 2014, bolstered mostly by growing contributions from the non-oil sectors. Downside risks to growth remain falling oil prices 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 8% - the lowest level since year-start from 8.2% in August, 2013. The decline in general price level is attributed to falling food prices largely due to favorable harvest season. Inflation has been in single digit as the CBN has reaffirmed its commitment to ensure price stability. In the three months to September end, inflation has been on a decline from 8.7% in July, to 8.2% in August and further down to 8% in September.

Food inflation components, contributed more to inflation in the quarter. It fell from 10% to 9.4% between July and September. Core inflation however, exhibited mild volatility. It rose to 7.4% in September 2013 from 7.2% in August. It was 6.6% in July. Increase in non-food prices particularly higher transport costs, were core inflation drivers.

Inflation Year -on -Year



Source: NBS

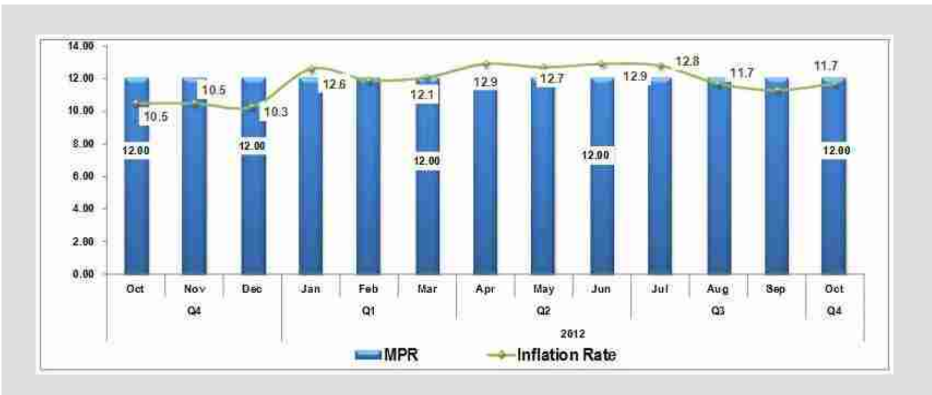
The maintenance of the MPR at 12% for the tenth consecutive month in 2013 is to tame any inflation rise and maintain stability in the economy. For Q4 2013, inflation expectations may likely trend higher owing to increase in consumption/spending pattern both government and private.

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 expectation of increased spending both private and government in the next quarter.

Monetary policy outlook for the rest of 2013 and into early 2014 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.

MPR and Inflation

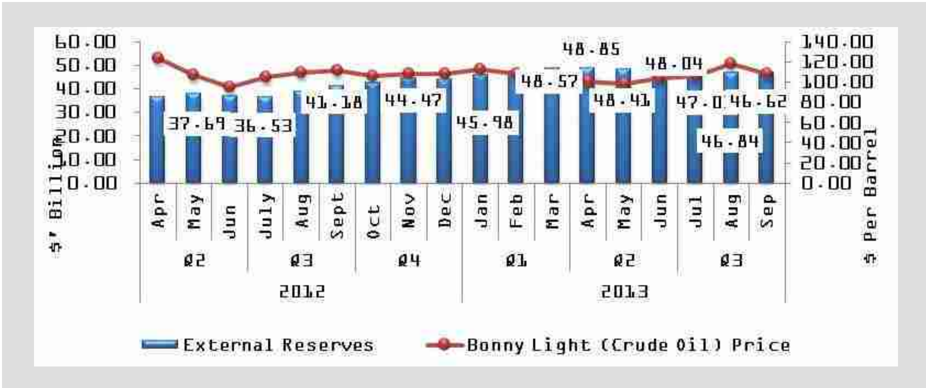


Source: NBS

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 reserves 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.

MPR & Inflation



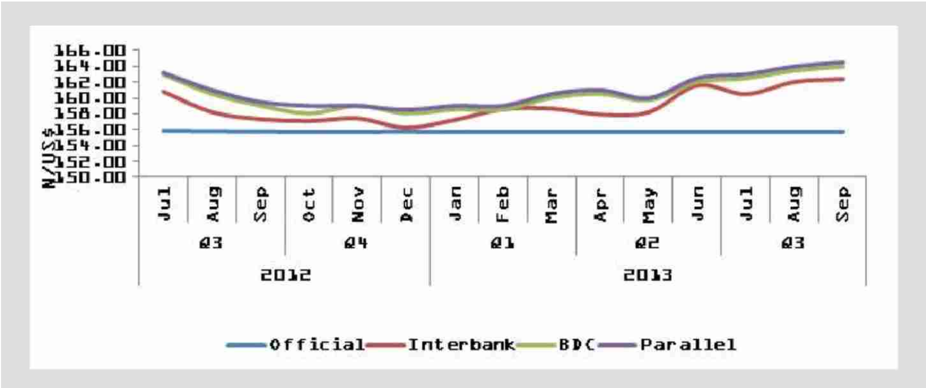
Source: CBN & FMDA

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.

2.5 EXCHANGE RATE

At the foreign exchange market, Naira remained within the indicative N155/$±3% target for the most of 2013 at the CBN window. At the interbank market, the local unit strengthened against the US Dollar – helped by prudent monetary policy adopted by the banking regulator and increased supply especially from the monetary authorities. CBN sold a total of $8.09billion at its regular bi-weekly auction, 19% higher than $6.77billion sold the previous quarter 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 N155.75/US$ on September 30, 2013, the same figure it sold the previous period. Interbank market rate movements were more volatile. It reached a year-low of N163.98/US$ on September 6, 2013.

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

Overall, it was a mixed trend for equities in the period, while market indicators started on high notes as the bulls dominated activities, it was relatively low in August 2013 and a bounce back was seen in September. On the average, market indicators were all on the positive in the review period. Gains in equity market were supported by activities largely in the financial services and consumer goods sector as expectations for impressive release of financial scorecards spurred trading volumes. The observed uptrend mirrored better investor confidence in the local bourse.

The Nigerian Stock Exchange All Share Index (NSE ASI) rose to 36,585.08 points as at end-September 2013 from 36,164.30 points at June 30, 2013. Year-to-date (end-September 2013) return on the

index stood at 30.29%. Similarly, market capitalization gained N226.6billion, ending at N11.65trillion from N11.43trillion in the quarter before.
Increased foreign capital inflows contributed to the market trend observed. Also, ease in market liquidity may have provided the platform for high bargain activities, leading to market bullishness. Year-to-date performance on the index at close of Q2 was 0%.

Stock Market

Source: NSE

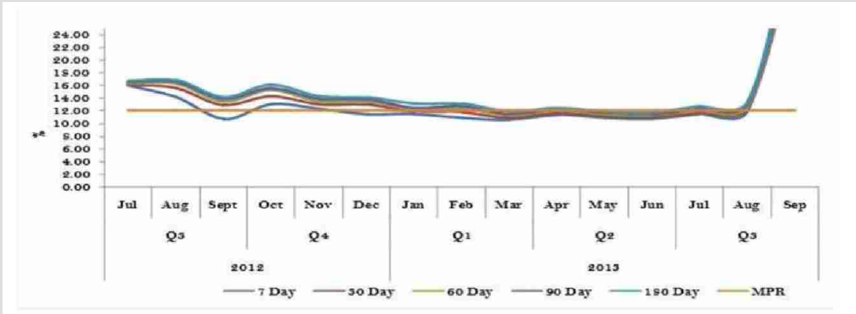
On the average market sentiments remained positive as investors appear hopeful about the robustness in performance indicators – which has witnessed weeks of sustained appreciation. We expect the market to maintain an upward trajectory in Q4 2013 and into 2014. This view is premised on increased demand for equities as investors confidence grows.

2.7 INTERBANK INTEREST RATES

On a quarterly comparison, lending rates at the interbank market trended northwards in Q3 2013. This is occasioned by CBN's monetary tightening stance to manage inflation and stabilise exchange rate. Inflows of about N0 billion in statutory allocations and over N0billion in maturing T-bills did little to impact rates in the period.

Consequently, 7-day tenor ascended to 11.08% from 10.75% the previous quarter while call rate closed at 10.75% from 10.46% during the same period. Similarly, just as the 30-day tenor rose to 11.38% from 11%, the 365-day also inched up to 12.88%, from 12% the week before. Increased FX funding also supported the observed trend due to high dollar demand. Rates are likely to trend southwards from current levels. This view is premised on anticipated inflows from fixed income instruments (AMCOM maturing instrument of over N1trillion) and FAAC disbursements.

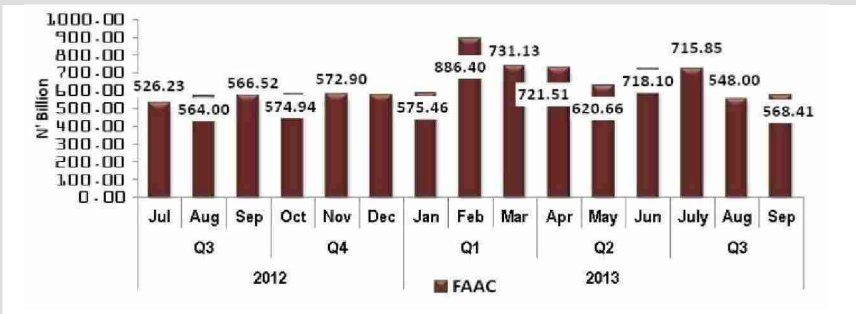
NIBOR



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 may have boosted liquidity in the review period. But this was not enough to keep rates lower than previous quarter level. Overall FAAC payments for Q3 2013 stood at N1.83trillion as against N2.06trillion recorded in the previous quarter

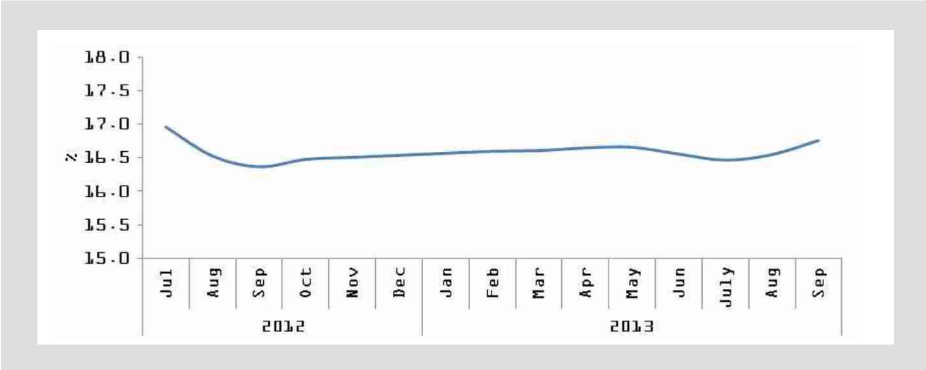
Government Statutory Disbursement



Source: Budget Office & FMDA

On average, prime lending rate of Deposit Money Banks (DMBs) rose to 16.76% in Q3 2013 up from 16.56% recorded in Q2. This may have been induced by relatively high cost of funds. In Q4 2013, lending rates may maintain an upward trajectory given CBN's tightening monetary policy to mop up excess liquidity.

Average Prime Lending Rate



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 revealed plans to commence nationwide implementation of the cash-less policy in 2014. Hitherto, significant progress has been recorded in Lagos, where the policy was first implemented at the start of the year. Card and electronic payments are becoming more acceptable forms of transaction settlement at these locations. On a monthly average, electronic payments recorded appreciable improvement in the first half of 2013. Total electronic payments in the period stood at N2.4trillion (monthly average) compared to N1.83trillion worth of cheque payments. Recall that on July 1 2013, the policy was extended to Abuja FCT and five other states namely Abia, Anambra, Ogun, Rivers and Kano.

In addition, the CBN, by 2015, plans to introduce biometric authentication for Point of Sale (POS) and Automated Teller Machine (ATM) transactions. This initiative would further enhance the use of e-payment systems by addressing issues of safety of customers' funds and stem losses through compromise of Personal Identification Numbers (PIN). When fully implemented nationwide, the cash-less policy is expected to aid the financial inclusion objective as well as reduce government spending – direct cost of cash management is estimated at N192billion in 2012. Nigeria currently ranks low in indicators of financial inclusion among peers as only about 30% of Nigerian adults have accounts with formal financial institutions, data from the World Bank Global Financial Index show. This is below Kenya and South Africa's 42% and 54%, respectively.

Also in the period, the banking regulator commenced the registration of the agent banks following recent release of the guidelines for agent banking in Nigeria. Agent banking was introduced in 2012 to further promote the apex bank's financial inclusion strategy – relevant to economic growth and development. The banking regulator would also inaugurate a Financial Literacy Steering Committee to leverage on the implementation of the financial inclusion strategy through massive consumers sensitisation. The initiative was amongst others being undertaken to enhance cooperation and collaboration and adopt a unified approach to financial literacy in the country. The financial inclusion policy aims to reduce the percentage of unbanked adults in the country from 46.3% as at 2010 to 20% by 2020. In 2012, the exclusion rate dropped to 39.7%.

In a separate development, the regulator has revealed plans to automate other trade transactions following the successful commencement of automated form 'M'. The targeted trade documents include Form 'A' issued for invisible trade transactions; Form NXP for export; and NCX for non-commercial exports. The initiative will foster trade transactions while ensuring efficient clearance process as well as reduce additional cost in doing business. Aside this, the automation will also enhance the e-payment system and financial inclusion objective in Nigeria.

3.0

OUTLOOK FOR Q4 2013 AND BEYOND

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- 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 18-22% - may impair lending to private sector
- Inflation to remain on single digit and higher on increased consumer and government spending – festive season and end-2013 fiscal spending
- Demand pressure at the interbank FX market anticipated: Year-end import demand effects and capital outflows likely – Fed to cut-back on its QE programme.
- Informed and planned regulatory reforms – power reform a priority.
- More initiative at reducing poverty and creating Jobs.
- Concerns over the U.S Fed proposed taper of its QE3 programme on improvement in macroeconomic indices