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New Auto Policy: Key to Nigeria's Industrial REVOLUTION?

Oil Resource Dependency: Emerging Threats & concerns

INSIDE

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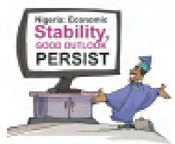
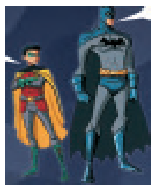




Bye to Economic Waste

There is no doubt that the Nigerian economy has been a 'junk yard' of sorts to several countries in terms of 'dumping' of all manner and brands of automobiles over the years. This persistent scenario has, in point of fact, made successive administrations in the country to come up with motley of policies directed at dealing with the situation. However, these initiatives rather than dealing with the challenge end up allowing or encouraging the unrestrained importation of 'everything' automobile.

Even today, the avoidable capital outflow arising from the trend is staggering, to say the least. Statistics show that in 2010 alone, Nigeria spent a whopping sum of US$4.2 billion on importation of vehicles; in 2012, the figure came down to US$3.4 billion—reflecting the determination of the Government to check the 'drain'. It is against this backdrop that the new automobile policy recently announced by the Federal Government of Nigeria is seen as not only appropriate but also necessary. This is also why our lead article: "New Auto Policy: Key to Nigeria's Industrial Revolution?" is a focus on the issues, challenges and prospects presented by the new initiative. The author sums up that the policy offers one of the best routes to diversifying the Nigerian economy and revenue base, and could have huge multiplier effects in terms of income, employment generation and wealth creation.

As we use the new auto policy to peer into the Nigerian economy, we also through the piece: "Oil Resource Dependency: Emerging Threats and Concerns," dilated our view to do a critical analysis of the evolving global shift away from crude oil consumption and the options open to net exporting countries of the commodity. The author notes that the West had in the last few decades conceived initiatives that would adequately prepare them for a crude-oil-free world, wondering the fate of commodity-dependent economies like Nigeria in the face of the impending drop in the demand for crude oil. All said however, the author posits that the growing campaign to transit from fossil energy consumption to renewable energy "will not be an easy ride, considering how deeply addicted we all have become to fossil energy."

Statistics show that in 2010 alone, Nigeria spent a whopping sum of US$4.2 billion on importation of vehicles; in 2012, the figure came down to US$4.4 billion—reflecting the determination of the Government to check the 'drain'.

Yet, from another perspective, we still focused on the Nigerian economy, in the write-up "Risk Management in the Nigerian Banking System"—really 'part one' of a series. Here, the writer commences a panoptic discourse of this all-important subject, starting with the introductory issues—including the relevance of risk management in banking. Still on Nigeria, the topic "Youth and Entrepreneurship in Nigeria: The Way Forward" deals with this critical challenge. Marshalling the impediments that confront young Nigerian entrepreneurs, the author cites examples of some youth that have surmounted such obstacles and how they so did. The author however holds the view that young entrepreneurs are the greatest victims of the unfriendly business climate in Nigeria.

On the global scene, Neil Hitchens, our man in London, analyses the state of major economies—concluding that "recovery is on its way…eventually."

Masterpieces in our 'Periscope', 'Policy' and 'Facts & Figures' sections complete this package…again, for your delight as a business and intellectual builder.

Cheerio!

Marcel Okeke

from our mailbox

I am directed to acknowledge with thanks the receipt of your letter dated 28th July, 2013 from your reputable organization, forwarding a copy of your quarterly economic magazine. The Embassy found the information contained therein very useful and would be used to promote Nigeria in host Country.

Please accept the assurances of His Excellency's highest regards.

Sunday Aibor
For: The Ambassador
Embassy of Nigeria
Bucharest, Romania

I write to acknowledge with thanks, the receipt of a copy of April 2013 edition of the Zenith Economic Quarterly of your Bank, which focused on issues that are paramount in developing countries like ours, having dealt with "Sustainable Development: Issues, Strategies and Goals, Analysis of the Nigerian Oil Sector: Trends and Direction and also information on the Nigerian and Global Economy for Strategic Policy decisions.

The publication is very good and will provide sound awareness to our patrons especially on the areas mentioned above.

Once more, accept my sincere appreciation.

Yours faithfully,

Christian. O. Aje
Centre Librarian
National Mathematical Centre, Abuja

I am directed to acknowledge receipt of the April, 2013 edition of the Zenith Economic Quarterly (ZEQ), which focuses on "Sustainable Development: Issues, Strategies & Goals" with an analysis of The Nigerian Oil Sector: Trends and Direction dated July 28, 2013 and to thank you sincerely for this gesture. The magazine would be made accessible to staff of the Ministry and other users of our library.

It is our hope that the Ministry will continue to be on your mailing list.

Please accept the assurances of the Honourable Minister's kind regards.

I.C.I. Mbanefo (Mrs)
For: Honourable Minister
Federal Ministry of Education

The Attorney-General and Commissioner for Justice, Mr. Ade Ipaye, has directed me to acknowledge receipt of a copy of the April 2013 edition of the Zenith Economic Quarterly published by Zenith Bank Plc.

I am further directed to commend Zenith Bank and the Editorial Crew under your leadership for the painstaking and detailed manner in which the subjects of the publication were treated.

The Attorney-General is of the view that the magazine will continue to be an invaluable mine of information for policymakers and stakeholders both within and outside Nigeria.

Thank you.

For: Attorney-General and Commissioner for Justice

Olanrewaju Akinsola
Senior Special Assistant to the Governor (Justice Sector Reforms)

I am directed to acknowledge with thanks, the receipt of your April 2013 edition of Zenith Economic Quarterly (ZEQ) which focuses on sustainable Development: Issues, Strategies and Goals.

Indeed the journal is rich in information on the Nigerian and global economy for strategic policy decision which the Embassy has already put to good use.

Please accept the assurances of the highest consideration of his Excellency, the Ambassador of Nigeria to Thailand.

G.S. Jalo
Second Secretary
For: Ambassador
Embassy of Nigeria
Bangkok, Thailand

"...Indeed the journal is rich in information on the Nigerian and global economy for strategic policy decision which the Embassy has already put to good use..."

We write to acknowledge with thanks the receipt of a copy of your Economic Quarterly and to appreciate your continuous recognition of NASME as a critical stakeholder in Economic Development.

As usual the content is quite educative, informative and gives a clear investment guide and strategic policy decisions to readers.

Best regards,

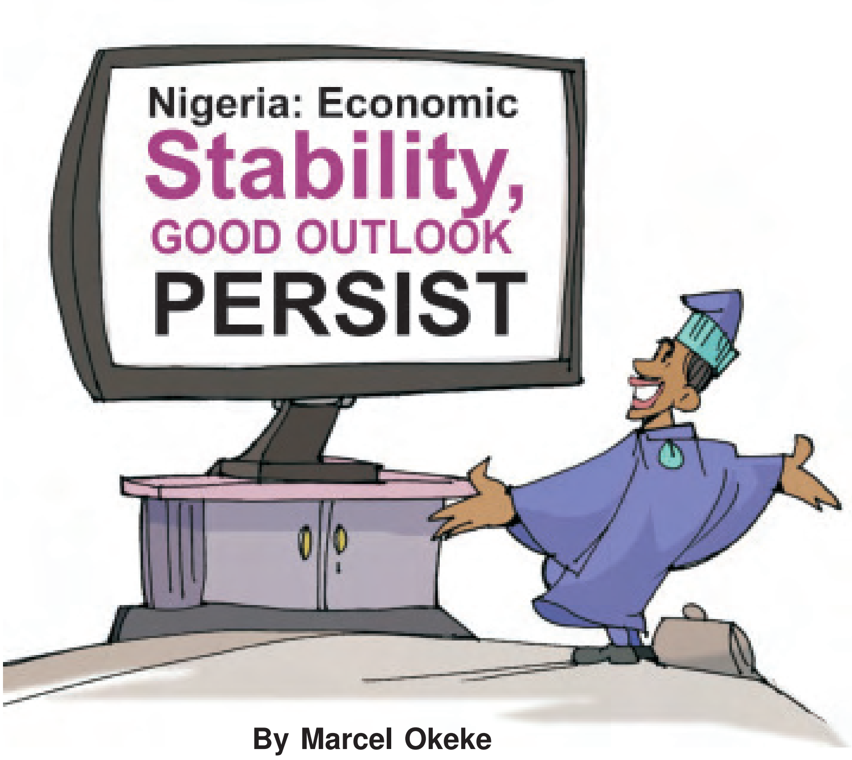
Nerus Ekezie
Ag. Executive Secretary
Nigerian Association of Small and Medium Enterprises

I am directed to acknowledge with thanks, receipt of the above mentioned Publication, which provides very vital information on global, as well as, Nigerian economy that would immensely assist the Mission in its quest to attract Investors to Nigeria.

Please accept the assurances of His Excellency's highest consideration.

Warm regards.

M. S. Isa
For: Ambassador
Embassy of the Federal Republic of Nigeria, Zamalek, Cairo
Arab Republic of Egypt



By Marcel Okeke

In their recent reports on the Nigerian economy, several global agencies and institutions not only affirmed its stability but also presented a cheery outlook for the country. Standards & Poor's (S & P) and Fitch rating agencies while affirming the "Stability Status" for the economy in their separate reports, pinned their positions on the continuing structural reforms that brought faster, more diverse and inclusive growth and higher employment and per capita incomes. They also noted "improved governance as reflected in World Bank and anti-corruption indicators" as well as "a longer track record of low single-digit inflation" and improved "external buffers."

The World Bank in its own report re-classified Nigeria's economic status from 'poor' by income per capita to 'low income country'. This, according to the Bank, followed its resolve to give Nigeria a 'blend' status in its 2014—2017 Country Partnership Strategy (CPS). This reclassification was a sequel to a review of Nigeria's economic indicators which showed reduction in poverty rate per capita, from 64.2 per cent to 62.6 per cent, as well as an improvement in revenue accretion. In yet another report underlining the good outlook for the economy the World Bank projects remittances to Nigeria to hit US$21 billion this year—the highest for any Sub-Saharan African country. The report, 'Migration and Remittance Flows: Recent Trends and Outlook 2013-2016' says officially recorded remittance flows to Sub-Saharan Africa are expected to increase by 6.20 per cent in 2013 to US$32 billion.

To a very large extent these affirmations and reports by a number of global institutions and agencies reflect the outcome of the transformation initiatives and policies of the Federal Government of Nigeria. Specifically, in the third quarter 2013 and in deed all through the year so far, power sector reform leading to the unbundling of the Power Holding Company of Nigeria (PHCN) took the

front burner. The privatization process of the successor companies (the generation and distribution firms) of the PHCN got to a feverish pitch during the period under review. Indeed, by the payment deadline of 21 August, 2013, private sector core investors in the power generation companies (Gencos) and distribution companies (Discos) had paid up their equity 'controlling' stakes in these entities. The National Council on Privatization (NCP) also approved the sale of two newly completed PHCN power plants (Olorunsogo and Omotosho) via debt for equity swaps with the Chinese contractor that built these plants.

Reforms in other sectors of the economy equally remained upbeat during the quarter under review, especially in agriculture, housing, aviation, capital market, banking, transport, among others. In the transport sector, concession agreement of some sea ports and rail projects across the country reached various levels of completion during the period. In the banking sector, the Central Bank of Nigeria (CBN) extended the 'cashless' policy to six more states, outside the pilot state of Lagos. Also, the Asset Management Corporation of Nigeria (AMCON) effectively commenced the sale of the 'bridged' banks; its call for the expression of interest (EoI) for the acquisition of Enterprise Bank Limited closed on September 20, 2013. During the same month, Dangote Industries Limited (DIL) and a consortium of banks signed an agreement for a US$3.3 billion facility for the construction of a refinery/petrochemical and fertilizer complex in Nigeria by DIL. The plant, when operational, is expected to reduce by 50 per cent, the importation of refined petroleum products for local consumption.

Obviously this flurry of activities and programmes both in the public and private sectors reflected in generally encouraging economic outcomes as the indicators show. For instance, inflationary pressures continued to moderate in response to the tight stance of monetary policy and improved public finance management. Thus, the inflation rate for the month of September 2013 stood at eight per cent, lower than 8.2 per cent and 8.7 per cent recorded in August and July respectively. All these are far lower than 12.9 per cent assumed inflation rate in the 2013 budget. With these figures, headline inflation has remained below 10.0 per cent for eight (8) straight months and represented the lowest level achieved over the past 5 years, the longest such stretch since 2008.

Furthermore, inflation rate averaged 8.7 per cent for the first nine months of 2013; while year-on-year core inflation rate (all items less farm produce) stood at 7.4 per cent in September, from 7.2 per cent in August 2013. Also, the overall growth rate of the economy as measured by the Gross Domestic Product (GDP) stayed around the 2013 budget benchmark of 6.5 per cent: from 6.56 per cent in the first quarter 2013 it came to 6.20

per cent in the second quarter. Available National Bureau of Statistics (NBS) figures show that the GDP grew by 6.81 percent in the third quarter of 2013. Supply disruptions continued to hamper output in the oil sector while the non-oil sector output increased in the third quarter of 2013, according to the NBS. The non-oil sector growth was driven by growth in activities recorded in the agriculture, hotels & restaurants, building & construction and telecommunications sectors. Specifically, the Oil sector contributed approximately 12.50 percent to real GDP in the third quarter of 2013, which is lower than the 12.90 percent contribution in the second quarter of 2013. On the other hand, during the third quarter of 2013, the non-oil sector recorded 7.95 percent growth compared with 7.55 percent at the corresponding period in 2012, and 7.36 percent in the second quarter of 2013.

Like the inflation rate that kept moving in the desired direction (i.e. declining) during the period under review, recovery in the Nigerian capital market also continued; equities market indicators all trended upward in line with the pattern since the beginning of the year. The benchmark index, the Nigerian Stock Exchange All-Share Index (NSE-ASI) which opened the third quarter at 36,164.30 points closed at 36,585.08 points. This represents a return of 1.16 per cent for the quarter, and a year-to-date (30th September) return of 30.29 per cent. Capitalization for the same period rose by 1.98 per cent from N11.426 trillion to N11.653 trillion amounting to an actual increase of N1.02 trillion, essentially owing to supplemental listings from bonus and rights issues.

Also positive for the economy during the period under review was the general stability of the exchange rate of the naira especially at the wDAS segment of the foreign exchange market. The exchange rate of the Naira at the wDAS segment during the third quarter 2013 was N157.32/US$ at the beginning and close of the period. The average wDAS exchange rate during the period was N157.31/US$. However, at the inter-bank segment, the naira exchange rate opened at N160.75/US$ and closed at N161.47/US$, representing a depreciation of N0.72/US$ or 0.45 per cent. The average inter-bank exchange rate during the period was N160.78/US$. At the Bureau De Chang (BDC) segment, the selling rate opened at N162.50/US$ and closed at N163.00/US$, representing a depreciation of N0.50k/US$ or 0.31 per cent.

The average BDC exchange rate for the period was N162.14/US$. The stability of the exchange rate reflected the commitment of the monetary authorities to supporting the currency at a time of massive depreciation in the currencies of emerging and frontier economies across the world. Indeed, the apex bank in its continued defence of the Naira announced plans to revoke the licenses of up to 20 BDCs over alleged money laundering. It has also suspended the Wholesale Dutch

Auction System and reintroduced the Retail equivalent (effective October 2, 2013). The CBN has also banned the importation of cash dollars, except with its prior approval, to check persistent massive importation of US Dollars into the economy.

Apparently, the strategic defence of the value of the national currency reflected in some decline in the stock of the nation's external reserves, which stood at US$47.03 billion by mid-July 2013. In August, the reserves declined to US$46.85 billion and dropped further to US$45.90 billion at the close of the third quarter 2013. However, this reserves level is much higher relative to the position of US$44.26 billion at the end of 2012. While the stock of external reserves was experiencing some decline, the nation's public debt was on the increase. Available data from the Debt Management Office (DMO) show that Nigeria's debt stock (external and domestic) as at September 30, 2013 stood at N8.32 trillion, representing an increase of 10.20 per cent from the December 31, 2012 figure of N7.55 trillion. A breakdown of the public debt shows that the external debt accounted for N1.29 trillion (i.e. US$8.26 billion at exchange rate of N155.75/US$1) or 15.50 per cent of the total debt stock, while the domestic component accounted for N7.03 trillion or 84.50 per cent. Further breakdown of the debt figures shows that the external component as at September 30, 2013 which stood at US$8.26 billion, was an increase of 19.36 per cent from the US$6.92 bil-

lion as at June 30, 2012. As at September 30, 2013, 71.23 per cent of the external debt was owed multilateral agencies; 10.29 per cent was owed to Bilateral Parties and 18.47 per cent was owed to others. The domestic debt stock which stood at N7.03 trillion as at end-September 2013, was up by 2.63 per cent from N6.85 trillion as at June 30, 2012. A breakdown of the domestic debt as at September 30, 2013 by instrument by type shows that the FGN Bonds accounted for N4.22 trillion, representing 59.93 per cent; Nigerian Treasury Bills (NTBs) accounted for N2.48 trillion, representing 35.31 per cent and Treasury Bonds (TBs) accounted for N334.56 billion, or 4.76 per cent.

THE CAPITAL MARKET

The consistent recovery of the Nigerian capital market since 2012 following the 2008/9 crash continued during the period under review. The rally translated into appreciable rise in all market indices, especially the Nigerian Stock Exchange All-Share Index (NSE-ASI) and the Market Capitalization (MC) of the equities. The ASI which opened the third quarter 2013 at 36,164.30 points rose to 36,248.53 points in August and further inched up to 36,585.08 points at the close of the quarter. In the same pattern, the MC which stood at N11.426 trillion in July rose to N11.496 trillion in August, and closed the quarter at N11.652 trillion. The trend was driven essentially by supplemental listings from bonus and rights issues and influx of local investors. Banks remained the most actively traded stocks, accounting for about 70 per cent of volume traded by end-September 2013.

Both the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) continued with gusto their various reform programmes and activities during the period under review. Indeed, the NSE commenced the introduction of 'new listing rules' that will guide board and general meetings by quoted companies. According to the NSE, the objective of the new rules is to establish certain reporting requirements in respect of specific meetings; and institutionalize best corporate governance. A summary of the draft rules by the NSE shows that they (the rules), among other things, highlight the importance of Annual General Meetings and provide guidelines for notice, date, and venue of such meetings as well as right of attendance. The NSE said the new rules are subject to approval by SEC, and called comments from issuers and other stakeholders.

In a related measure, the NSE stated its readiness to commence trading activities on its new trading platform called X-GEN early October 2013. According to the NSE, the new trading platform has the capacity to open up "an unprecedented level of innovative trading capabilities" for the Nigerian capital market; providing low latency trading, and straight through processing from broker order management systems to the Exchange. The new platform is also expected to provide direct market access for mobile access through smartphones to the retail investor, among others. The NSE said it had conducted three market readiness tests, adding that "brokers and the NSE technical team were able to successfully place orders, migrate data and complete a series of full dress rehearsal."

On its own part, the SEC inaugurated a '10-year Capital Market Master Plan' committee which will, among other things, articulate a development strategy for the entire market. The master plan is expected to cover such areas as investor protection and education, professionalism, product innovation and expansion of the role of the capital market in economic development. The committee is also expected to examine successful growth strategies in other jurisdictions and consider relevant factors that impact market growth, entrench robust corporate governance for improved efficiency, transparency and enhance market access.

BANKING AND FINANCE

The banking industry continued to be upbeat, remaining the leading sector among the quoted companies all through the third quarter 2013. Competition, generated and re-enforced by CBN reform measures and policies, kept the operators very active. Branch expansion, fresh capital injection, acquisitions and merger moves and new products development remain key features of the industry. Specifically, the impact of the financial inclusion policy of the CBN, particularly the cashless initiative had begun to manifest. Indeed, from the pilot phase which covered Lagos State alone, the policy has been extended to six states, including

Rivers, Kano, Anambra, Ogun and Abia and the Federal Capital Territory (FCT), Abuja.

In a related development, the apex bank took steps in preparation for the take-off of agency banking in the country. Through a circular, it directed financial institutions that wish to render such services to write to the Central Bank of Nigeria (CBN) requesting for a one-off approval to offer agency banking services. In the circular titled "Clarification on the Requirements for Agent Banking in Nigeria," the CBN pointed out that agents are not required to apply directly to it for approval but would be appointed and monitored by their principals (i.e. DMBs, MFBs and PMBs), based on the requirements for agents recruitment as contained in the guideline. The apex bank had released the guidelines for agent banking in February 2013, to guide the industry on the requirements and conditions for agent banking in Nigeria. Part of the guidelines stipulates that notwithstanding the responsibility of the financial institutions to monitor and supervise their agents, the CBN may at any time request for any information or carry out inspections, as it deems necessary.

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The apex bank during the period under review also took a critical measure to curtail 'excess liquidity' in the DMBs and redirect their credit focus. Specifically, the CBN introduced a 50 percent Cash Reserve Requirement (CRR) on all public funds deposits in

the DMBs (CRR was at 12% before). The policy, according to the CBN was to among other things, check "the perverse incentive structure" under which Deposit Money Banks (DMBs) "source huge amounts of public sector deposits and lend same to the government." The policy which became effect on August 7, 2013, saw the withdrawal of an estimated N1trillion (US$6.27 billion) from the banking system that day, causing interbank lending rates to spike by about seven percentage points from the previous day. In adjustment to the 'shock' however, the DMBs have since embarked on aggressive private sector deposits mobilization through an assortment of strategic initiatives, including new products creation, leveraging on electronic and mobile banking, among others.

The CBN also in a move to check money laundering and halt the declining exchange rate of the national currency suspended the Wholesale Dutch Auction System (WDAS) and re-introduced the Retail Dutch Auction System (RDAS), effective October 2, 2013. In a circular titled: "Developments in the Foreign Exchange Market," the CBN explained that the minimum bid by authorized dealers shall be US$100,000.00, saying that just like the WDAS, auction at the newly introduced RDAS would be held every Monday and Wednesday. It added that "the existing limit of US$40,000 per annum on naira debit and credit cards has been reviewed upwards to US$150,000 per annum, subject to monthly rendition of returns by authorized dealer banks and card issuers (MasterCard and Visa) to the CBN.

Noting that "available statistics indicate that Nigeria has become the larg-

est importer of U.S. dollars due to importation of cash by Deposit Money Banks (DMBs), the CBN said that dealers would now have to obtain its prior approval to import foreign exchange. "Any authorized dealer, intending to import foreign currency cash, is required to forward an application stating the amount and purpose to the Director, Trade and Exchange, CBN, Abuja," it said. The apex bank further directed that recipients of proceeds from international money transfer firms such as Western Union and Money Gram would be paid only in naira.

Apart from responding to these CBN policies and directives, the DMBs on their part embarked on branch expansion, new products development, some acquisitions and mergers as well as recapitalization, etc. For instance, First Bank of Nigeria Limited, a subsidiary of FBN Holdings Plc during the period under review, consummated the acquisition of the West Africa operations of International Commercial Bank, Financial Group Holdings AG

(ICBFGH). The transaction terms provide for the acquisition of 100 per cent equity interest in ICB (Ghana), ICB (Sierra Leone), ICB (Guinea) and ICB (Gambia). Guaranty Trust Bank (GTBank) similarly acquired Fina Bank of Kenya, in a deal worth about US$100 million. Ecobank Transnational Incorporated opened its South Sudan banking affiliate during the period under review to "support the youngest African state in addressing developmental challenges".

During the third quarter 2013, Wema Bank Plc completed its N40 billion capital raising through a mixture of private and institutional investors. Unity Bank also commenced the process of raising its share capital from N30 billion to N40 billion, when it got the unanimous approval of its shareholder. On its part the First City Monument Bank (FCMB) Plc completed its transformation into a Holding Company (Holdco) structure.

OIL AND GAS, POWER AND ELECTRICITY

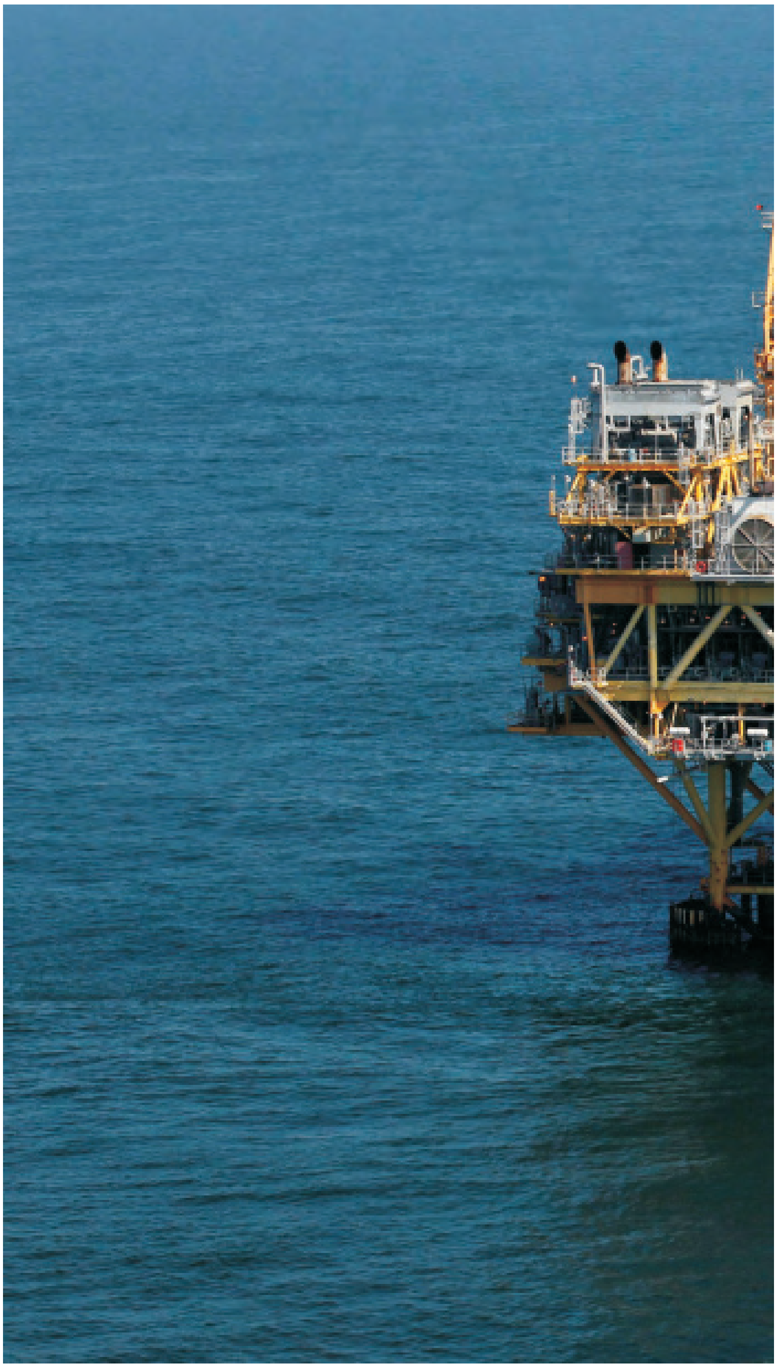
The average daily production of crude oil in the third quarter of 2013 stood at 2.26 million barrels per day, an increase from 2.11 million barrels per day recorded in the second quarter of the year, according to the NBS data. Crude production was however lower compared to the 2.52 million barrels per day recorded in the third quarter of 2012. These figures with their associated gas components, resulted in a decline in the growth (year-on year) of the value added of output in oil GDP by 0.53 percent for the third quarter of 2013, an increase from the negative 1.15 percent growth recorded in the second quarter of 2013, but lower from the 0.08 percent growth recorded in the corresponding period of 2012. The persisting shortfall in oil production (and lifting) in Nigeria which mainly accounted for the declining oil GDP was due to oil theft, illegal bunkering, production shut-in and pipeline vandalism which is already posing some threat to the revenue projections of the government in the 2013 budget. This scenario has led to draw-downs on Excess Crude Account (ECA) for the monthly Federations Account Allocations to the three tiers of government.

Data from the Organization of the Petroleum Exporting Countries (OPEC) show that oil produced in Nigeria between January and October 2013 averaged about 1.94million barrels per day (mb/d), lower than the 2.53mb/d benchmark used to prepare the 2013 budget. However, the consistently high price of crude, of above US$100 per barrel in the international oil market, has kept cushioning the inevitable effect of the decline in production volume. Benchmark price of oil adopted for 2013 is US$79 per barrel while oil production was set at 2.52 million barrel per day (mbpd); but provisional data from the Nigerian National Petroleum Corporation (NNPC) show that the average oil lifting (including condensates) during the period under review was about 2.06 million barrels per day (mbpd) as against the 2.52mbpd projected for 2013.

Uncertainty surrounding the Petroleum Industry Bill (PIB) - a yet-to-be-passed piece of legislation which will, among other things, define foreign participation in the sector - has also led to a severe slowdown in exploration activity. Indeed, some international oil companies (IOCs) have since begun to sell their marginal oil fields and acreages.

In the power and electricity sector, the privatization of the successor-companies of the Power Holding Company of Nigeria (PHCN) remained on the front burner during the period under review. Data from the Bureau for Public Enterprises (BPE) which midwifes the process show that from the onset, a total of 19 PHCN successor-companies were scheduled for "privatization" and these were broken down into 11 Distribution Companies ("Discos"), seven Generation Companies ("Gencos"). Through a bidding process, 'preferred bidders' were selected and, by the payment deadline of August 21, 2013, private sector core investors (successful bidders) had paid a total of US$1.130 billion for 60 per cent equity controlling stakes in nine Discos (namely Abuja, Benin, Eko, Ibadan, Ikeja, Jos, Kano, Port Harcourt and Yola).

The core investors for the 10th Disco (Enugu) and the preferred bidder for the 11th Disco (Kaduna), after further negotiations with the privatization supervisory body—National Council on Privatization (NCP)—also completed their payments, bringing the total sum paid to about US$1.419 billion. For the Gencos, a total of about US$1.077 billion was received from the core investors by the same



August 21, 2013deadline for equity stakes ranging between 51per cent and 100 per cent in four Gencos (Egbin, Geregu, Kainji and Ughelli). The core investor for the 5th Genco (Shiroro) joined them when it completed the payment of about US$111.6 million. Bidders for the other two Gencos (Afam and Sapele) are still in negotiations with the NCP at the time of this report. The NCP also approved the sale of two newly completed PHCN power

Source: http://media.wbur.org/wordpress/11/files/2011/04/0415_oil-rig.jpg

plants (Olorunsogo and Omotosho) during the period under review via debt for equity swaps with the Chinese contractor that built those plants at valuations of US$177.3million and US$217.5million respectively.

Also, in pursuit of the transformation of the energy sector, President Goodluck Jonathan during the period under review approved the reconstituted Nigerian management staff and supervisory board members for the Transmission Company of Nigeria (TCN).The 17-member board is under the chairmanship of Engr. Haman Tukur, while the Vice chairman is Akinsola Akinfemiwa. The Federal Government has also engaged Xian Electric Engineering Company Ltd, a Chinese firm, to expand the transmission lines to make for easier evacuation of electricity to consumers across the country, in preparation for anticipated increased activities in the electricity sector with

Source: http://saharareporters.com/sites/default/files/page_images/galleries National%20Union%20of%20Electricity%20Employees%20FCT%20Branch%20in%20a%20Prayer%20protest%20secession%20(17).jpg?1309266333

the recent take-over of the assets of the Power Holding Company of Nigeria (PHCN) by private investors. The memorandum of understanding (MoU) on the project, expected to costs $500 million in the next two years, was signed by minister of power Prof. Chinedu Nebo and Ji jun Hua, general manager, Xian Electric. Evacuation of generated electricity has been a challenge for the power sector and the country as a whole, as larger percentage of the transmission lines in the country are said to be weak and incapable of carrying clean power.In the area of the National Integrated Power Plants (NIPPs), no fewer than 82 companies have been requested to submit proposals for 10 power plants, in the next round of the nation's electricity privatisation programme. This shortlist is a sequel to a decision at the second joint meeting of the National Council on Privatisation, NCP, and the Board of the Niger Delta Power Holding Company Limited, NDPHC during the period under review. BPE reports said NCP approved the pre-qualification of 386 expressions of interest, EOIs, submitted by 82 of the 110 consortia that earlier expressed interest in the acquisition of 80 percent equity in the 10 NIPP power plants jointly owned by the Federal, state and local governments. BPE and NDPHC are partners in the joint sale transaction process for the sale of the 10 power plants. While NCP and BPE are legally authorised to sell Federal Government's 47 percent shares, NDPHC has the authorisation of the states and local governments to sell 53 percent of their equities in the power plants.

TELECOMMUNICATIONS

The telecommunications sector recorded a real GDP growth of 24.42 percent in the third quarter of 2013, up from 22.12 percent in the second quarter of the year, according to the National Bureau of Statistics (NBS). Year-on-year however, growth has slowed by 7.2 percentage points as 31.57 percent was the recorded figure in the third quarter of 2012. Growth in the sector slowed in the third quarter of 2013 as a result of power supply and other infrastructure constraints. Effective demand by consumers coupled with highly competitive markets as a result of product differentiation and market strategies to cater to multiple market segments has resulted in higher value added services for operators.However, the drop in GDP contribution notwithstanding, the telecommunications sector remains active and attractive to investors and operators. Following the SIM cards registration exercise carried out earlier on in the sector, the industry regulator—Nigerian Communications Commission (NCC) during the period under review issued a directive mandating Mobile Network Operators (MNO) to forward on a weekly basis the summary of all reactivated lines in addition to newly registered SIM cards on their networks. This followed the expiration of the deadline for the full deactivation of all unregistered SIM cards as at 30th June, 2013. During the registration exercise, a total of 121, 657,433 (One Hundred and Twenty-One Million, Six Hundred and Fifty-Seven Thousand, Four Hundred and Thirty-Three) lines were registered by all the networks providers. On the other hand, a total of 17, 231, 463 (Seventeen Million, Two Hundred and Thirty One Thousand, Four Hundred and Sixty-Three) unregistered lines were deactivated from the networks.Data from the NCC show that active lines in the industry stood at 121.27 million at the close of the third quarter 2913, up from 120.63 million in June 2013. With these figures, according to the NCC, Nigeria remains one of the biggest and fastest growing telecoms markets in Africa. The key driver of the growth, the GSM sub-sector, continues to wax stronger, recording 118.47 million active lines at end-September 2013. Of this figure, MTN has 55,596,025; Globacom 24,129,183; Airtel 22,726,698 and Etisalat 15,759,810. In the Code Division Multiple Access (CDMA) sub-sector, Visafone is the leader, also standing as the fifth largest operator by subscriber-base in the entire industry. The CDMA segment had combined active lines of 2,054,410 as at end-September 2013.The telecoms market statistics show that a growing number of Nigerians now have access to telecoms services as operators keep extending their reach across the country. This is reflected in increasing teledensity (that is, the number of phone connections for every hundred persons within the population), which stood at 86.62 at end-September 2013, from 80.47 a month earlier. In the same vein, telecoms industry installed capacity increased from 237.48 million at end-June 2013 to 240.67 million at the end of the third quarter 2013. These figures aptly indicate the appetite of the telecoms operators to continue to invest in network upgrades to accommodate more subscribers and improve the quality of their services.

(Marcel Okeke is the Editor, Zenith Economic Quarterly)

GUIDELINES FOR THE OPERATION OF MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT FUND FOR NIGERIA (2)

Continued from last edition

Chapter Four

4.0 REFINANCING FACILITY

4.1 Overview

One of the key components of the Fund is to avail PFIs a window to bridge temporary liquidity gaps that may arise from time to time due to their exposure to clients and other lending activities. The facility is meant to address challenges which the PFIs might face that might make it difficult for them to honour customer obligations, such as need for withdrawals.

4.2 Objectives of the Refinancing Facility

- Enable the PFIs take advantage of a better interest rate in meeting its liquidity requirements.
- Promote confidence in the sub-sector
- Provide resources for continued operations by the PFIs.

4.3 Eligible Institutions

Eligible institutions shall include Microfinance Banks (MFBs), Non-Governmental Organization (NGO) - Microfinance Institutions (NGO-MFIs), Financial Cooperatives and Finance Companies who are not utilizing wholesale funding facility under the MSMEDF.

4.4 Eligibility Criteria

4.5.1 Microfinance Banks

For a microfinance bank/Finance Company to be eligible for support from the Fund, it shall satisfy the following conditions as obtained from its latest CBN and NDIC examination reports:

- Compliance with Regulatory Capital
- Compliance with prevailing Prudential Ratios
- Risk Management Framework acceptable to the regulators
- Corporate Governance Culture acceptable to the regulators and as indicated by:
  - Adherence to Sound Ethical Values
  - Degree of Separation of Ownership from Control Management
  - Number of non-performing Insider Related Facilities
  - Financial member of Apex Association.
- Compliance with up-to-date and timely rendition of monthly returns to the CBN as stipulated in the revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria.

- Evidence of Membership of apex association and up to date payment of annual subscription
- Irrevocable Standing Payment Order signed by authorized signatories of the PFI to debit its account with its correspondent DMB to recover the principal and accrued interest of the Wholesale Fund and remit same to Managing Agent.

4.5.2 Microfinance Institutions (NGO/MFIs and FCs)

- Registration with Corporate Affairs Commission or Cooperative Department of the State or Federal Government.
- Evidence of acceptable corporate profile
- Evidence of acceptable Risk Management Framework.
- Soundness of Corporate Governance acceptable to the Managing Agent.
- Membership of the apex association with evidence of up to date payment of subscription.
- Compliance with up-to date and timely rendition of monthly returns to the CBN as stipulated in the revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria.
- Irrevocable Standing Payment Order signed by authorized signatories of the PFI to debit its account with its correspondent DMB to recover the principal and accrued interest of the Wholesale Fund and remit same to Managing Agent.

4.6 Method of Application for Refinancing Facility

- A PFI shall submit request in the prescribed format to the Fund including details of the loans to be refinanced.
- Within 14 working days of receipt of the application, the Fund shall inform the PFI of the status of the application.
- If the request is granted, a Refinancing Agreement shall be signed between the Fund and the PFI.
- Release of fund will be effected after all conditions precedent to drawdown are fully met.

4.7 Mechanisms of the Refinancing Scheme

i. Limit

The Fund shall refinance a maximum of 80% of the loan portfolio of the PFIs for which refinancing is sought.

ii. Interest Rate

The Refinancing Facility shall be administered at an all-in Interest rate of 9% per annum.

ii. Tenor of Facility

The facility shall have a maximum tenor of 2 years.

4.8 Acceptable Collateral.

Any of the following collaterals may be accepted by the MA as security for exposure to PFIs:

i. Legal Mortgage over appropriately valued asset including undeveloped land.

i. Guarantees from promoters of PFIs and their legal partners.

ii. Any other collateral acceptable by the MA from time to time.

4.9 Booking of New Loans after Refinancing

In a bid to further encourage lending to MSME businesses, every PFI that has its portfolio of loans refinanced shall be required to provide evidence of new MSME loans booked with the freed-up funds to the tune of at least 50% of amount refinanced.

4.10 Repayment of the Refinanced Facility

i. PFIs shall be required to open a dedicated account with their correspondent DMBs for the purpose of the MSMEDF and advice the Fund of the account details.

ii. The PFIs must submit a standing order for bullet repayment of the facility from the correspondent DMB in favour of the Fund on the advised account.

iii. The standing payment order shall be due on a date not later than the tenor of the facility from the Fund.

Chapter Five

5.0 GRANTS

5.1 Overview

The Grant will be funds given to eligible activities/entities to support the social and developmental objectives of the Fund. The purpose shall be specified in advance and in strict adherence to the guidelines governing disbursement. Grants are usually not repaid as long as the guidelines are followed; however it might be called in, if specified conditions are not met. It shall be used to support activities specified in the guidelines and the eligible institutions/activities shall demonstrate counterpart resource support, where necessary.

5.2 Eligible Activities for Grants

5.2.1 Capacity/Institutional Building

- An initiative to upscale the capacity and skills of staff of PFIs.
- Business Development and Advisory Services
- ICT/Infrastructural Support
- Mobilization, Training and Linkages
- Development of Apex Associations of MFBs/MFIs

5.2.2 Technical Assistance

- Internship
- Secondment
- Mentoring
- Registration with Mix Market
- Sponsorship of Ratings
- Credit Bureau
- Movable Asset Registry

5.2.3 Research, Innovation and Product Development

- Studies/Surveys

5.2.4 Eligibility Criteria for Accessing the Grant.

Eligible institutions where applicable shall fulfill the following conditions:

- Certificate of Incorporation
- Latest financial statements
- Latest Audited accounts
- In case of MFBs, submission of last CBN and NDIC Examination Reports showing satisfactory performance on key indices as may be specified by the MA from time to time.
- Must be a member of the apex association with evidence of up to date payment of subscription.

5.3. Mechanism for Grants

A Selection Committee shall review all proposals taking into account the capacity, organization and the proposed programs of all applicants before they are considered for the grant. Priority shall be accorded to institutions/activities based in the rural areas, in order to promote financial inclusion.

i Procedure

- Association/institution shall submit its request in the prescribed format to the Fund.
- The Fund shall respond on the status of the application within 10 working days.
- The Fund shall subject the application to appraisal by the Selection Committee and upon satisfaction approve the grant.
- The Fund shall spell out the modalities for the disbursement in the offer letter, such as the need to have executed previous activities before subsequent disbursements and evidence of counterpart funding.

Chapter Six

6.0 Additional Incentives to PFIs under the Wholesale Lending and Refinancing Facilities

The following incentives shall be put in place to ensure that PFIs perform well in the utilization and repayment of their facilities:

Client Category	Interest Rate	Size of facility	Time taken to approve facility	Grant Support
Bronze Repaid Loans as at when due twice	Lending Rate (9%)	Original Loan x 2	4 weeks	Up to 20 % of approved activity cost
Silver Repaid Loans as at when due three times	Lending Rate (9%) minus 1	Original Loan x 3	3 weeks	Up to 30 % of approved activity cost
Gold Repaid Loans as at when due four times	Lending Rate (9%) minus 2	Original Loan x 4	2 weeks	Up to 40 % of approved activity cost
Diamond Repaid Loans as at when due five times	Lending Rate (9%) minus 3	Original Loan x 5 or more	1 week	Up to 50 % of approved activity cost
Platinum Repaid Loans as at when due more than five times	Lending Rate (9%) minus 4	Original Loan x 8 times	Less than one week	Could be more than 50% of approved activity cost

Chapter Seven

7.1 Roles and Responsibilities of Stakeholders

In order to achieve the desired objectives, the responsibilities of the stakeholders shall include:

7.1.1 The CBN

The Central Bank of Nigeria shall:

- Provide Fund for the Scheme and ensure that the Federal Government provides its own part/contributions.

7.1.2 Managing Agent (Special Purpose Vehicle)

- Act as the Managing Agent of the Fund.
- Carry out verification/monitoring of projects under the Fund.
- Process Applications for the various facilities from PFIs/LIs.
- Request PFIs and LIs to render periodic returns as may be specified from time to time.
- Determine the limits of the Fund.
- Specify the rate at which PFIs will lend under the Fund.
- Ensure the implementation of the Fund and publish periodic reports on its performance.
- Build capacity of stakeholders
- Review the Fund guidelines as may be necessary from time to time

7.1.3 Role of Lending Institutions

- Provision of credit facilities for PFIs
- Request for guarantees on behalf of the PFIs
- Monitor the on-lending activities of PFIs
- Submission of returns to MA and CBN as may be required from time to time.

7.1.4 Government.

- Support for the Fund's activities
- Participation in review of the Fund activities as maybe required from time to time.

7.1.5 The Participating Financial Institutions (PFIs)

The PFI(s) shall:

i Grant credit facilities to MSME Promoters

ii. Approve loan requests under the Scheme based on normal business consideration by exercising appropriate due diligence

iii Monitor the projects during the loan period.

iv Put in place appropriate institutional arrangements for disbursing, monitoring and recovering the amount obtained under the Fund

v. Ensure that at least 60 per cent of the Fund accessed under the MSMEDF is disbursed to women entrepreneurs.

vi Render periodic returns on the performance of the Fund to the Central Bank of Nigeria and the MA as may be specified from time to time..

vii Comply with the guidelines of the Fund

7.1.6 The Apex Associations (NAMBs, FHAN and ANMFIN)

The Apex Associations of the NAMB, FHAN and ANMFIN shall:

- Introduce would-be beneficiaries of the Fund
- Monitor performance of members
- Ensure prompt repayment of loans by members
- Build capacity of members to enable them qualify for the Fund's facilities

7.1.7 Borrower

The borrower shall:

- Utilize the funds for the purpose for which it was granted.
- Insure the charged assets being financed.
- Adhere strictly to the terms and conditions of the Scheme.
- Make the project and records available for inspection/verification by the MA, PFIs and LIs.

7.2 Penalties

Any infractions such as the following, will be a condition for barring a PFI from further benefiting under any support from the Fund:

- Diversion to unauthorized activities
- Default resulting to invocation of guarantee

7.3 Amendments

These Guidelines shall be subject to review from time to time as may be deemed necessary by the CBN and Managing Agent. 24

7.4 Enquiries and Returns

All enquiries and returns should be addressed to:
Director, Development Finance Department,
Central Bank of Nigeria, Corporate Headquarters
Central Business District, Abuja.
Fax No. 09-46238655
www.cbn.gov.ng

Source: http://www.parker.com/parkerimages/Parker.com/Divisions-2011/Engineered%20Seals%20Division/Images/Oil%20and%20Gas%20ESD%20Site.jpg

OIL RESOURCE DEPENDENCY: Emerging Threats and Concerns

By EUNICE SAMPSON

The Oil Magic

Since the 18th century when the world experienced an industrial revolution till date, fossil fuel has become indispensible in the lifestyle of humans. And every industrial discovery that had been made since then had been built to run on fossil fuel. Without fossil energy today, industrial machines would not work; aeroplanes would not fly; automobiles would not move; neither would trains and other modern means of transportation. Even businesses would be grounded and the world would practically be brought to a halt – economically, socially and industrially. Such a world is, to put it mildly, inconceivable. Fossil fuel has in the last two hundred years or more become the grease that lubricates the global economic engine and dictates the pace and direction of economic activities. It is no wonder that the commodity had been aptly described in some quarters as the 'black gold'.

Aside from Canada and the United States, all the other countries in the list of the world's top crude oil producers are developing economies - Saudi Arabia, Iran, Iraq, Nigeria, Kuwait, Libya, United Arab Emirate, and several others. And these developing oil exporting countries are highly dependent on crude oil earnings for their economic survival. In some instances, crude oil revenues account for up to 80 to 90 per cent of their total export earnings.

Huge reserves of fossil energy have become a revered and effective socio-economic and diplomatic weapon in the hands of the discerning wielders, and an effective management of earnings from these resources has changed the socio-economic fortunes of several nations, almost overnight. A typical example is the United Arab Emirate which within few decades was transformed from a backward, insignificant desert country to a country that today hosts some of the world's best architectural masterpieces – all thanks to the billions of dollars of annual earnings from crude oil exports. In fact, several of the oil producing developing nations are rated among the fastest growing economies of the world as they leverage their relatively huge fossil energy commodities earnings to build strong socioeconomic and physical structures.

The Changing Tides

For too long, several emerging and low income economies have been run on proceeds from crude oil exports. Many of them including Russia, Saudi Arabia, Iran, Iraq, United Arab Emirate, Kuwait and Nigeria have depended heavily on crude oil revenue for the development of much needed infrastructure and management of public services as they strive to catch up with their highly developed western counterparts. And with oil proceeds, several of them have been able reverse or ameliorate high rate of poverty in their countries; create jobs for their teeming youths; and build healthcare facilities and other needed social infrastructures. Some of them have also been lifted from their previous low income economic status to medium income ones – thanks to their highly-in-demand oil and gas resources. Several of these countries have set medium and long term strategic economic and developmental visions for themselves, benchmarked on their actual and projected favorable earnings from current and future crude oil sales. In fact, if the oil resources continue to flourish at the current rate (unhindered), in the next few decades, some of the low income oil exporters today would have moved up to occupy a position in the list of the biggest economies of the world.

But the story is about to change. Responsible for this impending change is the 'bad name' that crude oil, coal and natural gas had earned in the international arena, especially owing to their proven negative impact on the human environment. According to the United States' Environmental Protection Agency (EPA), "the largest source of greenhouse gas emissions from human activities in the United States is from burning fossil fuels for electricity, heat, and transportation." (http://www.epa.gov/climatechange/ghgemissions/sources.html). The continued consumption of fossil fuel has been identified as posing dangers to human health, the natural environment and the wellbeing of unborn generations.

Very many reasons have been given for the growing outcry against fossil fuel consumption (coal, natural gas and of course, crude oil). But chief among these today is the fact that fossil energy releases carbon dioxide into the atmosphere when it is burnt. This released carbon (a type of greenhouse gas) traps heat and makes the planet warmer than it should be, causing climate, global warming and severe damages to the human eco-system.

Very few oil exporting countries including Nigeria produce a variety of crude oil called 'light sweet crude'. This variety of crude is in high demand in the global commodities market because it is, among other revered features, low in carbon and therefore poses lesser damage to the human environment. But this still does not immune the country from the growing 'fossil fuel must go' campaign that is intensifying around the world, especially in the most industrialized nations. (Un)fortunately, these industrialized nations are the biggest and most important customers of crude oil exporting countries.

In discussing the topic "Water: Is the glass half empty or half full?" the renowned Japanese-Canadian academic, scientist and environmental activist, David Suzuki said that "beyond reducing individual use, one of our top priorities must be to move from fossil fuels to energy that has fewer detrimental effects on water supplies and fewer environmental impacts overall." (http://www.davidsuzuki.org/blogs/science-matters/2012/08/water-is-the-glass-half-empty-or-half-full/; August 30, 2012)

The United State's President Barack Obama in his speech captioned "Oil & Alternative Fuels" stressed a similar point when he said that "the issue of climate change is one that we ignore at our own peril. There may still be disputes about exactly how much we're contributing to the warming of the earth's atmosphere and how much is naturally occurring, but what we can be scientifically certain of is that our continued use of fossil fuels is pushing us to a point of no return. And unless we free ourselves from a dependence on these fossil fuels and chart a new course on energy in this country, we are condemning future generations to global catastrophe." (http://obamaspeeches.com/060-Energy-Independence-and-the-Safety-of-Our-Planet-Obama-Speech.htm; (April 3, 2006).

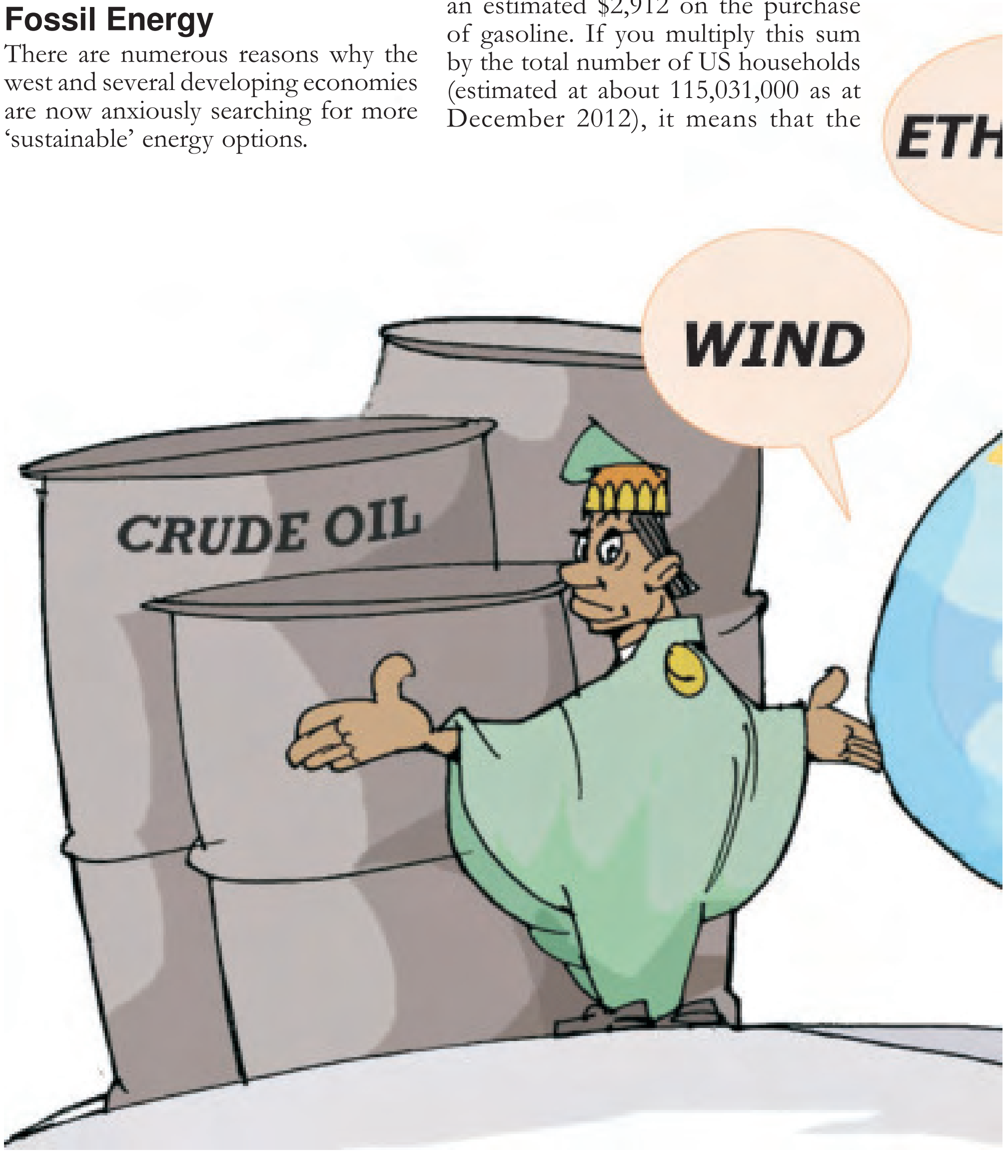
With these new realities on the negative impact crude oil production and consumption has on the environment, the developed economies which are the biggest consumers of crude oil have started to search frantically for alternatives to fossil energy.

Why the Campaign against Fossil Energy

There are numerous reasons why the west and several developing economies are now anxiously searching for more 'sustainable' energy options.

High cost of crude oil – From an average of about $30 per barrel ten years ago, the price of crude oil had in July 2008 risen to about $147 before falling to the current levels of around $100-120 per barrel. For economies like the United States and China that import billions of barrels per year, this is indeed a huge spending burden which is ultimately passed on to the end consumers – households. In fact, in the United States, energy spending constitutes one of the highest priced items in the monthly expense list households. Households in that country spend about 4 per cent of their total monthly pretax income on gasoline purchases.

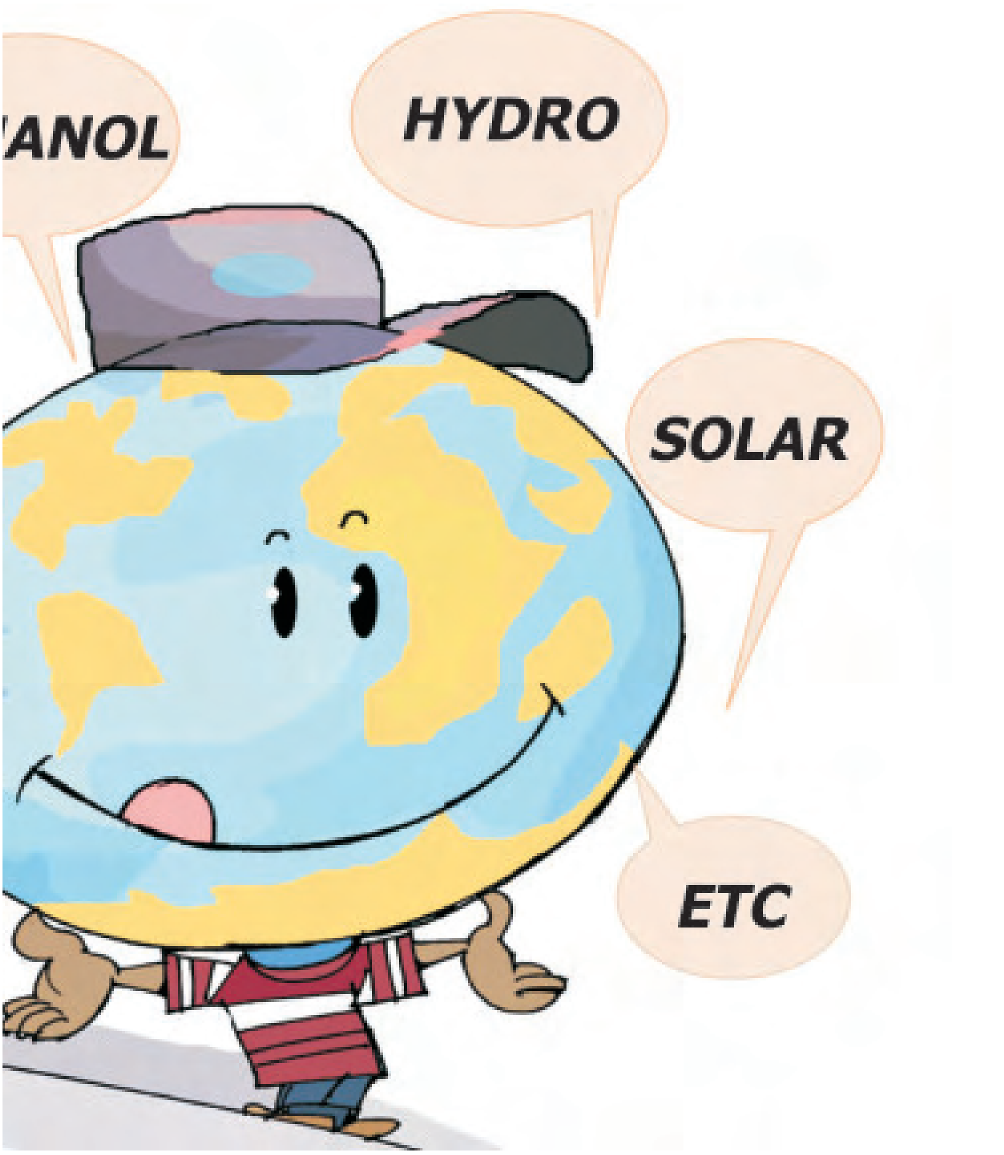
The US Energy Information Administration (EIA) reported that in 2012, an average US household spent an estimated $2,912 on the purchase of gasoline. If you multiply this sum by the total number of US households (estimated at about 115,031,000 as at December 2012), it means that the



country's households spent over $334 billion on just gasoline consumption alone that year. (http://www.eia.gov/todayinenergy/detail.cfm?id=9831)

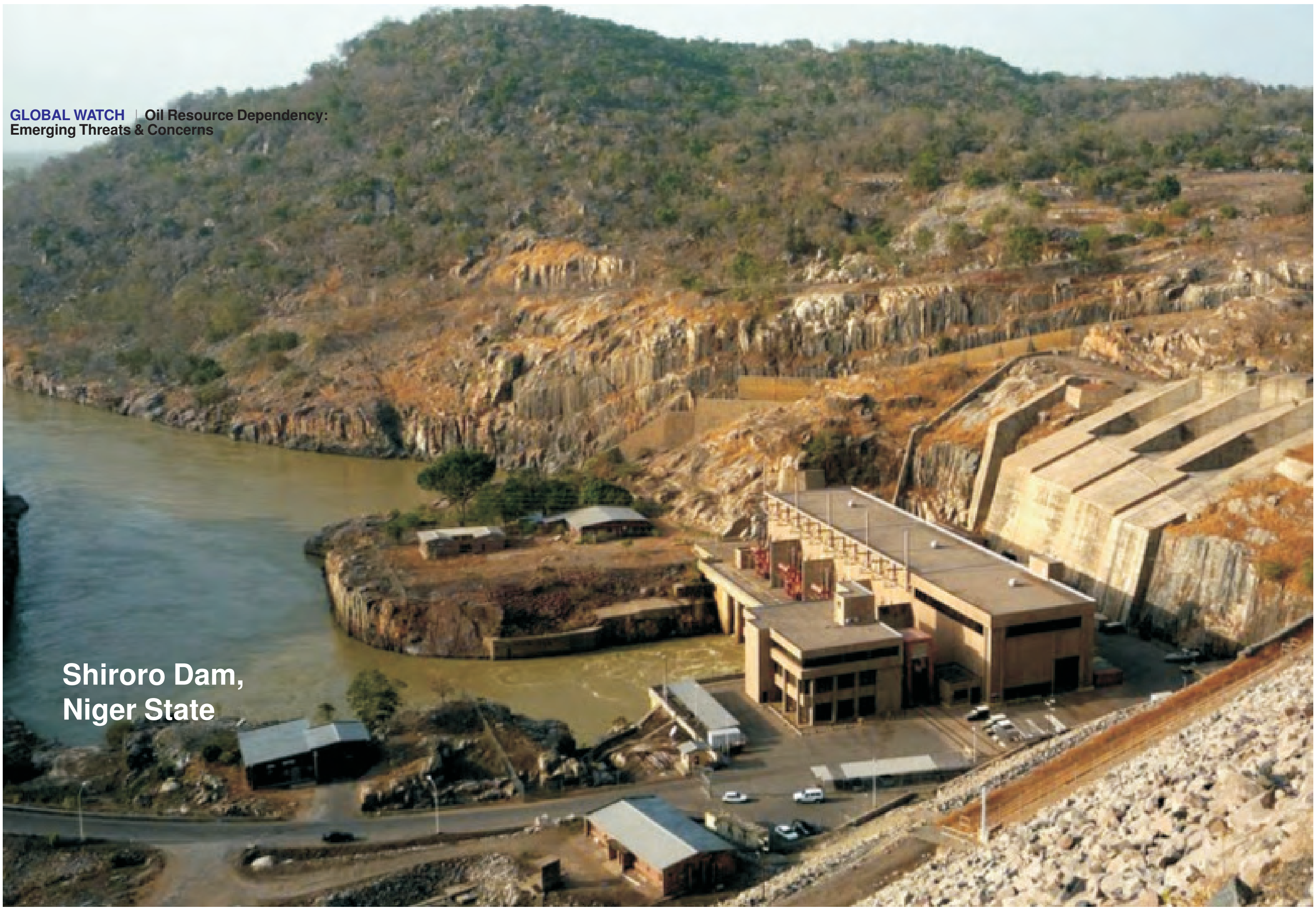
Incessant Supply Disruptions – Another reason why the west is struggling to break away from the age long dependence on crude oil consumption is the uncertainties that surround its supply. Because crude oil is predominantly produced and exported by the developing economies, some of which are prone to periods of social, political and civil unrests (for example, the recent Arab Spring, the Gulf wars and several others), crude oil availability and supply is never fully guaranteed, leaving the consumer nations perpetually at the mercy of the net exporters and their national circumstances at different points in time.

Erratic Price Movements – Another problem with crude oil dependency is that the prices of the commodity are hardly ever stable over time. The world has witnessed countless instances of major sudden upswings and downswings in the pricing of crude oil, developments that have resulted in severe economic distortions and in some instances, had been partly blamed for regional and global economic recessions. The global economic crisis that occurred between 2007 and 2009 for example, was blamed partly on indiscriminate and uncontrollable spikes in the prices of crude oil. Any sharp rise in crude oil price results in a sharp cut in the disposable income of global households, reducing savings, standard of living and increasing the costs of living in households around the world. Experts have also calculated that such spikes trim down global growth prospects anytime they happen.



The Fear of Peak Oil – Experts have warned that global crude oil reserves and production may have peaked as far back as in the 1960s and may already have entered a period of terminal decline. In other words, any time from now, crude oil reserves may begin to dry up, leaving the world struggling with an unprepared withdrawal symptom. If this actually happens, every country of the world, developed or developing would be in serious crisis since no one country today can boast of having found a viable, sustainable source of renewable energy that could replace crude oil. So, one of the reasons why countries of the world are beginning to 'withdraw' from their over-dependence on crude oil is to be able to find ways to adjust to a possible world where there would be no more crude oil. Since none of them would like to be caught unawares, countries have tasked their best brains, researchers, scientists and industrialists to work out ways to move from fossil to renewable energy sources which would be clean, environmentally friendly, cost effective (at least, in the long term) and sustainable.

Climate Change and GHG – Another reason why the world is waging a war against crude oil usage is the negative impact the fossil has on the human and natural environment. Carbon emission from fossil fuel is known to pollute the environment and cause the much dreaded global warming. Reducing global consumption of fossil fuel is a crucial countermeasure for global warming. In fact, this has become the most important reason why 'the crude oil must go" campaign is being waged around the world, championed by the OECD countries. And it will not be long before the developing economies



Shiroro Dam, Niger State

http://static.panoramio.com/photos/large/45897995.jpg

of the world join fully in this campaign. China, South Korea and several other developing economies are already in the forefront of the struggle to find alternatives. This has resulted in the ambitious search for renewable energy sources that are environmentally friendly and less costly in the long term.

Zee News (India) in a report "Carbon emissions from fossil fuels to impact global warming" published on August 06, 2013, cited the outcome of a new study by Richard Zeebe at the University of Hawaii on the impact of fossil fuel on climate change. According to this report, "over the past 250 years, human activities such as fossil fuel burning have raised the atmospheric CO2 concentration by more than 40% over its preindustrial level of 280 ppm (parts per million). In May 2013, the CO2 concentration in Earth's atmosphere surpassed a milestone of 400 ppm for the first time in human history, a level that many scientists consider dangerous for its impact on Earth's climate. The globe is likely to become warmer in the near future and probably a lot warmer in the distant future." http://zeenews.india.com/news/eco-news/carbon-emissions-from-fossil-fuels-to-impact-global-warming_867288.html.

Experts have repeatedly warned that climate change and the fear of global warming have the potential to destroy the earth and its biodiversity, reduce water quality and availability, destroy the soil and agricultural productivity and if left unchecked, render the earth uninhabitable for humans and other living organisms. This fear is perhaps the single most important reason why the world is now striving so hard to reduce the consumption and heavy dependence on crude oil.

The Measures to Replace Crude Oil

The west had in the last few decades conceived initiatives that would adequately prepare them for a crude-oil-free world. The objective seems to be, to achieve a lifestyle that is similar to the pre-industrial age when fossil energy (Petroleum, coal, and natural gas) had not become an indispensible part of our every day existence.

Some of the measures being taken to rid the world of crude oil include a campaign to drastically reduce fossil energy consumption. Individuals, communities, businesses and even governments are being educated on the ecological and economic disadvantage of a continued overreliance on crude oil. The impact of the burning of fossil on the natural and human environment is being preached with the dangers of climate change and atmospheric carbonation as the major weapons of fear that are being unleashed.

Also, several communities in Europe and America are beginning to adopt the Transition Town Initiative. Transition Town is an initiative that was conceived by the Irish man and permaculture instructor, Rob Hopkins, between 2005 and 2006 as part of his students' project work. The whole con-

cept is borne out of the need to adapt to a world threatened by two major phenomenon- the Peak Oil and climate change. And these twin problems are fallouts of man's overreliance and overconsumption of fossil energy in his everyday life. Transition Towns endeavor to achieve self sufficiency and break away from over-dependence on fossil fuel usage. Today, there are thousands of Transition Towns around the world, located mostly in western countries, and with the mandate to change people's way of life to one that is free from the traditional dependence on fossil fuel and make the natural environment cleaner and greener.

In addition to Transition Town initiatives, businesses are being encouraged and (in some instances) regulated to reduce their carbon imprint on the natural environment. Some of the ways this is being achieved is by reducing their consumption of fossil and devising energy saving business policies and practices. The introduction of the controversial carbon credit, which in layman's language is a way of rewarding or sanctioning environmental friendly or unfriendly practices, is another measure being taken by the western economies to compel businesses to go 'green'.

Governments and businesses are also being encouraged to invest in the development and production of renewable energy including wind, thermal (sun), hydro (water) and other forms of sustainable energy. In several countries, policies and practices are being put in place to ensure a calculated reduction in fossil energy usage and an increase in the proportion of renewable energy in the total national energy mix over a specified period of time. Some countries are already implementing rewards and penalty systems for compliance with or defiance of laid down renewable energy and environmental enhancement policies.

Of course the development of ethanol from food commodities and recycled waste is also gaining prominence around the world, even though this had come with severe criticisms, especially owing to the impact of the technology on food price and availability, among other sustainability concerns. Researches are also ongoing on the possibility of using water and other non-fossil commodities to power automobiles and other industrial and domestic machines, all in the bid to find a way around what has become a problematic fossil fuel production and consumption pattern.

Shale Oil – a Sustainable Alternative?

The global media had been replete with news about the increasing focus of the United States on the exploitation of its shale oil reserves. Shale oil is an organic, fine grained sedimentary rock that contains chemical compounds called kerogen. When heated at high temperature, shale oil undergoes a process that releases vapour. And when cooled, this vapour generates shale oil (different from conventional fuel) as one of its byproducts. Shale oil could be used to perform much of the functions that crude oil byproducts also perform. It is therefore an alternative to crude oil.

The world is estimated to have shale oil resources that could yield up to the equivalent of almost 2 trillion barrels (about 400 billion cubic metres) of oil, deposited in about 600 locations around the globe. This is almost twice the estimated total global crude oil reserves of 1.3 trillion barrels. The United States holds the world's largest shale oil reserves with an estimated yield equivalent to about 1 trillion barrels (160 billion cubic metres). China also has a major shale oil reserve that could yield up to 4 billion metric tons.

Despite growing fears among oil producing developing economies on how shale oil exploration in the west could displace the demand for crude oil, shale oil production and consumption is as 'unsustainable' as crude oil for several reasons. To start with, shale oil exploration and consumption has virtually all the environmental challenges for which crude oil is being persecuted – air pollution, soil erosion, water degradation, and the release of greenhouse gas. Moreover, shale oil production is much more expensive and even more environmentally damaging. While the west and other economies like China and Brazil that has shale oil reserves in abundance may continue to exploit it for their convenience from time to time, especially during periods of high crude oil price or supply disruptions, it is never likely that shale oil would become a sustainable alternative to crude oil, now or in the future. In fact, for reasons of its negative environmental impact and high costs of production, shale oil is as endangered as crude oil. Shale oil is not the major threat to crude oil – the search for renewable energy is.

The Politics of crude oil

The quest for an unhindered access to crude oil for the lubrication of western industrial machines and to sustain their 'luxurious' lifestyles has been known to have resulted in several global and regional conflicts. There is no commodity that has generated as much conflict and infighting as crude oil. The absence of this all important commodity has the potential to ground even the most important of economies and result in a major global socioeconomic calamity. As it currently stands, without oil, millions of industries around the world would be closed, and so would millions of jobs go down with them. In fact, the power of the black gold in global politics cannot be overrated. The world currently runs on crude oil and discerning crude oil producing nations have been able to wield much power in international diplomacy and succeed in having their ways despite their status as developing economies.

Oil Alternatives: Propaganda or Real?

While western economies are intensifying efforts to find alternatives to fossil fuel, several countries, especially the oil producing ones, still consider much of the talks on 'alternatives' as a propaganda aimed by the west to discredit crude oil as a commodity – or as they put it, an effort to 'give the dog a bad name in order to hang it". Some even prefer to assume that there can never be an alternative to crude oil. But the situation has gone past the issue of assumptions. It is about time to face the emerging reality. For the oil producing nations, the bubble seems about to burst and it is time to start taking much more seriously, that issue that had been treated with lip service for way too long – the need to diversify their economies away from the current overreliance on crude oil earnings. Sooner than we know, demand for crude oil may drop as more countries find ways of producing renewable energy. And with the billions of dollars that are being invested in research and the development of renewable energy, it might not be long before a cost effective, sustainable alternative to crude oil is found.

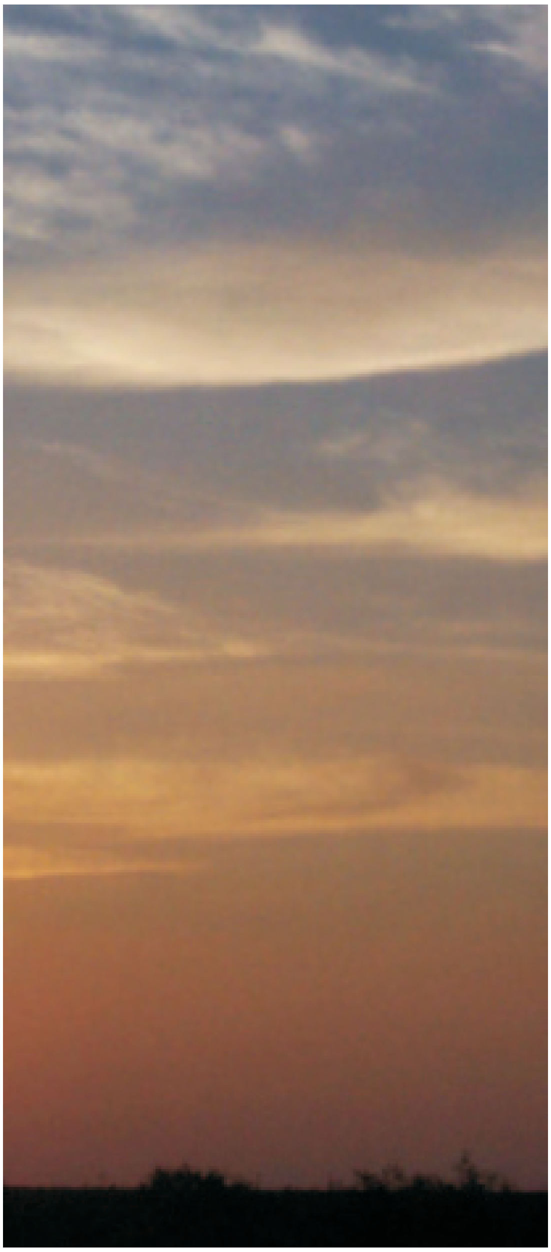
Options for Oil Resource Dependent Economies

While the crude oil consuming nations are wailing about the negative impact of fossil consumption on the eco-system, for the oil producers, it is actually a double-jeopardy. Not only do they also suffer the same damages to their natural environment owing to their consumption of the commodity, they also face another critical challenge – the negative impact of the exploration of crude oil on the human and ecological environment. The experiences in Nigeria's Niger Delta and several other oil producing communities attest to this problem. The negative impact of gas flaring, oil spills, degraded soil, debased aquatic life, loss of flora and fauna biodiversity, are some of the numerous environmental repercussions suffered by oil producing nations as a result of oil exploration activities. And because of this double-impact, ideally, the oil producing economies should be even more concerned about finding alternatives to oil in the long term than the oil consumers.

The world's major oil consumers are putting measures in place to finally do away with their centuries-long overdependence on crude oil. But what

Source: http://upload.wikimedia.org/wikipedia/commons/0/0b/West_Texas_Pumpjack.JPG do the major oil exporters need to do to be able to finally do away with their over-dependence on crude oil proceeds?

The first thing oil producers must do is the same old sermon – diversify their economies away from crude oil dependency, for the reasons that the west is right now diversifying away from crude oil consumption, and much more. For a start, climate change is not a western problem, it is a global danger. Carbon and greenhouse gas emissions is also not a western challenge, it is a global one. If the sea levels around the world rise to uncontainable levels, the resulting devastation will not be restricted to the western world; it would be a global crisis. if the earth comes crumbling down owing to the constant violations on it arising from massive cases of deforestation, greenhouse gas emissions, climate change and global warming, it will not be caving in on western economies alone but on all humans. Diversifying away from crude oil has gone beyond being a political or economic issue – it is now an ecological one and a moral responsibility of all nations, including nations that today earn tens of billions of dollars from the export of the commodity.



Also, there should be stricter regulations and implementations of environmental laws. The current environmentally degrading practices which leave oil spills unattended and destroy the eco-system with impunity need to be addressed. The least oil explorers could do in the short term is to improve on their environmental impact assessment and management practices to reduce the ecological impact of their exploration activities.

Another measure crude oil exporters should take is to begin to find alternative sources of energy for themselves. The whole world has now seen the 'unsustainability' of the over reliance on crude oil. Oil producing economies are not immune to the crisis that could follow should we all wake up one day to discover that oil wells have dried up. The rest of the world is preparing to hedge such a development; and so should the major oil exporters. Luckily, sources of renewable energy actually abound in several of these countries – sunshine for thermal energy, wind for wind energy, water for hydro energy, among others. African major oil producers such as Nigeria, Angola and Libya are also currently fighting the problem of inadequate electricity supply. Leveraging these natural, renewable sources of energy would enable them use one stone to kill two birds.

Energy efficiency should become a way of life. People should learn to walk again as was the tradition in the days of old, instead of bringing out their cars to embark on journeys that are just few kilometers away. People should learn to ride bicycles on the streets again, while local authorities should ensure the safety of such commuters by building walkways and bicycle pathways. There is also the need to develop the habit of switching off electrical gadgets that are not in use and to learn to deliberately abstain from using energy when there is no pressing need for it. Energy wastefulness is one of the scourges to fight in the new dispensation.

It is time that major oil producing developing nations begin to establish full fledged agencies dedicated strictly to Renewable Energy research and development. It is also time to train and retrain the workforce on major global emerging trends – sustainable development, renewable energy, energy efficiency, waste management and recycling, environmental preservation, bio-degradability management, and several others. Delay is indeed dangerous as most of these oil exporters are already far behind in the global campaign to walk away from fossil energy and go 'green'.

Luckily, several of the major oil producers in Africa and Asia have other commercially viable natural resources at their disposal. It is time to invest in their sustainable exploration and development.

Also, businesses must begin to see the transition towards renewable energy production and usage as their corporate social responsibility. In fact, this should become a major performance measurement indicator going forward. In addition to the gradual reduction in fossil energy usage, at the communal, national, individual and corporate levels, energy efficient bulbs and home appliances should be introduced in existing and new buildings; waste and recycling bins should be deployed in strategic locations and made accessible to all.

Governments of these oil dependent economies must begin to create a very conducive environment for businesses of all sizes to thrive, to attract local and foreign investors. The small and medium sized enterprises must be encouraged with the provision of necessary infrastructure, access to funding and a favorable tax regime. The blossoming local industries must also be protected from harsh and unfavorable competition posed by imported goods and services. The development of the productive sector is one way to diversify the economy, provide jobs, enhance the quality and standard of living and fight the scourge of high poverty rate prevalent in several developing and low income economies.

Massive investment in agricultural should be implemented, along with policies that encourage environmentally friendly agric practices that do not destroy the forests or downgrade the natural environment. A flourishing agricultural sector would ensure food security and self sufficiency in one of life's most indispensible need – food. It is also a way to protect the local economy from imported inflation, high food costs and possible supply disruptions and shocks. A viable agriculture industry would also provide meaningful employment for the populace and alleviate the scourge of poverty and hunger while also diversifying the sources of local and foreign exchange earnings.

Also, it is time for oil producing economies that have not already inculcated that practice to begin to save their crude oil earnings for future generations and invest in projects that are sustainable and with the potential to turn around their economic fortunes. It is also time to ensure fiscal and monetary prudence and avoid wasteful spending that do not in any way impact the socio-economic bottom-line. It is time to fight corrupt practices in public administration and ensure a transparent and efficient management of crude oil and other national resources.

Also, preparatory to that era when there will be no more billions of dollars in foreign exchange to be earned from crude oil exports, major oil exporting countries should begin to build a viable, educated, skilled and globally competitive workforce. This would go a long way in encouraging innovation, entrepreneurship and a sustainable economic diversification.

Source: http://media.web.britannica.com/eb-media/41/91641-050-0088637E.jpg

In conclusion, it is important to flag the fact that fossil energy producing economies are not in any way immune to the current concerns about the negative impact of fossil consumption on the environment. It is a global problem and of global concern. The oil producing economies should not see ongoing campaigns against fossil fuel consumption as a façade or another western-styled imperialistic tool. This time, the threats are real and no economy should be caught unawares.

Also, it is important for developing economies to understand that the efficient management of crude oil resources is the only way they would be able to use oil wealth to build a lasting legacy. In fact, you could call this the era of *consolidation* of oil wealth, preparatory to the worst possible outcomes. Oil reserves may not last forever, but they can utilize what they earn from the commodity today to build solid economic structures and generate sustainable wealth that the future generations could leverage. With the threat of Peak Oil, this might be the only way to convince posterity that 'once upon a time' there were huge oil reserves and great oil wealth in these major exporting countries.

From all indications, the world seems all out to get rid of fossil fuel consumption. And it is time for crude oil resource dependent economies to begin to chart a new economic path for themselves. If they fail to do this, and quickly too, the end result could be economically catastrophic.

Of course the growing campaign to transition from the consumption of fossil energy to renewable energy will not be an easy ride, considering how deeply addicted we all are to fossil energy; and how indispensible it has become in our everyday lives. But with the appropriate political will, motivation and resources to make it happen, the mission could be accomplished sooner than we think.

(Eunice Sampson is the Deputy Editor, Zenith Economic Quarterly)

Risk Management In The NIGERIAN BANKING SYSTEM

part ONE

By Chuks Nwaze

In the last edition of this serial, we looked at the transformation agenda from the point of view of the deficits in the delivery of affordable residential housing as well as the pattern of utility derived or expected to be derived not only by the incumbent house owners but also the prospective ones in that regard. The point was made that the transformation agenda with respect to the housing sector would be incomplete if houses are being delivered without recourse to the feelings, tastes or preferences of 'consumers' of the product.

NON-PERFORMING LOANS: FAILURE OF RISK MANAGEMENT

From this edition, we shall commence a new segment in the serial that will address the perennial albatross of risk management in the Nigerian banking system. There is no doubt, whatsoever, that lack of adequate attention to the basic challenges and dictates of risk management have been largely responsible not only for the stunted growth of our financial system, generally, but also for the untimely eclipse of otherwise very promising institutions.

http://bryantwarren.com/wp-content/uploads/2013/07/bank-building-icon.jpg

To enable us beam a searchlight on the issue in an organized and informed manner, we intend to carry out an empirical study on the failure of risk management on the assets side of the banking balance sheet which is loans, otherwise called risk assets or credit, and the specific reasons for that failure in our own environment. In other words, we are going to focus on the causes of *non-performing loans,* which is obviously a fundamental failure of risk management, as well as the related issue of remedial management which is an attempt to mitigate the extent of damage or losses suffered by the lender.

BACKGROUND TO CREDIT RISK MANAGEMENT

The basis for the existence of the banking industry in an economy is primarily premised on the age-long concept of financial inter-mediation which involves the art of bringing together the surplus and deficit sectors or units of the economy with a view to satisfying each sector's financial needs (Chang, 2006). In other words, the funds from the surplus section obtained in the form of deposits, are made available to the deficit sector through credit facilities which can be short-term (overdraft), medium term or\ long-term, depending on the nature of the deposit liability as well as the needs of the end-users (borrowers).

This inter-mediation role of banks encompasses not only deposit-taking but also risk-taking. Banks have five main constituencies, which they satisfy in the course of carrying out their functions as financial institutions (Nwankwo, 1991). These constituencies include the surplus unit (creditors), the deficit unit (borrowers), the community in which the banks operate, the regulatory authority and the bank's shareholders. A very important constituency is the surplus unit from which the bank derives its resource base (deposits) with which it meets the needs of the other constituencies. It is instructive to note that this unit demands the best terms as regards rate of interest which constitutes the reward or return for the deposit, maturity structures and maximum liquidity to enable it have the funds back.

Another constituency is the deficit unit which makes up the other end of the intermediation process as the funds obtained from the surplus unit will be ultimately disbursed to members of this unit in a similar manner the funds were obtained from the surplus unit by the bank. The bank obtains its compensation from the 'spread' between the borrowing and lending rates from the surplus to the deficit units respectively (Freixas & Roch, 1997).

The bank shareholders that require optimal return on their investments is the third constituency to contend with while the fourth constituency is the regulatory authority which formulates the framework within which banks operate prudently and within stipulated regulatory requirements or guidelines. Finally, there is the community, which provides a conducive environment in which the banks operate. This requires the bank to be a good corporate citizen not only by maximizing the environmental opportunities but also minimize the threats that abound in the community (Olokoyo, 2011).

A feature which runs through all the constituencies is the perceived conflict of interests (Gehrig, 1996). For instance, the obligation of maximum liquidity owed to the surplus unit can only be satisfied by holding all the deposited funds in cash since it is this that has the highest liquidity. However, since cash in this form earns nil returns, the obligation of optimal return to the shareholders' investments cannot at the same time be fulfilled. To achieve this specific objective to the fullest, the bank will need to invest all its funds in loans and advances (known as risk assets). These are the bank's highest yielding assets as well as the most risky and, as the saying goes, maximum return accompanies maximum risk.

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EFFECTIVE LENDING: THE ANTIDOTE

It is clear enough that this apparent conflict of interest between the expectations of the major stakeholders in the banking horizon posses a major challenge to risk management. The challenge has to do with how to harmonize or synchronize the various interests in the deployment of organizational resources without jeopardizing the continued existence or survival of the institution. The solution lies in the concept of ***effective lending*** which is the only way to satisfy all the constituencies. Effective lending refers to that quantum of lending that maximizes not only the bank's objectives of liquidity and profitability, but also the nation's fiscal and monetary objectives at large.

Effective lending which serves as a vista for meeting the above-mentioned conflicting objectives also serves as a tool for national economic development. The banks assist in achieving this objective through the intermediation role by mobilizing funds in quantities and terms acceptable to the surplus sector and disbursing same to the deficit sector under acceptable conditions for viable economic ventures. It is logical to state that the extent to which effective lending can influence economic development is premised on how many credit facilities are initiated and consummated in the agreed terms and conditions between the parties (Nkusu, 2011).

One of the fundamental challenges that confront banking institutions is the fact that at the end of the day, several of these credits end up being substandard, non-performing or even bad in the worst cases (Chidechai 2004). What is responsible for this scenario? The choice of this study is informed by the need to elicit answers to this question as any effort on this regard would, no doubt, make some positive impact in the national economy which should be the focus of the citizens of this country at this material time.

Although this yawning gap has always existed, I am not aware whether any previous evaluation of this nature has been undertaken on the vexed issue of non-performing loans in Nigeria, especially from the point of view of symptoms, causes, remedial management and implications for the entire system. It is believed, therefore, that this is a pioneering work on the vexed issue of risk management in the Nigerian financial system.

STATEMENT OF PROBLEM

The extent to which financial intermediation through the extension of credit facilities can favourably influence the national economy depends on the number of facilities that are taken to the end in accordance with the agreements upon which the facilities were consummated by the parties involved (Olokoyo, 2011). The research problem, therefore, is the prevalent high loan default rate by loan beneficiaries and the factors responsible for the apparent failure of risk management in this regard. In other words, what is responsible for this state of affairs?

The risk management factors in question with respect to borrowers include: character, collateral, environmental conditions, corporate governance as well as remedial management measures with respect to the lending organization (bank). These are the factors we are going to empirically investigate in this and the next few editions of this serial.

Another fundamental problem which needs to be properly analyzed has to do with the possible effects of the plethora of non-performing facilities that dot the banking landscape, especially its negative effect on the liquidity or solvency position of banks (Sanusi, 2012). Surely, insolvency is the inescapable route to financial distress which is a regular occurrence in our own jurisdiction. Despite the several prudential guidelines as well as frequent regulatory interventions designed to stave off the malaise, the fear of bank-

ing distress in our financial landscape remains the beginning of wisdom for all the stakeholders, especially depositors.

The concern is that loan delinquency has ominous impact on the economy in that it reduces the volume of funds available for credit facilities as it limits the lender's capacity to disburse further loans (Wilson, 1997). Lenders (banks) become increasingly unwilling to grant credit facilities as more loans in their credit portfolio become bad, thereby impacting negatively on the national economic plans, programmes, policies and development strategy. According to Wilson, non-performing loans can bring down investors' confidence in the banking system, pilling up unproductive economic resources and impede the resource allocation process (Woo, 2000:2). Also, non-performing loans can thwart economic recovery by shrinking operating margins and eroding the capital base of the banks, practically making it difficult for new loans to be advanced. This is sometimes referred to as 'credit crunch'.

NON-PERFORMING LOANS AND RISK MANAGEMENT FACTORS

The central objective of this enquiry is to evaluate the effects of a customer's character, collateral, environmental conditions, corporate governance and remedial management measures on non-performing loans in the Nigerian banking system. Specifically, the above general objective can be broken down as follows:

- To investigate the impact of customers' character on non-performing loans in the Nigerian banking system.
- To evaluate the effect of environmental conditions on non-performing loans syndrome in Nigeria.
- To evaluate the role of collateral on non-performing loans in the Nigerian banking system.
- To examine the effect of bank corporate governance on non-performing loans in the Nigerian banking system.
- To assess the effectiveness of remedial management measures on non-performing loans in the Nigerian banking system.

RESEARCH QUESTIONS

As a consequence of the objectives highlighted above, this study will attempt to provide answers to the following questions:

i. In what way does the customers' character give rise to non-performing loans in the Nigerian banking system?
ii. How do environmental conditions affect non-performing loans?
iii. What is the effect of collateral on non-performing loans?
iv. How does corporate governance impact on non-performing loans
v. How effective are remedial management measures in the resolution of bad loans?

RELEVANT RESEARCH HYPOTHESES

As a logical follow-up to the objectives of this study as well as the research questions stated above, the following testable research hypotheses can be formulated:

Hypothesis1: (Ho1): Character has no significant effect on non-performing facilities in the Nigerian banking system

Hypothesis2: (Ho2): There is no significant relationship between environmental conditions and non-performing loans

Hypothesis3: (Ho3): Collateral has no significant effect on non-performing facilities in the Nigerian banking system

Hypothesis4: (Ho4): There is no significant relationship between corporate governance and non-performing loans

Hypothesis5: (Ho5): Remedial management measures are not significantly effective in the resolution of non-performing loans

The concern is that loan delinquency has ominous impact on the economy in that it reduces the volume of funds available for credit facilities as it limits the lender's capacity to disburse further loans (Wilson, 1997).

http://integritydebtrelief.org/img/Debt-for-Canadians.jpg

SCOPE OF STUDY

The research focuses more specifically on all the sub-sectors of the banking industry as well as the corporate lenders who are the first line victims of loan defaults. Although the issue of non-performing loans has no time limit, the specific period under consideration is the post-consolidation era of 2006 to 2013. This period was chosen because the consolidation policy introduced some measure of sanity into the industry and marked a new beginning in the annals of the banking system in Nigeria, not only by considerably downsizing the number of deposit money banks from 89 to 24 but also by compelling them to increase their minimum capital base. At the moment, each bank has been directed to operate with a capital base of N10billion, N25billion or N50billion depending on whether it wants to operate regionally, nationally or internationally in line with the regulatory guidelines.

As a result of the various stages of regulation and deregulation which the Nigerian banking industry has traversed over the years, the number of deposit money banks as at October 2013 stands at 22 (commercial and merchant banks), 4 development finance institutions (development banks), several specialized banks (mortgage banks, microfinance banks and one non-interest bank). This is the outcome of several regulatory interventions, distress-induced revocation of operating licenses, consolidations, recapitalizations and peer acquisitions as witnessed in our financial system in recent times. Two new deposit money banks were also licensed in the last two years.

For practical purposes, however, this study will be limited to only a representative sample of credit staff of the deposit money banks but care will be taken in the sampling technique to ensure that all the deposit money banks in the industry are represented. It is expected that this representative nature of the institutions will present an opportunity for a national outlook and also provide a robust academic insight into the issue of non-performing loans in Nigeria. Hence, the specialized banks such as microfinance banks, primary mortgage and non-interest banks are specifically outside the coverage of this work because their modus-operandi, regulatory requirements and target market are essentially different from the deposit money banks.

This work will also examine the meaning and the place of credit or loan in the national economy. The traditional approach to credit analysis and administration structure and practice are also examined. The study lays special emphasis on non-performing risk assets or credit facilities, symptoms, root causes, remedial management as well as effects.

RELEVANCE OF RISK MANAGEMENT IN BANKING BUSINESS

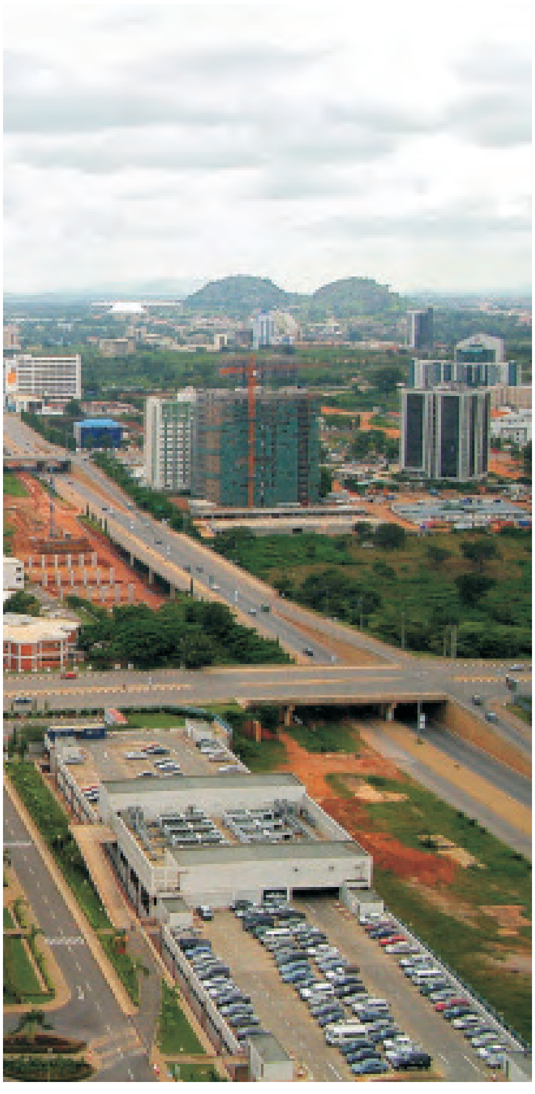
As outlined in the earlier sections, the relevance or significance of risk management in the banking industry strikes at the root of the business itself. Hence, this study is not only timely but indispensable to the practitioners themselves. Primarily, this particular segment on non-performing loans is premised on the need to provide banks, the hard-hit of loan delinquency, with a better understanding of the salient issues in risk management with special emphasis on loan default and recovery as well as proffering better strategies on remedial management of non-performing loans in line with the Prudential Guidelines for performing and non-performing risk assets as well as provisioning for perceived losses.

A study of this nature is also welcome at a time like this when many financial institutions are under pressure to explain the basis of the lofty earnings being declared in the face of increasing loan delinquency which has even prompted various governments around the world, including Nigeria, to establish the Asset Management Corporations (AMCON) charged with the responsibility of dealing with the toxic assets (non-performing credits) of the banks.


http://connectnigeria.com/articles/wp-content/uploads/2013/09/CBN2.jpg

It is also pertinent to note that the prevalent high rate of loan defaults impacts heavily on banks' capital adequacy. Capital adequacy as defined by Nwankwo (1991) is that quantum of funds which a bank should have or plans to maintain in order to conduct its business in a prudent manner. The major tenet of the November 1991 Prudential Guidelines is the timely recognition and provisioning for delinquent credit facilities; based on this, more facilities are being classified as non-performing resulting in an increase in the total provision for bad and doubtful debts. This most banks now augment with their capital by posting very low profit figures.

In the national horizon, it would no doubt be of immense importance since financial inter-mediation is one of the indispensable tools of the government in national economic development programmes. The government is able to achieve this through the banks by channeling funds from the surplus unit to the deficit unit which then applies the funds for meaningful national economic purposes.



The government monetary and fiscal policies are also implemented and monitored through the instrumentality of the banking system. Credit in the form of loans and advances is primarily the means of achieving these national goals. On balance, the relevance of the study in the light of the foregoing is, first and foremost, the fact that the banking system is the life-wire of the economy while credit is the engine of the banking system. It stands to reason, therefore, that by studying and addressing the malaise of loan default, we are contributing not only to the economic progress of Nigeria but also to the development of the society at large.

LIMITATIONS OF THIS STUDY

The first limitation is the fact that this study will not, for practical reasons, cover all the banks within the financial system, hence only a representative sample comprising of the sub-sectors of the industry will constitute the basis of the study. It is possible, therefore, that some factors that are peculiar to some banks could be omitted. However, this tendency will be minimized by increasing the sample as well as ensuring that every stratum is satisfactorily represented.

Preparatory to the delivery of questionnaires, which is the research instrument to be used for this study, a process of consultation and fixing appointment for interview sessions has already commenced. This is to allow the bankers ample time to respond accurately and objectively to the questions within a reasonable time frame. In addition, the questionnaires will all be delivered and collected by hand or e-mail. No postage.

The secrecy of banking business as evidenced by the conservativeness of the banks and its officers may also constitute a practical constraint in obtaining completely fair, accurate and honest answers to the questionnaires in addition to the fact that respondents would not want their names or places of work disclosed. However, other sources of data, including the mandatory statutory returns sent by the banks themselves to regulatory and statutory agencies will also be consulted. This secondary source of data will assist to maintain checks and balances over the primary sources.

DEFINITION OF TERMS

Asset Management Company (AMCS): A company that invests its client's pooled fund into securities that match its declared financial objectives. AMC's provide investors with more diversification and investing options than they would have done by themselves or on their own. With respect to bank loans (risk assets), AMCS perform the crucial role of buying the bad loans from the books of banks thereby improving their liquidity and ability to continue in business.

Bad Loan: This refers to a debt that is not collectable and therefore worthless to the creditor. This occurs after all attempts are made to collect on the debt. Although bad debt is usually a product of the debtor going into bankruptcy due to business failure or unexpected circumstances in which case the additional cost of pursuing the debt will be more than the amount the creditor could collect, some bad debts also have to do with the character of the debtor and his patent unwillingness to pay, even when he can afford it. This particular scenario is often associated with insider abuse and fraud which is prevalent in less-developed economies. The debt, once considered to be bad, will be written off by the company as expense. In the case of a bank, however, only full provisions are made; the indebtedness remains in the account of the debtor for possible future settlement.

Banking System: By this we mean the structural network of institutions offering financial services within a country. The members of the banking system and the functions they typically perform include commercial and merchant banks that accept deposits and make loans; investment banks which specialize in capital market issues and trading; development banks that provide additional long-term financing for national development and national central banks that issue currency, control monetary policy and act as banker to government.

Credit: This refers to a system allowing payment for purchases to be differed to a future date; a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company. The amount of money available to be borrowed by an individual or a company is referred to as credit because it must be paid back to the lender at some point in the future.

However, the term **'credit facilities'** includes loans, advances, overdrafts, commercial papers, bankers acceptances, bills discounted, guarantees, and all other obligations that are required to be settled at a future date, with or without interest.

Collateral: In lending agreements, collateral is a borrower's pledge of specific property to a lender, to secure the repayment of loan. The collateral serves as protection for a lender against a borrower's default, that is any borrower failing to pay the principal and interest under the terms of a loan obligation. If a borrower does default on a loan (due to insolvency or other event), that borrower forfeits (gives up) the property pledged as collateral and the lender then assumes the ownership of the property.

Credit Appraisal: This can be defined as the assessment of the various risks that can impact on the repayment of a loan. In short you are determining 'will I get my money back?' Depending on the purpose of a loan and the quantum, the appraisal process may be simple or elaborate. For small personal loans, credit scoring based on income, lifestyle and existing liabilities may suffice. But for project financing, the process includes technical, commercial, marketing, financial, managerial appraisals as well as implementation schedule and ability. Credit appraisal revolves around character, collateral capability and capacity. For individuals, it takes into account various factor like income of the applicant, number of dependants, monthly expenditure, repayment capacity, employment history, number of years of service and other factors which affect credit rating of the borrowers.

Delinquent Loan: A loan that is 30 to 60 days past due, with no payments being made.

Loan: A sum of money lent; the act of lending. In finance parlance, a loan is a debt evidenced by a note which specifies, among other things, the principal amount, interest rate and date of repayment. A loan entails the reallocation of the subject asset(s) for a period of time, between the lenders and the borrowers. In a loan arrangement, the borrower initially receives or borrows an amount of money, called the principal from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later date. The loan is generally provided at a cost referred to as interest on the debt; this provides an incentive for the lender to engage in the deal not only to cover his cost but also to make profit.

Non-performing Loan (NPL): Borrowed money upon which the debtor has not made the scheduled payments for at least ninety days. A nonperforming loan is either in default or close to being in default. Once a loan is non-performing, the odds that it will be repaid in line with the agreement are considered to be substantially lower. If the debtor starts making payments on a non-performing loan, it becomes a re-performing loan, even if he has not caught up on all the missed payments.

Past Due Loan: A loan on which payment in full is 30 to 60 days past due, but partial payments are being made. In other words, payments are in arrears.

Risk Asset: Any asset that carries some degree of risk. Specifically, in the banking context, risk asset refers to an asset owned by a bank or financial institution whose value may fluctuate due to changes in interest rate, credit quality, repayment risk, etc. In practical terms, this refers to loans granted to borrowers at specific terms and conditions. It is a risk asset because these terms and conditions can be breached and repayment can be in default. The extent of inherent risk will determine the extent of possible default.

(Chuks Nwaze is the Managing Consultant/CEO, Control & Surveillance Associates Ltd.)

New Auto Policy: Key to Nigeria's Industrial Revolution?

By **Sunday Enebeli-Uzor**

Apparently, owing to the need to urgently resuscitate the moribund automotive industry in order to conserve foreign exchange, domesticate automotive technology, and create employment opportunities, the Nigerian government recently unveiled the Automotive Industrial Policy Development Plan. The new automotive policy is designed to attract new investments into the automotive industry, encourage and protect local automotive manufacturers and ultimately put Nigeria among the league of auto-producing countries.

The plan is a mix of protective measures, incentives, regulatory activities, and local content programmes seeking to leverage on Nigeria's comparative and competitive advantages to jumpstart the automotive industry. It is part of the holistic Nigerian Industrial Revolution Plan (NIRP) aimed at diversifying the Nigerian economy and revenue base through industry, and increasing the manufacturing sector's contribution to Gross Domestic Product (GDP). The new automotive policy represents another concerted effort by

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the present government to wean the country from its chronic import-dependency and steer it towards the path of self-sufficiency in essential commodities, and local value addition.

Road transportation (for which automobile vehicle is the mode) plays a critical role in the entire national transportation chain. It connects other modes of transportation and permeates all aspects of modern economic activity in the economy. Road transportation has enormous influence on economic growth, development, and social cohesion. Availability and affordability of automobile vehicles is therefore a sine qua non for efficient road transportation. Commuting by automobile vehicles is ubiquitous and provides connectivity to numerous destinations and enables mobility across the country. In Nigeria, it is estimated that road transportation accounts for about 90 percent of the national passenger and freight services and provides access to rural areas where majority of the economically active segment of the population lives. The foregoing therefore underscores the significance of the automotive industry in the national transportation chain.

The New Automotive Policy

The main emphasis of the Automotive Industrial Policy Development Plan as enunciated by the Federal Ministry of Industry, Trade and Investments, is to encourage and patronise locally assembled vehicles in the short run and ultimately, the manufacture of inexpensive made-in-Nigeria vehicles that would gradually substitute for imports in the long term. The core strategy will focus on competitiveness and increased productivity of the automotive industry through the improvement of industrial infrastructure (automotive supplier parks and clusters), skills development, standards, investment promotion, market development and anti-smuggling measures. The policy completely overhauls the existing one and offers protection to existing and potential investors.

To achieve the lofty objectives of the plan, government will establish three automotive clusters in Lagos/Ogun, Kaduna/Kano, and Anambra/Enugu states. The locations of the clusters will enable automobile manufacturers share resources, reduce cost of investments, enhance productivity and enjoy other benefits of localisation of industry. To support the clusters, the Nigeria Automotive Council (NAC) has proposed to establish automotive supplier parks around the clusters. In addition, NAC also plans to develop modern mechanic villages in fourteen states in the country. It is expected that the mechanic villages will be breeding grounds for automotive technology and technicians to support the industry. The Industrial Training Fund (ITF) is also collaborating with Cena (a vehicle manufacturer in Brazil), to establish automotive training centres in Nigeria. Similarly, two Nigerian universities have been designated to commence degree programmes in auto-mechanical engineering to provide suitable local manpower.

To incentivise and woo investors, the government proposes to take the lead in patronising locally assembled vehicles as official cars for its Ministries, Departments and Agencies (MDAs). Also, to assure investors that there will be no sudden reversal of policy, the new automotive policy is to be backed by appropriate legislation. Government will hike tariff on imported vehicles to discourage importation of Fully Built Unit (FBU) vehicles. New Fully Built Unit vehicles are expected to attract 35 percent duty and 35 percent levy, totalling 70 percent charges, up from the present 20 percent. However, vehicle importers could still clear imported vehicles at the old rates until February 28, 2014, provided they can prove that they had opened a Letter of Credit for the vehicles before October 3, 2013. The policy will also encourage banks to develop vehicle acquisition schemes in the form of payment in installments to ensure easy affordability of cars by Nigerians.

The policy ultimately seeks to promote investments in the assembly of inexpensive cars in the country at affordable prices (expected to cost between N1.2million and N1.5million) and lead to the gradual phasing out of imported used cars. This will ameliorate the problem the masses face in commuting. Government envisages that the new automotive policy will kick-start the resuscitation and expansion of the petrochemical and metal/steel industries and also revive the comatose tyre manufacturing industry. The new automotive policy is government's deliberate import substitution industrialisation strategy to rescue the critical automotive industry from the economic menace of dumping. It essentially mimics the industrialisation path followed by other emerging economies like Brazil, China, Malaysia, India, Indonesia, Thailand and South Africa. The policy is expected to run as a ten-year plan and will be reviewed every five years.

Leveraging the Automotive Industry for Industrialisation

A good number of countries have successfully leveraged the performance of their automotive industry, and the broader manufacturing sector for economic growth and development, and ultimately industrialisation. These countries successfully adopted policies which include compulsory patronage of local automotive products and appropriate fiscal measures over the long term to industrialise their economies. There are also evidences of correlation between the quality of a country's road transportation system and its growth potential. This derives from the ease of mobility of goods to markets and the ability of skilled labour to move to

http://www.convoyautorepair.com/wp-content/uploads/2013/07/IMG_1188.jpg areas of demand. The extent to which a country's land mass is traversed by road network is an index of the degree of mobility of people, goods and services within the country, and the automotive industry is the fulcrum of road transportation.

The automotive industry is one of the most important industries in some countries. In Germany for instance, the automotive industry is the country's most important economic sector and Europe's single largest auto market. The industry is one of the highest employers of labour, accounting for more than 14 percent of all workers in manufacturing and about 8 percent of total industrial added value. In the United States, the automotive industry is one of the most important industries, historically contributing between 3 and 3.5 percent to the overall Gross Domestic Product (GDP), and directly employs over 1.7 million people engaged in designing, engineering, manufacturing, and supplying parts and components to assemble, sell and service motor vehicles.

The auto industry contributes about 6 percent to South Africa's GDP and accounts for almost 12 percent of the country's manufacturing exports. In South Africa, over 28,000 people are directly employed in automotive manufacturing, with another 65,000 employed in the component manufacturing industry, while about 200,000 are employed in retail and aftermarket activities, with 6,600 employed in the tyre manufacturing industry. South Africa has successfully positioned its automotive industry as a hub for the manufacture and export of vehicles. Components and major multinational auto firms use the country to source components and assemble vehicles for the local and international markets. The industry has helped to reduce the burden on South Africa's trade balance.

From the foregoing, it is obvious that the automotive industry is strategic in nature and has catalytic effects that could transform the Nigerian economy from simple, mineral exploration, low-value activities to an industrialized economy, while generating employment opportunities and creating wealth. Infact, a robust automotive industry offers one of the best strategies to fast-track the realisation of Nigeria's quest to join the league of top 20 developed economies by the year 2020. The industry is an important driver of growth, income, employment, and innovation. It impacts economic activities in a variety of ways through its forward and backward linkages with other sectors of the economy. It is estimated that Nigeria will save as much as $3.5 billion through the reduction of importation of auto vehicles.

Potential of the Nigerian Automotive Industry

Given an annual automotive import bill in excess of $3billion, the potential of the Nigerian automotive industry is quite enormous. Nigeria currently import about 200,000 used and 80,000 new vehicles annually, dissipating enormous foreign exchange and supporting the automotive industries of other countries as well as creating jobs elsewhere. In 2010 alone, Nigeria spent a whopping sum of $4.2 billion on importation of vehicles. In 2012, the country's vehicle import bill declined to $3.4billion, a level still considered to be a serious drain on the economy. At present, the Nigerian automotive industry has the capacity to produce 150,000 vehicles and has the potential to create 70,000 skilled and semi-skilled jobs along with an estimated 210,000 indirect jobs in ancillary Small and Medium Enterprises (*SMEs*) that will support the assembly plants. It is also estimated that around 490,000 other jobs will be created in the raw materials supply industries that will support the auto industry.

With a huge population – estimated to be around 170 million and a middle class in excess of 40 million, the Nige-

rian automotive industry offers a viable investment opportunity and promises high returns on investment for automotive companies seeking to have a stronghold on Africa's biggest market. Nigeria is currently the 7th most populated country in the world, with a 5-year annual GDP growth rate of about 7 percent. The country's middle class is growing and the rising income levels are indications that the automotive industry has a bright prospect. The country also has a large pool of trainable workforce that can easily be retrained to fit into the industry. The Nigerian automotive industry will not need to rely on the export market to be successful. However, it has the potential to become the auto hub and gateway for West and Central Africa, especially the four land-locked African Countries – Mali, Burkina-Faso, Niger and Chad.

Incentives in the Nigerian Automotive Industry

Aside from the general investment incentives available to investors in Nigeria, there are a wide range of generous specific incentives for the automotive industry. For instance, the industry has Pioneer Status. Pioneer status in Nigeria takes the form of a five-year tax holiday for companies located anywhere in the country, and a seven-year tax holiday for those located in economically disadvantaged local government areas. The granting of pioneer status to the automotive industry is aimed at enabling investors to make a reasonable level of profit within the formative years during which period the profit is expected to be ploughed back into the business.

Also, automotive establishments that have implant training facilities enjoy a 2 percent tax concession for a period of 5 years. Industries with high labour to capital ratio are entitled to the following concession: those employ-

Since the unveiling of the new automotive policy, some multinational automotive manufacturers have indicated interests to establish automotive assembly plants in Nigeria.

ing 1,000 persons will enjoy 15 percent tax concession, those employing 200 or more will enjoy a 7 percent tax concession, while those employing 100 persons or more have a 6 percent tax concession. Industries with up to 60 percent local raw materials utilisation attract 20 percent tax credit for five years. Up to 120 percent local expenses on Research and Development (R&D) are tax deductible, for R&D on local raw materials, 140 percent is allowed. Industries in economically disadvantaged areas would have an additional 5 percent capital depreciation allowance over and above the initial allowance. Industries with high local value added enjoy a 10 percent tax concession for 10 years.

Same Old Route?

Beyond the euphoria of the new automotive policy, some observers have expressed serious reservations owing to the fact this is not the first time an automotive policy is being articulated in Nigeria. Some have dismissed the new policy as a wild goose-chase because similar policies have been churned out for the industry in the past as Nigeria has always had an automotive policy since independence. Between 1970 and 1980 for instance, six automotive assembly plants (two for cars and four for trucks) were established in the country with a strategy to encourage backward integration with the steel mills. These were: Peugeot Automobile Nigeria Limited (PAN) in Kaduna; Volkswagen of Nigeria Limited (VWON) in Lagos; Anambra Motor Manufacturing Limited (ANAMMCO) in Emene-Enugu; Steyr Nigeria Limited in Bauchi; National Truck Manufacturers (NTM) in Kano; and Leyland Nigeria Limited in Ibadan. Total combined production capacity of the six plants was about 108,000 cars, 56,000 commercial vehicles and 10,000 tractors annually. In the 1960s, UAC, Leventis and Bewac, also had auto-assembly plants in the country. The only indigenous auto manufacturer that is still in business is Innoson Vehicle Plant in Anambra State. The company assembles Completely Knocked Down (CKD) parts of heavy duty vehicles, middle and high level buses from Chinese, German and Japanese makers.

The automotive policies of the post-independence era encouraged the patronage of locally manufactured cars, led by the government. During this period, the automotive assembly plants were a beehive of activities, and encouraged the establishment and growth of ancillary industries that manufacture sundry products such as tyres, wind shields, batteries and other vehicle components. These industries generated additional employment opportunities in the country. However, over time and due to regime changes and policy reversals, some of the automotive companies and ancillary firms have become moribund while some have closed shop due to inconsistent government policies, high operational costs, uncompetitiveness and lack of patronage even from the government that had equity stake in them.

A New Wave of Interests

Since the unveiling of the new automotive policy, some multinational automotive manufacturers have indicated interests to establish automotive assembly plants in Nigeria. For instance, Nissan and Stallion Group have announced their intention to jointly launch vehicle assembly in Nigeria. The parties have signed a Memorandum of Understanding (Mou) which will result in Stallion increasing capacity at its existing plant, VON Automobile Ltd in Lagos. The plant's annual capacity will be expanded to 45,000 units to assemble light duty trucks, pickups and vans. Capacity at the plant will also be opened to Nissan's Alliance partner Renault, to be utilised according to future business needs. Similarly, Toyota, Nigeria's largest supplier of new cars, has also indicated interest in setting up automotive assembly plant in Nigeria and is currently conducting a feasibility study for the project. In an effort to encourage the existing automotive components manufacturers and vehicle assembly plants, the National Automotive Council (NAC), recently announced the disbursement of $46million in loans to Peugeot Automobile Nigeria, Dunlop and Innoson Vehicle Manufacturing. According to NAC, the funding is directed at the production of automotive parts.

A New Dawn, Political Will Required

Recognizing the reservations of sections of industry observers and how previous governments had cowered in the implementation of past automotive policies, the present administration has given assurance that the pitfalls encountered in the past will be avoided in the execution of the new policy. There is sufficient reason to give the

present government the benefit of the doubt considering how other government policies – notably the Power Sector Reform Roadmap and the Agricultural Transformation Agenda are being pursued conscientiously. Another indication that government means business this time around is the move to back the new policy with requisite legislation. This will no doubt boost the confidence of investors and assure them that there will not be a sudden reversal of policy.

To be able to circumvent the pitfalls that plagued earlier automotive policies, the government has to diligently implement the new policy and checkmate the menace of smuggling. The latter is no doubt a herculean task given the size of the country and its porous borders. As with other business sectors of the economy, government should restrict its role to providing the enabling environment for the industry and encourage foreign and local investors to play in line with global best practices and adhere to international industry standards. Government should also set specific targets and timelines for every stage of implementation of the policy and ensure strict adherence. The policy is not expected to yield results overnight and it is estimated that to successfully implement the new automotive policy and attain self-sufficiency and possibly become a net exporter of automobiles, Nigeria needs a minimum of thirty years. The Automotive Industrial Policy Development Plan no doubt has good economic and business potential. The policy offers one of the best routes to diversifying the Nigerian economy and revenue base and could have huge multiplier effects in terms of income, employment generation and wealth creation. What is required to see it through to success is political will and conscientious implementation.

(Sunday Enebeli-Uzor is an Analyst, Zenith Economic Quarterly)

The Global Economy - recovery is on its way… *eventually*

By **Neil Hitchens**

The G7 – a mixed outlook?

Many finance ministers in the G7, the group of the seven wealthiest nations on earth by global net worth, must be wishing that they, too, could just shut their eyes and 'hope it all goes away'. The current G7 component countries, the U.S., Canada, UK, Japan, France, Germany and Italy, between them represent more than 63% of the entire net global worth (c $241 trillion) and approximately 50.4% of the global nominal GDP. At present 3 of their members find their economies in ever growing turmoil, three find they are finally recovering and one wishes it was not so dependent on its associate members who continue to drain its hard earned savings.

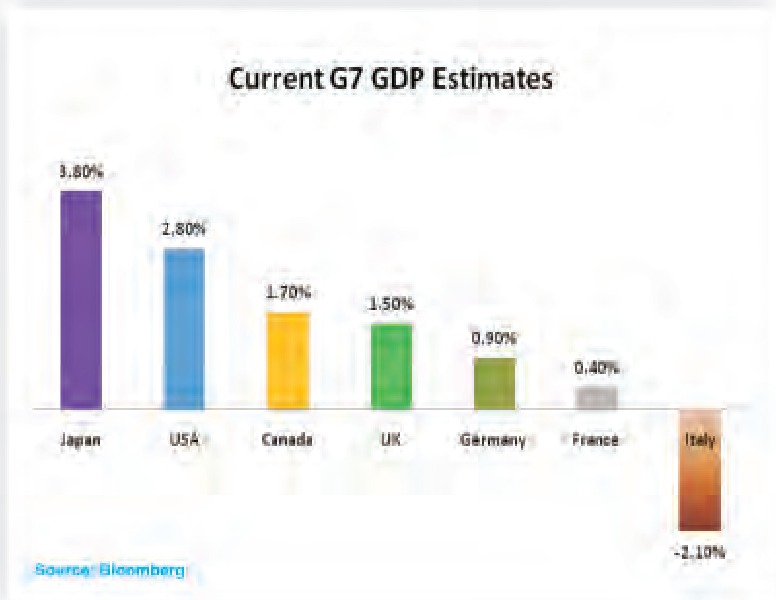
The three countries in need of an economic miracle are, of course, Japan, Italy and France.

Japan, as we have noted previously, is the first developed nation to start experiencing sustained and uncontrolled population reversal. Even the short term statistics would give actuarial accountants nightmares. In the 2010 census the country had a population of 128,056,026. As at the end of 2012 it was 126,659,683. While a drop of 1,396,343 in two years may not seem much, this 1.09% decline in population is only the beginning of a dire trend. In two years they have lost the equivalent of the*entire* population of cities such as Brussels, Copenhagen or Freetown, Sierra Leone.

Projections by the Japanese government indicate that if the current trend continues, the population of Japan will decline from its current 126.7 million to 116.6 million in 2030 and 97 million in 2050. This is truly astonishing and puts Japan at the forefront of uncharted demographic territory; but it is a territory that many other industrial countries are also beginning to enter as well. Such a decline in population over the next few decades, and the shortage of young people in particular, will have a significant impact on the Japanese labour force. Questions related to

'The Batman' Television Show, 1966

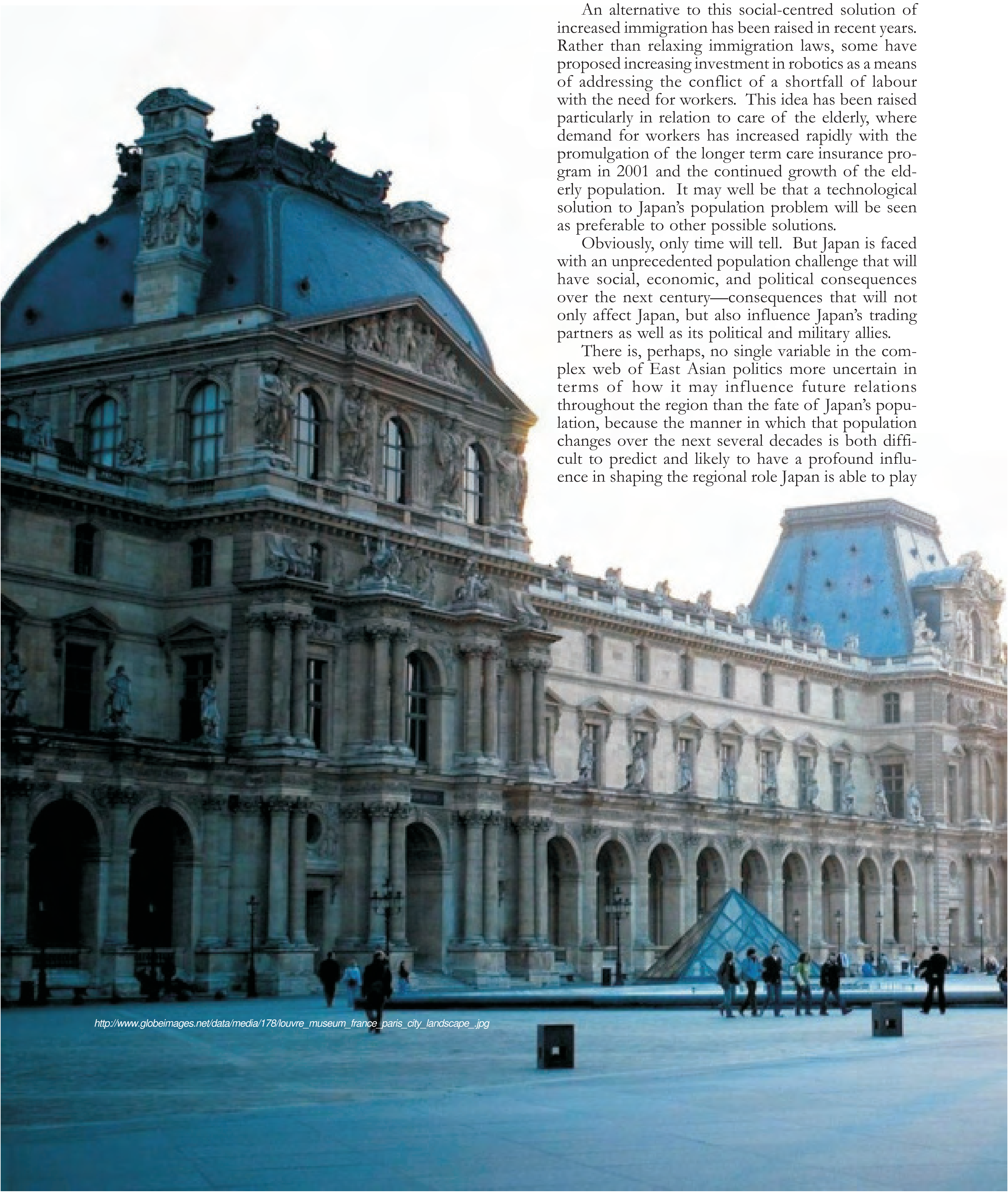
how to maintain economic growth—an issue that has been at the forefront of thinking about the country for the past twenty years, due to a generally sluggish economy—with a decreasing population are both complex and on the minds of policymakers. One obvious solution to this would be for Japan to relax immigration policies and allow for more foreign workers, particularly healthcare workers, to enter the country. Not, as yet, a particularly palatable solution, but this may well change as younger Japanese, with regular experience and interactions with foreigners, move into positions of power and guide policy.



An alternative to this social-centred solution of increased immigration has been raised in recent years. Rather than relaxing immigration laws, some have proposed increasing investment in robotics as a means of addressing the conflict of a shortfall of labour with the need for workers. This idea has been raised particularly in relation to care of the elderly, where demand for workers has increased rapidly with the promulgation of the longer term care insurance program in 2001 and the continued growth of the elderly population. It may well be that a technological solution to Japan's population problem will be seen as preferable to other possible solutions.

Obviously, only time will tell. But Japan is faced with an unprecedented population challenge that will have social, economic, and political consequences over the next century—consequences that will not only affect Japan, but also influence Japan's trading partners as well as its political and military allies.

There is, perhaps, no single variable in the complex web of East Asian politics more uncertain in terms of how it may influence future relations throughout the region than the fate of Japan's population, because the manner in which that population changes over the next several decades is both difficult to predict and likely to have a profound influence in shaping the regional role Japan is able to play



http://www.globeimages.net/data/media/178/louvre_museum_france_paris_city_landscape_.jpg as a political, cultural, and economic power.

However, Japan is, somewhat 'old news'. The newly found enthusiasm for "Abenomics" – the economic policies advocated by Shinzo Abe, the Japanese Prime Minister.

Abe aims to expand the economy of Japan, still facing challenges related to the global economic recession, by a combination of measures such as aggressive quantitative easing from the Bank of Japan, a surge in public infrastructure spending, and the devaluation of the Yen.

These policies can be compared and contrasted to other government measures across the world to stimulate economic growth. Keynesian theories of demand side macroeconomic changes are cited as partial inspiration for Abenomics.

Short-term, the results are working, partially. The Yen weakened by about 25% against the U.S. dollar in the second quarter of 2013 compared to the same period in 2012, with a highly loose monetary policy being followed. The unemployment rate in Japan has lowered from 4.0% in the final quarter of 2012 to 3.7% in the first quarter of 2013, continuing a past trend. Whether it will work or not, remains to be seen as our suspicion is that Japan will, eventually, continue to muddle on in the way it has for the past 20 years, hoping for something 'to turn up' externally as the US and China continue their recent growth trends.

However, if you thought Japan was in dire straits, then spare a thought for Italy and France.

In the latest OECD (the Organisation for Economic Co-operation and Development) regional report for Italy it notes that Italy's recession will continue beyond 2013 as the effects of fiscal tightening and restrictive credit conditions bear down on economic activity.

Employment and hours worked will continue to fall, constraining household budgets and consumption spending.

Despite recapitalisation, continuing losses hinder the banking sector from supporting investment and consumption, though some relief will come from the government's settlement of its payment arrears. Notwithstanding strengthening exports and less fiscal consolidation, growth will remain low in 2014 and the prospects for 2015/16 and 2017 remain fuzzy.

The projections assume fiscal tightening in line with government plans published in April 2013 which, along with gains from lower interest rates on maturing debt and a greater share of short-term borrowing, should keep the headline deficit at around 3% of GDP in 2013 and around 2¼% in 2014.

Policy priorities must include consolidating the growth-enhancing reforms of 2012 while limiting overall public spending and avoiding premature tax reductions so as to put debt on a downward path. With this degree of underlying tightening, automatic stabilisers should be allowed to work, with somewhat larger deficits if growth projections are not met.

Not exactly a ringing endorsement of the recent Eurozone fiscal relaxing. Italy, in reality, is once more acting as a major constraint on the rest of the euro zone. On October 29th 2013, Antonio Golini, the acting head of the National Statistics Office, said the economy had persisted in its decline in the third quarter. That totally contradicted the government's view that the country's longest recession since World War II had begun to bottom out. On the same day the finance minister, Fabrizio Saccomanni, revised down growth to -1.8% from an earlier dismal forecast of -1.7%,continuing his pessimism for the economy's performance in 2013. Even if growth returns in the fourth quarter, it is widely expected that any such growth would be, at best, anaemic. Such a lack of economic growth will make it even more difficult for the government to hold its predicted deficit-to-GDP ratio below the euro zone-mandated 3% ceiling and prevent its ballooning debts of €2 trillion ($2.8 trillion) from rising above today's level of 130% of GDP.

Italy's depressing outlook is basically being ignored by both local media and the Italian Stock Market – The 'BorsaItaliana S.p.A.' Only one mainstream daily Italian newspaper chose to report Mr Golini's depressing economic predictions. On the next day global and domestic fixed income investorschose to ignore this astute and probably correct prognosis by buying €3 billion of ten-year Italian treasury bonds which were issued with a mind-blowingly reduced coupon of just 4.11%. The markets seem convinced that America's Federal Reserve will keep money loose until at least next spring and, above all, trust the undertaking from Mario Draghi, the President of the European Central Bank, that he would do "whatever it takes" to save the Euro. Hence, investors have let the spread between returns on Italian and German benchmark debt slip to 250 basis points from 475 basis points when Mr Draghi made his promise in July 2012.

Here I truly believe the global market has got it wrong. While we have previously commented that the Euro is weakening daily because of the plight of smaller participants such as Greece, Cyprus or Portugal, Italy is the elephant in the room that everyone is ignoring. At a pinch full ECB control of the Greek or Cypriot economies could be feasible. However if Italy truly lives up to these predictions this could involve the complete annihilation of the Euro.

Italians are rather like the Japanese – while they had the Lira as their currency, the occasional devaluations here, the occasional interest rate changes there, helped keep the economy ticking over, but it was always one of the more sluggish European economies. However, for Italians, it worked and they remained sanguine about the longer term potential problems.

The trouble with such a sanguine view is that Italy's dismal fundamentals have so far done little to bring about any political stability; something that is critical for any structural economic reform. Mr Letta, the latest Italian Prime Minister, formed a left-right coalition out of necessity in April 2013.

The government continues to operate under mounting fire from the section of the PdL (Il Popolo della Libertà) the party of the disgraced former Prime Minister, Silvio Berlusconi. The media proprietor and former Prime Minister has bullied the government into fulfilling his campaign promise to kill off a property levy. Partly because of that, the Italian finance Minister's budget for 2014 will do little to stimulate growth.

Mr Berlusconi, who was found guilty of tax fraud in August, also seems to feel that Mr Letta should have intervened to stop him being convicted, or at least save him from the consequences of the verdict. Life will certainly be the less interesting when he finally goes to jail.

Hot on the heels of the somewhat expected continuing confusion and fuzziness from the Italian economy came some rather surprising news about the third of this unlikely trio of desperados – France.

Recent economic releases from the Insée – the French National Institute of Statistics and Economic Studies have been ringing the alarm bells the length and breadth of the Euro zone. In September, manufacturing output fell -0.7%. In the 3rd quarter of 2013 manufacturing output decreased in total -1.1% and was lower than the same period in 2012 by -2.0%. There was a slump in the 3rd quarter of the manufacturing and processing of petroleum products by -10.6%, a figure than defies logical explanation. France is, we are continually told, recovering from the recent slump – yet the official figures give a mirror image to anything the politicians may well say. In many respects a similar situation to Italy.

Since becoming President last May, François Hollande entered office pledging to roll back the harsh Germanic prescription of austerity. However having been in power for a little under 20 months the economic reality is hitting home fast. The French economy, so dutifully pandered to by successive French administrations is very slowly showing signs of extreme fiscal fatigue. A hard hitting budget where spending will slash borrowing to 3% of GDP next year (interestingly half the level the UK is planning for) sees about €30 billion of targeted savings – mostly via higher taxes. However, much as the observers in Berlin were probably cheering this radical move, the budget failed to address the underlying root cause of France's economic vulnerability. – Its lack of competitiveness and overbearing state.

http://money-own.blogspot.com/2013/02/berlin-city-germany-tourism-wallapers.html

This new found willingness for 'proper' austerity prevented a Frenchbond market meltdown – but theline that separates it from its Mediterraneanneighbours of Italy and Spain remains wafer thin.

It is France's extreme reluctance to confront the vested interests in the state apparatus that sees no chance whatsoever to reform the notoriously inflexible job market rules that are a persistent and growing drag on business and innovation and are helping keep the overall unemployment rate well above 10%. French unemployment stands at around double that of Germany. For there to be any chance of shifting this imbalance, growth creation in the state dominated industries will mean one thing and one thing only – deeply unpopular restructuring of decades old industrial practices. In

short unemployment will have to rise further to stimulate growth.

The carry through to the rest of the Euro zone again fills many observers with dread. If the Eurozone's second largest economy is unable to adjust to the growing pressures of globalisation it will enforce the continuing arctic conditions affecting the whole currency bloc. The Euro zone as a whole has seen some notable positives in the past few months. The ECB's (European Central Bank) bond buying programme; Chancellor Merkel's re-election; Dutch elections which saw a return to centrist policies were all reflected in a generally better market mood with peripheral bond spreads retreating and shares in Europe's biggest companies up well over 10% this year.

The danger remains that the more perky markets become, the less pressure there is for more permanent and necessary market reforms. It is still highly likely that Spain will ask for a further bail-out, something that France is keen to promote, but Germany does not want to see. We are also seeing increasingly acidic negotiations in Greece where the latest coalition could well implode before Christmas.

The underlying financial and economic fragmentation of the Eurozone continues unchecked with Eastern Europe emerging as the next big casualty – especially the Czech Republic and Romania where the lights are already flashing and the bells are ringing but no-one wants to notice.

Indeed, as we were going to press, the almost inevitable has happened to the French Credit ratings. From scoffing at the UK losing its coveted AAA rating the French now have additional 'oeuf' on their faces as Standard & Poor's (S&P) cut the French rating from AA+ to AA The credit agency warned that PresidentHollande had, essentially, backed himself into a fiscal dead-end with unemployment to remain at dangerous levels well into 2015 and beyond.

The assessment, even though it is couched in the niceties of financial manners, fuelled concerns about the possibility of an eventual revolt by the general public to the President's policies. It also warned that he could be forced into snap elections in 2014, especially fi his Socialist Party performs as badly as predicted (though the eventual result may be even worse that anyone can currently predict). While not expecting a completely identical re-run of the Paris riots of the late 1960's, there should be growing anxiety within France that the spark now exists for a concerted cycle of violence, civil unrest and civil disobedience.

The downgrade now leaves the President with even less room for manoeuvre as he seeks to curtail a tax rebellion in Brittany while simultaneouslytrying to convince his EU allies that he is capable of seeing through the necessary tough reforms. Things are so bad that even a planned strike by French professional footballers has been proposed, so sick are they of having to pay upwards of 75% tax on their earnings. Come the weekend of November 30th there will be no senior league matches in the country. However public opinion about this measure remains firmly in the 'No' camp as most people have managed to work out that 75% of €20 million a year still leaves the 'poor' footballers with more net salary than an individual can expect to earn gross in 15 years.

The S&P downgrade does reflect global concerns that the current approach to budgetary and structural reforms to taxation, product, services and labour markets is unlikely to raise France's medium term growth prospects. The good news, for there really is some, is that S&P said there was little chance of a further ratings cuts as the stable outlook going forward reflects their expectation that the Government is committed to containing current debt levels. The chance of a further cut in the two years is now at one in three/ 33 1/3%.

For M. Hollande these are great odds.

Personally I would not bet on it!

Germany – G7's piggy in the middle?

After Frau Merkel's re-election as Chancellor, Germany continues to find itself as the odd-one-out in the G7. Neither confident that its own economy is not going to be derailed by outside supposedly friendly forces, nor pessimistic that the measure it has taken are all for naught.

The German finance ministry has recently revised upwards its forecast for economic growth in 2014 and beyond amidst the prospect of record levels of employment. It is confidently hoped that the German economy in 2014 will expand by +1.7% - this in itself, because of the extremely heavy weighting that Germany gives the Eurozone, assures that technically there will be no chance of the Eurozone e returning to recession.

On top of this exports are predicted to pick up after a low +0.3% growth in 2013 to rise +3.8% next years.

Again the foundations for its growth are the domestic economic forces. The mood of German companies is good again and they are investing in equipment and construction. Continuing growing employment levels are forming a virtuous circle ensuring that German economic momentum will speed up sharply in 2104.

Recently there has also been increased criticism of the growing German trade surplus from, of all places, the US. There was a sense of indignation form Berlin that the US could criticise Germany in this way; however the US is only saying what Germany's partners dare not. By maintaining a very large trade surplus, it is perceived that Germany has hampered rebalancing in other Eurozone countries and has created an unnecessary deflationary bias for both the Euro and the Global economy.

Germany's projected trade surplus of $215 billion in 2013 is virtually the same as China's and is a big issue for the Eurozone. Such export surpluses do not reflect just innate competitiveness but show an obvious excess of output over spending. Surplus countries such as Germany import then demand they do not generate internally, which when overall global demand is buoyant is not a problem provided the money borrowed by those countries that are importing this trade surplus (net trade deficit areas) to cover its deficit is invested in activities that can subsequently service the debt incurred by running a trade deficit. But this ether does not happen or as in current conditions when short term interest rates are very close to zero and demand in these weak economies is low, such a deliberate trade surplus policy has a distinctively weakening effect and actually increases overall global economic weakness.

It is no surprise that overall Eurozone GDP is still 3.1% below its pre-crisis levels and 1.1% lower than only 2 years ago. Germany, as a highly creditworthy economy (still with an AAA rating) is constricting demand, not adding to it.

Yet, again as we went to press – out of almost nowhere, the ECB decided that it was determined, again, to ensure a lasting recovery in the Eurozone ad slashed its interest rate to 0.25% from an already low 0.50%. Probably not quite what Germany had wanted as this was likely to drive internal demand to higher than required levels as credit became even cheaper.

The ECB has now tried just about everything short of actual zero interest rates in an attempt to drive growth in the wider European context. Because demand remain overall l low, inflation itself remains low. We are now in danger of a sustained deflationary period within the Euro, again not exactly something that Germany would desire. Indeed, deflation is probably the most disastrous possible outcome for any heavily indebted nation such as Greece, Spain, Portugal or Cyprus. Here, again there is the growing possibility that the Eurozone could well end up like Japan in have a 'lost decade' after the collapse in Japan of its asset price bubble.

If such a scenario does appear then ultra-high unemployment is inescapable. Indeed the policies pursued by Germany were almost doomed to have this outcome given the demand destroying impact of austerity. Cumulative losses of 18% in Greek GDP, 10% in Spain, 9% in France and 8% in Ireland are the result of this, albeit necessary, strictness. Monetary policy alone is going to find it impossible to offset these losses. Before the crisis such monetary policy could work by expanding credit in what turned into crisis- countries – especially Spain. Today it is working against the background of a weak banking system, debt over-

http://www.heatherwick.com/wp-content/uploads/2011/12/NBfL-Bus-London-THA-3465.jpg

hangs in crisis hit countries and an aversion to borrowing in creditor countries.

There is one possible escape route – a devaluation of the Euro exchange rate. If the ECB adopted a beefed up bond buying policy of the Euro members in proportion to their weighted share of the Euro, deprecation would ensue and trade surpluses in weaker countries would start to recover and their own exports became proportionately cheaper. Germany though would also gain as well.

Germany, again, must be wondering quite why it bothers to maintain the rigid fiscal discipline that just about all its neighbours seem to lack one way or another. The problems in Greece most certainly won't be solved in 2014 – in fact the possibility of yet another

bail-out remains. France seems to be doing its level best to implode and there is precious little that Germany can actually do over the coming year to try and find a solution to the on-going, growing and more unstable Euro Union.

In the Eurozone then, all is most definitely not well. Deflation is coming; unemployment is rising; internal rebalancing is being thwarted; there is an overreliance on external demand. The myth that the crisis only came about because of fiscal errors, instead of irresponsible cross-border lending is erroneous. Fiscal policy has no role in demand, internal or external. Central bank purchases of government debt can lead towards ultimate hyperinflation and above all competitiveness determines external surpluses not a simplistic balance between supply and demand.

Europe must be wary about these erroneous statements. Weaker members run the most definite risk of being in a semi-permanent slump or depression which will lead to an extended break –up of the Euro.

What about the 'dynamic duo'? – UK and the US showing G7 the way.

In marked contrast to the woes of Italy, Japan and France the dynamic duo of the US and the UK show the world how it should be done. Canada is also growing well but as a neighbour of the US its economy almost walks in tandem with the US.

From the ashes of the fiscal crisis, the US phoenix is about to emerge, just as the stressed Chinese economy is beginning to show signs of some suffering. Indeed the US may be recovering its economic edge just in the nick of time, preventing a further global depression.

Recent economic releases (delayed by the recent temporary shutdown) show that US companies expanded at a rate of 2.8% in the third quarter of 2013. These figures were significantly higher than the 2.0% – 2.2% expected by many economists and represent the fastest growth rate of 2013 so far.

The figures were boosted by growth in inventories and higher federal and state spending. The public sector as a whole seems to be having a far less negative impact on the economy as a whole; yet the rate of growth is probably a little too low to rapidly bring down unemployment towards the magical 7.0% level at which stage US fiscal policy would slowly be reversed and the artificial stimulus through Quantitative Easing (QE) would initially be reduced to zero and going forward start to lower overall money supply. However this is not an instant event – this could take many more years to fully bed down.

Essentially- America is regaining its global economic dominance.

However a lot depends on on-going negotiations in Congress about future tax increases. As the RepublicanParty managed to change absolutely nothing by its ill-timed decision to bring the US to the edge of a fiscalcliff, the negotiations have only been postponed to the beginning of 2104. It is now far more likely that sense will prevail. Yes, certainly, there does need to be some modest tax increases and the slated $500 billion of automatic tax increases and spending cuts for the beginning of 2104 would have a negative impact on the US economy. However the Republicans have seen their more radical 'Tea Party' activists muzzled and the looming cliff is now more likely to be a more modest slope which would enable to economy to grow as it rebalances. The housing market slump is over in moststates; US exports are on a roll and have risen by more than 3% of GDP since 2007.

US labour costs are also showing significant falls compared to China and other previously 'more competitive nations. We are seeing some significant production of high tech items moving back to the US. Helping the US economy are sharply lowering prices for gas and industrial electricity. This is a direct result of America's strong position in the development of shale gas and oil extraction technologies.

Further unexpected areas will also boost US productivity. In the area of additive manufacturing, or 3-D printing great strides are beingmade that will boost the US economy. 3-D printing, for those that have not seen it, is the ability to create, layer by layer, computer design generated objects which can be printed at homeor in the workspace. There is growing evidence that with such technology many companies will be bringing production back to the US as there is no need to hold large inventories of something than can be created, literally, in minutes; there is no need to ship raw products in and finished good back from foreign countries and manufacturing costs (labour, packaging and transport) will simply plummet.

Here the Silicon Valley business model of innovation, advanced design and commercialisation is back, emphasising customised production, quality control, after sales service and intellectual rights. This is something the Chinese have not been particularly good it. Indeed the Chinese model with long global supply chains, large scale factory based manufacturing and economies of scale looks on its way out in certain sectors.

The US is also being the 'Batman' of the dynamic duo – almost any economic release over the past few weeks has shown the economy growing faster than predicted. Recent jobless surveys show the economy is fast reaching a self-sustainable level at which point further QE will not be required. Anyone but the most cynical observer of recent economic statistics has to acknowledge that the US economy over the past six months or so has most definitely picked up momentum rapidly. Despite the figures from July 2013 being soft, which encouraged the Fed to keep the bond purchase programme going, a much stronger than hoped for autumn US jobs market could be enough to trigger the Fed's initial criteria point needed to scale back the amount required for QE.

I therefore suspect, if not predict, the Federal Reserve will signal the 'beginning of the end' for bond purchases on December 18th 2013. However, before everyone panics and assumes that the liquidity taps are simply going to be switched off overnight – think again.

Certainly the end of the current level of QE is well overdue. As we have advised previously, QE in itself will continue in smaller and smaller amounts until, eventually, yes the bond buying programme will be reduced to zero. Here it is feasible to suspect the Fed will ease out this process over a period of 12-18 months, maybe longer. Certainly the 7% jobless rate trigger will be the final signal that both QE must start winding up and that official interest rates s must begin to return to a more normal level will be fairly well flagged. Like all addicts, it will take time for the financial system to both wean itself off QE and then learn to live without it – recovery in many senses of the word.

However the next logical stage – that of the Fed starting to reduce liquidity in the system is not one that will be taken ether lightly or soon. Certainly it will need to wait well in to 2016 to see the after effects of the QE taps being switched off before it gives any signal to markets that the era of easy liquidity is over.

The US bond buying has certainly been propping up global equity markets and here it is highly possible that the recent emerging market fluctuations could be accentuated at this trigger point. Certainly the US Dollar has been slowly gaining ground and the US bond market has also seen yields starting to rise the length of the curve. While these rises in pure basis point terms are, in themselves, not gigantic, as an overallpercentagechange, they have been quite striking.

In the UK, the 'Robin' of the dynamic duo, has also seen the economy recover far faster than even predicted at the beginning of the year. The new Governor of the Bank of England, Mark Carney, upon assuming office, stated that he did not, at that point, see a need for UK interest rates to rise until 2015 or 2016; some 2 or 3 years away.

However, almost as if to spite him, as well as the opposition Labour Party, the UK economy has suddenly been boosted by increasing levels of participation in the workplace, along with benign inflation and a housing market that appears to be gradually rising (Central London excepted where prices roses of the large houses have, all must admit, been artificially boosted by foreign investment). Talk of the economy reaching escape velocity now appears to have been justified.

While I do not expect interest rates to rise in the next 12 months, unless, of course, the economy starts to overheat dangerously, I am comfortable in thinking that there is a distinct possibility of UK interest rates to start rising from Q1 2015, Q2 2015 being even more probable. Rates will then continue to rise slowly from the current low levels to return to something along the line of 3.5% - 4.0% within a few years.

This UK return to normality will be a challenging one for any government – the current administration may well 'get lucky' and ahead of the definite election date of May 2015 are more than likely to see the economy having recovered all the previous 7 years losses and most probably be at new, calmer, all times highs. Certainly was I to be in with a chance of winning when the poll is called at the end

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of March 2015 I would be praying that the Bank of England may only consider raising rates in June that year.

Either way it will be a close run thing!

Oil – Fracking gains put the US at a clear near term advantage.

As noted above, the US is starting to see clear benefits to its enlightened stance on fracking shale oil and gas reserves. A direct result of this has been to see crude oil prices in the Gulf of Mexico pushed to record discount levels against the benchmark Brent Crude price. This latest sign of the sudden and dramatic impact of the shale oil and gas revolution on the US refining industry shows significant signs of accelerating the already booming US export sector of petroleum products.

US oil production has surged to new highs thanks to the longer term planning of the industry to upgrade local infrastructure. The main refining hubs of Texas and Louisiana have seen the benefit and are able to not only refine existing 'traditional' oil products but also have been able to cope well with the tapping of shale fields such as the North Dakota Bakken development.

The improvement in all aspects of oil transportation in the Gulf of Mexico, an area traditionally accounting for at least 50% of of US refining capacity, has enabled US independent refiners such as Valero and Philips to side-step the profit hit seen at oil majors like Shell and ExxonMobil, resulting from the sudden increase in refining capacity in the Middle East and Asia. This also enables US petroleum product exports to rise further at the expense of their European counterparties. The cheapness of fracked assets will continue to benefit the US producers for a longtime to come as it is likely to take the European fracking sectorbetween 5 and 10 years to even get to the stage the US is currently at.

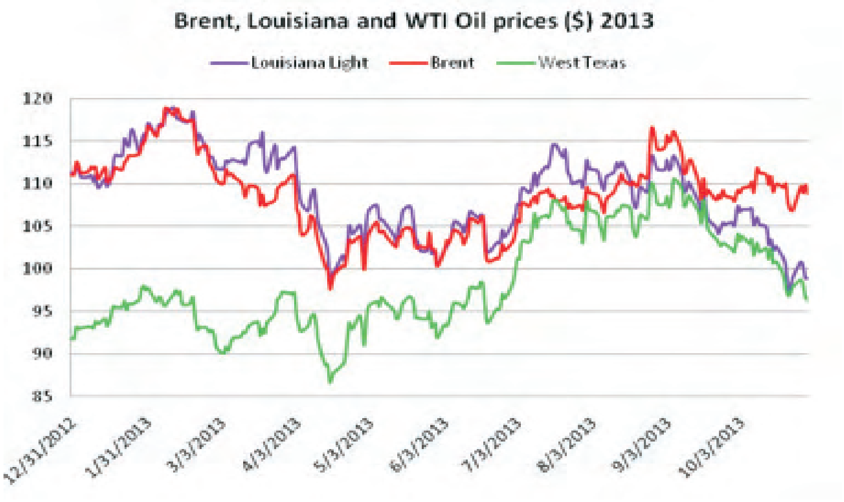
Profitability at many Gulf Coast refiners has increased by at least $5 a barrel in the past 3 months. The US benchmark, West Texas Intermediate (WTI) has fallen by almost 10 % in the past month to just around $94 a barrel – a discount of more than $10 to Brent. This reflects the fact that US refiners are buying less crude – not only because of the fracking boom, but also on season factors such as refinery maintenance.

While in recent years the discount between the two benchmarks has been wider, but transport bottlenecks around the Cushing, Oklahoma delivery point made access all but impossible to a few refineries. Now, with ne pipelines opening as scheduled it is now significantly easier to move WTI to the Gulf Coast. A lesser known but important benchmark, Louisiana Light Sweet (LLS), has, as a result of this infrastructure improvement, been trading at a more than $10 a barrel discount to Brent, the largest discount since records began. Until the fracking revolution, Louisiana Light Sweet traded at a premium to Brent reflecting its higher refining quality.

Oil, as a commodity, is due a small bounce soon as the Europeanwinter seems to be beginning slightlyearlier than usual. However gains are not going to be as large or as exaggerated as in the past as the predominant factor bolstering oil prices, Iran, has begun to disappear from the equation.

The recent dovish stance taken by the new Iranian regime is at odds with the previously ferocious, sabre rattling approach. Indeed, such talk about the Iranian nuclear programme seem, dare we to say, to be more honest and up front than could have been thought possible six months ago.

Yet, there is always a sting in the tale of such good news – Israel has already said that it is far from happy with the friendlier overtures being made by the West to Iran and here I think will be the sticking point for any rapprochement that might be possible.



Source: **Bloomberg**

Equity Markets – a very good run in 2013 – time to take profits

November this year reignites melancholy memories for many. 50 years ago on November 22nd 1963, Dallas, Texas witnessed the assassination of President Kennedy. There are many parallels between Kennedy's presidential tenure then and Obama's now. In the early, 1960's Kennedy ended a period of tight fiscal policy and by the end of 1963 had loosened monetary policy to keep interest rates low and encourage growth in the economy. The economy was in recession when Kennedy took office at the end of 1960 but during the latter part of his term fiscal easing had worked well with overall growth of +5.5% between 1961 and 1963.

1963 also saw the S&P 500 move ahead rising from a low on January 1st of 63.10 to end the year at 75.02, an overall rise of +18.89%. Dallas, though, marked a sharp market correction with the market moving from 72.56 to 69.61 (-4.07%) but it recovered on the next trading day, November 26th, back to 72.25. From this correction, the S&P continued to move upwards over the coming years with rises in 1964 of +12.97% and 1965, +9.06%. 1966 saw a decline of -13.09% on the back of a sharply increased US involvement in Vietnam, but the S&P continued its rises in 1967, +20.09% and 1968, +7.66%.

In 2013, US markets appear equally bullish. The S&P and the Dow Jones are already breaking new highs on a regular basis as investors desperately try and gain yield from almost any source. At the end of October, the S&P has already managed to climb +23.16% this year and the Dow has moved almost similarly, +18.63%. Sense would suggest that we are likely to end the year at around these levels; any move of more than +20% to +25% in a year from any index in market conditions such as we have recently endured, should be a cause of some alarm and no small scepticism. It may indeed, be better to "Sell in November and go away until January 2014" – after all a gain is gain.

Currently the 2.01% yield on the S&P 500 index as a whole and the 2.15% on the Dow Jones are in sharp contrast to current US Treasury yields of 0.053% for 3 month T Bills, 0.088% for 6-month bills and 0.103% for 12 month bills look positively enticing.

Indeed with just a little selective filtering in the Dow the 3 highest yielding stocks are AT&T, 5.14%, Verizon Communications, 4.16% and Intel Corp., 3.79%. In the S&P 500, the three highest yielding stocks are Windstream holdings, 12.48%, Frontier Communications 8.53% and Centurylink Inc. 6.89%. However, while the yields are at face value, impressive, the underlying total returns for some of these stocks carry some very large health warnings. The stocks included in the Dow are, by the inherent safer nature of the index, likely to perform roughly in line with the Dow as a whole. In the S&P 500, stocks are included based on total value only and it is because of this the high yielder returns tends to disappoint overall.

Thus, we see that the AT&T stock price has risen +4.90% in the past 12 months, Verizon, +17.73% and Intel, +15.82% - all very good rises even if

Source: **Bloomberg**

there is some sector compression here. In the S&P 500, the returns are at best, mixed: Windstream, -5.65%, Frontier Communications, +7.82% and Centurylink, -19.27%.

However tempting it may be to start extrapolating the gains for 2013 forward into 2014, 2015 and beyond, like we saw in the early 1960's the US equity market is about to experience a different version of the Vietnam offensive – the end of Quantitative Easing (QE).

Anyone but the most cynical observer of recent economic statistics has to acknowledge that the US economy over the past six months or so has most definitely picked up momentum, apparently extremely rapidly in the past three months. Despite the figures from July 2013 being soft, which encouraged the Fed (erroneously as it turned out) to keep the bond purchase programme going, a much stronger than hoped for autumn US jobs market could be enough to trigger the Fed's initial criteria point needed to scale back the amount required for QE.

Certainly, the end of the current level of QE participation is well overdue.

Elsewhere in global equity markets, there have been, overall, similarly positive results. In in the US and the UK, for so long as local bond yields remain meagre, the search for yield and income means that the only avenue left for most investors remains equities. However, even here, the results of the continuing massive cash inflows have had the result of reducing the average yield on indices to levels that are starting to become a little low, but it should be said, even at these lower levels do not lead to a total aversion of interest in equities.

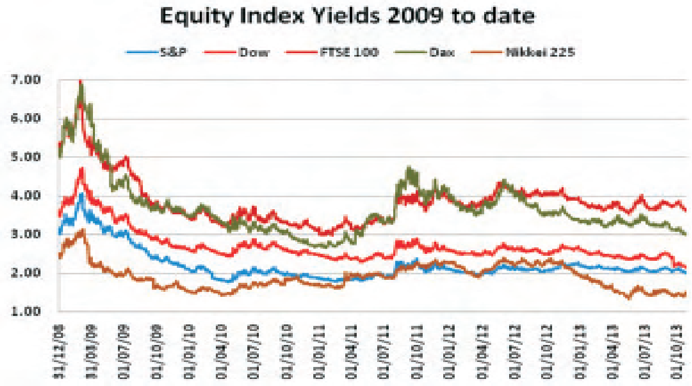
As can be seen in the chart, the peak in yields in 2009 was when markets were at their weakest just after the Lehman collapse. A more normal picture emerges from 2010 and current yields in London and Berlin remain higher than the long dated sovereign fixed income.

Market	Index Yield	30 Year Bond yield
London	3.66%	3.51%
Germany	2.97%	2.61%

Yields in New York and Tokyo are slightly less for equities than the 30-year bond, but even at these lower levels, you will always have the possibility of capital gains in equities. Bonds are extremely unlikely to produce further significant capital gains and certainly not at the 5% - 10% that equities are generally hoped to be rising by every year for the next few years. Indeed, with the eventual ending of QE in many countries bond prices are likely to remain static at best and may indeed decline by a few percent a year as yields move towards more normal ranges at the shorter end of the curve as liquidity lessens.

As we pointed out earlier, in the case of the S&P 500, 2013 has been one of the better years on record.

It is also notable that the rally in the US has been the broadest one on record with 443 rising stocks out of 500 (88.6%), 5 unchanged (1.0%)



Source: **Bloomberg**

http://2.bp.blogspot.com/_1O0GAQEaHI0/TBDzfzPUslI/AAAAAAAAA4U/ISzVvFLTBb0/s1600/london+stock+exchange.jpg and 52 losing stocks (10.4%). It is looking as if we will havethe bestyear for stock in 16 years and given that stocks have climbed in the final two months of the year 82% of the time since1928, they have shown an average increase in these winning months of 6%.

Given that the index continues to make new highs it is conceivable that from the end of October reading of 1,756.54, the S&P 500 could end the year at around 1,860 – a potential rise for the year of 30%.

However, here, again, I urge considerable caution – any rally of more than 20% does sometimes run into extreme headwinds coming into year-end. The temptation for many money managers, this one included, having had such a good run is to call time early on the year, sell in November, then spend December counting the profits.

Source: **Bloomberg**

Elsewhere in the world there have been some surprising gains and a few disappointing losses in the major markets.

While the attraction of the Gulf region have been highlighted before it is notable that many of the best performing markets are also the smaller capitalised ones, Ghana included.

We do find the sudden fascination for Greek stock extremely worrying given the totally negative sentiment for the country as a whole – the possibility of an enforced Euro exit or complete civil breakdown remain a possibility. While, of course, many investors have made money it has been a selective process. The myth that hedge funds have been buying bank stocks is rather exploded when some of the worst performing stock are banks. Piraeus Bank, -54.79%, and the National Bank of Greece, -36.55% are some of the worst performing stocks. Indeed market conditions in Greece are so bad that Coca Cola Hellenic decided midway through the year to scrap its listing in its home market and switched to London!

We, though, note with interest the Nigerian market performance and while it is not totally our remit to comment on 'local' markets do hope that the 2014 performance could be equally as good.

It is in the emerging markets that the real carnage has been seen. Again having warden about Mongolia in 2011 when it closed the year at 21,687 an -18.80% fall in 2012 is followed by a -29.57% return for 2013 to date. We should not have to warn our readers about the undesirability of investing in thinly traded smaller capitalised indices. Rises in these are over-exaggerated and as such suck in index tracking money automatically, a process that in itself usually leads to additional highs. However, as soon as one or two investors decide the time is ripe to sell and capitalise on their gains, the falls are almost equally, if note more exaggerated and participants wishing to exit will finds that their paper profits have almost always disappeared and the resulting losses in the mad scramble to exit a sharply falling market are a painful reminder to never, ever, have more than a nominal weighting to any such market.

We also note with some disappointment the continuing disaster that is unfolding in Brazil ahead of their hosting both the World Cup in 2014 and the Olympics in 2016. The general mood of unrest has affected the stock market majorly and the current -18.46% losses are more than likely to exceed the -20% level before long. The once much hyped and much vaunted BRICs (Brazil, Russia, India, China) stock market powerhouses of 10 years ago has, as I had hopefully expected, failed to live up to the hype. Indeed the only market that should be worthy of more than a cursory look remains the Chinese one – not because there are going to be any sudden upwards moves, but more that the Shanghai exchange remains a useful insight into the near-term prospects for the Chinese economy as a whole.

2013 for equities have exceeded our expectations and the end of Quantitative Easing will prove problematic initially as markets wean themselves off lower than trend interest rates. While it has been unavoidable the sooner we can return to normal, regular market conditions the better.

Certainly, for the US, UK and Canada this cannot come quick enough, and the ending of state interference in the banking sector can only be a good thing. For the rest of the G7 it will take considerable time to return to normal, if at all.

Best of luck for 2014!

(Neil Hitchens is a Senior Relationship Manager and Head of Investment Management, Zenith Bank (UK)

Source: http://www.globalyouthandtransition.com/wp-content/uploads/2011/11/shutterstock_69705301.jpg

SUMMARY

In Nigeria, the government is often blamed for the high unemployment rate among youths. However, instead of focusing on what the government can do, the youth should focus on how entrepreneurship and the private sector can resolve unemployment.

Numerous impediments hinder young entrepreneurs in Nigeria from growing their businesses, including lack of access to capital, lack of mentorship, and lack of engagement with policymakers and relevant stakeholders.

In order for young entrepreneurs to scale up their businesses, they must form a unified voice by collectively advocating for better business environments for entrepreneurs.

Youth & Entrepreneurship IN NIGERIA: The Way Forward

By Ngutor Saaka

Sustainable entrepreneurship practices and a healthy business climate are in high demand to proffer solutions to the challenges facing the economies of our increasingly globalized world. Often governments are blamed for the prevailing economic problems and the vital role that the private sector can play to resolve the issues is neglected. In Nigeria, the high unemployment rate is a major concern. Annually, thousands of young people graduate from tertiary institutions just to join the already existing number of unemployed youth who litter the congested streets. Year after year, they lie helplessly waiting for the government to formulate and implement certain policies that will alleviate the menace of unemployment. Although the government is an inevitable part of the fight, the frustrated youth's most viable option is to be self-employed and, furthermore, become an employer. Entrepreneurship is a firm path to attaining independence from the government, and subsequently, creating employment for others.

Based on this belief, this essay examines the impediments facing the young Nigerian entrepreneurs and inhibiting them from expanding their businesses. It identifies the opportunities they could leverage, as well as makes recommendations on how they could collaborate to pursue prosperity for small businesses. This is done to create a road map for building formidable businesses that will make the Nigerian private sector vibrant enough to set the pace for the country's economic sustainability.

The term "youth entrepreneurship" is often universally used to refer to youth-led businesses. Research has shown that a larger percentage of Nigerian youth in business are at the beginner stage and they are mostly owners of micro, small, and medium-sized enterprises. A larger chunk of them are stuck within the vicious circle of the informal sector. It is worthy to note that entrepreneurship in the informal sector is responsible for employing a large percentage of the 80 million Nigerian youths, who make up 60 percent of the total population. Thus, if the capacity of youth entrepreneurship is expanded, the widening gap between the rich and poor will be reduced. Moreso, money finds a natural fountain for effective re-distribution when the community of private enterprise flourishes. Against this backdrop, the foregoing suggests certain relatively limited investment areas young Nigerian entrepreneurs can leverage. The case study of Adenike Ogunlesi, founder of Ruff 'N' Tumble, demonstrates these potential entrepreneurial opportunities. And finally, this essay recommends how the young entrepreneurs can work as a united group towards achieving their business goals.

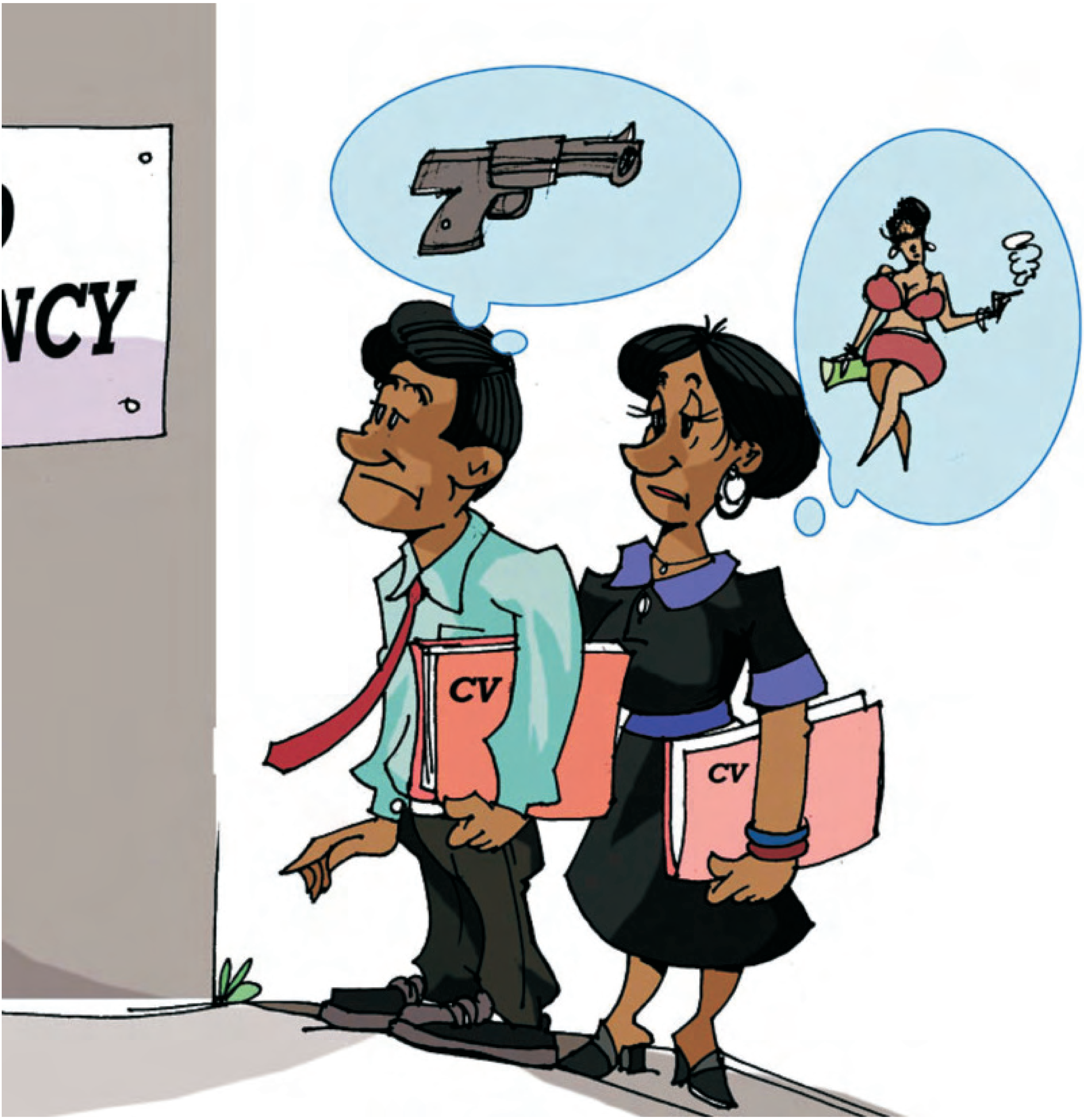
Growth Problems of the Young Nigerian Entrepreneur and his Enterprise

Young entrepreneurs are exposed to various challenging dynamics in the business environment. They face tough competition, high financial cost burdens, complex market changes, and the task of inventing or adopting workable managerial strategies and tactics for survival and expansion. However, in the case of Nigeria, young entrepreneurs also suffer from age stigma, lack of access to capital, unhealthy competition from larger firms, a poor roadmap to international markets, lack of engagement with policymakers and relevant stakeholders, and lack of mentorship.

Age Stigma: It was not until recently that the government of Nigeria started taking profound steps to encourage the youth to engage in business. Yet the rate of stigma constraining the ambitions and efforts of young business owners has remained high. Young Nigerian entrepreneurs often suffer prejudice and disrespect from potential financiers as they seek for capital to fund their businesses.This is because several of these potential financiers gained their wealth through public offices and thus lack the relevant insight to motivate young and aspiring entrepreneurs. Another complication is that some of these youths may have faked the proposals with which they are soliciting for funding. Faking proposals has been a form of survival strategy for some youths in their effort to survive the excruciating economic situation they are faced with. But this anomaly reduces the chances of genuine aspiring young entrepreneurs with genuine need for capital. The cause of the stigma towards youth entrepreneurship emanates from these two parallel lines.

Lack of Access to Capital: It is common to hear of several existing loans and grants from the government, commercial, industrial, agricultural, and micro finance banks. They amount to millions of dollars, and yet they hardly apply to youth-led businesses. Consistently, the categories of beneficiaries of these financing opportunities are civil servants, government officials, or their opportuned relatives who squander the funds on extravagant living or off target investments.

I have had practical experiences that attest to this. I am a founding member of a cooperative which was started in accordance with a World Bank agriculture project in Nigeria. Under the cooperative, we submitted a comprehensive loan application to the Benue State Ministry of Finance in Makurdi for 29,228,000 Naira on February 6, 2012. Later, a letter reached us dated April 10, 2012, stating that the ministry had approved 2,000,000 Naira for the cooperative. Although the loan we received from the government was grossly insufficient for the project at hand, we added over 2.5 million Naira to the first instalment of 1.5 million Naira we received from the ministry to make a payment for some necessary operations. When an inspection team from the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Benue State Ministry of Finance in Makurdi came on a supervision visit to the beneficiaries of the loan facility in the Gboko local government area, many of the other beneficiaries had little or nothing to show for the money they were given. This has always been the case in environments where nepotism and cronyism permeate. Such crooked arrangements hamper the essence of the loan scheme and hinder the real entrepreneurs, especially the youths from accessing the funds, especially if they do not have personal connections with the relevant politicians. Even when the loan reached the young entrepreneur, potential risks and lack of security for indemnity often prevent effective use of the resources. At times, the repayment terms of the loan may be too stringent for the small businesses to meet.

Unhealthy Competition from Larger Firms: Smaller companies in Nigeria suffer the repercussions of a weak legal system. Laws have failed to protect them from the unhealthy competition with larger ones. More often than not, the larger companies enjoy virtual monopoly over the small ones. Thus, the smaller firms find survival very tough, and are unable to achieve meaningful expansion.

Lack of Mentorship: In most communities of Nigeria, the richest people are politicians, high ranking military officers, or a few businessmen who are an integral part of a corrupt political system. It has become rare to find established entrepreneurs who inspire young investors through exemplary global best practices. Just as children are not born with manuals to life and must learn from responsible parents, so also must young entrepreneurs learn from mentors in their fields. It is easier to learn from the practical experiences of successful indigenous entrepreneurs, than to learn concepts and theories that are sometimes abstract to their peculiar experiences.

Poor Roadmap to the International Markets: Many young Nigerian entrepreneurs who try to expand their businesses beyond the domestic market, fall short of the international standards. For example, the present trends in international markets require improved standards and practices that promote quality and customer protection. Recently, the Nigerian Export Promotion Council (NEPC) has been doing more to enlighten young entrepreneurs on export requirements, providing them with tangible technical support. However, only a few young entrepreneurs have enjoyed these services. More needs to be done, especially in the area of public enlightenment on the services that the NEPC offers to potential exporters.

Lack of Engagement with Policymakers and Relevant Stakeholders: "In a democratic market driven economy, government can either help or hurt the expansion of business enterprises." There are several legislations that negatively influence the growth of small and medium-sized enterprises. In Nigeria, as stated earlier, most youth-led businesses are either micro, small or medium sized, which are often vulnerable to many unfavourable business legislations. In a functioning democracy, however, business associations advocate for the business community and make sensitive input into relevant legislations. However, young entrepreneurs in Nigeria lack engagement with lawmakers. There are some business associations that are created in order to make the private sector representation more organized, such as the Nigerian Association of Small Scale Industrialists (NASSI), Inclusive Growth Youth Essay Winners Center for International Private Enterprise, the Nigerian Association of Small and Medium Scale Enterprises (NASME), and All Farmers Association of Nigeria (AFAN), among other trade and professional groups. These associations, nevertheless, have had limited impact on the prosperity of youth-led businesses because they are not really youth-focused –either the associations are adulterated by a government sponsored leadership or dominated by older entrepreneurs that only promote their personal interest. As such, it has become

difficult for the youth to achieve reasonable engagement with the policymakers.

But in the midst of these clustered challenges, some young people with winning qualities including hardwork, perseverance, and innovation, have overcome these limitations to make a mark in their business. One of such examples is the case of Adenike Ogunlesi who founded Ruff 'N' Tumble.

Adenike Ogunlesi: Founder and CEO of Ruff 'N' Tumble

Adenike Ogunlesi is not just a role model to young women in business, she is also a mentor to all young striving enterprenuers in Nigeria. Adenike was at a crossroads when she opted out of school in her 200 level at Ahmadu Bello University (ABU) Zaria. However, she reluctantly accepted her mother's re-

quest to join her small tailor shop. Gradually, she began making clothes for women until, as she says, 'My kids ran out of pijamas." She decided to design some for them. Her expert touch prompted orders from family and friends. Later, with the encouragement of her husband, she diversified into making shirts, skirts, and shorts for children.

Adenike, like most other young entrepreneurs, was boxed in by harsh realities in the Nigerian business environment. She had limited capital to rent a shop. But she overcame this challenge by summoning the courage to start the shop in the back of her car, with a table and suitcase, and she relentlessly sold her products at public gatherings. Later, the obvious need for a retail outlet led her to employ more tailors and also to secure a kiosk. By her third year in business, she had managed to rent a larger place and her market base was also expanded. Bank loans never came and unreliable electricity supply persistently ate away her profit. But her financial discipline propelled her to re-invest her profits and earnings into her business and triggered a sustainable growth of the business. This is how Ruff 'N' Tumble became a success. From the back of a car, Ruff 'N' Tumble has grown into a leading children's clothing manufacturer in Nigeria. It has become a brand with the reputation for best quality in children's clothing in the country. Adenike, like many other young Nigerians, are turning their societal challenges into business opportunities.

Furthermore, information technology is effectively connecting diverse peoples with the unfolding trends in our business world. Even contemporary international and local transactions have encouraged sharing of values and diffusion of ideas. These have prepared the ground for the young entrepreneurs in Nigeria to think outside the box and confront the existing challenges with new ideas and better practices. Nigeria is a developing nation with an economy almost absolutely financed by crude oil sales. This has led to the neglect of other sectors which holds huge opportunities for investors. Some of the sectors with huge potential for the youths include:

- Agriculture
- Information Technology
- Advanced Technical Skills Marketing
- Fashion and Entertainment

Building a Central Platform for a Robust Youth Participation

In order for young entrepreneurs and professionals to build a unified advocacy platform that could create change, they must firstly recognize the power of their numbers and close all roads leading to individualism and segregations. This will bring the various businesses and professional associations under a youth coalition. It will collect the diverging interests of the business society under a strong harmonious advocacy tool. For example, the Nigerian private sector is already organized under various business and professional associations. They operate independently, but are together part of the Nigerian Association of Chambers of Commerce, Industries, Mines, and Agriculture (NACCIMA). This formation makes networking with different associations much easier. Why not apply this model for the youth? Young entrepreneurs from the various associations can nurture an all encompassing institution similar to NACCIMA. They could initially operate under the legal cover of their associations, and gradually take steps towards registering a youth coalition.

It is necessary that the youth-based coalition be constitutionally free of government sponsorship and control. This autonomy is absolutely necessary if the coalition is to give direction on how to effectively engage policymakers for better development and prioritization of business policies, especially concerning expanding youth-led enterprises. Moreover, a coalition will spearhead collaboration with external governments, multi-national corporations, companies, viable academic institutions, individuals and traditional institutions to expand business opportunities and share ideas and best practices. The coalition must be oriented with a strict financial control system, with crystal-clear records and a vibrant membership management system. Additionally, the leadership structure must be well formed to ensure a sustainable growth for the organization. For example, in Edo State, a youth-based group called The Rainbow Consolidated Forum was started by a few young intellectuals in 1998 with the aim of fighting against youth restiveness and political thugry. According to their coordinator, John Osazuwa, who is a lecturer of political science with the university of Benin, Edo State, the organization has grown with a membership strength of over 2 million. Mr. Osazuwa attributes this success in part to the peaceful conduct of the 2012 governorship election in Edo State, which was an unprecedented feat. Gradually, the organization has won the recognition of the state government. Today, the organisation is a force to be reckoned with in the state; they are large in number and its members are found in almost every sector of the state.

In conclusion, Nigeria cannot achieve inclusive growth and a vibrantly dynamic economy without an organized private sector that is rebranded with solid value-added partnerships. Such a change will reorientate the ineffective areas of the system through shared value and private sector's vigorous pursuit of advanced and responsible practices. Formation of a youth coalitions of business and professional groups is therefore recommended, as they are custodians of the future, occupying 60 percent of the country's population. Furthermore, young entrepreneurs are purportedly the greatest victims of the unfriendly business climate in Nigeria. This army of youth could champion their course by deploying proper institutionalization of the advocacy channels open to them and employing effective dialogue with governments at all levels to influence policymaking and the achievement of a sustainable business environment. The Nigerian youth could become the protagonists of the needed change if they responsibly coordinate themselves into a single group with a common vision and purpose, as called for in this essay.

Source: http://www.milesandassoc.com/wp-content/uploads/2013/02/IMG00295-20130131-1715.jpg

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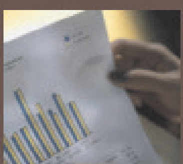
Facts & Figures

Ibrahim Abubakar





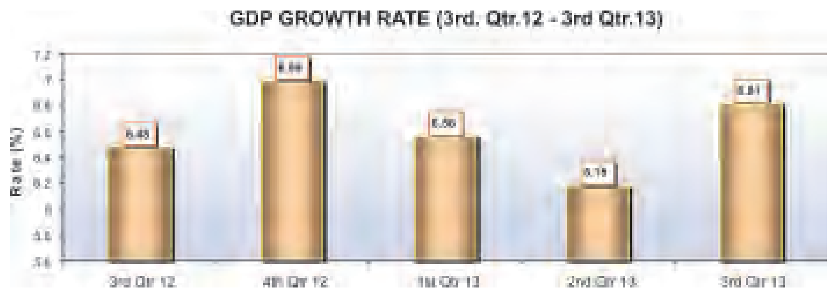



MACROECONOMIC ENVIRONMENT

A review of the Nigerian economy in the third quarter of 2013 shows a mixed performance in some of the key measurement indicators. Gross Domestic Product (GDP) for instance grew at a faster pace than witnessed in the preceding quarter. Inflation eased significantly, while the Monetary Policy Rate remained steady all through. The nation's currency, the naira, held firm against other major currencies. However, the capital market started well but lost momentum at the tail end. The External reserves shrank but ended the quarter with a comfortable outlook. In the international crude oil market, prices surged, recovering some initial losses.

GROSS DOMESTIC PRODUCT

Gross Domestic Product (GDP) in the third quarter was estimated at 6.81 percent, higher than the 6.18 percent recorded in the preceding quarter. Real GDP growth continued to be driven by the non-oil sector of the economy. Despite the conflict-related population displacements in Borno and Yobe states as well as peak flood periods in the Southern parts of the country, good rains and early harvest in other regions of the country continued to boost agriculture as a major contributor to GDP. For the oil sector, benefits of the Amnesty Deal with Niger Delta militants continue to push yields in the right direction with output jumping 1.38 percent between August and September. Real GDP growth in 2013 is projected at 6.38 percent, slightly lower than the 6.58 percent recorded in 2012.

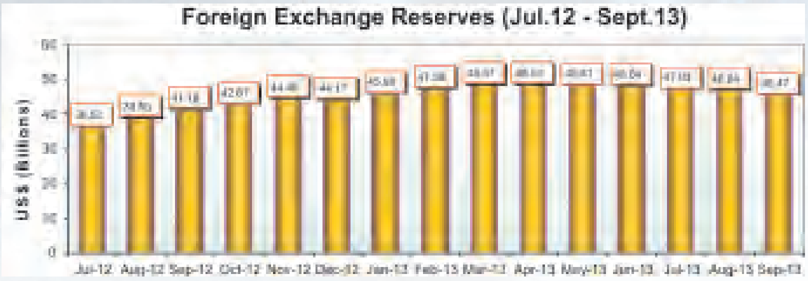


Source: National Bureau of Statistics

INFLATION

Inflation slowed to a 5 year low in the third quarter 2013, leaving room for monetary easing. The headline inflation closed the quarter at 8 percent and has remained subdued around the authority's single digit target since the beginning of the year. Despite the slowdown, inflationary pressures resurfaced earlier in July due to higher food and housing prices. Total cereal and tuber harvests were roughly six percent below average. It was nevertheless temporary, as inflation eased again in August and September to 8.2 and 8 percent, respectively. The downward trend was mainly driven by food prices decelerating due to the onset of the harvest season. Core inflation however, trended upwards all through the period. Inflationary risk remains a threat in the months ahead due to increased spending in the run-up to the 2015 elections.

Source: National Bureau of Statistics



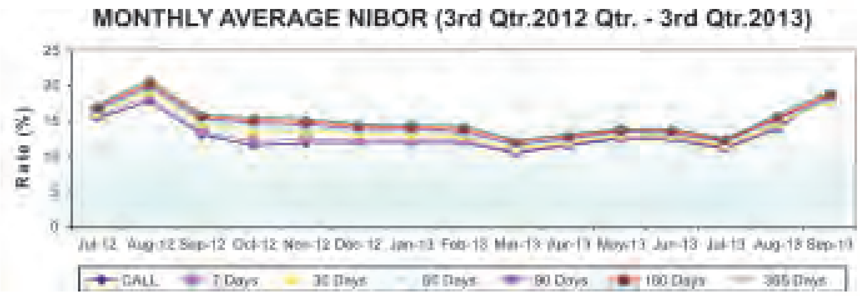
Source: Central Bank of Nigeria

EXTERNAL RESERVES

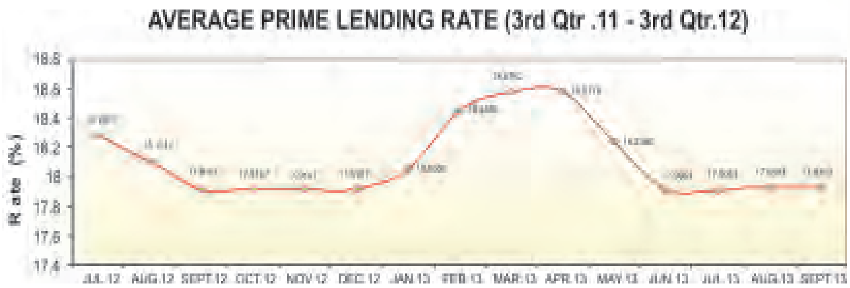
The nation's external reserves shrank in the third quarter 2013, wiping out much of the gains from strong oil prices. It lost about 7 percent of its stock to absence of fiscal savings and continuous withdrawals after climbing to its highest level in more than four years. Mounting pressures on the external reserves drained the stock by about $3.4billion to $45.4billion as at end September 2013. The reserve level could finance over 11 months of imports. In the short to medium term, the authorities project improvements in the stock of external reserves, resulting from higher crude oil prices and output.

INTEREST RATE

In line with expectations, the Monetary Policy Committee voted to keep interest rate on hold in its September 23 and 24, 2013 meetings. The decision came as no surprise as it was the thirteenth consecutive hold since the Monetary Policy Rate (MPR) was raised by 275 basis points from 9.25 percent to 12.0 per cent in October 2011, to curb inflationary pressures.



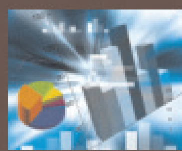
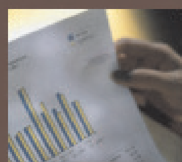
Source: FMDQOTC



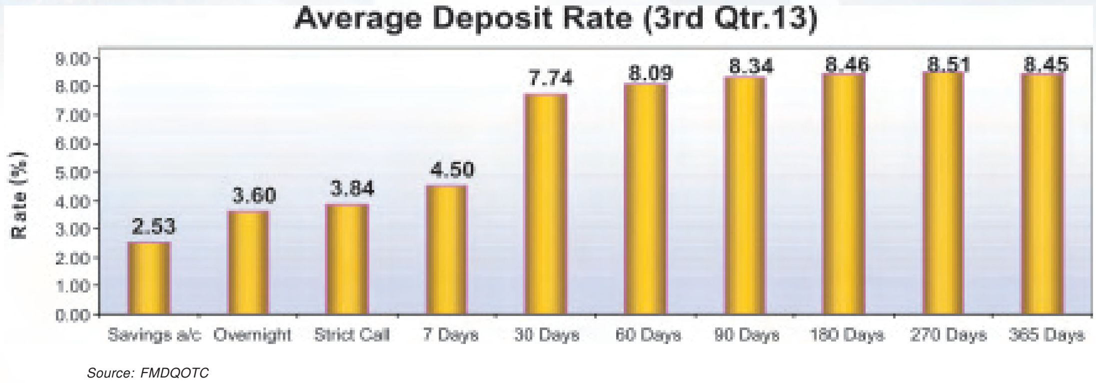
Source: FMDQOTC

The average interbank rate shot up in the third quarter 2013 with significant swings across most tenors. For instance, rates jumped to about 23 percent in August from 10.25 in June. Despite the pressure, the system was awash with liquidity earlier in July due to inflows from about N350billion Statutory Revenue Allocation and N126billion maturing treasury bills. However, liquidity dried up in August and September pushing rate higher to 23 percent following the 50 percent Cash Reserve Ratio (CRR) debit on public sector funds; banks remitting NNPC funds to the CBN; as well as contribution of about N100billion to AMCON's sinking fund. Rates nevertheless eased back to 10.7 percent as at end September.



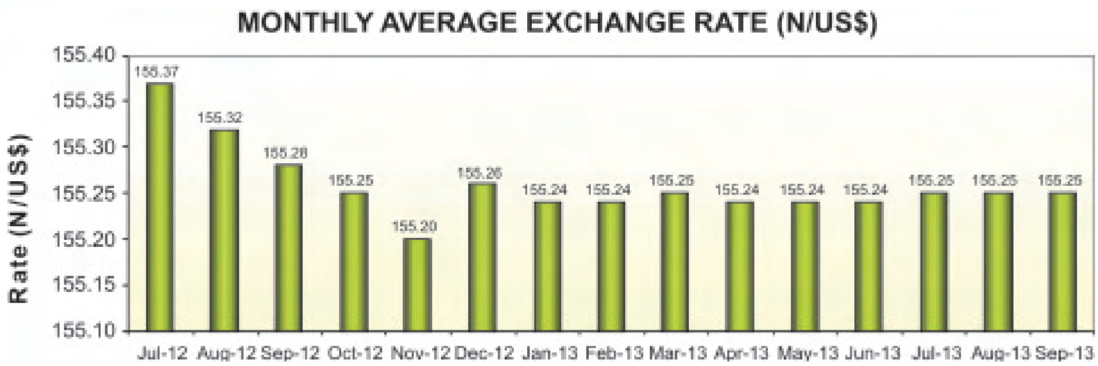

The average Prime Lending Rate (PLR) inched up slightly during the period, hovering around 17.9 percent as at end September 2013. Returns on the average deposit rate went up across most investment horizons, with volatility higher on the 30 Days and 60 Days tenors.



Source: FMDQOTC

EXCHANGE RATE

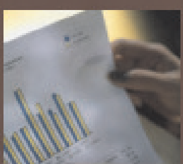
The nation's currency, the naira, looked reassuringly stable against the world's major currencies in the third quarter 2013. It remained firm around the CBN's target, at about N155.75/US$. Despite the remarkable stability, the naira did experience its fair share of volatility. In August, it fell to its weakest level in 20 months due to non-intervention by the authorities and pressure coming from importers. The gap was nevertheless bridged by sufficient dollar sales from oil companies as well as renewed interest by foreign investors in the local debt market. Reacting positively, the naira appreciated to a 3-month high in September. To keep a lid on pressures, the CBN introduced several measures such as a suspension of WDAs and replacing it with RDAs with effect from October 2, 2013; putting a maximum limit of $250,000 in the amount sold by authorized dealers in dollars to BDCs; and reviewing upward the existing limit of $40,000 per annum limit on naira debit and credit card to $150,000. Despite some nervy moments, demand was matched on several occasions at the CBN's twice weekly auction. It offered about $8.50billlion and sold $8.09billion during the period. And despite the minor headwinds, the premium between the official and interbank dropped slightly to 3.6 per cent as at end September 2013, compared to 4.4 per cent in June. In the months ahead, the naira is projected to be on a firm platform due to higher crude oil prices in the international market.



Source: Central Bank of Nigeria



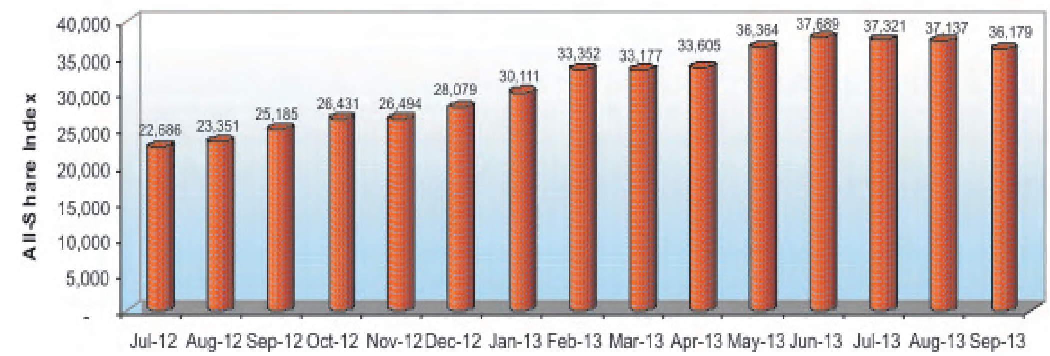





CAPITAL MARKET

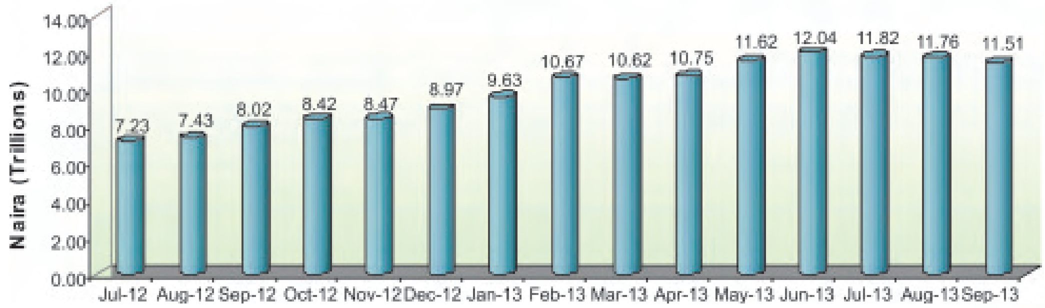
The capital market closed the third quarter almost flat, scratching out small gains in the period. The All-Share Index (ASI) and market capitalization started on a bullish note but erased earlier gains to finish lower at 36,585.08 and N11.65trillion, respectively, from 36,164.30 and N11.42trillion recorded in the preceding quarter. Having roared ahead with about 35 percent return when compared with 13 percent in the same period of 2012, the market lost momentum towards the end of the quarter owing to profit taking activities and sell-offs during Eid el-Kabir festive period. Stock prices traded sideways without any real good news to drive them up. On a more positive note, market sentiment was lifted with the launch of a new trading platform, X-Gen, during the period. Market sentiment remained high as a number of quoted companies such as Oando, Roads Nigeria, Seven-Up, Stanbic Holdings, Flour Mills, PZ Cussons, Conoil, and Guinness paid impressive dividends of 75kobo, 60kobo, N2.20, N70kobo, N2.00, 56kobo, N1.00 and N7.00, respectively.

ALL SHARE INDEX (ASI) (3rd Qtr.12 - 3rd Qtr.13)

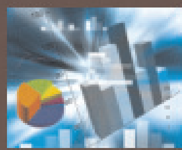


Source: Nigerian Stock Exchange

NSE MARKET CAPITALISATION (3rd Qtr.12 - 3rd Qtr.13)



Source: Nigerian Stock Exchange



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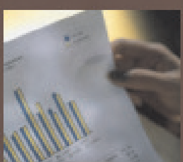
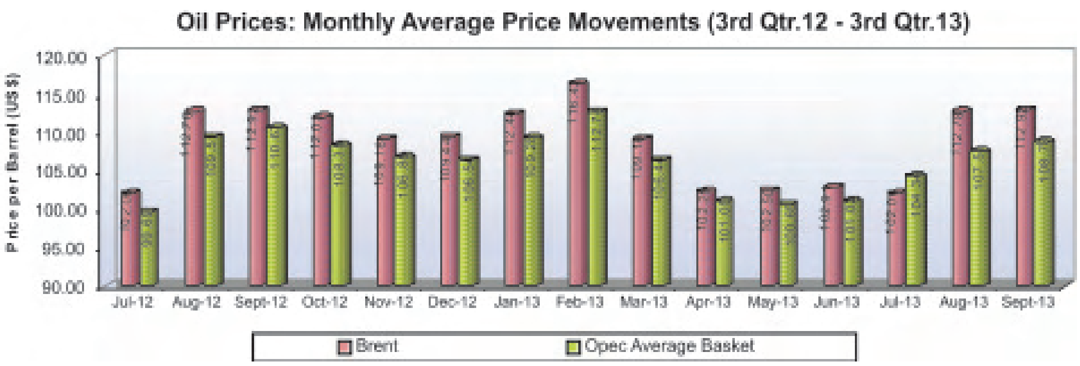


OIL & GAS

Crude oil prices picked up in third quarter 2013, rebounding after a long stretch of quarterly losses. Oil prices posted a gain of around 6 percent despite high levels of volatility in the world economy. Light sweet crude hovered near a 30-month peak in the first week of September in response to supply outages and international alarm over Syria's use of chemical weapons. It however moderated within the quarter on geopolitical concerns. Nigeria's brand of crude oil, bonny light, traded within a band of $97.99-$110.53 per barrel. Industry analysts attributed the rise in oil prices to Labor strikes in Libya which removed an estimated 1 million barrel from daily supplies; slowdown in Iraq's export due to maintenance on a major export terminals; threats of a possible military action against the Syrian regime which again stoked fears of a broader conflict in the region; Egyptian crisis which raised fears that crude oil shipping through the Suez Canal could be at risk; and stronger than expected demand from the world's powerhouse economies- the US and China.



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